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Modernize or risk disintermediation—A global payment services leader reinvents merchant settlement

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Executive summary

Payments are having a moment. Out of all the financial services trends and examples of digital progress, none is more far-reaching in our personal and professional lives than digital payments. The pandemic kicked digital payment adoption into high gear, and payment providers of all stripes are not looking back. But addressing the massive demand for new offerings, such as cross-border payments, real-time payments, digital wallets, and blockchain payments, requires established payment providers to enable the speed, security, and agility needed to deliver all forms of digital payments. Skip this step, and you risk disintermediation by your nimbler competition.

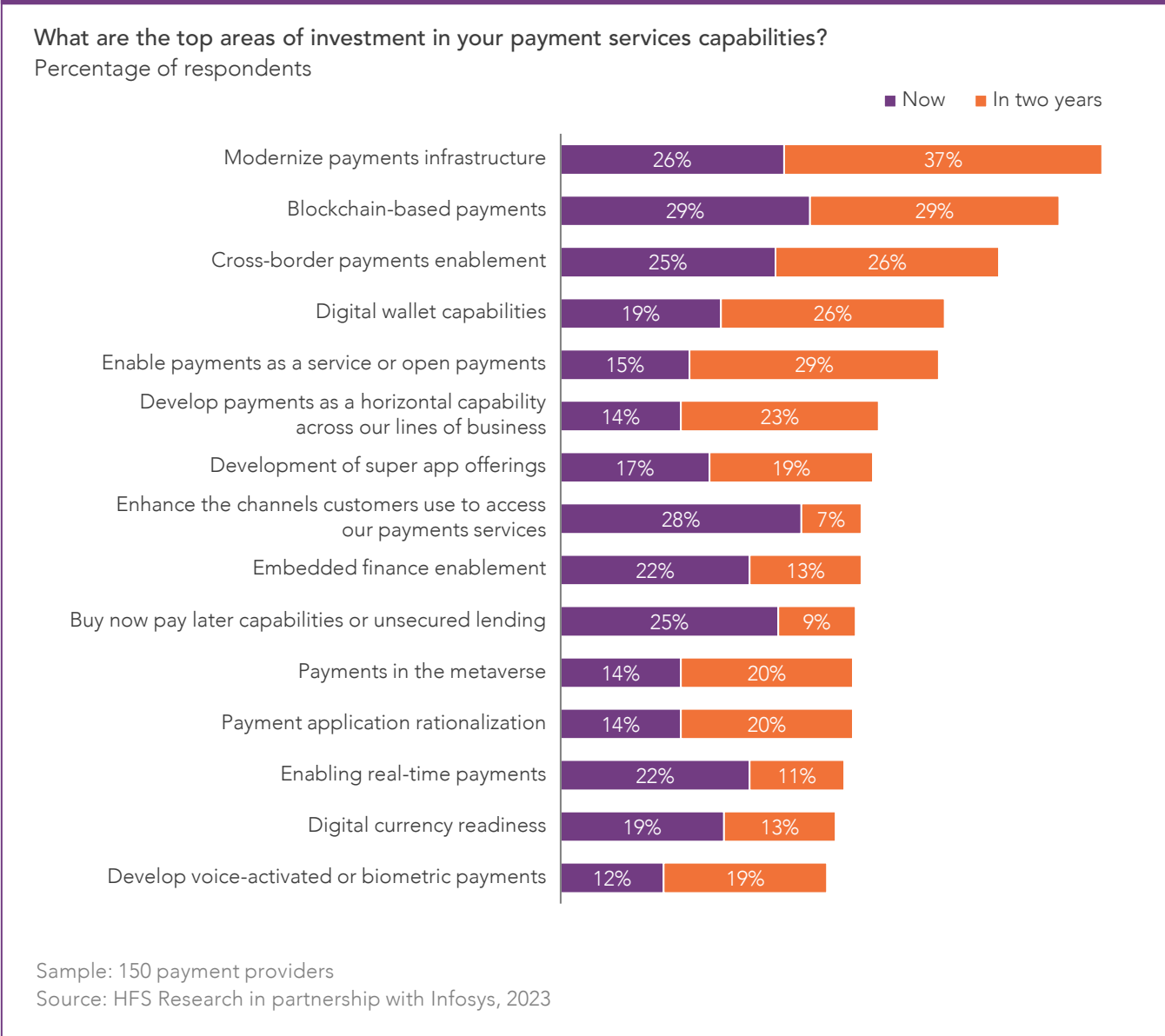
Our research is informed by a recent survey with 150 payment providers about their needs and priorities, conducted in partnership with Infosys. To help bring the data to life, we connected with a Senior IT Director of a 172-year-old payments provider best known for money transfer services to talk about modernization, transformation, and how to execute this correctly. The director oversaw the providers' cross-border merchant settlement operations modernization. The journey, enabled by an end-to-end partnership with Infosys, took the payment provider from an inflexible legacy mainframe to a modern configuration-based system offering the speed and agility necessary to satisfy the rapidly changing and complex needs of merchant settlement across 200+ countries.

The top investment priority for payment providers is infrastructure modernization

Let's be clear: No one modernizes unless they must. The ability of established payment providers to offer exciting new payment services while generating profitable revenue is largely tied to having the right infrastructure

and applications to run and manage the offerings, as seen in Exhibit 1, where 150 payment provider respondents in our study have underscored this point.

Exhibit 1: Payment modernization is the top investment priority for payment providers as they gear up to offer an expanded array of digital payment capabilities



Partners are the catalysts helping payment providers modernize their infrastructure and transition across horizons

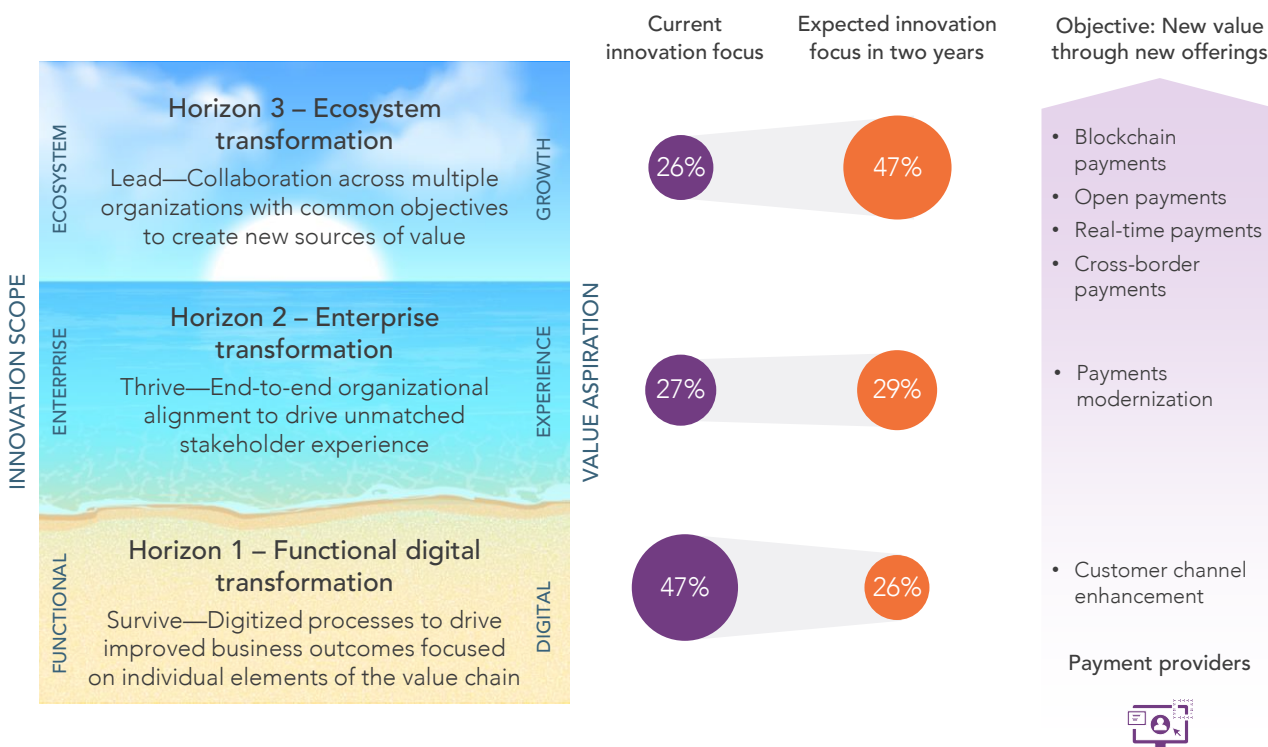
Our survey reveals that payment providers have massive aspirations for what they can achieve with innovation over the next two years. The trajectory moves rapidly across three innovation horizons:

- Horizon 1: Functional digital optimization, the current state, required to survive
- Horizon 2: End-to-end enterprise modernization, the required state, necessary to thrive
- Horizon 3: New value creation through ecosystems, the future state, the opportunity to lead

As Exhibit 2 shows, Horizon 3, the ecosystem transformation in the context of payments, is where providers can offer new payment products at speed, like digital wallets, real-time payments, cross-border payments, and blockchain, enabled by partners to drive revenue growth. The flip in innovation focus for payment providers from Horizon 1 to Horizon 3 cannot happen without laying the groundwork of modernizing the payments infrastructure and partners bringing the capability enablement needed to execute the transformation. Enterprise transformation work in Horizon 2 is necessary to get to Horizon 3.

Exhibit 2: Forty-seven percent (47%) of payment providers in our study expect to land in Horizon 3 in the next two years; payment providers need to invest in infrastructure modernization to reach the Horizon 3 North Star

Which statement best describes your current focus on enterprise innovation? What about in two years?
Percentage of respondents



Sample: 150 payment providers
Source: HFS Research in partnership with Infosys, 2023

The global payment services provider needed to address its legacy technology to create value through agility

The leading payment provider's main inefficiency was its antiquated technology, which caused a lack of robustness in its back-office operations for merchant settlements. Changing or innovating its offerings took months of development. Supporting settlement across more than 200 countries with different regulatory requirements, channel and sales models, payment methods, and funding solutions required an agile and configurable architecture to meet diverse needs. Underscoring this was streamlining reporting requirements for half a million agents. As the senior IT director noted:

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There were technology limitations—product and offering designs were limited to what could be supported. But the biggest driver was the need for more agility. To create or change anything required development. We needed a more configuration-based system. We needed flexibility and reconfigurability.

– Senior IT Director

There are no universal recipes to transition to an agile operating model. Consultants initially recommended that the payment provider use custom development because of its unique needs. However, its CTO ultimately decided on a packaged solution, Oracle Financial Services Revenue Management and Billing Cloud Services (ORMB), to minimize technical debt and internal maintenance.

Infosys contract demanded success with a “no option to fail” policy

The global payment services provider specializing in money transfers considered multiple service providers but went with Infosys because it came armed with a key ecosystem partner, Oracle, and an end-to-end proposition covering design, build, technology, licenses, and support services. Infosys' familiarity with the payment provider's internal plumbing from an earlier transformation for B2B billing helped identify the revenue leakage and present the best solution.

The partnership agreement was aggressive, armed with a strong clawback clause in case the solution did not meet the payment provider's needs after going live internationally. Infosys self-funded the build phase, which took longer than expected because the planned standard packaged implementation of ORMB needed significant customization and additional solutions to meet the payment provider's unique business requirements. The global payment services provider and Infosys worked through the challenges, conducting phased, iterative launches worldwide. They started with smaller, lower-risk geographies and scaled up in complexity and strategic impact as they went. The solution is fully implemented, and Infosys remains a critical support partner for business-as-usual support services.

The global payment services provider harnessed a full-service partnership to upgrade its engine room to become agile

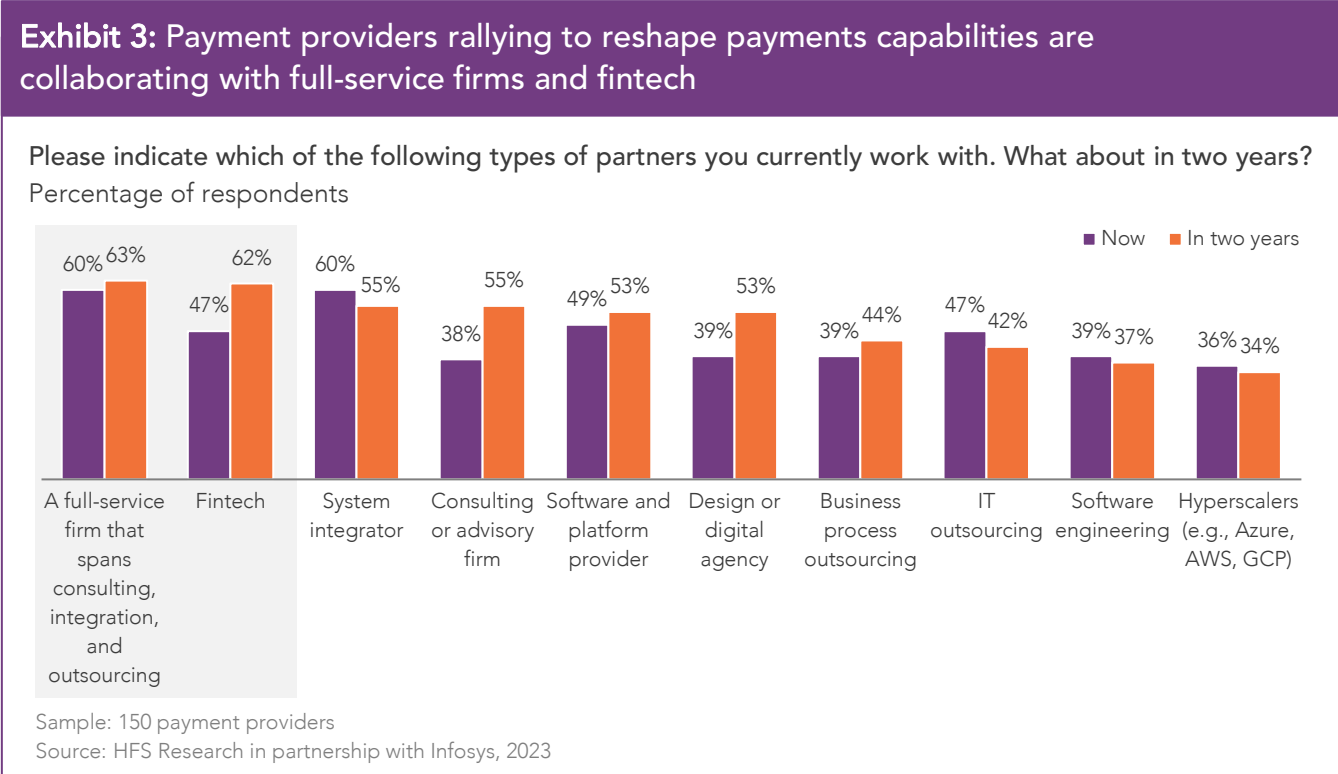
Infosys' client could have fallen into the trap of simply trying to improve existing processes and risk ceding the competitive advantage. Infosys did more than reimagine its processes by deploying an entirely reimagined merchant settlement architecture that unlocked massive value; the architecture included configurable agent commission and sales models, speed to adapt to new compliance requirements, and streamlined reporting. Infosys was a full-service partner that orchestrated relationships, licenses, and contracts with external partners and delivered an overarching platform that integrated a complex network of upstream and downstream functions, systems, and platforms across new and legacy technology. Today, Infosys provides a lean team of 24/7 back-office operational support and a stable infrastructure, delivering high client satisfaction while meeting its contractual commitments.

Vivek Dwivedi, Global Head of Payments, Infosys, has witnessed the evolving landscape of payments and the opportunities it has created for incumbents and disruptors:

“ The continued rise of instant payments and open banking and the proliferation of alternative payments have blown open payments ecosystems and are accelerating innovation in payments. Banks have a big opportunity to use payments relationships with their customers to unlock lucrative value pools by moving into the broader payments ecosystem and offering services beyond traditional banking products.

– Vivek Dwivedi, Global Head of Payments, Infosys

The end-to-end approach the global payment services provider took with Infosys is echoed in our survey results, shown in Exhibit 3. We asked other payment providers to comment on their preferred types of partners for now and in two years.



The top response indicated providers want full-service firms spanning consulting, IT services, and outsourcing, complemented by the fastest-growing option, fintech partners. The global payment services provider in this report sought the same capabilities, and it approached a full-

service partner that could also curate the fintech and other partners in the solution mix. Payment providers want partners that can integrate technology into business and grounding in measurable financial results.

The Bottom Line: Partnership ecosystems are the pragmatic approach to reaching Horizon 3 and overcoming the risk of disintermediation.

Ecosystem partners for payments are doing more than providing the tooling and enabling technologies. They provide a way for banks to cut through the complexity and get a seamless end-to-end experience. This value is compounded when partners can bring a network of expertise. Traditional FTE-based, cost-take-out-obsessed outsourcing is dying, and the Infosys partnership with the global payment services provider is a testimonial to that. It's a creative collaboration with shared outcomes and a way for payment providers to accelerate new offerings without the challenge or risk of building internal capabilities or going the complex M&A route.

Building these capabilities—modernizing the payment infrastructure, managing upgrades, implementing rule changes, and rationalizing the legacy technology—could have taken the payment provider years and a disproportionate amount of effort and resources it did not have. It decided to go with a trusted, full-service partner in Infosys.

Partnerships are imperative to capability enablement—to enable the journey across innovation horizons and to drive growth once there. Payment providers that continue to kick modernization can go down the road to the risk of disintermediation by nimbler competitors. Partners are critical to enabling this journey at scale and speed.

HFS Research authors



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Chief Research Officer

Elena Christopher is Chief Research Officer at HFS. Elena sets the strategic research focus and agenda for HFS Research, understanding and predicting the needs of the industry and ensuring our unique "analyst advisory" capabilities drive thought-provoking impact across enterprises and their associated emerging technology and services ecosystems. Elena also leads our industry research coverage, with specialization in banking and financial services.



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Divya Iyer is a Practice Leader at HFS Research, covering the IT and business services sectors, researching emerging and established digital business models and technologies, start-ups and business solutions suppliers. She has experience in the financial services industry, in the areas of banking, capital markets, equity research, financial modeling, data analysis, client management, and strategic project development.



About Infosys

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HFS Research introduced the world to terms such as “RPA” (Robotic Process Automation) in 2012 and more recently, Digital OneOffice™ and OneEcosystem™. The HFS mission is to provide visionary insight into the major innovations impacting business operations such as Automation and Process Intelligence, Blockchain, the Metaverse and Web3. HFS has deep business practices across all key industries, IT and business services, sustainability and engineering.

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