

11 Big Questions to Help You Develop a Modern Payments Strategy

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Considering the state of the payments industry and the importance of payments to a financial institution's business model and revenue goals, every bank and credit union needs a modern payments strategy that supports today's industry-wide threats and opportunities. And there are two distinct approaches to developing that strategy.

The proactive offensive strategy leaves little to chance with dynamic, detailed plans that are rich in what-if scenarios and regularly updated with data-driven insights. The reactive defensive strategy takes a "we'll cross that bridge when we come to it" approach. Financial institutions that continue to rely on defensive strategies are creating self-inflicted disadvantages and material performance and operational risks. And those with offensive strategists now have an array of complex considerations that didn't exist a few short years ago.

Whether your team is proactive or reactive, here are 11 big questions to carefully consider when developing your payments strategy.

- 1. How are you going to aggressively and successfully compete, near- and long-term?** Fintechs and big techs realized the potential in payments and reinvented P2P payments and merchant services with experience-driven solutions. These fierce, non-traditional competitors are now modernizing business and income payments, and many have plans to further disenfranchise financial institutions by offering insurance-eligible deposits, loans, cards, financial management solutions, and more. The big brand allure is real as more consumers choose who provides their financial services based on brand affinity and as young consumers are increasingly open to trusting non-financial companies for their financial needs.

Here's another resource about payments reinvention – [Three Reasons You Cannot Postpone Payments Reinvention](#).

A recent [survey of Jack Henry clients](#) found that 75% of those that responded believe payments-focused fintechs like Square, PayPal, and Venmo are their biggest competitors.

- 2. Is Banking as a Service (BaaS) your friend or foe?** Based on your strategy, BaaS, or embedded banking, will either be another threat to the fundamental business of banking, or it will provide new, diversified revenue opportunities. BaaS threatens traditional banking by enabling virtually any company in any industry to embed financial services into a curated customer experience. BaaS blurs the lines between chartered and non-chartered providers of financial services by enabling non-financial entities to “rent” a financial institution’s secure, regulated, API-driven infrastructure to embed financial services like payments.

But BaaS also provides new growth and recurring revenue opportunities for banks and credit unions that embrace it, develop supporting strategies, and implement the modern technologies that enable them to capitalize on this emerging software distribution model. PaaS (Payments as a Service) is the most popular service in embedded banking, and it will have sweeping long-term impact on traditional payment providers.

Jack Henry is building a PaaS platform that leverages open, standardized APIs to enable frictionless, secure, production-proven payments capabilities to be seamlessly embedded in financial and non-financial solutions.

- 3. Are you open to open banking?** Open banking is a complex and somewhat controversial subject these days, but most industry experts agree it is the future of the U.S. financial services industry. Open banking, not to be confused with BaaS, will unbundle the legacy technology stack and enable banks and credit unions to develop platforms that leverage SDKs (software development toolkits) and APIs (application programming interfaces) to build proprietary applications or to integrate the apps and solutions provided by fintechs (aka, embedded fintech) and third parties. These integrations occur without permissions or assistance from existing technology providers.

Operating as an open platform is plug-and-play at its best, providing absolute control over who you partner with, what solutions you integrate, and when. It provides unprecedented levels of operational agility, flexibility, and efficiency and enables the seamless, fast introduction of highly customizable, scalable, differentiated financial services. But in the context of your payments strategy, open banking is a prerequisite for BaaS/PaaS, so without an open strategy BaaS will be your foe.

An embedded fintech strategy empowers banks and credit unions to curate a differentiated experience that leverages their hallmarks of personal service and trust.

- 4. Are you supporting the incredible demand for real-time payments?** Payment innovators have evolved real-time payments from a competitive distinction into a competitive necessity – consumers and businesses now expect to move money in the exact moment of need so they can expedite funds availability and improve cash flow. Banks and credit unions can’t compete in today’s convenience-driven world without offering real-time payments, without continually developing meaningful use cases, and without identifying practical opportunities to monetize instant payments. Considering half of all U.S. DDA accounts are now connected to a real-time payments network, the demand can’t be ignored.

Here are more resources about real-time payments – [Real-Time Payments – Disruption or Opportunity?](#) and [Making the Case for Faster Payments](#).

Banks and credit unions must innovate now to capture or recapture their fair share of P2P engagement.

- 5. Is SMB banking important to your performance and growth?** Historically, the SMB market has been underserved by many banks and credit unions, so fintechs are filling the void. After beating financial institutions at the real-time P2P payments game, fintechs are now laser-focused on reinventing B2B payments and SMB banking. Capitalizing on SMB opportunities requires banks and credit unions to understand what financial services small businesses need in the new environment reshaped by digital innovations and the pandemic, and to strategically bundle and competitively price those services. Financial institutions can successfully compete in the significant SMB market with an offensive strategy that leverages existing account relationships and provides modern B2B payment and financial management solutions like integrated receivables.

Banks and credit unions have the unique and urgent opportunity to become the growth engine for SMBs by leveraging the trust small businesses have in financial institutions.

- 6. Do you have a near- and long-term digital currency plan?** Money and payments now traverse a hybrid world of centralized (fiat) monetary networks and decentralized (cryptographic) monetary networks. The market demand for cryptocurrencies is substantial and growing. With the right plan and partners, banks and credit unions have the unique opportunity to generate non-interest fee income without balance sheet or compliance risks. This significant recurring fee income opportunity is motivating banks and credit unions of all sizes to develop crypto strategies and identify supporting partners.

How banks and credit unions innovate in the digital era will determine if they survive, grow, and are able to successfully compete near- and long-term.

- 7. Are you confident in your payments fraud strategy and solutions?** Fraud is inevitable, pervasive, and growing as every payment channel is impacted by unique and constantly evolving schemes. Considering the complexities and vulnerabilities of each payment channel there's no silver bullet, no single solution, no single partner that can systematically mitigate fraud across the payments ecosystem. Successfully combating payments fraud requires a multi-layered approach to protect your accountholders, assets, brand, and reputation. But the fear of fraud has evolved into an ironic competitive advantage for financial institutions since most consumers and businesses believe banks and credit unions will be more accessible and willing to resolve fraud-related issues. Financial institutions need fortress fraud solutions to capitalize on that trust before it erodes – and it will.

Here's another resource about payments fraud – [Fraud Mitigation Must be a Key Consideration When Selecting Payments Partners](#).

Payments fraud is evolving from transaction-centric schemes to channel-centric schemes and real-time payments inherently provide much less time to stop fraudulent transactions.

- 8. What's your plan to comply with ever-increasing regulatory requirements?** Every change in presidential administration means new priorities and challenges complying with complex and evolving regulations. The Obama administration focused on stabilizing the financial system after the great recession. The Trump administration focused on economic growth. And now the Biden administration is focusing on making financial services more accessible and equitable for all socioeconomic segments. This will inherently

translate into more stringent regulations and require banks and credit unions to invest more time, resources, and technology in compliance.

The CFPB (Consumer Financial Protection Bureau) is expected to become a more aggressive watchdog under the Biden administration, with the enforcement of financial regulations intensifying and the monetary penalties for non-compliance increasing.

- 9. Do you have a payments data strategy?** Most payments data is channel-specific, siloed, and extremely difficult to use and share in meaningful ways. Financial institutions need the tools to seamlessly access, efficiently aggregate, and continually analyze payments-related data. Advanced data analytics and the actionable insights it generates are mission-critical to encouraging initial adoption and ongoing usage of channel solutions, enhancing the payment experience, fighting fraud, and driving revenue.

Payments tell detailed and accurate financial stories that enable banks and credit unions to offer the right payment channel at the right time.

- 10. Is your marketing budget sufficient and are the results worth the investment?** Due to growing demands on operational budgets, investments in marketing are typically minimal and often slashed. Banks and credit unions should carefully research the free or co-funded marketing programs and resources provided by technology partners and card and payment networks. Not participating in free promotions and campaigns is a material missed opportunity.

Most financial institutions don't have the budget, time, staff, or expertise to produce marketing campaigns and resources that drive adoption and organic growth.

- 11. Are your payment channels future-ready?** It's absolutely a new world in payments:

- Digital innovators built channel-stealing solutions that set and continually raise the bar for what consumers and businesses expect from the payment experience.
- The pandemic indelibly changed spending patterns and how payments are made.
- There are new payments channels and types and even new currencies.
- Payments are being reinvented with technologies that didn't exist a few short years ago – modern APIs, modern SDKs, AI, ML, tokenization, digital issuance, biometric and RFID cards, and more.
- Payments are being delivered with new operational infrastructures – open platform banking, payment hubs, cloud solutions, blockchain, BaaS/PaaS, and more.

Successfully competing near- and long-term in this new world inundated with threats and opportunities requires an offensive strategy – a dynamic, detailed strategy that is rich in what-if scenarios and regularly updated with data-driven insights. An offensive strategy that will enable you to:

- Consistently leverage innovations and technologies that are practical solutions to legitimate needs and not just shiny new objects.
- Proactively understand and respond to the industry-wide disruption with highly competitive, modern payment solutions.

- Capitalize on new growth-driving, revenue-diversifying opportunities inherent in new payment channels, types, and use cases.
- Identify and engage proven, high touch, collaborative payments partners.

The impact of payments on your business and bottom line is undeniable. Considering payments are the most common money moments and part of everyday life for consumers and businesses, there is no end in sight for the disruptive and opportunistic innovation. Banks and credit unions that don't invest the time and resources to modernize their payments platform and keep it in a future-ready state will need an alternative strategy – one to replace the revenue impact from lost payments.

Here's another resource about future-ready payments – [Future-Ready Payments are Fun.](#)

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We're Here to Help

Jack Henry is committed to simplifying the complexity of payments and helping diverse financial institutions develop modern, highly scalable, highly competitive payments platforms that support all payment channels and types.

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