



The emerging payment ecosystem platform

Maintaining trust in the banking market

Trust is crucial to the continued success of the French banking industry. More than 82 percent of French citizens currently have a positive image of their bank,¹ and more than 84 percent believe that banking is a strategic sector for the French economy (Figure 1).²

With more than 75 million payment cards in the market and 4.6 billion contactless payments in 2020, securing new payment solutions against fraud and theft is more important than ever. Contactless payments are more secure than expected. To date, fraud has remained relatively low. The Observatory for the Security of Payment Methods (OSMP) in 2020 found that the overall fraud rate on card transactions is stable at 0.068 percent,³ compared to the lowest-ever level of fraud of 0.013 percent in 2014.⁴

However, with the emergence of innovative and disruptive payment methods, the need for reliable security is expected to grow. To address this need, new regulations implemented by the second Payment Services Directive (PSD2) in May 2021 require French banks to offer enhanced authentication processes for online purchases.⁵ According to OSMP, these new measures were quickly deployed and adopted by banks as well as by their clients. This hardening of security aims to build trust between all stakeholders and, with strong action, is expected to address more than 85 percent of unpaid card payments related to fraud.

Emerging technologies and new regulations are leading to major changes in the market and the payment systems that support millions of consumers. This paper provides perspectives on new business models, implementation strategies and innovation for the future of payment systems.

By the numbers: Payments in France

¹ BVA Survey Image of Banks, French Banking Federation, 2018

² FIG survey, French Banking Federation, 2018

³ OSMP Annual Report 2020, July 2021

⁴ Management Report, French Banking Federation, 2014

⁵ PSD2 is a European directive on payment services that aims to promote innovation, competition and efficiency. In particular, PSD2 regulates the roles of non-banking companies that offer payment services and ensures applicable safety standards

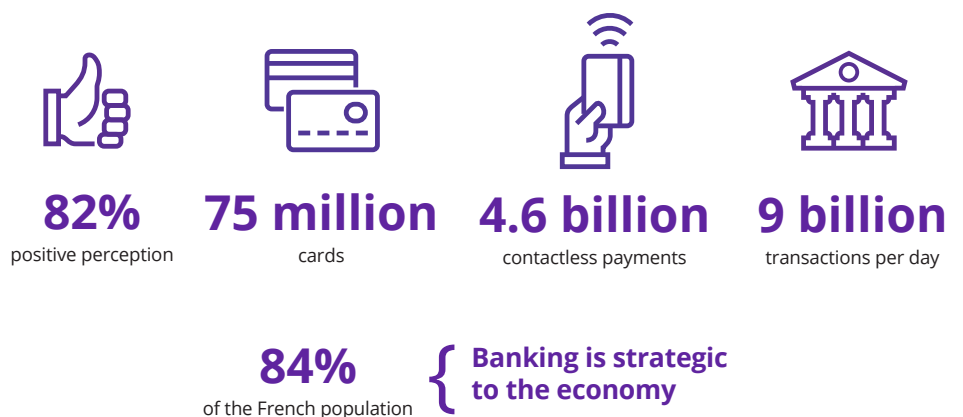


Figure 1. Importance of the banking industry in France

Drivers of change

The banking industry is undergoing numerous changes. Three factors (**Figure 2**) are combining to accelerate this already fast-paced business:

- New uses by customers — growing popularity of new types of contactless payment methods
- Emergence of new technologies requiring instant processing capabilities operating in real time within a secure environment
- New regulations, including PSD2 and the General Data Protection Regulation (GDPR),⁶ which focuses on customers owning the data and being at the center of the ecosystem

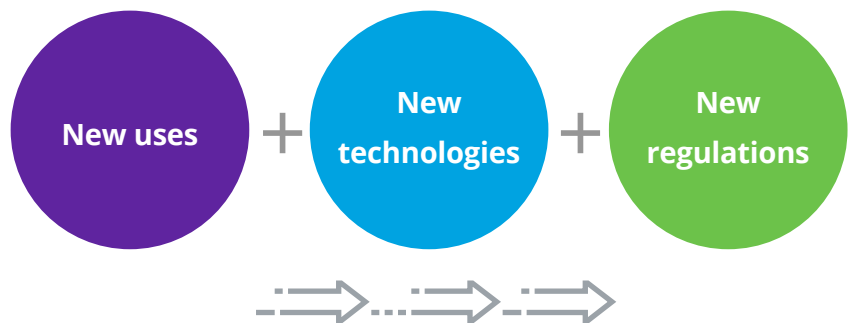


Figure 2. Three drivers of change

A brand-new ecosystem

These factors have transformed the traditional client–bank system into a split system. This disruption of the value chain breaks the traditional model and enables new market players to intervene and offer a variety of services. Examples of these services are automated credit risk analysis or automatic savings (by rounding each euro spent and delegating the funds to third parties, such as an account information service provider and payment initiation service provider).

To capitalize on this market, traditional banks need to transition to a new ecosystem centered around the full range of customer needs. To that end, banks must determine whether to position themselves as a service provider or a service aggregator in order to best support their customers. Ultimately, the vision for the future must be focused on customer needs and how to give customers a wider range of options for performing transactions — how and when customers want. This means that banks will need interconnected platforms that enable new services while ensuring strong authentication and security controls with trusted third parties (**Figure 3**).

The improvement of platform interconnectivity, crucial to the execution of these new services, can be done with such measures as ensuring robust authentication systems and securing a trustworthy third party. This allows new actors such as PISPs and AISPs⁷ to access customer data.

⁶ GDPR, which became effective in May 2018, governs the processing of personally identifiable data. GDPR reinforces the responsibility of organizations to protect customer data and demonstrate compliance at all times.

⁷ AISPs (account information service providers) and PISPs (payment initiation service providers) are new players authorized by the PSD2 to respectively aggregate information or initiate payments using data provided by banks, subject to the customer's prior consent.

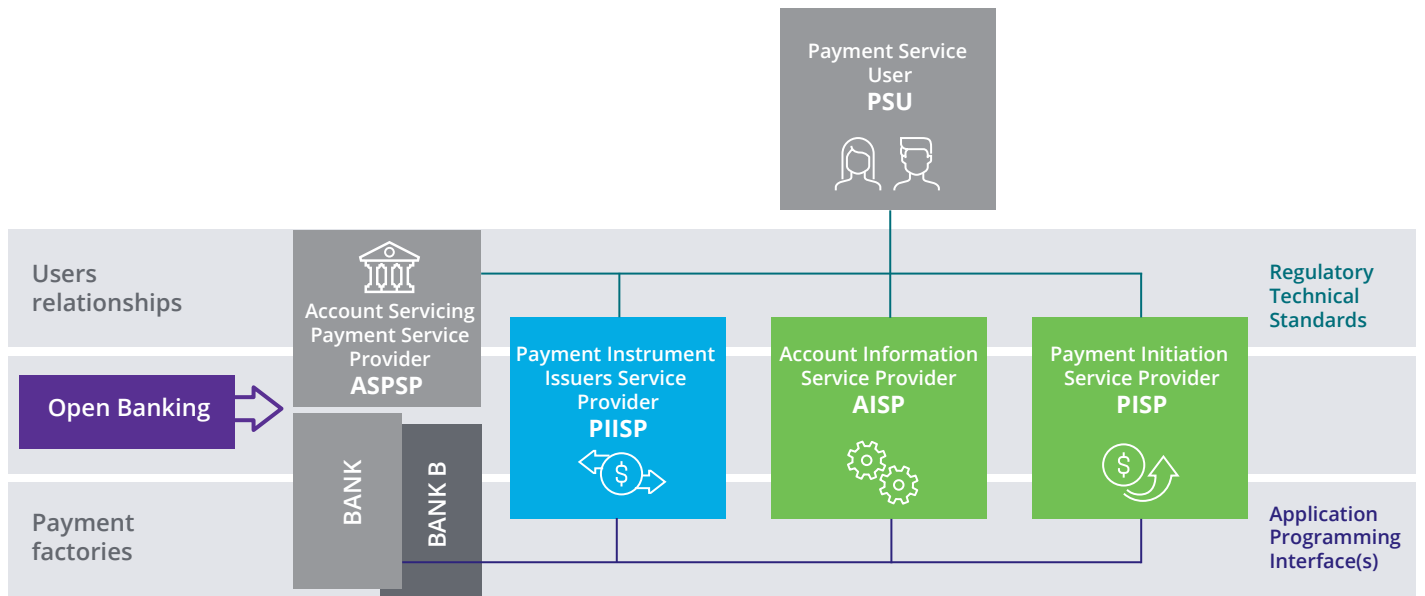


Figure 3. The payment value chain is evolving from a single banking offering to a web of interconnected players and platforms.

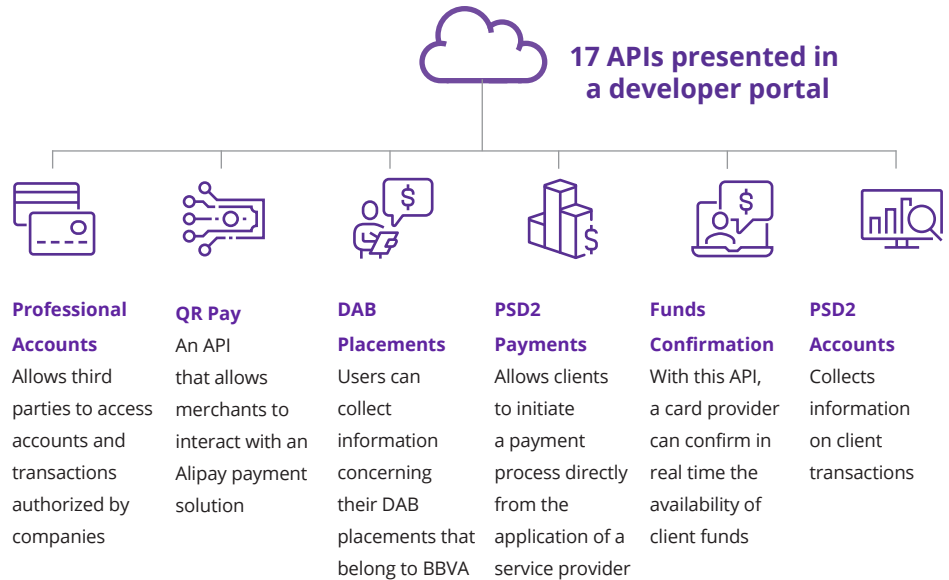
The creation of new processes to boost connectivity would massively benefit the fragmented European market, where most European cards do not work outside of their country of origin. As an example of strong interconnectivity: A rideshare company can offer all business-related services to its drivers, such as financial aid to purchase or maintain vehicles, scheduling services, fare management, loans and insurance.

The high stakes for banks and service providers

An example of a successful service aggregator is the AuMax automated assistant solution from Crédit Mutuel Arkea. Made available in early 2018, AuMax is a personalized assistant offering a wide range of services that can all be accessed in real time. These include, for example, asset management, traditional banking and loan services as well as financial assets management services. AuMax uses platform aggregation capabilities to deliver a consistent view to its customers and provide personalized services.

The payments industry is already facing disruption from new market and business models. BBVA has published an entire API library that displays all sorts of services (**Figure 4**). As they grow, these new service providers develop the entirety of this new ecosystem by providing clients with more innovative solutions than the traditional banking system can provide. For banks, retaining clients while adapting to these changes is a major concern.

Samples suggested in BBVA API library



Sample from: <https://www.bbvaapimarket.com/en/banking-apis/>

Figure 4. Examples of common APIs for banking

New capabilities through white-label banking as a service

Swan, a Paris-based fintech founded in 2019, enables companies to create their own bank cards and prepaid cards. For example, companies can issue cards with their own brand image and logo that then enable HR managers to pay salary advances or CFOs to pay invoices in a banking-as-a-service model. APIs integrate the solution with back-end systems, and a strong authentication process protects end customers and makes the cards easy to use.

The increased fluidity brought by these new banking processes has led to an increasingly complex ecosystem. New payment types, such as contactless payments, create new markets with new sales channels. For example, the self-check-out service increasingly used by retailers is a clever combination of a mobile application, an in-store scanning function, loyalty and a distance-selling type of payment.⁸

These new business models are governed by new regulations that attempt to limit their impact on banking services supply and thus interbank balance, which is being transformed by these new capabilities.

The need for cooperation

To achieve the higher level of cooperation required, a key problem must be overcome: balancing the supply and demand based on the interbank balance across various exchange formats. Opening up platforms could lead to even more fragmented and complex ecosystems to regulate and control. This complexity raises many questions, especially in terms of data sovereignty across numerous international players and jurisdictions.

Separating services capabilities

When developing new platforms for the future, it is essential to consider how to build services around the customer, integrate the solution and create vertical offerings focused on customer needs. An example of this approach to banking platforms is illustrated in **Figure 5**. The production of services through distributed content is highlighted by the “service capabilities” approach shown.

⁸ DXC recently took part in the design of a self-check-out system for a major French retailer.

The optimal starting point when producing new (banking) services is to start by building layers of infrastructure such as data classification and cloud usage. The next step is to add components and processes (such as standardization, pooling and simplification) with their own life cycle, to gain a better control over their integration within the base infrastructure layers.

When the two previous steps have been accomplished, only then can services be created (to boost the understand of client needs and usability). It is essential to think from the perspective of integrating this solution into services around customer use cases, to integrate the solution into use cases and to build a vertical offer based on customer needs.

Partitioning of service capacities

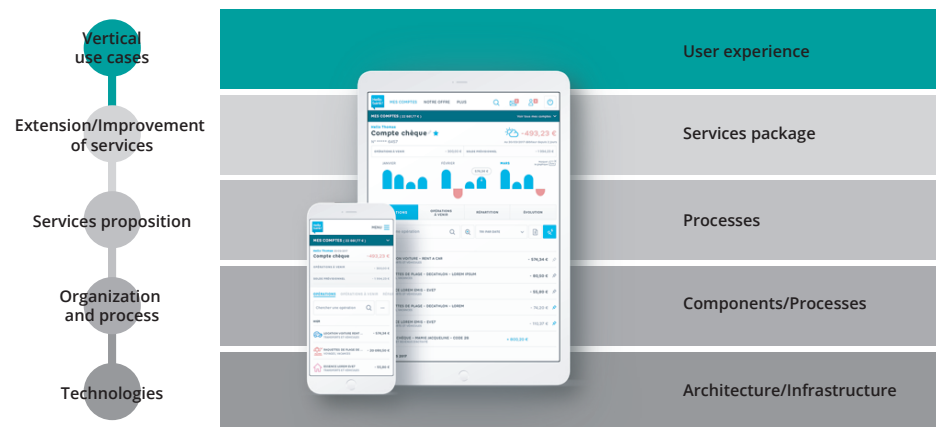


Figure 5. The service capabilities layered approach

A French banking model built on trust

Recently, a French Banking Federation survey conducted by the French Institute of Public Opinion on “The French, their bank, their expectations” found that the core value of French banking is maintaining physical proximity to clients through a strong territorial presence. The survey also found:

- Trust in banks and their advisors is related to the client’s confidence in the security of banking systems.
- Clients want a balance between the ability to use digital tools to perform banking processes and their ability to access a bank’s physical location (typically when attempting to solve or understand an account issue).

However, maintaining that balance is extremely difficult due to the increased use of digital tools. For this reason, banks must not only provide banking services and ensure the security of their clients but also offer meaning and clarity to why their solutions are the answer to what clients need.

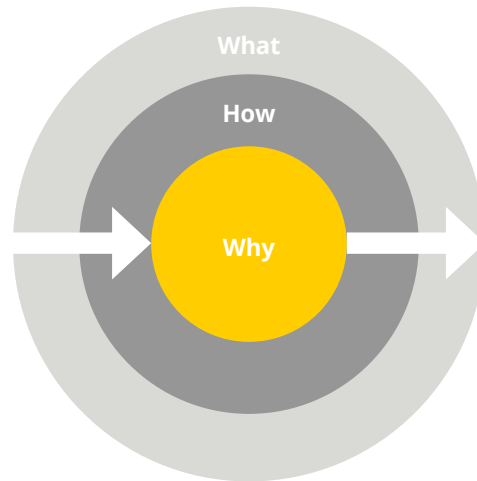


Figure 6. Simon Sinek's Golden Circle

As stated by Simon Sinek in the Golden Circle theory,⁹ “People don’t buy what you do, they buy why you do it” (**Figure 6**). In other words, clients mainly buy your product for the goal it accomplishes — the “why” — and not necessarily for its features, the “what” or “how.” The challenge for banking service providers is to properly demonstrate differentiated value-added services.

For example, DXC helped a banking company answer the “why” in a technology project that gave contractor businesses control of their expenditures. The “how” of the project was aggregating technologies, PSD2, APIs and digital invoices.

Identify opportunities and define a roadmap

In the face of these profound changes, combined with evolving business models, it is crucial for a bank or a service provider such as an AISP or PISP to consider the four pillars for assessing the relevance of a project: strategic, commercial, economic and operational.

1. **Strategic.** Identifying appropriate use cases, benchmarking technical solutions, selecting the most optimized and rewarding solutions — according to strategic objectives
2. **Product.** Creating an in-depth study of existing processes and documentation, functional conception, design thinking and creating a specific use case
3. **Project implementation.** Implementation project piloting, change management and sales force training
4. **Technical implementation.** Framing sessions and technical feasibility study, implementing the chosen solution, technical and parameter setup, integrating release-to-production solutions, product testing and revenue streams management

⁹ Simon Sinek, “How great leaders inspire action,” TED Talk, 2009

First step: Finding the right use cases

As many organizations have learned, not all business use cases are worth the time and investment required to turn them into workable technology solutions. DXC understands this and has therefore developed a standard methodology for evaluating and implementing new solutions and services (**Figure 7**).

The process begins with identifying all relevant use cases for the bank and then evaluating each use case by feasibility by market segments such as consumer-to-business (C2B), peer-to-peer (P2P), business-to-consumer (B2C) and business-to-business (B2B). Then the use cases must be evaluated on the potential impact to the bank's market, the potential appeal to consumers and the likelihood of adoption in the marketplace.

This process will help identify quick wins with strong return on investment and will highlight potential mistakes that could be expensive and harm the bank's reputation. Ultimately, following this methodology will help chart a clear vision for the business and deliver a roadmap for future investments.

Identifying possible use cases



Market segmentation



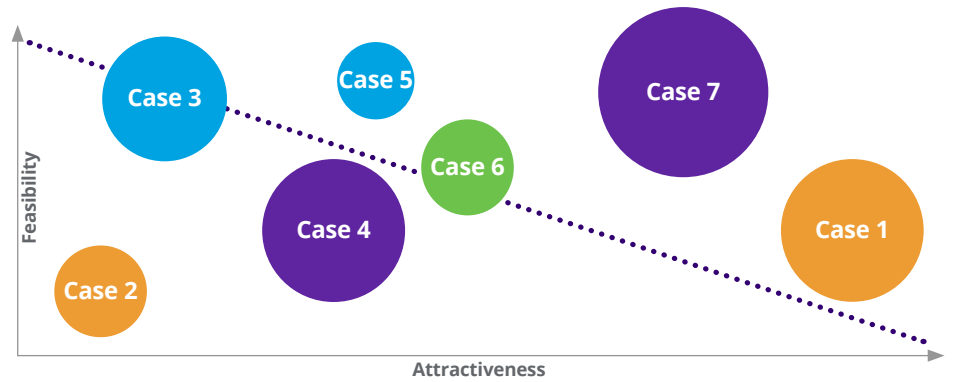
Markets: ● C2B ● P2P ● B2C ● B2B

Qualify market sizes



Figure 7. DXC's methodology to identify use case opportunities and define a roadmap (cont'd. on p.9)

Evaluation of feasibility and customer appeal



Identify quick wins and investments with expected ROI, and define roadmap

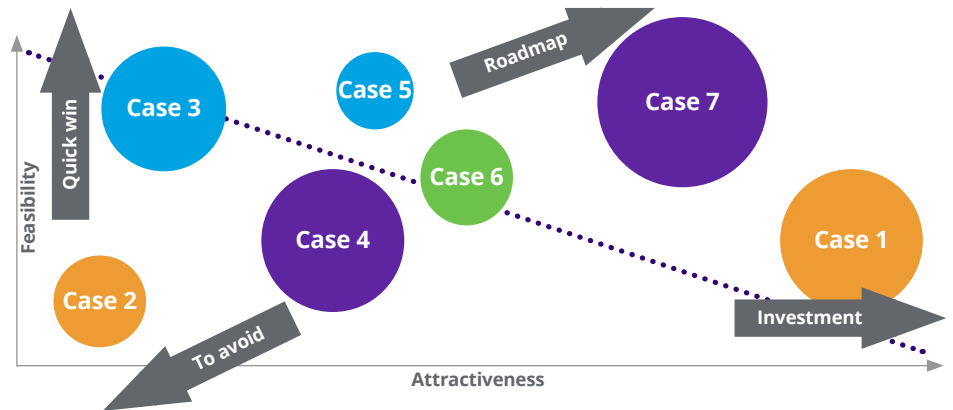


Figure 7. DXC's methodology to identify use case opportunities and define a roadmap (cont'd. from p.8)

Conclusion: Clear path to the future

Today, banks need to chart a clear path forward to the future of managing complex payment ecosystems — or run the risk of being left behind. By following a standard methodology, the banking industry can apply innovative use cases and create highly attractive solutions without making costly mistakes along the way or exposing customers to fraud and theft.

Successful players in this new market will be those banks that ensure client loyalty, support long-term growth and maintain client trust in their banking services.



Nicolas Benady
Co-Founder and CEO,
Swan

An interview with Nicolas Benady, co-founder and CEO, Swan

Swan is a French fintech founded in 2019. What does Swan offer? What is its mission?

Swan offers a banking-as-a-service solution. Our service allows companies to create, for their own customers, payment services. These services consist of the creation of accounts, IBAN generation, management and initiation of payments on these accounts, issuance of bank cards, prepaid cards. These services are provided in white label and allow the company to brand them with its image and logo.

Who are Swan's main customers? And how central were their needs in the definition of your strategy?

Our customers implement our payment services into an existing service. For example, we have use cases for workforce management with solutions that allow HR to pay salary advances directly from their HR tool, or to issue prepaid cards to cover mission expenses. Others allow CFOs to pay invoices instantly following their dematerialized receipt. As well in the proptech business, we can see developments such as real estate agencies using our APIs to integrate rent collection into their tools.

We are also improving access to payment services, for example for business startups where our APIs are integrated into the business process, which they digitize and automate. The creation of a new company and the process for opening an account are greatly simplified and accelerated.

We are now entering a new ecosystem with the platformization of the value chain. What are the future challenges for fintechs and other service providers?

We are seeing an evolution in the digitization of processes and the integration of specialized core functions. It started with website redirections and GUI wrapping. Today, interfaces communicate with each other, entirely based on APIs.

Our objective is to simplify as much as possible to relieve the service provider of the burden due to the different constraints related to payment services. One of the challenges is to rethink the user experience, focusing on keeping it simple while making the user aware of the roles and responsibilities of those involved in the service provided. For example, Swan is responsible for the strong authentication process of the final customer. It is therefore essential to ensure consistency and avoid disruption of the user experience with white label authentication, according to our own technical and regulatory obligations.

Conclusion?

It's only when you do the project that you realize how simple the "as-a-service" approach is.

About DXC in banking

Leading banks worldwide rely on DXC Technology to transform legacy business operations, modernize systems and run mission-critical infrastructure. We deliver proven results, enabling banks to improve customer satisfaction, reduce risk, increase profitability and rapidly adapt to business changes.

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