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## Payments Digitization... Some Baseball Thoughts

Meeting clients where they are, and where they will be

By: *Chris Truelson, Head of Strategy, Visa Issuing Solutions*

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### **Using baseball as an analogy for business is thought-provoking.**

I actually dislike it.

No, I really love it.

I guess I have this seemingly love-hate relationship with sports analogies because they are so genuine and yet so non-applicable to how things work in the real world. Performance and contribution in sports is easy to measure, but measurements like that can be very difficult in the business world because things aren't always black-and-white, win or lose. It's a mistake to base strategy and business hypothesis on a sport that can be so binary in its measurement of success. But given my love of baseball, there is just something enticing about connecting the rich history of the sport to what we see currently happening in the payments industry. And so, using the ubiquitous sports analogy always provides some applicable relevance to the discussion. Just like baseball emerges each spring, issuers engaged in payments innovation continue to push forward into new flows, new use cases, and new growth areas of the industry. At the foundation of this change has been a ton of really hard work upgrading and overhauling systems and infrastructure. Let's just call this work 'payments digitization', and it's giving clients the capabilities they need to build and launch new experiences for customers. Hats off to those organizations that have come out of their bullpens and batting cages to step up and take the pitches in this sea change event in our industry.



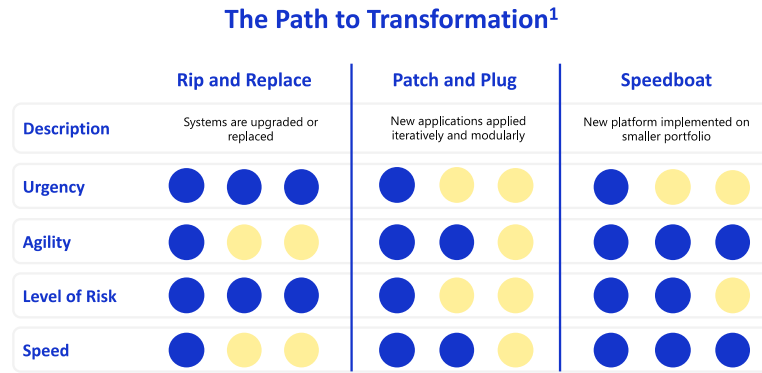
“There are three types of baseball players: those who make it happen, those who watch it happen, and those who wonder what happened” – Tommy Lasorda



Visa’s focus is on our client journey, with an objective to meet them where they are, and where they will be. We are a trusted partner in an industry growing by leaps and bounds, and there is no greater role we can take in support of our clients. These guiding principles are pushing us to innovate, prioritize our product roadmaps, and build in-demand features and capabilities. And just like baseball, there are many ways to get on first, and start running the bases. Business teams win using an arsenal of resources, skills and capabilities that are needed to play many strategic angles. Payments digitization is not a single inning or game - it’s like playing baseball on multiple fields, all stacked upon each other. There isn’t one solution or path. It’s for this reason alone that Visa must partner and listen to our clients in ways we have never done before. And we must meet clients where they are, and where they will be. Client-centricity is critical in this evolving industry.

Within the context of payments digitization, I’ve found a framework that boils down very complex approaches and journeys into understandable paths. Most traditional banks and credit unions have realized they need to be faster in their evolutions. Many have used the post-pandemic race to first base by acquiring new talent, adopting agile principles, and updating or even replacing technologies. Many clients have partnered to evolve, creating extensive ecosystems around headless operating systems with robust API gateways. We are also seeing the rise of the greenfield digital bank deployment to test and learn. These different dimensions of digital change and transformation are captured in the framework outlined in Figure 1 below.

Figure 1:



<sup>1</sup>Source: Visa, Inc. data sources and 2020 client survey; McKinsey analysis annual reports as cited in "Next-Generation Core Banking Platforms – A Golden Ticket" 2019; Deloitte "Digital Transformation Hits Core Banking"; Cognizant "A Path to Efficient Data Migration in Core Banking" 2019.

The bulk of our clients are gravitating to augmentation of their traditional systems with new fintech applications, as well as launching new digital bank propositions. This knowledge, and continued partnership with our clients, is leading Visa to create sustainable digital products and services that meet our clients where they need us. From the development of new API-based issuer processing platforms like DPS Forward, to extensive digital toolkits that include robust SDKs to allow our clients to automatically provision virtual credentials to wallets, we are meeting clients where they are and where they will be. We are also creating ecosystems of partners so our clients can access pre-integrated providers that can help accelerate transformational journeys. In order to execute on these products and services, DPS is building holistic solutions that can be managed by us on behalf of our clients. This managed service approach is powerful to those clients that need knowledge and resource support to meet the needs of these emerging use cases. To showcase this innovation, Visa will host its annual client conference for DPS customers, prospects and partners in April. If you haven't signed up for this conference, you need to. After a long hiatus due to the pandemic, the conference is returning to Denver, Colorado at the Gaylord Hotel. Many of our clients regularly comment that it is the single industry event they attend each year, and Visa draws a crowd ranging from traditional banks and credit unions, to global fintech companies.



“Visa has been a fantastic partner, supporting our digital member experiences by providing products and solutions that solve real-world challenges.” – Todd Lindemann, SVP Payments – Redwood Credit Union

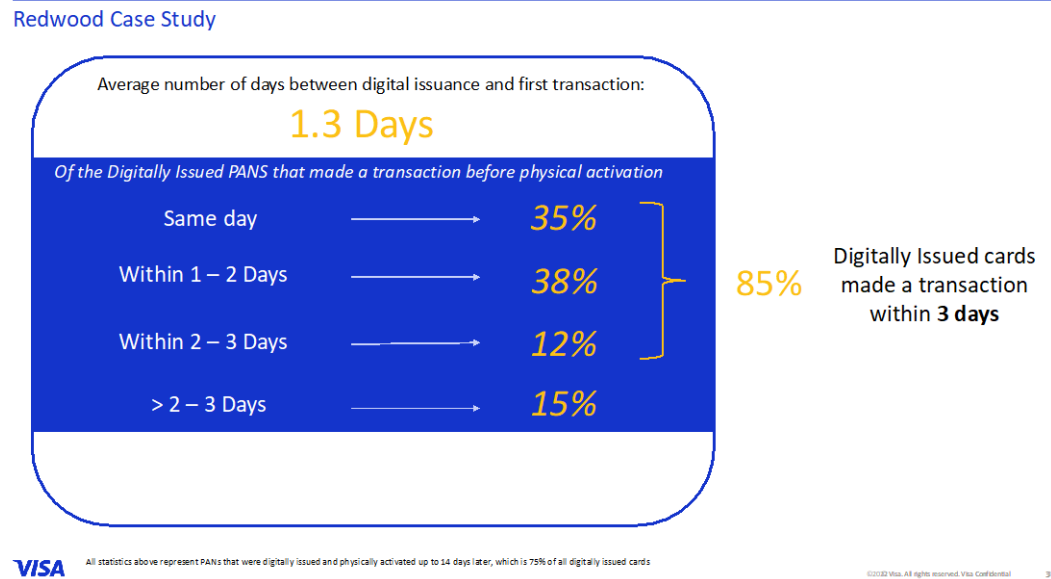


There are fantastic examples of successful journeys our clients have embarked upon to upgrade their digital capabilities and meet the needs of their customers. To augment an existing digital issuance capability, Redwood Credit Union implemented provisioning features in December, 2021 to complement their digital issuance offering. These features allow card credentials to be created digitally, in real-time, and then pushed out to mobile applications like Apple Pay without the need for a physical plastic. In the middle of the pandemic, this development was pursued because it was a quick win for the credit union, and it provided speed-to-market solutions for their membership who had reported cards lost or stolen. Redwood’s early decisions to update their digital issuance systems and core capabilities to accommodate adjacent use cases like auto-provisioning has yielded strong results and overall membership satisfaction.

- 94% of digitally issued cards were digitally activated before the physical card was activated
- 75% of the activated digital cards had at least 1 transaction before the physical card was activated
- The average number of days between digital issuance and the first transaction was 1.3 days

The long-term benefits of enabling this functionality are evident. Issuing physical cards can take upwards of two weeks from order to activation. Closing that time gap creates goodwill for cardholders and likely prevents Redwoods CU members from using alternative payments capabilities, potentially with competitors. Redwood was also able to keep transactions flowing as members utilized the digital cards while they waited for the physical cards to arrive. These outcomes are evident in the data they have gathered since implementing the service.

Figure 2:



Many issuers today are struggling to digitize because they are hobbled by legacy core banking systems, some of those systems are nearly fifty years old. For most traditional banks, the core is the beating heart of the bank’s infrastructure. Touching the core conjures up images of immense expense and risk. Many banks have deprioritized modernization of their cores in favor of patching and plugging new technology front-ends like websites, mobile apps, and digital experiences provided by partners. To avoid risk, clients carve product channels out of the core, and create ecosystems of solutions and partners in real-time connections through APIs. These lightweight, agile applications and process flows allow the front-end of the product to digitize into cardholder mobile devices. But clients should pursue a parallel path to digitization, and partner with several next generation cores or build their own to test and learn. We are seeing multiple iterations of banks testing new digital core applications globally. Many have struggled with the investment expense and difficulty on the return, but it is a far better and less-risky approach that is fast becoming a standard cost in moving along the path of digitalization. There are several things happening in the industry today driving clients toward the inevitability of core system upgrades: the rise of ecosystems and partner marketplaces, competition for consumers, and the move toward event-driven processing. The ability to provide real-time experiences requires the removal of batch processes and interdependencies. Event-driven architecture (EDA) is an underpinning technology that creates these capabilities.

An example of a digital core migration is Current ([www.current.com](http://www.current.com)). Current is a U.S. based consumer fintech that has seen significant growth in the last few years. Current's leadership made a bold decision during the heat of the pandemic to focus on infrastructure upgrades and reducing unit costs. This has allowed their business to rise above current challenges many of their competitors are facing in the current fintech climate, and create a more efficient transaction processing platform. Current built out its core banking system, and through APIs created a scalable migration strategy to de-risk conversion events. Over the course of a few weeks, Current successfully converted nearly five million customers off of a traditional issuer processing system to their new in-house platform, which utilizes Visa DPS APIs to remove the necessity of on-premise data centers, and create efficient processing of transactions into cloud-native applications. It has allowed Current to step up the level of detail they receive on each transaction, and take a larger role in the authorization. Their recent efforts are now paying off for them with a reduction in expense, and the capability to extend their platform into more and more emerging use cases like modern credit. Current's shift to a modular next-gen banking platform means new features are faster and easier to test and launch, and associated services can be provided through modern API connectivity with a growing ecosystem of partner endpoints. This results in even greater configurability and the ability to personalize their products and services all the way to the customer.



“Visa DPS is an ideal match for our cloud-based approach. The efficiencies it provides allows us to maximize as a platform and enables us to provide even more value to our members.” - Trevor Marshall, Chief Technology Officer, Current



How will the industry measure success of these transformation journeys? Success in digital transformation will be weighed against the list of product capabilities and efficiencies that have been created resulting from that transformation. New tech for the sake of new tech doesn't justify the expense of these transformations. The ROI is the multitude of new customer experiences that are (and will be) created because the infrastructure no longer prevents innovation and growth. The payments industry will experience incredible innovation over the coming years – the fintech frenzy of the last ten years has only been the beginning. We are

nearing the end of the initial innings, where experimentation slows giving rise to solid business models and scalable platforms. Those organizations that have positioned their infrastructure to accommodate this growth will experience break-out innings and will score many runs, leading to huge wins.

In October, 2011, after hitting three home runs in Game 3 of the World Series, tying both Babe Ruth and Reggie Jackson as the only players in baseball history to hit three homeruns in a single World Series game, the great Albert Pujols explained to the reporter that the end goal and objective of hard work during the season is to win the world series, and not just to put up the stats and numbers.



“It’s not how you start the season, it’s how you finish. If you wind up helping the team make the playoffs, that’s what you play for. You don’t play to put up your numbers, but to try and get a chance to make it to the World Series.” – Albert Pujols



Visa is here for our clients to support that single hit, or to support our clients that want to win the World Series of payments. **We are building to meet the needs of our clients, wherever they may be in their journey.** As your trusted partner in the payments industry, give us the opportunity to show you the tremendous value that we can bring to your transformation.

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*About the Author:*

Chris Truelson is Head of Strategy for Issuing Solutions, Visa’s largest value-added service division that includes Visa DPS. His role, combined with 30-years of experience in the payments industry, provides a unique perspective on the state of payments digitization impacting the industry today. He is widely supported as a thought leader, has studied the subject extensively, and has spoken at industry events. Chris is also a baseball fan that when encouraged, can hit Denver’s Coors Field with a decent throw from the balcony of his home.