



Modernizing payments

Perspectives from financial and retail executives on payment modernization strategies and trends



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Foreword

The pressure on financial institutions (FIs) and retailers to modernize payment systems and infrastructure is more intense than ever. The payments landscape is evolving at a breakneck pace, with the move to ISO 20022 to a plethora of new payment alternatives and channels vying for market share. From instant payments to contactless payments and QR payments, which are rapidly gaining traction, especially in emerging markets, to the growing popularity of Buy Now, Pay Later services, the demand for innovative payment solutions is at an all-time high.

This dynamic environment is placing significant pressure on FIs and retailers to meet the shifting expectations of their customers. Today's consumers aren't just looking for payment options; they are demanding fast, convenient, and secure payment experiences. They expect their retail and FI providers to deliver seamless interactions across channels and payment platforms.

While the drivers for modernization may vary between retailers and FIs, we believe it's important to view this topic comprehensively. A fragmented approach risks amplifying challenges such as fraud, cybersecurity threats, and increased costs. On the other hand, a cohesive strategy can unlock a wealth of opportunities. By modernizing payment systems, organizations can attract new customers, enhance engagement and loyalty, and generate richer customer insights. For retailers, this means establishing a clear governance structure around payment modernization.

Whether the initiative is centralized within the treasury, driven by e-commerce teams, or delegated to individual business units, a well-defined ownership model is crucial for effective decision-making and execution.

Payment leaders and executives are acutely aware that the transformation of payments is in its early stages. The advent of quantum computing, generative artificial intelligence (AI), and tokenization signals that the payments space will continue to evolve and disrupt. As this report highlights, many FIs and retailers are proactively getting ahead of the curve by adopting newer, more agile payments platforms and tools.

This report offers an extensive snapshot of the progress made by FIs and retailers in their payment modernization efforts. It delves into the challenges organizations are facing and how they are overcoming them, and a detailed analysis of their aspirations. Most importantly, it underscores that payments modernization remains a top priority for the C-suite.

It's not just about keeping up with the present; it's about preparing for the future of commerce. We encourage you to explore the insights and recommendations presented in this report. They can help you navigate the complexities of payment modernization and seize the opportunities that lie ahead.



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Introduction

In today's rapidly changing financial landscape, payment modernization has become a critical priority for FIs and retailers. Indeed, a staggering 93 percent of FIs and 87 percent of retailers are either currently involved in payment modernization programs or have plans to initiate one.

This report finds that FI and retail executives are acutely aware of the multiple benefits that payment modernization can bring. Customer experience improvements are front and center. But FIs and retailers also reveal their aspirations for efficiency gains, faster transaction processing, and enhancing their current data and analytics capabilities. The most successful modernization programs are anticipated to deliver a substantial competitive advantage.

Yet modernization is not straightforward. These initiatives require significant staffing and financial resources and represent major exercises in change management. FIs and retailers alike are focused on innovating without compromising business-as-usual operations. More critically, they are maintaining security, which is a key priority and a source of reassurance for the future.

This report is intended for transaction and payment leaders at FIs and retail organizations. It was developed to provide actionable insights into the key trends, challenges, and opportunities that are shaping payment modernization.

The findings are based on a survey of **810** FIs and **690** retailers, conducted by KPMG International in September 2024, to assess **current payment modernization programs** and progress. Here are the key takeaways of that survey.



Urgency

The vast majority—93 percent of FIs and 87 percent of retailers—are either currently modernizing their payments infrastructure or are planning to do so (on average, they will begin within the next six to eight months).



Motivation

Changing customer expectations ranks as the top driver for FIs and retail organizations. FIs are motivated by regulatory requirements and the need to update legacy systems, while retailers are motivated by competitive pressures and cost considerations.



Resources

FIs and retailers are allocating significant resources toward modernization. On average, FIs plan to spend around \$18 million and allocate 36 people to their programs. Retailers expect to spend an average of \$4.1 million and allocate 23 people to their programs.



Benefits

Respondents (both FIs and retailers) agree that payment modernization will deliver improved customer experiences, faster transaction processing, and long-term cost savings. Retailers' top expected benefit is customer experience improvements, while FIs are primarily anticipating cost savings.



Challenges

FIs and retailers are concerned about the cost and potential disruption of implementing new payment systems. Retailers are also worried about training staff to manage the transition, while FIs are concerned about the complexities of integrating new platforms across multiple systems.

This report explores these findings to provide FIs and retail executives with precise data and insights on the challenges and opportunities driving payment modernization in their region and sector. We encourage you to use these insights to inform your organization's payment modernization strategies. To discuss your unique modernization objectives, contact your local KPMG member firm.

Overview



FI analysis

The FI payments landscape is undergoing a significant modernization push, with 94 percent of institutions having programs underway or planned.

The regulatory burden of ISO 20022 is driving many banks to prioritize payments modernization. Banks are looking beyond compliance and seeing ISO 20022 as an opportunity to leverage data for new products and services. Modernization is not just about technology; it is also about transforming business processes and customer experiences.

Not surprisingly, these regulatory requirements are the top trigger for payments modernization in the financial sector, with a focus on modernizing payment engines and core banking systems. With budgets averaging between \$10 million and \$25 million, many of these programs are expected to begin within the next 3–6 months.

Key success metrics include cost and fraud reduction, with 85 percent of institutions planning to outsource parts of their infrastructure, particularly technology, security, and payment processing. According to Volante Technology's The Big Survey, 97 percent of bank leaders state a preference for a Payments as a Service (PaaS) model, indicating a strategic move toward leveraging third-party experience and infrastructure.¹

However, integration challenges and operational disruption remain key concerns. As such, KPMG professionals' view is that the future of payments is likely to be characterized by continued innovation, collaboration, and competition.

¹ Payments Modernisation: The Big Survey 2024, Volante Technologies, June 2024

FI key findings

93%

Have a modernization program planned or underway

\$19 million

Average expected investment into modernization

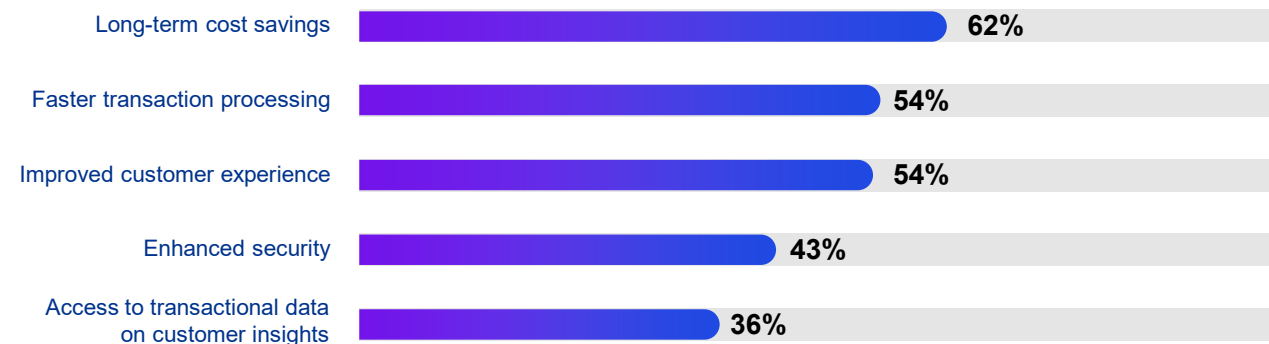
Regulatory requirements

Top factor triggering payments modernization

34

Average number of employees allocated to modernization activities

Top five benefits of modernization—Financial Institution



■ Total (n = 94)

Source: KPMG International, "Modernizing payments" January 2025.

Client story

Providing a turnkey approach to instant payments platform implementation

The payments landscape is constantly evolving. So when this Top 10 global transaction bank was looking to implement real-time payments (RTP) capabilities to stay competitive, it wanted a consultant that could deliver a turnkey approach. The bank selected KPMG in the US.

The KPMG team worked with the bank's leadership to develop an overarching enterprise payments strategy, and helped it evaluate payments platform vendors across RTP, high-value wires, and low-value automated clearing house (ACH) with a focus on not only helping the bank select its payments platform for instant payments, but also preparing for future payment types.

KPMG in the US then provided broad implementation support ranging from detailed requirements definition and vendor fit gap to implementation planning, solution design, platform configuration, testing, and operational readiness.

This turnkey approach enabled the bank to successfully launch RTP capabilities, enhancing its transaction banking offering and providing its corporate clients with a new instant payment type.

Retail analysis

With 86 percent of retailers already modernizing or planning to modernize their payment systems, the retail sector is seeing a profound transformation driven by evolving consumer preferences and technological advancements.

Payments modernization is a critical aspect of the evolving retail landscape. By addressing the key challenges and leveraging the opportunities presented by new technologies, retailers can position themselves for success in the increasingly competitive and dynamic market. This can enable them to not only meet the evolving needs of their customers but also gain a deeper understanding of their behavior, leading to a more personalized and rewarding shopping experience.

Retailers are investing heavily in upgrading their systems to meet the growing demand for convenience, speed, and security. The primary driver for this modernization push is cost reduction, with 61 percent of respondents prioritizing the inclusion of new payment methods and 59 percent focusing on digital payment implementation or upgrades.

Interestingly, 66 percent of programs have a budget below \$2 million, indicating a focus on cost-effective solutions. Perhaps not surprisingly, therefore, outsourcing plays a crucial role in these initiatives, with 92 percent of respondents either currently outsourcing or planning to do so.



ISO 20022 and instant payments are driving payments modernization. Banks are focused on meeting the 2025 industry mandate for ISO 20022 while also enhancing real-time payment capabilities. Additionally, they aim to leverage the data from ISO 20022 to create new value-added opportunities for customers.”

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However, challenges remain. The top two concerns are the cost of implementing new technologies and training staff for the transition. Overcoming these hurdles will be critical for US retailers to successfully navigate the evolving payments landscape. Furthermore, payment modernization presents opportunities for retailers to personalize the customer experience and build stronger customer relationships.

This, in turn, can lead to increased sales, improved customer loyalty, and a stronger competitive advantage.



Consumers, particularly younger generations, are increasingly opting for contactless payments, mobile wallets, and other digital solutions over traditional cash and credit cards.”

Duleep Rodrigo

National Sector Leader, Consumer & Retail
KPMG in the US

Retail key findings

86%

Have a modernization program planned or underway

\$2.1 million

Average expected investment into modernization

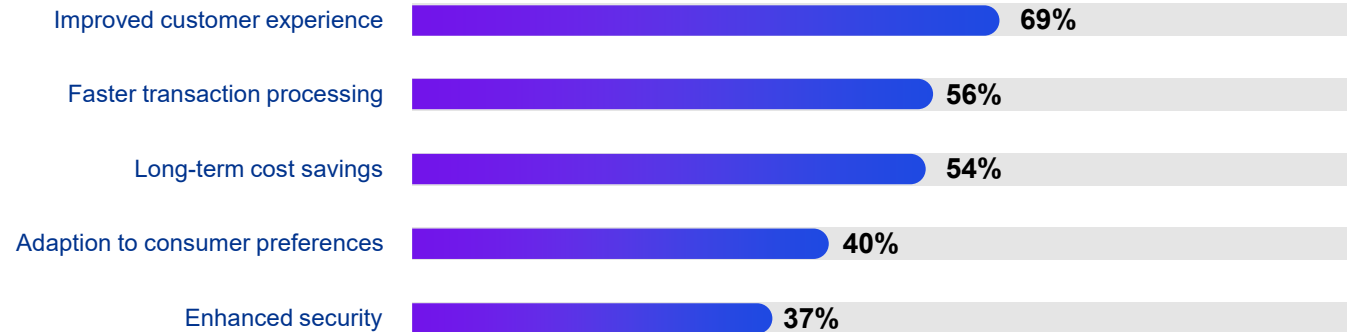
Cost reduction

Top factor triggering payments modernization

22

Average number of employees allocated to modernization activities

Top five benefits of modernization —Retail



■ Total (n = 94)

Source: KPMG International, “Modernizing payments,” January 2025.

Conclusion and recommendations

As consumer expectations shift, regulation evolves, and new technologies emerge, payment modernization will become increasingly key to survival in the retail and financial services sectors.

As this report reveals, FIs and retailers are keenly aware of the need for modernization. And they recognize that significant benefits—better customer experiences, more streamlined operations, long-term cost savings and enhanced security, for example—can flow to players that are able to remain competitive in the payments landscape.

Yet continuous modernization isn't easy. And many of the executives in our survey of FIs and retailers say they face significant challenges as they strive to modernize their payment systems to meet customer expectations and regulatory requirements.

Based on the findings of this report, here are four conclusions that payments decision-makers at financial institutions and retail organizations should take away from this report:

1

Put the customer first. Customer expectations are the leading driver for payments modernization. The companies that succeed will likely be the ones that listen to what their customers want, deliver products and services their customers expect, and plan for what their customers will need. For a sharper defense against competition, organizations need to shift from their agendas and budget priorities being driven solely by regulatory requirements and keep customer expectations at the top of their agendas.

2

Design a practical journey. There is a reluctance to rip-and-replace these systems due to cost pressures, key person dependencies, and the spaghetti of connections across the architecture. A sequenced journey, supporting partial functionalities being transitioned to newer technology, could speed up this move through transition states.

Payments-as-a-service, public/private/hybrid clouds, and component-based architectures may provide a solution to payments modernization.

3

Resource teams appropriately. Undertaking modernization programs while "keeping the lights on" is difficult. Often the resources needed for modernization are the same as those that understand business-as-usual (BAU). Resourcing modernization teams to the right size is critical for successful modernization programs. Agile operating models have proven to be successful in helping balance resources across both modernization efforts and BAU.

4

Data is the new frontier. Payment data presents a gold mine of information for firms. Leveraging ISO 20022 and harnessing data presents an opportunity to form a holistic picture of the customer's needs. Retailers more than FIs have done this with some success to date. The clout of smarter technology, AI, and increased digital interactions will likely further improve this and present data monetization opportunities.

How KPMG can help

The payments landscape is rapidly changing. New formats and standards. Changing customer expectations and payment options. Emerging technologies and competitors. FIs and retailers need to adapt or perish.

From payment modernization and accelerated digitalization through to ISO 20022 conversion and regulatory compliance, KPMG payments professionals take a holistic approach to your payments challenges to deliver tailored, future-ready approaches and ideas.

KPMG payments professionals leverage the organization's extensive technology and change capabilities to support the delivery of leading payments solutions. And they are embedded into the KPMG organization's Financial Services and Retail practices, allowing them to leverage industry leading practices and new ideas.

KPMG has worked with some of the world's leading banks and retailers to deliver modernized payment environments. Contact KPMG to find out how we can help your organization.



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