CELENT

CROSSING THE BORDER: DRIVING INNOVATION FROM INEFFICIENCY

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Patricia Hines, CTP
Senior Analyst, Banking

OLIVER WYMAN

Celent's value proposition

- Subscription-based
- Key topics:
  - Trends
  - Best practices
  - Vendor comparisons
  - Case studies

- Tapping our expertise, either face to face, or via email, phone

- Fixed price, fixed deliverable
- Market assessments, vendor or system selection, IT strategy

- Innovation workshops
- Emerging technologies
- IT portfolio alignment
- Business/IT roadmap

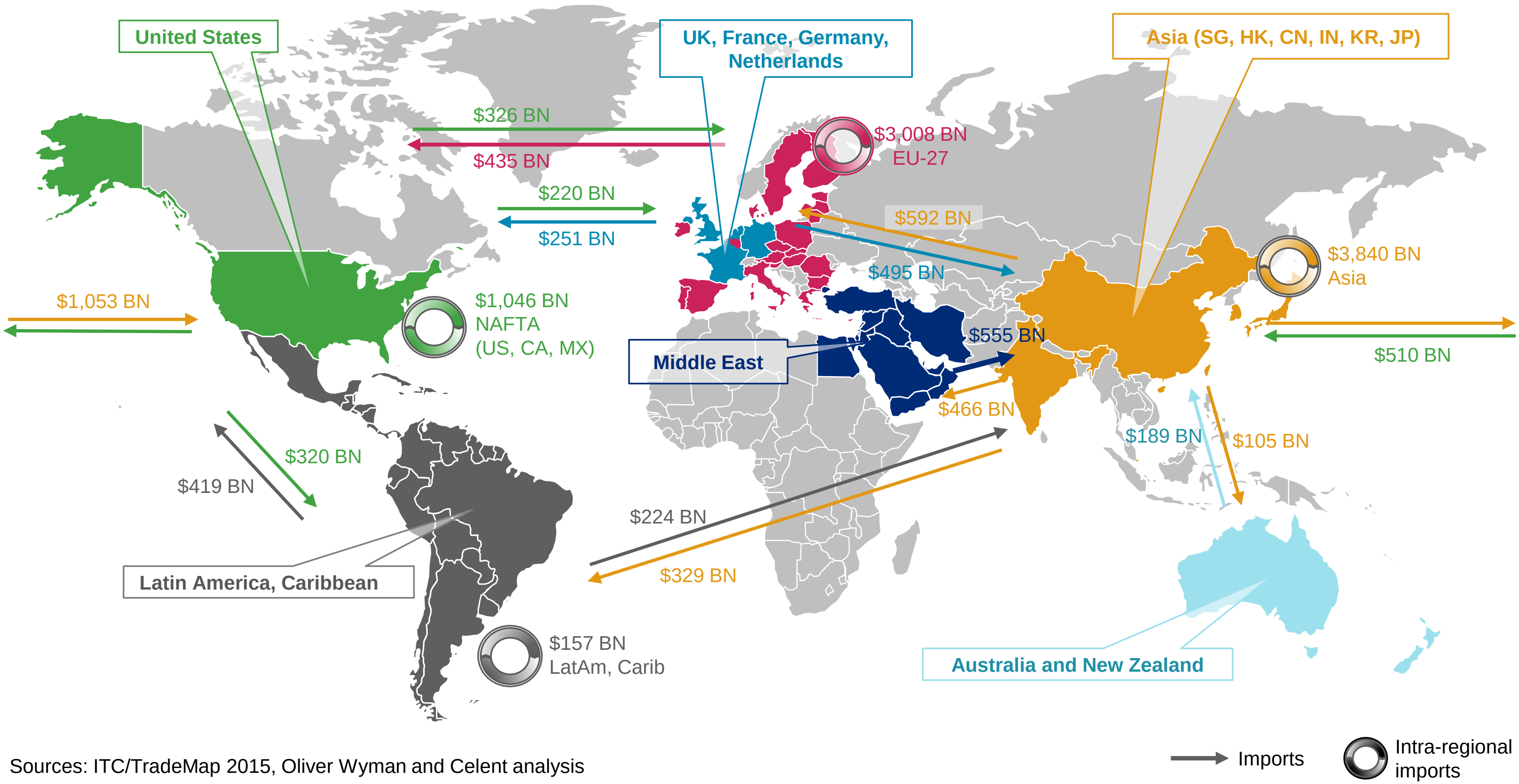
Today’s discussion

- Drivers and Trends
- Traditional Models
- External Influences
- Emerging Models
- The Path Forward

What are the **drivers** and **trends** affecting the cross-border payments ecosystem?

Global trade drives the world economy

Value of 2015 imports – All products



Sources: ITC/TradeMap 2015, Oliver Wyman and Celent analysis

Demographic megatrends

Demographic megatrends that will almost certainly have a significant impact for virtually every large enterprise in every industry include:

- Aging of the population in North America and Europe.
- High rates of population growth in certain emerging markets, especially Africa.
- Massive migration from rural areas to cities across all emerging markets.
- Migration of workers from emerging markets to the advanced economies.
- The coming of age of the "digital natives."

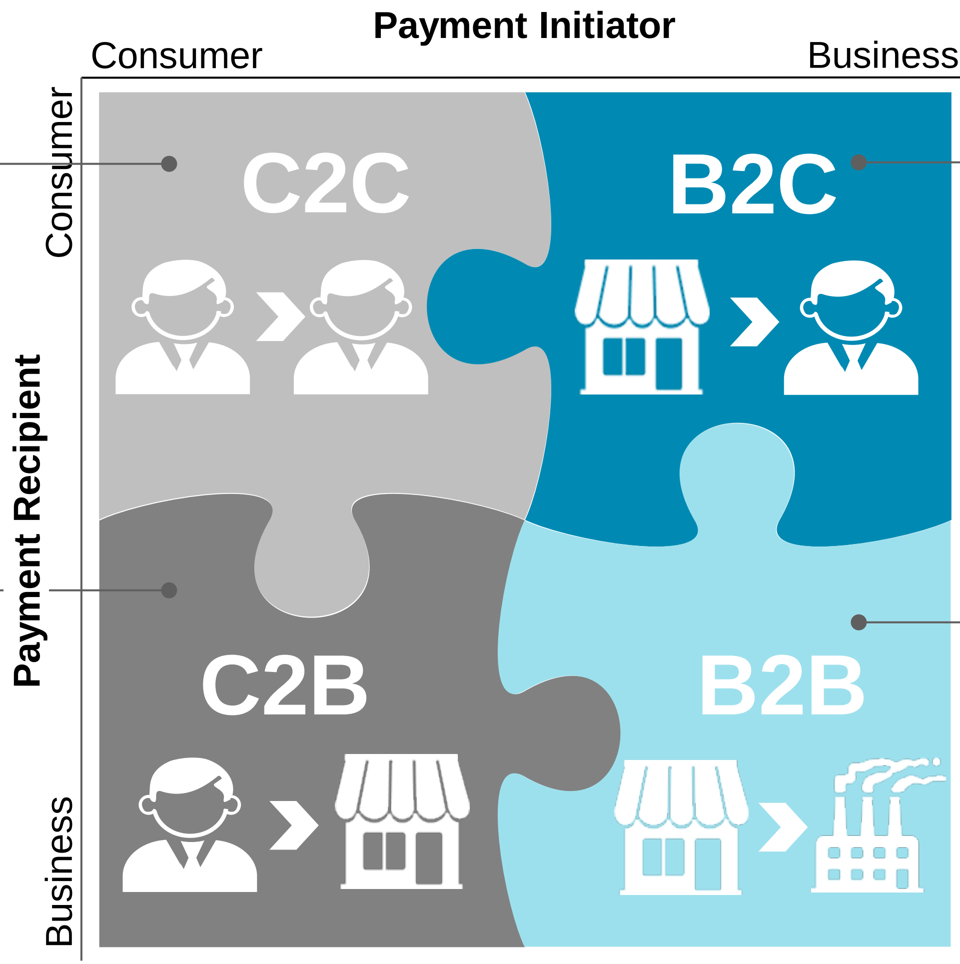
Payment types

C2C Examples

- Peer-to-peer
- Remittances
- Personal services payments

C2B Examples

- Bill payments
- Online purchases/ e-commerce
- Payment at POS
- Charitable donations



B2C Examples

- Employee payroll
- Contractor payments
- Reimbursements
- Rebates & refunds

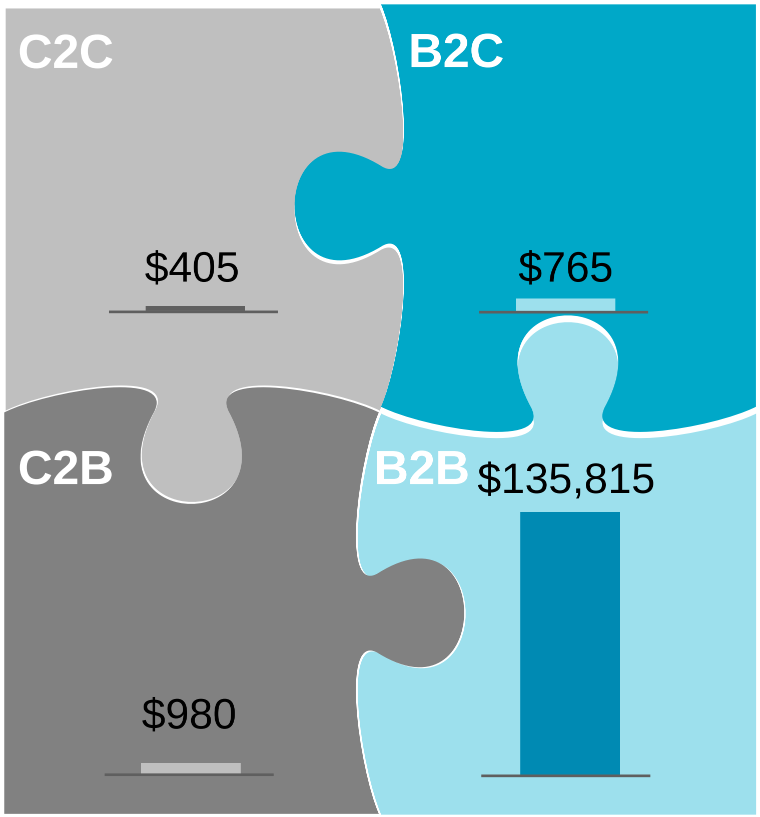
B2B Examples

- Supplier payments
- Capital purchases
- Intercompany lending
- Bank-to-bank

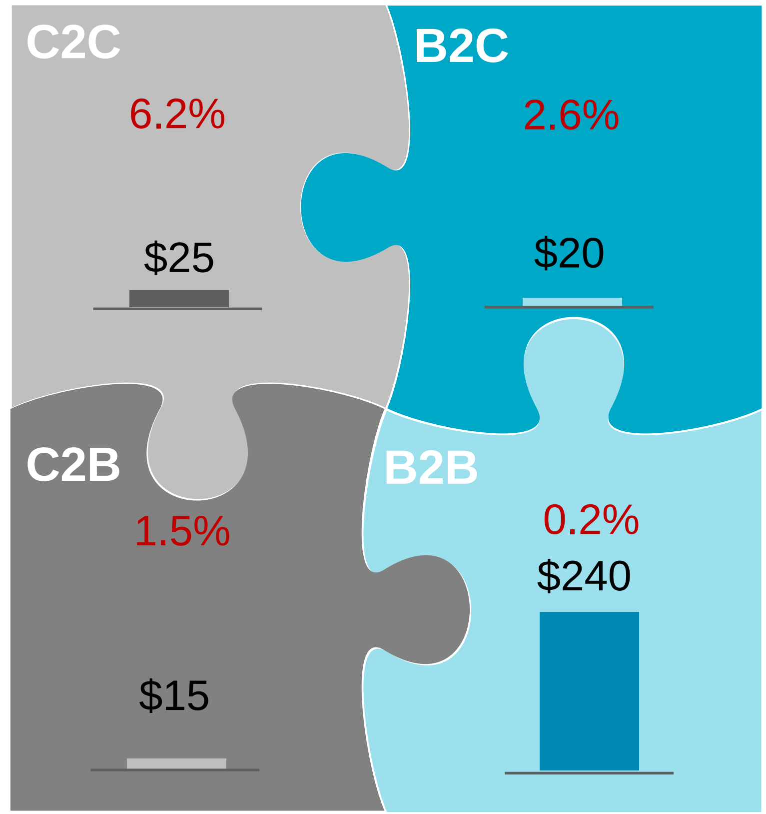
Source: Celent

B2B accounts for the majority of cross-border volume and revenue

Global cross-border payments flows, 2015
US$ billion



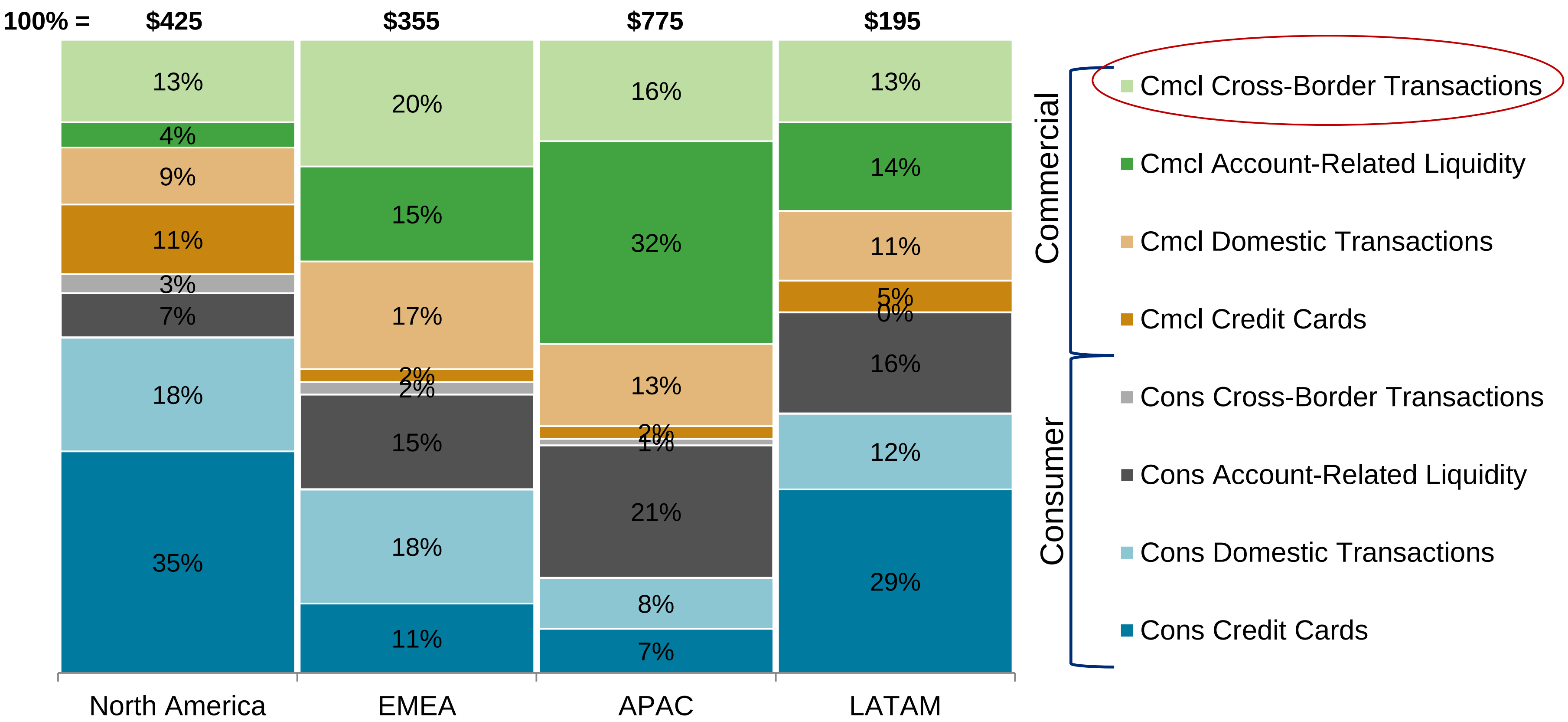
Global cross-border revenues/margin as percentage of lows, 2015
US$ billion



Source: McKinsey Global Payments Map, Celent analysis

Payments revenue mix varies by geographic region

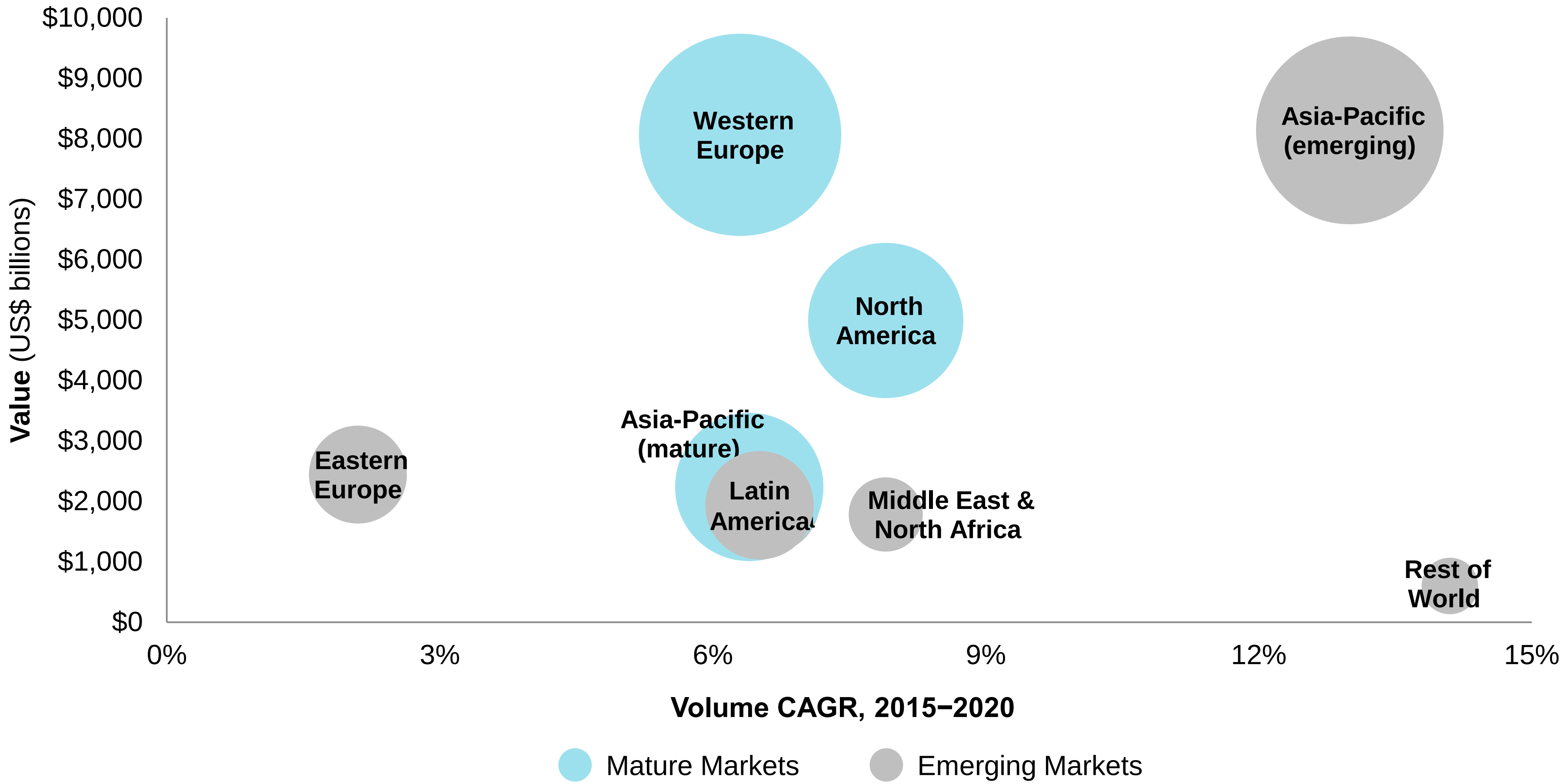
Total 2015 payments revenue: $1.8 Trillion



Source: McKinsey Global Payments Map, Celent analysis

Cross-border payments are evolving at different speeds in different regions

Global cross-border payments growth, value, and total revenues (2015−2020)



Source: BCG Global Payments 2016: The Interactive Edition

Borders still matter when it comes to making and receiving payments.

Are traditional cross-border payment services adequately positioned for today's challenges?

Traditional cross border payment models

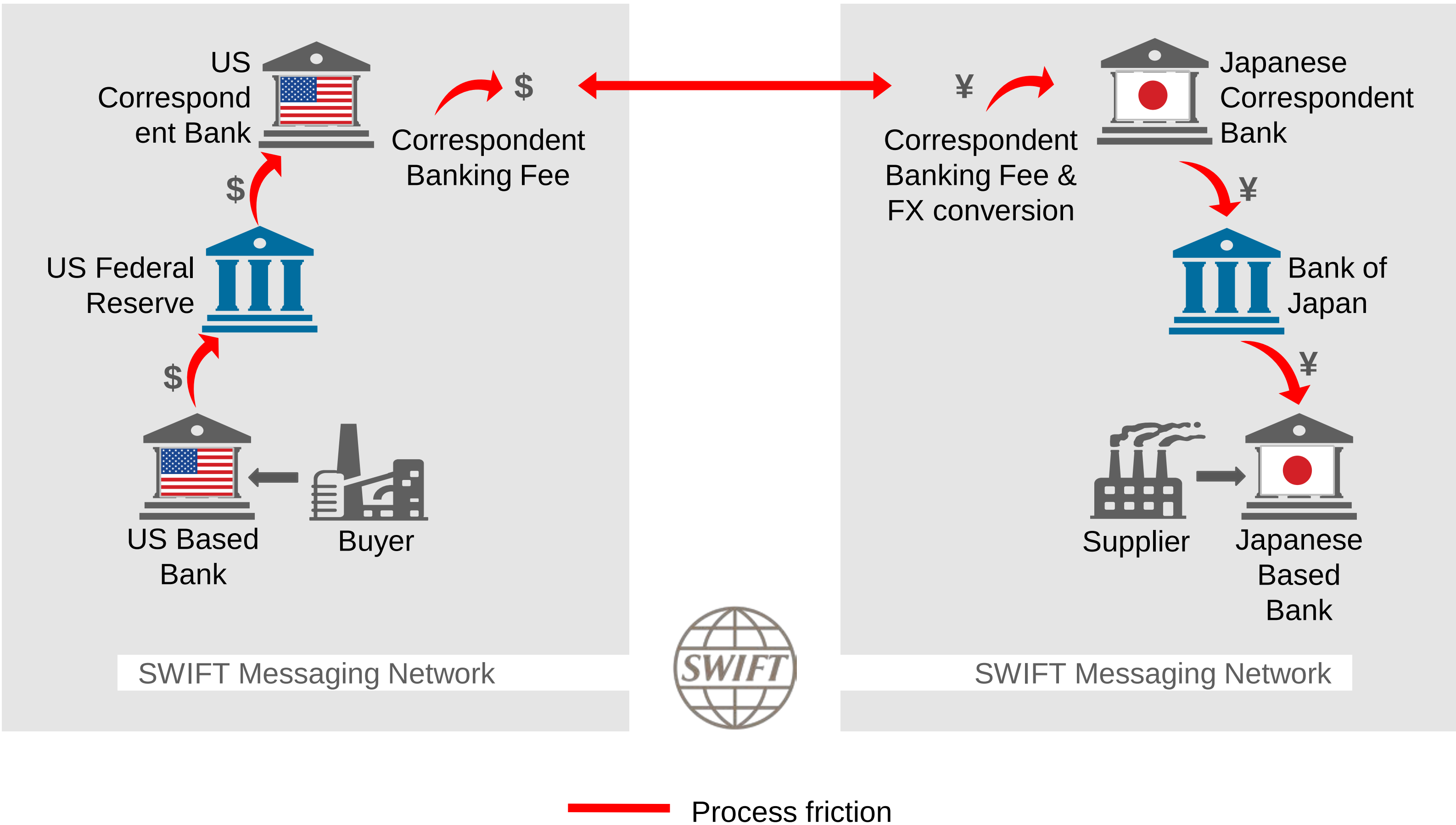
High value, low volume

- Real-time, gross settlement (RTGS) systems, typically central banks, transfer money from one bank to another immediately, with finality – traditional correspondent banking model

Low value, high volume

- Cross-border ACH
- Global card networks (credit and debit)
- FX brokers
- Money transfer operators
- Online wallet services

Traditional cross border payment process using correspondent banks



Source: Celent

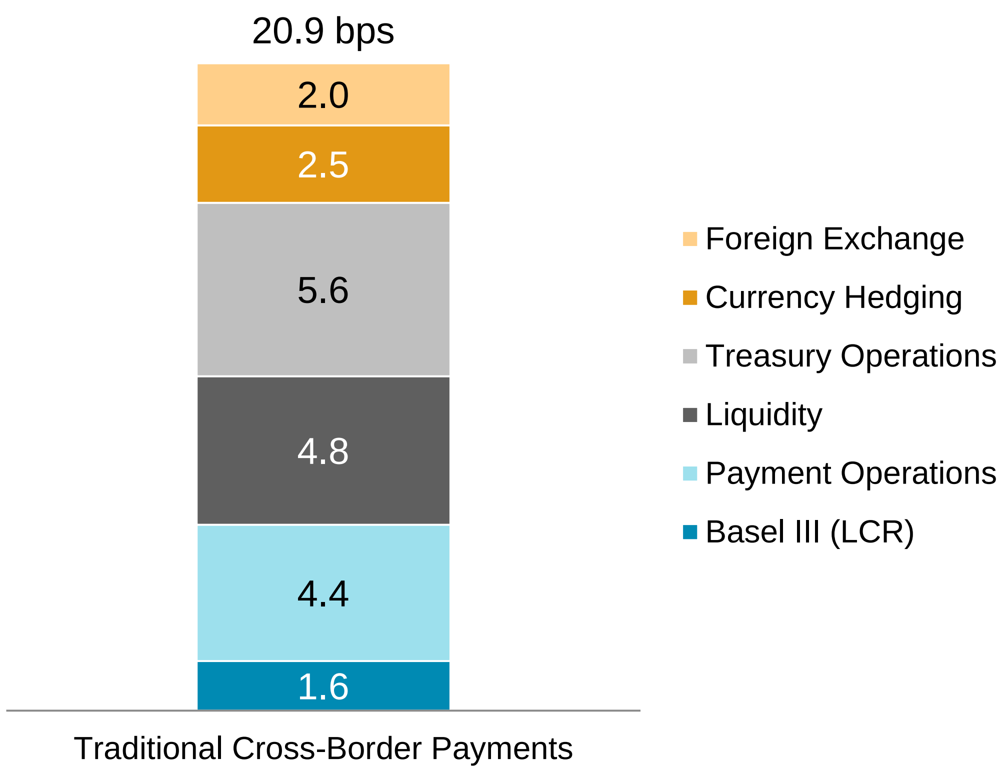
Cross-border payments have several critical elements of uncertainty

Critical elements of uncertainty

- When will payment reach the beneficiary?
- What amount will be received after fees are deducted?
- What costs will the originator incur including fees and FX rate margins?
- How many intermediary banks will be involved?
- Will the beneficiary have enough information to easily record and reconcile to accounts receivable?

Potential expenses associated with B2B cross-border payments

International payment servicing cost breakdown



Source: The Cost-Cutting Case for Banks-Ripple

Lack of disruption in the cross-border payments space

- Relatively high revenue margins persist due to a lack of external downward pressure
- Regulation and increased competition forced providers to reduce fees on domestic payments, resulting in operational cost improvements through front-end automation, process simplification, standardization and outsourcing, along development of new applications for existing payments products.
- With healthy margins, banks and providers have had little incentive for structural changes to cross-border payment models, back-end systems, and operational processes.
- As a result, operational cost per transaction for international payments continues to average well above $20

Source: Global Payments 2015: A Healthy Industry Confronts Disruption, McKinsey Global Payments Map

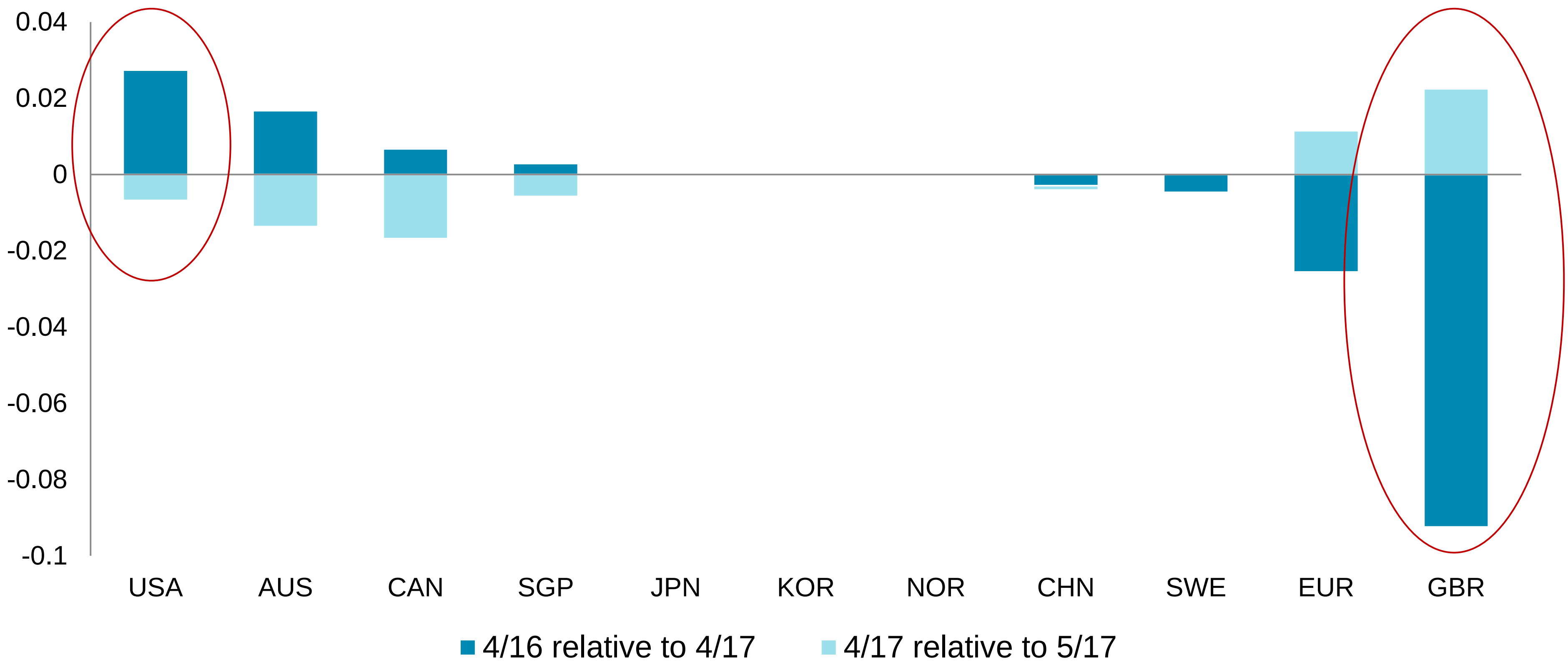
What are the external influences affecting the cross-border landscape?

External influences affecting the cross-border payments landscape

- Leveraging SEPA Standards / ISO20022
- New and proposed regional payment networks
- FX volatility
- Promise of blockchain
- Complex regulatory environment
- FinTechs: From competition to collaboration

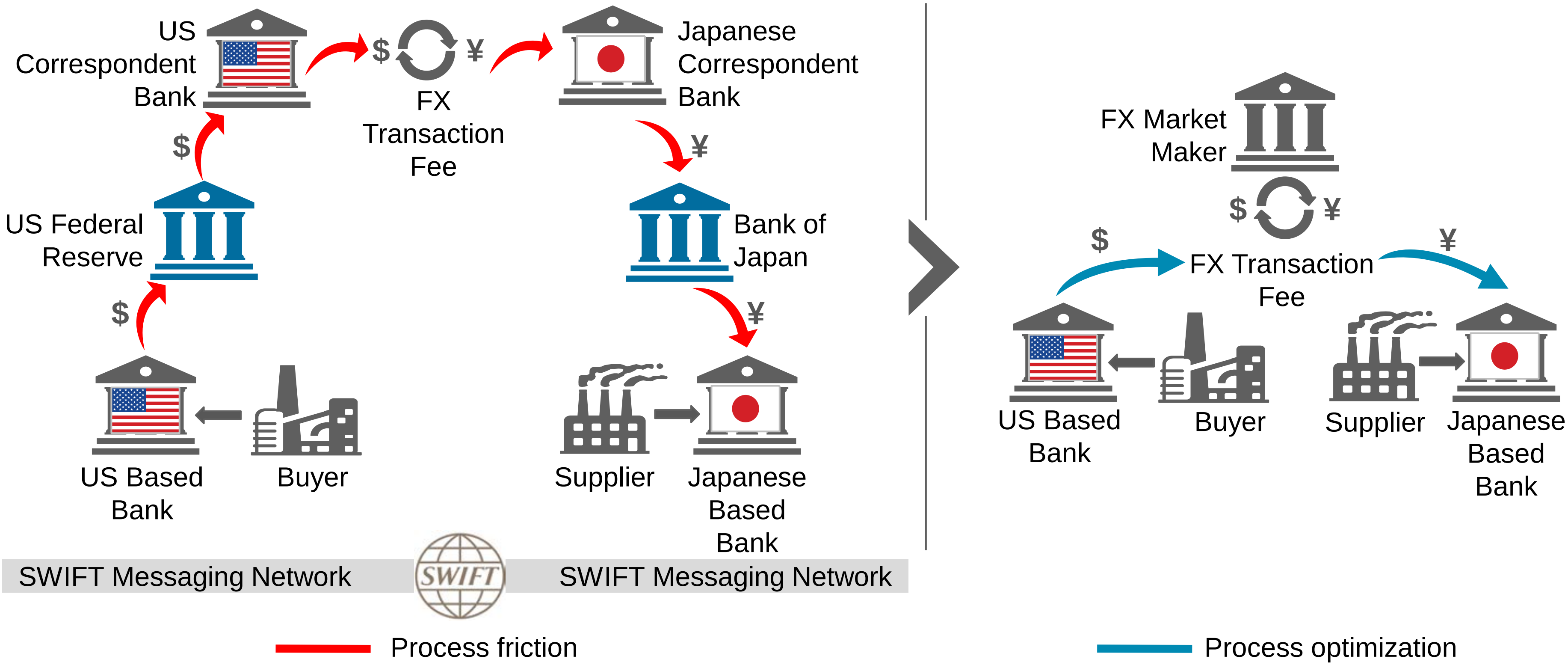
FX volatility continues to be an unknown

Exchange rate changes: 1 year vs 1 month



Source: International Monetary Fund

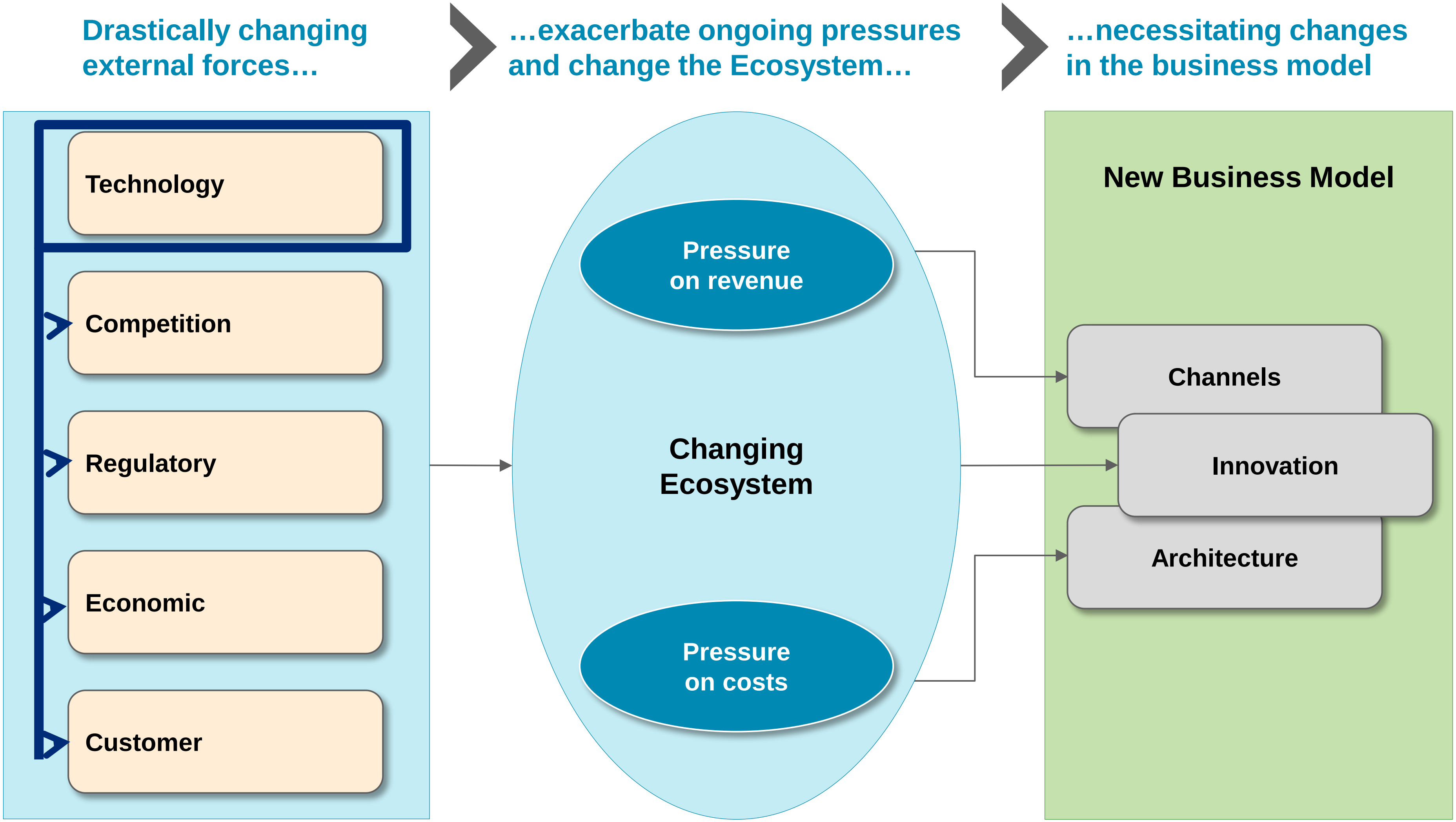
The siren call of blockchain



Fintech firms face a dizzying array of regulatory bodies
Money services business (MSB) example

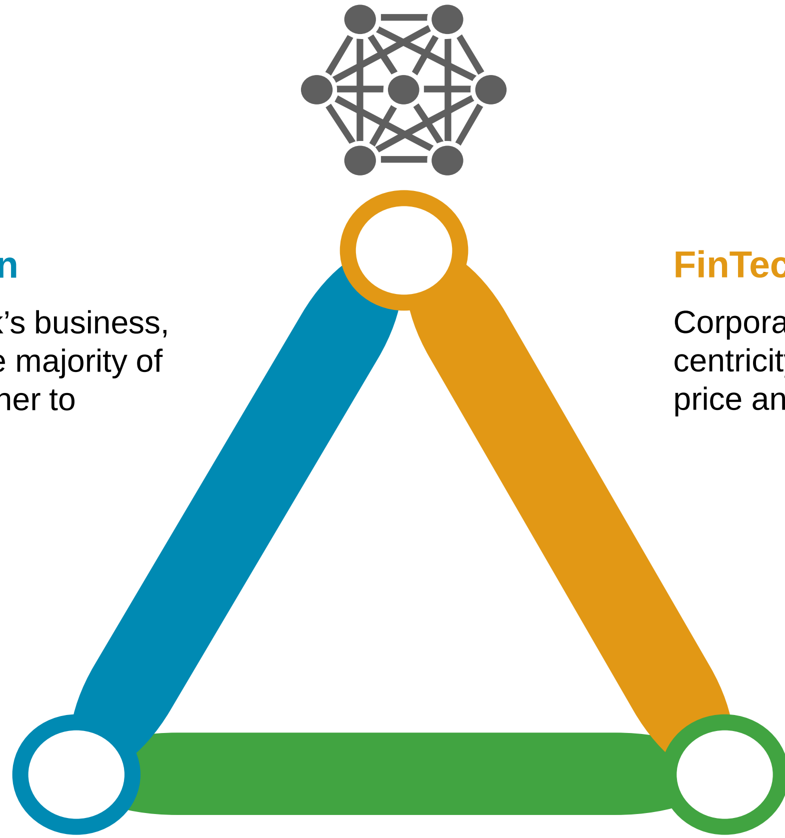
Source: Celent Analysis (Illustrative), 2017

Institutions must adjust their business models to adapt to a changed banking ecosystem



Each Party Has a Role to Play in the Banking/FinTech Ecosystem

FinTech



FinTech-Financial Institution

FinTechs may be eroding the bank's business, but banks ultimately will outlast the majority of FinTechs. How do they work together to ensure both their futures?

FinTech-Corporate

Corporates are drawn to the customer-centricity of FinTech – but are they buying on price and ignoring the risks?

Financial Institution

Financial Institution-Corporate

Corporates feel banks IT is inflexible – but it also provides common experience and access to **all** their customers. Do corporates really want to rid themselves of banks or simply want better banks?

Corporate

How are emerging payment models creating innovation from inefficiency?

A dizzying array of non-bank segments and providers in the cross-border payment space

Segment	
P2P Remittances (C2C)	Western Union WU moving money for better; Ria; azimo; xoom A PayPal Service; TransferWise; MoneyGram; worldremit; uphold
Cross-Border eCommerce (C2B)	PAYVISION; Payeezy First Data Powered; amazon payments; Authorize.Net a CyberSource solution; Elavon; adyen; globalpayments
Cross-Border Card Networks (C2B)	MasterCard; VISA; JCB; DISCOVER; AMERICAN EXPRESS
Cross-Border Payroll (B2C)	CELERGO; transpay; ADP; tuxedo MONEY SOLUTIONS; CERIDIAN; bluemarble; HYPERWALLET

Source: Celent Analysis (Non-Exhaustive), 2017

A dizzying array of non-bank segments and providers in the cross-border payment space, continued

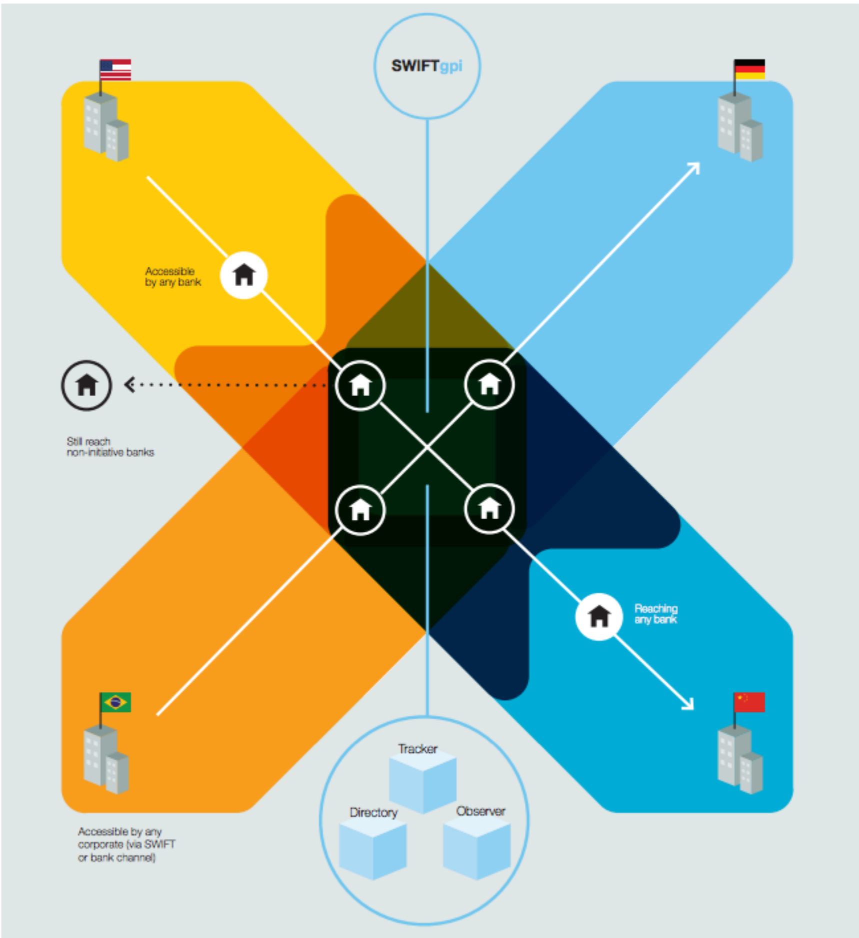
Segment	
Supply Chain Networks (B2B)	SAP Ariba, basware, TRADESHIFT, invapay, traxpay, Octet Finance
Foreign Exchange Brokers (B2B)	INTL FCStone, FXCM, Thomson Reuters, Tramonex, Currency UK, FxPro Trade Like a Pro, IG, Travelex, OANDA, kantox, Cambridge Global Payments
Cross-Border Payment Networks (B2B)	SWIFT, PayCommerce, earthport, ripple, VISA, Tipalti, Payoneer, AFEX, traxpay, INPAY, WU Western Union, covercy, Ebury, SAXO Payments, EQUINITI, flywire, Align Commerce

Source: Celent Analysis (Non-Exhaustive), 2017

Alternative cross-border payment networks

- Several commercial entities in the Fintech space (including Earthport, TransPay, and PayCommerce) have established cross-border payment solutions targeting corporate payments (and in some cases, corporate collections).
- Although the business models and technology architectures differ from each other, these systems are heavily dependent on banks for cross-border payment processing and settlement.
- They aim to "remove the middleman" or intermediary inherent in correspondent banking, thereby lowering cost, expediting processing, and enhancing transparency.
- Some of these networks are piloting real-time payment capabilities, in some cases taking advantage of distributed ledgers.

SWIFT Global Payments Innovation Initiative



Source: SWIFT, Celent analysis

SWIFT gpi initiative

- Leverages SWIFT messaging infrastructure for enhancing B2B cross-border payments
- 70 participating banks representing more than 75% of cross border SWIFT payments traffic
- gpi Tracker demonstrated at Sibos 2016
- Corporates will be invited to participate in 2017
- Anticipated benefits:
  - Operational efficiencies
  - Liquidity optimization
  - Same day use of funds
  - Transparency and predictability of fees
  - End-to-end payments tracking
  - Transfer of rich payment information
- Potential for adoption of emerging technologies as a phase 2

B2B Cross Border Payment Models

VISA B2B Connect

- Building Visa B2B Connect using Chain's Core blockchain infrastructure
- Private blockchain
- Near real-time transactions
- Targeting high-value payments

ripple

- Cross-border payment platform
- Private blockchain using proprietary digital currency (XRP) as a bridge currency
- Real-time transactions
- Registered money service business
- Targeting low-value payments

earthport Payment Network

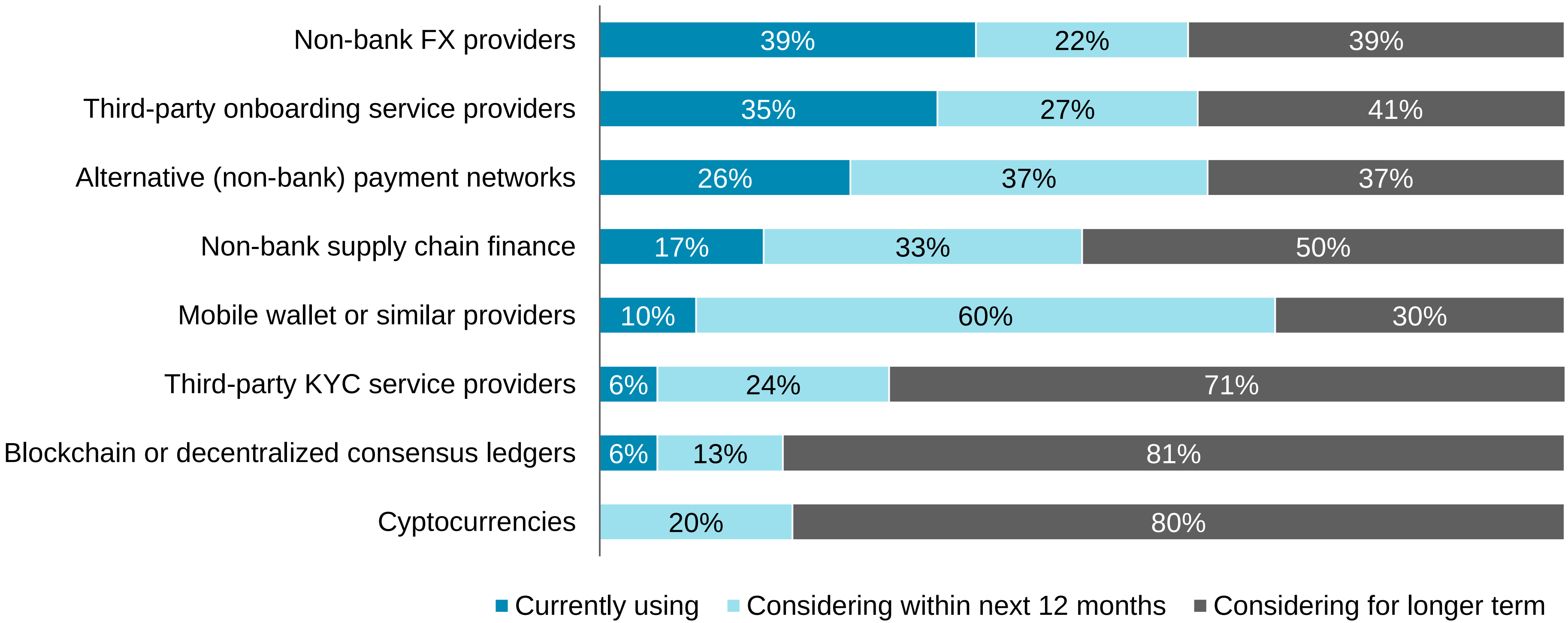
- Cross-border payment network
- Connects to domestic ACHs
- Real-time transactions via Ripple
- Registered money service business
- Targeting low-value payments

PAYCOMMERCE

- Cross-border payment network
- Connects to correspondent banks
- Clients include banks and corporates
- Supports payments and acceptance
- Real-time transactions via Federated Ledger
- Targeting low-value payments

Corporate treasurers already using or considering non-bank providers

Q: Thinking of non-bank competition, do you use or would you consider using any of the following as potential reliable service providers or services?
(Percentage of corporate practitioners)



Source: GTNews 2016 Transaction Banking Survey Report of Survey Results

Innovation arising from inefficiency

Choosing a provider

- Geographic and currency reach
- Payment methods supported
- Pricing for anticipated volume and value
- Time for funds to clear
- Transparency of transactions
- Finality of transactions
- Remittance information
- Reporting and reconciliation
- Integration options
- Customer support

The Path Forward

- Customer expectations are changing. Investments in new cross-border payment solutions can strengthen relationships with a customer-centric approach
- Diverse cross-border payment segments and models enable customers to adopt solutions that most closely meet their needs.
- In addition to improvements in speed, cost and efficiency, a primary benefit of diversity in the cross-border B2B payments space is provide businesses with greater control of their cash flow, their currency exposures and their international risks.
- Embrace the ISO 20022 global payment standard for payment initiation and, just as importantly, for receipt of remittance information.
- Embrace collaboration, not competition. Those firms – banks, corporates, and FinTechs – attuned to the needs of the others and willing to adapt will be best positioned to provide value and be fairly compensated for it.

Patricia Hines, Senior Analyst

phines@celent.com

+1 704 969 0763

@PJHines

https://linkedin.com/in/patriciahines

QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS