currency cloud

The Payment Race:

Payments Fight to Catch up with International Trade

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As the pace of evolving communications technology quickens exponentially, the world's rising levels of international trade marches in step with it. The demand to move all manner of goods, services, data and funds across international borders quickly and reliably has reached previously unimaginable heights and industry analysts have determined that this trend shows no signs of reversing itself or even slowing.

According to a McKinsey Global Institute report, the flow of goods, services, and finance reached $26 trillion in 2012, which was 36 percent of global GDP.[1] This was 1.5 times the level of global flows registered in 1990, demonstrating how the last two decades of technological advancement have brought fundamental and lasting change to international trade through the likes of digitalisation of banking, retail and international online payments.

McKinsey's research suggests that global flows could triple in the coming decade, partially due to rising prosperity of rapidly developing economies (RDEs, also commonly referred to as emerging markets) and partially thanks to further advances and refinement of communication technologies that aid the speed and security of international trade. With global flows adding between $250 billion and $450 billion to the world's GDP every year, there has never been a time of greater opportunity.[2]

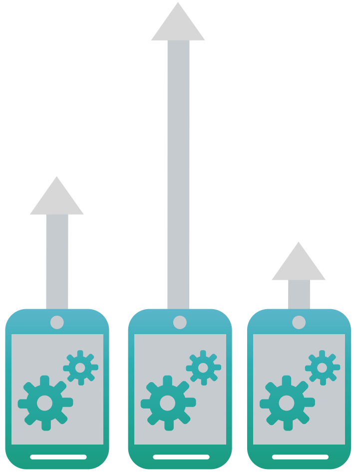
Not only is the scale of international trade rapidly expanding, the last twenty years has also seen it broaden vastly to incorporate a new and vital tier of players. Before the advent and meteoric rise of the internet, cross-border exchanges of goods, services and finance was almost exclusively left to governments and large multinational business enterprises. Today, digitalisation has fundamentally changed the landscape to allow even the smallest online business or sole trader to become part of the fabric of international trade as a "micromultinational". Through online platforms, they sell their products, exchange funds and fuel ideas in much the same manner as the big multinational household names do, all contributing to the quickening pace of international trade.

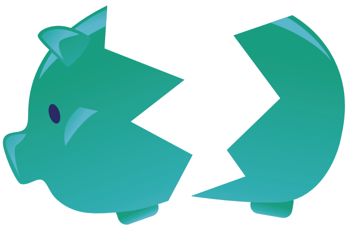
1. Global flows in a Digital Age, McKinsey & Company

2. Ibid

Payment Hurdles and Holdups

Despite the increasingly interconnected nature of global trade, not everything in the business world develops at the same pace. Dynamic technological advancement and ambitious business strategies may propel certain industries and individual payments players whereas those who failed to adapt and capitalise are left behind. Unfortunately, while international trade opportunities continue to develop, the payments solutions industry currently struggles to keep pace with the increasing global flows.





Much of the root of the problem can be drawn back to the global financial crisis that unfolded from 2007-2012 and the following period of cautious transition from recession to fragile recovery. At the time, the majority of global non-cash transactions were (and still are) carried out by the world's leading banks. These banks recognised the importance of their international trade payments and transaction-banking services but were hit by a debilitating combination of falling global transaction volumes and tighter regulatory restrictions in response to the more irresponsible practices which had contributed to the crisis. Today, payments businesses (covering the individual, retail and B2B payments levels) are generally recovering thanks to the reduction of widespread macroeconomic uncertainty[3] but payment solution providers of every stripe are still faced with manifold difficulties when it comes to providing swift and efficient payment solutions at a competitive price.

3. Winning after the Storm, The Boston Consulting Group, pp7-9

Standardisation Vs Customisation

The key issue that continues to hamper the efficacy of traditional payments solutions is uncertainty regarding IT architecture. The rising popularity in developed countries –as well as emerging markets – of e-banking and mobile banking means that the customers of these markets are used to being able to interact with their bank (and more importantly – their funds) as often as they like. Consequently, they now expect access to these services with a greater degree of customisation than ever before as their needs become more sophisticated.

While this gives payment solution providers an unprecedented opportunity to improve customer satisfaction and deepen relationships[4], the consequences of providing services that the customer finds inadequate or inconvenient are also greater than ever, since the customer can quickly seek out and move to a more viable alternative.

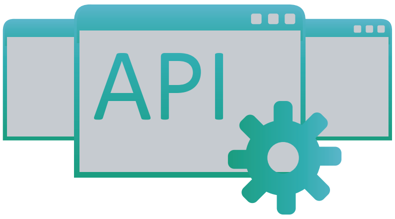
In addition, greater levels of customisation may improve customer satisfaction but standardisation brings attendant benefits of its own. Principally, utilising a single IT platform for payments rather than multiple local ones often makes sense from a functionality and profitability perspective. In addition, payment integration regulations (such as SEPA) can often make standardisation a more attractive prospect when the principal objective is encouraging simplicity and efficiency.

International businesses – whether they are making high or low value transactions – want a payments solution that is easy to use and transparent in terms of cost, while offering reliability and strict regulatory adherence. Managing the complicated balancing act between customisation and standardisation in order to provide these things is no easy task. However, increasingly it is coming to define what separates the successful payments solutions players from those who are unable to capitalise on the recovery of economic confidence and the resurgence of global trading flows.

4. Global Payments 2014: Capturing the Next Level of Value, BCG

API Accessibility and the 'Financial Lego' Approach

While the pace of traditional payments solutions falls further behind the curve, successful incumbent players (leading banks) have managed to understand and accept the impact that financial technology companies like Currency Cloud are having as they enter the payments space. With their help they are constructing broader and more reliable payments platform that shorten the delay between sending a payment and the agreed fee being received.



One key benefit of this collaboration is that FinTech companies are helping banks, established firms and new entrepreneurs alike to overcome the rigid, overgrown nature of their monolithic IT architecture in order to develop payment solutions that strike that optimal balance between customisation and standardisation. Principally, the use of APIs has allowed these players to optimise whichever segment of the financial value chain (international transfers, payments processing, etc) they require help with, without having to remodel their entire IT infrastructure from the ground up.

An API, or Application Programming Interface, is a technology protocol that allows different software components to effectively communicate with each other. More importantly, it allows even non-technical users to develop their own applications that make use of whatever software components a given API taps into. This is incredibly important and exciting as it has allowed banks and other traditional payments institutions to move towards more effective digital solutions without incurring the staggering costs of a wholesale IT overhaul. Instead, the given company simply identifies the process(es) that needs improvement, finds the suitable API that can support it and finally collaborates with the API's provider to implement it effectively.

Currency Cloud's CEO Michael Laven refers to this approach as 'financial lego' as it allows the player to join together the best bricks in order to support the structure as a whole. This also alleviates the need to develop and build the required technology from scratch, a costly process that requires a dedicated and well supported research team as well as plenty of development time.

Some traditional payments solutions providers still find the concept of open technology and open platforms daunting, not least because of the potential security implications that come from opening up your systems to others.[5] Naturally, privacy and security remain top priorities in order to maintain client trust. However, API development provides a perfect example of how the world of global business has changed and how collaborative efforts routinely culminate in more effective solutions, which in turn yield stronger results and create higher levels of customer satisfaction.

Therefore, expect to see a wider acceptance of API development and collaboration between FinTech companies and traditional payments players as they hope to further encourage and accelerate global trade levels.

5. API: Entry Point to the New 'Open' World of Banking, Bank Systems and Technology

Closing the Gap

It is clear that for much of world’s businesses there still exists a very real disconnect between the speed of a given trade and the processing of its payment. With the internet – and all of its subsequent wonders of speedier communication – both individual consumers and business entities have become used to making trades within the blink of an eye, or more accurately, with the click of a button.

Unfortunately, our money has not yet evolved to match the speed of our newly heightened trading instincts. It is still far too often bogged down on a rather torturous journey moving sluggishly between bank accounts, undergoing changes and conversions at a pace that is not commensurate with the speed of the trade that started it.

Progress is being made, however, as the pace of payment has been noticeably quickening over the past three years. While banks and traditional payments intuitions handled a staggering $410 trillion in non-cash transactions in 2013 (five times the global GDP)[6], there are increasingly strident calls coming from all manner of businesses to do more: to alleviate the delays, the uncompromising processes and unaccountable complexities that hamper the further development of international trade. Through greater levels of cooperation and collaboration between traditional payments players and FinTech companies there is little reason to doubt that global flows will increase accordingly as payments are processed more efficiently regardless of size or origin.

6. Global Payments 2014: Capturing the Next Level of Value, BCG