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The Making Of A Modern Clearing Bank: A More Efficient Model For Payments Certainty And Managing Risk, a PYMNTS and The Bank of London collaboration, examines the vital function clearing banks provide for international and domestic businesses and why the new model of a global payments clearing agency may transform the future risk management.

The Making Of A MODERN CLEARING BANK:

A More Efficient Model For Payments
Certainty And Managing Risk

The Making Of A

MODERN CLEARING BANK

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The Making of A Modern Clearing Bank: A More Efficient Model
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INTRODUCTION

The architecture of the global digital payments ecosystem fluctuates by design, as it is decentralized, borderless and crafted to offer manageable risk and faster, more reliable payments. Yet the key players in cross-border payments management have rarely changed, and the breadth of service offerings for the brands, retailers, brokerages and global entrepreneurs relying on them has remained stagnant. Only two new clearing banks — financial institutions (FIs) that serve to make cross-border transactions more secure and efficient — have opened in 250 years in the United Kingdom, and this is not due to a lack of demand.¹

The global payments system is ready for transformation, and international organizations and research groups from the Group of Twenty (G-20) to the International Monetary Fund (IMF) are echoing the frustrations global businesses, consumers and

entrepreneurs experience.² The inefficiencies that existed well before the digital age, such as lengthy delays in cross-border payments and slow funds clearing processes even between corresponding banks, remain endemic within an ecosystem that has trillions of dollars in play.

The Making Of A Modern Clearing Bank: A More Efficient Model For Payments Certainty And Managing Risk, a PYMNTS and The Bank of London collaboration, reviews the critical and often poorly-understood function clearing banks provide for domestic and cross-border payments and details how a new model of clearing agency may transform businesses around the globe.

1. The Bank of London Opens Doors at \$1B Valuation. PYMNTS.com. 2021. <https://www.pymnts.com/news/banking/2021/the-bank-of-london-opens-doors-at-1b-valuation/>. Accessed June 2022.

2. Adrian, T; Georgieva, K. A leap forward on cross-border payments. The International Monetary Fund. 2020. <https://blogs.imf.org/2020/10/19/a-leap-forward-on-cross-border-payments/>. Accessed June 2022.



01

MODERN CROSS-BORDER BANKING:

Clearing banks and the
new need for speed



The global payments ecosystem's fractured nature is among its greatest weaknesses and a principal origin of its enduring inefficiencies. Different platforms, processing rails and intermediary FIs are needed for bank-to-bank messaging for transaction and user authentication as well as payments processing management. This may lead to variable processing times and overall inefficiency, especially at scale.

The digital shift of 2020, in which consumers began doing far more online and far less in-store, placed payments efficiency at the core of global commerce.³ Rapid and secure cross-border payments impact everything from supply chain flow to logistics management for the world's largest economies and those that depend on them.⁴

Though payments serve as the engine of global commerce and more than \$150 trillion of

cross-border transactions occur globally each year, as much as 30% of United States-based firms experience significant payment delays.⁵ New payments take an average of 32 days to clear.⁶

Banks are facing increasing demand to provide solutions for businesses hindered by the payments ecosystem's inconsistent transaction processing times.

Traditionally, clearing banks have served as a Swiss Army knife for cross-border transactions, providing a secure conduit for vital transaction and user authentication data while shortening and consolidating time-consuming administrative tasks. Their basic purpose is to approve and process transactions for payment and receipt, even if the sender or receiver of funds is not an account holder at the clearing bank.

Using a clearing bank to authenticate and process transactions may help sending or receiving banks speed the processing of payments at volume, or it may slow down the process significantly, as recent research shows.⁷ Efficiency and speed that do not compromise security or compliance are the core functions of clearing banks, not occasional features for the fortunate few. Fast payment fulfillment is critical to global business growth and vital for the estimated 1 billion people who send and receive remittances each year.⁸ As some research predicts a 30% rise in cross-border payments in the near future, the need for a new model of global payments clearing has become apparent to some of the world's most influential nongovernmental organizations and institutions.⁹

3. How 35 Execs Are Powering The Great Digital Shift Of 2020 (And Beyond). PYMNTS.com. 2020. <https://www.pymnts.com/innovation/2020/how-executives-are-powering-the-great-digital-shift/>. Accessed June 2022.

4. Digital Payments, Last-Mile Transparency Bring Logic to Logistics. PYMNTS.com. 2022. <https://www.pymnts.com/connectedeconomy/2022/digital-payments-last-mile-transparency-bring-logic-logistics/>. Accessed June 2022.

5. Deep Dive: Why The Future Of Global Commerce Rests On Real-Time Payment Rails. 2021. PYMNTS.com. <https://www.pymnts.com/news/faster-payments/2021/deep-dive-why-the-future-of-global-commerce-rests-on-real-time-payment-rails/>. Accessed June 2022.

6. 30% of US Firms Say Payments Delays Are Major Cross Border Frictions. PYMNTS.com. 2022. <https://www.pymnts.com/news/b2b-payments/2022/30-percent-us-firms-say-payments-delays-are-major-cross-border-frictions/>. Accessed June 2022.

7. Ibid.

8. Adrian, T; Georgieva, K. A leap forward on cross-border payments. The International Monetary Fund. 2020. <https://blogs.imf.org/2020/10/19/a-leap-forward-on-cross-border-payments/>. Accessed June 2022.

9. Author unknown. B2B Cross-Border Payments To Grow By 30% To \$35TN By 2022, As Business Activity Slowly Rebounds. Juniper Research. 2020. <https://www.juniperresearch.com/press/b2b-cross-border-payments-to-grow>. Accessed May 2022.

“Cross-border payments are expensive, slow, opaque and not available to many of those who need them most. Why? Because many of the ‘roads’ lead to nowhere, the ‘railways’ work on different gauges and the ‘tunnels’ are not well lit.”

KRISTALINA GEORGIEVA,
IMF managing director

In 2022, the Bank for International Settlements presented a report detailing the efforts of the G-20 and other organizations to support global business growth, a metric seen as inextricably tied to the efficiency of the payments ecosystem.¹⁰ In 2020, the G-20 presented a roadmap to promote the improvement of cross-border payments that the Financial Stability Board developed in coordination with the Bank for International Settlements’ Committee on Payments and Market Infrastructures and several relevant international organizations and standard-setting bodies.¹¹

The G-20 cross-border payments report stated that in addition to creating systems to overcome conflicts with operating hours of settlement banks and a coordinated, global effort to improve transaction processing speeds while removing friction from cross-border payments, the problem could not be rectified by one intergovernmental agency’s single act. Although change was necessary, there were staffing, technical, legal and business conventions to consider, meaning that global payments innovation by enterprising FIs, payment service providers (PSPs) or FinTechs may be necessary to overcome these issues in a timely fashion.¹²

10. Author unknown. Extending and aligning payment system operating hours for cross-border payments. Bank For International Settlements. 2022. <https://www.bis.org/cpmi/publ/d203.pdf>. Accessed June 2022.

11. Ibid.

12. Ibid.

FOLLOWING THE MONEY: Cross-border payments projections in 2022

According to recent data from Ernst and Young, total global cross-border payment flows may top \$156 trillion by the end of 2022.¹³ This total breaks down as follows:



13. Seeh, F. How new entrants are redefining cross-border payments. Ernst and Young. 2021. https://www.ey.com/en_us/banking-capital-markets/how-new-entrants-are-redefining-cross-border-payments. Accessed June 2022.

02

THE STATE OF THE ECOSYSTEM:

Unmet challenges
and frustrated clients



he G-20 detailed several challenges in 2020 that it saw as obstructive to global business growth yet characteristic of the global payments ecosystem:¹⁴

High costs, which may come from attempting to manage compliance with multiple regional mandates through manual means or fees associated with returned payments due to false declines

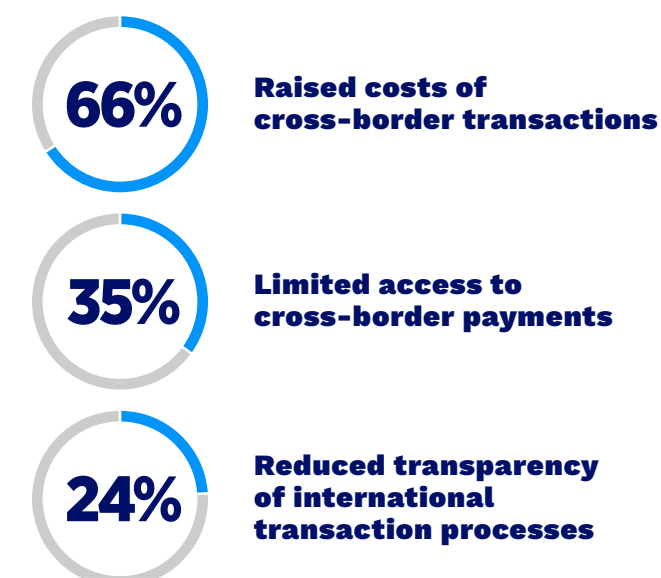
Low speed, which may be due to several issues, ranging from slow onboarding processes for new clients to lengthy anti-money laundering (AML) and combating the financing of terrorism (CFT) checks

Limited access, as fragmented payments service options may result in senders and receivers struggling to find a service capable of handling payments in certain regions or at volume

Limited transparency about costs, speed and the processing chain due to the involvement of multiple parties and platforms in the processing of a single payment¹⁵

Two years later, many of these challenges remain undiminished. Alongside slow processing times and limited transparency over the cross-border payments process, global compliance remains a challenge for businesses making cross-border payments — one not currently met with any consistency by traditional clearing banks.

According to a 2021 Financial Action Task Force survey of global banks, PSPs and FinTechs, 49% of respondents said that cross-border payments delays due to conflicting AML and CFT laws were the most significant impact of their lack of access to a streamlined transaction clearing process that integrated managed regulatory compliance.¹⁶ The same study showed that organizations facing multi-regional compliance challenges when making payments internationally saw it as the most important friction causing the following:



14. Author unknown. Enhancing Cross-border Payments - Stage 1 report to the G-20. The Financial Stability Board. 2020. <https://www.fsb.org/wp-content/uploads/P090420-1.pdf>. Accessed June 2022.

15. Ibid.

16. Author unknown. Cross-Border Payments Survey Results on Implementation of the FATF Standards. The Financial Action Task Force. 2021. <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/Cross-Border-Payments-Survey-Results.pdf>. Accessed June 2022.

17. Ibid.

In addition, banks and PSPs stated that poorly integrated AML/CFT flagging standards added to the friction clients experienced during onboarding and even after completed transactions.

For example, one jurisdiction might require a full name to process a transaction, while another might demand only a first initial and a surname. A compliant payment sent in one region of the world might be flagged as suspicious in another, causing the payment to be returned and a required shipment or delivery held up until the process can be restarted with the required data in place, compounding fees and financial loss on both sides of the transaction.

Respondents in the study also identified the burdensome costs of legacy technology when attempting to manage cross-border payments and compliance. FIs and PSPs noted that the complexity of AML/CFT compliance added to their operating costs, including both the expense of custom AML/CFT monitoring system development and the human resources involved in active AML/CFT monitoring.¹⁸ Several survey respondents also stated that self-directed digital transformation was difficult, as the pathway to incorporating high-end

technology as an AML/CFT surveillance solution for multiple jurisdictions was complex and expensive.

Recent PYMNTS data finds that additional significant concerns exist for businesses using conventional clearing banks or legacy systems to process cross-border transactions. Approximately one-third of surveyed U.K.-based firms stated that fraud was a concern when making cross-border payments, with 32% of those surveyed revealing that data security remained a key issue as they sent funds abroad. Nearly 55% of U.S.-based businesses stated they worried about both fraud and data security when receiving international payments, and more than half of U.S. companies surveyed said they were concerned about the length of time it takes to receive a completed payment from international customers.¹⁹

For organizations seeking to optimize their opportunities abroad, the need for more reliable and secure cross-border payment options is immediate and growing. Enter the modern clearing bank.

18. Author unknown. Cross-Border Payments Survey Results on Implementation of the FATF Standards. The Financial Action Task Force. 2021. <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/Cross-Border-Payments-Survey-Results.pdf>. Accessed June 2022.

19. 30% of US Firms Say Payments Delays Are Major Cross-Border Frictions. PYMNTS.com. 2022. <https://www.pymnts.com/news/b2b-payments/2022/30-percent-us-firms-say-payments-delays-are-major-cross-border-frictions/>. Accessed June 2022.



03

INTRODUCING THE MODERN CLEARING BANK:

Leveraging technology
to navigate enduring risk



Modern clearing banks may solve a range of banking issues that create the widespread frictions common to the payments ecosystem, including:

Differing data management, protection and transfer standards from region to region that cause transaction processing delays as information is gathered and authenticated

A lack of true banking system interoperability due to conflicting or evolving standards regarding know your customer or know your business standards as well as AML and CFT compliance in different countries or trading regions

The difficulty of navigating bank operating hours and time zone conflicts that impact payment processing times

Modern clearing banks also excel in supporting the management of enduring cross-border payments risk, including:

Settlement risk: Buyers and sellers need certainty that payments are routed and settled properly. A modern clearing bank may offer simultaneous final settlement options, including payment versus payment, delivery versus payment and atomic settlement services that allow payments to flow in near real time.

Liquidity risk: Inefficient processing times can lead to limited access to funds and diminished liquidity, along with increased foreign exchange risk as exchange rates change over time.

Payments risk or failed payments: The payment failure rate for banks and FinTechs in the U.S., U.K. and European Union is 5% on average, and this risk is amplified when poorly integrated AML/CFT systems are used.

Whether an organization is a brand, a retail marketplace or an innovative FI, developing an efficient payments infrastructure agile enough to grow with your business when it expands across national borders can be highly complex and cost-prohibitive. In addition, the risks involved in mishandling compliance operations and user authentication processes can be overwhelming for even the most experienced and resource-rich entities.

Working with a modern clearing bank that offers a seamless connection with well-established international payment systems and simple integration with existing payments technology is one option for organizations looking for a plug-and-play banking infrastructure solution. A modern clearing bank should work more like an agency than a traditional bank, empowering its clients to do what the old systems behind cross-border payments could not: access or develop unique, customized payments solutions that work seamlessly anywhere. Here are some key features to look for in a modern clearing bank:

It should allow companies, brands or non-bank firms to offer end-to-end bank products and services without having to create its own technology stack.

Its service should integrate with full, global regulatory compliance monitoring.

It should power innovation, allowing clients to provide their customers with access to next-generation embedded financial services.

It should centralize clearing and settlement, banking and transaction management through a single platform with real-time, multiregional capabilities.

04

CASE STUDY

eBay: Transforming global
business futures



According to Avritti Khandurie Mittal, head of global payments at eBay, cross-border payments are fraught with friction, and simplifying these payments is a principal challenge for buyers and sellers seeking to grow internationally. The company, which sees 1.7 billion monthly visits to its platform and boasts 159 million active sellers, is in a strong position to speak with authority.²⁰ eBay, launched in 1995 by investor Pierre Omidyar as AuctionWeb, is the world's second-most visited online marketplace and operates in more than 190 markets globally.^{21,22} For Mittal, payments are at the heart of the global economy's health, and digital transformation plays an integral part in driving and sustaining international growth.

eBay has historically stood as a leader in payments innovation. Today, the company handles the sales of everything from NFTs to social media sales through Snapchat.^{23,24} Mittal believes that payments innovation has become a mandate for most global businesses, not just eBay.

"We are operating in a digital-first world with the COVID-19 pandemic having accelerated the digitization of payments and exponentially increasing the volume of online transactions.

Payments offerings such as digital wallets and buy now, pay later options have enabled consumers to form new purchasing habits and participate in commerce in an entirely new way."

The pandemic did more than spur market leaders to fast-track innovation. According to Mittal, it also transformed how consumers view overall user experiences.

"Buyer expectations are rapidly shifting. Choice of digital payments and seamless, friction-free payments experiences have quickly become table stakes. We are seeing expectations evolve beyond payments as consumers start demanding more innovative financial services and loyalty offerings from their preferred brands to engage them and help them manage the uncertainty of the current economic times."

As consumers become empowered by the ability to choose better payments and shopping experiences, eBay is focused on ensuring small business and entrepreneurial clients enjoy the same frictionless payment experiences to which consumers have become accustomed globally.

"eBay's cross-border trade business is one of our greatest assets, as it allows businesses to sell to buyers in more than 190 different countries," Mittal said.

Just more than half of eBay's revenue comes from international operations, and the business leverages a global managed payments system that allows buyers and sellers to pay and be paid in a relevant currency.²⁵

Mittal noted that the company is committed to a long-term innovation strategy designed to support global entrepreneurs and small businesses that use eBay's platform.

"We are continuing to unlock more ways to enable additional financial services and tools to help sellers accelerate the growth of their cross-border business.

20. Chevalier, S. eBay - statistics & facts. Statista.com. 2022. https://www.statista.com/topics/2181/eBay/#dossierContents_outerWrapper. Accessed June 2022.

21. Author unknown. Most popular e-commerce and shopping websites worldwide in February 2022, based on share of visits. Statista.com. 2022. <https://www.statista.com/statistics/1198949/most-visited-web-sites-in-the-retail-sector-worldwide/>. Accessed June 2022.

22. Author unknown. Fast Facts. eBay.com. 2022. <https://investors.ebayinc.com/fast-facts/default.aspx>. Accessed June 2022.

23. eBay, OneOf Partner on NFT Development and Sales. PYMNTS.com. 2022. <https://www.pymnts.com/nfts/2022/eBay-oneof-partner-on-nft-development-and-sales/>. Accessed June 2022.

24. Snapchat users can now share eBay listings. PYMNTS.com. 2022. <https://www.pymnts.com/connectedeconomy/2022/snapchat-users-can-now-share-eBay-listings/>. Accessed June 2022.

25. eBay Could Announce Decision on Crypto Payments March 10. PYMNTS.com. <https://www.pymnts.com/cryptocurrency/2022/eBay-could-announce-decision-on-crypto-payments-march-10/>. Accessed June 2022.

05

CONCLUSION

“The modern clearing bank reforms a payments architecture resistant to change.”

As the volume of cross-border payments increases yearly, global businesses need to customize their payments solutions. That means businesses and FIs will increasingly rely on the kind of innovative payments strategies that require a modern clearing bank's radical reimagining of banking infrastructure to succeed.

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The Bank of London is a leading-edge technology company and the world’s first purpose-built global clearing agency and transaction bank. We leverage our patented technology innovations and differentiated bank capabilities to lift economies and communities by powering the borderless economic infrastructure of the future.

Our clients are banks, clearing houses, digital and traditional asset firms, governments, financial services companies from local FinTechs to global institutions, payment networks and non-financial brands seeking to launch fully compliant financial products and services in-country and cross-border.

We’re headquartered in London, with offices in New York.

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The Making Of A MODERN CLEARING BANK

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