



# Shapeshifting: a look at the evolving landscape of cross-border payments



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# What's next for the payments market?

**A detailed look at the current state of the payments industry, and future trends that could impact your business.**

2019 is shaping up to be an interesting year in many aspects. The combination of regulatory changes, adoption of new technologies and increased flow of new entrants are influencing the habits and processes of businesses and consumers worldwide. Driven by increased globalism and access for both consumers and businesses alike to engage in international trade, this has forced some to adapt to change and spurred others to drive it.

The changes in consumer expectations have driven an emergence of new payments providers and the evolution of current ones. Whether harnessing existing technology in innovative ways or developing new technology altogether to gain a competitive edge, businesses

are eager to satisfy the adapting needs of consumers and clients alike. The use of technology such as QR codes and facial recognition in order to enhance the payments experience has provided a platform for providers like WeChat and Alipay to revolutionise payments in Asia. The rise of tech organisations outside financial services turning their hand to payments using their existing customer-experience ethos, mass market reach and technology, has enabled them to attract a share of a lucrative industry outside their usual remit - further exemplifying the opportunity at hand. The launch of the Apple Card is one such example.

The concept of providing a competitive financial product combined with Apple's focus on

user experience, but with all the trimmings of a modern payments/card provider alternative, is an interesting move in the context of tech giants moving into the payments space and illustrates where the sector could be headed. The user experience and trust in the brand equals comfort and convenience which could mean rapid adoption of the Apple card is not out of the question.

With convenience the currency of today, it is understandable how leading businesses like Apple and Amazon can transition into payments and provide financial products quickly, simply by leveraging their existing technology and vast insight into customer data. By introducing their users to a new, carefully targeted and convenient range of financial

products, their potential volume of adoption has the power to disrupt the way the masses consume these products in the future.



# 18%

**In 2018 alone,  
global e-commerce payments  
increasing by 18%**

So, what is behind this FinTech boom? It seems that consumer habits globally have changed drastically and non-payments businesses have taken notice, looking for ways to embed themselves deeper into their customers lives and wallets through evolution of their existing offerings and technology. Today's consumers have different expectations as per the NOW economy model\*, demanding tailored, transparent and efficient experiences across every purchasing journey (examples of NOW economy innovators like Uber and Airbnb have completely changed the traditional landscape of their respective sectors). Furthermore, global e-commerce continues to grow, and with increasing volumes of lower value transactions, customers are demanding fast, trackable payments and aren't afraid to take their business elsewhere. This drives the need for consistently seamless payment experiences

regardless of the type or value of transaction and has led to the entrance of new and existing FinTech companies all vying for a piece of the action, keen to disrupt the status quo.

In international e-commerce in particular, the way payments are facilitated is crucial to being competitive, with research finding that typical cart abandonment rates are around 75%, and of those, concerns around payment security or poor checkout processes made up 62% of those that were abandoned\*\*. This illustrates the power of the customer, and the direct impact that the payment experience can have on revenue if not built to buyer expectations.

As a result, B2C payments have had to move quickly to innovate and incorporate these changing demands, however, B2B payments have followed more cautiously in their footsteps, monitoring

the ways in which B2C uses technology to satisfy and even pre-empt changing customer needs. Of course, there's a clear link, customers are driving the demand for B2C businesses to deliver a seamless payment experience, which in turn, demands the need for transparent and secure B2B payment networks.

In 2019, it is now clear that the components necessary for businesses to stay ahead are strongly tied to the experience, and that payments are very much included. Businesses need to ensure they are working with payment providers who have technology that keeps ahead of the ever-changing regulations and competitive landscape, but also works to optimise the payments process for them and their customers, otherwise risking significant damage to their revenue.

## // Typical cart abandonment rates are around 75%



\*\* <https://www.annexcloud.com/blog/31-shopping-cart-abandonment-statistics-for-2018/>

\* <https://www.oracle.com/assets/comm-ready-now-economy-wp-3097355.pdf>

# What can we expect from PSD2?

PSD2 comes into full force in late 2019, and the topic continues to be well discussed in the financial services industry. With speculation on what exactly it will mean for businesses in the sector, there are also growing numbers actively looking to collaborate with agile FinTech firms, enabling them to stay ahead of incoming changes.

PSD2 means to enhance the rights of the customer, open the banking market to other financial service suppliers to increase choice of products, and work to reduce the potential for fraud through the inclusion of additional security authentications. As global e-commerce and the volume of online payments rise and with \$130b predicted to be lost globally between 2018 and 2023\*, additional security measures that PSD2 focuses on are key to protecting the customer.

From September 2019, all e-commerce transactions will need to be processed via secured protocol, and online transactions will require further authentication, with some exemptions such as low value, whitelisting or recurring payments. Strong customer authentication (SCA) requirements mean that for transactions in the EEA, the issuer must use two-factor authentication to process the payment, by selecting two of three factors including knowledge (ie PIN), possession (ie SMS verification) and biometrics (ie fingerprint).

However, there are companies looking to offer alternative risk management systems,

“The introduction of open-banking and regulations around SCA need to be closely aligned to prevent gaps and opportunities for fraudsters to take advantage of.”



\* <https://www.pymnts.com/news/retail/2019/merchants-cnp-fraud-customer-data/>

such as 3D Secure 2.0 (3DS), a protocol designed to protect CNP transactions using machine learning algorithms for better risk assessment. 3DS could have a significantly positive impact for acquirers and merchants by reducing checkout times, customer service costs and mitigating fraud. The use of a tool of this type would also mean that the SCA process would be required for less transactions due to better risk analysis, illustrating how providers are quickly innovating to find clever ways for their clients to meet their PSD2 risk obligation.

Aside from driving more secure payments, the new regulation also looks to open choice and consistency over financial products, evident in a resulting concept, open-banking. For this reason, open-banking continues to be high on the agenda and over time, the popularity and scope of this model will grow and adapt with regulation and technology. For long established financial institutions, it is no longer enough to be satisfied with traditional models as both regulations and customer appetites continue to evolve, and by collaborating with FinTech providers, viewing them as partners instead of competitors, this ensures the pairing will be beneficial for their customers, and consequently, their bottom line too. As the payments market continues its evolution, businesses and payments providers need to work closely to reap the optimum benefits and access the market share that change can bring - collaboration is the new disruption.

Clearly PSD2 will have an impact globally and merchants outside the EEA will also need to comply with the new standards. However, those businesses which process

payments should look at this change, as with all change, as both a journey and opportunity to seize innovation and a chance to reassess systems and processes in order to future-proof – there may be no need to create bespoke or in-house systems when

the technology already exists, particularly through partnerships. PSD2 provides an opportunity for innovation whereby financial institutions and FinTech can and should work together to achieve mutually beneficial goals and ensure longevity.

## PSD2 opportunities for merchants



Reduced fraud rates in the industry and increased trust with consumers.



Innovation around two-factor authentication to make the process smoother.



A boost in eCommerce as consumers have more online banking and payment options.



Merchants can leverage new payment aggregators to increase their strategic information on consumers.

# Understanding risk: local and global

As international business continues to grow, so do global payments. For those involved in this sector, this means more regions to deal with, a wider variety of regulations and sanctions and an ever-changing array of risks to be aware of. Particularly when regularly revised, regulations and sanctions can present many complications to cross-border transactions.

Traditionally, cross-border payments were sent via correspondent banking, however, since the global financial crisis there has been a decline in correspondent banking relationships as organisations look to 'de-risk' themselves in certain areas, making it more complicated to transfer funds to some locations. This decline has concerned the industry, believing that this would impact the ability to make international payments with adverse consequences for international trade and growth. Whilst these concerns are yet to be confirmed in numbers, unease around the changing situation remains. However, as with all change, these conditions have also presented an opportunity for alternative models and have enabled non-bank payment providers with the technology and agility to find gaps in the market, using efficient and transparent methods to satisfy businesses payment needs.

These alternative providers have opened access to a wide range of payment routes in such a way

as to provide significant savings to businesses, and even banks. However, businesses often need to send money to countries that lack payment security protocol or regulatory framework, requiring suppliers to closely work with those local banks to advise them on expected standards, or taking on additional de-risking steps themselves when sending funds to that country. Despite this, there are still concerns around robust compliance and whether non-bank providers can really offer bank-grade standards, even though several have obtained banking licenses.

In the last three years, non-banking providers have been fined \$65 million for failing to comply with regulation spread across many players, comparatively, the fines incurred by banks were over \$1b within the first half of 2018\* alone. With a vast amount of regulatory pressure, banks are increasingly looking to collaborate with FinTechs, taking advantage of their agility and innovation in order to keep up with the changing demands of the market and evolving regulations. Working side by side, collaboration offers the best of both worlds, the reliability and trust of traditional banks, but with the technology and flexibility that a FinTech can provide, with benefit to clients and revenues.

To stand out from the crowd, payments businesses should provide real-time transaction screening, alongside retrospective monitoring tools to double check

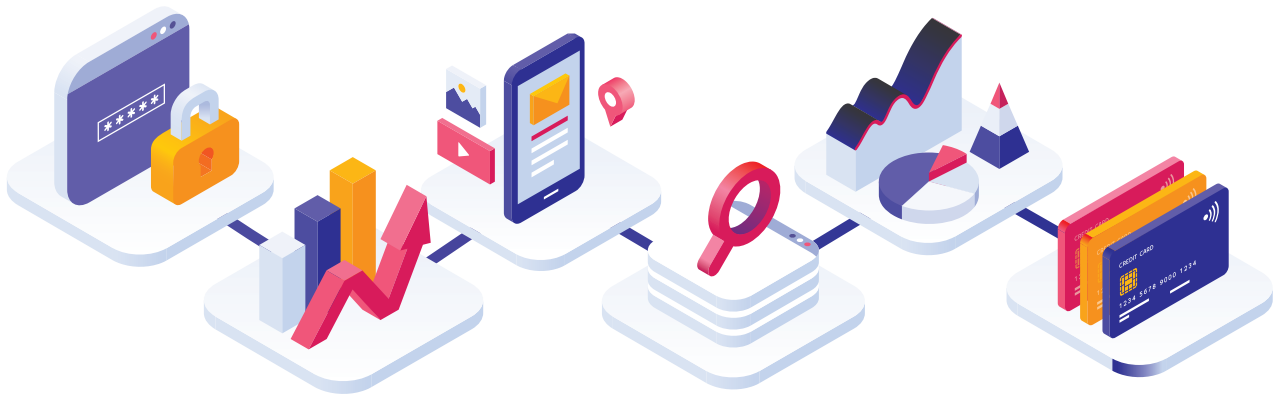
for suspicious behaviour and patterns, applied to the direct customer and their recipients. Each payments provider should develop a risk model tailored to the needs of their partners and customers, providing ongoing internal training around the model and potential risks.

When building a compliance function or looking for a financial provider, businesses should look for a 360-degree process, working in collaboration with clients and local banking partners, to obtain in-depth understanding of risks associated with each route, and available solutions in place to mitigate related risks.

FinTechs must ensure their due diligence is tailored, specific to the client they are onboarding and encourage a far deeper understanding of the compliance culture within the business to foster a close working relationship.

\*McKinsey – The Future of Cross-Border payments, 2018

# The strength of a powerful digital ecosystem



Today's globally interlinked world is the direct cause of commercial globalisation with a 200% growth in international e-commerce, and global businesses with employees scattered around the world. This has created increasing volumes of low value global payments, and businesses, much like their own customers, are continuing to demand faster, more seamless and efficient systems to settle funds, while also having full visibility of where these are at all times. With this in mind, it is no surprise that powerful technology must sit at the heart of robust and seamless payment networks.

Payments make up just one of the many critical parts of complex business operations, and while businesses want to stay ahead in the payments game, the complexities of migrating existing processes to an API (Application Programme Interface) based system can be daunting, particularly when the business may not have in-house treasury systems that can plug into an API, and are used to communicating payments via SWIFT messaging, or spreadsheets. In this case, a key component to help

streamline business operations is the possibility of sending these transaction requests in any format for the payment provider to convert via their API.

For businesses that can connect via API, this clean and simple interface incorporated into a business's existing systems is key. The plugin will ensure that reporting, business analysis and workflow monitoring remain consistent, and that the connectivity of the software creates a closed-loop environment enabling convenient payment requests. In addition, a powerful API should contain a function allowing businesses to request country specific fields, ensuring payments are pre-validated with the required information before they go out.

Software providers should offer an API that has their customers' interests and goals at heart; identifying their needs, who is consuming the technology, and for which purpose. This understanding of the client and their product are key to creating an ecosystem, interlinking processes that the business is going to

receive optimum benefit from. It is important that there is a two-way conversation between the developers and the key stakeholders on both sides of the product to ensure that business objectives are aligned to meet expectations.

For those businesses who make corporate payments, developers and product managers don't have the time or bandwidth to wade through oceans of documentation, therefore, it is imperative when choosing a supplier that clean APIs are provided with relevant and concise documentation. This assists in easy implementation of the software, and a smooth transition to the new system, also defining where the API provides value in the overall payment value chain.

Collaboration and smooth communication between the client and the service provider is extremely important to ensure that the final product has maximum benefit to the client with minimum disruption, and results in a long-term, mutually beneficial relationship.

# What is really shaping the payments market?

Nobody can deny the aggressive growth within the payments sector. The success of certain products, evolution of traditional banking products and a growing revolution of FinTech solutions popping up on a weekly basis, all have a clear cause – growing demand from consumers.

As discussed earlier, there's no question that the B2C sector continues to lead the way in payment products and experiences. You don't have to look hard for examples of this, with Apple releasing a credit card showing that with the right technology, partners and brand loyalty, entrance into payments is possible. For those playing in the payments sector exclusively, challengers like Metro Bank, Revolut and Monzo are focussing on specific parts of the customer

journey to optimise the payment experience, taking an even deeper dive into a customer-first approach to financial services. These companies position themselves as 'financial friends' using apps, simple messaging and real time push notifications, encouraging constant awareness of where their money is with spending breakdowns and reporting. Even with more traditional payments businesses, the use of convenient features like face recognition, contactless and card-not-present transactions are becoming the norm, showcasing increased focus on the customer experience model.

As FinTech advances and the concept of Open Banking picks up traction, suppliers like Monzo are moving into more complex financial products such as deposits, having FinTech platforms

as the middle man to help sell them to existing customers of established global banks, cashing in on better rates while using the banks compliance and reputation.

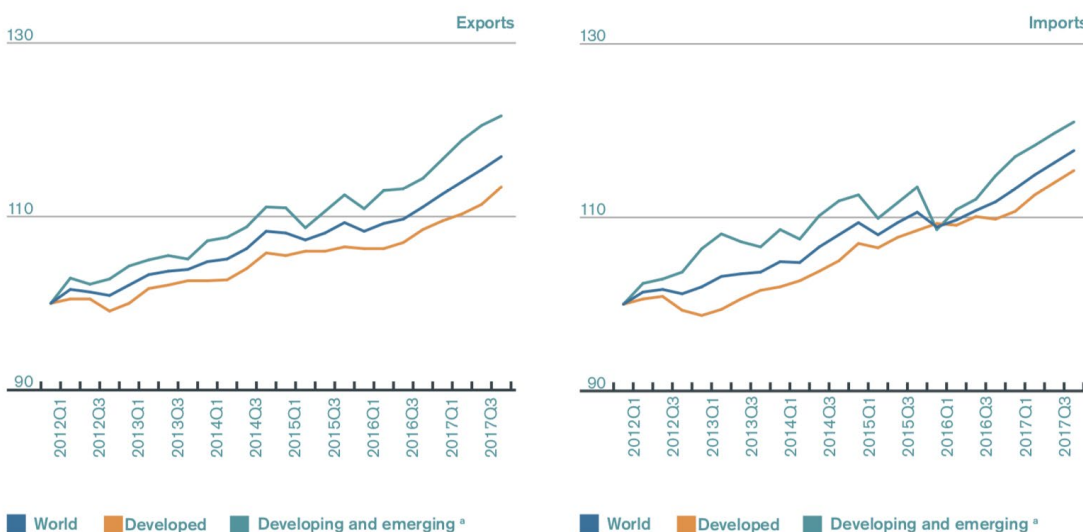
The common denominator for these patterns, products and innovations is the increasing demand from consumers, with technology providing the agility to cater to these needs.

Hand in hand with the growth in payments made in person, e-commerce has seen a similar pattern, becoming a truly global affair in the last few years. These days, over 50% of consumers\* prefer to do their shopping online – from weekly groceries to holidays and personal products. As a result, global e-commerce has grown by 30% in the space of four years and is in-line with the global

Chart 3.2

## World merchandise exports and imports by level of development, 2012 Q1 to 2017 Q4

(Volume index, 2012Q1=100)



**5.2%**  
Year-on-year growth in volume of world merchandise exports in the second half of 2017.

\* Includes the Commonwealth of Independent States (CIS), including associate and former member states.  
Source: WTO-UNCTAD estimates.

transaction revenue from cross-border payments, which has risen by 27%.

Businesses are becoming truly global and payments have become key to every international business model, be it a marketplace, service provider, or even a bank. Now more than ever, it is important for businesses to move their processes with the times, as inefficient and expensive payment methods will play a major role in whether a business is profitable and remains competitive. A customer who is trying to checkout at an online retail store but comes up against roadblocks is likely to leave without returning, their negative experience having a damaging effect on business's the bottom line, particularly when negative feedback is rife on social media.

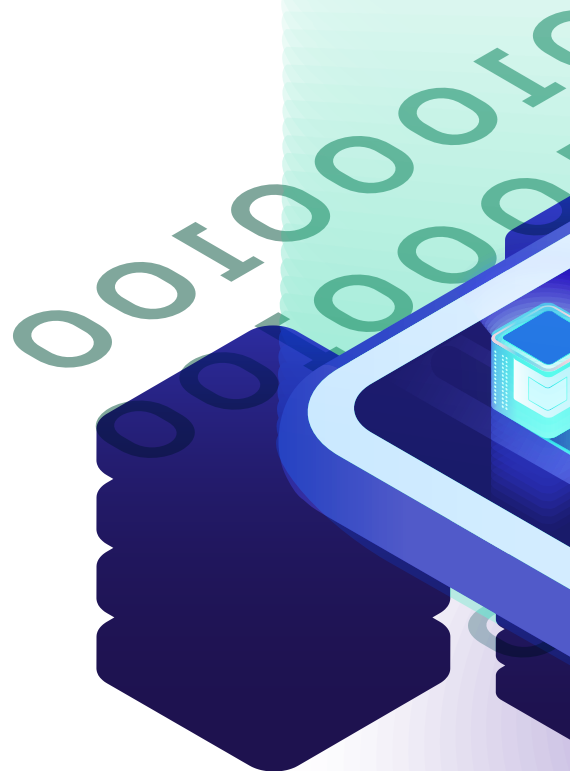
When it comes to protecting revenue, it is not only B2C, but also B2B businesses dealing with cross-border payments that need to consider the expectations of a seamless payment process and demand better pricing and real-time updates. There are cross-border network providers who have reach for local payments to almost any bank account in the world and can mitigate local risks using bank grade compliance and country-specific regulation to satisfy the needs of those transacting in the growing world of global payments.

Technology and customer focus are certainly driving the innovation in the market and with new players constantly emerging and existing ones reinventing themselves, the choice is plenty. Businesses need to work with payment providers whose strategic goals align with their own to help them achieve a competitive edge and keep their customers happy.

**27%** growth in cross-border payments

**B2C** customers dictating payments expectations

**30%** growth in e-commerce



\* <https://ecommercenews.eu/51-uk-consumers-prefer-to-shop-online-than-in-store/>  
[https://www.wto.org/english/res\\_e/statis\\_e/wts2018\\_e/wts2018chapter03\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018chapter03_e.pdf)

