

# INTERNATIONAL PAYMENTS IN A DIGITAL WORLD

**YET ANOTHER BANKING  
BUSINESS THREATENED BY  
DIGITALIZATION**

 **accenture**

# LETTER FROM THE EDITORS

## TABLE OF CONTENTS

Introduction	3
The business at stake	4
Digitalization as a change driver	5
Market Infrastructures are changing globally	6
New Business models through P2P & Mobile Payments and Open Banking	9
Our conclusion	11



**THOMAS SONTHEIMER**  
Managing Director Payments,  
Accenture



**PHILIPP HOEFER**  
Senior Manager Payments,  
Accenture

Back in the last century, it was for International Payments that banks created one of the first global electronic messaging systems. However, in comparison to the rapid evolution of the internet and its new capabilities, International Payments have changed relatively little.

In this point of view paper, Accenture analyzes how the impacts of digitalization on today's business and technology will drive changes in International Payments, and how banks should respond.

We would be delighted to follow up with you in further discussion about International Payments in a digital world.

## INTRODUCTION

# INTERNATIONAL PAYMENTS A ROBUST BUSINESS FOR DECADES WILL HAVE TO CHANGE

**International Payments has unmatched importance for global trade and global business. Yet, it is an area that has remained relatively untouched by the digital revolution that has been under way for almost twenty years.**

**It's also clear that there is substantial room for improvement:** International Payments can take days and sometimes weeks to arrive at the recipient's account; the content of messages is erratic and hard to match to open positions; fees are substantial and unpredictable due to the involvement of multiple actors in the process; and the overall integration into customers' value chains is poor. All of this leaves banks' customers and Fintechs looking for alternatives, and Fintechs believing things can be done much better.

**At the same time, International Payments constitutes one of the few remaining highly profitable businesses left for banks. However, several changes that have hit banks in other areas of their business are now set to impact International Payments as well:**

## DIGITALIZATION

The digitalization of all aspects of doing business is driving change in the relationship between banks and their customers—with growing impacts on International Payments. Major drivers include Industry 4.0 and the resulting changes to industry business models and payment needs, as well as IT giants and Fintechs seeking to disintermediate and reinvent all payments—including international ones.

## MARKET INFRASTRUCTURES

Additionally, the underlying market infrastructure is changing, due especially to the realtime-ization of domestic clearing and ongoing improvements in settlement systems. New alternatives are emerging, enabling the bypassing of traditional messaging systems and eventually domestic clearing.

## NEW BUSINESS MODELS AND ECOSYSTEMS

Keeping up with digitalization and changing market infrastructures demands significant investment—a burden that is increased by continued rises in compliance costs and widely-anticipated price erosion. Given these factors, it seems inevitable that International Payments will be subject to growing consolidation and specialization among the thousands of banks involved today.

**Accenture's "International Payments in a Digital World" point of view outlines strategies and approaches to enable banks in the International Payments market to cope with this blizzard of change—while also realizing real business benefits from the resulting opportunities.**

## THE BUSINESS AT STAKE

# A GROWING BUSINESS ATTRACTING COMPETITION

Traditional players in International Payments have experienced constant rise in transaction volumes over the past few years, driven by the growth in global trade. However, we believe that future volume and revenue will be captured increasingly by new players and non-banks.

## GLOBALIZED TRADE DRIVES STEADY GROWTH IN CROSS-BORDER PAYMENT VOLUMES

The overall value of cross-border payments is expected to rise by 5.6% per year, driven both by retail (C2C, C2B, B2C) and corporate payments. We expect the C2B segment to experience the highest growth rates (at around 25% a year) as a result of strongly growing cross-border e-commerce trade.

### GLOBAL DEVELOPMENT OF CROSS-BORDER PAYMENTS VALUE (2016-2022, \$ trillions)



Source: Accenture Research based on [World Trade Organization Report](#)

## UP TO 25% OF BANKS' TRADITIONAL CROSS-BORDER PAYMENTS REVENUE STREAMS ARE AT RISK

Despite falling prices, the overall growth in the value of cross-border payments should translate into \$100B of global bank's revenue in 2022 (up by \$30B from 2016). But given the proliferation of International Payments providers and methods, the majority of this growth will not end up with banks.

### GLOBAL BANKS' CROSS-BORDER REVENUES (2016-2022, \$ billions, including FX and fee revenues)



Source: Accenture Research

## DIGITALIZATION AS A CHANGE DRIVER

# THE BEST USER EXPERIENCE WILL WIN

**Digitalization has a fundamental impact on the way consumers and corporations do business with each other – and also on how they exchange money and information between them.**

The expectations of corporates and consumers have changed dramatically, driven by their experience with other means of digital communication. They are accustomed to:

- Immediate response and payment execution
- Full transparency of information
- Digital services for free
- Lean and easy user experiences in onboarding and transacting
- Fully digitalized/automated value chains

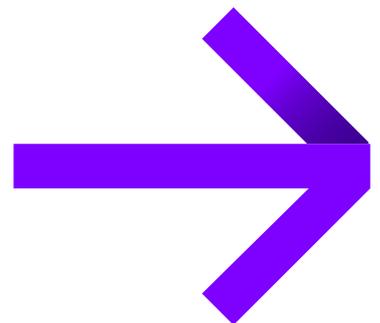
However, the experience of International Payments is not meeting these expectations, and often includes:

- Multiple days to execute payments and receive responses
- Very limited control and transparency over information submitted
- Substantial fees—based not on cost-to-serve, but on the value transmitted
- Fragmented user experience—involving submission of files and papers
- Highly manual—and hence error-prone—processes on both customer and bank side

To date, banks' customers have accepted those shortcomings due to a lack of alternatives. But the emergence of new competitors arising, like TransferWise and Ripple, means customers can choose providers that meet their needs and expectations more fully—and are also cheaper at the same time. Banks still enjoy the confidence of corporates and remain their first choice for high-value transfers. But Fintechs are catching up, steadily increasing their attractiveness to corporates by enriching their offerings with features such as virtual accounts, while ensuring high security standards.

Banks might even lose this business completely, if and when their inherited role as intermediaries is made redundant by corporates and consumers starting to use crypto-currencies, thus completely bypassing the central bank money system.

Banks need to respond to these developments by rethinking their strategies and business models—focusing on creating a unique user experience, and acting as the everyday bank for their mostly corporate customers in International Payments. Alternatively, banks might choose to act as utility providers, excelling in best and cheapest execution of International Payments. Some banks—mainly global players—may do both, striving to be the everyday bank in selected markets while acting as a utility globally.



## MARKET INFRASTRUCTURES ARE CHANGING GLOBALLY

# INTERNATIONAL PAYMENTS TRIGGER NUMEROUS INITIATIVES AND DEPENDENCIES AROUND THE WORLD

*Illustrative and non exhaustive*



## INTERNATIONAL

**Utility Settlement Coin Project:** Six of the world's largest banks have jointly established the blockchain-based Utility Settlement Coin project that will allow banks to settle trades in securities denominated in different currencies, without a money transfer. Financial institutions will be able to make payments between them or buy securities without waiting for money transfers to be completed.

**Digital Distributors:** TransferWise and other providers offer customers a convenient, fast and cheap way of making cross-border payments by leveraging existing domestic accounts and infrastructure globally.

**Cross-border PSPs:** An example of these is **Earthport**, whose payment network covers more than 65 countries. Through a single relationship with Earthport, clients can manage payments seamlessly to almost any bank account in the world, resulting in lower costs and higher operational efficiency.

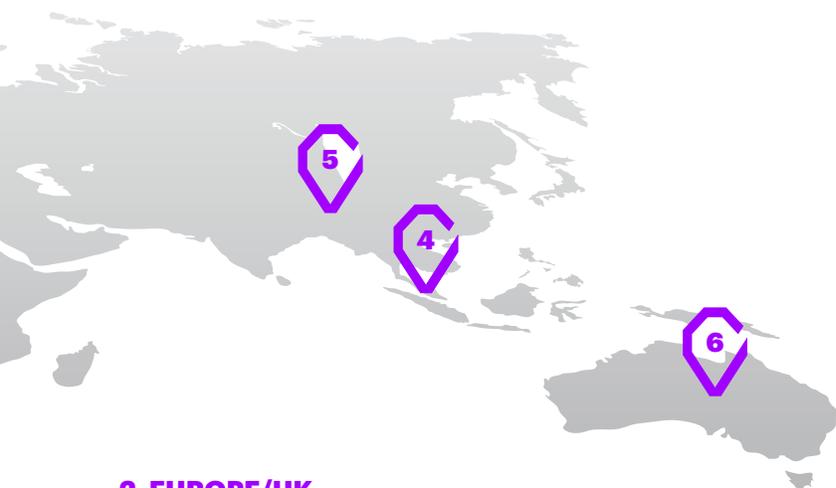
**Social Payments:** Customers can make real-time peer-to-peer payments using social networks like Facebook, WhatsApp and Tencent WeChat. However clearing and settlement are performed via existing card schemes and domestic infrastructure.

### 1. USA

**Distributed ledger technologies** are about to become a major driver for International Payments. For example, San Francisco-based **Ripple Inc.** provides distributed financial technology that enables banks to send real-time International Payments across networks.

**clearXchange (Zelle)** is a U.S.-based digital payments network that enables U.S. individuals and businesses to transfer money electronically from their own bank account to another persons, using a web interface or mobile device. The payer only needs to know the email address or phone number of the payee as a way to uniquely identify the recipient.

As **Instant Payments** become ubiquitous in the U.S., **SWIFT** will provide an interface for sending and receiving domestic instant payment transactions on behalf of customers via a gateway to **The Clearing House's (TCH's) real-time payments platform.**



## 2. EUROPE/UK

The **New Payments Architecture (NPA)** is an industry-led initiative that aims to increase competition and resilience, as well as enhance innovation across the UK payments and banking industry. It should refresh BACS and Faster Payments.

**Revolut** is a global money app that includes a pre-paid debit MasterCard, currency exchange, and peer-to-peer payments. It currently charges no fees for the majority of its services, and claims to use interbank rates for its currency exchange.

The Eurosystem has decided to develop the **TARGET instant payment settlement (TIPS)** service, which will enable European payment service providers to offer fund transfers in **real time and 24/7/365**. These 24/7/365 payments involve the immediate or close to—immediate interbank clearing of the transaction and crediting of the payee’s account, including a confirmation. TIPS is scheduled to commence operations in **November 2018**.

In November 2017, **EBA Clearing will launch RT1**, its pan-European, real-time payment platform.

Initiatives like **SWIFT’s GPI** are focusing on improving the transparency of cross-border transactions and providing fast and reliable processing.

## 3. NIGERIA

**NIBSS Instant Payments** is the first and—to date—only point-to-point funds transfer service that guarantees instant value to the beneficiary in Africa. The service is mostly offered via banks’ internet banking, mobile and bank branch platforms for corporates and individuals, as well as through the banks’ branch network.

## 4. SINGAPORE

The **Monetary Authority of Singapore (MAS)**, has introduced the **SMART NATION INITIATIVE**. One of its guiding principles is to make Singapore one of the leading global financial centers, with a major role in International Payments.

## 5. CHINA

**Mobile Payment Alliances:** Global mobile payment tech giants are partnering with domestic payment schemes to build global interoperable schemes. Examples include **Alipay** partnering with the Swiss mobile payment provider **TWINT**. As a result, Chinese Alipay customers will be able to scan TWINT QR-Codes at Swiss retailers to pay for goods.

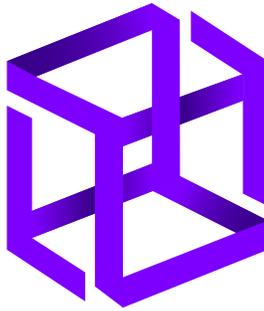
**Access to clearing:** The Chinese government has allowed foreign companies to access their bank card clearing services to increase competition, while putting an end to **China Union Pay’s** position as sole clearing agency for RMB-denominated bank card payments.

## 6. AUSTRALIA

The **New Payments Platform (NPP)** is an industry-wide payments platform for real-time low-value payments. In 2015 a contract was signed with SWIFT to design, build and operate the platform. The NPP is expected to be operational before the end of 2017.

## MARKET INFRASTRUCTURES ARE CHANGING GLOBALLY

# MARKET INFRASTRUCTURE IMPROVEMENTS COMBINED WITH DIGITALIZATION, ENABLE AND ATTRACT COMPETITION



**The entry barriers to International Payments are diminishing with digitalization and continuous upgrades of market infrastructures.**

Today's Fintechs have already taken advantage of both improvements in market infrastructures, and innovative digital capabilities to provide attractive B2C payment services. And now they are preparing for their next target: B2B International Payments, with its substantial revenue potential.

Moreover, we have yet to see the many forthcoming upgrades to the payment infrastructure. These include implementing ISO 20022 as the data exchange standard, extending the reach of domestic clearing, and simplifying settlement in domestic and—partially—multiple currencies. To this, add the increasing number of real-time clearing systems, alongside SWIFT's improvements to its messaging systems such as GPI.

These changes will make it even more appealing and less costly to enter the International Payments market. It will also provide a unique customer experience by using market infrastructures' newest capabilities, while avoiding the complexities of correspondent banking. This opportunity appears especially attractive in B2B payments, given the ability to provide consistent and accurate information about payees, invoice data and more using the full potential of ISO20022—and hence easing the pain of identifying the open position matching incoming payments.

Also, since the cost to provide such a payment experience using fully automated operations is expected to scale down to 1/100 of today's cost, new providers will be able to offer fair and attractive FX rates to their customers, threatening another important source of income for banks.

## SINGAPORE'S "SMART NATION INITIATIVE"

The importance of a fully digitized payments infrastructure has already been recognized by a selected group of governmental authorities. For instance, the Singapore government, acting through the Monetary Authority of Singapore (MAS), has set a good example by introducing the SMART NATION INITIATIVE. One of its guiding principles is to make Singapore one of the leading global financial centers with a major role in International Payments. It is targeting this goal in both corporate payments and also in P2P payments, which are originated primarily by millions of travelers coming to Singapore each year.

To achieve this, the Singapore government is providing a sound and secure regulatory framework along with a state-of-the-art payment infrastructure, helping to accelerate the transition to a E2E digitized payment microsystem.

The reward for all these initiatives today includes the recognition of Singapore as Asia's leading payment hub, as well as the second hottest Fintech hub world-wide.\* These steps also support social commerce and trade finance in a sustainable way —making Singapore an exemplary showcase for digitalization of the payments value chain.

\* <http://thegfhf.org/wp-content/uploads/2016/10/Connecting-Global-FinTech-Hub-Review-2016-.pdf>

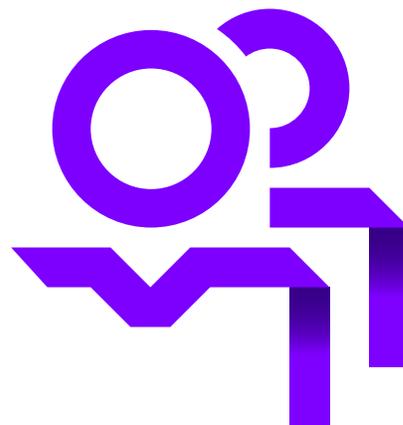
## NEW BUSINESS MODELS THROUGH P2P & MOBILE PAYMENTS AND OPEN BANKING

# PEER-2-PEER AND MOBILE PAYMENTS ACT AS ACCELERATORS

**International Payments is predominantly used by corporates for their global trade and business. However, globalization is also seeing consumers become increasingly important customers for International Payments.**

Social media and messenger platform services have become an integral part of the everyday life of billions of people across the world. Popular platforms such as Facebook, currently allow peer-to-peer payments in the U.S. domestic market, and these services are likely to extend to cross-border remittances as well. Messenger services such as WhatsApp and Tencent's WeChat\*, the largest provider in China also allows the transmission of funds via simple messages to other users. Apple has recently announced to add peer-to-peer payment combined with Apple Pay as a feature into its messaging system, iMessage, for domestic and cross-border remittances. These use cases are driving a dramatic change in users' behavior, toward an expectation that cross-border payments should be as convenient as mobile messaging—and as low cost as domestic payments.

Additionally, mobile payments will play an important role in the development of International Payments globally. More and more original domestic schemes—including the Chinese players Alipay\*\* and WeChat\*\*\*—are expanding mobile payments acceptance at point-of-sale to many countries around the world. In particular, Alipay—originally a domestic Chinese payment system—is increasingly accepted in selected stores in Central Europe and will expand to the U.S. This is putting Chinese tourists traveling around the world in a good position to use their domestic accounts to pay for goods abroad.



\* Approx. 938m active users in 2017.

\*\* Approx. 520m active users in 2017.

\*\*\* Alipay with more than US\$1.6tn yearly total value of mobile payments in 2016 and WeChat with more than US\$1.2tn yearly mobile payments value in 2016.

\* Source: eMarketer (<https://www.emarketer.com/Article/Chinas-Tencent-While-Known-WeChat-Gets-Boost-Gaming/1015884>)

\*\* Business Insider (<http://uk.businessinsider.com/alipay-pushes-into-us-retail-2017-9>)

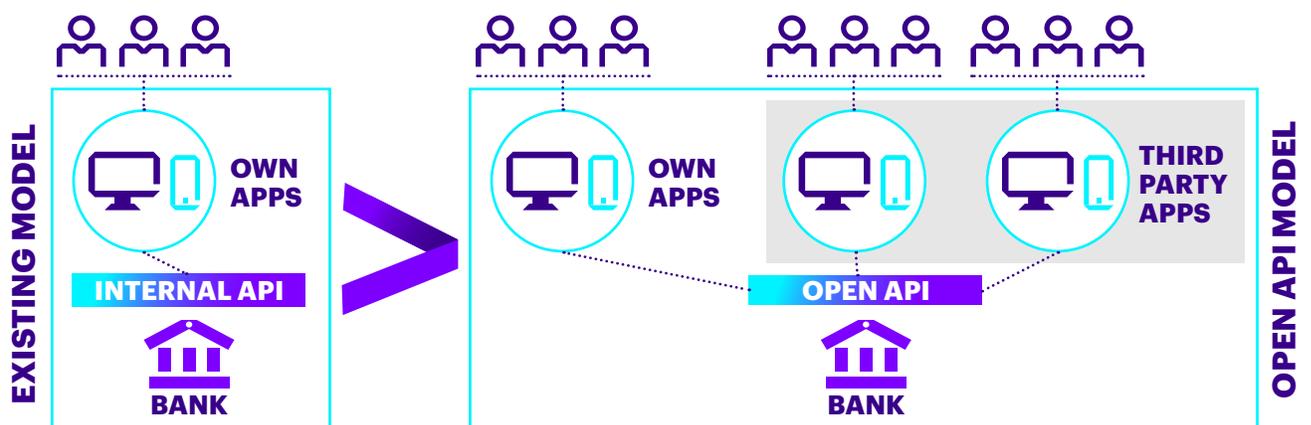
\*\*\* Social Networks, e-Commerce Platforms, and the Growth of Digital Payment Ecosystems in China: What It Means for Other Countries, Better Than Cash Research (April 2017)

## NEW BUSINESS MODELS THROUGH P2P & MOBILE PAYMENTS AND OPEN BANKING

# OPEN BANKING CREATES OPPORTUNITIES

Open Banking is a global market trend pushed mainly by European regulations such as PSD2 in the EU and CMA Open Banking in the UK. These regulations require banks to grant Third-Party Providers (TPPs) access to specific banking services. Other private bank initiatives in the U.S., South America, Asia and Australia are strengthening this trend. Open Banking essentially opens up banks' capabilities in Account Management, Payments and beyond to TPPs. It is based on open APIs (Application Programming Interfaces) published to TPPs, echoing the approach taken by IT companies to proliferate their products and services, among a global population of developers and startups.

Open Banking enables both the integration of externally-developed products and services on banks' platforms, and also the publication of banks' products and services to other banks and TPPs. Fintechs or developers can either sell the solutions directly to the banks in a format that enables integration via APIs, or run the services themselves for the banks on their websites and apps, again via APIs.



Global availability of Open Banking in payments and account management could have a dramatic impact on International Payments for banks and their corporate customers alike.

One effect is that banks will be able to manage their own liquidity globally much easier and cheaper: By using their nostro account holdings, they will be able to request account balance information and initiate payments directly into the domestic clearing systems via open APIs. Additionally, banks could also be able to manage liquidity intraday and in seconds, since APIs deliver immediate feedback and execution into an ever-increasing number of real-time clearing systems.

Corporates may ask banks or TPPs to manage their accounts globally on their behalf via Open Banking, rather than having to rely on account concentration for global cash management at one bank. This approach would enable corporates to bypass expensive International Payments, and use APIs to initiate domestic payments and collect invoices domestically with full visibility of domestic costs levels.

## OUR CONCLUSION

# HOW TO RESPOND TO THE DIGITAL CHANGE

Faced with changes in the payments environment, banks' response would be to address them on an ad-hoc basis. Today, the sheer scale and volume of changes under way means this approach is no longer fit for purpose. Banks need to create an End-to-End experience for their clients, supported by a simple yet powerful global platform that allows for ongoing innovation and uses emerging technologies quickly and cheaply. And they must continue to improve the End-to-End experience relentlessly, supported by an agile organization across business and IT.



### DEFINE THE END-TO-END EXPERIENCE FOR YOUR CLIENTS

- Digital first—and only
- Integrated into clients' value chains
- Connecting price with value
- Portals to interact and automate
- Publishing APIs for easy access



### CREATE A PLATFORM

- One processing platform for all payments globally
- One place to invest
- Global to local access
- Liquidity control
- Always compliant



### ADOPT MARKET INFRASTRUCTURE CHANGES QUICKLY

- GPI as an immediate and easy step
- Real-time payments around the world
- Use cheaper and direct routes where available
- Position for correspondent business with easy access via APIs



### INNOVATE WITH YOUR CLIENTS

- Create “sticky” client-specific solutions such as virtual accounts
- Build DLT solutions for specific industry needs
- Monitor and experiment with crypto-currencies as substitutes

## FOR MORE INFORMATION

### **Thomas Sontheimer**

Managing Director Payments, Accenture  
[thomas.sontheimer@accenture.com](mailto:thomas.sontheimer@accenture.com)

### **Philipp Höfer**

Senior Manager Payments, Accenture  
[philipp.hoefer@accenture.com](mailto:philipp.hoefer@accenture.com)

### **Hakan Eroglu**

Senior Manager Payments, Accenture  
[hakan.eroглу@accenture.com](mailto:hakan.eroглу@accenture.com)

### **Björn Zaksek**

Manager Payments, Accenture  
[bjorn.zaksek@accenture.com](mailto:bjorn.zaksek@accenture.com)

To learn more, visit  
[www.accenture.com/DigitalPayments](http://www.accenture.com/DigitalPayments)

## STAY CONNECTED



### **Follow Us @BankingInsights**

[www.twitter.com/BankingInsights](https://www.twitter.com/BankingInsights)



### **Connect With Us**

[www.linkedin.com/showcase/10412359](https://www.linkedin.com/showcase/10412359)



### **Banking Blog**

[www.bankingblog.accenture.com](http://www.bankingblog.accenture.com)

Copyright © 2017 Accenture  
All rights reserved.

Accenture, its logo, and  
High Performance Delivered  
are trademarks of Accenture.

## ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world’s largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 411,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

Visit us at [www.accenture.com](http://www.accenture.com)

## ABOUT ACCENTURE PAYMENTS

Accenture’s payment offerings help banks improve business strategy, technology and operational efficiency in three key areas: core payments, card payments and digital payments. Accenture’s Banking practice has more than 4,500 professionals dedicated to helping banks simplify and integrate their payments systems and operations to reduce costs and improve productivity, meet new regulatory requirements, enable new mobile and digital offerings, and maintain payments as a revenue-generator. Accenture has helped some of the world’s top banks turn their payment operations into high performing-businesses.

This document is intended for general informational purposes only and does not take into account the reader’s specific circumstances, and may not reflect the most current developments. Accenture disclaims, to the fullest extent permitted by applicable law, any and all liability for the accuracy and completeness of the information in this document and for any acts or omissions made based on such information. Accenture does not provide legal, regulatory, audit, or tax advice. Readers are responsible for obtaining such advice from their own legal counsel or other licensed professionals.