MISSING THE OPPORTUNITY

Are Financial Institutions businesses missing out because they can't support the international trading ambitions of their clients?

CONTENTS

The global transaction banking industry is experiencing one of the biggest shake-ups it has seen in decades. Non-bank tech disruptors like bitcoin and the blockchain, the eastward shift in global economic power, low-interest earnings in developed markets, the emergence of challenger banks and regulatory pressure to reduce risk and inefficiency in payment-clearing infrastructure are all contributing to what is a seismic shift in how the sector operates and what customers expect.

Undoubtedly the continuing development of the FinTech sector – providing alternatives to traditional service providers – is contributing to the shake-up. The impact of increased regulation and capitalisation requirements has also intensified competition and made it more difficult to do business, especially with regard to "know your customer" (KYC) requirements. On top of all of that, legacy infrastructure is adding to the financial and operational burden for the incumbents.

Shortcomings in banking services, along with the wish of some corporations to be 'bank agnostic', has opened the revenue doors to FinTechs and digital giants. But how easy is it for businesses to switch and what can they expect from both incumbents and new service providers?

As FinTech start-ups continue to emerge on an almost daily basis, it seems that the supposedly 'simple' process of opening a bank account is becoming increasingly difficult for start-ups and even established payments businesses – especially outside of first world markets. Companies looking to trade abroad generally need to open accounts in the geographical region in which they wish to do business. But the appetite of the incumbent banks to offer this service is waning. As a result, start-ups, including the burgeoning world of FinTechs and established payments businesses, are left searching for a bank that is willing and able to help them reach their international trading potential by allowing them to open the necessary bank accounts.

As a game-changer in the international payments industry, we wanted to identify the particular challenges facing those currently operating in the sector, from FX and Payments businesses to banks. We therefore commissioned exclusive research to provide insight into how the changing shape of the sector is impacting FinTechs, not only on their own businesses but on the business of their clients operating in international markets.

What is clear is that if the current limitations in cross border payments are allowed to perpetuate, there could be a real risk of businesses operating in the international marketplace finding themselves underbanked, thereby seriously limiting the growth potential of the global economy as a whole.

Anders la Cour
Chief Executive Officer
Banking Circle

THE INTERNATIONAL PAYMENTS LANDSCAPE

According to Boston Consulting Group (BCG), global transaction banking generated almost $1.1 trillion in revenues in 2015, representing nearly 27% of total global banking revenues. This is set to increase markedly over the coming decade, hitting nearly $2 trillion in 2025.

The rise is projected to occur across various revenue streams, including a combination of account revenues (up by 40%), transaction revenues (up 34%) and non-transaction card revenues (up 26%).

The almost 100% increase in transaction revenues over a period of 10 years is being driven by the increase in value and volume of transactions.

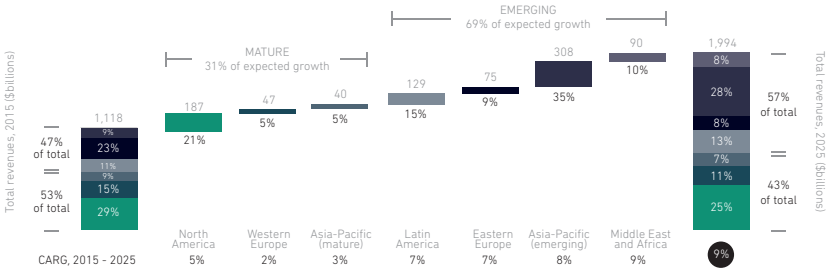
Whilst growth projections for revenue are positive, it is becoming increasingly challenging for incumbents to deliver the service their clients need. The last few years have seen a shift in the availability and accessibility of banking services for global trade. Increased focus on regulation as well as the higher capitalisation required for multinational banking has resulted in a number of the tier 1 global players pulling back from providing services to businesses outside their own geography.

HSBC pulled out of 10 countries in 2015, and there has been a decrease in the number of countries in which banks such as Barclays, Lloyds Banking Group and Standard Chartered operated between 2008 and 2015.

According to an East and Partners Report (Jan 11 2017)[1] across 2,000 SMEs and large UK companies, the volume of foreign exchange services business conducted with UK banks has declined, as has the number of companies using a UK bank as their primary provider of FX services, with non-bank providers taking market share.

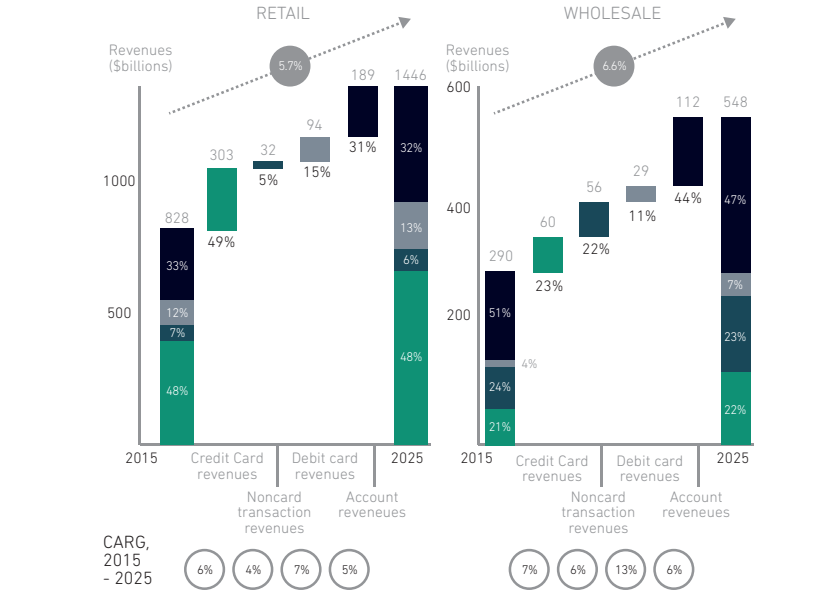
But whilst the emerging FinTech sector is providing some solutions, with currently about one third of payments related FinTech investment going to B2B providers (according to BCG), these players are not likely to displace the traditional players completely.

Payments Industry Revenues Will Reach Nearly $2 Trillion in 2025



Source: http://www.bcg.com/expertise/industries/financial-institutions/transaction-banking.aspx

Retail Payments Transactions will remain the dominant Revenue generator through 2025



Source: https://www.bcgperspectives.com/content/articles/financial-institutions-technology-digital-global-payments-2016-competing-open-seas/?chapter=2#chapter2_section2

[1] http://www.reuters.com/article/uk-britain-banks-forex-idUSKBN14V23Q

FIVE TRENDS

We are seeing five key trends impacting the global payments market:

1 New market opportunities driven by globalisation

While Europe is still the largest 'inbound' transaction banking market, rapidly developing economies will grow significantly faster during the next decade. This strong growth will be driven by a significant increase of international trade flows, especially with and within Asia, with rapidly developing economies contributing around 55%[2] of expected transaction growth. In addition, mid-market and SME clients in mature economies are increasingly transacting cross border as they seek growth opportunities abroad.

2 Digitisation and the focus on the customer

The digital wave is changing dramatically how businesses engage with their customers, as well as how they run their organisations. As they improve their own customer engagement and service levels, businesses' expectations of the digital capabilities of their banking providers steadily rise. However, incumbents are not as operationally efficient as newer market entrants, with their STP rates as low as 60%.

3 New regulation – driving banks to retrench

A new set of regulations issued mainly in Europe and the US in the last five years (e.g. Basel III and the Payment Services Directive and tighter requirements around KYC and Anti-Money Laundering) will continue to severely impact the global transaction banking landscape. Stricter KYC and AML legislation have led to increasing compliance costs and litigation risk for banks. These in turn can have adverse consequences for bank-corporate relationships e.g. protracted account opening processes, payment value limits, difficulties for banks in supporting corporate international business in less secure jurisdictions. Our own research has shown that 51% of respondents said it took over a month to open a currency account with their current provider and 22% told us that it took as long as 2-3 months to get payment and FX facilities.

Banks are retrenching due to the burden of compliance. Global banks, including HSBC and Deutsche Bank, have scaled back their activities in certain markets in an effort to deliver higher shareholder returns, squeezed by a low interest-rate environment, regulatory changes and cost-cutting pressures.

4 Entry of third party payment providers

Taking full advantage of the trends in the global payments space, new entrants are striving to fulfil the demands of businesses and some are threatening to disintermediate banks. New entrants aim to address existing pain points by providing, for example, real-time, rich remittance information, lower fees launching innovative offerings to enable seamless integration of payments.

5 The evolution of the Utility

With the emergence of third party payment providers the newest trend in international transactions is evolving. A whole new ecosystem is providing the infrastructure for business to business cross border payments. And this ecosystem is underpinned by 'utilities'.

Just like the utilities used in a domestic environment – gas, electricity, water, etc. – utilities for the banking and payments sector provide the unseen but necessary power and energy to provide the best possible foundation for delivering a great customer experience worldwide for the end client. Working in partnership with specialist utilities also means that a business can move much faster, as well as reduce costs – all of which can be passed onto the customer. And because the utility isn't in competition with a business – it's a supporter - both organisations should have like-minded goals, rather than pitch themselves against each other.

Both the tier two and three banks and established payment providers are aware that it makes no sense to create the utilities that underpin their service. Using a utility will be the route to success for those operating in banking and FinTech in the next few years. Banks could become more digitised, relationship-driven and focused on the customer relationship by outsourcing non-core functions to third parties. And looking further ahead, the banking industry is likely to be even more fragmented, whilst becoming capable of delivering 'banking services' in a much more dynamic way than we see today.

[2] Boston Consulting Group – The New Corporate Transaction Banking Landscape, published October 2014

EXECUTIVE SUMMARY

Banking Circle commissioned exclusive research to look at the challenges for FX and Payments businesses.

This white paper examines their biggest concerns and looks at how these issues impact not only these businesses but also on their clients' businesses operating in international markets.

In what has become a global digital world with very few barriers, the banking process still appears to be fenced in. Rising compliance, risk and operational costs are driving the banking sector to focus on digitising their business, and operate domestically. Businesses that want to trade internationally therefore have to open separate accounts with multiple banks in multiple countries. With lengthy application processes taking as much as six to 12 months, the administrative burden can be huge.

Whether it is the lack of competitive rates or long delays in payment settlement, it seems that accessing global transaction banking is at the heart of the challenges facing businesses trading internationally.

Access to fast, low cost FX rates is no longer the preserve of big, multinationals, as online trading opens the door to smaller businesses that need to be able to make and receive international payments. However, the research shows that too many businesses are unable to grow into new markets and reach their potential due to slow, expensive services that put too high a burden on smaller firms and start-ups.

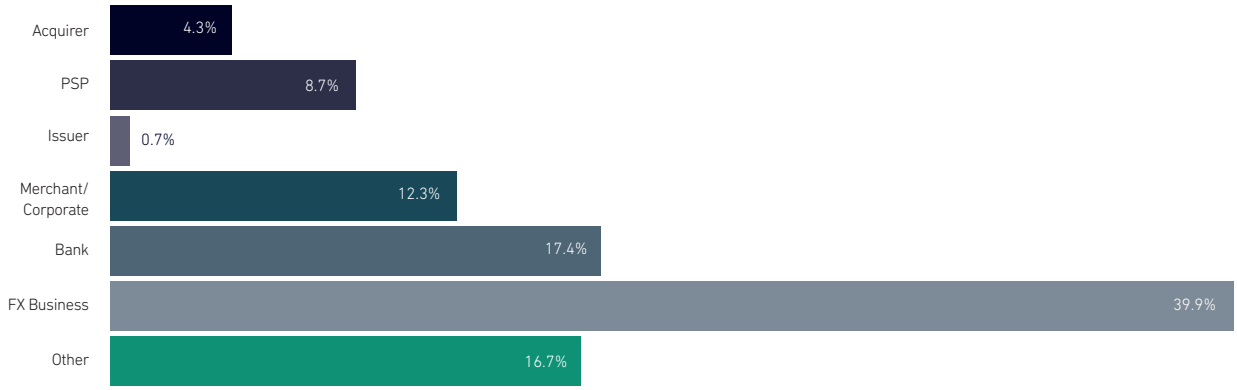
THE BANKING CIRCLE FX PAYMENTS RESEARCH

The Research Base

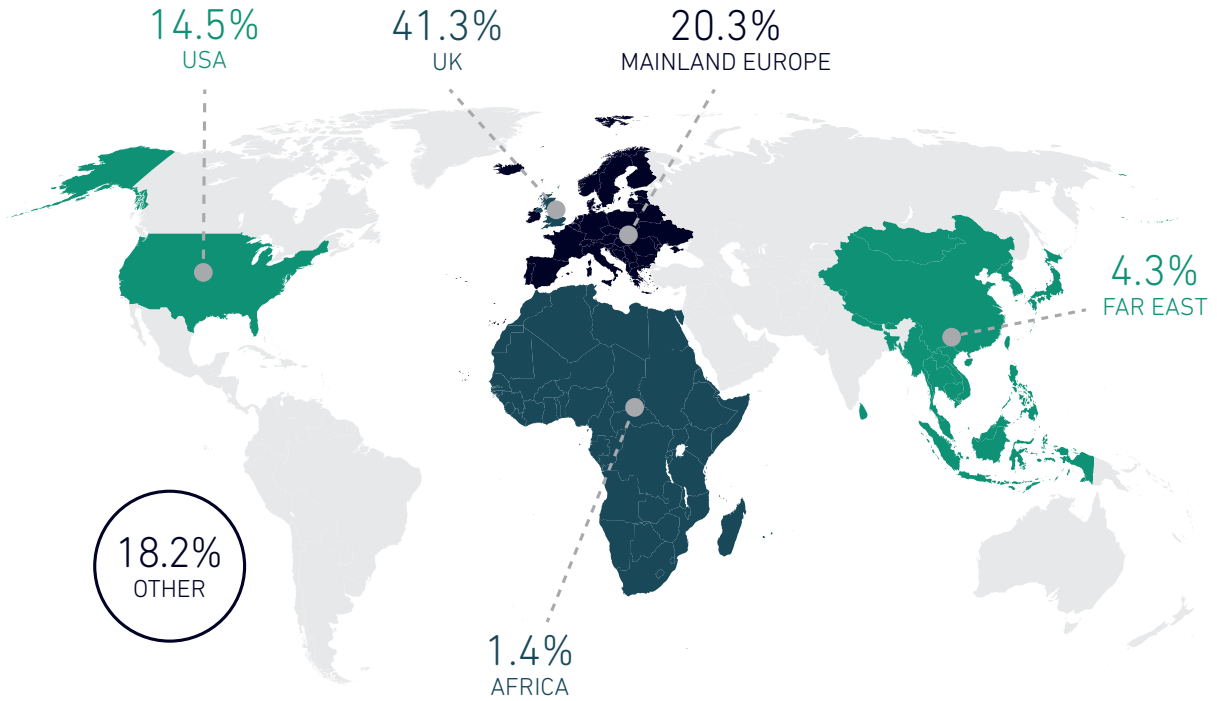
Respondents to the research encompassed Acquirers, Payment Service Providers (PSPs), Issuers, Merchants, Banks and FX businesses.

With respondents operating in several regions around the world, over 20% are based in Europe, 41% in the UK, 14% in the US, 6% in the Far East and Africa, and 18% operating in other regions.

What type of business are you?



Where are you based?



THE FX PAYMENTS LANDSCAPE

Traditional Banks starting to see challenge from FinTechs

The majority of respondents still use a bank to manage FX payments, with 64% turning to these traditional organisations. Over a quarter (27%) use a specialist FX provider, whilst 13% use a financial technology company.

This shows the continued dominance of banks, but also demonstrates a move towards alternative providers, such as FinTechs.

THE CONCERNS

Cost, Speed and Process

Respondents were asked to rank their top three concerns when it comes to cross border transfers. Perhaps not surprisingly, cost received the highest percentage of votes, accounting for 50%. Speed of transaction ranked as the second biggest concern, taking 32% of the votes. The manual nature of the processing came third at 31.5% followed by International regulatory requirements recording nearly 30% of the votes.

Stifling Cash Flow

Clearly the flow of cash, to and from different businesses, is vital to keep a business alive. Yet in the world of FX payments it appears that there are some severe barriers that are stifling cash flow.

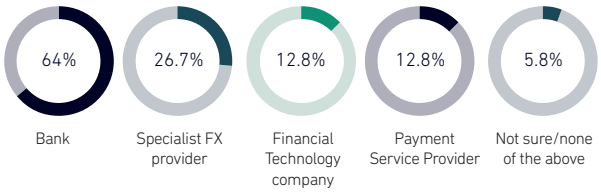
Nearly half of respondents (44%) said that payment settlement times cause the longest delays to FX payments being processed, followed by reconciliation (17%) and screening (12%). The situation, it appears, is not all bad, with nearly a quarter (24%) saying they are not aware of any delays.

However, could this simply be that they have come to accept and live with long lead times and are not aware of other options?

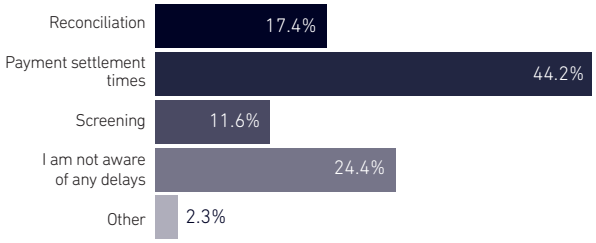
Lack of competitive rates

High overheads are compounded by the fact that nearly a third believe they are not offered competitive rates by their current FX provider (29%). Interestingly, however, nearly one in 10 simply haven't compared rates.

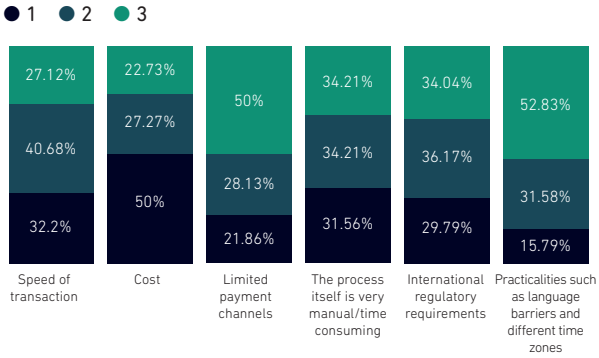
Which type of organisation does your business currently use to manage FX payments?



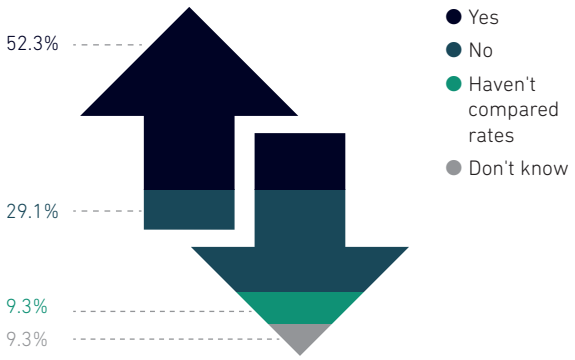
What causes the longest delay in your payments being processed?



What are the top three concerns for you when making and/or receiving cross border payments?



Do you believe you are offered competitive FX rates by your current provider?

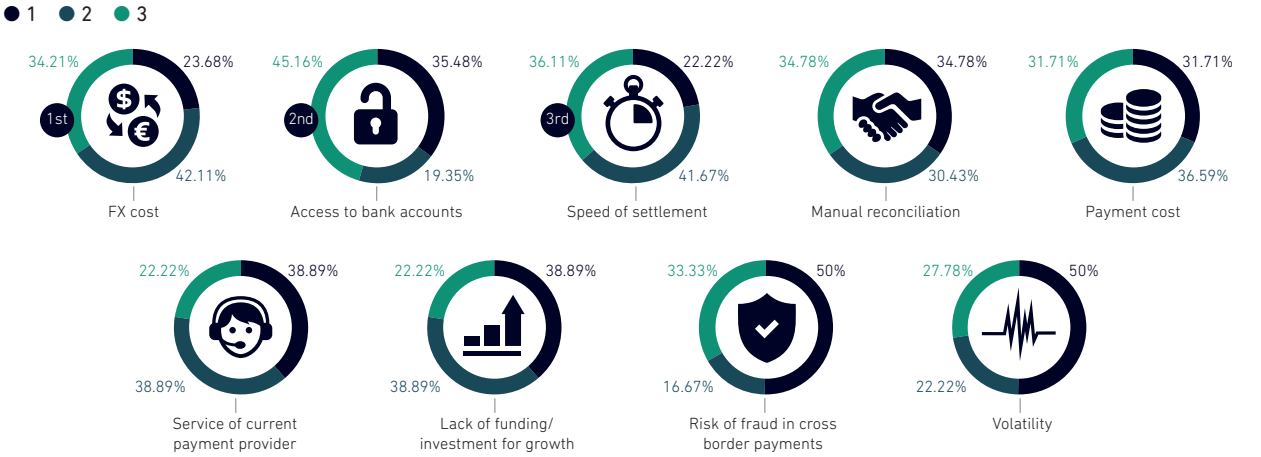


CROSS BORDER PAYMENTS ARE HINDERING BUSINESS GROWTH

Given the concerns already identified by respondents, it's probably not surprising that the top three payments related factors hindering the growth of FX and Payments businesses are the cost of FX, access to bank accounts and the speed of settlement.

With many of the big banks pulling out of overseas markets and preferring to operate in their domestic market, access to these services looks set to get worse, not better, for businesses still relying on traditional providers.

What are the top three factors, from an FX and payments perspective, hindering the growth of your business?

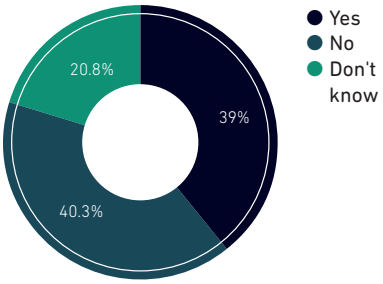


Lack of support

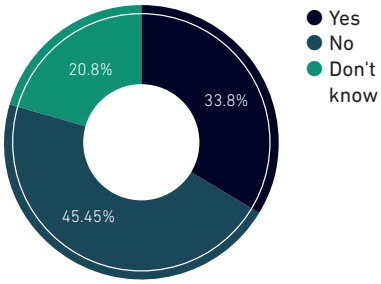
40% said their current provider cannot help them to reach new international markets, and 45% said their provider does not offer access to FX tools or analytics to help manage FX risk, despite the cost of FX being identified as a barrier to growth.

In addition to providing a slow, cumbersome service, current providers are not responsive to the FX and Payments businesses needs, with one in five (22%) saying it took between two and three months to set up currency account, payment and FX facilities for their business.

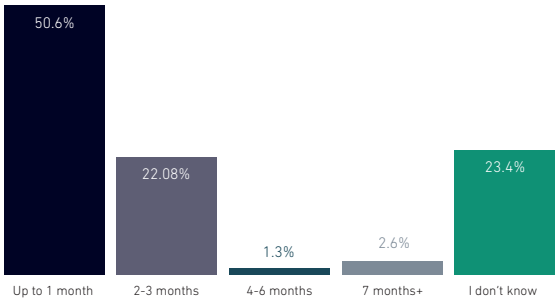
Is your current provider able to help you reach/expand into new international markets?



Does your current provider offer access to FX tools/analytics to help manage FX risk?



How long did it take your current banking provider to set up the currency account, payment and FX facilities for your business?



THE PERSPECTIVE FROM FX BUSINESSES

As FX businesses depend on being able to make fast and efficient transfers in multiple currencies, anything that hinders that process has a direct impact on the FX sector, and its business proposition. The following findings, therefore, focus on responses from FX businesses only.

Missing the Added Value

A point of differentiation for FX and Payments businesses is to extend their value proposition to enable customer acquisition, satisfaction and retention. Having the ability to open currency accounts on behalf of their clients is an example of this. However, responses from FX businesses reveals a distinct lack of ability to create added value, with over half (52%) saying that their current provider does not allow them to open bank accounts on behalf of their clients.

Impacting on service

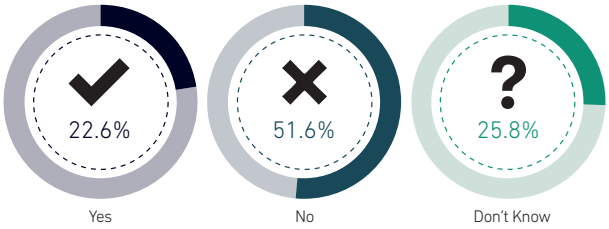
Undermining their service delivery, FX businesses were also concerned about the time taken for payments to be processed, with payment settlement times taking top slot at 43%. Reconciliation and Screening were each considered to have an impact on the time taken for payments processing for just over one in 10 respondents (11%).

Something as standard as setting up a currency account becomes a slow, ponderous process, with 42% saying it took up to one month to get currency account, payment and FX facilities set up. A further 29% experienced delays of 2-3 months, displaying a distinct lack of a speed in a fast-moving marketplace.

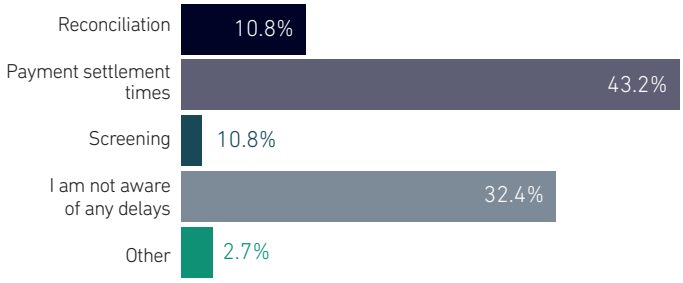
More hurdles to success for FX businesses

Nearly half (48%) said their current provider does not help them reach or expand into new international markets

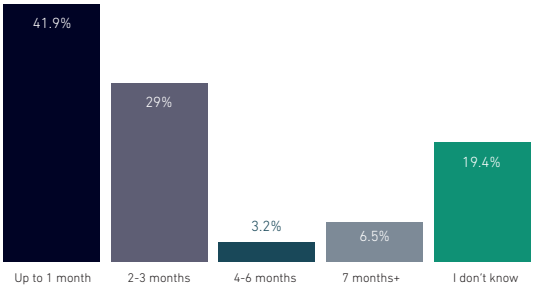
Does your current provider allow you to open bank accounts on behalf of your clients?

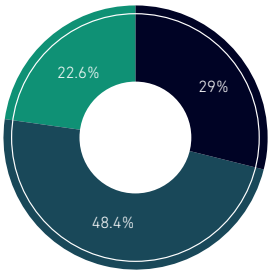


What causes the longest delay in your payments being processed?



How long did it take your current banking provider to set up the currency account, payment and FX facilities for your business?





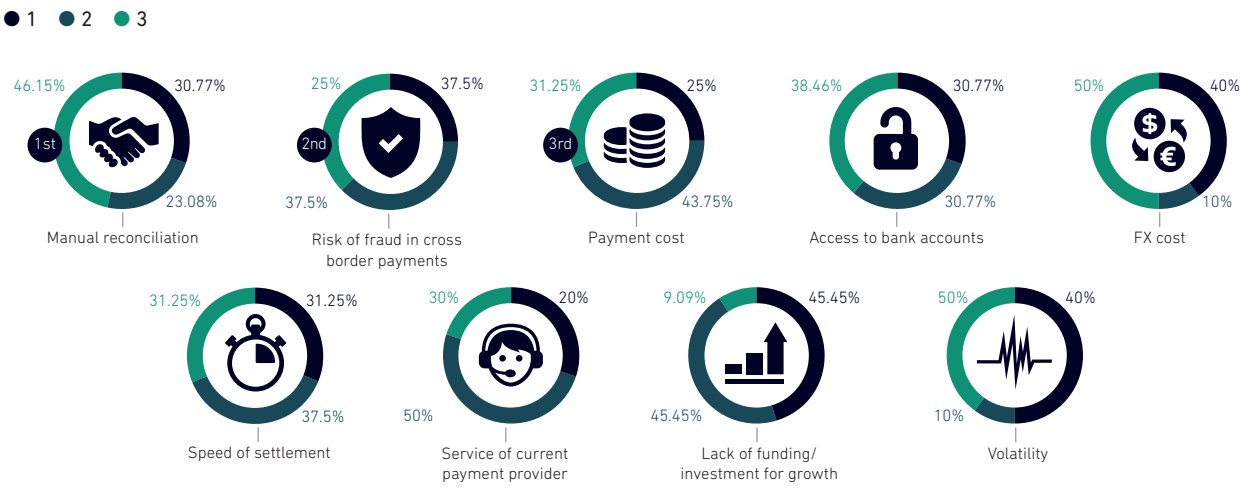
Is your current provider able to help you reach/expand into new international markets?

- Yes
- No
- Don't know

Hindering growth

With the payments process being absolutely fundamental to the FX business operation, it is vital that the service provider does not hinder growth. Yet the research of FX businesses suggests it is the basic processes that are undermining operations. Manual reconciliation ranked highest, followed by risk of fraud. Unsurprisingly, FX cost was also a concern, ranked third.

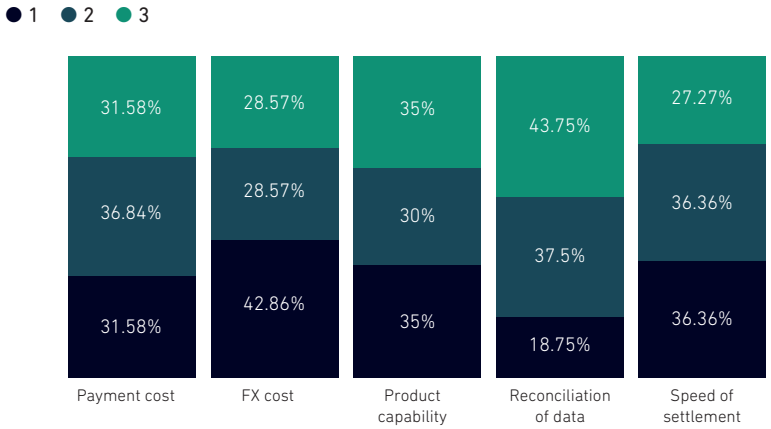
What are the top three factors, from an FX and payments perspective, hindering the growth of your business?



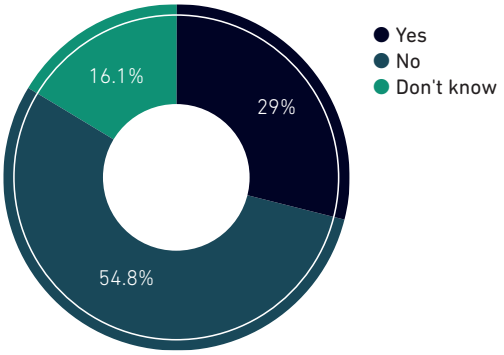
Reflecting the importance of business cash flow, speed of settlement was ranked as the top concern when considering service from current providers, closely followed by product capability. Payment cost and FX costs were also key concerns when considering current providers.

In addition, over half of FX businesses were missing access to any FX tools or analytics to help them manage their FX risk.

What are the top three concerns you have with your current provider?



Does your current provider offer access to FX tools/analytics to help manage FX risk?



APPENDIX – DATA TABLES – 'ALL RESPONDENTS'

What type of business are you?

Answer Options	Response Percent
Acquirer	4.3%
PSP	8.7%
Issuer	0.7%
Merchant/Corporate	12.3%
Bank	17.4%
FX Business	39.9%
Other (please specify)	16.7%

Where are you based?

Answer Options	Response Percent
UK	41.3%
Mainland Europe	20.3%
USA	14.5%
Middle East	0.0%
Africa	1.4%
Far East	4.3%
Other (please specify)	18.1%

Which type of organisation does your business currently use to manage FX payments?

Answer Options	Response Percent
Bank	64.0%
Specialist FX provider	26.7%
Financial Technology company	12.8%
Payment Service Provider	12.8%
Not sure/none of the above	5.8%

What are the top three concerns for you when making and/or receiving cross border payments? Please select three options from below with 1 being your biggest concern.

Answer Options	1	2	3
Speed of transaction	32.20%	40.68%	27.12%
Cost	50%	27.27%	22.73%
Limited payment channels	21.86%	28.13%	50%
The process itself is very manual/time consuming	31.56%	34.21%	34.21%
International regulatory requirements	29.79%	36.17%	34.04%
Practicalities such as language barriers and different time zones	15.79%	31.58%	52.83%

What causes the longest delay in your payments being processed?

Answer Options	Response Percent
Reconciliation	17.40%
Payment settlement times	44.20%
Screening	11.60%
I am not aware of any delays	24.40%
Other (please specify)	2.30%

Do you believe you are offered competitive FX rates by your current provider?

Answer Options	Response Percent
Yes	52.30%
No	29.10%
Haven't compared rates	9.30%
Don't know	9.30%

What are the top three factors, from an FX and payments perspective, hindering the growth of your business? Please select three options from below with 1 being the biggest factor.

Answer Options	1	2	3
Access to bank accounts	35.48%	19.35%	45.16%
Manual reconciliation	34.78%	30.43%	34.78%
Payment cost	31.71%	36.59%	31.71%
FX cost	23.68%	42.11%	34.21%
Speed of settlement	22.22%	41.67%	36.11%
Service of current payment provider	38.89%	38.89%	22.22%
Lack of funding/investment for growth	38.89%	38.89%	22.22%
Risk of fraud in cross border payments	50%	16.67%	33.33%
Volatility	50%	22.22%	27.78%

What are the top three concerns you have with your current provider? Please select three options from below with 1 being your biggest concern.

Answer Options	1	2	3
Payment cost	25.45%	54.55%	20%
FX cost	42.22%	31.11%	26.67%
Product capability	39.47%	15.79%	44.74%
Reconciliation of data	37.14%	28.57%	34.29%
Speed of settlement	26.79%	30.36%	42.86%

Does your current provider allow you to open bank accounts on behalf of your clients?

Answer Options	Response Percent
Yes	18.20%
No	59.70%
Don't know	22.10%

How long did it take your current banking provider to set up the currency account, payment and FX facilities for your business?

Answer Options	Response Percent
Up to 1 month	50.60%
2-3 months	22.10%
4-6 months	1.30%
7 months+	2.60%
I don't know	23.40%

Is your current provider able to help you reach/expand into new international markets?

Answer Options	Response Percent
Yes	39.00%
No	40.30%
Don't know	20.80%

Does your current provider offer access to FX tools/analytics to help manage FX risk?

Answer Options	Response Percent
Yes	33.80%
No	45.50%
Don't know	20.80%

ADDRESSING OPERATIONAL EFFICIENCY, SPEED & COST OF FX PAYMENTS

Banking Circle Virtual IBAN addresses the challenges identified by the research, enabling FX businesses and Financial Institutions to have access to IBAN accounts in any currency and in any country, and to create virtual IBANs for their clients. With big banks retrenching from cross border services, the research shows that traditional providers aren't responding to the needs of FX businesses and Financial Institutions. Banking Circle Virtual IBAN means one FX business can have accounts in a number of markets and crucially, the onboarding process is quick. FinTechs and Banks can also open accounts for their own customers very quickly, delivering a vital level of added value.

Having virtual accounts means that Financial Institutions, including FX providers, can eradicate reconciliation issues and reduce the risk of errors and rejections. With a more efficient solution, businesses benefit from quicker settlements, less rejections, less time spent on reconciliation and therefore need fewer resources. This in turn, reduces the cost per sale.

Banking Circle Real-time FX gives Financial Institutions a banking platform that enables them to trade foreign exchange more efficiently as well as make international payments on behalf of their clients. It gives businesses a real competitive advantage enabling them to build new revenue streams and add value by providing international payments as an 'add-on' service for their customers.

Banking Circle Real-time FX, is adding value to the proposition delivered by FinTechs and Banks giving them and their clients significant costs savings and helping them expand into new markets.

BANKING CIRCLE

Bank on growth

| THE NETWORK FOR GLOBAL COMMERCE |

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