NetRemit

E-BOOK

Strategic priorities of the cross-border payments industry

Key things that every remittance service provider should know

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Introduction

Despite the aftermath of positive global economic recovery, and the remittance progressing towards positivity, the flipside of the coin suggests a completely different picture. Data collected from various Financial Institutions of different capacities suggest that there may be different lines and lengths of challenges which are much evident before all of us. Regulatory compliance, real-time payment, payment settlements, and reconciliation process, all involve a laser-sharp focus.

Strategic priorities change according to the company size. Bigger companies focus on profitability and front-end enhancement. On the contrary, smaller firms will focus on profitability by enhancing their back and middle office. Most firms are real-time ready with their process towards payments, where operations are the top priority, and IT at the least. Almost 73% of US firms anticipate an increase in their regulatory burden compared to 53% of UK firms, as US firms were not exposed to more regulatory compliance than UK firms, according to the survey by AutoRek. Focusing on Cross-border payment reconciliations is more challenging than domestic payment reconciliations.

> “Around 60% of the firms across the globe, expect their payments to grow drastically, whereas 48% do not have the much-needed infrastructure or the modern capabilities to process.”

The strength of IT, software, and technology infrastructure for a payment company is the deciding factor of its success. Focusing on automation, they will be the game changers.

Let us discuss the strategic priorities of the remittance industry!

As the landscape of payments is constantly evolving, firms evolving various strategies to come with long-term success. Companies are marching towards the greatest areas of focus over the past two years and where they see those priorities changing in time can bring momentous results. An invaluable look at what lies ahead!

Strategic priorities of the cross-border payments industry

1. Prioritising what the businesses require

While focusing on strategic priorities of payment industries, there has been a divide between large and small payments firms. Large organisations (500+ employees) have placed significant importance on back-and middle-office optimisation in recent years. On the other side, more than smaller companies appear to focus less heavily on these areas due to their reduced complexity compared with larger businesses.

Small- to medium-sized companies have shifted their focus toward the user front end. On the contrary, smaller businesses are prioritizing back and middle office operations with strategies for scaling up. The banking landscape across the globe has also evolved.

> “Payments firms in England principally work on optimizing certain financial processes that fall under new regulations set forth by governing entities. This shift highlights how regulation can influence business models as well as industry trends overall.”

Most of the payment firms have shifted their priority to customer experience, acquisition, and retention in recent years alongside ensuring profitability - all of which may be a preparation for upcoming regulations set to affect this market.

2. New Payment regulations – What the remittance providers should focus?

Protection of customers’ private and sensitive data has always been the pivotal focus, while the entire FinTech industry is working together to enhance customer satisfaction by leveraging a convenient, faster, and efficient environment. Blockchain and cryptocurrencies will top the charts of the entire FinTech Industry, as much of the financial transactions very shortly would happen only through them.

Technological advancements and the requirement for universally accepted payment methods have helped cryptocurrency gain significance.

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> Operational resilience involving risk identification and assessment, and risk mitigation play a significant role in the cross-border payments.

3. Global regulatory burden

The world of finance is always caught by regulation, and balancing between innovation, and the latest regulatory framework to be in tandem with each other involves a tremendous effort. Organizations have also realised that keeping in phase with the new guidelines is inevitable.

While policymakers face a difficult challenge in managing the contemporary financial industry, traditional banks are subject to government oversight.

> FinTech remains unregulated, and there is a vast difference between the perspective of both the UK and the US, where 73% expect more regulations to come, and only 53% of British companies anticipate a shift, according to the survey conducted by AutoRek.

This vast change in how it operates is due to the implementation of FCA (Financial Conduct Authority) protocols namely, safeguarding and Operational Resilience requirements which have already taken effect in recent months.

Operational Resilience, data protection, and consumer protection take priority, and it is highly mandatory to protect the private and sensitive information of the client. Bringing appropriate regulatory compliance in place will have a proper check and balance. While Crypto and BNPL regulation, are newer payment methods that are yet to be regulated. Now financial institutions are slapped with the harsher reality on levels of internal governance to satisfy regulators, capacity to perform complete audibility on the finance data cycles, and protection of consumer funds in case of insolvency.

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4. Payment reconciliations and financial controls

Payment reconciliation is highly integral as payment activities occur between payment processors, payment gateways, merchant acquirers, card networks and card issuers have grown tremendously. Automation of reconciliations has become essential for payment processors, as the growth in digital payments encountered a great surge in recent times. On the other side, the reconciliation function at many payments firms is not completely digitised. Thus, there is a shift from legacy-based systems and a more modern and dynamic approach.

> “The survey conducted by Autorek suggests that 65% accept that companies that use spreadsheets are vulnerable to human errors, while 13% feel that there is no figment of error.”

Interestingly, firms with greater headcounts are for automation, and FinTechs with lesser headcounts, unable to shift to newer technology or invest in high-tech automation still prefer to sail with the existing trend. Investing in a modern reconciliation system is always profitable, gaining time, reducing human errors, and eventually, reaping several benefits by providing best-in-class solutions, along with embedded workflow to ensure signatories and approvals which companies with a strong financial backbone, would always prefer.

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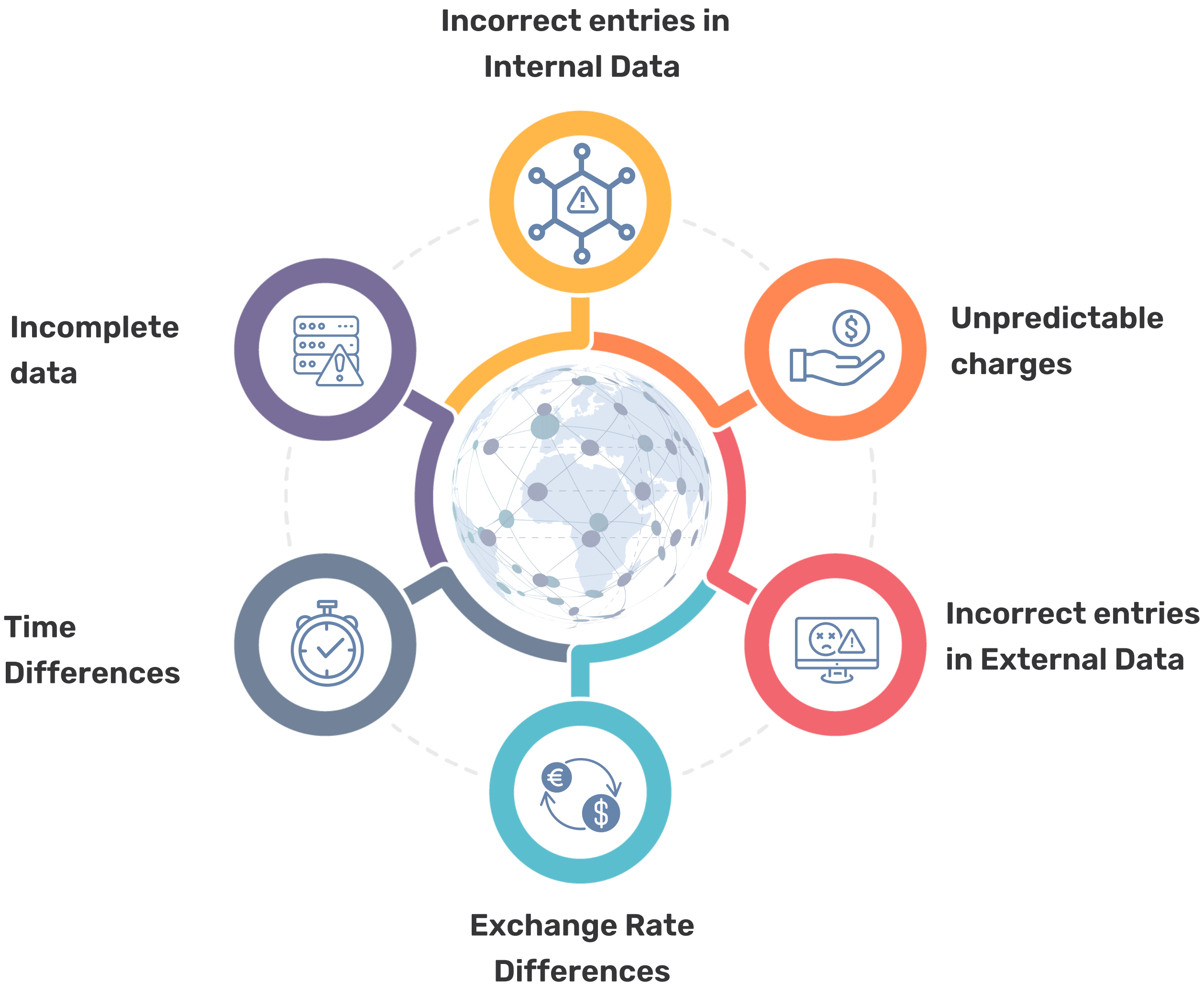
5. Challenges and Complexities are the nightmares

The success of the cross-border transaction lies in creating a borderless economy, and that mandates fast payments across territories in local currencies. Here, the major roadblock is the sizeable challenge to payments firms with fragmented systems.

> “A cashless economy, burgeoning e-commerce, and growing international trade have all enhanced cross-border transactions. Its value exceeds $155 trillion per year, according to Bloomberg research.”

The growth and the trajectory of successful cross-border payments demand a multifaceted approach. The firms navigate an array of data points and face considerable foreign exchange risk and the need to adhere to multiple regulatory frameworks across different regions. The challenges like increased cost and payment lags, delays in confirming the legitimacy of payments, delayed settlements, and trapped liquidity is the main roadblocks.

Cross-border payments are going through major changes



Operations frequently deal with the challenge of incorrect data entries. Financial teams struggle with unpredictable charges. IT departments must tackle incomplete records. Larger companies with more than 500+ employees are most affected by internal data discrepancies. While smaller firms face the challenge, even more, when it comes to exchanging rate differences.

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6. Going unified for the effective reconciliation process

The extensive adoption of ISO 20022 is aimed at creating a common data model and syntax for payments. and other financial transactions. Several financial institutions like SWIFT, The Federal Reserve, The Bank of England, and large payment organisations such as Visa and Mastercard have fully mandated and driven the adoption of ISO 20022.

ISO 20022 would bring a massive impact on the way financial organisations operate and would certainly revolutionise the reconciliation process for larger companies.

> “It is observed that the companies with more than 40% of 500+ employee organizations indicate that data transformation and enrichment would benefit significantly.”

Also, downstream matching and exception investigation/management processes will be improved. Along with that, the standardisation reduces incomplete or unmatchable data leading to a far more efficient scaling ability in payments firms.

The necessity of a two-pronged strategy

Adapting to real-time will become increasingly essential. As a result of enhanced payment transparency, this is done so that banks will have a better grasp of how quickly their correspondent's process transactions. Either customer will drive banks to hurry up, or banks will relocate their business to correspondents with faster processing capabilities. Real-time processing is compelling banks to extend interbank processing hours, which are now 24 hours a day, seven days a week.

Customer expectations shift along with changing consumer behaviours. Both people and companies have gotten accustomed to the ease and convenience of being able to carry out a variety of financial transactions with the click of a button while maintaining control over a whole financial ecosystem. Therefore, they have every right to request the same capabilities for international money transfers.

Hence cross-border payments demand a two-sided solution. If the essential technology is not yet operational in the recipient nation, the only option is to keep utilising legacy systems. For both the sender and the recipient as well as the entire global economy, this is expensive. The entire global trade flow is slowed down by this delay, which affects both firms and the end user. We are aware of the need for a system that enables users to send money immediately to anyone, anywhere in the globe, while doing so through a practical, secure, and secure ecosystem.

Regardless of the volume of transactions, enabling frictionless real-time cross-border payments requires an improved and reliable reconciliation process. A more effective approach would also reduce the stress placed on the finance, operations, and treasury departments, which could result in errors and dissatisfied staff.

With our expertise in payment technologies, including open banking, cross-border payments, and payment clearing solutions, Macro Global provides the greatest customer experience on a constant basis.

NetRemit, a white-labelled SaaS solution for cross-border payments enables banks, MTOs and other FIs to connect to a large network of financial institutions and alternative payment services.

NetRemit is able to manage increasing volume and complexity while offering real-time payouts. Our V21 version of NetRemit automates the reconciliation process for huge transactions with diverse payment methods, formats, and data points in record time. Moreover, transaction anomalies may now be identified considerably sooner and alerted in real-time before being rectified utilising a straightforward workflow process.

MG's NetRemit will handle all the heavy lifting, ensuring that your consumers have the greatest possible real-time payment experience while you keep ahead of your competitors in the growing payments industry.

Conclusion

The flow of remittance across the world has reached almost 4.9% by 2022, even though the wars and remittance from the migrants were the major cause, according to the World Bank's report. The growth of the US dollar exchange rates, while the Euro has weakened has also been a factor that has affected the flow of remittance from developed countries to developing ones.

Along with all these factors the migration of refugees from war zone has altered the course of remittance, where at least 0.82% of the entire world population had undergone a significant shift from their native dwellings. Also, the GDP of the developed countries would slow down, impacting the flow of money from the developed countries to the developing countries.

Predicting the flow of remittance post-2022, the alternative channels of remittance, rather than the traditional banks and financial institutions would see a positive flux.

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