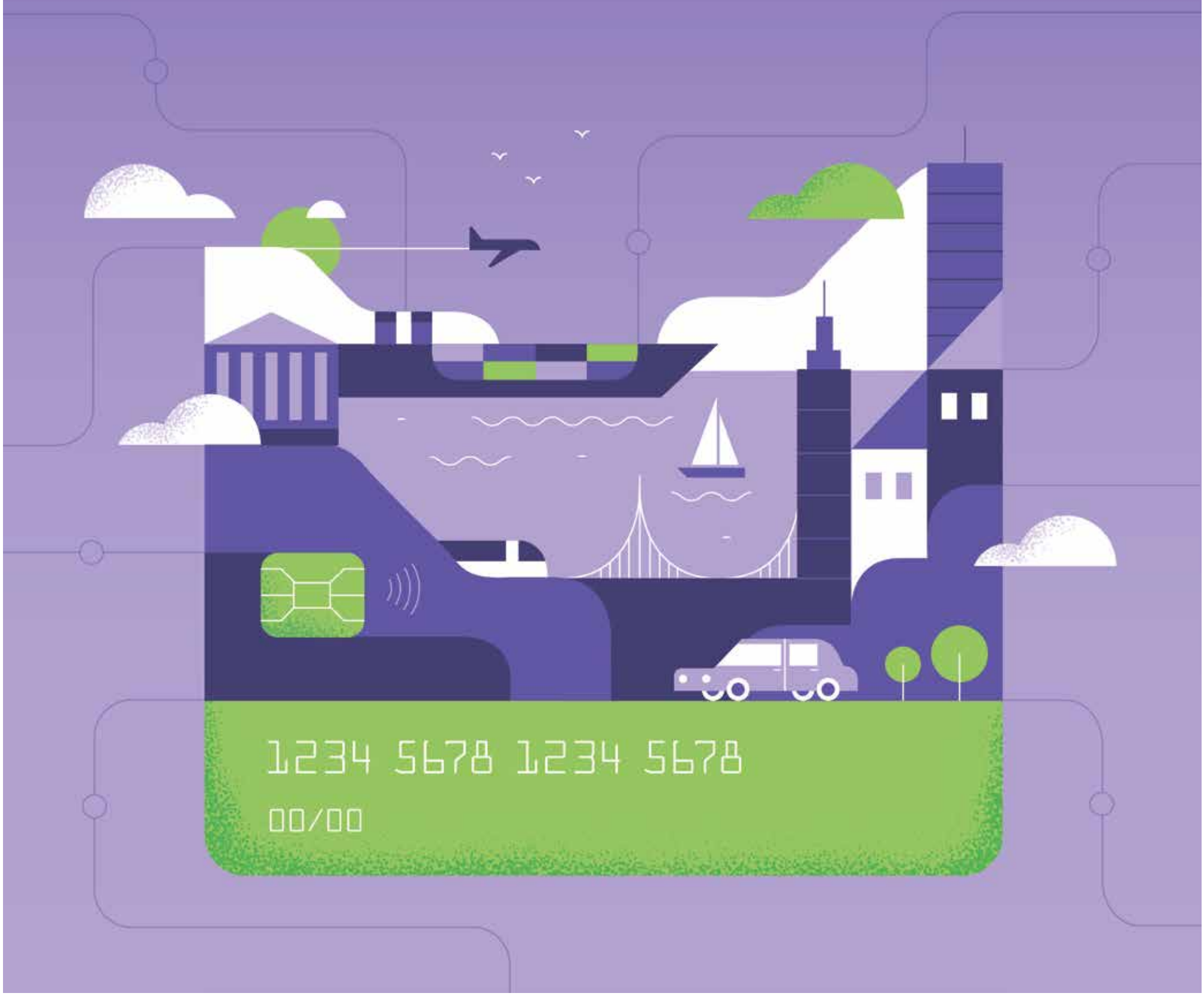
FUTURE OF MONEY



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FUTURE
OF MONEY

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MOBILE PAYMENTS

Keeping banks out of the loop

Closed-loop money systems can help businesses financially, build customer loyalty and reward consumers, but is cutting out banks a good idea?

Marina Gerner

Mobile wallets have changed the way we pay for our coffee, books and clothes. In the United States alone, the mobile payments market increased by 41 per cent from 2018 to 2019, amounting to $98.8 billion, according to US market research company eMarketer. But not all mobile payments are equal.

With open-loop mobile payments, people can use one digital wallet on their mobile phone to pay at several locations. In contrast, closed-loop payments require you to prepay a certain amount of money and pay at just one particular merchant, in a similar way, for example, you can use a gift card or a loyalty card at a café or a clothing store.

Given the increasing use of smartphones, the way people pay for things is set to continue evolving. So, what could these changing dynamics bring to merchants? And how could the changes influence the way traditional banking models operate?

But first it's important to consider why merchants opt to have closed-loop mobile wallets and what's in it for consumers. Retail businesses set up mobile wallets to enable customers to link a debit card to their app and then load funds to the mobile wallet account, Patrick Garry, chief executive of LoyLap, a Dublin-based provider of customisable payments for physical and omnichannel businesses, explains.

"LoyLap does not hold those funds, but rather we send them directly to the merchant so they have the benefit of the upfront cash flow," he says, noting this is especially welcome at the moment as concerns around the coronavirus keep people from frequenting cafés, bars and restaurants.

Customers usually receive incentives to load money into these mobile wallets. Merchants can offer them a percentage bonus on a top-up amount, for example. "If I were to load €50 for my local café, I might get €55 loaded to my account," says Garry.

He argues that this payment system benefits both merchants and customers. "Funds in a customer's current accounts effectively earn no interest," he says, while they could get a 10 per cent interest bonus on their funds in a mobile wallet.

Another reason why merchants like closed-loop mobile wallets is because they enable them to monitor customers' spending. After all, such data is now gold; knowing what people buy and how much they spend is invaluable. This, in turn, can increase customer loyalty.


Nathan Dumlao/Unsplash

Mobile wallets are shifting the tectonic plates of the payments world. So what impact does the rise in closed-loop payment models have on traditional banking practices? Could banks respond by creating their own versions?

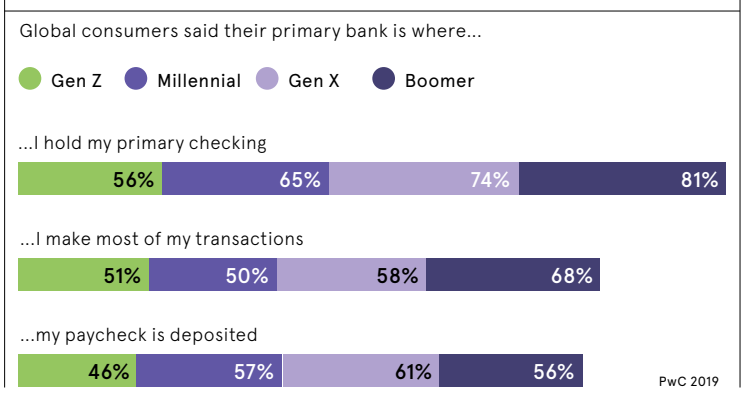
"Closed-loop payment models are part of a growing trend of fragmentation in the payments and banking sphere, which is evident at the highest levels and at the lowest," says Eyal Nachum, executive director at Brüc + Bond, a banking services provider based in Vilnius, Lithuania. Big and small merchants increasingly set up their own independent payment mechanisms.

There are many advantages for merchants, such as Starbucks or Tesco, he notes, but "banking powerhouses and payments giants aren't going to go down without a fight". Visa is developing its own system to bypass SWIFT (Society for Worldwide Interbank Financial Telecommunication), for example.

Nachum says: "In effect, they are working on their own closed-loop interbank payments system. At the same time, a major Polish bank is working on a payment system to bypass Visa. But it doesn't end here."

He argues that this fragmentation is happening at much higher levels internationally. "The EU is slowly developing Instex as an alternative clearance mechanism to bypass American influence and China is cooking up its own interbank clearance mechanism. This could have significant consequences for banks that fail to prepare adequately," he warns.

A BANKING SHIFT IS UNDERWAY



PwC 2019

However, there are opportunities, if banks relinquish some control to thrive in the new fragmented reality. "They will have to accept and even seek out collaborations with third parties to provide infrastructure and support to get a slice of the pie," says Nachum. "Otherwise, they could get left behind, as merchants seek to gain more and more control over the purchasing process."

Could closed-loop payment models start operating on a blockchain foundation? Gary McFarlane, cryptocurrency analyst at Interactive Investor, says: "With mobile speeding the advance of digital payments, blockchain technology potentially promises to deliver substantial cost-reductions for closed-loop payments operators."

McFarlane adds there has been a lot of hype surrounding blockchain that has overlooked the extent to which legacy systems are strongly embedded in how businesses operate. This ignores the "concomitant risks to business operations of shifting to a new, untested technology", he says.

But the potential savings and efficiency should not be overlooked. "China provides perhaps a clearer window on the future, where giants Tencent and Alibaba are driving forward mobile payments," says McFarlane. "Those will be push factors for more closed-loop offerings."

However, Nachum says: "Whatever systems banks and merchants devise, they are unlikely to be based on blockchain. This technology doesn't offer financial and commercial institutions much in the way of controlling the purchasing process, which is what closed-loop systems are really about." Rather than opening up the market, closed-loop systems are likely to create a world of closed gardens that hardly interact with one another, he says.

And finally, there remains a regulatory risk when it comes to the future of closed-loop systems. Nachum notes that financial institutions follow stringent reporting and anti-money laundering rules that don't apply to unlicensed commercial institutions.

He concludes: "Depending on how these closed-loop systems are set up, they could provide a potential avenue for money-laundering operations. Regardless of whether this fear is materialised or not, if financial regulators develop such concerns, they could shut the party down fast. At this stage, I would hedge my bets."

MONEY OUTLOOK

Five predictions for the future of money

In Raconteur's *Future of Money* report last year, industry experts gave their predictions for the years ahead. How many hold true in 2020?

Ian Fraser

1

End of cash

Reports of the death of cash have not been exaggerated. Professor Chris Speed, chair of design informatics at Edinburgh University, says: "Cash is in retreat, so someone is going to have to pull the plug." *New Money Review* editor Paul Amery argues: "The death of cash has been pushed further into the future, because governments are intervening to keep it alive, but they're only delaying the inevitable." He predicts its disappearance by around 2030. Fearing unless they launch digital currencies of their own, they risk losing control of the monetary system, several leading central banks are working on central-bank digital currencies. This includes the Bank of England which has launched a consultation highlighting the scope for such a currency to be used as an unconventional monetary policy tool. China is doing more to shape the future of money than anywhere else. It is expected to launch a digital yuan, potentially becoming a cashless society, within the next few years. However, Databricks global financial services industry leader Junta Nakai doubts whether, "for reasons of national security and equality", most governments will permit cash to disappear.

Open APIs transform banking

Application programming interfaces (APIs) will continue to shape the future of money, creating what last year we called a "hyper-personalised ecosystem" in which "consumers' needs will be predicted, affordability checks automated, money-saving prompts engineered". While the uptake may have been slower than expected, Edinburgh University's Speed says the UK's open banking revolution, which kicked off in January 2018, has not been in vain. "A million people now have relationships with a third party and use an open-banking protocol. Some wonderful products are coming out which are already helping the public," he says. "The Financial Conduct Authority is working to ensure open banking is more like a safe garden than the Wild West." Databricks' Nakai says: "Open APIs create scope for banks to make far more holistic decisions about individuals, allowing banking to become far more personalised and inclusive." Amery at *New Money Review* adds: "We should really stop thinking about banks and technology companies. Money is now inseparable from technology. But money is also going to become more confusing and more annoying."

2

Banks lose out

Traditional banks and bank accounts are expected to follow physical cash into the great banking hall in the sky. Databricks' Nakai says banks' traditional advantages of capital and scale are of little benefit in the data-driven future. "Technological advances mean financial services are no longer the domain of banks," he says. "Banks run the risk of becoming utilities with low brand awareness, little differentiation and diminished customer loyalty." *New Money Review*'s Amery believes the appointments of heavy-hitters Michael Sherwood, formerly of Goldman Sachs, and Martin Gilbert, formerly of Aberdeen Standard Investments, as directors of the $5-billion digital bank Revolut point to how the future of money is shaping up. "The future for banks looks bleak," he says. "They're closing branches and sacking huge numbers of staff as they struggle with low interest rates and the switch to digital. Just compare HSBC and Revolut over the past year. HSBC has seen its share price slump by 25 per cent; Revolut's valuation has more than trebled to $5.5 billion."

3

4

Currencies multiply

Not everyone agrees with last year's prediction that currencies are going to multiply. Databricks' Nakai thinks there will be fewer currencies, not more, as the utility of existing fiat currencies and electronic payments is enhanced through technology. Edinburgh University's Speed says: "People have realised they can do more with sterling, which is diminishing the need for cryptocurrencies. Bitcoin is probably still helping people move drugs, but the rest of us are learning to do more with established currencies, treating them as if they were a programmable dataset and mashing that up with other data." However, Amery at *New Money Review* is more bullish about new currencies than a year ago. He says: "As a representation of value, money can encompass loyalty points or anything that can be exchanged for anything of value. That's why Mark Zuckerberg wants to introduce libra, for use across Facebook, WhatsApp and Instagram. My long-term prediction is that sterling won't be used by your local energy or food networks, but something specifically created for those networks, permitting users to enter into lots of peer-to-peer interactions."

Programmable money?

A prediction made last year about the rise of programmable money may have been wide of the mark. Nakai at Databricks says: "Contract-type currencies for a specific use have limited use as mediums of exchange, which is one reason that so few transactions are being made in bitcoin." Edinburgh University's Speed says some programmable forms of money mentioned last year have turned out to be "disappointing", blaming the regulatory backlash against initial coin offerings. Instead, he says, the biggest change for the future of money in the past 12 months has been recognition that "money is data, with a wider range of values and characteristics". Rather than being programmable, Nakai says money is increasingly becoming "invisible, instant and inclusive". He predicts: "Data will change the way we think about, and interact with, money. Data will bring vast segments of the population out of the shadows of banking in the 2020s. Data will make life much more convenient and open up new opportunities for millions."

5

OPINION

‘Changes you make to survive now will make you much better prepared for whatever comes next’

We went into 2020 thinking that the biggest macroeconomic storms we would see would be political in nature. Today, we’re all wishing Brexit was still our biggest inconvenience.

A global health pandemic is a beast so primal that it’s taking us all a while to get used to the new reality of distributed isolation. When your business runs on a persistent physical presence in the lives of your customers, how do you adapt to survive in this new reality and the chapter that will come after?

COVID-19 will act as both a litmus test and a catalyst for the financial services industry and beyond. It will democratise opportunities for companies to deliver the best they can at the lowest cost to the customer.

Before the pandemic, there were two fair shots at customer acquisition and interaction: strong online and offline brand, and persistent presence. With restrictions on engaging with your customers offline, it’s more critical than ever to effectively communicate your brand value and be able to deliver all your services online.

The impact of this pandemic doesn’t stop there. It will also mercilessly shave off already razor-thin margins from revenue-generating online services and force businesses to deliver them free or near-free for a period, if not indefinitely. The new normal will assume a premium as its new baseline.

Some of the most successful financial technology companies and ecommerce giants have already been operating under this model – for startups, often at the cost of profitability – but now everyone is entering the same competition to deliver more with less, and for less.

That leads us to a question: how will monetisation models change? Where will businesses that are forced to deliver all their services online find opportunities to generate revenue, when their online-native competitors have already been doing it successfully for some time, and for free? Will this lead to forced co-operation, or even massive industry consolidation?

And as you move to deliver and support your entire suite of services online, how do you adjust your infrastructure to be ready to meet the demands of your customers? The new throughput demand will force the need for a more robust infrastructure and connectivity.

As our interactions with people and businesses move fully online, how do we ensure that an overwhelming flow of messages and transactions does not translate into fraud and security breaches for all parties involved? This may be the time to shine for technologies that enable secure and trustless online environments.

We have many questions and no definitive answers. As we look forward to turning this page, how can the financial services industry make sure it’s prepared for events of this magnitude in the future?

Capabilities and initiatives that have been native to your competitors, but up until now optional for you, are now what will deliver them an unfair advantage and leave you out of the spotlight. Extreme interoperability and integrations with a wide range of partners are now a powerful proposition that sets a new standard.

Where you have shied away from a revenue-share option with a partner in favour of a proprietary proposition, or where you have chosen very few cost-efficient payment methods instead of an array of options, now is the time to course-correct and choose to share your revenue rather than lose it.

We cannot predict the future, and neither can anyone else. But if there is a silver lining, it’s that the changes you make to survive now will make you much better prepared for whatever comes next, from building a resilient tech support system, tools and software, to finding a more effective and secure way to share and collaborate internally and externally. ●

Elena Mesropyan
Content leader,
Money20/20 Europe

Launch pad for digital freelancers

An innovative online platform, powered by cryptocurrency, is enabling unbanked digital freelancers to build a business

From a professional designer in Indonesia to a translator in Uganda, there are skilled digital workers and experienced specialists in every corner of the world waiting and wanting to work, but unable to monetise their skills and abilities.

In recent years, the task economy has changed how these individuals are valued and now there is a platform with ambitions to change the task economy itself.

AnyTask.com is powered by award-winning cryptocurrency Electroneum (ETN), the only major blockchain project focused solely on improving the lives of the self-employed in emerging nations, estimated to be a staggering 70 per cent of men and 80 per cent of women.

It’s doing this by providing these digital freelancers with the ability to work online and access the task economy, which was previously denied because they didn’t have a bank account.

The smartphone has changed all this for these workers and of the 1.7 billion unbanked people globally, there are more than 350 million who have smartphones and this number is only rising every year.

> **The future of work has been placed in the hands of emerging entrepreneurs and the ability to freelance is becoming purely global**

On the AnyTask platform, buyers pay with a debit or credit card, but the key difference is the seller is paid in ETN, which drops directly into their smartphone’s passcoded wallet, that they can then spend on local services.

There are no seller’s fees, so the freelancer is able to concentrate on providing the best service at the right price, knowing their profit is safe.

Since the soft launch of AnyTask in February, more than 40,000 freelancers or sellers have signed up.

Speaking at the City AM 2020 Crypto Awards, Electroneum founder and chief executive Richard Ells said: “Electroneum has made it easy for people to earn cryptocurrency and through the AnyTask platform hundreds of people are now supplementing their income. We’ve created a whole new way for people to buy technical skills at ridiculously low prices.”

At the awards, Ells detailed a particularly successful case study of an unbanked logo designer living in Pakistan who, up until the arrival of AnyTask, couldn’t use any other freelancer platform because he didn’t have a bank account. Disability meant he relied on online work, but since AnyTask went live he has been busy showcasing his skills and charging just $10 for a logo design.

Of course, this process is redundant if ETN can’t then be spent because local business owners don’t accept it. That’s why in early-2019, the UK-based startup trialled a groundbreaking project in a Durban township, in South Africa, to see whether businesses would be willing to accept the cryptocurrency when their customers valued it.

The Electroneum team found there was a huge demand for a low-cost way to send and receive funds, and be able to pay for everyday products and services.

“Hundreds of shop owners and service providers, as well as taxis and car washes, learnt of the benefits of using ETN and accepting it as payment,” says Ells. “This experience helped us land the first direct deal of any cryptocurrency with a major mobile network operator and we are now working with Cellcard, the most progressive and fastest-growing mobile network operator in Cambodia with 3.2 million subscribers.”

And it’s not only South Africa and Cambodia where ETN is making an impact as communities in Brazil, Nigeria, Uganda, Tanzania and Turkey are all realising the cryptocurrency’s potential thanks to the launch of in-app mobile top-ups in more than 140 countries, where users can top up their phones, via the Electroneum app, in under a minute.

Building on this success and to broaden the reach of AnyTask further, Electroneum has launched an affordable $40 M1 smartphone with enhanced ETN rewards, designed specifically for workers who otherwise would only have been able to afford a reconditioned phone.

“In Cambodia, Cellcard ordered 250 M1 smartphones from us,” says Electroneum head of mobile development Nigel Pooley. “And executives were shocked to see it fly off the shelves within two hours.”

Real evidence that the future of work has been placed in the hands of emerging entrepreneurs and the ability to freelance is becoming purely global with AnyTask.com powered by Electroneum.

For more information please visit electroneum.com and anytask.com

electroneum

OPINION

‘The UK can seize the opportunities presented by getting our financial services strategy right’

Financial services matter, both for the whole economy and in their own right. From helping risks to be managed, wages to be paid and payments to be made, financial services is an essential enabling industry.

The products and services provided by this critical sector keep the economy moving, driving prosperity and boosting productivity. It employs more than 1.1 million people across the UK and contributed over £75 billion in taxes last year, equivalent to half the planned NHS budget.

Financial services face a host of challenges. By seizing the opportunities presented by technology, with an agile regulatory framework that puts customers first, the sector will be better placed to support future growth.

The UK economy continues to suffer from sluggish productivity growth. This matters because productivity is the foundation of wages, living standards and prosperity. For the UK to have more sustainable growth, better standards of living and greater global competitiveness, it needs improved productivity growth.

More productive UK businesses can pay their staff more, grow faster and invest more effectively, driving the whole economy forward. Businesses right across the economy rely on enabling industries that allow products, services, people, information and capital to move around. Improving the productivity of pivotal enabling industries such as financial services will therefore drive growth across the whole economy.

While Brexit has dominated the headlines, technology is transforming financial services at pace. The sector is meeting the challenges of rapid technological change at the same time as grappling with new risks, new entrants and customer demands.

The CBI has been working actively with financial services firms and their business customers to establish what this transformation means for them, exploring implications for the sector and wider UK economy.

Our 2018 report *Funding our Future* set out the scale of the challenge and that if the UK is to remain a globally competitive centre, it needs an agile and robust tax and regulatory regime, which continues to be match fit to deal with these challenges. Throughout 2019 we have discussed the implications across government and regulators, alongside customers of financial services and firms themselves.

A complex picture has emerged of a sector wrestling with technological change, shifting regulatory expectations and tax policy, as well as emerging risks, particularly around cybersecurity and sustainability. The UK government and regulators have been working actively with financial services firms to tackle developments, such as the increasing importance of fintech, developing a regulatory sandbox and new global relationships.

CBI members have welcomed these initiatives and the active collaboration with government and regulators associated with them and were clear that they want to see more. At the same time, they were clear on what isn’t working. In some cases, regulatory requirements make it harder for them to invest in growth or critical infrastructure.

Regulation is critical to protecting customers of financial services against financial crises, but members are clear that what is required is smarter, proportional regulation. As financial services continue to change, with new entrants offering new services, more needs to be done to help the sector deal with changing regulatory and taxation requirements.

At this key moment for UK financial services, we need to ensure the sector is operationally resilient, agile and able to get stuck into the challenge of levelling up the UK.

By putting customers first, engaging actively on the global stage and embracing innovation, the CBI believes the UK can seize the opportunities presented by getting our financial services strategy right, so it can be a true engine for growth. ●

Chris Wilford
Head of financial services policy
CBI

B2B PAYMENTS

B2B still behind the curve

szymon12455/Unsplash

Many consumer-facing companies have already built a longstanding digital relationship with their customers, so why are business-to-business payments not taking advantage?

Fiona Bond

The pace of change in the payments sector is accelerating. Evolving technology, new services and the advent of bold regulation, such as open banking, has led to demand for a faster, more efficient payments function.

Traditionally, the payments function has been the preserve of the back office; an overlooked and somewhat neglected cog in the machine. Now, amid increasing customer expectation for greater convenience and speed, the function has transitioned from a purely transactional necessity to a critical touchpoint between businesses and customers, and a vital part of the overall customer experience.

Businesses that wish to remain competitive in this new landscape should view payments as a continuum of their overall service, providing customers with a frictionless, end-to-end experience.

The opportunities for businesses to improve their payments function in this new era are vast. In the business-to-consumer (B2C) market, the fintech revolution and rapid emergence of non-traditional players, such as Apple, Google and PayPal, have transformed the way customers pay.

As frictionless innovations, such as mobile wallets, digital receipts and one-click purchasing, reshape the consumer shopping experience, businesses have had to not only meet customer needs but, more importantly, anticipate them.

> **Not all treasurers have time to keep up with the latest predictions for the so-called fourth industrial revolution**

Take Starbucks, for example, with its ability to order and pay ahead of time, saving customers valuable time when it comes to buying their favourite latte or frappuccino. This continual drive to improve customer engagement has paid dividends for Starbucks, with a significant proportion of its sales growth stemming from customers who have a digital relationship with the company.

But while innovation in the B2C market has ramped up exponentially, growth in the business-to-business (B2B) payments sector has been slower. The *2019 AFP Electronic Payments Survey* found that 42 per cent of B2B payments were by cheque. While this figure is steadily declining, the dominance of more traditional payment methods highlights the challenge the B2B payments function faces in keeping pace with the consumer sector.

For many businesses, time-consuming and labour-heavy processes continue to dictate their payments function, with a continued reliance on paper invoices leaving businesses vulnerable to human errors and delayed payments.

According to Lu Zurawski, practice lead of retail banking products, at ACI Worldwide: “Not all treasurers have time to keep up with the latest predictions for the so-called fourth industrial revolution. The consequences of artificial intelligence and the internet of things have not yet been absorbed. Nevertheless, recent industry data has shown strong interest and demand from businesses of all sizes for improved cash management and liquidity, better credit decisions, aggregation of multi-bank accounts and visibility of real-time payment information.

“Many businesses are keen on the logic of new digital banking services and specific business support functions, without necessarily knowing the payments function is critical to all of them.”

In a fast-paced world, delays and payment failures can have major consequences, impacting customers' ability to access funds, earn interest and, ultimately, threaten the stability of businesses.

B2B payment automation can remove much of the friction, improving business cash-flow visibility and liquidity, and enhancing the customer experience.

Forward-thinking businesses that seek to engage their customers by reducing the cognitive strain and making the payments process as frictionless as possible will have a competitive advantage, particularly if competitors' payment functions are cumbersome and time consuming. It also enables businesses to deploy working capital away from their payments function to more strategic, value-adding initiatives.

Yet, for many organisations, B2B payment automation has not been viewed with the same urgency as the consumer market.

Zurawski says there is an inertia related to new payments infrastructures and an assumption that change might not happen so quickly.

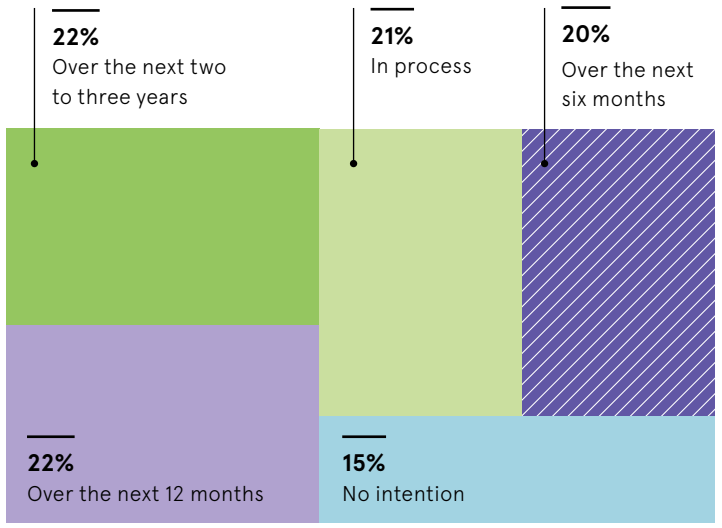
"I'm sure billers would like to reduce costs of payments, but some of these merchants are not typically aggressive in terms of educating customers about their new payments options," he explains. "It will therefore take time for behaviours to change, to a point where businesses are compelled to keep up with clear demand."

However, the more innovative business trendsetters are looking at ways to improve cash flow, access to credit and drive efficiency and growth across the business, adds Zurawski.

Accounting firm The Wow Company is a prime example where the decision to automate the B2B payment function has reaped rewards. The firm uses an automated billing system, as well as GoCardless technology, to collect customer fees.

PLANS TO IMPLEMENT REAL-TIME PAYMENTS

Survey of financial professionals from US organisations



PYMNTS.com/Mastercard 2020

Wow's co-founder Peter Czapp says: "It means we don't have to employ a finance team to chase debts and that's a cost-saving we can invest back into the business and improve the impact we have for clients, our people focus on higher-value tasks and client relationships, rather than chasing bills."

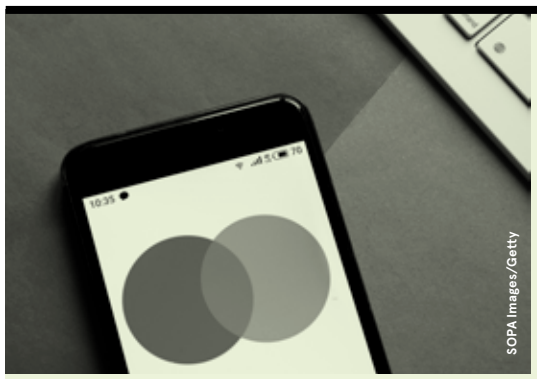
A leaner, more efficient payment service is only one part of the equation. While the B2B payments function is admittedly more complex than the consumer sector, the desire for a real-time experience remains consistent.

Real-time data offers businesses a better understanding of customer behaviour, offering the potential to tap into new business opportunities and improving the end-to-end customer experience. According to the AFP, three fifths of treasury and finance professionals feel B2B transactions will benefit the most from faster, real-time payments.

For customers, real-time data provides certainty in knowing a payment was initiated and successful. There are also various benefits that stem from the data produced by these payments, which have the potential to reinvent the B2B payments ecosystem. Remittance data, including payment authentication and invoice numbers, will vastly simplify the reconciliation process.

Importantly, this form of B2B payment automation can address one of the biggest challenges facing businesses and their customers alike: fraud. Automated processes can be used to analyse data and credit scores to vet suppliers, validate invoices and build profiles for customers, automatically flagging new or unusual behaviours to improve payment authentication.

With B2B payments clearly a rapidly growing segment in the payments sector, innovation and automation that eases and simplifies the function will ultimately become the future. Businesses must embrace B2B payments automation or risk being left behind.



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How far can payment automation go?

Business-to-business (B2B) payments have historically been clunky and time consuming, lagging far behind the rapid technological evolution witnessed in the consumer sector.

However, the sector is undergoing a paradigm shift. Of all the innovations in B2B payments, automation has undoubtedly found favour as the leading invention. While some organisations are further along than others, most companies now employ some form of automation in their payment cycle.

Companies in the technology and banking industries are leading the charge, with 86 per cent of US technology businesses having already automated their payment systems, according to a 2019 report by PYMNTS.com and Mastercard. This is likely to set the trend for other industries, with 74 per cent of companies that have not yet adopted accounts payable automation planning to do so within three years, the report says.

Payment automation can speed up processes, reduce the risk of human error and decrease the amount of labour-intensive tasks needed to facilitate payment. For businesses that carry out cross-border transactions, with different banks and payment formats, automation can prove the perfect relief for the reconciliation headaches this poses and the potential for major cost-savings.

Automation is only set to increase. As more digital native companies appear, established by those who have grown up in an era of online and instant transactions, automation will evolve from a nice to have to a necessity.

Not surprisingly, big businesses such as Mastercard have sought to capitalise on the changing trends in the market by reinventing how companies send and receive funds. It is set to launch a new B2B payment ecosystem in 2020, the first global open-loop commercial service designed to automate payments between buyers and suppliers. And where the big players lead, others will undoubtedly follow.

GLOBAL CRYPTO

Cryptocurrency adoption varies greatly depending on where you are in the world, with as many as one in five citizens in Turkey having used or owned cryptoassets, compared with one in twenty Americans. But it is not just attitudes towards technology that are driving or hindering adoption, the reasons are often complex and tied to deep political and economic issues

CRYPTOCURRENCY ADOPTION WORLDWIDE

Percentage of consumers from the following selected countries who said they used or owned cryptocurrencies

BRAZIL

The economic and political crisis in Brazil means the South American country has leaned towards alternative payment methods more than most, with 55 million people still classed as unbanked, according to its central bank. And with IMF statistics showing that the median age of its population is just 31, it's not surprising why so many Brazilians have adopted cryptos.

TOP 5 REASONS WHY PEOPLE DON'T HAVE A BANK ACCOUNT

Survey of unbanked citizens in Brazil

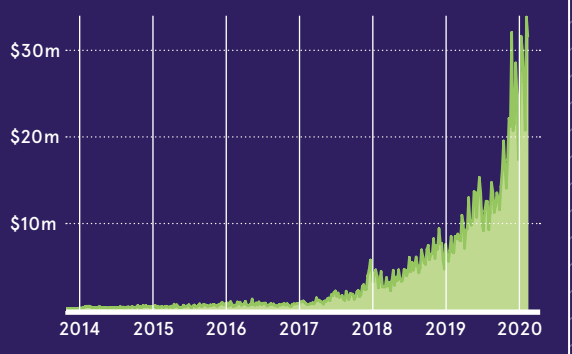
World Bank 2018

ARGENTINA

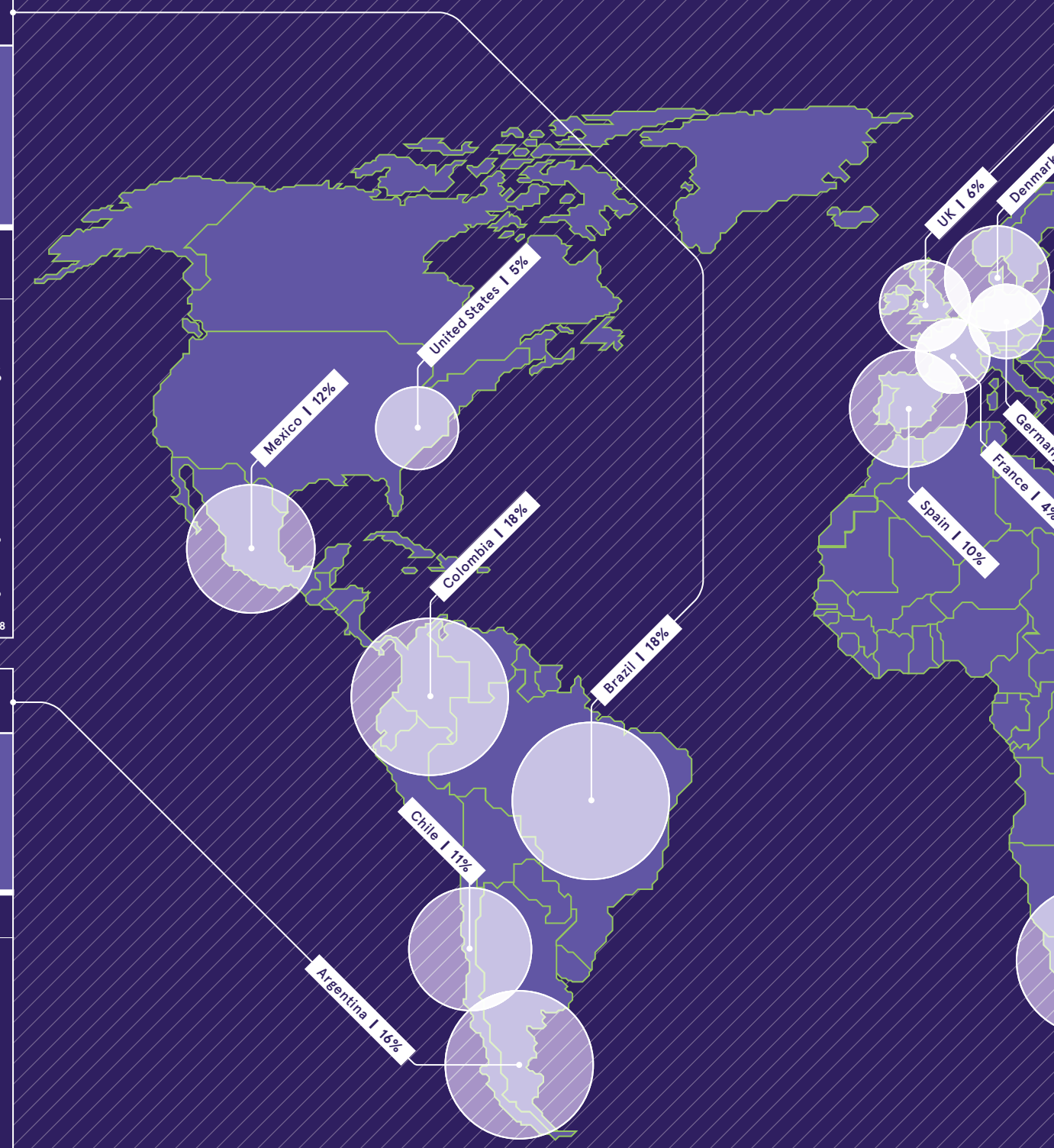
For a country where you can pay for a bus with bitcoin, it's unsurprisingly to see Argentina near the top of this adoption list. In 2019, a partnership with local fintech Bitex and travelcard service Alto Viaje meant that citizens in 37 cities could add credit balance to their SUBE travelcards with the token.

BITCOIN VOLUMES IN ARGENTINA

Weekly volumes in Argentine peso



Coin Dance 2020



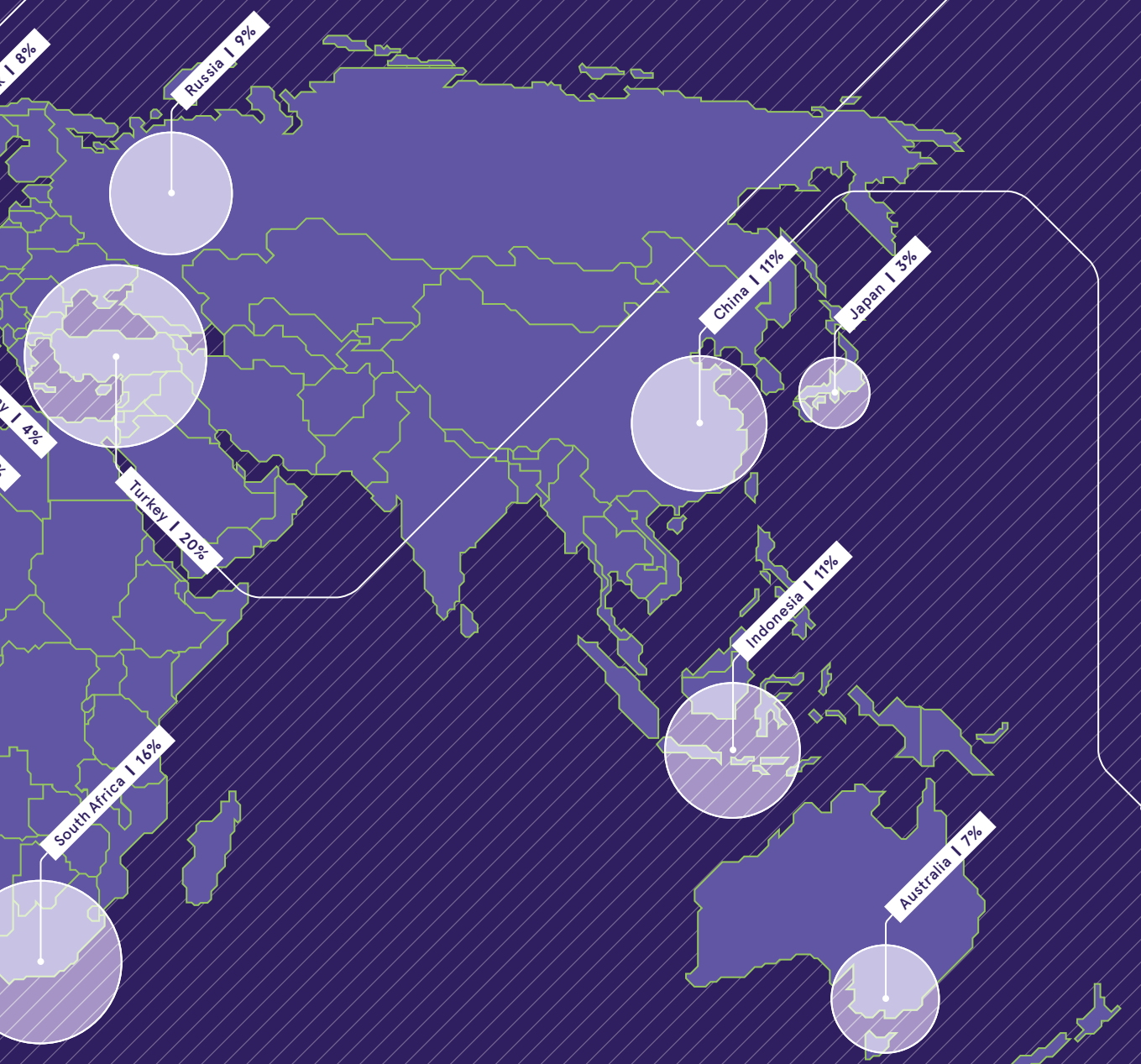
$173bn
Total market capitalisation of all cryptocurrencies as of March 23

$113bn
Bitcoin's market capitalisation

5.2k
Number of cryptocurrencies available

CoinMarketCap 2020

Statista 2019



UK

While the UK is arguably one of the leaders of the world's fintech scene, the same can't be said for its crypto sector, where exchange tokens are not currently regulated. The Bank of England has repeatedly claimed that the size of the overall market is not large enough to put the UK's financial stability at risk, but has called for more regulation in an evolving market.

50%

of UK consumers say they would be confident in digital money being issued by the central bank, compared with just 20 per cent who said they would be confident in digital money being issued by major tech providers

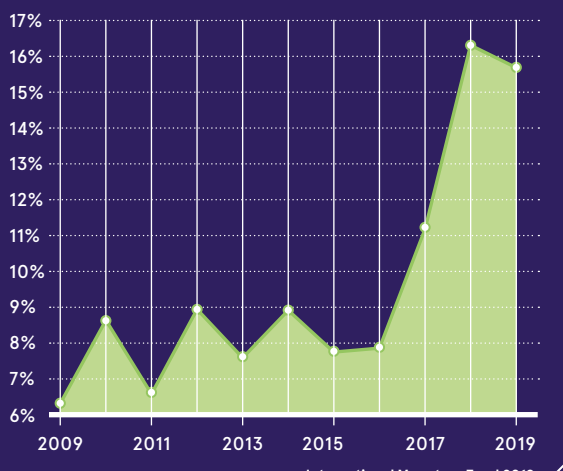
Ipsos Mori/OMFIF 2020

TURKEY

For a country where smartphone penetration is just 50 per cent, according to J.P. Morgan data, Turkey is somewhat of a surprise leader when it comes to crypto adoption. But with the lira's substantial devaluation in recent years and an inflation rate estimated at nearly 16 per cent in 2019, citizens have sought out bitcoin and other cryptos as potential safe havens in times of economic turmoil.

TURKISH INFLATION

Average price change compared with the previous year (%)



International Monetary Fund 2019

CHINA

China has had a mixed relationship with the crypto sector. The government banned initial coin offerings back in 2017, and while crypto trading is also technically illegal, it is thought that the country accounts for around half of the global bitcoin mining network. In October 2019, President Xi said he wanted China to "seize the opportunities" presented by blockchain, and it is thought that the government is planning to launch its own digital currency.

of the world's computing power on the bitcoin mining network is controlled by five mining entities who are all based in China

TokenAnalyst 2020

DIGITAL PAYMENTS

Seamless payments: the American pipe dream

Home to Silicon Valley giants and some of the most forward-thinking tech innovations, why does America lag so far behind in digital payments?

Katie Deighton

Back in the pre-COVID-19 days of intercontinental travel, traversing the payment modes of the United States could feel like an eerily analog experience for the European visitor.

Say you arrived in New York and chose to travel by taxi into Manhattan. You slip into the back of a yellow cab and arrive at your destination. You see the contactless sign on the card terminal in the back seat and get out your smartphone to pay using Touch ID. "Sorry," the driver says. "It doesn't work. You need to swipe."

You wanted to ride the subway and had heard the city was installing contactless pads at the barriers, so you get your bank card out to tap. But the station you've arrived at hasn't upgraded yet. You find yourself looking at an ancient metal machine that asks you to "dip" your credit card (good luck using a debit) and enter your zip code, which you don't have. Welcome to New York and the US payments system.

In a time when it's possible to pay for something in China through facial recognition, payment modes in America feel clunky, even down to the process of signing for the bill in a restaurant and writing the tip on a slip of paper. Only 56 per cent of adult Americans made a mobile payment in 2018, compared with the 70 per cent who used a credit card and 78 per cent who used cash, according to the Pew Research Center. Why the hold-up?

Much of it comes down to consumer demand and the population's consensus of what is "friction" when it comes to payment modes in the States. The credit and debit card system has worked well in America for decades, unlike in societies such as India where the ease of mobile payments has quickly usurped centuries of trouble dealing in cash.

Pew's research found a number of American consumers still have doubts over the security of payments on mobile. And for many, the system of whipping out your iPhone and getting it to recognise your fingerprint is burdensome in comparison to taking out your credit card and swiping.

Even writing a cheque, an act that feels somewhat antiquated in Europe, is not a pain point in a country where tips play a vital role in feeding the economy and social etiquette.

"Tips are relatively incompatible with most [European-style hospitality] set-ups because handheld terminals are so rare," notes Tom Goodwin, head of futures and insight at Publicis Groupe. "I can't see that changing in the future. For many companies, it would be a massive capital expenditure for what is deemed 'fancy but not needed' investment."

> **It's a disgrace that America has been allowed to have such a slow payments system for so long**

Beneath the visitors' inconvenience lies a darker, more complex, underbelly of payment modes in America.

The actual speed at which funds are physically transferred between accounts runs at a much slower pace than the rest of the world, where real-time payments (RTP) are becoming ubiquitous across all continents.

"What the US has is an automated clearing house settlement process, which is designed for cheques," explains John Heltman, reporter-at-large with *American Banker*. "These systems run on what's called a batch process, where they literally take the cheques and run them like a load of laundry a couple of times a day.

"The advantage is it's cheap for the bank. But it's also slow: it takes a cheque three or four days to clear."

For Americans with money, this is an annoying, but not insurmountable, part of life. But for those living paycheque to paycheque, it can cause major issues. The system is designed to clear the money coming out of an account before the money that's coming into it, which means swathes of low-income Americans are plunged into overdrafts and charged fees, even though their net balance shouldn't have put them in the red.

An updated RTP system would solve this problem. The technology is widely available and can be implemented at a federal level relatively easily.

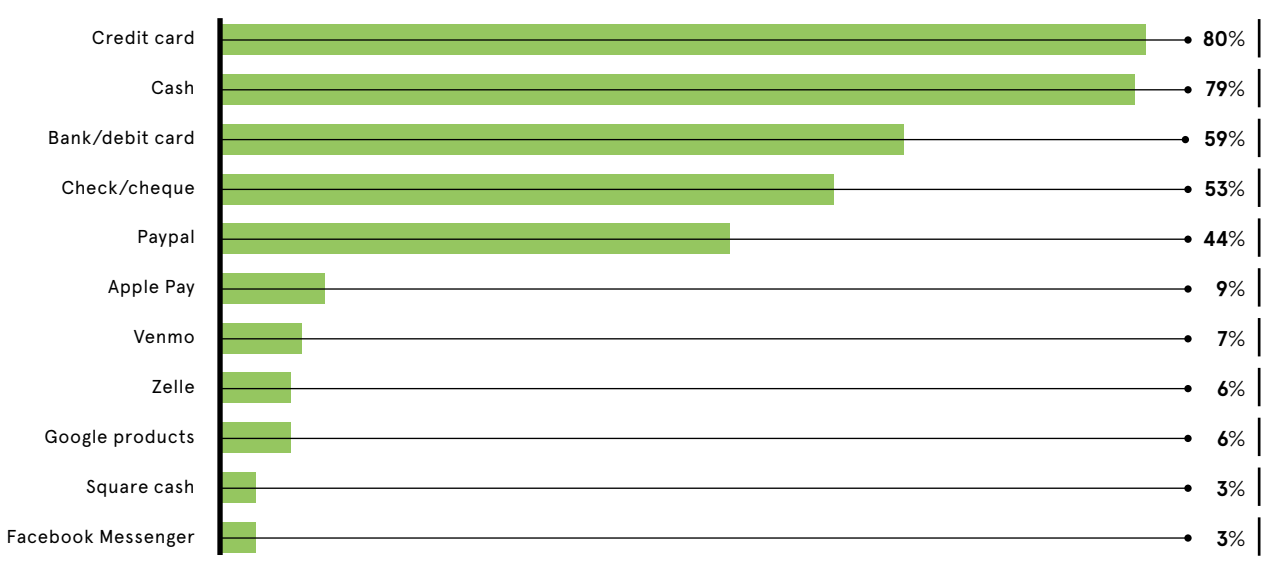
It probably hasn't, says Heltman, because it would give the larger banks with better resources too much power over the smaller ones. But for Brookings Institution economist Aaron Klein, the apathy towards moving to RTP comes from American banks' financial reliance on overdrafts.

"If America had implemented RTP 12 years ago, when the Bank of England did, it would have put more than $100 billion into the pockets of the Americans living paycheque to paycheque, who end up going to payday lenders," he says.

"It's an engine of inequality and it's a disgrace that America has been allowed to have such a slow payments system for so long."

TOP PAYMENT METHODS IN THE UNITED STATES

Percentage of consumers who used the following methods in 2018



Bain 2018

Commercial feature

The role of the digital ecosystem to a small business

Partnerships between banks and fintechs are creating a huge ecosystem that small businesses can tap into to improve management of their finances and reduce friction

Balancing cash flow has always been a headache for small businesses. Many companies have to pay their staff's wages before they collect payment for services, while others have to fund the cost of raw materials before their customer pays up.

It is estimated around £13 billion is owed to UK small businesses in overdue payments, while an alarming report by PayPal and Xero last year revealed that half of small-business owners have used their own money, or that of their friends and family, to keep their business going.

Meanwhile, small businesses can also find it challenging to access working capital. Managing their finances has historically been a significant drain on their time and energy. These are major concerns when it is considered that small businesses are the lifeblood of the UK economy. Small and medium-sized enterprises (SMEs) account for 99.9 per cent of the business population in the UK and around three fifths of employment in the private sector.

Fortunately, the rise of cloud-based accounting tools in recent years has introduced an enormous amount of flexibility for small-businesses owners and changed the economics of accounting and compliance. Small business software platforms such as Xero have not only helped enable the government's efforts to digitise and simplify tax administration through initiatives like Making Tax Digital, but also accelerated the speed at which businesses can get paid.

At Xero, small-business customers enjoy access to an ecosystem of more than 800 third-party apps and over 200 connections to banks and financial service providers. According to Xero's Small Business Insights, in January 2020 the average time it took for a 30-day invoice to be paid was 37 days. Customers that use payments services like Stripe or GoCardless, integrated with Xero, get paid 17 days faster.

"Xero is very active in working with companies across the financial service ecosystem to drive and support innovation for small businesses," says Edward Berks, global executive general manager, financial partnerships, at Xero.

"Previously, if businesses required financial services or even just to move money around, their horizons rarely stretched further than their bank. A fintech revolution is changing that. Organisations like TransferWise now account for a significant proportion of cross-border payments and foreign exchange activities. Starling, Revolut and Tide all now have more than 100,000 small business banking customers in the UK. And in terms of lending, the likes of iwoca, RapidCash and Esme are providing alternative means for raising working capital.

"Xero works closely with all of these companies and many more, totalling more than 800, providing huge opportunities to small businesses. We see lending applications turned around in hours versus a typical banking experience which can still be weeks.

"And all this is now powered by a seamless user experience. You don't have to go back too far when people still had to physically go into bank branches to execute their payments and manage their businesses. Increasingly, all that capability is available on your smartphone. That really empowers SMEs to be more efficient."

> **We see lending applications turned around in hours versus a typical banking experience which can still be weeks**

Last year, Xero announced major enhancements to payments on its platform to ensure small businesses can pay bills faster. Pay with TransferWise, the UK's first domestic bill paying solution, will allow businesses to pay direct from their Xero account, no matter who they bank with. Features like one-click reconciliation and real-time view of payments mean small businesses understand the impact on their cash flow at all times while spending less time on administration.

Xero's open ecosystem also spans a range of vertical solutions, working with specialist application providers in areas such as farming, with apps like Figured, as well as dentistry and retail, so that niche applications used to run companies integrate seamlessly with Xero. Businesses can very quickly account for transactions via an API (application programming interface) between Xero and third-party applications.

Open banking capabilities, having originally been driven by the needs of retail customers, are now being applied to help small businesses by allowing third parties to access their banking data. This means if a company applies for a loan, for example, rather than having to provide bank statements, it can simply authorise a third party to access its bank records, removing a huge amount of friction and time from the process.

"The next wave of open banking will be in payments," says Berks. "The cost of taking payment and making payment via credit card can be high. Open banking will open up more options to pay and take payment via lower-cost, faster payments, which will enable new payment experiences, but also promises to ultimately lower costs for small businesses."

Against a hugely challenging business backdrop, with coronavirus having a major impact on small companies, it's never been more important for business owners to do everything in their power to balance cash flow in the right way. The most important group small businesses lean on, particularly when times are tough, is the accountant and bookkeeping community. Increasingly, they are asked to provide support with things like accessing financial services or the best technology tools to use. Their roles are evolving as a result to be much more advisory.

In light of this, accountants are embracing cloud technology to make their lives easier, give them back time and flexibility, and allow them to streamline bookkeeping, tax and compliance. Most accounting firms in the UK will use Xero in one way or another. And they are seeing the benefit of investing in the right fintech and business applications to manage their clients' finances better.

"That advisory wave is hugely catalysed and enabled by cloud accounting," says Berks. "The fintech scene in the UK is really exciting. We are working with the best of the banks and fintechs to give customers more choice and to remove friction from the tasks they face every day.

"The reason a lot of our customers buy Xero in conjunction with their accountant is to ensure they can file tax and be compliant in areas like payroll. As a by-product, they get a rich up-to-date digital set of accounts that provides a clear picture of their financial performance and projections, giving SMEs a constant view of their health and cash flow, and fuelling better decision-making."

For more information please visit xero.com

CRYPTOCURRENCY

Libra: a wake-up call for central banks

The stalling of plans for libra doesn't necessarily mean the end for a Facebook-issued digital currency. But it did ignite an important conversation about the future of money as we know it


Chip Somodevilla/Getty

Mark Zuckerberg testifying before the House Financial Services Committee last October about Facebook's plans for libra

Ben Edwards

When Facebook announced plans last year to create its own digital currency, called libra, it was only a matter of time before lawmakers, already riled by the Cambridge Analytica scandal, would push back.

Appearing before Congress in October, Facebook founder and chief executive Mark Zuckerberg laid out his pitch for libra: while politicians in the United States sat around debating the issue, the rest of the world wasn't waiting. China, he warned, was already moving quickly to launch a similar idea. The ability to shape the future of cryptocurrency, and by extension preserving America's global financial leadership, was at stake.

Facebook's proposal of a global digital currency, backed by a reserve of real assets including US dollars, could bring financial services to the 1.7 billion people around the world without access to a bank account.

Lawmakers have been reluctant to get on board. In early-March, *Bloomberg* reported that Facebook and the Libra Association, a group of private companies supporting the project, were rethinking the idea, potentially turning libra into a payments platform, which multiple coin issuers could use.

"They started out very ambitious and they've just slowly scaled back," says Meltem Demirors, chief strategy officer at CoinShares, a digital asset management firm. "This is a very long game and they need a starting point. Facebook has spent a lot of money and a lot of resources on this initiative; they need to get something off the ground, so for them this is the most logical starting point."

It was not just lawmakers getting worked up about Facebook's digital currency plans. Many central banks around the world were also spooked into action. A January survey from the Bank for International Settlements showed that the number of central banks planning to roll out a digital currency in the short term had shot up to one in ten from one in twenty a year earlier.

"Central banks wouldn't be having this conversation if it wasn't for libra," says Jahon Jamali, managing partner at Sarson Funds, a cryptocurrency and blockchain financial adviser. "Libra's plans really served as a welcome wake-up call."

> **Central banks wouldn't be having this conversation if it wasn't for libra. Libra's plans really served as a welcome wake-up call**

A reason some central bankers are nervous is because it is slow and expensive to send money across borders through existing payment mechanisms. Facebook's digital currency would potentially change that by allowing users to send tokens instantly, anywhere in the world. If people stopped using their domestic currencies in favour of libra, it could challenge the sovereignty of their own financial systems.

"What libra and other innovations offer is efficient international payments, but also global reach and that is quite alarming because, if it could become an equivalent payment system, it could reduce the efficacy of central bank monetary policy and it could bring problems for financial stability too," says Gabriela Guibourg, economist and head of analysis and policy in the payments department of Sweden's Riksbank, the country's central bank.

Sweden is one of a handful of countries currently developing their own digital currencies. Uruguay and the Bahamas both have projects in advanced stages, but it is China with its plan to issue a digital yuan that could have the biggest impact.

Ashley Ebersole, partner at law firm Bryan Cave Leighton Paisner, says you can divide central banks that are thinking about cryptocurrencies into two camps.

Route66/Shutterstock

Inside Sweden's digital currency plans

At Riksbank headquarters in the heart of Stockholm, Sweden's central bankers have been developing a digital currency for the past three years. The Riksbank is one of the first central banks of an advanced economy to take the future of cryptocurrency seriously.

A key reason is cash usage in Sweden has fallen sharply over the past decade. The number of people who said they used cash to pay for their last transaction fell from 40 per cent in 2010 to just 13 per cent in 2018, according to a bi-annual survey of Swedish household spending.

"We are in a vicious circle: people use less cash, merchants won't accept it, so cash in Sweden is no longer a universal means of payment," says Gabriela Guibourg, head of analysis and policy in Riksbank's payments department.

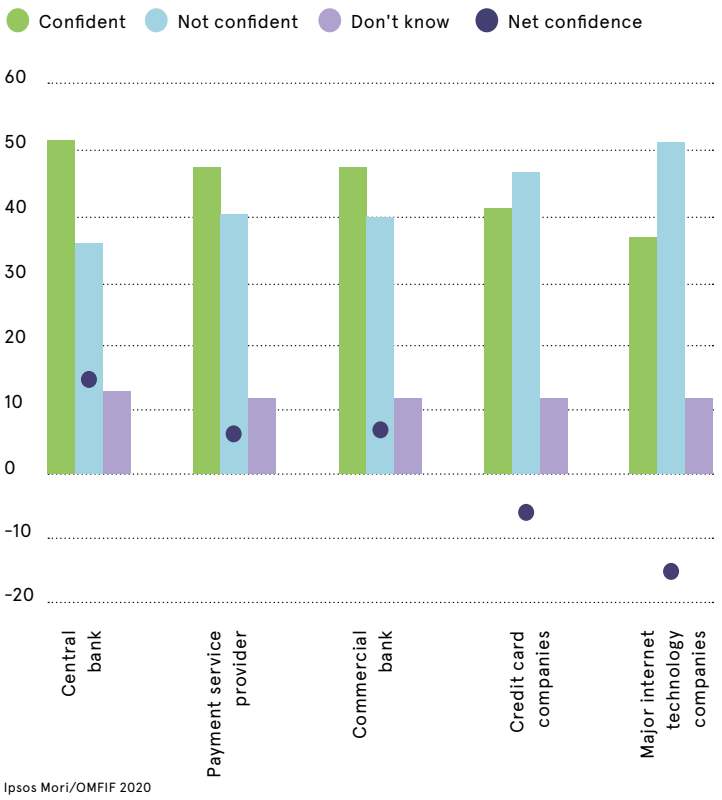
The Riksbank has responded by creating the e-krona, a blockchain-based digital currency that entered its pilot phase earlier this year.

"We have a responsibility to provide confidence in money and that's very important for conserving the stability of the whole monetary system," says Guibourg. "That means giving the Swedish public access to central bank money in digital form using new technology."

She adds that the e-krona platform could also help reduce concentration in the payments market by allowing other service providers to use their system, fostering innovation and competition.

TRUST IN MONEY SERVICE PROVIDERS

Whether global consumers are confident in the following institutions issuing digital money (%)



Ipsos Mori/OMFIF 2020

"One is countries that recognise the fallibility of physical fiat currencies: they wear out, they have built-in transaction costs," he says. "So countries like this have experiments to supplement their fiat currencies with digital currencies with the thought that maybe they will move further in that direction. Then there are other places that say we see this coming and we don't want to be left behind."

But what does Facebook's reported change of focus potentially mean for the future of cryptocurrency? Not much, says David Pelleg, professor of finance and digital currency, at Kent State University in Ohio.

"If Facebook said libra coin has failed, that doesn't change anything about the outlook for digital currencies," he says. "I don't know which digital currency will be successful, but there will be a digital currency that will be widely adopted which will allow for billions of micro-payments at a really low price."

Some critics of the project also claim Facebook's digital currency is not a true cryptocurrency because it would be controlled by a consortium of private companies.

This argument is shortsighted, says Jamali. "We're not going to have mass adoption of cryptocurrencies unless everyday folks start using them and libra, however it plays out, could be a great asset to support the adoption and normalisation of digital currencies," he says.

Digital currency experts are also sceptical that it will be central banks which drive adoption and dictate the future of cryptocurrency.

"We get a lot of tourists who visit bitcoin land and blockchain land," says Demirors. "We had this in 2017 when every corporation wanted to put everything on a blockchain. That hasn't really materialised and the same thing is now happening with central banks."

One thing that could ultimately put some central banks off is the cost. "If you're using distributed ledger technology, then the computing power needed to do that is just massive," says Ebersole. "You might say if anyone is going to do that then a central bank could do it, but if you're talking about expanding this to any kind of scale, it just gets massively expensive."

Ascannio/Shutterstock

Commercial feature

Traditional banks and digital money transfers

Recent developments in the Australian banking market offer insights for traditional banks across the UK and Europe as they face similar headwinds in the digital money transfer market

Digital remittances represent a significant source of revenue for traditional banks. This big, growing market has attracted digitally powered monoline competitors that offer a compelling customer experience, transparent fees and rates, and more favourable pricing overall.

Competition is growing

For example, between 2017 and 2018, UK-based TransferWise doubled its Australian payment flow to AUD6 billion and is on track to hit 15 per cent market share. It took seven years for the payment provider to hit this 15 per cent milestone in the UK, where they have now set their sights on a full 25 per cent share of the market. In short, the company's growth rate is rising.

$23 trn
estimated global volume of digital money transfers by the end of 2020

6% CAGR
global volume of digital money transfers

$100bn+
annual global revenue from digital money transfers

5% CAGR
global revenue growth from digital money transfers

Global Insights, proprietary research, Oxford Trade Data

Intensifying regulatory scrutiny

Regulators worldwide are expecting banks to have a strong discipline in place around how banking products, including digital money transfers, are managed, from product risk and product suitability to pricing transparency and conduct risk.

In September 2019, the Australian Competition and Consumer Commission (ACCC) released its final report on foreign currency conversion services. The report noted a clear need for traditional banks to make foreign exchange fees and rates more transparent, providing an experience more in line with that of TransferWise. In one extreme case, an Australian consumer sent the equivalent of AUD100 to a recipient in Romania, but only AUD8 arrived after all fees were paid.

In late-2019, a top-tier Australian bank faced fines of up to $2 billion from AUSTRAC over what the regulator called "serious and systemic" anti-money laundering breaches and a lack of due diligence related to more than 20 million international money transfers in and out of Australia over a period of five years.

The key driver behind these challenges is complexity. Traditional banks rely on an array of payment processing systems and channels to deliver cross-border payment services. However, there is often no single place to obtain visibility into how the end-to-end solution works. For the bank's second line of defence, its risk and compliance function, this lack of visibility can circumvent existing controls and hamper its ability to do its job effectively.

Finally, many banks currently have no easy way to substantiate pricing associated with digital money transfers and foreign exchange; to explain why a certain customer received a particular fee.

Critical differentiated pricing strategies

The ACCC report also noted a significant opportunity with migrant worker remittances and corridor-specific pricing strategies.

Differentiating pricing for specific corridors that migrant workers use would allow banks to capture market share without lowering their margins. However, legacy systems constrain banks' ability to execute on such strategies. They have limited flexibility to deliver differentiated pricing by segment and payment corridor, to implement volume incentives or to implement compelling relationship packages without considerable manual effort.

Traditional banks have two things going for them: firstly, a wide array of products and services; and secondly, trust. By rewarding and pricing digital money transfer customers based on their entire relationship with the bank, traditional banks can protect and grow their market share.

To find out more about how traditional banks can create a strategic response to these challenges and build a sustainable competitive advantage in the digital money transfer market, please visit www.zafin.com

ZAFIN

Financial infrastructure to reinvent small business banking

Banks can be the heroes for the growing entrepreneurial community of businesses globally. But to assume that role, they need to adjust their operating model

There has been recent speculation that banks will not survive the fintech onslaught. At Banking Circle we do not hold that view. While they may be hindered by historical systems, traditional incumbent banks also gain from the invaluable and unique benefits of their history: customer loyalty, trusted values, deep market knowledge and understanding.

Banks have the appetite and the resources to reinvent themselves to meet new market needs. This means that when they do build new solutions they can utilise and pass on all these benefits, standing them in good stead for competition with the cohort of disruptors.

Reinvented for the new economy with a modern, progressive outlook, incumbent banks are in the strongest position to deliver solutions that meet the current and future banking needs of small businesses. But to be able to do that, with the flexibility most small firms expect, incumbent banks need good partners to underpin their financial infrastructure.

Building on a financial infrastructure

Banking Circle was launched to help businesses transact more efficiently in the global economy, facilitating international trade by providing fast and affordable payment solutions for businesses previously unable to expand internationally due to the high cost of cross-border payments.

Now, having been granted a banking licence, Banking Circle can deliver game-changing solutions, taking care of non-core activities so banks can focus resources on building relationships and delivering excellent customer service. Free of legacy systems, Banking Circle delivers financial infrastructure at low cost without compromising on compliance or security, providing access to real-time payments regardless of borders and size of operator.

The next generation of banks is just that: the next generation, not an entirely new species. Working with Banking Circle, banks can reinvent themselves to meet new market needs, seizing opportunities in the new economy without significant investment in their internal infrastructure.

Big banking solutions for small businesses

Passionate about improving financial inclusion for small and medium-sized enterprises (SMEs), Banking Circle commissioned MagnaCarta Communications to research these issues. Published in a white paper, *Circle of trust or out of the loop?*, insights are provided by some of those working in the midst of challenges, as well as people delivering solutions to the challenges.

The research highlights an imbalance in support available to SMEs; just one in five SMEs have not experienced problems borrowing from a bank to support their business. Demonstrating the potential impact of financial exclusion, nearly a quarter of respondents believe struggling to access additional funds would lead to redundancies. More than one in ten feel the business could ultimately fail as a result.

Thankfully, providers are beginning to realise the potential of the SME banking market and are appreciating that if they get an SME on board, the business will be loyal and bring multiple cross-selling opportunities.

For SMEs and startups to be in the best position to compete and prosper they need full and fair access to global-scale financial services. This starts with access to bank accounts, offering the ability to transact in the business's local currency as well as the currencies of the countries in which they wish to trade. The ability to transfer funds into these other regions is essential as is the availability of working capital to support growth.

Slow settlement cycles, especially through online marketplaces, can have a devastating impact on a business's working capital, reducing its ability to restock, increase headcount, upgrade equipment or move to larger premises. Unable to advance and grow the business through these channels, SMEs stall and many ultimately fail.

Looking to the future of banking

The past 15 years or so have seen significant change in the market, yet comparatively little change in the payment process and timescales involved. If we look ahead 15 years, expecting the rate of change to continue or even accelerate, it is impossible to believe that current mainstream payment options will remain fit for purpose.

Digitalisation allows consumers to purchase goods from sellers anywhere in the world, without a second thought for details such as foreign currency exchange rates. Of course, when using traditional cross-border payment solutions, the SME seller takes a costly hit in transfer fees or slow settlement cycles, or both.

For an SME to keep up with the rest of the market, it must restock rapidly and expand to new markets and territories. That requires working capital, which in turn demands faster payment processing. To deliver this, financial services providers need to start working together more closely.

There is a real need to collaborate to deliver solutions which help, rather than hinder, SME growth. Real-time or instant payments are essential to allow SMEs to keep up with the pace.

Anders la Cour
Co-founder and chief executive
Banking Circle

To download a copy of the Banking Circle Insight Paper please visit www.bankingcircle.com/whitepapers/circle-of-trust-or-out-of-the-loop

BANKING CIRCLE

> "Banking Circle can deliver game-changing solutions, taking care of non-core activities so banks can focus resources on building relationships and delivering excellent customer service

Virtual IBAN for banks

A business of any size and at any stage of life can find banking and payments to be a stumbling block, holding them back from their full potential. The practicalities of payments can have a huge impact on business efficiency and prosperity, as well as future expansion potential.

But they could be the door-opener to banks to retain and win smaller business clients. And with Banking Circle Virtual IBAN for Banks there's a seamless way to enhance the customer proposition.

Banking Circle Virtual IBAN for Banks gives local and regional banks of any size the ability to manage cross-border payments and local collections for their corporates in the eurozone and the UK, without the need for a local presence in those regions.

The unique solution provides banks with access to virtual IBAN accounts in euros and sterling, ensuring accurate and instant reconciliation.

With Virtual IBAN for Banks, banks can accept payments and then report in real time, which means decisions can be made based on actual liquidity as they would with local payments.

Find out more by visiting www.bankingcircle.com/banks/virtual-iban-for-banks

50%+

of European turnover is contributed by SMEs

13%+

felt the business could ultimately fail if they couldn't access funds


SpaceX/Unsplash

BLOCKCHAIN

Blockchain is no silver bullet for payments fraud

Distributed ledger technology certainly offers numerous benefits when it comes to payments security, but experts are adamant it won't eliminate fraud altogether

Dan Thomas

As the problem of payments fraud intensifies, the world of finance is increasingly looking to emerging blockchain payment processing systems for a solution.

Numerous big firms are testing blockchain-inspired systems that promise to make digital transactions more secure and efficient, while a handful, such as Visa and HSBC, have launched their own commercial platforms.

It's an interesting turn of events given that virtual currencies such as bitcoin, "mined" using blockchain networks, or at least the public exchanges on which they are traded, have been subject to a large degree of fraud.

But banks and payments firms are less interested in digital coins than they are in the technology that underpins them, which they believe could be harnessed in a host of different ways.

At its most basic, a blockchain is a shared and secure digital ledger that allows each component, or block, within a transaction to be tracked and approved by everyone who is party to the transaction.

Proponents say it creates an irrefutable digital paper trail that is more transparent and cuts out room for manipulation. This could facilitate more secure transactional records for the transfer of almost any kind of asset, from cash and shares to property and insurance contracts.

"Blockchains help create public sources of truth, which means they reflect the one and only set of global transactions that are mathematically verified and secured. To that end, it becomes harder to cheat the system at the level of the actual data," says Lex Sokolin, fintech expert at ConsenSys, a developer of solutions based on ethereum blockchain technology.

A working example is Visa's B2B Connect platform, which was launched last June in more than 30 markets. The solution, which is built on a private blockchain developed by IBM, helps businesses to make faster cross-border payments to each other.

But it also promises to improve protection of an organisation's sensitive data, including banking details and account numbers, sidestepping the vulnerabilities to fraud that exist when sending cheques, automated clearing house payments and wire transfers.

> **With blockchain, we replace a knowable risk with a black box and have to trust the technology to do the right thing**

It is not just digital payments that stand to benefit. In January, a host of banks, including HSBC, BNP Paribas and ING, launched Contour, a blockchain-inspired platform designed to make the $18-trillion trade finance market more efficient and secure.

Its primary aim is to digitise so-called letters of credit (LoCs), which are issued between banks, typically across borders, as a guarantee for payments between companies that want to trade goods or services.

Under the existing system, issuing, verifying and tracking LoCs is a largely paper-based, cumbersome and costly process that has seen little meaningful change for at least a century. Each party in a transaction, and there could be many, also has to keep and verify their own separate paper records which, among other things, can give rise to fraud.

"Contour effectively eliminates the reliance on paper documents, automates manual data capture and reduces the risk of errors and fraud," says Vinay Mendonca, global head of trade products and propositions at HSBC.

"It also provides clients with access to faster, simpler trade finance and can help them achieve working capital gains."

Proponents believe such systems will eventually go mainstream, having a big impact on firms and consumers around the world who currently lose billions of dollars to fraudsters each year.

But Dr Arun Vishwanath, a technologist and cyber-fraud expert affiliated to Harvard University, says the idea that we might completely eliminate the problem using blockchain is a "pipe dream".

In terms of using blockchain payment systems to move physical goods or swap contracts, he says: "People are the operative problem because they can interfere with transactions in myriad ways. People can change output quality, transpose products, provide poor service, and on and on."

Another issue is that most of the blockchain payment solutions being trialled rely on private blockchains that place tight restrictions on who is allowed to participate in the network and on what transactions.

While private systems might work in limited and controlled situations, scaling them so they have the global reach of fully decentralised public blockchains, best known for their association with digital currencies, will be much harder.

There are not only technical barriers, but public trust issues too, says Vishwanath, which means they are unlikely to ever challenge incumbent systems such as SWIFT.

"The flaws in the current financial system, although many, are still enumerable. With blockchain, we replace a knowable risk with a black box and have to trust the technology to do the right thing," he says.

Blockchain payments systems will never be a panacea for fraud, but they could still greatly reduce it, says Patrick Horgan, European head of Horizon8, a blockchain solutions provider. For example, he says blockchain could play a major role in protecting personal data online, the theft of which is central to most payments fraud.

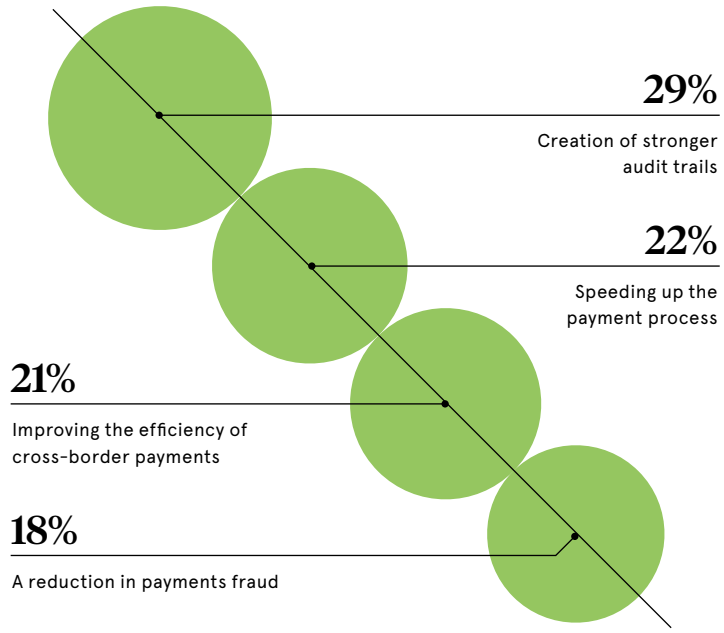
He also expects in a few years we'll see "a large number of success stories where platforms will be scalable and interoperable".

Sokolin at ConsenSys agrees blockchain's technical limitations will be overcome and the tech will proliferate when people see the "strong economic rationale".

Like the internet of the early-1990s, blockchain is very much at an early stage and some have dismissed the excitement around it as hype. But the financial services industry clearly believes blockchain payment systems could help build a stronger financial system and it is willing to invest time and money in developing them.

TOP REASONS FOR OPTIMISM

Survey of treasury and finance professionals about the impact of blockchain



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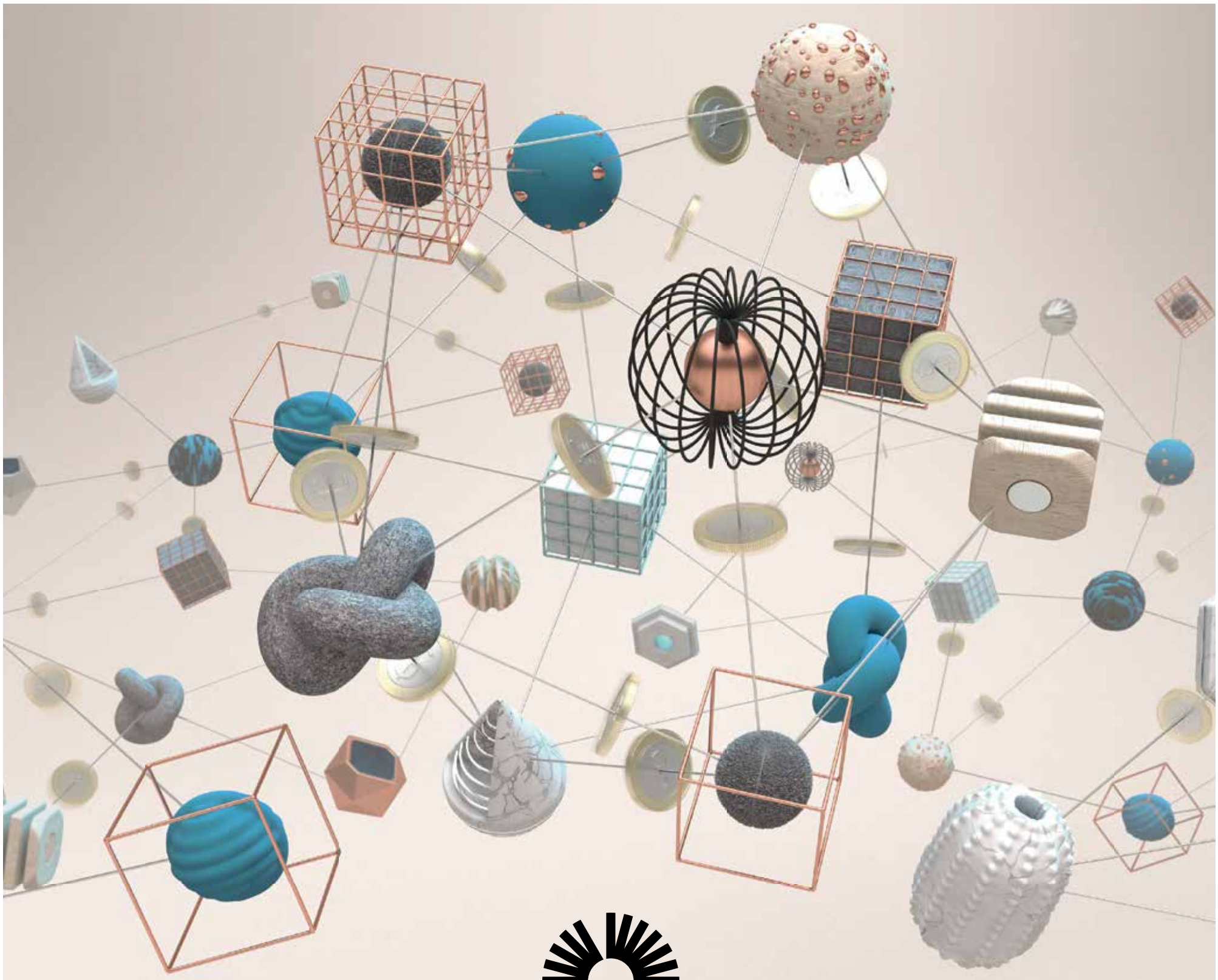

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