Closing in on Payments Nirvana

Instant Cross-border Treasury Transactions

While domestic faster payments schemes have seen excellent traction over the past decade, obtaining the same visibility and control of cash flows in the cross-border world has been far more challenging. This is now changing, however, as consumer pressure, regulation, and technology propel the prospect of a real-time cross-border payments ecosystem closer to reality.

By **Ben Poole**, Columnist

The often-dynamic world of payments has delivered a series of new trends in the past five years that are transformative for multinational corporates. As a result, best practices for corporate treasurers around payments and collections have also moved on considerably.

Technology is obviously one of the significant drivers of these changes. Advances in systems and tools have enabled new and more intuitive experiences and inspired the launch of a raft of new platform economies.

Emanuela Saccarola, Global Co-Head Cross-border Payments, Treasury and Trade Solutions (TTS), Citi, comments: "Digital clients are creating platforms where consumers can interact directly, disintermediating some of the traditional participants in the flows. There are newer business models, such as e-commerce, that were already trending upwards and were given a major boost by the pandemic."

A dynamic regulatory environment has also helped to facilitate changes in the payments space. One example is PSD2, where some of the regulation looked to enable free competition, and was favourable to technologies such as open banking APIs. That type of push encourages innovation.

One area of great interest to corporate treasurers is how this innovation is manifesting in the cross-border payments space. International payment flows are slightly behind domestic initiatives for instant payments, as many of these schemes were primarily developed for home markets. Still, the experience of real-time payments and data transfer is starting to emerge in the cross-border arena.

"Ultimately, we're witnessing the consumerisation of institutional payments continues Saccarola. "Consumers are in these platform-style real-time economies, and so are treasurers when they're out of the office. As such, they are used to a one-click experience and now expect that in the corporate world, even in cross-border payments." Obviously, though, these types of transactions have additional complexity because of FX conversions and market considerations, and the flow of funds doesn't move in real-time yet. "There is also higher systemic risk because liquidity is critical in the flow and, when looking at cross-border payments, time zones come into play."

For the global banks and financial institutions facilitating these flows, the question of making liquidity available at the endpoint, in real-time, is an essential piece of the puzzle. Work is ongoing here, with banks and bodies like SWIFT collaborating to find solutions, and feedback from corporates is playing a major part in future developments.

Watching fast-moving initiatives

Of course, needs and requirements around cross-border and instant payments for corporates can vary depending on the industry sector in which they operate. In the tech space, for example, most companies make B2C payments and receive C2B payments, which sets them slightly apart.

Deirdre McGinn, TTS Sales Head for Ireland, Citi, notes: "Technology firms are looking at real-time and cross-border payments as a differentiator from their competitors. Currently, the card networks support the main revenue and income flows for these companies, so they're watching what's going on with initiatives such as open banking and request-to-pay as a potential differentiator. They also tend to be very centralised companies, so we're increasingly seeing more cross-border flows from them, and they are developing more use cases for real-time and cross-border flows."

The consumer products sector, which immediately experiences any change in purchaser behaviour, is on the front line of change and innovation in this sphere. Lorraine Donnelly, EMEA Sector Sales Head, Healthcare, Consumer & Wellness, TTS, Citi, comments: "During the pandemic, we saw consumers pivot towards goods-based consumption online. As we're now emerging from the pandemic, we are seeing a resurgence in services-type consumption, which has implications for how our clients in the consumer products industry collect payments and engage with their customers. Many have accelerated that pivot to e-commerce and are leveraging marketplaces to achieve their go-to-market strategy."

Among fast-moving consumer goods companies, there are varying levels of maturity concerning e-commerce strategy and ambition. Donnelly notes that a key focus for Citi in serving that sector has been through building an integrated global proposition to support digital collections, which resulted in the Spring by Citi offering. This is an end-to-end digital payments service enabling ecommerce and B2B funds flows, globally.

"There are three key pillars for Spring by Citi – geographic coverage; payments ubiquity; and embedded payment functionality and product capability," Donnelly reveals. "The service is currently available in 15 countries, with plans to extend into an additional 15 by next year. It is designed to offer our clients market-relevant tools and options to collect from their clients, while embedding tools to tackle issues such as cart abandonment rates, fraud prevention, and security."

There is a growing level of ambition around the opportunities that e-commerce presents to companies in the healthcare sector. There is enormous applicability for real-time payments. The life sciences and biotech industry operates globally as a highly collaborative ecosystem. In fulfilling their commercial ambitions, and importantly, their ESG commitments around societal access to healthcare, and serving unmet patient needs in developing economies, they will need to enter new markets and require the ability to transact using local and alternative payment mechanisms, increasingly in a real-time manner.

"Healthcare, as an industry, is typically quite centralised from a treasury perspective, but actually, the commercial operations of healthcare companies can be decentralised in terms of serving the end consumer," Donnelly explains. "Real-time payments offer the opportunity to solve for multiple challenges and have relevant uses in supporting a range of activities including medical trials, transportation and logistics, digital health access, meetings and events, rebates to physicians, pharmacies and distributors… a wide array of reasons why the payor may need to transact into wallets rather than bank accounts or using card rails. At Citi, we continue to invest in our WorldLink Payments Services proposition, which offers relevant support to this sector enabling multiple cross-border payout options including Alternative Payments Methods."

EMANUELA SACCAROLA

Global Co-Head Cross-border Payments, Treasury and Trade Solutions (TTS), Citi

A true partner to treasurers

With its worldwide footprint and network, Citi is well positioned to connect to various instant payment schemes, payments facilitators and wallet providers globally. The bank is focused on connecting cross-border payments solutions through domestic schemes, as Saccarola explains.

"Not every domestic payment scheme is open or available cross-border, from a regulatory or rulebook perspective, but where it is available, we are enabling that connectivity," she says. "Currently, we have six live: India, Indonesia, Singapore, Thailand, the UK, and Mexico. We're launching Canada by the end of the year, Hong Kong, SEPA Instant, and Australia will be next. All Citi's cross-border Instant payments solutions are powered by our domestic connectivity and our FX capabilities and local liquidity within the network."

Elsewhere, alternative payments are becoming particularly relevant in the platform economy and its B2C flows, where consumers have wallets or prefer to be paid via a card network into their bank account.

"The convenience of providing a card number versus BIC, IBAN, sort code, or routing code etc., is a game-changer," continues Saccarola. "No one knows those by heart, but they probably have their card number in their phone or wallet. Alternative Payment Methods make cross-border payments more frictionless with added convenience leveraging tokens we all know such as our phone number or email address. There are a number of very applicable B2C use cases, including freelancing, online tuition, medical trials, and insurance claims, where the payee prefers the convenience of receiving the payment into a wallet in real-time."

Of course, a crucial advantage that banks have in the wallet space is that they can also offer liquidity to clients. It is not unknown for the newer, emerging competitors in the payments space to request that corporates pre-fund an account or wallet to facilitate real-time payments. Banks such as Citi can provide liquidity and credit across its global footprint, which can be such a competitive advantage over emerging players.

LORRAINE DONNELLY

EMEA Sector Sales Head, Healthcare, Consumer & Wellness, Citi

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Technology as a critical enabler

All corporate treasury interactions with Citi are essentially carried out through one pipe, whether through a host-to-host connection or an API. The bank can distribute that globally or report back on worldwide collections, which can be hugely beneficial for the corporate. Being able to do that in real-time, cross-border, is the next step in unlocking efficiencies for treasurers.

"Instant cross-border payments are the 'Holy Grail' because most of our customers are the biggest companies in the world – they're highly centralised, and many manage them from a central hub," reveals McGinn. "In addition, instant payments and collections mean instant reconciliation, and many multinationals have teams and processes in place to reconcile payments some two or three days later. Having instant reconciliation which can be automated will be an important process improvement for them."

APIs are playing a particularly crucial role in providing the interconnectivity necessary to create a true real-time treasury. "We make instant payments around the globe for one particular client, but they don't get their collections in until between four to 25 days after that sale," continues McGinn. "Can you imagine the cash flow and working capital issues that creates for them? They need us to help manage the liquidity and require information reporting as fast as possible. They will be implementing APIs for visibility and control. With the world speeding up, we're increasingly seeing the need for API reporting on the treasury side."

Another component in the evolution of cross-border payments is what best practice FX management looks like in an instant treasury world. Citi's integrated proposition enables clients to choose the level of involvement that is best for them – they can be relatively passive or choose a more active engagement from an FX pricing perspective.

Saccarola comments: "Our clients can send us payments instructions and we can do the FX conversion on their behalf at agreed rates, so even if the payments have to go real-time across the globe, cross-currency, they don't have to think about the FX at the time they initiate the transactions. Alternatively, they can ask us for a live rate quote through an API engagement, send the instruction and we will automatically apply the rate."

Speed of payment in the cross-border, cross-currency space can have a lot of complexities, so it is important for treasurers to understand how to best handle FX transactions in an instant or near-real-time world.

Cross-border instant payments are not only relevant in the B2C space, "the shipping transportation industry is a good example, where there are ships that are sitting outside ports for days until a payment arrives and with instant payments they can actually dock," reflects Saccarola. "The efficiency that a real-time payment can bring to that transportation is significant. Many of our clients ask if they can make same-day cross-border payments. This was a challenge only a few years ago, and now we're talking about cross-border transactions in minutes, so it's a very quickly evolving space."

When real-time isn't necessarily immediate

The role of treasury data cannot be underestimated in the real-time world of payments, particularly bearing in mind the consumerisation of institutional payments noted earlier. The way this data is being used is evolving, making it increasingly essential for treasury operations.

"In the past, treasurers were used to managing a single large payment from a buyer, usually an intermediary, of $1m, for example, but with today's direct-to-consumer e-commerce marketplaces, treasurers are more likely to be managing 1,000 payments of $100 each," Saccarola notes. "When expecting one payment of

$1m, the treasurer will probably monitor that payment and see when it's available in their account. But now, with all these various interactions happening in real-time, the level of cash in the account can change dynamically at any moment. That's where the role of data is critical for treasury – without real time data, treasuries don't know how best to manage liquidity."

At the most fundamental level, real-time cash management comes down to visibility and control and then optimising and funding in the appropriate ways. Everybody is at a different stage of the journey.

McGinn explains: "We have some customers using APIs to make their payments, but they're also using APIs for reporting in their TMSs, so they can see it instantly. On top of that, they're layering on elements such as virtual accounts and liquidity sharing. They're getting to smaller and fewer centralised accounts. Everybody's at a different stage of development. I'm always surprised by who is ahead of the game. The healthcare companies are good at it, and so are some consumer products firms."

Having ambitions to become a real-time treasury is all well and good, but these ambitions must be in sync with the organisation's technical reality and environment. Consultation with the broader KPIs and objectives of the business is critical.

Donnelly warns: "Having access to real-time information is great, but if the back-end systems are still working in a batch-type processing way where that information can't be utilised or consumed efficiently, then new challenges may emerge. This real-time ambition also needs to be in sync with any working capital objectives the organisation has, so everyone has that reassurance that real-time payments don't mean that they need to pay immediately. It just means that the opportunity exists to pay and respond faster … but still on time, while perhaps being able to collect faster too."

As open banking and API adoption grows, Citi is taking steps to help clients gain real time visibility of their balances across their banking relationships. "We aim to achieve this by leveraging both our proprietary offering as well as partnerships with Fintech providers" McGinn notes. "Citi is aiming to simplify how clients onboard accounts to its multibanking services as well as provide insight to balance information for efficient treasury decision making".

Donnelly reflects that a significant number of corporate clients are undergoing SAP S/4HANA-type upgrades to their treasury technology in an attempt to find the low-hanging fruit of efficiency gains. Often, projects such as these can be simpler to approach when, rather than ripping up existing systems, treasurers can understand where to find benefits already open to them that have yet to be explored.

"Virtual accounts tend to come up increasingly in conversations, clients are very in-tune with the potential value that this could bring," she continues. "Virtual accounts have the potential to augment clients' existing liquidity management structures, or perhaps solve specific reconciliation pain points. They are an additional tool, particularly in an environment like this with rising interest rates, where clients can rationalise bank account structures and reduce all the costs associated with that. Virtual accounts also offer a natural way of consolidating cash and obtaining that additional control."

"Corporate treasuries and financing teams face multiple challenges driven by fragmented technology infrastructures, numerous ERP systems, incomplete data and inefficient manual processes", explains McGinn. "The result is poor visibility into current cash positions and inaccurate forecasting of their future positions and liquidity risk." Citi has partnered with global technology company TIS to provide their clients with a solution that tackles these challenges. The solution automates the cash forecasting process by extracting A/R and A/P data from ERPs and actual cash flow data from bank statements, then applying machine learning techniques to provide advanced liquidity and working capital insights.

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DEIRDRE MCGINN

TTS Sales Head for Ireland, Citi

Baby steps

For treasurers to make the most of future opportunities in real-time data, it would be prudent to approach one area of interest and focus on making that work as efficiently as possible before expanding into another area.

"Treasury in ten years' time is going to look very different, and it's going to be baby steps all the way there as the technology develops," observes McGinn. "Of course, treasurers can't have all the resources they want or complete one project to solve everything. It will be one step at a time."

Take virtual accounts, for instance. It makes sense to start with this in one country, before expanding the roll-out. Or a treasurer might begin with one bank's API connection to their TMS and then build on that once it is up and running.

"The role of technology is critical in the real-time space," concludes Saccarola. "Forecasting cash flows on spreadsheets should hopefully be consigned to history. Technology is a true enabler, facilitating the move to real-time data and instant payments and collections – and ushering in the era of on-demand treasury."