Debunking Myths that may be hindering your global expansion

Seven Misconceptions about International Payments

WesternUnion WU | Business Solutions

Contents

An Imperative to Innovate

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In an increasingly global economy, organisations need to expand and grow in international markets, and there have never been more opportunities for growth than there are now. This perfect storm for business has been created by a number of factors, including newconsumer behaviours and changes to the regulatory environment.

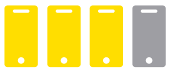
A revolution in consumer behaviour was already underway, and it has been accelerated by the lockdown restrictions during the pandemic. According to a survey from the Open Up 2020 Challenge, run by Nesta Challenges, 54% of consumers are now using mobile and mobile money management solutions regularly. More than half of UK consumers are now shopping online, and online spending is forecast to increase 29.6 percent between 2019 and 2024. Cash as a payment method has never been less popular.

There is a corresponding increase in the number of consumers using a Fintech for the first time. Companies worldwide are embracing the Digital First challenge, accelerating the pace of digital innovation across all industries.

For Financial Institutions, there is an urgent need to prove themselves still relevant to Millennials. According to the Deloitte Banking Industry Outlook:

One third of the 10,000 surveyed believe they won't need a bank in five years

More than half feel their bank doesn't offer anything different from other banks



Almost three quarters would be more excited about financial service offerings from a FinTech

The need for reinvention and innovation is not just desirable, it is essential. The world is changing rapidly and only the quickest to respond will survive.

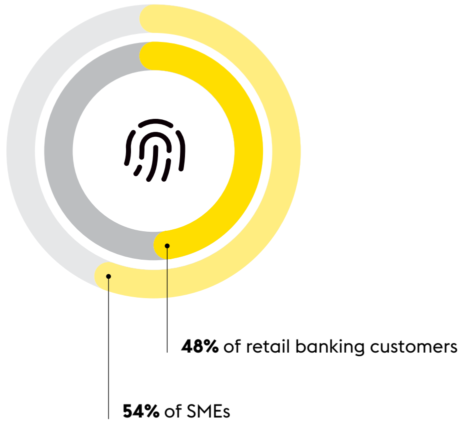
Adding to the sense of a new world dawning is the recent shake-up in regulations. The Payment Service Directory (PSD2) and the implementation of Open Banking will provide more transparency to consumers, and these initiatives are likely to have an impact on other industries and businesses (regardless of where they sit in the payment cycle). PWC's publication, **'The Future of Banking is Open', states that:**

71% of SMEs are expected to adopt Open Banking by 2022

There will be a **£7.2bn revenue opportunity** created by Open Banking by 2022

Global payment revenue is likely to grow at a respectable compound **annual growth of 5.5% to reach US$ 2.1 trillion**

It also states that **48% of retail banking customers and 54% of SMEs** say that security is their biggest concern with Open Banking data sharing.



So, what are the other fears or reservations that are stopping businesses from embracing the huge global opportunities that face them? There are several myths about international payments that we regularly hear when talking to our customers.

It would be a tragedy if unfounded myths were to put a brake on progress, so this paper will attempt to uncover the truths behind the misconceptions, and put fears to rest.

Today, more than ever, the imperative is to innovate. It's an exciting time, but can be daunting too. Let's take the unnecessary obstacles out of the path and allow growth to flourish.

Seven Misconceptions about International Payments

#1

Banks are the best provider of International Payment services

It may seem natural to keep your international payments under the same roof as your business banking. Banks certainly offer payments as a service, and using the same platform for all your business activities may look like a convenient solution. However, banks are not specialists and payments are likely to be a peripheral part of their offering.

In truth, banks are unlikely to provide the most competitive solutions and their pricing may not be fully transparent. When making international payments through your online banking platform, you may only see the transfer rates you're going to get once you commit to the payment or transfer, and it's not unusual to be charged large, hidden fees of up to 4% of the transaction amount.

A small investment of time in registering for an international payment specialist will be quickly repaid in monetary savings and improvements in your process. And because Payment Services Providers (PSPs) are focused on payments, they will have the most efficient, streamlined systems with real time payment tracking, keeping you in control and your payments visible at all times.

The misconception is that because banks are big, steady and reliable, this will make them the best provider of international payments. On the contrary, it makes sense to work with a specialist who has expertise in different markets, segments and industries, and who can offer a bespoke service to help you achieve your business goals.

#2

Expanding internationally requires opening multiple bank accounts, with multiple banks

Many people believe that the best way to work with international transactions is to open a bank account for each currency they deal with. They cite the advantages of operating directly in those currencies, saying that it keeps costs low as it cuts out foreign exchange fees and bank transfer fees, as well as mitigating the risks of exchange rate fluctuations.

For some international businesses, with large inflows and outflows all in the same currency, a currency account can make sense. But it doesn't work for everyone, and if you are not going to have equal incomings and outgoings of that currency, there can be a false economy. What is more, opening bank accounts abroad is not straightforward.
There are administrative obstacles, such as applying for licences, as well as regulatory and taxation requirements, not to mention the cultural and language barriers.

Luckily, this isn't the only option. A specialist payments provider can offer other solutions, such as holding balances. You can store incoming payments free of charge for up to 90 days, giving you control over your funds, flexibility to secure favourable exchange rates, and the ability to make same day payments, reducing your currency risk exposure.

A good payments provider can help you work out what is best for your business. There may be a place in your payment strategy for a currency account, but it is by no means the only option.

#3

International Payments can take weeks and sometimes can't be traced

Usually, an international bank transfer through SWIFT and the correspondent bank network takes one to five working days to reach its destination. Processing the payment and deducting the money from the sender's account often happens within the first two days, but that doesn't mean the recipient will have it ready at the same time.

Sometimes there are delays. These can be caused by fraud prevention measures put in place by each of the correspondent banks in the process (SWIFT transfers may pass through up to three banks before reaching their destination), or the fact that different currencies are being processed. Even the day of the week or different time zones could delay the payment. In these cases, the delays should be relatively short.

Of course, sometimes there are errors. These can be human errors such as the incorrect destination details being input. To minimise the risk of this, choose a provider with safeguards in place to ensure that payments do not go wrong. A good specialist provider will have a payments platform with minimal manual processes and real-time tracking so that missing payments can be easily found, and errors minimised.

At Western Union Business Solutions for example, 99.68% of all payments in 2020 made by financial institutions reached their destination on time and in full. For the remaining 0.32%, our dedicated teams worked to resolve the issues quickly. They contacted the parties involved, recalled the money and ensured the funds were deposited safely in the customer's bank account.

With the right systems in place, no payments need to be lost and error resolution is efficient and reliable. Another misconception can be laid to rest.

#4

My money is not recoverable once it goes to a foreign bank account

When making payments, the last thing you want is an unnecessary error misdirecting a payment, or for your funds to be successfully targeted by fraudsters. But if the worst happens, is it right to assume the money is lost forever?

The first thing to say is that prevention is better than cure. Payment Service Providers have adopted many advances in technology to reduce the manual processes involved in making payments and this has greatly reduced the possibility of entering payment information wrongly. At Western Union Business Solutions for example, our Find-A-Bank and Payment-Formatting Guide Solutions, part of our API Suite and Hosted Solutions, speed up the process of initiating a payment by pre-populating all the information and formats required for the destination country. We also run payments through proprietary formatting validation rules, allowing us to capture incorrectly formatted payments before they are released. As well as saving time, this has significantly reduced input errors.

With regard to fraud, a partnership approach to prevention is needed, and it's important that your business and your PSP go on that journey together. Fraud is an evolving animal, and every day fraudsters try to think up with new ways of doing it – so it's important to learn together on how to mitigate it, evolve as it evolves and stay ahead of the game.

We help our customers by educating them about the latest fraud prevention techniques, with regular updates to ensure they know all the latest developments. Knowledge is as important as technology in combatting the fraudsters – and both need to be kept up-to-date.

As for the recovery of funds that go astray, it would also be a misconception to say that they are recoverable in every case. But if the worst happens and funds are misdirected, they do not necessarily have to be written off. Payment providers have many tools available to them to recover funds, and they have teams in place whose role is to retrieve payments that have gone astray. It's a complex process that means contacting all the institutions involved and conducting thorough investigations, so it's important to choose a partner with a global network and experience in dealing with fraud recalls. Yes, fraud is a risk, but we are prepared to deal with it, and getting better at it all the time.

#5

It's expensive to mitigate the risk of Fraud in relation to International Payments

There is no doubt that tackling fraud, and putting training and preventative measures in place, will reap dividends by saving you a lot of unnecessary money and time. But how expensive is it?

The single most common fraud relating to international payments is Business Email Compromise (BEC), which accounts for 43% of all cybercrime. It attacked 66% of all businesses last year, had victims in 177 countries and at least 30 USD billion has been lost since 2016 to businesses because of it, making it the biggest single fraud that affects International Payments.

BEC can be successfully tackled through a programme of training and controls. This dual-pronged approach can bring down the levels of this type of fraud, on average, between 20% and 30% year-on-year. This type of mitigation is relatively inexpensive to implement and makes a big difference. So yes, there is a cost, but it is not prohibitive, and the investment is worth it.

#6

Risk management is expensive and more suited to large multinationals

It's true that larger companies are more likely to have a risk management strategy in place, but in reality, a company of any size that forecasts future cash flows, incoming or outgoing, should be considering at least a basic strategy to protect future value. And it is precisely those small and medium-sized companies, with fewer resources to deploy and for whom the impact of sudden increases in volatility can be most harmful, that would benefit most from a hedging strategy.

Risk management doesn't need to be complex or take up extensive internal resources. Even the simplest approach can result in the desired outcomes, of visibility, certainty and efficiency. It boils down to knowing what your risks are and the impact they could have on your business, having a plan in place that protects against the worst of those outcomes so that you are able to forecast accurately, and ensuring everyone understands their role and responsibilities so that the plan can be executed effectively.

To cut through the complexity and jargon, find a payments provider who takes the time to understand your business objectives and financial situation, and can help you create a strategy that works for you. At WUBS, for example, our currency specialists work closely with SMEs to manage their day-to-day currency exposure, understand their changing exposure to risk and help them achieve their objectives.

Risk management is necessary and can be cost-effective. If you need to forecast accurately what your incomings and outgoings are going to be, you don't want exchange rate movements to impact on your cashflow or your bottom-line profits. There are many hedging tools available to give you the certainty you need. They all carry different costs and some will be more suited to your business and your goals than others. By designing a strategy that combines protection and flexibility in the right proportions for your business model, you can ensure you are protected against the worst outcomes but can also still benefit should things go your way. Furthermore, the knowledge that you have a strategy in place allows you to focus on other areas of your business and to plan with confidence.

Having a risk management strategy is important for any business looking to achieve a higher degree of certainty when making or receiving international payments. It will help you understand your exposures, enable decision making and allow you to act strategically and efficiently. Even the simplest approach can give you real peace of mind that the risks are under control, and it doesn't have to be expensive as there are many different tools available. Your payment provider will be able to guide you in drawing up the plan, and in putting it into action.

#7

Becoming compliant with local schemes requires full replacement of your existing payment scheme

International payments, by their nature, cross borders and pass through different regulatory environments. However, regardless of the destination country, there is no need to change your payment scheme or structure.

Instead, you may need to adapt your compliance controls to be able to respond effectively to the local circumstances, including different fraud typologies and methodologies that exist at a particular time. Understanding the regulations, nuances, and what's needed in each region will give your business more flexibility and help you have a more robust and tailored compliance strategy.

A good payments provider will have experience and expertise in worldwide compliance regulations, and will be able to guide you through any complexities. There is no need for a complete replacement of your payment scheme, it is just one more of the misconceptions about international trade.

Conclusion

A regulatory shake-up has opened up the payments marketplace to new entrants. Open Banking is a prime example of this – as a disruptor, it will reshape the banking industry. It provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions through the use of application programming interfaces (APIs).

Small and medium-sized businesses are well placed to take advantage of new opportunities in the global marketplace, but misconceptions about international payments are creating an artificial barrier to entry. With the seven misconceptions covered in this paper refuted, entering the global marketplace is a much less daunting prospect for even the smallest organisations.

To ensure success, any new entrant to the overseas market needs a payment solutions partner to help them develop an international trade strategy. This will ensure support supply chain resilience and help them to manage cashflow efficiently. It will also help them to manage currency risk, which should not be overlooked when businesses are trading internationally. Having the tools to develop a Foreign Exchange risk management strategy can give businesses much better control of bottom-line profits.

Businesses will also gain peace of mind by working with a partner who is committed to compliance and experienced in international payments across the globe. This will give internal compliance teams the support they need, and help keep them abreast of constantly changing international regulations.

A Trusted Partner

For organisations seeking a partner to optimise cross-border payments, Western Union Business Solutions provides the solutions needed to send, receive and manage international payments. Companies around the world count on us as their global payments partner. With fast, cost-effective payment solutions and customised cash management strategies, we help organisations of any size and in any industry achieve solid results.

Our extensive global network, spanning 200 countries / territories and 130 currencies, combined with our knowledge of local markets, enables us to manage international payments simply, effectively, and efficiently and to manage payment regulations in multiple jurisdictions.

Our team of experts provides tailored payment solutions and clear risk management strategies. These deliver a higher degree of certainty that helps companies better forecast outcomes and report on results, as well as making better-informed business and investment decisions.

If you missed World Forum Disrupt last month, you can **watch Karen Penney**, UK VP of Payment Products at Western Union Business solutions debunk the myths about international payments that may be hindering SMEs' global expansion plans.

Watch now ›

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