# Banks can realise new revenue streams from cross currency payments

by Rita Saverino and Timothy Merrell, Deutsche Bank AG

**While often considered a nuisance for financial institutions and their corporate clients, a new approach to smaller value cross currency payments could yield benefits to both, say Timothy Merrell and Rita Saverino at Deutsche Bank.**

Thanks to sustained growth in global trade and increasingly mobile workforces, transactions that cross national borders continue to show strong growth – both in absolute and relative terms. Cross-border payments represent a growing portion of total payments, rising to nearly seven billion payments by 2013.[1] However, while high-value flows will account for a significant proportion of this total, many of these payments are likely to be of a relatively low value. And processing large volumes of relatively low value cross currency payments has traditionally caused a number of difficulties for financial institutions and instructing corporates. Many of these difficulties stem from the practice of handling the payment and foreign exchange elements of the transaction separately. Indeed, sometimes termed 'nuisance payments', these transactions can be costly in terms of both time and expense.

Regardless of the issues, many different types of institutions will be making these payments and for a range of reasons: corporates that maintain operations in several different countries; banks acting as paying agents for government, charities or pensions administrators; and – on the retail side – banks making over-the-counter foreign exchange payments and sending remittances for migrant workers. All these institutions will encounter problems such as having to hold multiple accounts to pay beneficiaries in different jurisdictions and a perceived lack of transparency with the foreign exchange element of the transaction.

Indeed, this issue in particular can often stem from the practice of handling the payments and foreign exchange elements of the transaction separately, a practice that also increases the number of bank interactions – and possibly fees – for the instructing institution.

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Many current practices can also present financial institutions with significant risks, with some even having a reputational impact. Take, for example, a paying agent for a large corporate pension scheme. With increasing numbers of people opting to retire outside of the country where they have spent their working life, it is likely that the agent will be making significant numbers of overseas payments – a figure that is likely to grow thanks to increased geographic mobility, relative affluence and cheaper transport and communications. The typical situation will involve payments being made to these retirees in the domestic currency of the pension plan – normally by electronic transfer though sometimes, still, by paper cheque – with the beneficiary taking the responsibility for securing the funds in their local currency.

However, it is this final part of the process that can be frustrating , often due to a lack of transparency. It can also be costly in terms of both time and expense for the payment's intended recipient. The foreign exchange rates applied may change unpredictably and bank charges levied locally may appear somewhat arbitrary. Indeed, as a result, situations are likely to arise where two or more beneficiaries – who are theoretically entitled to identical benefits – will be receiving differing amounts due to the practices of their local bank. In addition, the local availability of funds can also be an issue: even electronic transfers can sometimes result in delays depending on how the transaction is processed. A similar situation may also exist for institutions making these types of payments for the purpose of workers' remittances. In either case, the final result may be beneficiaries unhappy at the perceived lack of transparency and arbitrariness in the process and therefore dissatisfied at the level of service they feel they have received.

Aside from the reputational issues presented by any perceived lack of transparency, the problems of ageing technology and infrastructure may also present some operational risk. Indeed, a great deal of the infrastructure used by financial institutions to process payments relies on infrastructure that is now several decades old and was not designed to cope with current volumes and new regulations and standards. And this is a problem that will continue to get worse as volumes increase and the regulatory landscape continues to change over the coming years. Any failure of these systems could be catastrophic for the bank in question, undermining confidence and even creating systemic difficulties for the global economy.

## A new approach

This is certainly an issue that the leading transaction banks have been seeking to address, and Deutsche Bank is no exception. Developed over several years and bringing together expertise from the divisions of the bank responsible for foreign exchange and payments processing – Global Markets and Global Transaction Banking respectively – *FX4Cash* is a recently launched platform designed to offer a range of end-to-end cross currency payment solutions for both corporates and financial institutions.

That this initiative brings together these two areas of the bank is significant. Global Markets maintains *autobahnFX*, Deutsche Bank's proprietary foreign exchange trading platform, which allows the best rates to be sourced from 18 funding currencies into over 75 local currencies. And Global Transaction Banking has invested heavily in building a new payments infrastructure to cope with high volumes and new standards. The backbone of this new infrastructure is made up of several complementary elements that include the Money Transfer New Architecture (MTNA) and the Global Messaging Architecture (GMA). MTNA was designed to replace 17 different legacy payment systems across Deutsche Bank and provide a consistent level of service for processing payments regardless of currency or location, yielding benefits in terms of information delivery, contingency planning and client interfaces. In much the same way, the GMA project was designed to consolidate the bank's financial messaging systems in order to provide standardised levels of service across all locations. After many years of growth, the bank's proprietary messaging systems had become fragmented and unwieldy with a decentralised IT infrastructure and multiple SWIFT gateways. With GMA, SWIFTNet compliance is facilitated with no need for further investment in legacy messaging systems.

Both of these elements were designed with third party in-sourcing in mind from the outset, with their functionality geared towards serving other financial institutions. In this respect, they are ideally suited to this application as part of the *FX4Cash* solution.

By bringing these two areas of expertise – Global Markets and Global Transaction Banking – together for *FX4Cash*, the bank has sought to address the common practice of treating the foreign exchange element of a transaction separately, i.e., as a post-payment factor. For example, institutions will often process a client's payment and then provide the foreign exchange information afterwards in order for them to make the necessary reconciliations.

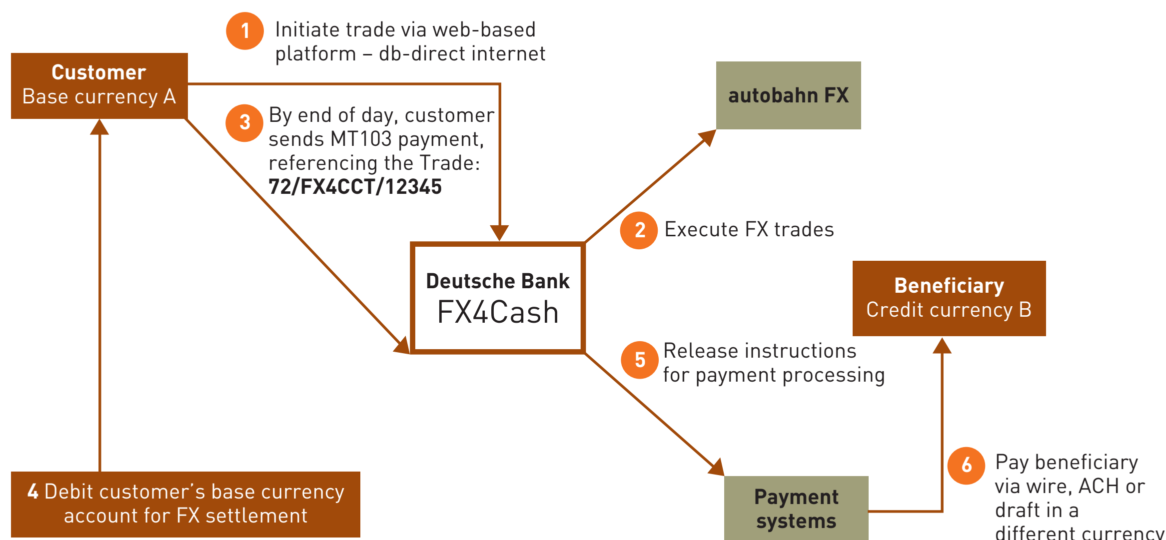
However, demand from corporates for more efficient tools to manage working capital and short-term liquidity means that this situation is now unacceptable to many. The thinking behind *FX4Cash* is, therefore, to give clients equal access to the bank's foreign exchange capability alongside the payments capability.

By giving clients this equal access to the two elements of the transaction, the number of interactions made by the instructing corporate is reduced, potentially diminishing the fees they incur. Indeed, the new system's ease-of-use has been especially attractive to corporate clients and has certainly contributed to the impressive levels of take-up *FX4Cash* has achieved since its launch. For example, many corporates – including recent sign-up Anglo-Eastern Group – have welcomed the ease with which it can integrate with enterprise resource planning (ERP) systems and enable them to process individual payment and bulk files, side-by-side, using live FX marker pricing. And the modular, 'plug-and-play', design means that clients can implement the solution quickly and easily through a range of access channels including SWIFT, Eurogiro and others.

## Revenue streams

From the standpoint of a financial institution, partnering with Deutsche Bank for *FX4Cash* offers a range of advantages, not least allowing them to mitigate some of the difficulties

**Deutsche Bank's *FX4Cash*** **Exhibit 1**




**Source: Deutsche Bank AG**

associated with ageing payments infrastructure. However, aside from the issue of technology and infrastructure, the payments processing sector of the banking industry is becoming increasingly competitive. The demands posed by changing standards and regulatory initiatives such as the Single Euro Payments Area (SEPA) and Payments Services Directive (PSD) – as well as price compression from increased competition – have left many institutions struggling to make returns from this type of business. However, diminishing fee income from activity of this type can often be complemented by new sources of revenue. And partnering with one of the leading transaction banks to offer cross-currency payment solutions to corporate clients could yield new streams from the foreign exchange spreads on these types of transactions.

Indeed, financial institution clients who have recently gone live with *FX4Cash* have reported a range of benefits. For example, some financial institutions have seen increases in higher value payments thanks to being able to offer up-front transparent pricing to their customers. And several banks have noticed immediate increases in transaction flows thanks to being able to offer new payment options in currencies as diverse as Philippine pesos, Lithuanian litas and Brazilian reals – something that should give food for thought to those banks that cannot currently offer certain payment currencies to its corporate or retail clients.

**Notes:**

1. The Boston Consulting Group, 'Navigating to Win – Global Payments 2006'.

**When it comes to choice and connectivity in cross currency payments, one name stands out.**

FX4Cash™ delivers the best of all worlds when it comes to managing cross-currency payments. An end-to-end STP solution that combines our leading global expertise in FX and Cash Management* to bring you all the strategic choice, transparency, efficiencies and opportunities you want.

In other words, everything you need from the established No.1 because we like to make life easy.

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