U.S. Banks' Global Payments Issues

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By Brian Evetts

For U.S. banks, it is only half true that the world is flat. Their business customers are fast going global; that playing field is being leveled. But as the landscape flattens, country-by-country differences loom larger and riskier.

One of the least flat landscapes is payments systems. Despite the euro zone and various cross-border agreements, the so-called international payments system remains a patchwork of currencies, laws, networks and technologies.

Enter U.S. banks and their globalizing customers. Today, "multinational" can describe the jewelry designer next door, the modest consulting firm with an in-country expert in each of a dozen countries or the midsize manufacturer in the middle of a long multicountry supply chain.

No matter their size or sophistication, these companies suddenly need international payments services. They have high expectations when they turn to the bank that provides their credit and domestic payments: safe access to payments services in other countries' currencies and the same service quality and product sophistication they get with domestic payments.

U.S. banks face three challenges here.

Legacy payments systems: Old payments systems never die; they are the unavoidable component of any effective international payments solutions. Banks must integrate their new capabilities with systems developed over the decades, in silos, for different purposes, under different regulations, with different technologies.

Competing investments: A payments expert from a midsize bank besieged with international payment requests from customers told me that "we can say international payments is a top priority, but it's not like we can skip remote capture or mobile payments, or any other payments initiative that keeps us competitive. We have to do them all."

And a small-company CFO trying to pay employees in several countries said that "even though my bank is huge, they are too swamped operationally to help me much. The internationally underbanked, you might call us."

One-off needs: Few customers need a full international payments package. Most want to pay employees in a few countries, or pay vendors in another, or establish local currency accounts. If a customer needs to send an ACH to Spain, that's one set of rules, regulations, agencies, currency and clearing systems for the bank to navigate. If the next customer does its business in Brazil, no efficiencies will have been gained by the Spain experience. This is a painful reality for bankers accustomed to the volume-based efficiencies and margins of domestic payments.

Some U.S. banks are beginning to adopt a cadenced approach that quickly solves urgent needs while building the global payment sophistication they will ultimately need. They start by plotting a global payments strategy that aligns with their overall strategy: their geographic markets, their customers' type of business and business aspirations and the bank's risk appetite and technology gaps.

The simplest strategy is to refer the customer to another bank that already offers the services in-country, but this means forfeiting new revenue and possibly risking the whole relationship.

At the ambitious end of the spectrum is a full portfolio of international services with proprietary systems and unique offerings. Few banks can justify the high costs and risks of this strategy, which demands full commitment to developing in-country expertise and scale.

Along the spectrum are myriad nuanced strategies based on partnerships and agent bank relationships.

Then there is no substitute for two kinds of expertise: knowledge of the payments mechanisms of the targeted countries, and skill in proven methodologies and best practices.

Experts in this area can tap the right resources at the right times, instruct on efficient ways of solving for a rigorous set of questions, anticipate pitfalls and employ proven best practices in this somewhat new discipline. Lacking either, the execution plan flounders and the strategy loses credibility, leaving the bank more vulnerable than before.

Even having set an overarching international payment strategy, banks still need flexibility as they resolve the process for each country. While each country requires some customization, some matters are better resolved consistently across all of their markets, the U.S. included.

One danger is over-reliance on local agents to set up the local payments platform. A platform that integrates with local settlement networks and meets regional needs may be incompatible with the bank's systems and subsequent countries' infrastructure, requiring costly retrofitting of technology, policies and pricing.

The other danger is over-reliance on vendor platforms that can "do it all" — all currencies, markets, payment types. Their rich functionality is attractive but can be difficult to align with the bank's strategy and smoothly integrate with the existing platform.

Smaller banks need a sound international payments strategy before they find themselves referring their fastest-growing business customers to larger rivals. Midsize banks need to make sure their one-off international payments activities don't inhibit future growth. Even the largest banks with significant international payments presence need to make sure they are not vulnerable to being leapfrogged by other banks that invest in newer, more extensible payment platforms with better pricing through greater efficiency.

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