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Innovations in cross-currency payments

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Event: ACT Middle East Annual Summit

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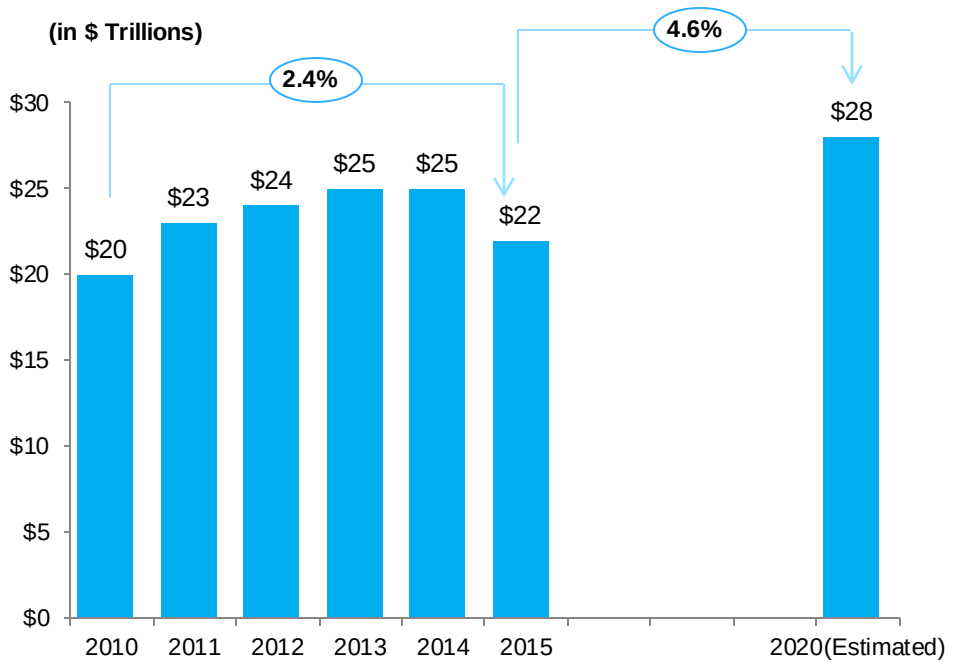
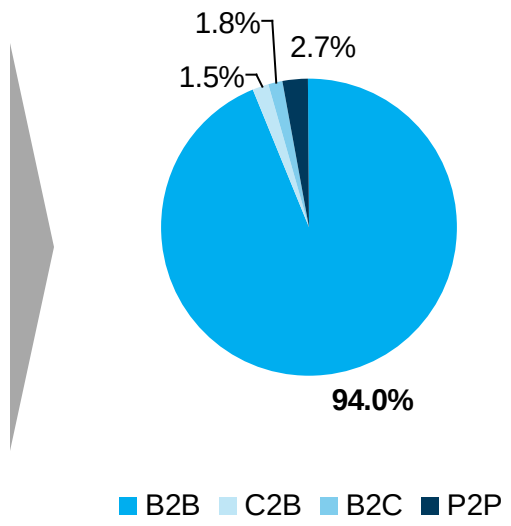
94% of $22Tn cross-border payments are B2B transactions

Cross-border payments continue to grow...



Source: EY analysis ; Glenbrook partners; Survey cross-border perspectives 20.09.2011

...though it is dominated by the B2B flows



Source: EY analysis, WTO, Worldbank

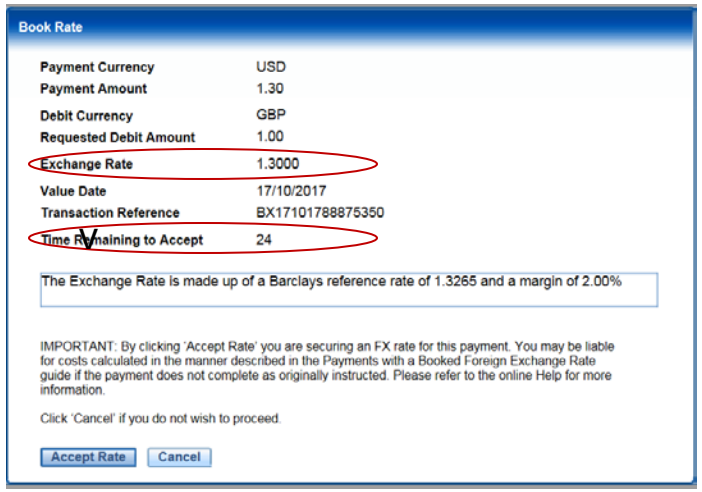
- Despite a dip in 2015, cross-border payment flows are expected to grow at CAGR 4.6%
- SMEs are the drivers of growth in B2B and constitute 25% of that flow
- B2C and C2B segments are the future drivers of growth

90% of cross-border transactions are low value i.e. <$100k in value

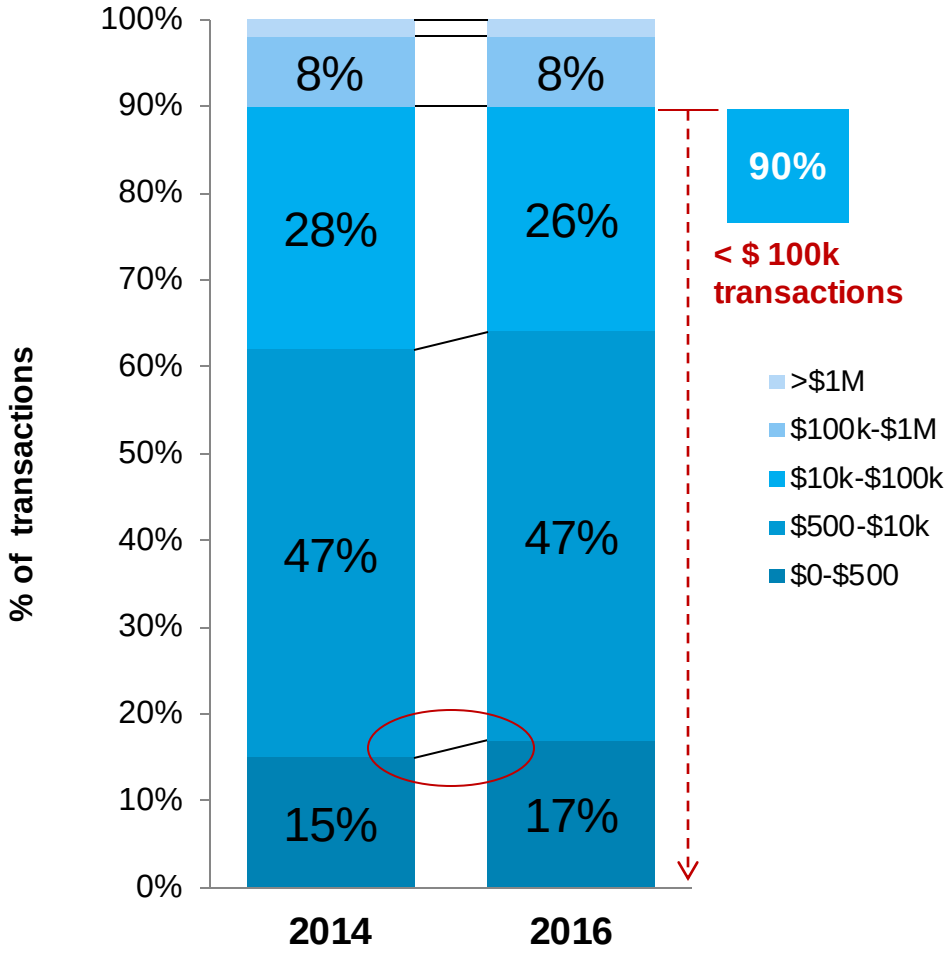
Advancements in banking technology have reduced friction in cross-currency payments…

Banking channel innovations:

1. Embedding cross-currency payment capability in banking channels
2. Live FX price streaming
3. Bulk booking of FX rate
4. Offering simple hedging solutions (FX forwards and swaps)



…resulting in increased growth of low value cross-border transactions



Source: SWIFT Watch, based on MT 103s sent between 2014-2016

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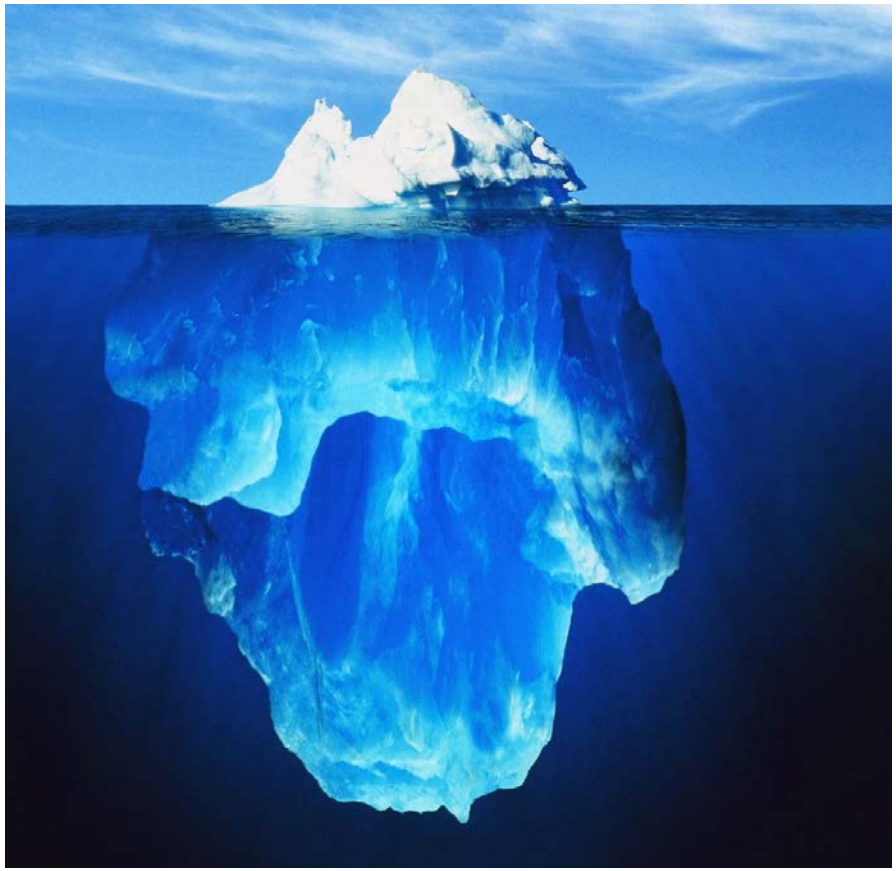
However, low value FX (<$100k) is often invisible to treasurers

Low value FX is often embedded in the AP/AR processes and remain opaque to corporate treasuries



Visible FX:

- High-value FX typically >$100k
- Dealt centrally in the treasury usually via ECN (FXall, 360T etc) or tight pricing via a relationship bank

Invisible FX:

Typically:

- Low-value FX (<$100k)
- High-volume of transactions
- Embedded in the AP (Accounts payable) & AR (accounts receivable) processes
- FX pricing is opaque

Treasurers can unlock value by identifying the invisible FX

Marketplace platforms are driving growth in cross-border C2B payments

Rising global marketplaces have blurred the distinction between payment and purchase process...

amazon

$36 Bn	20%	>1 Bn
Q1 2017 Sales	Business platform growth/month	2016 sales on business platform

2 Bn	75	$20 Bn
Rides in 2016	Countries	Gross booking in 2016

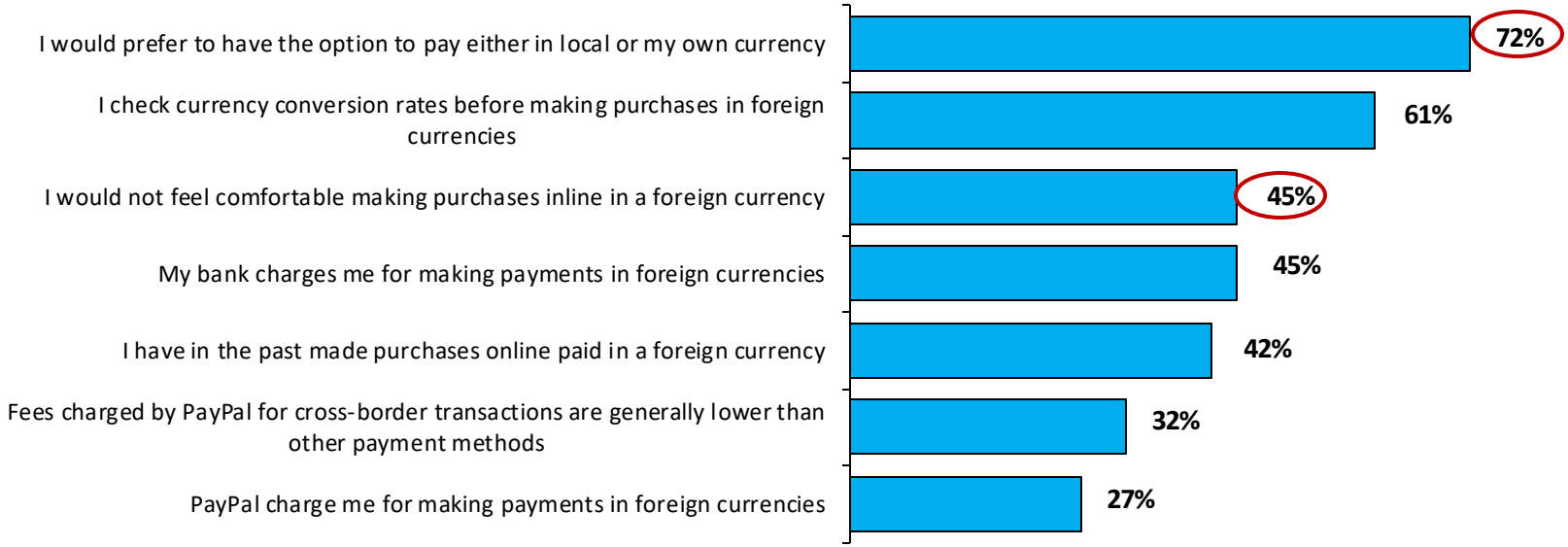
Source: BCG, International Payments : accelerating banks' transformation, 2017

...leading to rapid growth in cross-border eCommerce transactions

C2B cross-border flow: 2015

C2B cross-border flow: 2020

When shopping cross-border, 72% of online shoppers would prefer paying in their local currency



Question: Please state whether you agree or disagree with each of the following statements about shopping online in other countries.[1]

When purchasing cross-border online from a foreign merchant:

- **72%** would prefer having an option to pay in the local currency of the merchant & their own currency
- **45%** would not feel making online purchases in a foreign currency
- **42%** have made purchases online in a foreign currency

1. Source: PayPal-IPSOS global cross-border consumer research 2016. IPSOS surveyed a sample of 28,012 consumers in 32 countries.

Multi-currency pricing & hedging solutions are needed to reduce margin volatility

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