

# The changing face of foreign currency in a borderless world – and the rise of digital wallets



- ✓ Foreign currency exchange and cross border payments have long been the domain of banks and money transfer agencies
- ✓ Unclear FX rates, high charges and poor customer experiences have meant that the industry has long needed disruption and innovation
- ✓ New entrants to the market have stepped in to deliver better services, challenging the status quo, and forcing traditional providers to innovate to remain relevant and competitive

## Global trends are accelerating change

### 1. The much-heralded death of cash – FX shifting away from cash to card

Whilst the decline of cash has been reported across the globe, the pandemic has only served to accelerate trends around the move to cards and digital methods of payments.

Card payments across the Eurozone accounted for [47% of the total number of non-cash payments](#), while credit transfers accounted for 23% and direct debits accounted for 22% in the same period.

The European Central Bank reported in July 2021 that the total number of non-cash payments increased by 3.7% to 101.6 billion, with the total value increasing by 8.7% to €167.3 trillion in 2021.



Cards are increasingly in demand across the region, which has historically had a strong cash-based economy – the number of payment cards issued increased by 6.5% to 609 million, representing around 1.8 payment cards per euro area inhabitant.

And it's not just a trend spotted in Europe – in India the [RBI reported](#) that the use of ATMs fell by 47% in April 2020, whilst in Australia the [Australian Prudential Regulation Authority \(APRA\)](#) reported that over 19% of ATMs were closed in the year to October 2021.



In the Middle East, the pandemic has also accelerated a move to digital payments with a [McKinsey](#) consumer survey suggesting that 58% of Middle Eastern consumers expressed a strong preference for digital payment methods, while only 10% strongly preferred cash.

[PWC](#) has also predicted that global cashless payment volumes are set to increase by more than 80% between 2020 to 2025, from about 1tn transactions to almost 1.9tn, and to almost triple that by 2030.

## 2. A global increase in cross-border trading – the trend is only going one way

The move towards cross-border payments has grown strongly in the last few years with consumers looking for better pricing, more variety and better quality of products outside of their home markets.

[EY](#) have reported that Consumer-to-Business (C2B) transactions, such as cross-border e-commerce and offline tourism spend are forecast to reach US\$2.8tn in 2022, whilst a recent Visa GME study showed that 87% of global merchant executives see cross-border sales as their biggest growth potential.

PWC have emphasised in their [Future of Payments](#) report how instant, low-cost payments are driving the reinvention of cross-border payments. They forecast that regional solutions (especially in Asia) and global nonbank solutions based on cryptocurrency and digital wallets will emerge.



**PayPal, in their 2021 Borderless Commerce Report, highlighted that the lockdowns and the restrictions of the pandemic have meant that consumers have become comfortable with online shopping – and this has extended to buying more from outside their home countries. Additionally, the rise of online marketplaces like Etsy and Amazon have meant that consumers are finding it far easier to buy from abroad.**

## 3. The customer demands more – a fully digital (and mobile) experience for all their FX transactions

The modern global consumer doesn't just desire a seamless digital experience from their providers, they now expect it. However, the shift to full digital experiences in banking is perhaps one of the biggest macro trends.

Microsoft's recent '[Digital Banking Playbook](#)' talks about the need to create differentiated personal experiences tailored to consumers personal financial needs as well as the ability to partner with third party digital entities to meet the varied needs of their customers. This is supported by research from EY which suggests that the pace of change in cross-border payments is connected to the changing face of customer demand.

**Consumers are less willing to pay for services, and simultaneously have increased expectations that services will be fast and intuitive.**



**The growth of smartphones and popularity of digital access points such as alternative payment methods (APMs) have set a high standard for digital services that traditional banks are struggling to keep up with. New providers of financial solutions are often faster, cheaper, more transparent and have an advantage over incumbents who must contend with legacy systems and an inbuilt lack of agility. Customers have an increasing range of choice when it comes to their banking or financial services providers, and it has become relatively easy to switch services. Banks are increasingly looking to build partnerships to enable innovation and the customer focus required – but they need external support to deliver innovation and better serve their customers at various parts of their digital journey.**



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## The rise of e-wallets – the next phase of digital banking

These global trends are all driving an inexorable move towards digital wallets.

In the Middle East - when [McKinsey](#) asked payments practitioners about consumer payment preferences, 60% of those surveyed said they expected pass-through digital wallets (or “e-wallets”) to be the most influential digital payment method in the future.

The use of digital wallet-based transactions grew globally by 7% in 2020, according to a [report by FIS](#), a financial services technology group. They predict that digital wallets will account for more than half of all e-commerce payments worldwide by 2024. In response, banks and card companies have been partnering with or investing in digital wallet businesses to create payments platforms at scale, such as Standard Chartered’s venture with Toss, the largest payments company in South Korea, operated by Viva Republica; and Visa’s stake in Interswitch, a Nigeria-based payments business that operates the mobile payments platform Quickteller. Global money transfer giant Western Union has partnered with Card Provider Marqeta to deliver a real-time currency digital wallet.

Consumers want a fully digital experience - but they are not looking for multiple providers of disparate services - they want a ‘one stop shop’ for their banking services. The Economist Intelligence Unit’s latest [Global Banking Survey](#) suggests that “83% of respondents believe that platformisation of banking and other services through a single entry-point will steer the market, while 45% are committed to transforming their existing business models into true digital ecosystems.”



It's clear the future of banking is digital – and with a rise in demand for cross border payments and digital foreign currency - banks need to supplement their services with digital foreign exchange services or run the risk of customers turning towards the challenger banks and their offerings. This could increase the risk of the customer leaving the bank entirely.

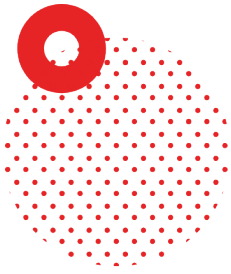
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## Delivering transformation in partnership

The banking industry is facing a transformation challenge. Almost every aspect of the traditional model is being disrupted at a time when margins have never been tighter – just how do banks meet these challenges head on?

As demonstrated above – many banking providers have looked towards partnerships with third parties to help mitigate the challenges of delivering wallet services – and there are several challenges that issuers and banks will have to think about, not least the difficulties associated around the operational transition from a single currency to multi-currency environment. The challenges include:

- The complexity and operational readiness needed to support card scheme multi-currency settlement practices
- The potential difficulty in establishing and operating a suite of nostro multi-currency settlement accounts for all currencies covered



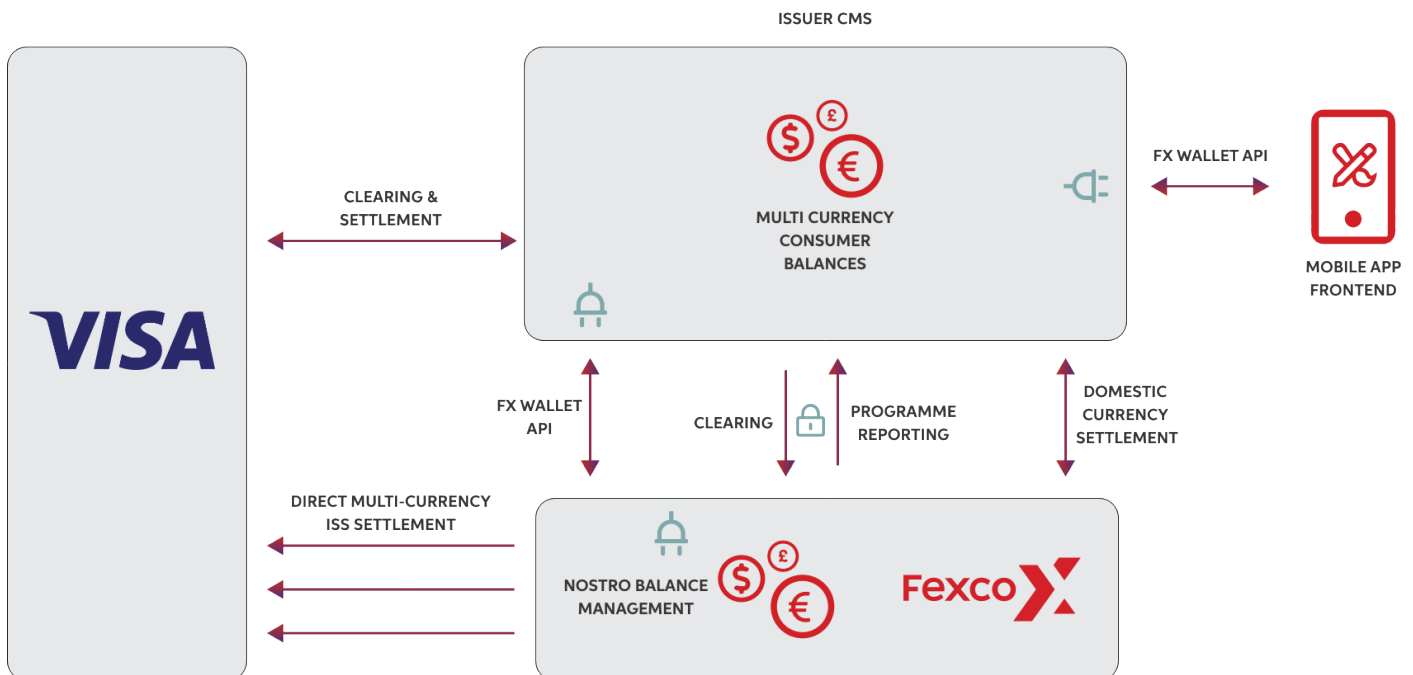
- Creation of an omni-channel real time FX API to rapidly enable digital front channels with enhanced real time FX services for low value, high volume intra-day movements
- FX and fee segmentation of card programmes for more granular pricing controls
- Management of FX risk inherent across digital wallet utilisation and subsequent settlement
- Support of currency portfolios to include exotics to cater to growing cross-border demand
- Sophisticated multi-currency programme reporting to facilitate back-office reconciliation and continuous profitability tracking

## How can Fexco help?

Enabled for Debit, Prepaid, Credit, Travel and Multicurrency cards, Fexco's API driven TaaS (Treasury As A Service) platform and professional service teams empower retail consumer and corporate card issuers to solve these challenges - simplifying the transition to the next generation of digital first, multi-currency card programmes. This significantly reduces time to market allowing traditional issuers to compete with new FinTech entrants that are challenging their market share, by creating opportunities to offer compelling new FX products and services, all with minimum risk to the issuer's operating environment.



Fexco has many decades of experience in delivering best in class FX solutions to FinTechs and banks globally. The Fexco ClearFX service allows existing financial services providers to vastly improve the customer FX experience, delivering greater FX transparency, while optimising issuer operating costs and creating new revenue streams through the introduction of multi-currency digital wallet FX services.



Visit [www.fexco.com/clearfx](http://www.fexco.com/clearfx) for more information or if you are ready to talk to us, get in touch at [jlporter@fexco.com](mailto:jlporter@fexco.com)

