Automating complexity through a new wave of international payments

With new technology come new opportunities but also new threats. Treasurers may inadvertently leave themselves vulnerable in a rush for digital and data tools. Only by aligning workflows and policies with technologies can treasurers maintain the best practices that are the cornerstone of digital security and risk management.

Global economic conditions are changing. A generational shift to higher interest rates, inflation, and a few years of volatile commodity and foreign exchange (FX) prices are focusing minds on cost and efficiency. This is a fundamental change: Even cash-rich companies are reviewing their treasury structures in preparation for a new decade.

Foreign exchange makes one of the most tangible and fiercely negotiated financial impacts on a treasury, with cross-border payments a critical element of this cost. Traditionally, cross-border payments have been plagued by complexity and a need for more transparency and speed. Most of these issues are driven by legal, tax and regulatory variations in domestic account structures, along with various local payment capabilities and hours of operation.

> No other solution offers the levels of connectivity and integration required by global companies.

Over the last decade, innovation and technology have led to substantial improvements in the payments industry and an explosion of new payments networks and infrastructure. This change initially concentrated on consumers, with fintech networks promising faster and more transparent payment options.

Despite these advances, most new fintech networks operate "closed-loop" ecosystems, which means that, while they can guarantee their own network, they lack true connectivity and the ubiquity required for global cross-border payments. The biggest challenge for these "closed-loop" systems is the connection back to a bank account. Often these systems do not include the final transaction and any fees for connecting to a bank account, which is the destination for cash that wants to earn a yield. This ultimately means that end-to-end speed and costs can be understated.

Propelled by this wave of innovation, the traditional payment infrastructure actually remains the best option for global business-to-business payments. Moreover, with its ubiquity arguably the most important aspect, this is the only solution that offers the levels of connectivity and integration required by multinational companies.

Key takeaways

- Innovation is advancing cross-border payments and increasing optionality. Nevertheless, only an "open-loop" network of networks, like the traditional wire, can provide the level of global ubiquity and integration needed for the higher volumes and geographic footprint of international businesses.
- Improved standards and regulatory forces are driving a renewal of traditional cross-border payments. This infrastructure is beginning to mirror the visibility and speed of "closed-loop" systems while seamlessly connecting domestic real-time payment infrastructure to offer new opportunities to simplify and automate foreign exchange risk management.
- For treasurers looking to maintain best practices, managing payments in multiple currencies goes beyond local capabilities to the global account structure and cash pooling that drive FX and liquidity costs. To leverage the best of this new breed of capabilities requires a network of networks underpinned by a global banking partner.

Traditional cross-border payments: open, connected, and global

A global payment infrastructure needs to be a network of networks. The traditional cross-border wire is designed as an "open-loop" system that connects multiple "closed-loop," country-specific systems. It is complex because a payment from London to China might pass through three time zones and require four different banks with multiple regulatory and legal considerations. While this system is complex, it is also powerful, connecting the vast majority of the world's banks and moving over $5 trillion in payments daily.

The ubiquity of a network of networks means that with a single connection and infrastructure, a global company can obtain what "closed-loop" systems can't: genuinely global reach, connectivity to the underlying global banking infrastructure, and the resiliency and stability necessary to handle the bulk of the world's commerce.

> With a single connection and infrastructure, a global company can obtain genuinely global reach.

The launch of SWIFT GPI in 2017, which improved transparency in cross-border wire transfers, also clarified some old misconceptions around the speed of traditional payments. New data from SWIFT showed that 50% of traditional cross-border wires are settled within 30 minutes, with 90% settled in one day. This showed that the perception of delays is often based on outliers with particularly tricky sanction screening or time differences.

Ubiquity aside, traditional payment infrastructure is undergoing a seismic shift, with the entire ecosystem seeing a generational uplift in capabilities that is bringing the benefits of "closed-loop" fintech experience into the broader cross-border payment industry.

Connecting the old with the new

Regulators are a driving force. An increasing number of new real-time payment infrastructures aim to capture consumer flows into trusted traditional deposit institutions by combining feature-rich functionality and reliability.

The goals go beyond the domestic to cross-border payments that blend consumer and business capabilities. For example, Hong Kong's Faster Payments System now offers real-time cross-border payments, with Australia's New Payment Platform offering a similar capability in 2024. In Europe, the Single Euro Payment Area (SEPA) will offer "one leg out" payments at the end of this year, allowing for around-the-clock instant payments into the SEPA network and essentially bridging the region's old and new payments infrastructure.

All market participants are now in full swing. The migration of messaging infrastructure to the new ISO 20022 data standard allows more structured, action-specific data flows. This is driving

the next level of payment transparency, visibility and control by enabling new tools like payment prevalidation and the next-generation SWIFT GPI. These initiatives remove friction from the payment flow at the onset, the point of payment initiation, or even earlier, at the point of beneficiary onboarding. True cross-border validation is an exciting emerging technology combining rich data, dynamic interactivity and data solutions to allow instant validation, predictability and outlier modeling.

These developments bring even more connectivity to the global payment network, along with transparency, speed and true end-to-end cost control. By combining the right tools and capabilities, there are now increasing opportunities for treasuries to improve risk management and effectively automate the complexity of foreign exchange.

Onshoring vs. offshoring

The current wave of digital transformation has permanently raised consumer and business expectations. More companies now need full access to in-country payment capabilities and "closed-loop" technologies, whether through a resident or non-resident account. The balance is tipping between global and local banking capabilities and is less about compromise and more about needing both.

Operating in Mexico is a good example. It is a 24-hour, 7-day market with niche local payment capabilities, from alias payments to QR codes, that reduce costs and improve local supplier relationships. However, the currency is volatile, so establishing an FX hedging and risk management strategy will guide a company on how much cash to hold onshore to manage local operations or convert to a more liquid base currency such as U.S. dollars.

Managing payments to Mexico goes beyond local capabilities to the global account structure and cash pooling that drive FX and liquidity costs. By combining multiple technologies, including local and cross-border payments, automated sweeps and locked-in FX margins, treasurers can automate specific business processes to optimize liquidity, reduce FX costs and free up treasury resources to focus on strategic objectives.

Bank of America believes that the technology exists to manage risk centrally without needing physical centralization. Efficient international payments and integrated value-added services are crucial pieces of this puzzle, but it requires a network of networks underpinned by a global banking partner.

That is why we have invested in an open-architecture payment platform with next-generation cross-border payments in mind.

Global visibility of payments is enhanced through our CashPro® Online banking with SWIFT GPI and consolidated reporting. Automation of cross-border payments is simplified with Instant Cross-border Payments (IXP), built on distributed ledger technology, with no deductions from low-value payments and fixed FX rates. At the same time, local consumer needs are ensured with our program of strategic integrations with digital payment platforms like PayPal®.

Our investment in the next wave of cross-border payments combines the best local and global capabilities, so speak to your Bank of America relationship manager to understand how the new wave of international payment capabilities can support the next stage of your treasury automation.