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Emerging trends in payments and collections

Globalization has brought with it the opening-up and integration of markets across the world. Emerging markets have been no exception. In fact, the importance of emerging markets has grown significantly: top-tier local businesses from these countries have recently begun expanding internationally for the first time, and multinational companies are eager to access the rapid growth in these economies. This is

driving an increased focus on harmonization and efficiency in managing cash flows across the global business. Handling payments and collections in every market and improving operating efficiency are critical success factors for every organization.

Across many emerging markets, a number of key trends are spawning the creation of more

effective payments and collections. “Historically, emerging markets were characterized by paper-based payments and information exchanges with manual process,” says Sandip Patil, Regional Head for Payables and Receivables, Asia Pacific, Global Transaction Services, Citi. “Now, there is a rapid move towards digitizing the environment, and the switch is taking place at a significantly faster rate than in the past.”

The acceleration of the move away from legacy systems is being driven by the increasing ubiquity of electronic solutions, as well as the lower cost and increasing efficiency of electronic alternatives. “The result is that the gap with developed countries is being bridged faster than ever before,” says Patil. “This has significant benefits for both emerging market companies and multinationals expanding in emerging markets.”

Developing markets have localized needs

It is important to remember that development in high-growth markets will necessarily differ from the experience of developed countries – in some cases, technology could allow emerging markets to surpass Europe and the US. In India, for example, the bulk of settlement and clearing is now electronic. Check clearing, which could take from few days to several months, now occurs on a same/next-day basis and is offering improved certainty of payment along with meaningful information.

Equally important, is the fact that these trends will not necessarily result in a common payments and collections landscape across emerging markets – rapidly growing developing countries are simply too varied. “For example, some emerging market countries lacking the widespread banking infrastructure are jumping on the newest available technology and have a high level of take-up for mobile payments,” explains Ebru Pakcan, Regional Payments Head for EMEA at Citi, Global Transaction Services.

In Kenya, mobile phone usage in financial services goes far beyond just SMS payment alerts. “Mobile infrastructure is now being used

to make payroll payments and to collect utility bills,” says Pakcan. “Across East African markets, such as Tanzania and Uganda, the technology is being seriously considered for governmental flows like social security payments.”

Similarly, in the Philippines, Thailand, and India, the concept of the mobile wallet is rapidly taking hold, enabling the creation of a parallel banking infrastructure. In Thailand, it is now possible to load cash on to mobile phones at ATMs and pay utility via mobile phones, on while in more developed markets such as Korea and Japan, the mobile is being used for even more advanced financing solutions.

These developments – which are often more advanced than initiatives in developed countries – are being driven by the developing banking infrastructure of many emerging market countries, and the relatively more established nature of mobile telecom infrastructure. Similarly, banking infrastructure is relatively expensive to build. At the same time, there is huge value to be unlocked given the large number of “unbanked” people.

Customer adoption is evolving

One important caveat to the rapid pace of change of payments and collections in emerging market countries relates to the evolution of companies’ infrastructure, and the rate of process adoption. “Delays associated with the commercial fulfillment of transactions remain,” says Patil. “There is limited uptake of e-invoicing and use of imaging, for example, because often, companies have limited resources available for investment. This, coupled with legacy infrastructure, can make moving to an electronic system difficult.” The adoption of new electronic payment types can take a long time, sometimes impeded by prevailing market practices. In the case of Turkey for instance, a direct debit scheme was rolled out several years ago with very low volumes to date. In addition, low labor costs mean that it is often more cost-efficient to staff up rather than invest in electronic solutions. However, this picture is now changing rapidly. ▶

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Improvements in technology have a major role to play for emerging market companies seeking to meet the increased need for risk management, fraud awareness, and fraud prevention. They could spur change in the future. “Fraudsters have become more sophisticated and therefore risk management has become even more important,” says Pakcan. “It is essential to create contingency plans in relation to liquidity, payments and collections.” Banks also have a role to play in combating fraud through the provision of solutions that prevent check fraud, for example, the use of SMS alerts to track the progress of payments.

Inter-regional trade increases

The heightened importance of emerging markets in driving global economic growth has highlighted the growth of intra-regional trade in regions such as Asia, for example, and increasing inter-regional trade between emerging markets. China, in particular, has dramatically widened its trading relations to embrace not just its Asian neighbors, but also Africa, Latin America, and the Middle East.

“The practical consequence of this change in the pattern of trade flows is a greater need by companies for cross-border settlement and cross-currency payment solutions,” says Pakcan. Historically, cross-border settlement has been a challenge in emerging markets because of regulatory currency controls and various reporting requirements. Moreover, the need to keep a local currency account in multiple markets to facilitate payments in those markets has often proven problematic for companies without the corporate infrastructure and bandwidth to manage them.

“Now, thanks to technology, this situation is changing quickly,” says Patil. “Banks are competing to offer comprehensive technology solutions, that embed foreign currency conversions and address issues such as exchange controls and reporting requirements.

The goal is to make cross-border payments as simple as making a local payment. Obviously, these developments benefit all types of companies but for emerging market companies in particular, they could be a real enabler of increased trade.”

The public sector is a catalyst

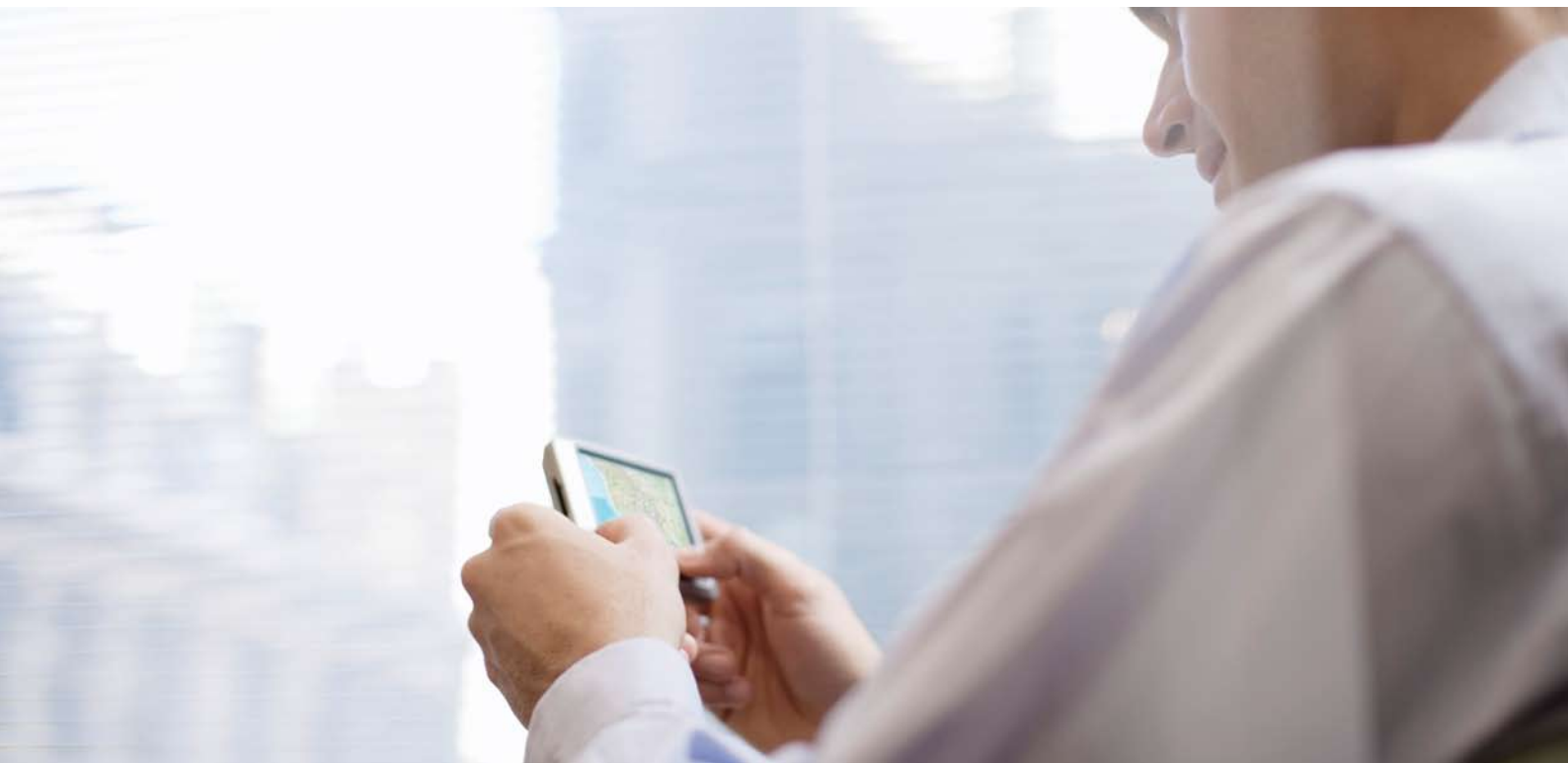
In recent years, many emerging market governments and central banks have made tremendous advances in regulatory and financial infrastructure. For example, Thailand now operates an e-tax system that allows the payment of all types of tax online. From a business perspective, the ability to pay customs duty at a time that suits the user rather than the Revenue Department of Thailand is clearly attractive. Similar initiatives are visible in practically every emerging market.

Similarly, the government of Hong Kong has automated its payment processes and migrated much of its spending to a commercial cards platform. “Initiatives such as these inevitably have beneficial knock-on consequences,” says Patil. “By moving services online, they help to create a more robust banking infrastructure and also encourage commercial companies to automate more of their own processes.”

Creating value from payments

In the past, payments have had a simply defined objective. However, payments are now increasingly being seen as a means of creating value. “The world view is changing from ‘cash is king’ to ‘information is king,’” says Patil. “It brings additional value to the client proposition.”

The challenge for banks and other companies working in the payment market – such as non-bank payment providers, business process outsourcing firms, logistics companies, and technology companies involved in areas such as imaging – is to consolidate information so that it can be used effectively for better decision-



making and to lower operating costs. “Moreover, this goal of consolidating information must be met in an environment where corporate processes may still be paper-based for part or all of the transaction life cycle,” says Patil.

In Vietnam, despite most payments being cash based, banks and other companies associated with payments have helped to create a system that captures all payment information, enabling matching of invoices and efficient reconciliation.

Pakcan says that it is also important to consider why payments are being made. “For example, if there is a buyer-supplier relationship, there may be opportunities to try to root out inefficient adjacent processes and implement integrated solutions – such as discounts for early payment or supplier finance – that have the potential to improve cash flow,” she notes. “Such solutions do not just depend on the efficiency of payments and collections, but more importantly, on efficient information flow.” ■

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