Multi-currency wallets find favour for real-time cross-currency payments

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ABSTRACT (ENGLISH)

HSBC's new global wallet offering is the latest in a line of services enabling businesses to make and receive international payments from a single account.

FULL TEXT

In May, HSBC launched a multi-currency digital wallet that allows users to send and receive money in a number of currencies and hold and manage those currencies in the same global wallet account.

The service is initially available for US dollars, euro, sterling, Canadian, Hong Kong, Singapore and Australian dollars, with payments made using domestic real-time payment networks.

A number of banks and fintechs already offer similar services.

Businesses are fed up with high-street banks' [charges]

David Parker, Polymath Consulting

For example, Wise (formerly TransferWise) has a multi-currency account that allows users to convert and hold 56 currencies.

In September 2020, ClearBank claimed to be the first clearing bank to offer multi-currency bank accounts, allowing users to move funds between accounts with real-time foreign exchange pricing based on interbank rates for more than 30 currencies.

Customers of OFX's global currency account can open local currency accounts in USD, EUR, AUD, HKD, SGD, CAD and GBP, while Santander's PagoFX says users can access real-time, mid-market exchange rates to transfer money to more than 50 countries.

The growth of these services reflects the difficulties of opening bank accounts in new territories that are faced by companies expanding internationally.

Cost is another factor.

"Businesses need to move money around and are fed up with high-street banks charging them around 4% every time they move funds between currencies," says payments expert David Parker, director of Polymath Consulting.

Because payments into wallets are delivered cross-border in real time, there is an immediate acknowledgment and certainty of payment.

There is also an element of convenience associated with providing a phone number or an email address (which are much easier to remember than bank account details), helping to make the payment experience straightforward, regardless of location or currency.

Corporate interest

According to Emanuela Saccarola, managing director and global head of product for cross-border payments at Citi, there is a lot of interest from corporates in the use of digital wallets for making cross-border payments.

"Many digital wallet providers have extended their solutions to business customers. Companies are demanding solutions to collect from and make payments into wallets, particularly in the e-commerce and gig economy space," she says. "However, they are not suitable for every type of flow – for instance, a large supplier bill would be paid by account credit rather than into a wallet."

We see opportunities for digital wallets in many parts of the world
Emanuela Saccarola, Citi
There are a number of scenarios where a wallet with a multi-currency function could be preferable to opening multiple foreign currency bank accounts, such as for small and medium-sized enterprises that are rapidly expanding into other countries and looking to pay and sell in multiple currencies.
E-commerce platforms could also use multi-currency wallets as store-of-value solutions for their merchants.
“We see opportunities for digital wallets in many parts of the world,” adds Saccarola, "but Asia is the most advanced region as the regulatory environment is sympathetic to this type of solution and the use of wallets is more widely accepted."
Multi-currency wallets allow businesses to pay, invoice and receive ‘like a local’, converting currency as and when needed, or when the market suits them.
“For SMEs that are operating – or want to operate – internationally, multi-currency digital wallets allow them to operate like a local in multiple territories without the issues of setting up a physical presence and opening local bank accounts,” says Todd Latham, chief growth officer at Currencycloud.

Fluctuations

The worst-case scenario is that invoicing or paying in one currency and having to go through the process of dealing with fluctuating FX rates and hidden charges proves too much and puts businesses off trading internationally or makes them less appealing for other businesses to work with.
Reconciliation becomes a nightmare. What was invoiced is not what arrives
Todd Latham, Currencycloud
In that situation, “reconciliation becomes a nightmare,” says Latham. “What was invoiced is not what arrives after FX conversion costs, potential intermediary bank charges, and charges from the receiving bank for accepting an international payment.”
A survey carried out on behalf of HSBC UK in April suggested that currency fluctuations were the leading concern for UK-based businesses when making and receiving payments overseas (40% of respondents), while one in five were concerned about the speed of payments.
So why are companies still using payment methods that leave them exposed to currency fluctuations between the point of execution and the point of settlement?
One explanation is that their systems are old and inflexible, and they may not have the ability to hold account details for their beneficiaries.
“It is often because they need an immediate solution, or what was once considered something that would be an occasional issue has become more pressing as the business grows, and they haven’t found (or had the time to find) a better solution,” concludes Latham.

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