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The emergence of cross-border commerce and its impact on the payment industry, a Jordan Graison, Limonetik, expert' view

Jordan Graison, Head of Global Sales at Limonetik, builts an elaborate portrait of the challenges and opportunities in cross-border commerce and trade

Jordan Graison, Head of Global Sales at Limonetik

PARIS, FRANCE, April 14, 2020 /EINPresswire.com/ -- By 2020, global ecommerce will account for 14.6% of the total retail sales, according to an eMarketer study. The globalisation of trade, especially via the internet, is causing major paradigm changes. The payment industry is directly affected and therefore confronted with ever more complex challenges.

Deciphering the emergence of cross-border commerce and its impact – state of play

The Tower of Babel perfectly illustrates the current state of the market: only instead of languages, we witness the presence of countless stakeholders and all their different needs. More and more services are available for managing liquidity and payments, and they are diversifying, thereby increasing the number of parameters to be reckoned with in a financial transaction. To deal with this diversity, the players require a complete understanding of trade. So far, no one can offer a single perfect solution with product offerings and superior customer experience at a low cost. As things stand, the network is the most logical system that prevails today.

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>
> *Jordan Graison*

Yet, a single payment network cannot suffice to handle the vast increase in terms of usage and regulatory constraints affecting the different stakeholders in world trade. Some global networks, however, have been able to adapt to different practices such as ecommerce or proximity shops, either retail or wholesale. But these systems are not present in all countries, in all currencies, and for all applications.

For example, in China, the law forbids the use of Visa/Mastercard networks for buying or selling. Whilst the Chinese Yuan is partially convertible despite many regulatory constraints (licensing etc.), the Chinese government prohibits (or inhibits) foreign companies – especially American ones – from getting involved in such a sensitive area as monetary sovereignty, particularly nowadays.

Limonetik logo

The idea of the ‘one-size-fits-all’ network and cross-border trade: strong constraints?

Since the rise of the global economy in the 1950s and the fall of the Berlin Wall in 1989, several unique networks, often American, have emerged with a catch-all response to the need for trade ‘beyond borders’. But a one-size-fits-all concept poses many problems. It starts with the huge increase in middlemen for transferring the money from buyer A to seller B. Snail’s-pace management of cash rebates is the main constraint. This is linked to exchange rate snags and government regulatory limitations, and to the network itself. Is the entity a local one? Is the currency convertible? Are there limits imposed on capital outflows and inflows? Does the network authorise it?

In addition, the reliability of technical integration poses a problem for two reasons. First, who shares the responsibility in the value chain, in particular when a transaction fails? Who is to be held accountable? Similarly, the vast number of links in the chain inevitably tends to distort things every time a new intermediary enters the picture. Each participant acts as a filter because of specific technical constraints, product choices, and business strategy.

Not to mention that applying the one-size-fits-all system has a price tag: limiting market expansion. Ditto for the service offering, which is thus limited to a single transaction (A to B), while leading to skyrocketing costs: each player must be compensated, often to the detriment of the counterparties to the transaction (sender/receiver).

Direct consequences for global trade stakeholders

In order to continue their work, the key players in trade have had to adapt. For instance, they have increased the number of technical methods and local entry points through which to collect funds, where existing networks could not do the job. In addition, they have created additional financial processes as the market expands to accommodate these new entry points. These stakeholders have therefore imposed a new logical approach on the entire payment industry: ‘Go local to go global’.

Moreover, some major players are now deliberately opting for multiple service providers when it comes to collections and payment; or even take on the burden themselves in all or part of the chain.

The payment market after the explosion of cross-border commerce The payment industry is totally passive, and as a result some of its users feel helpless. The industry is struggling to meet the new need for worldwide expansion due to a lack of available digital, transnational, and multi-polar solutions to cover all the requirements of the new economy. When a transnational platform fails to receive a payment because its sellers and buyers are spread around the world, and the networks it uses impose zones or impose conflicting rules, businesses have a hard time growing, let alone gain market share.

Solutions for adapting to cross-border commerce

To understand the needs and workings of the new economy, the payment industry must teach users not to underestimate the payment factor as part of an international development project (often seen as a mere detail); at the same time, payment companies must be alert and reinvent themselves, and take risks. It is not enough to partially respond to the challenge by updating old solutions or doing margin adjustments, one must start from scratch by offering tools adapted to the globalisation of trade.

The payment industry must also flex its muscles in the global economy game and bend regulations that are not always adapted to new habits.

Several players have understood the importance of this transnational logic. With globalisation in mind, they are offering products adapted to worldwide commerce. But the stakeholders in global commerce have fully realised that no product will ever be able to satisfy needs 100%.

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