Unlocking the FOREX value of local currency

By Gerry van Heerden

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The solution to global economic growth is to afford online merchants the ability to participate in the African GDP success story by removing existing constraint and unlocking the value of local currencies.

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Online merchants are constricted in the payment methods they can offer to consumers by means of their chosen digital payment gateway. What it offers is what they can have and what their customers in turn can use. This is usually the major credit card companies - MasterCard, VISA, Amex, Diner's and in some cases perhaps also JCB and CUP and then possibly a payment programme like Paypal and/or Skrill.

This is limited as the number of payment options is vast and the constraints do not end there, as merchants are further restricted in their payment currencies allowed as the payment gateways can only settle them their monies due to them into their merchant bank account and what currencies it in turn allows.

A merchant bank account is a special type of bank account that banks use for receiving card payments due to the merchant. In order to get a merchant bank account, a bank must accept the merchant's business. While this is still fine, par for the course if following this route, will be a mountain of forms, background checks, forecasts etc. These are vital, as all reputable money institutions will insist on these checks and balances in order to comply to anti-money-laundering and antiterrorism requirements.

The nightmare

If the merchants' bank account application is accepted and the account issued, the bank will then also prescribe the currencies that the merchants are allowed to accept. Therein lies the nightmare. If the merchant's local bank, like 99,99% of all banks, does not accept a strange or exotic currency, then even if the card submitted for payment to the merchant has enough of that particular currency available for the transaction, it will be declined.

Most banks have their merchant accounts constrained to a few major types of permitted currencies such as the USD, GBP, EUR and AUD. This is normal and acceptable as it costs a lot of resources to cater for seldom used or very exotic currencies. Banks are practical machines when it comes to optimising costs and reducing risks.

So to sum up so far, if the customer that tenders payment on the card (allowing that it is a type of card accepted by their payment gateway) to the online merchant, it has to be in the currencies allowed by their own merchant bank.

There is however, an additional stressor for merchants. Keeping track and deciding on currency baskets of currencies unfamiliar to the chosen payment gateway, and those not supported by the bank, is an almost impossible problem to resolve. Dynamically pricing for these currencies on top of that is simply an improbability. Let's call this the problem of local currency.

A distinct problem

There is a yet another distinct problem at play here too. Barring the world famous MPESA from Kenya and a few others, like MOL from South East Asia, most of the really new, innovative and sometimes downright strange payment methods, are not available to online merchants outside of the country in which that payment method originates and is used.

Mobile money, mobile wallets, prepaid vouchers and the types of new payment methods growing in use and popularity in emerging markets, are broadly not available internationally. This has to do with the FOREX rules and banking regulations of the central banks of the countries where these payment methods are based. This is again entirely normal - no state will cede control of its currency flows and central banks cannot allow it. This has to do with Fiat currency rules, inflation risks, currency trading, sales taxes, consumer protections and the like.

There are rare cases like Boleto from Brazil where the Brazilian government allows a single FOREX bank, in that case Banco BEXS, to offer international merchants access to receiving payments using Boleto through their EBANX service. It is however severely constrained but it is still a workable solution, if only within its own parameters.

A great product from outside an emerging market only has a single path to get access to the new payment methods from emerging markets. That is to register a legal entity in every country in which they wish to trade.
Expensive and complex

This is very expensive, complex and has a large administrative overhead, as emerging markets typically have a fast evolving rule system for merchants to comply to. This is one of the greatest barriers to encouraging the free flow of trade and getting smaller companies to participate - anywhere in the world, not just in developing economies.

Even very large companies have massive teams to try and manage this. Currently, there is simply no incentive outside of being a large listed group and one that needs the market share and growth to appease shareholders, for any online merchant to try and get around this.

Sportsbetting is the happy exception to the rule, but that has more to do with an urgent need to grow bottom lines due to sluggish and saturated domestic markets. It is also traditionally an industry well versed in operating in complex and most often, hostile regulatory environments.

A further issue is that many of the local payment methods themselves are deeply unplanned businesses. Their standards are haphazard; the drive to recruit merchants to use these sources is intermittent to non-existent, and the majority of growth, happily accidental. In many ways the happy accident of MPESA's wide adoption has almost set the norm for a completely false model where, by the mere fact of its existence, means it will succeed. But in reality, there were distinct, timeous socio-economic factors at play which created the popularity of MPESA.

By and large, local payment methods are not in the business of getting more business; they are in the business of recruiting people to their platform. Unfortunately, a flaw common to platforms is that members do not a turnover make. Let's call this the problem of access to local payment methods.

Weak global markets

Now the problem of local currency and the problem of access to local payment methods are compounded by weak global markets. In times of crisis, the payment and banking industry seek to expand assets from defaulting debtors, not venture into new risks nor new payment methods to encourage new transactions.

Among online merchants there is awareness and desire to participate in the African GDP success story, but it is very hard for them to do. Therefore one of the best solutions to redressing this situation, would be to present a method whereby Merchants have access to local payment methods and local currency is also equally available and valuable.

A real life example: company is based in Portugal. They bank with an internationally recognised institution and use a multinational German payment gateway. Their bank allows them to take EUR, USD and GBP, their gateway gives them MasterCard and VISA. Everything works fine as long as a customer tenders payment with a card associated with MasterCard or VISA and in EUR, USD or GBP. They have priced their inventory accordingly, but with the commonalities to other online merchants in having low prices and tight margins.

New currencies present them with a massive problem. They are unfamiliar with them, worry about fluctuations and see a risk in trying to keep up with rates. They can buy daily exchange rates from sources like Reuters, but still have to engineer their inventory pricing around it to become dynamic.

ABOUT THE AUTHOR

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