

Agpaytech's Research
19th February, 2024

Driving Payment Innovations Among MSMEs Through Transactional Banking



Agpaytech



EXECUTIVE SUMMARY



The report found that transactional banking plays a pivotal role in driving payment innovation among MSMEs by addressing the challenges associated with digital payment adoption.

The report explores the significance of transactional banking in fostering payment innovation among Micro, Small, and Medium Enterprises (MSMEs). It delves into the challenges faced by MSMEs in adopting digital payment solutions and highlights the role of transactional banking in overcoming these obstacles.

Using secondary data, the report found that transactional banking plays a pivotal role in driving payment innovation among MSMEs by addressing the challenges associated with digital payment adoption. By leveraging transactional banking services, MSMEs can streamline their payment processes, improve financial efficiency, and enhance their competitiveness in the digital economy. Collaboration between financial institutions, fintech providers, and regulatory authorities is crucial for advancing payment innovation and promoting the financial inclusion of MSMEs.

TABLE OF CONTENT

Executive Summary	-----	2
Transaction Banking and MSMEs	-----	4
Transactional Banking for MSMEs in Africa	-----	5
Transactional Banking Solutions for MSMEs	-----	6
The Role of Technology in Shaping Transaction Banking for MSMEs	-----	7
PAPSS, Transaction Banking and MSMEs in Africa	-----	8
Importance of Transaction Banking	-----	9
Conclusion	-----	10
Reference	-----	10
About Agpaytech	-----	11

TRANSACTION BANKING AND MSMES



Banks and payment service providers (PSP) have set up trade desks to facilitate cross-border transactions, opening new avenues for business and payment aggregators

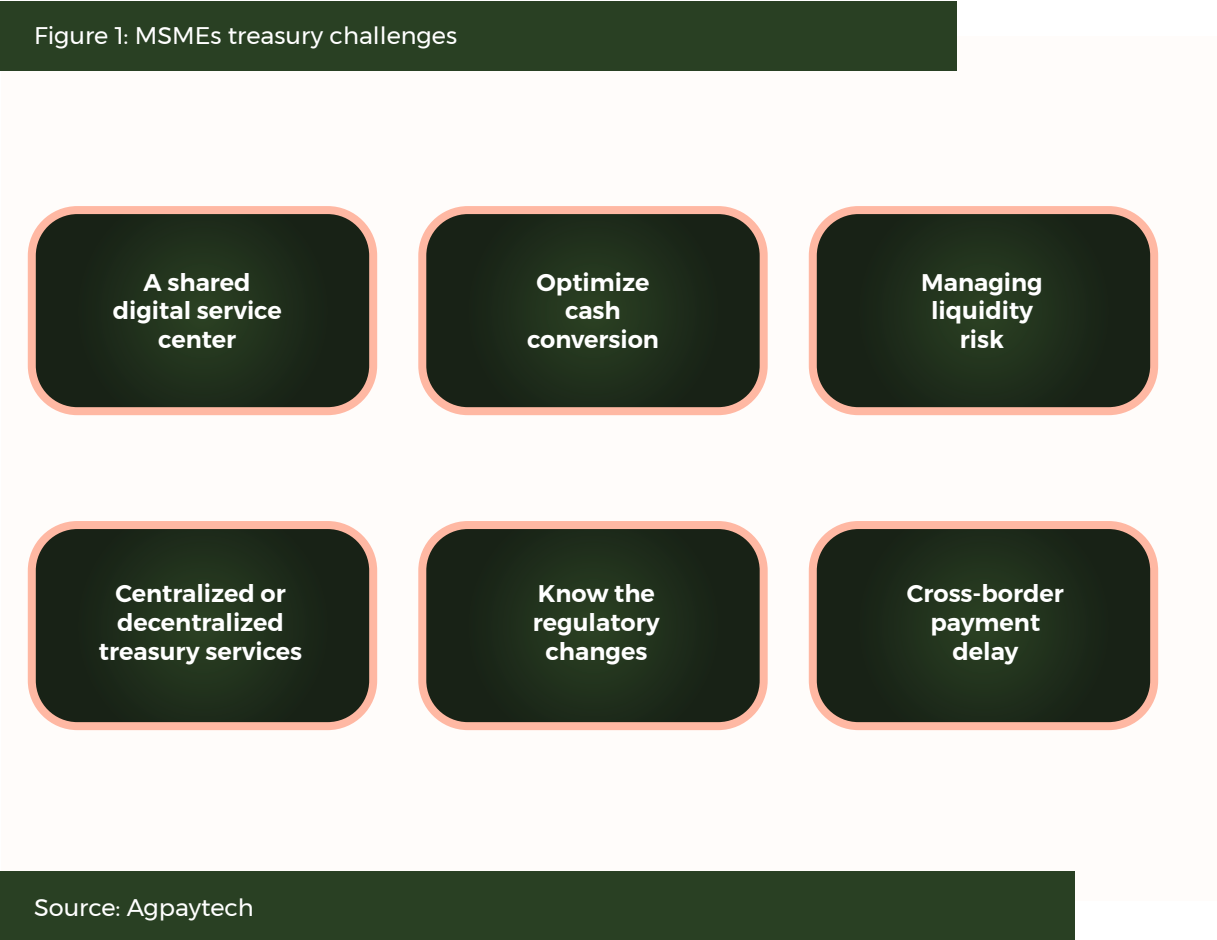
In the dynamic scene of global commerce, Micro, Small, and Medium Enterprises (MSMEs) stand as the hub of economic growth and vitality.

These enterprises, often characterized by their resilience and agility, contribute significantly to employment generation, innovation, and overall economic development. MSMEs comprise a major share of total private sector entities in both developed and developing countries (OECD). However, as pillars of the business ecosystem, MSMEs are not immune to the challenges inherent in financial transactions, particularly those related to both domestic and cross-border payment methods.

Today, a lot of complexities that surround MSME trade and settlement in Africa are no more. The advent of the Africa Continental Free Trade Agreement (AfCFTA), and improved cross-border payment systems like the Pan-African Payment and Settlement System (PAPSS) as well as unique business banking solutions has smoothed MSME treasury services. Banks and payment service providers (PSP) have set up trade desks to facilitate cross-border transactions, opening new avenues for business and payment aggregators. Often referred to as “Transaction Banking”, it rethinks MSMEs’ financial needs from a business perspective. Transaction banking helps facilitate and manage payments, short-term cash, financial securities, trade finance deals, and international trade for clients like government institutions, financial institutions, corporate, and public entities, corporate and commercial entities, multinational entities and others.

TRANSACTIONAL BANKING FOR MSMEs IN AFRICA

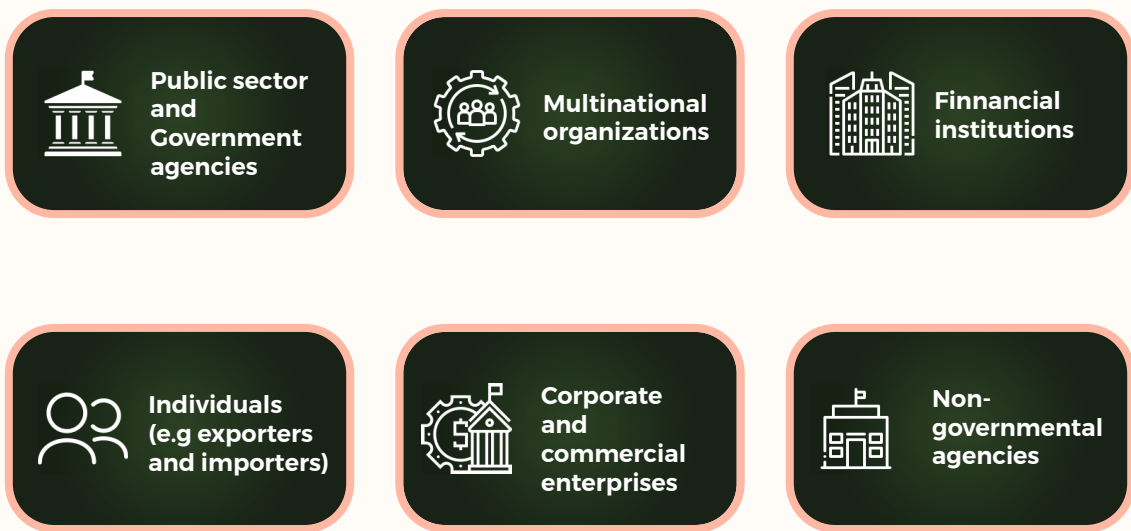
MSME clients have an increasing demand for liquidity, efficiency and risk mitigation. Banks, PSPs and Fintech are leveraging in-depth product knowledge and a consultative approach designed to deliver innovative and cost-effective solutions when navigating the business cycle. Financial institutions are providing transaction banking solutions to MSMEs that have transactional accounts with them. Transactional accounts are mostly current (operational) accounts for corporate organizations, individuals, and groups that could access the money in its cash or digital version. The TBA is similar to Internet banking, where the account holder can withdraw, transfer, or deposit money anytime. It does not bear interest, and it is like a checking account that makes the account holder feel mobile with his or her money. In most cases, monies in transactional accounts are easily convertible to other currencies and have full liquidity to pay bills and make everyday purchases.



TRANSACTIONAL BANKING SOLUTIONS FOR MSMEs

Overall, transactional banking solutions cater to a diverse range of clients, from individual consumers to large corporations and financial institutions, offering a wide array of services to meet their specific financial needs and objectives. Banks may tailor the transaction banking services to users' or customers' specific needs. Mostly, the transaction service caters to individuals who require special banking services to manage their personal finances such as checking and savings accounts, debit cards, online and mobile banking, bill payments, and money transfers.

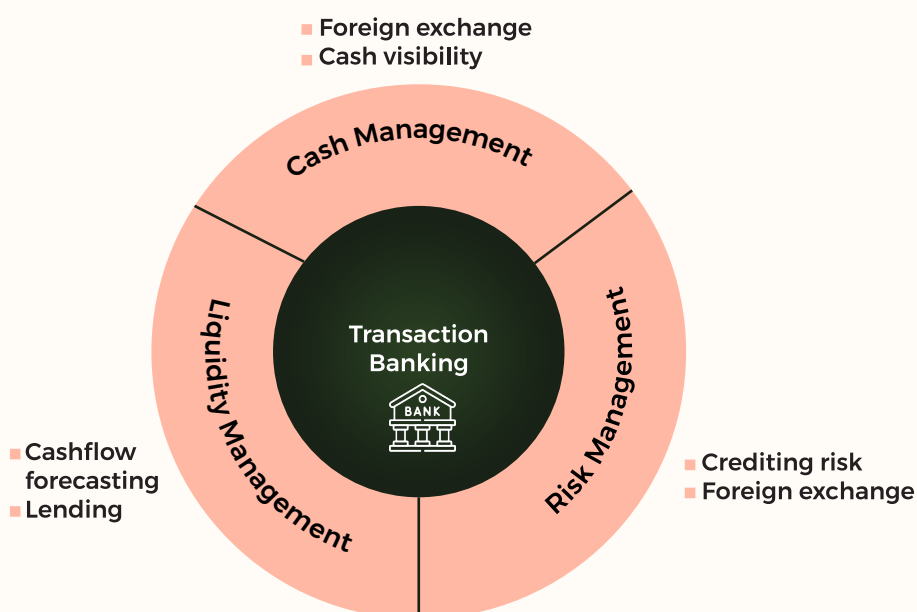
Figure 2: Users of transaction banking solutions



Source: Agpaytech

For MSMEs that have unique banking needs transactional banking solutions typically include services such as business checking accounts, business loans and lines of credit, merchant services, payroll processing, invoicing cash management solutions, and cross-border payment services. Also, FinTech and banks offer large corporate entities sophisticated transactional banking solutions to manage their complex financial operations efficiently. These solutions often include cash management services, treasury management, foreign exchange services, trade finance, corporate credit cards, and customized reporting and analytics. Today, government agencies and NGOs utilize transactional banking solutions to cope with their finances, disburse payments, collect fees and taxes, and track expenditures. These solutions may include electronic fund transfers, treasury services, automated clearing house (ACH) payments, and online payment portals. Even among financial institutions, the use of transactional banking facilitates their own internal operations and provides banking services to their customers. These solutions include core banking systems, payment processing platforms, digital channels, risk management tools, and compliance solutions.

Figure 3: Transaction banking solution for MSMEs



Source: Agpaytech

THE ROLE OF TECHNOLOGY IN SHAPING TRANSACTION BANKING FOR MSMEs

Technological advancements have revolutionized the way financial services are delivered, making them more accessible, efficient, and tailored to the specific needs of MSMEs. Below are some key ways in which technology has influenced transactional banking for MSMEs: In summary, technology plays a pivotal role in shaping transactional banking for MSMEs, offering innovative solutions to address their unique challenges and empower them to thrive in today's increasingly digital economy. By embracing technology-driven banking solutions, MSMEs can improve their financial management capabilities, enhance their competitiveness, and unlock new opportunities for growth and expansion.

■ **DIGITAL PAYMENT SOLUTIONS:**

Technology has facilitated the development of various digital payment solutions, such as mobile banking apps, online payment gateways, and digital wallets. These solutions offer MSMEs convenient and secure ways to send and receive payments, thereby reducing the reliance on cash transactions and improving overall efficiency.

■ **ONLINE BANKING PLATFORMS:**

Online banking platforms enable MSMEs to perform a wide range of banking activities remotely, including checking account balances, transferring funds, paying bills, and accessing transaction history. This flexibility saves time and eliminates the need for physical visits to bank branches, allowing MSMEs to focus more on their core business activities.

■ **AUTOMATION OF FINANCIAL PROCESSES:**

Technology has enabled the automation of various financial processes, such as invoicing, accounting, and reconciliation. MSMEs can leverage accounting software and enterprise resource planning (ERP) systems to streamline their financial operations, minimize errors, and maintain accurate records, ultimately enhancing efficiency and productivity.

■ **ACCESS TO ALTERNATIVE LENDING PLATFORMS:**

Technology-driven alternative lending platforms, such as peer-to-peer lending and crowdfunding platforms, provide MSMEs with additional sources of financing beyond traditional bank loans. These platforms leverage technology to match borrowers with potential lenders, simplifying the lending process and expanding access to credit for MSMEs, especially those with limited collateral or credit history.

■ **DATA ANALYTICS AND INSIGHTS:**

Advanced data analytics tools enable financial institutions to analyze transactional data and gain valuable insights into MSMEs' financial behavior, preferences, and creditworthiness. By leveraging these insights, banks can develop personalized banking solutions, assess credit risk more accurately, and tailor their offerings to better meet the needs of MSMEs.



PAPSS, TRANSACTION BANKING AND MSMEs IN AFRICA



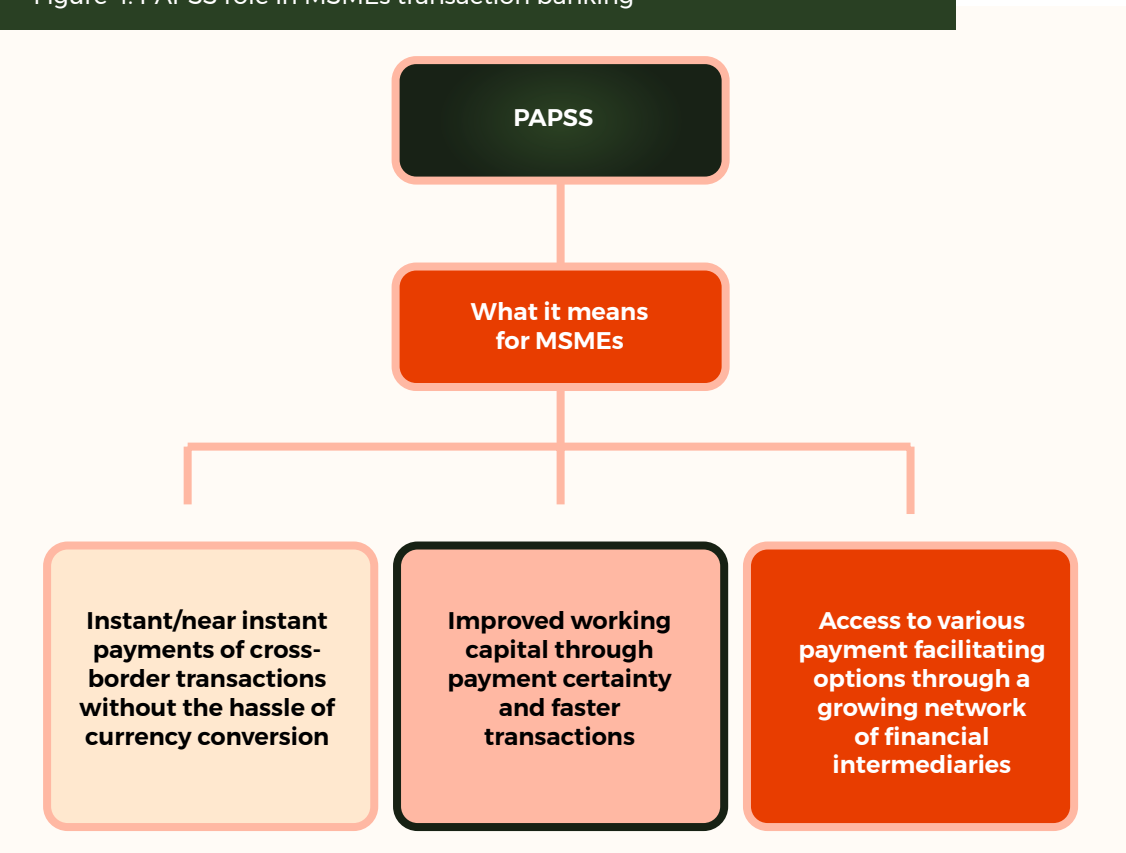
Yet PAPSS presents unique transactional banking benefits to MSMEs in the African market by easing the pressure on current accounts and demands for foreign exchange liquidity, increasing transparency of cross-border trade activity

In recognition of promoting efficient intra-Africa trade through minimizing the frictions in cross-border payments, Afreximbank (Africa's key trade finance institution) in collaboration with other African central banks and the AfCFTA secretariat has established the Pan-African Payment and Settlement System (PAPSS) to enable efficient and secure financial transactions across African borders and to contribute to financial integration across the region. Incredibly, the PAPSS initiative supports interoperable transactions including retail payments through partnerships between indirect participants such as electronic money issuers and direct participants like commercial banks as well as cross-border payments of capital markets infrastructure. This holds great potential for scalability of mobile money interoperability across the continent and provides a platform that enables innovation in cross-border trade.

Indeed, intra-African trade for the period 2015-2019 averaged 15% for Africa, 58% for Asia and 68% for Europe. Several factors, including a lack of payment infrastructure, have been identified as hampering the growth of African trade. The challenge, however, is that only a few African countries have achieved full interoperability, which limits the ability to fully maximize the opportunity presented by the PAPSS platform. This brings up pertinent legacy challenges that need to be addressed in this direction, prominent among which are inadequate payment infrastructure and inconsistent compliance, the status of the regulatory frameworks, policy coordination, user education, and security and fraud concerns.

Yet PAPSS presents unique transactional banking benefits to MSMEs in the African market by easing the pressure on current accounts and demands for foreign exchange liquidity, increasing transparency of cross-border trade activity, bringing greater oversight of cross-border transactions and increased potential to generate revenue and enhanced financial inclusion opportunities and improved economic growth through intra-African trade.

Figure 4: PAPSS role in MSMEs transaction banking



Source: Agpaytech

IMPORTANCE OF TRANSACTION BANKING

Transactional banking services are extended to individuals and corporate businesses to support their trade and other operations by facilitating payments, readily accessible and available cash at any time. TB has proven to be effective in periods of crisis and its business model is client-focus. Some of the key importance of TB are shown below;

Fig 6: Importance of transactional banking

- Efficient utilization of international trade finance



- Optimizing working capital effectively



- Helps clients to manage cash flow



- Aid cross-border payments, remittances, and transfers



- Mitigate financial risks through intermediaries



- TB is secure and stable in terms of a financial crisis



- TB provides easy access to cash anywhere with more convenience.



Source: Agpaytech

CONCLUSION

Transactional Banking is very important as far as revenue growth is concerned in today's banking environment. With the challenges of traditional long-term deposits and interest from credit loans that banks enjoyed in the past years, it is now inevitable that every bank hoping to thrive adopts transactional banking. Cross-border trade and payment systems across the world have contributed to the need for an efficient banking model that makes money readily accessible anytime to corporate organizations and individuals. Also, people move around the world easily, and transactional banking is making it possible to use different currencies in many locations.

Transactional banking plays a pivotal role in driving payment innovation among MSMEs by addressing the challenges associated with digital payment adoption. By leveraging transactional banking services, MSMEs can streamline their payment processes, improve financial efficiency, and enhance their competitiveness in the digital economy. Collaboration between financial institutions, fintech providers, and regulatory authorities is crucial for advancing payment innovation and promoting the financial inclusion of MSMEs. Furthermore, transaction banking is a business, but one that is underleveraged. With significant upsides to treating it as a business, positioning it properly in the corporate structure, and managing it as a commercial asset, transaction banking should be on the agenda of every major bank.

REFERENCES

- Sharma, P. (2019). Impact of digitization on transaction banking in financial industry: An evolving landscape. Leeds Business School
- Deutsche Bank (2020). Delighting customers and democratising finance: digitalisation and the Future of Commercial Banking.
- Capgemini (2012). The Digital Advantage: How digital leaders outperform their peers in every industry.
- PAPSS (2024). How PAPSS works retrieved 24 February 2024 from <https://papss.com/>
- Nisha, N (2015). Banking services: the case of Bangladesh. Lambert Academic publishing.
- McKinsey & Company (2021). The 2021 McKinsey Global Payments Report

ABOUT AGPAYTECH LTD.

Agpaytech Ltd. is a company pioneering in the Fintech space with a focused approach to building robust technologies for e-commerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service (RaaS), Banking-as-a-Service (BaaS), Foreign Exchange, Cross Border Payments, and digital currency technology.

We also provide practical white paper research support to central banks, government and private institutions, economic organizations, and NGOs in Africa. Our services expand from research projects, state-of-industry reports, project assessment, data collection, and consulting services in the fintech space.

CONTACT US

United Kingdom

AGPAYTECH LTD.
3rd Floor, 86-90 Paul Street
London, EC2A 4NE,
United Kingdom

United States of America

AGPAYTECH USA LLC
9701 Apollo Dr Suite 100
Largo MD, 20774,
United State of America

 www.agpaytech.co.uk

 info@agpaytech.co.uk

All rights reserved.

No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording or any information storage and retrieval system, without prior permission in writing from Agpaytech Ltd.

The mention of specific companies, manufacturers or software does not imply that they are endorsed or recommended by the authors in preference to others of a similar nature that are not mentioned.

© Agpaytech Ltd. 2024.