McKinsey & Company

Talking Banking Matters

Enabling global commerce: A conversation with Payoneer CEO Scott Galit

While retail payments providers often become household names, most flows are between businesses. Scott Galit describes how B2B fintech Payoneer has grown by leveraging early success in cross-border payments.

December 2021

Matt Cooke, McKinsey: From McKinsey's Banking & Securities Practice, I'm Matt Cooke, and this is *Talking Banking Matters*—new, short audio content for leaders in banking, securities, and beyond. For this third episode, taken from an occasional series from our Payments Practice on payments and fintech, our New York–based senior partner Vijay D'Silva spoke to Payoneer CEO Scott Galit. Here's Vijay to tell you more.

Vijay D'Silva, McKinsey: In the world of payments, there is a lot of excitement around new fintech services directed at consumers. Behind the scenes, though, there is a quieter revolution happening. The vast majority of payments flows are actually between institutions, whether they're governments, large corporations, or small businesses. In fact, every 25 days, the equivalent of the world's entire annual GDP is exchanged in the form of B2B payments.

One early innovator in B2B payments is Payoneer. Payoneer was founded in 2005 to focus on cross-border B2B payments. It now operates in 190 countries and in 7,000 corridors, and it has expanded well beyond its original offering. According to the company, it serves nine of the 20 most valuable companies in the world. Its most recent quarterly revenues rose by 42 percent versus last year.

My guest today is Scott Galit, the CEO of Payoneer. Scott is a payments veteran who had built businesses at First Data, Mastercard, and Meta Payments before joining Payoneer in 2010. These experiences have given him a unique banking perspective when leading the fintech company. As Scott often says, "There isn't enough 'fin' in fintech these days." But first, let's talk about the underlying premise for the company. Here's Scott.

Scott Galit, Payoneer: The basic underlying theme for Payoneer has always been that technology is transforming how all commerce happens all over the world. There are some real fundamental shifts in how the world works that are changing who can participate, where they can participate from, the channels through which they engage. These things are taking decades and ultimately will play out over generations.

Fundamentally, our view was technology was making it possible for more people in more places to participate in commerce than ever before. It was reducing the friction that geography used to create. And with that, we see a releveling of opportunity. We see again this now integrated, global, connected, and unified infrastructure that makes it possible for anyone anywhere to communicate, interact, and ultimately transact with anyone anywhere. So for us, it has always been about how can we actually engage with this new digital reality? How can we support the new participants in this global digital economy? How can we build a global financial infrastructure that is frictionless, interconnected, and natively global and digital in the same way these participants all over the world are?

It doesn't matter whether you're one of nine of the 20 largest companies in the world by market cap that we work with or you're literally the smallest of the small, an individual freelancer sitting in some remote emerging market somewhere who simply needs to be able to do business globally and get paid reliably and cost-effectively globally through the digital channels through which you're selling. From that perspective, we just try to follow our customers in the way the world is changing. And along the way, that has taken us in some really interesting directions. We tend to think about customers more than products. It has taken us beyond payments into financial services.

We continue to broaden the scope of who we serve and how we serve them and what we provide for them. And we've been really fortunate; we've hit a couple of things right. We've probably been at least as lucky as good along the way and hit some big, broad trends a little early and were in the right place at the right time, I think, with the right team and the right mindset.

So now today, we've got millions of customers coming from over 190 countries around the world. We're moving tens of billions of dollars a year. We have a working-capital business. We have services for large-scale companies and small businesses, receivables, payables. We've got card products to help them manage their expenses. We've got tax solutions, compliance services, a whole range of things that are really geared toward helping our customers deal with the complexity of that bridge between frictionless digital opportunity and heavily complex—and in some cases, increasingly complex—and risky environments that they're operating in. We try to give them the tools to navigate that successfully.

Vijay D'Silva: One of the interesting facets of B2B payments is that so much of it involves cross-border flows. In fact, 11 percent of total B2B payments are across international borders, and just paying invoices for goods and services alone adds up to $20 billion in revenues for intermediaries. It's no surprise that the traditional banks have a 90 percent share of that market. Cross-border payments is also where Payoneer got its start.

Scott Galit: There's probably a trillion dollars of market cap represented by businesses that are providing merchant processing services in some way, shape, or form. Global cross-border B2B payments is similarly large. Part of the reason it doesn't get quite as much attention is it hasn't had the same kind of innovation in technology. And it hasn't really moved into pure-play companies for a while. So there is a breadth and a diversity to global cross-border payments that actually is probably even bigger and broader and more diverse than what you see in a space like merchant processing.

For us, our fundamental view of the world is that we want to make global commerce local, and we want to do it by helping our customers globalize their businesses. Actually, most of the time, we're not even supporting a cross-border payment. Most of the time, what we're doing is we're helping a customer be local where their trading partners are. If it's a very large business, we're usually making it local either where a buyer is or where a supplier is and interacting more locally where those trading partners are coming from. And on our small-business side—where more of what we do is on the receivable side, helping small businesses get paid around the world—a big part of what we're doing is giving them the ability to be local where their buyers are, make it more along the lines of a replacement for going and building a local bank account in all of the markets where you're doing business. We give them that with one online access through our online or mobile infrastructure, where they get the whole world, all the countries, all the currencies, and all the tools to make it a local transaction where their buyers are.

We do that with a branded offering that's part of a network of activities where we connect together on our platform all of the participants in the Payoneer ecosystem. As a result, payments can move essentially in real time between two participants on our platform. Suppliers can bring their downstream suppliers to the platform and pay them instantly. So we've approached it in a way of localizing our customers where they do business.

Vijay D'Silva: Feeding the demand for these kinds of services is the growth of e-commerce marketplaces like Amazon, eBay, or Taobao or Tmall in China, which have changed how we all buy things. These firms have grown rapidly; for instance, Etsy more than doubled its sales in 2020.

But every time consumers purchase goods on a marketplace, that marketplace in turn needs to reliably reimburse a supplier. These suppliers can often be in a different country. According to McKinsey's Global Payments Map, cross-border marketplace payouts account for as much as $200 billion in flows and generate $3.5 billion in revenues to intermediaries. And we expect it to continue to grow by 20 to 30 percent each year in the next few years.

Payoneer was early in making it easy for marketplaces to pay their suppliers. It started working with these firms as long ago as 2008. But a lot has happened since then.

Scott Galit: We actually were working with marketplaces before I joined. That was one of the core drivers of the business strategy well before I got there and very much a recognition that marketplaces eliminate so much friction to participation and provide so much opportunity to aggregate really large numbers of buyers and sellers in unprecedented numbers and in unprecedented breadth and scope.

So at the beginning, it was just about covering the world. It was the most basic needs. They didn't really think they were building a global business when they started; they just thought it was building a marketplace for service providers. But again, by being online, all of a sudden, service providers from around the world could sign up and sell their services. So fundamentally, at the beginning, it was just a coverage problem. They just needed to be able to cover the whole world, because it wasn't actually what they envisioned was going to happen with their business. Over time, it has gotten much more nuanced and much more complicated.

For one, there are networks of activity. There are vertical markets that are very highly interconnected, so that's something we've seen across time, where if you're selling in one marketplace, you're likely selling in multiple marketplaces. And now we see a trend of selling across multiple channels, not just marketplaces. And if you're a marketplace, what we've seen is your needs and focus have evolved—a lot more focus on compliance now, a lot more focus on risk management, a lot more focus on providing a broader range of services to help sellers grow.

So what we've continued to see is a broadening of the scope of what we do. We've talked publicly about our partnership with eBay. We provide much more than just payments in the context of that relationship. We're actually working hand in hand to onboard sellers onto the new eBay platform that they're rolling out.

There are risk services that we provide. We just saved one of our partners $1.4 million last week, where our system identified a pattern that was a problem on their platform. We froze all the activity, and they then went and did an investigation and understood that they had a problem where their platform was being taken advantage of. Because of the fact that we sit in the middle of the ecosystem and specialize in this and focus on it, we were able to detect those patterns. So we continue to see more needs around risk, compliance, safety, and trust. And we continue to see more interest in providing a broader range of tools to help the participants and their ecosystems grow and succeed.

Vijay D'Silva: Switching gears, one of the hardest things for fintechs to do is build a customer base. Very often, fintechs will start with a terrific product idea and then hit a brick wall when it comes to acquiring new customers cost-efficiently. I asked Scott how he's feeling about the company's growth.

Scott Galit: If I were starting Payoneer today, I would not build our business model. This is what I said—that we've been probably at least as lucky as we were good, we were in the right place at the right time with the right solution, and we tapped into something much bigger than us. I mean, we get over 300,000 applications a month that come from all over the world, and we couldn't pay for all that. We couldn't afford to go acquire all those customers with any kind of normal customer acquisition economics. But because of the partners, the network effects, the brand that we've built—I mean, it's crazy. We're a B2B business. We're one of the top 1,000 most trafficked websites in the world, according to Alexa. There are countries where we're top 100. So again, we've tapped into something much bigger and broader than us. And the history and legacy of our business was working with larger customers.

We have two global teams that run as separate global teams. One works with enterprises globally and focuses on their needs and helps pull the organization behind them in supporting larger customers. And now we have a global sales team that focuses on small and medium-size businesses. Again, underlying it—part of what's great, as I mentioned before—is that fundamental business needs are often not that different, whether you're big or small.

We really amplified the small-business side, so that's where we really leaned in. And that has been the biggest driver for us, just democratizing access to sophisticated services and doing it in a way where we use technology to make it available in a very efficient way for anyone anywhere, regardless of their size or their location.

Vijay D'Silva: After over 15 years in business, an interesting step that Payoneer took earlier this year was to change its brand. Its new color is "universal," and its new symbol is a circle. I was trying to figure out what drove the change.

Scott Galit: It really was bringing our identity up to speed with what we had already been evolving to as a business and organization. We already had moved beyond payments. We already had even moved conceptually beyond financial services. We already were focused that our success is driven by the success of our customers. We're very mindful in terms of how we approach business but also how we approach our team with the idea that being connected to something bigger than yourself—this idea of having some purpose beyond what your job is, some purpose beyond what our company is, connected to something bigger, more impactful, more meaningful—is really a big part of how we view what we do every day. And it's part of what we love about what we do, that we get to work with smart people, give them opportunities, but do it where we're all focused on something that's meaningful, impactful, and much bigger than ourselves. It was really trying to formalize that which we already had been doing.

For me, honestly, my favorite moments at Payoneer have been hosting these events all over the world. It happens a little less often in person now than it used to, but I went to an event in Dhaka, Bangladesh, and we literally had a line out the door and down the block of people that wanted to come in. It's a multi-hour event, and it's not a Payoneer commercial. It's people coming. They are so eager to learn about how to grow their business, how to make more money for their families, how to hire people in their community, how to build something than can be meaningful and impactful on their lives. And it is extraordinary to be part of that for so many reasons.

It doesn't matter how small you are. We want to be there to help you, because everybody needs a little bit of help. The sense of purpose around helping our customers achieve their potential is built into the way we've defined our brand, that there's something bigger than ourselves.

Vijay D'Silva: Not surprisingly, with fintech companies making inroads into banking, the topic of regulation often comes up. Bank regulators globally have had to balance how best to encourage innovation while still ensuring safety and soundness, consumer protection, anti–money laundering [AML], and a host of other objectives. For fintech firms, the prospect of having to work with multiple regulators and comply with dozens of regulations can be daunting.

Scott Galit: It has been intentional—the way we talk about the business, and I think this is one of the benefits I had, coming from regulated companies, bigger companies where I'd been before I joined Payoneer, and Payoneer had the right ingredients to this before I joined. The concept from the beginning was that we are half Silicon Valley tech company and half regulated financial institution, and the balance between those is essential.

I used to talk a lot about how there isn't enough "fin" in fintech. In most of fintech, if you're getting into areas where there's regulation, risk, compliance complexity, and all of that, there's been way too much emphasis overall on the value of technology and not enough on these other aspects that typically are where the complexity really comes in. We spend so much more time on delivering a new product around all of those unsexy things that have to be done in order to make sure it's durable, sustainable, compliant, that the money is literally tied to the penny everywhere.

So it has been intentional, and at the beginning it was a bit easier—just force of personality, smaller group. I mean, the company was 75 people when I joined. One of the first things I said was, "We have to get regulated." They already had a good idea that compliance like AML was important, but they didn't really have a sense that you need to focus on building the right kind of infrastructure and be part of the financial system, if ultimately you're going to try to drive change. So that was one of the first big decisions that we made; it was "Let's embrace regulation. Let's put ourselves in a position where we actually are part of the financial system. And that will give us more burdens, but it'll also give us more opportunities if we do it in the right way."

At the time, it was not easy. Banks didn't really want to bank MSBs, things like that. It's very different now than it was when you go back ten years at this point. And as we've grown, we just kept building that same mindset that it has to be in balance. We have to keep growing with that as the foundational concept of who we are.

We certainly have people that complain. Our compliance team rejects business all the time. We fire clients all the time. We have things that happen, and our sales team understands that that's part of the nature of who we are and what we do. We have to be able to all be creative problem solvers and make sure that we understand what are the bright lines that we have to operate within. And then how do we think creatively and responsibly about how to operate in areas where there may not be as much clarity? And how do we create conceptual frameworks that then turn into policies that allow people to then go run and do interesting things? So it's been part of our DNA for a long time.

We operate under different regulatory frameworks in different geographies. In Hong Kong, we have a money service operator license. In Japan, it's a funds transfer service provider license. In Europe, it's an e-money institution, which also incorporates payment services. In the US, it's an MSB. So it's different in different places around the world.

But most of them have in common that customer funds need to be protected. As a result, whenever we are involved in working capital, for example, we're not using customer funds to fund working capital. It's actually one of the interesting embedded future opportunities for us.

When you think about a credit business, there are three things that you want to have. You want to have low-cost customer acquisition, you want to have proprietary data you can use to have sustainably differentiated underwriting, and you want to have a low cost to capital. If you have some combination of those, you might be in good shape, and if you have all three, you're really well positioned.

We actually have all three, but we aren't able to use the third one, which is the low cost of capital, where we have these billions of dollars that are with us and it keeps growing over time. As a result, it's a very low-risk model.

At the end of the day, the risk is not really that we have the customer money. The risk would be there are payment-processing problems or something else, or there's a risk issue or things along those lines. From that perspective, the risk is quite low. Funds are liquid, held depending on where you are in either segregated or ring-fenced accounts, depending on whatever the local requirements are. In some cases, it's even double collateralized and whatever.

There are markets like Singapore where they decided they wanted to require companies like us to be locally regulated, so we're in the process of getting a license in Singapore to address that. We see that evolving in more places. You start to see part of what happens with digitization becoming such a big impact on the whole world as regulators and legislators all over the world are rethinking almost everything about the notions of jurisdiction and jurisdictional authority and what they want to focus on. And we're seeing the leading edge of that being things like data privacy and taxation are further ahead. But financial regulation is also in the mix as it relates to different countries.

We've got a global team that engages with regulators around the world. This is something that we consistently invest in as part of the global platform. But we're fundamentally not local everywhere. Operating out of hubs and the nature of what we offer in those markets will vary based on what the local regulations are. But typically, the basic service of getting paid from around the world offshore and then getting those funds brought into the market is something that most regulators are very supportive of—of helping to grow exports, in particular for small businesses, around the world.

Vijay D'Silva: Assuming fintechs have a killer product, they have solved distribution challenges, and they have managed regulation, the next struggle that many face is adapting their organizational models to growth. The question that often arises is how to operate at scale while preserving the speed that got them to where they are.

When Scott took over Payoneer in 2010, as he mentioned, the company had 75 employees. Today, they have over 2,000 employees worldwide and are still growing. So how then does it adapt, especially given the number of countries it operates in?

Scott Galit: It's a great question, and it's a real challenge. First, I would say one of the things that we continue to learn and refine but has been important for us is this notion that there are commonalities in many ways when you're looking at "working across." For us, because we are fundamentally more focused on cross-border than anything else, it does facilitate there being a bit more commonality in the way we approach things. And again, there are regulatory differences and other considerations in different markets. But because there are two sides to trade and two sides to what we do, we are able to build some things in ways that are a bit more universal, and then we can build more optimization or tailor things in places where we want to focus.

But the first layer of our business and the way we think about it is actually not geography. We very much think about serving customers locally. But in the way we build and create value propositions, in the way we think about how we actually organize, it tends to be more about things that cut across, as opposed to things that are actually going to create that variability by geography. Then we deal with the necessary variations geographically, but that ends up being more of a wrapper, as opposed to the essence of what we're building for.

We served 190 countries before we had any offices outside of New York and Tel Aviv, and still one of the core foundational parts of our business is a self-serve platform. That's where the brand and the technology-first approach are so important. So we built the localization and the global go to market and the local engagement with customers on top of what already was a global platform serving customers from all over the world with different localized elements digitally. Then we started to build on top of that more localization with teams and additional product nuance and things along those lines.

A big focus for me at this point is the external new constituencies that we have and the new board engagement level that exists. I mean, we've had committees for a long time, but now the weight of those committees, the amount of engagement of those committees is just at a different level.

On the other side, a lot of it is about organizational development at this point. It's about rethinking how we actually manage the business. We just announced that we brought in a new chief revenue officer, and we wanted to check several boxes there. We're making different investments like that across the organization, and we are rethinking everything. We are going to embrace change more than ever. And while the cost of mistakes and the visibility of mistakes is higher than ever now, we are going to still be willing to make mistakes. For me again, it's one of the core tenets for how I want to build and grow the organization.

If we do the right thing for customers and are thoughtful about it—not just do what they say, but try to be thoughtful—and we treat our employees well and create the right kind of environment where they can be themselves, be comfortable, feel meaningful, and feel that they're part of something bigger, we'll create enduring value over the long term. So [I'm] keeping that long-term view and, as you said, very much focused on making sure the organization grows into where we need to go, as opposed to where we've been.

We've been very global in platform-orientation mindset for the entire history of the business, but we haven't been local nearly as long. That's actually one of the trends for us—to get more local in more places but still try to keep it with the same concept of trying to keep that notion of an interconnected world, a universal set of value propositions as close to the core as we can.

Vijay D'Silva: Eventually, most growth companies have to deal with the question of whether and when to go public. Payoneer went public this June at a valuation of $3.3 billion. Interestingly, it used a special-purpose acquisition company, or SPAC, to do that. I asked Scott what drove the timing and the path they took.

Scott Galit: I've been the number-one reason why we didn't go public before we did, in part because of wanting to relentlessly focus on the long term, wanting to not really have our decision-making frameworks changed by the external factors, not have to make trade-offs between strong values and results in the same ways. For us going public, we really saw an inflection point last year with COVID. We saw this acceleration of change. We saw what we thought was unique positioning that we had, but we also thought we weren't equipped with enough tools in the toolbox to do as much as we could. So the first decision was that we think we should access the public markets. We think we should go ahead, and that that will provide us the right kind of tools to help us achieve our potential by helping our customers achieve theirs in a bigger way than what we could before.

In terms of SPAC, fundamentally it was that being public was the right decision. We could have gone public in a traditional route. The ability to share projections through a SPAC process and bring clarity to what the growth drivers are and what numbers we were expecting was a really important part of the way we thought we needed to market the story.

Vijay D'Silva: This seems to be as good a place as any to end this podcast. It's hard to underestimate the challenges of running a fintech firm in the current environment. Between the uncertainties of COVID, market volatility, regulation, and continued competition from other fintechs and banks, companies like Payoneer will need to adapt quickly.

On the bright side, Payoneer is riding two waves: first, marketplaces continue to grow as small businesses increasingly use them to access customers and markets, and second, cross-border growth will continue to accelerate as the global economy recovers. I think the companies which are able to combine technology prowess, financial services expertise, and regulatory experience could be the new winners in the next decade.

Matt Cooke: It's Matt Cooke here again. On behalf of McKinsey's Banking & Securities Practice, thanks for listening to *Talking Banking Matters* today. We've got a series of conversations planned, so we look forward to you retaking your front-row seat to listen in on more industry leaders from the world of fintech, banking, and digital talk about their work shaping the future of this industry. But for now, wherever you are today, thanks again for listening.

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