

the payments association

What cross border payment challenges do members of The Payments Association face today?

The Payments Association

AUGUST 2022



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About cross border payments

The worldwide market of cross border payments is predicted to grow from \$150 trillion in 2017 to over \$250 trillion by 2027 according to the Bank of England. This growth brings big opportunities for all types of payment providers, whether they are small, large, well established or relatively young businesses and irrespective of whether they are focused on wholesale, retail business-to-business (B2B), business-to-consumer (B2C), consumer-to-business (C2B), or international remittances consumer-to-consumer (C2C) payments.

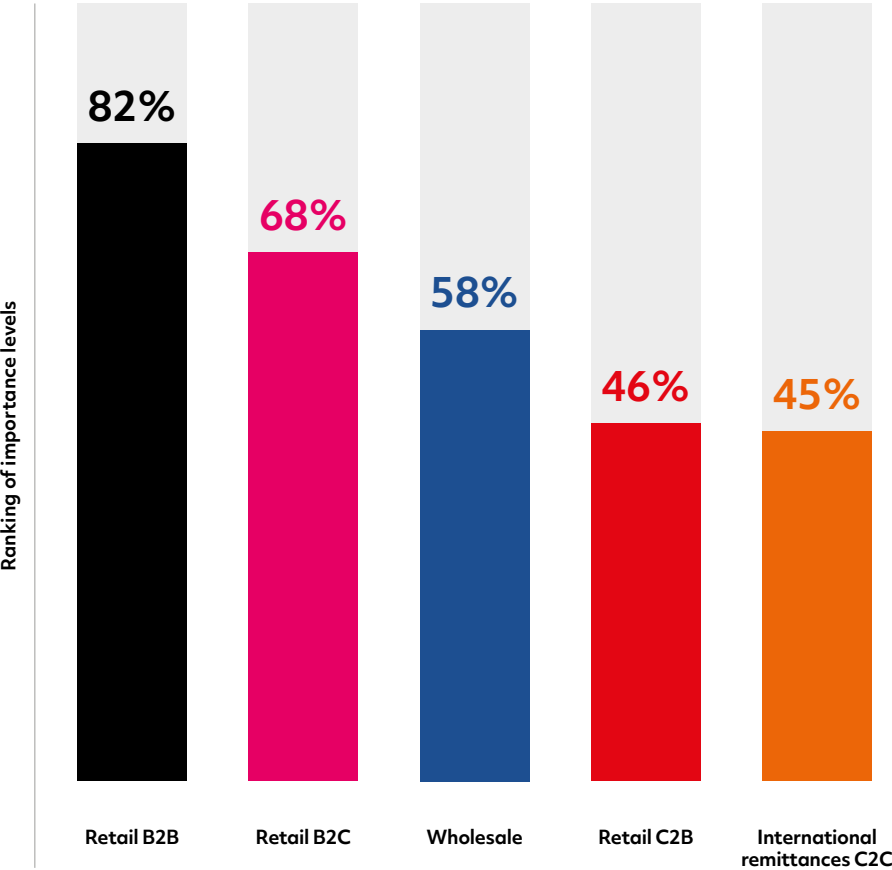


The exceptional growth in cross border payments is being driven by multiple factors such as the growth in the international mobility of goods, services, capital and people. It is leading to a higher amount of international trade, it reflects the growing role of SMEs in international business and the acceleration in digital payments and e-commerce because of the COVID-19 pandemic. International remittances also play a vital role in low- and middle-income economies (LMICs).

However, to achieve these growth projections, various challenges and obstacles must be overcome. Existing global cross border payment arrangements must be enhanced to facilitate cheaper, faster, more inclusive and more transparent payment transactions. Cross border payments are, by their very nature, more complex than purely domestic ones. They involve more parties, jurisdictions and regulations. Many of the challenges have existed for a long time but momentum for addressing these is growing, driven by pressure from the G7, United Nations, UK Government and the EU. The public and private sectors need to work closely together to address these challenges. Trade associations, such as ourselves, also have a key role to play.

A recent survey by The Payments Association showed that retail B2B is the most important cross border payment type for members. The results showed that C2C cross border payments are of lower importance than retail B2C and wholesale, probably due to the smaller total addressable market size and the higher price sensitivity. ■

Importance ranking for cross border payment types



Cross border payment challenges

There are many different types of cross border payment challenges that companies face and these vary depending on the cross border payment format being used (wholesale, retail, international remittance), the parties being considered and the geographic location.

Many of the challenges raised by survey respondents can be seen as obstacles to the efficiency of the funds transfer process and we heard how some are adding friction to the cross border payment experience.

We found a close alignment with many of the challenges identified by the **Bank for International Settlements (BIS) Committee on Payments Market Infrastructures (CMPI) in its report to the G20 published in July 2020**. That report highlighted four key focus areas:

- Payment infrastructure operational improvement;
- Changes to regulatory, legal and oversight frameworks;
- Introduction of enhanced data standards; and
- Greater information sharing.

The UK Government has decided to add central bank digital currencies (CBDCs) as a fifth area of focus.

Top challenges

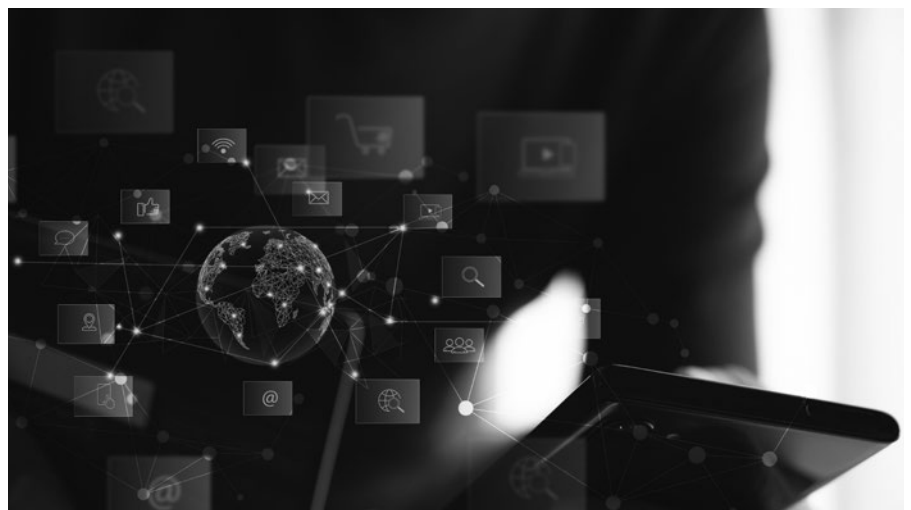
Our research has identified a top-10 list of cross border payment challenges, according to payment providers. All of these apply to organisations providing retail cross border payments, whether these are B2B, B2C, or C2B, while a few have greater applicability to international remittance providers or to wholesale banking institutions. Our rankings are based on a combination of 'high' and 'medium' impact scores.

The most significant challenge for members is the barriers to enter a market. Companies mentioned examples such as countries exhibiting national controls and restrictive practices that cause difficulties, resulting in domestic providers gaining an advantage over international and new providers.

Regulatory compliance is seen to be another a massive challenge, and this incorporates a number of separate items. Compliance complexity, international regulatory variations, differing AML requirements and a lack of transparency were just some of the frustrations that payment providers have to regularly deal with.

High transaction costs and fees is another challenging issue. This is because of the number of parties involved in the payment transaction, the inefficiencies in the payments process and constraints from legacy technologies and payment infrastructure.

Time delays in settling funds was highlighted by 41% of survey respondents as a highly important challenge to overcome.



“Our research has identified a top-10 list of cross border payment challenges, according to payment providers.**”**

This issue can be linked to the limited availability of an instant payment infrastructure. With the transition from batch-based processing to modern real-time payment systems around the world, this challenge should diminish over the coming years.

Differences in data formats and standards was highlighted as a significant additional challenge but fell outside the top 10 list. The adoption of the ISO20022 international standard is seen to be an important way to address this challenge.

Ranking	Top cross border payment challenges	Why this could be a challenge according to members
1	Barriers to market entry	National restrictions and competitive advantages for domestic businesses.
2	Compliance complexity	Self explanatory
3	International regulatory variations	Self explanatory
4	High transaction costs and fees	Number of parties involved in the payment transaction, the inefficiencies in the payments process and constraints from legacy technologies and payment infrastructure.
5	Time delays in settling funds	Limited availability of an instant payment infrastructure
6	Differing AML requirements	Self explanatory
7	Access to working capital	High pre-funding costs, due to the need to hold funds in multiple currencies today.
8	Lack of compliance transparency	Self explanatory
9	High pre-funding costs	Self explanatory
10	Availability of instant payment infrastructure	Self explanatory

Ranking	Lower cross-border payment challenges
11	Ability to find reliable pay-out partners
12	Difficulties reconciling cross border payments
13	Pressure on margins
14	Number of parties within the payment process
15	Currency volatility management
16	Documentation request variances
17	Time zone differences

Least-impactful challenges

Some challenges with cross border payments are inevitable and unavoidable, such as the need to manage time zone difference and currency volatility. Finding reliable pay-out partners is another battle for international remittance providers, although the size of this challenge varies by country.

However, The Payments Association’s research identified that established cross border providers are feeling the pressure on margins because of new market entrants, heightened end-user expectations and the emergence of modern technological solutions.

Difficulties reconciling cross border payments is an issue for more than a quarter of survey respondents, but fintech solutions and immediate funds settlement will help with this type of challenge.

Other cross border challenges include:

- Fragmented and truncated data formats;
- Low rates of straight through processing;
- Lack of realtime settlement systems;
- Costly developments of direct connections;
- Brexit implications;
- Arrival of digital and crypto currencies;
- Sanction restrictions on Russia
- Growth in financial crime; and
- Technology refresh programmes.

Geographical challenges

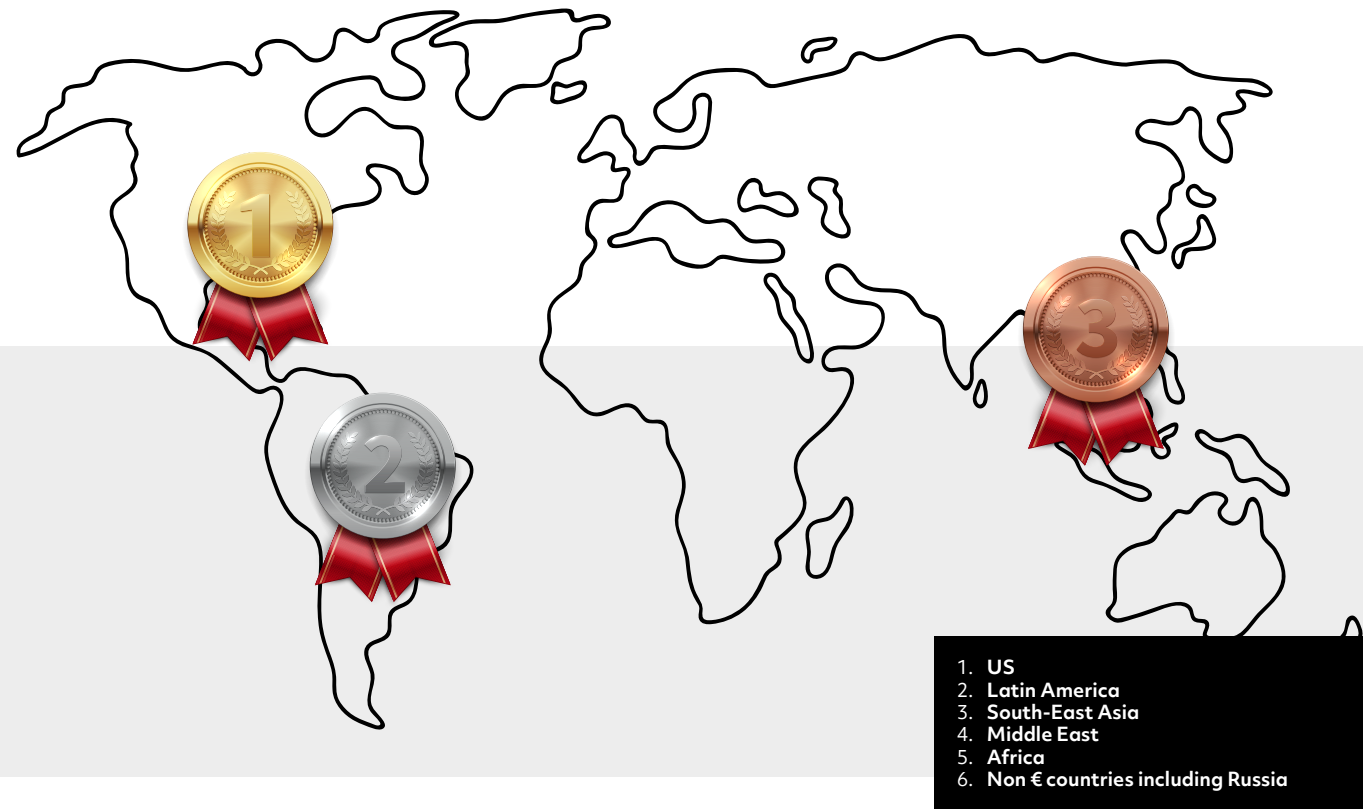
The survey results revealed that providers are finding higher levels of cross border payment challenges in certain geographical regions. This is felt to be particularly significant for organisations entering the US market where regulatory and compliance demands are felt to be particularly high. See image below.

Whereas, Latin America is ranked the second most challenging region, which is likely due to national policy decisions, the high number of country variations, currency controls and, once again, legacy payments infrastructure.

The business opportunities within South-East Asian countries makes it one of the most popular regions for our respondents to be exploring.



Where are the biggest cross border payment challenges being seen?





“Financial Services companies have no choice but to prioritise compliance.”



This is despite restrictions placed on companies wanting to do international business by Indian and Chinese governments.

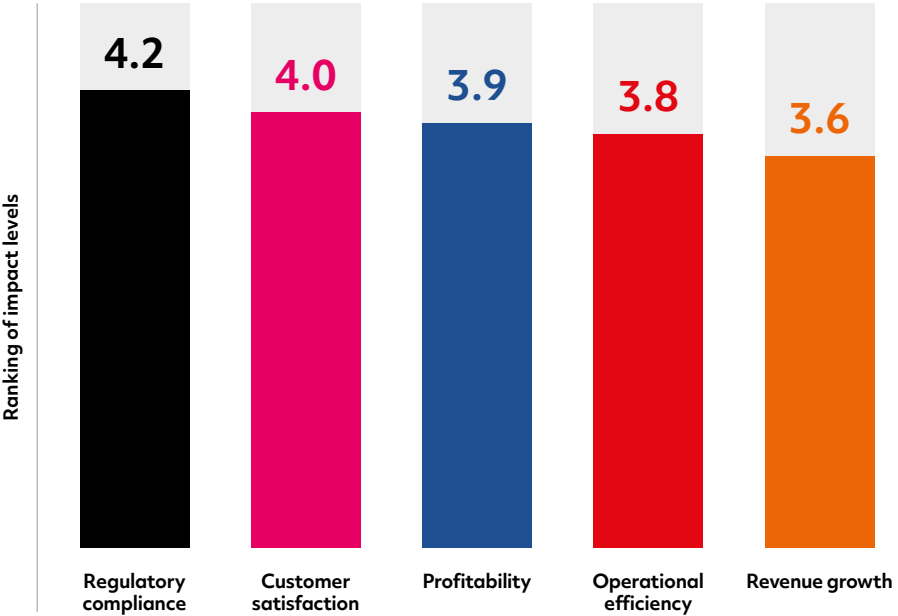
Within Europe, payment providers need to handle non-Euro countries as efficiently as those operating within the single currency market.

However, to summarise these geographical challenges in a single sentence, it is the non-G20 countries that offer the greatest cross border payment challenges to our members.

Business impact of the challenges

The cross border payment challenges identified by our research reveal multiple points of impact on the business. Each of these areas was felt to be significant with the scores relatively close. However, the area with the greatest impact relates to ‘regulatory compliance’, perhaps reflecting that four of the top 10 challenges could be grouped within this category. Financial services companies have no choice but to prioritise compliance.

Ranking of business impact from challenges



‘Customer satisfaction’ was ranked the second most important impact on business, reportedly due to heightened customer expectation levels and the lower cost of retaining an existing customer over acquiring a new one. The third most important factor was the impact on ‘profitability’. This is to be expected of any commercial organisation. ■

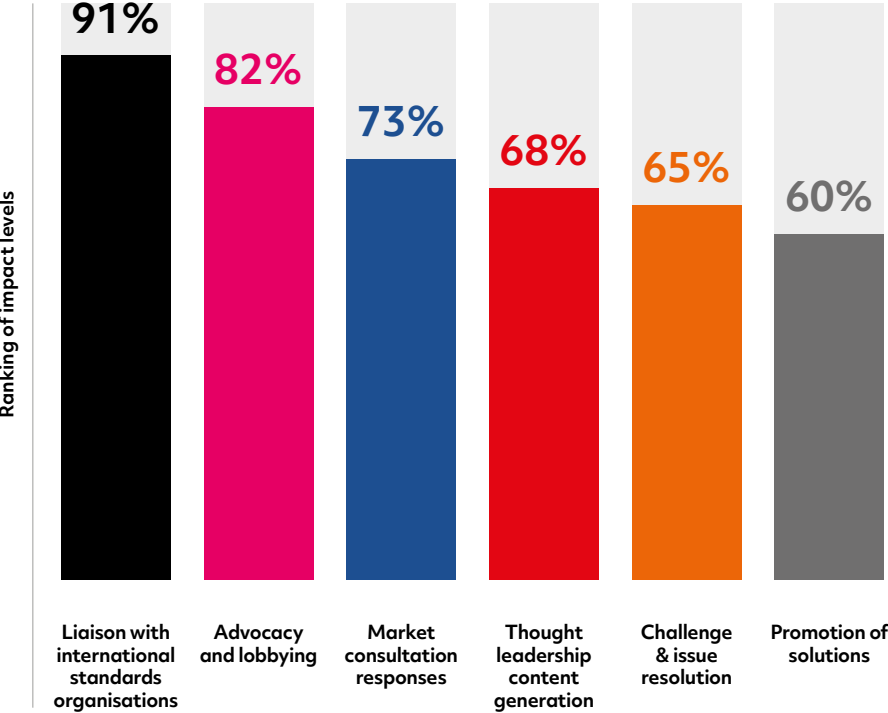
Project Cross Border focus

Project Cross Border was formed at the beginning of 2022 due to the escalation in cross border payment volumes and the multiple challenges and obstacles that members of The Payments Association are facing when seeking to take advantage of this commercial opportunity.

The project team produced this survey to learn more about the cross border payments challenges members of The Payments Association face. However, it also provided the team with an opportunity to receive feedback on the project to bring about

positive change in the cross border payments ecosystem. The survey results show that the priority, seen to be Highly or Very Highly important by 91% of respondents, is for the project team to closely liaise with international standards organisations. This was closely followed with a score of 82% for conducting advocacy and lobbying activities on behalf of the industry. In third place, with 73%, came participating in regulatory market consultations.

Project activity prioritisation

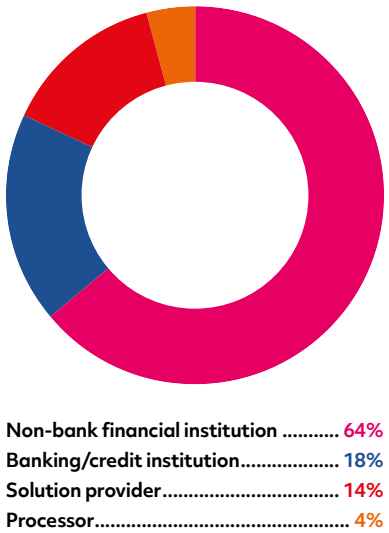


The generation of original thought leadership content, including undertaking original research, publishing reports, webinars, and producing infographics was also highlighted as an important activity to be undertaken by the project team. However, the feedback provides a mandate for Project Cross Border to engage with key stakeholders and lobby them on behalf of The Payments Association’s members. ■



Survey methodology

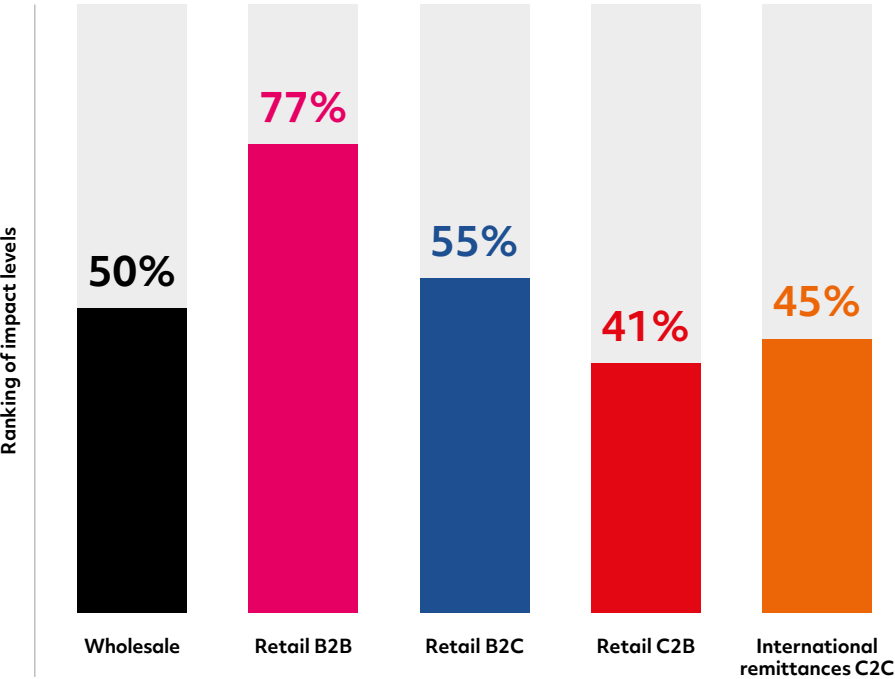
In July 2022, Project Cross Border conducted a short online survey to capture the views of our members on the topic of cross border payments. We asked them about the relative importance of cross border types, the key challenges they are facing, which geographies are bringing the most issues and how this is impacting their organisation. We also asked about how to prioritise the focus of Project Cross Border. We received 33 responses from banking/credit institutions, non-bank financial institutions, solution providers and from processors/schemes. The majority of responses (64%) were received from non-bank financial institutions. Banking institutions (18%) provided the second highest level of submissions.



The responding organisations operate across multiple geographies and provide a diverse range of cross border payment services. Most offer retail B2B, retail B2C and retail C2B. The banks who contributed to the survey are large international businesses for whom wholesale payments are one of their critical banking services. The most widely supported cross border payment type is retail B2B, which is offered by 77% of respondents.

We would like to thank all those members, many of whom are members of Project Cross Border, who made contributions to this important research. As a trade association we are reliant on the support and input from our members. ■

Cross border payment provision



About Project Cross Border

Project Cross Border has the specific purpose to help members benefit from the growth in cross border payments and address the challenges being faced. The Payments Association membership is broad and includes organisations that offer the following types of cross border payments: wholesale payments; retail business2business, business2consumer and consumer2business; international remittances consumer2consumer.

We do not seek to replicate industry initiatives that are already in place, but rather focus on new areas where items are not currently being addressed. We look to increase awareness of new technologies that can transform the cross border payments ecosystem for the benefit of its users and providers, as well as informing the evolving regulatory landscape.



“Project Cross Border offers members of The Payments Association with passion and enthusiasm the opportunity to help improve how the cross border payments market works. Working alongside a dedicated group of peers you can help reshape this industry to the benefit of all stakeholders. Together we can overcome key obstacles, lobby for change and influence regulators.”

Kevin McAdam
GLOBAL VP FOR BANKING SERVICES AND LEAD, PROJECT CROSS BORDER,
THE PAYMENTS ASSOCIATION

About the Payments Association

The Payments Association is the largest community in payments. Founded in the UK in 2008, the association now operates communities in the UK, EU and Asia, helping almost 300 companies enhance their commercial interests, solve societal problems such as financial exclusion and evaluate new opportunities for innovation in payments.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all. We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change



“We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.”

and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger. These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and

awards dinner, CEO round tables and training activities.

We run six stakeholder working project groups: Inclusion, Regulator, Financial Crime, Cross Border, Digital Currencies and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas. We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry’s most successful CEOs. ■

About EPA Asia and its Global Payments Forum

Emerging Payment Association Asia's 'Global Payments Forum', in partnership with the International Institute of Finance and The Payments Association, is a great example of a global initiative striving to address the barriers identified in this report. It meets regularly to learn from global experts and authorities and develop policies that have a practical impact. If you're interested in attending this forum please reach out to:



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