

SME CROSS-BORDER PAYMENTS: USER REALITY VS. INDUSTRY FALLACY



INDUSTRY FALLACY

New Cross-Border Payment Record:
Send Your Money in **15 Seconds**



Fallacies :

Overview

Fallacies are common errors in reasoning that will undermine the logic of your argument. Fallacies can be either illegitimate arguments or irrelevant points, and are often identified because they lack evidence that supports their claim.

<https://owl.purdue.edu/> :

FOREWORD

Small and medium-size enterprises (SMEs) play a critical role in the global economy, employing 60% to 70% of workers in most countries and up to 90% in some. However, many SMEs struggle with liquidity, and late payments from their customers are a major reason. [Mastercard research](#) shows 61% of SMEs are using international suppliers more than they did in the previous 12 months, and 51% are operating outside their home markets. The need for fast, transparent and cost-effective cross-border payments for SMEs has never been more pronounced.

In this whitepaper, payments researcher and author Jonathan Tyce makes the case that financial institutions are falling far short of delivering cross-border payments that SMEs need. For some, this is a matter of survival. And other SMEs find alternatives to banks in order to make and receive international money transfers.

Questions of Speed, Availability, Ease of Use, Transparency & Risk

Facing unflattering or uncomfortable truths is never easy. Rather than honestly confront and address issues, many in the industry have cherry-picked metrics that seem to prove cross-border payments through financial institutions are just fine. Not just fine—but exceptional! Case in point, in August of 2023, [Swift reported](#) that “89% of transactions processed on its network reach recipient banks within an hour ... well ahead of speed targets set by the Financial Stability Board to achieve one-hour processing for 75% of international payments by 2027. The momentum underscores work by Swift, which connects more than 11,500 institutions in over 200 countries, to expedite delivery and enable banks to offer a better service to their end-customers.”

Success! Break out the champagne.

Not so fast. If you look just a little deeper and listen to users, the story's not so rosy.

First, let's consider product availability. As of 2018, there were more than 44,000 banks and credit unions in the world, according to an [Extractable report](#). Some observers believe the number could be as high as 50,000 or 55,000 today, especially when you add the new financial services providers offering “accounts”—prepaid cards, mobile money, digital wallets and similar. And there's some troubling stats about correspondent banks. According to a [Bank for International Settlements report](#), “The total number of active correspondent banking relationships and active corridors continues to decline. The year 2018 saw declines in active relationships and corridors of about 3.5% and 2%, respectively. Over the last seven years, active relationships in the global correspondent banking network have declined by about 20% and the number of active corridors has fallen by roughly 10%.” Given a precipitous and pronounced decline in correspondent banks, and with just over 11,000 Swift institutions, and a growing number of consultants dedicated to finding correspondent banks so financial institutions can offer cross-border payments—we can't ignore questions of accessibility and availability of cross-border payments to SME customers through financial institutions.

A key question we should ask about the celebratory metrics: Does the amount of time it takes a transaction to reach the recipient's bank after a Swift transaction is initiated tell the real or whole story of a typical user or SME experience? For example, how many of the 89% of transactions are treasury or wholesale payments? Just because the Swift message was received by the recipient's bank, does the recipient have their money? And how much time passed, what was the effort, what were the costs and risks required by the disburser and their bank—before the Swift transaction was even initiated?

Should the clock start when the SME presses “send” on their bank's website and end when the recipient receives their money? Or, shouldn't we look earlier in SME experience?

If we really care about the SME experience, let's assess their work effort and implications when they begin to collect the recipient's bank account details and then enter this into their bank's website.

Also, what are the data security issues for SMEs and those they pay? For example, what risks are the recipient and the SME exposed to during the process of gathering, sharing, storing (can you say data breach?), validating and manually entering this valuable financial information into a bank's website? For many years in the U.S., real estate closings have been attacked and compromised during this process.

Back to the time it really takes to make a cross-border payment. When the SME presses send on their bank's website, what happens next? Is this when the one-hour clock starts that we celebrate? No, not yet!

Typically, a payment instruction is sent to someone at the originating bank who must evaluate the SME cross-border payment request against the bank's risk, compliance and other SOPs.

• Is a bill of lading needed? • An invoice? • A customs declaration? • Or something else?

And how much time passed before a bank employee can evaluate the payment instruction to determine what's needed and the SME was notified that they need to provide additional documentation? Same day? Next day or two days later? And how is the time accounted for in the real-world, when, after several days of waiting for their payment to be delivered, and it hasn't been, the SME calls their bank to ask why—only then to be told they need to provide more information. Another transparency issue is amplified when SMEs ask simple questions:

"How long will it take for my payment to be delivered?"

"Where's my money?"

"Why hasn't my payment been delivered?"

If it wasn't so embarrassing, frustrating and unbelievable, we could create comedy skits from answers banks give when asked these questions.

Are we supposed to ignore this? Are we measuring the wrong stuff? How do we account for the slow, costly, frustrating, manual back-and-forth as well as risky messiness SMEs, recipients and their banks experience?

Are we being disingenuous and self-congratulatory by asserting we're far ahead of schedule and disregard everything we're hearing from customers about their dissatisfaction frustration and needs?

Examining the Real Customer Experience and the Root Cause of the Problems

The only way to delight users is to deconstruct and critically examine their experience from beginning to end. What does this reveal? Core banking systems, digital banking platforms, compliance engines and other systems on the originating side through the correspondent and/or intermediate bank and at the recipient's bank were never designed for cross-border payments. Period. Historically and under regulatory pressure, the solution has been to throw bodies and more (manual) processes or so-called "best practices" at these software gaps across the ecosystem.

To truly address the root cause problems in cross-border payments for SMEs including solving for the safety, efficiency and user satisfaction issues, financial institutions need new software. We need infrastructure that systemically interconnects the ecosystem, and we must resist familiarity bias and the "this is how it's always been" mentality to really improve the SME experience.

When we do this, we can fix the dysfunction of correspondent banking, enable new paradigms like Mastercard Move that opens cross-border payments to nearly every bank, building society, credit union and every new or alternative financial services player to participate (not just the 11,000+ Swift members) and reach nearly every company and every person on the planet, whether banked or not, and truly delight SMEs with product and metrics that matter to them.

Read on to learn more about why this new approach is needed now more than ever.

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Payall Payment Systems

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A FEW WORDS FROM THE FUTURE

As the world becomes increasingly digital, and the impacts of technologies like artificial intelligence become more widespread, many aspects of human life are expected to become simpler and more efficient. Within the global payments space, cross-border transactions for small businesses and sole traders are widely acknowledged to be among the most stressful, inefficient and ripe for modernization by software and innovation.

The goal of this paper is to explore the reality of the SME cross-border payments space from a user's perspective and suggest how things may be improved, as well as highlight the massive size and overlooked impact of SMEs in communities globally. Where better to start than to ask ChatGPT its views? In response to the input "Cross-border payments in the SME space" this was the instant response—useful food for thought, but only an appetizer.



ChatGPT

Cross-border payments in the SME (Small and Medium-sized Enterprises) sector can be both a challenge and an opportunity. SMEs often face hurdles when conducting transactions across borders due to various factors such as currency conversion, differing regulations, high transaction fees, and lack of access to efficient payment infrastructure. However, with the advancement of technology and the emergence of innovative financial solutions, there are several ways in which SMEs can streamline cross-border payments:

01 → Online Payment Platforms:

Utilizing online payment platforms like PayPal, Stripe, or TransferWise can simplify cross-border transactions for SMEs. These platforms offer currency conversion services and provide a user-friendly interface for sending and receiving payments globally.

02 → Digital Wallets:

Digital wallets such as Apple Pay, Google Pay, or Skrill enable SMEs to make and receive payments internationally without the need for traditional banking channels. These wallets often offer lower transaction fees and faster processing times compared to traditional methods.

03 → Fintech Solutions:

Fintech companies are continuously innovating to address the specific needs of SMEs engaged in cross-border transactions. These solutions may include peer-to-peer lending platforms, invoice financing services, or supply chain finance solutions tailored to the SME sector.

04 → Trade Finance Platforms:

Platforms specializing in trade finance can assist SMEs in managing cross-border transactions related to importing and exporting goods. These platforms provide services such as supply chain financing, invoice factoring, and trade credit insurance to facilitate international trade operations.

05 → Bank Services:

Many banks now offer specialized services tailored to SMEs engaged in cross-border trade. These services may include multi-currency accounts, foreign exchange hedging products, and international wire transfer facilities to help SMEs manage their cross-border payment needs efficiently.

06 → Government Initiatives:

Some governments provide support and incentives for SMEs involved in international trade. This may include access to export financing programs, trade missions, or assistance with navigating regulatory requirements in foreign markets.

07 → Blockchain and Cryptocurrencies:

Blockchain technology and cryptocurrencies like Bitcoin or Ethereum offer decentralized and secure methods for conducting cross-border transactions. SMEs can leverage blockchain-based payment networks to reduce costs, enhance transparency, and expedite settlement times.

SMEs: UNDERAPPRECIATED & OVERLOOKED

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"SME payment evolution is likely to be organic—big picture radical schemes are likely to struggle because you need to build on the existing frameworks ... where, for example, Germany looks retro compared to many of its neighboring countries."

HUW VAN STEENIS, VICE CHAIR, OLIVER WYMAN

THE BIG PICTURE

With an estimated **\$30 trillion** daily value of account receivables outstanding across the globe, payment and settlement systems are increasingly the backbone of all economies. The prevailing obsession among regulators—and banks rests with big-ticket money-flows, and it's easy to understand why. Wholesale payments are expected to represent **80%** of a forecasted **\$290 trillion** in global cross-border payment volumes (Statista data) in 2030, virtually unchanged as a proportion from 2023 flows of **\$190 trillion**.

Availability of Fast Payment Systems around the World

As of April 2024



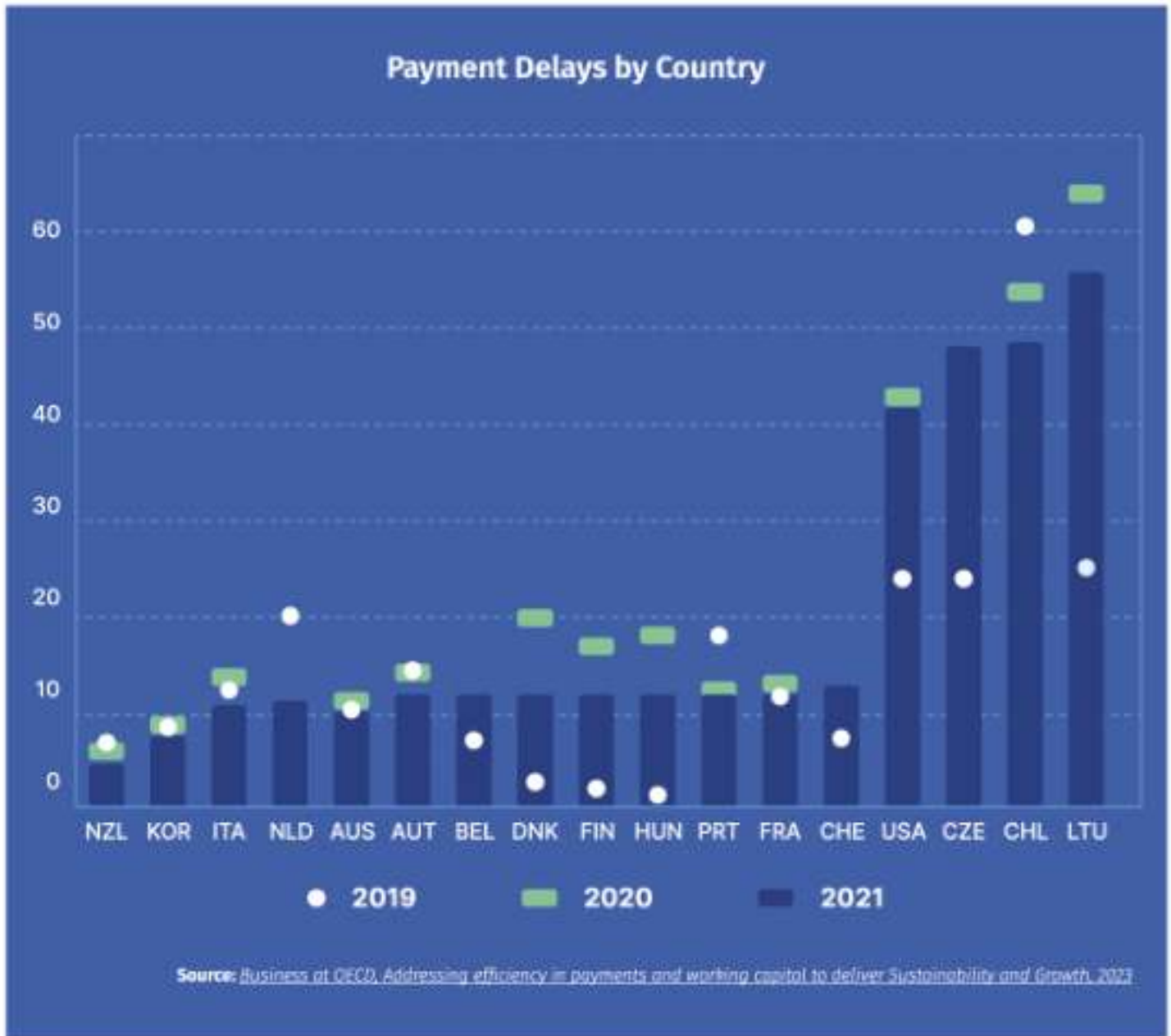
Source: The World Bank, 2024

Dig a little deeper, however, and it quickly becomes clear that—for the payments industry—the real risks and opportunities from payment inefficiencies and delays, as well as the greatest scope to innovate, drive growth efficiency and promote financial inclusion, lie in a different layer altogether: the SME category. As faster and instant payment systems burgeon globally, cross-border solutions in this critical space must begin to deliver.

\$3 TRILLION LATE PAYMENT DRAG?

The economic impact of delayed and failed payments can be hugely significant but often overlooked. A Bloomberg survey suggests that about 1 in 10 invoices are paid late, which, if correct, could imply a \$3 trillion shortfall for the SME sector globally. That said, with little or no comparable information available globally about the average size of late payments, the true figure could be far lower or far higher. Either way, it confirms that more information and better visibility on the state of SME payments is badly needed. In a similar vein, LexisNexis estimated that the total cost of failed payments in 2020 fell just shy of \$120 billion.

U.K. government figures show that its SMEs had £23.4 billion outstanding in late payments with an average 8.2 days' delay in 2022. As a direct result of late payments, more than a third of British SMEs have had to apply for credit to manage their cash flow.



A 2023 Business at OECD whitepaper (link above) rightly posited to the G20 that supporting “trustworthy interoperable early payment platforms structured on safe principles and requirements” and “facilitating efficient cross-border payments”, could create a “propeller” effect in job creation and economic growth.

Did you know?

99% of Brazil's manufacturing industry is comprised of SMEs.

This would of course be most particularly beneficial to SMEs, already acknowledged to be facing a disproportionately higher cumulative regulatory and administrative burden to conduct cross-border transactions relative to their resources than big business.

SMEs ARE KEY TO PROPEL GROWTH



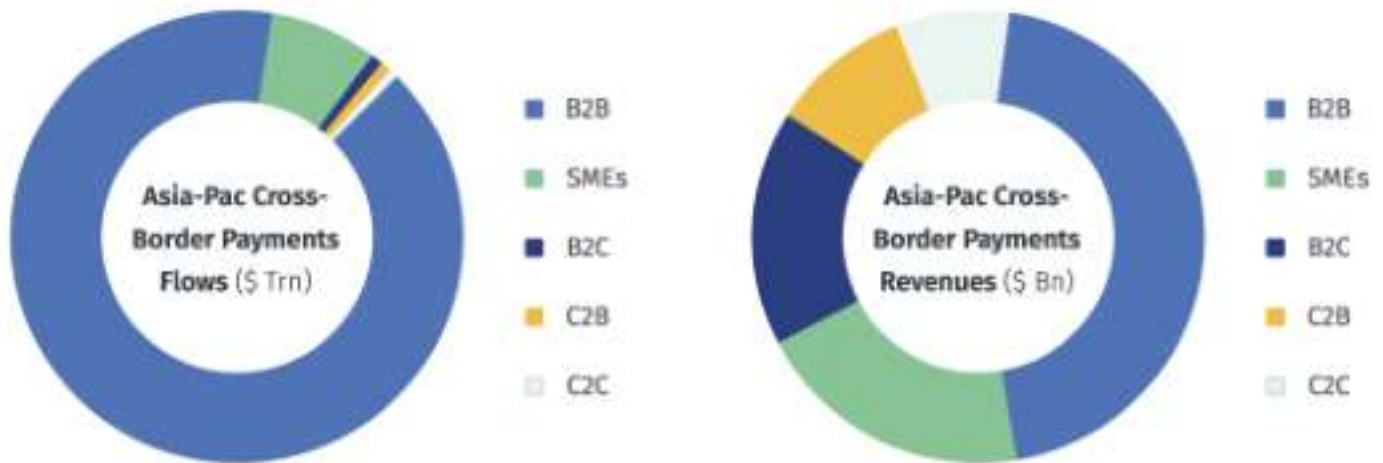
Perhaps a lofty ambition, and something of an early aside, but as the OECD paper also goes on to note: "MSMEs are the largest job creators and constitute the backbone of our economies, they have a key role in the green transition without which the Sustainability Agenda cannot be delivered."

In other words, get this right and the cross-border payments industry can truly support global initiatives on climate, sustainability and all forms of inclusion where it matters most—the SME community.

SMEs: NOT SO SMALL AFTER ALL

SMEs are the focus of this payments-technology paper because of the critical, but perennially overlooked and underappreciated role they play in the world order. They are also the focus of this paper because the low-hanging fruit and huge opportunity to add value and improve the customer experience is greater here than in any other segment of the payments world.

Focus on Revenues, Not Flows: SME & B2C Shine



Source: Citi, *Future of Cross-Border Payments, 2023*

Within the B2B space, SMEs punch significantly above their weight when viewed through the lens of revenues rather than volumes. For example, the SME and business-to-consumer (B2C) cross-border payments segments across Asia-Pac (including China) collectively generate a meagre 7% of total volume flows, but when you look at revenues, this figure skyrockets to more than 40%.

Did you know?

99.3% of businesses in Britain are SMEs and they generate nearly 50% of all U.K. business turnover.

From a social, environmental and economic perspective, as well as from a cross-border payments perspective, SMEs have a disproportionately positive impact at a local community level as well as globally. This is starkly at odds with the lack of investment, recognition and support they receive both from policymakers and, crucially, the public and private sector.



CLICK TO PLAY

User Reality vs. Industry Fallacy

Jonathan Tyce interviewing Ronit Ghose

1:29 | 15:48

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SMEs CAN DRIVE CHANGE WHERE IT REALLY MATTERS

OECD commentary confirms that SMEs, which employ anywhere between 60% to 70% of workers in most countries, drive greater economic inclusiveness globally. One of the greatest contributions SMEs make is promoting women's participation in the workforce and as entrepreneurs.

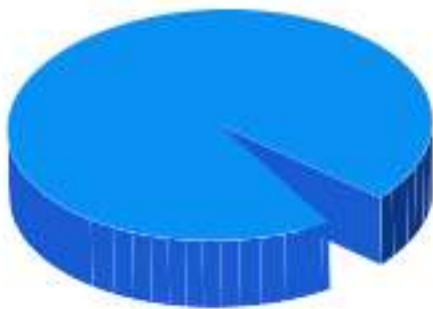
This view is supported by World Bank Data showing that SMEs make up 90% of businesses globally with formal SMEs contributing up to 40% of GDP in emerging economies. SMEs are the lifeblood of those economies where the most help and investment are needed, as well as where most growth opportunities lie.

Empowering SMEs to access the cross-border payments nexus in a fit-for purpose and user-friendly way is critical to drive progress and deliver much-needed finance and liquidity to developing nations.

Formal SME Finance Gap in Developing Countries

90%

Of businesses worldwide are represented by SMEs.



\$5.2T

Yearly unmet financing need of 40% of MSMEs in developing countries.

≈50%

Of formal SMEs don't have access to formal credit.

46%

East Asia And Pacific account for the largest share of the total global finance gap.

40%

Formal SME contribution to national income (GDP) in emerging economies.

88%

Proportion of the finance gap compared to potential demand in Middle East and North Africa.



Source: World Bank, 2019

This paper will not explore the huge shortfall in the availability of financing, estimated by the International Finance Corporation at more than \$5 trillion annually to 65 million SMEs across developing countries. It will, however, address the gaping disconnect between what stakeholders across the payments industry are doing to build a fit-for-purpose, accessible cross-border payments network for SMEs around the world, and what is both possible and required.

SME-PAYMENT WOES NOT LIMITED TO DEVELOPING NATIONS

The SME-payments challenge is not limited to developing and emerging markets. It's also a significant roadblock to greater prosperity across the Western world. The EU is a case in point. Only 40% of businesses are paid on time, which causes a quarter of all SME bankruptcies, according to EU data.

Small and medium-sized enterprises (SMEs) are deeply woven into the fabric of Europe. They are essential to Europe's competitiveness and prosperity, as well as economic and technological sovereignty. With the **SMEs Strategy for a sustainable and digital Europe**, the Commission wants to support and empower SMEs of all sizes and sectors, from innovative tech to start-ups to traditional crafts.



Source: European Commission, Unleashing the full potential of European SMEs, 2020

Did you know?

There were 24.4 million SMEs in the EU in 2023, accounting for 99.8% of all active businesses and 52% of total value added.

INTRODUCING THE SPOTLIGHT SERIES

Many of the challenges facing SMEs will, of course, vary country-by-country and region-by-region, driven by regulatory and political differences, population wealth, legacy banking and technology footprints. That said, many of the challenges and SME wishlists explored in this and future papers will be common to all, and software and technology will render this increasingly true, as barriers are broken down by digital advances.

The U.K. Spotlight is the first in a series of geographically focused analyses of critical drivers and trends within key country-specific payments markets. The spotlights will draw upon interviews and experience from local correspondent banks, PSPs, regulators, and relevant stakeholders to identify idiosyncrasies, opportunities and roadblocks affecting SMEs ability to grow internationally from a given market.

WHAT'S IN IT FOR ME? A \$50 TRILLION WIN-WIN

According to Mastercard's May 2023 thought leadership piece, "Small and medium enterprises are big business", SMEs spend upwards of \$50 trillion annually, but despite this huge buying power, many still rely heavily upon slow and risky cash and bank transfers. The lack of options also frequently drives small business owners to use personal payment methods rather than appropriate business channels.

SME More Profitable than Consumer?



Source: Mastercard, Small and medium enterprises are big business, 2023

"Small business is big business—especially for the people who depend on these companies for a living and for the communities that rely on them," notes Mastercard CEO Michael Miebach.

So, viewed from the perspective of the payments industry and banking sector, the "what's in it for me?" of stepping up in the SME cross-border space is abundantly clear.

TAKE A LEAF OUT OF THE CONSUMER PLAYBOOK

Lessons learned and customer experience from the consumer payments sector are the correct places to start for economies and corporations looking to make a meaningful difference to the SME-payments challenge.

"Number one, start with the customer. I believe in working customer back," said PayPal CEO, Alex Chriss, during a recent earnings call. "We will start by defining our customers and their most critical needs. Then we will use that knowledge to inform everything we do, including investments and innovation."

PayPal's approach, articulated while discussing the payment behemoth's new operating principles in February, sums up the industry challenge perfectly in the SME sector. A customer-centric strategy is the right one and can and should be applied to SMEs. As to first steps, identifying what the SMEs actually need versus what is in reality on offer is a very sensible place to start.

SPOTLIGHT: U.K. LEADING THE CHARGE?

SMEs IN THE U.K.: 5.6 MILLION AND COUNTING



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"SMEs make up over 99% of the U.K.'s business population and provide nearly half of employment in our economy. They include everything from early stage start-ups to local businesses and rapidly growing innovators. Access to finance for SMEs must not be jeopardized further."

TREASURY COMMITTEE, MAY 2024 REPORT ON SME FINANCE

After rising steadily from 4.5 million small and medium-size enterprises in 2010 to 6 million SMEs in 2020, a variety of factors have now reduced this total to about 5.6 million. The pandemic and energy shocks are of course in large part to blame, but all countries have faced these issues.

Regulation in the form of Basel 3.1, more stringent capital requirements for SMEs and the removal of pandemic support measures are also exacerbating this already dire situation. The sheer volume of challenges renders addressing and resolving the numerous obstacles facing U.K. SMEs a truly daunting task. But here goes ...

A UNIQUE COCKTAIL: RING-FENCING + BREXIT + COVID



Source: Bank of England, Ring-fencing: what is it and how will it affect banks and their customers?, 2016

It is easy to point fingers and demonstrate how policymakers and regulators around the world can fairly be accused of being asleep at the wheel. The U.K., which arguably can claim to be at the forefront of initiatives to support its smaller businesses, is somewhat uniquely positioned in this regard. In its defense, it has had a couple of challenges that other economies have not had to contend with in recent years, which makes this island nation an ideal subject for a more in-depth analysis of the SME cross-border trade and payments conundrum.

COVID-19, a global phenomenon, which oiled the wheels for a sea change in digital advances also reshaped global supply chains, acted as a catalyst for populism and protectionism worldwide and has made life tougher for many, many small businesses.

For U.K. financial institutions, this came hot on the heels of the introduction of ring-fencing in 2019, which created many unintended consequences examined briefly here. Then, to top it off, Brexit officially took place at 23:00 GMT on Jan. 31, 2020, heaping further bureaucracy, pain and roadblocks on U.K. SMEs looking to deal with the EU.

WHERE TO START? EXPERT EXPORTERS



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User Reality vs. Industry Fallacy

Jonathan Tyce interviewing Paul Brooks

1:29 |  | 15:48


Faced with this unique cocktail of challenges, coupled with political turmoil and a succession of Prime Ministers from 2016 onwards that roiled markets, currency and confidence, picking a place to start is no easy task. For the purposes of this paper, the experiences, outlook and goals of three stakeholders will suffice to shed some light on the true scale of the challenge and, more importantly, the opportunities to support U.K. SMEs internationally.



CHARTERED INSTITUTE OF EXPORT & INTERNATIONAL TRADE

The Chartered Institute of Export & International Trade (CIOE&IT) is midway through a two-year project examining and assessing exactly this question. Paul Brooks, Head of UK Nations & Regions at the Chartered Institute explains further.

"In November 2022, the Social Market Foundation (SMF) published a [report](#) entitled "Just a click away: How e-commerce can boost U.K. exports and growth."



E-Commerce Trade Commissioner

The SMF report suggested the formation of an industry-led task force to look at barriers (and subsequent solutions) in relation to e-commerce exporting. As a direct result, the E-Commerce Trade Commission (ECT-C) was convened by the IOE&IT on June 13, 2023 and will run through to June 2025.

A £9.3 BILLION BOUNTY?



The original report also identified that 70,000 small businesses could be selling online and that encouraging these SMEs to export online had the potential to help boost the U.K. economy by £9.3 billion GVA.

Throughout its ongoing two-year journey the commission will seek to simplify pathways to e-commerce trade through:

- ✓ Gathering evidence on trade barriers to inform future trade policy
- ✓ Creating an e-commerce resource portal specific to small businesses to help start and grow with e-commerce
- ✓ Providing education and inspiration through a tailor-made "Putting the Ease in E-Commerce" campaign targeted at small businesses

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“The commission has been hosting a series of evidence-gathering events—talking to key players and businesses working in this space—that are intended to inform the policy papers we are producing to ideally provide government with information on trade barriers and ways forward.”

PAUL BROOKS, HEAD OF UK NATIONS & REGIONS FOR CIOE&IT

Another important area of the commission's work is through its working groups, with the Financial Services Working Group (FSWG) linking to a broader range of stakeholders and looking into the numerous issues faced by SMEs that include cross-border payment challenges. The FSWG plans to feed its first findings into the commission later in 2024. As a parting thought and a positive sign for the future, Brooks remains upbeat about the challenges ahead.

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“U.K. businesses are incredibly resilient as they've shown time and time again over the last few years, and we have every confidence that they'll rise to this challenge as well!”

PAUL BROOKS, HEAD OF UK NATIONS & REGIONS FOR CIOE&IT

TRUST – EASY TO SAY, HARD TO DO

The challenge facing the IOE&IT is essentially all about trust, the bedrock of the payments system. As discussed in the previous two papers, (see below), understanding and providing what is required to build and deliver trust is no easy task, with many stakeholders and differing incentives. Kamran Hedjri, Founder and Group CEO of PXP Financial knows all about the vicissitudes of establishing trust in the payments industry.



"De-Risking
Cross-Border Payments:
Software vs.
Sledgehammer"



King for a Day:
Charting the future
of cross border payments



“Building trust in cross-border transfers for SMEs depends on several key factors. Firstly, transparent pricing without hidden fees is essential; SMEs should have a clear understanding of costs upfront, including exchange rates and transaction fees. Real-time tracking of transaction status provides visibility and reassurance, allowing SMEs to monitor their funds throughout the process. A user-friendly platform with easily accessible customer support further enhances trust. Intuitive interfaces for initiating and tracking transfers, combined with responsive assistance, make the process seamless. Robust security measures, such as encryption and strong authentication protocols mandated by regulations like PSD2, are critical for safeguarding financial information and transactions. Collectively, these elements—transparency, reliability, and security—are paramount for SMEs navigating international financial transactions.”

KAMRAN HEDJRI, FOUNDER & CEO, PXP FINANCIAL

RELATIONSHIPS MATTER

As with so much in the business world, establishing trust is all about relationships. Here again, PXP Financial is a prime example of what this actually means and how to approach it. Cultivating lasting relationships with both partners and clients, including SMEs, is critical. From specialized checkout experiences to invoicing and flexible credit terms, the right approach has to be to shape offerings to allow businesses to adapt payment systems to fit their specific models and customer preferences. Flexibility and simplicity to use, as discussed widely in this paper, are the bedrock for success. “By partnering with well-established companies that utilize cutting-edge technology, SMEs can ensure a seamless payments experience” Hedjri explains because this approach not only enhances transaction efficiency but also addresses one of the biggest challenges they face: time management. Streamlined payment processes reduce administrative burdens, allowing SMEs to focus more on growth and customer satisfaction.

DE-BANKING: 140,000 ACCOUNTS LOST IN 2023 ALONE

In 2023 alone, Treasury Committee data show that more than 140,000 business accounts were closed at the instigation of the lender. Banks cited fraud and financial crime, as well as a failure to comply with information sharing under ‘know your customer’ (KYC) regulations, as the reasons for account closure in the overwhelming majority of cases.

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User Reality vs. Industry Fallacy

Jonathan Tyce interviewing Graham Ridley

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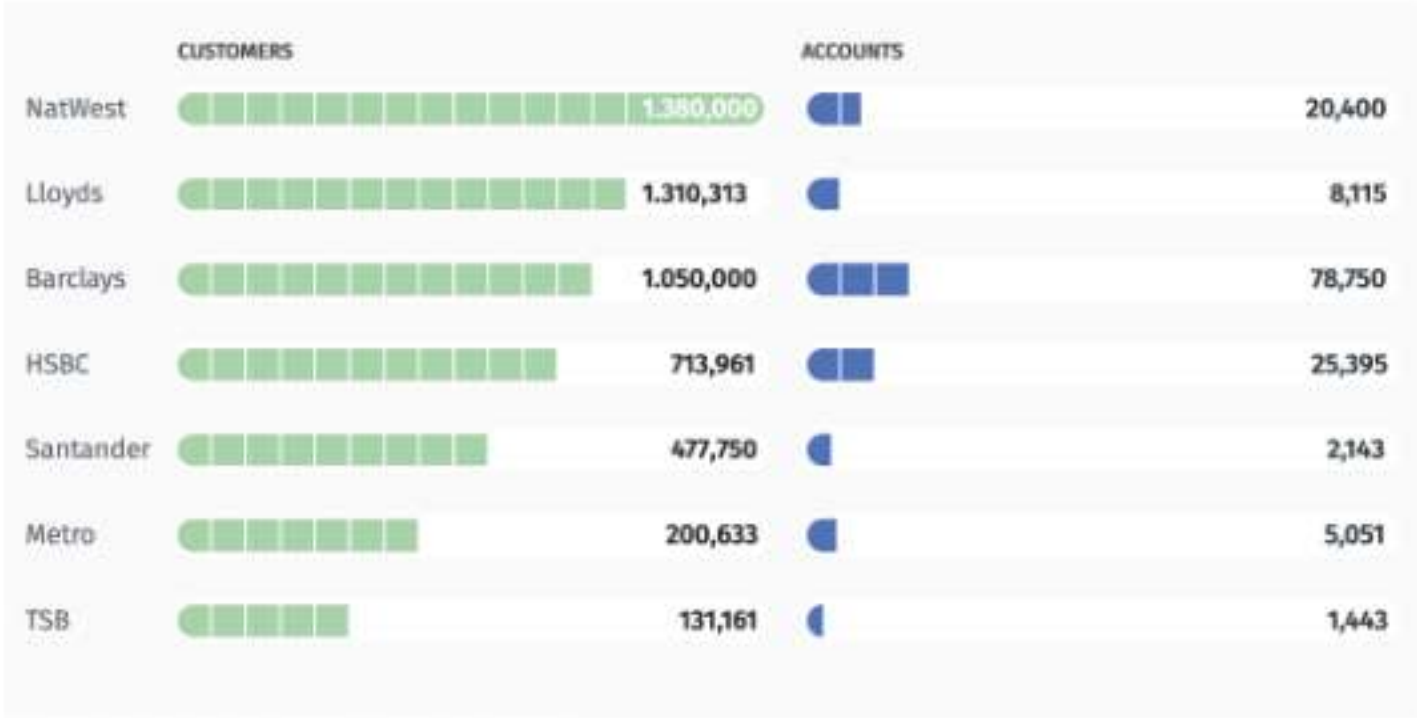
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The unintended consequences of ring-fencing in the U.K.—which most dramatically impacted customers of Barclays, HSBC, Lloyds Banking Group, NatWest Group, Santander UK, TSB and Virgin Money—are still playing out. Account closures are one of the most chilling metrics to consider, both the sheer volume and the underlying drivers behind this.

Digging a little deeper, three banks (NatWest, Santander and Barclays) also cited "risk appetite" as another reason for closure of some accounts. Though this represented less than 3% of total reported closures, it seems likely that risk appetite and the unappealing risk-reward (think profitability) profile of many SME accounts is likely the main driver of far more closures than these statistics would suggest.

SME ACCOUNTS CLOSED BY HIGH STREET BANKS IN 2023



[Click for "An Economic Risk for the U.K." video](#)

Source: Treasury Committee, SME Finance: Eighth Report of Session 2023-24, 2024



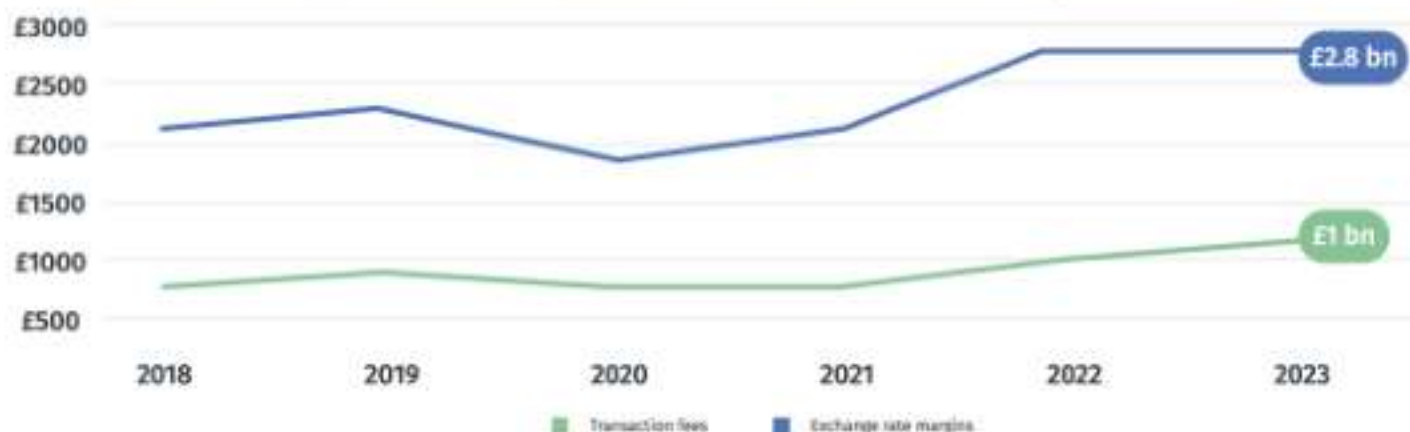
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"I think that probably the biggest need is a real hard look at that current regulation and to look at what else those customers require. What access do they require? It isn't just a bank account that's safe and can't be divested. It's additional facilities and ways to grow their business and scale going forward. And that's what they're really lacking"

GRAHAM RIDLEY, STRATEGY DIRECTOR, IFX PAYMENTS

FOREIGN EXCHANGE: THE ELEPHANT IN THE ROOM?

Hidden Fees for SMBs (Small and Medium-size Businesses), expressed in millions



Source: Wise, *The £2.8 BN Business Problem*, 2024

Foreign exchange rates and FX hedging are two critical elements of cross-border payments that are seldom discussed in adequate detail. This is largely because of the opaque nature of pricing and almost certainly because of the embarrassingly high profitability that these services accrue to financial institutions.

"This is not a new problem—our latest research with Capital Economics shows that in the last five years, the amount U.K. SMBs (Small and Medium-size Businesses) have lost to hidden fees has risen 27% from £2.2 billion in 2018 to £2.8 billion in 2023—that's an increase of £600 million. And, as this report shows, while many businesses want to realize their dreams of expanding internationally, it's become a vicious cycle. A survey of 3,000 small businesses conducted by Wise and Censuswide found that 33% of U.K. businesses want to enter new markets, but more than a quarter (26%) are being put off by the high cost of international banking services."

[Click for "Protecting SMEs from FX Challenges" video](#)

Source: Wise, *The £2.8 BN Business Problem*, 2024

Anecdotally, and as far back as 2017, a leaked memo from a U.K. bank shed some unwanted light on quite how profitable. Granted, this was in the retail space but, as this SME whitepaper shows, SME customers often use retail services (and prices) because of a lack of business options.

TRANSPARENCY ON FEES IS A 'MUST'

Back in 2017, British newspaper *The Guardian* published an exposé suggesting that senior executives of Banco Santander had, in January of that year, been warned by the bank's innovation director that a large chunk of its profits were at risk. Why? Because the fat margins it was earning on money transfers could potentially be destroyed by new competitors.

To prove just how juicy these margins really were, the newspaper cited leaked documents revealing that Santander made €585 million from money transfers—equal to nearly a 10th of its 2016 global profit of €6.2 billion—and that it charged six times as much as rival TransferWise (now known as Wise) for sending £10,000 from the U.K. to Spain.

Back then, the FX margin generated about half of the total money transfer revenues and nearly double the standard advertised fees, with its correspondent banking fees boosting profitability still further. In January of this year, Wise also disclosed that HSBC has the highest fee for GBP-EUR exchange rates (3.7%), followed by Lloyds at 3.6%, Barclays

at 2.75%, and NatWest, TSB and Santander all at 2.5%, implying that not that much has changed. Transparency and policymaker scrutiny remain vital and best practices must be put in place as soon as possible.

U.K. SMEs CHOICES AND MOTIVATIONS



Moving Money Report

What are the key challenges facing SMEs?

- ✓ High fees
- ✓ Limited support
- ✓ Complex compliance procedures

Where to start?

- ✓ Robust solutions providing accessibility and cost-effectiveness
- ✓ Digital payments with user experience the focus
- ✓ Hybrid banking/PSP approach

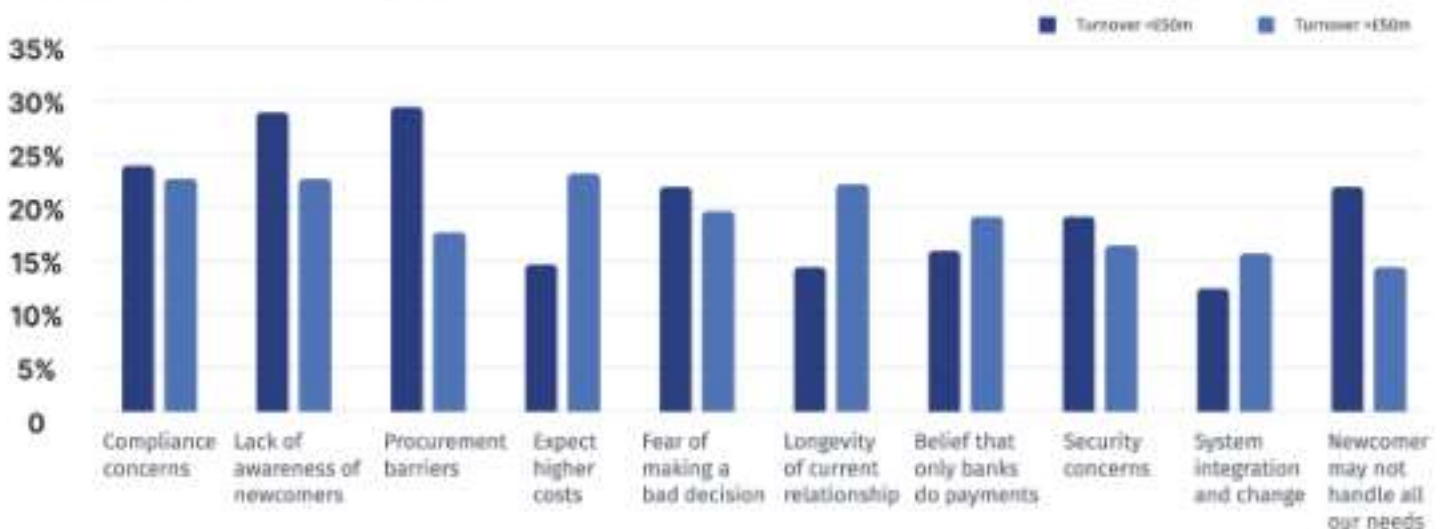
IFX Payments' timely 2024 Moving Money report, detailing the responses from more than 250 British SMEs about their international expansion plans and payments needs and experiences, provides a neat synopsis of critical topics that stakeholders across this arena should consider.

Key takeaways included an overwhelming majority (78%) expecting to increase cross-border activities in 2024, with increased trade volumes towards importing rather than exporting. Further, 80% of the SMEs surveyed intend to pay more overseas employees and 79% intend to make more international investments.

Harking back to the case examples above on FX, volatile markets have raised awareness of the need for currency hedging to mitigate the risk of this global activity—more than three-quarters of companies surveyed expect to hedge exposure more in the year ahead.

WHY DON'T SMEs VOTE WITH THEIR FEET?

An obvious question is, of course, if the fees are so high and the service levels so poor, why don't businesses simply shop elsewhere? The answers are numerous and complex but inability to manage KYC risks, as well as fear of getting it wrong and compliance risk often dominate. As Brooks explains, confidence, know-how and training are all key facets of the solution and this will take time.



[Click for "3 Biggest Obstacles" video](#)

Source: IFX Payments, Moving Money Report, 2024

WHAT NEXT?

In an age of digital solutions and AI, help is increasingly near at hand. As with the clear need to demand pricing transparency and comparability, U.K. policymakers must partner with companies looking to provide innovative

financial solutions to level the playing field. The U.K. is one of the most interesting test cases of how to unlock service, liquidity and software-driven solutions for cross-border business and payments.

PSD3 – BORING BUT IMPORTANT

On the 28th of June, the European Commission released the proposal for updating existing EU payments legislation (PSD2). A dry subject at the best of times, impending changes – with finalization likely in late 2025 for implementation as early as 2026, will impact all stakeholders. Though too early to deep dive what it will mean and for whom, a neat synopsis of the changes can be found by clicking into the graphic below.



Source: [Truelayer.com, PSD3 has arrived: 7 key things you need to know, 2023](https://truelayer.com/psd3-has-arrived-7-key-things-you-need-to-know-2023)

As the industry navigates towards this implementation date, and as a pre-cursor to more detailed debate in a future paper, the observations from a long-time player in the payments industry provides suitable context for why it matters.

“



“Thanks to PSD2 SMEs are putting the end consumers in the center, empowering them with greater choice and control over their financial services and offering more personalized and competitive offerings providing better customer Experience. For SMEs PSD2 means also that they can benefit from faster, real-time payments and reduced settlement times, improving cash flow and enabling quicker access to funds. At the end of the day, this means SMEs also get Increased Transparency allowing them full visibility and control over their transactions, allowing for more accurate monitoring, budgeting, and financial management. And last but not least, Thanks to PSD2 they can strengthen security through Strong Customer Authentication (SCA), increasing trust and reducing fraud in digital transactions.”

KAMRAN HEDJRI, FOUNDER & CEO, PXP FINANCIAL

If this is all true about PSD2, which seems likely, just imagine what PSD3 will bring. Dull and boring? Perhaps. Important? Definitely.

USER EXPERIENCE VS. INDUSTRY FALLACY



“

“So, for the SME it's a painful, painful transaction. And then also, just because you are dealing cross-border, funds don't always clear on time on the clearing side. Then just trying to trace those funds to figure out what the hold-up is not the easiest thing ...”

GREG BLOH, CEO, TRANSCARD

GENERATIONAL SHIFT ALREADY RAISING THE BAR

The most successful advances and breakthroughs in the payments industry have been driven, by and large, with the consumer squarely in mind. Improving the user experience of the consumer beyond measure in the last decade. Early consumer adopters—Millennials and, increasingly, Gen Z consumers—are also the future of the SME and gig economies globally. They are going to demand that their business payments are as seamless as their consumer payments.

For payments providers to compete, Transcard CEO Greg Bloh says, they are going to need to provide features for SMEs that don't just make payments easier, but make it easier for them to do business, including:

Easy onboarding



All payments managed in a single place



Multiple invoices can be paid with a single click



Industry-specific payment workflows



Payment data auto-synced with ERP



Straightforward pricing with no hidden fees



[Click for "Changing of the Guard" video](#)


Source: [Transcard.com](#)

The shift to simple consumer payments also means that the SME payments customers of tomorrow will not accept the numerous shortcomings of today's SME payments—lack of transparency, high costs, failed payments, multi-day delays. International transfers taking up to five days can cost 10 times the domestic equivalent. The opportunities and growth for payments stakeholders who can go beyond the current status quo to deliver to this new standard will be significant.

So, as the baby-boomer and generation-X small business owners pass on the baton, the bar has effectively already been raised. Millennials' and Gen Z consumers' expectations have been refined and raised over many years of improving consumer payments experience. The status quo currently endured by tens of millions of SMEs worldwide will not be tolerated by future owners of micro-, small- and medium-size enterprises.

INDUSTRY FOCUS MISSES THE SME POINT


In stark contrast to this shift, the industry focus of the likes of Swift GPI, the goals of the G20 Roadmap for Enhancing Cross-border Payments, and numerous industry collaborations and think tanks debating the future of cross-border payments appear to have one thing in common:




SWIFT GPI

They fail to properly acknowledge the global importance of the SME space, and the hugely frustrating payments struggles tens of millions of SMEs face daily. A hyper focus on message formats, data capacity, as well as speed and transparency—all valid and important features of the cross-border payments ecosystem—has somehow overshadowed the needs of the SME industry, the true lifeblood of global trade.

SOFTWARE SOLUTIONS REMAIN CONSPICUOUS BY THEIR ABSENCE





De-Risking Cross-Border Payments: Software vs. Sledgehammer

The March 2024 payments whitepaper "Software vs. Sledgehammer" examined the need for software solutions to be embedded in and connected across the various roadblocks and "choke points" in cross-border payment transactions.

This paper suggests that many of the unintended consequences of de-risking can be avoided altogether by accelerating the adoption of software and automation to eradicate the majority of reasons that banks are either de-risked or choose to avoid risk rather than attempt to manage it.

Focusing on the customer needs is a must; however, you can't hope to address the pain points in cross-border payments without seeking new technology that can deliver unrivaled interoperability, compliance, transparency, speed and fraud prevention.

Yes, Swift GPI claims financial institutions are “now sending and receiving funds securely to anyone, anywhere in the world, with full transparency over where a payment is at any given moment.”

With less than a quarter of the world’s banking and credit unions currently participating in SWIFT—a number that’s likely to get even smaller with fintechs and alternative rails gaining momentum—SWIFT’s claim ignores the huge shortfall of its reach.

At the same time, such transparency is not available to SMEs. Nor is the near-instant funds transfer that the largest global banks enjoy. SMEs have a very different experience, 99 times out of 100.



Source: Financial Stability Board, G20 Roadmap for Enhancing Cross-border Payments, 2023

The G20 Roadmap is another prime example of worthy industry goals failing to address the challenges of the neediest stakeholders. For a detailed discussion, see [“King for a Day: Charting the future of cross border payments”](#).

Did you know?

89% of U.K. small businesses are sole traders.

SMEs MERIT GREATER ATTENTION

In the original G20 Roadmap technical background report (April 2020), individual consumers and SMEs are lumped together, with “SME” referenced only twice in the entire document, while “wholesale” features 17 times. Fast forward to the October 2023 progress report and “SME” features once versus “banks” some 40 times.



Enhancing Cross-Border Payments

Stage 1 report to the G20: Technical Background Report

"Individuals and small and medium-sized companies (SMEs) are impacted by high transaction fees (relative to the sum being transferred, especially in relation to smaller value payments) and slow payment execution.

"While multinational corporates have usually no problems of access to services to make cross-border payments, access limitations may exist for SMEs and individuals, especially but not only in EMDE countries, possibly limiting financial inclusion and pushing customers toward inefficient or costly third-party services."

Source: *Financial Stability Board, Enhancing Cross-Border Payments, Stage 1 report to the G20, 2020*

THINK OF SMEs AS CONSUMERS ... BECAUSE THEY ARE

What becomes abundantly clear when scratching beneath the service is that from an industry, social, environmental and growth perspective, SMEs are unfairly overlooked and underserved.

Bundled into the consumer/retail bucket, SMEs and their small-value transactions are often considered "nuisance payments" by many larger banks. Therefore, they are increasingly being picked up by fintechs—an opportunity lost for the banks and even now often squandered by the fintech sector.



The SME cross-border payments space will be a goldmine of value creation, growth and profitability for those economies where payments companies deliver a better and, importantly, ever-improving user experience. And let's face it, the bar really isn't very high.

For the socially minded, additional fringe benefits will include supporting greater social and financial inclusion across developing and developed markets, just for starters.

WHAT DO SMEs NEED?

IT'S ALL ABOUT TIME ... OR LACK OF IT

For busy SMEs, any payments tool needs to be fast and easy to use—that includes set up and integration into their existing technology.



Typically, an SME will be operating on a relatively simplistic ERP system (enterprise resource planning software—think Sage or QuickBooks) and will want to continue to use that to minimize disruption.

Embedding software connectors to these systems and enabling a solution to the cross-border payments challenge without adding another system is the path of least resistance, cuts down on frustrations and can expedite the process dramatically. Minimal frictions and a payment system directly automated into the existing billing is at or near the top of an SME's wish list.

Did you know?

SMEs account for more than 90% of businesses and 70% of employment in sub-Saharan Africa.

SOFTWARE = CONVENIENCE, CONFIDENCE, COST

Ease of use, almost akin to a consumer experience, is a prerequisite for a successful SME payments application, with the ability to customize an added bonus. Given the small or non-existent finance teams that many small businesses retain, simplicity and automation/integration into the existing platform are critical.

Expense management, automated invoicing, access to finance and online invoice payments are among the most important features sought.



Expense
management



Automated
invoicing



Access
to finance



Online invoice
payments

SMEs Wish List of Commercial Payment Solutions

As a small business, which of the following commercial payment and technology solutions will be most important for your company in the next 12 months?



[Click for "Most Valuable for SMEs" audio](#)

Source: [Euromonitor International, Commercial Payment Priorities for Small to Medium-sized Enterprises, 2023](#)

THE WILD WEST FOR FX PRICING

While cost-effective and efficient cross-border payments are important to SMEs, that is subordinate to the smooth integration of the various finance functions and ease of use.

That said, a key area for improvement, according to Transcard's Bloh, is the lack of transparency for charges. In particular, he points to the FX component of a cross-border payment, which could fairly be described as something of a Wild West.



CLICK TO PLAY

User Reality vs. Industry Fallacy
Jonathan Tyce interviewing Greg Bloh

1:29 | 15:48

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"There is a lot of transparency for the consumer. Think about the migrant worker in the U.S. sending funds down to Central America, Mexico, South America. There are a lot of providers out there. There are published rates; it's easy to shop the rates and the fees. Not so for business, because typically they're going to utilize a bank where they usually had to go through some setup with one of the bank relationships that they have.

And then a lot of businesses don't even know that the rates change. You know a lot of the foreign exchange fees. So there's a lack of transparency. And it's just hard to get access to information unless you know how and where to look."

KEEP IT SIMPLE: KNOW WHERE TO DRAW THE LINE

With any payments transaction, whether as a payable or a receivable, there will be common sets of information. For software providers, the key is to know where to draw the line on the integration. Asking the question "what are we as a company? What are we not?" is critical. Transcard highlights the importance of this approach and how it becomes clear if the mark is overstepped.



“

"If we start building functionality upstream of that transaction, then we run into the issue you're talking about, which is then all of a sudden, where do you stop? And then all of a sudden, you start looking at accounting or partial system, so for us, it's having very clear designated lines on where we pick up and where we don't go"

GREG BLOH, CEO, TRANSCARD

Bearing this key tenet in mind, the integration should be as simple as possible and easy to maintain. Remaining within the limits of the information that is actually required for a payment and the types of data that will be exchanged can ensure that a software provider does not create a problem (for the SME operator) while trying to solve a problem (for the SME operator).

STICK TO WHAT YOU KNOW, PARTNER UP WISELY

AML and fraud-prevention measures, ID and data verification, end-to-end visibility and ongoing technical support are all pre-requisites for a smooth user experience.

IN AN IDEAL WORLD

Software empowering local clearing institutions and correspondent banks to directly execute verification of the data collection and checks run by foreign disbursers is now available. Critical steps in the process including sanctions checks, electronic ID verification of foreign owners, company directors and their commercial activities can be effected and validated instantaneously.

Real-time source of funds checks, automated due diligence checks and dynamic KYCC can be performed before the transaction is actually processed. Software that provides the ability to see-through to the disburser's KYC checks and digitally register that these steps have been taken, rather than taking the disburser's word for it, offers visibility that regulators and enforcement agencies demand.



Fast processing of sanctions checks



Real-time and automated source of funds and due diligence checks



Digitally register that all these steps have been taken.



Dynamic KYCC is performed before the transaction is actually processed.



The ability to see-through to the disburser's KYC checks



Electronic ID verification of foreign owners, company directors can be effected and validated instantly.

Source: Payall, De-Risking Cross-Border Payments, Software vs. Sledgehammer, 2023

As artificial intelligence and digital advances spawn new risks, combinations of leading software technologies should together be able to create a seamless workflow for the time-poor SME.

AN EVOLVING PROCESS NEEDS JOINED-UP THINKING

PCI Security Standards Council



Industry-Driven



Forward-Looking



Collaborative

Payment Security Standards and Resources

01 →

Managing Global Payments Security Standards

02 →

Validating and Listing Products and Solutions that Meet PCI SSC Standards and Program Requirements

03 →

Training, Testing and Qualifying Security Professional and Organizations

04 →

Providing Free Best Practices and Payment Security Resources

[Click for "fraud" video](#)

Source: [PCI Security Standards Council](#)

The very best cross-border payments solutions must be software-based and constantly evolving, creating interfaces at each step in the process that minimize work for the user and maximize speed, efficiency and transparency. The historic complexity of global correspondent banking networks with numerous manual steps led to a culture of de-risking that squeezed out the small customers—the SMEs.

Software solutions and cross-border rails that can deliver safe, instant and transparent payments capabilities are now available for these same SMEs. Some joined-up thinking from regulators, policymakers and the industry can and should begin to turn on these vital taps of global trade.

In short, and in order of importance, SMEs need:

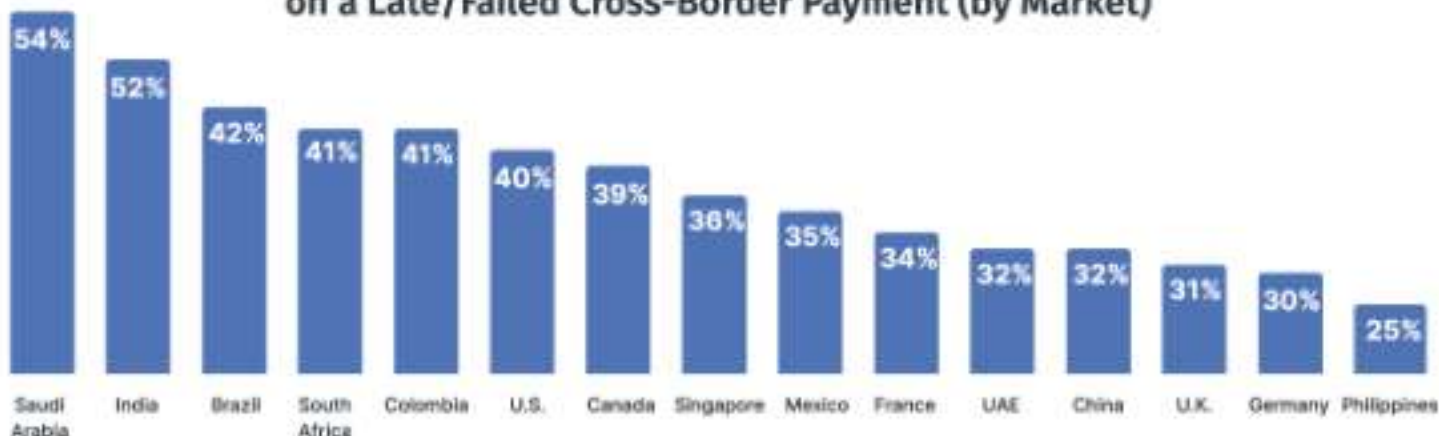
1. Good user experience, similar to consumer payments products
2. Seamless, end-to-end visibility, transparency and functionality for cross-border payments
3. Payment system embedded into accounting/invoicing/ERP system
4. Transparency on fees, notably the FX component
5. Ongoing education and software support as risks/requirements evolve

MAKING & RECEIVING PAYMENTS

ADDRESSING THE KEY ISSUES

On average, more than one-third of SMEs globally have encountered some sort of issue while attempting to make a cross-border payment that resulted in a late or failed payment. This stark statistic, from Mastercard's Nov. 2023 Borderless Payments report, at the very least demonstrates how much room for improvement lies ahead in this payments subsector. We can support the SMEs who are not just important for their communities but are more connected to the global economy than ever.

Proportion of SMEs that Experienced an Issue that Resulted on a Late/Failed Cross-Border Payment (by Market)

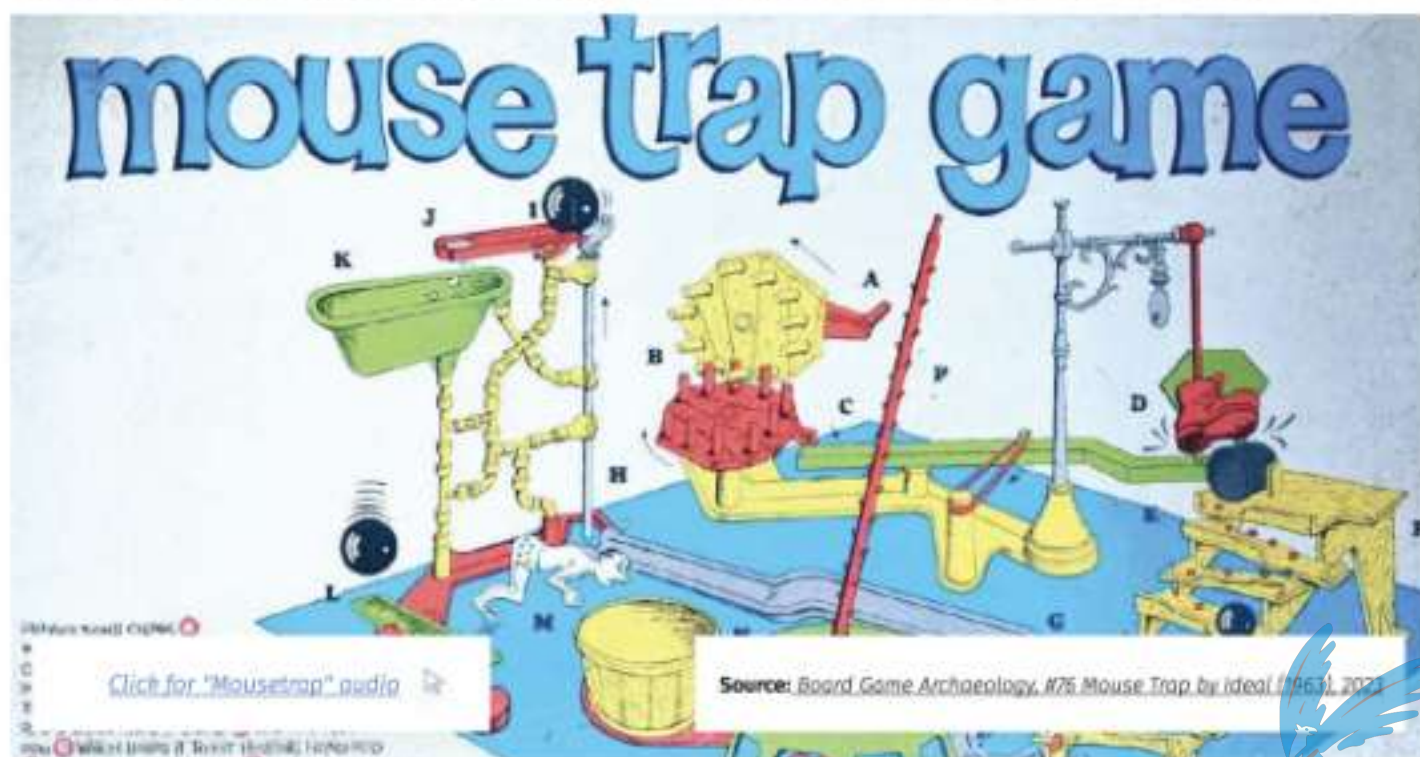


Source: Mastercard, Making Money Go Further, 2023

The list of issues that contribute to these backlogs is significant, sometimes geographically driven and often a result of the business shift from in-person payments to online. As the use of digital apps continues to increase, the viability and SME market share of bank websites and bank mobile apps will come under increasing pressure unless certain needs are met.

CORRESPONDENT BANKS VS. FINTECH MOUSETRAPS

A major threat to banks' long-standing position in the SME payments arena is of course from the fintechs.



Citi Global Insights' Future of Finance Head Ronit Ghose neatly articulates how fintechs continue to take market share by rolling out to SMEs services and a user experience honed in the consumer space and effectively building "mousetraps."

Interestingly, ChatGPT cited banks fifth and fintech seventh in its list of ways in which SMEs can streamline their cross-border payments. If anything, banks' ability to improve the situation likely ranks higher and fintech's lowly seventh place seems fair assuming the SMEs become more proactive, which they will.

Lower fees, greater visibility and a more user-friendly feel is something the banks have struggled to compete with. To avoid losing further market share, banks can and should look to partner with innovative software providers across the various steps in the cross-border process. Fees will undoubtedly continue to head south, but there is no need for a race to the bottom, yet.

WHITE-LABEL PARTNERS, BEST-IN-CLASS USER EXPERIENCE

For the correspondent-banking model, the option to offer the user experience that the SME needs is already available with the combination of white-label software, best-in-class user experience and the backstop of a bank's brand and capital.



Future of Cross-Border Payments

Who Will be Moving \$250 Trillion in the Next Five Years?

"We're seeing FinTechs excel in offering easy to use, seamless, digital-first customer experiences. They often provide solutions that are designed and customizable for the unique needs of the SME client.

We see two key propositions being brought to the market by FinTechs to capture market share. The first is consumer-facing apps or direct-to-consumer propositions. The second is the infrastructure layer proposition, where FinTechs white-label services from cloud providers and focus on key features such as price, speed, automation, transparency, and compliance. FinTechs are good at leveraging the best of what is available, harnessing new technologies, and creating new ecosystems."

Source: Citi, Future of Cross-Border Payments, 2021

ANATOMY OF PAYMENT

At its simplest, the anatomy of making a payment can be broken down into three key constituents, all of which must be automated, made transparent, efficient and easy to use. One way to understand the process is to break it down into three constituent parts, as below, and understand that these are very distinct steps in the process for SMEs.



Transcard, for example, focuses on the upstream piece of the workflow process which is being connected into accounting or ERP systems, or indeed any system or record where payments are being originated. Some of the key challenges and areas to address for the SMEs are briefly discussed below though the list is not exhaustive.

DATA EXCHANGE AND SUPPLIER RISK

The systemic risk, the discomfort (having to ask for, store and/or hand over payment details and business information), the effort and financial cost inherent in the current SME payments workflow is a problem that urgently needs resolving. And this discomfort and risk pertains not only to the payment initiator but also the recipient.

Data protection, PSD2, employee compliance with data rules and the like all come into play for an SME when payments and data are involved. If the disburser, for example, could let the supplier know that their bank would be contacting the supplier for all their details, much of this fear and discomfort on both sides is immediately removed.



“



“The third piece of that with the data is really getting the data to flow, to make the workflow seamless. So that decisions are being made along the way. Instead of having to go back and ask for data, getting the data properly presented along the way is super important.”

GREG BLOH, CEO, TRANSCARD

MAKING MASS / BULK PAYMENTS

A startling truth about one of the key challenges SME and sole traders face is the inability to pay more than one person or company at a time. If you need to pay your five software engineers, or 15 contractors, in most cases each payment must be distinct, with a recipient name and an IBAN number entered in a slow and painful process.

The difficulty in making mass or bulk payments is surprising. As the world continues to turn more global for smaller businesses, and as marketplaces increasingly dominate, this ability is increasingly critical.

FLEXIBLE PAYMENT DESTINATIONS

For much of the emerging and developing world, having a bank account is not necessarily the norm. Given an often-endemic lack of trust, desire or ability to hold a bank account, disbursers must be able to embrace a number of options from cash pick-up or payment to an existing debit or credit card, through mobile money accounts to virtual card payments and digital wallets.



The payment mechanism suitable for a given SME is thus also, in part, determined by the needs of its recipients. Disbursers need to be forward-thinking enough about alternative forms of financial services (as well as backward-looking—cash) to ensure that they can meet the needs of the recipient, whether that recipient is banked or not.

DELIVERY CONFIRMATION & STATUS OF PAYMENT

There is often a yawning gap between the best-in-class timeframe that a bank will say it can deliver a payment and the reality. The problem here is one of transparency and a lack of delivery confirmation—again this is critical both for the SME making the payment and the recipient.



In a similar vein, the status of a payment—where is it and why is there a delay—is a huge source of frustration for payors and payees alike. Technology with end-to-end visibility already exists and can help solve this problem.

REPORTING OF TRANSACTIONS

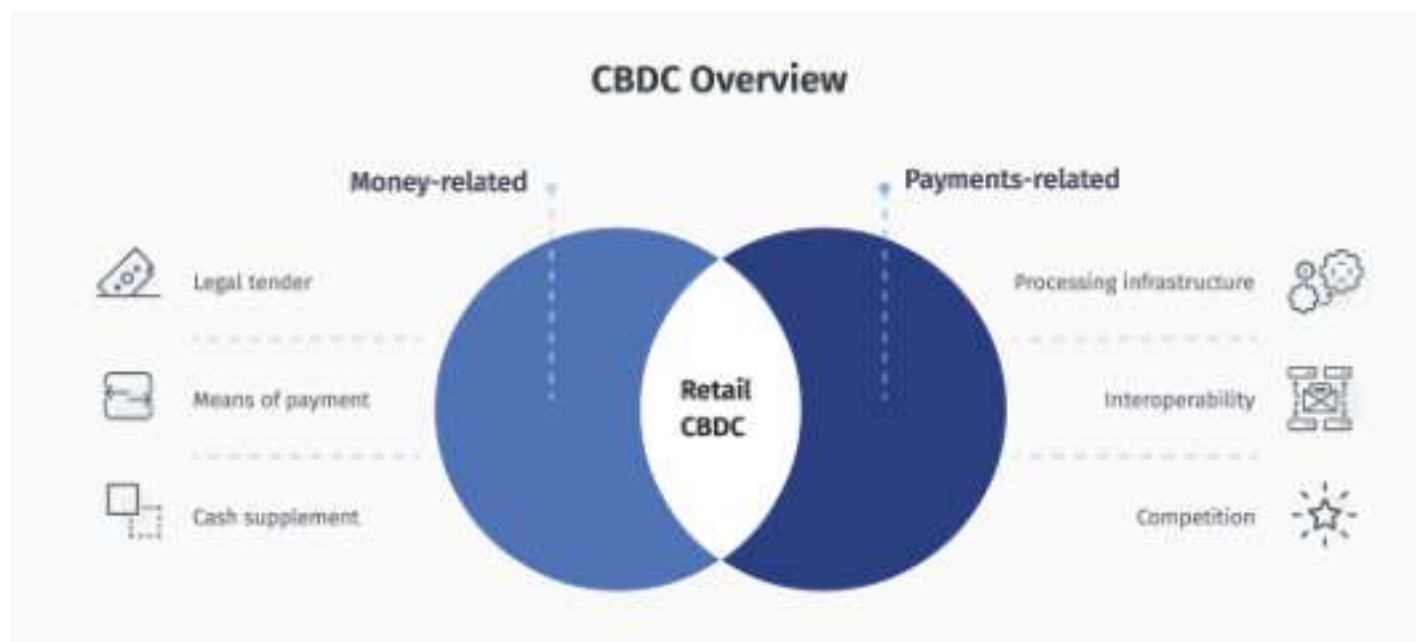
An additional pain point SMEs face when using traditional banks for cross-border payments is transaction reporting. Many banks offer limited and incomplete payment information, rendering it difficult to reconcile. This then adds uncertainty to their cross-border banking operations as businesses struggle with a lack of transparency in transaction reports and currency conversions.

As discussed previously, the pain points SMEs face cannot be addressed with a one-size-fits-all approach, BUT they do all have one thing in common. The user experience. This alone can determine the order of business and where to start for any given provider—most especially the banks.

It will also demonstrate which parts of the value chain—or anatomy as depicted on page 30—must be reimaged to resolve the pain points. Software, with functionality to seamlessly link these steps, is increasingly available to address most of these issues and a new mousetrap doesn't need to be built to create a whole new set of frustrations. And speaking of mousetraps

PUTTING CBDCs TO BED ... EARLY

The role that central bank digital currencies (CBDCs) may fulfill within domestic and cross-border payment systems continues to enjoy a surprisingly large amount of airtime. From an SME's perspective, however, and certainly for cross-border payments, it appears highly unlikely that sovereign digital currencies will move the SME needle where it matters—namely improved user experience driven by product design.



Source: *Latin American Journal of Central Banking, Implementing a retail CBDC: lessons learned and key insights, 2021*

“



“I would probably come away with a conclusion that having the ECB fritter away a huge amount of money on a radical retail CBDC is a complete nonsense—actually helping them think through together how they do instant payments across border and how they can reduce frictions would be much cheaper and time very well spent.”

A BANKING EXECUTIVE

In a late-2023 speech, Tobias Adrian, IMF Financial Counsellor and Director of the Monetary and Capital Markets Department, noted that approximately 60% of countries were exploring the potential of CBDCs.

Benefits cited range from replacing cash in island economies to enhancing resilience in more advanced economies to improving overall financial inclusion globally. Certainly then, CBDCs are much in vogue among central banks and policymakers globally.

DOWN THE RABBIT HOLE?

However, before disappearing headlong down this particular rabbit hole, it's important to first acknowledge a key delineation between wholesale and retail CBDCs, in much the same way as the payments landscape draws a distinction between high-value payments and regular, retail-driven smaller payments. It is also informative to ask what the motivations and potential benefits of a retail CBDC are.

CLICK TO PLAY



User Reality vs. Industry Fallacy

Jonathan Tyce interviewing Ronit Ghose



As Ghose explains, retail CDBC's are effectively being built in many parts of the world because of a fear that policymakers have of Big Tech companies taking over point-of-sale payments. China's foray into central bank digital currency—launched a decade ago with pilot-testing of the digiyuan running since 2019—is a prime example of this.

Fully controlled by the PBoC, the digiyuan is seen as an official alternative to digital payment solutions developed by private-sector actors and in reality, was a direct response to the duopoly of the Ant Group's Alipay and Tencent's WeChat Pay.

STRATEGIC AUTONOMY

Wholesale CDBC's are a whole different ballgame, with "strategic autonomy" the label often applied to the rationale behind their creation. Effectively an insurance policy against losing access to the U.S. dollar-based payment system, wholesale CDBC's are alternative payment rails that may not see much traffic but the use case and justification for the huge development costs will be more than justified should they ever be needed.

"If people measure [wholesale CDBC's] as where is the ROI based on number of transactions, that's the wrong metric," Ghose continues. "This is a national sovereignty insurance policy ... The U.S. is in no rush to build it because why do they need insurance against themselves?"

So, in short, it is very likely that CDBC's are here to stay, for all of the reasons (insurance and curtailing Big Tech) cited above and more. That said, it also seems unlikely that they will play any meaningful role in the SME cross-border payments space in the foreseeable future. From a domestic payments perspective, however, the motivations behind their rollout should be monitored closely.

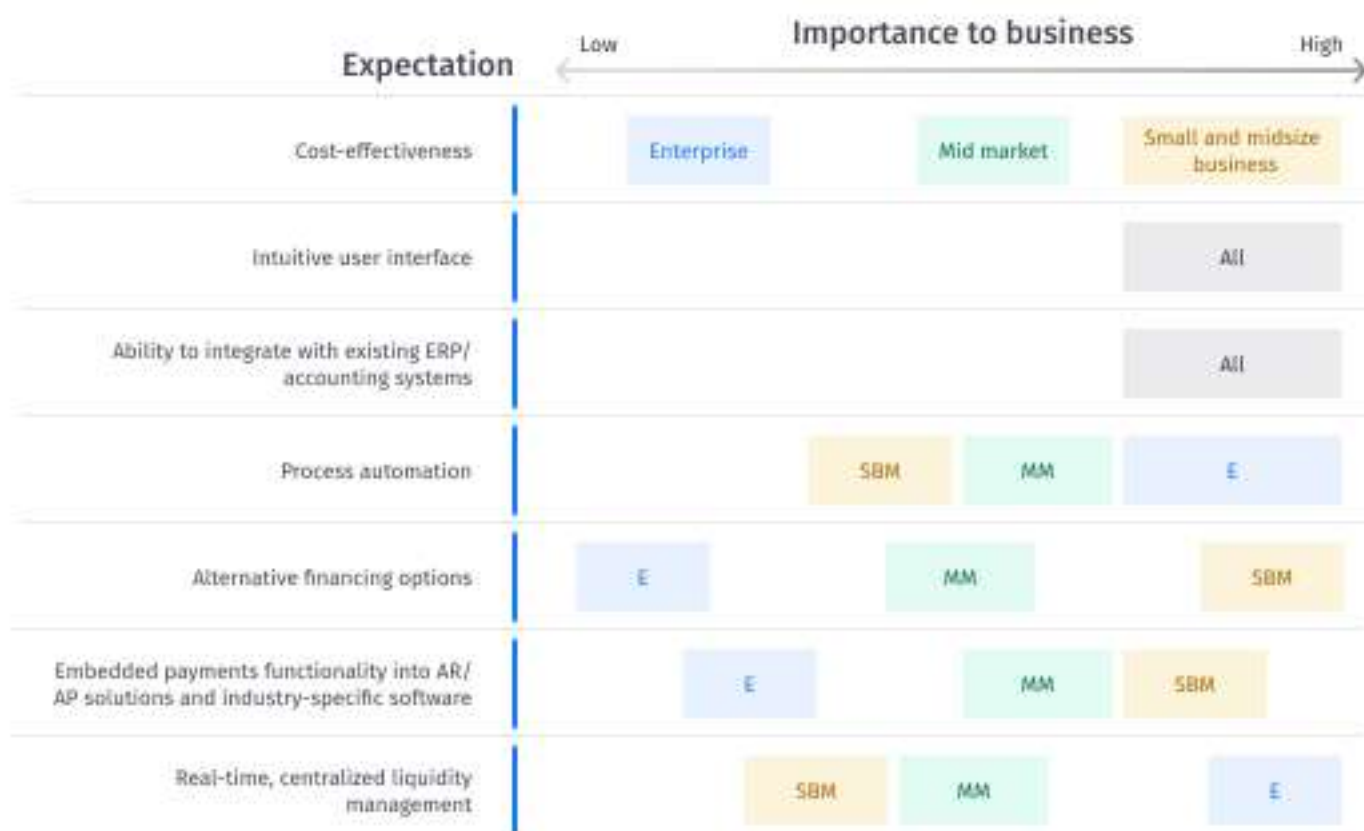
FIRST STEPS & USEFUL LESSONS

THE BATTLE IS JUST BEGINNING

Bain & Company estimates suggest that by 2027, banks involved in cross-border business—notably where many recent entrants offer low-cost solutions for low-value payments—risk losing roughly 10% of revenues and up to 30% of profits across all sizes of business customers.

In addition to the threat of new entrants, Bain posits that banks that are slow to modernize wholesale payments technology and evolve their operating model are at risk of losing up to 15% of SMB revenues (25% of profits) and 6% of commercial and large corporate revenues (15% of profits) to more innovative bank competitors.

Customer Expectations Have Risen for Wholesale Payments Features



Source: Bain & Company, *The Fragmentation of Wholesale Payments Calls for Banks to Remake Their Approach*, 2024

Guesstimating market share is not the goal of this paper and there are many worthy studies available that will predict the numbers (see below). Whatever the final tally, two things are abundantly clear:

1. Banks that do not adapt will not just lose out to the fintech sector, they will lose out to innovative banks that adopt a customer-centric model focused on user experience.
2. The SME sector is ripe for growth, but it will take innovation borrowed from the consumer model combined with value-added services to win and protect this high-margin business for many years to come.

So-called neobanks have received many plaudits for responding to small businesses' need for digital tools with consumer-like offerings in payments—both acceptance and initiation, as well as tools to integrate SME businesses with third-party providers.

HARNESS TECHNOLOGY TO BECOME A NEWBANK

A traditional or correspondent bank isn't precluded from becoming a neo(new)bank just because they have been established for decades. Indeed, their longevity, brand and capital strength inspires the trust that SMEs need as they embark on their growth and cross-border journeys. Banks just need to understand that they can do a better job using technology to solve their smaller business customers' problems. And this technology needn't come at a huge cost—indeed much of the software already exists and is compatible, even to legacy core systems.

Fintech has not won the battle for the hearts and minds of the SME community, but banks are giving too much away by not focusing on the SME businesses and their user experience.



NEXT UP: FINTECH VS. BANKS

Fintechs vs. Banks will be the focus of the next whitepaper, with expert stakeholders debating the growing pains for the payments sector—especially cross-border.

While the improved consumer experience has been the bedrock of this paper's analysis of what the SME space needs, the consumer payments challenge is itself by no means solved when it comes to cross-border payments.

Likewise, though wholesale cross-border payments were only briefly touched upon early in this paper, enjoying as they do much attention from the banks and the regulators, this omission does not mean that there is not much innovation and work to do in the high-value space.

To conclude, it is worth noting that the interlinking of fast payment systems is one emerging global theme that will undoubtedly help to address the global challenges in cross-border payments, with the likes of Project Nexus at the helm.

As with the SME challenge discussed in this paper, understanding the various pain points, constituencies and roadblocks that cross-border payments face and using technology and software to smooth the transition in is critical.

At an SME level versus, say, the big-ticket wholesale payment cross-border rails, regulators will play a smaller role in the sector's evolution. The responsibility and opportunity fall squarely at the feet of the private sector, regional initiatives and industry bodies to create an SME cross-border payments system fit for purpose. The social and economic benefits of getting this right are huge—a genuine WIN-WIN scenario waiting to happen.

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"De-Risking Cross-Border Payments: Software vs. Sledgehammer"

Discover two ideas that will positively impact the U.S. financial services:



"Two Ways to Strengthen, Protect and Prepare the U.S. Financial System for the Future"

INTERVIEWEES



HUW VAN STEENIS | VICE CHAIR OF OLIVER WYMAN

Huw is Vice Chair at Oliver Wyman. He also serves as member of the investment committee, Oxford University Endowment and member of the Climate Advisory Board NBIM, the Norwegian sovereign wealth fund. He previously served as senior adviser to Governor Mark Carney, as co-Chair of the World Economic Forum's Global Future Council on Finance, and Global Head of Banks and Diversified Financial Services at Morgan Stanley.



RONIT GHOSE | HEAD OF FUTURE OF FINANCE, CITI GLOBAL INSIGHTS

Ronit runs the Future of Finance & Digital team at Citi Global Insights, Citi's thought leadership unit. Alongside his Citi role, Ronit is an Advisory Board member of the Financial Technology Centre at Imperial College Business School and at several technology firms and early stage VC investors. Prior to joining Citi, Ronit worked in the policy world, including as Research Assistant for a former U.K. Prime Minister. Ronit's new book "Future Money" has just been published and presents a vision of the digital future of money, finance and culture.



GREG BLOH | CEO OF TRANSCARD

Greg serves as CEO of Transcard, a SaaS funds-disbursement platform. He leans on his 28 years of management, consulting and investment expertise to continually drive Transcard forward. At the height of the dotcom bubble, Greg spearheaded a team as founding partner of TechQuest Capital Partners, a venture capital firm specializing in early stage technology start-ups. Throughout the 1990s, he served in various capacities as a business and management consultant, including as an experience manager at Accenture.



PAUL BROOKS | HEAD OF UK NATIONS & REGIONS FOR THE CIOE&IT

Paul joined the Chartered Institute of Export & International Trade (CIOE&IT) in May 2022 to build its profile and brand in Wales. He sits on the Welsh Government's Trade Policy Advisor Group (TPAG) and is a member of the Wales Business Council. Since November 2023, Paul also has been Chair of the E-Commerce Trade Commission's (ECT-C) Financial Services Working Group. The Chartered Institute has convened the U.K.'s first-ever ECT-C. Prior to the CIOE&IT, Paul spent over 30 years in the corporate & commercial banking world. In his last banking role, he led Santander's U.K. manufacturing sector team.



GRAHAM RIDLEY | STRATEGY DIRECTOR AT IFX PAYMENTS

With over 20 years of experience in the correspondent banking and fintech industry, Graham is a Strategy Director at IFX Payments, a leading global provider of cross-border payment solutions. Responsibilities include developing and executing the strategic vision and roadmap for the IFX Payments platform and managing key relationships with fintech, PSP and banking partners. Previously, he was a Relationship Director at Barclays, where he managed a portfolio of fintech and PSP clients, and a Product Manager at Barclays, where he oversaw the Euro Clearing product and its enhancements. Prior to Barclays, Graham spent 13 years at Bank of America.



KAMRAN HEDJRI | FOUNDER AND GROUP CEO OF PXP FINANCIAL

With over 30 years of experience in executive roles within the fintech and payments industry, Kamran has established companies throughout the payment value chain in Europe and the North and South America. Kamran's passion for payments started in 1995 at Europay and developed further when he joined BWIN. Today, Kamran is the Group CEO of PXP Financial, where he spearheaded expansion into the United States, demonstrating his leadership and strategic vision in the industry, and is responsible for the new strategic direction of the PXP business.

AUTHOR



JONATHAN TYCE | DIRECTOR, KENAZ LTD

Jonathan Tyce started working in financial services in 1995 and throughout his career has focused solely on the financials space. From launching and running a pan-European financials hedge fund at JO Hambro Capital Management to 12 years helping build out Bloomberg Intelligence (based in U.K. and Hong Kong) and run the financials research, including payments, his breadth of experience and industry contacts offer a unique mix. Having left the City in May 2023, he now works for himself, having founded Kenaz, a payments consultancy, and TriggerPoint Research, an Alpha Capture platform. He graduated from St. Anne's College, Oxford University in 1995.

FURTHER READING



Project Nexus

Enabling instant cross-border payments

Conclusions from a technical proof of concept between the Eurosystem, Malaysia and Singapore

March 2023



Interlinking Fast Payment System for Cross-border Payments

April 2024



Future of Cross-Border Payments

Who Will be Moving \$250 Trillion in the Next Five Years?

September 2023

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Cross-border payments enabled by our proprietary technology and processes run on a global single shared platform and use our novel "Know Your Customer's Customer" product. The platform includes core-like accounts for all users, with special-purpose payment processing representing "new rails" for near-instant and efficient global payments.

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