A Quick Guide to Cross-Border Payments
Content

Part 1: What are cross-border payments?

Part 2: What are the different types of cross-border payments?

Part 3: Cross-border payment providers: Who are they?

Part 4: Key drivers for the growth of cross-border payments

Part 5: Challenges in cross-border payments today

Part 6: The future of cross-border payments
PART 1

What are cross-border payments?

Cross-border (or international) payments are transactions where the sender and the recipient of funds are based in separate countries and usually with different currencies in play.

A short history of cross-border payments

1930s — 1970s
The Telex network of teleprinters was the primary tool for banks to facilitate international money transfers in the developed world.

1973 — Present
A combination of SWIFT + corresponding banking serves as the default network for communication related to cross-border transactions. Although it remains practical for the majority of corporate transactions, the model is not economical, especially for lower value transactions.

2015 — Present
The emergence of cloud-based Payments platforms has helped increase speed and enable interoperability between all payment methods, while also making it more suitable for lower-value transactions.

Traditional ways of making cross-border payments

The less common the currency pair, more correspondent banks will be involved in the transaction process, incurring costs and delays at each stage.

During an international transaction, there is no physical movement of funds—instead, bankers credit accounts in one jurisdiction and debit the corresponding amount in the other.

What’s SWIFT?
SWIFT stands for Society for Worldwide Interbank Financial Telecommunication
- A banking network based in Belgium
- Developed by 239 banks from 15 countries
- Used by 11,000+ financial institutions across 200+ countries and territories

*SME* stands for Small and medium-sized enterprises
What are the different types of cross-border payments?

Facilitating the flow of money across borders has reached new heights with greater connectivity and fintech solutions—allowing consumers and businesses to enjoy faster, cheaper and more reliable methods for their payment needs.

Traditional payment methods
- Bank account transfers
- Card payments
- Carried physical cash across borders
- Used informal trust-based broker networks (such as hawala)

Alternative payment methods (APMs)
- E-wallets or mobile wallets
- Direct debit
- Buy-now-pay-later (BNPL)
- Prepaid vouchers

Different cross-border payment methods:

### C2C (Consumer to Consumer)
- Remittances and payments to family members

### B2C (Business to Consumer)
- Salary payments
- Marketplace disbursements
- Government payouts
- Refunds

### B2B (Business to Business)
- International trade
- Corporate investments
- Treasury flows

Market size in 2018 by use case segment:

<table>
<thead>
<tr>
<th>Use Case Segment</th>
<th>Flow</th>
<th>Revenue</th>
<th>Average Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>C2C</td>
<td>$0.7tn</td>
<td>$37bn</td>
<td>5.4%</td>
</tr>
<tr>
<td>C2B</td>
<td>$1.5tn</td>
<td>$37bn</td>
<td>2.5%</td>
</tr>
<tr>
<td>B2C</td>
<td>$1.2tn</td>
<td>$18bn</td>
<td>1.5%</td>
</tr>
<tr>
<td>B2B</td>
<td>$133.0tn</td>
<td>$149bn</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Note: * as % of transaction value (includes transaction fees and spread on FX)
# Cross-border payment providers: Who are they?

Here are six broad categories of providers of cross-border payments classified by their use case focus, geographical coverage, target customer segments, business model, and operating model:

<table>
<thead>
<tr>
<th>Provider Type</th>
<th>What they do</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail, Commercial and Neobanks:</td>
<td>They help individuals and businesses move money across borders for a variety of use cases. They have traditionally used corresponding banking networks that are costly to maintain.</td>
<td>JPMorgan Chase &amp; Co&lt;br&gt;Equity&lt;br&gt;DBS</td>
</tr>
<tr>
<td>Money Transfer operators (MTOs):</td>
<td>They are non-bank entities that use networks of agents and banks to process payments and transfers across borders for a variety of use cases (mostly remittances).</td>
<td>Ria Money Transfer&lt;br&gt;Rocket Remit</td>
</tr>
<tr>
<td>Payment Service Providers (PSPs):</td>
<td>They are third parties that facilitate and help e-commerce merchants in the acceptance of payments by routing transactions from different payment methods and often acting as an acquirer. You could say they are an equivalent to the point-of-sale (POS) terminal in the digital world.</td>
<td>Worldpay&lt;br&gt;Stripe&lt;br&gt;Braintree (&lt;br&gt;PayPal Inc.)</td>
</tr>
<tr>
<td>Mobile Money Operators (MMOs):</td>
<td>They are licensed mobile money service providers that develop and deploy financial services through mobile phones and mobile telephone networks.</td>
<td>M-PESA&lt;br&gt;Sewa&lt;br&gt;bKash</td>
</tr>
<tr>
<td>Platforms/Marketplaces:</td>
<td>They are businesses that create value by facilitating exchanges between two or more interdependent groups.</td>
<td>Grab&lt;br&gt;Booking.com&lt;br&gt;airbnb</td>
</tr>
</tbody>
</table>
| Fintech Companies:                    | They are innovative companies that use technology to make financial services more efficient. These can vary significantly and include alternative payment methods, and payment infrastructure providers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | PayPal<br>Thunes<br>Commerzbank<br>WeChat Pay
PART 4

Key drivers for the growth of cross-border payments

These four megatrends are responsible for driving exponential growth in international payments in recent years, and creating opportunities for emerging markets to participate in the global economy.

- Growth in international trade
- Growth in remittances
- Growth in global ecommerce sales
- The rise of the sharing economy

Market size of cross-border payments

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2018</th>
<th>CAGR 2018-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction flow</td>
<td>$156tn</td>
<td>$241bn</td>
<td>11%</td>
</tr>
<tr>
<td>Revenue in payments</td>
<td>$19tn</td>
<td>$6tn</td>
<td></td>
</tr>
</tbody>
</table>

In international trade, the value of exports has increased more than three-fold

From 2000 to 2019

Remittance flows to low- and middle-income countries have increased over 5 times

From 2000 to 2019

Increase in active buyers on freelancing platform Fiverr

from 2019 to 2020

Year-on-year growth in active buyers

Year-on-year expected growth on value of cross-border e-commerce transactions

The rise of the sharing economy means more people are able to offer services to a wider global audience

Increase in AirBnB hosts

2017: 2.7m

2019: 4m

15%
Challenges in cross-border payments today

Even with all its drawbacks, the correspondent banking model still captures the vast majority of cross-border payments. This presents an opportunity for an enhanced solution—especially for lower value international transactions—that will benefit SMEs and consumers.

- **Slow processing speed with multiple intermediaries involved**
  
  Up to 2-3 days or even longer for some less-developed markets.

- **Limited transparency and dependability due to differing systems**
  
  Parties only know the exact cost and time needed for the transaction after it has been processed, not before.

- **High cost - especially for lower value transactions**
  
  SWIFT messaging fees + transaction fees can add up to US$25-35 or more per transaction, excluding spread on foreign exchange (FX).

- **Lack of interoperability across payment methods**
  
  There are limited options to move money from bank accounts to eWallets and vice versa.

- **Limited coverage despite connectivity to 200+ markets**
  
  Only a tiny handful of the world’s largest international banks have the resources to set up branches everywhere.

- **Limited accessibility for the unbanked**
  
  In some markets, bank account penetration is very low at <30%, so most people don’t even have access to cross-border payments.
PART 6

The future of cross-border payments

In today’s increasingly globalised world, enhancing cross-border payments is made a priority in order to support economic growth, international trade, global development, and financial inclusion. With on-going innovation, businesses now have greater access to these three key payments experiences:

- **SWIFT gpi**: Faster settlement speed and greater transparency. However, it only impacted large payment flows, was expensive for banks to implement, and higher costs could be passed on to senders.

- **Payment network aggregators**: Leverage on indirect network connections, easier to scale and offers broad coverage. However, indirect connections fees apply, limited visibility on fund flows, exposed to varying levels of risk from each partner, and lacking interoperability (e.g., e-wallets & bank accounts).

- **Proprietary payment networks**: Owned network with direct connections to each partner, complete visibility over fund flows, greater control over transaction costs & risks, and up to 95% lower costs for customers. However, building up these global networks take time, and partial interoperability between payment systems.

**Opportunity to drive costs down further**

Research from McKinsey Report: *A vision for the future of cross-border payments* shows that the costs associated with cross-border payments can be reduced by up to 90-95%, which is what some operators of proprietary payment networks like Thunes are already achieving.

<table>
<thead>
<tr>
<th></th>
<th>Overhead</th>
<th>FX costs</th>
<th>Claims &amp; treasury operations</th>
<th>Payments operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using traditional model</td>
<td></td>
<td></td>
<td></td>
<td>$25–$35</td>
</tr>
<tr>
<td>Using a proprietary payment network</td>
<td></td>
<td></td>
<td></td>
<td>$1–$2 Reduced by 90-95%</td>
</tr>
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About Thunes

Thunes is a B2B company that powers payments for the world’s fastest-growing businesses—from Southeast Asia’s superapp Grab and Gig Economy giants, to Fintech leaders such as PayPal and Remitly.

With a single, simple connection, your business and customers can send payments to—and get paid in—every corner of the world. Instantly.

We support 60+ currencies, enable payments to 119+ countries, and help you accept 285+ payment methods. Thunes is headquartered in Singapore with regional offices in London, Paris, Shanghai, New York, Dubai, and Nairobi. In July 2021, Thunes acquired Limonetik, a French Payments Collection company.

For more information on what Thunes can do for your organisation, visit www.thunes.com.