

March 2024

North American Cross-Border Payments: Growing Opportunities for FIs

Robin LoGiudice



Table of Contents

Summary and Key Findings	3
Introduction	4
Methodology	4
Importance of Cross-Border Payments	5
The Number of Cross-Border Payments Are Increasing	5
Anticipated Growth With Midmarket Businesses	7
Challenges With Cross-Border Payments	9
Friction Points Reported by Businesses	9
Opportunities for Improvements	12
Partnerships Between FIs and Fintechs	12
Addressing the Midmarket Opportunities	13
Adoption of New Technologies and Payment Options	14
Conclusion	16

List of Figures

Figure 1: Cross-Border Payments Are Important to Businesses	5
Figure 2: Cross-Border Payments Increased in the Last 12 to 24 Months	6
Figure 3: Anticipated Growth of Cross-Border Payments in the Next 12 to 24 Months ..	7
Figure 4: Anticipated Growth by Organization Size	8
Figure 5: Businesses Use FIs for Cross-Border Payments	9
Figure 6: Biggest Points of Friction in Cross-Border Payments	10
Figure 7: Reasons Why Businesses Work With Fintechs	12
Figure 8: Adoption of New Payment Options and Technologies	14

List of Tables

Table A: Business Impact of Friction Points in Cross-Border Payments	10
Table B: New Technologies and Payment Options for Cross-Border Payments.....	15

Summary and Key Findings

This report examines North American businesses and their use of cross-border payments. It looks at the growth in transaction volume and challenges identified when executing cross-border payments. Businesses view fintechs as an alternative to solving the problems they encounter with their financial institutions.

The key findings from this report follow:

- **Cross-border payments are important to businesses:** Ninety-seven percent of North American businesses report that cross-border payments are very or somewhat important to their organization.
- **The number of cross-border payments is increasing:** Nearly 80% of North American businesses state that their past and future volume is increasing.
- **Businesses overwhelmingly use their FIs for cross-border payments:** North American businesses use one or more FIs to the exclusion of fintechs and other organizations.
- **Cross-border payments have friction:** North American businesses cited fees, security and fraud, currency conversion, settlement, data, and coverage as friction points when making cross-border payments. FIs need to address these issues to provide a modern payments experience their clients expect.
- **Larger midmarket organizations are seeing the biggest growth in cross-border payments:** Forty-nine percent of larger midmarket businesses need to do business in a new region or country, far exceeding the needs of large organizations and smaller midmarket businesses.
- **Businesses will work with fintechs to get better functionality:** Businesses report that fintechs offer easier integration, additional payment options, automated reconciliation, and better reporting.

Introduction

There is much discussion about payments modernization, and it is typically looking at the adoption of the new real-time payment rails. While banks are the primary providers for cross-border payments, the technology and products surrounding those offerings are outdated and do not meet with client's modern expectations around real-time money movement and information. Despite the shortcomings, cross-border payments volume continues to increase. Businesses that traditionally did not operate globally now have access to an international customer base, which accounts for the growing need for cross-border payments. Inefficiencies in processing international transfers put a strain on corporate back offices that are using manual processes to interact with their banks.

This report is focused on the opportunities and challenges with one of the oldest payment methods, cross-border payments. The opportunities to improve the cross-border payments experience are wide open to those who are looking to innovate and lead the market. FIs should look at the friction points in their cross-border payments processing and plan to address those internally or in partnership with vendors or risk losing clients and revenue to those organizations that do.

Methodology

This report is based on a Datos Insights survey of 1,037 employees of midsize and large businesses in 11 North American, European, and Asia-Pacific countries (Australia, Canada, France, Germany, India, Italy, Japan, Singapore, Spain, the U.K., and the U.S.). Respondents in the online survey are employed in a range of industries; work in operations, finance, accounting, payments strategy, or treasury/control; and are knowledgeable about finance, treasury, and payments operations, methods, and processes in their organizations. Organizations represented in the pool of respondents generate annual revenue/turnover of at least US\$20 million or equivalent. The current report focuses on a subset of the sample: 401 midsize and large businesses from the U.S. and Canada.

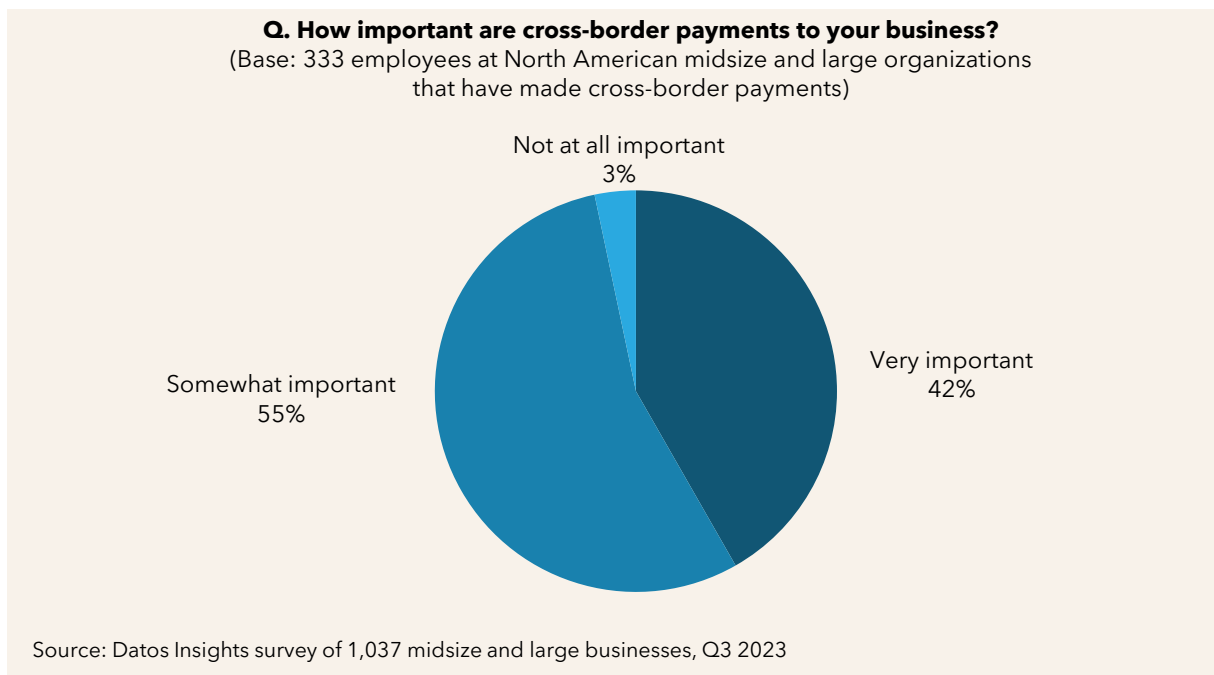
The data for questions asked of all respondents have a 5-point margin of error at the 95% level of confidence. Statistical tests of significant differences were conducted at the 90% level of confidence.

The report also leverages past Datos Insights research and extensive conversations with industry experts and practitioners, as well as the author's extensive knowledge of the market.

Importance of Cross-Border Payments

In a global economy, cross-border payments are important to businesses that exchange products and services with foreign businesses. Cross-border payments allow businesses to expand internationally, reaching new markets, customers, suppliers, and partners. Overwhelmingly, North American companies report that cross-border payments are very or somewhat important to their business (Figure 1). Making cross-border payments faster, cheaper, and more transparent while maintaining their safety and security will become paramount for FIs and technology providers to service this growing demand.

Figure 1: Cross-Border Payments Are Important to Businesses

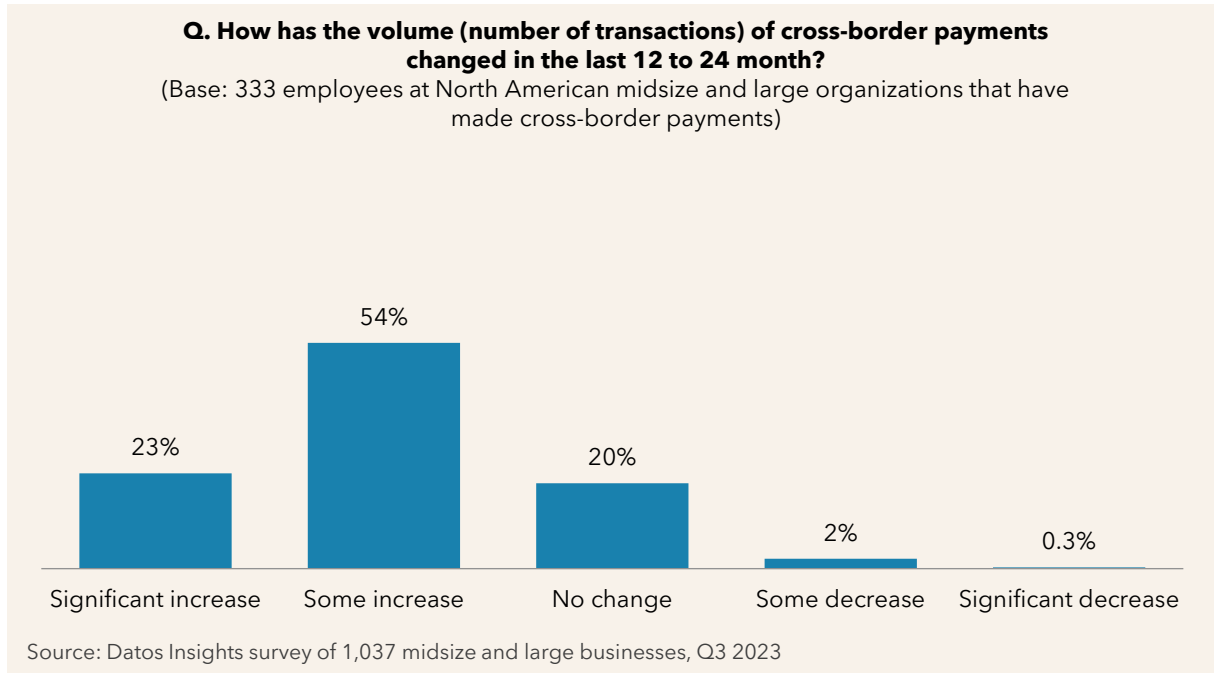


The Number of Cross-Border Payments Are Increasing

The number of cross-border payments is steadily increasing. North American businesses report a growing volume of cross-border payments in the past two years (Figure 2). This increase can be attributed to expanding supply chains across borders, global investment and asset management, and growing international e-commerce. Businesses that traditionally did not operate globally now have access to an international customer base,

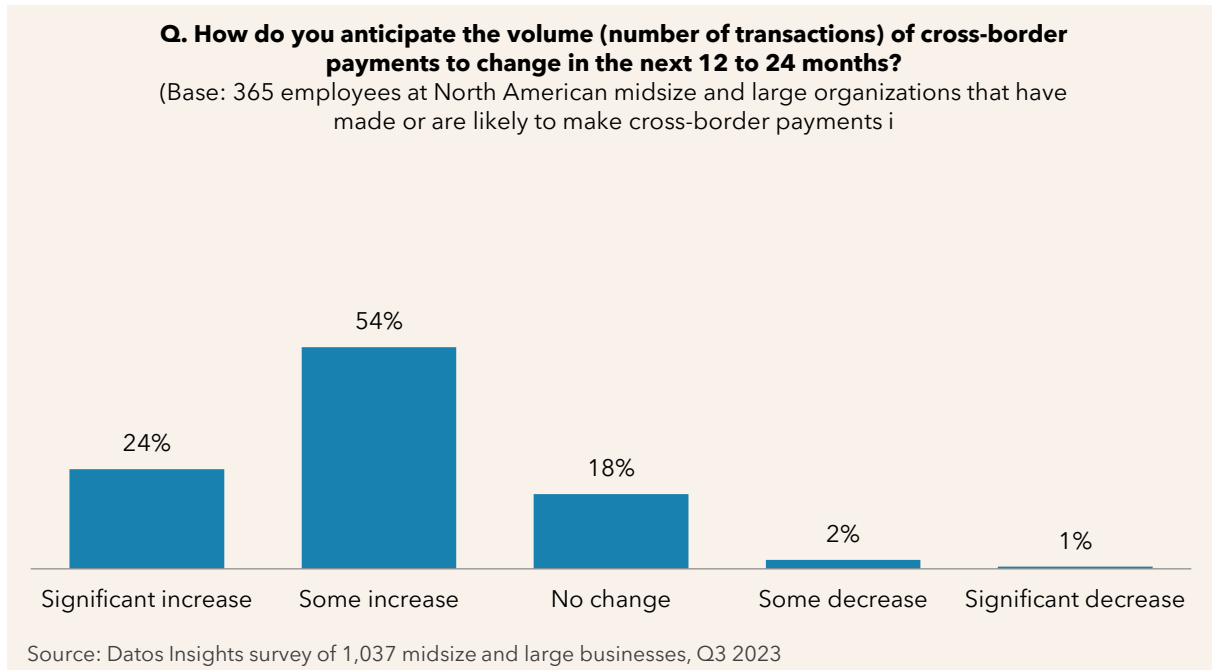
which accounts for the growing need for cross-border payments. Companies that historically made few or no international payments will be looking to their FIs for products and services to support their international growth.

Figure 2: Cross-Border Payments Increased in the Last 12 to 24 Months



North American businesses anticipate continued growth in cross-border payments in the next one to two years (Figure 3). As payment volume increases, the need for automation also increases. This growth can strain businesses that rely on manual processes for their payables and receivables operations. The need for automated payables and receivables processing requires more data, better reporting, and real-time integration between businesses and their banking partners.

Figure 3: Anticipated Growth of Cross-Border Payments in the Next 12 to 24 Months

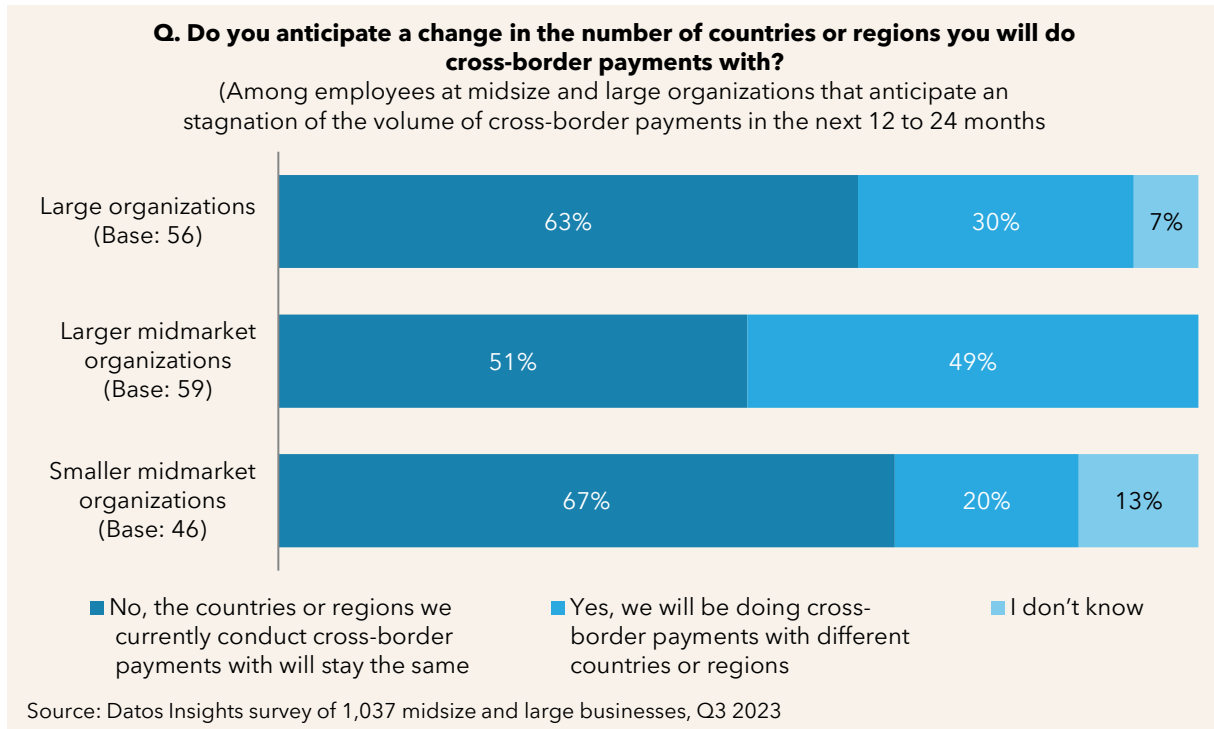


Anticipated Growth With Midmarket Businesses

When looking at businesses across the global, larger midmarket companies are anticipating the biggest need to support new regions and countries with cross-border payments (Figure 4). In the past, international business was limited to large, multinational corporations. Technology now makes it easier for companies of all sizes to transact business internationally.

Midmarket businesses expect security, transparency, and the ability to embed a solution into their business software. Ultimately, they want to know how much their transfer will cost, that it will arrive on time, and be able to track its progress. An FI that can meet these needs is more likely to capture the opportunity this market has to offer.

Figure 4: Anticipated Growth by Organization Size



Challenges With Cross-Border Payments

Businesses prefer to use their FIs when making cross-border payments. Interestingly, the study found that businesses are overwhelmingly using FIs to initiate cross-border payments, to the exclusion of fintechs (Figure 5). This gives FIs a distinct advantage in the market.

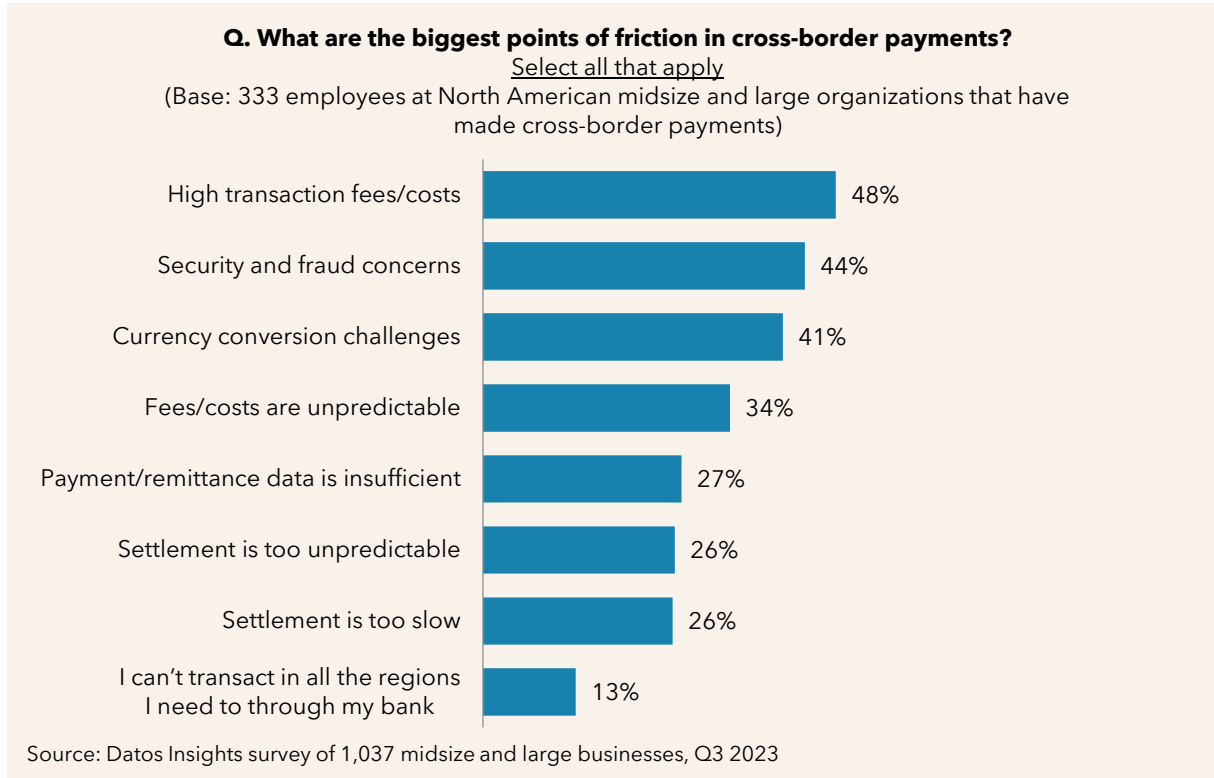
Figure 5: Businesses Use FIs for Cross-Border Payments



Friction Points Reported by Businesses

Businesses are exclusively using their FIs for cross-border payments, but they are not entirely happy with the offerings. When asked about the biggest points of friction in cross-border payment processing, North American businesses cited fees, security and fraud, currency conversion, settlement, data, and coverage as areas that need improvements (Figure 6).

Figure 6: Biggest Points of Friction in Cross-Border Payments



The correspondent banking network, facilitated by Swift, is a core capability of every midsize to large bank and credit union in North America. The ability to move money is the advantage FIs have in the marketplace. The friction points outlined in Table A are straining customer growth and their relationship with their FIs.

Table A: Business Impact of Friction Points in Cross-Border Payments

Point of friction	Business implication
Fees	High fees are the leading complaint, with almost half of all businesses citing this friction point. Another third reported that fees are unpredictable. A lack of transparency and understanding of the fees associated with cross-border payments frustrates customers, who do not know their final costs until after the payment has been settled.
Settlement	Over half the businesses report settlement as too slow or too unpredictable. Lack of information about the status of cross-border payments and the timing of funds received inhibit cash forecasting and impede cash flow. Corporate finance and treasury

Point of friction	Business implication
	managers employ manual processes to check account balances, run reports, and make last-minute funding decisions.
Security and fraud	Another leading concern is security and fraud associated with cross-border payments. Many wire-room payments in North America are still executed with a series of phone calls, passcodes, and outdated practices that leave room for clever hackers to intercept and alter payment instructions for defrauding the FI and stealing funds from business accounts. Too many manual processes are still used to prevent fraud, which slows down the movement of funds and introduces human error.
Currency conversion	Converting domestic dollars to foreign currencies is a complicated process, requiring foreign exchange (FX) rates, which change daily. Large businesses can pre-purchase foreign currencies to ensure lower and predictable FX rates. Smaller businesses are often left with bank rate options, which lead to higher payment costs. Manual processes and verification steps on currency conversions lead to processing delays and errors.
Data	Lack of information about the payment and associated remittance data is a long-standing problem due to old message formats with limited information. Businesses report that payment and remittance data are insufficient. Historically, information about a payment travels separately from the payment. Services have been created to reassociate the payment and data to provide businesses with the details they require to manage their payables and receivables processes.
Coverage	A lesser concern for businesses is the ability to transact payments in all the countries where they do business. The complex network of correspondent banking still makes cross-border payments difficult. A business may use multiple FIs to reach different countries, adding additional complexity to their back-office processes.

Source: Datos Insights

Opportunities for Improvements

These findings show areas that need improvements to provide an optimal customer experience for cross-border payments processing. FIs need to address these shortcomings or risk displacement by other organizations or fintechs. As cross-border payment volume increases, customer demand for better services will increase as well.

Partnerships Between FIs and Fintechs

FIs have been the organization of choice for cross-border payments; however, there is evidence that businesses will look elsewhere to get better functionality. FIs are vulnerable to disintermediation by organizations that will address the needs of their customers. Datas Insights’ research shows that businesses would consider using a fintech to get a better customer experience. Businesses perceive that fintechs offer better functionality, easier integration, additional payment options, automated reconciliation, and better reporting than their current providers (Figure 7).

Figure 7: Reasons Why Businesses Work With Fintechs



Partnerships drive innovation and expand cross-border payments options. Fintechs can bring regional and industry-specific functionality to businesses that FIs typically do not. They can overlay and enhance the cross-border payments functionality to make it relevant for businesses that need to transfer funds internationally. Fintechs can provide integration with the FIs that businesses use, so those businesses do not need to build that integration themselves.

Ultimately, a business is going to use a bank to transfer funds internationally. The opportunity for an FI to partner with a fintech and go to market together to win and retain business is a model both FIs and fintechs should embrace.

Addressing the Midmarket Opportunities

Our research shows several key areas of concern for larger midmarket organizations. Speed of settlement is crucial since waiting days for money to move can negatively impact payments to suppliers and damage essential business relationships. Businesses value reliable payment delivery and the ability to track exchange rates and schedule payments.

These businesses want better reporting and transparency. They expect to use digital platforms to increase efficiency and improve cash flow. They want visibility to know where their payments are at all times. FIs need to provide mobile apps, online banking, and real-time integration vs. in-person and manual processes to execute cross-border transactions.

Security and fraud are two more areas of concern when moving payments to digital platforms. FIs will need to deliver a level of confidence in the processes and services they provide online and via mobile devices to win and retain midmarket businesses.

With larger midmarket organizations reporting that they expect to invest in improving payments technology in the next two to three years, FIs can focus on this growing segment to capture new clients and drive new revenue.

Adoption of New Technologies and Payment Options

Recently, enhanced capabilities related to international fund movement have become available. Almost half of all businesses want their FI to supply new payment options and technologies, while the other half report using new payment capabilities from best-in-class service providers (Figure 8). This demonstrates the willingness of businesses to look beyond their FIs to get the products and services they need to transact their business internationally.

Figure 8: Adoption of New Payment Options and Technologies



FIs must take advantage of new market capabilities to improve their cross-border payments processing, as outlined in Table B. They can make the most impact by focusing on areas where new technologies and payment options are making inroads into the traditional international money movement. This enables them to differentiate themselves in the market and to win and retain clients in the growing midmarket segment.

Table B: New Technologies and Payment Options for Cross-Border Payments

New capability	Cross-border payments value proposition
ISO 20022	ISO 20022 message formats are being implemented globally for high-value payment services. They have the potential to bring data standardization into the cross-border payments ecosystem, which can eliminate the friction that can lead to delays and mistakes when sending payments across borders.
Swift gpi	Swift gpi is a service that facilitates the tracking of international money transfers to provide timely updates on the status of payment settlement. It offers opportunities to provide more data and enhanced reporting to address the shortcomings of settlement and payment remittance information.
APIs	APIs are currently being used for account validation, compliance screening, message repairs, and investigations. They can facilitate more efficient and faster cross-border payments by reducing manual intervention and fostering more timely data exchange across the payments chain.
Enhanced security measures	Biometric authentication and advanced security protocols will safeguard cross-border transactions. Investment in robust fraud detection mechanisms will instill confidence in customer transactions with their FI.
Real-time payments	Real-time payments are expanding into the international space. Instant cross-border transactions will become available, reducing settlement time, and improving transparency. The expectation that money will move 24/7 will continue to grow, and the capabilities to support this must grow as well.
Artificial intelligence	Other innovations with artificial intelligence are helping to digitize invoices and streamline existing complexities between cross-border business-to-business transactions. They can help monitor transactions in real-time, identifying suspicious activities and ensuring compliance with regulatory standards.

Source: Datos Insights

Conclusion

- North American businesses are transacting more cross-border transfers and demanding better capabilities. FIs must address pain points for their customers to retain and grow fee-based revenue associated with international transfers or risk losing their current market advantage.
- Larger midmarket organizations are forecasting the biggest growth in cross-border payments by expanding the number of regions and countries where they transact business. This creates the biggest opportunities for FIs to service this segment and capture new market share.
- Partnerships can be a key differentiator for FIs. Acting as the facilitator of fintech partnerships, FIs can help navigate the large number of providers that offer targeted regional and industry solutions that best serve their customers' distinct needs.
- Businesses are willing to switch payment providers for a better cross-border payments experience. They want a simple and transparent user experience that is digital and frictionless.
- Now is the time to innovate and adopt new technologies and payment options. From upgrading systems and introducing more transparency with fees to better reporting on the status of payments and enabling real-time transfers, FIs and their partners can elevate cross-border payments for the current and future needs of their clients.

About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

Contact

Research, consulting, and events:

sales@datos-insights.com

Press inquiries:

pr@datos-insights.com

All other inquiries:

info@datos-insights.com

Global headquarters:

6 Liberty Square #2779

Boston, MA 02109

www.datos-insights.com

Author information

Robin LoGiudice

rlogiudice@datos-insights.com

© 2024 Datos Insights or its affiliates. All rights reserved. This publication may not be reproduced or distributed in any form without Datos Insights' prior written permission. It consists of information collected by and the opinions of Datos Insights' research organization, which should not be construed as statements of fact. While we endeavor to provide the most accurate information, Datos Insights' recommendations are advisory only, and we disclaim all warranties as to the accuracy, completeness, adequacy, or fitness of such information. Datos Insights does not provide legal or investment advice, and its research should not be construed or used as such. Your access and use of this publication are further governed by Datos Insights' Terms of Use.