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Cross-Border Payments and the Impact of Tariffs: An Opportunity for Fintechs

Commercial Payments Practice

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Overview

Fintechs are bringing diverse options to the world of cross-border payments, which were once solely marked by opaque and costly movement through correspondent banking channels. Now, with President-elect Donald J. Trump about to begin a new term, his stated desire to impose tariffs on key U.S. trading partners threatens to upend those relationships and create new complications that corporations doing international business will have to navigate. Financial institutions must be there to respond to the needs of their corporate customers looking for ways to reduce their expenses from exposure to affected countries and fintechs will be capitalizing on this opportunity.

This Javelin Strategy & Research impact note looks at the state of play in cross-border payments, the opportunities being seized by fintechs and legacy players, and the implications the Trump tariffs, if enacted, could have on international trade.

Key Takeaways

Fintechs innovate on the fundamentals. Businesses are seeking low-cost, safer, and faster payments. Any offering that provides these fundamentals will have a competitive edge. Businesses that rely on cross-border payments for their supplier relationships may shift from traditional models towards fintechs to reduce operational expenses if proposed tariffs go through.

Cross-border payments will continue to grow. With the globalization of business services and supplier relationships, more businesses will turn to cross-border payments to fulfill their needs.

The market is wide for players in cross-border payments. We are seeing fintechs service small businesses to large enterprises and corporate treasuries. Increasing diversification of services is the name of the game for corporate payment providers. Offering add-on services such as compliance and tax auditing helps increase brand stickiness.

Tariffs will have a strong impact on supplier relationships. In 2025, the proposed tariff plans from incoming U.S. President Donald J. Trump will have pronounced effects on businesses with supplier relationships, particularly in Canada, China, and Mexico. Javelin estimates the trade impact to exceed $500 billion, with the transportation, energy, and electronics industries being the most affected as these are the primary imports from Canada, China, and Mexico.

Fintechs See Opportunities in Cross-Border Payments

Cross-border payments are an essential part of global commerce and international business. An estimated $23.5 trillion is moved across borders yearly for $120 billion (excluding foreign exchange costs).[1] These funds are sent through a complex system of correspondent banks and intermediaries to reach their destinations, and fintechs in increasing numbers are pushing into this market.

Many Fintechs Service the Global Cross-Border Payments Market

Figure 1. Fintechs Offering B2B Cross-Border Payments

Source: Javelin Strategy & Research, 2024

THE PROBLEMS

Across every financial institution and payment provider in the network, a fee is collected for the service of money movement. These fees, such as correspondent banking fees and Swift fees, are a percentage in addition to regular processing fees, and these costs add up quickly for high-volume business transactions. Other encumbrances include the highly volatile foreign exchange rate, which leads financial institutions to pre-fund accounts to secure better FX rates.

Cross-border payments on traditional rails take a few days or more to settle. Operating hours vary significantly across time zones, leading to issues with the processing of payments that are often settled in batches. Further exacerbating the problem, correspondent banking networks have been shrinking, leading to fewer corridors for banking transactions. This leads to some regions, such as Africa and Oceania, having fewer correspondent banks and causes slower speeds and increased prices, thus hurting financial inclusion efforts.

Compliance is another critical problem. Divergent rules against money laundering and the financing of terrorism, as highlighted by the Financial Action Task Force (FATF) in a 2021 study, lead to increased system costs.[2] The inconsistency in these rules, coupled with the need for sanction screening and alerts, makes cross-border transactions inherently higher risk than other payments, requiring specialized regulatory and compliance teams and third-party compliance-as-a-service programs such as Aprio Managed Compliance Services.

Managing these disparate compliance and regulatory frameworks has been a critical goal of Project Mandala, an experimental cross-border compliance protocol for large-value transactions. The project was a collaboration between the Bank for International Settlements Innovation Hub, the Reserve Bank of Australia, the Bank of Korea, Bank Negara Malaysia, the Monetary Authority of Singapore, and the Bank of France. The key outcomes include increased straight-through processing, automated reconciliation, and compliance controls, standardization, and modularity of the concept.[3]

Beyond those disparate rules, know-your-customer protocols, and compliance with Office of Foreign Assets Control regulations, cross-border payment arrangements also involve special tax situations. Companies like Tipalti offer automated tax compliance services to handle global tax compliance, such as payee VAT/local tax for international payers across 50-plus countries. These companies can integrate directly with Zenwork (tax1099.com) and the IRS. Such arrangements are an excellent way to expand service offerings and increase stickiness among corporate customers.

THE OPPORTUNITIES

Fintechs can bypass traditional correspondent banking networks to support faster payments. Arrangements can include closed-loop settlements through which the fintech acts as a service provider on the payer and payee sides or as an intermediary between domestic and local financial institutions. The ability to bypass traditional arrangements leads to increased transaction speeds and lower costs. Companies such as Ripple and Stellar bypass legacy networks entirely by creating their own blockchain network, allowing for exchanges on a distributed ledger. Fintechs are nimble, do not require brick-and-mortar physical branches, and can have an expansive presence online. This provides fintechs with competitive rates and fees. Examples include companies such as Rapyd and Wise, which provide payment acquiring services. Through partnerships, fintechs can offer local funds usage, virtual account capabilities, multi-currency wallets, and instant currency conversion.

Traditional financial institutions are not sitting idly by watching incumbent fintechs take share. The major card networks have an extensive role in cross-border payments with global network penetration. Examples include Visa B2B Connect and Mastercard Move, which offer money movement services for banks to compete with networks like Swift and SEPA. Another alternative payment network is blockchain-based BRICS Pay which may further shift payments out of the Swift network. These new products allow for near real-time payment completion, further settlement options, and more transparency across payment flows.

Fintechs main point of competition will be cost of service. Businesses will be navigating an uncertain, and complex economic environment in 2025 and will be seeking ways to save. CFO's viewing payments and treasury as a cost-center will be evaluating relationships and seeking a partnership that can save them precious revenue, especially with potential national economic policy changes on the horizon.

Proposed Tariffs Will Cause Tense Supplier Relationships

Economic policy may undergo extreme changes this year with the new U.S. presidential administration and this will certainly affect financial institutions and fintechs. One area where the incoming president has signaled policy changes is tariffs—a vital tax applied on international goods paid by the importing business to its domestic government. The president typically uses tariffs to address perceived unfair trading practices and threats to domestic trade and national security. Until recently, the United States has generally followed the bound rate of the World Trade Organization.

Proposed Tariff Increases May Affect All Trading Partners

Figure 2. Tariffs Imposed by the Trump and Biden Administrations

Tariff action	Tariff rate	Value of trade impacted	Major exporting countries affected
Trump Section 301 tariffs	7.5% to 25%	$360 billion (2021)	China
Trump Section 232 tariffs on steel and aluminum	10% for aluminum products, 25% for steel products	$13 billion (2021)	Brazil*, China, European Union, Japan, South Korea*
Biden Section 301 tariffs on green technologies and other "critical goods"	25% to 100%	$18 billion (2024)	China
Trump Proposed Plan	25% to 60%	$500 billion (2025)**	Mexico, Canada, China

*The country agreed to a quota limit instead of tariffs.

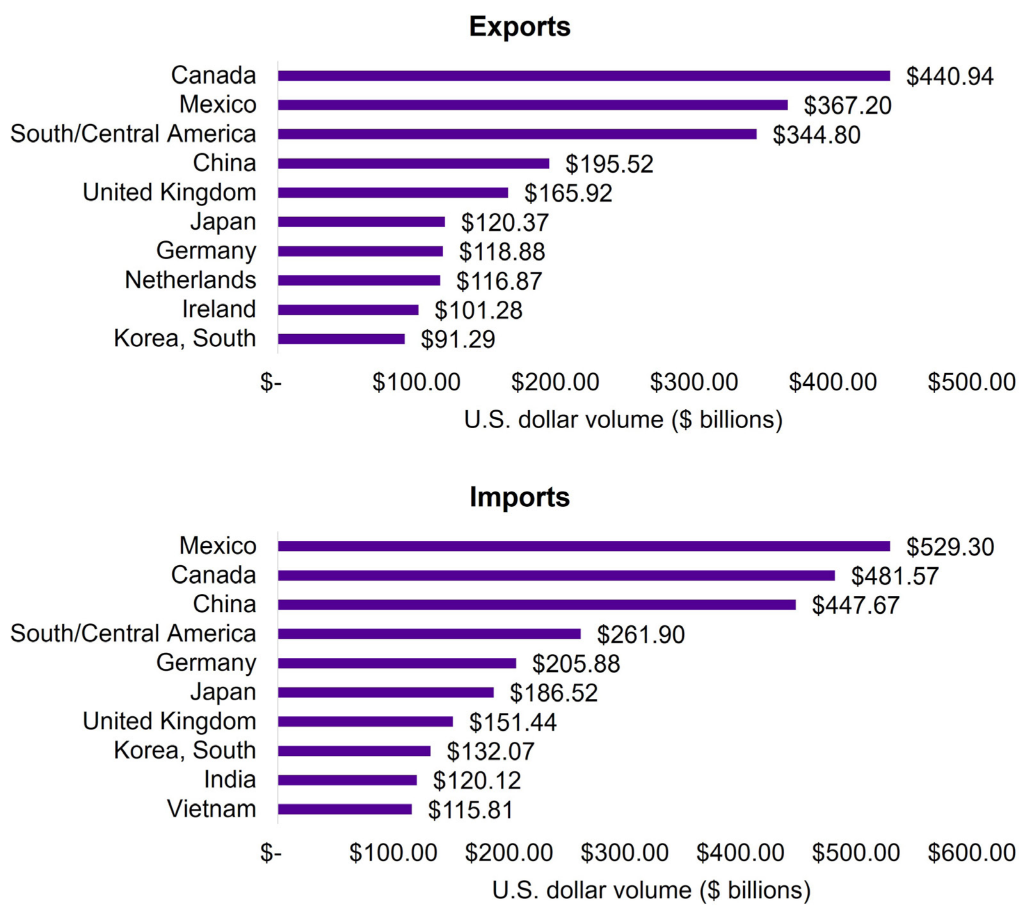
**Javelin estimate based on Bureau of Economic Analysis U.S. international trade in goods and services 2023, imports data, and proposed plan of tariffs of 60% (China), 25% (Mexico), and 25% (Canada).

Source: Adapted from Council on Foreign Relations, 2024

On the campaign trail, Trump promoted the idea of 60% tariffs on Chinese goods in addition to a blanket tariff of 10% to 20% on all trading partners.[4] According to a recent post on Truth Social, he plans to institute a flat 25% tariff on all U.S. imports from Mexico and Canada. These tariffs would significantly affect U.S. trade, particularly in areas such as consumer goods and electronics, automotives, and domestic energy supply. Per their design, the tariffs will cause an increase in business expenses for supplies sourced from affected regions. This implementation will lead businesses serving the B2B space to seek alternative sourcing. This increase in cross-border value will benefit financial institutions servicing the sector as long as demand remains consistent with the prior year. However, if businesses see a rise in supplier expenses, they pass on this cost to customers, who may respond by reducing their spending. AutoZone and Columbia Sportswear have already said they plan to pass on tariff costs to consumers.[5] Research from the National Retail Foundation found that the proposed tariff plans would reduce American consumers' spending power by $46 billion to $78 billion annually on six categories of goods.[6]

Most Trade Is Conducted With Canada and Mexico

Figure 3. Top 10 Countries for U.S. Imports and Exports of Goods and Services (2023)



Source: Bureau of Economic Analysis, 2024

Javelin expects that organizations with significant exposure to supply relationships in Canada, China, and Mexico will be the most at risk. Primary imports from Mexico include automobiles, auto parts, electronics and appliances, and crude petroleum.[7] In Canada, the primary export is crude petroleum (around 21% of total export in 2022), with 75% being imported to the United States.[8] The primary effects of a 25% flat tariff on Canada and Mexico would increase prices across the transportation and energy sectors. The proposed addition of up to 60% tariffs on China would most affect electrical equipment and electronics (about 28% of U.S. imports), followed by machinery, nuclear reactors, and boilers. Businesses with affected relationships should model these changes and prepare for more expensive goods. Javelin expects U.S. businesses to seek relationships outside these regions until tariff prices are lowered or removed. Companies will seek to optimize and reduce costs in other areas if supplier relationships remain the same. Here, we could see a shift in cross-border payments relationships as businesses seek to reduce spend across the organization including payables and treasury departments. Partnerships will be reevaluated, and the competition will be stiff. Smaller, nimbler fintechs may have a competitive edge on pricing that could put pressure on traditional players. We expect fintechs to be capitalizing on this opportunity.

Recommendations

For legacy providers, return to the fundamentals if they want to succeed. Whether through partnering or acquiring, banks and legacy providers must adapt or face increasing share losses to smaller, nimbler fintechs that are gaining momentum. The way to win is by solving for speed, cost, and access while ensuring safety.

Make managed services and add-ons a significant part of a payments program offering. As corporates seek lean relationships that are easy to navigate and flexible to operate, service providers should develop their cross-border payment relationships into being more than a payment service. Vendors are finding success in offering managed services in compliance and tax auditing, which helps their customers navigate the complex cross-border payment environment and encourages loyalty.

Help customers navigate the evolving economic environment. Javelin expects the new tariff proposals to significantly impact supplier relationships in Canada, China, and Mexico. Corporations must prepare for this significant expense and begin talking with their suppliers while modeling proposed tariff plans and evaluating supplier relationships outside the affected regions. Financial institutions and fintechs should be ready to offer support through these changes and managed services where necessary.

Endnotes

1 J.P. Morgan, "Unlocking $120 Billion Value in Cross-Border Payments: How Banks Can Leverage Central Bank Digital Currencies for Corporates." Published 2021

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3 Bank for International Settlements, "Project Mandala: Streamlining Cross-Border Transaction Compliance." Published October 2024

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5 Business Insider, "6 Things Expected to Get More Expensive if Trump's Trade Plans Are Enacted," Published Nov. 15, 2024

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7 Embassy of Mexico to the United States of America, "U.S. – Mexico Trade Relations." Published March 2023

8 Observatory of Economic Complexity, "Canada." Accessed Nov. 26, 2024