

A Quick Guide to Cross-Border Payments



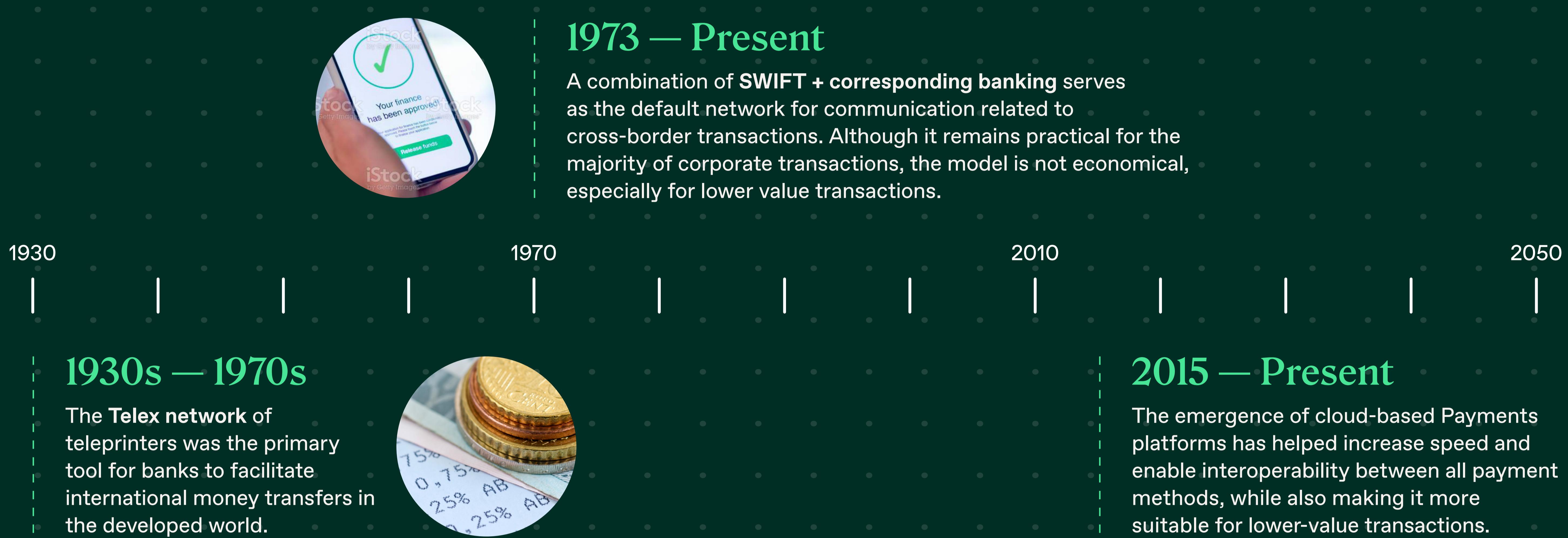
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What are cross-border payments?

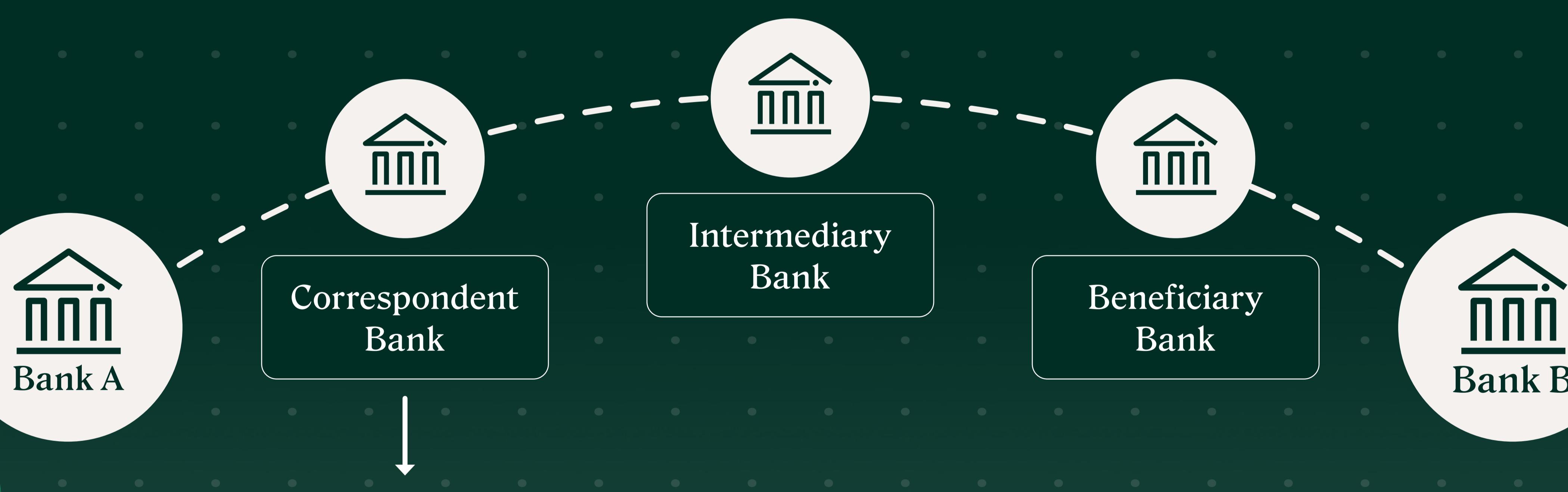
Cross-border (or international) payments are transactions where the sender and the recipient of funds are based in separate countries and usually with different currencies in play.

A short history of cross-border payments



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.



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



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.



C2C

(Consumer to Consumer)

- Remittances and payments to family members



C2B

(Consumer to Business)

- Ecommerce purchases
- Mortgage for overseas property
- Bill payments (education, healthcare)



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:

	C2C	C2B	B2C	B2B
Flow —	\$0.7tn	\$1.5tn	\$1.2tn	\$133.0tn
Revenue —	\$37bn ↗	\$37bn ↗	\$18bn ↗	\$149bn ↗
Average pricing* —	5.4%	2.5%	1.5%	0.1%

Note: * as % of transaction value (includes transaction fees and spread on FX)

Different cross-border payment methods:

Traditional payment methods

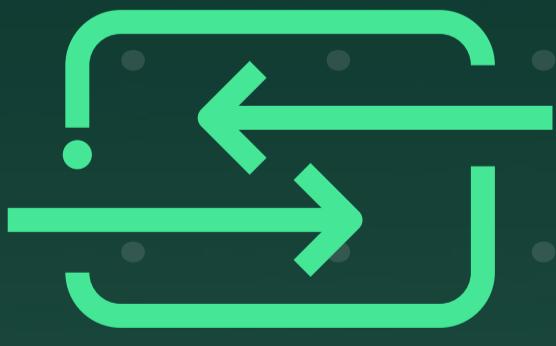
- Bank account transfers
- Card payments
- Carried physical cash across borders
- Used informal trust-based broker networks (such as hawala)

Alternative payment methods (APMs)

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

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.

	What they do	Examples
	Retail, Commercial and Neobanks:	<p>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.</p>
	Money Transfer operators (MTOs):	<p>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).</p>
	Payment Service Providers (PSPs):	<p>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.</p>
	Mobile Money Operators (MMOs):	<p>They are licensed mobile money service providers that develop and deploy financial services through mobile phones and mobile telephone networks.</p>
	Platforms/Marketplaces:	<p>They are businesses that create value by facilitating exchanges between two or more interdependent groups.</p>
	Fintech Companies:	<p>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.</p>

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

\$156tn of transaction flow expected in 2022

\$241bn of payments revenue in 2018

11% compound annual growth rate (CAGR) between 2018-2022 in emerging markets

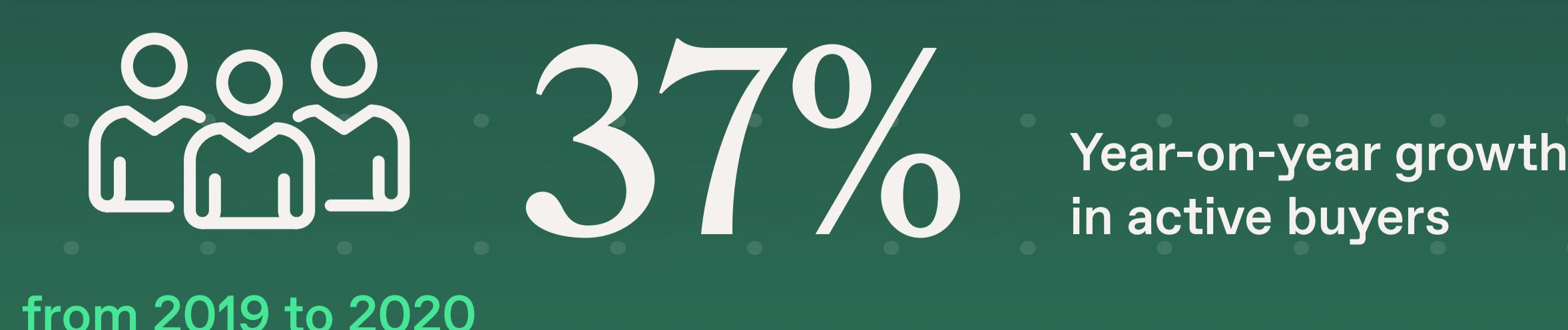
In international trade, the value of exports has increased more than three-fold



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



Increase in active buyers on freelancing platform Fiverr



Nearly one-fifth of the global value of e-commerce is attributed to cross-border



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



15%

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

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.

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

- ✗ Only impacted the large payment flows
- ✗ Expensive for banks to implement
- ✗ Higher costs can be passed on to senders

Payment network aggregators



- ✓ Leverage on indirect network connections
- ✓ Easier to scale and offers broad coverage

- ✗ Indirect connections fees apply
- ✗ Limited visibility on fund flows
- ✗ Exposed to varying levels of risk from each partner
- ✗ Lacking interoperability (e.g: e-wallets & bank accounts)

Proprietary payment networks

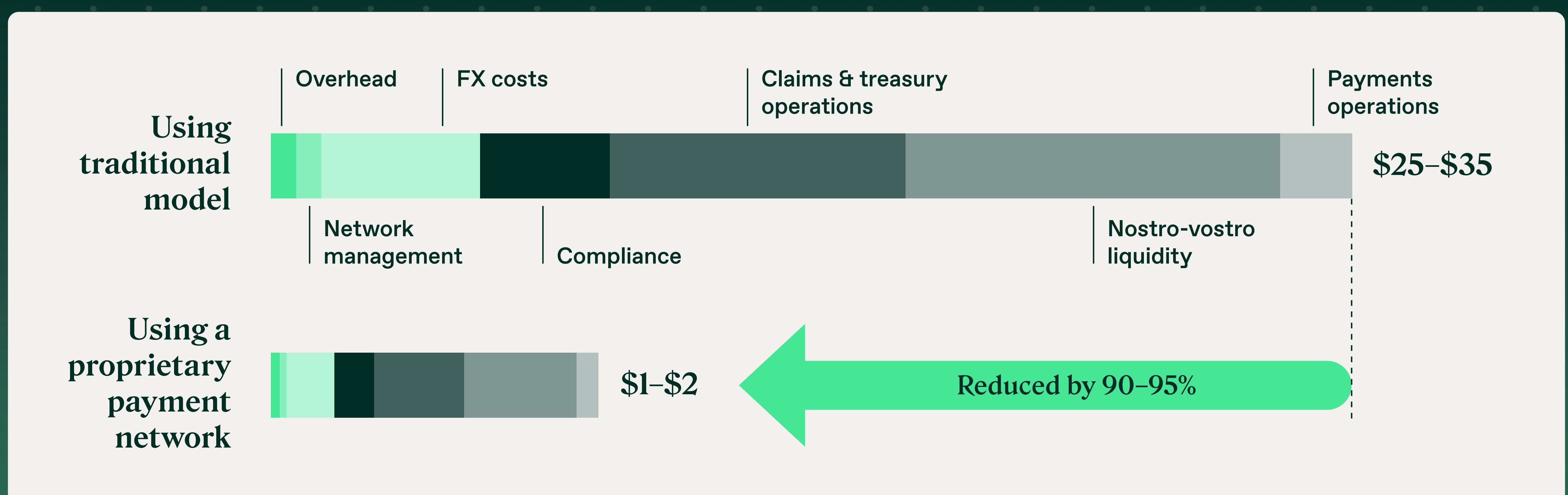


- ✓ Owned network with direct connections to each partner
- ✓ Complete visibility over fund flows
- ✓ Greater control over transaction costs & risks
- ✓ Up to 95% lower costs for customers

- ✗ Building up these global networks take time
- ✗ 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.



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.

