Cross-border Transaction Processing Fees

Concepts

on Feb26

We are often getting questions regarding cross-border transaction processing fees. Why are cross-border transaction fees so high? Which components do they include? Will they ever get any lower? Our company's clients from different countries and continents often have to deal with cross-border and multi-currency transaction processing issues. So, in this article we decided to provide a brief description of cross-border transaction processing mechanism. Thus, we hope to shed some light on the listed questions.

In simple terms, there are two conceptual reasons why international transaction processing costs more than local transaction processing. First, the process, usually, involves two currencies. Second, it involves two different national banking systems instead of one. Let us now address these two factors, influencing the size of cross-border transaction processing fees, in greater detail.

Cross-border Transaction Processing Fees and Correspondent Banking Model

The essence of correspondent banking model is as follows. If a payment, originating from an account in one country, is addressed to an account in another country, then, in a general case, these two accounts belong to two different banking systems. Each of the two banks will charge its share of transaction amount or per-transaction fee. However, on the way from one account to another, there should be some entities, authorized to perform international money transfers. As some people say, "international financial institutions are charging money for moving money". That is their core service and primary income source. So, if a buyer purchases a product or service from the seller residing in another country, then there are, in fact, not two but four banks involved:

- buyer's bank;

- correspondent bank in the buyer’s country;
- correspondent bank in the seller’s country;
- seller’s bank

Four entities need to get some reward for playing their role in an international payment.
During a local payment both buyer and seller might just have accounts in one and the same bank. In this situation the fees are, usually, minimum. In comparison to them, cross-border transaction processing fees might seem really large.

Cross-border Transaction Processing Fees and Multi-currency Payments

As we wrote in our article on multi-currency payments, much depends on particular transaction authorization and settlement currencies. If transaction is authorized in a foreign currency but settled in a local currency, then it doesn’t cost much. Moreover, the company might not even need a tax ID or any other business presence in the foreign country. However, if transaction must be both authorized and settled in a foreign currency, this arrangement is more complex from both business and technical viewpoints.

Example

Let us take a look at Master Card processing costs and fees. If a cross-border transaction is only authorized in a foreign currency, but settled in USD, then the fee charged by MC is 0.60% of transaction amount. However, if its settlement currency is also foreign currency, then the submitter has to pay the whole 1.00% of transaction amount. So, for these two types of transactions, MC has two types of cross-border transaction processing fees – domestic and foreign.

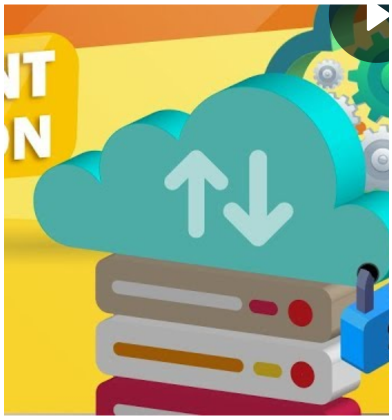
MC introduced cross-border transaction fee back in 2006. At that time the fee amounted to 10 basis points per transaction. Since then it was slowly (but steadily) growing. We should also keep in mind, that the fees you pay to card networks and the fees you pay to specific banks belong to different categories. That is, banks are charging additional fees (markups) on top of what you already pay to MC or Visa as base costs (interchange and assessments).

Conclusions

International payment processing involves much more intermediary entities than local payment processing. In many cases, institutions, specializing in international payment handling, monopolized the process. So, they are in position to set their own rules of the game. With these factors in mind, cross-border transaction processing fees are not always as high as they seem in terms of value-for-money.

If your type of business involves international transactions, you should carefully analyze all your target currencies and payment types. Based on this information you might be able to estimate potential cross-border transaction processing costs and take them into consideration within your business strategy.

If you need some advice regarding your particular business case, feel free to contact our payment experts at UniPay Gateway.



Tags

[base costs](#)[correspondent bank](#)[interchange fee](#)[international acquiring](#)[international payment processing](#)[multi-currency payments](#)

---

*Previous post*Credit Card Processing Cost and Quality *Next post*Payment Facilitator Paradigm and Beyond: VAR, ISV, Next-generation ISO

Subscribe to our Newsletter

Receive Regular Updates on Payment Industry

Name | Email | Subscribe

Topics

- Payment Gateways
- Security & PCI
- Terminals & EMV
- PSP & Facilitators
- Payment Advice
- Technology
- Glossary
- Ask Question

Archives

- 2022
- 2021
- 2020
- 2019
- 2018
- 2017
- 2016
- 2015

Recent Posts

- How SaaS Platforms Can Save on Payment Monetization
- Payment Monetization for SaaS Companies
- How to Implement a SoftPOS Solution
- Crypto Payment Functionality and Optimal Blockchain Selection
- SoftPOS Solutions

- Credit Card Processing Risks: Geographical Aspect
- White Label Payment Gateway and Why Businesses Implement It
- How a SaaS Platform Can Profit from Credit Card Processing
- Your Own Payment Gateway: the Key Aspects
- Gateway Selection for SaaS and PayFac Payment Platforms

blogarama | Privacy Policy

Close

- Home
- Payment Gateways
- Security & PCI
- Terminals & EMV
- PSP & Facilitators
- Payment Advice
- Technology
- Glossary
- Ask question