

E-BOOK

The Evolution & the Future of Cross-Border Payments in 2022 & Beyond



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Introduction

Remittances have become the second most preferred income source of external financing after direct foreign investment, especially for low and middle-income countries. Over the years, migration patterns along with the way remittance operate across the globe have undergone a significant transformation. There could be several reasons attributed to it, mainly modernisation owing to globalisation, the massive eruption of digital transformation, and the need to unify the process of payment through regulations and compliance measures to ease cross-border transactions, ensuring swiftness, cost-control, and bring a unified well-regulated process that will be the base for the futuristic transactions.

While different countries are developing their technology and making a significant space in the FinTech industry, the competition for the cross-border payments domain seems to be extremely high, which is a boon for the industry, where there is a lot of development that is taking place. The stakeholders range from remittance players to crypto providers, networks to eCommerce majors, also mobile wallets, offering strong yet efficient services.

Mobile wallets are also futuristic, enabling multiple financial services brought under one platform, giving people a plethora of services that suit their requirements. It is important to note that tech giants such as Apple and Google are also in the process of building their mobile applications, and Africa's Chipper, which deals with remittance across cross borders is building a remittance app for intra-African payments, Brazil is also developing its app.

The evolution and the future of Cross-border payments

The massive acceleration in Cross-border payments, in the last fifty years, has been tremendous owing to the Industrial revolution, followed by the IT revolution and digital disruption, where seamless money transfers took prominence. It became possible to transfer money 24 hours a day, 7 days a week, and 365 days a year.

Let us visit some of the milestones

Blockchain

“Over the years, blockchain technology gained momentum owing to the trust factor, tamper-proof system, and decentralised mechanisms, and has been a constant factor across cross-border transactions.”

Blockchain systems revolutionise the way of transferring money, making it accessible to anyone by creating an account. With low fees and fast transactions, they create a smarter alternative than traditional banking transfers, offering round-the-clock services.

Blockchain continues to grow and offers an unchangeable ledger for tracking orders, payments, accounts, and other transactions creating consistency and preventing unauthorised entry. In the financial industry, there has been a massive change brought about by blockchain, through an unchangeable ledger for doing a variety of operations like tracking orders, payments, and accounts, creating consistency, and market trading.

Apart from that, the process of cryptocurrency can avoid long processes and facilitate the faster movement of the transaction, saving both time and money. It was invented mainly to replace centrally controlled and maintained transfer systems, and also to provide high levels of safety and security during transactions. Within just three years of Bitcoin being invented, the Blockchains were also brought to use. Among the cryptocurrencies, Bitcoin and Ethereum are prominent. Along with these coins, there are several coins offering market stability, with very minimum fluctuations.

Blockchain

As blockchain technology allows users to remain anonymous, it provides a secure way for holders of digital assets to make transactions, which has been one of the major reasons people use blockchain to send money across borders.

Several factors helped blockchain to be one of the preferred methods of transactions, including decentralisation and transparency. The property of remaining unaltered, despite the numerous transactions has added the property of being tamper-proof. Also, the prominent factor of gaining consensus from the rest of the members in the same chain.

It is important to note that, these are just digital assets and not ready cash. Again, to convert these crypto coins into real-world currency, fiat money, or cash equivalents they have to seek organisations like Binance.

Central Bank Digital Currency (CBDC)

“ Many governments and financial institutions accept this CBDC with a credit-based model. CBDCs are powering the next generation’s cross-border payment solutions, creating a seamless, transparent, and real-time settlement. ”

Cross-border payments could see an influx of efficiency with the establishment of Central Bank Digital Currencies (CBDCs) when countries come together in collaboration. As they are like digital currencies, where they are attached to the value of that country's fiat currency not backed by a physical commodity like gold or silver), they can be a quick alternative way of remittance. It is important to note that more than 90% of the banks are actively involved in heading toward CBDC, valuing it as a legal tender, which can be used in the exchange of goods or services.

Traditionally, fiat money came in the form of banknotes and coins, but technology has allowed governments and financial institutions to supplement physical fiat money with a credit-based model in which balances and transactions are recorded digitally.

During the pandemic and other calamities, the trend for Fiat currencies across the globe became much more evident. The advent of cryptocurrency and blockchain technology is enabling society to move towards a cashless economy. With all these factors contributing, the demand for CBDC is highly evolving.

With two variations of retail and wholesale systems, offering for financial institutions and minor transactions, it has opened a plethora of options. As it also is free from credit, liquidity risk, along with bringing down the cost involved in transactions, has become one of the major factors enhancing cross-border payment improvements.

Central Bank Digital Currency (CBDC)

There were several challenges involved like inflated costs, multiple intermediaries, and banks operating from various countries across different time zones, along with the risks involved could be curbed, ensuring faster transactions and seamless processes.

The emphasis made in the Group of 20 nations regarding the cross-border payments, and resolving the challenges involved have brought prominence and gained much importance. Bringing enhanced financial development, gaining comprehensive financial inclusion, and reaching the access of the public has been the goal of CBDC.

Ripple & XRP

XRP has been designed to solve the challenge of money transfers passing through multiple institutions, which is causing delays, along with heavy transaction costs incurred. Ripple – a currency exchange, and remittance network created by an American-based company, Ripple Labs Inc has been built on the premise of open source, and decentralization. It is a concrete digital asset, changing the landscape of remittance. It offers enterprise-grade solutions that combine the prowess of cryptocurrency and blockchain. It works as a bridge currency and supports a plethora of currencies and financial exchange systems including tokens, fiat currency, cryptocurrency, and commodities, along with other units of value such as frequent flier miles or mobile minutes.

It brings a lot of advantages like cost-effectiveness, impressive performance, streamlined development, multiple payment channels, supporting cross-border payments, decentralized exchange, offering a multi-signing facility, and more. Owing to its dynamic usage, and other advantages, it has become one of the most widely used digital currencies, which elaborates the uses in the streams of source crypto, eases instant payments, and engages new audiences, while driving new revenues.

Moreover, it is a frictionless channel to send money globally using the power of blockchain. These features have helped Ripple to be one of the prominent factors in the remittance industry. As it has vibrant communities developing and enhancing the codes, there can be enormous advancements, updates, and benefits lined up continuously, that would benefit the entire remittance ecosystem.

ISO 20022

The advent of the ISO 20022 standardisation approach used by financial standards has brought a paradigm shift in the way remittance operates emphasising an open global standard for financial information. With rich features like reliability and structured data, flexibility, common structure, and interoperability, and brings uniformity across banks, and other financial organisations. Functioning as a metadata repository makes it an incredibly important regulatory process, and one of the important standards which mark the difference in the way it impacts the financial industry.

This standard encompasses all the financial information conducted between financial institutions encompasses credit and debit card transactions, securities trading, payment transactions, settlement information, and other financial information. Further, it is important to know that this standard is not measured by a regulatory body.

Since it has structured party data and increased field size, it enhances transparency and creates efficiencies. It also reduces delays caused by inadequate, inconsistent, and inappropriate data. It uses standardised return codes for dedicated returns and investigation messages. This helps in curbing the delays involved in the transfer.

Having dedicated reference fields enhances the data fields to remain unaltered during the complete process of the transaction, starting from the beginning to the end. Also, structured remittance data along with augmenting the customers' reconciliation is an added advantage. Across the payment industry, it brings great levels of harmonisation, and integrates efficiently, and swiftly.

Cross-Border BNPL

“ The market for BNPL worldwide is estimated to rise to \$20.4 billion from \$4.1 billion by 2028 according to Bloomberg Research. ”

Cross Border BNPL has altered the way financial services companies operate in the global landscape, especially in the approach to debt. There are several tech giants and newer mobile apps in development, but the arena of Cross-border BNPL has enormous potential to explore, which remains untapped. With over 150 BNPL providers worldwide, embracing the merchants and enabling BNPL as an invincible choice fuelling the growing trend.

Many markets like Scandinavia, the UK, the US, and Australia have already started using it, and in European countries, there are vast opportunities, However, there are risks involved in the operation too. Many merchants should take into consideration of their opportunities and threats before investing in the BNPL infrastructure.

Not all the BNPLs have the same terms and conditions, each company has its structure, and terms and conditions. However, there are some similarities too. The impact of BNPL has penetrated deep into several customer segments, enhancing the purchasing power, and contributing more towards international remittance. It is often referred to as the point-of-sale repayment loan and is often interest-free. With the growing demand for Cross Border BNPL, it is now becoming an alternative, and one of the important payment methods in tandem with credit cards, e-wallets, and others. There are several challenges faced by the Cross Border BNPL market, especially when there is a shift in the global economic climate owing to the changes in increased inflation, rising interest rates, the potential for a recession, and increased competition. The Cross Border BNPL providers are under heavy scrutiny to avoid risks and artificial irregular fluctuations. Focussing on local regulatory compliance,

Cross-Border BNPL

The regions on which the business runs make a deep impact, and it is highly mandatory that the local regulatory compliances should also be met, where the tax obligations are vested on various parameters like sales volume, transaction volume, and location of sales.

One of the other big challenges faced by Cross Border BNPL is the risk of defaulters. The customer makes the first payment to receive the product or the service and enters an agreement to pay the subsequent cost periodically. It is important to note that these point-of-sale instalment loans have no provision for absorbing changing currency exchange rates. It exposes the merchants to the risk of foreign exchange markets during a cross-border BNPL transaction. Owing to soft inquiry and higher approval rates, the customer may pay the first instalment, avail of the service or product, and may later vanish.

Comprehensive risk profiling and creditworthiness ensure filtering reliable customers across borders, avoiding defaulters, terrorists, and risks involving illegal money laundering.

Despite the risks and other challenges, the future for Cross Border BNPL market seems wide open. Due to the flexible payment options, it enhances the clientele, and since it eradicates the physical boundaries, people from many countries can easily avail of the product or the services. As the regulatory landscape, along with BNPL service providers constantly evolve to the trends and the requirements, it embraces newer customers to avail the services. Overall, Cross-border BNPL helps in the seamless functioning of trade and commerce, enabling smoother transactions, and aiding the development of the economy.

Cross-Border Bill Payments

“ Global adoption initiatives are marching toward the next step of developing a global powerhouse of bill payment systems, encouraging all payments enabled through a single system. ”

Several countries have understood the need to have the flexibility to enhance the facility for expatriates to manage their bills digitally and curb the hassle of sending money to a third party, or friends and family to maintain the establishments, or to pay other utilities. foreign inward remittances would benefit the countries and have become mandatory for several remittance-receiving countries to make the process seamless, and easier than before.

Countries have enabled Global Bill Payment Systems, through digital payments for settlers outside their country. This will curb unnecessary delays and this system of enabling digital payments and digital settlement systems are taking prominence. This will ensure that utility bills such as electricity, water, telecom, education fees, medical insurance, and others are paid on time.

There are various channels for payments internet banking, mobile banking, POS (Point of Sale terminal), MPOS (Mobile Point of Sale terminal), kiosks, and offline channels like ATMs, and bank branches, along with several agents and business correspondents specialized in cross border transactions.

While many countries are trying to offer cross-border bill payments free of cost, or at very minimal cost, to motivate people to remit directly to their native country, thereby increasing the investment base of the parent country. Needless to say, this has the support of a multi-currency facility and is capable of accepting investments around the clock.

Financial experts predict that easing cross-border inward bill payments enhances convenience, thereby enhancing forex inflow. Along with that, the money sent for paying utilities regularly has directly affected the economy of several developing countries.

Cross-Border Bill Payments

Through which an interoperable platform gives a standardised bill payment experience, along with a centralised customer grievance redress mechanism, which implies uniform customer convenience fee.

There are also several facilities to alter the money to be sent and offer a safe, secure, and convenient method of bill payment.

Wallet Services in Cross-Border Transactions

Digital wallets are gaining a lot of popularity in the payment sector, and they can be electronic devices, software programs, or online services used predominantly by cross-border segments looking for faster transactions.

With the prominent use of mobile gadgets, laptops, or a computer, it is easy to use and adapt to fintech platforms offering endless opportunities to send and receive money. Lately, it has become one of the most opted methods of payment as it ensures a seamless process and ease of transactions without going through routing cumbersome processing.

When businesses need to expand, it has to break the constraints of accepting money across various currencies along with various modes of payment from their customers across different walks of life. The need to stay up to date with technological advancements and the slow response of traditional banks have driven fintech players to launch their respective digital wallets, making them an attractive way for SMEs that are seeking faster services and reduced costs. Banks are following up with third-party payment service providers in the multi-currency wallet business. HSBC launched Global Wallet, its multi-currency digital wallet for SMEs to gain a competitive advantage over fintech. Citibank and Banco Santander have also launched their cross-border payment platforms. Fintechs have already been offering multi-currency wallets for individuals and businesses alike in more currencies and territories around the world.

The fintech also supports in-app exchanges of 10 currencies, but customers are only allowed to top up or hold up to \$5,000 in their account. There is an annual transaction limit of \$30,000. YouTrip has launched a multi-currency travel wallet that allows customers to make payments in over 150 currencies with no transaction fees, to challenge traditional banks.

Wallet Services in Cross-Border Transactions

An increase in cross-border, instant, and B2B payment options is expected in the coming years from both traditional banks and fintech because of dissatisfaction with the traditional banking model. This is supported by the adoption of ISO 20022.

Mobile wallet is a boon for merchants, and businesses running across borders, where the traditional system of payments takes almost five to six working days, incurs a heavy cost, and has operational delays. Many wallets also serve as NFC payment apps that can be used at the PoS and as payment apps. Different types of e-wallets like Digital Wallets, Crypto Wallets, Mobile Wallets, and IoT Wallets with diverse functionalities cater to the requirements of different people. Adding diverse functionalities like storing basic user information, details of the transaction, and other digital assets like Loyalty points, virtual currencies, vouchers, and more have attracted many customers.

Digital wallets like PayPal and Amazon Pay are some of the most prevalent methods of payment during an online transaction. It is part of a central web platform, run by the wallet provider, where the users can top up or withdraw from their balance. Crypto wallets store the public or private key of the user. They are the certificates of ownership for cryptocurrencies, which are stored on the blockchain. Mobile wallet syncs with existing bank accounts and does not have a credit system. IoT-Based Wallets use e-money or virtual currencies. This can also be installed in wearables like watches, wristbands, or other smart wearable devices.

These are also vulnerable to online frauds, and thefts and need strong KYC Anti-Money Laundering and Counter-Terrorist Financing procedures along with tight security compliance adhering to several complying with regional KYC, AML, and CTF regulations.

Recurring Auto-Payments and Scheduled Payments

“ Automated bill payments help improve credit scores and have other benefits that business owners enjoy are regular cash flow, increased payment security, lower business costs, regular cash flow, and enhanced client experience. ”

Recurring billing or autopay is gaining prominence in eCommerce and has expanded geographies where regions embrace multiple currencies across different time zones, where they can now easily involve in trade and commerce without glitches. Now the entire system of autopayment has been equipped comprehensive system in place consisting of technology involving cloud-based SaaS solutions, state-of-the-art tools with layers of stacks and protocols, along with the right strategy to enable customers' periodic payment. For the merchant's goods, products, or services, the recurring payments are being directly debited from the banks, and it has brought ease in those regular transactions being automated both for customers and business owners.

As the payments are scheduled before the bill due date manually, the customer is empowered to decide his due date, along with the duration of payment, and have better control over his spending pattern. This has eased many diasporas, and migrants, to pay the bills loans, maintenance of the house, premiums, and other utilities in their home country can be effectively managed overseas, where payments in multiple currencies have become possible.

The payment reconciliation pipelines enable smooth transactions from start to end. On the other side, it has certain disadvantages too like cancelling subscriptions may involve an additional fee, chances of bouncing due to low funds in the account and would incur additional fees too. Also, in case the customer missed cancelling the subscription, it may lead to continuous loss of money.

Virtual international prepaid card

“ Payment solutions are constantly evolving and the role of a debit or a credit card has enhanced, and it has become mandatory to offer more services.”

The impact of a virtual credit card (VCC) in cross-border transactions gained quick fervour along with global acceptance, as the global economy flourishes owing to the progress in international trade and commerce. VCC is just a substitute for plastic cards, and the biggest benefit is that it is digital, and can be operated by phones. As the VCC has a unique credit card number that can connect with the main credit card, it can operate without exposing the details of the credit card offering extensive security. One of the features like setting the spending limit and the expiry date for the virtual card can be set by the owner, which has helped the customers to have closer control over their spending patterns.

Among the financial solution providers, FIS – Global Fintech Leader, with more than 16 crore cards in the world is already taking the world by storm. With the extensibility support of more than 500 APIS offering integration with several third-party applications, the virtual cards are leveraging cross-border payments and offer limitless options for business people, regular travellers, tourists, and other people to use the service from FIS, and enjoy enhanced seamless processes.

With the advent of single global software offering plenty of features like tokenisation, rewards and customer retention offers, easy compliance with no infrastructure burden has also enhanced the popularity. Along with these, the prominence of safety features like on or off of the card, alerts, indications, and two-way communications has helped common people who travel across countries, and merchants serving several clients across borders to easily operate and enhance their revenue.

Virtual international prepaid card

While several online retail giants like Amazon and eBay store their customer's payment details to facilitate speedy transactions, rather than fetching the data each time from the main server, a considerable amount of time is saved during every transaction.

VCC is gaining a lot of prominences as it reduces the need to enter the data redundantly while having the vulnerability of data being hacked or gaining access if not saved securely. Also, it helps a lot of retail gains to quickly process the refund amount, without making their customers wait for a longer time, which has also been one of the factors of the exponential reach of VCC.

Along with speed and resilience, the other important feature that has gained prominence is safety and security, operating through the website of the credit card service provider, operated by either a browser extension or logging on to the account. The features like a one-time token, unique credit card numbers, security codes, generating unique numbers, and the token for every transaction offer additional security.

Integration with third-party money transfer and FX service providers

Businesses and trade operating internationally are constantly expanding their prospects, fetching more clients, and seamlessly transferring money across borders. To bring agile banking experience, open banking, and configuring through diverse apps through advanced FX APIs or exchange rates APIs offer great experience enabling integration and allows communication between applications, which can support numerous currencies. Along with that, it enhances the speed of the transactions and benefits both the customers and the business owner.

Bringing operational effectiveness requires a process of integration that connects several platforms, services, technology, and data that are compatible with each other.

Businesses operating in diverse locations across different zones can now potentially have a seamless operation. Implementing an appropriate payment gateway is an efficient way to enhance business, as it connects and captures payment data from the customer to the acquirer more effectively. Operational efficiency enhances, as it can check the balance available in the customer's bank for the transaction, and based on that, it can immediately accept or decline the operation. It has become a mandatory process all over the banks to enhance reconciliation processes, especially when the transaction volumes across the globe have drastically increased.

“ One of the crucial factors that fuel the development of cross-border payment for an appropriate Payment Service Provider is to choose the right FX API, capable of handling humongous volumes of data of several transactions and adhering to all compliances and technical advancements happening constantly around the world. ”

Integration with third-party money transfer and FX service providers

When real-time payments are in the mode of expansion, it has become banks and financial institutions to enhance their infrastructure to cope with the changes.

Peer-to-Peer transactions have also become enhanced, and it is a boon for those who do not have any type of financial system set up. These seamless operations keep the payments ecosystem rolling smoothly, enabling online payments for consumers and businesses and transactions happening between individuals.

Several FX API providers are offering various payment methods and different price points. For a seamless business operation, it is very essential to have several payment methods, working across different currencies supporting round the clock.

All payments across borders are being exposed to Foreign Exchange Risk calls and have to be constantly monitored. The markets are interlinked, and any small disruption in the mechanism in one country can affect the operations of other countries, even though they are not directly connected, or they have a direct transaction.

With the advent of several FX APIs, many frauds, risks, and other vulnerabilities are curbed, and several attempts are even made to make the transaction swift and risk-free in all aspects.

Conclusion

In the coming few decades, there will still be a massive change in how the remittance industry works. Fintech will be co-opted to serve both the local and global needs of consumers and businesses, due to significant factors which made it highly secure, convenient, easy to manage, and adhering to the compliance and standards vested upon it.

For cross-border payments, changes are ahead, and mobile will continue to play a vital role in enhancing the entire ecosystem completely favourable for the cross-border remittance market to grow towards newer horizons. Also, many tech-giant and financial organizations are working together in making future-ready software, platform, and services that are also fuelling the growth.

Macro Global, one of the forerunners of the remittance technology solution providers, have an elaborate clientele, serving prominent banks, and financial institutions that are highly proficient in understanding modern requirements, adhere to compliance and add several functionalities to all the products or services they offer.

To partner with us, call us at +44 (0)204 574 2433 or mail us at salesdesk@macroglobal.co.uk. Our executives will stay connected with you to understand your requirements.

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