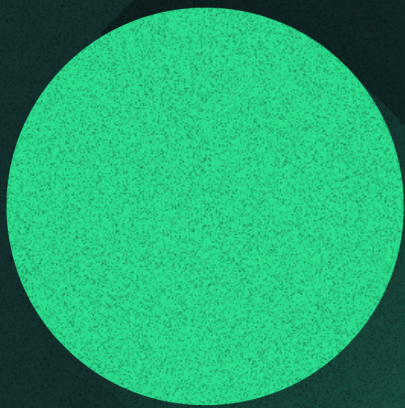


The ultimate guide to international payments

Benefits and challenges of paying across borders



Contents

3	Introduction
4	What are cross-border payments?
	How does cross-border money transfer work?
5	Cross-border payment requirements
	How do banks settle cross-border payments?
	How long do cross-border payments take?
6	Challenges of cross-border payments
9	Benefits of cross-border payments
11	Making cross-border payments work for your business
13	Summary

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Introduction

In today's interconnected world, where goods, services, capital, and people expect to traverse international borders with unprecedented ease, the significance of cross-border payments has soared to new heights.

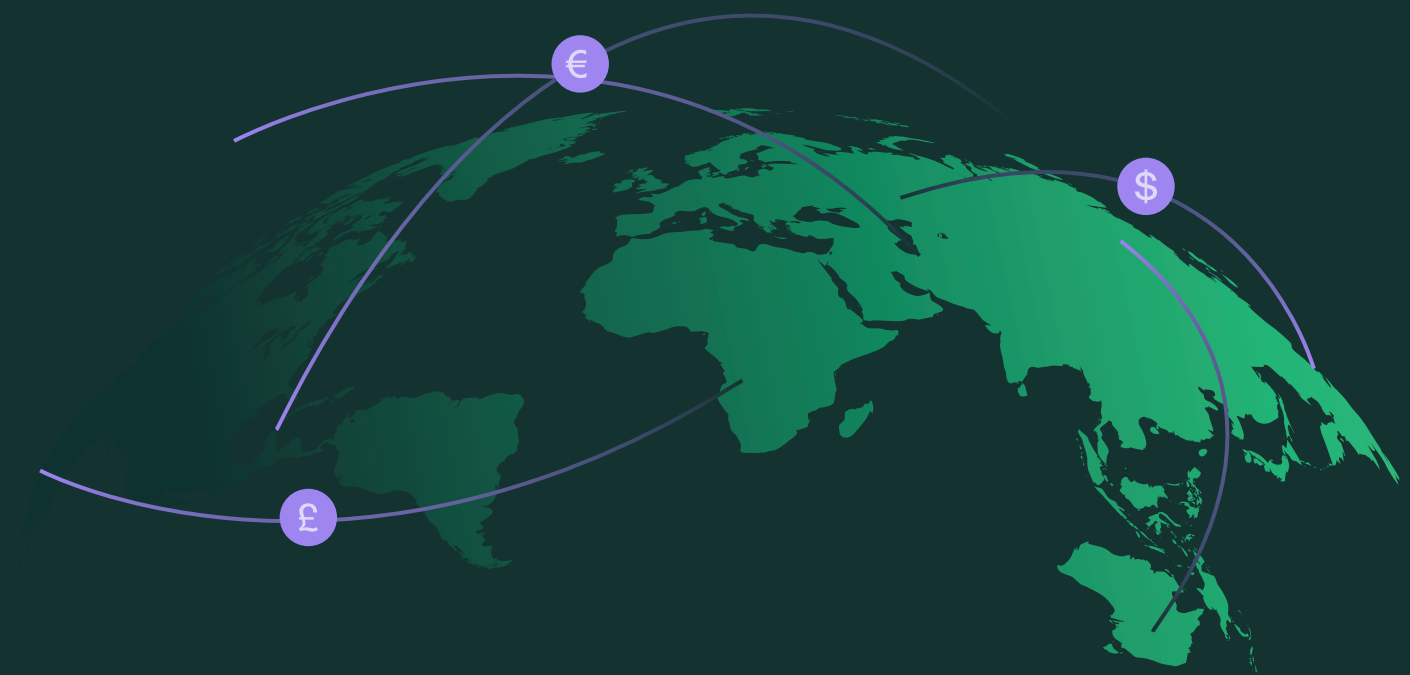
The steady growth in the economic value of cross-border payments is evident, increasing from a global value of \$150 trillion in 2017 to a projected \$250 trillion by 2027.[1]

Factors that have contributed to this include:

- The expansion of the supply chain across-borders
- Cross-border asset management and global investment flows
- International trade and e-commerce
- Migrants making payments via international remittances

These trends have combined to increase demand for cross-border payments, which will only accelerate. It equally means that companies need to gain access to stable, efficient, and secure cross-border payment services.

Growth and revenue expansion also drive competition in this market, with various innovative business models emerging consistently. In this guide, we'll take a closer look at the cross-border payment market and many of its benefits and challenges.



What are cross-border payments?

Cross-border payments refer to international financial transactions between two or more nations. This can encompass various financial transactions, even though cross-border payments are often associated with retail transactions. They can also involve complicated investments, mergers, and acquisitions. Consequently, there are two basic types of cross-border transactions.

Capital allocation and investment decisions

Retail cross-border transactions involve either person-to-person or business-related transactions. These include e-commerce purchases, car payments, bank transfers, and various alternative payment methods, such as digital wallets and mobile payments.

Wholesale cross-border transactions

Wholesale cross-border transactions occur between financial institutions and support the international activities of customers and businesses, such as foreign exchange, securities trading, and borrowing. Governments and other non-financial companies also use cross-border transactions to fund financial market trading and import and export goods and services en masse.



How does cross-border money transfer work?

Typically, when buyers make purchases involving cross-border transactions, they use a financial system to transfer money to the merchant's account. While this is not dissimilar from most other financial transactions, it inherently becomes more complex when money is required to cross borders.

Later in this guide, we'll delve into some of the specific challenges of cross-border payments. But as a starting point, it makes sense that the more intermediaries and entities become involved, the more complicated the transaction becomes.

Cross-border transactions usually follow a sequence of steps: purchasing, determining the route for payment, processing, verifying the payment, confirming the successful fulfillment of the transaction, and finally, settling the transaction.

Cross-border payment requirements

Businesses require cross-border payments for several reasons:

International trade

Cross-border payments facilitate international trade, enabling companies to purchase and sell products.

Global expansion

Cross-border payments are critical in global expansion plans, facilitating involvement in markets that would otherwise be impossible to penetrate.

Remote workforce

Cross-border payments are also helpful in recruiting remote workforces. This is becoming increasingly prominent and wouldn't be possible without the ability to make payments across international locations.

E-commerce and digital transactions

Ecommerce and digital transactions have become massive markets over the last couple of decades, and cross-border payments have hugely facilitated these. Major names such as Amazon could never have reached their level of prominence without cross-border payment systems existing.

Investments and Acquisitions

Many businesses also use cross-border payments for investments and acquisitions. As well as a variety of international services, this is typically an area for bigger companies but one that can also be an essential source of expansion for SMEs.

How do banks settle cross-border payments?

Cross-border payments don't literally cross-borders. Instead, they are debited in one jurisdiction and credited in a corresponding account in a secondary jurisdiction, at least in the simplest case. There are other scenarios involving more than one account, but this is fundamentally how the system works.

In some cases, a payment provider or transfer agent will use an interbank network to carry out the cross-border payment service. They can also use blockchain technology if preferred, and some studies suggest that this will become more prominent in the future.[2]



How long do cross-border payments take?

This varies depending on the service used, but international transactions take approximately two business days to process as a general rule. This can depend on the territories, the destination of the funds, and how many intermediaries are involved in the process.

Cross-border payments made via credit cards tend to be faster due to processing speed, while modern API systems can also be superior to the traditional SWIFT methodology.

Meanwhile, conventional bank transfers remain the slowest form of cross-border payment, with transfer times being at least three days and sometimes as many as five business days. This can be particularly irritating when the payments cross a weekend, and in such scenarios, payments can sometimes take an entire week to process.

Challenges of cross-border payments

While cross-border payments have huge advantages — and have facilitated a range of trading activities that would otherwise be impossible — there are also challenges associated with this form of financial transaction.

Currency exchange and conversion

The first and one of the most obvious challenges of cross-border payments for business is currency exchange and conversion issues.

Converting currencies can be time-consuming, but it can also incur expensive transaction costs that change the delicate balance of a particular cross-border payment. Additionally, exchange rates fluctuate frequently, meaning that the ultimate price of a transaction can be somewhat unpredictable.

Therefore, any company or individual engaging in cross-border transactions must carefully consider exchange rates and fees when contemplating and processing any cross-border payments. While the US dollar, sterling, and euro are typically used as the foundation for cross-border payments, this could evolve over time.[3]

High costs

Cross-border payments can become expensive due to the number of intermediaries involved. This is particularly true when several countries are implicated in the process, and payments must effectively cross several borders. Each country involved will charge for their services, and these fees can rack up quickly. There are also costs associated with regulation, while currency conversion fees will be charged to convert one currency into another.

High costs can be challenging for businesses, banks, financial institutions, and even private payments. Historically, this last category was less likely to cross multiple borders, but even this is beginning to evolve as customers experience issues with traditional banking.

Consequently, the cross-border payments space has become increasingly competitive, and price will always be a factor, particularly for retail and consumer customers.

Regulatory compliance and legal issues

The complex nature of cross-border payment arrangements and the territories involved can lead to regulatory, compliance, and legal issues.

There are a variety of risks associated with cross-border transactions, which means that stringent checks and compliance procedures are involved with any such processes. This is necessary to protect both payees and senders against financial crime fraud, sanctions, and other potentially undesirable consequences. But while necessary, it can be both time-consuming and complex from a legal perspective.

The rules and processes associated with cross-border payments also differ depending on the gateway and bank, not to mention the territories involved. This can cause logistical problems, like payments getting declined for ambiguous reasons. Often the underlying rationale for this can seem unbelievably trivial, yet it can prevent essential payments from being processed satisfactorily.

The more borders and bank systems that payments pass through, the more likely issues like the above will occur, especially as different jurisdictions have different regulations. No matter how simple, payments can be subjected to unique checks depending on the countries involved.

The end result? A highly complicated process that can fall apart in several places, and the onus is always on the payee or business making the transaction to achieve regulatory compliance with all the laws and regulations involved. Failure to comply with regulations will undoubtedly result in declined payments but can also incur penalties, fines, and reputational damage.

Regulatory compliance becomes more complicated when dealing with emerging economies, too. Civil law systems can differ wildly between locations, posing more logistical and regulatory issues.

Security

Security is another major challenge and concern with cross-border payment processing. Businesses must ensure that information is handled securely at all times and that customer data is assiduously protected. Fraud and cyber attackers can access highly sensitive information if cross-border payments aren't adequately covered. Ensuring consumer confidence with international transactions is critical, particularly as theft from cross-border payments can be extremely difficult to deal with (or even trace).

Banks are equally interested in this process, as they may be unable to recover any stolen funds and suffer financial and reputational damage. Losses like this can be extremely costly when dealing with significant business payments, so achieving security is extremely important.

Security is another area where countries abide by their own particular regulations, meaning that arrangements for cross-border payment security can be complicated. If any cross-border payments are intercepted, reputational damage to financial institutions will be enormous, which is naturally something that all banks and providers wish to avoid. As mentioned, the regulatory environment can also be highly complex. So when combined with the different security arrangements across different countries, all cross-border payment providers must comply with all regulatory and security requirements.

For example, the UK, Japan, and EU member states have rigorous data privacy [4], including severe penalties for the unlawful collection of the disclosure of private information. And all of this needs to be considered with any form of cross-border payment.

Slow transactions

Moving money across borders takes time. Therefore, cross-border payments are often associated with being slow. Typically, cross-border payments have a turnaround time of two to five days — somewhat lengthy compared to domestic payments. Several factors can impact this period, with one of the most common delays being down to less commonly used currencies.

Slow processes largely occur because so many entities are involved in a single transaction. It's common for cross-border payments to attract numerous intermediaries, leading to a lengthy and laborious process. This irritates consumers and businesses in a world where we are accustomed to receiving services instantly.

A major point of comparison between cross-border payment systems is speed and convenience, even though the other factors mentioned previously, such as regulatory compliance and security, should always be in the mix. While international transactions may never be as quick as their domestic counterparts, organisations in this area must reduce processing times as much as possible to attract and retain customers. And thankfully, new solutions are improving the metrics in this area rapidly.[5]





Visibility and control

Transparency can be a significant complaint associated with cross-border payments. As an illustration, a survey conducted by SWIFT and EuroFinance discovered that 64% of corporations want real-time payment tracking capabilities included within cross-border payments. In comparison, 47% want better visibility regarding costs and deductions.[6] This transparency across payments is crucial for businesses that need to know that they aren't piling up hidden costs and can also make a significant difference in the retail market.

Tax and accounting

Aside from fees and costs, cross-border payments also tend to attract complex tax and accounting considerations. This is primarily because taxation systems differ significantly across various countries, like with legislation.

Taxation treaties have been agreed upon to address some of the issues, particularly to avoid payments incurring two forms of taxation. But even these forms of legislation are specific to individual countries, meaning that the two parties in a transaction may not ultimately be in the same legal circumstances.

Understanding your tax position is vital before engaging in cross-border payments as a business, and this can significantly impact larger payments in particular. Companies should ensure that any internal procedures require clarifying their tax position before any international contracts and associated cross-border payments. This should include any overseas tax implications and their domestic situation.

Due diligence should also see companies stay abreast of international tax regulations and legislation as this area evolves continuously. Ultimately, failure to comply with tax regulations is a serious matter, and businesses will typically want to ensure that they remain as little exposed to tax as possible while remaining within the boundaries of legislation.

Benefits of cross-border payments

While cross-border payments have several challenges, particularly compared to their domestic equivalents, the prospect of making an international payment shouldn't be too terrifying. The many benefits of cross-border payments ultimately make the effort and considerations worthwhile.

More flexible payments

Cross-border payments offer more flexible payments, particularly with modern API solutions. API, an acronym for Application Programming Interface, refers to software with a distinct function. And it's particularly useful for businesses that open up a range of methods for customers to purchase goods and services.

APIs also enable multi-currency account solutions, enabling businesses to receive payments from all over the world in various forms. This increased flexibility can help them scale to new markets, increase expansion, and more.

International commerce

The most obvious benefit of cross-border payments is that they allow merchants and purchasers to access international markets and consumers to buy goods and services from overseas. The cross-border payment market has become vast in recent years, with the B2C e-commerce market alone set to be worth \$8.15 trillion by 2026.[7]

It's almost untenable for any company to miss out on the opportunities associated with cross-border payments and access to the markets involved.

Emerging markets

Cross-border payments are also critical in reaching new customers or new suppliers in emerging markets. And this is becoming increasingly important, particularly due to the prominence of mobile commerce.

Businesses can reach customers or suppliers even in their local currencies. Cross-border payments are, in fact, one of the best ways to expand business opportunities into untapped regions and locations.

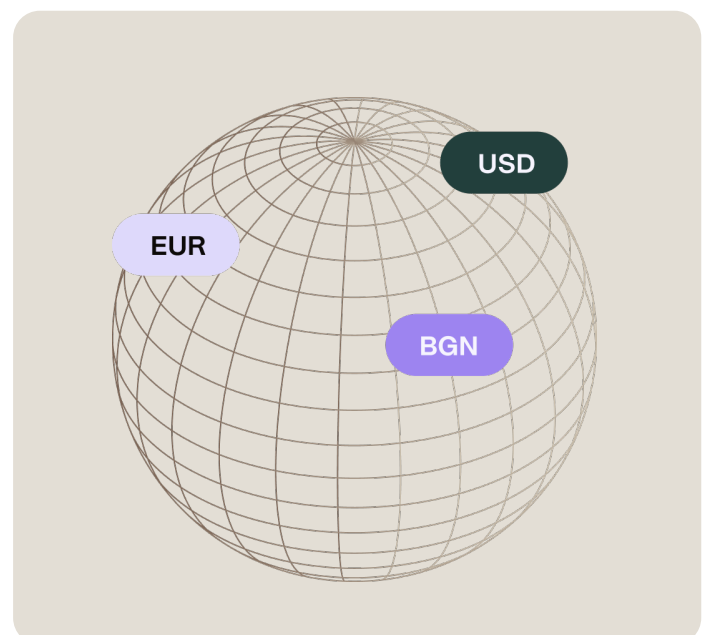
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Regulatory compliance becomes more complicated when dealing with emerging economies, too. Civil law systems can differ wildly between locations, posing more logistical and regulatory issues.



Asset and supply chain diversification

Assets and receiving payments: Another benefit of cross-border payments is that they can make it possible to diversify income and assets, spreading risk across a more extensive portfolio. By receiving cross-border payments, merchants can increase cash flow, provide a hedge against currency risks, and reduce dependency on a solitary market.

Supply chain and making payments: Cross-border payments are crucial for businesses seeking suppliers, too, because they offer access to a global network of options. And a wider net allows for competitive advantages, cost savings, specialised goods, innovation, and more. Plus, a wide spread of international suppliers provides diversification, resilience against disruptions, pathways for growth, and strategic partnership opportunities.

Gaining competitive advantage

This can very much depend on the form of cross-border payment system that you choose, but most modern API systems can help you achieve better exchange rates, more transparent transaction fees, and faster delivery times than traditional banks.

For example, with the Payhawk solution, 57% of international transfers are instant. Payment APIs enable real-time access and visibility and more competitive foreign exchange rates while using local payment rails to increase speed and reduce costs. Technologies such as Wise, WorldFirst, and PayPal have often been favourably compared to long-serving SWIFT.

By leveraging these innovative platforms, customers can make smarter decisions with real-time insights and data. And while costs are still involved, modern mechanisms minimise these as much as possible for consumers and businesses.

Technological advancement

Modern cross-border payment systems also enable technological advancements that make life easier and more convenient for customers.

Almost all cross-border payment platforms are mobile-enabled nowadays, meaning merchants can pay supplier invoices from multiple devices and locations. Features such as subscription management also make it possible to keep track of recurring invoice payments, letting businesses stay on top of payments no matter the final destination.

Efforts have also been made to standardise systems internationally, meaning that cross-border message standards and payment efficiency will steadily improve. Thankfully, this should lead to reduced wait times and increased API system functionality.





Making cross-border payments work for your business

There's a lot to consider when implementing a cross-border payment strategy, whether as a payer or payee. It's therefore important to make international payments work for you. Here are our biggest tips for making your business more cooperative with regional variations and procedures:

Mixture of payment methods

While cross-border payments can be seen as part of a globalised culture, it's also important not to forget local factors. Providing access to various appropriate payment types can help establish your reach or leverage a broader range of markets.

When it comes to accepting payments, these alternative payment methods can include cash, credit and debit cards, PayPal, major international card schemes such as MasterCard and Visa, Skrill, and Neteller, and some lesser-known local card schemes.

And for making payments, you should consider using a spend management solution that covers you for not only international payments, but also automated expense management, low FX fees, corporate credit and debit cards, multi-entity management, and more. Using an all-in-one solution means you don't have to worry about accessing multiple disconnected tools, and can instead get a clear single overview of company spend.

Bank Transfers

Businesses should also try and leverage bank transfers where possible, as transfer services offer speed and convenience advantages. With API solutions, customers can expect 57% of transfers to be instant and 90% to be complete in less than 24 hours. Furthermore, these systems don't require businesses to open multiple bank accounts to make payments in different currencies.

Some of the best spend management providers offer international bank payments as part of their solution. It's always worth checking out exactly what you get when test-driving any new fintech software to make sure you get the most time and cost-effective option out there.

Digital and Mobile Wallets

E-wallets allow users to store preferred payment cards and pay for items securely. E-wallets also make it possible to move money from bank accounts across countries in multiple currencies, enabling customers to store a range of credit and debit cards and other payment methods. Digital wallet solutions such as Google Pay and Apple Pay are widely used across multiple markets.

Summary

In summary, cross-border payments empower businesses to expand their reach, diversify their operations, optimise costs, and leverage international opportunities, fostering growth and competitiveness in a globalised economy.

Of course, there are challenges, but the benefits outweigh the investment involved. Businesses intending to extend their global reach via cross-border payments should consider the value of local variations, as well as using modern API solutions.



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About Payhawk

Payhawk is a leading spend management solution for domestic and international businesses throughout Europe, the US, and the UK. Combining company cards, reimbursable expenses, accounts payable, and seamless accounting software integrations into a single product, Payhawk makes business payments easy — for everyone. Payhawk helps customers in over 32 countries to maximise efficiency, control spending at scale, and stay agile. With offices in London, Berlin, Barcelona, Paris, Amsterdam, Vilnius, Sofia, and New York, Payhawk's diverse customer base includes top names like LuxAir, Babbel, Vinted, Wallbox, and Wagestream.

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