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The Dynamic Nature of Cross-border Payments in Asia

A look at how the increasingly competitive cross-border payments market in Asia is impacting the region's financial institutions



A report from Kapronasia in
collaboration with Finastra



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Methodology

The Dynamic Nature of Cross-border Payments in Asia report was written by Kapronasia in collaboration with Finastra.

Research for the report included secondary research which consisted of existing and new datasets from Kapronasia's databases as well as various reports, news articles, and commentaries in the media. Primary research included discussions with various market participants including banks and payment providers.



Executive Summary

Global cross-border payment volume is booming, driven by increased economic connectivity and rapid advances in technology. Traditional financial institutions, Big Tech, and fintech upstarts are all vying for their respective share of an estimated US\$156 trillion market.¹

Amid the cross-border payment surge, various alternative payment rails executing real-time or near real-time transactions have sprung up. These rails are provided by fintechs, card companies, platform companies, cross-border QR-based payments networks, blockchain networks, and even incumbent banks.

These rails have emerged in response to market trends, including fickle customers, extreme sensitivity to price and service, heightened expectations, and growth in remittances. Given their competitive cost, convenience, speed, and transparency, these new rails are becoming integral to cross-border payments, though banks continue to rely heavily on the SWIFT network and traditional correspondent banking arrangements.

The sheer number of rails has led to intense market competition that is gradually redefining the cross-border payments landscape. Financial

institutions and fintechs sometimes cooperate on one currency corridor and compete on another.

The alternative payment rail boom comes as banks are working to align their technology infrastructure with ISO 20022 and API-based connectivity. Since the new standard (ISO2022) is projected to support 80% of transaction volumes and 87% of transaction value worldwide by 2025, banks have an impetus to update cumbersome legacy information technology (IT) infrastructure to support the new standard.² Expected benefits include the opportunity for higher revenue, better compliance, and the reduction in cost per transaction enabled by more robust operational efficiency.

To best take advantage of the cross-border payments opportunities afforded by the new rails, banks should work with payment solution partners who can help them maximize their existing benefits while transitioning from legacy payment systems to transparent, innovative, and agile next-gen payment systems. State-of-the-art technology can ultimately deliver new functionality for banks quickly with less risk.

1 Florian Seeh, "How new entrants are redefining cross-border payments," Ernst & Young, https://www.ey.com/en_tw/banking-capital-markets/how-new-entrants-are-redefining-cross-border-payments

2 Britta Kotthaus-Krahmer, "The Challenge and Impact of ISO 20022 for banks," Accenture, <https://bankingblog.accenture.com/iso-20022-for-banks>

The State of Cross-border Payments in Asia Pacific

The Asia-Pacific region, home to 60% of the world's population and most of its fastest-growing economies, is at an inflection point for cross-border payments. It is the most significant contributor to global payments revenue, generating over US\$900 billion in 2019, almost half the global total (Figure 1).³ In ASEAN countries alone, digital payments reached US\$707 billion in volume in 2021 and are projected to reach US\$1.7 trillion by 2025.⁴

Asia is also the world's largest receiver of remittances. On average, the Asia-Pacific region accounted for an estimated 63.4% of the total increase in global remittances in 2021 and 2022.⁵ Of the top five remittance-receiving countries in the world, three are located in Asia: India (No. 1), China (No. 3) and the Philippines (No. 4).⁶

"Currently, the state of cross-border payments is very healthy in Asia," says Rhidoi

Krishnakumar, Singapore-based Regional Head of Cross-border Payments in DBS Bank's Digital Payments Group. "It is growing at a faster pace than other geographies; there is greater payment innovation, and ASEAN is leading the way towards RTP [real-time payment] rail interconnectivity. These developments "are good for the consumer," he adds.

"Asia has always been a major focus for us," says Bernard Ginalski, Senior Director of Customer Success, Asia Pacific for enterprise blockchain and crypto solutions company Ripple. "Asian customers are leading the way. They are really the most open in terms of adopting this new technology."

"Looking at markets where you see a lot of migrant worker flows, Singapore, for example, or even Australia, we see quite a lot of success in that space," he adds.

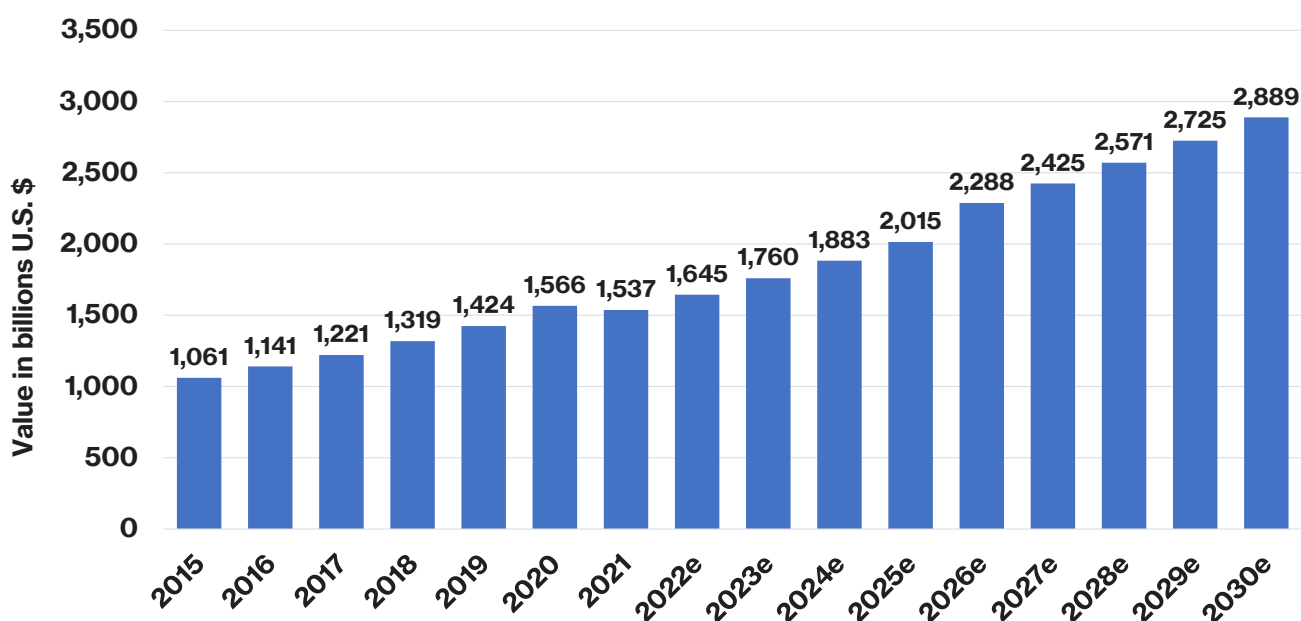
³ McKinsey & Company, Global Banking Practice, "The future of payments in Asia," https://www.mckinsey.com/-/media/mckinsey/industries/financial_services/our_insights/the_next_frontier_in_asia_payments/the_future_of_payments_in_asia_vf.pdf

⁴ Vikas Rajpal, "The payments promise in ASEAN: how to unlock it?," Accenture Southeast Asia Blog, <https://www.accenture.com/sg-en/blogs/southeast-asia-blog/the-payments-promise-in-asean-how-to-unlock-it>

⁵ Asian Development Bank, ADB Briefs, "Labor Mobility and Remittances in Asia and the Pacific during and after the COVID-19 Pandemic," <https://www.adb.org/sites/default/files/publication/761401/adb-brief-204-labor-mobility-remittances-asia-pacific-covid-19.pdf>

⁶ World Bank, "Remittances to Reach \$630 billion in 2022 with Record Flows into Ukraine," <https://www.worldbank.org/en/news/press-release/2022/05/11/remittances-to-reach-630-billion-in-2022-with-record-flows-into-ukraine>

Figure 1
Global Payments Revenue, 2015-2030e



Source: Kapronasia Analysis, BCG, McKinsey

Yet despite the healthy state of the market, many challenges remain for cross-border payments in Asia. Financial inclusion varies dramatically in the region. Bank penetration is among the highest in the world in rich Asian countries such as Japan and Singapore. However, about 42% of the population of ASEAN countries is unbanked.⁷ There is also a significant underbanked population.

At the same time, the coverage of the traditional correspondent banking network in Asia Pacific has been shrinking. "Over the past decade, there has been a tremendous consolidation in the number of correspondent banking providers maintained by most financial institutions," says Deepan Dagur, Head of Visa Direct, Asia Pacific. He notes that the rising cost of maintaining KYC requirements for multiple bank relationships is a key reason for consolidation across infrastructure, compliance, and relationship managers.

"A major challenge for banks is maintaining reach to keep your sending customers happy as you consolidate correspondent banking partnerships," Dagur says. "If you exit ten bank

partners and they were your local currency clearers in respective markets, then that is a gap that needs to be filled."

"Currently, the state of cross-border payments is very healthy in Asia. It is growing at a faster pace than other geographies; there is greater payment innovation, and ASEAN is leading the way towards real-time payment rail interconnectivity"

Rhidoi Krishnakumar, Regional Head of Cross-border Payments, DBS Digital Payments Group

Increasingly, alternative payment rails are offering ways to fill those gaps. There has indeed been a rapid disruption in Asia's cross-border payments market "by both fintechs and established players upping the game," says Sandeep Malhotra, Executive Vice President of Products & Innovation in Asia Pacific for Mastercard.

⁷ Fitch Ratings, "Digital banks in South-East Asia," <https://www.fitchratings.com/research/banks/digital-banks-in-south-east-asia-19-08-2020>



A Growing Network of Alternative Rails

Due to the lucrative payments market and the fact that there has not been much innovation by traditional players, a plethora of alternative payment rails have emerged in recent years to meet customer demand for faster, cheaper and more transparent cross-border payment solutions. In some cases, existing financial institutions, whether card companies or banks, have created new payment channels. Governments have taken the initiative in others, as in some major initiatives in Southeast Asia and India. And, of course, fintech companies have been among the most active and successful in this fast-growing space. Many of these started with primarily retail-focused solutions, but have also developed a healthy B2B business as well.

Fintech disruptors

Fintechs are among the most innovative and ambitious of the alternative payment rail providers. UK-based Wise (formerly TransferWise) is one of the most prominent and successful. Established in 2011 as a money-transfer service that sought to reduce the cost of sending money internationally, Wise reached profitability in just five years and debuted on the London Stock Exchange in 2021 in a direct listing that valued it at US\$11 billion.

Wise has been successful by building an innovative peer-to-peer currency exchange platform. Rather than facilitating transfers and taking a cut like an incumbent bank, Wise has its own network of pooled bank accounts in different countries. The recipient can use either a Wise or traditional bank account to receive funds, minimizing friction. Since the funds usually do not cross international borders, Wise is usually cheaper and faster than traditional correspondent banking. Further, Wise serves as a platform for third parties, enabling its partners to integrate its open API directly into their infrastructure.

Wise has made steady inroads in Asia Pacific thanks to its many competitive strengths and now has a more significant regional presence than most Western payment fintechs. In 2020, it inked a deal with Singapore-based Aspire

- the UK firm's first API partnership in Asia – enabling the neobank to provide international money transfers with no exchange rate markups. That same year, Wise also reached an agreement with Alibaba to allow Wise's customers to pay Alipay users in renminbi from 17 currencies, with the money instantly transferred into the bank account tied to the recipient's Alipay e-wallet. This tie-up gives Wise access to the world's No. 2 remittance-receiving market. China received US\$53 billion in remittances in 2021.⁸

Melbourne-founded but Hong Kong-headquartered Airwallex is another fintech disruptor with big cross-border payments ambitions. Founded in 2015, it reached unicorn status by 2019 and now offers cross-border payment services to 130 countries.



⁸ World Bank, <https://www.worldbank.org/en/news/press-release/2022/05/11/remittances-to-reach-630-billion-in-2022-with-record-flows-into-ukraine>

Airwallex enjoyed initial success by carving out a niche providing fast and inexpensive online cross-border payments services between China and Australia, where banks are notorious for high forex fees. The World Bank estimates that sending money overseas from Australia is roughly 11% costlier than the G20 average, 13% more than the UK and nearly 40% higher than the US.⁹ Key Airwallex customers include large Chinese internet companies like Tencent, JD.com, Ctrip.com and Trip.com. The Australian company has a tie-up with Tencent's WeChat super app that allows merchants in Australia, Hong Kong and Singapore to accept payments from the e-wallet WeChat Pay, which has 800 million users in China.

Buoyed by its expeditious growth, Airwallex increasingly has global ambitions. Co-founder Lucy Liu said in 2019: "Our vision is to become the fundamental infrastructure for online businesses and SMEs to scale."¹⁰

Meanwhile, Singapore-based Nium has cultivated a competitive advantage by bridging gaps in global financial infrastructure. The company offers its API-based solutions in a modular framework, allowing customers to pick and choose whichever solutions best fit their needs.

Banks, payment providers and other businesses that connect to the Nium platform can pay out in more than 100 currencies to over 190 countries – 85 in real time. Funds can be received in 33 markets.¹¹

"Businesses can access our payment technology at scale, with the freedom to integrate our solutions with their existing stack, or create an entirely new product from scratch," Nium CEO and co-founder Prajit Nanu told Tech Collective. Nium pilots new products and services in Singapore and Australia first, "both markets known for their ease of doing business and administrative efficiency," before expanding elsewhere. This strategy has allowed the company to significantly shorten its go-to market time.¹²

Like Wise and Airwallex, Nium has grown at an expeditious clip. Founded in 2014, it reached unicorn status in 2021, just seven years after its founding, and is now valued at US\$2 billion, with revenue expected to top US\$150 million this year.¹³

9 Australian Competition & Consumer Commission, "Australians paying millions too much for foreign currency services," <https://www.accc.gov.au/media-release/australians-paying-millions-too-much-for-foreign-currency-services>

10 Michelle Chan, "Fintech unicorn rewrites forex rules to snag big bank profits," Nikkei Asia, <https://asia.nikkei.com/Spotlight/Startups-in-Asia/Fintech-unicorn-rewrites-forex-rules-to-snap-big-bank-profits>

11 Nium Pay In, <https://www.nium.com/pay-in>

12 Tech Collective, "From zero to 100; the story of Nium," <https://techcollective.com/2020/12/22/from-zero-to-100-the-story-of-nium/>

13 Ryan Browne, "Singapore start-up Nium seeks up to \$400 million in deals to take on Europe's crowded fintech market," CNBC, <https://www.cnbc.com/2022/04/29/singapore-fintech-nium-plans-aggressive-expansion-in-europe.html>





Existing card players launch new payment solutions

Some of the world's largest card companies are increasingly active in the cross-border payments space. Mastercard, eServGlobal, and BICS launched HomeSend in 2014, a joint venture enabling business-to-business cross-border and cross-network transfers. Mastercard then subsequently acquired Transfast, a global payments company, in 2019.

The launch of Homesend and acquisition of Transfast have allowed the card giant to move beyond an initial focus on low-value remittances given their providing "the infrastructural backbone needed to enable cross-border payouts in over 140 countries, several of them in real-time. The same infrastructure is now being leveraged for business payments such as overseas invoice payments, payroll, and disbursements," Mastercard's Malhotra says.

"Business flows such as trade payments and disbursements are still dominated by legacy solutions and offer a very large opportunity for Mastercard," he adds.

Meanwhile, coinciding with the cross-border payments boom in Asia Pacific, "there is strong growth in flows to new 'endpoints' like digital wallets. We are seeing a growing proportion of remittance volumes, in particular geographies, directed to the wallets," says DBS's Krishnakumar. He notes that e-wallets like GCash in the Philippines and BKash in Bangladesh are growing in popularity. For DBS, "it is a priority to build connectivity to these endpoints."

However, not that many banks have the scale to build connectivity to endpoints independently. Alternatively, "banks can work with aggregators or others who would allow a bank to land that cross-border payment into a bank account, digital wallet, or a card," says Visa's Dagur. Ideally, banks can find "a unified integrated solution that helps with the breadth of geographic reach with the plurality of these endpoints, doing it with one integration lift," he says.

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**Head of Visa Direct, Asia Pacific,
Deepan Dagur**

In the case of Visa Direct, banks can tap a vast electronic payments network to reach new endpoints. The Visa Direct network offers multi-rail access to 7 billion endpoints in 180 markets supporting 160 currencies. It connects to 16 card-based networks, 65 domestic automated clearing house (ACH) schemes, seven real-time payment (RTP) networks and five payment gateways.¹⁴ In 2021, Visa Direct processed more than 5.9 billion transactions.¹⁵ By enabling Visa Direct with a single connection, bank, remitter, and fintech clients are able to offer multiple payment options for sending money domestically or internationally to bank accounts, cards, and digital wallets.

¹⁴ Visa, "Visa Expands Global Money Movement Capabilities Beyond the Card with Visa Direct Payouts," <https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.17826.html>

¹⁵ Visa, Visa Direct, helping transform global money movement," <https://usa.visa.com/run-your-business/visa-direct.html>

Leveraging existing regional bank networks

Among incumbent lenders in Asia Pacific, DBS has been one of the most successful leveraging its existing bank network to compete with alternative payment rails. In 2012 it launched its international digital remittance service DBS Remit to speed up and eliminate fees associated with international money transfers.

DBS has accomplished what it set out to do. Today, DBS Remit delivers funds to over 50 countries on a same-day, zero fee basis. It offers competitive rates and has enabled new corridors like the UAE and Bangladesh along with new digital wallets like GCash (Philippines) and BKash (Bangladesh). In addition to serving as a bank, DBS sees itself as a fintech money transfer operator similar to Skrill, Nium, and Wise.

In its 2021 annual report, DBS said DBS Remit recorded a 24% volume increase for the year, a strong performance though below what the 2020 annual report called "exceptional growth" when volumes rose 38%.^{16 17}

Government-led cross-border network connectivity

Several central banks in the Asia-Pacific region as well as other state-owned actors have developed payment rails with promising cross-border applications. Southeast Asia has been the most active region, likely because of the deep economic links among ASEAN countries and the financial inclusion benefits of these new rails.

In May 2021, Singapore and Thailand made cross-border payments history when they connected their respective central bank domestic real time payments scheme PayNow-PromptPay for funds transfer. The service allows users to make transfers between Singapore and Thailand bank accounts seamlessly with the use of registered mobile numbers, the first linkage of its kind globally. The PayNow/PromptPay linkage could be a game changer for several reasons.

Firstly, money transfers of up to US\$1,000/25,000 baht are possible with just a mobile number for customers of participating banks. Secondly, transfers are completed in minutes, compared to one to two working days for most cross-border remittances. Finally, backed by the Monetary Authority of Singapore (MAS) and Bank of Thailand (BOT) respectively, PayNow and PromptPay have strong central bank support that will ensure they do not encounter regulatory travails that sometimes trip up fintech disruptors.

At the same time, the MAS and BOT intend to work with their counterparts throughout Southeast Asia to build an interconnected regional payments ecosystem. In June 2021, Thailand and Malaysia completed the first phase of the connection of their respective PromptPay and DuitNow systems. Singapore's PayNow and DuitNow will be linked in stages from the fourth quarter of 2022. Further, in late August, the MAS and Bank Indonesia (BI) announced they would begin work on a cross-border QR payment linkage between their two countries as part of the ASEAN-wide payments connectivity effort. The targeted launch is the second half of 2023.¹⁸

For its part, the National Payments Corporation of India (NPCI) aims to build on the tremendous domestic success of its United Payments Interface (UPI) rail in the cross-border space. In FY2022, UPI processed more than 46 billion transactions that reached about Rs 84.17 (more than US\$1 trillion) in volume. That performance more than doubled that of FY2021.¹⁹

Integral to UPI's success has been the ability to connect the payment rail to so many banks. All that is required to link a bank account to UPI is a mobile number registered with that account. "India plowed ahead of everyone else and has over 300 banks on UPI," says DBS's Krishnakumar.

Looking ahead, NPCI believes that its open protocol upon which other technologies can be built will allow it to develop a more user-friendly network than its competitors for payments. NPCI is focusing on global markets where it

16 DBS, "DBS Group Holdings Ltd Annual Report 2021," <https://www.dbs.com/annualreports/2021/files/media/dbs-annual-report-2021.pdf>

17 DBS, DBS Group Holdings Ltd Annual Report 2020, <https://www.dbs.com/annualreports/2020/files/media/dbs-annual-report-2020.pdf>

18 Monetary Authority of Singapore, "Indonesia and Singapore to Pursue Cross-border QR Code Payments Connectivity and Explore Promoting the Use of Local Currencies for Bilateral Transactions," <https://www.mas.gov.sg/news/media-releases/2022/indonesia-and-singapore-cross-border-qr-code-payments-connectivity-and-use-of-local-currencies-for-bilateral-transactions>

19 Subrata Panda, "UPI processes over 6.5 billion transactions in August worth Rs 10.72 trn," Business Standard, https://www.business-standard.com/article/companies/upi-digital-payment-transaction-value-touches-rs-10-73-trillion-in-august-122090100412_1.html

can capitalize on strong demand for outbound remittances given India's paramountcy as a remittance recipient. Thus far, UPI has expanded to the UAE (one of the top sources of remittances to India) as well as Singapore thanks to its link-up with PayNow, and recently expanded into Nepal and France.

Blockchain and distributed ledger technology (DLT)

Finally, at the frontier of alternative payment rails in Asia Pacific are blockchain and distributed ledger technology (DLT). Ripple is one of the most prominent firms in this space, which offers blockchain-based real-time cross-border payments services. With its global payments network RippleNet, Ripple aims to provide one frictionless experience to send money globally. All transactions made using RippleNet's On-Demand Liquidity (ODL) solution are recorded on the open-source, decentralized XRP Ledger (XRPL). By utilizing the XRPL's native digital asset XRP as a bridge currency between two fiat currencies, ODL removes the need to pre-fund destination accounts, thereby enabling instant and low-cost settlement 24/7, year round. RippleNet ended 2021 with a payment volume run rate of more than US\$10 billion and expanded its ODL product to over 40 destination markets.²⁰

Singapore-based Partior is a blockchain-enabled network for value exchange backed by Temasek, DBS, J.P. Morgan, and most recently, Standard Chartered Bank. Partior was born out of Project Ubin, a project led by the Monetary Authority of Singapore (MAS) and ecosystem players in the financial industry to explore the use of DLT in payments and securities clearing and settlements. Partior innovates around traditional cross-border payments infrastructure with its blockchain-based network and supports commercial bank money (M1) and central bank money (M0), to facilitate instantaneous global value exchange.

"The shape of money is transforming with digital currencies, and this is creating opportunities for early movers to solve pain points for global finance," says Atul Bhuchar, the company's Head of Product.

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Head of Product, Partior

Partior has grown from its initial US Dollar – Singapore Dollar settlement service and is currently onboarding 14 key global currencies including the Pound Sterling, Euro, Australian Dollar, Japanese Yen, Offshore Renminbi, and Hong Kong Dollar.

"There are two main dimensions to the benefits of Partior's services for financial institutions," says Bhuchar. "On one hand, Partior boosts the efficiency of transactions, from reduced costs to improved speeds, availability (24/7), traceability, and transparency, all while facilitating concurrent messaging standards and frictionless value movement. This runs in tandem with our continuous drive for innovation as we enable programmability, interoperability, and atomic settlements, among others."

On blockchain-enabled atomic settlements, Bhuchar says, "There are multiple legs to a transaction for a payment or the exchange of multiple assets which can be simultaneously executed as atomic settlements on blockchain. Enabling these settlements serve to advance blockchain utility and the use-cases across Payment versus Payment (PvP) for FX settlements and Delivery versus Payments (DvP)."

²⁰ Team Ripple, The Ripple Drop: Growing Crypto Liquidity, Banner Year for RippleNet and Ripple Liquidity Hub, <https://ripple.com/insights/the-ripple-drop-growing-crypto-liquidity/>

Navigating the Bevy of Payment Rails

Optimizing opportunities afforded by the plethora of new payment rail choices is no easy task for banks. There are several key factors to consider, including counterparty risk, compliance obligations, operational acumen, pricing, and service level.

SWIFT gpi & SWIFT Go

For large-value cross-border payments, SWIFT remains an attractive option thanks to the advent of SWIFT global payment innovation (gpi), which uses real-time tracking and credit data to accelerate payment speed, with a median processing time of under two hours. Yet payment speeds vary dramatically depending on the route, with a median speed of under five minutes on the speediest routes to more than two days on the slowest.²¹

Longer processing times are more prevalent in developing countries due to capital controls and related compliance processes, relatively weak competition, limited operating hours, and the use of batch processing by beneficiary banks. By one estimate, when countries with regulatory barriers and capital controls are excluded, then almost 50% of gpi payments arrive in under 30 minutes.²²

To be still relevant for low-value cross-border payments, SWIFT Launched SWIFT Go, a fast, cost-effective service for low-value cross-border payments. SWIFT Go enables financial institutions to offer a seamless payment experience for low value transactions often initiated by small- and medium-sized enterprises (SMEs) to pay suppliers overseas and consumers sending money.

DBS continues to be an extensive user of SWIFT across its consumer and corporate payment channels, says Krishnakumar of DBS Bank. SWIFT is just a messaging layer through which payments are processed. The core commercial arrangements leading to the historically high costs are agreed amongst banks. The network is highly secure, encrypted and provides a lot of other value-added services."

Of SWIFT's efforts to improve the speed of cross-border payments and transparency, he says, "They are playing catch up to some extent and have launched new features to ensure utilization of the network for low-value payments."

He says that DBS does work with alternative payment rails for consumer flows, though it's a small proportion of their overall remittance flows. However, "in a Singapore outbound remittance context, DBS is well ahead of the game," he says.

Big opportunities in small payments

One of the most important opportunities that new payment rails will provide to banks will be in small payments rather than the large transactions that have historically dominated the cross-border space. These types of payments, such as a purchase on an e-commerce platform or a worker's remittance, rely more on local currencies than the US dollar, are more price sensitive than large transactions, and require greater interoperability between bank accounts and wallets. These payments are growing exponentially in the pandemic-induced shift to online transactions.

²¹ Bank of International Settlements, Committee on Payments and Market Infrastructures. "SWIFT gpi data indicate drivers of fast cross-border payments," https://www.bis.org/cpmi/publ/swift_gpi.pdf

²² Damien Dugauquier, "Cross-border Payment rails: the race is on!," <https://www.linkedin.com/pulse/cross-border-payment-rails-race-damien-dugauquier>



Banks and financial institutions are exploring opportunities with alternative rails such as Ripple to capture a greater share of these low-value payments. Regional banks in Asia Pacific that lack vast correspondent banking networks often sign up with RippleNet as an alternative to SWIFT, says Ripple's Ginalski. "Some of them look at us as a way to generate more demand." For this type of customer, "we help them build a solid pipeline, so the moment they open one of the alternative rails they can quickly acquire a lot of senders and switch from the traditional type of SWIFT transaction to the new emerging payment rail combined with a better 24/7 fund-delivery experience."

He notes that in Thailand a bank built its whole mobile payment app experience with RippleNet as an engine supporting that flow. The bank "built a new channel from scratch; that app only allows you to do a cross-border transaction using that channel, not SWIFT, and they are very successful in capturing market share. They do not want to cannibalize the traditional correspondent banking business, but they are mindful that unless they do something with alternative rails they are going to lose that market share to fintechs and everyone else."

However, large global banks view alternative payment rails differently. "In our view, the big global banks will be the last to make a significant move to the new rails. From the perspectives of these banks, such as JPMorgan, Citibank and HSBC, they sit on the largest amount of liquidity – there is a lot of trapped liquidity there – and they are the ones who benefit from the current system of correspondent banking. They do not have much incentive to look for new solutions," says Ripple's Ginalski.

The low-value transactions market is a priority for Singapore-based cross-border payments fintech Thunes, which focuses on the US\$15 trillion of smaller payments currently transferred across SWIFT, which can be as low as US\$50. For smaller payments, price sensitivity is a concern. "If you pay someone, currently in an emerging market, say US\$250, it can cost in the traditional system say US\$50 to make the transfer. And the person will have to wait a day or two to receive the payment," Thunes CEO Peter De Caluwe told Verdict.

Thunes likens its expansion to an expanding railway network, laying down the rails over which the payments pass. With each additional station added, the larger the network grows, and the more users can send and receive cross-border payments.

Collaboration with Payment Solution Providers

Financial software solution providers provide the technology stacks that allow banks to process cross-border payments efficiently as well as provide seamless access to that burgeoning network of payment rails. In September 2022, Finastra and Visa announced a Banking as a Service (BaaS) collaboration to co-develop new functionality on its Payments Hub solutions and implement Visa Direct – which provides access to more than two billion accounts through push to account offerings.

"Innovation in cross-border money movement is accelerating at an incredible pace and banks are under pressure to quickly implement and launch programs for their customers that stay ahead of their expectations," says Ruben Salazar Genovez, SVP, Global Head of Visa Direct.²³

Finastra has also developed a payment hub solution to help financial institutions use legacy technology to take advantage of growing cross-border payments opportunities. Fusion Global PAYplus enables financial institutions to consolidate silos of legacy payment operations into a shared payment services hub that can be deployed globally while controlled locally. This model lowers risk, simplifies administration, and reduces operating cost. Based on an API and microservice-enabled platform, it can be smoothly integrated with a financial institution's existing technology infrastructure.

In the Asia-Pacific region, GlobalPAYplus has gained a strong foothold. In less than three years, one of Asia's largest banks successfully implemented it in 40 countries across 29 territories. At another of Asia's biggest banks, Fusion Global PAYplus was implemented at 14 branches across 12 countries in just one year. As a result, the bank has been able to retire over 50 systems worldwide. Further, using the payment hub, a leading global Asia-based bank achieved an STP rate of over 97%.²⁴

²³ <https://www.finastra.com/press-media/finastra-and-visa-announce-global-baas-offering-integrating-visa-direct>

²⁴ Finastra, Fusion Global PAYplus, "Enabling Payments Transformation and Innovation to Deliver Customer Value," <https://www.finastra.com/sites/default/files/>



Conclusions

While today's global US\$156 trillion cross-border payments market has reached an impressive size, it is poised to grow an additional 63% in the next five years, reaching US\$250 trillion by 2027.²⁵ With its convergence of fast economic growth, digitization of financial services and deepening interconnectivity among key markets, the Asia-Pacific region offers banks some of the most promising opportunities in cross-border payments anywhere in the world.

Yet to take full advantage of these opportunities, banks will need to make a strategic decision: whether they want to make payments a part of their core offering or have it as an auxiliary service? "Banks who offer their own payments service need to invest in building their own network of payout banks," says Ripple's Ginalski. While there are costs involved in that process, those have to be weighed against the cut a third party takes if a bank outsources payments.

"Since it is a race to zero on fees with all the fintechs, a bank that does choose to build its own network needs to have a certain scale for it to be feasible," Ginalski adds.

Either way, it will be increasingly important for banks to have seamless access to key alternative payment rails increasingly used by their customers. There is no one-size-fits-all rail, but there are key factors that must be considered when choosing them. These include speed, the degree to which processing is frictionless,

pricing competitiveness and predictability, scalability of the aggregation model, the number of corridors and currencies to which access is provided, disbursement capabilities and interoperability with wallets.

E-wallets may not seem to pose a direct threat to banks – after all, many link to a bank account – but they are becoming among the most important new endpoints for payments. "Not everyone in Asia has a bank account," says Visa Direct's Dagur. He notes that in the case of smaller average transaction size, and/or if the receiver lacks a bank account, the money still must reach that person. Historically, there were informal channels for such transactions and options such as international money orders. "In many developing Asian countries today, there are more digital wallets than there are bank accounts. So, from a financial inclusion standpoint, there is a requirement for alternative endpoints," he says.

Case in point: In 2021 Google Pay moved into the US\$470 billion workers' remittance market via partnerships with Wise and Western Union to facilitate transfers from the U.S. to Singapore and India. 280 trade corridor country interactions were planned by the end of 2021, highlighting how alternative payment providers, promising lower fees and greater convenience, can join forces to challenge banks in segments they previously dominated.

documents/2018/04/brochure-fusion-global-payplus.pdf

²⁵ Bank of England, "Cross-border payments," <https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments>

UK fintech Revolut has more than 18 million customers globally and is also moving into Asia's booming remittances market. In February, Revolut acquired Indian international money transfer firm Arvog Forex for an undisclosed sum. This acquisition will allow Revolut to launch a cross-border remittance service for Indian customers soon.²⁶

Not only is India the world's largest receiver of remittances, but in 2021, despite pandemic-induced disruptions to the global economy, the subcontinent's remittances grew 4.6% annually to US\$87 billion. Since sending money to India through traditional channels is usually pricey, Revolut has a significant market opportunity if it can offer cheaper services that are also faster and more convenient.

Revolut India CEO Paroma Chatterjee expressed confidence about the company's India prospects in a statement. "This is the first step towards our aspiration to usher in a digital financial revolution in India," she said.²⁷

Ultimately, "banks may need to get more comfortable utilizing non-bank payment infrastructures to access new end-points and real-time rails. Their customers are going to benefit greatly and enhance the Bank's suite of digital products and services," says DBS's Krishnakumar.

Noting that alternative payment rails have quickly grown their networks, he adds, "It may be a matter of time before some banks develop hybrid payment networks; however, their ability to capture this opportunity also depends heavily on technology capabilities and execution."

²⁶ The Economic Times, "Revolut makes first acquisition in India through money transfer firm Arvog Forex," <https://economictimes.indiatimes.com/tech/tech-bytes/revolut-makes-first-acquisition-in-india-through-money-transfer-firm-arvog-forex/articleshow/89516770.cms>

²⁷ Revolut Blog, "Revolut acquires Indian forex business as it advances multi-million dollar India expansion plan," https://www.revolut.com/news/revolut_acquires_indian_forex_business_as_it_advances_multi_million_dollar_india_expansion_plan/





Closing Thoughts from Finastra

Today, the global Payments industry is at the cusp of a digital transformation. The continuous upgrade of payments infrastructure driven by increasing customer demands, evolving consumer behaviors, and the entry of fintech startups is rapidly changing the industry. Cross-border payments, a historically lucrative revenue stream for banks, have witnessed a huge increase in volumes due to increasing cross-border trade and the proliferation of e-commerce.

The banking landscape in the APAC region has also been revolutionized by the introduction of digital banks, which have been steadily eating away the revenues of traditional banks by focusing on innovation and customer experience. As explained in the report, recent developments in cross-border payments have opened the door to similar disruption from fintech, Card companies, and Big Tech players and have revolutionized traditional correspondent banking, a model that has historically been complex and particularly unsuitable for low-value payments. New players have started entering the market by addressing pain points around cost, transparency, and speed of payments.

The APAC region is home to around 60% of the world's population, 45% of whom are millennials, who are generally open to new experiences and willing to adopt new digital payment or money transfer methods. SMEs also quickly embraced digital to survive the impacts of the COVID pandemic.

Additionally, we see concerted efforts from numerous governments in the region in the form of policy measures and real-time & cross-border real-time payments infrastructure investments to disincentivize the use of cash and incentivize the use of digital payments. In fact, the pandemic significantly boosted digital payments in APAC, almost compelling the masses to adopt digital payments.

Digital payments have many benefits, both for consumers and businesses. Banks, the key stakeholders in the ecosystem, are also acknowledging the speed of this transformation and realize the need to act fast instead of remaining hostage to disruption. There are also multiple opportunities that banks can seize to stay relevant in this rapidly evolving space. They must focus on overhauling their legacy systems to support the new standard and quickly roll-out new payment rails to unlock the potential for increased revenue, better compliance and enhanced operational efficiency.

As a leader in the Payments Solution space, with a mission to provide the most relevant solutions and support to financial institutions for the successful adoption of digital payments, Finastra is a trusted partner for Banks on their payments modernization journey. Our next-generation Payments Hub solution for the implementation of cross-border payments rail is an assurance that your customers will receive the best-in-class services and experiences that they will expect in the Future of Payments.

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