
# Cross-border payment strategies

## Building winning solutions for seamless, secure and fast global money movement

Innovations in cross-border money movement are transforming the way businesses send money overseas. There has been a significant increase in cross-border transactions in the past several years and this growth is expected to continue. Notwithstanding this expansion, the process of moving money across international boundaries can be unpredictable and costly. As a result, the cross-border process is ripe for disruption. There are technologies and frameworks available to innovate the cross-border payment experience to respond to the desire for speed, predictability, and reliability.

# Cross-border payments are on a significant growth trajectory

Cross-border money movement is a significant part of the global payments ecosystem and the volume of international transactions is consistently growing. Consumers transferred **$589 billion** in international remittances in 2021 (a YOY increase of 7%)[1], but this number is overshadowed by cross-border transactions completed by businesses. Businesses processed approximately **$145 trillion** in cross-border transaction value in 2021, yielding a compounded annual growth rate (CAGR) of **5%** since 2018[2].

## Global cross-border payments flows by use case

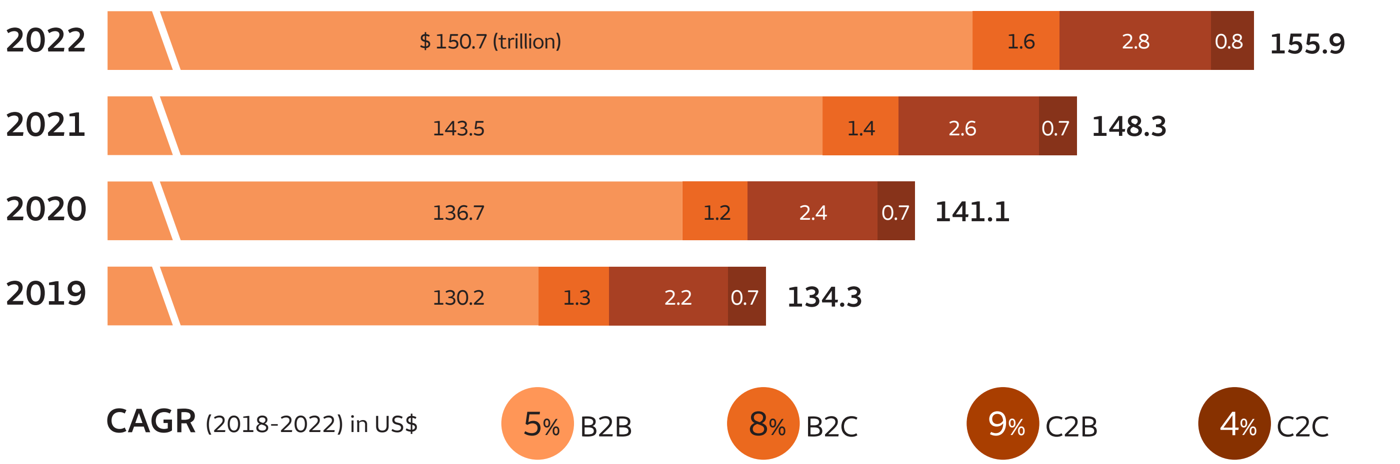



*Figure 1* - Source: Ernst & Young Global Limited

The growth of **cross-border money movement** is driven by several factors:

- The growth of international trade.
- The digitization and ease of modern money movement.
- The growth of e-commerce, as a result of the global pandemic.
- New entrants and fintechs driving the adoption of digital technology.

Due to the rapid expansion of cross-border money movement, there is a need for quick and dependable connections and technology-based innovation. An often **multi-step process** could be prone to friction in the end-to-end execution, offering opportunities for enhancement.

# Cross-border money movement can be a complicated, multi-step process

The model below provides a general view of the process of transferring money internationally through correspondent banking.

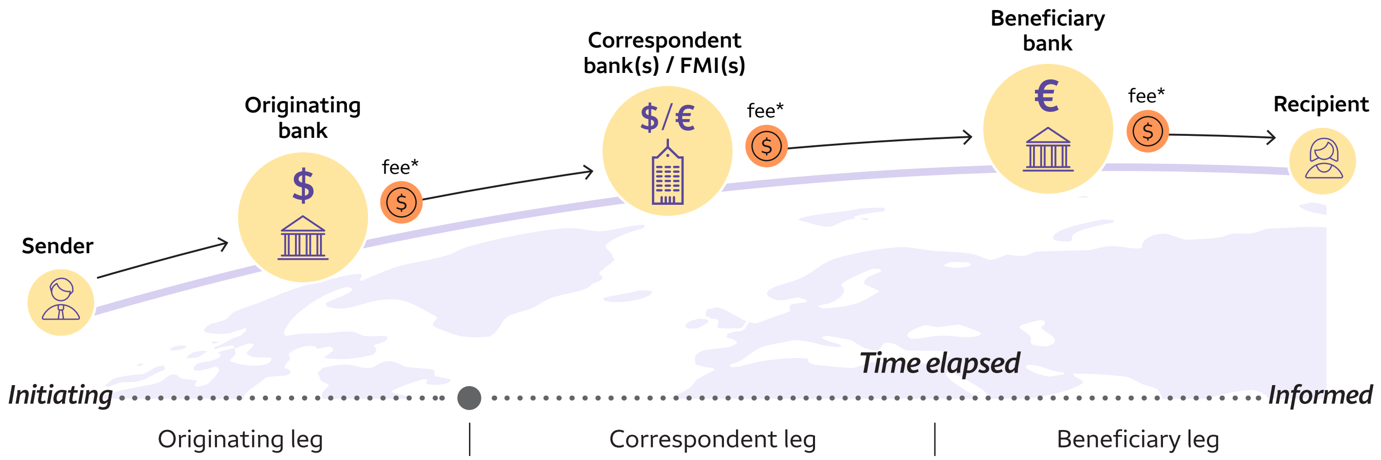



*Figure 2* - Typical cross-border process

## The cross-border money movement process:

The **ordering customer** (sender) initiates a cross-border payment transaction through their bank, the **originating bank** (sender's agent). The sender's bank then makes the payment using **correspondent banks** and/or Financial Market Infrastructures (FMIs). Finally, the beneficiary bank (recipient's agent) receives and processes the payment; making money available to the beneficiary (recipient). Processing time can vary greatly between the in-flight leg and the beneficiary leg as depicted above. **Processing time** is dependent upon several factors including the number of banks, banking transfers, or entities required to get the payment to its final destination. Friction in cross-border money movement can occur at any point on the above graphic depiction. Friction points are often the result of bank or region-specific informational requirements.

### Correspondent banking is a bilateral arrangement where one bank :

**Holds deposits on behalf of another bank**
**NOSTRO account** = our account with you (for example, an account 'Bank ABC' holds at a correspondent bank)
**VOSTRO account** = your account with us (for example, an account a correspondent bank holds at 'Bank ABC')

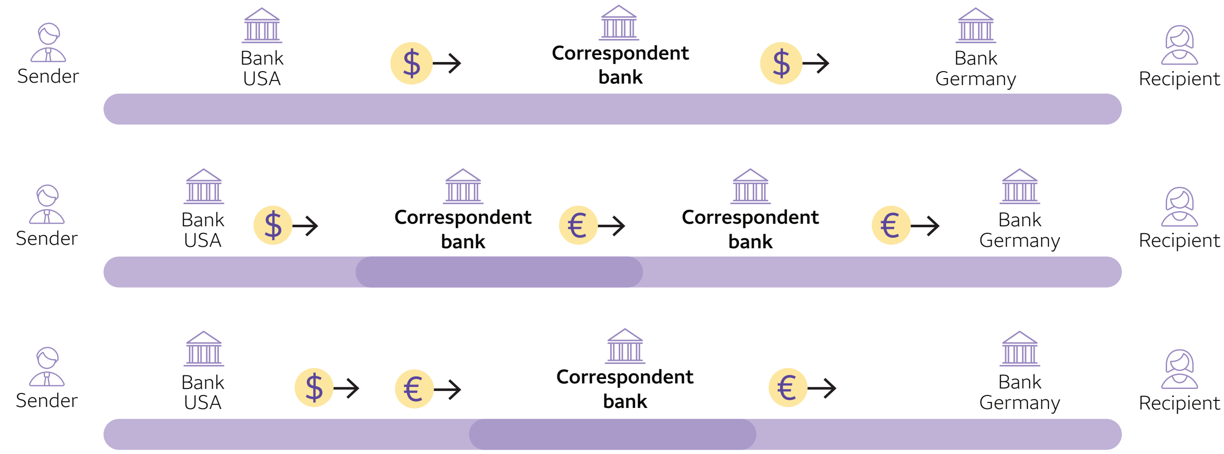
**Offers payments and services to the other bank**

A Bank could facilitate wire transfers and trade transactions; providing investment, currency exchange and check services. This model allows foreign financial institutions to conduct business in the domestic country without a physical presence.

*Fees may be charged for each hop.

Banking relationships and routing can determine if the transaction is a **book transfer** or an **off-book transfer**.

**1 . BOOK TRANSFER –** both sender and recipient have accounts at the same financial institution




**2. OFF-BOOK TRANSFER –** Sender and receiver have accounts at different banks. An essential clearing mechanism exists. Example is Fed/Chips.

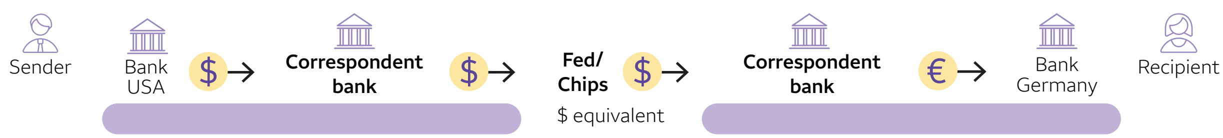



*Figure 3*- Wells Fargo analysis

As displayed in the figure above, the process can vary for **book transfers versus off-book transfers**. Book transfers happen when there are common banks on both sides of the transaction. When both the sender's and receiver's bank have a common banking relationship (the correspondent bank), the transaction goes through fewer steps and may be more seamless. In another book transfer scenario, there are two correspondent banks, one on the sender's side and one on the receivers. While this may happen seamlessly, there are more entities involved, thus it can take longer to settle the funds. The process with the most steps is the off-book transfer, where correspondent banks do not have a relationship. This results in the need for a clearing mechanism, such as fedwire or CHIPS for USD clearing, which may result in additional delays.

As a result of the above process, there is a great deal of variability in the steps required and the time it takes for payments to reach the beneficiary. The largest friction point is often related to the information required by the intermediary bank(s) and receiving bank to process the payment, which may differ at a bank, country or regional level. Each region or country may have different requirements and regulations, which may result in different processes and timing. *See Figure 4 for some sample countries and their average processing times.*

**Average End-to-End processing times for transactions from the U.S.**

*Transaction 3-month time period (Feb. - Apr. 2022)*

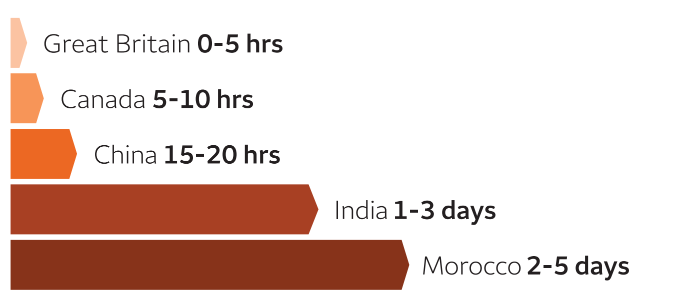
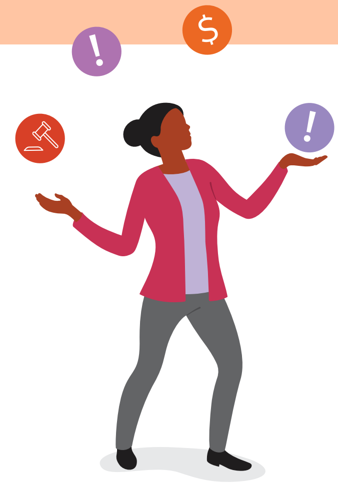



*Figure 4*- Wells Fargo analysis

As displayed above, the processing time for a cross-border transaction from the U.S. can take anywhere from a few hours to several days, depending on region, country and the number of hops required. Some of the variability in cross-border transaction times are a result of the correspondent bank process as mentioned above. There are, however, other factors besides the correspondent bank process that may impact transaction timing, which are examined below.

# Moving money internationally comes with some process challenges



There can be challenges in the process that can prevent the seamless and predictable processing of cross-border money movement. International money movement could be hindered by potentially lengthy settlement times, variability in standards across boundaries and the need for human intervention in processing.

## 1 Predictability

When transferring money internationally, payments don't go point-to-point. As displayed in Figures 2 and 3, above, there are multiple touch points in the process. These include the payer and payee's banks, wire transfer operators/market infrastructures and could include several intermediary/correspondent banks. There are also currency fluctuations and international regulations and settlement rules in the mix. As a result, it is sometimes difficult to predict exactly when the funds will reach their intended destination and exactly how much will be delivered. Even if the same entity is being paid consistently, predicting transaction flows and timing is often a challenge.

## 2 Transaction costs

Several banks, clearing market infrastructures, and payment service providers may be involved in processing cross-border transactions. Each one may generate a fee, resulting in unpredictability in end-to-end transaction cost. This cost uncertainty may impact the amount of funds delivered to the beneficiary or the fees charged to the originator for cross-border payments.

It is estimated that the average cost of a cross-border remittance can range between 6.5% and 11% of the total transaction volume, depending on method of payment and provider.[3]

It bears noting however, that traditional remittance corridors are now seeing significant disruption from Fintechs. This may bring the price down through more accessible mobile experiences.

## 3 Settlement

Time zone differences impact settlement times, particularly if human intervention is required in the processing of the incoming transfer.

Interoperability can also be an issue -sending and receiving systems may have different formats, standards, and rulebooks making frictionless money transfer a challenge.

# 4 Country specific requirements

Countries have different requirements and regulations in receiving and processing cross border money movement. In some countries, incoming payments can't settle unless there is a human on the other end of the transaction manually approving a payment before it is credited to a recipient's account. As a result, some transactions can be dependent on the bank's business hours and availability of employees. Other countries require specific information and additional screening in order to process the transaction.

With international transfers, there is typically a longer processing chain than domestic transfers. If proper documentation is not received or the transmission of payment information is not fully passed through each correspondent bank payment processor, market infrastructure or beneficiary's bank, the transaction can be sent back. In addition to validating the necessary information, cross-border transactions typically undergo a sanctions screening within the originating country (as well as the beneficiary country and any intermediary agent country in between) to comply with sanctions and anti-money laundering laws. See below for an example of a typical money transfer that is delayed due to a specific country requirement.

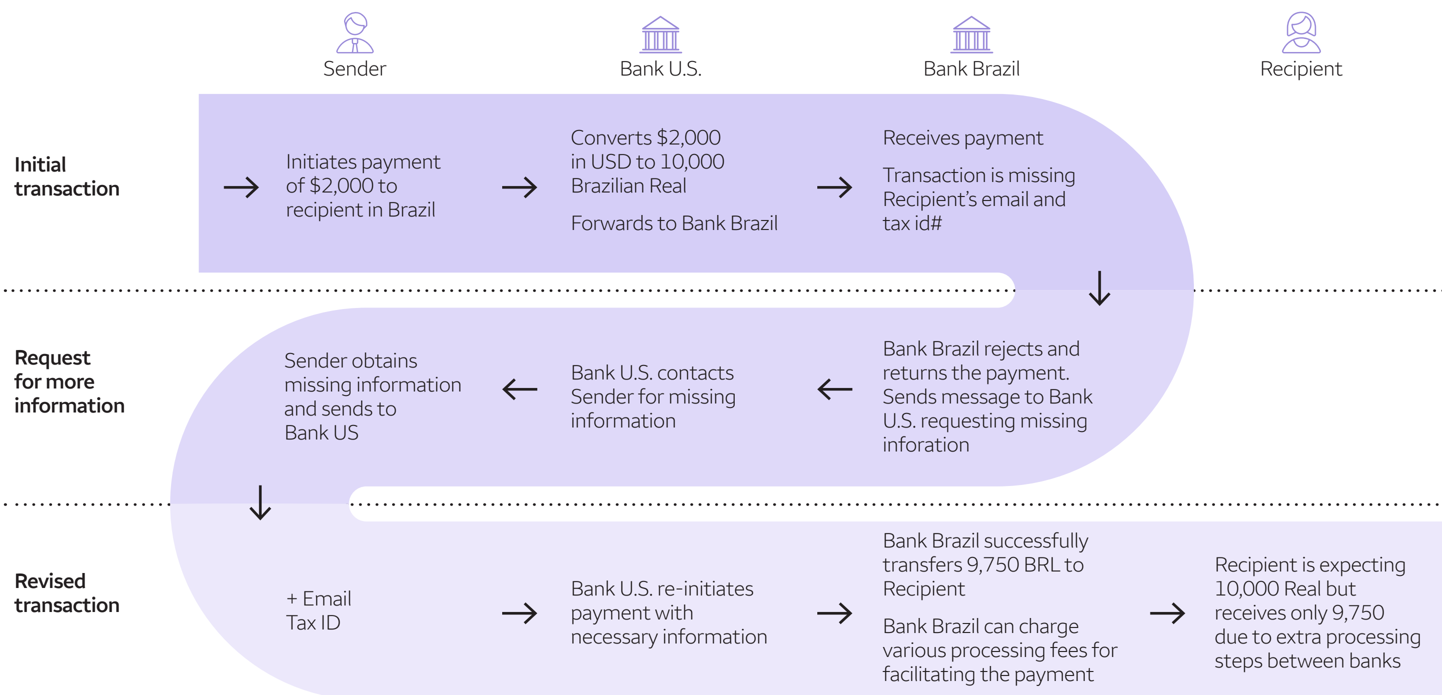



*Figure 5*- Wells Fargo analysis

# 5 Variation in regulations and standards

Financial institutions may be regulated differently depending on local jurisdiction. For instance, large banks may face more regulations than smaller, payment-only companies and fintechs. This can cause differing requirements and verification procedures depending on the institution.

There are often different regulations and standards for international money movement for each region and country. These standards can differ based on many factors, including type and size of transaction, data protection and privacy rules, exchange controls, etc.

From time to time, countries may also change requirements and rules, causing transactions to be returned or get rejected.

# Effective strategies can streamline the cross border payment process

Even though there are several elements of cross-border money movement that are out of the control of the sending institution, there are strategies companies can put into place to make the process more frictionless and predictable. Taking a process-oriented approach to international money movement can minimize errors, assist in predictability, and lower costs. Following are some strategies institutions can implement.

## 1 Provide full information for originators and beneficiaries

Always provide full information on originator and beneficiary including name, full street address (no PO Boxes), city, state/province, country and postal code.

Do not abbreviate; use full names whenever possible.

Provide account numbers or other qualified identifiers such as government ID or passport numbers, if required.

## 2 Explore pre-payment validation, tracking and analysis to minimize delays and errors

**Pre-payment validation**. When sending money to a new receiver, find out if the entity exists by validating that the entity name matches with the address and bank account number supplied. This reduces the possibility that the transaction will be denied due to incorrect account information. If this step is missed, the payment may fail, causing lengthy delays and expensive investigations.

**Embed payment initiation and pre-validation** into your front or back office process before you send the payment – use application programming interface (API) to validate payment information before the transaction is initiated.

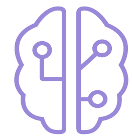
**Tracking**. Work with a processor or bank that provides the ability to track and monitor the transaction throughout the transaction process. Ensure there is reporting in place if a transaction fails mid-stream.

Use a payment tracking API to: 1) automatically check whether payments have been delivered on time, 2) create awareness of delayed payments and, 3) address customer issues with transparency.

**Post transfer analysis**. Verify with the bank that it has tracking capability post-transaction. Analyze the following factors: 1) time it took for funds to arrive at their destination, 2) the number of hops (bank transfers) that were involved, 3) which banks transferred money most efficiently to the destination – e.g., with the least number of hops, 4) the cost elements of all touchpoints.

Implementing tools that enable comprehensive analysis of cross-border transactions is extremely valuable in creating a process that is efficient, fast and predictable.

# 3 Automate manual intervention with artificial intelligence and machine learning to minimize human error



**Explore Artificial Intelligence (AI) / machine learning technology.**
If repetitive transactions are being processed, AI can help identify patterns in your back office and automate the process.

Machine learning can enable automated, rules-based, repetitive payments, allowing predictable transactions to be executed with a minimum number of processing steps. Also, if there are regular problems with certain types of transactions, AI tools can automate them so the same issue doesn't occur each time.

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***Example:*** *Sometimes a payment is rejected because qualified information has not been entered. As a result, a person must look at it, research the issue and repair the payment. An AI solution would enable the system to create a rule so next time, the same issue doesn't occur again.*

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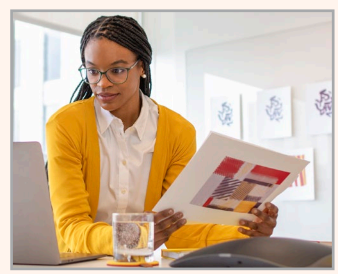
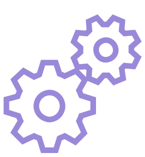
**Convert human interactions / repetitive activities to automated transactions.** Request information through an API to integrate with your bank's systems. An API can enable receiving a response in seconds, rather than days. A bank's API response can deliver transaction details eliminating the need for running reports from an online portal. As a result, APIs and AI tools put the business in control of the data and enable the most efficient use of funds, while helping eliminate errors and delays.

Some companies delay the implementation of automated solutions due to the perception of increased cost. However, businesses have the opportunity to repurpose the expense more strategically. Often the cost of automation is recovered by not having humans do manual tasks that can be done quickly and efficiently by machines, so humans can focus on more strategic areas of the business. The coding of API's is now common and not a specialized skill-set. There are many companies and individuals who can effectively set this up for businesses in a short timeframe.





# 4 Consider partnering with a technology partner to add value or fill  a gap

Identifying a need that can be fulfilled by a partner is the first step in exploring an effective cross-border solution. There are technology firms that may be able to fulfill a specific client need more efficiently and effectively than building the functionality in-house. Implementing a third party solution may make good business sense in the long run. Examples of potential partnership use cases include:

- Data translation firms are able to turn data and transform it to the receiver.
- Data security firms are highly skilled at helping prevent fraud and keeping data secure across-borders.
- Data or fintech firms can make data actionable and usable by transforming it into a usable format for cross-border transactions.

# The next phase of cross border is about challenging the orthodoxies

The future of cross-border money movement is one of growth and innovation. Growth will be driven by a combination of trade expansion and innovative solutions based on emerging technology. Some of the plans for growth challenge the current model of end-to-end transaction flow between correspondent banks and others seek to improve it. Either way, these new solutions will still need to be implemented with an eye to shifting regulations and international developments.

**Global trade will continue to grow.** International trade and cross-border money movement shows no signs of decelerating. Wells Fargo forecasts a **5% growth** in US based international trade, to **$6.6 Trillion** by the end of 2023. As a result, there will be a continued focus on new solutions and innovations.

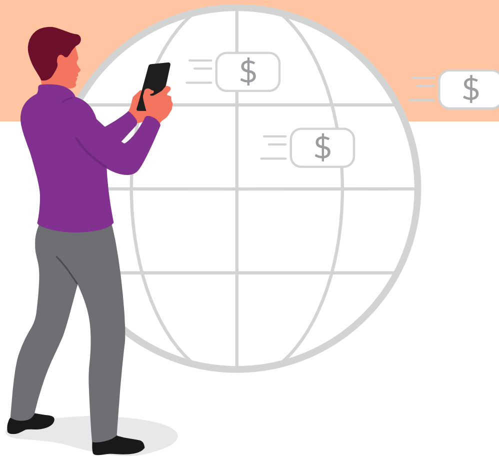
**Payment innovation has seen unprecedented digital and technological growth.** Fintechs, often in partnership with banks, are creating real-time and near-real time solutions for cross-border challenges. Technology companies are innovating either for the entire process, or in one specific area or geography. Many fintechs are pursuing distributed ledger technology as an alternative to, or in conjunction with correspondent banking. However, the volatility in crypto-currency, along with the scalability and energy consumption of blockchain technology are factors inhibiting large scale adoption. These issues must be resolved before this solution becomes viable for most companies.

**Real time payment infrastructure will play a bigger role.** The utilization of real time payment systems in both sending and destination countries will streamline the movement of funds to the destination bank. Many of these real time payment systems are already in place for developed countries; others are in the process of being created. Several countries are developing instant payment mechanisms which can be used to facilitate international transactions.

**Regulations and international relations will continue to be a factor.** As international trade continues to grow, regulations by country and region will continue to factor into the process. Regulations can encompass payments, tariffs and environmental categories. Moreover, international relations, coupled with changing regulations can result in unexpected and unpredictable consequences for global businesses. These realities must be worked into the solutions in order for new initiatives to be viable and able to be sustained long-term.

Whether traditional solutions, emerging solutions or a hybrid of answers, there is a heightened focus on transforming cross-border payments. As the world becomes ever more inter-connected and digitized, it is highly probable that international money movement will evolve into a more seamless, coordinated and secure process in the years to come.

# Conclusion



Large banks, payment processors, associations, governments and fintechs are all racing to meet heightened expectations for money movement. The winners will be companies who recognize the opportunity to simplify their processes and are eager to drive innovation for themselves and their global business partners.

## For a better cross-border payments experience, businesses want:

### Predictability

knowledge of when the funds will arrive and be accessible to the receiving party; predictable outcomes, costs and payment tracking

### Digital

ability to initiate and track payments and settlement in real time and digitally

### Speed

fast transaction times and settlement

### Transparency

track and predict fees for cross-border payments

### Cost efficiency

lower overall expense for cross-border transactions

Cross border money movement can be a multi-step process fraught with friction and unpredictability.  With the right rigor, partnerships and investment in automation, solutions exist to make cross border money movement more predictable, seamless and timely.

Wells Fargo is proud to serve over 600 million accounts globally. We have deep subject matter expertise in cross border transactions and are committed to customer centric and seamless solutions. We participate in industry and government bodies, often playing a leadership role. Our company represents the U.S. in SWIFT Transaction Manager Platform User Group and the Payment Market Practice Group. Wells Fargo also chairs The Clearing Houses' Chips Business Committee and has played leadership roles in the Baft Payment Council. As a result, we have deep expertise in payments and are committed to use it to make the lives better for the businesses and communities we serve.

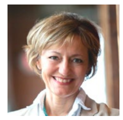
Reach out to Wells Fargo for more on how we can help you profitably grow your business.

# Payments – the pulse of global economic growth

Payments innovation has gone into hyperdrive. The past five years have seen more innovation in payments than the previous 50 years combined. The pace of innovation is accelerating, and it is sweeping along government entities, businesses, and consumers. As a result, payers have more options than ever before.

The ascent of payments has included the main drivers of the global economy. No segment of the population has been left behind. Government entities are launching digital cash, retailers offer their own payment tools, cross-border payments reach beneficiaries in almost any country, local businesses have contactless digital checkouts, and everyday consumers regularly use buy now, pay later products. Even unbanked and underbanked consumers are being empowered with new options to send and receive money. These innovations did not exist – at least not at scale – as recently as five years ago.

Even as the payments ecosystem is driven by technology advancements and machine-driven insights, our main focus remains the very real impact these innovations have on the customer. The end customer is, and must always be, at the center of payments innovation. Solutions that are straightforward and seamless are the ones that will win in the coming years.



**Sue Yasav**

Enterprise Payments Strategy

**Sumit Arora**

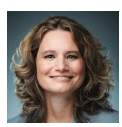
Enterprise Payments Strategy

**Ulrike Guigui**

Head of Enterprise Payment Strategy

**Dan Vogt**

Managing Director,
FX Payment Solutions



**Joanne Strobel-Cort**

Managing Director,
Global Payment Services

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