

NEO

Report

Growing pains: the escalating cross-border payment challenges for SMEs

Executive summary

While cross-border payments have improved for consumers, standards in the B2B market have largely remained the same. Payments are still slow, fees are hidden and tracking is largely non-existent for many firms.

SMEs are an underserved part of the market that is increasingly conducting business with suppliers and customers overseas, thanks to digitalisation and the growth of e-commerce. As a result, they struggle when it comes to cross-border payments.

With this in mind, Neo surveyed CFOs and treasurers at UK-based SMEs with cross-border operations to find out what challenges they faced when sending money abroad and their risk management policies.

The research unveiled three key themes:

- **Cross-border payment pain** – There is still a reliance on banks for cross-border payments and this is causing friction. Unfair pricing, slow payments and reporting difficulties were the top challenges SMEs faced.

- **FX challenges** – The majority of respondents highlighted that FX had become a critical matter over the past year due to volatility. Pricing, speed and a lack of transparency were the top challenges cited.

- **Diversification of banking partners is now a priority** – An overwhelming majority of respondents said they were considering diversifying their bank pool in the coming months following the banking crisis. But only half enquire about fund safeguarding measures at partner banks.

The research has highlighted that traditional banking partners are failing to meet SMEs' cross-border payments needs. This is in part due to the slow and costly processes of working with traditional banks. Unlike global firms, SMEs can't afford to wait days for payments to land in their bank accounts.

There are much better alternatives out there which provide SMEs with same-day payments through virtual wallets, up-front transparency on costs, a single holistic view of payment and cash flow activity in one platform and access to different currencies on the same platform.

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Theme 1:

Cross-border payment pain

Our research found that the majority of SMEs (78%) still rely on traditional banks for cross-border payments and collections, while 65% utilise non-banking payment solutions such as a Payment Service Provider, Money Services Business or Electronic Money Institution.

When working with traditional corporate banks, opening an international bank account is a difficult, long and painful process – and the subsequent transactions can take days.

As SMEs continue to expand and do business in different countries, many end up having different accounts for each country or currency, which adds complexity. If a business needs to onboard a supplier in a different market, it can take weeks to get the infrastructure in place - time and money which SMEs simply can't afford to lose out on.

How do you manage your cross-border payments and collections? Tick all that apply

78%
Traditional banks

65%
Non-banking payment solutions (e.g., PSP, MSB, EMI)

1%
Other, Paypal, Stripe

1%
I do not manage this

The top three cross-border pain points for SMEs were unfair pricing (55%), speed of execution (45%) and reporting of transactions (42%).

When making cross-border payments, banks also don't just heavily mark up the exchange rate and the FX margin, but they also inflate the overall price, hampering profits.

What are the main pain points when it comes to cross border payments? Please tick three options

55%
Unfair pricing

45%
Speed of execution

42%
Reporting of transactions

29%
Lack of automation

27%
Reconciliation of flows for receivers

25%
Lack of support from experts

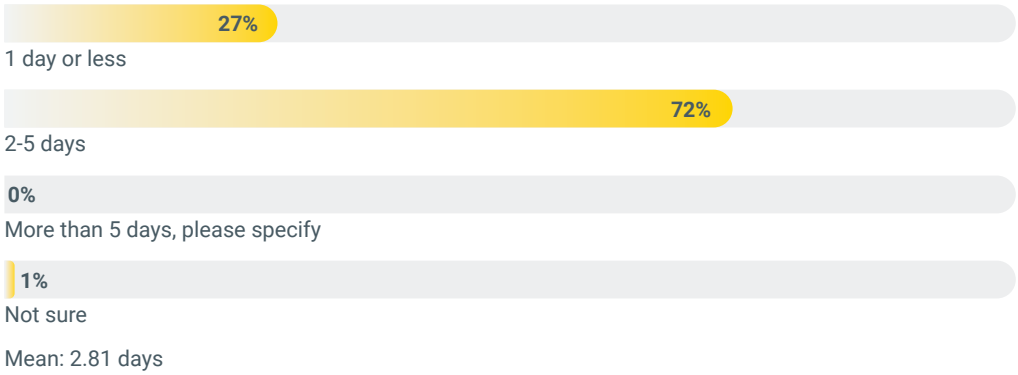
2%
No pain points in particular

1%
Other: VAT transactions

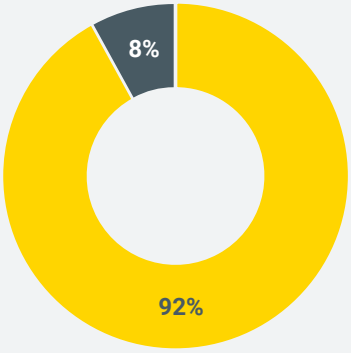
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The vast majority of firms said that it took 2-5 days for funds to appear on their supplier's bank statement, with the average being 2.81 days. Unlike global firms, SMEs can't afford to wait days for payments to land in their bank accounts.

How long does it take for funds to appear on your supplier's bank statement?



Mean: 2.81 days



The good news is that SMEs are exploring new alternatives with 92% having conversations about virtual account solutions.

Has your business had conversations about possible virtual account solutions?

- Yes
- No



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Theme 2:

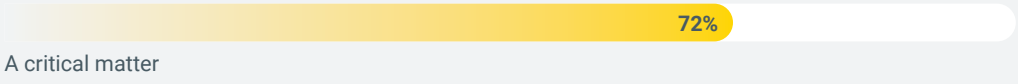
FX challenges

While calming in recent months, the past couple of years have seen huge amounts of currency volatility and FX has become extremely important to businesses with cross-border operations.

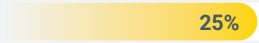
A resounding 72% of respondents said that FX has been a critical matter, while 25% stated it was a relatively important matter. It's clear FX has become a strategic priority for SMEs.

Large firms such as IBM cited that FX was one of the reasons why it reported a $3.5 billion decrease in its 2022 revenue in fourth-quarter earnings. SMEs which have significantly fewer resources to manage this risk have likely struggled even more.

How critical has foreign exchange been this year?



A critical matter



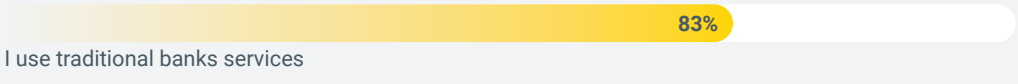
A relatively important matter



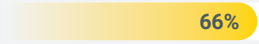
Not a critical matter

The majority of our respondents (83%) rely on traditional banking services for their FX needs, while 66% use non-banking financial institutions such as FX brokers and fintechs.

How do you manage foreign exchange? Tick all that apply



I use traditional banks services



I use non-banking financial institutions (FX brokers, Fintech)

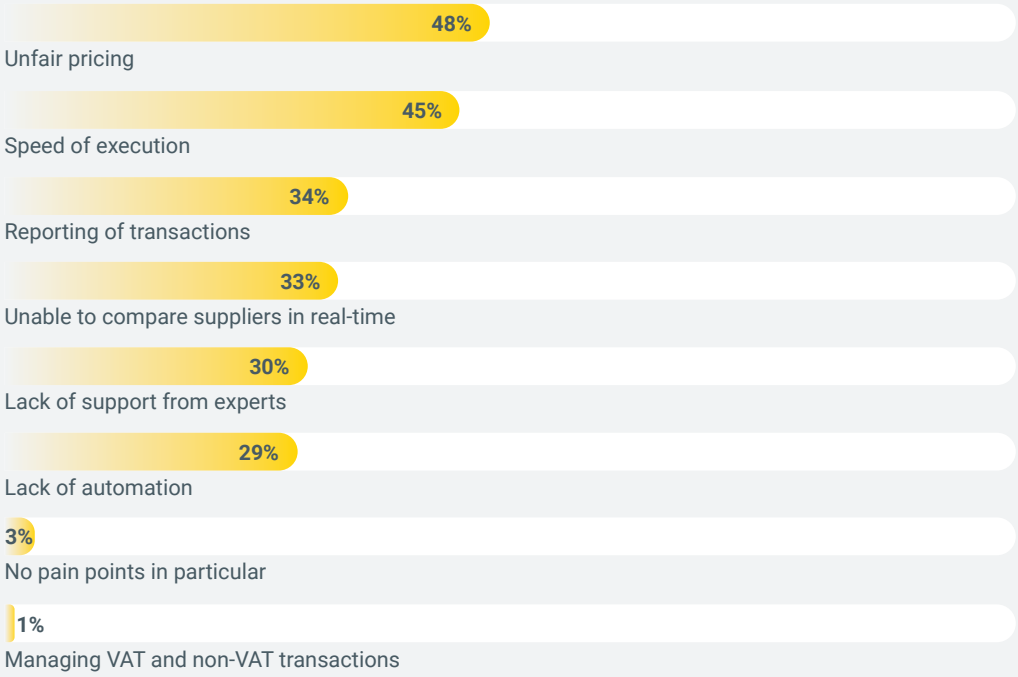


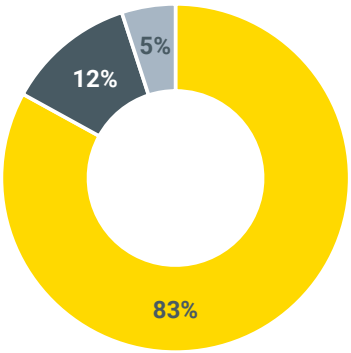
Other: Paypal, Stripe, cryptocurrency

The top three pain points faced by SMEs when it comes to FX were unfair pricing (48%), speed of execution (45%) and reporting of transactions (34%). Other significant issues include a lack of ability to compare prices in real-time (33%), a lack of support from experts (30%) and a lack of automation (29%).

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What are the main pain points when it comes to foreign exchange? Please tick three options

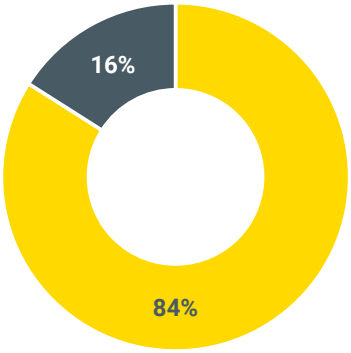




SMEs are taking this risk seriously with 95% having a FX risk management policy (either formal and documented or informal and undocumented) - only 5% didn't.

Do you have an FX risk management policy?

- Formal and documented
- Unformal and undocumented
- No



Further, 94% had their own in-house FX expert, highlighting they are dedicating resources to help manage this risk.

Do you have an FX expert in-house?

- Yes
- No

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Theme 3:

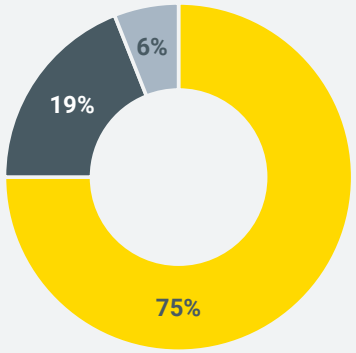
Diversification of banking partners is now a priority

The tale of Silicon Valley Bank, the largest US bank failure since the 2008 global financial crisis, was a cautionary one for treasury teams about the risks of putting all their eggs in one basket.

Even though the FDIC has protected all deposits with SVB and other failures such as New York's Signature Bank to strengthen the banking system, treasury teams still had to deal with huge uncertainty and risks.

A bank failure can cause serious short-term liquidity issues which can affect vital expenditures such as payroll and supplier invoices, even if it's only for a few days.

While in this instance bank deposits have been protected, this won't always be the case and relying on one financial institution to deposit funds is becoming an increasingly risky strategy.



The positive news is that the industry is reacting. Our research found that 75% were considering diversifying their bank pool in the coming months, while 6% already have done so.

Are you considering diversifying your bank pool in the coming months following the recent banking crisis?

- Yes
- No
- I already diversify

In our view, treasury teams and CFOs should look to diversify with a minimum of three banks. This means that should a bank go into difficulty, they have cash at hand to make vital payments, while not having to manage too many banking partners.

But they also need to do their due diligence to make sure that each of these banking partners has strong sheets and is also risk averse. We think it's important that treasury and risk teams should regularly question their banks, particularly regarding their investment policies.

Results from our research were interesting with only 50% of respondents always enquiring about the name and/or credit rating of the safeguarding partner. 47% said they sometimes enquire, but not always, while only 1% said they don't do it at all.

There is a serious threat that more banks could go under, and to manage risk, treasury teams must diversify their deposit funds and have a better understanding of their bank's investment policies. Otherwise, they won't be so lucky next time.

Do you ask your provider about client's funds safeguarding measures?

50%
I always enquire into the name and/or the credit rating of the safeguarding partner

47%
Sometimes. I do not always enquire into the name and/or the credit rating of the safeguarding partner

3%
Not at all / Not sure / N/A

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Conclusion

Today's plethora of fintechs offer alternative solutions to payment pain points that traditional banks simply can't.

The emergence of virtual or digital wallets is allowing businesses to make same-day payments. These, in turn, enable businesses to organise their funds and store multiple currencies, ready for making rapid payments or a currency exchange.

For example, using just an International Bank Account Number (IBAN), SMEs can set up an international account with multiple currencies, allowing them to manage cash flows and view trading data, all in one place.

Another issue for SMEs is that traditional banks are less likely to take on clients who need predominately USD-dominated accounts due to the risk of market volatility. Because digital wallets can support multiple currencies, SMEs that require the use of dollars over or in addition to euros and pounds can set up these accounts with relative ease and receive and convert various currencies seamlessly.

Not only are cross-border payments being made easier, but digital wallets also provide enhanced security through encryption, multi-factor authentication and real-time fraud detection mechanisms – securing the businesses' activity and assuring international customers that their purchase is being conducted safely.

Traditional banks simply can't compete with the faster, easier, and more secure service that fintechs provide, and many SMEs are beginning to rethink their traditional banking partnerships as a result.

As the need for cross-border payments grows, so too do new fintech advancements that can help SMEs safely, quickly, and successfully expand their business.

About Neo

Neo is the first European fintech that offers MiFID II-compliant investment services and PSD2-compliant payment services from a single platform.

Neo offers a better way to manage international treasury departments through its all-in-one platform that provides FX corporate risk management, international, multi-currency bank accounts, cash-flow management, payments data analytics and more.

For more information, please visit www.getneo.com or get in touch via: https://www.getneo.com/contact/

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