



# PAYMENT PAINKILLERS FOR ASIAN PSPs:

Identifying the opportunities and tackling the challenges for Asian businesses making payments into Europe



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## FOREWORD

Cross border trade is booming, and is driven largely by Asian businesses. As reported in the latest Global Payments Report from Worldpay, China is the biggest ecommerce market in the world. Japan, Singapore and Hong Kong have also long held positions as big players in the international market<sup>1</sup>. Plus Statista's latest ecommerce Market Report predicts annual growth in the Asian ecommerce market of 12% year-on-year until at least 2022<sup>2</sup>, demonstrating the vital role the region plays in global trade.

With smartphone ownership increasing rapidly, alongside vast improvements in Internet infrastructure, Asia is leading the innovation charge in alternative payments. A 2018 report from Frost & Sullivan<sup>3</sup> predicts that the FinTech industry in APAC will grow at a compound annual growth rate of 72.5% from 2015 to 2020, reaching \$72bn. This growth is fuelled by the increased utilisation of cashless payments by SMEs in the region.

Coupled with the benefit of not having a banking legacy infrastructure, which slows down development in other regions, Asia has a huge potential for accelerated growth. Asia has found itself able to skip traditional banking methods and move straight to digital payment methods.

However, the electronic payments market is still young and fragmented. Many start-ups have entered the market to offer e-wallet and online payment solutions, but each country has its own providers and these do not integrate smoothly with each other. Frictionless international payments seem to be a dot on the horizon. Asian Payment Service Providers (PSPs), therefore, face huge hurdles in managing and delivering solutions to their merchants for international payments.

In this report, Saxo Payments Banking Circle is uncovering the pain points and barriers to growth, particularly for Asian businesses trading into Europe. It also looks at the potential solution which could open up the market for Asian PSPs to help their merchant customers trade with foreign businesses as if they too were based in Asia.



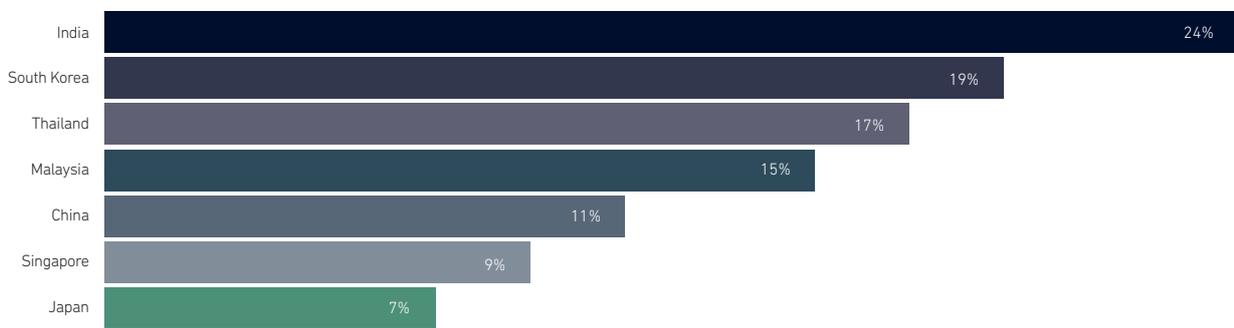
**Anders la Cour**  
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Saxo Payments Banking Circle



# PAYMENTS PAIN POINTS: RECOGNISING THE SYMPTOMS

With India, China and the Philippines being the largest recipients of cross border payments,<sup>4</sup> according to a recent Payments Cards & Mobile article, Asia is a hugely influential player in global trade. The region is also at the forefront of innovation in alternative payment methods. A recent World Payments Report<sup>5</sup> predicted that the number of non-cash transactions in Asia will increase threefold in the five years to 2020 – hitting an incredible 276.8 billion.

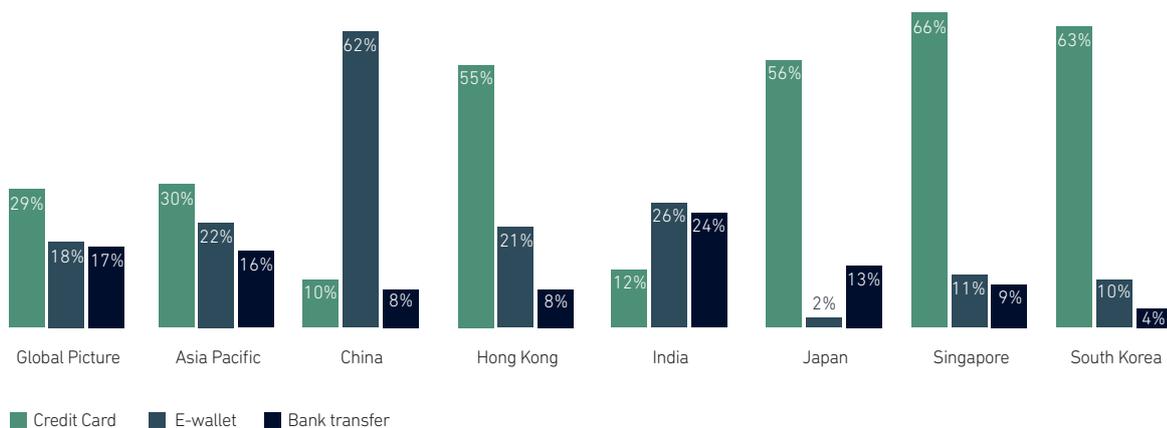
## Ecommerce growth projection 2017-2021



Source: <https://worldpay.globalpaymentsreport.com/market-guides/>

This unprecedented growth has been accelerated due to a lack of banking legacy infrastructure within the region. The Global Payments Innovation Jury 2017 reported that payments in Asia have skipped the stumbling block of traditional banking methods such as credit cards, and moved straight on to digital payments.<sup>6</sup> However, the rapid advances in technology and internet infrastructure, which have fast-tracked the growth of non-cash payment methods, have resulted in a vast array of distinct solutions.

## Payment types



Source: <https://worldpay.globalpaymentsreport.com/market-guides/>

Whilst these solutions are hugely beneficial for consumers and businesses transacting locally, they do not necessarily aid cross border commerce. The fragmented nature of the payments market is standing in the way of Asian businesses with international ambitions.

# THE PAIN POINTS FELT BY BUSINESSES TRADING CROSS BORDER

Saxo Payments Banking Circle recently carried out in-depth research into the biggest economies in Asia, their preferred payment methods and how these match with the preferences of their biggest trade partners. The results showed considerable differences between the methods favoured in each country, potentially obstructing would-be international trade partnerships with high costs and slow transfer times.

For example, some of the biggest trading partners of both China and Japan are the US, Canada, Australia and the UK. Square is a popular payment method in each of these countries, but is not available in Japan or China. Likewise, two of the biggest payment methods in Indonesia, iPay88 and MOLPay, are only available to the Association of South East Asian Nations (ASEAN), and are therefore unavailable in the US and European countries with which they do the majority of their cross border trading.

For this reason, Payments Cards & Mobile stated that B2B payments across Asia are still predominantly cash-based.<sup>7</sup> These cash-based payments are carried out through traditional banking methods and are, as such, subject to higher risk and higher cost. Manual data entry of traditional methods causes higher error rates, the risk of fraud is increased, payments take longer to clear, FX rates vary between banks and each one involved in the transfer charges a fee.

According to a report from Asian Banker Research,<sup>8</sup> most cross border payments in the region are currently conducted through wire-transfers via a network of traditional correspondent banking relationships, but many banks are moving away from this model. Settlement risk and the latest compliance requirements are forcing banks to reassess their use of these relationships. A more efficient and cost effective solution is a single platform, which offers access to multiple countries and currencies, rather than a multitude of correspondent banks.

Traditional cross border payments cost too much and take too long.





# FINDING A CURE FOR THE PAYMENT PAIN AND FX ACHES

Consumers in Asia are well-served in terms of payments. Payments Cards & Mobile research<sup>9</sup> shows that 73% of FinTech investment in the region is dedicated to the consumer market. A further 24% of investment is made in vital improvements to banking efficiency, yet only 3% is dedicated to solving payment issues faced by businesses. Thankfully, however, Asian FinTechs are now recognising the missed opportunity, and are working to tackle the challenges which are holding Asian businesses back from their international potential.

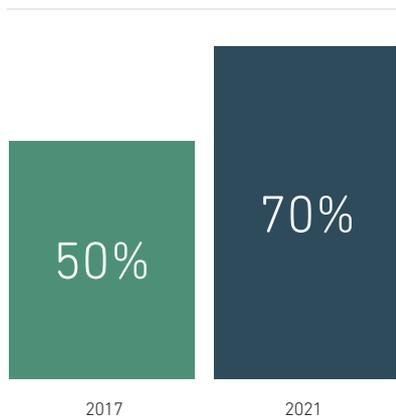
Cash has long been the dominant payment method in Asia and, according to a PayPal-commissioned survey of 4,000 consumers,<sup>10</sup> the shift in favour of other methods has so far been a slow one. Even the high level of mobile and smartphone penetration across the region has not yet translated into the expected explosion of electronic and alternative payments.

But, with the significant investment in the region, and rapid development of new technology, that is set to change. Adoption of e-wallets and mobile payments holds huge potential to open borders for international trade.

Research firm Euromonitor recently reported<sup>11</sup> that, on average, 50% of the population of Thailand, Indonesia, Singapore, Malaysia, the Philippines and Vietnam uses smartphones. This is expected to reach 70% by 2021, by which time Euromonitor also predicts mobile payments in the region will reach \$32 billion per year, 10 times the total in 2013.

These countries also have a larger than average unbanked population, as demonstrated by a McKinsey report, Payments in Asia: At the vanguard of digital innovation.<sup>12</sup>

Projection of population with smartphones



Projection of total mobile payments



## Consumer payments help find a cure for business ills

McKinsey estimates that there are approximately 900 million people in Asia who are outside of the banking system. However, most have mobile phones which allow them to transact online, sending and receiving payments electronically. 64% of Indonesians do not have bank accounts, and mobile penetration in the country is at 127%. Malaysia is 19% unbanked and mobile penetration is 148%. The Philippines and Vietnam are both 69% unbanked, and have mobile penetration of 116% and 146% respectively.

As consumers increasingly take up electronic payments, and demand pushes innovation to move at a faster pace, corporate payments should follow suit, with businesses able to benefit from the same technological advances.

Almost 75% of Asian banks offer mobile-based cash management tools, according to McKinsey, and these tools are heavily used by 70% of large corporates. Businesses are able to manage accounts and initiate payments through these tools.

90% of B2B transactions in Asia are carried out in cash and, together with cheques, these payments account for 40% of total B2B transaction value. Clearly there is huge potential for businesses looking to provide better corporate payment solutions.

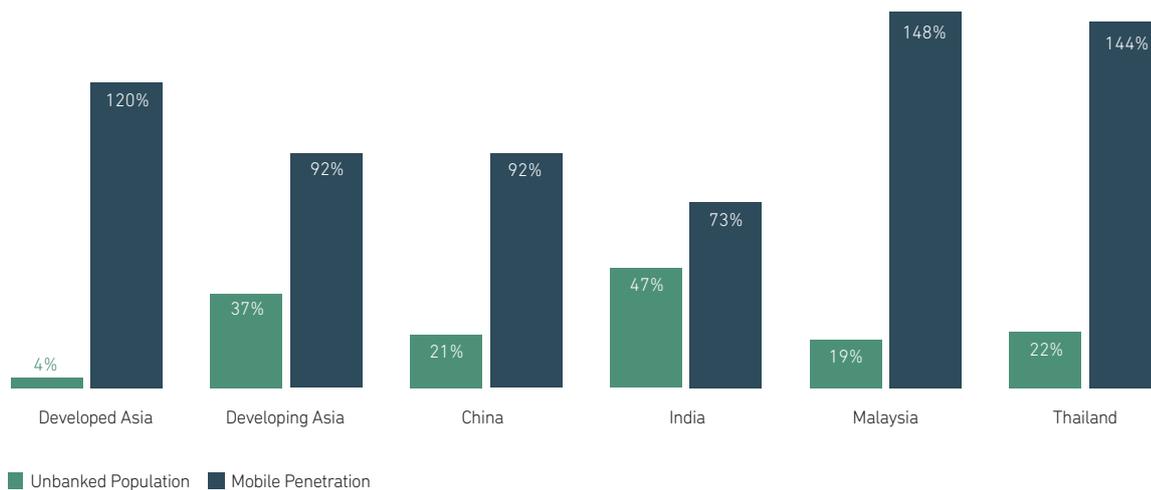
## Getting businesses up to full cross border health

In November 2017, a number of Asian payment system operators signed a Memorandum of Understanding.<sup>13</sup> Under the agreement, the providers will connect their respective payment infrastructures to enable real-time cross border payments.

The companies, based in Vietnam, Thailand, Singapore, Malaysia and Indonesia, have pledged to make cross border electronic payments behave like local payments – faster, more cost-effective and more efficient within the ASEAN region. The initiative has ambitions to grow and encompass payment providers in more countries, opening up trade across the whole of Asia, and potentially beyond.

Removing barriers and levelling the way for cross border payments will benefit both businesses and consumers wishing to send and receive money across borders.

## Electronic Opportunities



Source: [https://www.mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Payments%20in%20Asia/Payments%20in%20Asia\\_At%20the%20vanguard%20of%20digital%20innovation\\_2015.ashx](https://www.mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Payments%20in%20Asia/Payments%20in%20Asia_At%20the%20vanguard%20of%20digital%20innovation_2015.ashx)



# OPENING THE PAYMENTS MEDICINE CABINET

With cross border trade flourishing, and 12% annual growth predicted for Asian ecommerce,<sup>14</sup> it is time to remove the barriers, hurdles and pain points standing in the way of a truly open global market. Payments are one of the biggest barriers, which stop huge number of businesses from reaching their full global potential.

A Banking Circle survey found that 39% of businesses worldwide (20% of Asian respondents) have been prevented from expansion into new countries due directly to concerns about cross border payments.

## A market overdosing on payment solutions

Even within Asia, payments are holding businesses back. The boom of new alternative payment providers coming onto the market have created a landscape filled with a wide range of local solutions. The issue, however, is interoperability. Even the newest electronic payment solutions are each built independently, and operate as such. This puts significant limitations upon consumers and businesses wishing to send or receive money across borders.

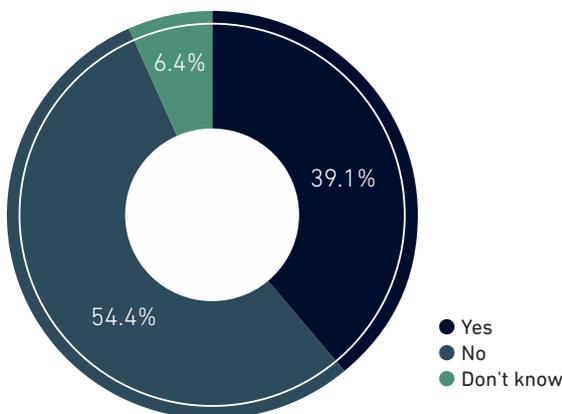
Merchants cannot accept payments in every form and via every payment processor in the global market. But, with so many payment options available, it is difficult for merchants to ensure they focus investment on the right payment types for the regions within which they want to grow.

Likewise, buyers should not be expected to sign up with every electronic and mobile payment provider and have every payment app on their phones, as well as having credit cards, debit cards, prepaid cards, bank accounts and e-wallets.

New solutions, are, however moving in to enable businesses to send and receive payments both locally and internationally, without the need to have access to every payment method available in the relevant markets. Providers such as financial utility Saxo Payments Banking Circle are able to provide Payment Services Providers (PSPs), FinTechs and Tier 2 and Tier 3 banks with the ability to offer their customers access to fast, cost effective cross border payments.

Financial institutions can open virtual or physical International Bank Account Number (IBAN) accounts on behalf of their clients, allowing them to transact with international customers without the traditional loss of time or money associated with traditional cross border transfers. This brings cross border payments in line with local payments, and opens up the international market to all sellers and buyers, by removing this significant barrier to trade.

Have any of your concerns about making or receiving cross border payments prevented you from expanding into new regions/countries?



Source: Saxo Payments Banking Circle Merchant white paper - Cross Border Payments for Cross Border Merchants - an internationally 'local' future

# ISSUING THE RIGHT PRESCRIPTION

Asian businesses are leading the way in ecommerce, tech development and, as far as cross border payments will allow, international trade. As such ambitious and inspirational businesses, they deserve to be able to trade and transact anywhere and everywhere, without payment delays and high costs standing in their way.

Payments need to be more efficient, more cost effective, and allow Asian businesses to achieve their global aspirations. Traditional banking services make this impossible. There are too many barriers, too many delays, too many costs.

There is also a multitude of entirely segregated payment methods across the region. Cash on delivery, bank transfer, credit cards, debit cards, e-wallets, mobile payments and a wide range of non-collaborative payment apps.

Expanding into new territories is always going to come with challenges, but choosing the right payment service provider, who understands the market and its customers, is an important first step.

## Medicine for Asian payments pain

PSPs, Financial Tech businesses and Tier 2 and 3 banks can now take advantage of financial utilities like Banking Circle which allows these businesses to provide core banking services in a region plagued by issues in a severely fragmented marketplace. Financial utilities are able to alleviate many of these issues, essentially opening up borders for international trade to take place as if it were local.

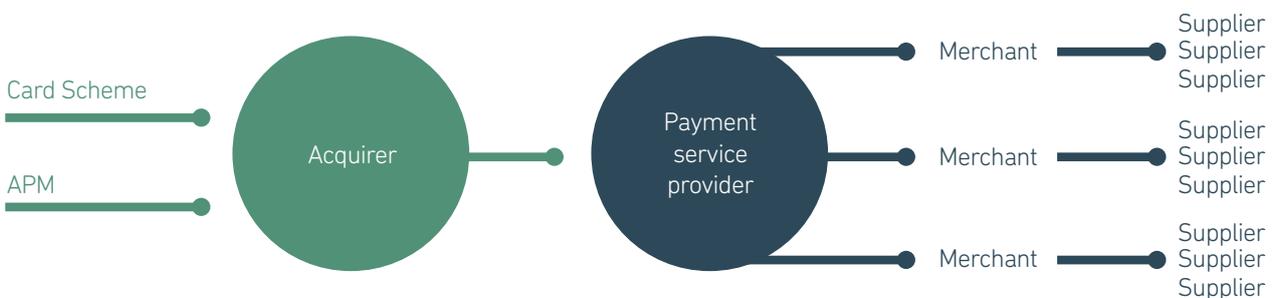
## A cure-all medication

New payment technology has the potential to simplify international trade. It can create a unified global marketplace in which consumers and businesses can send and receive money anywhere, in real-time and without the prohibitively high costs and poor FX rates of the traditional correspondent banking model.

However, payment technology today is in fact complicating the market by creating too many options. Businesses and consumers cannot stay abreast of every new solution coming to the market, and this is turning out to be an unnecessary barrier. New tech should be breaking down the barriers which have always made international trade more difficult, not putting up new ones.

Utilities are stepping in to enable the existing payment methods to collaborate and provide a better solution. Payment providers can now offer 'local' cross border payments, low fees, good FX rates and fast transfer times.

The future of payments is cohesive – there will be no differentiation between local and cross border payments. All payments will occur quickly, at low cost – and eventually without any cost implications. Payments will simply be Payments.





# ANATOMY OF ASIAN PAYMENTS

90% of B2B transactions in Asia are carried out in cash and, together with cheques, these payments account for 40% of total B2B transaction value.

Annual growth of 12% is predicted for the Asia Pacific ecommerce market.

## Malaysia

# 40%

of all Malaysian ecommerce is cross border.

## Taiwan

# 84%

of Taiwanese shoppers would consider buying from overseas vendors.

## Singapore

# 55%

of ecommerce transactions are conducted cross border.

## China

# 90%

of cross border ecommerce can be attributed to Chinese merchants selling overseas, with the USA and the UK being two of the largest trading partners.

## Japan

Cash is the preferred payment method for 70% of Japanese shoppers - one online marketplace website still accepts cash via mail as a payment method; even across borders.

## South Korea

The country enjoys a high percentage of exports, with 64% of trade conducted between Asian partners.

## Indonesia

Two-thirds of Indonesian exports are delivered to other Asian countries.

## India

With limited infrastructure and urbanisation, India is a difficult market for imports, meaning almost all cross border trade is export.

## Hong Kong

Despite its small size, it is the world's 7th largest trading entity in both exports and imports, with mainland China its largest trading partner.

## Thailand

Nearly a third of the country is able to purchase from global websites that use English as their first language.

## Philippines

Poor internet speeds and a lack of appetite for online payments are preventing growth - average spend on ecommerce per person was \$33 in 2016.

# ABOUT SAXO PAYMENTS BANKING CIRCLE

Saxo Payments Banking Circle is a global scale financial utility that gives financial institutions the ability to enhance their customer proposition.

By leading the rise of a super-correspondent banking network, Banking Circle is helping FinTechs and banks to provide their customers with faster and cheaper cross border banking solutions, without the need to build their own infrastructure and correspondent banking partner network.

As such, Banking Circle is empowering these organisations to support their customers' international trading ambitions, without the need for multiple banking relationships whilst reducing risk and the operational cost of transactions. And that is enabling them to remain competitive.

**Banking Circle Marketplaces** - A unique solution for Financial Tech businesses who support online marketplaces

Banking Circle Marketplaces enables Financial Tech businesses to accept payments from marketplace buyers into a virtual IBAN account in the name of the marketplace seller, and settle the funds back to the seller's house account in the currency of their choice. This ensures the flow of funds bypasses the marketplace, meaning it remains exempt from PSD2 requirements.

Some marketplaces require their sellers to have local currency accounts in the country from which they are receiving funds. Addressing this issue, Banking Circle Marketplaces provides sellers with local IBANs in the country to which they wish to sell – typically in GBP, EUR and USD – that are in the seller's name.

## Source References

<sup>1</sup> <https://www.worldpay.com/global/about/media-centre/2017-10/asia-pacific-leads-the-charge-with-alternative-payments-at-the>

<sup>2</sup> <https://www.statista.com/outlook/243/101/ecommerce/asia#>

<sup>3</sup> <https://ww2.frost.com/news/press-releases/asia-pacific-fintech-market-reach-us72-billion-2020-finds-frost-sullivan/>

<sup>4</sup> <http://www.paymentscardsandmobile.com/fresh-look-asias-payment-landscape/>

<sup>5</sup> <https://www.worldpaymentsreport.com/>

<sup>6</sup> <https://www.enterpriseinnovation.net/article/asia-tops-payments-innovation-report-1458978307>

<sup>7</sup> <http://www.paymentscardsandmobile.com/fresh-look-asias-payment-landscape/>

<sup>8</sup> [http://www.theasianbanker.com/assets/media/dl/whitepaper/TAB\\_DEUTCHEBANK\\_WHITEPAPER\\_CROSSBORDER\\_PAYMENT\\_BW.pdf](http://www.theasianbanker.com/assets/media/dl/whitepaper/TAB_DEUTCHEBANK_WHITEPAPER_CROSSBORDER_PAYMENT_BW.pdf)

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<sup>13</sup> [http://www.paynet.my/press-release/2017/Press%20Release%20-%20Regional%20Real-Time%20Cross-Border%20Connectivity\\_15Nov.pdf](http://www.paynet.my/press-release/2017/Press%20Release%20-%20Regional%20Real-Time%20Cross-Border%20Connectivity_15Nov.pdf)

<sup>14</sup> <https://www.worldpay.com/global/about/media-centre/2017-10/asia-pacific-leads-the-charge-with-alternative-payments-at-the>

