

Big Opportunity in Small Business Payments

Now Is the Time to
Capitalize on SMEs'
Cross-Border Payments

1

Small- and medium-sized enterprises (SMEs) are a growing, underserved market in cross-border payments.

2

No place is this more true than in emerging markets with over \$100B in potential revenue annually.

3

Using new technology, you can finally tap this market. Blockchain technology offers a solution to lower costs and create a lucrative opportunity for financial institutions.

SMEs in Emerging Markets: A High-Growth Revenue Opportunity



Small and medium-sized enterprises (SMEs) are a dynamic force in the global economy today and a growing source of cross-border payments.

This is especially true in emerging markets, where [SMEs](#) account for 60 percent of employment and 40 percent of national income. Although the de-risking trend in emerging markets has hampered international finance, new payments technologies are increasingly providing SMEs with opportunities to source talent and supplies abroad and expand into foreign markets.

Not surprisingly, we're seeing notable growth in the business-to-business (B2B) cross-border payments market—with the market exceeding \$125 trillion in 2017, according to [McKinsey & Company](#). The firm estimates revenues from this market will surge another 9 percent by 2022, reaching almost \$3 trillion.

SME cross-border payments is a significant portion of this market, at least \$10-15 trillion annually. It's composed of roughly half-and-half between accounts payable and marketplace payouts. It's also worth noting that SME B2B markets are out-pacing C2B (consumer-to-business), B2C (business-to-consumer, including wages and payouts) and C2C (consumer-to-consumer remittances) markets—growing faster than C2C and B2C at 5-10 percent per year. Financial institutions stand to gain a lot from tapping into the SME B2B cross-border payments market.

Opportunity in Emerging Markets

The opportunity in SME B2B cross-border payments is especially strong in emerging markets. About two-thirds of these payments are from developed countries, while profitability and growth is [twice as high in emerging markets](#) as in the developed world.

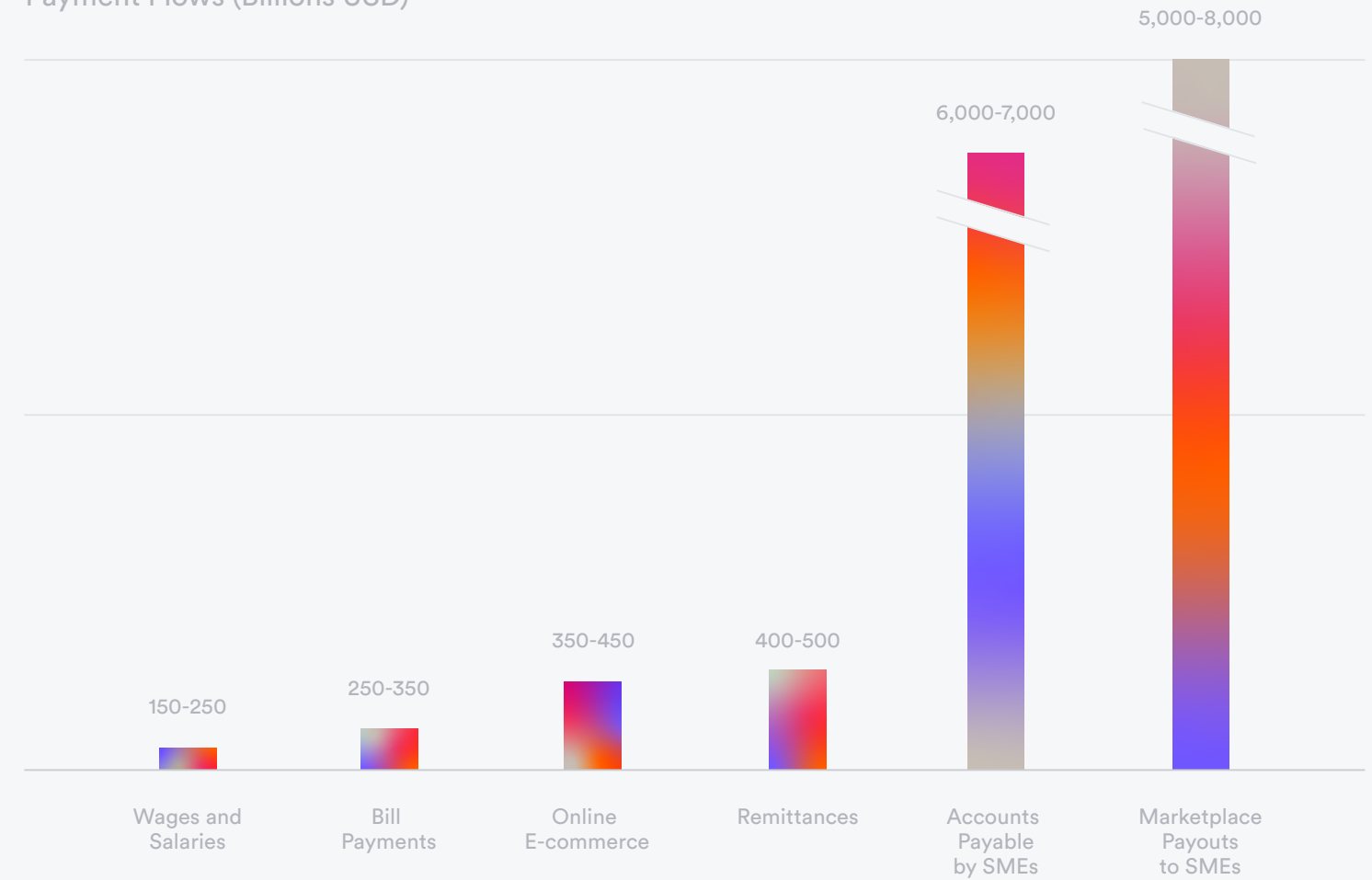
SME cross-border payments revenues in emerging markets have reached as much as \$100-150 billion annually, according to Ripple's analysis with data from FXC Intelligence and Kapronasia. The majority of this revenue opportunity is found in Asia Pacific and Eastern Europe.

\$10-15 trillion:
SME cross-border payment flows

\$100-150 billion:
Revenue opportunity in largest emerging market corridors

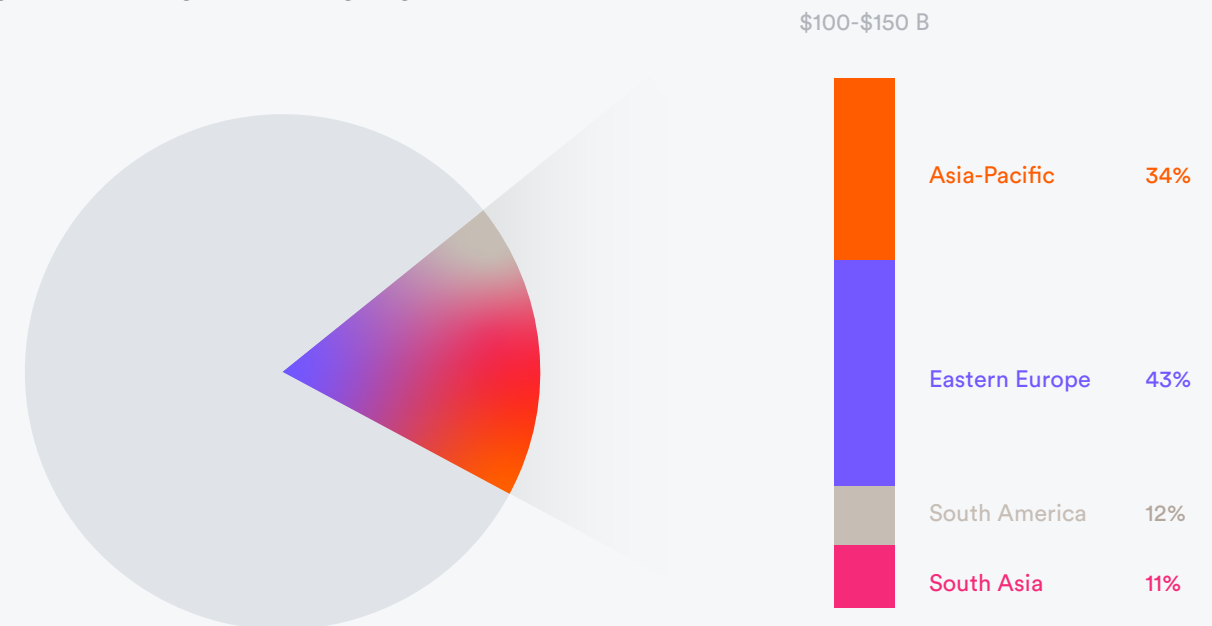
Low Value Cross-Border Flows

Payment Flows (Billions USD)

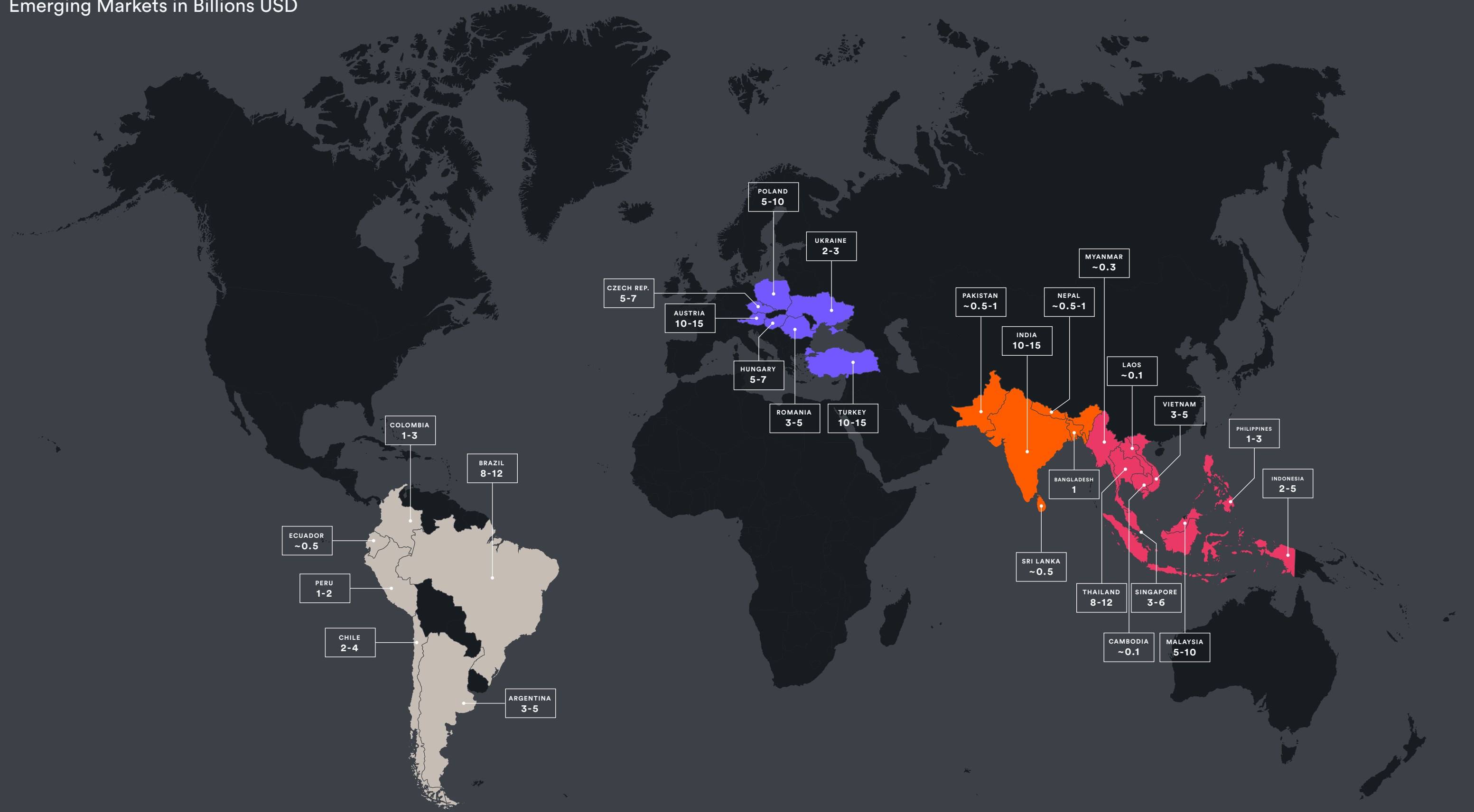


Source: [McKinsey & Company](#)

SME Cross-Border Payments Revenues in Highest Margin Emerging Markets



Revenue Opportunity in High-Margin Emerging Markets in Billions USD

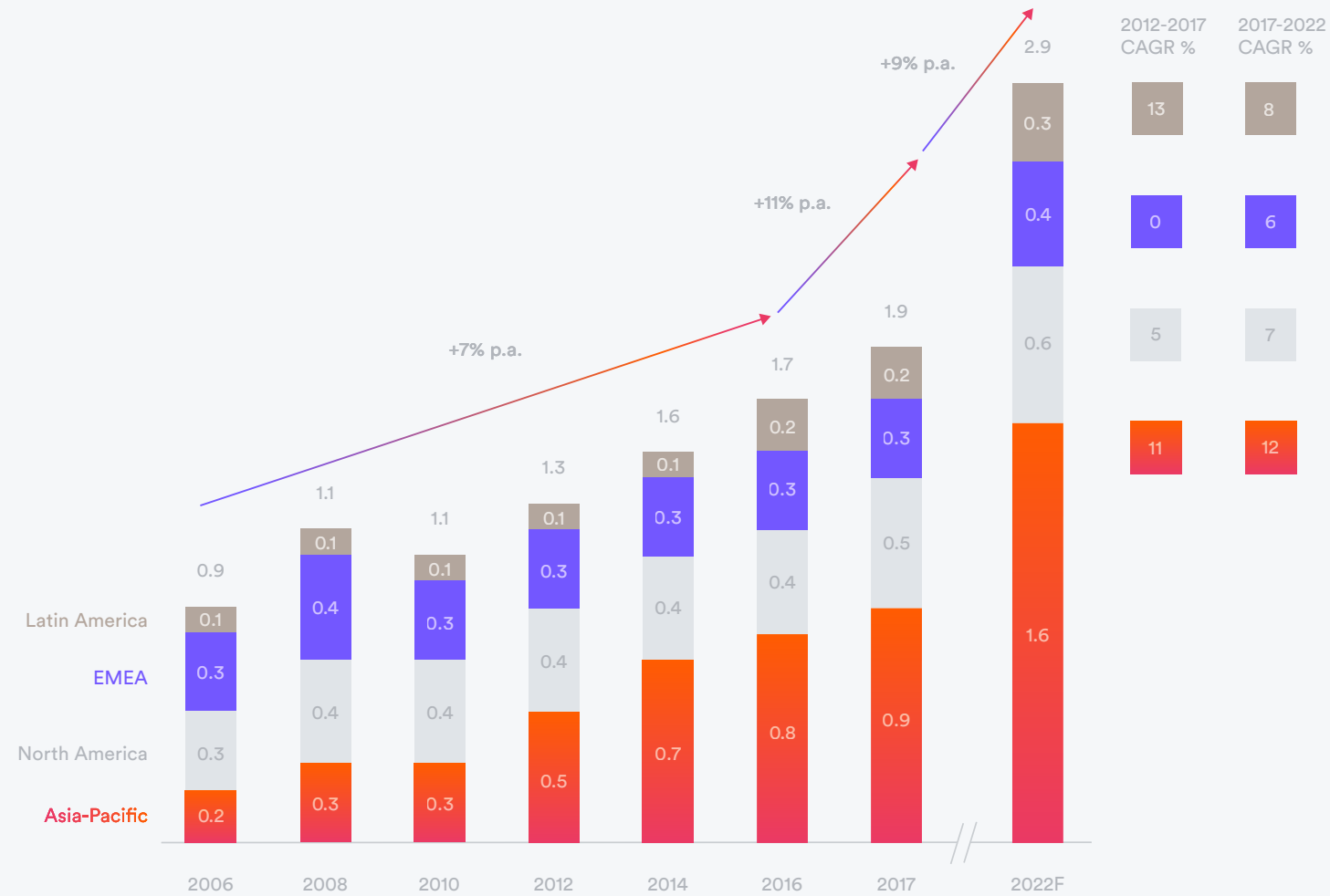


Source: Ripple Analysis, FXC Intelligence, Kapronasia



Emerging Market Growth Opportunity

Global Payment Revenues 2011-2022 in Trillions of Dollars



Global payment revenues are projected to grow 7 percent annually through 2022, but growth is unevenly distributed across regions. Countries in the APAC and LATM regions will see double the growth of EMEA countries.

Source: [McKinsey & Company](#)

SMEs' Needs Are Specialized and Largely Unmet by Traditional Systems



Despite recent growth, the SME B2B cross-border payments market is stunted by lack of traditional financial services.

Fees for international payments are extremely high, and in some regions, cross-border services aren't even readily available.

Yet, SMEs are increasingly reliant on cross-border payments for growth, both to access new customers and to tap suppliers and outsourced employees. With fewer banks extending capital to SMEs since the 2008 financial crisis, these businesses have trouble getting credit to supplement their already limited working capital (around 70 percent of SMEs in emerging markets lack access to credit, according to the [World Bank](#)).

Further, traditional global payments systems involve a lot of intermediaries—not only does this slow down payments, it also introduces more margin for error. Any lag-time between paying these suppliers and employees really impacts SMEs' ability to maintain their business, and grow and scale. To compete, SMEs need to be able to focus on their business, not on whether their supplier receives a payment.

Imagine a small clothing manufacturer in Thailand that needs to import raw materials and fabric. The timing of payments is crucial: without a lot of working capital, the business depends on fast-moving payments to keep the goods flowing. But cross-border payments are slow, taking up to several days, with large fees and limited visibility into payment status and delivery. This impacts the business owner's ability to build trust with suppliers, outsourced talent and banks that might extend them credit. High fees associated with cross-border payments have an even greater impact on their bottom line, hurting SMEs' ability to conduct business.

SMEs need new payments solutions. They need to be able to move small amounts of money internationally at high speed and with certainty. But this isn't how cross-border payments today operate, and no surprise, 71 percent of SMEs believe cross-border payments are problematic.

Why Are SME Needs Not Being Met?

The needs of individuals and businesses sending cross-border payments have dramatically evolved. These customers have traditionally been served by retail banks, which are not meeting their cross-border payment needs. SMEs are now demanding real-time, low-cost and fully trackable payments on a global scale.

But today's inefficient system of moving money around the world means high costs for banks and payment providers. Their working capital is locked up in [nostro and vostro accounts](#), pre-funding local currencies on each side of a transaction, and transaction, carry exorbitant fees and foreign exchange (FX) costs. New technologies and processes that can reduce overhead costs and lag-time are key to tapping the growing cross-border SME B2B payments market.

SME Pain Points

- **Visibility** Limited visibility into the total costs and timing of payments
- **Traceability** No traceability when the payment will actually arrive
- **Speed** Settlements slowed down by transfers through correspondent banks
- **Cost** Very expensive foreign exchange spreads and fees

Cost of B2B Payments

- **2-5 days** to settle on average
 - **\$30-\$100+** cost per transaction
 - **4-6%** international payment error rate
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New Technology Can Bring Better Services to SMEs

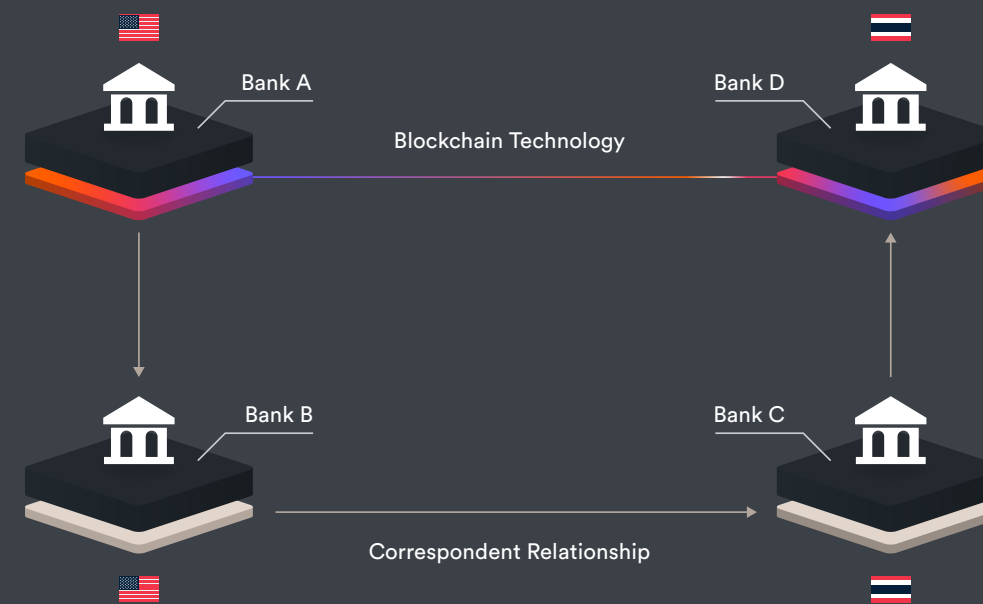
This dramatic cross-border payment gap in services available today and the needs of the growing SME market offers a lot of room for financial institutions to grow their bottom line.

Payments solutions are rapidly evolving to backfill the void left by the legacy infrastructure. Consumerization of these solutions, and technologies including mobile wallets and blockchain, are leveling the playing field and allowing new entrants to compete with the handful of large banks that have historically dominated cross-border payments.

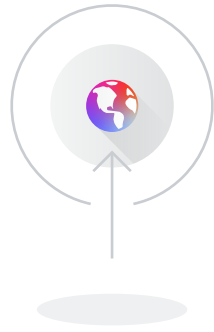
Blockchain technology, offers one solution that a growing number of these financial institutions are adopting. Blockchain offers a cryptographically secure, end-to-end payment flow with transaction immutability and consistency in information sharing.



Blockchain vs. Correspondent Banking



By cutting out the middlemen in the correspondent banking system, blockchain-powered payments increase speed and reduce costs for providers and SMEs.



One Standardized Connection

Traditional global payments systems involve a lot of intermediaries. With blockchain technology, financial institutions can access on-demand liquidity globally with one standardized connection.



Increased Transparency and Accountability

Maximize end-to-end visibility of fees, delivery time, status and customer information through APIs.



Resiliency and Fraud Protection

Eliminate the possibility of errors and fraud with pre-validation for real-time settlements.



Reduced Cost

Reduce total payment costs by minimizing pre-funding requirements and lowering processing and foreign exchange costs.



Speed

Route payments efficiently and leverage instant settlement to transact in seconds, instead of days.



Rich Data Transfer

Send invoice information across securely and attached to settlement instructions (i.e., messaging and settlement are not disconnected).

About Ripple



Ripple provides one frictionless experience to send money globally using the power of blockchain. Customers can use the digital asset XRP, as alternative to pre-funding, to further reduce costs and access new markets.

Ripple's global payments network includes 200+ financial institutions across 50+ countries worldwide. It brings new efficiency to cross-border payments by enabling real-time settlement, ensuring transaction certainty and removing the risk of payment failure. Ripple's technology includes data-rich messaging between all transacting parties and uses a standardized ruleset to send real-time, on-demand, low-cost and trackable payments around the world. RippleNet also connects siloed payments systems through an open, neutral protocol—Interledger Protocol (ILP).

By joining Ripple's growing, global network, financial institutions can process their customers' payments anywhere in the world instantly, reliably and cost-effectively.

Forging New Corridors for New Customers: InstaRem and BeeTech

Building new corridors for opportunity in B2B cross-border payments requires building international relationships between financial institutions. Not a simple matter.

But innovative companies like [InstaReM](#), in the UK, and [BeeTech](#), in Brazil, formed a bridge across the Atlantic Ocean using RippleNet, allowing them to establish new corridors for B2B payments and consumer remittances from Brazil to Spain, Italy, Germany, France and Portugal.

With RippleNet, InstaReM and BeeTech are able to provide real-time, efficient payments that lower overall costs. Both financial institutions are also able to create new business opportunities for their customers and scale their connections around the world faster.

[Learn More](#)

Contact Us

For more information about how Ripple and RippleNet can offer faster, cheaper and more transparent global payments, please visit us at ripple.com/contact

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About Ripple

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Banks and payment providers can use the digital asset XRP to further reduce their costs and access new markets.

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