Financial Services Practice

How banks can win back lower-value cross-border payments business

Nontraditional players have been making significant inroads in the peer-to-peer and small-business cross-border sphere. Here are the steps banks can take to turn the tide.

This blog is a collaborative effort by Blazej Karwowski, Sonia Barquin, Uzayr Jeenah with Jonathan Chan and Reema Jain, representing views from McKinsey's Financial Services Practice.

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Banks, particularly large global transaction banks, dominate the business of serving the international payments and trade finance needs of large corporates. But an increasing share of lower-value small-business and peer-to-peer (P2P) transactions is served by nontraditional players, including money transfer operators (MTOs), challenger banks, and solution specialists.

For a sense of scale, lower-value flows (including P2P, consumer-to-business or C2B, B2C, and low-value B2B) accounted for about 10 percent of the roughly $179 trillion in global cross-border payments in 2024, according to the McKinsey Global Payments Map (Exhibit 1). However, these lower-value flows make up close to one-third of the total revenue pool and consequently are under increasing attack.

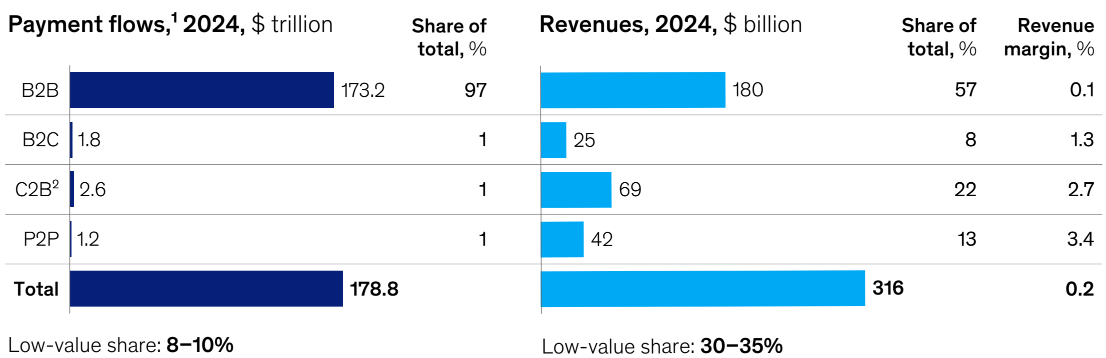
Given the relatively high margins in this segment (as high as 3.4 percent in P2P), it has been the primary focus for attackers. Their value proposition, which focuses on lower prices (often one-fifth of what traditional players charge) and better customer experiences, has been hard to combat. The question for banks is how to stem the share loss without cannibalizing existing revenues; given the substantial price differential, incumbents are often better off losing share than matching attacker prices. In addition to the value directly at stake, superior cross-border offerings also help banks protect against the loss of deposits to balances held with nontraditional players.

The rise of nontraditional providers

Our research suggests that in 2024, up to 65 percent of the value of international P2P transfers was captured by nontraditional providers, depending on the region. This share reflects a long-term trend fueled by a mix of factors, including banks' comparatively high fees, less favorable foreign-exchange rates, more cumbersome client experiences, and more limited pay-in and payout options.

Exhibit 1

Low-value payments make up about 10 percent of total cross-border flows but contribute about one-third of the total revenue pool.



[1]Includes 48 countries representing >90% of global GDP; P2P includes 200+ countries.
[2]There may be some overlap between consumer-to-business (C2B) and peer-to-peer (P2P) payments, due to P2P2B payments. This is expected to be a relatively small proportion (~$70 billion–$140 billion).
Source: McKinsey Cross-Border Payments Map; McKinsey Global Payments Map, 2024 (2024 values estimated using 2023 McKinsey Cross-Border Payments market size and CAGR analysis)

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Nontraditional providers are also making inroads with small and medium-size enterprises (SMEs) and even mid-corporates' international payments flows. Customer surveys we conducted in 2024 across North America, Europe, and Emerging Asia indicate that between 35 percent and 50 percent of SMEs—with large variances across geographies—and a similar share of mid-corporates have used a fintech or nontraditional player in the past year for cross-border payments.

It is worth considering why businesses are so open to other options. Executives at SMEs and mid-corporates indicate that pricing, access to intuitive foreign-exchange hedging tools (historically reserved for large corporate customers), and tailored solutions like disbursements to fragmented end points such as wallets, accounts, and cards all influence decision-making.

Ongoing innovation on rails

The legacy correspondent banking system continues to be upgraded, including new initiatives that aim to increase processing speed and the traceability of international transfers between banks.

In parallel, multiple players have launched initiatives to enable faster and more cost-effective processing and settlement of international payments. These initiatives—which are still relatively nascent and largely focused on lower-value payments and region-specific corridors—are giving rise to an increasingly "multi-rail" payment landscape, with alternatives coexisting with the correspondent system, which relies on intermediaries and nostro–vostro accounts to settle cross-border payments. Examples include the following:

— *Efforts to link newly established instant payment systems.* Notable efforts include the Arab regional payment system Buna, the collaboration between Singapore's MAS and India's UPI, the Bank for International Settlements' Project Nexus, the joint Immediate Cross-Border Payments project (IXB pilot project) between EBA Clearing and The Clearing House, and the launch of cross-border mobile transfers between Portugal, Spain and Italy.

— *Banks leveraging solutions from platform providers to increase the efficiency of their international payments.* Wise Platform has gathered headlines about its partnerships with Bank Mandiri, Morgan Stanley, Standard Chartered, and more. Multiple others also are aiming to extend their reach in an increasingly competitive space.

— *Major payments technology and even nonfinancial companies testing the potential of private stablecoins to achieve more effective operations.* PayPal is leveraging its in-house-issued PYUSD stablecoin to settle international transfers for its Xoom subsidiary, and DP World is making efforts to streamline and accelerate trade flows across Asia and Africa.[1]

— *Payments providers are investigating the potential of using public stablecoins for more efficient settlement of cross-border payments.* Visa, for example, tested usage of USDC for settlement, and Thunes partnered with Circle to improve liquidity management with a stablecoin-based solution. Also, Stripe recently acquired Bridge Network to enable stablecoin-based payouts and collections.

While efficient payment rails and interbank settlements are crucial for enabling high-reliability cross-border payments, their use does not answer core customer needs. Pricing, seamless and intuitive front-end experiences, and value-added features—all of which require a fundamental rethinking—are largely independent of the rail choices.

[1] Ryan Harmon, "DP World introduces stablecoin payments for global trade settlements," *Logistics Middle East,* January 24, 2025.

Winning the lower-value cross-border customer

To recapture the opportunity while maintaining margins, banks should innovate along other dimensions, prioritizing specific use cases (for example, travel, payroll, remittance) and corridors. Low-value payments are typically much more fragmented geographically than high-value payment flows, necessitating a broader range of payout options and new currency pairs. This is particularly the case in P2P payments (Exhibit 2).

Focusing on specific corridors and use cases has allowed attackers like Airwallex (SME payments in Asia), Deel (global payroll), Flywire (education), and Mukuru (remittances to Zimbabwe) to scale while often maintaining healthy margins. Corridor plays often include enabling alternative payout mechanisms such as mobile wallets in specific recipient markets.

Both individual and SME/mid-corporate respondents to recent banking surveys from McKinsey highlight opportunities for product innovation, with customers calling out features that would drive their provider choices:

— Individuals identify the most sought-after features, beyond an intuitive and seamless experience, as multicurrency wallets, often coupled with payment cards. These allow

Exhibit 2

Low-value peer-to-peer payments are fragments, with top ten send and receive markets accounting for a third of total principal.

Cross-border P2P[1] principal value, 2023, $ billion

Share of total principal value: <1% 1–5% >5% N/A

Send \ *Receive*	India	Mexico	China	Philippines	France	Egypt	Pakistan	Bangladesh	Nigeria	Guatemala	Rest of world	**Total**
US	25.4	87.8	15.6	18.1	3.8	1.8	2.1	1.1	6.4	24.0	106.5	**292.6**
Saudi Arabia	23.3	–	–	5.7	–	8.6	7.5	5.3	–	–	17.3	**67.8**
UAE	32.3	–	–	5.0	0.4	8.0	5.0	4.6	0.3	–	4.9	**60.5**
Germany	1.6	0.2	0.9	0.5	3.0	0.4	0.4	0.1	1.2	0.0	42.5	**50.8**
UK	7.9	0.1	1.6	1.5	3.6	0.3	2.7	1.0	3.5	0.0	26.3	**48.5**
Canada	6.7	0.7	4.2	5.6	2.4	0.6	1.1	0.3	0.7	0.4	18.5	**41.3**
France	0.6	0.1	0.7	0.2	–	0.3	0.2	0.1	0.3	0.1	34.1	**36.6**
Spain	0.4	0.5	1.1	0.4	4.5	0.0	0.4	0.1	0.5	0.2	25.6	**33.7**
Australia	6.7	0.1	4.3	2.7	0.9	0.4	0.5	0.2	0.2	0.0	16.7	**32.8**
Italy	1.6	0.1	1.6	1.3	2.6	1.2	0.7	0.6	1.6	0.0	17.0	**28.4**
Rest of world	62.4	1.0	36.9	13.1	24.8	10.9	11.8	17.7	12.9	2.0	283.7	**477.3**
Total	**168.9**	**90.5**	**66.9**	**54.0**	**45.9**	**32.7**	**32.4**	**31.1**	**27.7**	**26.8**	**593.2**	**1,170.0**

[1]Peer-to-peer.
Source: McKinsey Global Payments Map

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users to easily hold and spend balances across a range of currencies and effectively control their spending by, for example, loading a predefined travel budget in a certain currency.

— SMEs and mid-corporates indicate that they are looking for a wider range of currencies, more sophisticated control over foreign-exchange rates such as “lock-and-hold” hedging tooling, and detailed track-and-trace systems. Furthermore, they expect these features in an accessible and intuitive context.

Beyond product innovation, banks need to ensure that their internal operating model supports the enhanced offering. Doing so will require screening and monitoring of outgoing and incoming cross-border payments in near real time. Overhauling the operating model will also call for making sense of the plethora of potential partners in the space, each covering different parts of the value chain—for example, cutting-edge real-time monitoring solutions (ComplyAdvantage, Sardine, Trulio, and many others), cost-efficient access to specific corridors, and access to nontraditional end points like local wallets (Alipay+ and Thunes) and cash payout points.

Success will also require banks to shift to a more integrated and agile operating model so they can compete with fast-paced fintech innovation, particularly as banks’ cross-border payment engines and front ends often reside in different parts of the organization. This shift would allow for a test-and-learn approach and a targeted go-to-market strategy to build on the existing base, with whom early success is critical before attracting new clients.

The P2P and SME cross-border payments space is brimming with competition, which expands choice for customers and requires a response from banks. By prioritizing the most valuable and relevant corridors and use cases and by focusing their innovation and investment, banks can reverse current trends to build momentum and market share while avoiding a race to the bottom on price.

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