

# Navigating the Challenges and Opportunities of Cross-Border Payments in APAC

by Johanan Devanesan / September 8, 2023

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In recent years, the payments industry has undergone a paradigm shift, altering the way consumers and businesses interact financially. According to a McKinsey report, the global payments sector is approaching a staggering revenue opportunity of **nearly US\$2 trillion**. In the Asia-Pacific (APAC) region, this transformation is notably pronounced in cross-border payments, with changing consumer expectations, multiple regulatory landscapes, and multiple payment schemes complicating the industry's growth trajectory.

"It's not an evolution of payments, but it's **a revolution of payment systems** that's happening in the APAC region," commented Mahendra Shirali, Director, Business Strategy at SmartStream.

## The Three V's: Velocity, Volume, and Variability

Mahendra identifies three crucial factors shaping the payments industry in the APAC region: the velocity of change, the volume of payments, and the variability of payment messages. This triad serves as a navigational compass for financial institutions striving to adapt.

Firstly, the speed of technological advancements and cross-border payment systems linkages has created a new ecosystem. Governments and central banks are investing in interoperability and regulatory controls to support multiple payment schemes, such as accounts-to-accounts, wallets, BNPL (Buy Now, Pay Later), and cards.

Across Asia, there are consumer preferences at play. There is no single payment scheme that has a significant market share across the region. Credit cards are most popular in South Korea and Japan. China has long been a global leader in digital wallet adoption with AliPay and WeChatPay. Philippines, Indonesia, India, Malaysia and Vietnam are all expected to lead the growth for digital wallets through 2026. Malaysia and Thailand have a high percentage of Account to Account transfers.

Countries like [Singapore](#), [Malaysia](#), and [Thailand](#) have already established cross-border payment linkages. Additionally, since Q1 2023, India has been rolling out UPI and RuPay with relationships evolving with multiple countries, thereby adding complexity and volume to the payments landscape.

Secondly, the volume of payments is growing exponentially. With e-commerce seeing double-digit growth across APAC countries and each market showing different preferences in payment methods — like high credit card usage in Singapore and Taiwan, and digital wallets in China — the challenge for financial institutions to handle this diversity is monumental.

Lastly, there's the issue of variability in payment messages, given that some payment systems may operate on different versions of the same [ISO 20022](#) messages or indeed tweak the messages to their local payment rail requirements. This contributes to delays and failures in transactions, thereby diverting resources that could otherwise be used for enhancing customer experience.

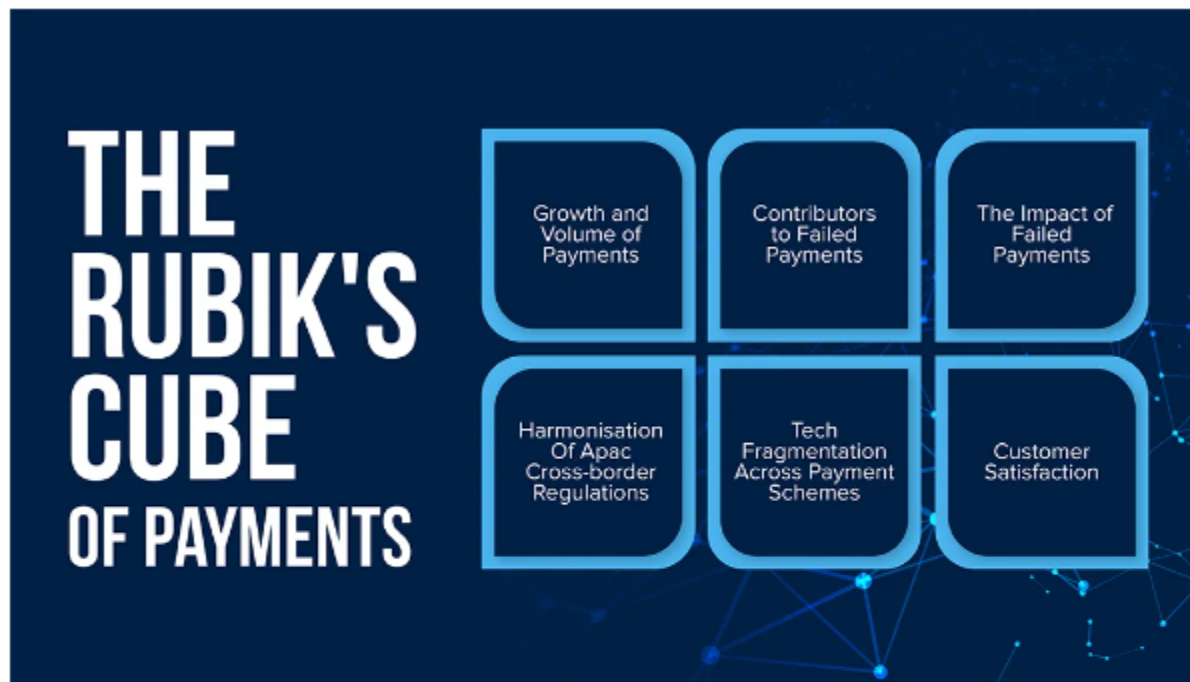
“So these three V's introduce a significant hurdle for efficient frictionless cross-border payments across APAC countries. Multiple payment rails are at play in APAC, creating their own set of challenges for a bank's operational agility, technology strategy, and customer experience,” Mahendra said.

## Unique Obstacles in the APAC Region

“In the APAC region uniquely, there are multiple cross-border payment schemes at play in different countries. And this effectively causes technology fragmentation in the banking system for them to accommodate all of this,” he went on.

A [myriad of payment schemes](#) exist here, including credit-backed wallets, digital wallets, and even emerging cryptocurrencies to fiat currencies, co-exist. These varying systems contribute to technology fragmentation and operational inefficiencies. Adding to the complexity are in-country variations in regulations and messaging standards.

This means that financial institutions must evolve their legacy systems to be agile, adaptive, and accommodating of this diverse payments landscape, says SmartStream's Director of Business Strategy Mahendra.



## The Rubik's Cube of Payments

According to Mahendra, navigating these challenges is like solving a Rubik's cube, with six dimensions: the growth and volume of payments, the contributors to failed payments, the impact of such failures, harmonisation of regional cross-border regulations, technology fragmentation across payment schemes, and customer satisfaction.

The surge in digital payments has shown impressive figures, including a projected market share growth from 3% in 2018 to a whopping **88% of transaction value by 2026** for digital wallets — while cash is expected to decline significantly, by about 34% in the same time frame.

However, this surge in adoption is rife with issues like remittance errors, lack of standardisation, and varying regulations, contributing to payment failures. These failures have far-reaching consequences, ranging from reputational damage to financial losses, estimated to be between US\$10 to US\$12 more per failed payment.

To streamline the process, it's essential to have systems that offer accuracy and speed in transactions, measurable operational efficiency, and robust automation features. Collectively, these factors would contribute to higher customer satisfaction, the ultimate aim of any service industry.

“So in that sense, this particular Rubik’s cube of payments, if we solve for the 5 dimensions (growth and volume of payments; contributors to failed payments; impact of these failed payments; harmonisation of APAC cross-border regulations; and technology fragmentation across payment schemes) the sixth dimension (that is, customer satisfaction) will automatically fall in place,” explained Mahendra.

“So they’re not only private players, but also it’s the government’s, the central banks, the market infrastructures within the APAC region, which need to align for a successful outcome.”

Amidst this complex cross-border payments ecosystem, SmartStream’s [TLM Advanced Payment Control \(APC\)](#) solution emerges as a beacon of hope. Developed with a design philosophy built on four cornerstones — international business practices, regulatory compliance, productised automation, and scalability — APC offers a comprehensive approach to tackling payments investigations, across multiple payment rails — be it domestic, regional, or cross-border.



“[Advanced Payment Control](#) is essentially built on these four design principles,” said Mahendra, elaborating that “Our design considerations incorporate guidelines prescribed by the Cross-Border Payments and Reporting group (CBPR+), the Payments Market Practice Group (PMPG), Committee on Payments and Market Infrastructures (CPMI) of the BIS, and the G20 Roadmap for Enhancing Cross-border Payments. We incorporate regulatory requirements into the product design, thereby enabling a single line-of-sight for an end-to-end cross-border payment.”

Another key design philosophy is to have a packaged offering based on standard templates, workflows, rule books, and payment rails. Automation is at every design step for payment investigations, including integration with market infrastructures such as Swift gpi (Global Payments Innovation).

This means that a bank can get operational with APC, in a fairly quick implementation, thus delivering a stakeholder strategy to onboard new payment rails in an agile manner and hence be more competitive in the region. Additionally, APC Payments Investigations is scalable to handle the most demanding customers.

“So it’s not just another system that you’re implementing, it’s an investment to aggregate payment investigation messages across multiple payment rails, introduce standardised ways of working within a team, single line-of-sight across a cross-border payment corridor, and make the entire payment investigation ecosystem at the bank more robust and more streamlined,” he surmised.

## **The Future of Cross-Border Payments in APAC**

In the dynamic landscape of APAC’s financial arena, the collaborative efforts of financial institutions and regulators are not just necessary — they’re pivotal in reshaping the future of cross-border payments. Picture a horizon where interoperability isn’t a buzzword but a standard; where security isn’t an afterthought but a guarantee; and where customer satisfaction isn’t a goal but an experience consistently delivered.

At the heart of this transformation lies game-changing technology like [SmartStream’s APC](#). It isn’t merely a tool, it’s a catalyst — empowering a leaner, more efficient, and profoundly customer-centric ecosystem for payment investigations.

From domestic corridors to regional networks and international gateways, [SmartStream’s APC](#) acts as the linchpin that holds this promising future together. And so, as we stand at the cusp of technological and financial evolution, we aren’t just witnessing change; we’re architecting a revolution in payments across all channels and borders.