

VODENO

# Market Research

Crossing Borders – Understanding  
the SME Payments Landscape

# Introduction

Small and medium enterprises (SMEs) are foundational pillars in the European economy, representing 99% of all businesses in the EU and accounting for more than half of Europe's GDP.

Thanks to the rise of eCommerce and the increased international mobility of goods and services over recent decades, as well as the emergence of marketplaces, there are now more opportunities for SMEs to sell and acquire products and services globally.

The backbone for SMEs and all enterprises is effective payment systems – speed, reliability and flexibility are fundamental to keeping business moving. This can be complex when operating in multiple currencies, and with the value of cross-border transactions estimated to surge from almost \$150 trillion in 2017 to over \$250 trillion by 2027, innovation in the payment landscape is one of the biggest trends in financial services.

SMEs recognise the value of transacting cross-border, however, many organisations are routinely met with critical pain points when trading internationally: slow and outdated processes, costly fees and limited transparency to name a few. Despite leaps forward made in the payments space at large, in some instances, cross-border payments can take several days to complete and cost up to 10 times more than domestic payments.

SMEs often find themselves more susceptible to the ebbs and flows of running a business internationally. While late payments may not affect larger organisations with healthy cash reserves, SMEs can experience instability, meaning that delays in owed money may prevent hiring and investment back into the business. In worst case scenarios, SMEs may be forced to take out expensive loans or, worse, close.

At Vodeno, we believe that all organisations, no matter their size, should have access to best-in-class financial products and services and a seamless, cost-effective cross-border payments experience. To delve deep into the current payment landscape and the specific challenges SMEs face when operating cross-border, in June 2022 we commissioned a robust body of independent research among more than 2,000 senior decision-makers at SMEs across Europe.

The following report presents the findings of our research. The compelling insights provide a clear picture of the payment challenges faced by SMEs and the opportunities that exist for innovation. The study provides valuable, timely insight into how Europe's SMEs are navigating the payments ecosystem and their visions for the future.



# Key findings at-a-glance

## How businesses are navigating the payments landscape



Most (52%) have failed to meet commitments as a result of slow payment processing

An even higher number (54%) reported that their company has been forced to take out a loan in the past as a result of missing payments that caused a disruption to their cash flow



Just 37% of European SMEs understand what a payment rail is – the crucial infrastructure underpinning the payments process – and how it works



23% say their international growth has been hindered as a result of delays in being able to make or receive payments

## Payment problems



Just 10% said that international payments are processed and reach their business instantly



The majority (62%) reported that delayed and unpredictable cashflow is the biggest challenge that their business currently faces

The same number said that costly foreign exchange and exchange rate fluctuations constitute a significant drain on their resources



17% state that varying regulations in different countries prevent them for doing business internationally

Similar numbers (15%) cite the legal and tax implications of selling their product overseas as a hindrance to their ability to serve customers internationally



# Key findings at-a-glance

## Re-evaluating payments priorities

**37%** More than one-third (37%) of the firms surveyed said that they select their preferred payment rail based on the speed and ease of payments

A further **35%** choose their preferred rail by assessing cost-effectiveness

**31%** said the speed of money delivery was a priority when selecting a rail

**29%** held that security guarantees and compliance standards were important

## The road ahead

**62%**  
Looking ahead



Looking ahead, more than three fifths (62%) feel they must urgently modernise their payment processing capabilities

**68%**  
Real-time Payment



In the next 12 months, the majority (68%) plan to adopt real-time payment processing capabilities

**37%**  
Speed & ease



Speed and ease of payments topped the list of priorities for European SMEs, with 37% stating that this was the most important factor when choosing their preferred payment rail

**A further 35%** said that cost plays a crucial role in their ability to serve customers across borders



# Real-time payments: the current state of play

An efficient and safe cross-border payments service is the northstar for many businesses, particularly with international trade and eCommerce on the rise.

However, our research shows that the majority of SMEs believe real-time payments remain out of reach. At present, just 10% of those surveyed have access to instant payments, with a further 11% stating that their payments are processed within the hour.

Instead, the highest number of respondents across all territories (35%) said that international payments take between two and three days to reach their business. This was the case for 59% of the Belgian firms surveyed, 30% in France, 25% in the UK and 19% of those in the Netherlands.

Just 10% of those surveyed have access to instant payments, with a further 11% stating that their payments are processed within the hour

## Delayed transactions

While delayed transactions may not cause significant issues for large companies with healthy cash reserves, smaller organisations are disproportionately affected by long settlement times and delayed transactions, all of which can prove detrimental to the SME lifecycle.

Based on our survey data, below is a comprehensive list of the length of time it takes for international payments from customers to be processed and reach the businesses. Here, the data pertains to the companies who sell or acquire products in currencies other than their local currency.



## Delayed transactions

Overall time taken for transactions

 Overall	 United Kingdom	 Netherlands	 Belgium	 France
<b>10%</b> Instantly	<b>10%</b> Instantly	<b>24%</b> Instantly	<b>3%</b> Instantly	<b>7%</b> Instantly
<b>11%</b> Within an hour	<b>19%</b> Within an hour	<b>9%</b> Within an hour	<b>4%</b> Within an hour	<b>15%</b> Within an hour
<b>25%</b> Over an hour or up to 24 hours	<b>31%</b> Over an hour or up to 24 hours	<b>24%</b> Over an hour or up to 24 hours	<b>18%</b> Over an hour or up to 24 hours	<b>28%</b> Over an hour or up to 24 hours
<b>35%</b> Between two and three days	<b>25%</b> Between two and three days	<b>19%</b> Between two and three days	<b>59%</b> Between two and three days	<b>30%</b> Between two and three days
<b>11%</b> Between four and six days	<b>10%</b> Between four and six days	<b>11%</b> Between four and six days	<b>13%</b> Between four and six days	<b>13%</b> Between four and six days
<b>4%</b> Between one and two weeks	<b>2%</b> Between one and two weeks	<b>7%</b> Between one and two weeks	<b>2%</b> Between one and two weeks	<b>4%</b> Between one and two weeks
<b>2%</b> Between three weeks and a month	<b>1%</b> Between three weeks and a month	<b>3%</b> Between three weeks and a month	<b>1%</b> Between three weeks and a month	<b>2%</b> Between three weeks and a month
<b>1%</b> Longer than a month	<b>1%</b> Longer than a month	<b>1%</b> Longer than a month	<b>1%</b> Longer than a month	<b>0%</b> Longer than a month
<b>1%</b> Not sure	<b>2%</b> Not sure	<b>2%</b> Not sure	<b>0%</b> Not sure	<b>2%</b> Not sure

# Delayed transactions

Vodeno's survey suggests that it takes between two and three days for international payments to reach the majority of European SMEs.

Although the research shows that access to instant settlement was the highest amongst those in the Netherlands, overall uptake is limited amongst respondents and a far cry away from reaching the benchmark set by real-time payment networks.

infrastructure through their payment partners to facilitate real-time payments of up to £1 million, while SEPA Instant Credit Transfers (SCT Inst) provides a pan-European solution that has been operational since November 2017.

This comes despite the fact that 60 markets globally have a live, real-time payment infrastructure in place at present – meaning that up to 72% of the world already have or is soon to launch the ability to make instant transactions a reality. Businesses in the UK, for example, can gain access to Faster Payment System

Up to 72% of the world already have or is soon to launch the ability to make instant transactions a reality



# Costly fees

While these transfers are technically possible, the switch to real-time payments does not typically make sense for all customers due to the additional costs involved.

Most European banks do not offer real-time payments as their default choice and typically denote the service as a separate channel with separate fees involved. Depending on their specific needs, it is likely that SMEs only resort to instant payments in exceptional circumstances to minimise their expenditure, while others may struggle to differentiate between different rails without assistance from their bank or a third-party payment provider.

Vodeno's survey data reveals that, on average, most SMEs pay between 1% and 1.5% in transaction fees for each transaction amount, with enterprises in the Netherlands paying the highest fees (on average they pay between 1.5 and 2%).

However, given that more than half (57%) of the SMEs surveyed plan to switch payment providers in the next 12 months, and a further 68% plan to adopt real-time payment processing capabilities within the same time period, many will no doubt be looking to providers like Vodeno to choose the fastest and most cost-effective route for their transactions. This is certainly true of 15% of SMEs, who said that real-time payment options would make the biggest positive difference to their ability to deliver products and services, enhancing their available cash flow.





# Uncovering payments pain-points

SMEs grapple with a tranche of other problems connected to their ability to transact and settle payments quickly and efficiently. In some cases, this hinders their ability to operate effectively and deliver a smooth payment experience to customers.



**Delayed and unpredictable cash flow**

**62%** of European SMEs counted cash flow issues among some of the biggest challenges that their business faces.

**A further 54%** said that cash flow problems as a result of missing payments has prompted their organisation to take out a loan to stay afloat in the past.



**Costly FX and exchange rate fluctuations**

**61%** of European SMEs cite the cost of foreign exchange and rate fluctuations as a significant drain on their resources. The industry standard for a foreign exchange spread at many traditional banks currently is up to 10% or more. In effect, this means that the costs of operating cross-border may cancel out the benefits of expanding into different territories.



**Slow payment processing and a failure to meet commitments**

**Overall, 52%** of those surveyed said that their business has failed to meet important obligations as a result of poor payment processing capabilities.



**Security and fraud payment**

**54%** of SMEs also reported that their business has been impacted by security and fraud issues, which in turn have affected their ability to transact with customers across borders.



**Navigating regulations in international markets**

**A further 17%** said that the task of navigating different regulations in different markets has proved challenging, preventing them from doing business internationally.



**Legal challenges and tax implications**

**15%** regarded the legal and tax implications that come with selling their product or service overseas as another key barrier to their ability to operate abroad.

**Our findings demonstrate that SMEs can become overwhelmed by the vast number of considerations surrounding the payments journey. As such, some may put off their plans for expansion, taking the mindset that these challenges are insurmountable.**

# Security measures and fraud

As mentioned in the previous section, like most other merchants and companies, SMEs are affected by security and fraud risks. Right now, fraud is a growing issue for all businesses across the payments ecosystem, but SMEs are particularly at risk from financial loss, compromised consumer trust and reputational damage.

With a much wider range of payment options now on the market, the majority of European markets have seen a reduced volume of cash payments, with cards and digital payments proving increasingly popular. These developments are much to the advantage of the end-user, who benefits from payments that are quicker, more convenient and generally more secure.

However, as digital payments advance, so does fraud. As new fraud threats emerge, SMEs must consider how well they are equipped to tackle increasingly sophisticated risk factors. With this in mind, we asked SMEs about the biggest security challenges they encounter when dealing with international payments:



**1. Authentication** – The largest number of respondents (37%) said that authentication, which refers to the process of confirming a customer's identity, poses the biggest difficulty to their ability to deliver secure cross-border payments. This is, perhaps, partially due to the fact that SMEs may not have access to some of the more advanced solutions on the market, instead relying on weaker authentication processes that can be more easily bypassed by criminals



**2. Anti-money laundering (AML)** – A similar number (34%) stated that AML was a key fraud concern for their business, where the detection of suspicious or illicit transactions based on anomalies in behaviour may prove difficult for organisations that are under-equipped.



**3. Transaction amount limits** – 31% of European SMEs claimed that transaction amount limits can prove problematic to their ability to deliver secure payments cross-border. With payment limits for daily transactions higher than ever as a result of payment modernisation, these higher limits may lead to higher losses for small businesses.



**4. Sanction lists** – A further 21% cited sanction lists as a crucial security challenge for their business. Sanction lists limit or prevent trading with individuals, businesses and even whole nations. Although they are a legal requirement, screening these lists manually can be time-consuming and sometimes inaccurate, as there are so many lists to check, while SMEs may find that matches can sometimes turn out to be false positives.



**5. Politically exposed person (PEP)** – Similarly, 20% of SMEs consider the task of carrying out due diligence on PEPs as one of their most significant security challenges.

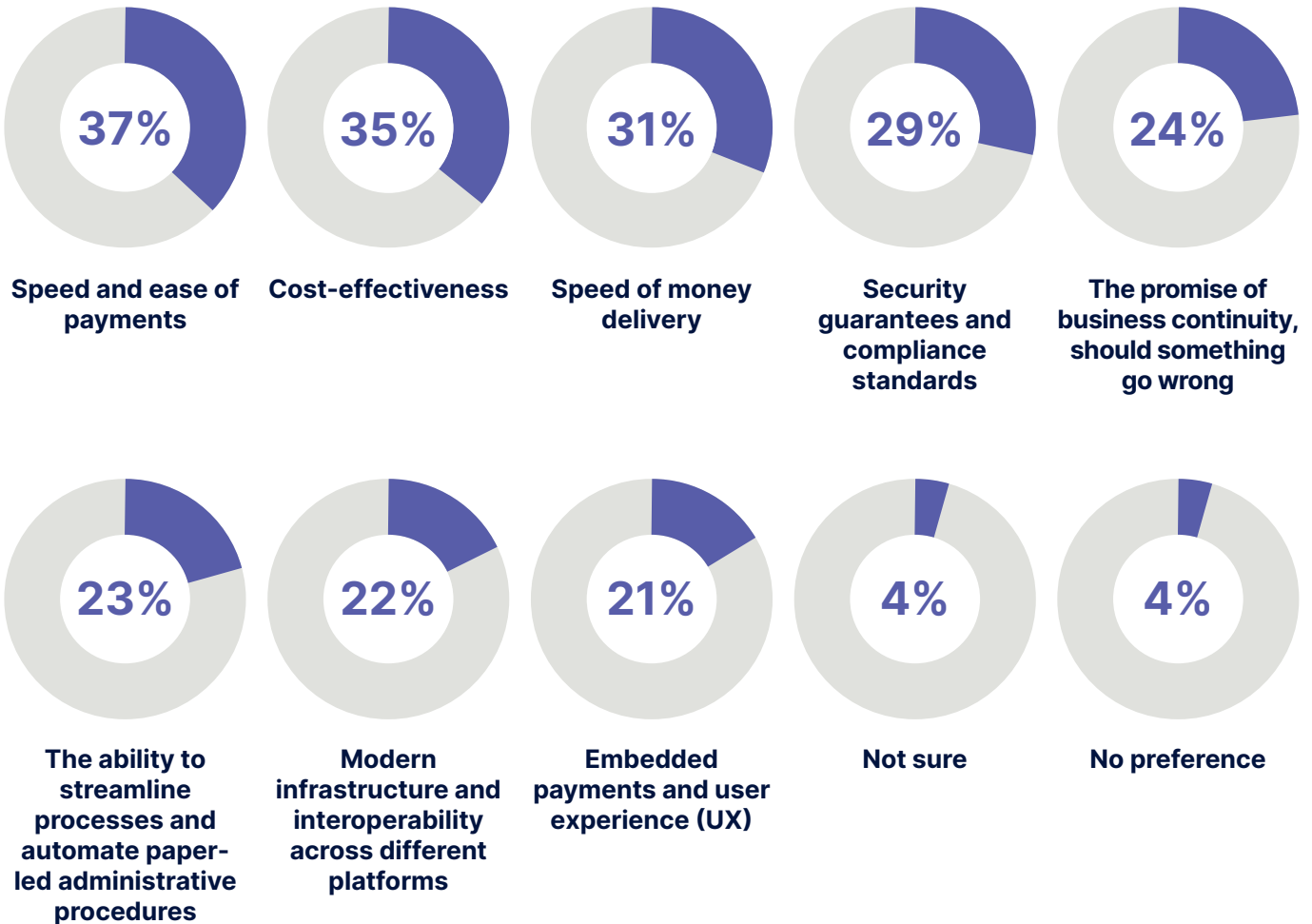
**As technology progresses and new opportunities for financial crime appear, SMEs must ensure they have a full compliance awareness to ensure payment security. While managing all of these security measures alone can be difficult, SMEs can benefit from finding a reliable payment provider that combines effective payment processing with robust anti-fraud protection that evolves as newer technologies are developed.**

# Selecting the right rails

From delayed transactions and excessive fees to regulatory and compliance concerns, this report explores many of the sticking points that SMEs must contend with when transacting across borders. However, many of these areas provide fruitful ground for innovation.

To understand more about how SMEs envisage their payment processes in an ideal world, Vodeno's study went further, seeking to determine the specific criteria that SMEs have in mind when choosing their payment rails and infrastructure. This is what the survey uncovered:

## Key criteria for SME payments



Percentage that selected it as a priority (Respondents were asked to select all that apply)

## Exploring the SME wish-list

Simplicity, cost-optimisation, speed and security all stood out at the top of the SME wish list, suggesting that businesses are not looking for drastic changes where their cross-border transactions are concerned. Instead, the majority of smaller enterprises are in search of better value payment solutions and better utilisation of pre-existing technologies to ensure fewer complications stand in the way of 'business as usual'.

Although businesses may have a clear picture of their wants and needs when selecting their payment rails, overall, Vodeno's research found that a lack of knowledge currently prevails over the payments landscape – our findings reveal the majority lack a thorough understanding of the underlying infrastructure that allows them to do this.

Of those surveyed, just 37% understood what a payment rail was and how it works – this highlights that SMEs do not want to be tasked with the responsibility of understanding the complexities of payment infrastructure, preferring banks or expert providers to make these decisions for them.

That said, SMEs that rely on traditional banks to handle their payments may find that additional fees begin to accumulate, as banks are not always the most cost effective payment partners for small businesses.

**Thankfully, Banking-as-a-Service (BaaS) providers are increasingly addressing the challenge of delivering more SME-friendly payment services that facilitate doing business abroad while keeping fees as low as possible.**

Experienced BaaS providers with the technology and necessary licence – as well as the regulatory and compliance expertise – provide a greater depth of support when it comes to payments alongside other banking products. SMEs can therefore focus on serving their customers, wherever they are, without worrying about any added complexities.



# A vision for the future of payments: the views of Vodeno

## Q&A with Krzysztof Hoffman, Head of Payments

### 1. Why are real-time payments so important to SMEs?

“ The role that payments play in the growth and success of SMEs should not be underestimated. In today's economy, payments that are faster and more cost-effective are no longer just a nice-to-have – they are fundamental to the survival of small businesses.

Our findings shed light on the areas ripe for improvement in the payments industry, as well as offering a clearer picture of the complications faced by SMEs. When it comes down to it, time is money for these organisations – delayed or missed transactions are not just a minor inconvenience, they can cause severe disruptions and significantly impact SMEs' ability to operate effectively. ”

### 2. What advances are set to revolutionise payments in the near future?

“ Over the next two years, I predict that the playing field will be levelled when it comes to the availability of real-time payments – another development that is likely to lessen legacy banks' position as the default payments provider for many SMEs.

Currently, all eyes are on Europe's continuing innovation in real-time solutions through initiatives like the New Payments Architecture (NPA) and P27 in the Nordic region, which aims to integrate domestic and cross-border payments in multiple currencies. I expect this progress to go global in the coming years, with more providers across different regions striving for greater harmony when transacting across geographical borders. As the competition amongst payments providers

intensifies, the costs of transacting instantly will lower, evolving from a costly convenience and a 'premium service', to table stakes amongst SMEs and their customers. In turn, this will make it much easier for SMEs to grow their business with minimal disruption to their cash flow. ”

### 3. How can BaaS providers simplify the payments journey for SMEs?

“ One of the standout findings from our survey was that a large majority – 62% of respondents – were aware of a pressing need to modernise their payment processing capabilities, while the same number said that FX exchange rate fluctuations are a significant drain on their resources. Undoubtedly, the costs of transacting cross-border are typically very high at present, and this acts as a significant barrier for organisations looking to transact more effectively.

While FX is an inevitable part of cross-border transactions, using a sub-optimal rail for any specific transfer can needlessly increase costs or settlement times – or both. With this in mind, it is likely that businesses will look to BaaS providers to fulfil their payments and settlement services in the future, in an effort to access quicker payments with greater cost-optimisation.

One of the key differentiators that makes BaaS providers stand out above banks is their superior technology. For example, our single API integration into businesses' ecosystems automatically identifies the best and most cost effective rail for each transaction, reducing overheads and boosting efficiency. Our authentication engine is also fully digital driven by proprietary software. We are able to offer SMEs the ability to make payments in the most efficient and secure way possible - this alongside our suite of BaaS products is powering retailers, brands and fintechs to grow faster. ”

## 3. How can BaaS providers simplify the payments journey for SMEs?

“ Safe, reliable and consistent payments are the glue that holds Europe’s SMEs together. Vodeno is proud to provide one of the most thorough end-to-end offerings on the market which integrates the right payment processes for each essential requirement, helping SMEs to navigate the payments ecosystem effortlessly. As the landscape matures, our API-based cloud native technology remains one step ahead of the curve, ensuring that SMEs can gain access to real-time payments solutions that are easy to implement and cost-effective, while our European banking license provides customers with complete peace of mind. Although running a small business is no simple task, we offer the latest and greatest solutions so that SMEs can move to the next stage of their business plan operate cross-border with ease. ”



**Krzysztof Hoffman**  
Head of Payments, Vodeno



## Footnotes

- i [https://single-market-economy.ec.europa.eu/smes\\_en](https://single-market-economy.ec.europa.eu/smes_en)
- ii <https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments>
- iii Ibid
- iv The market research was carried out in June 2022 among 2,004 senior decision-makers within European small and medium enterprises (SMEs) by independent market research agency Censuswide. Censuswide is a member of the Market Research Society (MRS) Company Partner Service, whose code of conduct and quality commitment it strictly adheres to. Its MRS membership means that it adheres to strict guidelines regarding all phases of research, including research design and data collection; communicating with respondents; conducting fieldwork; analysis and reporting; data storage. The 2,004 respondents are all in senior management positions within European SMEs – 504 from the UK, 500 from Belgium, 500 from France and 500 from the Netherlands.
- v This group accounted for 1350 of the 2,004 European SMEs surveyed, or 67% of the sample
- vi <https://worldpay.globalpaymentsreport.com/en>
- vii [https://www.ecb.europa.eu/paym/integration/retail/instant\\_payments/html/index.en.html](https://www.ecb.europa.eu/paym/integration/retail/instant_payments/html/index.en.html)
- viii <https://cdn.ingenico.com/binaries/content/assets/uk-website/other/ingenico-fighting-fraud-report-2020.pdf>
- ix This group accounted for 1350 of the 2,004 European SMEs surveyed, or 67% of the sample



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