WHITE PAPER

Relationship-Based Payments:

A NEW STANDARD FOR GLOBAL COMMERCE

Relationships make or break a business, and much of a small business' working relationships revolve around transactional trust. Your ability to pay suppliers, vendors and service providers on-time and in-full sets the tone for success.

It can be difficult to earn and maintain this trust when making payments to vendors around the world, in different currencies, on different terms. And unfortunately, traditional payment channels can work against small businesses. The crux of the problem is that traditional payment methods are strictly transactional. They focus solely on the act of moving money from one destination to another. They don't offer the flexibility or convenience needed to build business relationships because they don't support financial transactions for what they are: building blocks for trust.

As small businesses seek to establish trust, a relationship-based payment model is quickly becoming the new standard for global business payments.

Friction Within Traditional Transaction Channels

Every year, more and more small businesses find themselves transacting in a global marketplace. According to the **2021 Global Payments Report** from McKinsey & Company, global payments revenue totaled $1.9 trillion in 2020, and are expected to surge to $2.5 trillion by 2025.

Yet, despite the clear trend toward international commerce, the business payments landscape isn't without its flaws and challenges.

Institutional payment channels remain costly and cumbersome for small businesses, and there's transactional obfuscation that makes building trust difficult when it comes to sending money around the world. Simply put: small businesses need access to payment channels that offer simplicity, transparency and affordability—on both sides of the transaction.

Traditional payment channels

Before taking a closer look at the challenges associated with traditional payment processes, let's examine the different models used by legacy financial institutions.

BANK WIRES

Bank wire transfers bound for foreign destinations travel through the SWIFT network. For money to move through this network of intermediary banks, it's subject to fees and costly foreign exchange rates, which take a portion of every payment. It's expensive, inefficient and inflexible, especially for small businesses. **The average International bank wire costs a small business $42,** and of the 11 largest financial institutions in the United States, 10 charge at least $35 to initiate a foreign wire transfer.

The average international bank wire costs a small business $42

SOURCE: WWW.BANKRATE.COM

REMITTANCE PROVIDERS

Remittance providers like Western Union focus on the movement of money from one country to another. However, they only act on behalf of the sender. Through the remittance model, the sender is required to pay the foreign exchange difference—meaning the supplier must invoice in their local currency. As is the case with bank wires, payments made via remittance providers pass through multiple intermediaries—all of which take a cut. **According to the World Bank**, as of 2021, sending remittances costs an average of 6.3% of the amount sent.

FOREIGN EXCHANGE COMPANIES

Foreign exchange companies like SendFX and WorldFirst offer discounted rates in response to high foreign exchange markups. But as is the case with bank wires and remittance providers, these FX shops put the onus on the sender to provide the information necessary to complete a transaction. The receiver has no connection with the payment platform. Moreover, there's virtually no transparency while the payment is in transit. The process is cumbersome and confusing: the true cost of a low-fee transfer model.

The challenges of transactional payment models

While there are differences between traditional, transactional payment models, they share key short-comings that make forging relationships difficult:

- **Inconvenience:** Lengthy processes require the payment sender to fill out extensive information—often in-person.
- **Costs:** High costs to initiate foreign transfers and additional fees can hamper a small business' ability to send funds overseas.
- **Lack of transparency:** Lack of transparency and traceability causes friction in business relationships—especially when things don't go as expected.

These challenges are directly associated with **intermediaries** that over-complicate the process: banks, remittance providers, and FX shops. In fact, the definition of intermediation is "the act of coming between" not something conducive to relationship-building. So long as the sender and receiver are kept separate in traditional payment processes, a gap in trust will continue to exist.

Cutting Out the Middleman

In the world of financial transactions, there's a special term for cutting out the middleman: **disintermediation**. It's a term at the core of relationship-based payments and a cornerstone of peer-to-peer transaction models.

Disintermediation enables a two-party model where both sides interact on the same decentralized platform—all without third-party intervention. Both sides have an equal role in the transaction, which fosters a relationship between users. The transaction doesn't just move money: it builds the relationship.

Peer-to-peer transactions are one of the biggest catalysts pushing institutional transfers toward antiquation. According to McKinsey & Company, one of the "four horsemen of the e-pocalypse" is disintermediation—meaning that while banks used to own the financial-centric relationship with customers, the situation is quickly changing. According to the Committee on Payments and Market Infrastructures (CPMI), banks have seen a stark **decline in correspondent banking relationships**. In other words, bank-to-bank transfers. Small businesses are looking for more direct means of sending payments to their partners.

Peer-to-Peer is a Proven Preference

Peer-to-peer isn't a new concept. In fact, the idea of taking out the middleman is what made some of the music-sharing platforms of the late '90s and early 2000s such global phenomena. Today, the tech world abounds with examples of disintermediation.

Uber and Airbnb are two vastly different companies in different sectors. But what they both have in common is a business model structured around eliminating the middleman and enhancing relationships between users.

UBER CONNECTS RIDERS AND DRIVERS

Uber and other ride-hailing companies have revolutionized the traditional taxi model by using a mobile app that connects a passenger directly with a driver, creating a relationship between the two parties. While it might seem like the driver is the service provider in this situation, they're really just another user. When's the last time you spoke with Uber corporate?

Uber's app gives a clear indication of the pickup time, the driver's whereabouts, and the ability for the passenger and driver to communicate directly. After the ride, the passenger can provide feedback that the network utilizes to improve future relationships between drivers and passengers. The result is a more pleasant, transparent, trusting, and cost- effective experience.

AIRBNB CONNECTS LODGERS AND HOSTS

Airbnb is another success story of disintermediation. Whereas most hotels offer uniform experiences and services, Airbnb cuts out the middleman and lets travelers connect directly with hosts to book accommodations, forging a relationship between the two parties.

Like with Uber, a positive relationship is central to the experience. Whereas most hotels offer uniform experiences and services, cutting out the middleman and letting travelers connect directly with hosts offers Airbnb users the opportunity to select non-traditional accommodations that precisely suit their needs and budget. The platform allows travelers to provide feedback and ratings, which can be viewed by users and hosts, to facilitate a more meaningful relationship.

How Payments Improve Relationships

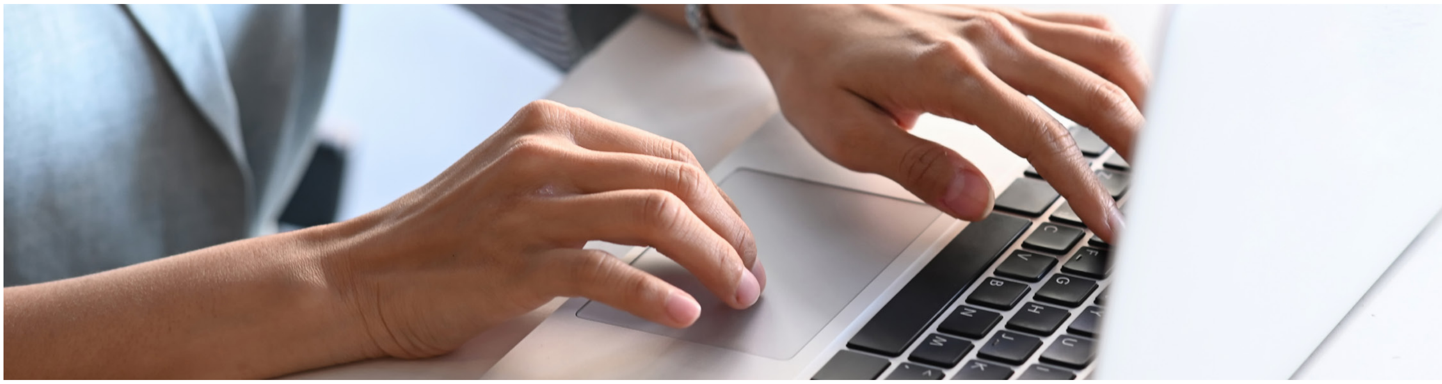
The world of business payments and transfers is ripe for **disintermediation.** As small businesses seek to forge relationships with partners around the globe, they're turning to payment solutions that foster trust.

For proof of how the relationship-based model is revolutionizing the payments realm, look no further than Venmo. This peer-to-peer mobile payments service has reportedly attracted more than 70 million active monthly users and facilitates an annual payment volume of over $230 billion. With transparent connections as the basis of Venmo's platform, it's become a de-facto mode of moving money outside of institutional channels.

Preference toward apps like Venmo and growth in the relationship-based payments space is no surprise considering the numerous benefits this model offers to **both senders and receivers.**

With a peer-to-peer network, the focus isn't just on the fact that one person can directly send a payment to another; it's also about fostering a relationship between the parties, using the payment as the point of connection.

Let's take a look at some of the advantages both parties enjoy in a peer-to-peer model.



SECURITY

Traditional payment methods require the sender to input the information of all parties involved in a transaction. With relationship-based payments, each party maintains their bank account information on the network, as opposed to with each other. The network also keeps track of any changes to the information. This provides an enhanced level of security and privacy across all participating parties.

PAYMENT TRACKING

Both the sender and receiver can track a transfer to see where the money is at all times. This heightened level of transparency eliminates uncertainty, frustrations, and the need for back-and-forth communication about payment status. Transparency is the single biggest catalyst for creating transactional trust.

CURRENCY EXCHANGE

Through traditional international funds transfer models, the sender pays any currency exchange fees—usually at a rate that's significantly inflated, relative to the prime exchange rate. Peer-to-peer payment networks not only allow recipients to burden the cost of exchange, they also enable funds transfer in a variety of currencies. This provides flexibility to both sides and ensures neither party incurs unexpected fees.

INTEGRATION OF DATA

Any necessary data (i.e., invoices, contracts, purpose of payment details) are transmitted along with the payment. With bank wires and remittance platforms, any associated data must be manually integrated by customers on either end of the transaction. However, the relationship-based model integrates data within the system and provides it to both parties as a complete package.

SINGLE PLATFORM

Unlike other payment models that only cater to the needs of the sender, relationship-based systems are two-way connections that meet the needs of both the sender and recipient. This means the same platform applies to a small business' payables and receivables, which smooths operations and streamlines financials.

Payments are Essential to Building Relationships

Relationships drive an organization's success, and payments are a critical part of forging and maintaining those relationships. Every payment transaction is an opportunity to gain and maintain trust between two parties. But relationships can't prosper when controlled by opaque and costly systems.

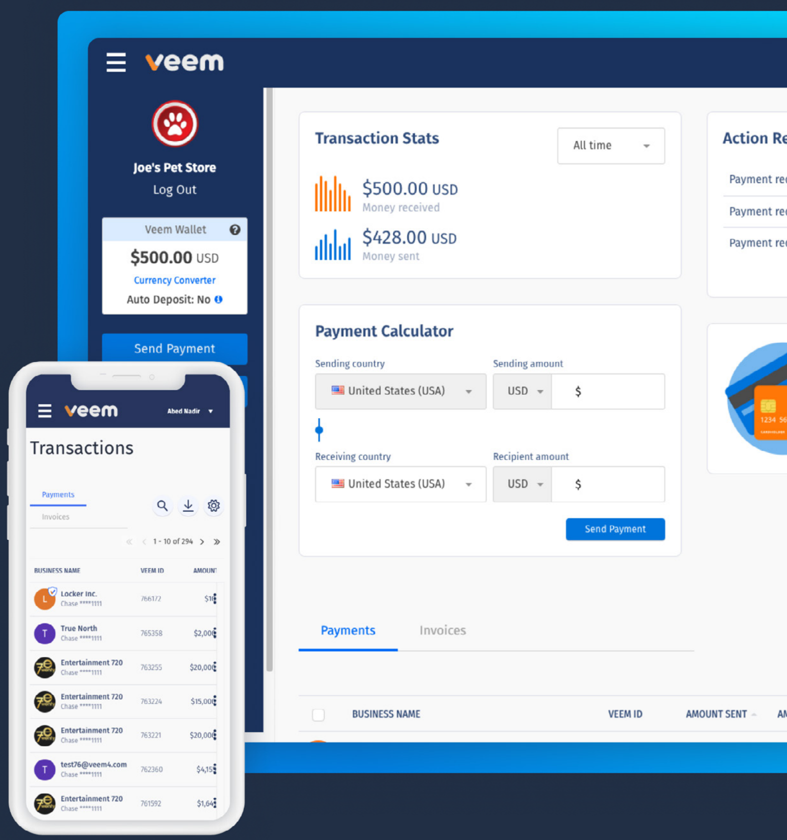
At Veem, we see payments as more than transactions; we know they're building blocks of trust and essential for supporting business relationships. We've built our platform specifically for small businesses working hard to forge relationships with partners around the globe. We're dedicated to setting a new standard for global business payments that's rooted in one powerful, enduring idea.

Relationships don't just matter—they're everything.

About Veem

Veem helps small businesses save time and optimize cash flow by simplifying the way they send and receive payments domestically and internationally. Trusted by more than 500,000 users in over 100 countries, Veem uncomplicates the end-to-end AP/AR process with seamless integrations to leading accounting software, real-time tracking on payments and cost-effective, flexible payment options. Now businesses have the power to pay how they prefer and eliminate friction with customers to get paid faster.

Veem holds all required licenses and works with regulated parties in every location it serves.



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