



The cost of going global: How are banks stifling dreams of overseas growth for UK SMBs?



Contents.

Introduction and foreword	3
The cost of going global — SMBs lost £3.6 billion in transaction fees	5
Exchange rate volatility — a key export challenge for UK businesses	6
Keep calm, carry on — How confident do SMBs feel about 2023?	7
Growth mindset — How do SMBs feel about international expansion?	9
Going global — Where are SMBs planning to grow their business?	11
The scale of the problem — Which currencies are UK businesses using?	12
Growing pains — What's the problem?	13
Business without borders — Meet Wise Business	14
Do more with Wise Business	15
CBPR2 & PSRs — How can policymakers help SMBs?	16
Methodology	17

Introduction and foreword.

Governments often describe the UK's 5.5 million Small to Midsize Businesses (SMBs) as the 'backbone of the British economy'.¹ Together, they employ 16.4 million people, generating an estimated £2.1 trillion in turnover, and account for 99.9% of the business population in the UK. Their value and contribution to the UK economy cannot be underestimated – and yet, as this report highlights, when it comes to financial services, they are consistently being underserved and overcharged.

As they emerged from the pandemic in 2021, UK businesses again found themselves on uncertain ground; a raft of macroeconomic pressures, rising costs and the rapid growth of the digital economy meant that many have begun to explore **expansion into international markets as a way to shore up revenues and grow their business**. These entrepreneurs are the engine behind the government's vision of Global Britain – 'open, outward looking, and confident on the world stage'.²

Former Prime Minister Boris Johnson spoke of the need for governments to 'make the case powerfully for freedom of exchange' as part of the UK's post-Brexit free trade agenda, which is underpinned by 'the right of the populations of the earth to buy and sell freely among each other.'

But for the UK's SMBs, as this report shows — the cost of doing trade overseas is far from free. Whether it's exporting Somerset cider to Slovenia or sourcing textiles from Indonesia, SMBs rely on their financial services providers for cross-border payments that can fuel their dreams of expansion.

And while banks claim to champion entrepreneurs and make loud pronouncements about their support for the UK's SMBs, the reality has long been hidden in **opaque transaction fees and variable charges for international payments**, which leave businesses with less money and less certainty when they need it most. That is why we founded Wise Business – to provide SMBs around the world with **fast, low cost and transparent international payments** that help them to realise their global potential.

This report combines research and data from numerous sources which set out the scale of the challenge SMBs are facing in the current economic climate. It also explores the ways in which large banks are undermining growth by charging hidden fees on **cross-border transactions, which are costing SMBs billions every year**.

Key findings

- **SMBs lost £3.6 billion to transaction fees in 2022**
- **25% of UK SMBs are planning to expand overseas in 2023**
- **24% of SMBs are put off entering new markets due to the cost and inconvenience of international banking**

This report finds that **SMBs lost £3.6 billion in transaction fees in 2022** – a figure which accounts for both upfront fees and the markup or margin that banks often hide within the 'exchange rate', while claiming to offer 0% transaction fees (pg 13).

As we explain, **urgent action is needed, not just from banks, but from governments and regulators** to ensure enhanced transparency rules are applied, and that banks are no longer able to exploit loopholes or 'corporate opt-outs' for SMB customers which allow them to continue charging hidden fees in inflated exchange rates (pg 16).

But this report also finds that the UK's SMBs remain resilient, enterprising and optimistic, with a majority feeling positive about their business prospects for 2023. They continue to innovate, grow their exports overseas and trade across the world, despite myriad challenges and bureaucratic frustrations. At Wise, we believe SMBs deserve better, and in this report we make the case for helping them to build their business without borders.

Definitions

- SMBs** Research included in this report defines SMBs as companies with 250 employees or fewer
- SMEs** Small to medium sized enterprises, defined in BEIS survey as businesses with 1-249 employees
- ONS** Office for National Statistics
- HMRC** His Majesty's Revenue and Customs

¹ [UK Business population estimates for the UK and regions 2022: statistical release](#)

² [Former Prime Minister Boris Johnson's speech in Greenwich, 3 February 2020](#)

True, transparent competition is key to change

We know that banks 'love' SMBs. At any one moment, at least one major bank is running a marketing campaign all about its love for the UK's SMBs.

However, there is a disconnect between what banks say and what banks do. As this report shows, SMBs have big ambitions to expand abroad. Overseas expansion brings new markets and new opportunities, it is a route to growth at a time when the domestic market is challenging. It's something banks *should* support.

And yet... big banks too often stand in the way of SMBs' overseas growth. It's sad that the slow, costly, opaque international services offered by banks are as much of a barrier to overseas growth as red tape and tariffs.

But it's not surprising. Banks get away with it because the sector has lacked competition.

That's why we started Wise Business: to offer SMBs something that's better, to give them international banking services that help – not hinder – their growth.

And it's why we're calling for change.

A truly competitive sector demands transparency. Without it, it's hugely difficult for time-poor SMBs to assess the market. By tightening existing regulation on international payments, the Government can – at no cost to the Treasury – give SMBs a real boost.

Then, with a truly competitive, transparent market, SMBs will be able to choose the service that best suits them as they expand abroad. Maybe that's Wise Business, maybe it's something else.

As things stand, it's unlikely to be a big bank.

And this is when real, transformative change happens. Faced with real competition, banks will be faced with a stark choice: shape up, or say goodbye to valuable SMBs customers.

Only then will their love for SMBs be more than hot air and false promises.



Harsh Sinha
Chief Technology Officer, Wise

The cost of going global — SMBs lost £3.6 billion in transaction fees.

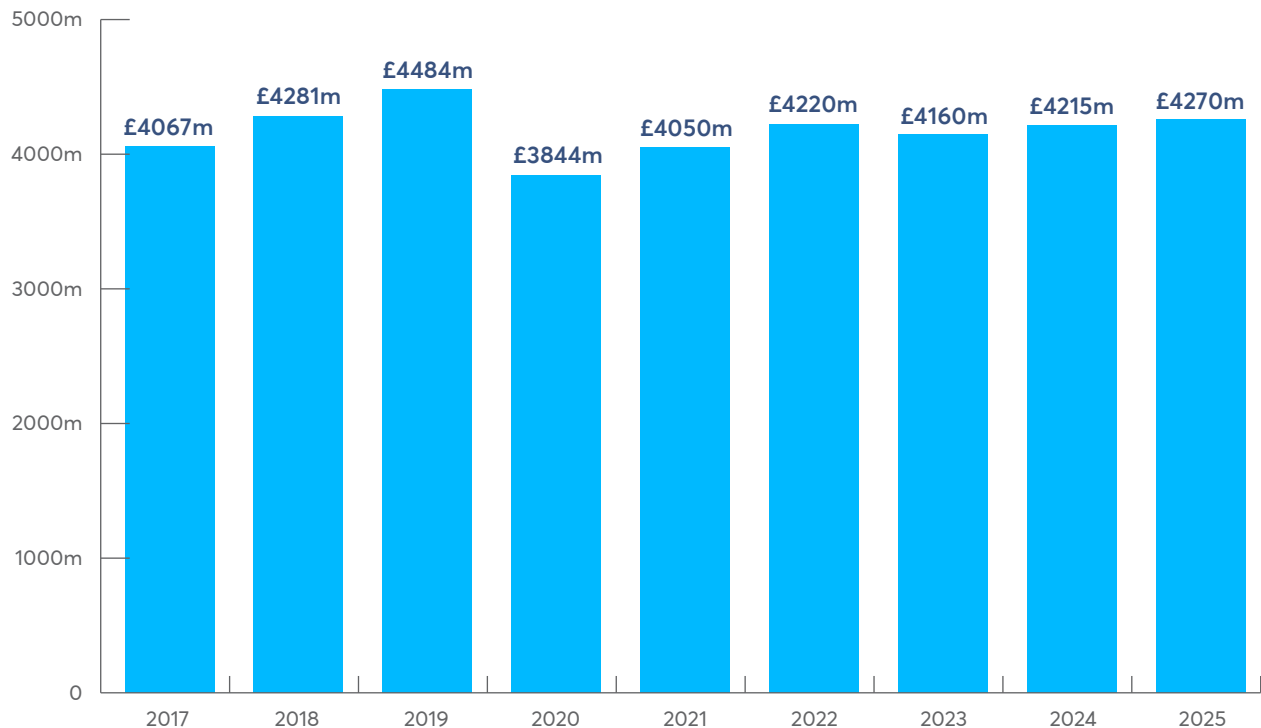
The UK's SMBs are facing a raft of economic challenges. From rising energy costs, record inflation, staff shortages and supply chain disruption, the headwinds for SMBs are building into a perfect storm. Faced with a darkening outlook in the domestic market, many entrepreneurs and **SMBs are shifting their focus overseas** to tap into growth opportunities in international markets. But even here they face rising costs.

New research from Public First, commissioned by Wise, has found that **Small and Medium Businesses (SMBs) in the UK lost an estimated £3.6 billion in transaction fees** while selling goods and services abroad in 2022. Transaction fees for cross-border transfers and payments are often **hidden within the exchange rates** quoted by banks, which are often considerably worse than the mid-market exchange rate at the time, allowing them to pocket the difference between the two to boost revenues. This means many SMBs are unaware of the overall transfer fee, which can eat into their operating margins and have a serious impact on cash flow.

In addition, the research has taken ONS data for trade and goods and services and calculated that in 2022 UK businesses lost an estimated £4.2 billion in transaction fees while selling goods and services abroad, and **are set to lose £4.27 billion by 2025**. When you consider that UK businesses exported a total of £32.9 billion of goods and services in November 2022 according to the ONS³, that's a sizable chunk taken out of profits for UK plc.

"In 2022 UK businesses lost an estimated £4.2 billion in transaction fees while selling goods and services abroad."

UK businesses lost an estimated £4.2 billion in transaction fees while sending goods and services abroad



Source: Public First/Wise

3 ONS trade data, November 2022

Exchange rate volatility — a key export challenge for UK businesses.

It's often assumed that smaller businesses lack the resources and expertise to expand overseas, but this assumption overlooks the facts: in the age of digital commerce and global supply chains, many **entrepreneurs and smaller businesses want to break into international markets** to tap new revenue sources, but face numerous challenges to realising their ambitions.

One in six SMEs (18%) exported goods or services abroad in 2021, according to a survey of SME employers from the Department for Business, Energy and Industrial Strategy (BEIS).⁴ And it's not just larger businesses that are looking abroad for growth; 16% of SMEs who exported in 2021 were micro businesses, 23% small businesses and 29% were medium-sized SMEs.

The same study found that in the next few years, **45% of SME exporters expected to increase their exporting activity in order to grow their businesses**, underlining the critical importance of financial services providers making international payments efficient and affordable to support these ambitions.

But on the road to overseas expansion, UK Businesses are coming up against major obstacles, not least of which is

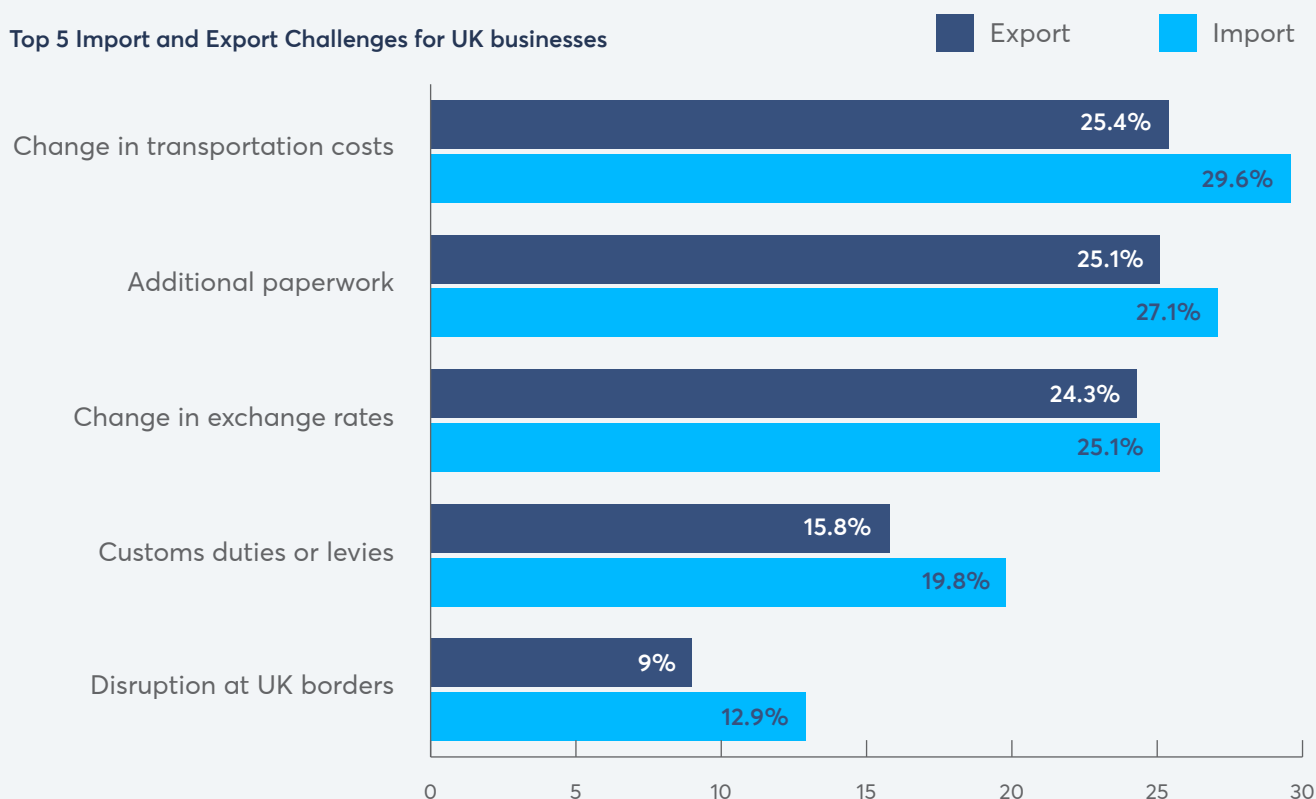
exchange rate volatility, which spiked in the wake of the Growth Plan fiscal statement (known as the 'mini-budget') in 2022. Exchange rate volatility is often priced in by banks, sending up the average price of transactions and putting even more pressure on businesses' finances.

An ONS survey in December 2022⁵ found that changes in exchange rates came **third out of 14 in the list of top challenges** for businesses, with 24% of exporters and 25% of importers saying exchange rate volatility was putting additional pressure on their business.

In fact, uncertain costs featured heavily on the list of most immediate business challenges, with changes in transportation costs rated the most pressing issue (25% for exporters and 29% for importers) followed by additional paperwork (25% exporters, 27% importers).

This **uncertainty over the cost of goods and services** has meant that SMBs face an uphill battle to manage cash flow and forecast operating margins – a problem which could become particularly acute if banking providers lack transparency about the fees charged on foreign exchange transfers, leaving SMBs to shoulder an unexpected cost of doing business overseas.

Top 5 Import and Export Challenges for UK businesses



Source: ONS, Business insights and impact on the UK economy, Dec 2022

⁴ Longitudinal Small Business Survey: SME Employers, BEIS, August 2022

⁵ ONS Business insights and impact on the UK economy survey, January 2023

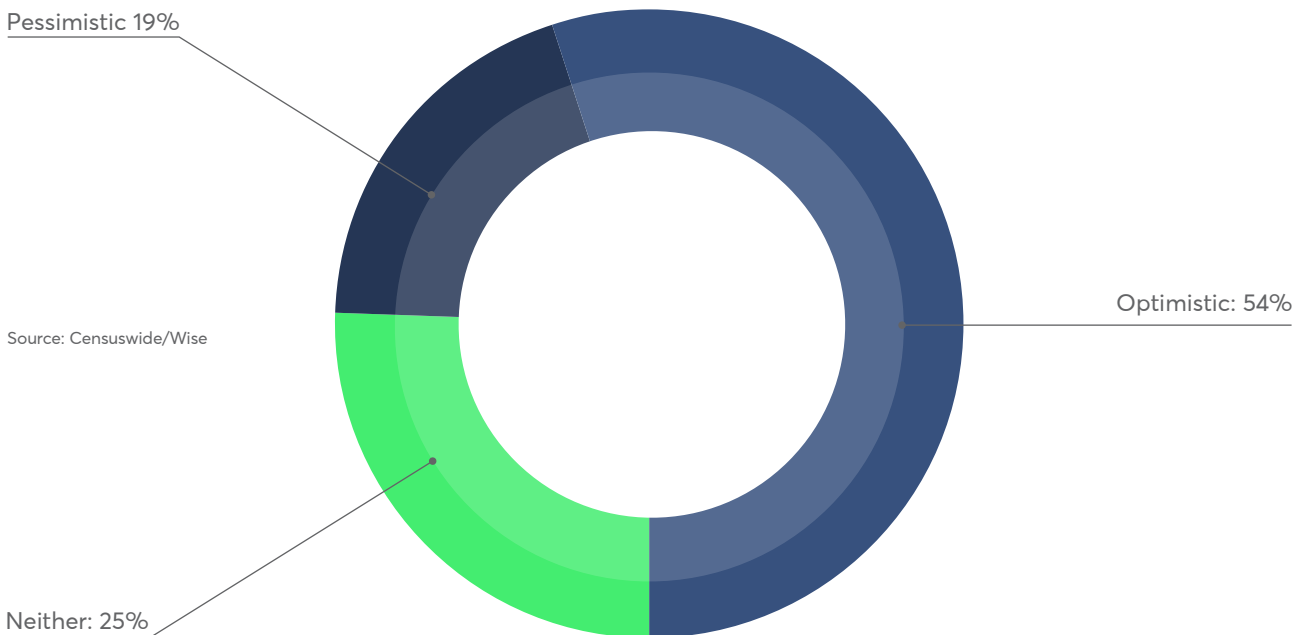
Keep calm, carry on — How confident do SMBs feel about 2023?

No sooner had UK SMBs begun to emerge from the pandemic in February 2022, the Russian invasion of Ukraine sent shockwaves through the world's energy and commodity markets, pushing up wholesale prices, further disrupting supply chains and creating the highest levels of inflation in 40 years. These challenges have been compounded in the UK in recent months by **rising interest rates and exchange rate volatility** (see previous page), with businesses struggling to plan for rising costs and falling consumer demand in the wider economy.

However, despite all of this, a Censuwide survey commissioned by Wise in November 2022 found that **SMBs were feeling surprisingly upbeat** about their business prospects for 2023. In fact, **a majority (54%) said they were feeling optimistic** about the outlook for their business in the coming year, compared to 1 in 5 (19%) who felt pessimistic. A quarter (25%) were neutral on the topic.

“These challenges have been compounded in the UK in recent months by rising interest rates and exchange rate volatility.”

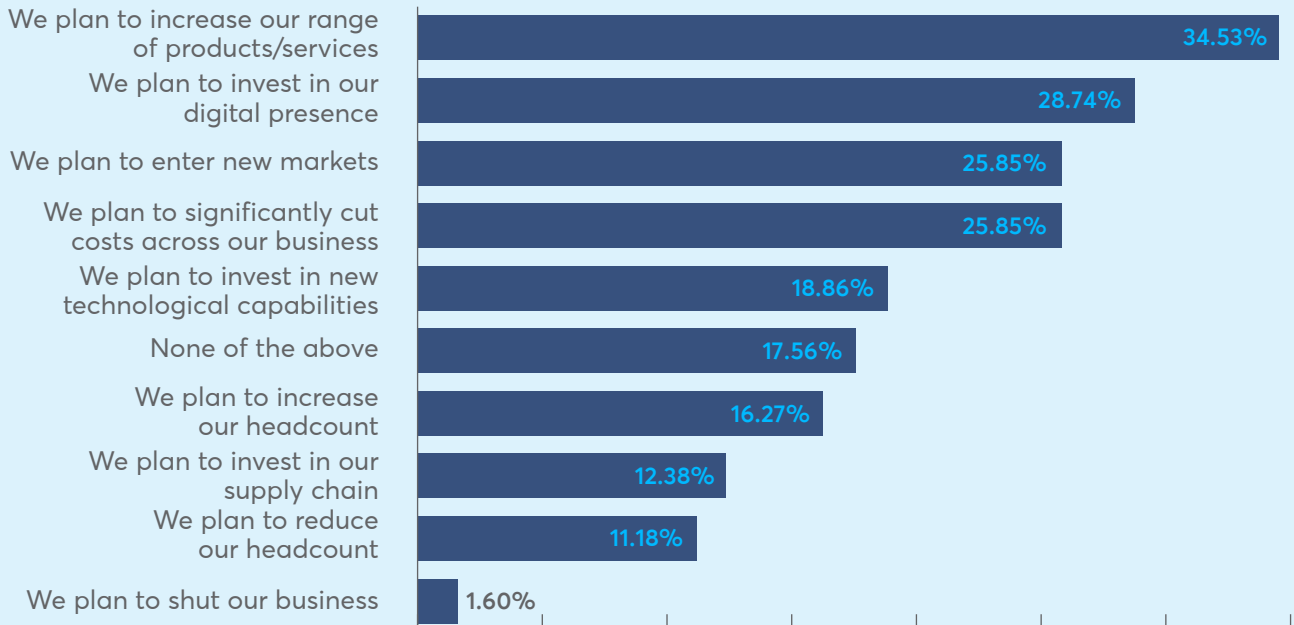
How are you feeling about your business prospects for 2023?



The same survey suggests that in response to these headwinds, SMBs are planning to take decisive actions to protect their business, with **a quarter (25%) planning to enter new markets in order to boost growth** – equal to the number who were planning to significantly cut costs (25%). Other popular strategies included increasing the range of products or services offered (34%), investing

in digital presence to meet online demand (28%) and boosting headcount (16%). The variety of approaches being considered suggests that many businesses are taking a confident, growth-centric approach to the current climate, turning to innovation and technology (18%) as well as overseas expansion to safeguard revenues, while others retrench.

Q: What methods are you considering to combat rising business costs?



Source: Censuswide/Wise survey of 1002 business owners/senior decision makers for SMBs, in November 2022.



Growth mindset — How do SMBs feel about international expansion?

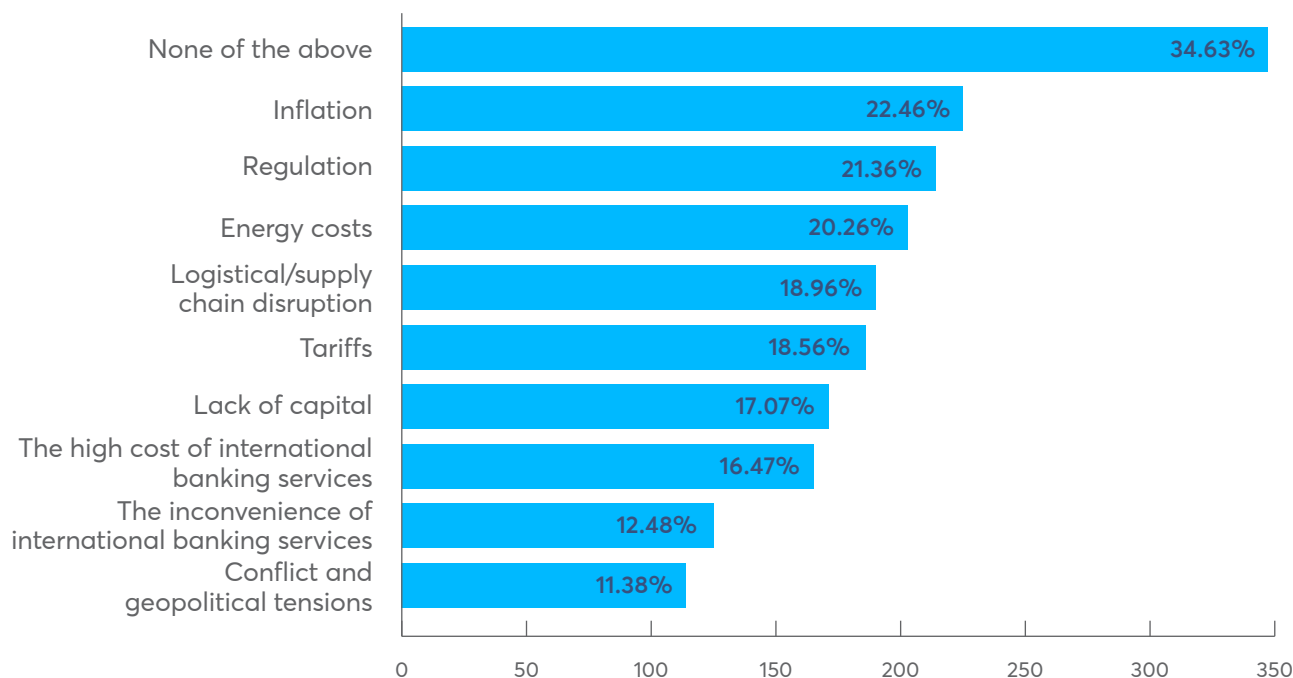
A quarter (25%) of SMBs surveyed in the Censuswide/Wise research are planning to enter new markets to combat the rising cost of doing business, but many will experience administrative, regulatory and cost barriers to scaling internationally. The same survey asked SMBs what some of the key blockers were to building their business overseas.

The **cost and inconvenience of international banking services was cited by a combined 24%** of respondents as a deterrent to international expansion. This insight, that international banking is a major pain point is consistent with the finding that SMBs lost an estimated £3.6 billion in transaction fees in 2022. The fact that inconvenience (12%) and cost (16%) were cited as some of the key frustrations points to a growing awareness that **international banking is working for banks, but not so well for businesses**. SMBs are frustrated by the time it takes to send money, the high and often hidden costs of payments, and other blockers, such as banks demanding that businesses set up an account in each new market.

At Wise, we believe that SMBs face enough obstacles to business success, without the added — and unnecessary — burden of hidden fees on international payments. As the chart below shows, SMBs are trading in an **extraordinarily complex operating landscape**, with any additional cost pressures, such as hidden fees, holding back some of the UK's most innovative businesses from achieving their **global potential**.



Q: Have any of the following put you off expanding internationally?



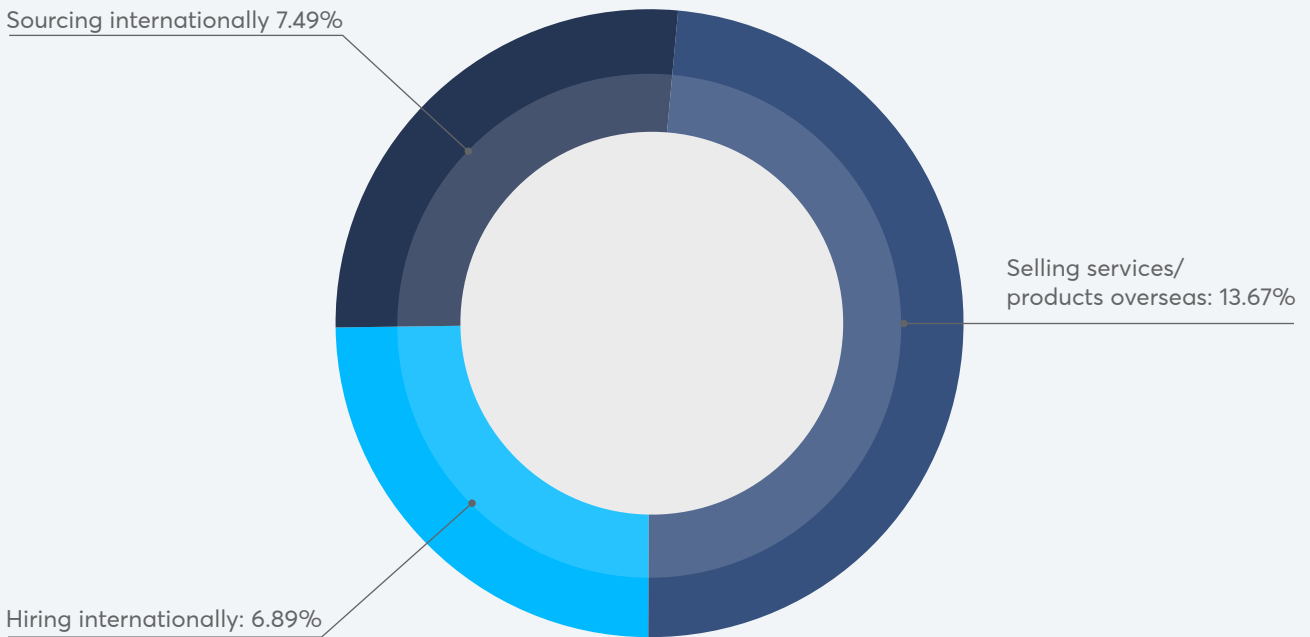
Source: Censuswide/Wise



For SMBs, **operating overseas** is not simply a question of opening a store or office in another country. It can mean shifting manufacturing to another region to manage costs, sourcing materials and components from foreign suppliers or, in the era of remote working, hiring from a

global pool of talent. SMBs are considering a number of different growth strategies to tackle the rising business costs, with 13% planning on selling their services or products overseas, 7% looking to source internationally, and 6% looking to hire internationally.

What international expansion strategies are SMBs considering?

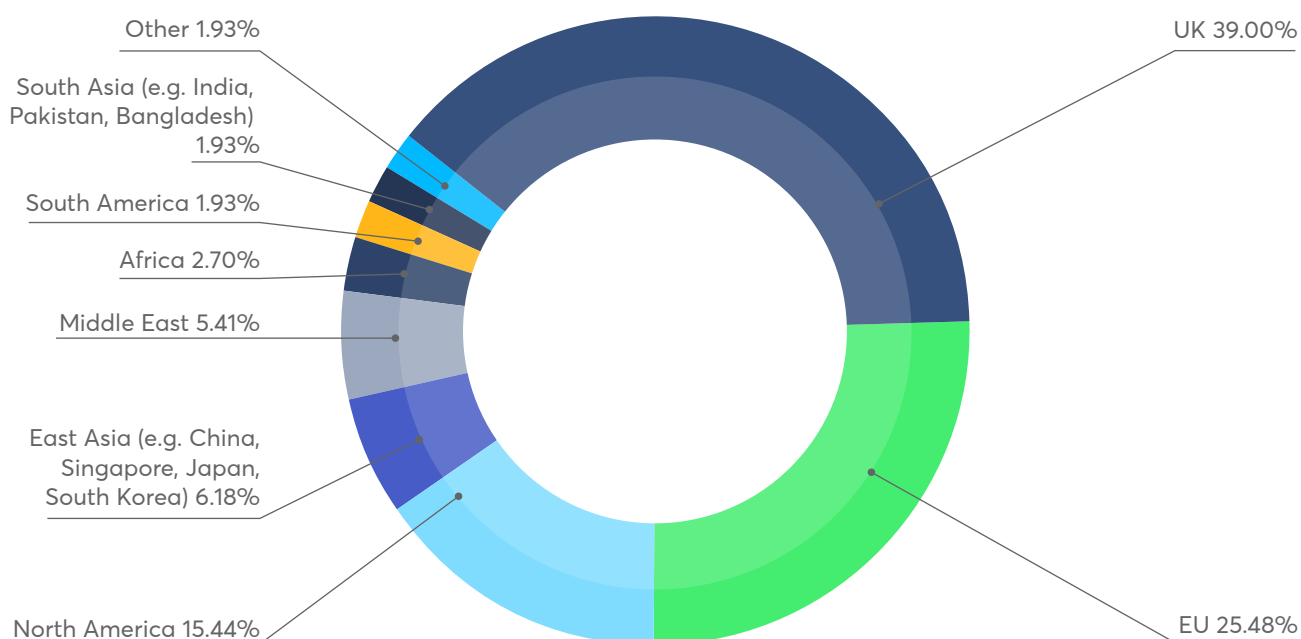


Source: Censuswide/Wise survey of 1002 business owners/senior decision makers for SMBs, in November 2022.

Going global — Where are SMBs planning to grow their business?

Of the quarter (25%) of SMBs who were planning to enter new markets in order to grow their business, a combined **59% are looking to take operations overseas**, compared with 39% who were planning to expand their business internally in the UK market. The top destination for international expansion is the EU, with a quarter (25%) of SMBs targeting growth in the bloc, followed by North America (15%) and East Asian countries including China, Japan, Singapore and South Korea (6%).

For many of these businesses, entering a new market will mean overcoming a litany of technological, administrative and trade-related challenges. Integrations such as customs management software and efficient payments infrastructure will be high on the list of priorities. Financial services providers have a key role to play here, and can help support SMBs with their plans for growth, by providing **fast, low-cost and transparent international payments** which make it clear how much international transfer fees are costing their business.



Source: Censuswide/Wise

“For many of these businesses, entering a new market will mean overcoming a litany of technological, administrative and trade-related challenges.”

The scale of the problem — Which currencies are UK businesses using?

To get a better understanding of the potential impact of the high and often hidden cost of international payments, it is a good idea to step back and consider **how UK businesses of all sizes are using foreign currency** to transact with their trading partners, whether they are exporting jewellery to Mexico, or importing cheese from France.

HMRC⁶ tracks trade movements between the UK and other countries, as well as the currencies these exporters and importers are using. Data from the customs invoices received through HMRC's Customs system shows that in 2021, **the US dollar was the currency that appeared most on invoices** for imports from non-EU countries, accounting for 61% of the £282.1 billion value of non-EU imports. This was followed by GBP, which accounted for 21% of volume, while the Euro and Canadian dollar accounted for 4.7% and 2.2% respectively.

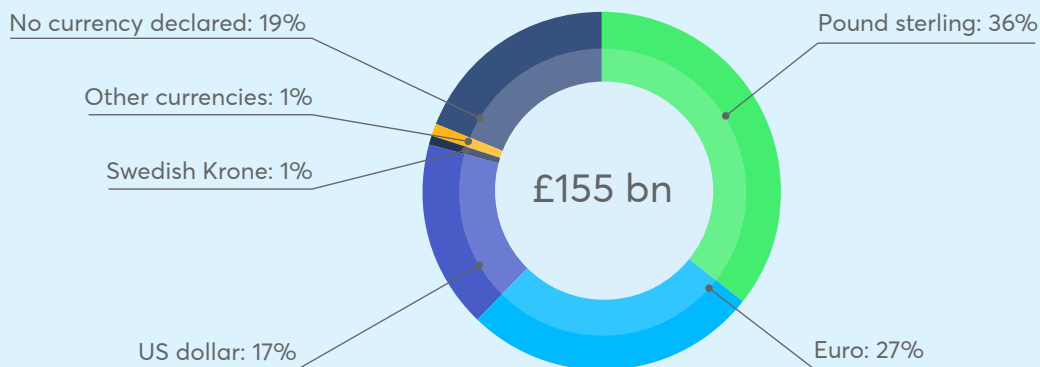
For UK businesses importing goods, these figures highlight the crucial importance of being able to pay overseas suppliers and business partners in currencies other than GBP. As a result, businesses of all sizes – whether they're

accessing trade finance or startup finance, need to be sure they're **paying a fair price for global currency transactions**. They also need certainty that payments will arrive on time and with visibility of the amount their supplier will receive — or risk **jeopardising vital trading and business relationships**.

For export, the picture is slightly different. Export businesses reached a total of £340.35 billion in trade volumes to EU and non EU-countries in 2021. For these businesses, pound sterling (GBP) accounted for 33% of export invoice value, matched by the US dollar on 33%. This was followed by the Euro (15%) and Swiss Franc (1.2%).

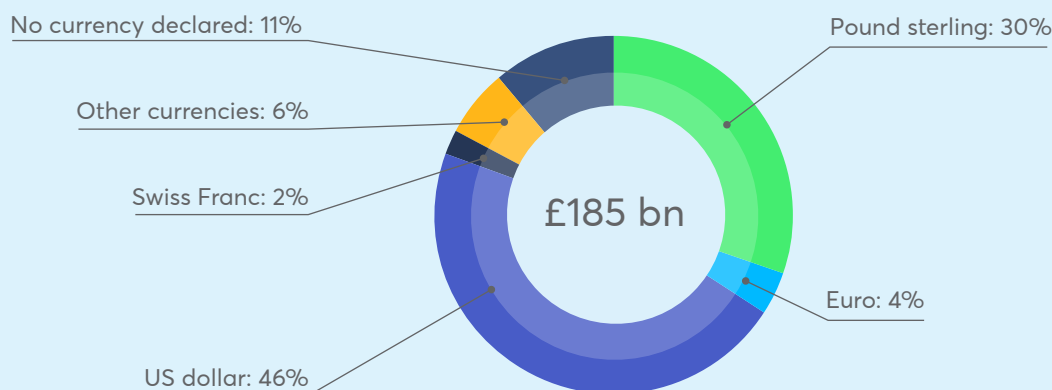
For exporters, exchange rate volatility can mean they're **receiving less into their accounts on each transaction** when their supplier pays them in a foreign currency. One way businesses can mitigate this issue is by **receiving into a multi-currency account** to ensure their supplier can pay them as if they were a local business and they are **not receiving less than the invoice value**, in the event that currency prices swing upwards.

Export currencies of invoice to EU



Source

Export currencies of invoice to non-EU countries



Source

6 HMRC UK trade in goods by declared currency of invoice, May 2022

Growing pains — What's the problem?

SMBs are being **overcharged by their banks to transfer money abroad** and pay for goods and services in other currencies. Whether it's paying manufacturers in India or paying remote employees in Portugal, **small businesses need confidence that their payments will arrive in good time** and transparency over how much the transaction will cost. Today, using banks to transfer money abroad is time consuming, complex and expensive.

Due to the opaque way in which banks set and display their fees, many **SMBs are in the dark about how much an international transaction will cost their businesses**, which makes it difficult to manage cash flow and operating margins, and ultimately stifles growth.

"Often, banks will advertise 0% fees while hiding their margin in the exchange rate markup."

How do banks calculate FX fees?

The total cost of an international transfer will differ depending on the currency, the currency route an SMB is using, and the difference between the exchange rate a bank quotes and the mid-market rate (often known as the interbank rate) at any given time.

Banks make profits on FX transactions by charging:

- **Standard fixed fees**
- **Variable exchange rate and markup** (it is often unclear how this is decided and it is usually advertised as *the exchange rate*)

As these costs are often rolled into one, with the exchange rate and margin hidden within markups, it is often difficult for SMBs to understand how much they are being charged for the transaction, and how much their recipient will actually receive. Often, banks will advertise 0% fees while hiding their margin in the exchange rate markup. **It's complicated, and that's why it works – for them.**

Banks



Speed

International transfers via the SWIFT network can be slow, sometimes taking 2-5 days to arrive

Wise has built its own global payments network, meaning that payments arrive at the speed of local transfers. In 2022, more than 50% of Wise payments arrived instantly*, almost all arrive within 24 hours

Convenience

FX payments with banks can be difficult to integrate into SMBs' accounting software and financial workflows

Wise is fully digital, offering SMBs the option to login via desktop or mobile app. Wise Business can also be integrated into accounting softwares such as QuickBooks and Xero

Transparency

Fees and extra charges can be hidden within variable exchange rate markups, making it difficult to compare the best deal

Fees, costs and delivery estimates are disclosed upfront and clearly displayed, so SMBs know how much they're spending and when their payment is likely to arrive

Price

Bank transfer costs can include several fee types, including third party charges

Wise charges the mid-market exchange rate plus a low cost transfer fee

*Disclaimer: The speed of transaction claim depends on funds availability, approval by Wise's proprietary verification system and systems availability of our partners' banking system, and may not be available for all transactions. In addition to the transfer status, Wise provides a delivery estimate which was accurate or early for more than 80% of transfers in Q4 2022.

Business without borders — Meet Wise Business.

Wise Business is the easy to use business account from Wise. Put simply, it's business banking* without the high rates, hidden charges, and monthly fees.

In the UK, businesses can use Wise to:

- Pay employees and vendors across borders
- Get paid in multiple currencies
- Earn 1% cashback with business debit cards
- Manage cash flow by connecting to accounting software
- Control outgoings by letting employees spend with business expense cards

Since launching in 2016, Wise Business has continued to expand its range of services aimed at addressing key problems for international businesses. Wise Business offers **fast, convenient, low-cost international payments**. We built it because small businesses deserve better. But banks seem to think otherwise.

In 2022, **over 400,000⁷ active business customers**, ranging from sole traders to SMBs and larger companies, used Wise to manage their international business payments — and we're only just getting started.

Our ambition is for Wise Business to be the only account international businesses need for all the jobs they need to do, including getting paid, paying employees and suppliers, as well as managing cash flow, treasury and expenses.

"Over 400,000 active business customers in 2022."



*Wise is not a bank. In the UK Wise Payments Limited is authorised as an Electronic Money Institution (E-Money Institution) by the UK Financial Conduct Authority.

⁷ Figures from Wise annual report and accounts 2022

Do more with Wise Business.

Key features

Pay people in one click. For less.

Make fast international payments for invoices, vendors, and employees —with the real exchange rate, in 150+ currencies and 80 countries. Wise transfers are on average up to 6x cheaper* than old-school banks.

Get paid like a local

Get local bank details for 10 different currencies and give them to customers for an easy, free way to get paid. Businesses can also easily withdraw from Amazon, Stripe and more in up to 10 currencies.

Make batch payments

Pay up to 1,000 people in one click in 50+ currencies. Upload a spreadsheet with details for each transfer and submit one payment.

Scaling across borders

No need to open a bank account for each of your offices or subsidiaries in other countries. Manage treasury in 55+ currencies from the Wise Business account. Hold over 40 currencies and move money between currencies in seconds with the real exchange rate and low conversion fees.

Faster reconciliation

Connect currency accounts to accounting software including Xero, QuickBooks in real time to save on manual admin.

Manage overseas expenses

Pay expenses online or in-store without foreign transaction fees with Wise Business debit cards. Keep control of cash flow with expenses cards with approval rules and spending limits for your employees.

Want to find out more?
[Click here](#)



*Information correct as of July 2022.

CBPR2 & PSRs — How can policymakers help SMBs?



Today, SMBs get a raw deal from lawmakers and regulators. They are **misled about how much their international transactions cost**, which means they ended up paying £3.6 billion in fees in 2022 alone – something many of them were not banking on. This hidden revenue is generated by banks and other providers offering consumers and businesses a significantly inferior exchange rate to the average exchange rate at the time – the so-called ‘mid market rate’ – and pocketing the difference, all the while advertising their service as ‘no fee’ or ‘0% commission’.

Enhanced transparency rules, like those in the Cross-Border Payments Regulation 2 (CBPR2), should have forced financial service providers to tell their SMB customers the **true cost of sending money** to Europe. While the rules only apply to the subset of SMBs trading with the EU – only payments to euro are covered – it should have been a step forward for SMBs with European business ties.

The rules set out that providers should inform their customers, including their SMB customers, “prior to the initiation of the payment transaction, in a **clear, neutral and comprehensible manner**, of the estimated charges for currency conversion services applicable to the credit transfer”.

The intention is clear but, unfortunately, trading internationally is just as opaque as it was before these rules came into force in 2020. The vague language in the Regulation enables banks and others to continue the status quo of hiding fees in inflated exchange rates. This **leaves their SMB customers unknowingly out of pocket**.

What can be done?

We’re asking the FCA to enforce these transparency rules and provide additional guidance so their intention to ban hidden fees is respected.

The picture is even bleaker on a global level. The Payment Services Regulations (PSRs), which are currently under review, made some initial observations on transparency but left **loopholes wide open for financial providers** to make the bulk of their revenue on fees hidden in inflated exchange rates.

Why are SMBs hardest hit?

Worse still, the PSRs include a so-called “corporate opt-out”, **enabling banks to exclude their SMB customers** from enhanced transparency for their cross-border payments and additional customer protections, even if these rules were to be finetuned in the PSRs review.

HM Treasury has a real opportunity to put a halt to these hidden costs hitting SMBs and stop **penalising small businesses** that seek to trade abroad. In its review of the PSRs, **HMT should ensure that all payments – not just those payments to euro – are covered by enhanced transparency rules** that outlaw hiding fees in inflated exchange rates. In addition, it is crucial that SMBs are included in the scope, so they can access transparent payments and know exactly how much they’ll be charged at all times.

In the current economic climate, the **Government will need to do all it can to support businesses**. At zero cost to the taxpayer, we can ensure our SMBs – the backbone of the British economy – can accurately compare providers, make more informed financial decisions and find cheaper deals. This would also represent a crucial step on the journey towards Global Britain.

[Join Wise's Nothing To Hide campaign](#), the movement against hidden fees and inflated exchange rates.

Methodology.

Public First Data

Data from this study was completed in January 2023. It modelled the amount of transaction fees (including both upfront and average exchange rate markup charged by banks above the mid-market rate) that UK Businesses paid on cross-border transactions using ONS data on [Trade in Goods and Services](#) for 2017 to 2021.

The data is modelled this based on the following sources:

- **ONS data on Trade in Goods and Services for 2017 to 2021 was used to estimate the total volume of trade by size of enterprise, and how this is divided between exports and imports, or between goods and services. From 2021, we assume trade grows in line with OBR forecast for real GVA growth**
- **HMRC data on Currency of invoice for UK trade, grouping into four categories (pound, dollar, euros and other), to estimate the distribution of currencies used for trade.**
- **Average fee calculated for transferring £85,000 based on MoneyTransfers.com price comparison for 15 currencies, and use this to create a weighted average fee for transfers based on each currency's share of total UK trade.**

Wise/Censuswide Data

Wise commissioned Censuswide to survey 1002 business owners and senior decision makers over the age of 18 between 8th-14th November 2022.





Wise

6th Floor, Tea Building, 56 Shoreditch High Street
London E1 6JJ

wise.com

Copyright © February 2023, Wise Payments Limited.