

inpay

The ultimate guide for solving NGO payment challenges





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Introduction

Payments can be painful for NGOs. We've had first-hand experience of this from the donor's side. It's the reason Inpay exists.

But how does it look from the other side? We commissioned research of large and mid-tier NGOs to get to the bottom of their everyday payment challenges. Some of the results were surprising – even to us.

NGOs handle a significant volume of cross-border payments. But they're often delayed or blocked, often without warning or explanation. NGOs can't easily track payments or predict fees. They don't know how long payments will take. Or necessarily how much will arrive on the receiving account.

Payments seem to be a 'black box' for NGOs, our respondents told us. They don't always know where to turn for advice. And find themselves having to invest time and effort in managing delayed or missing payments. This is not their core purpose, of course.

All in all, it's a struggle for NGOs to get funds to those who so desperately need them. Whether that's paying salaries in-country. Or delivering humanitarian aid, supporting the casualties of conflict and low-income countries.

We examine what's behind common payment challenges. For example, what is 'de-risking' exactly? How does correspondent banking work? And how do NGOs achieve payment transparency and trackability?

We also look at possible alternatives to traditional banking channels. Because the consequences of failed payments impact peoples' lives, so it pays to get payments right.

NGO payment challenges in context

NGOs often struggle to find financial services that adequately meet their needs. Gaps or barriers can arise for a variety of reasons, but the three main ones are around access, comprehension and requirements.

01 The access void

NGOs face difficulties in obtaining financial accounts in the first instance as well as high costs in maintaining them. They may experience delays and even denials of fund transfers. And fear losing access to the financial system altogether if their organization or their transfer corridors are suddenly de-risked.

02 The comprehension fog

So much of cross-border payments and correspondent banking seems to be a 'black box'. NGOs can't easily track payments or predict fees. They find themselves having to up-skill to deal with banks, finance and payments. And regard this as a necessary evil as it's time-consuming, onerous, not in their language and critically not their core purpose.

03 The requirements maze

Regulatory requirements, including sanctions regimes, know your customer/anti-money laundering checks (KYC/AML) and the need for documentation, differ country to country and change frequently. Complex, dynamic requirements can be confusing and make it hard to know how to prevent or solve payment problems.

01 The access void



NGOs face difficulties in obtaining financial accounts in the first instance as well as high costs in maintaining them. They may experience delays and even denials of fund transfers. And fear losing access to the financial system altogether if their organization or their transfer corridors are suddenly de-risked.

A 'void' is defined as a completely empty space. And that may be how NGOs experience financial services. It's difficult for them to access services, open and maintain financial accounts. This is largely due to the mismatch between a NGO's perceived risk profile and banks' risk appetite.

The nature of their work – delivering humanitarian aid, supporting the casualties of conflict and low-income countries – means NGOs need to transfer funds to high-risk and/or difficult-to-reach countries. Civil or political unrest may also disrupt or further complicate international payment flows.

The context in which NGOs operate comes with a heavy regulatory, compliance and reputational overhead for banks. They must conduct sanctions screening, anti-money laundering and anti-terrorism financing checks. That's while managing their own correspondent banking relationships, regulatory and reputational risks.

The higher the perceived risk of an NGO, the more due diligence required. This cuts into bank profit margins, causing them to de-risk clients in certain geographies or sectors altogether. NGOs are then forced to look for alternatives, which may involve moving money through less transparent, traceable and safe channels, including armoured vehicles, carrying cash on the person and direct cash transfers.

What is de-risking?

De-risking is when banks and financial institutions restrict relationships with certain individuals, organizations or countries, due to their perceived financial crime risks.

This practice has long concerned governments and organizations, such as the World Bank. It threatens financial inclusion, disproportionately affects smaller countries with limited financial markets, and negatively impacts NGOs and those providing humanitarian aid.

De-risking can also frustrate financial crime-fighting efforts by pushing higher risk transactions from the regulated system into more opaque, informal channels, which are harder to monitor.

In 2014, FATF, the international standards-setting body working to combat financial crime, clarified its risk-based approach, writing: “The FATF Recommendations only require financial institutions to terminate customer relationships, on a case-by-case basis, where the money laundering and terrorist financing risks cannot be mitigated.”

FATF continued by stating that the wholesale cutting loose of entire classes of customer, without taking into account their level of risk or risk mitigation measures for individual customers within a particular sector was not in line with FATF standards.



02 The comprehension fog



So much of cross-border payments and correspondent banking seems to be a ‘black box’. NGOs can’t easily track payments or predict fees. They find themselves having to up-skill to deal with banks, finance and payments. And regard this as a necessary evil as it’s time-consuming, onerous, not in their language and critically not their core purpose.

A ‘fog’ is defined as a state of perplexity, confusion and bewilderment. And sometimes that’s exactly how NGOs feel when engaging with financial services providers. There’s a general lack of transparency on individual payments and how to move them along.

Unexpected banking issues occur, such as transfers getting stuck or going missing altogether. As a result, NGOs must invest additional time, resources and energy into tracking and managing payments.

Our own proprietary research has shown that it can often take weeks for transfers to arrive. Sometimes if the funds get lost, it takes additional weeks or months to find them. We’ve also identified the inherent problem of international correspondent banking, when there are number of banks involved and the payment is lost somewhere between them.

What’s more, fee structures are hard to fathom and often unknown. Unforeseen additional fees and fluctuating exchange rates make it nearly impossible to accurately predict the final amount that will arrive on the receiving account.

NGOs need to pay salaries and support activities on the ground in-country. If fees have been deducted along the way, the amount that arrives will be considerably less than was originally sent, which detrimentally impacts the recipient.

What is correspondent banking?

If the sender and recipient of a transfer are in different countries and bank locally, their respective banks won't necessarily use the same domestic payment system. Rather, they rely on a network of international correspondent banks.

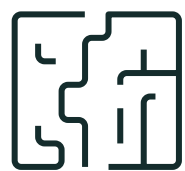
This enables banks to offer international services to customers, without having branches in-country. Even payment services that don't involve a bank account at the customer level (e.g. remittances) rely on correspondent banking for the actual transfer of funds.

Correspondent banks act as intermediaries or middlemen, offering a variety of services. Fees for these services are usually passed on from the domestic bank to their customer with a mark-up.

Account-to-account cross-border payments are often processed by SWIFT. While this is a great method for sending money around the world, it offers very little transparency as to the route and status of the payment. That's especially if things don't go as planned or involve countries that are under-served.



03 The requirements maze



Regulatory requirements, including sanctions regimes, know your customer/anti-money laundering checks (KYC/AML) and the need for documentation, differ country to country and change frequently. Complex, dynamic requirements can be confusing and make it hard to know how to prevent or solve payment problems.

A 'maze' is defined as a network of paths designed as a puzzle through which one must find a way. And that's what NGOs encounter when engaging with financial service providers. There's no map, namely a general lack of advice and guidance on payment performance and strategy. Plus, no-one to call when problems occur, except a generic support centre.

When will the payment arrive? How many intermediary banks are involved, and which ones? What are the associated fees? Is the payment travelling via the smartest route? NGOs don't necessarily know. Nor do banks.

Our research has shown, that the procedures, checks and balances make it difficult to send funds to Syria. There are government and internal checks. You need to comply with different procedures and checklists, which makes it challenging.

Banks tend to specialize in offering everyday services, such as deposit accounts, savings products and mortgages. There's no reason why they should be an expert in other countries' banking infrastructure, especially when enabling international transfers is more of a side offering.

NGOs need financial partners with deep payment expertise. Partners who know what documentation is required, the questions likely to be asked, and the best way to route payments to pre-empt problems. In short, a partner who will guide them through the maze of requirements as quickly and cost-effectively as possible.

Importance of openness and transparency in philanthropy

Operating in such a way that it's easy for others to see what actions are performed has many upsides. More people are encouraged to donate when they can see the tangible change their donations are making in the world.

Donors have greater peace-of-mind when they know that due diligence has been performed on charities. They also want to feel confident that funds will get to the right place with full traceability and transparency. And that this will be cost-effective, so the value of their donation is maximized.

This is where the right payment partner can make all the difference around processing complex, individual, cross-border payments with full transparency. And when this is backed by an industry-leading compliance framework and advanced screening capabilities, so much the better.



How big is the problem?

6.25%

the average cost of
sending \$200 in Q1 2023

\$650 billion

estimated remittance flows to low- and
middle-income countries in 2023

2+ times

the Sustainable Development
Goal target of 3%

\$16 billion

estimated saving made by
cutting prices by at least 5%





How big is the problem?

Two-thirds

of US-based non-profit organizations working abroad face problems accessing financial services.¹

More than 1-in-4 countries

are subject to sanctions by the US or Western governments.²

32 countries

are currently at war.³

29% of global GDP

is produced in sanctioned countries.²

1: Source: Financial Access for Nonprofits (2017), Charity & Security Network

2: Source: The Human Consequences of Economic Sanctions (2023), Center for Economic and Policy Research

3: Source: Wisevoter

We diagnose the seven main payment pain points for NGOs, explain the underlying causes and raise awareness of possible solutions.



Seven NGO payment pain points, causes and possible cures

Pain point

Cross-border payments are harder to organize than domestic ones

Cause

To achieve global coverage, banks rely on a network of correspondent banking relationships, which link their different domestic systems together. Great in theory, but difficult to implement in practice across different countries, currencies, time zones and IT protocols.

Solution

Alternatives to SWIFT wire transfers for cross-border payments exist to make global payment as quick and simple as local bank transfers. Some payment service providers have developed their own global pay-in/pay-out networks. That's in addition to the technical and regulatory rails behind the scenes to make global payments happen.

Pain point

Payments get stuck or go missing altogether

Cause

Account-to-account cross-border payments are often processed by SWIFT. While this is a great method for sending money around the world, it offers very little transparency as to the route and status of the payment. That's especially if things don't go as planned. Or involve countries that are difficult to reach.

Solution

Consolidating relationships into the right payment partner gives access to a global network. And pre-funding transactions in bulk helps ensure more right-first-time payments.

Seven NGO payment pain points, causes and possible cures

 Pain point

Can't track payments easily

 Cause

Based originally on telex, SWIFT has long been a single message system with no response. This is why there's historically been limited trackability.

 Solution

By contrast, modern real-time payment systems are designed to confirm or reject each transaction individually to both sender and recipient. Payments are irrevocable, so both parties know whether payments have been successful within seconds, which leads to better traceability and fewer exceptions. And although SWIFT has released GPI, it's not yet implemented by all banks as a standard.

 Pain point

It takes too long

 Cause

Cross-border payments can take days, weeks or even months, due to legacy technology platforms and a lack of standardization, among other reasons.

 Solution

Some payment service providers can receive funds in any currency and pay out locally in real-time 24x7x365. That's in countries with an instant payment infrastructure, or offer near-instant settlement elsewhere.

Seven NGO payment pain points, causes and possible cures

Pain point

Don't know where to turn for advice

Cause

Domestic banks don't provide the true consultative service that NGOs need – because they're not necessarily set up to do so. They're not experts on other countries' banking infrastructure. Or on specific payment corridors and what's needed to move transactions along.

Solution

Specialization is key. The right payment service provider has NGO sector expertise and experience. They can offer guidance on the documentation required, the questions likely to be asked, the quickest and most cost-effective way to route payments to pre-empt problems.

The requirements maze

NGOs have long struggled with cross-border payment. They need better support for their important work. At the same time, modern cross-border payment solutions providers are making the flow of global payments faster, easier and more cost-effective.

There are important reasons why NGOs work with their chosen providers. Banks are generally the default entry point into financial services – as they are for many business sectors. NGOs are familiar with banks and may be comfortable with their existing relationships. Internal governance stipulations may also require them to use traditional banks and providers.

Nevertheless, banks may be unwilling or unable to deal with everyday NGO challenges. For example, conduct sanctions screening and anti-financial crime checks against the backdrop of civil or political unrest. Or transfer funds to difficult-to-reach countries while managing their own correspondent banking relationships and perceived NGO risk.

Global coverage and robust compliance are prerequisites for NGOs when choosing a payment provider. Yet these two factors are also why providers may ‘un-choose’ NGOs. If they are ‘de-banked’ or ‘de-risked’, NGOs may be cut off from the global financial system. So, having a range of transfer options becomes not only desirable, but essential.

Non-bank payment providers have the right reach to link NGO destination and origin countries. They may already be accepted by governments as regulated entities. So, a robust compliance approach and anti-financial crime controls are prerequisites of their license.

What’s more, when it comes payment speed, trackability, cost-effectiveness and service, alternative providers can certainly rival traditional ones. This means real-time pay-outs, absolute traceability, cost advantages and domain expertise.

Why NGOs work with us

Inpay was set up following a humanitarian crisis in 2008. Our founder, Danish entrepreneur Jacob Tackmann Thomsen, wanted to help victims of a deadly cyclone in Myanmar. But realized that his credit card donation would lose 5% to fees and take days to arrive.

He thought there must be a better way to send money abroad. So, he set about creating a global network to make cross-border payments as quick, easy, safe and inexpensive as domestic bank transfers.



Over the last 15 years, we've gained an electronic money (EMI) license and become regulated by the Danish FSA. We've also honed our skills on everything from payment routing to pre-empting problems, resulting in industry-leading transaction success rates.

This has brought us to the attention of leading banks, payment and financial institutions, who use and white label our solutions. But also, to regulated entities, such as iGaming operators and exchange houses, plus all manner of retailers.

We still process international transfers for NGOs, of course, including the Danish Red Cross.





Our cutting-edge technology is the perfect alternative to SWIFT wire transfers, making international payments quicker for a fraction of the price. We pay out to over 200 countries where recipients receive the full payment without deductions.

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Years of proven delivery

200+

Inpay employees



**DANISH FINANCIAL
SUPERVISORY AUTHORITY**

Backed by and holding an EMI
license from one of the world's
most trusted financial bodies



**FINANCIAL
TIMES**

Denmark's Fastest
Growing Company 2022



Europe's 6th Fastest
Growing Fintech 2022

inpay



Please feel free to reach out
to me directly for a personalised
consultation on your NGO
payment needs.

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