Discussion of "Competing Rails for Cross-Border Payments: Banks, Fintechs, and Stablecoins" by Du, Huang, and Scharfstein

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Summary

- Compares transaction costs (FX markup and explicit fees) on cross-border payments.
  1. Traditional banks and SWIFT.
  2. Fintech money transmitters: Wise, Remitly, Western Union.
  3. Stablecoin-based transfers.
- Important findings.
  - Traditional banks are very expensive.
  - Fintech is cheaper.
  - Stablecoin-based transfers are not sufficiently liquid.

Transaction costs

- Wholesale FX is deep and cheap: \$9.5 trillion per day with major pairs at 6–9 bps (Bank for International Settlements 2025).
- Retail bank wires (SWIFT): Implied FX markups of 200–400 bps, even on the most liquid pairs (before explicit wire fees).
- Fintech: All-in costs of 40–150 bps with scale economies for larger transactions.
- Stablecoin "sandwich": FX leg prices near mid for major pairs, but there are other costs of intermediation (e.g., exchange trading fees, withdrawal charges, on- and off-ramp providers).

Replication

- Are FX markups really 200–400 bps for retail bank wires?
- In August 2025, I received an international wire from a large Japanese bank to a large US bank. Implied FX cost was 374 bps!
  - In addition, $15 incoming wire fee.
- Although not the focus of this paper, withdrawing currency at a foreign bank also has FX costs.
  - In July 2025, the implied FX cost was 135 bps for withdrawing yen with a US bank card.

Interpretation

- FX illiquidity cannot explain the large difference between wholesale and retail costs.
- Traditional banks have market power and are expensive to operate (financial and regulatory frictions).
    - Sticky depositors do not search for the cheapest way to make cross-border payments.
    - Banking is a bundle of services. I overpay on international wires but get free checking, ATM withdrawals, and domestic wires.
    - Small transactions (and small accounts) are expensive to service.

Context of retail transactions

- Global cross-border payments approach \$1 quadrillion, predominantly concentrated in advanced economies and driven by financial institutions and large transactions (Cerutti et al. 2025).
- Retail is a small share of value but the highest unit cost (International Monetary Fund 2024).

Remittances are an important part of retail

- Remittances to low- and middle-income countries reached $685 billion in 2024 (World Bank 2025).

Recipient	Billion $
India	129
Mexico	68
China	48
Philippines	40
Pakistan	33

- Other retail purposes: Small-business payments, cross-border e-commerce, wages/pensions, travel/tourism, and tuition.

Broader banking problem

- Issue of financial inclusion.
- Banking access limited for lower-income households.
  - Hidden banking fees such as overdraft fees (Dlugosz et al. 2021).
  - FX costs are a "hidden fee". For foreign workers, costly to send money back home.
- Stablecoin "sandwich" is far too difficult for most households.
- Has Fintech delivered on the promise of access for lower-income households?

Future research

- It would be useful to connect this paper to research on banking access in household finance, for example, using data from the JPMorgan Chase Institute.
- For higher-income households, the welfare cost could be low because
  - FX costs subsidize other bundled banking services.
  - They have other ways of avoiding FX costs.
- For lower-income households that need to send money back home, the welfare cost could be high.

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