

# Cross-border payments and global infrastructures

## 1. Introduction: FSB roadmap on cross border payments

### 1.1 The FSB roadmap gathers broad support

A Central Bank official stated that the initiatives taken by the G20 in 2020 and brought further by the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI) are important and must be further pursued. Innovation in payments is happening very quickly, making payments faster, safer, cheaper and more efficient, but the cross border area is lagging behind. Authorities and the financial sector can make a valuable contribution, as cross border payments relate to the interests of citizens across the world.

An industry representative explained that BNY Mellon welcomes the prioritisation plans the FSB proposed to the industry last autumn. The three pillars – technical foundations and facilitators, market infrastructures and regulatory and supervisory frameworks – are all essential. The whole project will struggle in the absence of one piece.

A Central Bank official stated that the Sveriges Riksbank has been a strong supporter of the G20 roadmap since it started. Much analytical work has been undertaken, but now it is time for implementation. The quantitative targets that have been set will promote that development. The implementation priorities for all stakeholders have to be followed closely. The central bank world can do much good work, but it will fall short without support from other stakeholders.

A Central Bank official commented that there is a broad consensus regarding the improvement of cross border payments. An industry representative stated that his institution fully supports the roadmap and the FSB and CPMI's work in addressing the barriers to cross border payments, in particular the efforts around the facilitation of increased adoption of payment-versus-payment (PvP). An official observed that the priority blocks are interconnected. The US Treasury supports the work being done with the cross border payments roadmap, both in the cross border payments committee at the FSB and at the G20 level. The selection of priorities in the roadmap seems correct, as those are the thorniest and most difficult to implement issues.

### 1.2 No single solution exists to allow the different types of cross border payment, use cases and business models to tackle innovation challenges, which requires strong private and public sector commitment and cooperation globally to strike FSB quantitative targets and priorities

An official explained that the world is two and a half years into the G20 cross border payments initiative. The

FSB, the CPMI and other authorities have completed the foundational stage. Detailed analysis of the opportunities and the frictions around cross border payments has been completed. Best practice guides for authorities and the private sector have been developed. High level outcome targets have been set and machinery has been set up to track progress and hold organisations to account.

Progress has been made. 75% of payment system operators have implemented ISO 20022 or plan to do so by 2025. The CPMI and the private sector have worked over the last year to avert the possibility that the new data standard could be implemented in different ways for different use cases. The CPMI is close to establishing common standards and avoiding further fragmentation. The hope is to apply that approach to developing common standards for APIs, and enable payment systems to be linked across borders.

Interlinking of faster payment services is developing as an area of opportunity. The BIS Innovation Hub has developed various projects exploring multilateral platforms. Nexus, a project in Singapore around interlinking faster payment services, may well form the basis for the interlinking of the faster payment systems of the ASEAN 5. A large number of central banks have either made their operating hours continuous or are planning to do so in the near future. Expanding the global settlement window will make a huge difference.

The implementation of a practical project by the public and private sector across the whole range of payment services, jurisdictions and regions has started. Those projects need to cover three key areas. First, they need to cover improvements in both hard and soft infrastructure. The second area is the legal supervisory and regulatory frameworks for banks and non banks. The third area is technical standards and regulatory frameworks for data exchange.

The public sector needs to improve the infrastructure it provides and avoid regulation causing unnecessary friction. It needs to use its convening power to develop common standards and track progress. The private sector needs to improve its infrastructure and systems, help develop common standards and take advantage of reduced frictions to develop better payment services. If banks do not invest in change, current business models will be left behind. The public and private sectors need to work together in this next phase. The FSB convened a high level payment summit last autumn. Preparations for two public private taskforces are in place, one led by the FSB covering legislation, regulation and supervision and one led by the CPMI on payment system interoperability and extension, and the first meetings are expected to take place soon.

There is no single global solution to improving cross border payments by 2027. Different types of cross border

payment have different use cases and business models. Needs and levels of certification differ between jurisdictions and regions. Some issues will be common across all payment types, but progress will be heterogeneous. Questions around what the main challenges are, which areas for improvement will provide the biggest payoff and what value chain opportunities there are will be crucial in the next phase. The need to identify where progress can be achieved is ongoing and success must be reinforced in those areas. The new public private taskforces will create a high level channel to answer those questions.

## 2. Key elements driving progress on cross border payments

### 2.1 Quantitative targets regarding further availability and enlarged access to settlement systems for smaller direct participants, and the development and interlinking of instant payment systems are key drivers for improve cross border payments infrastructures

A Central Bank official observed that improving central bank settlement services is a priority for central banks. Making settlement services available around the clock is clearly necessary to speed up cross border payments, given that countries are in different time zones. Promoting access for smaller banks and relevant non bank players will also be very important to shorten transaction chains and increase competition. Sveriges Riksbank tries to lead by example: the number of direct participants in our system have increased by 100% over the last five years and we have also extended our opening hours.

The introduction of settlement payments for instant payments will contribute to the goal of being open around the clock. The Sveriges Riksbank is working on this jointly with the ECB on their platform, the TARGET Instant Payment Settlement (TIPS). The next logical step is to interlink the instant payment systems that many other countries are also introducing. That would create a more competitive landscape by granting smaller actors access to foreign systems that they had not previously enjoyed.

A Central Bank official commented that the main points with regard to the improvements in the infrastructure are clear. One is longer opening hours, to create more overlap between existing payment systems in different time zones. Others are improving access to and interlinking payment systems, to shorten transaction chains and improve the speed and reduce the cost of payments. Ideally, this interlinking would focus on fast payment systems such as TIPS, making them continuously accessible all year round.

In this regard, project Nexus, is a promising initiative and TIPS has already completed a pilot with the Central Bank of Malaysia and the Monetary Authority of Singapore. Whether other links will follow remains to be seen. This seems less a question of the technical interlinkage than a legal and governance related challenge. A welcome initiative to link the euro area with the Swedish fast

payment system is in place. Emerging countries often do not have fast payment systems and developed countries may need to deliver technical assistance to address this situation, but this is not really a challenge.

An industry representative stated that there has been good progress on the important areas of technical foundations and market infrastructures. The developments around interlinking of market infrastructures are really encouraging and show that this is possible, even if there are lessons to be learned.

### 2.2 Global standardisation and regulation harmonisation are key since money is moving around the globe

An industry representative observed that standardisation is key. Any player in the payment industry will realise that there is a lot going on and wonder where their focus should be. Harmonisation around messaging and data standards makes everything much simpler. Progress has been made on the ISO 20022 implementation, with successful implementations in Europe and some coming up in the UK. SWIFT has done great work, but a number of lessons learned can be addressed.

A really important pillar is the harmonisation and execution of regulatory and supervisory frameworks, both in the long run and today, because customers have immediate needs and some of the challenges that will come up along the roadmap exist in the ecosystem at present. If some of those initiatives can be moved forwards, they can also very quickly improve the experience of the existing infrastructure.

### 2.3 Wholesale payments mainly require improving currency related liquidity rather than higher speed availability or further interlinking, which supposes strong political support

An industry representative noted that retail payments, wholesale payments and remittances have different challenges. While the roadmap is right on retail payments and remittances, the wholesale payments system is working quite well. However, more can be done to increase the overlap between countries in the operating hours of real time gross settlements (RTGSs) and the work on standardisation will reduce costs and increase efficiency. The main challenge for wholesale payments is not time or interlinking but ensuring there is the right amount of liquidity at the right time. Moreover, settlement risk mitigation on a PvP basis needs to be available for wider range of currencies, in particular from emerging markets. Related challenges are less of a technical but more of legal, regulatory, and also geopolitical nature.

An industry representative commented that liquidity is key but sometimes gets forgotten amid the discussion about technical and regulatory details. If money moves faster around the globe, it must be in the right place at the right moment. There is a lack of experience across the industry regarding what it means to move a lot of money very quickly around the globe. There is a lot of learning to do and this must be done collectively, with central banks supporting commercial banks.

A Central Bank official observed that making more currency available for payment versus payment (PvP)

settlement is important. This is less a question of technology than of politics. Changes in the geopolitical situation in the last 14 months have made things more difficult, because it is important to have an atmosphere of trust both between countries and between public and private sector to improve cross border payments. Given this increased difficulty, it may be necessary to adapt our ambitions. An official concurred that high level political support was key.

#### **2.4 Deepening interconnectivity, however, entails additional attention to risk management, which is a key focus point for international cooperation**

An official stated that more payment system interconnectivity creates greater operational interdependency between systems, increasing the sharing of operational risk between systems and generating a need for interoperable technology and messaging standards. That means rules need to adhere to common international standards. It is necessary to highlight not only the work of the FSB here but that of the CPMI, both elaborating further on the Principles for Financial Market Infrastructures (PFMI) and discussing the implementation of interlinkages, which complements the BIS's work.

Payment systems are part of the broader economic policy community's efforts to create an open and stable global financial system that benefits from cross border coordination and manages risks effectively. There is a broader perspective around international financial stability, growth and development that is important to add to some of the technical elements that have been discussed so far. Working in the central banking space makes clear how significant technical challenges are, including liquidity management, because real time payment systems are substantially more liquidity intensive. Broad based consultation is also clearly essential, and the roadmap's focus on public private engagement is commendable.

### **3. Challenges and success factors for achieving the FSB roadmap on cross border payments**

A Central Bank official remarked a number of challenges had been mentioned. Bringing about engagement between private and public sectors was not easy in a global context. The question of the part of the value chain that would most benefit from the roadmap is also important, as are the incentives required to achieve commitments from the private sector towards the G20 targets.

#### **3.1 A shared vision, a clear division of responsibilities between the private and public sectors, leveraging the strengths of each, and programme coordination and cooperation**

A Central Bank official commented that it is necessary to think hard about how to achieve the shared vision and the required level of commitment by all participants. There is a natural division of labour between the public

and the private sector. Central banks have a unique capacity in reducing risks, as they print risk free central bank money. Basing a platform on central bank money is a starting point, but that platform has to promote competition in the private sector. The private sector is good at innovation and can complete the infrastructure of the system to the end user.

There are strong incentives to end up in that division of labour. There are big negative externalities to address on the central bank side. Considering this question through a domestic lens is wrong, as international financial stability must also be considered. The private sector will be interested in a new business case, and institutions that do not take part in this process risk missing out on benefits. However, central banks have to be prepared to play a broader coordinating role. The division of labour is endogenous and there must be a rethink if this progress does not materialise. It would be interesting to hear how the private sector views this, to see whether they share a common understanding of where to start, of the obstacles to progress and of how central banks can help overcome them.

An industry representative observed that business cases depend on predictability and reliability, and how a business case looks both at present and in the future must be considered.

A Central Bank official noted that improvements in cross border payments need not lead banks' earnings to decrease. When transaction costs fall, all sides will gain, so this is not a big risk for market participants.

#### **3.2 Supporting public private sector partnerships is part of the solution**

An industry representative stated that he strongly believes in public private sector partnerships. CLS is a success story of a public private sector partnership, created in 2002, following a public sector push to encourage the private sector to mitigate settlement risk in foreign exchange transactions. CLS provides such risk mitigation through PvP. The roadmap identifies PvP as a key element of particularly wholesale FX transactions and the public sector's continuous support of the private sector is very important. At the same time, the Global Foreign Exchange Committee (GFXC), composed of central banks and market practitioners, encourages the exploration of ways to further mitigate risk by adopting a best practice approach to FX settlement risk management. CLS currently provides PvP settlement for 18 of the world's largest currencies, which represent approximately 80% of all FX trades. The remaining 20% mainly involves currencies that are legally or geopolitically complex to connect. Solutions to these challenges can only be identified through G20 efforts.

#### **3.3 A strong focus on making the various types of rules existing throughout the cross border payment chain and ecosystem consistent. This requires strong political will due to the underlying competition issues**

An industry representative commented that it is clear that standardisation works and that the interlinking of payment networks is technically realisable. The key challenge around the interlinking of payment networks

is the question of which rule framework applies when multiple payment systems are linked. If there are 60 instant payment networks around the globe, interlinking these would produce a very large number of connections, resulting in significant uncertainty around the business case. The centrality of rules is also seen in the technical implementation of ISO. If the description of the format makes reference to 'agents', this might include banks and other entities in one country but only banks in another. This creates uncertainty around whether banks can rely on the regulation of other entities in other countries. The good work started by the CPMI taskforce must be continued, because this will increase the certainty of industry players that their investments will have the returns that they anticipate.

A Central Bank official noted that anti money laundering (AML) and countering the financing of terrorism (CFT) requirements have increased and vary between countries, raising a problem for banks. Some improvement is necessary, but these risks should not be increased.

An official observed that the core technology is not the issue. Experimentation in payments is principally about

innovation in legal technology and ensuring certainty across different environments. Soft infrastructure is as important as hard infrastructure. However, the frictions in cross border payments are often intentional, slowing things down to minimising risks around fraud or payment failures. Addressing those frictions is not just about overcoming inertia, but about ensuring that the balance of risk and efficiency is correct in conversation with publics. The G20 support for the roadmap is important to sustain that political willingness to discuss how to make those trade offs in a way that achieves the goals of the roadmap.

### **3.4 Achieving data privacy without impeding data flowing across borders**

An official stated that data is critically important, as meeting the goals of the roadmap is going to require more cross border data flows to support payments, at a time when localisation policies are being implemented to mitigate legitimate concerns around privacy and competition.