

# Global payment infrastructures and cross-border payments

## 1. The CPMI/FSB multidimensional programme to improve cross border payments has entered the implementation phase

The Chair explained that in 2020 the G20 leaders had endorsed the programme that the Committee on Payments and Market Infrastructures (CPMI) produced in close cooperation with the Financial Stability Board (FSB) to improve cross-border payments. The programme has been pivoting from analytical and policy development phase to implementation phase is going to take place and several industry working groups have been set up. The programme is very complex and multidimensional, and will take place over many years. The G20 cross-border roadmap covers various segments such as remittances, retail payments, wholesale payments and digital assets.

## 2. Cost, speed, access and transparency are common targets for wholesale, retail and remittances cross border payment activities, but the challenges are different

An industry representative stated that it is extremely important to separate the wholesale business and the retail and remittances businesses. The overarching themes of the cross border roadmap are cost, speed, access and transparency, but the question is whether these challenges are equally important in the three market segments. There is wide consensus around cost and speed being an issue in the remittances business. There are high-speed highways between some high-income countries but there are other routes where it is more difficult.

### 2.1 Transparency, traceability, speed and effective interoperability are the main retail cross border payments challenges

An industry representative stated that their company recently conducted a survey to consumers and small businesses showing that security and transparency matter most for low-value cross-border payments. Customers expect payment providers to share information on the amount to be delivered in local currency, fees to be charged, what FX is being applied, and when funds will to be credited. Another area is speed. The G20 goal seeks 75% of payments to be

provided within one hour; 89% of payments over Swift arrive to the recipient bank within an hour. When it comes to customers' preferences, 25% expect instant cross border payments and 40% expect them to be delivered within minutes. There is also an increased fragmentation in the retail space

### 2.2 Significant cost effectiveness gains are at stake in remittances, which requires improving domestic infrastructure

An industry representative stated that their company supports the work the G20 is doing in helping to solve some of the challenges involved in cross-border payments. Remittances is the area that is facing one of the most important challenges; the cost savings associated with digital remittances are significant, and there has been a significant increase in digital remittances. In 2016 about 25% of remittances were digital, and it is now 57%. The average remittance cost of sending \$200 is about 6.4%, but when one of the legs is digital it is 4.7%. The Global SmARt Average shows that it can go down to 3.3%. Security will also be very important, and more domestic efforts are needed to improve the digital infrastructure.

### 2.3 The key to achieving targets in the wholesale space is access to currencies

An industry representative noted that in the wholesale space the challenges are different to retail and remittances, as the wholesale space has well functioning high-speed highways. Access to currencies is a key point that needs to be addressed. Their company currently settles 18 currencies, which represents more than 90% of FX traffic. Around 80% of all traffic can be settled, but solutions need to be found for the remaining 20%, which largely relate to emerging market currencies. The challenge is predominantly of a legal, regulatory and geopolitical nature. New technologies alone cannot overcome existing challenges in the FX space.

The Chair added that there needs to be a coherent strategy to join everything together to achieve the goal.

### 2.4 Safety of financial institutions, financial stability, human rights and financial inclusion also deserve focus

An official stated that the key remaining policy issues under the G20 roadmap are legal, regulatory and supervisory frameworks, the potential misalignment or perceptions of misalignment between them, and a fragmentation in payment data frameworks and identifiers. Public authorities and the private sector talk about what is possible in cross border payment system arrangements, but do not always focus on the criticality of a set of economic policy areas, payment system access, payment system interoperability and cross-

border payments. These are issues such as how to ensure and protect the safety and soundness of financial institutions, financial stability, privacy, human rights, and financial inclusion.

### 3. Key agenda efforts

#### 3.1 Fully leveraging an already swift and transparent cross border payment network requires extending operating hours, pre validating beneficiary account details, making payment related information available, and identifying cost mutualisation opportunities

An industry representative stated that there is a misconception that cross-border payment chains over correspondent banking are long and complex, but 74% of payments see one intermediary at the most. GPI payments<sup>1</sup> are quite fast and 48% of payments are delivered within five minutes. Good progress has been made on transparency, with their company GPI enabling end-to-end traceability of the payment. The next step is to provide that information to corporates, because they also need to handle their treasury and their accounting in the proper way.

An industry representative added that their company is working on finding the right spots for cost mutualisation. Work is ongoing around validating the beneficiary account details and the account holder matching before the payment is triggered.

The Chair noted that one of the biggest challenges is the anti-money laundering and countering the financing of terrorism (AML/CFT) control.

#### 3.2 Improved interoperability and data exchanges will contribute to further reducing fund availability delays, as well as enabling opportunities for payment automation and efficiency gains

An industry representative stated that a recent pilot their company undertook was connecting the GPI cross-border part of the payment with the instant payment systems. It had been possible to get the transactions end to end in less than two minutes. The migration to ISO 20022 reflects the bold move of an entire industry towards more harmonisation. Institutions will take advantage of the fact that they can exchange far more data fields to enrich the payment method to enable data automation, which means it is machine readable.

#### 3.3 In the context of ever developing data use and new players, updated and clear regulatory frameworks are needed that target risks and allow competition and innovation

An official noted that payments is a regulatory field where many different policy priorities intersect. There is encouragement for greater fluidity of data across borders to foster transactions. Achieving the goals will require the flow of more data. Clarity and consistency

in data frameworks is important to avoid more drastic measures and blunter tools around data-restrictive policies and data localisation.

## 4. Conditions for achieving an ambitious and complex global project

#### 4.1 Engaging with the industry and accurately monitoring progress are critical success factors

The Chair agreed on the importance of engaging with the industry.

A Central Bank official stated that it is important to measure progress as accurately as possible. A group of experts has developed a set of KPIs that have been put in relation to the targets. A report is under preparation with a first global assessment of the progress being made in different segments compared to the different targets.

#### 4.2 Maintaining the current momentum and extending the efforts beyond the G20 toward regions under the IMF and World Bank umbrellas are essential

A Central Bank official stated that the first key success factor is to keep the current level of momentum. The work needs to be put under the umbrella of the roadmap to achieve results for a large number of jurisdictions. Another key success factor is to prolong and develop the explanatory work with new technologies and new infrastructures, and to work on the interoperability issue between old infrastructures that are trying to be improved and new ones that are emerging.

An official agreed with the point around political momentum. It is important that the public buys into the changes and that there is a clear view of both the benefits and the steps that public authorities need to take in order to achieve them, in conversation with the people that public authorities work to serve. Enthusiasm and experimentation in other forms of digital assets is sometimes motivated by weaknesses in, or challenges related to, capacity in local payment systems. There is desperate need for engagement in relation to the particular frictions that the private sector is seeing.

#### 4.3 The success of cross border payments in addressing the diversity of user needs relies on the continued commitment to public-private partnerships

An industry representative stated that the cross-border roadmap is in its third year, and the current phase of prioritisation and action is the most challenging part. After Herstatt Bank collapsed there had been a concrete assignment of responsibility from the public sector to the private sector to provide risk-reducing services. When their company had gone live in 2002 it had seven currencies, and today it has 18. The growth has been as

1. Global Payments Innovation (GPI) is an initiative from SWIFT to improve the experience of making a payment via the SWIFT network for both customers and banks.

a result of the public-private partnership. The company is also working on the challenge of emerging-market currencies.

An industry representative noted that the most important factor to the success of cross border payments is the continued commitment to public-private partnerships, because each sector has its own strength. The public sector excels in setting standards, harmonising those standards, continuing to protect consumers, continuing to foster competition within the environment, and maintaining the integrity and stability of the financial sector.

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## **5. Technology is an ongoing challenge to reap all the benefits, and to allow safe, inclusive innovation and fair competition while avoiding creating new sources of fragmentation**

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A Central Bank official stated that the impact of new technologies and new types of payment service providers has been positive, but there is a distinction when speaking about new technologies. Some technologies are already widely exploited and some are emerging. Regarding emerging technologies, it is important to continue to extensively explore the potential improvements they might bring to cross-border payments. There are also concepts of global platforms being developed; the BIS has its view on a collective ledger, and the IMF has also developed a concept called the XC platform. That could be a way to facilitate interoperability in having those platforms at the centre with existing systems in different ways. That type of investigation is worth undertaking and deepening further, as it might bring benefits and ensure the sustainability of progress.

An industry representative highlighted the continued need for investment in technology, particularly when it comes to security and safety. The investment in technology and the different technologies that are going to emerge are going to lead to more new entrants coming into the markets. Interoperability and interconnectivity between different regions, sectors and players is going to be very important.

An official added that the world is going through a period of remarkable payment system innovation, much of which is taking place in the private sector. There is a degree of experimentation going on in the public sector that is valuable, but the task is to build an ecosystem and provide an environment where that innovation can continue in a safe and inclusive way that supports the stability and functioning of the overall payment and financial system.

A Central Bank official recalled the phrase of a central banker 40 years ago who had said, 'Prediction is very difficult, especially for the future'. The vision of a global payment system is being transformed. It is still diverse, with a combination of mature and new infrastructures, but less complex and more integrated on a regional basis and more aligned with the G20 targets.

The Chair characterised the journey with the G20 roadmap as one towards a better global payment ecosystem that should benefit everyone, and wished a "Buen Camino" to all the stakeholders involved in this journey.