Cross-border payments and global infrastructures: G20 roadmap and remaining challenges

1. The challenge is now to keep the momentum of the project to achieve the ambitions behind the G20 roadmap while addressing challenges

The Chair noted that cross-border payments are slower, more expensive, less transparent and less accessible than national payments. Cross-border payments have improved over the years, but there is still a significant gap. Emerging countries will probably benefit most from cross-border payment enhancement. While there is room for improvement in cross-border payments, the good news is that this problem has moved up the list of priorities, with G20 leaders deciding to act. Currently, the situation is at the midpoint before the final goal of 2027. The hard work starts now. The authorities and the private sector are making great efforts to meet the G20 targets.

A Central Bank official highlighted that the aim of improving cross-border payments is to help people on the ground. The cross-border programme was initiated by the G20 in 2020, with the idea of making cross-border payments faster, cheaper, more transparent and more inclusive by 2027. The assignment was given to the Financial Stability Board (FSB). The first step was to consider the underlying problems. In 2021, the FSB published quantitative global targets with respect to three areas: wholesale, retail, and remittances.

1.1 After the groundwork, it is now time to follow with a myriad of individual or collective concrete actions

A Central Bank official commented that significant progress is being made. If this work is done correctly, it will help everybody across the globe. The work done in recent years has laid the foundations, so it should be possible to begin moving more quickly with practical, impactful actions. There has been a focus on understanding why cross-border payments are so challenging. The G20 roadmap has set out what needs to be done by the public and private sectors. Best practice guidelines have been set out so that central banks can assess the need for improvements in their areas.

The groundwork is done; now is the time to push forward with concrete actions. To meet the targets, it is necessary for jurisdictions far beyond the G20 to act. Some actions lie with individual jurisdictions. The European Central Bank (ECB) brought in ISO 20022 global messaging standard last year, as did the UK, Australia, and others, and this should be done on an institutional and jurisdictional basis. The payments industry must make use of enhanced data content of ISO 20022 messages. These messages ISO have fantastic capabilities for industry in terms of understanding customers better, facilitating straight-through processing and allowing greater harmonisation. Currently, access to payment systems is limited to key financial institutions, principally banks, although in some jurisdictions such as the UK and Switzerland, access has been opened to non-bank payment service providers as well. To address cross-border payments, more participants need to be able to access directly core parts of the payment infrastructure.

There is much that central banks can do. The industry clearly wants more progress on legal, regulatory and supervisory frictions. A public-private taskforce has been set up. More work must be done on bank and non-bank supervision, data and privacy. In terms of digital assets, it is important to understand what is happening domestically and how this can also work for cross-border payments.

1.2 Significant concrete progress has been achieved in the EU

A Central Bank official stated that the replacement of TARGET2 with T2 in March 2023 was significant. The new TARGET services are important as a preparatory mechanism for the G20 cross-border goals. The euro system also played an important role in the uptake of the ISO 20022 financial method. Market players in Europe are going to take an important step in this respect in March. Lastly, there is an increased uptake of instant payments. From a European point of view, the latest EU regulation on instant payments is extremely important. It was adopted by the EU Parliament two weeks ago and will make instant payments the new normal by the end of 2024. Overall, the project is not yet at its endpoint, but there is reason to be optimistic about the progress so far.

1.3 Globally much progress has been achieved

An official observed that some measurable and significant progress has been made towards achieving the G20 goals. There have been some real improvements in speed. Within wholesale, according to SWIFT data, 89% of payments are made available to beneficiary banks within one hour. Within the retail channel, more than three-quarters of providers make funds available to the ultimate recipient in less than a day. The target for both of those across the G20 payments roadmap is 100%.

Costs are also falling. The global average cost of the $200 remittance has fallen from 9% to 6% over the last 10 years; the target is 3%. For the lowest-cost and simplest form of remittance payments, the World Bank's

SmaRT index, the cost is already down to 3.5%. That is a 50% decrease within the last six or seven years. The adoption of ISO 20022 in some form has extended to more than 100 countries. The Committee on Payments and Market Infrastructures (CPMI) has been working to create a harmonised standard, which has the potential to increase adoption even further. Using the richer data set that ISO 20022 adoption allows can provide the level of automation to deliver on speed and cost goals.

1.4 The many examples of emerging challenges and ongoing innovation, particularly in the field of instant payments and Central Bank Digital Currency (CBDC), add to the challenges of interconnecting payment systems where the target is to provide choice while avoiding fragmentation and complexity

An official highlighted that, in 2022, a framework of key performance indicators (KPIs) was developed to measure progress. Last year, data on most of these KPIs were published for the first time. In some areas, the KPIs demonstrate that the situation is not bleak. The G20 roadmap cannot take credit for all these developments, but it is at least putting a good foundation in place. There are still some areas to focus on. Progress will become more difficult from here. There will be fewer technical issues with stock adoption and more difficult political trade-offs.

An industry speaker stated that there is some positive momentum in the existing models, but there are also many new models coming into play. The interlinking of faster payment systems is one area in which momentum is building towards the G20 goals. SWIFT has been working to interlink market infrastructures for many years already. As momentum moves towards instant capabilities across the domestic space, there should be an increase in the number of bilateral and multilateral interlinking projects. As these schemes are set up, there are some common challenges to consider, including compliance practices, governance models, managing the FX and ensuring the same levels of cybersecurity and resilience that are within existing systems today.

One challenge relating to these models is that there can be roadblocks to scalability. The more corridors are added, the more complexity and cost potentially enter these models in the future. This could constrain closed-loop systems in terms of the liquidity flow to support trading relationships and the movement of capital. These are all areas that are being overcome. These models are also generating many positives in terms of choice and optionality, stimulating the acceleration of progress towards the G20 goals. Many other innovations are being considered, including CBDCs or distributed ledger technology (DLT) based networks.

It is important to consider what the ecosystem of the future looks like at the infrastructure level, making sure that choice and optionality does not lead to fragmentation or complexity. This involves considering how to seamlessly connect DLT-based networks and CBDCs to the existing financial system and fiat currencies. In areas such as payments pre-validation, cross-border services can connect to domestic confirmation of payee schemes. Progress is being made in a multitude of areas. The aim is to enable operational effectiveness and to maintain coherence in the global financial system.

2. Implementing the payment versus payment (PvP) mechanism requires further risk awareness and alignment of legislation across multiple jurisdictions

2.1 Addressing the specific challenges faced by the evolutions witnessed in wholesale transactions requires further monitoring of risk

An industry speaker emphasised that the challenges faced in the field of wholesale are different from those in other segments such as remittances and retail payments. The G20 cross-border roadmap fully acknowledges these differences. In October 2023, the FSB published KPIs that either directly or indirectly measure the extent to which the targets are being met. In relation to wholesale payments, the October FSB report refers to SWIFT Global Payments Innovation (GPI) data which looks very promising. 89% of all payments go from the sending to the receiving bank within one hour and 99% within one day. Currently, there is no effective way of measuring FX settlement risk. The triennial survey conducted by the Bank of International Settlements (BIS) is a rich source of information, but the methodology is currently measuring trading activity rather than settlement risk activity. The methodology is being reviewed to better cater for the FX settlement risk dimension. Even without a precise KPI, there are clear indications that risks are increasing. This is driven primarily by the rise of emerging market currencies such as the Chinese renminbi.

There are also other developments to note, such as the acceleration of the settlement cycle in the securities market. The US and Canada are moving to T+1 settlement in May 2024. This will likely impact the execution of FX trades and post-trade processes as it creates pressure on market participants to submit FX transactions to custodians within certain cut-off times in order to meet settlement systems deadlines. There is more discussion about reducing the settlement cycle in other major currencies. It is necessary to anticipate how potential increases in settlement risk in this space could be measured and mitigated.

2.2 Full alignment of legislation across multiple jurisdictions is of the essence

An industry speaker stated that onboarding currencies into a PvP system is a medium- to long-term endeavour as solutions need to be found for a wide range of topics. For example, laws must be completely aligned with an appropriate framework for participation and recognise the finality of payments and the enforceability of all netting processes. The regulatory framework must adapt to the principles for financial market infrastructures (PFMI). Hurdles could also be geopolitical in nature. Entities in different jurisdictions must be both interested and able to collaborate on a common mechanism to settle cross-currency payments.

3. Multiple success factors to gather and areas for work

An industry speaker commented that there should be continued progress in the wholesale space. While it is positive that 90% of payments are going cross-border within an hour, there is more work to be done to improve the end-to-end picture. This involves trying to overcome other frictions in the chain, such as opening hours, batch processing, or capital or currency controls. There is more to be done in the wholesale space to continue advancing towards the 2027 goals.

3.1 Legal, regulatory, supervisory, and ultimately policy alignments, notably regarding data (privacy, AML, data enrichment)

An official stated that the challenges in managing the G20 roadmap project are not predominantly technological; they are predominantly legal, regulatory, supervisory, and ultimately policy changes. A great deal of experimentation with new technology is occurring within both central banks and the private sector. This has the potential to help the goals on cross-border payments to be reached, but the predominant obstacles are related to underlying policy considerations.

CPMI delivered an interim report to the G20 at the end of 2023 on decisions relating to interlinkage. The report suggests a precursor set of steps for jurisdictions to follow. The first two steps are high-level policy alignment and alignment on goals. The political will align frameworks is a precursor to progress.

Consideration of data-related standards is also important. This is one of the priority building blocks that the G20 has identified under the Cross-border Payments Roadmap. An FSB technical workstream is considering improved alignment between different data frameworks. Frictions may arise from the financial regulatory space, the privacy space or the anti-money laundering and combating the financing of terrorism (AML/CFT) space. There is often uncertainty or risk aversion in understanding how to reconcile obligations across different frameworks.

There is an underlying need for more data to move across borders in order to make cross-border payments cheaper, faster, and more accessible. There is much uncertainty about how to extend data availability into automation. Data restrictive policies can interfere with the cross-border regulation of financial services and have significant effects in potentially impeding those goals. It is hoped that there will be some policy recommendations in the year ahead.

3.2 Efforts made in terms of cooperation and governance need to be continued

A Central Bank official highlighted the importance of cooperation between the public and private sectors. Most central banks run payment systems, but bodies such as the FSB and CPMI do not. So far, the initiatives have been quite successful and there are several groups where the public and private sectors come together, but it is important to continue that. The most complicated part of the project is governance rather than technology. That includes the governance of interlinking, including with supervisory regimes and legislation. AML is another area where interlinking is a significant challenge.

3.3 Combining technical progress and business case viability is essential

A Central Bank official emphasised the importance of a viable business case. The public sector should acknowledge that some elements that might seem easy from a technical or regulatory point of view may not work from a business point of view. Lastly, regional disparities are still significant. It is important to invest more in regions where there is less progress.

4. To extend the work already done, we need to involve countries beyond the G20, increase the number of cooperation forums, and structure technical assistance

An official observed that there is still significant regional variation with regard to both speed and cost metrics. There is a strong case for regional engagement outside the G20, where there is a lag on some of the key goals. It is incumbent upon the G20 to undertake that engagement together with the private sector. Currently, some significant intra-regional variation might be missed. This is particularly true in East Asia and the Pacific, where some economies are heavily invested in improvements in payment speed and may be drawing the overall average numbers up. It is important to focus on jurisdictions that are still struggling.

A Central Bank official stated that much of the work that needs to be done within the G20 also applies outside the G20. Some areas are far below the targets and need to improve. The IMF and the World Bank have been working on providing technical assistance. The Financial Action Task Force (FATF) is working on refining its recommendation on the information that must be attached to cross-border wire transfers. There is a community of practice for central banks, which is open to anyone in the world. Collaboration between the private and public sectors in the G20 is key.

There are several taskforces, including the payment interoperability and extension (PIE) taskforce. There are taskforces on legal, supervisory, and regulatory frameworks, as well as application programming interfaces (APIs), ISO 20022 and data. The private sector can provide more detail about what needs to change. Payment systems have different access requirements, hours, and approaches. Industry should try to shape the systems, as some of this is becoming more jurisdiction specific. Industry also needs to start planning for investments, including the impacts on staffing and infrastructure of greater moves to 24/7. Greater use of ISO 20022 will make it easier to benefit from the changes that are being made. Spreading the word to people from other countries is important. Many of the actions that can be taken to enhance cross-border payments can also help increase efficiency within businesses.

4.1 Here again public-private collaboration is necessary

An industry speaker observed that the progress made so far is a result of public-private collaboration, so it is important to continue that. This collaboration has been a good catalyst for setting up working groups and workshops. As new capabilities are introduced to help move towards greater speed and transparency, it is important to work with small and medium-sized users across the world to make sure they can also access the benefits. ISO and cross-border payments and reporting plus (CBPR+) are important. It is necessary to support communities worldwide in reaching the end of this journey. The benefits of this are foundational for the future transformation journey. Innovation of future services will only be possible with better data quality.

An industry speaker agreed that partnership between the public and private sectors is key. Such a partnership delivers value to the market, facilitating safe and stable services. The challenge for the taskforces is to ensure that they are pragmatic and that ambitions are realistic. Key challenges do not necessarily lie in the area of technology. The choice of technology is a question inferior to governance or regulatory and legal aspects.