CROSS-BORDER PAYMENTS GLOBAL ROADMAP

DENIS BEAU

First Deputy Governor, Banque de France

Taking the cross-border payments roadmap forward

Cross-border payments, which sit at the heart of international trade and economic activity, have been for long facing a number of shortcomings that hamper their efficiency, in terms of cost, delay, transparency and accessibility. These frictions encompass a wider array of aspects, from fragmented data standards, lack of interoperability, complexities in meeting compliance requirements, data protection purposes or outdated legacy technology platforms. This multi-dimensional set of issues is by far not new but have recently been given a strong political impetus in view of materializing significant progress.

The work done last year under the aegis of the G20 is the first global and comprehensive initiative to firmly improving cross-border payments. The ambitious roadmap agreed in October 2020 indeed aims at addressing all the various pain points mentioned above, from all the perspectives at stake, within a delimited time-frame, under the close scrutiny of the FSB and, ultimately, of the G20. This decisive policy step in the landscape of payments, which implies not only public authorities but also and foremost the private sector, is highly promising. However much will depend on our collective willingness and ability to deliver.

However much will depend on our collective willingness and ability to deliver.

It is in this regard pivotal that the implementation of this roadmap remains overtime tied to the initial ambition. This stress the critical importance of targets, mostly quantitative, that will be set - in terms of price, delay, transparency and accessibility – as part of the roadmap. Indeed, this will help ensure that the various "building blocks" of a response, whatever their nature and features, be operationalized in a way that will eventually fix the frictions. The endorsement of targets by the G20, in the last quarter of 2021, will be hence essential, as will be the ongoing monitoring of their implementation over the following years.

Central banks have to play an important role in this setting. As overseers of payments infrastructures, they will have to contribute to the design and implementation of the revised frameworks that will result from the need to increase the convergence of regulatory and supervisory approaches between jurisdictions. As operators, their support to solutions designed to inter-connect payments system, wherever needed and possible, will be essential, as will be a number of targeted measures including for instance the extension of operating hours; some more forward-looking initiatives, such as the potential issuance of central bank digital currency in the context of cross-border payments could also be considered. And as catalyst, they will have to stimulate and create a conducive environment for innovative solutions, which may encompass new platforms or some forms of appropriately designed digital payments.

All in all, the G20 roadmap offers a unique collective opportunity to prepare and improve the future of cross-border payments. Its success relies on the steady commitment of all stakeholders.

TARA RICE

Head, Secretariat of CPMI, Bank for International Settlements (BIS)

Building the cross-border payments ecosystem for the 21st century

The payments landscape has changed dramatically in recent years. Domestic payment systems have improved, and the use of cash has declined in many jurisdictions, but cross-border payments are still largely perceived to be slow, expensive, opaque and for certain user segments unavailable.

As a result, in late 2020, the G20 endorsed a roadmap to enhance cross-border payments. It lays out a comprehensive set of actions by public authorities and private actors in a broad range of areas to remove the frictions that have held back the development of better cross border payments.

The Committee on Payments and Market Infrastructures (CPMI), chaired by Sir Jon Cunliffe (Deputy Governor, Bank of England), led the development of the 19 building blocks, arranged into five focus areas, which form the basis of the roadmap. Four of these focus areas seek to enhance the existing payments ecosystem, while the fifth is more exploratory in nature and covers emerging payment infrastructures and arrangements.

The focus areas are as follows:

a. *Commit to a joint public and private sector vision to enhance cross-border* *payments:* Focus on driving meaningful, coordinated change at the global level over a sustained period of time among stakeholders from the public and private sector.

b. *Coordinate on regulatory, supervisory and oversight frameworks:* Focus on advancing consistent international rules and standards without compromising individual jurisdictional discretion or lowering standards.

b. *Improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments market:* Focus on technical and operational improvements to existing domestic and international payment infrastructures that cross-border payments depend upon.

d. *Increase data quality and straight through processing by enhancing data and market practices:* Focus on promoting the adoption of common message formats, including conversion and mapping from legacy formats to ISO 20022 and common protocols for data exchange. This could mitigate the friction around fragmented and truncated data.

e. *Explore the potential role of new payment infrastructures and arrangements:* Explore the potential that new multilateral cross-border payment platforms, central bank digital currencies (CBDCs) and so called global "stablecoins" could offer for enhancing cross-border payments.

Each of the building blocks individually has the ability to bring notable benefits to cross-border payments. However, due to their interdependencies, the most significant enhancements are likely to arise if over time they are advanced and implemented in a coordinated manner.

Achieving change in all of these areas is a challenging objective. While all of these building blocks feature concrete actions and key milestones, the problem needs to be tackled comprehensively.

Absent a coordinated and sustained initiative, supported by both the public and the private sector, we will not see the improvements we seek.

Only a cross-border payments ecosystem that can keep pace with the way we live and transact is fit for the 21st century. The CPMI is taking a leading role in shaping the future of cross-border payments.

GIUSEPPE GRANDE

Deputy Head of Market and Payment Systems Oversight, Banca d'Italia

Cross-border payments: more access, less compliance costs

The G20 Roadmap on cross-border payments can greatly benefit the public and the world economy. Cross-border payments are the cornerstone of the international mobility of goods, services, capital and people. Yet, for too many individuals and businesses they are still costly, slow and less secure, if they are even available. This has been well documented by the FSB, in coordination with the CPMI. The Roadmap is a high-level and flexible plan to enhance the global payments ecosystem.

Key to the Roadmap's success is the involvement of market forces, enabling a long-term, joint private and public sector commitment. Moreover, to the extent possible, we need to leverage existing infrastructures and arrangements so as to reduce the sunk costs of innovation. Enhancing private-public cooperation and existing systems are two of the focus areas of the Roadmap.

Turning to possible actions, the responsibility to meet end users' needs and requirements lies primarily in the hands of payment system providers (PSPs) rather than those of public authorities. Services could be developed to enable individuals and businesses to make payments through smartphones and PCs, for example, or better track them along the transaction chain, combine them with other services and settle disputes easily.

Enhance access to back end, deepen interlinking, simplify practices and compliance, manage new risks.

The PSPs' ability to improve services also depends on the availability of 'back' end processes. Criteria to extend such processes to non-bank PSPs are being considered in several jurisdictions in order to promote innovation and competition, reduce the risk of single points of failure and ultimately strengthen financial stability. Payments across borders can also be boosted by adopting new structural approaches, such as establishing links between domestic systems or setting up multilateral systems with cross-currency settlement, which would be especially useful for countries that have strong economic ties with one another. In Europe, the instant payment system TIPS is experimenting in these areas.

Industry-led initiatives targeting operational frameworks (e.g., message format) may help to streamline transaction chains.

Changes in the payments industry are giving rise to new risks that must be managed in order to safeguard financial stability and the public's trust in money. The greater dependence on technical service providers and the high concentration of the supply of such services are matters of concern. Companies have to recognize third-party risk and the different responsibilities of the outsourcer and the outsourcee. Competitive distortions due to the presence of a few large players have to be countered and data privacy and cyber security must be ensured.

These policy efforts do not equate to an increase in regulation. There is room for lowering compliance costs by tackling disparities resulting from inconsistent regimes or from duplicative compliance checks. This is also one of the focus areas of the Roadmap. More importantly, an open and inclusive payment ecosystem, with a level playing field, strengthens market discipline and is conducive to growth, thereby reducing the need for public intervention.

Nonetheless, central banks and other authorities will continue to monitor old and emerging risks, to improve oversight criteria and tools and to be ready to act.

MARC BAYLE DE JESSÉ
Chief Executive Officer, CLS Group

No quick fix – Addressing frictions in cross-border payments

The Financial Stability Board's (FSB) Cross-Border Payments Roadmap rightly focuses on improvements to existing payment infrastructures and arrangements. Such improvements are needed to address current frictions that limit access, increase costs, and leave risks unmitigated.

Removing these frictions involves careful consideration of the regulatory, legal, and operational changes required – many of which cannot be readily addressed by simply adopting a new technology or shifting to a new type of infrastructure.

Core to CLS's purpose is to mitigate foreign exchange (FX) settlement risk, the risk that one party to an FX transaction will pay the currency it sold but not receive the currency it bought. CLS continually seeks to add currencies to its settlement system (CLSSettlement), and is in the process of onboarding the Chilean peso as its 19th currency.

Despite recent reports suggesting FX settlement risk is on the rise[1], CLS's ability to expand its payment-versus-payment (PvP) protection to new currencies and improve direct access to CLSSettlement will remain limited unless there are changes to the regulatory regimes applied to systemically important infrastructures like CLS.

> "Technology is only one part of the complicated equation"

Few remaining currencies can meet CLS's currency onboarding standards, which derive from the Committee on Payments and Market Infrastructures' and the International Organization of Securities Commissions' *Principles for Financial Market Infrastructures*, other applicable regulations, and CLS's own standards for CLSSettlement. Principle 1, legal basis, and Principle 8, settlement finality, have presented the largest obstacles to onboarding new currencies to CLSSettlement.

As a result, CLS has started to formalize its views around a new, separate solution for non-CLS currencies (in support of Building Block 9 of the FSB Roadmap – facilitating increased adoption of PvP). Key questions on operating model, account type, settlement finality, and applicable standards remain, and a flexible and agile way of thinking will be required to answer those questions. New technology on its own will not be able to address them.

Specific to access, as a general rule CLS believes it is important to assess the trade-off between participant accessibility and the potential changes to the risk profile of the ecosystem. However, CLS believes there is merit in ensuring that, from a legal perspective, the following categories of low risk non-bank participants will have the ability to directly participate in systemically important FMIs:

1) supranational institutions and multilateral development banks;
2) foreign systemically important FMIs and their operators;
3) sovereign wealth funds. Depending on the jurisdiction, changes to existing regulations and legislation, including the EU's Settlement Finality Directive, may be required to accomplish this goal.

While the use of new technology may help address current frictions, technology is only one part of the complicated equation to achieve a faster, cheaper, more transparent, and more inclusive global payment system.

1. BIS: "BIS Quarterly Review – International banking and financial market developments", specifically Bech and Holden: "FX Settlement Risk Remains Significant" (December 2019).

PETER BUCHER
Chief Executive Officer, Western Union International Bank GmbH

Cross-border payments: welcoming the new political impetus

Under the Saudi Arabian leadership of the G20, the FSB and CPMI embarked on an ambitious work programme to improve the efficiency of cross-border payments. Last month, EU finance ministers adopted important Conclusions to improve the retail payments market in the EU. Western Union is one of the world's leading provider offering efficient cross-border payments to its customers across the globe. It might therefore surprise some to hear that we are big supporters of the recent policy initiatives.

The payment industry has always been at the forefront of technological and societal changes. It has had to adapt to new consumer behaviours and needs. The industry is continuously innovating to make the payment process as seamless, efficient and secure as possible. Today, we are seeing a lot of collaboration across the industry. One good example is the Western Union platform. More and more FinTech companies come to us to use our payment platform to access our global network and agents to be present in all parts of the world.

The regulatory and supervisory community needs to be part of this collaborative approach. This is where we believe the CPMI work is of critical importance. The CPMI sets out a number of important building blocks that, if implemented, would make a big difference: aligning regulatory and supervisory approaches, promoting the interoperability of payment infrastructures and contributing to standard setting on data exchange. While local rules, regulations and consumer protection requirements need to ensure that payments remain safe and secure, they should not unduly fragment the ability of the industry to deliver cross-border payments or stifle innovation in the industry, nor should it favour one payment solution over another.

If we look at our business today, customers are increasingly opting for digital payment solutions. This brings efficiency and helps to reduce costs. Nonetheless, digital payments are not in themselves the solution for making cross-border payments more efficient.

Many customers, not least in remote and rural communities that require the necessary investment in digital infrastructure or banking network, still rely heavily on cash.

How can the EU contribute to the international agenda? We welcome the Retail Payments Roadmap as a constructive way forward. It rightly identifies a number of important actions:

- The move to a harmonized KYC and e-onboarding framework will contribute to cost-efficient and more effective compliance. Such initiative should importantly find ways to incorporate offline customers so that these too profit from the new rules.
- The commitment to encourage, not hamper the appetite of industry to invest and innovate in the safety, security and efficiency of payments. Differences in national implementation of AML, data privacy and consumer protection are creating barriers to scaling up business solutions across the EU and internationally.
- The commitment by the ECB, European Commission and the National Central Banks to have clarity on the real-world applications of the CBDCs including Digital Euro and the options for public-private collaboration when embarking on those new projects.

ULRICH BINDSEIL

Director General, DG Market Infrastructure & Payments, European Central Bank (ECB)

The G20 cross-border roadmap – The foundations of a future-proof global payments ecosystem

The G20 cross-border payments roadmap encompasses a variety of actions through 19 building blocks in an attempt to address the various challenges related to cross-border payments. The diversity of measures under consideration is also a result of the different types of end users of cross-border payments, who face different challenges and have broadly different experiences and expectations. The 19 diverse building blocks lay a strong foundation for progress in the global payments ecosystem.

Despite the heterogeneity of the building blocks, one overarching objective is a desire to reduce the high costs associated with cross-border payments. This challenge is multi-facetted, although one clear outstanding issue is the cost of compliance and associated risks. Providers of cross border payment services need to comply with several sets of rules and regulations while, at the same time, mitigating legal risk resulting from a lack of awareness or a misunderstanding of the way laws and regulations are applied. Compliance costs are, eventually, charged to end users while de-risking (i.e. the withdrawal of providers from the cross-border payments market) means less competition, which in turn translates into more market power for the remaining providers, increasing further fees charged to end users. The G20's work acknowledges the importance of improving the efficiency of compliance and reducing its associated risks, which is why five out of the 19 building blocks are in this area. This is where making improvements will be important for both existing and new arrangements and providers.

The G20's work also recognises the importance of competition. It supports the use of a variety of approaches to address the technical issues involved in processing cross-border payments, such as improving traditional payment rails and correspondent banking. In addition, if new players enter the cross-border payments market under the same set of rules which create a level playing field, this has the potential to enhance cooperation and change the competitive dynamics of the market. New approaches will benefit from more efficient compliance frameworks while from a competition perspective both old and new solutions should obviously be subject to the same rules.

Beyond their roles as regulator or overseer, central banks also have a critical role to play as providers of liquidity and operators of payment systems. With regard to the latter, it should be mentioned that the ECB, in collaboration with Sveriges Riksbank and the Banca d'Italia, has started to analyse how TARGET Instant Payment Settlement (TIPS, the Eurosystem pan-European service that settles payments in central bank money around the clock in real time) could support efficient payment transactions across different currencies. Ideally, payments would have an efficient and competitive FX conversion layer and minimise costs for participants and ultimately end users. The usage of TIPS by both Sveriges Riksbank and the Eurosystem provides a great opportunity to explore this. It will also foster our understanding of all the practical challenges we face when aiming to implement concrete innovative solutions.

International cooperation will also be key to shaping the future ecosystem for central bank digital currencies, which may offer consumers and firms a further option for making cross-border payments, thus strengthening further competition and efficiency.