

CROSS-BORDER PAYMENTS GLOBAL ROADMAP

1. The challenges faced by cross border payments and related players globally

A central bank official observed that cross-border payments are seated at the heart of international trade and economic activities. Several shortcomings hamper their efficiency in terms of cost, delay, transparency, and accessibility.

An official stated that enhancing cross-border payments has become a central theme of the Central Bank Committee on Payments and Markets Infrastructure (CPMI). Europe does not either have one monolithic, cross-border payment channel and there are doubts that it ever will. In addition, developing competition and innovation is needed to deliver the multiple services that are going to match the diverse needs.

2. Significant cross-border payment initiatives

2.1 Private and public sector solutions

An industry representative noted that cross border payments are more complex than domestic ones. Time zone differences contribute to delays. Payments following the sun are more quickly executed than those travelling against the local operating hours. Straight through processing and 24/7, real-time operating capabilities will reduce the impact of time zones. New technologies like APIs can already support speed. Improved compliance checks and data standards such as ISO 20022 will greatly ease the flow. A great deal of work has already been done by the financial industry over the past five years to address frictions in cross-border payments, mainly through the Global Payments Innovation (GPI) SWIFT initiative. Regulatory barriers and capital controls are the most significant friction. The regulations, processes and everything related to compliance will require much more collaboration notably to improve the level of harmonisation.

2.2 The SWIFT-led GPI initiative triggered a strong adhesion, and steep progress will soon be perceived

A Central Bank official stated that in the payments industry the unprecedented pace of change is driven by innovations in technologies and business models.

An industry representative noted that transformation is well underway, even though the industry has not done what it should have done regarding cross-border payments over the last decade.

An industry representative stated however that the GPI initiative required a change in thinking, with the SWIFT-led platform strategy leveraging the corresponding network by a coalition of the willing taking the lead. Over time, what will be seen is more and more players joining that journey, and then the superior experience that is being created will become the standard.

2.3 Key success factors to make significant progress are de-risking, harmonisation, and cooperation, which enable competition and innovation

An industry representative stated that global customer expectations on safety and security in the cross-border payments space are changing at a very fast rate. Significant investments have been made in recent years, both on the cash side but also on the areas of pay-out to wallets, cards, and also regarding Bank Management Systems (BMS) of bank accounts and access to real-time payment systems. The current fragmented payments landscape is no longer fit for customers' expectations. The main objective of the project is the harmonisation of cross-border payments across all dimensions. A much more solid and harmonised foundation will generate the desired effects like enhanced competition, more transparency, reduced costs and increased qualities. Resolving these issues requires exactly the comprehensive approach that is suggested and will only be successful if it is done in a very close collaboration between the regulators, policymakers, and the private sector.

An industry representative observed that the payment models are being disrupted and that this is driving change. The trick to thinking about this transformation is how to replicate the superior client experience that is available in a closed loop ecosystem. It is very important that the industry learns from the disruption that is going on. In the last 10 years cross border payments have not evolved in the way that they have needed in order to meet the increasing expectations of clients. The industry has not taken the advantage offered by technology as it has evolved over the last number of years. One critical reason is the very team sport nature of cross border payments, which are dependent on many players in the ecosystem. The end user experience is always going to be impacted by the weakest link in that chain.

A Central Bank official stated that beside the set of building blocks on addressing de-risking and the cause of de-risking, the common theme that can be identified in the CPMI 19 building blocks is competition and innovation. Both incumbents and new players need to feel welcome and should obviously be subject to the same compliance rules. Three application of these rules needs to be made more efficient to make entry into the market easier and to stop the de-risking trend.

An industry representative highlighted the issue of legal barriers, and the fact that progress may be difficult to achieve in a cross-border context when there are different laws and different implications.

3. The ambitious G20 roadmap is a pragmatic and cooperative approach which is intended to be technology and business model neutral

A Central Bank representative noted that the multidimensional set of frictions at the root of existing shortcomings have recently been given a strong

political impetus under the aegis of the G20 in view of a matter arising of significant progress. Agreeing on such a roadmap was an incredible success. It is important to move from design to implementation. Momentum is there to improve, but the G20 roadmap is an opportunity to move forward.

An official stated that there are two additional challenges. A comprehensive programme is needed to ensure the improvements sought in this area are broad based, and to make sure that further multiple channels can be developed and enabled to work together. The overall objective is to improve in four key areas: faster, cheaper, more transparent, and more accessible, while maintaining the safety and security across both wholesale and retail payments at the same time.

A Central Bank official observed that the G20 roadmap do not represent another risk factor or additional risk. It is a great opportunity because it is neutral and the roadmap does not endorse any specific model or solution or technology, so it is neutral. The roadmap is a multi pronged action plan targeting a whole range of frictions and inefficiencies. It tries to build on existing approaches, arrangements, and systems in order to get some practical results over the short-term. However, there are also more ambitious targets that can be achieved only over the medium term. The roadmap implies a close involvement of the private sector. The aim is to get to a new equilibrium in which all stakeholders can be better off.

4. Specific wholesale challenges

4.1 Payment Versus Payment (PVP) is an essential arrangement to address wholesale cross border payments' foreign exchange risk

An industry representative stated that examining PVP in the cross-border payment area is very important as very often, particularly for wholesale activity, cross-border payments implies an foreign exchange transaction in two different currencies almost by definition. PVP increases efficiency and safety of financial markets, and also mitigates principal risks. Regarding the systemic dimension of those transactions, a December 2019 BIS report suggests that the current volume of settlement that does not benefit from a PVP mechanism is over \$8 trillion USD equivalent per day.

4.2 Despite ever-growing globalisation, many currencies still do not benefit from PVP

An industry representative highlighted the fact that there are still several major currencies that do not benefit from PVP protection, and therefore transactions in these currencies remain exposed to settlement risk. The share of the transactions in these currencies is growing as globalisation is growing.

5. Change management success factors

5.1 Preserving the soundness of existing systems and arrangements, requires 11,000 institutions across the globe to evolve at the same time

An industry representative noted that further evolution and transformation of the legacy and the existing systems are needed, but recognition is needed of the assets and the strengths of the existing system. The safety and soundness element needs to be part of the

future, as well as the ubiquity, openness and reach of the existing systems, with payments across 200 countries.

An industry representative added that his institution has been very supportive of the SWIFT GPI initiative which will be launched in November 2022. The SWIFT correspondent banking model is ubiquitous across the world. If the change can be executed by building on the existing ubiquity and existing integration, then there is a much higher chance of success in terms of executing change at scale in a way that could deliver consistent end-user experience. There is a challenge of getting 11,000 institutions to make a transformative change at the same time. Everybody was fearful of leaving; the industry did not want to disenfranchise the players in the system that were not ready to make that change.

An industry representative noted that to be successful in that area there needs to be good collaboration between the public and private sector. For example, a strong public-private partnership of banks and central banks was key to CLS's creation following the failure of Herstatt bank, and that partnership continues today.

6. Cross-border payment efficiency is expected to benefit from CBDCs provided they are compatible with domestic payment systems and that there is international coordination including on regulation and supervision from the outset

6.1 Any international payment arrangement must be interoperable across borders and with national payment systems from the outset

A Central Bank official explained that the ECB worked with Riksbank and Banca d'Italia on implementing instant payments, cross currency, cross border, relying on its infrastructure Target instant payments settlement (TIPS) and achieving payments-versus-payments (PvP). Also here compliance issues need to be revisited: Instant payments have a higher rejection rate cross border than domestically even within the euro area.

A Central Bank representative moved the conversation onto new infrastructures and how they can contribute to driving change in cross border payments. One candidate was the central bank digital currency (CBDC).

An official stated that CBDCs are the 'shiny new car' and everybody has a great deal of interest in them. A BIS CPMI survey showed that that cross border payment efficiency is an important motivation for CBDC issuance by many central banks. There is real value in creating CBDCs that are interoperable and based on compatible domestic systems. There needs to be international coordination from the outset, but these arrangements have not been implemented broadly. The development of existing payment systems and infrastructures requires significant progress in the more traditional areas of payment systems and arrangements in the G20 roadmaps.

6.2 Inefficiencies resulting from frictions due to regulations and supervision must be fixed in various areas such as KYC, AML, and data protection at the EU and international levels

An official stated that technological changes alone are not going to deliver the improvements that are being sought. Europe also needs better regulatory alignment

between jurisdictions. The prospect of stablecoin proposals is a completely new payment rail outside the banking system. Analysis is ongoing regarding how the existing Principles for Financial Market Infrastructures (PFMI) could apply to the governance arrangements of stablecoin arrangements. CPMI and IOSCO have been reviewing the applicability of the BIS's standards and stablecoin arrangements.

An industry representative observed that the financial sector has made huge investments in compliance in the last few years at an enormous cost, mainly driven by the levels of fragmentation Europe currently has. Elements like suspicious activity reporting and similar regulations are under local implementations and are not harmonised. New entrants are not encouraged.

A Central Bank official stated that the G20 roadmap would not necessarily imply an increase in regulatory costs. Europe has already committed to reducing compliance costs. The private sector is closely involved, so market forces can do the job of addressing inefficiencies and friction. The roadmap also enhances cooperation among public authorities.