

GLOBAL CROSS-BORDER PAYMENTS: KEY DRIVERS

1. The recent impetus given to cross-border payments at the global level

A representative of the public sector stated that cross border payments face multiple challenges. The experiences of end users and service providers can be impacted by high cost, low speed, limited access, and insufficient transparency. A foundational step of the G20's October 2020 roadmap to address the key challenges is the definition of quantitative targets for cost, transparency, speed, access across wholesale and retail, and remittances. The Financial Stability Board's (FSB) public consultation ended in mid July 2021. Most of the work on the 18 other building blocks of the roadmap has been taken forward by the Committee on Payments and Market Infrastructures (CPMI) and the FSB.

2. Challenges and success factors for cross-border international payments

2.1 Measuring what is happening end to end in the international payment value chain to allow public and private sector cooperation to spot and address the most relevant challenges

An industry representative stated that he has been working with banks for a number of years on removing friction and improving payments. He welcomes the way that those obstacles have been framed and structured.

There is hope in the fact that 42% of the GPI (SWIFT standard for Global Payments Innovation) payments are credited within five minutes and 56% are credited within 30 minutes. The obstacles include having good data to orient where SWIFT puts its efforts. SWIFT found that an average of 80% of the time spent executing payments on its network was spent at the beneficiary bank side. This is attributable to legacy technologies, time zone differences, capital controls and compliance controls.

It is necessary to have data to measure what is happening end to end. Division exists and the real issue is how to progress together to make a real difference.

2.2 Each specific customer need requires dedicated efforts to deliver speed, efficiency, proximity, security and trust, so the access of non bank payment providers to payment infrastructures and the consistency of AML regulation require specific attention

An industry representative stated that the FSB rightly acknowledges that any payment strategy should recognise the uniqueness of the respective customer and their needs. The solutions that customers use are largely driven by factors including access. The key driver tends to centre on speed, efficiency and proximity.

Many global customers still lack basic infrastructure to make and receive electronic and mobile payments. Security and trust are paramount.

The first area that needs attention is the fragmentation of anti-money laundering (AML) rules, which is a particular issue for the remittance sector. The absence of full consistency somewhat inhibits the development and implementation of efficient solutions for AML and combating the financing of terrorism (CFT).

Linked to this is the question of access to payment infrastructure. More efficient regulation at the international level should provide the banking sector and central banks with sufficient comfort to share vital common infrastructure. Consumer protection and transparency are also important in defining the regulations.

A representative of the public sector highlighted the key success factors for delivering progress in the projected timeframe. The G20 report sets out 19 building blocks.

2.3 Although progress supposes moving forward the whole 19 building blocks identified by the FSB, delivering consistent and relevant international rules and standards, improving existing payment infrastructures and their access, and exploring new payment infrastructure arrangements are essential to improving international cross border payments

An official stated that the G20 roadmap describes a comprehensive set of actions across the 19 building blocks and a range of areas to remove frictions. A coordinated approach and a sustained initiative supported by the public and private sectors are necessary.

Technological changes can go a long way, but they alone might not deliver the desired scale of improvements in cross border payments. Therefore, the roadmap demands consistent and relevant international rules and standards.

AML/CFT is one element of this, but other elements include data protection and data privacy rules. The CPMI especially focuses on the building blocks that it is leading. Improving existing payment infrastructures and exploring new payment infrastructure arrangements are very close to the CPMI's heart and mandate, along with the role that central banks can play in establishing liquidity bridges with one another.

The CPMI is also working on forward looking payment infrastructures and payment service level agreements. SWIFT GPI is a very good example of how a multilateral service level agreement can improve cross border payments. The necessary step change will only happen if the problem is tackled comprehensively.

An industry representative stated that the cooperation between the private and public sectors in this endeavour was important when he was in the ECB.

An industry representative stated that it is difficult to pick just one or two building blocks. Building

block 5 is applying AML/CFT rules consistently and comprehensively, while building block 6 is the need to better align data frameworks and for any potential conflicts between AML and data privilege[?]. In addition, building block 8 concerns fostering know your customer (KYC). Building block 10 on direct access to payment systems is particularly relevant to Western Union's sector, as is building block 7 on safe remittance corridors.

A representative of the public sector stated that the long list of issues needs to be addressed comprehensively.

3. Despite (or rather thanks to) many innovative technologies, leveraging existing infrastructures by improving and interlinking them is an attractive route, though it requires clear objectives, willingness, teamwork, governance and resources

A Central Bank official stated that it is necessary to start with what is already there, which allows for quick progress. It is possible to rely on what has already been tested. However, several promises have been made in the past 20 years without success. The reasons included a lack of business case.

Talking about technology and innovation frequently means talking of cryptocurrencies, but there has also been a great deal of innovation in payments. For example, many instant payment systems are new technologies.

There are also new standards. Many of the systems are based on ISO 20022. If the idea of strengthening the integration of a specific region exists, there is also political support to do so and invest in it. Most recent developments include the Nexus project presented by the Monetary Authority of Singapore.

Work and a holistic approach are necessary to keep the momentum. Accessibility is also important, and it is necessary to reflect on how to bring in people in countries where the financial inclusion is not as high. Finally, the settlement cross currency is an issue.

3.1 CLS efforts to extend a PvP service to a much broader set of currencies in 2022 is an example of efforts leveraging both existing tools and innovation

An industry representative stated that the cost currency is probably the issue. Relying on experience is probably the strongest eventual decision.

CLS has developed a PvP mechanism that allows it to answer building block 9 of the FSB roadmap in a way that is fairly strong, but only for a limited number of currencies. Further developing the possibility of coverage of PvP in a much wider number of currencies remains to be seen.

Different services have identified the possibility of bringing better clarity on all these cost currency exchanges. CLS has set out a different platform for matching trades and looking at different currencies. CLS put CLSNet into the market some time ago.

CLS wants to be able to bring PvP service on a much broader set of currencies as soon as possible. It is developing a pilot model to see how to implement those models. By the end of 2021 or the beginning of 2022, it expects to announce some ideas for developing those additional capacities for the ecosystem. The impetus that the CPMI and FSB has launched is supported by what the ecosystem is seeing.

4. The perspectives of possible disruptive options such as central bank digital currencies, global stablecoin arrangements, and new multilateral payment platforms to improve international cross-border payments are being assessed

A representative of the public sector stated that there are also more disruptive or innovative options to consider. He asked what the possible benefits of introducing a multi currency central bank, digital currency, and stablecoins would be for cross-border payments.

An official stated that these new payment infrastructures and initiatives have great potential, but the emphasis is on potential. Focus area E¹ of the G20 programme covers the CPMI's potential to offer cross border payments.

Most central bank digital currency (CBDC) investigations by central banks currently focus on domestic issues and use cases, but CBDCs still have the potential to enhance the efficiency of cross border payments. In collaboration with the Bank for International Settlements (BIS) Innovation Hub, the International Monetary Fund (IMF) and the World Bank, the CPMI has conducted a stock take on provisional domestic CBDC designs and central bank experimentation to determine how to use them for cross border payments.

4.1 Possible scenarios explored: a national retail CBDC available to anybody that is also used for cross border payments with limited to no coordination between the central banks; CBDCs with some degree of interoperability; and a single, multi CBDC system across jurisdictions

An official stated that a retail CBDC could also be used for cross border payments with limited to no coordination between the central banks. The second scenario assumes some degree of interoperability between the CBDCs. The third touches upon the multilateral payment platforms and implies cooperation of a higher magnitude. A single, multi CBDC system could exist across jurisdictions.

4.2 Digital currencies' success factors

An official stated that a quarter of the central banks that responded are already incorporating interoperability features in their considerations and explorations, according to a CPMI survey. The design of global stablecoin arrangements requires a sound legal underpinning in all relevant jurisdictions, adequate governance, and risk management that is comprehensive and adequate.

1. The 19 building blocks of the global roadmap for enhancing cross-border payments are arranged into five focus areas

4.3 The complexity of international payments means the progress of CBDCs and stablecoins in this area is still limited, so no improvement strategy can be put aside at present

A Central Bank official stated that CBDCs have potential in the areas of money, infrastructure and schemes. Many stablecoins are connected to decentralised finance, and several initiatives focus on regulatory compliance. The idea of multi currency stablecoins is not currently the highest priority with regard to CBDC. CBDCs take time, and the discussions are sometimes very difficult, even at the domestic level. The complexity of adding the cross border component should also be well known.

The construct is attractive, but it might not be easy. The ultimate question will be whether to 'tune up the old cars' or 'buy new ones'. It is not possible to eliminate certain alternatives, and there might not be a one size fits all solution. CBDCs might be mainly implemented for the settlement part in certain use cases.

5. International payments require standard rules and making rich data available end to end, whatever the current or new technologies and the systems that will all have to interoperate, so the likely model is a hybrid one

An industry representative stated that SWIFT will start with a 'hybrid car' as opposed to a 'completely new electric engine'. SWIFT is an infrastructure provider and does not decide on the asset or currency that is used.

A great deal of effort is going into ISO 20022 data end to end. Europe will move its high value payment system to that richer data in November 2022. Some compliance challenges in AML could be resolved with good data.

SWIFT also needs to resolve cases and exceptions in the community. It does sanctions and KYC checks, which will need to happen regardless of the payment system that SWIFT puts in place. SWIFT will need to ensure that different banking systems interoperate, which has already happened. Interoperability is important if there is a token on one side and an account on the other.

6. Regulatory and supervisory challenges

6.1 Innovation, cross border transactions development, and Big Tech and fintechns entering the market require adapting regulation and supervision and fostering cooperation and consistency, notably in AML and consumer protection, and level playing fields in order to achieve further integration and efficiency while leveraging innovation and avoiding piling up regulations

A representative of the public sector stated that regulatory and supervisory obstacles and evolutions are required to support progress. New players and less-regulated actors are also entering. There is also a need to adapt regulation and regulate further. Furthermore, proper risk management and the stability of the payment system are necessary.

A Central Bank official stated that a number of newcomers have also entered the market and sometimes had problems with compliance or AML.

This is even clearer in cross border payments because the risk potential is much higher. Other issues are supervision and the need for international cooperation in the Big Tech sphere.

An industry representative stated that regulation is especially important for new technology enabled payment propositions. Crypto asset solutions and stablecoins have not been widely adopted. International consistency in the regulation of these payment propositions is necessary. The future is going to be shaped by interoperability and open frameworks.

Western Union welcomes transparency and customers knowing the cost associated with transactions upfront. The payment services directive (PSD) and PSD2 show that regulators are not lagging behind in Europe. Continuous recognition and progressive improvement will continue to drive the adoption of technology enabled payment methods.

6.2 Regulators jumped into innovation and have succeeded in remaining technology neutral

An industry representative stated that regulators have largely succeeded in examining challenges and issues in a technologically agnostic manner. It is advisable to look at risk perspective and understand new technology. Playing with new developments is important.

6.3 Further clarity on the respective priorities put out by central banks and regulators regarding wholesale and retail service is necessary to better address their specificities

An industry representative stated that regulators, and in particular the central banks, should clarify the priorities that they give to retail payment focus. The ecosystem of the wholesale has particular problems, so the challenges probably have to be answered in a different way.