

# Global infrastructures and cross-border payments: opportunities and challenges

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## 1. Stablecoins deserve a specific building block in the G20 working programme

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A central banker detailed three topics behind the evolution of cross-border payments. One is the G20 work whereby the Financial Stability Board (FSB) set up a large work stream of 19 building blocks. The second topic is the war in Ukraine and the potential risk for de-globalisation. The third topic is regulation.

### 1.1 With analysis complete, priorities are being determined

An official confirmed much of the ground clearing has been done. The real action is about to commence with many of these changes being implemented. G20 leaders approved the targets, which are ambitious but achievable, cover costs, speed, transparency, and access. The question now is how to get to these targets and which building blocks are most likely to be able to move the needle forward for implementing those changes.

All 19 of the building blocks are relevant, but not all of them will contribute as directly as others to achieving the targets. The results of analysing this will be communicated to the public in October, mostly likely covering payment systems, interoperability, and access, and operating an extension of payment services. It is understood, from discussions with the industry, that the legal, regulatory, and supervisory framework is still a major impediment when it comes to cross-border payments. Data exchange and the messaging standards also have to be considered.

### 1.2 The implementation phase and defining related priorities are always challenging

A Central Bank official stated there is a need to think carefully about how to involve the private sector. Policymakers and those trying to implement the roadmap need priorities.

The private sector is an essential part of this ecosystem. It ultimately has the expertise, skills, and knowledge, so it is not clear how it would be possible to proceed without its involvement. The targets were set a year and a half ago, and there is now a need to retrofit and determine whether, with the data that can be collected, those targets are credible or have to be revised. This requires granular, detailed information, which can only be provided through interaction with the private sector.

The public sector has to set clear priorities. If the private sector has to make investments, they need a clear landscape otherwise nobody will invest money. An intelligent use of the limited resources available means deciding what comes first.

### 1.3 Interconnecting existing infrastructure will add value

A Central Bank official noted one priority is to make better use of the technology and the infrastructure already present. However, many of the hurdles facing better cross-border payments are regulation and legal issues. There are about 60 fast payment systems working currently around the world, and the market is already trying to connect them. Those existing should be encouraged to connect across regions.

With ECB colleagues, the Bank of Italy last year carried out an experiment connecting TIPS with Buna. In one single link potentially, all European citizens could be linked with all citizens of the 16 countries covered by Buna. There is also thinking about whether something more global can be constructed so as to not rely on bilateral links. The Nexus proof of concept exercise aims to implement with the Monetary Authority of Singapore and the Central Bank of Malaysia.

### 1.4 Existing infrastructure will bring about improvements already in development

An industry representative welcomed the work since 2019 from FSB and Committee on Payments and Market Infrastructures (CPMI) on addressing the key challenges. It is clear there is a target of 75% of all cross-border payments that are reaching end beneficiary accounts within an hour. For access, the issue is providing optionality to customers, whether in the wholesale or retail remittance space, and fully transparent payments in terms of traceability and cost.

Since SWIFT gpi was launched a few years ago it has been able to measure and track payments. Across all SWIFT payments, 99% plus reach end beneficiary accounts within a day, 79% within six hours and almost half within five minutes. There is much that can be achieved with the current ecosystems or building blocks, because they provide not only a fast-forwarded route to the targeted levels but are also addressing the key controls that need to be considered in terms of compliance, AML checks and protecting data integrity end-to-end.

In terms of challenges, much is linked to the integration into domestic clearing systems when leg-out or leg-in payments get into the markets. This is all about harmonisation of data, opening hours and currency controls. They are key for the batch systems that some countries have not improved.

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## 2. Efforts to improve cross-border payments at the global level highlight regulatory issues

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An industry representative's suggested the most difficult barriers to get through are related to the legal and

regulatory context, and accessibility in particular in the cross-border context. A US bank has to access each Real-Time Gross Settlement (RTGS) where it settles. That is complexity from the legal and regulatory contexts in each jurisdiction, which are domestically driven.

Building block 9 concerns payment versus payment (PVP) processes and trying to enhance the way PVP can be rolled out. The main barrier to developing PVP processes today is the regulatory and legal acceptance of this cross-border exchange. The priority should be to look at that, knowing that the work being done, in particular on the operating hours of RTGS, on the facility to have standards being used, is very helpful and necessary but probably easier to remove than the legal and regulatory context.

In the context of being global it is important to have the capacity to have regulatory, legal, and political access to systems. Technical and operational issues can be resolved easily. The main problem is to have the capacity to interact with those countries and jurisdictions in a legally safe context and a safe regulation context.

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### 3. Stablecoins deserve a specific building block in the G20 working programme

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A central banker noted that stablecoins have a global ambition, and the regulatory question there is crucial. An official noted there is a great deal of work occurring in parallel to the cross-border payments work when it comes to stablecoins. Much has happened since the publication of the high-level recommendations of the FSB in 2020. The Basel Committee on Banking Supervision (BCBS) has done a great deal. In July CPMI and the International Organization of Securities Commissions (IOSCO) published guidance on the application of the principles for financial market infrastructures for stablecoins which clarify how the standards apply to stablecoin arrangements of systemic importance.

Stablecoins have different functions, which further complicates the way to look at them, but those stablecoin arrangements with a transfer function fall under the definition of financial market infrastructures (FMI). The guidance also lays out some of the specifics in stablecoin arrangements, and explains how the standards are to be interpreted. Many stablecoin arrangements rely on distributed ledger technologies, so the question is how to ensure governance. How risk management is to be applied to stablecoin arrangements, settlement finality and money settlement are also covered.

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### 4. For retail payments existing international infrastructures often innovate

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An industry representative emphasised creating a system that remains innovative, competitive, resilient and that

delivers value will ensure the result is not a more siloed world. On the retail side, it is possible to send through Visa Direct effectively instantaneously to 180 countries around the world using multiple schemes, multiple payment systems and multiple messaging systems. The private sector is playing a role here.

With remittances the challenges vary by country. There is a very important issue about sending money back to Ukraine but an equally important issue to think about is the 4 million Ukrainian citizens living in the EU. They need access to banking services, and it can be asked if that is a remittance. Some of the issues are going to be around how digital identity and AML are thought about, and how European banks and financial institutions are enabled to give financial services to those refugees to make them consumers in that society.

Resilience must not be forgotten, because the trust and credibility in a payment system in the end relies on its availability, its security and the level of investment.

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## 5. Understanding of each use case is necessary to identify challenges

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A central banker noted that the ambition of the G20 work is to improve global payments for everyone. An official suggested the current panel shows how important it is to involve the private sector and to have all market segments involved. What are called use cases in the roadmap are retail payments, remittances, and wholesale payments. Targets are defined for all of these segments. The challenge is then to go into the detail. Consumer-to-business payments are different from person-to-person payments, which are not international remittances. Business-to-business payments are under the retail segment because the roadmap defines wholesale payments, financial institution to financial institution payments. With all these different views of market participants it is incredibly important to know where the challenges lie.

It is also clear that with such a huge programme there is no single solution to improving or enhancing cross-border payments. No single entity or set of entities, even if they are standard-setting bodies or global institutions like the International Monetary Fund or the World Bank, can solve this issue on their own.

The G20 lays out the plan for the authorities and the authorities can give direction, but in the end, it will be key for the private sector to join in this effort. There have already been numerous interactions with the private sector over the past two years. There have been consultations on different reports like operating hours, whether the targets are reconciled and the key performance indicators to be established to measure these targets. There is an ongoing consultation on PVP.

The next stage of the programme is being moved into, and it is important to go beyond what has been done so far. The existing cooperation with the private sector should not diminish. A joint task force with SWIFT Payments Market Practice Group will define common elements for ISO 20022 for cross-border payments.

There is a task force on service level agreements and schemes. However, more senior people have to be brought in and the plan is to organise and host 'payment summits' under the chair of the FSB, bringing together C-level representatives from the private sector and also one level below with advisory groups with middle management.

In order to enhance cross-border payments, it is not only the G20 jurisdictions that have to be involved; many of the emerging markets and developing economies also have to be involved.

An industry representative noted that regulators have a tough set of balances to maintain, but incentives between the private and public sectors are relatively well aligned. Payments work at many levels, including the political, the technical and the central bank level. Those all need to be brought together, which can only be done by working with the private sector.

## 6. The implications of geopolitical deterioration

A central banker noted that the globalisation of payments relies on mutual trust. Any cross-border payment solutions involve both jurisdictions and therefore the whole idea of synergies, efficiency and openness rely on global trust, which has been lost to some extent since Russia's invasion of Ukraine and the sanctions in response.

### 6.1 Implementing sanctions without impairing the credibility of global systems

An industry representative's organisation only serves currencies not directly impacted by these geopolitical challenges. However, a very interesting question is raised on the necessity for trust and the capacity to exchange those currencies, even in geopolitically sensitive contexts.

It is important to learn the lesson of the way the Russian rouble has been disconnected from the system and whether that is the best way to do so in terms of infrastructure services. It is a real question to think about to see the extent to which there can be appropriate PVP again, so systemic implications are not created from the dysfunction of the settlement process and the infrastructure itself. It is a short-term risk if transactions which have already taken place cannot be settled. The capacity of the infrastructure to deliver a safe, resilient, and efficient service has existed and should be thought of independently of the trades going through the system.

The extent to which a strong infrastructure can be put in place which is legally stable, and which helps create a safe harbour to exchange goods is a real question to ask, knowing that if there is a necessity to disconnect some currencies or markets that can be done in a way that does not affect the capacity to have a safe, resilient, and efficient underlying process.

### 6.2 Preserving fundamentals in the context of increased fragmentation

An industry representative stated the work the G20 initiated, the advent of myriad initiatives, new technologies

and new business models together with FinTech's getting into the space of cross-border payments were already trends. However, in the post-sanctions era there is a risk of increased fragmentation across the globe, as can already be seen happening. While fragmentation is a reality and the world is moving into a new era, the fundamentals built in terms of infrastructure have to be protected. That should even be put as part of the G20 objectives.

Resilience controls, data, end-to-end data integrity, compliance with different regulations and all of those cyber efforts are fundamental for coming out stronger, or at least positively, from this crisis. The alternative is additional fragmentation at the financial infrastructure level across regions and communities using different technologies. There is a common responsibility to think through how, with all of the optionalities needed as part of the objectives of the G20, it is ensured that this is part of the roadmap.

### 6.3 Cooperation between policymakers and the financial sector to preserve resilience

An industry representative's organisation suspended its operations in Russia. One reason was to ensure an orderly impact on individuals, but another was the difficulty the complexities sanctions present to a global organisation. Nonetheless, the international policymakers who worked through some incredibly difficult issues should be applauded. If there is anything positive to take away, it is the ability, both at a political and technical level, to work through this. If there is a way to embed that in the future for how to work together that would be immensely valuable, particularly between Europe and the US.

The geopolitical issues to reflect on are at retail level, which are the second order effects of fragmentation in this world. Some of it cannot be avoided. It has been seen in Russia and elements are seen in China. However, there is no need to make this worse. The cross-border work and the collective work of the G20 and other countries can be continued, with a vision for building on what has already been built over the last 50 years, rather than each country breaking away and there being more silos with an instinctive view that somehow that is safer. Demonstrably it is not; a siloed payment infrastructure will be less resilient. It will not work more hours of the year.

Equally importantly, siloed domestic infrastructure means it is not possible to protect against fraud in the same way. Unfortunately, fraudsters live around the world, and they go to the lowest common denominator. Unless there is data on where fraud is happening to be able to stop it elsewhere in the world, there will be more fraud. The same is true of cybersecurity. Data from around the world is needed to react in real time.

Instinctive reactions to localise as a way of addressing some of the challenges feared is concerning, and there are the second-order effects which create a more fragmented, less resilient, less protected system. What is already there should be held onto and driven forwards more quickly.