# CROSS-BORDER PAYMENTS AND GLOBAL INFRASTRUCTURES

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## Cross-border payments: a little more conversation, a lot more action

The quality and efficiency of domestic payments is clearly higher than that of existing cross-border payments. This relative lack of efficiency is a well-known and long-standing problem, and recent improvements in domestic payments may have even exacerbated this perception. The good news is that there is a firm commitment at the highest level to tackle this problem. In 2020, the G20 leaders tasked the FSB, in coordination with other global committees and international bodies, with improving the situation by 2027. We have come a long way since then, analysing the frictions behind the shortcomings in cross-border payments, identifying areas of improvement and establishing an initial roadmap to address them. An analytical framework has been built over the last two years to update guidelines and identify best practices in these areas. Quantitative targets have also been set and a monitoring framework put into place. In February 2023, the FSB published a revised roadmap, detailing the priority actions that need to be taken to make progress towards the targets by 2027.

As we are roughly halfway through this process, I think it is a good moment to take stock of the progress made so far and analyse what remains to be done in the coming years. In my view, the most important factors to take into account are the following:

- First, the work carried out to date lays a good foundation for the road ahead, but we need to substantially change the approach for the next steps. In particular, we need to clearly shift the focus from analysis to implementation, while gradually increasing the involvement of national authorities and payment system operators in the application of the measures agreed. We also need to broaden the scope of stakeholders, securing the commitment of the private sector, central banks and public authorities beyond the G20. To this end, the FSB has already set up several working groups and task forces in which all interested parties are expected to actively participate.

- I also believe that building consistent data series to track progress is essential, as this is an area in which reliable data has traditionally been scarce. In this regard, the FSB has recently published a dataset of Key Performance Indicators (KPIs) to track progress towards the targets. It is fundamental that these indicators continue to be refined and monitored on a regular basis to determine whether real progress is being made and to continue driving the initiative forward.

- This is a multifaceted problem and there is no simple, one-size-fits-all solution to all the issues identified. While acknowledging the different starting points of specific jurisdictions and corridors, there are a number of complementary approaches that can be pursued: we need to improve the existing rails, consider possible regulatory changes, work on standardisation and also think about cross-border compatibility when developing new infrastructures. In this regard, I would like to highlight two areas that seem particularly promising in the very short term: the use of common standards for payment messages based on ISO 20022, and the interlinking of fast payment systems. While these infrastructures have mainly been developed to modernise payments within a single jurisdiction, many experiments and initiatives suggest that they could be equally beneficial in a cross-border context.

- Finally, we need to recognise that the pace of progress will vary across jurisdictions and regions. Not all countries and corridors start from the same place or share the same problems. Regional initiatives can therefore be a good short-term response to reduce costs and improve service levels for a significant proportion of global payment flows in the transition to a more efficient global cross-border payments network.

In summary, over the past few years we have developed what I believe is a solid plan for improving cross-border payments worldwide. As with construction, having a good plan is not the same as having the building, but it is a necessary step towards it. At this early stage, these analytical foundations have been developed mainly by central banks and other public authorities, largely in the context of the G20.

**The solid plan agreed for improving cross-border payments worldwide needs to be implemented.**

In order to move forward, we need to broaden the conversation to include the private sector and public authorities from around the world. More importantly, we need to collectively move from words to the implementation of the practical measures that follow from the analytical work. Only through action will we be able to improve cross-border payments, making them cheaper, faster and more accessible and transparent for the benefit of end-users worldwide.

To paraphrase the old Elvis song, I would say that the recipe for the next few years is to have a little more conversation but a lot more action.

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# Measuring and maintaining progress on the G20 Roadmap to enhance cross-border payments

Significant progress has been made since 2020 when the G20 Finance Ministers and Central Bank Governors tasked the FSB, CPMI, and others to develop a roadmap to enhance cross-border payments. Given an increasingly global and interconnected world, cross border payments are growing in significance, and enhancing them can make a difference across the board from wholesale, to retail and to remittance payments. Improvements here will be far reaching for economies worldwide: so the prize is high.

Once the challenges of cross-border payments had been articulated, authorities around the world have collaborated to build a strong, analytical foundation to tackle them.[1] Best practice and assessment frameworks for addressing the key frictions and the actions for the public and private sector to alleviate them have been set out. This is underpinned by a number of working groups and public and private sector taskforces to implement and to monitor progress. And the G20 Leaders adopted quantitative targets for improvement by 2027, covering speed, cost, access and transparency for wholesale, retail and remittance payments.[2] These targets give a clear focus on where we need to get to and a tool to prioritise our focus.

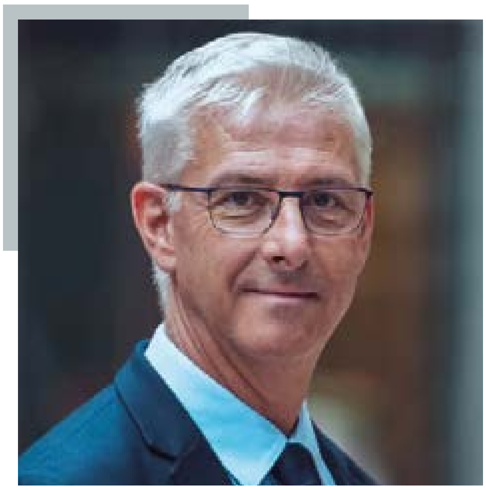
The roadmap was always envisioned as a 'living document' it has now been restructured around 3 priority themes of Payment System Interoperability and Extension; Legal, Regulatory and Supervisory Frameworks; and Data Exchange and Messaging Standards. These themes will help as jurisdictions move from analysis to implementation and will also help the private sector organise around a renewed set of 15 Priority Actions, to move from a focus on analysis to implementation of the changes that will make a real difference.

In October 2023 the FSB published, the *Annual Progress Report on Meeting the Targets for Cross-Border Payments: 2023 Report on Key Performance Indicators*, alongside the *G20 Roadmap for Enhancing Cross-border Payments: Consolidated Progress Report for 2023*.[3] This is the first time we have data showing not only how we are progressing against the overall 2027 Targets, but also insights into some of the differences between payment corridors. While none of the targets has yet been achieved in full, with nearly 4 years to go we are now in the position of being able to measure progress as we move from analysis into implementation of the roadmap. Findings from the KPI report show that user experiences differ significantly across regions, and across market segments (wholesale, retail, and remittances), though payments involving typically lower income regions tend to be furthest from the targets.

Each jurisdiction now needs to assess which of the elements of the roadmap would make the most difference in their area. The Bank of England has already made progress for example through the implementation in June 2023 of ISO 20022 messages. And in early 2024 will address two other key areas of the roadmap with the publication of discussion papers outlining the findings of our internal reviews into operating hours and access policies, which were conducted using the frameworks developed by the Committee of Payments and Market Infrastructures as part of the Roadmap. Increased hours and wider access are beneficial in their own right, and also act as foundations for further enhancements such as interlinking. These papers aim to seek feedback from the industry to help us develop an approach that balances our public policy objectives, the evolving payment needs of an increasingly digital economy, and the current industry demand and capacity to make the necessary changes.

Enhancing cross-border payments has been an objective for many decades. What is different now is that we have a clear vision, targets and a holistic approach on how to address the disparate set of underlying frictions. And the work is taking place at a time of rapid innovation in the payments industry and national payment systems, creating an opportunity to build on existing change programmes.

1. *G20 Roadmap for Enhancing Cross-Border Payments: Consolidated 2023 Progress report (fsb.org)*
2. *G20 Targets for Enhancing Cross-Border Payments (fsb.org)*
3. *Annual Progress Report on Meeting the Targets for Cross-Border Payments: 2023 Report on Key Performance Indicators - Financial Stability Board (fsb.org)*



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# Tackling FX settlement risk: the power of public-private partnerships

The smooth functioning of cross-border payments is crucial in today's interconnected world. These payments often involve the settlement of an FX transaction, which requires payment of one currency for receipt of another. A primary risk in such transactions – settlement risk – is that one party delivers the currency it sold but does not receive the currency it bought, resulting in a loss of principal. This risk is heightened by the timing gap between delivery and receipt, as currencies are paid at different times of the day.

In October 2020, the Financial Stability Board published the *G20 Roadmap for Enhancing Cross-Border Payments*, an initiative addressing the challenges of cost, speed, transparency and access in cross-border payments. Building Block 9 of the Roadmap focuses on mitigating FX settlement risk for cross-border payments – a key challenge for the wholesale market – by encouraging the use of payment-versus-payment (PvP) arrangements. The G20 initiative acknowledges that while existing PvP arrangements like those provided by CLSSettlement have made significant progress in reducing settlement risk, there are still obstacles to broader PvP adoption.[1]

The proportion of FX trades not settled on a PvP basis has increased in recent years, driven by the growth in emerging market (EM) currency trading. According to the Bank for International Settlements 2022 Triennial Survey,[2] the share of non-CLS eligible currencies grew from USD0.2 trillion average daily turnover in 2010 (ca. 5.5% of trades) to USD0.7 trillion in 2022 (ca. 8.5% of trades). One way to address the outstanding settlement risk is to make PvP available to a broader range of currencies – particularly heavily traded EM currencies.

Analysis conducted with a subset of CLS settlement members indicated that CLS successfully mitigated around 90% of the settlement risk exposure associated with their FX trades in the 18 CLS-eligible currencies, with full PvP. The challenge to further reduce settlement risk lies primarily in the currencies not currently eligible for CLSSettlement, some of which pose legal and/or geopolitical challenges. For example, adding new currencies to CLSSettlement is a complex endeavor subject to several high hurdles, particularly the satisfaction of crucial legal, risk and liquidity standards in the target jurisdiction. Local authorities – and not CLS – determine the timing and pace of onboarding. Also, a successful onboarding requires broader participation in CLS from both local banks and CLS members across the global FX market, which takes time to cultivate. Any solution to mitigate settlement risk in these currencies will require contributions from both the public and private sectors working in close collaboration to overcome these challenges.

**CLS believes that public-private partnerships are the best means to tackle challenges in the FX industry.**

CLS believes that public-private partnerships are the best means to tackle challenges in the FX industry. These partnerships ensure a deep understanding of market needs and help garner sufficient industry investment and support. In fact, CLS was established in 2002 as a response to the public sector's call for the private sector to address FX settlement risk. Since its inception, CLS has maintained its commitment to public-private collaboration, most recently via its participation in the CPMI-led Payments Interoperability and Extension (PIE) Task Force.

Shortening the securities settlement cycle to T+1 poses a new obstacle to implementing PvP. This change, taking place in the US and Canada in May 2024, may have implications for the FX trade lifecycle. Asset managers and funds in particular may face difficulties in ensuring timely settlement, as the change could make it more difficult for some of their FX transactions to meet CLS's cut-off times.

CLS is actively engaging with buy- and sell-side market participants to fully understand the potential impact. A member survey is exploring the feasibility of adjusting CLSSettlement processes to accommodate later cut-off times. The results will inform decision-making and be shared with relevant stakeholders. Any decision will consider client needs in view of CLS's mission to maintain stability and mitigate risk in the FX market.

CLS has also established a Market Advisory Forum to provide advice and feedback on key market issues that impact the FX industry, including the transition to T+1. The Forum will help market participants understand the challenges arising from a shortened settlement cycle and explore how CLS's products can assist with the transition in the short term.

Given the projected growth in cross-border transactions, policymakers and market participants must continue to prioritize mitigating FX settlement risk. While this risk has been successfully addressed for CLS-eligible currencies, the challenge remains in achieving broader PvP settlement for heavily traded EM currencies. Addressing this challenge requires close collaboration and active contributions from both public and private sector stakeholders – an approach that CLS fully embraces.

1. *CPMI (2023) Final Report – Facilitating Increased Adoption of PvP*
2. *BIS Triennial Central Bank Survey; bis.org/statistics/rpfx22.htm*

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# Navigating the G20 goals for enhancing cross-border payments

In 2020, the G20 launched its Roadmap for Enhancing Cross-Border Payments – the first attempt by the international financial community to address the challenges of sending money across borders in a holistic way.

The roadmap stated that faster, cheaper, more transparent and inclusive cross-border payments would unlock significant socioeconomic benefits. Enshrined into it was the importance of private-public collaboration in meeting its goals.

But in an increasingly fragmented world, characterised by geopolitical uncertainty, rising customer expectations and emerging technologies, it is more important than ever that financial institutions work together on responsible innovations to power a frictionless and interconnected payments system that meets the G20 targets.

**Laying the foundations**

There is no 'one size fits all' approach to reworking and improving payment infrastructure and, with money as we know it evolving and taking increasingly digital forms, individual institutions may struggle to provide seamless cross-border payments within a global network of disparate payment systems.

Indeed, a high proportion of payments are stalled at the recipient bank. Only 54% of transfers are credited to the customer account in one hour, and 93% within a day. The G20 targets are 75% and 100% respectively. We know, though, that 89% of Swift transactions arrive at the beneficiary bank within an hour and that delays arise due to variations between jurisdictions' ACH opening hours, capital controls, and additional compliance checks.

These sources of friction can't be addressed on their own – organisations must come together to create plans for powering cost mutualisation, creating joint oversight frameworks, improving infrastructures, enhancing data quality, and setting new payment arrangements.

**Helping Europe pioneer instant payments across borders**

Europe is leading the way in creating a pan-regional instant payment landscape. In a landmark move to modernise its payment infrastructure, the European Council and European Parliament are in the process of adopting Instant Payment Regulation, paving the way for a seamless, real-time payment experience for consumers and businesses across the continent. In parallel, the European Payment Council's OCT Inst scheme, which was launched in November, provides the pan-regional infrastructure and interoperability framework that enables instant payments across Europe to be processed more rapidly than ever.

> **To meet the G20 targets for cross-border payments, we must innovate with a global mindset.**

To reduce frictions and costs, Swift has implemented tools such as Payment Pre-validation and Case Management. Payment Pre-validation utilises pseudonymised and aggregated transaction data from our network – that's over 9 billion messages between 4 billion accounts globally – to verify the accuracy of message information before a payment is initiated, reducing errors and potential delays.

The European Instant Payments legislation, if adopted, would mandate banks to offer confirmation of payee services to their customers. Swift's Payment Pre-validation enables data from outside an institution's own jurisdiction to be validated before a payment is executed, and would mean simple compliance with the European legislation without the need for heavy investment. When issues do occur, Case Management streamlines investigations, improving efficiency and reducing costs for financial institutions.

With new technologies promising to revolutionise the way money moves around the world, the risk of domestic divergence increases. This introduces the need for a common standard, so that different systems can 'speak to each other' in one language. This is exactly what ISO 20022 – a new standard for data exchange between financial institutions - provides for global payments.

**Private-public collaboration**

The G20 roadmap identifies interoperability as a key area of work, and driving this is private-public collaboration. The global Swift network of more than 11,500 institutions is well placed to help guide the industry towards collaboration and provide the single centre through which our community can transact, with different networks interoperating seamlessly across borders. What's more, our core services are built to accommodate the assurances of transparency, cost, accessibility and speed that the G20 roadmap identifies.

The introduction of Swift GPI revolutionised cross-border payment transparency by providing end-to-end visibility on transactions, and we complemented this with Swift Go – our service dedicated to low-value payments. Built on the same rails as Swift GPI, Swift Go prioritises transparency of fees at the outset, without compromising security.

Although progress towards the G20 goals is well underway, there is much work left to do. The challenges across cross-border payments are often complex and require incremental efforts to effect change: it won't happen overnight. But as change does take place, we can ensure that fragmentation is minimised by innovating with a global mindset.