Citi response to FSB Targets for Addressing the Four Challenges of Cross-Border Payments

Date: July 15, 2021

The vision and overarching goal is to create best practices for cross-border payments by implementing a payments experience that is 100% certain, instant, frictionless and 24/7. The scale of change required will be extensive and will take time but with an approach focused on progressive "first movers" combined with a strategy encompassing broad ecosystem-wide improvements, it can be achieved.

The importance of industry collaboration — All of these changes will be best navigated by markets where there is a robust and open dialogue between banks, financial market infrastructures (FMIs) and regulatory bodies. Practitioner groups will be very important to help ensure that the architecture and structures being put in place to support these new paradigms are "fit for purpose" within the new model. The more collaborative the industry can be, the more likely that these changes will have the intended positive impact of reducing friction and supporting economic growth through more efficient payments. Further, industry working groups allow for an iterative approach creating a road map to build upon a community buy-in — thereby creating momentum.

1.) Cost

Challenge	**Wholesale**	**Retail (e.g. B2B, P2B/ B2P, other P2P[3])**	**Remittances**
Cost	No target set[4]	Global average cost of payment to be no more than 1%, with no corridors with costs higher than 3% by end 2027	Reaffirm UN SDG: Global average cost of sending $200 remittance to be no more than 3% by 2030, with no corridors with costs higher than 5%

2.) Speed

Challenge	**Wholesale**	**Retail (e.g. B2B, P2B/ B2P, other P2P[3])**	**Remittances**
Speed	Large majority (e.g. 75%) of cross-border wholesale payments to be within one hour	Large majority (e.g. 75%) of payments to provide availability of funds for the recipient within one hour	Large majority (e.g. 75%) of remittance payments in every corridor to provide

	of payment initiation[5], by end-2027 and for the remainder of the market to be within one business day	from the time the payment is initiated[6], by end-2027 and for the remainder of the market to be within one business day	availability of funds for the recipient within one hour of payment initiation[7] by end-2027 and for the remainder of the market to be within one business day

3.) Access

Challenge	**Wholesale**	**Retail (e.g. B2B, P2B/ B2P, other P2P[3])**	**Remittances**
Access	All financial institutions (including financial sector remittance service providers) in all payment corridors to have at least one option (in terms of infrastructures and providers) and, where appropriate, multiple options for sending cross-border wholesale payments by end-2027	All end-users (individuals, businesses (including MSMEs*) or banks) to have at least one option (in terms of infrastructures and providers) for sending or receiving cross-border electronic payments by end-2027 *[* MSME = Micro, Small and Medium Enterprises]*	More than 90% of individuals (including those without bank accounts) who wish to send or receive a remittance payment to have access to a means of cross-border electronic remittance payment by end-2027

4.) Transparency

Challenge	**Wholesale**	**Retail (e.g. B2B, P2B/ B2P, other P2P[3])**	**Remittances**
Transparency	All PSPs to provide at a minimum a defined list of information concerning cross-border payments to payers and payees (including e.g. total transaction cost (showing FX rate and currency conversion charges), time to deliver funds, funds tracking, and terms of service) by end-2027		

Citi's views on questions:

1. What are your comments on the key design features applied in designing the targets (section 1)

We agree with the FSB's general approach in terms of linking the proposed targets directly to the four identified challenges and focusing attention on the end user experience. However, there are some aspects of the proposed approach that likely need further discussion/analysis before determining the proper way forward, especially regarding the Cost and Access targets.

While it makes sense to set the targets at a global level to establish the overarching vision, ultimately achievement will be dependent upon action taken at a regional, country and provider level. It would be useful to understand how the FSB's Cross-border Payments Coordination Group Task Force on Targets envisages the targets being rolled out and communicated to the market and industry players at those more granular levels. In this connection, we would reiterate some points made in our response to the CPMI questionnaire earlier this year:

- In order to assign quantitative value to each of the targets, feasibility of those targets must be determined by impact assessments to validate the achievability of targets.
- Targets must be set and agreed upon by the community with a clear path to scale. There should be buy-in and agreement to move forward by enough entities that their adoption of the target will result in a significant baseline of overall transactions with a drive toward ubiquity. Close dialogue between the global and local authorities and (local) industry can help to (1) determine appropriate targets to take account of geographical specificities, and (2) achieve the buy-in of key stakeholders
- Targets can be set taking into account "first movers" and the "long tail" but consideration should be made for both
- Targets should give sufficient time for adoption with focus on an ambitious but achievable timeline.
- Targets should take into account other developments and any overlap in initiatives

2. Are there any design features that you consider are missing? Do you agree with the market segments as described? Are they sufficiently clear? Do they reflect the diversity of cross-border payments markets, while providing a high-level common vision for addressing the four roadmap challenges?

   Targeting metrics to the market segments and end-user as described may result in a more complicated system to achieve an end goal of ubiquity of fast, inexpensive and transparent cross border payments. Further, methodology for proposed metrics will need to be defined clearly before it can be agreed upon and implemented. As these segments tend to use shared infrastructure, we also believe a focus on uplift of the overall payment ecosystem, instead of specific payment types, is the best path to success. If targeted metrics need to be introduced to capture some of these segments, it may be best to set them based on value thresholds rather than trying to determine what particular flow they fall into. That would be our suggestion for a more manageable and quantifiable approach.

3. Do you have any comments on the target metrics proposed?
   Please refer to our views on cost, transparency, access and speed in the responses below

4. Do you agree with the proposal in the definition of the market segments to separate remittance payments from other types of cross-border person-to-person (P2P) payments because of the greater challenges that remittances in some country corridors face? If so, can you suggest data sources that can distinguish between the two types?

   As mentioned above, we believe the industry should take a holistic view of the infrastructure and the overall payment ecosystem (while keeping in mind the end-user) as it would be the best path to success instead of specific payment types and individual end users.

   An infrastructure wide approach (vs just a singular focus) will ensure a more inclusive and diverse cross border payments roadmap that will help achieve a 24*7, instant, certain and frictionless cross border experience.

5. Are the proposed numerical targets suitable? Are they objective and measurable, so that accountability can be ensured by monitoring progress against them over time?

   Access:

   As the access target may be difficult to measure, further clarification is needed to understand exactly what this target intends to capture. It might be more appropriate to measure the overall financial inclusion and general availability of "enhanced" cross border payments across the payment ecosystem. Identification of areas where access and reachability might be a problem would help resolve issues when and where they are created with the appropriate metrics. Further, having clarity around accessibility and reachability by market may be a better approach than just by payment type.

   In general, the best path forward in driving access should be enhancing and uplifting the existing infrastructure and the overall cross border payments ecosystem while driving for broader digitization of payments across markets through IP schemes, e-Wallets and other new infrastructures.

   For example, SWIFT connects more than 11,000 institutions, central banks, financial market infrastructures and corporate clients across 200+ countries which allows its users to connect to the messaging utility in facilitating cross border payments. Further, with fast developing Instant Payment Schemes in many countries around the world, clients can send and receive payments 24*7, where availability of the funds to the beneficiary is near real-time. We see also see Instant Payments Schemes as a key enabler of economic progress and financial inclusion for the markets in which they operate. Many low to moderate income consumers are heavily reliant upon cash as a primary payment method and do not have access to a traditional bank account, particularly in emerging markets. The proliferation of these schemes has greatly increased the access to digital payments within the countries in which they operate.

In our view, a more holistic approach via expansion of IP schemes allowing cross border legs, embedding e-Wallets into market infrastructure, and expanding and commercializing IP schemes more generally across the world is a better approach for broader access, while also ensuring broad safety and soundness of the payments landscape.

Transparency:

Our view is that the industry should be moving towards a framework where payments are 100% transparent and certain. This includes:

- **Upfront transparency** on service level and cost, including fees and FX spreads
- Instant or near instant settlement 24*7 with full certainty of beneficiary credit
- Real-time transparency on payment status throughout the transaction lifecycle

Targets around transparency should ensure that issues with payments are identified upfront, before the payment is initiated. This will not only improve the level of STP across the payments chain but also add a layer of visibility and transparency in the pre-payment stages. In addition, tracking and tracing payments in the payments chain will help provide further visibility to improve the overall cross border experience for the end user. The goal should be to move towards **this level of transparency by 2025 across majority (over 50%) of the network, over 70%% by 2027.**

6. What are your views on the cost target for the retail market segment? Does it reflect an appropriate level of ambition to improve on current costs while taking into consideration the variety of payment types within the segment? Should reference transaction amounts be set for the target (in the same way as $200 has been set for the current UN Sustainable Development Group targets for remittances) and, if so, what amount would you suggest?

It may be premature to determine and measure a specific cost target or percentage cost targets for the entire cross border payments ecosystem. Where possible, we should strive to achieve full pre-payment fee transparency and initiatives to drive down associated costs with payments/increasing STP. These efforts should naturally result in a lower price point for end users. The industry should promote pricing mechanisms and models that offer the most transparency for senders and beneficiaries—making it seamless for senders and beneficiaries to see the end to end transaction cost.

If a cost target was implemented, more analysis needs to be done to determine what the appropriate cost thresholds should be and how fees/deductions are monitored and tracked centrally. Today, cross border payment costs vary widely across regions and markets, and cannot be measured in absolute terms. This variation in cost is due to both competitive market conditions and also associated costs to pay into a market due to varying infrastructure capabilities and regulatory requirements (i.e. does the market require manual processing for cross border payments? Are there exchange rate controls?). The presence of these friction points will result in a higher cost for payments into the market and need to be addressed as the true driver of high price points.

A target on the percentage of payments which provide full upfront transparency of all associated costs across the payments chain (including both intermediary and end beneficiary transaction fees) would likely be a better driver in promoting more cost-effective payments for all across the ecosystem. This combined with a focus on driving down operational and other costs associated with processing cross border payments due to inefficiencies and friction points in the current model has the greatest chance of success for reducing overall costs for the end user. This would also allow competitive market forces to naturally drive prices.

If metrics are going to be developed based on cost, it would be useful to first do an analysis of the current cost levels globally, by region and by country. SWIFT gpi should be able to provide this data in aggregate across the SWIFT community for deductions taken across the payments chain. Once this analysis is done, the community could then come together to determine what cost aspirations might be most appropriate given differing market conditions and requirements. Regardless, publishing these price points and increasing transparency of deduction levels may naturally help drive competitive pressure to lower costs to end users.

Importance of Transparency:
The cost to end users of cross border payments varies widely and is still very opaque for many. While gpi provides fee transparency post-processing for payments made across the SWIFT network, full upfront transparency of fees is still not available within the correspondent banking model and traditional cross border payments space (unless the payment is sent with charge code OUR which can be expensive for the sender and tends to not be available for all end users).

Reducing Friction Points and Associated Costs:
For traditional payments, the cost to process a payment is driven mostly by technology, operational and regulatory costs. Due to different market requirements and characteristics, these costs can vary widely and tend to be reflected in the intermediary and other fees taken from cross border payments.

The following considerations could also help reduce costs:

- In order to lower costs for cross border payments, one key area for consideration is around promotion of adoption of common data formats, including rules for conversion and mapping from legacy formats, for a streamlined information exchange which can help reduce costs and improve the scope for straight-through data processing for payments systems and arrangements.
- As different players within the ecosystem will have different levels of cost and appetite to upgrade systems to implement new technology and operating models, a multiyear and long-term investment plan to implement such changes will allow for its maintenance, which would not only be cost effective but could result in an efficient operating model in the long term.
- Further, there also needs to be a consistent approach toward data collection, protection, retention and transfer requirements across jurisdictions that will help organizations to implement a consistent solution across regions, which in turn can reduce the costs.

The aspiration to make fees completely transparent to the sender ahead of payment processing and to ultimately drive these fees down across the cross border payment ecosystem should be the goal. However, due to the above mentioned market differences in cost, instead of setting ambitious cost targets around specific costs tied to specific types of payments, a better approach would be to use industry advocacy to drive down regulatory, operational and technology costs in addition to increasing data standardization, implementation of new technology and operating models which would bring more cost transparency to upfront payment initiation.

7. What are your views on the speed targets across the three market segments? Are the proposed targets striking the right balance between the ambition of having a large majority of users seeing significant improvements, the recognition that different types of user will have different speed requirements, and the extent of improvements that can be envisaged from the actions planned under the roadmap?

We believe that the speed targets should be more ambitious and uniform across all sectors. Citi's view is that the industry should be striving for instant or near instant settlement 24*7 with full certainty of beneficiary credit. From a timing perspective, with the major high value payment systems (HVPS) infrastructures exploring a 24*7 operating model and SWIFT aiming to create a more "instant" cross border payment model with their Platform technology, a realistic target would be to have over 50% of cross border payments settled instant or near-instant (within 5 minutes) by 2025 with over 70% settled in this manner by 2027. This would follow a similar adoption trajectory as SWIFT gpi and align with the timelines that many major market infrastructures are exploring with a 24*7 operating model.

8. Are the dates proposed for achieving the targets (i.e. end-2027 for most targets) appropriately ambitious yet achievable given the overall time horizon for the Actions planned under the Roadmap? Would an alternative and more ambitious target date of end-2026 be feasible?

Targets dates should consider other developments and any overlap in initiatives. As for the proposed achievable target dates, end of 2025 would be a good place to start given that initiatives such as ISO20022 migration will end around that time. If these changes can be built into the fullest extent to correspond to the changes banks will need to make, end 2025 could be set as an early target date with further changes until end 2027 where achievable, and beyond where changes could take longer. Importantly, target dates should give sufficient time for adoption and be communicated across the community.

9. What data sources exist (or would need to be developed) to monitor the progress against the targets over time and to develop and set key performance indicators? Do you have relevant data that you would be willing to share for this purpose either now or during the future monitoring?

To monitor progress, we believe the industry should look towards common data sources that exist today to track and monitor targets over time. Collaborative efforts with network-wide providers such as SWIFT using SWIFT gpi to develop and publish metrics and with Market Infrastructures to support tracking and adherence within their own markets could be a powerful combination. In addition to monitoring progress against targets, the focus should also be on end results and the type of solutions these targets lead to.

10. Do you have further suggestions or questions about the detailed definition and measurement of the targets and their implementation? Which types of averages can be constructed to help to measure progress?

Harmonization, adoption of common data formats, and consistent implementation of these market practices across jurisdictions will help reduce friction points in the cross- border payments space and help measure targets progress better.

11. Do you have any suggestions for more qualitative targets that could express ambitions for the benefits to be achieved by innovation that would be in addition to the proposed quantitative targets for the payments market as a whole?

In addition to the above targets we would suggest the following:

- Targets on data quality
- Targets on 24*7 availability
- Targets on Digital Identity usage