July 2021

EBA CLEARING response to the *Targets for Addressing the Four Challenges of Cross-Border Payments: Consultative document*[1]

EBA CLEARING welcomes the publication of the Proposed Targets for the Cross-Border Payments Roadmap ("Targets").

Cross-border payments are the heart of EBA CLEARING's mission. EBA CLEARING has been offering pan-European payment systems and services since 1998. With extensive experience in navigating and dissolving the historic barriers to cross-border payments in Europe, EBA CLEARING is committed to continuing to connect payment service providers to new markets, by offering user-driven, cost-effective and reliable solutions.

The Targets will contribute to maintaining the current momentum in the private sector in Europe to address certain frictions in cross-border payments, thereby reducing the negative effects on end-users as regards cost, speed, access, and transparency. EBA CLEARING notes in particular the various initiatives that are already underway at the time of the publication of the Targets, including the migration to ISO 20022 (MX) messaging standards by EBA CLEARING and other market infrastructures as well as their participants, and the development and uptake of SWIFT GPI.

EBA CLEARING also hopes that the Targets will galvanise the public sector to ease additional frictions by addressing, in particular, the regulatory hurdles to seamless cross-border payments, in a collaborative manner across jurisdictions.[2] In particular, we note that resolving certain regulatory challenges can be a *sine qua non* for certain private sector projects. Constructive collaboration between the private sector and the public sector has been key to the creation and the success of pan-European solutions for payment service providers in the EEA. EBA CLEARING looks forward to continuing this collaboration and dialogue with the public sector.

In this light, please see below the responses of EBA CLEARING to the questions listed in the Consultative Document.

1. **What are your comments on the key design features applied in designing the targets (section 1)? Are there any design features that you consider are missing?**

The Stage 3 Roadmap identified four "challenges" faced by cross-border payments: cost, speed, transparency and access.

[1] Published by the Financial Stability Board on 31 May 2021 ("Consultative Document").
[2] Focus Area B in the Stage 3 Roadmap.

Each “challenge” identified in the Roadmap is an effect of various frictions in cross-border payment flows. These frictions cause a sub-optimal end-user experience as regards cost, speed, access and transparency.

One of these frictions, for example, is the lack of regulatory alignment across jurisdictions, which increases the regulatory burden on payment service providers and on payment system operators. The effects of this regulatory burden are that end-users' experience is slower and more expensive for cross-border payments in certain payment corridors. The regulatory burden in some cases can also impact the access of end-users to payment service providers, through de-risking.

With this in mind, we note that the first design feature is that the Targets should have a “*direct and meaningful relationship to the four challenges addressed*”.

In line with this design feature, the Targets focus on the effects of the various frictions in cross-border payment channels but do not relate to the frictions themselves. EBA CLEARING would therefore recommend that the necessary efforts to reduce these frictions are also considered and measured. We have proposed qualitative targets below in response to Question 11 that could address this objective.

Further, the fourth design feature is that the Targets “*should focus on end-user experience*”.

The result of this design feature is that the Targets do not have a specific addressee. We believe that the public and private sector have complementary roles to achieve the Targets, as recognised in the Stage 3 Roadmap.

As described in further detail in response to Question 11 below, methods in which the actions of the public sector and the actions of the private sector could be taken into account have been proposed, reflecting the important role of each actor.

2. **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?**

In light of the spirit of the Roadmap and the stated intention to focus on end-user experience, we consider that the market segments are broadly accurate, with the exception of the inclusion of “other P2P” in the retail payments category.[3]

We believe it will be challenging for the FSB (or any PSP) to distinguish between remittances and other P2P payments as it would require having knowledge of the purpose of the payment, not just the originator and the beneficiary.

[3] We note that EBA CLEARING is active in inter-bank (account to account) payments only, and cannot categorise the payments it processes based on the originator/beneficiary (e.g. B2B, P2P, B2P).

Therefore, we propose that the remittances category is replaced with a single "P2P" category. "Other P2P" payments should be removed from the retail payments category and included in this new "P2P" category.

3. **Do you have any comments on the target metrics proposed?**

Regarding cost, as a payment system operator we only account for a fraction of the total costs to process a cross-border transaction end-to-end and therefore we do not have any specific comments on this metric.

Regarding speed, the "target metric" is that a specified percentage of each of wholesale payments, retail payments and remittances should be executed within one hour, with the rest being executed within one business day (with these target execution times, we understand to the time necessary to make funds at the payer's PSP available to the payee's PSP in the inter-PSP layer). Generally, it is understood in the industry that not all payments require a fast delivery, and that this is very much linked to each specific use case. Therefore, it is important to determine a quantitative Target in a manner that is in line with this reality. A more suitable Target would be to require that all financial institutions and infrastructures work towards making available the option to send fast cross-border payments – if so required by the end-user, and bearing in mind that different speed options might have different cost implications.

Please also see our further comments regarding the speed targets in response to Question 7, 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?**

We do not agree with the proposal to separate remittance payments from P2P payments. As described above in response to Question 2, concerning market segments, we consider that the remittances category should be replaced with a single "P2P" category. P2P payments should be removed from the retail payments category and included in the new P2P category.

It is not appropriate to separate these types of payments into different categories given that the payment method does not necessarily define the purpose, and vice versa. Further, the industry does not have access to information regarding the purpose behind a payment transaction and would have no way to classify them. In any case, the Targets for P2P payments should be aligned, given that they should compete in a level playing field.

A more appropriate distinction might be to separate cash-to-cash payments from account-to-account payments.

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?**

Regarding the 75/25% split for speed, we reiterate our comment above (Question 3) that not all payments require a fast delivery, and that this is very much linked to each specific use case. In this light, the "75% within one hour" objective is overly ambitious. A more suitable Target would be to require that all financial institutions and infrastructures extend opening hours to 24x7 processing and work towards making available the option to send fast cross-border payments – if so required by the end-user, and bearing in mind that different speed options might have different cost implications.

Regarding access, we consider that in mature markets, it is important that there is more than one option, for resilience purposes. We also note that financial market infrastructures are already required by the PFMI to provide "*fair and open access*" to their infrastructure.[4]

We note that for all of the Targets, the public sector has a vital role in facilitating the achievement of the Targets, through the harmonisation of legal frameworks and expectations across jurisdictions, thereby allowing payment system operators and payment service providers based in one jurisdiction to operate in another jurisdiction in a smooth manner.

A perfect example of this public/private collaboration is evidenced by the success of the Single Euro Payment Area (SEPA) whereby the necessary building blocks were created, leading to fast and cost-effective cross-border payments in Europe. The public sector contributed through the SEPA Regulation, creating harmonised conditions for credit transfers and direct debits across the Single European Payments Area, and ECB participation in the Euro Retail Payments Board. The European Payment Council, an industry group, designed the SEPA schemes for credit transfers and direct debits. EBA CLEARING was then able to launch STEP2-T, which has become a cornerstone of the SEPA processing infrastructure.

A similar public/private sector collaboration will be absolutely necessary to achieve improved cross-border payments goals.

Leveraging the efficient, risk-mitigating, cost-reducing infrastructures at regional level and creating a harmonised regulatory framework that allows them to connect in a secure and reliable manner, will support the industry in achieving the Targets. The legal and regulatory certainty required will only occur with support and drive from the public sector.

[4] Principle 18. We also draw attention to Key Consideration 2 of Principle 18, which states in particular that "*an FMI's participation requirements should be […] tailored to and commensurate with the FMI's specific risks*".

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?**

No comment. As mentioned above in response to Question 3, as a payment system operator we only account for a fraction of the total cost of processing a cross-border transaction end-to-end and therefore we do not have any specific comments on this metric.

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 consider that the speed target is not appropriate, for the reasons set out below.

First, EBA CLEARING has observed increased demand for instant payments in the market(s) in which it operates. However, as mentioned in the question, different types of user have different speed requirements. For example, for some use cases, liquidity costs are a prime consideration. There are also use cases where it is simply not necessary that the payment is settled instantly/within one hour.

Second, the 75% "within one hour" targets would require that a vast majority of payment system operators globally operate 24/7. While EBA CLEARING already offers 24/7 payment processing through its instant payment system RT1, 24/7 operations are not yet the norm for certain payment system operators, including public sector operators.

Third, beyond the ability to process payments 24/7, achieving the speed targets would also require significant support from the public sector. The technology for instant payments already exists. The deployment of this technology in a cross-border context is hampered by the absence of regulatory alignment on e.g. sanctions screening and anti-money laundering/combatting the financing of terrorism checks, data protection, etc.

It could be more realistic for the speed targets to focus instead on: (1) a general increase in the processing speed, without setting a specific target as to what the processing speed should be; or (2) ensuring that all payment service providers and end-users have access to at least one option to carry out fast payments.

Finally, as a general observation, we note that the speed target for wholesale payments would benefit from further clarification given that it is not specified in the Target whether the objective is for the recipient of the payment to have access to the funds within one hour of the initiation of the payment.

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?

As previously mentioned in our response, the target metrics or challenges identified in the Roadmap and in the Consultative Document are the <u>effects</u> of frictions in cross-border payments.

The FSB is aware of the multiple sources of friction in cross-border payments, as described in the Stage 3 Roadmap. These frictions differ across payment corridors. The potential for private sector and public sector initiatives to bear fruit also differs across payment corridors. Addressing these frictions requires coordinated actions between the public and private sector, and also within the private sector (for example, to develop common standards and schemes to ensure interoperability and promote access).

Further, by focusing only on the Targets, the industry risks overlooking a number of industry initiatives that are already underway and will in time contribute significantly towards reducing frictions. These initiatives are further described below in response to Question 11.

It is also important to note that payment systems are a crucial backbone of the banking sector, but that to avoid introducing risk to the financial system, the payment system must have a water-tight legal basis and state-of-the-art operational and technical arrangements. These elements cannot be compromised.

Put differently, payment system operators and payment service providers cannot enter a new cross-border payments market, and hope that regulatory alignment will follow. Without mutual settlement finality recognition and compatible data protection regimes, to name but two examples, the industry is greatly restricted in the types of payments they could reasonably be expected to offer, resulting in slower and more cumbersome cross-border payment processing. Similarly, payment system operators and payment service providers cannot risk conflicting oversight and regulatory requirements; cooperative oversight/regulatory arrangements are an essential <u>prerequisite</u> to expanding existing financial market infrastructure into new payment corridors.

We consider that achieving the ambitious targets by end-2027, <u>across all payment corridors</u>, is not possible, and that over-emphasis on the achievement of these targets, without the necessary building blocks in place, could introduce risk and set the industry up for failure. To avoid such negative consequences, the FSB could also include a Target regarding compliance and risk-mitigation, to ensure that new and existing cross-border payment initiatives are safe and secure, for example, by reference to the PFMIs.

We also propose that end-2027 is reframed as a <u>**check-in point**</u> for the public sector and for the industry. The FSB could use this opportunity to gather information regarding the private sector and public sector initiatives and achievements towards reducing various frictions, independently of the impact that reducing these frictions has had on the four challenges.

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?

We propose that the FSB leverages the existing data collection frameworks for oversight / supervisory authorities. Note that some information required to achieve these targets will not be (readily) available.

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?

No comment.

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?

We propose that the FSB also takes into account private sector and public sector initiatives towards reducing specific frictions.

Examples of industry initiatives in Europe that are already underway include:

- SWIFT initiatives such as GPI / GPI Instant, the Transaction Management Platform, or SWIFT-Go
- The adoption of a common language (i.e. ISO 20022)
- Private sector instant payment schemes which, combined with new services (e.g. Request to Pay) and linkages/interoperability between them, can contribute to wider cross-border payment improvements

The industry is addressing the harmonisation of ISO 20022 implementations through the creation of global market practice such as the Cross-Border Payments and Reporting Plus (CBPR+) guidelines, the HVP guidelines developed by the Payments Market Practice Group (PMPG) and the work carried out by the ISO 20022 Real-Time Payments Group (RTPG) to drive international best practices on interoperability for cross-border real-time payments on an operational and technical level. Across all of these initiatives, achieving greater standardisation while catering for local needs has constituted the main challenge faced by the industry. Efforts to bridge different implementations of ISO 20022 are one example of this, as noted in the CPMI reports. The public sector also has an important role to play in driving standardisation in the cross-border space. Greater harmonisation of the underlying regulatory frameworks would remove a key barrier to the further use of common standards for processing international payments.

Regarding the role of the public sector, significant barriers to efficient cross-border payments exist on the regulatory side, where not-fully harmonised legal and regulatory frameworks covering areas such as AML/CTF, consumer protection, cyber security and data protection make it complex and expensive to participate in this market sector. In some instances, efforts by the industry to increase the speed, transparency and reach of international payments have been hampered by de-risking which is primarily caused by fragmented regulatory requirements around AML/CTF. Infrastructure providers and PSPs need clarity on liability aspects with respect to fraud, AML and other similar risks.

Similarly, there are certain prerequisites for payment system operators to create legally sound payment systems in a cross-border context. Depending on the context, these prerequisites can include compatible settlement finality regimes in each jurisdiction and cooperative oversight frameworks across jurisdictions. As noted above in response to Question 5, the creation and implementation of the Single Euro Payments Area and the necessary building blocks for fast and cost-effective payments in the euro area is an excellent example of cooperation across jurisdictions.

Increased cooperation among regulators to establish a harmonised legal framework for cross-border payments would provide clarity around these issues and unlock further action by the private sector. Greater collaboration between public authorities and the private sector and a clear understanding of respective roles and responsibilities for tackling these problems is key.

The creation of standards across technical, operational and legal and regulatory areas will be essential for enabling interoperability and further development of innovative value-added solutions, which bring competition and choice to the market. Using technical, operational standards and open, user-driven schemes will enable providers of payers and payees to independently develop their own value propositions on top while allowing them to interoperate on an international scale on technical standards. This will also encourage that solutions will be developed for currently under-serviced groups

Recognising the existing barriers to cross border payments, and ahead of such regulatory standardisation enabling full interlinking, EBA CLEARING is investigating how cross-border interoperability between existing systems could be achieved and how to add most value to payment service providers and their clients. This will leverage as building blocks existing systems that play an important role in the chain of cross-border payments in main currencies and/or an important role in immediate payments already.