16 July 2021

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Submission by email to: fsb@fsb.org

Targets for Addressing the Four Challenges of Cross-Border Payments

Dear Sir / Madam,

Please find attached the submission of the Emerging Payments Association Asia to the *Targets for Addressing the Four Challenges of Cross-Border Payments – Consultation Document* ("the Consultation Document").

The Emerging Payments Association Asia's (EPA Asia) goal is to unify the payments agenda in the Asia-Pacific region, drive business development and improve the regulatory landscape for all organisations within the payments value chain. We are a community of payments professionals whose goals are to strengthen and expand the payments industry to benefit all stakeholders.

Please note, that while we have consulted widely with our members and industry stakeholders, any views expressed in this submission are the views of EPA Asia and do not necessarily represent the views of individual contributors, Ambassadors or Members. I would in particular wish to recognise the contribution of our Cross-Border Payments Working Group and in particular the efforts of Fannette Hsin, Brad Pragnell and Antony Morris.

Introductory Comments

As an industry body with a regional focus, EPA Asia recognizes the critical importance of cross-border payments. The current reform agenda that has been endorsed by the G20 and is currently being overseen by the Financial Stability Board (FSB) is broad in its scope and ambitious in its objectives. EPA Asia appreciates the efforts of the FSB in setting targets that would make cross-border payments more transparent, efficient, accessible, affordable. We would agree that clearly defined targets and metrics are an important part of this agenda, both to better define what success looks like and to reflect the aphorism that "what gets measured, gets managed".

EPA Asia strongly believes that broad and deep consultation is critical. A wide range of stakeholder input is required and EPA Asia, which draws its membership to include banks, payment service providers, fintechs and others from across the region, can provide a unique and diverse perspective on probably the most economically dynamic part of the world. This diversity extends to the differences seen within the Asia-Pacific market, with different approaches to regulation and national currencies and with informal networks, mobile money through super apps, distributed ledger technology and gaming currencies all being more widely used than in many other parts of the world.

We also believe that the FSB needs to obtain the widest range of input possible. While we recognize that English remains the primary language of international businesses and central banks within much of the world, the absence of translations into other major business languages such as Mandarin and Japanese, will mean that certain major markets will be under-represented in terms of their response.

Developing targets and metrics is important, with the focus on benefits to end-users being welcomed.

However, there remain a number of high level concerns with this approach.

Notable is a concern that, in seeking to achieve the targets, a disproportionate cost is placed on industry, either through build and operating costs or through regulation. This can inhibit innovation. There is also concern that the definitions create opportunities for regulatory arbitrage, leading to an uneven playing field. Further, there is a lack of clarity required as to how these targets and measures will be implemented. Are they aspirational or will governments / central banks / regulators translate them into regulation? If the latter, then the conversation becomes much more pointed.

These concerns can be addressed through greater clarity as to the purpose and role of the targets and measures, and care being taken in defining the market segments. More important is accountability on regulators to deliver on the reform agenda and to standardize, reduce frictions and remove inefficiencies. We strongly believe the targets cannot be met if regulators and central banks do not deliver on the aspects of the reform agenda they are responsible for, as much of the cost associated with cross-border payments is associated with compliance with regulatory obligations.

Digital Identity and digital currencies/wallets are a topic that is of great interest to the members of EPA Asia and we feel that the fast moving evolution and innovation in this will be a key contributor to improving cross-border payments.

Central Banks' abilities to implement policies that would achieve the FSB's targets may vary depending on the maturity of their payments infrastructure and regulatory regimes. To that end, it is crucial that the FSB provide a clear, supporting roadmap that Central Banks across the world may follow to achieve its cross-border payments targets.

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?

While the design features proposed are relatively straightforward and easy to understand, we would propose consideration of two other features.

One would be Security. Fraud losses remain a serious concern and the industry seeks to manage these losses to an acceptable level. Not including a security measure could see a race to the bottom in terms of cost and speed at the expense of security and minimising fraud losses. AML/CTF issues also need to be covered. This is particularly important in emerging markets where ensuring trust in the system is crucial toward increasing usage. Therefore, ensuring security remains paramount, and that it is not sacrificed in favour of another metric (e.g.) speed is crucial.

The other feature to consider would be Data Richness. While maybe not as critical as security and transparency, data richness has become an increasingly important issue, creating efficiencies for end-users. Ideally, this should be recognised as well, particularly as technology advancements make this possible.

While we have comments on Cost and Speed later on in this submission, in relation to Transparency, standardization of data requirements across countries would be essential to keep costs down.

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?

The market segments of Wholesale, Retail and Remittance clearly require further detail. As these market segments have different numerical targets, clarity on "what is included where" is essential to prevent regulatory arbitrage, particularly if the targets inform regulation.

"Wholesale", for the most part, appears clear as it relates to transactions between financial institutions. However, the absence of a cost target means how it is defined will be very important to prevent regulatory arbitrage.

However, "Retail" is not as well defined or aligned with common usage. The category seems to include a broad range of payments. The properties of the following are very different, for example:

(i) person to business cross-border - this is often considered 'retail'

(ii) business to business cross-border – this consists of cross-border trade in both goods and services

(iii) business to person cross-border – this consists primarily of disbursements (including government to person disbursements such as pension and benefit payments)

(iv) person to person cross-border is probably the most closely aligned to remittance as fundamentally similar, though the distinction appears to be premised on the corridor as opposed to the counterparties in the payment.

Having a better or more refined understanding of what exists within "Retail" as defined in the paper is important. The current definition does not accommodate for more complex, business-based cross-border transactions, where there may be requirements for customs or shipping information, heightened AML requirements, less liquid markets etc. Such payments may have associated information that flows with a transaction, that significantly influences the value over and above the monetary value. This additional value certainly can impact the fees for the service.

"Remittance" is relatively simple - notwithstanding the point above relating to potential overlap with "Retail" - as the commonly used definition aligns with how the term is used in the paper, as it includes person-to-person cross-border payments within certain corridors. However, defining those corridors becomes important, particularly given the significantly different Cost target.

Within these three categories, it is unclear how many of the newer and future offerings, such as DLT / CBDCs, closed loop app-based payments, gaming currencies etc will sit. Further, the market segmentation does not distinguish between incumbent and new service providers, which fails to recognise that new businesses incur considerable cost in the start-up stage, which may limit the ability of a new business to meet the threshold settings.

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

There remains a number of unanswered questions about how the target metrics will be calculated. For instance, it is unclear how the denominator of percentage targets will be determined (75% of what; 90% of what?). Further, it is unclear what type of average will be used for cost – mean or median – and whether cost means the full price to the end-user or whether it is calculated in some other way. Either way keeping the market participants involved in setting the standards and also allowing feedback for future adjustments will be a key component for the private sector adoption.

In respect to Cost, it is not clear if the costing is fully inclusive of foreign exchange and all transfer fees, including both percentage and fixed fees. Similar to Remittance, this could be defined as average transaction value for the category where a fully absorbed percent fee can be assessed, but clarity would be needed on whether foreign exchange is included.

Lastly, clarity is required such that all of the targets are for 'bone fide customers acting in good faith' and that the target applies to cross-border payments where there are unrestricted borders with unrestricted currencies, noting that restricted currencies still remain quite common in major Asian economies.

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?

The comments above note some of the challenges with how Retail is defined and how it interacts with Remittance. It could be argued that all P2P be treated similarly, as P2P will make up a relatively small proportion of total Retail, as currently defined.

An argument against splitting out Retail P2P from Remittance is that such a split appears to be premised on accommodating the UN SDG targets, but can appear unfair in that developing markets - where incomes are lower - are subject to a higher Cost target.

The distinction between "developed / developing" markets to distinguish between Retail P2P and Remittance does not sit comfortably with many Asian markets that are now middle income and do not fit comfortably in the "developed / developing" dichotomy. As noted above, restricted vs unrestricted currencies have a major role in Asia and are not accommodated in the market segments. Many restricted currencies have diverse additional information requirements to meet regulatory requirements, hence some standardization across these countries would facilitate meeting Speed and Cost targets. We do presume that this nuance exists in other regions outside of Asia Pacific as well.

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?

At first glance, the numerical targets are reasonably clear, there is little explanation as to how they were arrived at. Without further background, as well as clarification as to how data will be collected and used against these targets, it is difficult to assess their suitability.

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?

The targets for Retail do not appear to be well grounded in current industry norms – for example many of the costs of highly competitive providers offering cross-border retail (e-commerce) payments are significantly higher than those proposed (well above 3%) with an additional 2% if currency conversion is required. The absence of any well-established approaches to measuring retail costs on a fair and equitable basis means considerable care needs to be taken in setting the targets.

Conversely, the Remittance targets are well established and underpinned through data collection by the World Bank. On this basis keeping the $200 USD reference transaction amount makes sense, though it should be recognized that for many unbanked or developing countries, USD200 is still high, especially for monthly remittances.

For unbanked or developing countries, $200 is still high, especially for monthly remittances, e.g overseas workers, perhaps adding a % in addition to dollar targets.

For the purpose of this submission, and based on verbal meetings with the Bank of England and Financial Stability Board, we define Cost as being the fully disclosed price to the end user.

Additionally, more discussion is needed on the Cost target. It is unclear that a price ceiling intervention is required. While we agree that efforts must be made to keep operational costs (including network fees) at a minimum, but companies should be allowed to decide pricing without state intervention, based on the added value they provide. Acknowledgement must also be made of the investment in security, data privacy, risk management, etc. that make transactions more secure. In other words, security, AML practices, resilience, sanctions screening, derisking are all cost drivers that should be acknowledged in overall pricing.

Here it is also important to point out that focusing on a price target may incentivise entities to monetize in other ways that would compromise customer's data protection and privacy through targeted advertising.

It is important to acknowledge that some markets are more expensive than others due to which there is no one size fits all for costs. In this context, it is important to factor in network fees when considering the cost of cross-border payments. As some regions have capped domestic interchange fees, networks have increased cross-border fees to maintain margins. Therefore, setting a ceiling for the fee could inadvertently lead to less flexibility and freedom of choice for customers in the funding instrument that they use to make a transaction.

Additionally, partnerships are key for payment service providers to expand their reach to more customers and new markets – fee ceilings also limit the kind of partnerships that would be formed, thereby restricting access to innovations in the payments space for users in many countries.

For remittances, we would like to highlight that the cost of remittance varies across disbursement types (mobile wallet, cash pick up, bank account, delivery); and the level of amounts (smaller amounts or brick-and-mortar pickup points in areas that require additional security is usually more expensive) even more than across corridors. Infrastructure that reduces the cost of disbursement is therefore one of the most effective ways to reduce the cost of remittances. It is worthwhile to note in this context that there is a huge disparity between offline and online and that on average, the cost of online remittances is already at target.

Additionally, we would also like to highlight that setting fixed price ceilings might lead to the exclusion of corridors where the costs of sending funds is higher than others. This again could lead to reduced consumer choice along these corridors.

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?

As the Speed targets are for all purposes identical, it raises questions as to the application of market segmentation.

Speed will have different relative importance between market segments. A one-hour target is more important for Wholesale (to facilitate liquidity management) than Retail or Remittance, where same day or next day may suffice. This could particularly be the case in business payment environments where a business may wish to have an account credited with all their transactions at the end of the day.

It should also be noted that speed to 'release of the service e.g. 'authorisation' in retail to release the goods, can be more economically important than the speed of cash settlement.

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?

More detail is required both in terms of the targets and the Roadmap to have a sense as to whether the proposed target year is achievable.

Further, the cross-border payments reform agenda is not happening in a vacuum. There are a wide number of other reforms, both in train, proposed and possible, including ISO20022 upgrades, digital currencies, and real time payments, not to mention upgrades of existing systems and domestic regulatory reforms. New technologies also present the opportunity to leapfrog cross-border payments infrastructure – such as Central Bank Digital Currencies – and regulators will rightly be evaluating whether it is feasible to modify one's existing infrastructure and approach while taking advantages of new technological innovations.

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?

There are existing data sets and data collection sources from bodies such as the World Bank and the Bank for International Settlements that should be leveraged as much as possible. Data collection should be as efficient as possible and should not impose significant cost on industry. For example SWIFT GPI may be a potential source of data.

Where data from companies is required, we would suggest making use of existing data reported to supervisory authorities around the world. Any data sharing should be done on a fully anonymized basis to ensure that commercial confidence is maintained.

In addition, implementation should be consistent and timely across jurisdictions; the risk that countries move faster than others may lead to unintended consequences.

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?

Not at this time.

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?

As noted above, Security and Data Richness remain important features of modern cross-border payments that end-users often value, and consideration should be given on how to best incorporate these features into the targets.

It will also be useful to understand consumer confidence and ease of use on one hand and economic impact on the other, so consideration should be given to the role of consumer surveys and of economic modelling to compliment the numeric targets presented in this paper.

Once again, we appreciate the ability to consult with the FSB on this important issue and welcome any further dialogue on the cross-border payments reform agenda.

If you have any further comments or questions, please feel free to contact me on email john.ryan@emergingpaymentsasia.org

Kind regards,

J Ryan

John Ryan

Director General Policy, Emerging Payments Association Asia