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15 July 2021

Dear Sir/Madam,

Targets for Addressing the Four Challenges of Cross-Border Payments

Please find attached Fourdotzero's response to the FSB consultative document on "Targets for Addressing the Four Challenges of Cross-Border Payments".

Fourdotzero is a payments, market intelligence and technology company for next generation payment networks, founded by myself and Richard Bell – we both have deep experience of domestic and cross-border payments and are keen to contribute to the FSB Roadmap through this response.

Our key observation is that the biggest issues in cross-border payments lie in corridors outside the major currencies, and these corridors must be the focus of improvements. They need to be brought up to the same targets as the major currencies to avoid perpetuating the current two-tier system, and the major currency corridors themselves can be improved readily. Remittances are a key use case in minor currency corridors, but there are many other use cases, so a focus on the minor currencies as a whole is better than a focus solely on remittances.

We have suggested changes to the targets to make them more ambitious and structured by types of currency pair (corridor type), laid out in the table preceding our answers which reference it where relevant.

We are at your disposal should you require clarification or further information,

Yours faithfully

Jeremy Light

Table 1 – Suggested Changes to the Cross-Border Payments Roadmap Targets

Challenge	Wholesale	Retail/SME/Micropayments* by Currency Pair Type		
		Major**/Major	Major/Minor***	Minor/Minor
Cost		Average cost of payment (including FX costs) to be no more than 0.8 % by end 2024; and falling to 0.5% by end 2027	Average cost of payment (including FX costs) to be no more than 0.8% by end 2026; and falling to 0.5% by end 2029	Average cost of payment (including FX costs) to be no more than 0.8% by end 2027; and falling to 0.5% by end 2030
Speed	Large majority (e.g. 75%) of cross-border wholesale payments to be within one hour of payment initiation, by end-2027 and for the remainder of the market to be within one business day; and for all payments to be available within one hour 24/7 by 2030	Availability of funds for the recipient within two minutes from the time the payment is initiated at any time 24/7 by end-2024; and falling to one minute 24/7 by end 2027 Micropayments to be instant by 2030	Availability of funds for the recipient within two minutes, from the time the payment is initiated at any time 24/7 by end 2026; and falling to one minute 24/7 by end 2029 Micropayments to be instant by 2030	Availability of funds for the recipient within two minutes, from the time the payment is initiated at any time 24/7 by end 2027; and falling to one minute 24/7 by end 2030 Micropayments to be instant by 2030
Access		All end-users (individuals, businesses (including MSMEs) or banks) to have at least one option (in terms of infrastructures and providers) for sending from a bank account or e-money wallet or receiving into a bank account or e-money wallet cross border electronic payments by end-2027; all end-users to be able to request, or collect a payment from anywhere in the world by end-2030		

* Micropayments are <$10 payments

**Major currencies = USD, EUR, JPY, GBP, AUD, CAD, CHF, CNY, SEK, NZD

*** Minor currencies = rest

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 biggest issues in cross-border payments lie in corridors outside the major currencies, and these corridors must be the focus of improvements. They need to be brought up to the same targets as the major currencies to avoid perpetuating the current two-tier system, and the major currency corridors themselves can be improved readily.

A key design principle therefore must be to avoid perpetuating the current two-tier system where cross-border payments between major economies are much cheaper and faster than those to less developed economies. This means improving payments between major economies and bringing payments to/from less developed economies up to the same, improved standard.

Inevitably, it will take longer to bring developing country corridors up to the same standard as developed countries, due to their different starting positions, so the only difference in targets should be in timing.

Table 1 shows our suggestion to revise the targets, with additional detail as follows:

1.1 set common target metrics but different **target dates by type of currency pair** – classify currencies into major (USD, EUR etc – say the top 10 used in trade) and minor (the rest) and set target dates for the common metrics for major/major, major/minor, minor/minor pairs. This will focus improvements on the minor currencies which is where many of the issues lie; it will also avoid major/major pairs which represent the majority of cross-border payment volume skewing the achieved figures each year

1.2 set **continuous improvement targets** for the metrics at the target dates – for example, average cross-border payments costs to fall by 0.1% per year after the initial target year. This will encourage continuous improvement

1.3 add a design principle that **targets and solutions to meet them are independent** of the limitations and capabilities of current cross-border payment infrastructures and practices – any bias towards existing capabilities will be counterproductive, prolonging the status quo and crowding out new innovations

1.4 set a **target for the adoption of standards and standardised rules** – a lack of standardisation in cross-border payments is a direct cause of the four challenges to be addressed in the FSB Roadmap

1.5 set **an access target for requesting or collecting payments cross-borders**. Consumers requiring cross-border remittances to be sent to them, and businesses collecting payments for goods and services supplied cross-borders are a challenge. At best, where available these services are confined to specific payment providers and specific corridors (unless international card networks are used, but these are expensive, require both sender and receiver to have access, and can take days before funds are received). As request-to-pay services are implemented in many countries over the coming years, now is an ideal time to encourage cross-border interoperability of these services to improve cross-border remittances and collections

1.6 **disregard the UN remittance target**. 3% - 5% on $200 is a large cost, and to aim for it by 2030 is unambitious. As a comparison, Wise achieves an average cross-border payment cost of 0.69%. Remittance values are frequently higher than $200, and typically are in the range $400 - $1,500 depending on the corridor, so a 3% - 5% target leaves the door open to high absolute charges on higher value remittances. Instead, set common target metrics but with separate target dates for different currency pairs as suggested in 1.1. If necessary, to avoid unrealistic absolute fees on low value payments, a minimum fee could be set, for example $3 on $200 or less, but otherwise target fees are best set as low ad valorem charges on the payment principal, as shown in Table 1.

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 listed reflect the typical market segments found today in cross-border payments. However, continuing with the current segmentation risks perpetuating inferior service levels in developing countries compared to developed countries.

Critically, the segmentation misses out the digital dimension and fails to acknowledge changes that are very likely, such as fast paced adoption of digital services and the diversity they drive.

Ideally, we would suggest specific segments for digital uses, reflecting digital inclusion's paramount importance for both developing and developed countries. Low values payments are a key feature of digital use cases and can be treated differently to higher value payments. They pose lower risks hence should be cheaper, requiring less stringent compliance checks, less consumer protection (such as charge backs), making them more like low value physical cash and easier to use.

It is sensible to keep the number of targets to a minimum, so instead of creating an additional table of targets for digital, we have included the following in Table 1 under speed and access, but we suggest the FSB gives further and separate consideration for targets for high volume, low value digital cross-border use cases:

2.1 **Micro-payments** – cross-border payments that are sub $10 in value, for example to pay for digital content

2.2. **Payments between bank accounts and e-money wallets**, and between e-money wallets. The targets and segments in the FSB Roadmap appear to be based on interbank payments, whereas global adoption of mobile wallets linked to e-money accounts is large and growing fast, particularly for low value payments, including for remittances, e-commerce and mobile (QR).

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

   3.1. The phrasing of the metrics could be refined to make it clear that the **metrics are measured end-to-end** from the initiator to the beneficiary. Cross-border payments often use a series of intermediaries and currencies (FX legs), but it is the end-to-end experience and outcomes that matter
   3.2. The cost metrics should **make it clear that FX costs are included**, in addition to fees. There needs to be a standard definition for calculating FX costs e.g. % difference to the mid-market rate (taken to be the average of the bid and offer rates of the FX provider – reference to a benchmark such as from Reuters could be used for consistency, but this may become complicated when applied globally)
   3.3. The transparency **metrics should include lifting fees** to call out those who impose them and highlight their contribution to high cross-border payment costs. Banks in some countries impose a lifting fee, that can be as high as 2%, on top of other fees and the FX spread. This includes countries whose currency is tied at a fixed rate, to say the USD, and which only (or mainly) accept cross-border payments in USD. A reasonable fx rate and fee may be on offer to the sender in their own local currency to make the USD payment, but on crediting to the beneficiary account a fee of say 2% is levied to convert the USD into the beneficiary's currency
   3.4. Fees should be shown with **full calculation** of amount debited, amount credited, fx rate, sending fee, sending amount and receiving amount, highlighting any difference taken in lifting fees.

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?**

4.1. We disagree that remittances should be separated from other types of cross-border P2P payments, and instead we suggest separating retail payments by type of currency pairs as suggested in 1.1. (and ideally further separated into digital use cases as suggested in 2.)
4.2. The challenge with remittances in some country corridors is mainly due to low or no direct liquidity in the currency pair of a corridor, leading to inefficiencies (liquidity, FX, processing, access). Using the three categories of currency pairs suggested in 1.1 is a holistic approach that also addresses the specific remittance challenge
4.3. The World Bank provides data on migrant worker remittances, but this is only a subset of cross-border P2P and retail payments, which also include many other segments such as international students, expatriate pensions, expatriate white collar remittances, gig-economy workers, property and investments. This list will expand as new digital use cases and ways of working emerge
4.4. Banks and other payment service providers have their own data on the P2P and other payment flows they process. Many request purpose codes when payments are initiated which can be used to get granular statistics on payments flows. However, to our knowledge there is no source which systematically collects this data to provide country, regional and global statistics
4.5. Perhaps an initiative to do so could be included in the FSB Roadmap, including defining a standard taxonomy of payment flow types and purpose codes? (Note - some countries such as India have statutory purpose codes, but many payment providers define their own, there is no standardisation).

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?

5.1. The proposed numerical targets need more bite to be effective. We suggest alternatives as laid in Table 1.
5.2. The numerical targets of costs (fees, FX), time (from initiation to availability of funds) and access (service availability) are objective and measurable. However, the retail payments need to be measured from the end user perspective, and their actual experience, rather than from a payment provider perspective. Payment providers may be unable to see and measure the full end-to-end process, for example when funds are available to the beneficiary (for wholesale payments, financial institutions should be able to measure their own experiences).
5.3. We suggest the FSB sets up a monitoring regime based on consumer and SME sampling for the retail payments metrics, for different countries to

implement; and that this is done as a priority to establish a benchmark against which improvements are made and targets are achieved, in order to measure the success and track the progress of the FSB Roadmap.

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 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?**

    6.1. See table 1 for suggested alternative, more ambitious cost targets

    6.2. We disagree that reference transaction amounts should be used. Ad valorem cost targets are optimal (provided they are low) as they apply equally to all transactions without requiring complex tables of transaction levels at arbitrary reference points with statistical analysis of transactions and their costs within each level.

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?**

    7.1. See table 1 for suggested alternative speed targets

    7.2. We suggest that rather than different speed requirements (typically only a small fraction of payments are urgent) users have a common requirement for certainty – certainty that the payment they have initiated has been received in full, and certainty of the costs and who pays them. Speed reduces the period of uncertainty, and instant payments eliminates it. Consequently, eventually (but realistically, after 2030) all cross-border payments should be instant.

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?**

    8.1. See table 1 for suggested targets including dates

8.2. We suggest that for the major currency pair corridors targets can be set for end 2024, given the capabilities and infrastructure already in place
8.3. The biggest challenges are in retail payments for the minor currency pairs and we suggest the 2027/2030 target dates are reasonable, with 2026/2029 target dates for the major/minor currency pairs.

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?

9.1. To our knowledge, no publicly available data sources exist that can provide the data required to monitor the metrics, and we doubt there are private data sources that collect data systematically and holistically across the end-the-end cross-border payment process. Cross-border payment providers and networks have data, and in some cases, substantial amounts of data for their part of the process but collecting this and "fitting" it together to arrive at a global view across all payment types and corridors is likely to be error-prone and unreliable. Instead, we recommend the FSB sets up a monitoring initiative as part of the FSB Roadmap
9.2. The wholesale metrics are tracked best by requiring FIs to provide the required data
9.3. The retail metrics are tracked best through regular surveys of end user customers – senders and beneficiaries, consumers and businesses. Payment providers, including banks, can help by facilitating contact with their customers (for example through their apps and websites) to participate in surveys. Independent third parties will need to be engaged to provide coverage across the world
9.4. In addition, data from payment providers can be collected to supplement and corroborate the survey data – however, payment provider data alone is insufficient as their knowledge of the full end-to-end process is only partial (for example, when beneficiaries have availability of funds and whether they pay any fees to the pay-out payment provider).

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?

We suggest the FSB also tracks the following:

10.1. the **% of payments by type** and corridor where the sender is sent a confirmation by the beneficiary payment provider that funds are available to the beneficiary – this confirmation provides certainty to the sender and is a key component of a good paying experience. Similarly, the % of payments where the beneficiary is notified payment has been initiated could be tracked.

10.2. **exceptions** to derive metrics which both include exceptions and exclude them. Exceptions such as held payments awaiting further data for compliance checking, or incorrect account data can skew results and need to be known to understand the overall metrics

10.3. **liquidity** used in cross-border payments. A corollary to the G20's priority to enhance cross-border payments is the priority to enhance cross-border liquidity management. Efficient use of liquidity is critical to fast and low-cost payments. This typically means just-in-time funding of nostros or credit lines and is an area where substantial change and improvement is required.

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 suggest more qualitative targets to track the following:

11.1. Country **plans to introduce 24/7 RTGS** – 24/7 RTGS improve considerably the ability to offer cross-border payments and are an inevitable part of the landscape of next generation cross-border payments (for example the RBI in India migrated to a 24/7 RTGS in December 2020)

11.2. Central banks which offer **omnibus accounts** (for example the Bank of England) and the ease of access to these omnibus accounts (criteria for new entrants) – omnibus accounts have the potential to enable innovation and new entrants in cross-border payments

11.3. The adoption and **cross-border interoperability of request-to-pay** services (see answer 1.5)

11.4. The adoption of **standards for cross-border payments interoperability**. This is more than adoption of ISO20022 – it includes standard rules and standard data definitions, validation and usage. Standardisation of cross-border payments is essential if the FSB is to achieve its goal to enhance cross-border payments

11.5. **New business models** that emerge as a result of enhanced cross-border payments.