

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

End of consultation period: Friday, 16th July 2021

Final version (16/07/2021)

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The FSB is inviting comments on this consultation document and the questions set out below. Responses should be sent to fsb@fsb.org by Friday 16 July 2021. Responses will be published on the FSB's website unless respondents expressly request otherwise.

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?

First, we would like to stress that we fully share the goals of the G20 and FSB to improve cross-border payments to support sustainable economic growth internationally. We believe that innovation in the world of finance is an effective lever to achieve these objectives. The banking profession has always shown its willingness to work for a more secure and accessible payments landscape, driven by innovation.

From a European point of view, we understand this questionnaire as relating to euro transactions between EU and the rest of the world (because intra EU cross-border payments are already quite precisely ruled) and to non-euro currency transactions as well within EU as between EU and the rest of the world. Furthermore, considering the fact that card-based transactions are already quite tightly ruled by international card schemes, we focus in this answer on non-card-based transactions. So, we have developed our answers based on this assumption.

In our opinion, the criteria chosen to measure the effectiveness of international payments seem sufficient from a theoretical point of view. However, we have already identified some operational obstacles that could make their collection and use potentially complicated. For these assessment criteria to be truly effective and easily available, we strongly believe that they must be based on data already available in the PSP's (Payment Service Provider) systems. Basically, banking institutions do not have all the information that allow to categorize payment transactions as defined by the FSB. Data that make it possible to process and to categorize a transaction come largely from customers. If the relevant data are not provided by customers, it will be very difficult (maybe not possible) for PSPs to formally identify a transaction. As an example, the ordering customer only has the possibility to define a transaction as a retail payment or a remittance. It is therefore very difficult to distinguish reliably these two categories of transactions.

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?

Even if the criteria proposed by the FSB seem relevant, they do not correspond to the market segmentation adopted by many banks and their naming may cause confusion or even misunderstanding:

- Wholesale payments should be renamed “Financial Institution payments” because banks process also certain big amount commercial payments as wholesale payments.
- Retail payments should be renamed “Commercial and retail payments” for the same reason as above and because banks do not classify such huge amount commercial transactions in e.g. raw materials international commerce as “retail” payments.

Then, it seems difficult to provide metrics corresponding to the segmentation as requested by the FSB. We believe that information on the retail market segmentation should likely be provided in a different way because the segmentation proposed by the FSB does not correspond to the reality of retail banking. Such a segmentation will not provide a reliable information on retail transactions and could lead to a wrong analysis of the situation of the market in terms of cost, speed and transparency.

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

We believe that metrics should not be analysed separately but as parts of a cohesive ecosystem, with interdependencies between them.

First, we believe that these metrics must be considered according to the level of service requested by the customers and the related usages. As an example, customer requirements in terms of speed can be significantly different depending on the use case: a corporate treasury transfer can reasonably be defined as an urgent transaction, nonetheless some commercial transfers will not require instant or near instant settlement, the main concern in these cases being the guarantee of getting paid. In these cases, the level of service expected by customers determines the category of the transaction (very urgent or not). Thus, the cost of a transaction may vary depending on its nature.

Secondly, we would like to point out that certain metrics are potentially opposed, notably the criteria of speed and costs. Our recent experience in the build of an Instant Payment offer at European level has shown that the implementation of a “real time” infrastructure requires a profound evolution of existing systems or even the construction of new infrastructures. It will therefore not be illogical to consider that the speed requirement could have a significant impact on the cost of transactions, especially, as stated before, for very few transactions.

Finally, regarding the transparency targets, we believe that the current state of systems within many banking institutions and the current operating rules for international transactions which involve various players make it difficult to produce many of the requested information during the processing of a transaction. Thus, if a payment service provider could reasonably provide reliable information about a transaction based on information from its own systems, it appears more problematic to provide information once the transaction is transmitted to another stakeholder of the payment chain: intermediate status, amount of charges taken by an intermediary, final amount received by the recipient, etc... Building new systems and solutions to meet FSB requirements on transparency issues would likely require significative investments, especially since cross-border transactions represent, in terms of volume, very few transactions (between 1% and 2% depending on the payment service provider).

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 fully agree on the principle of distinguishing remittances from other retail transactions. However, as explained in our response to question 1, it is very difficult for PSP to distinguish remittance transactions from other retail transactions, since only the customer can make this distinction when he initiates the transaction. The data available at the banking side are partial and do not reliably allow the categorization as requested by the FSB.

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?

We believe that the targets defined are objective. Nevertheless, it is preferable to consider the interdependencies between these targets: the speed target is potentially incompatible with the cost target because of the substantial level of investment that should be done.

Moreover, to date, some targets are difficult to measure because the data to construct the corresponding metrics are not available. We also need a more precise definition of certain metrics: what basis to define the cost of a transaction, when does precisely the timer start to define the speed of a transaction, etc.

Finally, we draw attention to the objectives related to accessibility. Depending on the country of the payer or the payee, situations can be very heterogeneous. If the scope of this assessment is global, efforts must be made both on the side of the issuing institutions and the ones that receive the transactions. We assume that the conditions for an acceptable accessibility can be reasonably achieved for countries that already have a high banking rate. The situation may be significantly different for other countries, that could have an impact on the defined 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 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?

Retail payments in their very broad definition in this document are not comparable with remittances. The latter are always small amounts and usually all the costs are to be borne by the payer.

In retail payments and especially the international commerce, charges options OUR, BEN and SHA exist. In business and corporate payments, such charges options are decided between the commercial partners. It should also be taken into account that for intra-EU transactions, even in currencies other than Euro (irrespective of “in” or “out” currencies), PSD2 (Directive EU 2015-2366) foresees SHA option.

Depending on the destination country and currency, retail payments may need the intervention of intermediaries, which means additional costs.

Corporate large value payments are more costly in terms of liquidity in the required currency, the financial consequences of errors are higher... Consequently, the cost is also higher.

Furthermore, the cost depends also on the level of service agreed between the bank and its customer. Then, setting a single and common cost target around 1% for transactions that are

significantly different is not suitable for a correct assessment of the cross-border payment market.

Reference transaction amounts would have no meaning as such because conditions depend on the type of clientele within the retail segment, on the level of activity of bank with the customer and on the level of service required.

We also believe that for each metric related to cost, it is important to know and validate exactly the amounts considered to measure the average cost targeted for retail transactions, i.e. the initial instructed amount for the payer and the received amount for the beneficiary.

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 instant transactions should be offered only when requested by customers and with the appropriate level of service. For a future cross-border payment landscape where instant transactions have their place, several obstacles must be addressed: liquidity management, capital control, 24-hour foreign exchange, instant fraud management, anti-money laundering and infrastructure security.

More precisely, the speed targets are not the same for all the segments mentions under 2:

- Wholesale payments are mainly to be processed very rapidly.
- Retail payments may be of diverse natures where high speed is not always the main target, i.e. some hours is a very well acceptable target, keeping in mind the currency conversion question, especially for seldom used ones, as well as the AML-FT checks to be performed.
- The begin and end limits of the timeframe must also be very clear. The timer should start at the moment where the payer's bank has all the information requested for executing the payment, could perform all necessary checks and is in a position to debit the account, i.e. at the moment where the bank can release the payment on the interbank system or network. The end limit should be the moment where the payee's bank received the payment from the system or network and checked that the account exists in its books and is accessible to payments.

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?

Achieving all 4 targets until end-2027 would already be a challenge because it means a number of evolutions in the payments ecosystem stakeholder's processes and the data handling, but also in the exchange or communication systems used. To provide the indicators needed for the requested metrics, we are convinced that financial institutions need additional information, which may require the development of new services, to meet the transparency requirements.

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 are in favour on the reuse of existing data. The burden of reporting should not be on banks only. Banks already have a number of reporting constraints towards their authorities and building and providing such reporting has not negligible build and run costs.

Furthermore, for monitoring the progress of speed for instance, there may be other sources than information provided by the banks (such as ordering parties, market infrastructures, networks and technology providers like Swift GPI, etc).

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 believe that the targets in terms of cost, speed and transparency must be better suited to the segments. Beforehand, the segments must correspond to the reality of the banking market. This will facilitate the collection of information that will allow these targets to be assessed.

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?

From a qualitative point of view, we believe that it is essential to improve the structuring of data in cross-border transactions. A good level of data quality has several advantages and may help to reach the defined targets: a significative raise of straight-through-processing (STP) and therefore an improvement of the speed of the transactions, a better efficiency of the screening processes requested for cross-border transactions, an easy and clear identification of customers and finally a better way to provide the metrics to assess progress in cross-border payments as expected by the FSB.