

FSB Consultative document

*"Targets for Addressing the Four
Challenges of Cross-Border
Payments"*

Comments from the
Italian Banking Association (ABI)

16 July 2021

Financial Stability Board Consultative document

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

Preface and consultation questions

The G20 has made enhancing cross-border payments a priority. Faster, cheaper, more transparent and more inclusive cross-border payment services, including remittances, which would have widespread benefits for citizens and economies worldwide, support economic growth, international trade, global development and financial inclusion. A roadmap was developed by the FSB, in coordination with the Committee on Payments and Market Infrastructures (CPMI) and other relevant international organisations and standard-setting bodies to address these challenges.

Financial innovation is creating opportunities to make payments more efficient. Innovation in technology and business models in payments has put the focus on further enhancements in payments systems. New technologies have the potential to facilitate fast, low cost, transparent and scalable payments for a broad range of users through the banking system. Public authorities have an important role to play, working with the private sector to leverage opportunities and address challenges in both existing and new arrangements supporting cross-border payments.

The G20 Leaders endorsed the Roadmap in the form of 19 Building Blocks and related Actions for Enhancing Cross-border Payments¹ at their November 2020 Summit.

A foundational step in the Roadmap consists of setting quantitative targets at the global level for addressing the challenges of cost, speed, transparency and access faced by cross-border payments, which will play an important role in defining the ambition of the work and creating accountability. They are intended to provide a common vision for the improvements that are being sought through the collaborative work of the private and public sectors. These targets are being set in an inclusive manner, including through this public consultation.

This consultation document (i) describes the principles, and key design features underpinning, the targets and target metrics; (ii) proposes three market segments for which targets be set across the four challenges; (iii) considers factors in setting the targets; and (iv) proposes a set of targets that are high-level, simple, small in number and focused on end-users.

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.

Comments from the Italian Banking Association (ABI)

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?

A: *We believe that the four challenges are correctly identified in the analysis as the main drivers for the achievement of the G20 Cross Border Payments targets, even if we should note that speed, cost and transparency are more relevant than access in high-income countries. Access in emerging markets and developing economies remains a significant target. Nevertheless, it is important that speed enhancement would not threaten security of payments referring to cyber-threats, fraud and AML/CFT risk. Therefore, we suggest considering "security" in this wide concept as the fifth challenge of the project. In addition, it should be noted that a sole focus on targets related to the experience of end-users may not be sufficient because the concrete situation for end-users depends on a variety of factors. From the bank perspective, it is costly to hold liquidity in separate currencies in multiple jurisdictions and this affects the end-users in terms of availability of payment services and related costs. The liquidity costs arising from such fragmented holdings contribute to banks not being active in multiple jurisdictions and thus limiting cross-border payments via correspondent banking. Central banks can have reciprocal arrangements whereby direct participants in large-value payment systems (LVPSs) in different jurisdictions can post cash in one LVPS and use it as collateral to generate central bank money liquidity in another LVPS. If central banks offered reciprocal liquidity bridges in multiple LVPSs, participants could hold their collateral in one jurisdiction and use it to generate liquidity in others.*

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?

A: *We consider the clients' segmentation adequate. It is important to include, in terms of payment services, commercial payments processed via Credit and Debit cards circuits in order to preserve the same playing field among different players within payment ecosystem. It is also important that cost and speed are calculated separately for different payment methods (bank payments, credit/debit card payments, fintech payments).*

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

A: *The target related to transparency seems generic and should be better declined taking into consideration that the channels used to provide such information to clients (paper, home banking, mobile apps) could have different impacts. It has to be noted that the concept of transparency has to be deeply linked to financial education, as this would improve end users' comprehension when information is made available. Reducing payments timing might bring higher fraud risks, in particular for 7/24 services. Security should be part of the metric.*

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?

A: *We agree with the proposal to separate remittance payments from other types of cross-border person-to-person (P2P) payments. Moreover, there should be a distinction between remittance to provide "physical cash" and credit on accounts.*

It is then necessary to distinguish between corridors and currencies when evaluating the overall cost.

Data sources for remittances and retail payments could be identified in SWIFT, major card circuits and major fintechs. All these data sources contain data on payer country, payee country, currency and amount.

If payment samples are extracted from these data sources, then local payment authorities may collect the required information on cost for payer and payee and on end-to-end delivery time.

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?

A: *Measure: Today payment infrastructures and market practice do not allow to measure correctly all the indicators (speed and costs first of all); it is necessary that the PMI evolution will progress to report more transparency in these aspects. Cross-border payments are executed via different channels, with different kind of settlement finality. It is difficult, if not impossible, to obtain comparable numbers of payments executed via credit/debit circuits, banks circuits, different market infrastructures, or interlink circuits.*

Speed, cost and transparency may be measured and compared only on quality-quantitative ways, based on subjective judgement. Adequacy of targets depends also on PMIs evolution as stated above.

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?

A: *In our opinion, a fixed reference amount may be considered not reliable in a six-years horizon.*

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?

A: *The achievement of the speed targets involves multiple subjects, infrastructures and processes along the critical payment path which must all be aligned on the target to be reached. Often infrastructures and processes are the same for the different segments. We agree to define a common speed requirement across the three market segments because the recognition of different types of user/segment speed target risks becoming an additional burden to payer/payee PSP.*

Time windows in market infrastructure normally are not 7/24; this is a key point to design effective cross-border payments in efficient and fast way.

Will be central bank accounts subject to balance movement 7/24? Bank treasuries could be strongly impacted by overnight movements.

As an additional remark, cross-border payments cannot be faster than domestic payments as they often use domestic payments as settlement of last mile. And domestic payments are mostly processed with a 1-day cycle also to ensure low processing costs. Therefore, speed targets and their calculation should reflect this aspect.

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?

A: *Such a complex overhaul of the global payments system requires a thorough internal analysis and of the whole system, in order to define a target date. Right now, the targets are a strong challenge for all parties involved. Taking comparable measures and their investment cycles into account, a longer time frame should be assessed. Too ambitious targets in a short period of time – e. g. 2027 with a global view is really ambitious – will not lead to solve or reach all the targets.*

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?

A: *The data sources previously indicated for cost measurement may be used also for speed measurement. Further analysis by payment authorities on specifically selected payments would anyway be necessary, as no data source (not even SWIFT that created a first attempt to track payments end-to-end) has exhaustive information on end-to-end payment delivery time.*

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?

A: *It is necessary to have a level of harmonization of regulations on payments transparency and AML/CFT in the most of involved countries. If any harmonized regulation is defined for banks, it has to apply also to fintechs and card circuits.*

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?

A: *As already mentioned, a strengthening of the security (and cybersecurity) system, shared by all stakeholders, can represent a qualitative target that would positively influence the entire payment process.*

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