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J.P. Morgan response to the FSB Consultative Document: Targets for Addressing the Four Challenges of Cross-Border Payments

J.P. Morgan (JPM / the "Firm") appreciates the opportunity to submit its comment to the Financial Stability Board (FSB) in response to the consultative document, "Targets for Addressing the Four Challenges of Cross-Border Payments" (the "Consultation").

JPM is fully supportive of the central bank-led global market initiative to enhance end-user cross-border payments. JPM averages daily global payment processing value in the region of $7 trillion and, as a result, has significant experience in the challenges of providing payments services to customers in multiple jurisdictions. From that perspective, we would like to highlight some key points of feedback around the challenges in cross-border payments and suggestions regarding areas that need to be addressed before providing our comments in response to the specific questions posed in the Consultation.

The Firm recognises the benefits of setting progressive and realistic targets that will encourage payment service providers to enhance cross border payment services in the best interest of end-users from the perspective of liquidity management, availability of funds and access to payment corridors within any national or regulatory limitations. The current cross-border payments market is extremely fragmented where there is no consistent frame for measurement across different customer segments and across different service provider types on an end-to-end basis. While the Consultation notes that the proposed targets have been developed with consideration of the current payment landscape and with a set of principles and design features in mind, in general it is not clear how those factors contributed to the proposed targets, the rationale behind setting levels, and how the targets were chosen versus alternatives based on an assessment of costs and benefits to Payment Service Providers (PSP), end-users and other stakeholders.

In order to set targets that will appropriately frame the ambition of global efforts best allow progress in enhancing end-user services for cross-border payments to be measured, JPM recommends the FSB consider the following areas where we believe more work is required to be undertaken, with the support of the different PSPs, on understanding how the provision of such services can be improved. This could include establishing stages in which the below could be addressed:

- **End-user expectations.** There should be a detailed clarification of end-user requirements and expectations around cross-border payments as they relate to the four challenges, with a particular focus on the real benefits of speed when processing payments that cross time zones. This should include a differentiation between the need for the funds to arrive at a specific time with the challenges of managing liquidity against the need for confirmation that a payment will be made within a specified timeframe after initiation.
    - Similarly, there should be greater clarity on payment type and evolving customer expectations in the retail space. For example, B2B and P2P payments have very different customer expectations and generally relate to very different values, with the larger payments having specific liquidity requirements.

- **Establish baselines.** Public and private sector across different segments should work together to establish a baseline for all the different payment types and customer expectations to set metrics that would bring clarity and act as an anchor against which revised targets can be set. A validated baseline on each payment corridor should be a pre-requisite before determining a set of realistic and achievable targets that do not lead to unintended consequences on access and cost.
- **Tailoring.** There should be identification of all stakeholders in the eco-system and the roles they play today, together with the impact that each participant has in the payment processing chain to establish where targets could be set against service enhancements that could be brought to the process. This includes differentiation on the reporting responsibilities and processing timeframes for the different parties in the payments chain. For example, instead of setting a target of one-hour availability of funds for the beneficiary from initiation, targets could be around availability of funds on an account within a specific time after start of next business day. This should cater for time zone differences and help provide a harmonised approach for monitoring and reporting by the beneficiary bank.
- **Clarify definitions.** There should be clarification on the meaning of terms, such as "initiation" taking account of the controls and compliance checks that need to be undertaken before a payment can be considered to have been initiated.
- **Leverage existing mechanisms.** The industry should be enabled to make use of existing capabilities for reporting that minimize investments. Whilst there should be a long term objective to establish a common approach to measuring against targets, incremental improvements for specific customer types or specific service provider types can be assessed using indicative measures such as reporting provided by individual firms as well as leveraging existing macro-level reporting such as international balance of payment reports to define specific customer segments according to existing statistical definitions. JPM recommends an assessment of the methods of monitoring that exist today for speed, cost, access, and transparency in order to set simple and cost-efficient targets that do not negatively impact the overall cost of processing cross border payments.
  - In particular, JPM suggests for account-to-account payments leveraging the existing SWIFT gpi infrastructure as the data source to support a standardised approach to monitoring targets. While there is a dependency on SWIFT participants to reach 100% compliance with reporting, it should be simpler to implement and not add significant investment to measuring progress against the targets.
- **Identify and accommodate dependencies.** The dependencies involved in enhancing cross-border payments are evident from the number of building blocks in the Roadmap that need to be completed. Prior to the determination of targets, JPM suggests documenting the dependencies around a globally consistent approach to domestic regulations, to scheme rules and harmonisation, on the development and adoption of standards, (based on similar historic exercises undertaken in the industry). The FSB should take into consideration and leverage all these aspects to establish a prospective and realistic timeline against which targets can be set for improvements.
  - As an example, the programme for the implementation of SEPA, allowing payments to be processed under a single regional legislation and harmonised conditions, commenced in the early 2000s. However, the first SEPA scheme for credit transfers (SCT) only went live in 2008 with the direct debit schemes following several years later. During that period significant efforts were undertaken to meet the legislative requirements through the establishment of the relevant governing bodies, adoption of standards and incorporation of national practices. It is worth noting that even in a single regional jurisdiction, efforts on national harmonisation continue, gold-plating remains in place and reviews on related legislation to improve practices are on-going.
- **Avoid unintended consequences.** The FSB should consider the impact of targets on other important characteristics of well-functioning cross-border payments systems, such as ensuring security, resiliency, and prevention of financial crimes. For example, fraud prevention needs to be a key consideration when attempting to accelerate the speed or lower the cost of cross-border payments. Introducing faster routes to complete payments combined with irrevocability may have the unintended consequence of opening-up the market to additional fraudulent activity (a sharp increase in APP scams is currently being experienced in the UK[1] and the US as volumes in instant payments ramp up domestically). JPM

[1] https://www.ukfinance.org.uk/press/press-releases/criminals-exploit-covid-19-pandemic-rise-scams-targeting-victims-online

recommends the targets relating to speed and cost, in particular, are balanced between real customer demand and the need to mitigate fraud.

Finally, JPM would like to emphasize that setting targets to address the four challenges (cost, speed, access and transparency) recognized by the FSB is addressing the symptoms at the surface. While this is a good place to start on how the industry could enhance cross border payments, the real focus should be on the cause of these symptoms, which is the lack of visibility of existing practices and lack of data quality.

- The higher cost of cross border payments can be attributed to the lack of visibility of regulatory requirements (e.g. exchange rate controls of different countries) and business practices at the beneficiary's location leading to longer processing time and the requirement to manage risk and allocating higher costs.
- The challenges in speed often are caused because the remitting client could not provide data required at the beneficiary location to its service provider leading to subsequent inquiries to allow the payment to be compliant to beneficiary location requirements.

Based on the above, JPM recommends de-emphasizing the Cost and Speed targets until proper segmentation of customer segments and service provider types are set. As a first step, the current Transparency target could be enhanced to include transparency of market practices, including regulatory practices as well as business practices each G20 market and significant corridors involving the G20 markets. In addition, proposed Speed targets should be redesigned to surface the cause of current data quality issues.

Please find responses to the specific Consultation questions below, which are informed by and build upon our overarching suggestions.

Question 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?

JPM believes that there should be differentiation in relation to payment types: non-urgent, same-day, urgent, where the need for instant is clarified and an understanding of what the requirement for immediate availability is.

JPM believes the introduction of an element of proportionality would also benefit the targets and enable a higher success rate.

	Key Design Feature	Comments on Key Design Features
1	**Direct and meaningful relationship to the four challenges to be addressed.** The proposed targets relate to each of the challenges: cost, speed, access and transparency and are designed to be meaningful across the diverse range of cross border payment types and uses.	While the Firm agrees that there are improvements possible in relation to cost, speed, access and transparency, it is important to ensure that the targets set for each one of the categories are not counter-productive and that they do not lead to unintended consequences, which disadvantage the end-user. For example, targets that set significant workloads on PSPs to collate and provide data for tracking progress against the targets that is not easily available nor naturally compiled may lead to significant investments, which could have a negative impact on costs and result in an anti-competitive environment, where other participants in the payments chain, such as payment initiators, do not have to meet the same reporting obligations. This could have the unfortunate consequence of moving more payments out of the regulated space.
2	**The overall number of targets should be small.** Setting only a small number of targets enables stakeholders to have a clear focus on achieving these targets.	JPM supports minimizing the overall number of targets with the goal of providing clarity to stakeholders working to achieve them. However, the pursuit of simplicity should not supersede the importance of appropriately segmenting the cross-border payments landscape, not only by market segment as described in section 2 of the Consultation, but by customer type, where 'retail' is too broad a segment including consumers and corporates, and by service provider type. The starting point and the suitability of a single target for each of these segments will vary due to a number of differing factors. Setting targets at the segment-level will ensure that they are more easily attainable with requiring multiple providers of cross border payments

		to expend significant physical and financial resources to meet the targets. Similarly, targets should be interoperable such that meeting targets relating to one of the four challenges does not exacerbate another of the challenges. For example, the provision of supplementary information for the purposes of transparency should not have a negative impact on PSPs ability to increase the speed of transactions.
3	**Targets should be simple.** The Roadmap is intended to remain flexible in how it addresses the four challenges. Targets that avoid excessive granularity support such flexibility in how the overall goals are achieved.	JPM agrees that targets should be simple; however, up-front clarity on expectations is favourable. Maintaining flexibility in the Roadmap should not equate to a progressive introduction of new targets in the future based on new reporting, requiring additional investments, as the programme to enhance cross border payments evolves. In addition, simple targets should not be misunderstood as generic and aggregated targets. As mentioned in the introduction, cross-border payments are extremely fragmented and there is no consistent measurement across different customer segments, particularly in the wide ranging 'retail' segment and between different service provider types. Overly aggregated and generic targets will generate reporting that crowds out the state of the most vulnerable segment in cross-border payments. Clear definitions should be given in case aggregated targets are provided, so that disaggregation of data becomes possible as the reporting is being analysed.
4	**Targets should focus on end-user experience.** Targets that focus on end-users are directly meaningful to the users of financial services.	JPM agrees with this focus, which requires a good understanding of real customer expectations and needs against the four challenges. For example, targets on speed should reflect customer needs on availability of funds in the cross-border world where time zones are different. There is no real end-user need to have a high percentage of cross-border payments meet a one-hour timeframe for a payment that will settle with the beneficiary bank outside normal waking hours in another part of the world. For example, a payment made from Europe late afternoon to a beneficiary in Asia will arrive in the early hours of the morning, where the need for immediate availability is unlikely and the additional cost of providing a service to achieve such a goal may not be to the advantage of the end users.
5	**Target dates should be set for achieving the goals.** Clear target dates are key for accountability.	Setting target dates is highly dependent on factors not directly related to the processing of a payment, such as agreement on a global regulatory and compliance framework. If there is no agreed global regulatory and compliance framework, target dates will neither be achievable nor enforceable and could penalise some PSPs that are obligated by local regulatory authorities to report more information than others based on the target dates. Targets and dates in the overall cross-border payment market should be set on a level playing field.
6	**Targets should be quantitative whenever possible**, in order to be able to objectively measure whether they have been achieved.	JPM agrees with setting quantitative targets, provided they are realistic and enable benefits to be realized from an end-user experience perspective. Data would have to be collated in a coherent way and reported on a global basis and analysed centrally. As such there is a real requirement for the data to be simple to collect, leverage existing sources of data and easy to send into a central entity based on clearly defined and harmonised standards and submission models.
7	**Targets will be set at the global level, and progress should be objectively measured at the global level (and, where appropriate, at regional levels).** For this purpose, a set of key performance	In addition to the Firm's comments on point 3, JPM recommends a progressive approach to the implementation of any targets built on existing reporting capabilities. KPIs should be kept simple and information should be comparable. With cost reduction being a key objective, no burdensome and expensive data collection development requirements should be imposed on the market participants.

	indicators would need to be developed, with appropriate public or private sector data sources identified that either already exist or, if necessary and if the costs are justified by the benefits, developed.	
8	**International targets for remittances set as a UN SDG have already been agreed to and endorsed by the G20 and should remain.**	JPM agrees with this design feature. The target is set for a particular customer segment that is vulnerable and possibly underserved. These vulnerable segments can be better served by tracking segment specific progress. Remittance as a service type is also a segment that has been reported into international balance of payment reporting (according to IMF definitions) where current reporting practices could be leveraged for ease of reporting and makes the case for specific segment-based reporting.

Q2. 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?

JPM believes that corporate payments and consumer payments should be differentiated, in particular, the retail segment could be further segmented and simplified to enable applicable targets. Targets set should reflect the specific payment type requirements, which vary considerably between B2B and P2P payments. As the consultation reflects the inclusion of B2B, P2B, B2P and P2P, work should be undertaken to assess the benefits of setting different targets that meet sub-segment expectations.

Q3. Do you have any comments on the target metrics proposed?

Access – There should be a consideration of proportionality in setting the metrics as a reflection of the different sizes and offerings of actors in the cross-border payment flow. With the proportionality should come a level playing field on reporting obligations.

This proposal would seem to be counter intuitive. Many financial institutions have no or very limited cross-border activity. The cost of establishing an option in each payment corridor would be prohibitive or require each institution to have a correspondent banking relationship with a provider that offers such a service. For example, a local or regional bank would have to set up correspondent banking arrangements with several correspondent banks to offer an option in each payment corridor. As each correspondent relationship comes with a cost, it might be forced to choose the few global banks capable of meeting this service level or withdraw from offering cross-border payments. The unintended consequence could be to drastically reduce the number of entities offering cross-border payments services and move payments outside the regulated system to less regulated providers.

Cost- As mentioned in the introduction, the Firm believes a baseline of current costs, particularly in relation to the different payment types in the retail section, should be established as an anchor for any future targets. The Firm is not in favour of the use of % pricing as a target / measure because it may encourage poor and unreasonable legacy practices that are disadvantaging small amount retail customers. Prices for cross-border payments should be on a fixed basis and a floor rate that covers the provider's cost.

Speed - As mentioned in the introduction, detailed clarification of end-user requirements and expectations around cross border payments with particular focus on speed requirements for payments crossing time zones should be established. This should include a differentiation between the need for the funds to arrive at a specific time with the ensuing liquidity requirements and the need for confirmation that a payment will be made after initiation within a certain timeframe.

Until such time as the requirement for different types of payment is established, it is difficult to determine any percentage obligations

Transparency – There are challenges around agreement on varying charging practices across markets, and therefore a dependency exists for each market to agree to and apply standard charging practices. An example of how this is currently being addressed can be found in the SWIFT GO initiative.

Any such solution is likely to incur significant costs and reflects comments on differentiation of payment types and relevant information requirements.

Q4. 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?

As noted in item 8 of Question 1, remittance payments should be separated. This is because it is a segment identified as being most vulnerable and therefore a priority. Data sources should be consistent with what could be reported into international balance of payments reporting today. There could be an effort required to align reporting service providers and customer segments across G20 markets first as well as aligning to IMF definitions in a consistent manner. Each G20 country's recent balance of payment reports should be studied to identify Top 3 remittance corridors per G20 market and follow up to focus the measurement to Top 10 corridors identified in the study.

Q5. Are the proposed numerical targets suitable? Are they objective and measurable, so that accountability can be ensured by monitoring progress against them over time?

JPM believes there is not enough information provided in the consultation for respondents to assess how the numerical values were determined and thus whether the targets are suitable, further work is required to establish the numerical targets. Further work is required on the proposed numerical targets in relation to customer segments, payment types and reporting obligations as per the comments above

Q6. 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?

JPM believes it is too early to establish the cost targets for the retail market segment. Further work is required on the proposed numerical targets in relation to customer segments, payment types and end-user requirements as per the comments above.

JPM also believes that there is a risk that vulnerable customer segment's pain points may not be surfaced appropriately without further granular segmentation of customer segments and service provider types. Especially, proportional targets such as 1% or 3% as in Table 1 of the consultation can lead to service providers with a large corporate customer base reporting low proportions whilst service providers with a consumer customer base could report higher proportions. Therefore, appropriate segmentation is further required to allow for accurate disaggregation once the reporting starts to flow.

The $200 for remittance payments should be followed through as a symbolic reference transaction amount that has its own consistency. However, reference transaction amounts should not be set because they would be different from each customer segment type and service provider type. The focus should be to allow each service provider to serve its targeted segment in the best way possible.

Q7. 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?

JPM believes it is too early to establish the speed targets for the retail market segment. Further work is required on the proposed processing time targets in relation to payment types and end-user requirements as per the comments above. End to end measuring frameworks should be established first whilst allowing for existing incremental improvements by specific service provider types (e.g. SWIFT gpi) to be tracked and monitored. As mentioned in the introductory paragraphs, the current low speed of payments has a cause—the lack of visibility into business practices across different markets—which in turn result in low quality data provided from the originating customer to its remitting service provider. Focus should be on enhancing transparency of the varying business practices across the different markets. In the short term, as there is no common measure today each service provider segment should put forward their measurement on speed and improve on it, this could include statements on what banks do today with SWIFT gpi and how enhanced visibility could help achieve speed targets.

Q8. 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?

Until there is more clarity on the overall cross-border payment framework and base cases are established per payment type, which would allow for realistic targets to be set, it is difficult to assess what dates should be set to meet the targets. With the focus on bringing down costs and the lack of readily available data, the Firm believes the targets are already too ambitious.

Q9. 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?

JPM recommends leveraging the existing SWIFT gpi infrastructure as the data source and the developments around SWIFT Go to support a standardized approach to monitoring targets for those institutions that participate and an equivalent measurement for those that do not to minimise adoption costs and ensure a standardised approach across the different participants in the industry. There is a need to segment the population in a granular way, one of which for wholesale payments SWIFT gpi covers well.

Q10. 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?

The focus today should be less on aggregating and averaging because the global markets lack a common measurement framework as baseline. The focus should be segmentation of customer segments and service provider types that will form the basis of a globally consistent measurement framework.

Q11. 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 governance framework with public–private sector participation should be put in place first so that varying practices across different customer segments and different service provider types can be shared at a single table. Such forums do not exist today but considerations should be made to leverage existing industry bodies and build capacity so those bodies could serve such purposes as a risk-free venue going forward. The ISO 20022 Registration Management Group (RMG) is one of such venues with a good potential given its broad participation base and inclusive nature.

Speed: Customer satisfaction rates in relation to different payment types

Access: Monitoring of unfulfilled customer expectations

Transparency: Monitoring of customer complaints in relation to different payment types in relation to the information that is provided

The Firm looks forward to further constructive interaction on this important topic as the FSB develops its final report on targets for endorsement by the G20 and is happy to discuss any of the above comments in more detail.

Yours sincerely,

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