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 organizations 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.

PMPG Response: Introduction

The Payments Market Practice Group (PMPG) is an independent body of payments subject matter experts from Asia Pacific, EMEA and North America. The mission of the PMPG is to:

- take stock of payments market practices across regions;
- discuss, explain, and document market practice issues, including possible commercial impact;
- recommend market practices, covering end-to-end transactions, both cross-border and domestic;
- propose best practice, business responsibilities and rules, message flows, consistent implementation of ISO messaging standards and exception definitions;
- ensure publication of recommended best practices;
- recommend payments market practices in response to changing compliance requirements.

The PMPG provides a truly global forum to drive better payments market practices, together with correct use of standards, to enable the industry to achieve full straight-through-processing and improved customer service.

Questions:

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?

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.

*Nevertheless, it is important that the **speed** enhancement would not threaten the security of payments referring to **cyber-threats, fraud** and AML/CFT. Therefore, we suggest considering "**security**" in this wide concept as the fifth challenge of the project.*

In addition, it might be pre-mature to focus on specific cost targets before fully agreeing in the industry how to distinguish remittances from other P2P payments. In a recent market guidance issued by the market guidance working group, remittance payments were defined as all P2P payments regardless of corridor. Agreeing on the clear definition and how to identify the payment types across different instruments will be critical to get clear measures of the actual cost. Cost might need to vary based on specific country risks, compliance costs and underlying local payment instruments.

In our view the concept of funds availability needs to be clearly defined. Are funds available when the recipient is notified or if the recipient can actually use the funds for any other local payment type? Receiving funds in a closed loop wallet but not being able to use these funds immediately to pay, for example, a tax obligation or rent might be otherwise misleading.

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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:** This client segmentation could be too difficult to measured and tracked. Therefore, metric should be measured at a higher level.*

It is important to include, in terms of payment systems, commercial payments processed via Credit and Debit cards circuits in order to preserve the same playing field among different players within the payment ecosystem.

The segmentation between wholesale, retail and remittances will need to be agreed with the industry. In some markets, B2B payments will be considered wholesale. Will an FX payment via CLS between a corporate treasury and a bank be view as wholesale or retail? An airline paying for 10 aircraft directly to the manufacturer or as monthly lease payments to a leasing company should be counted the same way. Maybe an easier model will be distinguishing between:

- *FI to FI payments*
- *Corporate to Corporate or Corporate to FI Payments*
- *Corporate/FI to Person Payments*
- *Person to Corporate/FI Payments*
- *Person to Person Payments*

To accommodate a value dimension, we should consider tracking payments that are below and above the median payment value for the segment (e.g. A $10MM FI to FI payment will be quicker than a $500MM one.)

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

__A:__ The target related to transparency seems generic and should be better defined taking into consideration that the channels used to provide such information to clients (paper, home banking, mobile apps) could have different impacts.

*Reducing payments timing might bring higher fraud risks, in particular for 24*7 immediate 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:__ As mentioned above, we believe the industry should take a holistic view of the infrastructure and the overall payment ecosystem (while keeping in mind the end-user) as it would be the best path to success instead of specific payment types and individual end users.

*An infrastructure wide approach (vs just a singular focus) will ensure a more inclusive and diverse cross border payments roadmap that will help achieve a 24*7, instant, certain and frictionless cross border experience.*

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.

Maybe:

- *account based;*
- *non-account based.*

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 payments market infrastructure (PMI) evolution will progress to report more transparency in these aspects. Cross-border payments are executed via different channels, with different kinds 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.

Access:

As the access target may be difficult to measure, further clarification is needed to understand exactly what this target intends to capture. It might be more appropriate to measure the overall financial inclusion and general availability of "enhanced" cross border payments across the payment ecosystem. Identification of areas where access and reachability are a problem would help resolve issues when and where they are created with the appropriate metrics. Further having clarity around accessibility and reachability by market may be a better approach than just by payment type.

In general, the best path forward in driving access should be enhancing and uplifting the existing infrastructure and the overall cross border payments ecosystem while driving for *broader digitization of payments across markets through instant payment schemes, e-Wallets and other new infrastructures.*

Transparency:

Our view is that the industry should be moving towards a framework where payments are 100% transparent and certain. This includes:

- ***Upfront transparency*** *on service level and cost, including fees and FX spreads;*
- *Instant or near instant settlement 24*7 with full certainty of beneficiary credit;*
- *Real-time transparency on payment status throughout the transaction lifecycle.*

Targets around transparency should ensure that issues with payments are identified upfront and before the payment is initiated. This will not only improve the level of STP across the payments chain but also add that layer of visibility and transparency in the pre-payment stages. In addition, tracking and tracing payments will help provide further visibility to improve the overall cross border experience for the end user.

Adequacy of targets depends also on PMIs evolution as stated above.

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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 cost targets in terms of absolute value may be considered not reliable in a six-years horizon. Maybe the median value can be used after appropriate classifications have been agreed and data collected.*

As it may be premature to determine and measure a specific cost target or percentage cost targets for the entire cross border payments ecosystem, where possible, we should strive to achieve full pre-payment fee transparency and initiatives to drive down associated costs with payments/increasing STP. These efforts should naturally result in a lower price point for end users. The industry should promote pricing mechanisms and models that offer the most transparency for senders and beneficiaries—make it seamless for senders and beneficiaries to see the end to end transaction cost

If a cost target was implemented, more analysis needs to be done to determine what the appropriate cost thresholds should be and how fees/deductions are monitored and tracked centrally. Today, cross border payment costs vary widely across regions and markets and cannot be measured in absolute terms. This variation in cost is due to both competitive market conditions and also associated costs to pay into a market due to varying infrastructure capabilities and regulatory requirements i.e. does the market require manual processing for cross border payments? Are there exchange rate controls? The presence of these friction points will result in a higher cost for payments into the market and needs to be addressed as the true driver of high price points.

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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 24*7; this is a key point to design effective cross-border payments in efficient and fast way.*

*From a timing perspective, we can imagine that by 2027 the payment industry will offer much faster services. Especially because the major high value payment systems (HVPS) infrastructures are exploring a 24*7 operating model and SWIFT is aiming to create a more "instant" cross border payment model with their Platform technology. Since these are new and for the most not yet existing functionalities, it is very difficult to define today a realistic target to be reached by 2027.*

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

We may need to define certain reference cases and values that we want to measure and state specific assumptions like transaction or countries not-subject to sectorial sanctions, accounts pre-validated etc.

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.

Targets dates should consider other developments and any overlap in initiatives. As for the proposed achievable target dates, end of 2025 would be a good place to start given that initiatives such as ISO20022 migration will end. If these changes can be built into the fullest extent to correspond to the changes, banks will need to make, end 2025 could be set as an early target date with further changes until end 2027 where achievable and beyond where changes could take longer. Importantly, target dates should give sufficient time for adoption and be communicated across the community.

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: SWIFT gpi created the first attempt to track payment costs end-to-end. In general, there is no one source to collect costs information. Once we have a full adoption of the TMP we should be able to capture the required data much better.

To monitor progress, we believe the industry should look towards common data sources that exist today to track and monitor targets over time. Collaborative efforts with network-wide providers such as SWIFT using SWIFT gpi to develop and publish metrics and with Market Infrastructures to support tracking and adherence within their own markets could be a powerful *combination. In addition to monitoring progress against targets, the focus should also be on end results and the type of solutions these targets lead to.*

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.*

Additionally, adoption of common data formats and consistent implementation of these market practices across jurisdictions will help reduce friction points in the cross- border payments space and help measure targets progress better.

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.*

In order to achieve all of the above targets, standardization will be key to success. A commitment to a common, global and open technical standard, based on the ISO 20022 business model, is required by the payment industry globally (PSPs and PMIs). This will enable cross-border payments to reach maximum potential, agnostic to the communication method (InterAct or API) or clearing systems (HVP, LVP or Instant/Faster/real-time RT), and also facilitate technical interoperability between the schemes.

It would be good to discuss more the availability of trusted digital identities and payment directories for pre-validation of transactions.

*Additionally, targets on 24*7 operation and data quality would also be useful.*