James J. Angel, Ph.D., CFP®, CFA
Associate Professor of Finance
Georgetown University[1]
McDonough School of Business
Washington DC 20057
angelj@georgetown.edu
+1 (202) 687-3765
Twitter: @GuFinProf

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Re: Targets for Addressing the Four Challenges of Cross-Border Payments Consultative document

Financial Stability Board
VIA: fsb@fsb.org

Dear FSB:

I am thrilled that the Financial Stability Board (FSB) understands the importance of payments and the strong need to increase the speed and reduce the cost of cross-border payments. The high transactions costs of cross-border payments are a tax on everyone. The archaic systems and the slow speeds of cross-border payments create systemic risks. The high costs of remittances are a shameful tax on the poor. I served on the United States Federal Reserve Board's Faster Payments Task Force and am quite familiar with the complexities involved in modernizing payment systems. It is no simple task to modernize a payment system within a country, let alone cross-border.

I am not as thrilled, however, at the quantitative targets. To put it bluntly, they display a backwards mentality and a lack of vision. In particular, the target of 75% of payments to provide funds availability within one ***hour*** is pathetic. There is no reason that automated systems cannot provide straight-through

[1] All opinions are strictly my own and do not necessarily represent those of Georgetown University or anyone else.

processing within seconds. The main holdup is that payment systems in many countries, and their central banks, still operate with a 19th century bankers' hours' mentality. When the central bank systems shut down for nights and weekends, payments come to a halt. Payment systems need to run 24/7/365 to support the global economy. The FSB should put pressure on central banks to operate their payment and settlement infrastructures around the clock. That is probably the most important thing that the FSB can do to improve cross-border payments.

<u>The speed target should be 95% within 10 seconds.</u> The only reason not to make this 99.99% is that payments that raise red flags for fraud or money laundering should receive human attention. Regular bulk payments such as payroll or loan payments that are processed in batches such as ACH payments should not be counted against this target, or else counted against the scheduled delivery time. It should be noted that the card networks already provide instant 24/7 cross-border payments for those who have access to the card networks and willing to pay their fees.

Cost is another area where the targets lack vision. A payment is basically just a message to financial institutions to move some electrons from the payer's account to the receiver's account. In the modern world, we can send messages instantly around the world 24/7/365 at almost zero cost. In the past, international telephone calls were extremely expensive. Services such as Skype and WhatsApp have brought the cost of international voice communication to zero. As the cost of global communication has fallen to a mere fraction of what it once was, there is no reason the cost of international payments should not also fall to negligible levels. Benchmarking on the costs of the past (e.g. $5/minute international calls) is not necessarily a good way to figure out what the costs of the future should or will be. Indeed, just as the big tech firms have figured out how to monetize the metadata in calls so that they can provide the calls for free, they may well offer international payments for free in exchange for the data. ~~Libra~~ Diem, anyone?

In principal, the cost of a cross-border payment should be no more than the sum of the domestic payment costs in the sending and receiving countries plus the cost of the currency conversion and AML/KYC. As countries modernize their domestic payment systems to increase speed and reduce costs, these improvements should also improve international payments as well.

Note that the ECB's TIPS system charges €0.002 (0.2 eurocents) for each payment in their real-time cross-border TIPS system.[2] If we assume that a cross-border system would involve the costs of such a system in both the sending and receiving countries plus the cost of a similar system connecting countries, that would be 0.6 eurocents. Double that to cover the added AML/KYC, and we get 1.2 eurocents. If the transaction size were €100 euro, the cost would be 0.012%.

<u>This implies that a reasonable cost target is not 1%, but 0.1%.</u>

[2] https://www.ecb.europa.eu/paym/target/target2/profuse/fees/shared/pdf/TIPS_2020_pricing_review.pdf

There is no reason the remittance targets should be limited to the similarly unambitious SDGs. Remittances are indeed hindered by the relatively underdeveloped financial systems in the receiving countries. However, as China has shown with its rapid digitalization, it is possible for underdeveloped countries to leapfrog developed countries and move quickly into a modern payment system. <u>I recommend a target of 1% for remittances.</u>

Respectfully submitted,

James J. Angel, Ph.D., CFP®, CFA
Georgetown University