# UK Finance response to FSB Targets for Addressing the Four Challenges of Cross-Border Payments

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UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

The G20 Roadmap for enhancing cross-border payments rightly commits the G20 to an international vision backed by public/private collaboration in cross-border payments. Industry welcomes the opportunity to work with the FSB, G20 and wider global community to ensure that a strategic global vision is reinforced by commonly agreed, clear targets focusing on the cost, speed and transparency of global cross-border payments.

The ambition of addressing the challenges of cost, speed, transparency, and access, faced by cross-border payments by setting quantitative targets is undeniably a positive step towards improved cross-border payments services. However, the scope of the work required to meet the proposed targets is substantial and will require significant and potentially high-risk change to be implemented across the payments industry. Setting targets at a global level makes it difficult for individual financial institutions to meet their obligations under such targets. That is unless there is a major change to, and investment in, domestic central bank infrastructure and payment systems to ensure inter-operability. This also needs to be coupled with the implementation of supporting regulation and regulatory guidance in line with globally agreed, mandated and enforced standards.

There are a number of exciting developments both domestically and internationally that highlight how cross-border payments can revolutionise payments for end users. For example, in the UK the Bank of England is renewing its Real Time Gross Settlement (RTGS) Service in order to deliver a range of new features and capabilities for payments and settlements between financial institutions. The UK's New Payments Architecture (NPA) for retail payments is also being developed to enable access to a single clearing and settlement mechanism, using ISO 20022 messaging to enable more participants to utilise the UK payments infrastructure and continue to be interoperable with payment services across the globe.

Developments at the European level have also significantly improved the ease and speed of making cross-border payments. The Single Euro Payments Area (SEPA) schemes have been particularly successful, in particular the way they have built in quick and clear service-level agreements (SLA) which take into account maximum execution times and a common playbook of expectations. Europe's Target Instant Payment Settlement (TIPS) has also been a success as it has enabled PSPs to offer fund transfers to their customers in real time and around the clock, 365 days a year.

These initiatives will contribute towards resolving some of the four challenges identified by the FSB, however many of these initiatives are still in development and all require sizeable changes, using new technologies which carries a significant degree of delivery and operational risk. In addition, bank and PSP infrastructure and processes are likely to require continual upgrades and enhancements to deal with emerging fraud and financial crime risks. Therefore, any agreement on additional developments required to meet the proposed cross-border targets will need to be considered against competing initiatives.

There are also inconsistencies across jurisdictions and potential challenges with appetite globally for targets to enhance cross-border payments. The output of Building Block 4, 'aligning regulatory, supervisory and oversight frameworks for cross-border payments', will be absolutely critical to the timely success of the initiative, including international standard setting in the interbank space. Clearer and more consistent guidance, as well as more specific rules for processing cross-border payments across geographies, would help to remove inconsistencies across jurisdictions.

Furthermore, it is important to remember that the G20 membership does not represent all the key advanced and emerging world payments corridors. Some G20 emerging markets operate non-standard payments platforms, such as Mexico and some G20 emerging markets operate capital and/or foreign exchange controls in some form: Argentina, Brazil, China, Mexico, South Africa, Russia. These national impediments often represent informed policy trade-offs and for a number of emerging markets, capital controls are important for political reasons, (Brazil), to manage the implications of economic sanctions (Russia), to manage cross-border financial stability and macroeconomic risks (Brazil, China, South Africa), or to respond to economic crises (Argentina, Turkey).

Additionally, for the quantitative targets to be realistically achievable, national barriers to harmonisation must be systematically addressed. While progress under the building blocks by all G20 jurisdictions is clearly a necessary pre-requisite to the achievement of the quantitative targets, the building blocks may not prove sufficient. For example, the use cases for foreign exchange and capital account controls may require addition policy tools and jurisdictions unable to prioritise investment spending may need additional support.  There could also be an important role for the IMF, WBG, and multilateral development banks that should be explored in order to successfully help emerging markets find appropriate resources, and alternative policy tools, to meet these payments objectives.

Global coordination in relation to target setting will require a large degree of international cooperation and effort, not just at the G20 level but across national central banks and regional payment schemes. It is questionable whether the G20 countries themselves will be able to deliver on such an ambitious project and it should be reflected that many of the payment corridors in need of greater support to reach the proposed targets are outside of the G20. We therefore believe that it is vital that global buy-in is achieved.

Furthermore, the level of fragmentation the G20 tolerates will arguably directly determine whether the quantitative targets are met. The G20 routinely sets global minimum expectations and it is rare for the G20 to set both global minimums and global maximums at the same time, and still maintain consensus. Local specifics are important here as local consumer preferences and cultural norms may materially impact the utility of the targets (e.g. communities that operate in cash will need a cash out option as part of the payments supply chain, which may not be feasible in other communities). This means that for targets to be credible, they need to be flexible enough to account for these sorts of variations, and the FSB, as it updates on progress against the targets, must constantly reassess whether the targets are achievable, realistic and work for specific jurisdictions. This means that peer reviews and other assessments will be necessary to ensure the FSB and CPMI properly understand the variations among G20 markets.  This could be fraught, as it will involve judgements being passed regarding national policy trade-offs (such as on cost/investment or capital control needs).

We also believe that FSB should explore if and how an incentive regime could work to help achieve set targets. Whilst we do not support strict enforcement measures being taken, incentives could play a role here to encourage improved speed, cost, and transparency of cross-border payments.

If you have any questions relating to this response, please contact:
Megan.Otway@ukfinance.org.uk

### 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?

The four challenges identified by the FSB: speed; cost; access; transparency are crucial to ensuring the effectiveness of international cross-border payments and it is right that targets relating to each of these challenges are made to be meaningful across the diverse range of cross-border payment types and uses.

UK Finance broadly supports the FSB's preference for having a small number of simple and concise targets. As the FSB note, unnecessary granularity in terms of how targets are applied will add needless burdens on payment providers across the market segments. However, any design features or targets must be viewed in the context of the degree of maturity and success already seen in different payment corridors across the world. For example, certain payment corridors are already meeting some of the proposed targets, whilst other payment corridors fall far short of meeting them. Ensuring that overall metrics are made specific to certain corridors would avoid putting undue pressure on corridors that have further to go in meeting proposed targets whilst ensuring more ambitious targets for those already leading the way.

Furthermore, we believe that the determination of the quantitative value of each target must be conditional on the scope of the work required to achieve the target being identified and agreed, and feasibility studies and impact assessments must be performed to validate the achievability of the targets. Progress against the targets must be tracked continually and at a level which identifies areas of infrastructure and industry which are not on track to meet the targets. A clear approach then in terms of next steps would also be extremely helpful in order to understand why each target has been agreed, what is needed to meet these, and how performance will be assessed. This could therefore mean a stronger link between the proposed targets and the 19 building blocks is necessary to understand what actions will be prioritised to meet said targets

We agree with the FSB that targets should be designed with the end user in mind. We are seeing higher demand from consumers for cross-border payments with a focus on speed, cost and efficiency which is not necessarily resonating currently with the overall user experience. For an end user, the payment journey is not always known, and the technicalities do not always matter. What is key is that they can make and receive payments across multiple jurisdictions in a cost-effective and timely manner. However, this assumes that all end users want rapid payment transactions for a particular cost. Consideration needs to be given to situations where this may not always be desirable or meet end user preferences. For example, for regular transactions such as a business paying salaries, or an individual making a bill payment, end users often prefer lower cost, but slower payments. There may therefore be merit in the FSB exploring the possibility of developing a developing a qualitative target in relation to the tracking of consumer behaviour and preferences.

Whilst focusing on the end-user experience is crucial, it should be acknowledged that a significant proportion of technical and operational effort is focused on behind the scenes processing such as anti-fraud AML and sanctions measures, of which the customer will be unaware. A better understanding therefore of the cost landscape for cross-border payments is necessary, acknowledging that cost drivers are not just operational or technical, but also come from a legal and regulatory compliance to AML, sanctions, security, privacy, resilience and risk management rules and regulations. Where a target (for example, cost or speed) may be unachievable or less achievable as a result of controls or processes designed to combat fraud or financial crime, for example those already set out within PSD2 and the SEPA rulebook, this should be explicitly recognised when setting the target.

Consideration should also be given as to how to maintain competition with a marketplace to prevent the general trend of all payments across all PSPs moving to the same cost and speed. The effect of targets set at individual transaction or FI level would also be to shift the responsibility for meeting the targets wholly onto industry, when in fact many of the main cost and speed drivers may arise from regulatory or infrastructure issues. In order to provide the best outcome for customers, the application, and the assessment methodology of the targets must enable customer flexibility of choice and mechanisms to maintain a competitive environment.

We support targets being set at a global level; however, we do think that the FSB should also explore a more targeted approach here and examine how local payment corridor targets could make overall targets more achievable and relevant. Whilst we may be able to point towards SEPA as an example of a successful regional payment scheme, there are also local and regional developments that highlight the disjointed nature of schemes across multiple jurisdictions which needs to be addressed. For example, schemes are generally not aligned to the EU's Wire Transfer Requirements (EU847/2015) which places the onus on the PSP of the Payer and has a carve out for schemes for technical limitations of the payment schemes. Furthermore, some schemes explicitly prohibit outbound cross-border payment messages but are vaguer on inbound POO/cross-border payments, such as BACS and FPS in the UK. There is therefore a need for both PSPs and the payment schemes to ensure data carriage capacity and structure. This will be addressed in part through the migration to ISO 20022, but there is an inconsistent adoption of the new messaging standard across jurisdictions. Payment schemes should then look to present greater clarity on their expectations and regulators should similarly look to place expectations on payment schemes to enable better payment message compliance.

**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?**

UK Finance is broadly supportive of the three market segments described by the FSB. By making a distinction between wholesale payments, retail payments and remittances, the FSB is acknowledging the crucial differences between PSPs. However, there are still nuances in relation to different operating models, market share and volumes of payments within and across these market segments that should continue to be addressed. For example, given the different customer requirements within the retail segment (which ranges from large corporates to individual retail users) it is likely that a further breakdown of the segments will be required to understand if and how the targets are being met. The same is true for card journeys versus non card credit transfer options which are not differentiated within the proposed market segments. Card schemes are already operating internationally and are more advanced in their work around international cross-border payments, with costing and settlement working in a different way to non-card payments. We therefore believe that targets should consider the preferred user journey of each entity and remain flexible enough to encompass future payments innovation.

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

We are broadly supportive of the target metrics proposed by the FSB. Setting roughly one target for each of the challenges across the three market segments removes overly burdensome granularity. Industry preference is for a smaller number of effective targets that drive the cross-border agenda forward, over a larger number of less effective targets that detract from or stifle the important market developments already helping progress the development of international cross-border payments. Allowing flexibility for the market to react and grow to the changing international payments landscape is key.

The use of the ISO 20022 standard allows the transport of consistent, structured, and accurate information about payers, payees, and invoice data. The widespread global use of this standard can facilitate technical interoperability between the various payment arrangements and will allow PSPs to improve their international payment services on speed, transaction tracking, payment finality and costs, for the benefit of their customers.

In the UK, the Bank of England has committed to adopting in 2022 the harmonised ISO 20022 messaging format in recognition of the benefits of greater interoperability. Adopting common message formats can play an important role in the interlinking of payment systems and addressing data quality and quantity restrictions in cross-border payments. It can also enhance automated straight through processing functionalities, supporting quicker and more efficient payments. ISO 20022 was launched as a single standardisation approach to capture and exchange message flows between financial institutions. The richness of the standard, whilst well intended, has because of firm driven requirements resulted in a fragmented implementation that threatens to undermine the benefits of a harmonised standard supporting cross-border payments. The main challenges in agreeing on uniform messaging fields and data content for messages to be passed between entities in a global environment arise from the nuances of local compliance requirements and firm level practices resulting in variations in the standard; both of these mean that firms need to invest in manual and technical resolution processes. Without further standardisation and harmonisation this fragmentation will continue to undermine efficiency in cross-border payments that result in delays and cost. In light of this, we would also question the feasibility of the 2027 timeframe, which we believe is rather ambitious in the context of the work currently being undertaken at the global level to move cross-border payments to the ISO 20022 standard.

Additionally, Pay.UK is developing a New Payments Architecture (NPA) for retail payments in the UK. The NPA is being built around a single clearing and settlement core that incorporates ISO 20022 messaging standards fields as defined by the industry. Utilising ISO 20022, together with clearly defined rules and service level agreements will enable a step change for the UK payments industry, enabling many more to utilise it and ensure that it remains interoperable with payment services across the globe.

There is a Cross-Border Payments and Reporting Plus (CBPR+) project and working group organised by SWIFT that looks at this. The working group, formed of international payments experts, will formulate global market practice, usage guidelines and translation rules for the adoption of ISO 20022 and the FSB should work closely with SWIFT to understand this.

That being said, there are still many jurisdictions where domestic schemes do not support ISO 20022, or where there are no solid plans to move to the new standard. There are also a number of jurisdictions where the ability to accept payments originated overseas (POO) does not exist, so for these payments the domestic leg of a cross-border payment requires the use of an RTGS payment which often has limited hours and is costly compared to the local low-cost, faster domestic scheme. Outside of SWIFT and traditional correspondent banking cross-border routes, only five of the immediate payment schemes globally accept a POO. We therefore believe that the FSB must find solutions that enable domestic payment schemes to facilitate cross-border traffic.

There are other initiatives currently under way which will help to resolve some of the four challenges highlighted by the FSB. For example, the Bank of England is renewing its RTGS service; providing a new API layer that can support automated data transfer between systems, which facilitates greater integration and interoperability between payment systems and potentially reduces long transaction chains associated with the correspondent banking model, and it is looking to introduce Legal Entity Identifiers (LEIs) for payments between financial institutions. LEIs offer a number of significant benefits to the financial sector and broader economy, such as making payments more efficient, supporting data portability, and bolstering anti-money laundering efforts. LEIs help businesses, financial institutions, and policymakers to link data sets more easily, improve analysis and support better risk assessment. The Bank is also developing near 24/7 technological capability which will have the flexibility to be upgraded to full 24/7 operating hours in line with industry demand. This will help to tackle the mismatch of operating hours and increase the overlap of operating schedules to make payments quicker and cheaper, providing a useful example of what can be achieved.

Many other countries are undergoing similar transformations, including the U.S. with FedNow and Australia's New Payments Platform. We should therefore be looking at where and how we can align targets with global developments but must do this in a way that acknowledges that all such developments are sizeable changes that utilise new technologies. This carries a significant degree of delivery and operational risk. In addition, bank and PSP infrastructure and processes are likely to require continual upgrades and enhancements to manage potential emerging fraud and financial crime risks. Agreeing additional developments required to meet the proposed cross-border targets will need to be considered against competing initiatives.

In addition, the widespread use of SWIFT gpi across the world has demonstrated that a very large percentage of payments are settled to accounts within the hour and in many cases are settled in minutes. Furthermore, increased transparency here has helped to drive down fees and deductions and this trend looks likely to continue. The seed challenges do remain in more challenging markets or are present because of complicated compliance reviews and slow sanction scanning. To achieve the goals listed by the FSB, more work must be undertaken to improve these elements, as well as establish quicker and cheaper routes through which the payments are executed and settled.

<u>Cost target</u>

Safely run and resilient cross-border payments will always have a minimum cost to service customers in the retail space. The infrastructure required to be able to serve the needs of retail customers in cross-border payments and deliver good customer outcomes, speed, access, resilience and compliance, means there is a minimum cost that has to be transferred to customers.

In order to achieve the proposed targets and deliver a system that is fit for purpose, the extent of changes will require significant investment for global financial institutions and the FSB's cost target does not account for the cost of the implementation of their proposals. In order to provide the best outcome for customers and potentially prevent retrenchment from particular payment corridors or payment types, the application and the assessment methodology of the targets must enable the scope of all of the minimum costs of a payment, including potential increased risk management costs, to be transferred to the customer without a price capping. The FSB must also be conscious that any limitation on cost recovery or the ability to earn a positive margin may have unintended consequences. For example, financial institutions may seek to recover costs elsewhere, or there may be further rationalisation of service providers which could have knock on effects to the FSB's access objectives.

Cross-border retail payments and remittance payments are processed as "single" transactions and a number of compliance checks have to be performed throughout the payment chain. This means that costs per transaction are potentially higher than related costs for a mass payment in a domestic infrastructure. The investments in the new SWIFT payment architecture 'gpi' are expensive and are part of the individual costs per transaction charged by PSPs to customers besides maintenance and processing costs.

STP and Non-STP payments, including reachability issues of certain PSPs, may cause substantially different costs. To avoid fostering very small payment amount transactions, a minimum fee amount and/ or a minimum transaction amount could be agreed between a PSP and their customers. In this context, it should be considered that cross-border retail payments have only a considerably low market share of all payments executed (such as between 1 % and 2 %).

We also believe that further work is required to define what the headline rate means in practice for participants in the system and how it is defined given the variety of ways it could be calculated and the different FX rates that could be used. The FSB should also explain how this would sit in relation to forward contracts versus spot rates.

We are supportive of the FSB's decision to avoid attributing a cost target to wholesale payments. As noted, it is difficult to estimate costs in this space. However, it is worth highlighting a shift we are observing with payments moving from wholesale payment systems into retail payment systems. As the values of limits of payments increase, the likelihood of payments shifting from wholesale into retail payment systems increases putting more pressure on liquidity, which in turn increases costs.

Speed target

The FSB has rightly identified speed as a key target for cross-border payments. The target for the majority of end users to receive funds within one hour of payment initiation is ambitious. However, there are global developments currently taking shape that will help payment providers across all market segments work towards this target.

At the European level there have been significant improvements in the ease and speed of making cross-border payments, especially with the SEPA Credit Transfer (SCT) and SEPA Credit Transfer Instant (SCT Inst.) schemes.

SWIFT gpi could also be more heavily utilised as currently more than one third of payments arrive within 30 minutes and almost all of them arrive within 24 hours. Based on the current experience with gpi an intraday payment is largely feasible, however blockers arise when there are reachability issues with the Beneficiary PSP, sanctions screening complexities and/or availability of the instructed currency which may influence the execution time. Additionally, maximum execution times could be agreed for STP payments in main currencies.

It is important to note that the importance of speed of settlement to participants in a cross-border transaction differs across use-case and payment type. For example, in the case of a P2P remittance, the speed of the transfer between accounts – and critically the speed of accessibility of funds – may be very important to both the sender and the receiver. By contrast, in the case of cross-border payments between an individual and a merchant – whether conducted in-person by a tourist or remotely as part of an ecommerce transaction – the speed of settlement is much less relevant. A range of solutions, such as global card schemes provide authorisation systems, allowing trust to be established between the transactional counterparties in real-time, with settlement occurring shortly thereafter (typically two business days later). A focus on delivering faster settlement in these person-to-merchant transactions would be extremely costly and would deliver no incremental benefit to the consumer and very little incremental benefit for the merchant. Given that a significant portion of the cost of faster settlement would ultimately need to be borne by the consumer and merchant, it is not clear that the investment would have a net benefit.

There is also a point to be made around the accuracy of some of the terminology when we talk about the speed of a payment. As we move towards a truly international cross-border payments landscape, business days will arguably become obsolete. The complexities of different time zones need to be well understood and targets should move away from this type of terminology.

Furthermore, increasing the speed of payments also increases the potential for additional risks that will need to be managed. The FSB should consider that if wholesale and retail payments are to execute payments within the same timeframe, the liquidity costs are likely to increase as the faster the payment is, the harder it is for liquidity manager to manage liquidity.

There are also important emerging market issues that must be understood. The targets imply fundamental overall transformation of national payments systems to bring them up to the new standards. This suggests a significant cost to some emerging markets and risks creating a ‘two tiered’ cross-border payments system. Whilst the 75% target provides a degree of flexibility, the scale and scope of emerging market challenges may not have been fully considered in the development of the targets. It is unclear whether the 75% applies globally, nationally, or on some other basis, and therefore, how the flexibility it affords might be ‘allocated’.

Finally, any proposed targets should understand the importance regarding financial stability. We believe that currently there is a potential for proposals to create an end-state where unfettered and unlimited cross-border capital flows could occur within a very short timeframe (a few hours). This is a desirable outcome when the global economy is stable and healthy, however it is less attractive when we are facing economic downturn. Capital flows should therefore be factored into any methodology in relation to cross-border targets.

Access

We believe that further clarification is needed to understand what access targets truly mean in practice. The consultation document notes a requirement that all retail ‘end-users (individuals, businesses (including MSMEs) or banks) have at least one option (in terms of infrastructure and providers) for sending or receiving cross border payments’. Confirmation is required if this target is set at a market level or individual PSP level. If the target is set at an individual PSP level, requiring all PSPs to provide access to cross-border transactions in all currencies would be dictating the strategy of PSPs and potentially see the likes of domestic PSPs retrench from the market.

It is also not explicitly clear whether banks would be required to support all currencies for customers, which should arguably be an individual banks commercial decision as to whether or not to support a currency or country corridor. Additionally, in a fully diversified marketplace, some FIs may not need to offer cross-border payments, therefore a more suitable metric would be for all consumers have access to at least one means of sending a cross-border payment.

When discussing access, we must also acknowledge the importance of reachability and the issues that are created where this is not designed into new approaches. We are seeing this with initiatives such as the European Payment Council's (EPC) One-Leg Out transaction arrangement which is currently based on optionality.

Transparency

Finding ways to enhance and standardise the payment message content and enabling the tracking and tracing of payments through the pipeline can help improve cross-border payments for end users by improving the visibility of consumers payments as they progress through to the beneficiary. It is noticeable that internationally common SLA's, timelines for settlement and maximum processing times do not exist. This hinders customers' ability to know with certainty when their payment will arrive in the destination account. Similar issues arise around intermediary charges, as it is not always known what charging structures correspondent banks use. This lack of transparency increases the risks of complaints as it is not always possible for banks to be upfront around costs. In addition, as there may be a number of participants in the payment journey, it is unlikely to be practical for banks to provide certainty for the end users for information outside of their control, covering the whole of the end to end payment journey.

We must be cognisant that end-user transparency information needs differ and so having a single transparency target, that remains the same across all segments and all end users, outlining a minimum defined list of information to be provided to payers and payees is not useful. Additionally, PSD2 already has certain requirements around mandatory information and any new guidance must be consistent with those requirements. FX payment transparency information needs vary greatly between segments and even within the retail segment itself. For example, an individual withdrawing cash for a holiday is likely to benefit from visibility of the FX rate and the currency conversion charges for an individual transaction, but these values will need to be displayed in a meaningful and consistent way. However, large corporates making frequent large FX payments, or an FI using another FI for FX, are unlikely to find it useful to have information on currency conversion charges for an individual payment, but would instead greater use in understanding different FX rates, such as the mid-market rate, which would potentially cause confusion for individuals. Furthermore, providing a list of FX transparency information options for the end user to select from is also likely to have a similar detrimental impact. Provision of such may also increase the cost of FX. Therefore, we believe that when the list of information concerning cross-border payments to payer and payees is defined, the needs of different end-users should be considered to allow flexibility in the provision of the most meaningful information to customers, at a low cost.

Additionally, the transparency target should be better defined to take into consideration how channels are used to provide information to clients, for example paper, home banking, mobile apps, and the different impacts this could have.

Evolving payment models requires both regulators and payment schemes to be clear on the expectation of providing minimum data fields and character requirements to enable PSPs to identify the roles the PSPs play in a payment message and that the correct Payee and Payer data is captured to support payment message transparency for financial crime prevention. This is especially true if domestic payment schemes are being used to facilitate cross border payments, a purpose they were never intended to perform.

Furthermore, it would be interesting to understand if there are plans to include further transparency over the fate of a payment. The FSB has noted that end users should be provided with information on the speed and cost of their payments, but not around what happens when a payment is initiated. There could be a useful exercise here around comparing quotes and outcomes, which could increase transparency further.

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 are supportive of the separation made between remittances and other P2P payments. This rightly reflects the different priorities that end users in these different segments may have, and the reality of the greater challenges that payment arrangements in some cross-country corridors for remittances face, including limited implementation capacity in some jurisdictions.

Cross-border remittances are typically made via a correspondent banking model and are also processed by alternative methods such as wallets and non-PSPs and it is important this separation is made. Correspondent banking is one of the most common methods for making payments globally, however there are no central standards, policies, or rulebooks for banks to follow. Correspondent banking could be targeted as the mechanism to drive a centralised approach for global adoption of standards and policies and we acknowledge the moves of the FSB to recognise this.

Financial inclusion is also an important aspect and is highlighted as one of the tenants of the 2020 G20 Presidency. As such, emerging market jurisdictions should be considered as part of any target and global alignment of polices and rulebooks.

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?**

Overall, we believe that the proposed numeric targets need more refining and clearer definitions before they are agreed and committed. If the targets are global, there needs to be a clear assessment criterion in relation to how performance will be addressed if certain corridors over perform and others under perform. It is unclear whether the FSB will look to take an average for meeting the targets, or whether specific action will be required within specifical corridors with higher costs, slower processing, and less access for example.

Today payment infrastructures and market practice does not necessarily allow for the correct measurement of all FSB indicators, such as speed and cost. Before this can happen, it is necessary that the PMI evolves to ensure that more transparent reporting in these areas is available. Cross-border payments are executed via different channels, with different kinds of settlement finality. It is therefore very difficult to obtain comparable numbers of payments executed via credit/debit circuits, banks circuits, different market infrastructures, or interlink circuits. Any measure in 2021 will be based on different gauges with respect to those that will exist in 2027, making it difficult to compare progress during this period.

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?**

There are a number of clarifications that are needed when examining the cost target for the retail market segment. For example, we believe that any cost target set by the FSB should reflect the "real" average costs for a certain reference amount. If cost targets were to be determined in terms of absolute value, those said values may not be reliable in the context of the six-year horizon set by the FSB. Furthermore, it is unclear how the "current costs", from which the targets are being derived, have been determined. We would therefore ask for further confirmation as to whether these will reflect end user fees or costs to banks and other PSPs. Without these clarifications, the numerical cost targets are not measurable.

In addition, market mechanisms could potentially lead to a conflict between the speed and cost targets as improving the efficiency in cross-border payments will inevitably require significant investments by banks and market infrastructures. These investments and their depreciation will have to be refinanced over a certain period of time. Setting too ambitious cost targets over a short period of time will counteract this.

We also have concerns about the FSB's cost targets in relation to low value payments, where it will be difficult to ensure that the global average cost of a payment is no more than 1%, with no corridors with costs higher than 3%. To put this into context, an example is highlighted below:

*Settling a £500+ payment to a non-exotic market, paid in full – the PSP is likely to receive a claim for costs of between 1-2%, with a minimum fee of £15.00. If a £500+ payment is settled to an exotic market, paid in full – the PSP is likely to receive a claim for costs of between 2-4%, with a minimum fee of £15.00.*

Work is therefore needed to define how cost percentage is managed on a global level. Additionally, we need to understand further whether targets will be in place for each financial institution, currency and/or region as well. To achieve these goals, it is also clear that there will need to be coordination across the global schemes to encourage that fees on small payments are proportionate.

Additionally, cost is only one component here. More thought is needed when looking at the FX rate used. Questions arise in relation to whether this is based on spot rates or whether forward contacts and hedging need to be included.

**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?**

The majority of consumers in the UK and Europe expect to have at their disposal convenient, secure, and cost-effective payment solutions to make their payments (both domestically and cross-border). Instant payments technology can be a powerful enabler for the emergence of payment solutions meeting these expectations and as such we are supportive of the FSB setting targets to increase the availability of fast cross-border payments for end users.

To achieve the FSB's speed targets, multiple subjects, infrastructures and processes along the payment must all be aligned with the set target. Often infrastructures and processes are the same for the different segments and we agree that a common speed requirements across the three market segments goes some way to recognize that different user/segment speed targets risk becoming an additional burden to payer/payee PSP. However, the targets "75% in one hour" and "the remainder within one business day" are both misleading and overly ambitious. For example, with card payments, a finality is being reached on a near instant basis, as the payment guarantee enables finality irrespective of the settlement cycles. The speed of settlement to participants in a cross-border transaction therefore differs across use-case and payment type. For example, in the case of a P2P remittance, the speed of the transfer between accounts – and critically the speed of accessibility of funds – may be very important to both the sender and the receiver. By contrast, in the case of cross-border payments between an individual and a merchant – whether conducted in-person by a tourist or remotely as part of an ecommerce transaction – the speed of settlement is much less relevant.

We believe that any speed target should focus on specific payment instruments, such as money transfers which will be greater improved due to SWIFT gpi. This will lead to further efficiency gains in the interbank space. However, it should be noted that a significant share of the end to end runtime encompasses compliance checks, liquidity and FX management – especially in exotic currencies, the majority of which are booked at spot, making comprehensive adherence to the aspired speed target ("one hour") extremely challenging given the related complex and heterogenous framework conditions, which are mostly regulatory. Rules and regulations in other jurisdictions for international payments differ from applicable regulations in EEA area in the absence of a global legal framework or common usage for payments handling (for example economic crime) or common industry standards (for example ISO 20022 usage).

The speed target largely treats wholesale payment and retail payments as the same. However, within wholesale payments players are large, have multiple options, and more leverage to move flows elsewhere when the service is not sufficient. Retail customers have fewer options and different needs and so the 1-hour target for funds availability proposed by the FSB may be appropriate for retail, but not necessarily needed within wholesale.

We also believe that without regulatory action, the ambitious targets set by the FSB may not be reached. In Europe for example, the SEPA Credit Transfer Instant (SCT Inst.) scheme was developed in 2017 for euro instant credit transfers within SEPA. A broad level of participation by PSPs in the scheme is a key precondition for the wide availability of euro instant transfers at EU level. As of March 2021, only 64.6% of PSPs located in 21 Member States have joined the SCT Inst. Scheme. There are therefore still barriers to overcome to incentivise the EU payments market players to offer pan-European payment solutions based on instant credit transfers. Whilst the FSB is not proposing instant payment targets, this example highlights the length of time it takes for the market to adapt to making faster payments and targets should factor this in.

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?**

We agree that dates for achieving targets are needed to ensure accountability. However, we would argue that the proposed timelines are rather aggressive. While maintaining momentum is critical for such an ambitious international reform agenda, commitments must be weighed against the risk of undermining the credibility of the wider programme. Within the 19 Building Blocks set out in the CPMI's report, there is clear effort to develop central infrastructures, global standards, and supervisory approaches. Those changes will take years to bed in and could run beyond the 2027 target date set.

The identification of runways or interim targets (perhaps not unlike the Basel 3 output floor runway), out to a longer timeline, could enable greater flexibility, particularly for markets with slower regulatory processes, or those requiring more significant infrastructure or policy reforms to achieve the proposed targets.  Once the targets are established, the FSB and CPMI should start work on the development of an assessment methodology, potentially like the assessment methodology for effective resolution regime, and baseline data so progress against the targets can be tracked. The assessment methodology should include standardised definitions and target scope, with flexibility to enable customer needs and choices to still be met. The development of this assessment methodology in slower time could be an opportunity to, in parallel, reinterpret quantitative success if necessary.

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?**

There are a number of complexities that come into play when looking at data sources. With correspondent banking for example, correspondent banks apply their own risk appetite when it comes to how to manage data. There are often strict requirements on what information can be shared outside of a bank's own jurisdiction. While it is recognised that having greater information available on a payment and sharing this with other correspondent banks and onwards is useful and could help with a smoother payment flow, there needs to be consideration of what information is shared and how that applies with local regulation.

One useful tool could be SWIFT gpi and we would encourage the FSB to work with SWIFT to understand if and how data could be used, however leveraging data through SWIFT gpi would not cover payments that are processed through alternative payment rails.

Whilst monitoring compliance is of course needed to analyse the success and effectiveness of targets, there is a real danger here that this will take over the ambitious vision set out by the FSB. While targets and compliance are key, work should be focused on outcomes and solutions in favour of strict monitoring against proposed targets.

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?**

It is necessary to have a level of harmonisation of regulations on payments transparency and AML/CFT in the most involved countries. This is also true of regulations in relation to cyber, technology and security as well as data privacy.

**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?**

We are broadly supportive of the FSB's quantitative targets to help enhance international cross-border payments, but these targets will only be achievable if the entire global industry develops their payment systems and processes in such a way that ensures interoperability and standardisation across all markets. Underpinning such interoperability and standardisation will be clear definitions of scope to support the implementation and measurement of the targets. For example, a common understanding of what is included in the end to end payment journey and how the 'cost' of a payment is composed are needed.  The approach for timing of a payment should be also standardised and aligned across the segments. Standardisation of relevant FX rates to customer groups will also be required, as currently in the market FX rates and currency conversion charges are displayed in a number of different ways, which prevent easy comparison. Currency conversion charges are also expressed as percentages or values and can include a range of differing costs.

To implement the required levels of interoperability and standardisation there needs to be a consistent approach to legislation across all markets as well as ongoing monitoring to ensure that legislation is not 'gold plated' and that a level playing field is created. There are a number of targets set by the FSB, for example around speed and transparency that some jurisdictions, such as the UK and Europe, are already familiar with as they are set out in legislation. Some regulation, such as the Cross-Border Payments Regulation (CBPR) and PSD2 mandate rules associated with transparency and access to funds, however, these regulations only apply to certain regions which creates inconsistency globally. A set of overarching principles and a governance that would enable a collaborative multinational coordination would potentially resolve a lot of the friction experienced today. The FSB could then measure the success of international cross-border targets against qualitative targets which relate to the legislative, regulatory and industry actions that have been borne as a direct result of the FSB's initiative. These could include areas such as:

- Number of legislative initiatives aiming at regulatory alignment (as a major driver of costs and speed).
- Number of RTGS systems switching to 24/7 operating hours (also in order to enable quicker FX transactions)
- Number of initiatives by market infrastructures to better facilitate cross-border payment corridors.
- Market implementation of technical standardisation efforts such as ISO20022.