WU Draft Responses to Financial Stability Board- Consultative document-Targets for addressing the 4 challenges of cross border payments.

Q. No	FSB Question	FSB Consultation Doc (Relevant excerpt)	Response for Consideration	Notes
	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?	<u>Design features:</u> "1) Direct and meaningful relationship to the four challenges to be addressed: cost, speed, access, and transparency, 2) The overall number of targets should be small, 3) Targets should be simple, 4) Targets should focus on end-user experience, 5) Target dates should be set for achieving the goals, 6) Targets should be quantitative, 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), 8) International targets for remittances set as a UN SDG have already been	The key design features capture important objectives. However, without further clarification and additional design features they may inadvertently lead to targets that cannot be met, create expectations that cannot be delivered or have perverse outcomes like reducing access or weakening AML/CTF compliance. For example, it is important that cost targets do not exclude costs imposed by government regulation or lack of regulatory clarity. Bank de-risking, driven by lack of regulatory clarity, is one example that drives up costs and, if unchecked, may make the proposed cost targets impossible to meet. MTOs have very limited capacity to effect this cost driver so cannot be held accountable for costs out of their control. Another consequence of a narrow focus - for example on customer experience only - is that it excludes competing regulatory priorities. Governments around the world have placed a high premium in recent years on heightened AML/CTF compliance. Companies that invest heavily in this area should not be penalized unless there is an explicit acceptance in the targets that AML/CTF compliance is now a lower priority (and that regulatory penalties will be reduced accordingly). Moreover, the access target should consider retail access for those who do not have access to digital services, broadband or mobile connectivity. Those who are already at a disadvantage will have their access further reduced. Financial institutions should bridge the digital and the physical to enable customers and businesses to send and receive money through their preferred channels. A focus on cost caps is likely to reduce access. One of the ways physical access points are created for consumers is via partnerships with retail outlets who will not participate as retail outlets without an adequate fee being paid. Each of these outlets have raw costs to meet (such as overhead costs, staff costs for processing transactions and conducting AML/CTF compliance checks). If these costs cannot be met as well as an acceptable margin, the outlets are unlikely to serve as Agents, and access will be reduced.	

	Are there any design features that you consider are missing?	agreed to and endorsed by the G20, and should remain.”	Yes. Additional design features should focus on the whole of cost picture, such as the role of government regulation (and lack of regulatory clarity) in driving up costs. There should be consideration of competing priorities, such as strong AML/CTF compliance, cost and access (which can involve added costs for in-person transfers).	

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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? Do these listed market segments reflect the diversity of cross-border payments markets, while providing a high-level common vision for addressing the four roadmap challenges?	<u>Market segment definitions</u> • Wholesale payments. • Retail payments (involving non-financial corporates or public sector entities as payers or receivers and other P2P payments) and • Remittances	The segment descriptions make sense at a high level, but there is a need to consider access and service offerings in setting targets within these segments. MTOs that operate across these segments have the opportunity to offer a wider range of services to consumers. The high cost of some of these service offerings can be subsidized by other high volume offerings providing consumers and the unbanked community with services that might otherwise be unavailable. This helps to serve the diverse payment preferences of people around the world. Flexibility should be maintained in the targets to allow MTOs operating across segments to continue offering services that are subsidized across segments (and which would not otherwise be maintained).	

		Target Metrics (Cost) Cost, Remittances: "Reaffirm UN SDG: Global average cost of sending $200 remittance to be no more than 3% by 2030, with no corridors with costs higher than 5%."	Customer priorities shift depending on their needs and the associated factors of access, convenience, speed, trust and channel choice. The average of $200 transactions is not always representative of all transactions, especially in certain regions. The channels and speeds through which funds are transmitted impact pricing. While some digital providers may promote lower prices, consumers should be wary and compare price points for like services and speeds. Further, regulatory requirements are costly and vary from country to country. Maintaining the highest levels of AML and KYC requirements (including compliance training programs) requires costs that also need to be considered. We also believe that price regulation is not the right approach for stimulating competition. Price regulation, or price caps, generally may only have a desired impact when a market is very concentrated with low levels of innovation across the market. In addition, there is a misconception regarding the cost of remittances. According to the World Bank (Remittance Prices Worldwide, December 2016), globally, sending remittances costs an average of nearly 8% of the amount sent. However, globally, the average cost of transferring money through Western Union in 2020 (including fee and FX) was approximately 4% of the amount being sent. While we are supportive of the goals that the U.N. and other multilateral organizations have around eradicating world poverty, it is important to consider that their associated cost targets for remittances are not always aligned with customer needs or market realities.	
		Target Metrics (Speed) Speed, **Wholesale**: "Large majority (e.g., 75%) of cross-border wholesale payments to be within one hour of payment initiation, by end-2027 and for the remainder of the market to be within one business day."		

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3	Do you have any comments on the target metrics proposed?	**Target Metrics (Speed)** Speed, **Retail**: "Large majority (e.g., 75%) of payments to provide availability of funds for the recipient within one hour from the time the payment is initiated, by end-2027 and for the remainder of the market to be within one business day."	This statement is not applicable to the remittances industry, as currently, the customer can choose to receive the transaction immediately. Customers can alternatively choose to receive the money the next day. In this context, it is very difficult to define the speed of transactions and therefore this metric may not be suitable for remittances. In case of WU, we do offer the possibility for the customer to choose an option of getting money the next day. This metric would be appropriate for retail payments (i.e., credit transfer), as real-time payments (serving customers in real time) can enhance financial inclusion and improve the efficiency of financial systems, including for the underbanked. WU's real-time capabilities accelerate cross-border money movement to eligible accounts, cards, and digital wallets in minutes across multiple currencies. By the end of 2020, WU's customers could send funds in real time into bank accounts and wallets to 100 countries—including China, India, Indonesia, the Philippines, and several countries in Africa—as well as the European Union.	
		Target Metrics (Speed) Speed, Remittances: "Large majority (e.g., 75%) of remittance payments in every corridor to provide availability of funds for the recipient within one hour of payment initiation by end-2027 and for the remainder of the market to be within one business day."		
		Target Metrics (Access) Access, **Wholesale**: "All financial institutions **(including financial sector remittance service providers**) in all payment corridors to have at least one option (in terms of infrastructures and providers) and, where appropriate, multiple options for sending cross-border wholesale payments by end-2027."	One of the key cost drivers in recent years has been bank de-risking, so guaranteeing access to MTOs is an increasingly pressing issue. De-risking policies primarily impact cross-border payments via the following channels: (i) limiting the access of MTO to banking partners, (ii) limiting agent access to bank accounts and (iii) limiting correspondent banking partners who provide supporting flows to agents.	Recently, MTOs have been subject to an increased amount of bank de-risking, particularly wholesale de-risking. This poses an existential threat to cross-border remittances, MTO employees and remittance customers. This practice threatens to undermine the AML/CFT protections in place by driving MTOs out of the market and leading remittance customers to use unlicensed, illegal channels (MacEwan & Span, 2019). Even when customers are not forced into using illegal channels, these policies often reduce the number of legal alternatives to those operated by the banks themselves, thereby reducing competition and consumer choice (Resnick & Hirce, 2016).

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3	Do you have any comments on the target metrics proposed?	**Target Metrics (Access)** Access, Remittances: “More than 90% of individuals (including those without bank accounts) who wish to send or receive a remittance payment to have access to a means of cross-border electronic remittance payment by end-2027.”	The bridging of digital and in person payment options drives financial inclusion, which can positively impact millions of consumers and whole economies, especially in developing markets. This access target cannot be defined by the industry, as the outlook is tightly linked to the progress of the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) discussions on building blocks allowing a faster, interoperable, and more efficient regulatory framework. To build a sustainable, fully serviced financial system that reaches every corner of the world, care and consideration must be paid to the facts on the ground. According to the UN, 82% of the population in developed regions are using the internet, yet the number across developing nations comes in at less than a third. Among Sub-Saharan Africa inhabitants, only 21% use the internet. Mobile network penetration is only 64% in the least-developed countries. Currently, 450 million people live in rural areas with no mobile signal. Cash remains the predominant form of payment in most of the developing world and it is difficult to see that changing soon. Thus, financial inclusion via digital channels alone simply cannot be achieved given these gaps. This validates the vital importance of retail channels for consumers and businesses to send and receive funds. Providing senders and receivers with channel options is key to advancing financial inclusion. For example, Western Union uses the PayCode service partnership with Amazon where customers can make a purchase online at Amazon and then pay locally, in person, at Western Union agent locations – without having to use an internationally enabled credit or debit card.	There is a systemic risk that comes with indirect access. Some non-bank payment providers are larger than the bank required to serve them for access to the payment systems. This means that in many markets non-bank PSPs are increasingly clustered around a small number of banks that are large enough or have the risk appetite to offer commercial clearing. Which in certain situations results in de-risking practices. It is worth mentioning the issues around de-risking: a particular bank can decide whether facilitating indirect access for a non-bank payment provider is within its risk-appetite, which could translate into a refusal of service or requests for changes in the operating model. Non-bank payment providers are operationally reliant on a bank to make payments on their behalf, which means that they incur credit risk where receipts of funds are held with the bank or when the bank has an outage. We do believe that any legal or practical obstacles that currently prevent the non-bank sector from having direct access to the intra-bank payment system should be removed, subject to meeting the same minimum technical and security requirements. We do believe that payment services providers should have open, fair and non-discriminatory access to payment infrastructure and technology solutions based on reasonable terms and conditions. A good example that can be noted is the Bank of England which is moving in this direction.

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3	Do you have any comments on the target metrics proposed?	**<u>Target Metrics (Transparency)</u>** Transparency: “All payment service providers to provide at a minimum a defined list of information concerning cross-border payments to payers and payees (including e.g., total transaction cost (showing FX rate and currency conversion charges), time to deliver funds, funds tracking, and terms of service) by end-2027.”	Transparency in cross-border payments, paired with the rollout of instant payments and direct access for non-banks to the payments system together could work to increase the speed and reduce the cost of remittances.	

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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	"The proposed targets are based on a consideration of the current payment landscape and publicly available data from multiple sources for the four challenges across three market segments – wholesale, retail (e.g., business-to-business (B2B)/ person-to-business (P2B) business-to-person (B2P)/ person-to-person (P2P) payments (other than remittances)), and (as a separate category from other P2P payments) remittances. This split between remittances and other P2P payments is proposed in recognition of the greater challenges and frictions that some payment corridors in the remittance market face." "Remittances and other P2P payments have been separated for the purposes of these targets in order to reflect 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."	The proposal seems fine.	
	If so, can you suggest data sources that can distinguish between the two types?			

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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?	Numerical targets: 1) Cost, Retail: "Global average cost of payment to be no more than 1%, with no corridors with costs higher than 3% by end-2027", 2) Cost, Remittances: 3) Speed, Wholesale: "Large majority (e.g., 75%) of cross-border wholesale payments to be within one hour of payment initiation5, by end-2027 and for the remainder of the market to be within one business day", 4) Speed, Retail:, 5) Speed, Remittances: 6) Access, Remittances:	Answered in Q3, Q6, Q7. See above section on cost and access	
	Are they objective and measurable, so that accountability can be ensured by monitoring progress against them over time?			

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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?	"Cost target for retail market segment: Global average cost of payment to be no more than 1%, with no corridors with costs higher than 3% by end-2027."	See above comments on cost and balancing competing priorities.	
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?		See above section on proposed metrics around speed. WU believes speed and innovation should not come at the cost of compliance with AML/CTF obligations to combat illicit activity. Western Union's efforts are amplified when combined with those of other organizations that share the same goals. Collaboration and harmonization of AML/ CTF principles, including the sharing of techniques, strategies and intelligence helps everyone combat threats posed by international criminal organizations and extremist networks.	

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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?	"End-2027 is proposed as a common target date across the individual targets, with the exception of the remittance cost target, where a 2030 date has already been set as a United Nations Sustainable Development Goal (UN SDG) and endorsed by the G20."	The FSB's proposed deadline is the end of 2027 for all challenges and segments except the cost target for both wholesale cross-border payments and remittances. That gives banks and other service providers just six years to align with the proposals, which include among others: reducing the global average cost of a retail payment to less than 1 percent, with no corridors with costs higher than 3 percent; at least 75 percent of cross-border payments in each segment should be made within an hour; and all payment service providers must provide a defined list of information, such as total transaction cost and funds tracking. For many banks, to hit these targets will take a massive effort and something that they will not be able to do alone, but will need support from counterparts, market infrastructure, central banks and authorities.	
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?		As of 2020, WU started to have better visibility & traceability of the payment transactions initiated from its side by implementing universal payment confirmation. Furthermore, we achieved a target of 95% of payments confirmed properly, 15% more than the target agreed by Swift. ISO20022 migration is already on our roadmap we have started its implementation with go-live date in 2022. API interfaces & ISO20022 file formats provide a common framework/standard for Financial Institutions, Central Banks & PSP's connectivity, and information exchange (payments).	
	Do you have relevant data that you would be willing to share for this purpose either now or during the future monitoring?			

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10	Do you have further suggestions or questions about the detailed definition and measurement of the targets and their implementation?		One of the greatest opportunities to improve data sharing in the AML/CTF context is to clarify legal requirements relating to what data is required to be collected and the instances in which it should be shared with law enforcement. The relationship between data protection and AML/CTF frameworks is one of the most important and challenging issues related to information sharing. Due to the significantly increased number of Suspicious Activity Reports (SARs), Law enforcement authorities face difficulties processing and investigating them appropriately. There are divergent expectations between AML/CTF/Banking regulators and data protection regulators, which often put data controllers/financial companies in the position of being unable to comply with both sets of expectations at once. There is a lack of clarity on what the legal requirements are. It would be ideal for Law Enforcement and Data Protection authorities to work together on guidance on implementation of AML/CTF obligations.	
	Which types of averages can be constructed to help to measure progress?			

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?		WU suggests that the FSB establish working groups for companies and experts to share best practice on reducing costs. Public-Private Partnerships promote strategic information-sharing between Financial Institutions, Financial Intelligence Units, law enforcement agencies and national regulators. On many occasions, these arrangements have delivered positive results. These partnerships improve the quantity and quality of reports of suspicion related to particular economic crime threats; and to the timeliness and relevance of such reporting to active investigations.	