

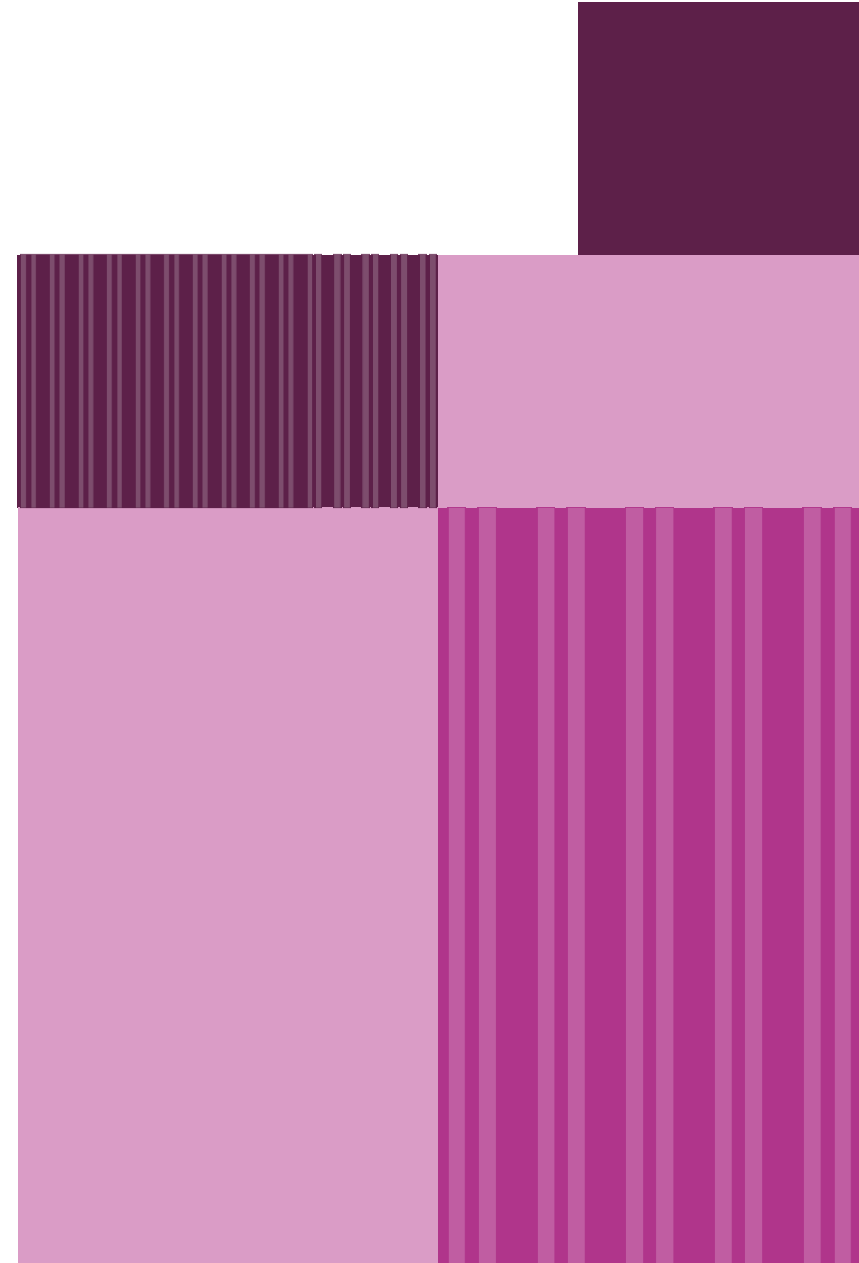


BANK OF ENGLAND

# Enhancing Cross-Border Payments

- A dialogue with UK industry

22 September 2020



# Agenda

14:00 – 14:15:

## **Welcome & Introduction**

- Victoria Cleland (Executive Director: Banking, Payments & Innovation, BoE; Chair CPMI Cross-Border Payments Task Force)

14:15 – 14:50:

## **Presentation: Enhancing cross-border payments**

- John Jackson (Policy and Product Lead, RTGS Renewal Programme: Banking, Payments and Innovation, BoE)

14:50 – 15:25:

## **Panel discussion**

- Amber Evans (Press Officer, BoE) (**Chair**)

- Vikesh Patel (Head of UK and Ireland, SWIFT)

- Galina Carroll (Managing Director, Sfe Consulting)

- Russell Saunders (Managing Director, Lloyds)

- Ireti Samuel-Ogbu (Managing Director, Citi)

- Arunan Tharmarajah (Head of European Banking, Transferwise)

15:25 – 15:55:

## **Poll results and Q&A**

- Victoria Cleland

15:55 – 16:00:

## **Closing remarks**

- Victoria Cleland



# 1. Introduction

Victoria Cleland

- Executive Director: Banking, Payments & Innovation, Bank of England
- Chair of the CPMI Cross-Border Payments Task Force

# Why are cross-border payments important?

Cross-border payments are essential to support the global economy



- Value of cross-border payments estimated to increase from \$149 trillion in 2017 to \$253 trillion in 2027



- Revenues from cross-border payments are estimated to rise from \$81.6 billion in 2017 to \$174.2 billion in 2027

30%

- Flows of remittances to some economies are greater than 30% of GDP

# And they are becoming increasingly important

- **Substantial changes are affecting the payments landscape internationally**

The global economy is increasingly dependent on cross-border flows.



The domestic payments market has seen improvements in speed, cost and efficiency.



Innovation and technology create new possibilities for cross-border transactions.





# Cross-border payments are important to the UK economy

- **The UK is a cross-border payments hub, supporting international finance and trade and thus economic growth.**
- In 2019 the UK's high-value payment system (CHAPS) processed **~£34 trillion in cross-border payments** vs ~£41 trillion in domestic payments.
- The World Bank estimates **migrant remittance outflows from the UK of ~ US\$ 10bn** in 2018 (equivalent to around 0.4% of GDP) relative to **migrant remittance inflows to the UK of ~US\$ 4bn.**
- **The UK ranks 15<sup>th</sup>** in terms of value of remittance outflows out of 214 countries, demonstrating the importance of enhancing cross-border payments to promote financial inclusion as well as supporting global development.

## But cross-border payments can be problematic...

- The perceived challenges of cross-border payments relative to domestic payments can be characterised as:



Low speed



Costs



Limited access

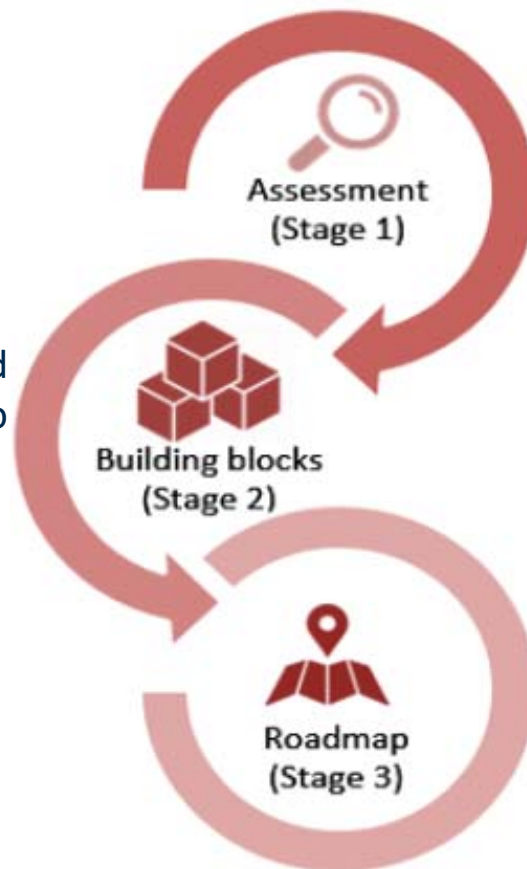


Limited transparency

- The challenges of cost, speed, access and transparency has been on the agenda for many years**, as it is a multidimensional problem requiring strong international collaboration.
- Cross-border payments are more complex than domestic ones.** They involve in some cases multiple: players, time zones, jurisdictions and regulations.

# International work to develop a roadmap

Building Blocks (Stage 2): The CPMI has led the work on creating the building blocks to improve the current global cross-border payment arrangements and address these frictions. **Report published July 2020.**



Assessment (Stage 1): The FSB, in coordination with relevant international organisations and standard-setting bodies, conducted an assessment of existing cross-border payment arrangements and identified frictions / challenges. **Report published in April 2020.**

Roadmap (Stage 3): the FSB will coordinate, with the CPMI and other relevant international organisations and standard-setting bodies, on the development of a roadmap to deliver the building blocks. **For publication in October 2020.**

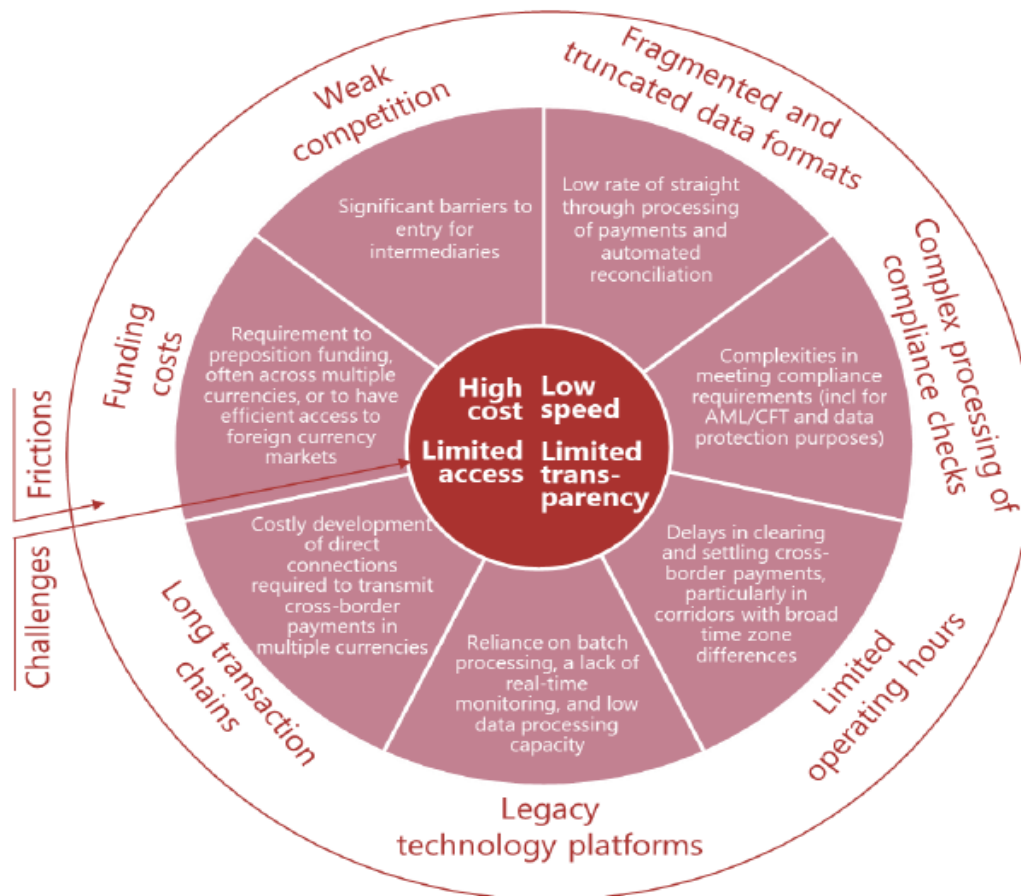




## 2. Enhancing cross-border payments

John Jackson (Policy and Product Lead, RTGS Renewal Programme, Bank of England)

# Stage 1: Assessment of challenges and frictions



- The challenges associated with cross-border payments arise from a series of frictions in existing processes.



## Stage 2: Focus areas and building blocks

- Five focus areas identified to enhance cross-border payments
- Comprising a total of 19 building blocks to deliver an improvement in one or more of the 7 frictions
- Some building blocks have a substantial enabling effect on other building blocks, while others have a significant impact on a specific friction
- Due to strong interdependencies, the most significant enhancements are likely to arise if, over time, all building blocks are advanced and implemented in a coordinated manner
- There are two distinct types of building block:
  - a) 16 are primarily **improvements or changes to existing** legislation, regulation and infrastructure (Focus Areas A-D); while
  - b) 3 are **more exploratory in nature** (Focus Area E)
- We are engaging separately on some of the issues in Focus Area E and today we would like to put greater emphasis on Focus Areas A-D.

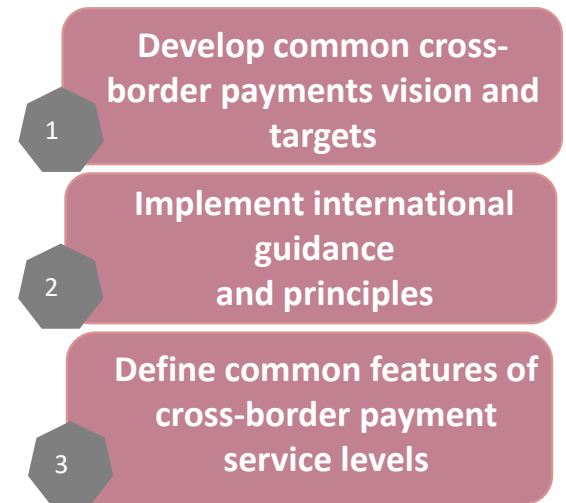
# Stage 2: Focus areas and building blocks



Source: Committee on Payments and Market Infrastructures

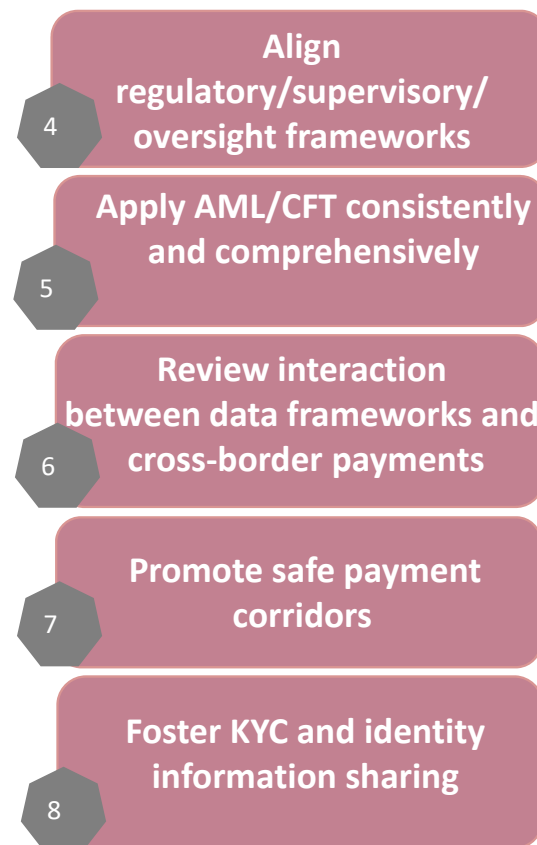
## Focus area A: Commit to a joint public and private sector vision to enhance cross-border payments

- Much of the **complexity in addressing frictions in cross-border payments arises from the significant number of stakeholders** from the public and private sector.
- The building blocks under focus area A are intended to act as a commitment mechanism to drive meaningful **coordinated change at a global level over a sustained period of time.**
- This focus area will address **frictions where complex regulatory, political and (to a lesser extent) operational issues** are prevalent.
- It will **support the other four focus areas** as it is designed to provide the focus and structure to tackle the challenges in cross-border payments.



## Focus area B: Coordinate regulatory, supervisory and oversight frameworks

- Much focus for removing frictions in cross-border payments has centred on technology and operations.
- **Divergent regulation, legislation, supervision** and oversight frameworks across jurisdictions, or gaps in frameworks, **can reduce any benefits** that may be derived from such initiatives.
- Advancing consistent, relevant international rules and standards and ensuring local transposition can **mitigate key challenges arising from the cross-jurisdictional** nature of these transactions.
- In particular, the building blocks under this focus area target **frictions associated with complex compliance and weak competition**.
- These building blocks **can magnify the benefits** arising from jurisdictional changes and operational improvements described in focus areas C, D and E



## Focus area C: Improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments market

- Cross-border payments depend on both domestic and international payment infrastructures.
- Addressing existing technical and operational restrictions rooted in these systems' design **can tackle frictions resulting from different operating hours, long transaction chains, access criteria, high funding costs and weak competition.**
- The building blocks **do not require every system to be the same**, but target areas where benefits can arise from carefully implemented and coordinated changes.
- Such changes are likely to need to be supported by regulatory and legislative changes, both domestic and international.
- This focus area builds from focus areas A and B, and is a key enabler of focus area E as **much of the work represents a 'no regrets' step towards future innovative technology.**



## Building Block 10: Improving (direct) access to payment systems

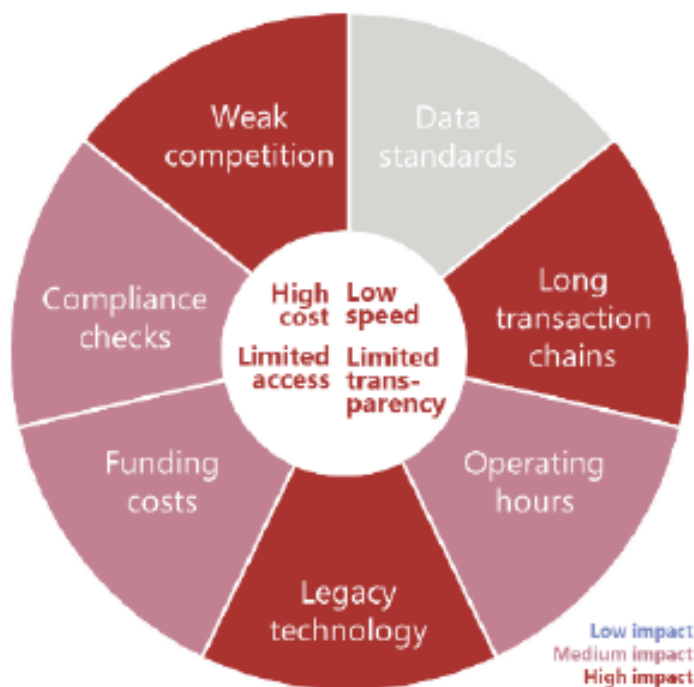
- Objective

- Lowering barriers to access for PSPs and infrastructures to become direct members of multiple payment systems across different jurisdictions.

- Possible steps

- Map the technical and operational, legal, regulatory and financial requirements.
- Self-assessment of domestic framework against good practice guidelines and implementation of action plans.

- Frictions addressed



- Obstacles

- Gives rise to risks that need to be mitigated - e.g. through oversight and supervision.
- Requires both operational change and accompanying legal and regulatory changes.

Source: Committee on Payments and Market Infrastructures



## Building Block 12: Extending and aligning operating hours

- Objective

- To tackle the mismatch of operating hours by extending and aligning those of key payments systems across different time zones.

- Possible steps

- Change payment infrastructures and participants' own system infrastructure to accommodate extended operating hours.

- Frictions addressed

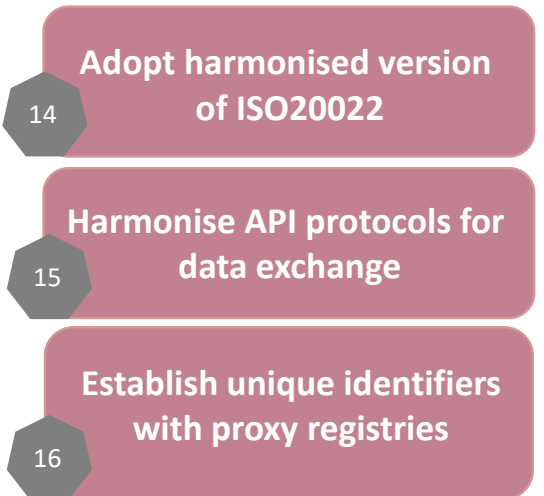


- Obstacles

- Design, implementation and operating costs could be high.
- Complexities around:
  - Coordination between infrastructure operators and participants.
  - Resilience of monitoring capabilities.
  - Challenges around making system changes.

## Focus area D: Increase data quality and straight-through processing by enhancing data and market practices

- Poor data quality and limited standardisation of data exchange make cross-border payments more complex and affect speed, price and transparency.
- The **efforts in this focus area go deeper than identifying standards and looking to implement them**. It incorporates crucial mapping and translation tools that support widespread interoperability between systems.
- Focus area D **directly mitigates the friction around fragmented and truncated data** and also **has the potential to improve compliance processes** and address data handling issues within legacy technology platforms.
- The building blocks under this focus area are **intended to maximise the positive impact of the technical, operational and regulatory process changes** being advanced under focus areas A, B and C.



## Building Block 14: Adopting a harmonised ISO 20022 version

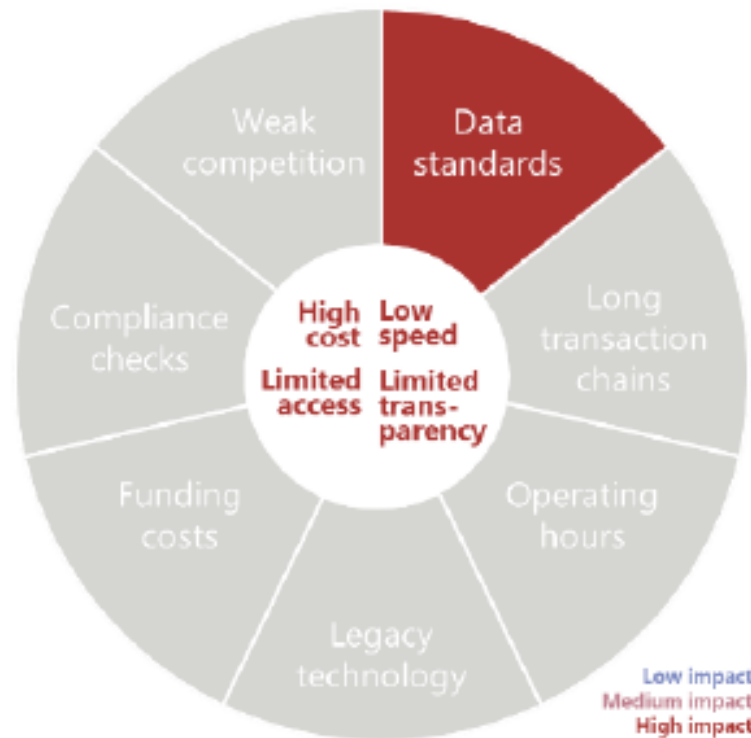
- Objective

- Adopting common message formats (e.g. a harmonised version of ISO 20022), can increase payments efficiency, and more generally address data quality and quantity restrictions.

- Possible steps

- Global forum to lead the agreement on a harmonised ISO 20022 version.

- Frictions addressed



- Obstacles

- Difficulties around agreeing on a common message format.
- Cost implications for system upgrades and migration to new data formats.
- Differing data frameworks may prevent the inclusion of data satisfying AML/CFT and KYC regulatory requirements.

## Focus area E: Explore the potential role of new payment infrastructures and arrangements

- Advances in technology have created the potential for new payment infrastructures / arrangements which could be used for cross-border payments.
- This focus area **contains the most ambition, and requires the most work and time to implement.**
- **These arrangements have not yet been implemented broadly; some are still in their design phase and others remain theoretical.**
- New payment infrastructures **have the potential in future to mitigate frictions but will require significant progress on focus areas A-D to facilitate this**, as many of these activities address barriers that affect both existing and potential future infrastructures.
- Without these changes, **the benefit of new technologies contained in focus area E is substantially limited as the new infrastructures must interface with the existing infrastructures.** Greater harmonisation by service providers and market participants is therefore essential for full realisation of the benefits of a new approach.

17 Consider new multilateral platforms and arrangements for cross-border payments

18 Foster the soundness of global 'stablecoin' arrangements

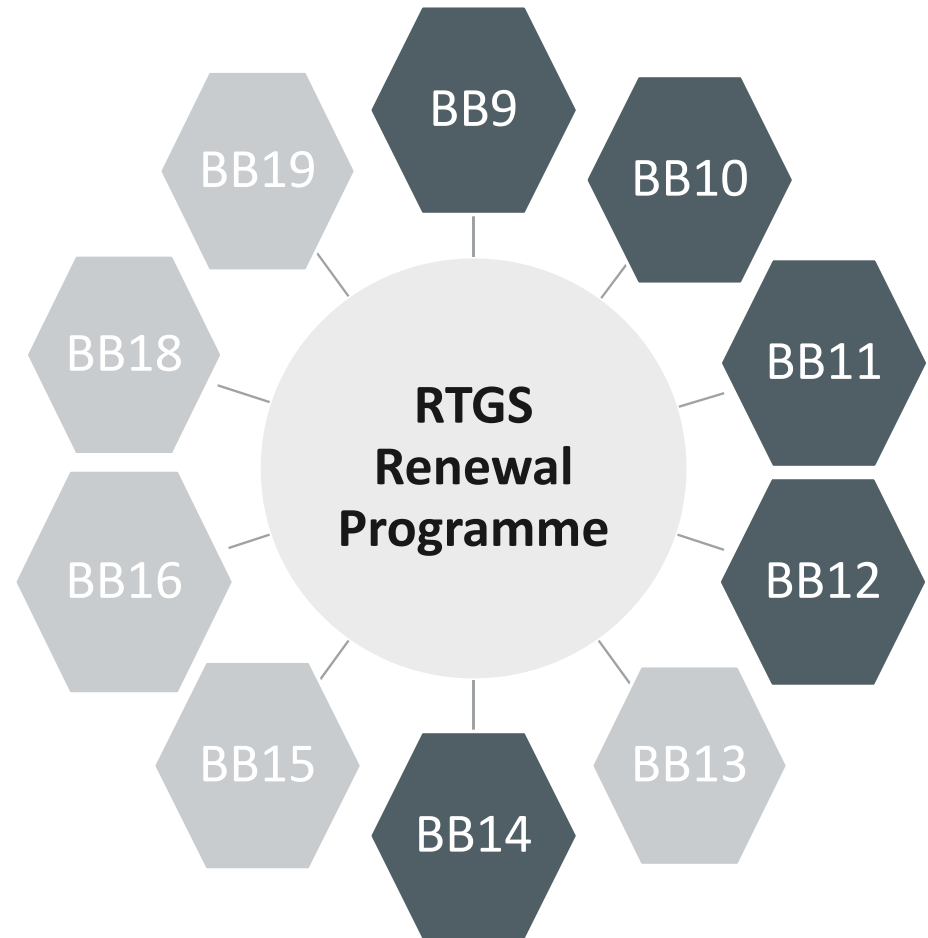
19 Factor international dimension into CBDC designs



What is being done in the UK?

## What is being done by the Bank?

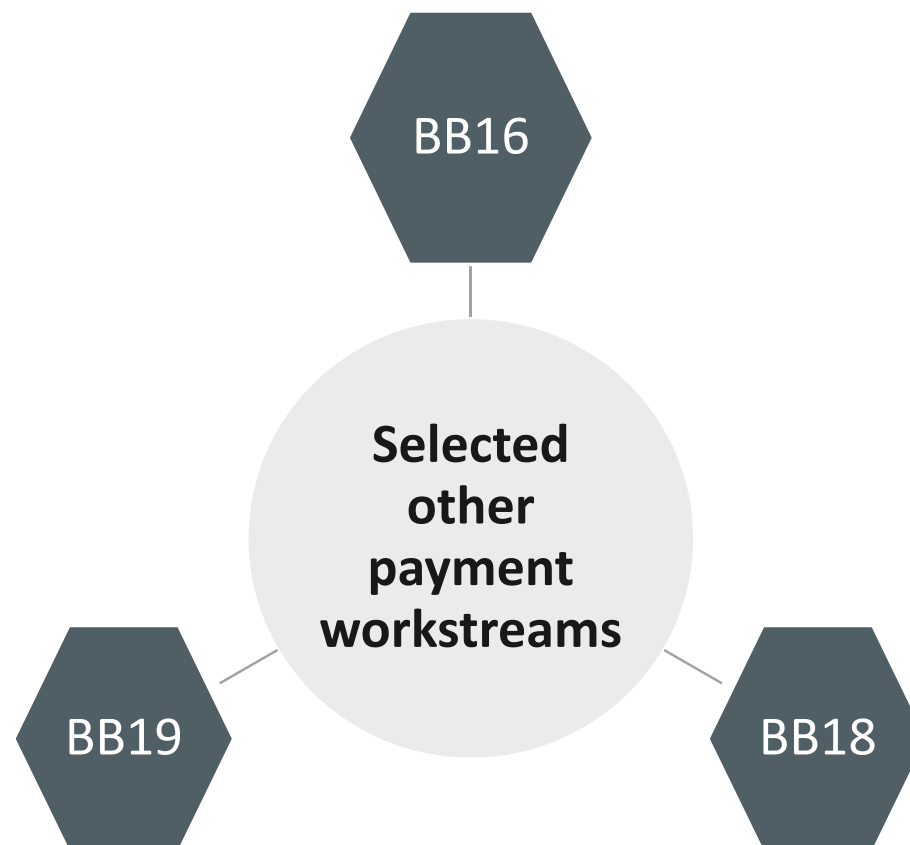
- The **RT Renewal programme** will deliver a range of new features and capabilities for payments and settlements - addressing some of the 19 building blocks.
- Our vision is to support increased resilience, strengthened end to end risk management, improved user functionality, wider interoperability and greater access with the ability to support a diverse range of payment technologies.



## What is being done by the Bank?

The Bank is also engaged in other work with domestic and international counterparts including:

- LEIs (BB16)
- Stablecoins (BB18);
- CBDC (BB19)



## What is being done by government in the UK?

- **HMT's Payments Landscape Review** is bringing together government and regulators to explore the major trends shaping the future of payments.
- The Call for Evidence is open until 20 October 2020.
- It is (among other things) inviting input on the trends affecting cross-border payments and what more can be done by industry, government and regulators to improve them.







## What is being done by government in the UK?

- **Cryptoassets and stablecoins** have the potential to transform the way cross-border payments are made.
- The UK government and regulators are at the forefront of the international discussion on how best to approach them.
- In its March 2020 Budget, the government committed to consulting both on bringing the promotion of cryptoasset activities into regulation and on a regulatory approach to global stablecoins.
- **Central Bank Digital Currencies (CBDCs)** also have the potential to transform cross-border payments. At its March Budget, the government also made clear it will continue playing a leading role in the exploration of CBDCs and welcomed the Bank's discussion paper on the topic.



## 3. Panel Discussion

- Amber Evans (Press Officer, BoE) (**Chair**)
- Galina Carroll (Managing Director, Sfe Consulting)
- Irete Ogbu (Managing Director, Citi)
- Vikesh Patel (Head of UK and Ireland, SWIFT)
- Russell Saunders (Managing Director, Lloyds)
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## 4. Poll results and Q&A

Victoria Cleland

- Executive Director: Banking, Payments & Innovation, Bank of England
- Chair of the CPMI Cross-Border Payments Task Force



## 5. Concluding remarks

Victoria Cleland

- Executive Director: Banking, Payments & Innovation, Bank of England
- Chair of the CPMI Cross-Border Payments Task Force