The world needs a better cross-border payments network

Linking the multitude of systems would make transferring money cheaper, faster and more transparent

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In recent decades, the world has witnessed a remarkable surge in cross-border payments, driven by the globalisation of trade, capital and migration flows. Global payments are expected to rocket from $190tn in 2023 to a staggering $290tn by 2030, according to one study.

Despite such spectacular growth, cross-border payments remain prohibitively expensive and sluggish, leaving the most vulnerable behind. Fees for international payments currently average 1.5 per cent for corporates and as much as 6.3 per cent for remittances. And it can take up to several days for these payments to reach their recipient.

This raises three pressing issues. The first is the impact on economic integration. Costly and slow payments hinder integration and growth. The costs and complexity of cross-border payments have been shown to deter many small and medium-sized enterprises from expanding across borders.

Second, the world's most vulnerable populations pay disproportionately more than others. Migrant workers, who Unicef estimates support one in nine people globally through remittances, can face exorbitant costs when sending money home. In sub-Saharan Africa, the cost of sending remittances abroad reaches 8.4 per cent. With remittances amounting to $626bn in 2022, even a tiny 1 percentage point reduction in fees would leave those most in need with $6bn in their pockets every year.

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Third, alternative players have identified these inefficiencies as a business opportunity, but their solutions carry significant risks. Cryptos that are unbacked by assets are intrinsically volatile and akin to gambling. Even those crypto tokens that are stablecoins cannot guarantee convertibility at par at all times, making them prone to runs. And major technology groups may seek to create "closed-loop solutions" that restrict payments to users who adopt a particular payment tool. This can lead to fragmentation of systems and a high concentration of market power in specific areas.

We therefore need to provide a safer and easily accessible alternative that makes global payments cheaper, faster and more transparent. There are now more than 70 domestic, fast-payment systems around the world. By linking them together, the benefits of digitisation would finally extend more fully to cross-border payments. Such a move would also improve efficiency by shortening transaction chains and ensure more open connectivity between payment systems, recognising this as a public good.

For the many developing economies that do not currently have fast-payment systems, it will be important to leverage international standards to foster cross-border interoperability. And by providing technical assistance and funding, international organisations can lend their support to further developing domestic systems for cross-border payments.

In many ways, Europe serves as a compelling example of what this interconnected payments landscape might look like. The eurozone's Target Instant Payment Settlement mechanism is a 24/7 facility for instant payments initiated directly by the participating banks. And it is also a central hub linking multiple fast-payment systems and ensuring that instant payments have a pan-European reach. A key feature of Tips is that it settles instant payments within a scheme governed by uniform rules, standards and protocols, avoiding the risk of fragmentation.

This model can also work across multiple currencies. The European Central Bank and Sveriges Riksbank are exploring possible solutions for cross-currency instant payments between the euro and Swedish krona. And the European Payments Council is currently developing a scheme to standardise the euro leg of international instant credit transfers.

The public sector also has a role to play in addressing the high compliance costs, legal complexities and risks associated with navigating multiple legal frameworks, regulations and central bank policies in cross-border payments. According to one survey, the top pain points for banks are differences in regulatory and supervisory frameworks, particularly in areas such as privacy, security and anti-money laundering.

It is therefore crucial to foster co-operation and explore technical solutions while aligning policy interests. Improving cross-border payments is a complex challenge that requires concerted efforts from public and private stakeholders. Such efforts could pave the way for a global network of fast systems that enable instant, low-cost, transparent and easy-to-access cross-border payments.