

**Bank of Italy webinar on
“Enhancing Digital and Global Infrastructures in Cross-border Payments”
(27-28 September 2021)**

Main takeaways

Introduction

The G20 has made enhancing cross-border payments a priority. Faster, cheaper, more transparent and more inclusive cross-border payment services support economic growth, international trade, global development and financial inclusion. However, while cross-border payments are quickly growing in importance in an ever more interconnected, global digital economy, their efficiency is not increasing as quickly.

A Roadmap to enhance cross-order payments was developed by the FSB and endorsed by the G20 in October 2020. The Roadmap is structured around 19 pillars (“building blocks - BBs”), with the goal to address the challenges of cost, speed, transparency and access affecting cross-border payments.

A foundational step in the G20 Roadmap consists of setting quantitative targets at the global level for addressing the challenges mentioned. After a public consultation which ended in July this year, the quantitative targets will be published in October 2021, after G20 endorsement. In 2022 the actual levels of the target variables will be measured, so as to provide a baseline against which future progress towards the targets can be monitored. In October 2022 the FSB will provide a report to the G20 and to the public with relevant Key Performance Indicators (KPIs).

During the Italian Presidency of the G20, the webinar “Enhancing Digital and Global Infrastructures in Cross-border Payments” provided the opportunity to look back at what we have achieved after almost one year of work, and look ahead at what we aim to achieve towards safer, more efficient and more inclusive cross-border payments. This event brought together central banks, other public authorities, academia and the industry – all playing crucial roles in pursuing the Roadmap.

Main takeaways

1. Enhancements of cross-border payments are aimed at fostering **efficiency and trust**. This has been at the top of the international agenda for many years, owing to the increasing demand for cross border payments. Compared to domestic payments, the efficiency of many cross-border transactions has deteriorated due to two main factors: strong progress in domestic payments (driven by technological innovation) and reduction in correspondent banking channels owing to de-risking. Cross border payments remain costly, opaque, expensive, cumbersome and for some users inaccessible. Confidence in cross-border transactions is consequently negatively affected, whereas trust along the payment chain is an important enabling factor. Service providers have to be able to trust the foreign operators they transact with; users and their service providers have to trust each other.
2. **Technology** is a crucial driver to enhance cross-border payments; in fact, recent technological advances are enabling new functionalities that could so far not be achieved or only be achieved

at very high costs. However, technology in isolation is not sufficient; other necessary factors are: 1) cooperation among all actors involved (from both the private and the public sector); 2) an enabling environment, including incentives for private sector participation; 3) solid and mutually consistent legal, regulatory and data frameworks across relevant jurisdictions (to ensure that data is adequately accessed and protected); 4) a focus on the implications for macro financial stability. All of the above are necessary to create an ecosystem with the appropriate governance and design for cross-border payments to be made smoothly and safely.

3. Close **cooperation** between authorities and market operators is pivotal to achieving the aspirations of the FSB Roadmap. This specifically calls for the involvement of several public stakeholders, including central banks, data governance authorities and standard setters, so as to create a fertile environment for innovative private sector initiatives. Cooperation is key not only to “fix the pipes” for cross-border payments, but also to reduce the digital divide and foster financial inclusion and education.
4. At the same time, **alignment of regulatory frameworks** across jurisdictions should be pursued with a view to gradually converging towards a common baseline, including on data governance and user protection.
5. Besides regulation, convergence is needed on **technical standards and practices**, such as messaging and operating hours of national payment systems.
6. The key focus on the first year has been in enhancing understanding, for example through stocktakes, consultations, and a techsprint. The next phase of the Roadmap entail a shift from stocktaking onto best practice and recommendations and frameworks. There are two main areas of focus:
 - the first is devoted to improving the present infrastructures and arrangements, by strengthening the existing links between payment systems, or building new links, and reducing the relevant risks;
 - the second focus area aims to facilitate emerging payment infrastructures, and explores the potential of new multilateral platforms, global stablecoin arrangements and central bank digital currencies (CBDC).
7. The **interlinking** of existing infrastructures maybe quicker to achieve than setting up a single **centralized multilateral platform** may represent a longer term solution. The latter solution, while being in principle capable of delivering greater benefits (e.g., economies of scale and a simpler cross-border payments ecosystem), is likely to pose significant challenges: greater complexity of the governance arrangements, potentially magnified operational and cyber risks and migration costs; and, as a result, its realization will require more time.
8. Further evidence of the potential of interlinking existing infrastructures is provided by the successful experimentation of interlinking two retail instant payment platforms, the Arab BUNA and the European TIPS. This experiment highlights that it is possible to swiftly process a cross-border payment that requires both a message-format and a currency conversion. This suggests that the main obstacles to overcome are not necessarily of a technological nature, but rather concern governance issues, and divergent practices and business models, often due to heterogeneous regulatory frameworks (e.g. for anti-money laundering) across borders.
9. **CBDC** initiatives could, in principle, greatly contribute to improving cross-border payments. To date, no major jurisdiction has launched a CBDC and even among the jurisdictions with advanced projects the focus has mainly been on domestic use, and many design and policy decisions are still pending. If launched by multiple jurisdictions, CBDC could offer more secure settlement, reduce the number of intermediaries involved in cross-border payments, and thereby deliver

improvements in terms of cost and time. Different models are currently under analysis by a specific workstream within the Roadmap. A number of open issues remain to be addressed, for example associated with the possible use and risks of CBDC – as well as of global stablecoins arrangements – both as a means of payment and as a store of value. Open issues are—among others—the risk of misuse for illicit financial activities, cyber risk and undesirable macro-financial implications.

10. When it comes to new payment instruments, user **trust** is key. Central banks have a role to play in the field of retail payments, but probably even more so in wholesale trades. Trust requires security and reliability. A shift of perspective can be expected once trusted solutions are offered: the investment to offer them as well as their pricing are to be seen not so much as a cost to providers and users, but rather as a value to both. Moreover, new products should take into account user habits and behavior and be designed in such a way as to clearly present benefits for users. This will help maximize acceptance and deliver on the promised benefits in an interconnected economy. In fact, innovative solutions, in addition to being safe, should be efficient and thus make the transition to innovation convenient. New technologies or innovations, such as DLT or smart contracts, may not yet be mature, but it is important to explore their potential and to draw inspiration from their functionalities.
11. Whatever solutions are chosen, it will be necessary to implement adequate safeguards to guarantee **macrofinancial stability**. For example, the risk of currency substitution may arise as a result of raising the efficiency of cross border payments. Countries are protected from currency substitution by sound policies and credible public institutions that fortify the trust in the domestic currency; paradoxically, so far, a form of protection has also been guaranteed by the frictions in cross-border payments that make it costly and cumbersome to hold or transact with foreign currency. Frictionless transfers of money could have the unintentional side-effect to facilitate currency substitution, with the consequent risk that countries may be adversely impacted in the control of domestic monetary and financial conditions. This needs to be properly addressed.
12. The **role of central banks** in the Roadmap may be twofold: they can act as catalysts, to lead the market towards the shared goals, and they can take a more central role as developers and operators, so as to deal with potential market failures and neglected collective needs. Sandboxes exemplify initiatives that might be undertaken by authorities in their role as catalysts for innovation, not only as regulators. While sandboxes tended to be only open to fintech new entrants, they are now increasingly open for incumbents to experiment with innovative solutions in a controlled environment. Through different initiatives, authorities may stimulate the market to make progress in case in which –left to itself– the industry may only move at the pace of the slowest mover. Besides acting as catalysts or regulators, authorities also take an active role in operationally supporting market players. The typical engagement of central banks as operators entails efforts to explore the costs and benefits of extending and aligning RTGS operating hours, as well as broader access extended to non-bank participants.
13. In light of the above, we need to strike **the right balance between private initiative and public intervention**. The private sector has taken a number of initiatives and made significant investments in the field of payments. It thus appears to be well-placed to deliver solutions towards improving cross-border payments. Private initiatives, supported by public incentives and regulatory push where needed, are a fundamental component of a collective effort to achieve a shared goal.
14. In full recognition of the importance of **horizontal coordination**, the FSB and CPMI are significantly liaising to ensure coordination across the workstreams addressing the different BBs of the Roadmap, since the activities carried out by each BB are important for the success of other BBs. For example, alignment of data frameworks can speed up AML checks and make them less

expensive, with benefits for the overall speed and cost of cross-border payments; and convergence in messaging standards and alignment of systems' operating hours can make the settlement of cross-border payments more efficient.

15. After the ongoing first phase of the Roadmap, characterized mainly by stocktaking analyses and outreach, workstreams are now approaching an even more **challenging phase**, i.e., spurring convergence towards the identified objectives. In the way forward, it will be important to foster private sector involvement and active commitment to ensure a strong project governance, prepare detailed work plans, and allocate adequate and skilled resources.
16. **Every jurisdiction should be on board**, with mutual support, in case some countries may struggle to identify and implement efficient initiatives, to adapt regulation and to integrate current processes, so as to avoid that fragmentation and inequality rise.
17. Concluding on a more general note, we may anticipate that efficient cross-border payments may facilitate the development of other innovative services beyond payment functionalities—within the broader context of the “information revolution”. The benefits of cross-border payments may complement those of digital identification and other innovative services, and thus provide humanitarian and economic support to the disadvantaged.