European Banking Associations response to the FSB Consultation on Targets for Addressing the Four Challenges of Cross-Border Payments

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?

As a general remark, we would like to clarify that our answers are given from a European point of view, meaning that references to 'cross-border payments' should be considered as regarding extra-EU transactions; similarly, 'domestic payments' refer to intra-EU transactions (the bulk of these are in euro but these can also be in one of the other EU currencies).

We believe that the four challenges are correctly identified in the analysis as the main drivers for the achievement of the G20 Cross Border Payments targets, even if we should note that speed, cost and transparency are more relevant than access in high-income countries. Access in emerging and developing economies remains a significant target.

Nevertheless, it is important that speed enhancement would not threaten the security of payments and compliance, considering cyber-threats, fraud and AML/CFT risk. Therefore, we suggest considering "security/compliance" in this wide concept as the fifth challenge of the project.

Regarding the principle of the targets focusing on end-user experience, we consider that a sole focus on targets related to the experience of end-users (henceforth "output targets") may not be sufficient. The concrete situation for end-users depends on a variety of factors, many of them out of scope or reach of the FSB/BIS program. Focusing on output targets alone therefore may be inadequate for assessing the success of the program. Hence, the program should also encompass quantitative and qualitative "input targets", which relate to the legislative, regulatory and industry actions as direct results of the program (please see also our response to question 11).

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?

We consider the described market segments reflect today's reality. It is common market practice to make a distinction between interbank and retail payments. Having said that, the distinction in the three segments mentioned (retail, wholesale, and remittances) is true, however these segments are not mutually exclusive. In fact, the "retail" segment covers a full range of services, from small P2P payments amounting some hundreds EUR/USD/equivalent, to huge raw material internal exchanges where the smallest amount is tens (if not hundreds) of million EUR/USD/equivalent. Cost and speed requirements are not the same. As to remittances, depending on the payment details provided by the originator, these are treated either as a separate payment product or as part of a retail payment service payment product.

We also consider the clients' segmentation adequate. It is important to include, in terms of payment systems, commercial payments processed via Credit and Debit cards circuits in order to preserve the same playing field among different players within payment ecosystem. It is also important that cost and speed are calculated separately for different payment methods (bank payments, credit/debit card payments, fintech payments).

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

The target related to transparency seems generic and should be better defined taking into consideration that the channels used to provide such information to clients (paper, home banking, mobile apps) could have different impacts, and interfere with the customer journey. Reducing payments timing might bring higher fraud risks, in particular for 7/24 services. Security should be part of the metric. As concerns the *cost target, it should be considered that some parties may not be aware of the full cost of the transaction, as commercial international usage foresees different types of charges (i.e., OUR, BEN and SHA).*

More in detail:

Cost: Cross-border retail payments and remittance payments are processed as "single" transactions and a number of compliance checks has to be performed throughout the payment chain. This means that costs per transaction are potentially higher than related cost 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. In order 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%).

Speed: Based on the current experience with SWIFT 'gpi', an intraday payment is largely feasible. However, among others reachability issues of the Beneficiary PSP, sanctions screening issues and/ or the availability of instructed currency may influence the execution time. Additionally, maximum execution times could be agreed for STP payments in main currencies or if no conversion is required. Possible development of CSMs (clearing and settlement mechanisms) with hub functions in different global regions, especially in the G20 regions, may be worthwhile to be considered.

Access: Due to the current legislative framework and market practices, access is not a fundamental problem in the European Union.

Transparency: The proposed "defined list of information" should be widely feasible if the payment is processed in an infrastructure environment supporting the delivery of such information end-to-end. A number of exceptions exist if a payment system change is necessary caused by an intermediary.

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?

Yes, we agree. There should be a distinction between remittance to provide "physical cash" and credit on accounts. It is then necessary to distinguish between corridors and currencies when evaluating the overall cost. Data sources for remittances and retail payments could be identified in SWIFT, major card circuits and major fintechs. All these data sources contain data on payer country, payee country, currency and amount. If payment samples are extracted from these data sources, then local payment authorities may collect the required information on cost for payer and payee and on end-to-end delivery time. Currently, depending on the payment details provided by the Originator, remittances are treated either as a separate payment product or as part of a retail payment service payment product. It should also be noted that when a remittance is initiated by a customer of a non-specialised PSP, it cannot be differentiated from a classical P2P payment when an account of the beneficiary should be credited.

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?

Today payment infrastructures and market practice do not allow to measure correctly all the indicators (speed and costs first of all); it is necessary that the Payments and Market Infrastructure (PMI) evolution will progress to report more transparency in these aspects. Cross-border payments are executed via different channels, with different kind of settlement finality. It is difficult, if not impossible, to obtain comparable numbers of payments executed via credit/debit circuits, banks circuits, different market infrastructures, or interlink circuits. Due to the low number of transactions in the cross-border

environment, CSMs could be monitored; or via SWIFT network itself, "target information" could be collected, but not through each PSP.
Speed, cost and transparency may be measured and compared only on quality-quantitative ways, based on subjective judgement. Adequacy of targets depends also on PMIs evolution as stated above. As stated under question 1, the concrete situation for end-users depends on a variety of factors, many of them out of scope or reach of the FSB/BIS program. Thus, seeking numerical targets on a very high level may be counterproductive to measuring the success of the program or its resulting action. Besides, it should be considered that cross-border retail payments represent a very low market share of all payments executed (around 1-2%).

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?

In our opinion, a cost target should reflect "real" average costs for a certain reference amount and it should take into account the service level requested. The latter is very different between a small P2P and a large commercial payment. The forthcoming instant payment option will further add to the possibility for different service levels. If cost targets were determined in terms of absolute value, it should also be considered that said values may not be reliable anymore in a six-year horizon. Furthermore, it is unclear how the "current costs", from which the targets are being derived, have been determined. It is unclear whether they shall reflect end user fees or costs to banks and other PSPs. Without these clarifications, the numerical cost targets are not measurable. Furthermore, it should also be considered that for some transactions to happen, the manual intervention and the participation of intermediaries, whose costs are not always known in advance, may be required.
In addition, market mechanisms will lead to a conflict between the targets "speed" and "cost" 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.

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 achievement of the speed targets involves multiple subjects, infrastructures and processes along the critical payment path which must all be aligned on the target to be reached. Often infrastructures and processes are the same for the different segments. We agree to define a common speed requirement across the three market segments because the recognition of different types of user/segment speed target risks becoming an additional burden to payer/payee PSP. However, the targets "*75% in one hour*" and "*the remainder within one business day*" are misleading, generic, and too ambitious: any speed target should therefore focus on the specific means of payments and its characteristics. As such, we envisage a great improvement due to initiatives such as SWIFT gpi etc. 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 and other tasks: comprehensive adherence to the aspired speed target ("*one hour*") will be challenging given the related complex and heterogenous framework conditions (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 (e.g., fraud, financial crime, and AML inquiries) or common industry standards (e.g., ISO 20022 usage).*

Moreover, reachability issues of the receiving PSP (routing) and/or the instructed currency may influence the execution time. Maximum execution times (speed targets) should be market-driven in a standard STP payment chain only in global "main currencies", and when no currency conversion is required.

In addition, the planning horizon for the said target levels may be too ambitious (as a comparison: the SEPA instant credit transfer scheme has been running for four years, but ramp up across SEPA countries has been very different).

Time windows in market infrastructure normally are not 7/24; this is a key point to design effective cross-border payments in efficient and fast way. Will be central bank accounts subject to balance movement 7/24? Bank treasuries could be strongly impacted by overnight movements.

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?

Overall, we appreciate the initiative for global action. However, such a complex overhaul of the global payments system requires a thorough internal analysis as well as an analysis of the whole system, in order to define a target date. Right now, the targets are a strong challenge for all parties involved. Taking comparable measures and their investment cycles into account, a longer time frame should be assessed. Too ambitious targets in a short period of time – e.g., 2027 with a global view is really ambitious – will not lead to solve or reach all the targets.

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?

SWIFT gpi successfully created the first attempt to track payment costs end-to-end. In general, there is no one source to collect costs information.

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 harmonization of regulations on payments transparency and AML/CFT in the most of involved countries.

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?

As already mentioned, a strengthening of the security (and cybersecurity) system, shared by all stakeholders, can represent a qualitative target that would positively influence the entire payment process. Furthermore, promotion of standardization (e.g., ISO 20022 XML) should be supported in the area of cross-border payments (retail and high value payments). Creation of SEPA standards in the EU for Euro payments is a good example.

Also, as stated under question 1, besides end-user affecting "output targets", the initiative should also measure its success at the background of "input targets" which relate to the legislative, regulatory and *industry actions as direct results of the program. These should be aligned with the initiative's focus areas (A through E) and could encompass aspects 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 more speedy FX transactions)*
- *Number of initiatives by market infrastructures to better facilitate cross border payment corridors.*
- *Market implementation of technical standardisation efforts such as ISO20022, IBAN adoption.*

About the submitting Associations:

European Banking Federation (EBF)
The European Banking Federation is the voice of the European banking sector, bringing together 32 national banking associations in Europe that together represent a significant majority of all banking assets in Europe, with 3,500 banks – large and small, wholesale and retail, local and international – while employing approximately two million people. EBF members represent banks that make available loans to the European economy in excess of €20 trillion and that reliably handle more than 400 million payment transactions per day. Launched in 1960, the EBF is committed to a single market for financial services in the European Union and to supporting policies that foster economic growth.

European Savings and Retail Banking Group (ESBG)
The European Savings and Retail Banking Group (ESBG) has 23 members in 18 countries. As some of its members are national organisations, ESBG represents the interests of over 800 banks working responsibly and closely with their communities and SMEs. It advocates for policies and regulations that are proportional and help its members continue serving 162 million Europeans. Together, ESBG members manage assets worth €5,700 billion and employ 600,000 people.

European Association of Co-operative Banks (EACB)
The European Association of Co-operative Banks (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 27 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 2,700 locally operating banks and 52,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 214million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 85million members and 705,000 employees and have a total average market share of about 20%.

European Association of Public Banks (EAPB)
The European Association of Public Banks (EAPB) is the voice of the European public banking sector. EAPB represents directly and indirectly over 90 financial institutions with overall total assets of over € 3.500 bn and 15% market share of the European financial sector. EAPB members are national and regional promotional banks, municipality funding agencies and public commercial banks across Europe. EAPB members provide financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.