BILL & MELINDA GATES foundation

To whom it may concern,

We appreciate the opportunity to provide input on the '*Interim report to the G20: Linking fast payment systems across borders: considerations for governance and oversight*'. We share the view that oversight and governance are critical considerations as they lay the foundation for any payments scheme or arrangement. Global thought leaders and implementation teams are eager to hear BIS' perspective on this very important topic.

The remaining document share the views of the Financial Services for the Poor team at the Bill and Melinda Gates Foundation. Our comments are the result of intense observation across the industry. As you will see, we emphasize opportunities to ensure pro-poor outcomes, acknowledging that including low-income and women end users in the formal economy, benefits everyone.

We welcome any questions, comments, and opportunities to collaborate.

Sincerely,

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1. **What are your views on the working definition of governance laid out in this report?**

As we understand it, the interim report bases its definition of governance on CPSS_IOSCO (2012) whereby governance is *"the set of relationships between an FMI's owners, board of directors (or equivalent), management and other relevant parties, including participants, authorities, and other stakeholders […]. Governance provides the processes through which an organisation sets its objectives, determines the means for achieving those objectives, and monitors performance against those objectives".*

We believe this is a strong functional approach to defining governance as it provides a broad foundation. The interim report expands on this definition by outlining four key questions on which each FPS interlinkage must formulate an organizational view:

- Which decisions are specific to FPS interlinking arrangements?
- Who has decision-making authority?
- How will this authority be used?
- What are the objectives of the organization?

As advocates of financial inclusion, we encourage the BIS to highlight that governance includes a more qualitative lens. More specifically, there is an opportunity to enhance governance to include inclusiveness as a central organizational tenet, whereby inclusiveness means ensuring that the needs of all end users, are met – including the payment needs of the poor (See Question 2 for more detail). Historical evidence shows that pro-poor outcomes will not be achieved on their own - as evidenced by the recent *FSB Annual Progress Report on Meeting the Targets for Cross-border Payments, 2023 Report* *on Key Performance Indicators* - cross-border fees remain stubbornly high. In fact, evidence from the report shows that high cross-border fees disproportionately impact corridors with high representation of low-income end users. For example, the cost of sending a P2B payment across borders varies widely throughout the world, with North Americans paying only 1.6% on average, while Sub-Saharan Africans pay 7% on average. What's more, service providers globally continue to be non-transparent about the total transaction cost of sending a cross-border payment, with only 56.7% of global payment services providing information on cost and speed. This is dramatically lower in Sub-Saharan Africa where less than 30% of P2P and less than 10% of B2P and B2B cross-border payment services are providing cost and speed transparency.

While some FPS interlinkings will be inclusive based on the intrinsic nature of one or more of the underlying domestic payment systems, it is essential that this quality be present, and of focus, in cross-border payment arrangements as well. Payment systems, whether domestic or cross-border, should meet the needs of all users, and this goal should be clearly stated as an objective of the arrangement.

2. Do you think that some specific features of governance should be prioritised and if so, which ones? What would be the basic/simple requirements for a resilient governance arrangement to be adopted by an interlinking arrangement?

As we understand it, the interim report identifies the following governance features:

- Role and composition of the board and any board committees
- Senior management structure
- Reporting lines between management and the board
- Ownership structure
- Internal governance policy
- Design of risk management and internal controls
- Procedures for the appointment of board members and senior management
- Processes for ensuring performance accountability.

Each of the features are integral components of governance. The versatility in designing each feature underscores the adaptability to diverse objectives that may exist in FPS interlinking arrangements, and cross-border initiatives more broadly.

While adaptability to different circumstances is fundamental, we believe that a consistent priority objective should be a focus on supporting inclusive outcomes as measured by the ability to meet low-income and women end user requirements. These needs can be categorized as requiring the following aspects from digital financial services:

- Accessible: Users can easily acquire and use digital financial services
- Reliable: Users' money and information are secure and available for use; systems help deter usage for money laundering and terrorist financing
- Valuable: Increase the value proposition for low-income consumers to use DFS rather than cash or other traditional services
- Affordable: End users are willing and able to pay for the cost of preferred product and receive value in excess of cost.

With this overarching priority, the ownership structure emerges as a particularly important design feature for a resilient arrangement. Owners wield the ability to set the objectives and direction of an FPS interlinking arrangement – initially and on an ongoing basis. To effectively realize inclusive outcomes of an FPS interlinking arrangement, it is imperative to establish equal ownership opportunities for all direct participants of the scheme, encompassing both bank and non-bank entities. It is important to recognize that this ownership opportunity may not exist in instances where domestic FPS are central bank led. This is an appropriate approach. What we want is to avoid an uneven playing field for participating institutions, and the end users they serve.

Relatedly, to encourage engagement by all stakeholders, the governance arrangement should maintain formal working groups and channels, providing ample opportunities for entities and end users to provide feedback.

A second feature – operating as a cost recovery plus investment business model - also emerges as an important design feature for a resilient governance arrangement. For further details on this point, please see our response to question 10 (Consideration 5).

3. **Can existing governance or oversight frameworks and/or arrangements be leveraged for FPS interlinking? Do you think that different FPS interlinking models should be subject to different governance or oversight frameworks? Please explain.**

Governance frameworks provide a useful analytical construct to assist implementers in understanding key considerations and associated trade-offs with governance design choices. Such frameworks are particularly timely recognizing that many new cross-border initiatives are in the design stage of development. We reiterate the importance of having financial inclusion as a centerpiece in any recommended framework.

Two existing references provide governance guidance that is worth elevating: the International Telecommunication Union (ITU) reports on interoperability and oversight provide a number of principles for international interoperable arrangements that resonate with our views on inclusive governance to enable financial inclusion. In particular, the ITU highlights the need for all public and private sector stakeholder groups involved in the agreement to have ownership in the arrangement. The second report worth noting is the forthcoming Policymakers' Handbook on Enabling Migrant Remittances in Cross-border Payment Models by the UNCDF. In this document, it is noted that a key attribute of an inclusive cross-border payments model is an inclusive governance model, whereby 'stakeholders' ability to have input into how the Payment System is organized is essential to ensuring they remain engaged. Central banks of participating counties (or the regional central bank) should have a role in oversight or Scheme governance. As well, system Participants – not just the owners – should have meaningful input opportunities into Scheme governance.'

To the later question, while it is possible (and likely) to have different governance frameworks that are constructed to address the unique elements of FPS interlinking models, there is an opportunity to align around a single framework that encapsulates variability that will exist in market. A single framework allows us to maintain consistent, essential principles for inclusive governance and oversight.

4. Are the 10 considerations learnt from the interaction with stakeholders comprehensive? Is anything important missing or not properly addressed?

The 10 considerations provided in this report offer global leaders and FPS implementers pivotal guidance that can influence the eventual outcomes of an FPS interlinking arrangement. This insight is especially important now given the targeted and timely global policy engagement to improve cross-border transfers, particularly remittances, led by the G20 and SDG, and the rise of new cross-border connections.

There is an opportunity at this key juncture to garner commitment to inclusive governance and inclusive design choices as a means to ensure pro-poor outcomes. This inclusivity not only benefits the domestic countries, but also helps lead to greater usage and volumes for the FPS interlinking arrangement. Within the 10 considerations highlighted in the interim report, the following considerations emerge as pivotal elements to inclusive governance arrangements that prioritize pro-poor outcomes:

- Consideration 2: Objectives and Vision
- Consideration 5: Business Viability
- Consideration 6: Stakeholder Involvement

Consideration 2: We urge increased focus on two important aspects here. First, we believe that the ownership structure is a key design choice that can have overarching implications on all other governance elements. With this understanding, to support inclusive outcomes, there should be equal ownership opportunities for all direct participants of the scheme, including both bank and non-bank entities. As well, as noted above, the FPS Objectives and Vision should include a focus on meeting the needs of all End Users, including the payment needs of the poor.

Consideration 5: With financial inclusion objectives as a central tenet, it is imperative that services are accessible, reliable, and affordable to all end-users. This is best achieved when the FPS interlinking arrangement operates on a cost recovery plus investment basis, enables a competitive FX environment, and supports fee transparency. This approach promotes competition and allows providers to obtain an appropriate profit while also retaining a core focus on keeping costs as low as possible to enable the provision of low-cost services to end users.

Consideration 6: To ensure that inclusivity permeates all activities and decisions within the interlinking arrangement, both direct and indirect participants should be provided formal and informal mechanisms to provide input on the direction of the FPS interlinking arrangement. This should take place in a variety of ways, including a multi-stakeholder advisory council, subcommittees to address specific issues, and formal channels for broader public stakeholders to provide feedback.

5. Is there any further guidance (beyond those listed in Annex 1) that would support safe and efficient FPS interlinking arrangements?

Guidance specific to FSP linking arrangements is necessary. However, we cannot overlook that linking arrangements begin with domestic FPS and domestic FPS that are designed for inclusivity perpetuate these features into cross-border arrangements.

For example, inclusive FPS interlinking arrangements should provide instant funds availability to end-users. Access to funds in less than a day or even an hour are insufficient to accommodate the needs of low-income and women end users. However, evidence highlights that this is yet to be achieved. The recent *FSB Annual Progress Report on Meeting the Targets for Cross-border Payments, 2023 Report on Key Performance Indicators* shows that globally, only 42% of retail services make funds available to the receiver in one hour. Some of these delays are likely a result of last mile delivery capabilities. As a result, a secondary set of references, specific to inclusive domestic FPS may be of value, including the Level One Project 2019 Guide and the AfricaNenda 2023 SIIPS report, among others.

Questions on single considerations (directed to all stakeholders)
6. Consideration 1. To what extent is the alignment regarding strategic and economic policy priorities among the involved jurisdictions a pre-condition for the design of an interlinking arrangement's governance?

We strongly believe that policy goals and objectives are not limited to the confines of national borders and should also be reflected in the cross-border arena. Where the regulator includes and promotes financial inclusion in domestic payment and financial systems, those same objectives should be carried forward as extensions of the payment system itself and as priorities for the participating stakeholders in an FPS interlinking arrangement. To paraphrase this belief – the aspirations that inspire domestic policy objectives extend to all aspects of society, including payment systems. As a result, we strongly believe that more focus and consideration should be undertaken to integrate financial inclusion as a strategic and economic policy priority, to ensure that belief is extended to FPS interlinking arrangements.

However, the need to develop interlinking arrangements that support low-income end users cannot necessarily wait for clear alignment of economic and policy goals across countries. Solving the problem of expensive and slow cross-border payments for low-income end users is urgent.

What's more, if strategic and economic policy priorities among involved jurisdictions are partially or not at all aligned, the ability to develop an inclusive FPS interlinking arrangement could serve as the basis for future cooperation and for changes to domestic policy priorities.

7. Consideration 2. What is the best way to identify and define a shared long-term vision in terms of objectives and guiding principles (inclusivity, neutrality, agility etc) of an FPS interlinking arrangement?

Our analysis shows that no current cross-border initiative is fully positioned to ensure pro-poor outcomes. In fact, in many instances initiatives are jettisoning or ignoring pro-poor outcomes for practicality. Defining a shared long-term vision of an FPS interlinking arrangement is a critical first step in making sure the arrangement is inclusive, effective, and sustainable. Tactically, this happens by engaging all the relevant stakeholders in the vision-setting process, which could include central banks, payment system operators, regulatory bodies, industry associations, banks, payment institutions, e-money issuers, technology providers, consumer advocacy groups, and end-users. By including diverse perspectives and considering the needs of various stakeholder groups, this creates a more collaborative environment and increases the likelihood of broad support for the defined shared vision and use of the arrangement.

There is an opportunity to develop a "Cross-Border for Everyone" pledge and corresponding inclusive cross-border principles that can be endorsed by all cross-border FPS initiatives that provides a visible commitment to and reminder of desired outcomes. This pledge can be used as the basis for ensuring inclusive design principles, since an inclusive vision does not ensure inclusive outcomes. As acknowledged, inclusive principles need to permeate all design decisions to ensure that all details of the arrangement meet low-income end user requirements.

9. Consideration 4. How can the governance of the interlinking arrangement ensure flexibility, scalability and openness to cope with structural changes, such as new corridors/services or changes in ownership?

While there is an observable increase in focus on FPS interlinking arrangements, especially centered around Project Nexus, there continues to be strong interest by African and East Asian stakeholders in regionally focused, more centralized cross-border models. We anticipate that the different models will actively coexist.

Conceptually, we believe these models can be complementary, and different regions and countries may sequentially organize cross-border arrangements in varying ways – constructing some bilateral FPS linkages then joining other regional schemes, as an example, or a regional FPS may interlink with a domestic FPS. As a result, governance arrangements should consider and codify approaches to manage expected and unexpected structural changes and expansions. These changes can also consider dynamic domestic financial landscapes, that continuously evolve and present new challenges and opportunities. An adaptable governance arrangement can better accommodate these changes, such as mechanisms to add new members to the FPS interlinking arrangement.

10. Consideration 5. What are the most important ways in which the governance can help make the FPS interlinking arrangement commercially viable/sustainable?

We believe that all FPS interlinking arrangements should have financial objectives that maintain a pro-poor posture. This would include the provision of services that are accessible, reliable, and affordable such that end-users are willing and able to pay for the service and the value received from the service outweighs the cost of the service.

This is currently not the case in for all cross-border corridors. The recent *FSB Annual Progress Report on Meeting the Targets for Cross-border Payments, 2023 Report on Key Performance Indicators* shares that across corridors, the costs of retail payments, and especially remittances, remain stubbornly high. For example, remittances into Sub-Saharan Africa (SSA) are particularly expensive, with the average cost for receiving a remittance of $200 to SSA at 8.4%. This is greatly above the target maximum cost of 5%.

The record shows that cross-border payments systems, including FPS interlinking arrangements, will not be pro-poor unless all aspects, including governance, are explicitly designed for inclusivity. Through this lens, special emphasis should be placed on four key elements:

1. An FPS interlinking arrangement operates on a **cost recovery plus investment** basis
2. An FPS interlinking arrangement promotes a **competitive environment**
3. An FPS interlinking arrangement supports **transparency of fees**
4. An FPS interlinking arrangement considers ways **to decrease compliance costs**

- Cost recovery plus investment: An FPS interlinking arrangement should be considered a shared utility, not a profit maximizing activity. Fees to sustain an FPS interlinking arrangement can be priced to only recover the initial investment expenses required to setup the arrangement and to support future system investments. As payments systems are large infrastructure investments, they require a longer time horizon to achieve cost recovery, typically around ten years. Using a longer time frame for cost recovery goals is critical to enabling the FPS interlinking arrangement fees to remain low. Low costs 'at the center' enable service providers to obtain an appropriate profit while also keeping fees low for end users.

- A competitive environment: A healthy financial services ecosystem involves multiples providers, which promotes competition. While this is essential across many areas (e.g., bank and non-bank participation), its relevance extends in cross-border arrangements to include the provisioning of foreign exchange (FX) services. There should be a level playing field for entities who wish to provide FX services, enabling competition on this historically high-cost element. For example, the Buna cross-border payment platform facilitates FX conversation via a central FX marketplace. Such an approach should be considered more broadly as it effects FX cost efficiencies for participants and end-users, which is critical to the sustainability of an FPS interlinking arrangement.

- Transparency of fees: In line with the goal of affordability to end-users, transparency of fees (i.e., total fees and components like sending and receiving fees, intermediary fees, etc.) should be a key priority. While transparency alone does not directly reduce cost, increased pricing transparency to end-users on the FX rate and fees can contribute to more pricing competition.

- Compliance costs: Compliance screening costs is another key factor that drives the costs of cross-border payments higher. Due to differing compliance requirements in different countries, compliance screening is often duplicated in each domestic leg of the transaction. We need to deeply consider how to streamline compliance checks, which remains an unsolved challenge in the cross-border payments space and has a disproportionately negative effect on low value transfers.

Through the implementation of these four critical elements, among others, an FPS interlinking arrangement can support commercial provider viability/ profitability while prioritizing the needs of low-income and women end users. Without such extra care and attention to cost components, pricing models, and fee transparency, providers to an FPS interlinking arrangement may advocate for models that would maximize their financial outcomes at the expense of affordability to end-users.

11. Consideration 6. What governance mechanisms can FPS interlinking arrangements adopt to involve stakeholders and appropriately consider their views in the decision-making process without adversely affecting its agility?

Governance sets the tone for everything the occurs in an FPS interlinking arrangement, and thus it is crucial that the governance arrangement ensures that both direct and indirect participants are provided formal and informal mechanisms to provide input on an FPS interlinking arrangement. This can be achieved through diverse stakeholder engagement, including the development of a multi-stakeholder advisory council, the implementation of subcommittees to address specific issues and for consultation on focus topics, and formal channels for broader public engagement.

First, the governing body should create a multi-stakeholder advisory council with representatives from various stakeholder groups, such as central banks, payment system operators, regulatory agencies, industry associations, banks, payment institutions, payment service providers, e-money issuers, consumer advocacy groups, technology providers, and end-users. This advisory council could provide input and insights without directly participating in daily decision-making, thus ensuring agility for the governing body. For a domestic example, the Central Bank of Brazil has a Pix Forum which is a permanent advisory committee to the Central Bank where issues related to Pix are discussed, with the objective of supporting the Central Bank in defining the Pix operating rules and system enhancements. The forum has over 200 participating institutions.

Similarly, to enable further support for the governing body, the governance arrangement should include subcommittees or working groups focused on specific topics or issues. These groups should include subject matter experts from different topical areas to collaboratively address challenges that arise and evaluate opportunities as they develop, and ultimately make recommendations to the main governing body. Here as well, the Central Bank of Brazil has created multiple working groups for Pix, which are divided into key focus areas including business elements, technical requirements, messaging standards, and security.

To encourage open communication, the governance arrangement should maintain formal channels for the public to submit feedback and suggestions for improvement. The feedback channels should be easily accessible, including using dedicated email addresses or online platforms. For example, the National Payments Corporation of India (NPCI) provides multiple channels for the public to engage with NPCI to provide comments or make a complaint, including the provision of a dedication toll free phone number, an online webpage, a dedicated portal, and social media channels. NPCI actively engages with individuals who interact on these channels, thereby showcasing their consideration and concern for the public's view of NPCI.

Such avenues provide diverse stakeholders an opportunity to have a voice and enables their perspectives to be considered, while retaining the ultimate decision-making power with the main governing body, thereby keeping the governance of an FPS interlinking arrangement sufficiently agile.

Finally, to ensure the main governing body is adequately incorporating stakeholder input, there should be periodic governance reviews to regularly evaluate the effectiveness of the governing body in balancing agility and stakeholder involvement. If the broader set of stakeholders feels inadequately represented, care should be taken to adjust the governing arrangement to address the imbalances. Given the likely continuously evolving nature of an FPS interlinking arrangement and the various domestic and regional ecosystems it serves, the governing body should maintain a culture of periodic self-assessment, to ensure the arrangement remains effective and is continuously being improved.

Questions on single considerations (directed to central banks)

15. Consideration 10. Do you see any challenges if overseers are being involved during the design and implementation phase of an arrangement's governance? If so, which ones?

We believe overseers play a pivotal role in the design and implementation of an arrangement. Overseers can champion a project, unblock regulatory hurdles, and embrace innovations, among other things. Their engagement also promotes economic and policy alignment, which is a favorable precondition (or parallel condition).

Specifically, overseers can help create a vision that focuses on the development of collaborative FPS interlinking arrangements. For this to occur, a strategic paradigm shift is essential, wherein regulators actively nurture cooperation at the “rails” and “rules” of the cross-border payment system, and empower the “accounts” and “apps” built on top to thrive in a competitive space. Said another way, overseers can ensure an FPS arrangement is established as a shared utility (public infrastructure), while fostering healthy competition within the private sector for customer accounts. The competitive space also allows providers to obtain adjacency revenue – these may be financial (lending) or non-financial (e.g., ride hailing). The overall outcome is a dynamic and responsive financial ecosystem that benefits diverse end-users. As we have seen from domestic FPS initiatives, an ecosystem approach to financial inclusion and FPS is more likely to result in success, and overseers are an important part of that ecosystem.