

Dear Sir

As a private person knowledgeable in payments, I should like to make the following comments on the Consultative Report 'Correspondent Banking' issued by the Committee on Payments and Market Infrastructures in October 2015:

Main comment:

I strongly oppose the recommendation to abolish the direct with cover payment method and the corresponding MT202COV message type. This would be customer-unfriendly, anti-competitive and ineffective.

- **Customer-unfriendly:** The serial payment method is in many cases disadvantageous for the customer. The viewpoint of the end customers is the only one that should be considered. The parties at the beginning (ordering party) and at the end (beneficiary) of the payment chain are subject to significantly higher charges, as each intermediary bank included in the serial payment chain applies its own charges. The cumulative effect of these charges is totally unattractive. In addition, these charges are levied by intermediary banks to the detriment of parties that are not their customers. There is therefore no market pressure and control over these charges, and no way of negotiating them.

All these charges are avoided by making use of the direct with cover payment method, to the advantage of customers of banks applying this payment method and that want to provide the service for the benefit of their customers. The cost of duplicate SWIFT messages when using the direct with cover payment method are absolutely negligible compared to the charges levied by intermediary banks in the payment chain. In addition, the direct with cover payment message ensures that a beneficiary and his bank have the information on incoming payments at their disposal early so they can include them in their cash management decisions without waiting for information from other time-zones. This is especially important in cases where a currency is paid 'against the sun' (the home country of the currency transferred is further west than the home country of the final beneficiary and the final beneficiary's bank). Such inclusion in cash management balances can be made depending on the credit standard of the beneficiary and without final credit to the beneficiary's account making provision of unwinding mechanisms unnecessary. This all depends on the service level the final beneficiary's bank wants to offer to its customer and should remain in its own decision power.

- **Anti-competitive:** Abolishing the direct with cover payment method would be especially disadvantageous for smaller banks without a global in-house network – exactly those banks that are already subject to negative developments in correspondent banking. It would support further concentration of cross-border business at larger banks with a global presence that can process payments within their global organisation. Smaller banks would actually be subject to further disadvantages compared to larger, global banks when providing multi-currency services to their customers.

When a correspondent and a respondent have gone through the necessary due diligence process to open accounts with each other in their respective home currencies, there is no reason why they should not take advantage of the effort done and use their relationship for direct payment orders in other currencies, using the MT202COV to provide the necessary information and transparency on the background of the payment to the other banks in the payment stream. Leveraging existing relationships in this way is especially important for smaller banks and their ability to offer multi-currency services to their customers. Asking the Wolfsberg Group of banks to decide on such an issue of competition would mean letting exactly the large banks that would benefit from such a development decide on it!

- **Ineffective:** The weakest link in the payment chain from a regulatory perspective is always the initiating institution, bank of the ordering customer. If it initiates a payment instruction and omits decisive information (such as unwanted information in the details of payment, information on previous banks in the payment chain), it can do so irrespective of the payment method used. The information is missing in both the serial and the direct with cover payment method! It is not correct that the initiating bank is forced to include all information in a serial MT103.

The financial industry has invested heavily in ensuring that all underlying information is also available in the cover payment instruction, providing full transparency to all institutions included in the payment chain be it via SWIFT messages or in domestic payment systems. This investment would be totally wasted without enhancing the regulatory environment and transparency in payment processing.

One way of checking that the initiating institution could be to fully close the loop of information by providing the information contained in the MT202COV to the bank receiving the direct MT103. If deemed worthwhile, this could be done by creating an MT910COV and including the information from sequence B of the MT202COV in the MT910.

The FINInform solution mentioned in the report is simply an alternative to the direct with cover payment method with the disadvantage that its use is not solely in the remit of the banks at the beginning and the end of the payment chain that want to offer an enhanced, competitive service to their clients.

Keeping the functionality of the direct with cover payment method available is especially important when taking current trend in reduction of correspondent banking account relationships into account. The direct with cover payment method can counteract some of the problems resulting from this reduction mentioned in the report.

It sometimes looks a bit strange how the bar in combatting money laundering and financing of terrorism is raised further and further in payments while the actual loopholes are elsewhere and remain untouched. The water leaks from a barrel where the bar is lowest, not where it is already high! Increasing the height of the already highest bar (payments) will not keep the water in the barrel. Of course, it is nice for the people working there – increasing the height of the highest bar is working in the dry, while when increasing the height of the lowest bar means you will get wet. The bars in other fields of value transfer (movement of securities and of commodities such as precious metals) are far lower than in payments. Full transparency along the entire chain of value movement, from initiator to receiver, including market infrastructures, does not exist in these fields as it has been created in payments!

Additional comments:

1. The description of recent developments in correspondent banking (chapter 2.2) disregards one important point: Correspondent banking has not only become less attractive for the providers of such services because costs have risen (regulatory and KYC requirements), but also because revenues have deteriorated in the current extremely low interest rate environment.
2. An important point in the use of KYC utilities (chapter 3.2) is that not only correspondents must conduct a due diligence process on their respondents but also respondents on their correspondents. This double and two sided process causes in every case costs for each side in providing the information on one hand and analysing the information received on the other. Correspondents are on one hand providers of information on themselves to all their respondents and users of information on their respondents, respondents on the other hand are providers of information on themselves and users of information on their correspondents.

Yours sincerely

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