CPMI consultation: Extending and aligning payment system operating hours for cross-border payments

14 January 2022

About Wise

Wise is a global technology company, building the best way to move money around the world. With the Wise account people and businesses can hold over 50 currencies, move money between countries and spend money abroad. Large companies and banks use Wise technology too; an entirely new cross-border payments network that will one day power money without borders for everyone, everywhere. However you use the platform, Wise is on a mission to make your life easier and save you money.

Co-founded by Kristo Käärmann and Taavet Hinrikus, Wise launched in 2011 under its original name TransferWise. It is one of the world's fastest growing, profitable technology companies and is listed on the London Stock Exchange under the ticker, WISE.

11 million people and businesses use Wise, which processes over £6 billion in cross-border transactions every month, saving customers over £1 billion a year.

Consolidated Wise response on extending RTGS operating hours

Today, global differences in time zones, bank holiday dates or even weekends mean that cross-border payments face multiple hurdles to speed. In the short term, while it might not be possible to move all RTGS systems onto a 24/7/365 operating schedule, it should remain our ambition. It's important to note that RTGS operating hours are just one piece of the puzzle. Where the extension of operating hours can make a big difference (beyond the obvious increase in payment windows) is for liquidity management and the cost reductions associated with it.

Wise trades across multiple time zones which all observe different bank holidays. In some cases, this may mean that we have to lock in enormous amounts of money at an exchange rate on Friday and cannot actually pay out that money to our customers until early on Tuesday or Wednesday if time zones and bank holidays fall in a particularly 'unfortunate' way. In practice, this means we have to either limit trading for our customers to reduce our exposure, or increase prices to build a buffer and protect ourselves against excessive FX exposure. It also means we have to borrow money to pre-fund that liquidity, which leads to our customers having to pay for the interest. While we will always be transparent with our customers about any price or speed implications, we would be able to considerably lower prices if we had more frequent - or even continuous - trading windows.

Further down in this response, we would like to take the opportunity to highlight some of the other crucial parts of the puzzle to making cross-border payments cheaper, faster, transparent and efficient.

1. <u>Cloud access</u>

It's important that RTGS systems are made accessible via cloud computing. Right now, in most cases access relies on physical data centres, which greatly complicates the extension of operating hours. Physical data centres require people to be physically present to operate the RTGS system as well as jump in for maintenance in case of incidents. Cloud access leads to quicker reaction and resolution time for incidents.

The extension of operating hours would require a great increase in staffing, which can largely be avoided if RTGS systems are accessible remotely via the cloud. Some payment schemes have outsourced the technical operation to dedicated companies and have adopted a 24/7 on-call rota to ensure constant reachability, rather than having dedicated teams work around the clock. It's important those on-call teams can remotely access the necessary equipment in case there are any issues. This is why cloud services are such an important part of future-proofing the payment infrastructure.

2. Interlinking payment systems

An instant clearing system operating 24/7/365 needs to be prioritised over 24/7/365 settlement, as that would make *retail* cross-border payments more likely to be smooth, efficient and reliable. This would still require interlinking of payment systems across the globe for this to have a positive impact on the end user. While there are projects in the works to link payment systems across borders, it remains beneficial for cross-border payments to be exposed to as few payment systems as possible, limiting the number of banks along the correspondent banking chain.

Wise has already built a way to make correspondent banking superfluous. We use the local payment system to make a cross-border payment by cutting the payment chain in two: instead of making one international transaction, Wise makes two domestic payments, utilising its network of bank accounts (and in some cases - settlement accounts!) around the world to speed up payments and dramatically reduce their cost. Moving away from correspondent banking allows us to transparently communicate delivery times to our customers: our delivery estimates were accurate or (early) 90% of the time in Q4 2021.

3. The need for instant payments (not just detailed delivery times)

These delivery times are relevant because it is often thought that people don't necessarily need instant payments, they just need to know when their payment is due to arrive. Swift GPI already allows for more accurate predictions as to when a payment will arrive, in the same way as it allows for an accurate price estimate as correspondent banks can communicate their fees. It just requires banks to opt in.

From Wise's experience we can categorically say that for most customers, instant matters. Instant payments reduce customer worry in a much more significant way than delivery estimates and therefore the likelihood of those customers needing customer support goes down. By way of comparison, Wise was able to become a direct participant in Hungary's instant payment scheme and obtain a settlement account with the Central Bank of Hungary (MNB). When we started offering instant payments locally, our contact rates dropped over 75% in the first quarter alone.

In addition, instant payments aid customer retention. While we mainly want to emphasise the benefit for the end-user, it might be a compelling argument for some of the more reluctant industry players that instant payments lead to much higher customer retention. The retention decreases when a payment is not instant, drops off significantly if a payment takes over 24 hours and even more dramatically after 48 hours.

4. Access to payment systems for non-banks

One of the key areas that would improve cross-border payments in combination with extended RTGS operating hours is allowing non-banks to access settlement and reserves accounts. Today, Continuous Link Settlement (CLS) or an equivalent service enables banks to have accounts in multiple central banks and trade FX between central bank accounts as long as there is an open trading window. The longer that trading window is, the more efficiently money can move.

While CLS FX rates aren't currently very competitive, we believe an increased number of players being to trade would put downward pressure on those uncompetitive spreads. Today, CLS is only available for a limited number of countries (mainly G20) and for a limited number of institutions as it is tied to reserves account access. By opening up the access criteria to non-banks, more players would be able to trade and enable payments for their customers. In combination with extended operating hours, end-users would be able to access instant (where available) cross-border payments 24/7/365. Importantly, they would also be able to make these payments at the lowest possible cost as more correspondent indirect access sponsorships become superfluous.