

Can multilateral platforms improve cross-border payments?¹

Key takeaways

- *For decades, cross-border payments were the forgotten corner of the world's financial plumbing. But in 2020, the G20 countries decided, as a global priority, that these payment systems should be improved, acknowledging that people and economies worldwide stand to benefit from faster, cheaper, more transparent and more inclusive cross-border payment services. Multilateral platforms, ie payment systems across multiple jurisdictions, were seen as having a possible role to play in this.*
- *Defining the features of a payment system, setting up its governance and conducting a cost-benefit analysis are demanding enough even within a single jurisdiction. Involving multiple jurisdictions with different legal frameworks and many more stakeholders only increases the complexity. With the high investment costs of establishing a multilateral platform, any such initiative should be based on a thorough analysis of the pros and cons.*
- *In this article, we provide an update on the work to investigate if there could be a role for multilateral platforms in improving cross-border payments. Overall, multilateral platforms seem capable of alleviating some of the frictions that affect those payments. Yet, there are also challenges and barriers that will need to be overcome if platforms are to be established, as well as risks to be assessed. Further analysis will focus on various options for multilateral platforms, and it will be complemented by market input.*

Introduction

In our rapidly digitalising societies, services are delivered all but instantly, regardless of business opening hours or borders. Text messages arrive in seconds and information is immediately available, no matter where it is stored, through a web search. And these services are open to a very large share of the global population at an ever-decreasing user cost.

When it comes to payments, though, the world looks different. Within the same nation or currency area, payments are typically fast and cheap. Across borders, however, the multiplicity of parties involved lengthens the processing chain, slowing payments, reducing their transparency, and raising their cost. And for many users, payment services are accessible only with difficulty or not at all.

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A global agenda

In 2020, the G20 countries, during the Saudi Arabian presidency, made enhancing cross-border payments a priority. To address the problems of high costs, low speed, limited access and insufficient transparency, they endorsed an ambitious multi-year roadmap (FSB (2020)). Under the 2021 Italian Presidency, the G20 endorsed targets and stocktakes of the current infrastructure for cross-border payments. Taking up the baton in 2022, the Indonesian Presidency is carrying this work forward and focusing on, among other priorities, measuring progress against the targets and providing a framework for interlinking payment systems, including the role of application programming interfaces (APIs).

The problems of cross-border payments stem mainly from the way they are processed, via correspondent banking.² To send a payment to Bank D in currency X, Bank A must have a direct account relationship with that bank in currency X. If this is not the case, the two banks must find an intermediary – a Bank B – where both Bank A and Bank D have accounts and where the currency of Bank A can be converted. Essentially, the currencies involved should be exchanged simultaneously. If no such bank exists, they must find a second intermediary – a Bank C – that has a relationship with Bank B and Bank D. Such long chains of intermediaries are one reason why it is often difficult to trace a payment and to predict the costs and applicable foreign exchange rates for a transaction in advance. It also makes it more difficult to determine the end-to-end execution time prior to the payment.

The roadmap for enhancing cross-border payments consists of 19 Building Blocks (BB), or work streams, several being interrelated. While most seek to improve the existing “cross-border payment rails”, three are more forward-looking, exploring the potential role of new infrastructures and arrangements, in particular global stablecoin arrangements (BB 18), central bank digital currencies (BB 19) and multilateral platforms (BB 17). This article outlines the work done on multilateral platforms (MLPs) so far. It describes and categorises MLPs, explains how they can reduce the frictions of cross-border payments and lists a number of barriers to their establishment.

Multilateral platforms

An MLP is a payment system intended for payments between payers and payees in different jurisdictions.³ Participants are typically located in several countries. Also, since several jurisdictions are involved, MLPs often process multiple currencies and may also offer cross-currency services, ie services that facilitate currency exchanges. Such services let the beneficiary receive funds in a currency other than the one in the payment order submitted by the payer, and this may be a functionality of the MLP itself or it may be performed by an intermediary.

An MLP can help to solve the challenges described above by shortening the processing chains for cross-border payments. Moreover, by inducing participants to adhere to common standards and guidelines, an MLP may facilitate harmonisation across jurisdictions. Also, MLPs that are established from the ground up can avoid problems arising from the use of legacy technologies. All in all, MLPs may have a pivotal role to play in improving cross-border payments, of course complemented by other initiatives, such as the work on interlinking arrangements (BB 13) and APIs (BB 15), which are mutually reinforcing elements of the G20 cross-border payments programme (CPMI (2022)).

² The definition comes from the correspondence or letters that the first bankers utilised to allow an amount of money to be recognised by a different credit institution. Not by chance, the reciprocal accounts institutions open with each other are identified by the Italian possessive adjectives *nostro* (our) and *vostro/loro* (your/their).

³ Even if such transactions are commonly defined as “cross-border payments”, the focus is more on the jurisdictions than on geographical borders. There are, in fact, systems that encompass a single jurisdiction but where payments are executed across borders, as within common currency areas such as the euro area.

What is a payment system?

A **payment system** is defined in the *Principles for financial market infrastructures* (PFMI) (CPSS-IOSCO (2012)) as a set of instruments, procedures and rules for the transfer of funds between or among participants, including the participants and the entity operating the arrangement.

A payment system can provide services for retail and large-value payments. A retail payment system (RPS) is a funds transfer system that typically handles a large volume of low-value payments. A large-value payment system (LVPS) is a funds transfer system that processes large-value and high-priority payments and is often managed by a central bank. An RPS usually settles in batches during the day, while a LVPS normally applies real-time gross settlement (RTGS). In RTGS systems, transactions are settled on a one-by-one basis and for their full amount, that is, without netting.⁴

An MLP differs from a closed-loop system where the payer and the payee are customers of the same payment service provider (PSP). It also differs from payment systems that are connected by bilateral or multilateral links agreed between their operators. Links of this type let PSPs in one system reach PSPs in other systems without having to participate in them. But, in such cases, each system remains unchanged; they are minimally connected, with accounts held with the counterpart systems in order to settle transactions between the systems.

MLPs may have various structures, spanning all or a subset of the following features:

- *Liquidity management.* In payment systems, liquidity is the oil that keeps the wheels turning, enabling the smooth processing of payments. Advanced payment systems may include funding mechanisms to avoid liquidity shortages. This is particularly the case for domestic payment systems operated by central banks, which normally allow their participants (eg banks) to avail themselves of intraday credit, ie an account overdraft, usually guaranteed by another asset (securities or any other eligible assets), which must be repaid before the end of the day.
- *Payment messaging.* Payments must be uniquely identified by a text string specifying the amount, the payer, the payee etc. The text string must be understood and easy to process by all payment service providers involved in the payment. Payment systems like MLPs offer the exchange of payment messages as a core feature. The payment messages must follow common standards. In recent years, the harmonisation of standards has made it more straightforward to link payment systems and set up MLPs.
- *Compliance and data processing.* Banks must comply with rules to counter money laundering and the financing of terrorism, and with other types of data protection and data management legislation. To do so, they depend on features embedded in their local systems. MLPs may include common features to support participants for these purposes.
- *Clearing and possible netting.* Clearing is the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement (see below). Sometimes clearing also involves netting where several individual payments are balanced out. This can be done bilaterally, that is, between pairs of clearing participants, or multilaterally, leaving each participant with one net position vis-à-vis all other participants. MLPs could offer clearing as one of their core functions, as some domestic payment systems also do.
- *Settlement.* Settlement is the legally defined moment when parties exchange funds on agreed terms, making a payment final and irrevocable. Cash payments are settled when the payer hands over notes or coins to the payee. For electronic payments, the corresponding moment is less straightforward and may differ between jurisdictions. Electronic payments are often settled on

⁴ See the CPMI Glossary, www.bis.org/cpmi/publ/d00b.htm.

accounts with the central bank, that is, in risk-free assets. Settlement is a key feature of most payment systems, including MLPs.

- *Foreign exchange conversion.* A central part of most cross-border payments is the conversion between the currencies of the payer’s and the payee’s jurisdictions. This is a complex process, which entails certain risks. Essentially, the currencies involved should be exchanged simultaneously, ie on payment-versus-payment terms.⁵ MLPs may leave the conversion of currencies to the market. However, they can also take a more active role and offer participants various foreign exchange services and help reduce settlement risk.⁶
- *Additional services.* Besides the features above, payment systems, comprising MLPs, may provide certain ancillary services. One could be a “confirmation of payee” service, which allows the payer to verify the name of the account holder before making a transfer. Another example is a service that enables end users of digital services to identify themselves electronically (ie a digital ID system), including when they act as payer or payee. Such services exist in several jurisdictions today, but are currently used domestically, not for cross-border identification.⁷

Examples of multilateral platforms

Table 1

Main categories	Platform	Geographical coverage
Public initiatives for regional financial integration	AFAQ	Gulf region
	BUNA	Arab region
	EAPS	East African region
	REPSS	Central African region
	SADC-RTGS	Southern African region
	SIPA	Central American region
Private initiatives for regional business opportunities	TIPS	European region
	P27	Nordic region
Public initiatives for potential global-scale projects	MFS-AFRICA	Multiregional (Africa)
	Amplus	Multiregional at global scale

Source: CPMI survey.

A number of MLPs are proposed, under development or in operation (Table 1). The MLPs in operation all have a limited geographical scope, ie they are intended for cross-border payments within a specific area. Typically, they are the result of public initiatives to promote regional financial integration. However, there are also examples of private initiatives driven largely by regional business opportunities. Finally, MLPs presented in conceptual form also include global-scale projects and are complemented by other global-scale initiatives.⁸

⁵ Payment versus payment, or Pvp, is a settlement mechanism that ensures that the final transfer of a payment in one currency occurs if and only if the final transfer of a payment in another currency or currencies takes place. In the G20 programme on cross-border payments, one of the building blocks (BB 9) explores ways of increasing the adoption of Pvp in foreign exchange conversion.

⁶ One example is CLS, which is the main international settlement system for foreign exchange transactions.

⁷ This is the subject of another building block (BB 16) in the G20 programme on cross-border payments.

⁸ For example, Amplus, a conceptual global-scale MLP put forward by Deutsche Bundesbank as a possible worldwide system to help improve small-value cross-border payments could be complemented by other global-scale initiatives such as Project Nexus, which proposes to link existing fast payment systems through APIs in a standardised way. For more information on Amplus, see www.bundesbank.de/en/tasks/payment-systems/publications/amplus/amplus-859690, and for details about Nexus, see www.bis.org/about/bisih/topics/fmis/nexus.htm.

Frictions to address

As part of the preparatory work for the G20 roadmap, the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI), together with the Financial Stability Board, identified a number of obstacles, or *frictions*, to cross-border payments. In exploring the possible role of MLPs, the CPMI has also assessed how such platforms may affect those frictions.

As already indicated, several frictions arise from the often long chain of intermediaries involved in processing of cross-border payments. These tend to add costs, time and uncertainty about the terms of the payments. They also make cross-border payments more complex, eg via processing of compliance checks and differences in a payment system's opening hours. These are frictions that an MLP could potentially alleviate by consolidating the number of steps from payment initiation to crediting the payee.

Besides reducing the number of steps and intermediaries involved in a cross-border payment, an MLP may help in relieving other frictions. For instance, using a common infrastructure can be a way of facilitating harmonisation in standards and guidelines, reducing costs and increasing processing speed. Also, when MLPs are built from scratch, they can avoid the problems arising from the use of legacy technologies in processing cross-border payments. Moreover, while the investment costs of such platforms may be significant, the future maintenance costs could be relatively low.

One friction that an MLP may not be able to reduce is insufficient competition among the providers of cross-border payment services. In fact, a successful MLP, which benefited from the strong network effects that characterise the payments market, could crowd out alternative services, leading to concentration effects. The participation requirements set by the platform will then be fundamental in determining its impact on competition. If certain actors were prohibited from participating, they could be forced to use other less efficient rails with adverse effects on cross-border payments.

Possible barriers

While MLPs may alleviate some of the frictions affecting cross-border payments, they must also overcome various obstacles.

One important hindrance is possible inconsistencies in the legal and regulatory frameworks across jurisdictions. As mentioned, such inconsistencies may affect the finality of settlement, ie when a payment is definitive and cannot be cancelled. Other examples include differences in the interpretation and enforceability of netting and collateral arrangements if a participant defaults. Besides any legal risks, restrictive regimes for access to central bank RTGS systems may also be a barrier if the participants of an MLP need to settle payments in multiple currencies.

Another type of barrier relates to the financing of an MLP. The costs of establishing an MLP can be high, especially if a platform is built from the ground up. As high transaction fees to cover the costs may depress payment volumes, a discount based on an assumed public good factor may be warranted. However, this may be relevant only for platforms operated by central banks. Also, taking into account the public good factor complicates the business case assessment as the benefits of end users in the broader economy are difficult to measure.

Divergent views and preferences among participants and other stakeholders may constitute a further obstacle. Such lack of consensus can be an issue even domestically, but the cross-border nature of an MLP only amplifies matters. Functional governance arrangements are essential to facilitate decisions on important design features, allowing development of an MLP to progress. Yet, the existence of commercial interests may complicate such decisions, necessitating public intervention in the early phases of establishment and perhaps on a permanent basis in an ownership role.

Next steps

The G20 programme to improve the rails for cross-border payments is making good progress. It has helped to clarify the factors behind the problems of such payments and the areas where further advances are needed. Based on this, concrete actions are being explored as a foundation for further planning. While implementation in most cases goes beyond the scope of the roadmap, private and public sector involvement will be imperative.

Multilateral platforms as defined above may be part of the set of actions to enhance cross-border payments. As the analysis has confirmed, such platforms can help to ease some of the frictions of cross-border payments identified in earlier work. However, MLPs often come with high investment costs and could have other less desirable consequences. Hence, further analysis is needed to assess their prospects.

In accordance with the G20 programme, the work on MLPs will focus on the key features that enable such platforms to help enhance cross-border payments and achieve the global targets for cross-border payments (FSB (2021)). Possible options for MLPs will be defined and evaluated, and their feasibility will be studied. This will be complemented by outreach activities in coordination with other workstreams of the G20 programme. The evaluation and its conclusions will be published in a report in the second half of 2022.

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