

# **Working together to enhance cross-border payments - speech by Victoria Cleland**



Keynote presentation at the Central Bank Payments Conference



**BANK OF ENGLAND**

Victoria Cleland talks about how central banks and the private sector will work together to improve cost, speed, transparency and access to cross-border payments. She explains how the Bank of England's upgrade to its RTGS payments system will help.

## Speech

I am delighted to be speaking at the Central Bank Payments Conference again this year. It has been a difficult intervening year across the globe, with considerable concern, change and uncertainty. Against this backdrop it has been more important than ever to have payment systems that are resilient, reliable and flexible. Payment systems are the backbone of the financial system and they have continued to support the real economy over the course of the pandemic, giving the public one less thing to worry about.

As well as remaining resilient through this time, the payment industry has continued to change and to innovate at great pace. In early 2021, cash withdrawals in the UK declined by 40% compared to the same time the previous year<sup>[1]</sup> and contactless transactions increased by over 60%.<sup>[2]</sup> Amazon Go, Aldi and now Tesco have launched trials of checkout-free stores that use advancements in technology to process payments via facial recognition or tracking body movements. There have also been significant and innovative developments in core infrastructures, including the development of the new FedNow service and the launch of Payments Canada's Lynx service, and in the UK our transformational Real Time Gross Settlement (RTGS) Renewal Programme.

So there is lots going on around the globe – but what about global payments? Today I will focus on how we can work together to enhance cross-border payments. I'm pleased to report that this is another area where there has been significant progress since I spoke at this conference last autumn.

Over the past few decades, the growth in the international mobility of goods, services, capital and people has increased the economic importance of cross-border payments. Cross-border payments are significant in terms of both their value and volume and expected to total an astonishing \$250 trillion by 2027.<sup>[3]</sup> To give an idea of their relative significance compared to domestic payments, in the 2019 the UK's high-value payment system (CHAPS) processed around £34 trillion in cross-border payments, compared to £41 trillion in domestic payments. And it is not just wholesale markets and large corporates that would benefit from more efficient cross-border payments: they are key for many small businesses and individuals, too. Remittances in particular play a vital role in low and middle-income economies (LMICs). Flows of remittances to some countries are greater than 30% of GDP,<sup>[4]</sup> and in 2020, remittance flows to LMICs reached \$540 billion which was significantly more than foreign direct investment flows (\$259 billion).<sup>[5]</sup>

Despite their importance, many cross-border payments continue to suffer from long-standing challenges of high costs, low speed, limited access and insufficient transparency. These challenges can particularly impact remittances. As a stylised fact, it can, in certain situations, still take as long as 10 days to transfer money from one country to another and can cost up to 10% of the transfer's value.

The frictions underlying cross-border payments have been around for many years. These frictions are multi-dimensional, meaning solutions must be developed holistically across the whole payments ecosystem, including issues such as data and messaging standards. Addressing these challenges will have global benefits for citizens and economies alike, supporting economic growth, international trade, global development and financial inclusion.

Excitingly, the G20 has made enhancing cross-border payments a priority, and in 2020 it asked the Financial Stability Board (FSB), coordinating with the Committee on Payments and Market Infrastructures (CPMI) and other standard setting bodies, to develop a roadmap to enhance cross-border payments. The first step was an FSB report assessing the existing arrangements, frictions and challenges.[6] The CPMI then set out the building blocks that would be instrumental in addressing the challenges.[7] These building blocks were arranged into five focus areas. The first four seek to enhance the existing payments ecosystem:

- To commit to a joint public and private sector vision to enhance cross-border payments.
- To coordinate on regulatory, supervisory and oversight frameworks.
- To improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments market.
- To increase data quality and straight through processing by enhancing data and market practices.

And the fifth focus area is more exploratory and covers emerging payment infrastructures and arrangements including Central Bank Digital Currencies (CBDCs).

The 19 building blocks formed the basis of the roadmap, published by the FSB in October 2020.[8] The roadmap is an ambitious but achievable high-level plan that sets out the timelines, actions and actors required to progress each building block. Making the roadmap a reality will require concerted effort and shared expertise from the public and the private sector. To help drive progress, each building block is owned or co-owned by the CPMI, FSB, Financial Action Task Force, World Bank, International Monetary Fund or Bank of International Settlements Innovation Hub. The CPMI owns or co-owns 11 of these building blocks, and I have an exciting role as the Deputy Chair of the Programme Co-ordination Board (PCB) that oversees this work. Sir Jon Cunliffe, in his capacity as Chair of the CPMI, is the Chair of the PCB.

## The G20 roadmap one year on

Last month marked the first anniversary of the publication of the roadmap, and I am delighted with the progress already being made. The FSB published a report on 13 October 2021 setting out the actions undertaken so far.[9] This has included engaging stakeholders, as well as in depth stocktaking and analysis of existing systems and emerging arrangements, which will lay the foundation for the future roadmap actions. There have also been several innovative initiatives too, such as a hackathon which developed a number of promising proposals to leverage ISO 20022 and APIs to enhance cross-border payments.[10]

A crucial part of this year's work has been the establishment in October, following a public consultation, of quantitative global targets to define the ambition of the roadmap and to gain focus and momentum.[11]

There are targets for each of the four challenges (cost, speed, transparency and access) and they cover the three market segments: wholesale; retail; and remittances. The majority of targets come into effect in 2027, and they are clear and quantitative. On speed, 75% of payments are to be settled within an hour. On cost, the global average cost of retail payments is to be no more than 1% and the global average cost of sending a \$200 remittance no more than 3%. On access, all financial institutions and end-users are to have at least one option for sending and receiving cross-border payments. More than 90% of individuals who wish to send or receive a remittance payment are to have access to a means of cross-border electronic remittance payment. On transparency, all payment service providers are to give a minimum defined list of information to payers and payees (e.g. total transaction costs, expected time to deliver funds) to ensure a floor of transparency across the market.

The targets have been endorsed by the G20 who reconfirmed their commitment to enhancing cross-border payments when they met last month.[12] The importance of progress in this area was also highlighted in the October 2021 G7 statement, where leaders reaffirmed their commitment to support the implementation of the roadmap and its targets.[13]

Now that stocktaking actions are largely complete, work is moving onto developing practical proposals to upgrade both the payment systems themselves and the associated rules, regulations and guidance. Substantially moving the dial will require many central banks to improve their own core payment systems, and the public sector will need to set the foundations to enable the private sector enhancements. Harmonising and aligning regulation, data protection frameworks, and anti-money laundering, for example, may need domestic legislative change.

There is an important role for the private sector too. I see this as twofold. First, I would encourage the private sector to respond to consultations and work closely with organisations leading work on the roadmap to help to shape policy and guidelines. For example, the CPMI recently invited interested parties to share their thoughts on expanding payment-versus-payment (PvP) settlement to a wider range of transactions.<sup>[14]</sup> And second, I would urge industry to consider what these enhancements to cross-border payments might mean for their own processes, systems and investments. It is incredibly important that the public and private sector work together to start preparing for these crucial, and transformative, changes.

## What is the Bank of England doing?

To bring this to life, I want to outline how the Bank of England's multi-year programme to renew our RTGS service will help to enhance cross-border payments.

RTGS is the core payments infrastructure in the UK, providing ultimate settlement for a number of payment systems and other financial market infrastructures. On an average working day, RTGS settles over £700 billion across more than 200,000 transactions. At the heart of the renewed service is enhanced resilience, but we want to go further and to enable greater competition and innovation. These enhancements will help to improve not just domestic, but also cross-border payments. In particular, upgrading our core settlement services will increase access, enable longer operating hours and stronger links between payment systems: issues at the heart of the third focus area of the roadmap.

The first major milestone of the Programme will be to move to ISO 20022 messaging on a like-for-like basis in June 2022, followed by enhanced ISO 20022 in February 2023. This move will culminate in full adoption of enhanced data; this includes mandated use of purpose codes and legal entity identifiers (LEIs) between financial institutions from 2024 onwards. This is in line with building block 14 in the roadmap, which highlights the needs to adopt a harmonised version of ISO and common rules of mapping data between different data formats. Achieving the aims of this building block will mean greater straight-through processing with less need for manual intervention.

And then we will migrate to the new core settlement platform. But the evolution of the renewed RTGS will not stop there. The launch of the new platform in late 2023 will be the beginning of the continuous evolution of the service to drive value for the industry. We will consult industry in early 2022 on a range of proposals for enhanced functionality that will enable market participants to offer faster, cheaper and more efficient payment services. This includes our liquidity facilities; improved liquidity functionality can help to alleviate funding costs in cross-border payments through more efficient liquidity allocation and usage. The feedback to this upcoming consultation will help us prioritise new functionality, delivering what the industry needs.

The renewed RTGS service will also enable wider access to central bank money with a more efficient and streamlined onboarding process for new participants. In line with Building Block 10, promoting a more diverse membership across a wider range of settlement models will ultimately support greater competition and innovation. The Bank announced its framework for broadening access to RTGS accounts for non-bank payment service providers in 2017, and there are now close to half a dozen non-banks that hold settlement accounts in RTGS. The changes to RTGS will increase the capacity and ease the process to on-board new participants.

In April this year, we announced a new policy to enable payment systems to open omnibus accounts in RTGS.<sup>[15]</sup> We expect this to extend the benefits of settling in risk-free central bank money to a wider range of payment systems. This will allow the industry to develop innovative high-value payment services, whilst having the security of central bank money settlement.

Building block 12 seeks to address the lack of overlap in operating hours between RTGS systems in different jurisdictions. This has contributed to a world where too many cross-border payments are not credited within 24 hours. The Bank of England's renewed RTGS service will have the capability to operate up to 24/7, if required and supported by industry, in the future. The current CPMI consultation on "extending and aligning payment system operating hours for cross-border payments" sets out three potential scenarios for extending RTGS systems' operating hours.[16] This is a really important opportunity for interested parties to provide feedback to shape the future.

We are also exploring the potential to introduce an interface for synchronised settlement in our renewed RTGS. Synchronised settlement is already prevalent in the UK in the foreign exchange and securities markets. If we build a generic interface that can extend the benefits of synchronised settlement to a wide range of markets and users, RTGS could connect to a broader range of digital asset ledgers and other payment systems.

Linked to building block 19, in the joint report to the G20, the CPMI, BIS Innovation Hub, International Monetary Fund and World Bank highlighted that CBDCs have the potential to enhance the efficiency of cross-border payments, as long as countries work together.[17] If CBDCs are introduced, their ability to enhance cross-border payments would still be reliant on many of the enabling building blocks in the roadmap having been completed. The Bank of England is yet to make a decision on whether to introduce a CBDC, but we are committed to engage widely with stakeholders on the benefits, risks and practicalities of doing so. We will launch a consultation with HM Treasury in 2022 setting out our assessment of the case for a UK CBDC.[18]

## Conclusion

The G20 roadmap set out the key high level actions required to make cross-border payments faster, cheaper, more transparent and more inclusive. We now need to work collectively to make those building blocks a reality. Public sector projects, such as the UK's RTGS Renewal Programme, are moving towards delivery. The onus is now also on private sector market participants to engage with the policymaking process and start their own planning and budgeting. As the G20 set out in its October 2021 communique, the success of this work depends on the commitment of public authorities and the private sector, working together in a coordinated manner. By collaborating in policy making, implementation and monitoring, we can make the most of this opportunity to address the frictions in cross-border payments for the benefit of citizens and economies worldwide.

I am grateful to James Sanders, Michael Pywell, Catherine Breen and Paul Bedford for their help in preparing these remarks.

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1. [LINK / Statistics and trends](#)
  2. [Christmas shopping moves online amid Covid-19 restrictions to reach record December levels | UK Finance](#)
  3. [Global Payments: The Interactive Edition](#)
  4. [DataBank - World Development Indicators](#)
  5. [The World Bank - Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis](#)
  6. [Enhancing Cross-border Payments - Stage 1 report to the G20 - Financial Stability Board](#)
  7. [Enhancing Cross-border payments: building blocks of a global roadmap \(BIS\)](#)
  8. [Enhancing Cross-border Payments: Stage 3 roadmap - Financial Stability Board](#)
  9. [G20 Roadmap for enhancing cross-border payments: First consolidated progress report - Financial Stability Board](#)
  10. [Press release: BIS Innovation Hub and SWIFT announce winners of ISO 20022 and API hackathon](#)
  11. [Targets for addressing the four challenges of cross-border payments: Final report - Financial Stability Board](#)

12. [Fourth G20 FMCBG meeting Communiqué](#)
13. [G7 Public Policy Principles for Retail Central Bank Digital Currencies and G7 Finance Ministers and Central Bank Governors' Statement on Central Bank Digital Currencies and Digital Payments - GOV.UK](#)
14. [Press release: CPMI calls for ideas on solutions to expand PvP settlement \(BIS\)](#)
15. [Bank of England publishes policy for omnibus accounts in RTGS | Bank of England](#)
16. [Extending and aligning payment system operating hours for cross-border payments \(BIS\)](#)
17. [Central Bank Digital Currencies for Cross-border Payments – report to the G20 – July 2021](#)
18. [HM Treasury and Bank of England statement on Central Bank Digital Currency next steps - November 2021](#)



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