Burkhard Balz: Unlocking the potential of cross-border payments - challenges and opportunities

Keynote speech by Mr Burkhard Balz, Member of the Executive Board of the Deutsche Bundesbank, at the Central Bank Payments Conference, Paris, 18 February 2025.

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1 Introduction

Ladies and Gentlemen,

Thank you very much for the opportunity to speak to you today in a city that has a long history of being a hub for cross-border payments. Not far from here, in the arrondissement that still bears the name of their religious order, the Knights Templar had their headquarters. Founded as a knightly order, they increasingly focussed on their banking business in later years. This included offering services for cross-border payments: pilgrims could deposit their funds at the Templar commandery, receive a letter of credit, and could exchange that letter for cash at their destination. You could say that the Templars were the first European money transfer operator.[1]

However, conducting banking business in the Middle Ages could be risky and could–amongst other factors–lead to an inglorious end. A short distance from here, the last Templars were burned at the stake on what is now the Île de la Cité.

2 Current challenges in cross-border payments

While money transfer operators today do not have to fear vengeful monarchs, they face their own challenges when they offer cross-border payments. Although unbelievably fast and cheap compared to medieval standards, today's cross-border payments lag behind domestic payments when it comes to speed, cost, access and transparency. And when we look at the root causes, images of medieval transport routes come to mind.

The reasons for the discrepancy between domestic and cross-border payments are manifold: first of all, high barriers for market entry result in a lack of competition and long transaction chains. These market entry barriers include high liquidity costs, high regulatory standards as well as the need to build a sufficiently large network to achieve economies of scale. As a result, the long transaction chains with multiple parties involved negatively affect costs, speed and transparency. While the situation has been improving in the last few years, thanks to initiatives like SWIFT gpi, substantial obstacles still remain.

Second, the lack of harmonisation of regulatory standards hinders smooth payment flows across borders. As different countries have different regimes for sanction screening and fighting money laundering and financial crime, payments need to be checked multiple times along the payment chain. Often the chain is interrupted because the relevant information to fulfil regulatory compliance is missing. Sometimes even manual intervention is necessary, which in turn hinders automated end-to-end processing of payments. Of course, this problem is multiplying with longer transaction chains.

Third, there are technical impediments. Insufficiently harmonised standards for message formats, varying opening hours of payment systems and differing technical system specifications can further exacerbate the frictions in cross-border payments.

Last but not least, I would like to address one aspect which is a very specific concern for me. Increased geopolitical tensions could have the potential to hamper efforts to improve cross-border payments by eroding the basis for international coordination: mutual trust. Moving forward, we have to find ways to rebuild that trust again in order to negotiate on fair and equal terms.

3 Towards a multilateral world in payments?

So, bearing in mind that the current infrastructure for global payments is not the optimum: what would be the ideal solution? A truly global system for cross-border payments? This is, in my view, rather unrealistic because it would not only require fully eliminating all current barriers, but also solving emerging issues, such as finding an appropriate governance framework. In order to take a step forward, we might need to grab the opportunities right ahead of us. Regional initiatives and interlinked systems could be the first steps towards a more interconnected global payments ecosystem.

In the Eurosystem, we have already taken a step in this direction. The platforms T2, for wholesale, and TIPS, for real-time retail payments in Europe, enable not only payments in euro, but also in Swedish krona and will also soon support payments in Danish krona. Other examples of successful regional multi-currency solutions are Buna in the Arab region, and the Pan-African Payment and Settlement system (PAPPS).

Thus, while a global payment system may seem like an ideal solution, different regional systems have their advantages as well. They can cater for the specific needs of their region, and it is always easier to coordinate a smaller number of players than a global project.

However, in a payments landscape with a stronger regional focus, the risk of global fragmentation remains. This means there are two paths we have to embark on: on the one hand, we have to make sure that such a multilateral structure ensures the safety, resilience and integrity of the global payment system. On the other hand, different regional parts need to become interoperable with each other. Otherwise, there is the risk that fragmentation will exacerbate the current problems in cross-border payments, as previous harmonisation and standardisation efforts could become obsolete–not only in technical terms, but also with regard to market practices, regulations and strategies.

4 How can central banks address the challenges?

Now, the question that we have to ask ourselves as central bankers is: what can we do? And what better place to ask this question than at the Central Bank Payments Conference?

In 2020, the G20 developed a concrete roadmap to enhance cross-border payments. As part of this process, 19 building blocks with specific action points were developed and quantitative targets were set.

After almost five years, we can already see some improvements in the global payments landscape: together with the market, we have harmonised the ISO 20022 standard further, reducing frictions in the transmission of messages.

Furthermore, central banks around the world have expanded their operating hours, thus reducing delays when sending and settling payments across time zones. Whether that is the first step towards 24/7 operations for real-time gross settlement (RTGS) systems remains to be seen, as this would come with a number of additional challenges. However, I believe it is not a question of "if", but more "how" because the world of payments has already moved towards 24/7 operations with regard to the new instant payment rails. This will also have an impact on liquidity management in central bank money, which is usually conducted via RTGS systems.

Additionally, there are ongoing initiatives to open up access to central bank payment systems, which could increase competition and thus enhance the efficiency of cross-border payments. Within the Eurosystem, we have already taken a key decision[2] in this regard and are currently exploring the detailed specifications under which such access can be granted.

Looking ahead, there are a couple of options for central banks to further enhance the efficiency of cross-border payments. For the last couple of years, instant payment systems have been built across the globe. When we interlink these systems, we could enable payment institutions worldwide to quickly expand their payment network. Assuming that we would also find more efficient ways for the currency conversion still needed in this context, we could also lower liquidity costs: this would address two of the main market entry barriers, thus increasing competition.

First trials in that direction have already been completed and interlinking with foreign payment infrastructures is one of the key components of the Eurosystem's strategy for the coming years.[3] If we interlink regional payment infrastructures, we can quickly tackle a number of the frictions we face in cross-border payments today.

In the future, central bank digital currencies (CBDCs) could offer another opportunity, but we have to make sure that they combat fragmentation, rather than increase it. To guarantee this, we have to ensure that they are interoperable with each other and with traditional payment systems. Regarding the digital euro, the ECB and the national central banks of the Eurosystem are in close contact with market players and other central banks outside the euro area. However, while CBDCs might also be a very promising candidate in the cross-border space, in particular given that they are expected to penetrate the relevant markets strongly, it will take time for them to become established. This is because we are still at a nascent phase globally and, very often, priority needs to be given to ensuring a market roll-out in domestic markets, as is our aim for the digital euro.

Instant payment systems may not be "traditional" in terms of age, but they are still an evolution of the "classic" payment rails. Nevertheless, and given the rather diverging global situation, they could be a prime candidate for interlinking with emerging retail CBDCs in other areas: first, both systems are able to operate around the clock in real-time. Second, instant payment systems give instant feedback on whether the payment was successful or not. Third, messages could be tokenised and used to settle smart contracts in more technically innovative infrastructures.

This idea is not only applicable in the retail space. It could also benefit the wholesale area, where innovative solutions could help to address foreign exchange liquidity management, thereby complementing the linkage of RTGS systems, for instance. We at the Bundesbank have trialled those interconnections in the wholesale payments world with our trigger solution, which was one of three interoperability solutions tested as part of the Eurosystem's exploratory work. The trigger solution links distributed ledger technology (DLT) platforms operated by the market with the "traditional" Eurosystem payment system (TARGET), thus enabling the direct settlement of DLT-based wholesale transactions on participants' existing RTGS accounts in central bank money.

When we look at past and current efforts, we see that much has been done to harmonise technical standards and to supply innovative solutions. However, in order to truly be successful in enhancing cross-border payments, we should not only look at what the market could do: we must also address the fragmented regulatory landscape as well. Harmonising regulatory standards across borders would remove one of the largest frictions in cross-border payments.

5 Outlook

When we take a look at what we have achieved already and what we still have to achieve by 2027, we could say that reaching the G20 targets will be a very ambitious climb. However, we should not downplay what we have achieved so far. We have made significant progress when it comes to global harmonisation of technical standards and updating payment infrastructures.

Momentum for the interlinking of payment systems has never been as great as it is today and new technologies like DLT, and maybe even AI, can help to further reduce the frictions affecting cross-border payments at present.

Despite the current geopolitical situation, central banks can help alleviate the challenges we face today by supplying policymakers and regulators with a range of options.

As you can see, improving cross-border payments is not as mysterious as a Dan Brown novel, and solving the problems that we face is not as hard as cracking the Da Vinci Code that Tom Hanks tries to crack in the films with the same name. And there are no longer Knights Templar defending the holy grail of efficient cross-border payments.

So, let us continue improving the global payments landscape.

Ladies and gentlemen, thank you for your attention.

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[1] See also: https://www.bbc.com/news/business-38499883

[2] www.ecb.europa.eu/pub/pdf/legal/ecb.leg_dec_2025_2.en.pdf

[3] https://www.ecb.europa.eu/home/doc/ecb.doc241021_TIPS_to_connect_to_other_fast_payment_systems.en.pdf