THE GLOBAL PAYMENTS FORUM

enhancing cross-border payments

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10th Meeting Briefing Note

Tuesday 25 October 2022

International transactions should be cheaper, faster, more transparent, and inclusive, according to market research presented by Kevin McAdam, leader of The Payment Association's Project Cross Border team. Some of the other cross-border challenges cited in the study were:

- National restrictions and competitive advantages for domestic players are an obstacle in cross-border payments.
- There is friction in processes, and transaction costs are high.
- Rules vary across jurisdictions, and compliance can be complex, with differing anti-money laundering requirements.
- There should be greater collaboration with international standards organisations.

In addition, cross-border payment rules need to be harmonised across areas, according to a recent Payments Association webinar also discussed at the Forum, whose findings were:

- There are inconsistencies between jurisdictions on data privacy and identity requirements.
- Anti-money laundering and regulations across regions need to be harmonised.
- There is a need for international collaboration to drive the development of market infrastructure and enable systems to operate with each other.
- Central Bank Digital Currencies (CBDCs) could help systems operate with each other, enable the easier flow of funds and establish messaging and technical standards.

Now, later or never: will CBDCs be the silver bullet for cross-border payments?

CBDCs will have a bigger role in wholesale banks' cross-border payments over the next decade, though challenges remain in its adoption across jurisdictions.

That's the broad message from a panel of experts who debated the issue at the 10th Global Payments Forum. They described a CBDC as digital money that is a liability of the central bank. It differs from commercial bank money, which is a liability of the bank of account. It is also real money, uses technology and can mirror the economic plans of a country.

The panel moderator noted a surge of interest in CBDCs, with web searches on the topic in October at twice the level of January. Meanwhile, cryptocurrency searches have dropped to a quarter of the mark reached at the start of the year, according to Google Trends.

Some panel members noted that CBDCs have the potential to boost efficiency and transparency, while reducing costs and risk, with faster settlements of transactions. CBDCs could help connect real-time payments across different jurisdictions, one panellist said. A situation where several countries operate CBDCs and have a shared ledger, or shared platform, was seen as particularly beneficial.

"In terms of CBDC, there is more focus on wholesale. We see an opportunity for cross-border payments, where we see a huge amount of inefficiency", said one panellist.

Chance to leapfrog?

The technology could be especially useful for developing countries, which might not have the speedy-payment infrastructure of some other nations. Investment in CBDCs could enable systems to be created that can be used for the next 40 years, according to one panellist.

"The technology is less centralised and more distributed. And that opens up a huge opportunity because it means new participants can come in at a lower cost and start participating. The UK has pretty good infrastructure, fairly robust electricity, telecoms etc., but some of the countries around the world that we're talking to don't have that, or they have remote villages or locations where the cost of participation in the ecosystem is prohibitive, so they don't participate. CBDCs provide a leapfrog opportunity."

CBDCs could also benefit groups of countries within a trading corridor that have an interest in improving cross-border payments, it was said.

But one panellist also noted that many functions and benefits of CBDCs in commercial transactions can be achieved through other means in developed economies that already operate real-time settlements.

"We will see more jurisdictions issue CBDC, but I think a lot of the drivers behind that are political rather than a business need, or addressing some use or concern, particularly in some jurisdictions where you have faster payments already."

Still, developed countries with slow legacy technology or infrastructure could benefit from the digital currency. All in all, CBDCs are likely to be adopted at a different pace in countries around the world, according to the panel.

Retail needs

However, one of the biggest challenges CBDCs face is so-called interoperability, or the ease of working with systems in other countries or jurisdictions. For this to happen, there needs to be a harmonisation of compliance rules, policies, and procedures to prevent friction and delays with transactions, the panel said.

Retail cross-border payments, specifically, face issues around identity, transparency, and availability, one panellist noted. To encourage CBDC adoption, central banks would have to make it easy and consistent to use, like physical cash, or credit and debit cards. And it would also require people to have the technology to access it.