

# THE GLOBAL PAYMENTS FORUM

enhancing cross-border payments



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## Briefing Note

### Global Payments Forum 7<sup>th</sup> Meeting

#### Faster Cross Border Payments: Where do we need the speed? Is RTGS 24/7 the answer?

Tuesday 1 March, 7 AM New York | 12 PM London | 8 PM Singapore | 11 PM Sydney

The theme of the 7<sup>th</sup> meeting of the Global Payments Forum was, “Could an extension of RTGS operating hours across jurisdictions help address current obstacles, thereby increasing the speed of cross-border payments and reducing liquidity costs and settlement risks?”

Guest Speakers were:

- Mike Truter: Partner, Digital Ecosystems & Innovation RedCompass Labs Consulting
- Stephen Peters: Head of Enterprise Payments Solutions, ASEAN and North Asia FIS
- Jessica Ramos: Head of Regulatory and Oversight Affairs, EBA Clearing

#### Proceedings:

Camilla Bullock (Director General EPA), Nikesh Lalchandani (Head of Policy EPA), Jessica Renier (Managing Director, Digital Finance, IIF) welcomed the audience and acknowledged the speakers and co-chairs and commenced.

One speaker acknowledged regulators are trying to reduce friction in cross border payments. He noted that most of the attention was in retail. He mentioned that non-retail, sophisticated payments required more thought. He mentioned the desire to merge RTGS and existing rails. He was not convinced that we need real time right now. RTGS is currently fairly manual – these factors need to be considered. These lead to CBDC discussions. He said private pre-funded rails (e.g. PayPal, Wise) are serving the industry well.

Another speaker mentioned the growing trend of linking up instant payments systems, which are now present in more than 60 countries and which operate 24/7 on a prefunded basis. Links are developing between Singapore and Thailand, and other bilateral links, as well as multilateral Proofs of Concept such as the BIS Innovation Hub’s Project Nexus. This will continue, and will over time build pressure to extending RTGS operating hours to reduce risk. 24/7 or extended operating hours for RTGS is a challenge from the operation and compliance perspective – smaller banks will be challenged and for them the added costs may not outweigh the benefits. There may need to be a hybrid model to ease the transition.

A third speaker said extending RTGS operating hours could increase the speed for certain payments, but likely where there is already demand. Extending operating hours will come at a cost, and that cost will need to be borne by participants. Any change should preserve a level playing field between public and private sector operators. Private institutions should be allowed to provide cross border facilities on the same terms as public systems. There are alternative cost-effective means of increasing the speed of cross-border payments in a cost-effective manner, including interlinking existing fast payment systems. There is a need to enhance non-instantaneous systems, and every system needs to be fast and cheap.

Breakout rooms discussed the topic of RTGS with individual moderators.

A number of discussion points were raised:

- The difficulty for even large banks to implement extended operating hours for RTGS as many related processes are manual, as may be appropriate given the very large value payments involved.
- The risk that real-time RTGS could further wedge accessibility to payments between small banks, fintechs, local institutions and large, global operators.
- CBDC could have a big impact and alter operations of payments – a big unknown that may come to dominate.
- Japan – moved to extend RTGS operating hours, even though the banking sector informed the central bank that there was little demand for such a move among the corporate sector.
- There may be alternatives for improving speed of retail payments such as linking faster payment systems that are more cost-effective.
- On the other hand, some pointed out that we should not wait for CBDC to come up with an answer. We need to make progress now.
- Is systemic risk that is solved by real-time RTGS really an issue – are there alternatives (like private institutions)?
- Real time RTGS would require changes to CLS to be effective. CLS is still batch-based.
- Extended RTGS is not the silver bullet: Security issues (e.g. Bank of Bangladesh) need to be resolved.
- RTGS dates from an era when payments were manual – is this the right tool in this day and age?
- Consider modernisation of current rails as an alternative.
- Consider the unintended costs, such as moving capital across different time-zones. Some institutions are geared for it, others are not, and may not have demand (e.g. banks that operate globally vs those that operate domestically only).
- Why are we equating RTGS with speed? RTGS is set up to mitigate risk.
- Consider solving the problem differently for different segments.
- Digital identity is an important component to ensure safety.
- Correspondent banking becomes more critical.
- Need to solve the problems at the local level.
- No recourse systems (e.g. wholesale) vs recourse systems (e.g. retail) are quite different.

Guests were thanked on behalf of IIF and EPAA, and the proceedings closed. Attendees were invited to the next GPF (8<sup>th</sup>) on 5 April 2022 on AML & CTF.

## Conclusion

The topic created a passionate discussion with a number of viewpoints that could be summarised as:

1. Any process to extend RTGS operating hours to close to 24/7 would be challenging particularly for smaller or local institutions.
2. There may be other mechanisms that can deliver faster cross-border retail payments at lower cost, particularly directly linking faster payment systems, bilaterally or multilaterally, or uplifting existing retail systems.
3. There is a need to ensure the playing field is level between private and public institutions, big and small banks and fintechs.
4. Everyone wants faster and cheaper payments, but the challenges and thus the trade-offs are different for different segments.
5. There are many considerations around extending RTGS operating hours, such as: digital identity, correspondent banking, local rails, automation, overnight risk, Continuous Linked Settlement (CLS) and the possible role of CBDCs.