

## **IV. G20 Deliberations on Cross-Border Payments**

### **A. Background**

Cross-border payments have long been considered to face challenges in terms of cost, speed, access, and transparency.

In 2019, Meta (then Facebook) announced its initiative to launch Libra, a global stablecoin. The idea was for the firm to provide payment and settlement services on a global scale by issuing so-called stablecoins, which would be backed by, for example, multiple foreign currencies (a basket of currencies) in order to stabilize the price. At the time, the pent-up frustration of users toward the inconveniences of the existing payment system, in particular the above-mentioned challenges in cross-border payments, was pointed out as a factor contributing to the emergence of the global stablecoin initiatives. Given such awareness, authorities worldwide, while presenting the challenges of global stablecoins, shared the view that it was necessary to engage in increasingly active efforts to improve cross-border payments.

In 2020, the G20 Presidency made enhancing cross-border payments one of the G20 priorities. In response to this, the Financial Stability Board (FSB), together with the Committee on Payments and Market Infrastructures (CPMI) and other organizations, developed a roadmap for achieving this goal. The roadmap (1) addresses the four challenges faced by cross-border payments (high cost, low speed, limited access, and insufficient transparency), (2) identifies 19 "building blocks (BBs)" deemed necessary for tackling these challenges, and (3) sets forth specific actions for each BB to engage in.

In October 2021, the FSB indicated through one of its BBs, BB1 ("Developing a common cross-border payments vision and targets"), efforts being made for the global project and set forth quantitative targets in tackling the four challenges in cross-border payments (Figure 28).

Figure 28. Key global quantitative targets (target date: end-2027)

|              | <b>Wholesale</b><br>(100,000 USD or more)   | <b>Retail</b><br>(Less than 100,000 USD)  | <b>Remittances</b><br>(incl. low-value P2P payments,<br>typically to family<br>members/friends abroad)                                     |
|--------------|---|---|--|
| Cost         | No target set   | Global average cost of payment to be no more than 1%, with no corridors with costs higher than 3%   | Global average cost of sending \$200 remittance to be no more than 3% by 2030, with no corridors with costs higher than 5%                 |
| Speed        | 75% of cross-border wholesale/retail/remittance payments to be credited/to provide availability of funds for the recipient within one hour of payment initiation, and for the remainder of the market to be within one business day of payment initiation |   |  |
| Access       | All financial institutions operating in all payment corridors to have at least one option, and where appropriate, multiple options for sending and receiving cross-border wholesale payments  | All end-users to have at least one option for sending or receiving cross-border electronic payments | More than 90% of individuals who wish to send or receive a remittance payment to have access to a means of cross-border remittance payment |
| Transparency | All payment service providers to provide payers and payees with information on the following list of items concerning cross-border payments: total transaction cost, expected time to deliver funds, tracking of payment status, and terms of service     |   |  |

Source: FSB, "Targets for Addressing the Four Challenges of Cross-Border Payments: Final Report" (2021)

Subsequently, comprehensive analyses and foundational research on cross-border payments continued to be conducted in line with the roadmap, and the foundational work toward improving cross-border payments was to a large extent completed. In order to transition to the next phase of work, namely, specific efforts toward these improvements, the two FSB reports published in October 2022<sup>1</sup> laid out priority themes for the next phase and a framework for strengthening engagement of public and private stakeholders in proceeding with such work. Specifically, three

<sup>1</sup> FSB, "G20 Roadmap for Enhancing Cross-border Payments: Priorities for the next phase of work" (<https://www.fsb.org/uploads/P101022-2.pdf>), "G20 Roadmap for Enhancing Cross-border Payments: Consolidated progress report for 2022" (<https://www.fsb.org/uploads/P101022-1.pdf>)

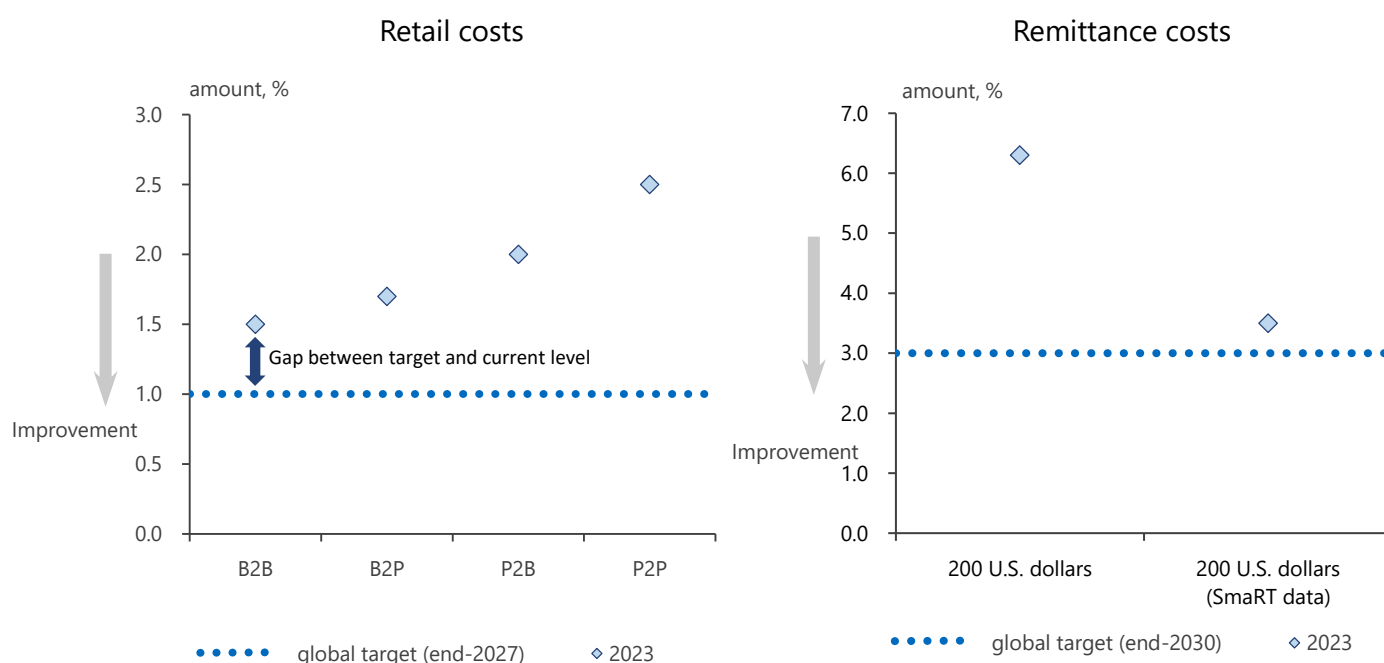
interconnected priority themes (payment system interoperability and extension; legal, regulatory and supervisory frameworks; and data exchange and message standards), as well as the respective BBs in charge, were selected from the viewpoint of making the most effective contributions to the achievement of the quantitative targets.

Furthermore, in a report published in February 2023, the FSB laid out 15 priority actions, each assigned to one of the three priority themes, along with set timelines.

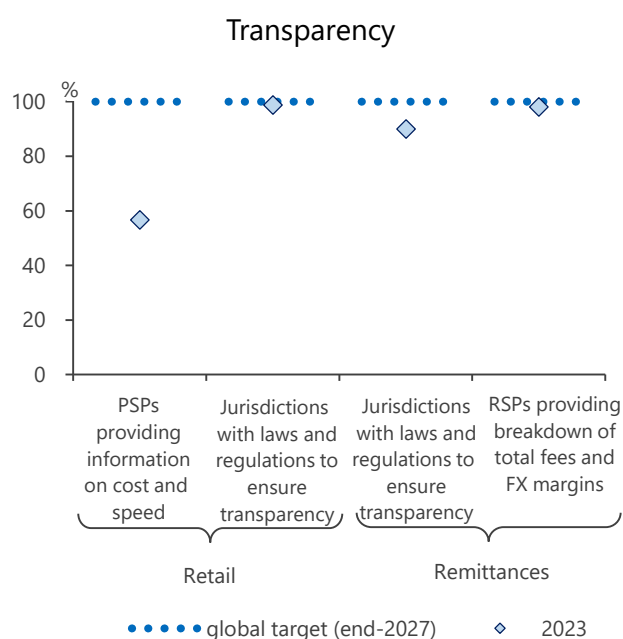
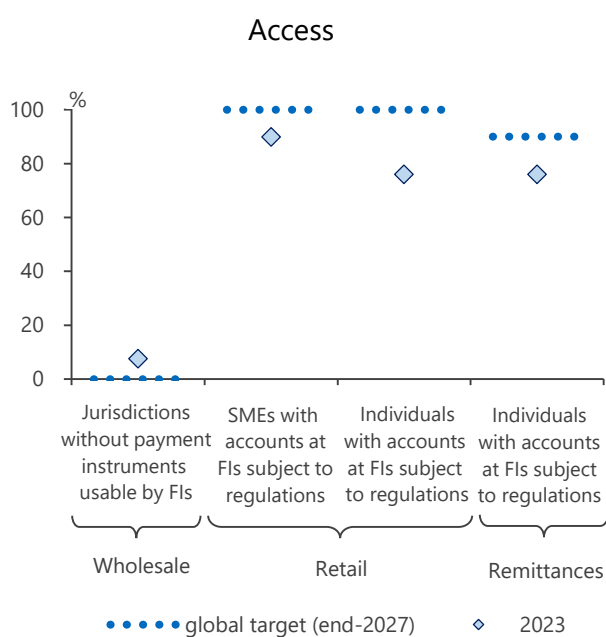
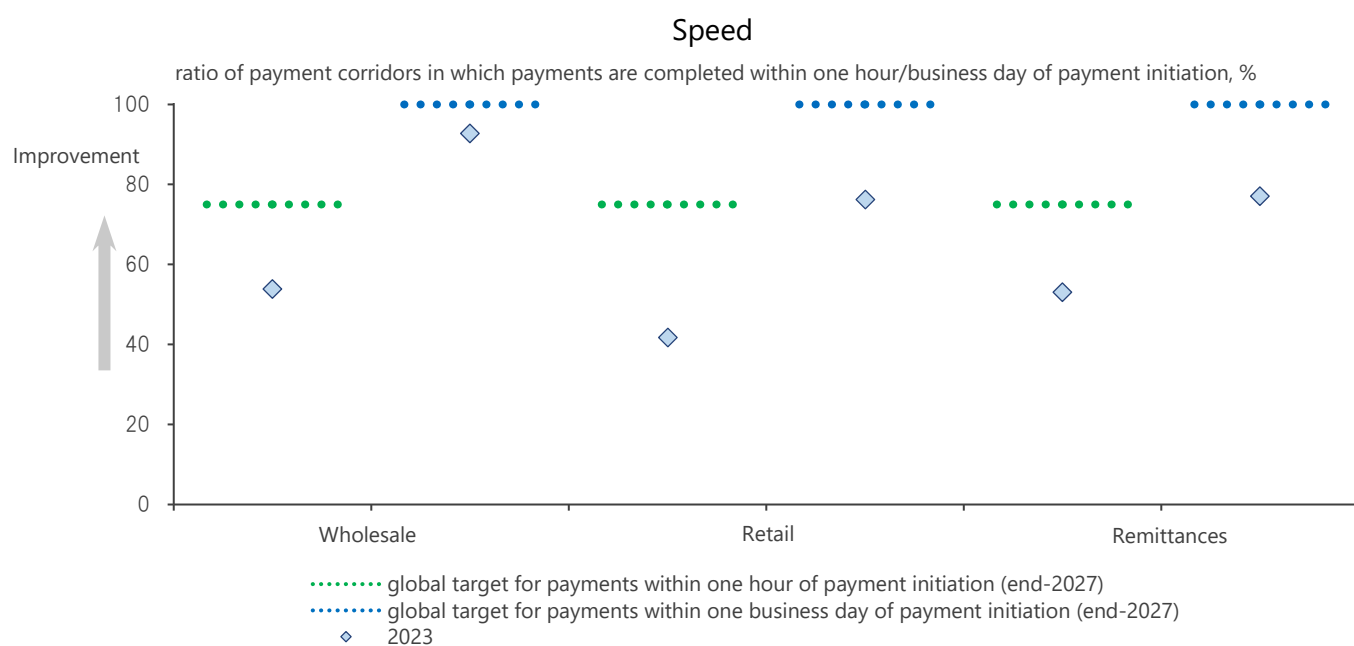
In October of the same year, the FSB published its first report on key performance indicators (KPI), in which the latest calculations of global KPIs in the three segments of wholesale payments, retail payments (individuals and firms), and remittances (typically low-value person-to-person payments to family members or friends abroad) were released based on the latest actual figures (Figure 29).

In 2024, efforts are being made in compiling the second issue of the KPI report, such as identifying data gaps (a situation in which data suitable for calculating the KPI is missing) and working to minimize these.

Figure 29. KPI results for 2023



Note: SmaRT is an indicator developed by the World Bank calculated by taking a simple average of the three cheapest payment services in each corridor.



- Notes: 1. For KPIs of jurisdictions with laws and regulations under which they are obligated to ensure the transparency of payments, figures are average estimates of multiple KPIs that fall under the same category.
2. "Individuals with accounts at FIs subject to regulations" are aged 15 and over.
3. PSPs and RSPs stand for payment service providers and remittance service providers, respectively.

Source: FSB, "Annual Progress Report on Meeting the Targets for Cross-border Payments: 2023 Report on Key Performance Indicators"

## **B. The Mechanism of Cross-Border Payments**

Generally, cross-border payments are carried out between the originating bank and the beneficiary bank in a long transaction chain, where the transmission of payment messages (payment instructions) and settlement of funds are conducted in a sequential process through an international interbank network (correspondent banking network). Normally, the transmission of payment messages is conducted via the Society for Worldwide Interbank Financial Telecommunication (Swift), and funds settlement, through the account held by the bank engaged in a correspondent arrangement.<sup>2</sup>

For example, in a case where payer X makes a payment to payee Y in foreign currencies, the payment process will be as follows on the condition that the originating bank and the beneficiary bank are engaged in a correspondent arrangement (Figure 30).

(1) Payer X sends originating bank A ("Bank A") a payment request and a debit instruction.

(2) Bank A reviews and confirms the payment request in terms of factors including adequacy, accuracy, and validity such as compliance with AML/CFT<sup>3</sup> regulations.

(3) Bank A withdraws the funds for payment from payer X's account.

(4) Bank A sends beneficiary bank B ("Bank B") a message on the Swift network regarding the details of the payment.

(5) Bank B reviews and confirms the payment request in terms of factors including adequacy, accuracy, and validity such as compliance with AML/CFT regulations.

(6) Bank B withdraws the funds from Bank A's account,<sup>4</sup> and makes the payment to payee Y's account.

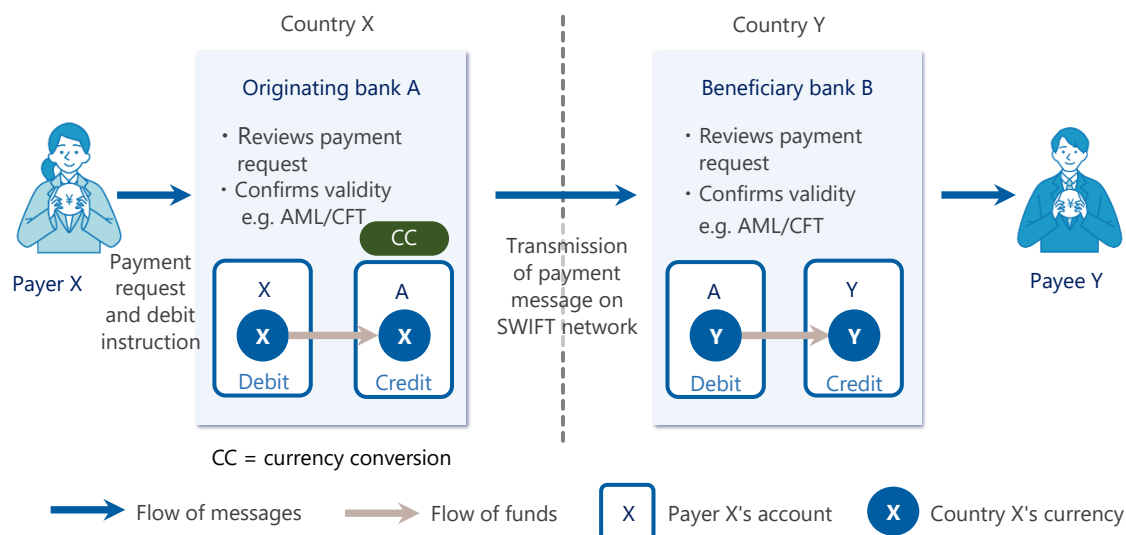
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<sup>2</sup> An agreement under which financial services including those necessary for cross-border payments are provided by the correspondent bank to the respondent banks.

<sup>3</sup> Anti-money laundering and combating the financing of terrorism

<sup>4</sup> The nostro account when viewed from the originating bank.

Figure 30. Stylized overview of a cross-border payment chain



In the case above, Bank A and Bank B have a correspondent arrangement, with Bank A having its own account at Bank B. Unless this is the case, the originating bank and the beneficiary bank cannot settle funds without an intermediary. Instead, the two banks need to carry out the funds transfer through a third bank (the intermediary bank;<sup>5</sup> Bank C in Figure 31), with which each of these banks has a correspondent arrangement. The intermediary bank may be located in a third country or in the same country as one of the other two banks. With regard to the latter, the domestic payment system may be used for transferring funds between some banks, such as the intermediary bank and the beneficiary bank (Figure 32). In Japan, the foreign exchange yen clearing system (FXYCS) corresponds to this.

<sup>5</sup> Generally speaking, an intermediary bank tends to be a major bank with a global network.

Figure 31. Stylized overview of a cross-border payment chain (intermediary bank located in third country)

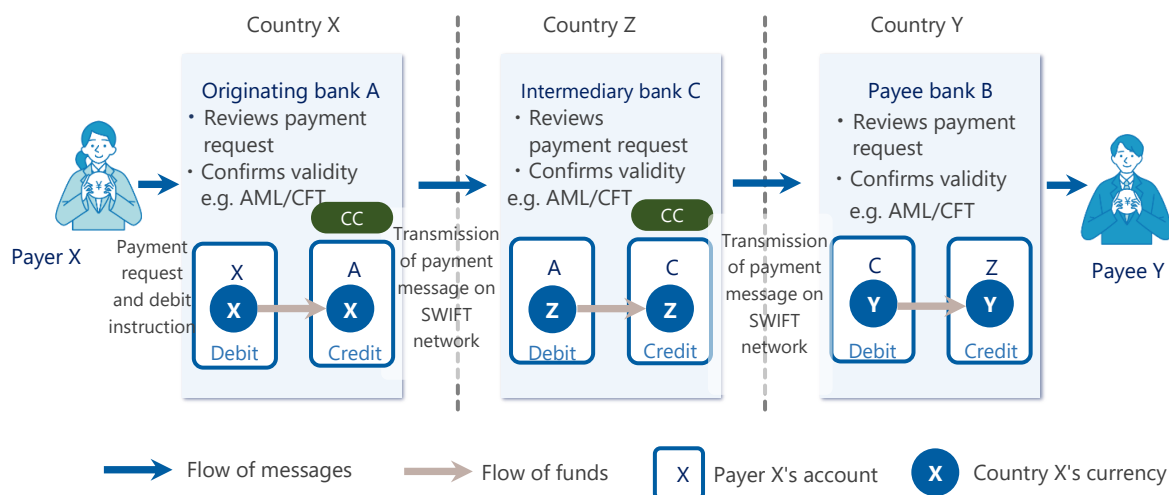
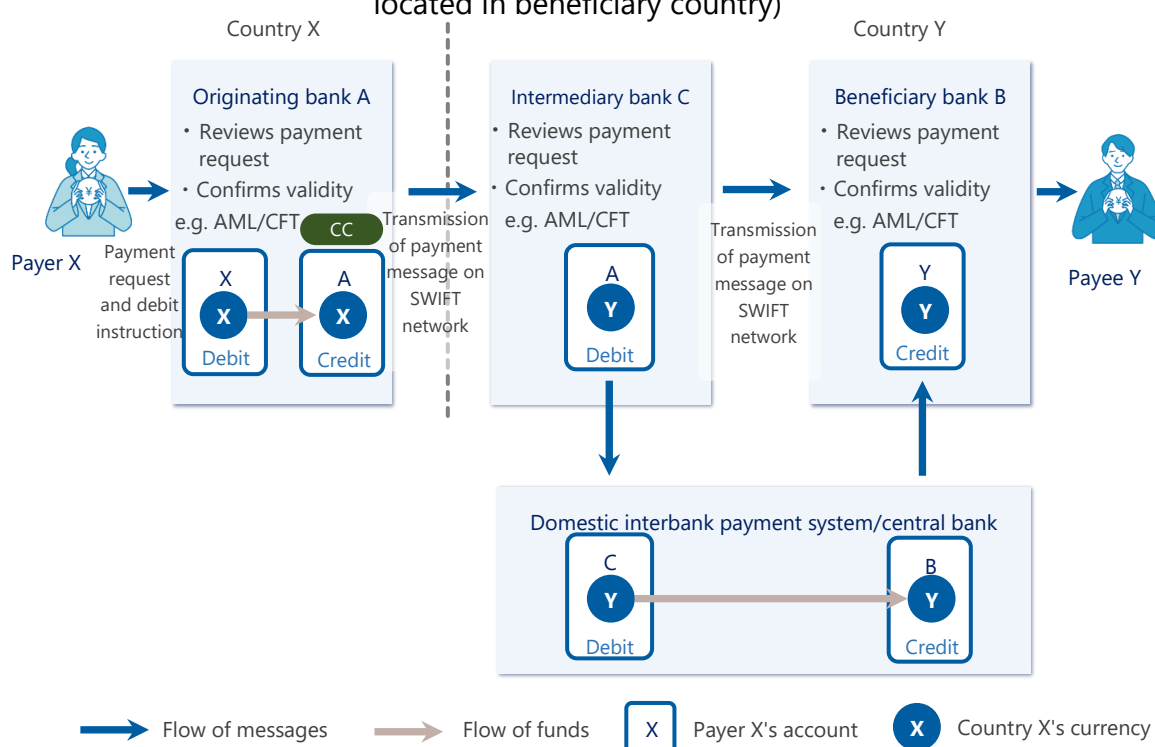


Figure 32. Stylized overview of a cross-border payment chain (intermediary bank located in beneficiary country)



Currently, the majority of cross-border payments as a whole are said to be either direct payment from the originating bank to the beneficiary bank (without an

intermediary bank) or through a single intermediary bank.<sup>6</sup> There are, however, cases where two or more intermediary banks exist, depending on the residing countries of the payer and the payee.

### **C. Challenges in Cross-Border Payments**

It can be said that the cross-border payment chain depicted in the above illustrations (Figures 30-32) faces the following challenges in terms of cost and speed, which in particular could pose problems for cross-border payments in Japan (Figure 33).

First, with regard to payment messages sent to and from financial institutions, each financial institution reviews and confirms these, particularly in terms of the following: adequacy (whether all information required for cross-border payments is provided), accuracy (whether the information provided is correct), and validity (whether the message is compliant with the country's regulations including AML/CFT).

This confirmation process is not necessarily fully automated and may involve manual procedures. Generally speaking, manual processes may contribute to high cost and low speed compared with automated systems.

In Japan, for example, the beneficiary bank is required to confirm the payee's purpose of payment in accordance with the Foreign Exchange and Foreign Trade Act. In doing so, the beneficiary bank may need to contact the payee by phone or other means.

When conducting screening of payments to confirm validity, there are cases where it is difficult to uniquely identify the relevant individual, for example, when multiple individuals have the same first and last names, or when an individual uses an alias. In such cases, some payments may be flagged by the system on suspicion of fraudulence even if they meet AML/CFT and other regulations. Such payments are referred to as false positives and require further examination once they are identified as positives. This examination process often involves a manual procedure, requiring a comprehensive assessment that takes into account the overall payment information.

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<sup>6</sup> FSB, "Annual Progress Report on Meeting the Targets for Cross-border Payments: 2023 Report on Key Performance Indicators" (<https://www.fsb.org/uploads/P091023-1.pdf>)

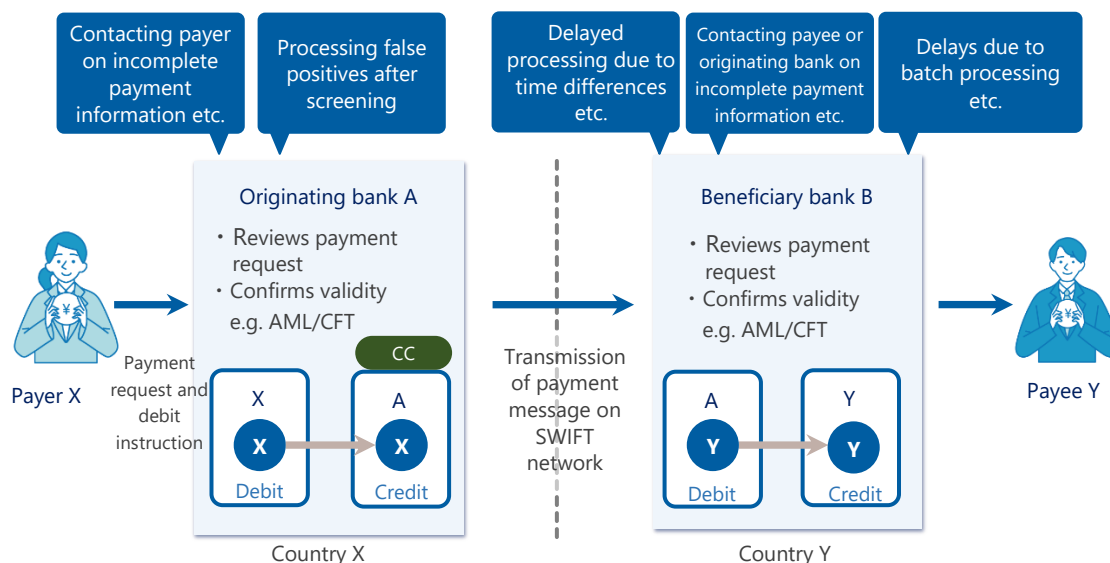


Systemic processing can be categorized into (1) cases where individual payments are instantly processed and (2) cases where payments received up to a certain point in time are processed at a given time of day, in other words, batch processing. With regard to the latter, processing becomes delayed to a certain extent, leading to low speed in cross-border payments.

In addition to challenges stemming from individual processing situations, some issues emerge from the structure of long transaction chains involving multiple financial institutions. For example, if the beneficiary bank received payment messages from the originating bank outside of operating hours, due to time differences or holidays for example, processing would be delayed, leading to low speed in cross-border payments.

Moreover, the greater the number of banks that form a transaction chain, the greater the cost and time required to complete the payment, as seen by the fact that the originating bank, the intermediary bank, and the beneficiary bank review and confirm payment messages and settle funds in a sequential process. Meanwhile, in the event that the beneficiary bank identifies a flaw in the payment process, the payment could be canceled, potentially causing the payer to repeat the process, beginning with the payment request.

Figure 33. Key challenges in cross-border payments



At the same time, attention should be paid to the fact that not all customers prefer payments to be made 24/7, for example, with some users indicating that they wish not to receive payments during midnight hours.

## **D. Efforts toward Overcoming Challenges in Cross-Border Payments**

In overcoming the aforementioned challenges, a wide range of global efforts have been made under the G20 Roadmap for Enhancing Cross-border Payments.

### **1. Improvements in the cross-border payment process**

With regard to payment system access and operating hours, there is a shared global understanding that issues such as the mismatch of operating hours among major payment systems worldwide and the limited access to payment systems lead to high cost and low speed in cross-border payments. Under these circumstances, public and private stakeholders have been exchanging views as part of efforts to extend operating hours and expand access to payment systems.

At present, ISO 20022 is gradually being implemented as an international standard for financial telecommunication messages (messaging format). When the pieces of information that make up cross-border payment messages vary among countries, this poses challenges, for example, in ensuring interoperability. The burden of reviewing and confirming messages on financial institutions and other parties would increase, leading to high cost and low speed in cross-border payments. Given this awareness, the CPMI established in 2023 the harmonized ISO 20022 requirements for enhancing cross-border payments.<sup>7</sup> Going forward, it is hoped that each jurisdiction will proceed with efforts to reflect these in their business practices in the move toward global adoption.

In addition, identifying entities such as the payers and the payees that are involved in the payment process is not necessarily an easy task with, for example, multiple applicable corporations having similar names. In this regard, discussions are ongoing

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<sup>7</sup> CPMI, "Harmonised ISO 20022 data requirements for enhancing cross-border payments" (<https://www.bis.org/cpmi/publ/d218.pdf>)

for the adoption of a legal entity identifier (LEI). Expanded use of LEI would allow financial institutions to uniquely identify payment entities with greater ease and accuracy, reducing the burden of reviewing and confirming the details of payment requests, which in turn could contribute to improving cross-border payments in terms of speed and cost.

## 2. FPS interlinking

Thus far, initiatives aimed at improving the flow of payment messages between financial institutions have been discussed. Meanwhile, there have been moves to improve the functioning of long transaction chains themselves, which involve multiple financial institutions.

Some countries have already engaged in fast payment system (FPS) interlinking initiatives, where instant payment systems for small-value domestic payments, or FPSs are connected directly through cross-border interlinking.

While institutional arrangements may differ among individual cases, Figure 34 provides a stylized overview of FPS interlinking: when the originating bank sends across payment information via its domestic FPS ahead of fund settlement, the information is shared with the beneficiary bank's domestic FPS through interlinking, allowing details of the bank account to be reviewed and confirmed.<sup>8</sup> This not only reduces the costs of retrieving and confirming payment information, but also suppresses the risk of repeating the process in cases where the account information cannot be confirmed. With regard to this confirmation process, functions such as the lookup function are sometimes used, where account aliases, such as the payee's phone number, are used as the account key to retrieve necessary information. It is hoped that enabling payments to be made with the payee's phone number or other information, even without their account number, will enhance user convenience.

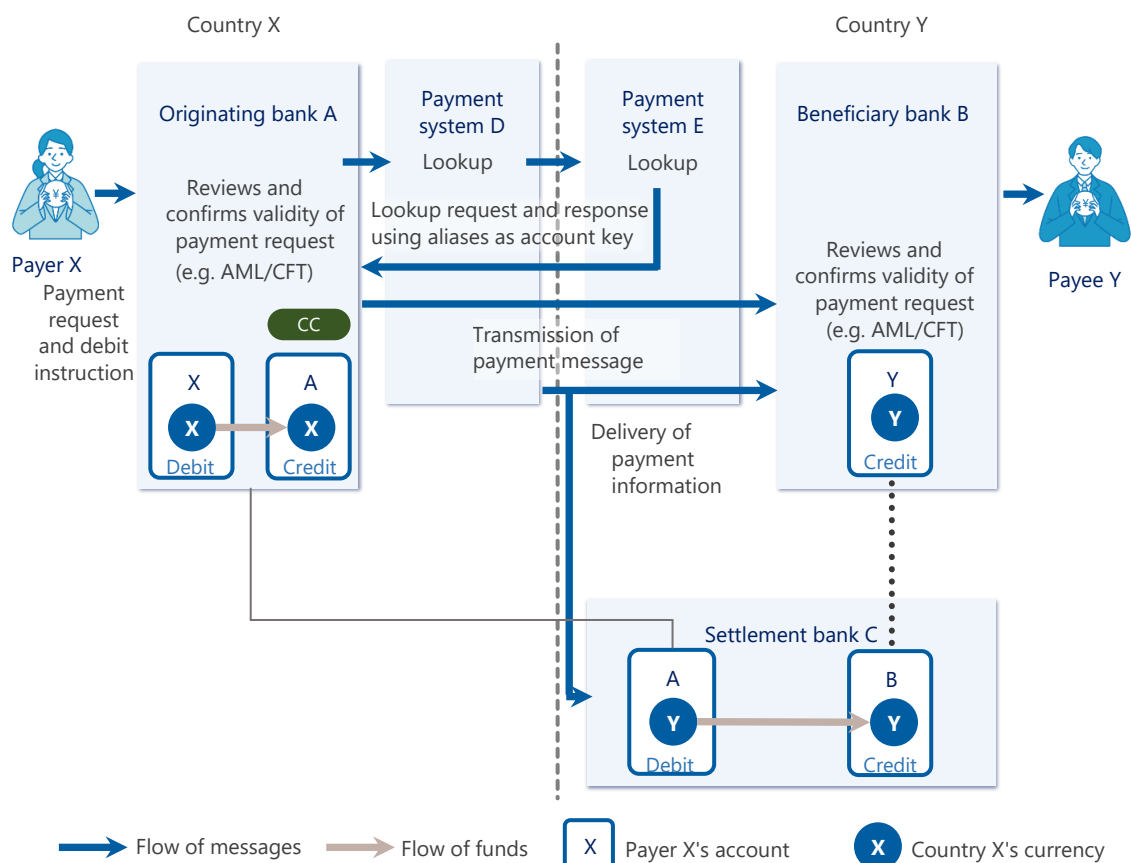
In terms of the usability of FPS interlinking, favorable cost-effectiveness is expected particularly between countries where existing payment infrastructures are under

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<sup>8</sup> FPS interbank settlement is at times conducted via deferred net settlement using private bank accounts.

development and between countries with substantial public needs, for example, those in which workers' small-value remittances form a large part of their payments.

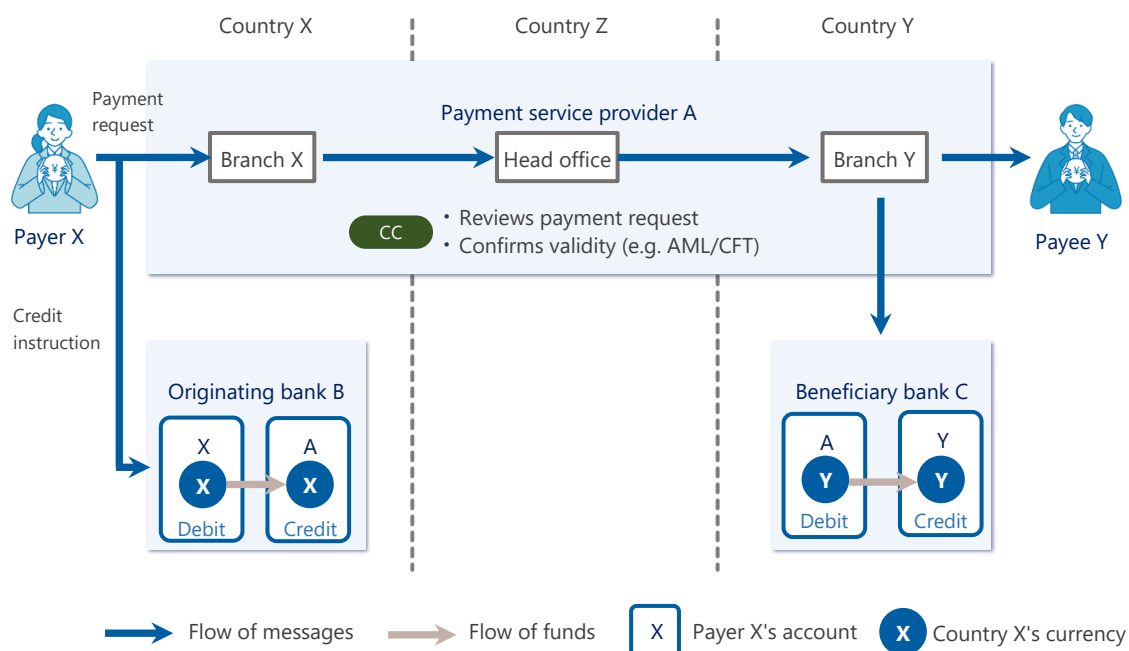
Figure 34. Stylized overview of FPS interlinking in cross-border payments



### 3. Payment services by nonbank PSPs

Some nonbank payment service providers (PSPs) adopt a business model under which a single firm establishes bases in the countries of both the payer's side and the payee's side and provides cross-border payment services to payers who have created their own accounts. Specifically, both of these bases and their global parent company, review payment requests in terms of factors including adequacy, accuracy, and validity such as compliance with AML/CFT regulations. With regard to funds, nonbank PSPs open their bank accounts at financial institutions in both the payer and payees' countries. Using these accounts, the nonbank PSPs receive funds from the payer and make payments to the payee (Figure 35).

Figure 35. Cross-border payment services by nonbank PSPs



As described above, the diverse cross-border payment services have distinct features that vary among service providers, such as banks and nonbank PSPs. It is therefore important to select services that meet the needs of individual payments (Figure 36).

Figure 36. Features of cross-border payment services in Japan

| Key service providers | Features of payment services  |
|-----------------------|---|
| Banks                 | Suitable for large-value payments; no ceiling on amount of payment  |
| Nonbank PSPs          | Suitable for small-value payments; upper limits imposed on amount of payment (Payment Services Act); payments are made at relatively high speed and are relatively low-cost; users are in some cases able to send and receive money even without holding a bank account |

#### 4. Engagement with public and private stakeholders

Public and private stakeholder engagement is key to promoting discussions on cross-border payments and realizing the goals addressed at these fora. As part of these efforts in Japan, since 2020 the Bank of Japan has been regularly hosting meetings of the Cross-Border Payments Subcommittee, in which a wide range of public and private stakeholders participate. At these Subcommittee meetings, developments in international discussions are shared, comments from private stakeholders are compiled, and discussions are held on such topics as possible cross-border payment solutions in Japan.