



# How to Overcome Barriers to Cross-border Digital Payments

## **UNCTAD E-commerce week**

16-20 April 2018, Geneva, Switzerland

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The views presented do not necessarily reflect those of the BIS



# Committee on Payments and Market Infrastructures = "Plumbers in suits"?



*Economist*. 6 July 2013



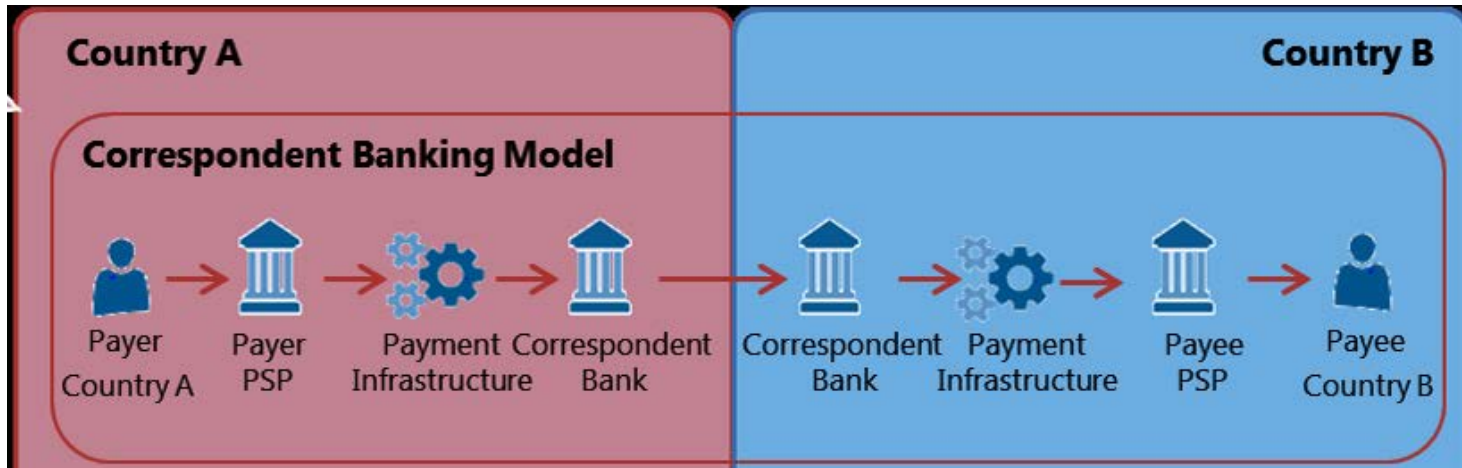
# The “plumbing” of cross-border payments

- Currently, a lot of cross-border retail payments are inefficient and costly for users.
- There has been some minor improvements in the front-end of the “plumbing” of cross-border payments, ie the part that faces the consumer and the e-commerce merchant (from innovations harnessing the internet, mobile technology and non-bank FX services).
- Barriers are mostly still in the back-end of the “plumbing” of retail cross-border payments, ie the part that takes care of clearing and settling cross-border payments.

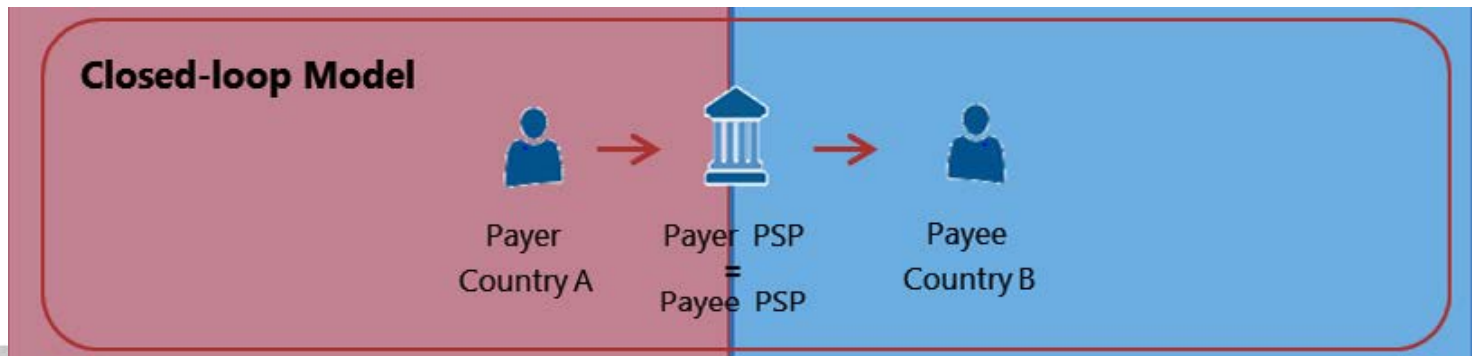


# Two models for back-end processes

## 1) CORRESPONDENT BANKING

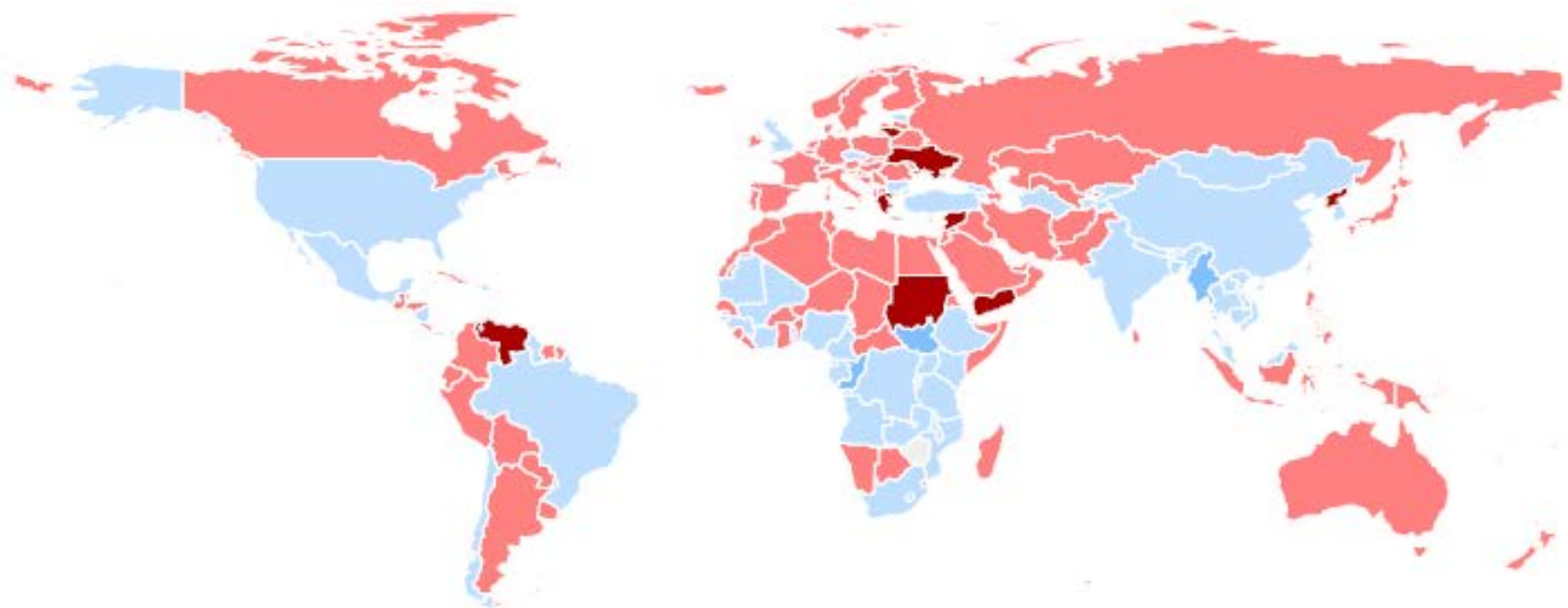


## 2) CLOSED-LOOP SYSTEMS



# Correspondent banking and its challenges (1/3)

**Number of correspondent banking institutions**, change from 2012 to 2015, in per cent



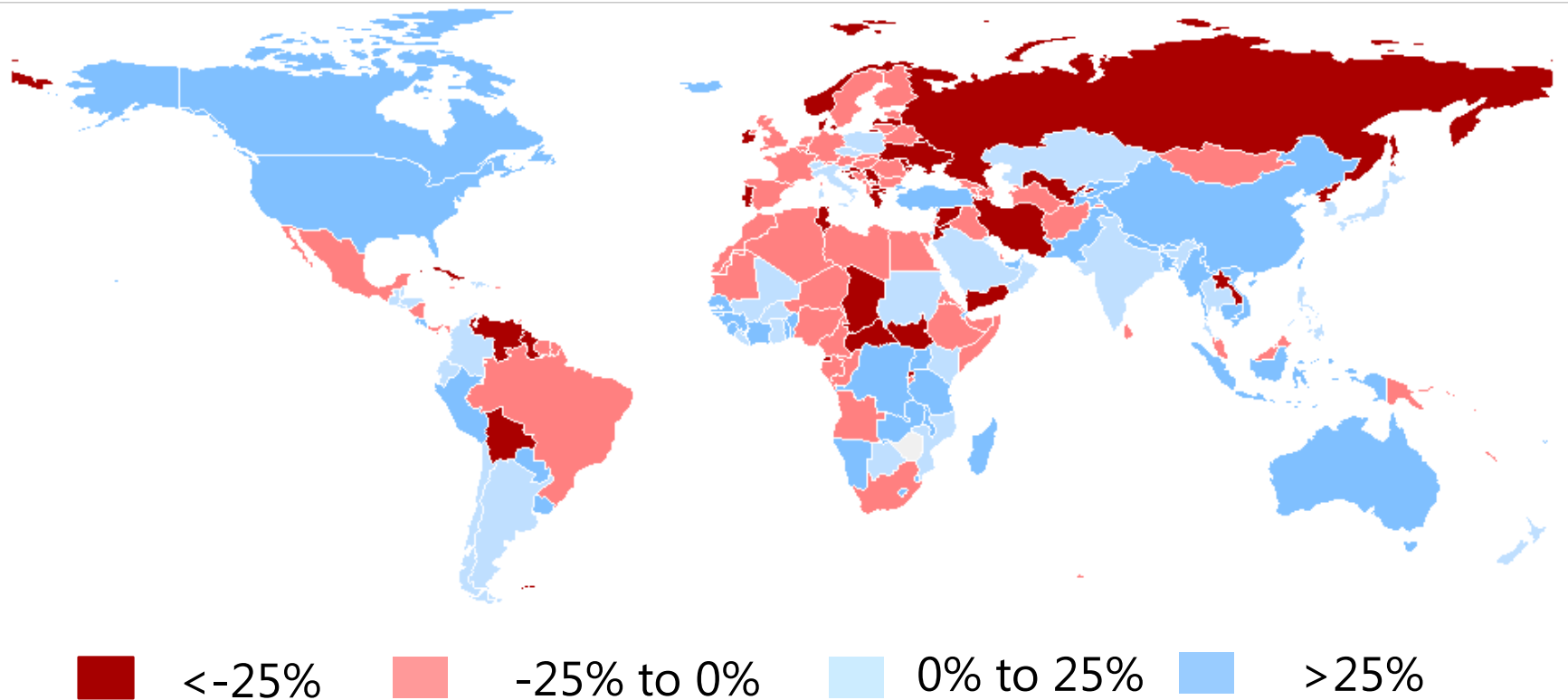
■ <-25%   ■ -25% to 0%   ■ 0% to 25%   ■ >25%

<https://www.bis.org/cpmi/publ/d147.pdf>



## Correspondent banking and its challenges (2/3)

**Value of correspondent banking payments**, change from 2012 to 2015, in per cent



<https://www.bis.org/cpmi/publ/d147.pdf>



## Correspondent banking and its challenges (3/3)

Rising costs and uncertainty on customer due diligence to meet Know Your Customer (KYC), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regulations lead to cut back services to correspondent banks that

- Do not generate sufficient volumes/revenues to overcome compliance costs
- Are located in jurisdictions that are perceived as too risky
- Offer products and services / have customers that pose a higher risk for anti-money laundering/combating the financing of terrorism

General perception: this line of business has shifted from being a **low-risk/low-margin** segment **to a high risk/low-margin one** → **derisking practices**



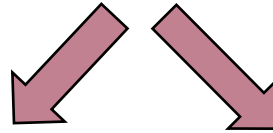
# Closed-loop systems and their challenges

- Also subject to compliance, which often depend on the number of countries connected → serving limited number of payment corridors (ie pairs of countries)
- Different closed-loops are not connected to each other → fragmentation
- May not be supervised and therefore apply different risk management standards → risks of service disruptions and/or financial losses for customers and e-commerce merchants





# What can help to overcome these challenges?



## International cooperation on correspondent banking

## Better competition

- CPMI 2016 technical recommendations to help alleviate correspondent banking costs and concerns, in a nutshell:
  - I. Standardisation of KYC information and of payments messages
  - II. More effective information-sharing
- Other past and ongoing international initiatives (BCBS, FATF, FSB)

## Factors that could help

- Linking directly national retail payment systems
- Private sector initiatives for correspondent banking
- Supervised and interoperable closed loop systems
- Technological innovations (eg Distributed Ledger Technology)

