European Payment Institutions Federation aisbl

Response to consultation

# EPIF response to FSB on Targets for Addressing the Four Challenges of Cross-Border Payments

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## ABOUT EPIF (EUROPEAN PAYMENT INSTITUTIONS FEDERATION)

**EPIF**, founded in 2011, represents the interests of the non-bank payment sector at the European level. We currently have over 190 authorised payment institutions and other non-bank payment providers as our members offering services in every part of Europe. **EPIF** thus represents roughly one third of all authorized Payment Institutions ("PI") in Europe. All of our members operate online. Our diverse membership includes a broad range of business models, including:

- Three-party Card Network Schemes
- E-Money Providers
- E-Payment Service Providers and Gateways
- Money Transfer Operators
- Acquirers
- Digital Wallets
- FX Payment Providers and Operators
- Payment Processing Services
- Card Issuers
- Independent Card Processors
- Third Party Providers
- Payment Collectors

**EPIF** seeks to represent the voice of the PI industry and the non-bank payment sector with EU institutions, policy-makers and stakeholders. We aim to play a constructive role in shaping and developing market conditions for payments in a modern and constantly evolving environment. It is our desire to promote a single EU payments market via the removal of excessive regulatory obstacles.

We wish to be seen as a provider for efficient payments in that single market and it is our aim to increase payment product diversification and innovation tailored to the needs of payment users (e.g. via mobile and internet).

## Consultation

1. **What are your comments on the key design features applied in designing the targets (section 1)? Are there any design features that you consider are missing?**

EPIF believes that while the key design features capture very important objectives, further clarification and additional design features would be needed in order to avoid that these lead to targets that cannot be met or have contradictory outcomes such as reducing access to cross-border payment solutions or weakening compliance.

The design features should acknowledge more explicitly the complexity that exists in the ecosystem, such as the variety of stakeholders in the payment chain, the different risk profiles of cross-border payment transactions and users and the complex cost landscape.

For instance, a person travelling abroad and shopping in a store has a different risk profile than a payment to a mobile operator by a citizen living abroad, which is also different from an e-commerce payment. The risk profiles of a payment transaction and the payer will impact the cost of the transaction, but also its speed.

In addition, we believe that it is important that the cost targets take into account all the cost drivers that underlay cross-border payments. These include not only the operational costs, but also those imposed by regulation, regulatory compliance (e.g., in security, resilience, privacy or AML/CTF) and the lack of regulatory clarity.

Bank de-risking, driven by lack of regulatory clarity, is another example that drives up costs and, if unchecked, may make the proposed cost targets impossible to meet. MTOs, for instance, have very limited capacity to affect this cost driver so they should not be held accountable for costs out of their control. Another consequence of a narrow focus - for example on customer experience only - is that it excludes competing regulatory priorities.

We therefore believe that the interdependency of the targets should be better considered, as should the possible trade-offs between targets (e.g., cost vs speed, or cost vs access).

For example, increasing the speed of transactions is likely to increase costs, given that investments are required to integrate with the relevant interbank systems. Moreover, a focus on cost caps is likely to reduce access. In the case of remittances, one of the ways physical access points are created for consumers is via partnerships with retail outlets, who will not participate without an adequate fee being paid. Each of these outlets have raw costs to meet (such as overhead costs, staff costs for processing transactions and conducting AML/CTF compliance checks). If these costs cannot be met as well as an acceptable margin, the outlets will close, and access will be reduced.

In this context it is also important to consider consumer behavior and preferences more explicitly. Consumers may have different preferences around cost, access and speed and we should strive to avoid foreclosing consumer choice – not all may choose speed as the optimal. Security and privacy are also drivers of consumer choice; these should therefore be reflected in the design features as they will impact the cost, access, and speed of cross-border payments.

EPIF therefore believes that additional design features should focus on the complexity of the payment landscape in its entirety, taking into account the variety of stakeholders involved, consumer behaviour and the whole - cost picture, including the role of regulation (and lack of regulatory clarity) in driving up costs. Competing priorities, such as strong AML/CTF compliance, cost and access (which can involve added costs for in-person transfers) should also be considered when setting these high-level targets.

2. **Do you agree with the market segments as described? Are they sufficiently clear? Do they reflect the diversity of cross-border payments markets, while providing a high-level common vision for addressing the four roadmap challenges?**

While we agree with the segment descriptions at a high level, we believe that there is a need to consider access and service offerings in setting targets within these segments.

For instance, for the remittance sector, MTOs that operate across these segments are able to offer a wider range of services to consumers. The high cost of some of these service offerings can be cross subsidized by other high volume offerings providing services that might otherwise be unavailable. Flexibility should be maintained in the targets to allow MTOs operating across segments to continue offering services that are subsidized across segments and which would not otherwise be maintained.

3. **Do you have any comments on the target metrics proposed?**

**With regard to the Cost target:**

EPIF is of the view that price regulation is not the right approach for stimulating competition. Interference in price-setting mechanisms should be a last-resort instrument in cases in which market failure or issues of customer detriment can be unequivocally detected and demonstrated.

**For retail payments: *Global average cost of payment to be no more than 1%, with no corridors with costs higher than 3% by end-2027*.**

EPIF believes that more discussion is needed on the cost target, and that the target should better acknowledge the different cost drivers that exist. These are operational (including network fees), but also regulatory and compliance driven – e.g., security, privacy, risk management, AML, resilience, sanctions screening, de-risking etc. It is often difficult for PSPs to drive these costs down, while also pricing for the added value they provide their users. By focusing on a cost target, you might force entities to monetize in other ways – e.g., through targeted advertising.

The effect of government regulation on costs should therefore be explicitly acknowledged. Consideration should be given to weighing competing policy priorities - such as strong AML/CTF compliance and costs. The impact of a focus on costs should be acknowledged in terms of reducing access and on AML/CTF compliance.

**For remittances: "*Reaffirm UN SDG: Global average cost of sending $200 remittance to be no more than 3% by 2030, with no corridors with costs higher than 5%.***

We would like to point out that the average of $200 transactions is not always representative of all transactions, especially in certain regions. The channels and speeds through which funds are transmitted and disbursed impact pricing.

While some digital providers may promote lower prices, consumers should be wary and compare price points for like services and speeds. Further, regulatory requirements are costly and vary from country to country. Maintaining the highest levels of AML and KYC requirements requires costs that also need to be considered.

Moreover, setting fixed cost ceilings might lead to the exclusion of corridors where the costs of sending funds is higher than others as private sector players might not have the incentive to offer their services across these corridors. This could lead to consumers in these markets having fewer choices than others.

**With regard to the Speed target**:

**For retail payments: "*Large majority (e.g., 75%) of payments to provide availability of funds for the recipient within one hour from the time the payment is initiated, by end-2027 and for the remainder of the market to be within one business day*"**

This metric would be appropriate for retail payments (i.e., credit transfer), as real-time payments (serving customers in real time) can enhance financial inclusion and improve the efficiency of financial systems, including for the underbanked**.**

We would however point out that meeting this target is dependent on the development of domestic interbank systems and their interoperability across the world. A number of successful interoperable interbank systems exist today (e.g., SEPA in the EU), and we welcome the FSB's ongoing support for such projects worldwide. We would however suggest that the focus of the target should be on infrastructure uplift (i.e., ensuring interoperability) rather than the consumer experience. Once the infrastructure exists, payment providers will develop solutions that increase speed – and are in fact already doing so in the geographies where real-time payments are already feasible.

Compliance checks, which are usually more substantial in cross-border payments, are another factor slowing down transactions. This is why we believe that a more harmonized regulatory framework is also key to achieving faster payments worldwide.

**For remittances: *"Large majority (e.g., 75%) of remittance payments in every corridor to provide availability of funds for the recipient within one hour of payment initiation by end-2027 and for the remainder of the market to be within one business day."***

This statement is not applicable to remittances industry, as currently, the customer can choose to receive the transaction immediately or alternatively, choose to receive the money the next day. In this context, it is very difficult to define the speed of transactions and therefore this metric may not be suitable for remittances.

This is a good illustration of a situation where it is important to consider customer behaviour and preferences more strongly. Speed may not always be the consumer's first choice, but other factors may prevail, such as convenience.

EPIF believes that speed and innovation should not come at the cost of new players avoiding AML/CTF obligations.

**With regard to the access target:**

EPIF believes that the target should focus on open and fair access to payment infrastructure by payment service providers (both bank and non-bank). At the centre of the effectiveness of both retail and wholesale payments is access to the underlying infrastructure.

EPIF members believe that any legal or practical obstacles that currently prevent the non-bank sector from having direct access to the intra-bank payment system should be removed, subject to meeting the same minimum technical and security requirements.

Under the current settlement arrangements for SCT Inst, EPIF members can only be indirect members of the TIPS ECB clearing arrangements. This puts the non-bank payment sector at a competitive disadvantage. Access to TIPS rests on our members having access to the system via their own banking relationships. Many of our members are facing the closure of bank accounts as banks reassess their AML/TF policies. The debate around de-risking demonstrates the vulnerability of the non-bank sector unless they can have direct access to TIPS via the intra-bank payment system. This is particularly sensitive given that banks and non-banks are often in open competition. EPIF's membership will only really benefit from SCT Inst if the Settlement Finality Directive creates the legal framework for non-banks to have direct access to TIPS.

We also would like to point out that one of the key cost drivers in recent years has been bank de-risking. De-risking policies primarily affect cross-border payments via the following channels: (i) limiting the access of non-bank service providers to banking partners, (ii) limiting agent access to bank accounts and (iii) limiting correspondent banking partners who provide supporting flows to agents.

In particular, **for the remittances sector**, the access target cannot be defined by the industry, as the outlook is linked to the progress of the Bank for International Settlements' Committee on Payments and Market

Infrastructures (CPMI) discussions on building blocks allowing a faster, interoperable, and more efficient regulatory framework.

To build a sustainable, fully serviced financial system, we should consider all the facts on the ground. For instance, the population using the internet in developing is less than a third of the average in the developed regions. We should also take into account that there are 450 million people living in rural areas with no mobile signal. It is also worth noting that cash remains the predominant form of payment in most of the developing world. Thus, financial inclusion via digital channels alone cannot be achieved given these gaps.

**With regard to the transparency target:**

EPIF believes that transparency in cross-border payments, paired with the rollout of instant payments and direct access for non-banks to the payments system, together could work to increase the speed and reduce the cost of remittances. As the FSB continues to define the list of information referred to in the target, we would urge for this to be compiled in consultation with the industry, to ensure that it is based on practical considerations. Some elements of transparency, for instance, would be more appropriately delivered through aggregate or general disclosures as transaction-level disclosure may not always be feasible. It might be helpful moreover to address transparency to intermediaries across the payment chain and to acknowledge that information asymmetries exist, and that data quality in this regard is also key.

4. **Do you agree with the proposal in the definition of the market segments to separate remittance payments from other types of cross-border person-to-person (P2P) payments because of the greater challenges that remittances in some country corridors face? If so, can you suggest data sources that can distinguish between the two types?**

5. **Are the proposed numerical targets suitable? Are they objective and measurable, so that accountability can be ensured by monitoring progress against them over time?**

6. **What are your views on the cost target for the retail market segment? Does it reflect an appropriate level of ambition to improve on current costs while taking into consideration the variety of payment types within the segment? Should reference transaction amounts be set for the target (in the same way as $200 has been set for the current UN Sustainable Development Group targets for remittances) and, if so, what amount would you suggest?**

7. **What are your views on the speed targets across the three market segments? Are the proposed targets striking the right balance between the ambition of having a large majority of users seeing significant improvements, the recognition that different types of user will have different speed requirements, and the extent of improvements that can be envisaged from the actions planned under the roadmap?**

8. **Are the dates proposed for achieving the targets (i.e. end-2027 for most targets) appropriately ambitious yet achievable given the overall time horizon for the Actions planned under the Roadmap? Would an alternative and more ambitious target date of end-2026 be feasible?**

The 2027 target set by the FSB gives Payment Services Providers six years to align with these ambitious targets. For many Payment Services providers, reaching these targets will take a massive effort and they probably will need support from counterparties, market infrastructures, central banks and authorities.

9. **What data sources exist (or would need to be developed) to monitor the progress against the targets over time and to develop and set key performance indicators? Do you have relevant data that you would be willing to share for this purpose either now or during the future monitoring?**

   We agree that the targets should be easily measurable. The implementation of these targets is therefore key. We look forward to the FSB's forthcoming Implementation document, and would offer the following points:

   1. Data should to the extent possible be obtained from existing sources; World Bank, SWIFT gpi, Findex, etc.
   2. Where data from companies is required, we would suggest making use of existing data reported to supervisory authorities around the world. This would ensure more efficient data sharing.
   3. Any data sharing should be done on a fully anonymized basis to ensure that commercial confidence is maintained.

   In addition, implementation should be consistent and timely across jurisdictions; the risk that countries move faster than others may lead to unintended consequences.

10. **Do you have further suggestions or questions about the detailed definition and measurement of the targets and their implementation? Which types of averages can be constructed to help to measure progress?**

   EPIF would recommend that conflicts between the AML/CTF and data privacy legislations are resolved so that companies do not breach one regulation when complying with the other. Screening of employees is a good example where data protection legislation is sometimes preventing or limiting the extent of the background checks.

   One of the greatest opportunities to improve data sharing in the AML/CTF context is to clarify legal requirements relating to what data is required to be collected and the instances in which it should be shared with law enforcement. The relationship between data protection and AML/CTF framework is one of the most important and challenging issues related to information sharing.

   Due to significantly increased number of Suspicious Activity Reports (SARs), Law enforcement authorities face the difficulties to process and investigate them appropriately. There are divergent expectations between AML/CT/Banking regulators and data protection regulators, which often put data controllers/financial companies in the position of being unable to comply with both sets of expectations at once. There is the lack of clarity on what the legal requirements are and ideally for Law Enforcement and Data Protection authorities to work together on guidance on implementation of AML/CTF obligations

11. **Do you have any suggestions for more qualitative targets that could express ambitions for the benefits to be achieved by innovation that would be in addition to the proposed quantitative targets for the payments market as a whole?**

   EPIF would support the establishments of working groups where companies and experts can share best practices. Public-Private Partnerships have proven to be very positive to promote information sharing between Financial Institutions and FIUs and national regulators.