

## PayPal response to FSB Consultation:

### *Targets for Addressing the Four Challenges of Cross-Border Payments*

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**Question 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?

PayPal welcomed the opportunity to share with the CPMI Cross-Border Payments Taskforce our experience in global cross-border payments throughout 2020, and we are pleased to see stakeholder feedback reflected in the FSB's ambitious Roadmap endorsed by the G20 in October 2020.

We generally support the 19 recommendations to enhance the global cross-border payments market, and to enable faster, cheaper, more transparent and more inclusive payments for global cross-border retail and remittance payments alike.

We agree that private / public cooperation is essential to achieve the objectives of the Roadmap to enhance global cross-border payments. We moreover believe it is essential that the proposed activities and targets reflect adequately the complexities and challenges of each sector.

We look forward to continuing to share our insights and practical expertise and welcome the FSB's proposed high-level targets. We agree with the eight design features detailed in the report, but believe that the following are missing:

1. A direct link to the 19 building blocks. The successful completion of the targets is based on progress on each of the building blocks. This should be acknowledged upfront to create a better link between each of the actions to be undertaken under the building blocks, and the present targets. It is also important to acknowledge that some building blocks will be more important to achieve these targets, and progress on the building blocks could impact timing.
2. While targets should be simple in language, they should acknowledge the complexity that exists in the ecosystem, e.g.: the variety of stakeholders in a single payment transaction and the cost landscape. It is important to acknowledge where the costs lie in a payment transaction; this includes operational costs, but also AML/CTF checks and security and privacy compliance.
3. The targets should also reflect the variations of risk profiles in retail and remittance payments. A person travelling abroad and shopping in a store has a different risk profile than a tax payment 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.
4. The interdependency of the targets should moreover be considered, as should the possible trade-offs between targets (e.g., cost vs speed, or cost vs access). For instance, increasing speed could drive up costs given the investments required. In addition, consumers may have different preferences around these trade-offs – speed may not always be desirable – and we should strive to avoid foreclosing consumer choice.

5. Security and privacy are drivers of consumer choice when looking at payment options; these should also be reflected in the design features as they will impact cost, access and speed. Again, the trade-off between each of these targets and security/privacy should be recognized, as should the fact that this should remain a matter of consumer choice.

**Question 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?

We would agree with the proposed market segments but would suggest clarifying the distinction between retail payments/P2P and remittances by underlining the non-commercial and personal nature of remittances. It is challenging to define clear boundaries between cross-border P2P payments and remittances, but in our experience and in a cross-border context, we have found that remittances are largely non-commercial payments, whereas P2P payments are largely commercial – consumer payments for goods overseas.

**Question 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?

In order to achieve cheaper, faster and more inclusive cross-border payments for the benefit of consumers across the world, we believe that there are two inescapable pre-requisites:

1. The availability of national (instant) interbank payment systems, their accessibility by banks and non-banks alike, and their interoperability to enable cross-border payments.
2. A more harmonized regulatory (e.g., identity, privacy, security, AML, consumer protection) and technical (e.g., communication protocols) landscape at the international level.

We are pleased to see that these two items are reflected in the 19 building blocks. With this in mind, we have the following comments regarding the proposed targets:

We welcome the **speed** target – achieving this would be beneficial for consumers across the world. When it comes to measuring progress, would this target comprise both bank and card-based cross-border transactions? Per their nature and set-up, card-based transactions are already (near)-instant from a consumer point of view but achieving the same for *bank-based* cross-border payments is largely dependent on the presence of domestic infrastructure that is instant and interoperable across the world. A number of successful interoperable interbank systems exist today (e.g., SEPA in the EU, PayNow-PromptPay linkage across Singapore and Thailand), and we welcome the FSB's ongoing support for such projects worldwide. P27 in the Nordics is a good case study of what it will take to ensure interoperability across multiple countries and currencies. Further progress on the ASEAN Payments Connectivity initiative can also be tracked to serve as a model for interoperability between countries with financial

systems and payment infrastructure at significantly different stages of development. We suggest that the focus of the target should therefore be on infrastructure uplift (i.e., ensuring interoperability) rather than the end-experience, which will vary depending on consumer preferences.

In addition, we would suggest that the FSB encourages the modernization of faster payment networks such that they are mobile and open-API based. This would allow appropriately licensed third parties to directly connect to these networks and reduce the fintech industry's reliance on traditional networks and partners. India's UPI is a good example of this open architecture. This would contribute to fostering innovation, increasing payment speed and access, as well as reducing costs.

Another factor affecting the speed of transactions are compliance checks, which are often more substantial in a cross-border setting where correspondent banking still prevails, and where the risk profile of the transaction is often higher. This is why we believe that a more harmonized regulatory framework is also key to achieving faster payments worldwide.

Regarding the **access** target, we would urge focus for international public sector efforts to remain at the technical and infrastructure layer, and to leave it to the industry to innovate the product and services layers on top. We would therefore focus the target on open and fair access to payment infrastructure by all payment service providers (both bank and non-bank). Only such inclusive access at the technical layer will allow payment providers to develop end-user solutions for cross-border payments that are cheaper and faster than those available today.

Related to fair and inclusive access, we believe that non-bank providers should be able to undertake forex operations to provide end-to-end services. In many Asian countries, this is still within the banks' sole remit. Non-banks are therefore dependent on partnerships with banks, who often also offer competing services.

We finally believe that greater **transparency** about the end-user cost of cross-border transactions will be beneficial for consumer awareness. It will also drive progress to achieve the cost and speed targets, as well as increase competition. We therefore welcome the proposed target. We would however urge for the minimum defined list of information to be compiled in consultation with the industry, to ensure that it is based on practical considerations. Some elements of transparency should, for instance, be able to be delivered through aggregate or general disclosures as transaction-level disclosure may not be feasible.

It might moreover be helpful to differentiate transparency to consumers vs. transparency to intermediaries across the payment chain. Indeed, some elements of transparency may not be in the consumer-facing PSP's control, and this information asymmetry along the payment chain should be acknowledged. Data quality in this regard is also key.

**Question 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?

We believe that qualitative targets should be set to measure progress in harmonizing global regulations and standards, given their key role in enhancing cross-border payments and the

benefits this would bring in terms of reducing costs and increasing speed. In our view, the following areas are key:

1. Fostering global convergence on AML, payment security, consumer protection and data privacy requirements, based on a risk-based and proportional approach.
2. Developing solutions for cross-border electronic identification (eID) that are interoperable, secure, reliable, and accessible across national borders.
3. Harmonising rules governing the acceptable use of remote identification technologies and services, such as eID, for onboarding and eKYC.

Additionally, we would suggest developing a qualitative target around tracking consumer behaviour and preferences. This would ensure that the work to be carried out under the Roadmap truly aligns with consumer expectations and preferences, as well as reflects the variety of expectations that exist already today.