

July 16, 2021

Japanese Bankers Association

JBA Comments on “Targets for Addressing the Four Challenges of Cross-Border Payments”

We, the Japanese Bankers Association (JBA), appreciate the opportunity to provide comments on the Financial Stability Board’s Consultative documents “Targets for Addressing the Four Challenges of Cross-Border Payments” dated May 31, 2021.

We hope that our comments will contribute to further discussions.

Question	Comments
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ In addition to the four challenges (cost, speed, access, and transparency), the "sustainable provision of stable settlement functions" should be a fundamental challenge. In particular, we recognize that a decline in correspondent banking relationships (Consultative document p. 9) is an issue, and we would like to ask for a balanced discussion so that this initiative will not further accelerate such a decline.</li> <li>✓ A specific awareness of the problem and priority among the targets based on such awareness should be defined. For example, since the UN SDG targets include “the transaction costs of migrant remittances,” the scope can be limited to this target.</li> <li>✓ The relationship between the roadmap and the targets should be clarified. It is clear that realizing the targets are difficult to achieve without corporation and implementation of the roadmap at the global level.</li> <li>✓ We understand that Speed, Cost and Transparency have been the issues to be improved in the area of cross-border payments.</li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ The market segments reflect the diversity of cross-border payments markets and thereby provide a high-level common vision. We however believe that the distinction between remittance and retail payment is not clear.</li> <li>✓ While the wholesale and retail seem to be clearly distinguished, (however non-bank payment service provider needs to be defined), we believe it important to clearly note that the cross-border payment mechanism of the two is inextricably linked, and address this fact in such a way that retail targets do not result in a decline in correspondent banking relationships.</li> <li>✓ The proposed retail segment covers large corporates, small and medium enterprises, public sectors, service providers and individuals. On the other hand, financial institutions bear different degree of operations cost depending on customer types. Therefore, applying a single target to different customer types may deteriorate profitability and undermine sustainability of the provision of services in specific customer segments.</li> <li>✓ For instance, the retail segment needs at least to be divided into corporates, public sectors and individuals.</li> <li>✓ In addition, the diversity of service providers and business models needs to be taken into consideration. Due consideration needs to be made to ensure that each payment service and business model are not evaluated unfairly and inappropriately due to an extremely simplified target proposed as a high-level common vision.</li> </ul>
<p>3 . Do you have any comments on the target metrics proposed?</p>	<ul style="list-style-type: none"> <li>✓ We request that the scope of measurement be clarified; in particular, whether the targets are measured on a country or business unit basis, and how are transactions entered into by overseas entities treated.</li> <li>✓ We request that the definitions of each target and base date for targets, the way of monitoring, data suppliers and other related items be clarified. The appropriateness of the way of measurement for assessing the targets is difficult to ensure unless there are clear rules for monitoring. Clarifying rules would help all business operators to assess their targets.</li> <li>✓ There should be more specific descriptions of how to achieve the targets. Speed and cost should be subject to improvements in the environment through other related building blocks.</li> <li>✓ New costs to market participants for the monitoring of the target should be avoided. In particular, a considerable cost may incur even for financial insitutions with a lower trading volume.</li> <li>✓ In order to make sure the targets will be realized, all the participants from the public and private sectors should share the consensus on the vision and the roadmap.</li> <li>✓ As for the target on cost, while the target is set on an amount basis, fixed costs will be charged to the provision of payment service regardless of the size of payments. Therefore, we recognize that the smaller the payment amount is, the harder we achieve the target. With the advancement of digital innovation and globalization, needs for cross-border payments in a small amount have been increasing. Further consideration regarding the cost target metrics should be required.</li> <li>✓ As for other targets, it is necessary to set the items of the qualitative targets and their definitions more specific. Additionally, it is essential to provide a specific guideline leading to reduction in compliance cost such as harmonization of regulations and regulatory authorities including AML/CFT.</li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ We understand the intention to separate remittance payments from other types. However, under current practice, most financial institutions do not separate person-to-person payments and remittance payments.</li> <li>✓ We request that the remittance segment is clearly defined to enable the measurement of remittances. With the clarification of the definition, individual financial institutions may need to take actions including system development for measuring remittances.</li> <li>✓ While data “to family members/friends abroad” specified in Payment types in P6 is not available, “P2P payments equal to or below a certain threshold” could be provided.</li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ Whether the numerical targets are suitable cannot be determined unless monitoring rules are clearly set out.</li> <li>✓ It depends on further clarification of the definition as to whether we can measure the numerical targets or not. For example, services that use SWIFT can be measured using gpi. However, monitoring all services including PSP and local settlement would be difficult. It should be ensured that data with substantially the same definition be provided to avoid unfair treatment arising from differing business models across sectors, such as fees.</li> <li>✓ It would be necessary to take account of additional resources required for measurement in considering the way of measurement. It should be avoided that the way of measurement gives rise to an increase in costs of payment services, and market oligopoly and further decline in correspondent banking relationships by prompting market withdrawal of small and medium sized service providers.</li> <li>✓ For most of cross-border payments, cover payments are executed in US dollar and are settled in the U.S. If cover payments are executed in US dollar, regardless of whether the address of a payee is Europe or Africa, the addressee of a SWIFT message will be the U.S. Therefore, even if a bank confirms the addressee on a SWIFT</li> </ul>

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	<p>message, only the addressee of a cover payment can be identified. Due to the limitation associated with the SWIFT message, however, a manual procedure needs to be performed by visually checking the address and country in the Name&amp;Address narrative field of the payee to accurately identify the final addressee. Therefore, errors may frequently occur.</p>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ The proposed retail segment covers large corporates, small and medium enterprises, public sectors, service providers and individuals. On the other hand, financial institutions bear different degree of operations cost depending on customer types. Therefore, applying a single target to different customer types may deteriorate profitability and undermine sustainability of the provision of services in specific customer segments</li> <li>✓ We suggest, for example, that reference transaction amounts be set per payment service provider since the main amount ranges are different among payment service providers.</li> <li>✓ If cost targets are set as percentages, it would be better to set reference transaction amounts. While the level of amount cannot be specified, it should be considered in light of retail volume zones and customer types.</li> <li>✓ Each bank sets Foreign Exchange margin in accordance with FX Global Code published by the Bank for International Settlements (“BIS”) while referring to liquidity of each currency and other factors. In considering remittance costs, we request that Foreign Exchange margin be excluded from cost for the following reasons: <ul style="list-style-type: none"> <li>· Most of financial institutions that publish quoted price are exposed to intraday foreign exchange fluctuation risk. To ensure customer convenience, published quoted prices should not be changed unless there is a volatility in a market.</li> <li>· If Foreign Exchange margin would be included, some banks may not be able to provide their service since high liquid costs such as emerging currencies cannot be covered by revenue within 3 %, thereby impairing customer convenience.</li> </ul> </li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ The speed targets would be very challenging.</li> <li>✓ In most cases, there is a trade-off between speed and safety. While there are needs to receive money swiftly, there is a case where banks need to compromise in terms of speed so that they can prevent potential damage caused by illegal payments as instant payments become prevalent. Especially in retail market segment, most end-users are likely to choose a safer payment service rather than a faster payment service. We doubt that the target aiming to process a large majority (e.g.75%) of payments within one hour is well balanced.</li> <li>✓ Under the speed targets, a large majority of payments should be processed within one hour. The measurement of speed, however, should take into account the facts that the time required for the filtering process to check whether customers are sanctioned persons varies by transactions and that required compliance checks differ since different requirements are established by respective jurisdictions.</li> <li>✓ There is no mention of time differences between the regions. The speed targets should be “within the same time zone,” or consider time differences and operating hours of respective regions . Considering solely in terms of 24-hour operations is directly connected with the cost increase and thus correspondent banking relationships may decline.</li> <li>✓ The measurement interval should start when a remitting bank sends a message, instead of when a customer applies for a money transfer and end when a beneficiary bank receives the message. We believe the feasible way of the measurement is to use SWIFT gpi data.</li> <li>✓ It should be noted that efforts of both remitting banks and beneficiary banks are required in achieving the speed targets.</li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ We believe that end-2027 targets are very ambitious targets. Most financial institutions allocate their cost and resources to ISO transition targeting November 2025. In addition, setting an alternative target date at end-2026 is considered to be too early at this point, since there would be a time lag between when actions planned in each roadmap will be implemented and when they will show effects.</li> <li>✓ The dates for achieving targets would be affected by the progress of individual Building Blocks, particularly in the focus area B.</li> <li>✓ In order to achieve targets, in officially announcing monitoring progress, it would be useful to disclose some cases such as cutting-edge initiatives and initiatives that will be likely to be applied to other regions.</li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ With regard to cross-border payments via SWIFT between correspondent banks, progressing time from payment initiation to receipt can be measured using gpi Tracker developed by SWIFT gpi. However, since accurate tracking is limited to the gpi member banks, payments involved by many small medium sized financial institutions that are not gpi members will be difficult to be measured by the hour. In order to provide “within one hour” data, new data sources need to be considered and developed. However, the requirement causing additional costs for market participants to monitor the progress should be avoided.</li> </ul>
<p>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?</p>	<ul style="list-style-type: none"> <li>✓ Market costs will increase sharply in tandem with a higher volatility in the market. Therefore, exceptions to limiting remittance costs need to be set, including a case where a market changes sharply.</li> <li>✓ In order to ensure the targets can be realized, we believe it the most important to implement each Building Block as planned. For the successful implementation, it would be essential to clearly define and deliver the deliverables from each activity and to establish a framework for program management.</li> <li>✓ Is it possible to assume that each issue would improve linearly each year? If not, what is the path for achieving the targets?</li> <li>✓ For transparency, both payers and payees are not required to notify the level of FX margin and fees. Therefore, the details and addressee of the notice should be considered by taking into account market practice.</li> </ul>

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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?	<ul style="list-style-type: none"><li>✓ Whether the targets are achievable would depend on how successfully each Building Block can be implemented. In particular, applying consistent and comprehensive AML/CFT rules (No.5) will be a key in facilitating STP. Therefore, this would be included as one of qualitative targets.</li><li>✓ The consideration on quantitative targets would also cover the progress of harmonizing different regulations across jurisdictions, coordination among regulatory authorities across the jurisdictions and public-private partnership.</li></ul>

(End)