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G20 Roadmap: Forging a path to enhanced cross-border payments

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The cross-border payments industry is at a turning point, driven by growing customer demands – across retail, corporate and financial institutions – for speed, transparency, cost efficiency and greater access. To address these changing needs, G20 members endorsed the Roadmap for Enhancing Cross-border Payments in November 2020, which sets quantitative targets to address the associated challenges and frictions. This white paper explores these dynamics, highlights recent developments, and assesses the future steps needed to modernise cross-border payments.

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Foreword

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The cross-border payments space is at an inflection point, as changing client needs adjust priorities for the industry. At the front-end, the driving force is remarkedly simple: retail customers, consciously or not, are demanding more from the companies they transact with and from the institutions they bank with. A similar trend has extended to the cross-border payments space – with the goals of transparency, speed, security and lower costs.

At the back end, meeting these needs presents challenges, including misaligned payment messaging standards and divergent regulations between jurisdictions. Add to this equation the absence of any 'silver bullet' solution and you arrive at today's cross-border payment situation, where the question on everyone's lips is: where do we go from here?

Seeking to modernise the payments infrastructure by addressing these challenges, in November 2020 G20 members endorsed the Roadmap for Enhancing Cross-border Payments (the Roadmap), which sets quantitative targets to lower costs, increase speed, accessibility and transparency of international payments by the end of 2027. These goals have been organised under three priority themes: payment system interoperability and extension; legal, regulatory and supervisory frameworks and data exchange message standards.

Under the umbrella of the Roadmap, major progress has already been made. Around the world the ISO 20022 migration is underway, which introduces a common, interoperable standard for payment message exchange and helps to lay the foundation for further efficiencies and improved client service. In tandem, efforts have begun to create service level agreements that foster greater transparency in international payments, as well as to interlink domestic payment systems to enable instant cross-border flows.

One criticism of the Roadmap, however, is that it is not yet backed by regulatory or legal mandates. So, rather like the speed limits on certain parts of the German autobahn, adherence is not compulsory. This is somewhat of a double-edged sword: on the one hand, a legal mandate would undoubtably serve as a catalyst for action, on the other, its absence is an opportunity for cross-border payment players to take charge and shape their own futures.

This is, of course, dependent on action across the community. Unlike an autobahn, we cannot simply turn off at the next exit. The direction of travel has been set and if we – the cross-border payment industry – do not get behind meeting the targets that have been laid out, it is likely that, in one way or another, we will be compelled to do so.

As outlined across the pages of this white paper, the ingredients to meet the Roadmap's targets exist today. It is now a case of moving from discussing the challenges, to enacting solutions that directly address them – and coming together as a community to do so.

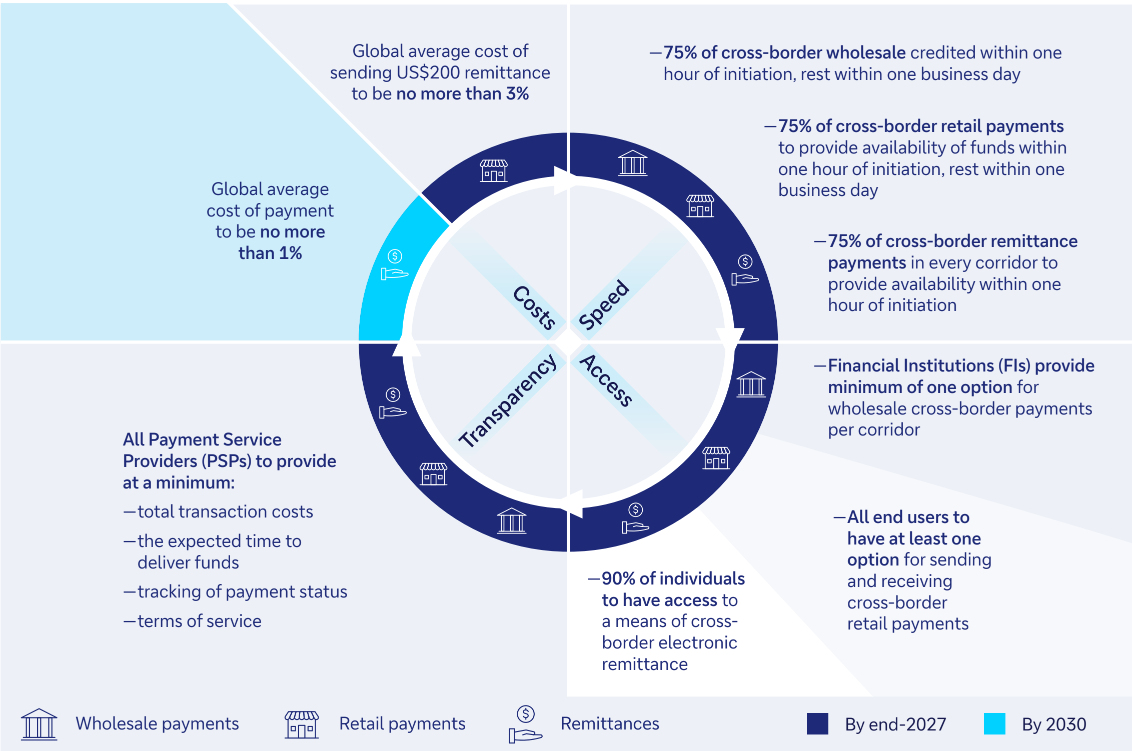
1

What is the G20 Roadmap?

Recognising the importance of efficient payment systems for global economic growth and financial inclusion, the G20 developed a Roadmap for Enhancing Cross-Border Payments (the Roadmap) – a comprehensive framework aimed at addressing the challenges associated with moving money across borders. Enhancing cross-border payments' speed and transparency, while increasing access to cross-border payment services and reducing their costs, are the key objectives of the G20 cross-border payments programme (*see* Section 1.1: Addressing challenges).[1]

In 2021, the G20 endorsed quantitative global targets for addressing the four areas of speed, transparency, accessibility and cost across three market segments: wholesale, retail and remittances (*see* Figure 1). Progress towards the Roadmap targets is being monitored by the Financial Stability Board (FSB) through targeted key perfomance indicators (KPIs) and yearly reports, which leverage the best available data from across the cross-border payments industry.

Figure 1: High-level overview of the G20 targets



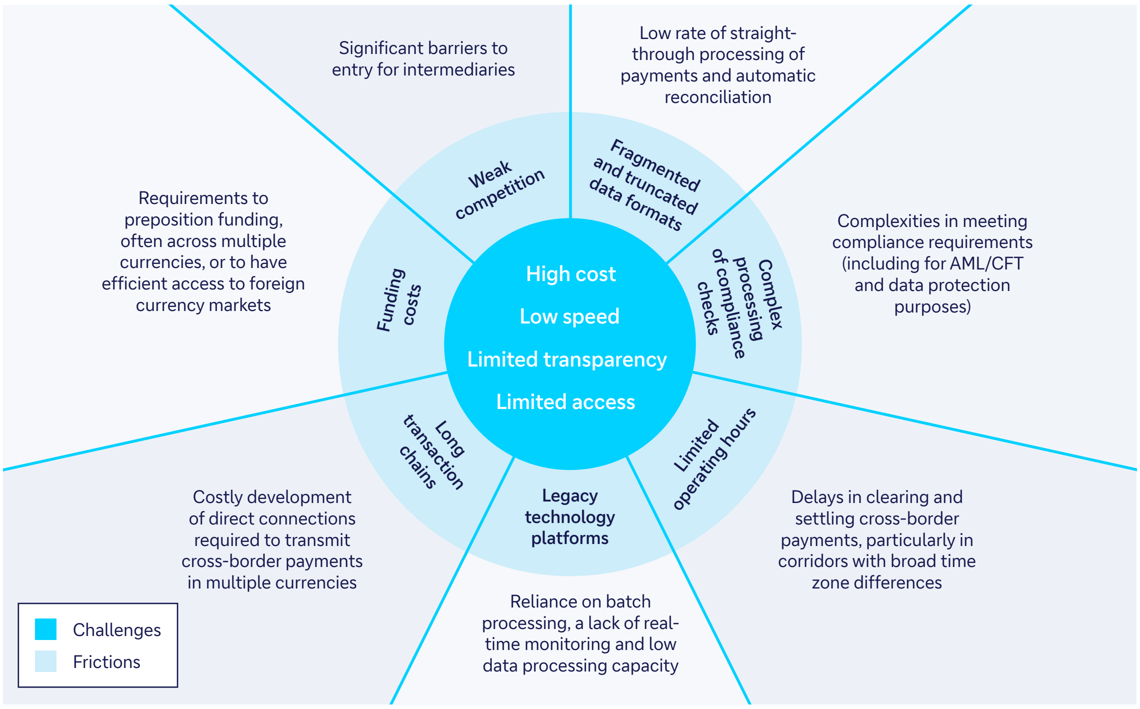
Source: Lammer, T, T Rice (2022): The G20 cross-border payments programme: A global effort. *Journal of Payments Strategy & Systems* Vol. 16, No. 3 2022, pp. 1–12

Rather than be an exhaustive guide to the Roadmap – and the associated progress – this white paper outlines some of the main drivers and provide a qualitative assessment of some of the key initiatives that are ongoing within each pillar.

1.1 Challenges and frictions

Among the first steps involved in creating the Roadmap was to identify the common challenges and frictions that remain for cross-border payments. These are outlined at a high level in Figure 2 and explored in more detail in the sections below.

Figure 2: Challenges and frictions in cross-border payments



Source: Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS)

1.1.1 Addressing challenges

Getting a payment from A to B in a domestic setting is facilitated by the fact that the payment is, for the most part, governed by the same regulations and requirements end to end. By comparison, cross-border payments must contend with complex jurisdictional regulations and differing compliance burdens. The goalposts shift as the payment moves from country to country, adding unwanted complexity to the transaction. This is further compounded by fragmented standards and differing levels of data granularity, as well as diverse payment systems that lack technological alignment or standardised protocols.

These factors can significantly impact the speed of a cross-border payment. For example, while 89% of cross-border payments are processed via Swift within an hour,[2] the challenge is that the speed varies markedly across the end-to-end chain – from less than five minutes to more than two days.[3]

The resulting innovation and service lag for cross-border payments – and the desire to resolve this – sits at the heart of the G20 Roadmap. When the Roadmap was first devised in 2020, the FSB produced the *Stage 1 report to the G20: Technical background report*, which identified four main categories of challenge: cost, speed, access and transparency.[4] The impact of these challenges on the demand and supply side are outlined in Figure 3.

Figure 3: Cross-border payment challenges on demand and supply side

Challenge	Impact: Demand side	Impact: Supply side
High cost	– **Multinational corporations.** While less affected due to stronger bargaining power, they may still face high funding, liquidity, and FX conversion costs due to their extensive cross-border activities – **Individuals and small and medium-sized enterprises (SMEs).** These groups are significantly impacted by high transaction fees, especially for smaller payments, and slow processing times	– **Multinational PSPs.** These providers face added costs for liquidity access across multiple currencies and managing FX risk, alongside the expense of effective screening processes – **Smaller institutions.** Smaller banks and non-bank PSPs may face additional liquidity and credit risks by relying on foreign banks or may struggle to find correspondent partners
Low speed	– **All users**. Low speed brings delays, and this increases uncertainty, liquidity and credit risk for all users	– **All providers.** The challenge of speed in cross-border payments is hindered by reliance on multiple correspondents, cut-off times, regulatory checks, lack of system interoperability, non-harmonised messaging standards, and non-24/7 service availability, leading to increased liquidity costs, FX settlement risk, and complexity in liquidity management
Limited access	– **Multinational corporations** typically have no issues accessing cross-border payment services – **SMEs and individuals** especially in emerging or developing markets, may face access limitations – potentially limiting financial inclusion and pushing them toward costly or inefficient third-party services	– **All providers.** Access challenges for payment systems and wholesale services on the supply side can arise due to technical and financial entry barriers, regulatory requirements, and liquidity access limitations, forcing banks and PSPs to rely on other providers
Limited transparency	– **All users.** Limited transparency creates uncertainty for all users. For example, for multinational corporations, the lack of transparency can potentially impact service levels and result in additional hedging and insurance costs	– **All providers.** Lack of transparency for anti-money laundering (AML) and combating the financing of terrorism (CFT) purposes can increase illicit finance risks and exacerbate existing challenges, such as delays in completing necessary procedures

Source: Summarised from *Stage 1 report to the G20: Technical background report*

1.1.2 Addressing frictions

In the end-to-end cross-border payment chain – from validation, to transmission, to funding – frictions can emerge that add to the four identified challenges: high cost, low speed, limited access and limited transparency. The FSB identified seven of these so-called frictions:

1. **Fragmented and truncated data formats** across jurisdictions and systems hinder the accurate transmission of payment details, leading to delays, higher processing costs, and difficulties in automated reconciliation for cross-border payments.

2. **Complex processing of compliance checks** in cross-border payments, due to inconsistent regulatory regimes and multiple validations, increase costs, delay processing, and can lead to errors, especially in high-risk corridors.

3. **Limited operating hours** of payment systems, typically aligned with business hours and rarely available on weekends, create delays in cross-border transactions – especially across time zones, increasing transaction costs due to extended funding periods.

4. **Legacy technology platforms** in cross-border payments – with limitations like batch processing and low data capacity – hinder automation, delay settlements, and create inefficiencies, especially when integrating with other outdated systems.

5. **Funding costs**. To ensure quick onward settlement, intermediaries must preposition funds across currencies or access foreign currency markets, which carries credit risk and regulatory capital charges. This can lead to higher costs, particularly for transactions involving illiquid or non-tradeable currencies.

6. **Long transaction chains** in cross-border payments that require multiple correspondent institutions can lead to higher costs, delays, additional funding needs, and potential data degradation – all while increasing the complexity and trust required between intermediaries.

7. **Weak competition** in cross-border payments, due to high entry barriers, informational frictions, and cost complexities, leads to higher prices, growing provider concentration, and reduced investment in modernisation.

> "We find that the maximum friction is in the last mile. Looking at the Swift network, around 90% of wholesale payments reach the end beneficiaries' banks within one hour. But due to factors including capital currency controls, operating hours, and batch processing only 60% of wholesale payments are then credited to customer accounts within that timeframe. Solving this requires action from the whole ecosystem, as well as regulators"

Shriyanka Hore,
Global Head of Industry Engagement, Swift

Milestone steps on the road to the G20 Roadmap

- **February 2020.** The G20 asked the FSB to coordinate a three-stage process to develop a roadmap to enhance cross-border payments.
- **April 2020.** The FSB delivered the *Stage 1 report to the G20: Technical background report* (Stage 1 report) to the G20, which provided an assessment of existing arrangements and challenges for global cross-border payments.[5]
- **July 2020.** The CPMI provided the Stage 2 report *Enhancing cross-border payments: building blocks of a global roadmap*, which set out the elements needed – in the form of a set of 19 building blocks – to address challenges associated with cross-border payments (as outlined in the Stage 1 report by the FSB).[6]
- **October 2020.** Building on the Stage 1 and Stage 2 reports, the FSB – in coordination with CPMI and other relevant international organisations and standard-setting bodies – developed and published the *Enhancing Cross-border Payments, Stage 3 roadmap report*, which was submitted to the G20.[7]
- **November 2020.** At a virtual summit hosted by Saudi Arabia, the G20 leaders endorsed the Roadmap.
- **2020-2022.** During these first two years of the Roadmap, efforts focused on laying the foundational elements for future Roadmap actions, including the publication of specific quantitative targets at the global level in 2021.[8] Projects were intentionally comprehensive in scope, examining the full range of approaches and models to address the identified frictions in cross-border payments.[9]
- **October 2022.** The FSB published *Priorities for the next phase of work*, a prioritisation plan and engagement model for taking the Roadmap forward to achieve the quantitative targets by the 2027 target date.[10] A decision was made to tackle an identified 15 actions, across three priority themes that were deemed most likely to contribute to reaching the targets: Payment system interoperability and extension; Legal, regulatory and supervisory frameworks; and Cross-border data exchange and message standards.
- **November 2022.** To create accountability and maintain momentum, the FSB developed a framework for monitoring progress toward the targets using KPIs against which future progress would be measured.[11, 12]
- **February 2023.** FSB published *Priority actions for achieving the G20 targets*, which details the specific actions that will be taken under the three priority themes to move the Roadmap forward and achieve the targets by 2027.[13]
- **October 2023.** FSB published its *Consolidated progress report for 2023*, an annual progress report that sets out the main insights from the key performance indicators monitoring report and outlines progress on priority themes, including examples of concrete improvements that have been made or that are underway.[14]
- **End of 2027.** Deadline for the G20 Roadmap targets.

2

What is driving the G20 Roadmap?

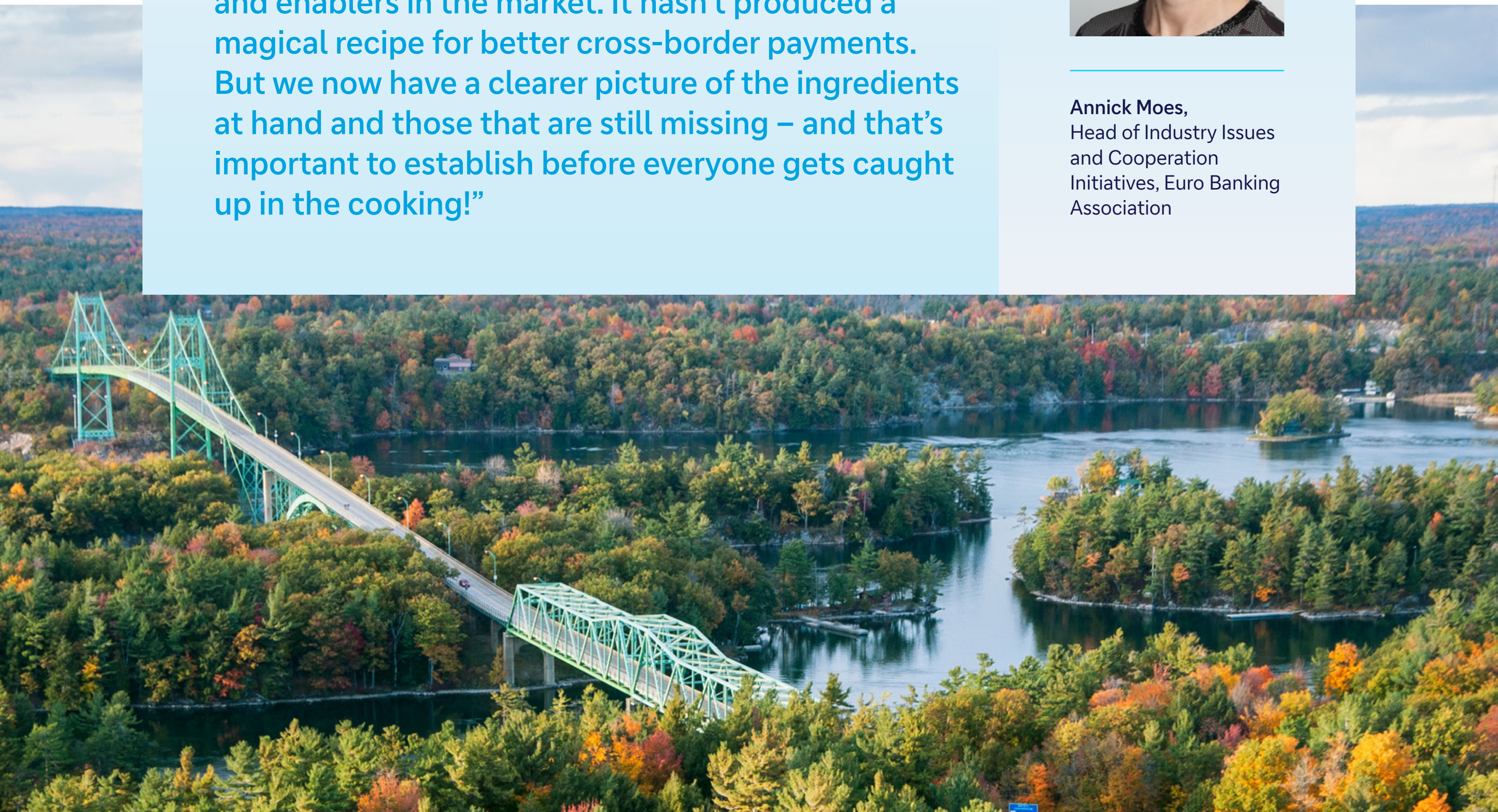
Though the Roadmap is focused on addressing challenges and frictions associated with cross-border payments (*see* Figure 2), this is just part of the story.

The reason these challenges and frictions are an issue in the first place is their impact on users of cross-border payments – whether retail and SME, corporate or institutional customers. A survey conducted by the European Banking Association (EBA) found that the top prerequisite for market adoption of cross-border initiatives is to "support customer needs", as chosen by 79% of survey participants (made up of EBA members).

This section outlines how shifting customer needs are shaping the Roadmap – and galvanising efforts to make it a success.

"Zooming in on cross-border payments initiatives is like looking into a crowded fridge: you see lots of ingredients, but will they also make a great dinner? The aim of our survey was to help European banks take stock of the myriad of cross-border solutions and enablers in the market. It hasn't produced a magical recipe for better cross-border payments. But we now have a clearer picture of the ingredients at hand and those that are still missing – and that's important to establish before everyone gets caught up in the cooking!"

Annick Moes,
Head of Industry Issues and Cooperation Initiatives, Euro Banking Association



2.1 Shifting customer needs

The nature of cross-border payments is changing, with factors such as globalisation, migration, small and medium sized industries going global, and the post-Covid surge in digital purchases of goods and services all driving a rise in cross-border volumes and value. Consequently, the value of cross-border payments is estimated to increase from almost US$150trn in 2017 to more than US$250trn by 2027.[15]

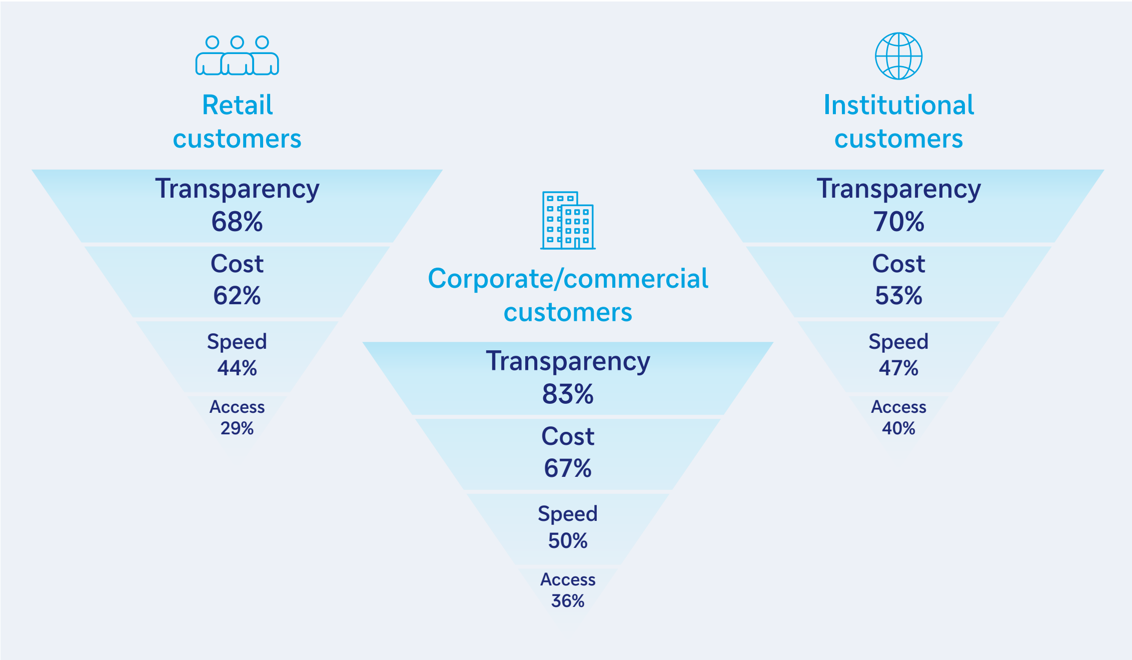
> **"Factors such as globalisation, including small-and medium-sized enterprises (SMEs) going global, and the post-Covid digital purchase of goods and services, are all contributing to a rise in cross-border volumes and value"**
>
> **Shriyanka Hore,** Global Head of Industry Engagement, Swift

Moreover, cross-border payments are now far more accessible to individuals and can be used to buy goods and services abroad or send money home at an international scale. This trend has been bolstered by fintechs, which offer user-friendly digital wallets and mobile payment solutions that simplify cross-border transactions. In emerging markets digital innovations driven by fintechs have also helped to increase financial inclusion.[16]

> **"The predictability, guarantee, transparency and accountability of the providers in the international payment space is as important, if not more so, than instancy"**
>
> **Olivier Denecker,** Expert Partner, McKinsey & Company

As the dynamics of cross-border payments change, so too do the demands of its users. The EBA survey also explored the relative importance of each challenge outlined by the Roadmap for retail, corporate and institutional bank customers. Transparency was found to be the most important feature for each customer segment, followed closely by cost (*see* Figure 4).

Figure 4: Top improvement concerns for bank customers



Source: EBA

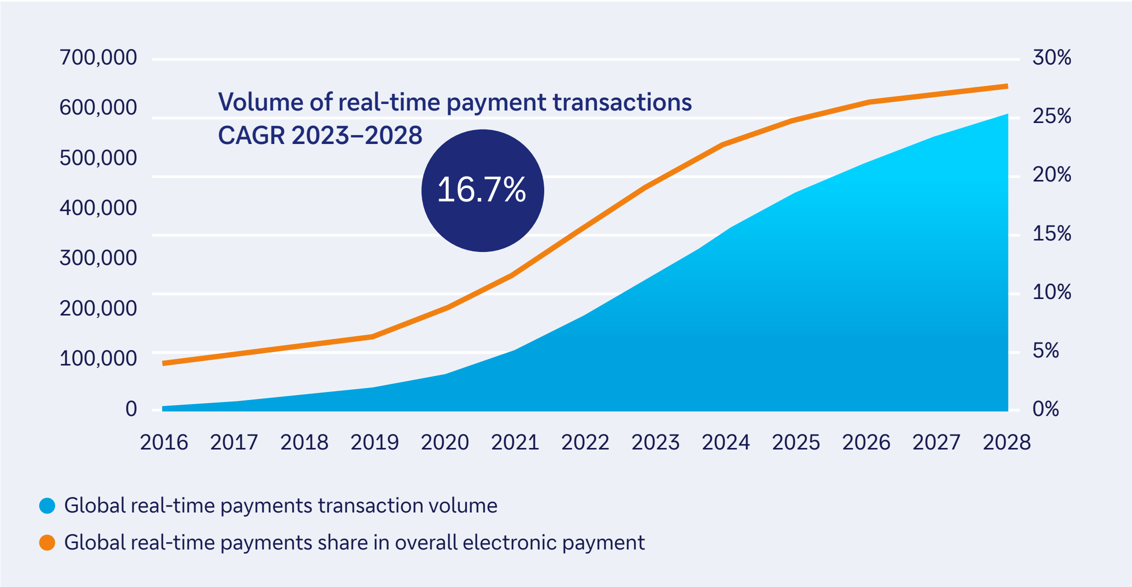
2.1.1 Retail and SMEs

Understanding the changing expectations of retail and SME customers in the cross-border space means examining what is happening in the domestic payment space. Over the past decade, the way consumers buy products and interact with services has changed significantly. Whether ordering a takeaway online, booking a taxi or downloading a film, consumers have become accustomed to fast, seamless and digitalised experiences. Underlying this trend is the ongoing growth in e-commerce observed around the world. Between 2021 and 2023, retail e-commerce sales worldwide grew from US$4.99trn to US$5.78trn – and, by 2027, are expected to be in the region of US$8.03trn.[17]

With choice and convenience taking centre stage, a range of convenient payment methods to faciliate the experience has become a key part of the customer journey – and can be the decider of whether a sale is made or not. It has also meant that digital payments – e.g. the transfer of value between bank accounts using a digital medium, such as a mobile phone, computer, or credit, debit or prepaid card – have become an increasingly favoured and necessary payment option for consumers. This has driven a series of technological changes within the payment space, with many new payment channels and methods emerging, and underlying infrastructures evolving in tandem.

One major development that underlies this trend is the rise of real-time payments, which allow users to transfer funds instantly and with 24/7 availability. When it comes to domestic payments, the number of real-time payments schemes, as well as the volumes on these rails, have seen a significant uptick. For example, the 2024 *Prime Time for Real-Time report*, published by ACI Worldwide, found that in 2023 266.2 billion real-time payments transactions were recorded – a year-on-year (YoY) growth of 42.2%. By 2028, real-time payments are expected to account for 27.1% of all electronic payments globally (*see* Figure 5).

Figure 5: Global real-time payments volume and its share in overall payments (2016–2028)



Source: ACI Worldwide[18]

The rapid improvements seen in domestic payment have helped influence the mindset of consumers and SMEs when sending and receiving cross-border payments – and this increasing convergence in expectations is an important driving force behind the Roadmap. Take a typical German consumer: when purchasing goods or paying for services in another European nation, they do not want to pay additional fees or endure lengthy payment delays. Instead, they expect their cross-border experience to be in line with what they experience in their domestic transactions. For them, consistency is a no-brainer and is fast becoming a "must have".

"With this near-instant payment experience in domestic environments, it becomes harder to explain to anybody – retailers, but also corporates and FIs – why it takes four days to make an international payment when you can do it in less than one second domestically."

Olivier Denecker, Expert Partner, McKinsey & Company

As the mobility of goods and services, capital and people increases, new opportunities and demand for cross-border payments is being seen. For example, cross-border e-commerce activity has contributed to the growth of person-to-business cross-border retail payments – so that 15–20% of e-commerce transaction value is already international.[19] E-commerce does offer a use case for instant payments to avoid waiting for payment when ordering goods. Another relevant use case is travel insurance payouts – for example, should you have cash stolen or your travel account emptied while on holiday, retrieving these funds immediately via your insurer is important.

The growth in migration has also led to an increase in remittance flows, whereby migrants send money to their families back home. These flows have become a primary source of income for households around the world, contributing to poverty alleviation, better education, and health care in developing countries. According to a report by the FSB, annual remittance flows grew around 50% from 2010 to 2020, reaching a high of US$707bn.

Cost is a big factor for remittance payments, with the World Bank reporting that the global average cost of sending US$200 was 6.4% of the amount being sent by the fourth quarter of 2023, slightly up from 6.2% a year earlier and well above the sustainable development goal target of 3%. The World Bank also found that reducing these costs by 1% could increase remittance flows by US$4bn annually.[20]

2.1.2 Corporates

Corporates that rely on business-to-consumer (B2C) e-commerce models are seeing changes on their back end, with treasurers – and other stakeholders, such as IT – having to adjust and adapt back-end systems to provide the digital payment optionality that facilitates this trend. As e-commerce business models become increasingly international, it is likely that companies that deal with significant volumes of consumer payments will be further impacted. For these corporates, speed will likely remain an important consideration as they look to maintain high levels of customer satisfaction and retention.

The "consumerisation" of corporate expectations – where trends in the consumer space influence corporate customers – is also being seen to some extent in the business-to-business (B2B) space.[21] According to data from FTX Intelligence, the B2B e-commerce segment is set to see growth of 120% to 2030, when it will represent a US$22trn market. This rise reflects a proliferation of marketplaces and platforms specifically targeting businesses that are now available online.[22]

"The G20 roadmap on cross-border payments sets targets, but it doesn't describe how to get there. There are several different models evolving...It's good to see that the will is there to make cross-border payments faster, easier and cheaper – but it's hard to say yet which model will become ubiquitous"

Can Balcioglu, Vice President, Global Treasurer, PayPal

"For consumer experience purposes, settlement needs to happen within seconds. For treasury purposes, 15 minutes is usually enough to better manage your counterparty limits, improve cash velocity and react later and faster in the day"

Christof Hofmann, Global Head of Corporate Cash Management, Deutsche Bank

While speed will remain important for these companies, this is not the case for every corporate. The reason that speed tends not to be the greatest pain point faced by B2B treasury teams is because long payment terms – of 60 to 90 days – are commonplace. For many, certainty in the international payment space is as important as instant settlement – and is borne out in the EBA's research (*see* Section 2.1 Shifting customer needs). High costs and lack of transparency create significant uncertainty for corporate treasurers. When fees are not clear upfront and/or the location of the payment is not known, treasurers cannot accurately predict expenses or manage cash flow effectively.

Navigating Tomorrow's Treasury landscape

The arrival of new corporate business models, from the rise of e-commerce to the emergence of marketplace solutions, demands a new skill and mindset of the company's treasury function. To facilitate these sales, digital payments have become a critical part of the equation, and treasurers must ensure those are efficiently integrated into existing processes. Back-end operations are now required to provide efficient reconciliation and react to changing cash in-take patterns with the need for an efficient cash management particularly high as digital sales grow cross-border.

At the same time, today's treasurer faces a myriad of macroeconomic and geopolitical challenges. In a world characterised by volatility, uncertainty, complexity and ambiguity, there is a growing need for treasurers to react quickly to changing conditions – and access to real-time information allows them to do so. For example, delays in receiving bank balance and transaction information can compromise the treasurer's ability to manage liquidity effectively, which can lead to higher borrowing costs or lower investment returns, and potentially create counterparty risk by leaving cash in an account overnight.

The Deutsche Bank white paper – *Navigating Tomorrow's Treasury landscape* – explores the changing dynamics we are seeing in treasury today. It also sets out a vision for what tomorrow's treasurer might come to expect as the world of real-time treasury moves from theory to reality.

2.1.3 Financial institutions

Low value cross-border payments – and remittance flows in particular – is an area where there have been many negative experiences by retail customers. According to a survey by Mastercard, among 11,000 consumers and SMEs in 15 countries, 76% could not support themselves in some way because of a late/failed cross-border payment.[23]

As volumes grow, competition in the cross-border payments market is increasing with non-bank competition having gained market share. According to a recent report by Citi, 40% of banks have already lost at least 5% of market share to fintechs, and 89% expect to lose at least 5% of their share to FinTechs in the next 5–10 years.[24] This not only puts pressure on FIs that directly serve these client segments to invest in improvements, but also the large clearing banks that serve these FI clients.

To identify where improvements could be made – and where banks can begin to reverse this trend – in 2023 Swift surveyed more than 4,000 consumers and more than 2,000 SMEs across eight global markets: Australia, China, Germany, India, South Africa, Saudi Arabia, the UK and the US. It found that the majority of respondents consider their banks as the first port of call for international payments – confirmed by 87% of SMEs and 81% of consumers. Yet three-quarters of those surveyed said they would consider using a different provider if they matched the offer they get from a bank, fintech, or other provider today.

After security and trust – areas of strength for the banking community – transparency was cited as the third most important driver for choosing an international payment provider among consumers. Around 70% of consumers and SMEs said they would not use a payment provider again if they experienced hidden fees. The goal for both is to avoid any hidden surprises – and fees – when sending money internationally.[25]

In recent years, improving cross-border transparency for FI and corporate customers has been a focus for banks of all sizes. For example, working closely with the wider banking industry, Swift has developed and launched two ambitious and interconnected solutions and services – Swift GPI and Swift Go – that are helping to bring greater speed and transparency to high-and-low-value cross-border payments.[26]

It is important to note that while these are often driven by demands from the banking sector – as they mature, they gradually evolve into standard practices for participants within the ecosystem. This has been seen with Swift GPI, where two foundational elements have moved from a “nice to have” to a “must have”:

- **Unique End-to-End Transaction Reference (UETR)**, which facilitates the tracking of payments, has now been defined as a core data attribute for cross-border transactions by the CPMI Joint Task Force.

- **Universal confirmations** – confirmation that funds have hit the beneficiary account – has been required of all FIN users in the user categories Supervised Financial Institutions (SUPE) and Payment System Participants (PSPA) since 22 November 2020.

Swift is also looking at how its community could potentially leverage data from the Swift network to help measure progress in meeting the G20 objectives across different corridors.

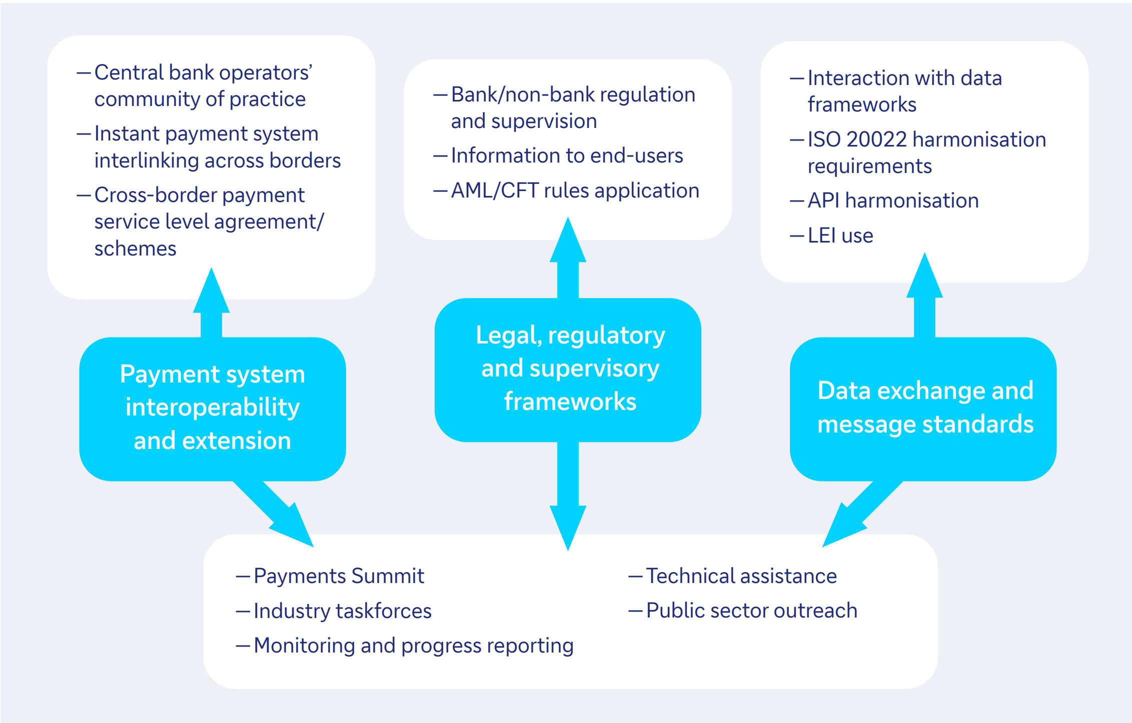
3

The Roadmap's priority themes

In October 2022, the FSB published a prioritisation plan and engagement model for taking the Roadmap forward – identifying three interconnected themes for orienting and focusing the next phase of the Roadmap: payment system interoperability and extension, legal, regulatory and supervisory frameworks and data exchange and message standards (*see* Figure 6).[27]

> "As we look to foster innovation in line with the G20 goals, the reusability of existing community infrastructure, reach within the cross-border ecosystem and resilience against disruptions and attacks represent critical focus areas"
>
> **Shriyanka Hore,** Global Head of Industry Engagement, Swift

Figure 6: The G20 Roadmap priority themes



Source: FSB

3.1 Data exchange and messaging standards

The evolution of cross-border payments over decades has led to the development of multiple different data exchange and messaging standards, with divergences being seen depending on the jurisdiction, region or country in question. Harmonising these standards – and removing fragmentation on several fronts – is seen by many as the foundational step towards meeting the G20 targets.

Against this backdrop, the data exchange and message standards pillar of the Roadmap focuses on improving the transfer of data across borders in four key areas. The action points include:

- **Payments messaging standards**, which have historically faced divergence depending on the payment system or jurisdiction in question. This is being addressed through the introduction of ISO 20022 as the global, harmonised standard for payment messaging (*see* Section 3.1.1: ISO 20022 migration).

- On the theme of harmonisation, efforts are also being made to recommend **cross-jurisdictional or global standards for application programming interfaces (APIs)**, which offer strong potential to support in meeting the G20 objectives (*see* Section 3.1.2: API harmonisation).

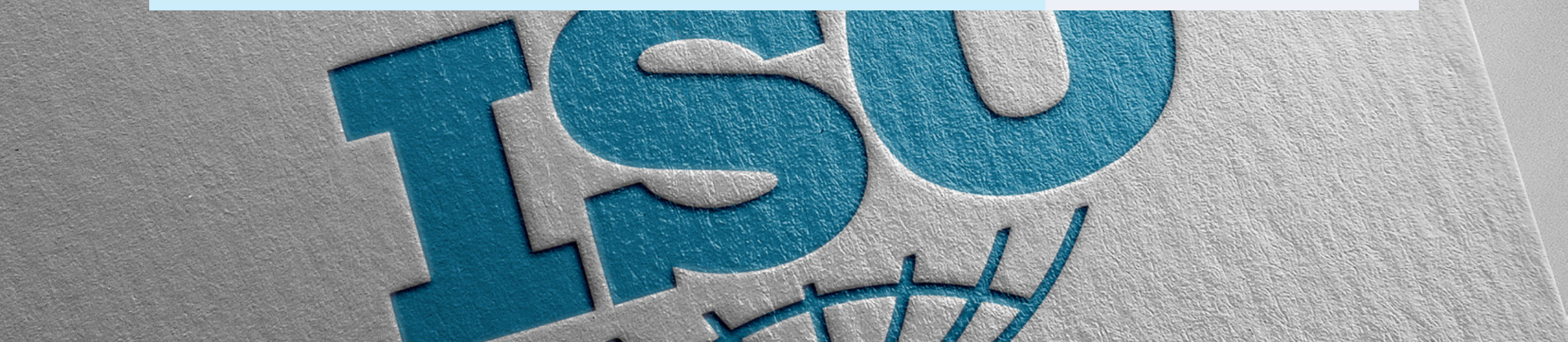
- Other key topics that fall under this theme include the **introduction of the legal entity identifier (LEI)**, which, by uniquely identifying a legal entity, could help to strengthen data standardisation within cross-border payments.

- **National and regional data frameworks** are also being explored to see what frictions divergence brings, and how they could be addressed.

The following section will provide some insight into two of these action points: payment messaging standards and API harmonisation.

"The rich structured data contained within ISO 20022 messages can help to reduce the number of false positives that you get from sanction screening, improve the accuracy of anomaly or financial crime detection and help to reduce the number of requests for information across the chain"

Heather Lee, Strategy Director, Swift

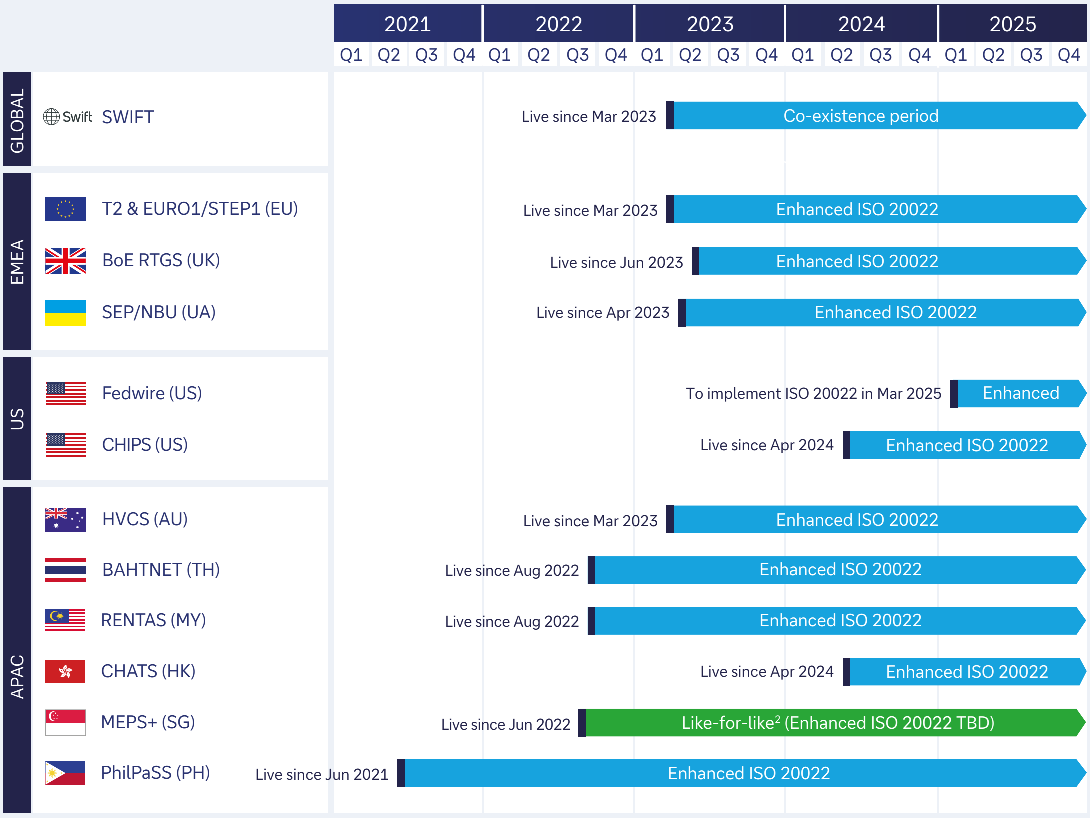


3.1.1 ISO 20022 migration

First introduced by the International Organization for Standardization (ISO) in 2004, ISO 20022 was envisaged as a new global standard for payment messaging. It represents an evolution of the existing formats, allowing the introduction of new data components – meaning far richer information can be transmitted alongside the transaction. The more granular data, in turn, brings a host of benefits – from greater transparency and improved analytics to accurate compliance processes and an improved customer experience.

Over the past five years, high-value domestic payment systems around the world, alongside the Swift network for cross-border payments, have migrated to the new standard (*see* Figure 7). Though the migration dates have come and gone, the implementation of ISO 20022 messages is far from over – and several challenges lie ahead.

Figure 7: Global ISO 20022 migration adoption



1. This overview includes Deutsche Bank Cash Management countries only. Please consult the PMPG´s document centre for the most comprehensive list of migrating market infrastructures
2. Like-for-like refers to an approach that implements a subset of ISO 20022 limited to the same functionality as the standard it replaces, e.g. MT

Source: Deutsche Bank

3.1.1.1 Swift's co-existence period

Given the scale of the ISO 20022 migration in the cross-border payments space – with more than 11,000 financial institutions worldwide set to be impacted – Swift is maintaining a co-existence period, during which time Swift's legacy format, known as MT messages, and the new ISO 20022 messages will interoperate. This period runs until November 2025, when MT messages for cross-border payments and cash reporting will be replaced with ISO 20022 messaging or APIs.[28]

At its March and June 2024 meetings, the Swift Board re-confirmed the community's commitment to ending the coexistence period in November 2025, emphasising that priority should be given to payment instruction messages to ensure operational continuity and interoperability.[29] As of July 2024, a daily average of just over one million ISO 20022 payment instructions are being sent and received on Swift's network globally, with 140+ countries able to send ISO 20022 messages, and 210+ able to receive ISO 20022 messages.[30] During the same period, Swift revealed that 26% of instruction traffic has already shifted from FIN to ISO 20022 messages (pacs.002, pacs.004, pacs.008, pacs.009 & pacs.009Cov).

While significant progress is being made from month to month – adoption rose by 3% between March and April 2024 – the hill still left for the industry to climb in little more than a year remains daunting.

In April 2024, Swift asked 175 financial institutions on its network, which originate 80% of payment transactions, whether they were on track ahead of this crucial deadline. All indicated that they plan to meet the deadline – and, if they remain on track, will contribute a shift of 86% of cross-border instructions to ISO 20022 by November 2025.

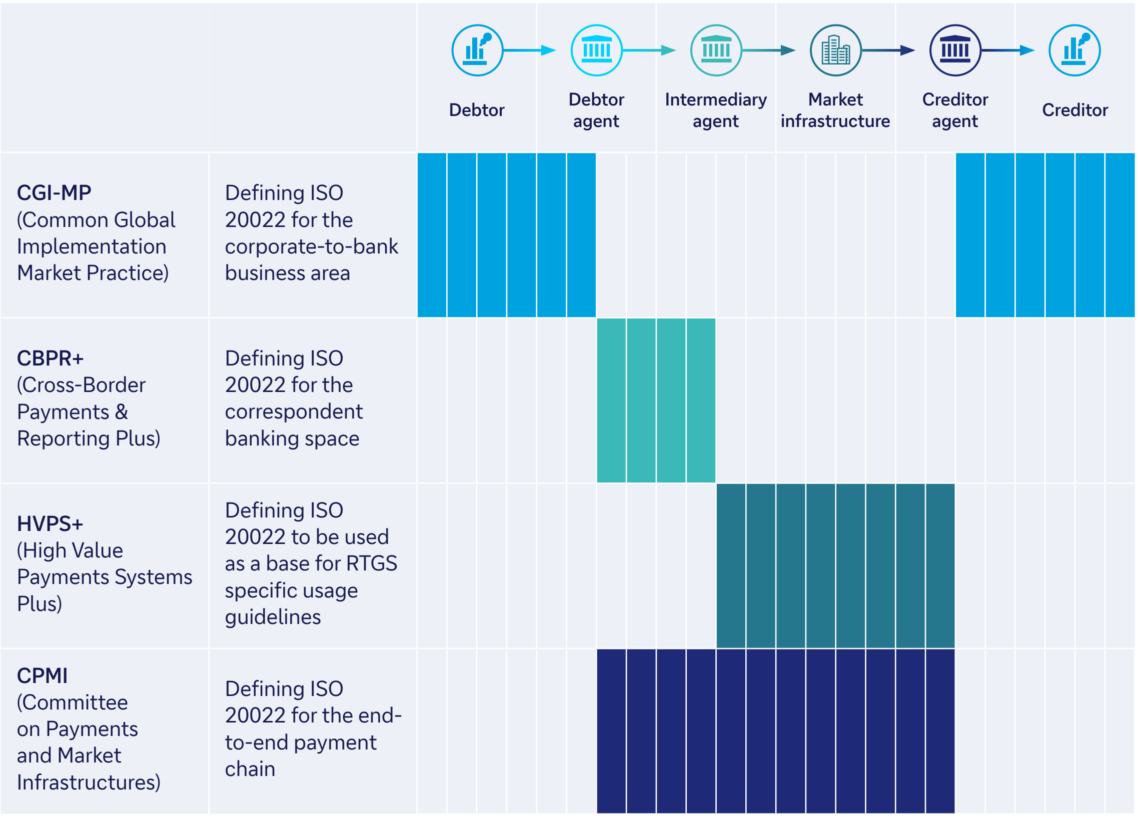
3.1.1.2 Harmonised ISO 20022 data requirements

The introduction of ISO 20022 is, at its core, an exercise in harmonisation, but this does not mean that the approaches to the migration have themselves been harmonised.

Different usage guidelines govern how ISO 20022 has been implemented across the end-to-end payment chain (*see* Figure 8). For example, while the ISO 20022 usage guidelines for market infrastructures globally and banks across the Swift network – defined and published by the high-value payment systems plus (HVPS+) market practice group the cross-border payments and reporting plus (CBPR+) respectively – are broadly aligned, they also incorporate many nuanced variations.

The result is that while ISO 20022 is in theory a common language, in practice many different dialects are currently spoken around the world. The fragmentation this brings creates – or maintains – major frictions in cross-border payments and undermines the potential long-term benefits of having a global messaging standard.[31] Ultimately, this would also hinder or slow the progress of the G20 Roadmap.

Figure 8: Variety of ISO 20022 standard groups



Source: Deutsche Bank

To address this risk, in early 2022 a joint task force – comprised of messaging specialists from the CPMI and Payments Market Practice Group (PMPG) – was established to provide payment system operators and participants, both public and private sector, with guidance on how to consistently implement ISO 20022.

In October 2023, following extensive industry consultation and feedback on a preliminary version, the task force proposed 12 harmonisation requirements for ISO 20022 messages that complement existing, more detailed market usage guidelines. These were presented to the G20 in the CPMI's *Harmonised ISO 20022 data requirements for enhancing cross-border payments* report.[32]

Figure 9 outlines the fundamental requirements and how the implementation of each links to the four targets of the G20 Roadmap.

Figure 9: CPMI harmonisation requirements and G20 targets

Cost Speed Access Transparency

#	Requirement	Example	G20 targets			
			C	S	A	T
1	To use the appropriate ISO 20022 message for a specific business function	Implementation of a dedicated pacs.004 (payment return) message for payment returns				
2	To use ISO externalised codes for payments and payment-related processes	Usage of the <Code> (e.g. IVPT) sub-element instead of <proprietary> (e.g. invoice payment) to describe the purpose of the payment				
3	To support/restrict the character set used for ISO 20022 cross-border payment messages to current market practice	Support of Latin character set				
4	To use a common time convention across all ISO 20022 messages associated with cross-border payments	Usage of Universal Time Coordinated (UTC) time or local time with a UTC offset, e.g. 12:00:00 (local time) +5:00 (offset)				
5	To include a unique end-to-end reference for all cross-border payments	Inclusion of Unique End-To-End Transaction Reference (UETR)				
6	To ensure full transparency on amounts, currency conversions and charges of cross-border payments	Disclosure of charges taken by previous agents in the chain				
7	To recommend use of account numbers (or proxies) to the extent possible	Usage of structured account identifiers, e.g. IBAN				
8	To uniquely identify all FIs involved in cross-border payments in an internationally recognised and standardised way	Usage of Business Identifier Codes (BICs) or Legal Entity Identifiers (LEIs) for agent identification				
9	To identify all entities involved in a cross-border payment in a standardised and structured way	Usage of name + postal address, BICs or LEIs for entity identification				
10	To identify all persons involved in a cross-border payment in a standardised and structured way	Usage of name + postal address, complemented by structured identifiers, such as passport numbers, data and place of birth for person identification				
11	To provide a common minimum level of postal address information structured to the extent possible	Provision of the postal address with structured town name and country code as a minimum as well as further address attributes (e.g. postcode, street name, building number, etc.) in structured or unstructured manner				
12	To cater for the transport of customer remittance information across the end-to-end cross-border payment chain by enabling the inclusion of a minimum size structured or unstructured remittance information with the payment, or to reference such information when sent separately	Transport of remittance information in cross-border payments				

Requirement has a major direct impact on the target

Requirement has a direct impact on the target

Requirement has an indirect impact on the target

Requirement has no impact on the target

Source: CPMI & Deutsche Bank

The core set of messages covers those used for cross-border payments in the interbank space, including messages related to credit transfers, payment returns and payment investigations (*see* Figure 10). Messages that belong to the customer-to-bank initiation space, including payment initiation, requests for payments and payment cancellations, were also considered for the minimum required data model as these they play an important role in cross-border payments processing (e.g. supplying the data and defining the quality of the data that is transported along the end-to-end payment chain). Like the core set, if certain data elements within these customer-to-bank messages were to be harmonised, it could unlock efficiencies for cross-border payment flows.

Figure 10: Core message set in scope of CPMI requirements

		Debtor	Debtor agent	Intermediary agent	Market infrastructure	Creditor agent	Creditor
1 Credit transfers	Customer credit transfer		pacs.008	pacs.008	pacs.008	pacs.008	
	FI credit transfer		pacs.009	pacs.009	pacs.009	pacs.009	
	Payment status report		pacs.002	pacs.002	pacs.002	pacs.002	
2 Payment returns	Cancellation request		camt.056	camt.056	camt.056	camt.056	
	Cancellation response		camt.029	camt.029	camt.029	camt.029	
	Payment return		pacs.004	pacs.004	pacs.004	pacs.004	
3 Payment investigations	Investigation request		camt.110	camt.110	camt.110	camt.110	
	Investigation response		camt.111	camt.111	camt.111	camt.111	
	Payment status request		pacs.028	pacs.028	pacs.028	pacs.028	

Source: Deutsche Bank

While not mandatory, the CPMI proposed that the requirements should be implemented by end-2027 – leaving a two-year transition period between the end of co-existence in 2025 and the introduction of the new requirements (during which the requirements can be treated as recommendations).

It is, however, recommended that industry players start looking into the implementation as soon as possible. This is important for payment systems operators, which are expected to adjust their respective usage guidelines to comply with harmonisation requirements. There has already been some positive movement on this front. For example, China's Cross-border Interbank Payment System (CIPS), which migrated to ISO 20022 in 2015 (before the HVPS+ guidelines had been defined), has put together a clear roadmap to become fully compliant with the new requirements by 2027. Other market infrastructures that have outlined their aim to comply include the European Central Bank, Bank of England, Reserve Bank of Australia, the Federal Reserve, The Clearing House and the European Banking Authority, among others.

Payment service providers (PSPs) will also need to follow the defined requirements with regard to the usage of the message types and message population.

Since the report's publication, a new working group has been set up by the CPMI, which aims to identify and catalogue market practices across the globe that could potentially be an obstacle to the implementation of the proposed harmonisation requirements. The working group will publish their findings in December 2024.

"A collaborative, industry-wide effort – backed by widespread and consistent implementation – will play a crucial role in ensuring this undertaking is a success"

Karyna Hutarovich, Business Product Specialist, Deutsche Bank

"The usage of the data elements must be strictly in line with the ISO data dictionary. If we don't make the fixes now, we run the risk of polluting ISO 20022 messages with wrong or irrelevant information, which, in turn, will offset any of the potential benefits it can unlock. It is important that we work together – with FI and corporate clients – to stop bad habits at the source"

Paula Roels, Head of Swift and Market Infrastructures, Deutsche Bank

3.1.1.3 The search for quality data

If the focus of the industry in recent years has been getting the migration over the line, it should now move to supporting data quality, as that currently being observed is not at a high enough level to unlock the full benefits of ISO 20022. For example, Deutsche Bank has found that more than 80% of all rejected payments result from incorrect usage of ISO 20022 data attributes.

In jurisdictions where market infrastructures followed very strict formatting requirements – such as in Europe with Target 2 – participants have tended to be pushed in the right direction with regards to correct usage. By comparison, in jurisdictions – particularly those that migrated using a like-for-like approach – that have been relatively lax in their formatting of ISO 20022 messages, the result has been incorrect usage of the new standard. In many cases, where issues are identified, workarounds are being implemented. In doing so, participants risk embedding bad behaviours from the outset – and, ultimately, delaying the intended benefits of a global messaging standard.

Most market infrastructures have committed to meeting KPIs around data quality by 2027, as set out by the G20 Roadmap. It is, therefore, likely that stricter rules – imposed by the respective market infrastructures or CBPR+ in the correspondent banking space – will come into play over the next few years to ensure compliance. This can be achieved through the introduction of change requests that impose stricter validation for certain data elements – for example, Change Request (CR)2026 will remove the option of unstructured postal addresses.

While rules will likely appear, it remains important that the onus for fixing these issues is also taken up by participants at every level.

3.1.2 API harmonisation

Application programming interfaces (APIs) enable the dynamic exchange of data and transactions across systems, either within an organisation or beyond. Increasingly, they are being leveraged within the payments space, not only focusing on the main items of payment initiation and account information but also supporting tasks such as account validation, compliance screening, message repairs and investigations.

Within the context of cross-border payments, there is also a huge opportunity to use APIs to foster more timely data exchange across the payment chain. In particular, use cases have been identified across payment system interlinking, payment initiation, back-office processes, tracking and status, and reconciliation and reporting, among others.

There is, however, a catch. The lack, or fragmentation, of API standards internationally – in part the result of the diverse and competitive API landscape – is proving to be a significant obstacle to their use within the cross-border payment space.

API standards define the technical specifications for an API, covering its protocols, data formats, terminologies, and security measures – and are used to ensure consistency and create the framework of harmonisation to process in the broadest sense of definition any dataset. Without universal standards – i.e. standards that exist beyond the jurisdictional or multilateral level – APIs, and the benefits they bring, may not be able to be universally applied.

In view of this challenge, the CPMI, as part of the G20 Roadmap, established a panel of experts to explore API harmonisation, Members comprise representatives from cross-border PSPs, financial infrastructures, relevant industry associations and central banks. Having commenced work in September 2023, the panel aims to release a report in late 2024 that will outline a series of recommendations that could help ensure interoperability of cross-border data exchange, as well as review the feasibility and desire for a more cross-jurisdictional or global approach.[33]

> “While it is clear that the industry needs a more defined API framework to promote usage, our aim is not to provide a standard design principle – as this has the potential to stifle innovation. Instead, the aim of our working group is to provide the industry with a series of recommendations as to how we can get to a more harmonised point”

Ferko-Guy Weermann, Director, Messaging and Integration, Deutsche Bank

3.2 Payment systems interoperability and extension

Today, more than 70 countries support domestic real time payments.[34] Through these instant payment schemes, funds can be made available to the beneficiary in less than 10 seconds, around the clock with full traceability. By comparison, cross-border transactions are slowed down by cut off times – and real-time gross settlement (RTGS) schemes, typically used for liquidity transfers resulting from correspondent banking arrangements[35] – are generally more expensive than instant payment schemes.

In view of the aims of the Roadmap, instant payment systems have been identified as an area with significant potential for cross-border payments. By fostering interoperability between these domestic systems, it would be possible to enable cross-border instant payment flows.

To reach this destination, the G20 priority theme on payment system interoperability and extension is focused on the extension of RTGS system operating hours, instant payment system access policies, and the improvement of instant payment system interoperability and interlinking.[36]

- **Operating hours**. RTGS operating hours could be extended to allow for a greater overlap – from the current 11 hours a day, five days a week to a 24/7 model – and faster cross-border flows could be unlocked via these systems. According to the most recent progress report by FSB, only 10% of RTGS systems plan to extend operating hours to close to 24/7 within the next five years.

- **Access**. Most instant payment systems have restricted participation. This means that they are currently not accessible by all actors in the end-to-end cross-border payment chain, including some fintechs, card processors, worker remittance companies, and wallet providers. This extends to RTGS systems, which face similar issues when it comes to access. In According to the FSB, "expanding access to these payment schemes could level the playing field for PSPs and foster greater competition and innovation".[37]

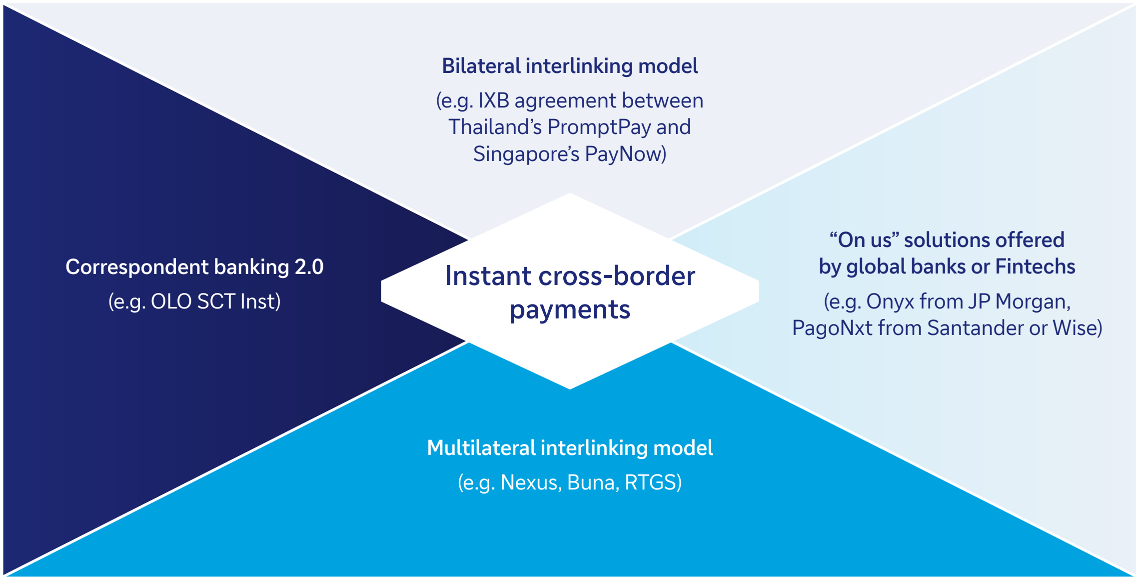
- **Interlinking**. A growing number of instant payment systems are either have implemented or are exploring bilateral or multilateral links, such that PSPs in different jurisdictions can send cross-border payments directly using existing payment rails. According to the FSB, 40% of payment systems surveyed plan to establish some form of interlinking within the next two years.[38] Other models, such as correspondent banking 2.0 and "on us" solutions are emerging, which could also help to unlock faster instant payments.

"It is likely that the multiple different models emerging will continue to coexist in the near future, with each serving different use cases and meeting new and emerging client needs"

José Luis Langa, Deputy Managing Director, International, Institutions & Cash, Iberpay

In the following chapters we focus in on the models emerging under this theme, which could help facilitate faster cheaper, and more transparent and accessible cross-border payments (*see* Figure 11).

Figure 11: The four models for instant cross-border payments



Source: Deutsche Bank

3.2.1 Correspondent banking 2.0

Correspondent banking 2.0 leverages the traditional correspondent banking model that utilises the Swift network, but instead uses an instant payment scheme for the last leg (and first leg, though efforts here are less mature). The advantage of this approach is that the relationships are already in place, meaning that it is simply a case of improving the first and the last leg of the transaction rather than creating a new model entirely.

"With correspondent banking 2.0 we don't interfere with the two major concerns associated with these transactions: The first is whether instant cross-border payments have sufficient business uses case, as the focus remains on improving an existing model. The second relates to potential compliance issues it may introduce, which are being effectively addressed today"

José Luis Langa, Deputy Managing Director, International, Institutions & Cash, Iberpay

3.2.1.1 One Leg Out OCT Inst

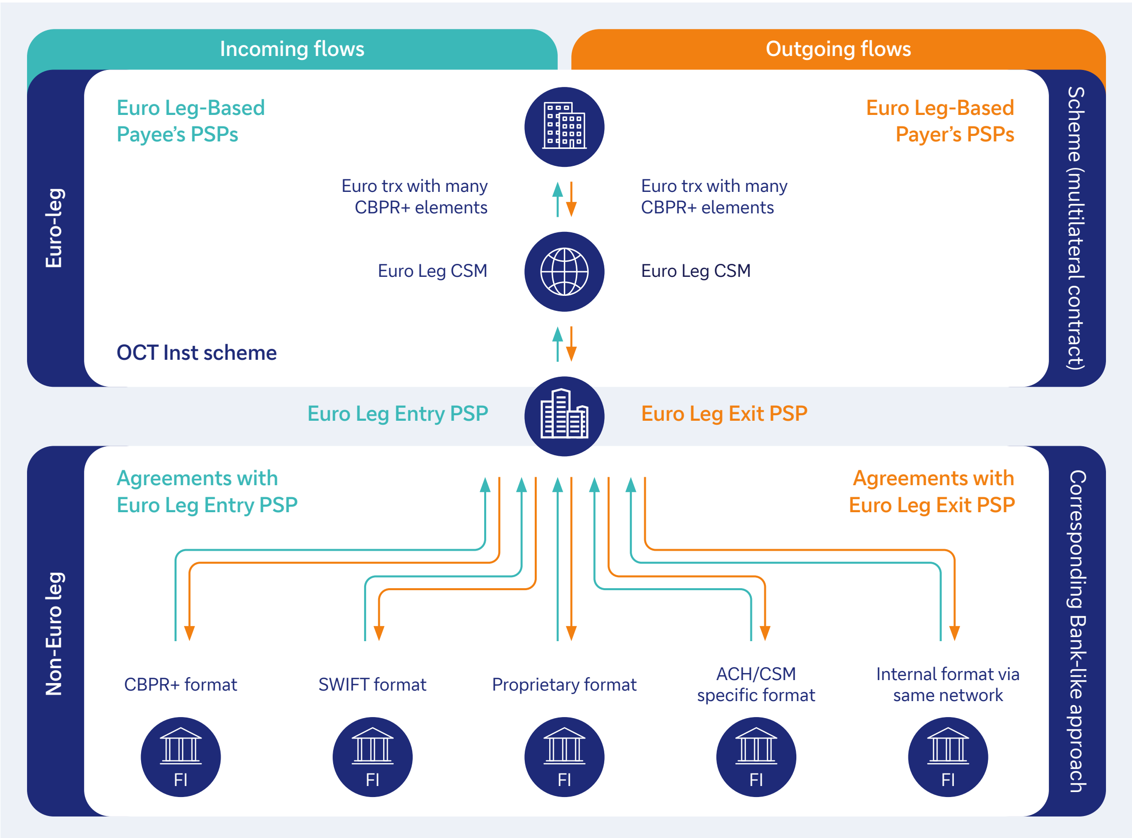
A major limitation of the Single European Payment Area (SEPA) scheme had been that it was not designed to support cross-border payments beyond the SEPA area – for example, in SEPA messages users can only choose Euro as the currency.

To overcome these challenges – and help foster a more international role for the Euro and meet the targets of the Roadmap – the European Payments Council (EPC) launched the One-Leg-Out Instant Credit Transfer (OCT Inst) scheme in November 2023. The scheme enables PSPs in the euro area to use “as best as possible the existing SEPA payment ‘rails’ – including procedures, features and standards” for international instant credit transfers, the EPC states on its website.[39] In doing so, the scheme unlocks the benefits of SEPA payment schemes for international payments by supporting the processing of incoming and outgoing international instant account-to-account based credit transfers (*see* Figure 12).[40]

> “Reachability is the key factor for the success of the OCT scheme, as the scheme is optional rather than mandatory, its success will hinge on the value it brings to clients. It is important that our efforts are underpinned by relevant use cases – and this will ultimately be the tipping point for banks to invest”

Michael Knetsch, Tribe Lead Instant Payments, Cash Management, Deutsche Bank

Figure 12: OCT Inst and incoming and outgoing international instant credit transfers



Source: European Payments Council[41]

In late 2023, the EPC surveyed payments industry professionals on which cross-border payment approach they think will see the largest growth in adoption over the coming 10 years, with more than half of all votes (53%) cast in favour of scheme.[42] Progress so far shows that this is going in the right direction.

Ahead of its November 2023 launch, a pilot of the OCT Inst scheme was conducted by Iberpay, Swift, BBVA and several international banks in July 2023. The pilot demonstrated that instant payments between different currency areas are technically feasible. As part of the pilot, payments originating from banks in Australia, New Zealand, Brazil and the UK were sent through the Swift GPI Instant service and processed, settled, and credited in a matter of seconds to the ultimate beneficiary customer's account in Spain.[43]

There have been several related developments since:

— In March 2024, EBA CLEARING announced the delivery of an OCT Inst Service in the RT1 System, which will become available in November 2024.[44]

— In May 2024, Iberpay and Santander become the inaugural participants in the OCT Inst scheme, with Iberpay acting as a clearing and settlement mechanism for OCT Inst transactions via Santander. Iberpay will also be a scheme participant in the role of OCT Inst Processor.[45]

> **"The implementation of the OCT Inst scheme is a standout example of positive action to meet the Roadmap's goals. This is something we need to see more of: collaborative efforts that leverage the ingredients that already exist to enhance cross-border payments"**
>
> **Marc Recker,** Global Head of Product, Institutional Cash Management (ICM), Deutsche Bank

3.2.2 Bilateral and multilateral interlinking models

Connecting fast payment systems offers a promising solution for cutting costs and enhancing the speed and transparency of cross-border transactions. This approach boosts efficiency by simplifying transaction processes, allowing PSPs to operate without depending on various payment systems or intermediaries like correspondent banks.[46]

Bilateral projects

- In April 2021, Singapore's PayNow and Thailand's PromptPay were linked in a world-first real time payment joining, allowing the customers of participating banks in Singapore and Thailand to send money to each other using only the recipient's mobile phone number.

- In June 2021, the ECB, Banca d'Italia and Sweden's Riksbank announced they were exploring the possibility of cross-currency payments between Swedish krona and euros, through the TIPS platform.

- In October 2021, EBA Clearing, The Clearing House and Swift announced they were collaborating to develop a EUR-USD link.

- In February 2023, a link between instant payment schemes in Singapore and India was created.

Multilateral projects

- Buna, launched in 2020, aims to connect instant payment schemes in the Arabic-speaking region.

- Project Nexus In Southeast Asia has seen the central banks of Indonesia, Malaysia, the Philippines, Singapore, and Thailand agree to connect their domestic instant payment schemes to enable cross-border payments.

It is envisaged that the different interlinking schemes will likely coexist, in part because they serve different business cases. For example, Nexus solves a challenge that is being observed in Southeast Asia around workers' remittances. The payment corridors between these nations see very high volumes, as the economies and peoples are closely interconnected. By comparison, SEPA currently provides this level of connection across the European Union – so a project like Nexus would likely be less relevant for this region.

3.2.3 "On us" solutions

The final model is where a bank or fintech internalises transactions within their own books, coordinating the first and last leg of the transaction to enable fast cross-border transactions.

One way this can be achieved is through state-of-the-art core banking systems, which include booking solutions to debit and credit (nostro) accounts of clients and branches and account record keeping systems with 24/7 availability. A widely discussed approach to realising these capabilities – already being deployed by some institutions – is the use of distributed ledger technology (DLT) or blockchain systems, where accounts can be represented through smart contracts. The balances in these smart contracts are widely classified as "tokens" – transforming traditional bank deposits into tokenised deposits. Using these tokens, banks can move money between bank clients and even allow new functionalities, such as programmability. However, given the technology is only used to represent accounts of the deposit-issuing bank, these still represent closed loop systems that can only be used to move money between accounts held with the same bank.

To overcome this restriction, banks are working on fostering connectivity between the different bank-maintained networks and to hold blockchain accounts at each other's systems. For final settlement, however, the connection to central bank money, remains critical. The blockchain ledgers and systems of individual banks would therefore need to be connected to central bank money in some form – either via traditional RTGS platforms or a token-based versions of central bank money. In the Eurozone, there are currently three different solutions being tested for wholesale Central Bank Digital Currencies (CBDCs) that could provide such solution: two 'trigger solutions' that connect existing payment platforms – T2 and TIPS – to blockchains, and one solution that provides a new token-based form of central bank money.

On a more global level, Project Agorá (Greek for 'marketplace') – a collaboration between the BIS, seven central banks and the private sector – is exploring how tokenised commercial bank deposits can be seamlessly integrated with tokenised wholesale central bank money on a unified ledger that is used by all involved parties instead of connecting different ledgers. BIS claims that Agorá could help to increase the speed and integrity of international payments, while lowering costs.[47]

> "We need a clear vision, shared by commercial banks and central banks, to leverage an integrated solution to solve some of the key issues we all face, such as the need for more efficient cross-border payments. Without this, these solutions will continue to only be relevant within our own boundaries, and within our own balance sheets"
>
> **Manuel Klein,** Market Manager Payments and Digital Currencies, Deutsche Bank

3.3 Legal, regulatory, supervisory frameworks

Underpinning the cross-border payments landscape is a diverse ecosystem of contracts, schemes and legal and regulatory frameworks that govern how money is moved across borders. In the *Stage 1 report to the G20: Technical background report*, the FSB provided a list of the some of the different legal and regulatory requirements, including:[48]

— Licensing and authorisation regimes

— Prudential supervision (including over risk management)

— Financial integrity (e.g. AML/CFT)

— Cyber security and other operational risks

— Transparency (including traceability of transactions, and disclosure of costs and fees)

— Consumer protection and safeguarding customer funds

— Foreign exchange regulations

— Data collection, protection and transfer

— Differing national regulatory frameworks in areas such as transaction limits; the types of entities authorised to operate in cross-border payments and their licensing requirements; capital controls; sanctions regimes

The nature of cross-border payments means that the funds invariably move through at least two, if not multiple, jurisdictions to reach the end beneficiary – and this is where the unaligned nature of the frameworks can introduce significant workload and frictions for actors involved in the end-to-end chain. For example, PSPs may face uncertainties about the interpretation and application of requirements – and when implemented incorrectly, this can lead to payment rejections and further delay processing.

With the above challenges in mind, the Roadmap has identified legal, regulatory and supervisory framework as a priority issue. According to the FSB, "work under this priority theme focuses on the promotion of an efficient legal, regulatory and supervisory environment for cross-border payments while maintaining their safety, efficiency, and integrity".[49]

"Harmonisation of legal and compliance related data in cross-border payments is key. If we don't act together now, there is a risk that we will be forced into action in the future – and that result may not be as favorable"

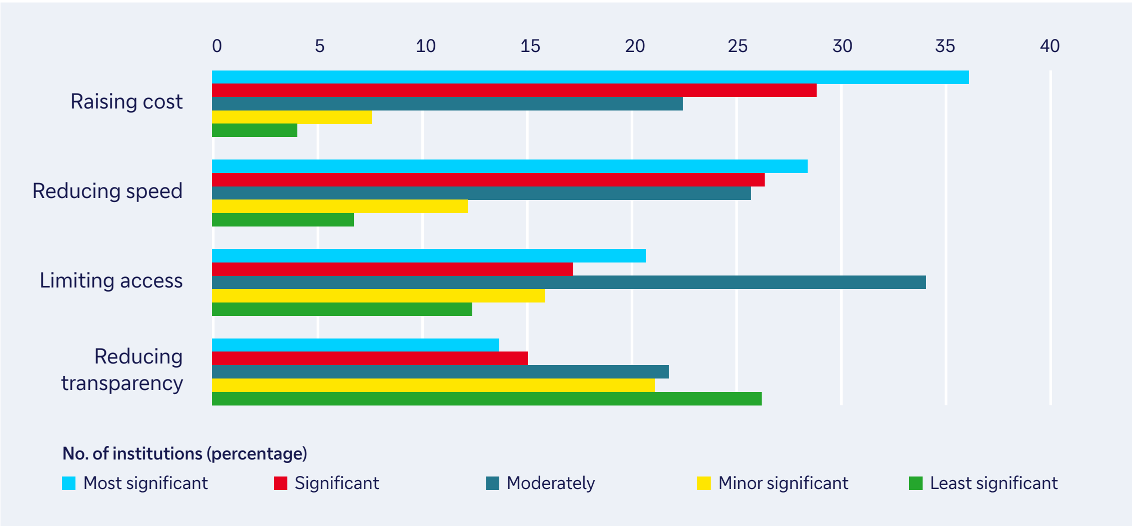
Jan Paul Van Pul, Senior Payments Adviser, ING

3.3.1 AML/CFT regulations money

For cross-border payments generally, the fragmentation of anti-laundering (AML)/combatting the financing of terrorism (CFT) regulation are key drivers of the challenges outlined by the Roadmap: cost, speed, access and transparency.

In the *Cross-Border Payments Survey Results on Implementation of the FATF Standards*, conducted by the Financial Action Task Force (FATF) in 2021, almost 66% of respondents identified raising costs as the 'most significant' or 'significant' challenge resulting from divergent AML/CFT rules, and around 55% felt similarly with regard to reducing speed (see Figure 13).[50]

Figure 13: Contribution of divergent AML/CFT requirements to challenges



Source: FATF's *Cross-Border Payments Survey Results on Implementation of the FATF Standards*

As part of the G20 Roadmap and as detailed in the FSB's Consolidated progress report for, the FATF is moving forward in several areas, including:[51]

- **Adopting** revised standards on beneficial ownership of legal arrangements and developing guidance and implementation monitoring;
- **Enhancing** Mutual Evaluation Programme to ensure future assessments to promote timelier and more consistent implementation of standards;
- **Promoting** awareness of emerging technologies, information sharing and data privacy and protection in relation to AML/CFT; and
- **Reviewing** its Recommendation 16, also known as the Travel Rule (*see* Box out), to consider recent and upcoming developments in the space, such as ISO 20022 and the emergence crypto-assets.

Financial Action Task Force (FATF) Travel Rule

The FATF Travel Rule is a regulatory guideline designed to combat money laundering and the financing of terrorism by increasing transparency in financial transactions. Originally developed for traditional financial institutions, the rule has since been adapted for cryptocurrency and digital asset sectors.

The primary objective of the Travel Rule is to ensure that key information about the sender (originator) and receiver (beneficiary) of a financial transaction is shared between payment actors, especially when the transaction involves cross-border transfers. This helps authorities trace the movement of funds, detect suspicious activities and prevent illicit activities such as money laundering and terrorist financing.

The FATF rules are globally agreed standards established in a joint effort by participating jurisdictions but without being directly legally binding. Hence, in the course of legislative initiatives to transpose these standards into national laws, not every country implements all of these rules, while some countries add further requirements to the minimum standards – so called "gold plating". This creates frictions across national borders, which, in turn, reduces the speed of the payment – as payments get accepted in one jurisdiction and rejected in another. It also creates an added burden for payment actors as they need to have technology in place that recognises and manages several variations of the same rules throughout the payment value chain.

Moreover, according to the FATF's 2024 *Targeted update on implementation of the FAFT standards report*, jurisdictions have made insufficient progress in implementing the Travel Rule – and even among jurisdictions who have passed legislation implementing the Travel Rule, supervision and enforcement remains low.[52]

> **"The strength of the G20 Roadmap is that it brings together public and private institutions, which is going to be critical to unlock the proposed enhancements. From experience, however, I believe that the dialogue should be stricter, more intense, more frequent and more result based to overcome the hurdles in practice, and not just theory"**
>
> **Jan Paul Van Pul,** Senior Payments Adviser, ING

3.3.2 Bank versus non-bank supervision

According to the FSB, another area of focus is on "reducing the actual or perceived differences in the scope and application of regulation and supervision between banks and non-banks".

Despite their increasingly important role in the cross-border payment ecosystem, non-bank financial institutions (NBFIs) – a financial institution that lacks a banking licence – have often operated under compliance requirements that do not always tally with those applied to financial institutions. Inconsistencies can arise in a variety of areas, including licensing, consumer protection requirements, the implementation of AML/CFT measures, and data protection and privacy measures.[53]

The discrepancies between how rules are applied can potentially create risks that are not as well-managed or understood, as well as undermining the confidence in regulatory frameworks. A report by the BAFT Global Payments Industry Council in May 2024 – *Uneven Regulations in Payments* – outlined four areas of focus:

— **Activity-based oversight.** Regulatory oversight should be activity-based, not charter or licence based;

— **Extension to indirect participants.** Indirect payment scheme participants should be subjected to the same regulation and oversight as direct members;

— **Customer due diligence.** Know-your-customer (KYC) requirements should be consistent across FIs and NBFIs; and

— **Permissibility of cross-border activity.** There must be clear rules for cross-border eligibility and the associated data requirements, to satisfy sanctions and AML monitoring and in-country regulatory reporting requirements.

To support development of more even supervision across cross-border payments, the FSB established a working group in 2023. In July 2024, the FSB released a consultation report, which outlines six policy recommendations and invites industry participants to respond with their thoughts. The six recommendations include:[54]

— **Recommendations 1 to 3** detail steps that should be taken to identify, understand and assess risks across the PSP sector, with the aim of evaluating effectiveness of existing laws, regulations, and supervisory frameworks, identify adjustments and ensure robust consumer protections;

— **Recommendation 4** addresses the need for clear guidance on supervisory expectations across the sector to promote the safe and efficient provision of payment services;

— **Recommendation 5** covers the role of licensing or registration requirements in ensuring a risk-proportionate level-playing field from the time a PSP enters the sector; and

— **Recommendation 6** emphasises the need to foster expanded information and data sharing both within and across jurisdictions, which is critical to conducting comprehensive risk assessments and, as needed, regulatory or supervisory actions.

4

From guidance to action

As this white paper has sought to demonstrate, a significant amount of progress has been made towards meeting the defined targets for cost, speed, transparency, and accessibility – and many of the ingredients for success are already in place (*see* Figure 14). Outside of the next steps for each priority theme, a big-picture question hangs over the Roadmap and its way forward: if the goals of the Roadmap are not backed by regulatory or legal mandates, will it ever happen?

Take the ISO 20022 migration as an example. Where central banks are mandating the use of ISO 20022, every single participant is working on the initiative. Where it is not mandated, the opposite is often true – making progress much slower and less concrete. This creates concerns that without clear consequences resulting from not meeting the KPIs, and if local regulators and lawmakers do not incorporate the Roadmap's essentials, banks could deprioritise the goals in favour of more urgent activities.

There is, therefore, a need to foster a strong dialogue with participants across the entire ecosystem, ensuring that there is frequent fine tuning based on feedback, as well as clear prioritisation. This is where global transaction banks have a central role to play – both in driving progress and bringing their FI and corporate clients along for the journey.

The path forward requires collective action to use the available solutions to meet the Roadmap's targets. By meeting the lack of formal mandates with consistent and well-resourced market action, global players can position themselves not just as followers of the G20 Roadmap, but as the cartographers that shape its creation.

Figure 14: Progress and next steps for the Roadmap

Theme	Progress	Next steps
Data exchange and message standards	The ISO 20022 migration for cross-border payments, as well as high-value payments domestically, has now taken place in the majority of jurisdictions around the world	While ISO 20022 provides solid foundations to meet the Roadmap's aims, uniform and correct usage of the new standard, regardless of jurisdiction, is needed to unlock the full benefits
Payment system interoperability	Payment system interlinking has gone from theory to reality in many APAC markets, while the OLO scheme is gaining momentum in Europe	Continue the technical work on interlinking payment systems globally and extend these innovations to underdeveloped regions to ensure broader accessibility
Legal regulatory and supervisory frameworks	Challenges have been identified and some of the groundwork has been laid to begin addressing these	Dialogues between the private and public sectors need to continue and become more robust, such that the theory can be moved into action

Significant progress | Moderate progress | More work needed

Source: Deutsche Bank

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