



Cross-border Retail Payments

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1 Development of cross-border retail payments

Fund transfers of relatively low value where the payer and the payee are located in different jurisdictions, and traditionally involve payment systems of at least two jurisdictions, and at least two different currencies.

Compared to domestic payments, cross-border retail payment processes and arrangements still have some areas of opportunity in order to meet the end users' expectations.

Drivers affecting cross-border retail payments:

- International trade
- E-commerce
- Remittances
- Changes in regulatory frameworks
- Recent trends in innovations

1 Development of cross-border retail payments

AML/CFT Regulations

- Correspondent banking is an essential component of the global financial system, especially for cross-border payments.
- In recent years, there have been indications that the network of correspondent banking relationships has decreased in size, making difficult for smaller participants to gain or maintain access to correspondent banking relationships.
- AML/CFT rules have been cited as part of the reasons driving some correspondent banks to cancel or curb correspondent banking relationships with certain geographies, financial institutions or groups of customers.
- The BCBS, FATF, the World Bank and the IMF have launched initiatives to address the problem.

1 Development of cross-border retail payments

Innovations in retail payments

- Technological development and changes in user expectations.
 - Use of internet and mobile payments.
- Improvements in security and standarization.
- Digital currencies and other DLT implementations.
 - Still of limited use.
 - Potential implications beyond the payments sphere.

Proprietary solutions have increased competition, although they bring interoperability issues that need to be solve in order to prevent market fragmentation.

2 Features of the cross-border retail payments market

The demand side

- **Person-to-person (P2P):** the payer and the payee are both individuals (remittances, i.e. without an underlying economic transaction).
- **Person-to-business (P2B):** the payer is an individual and the payee a business (purchases of retail goods and services, paying bills resulting from tourism or business travel).
- **Business-to-business (B2B):** the payer and the payee are both businesses. (vary widely, large supplier payments by multinational corporations as well as smaller and less frequent payments by small and medium-sized enterprises or NGOs).
- **Government related (G2P, P2G, etc.):** payments involving interactions between governments and individuals or businesses (payments for retirees living abroad, taxes paid by migrants to their country of citizenship).

2 Features of the cross-border retail payments market

The demand side

- Heterogeneity in needs, requirements and capabilities across end-user categories.
- This heterogeneity may affect the demand for features or attributes of cross-border retail payment services depending on the frequency, urgency and size of their cross-border payment activities :
 - Cost
 - Speed
 - Predictability
 - Transparency
 - Information
 - Interoperability
- An important issue is the ability of the supply side of the market, whether through current arrangements or innovations, to meet this demand for improvements to cross-border retail payment services.

2 Features of the cross-border retail payments market

The supply side (front-end)

- Payment instruments, service channels and access points available for a cross-border retail payment.
 - The payer chooses a payment instrument and initiates the payment via one of the service channels/access points provided by its PSP.
 - On the receiving side, the payee uses the service channel/access point and payment instrument of its choice, based on the offer of its PSP.
- Important distinctions between suppliers:
 - Involvement in back-end clearing and settlement (large banks vs. small PSPs)
 - Presence in the market (traditional MTOs vs. entrants)
 - Reliance on other bank or non-bank institution for the provision of services.

2 Features of the cross-border retail payments market

The supply side (back-end)

- Processes and arrangements that facilitate the cross-border transfer of funds by PSPs on behalf of their end user customers.
 - Messages
 - Clearing and settlement
 - FX transactions
 - Liquidity management
 - Intra-group or correspondent banking
 - Interlink with FMIs
- New technologies might involve other (non-traditional) processes.
 - Ensuring resiliency of the network
 - Ensuring immutability of the transactional record

Challenges ahead

Use of new technologies: Innovations in the processes and infrastructure used to propose validate and record transactions may pose new sources of risk:

- Operational and security issues
- Lack of interoperability with existing processes and infrastructures
- Settlement finality
- Data integrity and privacy

Legal and regulatory challenges: Unlike domestic payments, cross-border retail payments are typically processed by PSPs and/or payment infrastructures subject to the legal and regulatory regimes of different jurisdictions.

- Conflicts may arise in the lack of clarity as to which specific laws, regulations and procedures apply to the transactions processed.
- Requires special efforts in order to achieve cooperation and coordination among overseers and regulators across jurisdictions.



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