GLOBAL PAYMENTS FORUM

JULY 16 & 17, 2024

Institute of International Finance

Briefing Note: Takeaways from the Global Payments Forum

This forum brought together senior payments executives, global standard-setters, and technical experts to discuss payments innovation and efforts for more secure, faster, more transparent, and lower-cost payments. New technologies and modernized standards are yielding results, and speakers shared examples of progress being made today and visions for the payments systems of the future with customer choice across diverse offerings. Since the 2020 launch of the G20 Roadmap for Enhancing Cross-Border Payments, the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI) have taken the effort forward and they provided an update to the proceedings. The IIF, Payments Association, and Emerging Payments Association Asia joined forces on this event to convene a broad cross-section of the increasingly diverse global payments ecosystem.

DIVERSITY IN PAYMENTS

Front-end progress, back-end challenges, and an array of points where progress is being made. Throughout the event, speakers reminded us of the remarkable diversity of payments types with different dimensions in geography, size, and purpose. These are driven by customers who have very different requirements for different payment scenarios. Sometimes they want fast and cheap and other times incredibly secure, verified, and reversable. This is true across individuals and institutions and is just a hint of the variety of customers' needs. As a result, there are different paths to progress. While the G20 initiative encompasses all of this heterogeneous landscape, examples of progress are often in more specific areas.

Low value payments systems are significantly improved since 2020 when the G20 launched their initiative. UPI, Pix and M-PESA, WeChat Pay, Alipay and other local examples have transformed customer experience, value, and outcomes in their markets. Contactless payments, localization of loyalty, and embedded experiences are examples from more developed markets but part of this broader trend of front-end progress. As one speaker put it, "the last five years have seen more progress on front-end (customer experience) capabilities than the previous thirty." Now the effort to stitch together many local real-time mechanisms for cross-border flows remains a priority but, as the speaker noted, it will require changes in standardization for cross-border interlinking. Pain points are likely to be in narrower in more specific corridors and payments types with "last mile" frictions.

Global speed metrics today are already improved overall. As we heard from a market infrastructure firm, approximately 50% of payments are reaching a beneficiary account in five minutes; however, only 56% are credited to the account within an hour due to "last mile frictions." while 90% have arrived by that time and 99% within twenty-four hours. By 2025 they expect 80% of payments to be pre-validated resulting in greater speed and accuracy.

High-value money movement mechanisms are good today but need focus for the future. In most countries these are effectively meeting current B2B needs (delivery within a day), but they have cut-off hours and are operating on older core infrastructure and rails that have seen less attention and innovation than the front end. So, there is friction in those systems and while they are good enough for their core customers and handle tens of trillions in volume, there are drivers for change. A global head of payments at a G-SIB bank noted "the rise of giant logistics and e-commerce companies, who have always-on systems and find it inconvenience to operate with cut-offs, are one example of increasing demand for payments that are near real-time, 24/7, programmable/composable." That's where new technologies are coming in as tokenization and ledger systems are being used to build a step change in payments.

CENTRAL BANKS LEVERAGE NEW TECHNOLOGY TO MAINTAIN THEIR ROLE

Wholesale settlement of central bank money and commercial bank money is seeing significant new experiments. The ECB is testing three different solutions and will be adding the BIS Project Agora to their efforts. Global Layer 1 is exploring solutions, and the private sector continues to see opportunity for tokenized and programmable instruments that would need anchors into central bank money.

Instant payment systems are a government priority around the world in retail payments strategies. Europe is looking to the example of UPI in India and instant payments linking as one way to address the displacement of cash and the desire for a consistent payment experience in Euro countries as banknotes fall from use. This example is part of a global trend continuing to pick up steam for various reasons including e-commerce, migration, tourism, and consumer preference for a consistent wallet-based experience. As these systems build large installed user bases, public sector officials have seen extension across borders as a great opportunity.

Challenges can be significant for cross-border interlinking Instant Payment Systems (IPS). In a session on readiness and perpetration, we heard that most domestic instant payment systems (particularly those in emerging markets) do not have full compliance screening, may have difficulty in funding/defunding accounts, and need to be ready with better fraud detection, proxy/lookup checks, and reporting and resolution service when they move into cross-border transactions. IPS are looking for help from central banks to solve these problems. On a related topic, an Asia-focused executive shared emerging risks on P2P and retail payment space: "We see a lot of bad actors trying to enter… we need a more proactive and more collaborative approach."

Innovation and testing sometimes require dedicated rules and environments. Sandboxes have been a popular response by central banks and regulators seeking to incubate new market entrants and new products while maintaining stability and consumer protection. Speakers reminded the audience that clear purpose, rules, clarity on process, terms, legal guidance, and safeguards on the intellectual property being developed are important elements if sandboxes are to be created.

SECURITY, FRAUD PREVENTION, AND INVESTMENT IN PAYMENTS PROGRESS

Maintaining security and trust in payments is essential but expensive and requires sustained investment in new technology. The volume of fraud and scams has increased strongly in geographies across Europe and Asia, and a recent Nasdaq Verafin report estimates fraud and scams losses at more than $150 billion across the Americas in 2023. One executive cited $46 Billion in estimated fraud in a network this year. The recent spike in AI-enabled scams and financial crime is likely to be a sustained challenge and drive costs in the foreseeable future as industry seeks to keep pace, protect customers, and maintain trust and security in the system through investment in efficient new technology.

The link between business forecast and infrastructure investment will have a direct impact on future outcomes. A bank payments executive active in Latin America shared that "Reasonable and sustainable profit pools are key to our investment in infrastructure – typically a five to seven year time horizon," musing that the public sector might not always focus on the links between policy, market expectations, and the investment needed for better outcomes later on. Some speakers noted that different regions still see a lack of alignment with fraud prevention, AML, and sanctions requirements, creating a challenging compliance environment.

The *New Frontiers in Fraud Prevention* session put these issues in focus and added examples of technology and innovation making a difference. Customer experience has been improved by the use of AI in biometric authentication, for example by face recognition with neural networks or voice proof of life with natural language processing. This technology can lead to an increase in financial inclusion while also increasing the safety and security of financial services; however, keeping an eye on those vulnerable to advances in deepfakes will be important. AI is of course also at the forefront of the battle to detect deepfakes through large scale general intelligence models, pattern recognition, and automated real-time scanning and search.

DATA DRIVES VALUE AND BETTER OUTCOMES

Data is the lifeblood of finance, and new payments standards are providing much richer data sets for the payments ecosystem. ISO 20022 expands the fields and amount of data for payments messaging. Migration to this new standard is a massive undertaking so ensuring that it improves outcomes and generates value is an important priority against the costs involved. Benefits fall into several buckets including operational improvements and new insights. Richer data can help with payments exceptions and investigations—by detecting when there are problems and preventing problems from happening in the first place—as well as enabling more efficient compliance. 70% of payments exceptions are coming from formatting errors, invalid account data and related issues that pre-validation and harmonized ISO 20022 migration could address. Richer data also power new insights, services, and offerings. In an era of advanced AI, this has increasing value for payments providers to better understand and meet customer needs.

CPMI made ISO 20022 core harmonization a priority and now looks to the case for implementation. Fighting fragmentation in ISO20022 implementation is seen as increasingly relevant but increasingly challenging as we move from the first wave of adoption by markets and institutions around the world and start looking at the next tier.

FSB is leading important efforts to align data frameworks and reduce negative impacts on cross-border payments. The FSB speaker outlined key points in the public consultation paper on "Proposed Recommendations to Promote Greater Alignment in Data Frameworks Related to Cross-Border Payments" including a proposed a forum for better coordination between official institutions charged with financial crime, privacy, and payments standards. This paper is a significant recognition of the negative impacts that data frameworks can have on payments efficiency, and it proposes a significant response. Both are positive developments in the policy dialogue.

API bring efficiency but need more harmonized standards to deliver on potential in cross-border payments. Application Programing Interfaces (APIs) set the rules and protocols for data to flow and different systems to communicate and integrate with each other. In payments, this enables the rapid plug-in of new functions and players in a secure framework. The need for greater harmonization and standards is a recuring theme in this area too.

THE LAST MILE

Progress is being made globally but standout pain points in specific payments corridors or parts of the payments chain seem likely to receive more focus going forward. The G20 Presidency will be moving to South Africa next and we will see if some of the payments types and corridors where metrics for cost, speed, and transparency are outliers receive more attention. Foreign Exchange also seems to be coming into the official sector view as a place for more analysis and review. Payments providers will continue to protect customers, systems, and the economy from scams, fraud, and crime but are looking for clear signals on the sustainability of the investment they are making. They are also looking for government to ensure that the communications and technology parts of the payments fraud chain are equally focused on disabling the criminals and making customers whole. When the flow of funds is more efficient and secure, they support economic growth so continuing to make progress across the diverse topics raised in the forum is important for future prospects.