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Payments without borders

Enabling instant cross-border payments

Content

Executive summary

Payment methods around the world have undergone significant changes in recent years, with emerging technologies and innovation driving speed, efficiency, and transparency.

Over the past decade, in tandem with the growth of real-time services, instant payments have come to be expected by consumers and encouraged regular advancements. As these real-time expectations have been met in the retail space, the focus has centered on how B2B payment methods can be optimized further. The result has been major investment in domestic payment systems that enable funds to be transferred quickly, securely and 24/7/365.

But not all payments are created equal. While domestic payments have seen a welcome advance in service standards, cross-border payments have lagged. There are, of course, more obstacles to confront in executing cross-border payments, such as different regulations between jurisdictions, opposing processes of banks, high and hidden fees, and the need to incorporate foreign exchange into the payment flow. Yet while the bar is set high, so is demand from both the private and public sectors for faster and real-time cross-border payments.

Indeed, demand has been strong enough to attract a range of new fintech or non-bank players to the cross-border space. Here, they have built innovative solutions that can facilitate faster, cheaper, and more efficient cross-border payments for clients – and begun to erode the banks' market share as a result.

The threat that these new players pose cannot be overstated, and the message for banks is clear: Fintechs are doing something right to take their business away, and they need to act fast to reverse this trend. Banks remain well positioned in several respects. Fintechs might be nimbler, but the solutions they offer are often limited in scope, they have yet to establish a similar network or level of trust, and, ultimately, they lack the leverage of the banking infrastructure.

You could call it a Goldilocks conundrum, with the fintechs more than hot when it comes to cross-border payments, and the banks just a little too cold. And the sweet spot could well sit midway between these two extremes. Collaboration is the alternative to competition, with efforts underway to combine the core competencies of banks and fintechs in this space to offer the best of both worlds in their service to clients.

So, what lies on the road ahead for banks? There is now a concerted effort to improve cross-border payments, with multiple initiatives underway. They range from SWIFT gpi and SWIFT Go to interlinking domestic payment schemes and leveraging distributed ledger technology.

Banks owe it to themselves to keep abreast of these changes, while also understanding where partnerships with fintechs can add value to their payment offering.

The advantages that instant cross-border payments bring will transform the business landscape. And one thing is for sure: banks need to be ready for the revolution.

Instant cross-border payments

In many countries, domestic payments between bank accounts now happen in seconds and at near-zero cost, thanks to the growing availability globally of instant payment schemes. It is, however, a different story for cross-border payments between accounts in two countries, which too often are slow, complex, and expensive.
The task for the industry is clear: How can banks close the gap in service between domestic and cross-border payments – and, ultimately, deliver real-time cross-border transactions?

Today's cross-border landscape

The cross-border payment landscape comprises various systems, institutions, and processes that enable individuals, businesses, and organizations to transfer funds across international borders. It is an essential component of global commerce, allowing companies to trade and conduct business with partners in countries around the world. In recent years, the global movement of goods and services, capital and people has been on the rise, with the value of cross-border payments is growing in tandem. In fact, the value of cross-border payments is estimated to rise from US$150 trillion in 2017 to over US$250 trillion by 2027 – a rise of over US$100 trillion in a decade.[1] This is being driven by a number of different trends, including manufacturers expanding their supply chains across borders, cross-border global investment flows and an increasing number of migrants sending money via international remittances[2].

Steps in the right direction

The cross-border payment landscape is rapidly evolving, with new players, technologies, and regulations constantly emerging. And, as global commerce continues to expand, the demand for efficient, reliable, and cost-effective cross-border payment solutions will grow commensurately.

Working closely with the wider transaction banking industry, SWIFT – the world's leading provider of secure financial messaging services – has developed and launched two ambitious and interconnected initiatives that are helping to bring greater speed and transparency to high- and low-value cross-border payments:

SWIFT gpi: Using SWIFT gpi, financial institutions are now able to securely and quickly send and receive funds to any location in the world – with full visibility into the status of their payments at any point in the transaction. By dramatically communication channels and providing higher standards for banks, SWIFT gpi has also significantly improved the speed of cross-border payments – with nearly 50% of gpi payments are credited to end beneficiaries within 30 minutes, almost 100% of payments now credited within 24 hours.

SWIFT Go: In response to fintech innovation, and gradual decline in flow through the SWIFT network, as well as a loss of cross-border payment market share for banks, SWIFT's hand was forced into acting. This came in the form of SWIFT Go. Built on the high-speed rails of SWIFT gpi, SWIFT Go – enables small businesses and consumers to send fast, predictable, highly secure, and competitively priced low-value cross-border payments anywhere in the world, direct from their bank accounts.their bank accounts.

Existing challenges

Despite its significance to the global economy, today's cross-border payment model is not fit for purpose due to a myriad of payment systems that each operate using different rules, schemes, formats, and availabilities. This introduces pain points for individuals and businesses, including high costs, long settlement times, a lack of transparency and security concerns. These challenges have left the door wide open for the cross-border industry to be disrupted. In fact, this this process is already well underway, with a number of fintech disrupters having entered the space in the past few years. Leveraging the existing payment rails, with innovative workaround solutions, the nimbler disrupters – including Wise, Revolut, and Nium – are addressing the challenges faced by customers looking to make an international payment.

In turn, banks – who have traditionally dominated this space – are at risk of disintermediation if they are not able to stay competitive, particularly when it comes to speed and cost. For a low margin business like payments, this is no easy task.

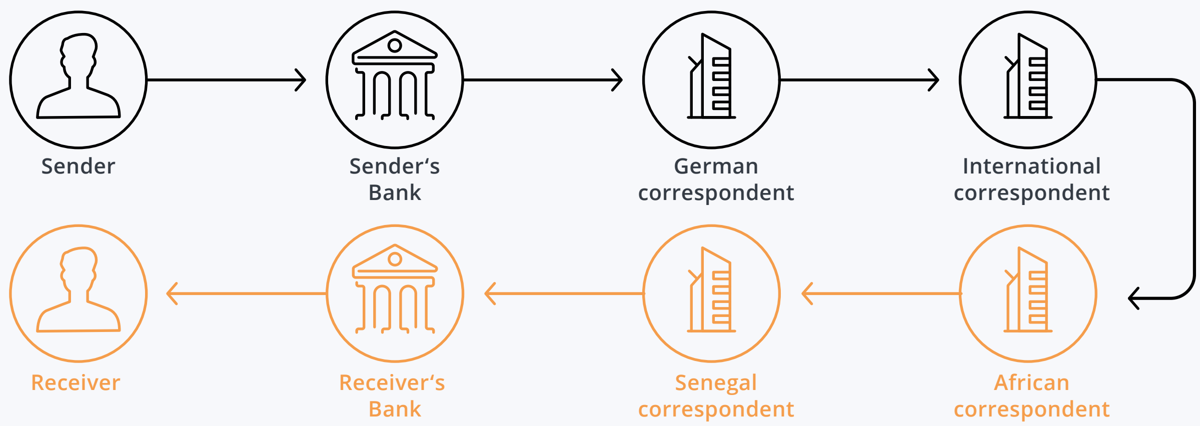
Cost

Cross-border payments typically utilize a correspondent banking network – a web of banking relationships that facilitate global payments – to move money across borders, with analysts estimating that around 90% of cross-border traffic goes through SWIFT[3].

A simple correspondent flow might be as follows: a UK domestic bank receives a request from a client to send funds to a bank in France. While the UK bank does not have a direct relationship with the French bank, it maintains a relationship with a correspondent bank that does. As the French bank also has a relationship with the same correspondent bank, this partner can act as an intermediary for the transaction and facilitate the transfer of funds to the end beneficiary.

While the correspondent banking model gets the job done, the bank and its client pay high fees for the privilege. A financial institution facilitating a cross-border payment will, on average, charge US$20 in fees from a single transaction[4] – which can accumulate to global costs of US$120bn on an annual basis. For more distant and exotic currency pairs, multiple correspondent banks may be needed to complete the transaction. For example, for a payment from Germany to Senegal might pass from the sender's bank in Germany to a German correspondent, to an international correspondent, to an African correspondent to a Senegal correspondent to the recipient's bank in Senegal.

Correspondent banking payment flow



And as the payment passes through the various geographies along a chain, separate fees may be taken for regulatory purposes and FX conversion. For example, according to research by EY, a transaction from a local bank account in Germany to a bank account in Senegal can incur costs of more than €100, (depending on the transaction value), and will take up to seven days to settle.[5] Notably, however, cross-border payments on Swift involve just over one intermediary on average, and payments with three or more intermediaries represent less than one per cent of total payment volume[6].

Speed

The traditional cross-border payment process typically takes from two to five days to complete – a far cry from the instant settlement that has become an expectation for domestic transfers. This is due, at least in part, to the inefficiencies of the correspondent banking network – and the inclusion of multiple intermediaries introduced into the end-to-end payment flow. For example, each bank in the chain will likely have to comply with its own set of checks – such as anti-money laundering (AML) and fraud prevention – each of which takes up a significant amount of time and resources.

Countries also have their own financial systems, regulations, and laws that can make it challenging to transfer funds seamlessly across borders and may result in additional processing times, delays, and the need for additional documentation. Different time zones often also lead to delays in processing and settling transactions – for example, a payment initiated at the end of the business day in one country may not be processed until the next business day in another country. Banks operating in emerging or developing markets will suffer most from these obstacles, as they are more likely to utilize legacy systems and compliance stops than established economies.

Modern innovations have failed to fully resolve these issues – and specific controls, regulatory barriers and time zones across different jurisdictions continue to hinder the speed of cross-border payments.

Transparency

The inclusion of multiple intermediaries in the cross-border payment chain introduces challenges when it comes to transparency – not only in locating where the payment is, but also determining what fees are being applied.
When a client makes a payment to a beneficiary in another country, they estimate the fees that the correspondent banks will apply. This can lead to the sender overestimating the costs or, more seriously, underestimating them, which can cause further delays. Consumers and businesses are also often unable to track the location of the payment or find out how long it will take for the transaction to be completed – and often do not receive confirmation of settlement (though it should be noted that global initiatives – such as SWIFT gpi – have brought several improvements in this regard).

Security

When moving money across borders, the payee – be they a consumer sending money to a friend, or a large multinational paying a supplier – wants to be confident that their money is safe. The responsibility for that assurance ultimately falls to the various banks in the chain, with security being top of the agenda.

Among the primary security concerns with cross-border payments is the risk of fraud. Hackers and cybercriminals regularly attempt to intercept or redirect funds, impersonate legitimate parties, or compromise the security of payment systems. The lack of a uniform regulatory framework and varying levels of security across countries can also make cross-border payments more vulnerable to fraud.

Another security issue with cross-border payments is compliance with anti-money laundering (AML) and counter-terrorism financing (CTF) regulations. Each requires financial institutions to verify the identities of their customers, monitor transactions for suspicious activity, and report any suspicious transactions to the authorities. Failure to comply with these regulations can result in significant fines and reputational damage.

Today's instant payment landscape

Instant payments – also known as real-time or immediate payments – are characterized by the near real-time crediting of a beneficiary account (usually within a minute), 24/7/365 operation, and finality. They provide a fast, secure, and convenient way to transfer funds, which makes them in high demand as an alternative to traditional payment methods.

Today, approximately 80 countries worldwide provide real-time payments,[7] with some of the key schemes outlined below:

Europe

SEPA Instant Credit Transfer (SCT Inst):
SCT Inst is an instant payment scheme developed by the European Payments Council (EPC) for the Single Euro Payments Area (SEPA) region. It allows for real-time, 24/7 credit transfers between accounts located in SEPA participating countries.[8]

TIPS (TARGET Instant Payment Settlement):
TIPS is a service provided by the European Central Bank (ECB) that enables instant settlement of payments in central bank money between accounts located in the euro area.[9]

RT1:
RT1 is a pan-European instant payment system that enables real-time, 24/7 credit transfers between accounts located in the SEPA participating countries.[10]

UK

Faster Payments:
Faster Payments is an instant payment system that allows for real-time, 24/7 credit transfers between accounts in the UK.[11]

CHAPS
(Clearing House Automated Payment System): CHAPS is a same-day high-value payment system that enables real-time settlement of transactions in sterling between accounts in the UK.[12]

US

The Clearing House (TCH) Real-Time Payments (RTP):
RTP is an instant payment system that allows for real-time, 24/7 credit transfers between accounts in the US.

FedNow:
FedNow is an instant payment service that is currently under development by the Federal Reserve. It will allow for real-time, 24/7 credit transfers between accounts in the US, and is scheduled to launch in July 2023.

Enabling instant cross-border payments

Although domestic payments have seen a wave of advancements in recent years, the majority have been siloed to specific jurisdictions or countries. The result is that while instantly moving money domestically has never been easier, the challenges involved in making a cross-border payment – instantly or otherwise – remain. This makes it a space ripe for disruption – and instant cross-border payments could be the solution.

Instant cross-border payments are electronic payment transfers that allow funds to be sent quickly and securely across different countries and currencies. Unlike traditional payment methods that often take several days to complete, instant cross-border payments can be completed almost instantly: typically, within seconds or minutes.

Cross-border and instant cross-border compared

Cross-border payments	Instant cross-border payments
Settlement can take up to seven days	Instant settlement
Availability limited to banking hours	24/7 availability
Lack of transparency	Likely to offer greater transparency and security due to the use of modern payment technologies
Multiple intermediaries, multiple inefficiencies	While correspondent banks will likely still play a significant role in some instant cross-border models, it will be much more streamlined

The business case: what does it mean for corporate customers?

Instant cross-border payments would mean real-time payment processing – and allow businesses to transfer funds quickly and securely across borders. By eliminating the delays and costs associated with traditional cross-border payments, they would offer several benefits for corporate clients.

Case study 1: Enhanced cash management

Instant cross-border payments can significantly improve corporate cash management by providing greater speed, efficiency, and transparency in financial transactions. With traditional payment methods, companies must often wait several days for a payment to clear, creating delays in accessing funds and reconciling accounts. This can make it difficult to manage cash flows effectively, while creating additional and unnecessary operational costs.

With instant cross-border payments, companies can transfer funds internally and externally in real-time, providing greater flexibility and control over cash flows. This, in turn, helps companies to make faster and more informed decisions and reduce the cost of borrowing.

Picture the scene: a US-based company has a subsidiary in Japan, which needs to make an unexpected payment of ¥100,000 to a Japanese supplier by the end of day. The company's centrally managed account in the US has ample liquidity to make the payment, which the Japanese subsidiary lacks. Yet, despite having the funds available, the company is unable to transfer payment to its subsidiary on time. To get the funds needed to pay the supplier – and avoid any late fees – the subsidiary is forced to borrow funds from a third party. This depletes precious capital that could otherwise be used for investing in value-added activities for the company.

Now imagine the same scenario in an instant cross-border payment world. Each day trapped or idle cash from across the company's many subsidiaries is pooled into a central account, to give the company full control over its available cash. Due to this streamlined account structure, the Japanese subsidiary does not have the liquidity necessary to make the last-minute, ¥100,000 payment. This time, however, the company is able to deploy its own liquidity to its subsidiary near-instantly, across borders and with 24/7 availability – vastly improving intra-company funding and reducing the need for and cost of borrowing.

Case study 2: Business expansion opportunities

For small to medium-sized businesses looking to expand their global reach, balancing fragile cash flows can be challenging – with effective management of days sales outstanding (DSO) a key metric of success.

Instant cross-border payments can open new opportunities by enabling businesses to sell their products and services to customers in new markets without worrying about the complexities and delays of traditional cross-border payments. Instead of lengthy waits for funds to clear and settle businesses can receive payment for their sales almost instantly, reducing the risk of payment delays and improving the company's DSO.

Take the example of a US company keen to expand to the UK market. Without instant cross-border payments, the US seller might be hesitant due to the risk and complexity of receiving cross-border payments from UK customers. With the ability to receive these payments instantly, the company can confidently offer its products to UK customers knowing that it will not impact its DSO.

Case study 3: International trade

The global nature of modern business has made cross-border payments an essential part of international trade. However, traditional cross-border payment methods, such as wire transfers or international bank transfers, are often slow, expensive, and prone to errors. These inefficiencies can create obstacles for businesses and impede the smooth flow of goods and services across borders.

Implementing instant cross-border payment solutions can help overcome these obstacles and provide significant benefits to businesses. These solutions offer, for example, a faster and more efficient way of making international payments that saves time and reduces the administrative burden of handling them. Additionally, instant cross-border payments often have transparent pricing and competitive exchange rates, which can save businesses money on transaction fees and currency conversion costs.

Delayed or disputed payments can strain business relationships, especially when suppliers and partners are located in different countries. Offering suppliers, the option of receiving full payment instantly can significantly improve supply chain relationships, while minimizing liquidity risk.

Case study 4: Greater transparency improves risk management

Instant cross-border payment initiatives can help address security issues – associated with the correspondent banking model – by providing a more direct and secure way to transfer funds between parties located in different countries. By using secure channels and strong authentication measures, instant cross-border payment systems help reduce the risk of fraud and cyberattacks.

For example, many instant cross-border payment systems use encryption technology to protect sensitive information, such as account numbers and personal identification details, from being intercepted or stolen during the transaction. They may also employ multi-factor authentication measures, such as passwords, biometrics, or security tokens, to ensure that only authorized users can access the system and initiate payments.

How do we enable instant cross-border?

In a recent PwC survey, 42% of respondents felt strongly that there would be an acceleration of cross-border, cross-currency instant and B2B payments in the next five years.[13] The destination is clear: a world where banks can enable instant cross-border payments for their customers. Less clear is which is the best route to this destination.

In the following chapter, we explore the different models and initiatives that are emerging and their potentially significant ramifications for the enablement of instant cross-border payments.

Interlinking arrangements

In 2020, leaders of the G20 economies endorsed an ambitious “Roadmap for Enhancing Cross-Border Payments”, which had been developed by the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI). For the first two years of the roadmap, the projects were intentionally comprehensive in scope, with the aim of gathering data and insights for the next stages.[14]

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Interlinking payment market infrastructures – a key aim of the G20 cross-border initiative – can help to shorten transaction chains, reduce costs, and increase the transparency and speed of cross-border payments. While progress is promising, questions around scalability, remain. Linking 20 markets, for example, would require as many as 400 point-to-point connections – and there are significant complexity and cost constraints associated with that. One potential way forward, therefore, is the creation of central hubs that can interlink multiple payment systems.

Isabel Schmidt, Global Co-Head of Payments, BNY Mellon

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Based on these initial findings, the FSB published a prioritization plan and engagement model for taking the roadmap forward, which significantly narrowed the focus to three interconnected themes:

1. **Payment system interoperability and extension**
2. **Legal, regulatory, and supervisory frameworks**
3. **Cross-border data exchange and message standards**

Key definitions

Interlinking arrangements: Interlinking arrangements for cross-border payments can be defined as a set of contractual agreements, technical links and standards, and operational components between payment systems of different jurisdictions, allowing their respective participating PSPs to transact with one another as if they were in the same system.

Source: As defined in "Exploring multilateral platforms for cross-border payments" © Bank for International Settlements (BIS) 2023

The first pillar of this revised five-year strategy prioritizes the interlinking of instant payment schemes for cross-border payments. Interlinking instant payment schemes is not a new concept, with many initiatives already underway, including the following:

- 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 just the recipient's mobile phone number.
- In February 2023, a link between instant payment schemes in Singapore and India was created (see 3.1.2 Case study: India and Singapore)
- In Southeast Asia, the central banks of Indonesia, Malaysia, the Philippines, Singapore, and Thailand have agreed to connect their domestic instant payment schemes to enable cross-border payments.
- EBA Clearing, The Clearing House and Swift are collaborating to develop a EUR-USD link (see 3.1.1 Immediate Cross-Border Payments)
- Buna, launched in 2020, aims to connect instant payment schemes in the Arabic-speaking region.
- The ECB, Banca d'Italia and Sweden's Riksbank are exploring the possibility of cross-currency payments between Swedish krona and euros, through the TIPS platform.

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Interlinking instant payment schemes can reset the whole foundation from a cross-border perspective. If you look at foreign remittances and person-to-person transfers today, a lot of the non-banks have kind of masked solutions around existing challenges – and have been able to build cool user experiences as a result. But even these solutions – that seemingly provide instant cross-border payments – are still dependent on the underlying infrastructure. That, to me, is the biggest area of improvement that we can make over the next several years: to set the foundation to support 24/7 instant payments across the globe, between a couple of key corridors to start with and grow from there. And once business users and consumers get that downstream, compared to what they are used to today, that presents the biggest benefit. And it also helps us disrupt ourselves because this is a very competitive place.

Carl Slabicki,
Global Co-Head of Payments, BNY Mellon

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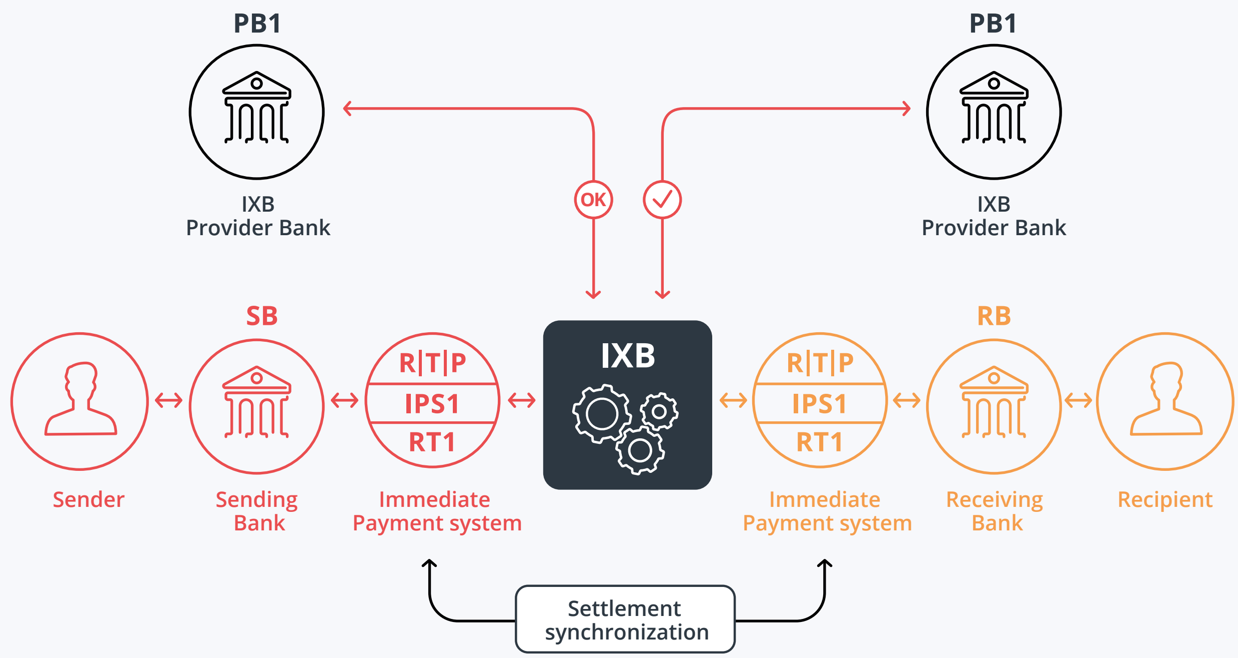
Immediate Cross-Border Payments (IXB)

The immediate cross-border payment (IXB) initiative is being developed by EBA Clearing, The Clearing House (TCH) and Swift, in collaboration with 25 financial institutions (FIs). It aims to utilize existing instant payment building blocks – namely TCH's RTP and EBA Clearing's RT1 – to provide instant cross-border payments along the euro and US dollar currency corridor.

This means that a European RT1 user bank will soon not only be able to reach other RT1 users, but also US banks that are connected to RTP (and vice versa). This will be achieved using synchronized settlement of RTP and RT1 payments which, in turn, will ensure certainty of execution.

The service is expected to be rolled out sometime in 2023 and will transform the cross-border payments space, changing how payments are conducted between the US and Europe and, soon enough, the world.

A hypothetical transaction flow on IXB



It is important to understand that IXB is not a payment system. It enables the interlinking of payment systems and supports provider banks which, in turn, enable the IXB service. Payments in each real-time payment system will be single currency transactions. The currency conversion is done based on an inter-bank FX rate agreed between the sending bank and its provider bank beforehand. The provider bank in the destination currency ensures that there is liquidity in the second payment system, i.e. on the beneficiary bank side. IXB ensures that both payment systems proceed with a synchronized settlement of their respective transactions.

Please note that the picture indicates roles, not entities, which means that some roles could be played by the same entities.

A common question that we get is: "How does this relate to correspondent banking?"
We think that IXB will address some of the frictions in cross-border payments that correspondent banking has not been able to solve. While it is different from traditional correspondent banking, there will be important roles for correspondent banks to play in the context of IXB, such as providing liquidity, offering FX services and managing risks related to that. At the same time, IXB will give them the opportunity to leverage the state-of-the-art rails of real-time payments in order to provide better and faster services to their customers.

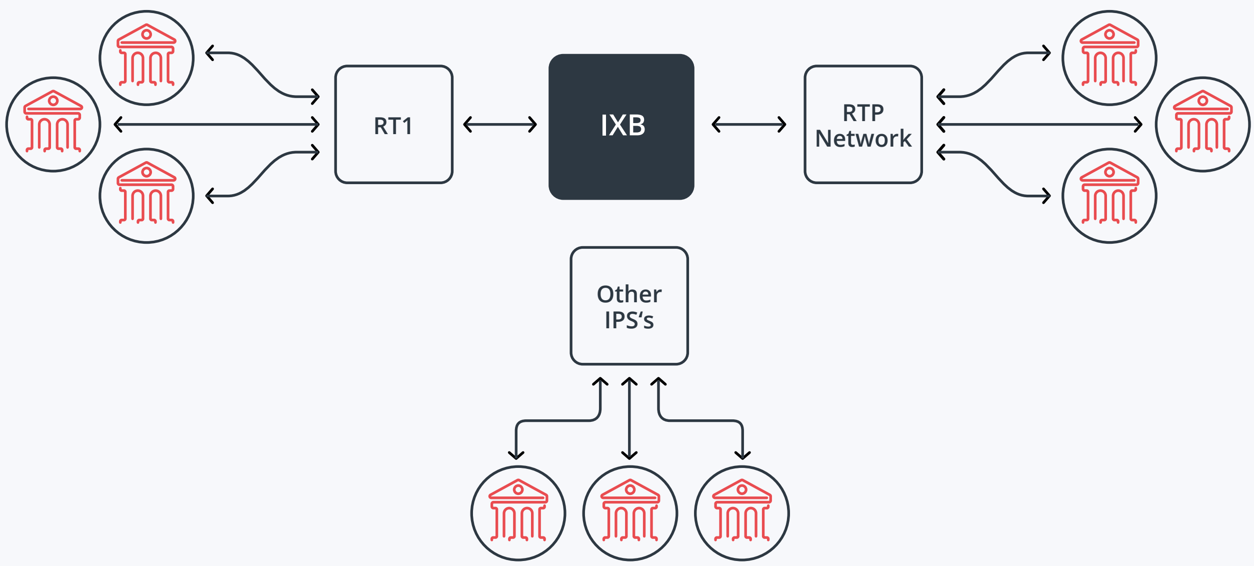
Petra Plompen, Senior Manager at EBA CLEARING

No one-trick pony

An often-quoted drawback of the interlinking approach is that, if taken to its logical conclusion, it will lead to hundreds of bilateral relationships. For example, a network of 10 interlinked instant payment systems would require as many as 45 bilateral links to operate. Not only would this be complex, but it would also likely be cost prohibitive.

One of the key features of IXB is that it will not act as a single currency, bilateral link between only two payment systems. Instead, the initiative is based on a model that can be replicated across other currency corridors and payment systems – and its developers expect to add further currencies from an early stage to meet customer expectations for instant cross-border payments across the globe.

IXB future vision: Connecting payment systems



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The connection between RTP and RT1 delivers a new way of moving money across borders safely, quickly, and at lower cost. The IXB model is also designed to add additional currency corridors in the near future.

Rusiru Gunasena, Senior Vice President,
RTP® Product Management and Strategy,
The Clearing House

(quote taken from IXB press release, October 5th 2022)

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Case study: India and Singapore

In February 2023, India and Singapore successfully connected their digital payment systems – UPI and PayNow respectively – to facilitate the instant and cost-effective transfer of funds between the two countries. Using phone numbers, virtual payment addresses or UPI identities, individuals in both countries can make real-time cross-border transfers.

The partnership aims to disrupt – and improve – cross-border flow between the two countries, which exceeds US$1bn annually. At present, eight banks including DBS, Liquid Group, Axis Bank, and State Bank of India are part of this collaboration. Going forward, the two central banks plan to progressively review and scale the linkage with the aim of opening it up to more participating financial institutions and developing new use cases.

SEPA's One-leg-out payments

Under the current SEPA Credit Transfer (SCT) rulebook, a SEPA payment needs to start and end in the SEPA zone – meaning that incoming euro One-Leg Out (OLO) credit transfers are out of scope. Whether they are in scope (which they are not) was, however, a question among SEPA payment scheme participants.

Key definitions

- The Single Euro Payments Area (SEPA) zone currently consists of 36 European countries, including several countries which are not part of the euro area or the European Union
- SEPA Instant Credit Transfer (SCT Inst) are instant credit transfers in euro that are executed 24/7/365 whereby the funds are made available to the payee within seconds. 2.326 payment service providers (PSPs) have already joined the SCT Inst scheme (as of May 2023)
- A one-leg out transaction refers to a scenario whereby only one of the PSPs - either the payer's or the payee's - is located in SEPA.
- The EPC's One-Leg Out Instant Credit Transfer (OCT Inst) scheme supports one-leg out transactions, including cross-currency payments between euro and other non-euro SEPA currencies (e.g., Nordic currencies, CHF, GBP)

In view of changing cross-border payment dynamics, the European Payment Council (EPC) initially developed a [Inst] Euro One-Leg Out Credit Transfer (OCT) arrangement covering both standard and instant euro OCT transactions. This arrangement has been subject to public consultation. In March 2023, the EPC published the first version of the OCT Inst Scheme Rulebook (taking effect on 28 November 2023). For more information, see the EPC's "Questions & Answers on the One-Leg Out Instant Credit Transfer Scheme".

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The OCT Inst scheme allows PSPs to offer their customers a faster execution of international cross-border and/or cross-currency payment transactions, more up-front transparency on costs and parties involved, and better payment status traceability. The OCT Inst scheme is an EPC answer to the European Commission’s statements on the international role of the Euro, and to the roadmap and targets of the G20 and the Financial Stability Board (FSB) on cross-border payments.

Giorgio Andreoli, Director General, European Payments Council

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The OCT Inst Scheme: To use or not to use

Note: apart of the currency in which the instant credit transfer itself is expressed, under the OTC Inst. and SCT Inst. schemes the payment account of the payer and/or the payee can be in Euro or in any other currency.

			To payee with an account held in	
			SEPA	Non-SEPA
For Euro → Euro trx i.e., no currency conversion	From payer with an account held in	SEPA	SCT Inst.	OCT Inst.
		Non-SEPA	OCT Inst.	Other non-EPC scheme
For Euro → other currency trx or for other currency → Euro trx	From payer with an account held in	SEPA	OCT Inst.	OCT Inst.
		Non-SEPA	OCT Inst.	Other non-EPC scheme

Source: European Payment Council

Proposed benefits

Payers and payees	PSPs in the Euro Leg
More rapid and predictable end-to-end execution of incoming and outgoing international instant euro credit transfers	Allows PSPs to offer their payees and payers a faster execution, more up-front transparency on costs and on the parties involved in/concerned about, and a better payment status traceability
Better transparency on the costs for all parties	Enables more efficient and cost-effective processing, clearing and settlement for these credit transfers within the Euro leg
The scheme relies on open and commonly accepted standards, which will help to improve the initiation and reconciliation of such transfers on a straight-through-processing basis	The clearing and settlement for such credit transfers will potentially improve the liquidity management for those PSPs involved
Send or receive remittance data end-to-end on either a structured or an unstructured basis	Facilitates the processing of international credit transfers based on better structured and richer data under the ISO 20022 XML messaging standard.
The maximum amount of €100,000 per OCT Inst transaction can support a wide range of use cases	Participants would also be able rely on a predictable and automated r-transaction handling and inquiry processing which could support several use cases.

Source: EPC Q&A on the OCT Inst Scheme

Peer-to-peer models

In a peer-to-peer (P2P) model, a payment can be sent directly between two parties without the involvement of any intermediary PSPs. The simplest form of P2P payment is a direct cash payment, although they can take a variety of additional forms. For example, the emergence of distributed ledger technologies (DLT) means that. P2P transactions can be executed electronically between parties using a shared ledger structure where the transaction is settled, and holdings are recorded.[16]

This section explores how DLT, and the new forms of currency it enables, could push the cross-border payment industry to the next stage of development.

Distributed ledger technology

Distributed ledger technology (DLT) refers to a decentralized digital system that enables multiple participants to maintain and update a shared and synchronized record of transactions or information across multiple locations or entities. In DLT, the ledger, or the database, is not controlled by a central authority but is distributed among various participants or nodes in a network. Each participant has a copy of the entire ledger and independently validates and updates the ledger based on a consensus mechanism agreed upon by the network. Therefore, it becomes near impossible for the data to be corrupted or manipulated.

Blockchain is a specific type of DLT, where transactions are grouped into blocks and added to a chain of previously validated blocks.

Digital currencies

The digital currency ecosystem is constantly expanding, but can, at present, be defined under four main umbrellas:

Cryptocurrencies: Digital currencies that use cryptography for security and operate on a decentralized system like blockchain.

Stablecoins: Cryptocurrencies designed to maintain a stable value by being pegged to a fiat currency or commodity, minimizing price volatility.

Digital tokens: Units of value created, stored, and transferred using blockchain or distributed ledger technology, representing various assets or functionalities.

Central Bank Digital Currencies (CBDCs): Central bank-issued digital currencies aimed at providing efficient and secure digital forms of national currency.

Enabling cross-border payments

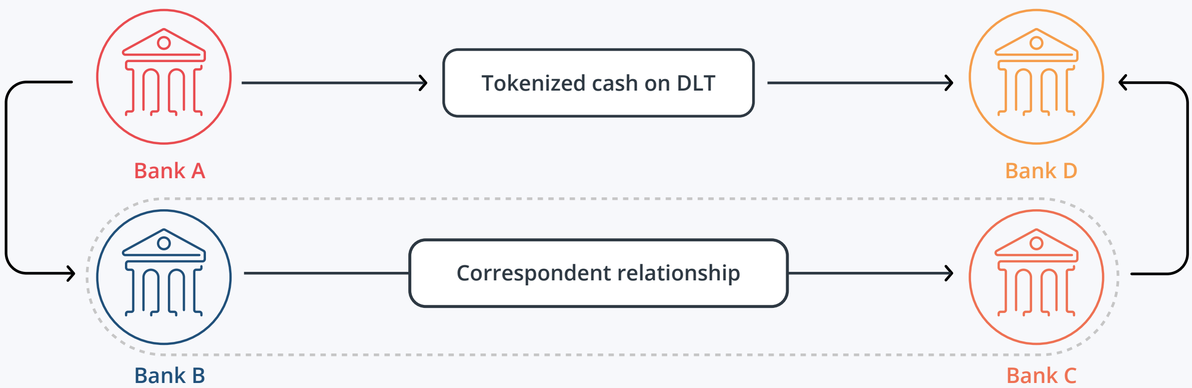
If DLT, and the currencies it enables, prove successful, it has the power to revolutionize cross-border payments: offering increased transparency, efficiency, and security.

Take the following example. To move money from Bank A in Canada to Bank D in Germany would usually involve two intermediaries, with the funds moving through Canada, the USA and Brussels to arrive at the final destination in Germany. By leveraging a form of tokenized cash that leverages DLT, payments could be made instantly and securely on a P2P basis (see Figure).

DLT ensures transparency by recording all payment transactions on the distributed ledger, which is accessible to all network participants. This shared record is secured and immutable, ensuring that payments are genuine and protected against fraud.

Smart contracts, a feature of DLT, automate the payment process. They contain predefined conditions, such as verifying the sender's funds and validating the recipient's identity. Once these conditions are met, the smart contract automatically executes the payment. This means that cross-border payments can occur directly between the sender and recipient without relying on multiple intermediaries. This P2P transaction capability streamlines the process and reduces the associated costs.

Cross-border payment using DLT



Recommendations for banks

As efforts to improve the cross-border payment space ramp up, it is important that banks not only don't get left behind but are able to position themselves as leaders in the evolution. As the journey advances, banks should keep the following in mind:

- Engage third party vendors that can support you, and, ultimately your clients, in this journey
- Engage with your clients – see what their pain points are, and see where their business models are likely headed
- Keep abreast of the latest cross-border payment developments to ensure you stay ahead of the curve
- Do not put all your eggs in one basket. The space is still moving quickly, and it is important to engage with multiple initiatives

1 https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments

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7 https://www.pymnts.com/tracker/real-time-payments-world-map-global-transactions/?cache=skip#wpcf7-f1447639-o1?download=true

8 https://www.europeanpaymentscouncil.eu/what-we-do/sepa-instant-credit-transfer

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