

THE FUTURE BLUEPRINT FOR CROSS-BORDER PAYMENTS

Sending money around
the world in seconds



CO-PUBLISHER:



**POINT
ZERO
FORUM™**
 Policymakers | Leaders | Investors



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Elevandi is set up by the Monetary Authority of Singapore to foster an open dialogue between the public and private sectors to advance FinTech in the digital economy. Elevandi works closely with governments, founders, investors, and corporate leaders to drive collaboration, education, and new sources of value at industry and national levels. Elevandi's initiatives have convened over 350,000 people to drive the growth of FinTech through events, closed-door roundtables, investor programmes, educational initiatives, and research. Elevandi's flagship product is the Singapore FinTech Festival, which runs alongside other fast-rising platforms such as the Japan FinTech Festival, Point Zero Forum, Inclusive FinTech Forum, Elevandi Insights Forum, The Capital Meets Policy Dialogue, The Founders Peak and Green Shoots.

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Executive Summary

This paper presents key insights and actionable outcomes derived from a roundtable on the future blueprint for cross-border payments, held at the Point Zero Forum 2024. The roundtable touched on Project Nexus, where a fourth phase of the project involving a group of first mover countries working with the BIS is now underway. This phase aims to bring Nexus into an operational state. Discussion explored how multilateral networks like Nexus, while hard to establish at the onset, can offer significant opportunities and benefits that can alleviate some of the key pain points in cross-border payments (e.g., potential for greater scalability, standardisation, lower FX costs, greater visibility of data and fund flows to better combat fraud).

A key insight from the roundtable was how a multiplicity of payment systems or arrangements is not detrimental as long as they are interoperable. There was emphasis on the need for collaborative efforts to foster interoperability, not just at the technical level but also at the legal/regulatory and business levels. Another insight gained from the discussion was that public policy goals can co-exist with financial sustainability objectives. As the saying goes, “A rising tide lifts all boats”, the challenge would be to find the new equilibrium and balance between both objectives to ensure that everyone benefits.



Introduction

The roundtable discussion centred on a future blueprint for cross-border payments. The discussion explored six key areas: harnessing synergies of multilateral networks, ensuring interoperability, addressing last-mile issues, balancing public policy goals with commercial viability, tackling imbalanced cross-border flows and illiquid currencies, and using multilateral networks to drive innovation.

The discussion referred to Project Nexus as an example of a multilateral cross-border payment network. Nexus is a project designed to reduce complexity and enhance transparency, speed, cost-efficiency, and access in cross border transactions.¹ It aims to address the complexities of scaling bilateral links by creating a multilateral network that reduces the number of connections required by each country. It emphasises transparency in payments and focuses on delivering key benefits such as speed, cost-efficiency, and access. Financial sustainability and inclusion are integral to its design, ensuring that the system is scalable and resilient, while keeping the end users in mind.

1. Project Nexus: Enabling instant cross-border payments. Bank of International Settlements.
<https://www.bis.org/about/bisih/topics/fmis/nexus.htm>

Session 1: The power of multilateral networks

The first segment of the roundtable explored the transformative potential of multilateral networks and their capacity to enhance financial connectivity and efficiency on a global scale. Discussions revolved around how synergies of a multilateral network can be harnessed, the necessity of ensuring interoperability, and addressing last-mile issues to achieve broader financial inclusion.

Harnessing synergies of a multilateral payments network

Phase 3 of Project Nexus established a blueprint for multilateral connectivity by leveraging existing real-time payments infrastructure and emphasising scalability and resilience. This approach addresses the challenges of bilateral linkages, which typically require complex and bespoke technical customisation, further complicated by multi-party legal complexities. A multilateral network, by contrast, allows for a one-time integration cost from each participating jurisdiction, maximising network effects.

A multilateral network could also drive greater efficiency in managing and addressing challenges in cross-border payments. For instance, it could facilitate more in-depth data analytics and development of artificial intelligence and/or machine learning tools to combat fraud, money laundering and financing of terrorism by leveraging a richer pool of network data. A multilateral network also provides a platform to foster greater standardisation and harmonisation of business, legal and regulatory practices in the cross-border payments space.

Ensuring interoperability

It is envisaged that the future landscape of payments will involve the coexistence of various payment systems and arrangements, each with its unique features and requirements. The key issue today is that many of these systems and arrangements are not interoperable, leading to frictions in cross-border payments and higher costs for end-users. Therefore, achieving interoperability across these systems and arrangements is imperative and will require a global effort to achieve harmonisation and standardisation where possible.

From a regulatory perspective, there would be a need for multilateral cooperation in tackling common issues such as Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), fraud mitigation, data sharing and data sovereignty issues. While technical interoperability would serve as the foundation for global connectivity, business and regulatory integration would also be necessary to ensure that different systems communicate effectively without causing fragmentation.

A multilateral network can drive efficiencies through the harmonisation of data formats, pooling of FX liquidity, and streamlining of compliance and business processes. In this regard, the Nexus Scheme Rulebook aims to foster alignment to higher standards by outlining minimum standards and requirements, for example promoting the use of the ISO 20022 messaging standard, ensuring that each participant has adequate risk management and compliance processes, and developing a common dispute resolution process. This common framework helps avoid a “race to the bottom” and ensures interoperability between different payment systems, while fostering trust and confidence among participants.

Addressing last mile issues

Despite the growth of digital payments, around 1.4 billion adults (~24% of the world's adult population) remain unbanked,² highlighting the need for digital financial inclusion. While there are available solutions today that cater to end users, a significant challenge often lies in their closed-loop nature requiring transactions to remain within a single network. Switching between wallet providers and banks adds friction that may quickly undermine any cost savings for end users. This highlights the benefits of an open-loop multilateral network that ensures interoperability between a multitude of payment systems, enabling solutions to remain affordable, fast, accessible and transparent for end users.

Another challenge today is that fringe and isolated communities may still not have access to financial services. In these cases, public-private partnerships are key to drive financial inclusion, security and literacy in a holistic manner through technological innovation, community engagement and an ecosystem approach. This makes it possible to ensure that the right solutions are made available and tailored to the needs of different end users, who may have different priorities on the affordability, speed, convenience of cross-border payments. This highlights the public sector's catalytic role in steering the market towards greater inclusivity and effectiveness, which couples with the private sector's expertise in driving innovation, to set the stage for broader financial connectivity and inclusion.

2. Financial Inclusion. The World Bank Group. <https://www.worldbank.org/en/topic/financialinclusion/overview>



Session 2: Achieving financial sustainability

The second segment of the roundtable delved into the critical aspects of achieving financial sustainability in a multilateral payment network. Discussions focused on the interplay between public policy goals and commercial viability, addressing imbalanced money flows and illiquid currencies, and the role of multilateral networks in driving innovation.

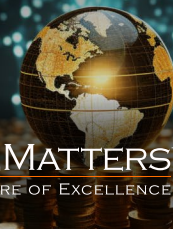
Balancing public policy goals and commercial viability

The interplay between public policy goals and commercial viability is critical for the success of a multilateral network of payment systems. The challenge lies in balancing commercial objectives with regulatory expectations and prioritising broader social benefit outcomes like financial inclusion and access. This requires public and private sector players being actively engaged to ensure that both parties' interests can be met through cooperative frameworks that provide opportunities and incentives for both incumbents and new players to innovate and improve. As the saying goes, "a rising tide lifts all boats", reflecting how maintaining a healthy balance between public policy goals and commercial viability can elevate standards and create widespread benefits and gains for all stakeholders and achieve financial sustainability.

Tackling imbalanced money flows between corridors and illiquid currencies

Imbalanced money flows and illiquid currencies pose challenges to keeping costs attractive for end users across payments corridors, particularly in emerging markets that are often net-receivers in cross-border transactions. This imbalance reduces the commercial viability for financial service providers in these regions, leading to higher costs and inefficiencies. Additionally, illiquid currencies exacerbate the problem, as insufficient number of FX providers in these regions result in further increased costs for end users. To address these issues, a commercial model providing incentives for both sending and receiving entities is necessary to increase FX liquidity and lower costs, which would promote broader adoption and financial inclusion.

Alternative approaches such as the use of AI models to predict FX movements and pricing could enable entities to better manage their liquidity. Utilising such solutions on a platform-wide basis could extend benefits to all participants, achieving economies of scale. However, to ensure security and soundness of the system, these alternative solutions must be validated by regulators to ensure compliance and effectiveness, reinforcing the need for public-private cooperation in this space.



Harnessing multilateral networks to drive innovation

The implementation of a multilateral payment platform may shift the focus from traditional profit models to value-added solutions. With the existence of a cost-effective payment rail available to all payment service providers (PSPs), the PSPs would focus on the development of value-added solutions to maintain their competitive edge. Multilateral platforms provide a common platform that the industry could leverage to create more effective, user-centric solutions, ultimately driving the next wave of financial innovation. Some participants went so far as to suggest that an end state might be one where payment rails would be offered at near zero costs, akin to making these rails public utilities, and that this in turn could help spur greater innovation and access.

Conclusion – From insights to outcomes

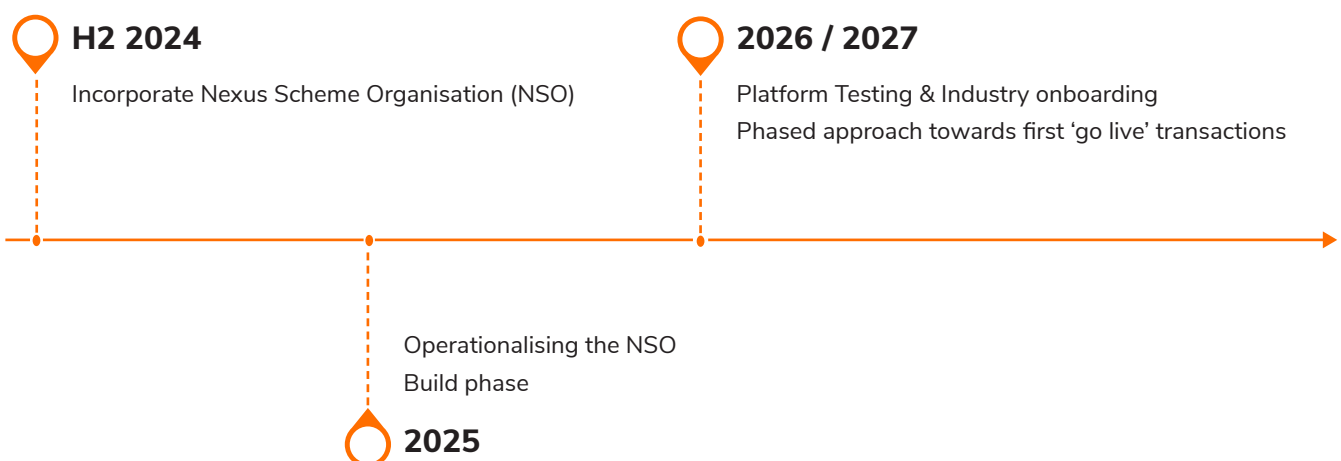
A multilateral network does have its merits and strengths, presenting significant opportunities for the industry. However, such systems should always be designed with the end-users in mind, ensuring that they are not inadvertently exposed to more risks or inefficiencies. Trust in the system is fundamental for adoption, and resilience should not come at a premium cost. Fast transfers, for instance, can enable fast fraud. Cybersecurity also remains a significant concern, with scams, social engineering, AI misuse, and deepfakes posing risks to end users. These risks make international cooperation essential, with robust controls and enforcement regimes necessary to ensure payment system integrity and security in all participating jurisdictions.

Reflections in the discussion also considered the importance of achieving a balance and equilibrium, ensuring that a multilateral payment network supports public policy goals while remaining financially sustainable. At present, Nexus may facilitate small-value retail transactions. As the Nexus network grows, the range of use cases may need to evolve to help sustain its commercial viability.

Interoperability, while often a buzzword, requires a holistic approach to achieve it, across technical, business and legal/regulatory dimensions. The ultimate objective is not merely to create a multilateral network, but to enable different end-users to transact seamlessly and effectively with one another. The end game is a scenario where funds can move efficiently from point A to point B at low or no cost, a goal that is worth aiming for. Continuous efforts from both the public and private sector players are key to realise this vision.

The next steps for Project Nexus are set out below:

Nexus Live Implementation Plan



What's Next for Nexus

- Review material and key design decisions laid out in the Nexus Phase 3 report
- Interested jurisdictions (central banks/national authorities/fast payments operator) can reach out to the Nexus project team- singapore.centre@bisih.org
- Interested industry participants (PSPs, FXP) should keep close to developments, do internal business analysis and work with their IPS to connect

Nexus Full Report (73 pages)



Nexus Overview (8 pages)

