



# Multilateral Platforms: Opportunities and Challenges in Enhancing Cross- Border Payments

Insights from the



With contributions from Oliver Wyman and Baker McKenzie





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# INTRODUCTION

The Point Zero Forum 2023 roundtable discussion on opportunities and challenges in cross-border payments brought together key stakeholders and leaders from both the public and private sectors, spanning international organizations, central banks, payment system operators, commercial banks, and fintech companies.

Participants reflected on the progress made to date in enhancing cross-border payments, discussed potential opportunities and challenges, and shared the lessons learned from their respective journeys.

The roundtable discussion centered on the following three major themes:

**Theme 1:** Establishing optimal governance and interoperability frameworks

**Theme 2:** Addressing divergent legal, regulatory, and oversight frameworks

**Theme 3:** Developing a viable commercial model





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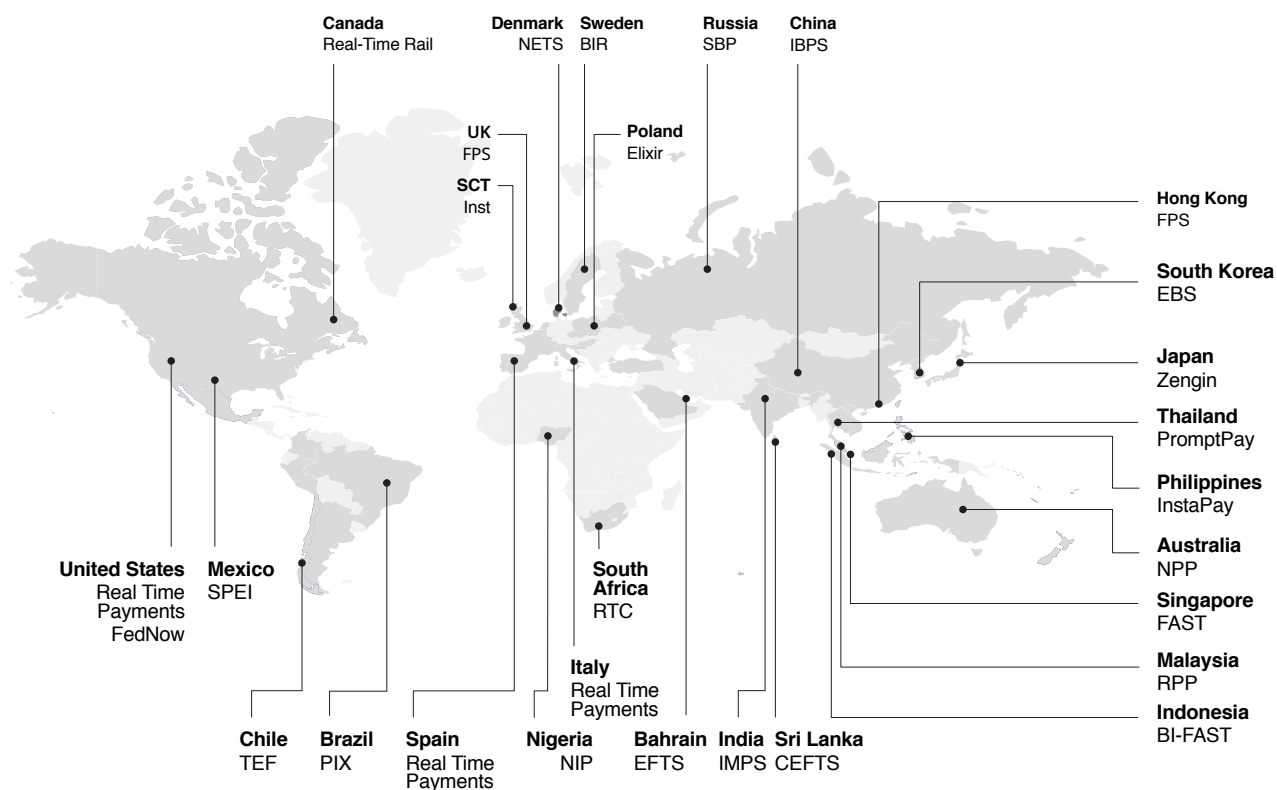
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# EXECUTIVE SUMMARY

The rapid pace of globalization and advancements in technology have fueled the demand for more efficient, transparent, and accessible cross-border payment systems. Multilateral payment platforms have emerged as a promising solution. The G20 Roadmap for Enhancing Cross-border Payments (the “Roadmap”) of the Financial Stability Board (FSB) also lists them as a key priority for enhancing such types of payments.

A multilateral payment platform is a payment system that is multi-jurisdictional in design, with the potential to reduce costs and increase the speed, safety, and transparency of cross-border payments. By enabling direct transactions between participating financial institutions in different countries, multilateral payment platforms would eliminate the need for multiple intermediaries and shorten transaction chains. These platforms also offer opportunities for greater efficiencies through the harmonization of data formats, pooling of foreign exchange liquidity, and streamlining of compliance and business processes.

**Exhibit 1: Over 60 domestic instant payment systems are either live or in development today**



Source: Oliver Wyman analysis



Bilateral linkages have already begun to shape the cross-border payment landscape. Additionally, while several regional multilateral payment platforms already exist, market players are also currently exploring new initiatives.

**Exhibit 2: Multilateral payment platforms are not new, and new ones are emerging**

Geographical scope	Market segment	
	Wholesale	Retail (including remittances)
Regional	<p><b>Single currency, common platform</b></p> <ul style="list-style-type: none"> <li>• ECCB-RTGS (Easter Caribbean)</li> <li>• STAR-UEMOA (West Africa)</li> <li>• SYGMA (Central Africa)</li> <li>• SADC-RTGS (Southern Africa)</li> <li>• TARGET2 (Europe)</li> </ul> <p><b>Single currency, hub and spoke</b></p> <ul style="list-style-type: none"> <li>• SIP (Central America)</li> <li>• REPSS (Central Africa)</li> </ul> <p><b>Multicurrency, common platform</b></p> <ul style="list-style-type: none"> <li>• AFAQ (Gulf states)</li> </ul> <p><b>Multicurrency, hub and spoke</b></p> <ul style="list-style-type: none"> <li>• EAPS (East Africa)</li> </ul>	<p><b>Single currency, common platform</b></p> <ul style="list-style-type: none"> <li>• TIPS (Europe)</li> </ul>
Global	<p><b>Multicurrency, common platform</b></p> <ul style="list-style-type: none"> <li>• CLS</li> <li>• Project Dunbar<sup>1</sup></li> <li>• Project Jura<sup>1</sup></li> <li>• Project mBridge<sup>1</sup></li> </ul>	<p><b>Multicurrency, common platform</b></p> <ul style="list-style-type: none"> <li>• Mastercard</li> <li>• Visa</li> </ul> <p><b>Multicurrency, hub and spoke</b></p> <ul style="list-style-type: none"> <li>• Amplus<sup>1</sup></li> <li>• Project Nexus<sup>1</sup></li> </ul>

1. A platform that is not in operation, but is being explored.

Source: Committee on Payments and Market Infrastructures (CPMI)

However, the implementation of such platforms is not without its challenges. Legal and governance issues, such as divergent regulatory frameworks, potentially high start-up costs, and market viability are some of the hurdles that market players must carefully address.

Drawing on the Roadmap, and the FSB’s efforts to develop a prioritization approach and engagement plan for taking the Roadmap forward, the Committee on Payments and Market Infrastructures (CPMI) has outlined priority actions across the following three interconnected themes that focus on the next phase of the Roadmap:

1. Payment system interoperability and extension (including, among other things, the interlinking of instant payment systems, and cross-border payment service level agreements)
2. Legal, regulatory, and oversight frameworks (including, among other things, the application of anti-money laundering (AML) and countering the financing of terrorism (CFT) rules, and the regulation and supervision of banks and non-bank entities)
3. Cross-border data exchange and messaging standards (including, among other things, ISO 20022 harmonization requirements, and data framework interactions)

These concerted efforts are paving the way for the development of a conducive environment for multilateral payment platforms to enjoy enhanced efficiency and accessibility.

The Bank for International Settlements (BIS) Innovation Hub's Project Nexus seeks to connect the instant payment systems across multiple countries via a multilateral linkage, providing a blueprint for a scalable cross-border payments network. A successful proof-of-concept (POC) exercise with the Eurozone, Malaysia, and Singapore in 2022 has confirmed the feasibility of a multilateral network of instant payment systems. Building upon this achievement, ongoing efforts are underway with five countries, namely, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, in 2023 to establish the necessary building blocks for a future production-ready multilateral platform based on the Project Nexus blueprint.

At the Point Zero Forum 2023 roundtable discussion, participants discussed key developments surrounding multilateral platforms, highlighted their potential opportunities and challenges, and articulated the roadmap required for their realization. These takeaways are best summarized across the three key themes detailed below:

### **Theme 1: Establishing optimal governance and interoperability frameworks**

- Neutral parties, such as the public sector, can align multiple stakeholders, paving the way for self-sustainable yet inclusive multilateral platforms
- As platforms scale, governance frameworks should evolve not only in terms of board structures and voting rights, but also in terms of membership inclusivity
- Political will is a key catalyst to foster collaboration among participants, facilitate the harmonization of policies, and mobilize public and private funds for multilateral platforms

### **Theme 2: Addressing divergent legal, regulatory, and oversight frameworks**

- Technological advancements have made a centralized sanctions-screening process a potential alternative that overcomes the complexity, inefficiency, and costs of the current screening process
- Significant progress has been made in developing regional and global data governance frameworks that will help balance the need for freer cross-border data flow while adhering to the varying data protection and privacy regulations
- To minimize credit, liquidity, and other risks in the payment processes, settlement finality must occur first at the domestic level and subsequently at the cross-border level

### **Theme 3: Developing a viable commercial model**

- Establishing a successful multilateral payment platform requires a well-defined commercial model that incentivizes both public and private sector participation while ensuring long-term sustainability
- Balancing the incentives between the sending and receiving jurisdictions is vital to build and justify the business case for both jurisdictions to participate in the multilateral platform
- Existing solutions, such as payment versus payment (PvP) and netting, coupled with advanced technologies, such as distributed ledger technology (DLT), can help tackle the challenge of trapped liquidity by reducing foreign exchange (FX) costs

## THEME 1

# ESTABLISHING OPTIMAL GOVERNANCE AND INTEROPERABILITY FRAMEWORKS

Governance and interoperability frameworks provide a stable structure and an organized approach for managing the inherent complexities of cross-border payments. Designed well, such frameworks can ensure that multilateral platforms not only achieve their organizational goals, but also fulfil oversight expectations to operate safely and efficiently. As various platforms emerge, interoperability will be key to mitigate fragmentation in the global financial system.

### **Topic 1A: Principles of good governance include implementing clear, transparent processes and open dialog to foster stakeholder alignment**

#### **A robust governance framework is an important tool to promote the objective of having safe and efficient payment systems**

In the context of a multilateral platform, governance not only encompasses a set of roles and responsibilities that governs the relationships of key stakeholders, such as owners, boards of directors, management, participants, and end-users, but also defines the processes through which the platform sets its objectives, determines the means of achieving those objectives, and monitors performance against those objectives. To ensure effective governance, it is important to establish clear and transparent processes that would ensure resiliency, mitigate risk to financial stability, and allow for meaningful participation and efficient prioritization. Doing so would ensure that the platform is able to operate smoothly while addressing the needs and concerns of all stakeholders involved.

#### **Selecting a neutral agent, such as the public sector, could pave the way for more inclusive participation**

Unanimous agreement and equal participation on governance decisions may not always be attainable with a diverse set of stakeholders. While there is no one-size-fits-all solution, a neutral agent can serve as a crucial ingredient in fostering transparent dialog and inclusive participation in multilateral platforms. For example, the public sector plays an important role in managing differences and fostering alignment among various private sector participants, such as banks, fintech entities, merchant associations, and consumer associations. The presence of a neutral agent that balances the objectives of both the public and private sectors is key to foster alignment on the main organizational decisions of a multilateral platform.

## **Topic 1B: Approaches to balancing agility and inclusivity in the governance framework as the platform scales**

### **Governance frameworks need to continuously evolve**

As a multilateral platform scales, the number of countries, regions, and currencies it serves will increase. The governance framework must therefore strike a careful balance between ensuring agility in its decision-making and operations to respond to changes in a timely manner, and achieving inclusivity in its onboarding and participation processes to address the needs of both larger and smaller communities. For example, as a platform scales, the governance framework should evolve to accommodate changes in, among other things, board participation, voting rules, representation of regions, and economic models. Accessible policies that are open, risk-proportionate, and transparent are key to ensure inclusive participation from all players, including smaller banks, and non-bank payment institutions, such as e-wallet providers and fintech entities.

### **Devising an effective governance framework that achieves the optimal balance between agility and inclusivity**

Broadly speaking, two options exist when it comes to scaling a multilateral payment platform. The first is a greenfield approach involving the creation of a global network. The second is a growth approach, where existing regional networks provide a foundation to address the current gaps, and leverage new opportunities in cross-border payments. Depending on the end-goal of the platform and the journey required to get there, the governance model should be optimally defined to allow for agility in its decision-making and inclusivity in its participation processes.

## **Topic 1C: Public and private sector partnerships, and the importance of fostering interoperability across platforms**

### **Public and private sector partnerships bring the best of both worlds**

The partnerships among public and private players in the multilateral platform ecosystem have the potential to create efficient and effective solutions. The private sector is able to contribute investment, technology, and expertise, while the public sector can act as a catalyst in setting the overall roadmap and framework to foster collaboration, and drive adoption and alignment among private sector players. Open regimes with fair playing fields would allow banks and non-bank players to have equal access to multilateral payment systems, thereby reducing fragmentation in the cross-border landscape and, subsequently, the cost of the payments themselves.

### **Political will is important for global cooperation to foster interoperability**

Political will is the driving force behind garnering the trust of participants and ensuring the utilization of market infrastructures for the platform. Regional platforms thrive because countries share strong economic links and desire for deeper regional integration. This shared view paves the way for cooperation on a wide range of topics and the commitment to achieving common goals. A good way to see political will is as a catalyst to foster collaboration among participants, facilitate policies, and mobilize the public and private sector funds required as investments for multilateral platforms. By fostering the alignment of countries, multilateral payment platforms can create an enabling environment that promotes cooperation, inclusivity, and the realization of shared objectives.

## THEME 2

# ADDRESSING DIVERGENT LEGAL, REGULATORY, AND OVERSIGHT FRAMEWORKS

In view of the multi-jurisdictional nature of cross-border payments, the divergence of legal, regulatory, and oversight frameworks across different jurisdictions could lead to potentially duplicative and conflicting rules, particularly in the areas of AML/CFT, data protection, dispute resolution, and settlement finality, which as a result may ultimately translate into higher costs for cross-border payments. While progress is being made at the regional level, for example, with initiatives such as cross-border privacy certifications in the area of data protection, achieving harmonization remains a complex task. Addressing this divergence is vital to fully harness the benefits of interoperability through a multilateral payment platform.

### **Topic 2A: Improving sanctions screening**

#### **A centralized sanctions-screening process is a key area to explore, but comes with its own set of challenges**

Current sanctions-screening practices present challenges in terms of complexity, inefficiency, and costs. Banks and non-bank payment institutions find themselves screening the same transactions multiple times, leading to redundancy and the duplication of resources. Sanctions screening has transitioned from list-based sanctions, based on restricting the activities of a specific list of individuals and entities, to activity-based sanctions, which are comprehensive sanctions based on restricting specific types of activities. This shift has made sanctions screening for cross-border payments even more challenging. Utilizing a centralized sanctions-screening process, however, has the potential to bring about multiple benefits. For example, if a common utility does the screening, or one party in the transaction chain does the screening and shares the results with the other party, they can successfully eliminate duplicative screening processes. Through this approach, all relevant parties are subject to unified processes with shared responsibilities. The approach, however, would also require significant changes to the current internal risk processes and appetites of banks and non-bank payment institutions.

### **The potential for technology to improve sanctions screening**

Innovative technologies, such as artificial intelligence (AI), machine learning, and data analytics, have the potential to enable automated sanctions screening with higher accuracy and efficiency. A technology-driven approach can benefit financial institutions by providing advanced capabilities for detecting potential sanctions violations.

While centralized sanctions screening is seen as a potential path forward, the process would need to overcome several key challenges. One is the harmonization of screening regulations across jurisdictions, which is a highly complex undertaking, particularly as multilateral platforms scale. Another is the assignment and definition of clear roles and responsibilities, including clarity on where the liability lies. Even if there were a centralized solution in place, it would not be acceptable for parties to the transaction to absolve themselves from responsibility if something were to go wrong.

### **Topic 2B: Balancing the need for freer data flows while still ensuring adherence to varying data protection and privacy regulations**

#### **Regional and global data governance frameworks can help overcome challenges in cross-border data flows**

The development of regional data frameworks is making progress in the bid to overcome country-specific data flow restrictions, such as the APEC (Asia-Pacific Economic Cooperation) Cross-Border Privacy Rules (CBPR) certification, Europe's General Data Protection Regulation (GDPR), and similar initiatives across the G20 and G7. However, the emergence of different frameworks introduces the risk of potentially divergent or conflicting rules.

Addressing these challenges requires the formulation of common governance frameworks and specific standards to guide national and regional approaches. In addition, other important challenges include, among other things, identifying an accountable body to harmonize standards, and weighing the costs of data localization against the benefits of implementing regional or global data governance frameworks.

#### **Technology can enable freer data flow**

Discussion participants shared the view that leveraging a combination of distributed ledger technology (DLT), and privacy enhancing technology (PET) or zero knowledge proof (ZKP) could better enable compliance with data privacy regulations while enabling secure and efficient data sharing. For example, the decentralized nature of DLT addresses the concern of centralized data storage with data distributed across multiple nodes in the network, while PET and ZKP help safeguard privacy for the cross-border sharing of data.

## **Topic 2C: Ensuring settlement finality across jurisdictions**

### **Get settlement finality right at the domestic level first**

Settlement finality is a key pillar of a trusted monetary system, along with, among other things, legal, governance, and oversight frameworks. It is essential to get settlement finality right at the domestic level first. Otherwise, it may open the door to credit and liquidity risks, and settlement failures, all of which could be amplified at the cross-border level due to contagion risks. The focus should be to improve technical assistance and enhance legislation for settlement finality domestically before progressing to cross-border linking arrangements. Such arrangements must have solid governance frameworks in place, ranging from simple bilateral memorandums of understanding (MOUs) to more complex models, such as multilateral agreements or schemes. Overall, the choice of governance framework depends on various factors, including the level of technical interoperability, alignment of domestic payment policies, and design decisions linked with the arrangement's complexity and ownership structure.

### **The need for ensuring settlement finality at the cross-border level**

Unclear settlement finality can lead to heightened risks, and lengthy legal and financial challenges, particularly in the context of multilateral payment systems. To prevent any issues, a multilateral payment platform must clearly define the point at which a transaction is deemed final and irrevocable for cross-border payments, and put in place mechanisms to mitigate credit, liquidity, and settlement risks. As a central agency, the operator of a multilateral platform can strive for the harmonization of settlement finality rules, especially with the inclusion and representation of a diverse set of participants, such as central banks, payment system operators, banks, and non-bank payment institutions. Fostering alignment and finding the right balance is crucial for creating an efficient and trusted settlement framework.

### THEME 3

## DEVELOPING A VIABLE COMMERCIAL MODEL

The involvement of the private sector is key to any multilateral payment platform's success. Before committing to participating in any given platform, questions will naturally arise around its commercial viability. As such, establishing a viable commercial model is a key prerequisite to attract participation from players in the private sector. One of the main challenges lies in addressing the disparity in transaction volumes between countries, where one country might be a net sender of money while the other a net receiver. While there have been efforts to explore fee sharing arrangements in some bilateral cross-border payment linkages, finding a sustainable and equitable commercial model is crucial to fostering the widespread adoption and long-term success of the multilateral payment platform.

### **Topic 3A: Enhancing cross-border payments by targeting costs and revenue model design**

#### **Careful design of the operating model can mitigate significant operational costs in the long run**

The setup costs, operational expenditure, recovery period, and amortization associated with any given operating model can be substantial. It is crucial to carefully define the operational model, including considering factors such as whether the system is available 24 hours a day, seven days a week, as this can significantly impact the platform's run costs. Balancing these considerations with emphasizing the platform's business and social benefits to the community are, together, also essential for a successful business plan.

#### **Consider positive externalities to engage the public sector**

Engaging the public sector for developing the platform can be challenging yet crucial, as individual private firms may not be able to fully bear the high upfront costs of establishing a multilateral platform themselves. It is essential to recognize the positive externalities that cross-border payments can bring to the community and use them as leverage to engage the public sector effectively. Among the cost-to-benefit components, positive externalities must be identified as a public good and considered when trying to develop the operating model. Ultimately, collaboration between public and private entities is important to overcome the high upfront costs and establish a sustainable operating model for cross-border payments.



### **Topic 3B: Balancing the incentives between sending and receiving jurisdictions**

#### **Costs should not be passed solely to the end-user**

Balancing the incentives between sending and receiving jurisdictions in cross-border payments poses a challenge. It may be difficult to justify the investment in infrastructure or platforms if the cost burden is solely placed on the end-user. Instead, it would be better to have a more holistic approach to evaluating the benefits. For example, banks can cross-sell a range of services based on cross-border payments to their current and savings account holders. Consequently, the return-on-investment analysis could go beyond the limit of pure payments revenue, and instead take a broader view of the linked services that occur as well.

#### **Profit sharing is key, but different pricing models should be aligned to the payment objectives**

Revenue sharing is essential in cross-border payments to ensure mutual benefits, particularly when considering the varying profiles of the countries as net senders or receivers of money. Certain bilateral cross-border payment linkages have made efforts to explore fee-sharing arrangements, such that the banks and non-bank payment institutions in the net receiver countries are incentivized to participate. However, a one-size-fits-all pricing model is not suitable. It is crucial to tailor revenue and pricing models based on the different payment use-cases and the specific needs of the end-users. For instance, individuals working abroad require affordable and prompt fund transfers, while vacationers seek the convenience of using the existing payment instruments and channels that they are used to in their local markets at an affordable cost. The pricing should therefore vary in recognition of these differences. A four-point or interchangeable model may be useful to tackle some of these use-cases, but other ones may require a different pricing model to encourage adoption and uptake.

### **Topic 3C: Unlocking trapped liquidity using technology**

#### **The potential for technology to tackle trapped liquidity**

Various solutions exist to address the challenge of managing trapped liquidity in cross-border payments. The first approach is to utilize existing tools, such as PvP, netting, and liquidity optimizers using gridlock resolution algorithms, to improve domestic payment systems, particularly in emerging markets. DLT could also be used to explore future capabilities to unlock trapped liquidity. With significant value currently locked up in nostro accounts, some solutions offer on-demand liquidity through bridged assets, allowing instantaneous payment transfers. A benefit of utilizing such technology is that it can reduce FX costs, particularly in markets with illiquid currencies. For example, converting US dollars to Euros is easy. At the same time, while bulk payments between financial institutions across Peru and India in their local currencies is still very challenging, leveraging technology to optimize trapped liquidity can make the transactions easier. Despite the high potential to unlock some of these challenges, strong leadership, robust frameworks, and supportive policies are crucial for enabling the full potential of these solutions.

## FINAL THOUGHTS

Enhancing cross-border payments requires a comprehensive approach involving both the public and private sectors. While challenges exist at present, fostering strategic collaboration and alignment, and utilizing modern technology can help ensure the scalability and future interoperability of multilateral payment platforms. The building blocks that are critical to position a multilateral platform for success would need to be constantly developed and refined. These include designing optimal governance and interoperability frameworks, addressing divergence in legal, regulatory, and oversight frameworks, and implementing a viable commercial model. This Point Zero Forum roundtable discussion and BIS Innovation Hub's Project Nexus serve as key starting points that could pave the way for developing a useful blueprint for other multilateral cross-border payment platforms to adopt going forward.

# ACKNOWLEDGEMENTS

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