

Summary of responses provided in the consultation on Instant Cross-Currency Payments

Consultation

In February, the Riksbank published a consultation to gather market participants' views on a potential service for instant settlement of cross-currency payments. The purpose of the consultation was to obtain the market's views on whether such a service can increase the efficiency and safety of payment traffic, what the needs of the market are, and what is important to take into account in the design of the service.

The consultation was distributed to the participants in RIX-RTGS, the Swedish Bankers' Association, P27 and Getswish AB in February 2022, as well as published on the Riksbank's website. Nine responses were received in total, from major banks, infrastructures and the Swedish Bankers' Association representing banks active in Sweden. A summary of these responses is presented here below.

Developments and trends

New actors have increased customer focus on transparency, ease of use and swift execution, and amplified end-user demand for cross-border and cross-currency payments to be as easy as domestic payments. Respondents mentioned ongoing initiatives to enhance cross-border payments, e.g. the mobile SEPA CT, SWIFT gpi and SWIFT Go. Blockchain was also mentioned as something which could have a major impact on cross-currency payments, making them cheaper, easier, and more secure. Instant settlement of both currencies in central bank money was however recognised as one way forward to ensure that the necessary building blocks are in place for cross-currency payments. Settlement is however, according to some respondents, not the only issue that needs to be resolved. The full end-to-end chain liabilities would also require a solution.

Some concern was furthermore expressed by the banking industry regarding services provided by non-banks under lighter regulation, claiming "same activity, same risks, same regulation and supervision". Another issue of concern was increasing costs in connection with AML and clearing- and settlement activities.

Instant cross-currency settlement on TIPS

Providers of payment infrastructure found the described model to be in line with their expectations, while banks expressed some hesitation. A number of banks saw limited demand for a cross-currency settlement service in the near future, claiming that solutions for cross-border payments already exist and that the benefits of new initiatives should be analysed, especially in relation to their costs and potential volumes. Infrastructures and smaller banks showed a more positive attitude. In the context of a cross-currency solution, some banking representatives mentioned an increasing number of messages leading to higher costs, as well as costs for keeping additional liquidity and additional collateral for the two legs of the transaction.

On the other hand, some of the respondents found that instant cross-currency settlement could serve as a complement to commercial services; others saw it as an opportunity to broaden the options offered to their customers. Smaller banks saw benefits, allowing them to offer a broader set of services to their customers. One of the major infrastructure providers referred to an increasing demand from international merchants to offer a cross-border payment solution in addition to its

national offerings. It was also mentioned that settling both currencies instantly in central bank money could help the payment flow more efficient, as well as bring more flexibility, as it would remove the requirement to fulfil processing deadlines.

As regards barriers for the take-up of a cross-currency settlement service, the lack of a 24/7 FX market for instant cross-currency payments was pointed out by several respondents, as well as diverging rules and practices, especially as regards supervision and AML. Another item raised was diverging rulebooks, in the different currencies. It was furthermore mentioned that payments in the receiving currency was not catered for, in addition to the core issue of reachability.

Foreign exchange and a Central Exchange Hub

Varying interest was shown among respondents for taking on the role as cross-currency PSP. Some respondents saw it as a business opportunity, whereas others expressed limited interest. Regarding a potential Central Exchange Hub (CEH), banks saw little need, while payment infrastructure respondents saw it as an efficient solution to create competition.

Having access to a large number of currencies was deemed beneficial, and the Nordic currencies and other EU/EEA currencies were highlighted by most respondents. In addition, USD, GBP, CAD, CHF, JPY and CNH were also mentioned. There was however a broad consensus that FX-conversion should be handled by the private sector and not by central banks.

Timing

There was a broad consensus among the banking industry respondents that the coming 3-4 years will be exceptionally busy, with large payment infrastructure projects driven by RIX-INST, ISO migration, P27 implementation and potential migration to T2 and T2S. It was furthermore mentioned that the three Nordic central banks should be on-boarded on the TIPS platform and the system operating smoothly before expanding to a cross-currency service. Infrastructures seemed to be more open to a shorter time-frame.