



Cross-Border Payments

For Prelims: [Financial Stability Board](#), [UPI-PayNow](#), [Central Bank Digital Currencies](#), [Non-Resident Indians](#), [National Electronic Fund Transfer](#), [Reserve Bank of India](#), [Payment Aggregators](#), [Project Nexus](#)

For Mains: Cross-Border Payments in Global Trade and Challenges, India's Role in Global Cross-Border Payment Systems

[Source: TH](#)

Why in News?

Recently, the [Financial Stability Board \(FSB\)](#) has emphasised the urgent need to address inefficiencies in [cross-border payments \(CBPs\) systems](#). With the global cross-border payments **market set to nearly double by 2032**, improving these systems has become a critical focus.

What are Cross-Border Payments?

- **About:** CBPs are transactions where the payer and recipient are located in separate countries. These transactions are vital for international trade, investment, and personal transfers.
- **Types:**
 - **Wholesale Cross-border Payments:** Typically between financial institutions, used for activities such as borrowing, lending, and trading in foreign exchange, equities, and commodities.
 - They are also used by **governments and large corporations** for significant transactions related to imports, exports, and financial markets.
 - **Retail Cross-border Payments:** Generally involve individuals and businesses, including **person-to-person (P2P)**, **person-to-business (P2B)**, and **business-to-business (B2B) transactions**.
 - A notable example is [remittances](#), where migrants send money back to their home countries.
- **Significance:** The global CBP market, valued at **USD 181.9 trillion in 2022, is projected to reach USD 356.5 trillion by 2032**, reflecting a growth rate of 7.3% annually. This rise reflects the expanding global economic activities and financial interactions.
 - The [globalisation](#) of supply chains, international trade, and [e-commerce](#) necessitates efficient cross-border transactions to support economic activities.
- **Working Procedure:**
 - **Traditional Models of CBPs:**
 - **Direct Bank Transfers:** Banks maintain accounts with their counterparts in other countries to facilitate international transfers.
 - Instead of physically transferring money, funds are credited and debited between accounts in different jurisdictions.
 - **Correspondent Banking:** When two banks do not have a direct relationship, they

use a **correspondent bank that holds accounts with both banks to facilitate the transaction**. This adds layers to the transaction chain. It is declining due to high costs and regulatory burdens.

- **Single System Model:** Relies on a single payment service provider but faces interoperability issues.
- **Interlinking Payment Infrastructures:** Connects national **systems for seamless transactions** but encounters technical and regulatory challenges.
- **Peer-to-Peer Systems:** Utilises technologies like distributed ledgers for direct payments, offering a potential solution to traditional inefficiencies.
- **New-Age Models:**
 - **Linking Fast Payment Systems (FPS):** Initiatives like the **PayNow-PromptPay** linkage between Singapore and Thailand and the **UPI-PayNow linkage between India and Singapore** facilitate real-time, cross-border fund transfers.
 - **Central Bank Digital Currencies (CBDCs):** **CBDCs** are being explored for their potential to streamline international transactions.
 - **Distributed Ledger Technology (DLT):** DLT projects, often combined with CBDCs, aim to enhance transaction speed, security, and cost-effectiveness.
 - DLT allows simultaneous access, validation, and record updating across a networked database, enabling users to view changes and who made them, reducing the need to audit data, ensuring data reliability, and providing access only to those who need it.

What are the Challenges Regarding the Cross-Border Payments Systems?

- **Legal and Regulatory Compliance:** Payments must adhere to varying domestic laws across multiple jurisdictions, covering **anti-money laundering (AML)**, customer due diligence, data sharing, and settlement processes.
 - **Fragmented implementation of AML and counter-terrorist financing (CFT)** frameworks leads to friction in system design and functionality.
 - The Financial Stability Board (FSB) 2023 report highlights issues with inconsistent wire transfer recordkeeping, affecting customer identification and sanctions screening.
- **High Costs:** Cross-border transactions often **incur multiple fees**, including charges from intermediary banks and currency conversion costs.
 - **Banks need to hold capital in multiple currencies** to facilitate transactions, which ties up resources and increases costs.
 - Hidden fees and **unclear cost breakdowns** can make it difficult for users to understand the true cost of cross-border transactions.
- **Low Speed: Transactions can take several days to complete due to the involvement of multiple intermediaries and time zone differences.**
 - Payment systems **often operate during local business hours**, causing delays in processing cross-border payments across different time zones.
- **Limited Access:** Not all countries or regions have access to efficient cross-border payment systems, particularly in underserved or less developed areas.
 - Limited access to **banking services or modern financial technologies** can hinder the ability of individuals and businesses to make or receive cross-border payments.
- **Fragmented Data Formats:** Variations in **data formats and standards between different countries** and systems can lead to delays and errors in processing payments.
 - Differences in data quality and requirements across jurisdictions can affect the accuracy and efficiency of transactions.
- **Technology Platforms:** Many cross-border payment **systems rely on legacy technology that is not optimized for real-time processing** or integration with modern systems.
 - Older platforms **may lack advanced features for automation** and real-time monitoring, resulting in inefficiencies.
- **Long Transaction Chains:** The involvement of **multiple correspondent banks in the payment chain can increase costs, delays, and risks of data corruption.**
 - Longer transaction chains complicate the payment process and require more resources to manage.
- **Weak Competition:** High barriers to **entry for new providers can limit competition** and

innovation in the cross-border payments market.

- Difficulty in assessing and comparing costs can reduce competitive pressure and lead to higher prices for end users.

Cross-Border Payments in India

- India, a major hub for global remittances, handles substantial cross-border payment flows, including approximately USD 80 billion in inbound remittances and USD 19 billion outbound.
- **Evolution in Cross-Border Remittances:**
 - **Pre-Technology Era:** Before technological advancements, **Non-Resident Indians (NRIs)** used demand drafts drawn on Federal Bank, which were sent via courier for encashment.
 - **Online Remittances:** In the mid-2000s, **National Electronic Fund Transfer (NEFT)**, was launched and allowed for direct and secure transfers to accounts in India.
 - NEFT is a nation-wide centralised payment system owned and operated by the **Reserve Bank of India (RBI)**.
 - **IMPS Integration:** The launch of the **Immediate Payment Service (IMPS)** by NPCI allowed for credits to be completed in under 3 minutes, further enhancing efficiency.
 - **UPI for Foreign Inward Remittance:** The integration of the **Unified Payments Interface (UPI)** for **Foreign Inward Remittance (FIR)** further streamlined and innovated the remittance process.
- **Regulatory Changes:** The **RBI** introduced the **Payment Aggregators of Cross-Border Transactions (PA-CB Regulation)** to streamline and regulate cross-border payments, including import and export transactions.
 - This new framework replaces previous guidelines and subjects all entities involved in cross-border payments to direct RBI oversight.

What is being Done Internationally to Improve Cross-Border Payments?

- **G20:** The **G20** has prioritised improving cross-border payments to enhance speed, reduce costs, increase transparency, and foster inclusivity.
 - The 2020 Roadmap for Enhancing Cross-Border Payments, supported by 11 quantitative targets set by the **Financial Stability Board (FSB)**, aims to address these challenges globally by the end of 2027.
 - These targets cover transaction speed, cost, access, and transparency across wholesale payments, retail payments, and remittances.
- **SWIFT GPI:** The **Society for Worldwide Interbank Financial Telecommunication (SWIFT)** launched the **Global Payments Innovation (GPI)** to enhance the speed and transparency of cross-border payments.
 - It allows for real-time tracking of payments and ensures that funds are transferred within a day.
- **Project Nexus:** It is conceptualised by the Innovation Hub of the Bank for International Settlements (BIS). **Project Nexus** is a global initiative designed to enhance cross-border payments by connecting multiple domestic instant payment systems (IPS).
 - The project aims to create a standardized platform that links domestic Fast Payment Systems (FPSs) globally, allowing for near-instantaneous cross-border payments.
 - The founding members of Project Nexus include India and four **Association of Southeast Asian Nations (ASEAN)** countries: Malaysia, the Philippines, Singapore, and Thailand.
- **Global Payment Service Providers:** Visa and Mastercard are advancing cross-border payments with innovative technologies.
 - Visa's B2B Connect uses **Application programming interface (API)** and DLT for same-day or next-day settlement of large-value transactions between banks, integrating payment messaging with security features.

Financial Stability Board

- **The FSB** is an international body responsible for monitoring and making recommendations about the global financial system. It was established in 2009 at the G20 Pittsburgh Summit as a successor to the **Financial Stability Forum(FSF)**.
- The FSB's membership includes the G20 countries, Spain, and the European Commission, **in addition to the FSF members**.
- The FSB identifies and **assesses systemic vulnerabilities in the global financial system**.
 - This will contribute to ongoing efforts to strengthen the international financial system.
- **India is an active Member of the FSB** having three seats in its Plenary represented by Secretary (Economic Affairs), Deputy Governor-RBI and Chairman-[Securities and Exchange Board of India \(SEBI\)](#).
- The [Financial Stability and Development Council Secretariat](#) in the Department of Economic Affairs coordinates with financial sector regulators and agencies to represent India's views to the FSB.

Way Forward

- **Balancing Privacy with Financial Integrity: Establish legal frameworks that harmonise user privacy with AML and CFT requirements.**
 - Achieve regulatory consistency across jurisdictions **to prevent fragmentation and inefficiencies**.
 - Clearly **define the roles of all stakeholders in cross-border payments** to streamline compliance. Establish transaction limits to reduce compliance requirements for smaller transactions, easing the burden on businesses.
 - Implement **privacy-by-design principles to address and safeguard** privacy concerns.
- **Explore KYC Utilities:** Develop and integrate [Know Your Customer \(KYC\)](#) utilities to standardize and streamline identity verification.
 - Foster technical integration and interoperability among various payment systems. Ensure transparency regarding fees, terms, and grievance redressal mechanisms.
- **Dispute Resolution Framework: Develop a centralized system to manage user grievances and inter-provider disputes. Establish clear processes for resolving conflicts between [Payment Service Providers \(PSPs\)](#).**
- **Central Bank Collaboration:** Encourage central banks to collaborate on the development of interoperable payment systems and explore the potential of CBDCs for cross-border payments.
- **Competition:** Foster competition among payment service providers by involving the Private Sector to drive down costs and improve quality.

Drishti Mains Question:

Q. Discuss the significance of Cross-Border Payments in facilitating global trade. What are the key challenges faced in the current cross-border payment systems?

UPSC Civil Services, Previous Year Questions (PYQ)

Prelims

Q. With reference to 'Financial Stability and Development Council', consider the following statements: (2016)

1. It is an organ of NITI Aayog.
2. It is headed by the Union Finance Minister.
3. It monitors macro-prudential supervision of the economy.

Which of the statements given above is/are correct?

(a) 1 and 2 only

- (b) 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans: (c)

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