



## 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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