
Enhancing cross-border payments - Consultation with the private sector

I. Background and business profile of the respondent (6798)

1. Name of institution (243980)

Type: (T/text-long)

Society for Worldwide Interbank Financial Telecommunication (SWIFT)

2. Please provide a relevant contact point(s), including email. (243994)

Type: (T/text-long)

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3. Select the type of institution (243981)

Type: (L/list-radio)

Financial messaging provider

Other

4. Home jurisdiction of the institution (243982)

Type: (list-dropdown)

A21 - Belgium

5. Number of jurisdictions operating in (243983)

Type: (list-radio)

100 and above

A4

6. Geographic regions operating in (select all that apply) (251837)

Type: (M/multiple-opt)

Africa (251838)

Latin America and the Caribbean (251839)

Northern America (251840)

Asia (251841)

Europe (251842)

Oceania (251843)

7. Income classification of countries operating in (as per the World Bank classification) (select all that apply) (251844)

Type: (M/multiple-opt)

Low income (251845)

Lower-middle Income (251846)

Upper-middle Income (251847)

High income (251848)

8. Approximate value of cross-border payments processed annually (USD/EUR) (251990)

Type: (L/list-radio)

More than 100 billion

A6

II. Potential challenges caused by AML/CFT Measures stemming from FATF Recommendations (6799)

9. How significant are divergent AML/CFT rules in raising the cost, reducing the speed, limiting access or reducing the transparency of cross-border payments? (on a scale of 1-5, with 1 implying the least significant and 5 the most significant) (243995)

Type: (A/array-5-pt)

4

Raising cost (243996)

5

Reducing speed (243997)

3

Limiting access (243998)

2

Reducing transparency (243999)

10. Please provide comments with examples on your ratings above (251849)

Type: (T/text-long)

Today, duplicated compliance processes creates payment delays for customers and unnecessary cost for financial institutions in the payment chain. Although, divergent sanctions and AML/CFT rules add complexity for financial institutions, it is the level of duplication caused by the lack of regulatory equivalence and the inability to rely on compliance processes performed by other institutions in a cross-border context that creates the most significant burden.

Consideration should be given as to how best to remove divergent AML/CFT rules and how to encourage an international framework that would allow removal of duplicative compliance processes through regulatory equivalence, with the ultimate goal of allowing cooperation between financial institutions where such reliance would not increase regulatory risk.

11. In which area(s) do inconsistent national approaches cause the biggest obstacle(s)?

(Select top three areas in order of priority) (244342)

Type: (R/ranking)

Rank #1:

3 - B) Targeted Financial Sanctions screening

Rank #2:

6 - E) Establishing and maintaining correspondent banking relationships

Rank #3:

4 - C) Transaction monitoring and filing

Rank #4:

-

Rank #5:

-

Rank #6:

-

Rank #7:

-

B) Targeted Financial Sanction screening

Which category of challenges does it affect?

(246675)

Type: (M/multiple-opt)

[X]

Cost (246676)

[X]

Speed (246677)

Access (246678)

Transparency (246679)

B.i) What causes this challenge? (252347)

Type: (M/multiple-opt)

[X]

Conflicts of law (where national laws and regulations in different jurisdictions contradict each other or have incompatible requirements). (252348)

[X]

Rules which exist in some jurisdictions but not others (252349)

Rules which exist in all jurisdictions, but are interpreted or applied in different ways or to different extents (252350)

[X]

Inconsistent supervisory approaches accross jurisdictions (252351)

Other

B) Please describe the challenge identified above with examples and jurisdictions involved

(246691)

Type: (T/text-long)

- Today around 5% of all cross-border transactions are subject to additional sanctions related review. Of items that cause sanctions hits, over 99.9% are ultimately closed as false-positives. This impacts customer experience, causes unnecessary delays in the payment cycle, creates unnecessary cost for financial institutions and does not significantly reduce compliance related risk. Sanction impacts are multiplied as processes are duplicated by every participant in the payment chain.
- There are inconsistencies in the scope of application of transaction screening that mean, for instance, payment card transactions are exempted while cross-border credit transfers for a similar value or represent a similar risk, must be screened.
- There are also inconsistencies in the approach to treatment of sanction alerts. For instance, as part of cross-border instant payment schemes it is acceptable to reject transactions at the point of payment initiation rather than after fuller investigations have been performed, as is the case in other areas. Such methods are being adopted to reduce the cost burden, but can create issues in terms of customer experience and access to payments, but does not provide improvements in compliance outcomes.
- For cross-border payments, lack of equivalence in screening means that each financial institution in a transaction chain has to re-screen the transaction, creating friction and adding cost. High alert rates and very high false positive rates call into question the effectiveness and efficiency of the current approach.
- There is disparity in international approaches in the creation and expectation of application of sanctions lists between regimes.
- The construction and format of delivery of sanctions lists varies by jurisdiction. Names may be spelt differently, have different aliases or use strong / weak aliases differently e.g. OFAC to EU. The same person/entity is not linked between different regime lists, LEIs and common identifiers are not routinely applied and as structured identifiers are not available, screening efforts are less accurate, slower and more time consuming.
- Beneficial ownership levels vary across countries and so screening for sanctions against ultimate beneficial owners is challenging.
- Fragmented positions between sanction regimes such as the ones between EU and US on Iran.

B) Suggestions to address this challenge (246693)

Type: (T/text-long)

- Consideration should be given to implementation frameworks that would allow removal of duplicative compliance process between financial institutions that increase cost and do not reduce compliance risk or improve outcomes. Ultimately this could allow new and more effective and efficient screening models to be introduced.
- There should be greater consistency in the application of screening requirements for all cross-border payment types with a focus on reducing regulatory burden where it is not required or where it does not provide real benefit. Such approaches should also consider regulatory expectations associated with the role of participants in the payment chain.
- There needs to be increased levels of co-operation between regimes to standardise sanction list formats, how content should be interpreted and applied, clarity on the purpose and expected response associated with listings, and list distribution approaches. Increasing uniformity in the list entries and greater use of structured identifiers such as LEIs, BICS and digital identities and linkage of list entries between UN and country lists would simplify the screening process and improve detection performance.
- Additional work should be performed to investigate the need for regulatory equivalence and how this might create safe corridors between countries with higher sanctions standards and how such approaches could be applied using a risk based approach.

B) Additional comments (251899)

Type: (T/text-long)

C) Transaction monitoring and filing STRs

Which category of challenges does it affect?

(246798)

Type: (M/multiple-opt)

[X]

Cost (246799)

Speed (246800)

[X]

Access (246801)

[X]

Transparency (246802)

C.i) What causes this challenge? (252353)

Type: (M/multiple-opt)

Conflicts of law (where national laws and regulations in different jurisdictions contradict each other or have incompatible requirements). (252354)

[X]

Rules which exist in some jurisdictions but not others (252355)

[X]

Rules which exist in all jurisdictions, but are interpreted or applied in different ways or to different extents (252356)

[X]

Inconsistent supervisory approaches accross jurisdictions (252357)

Other

C) Please describe the challenge identified above with examples and jurisdictions involved

(246812)

Type: (T/text-long)

Cost

High cost to deploy and maintain AML controls. Significant costs include vendor licences, IT infrastructure/operational costs and business operation teams required to review alerts and conduct investigations.

Many AML-TM controls generate a high volume of 'false positive' alerts with high investigation costs. This can be caused by banks taking a risk adverse approach due to regulatory pressure and lack of benchmarks, guidance and tools for determining appropriate rule settings.

Access

The cost of maintaining effective AML controls can be a barrier for smaller banks and banks in countries where regulators have higher expectations.

Extensive subject matter expertise required to configure AML controls and identify activities worthy of SAR reports. Expertise is in short supply, especially for the smaller banks.

Transparency

AML controls require accurate identification and classification of the entities in a payment chain (e.g. the underlying originator and beneficiaries). This data is often represented in an inconsistent or unstructured format which limits ability to aggregate and analyse for AML detection purposes.

Variations in data standards for different payment systems and variations in market practices within a single payment system make it difficult for AML controls to accurately transform the data into a consistent format for analytical purposes.

In correspondent banking AML, investigations typically take place on originators and beneficiaries that are account holders at other (cross-border) financial institutions. The willingness of an upstream/downstream bank to provide intelligence on an originator/beneficiary may be constrained by data privacy laws and/or perceived obligation to provide such information.

Rule differences

Some jurisdictions have reporting requirements on certain types of payments above a specific value limit and this will impact what other AML controls may be required.

AML-TM models are typically risk based, although risk definitions may vary according to geography and political viewpoint.

Rule interpretation

There are wide variations between jurisdictions and financial institutions in terms of which types of activity are considered worthy of investigation from an AML perspective. This includes AML typologies, risks factors and value or volume thresholds.

There are wide variations between jurisdictions in terms of appropriate conditions for filing a SAR. Some financial institutions and jurisdictions adopt a defensive filing approach while others may only file where

significant proof of financial crime is present.

In the correspondent banking domain there is variation in interpretation of the AML responsibility for a correspondent processing payments on behalf of a third party financial institutions.

C) Suggestions to address this challenge (246814)

Type: (T/text-long)

- Frameworks and tools to facilitate more information sharing between financial institutions. Potentially including model sharing, benchmarks, suspicious activity sharing and KYC information.
- Development of tools and techniques for measuring and benchmarking effectiveness of AML controls across different financial institutions.
- Increased centralisation of AML controls and investigations. Centralisation refers to the use of public or private bodies to administer detection capabilities and/or conduct investigations as opposed to leaving this to the responsibility of individual financial institutions.
- Increased standardization of payment and reference data, combined with data translation tools to enable standard AML controls to function consistently across different payment and reference data systems.
- Introduction of digital identities to facilitate consistent identification of originator and beneficiaries in payments.
- Increased regulatory guidance on best practices and emerging technologies, for example use of machine learning to reduce false positives.

C) Additional comments (251900)

Type: (T/text-long)

E) Establishing & maintaining correspondent banking relationships

Which category of challenges does it affect?

(246832)

Type: (M/multiple-opt)

[X]

Cost (246833)

[X]

Speed (246834)

[X]

Access (246835)

[X]

Transparency (246836)

E.i) What causes this challenge? (252363)

Type: (M/multiple-opt)

Conflicts of law (where national laws and regulations in different jurisdictions contradict each other or have incompatible requirements). (252364)

Rules which exist in some jurisdictions but not others (252365)

Rules which exist in all jurisdictions, but are interpreted or applied in different ways or to different extents (252366)

Inconsistent supervisory approaches accross jurisdictions (252367)

Other

E) Please describe the challenge identified above with examples and jurisdictions involved

(246846)

Type: (T/text-long)

i. Differing KYC/AML standards (ownership, key controllers, certification etc.) can result in a challenge for utilities and contributing entities as one jurisdiction may require only 'light touch' KYC information for a particular entity while another may require a full comprehensive review of that same entity. The financial institution located in the jurisdiction requiring the less stringent measure can then feel obliged to action the data provided by utilities, even when not required by local regulation to do so. In addition, this is confusing and cumbersome for the contributing entity who is requested to provide differing KYC requirements.

- Example: If one jurisdiction stipulates ownership is required to a 10% threshold for a particular entity type, while another stipulates ownership is required to a 25% threshold, the utility will then provide the consumer with ownership to the most stringent (10%) threshold required. However, this presents a problem for the jurisdiction requiring only 25% ownership information as they feel obliged to consume and action the information to the 10% threshold, despite only being required by regulation to do so to the 25% level.

ii. Understanding where a financial institution's responsibility ends in KYCC (Knowing Your Customer's Customer) continues to be ambiguous. To what extent does the correspondent bank need to conduct due diligence on its customers' customers and at what point can a bank rely on its direct customers' own due diligence measures?

iii. Differing 'best practice' validity periods of evidentiary sources between jurisdictions/ financial institutions.

- Example: Some jurisdictions/ financial institutions operate with a best practice validity period of 6 weeks (e.g. Austria) on registration information, while others operate with a period of three months or longer (e.g. France).

iv. Differing identification and verification best practice standards become a particular problem for certain jurisdictions which are more greatly impacted by privacy legislation and as a result they cannot share identification documents with ease as this information is considered highly confidential.

- Example: Singapore privacy regulations restrict the ease of sharing Identity and Verification (ID&V) of Key Controller and Authorised Signatories with counterparts.

v. The misalignment on which countries should be considered as 'high risk' remains a challenge with various jurisdictions and the financial institutions within them drafting their own high risk country lists. From a utility perspective, this is problematic when attempting to create a standardised KYC policy where Enhanced Due Diligence (EDD) is triggered as a result of current/ planned activities in these jurisdictions.

vi. When to conduct Simplified Due Diligence (SDD) versus EDD, based on an entity's listed/regulated status is an ongoing challenge. The challenges which arise here are two-fold:

1. International regulators obtain different levels of information on the entities they regulate. While one

regulator may obtain beneficial ownership information from its regulated entities, another may not. Based on this information (amongst others), financial institutions then often deem regulators as 'approved regulators' or otherwise, which in turn impacts the underlying entity's risk ranking. However, financial institutions have no easy/ consistent method of checking the level of information routinely collected by a specific regulator (i.e. do they collect beneficial ownership information?). This then results in financial institutions having different lists of 'approved regulators'.

- Example: FinCEN's list of exemptions from the beneficial ownership requirement include entities regulated by a U.S. regulator or financial institutions which are established and regulated in a jurisdiction where the regulator maintains beneficial ownership information on the financial institutions it regulates.

2. Stock Exchanges obtain different levels of information on the entities they list. While one may require beneficial ownership to be provided to a 5% threshold, another may not. Based on this information (amongst others), financial institutions often deem exchanges as 'approved exchanges' or otherwise which in turn impacts the underlying entity's risk ranking. However, financial institutions have no easy/ consistent method of checking the level of information routinely collected by a specific exchange. This then results in financial institutions having differing lists of 'approved exchanges'.

- Example: FinCEN's list of exemptions for the beneficial ownership requirements include 'Any entity (other than a bank) whose common stock or analogous equity interests are listed on the New York, American or NASDAQ stock exchange' while other jurisdictions consider the list of equivalent stock exchanges globally to be much broader.

vii. Differing document formatting (physical versus electronic) and certification requirements between jurisdictions and financial institutions are another challenge for contributing entities and utilities alike – adding time, confusion and further cost to an already cumbersome process. It should be noted, this issue is particularly relevant in the Covid-19 times we are currently living in when people are working from home, resulting in lack of access to certain certification services and document storage facilities.

While the majority of financial institutions are happy to accept an electronic format, there are some in certain jurisdictions (e.g. Singapore and Russia) which still stipulate the need for physical hard copy documents.

Further to the format of the document itself, sign-off/ certification requirements add an additional level of complexity, on two levels:

1. A misalignment between which documents need to be signed off/certified.
2. A misalignment between who exactly should signoff these documents and in what circumstances. For example, some financial institutions require no sign-off of any kind, some require sign-off from an authorised signatory and some from an independent third party (often there are differing lists as to who exactly constitutes an 'independent third party').

E) Suggestions to address this challenge (246848)

Type: (T/text-long)

- ii. A more standardised, less subjective approach to KYCC could be recommended by the FATF which could give specific examples detailing the type of questions which should be asked regarding KYCC and also those requirements which would be going above and beyond what is expected.
- iii. KYC refreshes could be event driven, rather than data driven. i.e., refresh of documents and data could be prompted when there has been a 'material' or 'substantial' change within an entity. FATF could provide a list of examples of what would constitute such a change. As a result, the responsibility would fall on the underlying client to update their counterparts on these changes and thus trigger a KYC refresh of data and documents.
- iv. Improve alignment between how privacy legislation is operationalised across jurisdictions.
- v. FATF could strongly encourage jurisdictions and financial institutions to adopt the FATF's list of high risk jurisdictions (ensuring these are easily accessible and updated regularly), rather than jurisdictions/financial institutions drafting their own independent (best practice) lists.
- vi. Increase the transparency and ease of access to the due diligence requirements stock exchanges and regulators obtain globally. It would be highly beneficial for financial institutions to be able to access the due diligence requirements for all regulators/stock exchanges globally. It would be beneficial if a global regulator/stock exchange registry can identify which information is collected (e.g. beneficial ownership, key controller data etc.)
- vii. While an improved alignment between jurisdictions and financial institutions' operational processes is a clear step in the right direction, the recent FATF recommendations encouraging an acceleration of digitalisation should further help to address this challenge.

E) Additional comments (251902)

Type: (T/text-long)

III. Potential challenges caused by national AML/CFT measures (6827)

13. Which AML/CFT measures that are not stemming from the FATF Recommendations and implemented at the national level significantly increase costs, cause significant delays, limit access or reduce transparency for cross-border payments? (maximum three in order of priority) (244392)

Type: (P/multiple-opt-comments)

[X]

AML/CFT Measure 1 (please specify in short) (244393)

1. Frameworks for Cross-border Information Sharing

[X]

AML/CFT Measure 2 (please specify in short) (244394)

2. Lack of legal requirements equivalence

[X]

AML/CFT Measure 3 (please specify in short) (244395)

3. Identity and Entity Resolution

AML/CFT Measure 1

Which category of challenges does it affect?

(244396)

Type: (M/multiple-opt)

[X]

Cost (244780)

[X]

Speed (244781)

Access (244782)

[X]

Transparency (244783)

AML/CFT Measure 1

How big is this challenge? (Scale of 1-5 with 1 implying minimal challenge and 5 very significant challenge)

(244397)

Type: (5/choice-5-pt-radio)

4

AML/CFT Measure 1

Please describe the challenge (with examples) and jurisdictions involved

(244398)

Type: (T/text-long)

It is widely recognised that there is considerable benefit to encourage and formalise the use of the information sharing for the purposes of AML/CFT.

This cross-border challenge comprises two related areas: (1) the public-private sharing of cross-border information and (2) the private-private sharing of information.

Public-private sharing: There are now numerous national programmes that are encouraging the use of public-private sharing of financial crime compliance information resulting from SAR and law enforcement case investigations (e.g. US FinCen Exchange, UK Joint Money Laundering Intelligence Taskforce, Australian Fintel Alliance etc.). To date such sharing activities have been typically focused on sharing data domestically. Their success in the cross-border setting is dependent on information sharing internationally between Financial Intelligence Units and law enforcement agencies. Such approaches need further formalisation.

Private-private sharing: US 314b provides a model for information sharing between financial institutions for the purposes of AML/CFT. There is currently no international equivalent.

AML/CFT Measure 1

Suggestions to address this challenge

(244399)

Type: (T/text-long)

FATF could define standards for public-private and private-private sharing. Such approaches could recommend the need for safe harbour for financial institutions when sharing information, recommendations on the type of information that can be shared and the circumstances under which such sharing is appropriate.

Additional comments (251992)

Type: (T/text-long)

AML/CFT Measure 2

Which category of challenges does it affect?

(246867)

Type: (M/multiple-opt)

[X]

Cost (246868)

[X]

Speed (246869)

[X]

Access (246870)

[X]

Transparency (246871)

AML/CFT Measure 2

How big is this challenge? (Scale of 1-5 with 1 implying minimal challenge and 5 very significant challenge)

(246872)

Type: (5/choice-5-pt-radio)

3

AML/CFT Measure 2

Please describe the challenge (with examples) and jurisdictions involved

(246873)

Type: (T/text-long)

Today there is no legal equivalence between the implementations across different jurisdictions and financial institutions are unable to rely on compliance activities conducted by other financial institutions. This leads to significant duplication, increases costs for all involved and ultimately impacts institutional considerations in relation to regulatory and risk management.

In a domestic setting, banks will often rely on the KYC and sanctions activities conducted by other financial institutions. The burden of such compliance activities is therefore conducted only once within a transaction chain rather than by every participant associated with a payment.

The lack of equivalence creates cost for financial institutions and customer impact.

AML/CFT Measure 2

Suggestions to address this challenge

(246875)

Type: (T/text-long)

❓ FATF should consider ways in which countries could be verified as meeting common standards associated with AML/CFT, and how these standards could then be used to create equivalence and reliance between financial institutions associated with cross-border activity between certain jurisdictions.

❓ The CPMI report on “Enhancing cross-border payments: building blocks of a global roadmap” calls on the idea of promoting safe payment corridors. The success of such an approach will require a framework to map country risk assessments to allow the establishment of safe corridors in different segments. There will need to be further development on standards and improvements in assessment approaches.

Additional comments (251993)

Type: (T/text-long)

AML/CFT Measure 3

Which category of challenges does it affect?

(246876)

Type: (M/multiple-opt)

[X]

Cost (246877)

[X]

Speed (246878)

Access (246879)

[X]

Transparency (246880)

AML/CFT Measure 3

How big is this challenge? (Scale of 1-5 with 1 implying minimal challenge and 5 very significant challenge)

(246881)

Type: (5/choice-5-pt-radio)

3

AML/CFT Measure 3

Please describe the challenge (with examples) and jurisdictions involved

(246882)

Type: (T/text-long)

Successful sanctions screening and AML/CFT require the participants in a cross-border payments to be uniquely identified.

Today payments contain originator/beneficiary identifiers (names and addresses) that provide a poor proxy for accurate participant identification.

The lack of accurate identifiers in payments create unnecessary cost and reduce the effectiveness of sanctions and AML/CFT compliance.

AML/CFT Measure 3

Suggestions to address this challenge

(246884)

Type: (T/text-long)

FATF should work to further encourage the use of existing identity standards in payments such as LEIs. It should develop recommendations associated with digital identifiers and how these should be used to support improved compliance.

Equally FAFT should encourage the use of new technologies (e.g. homomorphic encryption methods) that allow privacy protection whilst allowing validation and verification associated with payment participants to be performed.

Additional comments (251994)

Type: (T/text-long)

14. Do challenges in information sharing (group wide or with other financial institutions), within or across jurisdictions, impede cross-border payments? (244400)

Type: (L/list-radio)

Yes

A1

Which category of challenges does it affect? (244401)

Type: (M/multiple-opt)

Cost (244403)

Speed (244404)

Access (244405)

Transparency (244406)

15. Any other potential issues relevant from AML/CFT perspective that is responsible for impeding cross-border payments (please specify in short). (244411)

Type: (T/text-long)

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- [Exit and clear survey](#)
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