

A teal-tinted photograph of the Federal Reserve Board Building in Washington, D.C. The building is a grand neoclassical structure with a portico supported by tall columns. An American flag flies on a tall pole in front of the building. The sky is blue with some clouds.

Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries

May 2019



Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries

May 2019

This and other Federal Reserve Board reports and publications are available online at
<https://www.federalreserve.gov/publications/default.htm>.

To order copies of Federal Reserve Board publications offered in print,
see the Board's Publication Order Form (<https://www.federalreserve.gov/files/orderform.pdf>)
or contact:

Printing and Fulfillment
Mail Stop K1-120
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(email) Publications-BOG@frb.gov

Contents

Introduction	1
Developments	3
Strategies for Improving Cross-Border Payments	3
Consumer Financial Protection Bureau Remittance Rule Assessment	4
Reports on the Challenges in Cross-Border Payments	4
The Role of Innovation in Cross-Border Payments	5
Adoption Rates of International Automated Clearinghouse Transaction	7

Introduction

Section 1073(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Board of Governors of the Federal Reserve System (Board) to provide biennial reports to the Congress over a 10-year period regarding the Board’s work with the Federal Reserve Banks (Reserve Banks) and the U.S. Department of the Treasury (Treasury) to expand the use of the automated clearinghouse (ACH) system and other payment mechanisms for remittance transfers to foreign countries.¹ Section 1073(b) requires the Board to

¹ Pub. L. No. 111-203, 124 Stat. 2065 (2010). Section 1073(b) of the Dodd-Frank Act is codified as 12 USC 5601(b). A remittance transfer is an electronic transfer of funds—requested by a

include in its report an analysis of adoption rates of international ACH transactions (IATs), rules, and formats; the efficacy of increasing adoption rates; and potential recommendations to increase adoption. Pursuant to this statutory requirement, the Board is issuing this fifth and final biennial report.²

consumer located in the United States—to a consumer or business in a foreign country. 12 USC 5601(a).

² The Board consulted with the Reserve Banks and the Treasury to develop this report. The last report was published in April 2017. See *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries* (Washington: Board of Governors, April), <https://www.federalreserve.gov/publications/2017-april-ach-report-introduction.htm>.

Developments

This section highlights key developments since the Board's fourth biennial *Report to Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries* in 2017 (2017 report), including innovation, strategies for improving cross-border payment, and issues relating to cross-border payments.

Strategies for Improving Cross-Border Payments

Over the two years since the 2017 report, several efforts have identified areas of improvement with respect to cross-border payments.

As part of its continuing efforts to foster efficiency, integrity, and accessibility of the payment system, the Federal Reserve published its *Strategies for Improving the U.S. Payment System: Federal Reserve Next Steps in the Payments Improvement Journey* (Next Steps) paper in September 2017. In the Next Steps paper, the Federal Reserve identified key initiatives related to cross-border payment improvements, one of which was continuing to promote and implement the ISO 20022 standard. In the summer of 2018, the Board requested comment on a proposal to adopt ISO 20022 for the Fedwire Funds Service.³ The Board received 17 comments from financial institutions, industry associations, service providers, a foundation, a payment-system operator, and a financial messaging system.⁴ The Board is in the process of assessing all the comments received. The Board believes that adopting ISO 20022 for the Fedwire Funds Service could be beneficial for a number

of reasons. ISO 20022 messages could improve domestic and cross-border interoperability between the Fedwire Funds Service and other payment or messaging systems that have already migrated to or plan to migrate to the ISO 20022 standard. Specifically, ISO 20022 can help improve cross-border payment efficiency by providing a common global format, which could streamline the exchange of payment information between payment systems in various countries.⁵

In August 2017, the Faster Payments Task Force published its *Final Report Part Two: A Call to Action*, which included, among other recommendations, researching, analyzing, and addressing gaps in cross-border payments.⁶ Although cross-border payments are complex, the report highlighted the task force's desire for market-driven solutions. Furthermore, the report stressed the need for strong guidelines to ensure a base level of consistency and predictability for the consumer in cross-border payments. Additionally, the task force asked the

³ Board of Governors of the Federal Reserve System, Notice of proposed service enhancement; request for comment <https://www.federalregister.gov/documents/2018/07/05/2018-14351/new-message-format-for-the-fedwire-funds-service>.

⁴ Proposals for comment, New Message Format for the Fedwire® Funds Service [OP-1613] https://www.federalreserve.gov/apps/foia/ViewComments.aspx?doc_id=OP%2D1613&doc_ver=1.

⁵ ISO 20022 is the standard for financial messaging created by the International Organization for Standardization. See "ISO 20022 Universal financial industry message scheme," <https://www.iso20022.org/>. Also, see Federal Reserve Financial Services, "The Federal Reserve is making strides to adopt ISO® 20022 in the U.S.," https://www.frbervices.org/fedfocus/archive_perspective/perspective_0316_01.html.

⁶ Faster Payments Task Force (2017), *The U.S. Path to Faster Payments, Final Report Part Two: A Call to action*, <https://fasterpaymentstaskforce.org/wp-content/uploads/faster-payments-task-force-final-report-part-two.pdf>. The Faster Payments Task Force was a broad and inclusive group of stakeholders with representatives from organizations across the payment community, including financial institutions, nonbank payment providers, businesses (merchants and corporates), consumer groups, federal and state government agencies, regulators, standards bodies, industry trade organizations, consultants, and academics. In January 2016, the task force, published its Faster Payments Effectiveness Criteria, which outlines desirable attributes of future faster payment capabilities, including a criterion on cross-border functionality. The task force then solicited proposals for faster payment solutions that sought to address the effectiveness criteria. Many of the proposals highlighted the advantages of real-time payments as a way that could reduce cost, improve security, and facilitate cross-border functionality.

Federal Reserve to explore and assess the need for it to play an operational role in cross-border payments if the market is unable to reach ubiquity and equitable access.

Consumer Financial Protection Bureau Remittance Rule Assessment

In its 2017 report, the Board noted recent developments related to the Consumer Financial Protection Bureau's (Bureau) remittance transfer rule, an amendment to Regulation E that established disclosure, error resolution, and other requirements for depository institutions that offer cross-border remittance transfer services. In October of 2018, the Bureau published its *Remittance Rule Assessment Report* (Assessment) as required by Section 1022(d) of the Dodd-Frank Act.⁷ The Assessment considers all remittance rules that took effect through November 2014. Since the remittance rule took effect in 2014, the percentage of banks and credit unions that transferred more than 100 remittances has been steady or increasing. At the same time, a number of banks and credit unions have stopped transferring more than 100 remittances, making the net change small.⁸ While banks and credit unions generally transfer fewer remittances than money services businesses, the average dollar value of the transfers sent by banks and credit unions is larger.⁹ The Assessment also analyzed the compliance cost incurred by remittance transfer providers. The Bureau estimates that the actual cost for compliance was between \$0.07 and \$0.37 per remittance transfer in 2017.¹⁰ The Assessment shows that the overall price per remittance transfer has decreased since the effective date of the Remittance Rule.

⁷ Consumer Financial Protection Bureau, *Remittance Rule Assessment Report* (2018), https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_remittance-rule-assessment_report.pdf.

⁸ The Remittance Rule provides a safe harbor if a person provide 100 or fewer remittance transfers in both the previous and the current calendar years.

⁹ Consumer Financial Protection Bureau, *Remittance Rule Assessment Report* (2018), https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_remittance-rule-assessment_report.pdf.

¹⁰ Consumer Financial Protection Bureau, *Remittance Rule Assessment Report* (2018), 120, https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfp_remittance-rule-assessment_report.pdf.

Reports on the Challenges in Cross-Border Payments

Certain challenges have persisted in the remittance market. Since the Board's 2017 report, additional research has attempted to highlight or respond to concerns of different market segments within the remittance industry.¹¹

In late 2018, the Financial Stability Board (FSB) published two reports, which address the decline in correspondent banking relationships.¹² The first report analyzes trends in correspondent banking relationships using data provided by Society for Worldwide Interbank Financial Telecommunications (SWIFT) as of year-end 2017.¹³ Using data from SWIFT, the FSB shows that from 2011 to the end of 2017, the number of correspondents banking declined 15.5 percent and active corridors declined by 7.3 percent.¹⁴ Despite the decline, the FSB report states that 15 countries have a stable market and 16 countries have seen an increase in correspondent banking.¹⁵ Additionally, the FSB report concludes that the decline in the number of active correspondents has not resulted in a lower volume of payment messages or a reduction in overall value.¹⁶ Additionally, a survey conducted by the FSB of global correspondent and respondent banks indicates that drivers of the loss of correspondent relationships are

¹¹ See FSB report, "Stocktake of remittance service providers' access to banking services" (2018), 7, <http://www.fsb.org/wp-content/uploads/P160318-3.pdf>.

¹² The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in April 2009, as a successor to the Financial Stability Forum (FSF). The FSB includes all G20 major economies, FSF members, and the European Commission. Hosted and funded by the Bank for International Settlements, the FSB is based in Basel, Switzerland.

¹³ Because financial institutions have multiple means of exchanging information about their financial transactions, SWIFT messages flows do not represent complete market or industry statistics.

¹⁴ Active corridors are defined as country pairs that have processed at least one transaction. See FSB Correspondent Banking Data Report – Update (2018), 5, <http://www.fsb.org/wp-content/uploads/P161118-2.pdf>.

¹⁵ See FSB Correspondent Banking Data Report – Update (2018), <http://www.fsb.org/wp-content/uploads/P161118-2.pdf>.

¹⁶ The FSB analyzed SWIFT data used in the Committee on Payments and Market Infrastructures (CPMI) report of July 2016 and FSB Correspondent Banking Data Report of July 2017. See FSB Correspondent Banking Data Report – Update, November 16, 2018 <http://www.fsb.org/wp-content/uploads/P161118-2.pdf>.

diverse.¹⁷ In many instances, the profitability of relationships or changes in business strategy are the key motivating factor. Respondents also indicated that concerns about money laundering and terrorist financing risk related to specific jurisdictions and their financial institutions that may have weaker anti-money laundering/countering the financing of terrorism (AML/CFT) regimes also play a role.

The second FSB report published in 2018 is the fifth progress report on the FSB's action plan to assess and address declines in correspondent banking.¹⁸ The report identifies that consumers have been the most affected by the reduction in correspondent banking, which offers one of the most convenient ways to send remittances. Part of the action plan includes the FSB's encouragement of depository institutions to implement the use of a Legal Entity Identifier (LEI) to identify originators and beneficiaries of transfers.¹⁹ According to FSB, the use of LEIs by depository institutions supports trust, reduces costs, and increases the reliability of payment information between corresponding banks.²⁰ The report also recommends the use of the new ISO 20022 message format in correspondent banking by 2021 to increase efficiency and provide a consistent format for payment information in correspondent banking. In addition, the FSB issued a stocktaking report on access to remittance services for the G20 and facilitated a session on ways to enhance dialogue between the banking and remittance sector. The FSB believes that improved communication and understanding can lead to improved access to correspondent banking services for remittance companies.²¹ The FSB has stated that should correspondent banking relationships continue to decline, the FSB, relevant standard-setting bodies, and other stakeholders (including international organizations and the

private sector) would consider whether further actions is warranted.²² Treasury has also continued to study and track this issue. In April 2018, Treasury submitted to Congress a report on the feasibility of a pilot program for Somali remittances, as requested by Congress in earlier legislation.²³

In addition to these efforts, Treasury and the federal banking agencies continue to encourage financial institutions to follow a risk-based approach to managing the risks of correspondent banking. Treasury and the federal banking agencies have issued statements clarifying supervisory expectations for banks for correspondent banking activities and reiterating the risk-based approach.²⁴ Additionally, Treasury's Office of Technical Assistance provides technical assistance on AML/CFT through programs to support the complementary goals of financial inclusion and financial transparency.

The Role of Innovation in Cross-Border Payments

Innovation in the remittance market has the ability to reduce friction points for remittance providers and consumers. New entrants are leveraging innovative technology, existing technologies, and/or new business models to lower costs and attract consumers, challenging established incumbents and potentially reducing reliance on correspondent banking relationships. For example, several Financial Technology (FinTech) companies use consumers' smart phones or other smart digital devices to reach customers and disrupt existing means of sending and receiving remittances.²⁵ Additional innovations show promise in the areas of compliance, consumer services, and supervision.

¹⁷ See FSB Correspondent Banking Data Report – Update (2017), <http://www.fsb.org/wp-content/uploads/P040717-4.pdf>.

¹⁸ This is the fifth such report. Previous progress reports for August 2016, December 2016, July 2017, and March 2018 are available on the FSB website. The fifth report will be delivered at the G20 Summit in June of 2019.

¹⁹ The LEI is a 20-digit, alphanumeric code that identifies legal entities participating in financial transactions. Each LEI is unique and contains reference information that enables simple and quick identification of an entity. As an international standard (based on ISO 17442), all LEI information is openly published.

²⁰ See FSB, "FSB action plan to assess and address the decline in correspondent banking- Progress report to G20 Summit of November 2018," November 16, 2018, 4, <http://www.fsb.org/wp-content/uploads/P161118-3.pdf>.

²¹ See FSB report, "Stocktake of remittance service providers' access to banking services" (2018), 7, <http://www.fsb.org/wp-content/uploads/P160318-3.pdf>.

²² FSB action plan to assess and address the decline in correspondent banking Progress report to G20 Summit of November 2018, 5, <http://www.fsb.org/wp-content/uploads/P161118-3.pdf>.

²³ Countering America's Adversaries through Sanctions Act (CAATSA), section 271, https://www.treasury.gov/resource-center/sanctions/Programs/Documents/hr3364_pl115-44.pdf.

²⁴ U.S. Department of the Treasury and Federal Banking Agencies Joint Fact Sheet on Foreign Correspondent Banking <https://www.treasury.gov/press-center/press-releases/Documents/Foreign%20Correspondent%20Banking%20Fact%20Sheet.pdf>.

²⁵ For example, U.S. based Remitly, which was launched in 2011, does \$5 billion in annualized remittance volume. See Remitly Reaches New Milestone As It Continues International Expansion, May 9, 2018, <https://www.businesswire.com/news/home/20180509006073/en/Remitly-Reaches-New-Milestone-Continues-International-Expansion>. Further, Transferwise has made an annual pre-tax profit of \$10.4 million.

Innovation-based competitive pressures have pushed traditional remittance providers to improve the convenience, reliability and speed of their remittance products. SWIFT's global payments innovation (gpi) tracker service is another innovation focused on improving the speed and transparency of cross-border payments.²⁶ In October 2018, SWIFT released its "tracker for all" product, which provides all banks on the SWIFT network the ability to trace and confirm their SWIFT payment instructions and have visibility over their payment activity.²⁷ These innovations improve transparency and traceability of cross-border payments, which has been difficult in the past.

On December 3, 2018, the Financial Crimes Enforcement Network (FinCEN), the Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency (collectively, the Agencies) issued the *Joint Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing* to encourage banks to consider, evaluate, and, where appropriate, responsibly implement innovative approaches to meet their Bank Secrecy Act (BSA)/AML compliance obligations, in order to further strengthen the financial system against illicit financial activity.²⁸ The joint statement notes that the Agencies are open to engaging with bank management to discuss pilot programs for innovative BSA/AML approaches, will clarify supervisory expectations as appropriate and necessary, and are exploring additional methods to encourage innovation. As it relates to pilot programs as an important means of testing and validating the effectiveness of innovative approaches, the statement notes that

- pilot programs in and of themselves should not subject banks to supervisory criticism even if the pilot programs ultimately prove unsuccessful,

- pilot programs that expose gaps in a BSA/AML compliance programs will not necessarily result in supervisory action with respect to that program, and
- the implementation of innovative approaches in banks' BSA/AML compliance programs will not result in additional regulatory expectations.

Depository institutions, FinTechs, and regulators are also exploring the potential of blockchain and distributed ledger technologies (DLT).²⁹ Blockchain and DLT may have potential to create efficiencies by validating transaction information in ways that lead to lower monitoring costs for the remittance industry, or expedite settlement and reduce counterparty risk.³⁰ Such innovations have the potential to assist banks in meeting their anti-money laundering requirements under the Bank Secrecy Act.³¹ In addition to Blockchain and DLT, Regulatory Technology (RegTech) solutions that are leveraging machine learning and artificial intelligence (AI), big data, and advanced analytics for AML/CFT compliance may hold promise for improving the effectiveness and efficiency of risk identification, transaction monitoring. For example, the FSB's progress report highlights how big data, artificial intelligence, and machine learning could facilitate the due diligence processes. Accordingly, significant impact of RegTech innovation on cross-border remittances and payments remains to be seen and will depend on effectiveness, cost, and scale of adoption. These technologies are in the very early days, and the benefits for remittances have not reached scale. These new technologies may offer the ability to gain operational speed but also pose unique risk such as resiliency and confidentiality.³² As technology evolves, it is imperative that these technologies continue to be tested and the risks understood.

²⁶ See SWIFT (2017), "Major Global Transaction Banks are Live with SWIFT gpi," <https://www.swift.com/news-events/press-releases/major-global-transaction-banks-are-live-with-swift-gpi>.

²⁷ See SWIFT, "SWIFT rolls out gpi tracker for all as usage soars," press release, October 23, 2018, <https://www.swift.com/news-events/press-releases/swift-rolls-out-gpi-tracker-for-all-as-usage-soars>.

²⁸ See Joint Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing, December 3, 2018, <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181203a1.pdf>.

²⁹ Cryptocurrencies, Digital Currencies, and Distributed Ledger Technologies: What Are We Learning? Governor Lael Brainard <https://www.federalreserve.gov/newsevents/speech/brainard20180515a.htm>.

³⁰ See, FSB, "Stocktake of remittance service providers' access to banking services" (2018), 29, <http://www.fsb.org/wp-content/uploads/P160318-3.pdf>.

³¹ FSB action plan to assess and address the decline in correspondent banking Progress report to G20 Summit of November 2018, 11, <http://www.fsb.org/wp-content/uploads/P161118-3.pdf>.

³² Cryptocurrencies, Digital Currencies, and Distributed Ledger Technologies: What Are We Learning? Governor Lael Brainard <https://www.federalreserve.gov/newsevents/speech/brainard20180515a.htm>.

Adoption Rates of International Automated Clearinghouse Transaction

Since the Board's first report in 2011, the total volume of International Automated Clearinghouse Transactions has increased from 4.9 million transactions in 2010 to more than 83.7 million in 2018.³³ As of December 2018, of the depository institutions completing the Call Report, 3,323 reported offering remittance services to consumers.³⁴ Of those institutions, 446 (13 percent) provided the option to send cross-border payments via ACH transfers, which uses the IAT format. Over the two years since the previous report, commercial IAT volume grew

7.1 percent, while overall ACH volume grew 12.8 percent (as shown in table 1).³⁵ Total commercial IAT volume for 2018 reached 83.8 million transactions, of which FedGlobal ACH processed .21 percent of commercial IAT transactions for 2018.³⁶

As shown in table 1 below, between 2010 and 2018, FedGlobal ACH commercial IAT volume increased 293 percent. In value terms (not shown), FedGlobal ACH commercial IAT value increased 1,097 percent, to \$6.1 billion, between 2010 and 2018. These increases can be attributed to the Canada and Europe services. During 2018, the Canada Service accounted for 54 percent of FedGlobal ACH commercial IAT volume and 71 percent of the associated value. The Europe Service accounted for 36 percent of FedGlobal ACH commercial IAT volume and 28 percent of the associated value respectively.

³³ The IAT format, a standard entry classification adopted in 2009, does not distinguish among consumer, business, or government transactions. The IAT format replaced two previous formats—consumer cross-border payment and corporate cross-border payment originally established in 1999—that were determined to be inadequate for regulatory compliance purposes. The IAT format allows depository institutions and ACH operators to identify IAT payments.

³⁴ This figure is based on depository institutions that complete the Consolidated Report on Condition and Income (Call Report). The Call Report provides financial data on condition and results of operations of most institutions insured by the Federal Deposit Insurance Corporation. In addition, insured credit unions report the number of international remittances originated year-to-date but do not collect information on the type of service used. These data are collected through the National Credit Union Administration.

³⁵ "Commercial" refers to payments initiated by a business or a consumer but not by the U.S. government. The portion of IATs that are "remittance transfers" as defined by section 1073(a) of the Dodd-Frank Act is not determinable from the available data.

³⁶ In 2018, the two U.S. ACH operators processed 22.9 billion total ACH transactions, of which 83.8 million (0.4 percent) were commercial IATs. In 2016, the two U.S. ACH operators processed 20.3 billion total ACH transactions, of which 78.2 million (0.4 percent) were commercial IATs.

Table 1. International ACH Transactions (IATs), 2010–18

Number of transactions, except as noted

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Percent change 2016–18	Percent change 2010–18
Commercial credits	2,885,490	3,367,318	3,660,149	3,979,201	4,820,058	6,474,867	7,516,652	9,477,030	12,507,528	66.4%	333.5%
Commercial debits	2,104,728	24,722,512	38,700,280	40,601,616	49,797,558	62,524,634	70,708,776	72,189,382	71,290,984	0.8%	3287.2%
Total IAT volume	4,990,218	28,089,830	42,360,429	44,580,817	54,617,616	68,999,501	78,225,428	81,666,412	83,798,512	7.1%	1579.3%
Commercial credits	40,275	74,816	139,693	87,880	92,703	119,057	134,904	144,428	155,117	15.0%	285.1%
Commercial debits	3,690	7,670	11,551	19,202	19,961	18,562	16,126	17,210	17,454	8.2%	373.0%
Total	43,965	82,486	151,244	107,082	112,664	137,619	151,030	161,538	172,571	14.3%	292.5%
Memo item (number of transactions in billions): ¹											
Total ACH²	15.6	16.1	16.8	17.6	18.3	19.3	20.3	21.5	22.9	12.8%	46.6%

Note: Sources for the IAT volume data are the two ACH operators: FedACH and the Electronic Payments Network (EPN). The data include "inbound" and "outbound" IAT payments. FedGlobal IAT volume reflects the subset of IAT payments that the Reserve Banks handle as gateway operator.

¹ Calculations in this table may be affected by rounding.

² Total ACH is an estimate.

www.federalreserve.gov
0519

