

Nexus could be banking's next big thing, inspired by Indian payments system



In the age of smartphones, international wire transfers belong in money museums.

In more than 60 countries, including many developing nations, it has become incredibly easy to send funds in real time to someone else over the internet--knowing nothing more than their mobile phone number.

However, 24/7 fast payment systems, a technology that's starting to work pretty well for small-value transfers in domestic situations, have no counterpart when money has to jump over national borders.

For a [bank](#) to move funds from one country to another, it needs to either have a presence in both, or keep idle funds to maintain “correspondent” relationships with other financial institutions in the middle. Payments take at least a few hours, and sometimes get stuck for days because of a typo in the beneficiary’s name, address or account number. Which is when we wish we could just whip out our phones and pay an individual or a merchant in another part of the world on the spot by using only their phone number.

That’s why, in the coming months and years, we’ll probably hear more about Nexus, currently a blueprint drawn up by the Bank for International Settlements’ innovation hub.

Transfers are expensive. The global average cost of sending \$200 was 6.4% in the first quarter of 2020, according to the World [Bank](#). Fintech firms like Wise Plc (formerly known as TransferWise) and crypto players like Ripple Labs Inc. have, in their own ways, tried to address the problem of high costs. One reason to welcome the upcoming official digital currencies is that several of them can share a technical bridge and allow participating central banks to clear one another’s IOUs. Users will gain from instantaneous settlement. Even in cross-border situations.

ALSO READ: UPI logs record 3 bn transactions in July, riding on digital payments

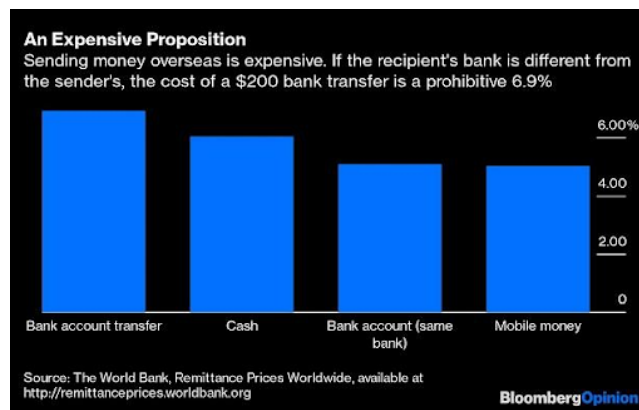
But there’s another way: hooking up the domestic smartphone-oriented payment systems that are already gaining popularity. Trouble is, with two countries, you need one link, and with three, you need three. Expand the network to 20 economies, and you need 190 connections. That’s where “Nexus: A blueprint for instant cross-border payments” comes in.

Nexus won't be another app. Think of it as a world wide web of payments, a set of rules--the Nexus Scheme--any country can adopt. After that, it's a question of setting up payment gateways, the software. Banks on the gateway will compete to offer foreign exchange. Once payment firms know what's expected in compliance, currency conversion, and message translation, they'll rush in to provide add-on services.

The sender will simply select "Make an international payment" on her existing app for domestic fund transfers. She will then choose the country, define the amount and opt for the most convenient address format for the receiver. For example, if it's possible to send money within Australia to an email address, a mobile number or a company registration number, then the Nexus protocol will allow the same for any overseas payment to an Australian recipient. Once the sender has keyed in this minimum required information, she'll be shown the exact amount to be paid out, along with the full or partly masked name of the receiver to confirm that the money is going to the right person. A click on the "Send" button will see funds appear in a bank account on the other side in a minute or less.

An expensive proposition

It's an approach that deserves to be explored. Domestic fast payments are practically free now. Using the smartphone to shave off most of the costs of a conventional international transfer would make for tremendous savings on the \$540 billion received by low- and middle-income countries last year as officially recorded remittances. Throw in the benefits to small online businesses that work on margins too thin for them to accept cards or services like PayPal. Taking fast payment systems global would mean that even mom-and-pop outlets can transact with customers anywhere and get paid in real time. It would have a democratizing influence on global commerce.



That's the first reason for taking the BIS report seriously. The second is that it's supported by the Monetary Authority of Singapore and the National Payments Corporation of India. Singapore-India is a busy corridor for remittances. The MAS is a credible, innovation-friendly regulator and the NPCI oversees a powerful domestic network. Known as the Unified Payments Interface, the mobile-based system cleared 4.9 trillion rupees (\$66 billion) in May, five times the value of card-based transactions. Alphabet Inc.'s Google recommended UPI to the Federal Reserve as a possible model for FedNow, the instant payment system the U.S. wants to put in place by 2023.

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It's still early days, but if India agrees to become the third pillar in the recent linkup of mobile payment systems between Singapore's PayNow and Thailand's PromptPay, it may not be long before their rules of engagement morph into the Nexus Scheme, an international standard.

None of India's three biggest digital wallet operators are commercial banks: [Google Pay](#), Walmart Inc.'s [PhonePe](#) and [Paytm](#), the Indian fintech that will soon go public. Facebook Inc.'s WhatsApp is fine-tuning its own rival product. If the Indian-inspired architecture becomes the Nexus prototype, international transfers will no longer be a preserve of finance. Consumer internet firms may dominate, with banks passively receiving and sending funds. Minus the fat fees.

With Nexus, it'll be possible before hitting "Send" to establish if the payment will succeed. For instance, by validating that the recipient's bank account is operational and checking for compliance with anti-money-laundering rules. The uncertainty associated with traditional one-way communication — filling a paper or digital transfer form and waiting for confirmation from the other end--will become history.

"Can you wire me the money?" will become as quaint as sending a telegram.

[Phone Pe](#)

