

# Cross Border Payments – IBA

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# Section 1

Block chain in cross border payments – Business Case

# Cross Border Payments – Current Situation

- Cross Border payments are currently expensive & slow due to lack of trusted central party (as is the case with domestic payments)
- These payments are driven by a network of bi-lateral Correspondent Banking relationship
- The high costs & low efficiencies lead to banks losing almost 40% business (C2C) to non bank players



- Per transaction fee
- FX Spread
- Liquidity cost

To maintain strong footprint in cross border payments, banks need to move away from the existing correspondent banking model which is burdened with customer pain point

*McKinsey Global Payment 2015*

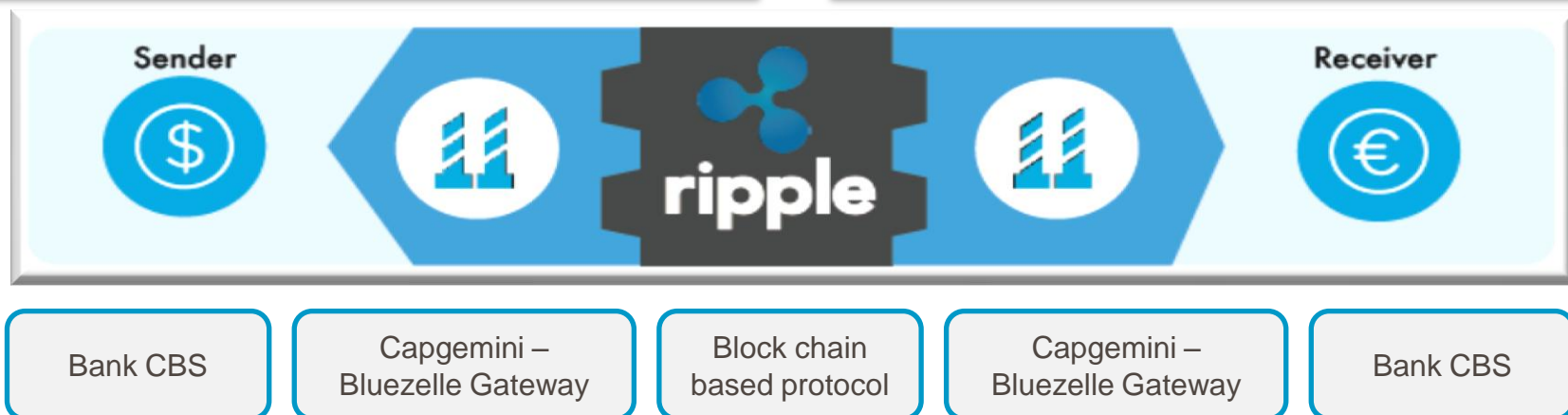
# Cross border payments – considerations for an alternate design

## Current Set-up

- Currently executed through a series of intermediaries which introduces costs & time
- FX Spread decided by the correspondent
- Liquidity costs associated with holding Nostro accounts
- Series of messages & ledger updates which progress linearly through the chain increasing possibility of exceptions

## Possible in new design

- Bi-lateral communication
- Eco-system of market makers most competitive FX spreads
- No Nostro account
- Distributed ledger where all updates are done as single atomic unit

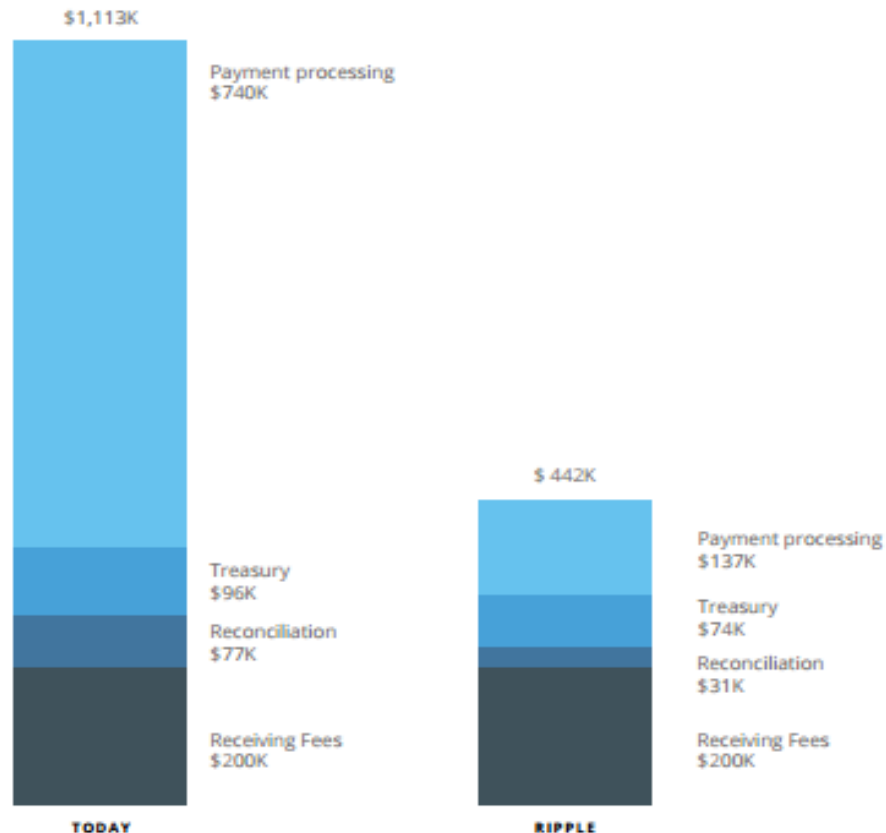


# Benefits Case

source: Ripple

## Estimated Total Cost of Processing Payments

Average Payment Size: \$500



## Key Cost Saving Drivers

### Payment processing cost

- Higher Straight Through Processing rates
- Elimination of SWIFT costs

### Treasury operations cost

- Lower in-flight capital
- Lower liquidity cost
- Lower counterparty risk

### Reconciliation cost

- Instant confirmation
- Real-time liquidity monitoring

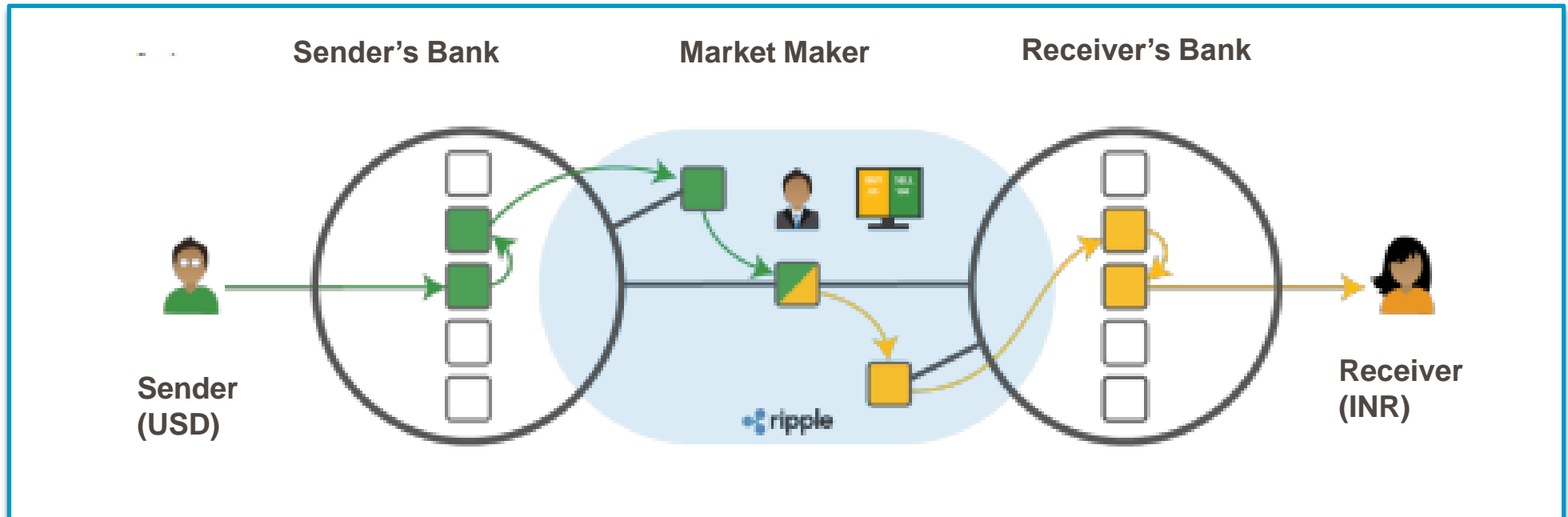




## Section 2

How it works?

# Mechanics of the protocol



- A transfer of USD from sender to market maker in the US bank
- A transfer of INR from market maker to receiver in Indian bank
- The protocol allows banks to charge a fee for enabling the transaction if needed
- All state changes in distributed ledger happens in one 'go' and overall process takes 3-5 seconds



# Solution Demo

Live Demonstration



## Section 3

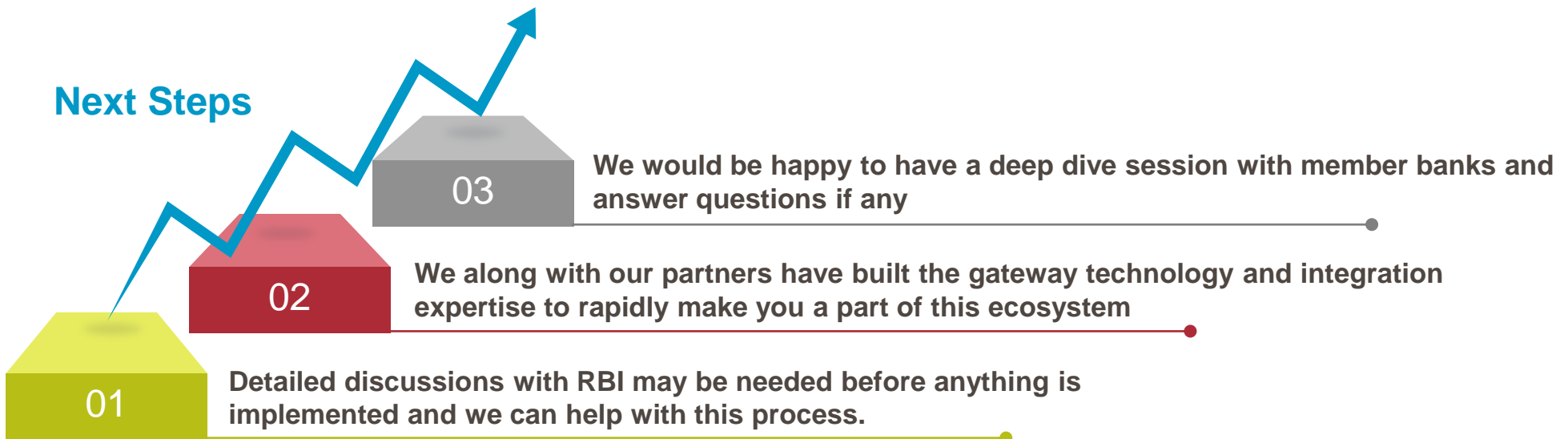
Evolution of the ecosystem & potential next steps

# This ecosystem is rapidly evolving. Following banks are already on this solution

- CIBC
- Santander
- Unicredit
- Reisebank
- Fidor Bank
- National Bank of Abu Dhabi (NBAD)
- ATB Financial

- Desjardins (Canada)
- 5 banks in South East Asia

## Next Steps



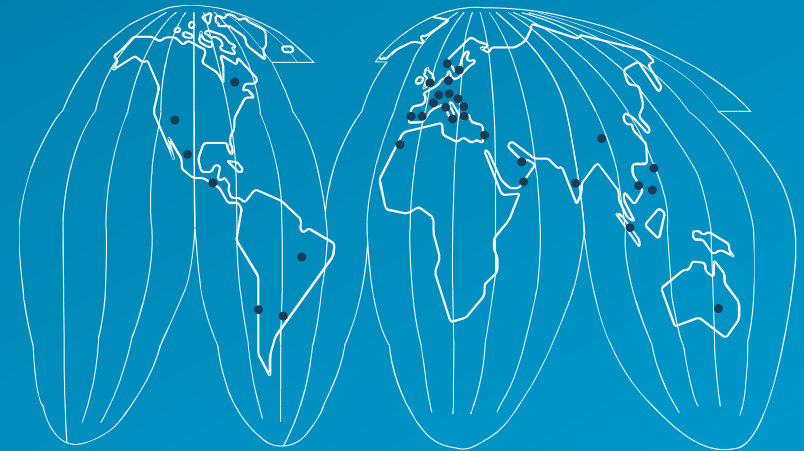
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