

October 20, 2020



Payments Landscape Review  
Payments and Fintech Team  
HM Treasury  
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London  
SW1A 2HQ  
Email: [paymentslandscapereview@HMTreasury.gsi.gov.uk](mailto:paymentslandscapereview@HMTreasury.gsi.gov.uk)

Dear Sir or Madam,

Ripple welcomes the opportunity to comment on HM Treasury's Payments Landscape Review: Call for Evidence (the "Landscape Review").

With over approximately 300 customers as of the date of this letter, Ripple's software products allow financial institutions to send money globally, on a real-time basis, at a fraction of the cost of traditional services available to market participants. Using blockchain technology, Ripple allows financial institutions to process payments instantly, reliably, cost-effectively, and with end-to-end visibility anywhere in the world. In fact, Ripple was recently featured as the only blockchain company in a list of the top 100 cross-border payment providers.<sup>1</sup>

Ripple's aim is not to replace fiat currencies, but rather to enable a faster, less expensive, and more transparent method of making cross-border payments that is in the public's best interest. Unlike the large majority of companies seeking to leverage crypto-assets, Ripple's customers and partners are regulated financial institutions, both banks and payment service providers, who operate within the contours of the existing financial system.

RippleNet, our enterprise software solution which is powered by a standardized application programming interface (API) and built on the market-leading and open standard, Interledger Protocol, enables financial institutions to facilitate faster and less costly cross-border payments, demonstrating that deep interoperability between commercial financial institutions can make payments truly efficient, particularly in eliminating the uncertainty and risk historically involved in moving money across

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<sup>1</sup> See <https://www.fxcintel.com/research/reports/the-top-100-cross-border-payment-companies>.

borders using interbank messaging alone. In addition, Ripple offers these entities an On-Demand Liquidity capability which leverages XRP - the crypto-asset native to the XRP Ledger, a distributed ledger platform - as a bridge between currencies, further reducing the friction and costs for commercial financial institutions to transact across multiple global markets.

Protocols used by global, cross-border payment networks and decentralised tools that support them should be considered and supported in this new age of domestic networks. Embracing the capabilities of these global networks, and better enabling domestic institutions to connect their individual capabilities with other systems and markets, will enable optimized outcomes domestically as well as fulfill the potential that globalization of value holds.

With this overview, Ripple respectfully submits the following responses to questions 21 through 23 set forth in the Landscape Review in the attached Appendix.

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Ripple appreciates the opportunity to participate in this consultation. Should you wish to discuss any of the issues raised in this submission, please contact Susan Friedman, available at [sfriedman@ripple.com](mailto:sfriedman@ripple.com).

Sincerely,

Ripple Labs, Inc.

## APPENDIX

### **Question 21: What further trends do you expect to see in cross-border payments in the next 10 years?**

In its Landscape Review, HM Treasury observes that “[n]ew services for retail cross-border payments are being developed and operated,” including those which “increase the transparency in cross-border payments by allowing end users to track where their payments are in the system and have more information about costs.” Ripple is focused precisely on achieving this goal; our products allow payments to be processed instantly, reliably, cost-effectively and with end-to end visibility anywhere in the world.

Our vision is the Internet of Value, where value flows over the internet as easily, freely, and cheaply as information does today. All Ripple’s efforts are in pursuit of this vision, and we expect that across the payments industry as a whole, the trend toward ubiquitous, virtually free, real-time payments 24x7 accessible to anyone will gather unstoppable momentum. This will have its biggest impact in opening up cross-border payments to all, sweeping away the frictions and shortcomings highlighted in the G20 work.

Historically, remittance providers enable payments by pre-funding correspondent accounts. This not only traps enormous amounts of capital, but creates compliance costs and foreign exchange and counterparty risks that often must be hedged. This process also limits the reach of efficient payment solutions to high-volume currency pairs and is a major driver of the high and opaque fees being charged to customers sending smaller amounts to friends and families overseas. Payments between less frequently traded currencies can be even more expensive and cumbersome.

Crypto-assets specifically designed for payments have the potential to reduce these limitations by enabling payments without the need to pre-fund overseas. Ripple’s software leverages XRP as a bridge between currencies. This allows financial institutions to access liquidity on demand through crypto-asset exchanges without having to pre-fund accounts in the destination country. The payer and payee continue to use fiat currency for their payment, with XRP incorporated as a bridge between the regulated financial institutions that are facilitating the remittance transaction. This is particularly helpful for smaller institutions with limited capital; using Ripple products, they can achieve broad global payment reach without additional capital needs.

This is also helpful for the facilitation of micropayments (i.e., payments made for very small amounts - sub \$5), the increase of which could well enable new business models.<sup>2</sup> Currently, the transaction costs associated with micropayments made in fiat currency are often too high to support their execution. Enabling the ability to pay for a single news article or television episode - or even to pay per second or per page of content - rather than a full subscription service has the ability to fundamentally transform commerce. The facilitation of micropayments similarly has the power to transform remittances. The World Bank estimated that remittances to low- and middle-income countries reached a record high of \$554 billion in 2019,<sup>3</sup> following previous record highs of \$529 billion in 2018 and \$483 billion in 2017.<sup>4</sup> At the same time, the average cost of sending \$200 to lower and middle income countries was estimated to be as high as 6.8 percent in the second quarter of 2019, more than double the Sustainable Development Goal target of 3 percent by 2030.<sup>5</sup> Remittance costs across many African corridors were estimated to be even higher at above 10 percent.<sup>6</sup> These costs reduce in tangible and measurable ways the impact of money being sent to populations for which literally every dollar matters. Crypto-assets like XRP can help solve these problems based on its speed, scalability, energy efficiency, and cost.

In addition to the new services outlined above, central bank digital currencies (CBDCs) may similarly serve as a building block for better cross-border payments in the future. We believe that broad utility - and interoperability - will define success for CBDCs. Private sector actors like Ripple are well positioned to innovate to solve the interoperability challenges that development of such a platform could ultimately create. RippleNet is a network of financial institutions using Ripple technology to enable faster, lower-cost payments around the world. The technology and network rules enable enhanced interoperability between these financial institutions, driving the benefits of the global network. Alignment of protocols across CBDCs, private stakeholders and cross-border payment networks could enable similar benefits associated with RippleNet for end-to-end global transactions - real-time, 24x7, atomic settlement based on efficient

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<sup>2</sup> Bank of England Discussion Paper: Central Bank Digital Currency: Opportunities, challenges and design at 18.

<sup>3</sup>

<https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history>.

<sup>4</sup>

<https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018>.

<sup>5</sup>

<https://blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019>.

<sup>6</sup> *Id.*

routing, transparently and immutably associated with a universal set of payment information.

**Question 22: What do you think industry, regulators and government should do in order to improve the functioning, speed and cost of cross-border payments for end users, taking into account the G20 work?**

Every inbound cross-border payment to the UK has a domestic leg, either as a book transfer on the receiving institution or on-forwarded to another institution through FPS or CHAPS. With both FPS and CHAPS undergoing renewal (through the NPA and RTGS renewal programs respectively), it is important their new designs retain their ability to on-forward cross-border payments without changing or truncating data in the in-bound payment and to flag to the receiving institution the payment is international (thus requiring screening). This is an interoperability feature which is essential for UK beneficiaries to receive international payments real-time, 24x7. Further, scheme rules should be in place so that the receiving institution credits the inbound payment in real-time to the beneficiary, conducts real-time screening and makes the funds immediately available. Ripple customers are already able to send cross-border payments in real-time, for example from Brazil to any account in the UK using FPS and its Payment Originating Overseas feature.

Separately, we are encouraged by the work done by the Committee on Payments and Market Infrastructures (CPMI) to identify 19 “building blocks” intended to address the challenges inherent in cross-border payments and mitigate underlying frictions, as well as the ambitious roadmap developed by the Financial Stability Board (FSB) to implement those building blocks. To ensure the vision set forth by these bodies, as guided by the G20, is achieved, we believe focus in two areas is particularly important: i) developing effective public-private partnerships and ii) laying the foundation for achieving interoperability.

In its roadmap, the FSB recognized that “[t]he work set out in the roadmap will need to involve close collaboration with, and direct action from, the private sector to achieve tangible improvements in payment arrangements.”<sup>7</sup> We agree that governments should actively seek to leverage all the innovation that the private sector has to offer in this endeavor. Utilizing technological solutions developed by companies including, but not limited to, Ripple will allow governments to implement proven solutions capable of reducing many of the challenges identified by the FSB and CPMI as hindering

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<sup>7</sup> FSB, Enhancing Cross-border Payments (Stage 3 roadmap) at 6.

cross-border payments, including high costs, low speed, limited access, and insufficient transparency, more quickly and effectively than if they were acting alone.

Private sector solutions can also be used to aid third parties in meeting their compliance obligations. One example is PayID, a solution developed by RippleX. PayID is a simple, open standard designed to help individuals and companies easily send and receive money using a single identifier. As open-source software, PayID offers financial institutions a quick way to integrate a Travel Rule solution with other systems across their enterprises and that of their partners. Designed to leverage existing web infrastructure and comply with security and privacy standards, PayID can work across jurisdictions, blockchains, and traditional payment rails. We believe close collaboration between the public and private sectors will help facilitate the growth and adoption of similar “regtech” solutions.

In addition to public-private partnerships, we also believe that interoperability is key to ensuring the development of a robust cross-border payment system and the future utility of any CBDC developed. To drive adoption of CBDCs, interoperability with existing domestic payment schemes is needed, as well as cross-border interoperability. While the primary demand driver for CBDCs will likely be the ease with which it can be exchanged for goods and services, Ripple also believes that demand to hold a CBDC will turn directly on its ability to be used in other countries for both retail purposes and peer-to-peer cross-border payments. Design choices, including the use of standardized APIs that facilitate the use of CBDCs elsewhere and innovation by third-party providers on the network, will help strengthen the case for CBDC usage. To this end, we believe governments should be coordinating to align national payment protocols and encourage the adoption of international standard protocols.

**Question 23: Are there other opportunities and risks not captured by the questions elsewhere that you wish to highlight? If so, what do you believe the role is for government, regulators, and industry in responding to them?**

The G20 work correctly identifies the need to harmonize regulation for cross-border payments, in particular through promoting consistent application of AML/CFT standards, data interoperability, digital identity frameworks, and shared customer due diligence infrastructures.

However, we believe that this work will need to go further and reinvent and redefine cross-border regulation for the digital economy. For example, regulatory innovation is needed in the area of low value and micropayments, where today the cross-border

compliance costs are the same as for high value payments, putting an effective lower bound on payment values. This could be addressed through new risk based approaches to compliance where the level of compliance required is proportional to, or tiered on payment size. Another area is in transaction monitoring where emerging technologies to monitor transactions across multiple parties have the potential to provide powerful new solutions to combat money laundering, but will require new regulation to allow for the sharing of data and reporting of suspicious activity detected across multiple entities.