

Discussion of “Financial Fragmentation in Global Payments” by Isabel Vansteenkiste and Arnaud Mehl

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(*): The views expressed here are my own and not necessarily those of other members of the Board of the Central Bank of Chile.

The chapter

- Excellent chapter within an excellent report.
- Six ideas in the chapter:
 1. Growing prominence of *payments* in international economic policy debates.
 - Significant increase in cross-border payments due to increase in trade and higher financial integration (cross-border wholesale payments) and migration (cross-border retail payments).
 - Existing infrastructure: Swift; CHIPS/Fedwire (transferring and settling payments in US dollars); CLS (global central multicurrency cash settlement system); Cards networks.
 2. Geopolitical risk has generated to some extent a retrenchment of cross-border banking relations (de-risking) and the exploration and development of alternatives to traditional cross-border payment infrastructures (BRICS initiative for example).
 3. The global payment system is key for economic activity (efficiency) and for financial stability reasons. Fragmentation of payment platforms could significantly affect these objectives.

The chapter

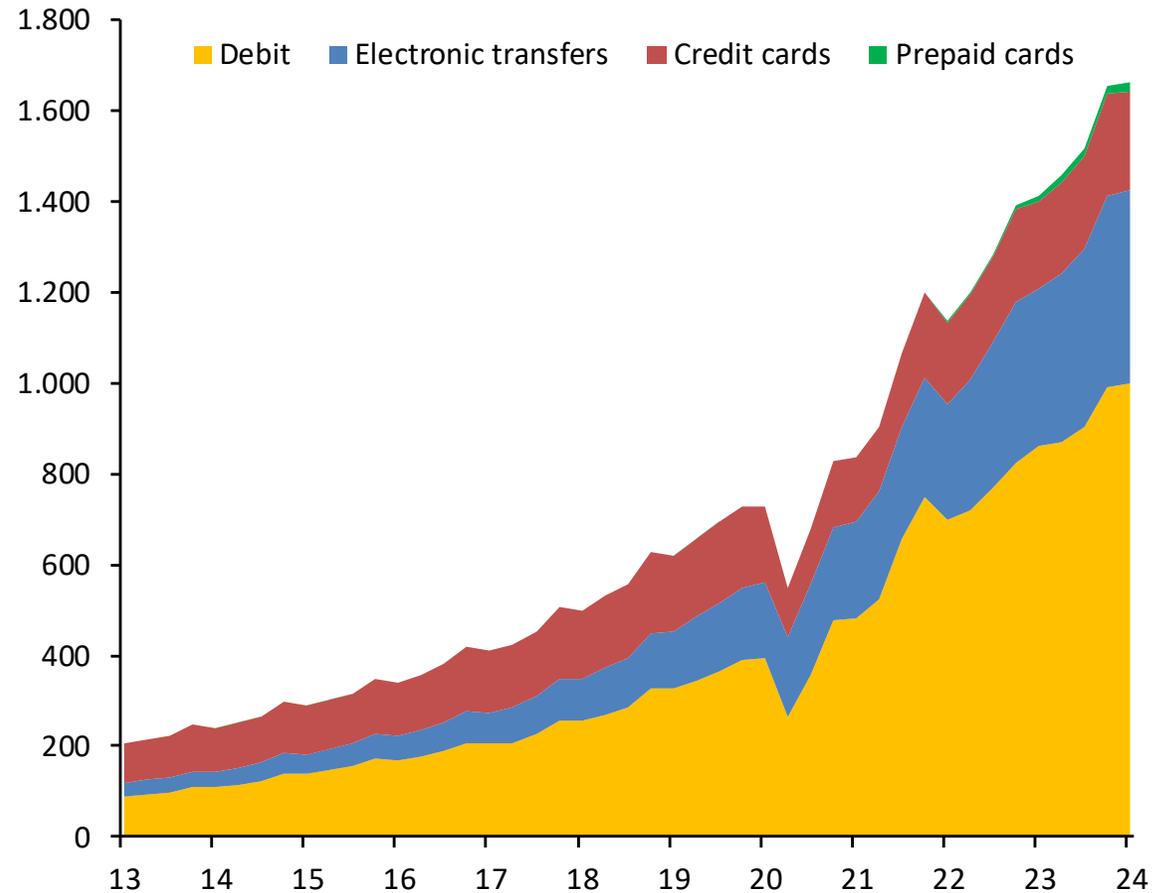
- six ideas...:
 4. The architecture of the global payment system may become an instrument for other objectives: strategic asset that can be used to fulfill geopolitical objectives (weaponization).
 5. Evidence indicates that geopolitics is a source of friction that segments cross border payments (global fast payment landscape looks fragmented/clusters).
 6. Despite the previous elements, the evidence suggests that the global cross-border payments landscape remains heavily reliant on traditional infrastructures, resulting in a high level of integration and concentration in the West.

The importance of the payment system in policy debate

- Financial infrastructure consists in the systems and arrangements through which payments are made and the transfer and transaction of financial instruments are executed. This infrastructure is what allows households, firms, and authorities to make and receive payments efficiently and safely.
- Throughout the life cycle of a payment transaction, from its submission to the system by the participant through the final settlement, financial institutions are exposed to various types of risk that can involve financial losses: credit risk; liquidity risk; legal risk; operational risk; general business risk; custody and investment risk.
- Involvement of central banks and policy makers in general had been in the management of the high-value payment systems...financial stability/normal functioning of payment system...

...but significant changes in retail payments domestically...

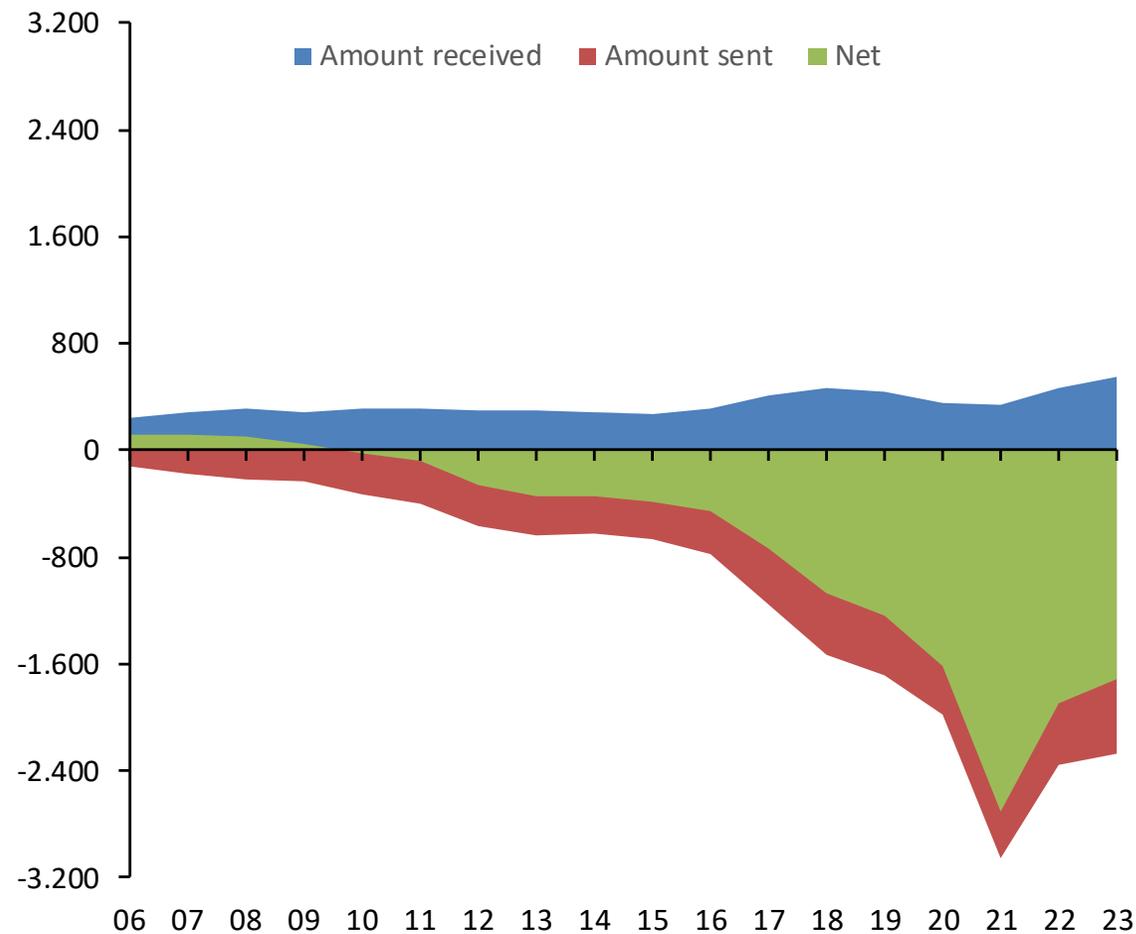
Chile: Number of transactions with digital payments
(millions, quarterly)



Source: BCCh.

And cross-border payments (retail)

Chile: Personal remittances received and sent
(millions US dollars)



Source: BCCh.

Recent trends in payment systems

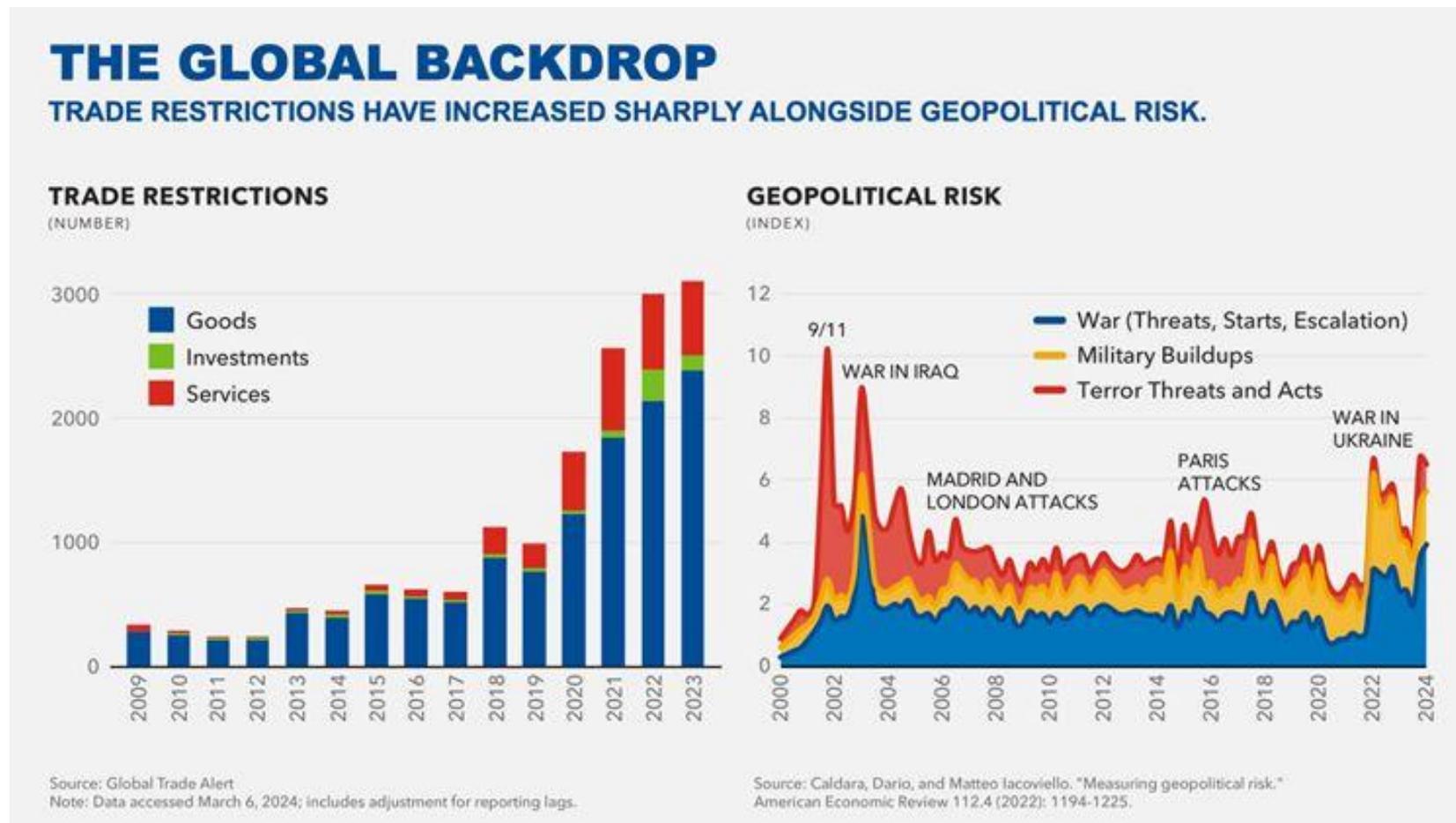
- Recent trends in payment systems have increased policy makers involvement, specially at the retail payment level.
- Financial stability reasons but also efficiency and inclusion have been raised by many central banks.

Driver: technology

- The role of technology: technological innovation is changing payment systems.
- Technological diffusion plays a significant role.
- Welfare gains may be significant.
- Strategic complementarities and coordination frictions as discussed by Alvarez et al. (2025); Higgins (2024); and Crouzet et al. (2023) call for policy interventions...

Some comments

- Geopolitical risks have increase...(trade restrictions...)



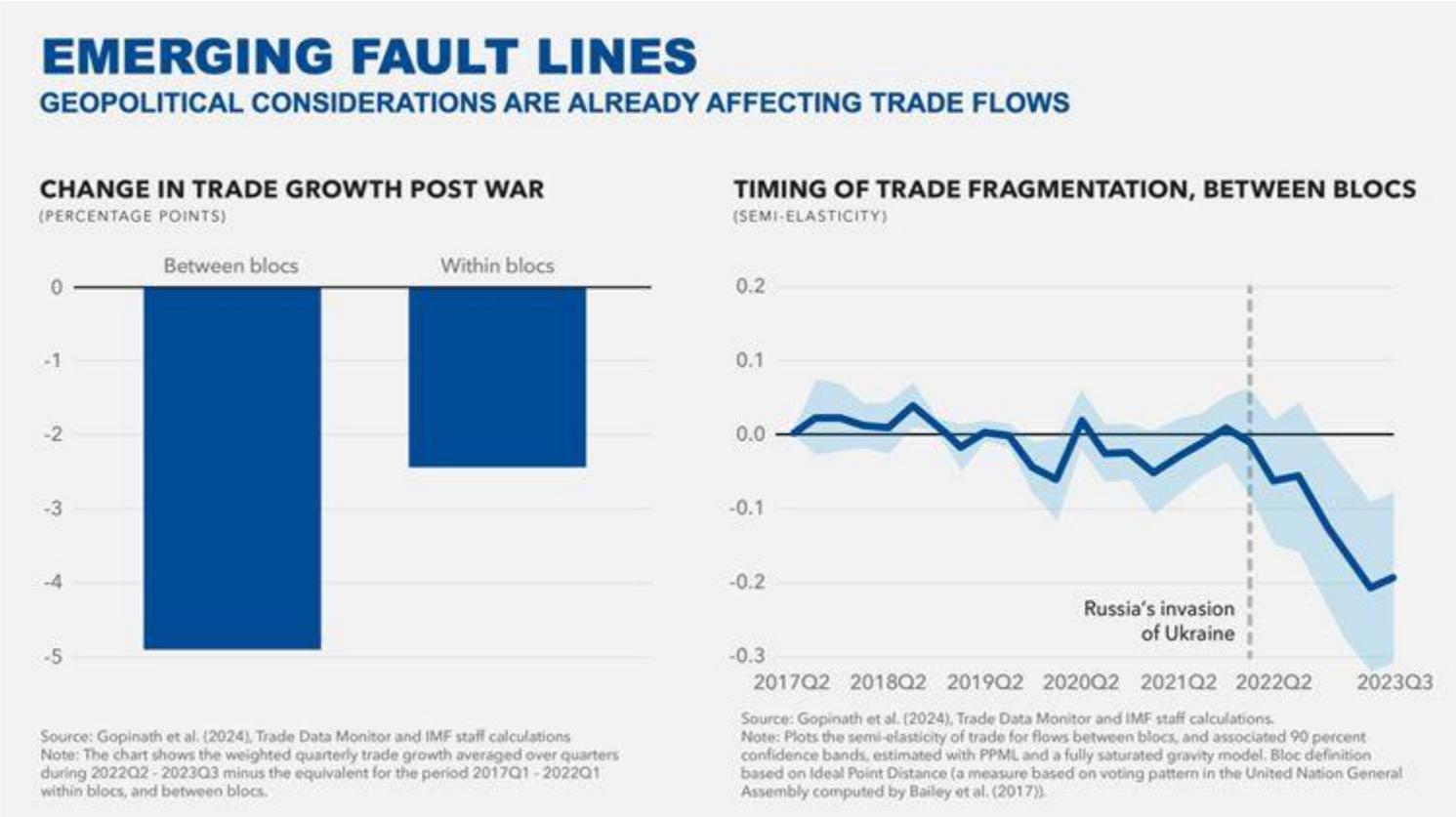
Source: Gopinath (2024), IMF.

Some comments

- Geopolitical risks and technology innovations interact.
- Higher risks associated to functioning of international payment system requires significant and urgent policy attention and involvement.

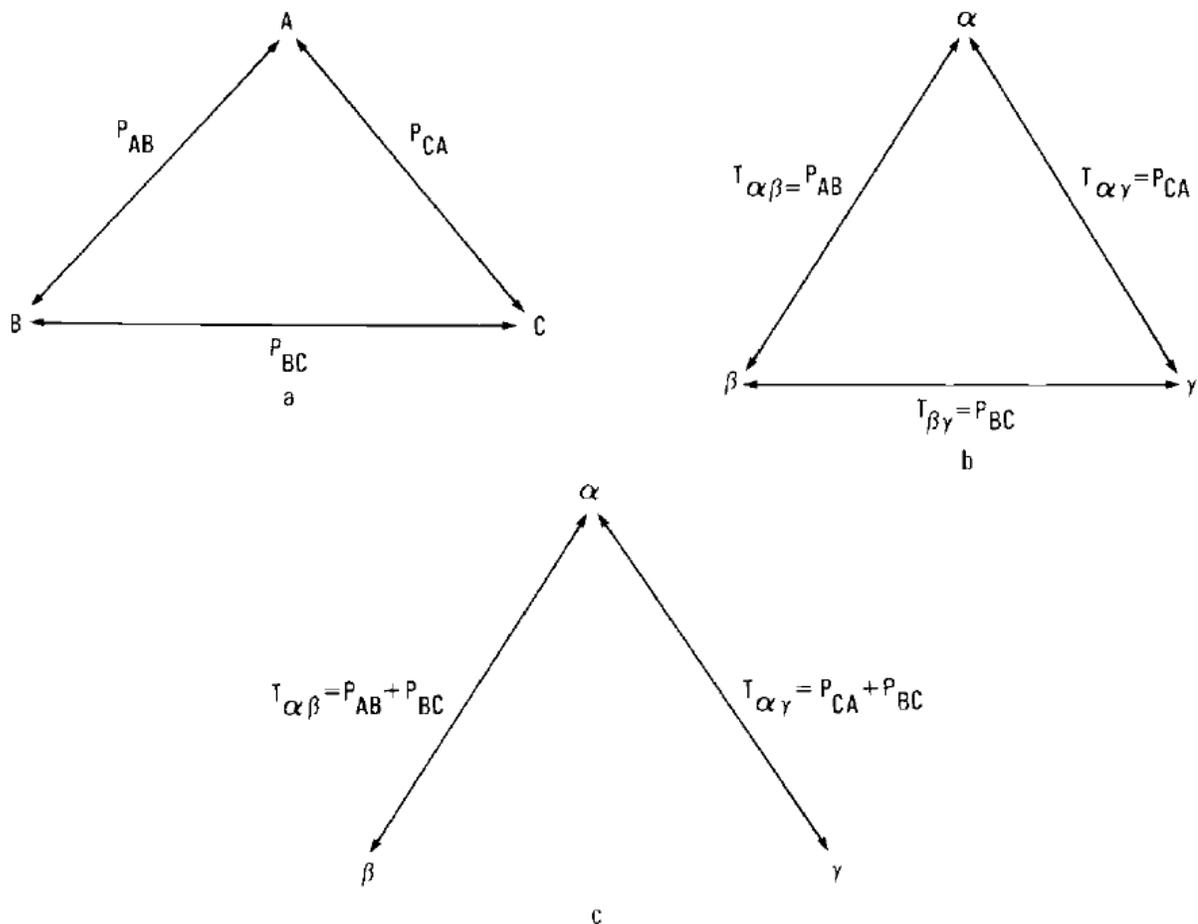
Trade fragmentation and financial fragmentation: impact on global payments

- ECB and IMF reports:
 - Selective decoupling of trade is already visible, accompanied by lengthening of supply chains.



Source: Gopinath (2024), IMF.

Trade fragmentation and international payment system: structure of payments and structure of exchange (Krugman (1980, 1984))



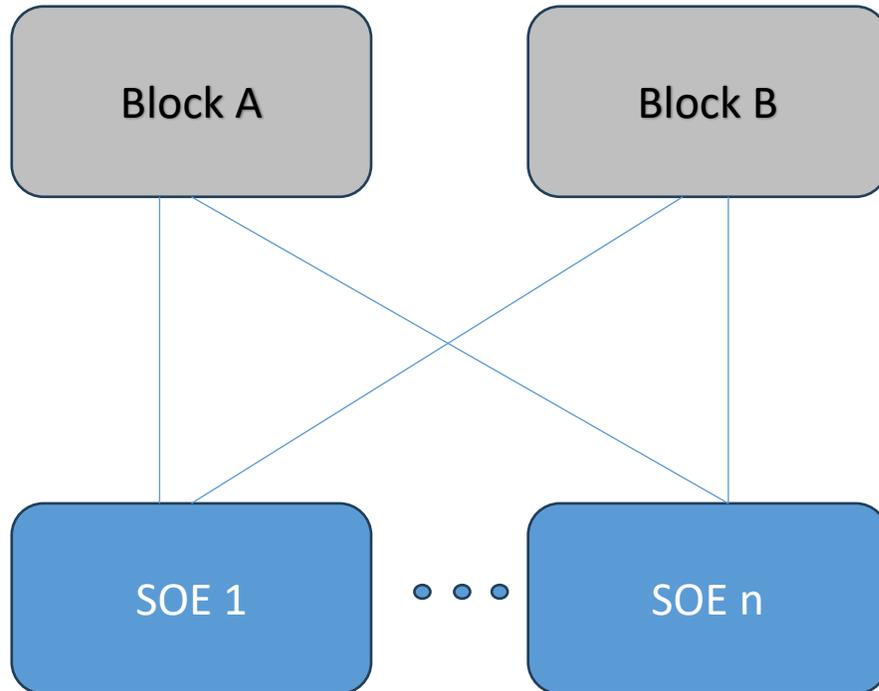
The structure of payments: the matrix of final demands for foreign exchange for the purposes of trade and investment.

The structure of exchange: the matrix of actual foreign exchange transactions.

Result? The structure of transactions costs determines the structure of exchange

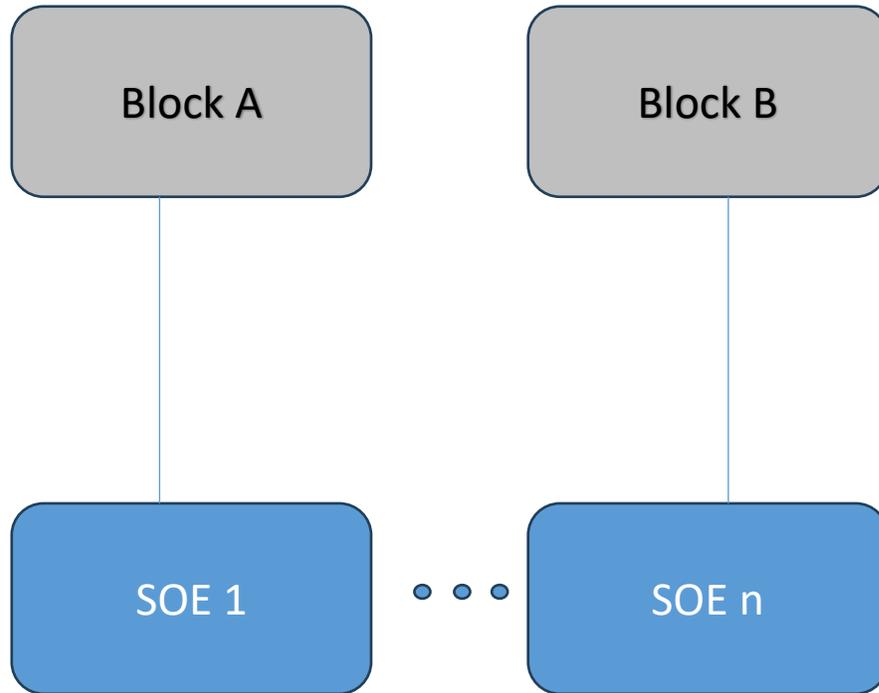
Fig. 8.1 The structure of payments (a); the structure of exchange: direct exchange (b); the structure of exchange: indirect exchange (c).

Trade fragmentation and international payment system: structure of payments and structure of exchange



- Potential consequences of this equilibrium:
 - Financial fragmentation: reduce cross-border capital flows, reduce capital accumulation, reduce risk sharing, macro instability.
 - Fragmentation of payment systems.
 - Fragmentation of international reserves.
 - Interoperability.
 - EMEs could be specially affected.

Alternative Scenario



- Alternative equilibrium:
 - Fragmentation of payment system may lead to specialization in trade. (back to barter equilibria (Kiyotaki & Wright, 1993)).

Other comments

- Important to make a distinction between illicit activities foreign policy purposes.
 - “Fragmentation of payment platforms or a shift towards platforms controlled by jurisdictions that do not prioritise the security and efficiency of the system could not only jeopardize financial stability but also hinder efforts to combat money laundering and terrorism financing. Furthermore, this could increase the risk of cyber-attacks that could disrupt payment chains.”
- Emerging cluster structure in fast payments: Example TIPS and PAPSS. Geopolitics as a friction? Or closeness/trade linkages/migration as a transaction cost mitigator?
 - Goods experiences and less successful experiences.

Other comments

- Initiatives:
 - Nexus (BIS): reduce costs of cross-border retail payments.
 - G20 agenda, Project Agorá: cross-border wholesale payments.
- The authors discuss that despite the previous elements, the evidence suggests that the global cross-border payments landscape remains heavily reliant on traditional infrastructures, resulting in a high level of integration and concentration in the West.
 - The importance of governance, legal standards, regulation and interoperability versus technology.

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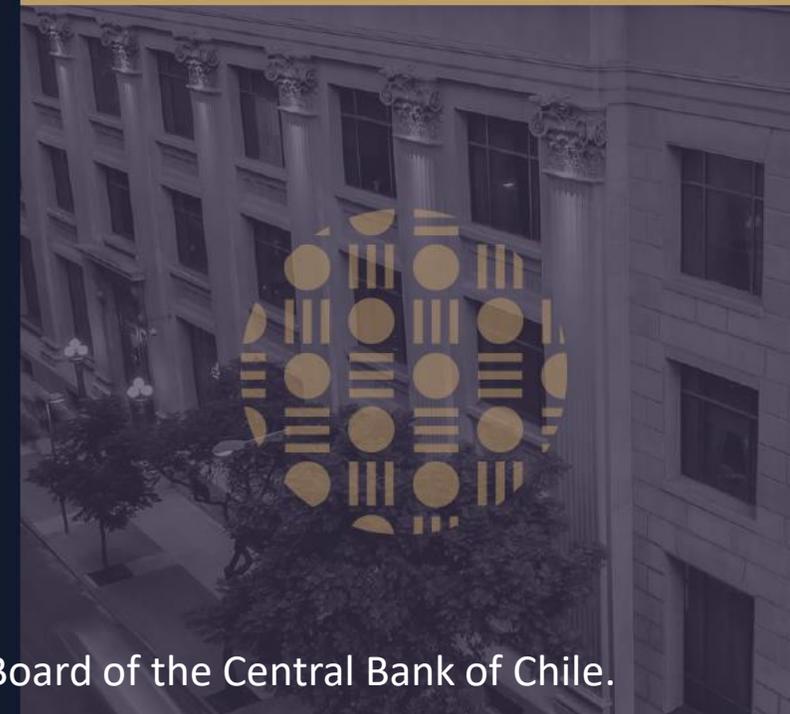
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