DEVELOPMENT COMMITTEE
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on the
Transfer of Real Resources to Developing Countries)

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Statement by
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It gives me great pleasure to attend this year’s the 99th meeting of the Development Committee in my capacity as an observer member and, on behalf of the Arab Monetary Fund (AMF), I would like to express my sincere thanks and gratitude to the World Bank for this kind invitation.

I would like to take this invaluable opportunity to discuss the subject of cross-border payments that are not only becoming increasingly important in the functioning of the global economy but also simultaneously being more complex due to the rapid developments in payment technologies and services. This note aims also at sharing the efforts exerted by the Arab countries in addressing industry-related challenges and to contribute to fostering a modern, rules-based and equitable multilateral trading system, with the ultimate objective of supporting and boosting inclusive and integrated growth, a key requirement to achieving the Sustainable Development Goals (SDGs) by 2030.

The Evolving Landscape of Cross-Border Payments

International payments have been instrumental in the emergence of today’s global economy. The demand for cross-border payments is expected to continue to steadily grow in the future, driven by the increase of international trade, internationalization of production and the growth of cross-border e-commerce. This is displayed by the current global annual average cross-border transactions of 0.7 per capita, up from 0.5 in 2014; and the average value of total cross-border payments which has grown to 1.8 times the global nominal GDP.

Nevertheless, payments sent from one country to another are less efficient in terms of cost and time than domestic payments, partly because the former are more complex, riskier, and differently regulated and exhibit lower economies of scale and scope. These are compounded by policy specific factors such as
increasing compliance requirements, growing trade restrictions as well as ongoing business uncertainty, mounting cyber risks and declining correspondent banking relationships, all of which are all adding to the cost and complexity of offering cross-border payments services.

Today, the global cross-border payment landscape is experiencing a number of key trends that could fundamentally change global competitive dynamics, including shifting regulatory and sanctions frameworks, accelerating international commercial activities, changing customer demands and increasing pressure from emerging and disruptive technologies.

The Growing Importance of the Arab Region in the Global Economy

The Arab region has been able to effectively diversify its economic activities, grow and integrate into the world economy, yet the traditional economic sectors are no longer able to generate sufficient employment opportunities to overcome growing unemployment. Therefore, countries are turning towards the digital economy, particularly fintech and ICT, that is prevailing as a new growth model, boosting productivity levels and increasing regional growth potential.

In addition, the economic and financial trends in the region point towards an acceleration of payment flows, with cross-border payments among Arab countries forecasted to increase to 6.9 Million transactions in 2021, corresponding to a total value of USD 3.4 trillion. This trend is expected to continue due to the multi-lateral policy initiatives aimed at enhancing intra-Arab economic growth.

However, these cross-border payments landscape is changing. There is a greater push towards lower costs and faster payments, given the emergence of disruptive technologies and new business models that are attracting new customers. Consequently, the banking sector is witnessing an unprecedented transformation where traditional channels and tools, including banking services, are now facing risks and challenges from fast-growing technology companies looking to increase their market share.

To this end, new technology and regional arrangements may complement the traditional channels and provide a more inclusive and efficient gateway to payments and cross-border remittances for both individuals and businesses alike. Fintech is seen as an opportunity to create viable business opportunities in the region whilst simultaneously acting to reduce the costs associated with cross-border transfers. Remittances in the region are forecasted to reach a record-level high of USD 53 billion in 2018 and financial technology is seen as a key tool to help decrease their cost from 7.4%, to levels much closer to the SDG target of 3%.

Responses to Increasing Expectations

Driven by these pressing trends and in line with the Arab Monetary Fund’s (AMF) vision and continuous efforts to increase the efficiency, harmonization and integration of trade and economic activities both regionally and internationally, the AMF, under the leadership and support of the Arab Central Banks and Monetary Authorities’ Governors, seeks to provide the region with a solution that fosters cross-border payments. It has thus conceived the establishment of an Arab Regional Payment System (ARPS), a simple and efficient payment clearing and settlement system.

ARPS was envisioned with clear objectives that would create significant macroeconomic impact and has been designed as a simple, low-cost and risk-controlled payment clearing and settlement system that will pursue and promote the accelerating payment flows across the Arab region. The system will adopt a centralized model, consisting of a single, multi-currency and pre-funded platform with a focus on increasing the efficiency of cross-border payments in the region, with respect to reduced duration of transaction completion, decreased liquidity requirements, reduced costs and minimized disruption for market participants. Further, the system designed in line with international standards such as the CPMI-IOSCO...
PFMIs, will also leverage the latest technologies while ensuring and strengthening compliance with sanctions and AML/CFT requirements.

Following the feasibility study and system design, defining all major facets of the solution including ARPS’s business and operating model, the implementation program of the system is currently underway targeting a pilot go-live in 2020. This process encompasses establishing a sound legal basis that addresses all legal requirements necessary for the system’s operation while, at the same time, focusing on standing up the organizational capabilities in a fast-paced manner which would enable the organization to start delivering payment services at the earliest opportunity.

Moreover, the AMF realizes that the only way to ensure a successful implementation is through constant engagement with all stakeholders, including commercial banks and other relevant private and public sector institutions, to align on needs and expectations and address them through the development and enhancement of the system’s services. Further, the AMF aspires to work more closely with international organizations to ensure alignment with best practices whilst simultaneously building partnerships with other cross-border systems with the ultimate goal of further connecting and integrating the Arab region to the global economy.

Above all, we hope that the Arab Regional Payment System (ARPS) will facilitate and increase intra-Arab financial and economic transactions, which we estimate to amounted up to USD 830 billion per annum, USD 245 billion of which is attributed to intra-Arab trade in 2018. ARPS will also foster the economic, trade, and investment relations with the region’s main trade partners across the globe, considering that trade between the Arab region and the global economy amounted to roughly USD 1960 billion in 2018. Ultimately, ARPS is expected to create significant macroeconomic impact for the region as well as globally by establishing a foundation for regional integration.