The Role of AFAQ in Improving Cross-Border Payments in the GCC

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Introduction

The Committee on Payments and Market Infrastructures (CPMI), in its publication "Can Multilateral Platforms Improve Cross-Border Payments?" (July 2022), stated:

"For decades, cross-border payments were the forgotten corner of the world's financial plumbing. But in 2020, the G20 countries decided, as a global priority, that these payment systems should be improved, acknowledging that people and economies worldwide stand to benefit from faster, cheaper, more transparent and more inclusive cross-border payment services. Multilateral platforms, i.e., payment systems across multiple jurisdictions, were seen as having a possible role to play in this."

At the time of this statement, the six countries of the Gulf Cooperation Council (GCC) had already intensively analysed the shortcomings of regional cross-border payments in the Gulf area and drawn conclusions that had yielded tangible outcomes.

In 2016, due to the regional importance of cross-border payments, the Supreme Council of the GCC approved the establishment of the Gulf Payments Company (GPC). The vision and mission of GPC is to provide safe, efficient, and cost-effective cross-border payment services, leveraging cutting-edge technologies in accordance with international standards and best practices.

GPC was established as a private company whose shareholders are exclusively the GCC National Central Banks (NCBs). By doing so, the Gulf Cooperation Council institutionally paved the way for regional payment services integration by means of a specialised, publicly owned "payments infrastructure company." This setting was and still is unique. It combines the experience and power of central banks in payments with the dynamics of a commercially organised payments company.

In this article, I would like to share with you my experience with this approach as CEO of the Gulf Payments Company for the benefit of those who are considering similar approaches.

Gulf Payments Company (GPC)

Governance Framework

GPC was established to provide a core regional payments infrastructure that would act as the backbone for the broader payments ecosystem in the GCC region. The Company's headquarters is located in Riyadh, with a further office in Abu Dhabi. GPC is fully owned by the NCBs of the six GCC countries (United Arab Emirates, Kingdom of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar, and State of Kuwait). Each NCB is represented by its Governor on the GPC Board, whose role is to direct the GPC business. Each NCB contributes with the experience gained in its local payments markets and aligns GPC policy decisions with the legal and business context of its home country.

Objectives of GPC

The GPC Board and the CEO and management of GPC are committed to achieving the following objectives:

- Offer a comprehensive and flexible infrastructure for payments in the Gulf region to provide various payment services and options to meet the market's demand in compliance with applicable payment laws and regulations.
- Establish and set up a linking payment system for the GCC countries to execute money transfers and payment settlements across the region without compromising the interests of their local payment systems and without prejudice to their local policies and procedures.

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- Execute processes in accordance with mechanisms and procedures agreed on by the monetary authorities and NCBs of the GCC countries.
- Manage and operate the AFAQ service, in pursuance of international best practices, to serve the interests of the participating countries and their people, as well as set forth adequate strategies to manage and mitigate all types of risks.

Implementation Strategy

To support the GPC's objectives optimally, the Company's Board decided to establish GPC as an infrastructure provider for payment services for individual NCBs, as well as for joint payment services for the community of GCC NCBs, leveraging economies of scale and economies of scope without the need to use a third-party payment service provider. By doing so, NCBs have maximum freedom to shape legal and business issues, whereas GPC can focus on technical and operational service provisioning.

AFAQ

GPC payment services are and will be provided under the single label "AFAQ." AFAQ (meaning horizon in Arabic) stands for **A**rabian Gulf System for **F**inancial **A**utomated **Q**uick Payment Transfers, emphasising the regional character of the services combined with the message to make payments more effective. Moreover, it expresses the overall will of the GCC and the NCBs to work commonly on that goal.

As a first step, the AFAQ Cross-Currency Service went live in December 2020. It offers RTGS transactions through the NCBs' national RTGS systems in domestic currencies. These transactions are both cross-border and cross-currency between the GCC countries. That means a sender submits a payment order in domestic currency to its RTGS system, the domestic RTGS system debits the transaction on the account of the payer and sends the payment via GPC to the RTGS system where the payee or its bank holds an account. The payment will be credited on the recipient's account in local currency. Take, for instance, a Bahraini who wants to send money to his parents in Oman; with the AFAQ payments system, he can send money in Bahraini Dinar (BHD) and his parents will receive it in Omani Riyal (OMR). NCBs guarantee a fixed exchange rate for the business day and settle inter-NCB balances at the end of the business day.

This service is a quantum leap as compared to correspondent banking since transactions take place in real time, in central bank money, with immediate finality and transparent and fixed exchange rates (for further details see the section below, "AFAQ Cross-Currency Service").

In subsequent phases or if needed in parallel, under the AFAQ umbrella, GPC stands ready to support cross-border multilateral net clearing of orders submitted by regional clearing systems, as well as to provide outsourcing services requested by NCBs for executing domestic payments and settlements.

AFAQ follows a central bank-focussed approach to service provision. Current and projected product offerings align with G20, FSB, and CPMI-IOSCO considerations, and best-in-class policies followed by central banks globally.

Working groups from GCC NCBs are working closely together to ensure alignment among the banks and to support and advise GPC as required.

The AFAQ Infrastructure Backbone for Service Provisioning

History

Already before the start of the AFAQ Cross-Currency Service project, it was decided by the GCC to establish a payment services infrastructure that could be extended to further services (e.g. end-of-day netting, or individual NCB services) without changing the topology and the main components of the original infrastructure. Moreover, it was decided to develop and run this infrastructure without involving an external message carrier or service providers. That concept was pivotal in order to build services without the need to "reinvent the wheel" for every new element or service added.

Network Services

GPC runs its own private data communication network that is scalable for a variety of services. On top of the data communication network, GPC provides gateway services for each of the NCBs. The respective gateway (RPG = regional payments gateway) is located

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at each NCB and connects to the local banks and NCB on one side and to the GPC infrastructure on the other side. Each RPG provides basic technical payment service functions like message validation and formatting and manages the communication between domestic components (e.g., RTGS systems, banks' back-office systems) and the central GPC components.

Communication between NCBs/banks of a country and the country's RPG is handled through national communication networks. The network and gateway services are supported by a secure cryptographic public key infrastructure.

Central GPC Services

The central GPC service infrastructure has been designed to host different payment services. Today, GPC servers manage the central components of the cross-currency service including netting of end-of-day positions in local currency and a specific service for one of the GCC NCBs. In addition, common services for banks and NCBs, such as service participation directories, could be implemented on the central GPC platform.

AFAQ Cross-Currency Service

NCBs' Responsibilities and GPC's Responsibilities

GPC is responsible for providing the technical infrastructure for the inter-NCB communication, as well as central coordination services (fixing of exchange rates, operating time, reconciliation of positions, etc.). NCBs are responsible for managing their technical infrastructure connecting to the GPC's cross-currency service and their respective RTGS infrastructure.

Each NCB guarantees to all other NCBs that it will meet the end-of-day net settlement position for its "Country Group" (composed of the commercial banks and the NCB itself) in respect to the aggregate net position arising from all cross-border payments during that day.

One NCB selected to act as settlement agent in whose books the end-of-day multilateral net position will be recorded and settled is responsible for holding and managing correspondent accounts for participating NCBs and for operating the end-of-day settlement process in a secure and timely manner.

Components

The AFAQ Cross-Currency Service is made up of the following components:

a. Sending Domestic RTGS system,

b. Sending Regional Payment Gateway (Sending RPG),

c. Central Component (CC),

d. Receiving Regional Payment Gateway (Receiving RPG),

e. Receiving Domestic RTGS system, and

f. Private communications network linking all of the other components of the full system.

Key Elements of the AFAQ Cross-Currency Service

The key features of the AFAQ Cross-Currency Service are:

a. Participants have to be NCBs or supervised financial institutions (as of July 2025 a total of 187 institutions) participating in the domestic RTGS system in any of the six GCC countries. Participants have to comply with relevant legal, technical, and operational requirements before being approved for participation by the GPC Board.

b. The accounts of Participants are held in the domestic RTGS system of their own country's NCB.

c. Each day, NCBs will determine the applicable exchange rates for the business day for each of the six GCC currencies against each of the other GCC currencies and communicate these rates to GPC for the daily FX rate setting.

d. Cross-border payments are accepted first in the domestic RTGS system of the sending country on the sending Participant's account. They are then routed via the Regional Payment Gateway to the Central Component and delivered to the Receiving Participant via the Regional Payments Gateway and the domestic RTGS system of the receiving country.

e. Payments are settled over the Inter-NCB Primary accounts with shadow postings to the accounts in the Central Component.

f. Payments are sent in the currency of the sending country, converted by the AFAQ CC at the daily fixed FX rates, and received in the currency of the receiving country.

g. A payment or transfer is considered to be immediately final upon debit and the sending Participant's account and corresponding credit entry in the accounts provided by NCBs.

h. AFAQ uses both MX and MT message formats for payments processing at the interface to NCBs. Internally (from RPG to RPG) the AFAQ Cross-Currency Service uses ISO 20022 MX formats.

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Sending Domestic RTGS

The Sending Domestic RTGS system, operated by that country's NCB, handles all communications with the Direct Participants in the sending country. It also deals with all aspects of the processing of outward cross-border payments in accordance with the rules of that country's RTGS system, including message validation, accounting, verification of the availability of funds on the account of the Sending Participant, debiting the account of the Sending Participant, crediting the account of the Receiving NCB and translation of the messages, if necessary, to the format required by the Sending RPG.

Sending/Receiving RPG

At a high level, the RPGs provide the following features to the AFAQ RTGS Service:

a. Message routing and validation,

b. Message queuing, in any event, causing messages to be queued until they can be delivered,

c. Handling of Payment Completion Confirmations,

d. Exception handling and return of payments,

e. Systems management and access control, and

f. Synchronisation of static data with the AFAQ RTGS CC.

AFAQ RTGS CC (Central Component)

The AFAQ RTGS CC performs the following main functions:

a. Receive payment messages from the Sending RPG,

b. Validate the message format and content,

c. Perform the accounting entries over the shadow accounts of sending and receiving NCBs,

d. Transmit the payment message to the Receiving RPG,

e. Process Payment Completion Confirmation messages from the Receiving RPG, match them with the previously sent payment messages and transmit the Completion Confirmation to the Sending RPG,

f. Process payment rejections and returns,

g. Maintain the Direct Participants directory,

h. Maintain FX Exchange Rates for cross-currency conversion and end-of-day settlement,

i. Maintain the Business Day Timetable and Calendar,

j. Provide enquiry services to NCBs,

k. Produce and transmit MT950 Shadow Account statements at end-of-day, and

l. Perform end-of-day netting activities and monitoring of the settlement.

Receiving Domestic RTGS

The Receiving Domestic RTGS system, operated by that country's NCB, handles all communications with the Direct Participants in the receiving country. It also deals with all aspects of the processing of inward cross-border payments in accordance with the rulebook of that country's RTGS system, including, debiting the account of the Sending NCB, crediting the account of the Receiving Participant, sending of the Payment Completion Confirmation to the Receiving RPG, and transmission of the inward payment message to the Receiving Participant.

Netting and End-of-Day Settlement

The AFAQ Cross-Currency Service uses a legally robust two-stage netting scheme in order to calculate the end-of-day positions of NCBs. In a first step NCB positions are netted bilaterally and in a second step positions are expressed in the settlement currency and multilaterally netted among the participating NCBs.

The settlement of remaining positions between NCBs at the end-of-day takes place in one of the GCC currencies participating in the service.

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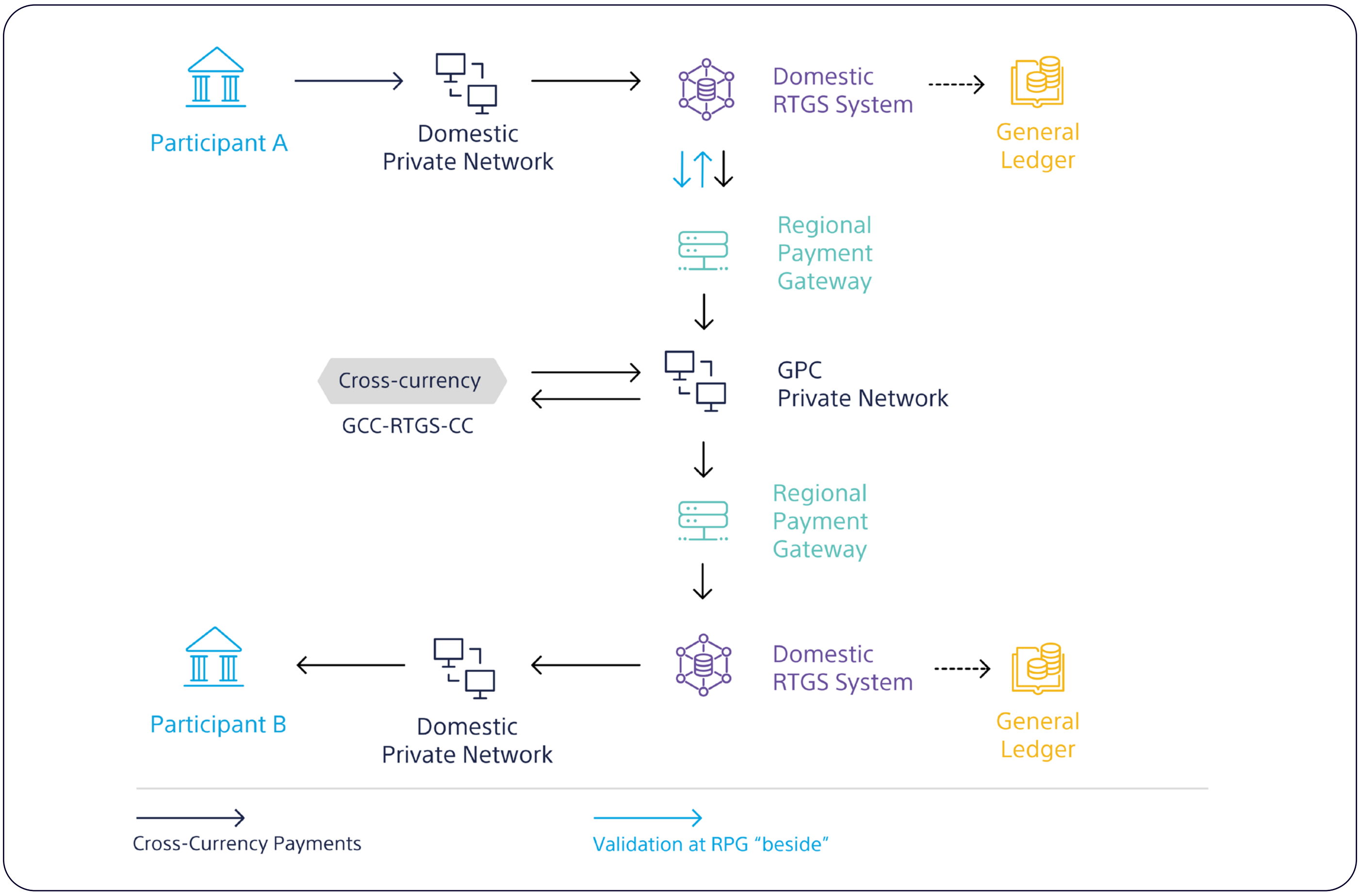
Payment Flow of AFAQ Cross-Currency Service

Figure 1: Cross-Currency Payment Flow



NOTE: Some steps may not be applicable in all circumstances.

Conclusions

Cross-border payments have long been seen to be pain points and bottlenecks of global and regional financial transactions. The GCC has taken up this challenge to develop and roll out payment solutions in domestic currencies that will enhance the speed, safety, and efficiency of payments across the Gulf region, supporting regional economic growth and integration.

In line with the consensus of the G20 and the FSB, the GCC is focusing on a service provision based on multilateral platforms, given that the economies of the participating countries have reached a level of integration that entails considerable payment flows, i.e., is creating a reasonable business case and that the GCC countries have a shared vision about economic and financial integration and the perseverance to implement the vision.

I believe that with the establishment of GPC as a dedicated and NCB-owned payment infrastructure provider, the foundation has been set to provide state-of-the-art and user-oriented payment services under the AFAQ label. AFAQ works as a central GCC hub for payment services, integrating domestic and cross-border services to create a truly integrated regional payments ecosystem.

The rollout of the AFAQ Cross-Currency Service is only the first step to provide a multilateral payments infrastructure to end-users that truly enhances the traditional one based on correspondent banking, creating a competitive edge in terms of speed, cost, and risk mitigation.

The AFAQ service family is expected to grow further, encompassing additional areas of critical infrastructure service support. Challenges will persist, as attention will have to be paid to long-term planning, permanent market support, and realistic expectation management to be successful in the end. However, I am certain that the GCC, with the combined support of the NCBs and GPC, is on the path to becoming a model for regional payments infrastructures.