

Committee on Payments
and Market Infrastructures



Changing the game with digital money

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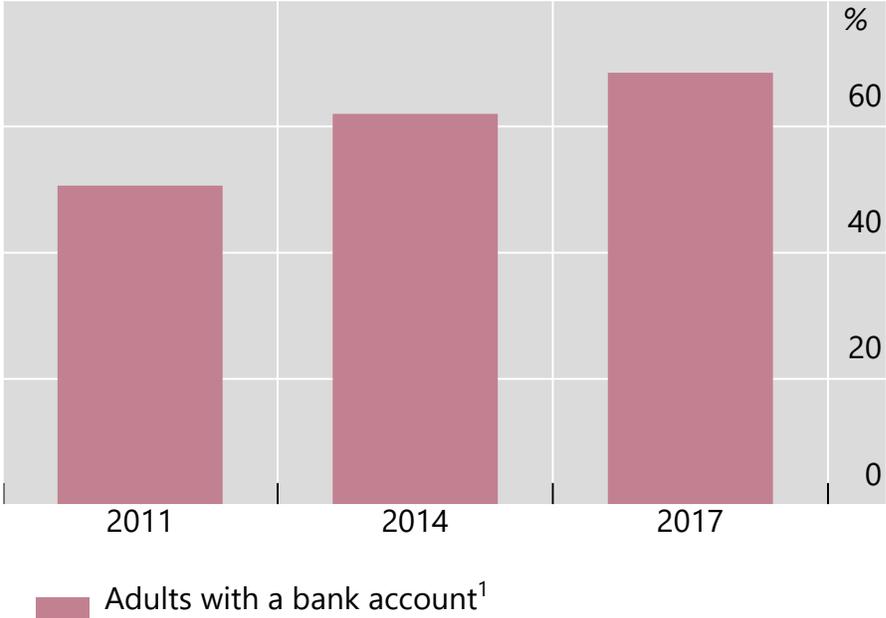
19 November 2019

Game plan

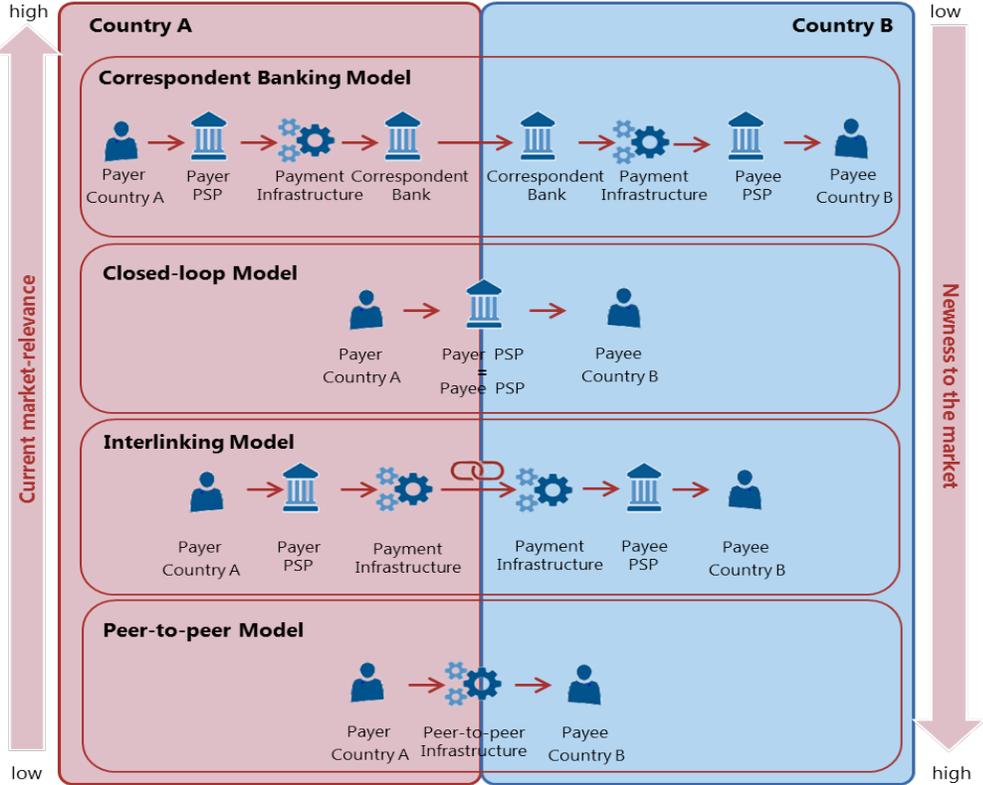
- Inefficiencies in money and payments: an emerging market perspective
- Central bank digital currencies as a solution
- The opportunistic bigtechs
- Concluding remarks

Known inefficiencies in FMI: inclusion and cross-border payments

Global access (financial inclusion)



Cross-border retail payment arrangements

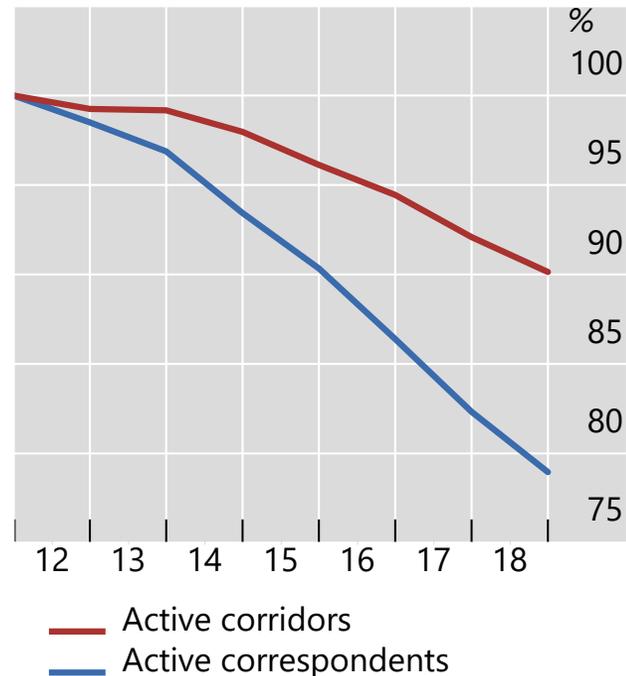


¹ Respondents aged 15+ who report having an account (by themselves or together with someone else) at a bank or another type of financial institution or report personally using a mobile money service in the past 12 months. Sources: World Bank Global Findex Surveys 2011, 2014, and 2017;

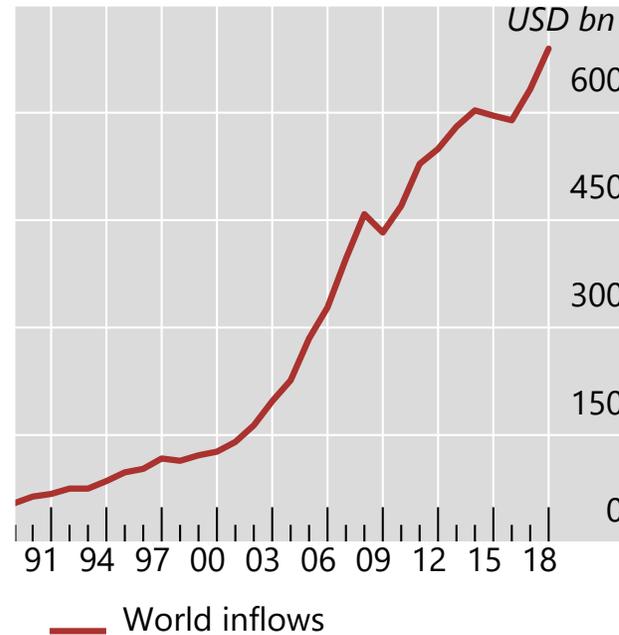
Remittance volumes and costs are rising

Placing a higher burden on emerging market economies that rely on remittances

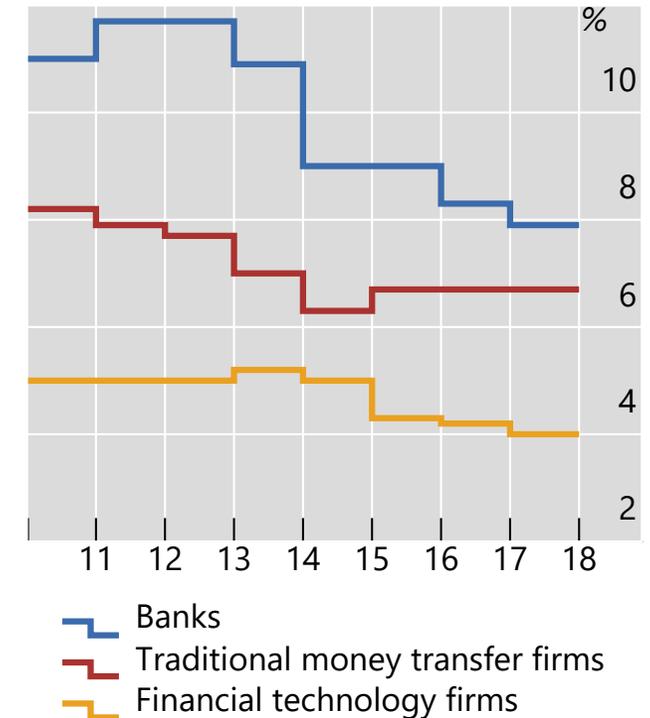
Decline in correspondent banking



Remittances volumes are rising



...at still high average costs ¹

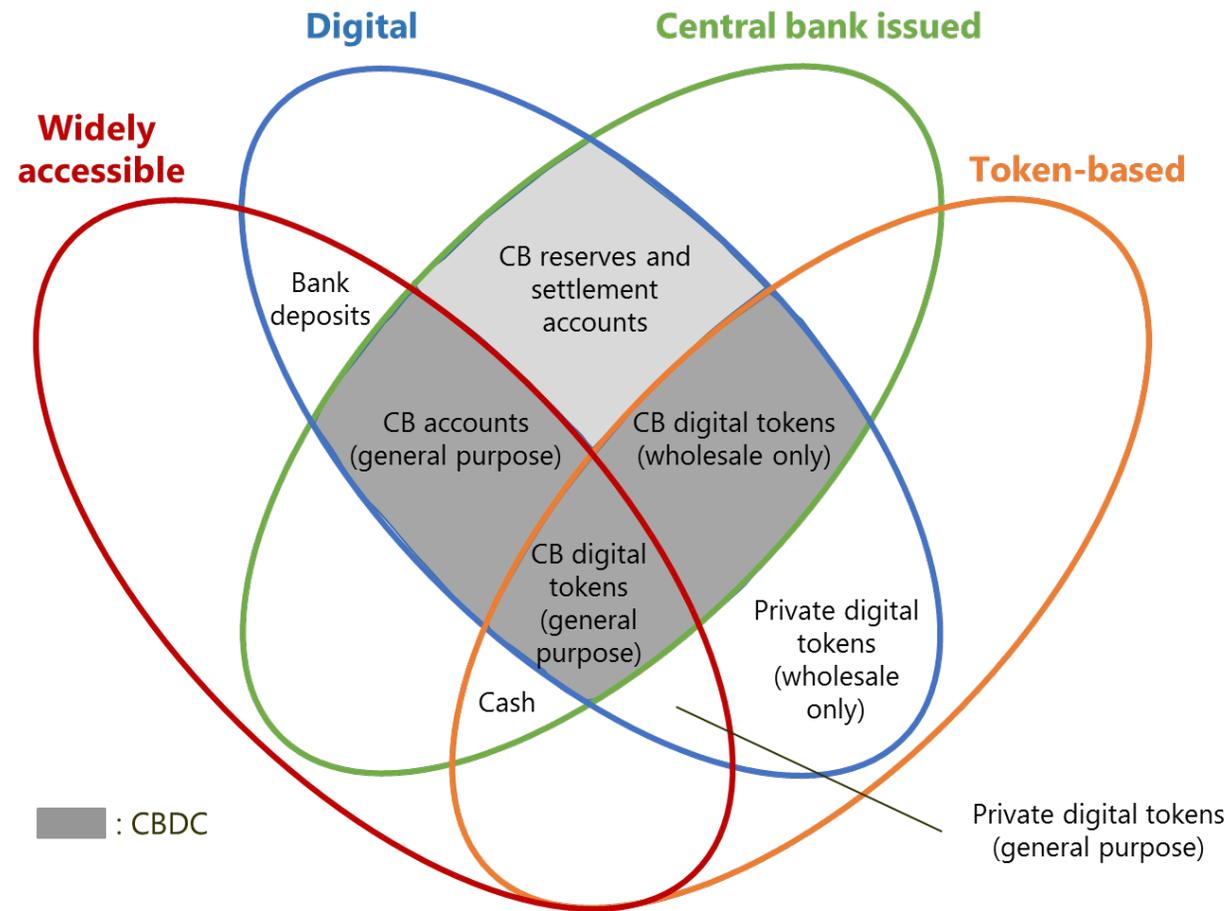


¹ Average total cost for sending \$200; figure adapted from *The Economist* (2019).

Sources: National Bank of Belgium; SWIFT BI Watch; *The Economist* (2019); World Bank, *Remittance Prices Worldwide*; World Bank; BIS calculations.

Game changer
Are Central Bank Digital Currencies the solution?

Central bank digital currencies



Source: Bech and Garratt, BIS Quarterly Review, September 2017, adapted by CPMI-MC report (2018).

Design choices

	Existing central bank money		Central bank digital currencies		
	Cash	Reserves and settlement balances	General purpose		Wholesale only token
			token	accounts	
24/7 availability	✓	✗	✓	(✓)	(✓)
Anonymity vis-à-vis central bank	✓	✗	(✓)	✗	(✓)
Peer-to-peer transfer	✓	✗	(✓)	✗	(✓)
Interest-bearing	✗	(✓)	(✓)	(✓)	(✓)
Limits or caps	✗	✗	(✓)	(✓)	(✓)
✓ = existing or likely feature, (✓) = possible feature, ✗ = not typical or possible feature.					

CBDC for all

The potential positives:

- Safer deposit account
- Lower barrier to entry/improving inclusion
- Easier negative rates
- Better competition for customer deposits
- Easier cross-border payments

The considerations:

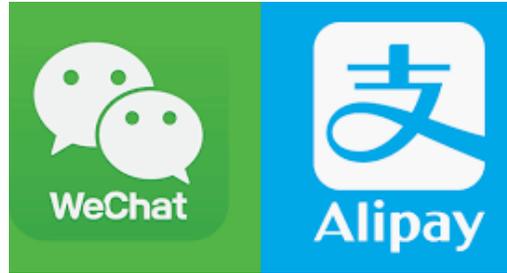
- Feasibility
 - Mandate/legal
 - Cyber risk
 - AML/CFT
 - Logistics
- Financial intermediation
 - bank deposits
 - Impact banks' business models and lending
- Financial stability
 - quicker bank runs vs safe deposits

Wholesale CBDC

- Experiments to date result in systems that look broadly similar to, and not clearly superior to, existing RTGS
- But there might be a role to play if RTGS are not yet developed
 - Higher risks – DLTs are largely untested
 - Higher reward?
- More work and experimentation needed

Financial pain could be bigtechs' gain

Big techs are increasingly moving into mobile payments



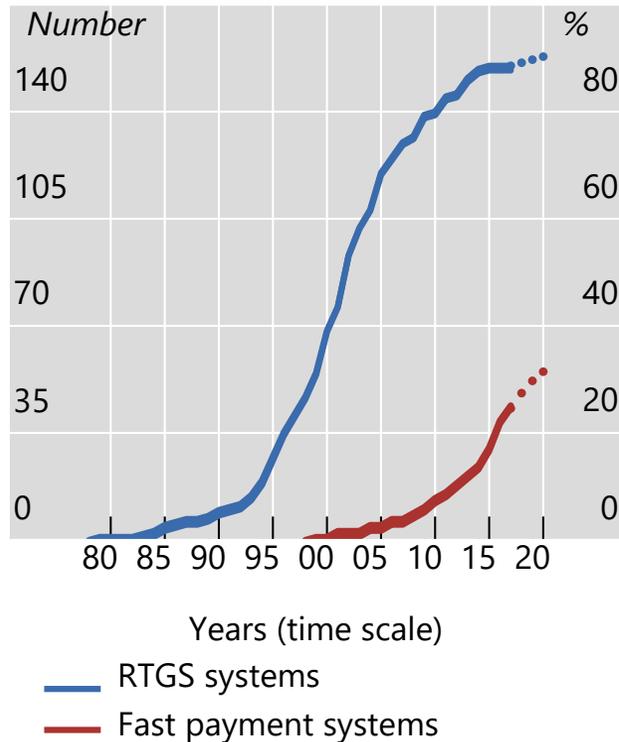
venmo



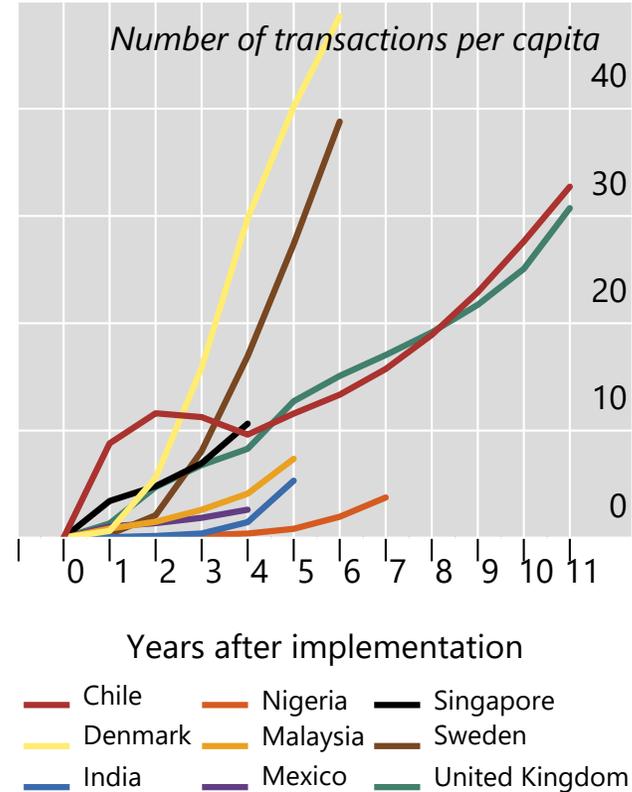
¹ Venmo is a mobile payments app owned by PayPal that integrates social media features. It is popular among college students in the US. ² Calibra is the mobile wallet that will run on top of the Libra network. ³ M-Pesa (M for mobile, pesa is Swahili for money) is a mobile phone-based money transfer, financing and microfinancing service, launched in 2007.

The need for speed - the back-ends are improving

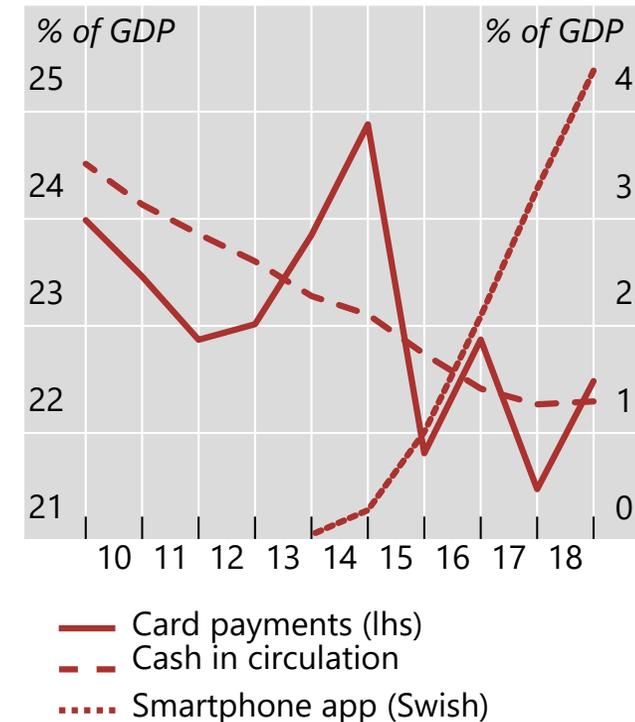
Diffusion of fast payments ¹



Use of fast payments



Sweden mobile payments take-off



¹ The dashed part of the lines corresponds to projected implementation.

Sources: Bech and Hobijn (2007); Bech, Shimizu and Wong (2017); CPMI Red Book Statistics; FIS (2018); national central banks; World Bank Group; IMF.

New potential entry – global stablecoins

Front-end

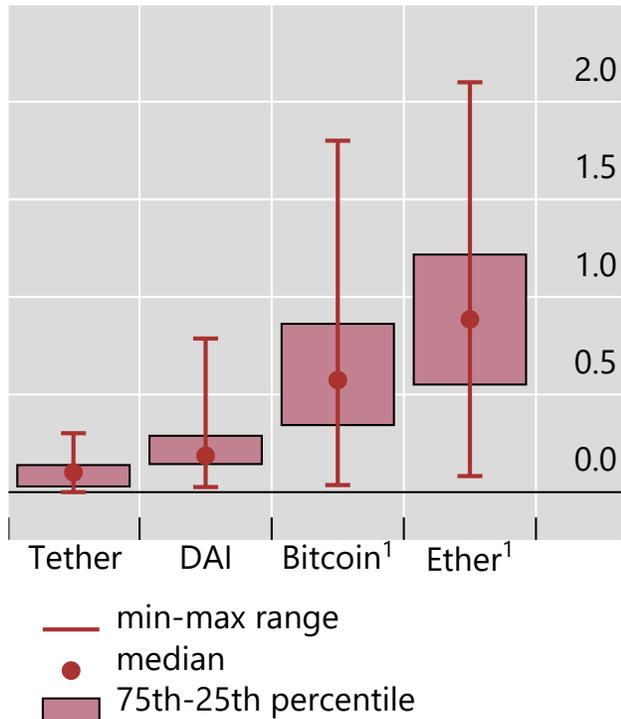


Back-end

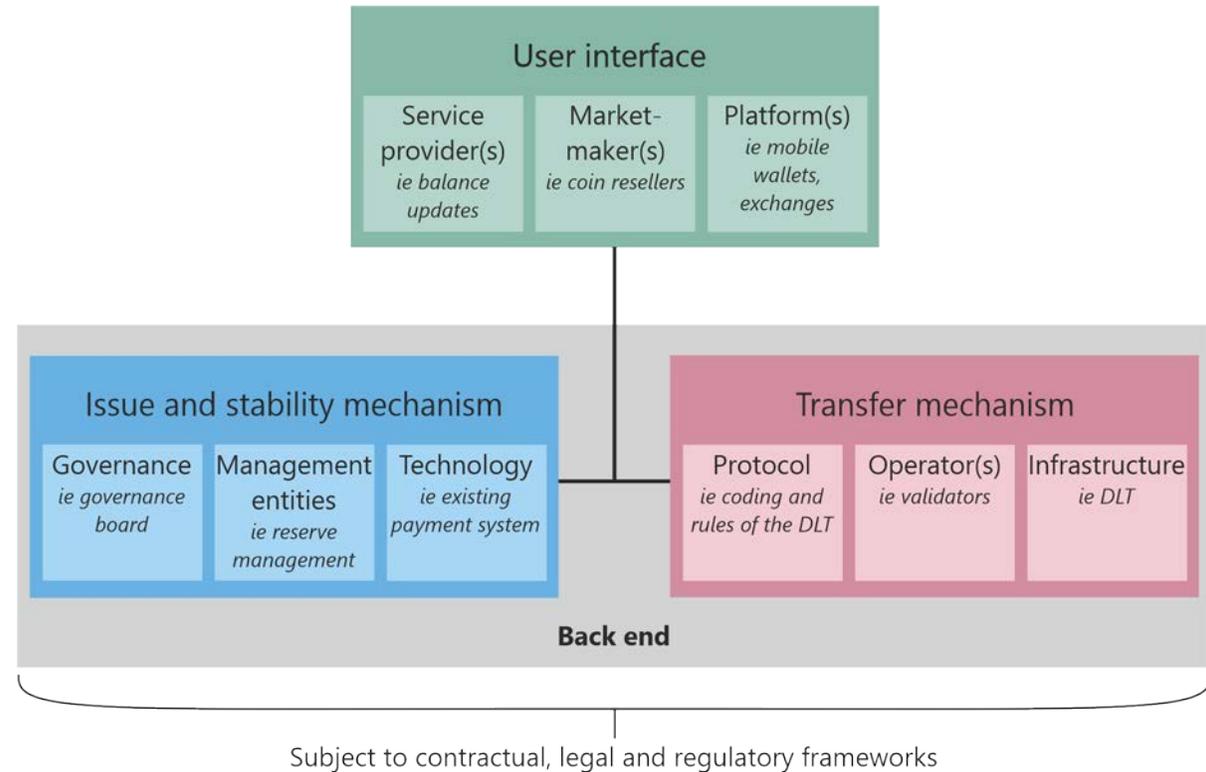


Stablecoins – bringing cryptos closer to money

Volatility



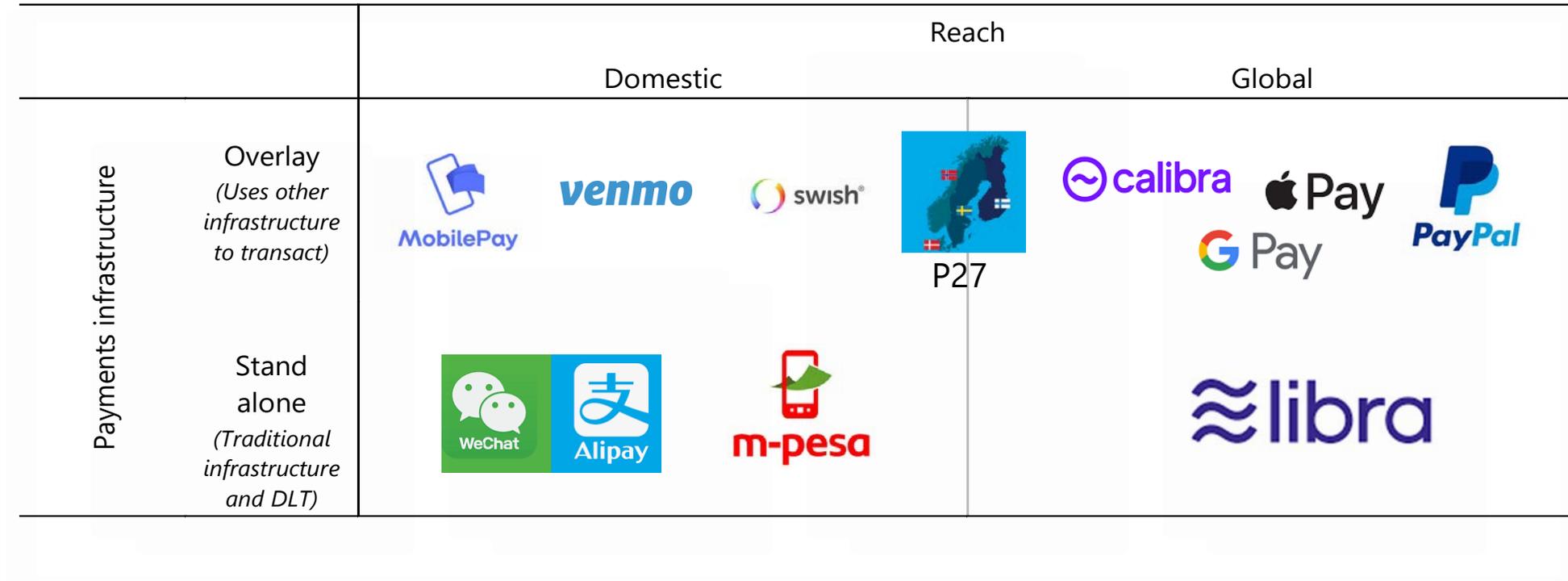
A functional view of the stablecoin ecosystem



¹ Bitcoin nor Ether are 'stablecoins'; they are included for reference.

Sources: G7 WG Investigating the impact of global stablecoins (2019); Bullmann, D, J Klemm and A Pinna (2019).

A simple framework ...



¹ Venmo is a mobile payments app owned by PayPal that integrates social media features. It is popular among college students in the US. ² Calibra is the mobile wallet that will run on top of the Libra network. ³ M-Pesa (M for mobile, pesa is Swahili for money) is a mobile phone-based money transfer, financing and microfinancing service, launched in 2007.

Hybrid - a 'synthetic' CBDC

- Central Banks offer 'eMoney' providers access to their reserve accounts under a strict condition of 100% backing - IMF
- 'Synthetic CBDC' = Narrow banking
- Benefits:
 - Remove credit risk
 - Retail services provided by private sector
- Costs:
 - Strict supervision required
 - Reputation risk for Central Bank

Concluding remarks

Walk the talk

- We need to **improve the efficiency and inclusiveness of payment and financial services.**
- Central banks assess the relevance of issuing **central bank digital currencies.**
- Public authorities consider **most appropriate regulatory treatment** of stablecoins and how existing regulatory frameworks can and should be applied.
- The FSB and international standard-setting bodies assess **how existing international principles and standards could be applied.**
- Maintain the high level of **international coordination**; ensure a level playing field.