Payment Systems: The Changing Landscape

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Payments Evolving at a Hectic Pace

- Changes propelled by developments in:
  - Financial Markets
  - Commercial Landscape
  - Regulatory Environment
  - Implementation of Global Initiatives
  - Increasing Cost Pressures on PS Providers
  - Decline in Cost of IT and Telecommunication Services

- Impact upon countries?
Changes in Financial Markets

- Elusive Economies of Scale and Scope

- OECD Countries:
  - Consolidation (within and across borders)
  - Innovations in Risk Transfer
  - Technological Progress
  - Low Inflation (even deflation) & Low Interest Environment

- Emerging Markets:
  - Consolidation (…and financial crises)
  - Banks…but also Stock Exchanges & Pension Funds
  - Composition of Capital Flows
  - Financial Liberalization
  - The Local Regulator’s Role and International Efforts

Changes in the Regulatory Environment

- New Technologies Potentially Destabilizing
- Risks: Individual, Systemic, Cross-Border

- Operational Risk: fraud, non-deliberate incorrect information, disaster risk and personnel risk
  - Fraud: insiders & hackers
  - Disaster Risk: September 11, 2001

- Regulators:
  - Individual risk responses
  - Emphasis on systemic risk (infrastructure, larger institutions)
  - Technology-neutral regulations?
Changes by the Launching of Global Initiatives

• Change the way banks operate, raising operational efficiency & reducing risks
• Examples:
  – CLS
  – GEM / Central Counterparties (Securities)
  – STP
  – TARGET
  – EBPP

Changes Induced by Increasing Cost Pressures on PS Providers

• Banks’ New Operational Context
• Payments Market Growing: Core to Banks’ Profitability
• Paper Based Systems: New Processing Arrangements & New Technology
• Outsourcing and Third-Party Service Providers
• Regulatory Response & Best Practices
Changes from the Continuous Decline in the Cost of IT and Telecommunication Services

• “Moore’s Law” and Constant Change
• Banks: Costs still dominated by Legacy Channels
• New Entrants and Non-Bank Players
• Wal-Mart and PayPal
• “First Mover” and fear of “Winner takes all”

Costs are Still Dominated by Legacy Channels

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>30%</td>
<td>65%</td>
<td>75%</td>
</tr>
<tr>
<td>Paper</td>
<td>35%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Electronic</td>
<td>35%</td>
<td>25%</td>
<td>15%</td>
</tr>
</tbody>
</table>

(1) Percent of payments processing costs
Source: BCG Global Payments Model; Client Studies
Banks Respond in Different Ways Over Time

Implications for Emerging Markets

- Rise of Electronic Payments
- Shift from Credit to Debit Instruments
- Globalization (…and recent crises)
- New Regulatory Changes & Global Initiatives (…join or lose)
- Toffler’s Dictum: “The future Always comes too Fast”
Work in Progress

• Thanks for Your Attention

• General Discussion

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