The Role of Central Banks in Retail Payments

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Costa Rica, June 2004

Policy objectives

Safety and Efficiency

What is the focus of these two objectives in the case of retail payments?
Policy objectives

Safety

- Systemically important payment systems – potential for systemic risk
  => Legal, financial, operational risks

- Retail payment systems – importance to economic activity
  => Operational risks – security and operational reliability

Efficiency

All payment systems

- Significant costs are involved
- Important economic needs must be met
- Significant choices must be made
Policy issues

1. Legal and regulatory
2. Structure and performance of the market
3. Market infrastructure and standards
4. Central bank services

1. Legal and regulatory issues

- Legal and regulatory provisions may fail to keep pace with payment innovation in unintended ways.
- There may be gaps or inconsistencies
- Safeguards against criminal use may not be adequate
- Cross-border payments may be a particular problem
- Legal and regulatory provisions may create entry barriers contrary to policy intentions
2. Structure and performance of the market

- Importance of competition
- Balance between cooperation and competition
- Access restrictions
- Pricing and transparency

3. Market infrastructure and standards

- Adequate security
- Adequate operational reliability
- Infrastructure arrangements
  - more concentrated risk
  - governance structures
- Standardisation and interoperability – network effects and market incentives
4. Central bank services

- Need to keep pace with market developments
- Transparency
- Pricing
- Access

Public policy goals – for all relevant public authorities (I)

Policies should be designed to:
- address legal/regulatory impediments
- foster competitive market conditions and behaviours
- support development of effective standards and infrastructure
- provide central bank services effectively
Public policy goals – for all relevant public authorities (II)

The first 3 goals of relevance for other public authorities with interest in efficiency and safety – 4th goal only for central banks

Role of central banks

Variety from country to country

- Operational – settlement, clearing, other services
- Oversight
- Catalyst or facilitator – based on cooperative relationships with public and private sector
Recommended minimum actions by central banks

- Review and monitor
- Cooperate and advise

Possible additional actions

Depending on market conditions and on central banks’ powers and responsibilities:

- More proactive catalyst/facilitator activity
- Intervention as overseers
- Intervention as service providers
Summary

- A first attempt to find common policy themes on retail payments
- Diversity of central banks’ current involvement
- Common objectives
- Policy issues arising out of current market trends – not everywhere at the same time
- Common public policy goals
- Central bank actions – recommended minimum actions and possible additional actions