Retail Payment Instruments and Access to Finance

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Background

• Payment system innovations, technological advances and development:
  ✓ are key components of financial infrastructure and financial system stability
  ✓ blurred distinction between high value and retail payments
  ✓ forced regulators/operators to mitigate risks of domestic retail payments
  ✓ encouraged G-10 and developed countries to concentrate on cross-border risk mitigation
Retail Payment System Development: Notable Features

- Retail payments development has been slow, modest and evolutionary
- Non-cash payment instruments like cheques, MOs, POs, IOUs, Bank Drafts are popular, but their market sizes are declining
- Banks and Internet have taken lead in retail payments development
- Some retail payment instruments are replaced by electronic payments, but not well-linked to customer requirements
### Non Cash Retail Payment Instruments - Volume of Transactions in Sri Lanka (in millions)

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<tr>
<th>Year</th>
<th>Cheques</th>
<th>ATM s</th>
<th>SLIPs</th>
<th>Card based payments</th>
<th>Internet / Phone banking</th>
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Non Cash Retail Payment Instruments -
Value of Transactions in Sri Lanka
(In Rs Billions)

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Rs. bn.
Public & Private Sector Roles

• **Public Policy Responsibility**
  - enhancing access to, and development of retail payments are public policy objectives

• **Public expect payment system to have three characteristics**
  - **Integrity** – safe, reliable and secure transactions
  - **Accessibility** – available to all
  - **Competitive and efficient** – cost to be as low as possible

• **Policy makers/regulators should:**
  - provide a conducive policy, legal and regulatory environment for development
  - design and announce the payments policy and different roles of the public/private sectors
Private Sector’s Role

- Introduce new instruments and systems
- Opt for common systems (e.g. *Common Payment Switches*)
- Use new technology and maintain standards
- Promote widespread access and enhance speed of transaction time
- In pricing instruments, priority should be given to affordability and enhancing access to payment system
- Private sector should closely coordinate with policy makers and regulators
Key Issues and Challenges

- State involvement and limited success
- Diverse institutional arrangements and complex processes
- Non-uniformity in the use of electronic payments
- Reluctance to automate and comply with accounting practices and standards
- Capturing businesses in vital areas (e.g. financing supply chain, remittances)
- Limited interoperability
Critical Success Factors

- Customer protection and rights
- Security, operational and infrastructure standards and governance structure (e.g. UK)
- Balance between efficiency and safety, while retaining public confidence in retail payment systems
- Easy access to retail payment infrastructure by all stakeholders
- Availability at affordable cost
- Public-private partnership
Medium Term Framework for Improvements

- Conducive macro-economic framework
- Payment system authorities to prepare and implement national payment roadmaps and strategic plans
- Regulators to issue guidelines to service providers to link up with common systems and use newest technology
- Facilitate implementation, set up National Payment Councils/Payment Advisory Committees
- Coordinate among banks and non-bank financial institutions
Medium Term Framework for Improvements..... *(Cont’d..)*

- International standard setters to announce general standards for all countries
- Promote regional payment initiatives
  - Western Hemisphere Payments & Securities Settlement Initiative
  - Arab Payments and Securities Settlement Initiative
  - Commonwealth Independent States Payments and Securities Initiative
  - SAARC Region Payment Initiative
Who should lead?

- Central banks at the forefront
  - USA, Sri Lanka, Malaysia

- Governments are not directly involved, but some provide leadership
  - Singapore
  - Eastern European countries

- Private sector/bank leadership
  - Canada
Role of the Central Bank

• Relationship between public policy objectives and central banks’ core objectives

• Central banks’ core objectives should prevail at times of conflict of interest

• Should play the catalyst role, promote market initiatives, competition and risk mitigation

• Some have outsourced/ payment and clearing functions and retain only settlement function
  • UK
Conclusion

• Medium term national road maps
• Technological advances and changing industry structures impact significantly on payment system developments
• Public priorities and acceptance of new payment methods are growing at a modest pace
• Coordination between public/private partnership essential and different rules should be disclosed
• Private sector to be mindful of enhancing accessibility and affordability
• National and international regulators, policy makers and standard setters each have a role to play
Thank you.....