



Retail Payment Instruments and Access to Finance

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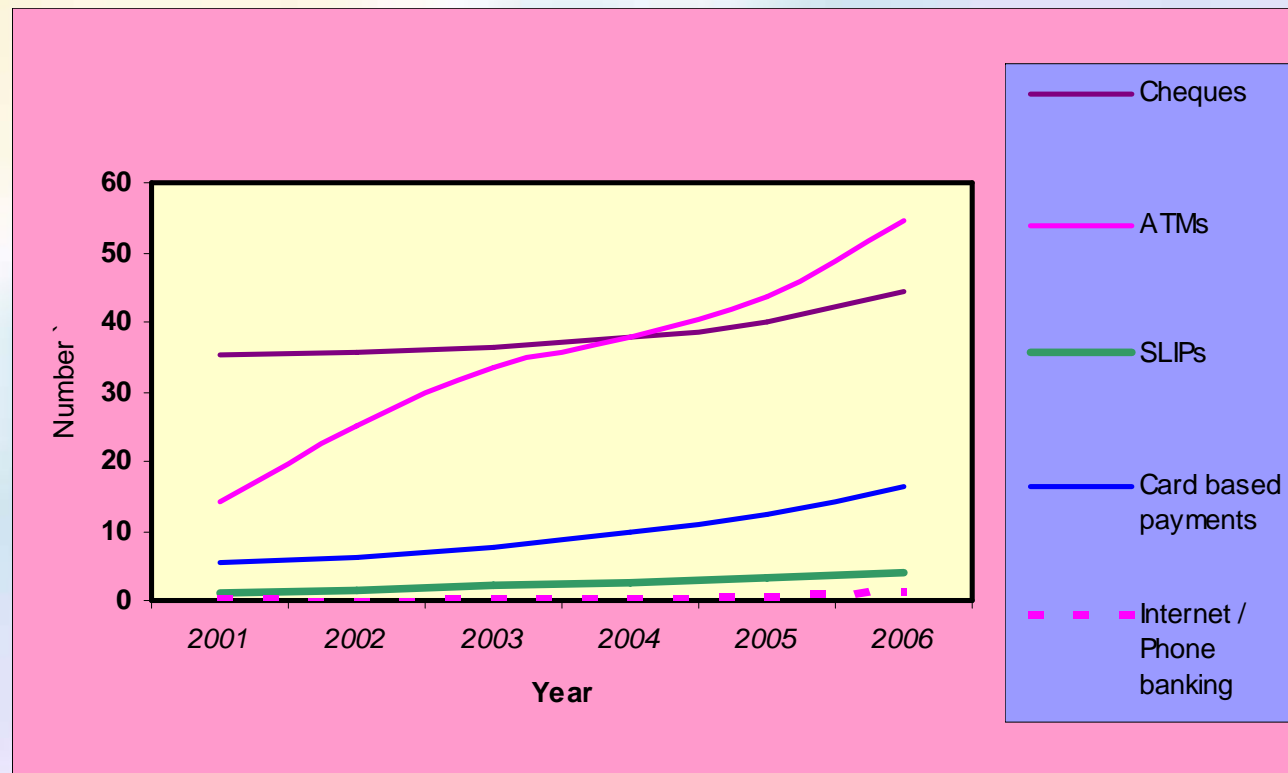
Background

- 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

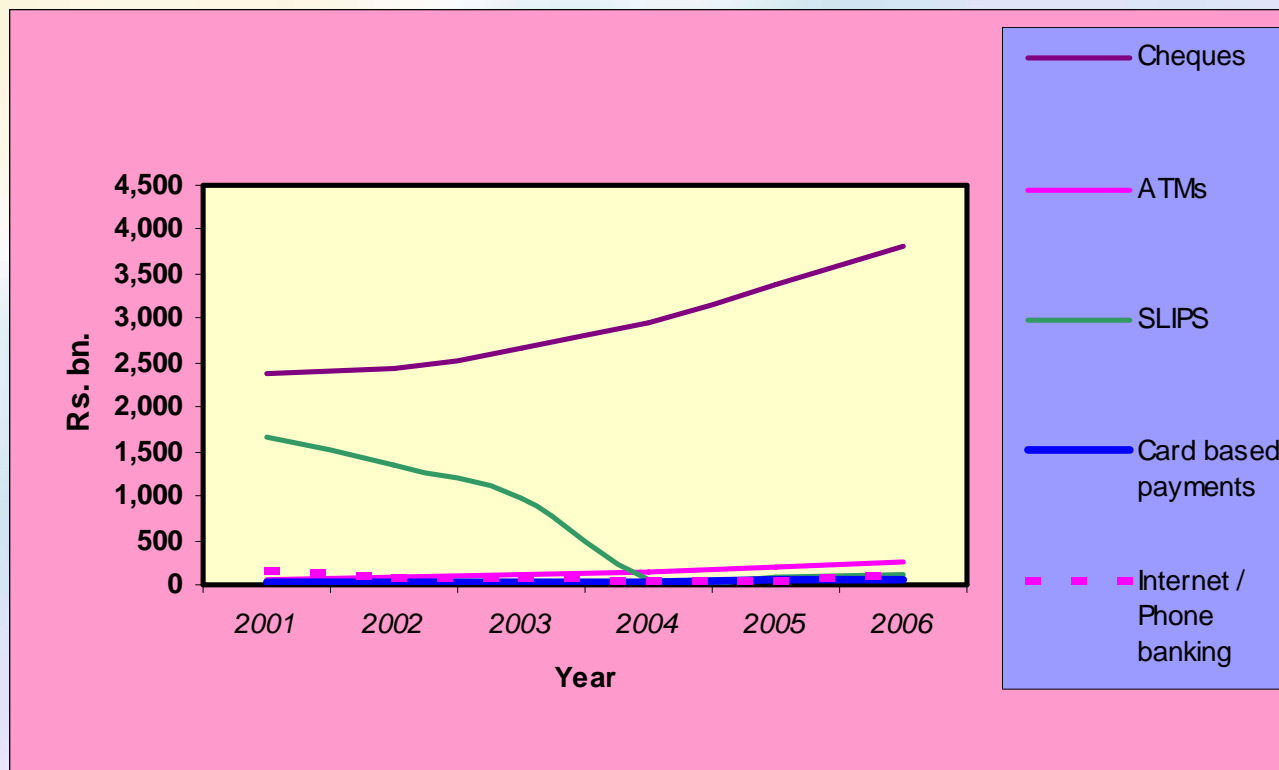
Retail Payment System Development: Notable Features

- 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)



Non Cash Retail Payment Instruments - Value of Transactions in Sri Lanka (In Rs Billions)



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.....