Session 1: Overview of Current and Future Payment Ecosystems

Perspective from PSDG, World Bank

W3C Workshop

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THE WORLD BANK

Public Policy Objectives in Retail Payments

- **Safety and Efficiency.** The safe and efficient use of money as a medium of exchange in retail transactions is particularly important for the stability of the currency and a foundation of the trust people have in it.
- **Promote Affordability and Ease of Access to Payment Services**. A wide range of payment instruments is essential for supporting customers' needs in a market economy (both domestic and cross-border, e.g. remittances). A less than optimal supply of payment instruments may ultimately have an impact on economic development and growth
- **Promote Socially Optimal Usage of Payment Instruments**. Payment instruments could have associated costs for society – e.g. excessive usage of credit cards could be detrimental and ability to mask business transactions as person-to-person could have tax implications.
- **Promote efficient infrastructure to support development of payment products**. Lack of efficient clearing and settlement mechanisms like payment card switches, automated clearinghouses and RTGS systems have implications on efficiency and safety of payment products, and also on competition and market structure.

Enhancing efficiency and effectiveness: Select Examples

- A more intensive usage of electronic-based instruments versus cash can produce a potential saving to the country of 0.7% of the GDP per year, releasing resources to the economy (Central Bank of Brazil)

- At launch, The Single European Payments Area (SEPA) project was estimated to bring benefits as high as EUR 123 billion over a period of 6 years

- Retailers incur 46% of the social cost of retail payments, also due to high usage cost of cash (European Central Bank)

Aggregate cost of cash to businesses in US

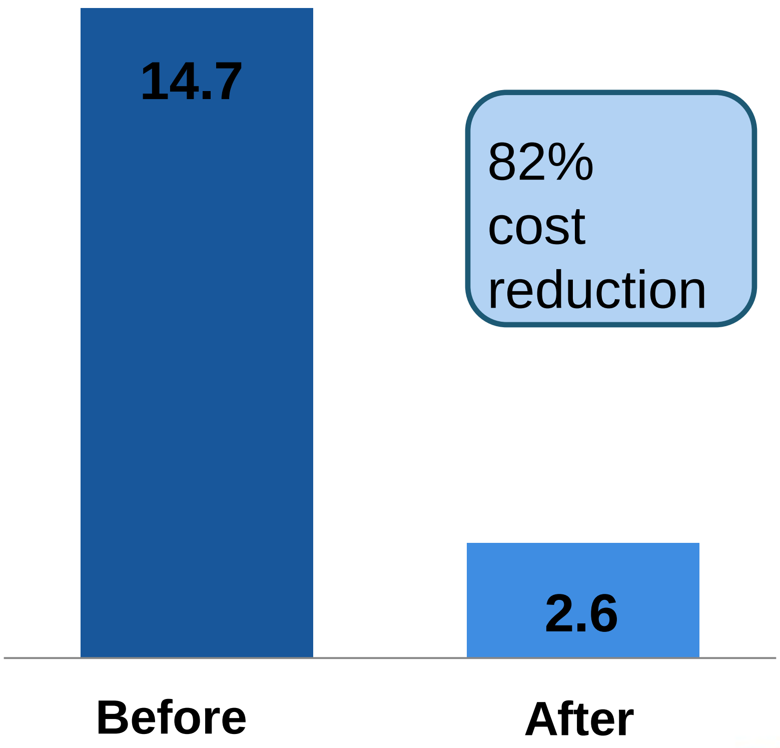
- $40B cash shrinkage from retail
- $30 Bank robbery/theft cash losses
- $5B operation and maintenance
- $5B cash in transit

Source: Cost of Cash in the United States, TUFTS University, 2012

Enhancing efficiency and effectiveness for Governments

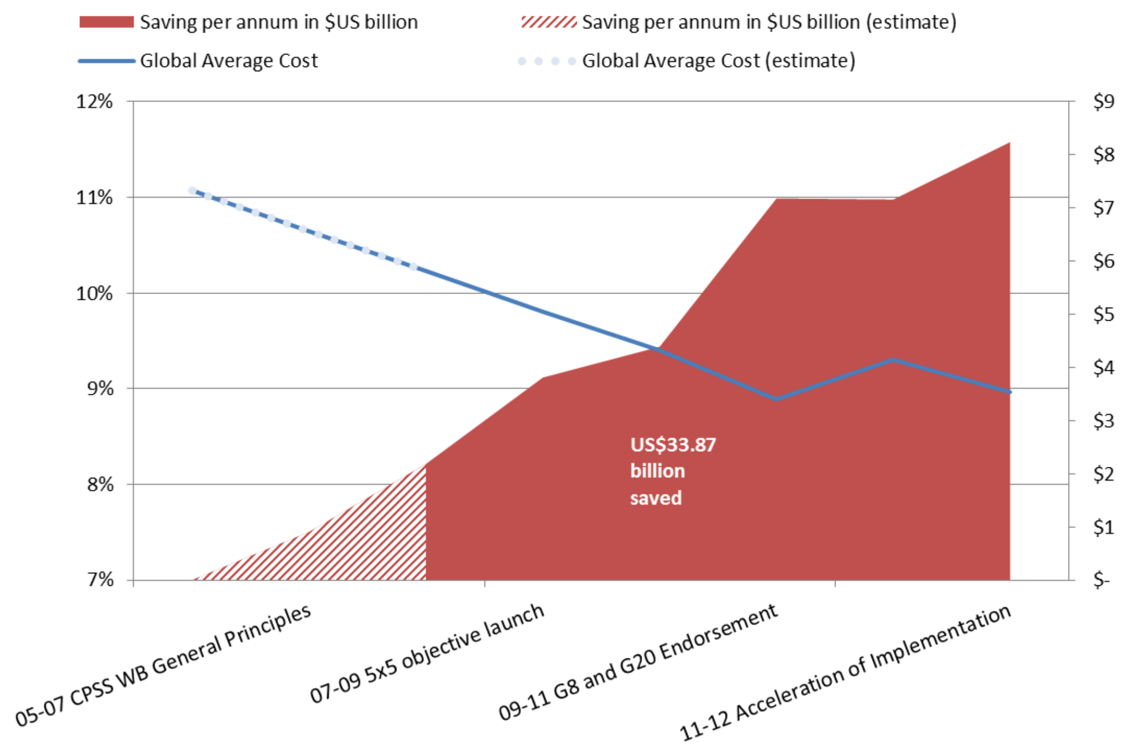
- Regardless of a country's stage of economic development, all governments make payments to and collect payments from individuals and businesses. (15-45% GDP)
- However, **only 25% of low-income countries worldwide** process cash transfers and social benefits electronically
- By going electronic, governments **can save over 75% on costs**, a significant amount in an era of stretched resources
- A 2010 study estimates that the Indian government could potentially save Rs 1 Trillion (1.6% of GDP) by moving all of its payments to electronic non-cash mechanisms (McKinsey)

Bolsa Familia program (Brazil)
Cost of delivery as % of total



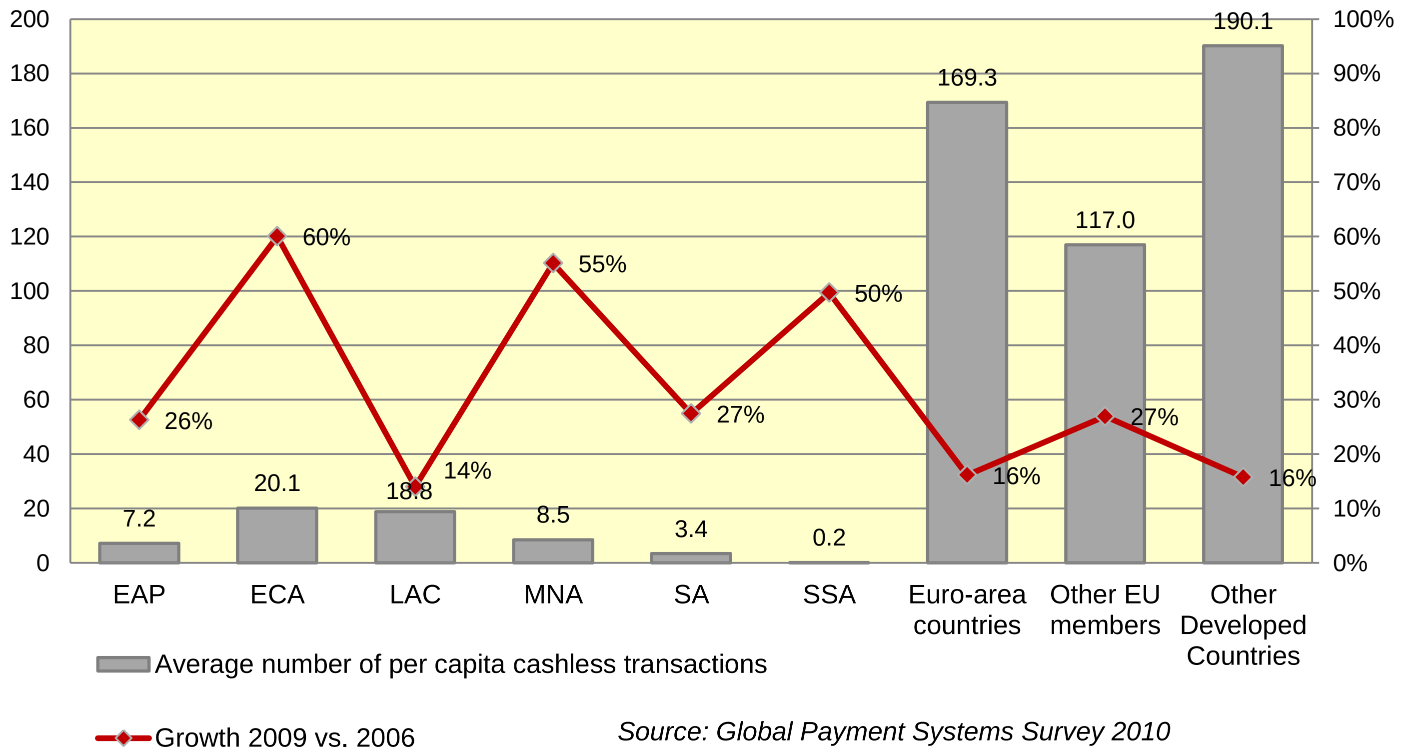
Enhancing efficiency and effectiveness for households: International remittances

Global efforts led by the World Bank matched with interventions at the country level are bringing down the cost of remittance services: **estimated US$ 33.87 billion saved**



Source: Financial Infrastructure Service Line elaboration on Remittance Prices Worldwide data

Wide disparity in usage of cashless payments



Source: Global Payment Systems Survey 2010

Retail cashless transactions per capita (2009)

EAP: *East Asia and Pacific,*
ECA: *Europe and Central Asia,*
LAC: *Latin America and the Caribbean,*
MNA: *Middle East and North Africa,*
SA: *South Asia,*
SSA: *Sub-Saharan Africa*

This situation may be explained by the following factors:

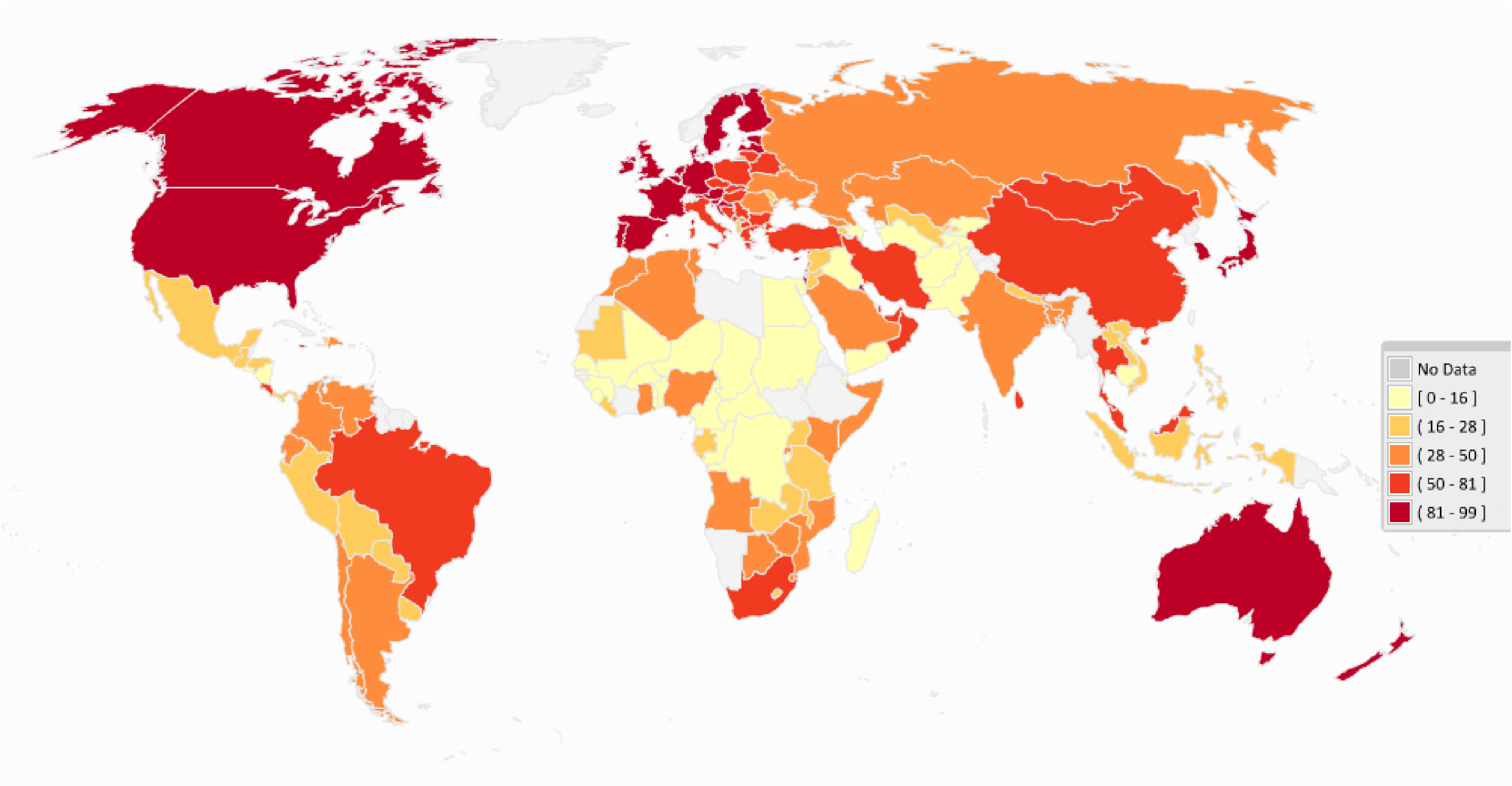
1. **Infrastructure and access.** Slow development of access channels to initiate and deliver cashless payments – e.g. Internet Access, POS terminals, and limited interoperability. Limited access by individuals to modern payment instruments in most developing countries.

2. **Competition and cost.** Limited competition among banking institutions and payment service providers – resulting in higher costs and more limited coverage.

3. **Government and corporate payments.** The specific needs of the government/utilities companies/large commercial firms not being addressed adequately – resulting in a preference for cash and cheques.

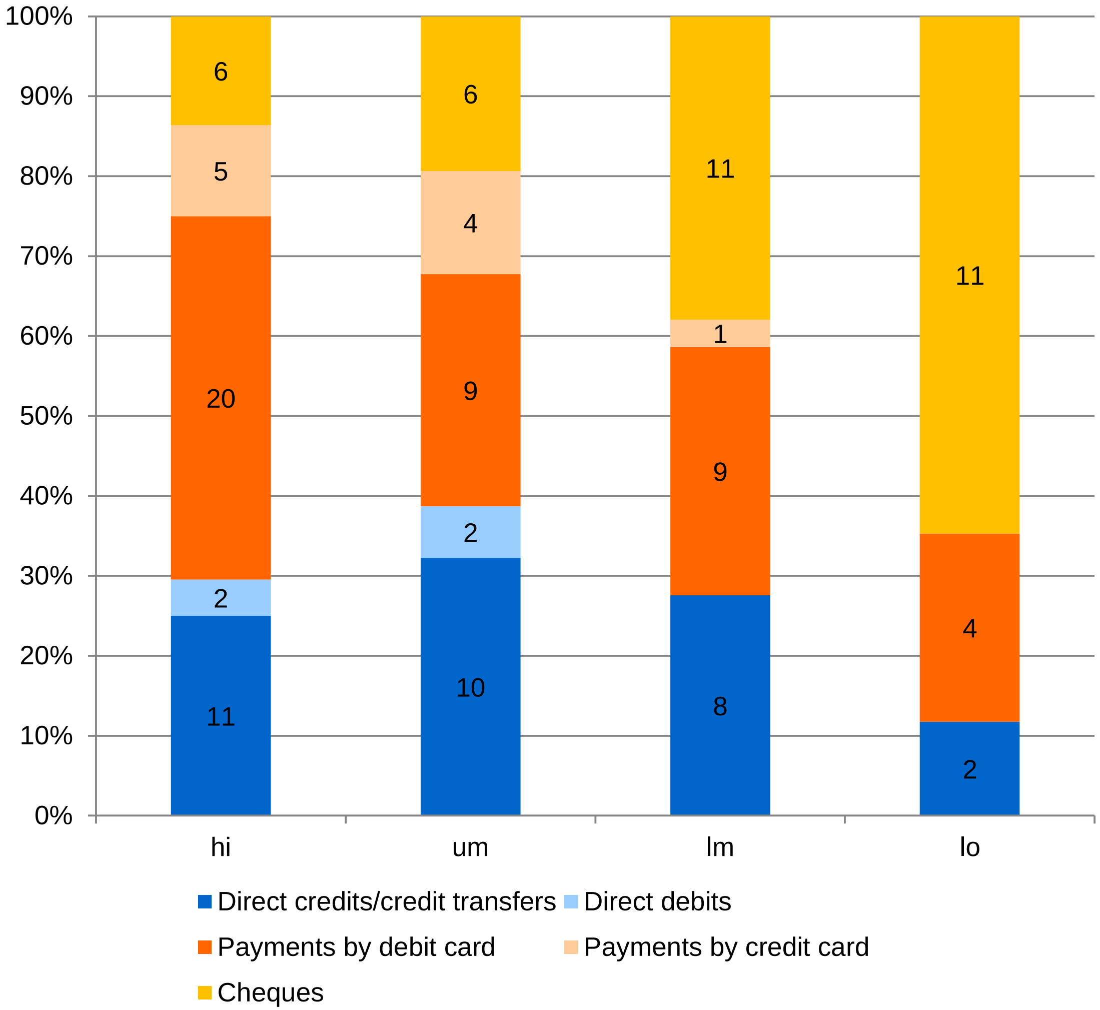
4. **Risk management.** Another relevant point emerging from the analysis is that, notwithstanding some improvement, risk management in payment systems is still weak.

Account Penetration*



**Source: Demirguc-Kunt and Klapper, 2012*

Relative importance of non-cash payment instruments (based on number of transactions)



- Each payment instrument was ranked based on the number of transactions, from “1” or most important to “ 5” or least important. Chart shows % and # of countries in which each payment instrument is considered “most important”
- Analysis by income clearly shows preference of lo countries for cheques (cheque is the most used payment means in 65% of low income countries, followed by debit cards). The divide with hi, um and lm is also evident (13%, 19%, and 37%)
- Cheque usage is substantial in SSA, SA, and LAC regions
- EU countries show stronger preference than other regions for direct credit/credit transfers (45%-47%) and credit cards (27%-55%).

General Trends in Retail Payments

1. **Technological developments and new payment needs key drivers of innovation; and, several examples of incremental innovation**
2. **Greater involvement of non-banks in retail payments**
3. **Increasing sophistication of prepaid products and early examples of integration with traditional payment systems infrastructure.**
4. **Increasing pressure on existing business model for card payments likely to lead to further innovations in business and pricing models.**
5. **Greater usage of sophisticated authentication mechanisms.**
6. **Broad shift towards near real-time payments and transfers capability in existing payment and settlement systems infrastructure.**

The Objective:
Universal Financial Access by 2020

Jim Yong Kim
President of the World Bank Group

- *"Universal access to financial services is within reach – thanks to **new technologies, transformative business models and ambitious reforms.**"*
- "*As early as 2020, such instruments as **e-money** accounts, along with **debit cards** and **low-cost regular bank accounts**, can significantly increase financial access for those who are now excluded*."

Source: IFC-The World Bank Press Release, 11 October 2013

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www.worldbank.org/paymentsystems