



Session 5: Back End: Banks, Regulation, and Future Clearing Systems

Select findings from World Bank Survey

W3C Workshop

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Key Findings from World Bank Global Payments Survey

Innovative Retail Payment Products: Types and Usage

Category	Sub-types	Number of countries
Card-Based	Account and balance information stored on a chip card	53
	Card used only for access, balance stored in a central system	58
Network	Account and Balance information in a central system accessed through various channels	43
	Accessed through internet	51
Mobile	Account and Balance information on Mobile phone	31
	Mobile phone used only for access	33
	Billed to mobile phone account	55
	Account information available on phone. Information used for initiating transaction - akin to contactless card	28

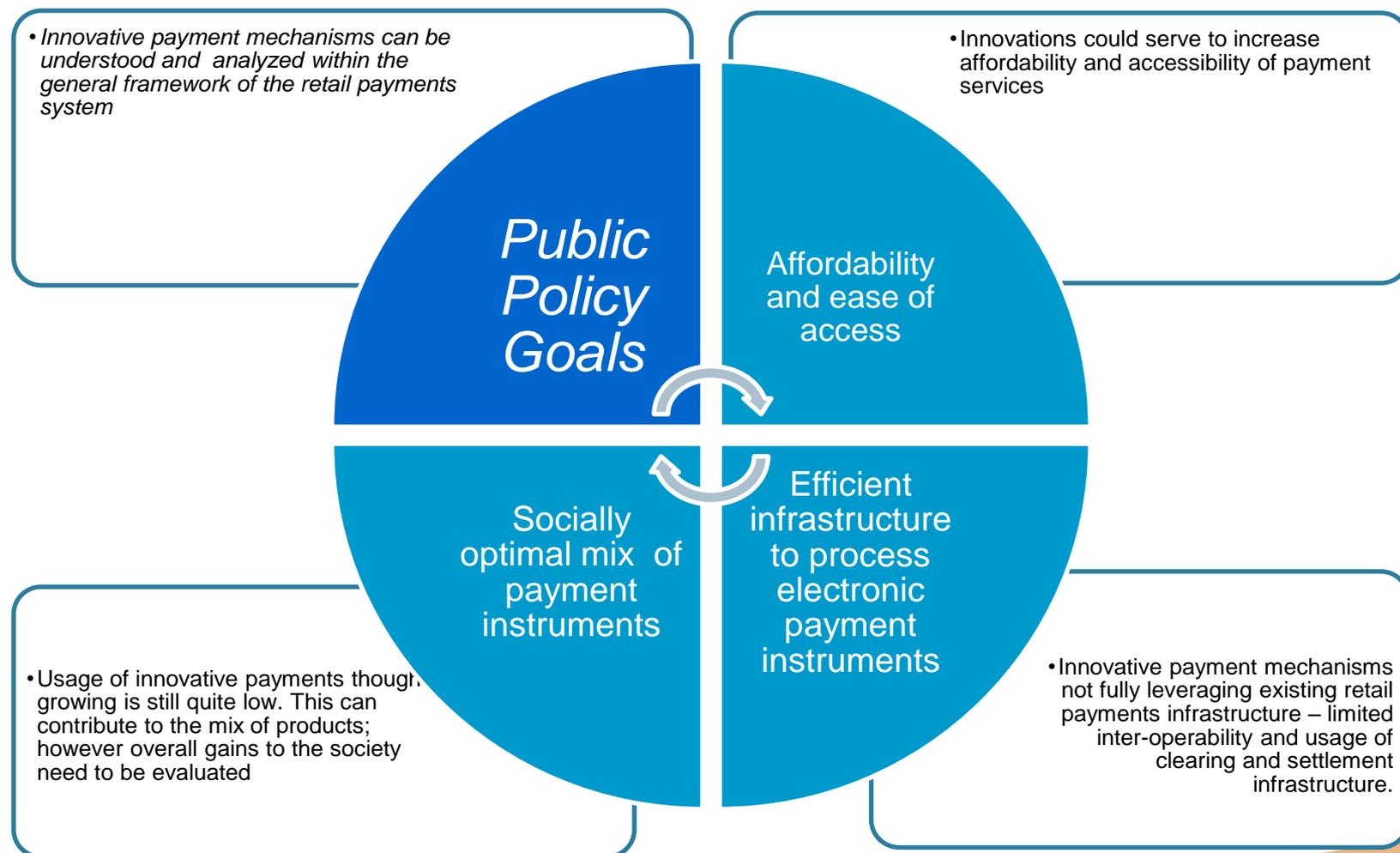
11% Innovative product transactions account for more than 5% of traditional electronic payments

69% Innovative product transactions are growing

19% Innovative product transactions are growing at a faster rate than traditional electronic retail payments

14% The innovative product is the only electronic payment instrument they have access to

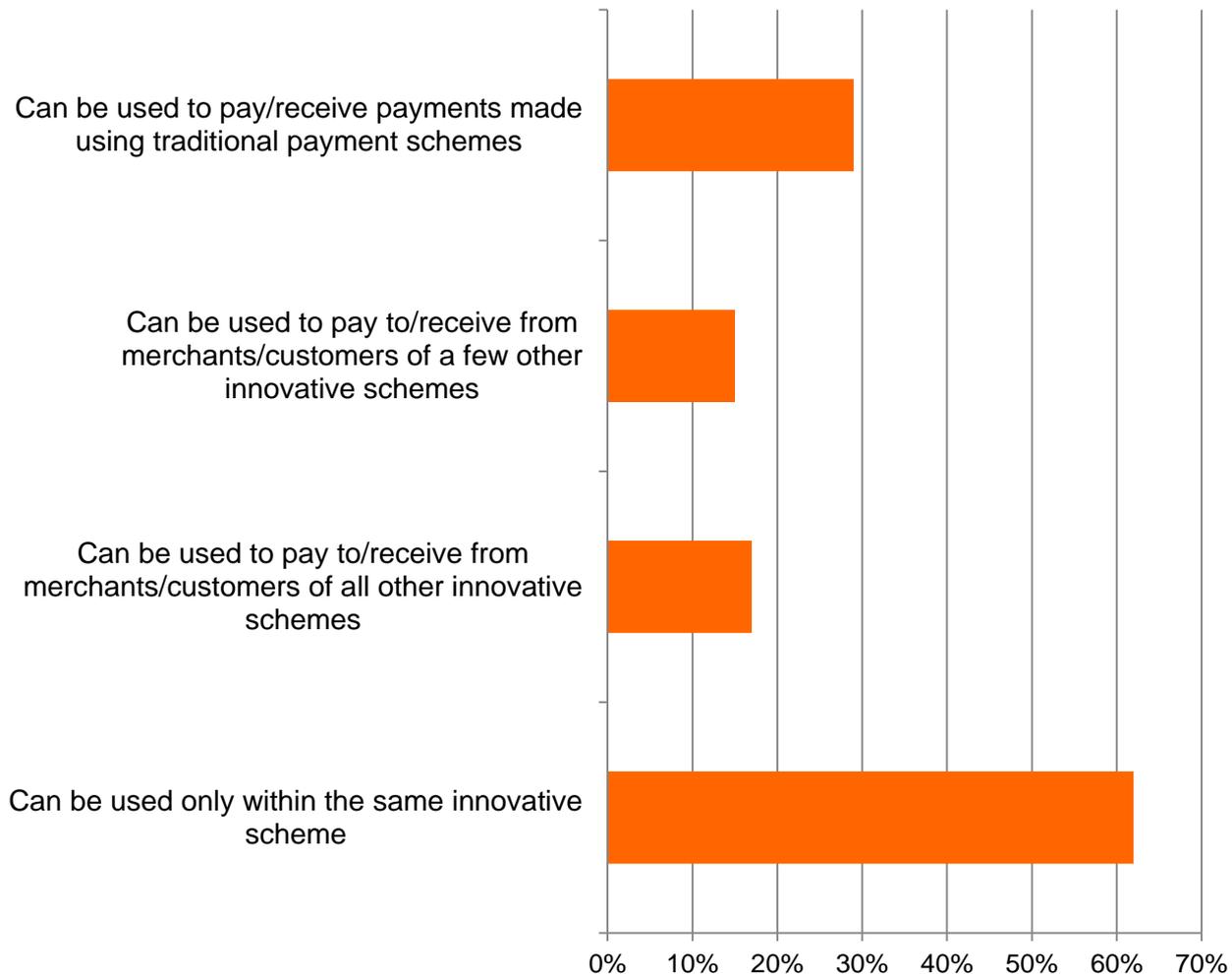
General findings and policy implications for innovative products



- Inter-operability promotes competition, enables economies of scale and enhances customer convenience; thereby facilitating greater adoption
- Several levels of inter-operability:
 - Infrastructure level
 - System-wide
 - Cross-system
- Achieving infrastructure level and system-wide inter-operability with cross system membership (non-exclusivity) might support de-facto cross-system inter-operability.
- For innovative payment mechanisms inter-operability across payment instruments is also relevant.

Infrastructure and access

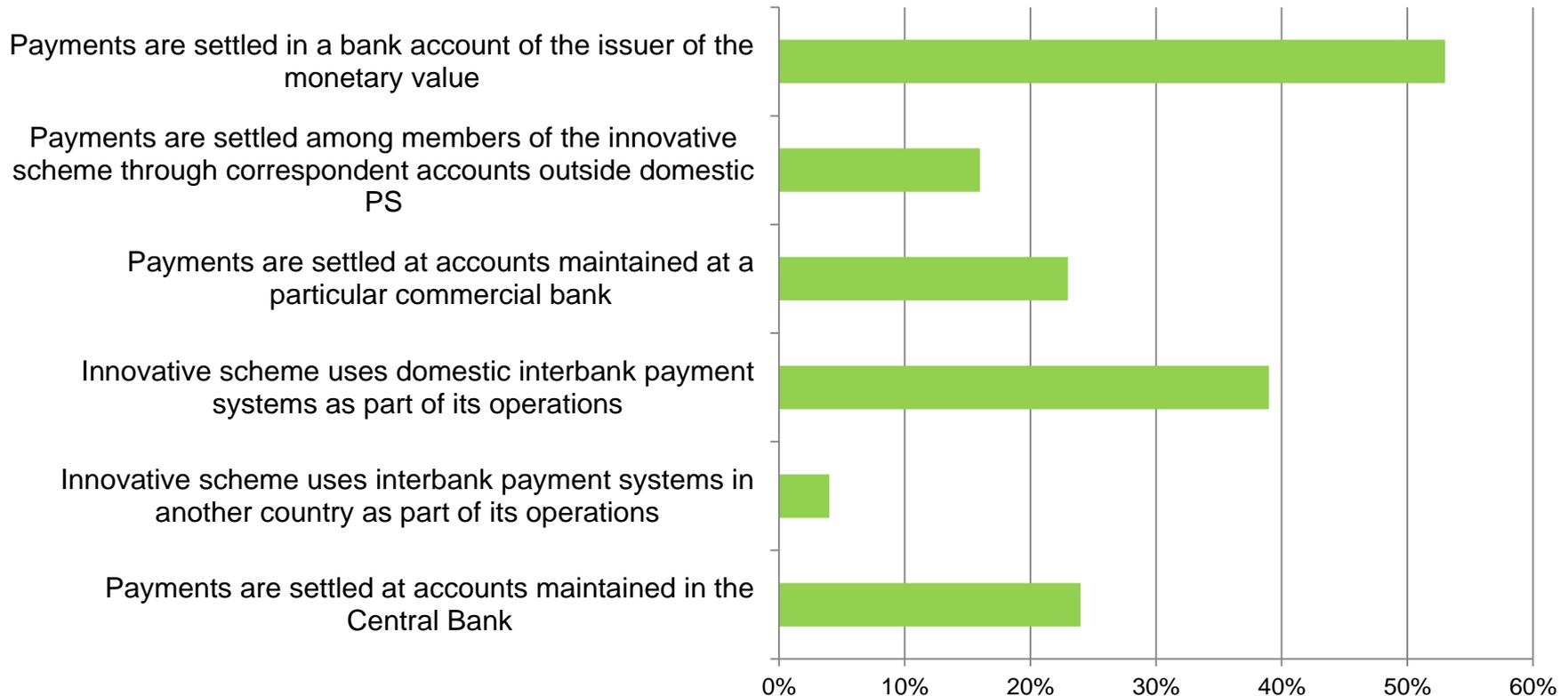
Interoperability of innovative payment products



- Information was collected on locations where products could be used and ability to use products for transfers to customers of other payment products
- Most of the innovative payment products are **closed-loop** (108 of the 173) products reported. Only 17% were reported having full-fledged interoperability, while 29% have some degree of interoperability
- Full interoperability is less common in high-income countries, especially ODCs, and somewhat more common in ECA and LAC

Infrastructure and access

Use of clearing and settlement infrastructure by innovative products



- The traditional clearing and settlement infrastructure is generally not used
- More than 50% of the innovative products reported in the survey were settled in the books of the issuer, with only around 24% settling in central bank money
- Less than 40% of the products settled in T+0

Legal and Regulatory Framework for innovative payment mechanisms

Legal and Regulatory Considerations

- **Safety of Customer Funds** – operational reliability issues and bankruptcy of issuer. Even where a bank is the issuer, existing treatment for deposit accounts might not be legally applicable to prepaid account. Measures like trust funds, segregation of funds, requiring operational reliability measures etc. can be used to mitigate risk
- **Heightened AML/CFT risks.** The way non-bank sets up accounts, operations are overseen and transactions are conducted could create higher AML/CFT risks – but could be addressed effectively through simple measures, e.g. limit transaction size and frequency
- **Weaker authentication could lead to higher fraud risks**
- **Consumer Protection.** Retail payments raise the additional issue of consumer protection. Independently from the kind of commercial relationship between the service provider and the user of the service, either durable or occasional, rules on transparency and protection of customers must be implemented. The profile of customers targeted could be first time users of payment products. Need to ensure they understand the terms and conditions
- **Need to ensure competitive market conditions.** Regulation should adopt a holistic retail payments view else it could lead to situations like - banks are constrained with banking regulations and new set of players have relaxed or no regulatory requirements
- **Oversight arrangements.**

- **Innovative payment mechanisms have a key role to play in advancing adoption of electronic payments and achievement of broader access to payment services.**
- **Innovative payment mechanisms need to be seen as an integral part of the national payments system of a country.**
- **An appropriate legal, regulatory and oversight framework is essential to ensure achievement of the potential of innovative payment mechanisms.**



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