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On the way to a digital retail payments ecosystem – drivers and inhibitors; Discussion

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Structure of my presentation

- Ruth Wandhöfer: The future of digital retail payments in Europe: A role for central bank issued crypto cash?
- Monika Hartmann, Lola Hernandez, Mirjam Plooiij and Quentin Vandeweyer: Are Instant Retail Payments Becoming the New Normal?
- Where do these two papers meet?



A role for central bank issued crypto cash?

- Does the digital retail payments market need central bank issued crypto cash:
 - To support or counterbalance regional payment innovation
 - To counterbalance global decentralised cryptocurrencies
 - To maintain central bank independency and link to citizens OR
 - To enable for regulated payment industry to survive by providing settlement finality with central bank money?

- Forms of money as reference to crypto cash
 - History of cash, commodity money, private banknotes
 - Central bank money vs commercial bank money
 - E-money as full reserve commercial bank money
 - Bitcoin and relevant other schemes



Retail payments: regulation vs innovation

- SEPA development
 - Credit transfers, direct debits, PSD1
 - Instant Payments
 - Pan-European std proxy look-up service for mobile instant payments
- Pressure on investment, reporting and compliance
- Payment card interchange fee caps
- PSD2 consequences for retail payments?
- Need and role for central bank money as retail payment instrument or as settlement mechanism in the future?



Why and how?

- Central Bank Crypto-Currency (CBCC) motivation
 - **IoT + IoM**
 - Reduction of cash – CBCC needed for stability and risk-free saving
 - Political motivations OR
 - New business models and global competition may require intervention by NCBs?
- CBCC proposal
 - Principles such as resemblance with paper cash
 - Some solutions as permissioned distributed ledger
 - Identification of some key features such as free exchange between account money and cash, value based vs account based models, anonymity vs private-public key solutions



Discussion

- The paper complements rapidly emerging literature on digital cash
- Different aspects of digital cash are well identified
- Motivation for CBCC remains vague:
 - NCB to compensate for reduced use of cash?
 - Counterbalance global competition due to PSD2?
- Relevant topics but many loose ends:
 - Table 1 inconsistent in some points (eg fiat money vs central bank money, account vs payment instrument)
 - Usage, cost, behaviour, role of cash, **IoM** – not reflected in CBCC analysis
 - Regulation well covered but not prioritized – role of PSD2?
 - Drivers for ncbs, banks, policy makers?
 - EU digital agenda?



General remarks

- Structure of the paper
 - Narrower scope would have been beneficial
 - Literature review prior to Research Question?
 - No clear link between "best of breed" in Table 1 and Chapter 5
 - Chapter 5 should be divided

- Literature review disproportional
 - Cash discussed widely, CBDC hardly at all – no link between phenomena
 - Research areas/aspects of phenomena mentioned should also be defined, eg. references to usage and behavioral research but no analysis/summary of existing knowledge

- CBCC as first step to facilitate DLT based settlement
 - Why this step needed? Jasper and Ubin go straight to the point.



Are Instant Retail Payments Becoming the New Normal?

- Based on literature and existing country cases the paper aims to assess prospects for a successful European real-time payment system
- Based on literature, 7 hypotheses developed:
 - Role of authorities
 - Market fragmentation
 - Distance to existing systems
 - Fees
 - Complementary technologies
 - E-services inclusion
 - Consumer characteristics



Main drivers for a European Instant Payment System

- Supply side: competition
 - to keep up with new players
 - PSD2 potential impact

- Demand side: complementary technology
 - Future is mobile
 - High penetration of mobile internet and electronic payments in general

- Strong catalyst role of authorities
 - Regulation
 - Facilitator

- Fee-sensitivity



Discussion

- Role of authorities seems crucial
- Country analysis:
 - Instant payments may substitute cheques, cash, credit transfers or card payments
 - UK case cheques -> direct debits or individual internet banking credit transfers to instant payments by default
 - Numerous "invisible" cash transactions may become visible by merging to mobile instant payments?
 - Increase in ad hoc payments when mobile instant payment more readily available than cash?
- Country examples mainly 4-corner models
 - Does the business model have an impact?



Areas of further analysis

- Role of corporate payments may become bigger than anticipated?
- Fee sensitivity in two-sided markets
 - Merchant side needs to be taken into account as well
- Complementary technology
 - Before the pan-European proxy look-up directory how much use will there be?
- Several infrastructures may provide enhanced competition and contingency?
 - Does SCT-standard limit innovation in instant payments?
 - ISO20022 in mobile?



Where do these two papers meet?

- Central banks' role in facilitating payment systems
 - ECB paper has good analysis why and how it may be provided
 - Wandhöfer sees ncb contribution important to maintain role of central bank money and to support regulated payment industry in settlement finality (blockchain, other?)
- Is it so that industry underserves network service such as payments and should we take basic payment services as utility?
 - Investment intensity
 - Economies of scale
- In spite of all central bank involvement, do we still need more?



Key questions for central banks

- Big changes in payments markets ahead
 - Technology driven innovation
 - Who is finally doing the innovation and who wins?
 - Regulation driven innovation
 - PSD2 may turn out to be double edged sword
 - How to maintain secure and efficient payment systems

- Contingency
 - System specific or by heterogeneous infrastructures?
 - Cyber risks – role of central bank money increases?



Thank you for your attention