The Importance of Payment Systems

Payment, Remittances & Securities settlement systems represent a basic infrastructure for the functioning of market economies

- **Sound PRSS Are Essential for Financial System Stability & Development**
  - Global Payment Systems Survey shows large value payments processed in a year worldwide are equivalent to more than 50 times global GDP
  - RTGS systems have shown growth in total amounts settled (86% between 2002 and 2006) but also allowed for a safe and efficient processing (82% of the value of total payments)

- **Safe PRSS Mitigate Risks in Financial Markets**
  - Financial market crises are likely to show their first signs in the payments system
  - Interbank money market as “distributor of liquidity” relies heavily on ability to transmit funds across the financial system rapidly and safely

- **Efficient PRSS Lead Countries to Huge Savings**
  - Progressive shift from paper-based to electronic payments is important for financial sector and economy
  - A study from the Central Bank of Brazil indicates that a more intensive usage of electronic-based instruments can produce a potential saving to the country of 0.7% of the GDP per year

- **PRSS Are Key in Developing More Inclusive Financial Systems**
  - A sound and efficient financial infrastructure enhance access to financial services
  - Retail payment services often the first entry point of underserved into financial sector
**International Standards and Best Practices**

*Standard setter (BIS-CPSS), with strong support of World Bank/others, has developed body of standards, best practices and policy advice documents*

<table>
<thead>
<tr>
<th>Area</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-value payment systems</td>
<td>CPSS Core Principles for Systemically Important Payment Systems</td>
</tr>
</tbody>
</table>
| Securities settlement systems | CPSS-IOSCO Recommendations for Securities Settlement Systems  
CPSS-IOSCO Recommendations for Central Counterparties  
G-30 Global Clearing and Settlement |
| Payment system oversight    | CPSS: Central Bank Oversight of Payment and Settlement Systems             |
| Remittances                 | CPSS-WB General Principles for International Remittance Services           |
| Cross-cutting issues        | CPSS: The Interdependencies of Payment and Settlement Systems  
CPSS: General Guidance for National Payment System Development  
CPSS: New Developments in Clearing and Settlement Arrangements for OTC Derivatives  
CPSS: Cross-border Collateral Arrangements |
Payment Systems Development Group: Role

Help develop sound and efficient payment, remittance, and securities settlement systems, to:
- Strengthen Financial Stability
- Support Access to Finance

Stocktaking & Policy Advice → Implementation Support

- Vision & Strategy
- Legal Framework
- Large-Value Systems
- Securities Settlement
- Retail Payment Systems
- Government Payments
  - Remittances
- FX Wholesale Payments
- Oversight & Cooperation

Financing: WB loans-grants, fee-based and other TA, Regional Initiatives, FSAPs, support to FIRST-funded Initiatives, Others
The Payment System Development Group is at the center of an international network, whose main objective is supporting countries to reform Payments, Remittances, and SSS (over 120 countries in 14 years, 68 active!!!)

- World Bank Payment Weeks, SIBOS, Regional Events, International Conferences Regional
- Economic research on broad range of payment system issues including remittances and new technologies (mobile payments)
- API, CEMAC, CISPI, PAPRI
- SAPI, SADC, UEMOA, WHF
- CPSS, IMF, IFC
- IOSCO,
- Development Banks other multilaterals
- SWIFT, card networks, CLS
- Bank, commercial banks, other financial institutions, payment system operators, vendors, at the global and domestic levels

Payment Systems Development Group: Delivery Model

- Develop Regional Initiatives
- Knowledge Dissemination
- Multilaterals and Standard-setters
- Research and New Developments
- Central Banks and SCs
- Major Stakeholders

G-10 and non G-10 Central Banks and Securities Commissions
**PSDG Country and Sub-Regional Reform Projects in Payment, Remittances and Securities Settlement Systems (including FSAPs)**

- Latin America and the Caribbean: Belize, Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, The Bahamas, Trinidad and Tobago, Uruguay.

- Eastern Europe and Central Asia: Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan.

- Middle East and North Africa: Algeria, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Palestine, Saudi Arabia, Sudan, Tunisia, UAE, Yemen, Arab Payment System Integration Project.
PSDG Country and Sub-Regional Reform Projects in Payment, Remittances and Securities Settlement Systems (including FSAPs)

- South Asia: Afghanistan, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.
- Sub-Saharan Africa: CEMAC, ECOWAS, East Africa Community, Ethiopia, Ghana, Rwanda, SADC, Sierra Leone, UEMOA, West African Monetary Zone.
- East Asia and Pacific: Cambodia, China, Fiji, Indonesia, Lao, Papua New Guinea, Samoa, Solomon Islands, Vanuatu, Vietnam.
PSDG Global Projects
in Payment and Securities Settlement Systems

- Global Payment Systems Survey (and Annex on Innovative Retail Payment Systems and Instruments)
- Global Private-Public Sector Experts’ Group to define Guidelines on Regional and Sub-Regional Payment Systems Integration
- Participation in the CPSS-IOSCO revision of standards for financial market infrastructures (FMIs)
  - Chair of the Sub-Group on Assessment Methodologies
- Government Payments Task Force
- Participation in Bank-Fund Financial Sector Assessment Programs (FSAPs)
- Financial Infrastructure Diagnostics (FID)
Regional Initiatives and Events
## Regional Initiatives Activities

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Country Assessments</th>
<th>Country Reports</th>
<th>Webpage</th>
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</thead>
<tbody>
<tr>
<td>WHI/WHF</td>
<td>25 countries Follow-up missions</td>
<td>15 Yellow Books</td>
<td><a href="http://www.forodepagos.org">www.forodepagos.org</a></td>
</tr>
<tr>
<td>CISPI</td>
<td>11 countries Follow-up missions</td>
<td>6 Silver Books</td>
<td><a href="http://www.cis-pi.org">www.cis-pi.org</a></td>
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<tr>
<td>API</td>
<td>14 countries Follow-up missions</td>
<td>One White Book Egypt</td>
<td><a href="http://www.amf.org.ae/acpss">www.amf.org.ae/acpss</a></td>
</tr>
<tr>
<td>SAPI</td>
<td>6 countries Follow-up missions</td>
<td>One Purple Book Pakistan</td>
<td><a href="http://www.worldbank.org/paymentsystems">www.worldbank.org/paymentsystems</a></td>
</tr>
<tr>
<td>New! PAPRI</td>
<td>5 countries</td>
<td></td>
<td>Upcoming on <a href="http://www.worldbank.org/paymentsystems">www.worldbank.org/paymentsystems</a></td>
</tr>
</tbody>
</table>
Global Payment System Survey
Launch of New Iteration of the World Bank Global Payment Systems Survey

- First Survey published in 2008
- Covered 128 central banks and 142 countries
- Available at www.worldbank.org/paymentsystems
- Topics covered:
  i. Legal and Regulatory Framework
  ii. Large-Value Funds Transfer Systems
  iii. Retail Payment Systems
  iv. Foreign Exchange Settlement Systems
  v. Cross-border Payments and International Remittances
  vi. Securities Settlement Systems
  vii. Payment System Oversight and Cooperation
  viii. Planned and On-going Reforms to the National Payments System
Payment Systems Survey 2010

- Launched in July 2010
- Sent to 172 central banks and 191 countries
- 138 countries responded - as of October 19, 2010

Topics covered:
1. Legal and Regulatory Framework
2. Large-Value Funds Transfer Systems
3. Retail Payment Systems
4. Foreign Exchange Settlement Systems
5. Cross-border Payments and International Remittances
6. Securities Settlement Systems
7. Payment System Oversight and Cooperation
8. Planned and On-going Reforms to the National Payments System

Annex 1! New survey on innovations in retail payments issued as an Annexure to GPSS. Builds on CPSS “Survey of Developments in Electronic Money and Internet and Mobile Payments”. Annex 1 is divided into 5 key areas:

1. Type of Products
2. Design Features of the Products
3. Legal and Regulatory Framework
4. Statistics
5. Planned Reforms/New Products
Scaling up Interventions in the Retail Payments Space
15+ years of discussion and reforms have led to important progress worldwide with regard to Legal Framework and High-Value Payment Systems…

- 98 central banks report having a RTGS system
- Most of the RTGS in place are secure and have been designed around international standards and best practices

…but retail payment systems in developing countries still lag behind significantly when compared to those of developed countries

- 100+ per capita cashless transactions per year in the EU and ODC
- 15-20 for EAP and ECA
- Less than 1 for AFR

*Source: Global Payment Systems Survey 2008*
Non-Cash* Retail Payment Transactions Per Capita
(Simple average for each region, 2006)

On average, an adult in Africa makes a non-cash transaction only about 2 times per year compared to an adult in EU countries who makes 175 transactions per year.

*Non-cash transactions include: checks, payment cards (debit and credit), EFT (debit and credit transfers)
Scaling up Intervention in the Retail Payments Area, Currently the PSDG Supports:

- Creation of comprehensive retail payment system strategies
- Implementation of an efficient clearing and settlement infrastructure for ALL retail payments
- Efforts to improve the efficiency of the market for international remittances, through the implementation of the WB-BIS General Principles for International Remittances Services
- Reform of the legal and regulatory framework
- Inclusion of the public sector in the retail space to enhance the efficiency of government payments
- Creation of an effective payment system oversight function and an inclusive cooperative framework
World Bank Reform Agenda for Retail Payments
(defined by PSDG - 2005)

- Central banks and all stakeholders in the retail arena must work together in a clear strategy to promote the intensive use of retail electronic payment instruments and reduce the importance of cheques.

- Central banks should take a leadership role to achieve the necessary agreements among banks and other participants so that there is at least one ACH operating in the country that is able to process modern payment instruments such as credit transfers and direct debits.

- Central banks should coordinate efforts under way in order to achieve a system that encompasses all relevant players and that processes as many services as possible, avoids duplications and operates on a full scale.
Central banks and other relevant government agencies should foster coordination and communication to ensure that collection and disbursements of the public sector institutions that are major players in the payments system be processed electronically and in a timely manner.

Central banks, in coordination with other authorities, should ensure customers protection and foster a safe and efficient provision of remittances services in line with the CPSS-WB General Principles for International Remittance Services.
Scaling up Interventions in the Retail Payments Space

“Balancing Cooperation and Competition in Retail Payment Systems”

A World Bank study coordinated by Mario Guadamillas
The Access to Payment Services Reflects the Demand Side in the Retail Payments Technical Chain

Persons, businesses, governments use retail payment instruments to satisfy payment needs

Retail Payments Instruments Supplied by Financial and Non Financial Institutions

Transaction processing and authorization

Transaction netting (Clearinghouse)

Settlement between counterparties and payment confirmation

ACCESS

MESSAGING

CLEARING

SETTLEMENT
Public Policy Objectives and Goals

- **Efficiency and reliability** are the general policy objectives. In addition, at least three policy goals should be considered:
  
  ✓ Achievement of a socially optimal use of payment instruments
  
  ✓ Deployment of an efficient infrastructure to support payment services
  
  ✓ Affordability and easiness of access to payment instruments and services
Defining a Framework for a Comprehensive Retail Payment Strategy

- Public Policy Goals
  - Availability of a range of efficient and reliable electronic payment instruments
  - Efficient clearing and settlement arrangements for retail payments
  - Broad based access to electronic payment instruments
  - Sound and reliable legal framework
  - Foster competition

- WB-BIS General Principles for International Remittance Services will serve as an analysis framework to identify specific issues and action areas
Scaling up Interventions in the Retail Payments Space

Retail Payment Strategy
## Sneak Preview of Retail Payment Strategy Paper

<table>
<thead>
<tr>
<th>Principle</th>
<th>Actions by Government and private players</th>
</tr>
</thead>
</table>
| Consumer Protection, Transparency and Access | • Minimum standards for consumer protection and Transparency  
• Ombudsman office  
• Enshrine customers right to financial access |
| Legal Framework                          | • Legal act to address standard payment system issues  
• Regulations, guidelines to address specific aspects  
• Proportionate regulations for payment service providers  
• Enable non-bank players to offer payment services |
| Infrastructure                           | • Require inter-operability  
• Foster creation of national payment networks  
• Fair and transparent access criteria for using infrastructure |
| Competition                              | • Encourage competition amongst payment instruments and mechanisms  
• Legal safe-guards against anti-competitive behavior  
• Ensure fair-access criteria  
• Ensure cross network acceptance of payment instruments |
| Risk Management                          | • Minimum standards for data security, privacy, fraud and operational risk management  
• Effective mechanism to address settlement risks |
Joint project WB-European Central Bank-Central Bank of Brazil

A detailed methodology for conducting stocktaking exercises for retail payment systems will be developed. This methodology would address the following aspects:

- What are the key metrics to be measured, how are they to be collected and how to set the benchmark values for these metrics?
- Identify the factors that influence these metrics, and identify how to assess the state of these factors in a particular country.

The deliverables will include a report on the recommended stocktaking approach, data collection templates, data analysis guidelines and suggested approaches to collect the required data.
Scaling up Interventions in the Retail Payments Space

Government Payments
The Importance of Government Payments to the National Payments System

Large Scale government payments projects encourage **coordination and cooperation** between financial service providers and the government authorities to develop efficient business processes for delivery of payment solutions.

Government payments can play an important role in promoting **financial inclusion** by extending non-cash, electronic payment instruments to the unbanked.

The use of non-cash, electronic payment instruments for government payments may significantly improve **cost savings** at all levels of national economy.

Scale and importance of government payments can play an important role in promoting **growth and innovation in a country’s retail payment infrastructure**.

Role of Central Bank as an Overseer and fiscal agent of the Government.
### Key Types of Government Payments

| Government to Person Payments | • Conditional and non-conditional cash transfers and social benefits including disaster relief assistance  
• Income tax refunds  
• Pension and social security (transfer payments)  
• Employee payroll and incentives |
|---|---|
| Payments to Government by Persons and Businesses | • Income, sales and VAT tax payments  
• Social security/pension contributions  
• Automotive costs – tolls, fines, tickets  
• Fees for government services, e.g. company registration |
| Government to Business Payments | • Procurement of goods and services  
• Corporate tax refunds  
• Sales Tax/VAT refunds  
• Disbursement of loans or business assistance |
| Government to Government Payments | • Intra-governmental payments include payments made by one government agency to another government agency for budgetary or operational purposes |
The Task Force inaugural meeting is scheduled for December 2-3, 2010.
Other WB significant projects in the retail payment space

- Position paper on legal and regulatory framework for E-Money and Innovative Electronic Payments
- Position paper on improving the infrastructure to support electronic payments in emerging markets
- Joint CPSS-WB Forum on Retail
International Remittances
The BIS-WB General Principles for International Remittance Services are a multilateral effort to address a global challenge

- Lower costs, better performance, safer transfers
- Single country implementation with authorities and stakeholders
- Regional initiatives with regional partners
  Global Private-Public Sector Partnership
- Coordination group to develop implementation guidelines and monitor implementation
- Development of the General Principles
- Request from the International Community

Assessments:
- El Salvador (September 2006)
- Morocco (November 2006)
- Honduras (April 2007)
- Haiti (September 2007)
- Nigeria (February, 2008)
- Uganda (April 2008)
- Guatemala (April 2008)
- Czech Republic (May 2008)
- U.A.E (January 2009)
- Brazil (April 2009)
- T&T(October 2009)
- Peru (October 2009)
- Rwanda (November 2009)
- Panama (December 2009)
- Colombia (March 2010)
- Sri Lanka (May 2010)
- Paraguay (September 2010)
World Bank – CPSS General Principles for International Remittances Services

GP1: The market for remittances should be transparent and have adequate consumer protection

GP2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged

GP3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework

GP4: Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance service industry

GP5: Remittance services should be supported by appropriate governance and risk management practices

<table>
<thead>
<tr>
<th>Remittance Service Providers</th>
<th>Should participate actively in the application of the general principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Authorities</td>
<td>Should evaluate what action to take to achieve the public policy objectives through implementation of the general principles</td>
</tr>
</tbody>
</table>
The Global Remittances Working Group: Milestones

- During the 2004 G8 Meeting at Sea Island, Remittances entered the G8 agenda

- 2006: Establishment of the Luxemburg Group on remittance data collection (flows) was established

- In January 2007, the General Principles on Remittance Services were released by the World Bank and CPSS creating the basis for future work on remittances

- In 2007, in Berlin, the G8 agreed to seven recommendations, among which was the creation of a Working Group on Remittances

- In September 2008, the World Bank, in cooperation with DFID, launched the Global Public Private Partnership on Remittances in Vienna

- In January 2009, the Global Remittances Working Group was created, coordinated by the World Bank

- In May 2009, the GRWG proposed the objective of the 5x5

- In July 2009, the G8 Heads of State endorsed the 5x5 objective
G8 5x5 Objective

- In many remittances corridors cost of sending remittances is still high relative to the often low incomes of migrant workers and their families.

- Reduction in cost would generate a net increase in income for migrants and their families in the developing world, estimated at 15 billion USD. This is particularly important for Small States where costs are relatively high.

- In light of this, the Global Remittance Working Group and the World Bank have promoted the 5x5 objective: reduction of average cost of sending remittances globally by 5 percentage points over 5 years.

- In July 2009, at L’Aquila summit, the G8 Head of States endorsed the 5x5 objective and made a pledge “to achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10% to 5% in 5 years through enhanced information, transparency, competition and cooperation with partners.”

- The World Bank Remittance Prices Worldwide database provides a reference for monitoring progress on this objective on a biannual basis.
Remittance Prices Worldwide
Increasing Transparency in the Market

The database remittanceprices.worldbank.org:

- Increases transparency and competition
- Provides comparisons of markets across countries and regions. The new iteration Q3 2010 (launched in September 2010) surveys 200 corridors and 29 sending countries
- Fosters price reductions through a “name and shame” approach. An example of this has been the case of LAC, where publication of remittance fees was a factor in their reduction from 15%, on average, in the region in 2000, to 5.6% in 2006
- Is not focused directly on the consumer (not updated on a day-to-day basis) and in this sense does not replace national databases but complements them (e.g. www.mandasoldiacasa.it for Italy, www.enviacentroamerica.com for Central American Countries and www.sendmoneypacific.org for the Pacific). WB CERTIFICATION!!!
In the Pipeline

- **Implementation of the GPs**
  Several country missions and TA projects will be implemented and dedicated resources will be put in place to coordinate the work and contribute to the achievement of the 5x5 objective

- **Country Briefs**
  Public Dissemination Reports based on the Missions for the Implementation of the GPs

- **African Remittance Database**
  This Database focused on Sub-Saharan Africa will study approximately 100 selected country corridors, aiming at covering at least 60% of total remittance flows to the region, including intra-African corridors. The outreach activities will play a fundamental role in the African contest and specific awareness programs have been designed in order for the database to be a useful tool for consumers
In the Pipeline

- **Pacific Remittance Initiative**
  Assess markets for remittances in six countries. Create sustainable arrangements to continue regional cooperation in payment systems and remittances

- **Issuance of the Guidance Note for the Implementation of the GPs**
  Specific guidelines for countries to implement the General Principles for International Remittances

- **Strategic Partnerships**
  Solid relationships have been created with:
  - the **African Remittances Institute** within the WB to intervene more effectively at the regional level and,
  - the **Food and Agricultural Organization of the UN** to undertake interdisciplinary assessments in countries with high levels of remittances to rural areas
Other PSDG Research

- “Guidelines on Regional and Sub-regional Payment System Integration”
  - WB Led G-25 Group of experts from public and private sector
  - Document presented at the Rio de Janeiro Conference

- The Importance of organized interbank market for liquidity management: an infrastructure perspective” Cirasino-Guadamillas (to be presented at the Rio de Janeiro Conference)

- Implementing the payment system oversight function: a practical Guide, Cirasino-O’ Connor (to be presented at the Rio de Janeiro Conference)

- Measuring Securities Settlement Systems Development
Thank you

Payment Systems Development Group
The World Bank

www.worldbank.org/paymentsystems