INNOVATION BY DOMESTIC PAYMENTS SYSTEMS IN THE PANDEMIC

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INNOVATION BY DOMESTIC PAYMENTS SYSTEMS IN THE PANDEMIC

AGENDA

- Introductory remarks
  Harish Natarajan, The World Bank

- Domestic Payments Jury Report 2021
  John Chaplin / Chris Hamilton

- Panel Discussion - Q&A
  David Birch / Chris Hamilton / John Chaplin

Moderator: David Stephenson, ECPA
To Survive or Thrive?

Domestic Payments Innovation in the Pandemic

April 2021
What answers did we expect from the research?
What answers did we expect from the research?

Initial drops in transaction volumes would make bank owners slash costs and reduce innovation.
TO SURVIVE OR THRIVE?
Domestic Payments Innovation in the Pandemic

CONTENTS

Forewords 03
Executive Summary 04
The Jury 06
The Changing World of Domestic Payments 07
Systemic Innovation 13
The Pandemic Strikes 15
Effect on Innovation 16
Future Prospects 20
Additional information 25
What did the Jury actually say?

- Transaction volumes fell but bounced back
- Domestic payments supported governments
- Domestic card companies diversifying fast
- Mobile first is the future
- Domestic payments going international
- Increasingly difficult choices for regulators
- Confidence remains high
- Pressure for ownership & governance changes
- Real time A2A growing but business models not clear
- Innovation continued apace, especially digital
- Technology & competition law are colliding
- Pressure for ownership & governance changes
- Domestic Payments Innovation Jury 2021
Who were the 2021 Domestic Payments Innovation Jury?

20% greater participation than previous record

World Bank & ECPA support really drove interest
How Covid affected transaction volumes

“Primarily because of the lockdown, consumers shifted from cash to digital. Also, regulatory intervention to make account to account transfers free ... caused volumes to increase as well...”

LARGEST MONTHLY REDUCTION IN VOLUMES VS. 2019
- 35%: No reduction
- 22%: 1-10% reduction
- 17%: 11-25% reduction
- 13%: 26-50% reduction
- 13%: >50% reduction

RECOVERY IN MONTHLY VOLUMES SINCE LARGEST REDUCTION
- 46%: No improvement
- 43%: Some, but much lower than normal
- 27%: Significant, but below normal
- 9%: Volumes have fully recovered
Domestic organisations were leveraged by governments

“Besides keep the payment rails running 24/7 we also helped with direct benefit transfer, government scheme to help the needy etc.”

SUPPORT FOR GOVERNMENT PANDEMIC RESPONSE

- Provided specific support: 35%
- Provided business as usual services: 35%
- No support provided: 30%

Domestic payments supported governments
Innovation activity was largely maintained
Focus areas for innovation

MOST PROMISING AREAS FOR INNOVATION

- Mobile Apps
- Realtime A2A
- Card services e.g. tap or QR codes
- Digital Identity
- Consumer/Loyalty
- Other, including cryptocurrencies

% of Responses: 0, 10, 20, 30, 40, 50, 60, 70, 80, 90, 100
“Digital ID is not an end in itself, but the enabler of e-government, inclusive financial services, online health, real-time payments and the connected smart cities of the future.

It is straightforward to see why banks might become natural providers of digital identity infrastructure. In many countries, domestic payment schemes already have the interconnection and interoperability in place and are ready for strategic extension into digital identity”

David Birch, Digital Payments Guru
"Behind the mobile device will be a wide variety of funding sources (card accounts, bank wallets, bank accounts, telco wallets, telco accounts, retailer wallets etc) with the payments made through a more limited number of payment solutions”

“In some developing markets there is a real risk that parallel payment networks – one for banks and the other for mobile money providers – lead to no interoperability”
Moving beyond national borders

Domestic Payments Innovation Jury 2021
Evidence of convergence & real time A2A increasing

“only 1 market in 5 has consolidated card and A2A platforms; but >70% see this as likely within 5 years”

Major divergence in Jury views

“Convergence will improve efficiency and should increase innovation”

“No agreed best practice model”

“Competition will reduce, innovation will suffer and no added value will be created”

Domestic Payments Innovation Jury 2021
Difficult choices for regulators

- Are bank-centric ownership & governance models right for the current market?

- What is the preferred balance of competition versus efficiency?

- Are ‘technical lockouts’ are just rewards for innovation or anticompetitive?

- Does convergence mean rethinking boundaries of scheme & processing?

Domestic Payments Innovation Jury 2021
How are domestic payments companies feeling?

Confidence remains high.
Five research implications for regulators

Payments are basic plumbing for an economy: likely to be critical for national economic goals so ownership, governance and cost are critical.

National self-determination cannot be ignored.

New entrants and new competing services create hard policy choices, and you must understand the technology.

A difficult balance to be struck between improving payments markets by encouraging competition & innovation, and maximising efficiency.

Payments regulation and competition law have to be closely coupled.
Five research implications for schemes and operators

The ecosystem is changing fast, and Covid is an accelerant.

Investment in systemic innovation is a must.

You have to address the big strategic questions:
  - International positioning?
  - Participation of non-banks?
  - How many new services (apart from card)?

Your unique value proposition is engagement with and support of your domestic community: how can you capitalise on it?

Ensure your governance model is fit for purpose?
Further information

Download from https://innovationjury.com

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Panel Discussion

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