

Payment Systems: The Changing Landscape

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Payments Week
Perugia, Italy
June 16, 2003

Payments Evolving at a Hectic Pace

- Changes propelled by developments in:
 - Financial Markets
 - Commercial Landscape
 - Regulatory Environment
 - Implementation of Global Initiatives
 - Increasing Cost Pressures on PS Providers
 - Decline in Cost of IT and Telecommunication Services
- Impact upon countries?

Changes in Financial Markets

- Elusive Economies of Scale and Scope
- OECD Countries:
 - Consolidation (within and across borders)
 - Innovations in Risk Transfer
 - Technological Progress
 - Low Inflation (even deflation) & Low Interest Environment
- Emerging Markets:
 - Consolidation (...and financial crises)
 - Banks...but also Stock Exchanges & Pension Funds
 - Composition of Capital Flows
 - Financial Liberalization
 - The Local Regulator's Role and International Efforts

Changes in the Regulatory Environment

- New Technologies Potentially Destabilizing
- Risks: Individual, Systemic, Cross-Border
- Operational Risk: fraud, non-deliberate incorrect information, disaster risk and personnel risk
 - Fraud: insiders & hackers
 - Disaster Risk: September 11, 2001
- Regulators:
 - Individual risk responses
 - Emphasis on systemic risk (infrastructure, larger institutions)
 - Technology-neutral regulations?

Changes by the Launching of Global Initiatives

- Change the way banks operate, raising operational efficiency & reducing risks
- Examples:
 - CLS
 - GEM / Central Counterparties (Securities)
 - STP
 - TARGET
 - EBPP

Changes Induced by Increasing Cost Pressures on PS Providers

- Banks' New Operational Context
- Payments Market Growing: Core to Banks' Profitability
- Paper Based Systems: New Processing Arrangements & New Technology
- Outsourcing and Third-Party Service Providers
- Regulatory Response & Best Practices

Changes from the Continuous Decline in the Cost of IT and Telecommunication Services

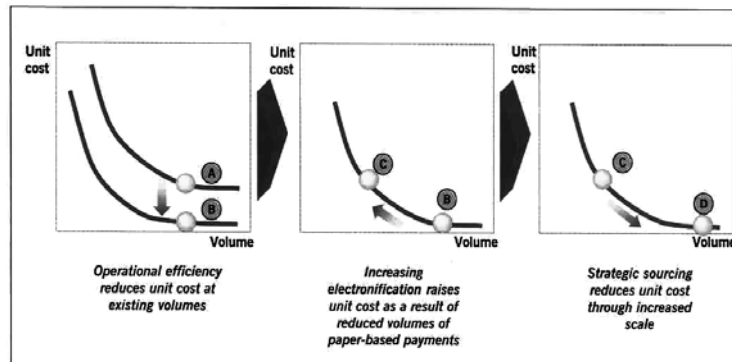
- “Moore’s Law” and Constant Change
- Banks: Costs still dominated by Legacy Channels
- New Entrants and Non-Bank Players
- Wal-Mart and PayPal
- “First Mover” and fear of “Winner takes all”

Costs are Still Dominated by Legacy Channels

	North America	Europe	Asia
Cash	30%	65%	75%
Paper	35%	10%	10%
Electronic	35%	25%	15%

(1) Percent of payments processing costs
Source: BCG Global Payments Model; Client Studies

Banks Respond in Different Ways Over Time



Implications for Emerging Markets

- Rise of Electronic Payments
- Shift from Credit to Debit Instruments
- Globalization (...and recent crises)
- New Regulatory Changes & Global Initiatives (...join or lose)
- Toffler's Dictum: "The future Always comes too Fast"

Work in Progress

- Thanks for Your Attention
- General Discussion

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