



The Role of Central Banks in Retail Payments

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Costa Rica, June 2004

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Policy objectives

Safety and Efficiency

What is the focus of these two objectives in the case of retail payments?

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Policy objectives

Safety

- Systemically important payment systems – potential for systemic risk
=> *Legal, financial, operational risks*
- Retail payment systems – importance to economic activity
=> *Operational risks – security and operational reliability*

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Policy objectives

Efficiency

All payment systems

- Significant costs are involved
- Important economic needs must be met
- Significant choices must be made

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Policy issues

1. Legal and regulatory
2. Structure and performance of the market
3. Market infrastructure and standards
4. Central bank services

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1. Legal and regulatory issues

- Legal and regulatory provisions may fail to keep pace with payment innovation in unintended ways.
- There may be gaps or inconsistencies
- Safeguards against criminal use may not be adequate
- Cross-border payments may be a particular problem
- Legal and regulatory provisions may create entry barriers contrary to policy intentions

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2. Structure and performance of the market

- Importance of competition
- Balance between cooperation and competition
- Access restrictions
- Pricing and transparency

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3. Market infrastructure and standards

- Adequate security
- Adequate operational reliability
- Infrastructure arrangements
 - more concentrated risk
 - governance structures
- Standardisation and interoperability – network effects and market incentives

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4. Central bank services

- Need to keep pace with market developments
- Transparency
- Pricing
- Access

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Public policy goals – for all relevant public authorities (I)

Policies should be designed to:

- address legal/regulatory impediments
- foster competitive market conditions and behaviours
- support development of effective standards and infrastructure
- provide central bank services effectively

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Public policy goals – for all relevant public authorities (II)

The first 3 goals of relevance for other public authorities with interest in efficiency and safety –
4th goal only for central banks

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Role of central banks

Variety from country to country

- Operational – settlement, clearing, other services
- Oversight
- Catalyst or facilitator – based on cooperative relationships with public and private sector

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Recommended minimum actions by central banks

- Review and monitor
- Cooperate and advise

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Possible additional actions

Depending on market conditions and on central
banks' powers and responsibilities:

- More proactive catalyst/facilitator activity
- Intervention as overseers
- Intervention as service providers

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Summary

- A first attempt to find common policy themes on retail payments
- Diversity of central banks' current involvement
- Common objectives
- Policy issues arising out of current market trends – not everywhere at the same time
- Common public policy goals
- Central bank actions – recommended minimum actions and possible additional actions