



The Future Is...

...Inclusive Payments

A conversation with Paul Makin



Digital Financial

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Digital Financial



We are:

- ❖ A boutique consultancy dedicated to addressing the regulatory, management, business and technical needs of clients at every stage of digital transformation.
- ❖ Experienced in working with a wide range of organisations on the support and provision of cutting-edge financial services:
 - Credit unions, banks, MFIs, payment operators, development organisations, standard setting bodies, governments, and central banks.

We believe:

- ❖ That appropriate development and deployment of digital financial services can enable governments, development organizations and financial services institutions to overcome barriers to access, whether due to cost, geography, social factors or health and safety concerns.



Introductions



Paul Makin—Digital financial services pioneer

- ❖ 30+ years experience across the Europe, the Americas, Asia and Africa
- ❖ Advisor to International Standard Setting Bodies, development organizations, national governments, central banks, industry associations, payment service providers and financial institutions of all sizes
- ❖ Digital for financial inclusion specialist
 - Mobile money, mobile wallets, CBDC, remittances
 - Payments
 - low-cost digital payments for individuals, cooperatives, and small and medium business – including QR and identity-based (“Pay Me”) solutions
- ❖ Designing and implementing every element of the payments ecosystem:
 - regulation, compliance, strategy, process; product; technology and platform; operations; business cases and user training
- ❖ Currently guiding regulatory framework development and technical implementation of national real time interoperable payments systems in both Rwanda and Myanmar
 - To enable any size Financial Institution or Financial Service Provider to participate with the management of risk across all participants in proportion to their capacity.



Today's Format & Objectives



This is not a PowerPoint focused event! Paul and I will use a few slides to introduce concepts and topics and to guide our discussion. We hope to get lots of questions and opinions from you as we go!

We will cover:

- ❖ A comparison of characteristics/functionalities between cash and digital payments
- ❖ An assessment of digital payment options
 - Cards, Mobile Money, QR, real time payment systems, central bank digital currencies
- ❖ Options for Caribbean Credit Unions

Please take advantage of the Q&A function to ask your questions and share your opinions!

We hope that by the close of this event we will have convinced all of you that "The Future Is...Inclusive Digital Payments".





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Comparison of characteristics/ functionalities between cash and digital payments



Comparing cash to digital alternatives



Characteristic	Cash	Digital
Interoperable	Even Sweden has decided they still need cash	Visa/MC/UPI
Instant Settlement	Reuse immediately but slowed by counting and “making change”	UPI / Australia / Singapore / UK
Easy to use/manage	Always have a balance, can be bulky/extremely dirty / FX is difficult	FinTech e.g. Wise
Low cost	Appears free until you examine the surrounding costs (~0.5 to 1.5% of GDP)	Many are expensive for merchants to accept. Dependent on the technology held by the individual
Face-to-face Use	Ideal	Very few are good for P2P.
Remote Use	Sending cash itself is slow and risky	Faster/more secure
Offline Use	Always useable	Very few
Privacy/ Anonymity	As much or as little as desired	Diminished to enable the other functions (velocity of transactions)
Secure	Easily stolen or counterfeited	All very secure
Accessible to All	Completely	Tend to be financially secure & technologically enabled



Interoperability—creates efficiency and avoids confusion



In regions with multiple digital payments systems...

- ❖ I can't be sure my preferred type of digital payment will be accepted in the shop.
 - So I visit a branch, agent or ATM and withdraw cash beforehand to be sure.
 - Even if my digital method is accepted in the store, I will likely use cash.
 - Or, buy more somewhere else with the cash that is burning a hole in my pocket!!
 - » So lack of interoperability help to maintain a high level of using cash and can be bad for your budget!



Instant settlement—“Real time payments”



“Instant” (within seconds) transfer of value from the payer to the payee within the same payment system and, in best practice, across the same regulatory regime

- ❖ Effect on the retailer can be remarkable
 - Huge improvement in liquidity
 - Accurate budgeting/accounting/reporting
 - B2B e-commerce without intermediaries
 - Makes buying local – whether wholesale or retail – the cheapest and easiest transaction
 - Consequent contribution to local economy
- ❖ Helps grow financial confidence in the underserved
 - People who don't have much money CANNOT afford to wait or to be uncertain
 - Ability to track transactions, set limits and to budget
- ❖ Allows credit unions to interact with large banks on an equal basis

Near real time is coming to international transactions! G20 & FSB have mandated by 2027 that 75% of Retail Payments (P2P/P2B/B2B) and remittances occur within one hour of initiation



Cost is a often a deciding factor in usage



The cost of creating, counting, transporting, storing and authenticating cash has long been paid by central banks, financial institutions and business. This:

- ❖ Is paid for in taxes
- ❖ Is embedded in higher prices for goods and services
- ❖ Studies from MasterCard Foundation, McKinsey and World Bank indicate that a high prevalence of cash in the economy costs approx. 3% of GDP

Now some central banks have mandated a charge to individuals when they withdraw cash over a set limit from a financial institution.

People and businesses balance speed and convenience against cost when they choose how to pay.

- ❖ The UPI experience in India

Consider options to incentivize going digital

- ❖ Free up to a fixed value or volume
 - Beyond that an easily understood fee structure
- ❖ Support users with a payment management app





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An assessment of digital Payment options





Let's compare the newer offerings to an old standard

	Payment Cards	Mobile Money	QR Codes	UPI et al	CBDC
Interoperable	✓ X	✓ X	✓ X	X	Next up
Instant Settlement	X	✓	✓	✓	
Easy to use/manage	✓	✓	✓	✓	
Low cost	X	✓	✓	✓	
Face to face use	✓	✓	✓	✓	
Remote use	✓	✓	✓ X	✓	
Offline Use	X	X	X	X	
Privacy/Anonymity	Diminished to enable the other functions	Diminished to enable the other functions	Diminished to enable the other functions	Diminished to enable the other functions	
Secure	✓	X	✓	✓	
Accessible to all	X	✓	✓	✓	



Central Bank Digital Currencies and Credit Unions



The Caribbean is a world leader in piloting and implementing Central Bank Digital Currencies.

- ❖ A way to overcome the cost of moving cash around islands
 - Bahamas—Sandollar launched
 - Eastern Caribbean Currency Union—DCash pilot launched March 31
 - Jamaica - BOJ is targeting a 2022 roll out of a non-blockchain digital currency

Paul, would you spend a few minutes on the basics of CBDC and the opportunity they may present for Caribbean Credit Unions?

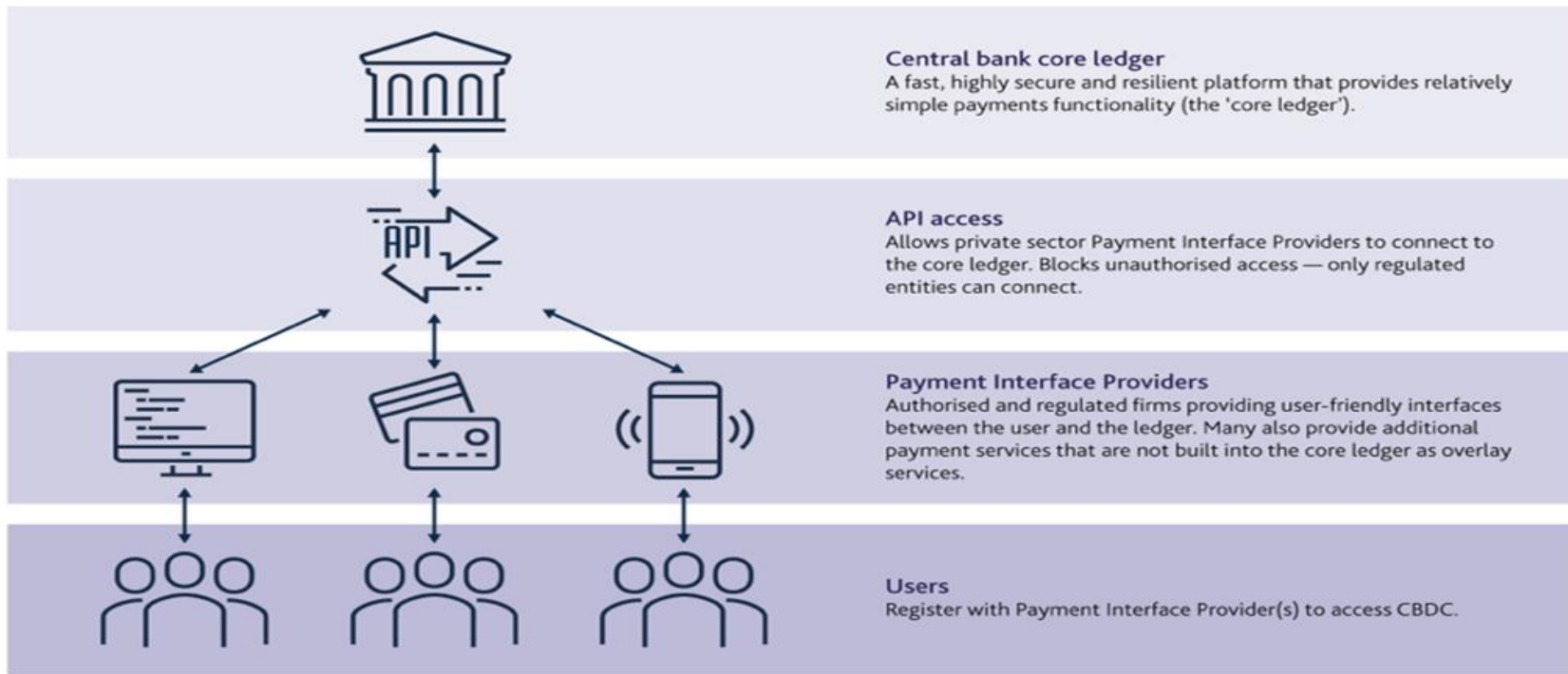
- ❖ Issued by the central banks and available through approved financial institutions and service providers
- ❖ Tiered KYC for various levels of wallets - no need for a FI account at the lowest level
- ❖ Only on smart phones with free apps for iOS and Android
- ❖ Person paying needs to be online, receiver may settle later
- ❖ Some service providers e.g. Island Pay/Bahamas give the option of downloading to a prepaid card



Central Bank Digital Currencies



A digital currency issued by a central bank, making it fiat. How is that different from cryptocurrencies like bitcoin? And what is the difference between wholesale and retail CBDC?



How about inclusion?



Exclusion is a worldwide problem

- ❖ Everybody talks about the developing world
- ❖ but also commonplace in the industrialised world

Current payment offerings weren't designed with the excluded in mind

- ❖ We are designing payments systems with potential worldwide impact – so we should be thinking of the financially excluded everywhere, in all of their myriad circumstances

The discussion on CBDC shows that identity and authentication remain as much of a barrier to everyone being able to use the formal financial system if they so choose as cost is.

Can we spend a few minutes on that?



Identity-based payment



CBDC's are offering payment wallets for smaller values which do not require a linked bank account. Why do we still stick with providing bank account details to payers? Why not “pay me” instead of “pay my bank account”?

- ❖ "Pay me" models;
 - Lower overall costs – no FI account maintenance
 - Greater privacy
 - Support the idea that the consumer should have the ability to move their business easily to the financial institution which serves them best
 - Successful implementations include UPI (India), NIBSS (Nigeria)
 - Nigerian Government saw immediate benefits
- ❖ Second generation will put the user firmly in control with
 - Different aliases for different purposes
 - Automatic routing



Don't forget authentication



Authentication is necessary for everyone's protection but it often is a barrier to use

- Entering a PIN is SO last millennium
- Two factor authentication is cumbersome
- Biometrics works, but can be awkward (think COVID) and is often effected by profiling
- ❖ How do we make the process simple and friendly for the legitimate user?
 - How about “ambient authentication”
 - But don't forget authorization
- ❖ Only possible if we empower the customer
 - Account information
 - Cross-Digital Financial Service Provider account information





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The Future... Fresh Thinking
and options for credit unions

Payments – with or without the established payment systems



Last August, Digital Financial, supported by the CCCU, presented an event about "The Global Modernization of Payments" with Dr. Brad Pragnell. It was clear then, and is still an issue today, that many credit unions in the Caribbean are not part of the payment systems while in some jurisdictions they are or they are soon to be invited.

- ❖ I often hear the terms “open loop” and “closed loop”.
 - How do they apply to this situation?
- ❖ What are some options for those not in a payment system?
 - What can they do individually or in an association? And can they support small business as well as individual members?
- ❖ What about the old standard, cards?
- ❖ Shopping on-line from the Caribbean
- ❖ How do PayPal, Alipay, Apple or Google Pay work for this?
- ❖ Traveling abroad
- ❖ Tourists and business travelers

Dr. Pragnell's event is online at

<http://digitalfinancial.ca/the-global-modernization-of-payments-opportunities-and-challenges-for-credit-unions/>



All of these ideas are more efficient and effective done at scale



**“Co-operation among co-operatives”—
the sixth principle of the co-operative movement is more important then ever!**

While larger credit unions will be able to create functioning payments ecosystems for themselves, associations and shared services models for the way of the future.

Paul will be joining his Digital Financial associates, veteran Caribbean financial services executives Earl Gill and Robert Frederick, for a discussion on the value of shared services in the breakout session rooms at 12:30.

We both hope to see you there!



THANK YOU! WE LOOK FORWARD TO YOUR PARTICIPATION IN THE Q&A

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