

Jan F Qvigstad: Efficiencies in Norway's payment system

Opening address by Mr Jan F Qvigstad, Deputy Governor of Norges Bank (Central Bank of Norway), at the Research Conference on Payment Systems, Norges Bank, Oslo, 14 November 2008.

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It is a great pleasure to welcome you all to Norges Bank's research conference on payment systems. Welcome also to Oslo, a fantastic place to visit all year round, but perhaps not in November. November is the time of the year when Norwegians dream of being somewhere else. Personally, I dream of being in Nice on the south coast of France, where I have relatives and thus often visit. Nonetheless, we greatly appreciate you coming from all over the world to contribute and spend some time with us. And who knows, maybe the weather conditions will provide the perfect incentive to work hard at the conference.

Central banks have always taken a great interest in the payment system. This is due to the vital importance to confidence in the currency and in the financial system of a safe and efficient system for the exchange of funds and the settlement of claims. These days we all know the importance of this confidence. A payment system should not be the source of a crisis and it should continue to serve the markets even in the event of market turbulence.

An efficient payment system should carry out payments quickly, securely and at low cost. In just a few years, many new electronic services and gadgets have become natural parts of our lives. This has also influenced how we execute payments. Payments via Internet banking, mobile banking and card payments over the Internet have become the norm. Paper-based instruments such as cheques and mail giros have become less important.

Norway is a good example of the transition from a paper-based to an electronically-based payment system. Only twenty years ago, 90 per cent of payments from deposit accounts were made using paper-based instruments such as cheques and paper giros. Today, more than 95 per cent of such payments are made electronically, mostly via payment cards and Internet banking.

[The first results from Norges Bank's cost survey](#) were published today. The survey estimates the social costs of using and producing payment services in Norway to around 11 billion kroner, or just under half a per cent of GDP. This estimate covers payment activities by banks, subcontractors, the central bank, households and merchants. The estimate for Norway is quite low in an international context, although estimation methods may vary.

How we organise our payment system has consequences beyond the system. Direct debiting and electronic invoicing will, for example, involve substantial savings for businesses. Thus the potential savings for banks and the rest of society of moving towards more efficient payment systems are considerable.

Payment cards and Internet banking have not only replaced cheques and mail giros, they have also contributed to a reduction in the use of cash. Estimates from our recent survey indicate a sharp drop in the use of cash over the last 15 years. Estimates of the exact level of cash use vary according to data sources and methodology. However, it is fair to say that cash is still an important means of payment. Notes and coins will also remain important as symbols of money.

I believe that there have been two very important factors behind the rapid transition to electronic payment services in Norway. Banks have cooperated on standards and payments infrastructure while competing on the supply of services, and banks have charged for the use of payment services.

Prices that reflect relative differences in production costs encourage users to choose the most cost-effective services. Research (by Humphrey, Kim and Vale) has shown that a

relatively high price per transaction for paper-based payment services and a low price for electronic payment services have accelerated the trend towards an increasing share of electronic transactions. Without incentives for consumers or merchants to move to more efficient instruments, banks and other payment service providers will more likely be left trying to improve on old solutions.

Payment systems are networks for the exchange of values between payers on the one hand and beneficiaries on the other. In two-sided markets like this, the benefit to existing users increases when new users join up. These kinds of externalities are similar to those studied in the cluster theory that has successfully been applied to explain the geographic location of economic activities, the field of economics for which Paul Krugman received this year's Nobel Prize in economics.

It used to be common knowledge that the potential for productivity growth was highest in the manufacturing sector of the economy. This is no longer the case. Over the past decades, we have seen substantial productivity growth in the service sector. Since 1990, productivity growth in the Norwegian financial sector has been around twice that of the total economy including the manufacturing sector. In 1988 banks in Norway employed around 33 000 people, had 2200 branches and processed just under 400 million payment transactions. Today banks in Norway employ around 20 000 people, have 1260 physical branches and carry out around 1.6 billion transactions.

However, the development of payment instruments and services are not "just" technical developments; they also pose some real challenges to us economists. For central banks, it is important that our payment system policies are founded on sound economic theory and research. An event such as this conference is thus important for Norges Bank and other central banks that wish to promote the use of efficient payment services.

As mentioned, safe payment systems should continue to serve the markets even in periods of market turbulence. In my opinion, most large-value payment systems have operated very reliably in the ongoing financial situation. Safe and efficient clearing and settlement have been in demand as banks' trust in each other has weakened. In Norway, our systems have had to handle major problems in two Icelandic banks operating in our country. These problems have been handled smoothly.

Times of crisis can also be a turning point, providing the opportunity for change. During the Norwegian banking crisis in the late 1980s and early 1990s, Norges Bank and other public authorities put pressure on banks to increase their income from bank charges, including payment services. I believe that as banks have to focus even more on running a cost-efficient business, the incentives for developing the payment system further will be strong in times to come.

For this conference we have received a large number of high-quality papers. I know that the selected conference speakers represent some of the best researchers in this field. We are especially pleased to have as keynote speakers two of the leading scholars in the economics of payments systems: David Humphrey from Florida State University and Jean-Charles Rochet from Toulouse School of Economics.

Let me also extend my thanks to the three other members of the programme committee: Gabriela Guibourg from Sveriges Riksbank, Eirik Gaard Kristiansen from the Norwegian School of Economics and Business Administration, and Bent Vale from Norges Bank.

As I mentioned earlier, I visit Nice in the South of France quite often. And from my direct observations, I notice that France has developed very fancy methods of processing cheques. However, when I go shopping in Nice, I can't help noticing that writing these cheques still creates rather long queues at the checkouts. Hopefully the knowledge we gain from the research you produce will improve efficiency in the payments systems – and shorten checkout queues!

I hope you will all enjoy the conference. I now give the floor to Bent Vale, who will chair the morning session. Thank you.