

## Ranee Jayamaha: SAARC Payments Initiative and policy responses

Speech by Dr Ranee Jayamaha, Deputy Governor of the Central Bank of Sri Lanka, at the inauguration of "SAARC Payments Initiative", Central Bank of Sri Lanka, Colombo, 28 March 2008.

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1. It is with great pleasure that I thank all of you for attending the inaugural session of the SAARC Payments Initiative. It is indeed a historic event and a landmark in the development of payment systems in the SAARC region, because this is the first time the member central banks, as a group, have decided to pay focused attention to this area of activity. It is also an important achievement for the Central Bank of Sri Lanka to be able to pioneer the efforts in establishing the SAARC Payments Initiative.

2. The SAARC Payments Initiative, which is launched today, intends to

- assist individual SAARC countries to prepare a domestic payment strategy and a forward looking development plan;
- design a coordinated regional approach to cross-border payments, taking into consideration the implications for trade, investment, central bank policy, foreign exchange positions and their management; and
- clear any impediments experienced by the members in the areas of policy, operations and communications, legal and regulatory aspects, technical and institutional infrastructure, and engage in research and statistical analysis.

3. During the course of the SAARC Payments Initiative, member countries will be able to learn from the efforts and experiences of developments of payments within the region, as well as outside. Some of our member countries may have to acquire modern communication infrastructure and advanced payment systems to support the delivery of the payment and settlement services required, not only by their own markets, but also by the regional market. In effect, the SAARC Payments Initiative will be able to: (a) guide the efforts of member countries in modernizing their national payment systems; (b) assist in establishing appropriate technological links with others in the region; and (c) bring their payment systems to appropriate standards compatible with international standards.

### 4. The importance of payment systems

4.1 The broader term "payment systems" includes not only payments, but also clearing and settlement systems. Payment systems represent a basic infrastructure for the functioning of market economies and in developing more inclusive financial systems, including enhancement of access to finance. The soundness and efficiency of payment systems are fundamental to the stability of the currency, as well as the financial system and, therefore, to sustaining economic development.

4.2 It is in this context that some of the governing laws of the region's central banks include references to the responsibility of central banks to promote the monetary, financial and payment systems in their respective countries. If I may quote from John Exter's Report of 1949 on the establishment of the Central Bank of Ceylon, (the former name of the present Central Bank of Sri Lanka), it states "*It is the monetary, financial and payment systems that facilitate the flow of money in the economy and as such, the Central Bank of Ceylon undertakes a great responsibility in promoting the economic well-being of the country*". Although modern central banks concentrate primarily on price stability and financial system stability, these objectives cannot be satisfactorily achieved without simultaneous development in the payment systems. Therefore, at some stage, all central banks have to

pay attention to payment system development, although it was taken for granted by many until recent times.

## **5. Advances and transformation in payment systems development**

5.1 Payment systems have undergone profound changes in recent years, primarily in terms of the increased complexity of the production and differentiation of payment services offered to customers nationally, regionally and internationally. Payment systems are evolving towards an evermore universal and sophisticated level of operation. In both wholesale and retail areas, new technologies, new participants and new alliances are beginning to transform the payments system landscape. This transformation is largely due to developments in information and communication technology, and integration and globalization of financial markets at the regional and international level.

5.2 One by-product of this transformation is the blurring of the distinction between wholesale and retail activities. Another is the growing integration of domestic and international payment flows, and efforts made to develop efficient cross-border clearing mechanisms. The emergence of non-banks in the payments system, playing a prominent role in introducing significant new developments, is a further by-product of this transformation. Banks still remain at the forefront of change, but the speed at which non-banks advance in these new areas of activity, is a significant threat to banks. This trend is now emerging in Sri Lanka too where non-bank card issuing agencies have begun to compete with the banks in providing payment services. These changes have prompted central banks, in pursuit of their mission to ensure the smooth functioning of payment systems, to establish structured oversight functions to foster the stable, orderly and efficient development of this area in the financial system.

## **6. The public's preferences and public policy**

6.1 In assessing what might drive change and influence outcomes for payment systems, we must start by understanding the public goals. Regardless of the mechanism involved, people expect the payments system to possess at least three fundamental characteristics. First, it must have integrity, i.e. transactions must be safe, reliable, and secure. Second, it must be accessible and available to all. Finally, it must be competitive and efficient, i.e. the cost of making payments should be affordable. To make an effective contribution to the development of payments & settlements and also to increase trade and investment flows nationally and regionally, it is necessary to identify the common themes in the form of public policy goals. In this context, the central banks are called upon to take certain minimum actions to further these goals.

6.2 However, the manner and intensity of the current involvement of central banks in payment systems development differ from one country to another. The roots of each central bank's specific pattern of involvement lie in the different institutional structures and traditions of each country. The central banks may accordingly decide on appropriate action, beyond the minimum, which depends on the national and institutional background.

## **7. Importance of regional efforts**

7.1 By and large, central banks in the SAARC region and elsewhere are currently involved with payment systems in three main ways, namely, in an operational capacity, as payments system overseers, or as catalysts or facilitators of market and regulatory evolution.

7.2 As all central banks are aware, markets may encounter persistent impediments to payment systems development and may become unable to produce efficient and safe services. The existence of such impediments would give rise to policy issues for central

banks, especially due to their responsibility in achieving the core objectives, such as price stability and financial system stability. These impediments can take the form of legal and regulatory inefficiencies, structural and performance weaknesses of the markets, the outmoded standards and infrastructure used, or the lack of attention by the central banks and regulatory authorities. While it is important for the national central banks to address these issues and find remedial action early, given the increase in trade, investment and cross-border financial flows, it is essential for the region to have a common understanding and apply, where possible, common standards.

7.3 The design of every payment system requires a series of trade-offs between the different elements of its objectives. The precise outcome of these trade-offs will vary, because they will be closely based both on national realities and international best practice. This emphasizes the need for close and continuous consultation in each country between the suppliers of payment services and the central banks as the overseer and regulator of the systems. The ultimate target of these consultations is to ensure the easy availability in each country of a payment system that meets the needs of its users, that enables the suppliers to cover their costs, and that does not absorb an excessive proportion of the national resources. That is why many regional payment system development initiatives have sprung up over the last few decades. For example, South African Development Community (SADC) Payments Initiative – 1996), the Western Hemisphere Payments Initiative (1999); the Commonwealth Independent States Payments Initiative (2004); and the Arab Payments Initiative (2005) are some of the well functioning regional payment Initiatives. The common objective of all these efforts is to identify possible measures for improving the safety, efficiency and integrity of the regional payment systems.

7.4 The most demanding factor, common to all, is the rapidly changing global payment system infrastructure that is challenging the existence of domestic and regional payment systems, which are lagging behind. Given the increasing sophistication of cross-border transactions, the need to mitigate risks involved in using outmoded infrastructure has to be given priority. The SAARC payment system development strategy should therefore be designed to cater not only to the region's present needs, but also its future demands.

## **8. How does the SAARC Payments Initiative work?**

8.1 Let me briefly set out the proposed institutional structure of the SAARC Payments Initiative.

8.2 By consensus, Hon. Governors of the SAARC central banks requested the Central Bank of Sri Lanka to take the lead in this effort. We are happy to be the catalyst and promoter, but hope that at an appropriate time, this Initiative will be driven by the other SAARC member central banks. In consultation with the SAARC Governors, we have already appointed a SAARC Payments Council (SPC), which is composed of the chairpersons of the National Payments Councils (NPCs) in each of the SAARC member countries or by senior officials appointed by the Governors of central banks in countries which do not have NPCs. The NPCs or payments committees will coordinate and liaise with all stakeholders in the payments area, in particular, banks and financial institutions, stock exchanges, securities traders, stock brokers, service providers, regulators and legal professionals.

8.3 The SPC will be reporting to the SAARCFINANCE Governors at their annual general meetings and will obtain general approval for implementation of the road map which will be discussed during the rest of today. The SPC will be assisted by a Secretariat for operational matters. For the time being, Mrs Siriwardena, Director/ Payments & Settlements of the Central Bank of Sri Lanka, has kindly agreed to be the Secretary to the SPC. The Secretariat will take the lead to prepare a road map by establishing working/study groups in the key areas, in particular, policy and communication, infrastructure, research and statistical analysis and legal and regulatory framework.

8.4 The advisory role played by the international standard setters and other agencies on regional payment initiatives has been important. In this regard, the Committee on Payment and Settlement Systems (CPSS) in the Bank for International Settlements (BIS), which is the standard setter for payment system development on a global basis, has intimated its willingness to provide technical assistance and guidance to the SAARC Payments Initiative. Similarly, we are informed that the World Bank is also willing to provide technical assistance and advice to enable the SAARC Payments Initiative to start off on a sound footing. The presence of some distinguished officials from the World Bank at this inauguration is an encouragement.

8.5 The SAARC member central banks should be happy to have been able to get the SAARC Payments Initiative off the ground within such a short period of time. Given the enthusiasm and commitment by all of us, I hope that we, as a regional group, will make a substantial contribution to trade, investment and economic activity of each of our countries and also the region, as a whole.

Thank you.