

Zoja Razmusa: Payments in the 22nd century - future starts today?

Introductory statement by Ms Zoja Razmusa, Deputy Governor of the Bank of Latvia, at the annual conference of the Bank of Latvia "Payments in the 22nd Century: Future starts Today?", Riga, 3 October 2018.

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Ladies and gentlemen,

I am pleased to welcome you to the annual conference of Latvijas Banka.

I would like to note that mentioning the 22nd century in the title of the conference is not a typing error. Our conference this year is special because we are celebrating the 100th anniversary of Latvia. We are proud of our country and would like to take a longer-term perspective and try to think about payments over the next 100 years. As economists we, of course, understand that the longer the forecast term, the less accurate they are likely to be.

Central banks are first and foremost about money and that is also reflected in the title of our today's conference. Since 2014 the euro has been our money.

One of the key functions of money is to be a store of value. Euro area monetary policy is aimed at ensuring that the euro remains a reliable store of value as reflected in the aim to keep annual inflation close to but below 2% over the medium term.

However, another equally important function of money is to be a medium of exchange. Payments play a key role in the smooth functioning of the economy and this area has greatly evolved in the recent decades and, in particular, the last several years. Central banks are playing a fundamental role in facilitating a secure, efficient and innovative payment system. This is the focus of our today's conference.

Instant payments provide a good notion of what modern financial services should be like. The 21st century consumer expects any service to be available online, here and now. Paying invoices, making purchases or transferring funds to an individual or company can take place at any hour of the day or night and from any location with internet access. It only requires a couple of clicks and seconds for the money to reach the recipient. Instant payments are quick, convenient, secure and user-friendly.

The progress that has been reached in the domain of interbank transfers during the last generation is impressive. Just a bit more than 20 years ago in Latvia there was one interbank clearing cycle a day, it was paper-based and the transactions between clients of different commercial banks at that time took a few days to be completed. Today instant interbank transfers can be executed within a matter of seconds 24 hours a day 7 days a week.

The 28th of August 2018 marks one year since Latvijas Banka became the first euro area central bank to introduce the instant payments infrastructure based on SEPA Inst. scheme. This is an infrastructure for commercial banks and other payment service providers, which have the task of providing this service to their customers.

The Eurosystem will launch the TARGET Instant Payment Settlement (TIPS) service on the 30th of November 2018, enabling payment service providers to offer fund transfers in real time and around the clock, 365 days a year in secure central bank money.

At the same time today's conference is about much more than instant payments. Today we would like to discuss the key trends shaping the industry and understand what the path forward is.

The conditions for new developments are very favourable, especially in the payments market. On the one hand, consumers are increasingly looking for fast, convenient and affordable services that suit their changing habits. On the other hand, the advances in technology facilitate the creation of innovative solutions with the potential of causing fundamental digitalisation-led changes in the sector. It will result in a significant switch to contactless, mobile and instant payments solutions available around the clock in the near future. Latest generations of smartphones offer several options to access payments applications using biometrical identity: fingerprint, eye screening and face recognition technologies. Innovations such as distributed ledger technology, cloud computing and artificial intelligence will transform the marketplace over time.

It is clear that in the future further improvements in payment services will not be about speed anymore. In a few years' time, when the completion of payment transactions within seconds will have become the new standard, for all practical purposes further improvements in speed are unlikely to be of importance. Instant payments are now being implemented at pan-European level.

It is equally clear that payments continue to migrate away from cash and become less visible to the customer as consumers shift purchases to online and mobile channels. While we are unlikely to move to a 100% cashless society in the near future, the incompatibility between cash and digital marketplaces or digital platforms means that payments will continue to move towards cashless solutions.

An overview of payment trends would be incomplete without mentioning crypto-assets, even though they remain controversial and are still being debated. The high volatility of crypto-asset value shows that they cannot be a reliable store of value, and their global use as a means of payment remains marginal.

Nevertheless, they have demonstrated the potential of the blockchain technology behind it. The technology is now being studied and tested by many financial market participants. Central banks are no exception, primarily testing the possibility of adopting the technology in financial market infrastructures and payment systems.

Even considering the short and medium term outlook, it is impossible to say with certainty how the landscape of the financial services sector will evolve. Digitalisation and fintech, as well as the possibilities offered by big data and artificial intelligence are attracting new providers to the market and fostering the introduction of novel business models. The new Payment Services Directive (PSD2) has initiated a shift in the way payment services are offered and by whom they are offered. The increased competition between Fintech firms, BigTechs and banks contributes to the disaggregation of the established value chains. These developments can clearly have a disruptive impact on the payments market.

When discussing the ample opportunities of payments in the future, we should not forget the challenges that arise concerning regulation and supervision. The increasing digitalisation and technological advancements pose more complex risks, particularly in terms of cybersecurity, financial crimes and data protection. There is a fine line between stifling innovations by regulating too early and failing to protect the customers by regulating too little and too late. A balanced approach is needed to ensure a level playing field for all market participants, at the same time remaining technology-neutral. Closer cooperation between industry participants and regulators across different sectors could be the answer for ensuring the challenges brought about by the digital world are handled in the best possible way.

I'm sure that there are other keywords besides "secure", "instant" and "cashless" that will characterise the payments of the future. However, we have an excellent keynote speaker and two fantastic panels of experts, therefore I would now like to hand over to them to explore further the domain of payments.

I wish us all a day full of interesting presentations and fruitful debates.

Thank you very much for your attention!