Session / Digital wallets

The Digital Wallets session provided a fascinating insight into the use of bespoke digital wallets as a platform for enabling innovation. The presentations from Michalis Michaelides from BPC and Eric Cicilla from Regional Card Processing looked at wallets from a government and issuing perspective, both as part of a digitisation strategy.

In the presentations we learned how governments can make use of bespoke digital wallets to enable delivery of digital services to the benefit of end users in a cost effective way. We also discovered how bespoke digital wallets can enable banks in Europe can directly provide services tailored to their end users, enabling innovation that wouldn't be possible as part of the Apple / Google / Samsung Pay ecosystem.

Simas Simanauskas from Connectpay joined the speakers to form a lively informative panel discussion answering a diverse range of questions from the audience looking at all aspects of Digital Wallets. The panel were firmly of the opinion that Apple & Google pay type wallets can not provide the types of wallet services that end users need for good digital services.

A bespoke wallet provides the wallet users with the dedicated flows they need, however access to the mobile interfaces would enable them to provide improved experiences. The regulator is seen as central to enabling a fair ecosystem that allows for innovation in the wallet space, as can be seen from what has happened in India. The digitisation removes cash from the system and provides the population with secure identity and payment services.

Whilst the marketplace for wallets looks an already crowded space, wallets providing services that end users connect with can gain traction, either through the rewards or additional services they provide. Indeed if we look outside of Europe, there are a plethora of wallets accepted at a range of merchants, each tailored to a different user group and experience.

In Europe the upcoming introduction of the EU Digital ID Wallet should provide further room for innovation through coupling Identity with payments, loyalty, transit, investment, P2P etc.

Key takeaways from the session are that:
- digital wallets should be part of government and organisational digitisation strategies.
- Apple / Google / Samsung are gatekeepers for now, but regulation can bring change.
- Bespoke digital wallet solutions can enable banks and FIs to get on the front foot for provision of digital payments services to their clients.

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Session / Payment Rails: Public, Private Sector, or Does It Even Matter?

The world is served by a patchwork of interoperating, complementary, and competing public and private-sector payment systems. They have different DNA, different levels of dynamism, resources, accountability, power over their competitors and users, incentives, and objectives. Whether the private sector or state provides payment rails has enormous implications for value and innovation.

Governments operate payment systems because of national security concerns, because the private sector is viewed as unable or unwilling to serve a payment need, for system resiliency, in pursuit of system efficiency, and, viewed through the lens of Nobel-Prize winner James Buchanan's Public Choice Theory, because public bureaucrats seek to expand their remit, power, and prestige.

However, government is less innovative than the private sector. Most payment innovation comes from the private sector, which invented cash, checks, interbank clearing, credit cards, global bankcard networks, electronic bill and P2P payment systems, e-wallets, and digital currencies.

Central banks are often conflicted. They're less accountable than private-sector actors. Their operating payment systems deters private-sector entrants, would-be challengers, and innovation.

I contended that the bar for governments providing payment systems should be high. Unless the private sector is unable or unwilling to serve important payment needs or a compelling national security interest is at stake, the state should encourage and defer to private-sector payment systems. Private-sector payment systems enjoy greater dynamism, and are more innovative, accountable, and self-correcting. Public-sector payment systems are less answerable to those they serve, less innovative, and often conflicted.

Our panel with the CEO of EBA Clearing's CEO Hays Littlejohn, Mastercard's SVP of Regulatory Affairs and Public Advocacy Jesse McWaters, and the Bundesbank's Senior Payment Expert, Strategy, Policy and Oversight; Payments and Securities Settlement, David Ballaschk, discussed.

- There was consensus that the private sector should lead in payments innovation. It's better seeing market needs than regulators are.
- Where the central bank operates payment systems that compete with private-sector payment systems, clear separation between its regulatory and supervisory functions and payment operations should be maintained.
- Central banks providing interbank payment platforms in addition to the private sector may increase system resiliency.
- There are benefits to competition in payment systems, even interbank payment platforms, though the optimal number of competing payment networks may be less than in other sectors.
- Competition is the best regulator of payments efficiency.
- There are things only the public sector can do. Only the central bank can provide settlement in central bank money, whether via central bank accounts, tokens, or cash, for which there is demand.
- Central banks at times have adopted a self-serving "loose definition of market failure" to justify developing new payment systems. Particularly but not exclusively in emerging markets, they've argued that private sector doesn't adequately serve the bottom of the socio-economic pyramid and that that justifies their developing new payment systems
- Consumers and businesses transact mostly in commercial bank money. And, when central banks provide CBDC tokens, private-sector systems can distribute and manage them.
- CBDCs are unlikely to be a panacea for cross-border payments.
- Conflicting compliance and governance are a bigger obstacle to commercial interoperability between national payment systems than establishing processing bridges.
- States will have sovereignty and national security concerns that may cause them to want to control payment systems.