Digital transformation of the retail payments ecosystem

Welcome address by Ignazio Visco

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I am pleased to welcome all the speakers and participants to this conference on the ongoing digital transformations in the retail payments ecosystem. The programme is remarkable: many key issues for central banks and the private sector will be discussed in these two days. Let me take this opportunity to thank the organizers at both the Bank of Italy and the European Central Bank for putting together such a broad and relevant array of topics.

The fast evolution of digital technologies promises to deliver benefits but it also creates new challenges for the payment system and its stakeholders. Today's conference is an opportunity to take stock of recent advances, to evaluate possible future landscapes in retail payments and to discuss the challenges and opportunities they pose to central banks and the population at large. I am sure that maintaining a continuous dialogue among central bankers, private sector representatives and academics on the subjects that will be discussed in this conference will contribute to the efficiency and safety of our payment systems.

The diffusion of digital technologies is having pervasive effects on our society. Today, around eighty per cent of the European population has a smartphone, personal computer or tablet to navigate the internet. We use the internet to perform many fundamental activities that influence our behaviour and productivity, such as communicating and searching for information. The rise of e-commerce is also having substantial, and at times disruptive, effects in many industries. Digital innovations, such as big data and artificial intelligence, are used for medical diagnoses, in the transportation sector and to select the news that is reported on social media. The explosive growth of electronic devices controlled through the internet suggests that the "internet-of-things" will play an important role in our daily lives.

As the youngest, tech-savvy generations approach adulthood, the effects of these phenomena are bound to become even more significant than they are today.

The digital transformation of our society has also changed the type of payment instruments we use. Indeed, the more we use digital distribution channels in our consumer expenditures, the more we need digital forms of money to pay for these transactions. But there is also a cultural change behind this process. Credit and debit cards are increasingly used in brick-and-mortar stores, and in some countries banknotes are no longer the most common means of payment.

The highly dynamic landscape of payment systems is ever evolving. While new technologies, such as those used for instant payments, are rapidly approaching, newer ones are right behind. Last year we held a conference here at the Bank of Italy on the applications of blockchain technology in the financial markets. What last year still seemed to be a technology in its infancy is now increasingly put to work in use cases. As with all new technologies, it is expected to deliver efficiency gains: according to its proponents, some of these gains will come from easier diffusion of information and have the potential of altering the payment systems landscape. However, the extent of its impact is still uncertain, as many aspects of its practical implementation are yet unknown.

Nevertheless, blockchain technology is getting a great deal of attention from practitioners and the financial markets. Not long ago the stock price of a British company more than tripled after newspapers reported the company's plan to add the word "blockchain" to its name! So large was the gain that the company felt compelled to publicly clarify that its development of blockchain products was still at an early stage of research and development.

Thus, the digital revolution is posing new challenges to central banks, both as regulators of payment systems and as providers of money and payment infrastructures. Many of them are already being tackled, but many still lie ahead.

Through significant investments in technology in the payments industry, both central banks and market operators increased the supply of efficient payment services and ensured their security and reliability to foster public confidence in (new) electronic means of payment. In Europe, the establishment of the Single Euro Payments Area (SEPA) was a milestone achievement in this context. With widespread access to the internet, consumers are now continuously connected and have come to expect commercial and financial services to be available at their fingertips in real time. All over the world we are seeing a rapid increase in the level of interest in payment solutions that allow money to be sent from person to person through instant payment applications.

On 21 November, the pan-European instant credit transfer scheme established by the European Payments Council (EPC) went live thanks to the efforts undertaken by the payment service providers (PSP) and automated clearing houses (ACH). Now, nearly 600 payment service providers from eight European countries (including Italy) may choose to offer instant payment solutions based on the new scheme whose scope will progressively span to include thirty-four European countries. To further facilitate the integration of the euro area and to complement the services of ACHs, last June the Eurosystem decided to develop an instant payments settlement system in central bank money, the Target Instant Payment Settlement (TIPS). Bank of Italy will be deeply involved in its development.

Dramatic technological advances in the financial system are creating new opportunities for payment users. However, they also pose new challenges for traditional intermediaries who are now exposed to heightened competition from digital platforms that also offer payment services. Banks no longer compete (only) with each other but also with non-banks and must deal with the challenges that stem from the developments in financial technology (Fintech).

In the European context, technology driven transformations in the payment system are also supported by regulatory interventions that increase competition and innovation. In 2007, the Payment Service Directive (PSD) introduced a new category of payment service providers, the “Payment Institution”. The new directive (PSD2), which will take effect in January 2018, paves a stable path towards further innovation by regulating the activity of “third parties providers” (TPP). These are Fintech firms that offer payment initiation and account information services by exploiting the new business opportunities provided by technological innovation, positioning themselves between payment service providers and final customers.

The PSD2, while requiring banks to share customer information with TPPs, provides that the activity of the latter be authorized and monitored by the supervisory authorities. Thus, by fostering innovation and competition, the directive aims at ensuring a level playing field in the payment services sector and protecting consumers. Moreover, it focuses on the security of payment services, with the objective of achieving a high level of harmonization through a common regulatory approach within the European Banking Authority (EBA): under the PSD2, the EBA has been tasked with developing standards and guidelines that enhance cooperation among all national competent authorities.

The Bank of Italy actively participated in the adoption of the new directive, supporting the Government since the start of the Italian EU presidency in the second half of 2014 when the text of the PSD2 took shape. We are now fully cooperating at European level, where we also chair the European Banking Authority's Standing Committee on Payment Services, and will continue to share our experience, both as regulator and supervisor, to help ensure an appropriate balance between the public interest, security, innovation and competition.

The ongoing digital transformation in the payment ecosystem and the new regulatory approach are posing new challenges. Oversight of the new payments systems will have to be carried out while new technologies and business models are introduced. The risks associated with these innovations will have to be faced, such as those stemming from vulnerabilities in the assessment, processing and storage of information, as well as those that threaten cyber security, which may impair the public's confidence in the payment system.

It is possible that all these challenges will push us towards a new paradigm in implementing policy and supervising the payment system in the new technological era. In this context, a continuous dialogue between regulators and the industry facilitates the introduction of innovations that have the potential of generating broad-based benefits. At the same time, risks and unintended consequences will have to be carefully evaluated and countered. Most of the issues we are facing today are covered by the topics that will be discussed during this two-day conference. I am confident that it will not only provide food for thought but also new insights on how to reap the benefits and counter the risks associated with the digital transformation of payment systems.

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Let me conclude with some open questions, the answers of which could outline the future landscape of the retail payments ecosystem. In the economy, digital means of payments are increasingly common. Today we do not know whether they will ever completely replace physical means of payment or when this might be. It will depend on the preferences of consumers and firms. As providers of currency, central banks need to make sure that they are at the technological frontier in their production and, as regulators, that people will continue to trust the system, be it physical or digital in nature. So, how should central banks promote trust in the payments system in this age of digitalization? What new legal and regulatory issues will be raised by the introduction of the new payment instruments? How will the necessary coordination of the different actors in the payments system be achieved in a deeply evolving set-up? And how will the necessary stability of the financial system be maintained? I am looking forward to learning some of the answers and to listening to the presentations, the panel discussions and the keynote speeches that promise to make this conference particularly interesting.

To close my welcome remarks I would like to mention that thirty years ago, under the strong encouragement of Tommaso Padoa-Schioppa, a major project was finalized in the Bank of Italy with the drafting of our White Paper on the Payment System. In a companion article (published in Moneta e Credito in 1988), my late friend and colleague Curzio Giannini, who was one of the main contributors to that project, observed that the payments system is a "complex apparatus [of rules, intermediaries and instruments] that serves a simple purpose: allowing the execution of payments in money associated with the circulation of goods and services". As regulators and providers of means of payment, we have to ensure that the digital transformation of retail payments will encourage the exchange of goods and services among households and firms, helping them to reap the benefits of the new technologies and to share them widely.