



## **Comments on Advancing Asia's Payment Systems Through Financial Technology**

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## 01 General comments: Overall

1. **In-depth analysis** of how Fintech payment instruments affect efficiency/convenience , transparency, security and network effects of existing payment systems
2. Analysis of **both positive and negative impacts** that fintech payment systems have on existing payment systems
3. **Many insightful recommendations** that each DMC government can apply for enhancement of digital financial infrastructure including payment systems.

## 02 Specific comments: Section II. The digital payment systems landscape(1/3)

### Page 16.

To sum up, 1-4 are basic facts on the growing importance of digital payments (as measured by the increased relative importance of card and e-money, fact 1). A finer breakdown suggests that the driving force of this trend may be FinTech payment systems (as measured by the share of e-money transaction volume, fact 2), especially in emerging economies. Facts 5-8 are related to mobile money, a prominent example of FinTech payment systems. Taking into account of the transaction volume, transaction value and average value per transaction, P2P and cash-in/cash-out seem to play the most significant roles in mobile money usage. Mobile money is also used rather frequently for merchant payment, especially payments for mom-and-pops, as evidenced by its high transaction volume but low average value per transaction. These facts also highlight some key implications of FinTech payments in terms of convenience (fact 4 and 10), access and transparency of small value transactions (fact 4), financial inclusion of the unbanked (fact 5) and potential relationship with e-commerce (fact 9).

## 03 Specific comments: Section II. The digital payment system landscape(2/3)

- **Recommendation: Detailed explanation, specific data or evidence supporting the author's opinion**

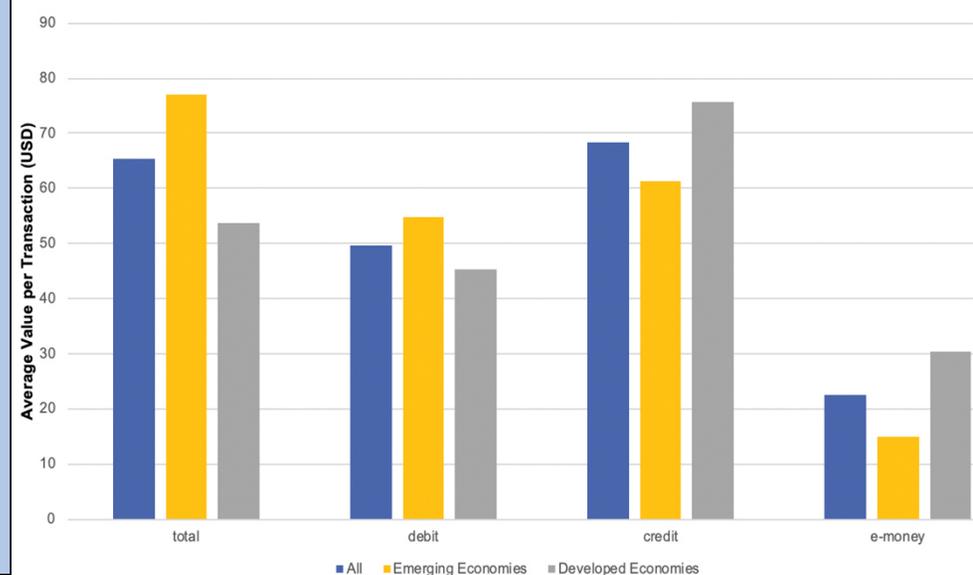
### Fact 4 (Page 10)

*The average value per transaction through e-money is the smallest among all card and e-money payment instruments in both emerging and developed economies, and smaller in emerging compared to developed economies.*

Compared to debit and credit card, e-money is the instrument that is most closely associated with FinTech payment systems.

**Figure 5 shows that the use of debit and credit cards increases convenience, access and transparency of small value transactions, and FinTech payment systems strengthen these benefits even further.**

**Figure 5: Value per Transaction by Card/E-Money Payment Instrument (2018)**



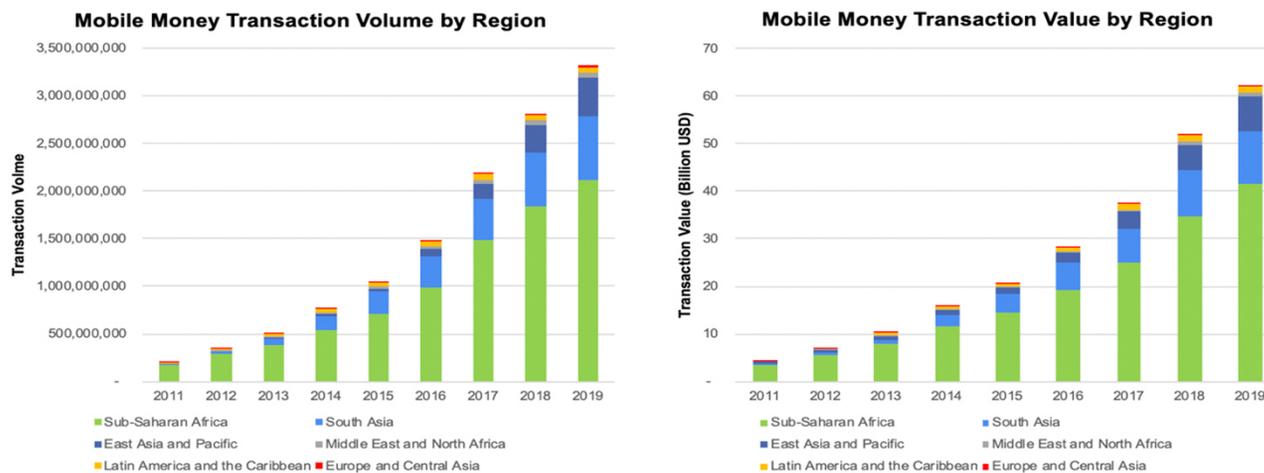
Sources: BIS (2018) and author's calculations.

- Recommendation: Detailed explanation or relevant data supporting the author’s opinion

Fact 5 (Page 11)

5. Total mobile money transaction volume and value both increase substantially from 2011-2019. Mobile money is most widely used in Sub-Saharan Africa, followed by East Asia and Pacific and South Asia.  
 .. Moreover, the fact that mobile money has to be available to the unbanked implies that mobile money may contribute to financial inclusion.

Figure 6: Trends in Mobile Money Transaction Volume and Value, 2011-2019



Source: GSMA (2020).

### Recommendations for Policy Consideration

#### *2. Encouraging interoperability between platforms. (Page 32)*

Since technology can be widely applicable, many FinTech payment providers (e.g.: GrabPay, WeChat Pay) mix a variety of services ranging from saving, wealth management, P2P lending to online shopping, ride hailing, social networks and food delivery. These “Super Apps” greatly increase convenience, but in the absence of regulation, may induce excessive market power and eventually harm consumer welfare and innovation. **Encouraging interoperability between platforms is a way to reduce switching costs and maintain sufficient competition between platforms.**

- 1) Recommendation: Add further explanation regarding other benefits such as fair opportunities for small fintech companies, more convenient services to customers, and building healthy digital ecosystem.*
- 2) Recommendation: Include institutional reform for supervising bigtech’s customer fund management for transparency and financial stability as a separate section.*

## 06 Specific comments: Section V. Challenges and Policy Recommendations(2/3)

*3. Providing relevant devices, connectivity, digital ID/KYC (Know-Your-Customers) and technological/financial literacy, especially to the more socially disadvantaged groups. (Page 32)*

- In order to effectively activate the digital payment system, it is necessary to **simultaneously digitize other fields such as public administration with the development of the digital payment system.**
- **It is necessary to check the level of digital financial infrastructure development required to effectively provide digital payment services** before accepting the latest technology or launching services.

Country level	Recommendations
Initial	<ul style="list-style-type: none"><li>• <b>Establish basic telecommunication infrastructure and digitize the administrative network such as national ID.</b></li></ul>
Developing	<ul style="list-style-type: none"><li>• <b>Policies for interoperability between financial infrastructure and other sector infrastructure.</b></li><li>• <b>Consumer incentive policies such as tax exemption for the spread of services.</b></li></ul>
Advanced	<ul style="list-style-type: none"><li>• <b>Policies and regulations for effective management of fintech companies and financial market stability.</b></li></ul>

## 07 Specific comments: Section V. Challenges and Policy Recommendations(3/3)

*5. Promoting regional cooperation in the standardization of industry practices, cross-border crimes and payment systems integration. (Continued) (Page 33)*

### Opportunities

- Governments and private sectors in many countries have already recognized the benefits of harmonization/integration of financial infrastructures, such as:
  - (i) reduction of end-to-end transaction costs
  - (ii) lower costs for end-users
  - (iii) improved accessibility and reach to cross-border transactions and other services by all market participants
  - (iv) resource and skill/capabilities sharing
- Under the COVID-19 situation, many countries recognize the importance of cross-border payments. (Especially DMCs might be interested in online cross-border remittances.)

Ref. Payment Systems Worldwide: A Snapshot Summary Outcomes of the Fourth Global Payment Systems Survey, World Bank Group, 2018, pp 40.

## 08 Specific comments: Section V. Challenges and Policy Recommendations(3/3)

*5. Promoting regional cooperation in the standardization of industry practices, cross-border crimes and payment systems integration.(Continued)*

### Challenges

- Bilateral or Multilateral issues: Difficult to find common benefits for all stakeholders

Factors	Issues
Infrastructure	<ul style="list-style-type: none"><li>• Different level, type of digital financial infrastructure (standardization issue)</li></ul>
Policy/regulation	<ul style="list-style-type: none"><li>• Government-led development or private-led development (Fee structure, exchange currency)</li><li>• Different regulation intensity (e.g. remittances AML)</li></ul>
Customer	<ul style="list-style-type: none"><li>• Convenience and monetary benefits</li></ul>
Service provider	<ul style="list-style-type: none"><li>• Different preference to payment instruments (culture) e.g. QR payment vs credit card payment</li></ul>

*5. Promoting regional cooperation in the standardization of industry practices, cross-border crimes and payment systems integration.*

## **Recommendations**

- **Include in the paper the importance of ADB's role as a facilitator for promoting regional cooperation for connecting and expanding cross-border payment systems**
  - Connecting and expanding cross-border payment systems play a key role in improving regional cooperation.
  - However, since there are many stakeholders involved, an institution that can coordinate and arbitrate different views held by multilateral stakeholders is needed.

End

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**Thank you**