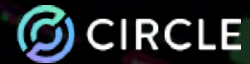




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Re-Architecting the Financial System: Digital Payments

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Executive Summary

The infrastructure supporting global trade payments, though increasingly digital overall, still relies on established systems. This can lead to higher costs and inefficiencies. *In the fourth quarter of 2022, the global average cost of sending USD 200 was 6.2% - more than twice the Sustainable Development Goal target of 3%, as per [the World Bank's Remittances Prices Worldwide Database](#).*

One contributor to these inefficiencies is the processes used in cross-border payments. Traditionally, these have been handled by established banks using a network of bilateral relationships. This structure can introduce delays and costs for the banks involved, which can then impact businesses and consumers relying on these networks. Digital currencies built on blockchains offer an alternative approach to payments that could potentially be more efficient, while still adhering to regulations. However, further research and development are needed to fully understand the potential of this technology in this context.

How can blockchain-based digital money be integrated into the existing global payments infrastructure to reduce friction and costs? What are the best practices for ensuring interoperability between different forms of digital money? What kind of collaboration is needed to influence policy and improve the success of digital payments?

These were some of the themes that emerged at the closed-door, invitation-only Elevandi Insights roundtable at the Point Zero Forum 2024 hosted by Circle and Ripple. A select group of global regulators, investors, technology providers, and senior leaders from financial institutions joined the session to share their insights and strategies for navigating the complexities of digital payments in a rapidly changing financial landscape.

Here are the key takeaways from the discussion.





#1 The Evolving Landscape of Digital Payments: Innovations, Challenges, and Global Perspectives

Digital payments are significantly changing how we transact. Traditional cash and card-based systems are evolving into a potentially more efficient and secure process. While established companies initially dominated the digital payment landscape, new technologies like digital wallets and blockchain-based solutions offered by fintech firms are providing convenient options for domestic and international money transfers.

The global digital payments market is expected to soar to an impressive USD 6.6T by 2025, underscoring the worldwide transition towards cashless transactions.

SOURCE: STATISTA

Major financial institutions are exploring these technologies as well. They are introducing digital coins and tokenised deposits to potentially improve liquidity and enable transactions around the clock. These innovations pave the way for programmable payments, where users can deploy custom code within bank systems, facilitating seamless interaction. This capability holds promise for streamlining cross-border payments, which have seen limited changes since the 1970s.

However, there are still challenges to address. Regulatory and operational risks, especially when dealing with shared ledgers and tokenised deposits, require careful consideration. Ensuring compliance with existing regulations while integrating new technologies is crucial. Additionally, while domestic payment systems have shown significant improvement, cross-border transactions can still be expensive.

The future of digital payments is likely to involve a mix of solutions. Stablecoins, tokenised deposits, and central bank digital currencies (CBDCs) may all play a role, catering to different market needs and regulatory environments. Ongoing competition and collaboration between banks, fintech companies, and regulators will determine the shape of this dynamic industry in the coming years.

#2 Regulatory Innovations and Interoperability in Global Payments

Interoperability between different digital payment systems and across jurisdictions remains a challenge as the landscape continues to evolve. Financial institutions are exploring ways to facilitate communication and data exchange between centralised and decentralised systems. However, even widely recognised tokens like Bitcoin have yet to achieve complete global acceptance and integration.



The concept of a shared ledger, a global system for record-keeping across all banks and payment companies, is gaining interest. However, implementing such a system presents practical difficulties due to regulatory and operational complexities. The future of interoperability may involve a gradual approach and collaboration among central banks, fintech firms, and traditional financial institutions.

"We need a broader conversation among central banks to move from regional initiatives to a global approach for interoperability."

ROUNDTABLE PARTICIPANT

Several countries have implemented regulations for payment providers, aiming to ensure operational stability and promote competition, particularly in cross-border transactions. For example, Canada established a regulatory framework to grant payment service providers access to the national payment infrastructure. This aims to achieve consumer protection, facilitate competition from new players, and ultimately build interoperability so that existing Canadian systems can function seamlessly with those in other countries.

#3 Overcoming Barriers to Digital Payment Integration

The lack of standardised definitions and regulatory clarity is one of the biggest challenges in the adoption of global digital payments. Regulatory frameworks such as the EU's Markets in Crypto-Assets Regulation (MiCA) aim to protect consumers and structure digital assets. At the same time, regulatory fragmentation impacts global interoperability and innovation in digital payments. Regulations should include passporting or equivalence regimes to permit well-regulated digital payment innovations to interoperate.

Different countries are also at various stages of developing their digital payment infrastructures. This highlights the need for balanced approaches that lead to innovation while ensuring consumer protection and financial stability.

Making digital payments accessible to everyone goes beyond technology and regulations. Effective systems should provide secure, efficient, and user-friendly financial services for all. However, complex processes and unclear information can hinder user experience. Simplifying procedures and ensuring clear communication are crucial. Additionally, promoting financial literacy can empower more people to confidently engage with digital payment systems.



#4 Bridging Knowledge Gaps in Digital Payments

A lack of understanding among stakeholders about emerging technologies and their implications is challenging the adoption of advanced payment systems. The result is a fragmented ecosystem where innovation remains isolated and accessible only to a privileged few.

Organisations need to upskill their employees to address this. For instance, the Monetary Authority of Singapore (MAS) has designed an online course that brings in industry experts to demystify digital payments, including CBDCs and stablecoins.

Without widespread education, there's a risk of complacency and a lack of understanding of important developments in the field. This could lead to problems down the road as digital payment systems become more prevalent. Policymakers, financial institutions, and the entire ecosystem must come together and treat this knowledge gap as a critical issue.

"Today we are siloed. However, by giving stakeholders a common language on digital payments, we empower all - from policymakers to entrepreneurs - to navigate and innovate effectively."

ROUNDTABLE PARTICIPANT

#5 Strategies for Safe and Effective Integration of Digital Currencies

As digital currencies gain traction globally, ensuring their safe and effective integration into the financial system is important.

ESTABLISHING COMPREHENSIVE REGULATIONS

Many countries lack specific rules for digital money. This can be a problem because without regulations, companies might try to create their own digital currencies, which could undermine national sovereignty. By including stablecoin regulations within existing e-money laws, authorities can create a safe, trustworthy environment for digital transactions while maintaining control over their financial systems.

IMPLEMENTING SANDBOXES

This involves creating a controlled environment where new digital payment technologies can be tested safely and comprehensively. Over the next six months to a year, as research and testing are conducted, authorities can better understand the potential of programmable payments.

INTERNATIONAL COOPERATION

Different countries are at different stages of developing their digital currency frameworks. By engaging in global dialogues and aligning policies with international best practices, jurisdictions can ensure their regulations are both competitive and cooperative.

Conclusion

The Fintech industry has been hugely dynamic and innovative in recent years and the platforms and services it has developed are showing great promise. However, as regulations like MiCA are being implemented across the globe, the market may face new barriers to innovation and progress. The industry has a lot of work to do in educating legislators, regulators, and end-users about the efficiencies and use cases that digital ledger and token-based solutions offer. Another key focus area remains the lack of interoperability between different blockchains and ledgers and different types of digital currencies and funds. Establishing a truly global ledger-based payment system may be the best way to overcome regional barriers to international payments and fund transfers – but many established players are still against such a setup. The industry will need to continue and increase the dialogue internally and externally to move the market forward.





About Ecosystem

Ecosystem is a Digital Research and Advisory Company with its global headquarters in Singapore. We bring together tech buyers, tech vendors and analysts onto one integrated platform to enable the best decisionmaking in the evolving digital economy. Ecosystem has moved away from the highly inefficient business models of traditional research firms and instead focuses on research democratisation, with an emphasis on accessibility, transparency, and autonomy. Ecosystem's broad portfolio of advisory services is provided by a team of Analysts from a variety of backgrounds that include career analysts, CIOs and business leaders, and domain experts with decades of experience in their field. Visit ecosystem.io

About Ripple

Ripple is the leader in enterprise blockchain and crypto solutions, transforming how the world moves, manages, tokenizes and stores value. Ripple's business solutions are faster, more transparent, and more cost effective - solving inefficiencies that have long defined the status quo. And together with partners and the larger developer community, we identify use cases where crypto technology will inspire new business models and create opportunity for more people. With every solution, we're realizing a more sustainable global economy and planet - increasing access to inclusive and scalable financial systems while leveraging carbon neutral blockchain technology and a green digital asset, XRP. This is how we deliver on our mission to build crypto solutions for a world without economic borders. Learn more at <https://ripple.com>

About Circle

Circle is a global financial technology firm that enables businesses of all sizes to harness the power of digital currencies and public blockchains for payments, commerce and financial applications worldwide. Circle is the issuer of USDC and EURC - highly liquid, interoperable, and trusted money protocols on the internet. Circle's open and programmable platform and APIs make it easy for organizations to run their internet-scale business, whether it is making international payments, building globally-accessible Web3 apps, or managing their internal treasury. Learn more at <https://circle.com>.

About Point Zero Forum

[The Point Zero Forum](#) is a not-for-profit initiative of [Elevandi](#) and the [Swiss State Secretariat for International Finance](#) to promote a policy and technology dialogue in Financial Services.

Every year, over 1,000 central bankers, regulators and industry leaders convene around a series of leadership dialogues, public-private roundtables, deep dive workshops and networking opportunities to drive confidence, adoption and growth of transformative technology, and assess and promote the appropriate governance and risk frameworks.

This report is based on the conversations during a roundtable at the Point Zero Forum 2024 hosted by Ripple and Circle and moderated by Ecosystem. It is also based on the analyst's subject matter expertise in the area of coverage in addition to specific research based on interactions with technology buyers and technology vendors, industry events, and secondary research.



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