Digitalization of Money and Payments: An Overview

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Evolution of money and payments

Rapid progress in digital technology creates new service providers, new forms of money and payment instruments, and new infrastructures.
**Currency, Money, Payment Instruments and Systems**

**Economic perspective**

Money can be anything that can serve as a medium of exchange, unit of account, and store of value.

**Legal perspective**

Currency, mostly banknotes and coins, is the official means of payment of a State recognized as such by monetary law. It is always denominated in the official monetary unit. Legal tender is a key attribute; it entitles a debtor to discharge monetary obligations.

Money is broader and includes certain types of assets or instruments that are readily convertible or redeemable into currency, such as book money (credit balances on accounts) and electronic money.

Payment instruments are neither currency nor money but are used to effect payments that are ultimately settled in currency or money.

A payment system is a set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement.
How do digital money and payments fit into the taxonomy?

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<th>E-money</th>
<th>Crypto assets</th>
<th>Stablecoins</th>
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<td>Payment instrument</td>
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<td>Payment instrument and payment system</td>
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* In some jurisdictions classified as money for VAT purpose (but not financial law)
** Except in El Salvador and Central African Republic
Opportunity: Financial Inclusion

High unit costs

Households, Micro and Small Enterprises

Incomplete Financial Data

Scarcity of good collateral

Machine learning
Real-time customer tracking
Intelligence gathering

Mobile services
Financial services bundling
Opportunity: Cross-border Payments

Current
Deposit-based

Country A
Central Bank
Domestic Payment System
Bank
Nonbank
Payor

Country B
Central Bank
Domestic Payment System
Bank
Nonbank
Payee

Route 1: Correspondent Banking
Route 2: Payment System Link

Future?
New networks and means of payments

✓ Choice of deposit-based and token-based systems
✓ Less reliance on correspondent banks
Challenges: “Same activity, same risk, same regulation”

➢ Create level-playing field by bringing new service providers, new instruments, and new infrastructures under the regulatory umbrella

➢ However, risks could be new or shifting. Examples:

❖ Tokenization of deposits could change the nature of liquidity risks of banks
❖ Bigtech offering payment services, and integrate payments with other services (e.g., credit, insurance, etc.), could alter creditor-borrower relationships and reduce interoperability of money
IMF work on digital money and payments

- **Bilateral**
  Providing tailored, hands-on advice

- **Regional**
  Building awareness and sharing experiences

- **Analytical**
  Providing foundations, guidance, empirical insights

- **Reviews**
  Providing independent feedback, credibility, transparency

Traditional payment topics
- CBDC
- Stablecoins
- E-money
- RTGS
- Crypto assets
- RPS

New types of payment topics
- Fintech
Concluding thoughts

- Digital money and payments have the potential to allow central banks to better meet their policy objectives.

- Design choices and international cooperation are crucial to realizing the potential of digital money and payments.

- Regulatory and supervisory frameworks need to be upgraded to be fit-for-purpose in the digital age.