COMPETITION AND COOPERATION IN INNOVATION

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Rein Kieviet, 7 June 2018

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AGENDA

- Cooperation and innovation in payments
- Will PSD2 be a game changer?
- Some other topics on competition
- Some conclusions

CHARACTERISTICS MARKET FOR RETAIL PAYMENTS

- Retail payments dissatisfier, characteristics of a public good
- But offered by competitive commercial financial institutions
- Only two sorts of money to pay with: cash and deposit money at banks
- Non-cash payments via instruments to get access to your own account
- Two sided market
- Typical network industry
- The need for cooperation

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COOPERATION IN THE RETAIL PAYMENT MARKETS

Cooperation, among

- Banks
- All other players in the supply chain
- Supply and demand side stakeholders

Competition

- On customers services, tariffs, not on standards

Role of regulators

- Guidance
- Regulation

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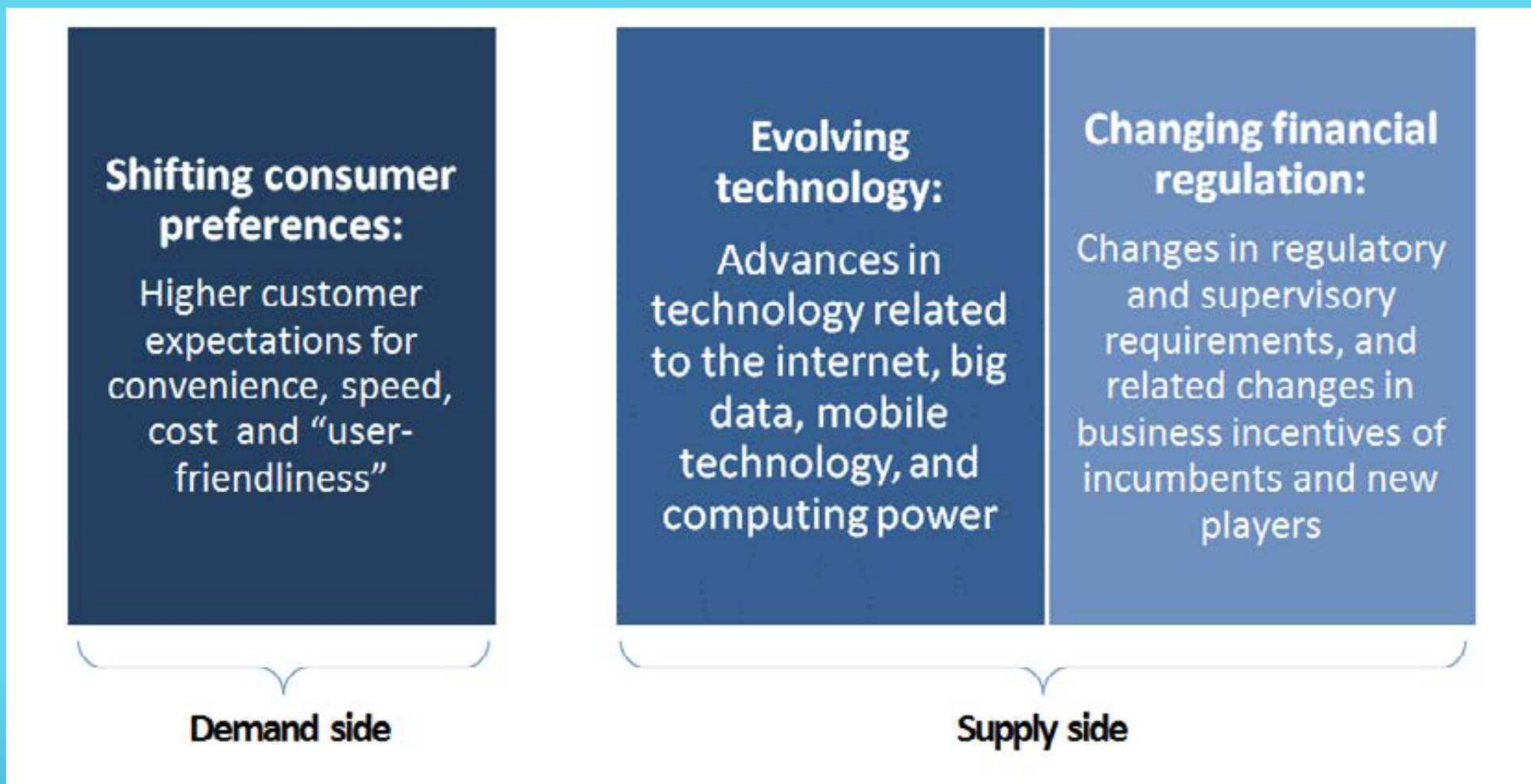
INNOVATIONS IN RETAIL PAYMENTS



.......BRINGING NEW

- Services and instruments, *like*

  - instant payments

  - alias payments

  - payment initiation services

- Players

  - fin tech

  - big tech

  - other non-banks (PISPs and AISPs)

- Cooperation models?

  - collaborative innovation

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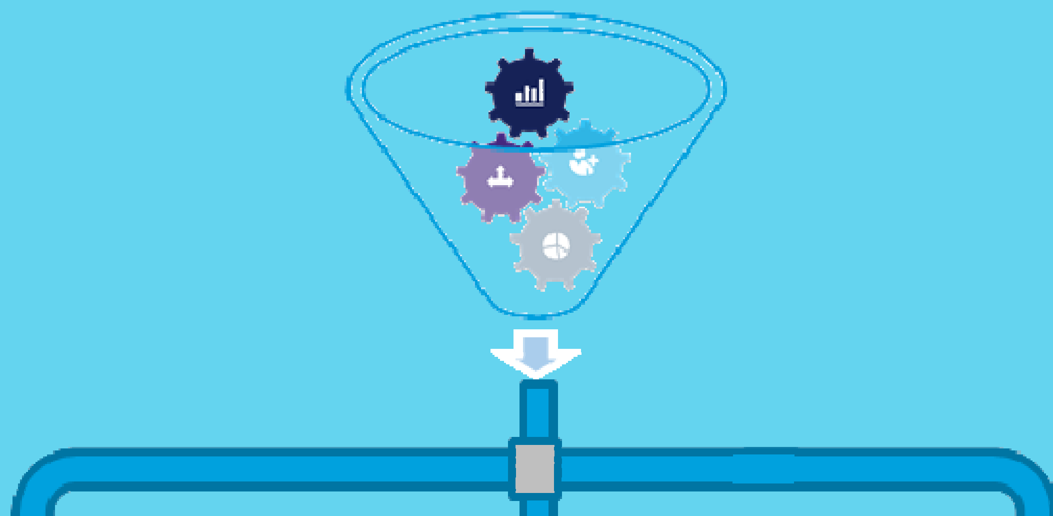
Dutch Fintech Infographic 4.0

SCENARIO ANALYSIS: OVERVIEW



	1 Adoption by established financial institutions	2 Market fragmentation as a result of FinTech	3 Absorption by BigTech
SCENARIOS	**Adoption by established financial institutions**	**Market fragmentation as a result of FinTech**	**Absorption by BigTech**
SUMMARY	The established financial institutions adopt technological innovation and introduce these to the market in a high pace. These institutions can be domestically (1a) or foreign (1b) based.	Technological innovations are adopted primarily by FinTech companies, who use them to effectively compete with established financial institutions across the value chain. This leads to a fragmentation of the market for financial services.	Technology giants such as Google or Apple ('BigTech') adopt innovations effectively integrate these across the value chain. In doing so, these firms crowd out established financial institutions.

POTENTIAL GAME CHANGERS

PSD2
Access to the Account

Instant Payments

Mobile Proxy

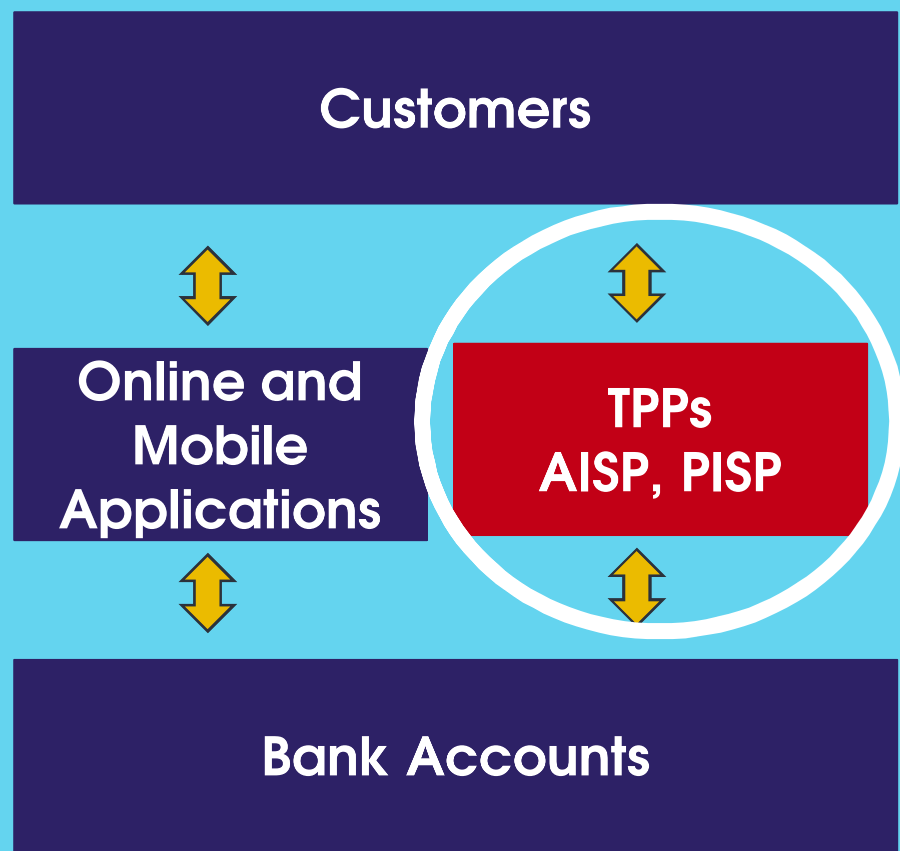
Identity

Blockchain

GDPR
Privacy

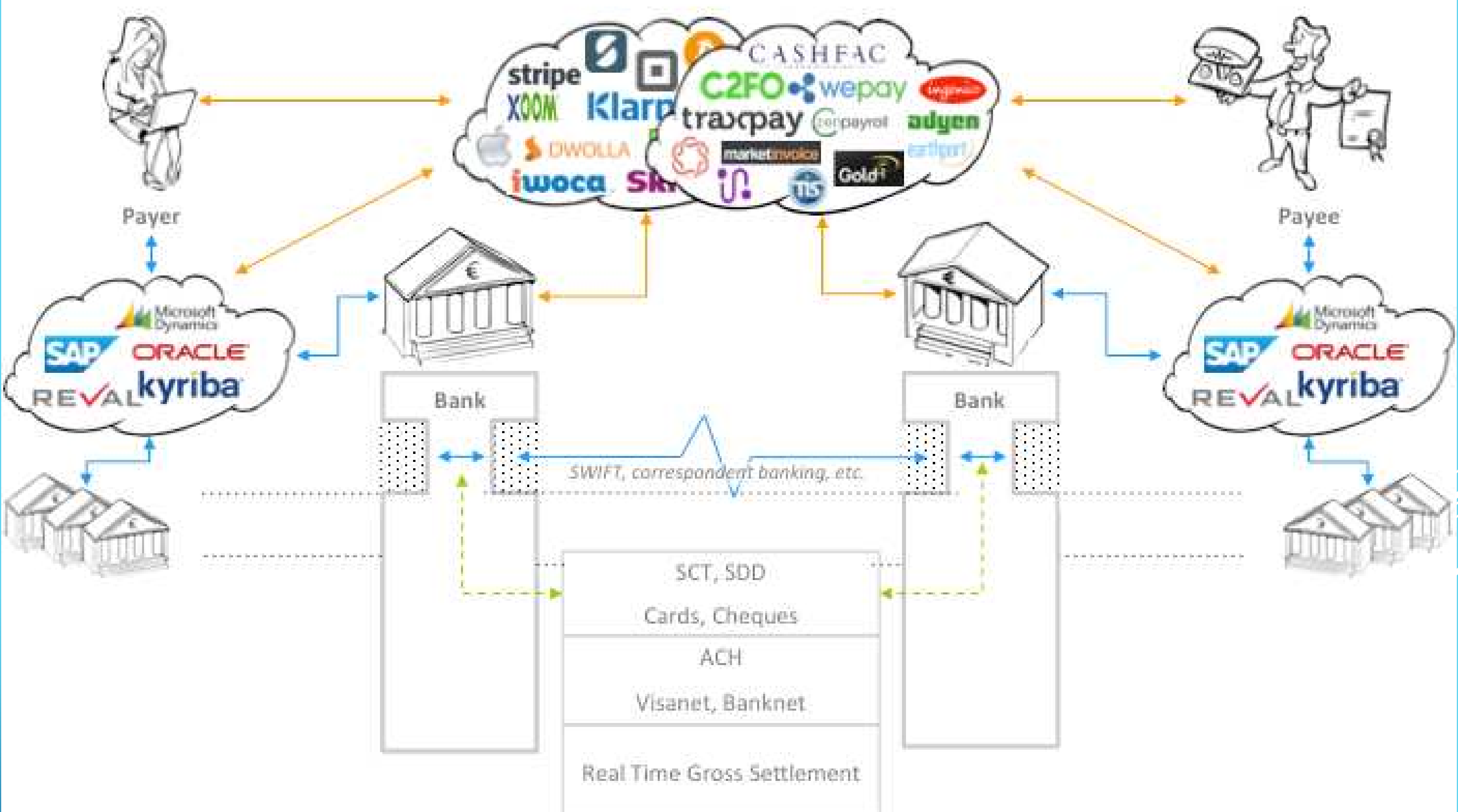
Data

PSD2, INNOVATION AND COMPETITION

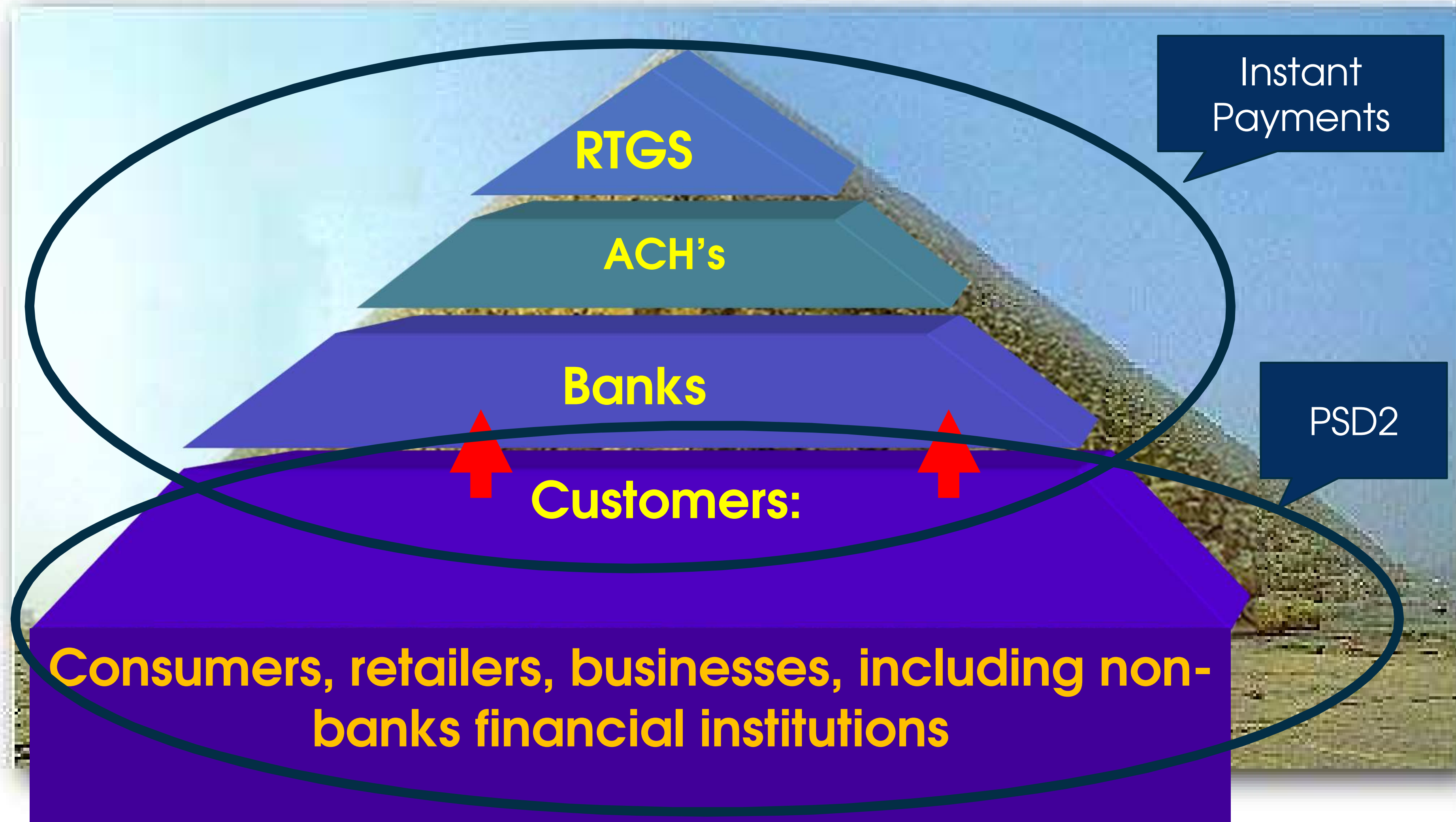


- Payment initiation services (PIS): alternative for on line payments
- Account information services (AIS):more opportunities for data use

FinTech: innovation ‘on top of ‘ banking



A PAYMENT PYRAMID



Possible bank strategies

- Banks lose monopoly on their client contacts
- Increased competition non-banks
- Still own the infrastructure
- And money stills on the balance sheet
- Possible strategies:

1. just comply
2. become or set up TPP
3. take over
4. co-option

Revolution or evolution in payment services?

INNOVATION AND PAYMENT MARKET MARKET CHARACTERISTICS

- Separation provision of payments from infrastructure
- Market driven, banks still own infrastructure
- We still pay with traditional money….
- Easier access,lesser payment instruments needed?
- More need for cooperation
- Dissatisfier?

SOME ISSUES

- Lack of standardisation
- Fragmentation versus integration
- What do consumers really want?
- Privacy
- Digital exclusion

CENTRAL BANK'S ROLE IN INNOVATIONS

- Monitor and assess relevant developments
- Give guidance
- Foster awareness
- Facilitate new developments

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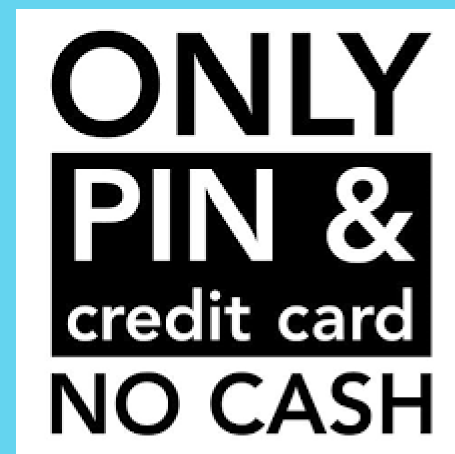
DON'T LET'S GET TOO DIGITAL .....

Vision DNB on cash: less cash, but not cashless

Arguments

- Digital inclusion
- General acceptance
- Innovations in cash cycle
- Fall back in time of crisis



COMPETITION AND RTGS ACCESS

- RTGS traditionally for banks only
- Payment institutions depend on banks for settlement
- Unlevel playing field?
- Lighter regime desirable?
- Will need adaption of Settlement Finality Directive
- And thorough risk and policy analysis

Worth investigating

INNOVATION AND ACCOUNT SWITCHING

- Increasing use of mobile apps and alias payments

Alias payments

- Focus on ease and speed consumers payments and receipts (P2P)
- Alias is a front office IBAN-substitute
- e.g. phone number or email address

DNB research on possibilities on alias as a means to ease account switching

- More robust number required to substitute IBAN for all payments
- Why not a new unique payment ID owned by the account holder
- More effective than forms of (European) number portability?

Worth investigating by European Commission while evaluating Payment Account Directive by 2019?

SOME CONCLUSIONS

- PSD2: evolution, no revolution in payment services
- Banks may survive, but have to change
- Financial innovation requires more cooperation
- Need for further standardisation XS2A
- To foster competition, broader access to RTGS systems and alias usage to ease account switching seem worth further investigating
- Let also get digital inclusion….

THANK YOU FOR YOUR ATTENTION!

- Rein Kieviet
- De Nederlandsche Bank
- Payments & Market Infrastructure
- Payments Policy

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