

# Burkhard Balz: Digitalisation of payments in a globalised world

Speech and discussion by Mr Burkhard Balz, Member of the Executive Board of the Deutsche Bundesbank, in cooperation with the Konrad Adenauer Foundation and Fundación de Investigaciones Económicas Latinoamericanas (FIEL), Buenos Aires, 7 March 2024.

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## 1 Introduction

Ladies and gentlemen,

Distinguished guests,

As Jorge Luis Borges once said: Don't talk unless you can improve the silence. I am fortunate enough that the current developments in the world of payments offer a lot to talk about, so I hope I can improve the silence at least a little. From Bitcoin and stablecoins to central bank digital currencies, payments have slowly progressed from being something that simply had to function to being one of the main drivers of innovation in the financial world.

## 2 The rise of digital payments

The use of cashless payment instruments is seeing constant growth.

This is being driven by factors such as the widespread use of smartphones, the rapid growth of e-commerce, and the new possibilities for financial inclusion. Even in Germany, where cash was once king, the use of cash has declined significantly over the past few years. In 2020, just before the outbreak of the coronavirus pandemic, 74 percent of transactions at the point of sale were made using cash; by 2022, this share had fallen to just 59 percent.<sup>1</sup> The payment volumes paint an even clearer picture: by volume, almost 60% of payments are made by card, whilst only 40% are now made using cash; thirty years ago, this figure was nearly 80%. While part of this decline in cash usage could be explained by people discovering the benefits of shopping from the comfort of their own homes during the pandemic – which, so I've heard, is also possible with cash in Argentina – digital payments offer other advantages as well.

First, the rise of mobile and contactless card payments has made the payment process at the point of sale more efficient than ever. As a result of this greater convenience for customers, the majority of card payments using the national card scheme in Germany are now made using contactless methods. Although mobile payments still account for a rather small share of transactions overall – just three percent – their role is growing.

Second, card payments are secure. Payment service providers have implemented improved security requirements – due to regulatory pressure, in some cases – which has led to a steady reduction in the risk of fraud. Furthermore, real-time payments,

which are instant and final, give both the payer and the payee the certainty of a successful transaction. This has led to faster payments being successfully introduced in many jurisdictions, including in Argentina.

Third, cashless payments offer the potential for global reach. Geopolitical tensions and the increased mobility of the global workforce have led to a rise in migration and, consequently, the number of remittances. Moreover, despite these tensions, global trade has grown and is expected to continue to grow in the coming years, further increasing the need for efficient cross-border payments.

### **3 Digital payments in a globalised world**

Compared to domestic payments, however, cross-border payments can still often be slow, expensive, and intransparent. This is why the G20 is working on a roadmap to enhance the cross-border payments experience. In order to ensure that its ambitions for improving these payments are achieved, the G20 has set targets for speed, cost, transparency and access with regard to remittances as well as both retail and wholesale payments. A significant part of this roadmap involves utilising the advantages that digital payments offer, such as by interlinking real-time payment systems.

Faster payment systems offer instant and final transactions at a comparatively low price, whilst also increasing the transparency of the payment process by notifying the payee about the status of their transaction. Making these systems interoperable across borders has obvious benefits: real-time international payments would shorten transaction chains and enable straight-through processing, thus increasing the speed and lowering the cost of cross-border payments. With real-time settlement, credit risk would disappear almost entirely, and foreign-exchange risk could be minimised by offering a real-time currency exchange mechanism.

These benefits were among the factors that influenced the G20's decision to prioritise the interlinkage of faster payment systems. While political intent is important, it is the implementation of real-world solutions that really counts. Fortunately, a number of proposals for ways of linking faster payment systems together at an infrastructural level have been developed. These include the BIS Innovation Hub's project "Nexus", which presents a hub-and-spoke approach to interlinking faster payment systems. In this proposal, banks continue to play a significant role as liquidity providers for multiple currencies, giving them an incentive to participate in the system.

### **4 Collaboration between public and private actors**

These proposals underscore the central focus of our ongoing and future initiatives: the necessity for public and private actors to collaborate in enhancing the global payments landscape. Private entities are good at providing innovative services. Public entities play a vital role in facilitating cooperation and overcoming issues in coordination. In addition, they create regulatory frameworks that not only encourage innovation, but also ensure that innovation can grow safely and equitably. These frameworks must be harmonised across borders in order to provide a seamless environment for innovation, enabling ideas and products to transcend geographical barriers and serve a global audience.

Harmonising these frameworks is a key component of the G20 roadmap. Given the variety of national interests and the complexity of existing frameworks, achieving this harmonisation may be time-consuming. Regulators must balance the need for efficiency with the imperative of maintaining security. Although progress may be slower than some might expect, a cautious approach is essential for preserving the trust that payment system operators have taken great care to build up. It is a lot like walking a tightrope: reaching the other side safely is better than trying to move too fast, risking a potentially dangerous fall.

Furthermore, public actors can assist the market by upgrading their infrastructure – or by building new infrastructure, as they did for faster payments and may potentially do again for central bank digital currencies, or CBDCs. In this respect, attention should be given not only to retail CBDCs, which allow access to central bank money for the general population. Very few countries around the world have already implemented such CBDCs for the general public, most are still at a rather early stage overall, with the euro area being relatively far along in its deliberations. While still wholesale CBDCs will not broaden the access to central bank money, but rather work with the existing central bank money account holders like credit institutions, they may also play an important role. They could potentially improve liquidity management for cross-currency transactions and enhance the efficiency of cross-border payments. A number of pilots with different technical approaches have been conducted. It remains to be seen whether these solutions will be ultimately implemented for international payments.

On the other side, private actors bear the responsibility of devising solutions that can be smoothly integrated with these frameworks and build on this infrastructure. In recent years, they have proven that they are fully capable of creating secure, efficient and user-friendly payment methods.

This ingenuity should continue to be the catalyst for the practical implementation of new concepts. By crafting solutions that adhere to these harmonised regulations, private enterprises can drive innovation whilst ensuring compliance and contributing to a stable and effective market, both domestically and internationally.

## **5 Conclusion**

Ladies and gentlemen,

I would like to close with another quote from Jorge Luis Borges: Plant your own garden and decorate your own soul, instead of waiting for someone to bring you flowers. This holds true for our efforts in improving global payments as well. Both public and private actors alike will have to work together in order to create the best payments experience for every user. Let us work together to create a beautiful garden of global, interoperable and efficient payments.

Thank you for your attention.

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<sup>1</sup> Source: EHI Retail Institute (2023), Payment-Entwicklungen aus Sicht der Handelsforschung.