

Barefoot Innovation Podcast with Holti Banka, Senior Financial Sector Specialist, World Bank (Payment Systems Development Group)

***Note that transcripts may sometimes contain errors and that transcript timing notations do not match the posted podcast**

Jo Ann: We have a fascinating show today. My guest is Holti Banka, who is senior financial sector specialist at the World Bank in the Payment Systems Development Group. Holti, welcome.

Holti Banka: Thank you, Jo Ann. It's great to be here and I think these are very exciting times for the digital payments world.

Jo Ann: Absolutely. You and I have known each other for a good number of years and I've been very excited about the work that you're doing at the World Bank in Fast Payments, and you have a new initiative that we want to be sure to share with everyone and talk about how these payments issues, including speeding up payments are essential in so many ways, including for financial inclusion. So let me start by just asking you to tell us about yourself. What's your own background and what's the journey that brought you into this work at the World Bank?

Holti Banka: Definitely. I've been now with the team for about 10 years. Time flies. I actually got into the World Bank straight after I completed my PhD in development economics, though my very narrow area of research was indeed on digital payments. Not a kind of very, I guess, common sort of path, sort of coming from academia into the practitioners and policymaking world. But I've always been fascinated by international environments and organizations like the World Bank, being able to help governments solve important issues. And I figured as I was doing my academic research that the whole space around digital payments was one that had a lot of potential. The impact on financial inclusion and essentially transforming economy and ultimately also lifting people out of poverty through different channels I think was definitely worth pursuing.

Since joining the bank, then obviously I had the opportunity then to further expand the areas of expertise, really being able to work on a wide range of countries. The team that I'm part of, the Payment Systems Development Group is a global team. So essentially we work pretty much with the entire world. So I'm really grateful and I've really enjoyed the opportunity being a part of such a diverse and really fascinating institution with very important mission as is the World Bank. So that's pretty much in a nutshell how I ended up at the World Bank.

Jo Ann: Right. Thank you. So let's lay the groundwork for our conversation by talking about what we mean by Fast Payments. We hear the term Fast Payments,

instant payments, real-time payments. There are many kinds of projects underway in various parts of the world on this.

Holti Banka: Yeah.

Jo Ann: Give us the lay of the land on what we mean by Fast Payments?

Holti Banka: Definitely. And I think it's worth pointing out that Fast Payments are also known with different terms in different parts of the world, I suppose in the US as well. So one could also read them as real-time, instant, immediate payments. But I think regardless of the terminology, there are certain characteristics that are the ones that define Fast Payments. And I would say there are five main such characteristics. The fact that they allow the pay to have instant access to the receipted funds, the fact that the Fast Payment service is operational 24/7, 365. So regardless of if you're sending a payment in the middle of a night or over the weekend, the pay is going to receive them instantly. The fact that they allow for interoperability in the sense that both banks and non-bank payment service provider can actually offer Fast Payments. So in practice you can send funds from, say, a bank account to digital wallet and vice versa. That is not necessarily given. The other feature is the fact that they also allow for the different service providers to build additional overlay services on top of the core, let's say, system infrastructure.

And then the fifth and the last one I would say is the fact that they in support all types of payment use cases, payment instruments, transaction channels from advanced ones such as QR codes for instance, or internet through the more traditional ones, including ATMs agents or even sending a text message through a feature phone. And I think the interesting part is that when you think about it, a lot of the things that we use on a daily basis that are technology enabled have a very instant nature, right? So the fact that we're able to send the text message or access the internet and access information in real-time, so why not achieve the same when it comes to digital payments? And likely we have been seeing a gradual increase in the implementation of Fast Payments, I think since the 2010 with the advancements of technologies, we are seeing more of that. And I think the COVID pandemic essentially was a blessing in disguise in terms of further expediting the process. So we also at the World Bank are striving to drive more of that spread of Fast Payments.

Jo Ann: So working toward Fast Payments has been a big goal of the community of people who are working toward global financial inclusion. And I know that you've had support in the World Bank from the Gates Foundation for this work. We at AIR also have grant from the Gates Foundation, which is motivated by the goal of it getting everyone as the World Bank has been getting basically everyone in the world connected to the formal financial system. Talk to us about why the goal of financial inclusion requires that we have a system of truly Fast Payments?

Holti Banka:

Sure. Indeed, in the work we've been doing, the Gates Foundation has been a great partner and sponsor. I'm sure we'll have an opportunity to say more, but in the context of financial inclusion, indeed it's a very important objective I think of as you correctly pointed out, I think of the entire community as well as the World Bank. And maybe just to briefly define what we mean by financial inclusion, essentially financial inclusion allows individuals and businesses to have access to affordable and useful financial products and services that meet their needs. Of course, payments here would be an important one, credit insurance and so forth. So we see access to a transaction account and usage of digital payments as initial steps towards broader financial inclusion and utilization, I suppose, of the broader set of digital financial services. And while progress to some extent has been made on financial inclusion indicators, there is still a lot of ground to be covered.

And just to mention a few statistics for instance, based on the World Bank's Findex Database, which captures demand side financial inclusion data around the world every two years, the percentage of adults, for instance, with access to an account for 2022 in low-income countries was 39%, in lower-middle-income countries was 62%. So we're still far away from more sort of idealistic scenario. Also, the percentage of adults, for instance, who initiated the digital payment was around 30% both for low and lower-middle-income countries. Now, when those statistics are further broken down by, for instance, gender or rural urban areas, you can see that there's additional sort of gaps when it comes to females for instance, or those living in rural areas. So categories that tend to be disproportionately affected and typically people's sides, things like high-cost lack of payment products that fit their needs or lack of digital skills and trust in the system as main barriers to financial inclusion.

So I introduce a little bit the whole financial inclusion context and what we see in the barriers before I speak about the ways of how Fast Payments can indeed help us tackle some of these challenges and bottlenecks. And I think there are a couple of ways. For instance, achieving cost efficiencies is very important, right? So Fast Payments can allow us to stimulate competition by, I believe, creating a level playing field for the different payment service providers, both banks and non-banks, which ultimately would be reflected on lower cost for end users. In many cases, we are seeing the underlying Fast Payment infrastructure being operated by a central bank as a public infrastructure. And we know that central banks don't have sort of profit-making per se as an objective. So they can be more focused on public policy goals such as financial inclusion.

And another way that Fast Payments can help address financial inclusion challenges is that they can help improve time-critical payments. We know that at times of emergencies and pandemics, as COVID sort of taught us the delivery of social assistance programs can be quite critical and time is of the essence. So therefore, having a platform and a channel to essentially direct those payments in real-time can be really significant. They can also help on the merchant side, right? So when we talk about financial inclusion is not just individuals, but

merchants very much and particularly micromerchants who currently we see are struggling when it comes to accepting digital payments. So with Fast Payments, they can sort of deepen and expand the acceptance of digital payments, and that can be done at a lower cost. And utilizing more affordable technologies such as, for instance, displaying a QR code in their store, one can also use feature phones for making a Fast Payment as well as what we call proxies or aliases.

For instance, you don't necessarily need to remember your bank account number. You can simply link it to a phone number or an email that will allow you to initiate and receive a Fast Payment, which I think is quite significant for people with limited digital skills and financial literacy. And that can to some extent also protect privacy. And last but not least, I think one should also consider the impact of Fast Payments when it comes to helping build credit history, right? Which again, is important for micro-entrepreneurs can also be very important for women entrepreneurs, particularly in jurisdictions where there's still quite a lot of discrimination and they're having a hard time sort of accessing credit. So these are just some channels through which we think Fast Payments can in a very direct and indirect way, help with financial inclusion challenges.

Jo Ann: Fascinating. Thank you. You mentioned the World Bank's Findex and metrics, and we will link to that in the show notes so that people can take a look at those statistics. They're incredibly illuminating about how we're doing globally and working toward financial inclusion. So with this context that you've shared with us, tell us about the World Bank's strategy on Fast Payments and about the project, the initiative that you're working on?

Holti Banka: Definitely. So the World Bank and in particular the group that I'm part of, the Payment Systems Development Group over the past three years or so, actually has assisted more than 120 countries modernized their payment systems through reforms, through formulating the national payment strategies, making legal regulatory adjustments, help build payments infrastructures, modernized and digitized government payments, enhanced cross-border payments, oversight of course functions. And of course now with the emergence of new payments, FinTech topics. So really, we have accumulated throughout the years a lot of experience and expertise in all facets of payments and working with a lot of central banks and governments throughout the world. So now, we are utilizing this accumulated expertise and experience to lead global research in the area of Fast Payments through Project FASTT, Frictionless, Affordable, Save Timely Transactions. So we came up with a fancy name for the project, but joke aside that we just wanted to make sure that in the name we also capture all the different characteristics that ideally we are striving for in payments.

And as I said earlier, the Bill & Melinda Gates Foundation has been a main sponsor and partner in this effort. So there are five main pillars that we have built the Project FASTT and the Fast Payments work. So if I may briefly go over

each of them, the first pillar is we call global knowledge products. So we have built a lot of resources including country case studies, documented essentially their journey in building Fast Payments. We have created a series of technical focus notes. We're deep diving into technical areas that are of relevance for Fast Payments. All these resources can be found in a dedicated repository website, fastpayments.worldbank.org. So I invite your listeners to go check it out when they have an opportunity. As part of that, they'll also see a global tracker that essentially tracks and monitors all live Fast Payment Systems around the world that we keep up-to-date.

The second pillar is that of capacity building through regional and global events as well as on a bilateral basis, we help central banks and other stakeholders at any stage of their Fast Payments development journey to essentially go through the different considerations and different design models. Third pillar is that of global convening. So as a lead sort of organizations in this space, we are also bringing together different stakeholders and international organizations as an example, for instance, the BIS or the CPMI, the Committee on Payments Market Infrastructures, research institutes that share our vision and objective on accelerating adoption of Fast Payments. So we tend to have joint events as well. The fourth one is on technical assistance. This is our bread and butter as the World Bank in general is one of the tools that it uses is technical assistance to help countries across different thematic areas.

In our case, obviously it's payments. So we are operationalizing a lot of the tools and resources that we have created in the conduct of the Fast Payments work to, again, help countries with technical implementation aspects on the ground. And the fifth one is essentially an instrument that is used again more broadly by the World Bank is lending instruments for countries that want to borrow from the World Bank. So they can do also to implement Fast Payment infrastructures on the ground. So this would be the different areas through which we are working on Fast Payments. So really a wide variety of tools and resources that we have developed.

Jo Ann:

So this is breathtakingly complicated and ambitious, and every country has its own payment framework, its own laws, its own infrastructure, and then obviously the cross-border. We'll talk in a moment about the cross-border aspects of this, but talk to us about the journey that's underway. Countries are adopting these approaches, these tools at different rates, different paces. Where are we in the global adoption of Fast Payments and what are the main obstacles that countries have to overcome as they try to transition to this kind of approach?

Holti Banka:

Yes. As I mentioned before, one of the tools we have developed is a Global Fast Payment System Tracker. So we know that up to date around a hundred jurisdictions around the world have adopted Fast Payments and many more plan to go live. However, there are some nuances that are worth pointing out. So one of the things we observed is that the adoption of Fast Payments is greater

among advanced economies. Maybe not surprising when it comes to low and middle-income countries, they're still ground to be covered. And we think that accelerating, of course, the Fast Payments adoption in those particular sets of countries is even more critical because they're the ones who can benefit the most given the limitations and bottlenecks that their current sort of payments ecosystems face.

The other point to make here is that we see the enhancements and development of Fast Payment Systems in a sort of continuous spectrum, right? Is a dynamic process, so to speak, not a one-time sort of investment. And in that sense, a lot of the implementations that are already have taken place and are still at nascent stages. So they also need enhancements. So that number I gave before, the hundred jurisdictions that have indeed implemented Fast Payments, a lot of those still have very basic features. So they do require assistance as well in adding more sophistication, more use cases and making them more functional in order to further drive uptake. And I think maybe here it is worth mentioning a couple of examples of very successful implementations, and I'm sure you're also familiar with those two countries, Brazil and India.

We are seeing really sort of remarkable numbers of Fast Payment usage in both those cases. In Brazil, it was the central bank that led the efforts and the market discussion to create Pix, which is their Fast Payment scheme. They managed to essentially get all stakeholders to sort of buy into the division of the central bank and eventually also join the system, which is owned and operated by the central bank. What they manage is to basically get four million Brazilians that were financially excluded, be part of the formal financial greet, of course, with access transactional accounts and very much users of Pix. And they reached about one billion Pix transactions a month, which again is really sort of mind-blowing numbers.

Similarly, for India, UPI, the Unified Payments Interface, which is again the Fast Payment System there has been extremely successful. It is operated by NPCI, the National Payments Corporation of India, which is essentially a public-private sort of a partnership and an entity that operates most of the payments infrastructure in the country. They're also, they have managed to add a lot of features to UPI and a lot of different payment service providers, banks, non-banks, third party providers, and again, the numbers of transactions through UPI have been really mind-blowing about eight billion UPI transactions a month. And I think what these countries have shown is that it's not really about a size of the countries, it's about the policies you follow and making sure that the systems you're creating are quite comprehensive and enable to essentially serve different population segments.

Jo Ann:

That's fascinating. You mentioned that central banks often are playing a role here. Talk more about that. What's the role of central banks generally in driving Fast Payment initiatives?

Holti Banka:

So for us, the World Bank, it is important to navigate the whole process of Fast Payments development from the eyes of a central bank and the different roles essentially that a central bank needs to sort of juggle in the process. And typically there are three main roles that a central bank plays in the context of payments, and obviously that applies also for Fast Payments. So first the role of a catalyst. The central bank can indeed provide leading and supporting role to rally the different stakeholders by advocating for the benefits of Fast Payments to policymakers and more broadly to the public, working with the different financial institutions, developing a national strategy for Fast Payments and setting standards. The State Bank of Pakistan I think offers a good example where the plan to implement Fast Payments came out of a national payment strategy that they established. And that I think served as the basis as the platform to catalyze, and again, bring all the different stakeholders together and to get the process going for implementing Fast Payments.

In many cases also, the central banks own and operate the payments infrastructure and scheme. So another role that the central bank would play and does play on the ground is that of the owner operator of the infrastructure and the scheme. The operators typically responsible for ensuring, for instance, compliance with the rules, the operating procedures, and the official, of course, regulations here, notable examples are Mexico and Brazil that own and operate their Fast Payments infrastructures of the countries. We're actually seeing more and more of central bank taking the operating role. And I think this becomes more evident in cases where there is sort of absence of market initiatives or lack of ones where the central banks or sees or identifies a market failure in some sense and steps in. There are of course fully-private models as well. This is the case with Zelle, for instance, in the US as well as public-private partnership models.

This is the case of India and Malaysia, for instance. So just to say that central banks fully owning and operating of Fast Payments model is not obviously the only way to go. And the third role that a central bank does almost always plays in the context of payments and Fast Payments is that of the overseer, which is also accompanied by regulatory function. So the overseer typically ensures the safety and efficiency of payment systems. So in that context, the central bank is the overseer, performs monitoring activities and then requires obviously the operator of payment systems and payment service providers to have adequate measures in place to address operational risks, AML/CFT, and other critical aspects.

Jo Ann:

Yeah, that makes sense. So one of the challenges in this obviously is the risk that as countries move into these models, we will end up with a siloed structure in which each country may have its Fast Payment set up, but they won't be able to interact easily, what needs to be done to ensure that we have interoperability of the payment system globally and across borders?

Holti Banka:

Sure. We have indeed spoken a lot about the importance of Fast Payments in the context of domestic environments and domestic payments. But I would say it is equally important the potential they have when it comes to cross-border payments and cross-border linkages. And standardization is the key word here. So when countries, for instance, implement domestic Fast Payment Systems, which is the starting point, it is imperative that they also think, I believe about the potential of global interlinkages to facilitate cross-border Fast Payments. So for instance, using sort of common messaging standards, which is the language that typically payment systems used to communicate with each other can make the interlinkages more smooth. We're seeing the emergence of particular messaging standards such as ISO 20022 as prominent ones, also allowing for broader access of both banks and own banks to Fast Payment Systems can allow for the participation of a broader set of payment service providers, also in the cross-border payments market, thus leading to more competition.

I think when one looks at numbers of how the current cross-border payments market functions, they would see a lot of inefficiencies. For instance, based on data that the World Bank gathers from the remains prices worldwide that essentially looks at the cost of sending money across the world, it costs globally, the global average right now is about 6.3% of sending about \$200 US. So that is far from the 3% cue in target. So Fast Payments can indeed help reduce some of the costs and increase speed and tackle some of the sort of inefficiencies. A lot of the current models do rely on the correspondent banking approach, which can be quite cumbersome.

So currently, there are several regional Fast Payment Systems that serve multiple countries. We're also seeing bilateral and multilateral linkages already being established, particularly in Asia. We're seeing Singapore and Thailand and Malaysia, Thailand bilateral linking their domestic Fast Payment Systems to accommodate those cross-border flows. And I think in the medium or long-term, if each region or continent has one or two major Fast Payment Systems, those could essentially act as hubs to connect with each other. And in that way, we can actually create a very efficient network of cross-border Fast Payments and that can provide some of the solutions in the current inefficiencies.

Jo Ann:

And how will that come about? Is this a combination of leadership from international organizations and public and private decisions to link each other up? Or let me ask it differently. What do you see ahead? There are many projects underway in the world that are working on aspects of this same challenge here in the United States, we've got the federal reserves effort on Fast Payments, we've got banks or we've got countries all over the world looking at Central Bank Digital Currencies, which might or might not tie into this depending on how they're done. What's the journey ahead look like in your mind? And I would love it if you had any vision for the timeline for getting this whole system working the way you imagine that it could through the work that you're doing?

Holti Banka: So definitely it'll require action and collaboration from both public sector entities such as central banks, governments, as well as payment service providers, essentially the market, I think thought leadership as well and policy guidance from international organizations such as the World Bank. And I think the tools are there, the technologies I think are there. I think we need to make sure that to a large extent, as I mentioned before, standardization is taking place around the world in order to then make it easier for these different systems to communicate with each other and for the cross-border linkages to occur. We are already also seeing, I think some particular themes that will be quite relevant in connection to Fast Payments, which I think can further help with the adoption.

For instance, in new use cases, new overlay services that are being billed on top of Fast Payment Systems, new initiation payment methods, the likes of buy now, pay later, request to pay using biometric methods to initiate payments or wearables. So a lot of these can really further increase the value proposition of Fast Payments. The potential that open banking and open APIs have essentially bringing even more players into the payments' ecosystem in order for them to offer additional services and more customized services to serve the different population segments. And that thing also ties to the whole financial inclusion argument. It'll also, I think, urge some of the incumbent players to think outside the box and adjust and innovate. And lastly, indeed, I think the interplay between Fast Payments and Central Bank Digital Currencies, CBDC and more specifically here, retail CBDC is indeed one that we are seeing emerge and will probably be there in the future as well.

I think CBDC and Fast Payments do have a lot of commonalities that the main difference of course being that CBDC is a central bank liability. There are only a few implementations of real CBDC out there, so we don't have many data points to judge its success, particularly when it comes to objectives such as financial inclusion or enhancing the payments ecosystem vis-a-vis say Fast Payments that have been around for longer or more well-tested than we have seen very successful examples, some of the countries I already mentioned before. So in that sense, countries with limited resources might need to prioritize Fast Payments and explore CBDC later. But I think either way, what is important is to ensure that the two can coexist in an interoperable way and in a supplementary way rather than antagonize each other if a country decides to have both. And in that sense, I think one has to make sure that the design features are indeed interoperable.

Jo Ann: Yeah. That's such a great point. My last question for you, you talked about the FASTT initiative, the F-A-S-T-T initiative that you have underway. Just talk to us a little bit more about what's ahead in your own work.

Holti Banka: So we are continuing to work on projects FASTT, expand, continue creating global resources and operationalizing them to offer technical assistance to countries on the ground to enhance or implement from scratch Fast Payment System, leading workshops and capacity-building sessions. We want in the

process, as I mentioned before, to engage other like-minded institutions that share our vision and work together toward this common goal. And again, I would urge listeners to check out the dedicated website fastpayments.worldbank.org, and we stand ready to support countries in their Fast Payments transformation journey. And here I'd also like to give a shout-out to our practice manager of our department, Harish Natarajan, for his leadership and vision in this ambitious initiative. We really quite invested and we strongly believe that Fast Payments can have a huge impact in how payments essentially are serving people of all different backgrounds and different socioeconomic profiles.

Jo Ann: I'm so glad you mentioned Harish. He does such incredible work in all of this space. We will link to the website that you're citing in our show notes [@regulationinnovation.org](https://www.regulationinnovation.org) and to some of the other initiatives that you're talking about. I just have to say, Holti, I have so much admiration for people who take on these incredibly daunting challenges and getting the world payment system to work quickly and efficiently and to interoperate and to be accessible to everyone and to be a force for good in the lives of everyone on earth is a really hard thing. It takes years and yet when you get it right, everything else starts to work better for everyone. So I just cannot thank you enough for being my guest today on the show and for the work that you're doing. Thank you.

Holti Banka: Thank you very much, Jo Anne. And it's been a great platform to share our work. And of course I have to say, it's really kind of a huge collective effort of our entire team and I think it really is fulfilling for us to see when things work on the ground, right? And we're always thinking of ways to make it happen. So thank you again.

Jo Ann: Absolutely.