

Fintech and Cross-Border Payments

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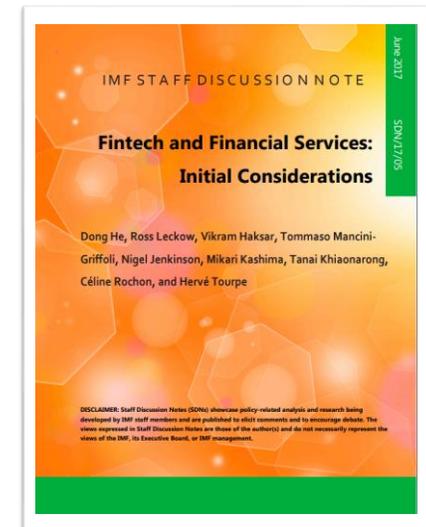
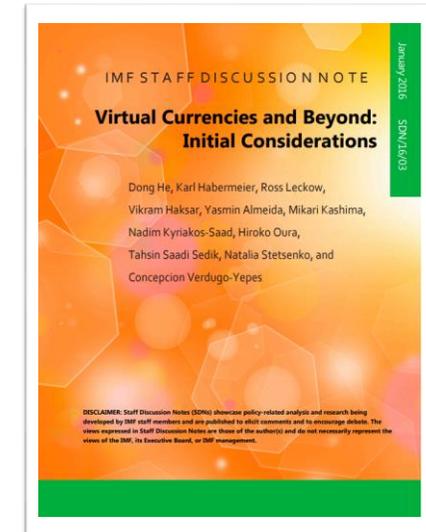
Gaborone, Botswana, July 9, 2018

This presentation represents only my personal views



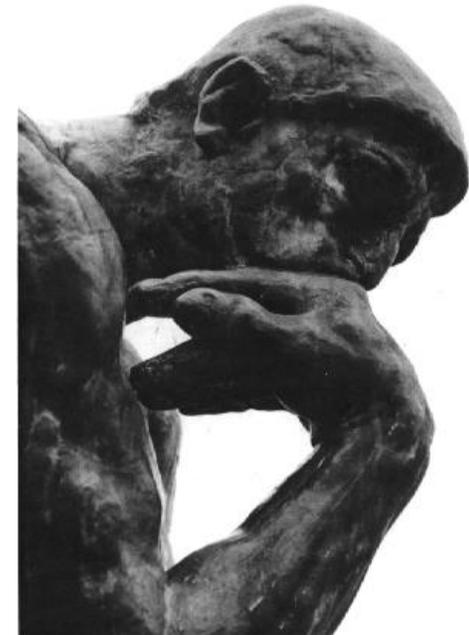
Selected IMF Analytical Work on Fintech

- ❑ Staff Discussion Note “*Virtual Currencies and Beyond: Initial Considerations*” (January 2016)
- ❑ Staff Discussion Note “*Fintech and Financial Services: Initial Considerations*” (June 2017)
- ❑ Speech by Managing Director Christine Lagarde “*Central Banking and Fintech—A Brave New World*”, September 29, 2017
- ❑ April 2018 *Global Financial Stability Report* (GFSR)
- ❑ June 2018, *Finance & Development* “Money, Transformed”



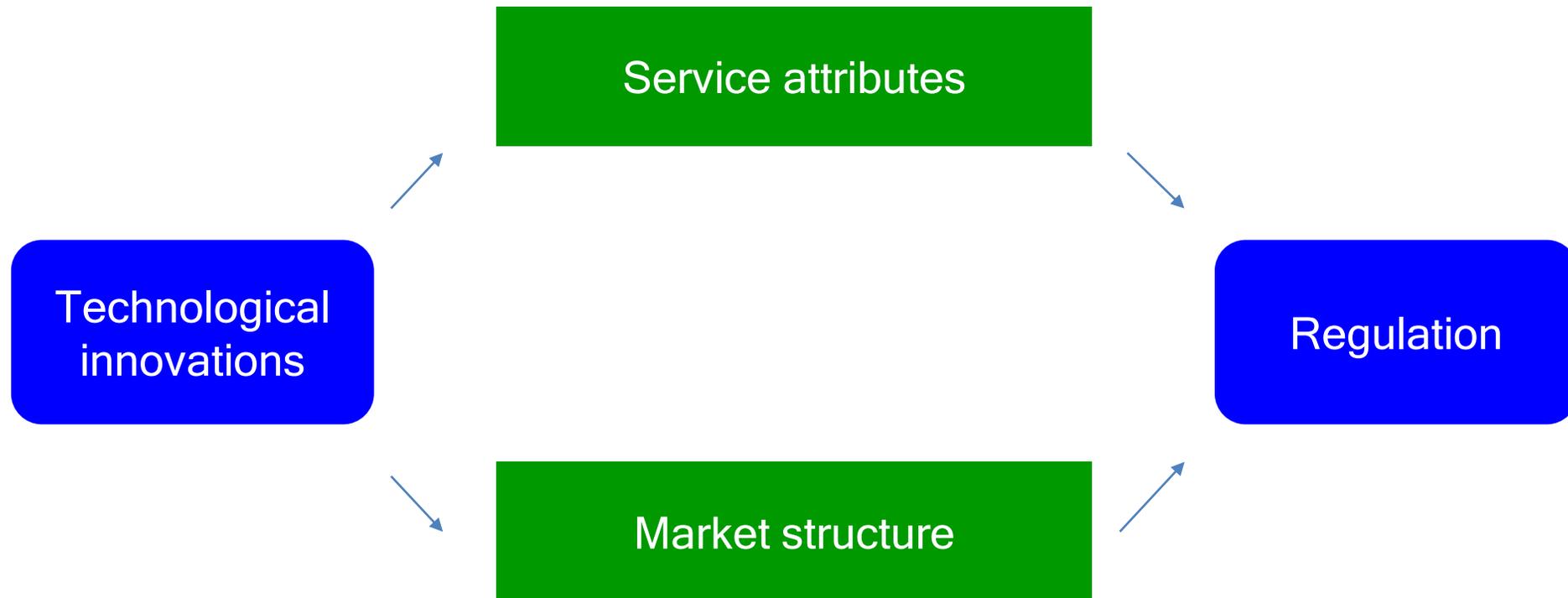
Questions to address

- ❑ What are the longer terms consequences of current acceleration of technological innovations?
- ❑ Why is the cross-border payment landscape ripe for change?
- ❑ In which ways fintech can be used to improve the efficiency of cross-border payments?
- ❑ Why central bank digital currencies would have an edge over crypto assets for making cross-border payments?

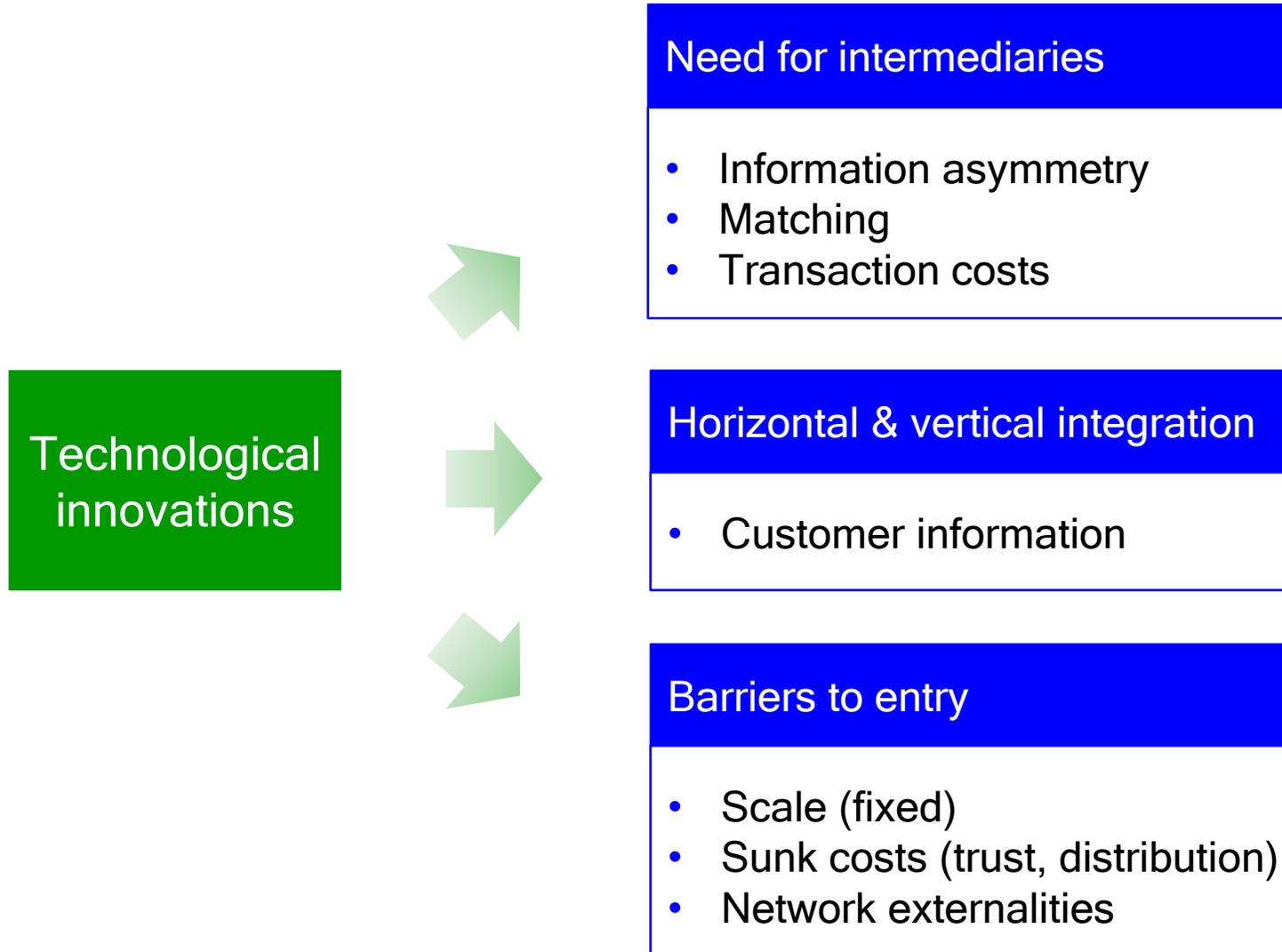


Simple framework focuses the analysis

What impact might Fintech have on the financial sector,
and how should regulation respond?



Technology can affect market structure

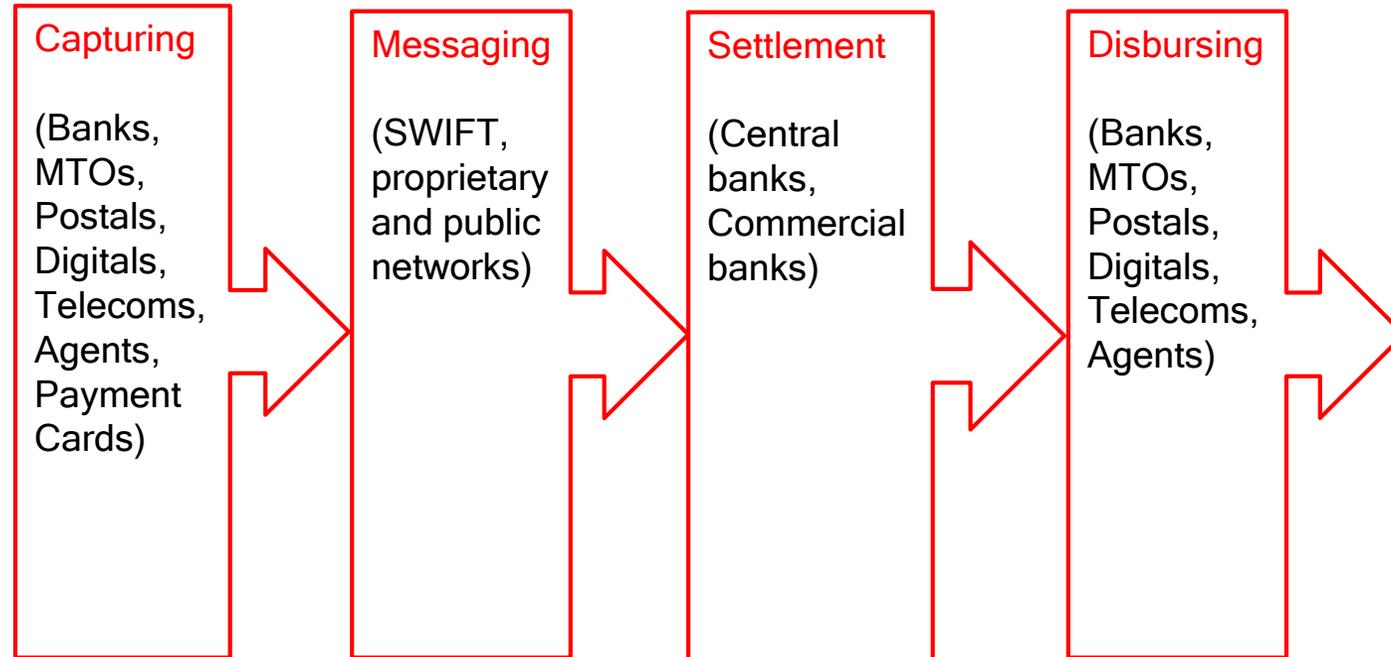


Ripe opportunities to improve cross-border payment chain

Demand



Supply



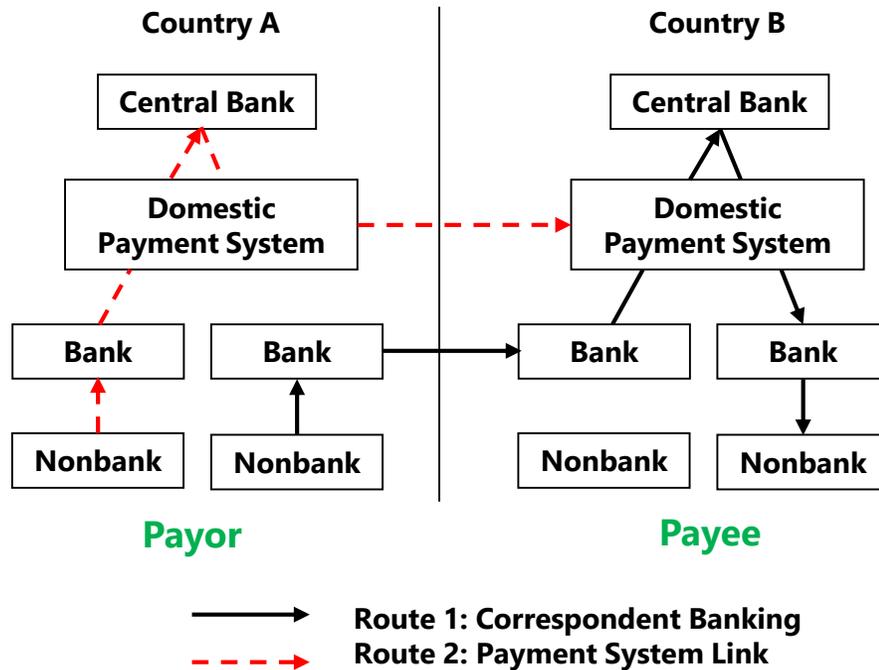
The whole process could take between 3 to 5 days.

Shortcomings: costly, cumbersome, slow, and opaque

Evolving landscape for cross-border payments

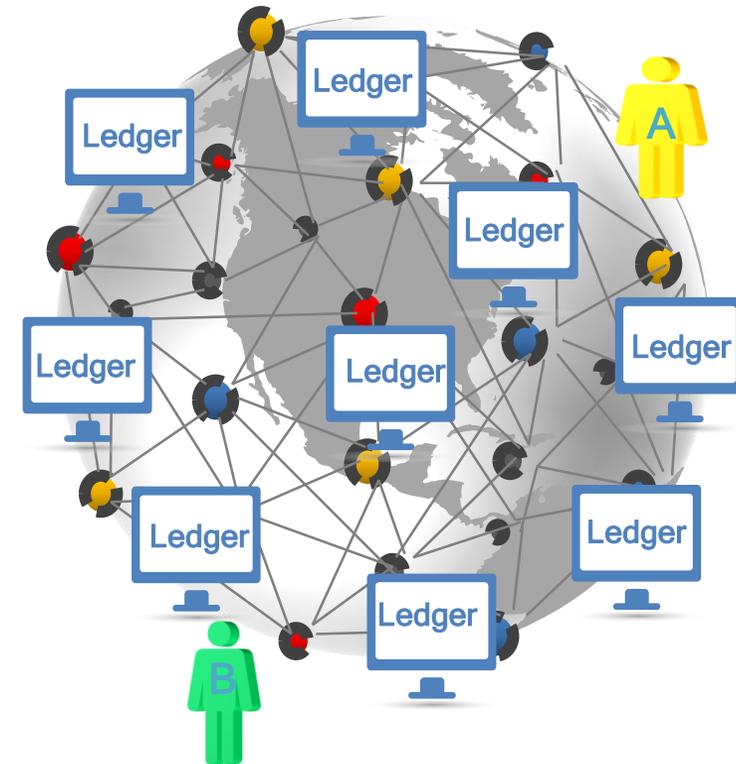
Current

Account-based



Future?

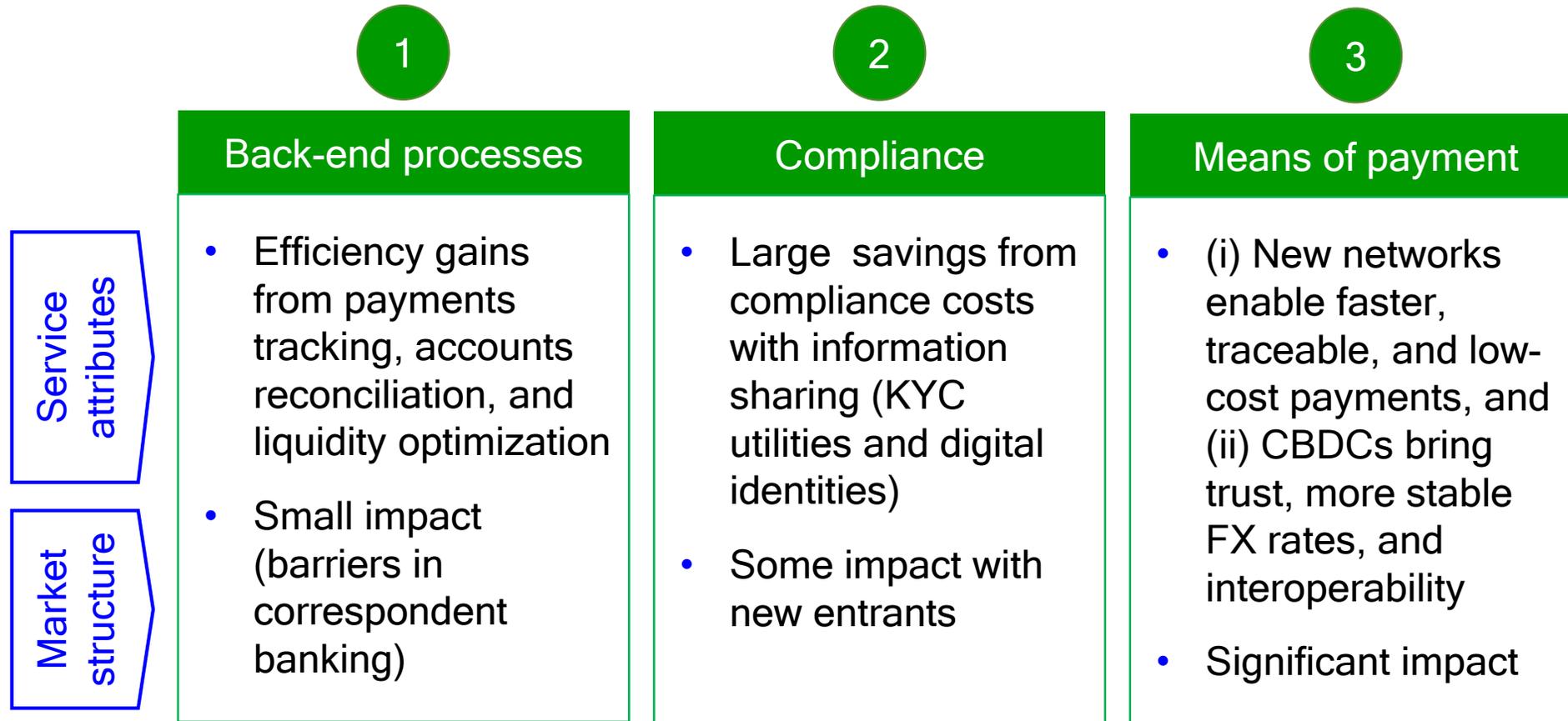
New networks and means of payments



- ✓ *Choice of account-based and token-based systems*
- ✓ *Less reliance on correspondent banks*

How could Fintech reshape the landscape?

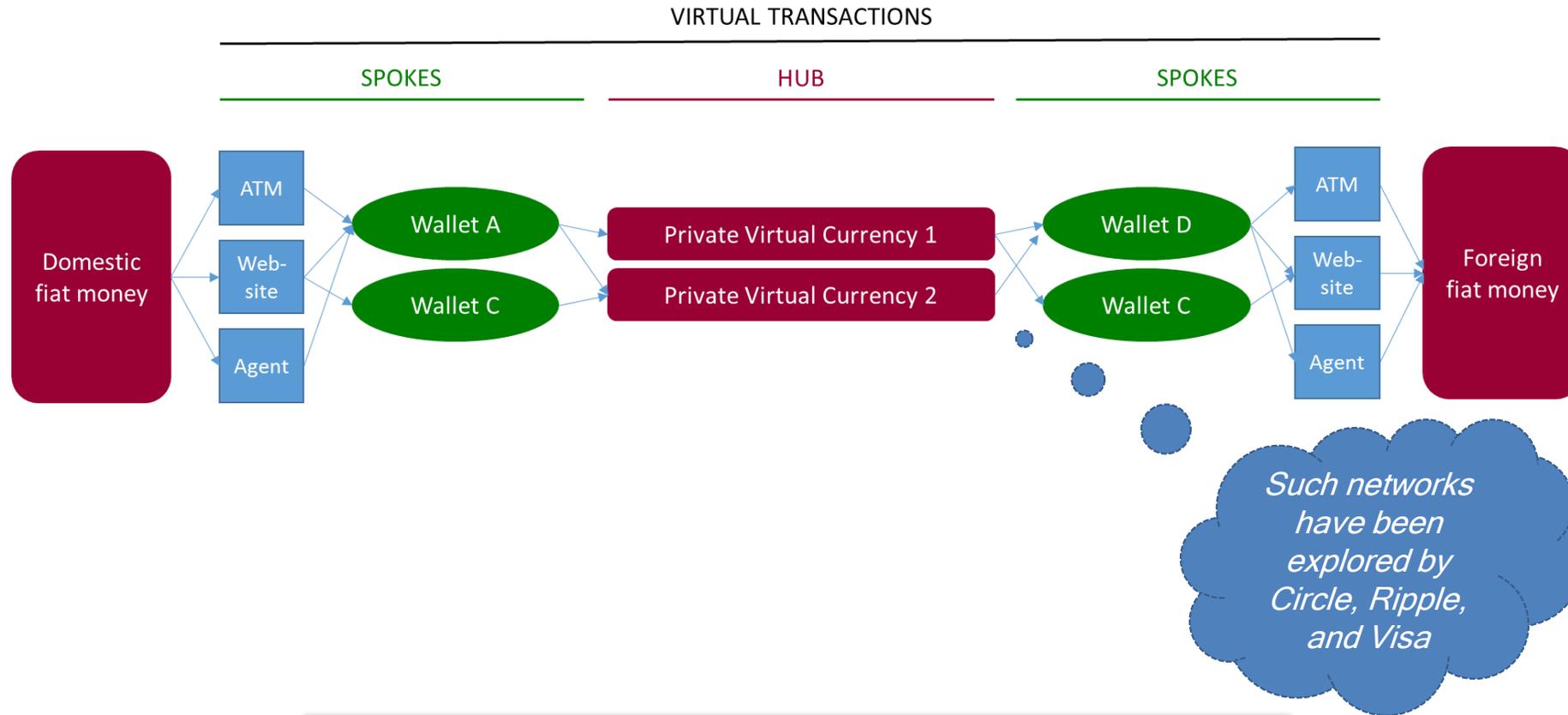
Three DLT-based scenarios



Potential disruption



New global networks using virtual currencies



From airmail to email!

Caveats for using cryptos as bridge currencies

- ❑ Erratic *valuation* introduces risks and could limit adoption at least for large value payments
- ❑ Lack of *trust* could erode the value of crypto assets, though regulation could help
- ❑ Lack of *interoperability* among networks could keep prices high



A central bank digital currency?





A token issued by the central bank

Assets	Liabilities
Bonds <ul style="list-style-type: none">• Liquidity• Duration• Risk	Cash
	Reserves
	CBDC

- Digital form of money
- Exchanged at par with other liabilities
- Based on cryptography (& distributed ledger)

- Decentralized
- Peer to peer
- Interest bearing?



Why?

Efficiency

- Competition from cryptos
- Cost/Inclusion
- Inter-operability
- Network effects

Monetary policy

- Maintenance of seigniorage
- Enhanced transmission

Risks

some of which can be contained

- Illicit activity... but anonymity a continuum
- Operational risks
- Disintermediation
- Run risks?

Concluding remarks

- ❑ Fintech applications are likely to alter the organization of financial services in the medium term.
- ❑ Central banks and regulators need to foster innovation without undermining stability and trust.
- ❑ Cross-border payments are ripe for change.
- ❑ Cash-on-ledger and CBDCs are potential game changers
- ❑ International cooperation is essential.





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