



Retail Payment Systems in the OIC Member Countries: Challenges, Obstacles and Recommendations

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Key Findings

- **Wide range** of systems; no consensus re. standards
- **Rapid, imbalanced**, growth of advanced systems
- Some **state of the art** technologies are **well integrated**
- **Regulatory** practices **range widely**
- **Incumbent** firms **need to adapt** to new forms of retail payment
- **Credit access can be linked** to retail systems

Retail systems benefit economies as a whole, financial inclusion & add value to the new technologies



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- **Key findings**
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Background and methodology

Aims

- Devise conceptual frame
- Analyse retail payment systems
- Consider international best practices
- Assess challenges
- Policy recommendations

Scope

- Financial system context
- Current situation of retail payments
- Legal & institutional framework
- Latest trends
- Recent developments
- Selected case studies

Study plan

- Winter-Spring 2015
- Providing systematic description & analysis
- Secondary data & consultation
- Devised unique conceptual framework



Analysis of Major Source

- **Bank of International Settlements**
- **World Bank [inc. Global Findex]**
- **IMF**
- **National sources**
(ministries of finance; banking regulators; census & statistics offices)



Case Study Approach

- **Selection criteria:**
 - **leading cases**
 - **typical cases**
 - **lagging cases**
 - **geographical diversity**
- **Evidence gathered: context, composition, change**
- **Analyses possible: leading institutions, business activity**



case study countries



Coping with Diversity

- **What constitutes “common” practice?**
- **How to determine best practices?**
- **Who is capable of learning from whom?**



What is Left Out

- **Current BIS/WB consultation exercise**
- **Significance of focus on customer preferences**
- **Other financial services**
- **Future research potential**



Report Structure

- **Introduction** to systems in OIC Member States
- **Background** to retail payment systems, actors & key players; classification of types; economic context
- **The Payment Landscape**; lock-in & network effects; innovation & e-money; drivers & impediments; supply & demand; standards & coordination; regulation; risk & liquidity; exemplary systems
- **Case Studies**: Egypt, Indonesia, Cote d'Ivoire, Morocco, Nigeria, Pakistan, Turkey, United Arab Emirates
- **Analysis**: general outlook & emerging issues; legal bodies
- **Policy Implications & Recommendations**: users, systems, standards, architecture & controls, authorities



Key Findings

- **Wide range** of systems; no consensus re. standards
- **Rapid, imbalanced**, growth of advanced systems
- Some **state of the art** technologies **well integrated** into infrastructure
- **Regulatory** practices **range widely**; much can be learned from sharing experiences about regulation
- **Incumbent** firms, esp. telecoms network operators & banks, **need to adapt** to new forms of retail payment
- **Credit access can be linked** to retail systems, benefit the economy as a whole, financial inclusion & add value to the new technologies

	Egypt	Indonesia	Ivory Coast	Morocco	Nigeria	Pakistan	Turkey	UAE
Supervision	Central Bank of Egypt (CBE)	Bank Indonesia:: Otoritas Jasa Keuangan (OJK)	Central Bank of West African States (BCEAO)	Bank Al-Maghrib, successor to Banque d'Etat du Maroc	Central Bank of Nigeria (CBN)	State Bank of Pakistan (SBP)	Banking Regulation & Supervisory Agency (BRSA)	Central Bank of the UAE
Banking	<ul style="list-style-type: none"> • 5 public sector • 27 private & JV • 8 branches of foreign 	<ul style="list-style-type: none"> • 120 comm. • 4 state-owned • 79 private national • 26 govt. regional • 11 private Islamic 	<ul style="list-style-type: none"> • >20 banks incl. int'l, regional, & private 	<ul style="list-style-type: none"> • 76 financial institutions • 16 comm. • 37 financing cos. • 6 offshore banks • 14 micro-finance assns. 	<ul style="list-style-type: none"> • 24 banks; network of comm., devt & microfin. banks & financial institutions for SMEs 	<ul style="list-style-type: none"> • 5 public sector w/ 2,022 branches • 22 private banks w/ 8,388 branches • 7 foreign banks; 27 branches, 4 spec. 	<ul style="list-style-type: none"> • 47 banks incl. 13 invest • 25 comm. • 4 Islamic banks • 5 branches of foreign banks • 48 offices of foreign banks 	<ul style="list-style-type: none"> • 23 domestic banks 3 of which are Islamic • 28 foreign • 110 rep. offices

Egypt	Indonesia	Ivory Coast	Morocco	Nigeria	Pakistan	Turkey	UAE
<ul style="list-style-type: none"> • Slower growth; not negative • Increasing competition • Lack of infrastr. boosts smartphone & tablet PCs • Debit cards dominate 	<ul style="list-style-type: none"> • Payment cards prevalent • e-money increasing • MNOs increasing stake in e-money • Focus on developed cities • Huge gaps in access • Payment cards as status symbols 	<ul style="list-style-type: none"> • Cash remains most pop. • Mobile payment recent & fast-growing • Mobile systems potential in contributing financial inclusion 	<ul style="list-style-type: none"> • Cash dominates • Most cautious re. internet purchases • Competitive environment unchanged • Banks offer mobile banking • Small bus. reluctant re credit cards 	<ul style="list-style-type: none"> • Cash dominates • CBN encourages diminution of cash & coins • Risk & security mgt major challenges • Many initiatives tried 	<ul style="list-style-type: none"> • Cash dominant, even for large transactions • Shops & rests. rarely accept cards, or charge 2.5% premium • No 3rd party wallets, localised PayPal, nor 3rd party payment service providers 	<ul style="list-style-type: none"> • Payment cards volume & value growth • Pre-paid cards highest growth • Regulations limit personal credit cards • Private banks lead financial cards in value terms 	<ul style="list-style-type: none"> • Expatriates had positive effect on payment cards • Consumers opting to shop online & through mobile phones • Premiumisation consumers on the rise • Safety concerns

General outlook

	Egypt	Indonesia	Ivory Coast	Morocco	Nigeria	Pakistan	Turkey	UAE
Population	86,895,099	253,609,643	22,848,945	32,987,206	177,155,754	196,174,380	81,619,392	5,628,805
GDP/capita	\$11,100	\$10,200	\$2,900	\$7,700	\$6,100	\$4,700	\$19,600	\$65,000
Banks	32	120	20+	76	24	38	47	51
PoS	54,400	698,100	331	47,000	121,886	34,945	2,591,900	114,000
ATMs	7,000	76,300	396	6,000	14,764	8,438	45,500	4,900
Cards in circulation								
- ATM cards	15,725,200	118,386,300	n/a	9,237,400	1,300,000	6,400,000	143,374,500	9,255,100
- Debit cards	14,432,100	95,313,000	n/a	6,698,800	900,000	5,900,000	100,165,000	6,863,000
- Credit cards	2,397,500	15,176,100	n/a	118,000	300,000	1,500,000	56,835,200	4,383,400
- Charge	-	454,300	n/a	241,800	400,000	300,000	-	55,300
- Pre-paid	220,200	37,108,000	n/a	192,400	n/a	n/a	19,507,100	3,082,300
- Store cards	-	-	n/a	1,370,300	n/a	n/a	n/a	-
Cards in circulation to population ratio								
- ATM cards	18.10%	46.68%	n/a	28.00%	0.73%	3.26%	175.66%	164.42%
- Debit cards	16.61%	37.58%	n/a	20.31%	0.51%	3.01%	122.72%	121.93%
- Credit cards	2.76%	5.98%	n/a	0.36%	0.17%	0.76%	69.63%	77.87%
- Charge	-	0.18%	n/a	0.73%	0.23%	0.15%	-	0.98%
- Pre-paid	0.25%	14.63%	n/a	0.58%	n/a	n/a	23.90%	54.76%
cards								
- Store cards	-	-	n/a	4.15%	n/a	n/a	n/a	-



Implications 1

Public education for financial literacy & risk awareness; to promote financial inclusion

- **Counter low financial literacy and lack of awareness**
- **Promote financial inclusion**
- **Financial literacy creates knowledge & demand for payment instruments**
- **Systems such as mobile & pre-paid cards benefit the low-paid**
- **To coordinate with credit/loan schemes, providing capital access to unbanked**
- **Benefits to small businesses & improve living standards via financial inclusion**

Any program must provide education about basic financial controls & prudence. Public education should include basic numeracy skills, record-keeping techniques & awareness about risks associated with overspending & debt.



Implications 2

Promote interoperability between systems & among countries

- Expenses incurred by consumers discourages people from using some retail payment systems when they travel among OIC Member States.
- Good practices can be found in some Member States, such as Gambia's Gamswitch system that is country wide, web based and coordinated with the West African region.

Better interoperability can reduce costs to operators as well as consumers & encourage wider use to promote financial inclusion & reduce payment risks.



Implications 3

Establish & maintain OIC payment systems data collection & reporting framework

A common reporting system is useful both for the establishment of interoperability & to assist in future policy formation.

A basic framework, such as that used in the OIC Retail Payments Report would be the starting point to a standardized monitoring system.



Implications 4

Coordinate systems with microfinance promotional activities in central banks

Many central banks offer promotional activities to enhance microfinance schemes & these could be better coordinated with retail payment systems oversight and promotion. Some have developmental programs in addition. One good example from an OIC Member State is that of Nigeria, which has a well worked out framework scheme. One project focusing on Egypt, Jordan and Palestine is currently in progress.



Implications summary

- ✓ **Public education for financial literacy & risk awareness; to promote financial inclusion**
- ✓ **Establish & maintain OIC payment systems data collection & reporting framework**
- ✓ **Promote interoperability between systems & among countries**
- ✓ **Coordinate systems with microfinance promotional activities in central banks**



Significance for Actions

- **Comprehensive strategy** to develop sound retail payment systems that achieve financial inclusion & stability
- **Central banks** need to pay more attention to **retail issues**
- **Financial inclusion** through innovative retail payments should be encouraged
- **Government payments & procurement** can be important
- **Integrated database system** should be established to provide transparency of credit data
- OIC Member Countries could establish a **consultancy body** to monitor, evaluate & guide policy



Further Thoughts

- **What this tells us about payment systems generally**
 - the move away from cash is broadly beneficial
 - coordination mechanisms vary greatly
- **What this tells us about the case countries**
 - we can see the broadest range of practices
 - local laws & procedures are persistent
- **Implications for OIC**
 - good procedures can be promoted even without a rigorous concept of “best practice”