

COMCEC COORDINATION OFFICE

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Digital Transformation of Payment Systems in OIC Member Countries: POLICY RECOMMENDATIONS

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CONCLUSION AND POLICY RECOMMENDATION

Challenges

Challenges Faced by Countries with Matured and Advanced Development Levels of Payment Systems

COST OF MAINTENANCE

SHARIAH COMPLIANCE

1.LOW CROSS-BORDER
COLLABORATION

1.PROTECTING
CONSUMER PRIVACY

1.CYBERSECURITY
THREATS

Challenges Faced by Countries with Intermediate and Low Development Levels of Payment Systems



Limited internet penetration and mobile network infrastructure

- *In some developing countries, particularly in rural areas, this restricts the expansion and adoption of digital payment system*



Low level of digital literacy

- *Hinders projected results in digital payment system utilization*



Cybersecurity risks remain heightened

- *This is due to the level of development of digital financial services, which has led to identity and data theft or loss*



Adoption, operation, and maintenance of digital payment infrastructure

- *Pose high costs, especially for small businesses*

Challenges Faced by Countries with Intermediate and Low Development Levels of Payment Systems

The legal and regulatory framework

- *This is still evolving and does not yet fully address the growing digital financial services sector*

Lack of trust + Data privacy concerns

- *Lack of trust led to the unacceptability of digital payment systems*
- *Data privacy concerns still exist, and many users do not feel safe using DPS*

Digital inequality

- *This led to situations where the elderly or uneducated population groups struggle to make payments that can be made only through digital platforms*

Difficulty promoting financial inclusion

- *There is still a low level of acceptability in many informal economic sectors and jurisdictions*

Challenges Faced by Countries with Intermediate and Low Development Levels of Payment Systems



Tax regulations: lack of clarity & transparency

- *This is related to digital payments which has complicated businesses' use of these systems in some developing countries, leading to confusion among investors and users*



Limited collaboration between public and private sector entities

- *This hinders the development and expansion of digital payment systems and infrastructure*



Strong cash culture

- *Shifting this cultural preference from cash to digital payments requires sustained efforts in education and incentives*

a. General Recommendations

Developing an interoperability framework for digital payment systems among the OIC Member Countries to clear and settle financial transactions and payments in real-time to help foster economic cooperation, facilitate smoother cross-border transactions and promote intl trade



Developing legal framework to establish an intergovernmental regulatory authority level to oversee the implementation of a regional multilateral cooperation on payment systems.



Developing a common Digital Payment System Platform to facilitate international transactions.



Exerting efforts on developing digital currencies, to be spearheaded by the central banks and regulated centrally at the OIC Level.



Enhancing consumer education and protection in the risks associated with the use of digital payment systems.

a. General Recommendations cont'd.....

Setting-up a dedicated task force of digital payment experts to continue to harness the latest technology in payment systems.



Scaling up collaborative efforts towards strengthening cybersecurity among central banks of member countries.



Collectively investing in digital literacy and technical skills development to build a sustainable future workforce in digital banking sector.



Promoting financial inclusion through the expansion of digital payment platforms with simplified technology for the unbanked and underbanked.



Fostering sustained innovation in the fintech sector and providing regulatory support to start-ups in the digital payment space to encourage healthy competition.

b. Recommendations for Countries with Low Development Level of Payment Systems

1. Developing public-private partnerships and providing subsidies and incentives to expand internet infrastructure, particularly in underserved rural areas.

2. Launching nationwide digital literacy campaigns focusing on rural areas with more prevalent financial illiteracy.

3. Regularly updating and harmonizing legal and regulatory frameworks to reflect advancements in digital financial services.

4. Expanding the regulatory sandbox to include a broader range of fin-tech innovations and streamlining the licensing process to facilitate faster adoption of new technologies.

5. Implementing robust cybersecurity protocols, including establishing a national cybersecurity agency dedicated to monitoring and responding to digital threats

b. Recommendations for Countries with Low Development Level of Payment Systems

6. Strengthening financial institutions' capabilities to monitor and report suspicious activities related to money laundering and terrorism financing.

7. Incentivizing public-private partnerships through tax exemptions, subsidies, and shared infrastructure projects to promote and expand digital financial services.

8. Increasing broadband access, promoting digital inclusion, and building the necessary digital infrastructure for nationwide transformation.

9. Implementing policies that promote a shift in consumer behaviour, such as offering incentives for digital transactions.

10. Mobilizing resources through partnerships with development banks and other international institutions for research and innovation on digital payment systems.

c. Recommendations for countries with intermediate level of development of payment systems

1. Running campaigns on digital literacy through social media, informative emails and text messages, bank apps, radio and television to reach a wider audience.

2. Utilizing corporate social responsibility (CSR) and providing incentives to businesses and users for participation in digital literacy programs with a view to promoting digital literacy

3. Encouraging contiguous learning and knowledge sharing through various non-monetary incentives.

4. Establishing smart partnerships with relevant stakeholders to focus on how to utilize digital payment solutions to enhance financial inclusion.

c. Recommendations for countries with intermediate level of development of payment systems

5. Investing in increasing the coverage of high-speed internet access, particularly fifth generation cellular technology (5G), to support the expansion of mobile payments.

6. Upgrading data centres to support the increase in digital payments.

7. Encouraging training activities towards professionals to enhance their skills in the digital payment systems.

8. Exploring technical assistance from developed jurisdictions in conducting the exchange of expert programs for technical skills transfer.

c. Recommendations for countries with intermediate level of development of payment systems

9. Encouraging financial institutions and payment systems companies to invest in cost and energy-efficient technologies.

10. Enhancing interoperability between different digital platforms for a seamless consumer experience.

11. Ensuring the regulatory framework is adaptable to emerging technologies including future market developments, empowering cybersecurity measures and consumer protection.

12. Implementing an industry-wide framework to enhance regulatory policies so that continuous monitoring and evaluation of digital payment systems is ensured.

d. Recommendations for Countries with Matured and Advanced Development Levels of Payment Systems

1. Organizing training programs for technical and regulatory teams in central banks of other member countries

2. Organizing other capacity-building events such as workshops and seminars to share best practices with other member countries.

3. Introducing exchange programs for technical staff from central banks of member countries with a view to raising awareness about the latest advances in Regulation Technology, cybersecurity measures, and other relevant aspects of the regulation of digital payment systems.

d. Recommendations for Countries with Matured and Advanced Development Levels of Payment Systems

4. Assisting less developed OIC Member Countries in developing regulatory policies for digital payment systems and setting of digital payment infrastructure.

5. Conducting scheduled risk assessments and documenting all findings for digital payments services and solutions to ensure risk management plans are up-to-date and are reviewed in line with findings derived from regular risk assessments.

6. Encouraging regulated entities to implement and regularly update international cybersecurity standards such as ISO/IEC 27001.

7. Extending Shari'ah governance to digital payment systems for Islamic financial institutions.

d. Recommendations for Countries with Matured and Advanced Development Levels of Payment Systems

8. Mandating all regulated entities to implement multifactor authentication and prioritizing full encryption of data in all digital payments to combat breaches associated with digital payment systems.

9. Ensuring the Shari'ah compliance of payment systems such as e-wallet and its parameters utilized by Islamic banks.

10. Conducting annual trainings and capacity-building activities on Shari'ah issues in digital payment systems.

11. Enabling regulated entities to stay ahead of security threats through regular investments in the latest cybersecurity solutions.

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Thank You

