

Money and Payments in the Digital Age

April 10, 2019

2:00 p.m. to 3:00 p.m.

IMF HQ1 Atrium

Moderator: Christine Lagarde, Managing Director, International Monetary Fund

Panelists:

Jeremy Allaire, Chief Executive Officer, Circle

Benoît Cœuré, ECB Board member, and Chair of BIS Committee on Payments and Market Infrastructure

Patrick Njoroge, Governor, Central Bank of Kenya

Sarah Youngwood, Chief Financial Officer, Consumer and Community Banking Segment, JP Morgan Chase

Digitalization is reshaping economic activity, shrinking the role of cash and spurring new digital forms of money and payments. The panel engaged in a lively discussion of the perils and promise of digital payments, focusing on the role of the private sector versus that of central banks.

Key Points:

- **Meeting modern needs.** Panelists discussed the state of the actors in the current financial system. *Allaire* argued that software provides a superior method of settling transactions. Digital currencies—which grow organically without central players—reflect the internet generation’s impulse to connect and interact directly without intermediaries. *Njoroge* explained that M-Pesa—a mobile phone-based money transfer, financing, and microfinancing service—had been a success in Kenya because it satisfied public demand for peer-to-peer payments, and was supported by high smartphone penetration. In addition, the central bank worked with the innovator to minimize the risks early on. *Youngwood* highlighted JPM Coin—J.P. Morgan’s newly launched digital coin—as a hybrid system that combined the security of the traditional banking system with the trusted transaction clearances of a distributed ledger technology (DLT). Hundreds of banks have partnered with them in this decentralized network. *Cœuré* remained convinced that the traditional banking system is here to stay, but also that fintech is one of the few areas in financial regulation where regulators can have a direct impact on consumers, as it affects all citizens at all economic levels. Regulators are necessary to ensure trust in the financial system and provide the backbone infrastructure.
- **The future of finance.** Panelists had diverging views on the future of the financial system. *Allaire* envisioned a system akin to the open network of the internet, with public infrastructure for digital transactions that anyone can access. In such a world, the traditional banking system, sovereign money, and even regulators would disappear. *Cœuré* stated that banks are already being disrupted, and the best of them are adapting. Regulators are not interested in favoring any actors, but prefer a diverse mix as competition fosters innovation and will create a more stable financial system. The future landscape will be shaped by a complex mix of social preferences, market forces, and political considerations. Consequently, regulators must engage directly with all stakeholders as the system develops.
- **Trust and security.** *Njoroge* stressed the importance of consumer trust. The sophistication of the base technology, and how well it would deal with extreme situations such as power failures are key attributes of a successful system. *Allaire* said that relying on code-based proof of transactions instead of fallible or corruptible human intermediaries would build a radically more private, resilient, and secure financial system. However, *Youngwood* noted that global financial

institutions are still more trusted than governments and NGOs because they invest heavily in consumer protection, such as cyber security. Furthermore, she believed consumers would always place more trust in valuable human interaction and noted that there have been more instances of fraud in digital systems than anywhere else.

Quotes:

“The role of banks as providers of payment services is being challenged, and banks are going to have to adapt to survive, or possibly disappear,” **Christine Lagarde**

“Cryptocurrencies and blockchains are not just about digital payments...This isn’t just about whether we trust digital currency or cryptocurrency, this is about a fundamental redesign of the basics of how civic society will ultimately function.” **Jeremy Allaire**

“Payments is the sideshow... The really interesting question is, now that we have public infrastructures like blockchains, how can we start to automate and integrate economic actors around the world in innovative ways?” **Jeremy Allaire**

“What can be new and quite a concern is the fragility that decentralization can introduce in the system if not properly managed...Decentralization is very fine from a technology standpoint, but we have to make sure it doesn’t make the system more fragile.” **Benoît Cœuré**

Contributors: Aric Maiden and John Bishop