



Breakthroughs and innovation in the global payments industry: where does digital currency stand?

ICT Spring
September 2021



Oded Salomy, Director of Payments Systems, Bank of Israel



What are Digital Payments?

All forms of payment other than banknotes

A2A: Account to Account, including:

RTGS transfers
Wire transfers/ACH
Faster Payments
Even checks

Payment cards and credentials

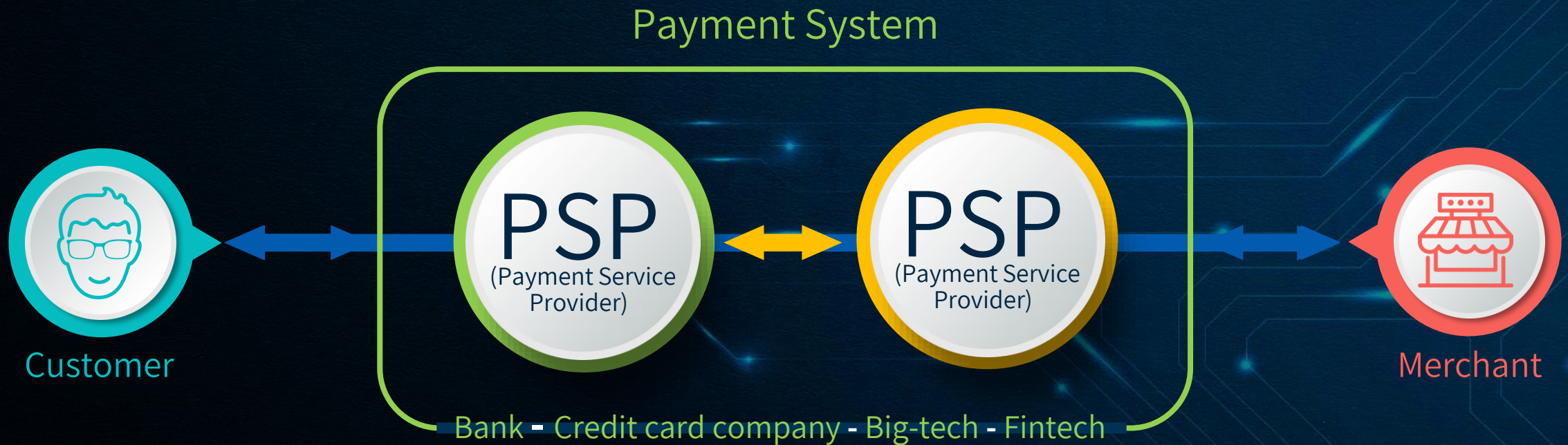
Credit cards
Deferred debit cards
Debit cards
Prepaid cards
Physical plastic and virtual

Digital currencies

Central Bank Digital Currencies (CBDC)
Stablecoins
Cryptocurrencies, issued programmatically

Every payment method rides the rails of a payment system

Payment Systems Structure



>7 Supervised Critical Payment Systems in Israel, similar in other markets



Trend: almost **all payment innovations** except crypto ride the rails of **existing payment systems** or new iterations of the same systems





Israeli Reforms - In process



- 1 Regulatory Structure Reorganization
- 2 New Market Entrants
- 3 Open Banking/APIs, including Payment Initiation
- 4 Current account switching
- 5 Faster Payments (Immediate Payments)
- 6 Cards – Migration to EMV, NFC and Digital Wallets



Israeli Reforms - Future

- 1 Digital checks
- 2 Cross-border payments
- 3 Equal Access by PSPs to Payment Systems
- 4 Overdue: "PSD Law" and "Non-Bank PSP Regulator"





Trend: increasing hyper-focus on **niche markets**

- One of: C2C, C2B, B2B, B2C, C2G, G2C, B2G, G2B, G2G
 - Domestic
 - Int'l
- Citizens of the world - people and SMEs
- Employers: Fintech as a benefit
- Shared economy/community solutions





Trend: **unbundling** financial roles and products, by **banks and fintechs**

- Roles and competencies

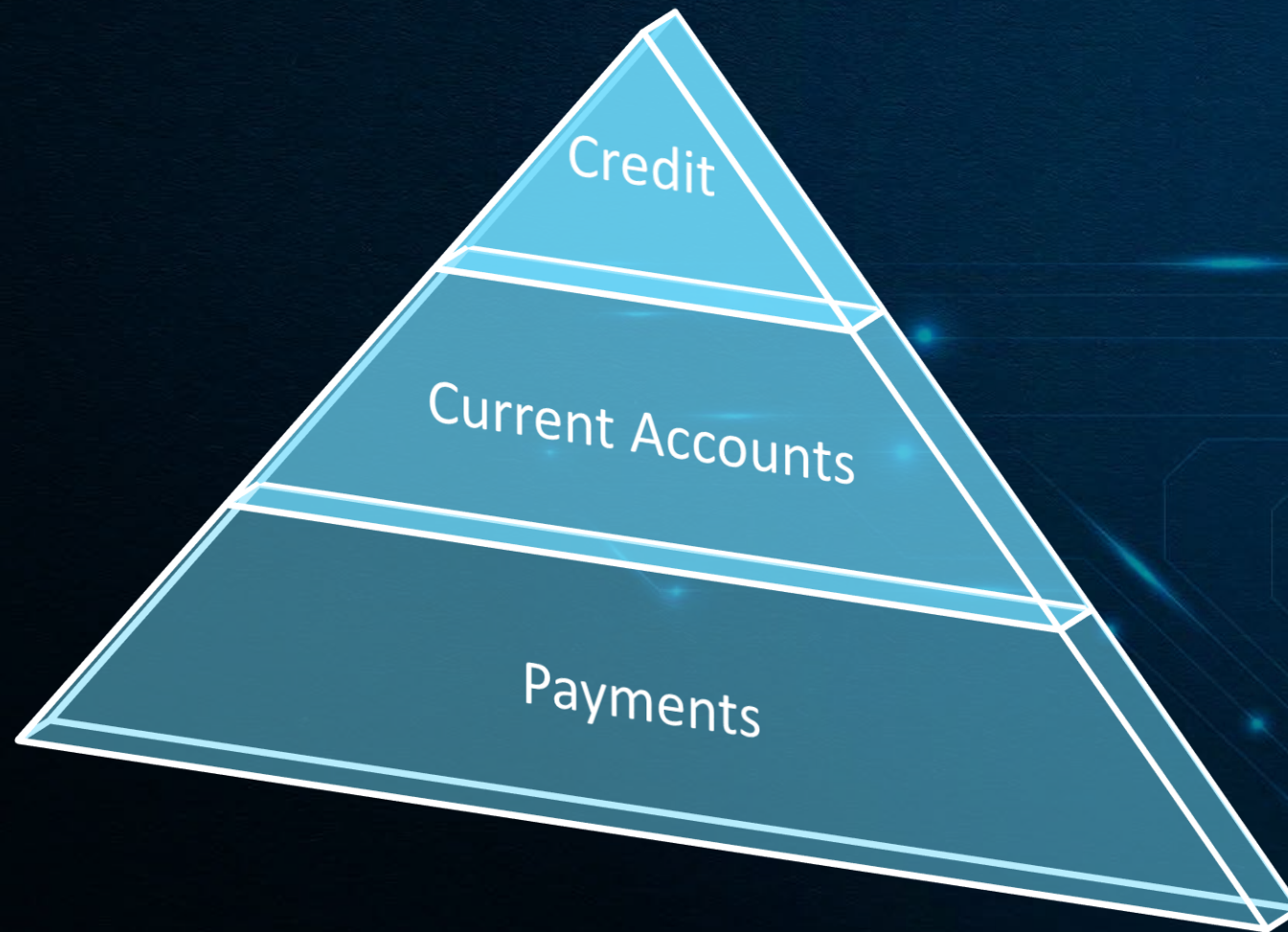
- Technical
- Analytical
- Operational
- Legal

- Products and features

Single-use Card Onboarding POS Lending Issuance
Sub-account Foreign remittance Account Opening KYC
Furnishment Account Verification Disbursements Rewards
Loan Servicing P2P Payments ACH Transfer ATM Access
Receipt Management Collateral valuation Cybersecurity
Customer notifications Fraud detection Data Aggregation
Transaction Monitoring 1099 Filing Sanction Screening
Wealth Management Balance checks Recovery Loan Sales
Income Verification Invoice Factoring Collections Spend limits
Personal Financial Management Chargeback management



Business model: number of transactions





Business model: revenue and profit



Digital Currencies

1

Central Bank Digital Currencies (CBDC)

Issued by sovereign monetary authorities, a new form of central bank money

2

Stablecoin

Privately issued, may be backed by fiat, other assets, or baskets, with the aim of achieving price stability

3

Crypto currencies

Issued programmatically, no intrinsic value as not linked to specific assets, Bitcoin is one example

Programmatically issued cryptocurrencies like Bitcoin: **Are they payment methods?**

- Still highly volatile
- Still not ubiquitous
- Therefore...
 - No, they are not payment methods, at least not yet
 - More of an investment asset



Trends in Programmatic Cryptocurrencies

- Increasing regulation
 - Regulators, judges, lawyers gaining knowledge and expertise
 - Can be an opportunity
 - AML in focus
- Strong use cases
 - Smart contracts – also present vulnerabilities
 - DeFi
 - AI



Thank You!

Oded Salomy

Director of Payment
Systems, Bank of Israel

Oded.salomy@boi.org.il



Source of images: Shutterstock