

## The 5th International Conference Strengthening Payment Systems in Asia

### (Summary of the Conference)

Asia is distinguished for having countries that depend on export-driven growth and that have high savings rates. The large savings in the region have been primarily directed to long-term investment in U.S. bonds, which in turn have circulated back into Asia in the form of investment in stocks and other short-term funds.

The subprime mortgage crisis not only affected U.S. housing financing market but have also immensely impacted financial institutions in Europe and the rest of the world through securitized products.

In the past, non-performing loans accumulated only in the banking sector and there were concerns that this would cause subsequent credit crunch, and therefore it was considered necessary to facilitate banks' lending activities by removing loan credits from their balance sheets through securitization methods.

Credit rating agencies easily gave prime ratings to securitized products and thus mortgage loans of poor quality were even securitized and circulated in the market. Investors around the world who purchased such securitized products suffered huge losses, triggering a global credit crunch.

Although Asia was little effected by the current financial crisis directly, as the economic recession in the United States and Europe led to a decline in exports from Asia, domestic investment is declining and the economy is slowing sharply. In addition, the funds that once flowed into Asian stocks from United States and Europe have rapidly shrunk, leading to weak stock prices.

In such a financial and economic situation, the stability of payment systems is an important policy issue for Asian countries.

The aim of the Fifth International Conference was to deliberate on recent developments in payment systems in Asia and their future prospects with experts from Asian countries.

In Session I of the conference, speakers from Indonesia, the Philippines, Malaysia and Thailand reported on funds flow and payment systems in their respective countries. In these countries, centralized clearing systems have been developed and the uses of electronic payments are promoted. However, access to such payment systems by small- and medium-sized enterprises (SMEs), especially small businesses, remain difficult. In Thailand, Internet banking is growing rapidly. The Philippines has a large population

working overseas and they make cross-border funds transfers to the country. Such transfers are often made using services provided by institutions other than banks, and therefore a legal framework for these services is necessary.

Policy issues common to these countries were observed. They include (i) ensuring safety and credibility of payment systems; (ii) developing payment systems that process funds transfers at the lowest cost possible; (iii) establishing a legal framework to restrict illegal action; (iv) conducting inspection and oversight of payment systems, and (v) making payment systems available for use by SMEs located in regional areas.

Session II looked at issues of sophistication, technological innovation, and regulatory rules payment systems and presentations were made by speakers representing HSBC and Japanese authorities. Based on these presentations, a panel discussion was held on future prospects of payment systems.

Settlement always entails credit risk of an enterprise or an individual who is counterparty to the transaction. Despite such risk, in order to promote technological innovation, new entry to payment systems should be ensured and limit make and costs related to settlement should be kept low. However, since free entry to payment systems can undermine the safety of the systems, the balance between innovation and safety must be checked continuously.

Followings are findings from the discussions.

(1) With the improvement of a system for keeping settlement records in each country, a scheme that enables detection of illegal acts should be put in place.

(2) Since payments are made via channels offered by banks and nonbanks in many Asian countries, these nations must maintain both channels and promote innovation, and at the same time consider regulatory and oversight policies regarding such channels.

(3) Given that settlement arrangement for retail payments and wholesale payments differ greatly in terms of cost and system structure, systems should be adapted to the respective characteristics. Small businesses in Asia typically cannot access payment systems like large enterprises, measures that allow for payments to be made without incurring high costs should be considered.

(4) In Asia, the stage of development of financial systems varies widely from country to country, and so are stages of developments in payment systems. Despite these differences, payment systems of Asian countries should be linked to develop a system that facilitates transactions and settlement among these countries.

(5) Framework for cooperation among Asian nations to maintain stability of payment systems is desirable in order to ensure the stability of payment systems at

times of crises including financial crises.

To ensure the smooth flow of funds, it is important for all Asian countries to address the issues of development of payment systems, promoting efficiency through technological innovation, assuring the safety and credibility of transactions and also developing regulatory legislative frameworks for payment systems. The availability and security of such systems, even at times of financial crises, is vital in stabilizing economic activities. It is hoped that this International Conference serves to further promote the sophistication of payment systems, including cooperation among countries in Asia.