

FUTURE PAYMENTS FORUM

Meeting Review – 14th November 2023

In the last meeting of 2023, the Forum met to consider the future of payments and especially forms of money. We considered the opportunities of micropayments supported by purpose-built infrastructure, the role of Bitcoin and its potential interaction with Artificial Intelligence (AI), and the geopolitical importance of Central Bank Digital Currencies.

The meeting began by revisiting the question of payment pricing for the dominant four-party card industry model. At the previous session the Forum had heard different views on the fees paid by merchants. **Adrian Cannon, Witstock Limited**, provided a review of the four-party model and the ways in which the fee charge to the merchant (merchant service charge) is then distributed to the acquirer, card scheme and card issuer. The cost elements that contribute to the pricing of merchant agreements were considered and it was noted that many of these factors (card origin and type) are not under the control of the merchant, leaving them uncertain of the charges they will receive after the sale of goods has occurred. This tends to leave merchants building in a presumed highest cost of payment and in turn limits the economic value of new, lower-cost payment methods, because the merchant is forced to de-risk their position by sustaining the cost input to their prices of the most expensive payment option. This impact on lower-cost payment methods is compounded by the payment service directive that disallows discounting based on the cost of a payment method. It was agreed that the cost of both cash and card payment services ranged between 1% and 5% and that small merchants tended to pay higher percentage prices compared to the larger players.

Jeremy Light, Chairman of pingNpay, showed the Forum how current payments methods are not able to support a broad range of use cases where small-value, ad hoc payments are needed. This is hardly surprising given the origin of today's payment methods and their inability to adapt sufficiently to address these use cases. The Forum discussed why the current methods are seemingly so complex, and it was broadly agreed that this is a function of their history and the incremental changes made over many years that have added layers of complexity without removing any of the redundant functionality. In this regard the payments industry is no different from any other, but perhaps the fact that it is so highly networked and requires interoperability, exacerbates this tendency. Jeremy then presented the attributes of an infrastructure that addresses the complexity of current solutions and delivers a solution that allows very low-cost, low-value payments to occur within the current regulatory environment. The pingNpay solution offers this capability today and in common with any new payment service, it is facing the challenge of gaining adoption in key niches.

David Parkinson, CEO of Musqet, began his presentation by asserting the eventual dominance of Bitcoin as the dominant form of exchange and reminded us of Voltaire's position that "Eventually all fiat money returns to its intrinsic value: zero". From this starting point David showed how, in his opinion, Bitcoin is the heir to all historic payment methods, and its foundations in the use of electricity to mine coins and the internet as a basis of wide-spread usability will inevitably drive it to become dominant.

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The Forum discussed the reputation of Bitcoin and if this would hold it back from being a generally accepted currency. It was agreed that although it had been used for nefarious purposes, so had all other forms of exchange, especially gold, and that its past reputation would become irrelevant. David went on to describe how the Lightning Network allows Bitcoin to become a highly effective means of payment in all use-cases and reinforced the view that Jeremy had expressed about the short-comings of today's payment methods for micropayments.

David set out the role of AI in the development of payments and AI's need for a micropayment solution and why this was inevitably going to be based on Bitcoin and the Lightning Network. The Forum discussed the potential for AI to step beyond the regulatory limits set by mankind and in effect make Bitcoin dominant irrespective of humankind's view. If that happened, would AI become a threat or a means of accelerating mankind to the next stage of its development as a civilisation.

The day's last speaker, **Professor Brunello Rosa, of Rosa & Roubini Associates**, gave a fascinating account of the potential role that CBDCs will play in geopolitics. Whilst some consider CBDCs a threat to free will, that give governments too much power over how people spend their wealth, Brunello showed that, if nations that believe in freedom fail to create a valued CBDC, we face a world where those issued by other actors could come to dominate global trade. At present, the US dollar dominates world trade and dwarfs, for example, the Chinese fiat currency. However, in the countries of the Chinese Belt and Road Initiative, the Chinese CBDC, called e-CNY, is likely to be adopted for trading activities. This is not an issue per se, but when the digital nature of CBDCs is considered in combination with the dominance of Chinese technology in telecommunications systems that many countries use, we should consider the risks of allowing any other country's CBDC to dominate world trade. America has begun to take legislative steps to reduce this risk, but more will need to be done.

Next Future Payments Forum Meeting: 13th February 2024, London

If your organisation would like to present at a future meeting please contact Annabel Cartwright at annabel@smartex.com

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