SOUTH AFRICAN RESERVE BANK

**Opening address by Governor Lesetja Kganyago,**
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# Paradigm shift: The future of payments in South Africa

Good day and welcome to the 2024 Payments Conference.

To set the stage for our discussion over the next two days, first, I will briefly reflect on the past to assess our progress in modernising payments. Then, I will turn to the present, where much of society still relies heavily on central bank money – or cash – even as peer countries adopt digital payments at scale. Finally, looking ahead, I will discuss our efforts to modernise the payments ecosystem and our strong preference, as the custodian of the national payment system, to reduce reliance on cash.

I will start with the history.

At one time, South Africa was a global leader in payments. For instance, we were early adopters of one of the world's first fast-payment systems, real-time clearing, in 2006. The introduction of the DebiCheck system for verifying debit orders in 2019 was also a world first. But the frontier keeps shifting. As our Vision 2025 strategy document set out, structural changes in payment systems are underway, and it is therefore vital for South Africa's competitiveness that we stay ahead of these trends. This is also an area where we can make real contributions to financial inclusion and growth.

Often, I am in the position of explaining that the South African Reserve Bank (SARB) makes its main contributions to supporting inclusive growth by providing price and financial stability, and that we need to keep doing what we're doing rather than making radical changes.

But this is not the case for payments.

In wholesale payments – that is, large-value payments, typically between banks – you could probably say we need to keep doing what we're doing, with incremental improvements such as adopting the ISO 20022 standards. But in the retail space, there is a paradigm shift underway, which is full of promise but also full of challenges – not least the danger of falling behind our peers.

This brings me to the present, and the problem of cash.

It is exciting that we can now make payments with our phones or even our smart watches. But as our payments survey reminded us, for most South Africans, cash is still king. People view it as easy to use and as the cheapest payment option available.[1] It is the most commonly used payment method in our survey. Cardless payments were further down the list.

I am proud of our cash – after all, my signature is on our banknotes. It is a symbol of trust, giving members of the public access to central bank money − a liability on our balance sheet. But as we noted in our Digital Payments Roadmap, which was published a few months ago, South Africans are *over-reliant* on cash. Even though most South Africans now have bank accounts, many still withdraw all their money as soon as it is deposited in their account. This means missing out on the safety and convenience of transacting digitally.

The fact is, cash is simply not as efficient. Whether it is finding an automated teller machine (ATM), providing correct change, dealing with transport logistics and security,

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[1] SARB, *Payments Study Report 2023,* p. 18, figures 21 and 22.
https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2024/payments/SARB%20Payments%20Study%20Report%202023.pdf

or fostering payments innovation, cash is more limited than digital payments. There is also evidence that cash disempowers women by making it harder to manage the family finances, including child support grants.[2] A strong reliance on cash is not optimal for society.

That said, change is happening.

For several years now we have seen little or no growth in the total demand for banknotes and coin. Last year, banknotes and coin *contracted* by 0.8%, the largest fall in records going back to 1960.[3] Historically, cash growth has broadly followed growth in nominal gross domestic product (GDP), but this trend broke down after COVID-19. If cash were still growing as fast as it did last decade, we would have an extra R60 billion or so of banknotes and coins in circulation.[4] This 'missing money' shows a changing payments landscape. Cash may still be king, but the crown is slipping.

A major reason for this is the availability of better payment alternatives.

I have already mentioned cardless payments, technologies which allow you to leave your wallet at home and pay with your device.

Another interesting example is PayShap − the digital, retail payment system that launched last year.[5] The adoption of PayShap has been quite fast. But it is not yet a revolution in retail payments.

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[2] SARB, *Digital Payments Roadmap*, Annexure A: Benefits of digital payments, pp. 40-42. https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2024/npsd---payments-report/Digital%20Payments%20Roadmap%20Report.pdf.

[3] Since 1960, year-on-year growth in banknotes and coin has been negative only three times, all of them recent: 2019, 2021 and 2023. Average growth in banknotes and coin since 1960 has been 11.3%; the average for the past three years is 0.5%.

[4] Banknotes and coin held by the public grew at 8% annually from 2010 to 2019. At that growth rate, banknotes and coin would now be around R240 billion; they are instead likely to end 2024 close to R180 billion.

[5] SARB, *National Payment System Regulatory and Oversight Report, 1 April 2023 – 31 March 2024, s*ection 4.2, pp. 13-14. https://www.resbank.co.za/content/dam/sarb/what-we-do/payments-and-settlements/regulation-oversight-and-supervision/regulatory-and-oversight-reports/NPS%20Regulatory%20and%20Oversight%20Report%202023.pdf

Other countries are further ahead. Two famous examples are India's Unified Payments Interface, or UPI, system and Brazil's PIX. These allow instant, low-cost payments using simple tools such as a cellphone number or a QR code, instead of an expensive point-of-sale terminal. They have quickly become ubiquitous payment technologies in these economies. And they are inclusive: for example, you can use PIX to buy a drink from an informal vendor or to pay for a taxi ride. You even see beggars on the street asking for digital payments.[6] In other words, these systems are doing what cash does, and doing it better. It is true that we also have these payment methods in South Africa, but they are less widespread.

This brings me to the outlook. How do we transition from cash to digital payments?

To drive this change, we have recently embarked on a Payments Ecosystem Modernisation Programme. This is the largest and most ambitious initiative by the SARB, in the payments space, since the launch of the South African Multiple Option Settlement system, or SAMOS, more than 30 years ago.

At the heart of the programme is the development of a public payments utility that provides digital payments infrastructure.

Any such programme must have security measures and fraud prevention at its core. As the recent scandal involving grants being stolen from Postbank accounts[7] reminds us, safety is a non-negotiable for payments.

We also intend to make inclusiveness a foundational principle. This will be a payment system for all South Africans − rural or urban, rich or poor − not a product for any particular niche.

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[6] Michael Pooler, 'Brazil counts success with PIX payments tool', *Financial Times,* 18 September 2023. https://on.ft.com/3LrrgVz; Shan Li and Rajesh Roy, 'In India's mobile-payments boom, even beggars get QR codes', *Wall Street Journal,* 27 May 2022. https://www.wsj.com/articles/in-indias-mobile-payments-boom-even-beggars-get-qr-codes-11653653383

[7] Department of Communications and Digital Technologies, 'Minister Solly Malatsi refers KPMG forensic report on the Postbank to the Hawks', 3 September 2024. https://www.gov.za/news/media-statements/minster-solly-malatsi-refers-kpmg-forensic-report-postbank-hawks-03-sep-2024

Then we need to think about how we work with, and modernise, existing systems. We are not going to be rebuilding everything from scratch – after all, we already have good payments infrastructure in South Africa – but we are living through a paradigm shift in payments, and not every legacy system will be fit for purpose in the future. Creativity and design are as much about what you take away as what you add. We call this the 'maximise and rationalise' principle.

We also need to find the right balance between bringing everyone on board and moving forward. Our philosophy is to have a bias to action. If we consult everyone but do not deliver, and if South Africa is one of the last countries to get fast, cheap, inclusive retail digital payments, we will have failed.

Make no mistake, we want creative collaboration, and we admire and value the talent of the many participants in this ecosystem. But what we care most about are the results, and we will work with 'coalitions of the willing' to get there.

Ladies and gentlemen, to conclude:

For centuries central banks have provided wholesale and retail payment services – wholesale for large values but lower volumes, and retail for smaller values and larger volumes.

Sometimes central banks have used monopoly models, for instance with issuing banknotes and coin, or running wholesale payment systems. At other times, they have participated alongside other service providers, frequently playing an oversight or coordination role in a system where payment services are primarily provided by the private sector.

It is always difficult to know exactly where to draw the line between what should be done privately and what should be done by central banks, which, of course have a public good mission. There are some natural monopolies, such as large-value settlement, where central bank accounts seem to be indispensable.[8] There are also

[8] Bruce J. Summers, 'Clearing and payment systems: The central bank's role' in Patrick Downes and Reza Vaez-Zadeh, eds. *The Evolving Role of Central Banks,* International Monetary Fund, 1991. https://www.elibrary.imf.org/display/book/9781557751850/ch004.xml

good reasons the private issuance of banknotes and coin collapsed, and countries tend to have a single national issuer of cash − the central bank − rather than having the banknotes of different institutions to compete, as often happened in previous centuries.

That said, one of the big problems with monopolies is that they tend to be unimaginative. They do not invest much in innovation. Perhaps, for this reason, national payment ecosystems have often landed on a model where there is private participation in payments, to foster innovation, while central banks deliver stability and safety.[9] That said, central banks also often play a role in catalysing change.[10]

As the SARB, we are currently in an interesting situation in which we are solely responsible for producing banknotes and coin, the most popular retail payment format, but we want to innovate ourselves out of this profitable position. And we are not insistent that we monopolise the digital payments alternative. We are just insistent that we, as a country, move with the paradigm shift and reap its benefits.

There has been a trend towards central bank digital currencies, or CBDCs, lately, but frankly, the most successful retail payment initiatives by central banks have involved new payment systems rather than new kinds of central bank liabilities. Brazil and India did not need CBDCs to develop the world's two most-used retail digital systems. In these cases, central banks acted as catalysts for change, and this created many opportunities for the private sector to innovate, using the new platform.

Fundamentally, I hope we will approach the new payments paradigm as a landmark opportunity to make payments in South Africa safer, faster, cheaper and more inclusive.

Thank you.

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[9] Bank for International Settlements, 'The role of central bank money in payment systems', August 2003, pp.1-2. https://www.bis.org/cpmi/publ/d55.pdf
[10] Bank for International Settlements, 'Central banks and payments in the digital era', *BIS Annual Economic Report,* 24 June 2020. https://www.bis.org/publ/arpdf/ar2020e3.htm