

# Central Bank Digital Currencies will create evolution, not revolution, in international payments systems

June 9 2022

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Central Bank Digital Currencies (CBDCs) may offer a route towards improving and simplifying the complex ecosystem of international and domestic payments but are not likely to replace established conventional payments systems for the foreseeable future, new research shows.

"There is great excitement around cryptocurrencies at present, such as BitCoin, which are either decentralized or issued by non-central bank entities and are sometimes likened to the Wild West. On a much more regulated level, many [central banks](#) are considering launching their own central bank digital currencies, with the Bahamas and Nigeria having done so," said Dr. Chusu He of the University of Bath School of Management.

"We investigated the implications of CBDCs for international payments and found they may promote greater efficiency across many aspects of domestic and international payments at the central bank level. But our findings proved conservative—we think in the near term CBDCs won't disrupt the existing payments infrastructure, but rather, co-exist with it," said Dr. He, who co-authored the research report commissioned by the SWIFT Institute into CBDCs and international payments.

According to Dr. He, people need to distinguish wholesale CBDCs from retail CBDCs, when envisaging the impact of CBDCs on international [payment](#). Wholesale CBDCs expand access to central bank balance sheets from mainly commercial banks under existing payment regimes to a wider range of financial services institutions and large corporations. Retail CBDCs further widen the accessibility by offering the currencies to the general public.

Dr. He said the introduction of CBDCs at the wholesale level would have the main immediate impact on international payments, lowering barriers to entry both in the provision of settlement in central bank money and in routing of payments. They would bring more competition to the correspondent banking business and reduce the cost of international payment services under all user scenarios, on the condition that they are interoperable and compatible with existing domestic payment systems.

Dr. He pointed out that the role of retail CBDCs is in more specific

situations, such as lowering remittance costs by increasing financial inclusion—creating access to a digital payment method for people who do not have bank accounts. The research found that CBDCs would play a supporting role in improving international payments. This may become more important eventually, if a sufficient critical mass of users adopt retail CBDCs for domestic payments and exchange their holdings directly across borders.

She noted also that improvements to existing payments systems and the adoption of the ISO20022 global standards framework may bring many benefits similar to those that can be achieved by CBDCs, for example, improving information flows alongside payments, and reducing technical incompatibilities between different jurisdictions.

"So our view is that we will not see a revolution but, rather, gradual incremental improvements in the cost and service quality of international payments, based on access to CBDCs and the interoperability between CBDCs and domestic payment schemes. This is very far from the dramatic picture painted by others," Dr. He said.

"Much of the expectation of radical change rests on an assumption that digital innovation will create opportunities for the simple direct exchange of digital currencies like the exchange of emails. While this is not impossible—cryptocurrencies allow this because they have one integrated market—the expectation that the creation of a new digital form of central bank money alone will do the same job is somewhat naïve. Domestic payment systems are relatively independent and it may require several supporting transactions to route one international payment from the payer in one country to the payee in the other country—CBDCs cannot completely avoid this," she added.

The study suggested that wholesale CBDCs, in the medium and long term, could help create a true 24/7 spot market of foreign exchange and,

in turn, facilitate global real-time liquidity management, with funds being transferred around the world in different currencies at different times of the day.

"The evidence of our interviews though is that this would be a major and challenging change to the existing infrastructure for international foreign exchange. It is therefore not going to emerge automatically, even with widespread access to wholesale CBDC. Existing arrangements with delayed settlement are the market preference," Dr. He said.

**More information:** [swiftinstitute.org/wp-content/ ...  
PublishedMay2022.pdf](https://swiftinstitute.org/wp-content/uploads/2022/05/20220509-CBDC-Report.pdf)

Provided by University of Bath

Citation: Central Bank Digital Currencies will create evolution, not revolution, in international payments systems (2022, June 9) retrieved 10 April 2024 from <https://techxplore.com/news/2022-06-central-bank-digital-currencies-evolution.html>

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