

# Concept Note

## 1. Title of Proposed Project

Establishment of Fast Payment System and E-money Switch in Armenia

## 2. Organization

Central Bank of Armenia (CBA), "STAK MONEY TRANSFER" CJSC

## 3. Project Background

The country's economic transformation since the collapse of the Soviet Union has been profound. The economy today is market-oriented, highly open to trade, capital, and technological innovation. In line with this country's basic direction, the national payment and settlement system and the remittance unified system were making progress but the consensus is that much more is needed to be done to foster effectiveness and efficiency in servicing the banking sector. For example, in the absence of non-cash payment instruments, cash was the predominant means of payments in the country and, without electronic transfer of funds, government payments between agencies as well as other expenditures were handled outside the banking system and payroll payments were done in cash. To mitigate this situation, some reforms have been introduced in payments system. The Gross Electronic Payment System (EPS) is one of the crucial system of inter-bank payments, the implementation of which in Armenian banks and their branches began in 1997. Furthermore, the implementation of Armenian Remittance Unified System which is to provide favorable conditions for consumers of money transfer services.

However, as an owner and operator of the National Electronic Payment System, the Central Bank of Armenia (CBA) is currently facing serious challenges caused by rapid development of new technologies during recent years. In this context, the CBA is considering to enhance the scope of "STAK" money transfer system to be capable of working as a fast payment system which will also include Tax& Bill Payment. CBA also pays great attention to act as an e-money switch at the national level.

To achieve this, it is notable that adherence to international standards and best practices is key for success. Therefore, Korean experience and expertise could be an important factor towards establishing the Fast payment system and E-money switch.

## 4. Project Description

### Project Objectives

The Establishment of Fast Payment System and E-money Switch project aims to improve and accelerate payment services in the economy in order to reduce float, speed up circulation of funds and increase efficiency of funds transmission, while providing convenience to the public. Through this project, "STAK" Money transfer system will be able to provide the real-time money transfer and tax & bill payment service with automated clearing functions so that the remittance/payment

transaction is finalized immediately. In addition to that, the system will carry out a role as a national e-money switch which will help public use the electronic money actively and conveniently.

### **Project Scope**

The detailed scope of project shall be determined after finalizing feasibility study and internal discussion. But in a general sense, it may include some principal components: (i) the mechanism to implement the integrated fast payment system (including Tax & Bill payments) and an e-money switch; (ii) economic feasibility of the fast payment system and e-money switch under the business environment of Armenia and the market enforcement strategy; (iii) appropriate legal and/or institutional framework and financing plan (iv) development of a sustainable, in-house capacity for continuous improvement following completion of project activities.

**Estimated Cost:** To be determined after feasibility study

## **5. Priority of Project**

Significant priority has been placed on this project – the establishment of fast payment system and e-money switch. The CBA and STAK Money Transfer will make a working group to study and discuss how to design and implement the payment and settlement system in Armenia. The CBA will ensure effective cooperation of all stakeholders in its capacity as a mega regulator of financial and capital markets.

## **6. Expected Outcomes of Project**

The intended project impact will be substantial.

In a micro level, it will bring more accessible and more affordable, secure payments services and improved access to finance, especially for rural residents. And it will ensure to have robust payment infrastructure to (i) provide a multifaceted inter-bank fast payments platform for various payment channels; (ii) provide a platform for financial institutions to develop e-products or e-service that would extend the coverage of services to cater for the unbanked and under-banked; (iii) provide convenient and safe post-trading services that can contribute to capital market development; (iv) improve the security of transactions as they predominantly take place in an electronic environment as opposed to paper based instruments; and (v) provide an open system for businesses to enhance utilization of electronic payments countrywide

In macro level, it is envisaged that the reliable, efficient and robust infrastructure will make a starting point to form a virtuous circle for sustainable economic development. More specifically, (i) by bringing unbanked economies into the mainstream economy, the infrastructure will be used as essential tool for the smooth functioning of the money and capital markets; (ii) the infrastructure will improve financial transparency, by bringing cash into the banking system, which would otherwise have been kept out of the system remaining untraceable; (iii) commercial banks can then effectively deploy additional cash flow, thus stimulating business growth and consumption; (iv) it will achieve higher savings rate and capital accumulation which may result in increase of national investment through multiplier effect; and (v) More transactions are processed electronically providing cost savings

over paper-based systems through increased velocity and lower costs.

## 7. Expectations on Korean Experts

Throughout this project, experiences and expertise from Korean side are very essential, inclusively; (i) to analyze a current status on payment and settlement system and capital market infrastructure of Armenia; (ii) to formulate future development directions and priority; (iii) to have an understanding of the existing national payment and settlement system that has successfully implemented in Korea; (iv) to understand the existing international standards and best practice implemented from a technological and operational perspective; (v) to understand challenges faced (if any) during implementation and how they were mitigated; (vi) to understand the legal framework in regards with the project (vii) to suggest further steps for sustainable development.

## 8. Contact Details

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## 9. Others

Not available

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