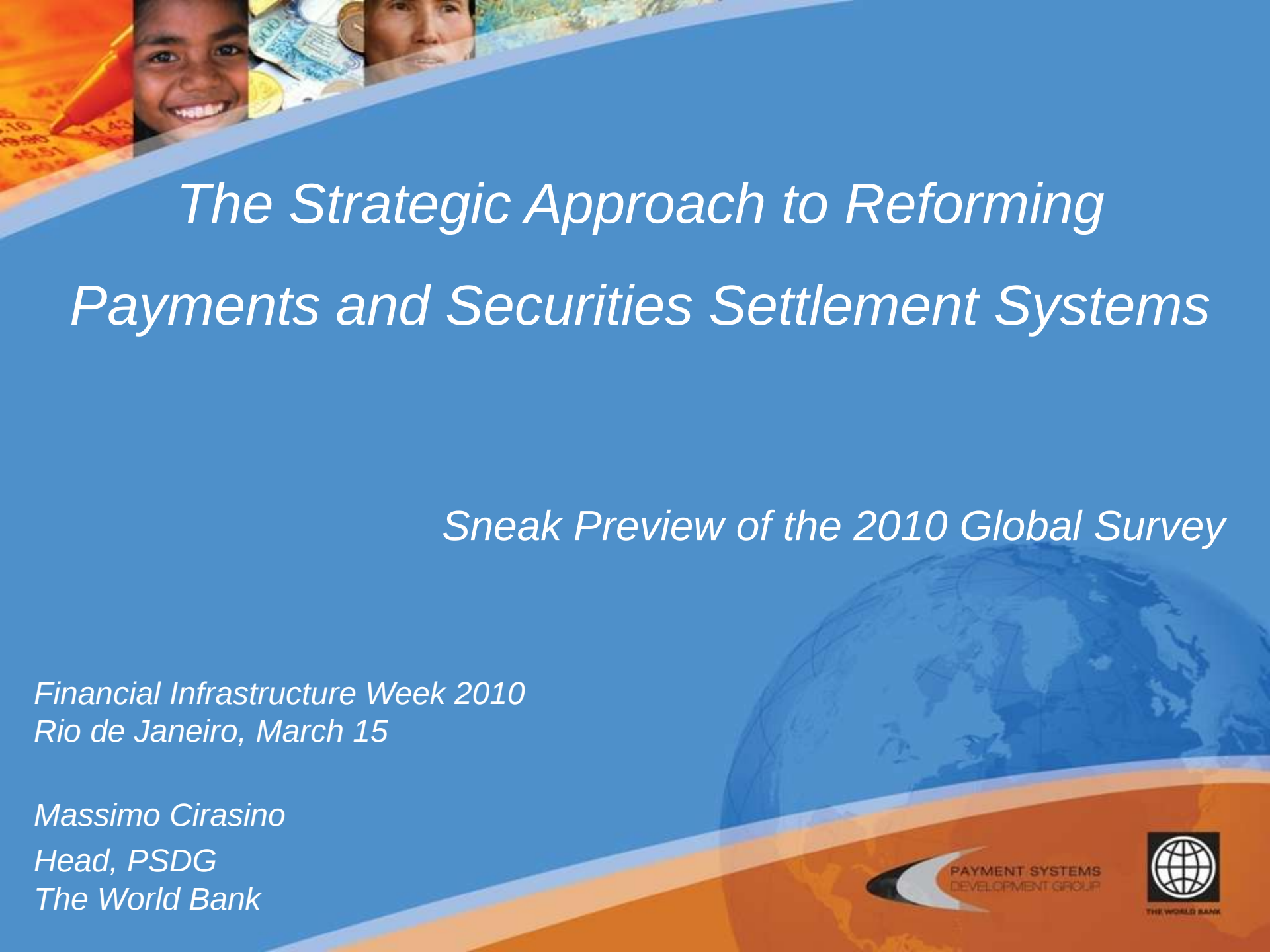




The Strategic Approach to Reforming Payments and Securities Settlement Systems

Sneak Preview of the 2010 Global Survey

*Financial Infrastructure Week 2010
Rio de Janeiro, March 15*

*Massimo Cirasino
Head, PSDG
The World Bank*



The Importance of Payment Systems

- **Sound Payment, Remittances and Securities Settlement Systems (PRSSS) are essential for financial system stability & development**

The Global Payment Systems Survey shows that large value payments processed in a year worldwide are equivalent to more than 50 times the global GDP. RTGS systems have not only fostered growth in total amounts settled (86% between 2002 and 2006) but also allowed for a safe and efficient processing of such huge amounts (82% of the value of total payments processed worldwide)

- **Safe PRSSS mitigate risks in financial markets**

Financial market crises are likely to show their first signs in the payments system and might be absorbed then. In particular, the interbank money market as the “distributor of liquidity” relies heavily on the ability to transmit funds across the financial system rapidly and safely. PRSSS are essential components for the smooth transmission mechanism of monetary policy. The recent financial crisis showed that the payment system domestic (e.g. RTGS systems) and global (e.g. CLS Bank) payment infrastructure was instrumental to facilitate immediate authorities’ action

- **Efficient PRSSS enable large efficiency gains**

The progressive shift from paper-based to electronic payments has an important impact on the financial sector and the economy. A study from the Central Bank of Brazil indicates that a more intensive usage of electronic-based instruments can produce a potential saving to the country of 0.7% of the GDP per year

- **PRSSS are key in developing more inclusive financial systems**

A sound and efficient financial infrastructure enhance access to financial services. In particular, Retail payment services are often the first entry point of the underserved into the financial sector

International Standards and Best Practices

The World Bank, together with the BIS-CPSS, plays an important role in developing standards, best practices and policy advice documents.

Area	Reference
Large-value payment systems	CPSS Core Principles for Systemically Important Payment Systems <i>New CPSS-IOSCO Principles for Financial Market Infrastructures (FMIs)</i>
Foreign exchange settlement risk	CPSS: Settlement risk in FX transactions + Progress Reports (1998 and 2008)
Securities settlement systems	CPSS-IOSCO Recommendations for Securities Settlement Systems CPSS-IOSCO Recommendations for Central Counterparties G-30 Global Clearing and Settlement <i>New CPSS-IOSCO Principles for Financial Market Infrastructures (FMIs)</i>
Payment system oversight	CPSS: Central Bank Oversight of Payment and Settlement Systems World Bank/CEMLA: The Oversight of the Payments Systems: A Framework for the Development and Governance of Payment Systems in Emerging Economies
Retail Payments	CPSS: Policy Issues for Central Banks in Retail Payments <i>New World Bank Comprehensive National Retail Payments Development Guidelines (draft)</i> <i>New World Bank Comprehensive National Retail Payments Stocktaking Guidelines (draft)</i> <i>New World Bank IAG Government Payments Guidelines (draft)</i>
Remittances	CPSS-WB General Principles for International Remittance Services
Cross-cutting issues	CPSS: The Interdependencies of Payment and Settlement Systems CPSS: General Guidance for National Payment System Development CPSS: New Developments in Clearing and Settlement Arrangements for OTC Derivatives CPSS: Cross-border Collateral Arrangements

Quo vadis? Sinland or Dreamland?

World Bank Global Payment Systems Survey 2010

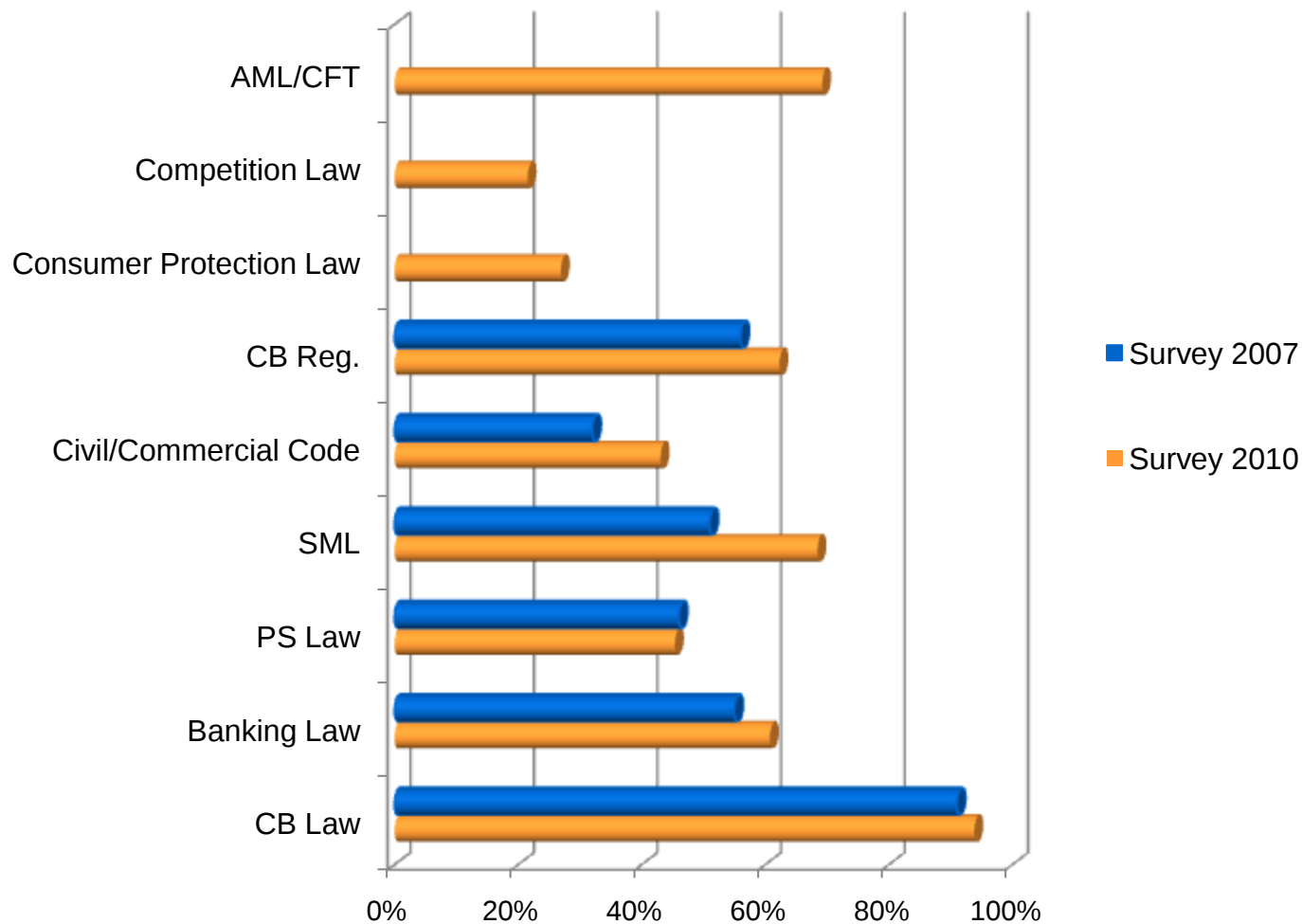
- Launched in July 2010
- Answers received from 132 Central Banks, representing 139 countries
- Topics covered:
 - i. Legal and Regulatory Framework*
 - ii. Large-Value Funds Transfer Systems*
 - iii. Retail Payment Systems*
 - iv. Foreign Exchange Settlement Systems*
 - v. Cross-border Payments and International Remittances*
 - vi. Securities Settlement Systems*
 - vii. Payment System Oversight and Cooperation*
 - viii. Planned and On-going Reforms to the National Payments System*
- **NEW: Annex 1!** Survey on innovations in retail payments issued as an Annexure to GPSS. Builds on CPSS “Survey of Developments in Electronic Money and Internet and Mobile Payments”. Annex 1 is divided into 5 key areas:
 - i. Type of Products*
 - ii. Design Features of the Products*
 - iii. Legal and Regulatory Framework*
 - iv. Statistics*
 - v. Planned Reforms/New Products*

Final outcomes will be soon available at www.worldbank.org/paymentsystems

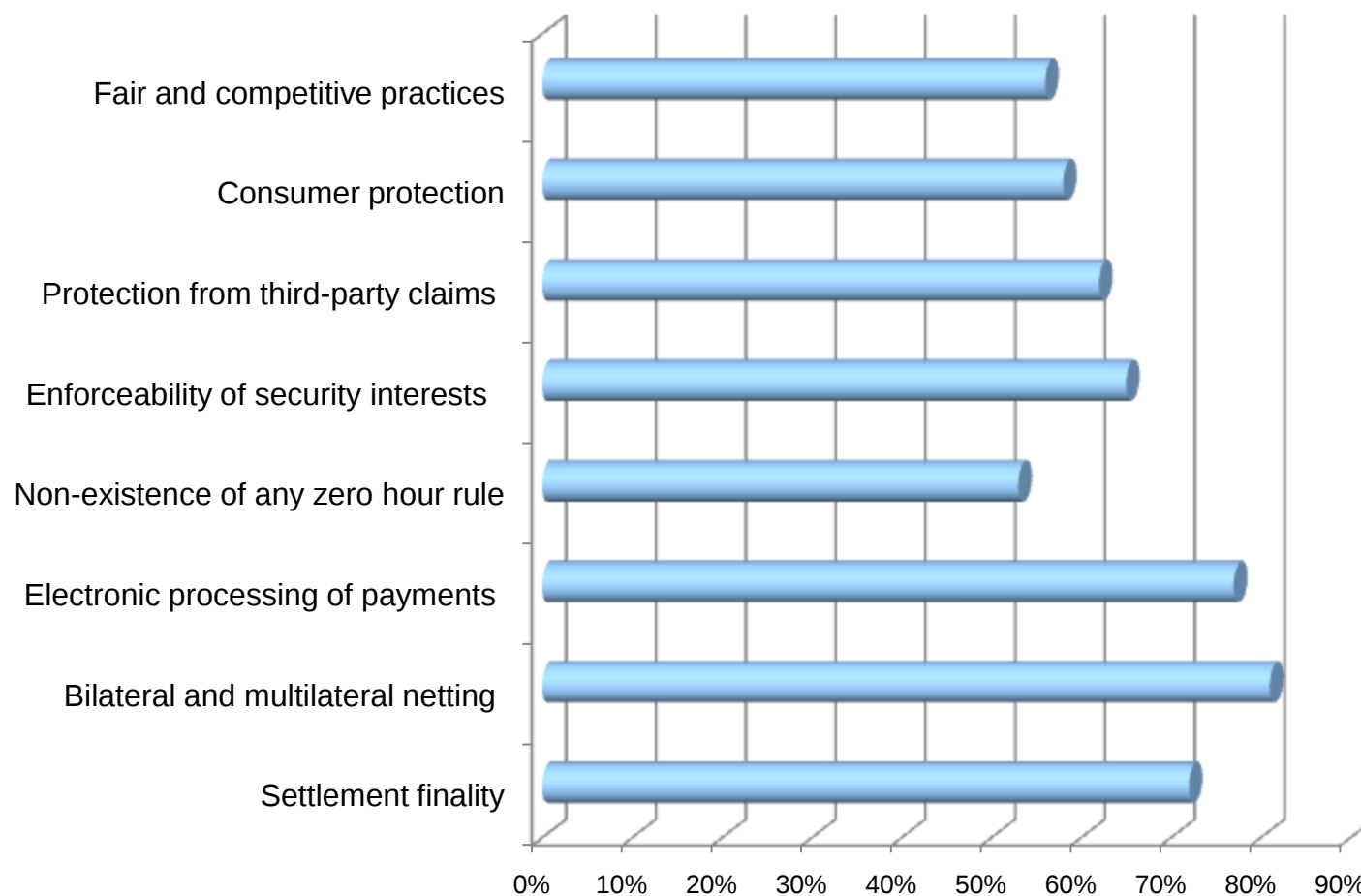
Typical Shortfalls

- The Legal Framework for payments and securities settlement presents important deficiencies, regarding for example:
 - ✓ the definition of finality
 - ✓ protection of the systems against bankruptcy procedures
 - ✓ improvement of the legal basis for custody arrangements
 - ✓ legal basis for netting arrangements
 - ✓ the regulation of oversight powers of the central bank

Explicit Reference to Payment Systems Global Payment Systems Survey 2010

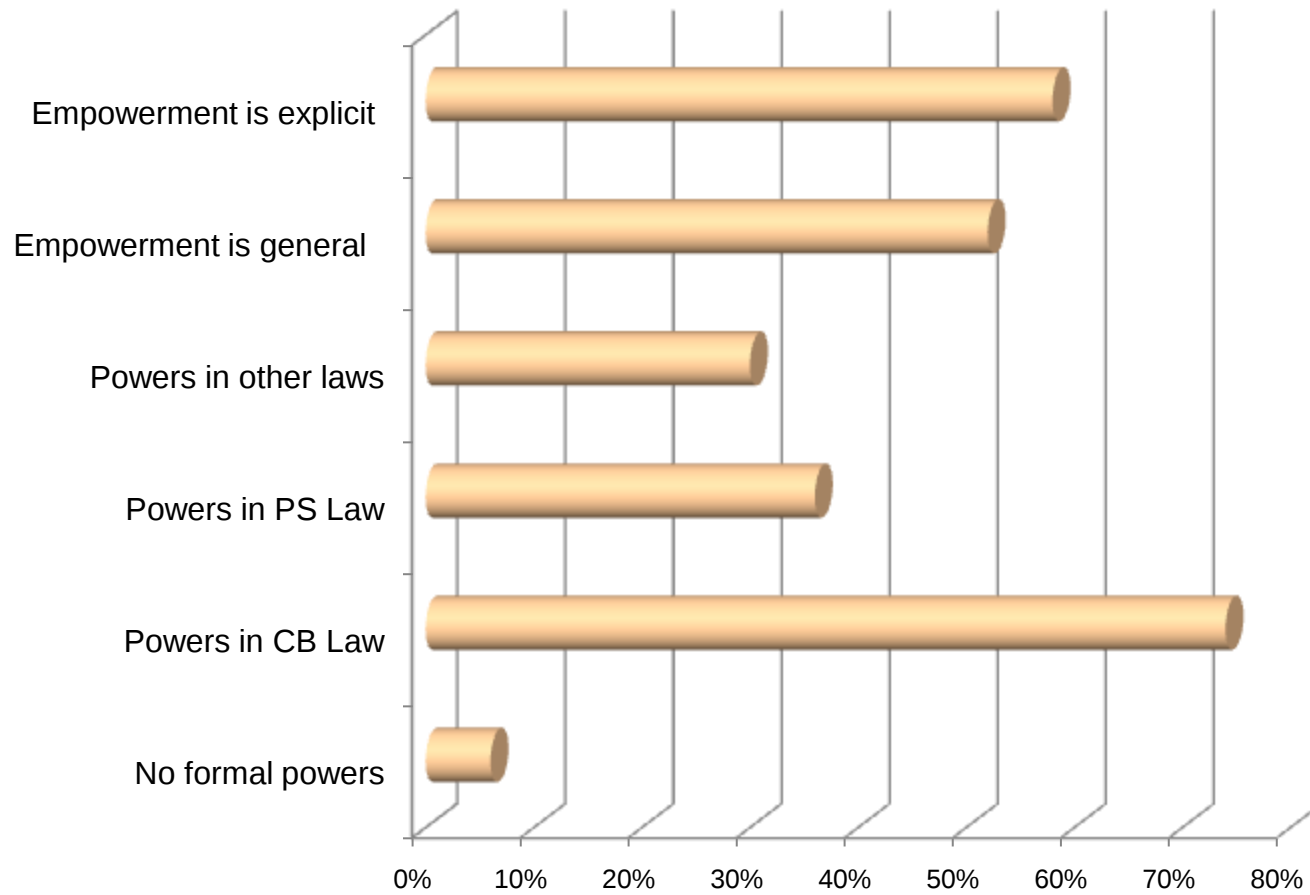


Key Payment Systems Concepts Covered in the Legal Framework Global Payment Systems Survey 2010



CB Empowerment to Oversee Payment and Securities Settlement Systems

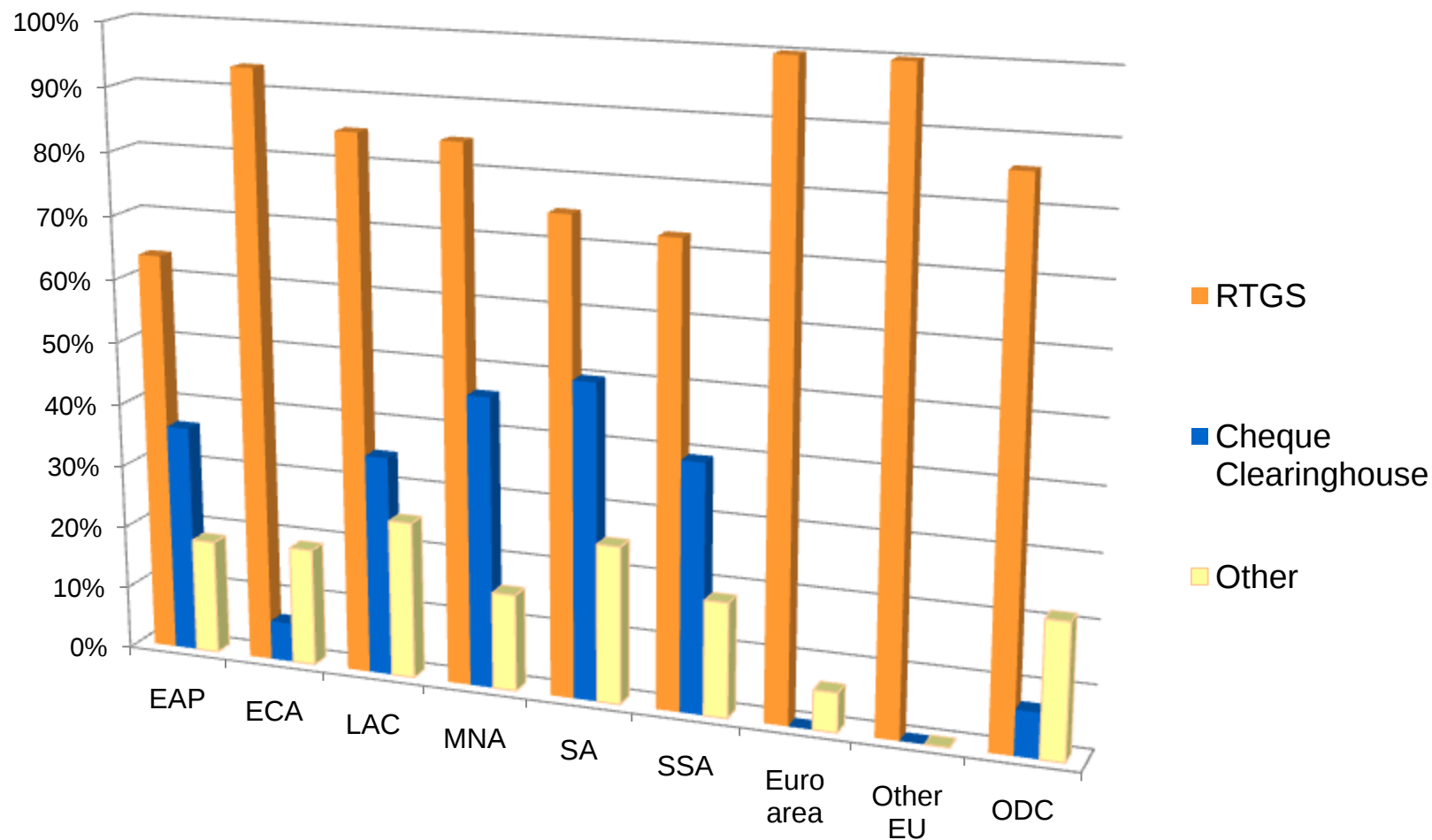
Global Payment Systems Survey 2010



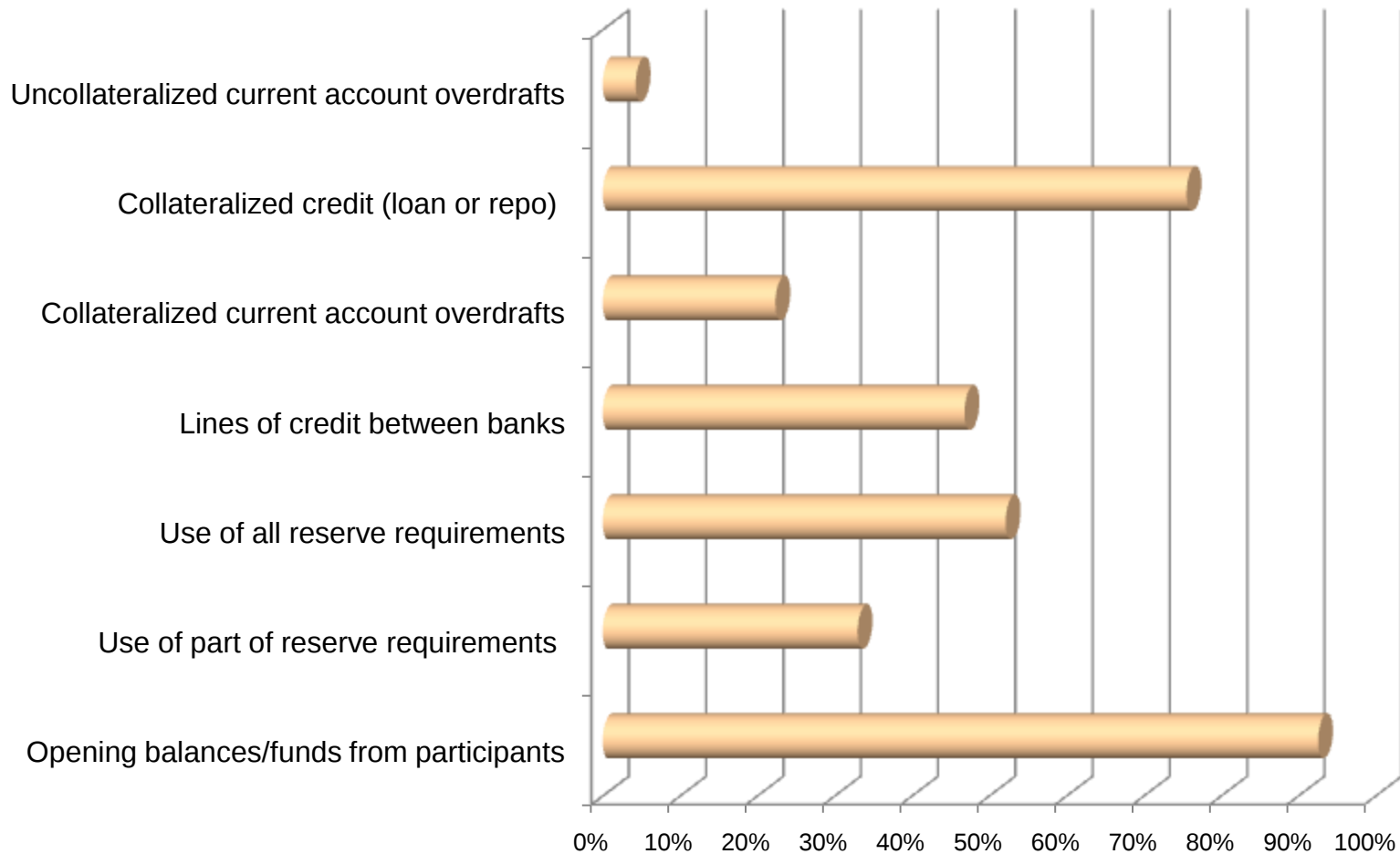
Typical Shortfalls (cont.)

- Systemically Important Payment Systems do not comply with international standards in that:
 - ✓ Risk control management is weak: no sufficient provision of intra-day liquidity; no optimal integration with securities settlement systems; no or insufficient guarantee schemes for systems based on netting
 - ✓ Operational reliability and business continuity measures might be insufficient
 - ✓ Too many large value payments are still processed in relatively risky systems (especially cheque systems)
 - ✓ Access is restricted to few participants without disclosure of risk considerations. Exit criteria are uncertain
 - ✓ Governance arrangements are not transparent and system participants do not have appropriate fora to express needs

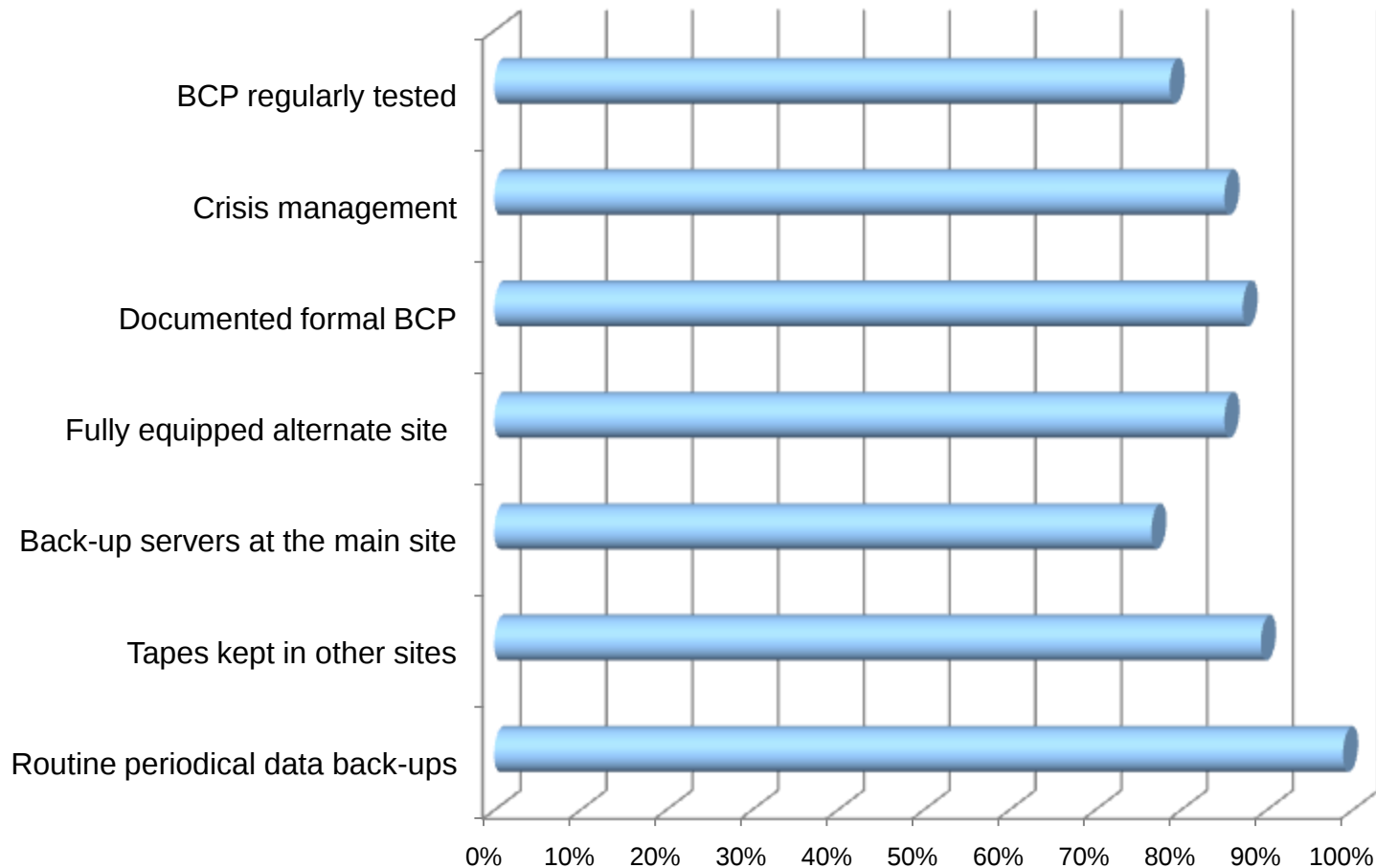
System(s) Used for Large-Value Payments Global Payment Systems Survey 2010



Sources of Liquidity During the Day ***Global Payment Systems Survey 2010***



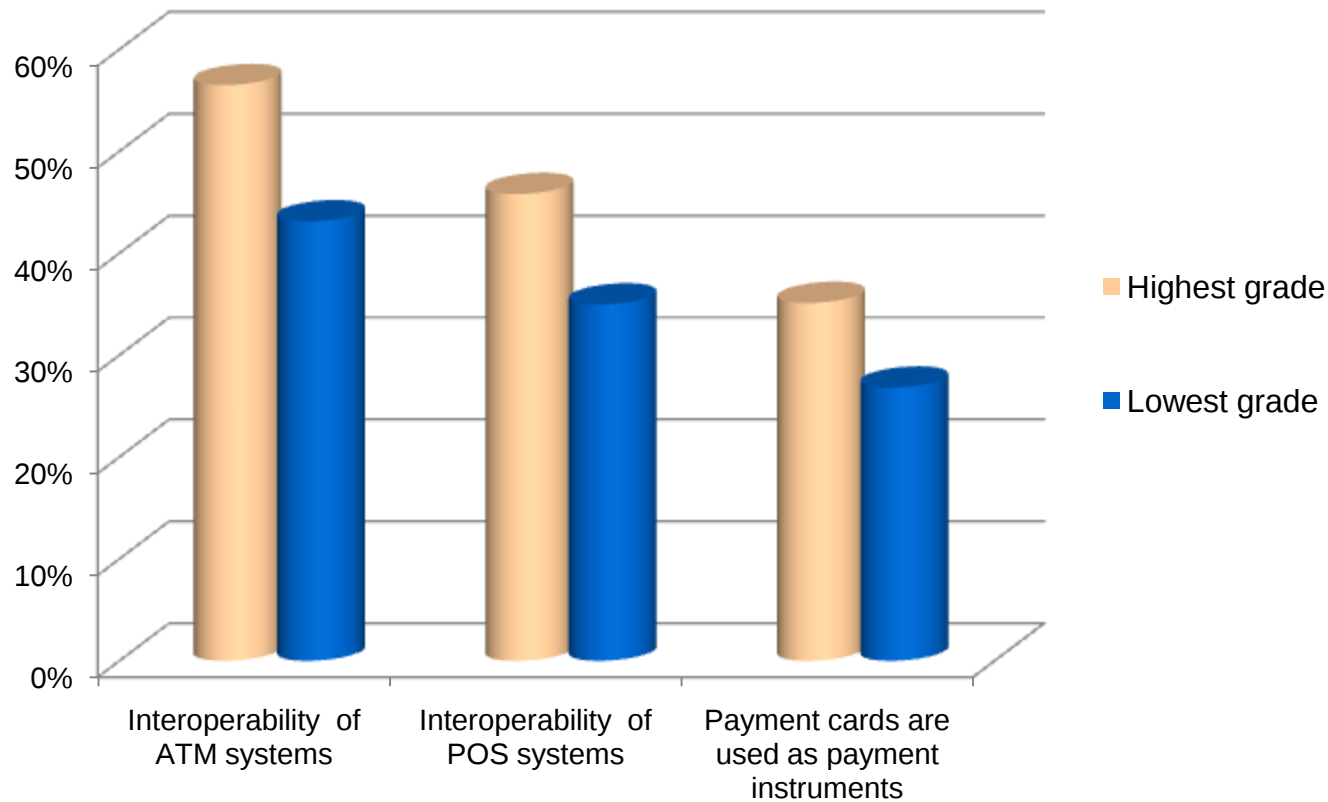
Resilience and Business Continuity Global Payment Systems Survey 2010



Typical Shortfalls (cont.)

- Retail Payment Systems, Instruments and Services
 - ✓ Attention to retail issues is low
 - ✓ Instruments are not standardized and are, therefore, processed with cumbersome procedures
 - ✓ Even cash distribution is inefficient and costly!
 - ✓ Payment instruments are used in a sub-optimal way, from the efficiency point of view
 - ✓ Retail systems are characterized by a low degree of interoperability
 - ✓ Government payments are processed in a less than efficient way and have several negative implications for the payments system as a whole

Interoperability Global Payment Systems Survey 2010



CB Opinion on the Cost of Payment and Associated Services

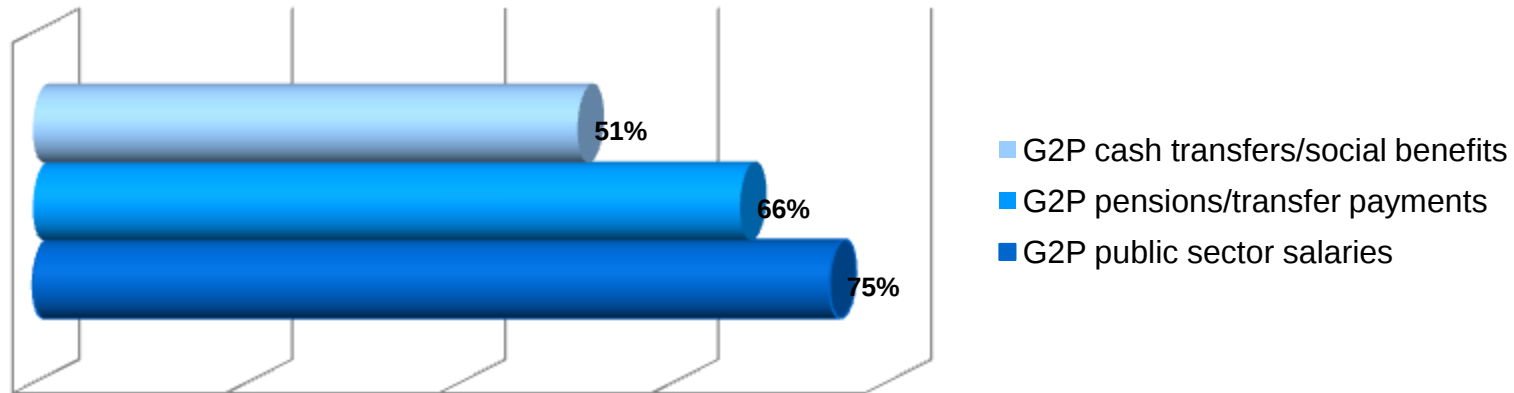
Global Payment Systems Survey 2010

Payments/associated service	Cost is negligible (%)	Cost is high (%)
Opening a bank account	61	4
Maintaining a bank account	25	10
Direct credits	18	19
Direct debits	37	6
Cheque-related services	24	11
Credit cards – Annual Fees	7	18
Credit cards – Individual transactions	39	9
Debit cards – Annual Fees	37	8
Debit cards – Individual transactions	49	7
Prepaid cards – Annual Fees	37	5
Prepaid cards – Individual transactions	39	4
ATM Withdrawals at own bank	71	4
ATM Withdrawals at another bank	19	24
Other ATM services at own bank	50	4
Other ATM services at another bank	18	12
Other payment instruments	10	3

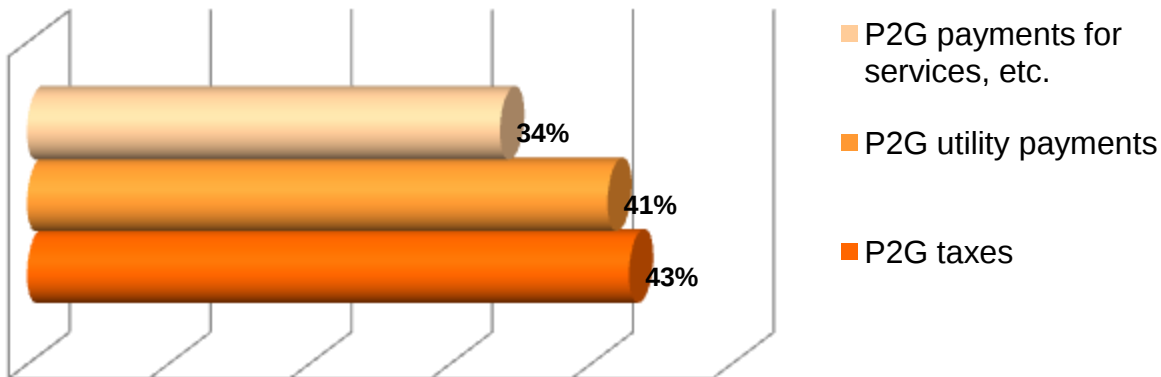
Electronic Processing of Government Payments

Global Payment Systems Survey 2010

G2P Payments



P2G Payments

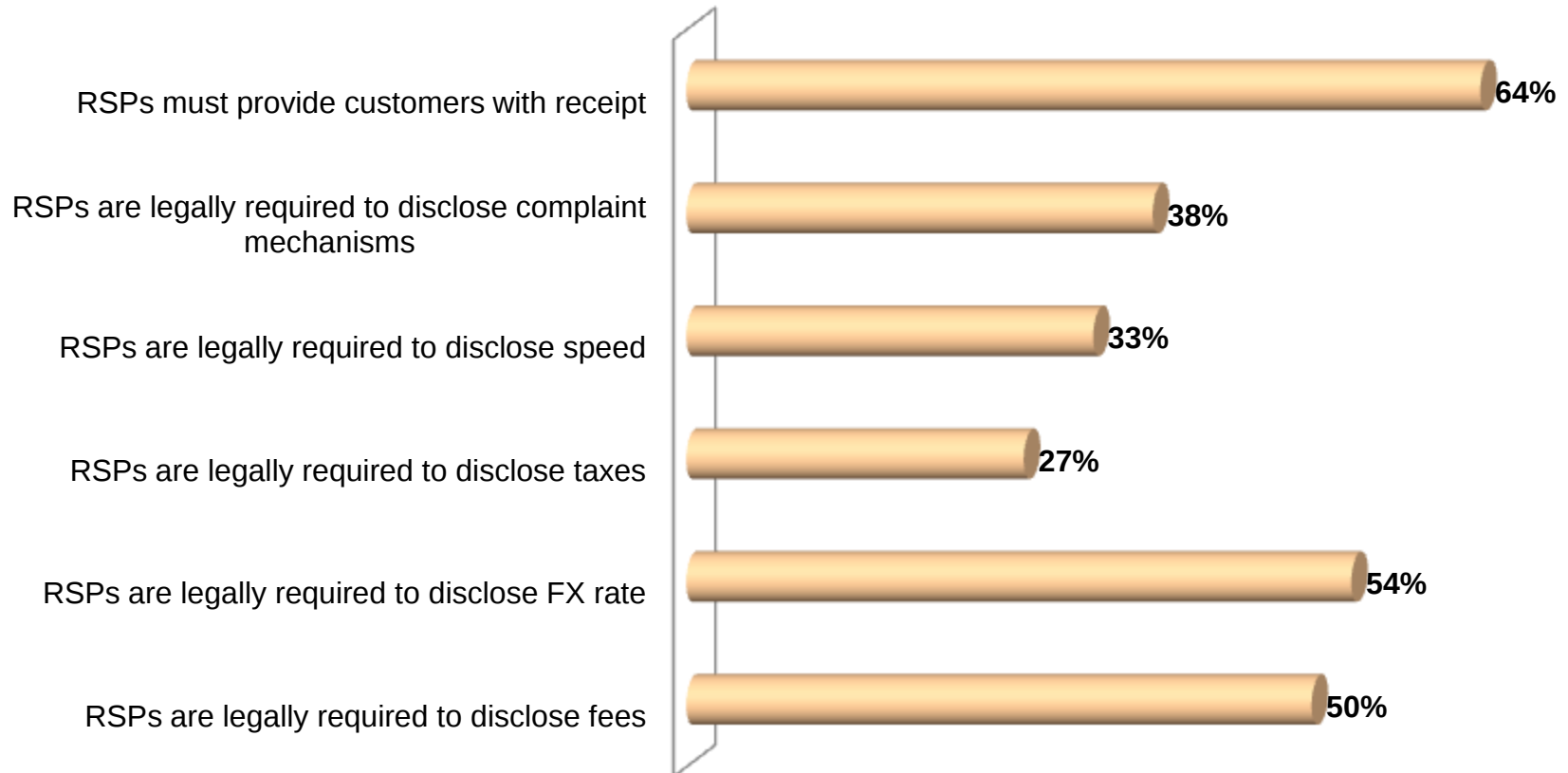


Typical Shortfalls (cont.)

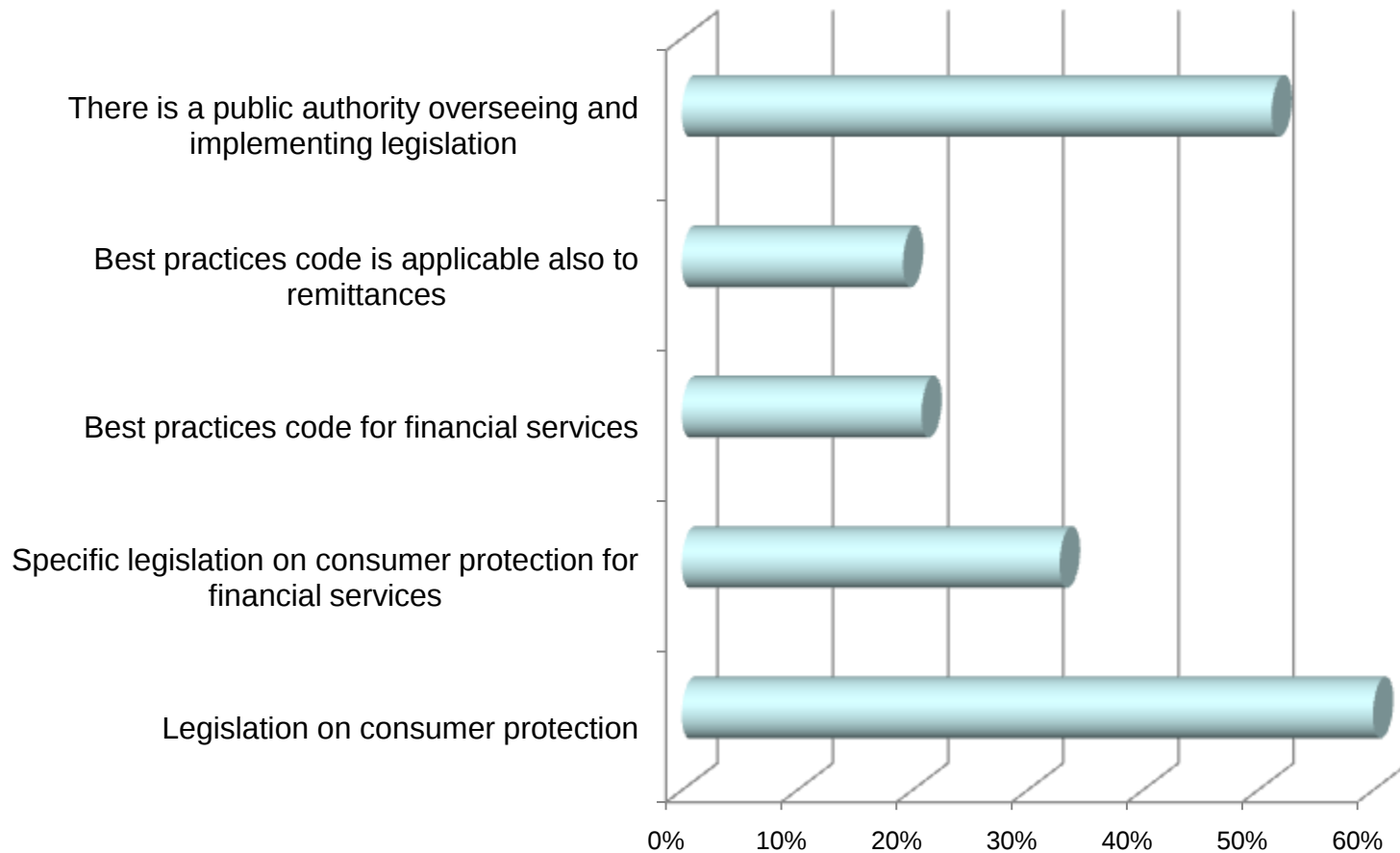
- Foreign Exchange Settlement and Cross-Border Payments
 - ✓ Relevant financial risks are present in the settlement of foreign exchange trades: true Payment versus Payment (PvP) is not achieved in the vast majority of foreign exchange transactions
 - ✓ Cross-border retail payments are costly and not adequately regulated (e.g. migrant's remittances)

Transparency of Remittance Services

Global Payment Systems Survey 2010



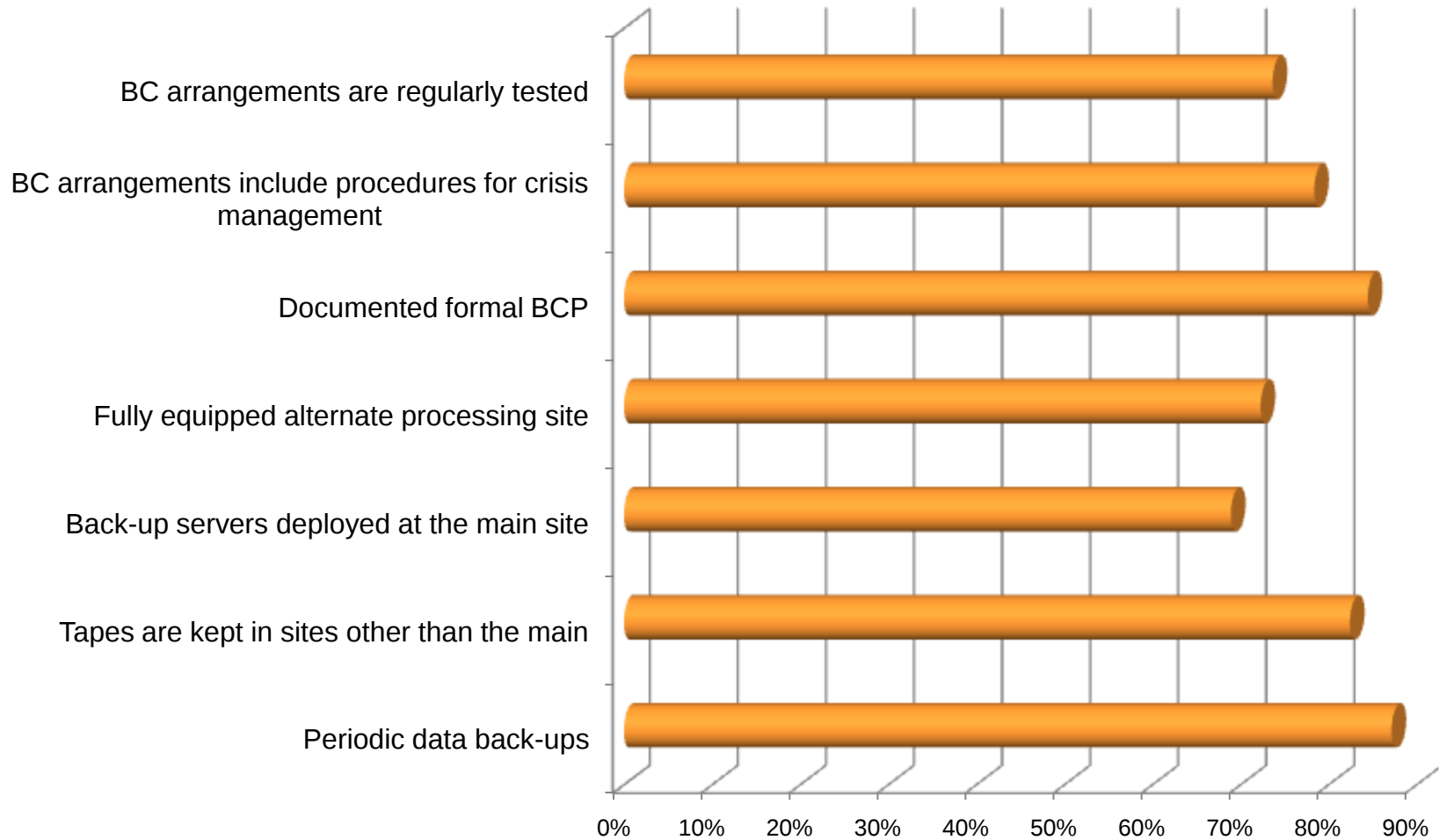
Consumer Protection Global Payment Systems Survey 2010



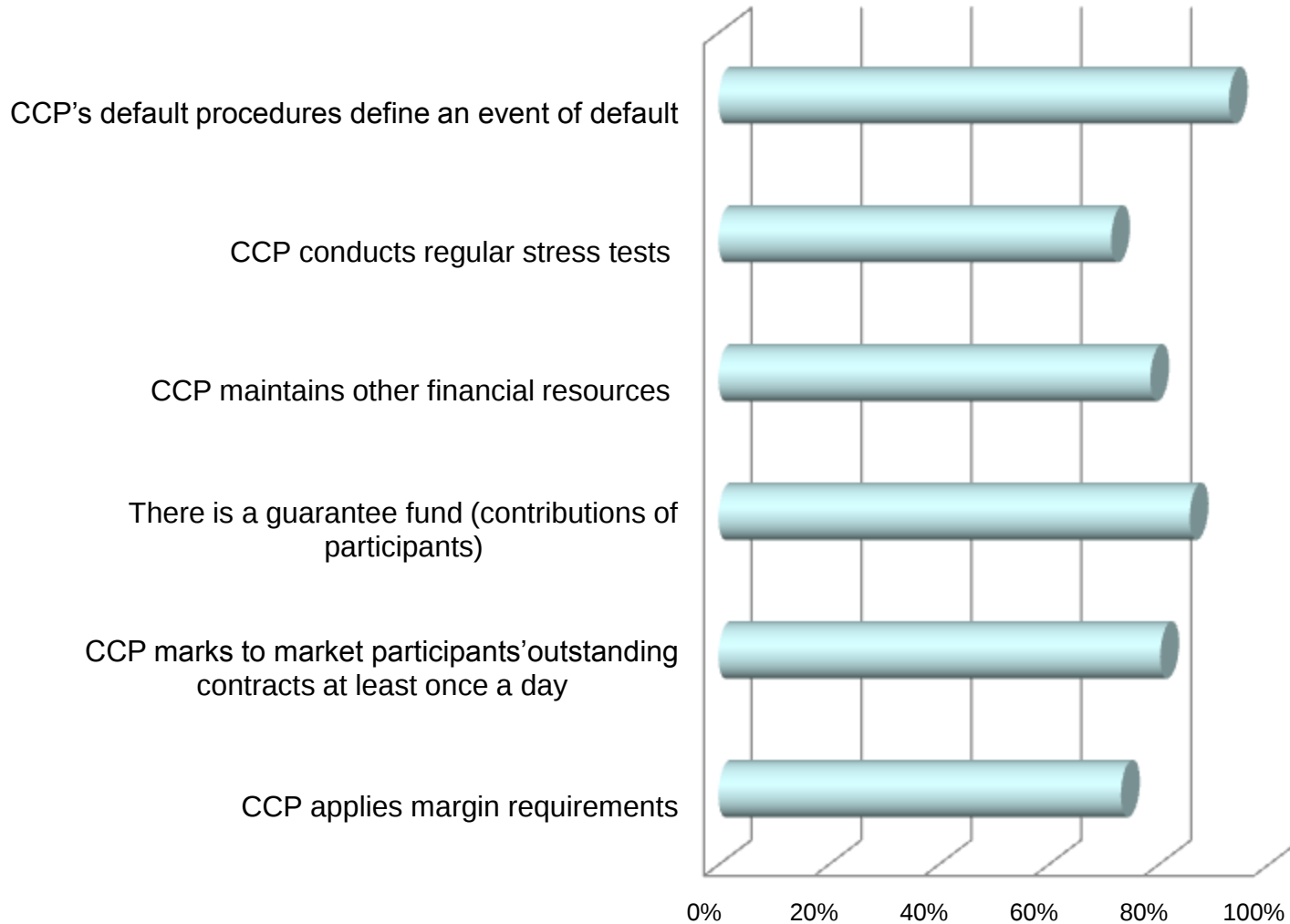
Typical Shortfalls (cont.)

- Securities Settlement Systems (SSS)
 - ✓ SSS and funds transfer (payment) systems are not adequately integrated, creating disruptions to the payments system as a whole
 - ✓ Many SSS around the world do not comply with the relevant international standards (i.e. the CPSS-IOSCO Recommendations for SSS)
 - ✓ Central Counterparties (CCPs) are introduced without appropriate risk control mechanisms and concentrate a substantial amount of risk

CSDs – Resilience and Business Continuity Global Payment Systems Survey 2010



CCPs – Management of Credit Exposures Global Payment Systems Survey 2010

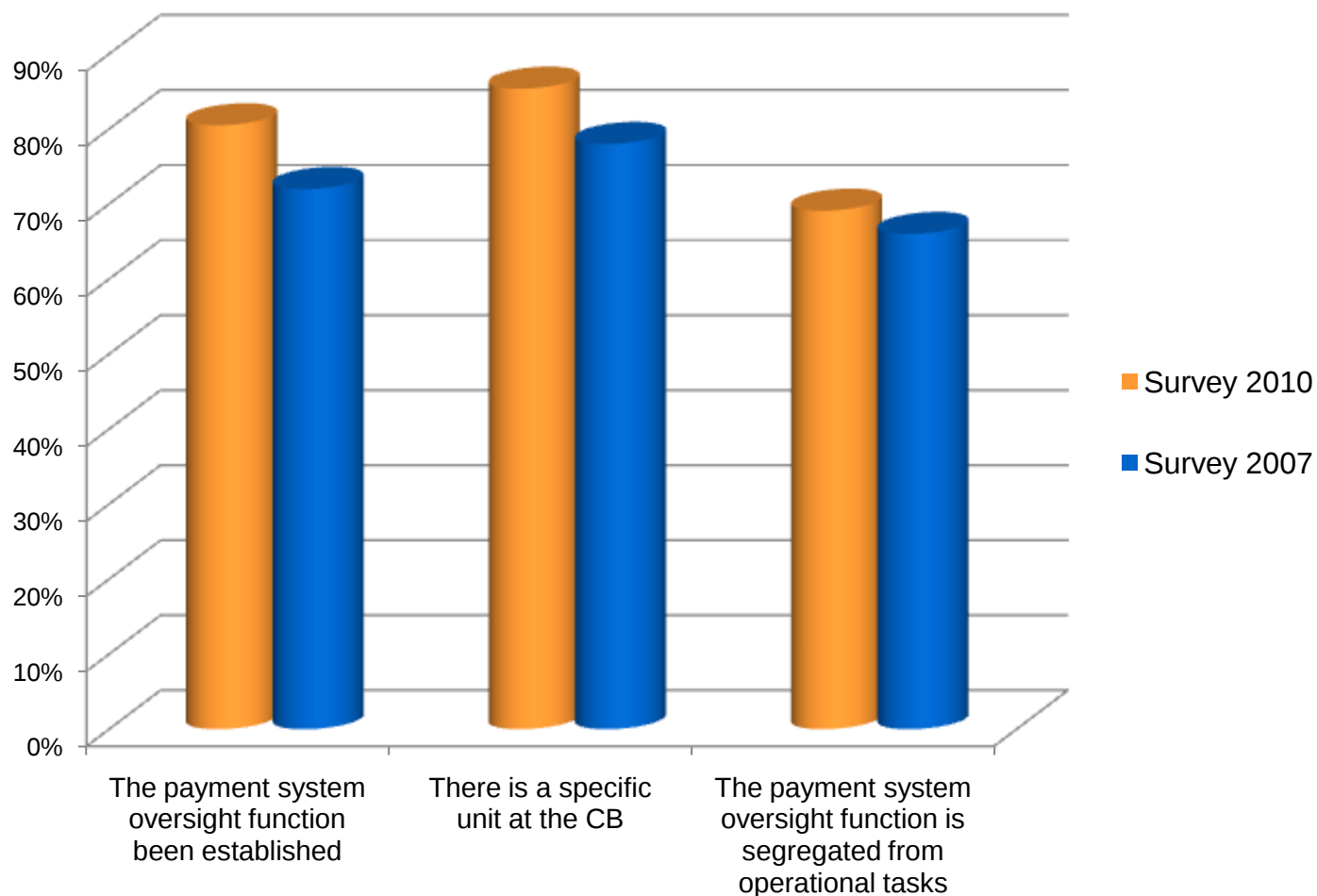


Typical Shortfalls (cont.)

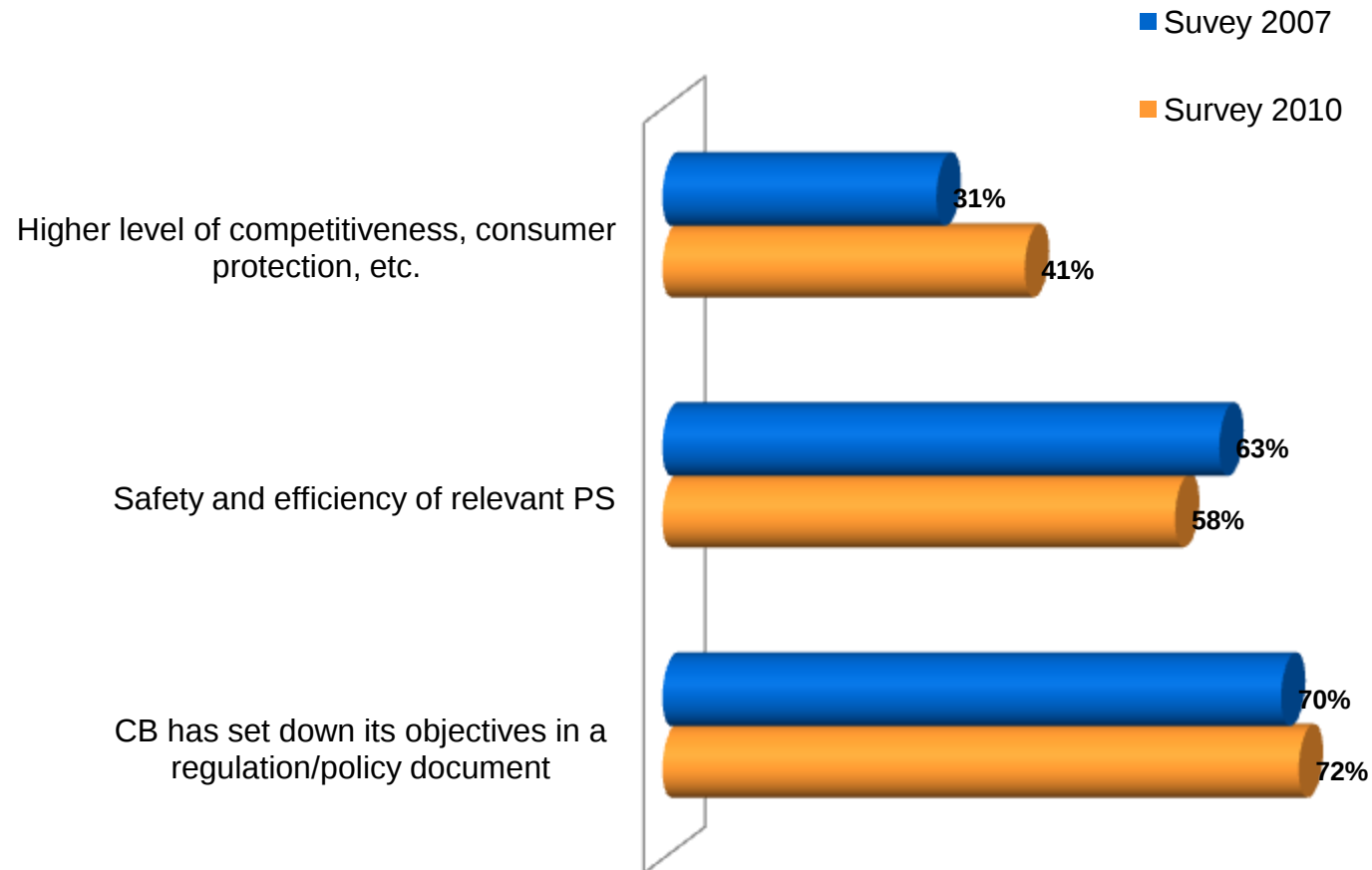
- Oversight
 - ✓ The central bank does not have clear legislative authority. Nor is secondary legislation (bylaws, circulars, etc.) implemented
 - ✓ The central bank does not disclose publicly its implementation strategies to achieve its objectives
 - ✓ The central bank in exercising its oversight role does not have the ability to carry out this function effectively, especially in terms of human and financial resources

Central Bank Empowerment to Oversee PSSS

Global Payment Systems Survey 2010



Objectives of PS Oversight Function Global Payment Systems Survey 2010



Lessons from Experience

Typical implementation problems

- Absence of a vision and a strategy
- Difficulty to move from the drawing board to actual implementation
- Technology-driven decisions (e.g. deciding on software before elaborating the vision and strategy) rather than based on business and users' needs
- Too many projects for too many systems (leading to lack of integration)
- Finding Payment System Experts: very few reliable international consultants and insufficient training facilities in the country
- Intra-organizational Politics (e.g. IT Dept. versus Operations Dept., Monetary policy dept. versus Operations)

- Inter-Organizational Politics (e.g. big banks versus small banks, public banks versus private banks, banks versus non-bank financial institutions)
- Excessive trust in the progressive forces of the market
- Ineffective Communication within Participant Organizations
- Insufficient scope
- Misperception of the complexity of the process
- Changes in Representation
- Affinity towards Operational Issues (deviating from the strategic approach)
- Questioning the Role of the Central Bank
- Relying on too many advisors at the same time!!!!!!!!!!!!

Reforming the National Payments Systems

General Guidance for National Payment System Development: a Road map to Dreamland (CPSS, January 2006)

Area A: Banking system

- **Guideline 1: Keep the central bank at the centre.** Due to its overall responsibility for a sound currency, the central bank has a central role in the development of the use of money as an effective means of payment
- **Guideline 2: Promote the role of a sound banking system.** Payment accounts, instruments and services available to end users are mainly provided by banks, which compete individually but often need to act cooperatively as a system

General Guidance for National Payment System Development (cont.)

Area B: Planning

- **Guideline 3: Recognize complexity.** Planning should be based on a comprehensive understanding of all the core elements of the system and the principal factors influencing its development
- **Guideline 4: Focus on needs.** Identify, and be guided by, the payment needs of all users in the system and by the capabilities of the economy
- **Guideline 5: Set clear priorities.** Plan and prioritize payment system development strategically
- **Guideline 6: Implementation is key.** Ensure effective implementation of the strategic plan

General Guidance for National Payment System Development (cont.)

Area C: Institutional framework

- **Guideline 7: Promote market development.** The expansion and strengthening of market arrangements is a key aspect of the evolution of the payment system
- **Guideline 8: Involve relevant stakeholders.** Encourage the development of effective consultation among relevant stakeholders in the payment system
- **Guideline 9: Cooperate with other authorities.** Effective payment system oversight by the central bank requires collaborative arrangements with other authorities.
- **Guideline 10: Promote legal certainty.** Develop a transparent, comprehensive and sound legal framework for the system

General Guidance for National Payment System Development (cont.)

Area D: Infrastructure

- **Guideline 11: Retail – give more choice to more people.** Extend the coverage and choice of noncash payment instruments and services available to end users by expanding and improving infrastructures
- **Guideline 12: Large value – business case leads, technology follows.** Develop a large-value payment system based primarily on the needs of financial markets and the growth in time-critical interbank payments
- **Guideline 13: Securities – plan securities and payment systems together.** Coordinate the development of the infrastructures for securities and large-value payments
- **Guideline 14: Retail, large value and securities – coordinate settlement.** Coordinate settlement processes for the core systems to effectively manage the interrelated liquidity needs and settlement risks among them

Thank you

**Payment Systems Development Group
The World Bank**

www.worldbank.org/paymentsystems