European Credit Sector Associations Response to CPMI consultative report on extending and aligning payment system operating hours for cross-border payments

1. Can the extension of real-time gross settlement (RTGS) systems' operating hours materially contribute to achieving the cross-border payments targets endorsed by the G20, especially in terms of speed? Please explain.

We believe there is not a single answer to this question. Indeed, we believe that the extension of RTGS operating hours may contribute to achieving the FSB targets particularly by facilitating provision of liquidity during longer hours and reduction of risks in respect of urgent high value payments, and so facilitate payments requiring immediate settlement in Central Bank funds for which instant payment systems are not suitable. In particular, we believe that an impact in terms of increase of the speed of carrying out cross-border transactions can be extended, however being difficult to reach the FSB target of 75% of payments to be available to the recipient within one hour.

However, we believe it is important to consider RTGS operating hours in the context of the overall payments and settlement infrastructure in the same monetary area and not just in isolation. This applies equally to incoming cross-border payments.

There are a lot of dependencies to which the extension of operating hours of RTGS systems can contribute substantially. Key factors are:

- Number of participating countries.
- Number of connected participants ("access" and "reachability").
- Supported currencies in an end-to-end view.
- Potential transaction numbers cleared and settled and related costs.
- Operating hours of banks/ FIs for sending and receiving payments.
- Willingness to extend working and business hours by banks/ FIs for processing transactions and to support necessary Money Market transactions, which can be a significant challenge.

However, speed is only one of the issues in cross-border payments, one of the blocks. Other significant issues are costs and lack of standardization. Physical branches under central banks and correspondent banking are both very expensive options for banks which is reflected in the price that end customers are paying. Also, investigations and recalls and returns are done in various ways and without clear SLA's which is again visible for end users mostly in a negative way. These are also reasons why it is hard for banks to step to a market where they use another central bank and currency. Lack of other banks in a market reduces competition, which is bad for end users and often visible in opening hours, costs and ways to co-operate in the market.

Before starting the initiative to extend the RTGS operating hours it should be evaluated if RTGS systems are able to fulfill the requirements and expectations of faster cross-border payments. Extending the RTGS operating hours does not lead automatically to a modern payment service like already existing instant payment schemes and solutions other suppliers provide.

We believe that the extension of real-time gross settlement (RTGS) systems operating hours can contribute to achieve the challenge of speed, but is not the only intervention that needs to be done to address the goal of having faster payments: for example , if we look at the RTGS systems, the adoption of ISO (Building Block 14 in the roadmap) will also help in terms of speed because it will mean greater straight-through processing with less need for manual intervention. A harmonization of AML/CFT rules (Building Block 5) will also decrease frictions and enhance speed.

The benefits of the extension of these systems' operating hours must be balanced towards the new obligations it will generate such as liquidity management, human resources or fraud risks.

In general, we believe that in the context of the G20 Roadmap, the market segment of retail payments is defined too broad and should be further sub-divided to be more meaningful for the assessment of the impact of individual building blocks on the overall targets. Payment use cases and demands around speed for cross-border payments significantly differ between consumers, retailers and large corporates. At the same time, extending RTGS operating hours will only benefit a subset of cross-border payments. The ambition and efforts required for achieving certain end states needs to be well balanced with the complexity and resources required to transform the overall cross-border payment landscape.

On a conclusive note, we believe that leveraging the whole payments infrastructure may prove to be a better solution than simply relying on the RTGS part and should certainly be considered. It is suggested that when doing this, factors to be taken into consideration should include:

- SWIFT GPI developments aimed at increasing payment speed, providing end-to-end tracking, improving transparency of fees and charges and maintaining a consistent data record. Substantial improvements have already been achieved with over 40 % of cross-border payments made via GPI being credited to the beneficiary within 5 minutes of transaction initiation and nearly 100% within 24 hours. Significant progress is still being made but currency controls in some countries remain a hindrance to speed. SWIFT's forthcoming Transaction Management Platform (TMP) should also assist with format conversion during the changeover to ISO 20022.and overall we believe this will lead to- further good progress in improving the cross-border payments infrastructure.
- Concentration risk from relying on one category of system including ransom attacks which are becoming an increasing threat.
- Other ways of addressing the problem such as more use of instant or near instant payment systems some of which already exist operating 24/7.
- Unintended consequences – a good example of this was the strengthening of due diligence requirements for correspondent banks which resulted in banks reviewing correspondent banking relationships and closing a significant number of accounts which in turn resulted in some countries having difficulty obtaining trade finance facilities on which they were dependent. Whilst not addressing this case specifically FATF's paper entitled "High -Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards" dated 27 October 2021 provides a useful analysis illustrating the need to identify and consider possible unintended consequences.

2. What additional actions would be needed by the public sector and/or private sector entities, beyond those described in the G20 roadmap (see Annex 3 of the current report), to facilitate the extension of RTGS operating hours and realise the benefits that could result from extended RTGS operating hours?

We believe that additional actions that may be needed in addition to those described in the G20 roadmap include:

- Definition and application of global processing rules and standards applied by all actors in the payment chain.
- Creation of a harmonized global legal payment framework including liability management, fraud and risk management.

However, we would like to emphasize how this question appears to be based on the assumption that a blanket extension of RTGS operating hours is desirable. However, in order to address it we believe it is necessary to analyze payments requiring individual settlement in RTGS central bank funds which are likely to be principally wholesale in nature, although we are aware that some RTGS systems have a greater proportion of retail and commercial payments.

3. **What benefits for cross-border payments other than speed do you perceive would accrue from an extension of RTGS operating hours? What additional domestic benefits for a jurisdiction do you perceive?**

Actually, the increase in speed is the only significant advantage. Further cost advantages can only be generated if standardisation (e.g. ISO format) or harmonisation of legal/bureaucratic hurdles takes place.

However, other benefits, particularly in the areas of customer service and cost reduction from a lower number of queries are more likely to arise from leveraging the overall payments infrastructure.

We would, however, like to emphasize that the improvements for the benefit of speed will come at a cost which will need to be well balanced with the cost target defined in the G20 roadmap. Whilst it can be expected that for the operator of RTGS systems a major part of the cost will be incurred for the initial transition to the desired end state, the major part of the incremental cost for the financial institutions is expected to be on-going cost related to operations, risk management and staffing.

4. **How well do the three identified end states capture key scenarios that individual central banks/RTGS system operators should consider as they assess current RTGS operating hours and plan for the future? What additional end states or refinements to the end states would you suggest?**

The end states and their order described in the consultative report capture the expected evolution of the global payment ecosystem as the infrastructures progress with connectivity and interoperability. That said, in our view the 1st end state should be the one to be pursued. Additionally, further initiatives should be considered that aim for the same targets and may already achieve satisfying improvements. In this regard, SWIFT gpi is an industry initiative which aims to improve cross-border payment handling in terms of speed, transparency and reducing frictions. SWIFT gpi data suggests that cross-border data flows using that infrastructure are already close to the speed defined targets: for example, nearly 50% of gpi payments are credited to end beneficiaries within 30 minutes, with 40% in under 5 minutes, and almost 100% of gpi payments are credited within 24 hours.[1]

1st end state: We believe that extending the operating hours on working days may improve the speed sufficiently. Indeed, it would yield a timeframe utilizable for a majority of countries, thereby providing banks and clients alike with a higher degree of both predictability and speed.

2nd end state: 2nd and 3rd end states have higher impacts and should not be pursued at this stage. These scenarios could be evaluated in the future, provided that benefits compared to the related cost-increase are proportional. This could probably be achieved better by using the existing instant/faster payments systems instead of the RTGS systems.

3rd end state: see 2nd end state.

In fact, it has to be considered that end States 2 and 3 go far beyond today's possibilities and needs for RTGS systems, even from a domestic point of view. Pursuing them at the background of a cross border payments perspective seems not so feasible over a realistic planning horizon and seems to miss the real market needs.

[1] https://www.swift.com/our-solutions/swift-gpi/about-swift-gpi/fast-transparent-and-trackable-payments

5. **Which end state, out of the three identified or another one you may want to consider, do you believe strikes the best balance between improving cross-border payments and managing the associated challenges?**

We believe it would be the 1st end state with regard to the concerned “low” transactions volume and the expected cost-increase.

Slightly extending the global settlement window may give the possibility of finding solutions to the challenges progressively. During the assessment for future steps, central banks/RTGS systems must also bear in mind that reducing costs is another important target addressed by the G20 report, therefore the costs/benefit balance needs to be taken into account when deciding the level of investment and the chosen path.

6. **If the RTGS system in your jurisdiction has not yet reached the end state signaled in the previous question, what time horizon (number of years from now) would you envision for reaching it?**

In the EU, the current TARGET2 has operational hours from 7.00h to 17.00h CET for customer payments.

After the TARGET2/T2S consolidation in November 2022, the indicative operating hours for customer payments will be extended, i.e., TARGET2 will open already at 2.30h CET. This new operating slot of 14.5 hours is sufficient to reach the 1st end state.

However, it should be considered that in the EU there are a number of RTGS systems at different stages of development and/or renewal. In general, we believe the 1st end state can be reached towards the second half of this decade.

7. **As a result of end state 3, which involves 24/7 RTGS operating hours, do you anticipate demand for 24/7 operations of RTGS systems in the future? If so, what do you expect to be the main drivers and over what time horizon do you expect this to happen?**

See answer to question No. 5.

Customers’ requirements in terms of speed need to be taken into account and those can be significantly different depending on the use case: at the moment not all payments need to be instant and the development of the instant or near instant payment systems will probably cover in the future most cases in which instantaneity is required.

The expansion of the RTGS operating hours to 24/7 is not meaningful, even due to the fact that the return on investment of such a change would not be realistic due to the costs of operating during night hours and the operational risks that this extension would pose.

However, if 24/7 RTGS operating hours will become a requirement, the interlinking of the instant/faster payments systems should be pursued. In addition to the speed target other targets like notification services to improve transparency are supported by instant payment systems.

We expect the main drivers to be very large payments, provision of liquidity and settlement of ancillary payment systems.

8. **Would your organization make use of and/or benefit from extended RTGS operating hours?**

N/A.

9. How useful do you view the global settlement window as a concept for considering the aggregate implications of extensions to RTGS operating hours in individual jurisdictions? What alternatives or refinements, if any, would you propose in order to consider the aggregate implications of extensions to RTGS operating hours in individual jurisdictions?

A global settlement window merits further research and it may have a secondary effect of driving cross-border payments to that window. Therefore, it makes sense when an interlinking of RTGS system in main currencies is supported. It should also be considered that with the current central money systems' opening hours in some corridors, a global settlement window would be possible during 5 hours in working days. For example, in some countries, employees start the day early around 7 a.m. EET (Eastern European Time). US banks who do not support these hours are hard to co-operate with. However, most of the cross-border payments work with network banking and those banks have extensive operating hours already. For funding of nostros it would be important to have good reach on central banks.

10. To what extent have the operational and risk considerations related to an extension of RTGS operating hours been adequately identified? What additional considerations would you consider relevant?

There is more work to be done especially for the 2nd and 3rd end state. E.g., opening the RTGS system on weekends has different consequences:

- FX deals must be possible on weekends, public holidays and/or 24/7.
- Money Market Operations must be possible on weekends, public holidays and/ or 24/7.
- Labor law, occupational health and safety laws must be adapted.
- Enhanced fraud prevention as payments will become faster final.
- The costs the banking system would go through due to the extension of RTGS operating hours.
- Another area is the existence of foreign exchange controls and governmental restrictions for certain national currencies. Extending opening hours for RTGS systems may increase the expectations for a faster payment whereas the processes and measures connected to national currency restrictions contradict with this target as well as the target of access. That said, it may also be beneficial to define the scope of the currencies that should be covered by each end state and thereby focus on those most relevant in the context of cross-border payments.

11. What would you identify as the top five considerations related to an extension of RTGS operating hours in your preferred scenario (Q5)?

All considerations to achieve the targeted 1st end state are fulfilled with the TARGET2/T2S consolidation in the Eurozone. However, as mentioned in Q5 there are several RTGS systems in the EU and so the answer to this question is different based on the monetary area.

We believe that important considerations to be made related to the 1st end-state are:

- Analysis of different demands within the market segment retail i.e., individuals, businesses and the public sector have different roles in the payment value chain and therefore different expectations and priorities.
- AML/CFT/Sanctions considerations.
- The impact on unit costs and internal processes of banks (i.e., extension of working hours for AML/CFT/Sanctions, Back Office, and IT support teams).
- Fraud risk consideration (increase of the time during which fraudulent payments can be initiated).
- Financial risk consideration (sufficient liquidity needs to be provided). Adding to this consideration: opening RTGS systems for longer may contradict with potential liquidity

management solutions being discussed in the context of instant settlement and tokenized payments which suggest that RTGS collateral in one location might be used to settle in another jurisdiction e.g., EUR used to settle USD. If system operating hours overlap, this may reduce the ability to use one currency as collateral to settle another because it is encumbered during that longer payment window. In essence, whilst financial institutions aim to reduce liquidity buffers to a minimum to reduce cost, overlapping operating hours will work against this ambition and keeps cost up. This is likely to be a complex situation with less predictable payments (more volatility) but spread out over a longer period (lower throughput) and exactly how these opposing forces affect buffers and payment cycles would need to be further assessed.

- Implementation costs consideration (the effective volume of transactions that will benefit from the implementations need to be considered).
- Resolution policy/Guidelines from central banks/regulators (they need to be reviewed).

All these points are matters of concern and must be addressed before taking any decision.

12. To what extent do the relevant considerations differ substantially depending on the end state being considered?

The considerations for the 2nd and 3rd end states differ extensively from those for the 1st end state.

The 2nd and 3rd end states cannot be meaningfully achieved in the RTGS environment. To reach them, the focus should be extended to the instant/faster payments systems.

13. For the top five considerations that you identified in Q11, what mitigation measures could be taken to address them?

Each of the considerations above will need an in-depth study to address it.

14. In your view, to what extent will the above measures require coordinated action by industry participants and/or support/guidance from authorities, such as central banks, standard-setting bodies and supervisors (as opposed to actions by individual stakeholders)?

We believe it would be necessary to:

- Define global payment processing rules and standards applied by all actors in the payment chain
- Establish a harmonized legal payment framework including liability and risk management questions.

For such a roadmap, an appropriate level of commitment and coordination is required at global and local level. A similar approach as in recent years seen for the LIBOR transition would be adequate.

15. If you are a stakeholder of an RTGS system that has extended its operating hours in the recent past, what were the key lessons learnt?

The largest RTGS system in Europe is TARGET2 which hasn't extended its operating hours except for certain ancillary system settlements in the recent past. However, whether further extensions are needed is likely to depend, at least in part, on other developments, particularly in relation to TIPS (TARGET Instant Payment Settlement) which is being steadily enhanced (see also answer to question 6). For instance, a current development is the migration of ACHs from TARGET2 to TIPS. Also, a Central

Liquidity Management system is being developed which will take over some functions currently on TARGET2.

From an EUR perspective TARGET2 and EBA EURO1, two main EUR clearing systems for High-Value payments, are going to extend their clearing opening hours for commercial and interbank payments with the migration to ISO20022 in November 2022 to a much earlier opening time. As this is on-going, these are some preliminary lessons learned: even if the majority of payments is processed STP, extended opening hours have impact on many “side-processes” which may not be automated or available outside of existing internal business hours. Banks need to carefully review and consider the impact, e.g. for exception handling like cancellations or compliance related activities like handling of filtering hits.

All the industry participants were not so well aware of the changes and that cumulates to the banks. It is a big chain that has to change. For example, ECB is currently busy with TIPS migrations, but clearing houses were not sufficiently informed about the change.

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