Questions for consultation

The following responses have been compiled by Government Banking on behalf of its customers and include input from HMRC and DWP in their role as end users of the payment systems.

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.

It is noted from the consultation that enhancing the speed of cross-border payments is an important ambition of the G20 cross-border payments programme. We consider that extending RTGS hours so the operating hours in more jurisdictions will overlap and the global settlement window extended will reduce friction in cross border payments and, in turn, speed up the cross-border payment processes.

With the introduction of ISO20022 standards, data should be richer and better structured which should also contribute to a smoother, speedier process.

Unfortunately, not all jurisdiction parties will move easily to option 3 (24/7), which is what is required to achieve the longest global settlement window. Extensions to operating windows by the regions will help but they are unlikely to overlap significantly unless they move to 24/7 e.g. EMEA night time would never overlap with AM day time and vice versa.

To give a more definitive answer to this question further details would be required about:

- the expected level of change in the customer journey i.e. the impacts on systems and processes of PSPs and end users including timing and content of reports
- potential increases in costs arising from operating over extended hours to see if these are outweighed by the benefits of speedier cross-border payments.

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?

The public sector (HMT and Government Departments) will need to consider the impacts of extending the RTGS operating hours on HMT's Managing Public Money polices, the processes used by HMT and Debt Management Office to manage public sector borrowing and the data that will be required for forecasting and reporting to support this.

As government is dependent on private sector PSPs to facilitate all payments/receipts including cross-border, the benefits they can achieve will be limited by the PSP's availability and range of services.

We will need to work with the PSPs to understand what changes are required to accommodate the extended hours in terms of software and operational processes and consider the impacts including:
- resourcing levels within government and supplier organisations i.e. will staff need to be available for longer periods

- available time for IT maintenance for both suppliers and government organisations, particularly if the move is to a 24 x 7 service
- SLAs held with contractor companies e.g. for IT support etc
- cost
- opportunities to increase automation for key parts of the process such as fraud detection and prevention of cyber-attack

As plans progress government will be interested in understanding the end-to-end customer journey, and implementation timelines so we can plan around peak periods and would welcome any high level worked illustrations.

We accept that there are likely to be challenges with extending the hours for RTGS payments that will affect both the public and private sector but believe that India and Australia have demonstrated with their own 24/7 RTGS systems that none of those are insurmountable. We suggest that aligning with those payment corridors that would be materially beneficial would be a good first step to wider adoption.

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?

Looking at the wider question of improving cross border payments, we consider that RTGS extension could play a key role in reducing costs, improving transparency of payments, increasing competition, and reducing transaction chains. DWP alone makes over 10 million payments per year so any improvements in this area would be beneficial. We do, however, recognise that initially any benefits will be offset by set up costs for suppliers and government to move to the new service.

Increasing the ease of settlement will increase competition in the market and encourage innovation. Harmonising standards and regulatory requirements will bring new players to market and may also provide potential for government to get more directly involved, in effect creating a 'make or buy' decision not currently available, thereby paving the way for disaggregating service requirements.

Overall RTGS could present greater control of funds, more accuracy, less risk, and less cost caused by delays waiting for the relevant operating hours. Being better connected and more aligned with other jurisdictions, with less delays for the receiving jurisdiction – should, it is assumed, also lead to increased benefit for EMDE's.

On the domestic front, an extended RTGS would seem a key enabler to realising additional benefits from the NPA as it could resolve the limitations currently experienced in Faster Payments of the deferred net settlement being only 3 times per day 5 days per week.

We would welcome further consultation around timelines for change to enable government to align our payment strategies and change programmes to include this work so we can ensure value for money, prevent re-work and manage customer expectations.

Any detail available regarding potential automation e.g. to prevent payment errors and detect fraud, the use of robotics and data analytics would also be valuable to us. It would help us consider the impact on treasury operations and look at how we could integrate the changes within our existing systems and internal processes.

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 presented are clear and provide the details of what would need to be changed for each. The example of Brazil illustrates this well. What seems to be missing is a clear assessment of all the potential benefits for each end state so they can be assessed against the input required in terms of resources, cost, and other impacts. This would help determine which would be the optimum end state.

The details provide a high-level indication of the impact the proposed end states could have on our existing operational processes. Further details will be required to complete that analysis, understand the impact on government's IT systems particularly in terms of timing, reporting requirements and overall capacity for change and assess these against the potential benefits

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?

As presented in this consultation, the ambitious response would be to follow those who have gone ahead and move to a 24/7 RTGS model.

End state 1 is likely to require only a relatively minor technical change and could be completed quicker. End state 2 would be more complex but has the advantage of still providing banks and end users downtime to deal with 'out of hours' activities. End state 3 may involve fundamental changes to systems (possibly a complete renewal for some banks and end users) as well as changes to staffing levels to cover the full settlement period, additional support activities and require additional focus on resilience.

It may be beneficial for individual central banks to identify the most favourable corridors for them and balance this with the cost/complexity of extending operating hours to match with them. For example, if extension of the existing meant that a high percentage of the jurisdictions could be covered and account for the highest volume, maybe this would be enough, and a 24/7 approach may not be warranted when balanced against the additional cost.

Settling finally and irrevocably between authorised institutions and across accounts at the Reserve Banks in real time – should be considered as an option. As close to real time settlement as we can manage would bring many of those benefits discussed such as reducing liquidity costs and settlement risks.

We believe it would be useful to consider 'piloting' to support the development of the requirements as this could reduce several risks.

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

Our banking providers and Bank of England are best placed to respond to this question

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?

There is certainly demand. The mass adoption of real-time payment systems around the globe is testament to that. The adoption of more 24/7 services has contributed to an environment in which many consumers, merchants, business models, and financial institutions expect or depend on being able to pay and settle immediately within and across borders. That extends to the way citizens and businesses want to pay and be paid by Government organisations.

Advantages for 24/7 are that Departments could provide a broader service to their customers. This includes removing the need to bring forward payments to ensure they are received by the due date and enable staff who are working outside traditional banking hours to be able to process payments as they arise rather than waiting for payment systems to be operational.

The concept of "immediate payment and settlement" is not a new one — cash is this same transaction after all — but the rapid growth of digital immediacy is setting a new standard, and that standard is driving expectation and demand for faster settlement periods, notifications and reporting.

It is difficult to assess when the demand for 24/7 will reach its peak, but the real issue is if banks and end users will be ready for it. At present, most of government's business processes are designed around the current payment timescales e.g. pensions paid overseas are planned to take into account the time the payment will take to reach the recipient and initiated accordingly. Government systems and those of our suppliers will need to be updated for same day payments and that will incur significant cost.

The ability to extend operating hours to 24/7 could be dependent on local market infrastructures and it is likely this will vary by country and jurisdiction. We do expect it to be easier for banks that are already working every day of the week as it will just be an incremental change to work all day.

A precursor to requiring a move to 24/7 would be to encourage or mandate the banks within that jurisdiction to develop a 24/7 model. The main drivers for banks to progress this work should be the need to have the right infrastructure in place to meet customer demand as it arises and avoid the loss of customers to competitors who can provide the service.

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

Potentially yes, but only if HMT agree to a change to their policy on Managing Public Money. For this to happen they would need to fully understand what the likely costs and risks would be and be able to prove that benefits could be realised for government as a user of the payment system and more widely by the Exchequer

At present, government payment processing times are defined within normal daily working hours and this is unlikely to change in the short/medium term. Any changes would significantly affect operations for government bodies, HMT Exchequer Fund Accounts (EFA) team and Debt Management Office so extensive analysis of the impacts in these areas would also be required.

Debt Management Office have indicated that their organisation, especially the International Debt Unit (IDU), would make use of and benefit from the extended RTGS operating hours. They believe the idea of cross-border payments being credited to provide availability of funds for the recipient within one hour of payment initiation, and the remainder being credited within one business day of payment initiation along with the other benefits it may yield such as increased opportunities for payment-versus-payment settlement of foreign exchange (FX) transactions, is something they could see benefitting the IDU.

Their view is that the incremental increase in operating hours outlined in the three scenarios is a sensible approach and they can see where End state 2 – would be of benefit for those jurisdictions that are within the same region due to smaller time zone differences and End state 3 - would benefit all jurisdictions; even those with the longer time zone differences e.g., where their working day starts as ours finishes.

In terms of the technical changes to existing systems, platforms and infrastructures, that will need to be carefully planned and deployed and the staffing needs that could also increase in order to cover extended operating hours

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?

In terms of risk and cost for payment transfers / settlements the extension of the global settlement window would be useful, but costs may outweigh those benefits for EMDE. Individual jurisdictions will need to consider the balance of cost versus the benefits of immediate settlement and impacts on economic growth.

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?

The extension of RTGS operating hours is a viable choice and provides the potential for a situation where most RTGS systems are working at the same time. We would hope our own Central Bank will determine the best way forward to facilitate more immediate settlement starting with those areas of greatest potential.

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?

We consider that the operational and risk considerations have been identified at a high level, but a more detailed review will be required by central banks and wider payment industry stakeholders to determine the overall impacts of extending the RTGS operating hours.

From a government point of view HMT will need to look at how the extended RTGS operating hours will conflict with the current Managing Public Money policy and consider what, if any, changes should be made to ensure government can achieve overall benefits. To do so, detailed discussions will be needed with HM Treasury Exchequer Fund Accounts (EFA) team, so they understand he implications of the extension options on policy and operational processes for Departments, Government Banking and HMT including cash forecasting, payment initiation, receipt monitoring, reporting, funding and reconciliation.

Other considerations could be:

- the impact on monetary policy and the degree to which the central bank will continue to exercise control over it

- RTGS systems were developed with different membership requirements, standards and technical requirements. Widespread adoption of the proposed end states may be dependent on the scope of membership/regulatory changes required in respective countries

- the impact of CBDC and how this might change the way settlement occurs and the demand for extended RTGS hours

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

We do not have a clear preference but have identified considerations that would apply to varying degrees for each of the scenarios:

- Costs including those arising from the need for technical system changes, increased operational burden (staff cover etc) and potential penalties imposed where departmental forecasting is incorrect.
- Implementation approaches; a 'big bang' implementation vs a phased approach. Implementing extended hours may need to be staggered in such a way that supports other significant initiatives in the payment's ecosystem, such as ISO20022 migration.
- Defining the extended day. How would the "business day" be defined? This decision may inform business day definitions of other payment systems which currently operate or will operate 24x7 and may have implications on other considerations (e.g., liquidity management, staffing, technology) as well as how to treat the value date of transactions processed
- Resources; what skills and expertise are needed to support RTGS participants/systems changes that are diverse and span many disciplines (e.g., operations, technology, treasury). Extended Hours may impact staffing requirements due to expanded product offerings, client base and geographic footprint.
- Technology; with systems having to operate in real time and be available for longer periods, any level of unavailability needs to be minimized. Longer payment windows could also impact various key components of the wider payments system architecture including payment initiation channels, payment processing engines and core banking platforms
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12. To what extent do the relevant considerations differ substantially depending on the end state being considered?

As above, the considerations are similar, but the extent of change will determine the importance of each

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

For some of the considerations the mitigations will be for the banking providers/Bank of England to determine. Government Banking and our customers would like to be consulted where there are impacts for end users i.e. on our payment processes etc and understand as early as possible the timeframes for change. This will allow HMT to determine policy revisions and if necessary, agree new processes/procedures

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 coordination is really important – we are all at some level participants in a complex ecosystem, and the opportunities and threats should be as broadly understood as possible

It is our assumption that the necessary cross-jurisdictional governance framework required to ensure harmonised rules and standards, both in definition and in implementation, will be significant, complex and expensive. Has this been factored in?

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

When CHAPS operating hours were extended, the change was communicated in good time and government organisations were able to consider the impacts on their business processes. Discussions were held with the Bank of England and HMT to agree timing for key activities, and these were implemented smoothly.