Feedback by ING Bank
13 January 2022

Questions for consultation:

The CPMI is inviting comments on this consultative report and the questions set out below. Comments should be sent to the CPMI secretariat (cpmi@bis.org) by 14 January 2022. All responses will be published on the website of the CPMI. Commercial or other sensitive information should not be included in the submissions, or may be included, with redactions for publication clearly noted.

General Comment:

Overall question we have with this consultation is whether the perceived benefits from the proposed increase in overlapping hours will actually provide the benefits stated. These are not sufficiently substantiated, but seem to be taken as a given at the initiation of the report. We do not see the benefit of Speed in itself as result of increase of overlapping hours as it in essence will only create a larger window in which payments can settle.

The question is whether this overlap is needed/required as the most important window to settle payments is during day time for the respective currency. And that window is already sufficiently available in the respective currency for single currency business. Increasing opening times in weekends is another topic, as that would increase the window to different days which are currently not available.

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 do not believe that the extension of RTGS systems' operating hours may materially contribute to the targets as endorsed by the G20, mainly as it t is not about the speed of payments It is more about an extended window to settle transactions and providing same day value/availability of funds for our client base and their counter parts.
There are two main aspects to consider:

1. Increasing the overlapping hours will expand the window in which cross border and cross currency business can take place, but will not necessarily increase/improve the speed by which the transaction is executed.
2. For single currency transactions the overlapping hours should not be relevant for the window but are much more depending on the operating hours of the bank who operates in another time-zone. The speed however is much more depending on the available links between sender and receiving bank. If this link depends on (multiple) correspondent banking links, the speed will be negatively impacted and will not necessarily increase if RTGS systems have larger overlapping hours.

Speed in cross border payments will much more benefit from increased possibilities to hold direct connections in payment systems in other jurisdictions. As long as access to those systems continue to be behind correspondent banking relations, the speed will not greatly improve.
We do see potential advantages for our client base, especially for corporates and FI's:

Extension has the potential to optimize treasury and cash management for corporates which have substantial international payments business originating from transactions and import/export trade with counter parts.

Especially where urgency of delivery of goods and services is conditional or relevant for these corporates the extension might have positive upside for their own logistic and business model. This is however not fully dependent on overlap of opening hours, but also on simple opening hours for a single currency. Here we see especially E-commerce and digital purchasing as an important driver to work towards a 24x7x365 availability.

To conclude, in our opinion achieving the cross-border payments targets endorsed by the G20 is more a matter of timely delivery of the payment belonging to the transactions than to speed as such.

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?

- Investigate in what way single currency business is impacted with regards to speed and available window outside the overlapping hours of relevant RTGS in the jurisdiction of the sender and receiver.
- Investigate in what way speed of single or cross currency payments is impacted by an increase in overlapping hours of RTGS.
- Investigate whether an extension of RTGS hours will also lead to the development of a mature market for funding and liquidity management in those extended hours for parties operating from a different jurisdiction / time zone as (non direct)in the RTGS.
- Investigate in what way an increase in possibilities to participate directly in currency payments systems (from other jurisdictions/parts of the world) can address the same frictions as discussed in this paper.
- Investigate in what way the effective use of system overlap is limited by the fact that part of the overlap will be at times where both systems operate in different value days.

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?

An extension of hours and as such an increase in overlapping RTGS times will increase the possibility to manage FX positions and exposure as result of cross currency payments business.

Most likely, the extension of opening hours of the 'home' RTGS will increase the operational business hours for all other currencies as well (for those banks who do not yet offer those services) and as such increase services in foreign currency business.

Furthermore, please see our reply at question 1.

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 concept of value date is currently not included in the scenario's as only the calendar day is mentioned. Consideration should be made with regards to the impact of opening hour extension

relative to the activities connected to the management of the currency position. Currently many processes focus on the later part of the day in order to manage liquidity and close books. In order to minimize impact a consideration could be made in the moment at which a shift in value date actually takes place. This would also cater for ensuring a sufficiently available liquidity market for managing and closing positions, if that switch would continue to take place at 'sunset' time in each jurisdiction. In that way the impact of extending opening hours would be far less whilst the opportunity to increase the overlap hours will be exactly the same (but easier to achieve due to lower impact).

The most important focus should be to use the follow the sun principle, where a first step is indeed the extension of operating hours for the current working days. Conditional is management of the liquidity positions and creating a basis for same day value services to our clients, as without fully functioning liquidity markets, the extended hours could not be used fully without creating substantial funding and liquidity risks.

Laying this foundation would be to subsequently extend with the 2 current non-working days, but based on our client base and needs to service outside working days. This whole exercise has to take place in conjunction with possible cost reduction potential in the execution of cross border payments. In parallel the degree of uptake and launch of Instant Payments will determine the need for extension as mentioned above.

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 do not believe that the extension of opening hours of an RTGS is the main factor in improving cross-border payments as such.
We do believe that the extension of opening hours for RTGS will be needed due to the availability of 24x7 Instant Payments as this will be the only way in which banks will be able to manage their positions and liquidity effectively. As such the ultimate end state would be 24x7, be it that eventually this will be driven by a business case providing sufficient benefits for society as a whole.

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?
Technically we expect that the currently built system would already enable a close 24x7 operations. But the impact of such a step is huge and it will take a number of years before there is a 'society business case' for such a step.
Given ING's prominent presence in the Euro zone the extension of opening hours in Target 2 and ancillary systems as per November 2022 is already a good step in this direction.

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?
The need for RTGS to be open is driven by the need to manage currency positions and liquidity. As soon as the amount of business in the respective currency outside current opening hours (24x7 Instant Payments) will increase to levels that risks and liquidity are no longer manageable, then RTGS will need to increase it's opening hours as otherwise banks would be forced to limit the use of such 24x7 available payments systems. It's hard to say when we will reach this state.
Furthermore demand for 24/7 operations depends on client needs based on:

    - their daily operations/footprint in which countries and time zones they are operating and/or do business with import/export relationships
    - How much countries they are operating in themselves
    - And the degree of sophisticated treasury management to effectively manage their own cash management in the different currency accounts

Further digitalization of services by corporates and the need to support instant and/or real time execution of payments are also important factors to keep in mind.
Especially E-Commerce increases the demand of 24x7x365 availability.

8. Would your organisation make use of and/or benefit from extended RTGS operating hours?
In light of our answer to question 7, yes we would make use of it as we believe such a step would only be taken if there is a clear benefit for the wider market, which would also force us to use the RTGS at those times. ING would therefore only invest if our client base would benefit from it, with focus on our geographical footprint and based on a sound financial business model, incl. possible impact on fees/charges to be paid by the customer base.

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?
As stated before, we do not think that the concept of overlapping opening hours is essential for the cross border payments business, other than that it would offer a better window for management of cross currency risks, PVP settlements and improved same day value services.

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?
In case business processes would be adjusted to make use of the overlapping operating hours in order to manage risks of cross currency business then the non-availability of this overlap could increase the risk for that business.
Furthermore the following areas within the banks are impacted from an operational perspective:

- Possible system/applications changes in payments, reporting, C&LM and booking processes
- Extended/additional Customer Support for inquiries/investigations
- Extended/additional Operational staffing for exception processing
- Extended/additional Cash & Liq mgt activities, i.e. funding/defunding

Given investments and costs involved this might have impact on the fees/charges to be paid by the banks' customers.

11. What would you identify as the top five considerations related to an extension of RTGS operating hours in your preferred scenario (Q5)?
We have identified 4 main considerations, not necessarily in this order:

- Nature and footprint of ING's customer base and need to extend our service offering in these geographies and corridors to facilitate their business and working capital flows
- Real customer experience based advantages on cross border payments business on top off/next to current initiatives, e.g. GPI
- Real financial business case not covered by current cross border and cross currency initiatives like GPI
- Further launch and extended usage of 24-7 Instant Payments as a catalyst from a domestic perspective and not so much from an overlap perspective.

- The rise of the CBDC's might also put pressure on the service levels of the traditional payment rails to extend to a 24/7 window

12. To what extent do the relevant considerations differ substantially depending on the end state being considered?
In our opinion the considerations do not represent a subject on their own, but work in relation to each other and should in that context be looked at all together for all end states.

13. For the top five considerations that you identified in Q11, what mitigation measures could be taken to address them?
This is heavily depending on the business case to extend opining hours and uptake in the market. We expect that extending of opening hours will come with substantial costs for the financial eco system which do need to be balanced with the added value for society as a whole.

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)?
In our view improving cross border payments requires full coordination, harmonization and alignment across the industry. But domestically (currency level) this depends more on local jurisdictions and monetary legislation and as such extension of opening hours could take place without full alignment.

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?

- While we have limited experience in extending RTGS opening hours yet, we do have experiences built up regarding Instant Payments, especially in our 2 home markets NL and BE.
- For the UK we have experienced extended opening hours where the main impact was felt on the need for staffing of the extended opening window (increased costs – limited benefit).
- Need for forecasting model in cash & liquidity mgt incl. funding/defunding due to mismatch between Instant Payment capabilities and RTGS opening hours.
- We have learned that careful consideration to Corporates is needed. Mainly to balance added value of real time/Instant Payments depending on their business models vs the costs and impact.

In light of these hurdles we have seen in relation to 24x7 and Instant Payments, we would like to mention one additional aspect. Also because these will play an important role in improving cross border payments where the same aspects will certainly become important to address.

- Sanction screening is a hurdle for cross SEPA Instant Payments as it results in too high numbers of false positives. This still needs to be addressed as it gives a negative customer experience, because of the time limit getting overdue.