SWIFT response – CPMI call for comments on payment system operating hours to enhance cross-border payments

Introduction

SWIFT is grateful for the opportunity to respond to this call for comments on payment system operating hours to enhance cross-border payments. SWIFT and its global community play an important role in facilitating cross-border payments and is working hard to help eliminate some of the frictions that exist, to bring about instant payments across the globe. We see operating hours of some RTGS' as one of the key impediments to achieving an end state of frictionless instant payments. Whilst we accept there are significant challenges for such RTGS' to overcome, especially in moving to end state 3, we believe progress does need to be made in this area if we are to see real change in the speed of the end beneficiary's account being credited

About SWIFT

SWIFT is a global, member-owned community cooperative and the world's leading provider of secure financial messaging services. Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories. SWIFT also provides robust, reliable and secure financial messaging solutions to more than 235 payment, securities and treasury infrastructures globally. This includes more than 80 domestic high value payment systems or RTGS communities re-using SWIFT infrastructure for domestic payments as well.

While SWIFT does not hold funds or manage accounts on behalf of customers, we enable our global community of users to communicate securely, exchanging standardised financial messages in a reliable way, thereby supporting global and local financial flows, as well as trade and commerce all around the world. This includes payments, securities, trade and FX flows. As the registration authority for ISO 20022, we are also committed to creating global standards, and support local market practice creation to ensure streamlined financial information flows across borders.

We relentlessly pursue operational excellence and continuously evolve our global network in line with our vision for instant, frictionless end-to-end transactions. We remain committed to streamlining end-to-end transaction flows, promoting interoperability between market infrastructures and other community members, and reducing friction and fragmentation in cross-border transactions with the application of a harmonised set of solutions, services and standards.

Questions

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 an extension to RTGS operating hours would make a significant and tangible difference to the settlement of cross-border payments, especially in terms of speed. While there has been great progress in removing frictions and increasing speed in the cross-border space, there are still obstacles domestically in the beneficiary countries where operating hours can hold up the processing of payments. While 78% of payments take less than five minutes to process in flight by any intermediary banks, only 33% of payments are processed that quickly by beneficiary banks. Furthermore, SWIFT data shows that on average 40% of the delays in the funds reaching the beneficiary account are found to be within the receiving country, with RTGS operating hours being a contributory factor to this.

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?

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?

   We would foresee benefits for domestic payments through an extension to operating hours as these RTGS systems operate on a domestic level in a first instance, in addition

to smoother and faster cross-border payments. There would be greater predictability of payments, thereby improving the cash position of corporates who would have greater visibility of their treasury positions. FIs would benefit from the greater assurance and predictability.

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 three end-states reflect the range of possible outcomes to aim for and represent different levels of ambition. A consideration that should be factored in is the difference in experiences according to the direction of travel of the payment. SWIFT data shows that payments heading west to east are slower than those heading east to west, due to the nature of payments queuing ahead of a RTGS in the east opening for business. This systemic hold up could be reduced to different degrees by the two most radical end states. We notice that some domestic RTGS systems also have a 24/7 instant payment system where lower value transactions can be executed. The future increase in value allowed into these instant payment systems can influence the need of the three end-states described and this is also influenced by the amount allowed into the instant payment system. (TIPS: 100K€ versus Faster Payments 250K£)

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?
   End state two would strike a balance between achieving the desired outcome as much as possible whilst taking into account the infrastructure, liquidity and business flow concerns of MIs and FIs. But clearly, end state three would provide the best results in terms of speed and a reduction in frictions. Similar to our response on Q4, it is also worth noting that for the wholesale space, the extension of business hours within working days is going to be more relevant vs in the retail space where there is a greater need for 24/7 availability.

Scenario 3

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?

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 will be benefits to a wide segment of customers from a 24/7 approach, but there will be considerations that need to be considered such as the impact on required technology, business flows and liquidity needs. It is also important to recognize the cost for the banks to process for all businesses flows and retail 24/7 to be aligned with the RTGS. Today certain banks process specific flows such as retail P2P 24/7 but not high value flows, so this cost should also be considered and included in the business case of the RTGS.

8. Would your organisation make use of and/or benefit from extended RTGS operating hours?
   Our community of global banks would benefit greatly from extended operating hours and we would see a considerable reduction in the time it takes for the settlement to take place. This would benefit all FIs, not just one organisation. Also the customers of our banking community would benefit as trade in going on 24/7 and can now be settled in central bank money.

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?

There are number of legs and elements to global settlements, some are domestic and entirely dependent on the operating hours in individual jurisdictions. Maximum effect would be achieved by common agreement to extend operating hours to avoid a patchwork approach where the benefits are not realised in every jurisdiction.

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 should be considerations of the required infrastructure, resources, business flows and liquidity needs, when looking at an extension of RTGS operating hours. Moving to 24/7 often leads to an architectural redesign of the infrastructure in order to guarantee flawless and continuous operations when changes (e.g. rolling upgrades) are performed on the system. Adopting 24/7 also implies the redefinition and reorganisation of a number of operational processes including community testing as well as Disaster Recovery Infrastructure take-over exercises. A move to 24/7 therefore represents a significant endeavour of which the costs need to be carefully weighed against the benefits. Due to the higher costs for the RTGS and potentially for the banking community to manage operations, liquidity, collateral etc could increase the cost of cross-border payments. But there are indeed also significant benefits; like faster access to liquidity by the smaller merchants during the weekends and out of hour e-commerce.

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

    As stated above and in question 5.

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

    There is a significant difference between end state one and end state two in terms of the requirements surrounding liquidity and resources. There could be a merit in differentiating between different kinds of payments (e.g. trade, wholesale, consumer etc.) which may require different considerations.

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

    To allow guaranteed and rolling upgrades, a new end state infrastructure need to be built with strengthened resilience (e.g. use of "3-node" machines to guarantee the functioning of at least 2 nodes whilst maintenance is performed on the third node).

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)?

    To achieve a full effect and widespread change, we believe that a partnership approach between industry and the authorities will deliver the best results. Guidance from regulators and standards-setting bodies will provide the industry with a clear roadmap, backed by expectations on delivery. There should be an alignment between the different RTGS systems on the approach so that certain corridors are not favoured over others. In addition, collateralisation and security are crucial elements in the cost and benefit evaluation of the extension of business hours, and definitely in the 24/7 scenario.

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?

    We are stakeholders in many RTGS systems and have seen the benefits to the global financial community of extending operating hours.

ENDS