



## The relevance of the CPMI for the performance of functions of central banks

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The Committee of Payments and Market Infrastructures (CPMI or CPSS as we used to call it) is one of the three committees that report directly to the GEM, together with the Markets Committee and the Committee on the Global Financial System.

The subjects that typically are addressed by the CPMI are essential for economic and financial activity. After all, financial market infrastructures (FMIs), which represent the core area of interest of the CPMI, are the foundation over which markets operate, and the global financial system would of course not exist if it were not for them.

Central banks crucially depend on the healthy and efficient operation of FMIs to fulfill most of their functions. FMIs intervene in the different channels of transmission of monetary policy. Well-designed FMIs avoid contagion among markets and participants; hence they contribute to financial stability. In addition, FMIs are key towards the objective of maintaining the trust of the public in the currency as medium of exchange, in particular in its manifestation in the form of electronic payments and settlements.

### The CPMI as an important yet discreet committee

In spite of the central role of the topics covered by the CPMI, it does not receive as much attention from the general public as it deserves. This apparent inconsistency is due to the nature of the CPMI's working subject, the FMIs. They are crucially important for day to day financial and economic activity, and yet successful FMIs tend to be inconspicuous.

Just as the plumbing of a building is essential for making it livable, financial market infrastructures are essential for economic activity to take place; and just as with plumbing, people only notice them when they malfunction.

The criticality of payment and settlement systems stems from the fact that economic and financial activity would be severely impinged without their role as enablers of efficient resource allocation. In addition, modern societies expect payment and settlement systems to operate in a continuous (24/7), efficient and secure manner. This is what you need to provide timely transactions finality, i.e. the essential legal certainty in payment and settlements of transactions.

But earning trust in payment and settlement systems is an arduous task. As I said, when these systems work properly, users typically fail to notice them. A malfunction, however, draws attention to them immediately and dents confidence quickly. So the task is not only arduous, but also thankless.



Obviously, a significant disruption on such important systems can result in terrible consequences. Uncertainty and loss of confidence due to such events can even result in bank runs or in major disruptions to routine transactions.

These potentially terrible consequences imply that you have to build practically infallible systems, supported by plenty of redundancy, and ensure that the recovery of an unlikely malfunction must be as immediate as possible. Technological advances have indeed played an important role in this regard.

Commitment to perfection, thus, is a key element of everybody involved in the CPMI; and I think we could say that this has been the case for its 25 years of existence. No doubt we can draw this conclusion if we only look at the list of the Committee's chairpersons, Wayne Angell, William McDonough, Wendelin Hartmann, Tommaso Padoa-Schioppa, Timothy Geithner, William C Dudley, Paul Tucker, and now Benoît, all of whom have had brilliant careers in the international financial scene.

## Opportunities and challenges posed by innovation to central banks and the CPMI

Innovation has allowed payment service providers to offer products hard to imagine some decades ago. Today, it is possible for people to transfer funds anytime among their bank accounts in a matter of seconds.

Innovation also puts pressure on payments industry participants and on policy makers, since people now constantly expect new payment alternatives tailored to their needs, where delays are just out of the question.

On the side of payment service providers, this pressure requires hard work to identify the key elements that are necessary for payment services to operate at extremely high service levels and speed, while keeping up with ever-growing volume.

On the side of authorities, particularly central banks, this scenario calls for the design of policies that embrace innovation, but at the same time consider the challenges that emerge when the objective is to provide reliable payments and settlement systems with full legal certainty under extremely demanding environments.

In meeting this requirement, central banks must evaluate innovation from a perspective in which financial stability has to be preserved, the central bank retains the reins of monetary policy, and the transmission channels are not disrupted.

For instance, in the case of digital currencies and other payment mechanisms that might come up, central banks should analyze the security of such schemes and their effects on the confidence in other payment instruments. We should closely monitor the adoption of new technologies by the population and gauge its impact on financial intermediation, and of course on central banks' control over monetary conditions.

The CPMI, in its analytical and standard-setter roles, provides central banks with information and guidelines for them to be better prepared for the risks and challenges that new technologies pose.



## FMI's and the functions and roles of central banks

Broadly speaking, the implementation and transmission of monetary policy are intimately linked with FMI's functioning. Thus, well-functioning FMI's are a necessary condition for an adequate fulfillment of central banks' core mandate.

In addition, FMI's are an excellent thermometer for assessing financial activity. In fact, financial market stress usually is initially manifested in FMI's. Thus, closely monitoring FMI's helps central banks to obtain early warnings that could be critical to identify threatening conditions that, if left unattended, could have dire consequences in the stability of the financial system.

In this way, the analytical work provided by the CPMI crucially contributes to the well-functioning of FMI's, hence to financial stability, monetary policy implementation, and to enhance people's trust on the fiat currency system.

## The challenge of cyber-security

An unpleasant face of the interaction between technological change and the evolution of payment and settlement systems is the increased risk of cyber-attacks. We have to be up to the challenge of deterring, detecting, and stopping such actions.

Given the speed at which FMI's have grown, they have become systemically important, but also they have become attractive targets for hackers. Individuals seeking the disruption of financial systems, and even terrorists, are more likely to aim at them, because a serious disruption of a large FMI can generate systemic effects and carry catastrophic consequences. Criminals are also more likely to target them, given that if penetrated they could engineer juicy fraudulent activities and/or launder money.

This means that FMI's require constant evaluation, so as to ensure that they are at least one step ahead of criminal intent and to continue to buttress protection in light of impending threats from those who would seek to disrupt them. Like in some sort of Red Queen's race, security solutions optimal at one moment in time can rapidly become obsolete.

As authorities, we take part too in this relentless race. But I am certain that we will continue to embrace innovation and successfully face the challenges that come with it.

## Conclusion

To sum up, properly working FMI's are essential for society to fully reap the benefits from financial and economic activities within and across borders. This entails very hard work in order to earn confidence, reduce transaction costs, and enable the efficient flow of transactions. The work gets even harder (and more interesting) as technological advances offer new possibilities in terms of better payment and settlement services in tandem with new risks that have to be curtailed. And this in the context of a new cyber-society that counts on instantaneous service, that accepts no failure and demands full legal certainty.

I have no doubt that the CPMI is performing an invaluable service; it has generated a global culture of safety and efficiency, in a field in which there is no margin for error, but at the same time there are insufficient expressions of appreciation about what it does. The CPMI has to excel in performance, without the expectation of broad social recognition for your achievements. Be assured that at least all



the participants at the GEM are aware of the critical role it plays, and that we all highly value its many contributions. Congratulations and continue with this hard, and socially indispensable, work.