Welcoming presentation

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Good morning, ladies and gentlemen. It is a great pleasure for me to welcome you to the BIS for this global conference on managing change in payment systems. Apart from our Annual General Meeting we do not have many opportunities to assemble the global central banking community in Basle to discuss issues of common concern. I was therefore pleasantly surprised by the positive response we received to the invitation which we sent out during the summer to central banks around the world to participate in this conference. We have over 80 countries represented here today from central banks from all geographical regions. Your presence testifies to the importance that your institutions attach to payment system reform as well as to the increasing importance of central bank cooperation in this area, not only at the regional but also at the worldwide level.

Why payment system issues are important to central banks

Payment and settlement issues are important to central banks for various reasons. In many cases, central bank statutes define explicitly or implicitly the central bank's responsibility to promote the "smooth flow of money" or to ensure efficient "clearing of payment instruments". Indeed, in recent years the so-called oversight of payment systems, particularly those that may give rise to systemic concerns, has been made more explicit in statutory provisions in a number of countries.

But irrespective of any specific references in central bank statutes, the oversight functions of central banks include a number of formal and informal arrangements through which they are involved in payment and settlement arrangements in their country. Apart from any explicit regulatory or supervisory responsibilities, central banks can be directly involved as, for instance, operators of interbank funds transfer systems such as an RTGS system or an ACH. Many central banks also operate a central securities depository, typically for government securities, as well as a settlement system for the transfer of these securities. Operational involvement can also result from the provision of account facilities and other settlement services to banks or clearing organisations.

Indirect mechanisms through which the central bank can exert influence over payment systems can include the operation of monetary policy, the provision of liquidity facilities, participation in industry associations or payment system consultative bodies, the central bank's role as supervisor of individual institutions that participate in payment systems or simply its general moral authority.

I think it is safe to say that payment system oversight is increasingly coming to be recognised as one of the key central bank functions. The major function of a central bank is, of course, the conduct of monetary policy with the ultimate goal of contributing to macroeconomic stability, particularly with respect to low inflation. The other principal goal of the central bank, given its potential role as lender of last resort, is financial or systemic stability. This encompasses its involvement in the supervision of banks and of financial markets more generally and its function of payment system overseer. All these various functions are, of course, intricately related, as the recent period of financial market turmoil has underscored.

Increasing concerns about payment system risk

One reason why payment systems are so important to financial stability is the fact that they are a potential channel for the transmission of disturbances. This was illustrated amply in earlier episodes of financial instability at the end of the previous century and the beginning of this century when pressures on the banking system often originated with the inability of banks to fulfil their settlement obligations in the clearing house. Since then, of course, various safety nets have been built into our banking systems so that the occurrence of individual bank defaults and their possible negative repercussions on the banking system as a whole have been reduced. However, in the past two decades the combined effects of technological advance and deregulation of markets have fuelled a substantial growth of financial market activity – activity that is increasingly global and increasingly innovative. At the same time there has been an understandable reluctance to strengthen – or even maintain – the safety nets to cope with this activity because of the moral hazard implications.

This has led to a growing conviction that the financial market's infrastructure, which of course includes payment arrangements, must be made robust enough to cope with volatility and shocks. As recent events have demonstrated, payment and settlement systems must now be designed so they can withstand the default of one or more participants.

The task is a major one. The impact of technological advance, deregulation, innovation and globalisation on payment systems is perhaps best illustrated by the spectacular increase in the total value of payment transactions. Figures collected by the CPSS indicate that the total average turnover in large-value funds transfer systems in the Group of Ten countries equals about USD 5,000 billion per day. Turnover in securities settlement systems in the same group of countries is approaching USD 1,800 billion per day, of which about USD 150 billion per day relates to cross-border transactions. The total value of global foreign exchange transactions has recently been estimated by the BIS to equal about USD 1,250 billion per day, while S.W.I.F.T. has calculated that the average value of payment instructions transmitted over its network is of the order of USD 2,500 billion per day. Finally, the average daily value of derivatives transactions, including both those executed on organised exchanges and those on the over-the-counter markets can be estimated at about USD 1,500 billion. These are indeed astronomical figures. Given the credit and liquidity risks to which market participants and, in some cases, system operators are exposed in the process of clearing and settling these transactions, it should be no surprise that central banks have become genuinely concerned about the efficiency and safety of the various procedures involved.

Initiatives taken by the Committee on Payment and Settlement Systems

Since there are participants from over 80 countries here today, I think I can safely say that together we represent virtually every conceivable combination of economic and cultural backgrounds. Inevitably this diversity affects the way we approach payment system change. As I am sure we will learn during the conference, there are differences in both our objectives and the means by which we achieve those objectives. And yet the striking feature which emerges time and time again from discussions on payment systems is how much we also have in common. In this field, as indeed in others, central bankers can learn a great deal from each other.

Joint work by the G-10 central banks on payment system issues started in 1980. The history of this work reflects the changing nature of the G-10 central banks' concerns about payment systems. Initially the rapid growth in the size and complexity of payment systems was seen as a largely technical matter, and central bank discussions took place in a group that was essentially an offshoot of the computer experts group. The transformation of that body into the present senior-level Committee on Payment and Settlement Systems in 1990 was a result of the growing realisation that the risks in payment and settlement arrangements posed a significant threat to financial stability. Payment systems were not only a technical matter but also went to the very heart of central bank policy concerns.

Under the active and enthusiastic chairmanship of Mr. McDonough, the Committee (the CPSS) has played a major role in recent years in ensuring that the world's payment and settlement arrangements are safer and stronger and therefore less likely to disrupt the stability of the financial system. Let me mention just three areas to illustrate the range of work undertaken by the CPSS. First, the strategy to reduce the risk involved in settling foreign exchange deals – an area of growing relevance to all of us given the globalisation of markets. As many of you will appreciate, this work has been of major importance not just in encouraging individual commercial banks to adopt safer practices but also in spurring the world's major commercial banks to develop new multicurrency netting and settlement arrangements, a development that is likely to have a major impact on the future shape of correspondent banking.

The second area I would like to mention relates to securities settlement systems. Earlier work on delivery-versus-payment mechanisms and cross-border securities settlement resulted in an initiative to improve the transparency of these arrangements – the so-called disclosure framework for securities settlement systems. This is a good example of getting the market to, in effect, assess itself in order to bring about better management of risk. This disclosure framework was created by a group that was perhaps unique in the breadth of its membership – set up jointly by the CPSS and the securities regulatory body IOSCO, the group consisted of central bankers, securities

regulators and market operators not just from the G-10 countries but also from major securities markets around the world.

Finally, to illustrate that the CPSS has been taking a closer interest in retail payment systems as well as the wholesale systems that have traditionally been its focus of concern, you may recall that last year the CPSS was largely responsible for an extensive analysis of the possible impact of electronic money. Many of you are regular contributors to the twice-yearly survey of electronic money developments that the CPSS Secretariat here at the BIS produces and I would like to take this opportunity to thank you for sharing information about what is happening in your country. The survey is very useful for us at the BIS, and I hope for you too, in monitoring the development of electronic money schemes and it shows clearly that, although electronic money is still in its infancy, the seeds of its growth are spread widely around the globe.

The Basle approach

Over the years the G-10 central banks have strengthened their cooperation by setting up a number of standing committees. The CPSS is now one of three high-level committees that report directly to the G-10 Governors – the other two being the Basle Committee (concerned of course with banking supervision) and the Euro-currency Standing Committee (concerned with the operation of financial markets). Between them the three committees thus cover what we might call the three pillars of the financial system – financial institutions, the markets they operate in and the systems they use to settle their transactions. Each committee, chaired by a senior central bank executive, studies and analyses developments in its respective area of responsibility and, when appropriate, proposes to the Governors specific lines of action.

Let me use the opportunity here to briefly describe to you the so-called "Basle approach" to central bank cooperation. This approach applies not just in the area of payment systems but also with respect to banking supervision, financial developments and, indeed, to monetary policy issues. The important point I would like to make is that the BIS is not a regulatory body. Rather we provide a platform for central banks to regularly meet in order to exchange views on specific matters of interest and to develop common approaches. Examples of joint policy action in recent years include capital requirements for banks, minimum standards for cross-border netting schemes and recommendations to improve disclosure of banks' exposures to trading and derivatives activity. These proposals are endorsed by the G-10 Governors and published, after which they are implemented in each country by the respective central bank (or other regulatory authorities).

The various G-10 central bank committees have also developed their cooperation with other international regulatory bodies such as IOSCO and the International Association of Insurance Supervisors in order to develop common strategies and policies – I mentioned one of the joint CPSS/IOSCO exercises a moment ago. And the various committees have also developed working relations with individual central banks outside the Group of Ten and with regional central banking groups in order to promote the global acceptance of their recommendations. This flexible, multidisciplinary and increasingly global approach has proved to be very efficient and flexible and has allowed progress to be made in key areas of central bank concern.

You may have noted that I have not mentioned the provision of technical assistance as a BIS role. Indeed we do not consider this to be our area of expertise or responsibility. Our focus is on promoting interaction and cooperation between central banks. That does not mean that our staff does not welcome the contacts with central banks from all countries. On the contrary, such contact is essential if the Basle process is to have truly global applicability. The greater the contact, the more we can identify common concerns and possible common approaches. Increasingly, I hope we can work together to ensure that the world's financial system is both efficient and stable.

The theme and goal of the conference

Sharing views is an important first step in cooperation, which brings me to the topic of this conference. The theme of the conference is Managing Change in Payment Systems. The topic is broad enough to allow for an active exchange of views from participants from different parts of the world and with different backgrounds. The three sessions have been designed so that each brings together speakers from countries with similar recent experiences. The first session will focus on payment system

change in the context of fundamental financial restructuring, particularly with respect to the move from a planned economy to one based on market mechanisms. Mr. Koning from the Netherlands Bank will chair this session, in which we will hear presentations on developments in Russia, China, Vietnam, Armenia and Bulgaria.

The second session will group together a number of countries that have recently coped with the need to modernise their payment systems in order to increase efficiency and reduce risk. I am very pleased that Mr. Al-Suhaimi from the Saudi Arabian Monetary Agency has agreed to chair this session and to introduce speakers from Indonesia, Poland, Peru, Brazil, Malaysia, South Africa and Korea.

The last session, which will be chaired by Mr. Yam from the Hong Kong Monetary Authority, will focus on payment system issues arising from the globalisation and internationalisation of financial markets. Presentations will be given by representatives from the United Kingdom, Singapore, Australia, Japan and France.

As you can see from this overview of our programme, we have tried to bring together payment system experts from different parts of the world and with a variety of different backgrounds. I hope that all of the speakers as well as the general discussions will concentrate on the process of change rather than on the content. We should try to understand not just the success we have had but also the difficulties, constraints and problems that all of us have faced in implementing change in payment systems and the solutions that we have found to overcome them.

It would be useful, of course, if all of us could also return home with a common understanding of how to set priorities in the management of payment system reform. That is why we have programmed a panel discussion at the end of the conference during which senior representatives from the central banks of Germany, India, Hungary and Mexico, under the Chairmanship of Mr. McDonough, will attempt to identify the major themes and issues that will have arisen during our discussions, to draw some general conclusions from our proceedings and to identify some possible areas that central banks could pay attention to in the future.

Ladies and gentlemen, there are many different aspects to payment systems including those relating to legal arrangements, technological and operational issues, financial market infrastructures and the operation of monetary policy. And it is in payment systems that we see the practical application of so many key central banking concepts. Transparency, access, systemic risk, moral hazard, liquidity and lender of last resort are all concepts with which payment system specialists have to be very familiar. Indeed, it is often noted that payment system policy planning requires a multidisciplinary approach and I have always been fascinated by the wide range of subjects that payment system experts need to be acquainted with in order to carry out their duties efficiently. Not surprisingly there is also a wide diversity of expertise at this conference. As senior payment system experts, most of you also share other senior responsibilities at your institutions or have had long experience in different central banking areas.

I therefore trust that this conference will allow us to share views from many different parts of the world and from many different perspectives. I also hope that the conference will provide opportunities to develop and strengthen personal relations between central bank payment system experts. Finally, I hope that the conference may indicate a number of ways for the BIS and the Committee on Payment and Settlement Systems to further develop their relationships with central banks and central banking groups around the world. My colleagues and I are committed to support existing or emerging regional central bank cooperation. At the same time we intend to further expand our role of providing a global platform for central banks to discuss and work on payment system policy issues as well as on other important central banking aspects.