

Savenaca Narube: Launch of a modern payments system in Fiji

Speech by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the launch of the RTGS system or FIJICLEAR, Suva, 16 October 2007.

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Chairman of the Association of Banks in Fiji, Mr. Laurie Melsop;
Invited Guests;
Ladies and Gentleman:

Introductory remarks

A very good afternoon to you all.

One of my visions after rejoining the Reserve Bank in 2000 was to modernize the payment system. This vision was driven by the need that I saw to make the payment system more efficient and secure. In my view, such a modern payment system would act as a launching platform for other modernization in our entire financial system.

It therefore gives me great pleasure that this vision is now a reality. I am delighted that we are officially launching this modern payment system today. I welcome everyone to this ceremony and thank you for joining us to celebrate this important milestone in the history of Fiji's financial system development.

As some of you are aware, the system went live on 30th August and I am glad and somewhat relieved to say that the system has been running smoothly for over 6 weeks now.

FIJICLEAR

Central banks normally give a name to their real time settlement system. For instance, Trinidad and Tobago named theirs "**SafeTT**"; Philippines, "**Philpass**"; and the Thai system is called "**BahtNET**". We have decided to name our RTGS system, "**FIJICLEAR**": "FIJI" denotes a nationwide system while "CLEAR" signifies secure clearing process.

We started the ground work on the project almost 5 years ago. I was delighted when the commercial banks readily shared our vision to get the project rolling. We issued a joint statement with the Association of Banks in Fiji and set up a working committee to oversee the project. The formal contract with the software vendor was signed in March 2006.

The projects like many other projects had its share of hurdles. For the Reserve Bank, the biggest challenge was to get a proper appreciation of the scope of this rather technical project which none of us had any prior experience in. In addition, we lost the lead manager of the project program half way through. Establishing the infrastructure like secure communication channels was not that easy as you may appreciate in Fiji. Lastly, we had to negotiate the difficult issue of cost sharing with our commercial banks colleagues. I am extremely glad that we were able to overcome all these hurdles.

The project was initially expected to go live late last year. But due to these hurdles it is delayed by about one year. We were very mindful that we have to get the system right from the very beginning in order to safeguard the confidence in this new real time system. We just had to do it right the first time.

Financial intermediation

The payments system is the backbone of a country's monetary and financial system and it plays a critical role in a country's economic development. It is through the payments system that money goes around. It allows money to be transferred between savers and lenders, buyers and sellers or from one point to another. By reforming and developing the payments system, it is possible to reduce the overall transaction costs and improve the efficiency of financial transactions in an economy. And these efficiency, convenience and security have favourable flow-on effects to the whole economy.

The central bank inevitably plays a key role in this payment process. This stems from our primary functions of providing liquidity to commercial banks and clearing payments between banks. This clearing service in Fiji has evolved over the years. I still recall this clearing being done here in our banking hall where all commercial banks would come in once a day to clear their payments under our monitoring. Then commercial banks themselves took over the entire process with approved rules and guidelines. And today we are lifting the bar with a modern real time payment system.

I believe that we need a modern payments system now. Some have said to me that the system is too early for a small country like Fiji where the transactions are not that many. Others say the investment is too costly and would not fetch the required economic returns. These may well be true for now. The full benefits of this system are however difficult to quantify. I am of the view that we must be proactive and look to the future. We can influence this future ourselves by what we do now. As I have said, this payment system is bound to catalyze other innovation in the financial system.

I also expect the financial system to continue to grow in size and sophistication. Fiji's banking assets have grown briskly and today they are in excess of \$3.5 billion. Commercial banks' profitability is high, capital is strong and liquidity is more than adequate. Today, Fiji enjoys a reasonable degree of financial innovation. We have many modern banking technologies in the world like ATMs, Credit and Debit Cards, EFTPOS and online and internet banking. I believe that Fiji is at par to what is offered internationally.

It is critical that we in the financial sector are ahead of the wider economic reforms. It is inadequate for us to be following behind these reforms. In fact, we should be driving them.

The complexities in the financial intermediation are increasing with the development of modern products to better suit the evolving demands of customers. Inevitably, it is the central bank that takes a lead role in the modernization of the payments system because of its importance to the economy and the entire financial system. At the same time, such a system facilitates our work as custodian of financial stability. Today, payments systems are the top agenda for most central banks.

Payment modes are wide ranging. Cash is the common mode of payment. However, the inconvenience of carrying cash and increasing security threats has encouraged the move towards other payment media. But paper based instruments like cheques and drafts are not so convenient. In modern times, cards and electronic payments are regarded as the most convenient and safer instruments, although they too are subject to certain risks.

Some experts use the analogy of the ***"plumbing design"*** to describe payment system *where nobody cares if everything is in running condition. However, if one of the pipes burst or the plumbing malfunctions, we will find ourselves in a wet and nasty mess*".

The manual payments system that we have used up to now has served us adequately. But it has its shortcomings. The major one is that it takes too long to clear cheques and this has implications on cash flows and financial performances. Second, as I have said, carrying cash has its risks. Thirdly, the cost of paper based instruments like cheques is relatively high in Fiji adding to the cost of doing business.

As I have said before, the smooth functioning of the payment and settlement system contributes to financial stability. With the introduction of **FIJICLEAR**, where settlement of individual inter-bank fund transfers is on real time all throughout the day, a major source of systemic risk in the financial system has been reduced substantially.

Financial innovation

FIJICLEAR is now another instrument available in Fiji to customers through which they can make payments to one another.

The global trend is toward electronic real time payment system. World wide the financial landscape has changed driven by a number of factors including growth in financial markets, cross border flows, technological advancement in communication and information technology, changing macroeconomic factors, and globalization of markets and business. It is therefore pleasing to know that Fiji is keeping up there with the global trend.

What is FIJICLEAR?

What is **FIJICLEAR**? **FIJICLEAR** enables the processing of payments to be done as and when they happen – hence the term “real time”. It is an electronic way of making payments within a country and getting immediate settlement of those payments.

In simple terms it means that instead of waiting for several days for funds to be available for use, the receiving party or beneficiary will have funds in their account within one business day or in some cases almost instantaneously. Similarly, the party making the payment is assured of safe and immediate delivery of those funds.

The key elements of **FIJICLEAR** are speed, certainty, reliability, safety and security, convenience and cost.

The system is for the transfer and settlement of Fiji dollar denominated funds only. It enables payments instructions to be processed and settled individually and continuously throughout the working day. All settled transactions are considered as final and irrevocable. Thus the receiver will be able to use the funds immediately without being exposed to the risk of the funds not being settled. This is in contrast to the previous manual system which operated on a deferred net settlement system, where payments are processed throughout the day but the actual entries are only affected at the end of the day.

Benefits FIJICLEAR

There are a number of benefits of using **FIJICLEAR**. I had pointed out already the wider benefits to the economy and the financial system.

To the *Payee* i.e. the person receiving money, the benefits include:

- Funds are credited into the account straight away. So there is no waiting of 3-7 days for funds to be cleared when using a cheque;
- There is time savings as one does not have to physically visit a bank to deposit cheque;
- There is no uncertainty of any dishonoured cheques with the associated charges and loss of income;
- Immediate crediting of account means that any overdraft limit is reduced and hence lower interest charges;
- Immediate crediting of funds will help in cash flow; and

- Reduced overhead or staff cost as there is less paper work.

There are also benefits to the *Payer* i.e. those making the payment:

- There is less risk of transporting cheques;
- There is savings in time and charges; and
- There is better business relationship with creditors.

I therefore strongly encourage businesses as well as individuals to use this modern payments system to make transactions. The Payee should insist on the Payer to use this new system for payments.

FIJICLEAR payments to date

I am encouraged by the results so far of the use of the new system. On the first day of its operations, total payments that went through the system was about \$172 million of which commercial bank payments was about \$10 million. Gross payments over the last 6 weeks have averaged above \$850 million of which commercial bank payments exceeded \$120 million every week. Customer payments are rising and we have seen payments as low as \$90 being made through **FIJICLEAR**.

The number of transactions is also rising. The system has the capacity to process 1,000 transactions every 5 minutes. So there is a lot of space for growth. I am confident that we will see more and more payments made via **FIJICLEAR** in future.

Security

I would like to assure everyone that the payment system is secure. We have established a secondary site which is on line which means that if necessary we can operate the system from this alternative site. The site also acts as data backup. In addition, the communication lines are dedicated to the system and are secure. There is a dedicated team in the Reserve Bank monitoring and overseeing the transactions during the day. This team will provide adequate liquidity during the day to allow the system to work smoothly. IT backup support and service agreement is in place. I am confident that with these measures, the system is extremely secure and reliable.

Charges

Let me say something about the cost of using FIJICLEAR. Because of what we believe the importance of the system nationwide and the financial sector, the Reserve Bank has shouldered all the establishment costs. After some discussions, we have agreed with the commercial banks to a fixed operating cost for the first year which in my view is quite a reasonable sum. We will review this maintenance charge after the first year of operation. In turn, I am confident that commercial banks will review their charges of using the system if they have not done so already and pass on the savings to their customers. We will monitor these charges closely.

RTGS software provider

LogicaCMG, a listed company on the London Stock Exchange provided the software and will also provide support and maintenance services. It is a leading payment software provider with a long list of central bank clients all over the world, including the European Central Bank and central banks of Chile, Turkey, Sri Lanka and Philippines. It has also contracted a leading local IT firm to provide appropriate back up support.

Concluding remarks

I believe we have a very robust and secure system in **FIJICLEAR**. I am proud to say that Fiji is the first of the Pacific Island nations to have the system in place. You will all appreciate that a safe and efficient payment system is essential for the proper functioning of our financial market. Its benefits are obvious. I believe that this will also boost confidence in Fiji as the system will bring us on par with developed countries.

I wish once again to encourage businesses and the public to take advantage of this system.

Finally, I wish to commend the support provided by the commercial banks and LogicaCMG which has helped RBF realise this vision. I look forward to the continued support of the commercial banks in making this project a success.

I also take this opportunity to thank the International Monetary Fund and Bank Indonesia for providing technical assistance to the RBF.

Let me also wish to acknowledge others that have worked hard to bring this project to completion. I thank the joint working committee of the commercial banks and the RBF. I extend my greatest appreciation to the RBF project team for their perseverance and dedication. Without you, the project would still be a dream.

It is now my pleasure to officially launch **FIJICLEAR** and wish it every success.

Thank you.