

Su Ning: China's inter-bank payment and clearing service

Address by Mr Su Ning, Deputy Governor of the People's Bank of China, at the press conference on the launch of the Electronic Commercial Draft System, Beijing, 28 October 2009.

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Dear guests,
Friends from the media,
Ladies and gentlemen,

Good morning.

On October 28, 2009, the People's Bank of China (PBC) launched the Electronic Commercial Draft System (ECDS). The ECDS is an important system built by the PBC to provide inter-bank payment and clearing service. The operation of this system marks a significant milestone in the application of information technology in China's financial sector. It will have a long-term impact on the future development of the draft business in China.

The PBC is committed to improving the financial infrastructure, and has made much progress in recent years. With our efforts, a modern fund transfer network is taking shape. We initiated the Large Value Payment System (LVPS) in 2005, and introduced the Bulk Electronic Payment System (BEPS) in 2006. In the following two years, we built the Check Imaging System, which makes nationwide use of checks possible, and the Foreign Currency Payment System, which allows real-time transfer of foreign currency denominated funds across banks. Together with the recently completed intra-bank fund transfer system and the inter-bank bankcard payment system, these important networks greatly facilitate the activities of enterprises and households, and help to enhance the security and efficiency of the financial system. These systems also lead to a surge in non-cash payments. In 2008, cash payments dropped below 1 percent of the total payment.

Building the ECDS and promoting the use of commercial drafts also pose challenges to enterprises, financial institutions, and to the central bank itself. To ensure smooth operation of the system and to prevent risks, the PBC decided to launch the system step by step. On October 28, a first group of 20 financial institutions were covered as the system began to operate, including 11 national banks, 2 local banks, 3 rural financial operations and 4 finance companies.

Commercial draft is an important non-cash payment instrument. It is also one of the most frequently used short-term financing tools for banks and enterprises, and a major form of credit. From 2001 to 2008, total commercial draft acceptance expanded from 1.2 trillion yuan to 7.1 trillion yuan, and commercial draft discount jumped from 1.4 trillion yuan to 13.5 trillion. In the first half of 2009, bill financing, i.e., financing based on commercial drafts, recorded 12.8 trillion yuan, which amounts to 57.7 percent of the stock exchange turnover, or 162 percent of the turnover on the interbank borrowing market during the same period.

Despite the rapid development and growing importance, commercial drafts face a number of problems. These include irregularities in draft acceptance and discount, dishonor by non-payments, fake drafts, and unregulated innovation. Other aspects of the weaknesses include the decentralized markets and inadequate use of information technology. These problems could lead to financial risks, threaten fund security, and hamper the development of the draft market.

Electronic drafts provide an effective solution to these problems. With the legal foundation and technological support in place, the PBC decided in January 2008 to introduce electronic drafts and set up an electronic draft system. The system was completed after over one year's preparation. The new system has three major functions. It is designed to receive and process

data of electronic drafts and provide relevant payment and clearing services. It serves as a platform where paper drafts are registered. Moreover, the system provides quotations for interbank discount, a service that will be offered later.

The development of electronic drafts needs institutional support. To ensure the secure, stable, and efficient performance of the system, as we started the new system, we also released 9 regulations in an effort to regulate the behaviors of participants.

The launch of electronic drafts and the new system is of great significance. It helps to reduce, or even eliminate operational risks, lower trading costs, improve trading efficiency, and foster the development of a single national draft market. It will encourage the development of commercial acceptance drafts. With the introduction of electronic drafts, short-term interest rates will better reflect the supply and demand in the market. The new system will provide statistics of higher quality to support policy making. Electronic drafts will provide a convenient and low-cost financing channel for enterprises, particularly small- and medium-sized enterprises. It will also shape the way financial institutions manage their draft businesses.

Electronic drafts and the new system have brought a number of changes. With the latest technology integrated in the new system, the traditional manual mode of draft business will be replaced by an advanced one that is based on computer networks. Moreover, finance companies can directly access the draft market through the new system, and the maximum period for draft payment is extended from 6 months to 12 months. Trading rules are also specified and updated in relevant regulations, and the deliver-versus-payment (DVP) approach is introduced in settling draft transactions to reduce risks.

Going forward, the PBC and financial institutions should strengthen communication and training, and focus on innovation and risk prevention. In particular, it is important that merits of electronic drafts are effectively communicated to their major user, i.e., the enterprises. Financial institutions should leverage the new system to consolidate their businesses and create better products. It is also critical that we make efforts to address potential security risks facing the system.

The development of the Electronic Commercial Draft System received support from many financial institutions. A number of banks and finance companies, including the China Merchants Bank, China CITIC Bank, China Minsheng Bank, and Industrial and Commercial Bank of China contributed to the discussions, drafting of regulations, and system testing that eventually lead to the creation of the system. On behalf of the People's Bank of China, I would like to thank these banks, and other banks, finance companies, and the clearing center for rural credit banks for your contribution.

Thank you.