



Memorandum

DATE: 23/05/2019

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Ref.no. 2018-00960

Annex: Use of the TIPS platform to extend the availability of RIX

Technological advances, combined with changes in consumption expectations, are changing the Swedish payment mechanism. The use of cash is declining and instead the existence of so-called instant payments is increasing. Instant payments involve payments being made in seconds from one bank to another, 24 hours a day, every day of the year (24/365). Settlement of instant payments today is through a payment system owned and run by Bankgirot, called BiR ("Betalingar i Realtid" - payments in real-time).

In a not too distant future, it is expected that instant payments will become an increasingly important part of the Swedish payments market and that some of the payments which now are settled in batches¹ or are individually settled in the Riksbank's payment system (RIX) will be migrated to instant settlement. This means that the choice of platform used for settlement of payments is an important question for a safe and efficient payment system.

Central banks, including the Riksbank, have historically been at the centre of the payment settlement between financial institutions for the following reasons:

1. **Central banks supply risk-free means of payment.** Risk-free means of payment, so-called central bank money, is a necessary condition for financial institutions to be able to settle payments without risks arising that jeopardise financial stability. If the central bank did not supply a means of payment, financial institutions would have been able to pay by exchanging claims on one another. This would have led to counterparty risks arising, where if one institute defaults it will have consequences that spread throughout the financial system. By entering into various financial arrangements with the central bank, private platforms that settle in commercial bank money, such as BiR, can reduce the settlement risks. But, if a central bank can supply a platform for settlement just

¹ Batch settlement means that a large number of smaller transactions are totalled into larger transactions at predetermined times by a clearing organisation, for instance Bankgirot, and then settled in RIX.

as cost effectively, there is less need for private platforms which require regulation, supervision and complex financial arrangements and which ultimately do not attain the same safety as settlement in central bank money.

2. **The Riksbank is a neutral provider of infrastructure.** The payment area is increasingly becoming a field where different actors are competing. The importance of a neutral, long-term and stable supplier of the underlying infrastructure will then be even greater. The Riksbank can contribute to promoting competition by supplying the basic infrastructure in a predictable, safe and efficient way. The private sector can develop competing services with the basic payment infrastructure as a foundation

For these two reasons, central bank money has become the rule of thumb for how financial institutions settle payments.² But, to ensure central bank money remains relevant in a time when the payment system is changing towards being available 24/365, the Riksbank must be prepared to upgrade its settlement services so that they are also available 24/365. If the Riksbank does not act, there is a risk in the long term that central bank money will not remain the norm in financial institutions' settlement of payments, which could potentially have negative effects on the safety and efficiency of the payment system.

The Riksbank can supply a settlement service 24/365 via three alternatives; (i) the Riksbank develops or procures a technical platform itself, (ii) the Riksbank commissions a private company to administer Riksbank accounts³ or (iii) the Riksbank shares a platform with another central bank.

Platforms for settlement of instant payments are expensive and time-consuming to develop and moreover it is difficult to obtain cost coverage if a platform is only used by the Swedish market, which argues against developing or procuring our own platform. There are also disadvantages with the other alternative, in which the Riksbank commissions a private company to administer Riksbank accounts. For one thing, such an arrangement must not entail the Riksbank's operational and financial risks increasing, and for another thing the Riksbank must be prepared with this arrangement to supply it to more than one actor, which could in itself entail greater operational risks and efficiency losses as the central bank liquidity may be fragmented between different platforms. *This means that the third alternative, sharing a platform with another central bank, appears to be the most suitable if the Riksbank is to supply settlement services to financial institutions 24/365.* Given this, the Riksbank notes that the European Central Bank (ECB) and the Eurosystem⁴ have developed a platform for the settlement of instant payments. The platform is called TARGET Instant Payment Settlement (TIPS) and was launched in November 2018. TIPS has the technical capacity to settle payments in other currencies than the euro, for instance, the Swedish krona. To settle other currencies than the euro in TIPS, the central bank wanting to use TIPS must enter into an agreement with the Eurosystem and the ECB. If the Riksbank supplies settlement of

² See BIS-CPMI (2003) "The role of central bank money in payment systems" and CPMI/IOSCO (2012) "Principles for Financial Market Infrastructure", principle 9 ("Money settlements").

³ Such a procedure would be analogous with the prevailing system where the Riksbank allows Euroclear Sweden to administer the central bank accounts for securities settlement in the VPC system.

⁴ The Eurosystem consists of the ECB and the national central banks in the euro area.

instant payments in central bank money through TIPS, this would be a complement to the existing settlement of large-value payments between financial institutions within the framework of RIX.

The Riksbank has investigated during spring 2019⁵ the practical scope for using the TIPS platform and has not found any significant technical obstacles to link TIPS with the Riksbank's current payment system, RIX. An initial cost estimate regarding the Riksbank for such a project is just over SEK 30 million. The Riksbank intends to apply the principle of full cost recovery for the provision of the settlement service. Sharing a platform with the Eurosystem and the ECB means that the physical hardware for the platform would be located geographically outside of Sweden's borders (at present Italy). This also means that the Riksbank must ensure that the national requirements for protective security can be maintained. With regard to geographical location outside of Sweden, it is worth pointing out in this context that a large part of the Swedish payment infrastructure and associated support system is already located outside of Sweden's borders. In this respect the TIPS platform would not be different in principle or provide any new element to the Swedish payment system. In addition, platform sharing with the Eurosystem can offer the advantage that the Riksbank can benefit from other central banks' abilities to protect the payment system against various forms of risk.

To summarise, sharing a platform with the Eurosystem is assessed as the fastest and most cost-efficient way of providing financial institutions with access to the Riksbank's payment system 24/365.

⁵ <https://www.riksbank.se/en-gb/press-and-published/notices-and-press-releases/notices/2018/riksbank-begins-prestudy-regarding-tips/>