



Dnr 2018-00430

Summary of responses to  
consultation on Instant payments  
and the Riksbank's role in the  
payment infrastructure

December 6<sup>th</sup>, 2018

# Summary of responses

## The consultation

The Riksbank published a consultation on instant payments and the Riksbank's role in the payment infrastructure on 5 June.<sup>1</sup> Participants in the Riksbank's large value payment system (RIX) and other interested parties were invited to give their views on some general aspects of the future payments landscape and possible changes to the Riksbank's range of settlement services, especially those relating to instant payment settlement. As instant payments are likely to grow in importance over the coming decade, it is essential that the supporting infrastructure is safe, neutral in terms of access and has low barriers to entry in order to promote competition, spur innovation and ultimately maximize benefits to end-users. The Riksbank's assessment is that a platform sharing arrangement with the ECB, whereby the Swedish Krona is made available for settlement on the TIPS platform<sup>2</sup>, has the potential to cost-efficiently fulfill these objectives. Hence, an important part of the consultation was to gauge to what extent this view is shared by the market.

## The responses in summary

The Riksbank has received 20 responses to its consultation. Among these, a number of respondents have chosen to express their support for the response provided by the Swedish Bankers' Association rather than providing an individual response. The founding banks of the pan-Nordic P27 initiative have provided a joint response from P27<sup>3</sup>.

The overall response is that TIPS could be an interesting solution for the Swedish market. However, the market would like to have more information about TIPS and how a solution with TIPS for the Swedish krona would be integrated with RIX, the Swedish large value payment system. The main issue raised by respondents in relation to TIPS is that TIPS is designed to process messages strictly based on the SCT<sup>INST</sup> standard.<sup>4</sup> This standard for the message flow might, according to respondents, entail a limitation in regard to existing payment services and possibly also unnecessarily limit the development of future services.

The questions of the consultation and a brief summary of answers per question is available in the appendix.

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<sup>1</sup> <https://www.riksbank.se/en-gb/press-and-published/notices-and-press-releases/notices/2018/consultation-on-instant-payments-and-the-riksbanks-role-in-the-payment-infrastructure/>

<sup>2</sup> The Target Instant Payment Settlement (TIPS) platform was launched on November 30<sup>th</sup> 2018 for settlement in euro.

<sup>3</sup> Danske Bank, DNB, Handelsbanken, Nordea, OP Financial Group, SEB and Swedbank

<sup>4</sup> SCT<sup>INST</sup>, or "SEPA Instant Credit Transfer", is a rulebook adopted by the European Payment Council with the intent to foster interoperability for instant payments in Europe by means of harmonizing rules, practices and standards. The rulebook differs in some aspects from the processes currently applied by the Swedish banks.



## Next steps

The Riksbank has now launched a pre-study to further investigate TIPS as a potential settlement platform for the settlement of instant payments in central bank money for the Swedish Krona. The pre-study will assess, more in detail, the settlement service on the TIPS platform and implications in a Swedish context. The pre-study will deliver a report which will form part of a decision making material for the Riksbank on whether to move ahead with TIPS. A preliminary timeline for the pre-study report is by end of Q1 2019. During the course of the pre-study the Riksbank will interact with the Swedish Bankers' Association, the RIX participants and the wider private sector payments community represented on the retail payments council<sup>5</sup>.

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<sup>5</sup> <https://www.riksbank.se/en-gb/payments--cash/the-riksbanks-task-in-relation-to-payments/the-retail-payments-council/>

## Appendix

### Question 1

*It would be of interest for the Riksbank to gain some insight into your views in general on potential future changes in the payments landscape. This could concern new types of participants which require access to payments systems, new technology or changes in consumers' payment patterns. We have provided a few questions below, but please feel free to elaborate other topics which you believe would be of relevance to future requirements for payment systems provided by central banks or to participation in such systems.*

- a) Do you believe that recent changes in the legislative framework, e.g. the Payment Service Directive (PSD2) or the CSD regulation, may entail requests for access to central bank money for the purpose of settlement from new, prospective, participants?*
- b) Do you expect changes in consumers' payment behaviour that would have an impact the Riksbank's settlement services?*
- c) Have you identified business requirements, e.g. securities settlement, that may call for new technical interoperability arrangements between settlement platforms or changed operating hours for the Riksbank's settlement services?*
- d) What is your opinion on the use of new technology such as DLT (distributed ledger technology / block chain) in the context of payment systems?*
- e) Do you have comments on other aspects than those addressed above which you believe should be of interest for the Riksbank to consider in the context of requirements for central banks' payment systems or participation in such systems?*

#### Summary of responses

The responses to the consultation's more general questions indicate that there is to some extent disagreement in the participant community as to the impact from recent legislation in terms of changes in demand for access to RIX/central bank money. In relation to PSD2, the majority of respondents do not believe that the legislation will be a catalyst for requests for access to RIX. On the other hand, a few respondents make the comment that the Riksbank would have to review its rules for participation in order to accommodate a potential future demand for access to central bank money from new categories of payment service providers.

In relation to the CSDR, a few participants answered that the legislation will have an impact, since CSDR contains rules on central bank money and settlement. Furthermore, some respondents discuss whether there will be a need for changes to the Terms and conditions for RIX and monetary policy instruments in order to, in the future, accommodate for other types of participants than the incumbent.

### Question 2

*Payment patterns are making a transition from batch clearing with settlement at certain times of the day to instant clearing and settlement 24 hours a day, 365 days per year. In*

Sweden, Bankgirot's Real Time Payments System (BiR) where Swish payments are settled, is one such example. There are many examples of similar trends and instant payment systems in other countries. While the volumes (number of transactions) settled in BiR or in other similar instant payment systems have increased over the last few years, the total value of payments settled in such systems still remain low compared to the values settled in the large value payment systems provided by central banks (e.g. the Riksbank's RIX system). However, there are not any practical limitations that restrict the type of payment or the amount of a payment that can be settled in instant payment systems. The Riksbank's opinion is that in a not too distant future, the new norm for payments between individuals and companies may be instant payments.

- a) Do you agree with the Riksbank's assessment?
- b) As Sweden moves towards increased instant payments, what considerations are necessary?
- c) How fast do you think the transformation will be and what percentage of all payments will be made as instant payments in the future? Please provide a guesstimate in per cent for instant payments between individuals and companies on a three-year and a 10-year term. Please elaborate on your guesstimate.

#### Summary of responses

Almost all answers indicate that respondents believe the volumes for instant payments will continue to increase, but many respondents refrain from making forecasts with regard to volumes and values. Although most respondents expect a continued increase in instant payments, many emphasise that batch payments will continue to be an important method for payments for the foreseeable future.

### Question 3

Almost all payments in Sweden are currently settled in central bank money, either in the RIX system, on central bank accounts administered by Euroclear Sweden in its securities settlement system or by cash transactions. Only payments between participants in BiR are currently not settled in central bank money, although settlement is backed by central bank money. Settlement in central bank money completely eliminates the counterparty risk which otherwise may be involved in settlement. Since one of the Riksbank's missions is to promote a safe and efficient payment system, and as most payments currently settle in central bank money, the Riksbank's opinion is that instant payments settlement in the future should be in central bank money as well, i.e. instant payments should not be carved out from the central bank settlement.

Do you agree with the Riksbank's opinion? If not, please share the reason(s) for your opinion.

#### Summary of responses

There was not consensus among respondents on whether the settlement of instant payments should be in central bank money. Half of the responses indicate that a payment system with commercial money, backed by central bank money, is considered equally safe.

## Question 4

*A key issue for an instant payment system is access to, and availability of, central bank money. As the importance of instant payments continues to grow not only in number of transactions and amounts but also with more participants, the liquidity provision to these systems becomes increasingly important. Liquidity provision is usually managed via central banks' large value payment systems, i.e. RIX in Sweden. Such systems usually have quite limited operating hours in comparison with instant payment systems. In order to continue to promote an efficient payment infrastructure for the future, the Riksbank considers it important to have a flexible and smooth solution for the transfer of liquidity to and from the system for instant payments, which should be available as required from an efficiency perspective, possibly 24/365.*

*What is your view on requirements for RIX operating hours with regard to a participant's ability to fund/defund liquidity to/from an instant payment system?*

### Summary of responses

There is broad consensus in the participant community that an efficient liquidity solution for nights and non-banking days is the most prioritised topic in connection with any development in the instant payment settlement area. Participants do not regard an extension of the opening hours for RIX as the correct solution.

## Question 5

*One of the most significant parameters which drives the ongoing changes to the payments landscape is the desire to reduce costs for all parties in the transaction chain. This is valid also for services provided by the central bank. For the Riksbank, as well as for other entities, there are different options available when setting up an infrastructure. The Riksbank could provide a service by using a platform which it owns and operates on its own. Another option is to share a technical platform with other providers of settlement services. The latter option would, through economies of scale, entail a lower cost per transaction and thus a lower transaction fee. However, there may on the other hand be limitations in the scope for local/national adaptations associated with platform sharing, due to the need to adapt to standardised processes for users of the shared platform.*

- a) How important is a low cost for instant payment settlement in relation to the possibility for developing or maintaining national payment specifics?*
- b) Have you identified other aspects of platform sharing (benefits or disadvantages) which should be considered in this context?*

### Summary of responses

Cost efficiency and how this is balanced against flexibility is another key theme in the responses and there is no clear answer from respondents on how such a balance could be struck. Most respondents argue that it is important to have a low transaction cost and that a shared platform could enable this via economies of scale. Smaller banks argue in favour of the importance of national payment specifics, while larger banks argue for international and (especially) Nordic harmonisation. Even though low cost is important, the conditions for flexibility in future development of payments are of importance, possibly equally as important as cost efficiency. There is some doubt expressed by some

respondents as to whether TIPS will provide sufficient flexibility for future development of payments services.

## Question 6

*As mentioned above, cost is a significant parameter when it comes to instant payment settlement, as those transactions are settled transaction-by-transaction. However, the settlement cost is not the only cost for such a transaction. The communication cost could also be an important part of the total cost per transaction.*

*From a total cost per transaction view point, how would you rate the different connectivity options (e.g. SWIFT, SIA, own private dedicated networks) which are now or will be available for different instant payment settlement platforms?*

### Summary of responses

Respondents argue that market penetration, operational stability and resilience are important factors to consider in an evaluation of connectivity alternatives. There is also an expectation that differences between different connectivity options will be small and that the service from the connectivity provider will be at least as important as the cost.

## Question 7

*To summarise, when taking into consideration the importance of central bank money in settlement of instant payments, the need for a smooth transfer 24/365 of liquidity between RIX and an instant payment platform and the endeavour to attain a low-cost solution via platform sharing, it is the Riksbank's view that this could be favourably achieved through platform sharing by the Riksbank with the Eurosystem's TIPS platform.*

*Do you agree with the Riksbank's view? If not, please share the reason(s) for your opinion.*

### Summary of responses

The overall response is that TIPS could be an interesting solution for the Swedish market. However, the market would like to have more information about TIPS and how a solution with TIPS for the Swedish krona would be integrated with RIX, the Swedish large value payment system.

## Question 8

*Do you have other aspects or comments than those addressed in the questions above which you believe the Riksbank should consider in the context of instant payments?*

Several respondents have highlighted the important areas of contingency, security, resilience and the ability to manage situations of raised alert.

### Summary of responses

There is a strong message from respondents that they would like to engage with the Riksbank in further dialogue for the future development of settlement of instant payments.