



General Guidance for Payment System Development

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General Guidance for Payment System Development**



Aims of the Presentation

- Present and discuss briefly the mandate and objectives of the study
- Present the main messages of the guidelines for payment system development
- Elicit comments and suggestions on the guidelines and their implementation



Mandate and Objective of study

- **Mandate:**
 - Formulate practical, high-level, general guidance for developing a national payment system

- **Objective:**
 - Assist countries in the reform and development of their national payment systems



Organization of study

- Working Group: 20 organizations – 18 central banks, World Bank, and IMF

- Source data on payment system development
 - Development issues notes from each central bank
 - Standardized survey of payment system development issues, factors, characteristics
 - Background notes on guidance for payment system development



Presentation of the study's results

- Development of a national payment system => key elements, factors, motives, trends and issues
- General guidance – approaches to address key issues in developing the main elements of the system:
 - Developing the banking system (G1 – G2)
 - Planning payment system development (G3 – G6)
 - Developing the institutional framework (G7 – G10)
 - Developing core infrastructures (G11 – G14)



Development of a national payment system: Key elements and development factors

- Key elements of a national payment system:
 - instruments and providers,
 - institutional framework - markets, legal structure, consultation mechanisms
 - infrastructures - transaction, clearing and settlement network systems
- Main development factors:
 - Environmental => demographic, geographic, social and cultural
 - Economic => growth, distribution, resources, infrastructure, innovation
 - Financial => level and allocation of costs, risks, benefits of reform
 - Public policy => legal and regulatory, market structure, competition, industrial and trade development, social security and tax policies



Development of a national payment system: Development motives and trends

- Motives for payment system reform:
 - Increasing awareness about system risk and complexity
 - Pressures of international standards
 - New business and financial sector needs and capabilities
 - Political-economic developments e.g. trade/monetary blocks
- Main trends in payment system reform
 - Infrastructure reform => greater efficiency and risk control
 - Interoperability of payment with financial infrastructures
 - Enhance service market efficiency, stability, regulation



Development of a national payment system: Issues in payment system reform

- Limited vision, leadership and commitment to reform <= inadequate knowledge of key elements of a national payment system
- Limited information on emerging payment needs/capabilities <= inadequate consultation and business analysis
- Limited expertise and financial resources <= insufficient capacity or inadequate private and public sector support
- Legal, market, regulatory and public policy impediments and 'natural' risk aversion for change (i.e. inertia)



General guidance for payment system development: Key messages and approaches of guidelines

- Guidelines on developing the banking system (G1 – G2)
 - Central bank helps drive, banks operate payment system
- Guidelines on development planning (G3 - G6)
 - Recognize complexity and develop based on needs
 - Plan and prioritize strategically, implement effectively
- Guidelines on institutional framework (G7 – G10)
 - Market development and legal certainty sustain system
 - Consultation and policy coordination support reforms
- Guidelines on infrastructures (G11 – G14)
 - Develop around business case, not just technologies
 - Coordinate infrastructures for efficiency



Guidelines for developing the banking system: Central bank drives, banks operate payment system

- Payment system development ⇔ banking system development
 - Central bank at core of system, playing multiple roles
 - Banks principal payment service providers to end-users and service users in payment infrastructures
- Payment system development => corresponding development of payment system functions in central bank and banking system



Guidelines for banking system: Implementation Approaches

- Central banks promote payment system development by
 - Organizing and developing own payment functions
 - Developing knowledge and expertise in payments
 - Communicating openly and frequently on payments
 - Helping develop inter-bank credit markets
- Banks lead payment system development by
 - Extending banking coverage and payment services
 - Developing standards for payment instruments and infrastructures

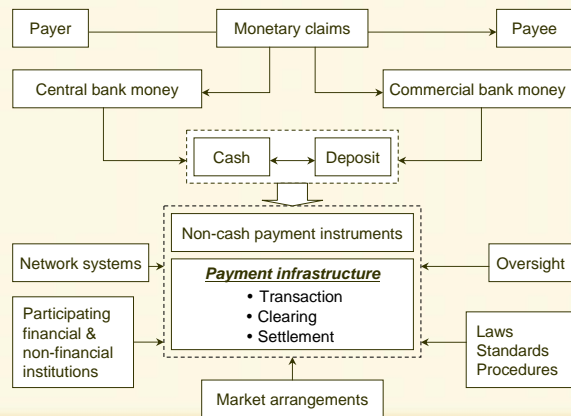


Guidelines on Planning: Recognize complexity and develop based on needs

- Anchor reforms on payment needs relative to capabilities of economy
 - Diversity of transactions matched by choice among instruments
- Clarify various roles of stakeholders in different infrastructure arrangements and payment service markets
 - Reforms => re-allocation of costs, risks and benefits among stakeholders
- Develop markets and legal framework not only technology and infrastructures
 - Elements of payment system inter-related => coordinated development necessary



Development of a national payment system: Organization of the system



Guidelines on Planning: Plan and prioritize strategically, implement effectively

- Realistic vision of the future national payment system
 - Conceptual design and roles of key players
 - Current and future needs of end-users and system's capability
 - Adapt models to country-specific needs and capabilities
- Clear prioritization of reform projects
 - Existing system an avenue for reform not only new systems
 - Understand comparative costs, risk, benefits of reform projects
- Well organized project implementation key
 - Clear project governance and management structure
 - Well defined resource planning and commitment



Guidelines on Planning: Implementation Approaches

- Organize reforms business case analyses and in broad consultation
 - Stock-taking analysis – current system, players, development factors
 - Business requirements analysis - needs, capabilities, system risks
 - Gap analysis – identify key reform proposals
 - Costs-risks-benefit analysis – prioritize reform projects
- Plan project implementation strategically and cooperatively
 - Timelines, deliverables, milestones, and success measures
 - Focus on resources – project team, stakeholder commitment, IFIs
 - Develop a practical roll-out strategy
- Scale to project size => same strategic process, but more or fewer resources dedicated to planning and implementation



Guidelines on Institutional Framework: Market development and legal certainty sustain system

- Market => conventions, procedures, agreements for efficient and reliable production, delivery, pricing of various payment services
 - Diversity of service markets => retail and wholesale, complementary or substitute
 - all markets inter-related => joint benefits, risks, costs
 - Each market => some balance between competition and cooperation, affecting structure, performance and conduct
- Legal framework => laws and regulations, procedures and institutions
 - Basic laws => property, association, banking, contract, insolvency
 - Eliminate legal uncertainty in market arrangements and conduct and in infrastructure network participation, rules and governance



Guidelines on Institutional Framework: Consultation and policy coordination support reforms

- Key stakeholders => banking, business, consumer groups <= consultation critical for development of
 - business case for reform initiatives,
 - market arrangements and legal framework,
 - trust relationships and commitment to reform
- Authorities other than central bank affect system development
 - Banking, securities regulators, competition, consumer agencies
 - Policy coordination => efficient and stable development
- Structured arrangements for consultation and policy coordination
 - On-going periodic process critical



Guidelines on Institutional Framework: Implementation Approaches

- Market development involves:
 - Coordination mechanisms – market standards, codes of conduct
 - Transparent market-related laws, agreements, codes, resolution
 - Equitable, non-discriminatory access, pricing, risk-sharing
- Development of legal framework focused on:
 - Basic laws to start and payment-specific laws as needed
 - Legal instruments appropriate to meet legal need (e.g. model laws)
 - Transparent, accessible and comprehensive
- For stakeholder consultation and public policy coordination
 - Use existing arrangements or, if necessary, establish new ones
 - Organize process for comprehensive system-wide view of issues



Guidelines on Infrastructure Development: Develop around business case, not just technologies

- Retail infrastructures critical to business and financial development
- New standardized technologies or modifications to existing ones
- L-V payment infrastructures for financial and business transactions
 - Limit systemic risk and contagion in financial markets
 - Balance: (i) rapid settlement; (ii) low risk; (iii) liquidity-saving
- Efficient, reliable transaction, clearing and settlement systems =>
 - Standardized payment instruments and procedures
 - Inter-connectivity and inter-operability
 - Accessible, transparent and well-governed networks



Guidelines on Infrastructure Development: Coordinate infrastructures for efficiency

- LVPS and securities systems highly inter-dependent
 - Secure collateralization of credit in LVPS and DvP in SSS
 - Synchronous timing of settlement finality in both
 - Complexity of securities system main challenge
- Retail payment settlement => large-value inter-bank obligations
- Efficiency <= coordinating, integrating core settlement processes
 - Common participation in core infrastructures
 - Procedural integration and coordination of settlement in LVPS
 - Concentration in operational risk => operational resiliency and business continuity planning critical



Guidelines on Infrastructure Development: Implementation Approaches

- Standardize, automate, inter-operate retail infrastructures => use available international standards for identification and security
- Choose LVPS design suitable to needs, not only on availability of technology => realistic business case analysis critical
- Standardize, integrate, centralize securities depository, clearing, settlement
- Coordinate settlement schedules and coordinate, test BCPs for core systems
- Develop legal framework for non-bank providers, electronic transfers, payment and settlement finality, collateral security, netting, novation
- Central bank: operator, adviser, catalyst => consult with banks, encourage development of competing/complementary systems and service markets



Questions for Discussion

1. Which guidelines and implementation approaches would be most useful in developing your system?
2. Are there helpful implementation approaches other than those discussed for developing the system?
3. How else might the central bank and private sector contribute to system development?
4. What other useful lessons for development can be learned from experiences in your country?