Summary of responses provided in the consultation on the Riksbank's future settlement service

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SVERIGES RIKSBANK

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Consultation

In February, the Riksbank published a consultation to gather market participants' views on the Riksbank's settlement service for large-value payments, the RIX system, and what should be included in a future settlement service. The consultation is part of a preliminary study the Riksbank is carrying out prior to making a decision on its future settlement service for large-value payments.

The current RIX system was launched in 2009 and has functioned well. Since then, new technology and regulatory requirement have led to changes for the participants in the payment market, both nationally and internationally. This development may lead to requirements for new functions and affect the participants in the RIX system. It is therefore important for the Riksbank to acquire a good knowledge of the needs of the participants (both existing and new) with regard to the settlement service, and of how the future settlement service can meet these needs.

The aim of the preliminary study is to produce a base for the Riksbank's future settlement system for payments. Some issues to be analysed include the functionality required to supply an efficient system for the settlement of payment transactions, ways to ensure appropriate security, and the needs of the market.

The consultation was sent to RIX participants, the Swedish Bankers' Association and P27, as well as to Finansinspektionen and the Swedish Ministry of Finance for information, and it was published on the Riksbank's website.

22 responses have been received to the consultation, some of them via the Swedish Bankers' Association, and a summary of these responses is presented below.

1. The payment market and its development

The respondents share the Riksbank's view of the payment market and its development to a large degree. Most respondents also considered that instant payments will comprise an increasing share of the future payment flows. Some of the respondents see a future where all payment transactions are settled via RIX-INST, including traditional batch payments, which could also be settled at times when there is less traffic. However, a larger number of the respondents considered there to still be a need to be able to make batch payments at set times in the RTGS system. Standardisation and harmonisation were mentioned in general as an important part of making the payments area more efficient. However, some of the smaller banks mentioned that they have a limited need of international harmonisation, as they are primarily active on the Swedish market.

When asked which new functions they would like to see in a future settlement service, suggestions included extended opening hours, settlement independent of product, increased automation, improved liquidity management, AML screening, better reporting tools, such as APIs, and cross-border and cross-currency real-time payments.

With regard to the question of balance between function and cost, a large share of the respondents considered that improved/extended functions could justify higher costs if this entailed increased

business benefit and/or increased security/robustness. Several respondents pointed out that an RTGS system must be simple and resilient, with necessary basic functions; one respondent also said that existing RTGS systems tend to be too complex, with functions that are not used; another respondent suggested that some functions ought be optional.

Security and security requirements, particularly the question of cyber security, have become relevant to an increasing extent, and the participants were therefore asked which security requirements they considered most important in a future settlement service. Several participants pointed to the importance of having contingency routines at national level ensuring the possibility to settle transactions even in the case of substantial and protracted disruptions or a crisis. The importance of continuous and systematic work to increase security in the systems through, for instance, threat analyses, joint security audits and/or risk exercises and security checks of personnel are also mentioned. In addition, several participants wanted to see a joint forum for the exchange of information and experience with regard to cyber security incidents.

2. The current RIX system

The current RIX-RTGS is much appreciated and the participants are satisfied with both the functions and the opening hours, although it was mentioned that some functions have limited use. With regard to opening hours, it was said that extended opening hours can lead to higher costs, which should in that case be compensated with a higher degree of automation. The respondents also expressed appreciation of the existing contingency routines and the regular exercises held. However, one participant thought that these exercises require too many resources and that the level of ambition could be lowered, another wanted to see a more automated routine, and it was also pointed out that an increased number of individual payments would make the manual routines more difficult to manage.

Several participants stated that the user-friendliness of the system could be improved, for instance, by improving the user interface and having more automated processes, e.g. for transfers to/from an LOM. Wishes were also expressed for a search function with flexible search criteria. Being able to settle securities in the same system, which would simplify liquidity management to VPC, is another example put forward, as well as a suggestion to enable the implementation of decentralised clearing at the respective bank.

3. Possible future participation in T2

A large majority of the participants found that participation in T2 would give significant economies of scale in the form of joint processes, administration and development, which altogether would lead to greater efficiency and lower costs. It was also pointed out that T2 is a system that is already familiar to many banks and that it has the same interface for all participating currencies, which will facilitate the flows and liquidity management. Increased resources for security and in particular cyber security were also mentioned as a substantial advantage. It was also mentioned that T2 participation gives access to some functionality that is available in T2 but not in RIX-RTGS, and in addition an opportunity for cross-currency transactions.

In response to the question of potential disadvantages with participation in T2, the connection process was said to be costly and time-consuming as it also entails adaptation of business systems and services to the participants' customers. Some functions which are currently in the RIX-RTGS will

probably not exist to the same extent in T2. Some concern was expressed that a potential connection process would clash with the transition from Bankgirot to P27 and the importance of coordination was emphasised. Some unease was also expressed with regard to reduced influence, as the Riksbank would become one participant among many in T2, and whether Swedish banks' possibilities to develop new innovative services might thus be limited. Several respondents took up the question of concentration risks and that a large joint settlement system could be vulnerable to attack, and they also pointed to the importance of contingency routines at national level in the event of crises or major disruptions to the T2 platform. There was also some concern that SEK as a minor currency might be down-prioritised in the event of major operational disturbances.

Many respondents saw benefits of cooperation and harmonisation with several currencies on T2. They also mentioned the possibility of further development, for instance that liquidity in one currency could comprise a guarantee for settlement in another currency, and services for payments between currencies.

4. Other alternatives

An overwhelming majority of the respondents did not see any other alternative than to continue with the current system provided by SIA or to connect to T2. Some suggestions of solutions based on RIX-INST/TIPS were put forward, where settlement could be made over RIX-INST regardless of the payment product.

The questions in the consultation are annexed here below.

Annex

Questions raised in the consultation on the Riksbank's future settlement service

1. The payment market and its development

The Riksbank can see how globalisation and digitalisation have caused the payment market to change and the requirements for speed and efficiency to increase and thereby also costs. This development also leads to greater demands with regard to security and robustness in the systems to ensure they are resilient to attacks and maintain a high degree of continuity. Cybersecurity is another related issue that is given high priority and requires an increasing number of resources.

Banks and other market participants are often active on several markets and are thus participants in several payment systems, which increases the requirements for standardisation and harmonisation. Cross-border trade requires a high level of efficiency throughout the payment chain, from payer to payee, and also between payment systems, and this means that there is also a need for international standards and international harmonisation.

It is likely that instant payments will form a larger share of the total volume of payments, as demand is increasing and the banks are extending their supply of instant payment functions. However, so-called batch payments are expected to continue to play a role in the system. The payment system will probably also need to manage increasingly large amounts of data and to be able to interact with other systems.

1.1 Do you share the Riksbank's view of the payment market and its future development? Please expand.

Click here to enter text.

1.2 Do you note changes abroad that could lead to a need for new functions in the future settlement service?

If so, what would the new functions contribute? (For instance, changes stemming from new legislation and/or new technology).

New function	Why it is needed	Order of priority 1-5*
Click here to enter text.	Click here to enter text.	Click here to enter text.

Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.

1 is lowest and 5 is highest priority

1.3 When do you expect the changes in point 1.2 will occur on the Swedish payment market?

Enter the various changes in the respective time span here below.

Within 1-5 years: Click here to enter text.

Within 3-7 years: Click here to enter text.

Within 5-10 years or further ahead: Click here to enter text.

1.4 Cybersecurity is a question that is becoming increasingly urgent and relevant. On an overall level, what do you consider to be the most important security requirements of a future settlement service with regard to this?
Your response can cover both functions and properties in the actual system as well as the organisation around the settlement service, or how they comply with the standards/guidelines. Requirements regarding functions and features of the system can include, for instance, various types of protection or alarms. Requirements regarding the organisation could concern, for instance, whether there is personnel for oversight, analysis and sharing information in the event of cybersecurity incidents, how many people work with the system's cybersecurity and the competence of the personnel in this field.

Click here to enter text.

1.5 What is your opinion of the balance between functionality - cost? To what extent can improved/extended functions justify higher costs? To what extent can lower costs justify some limitations in the functionality?

The Riksbank supplies the RIX system according to the principle of full cost coverage, that is, the system is financed by its users. The number of participants, changes in the payment market, requirements of specific functions and increased requirements of security will thus be reflected in the fees going forward.

Click here to enter text.

2. The current RIX system

The current RIX system came into operation in 2009 and is the Riksbank's system for the settlement of large-value payments. This system is supplied by SIA, which also provides support and development. Several countries are currently using the same supplier and same system. In the Nordic region, Norway, Denmark and Iceland use this system, while Finland takes part in T2. Denmark decided in December 2020[1] to join the Eurosystem's TARGET Services, (T2 and TIPS), it was already a member of T2S.

The RIX system ensures the settlement of payments between participants. RIX supplies settlement of large-value payments (RTGS), enables the settlement of securities transactions in central bank money in accounts in Sweden's central securities depository, supplies intraday credit and standing monetary policy facilities, as well as continuity functions and contingency routines. The RIX system is also significant to the operational framework for the implementation of monetary policy.

2.1 What is your opinion of the current RIX system with regard to functionality, opening hours and user-friendliness?

Click here to enter text.

2.2 Any further functionality you would like to see?

Click here to enter text.

2.3 Does the current RIX system meet your organisation's requirements? Please clarify your response by using examples

a) areas that are appreciated in, or lacking in the current RIX system.

Click here to enter text.

b) services that are appreciated in, or lacking in the current RIX system.

Click here to enter text.

2.4 The Riksbank has contingency routines for various types of interruption or disruption. Do these meet your organisation's requirements and needs?

Please clarify your response by using examples in this field and of contingency routines that can be developed or are lacking in the current RIX system.

Click here to enter text.

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[1] https://www.nationalbanken.dk/en/bankingandpayments/interbank_payments/Pages/Migration-of-Danish-kroner-to-Target-Services.aspx

3. Possible future membership of T2

One alternative to the current settlement service could be T2, a platform for settling payments owned and run by the Eurosystem[2]. This platform is used in all euro area countries and is also open to non-euro area countries and other currencies than the euro, after reaching agreement between the respective country's central bank and the Eurosystem. Payment transactions in T2 are settled continuously[3] in central bank money. The system includes liquidity management and various optional additional services and continuity planning. T2 is used for the central banks' transactions and for payments between different banks, among others.

3.1 What advantages do you envisage with a potential membership of T2?

Click here to enter text.

3.2 What problems do you envisage with a potential membership of T2?

Click here to enter text.

3.3 To what extent would a potential membership of T2 affect your organisation?

	Major impact	**Medium impact**	**Minor impact**
Internally within your organisation	Click here to enter text.	Click here to enter text.	Click here to enter text.
In relation to external parties	Click here to enter text.	Click here to enter text.	Click here to enter text.

Possible comments

Click here to enter text.

3.4 Danmarks Nationalbank has decided to join T2, which means that there will be other currencies than the euro on the platform. Do you believe that Swedish participation in T2 would increase the opportunities for collaboration and harmonisation with other EU currencies?

Click here to enter text.

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[2] https://www.ecb.europa.eu/paym/target/target2/html/index.en.html
[3] Banking days 07.00-18.00 (national adaptations are possible)
https://www.ecb.europa.eu/paym/target/target2/profuse/calendar/html/index.en.html

4. Other alternatives

Above we mention two possible alternative for a future settlement service for large-value payments: either to continue with the current system, SIA, or join T2.

4.1 Are there any other realistic alternatives that the Riksbank should include in its preliminary study?

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