



“Payment systems and related recommendations - of relevance to deposit insurance?”

IADI/CRAL : “The profile of deposit insurance in the Latin American region”,

Gregor C. Heinrich
Chief Representative
BIS Office for the Americas

Arlington, VA, 28 October 2008

Las opiniones expresadas en esta ponencia son las del autor y no reflejan necesariamente las del BIS, del CPSS o del BCBS ni sus miembros.



DEPOSIT INSURERS and PAYMENT SYSTEMS

- Why ?
- Which ?
- What is different ?

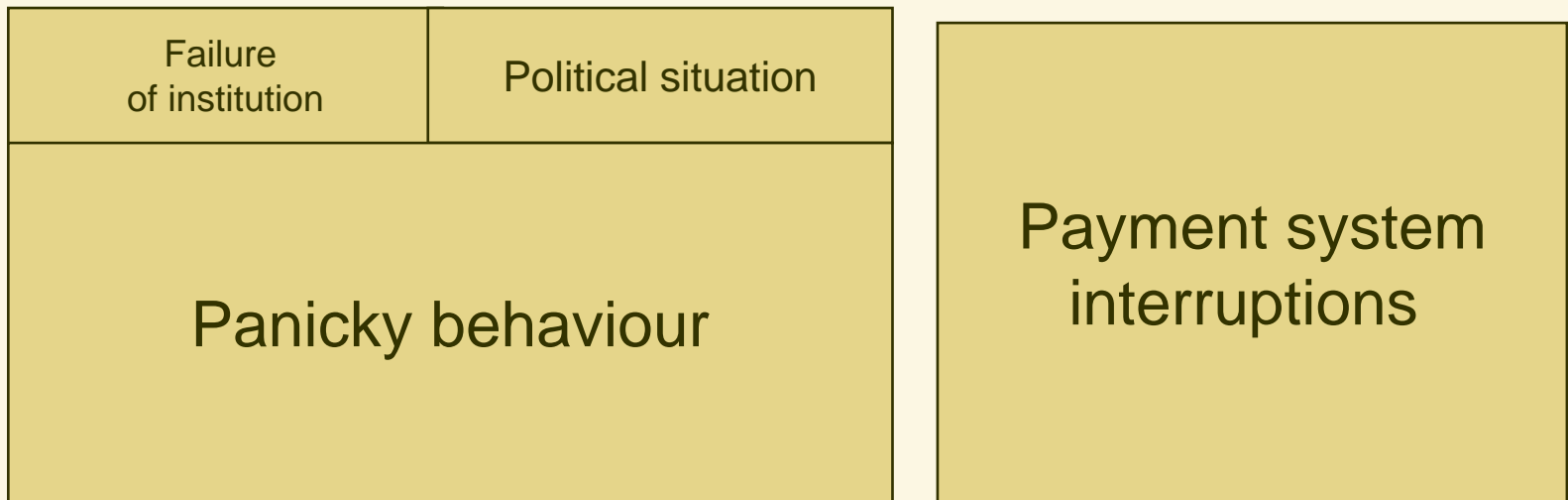


FSF Report - 2008

“To be effective, the deposit insurance function needs to be part of a well-designed financial safety net, supported by strong prudential regulation and supervision, effective laws that are enforced, and sound accounting and disclosure regimes.”



Systemic risk



Deposit insurance

Design, intraday credit

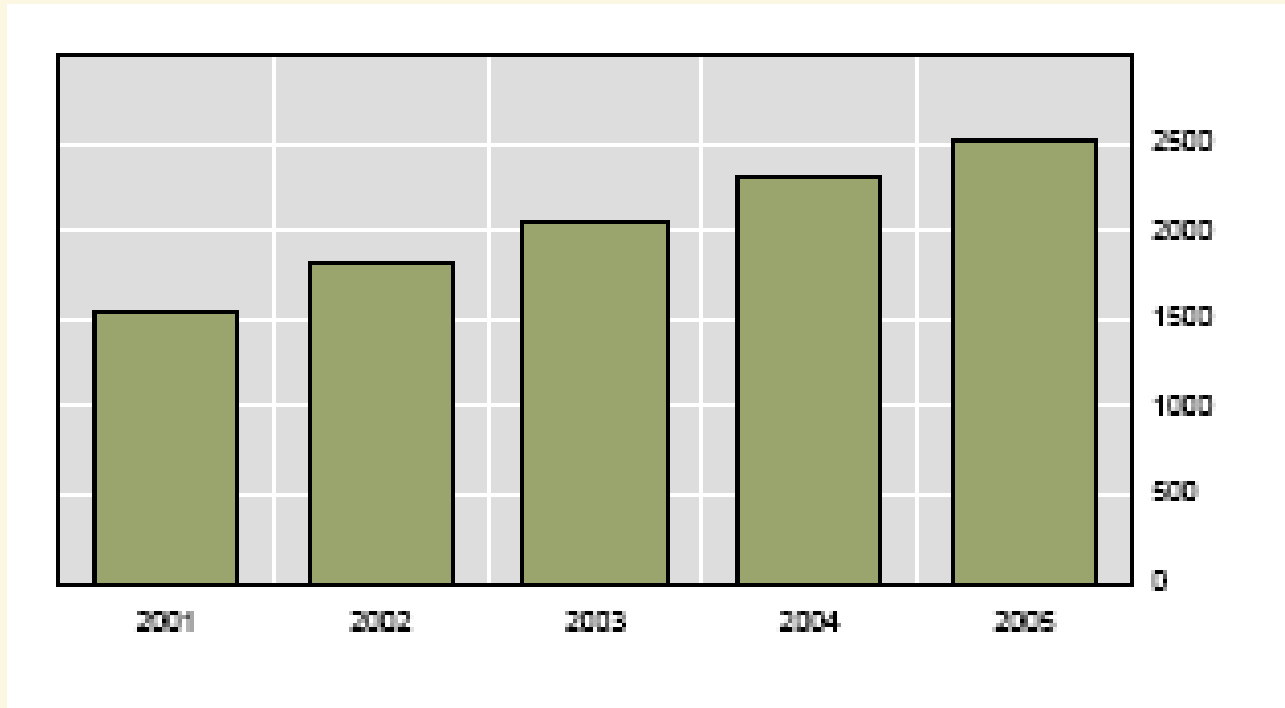


Why policymakers care about payment systems

- Size + involvement of cbk
 - Reliable?
 - How to protect themselves from excessive risk
 - Eg, Canada, daily turnover LVTS = 10x GDP
- Policy relevant – platform for implementing monetary policy



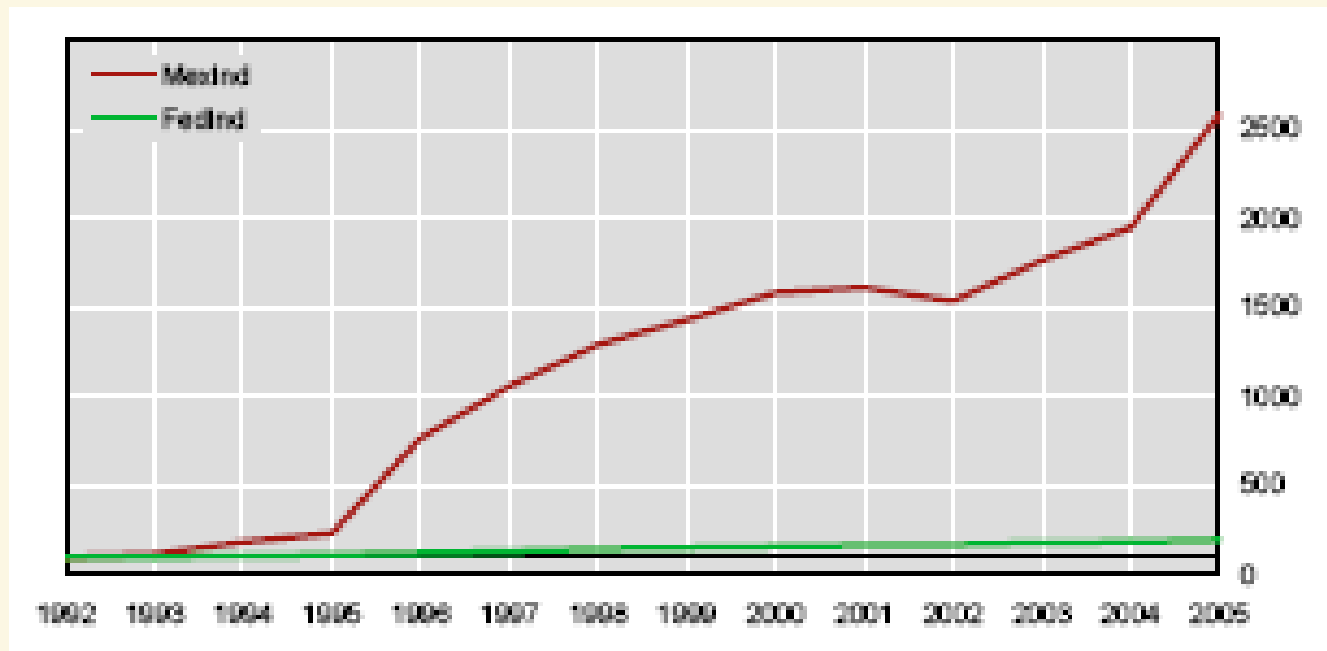
Evolución de pagos y sistemas en la región



Volumen total de SWIFT FIN, millones de transacciones, 2001-2005



Evolución de pagos y sistemas en la región



Tendencias comparativas: Fedwire/Mexico LBTR



BUT....

- PAYMENT SYSTEMS NOT MENTIONED IN DEPOSIT INSURANCE TEXTS (STANDARDS + LAWS) ?



DEPOSIT INSURERS and PAYMENT SYSTEMS

- Why ?
- Which ?
- What is different ?



STANDARDS

- Asian Crisis
- Financial Stability Forum
- „key standards“ - FSAP



FSF – Key standards

Restricted

	Area	Standard	Issuing body
<i>Macroeconomic Policy and Data Transparency</i>	Monetary and financial policy transparency	<i>Code of Good Practices on Transparency in Monetary and Financial Policies</i>	IMF
	Fiscal policy transparency	<i>Code of Good Practices on Fiscal Transparency</i>	IMF
	Data dissemination	<i>Special Data Dissemination Standard/ General Data Dissemination System¹</i>	IMF
<i>Institutional and Market Infrastructure</i>	Insolvency	<i>(in progress)</i>	(World Bank / UNCITRAL)
	Corporate governance	<i>Principles of Corporate Governance</i>	OECD
	Accounting	<i>International Accounting Standards (IAS)³</i>	IASB
	Auditing	<i>International Standards on Auditing (ISA)</i>	IAASB / IFAC
	Payment and settlement	<i>Core Principles for Systemically Important Payment Systems</i>	CPSS
		<i>Recommendations for Securities Settlement Systems</i>	CPSS/IOSCO
	Market integrity	<i>The Forty Recommendations of the Financial Action Task Force/ 8 Special Recommendations Against Terrorist Financing</i>	FATF
<i>Financial Regulation and Supervision</i>	Banking supervision	Core Princ. for Effective Banking Supervision	BCBS *
	Securities regulation	<i>Objectives and Principles of Securities Regulation</i>	ISOCO
	Insurance supervision	<i>Insurance Core Principles</i>	IAIS *



DEPOSIT INSURANCE ?

- Not „key“ ?
- But...
 - FSF Guidance 2001
 - Today: 101 countries (+18 pending/study) dep. insur
 - FSF Report April 2008:
 - „Authorities should agree a set of international principles for deposit insurance systems“



WHAT else in Payment Systems?

- Systemically important – Core principles
- General guidance
- Retail + remittances
- Interdependence



CPSS : Core Principles for Systemically Important Payment Systems (2001)

- VIII “The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day”.
 - = assurance, predictability
 - Failures and flaws
 - increase risk of bank runs?
 - Precipitate crisis?
- Other systems?



CPSS : General guidance for national payment system development (2006)

- Most common problems:
 - inadequate knowledge, vision and leadership;
 - limited information about needs and system capabilities;
 - weak support and commitment - inadequate consultation;
 - limited development resources; and
 - legal, regulatory, public policy and market barriers to ongoing development of the national payment system.



CPSS : General principles for international remittance services (2007)

- Does not recommend particular system
- No bias in favour of banks (deposit insurance)
- But pro competition + transparency + fair access
- Financial turbulence - Increased use of banking system?



CPSS : The interdependencies of payment and settlement systems (2008)

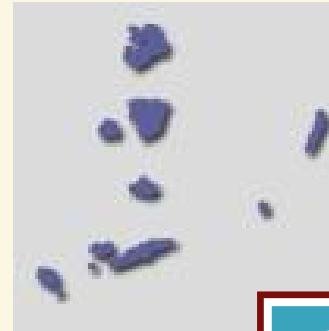
- System-based / Institution-based / Environmental
- Implications for safety and efficiency of infrastructure



Forget the islands !



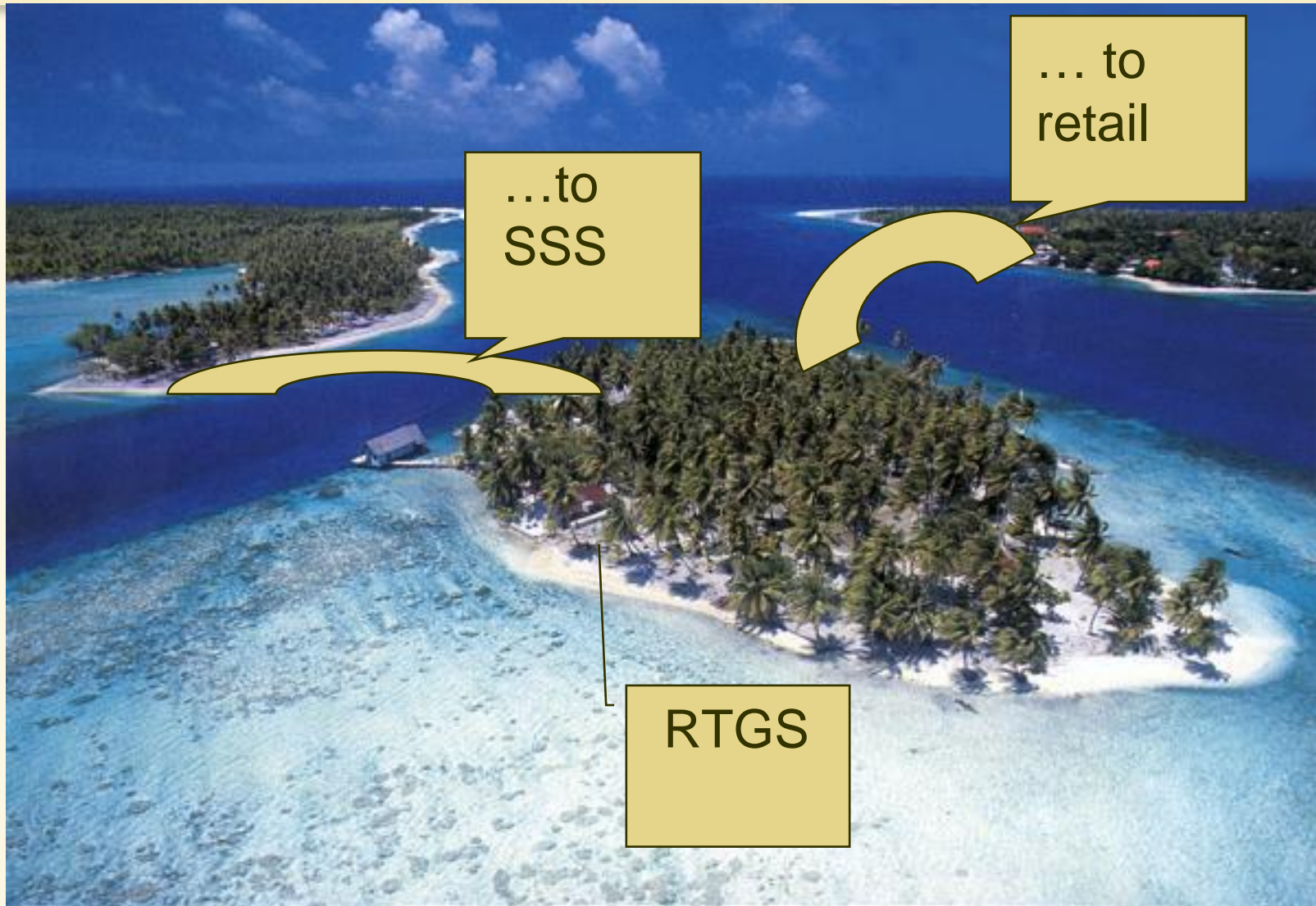
Nihoa





But not the linkages





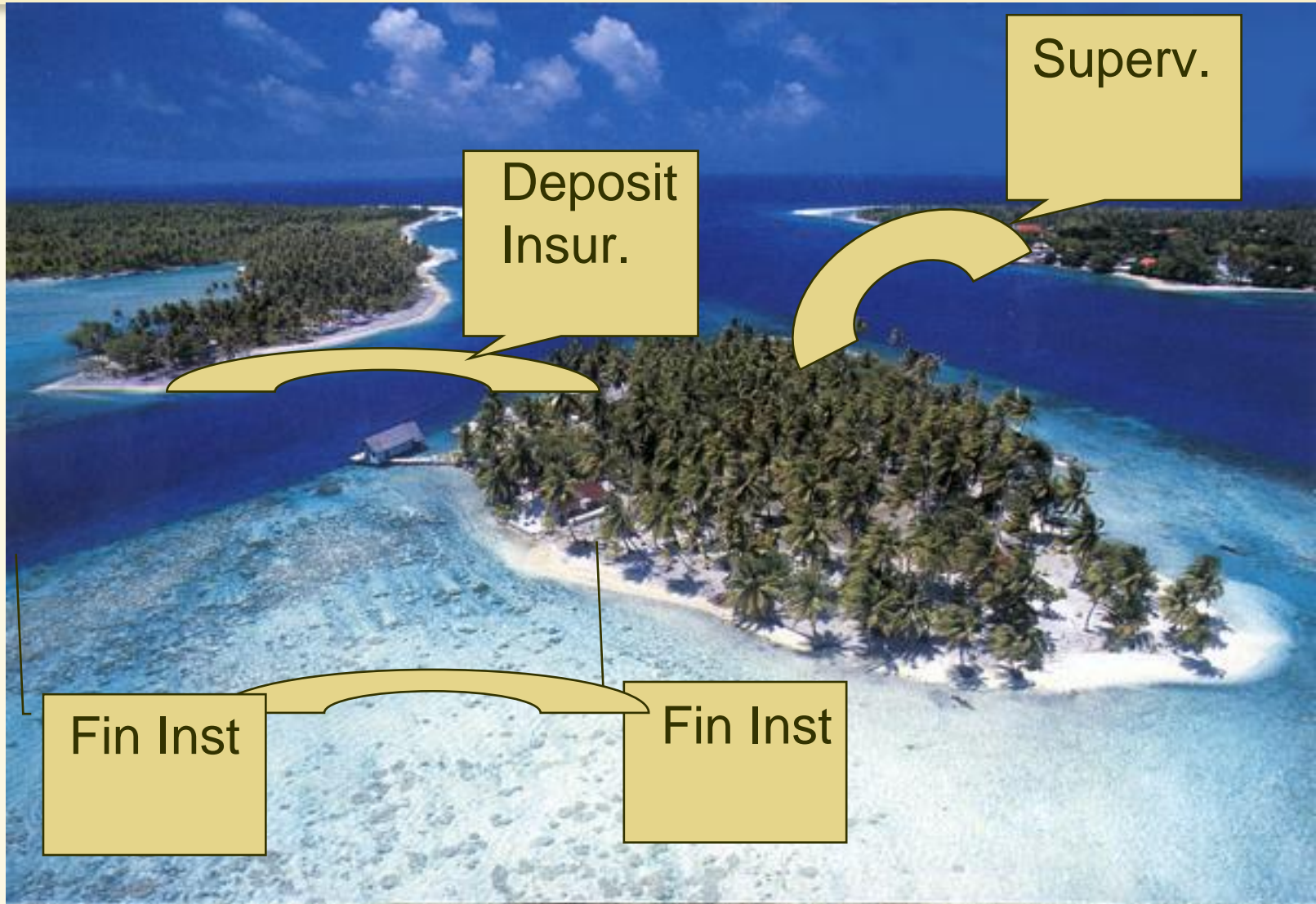


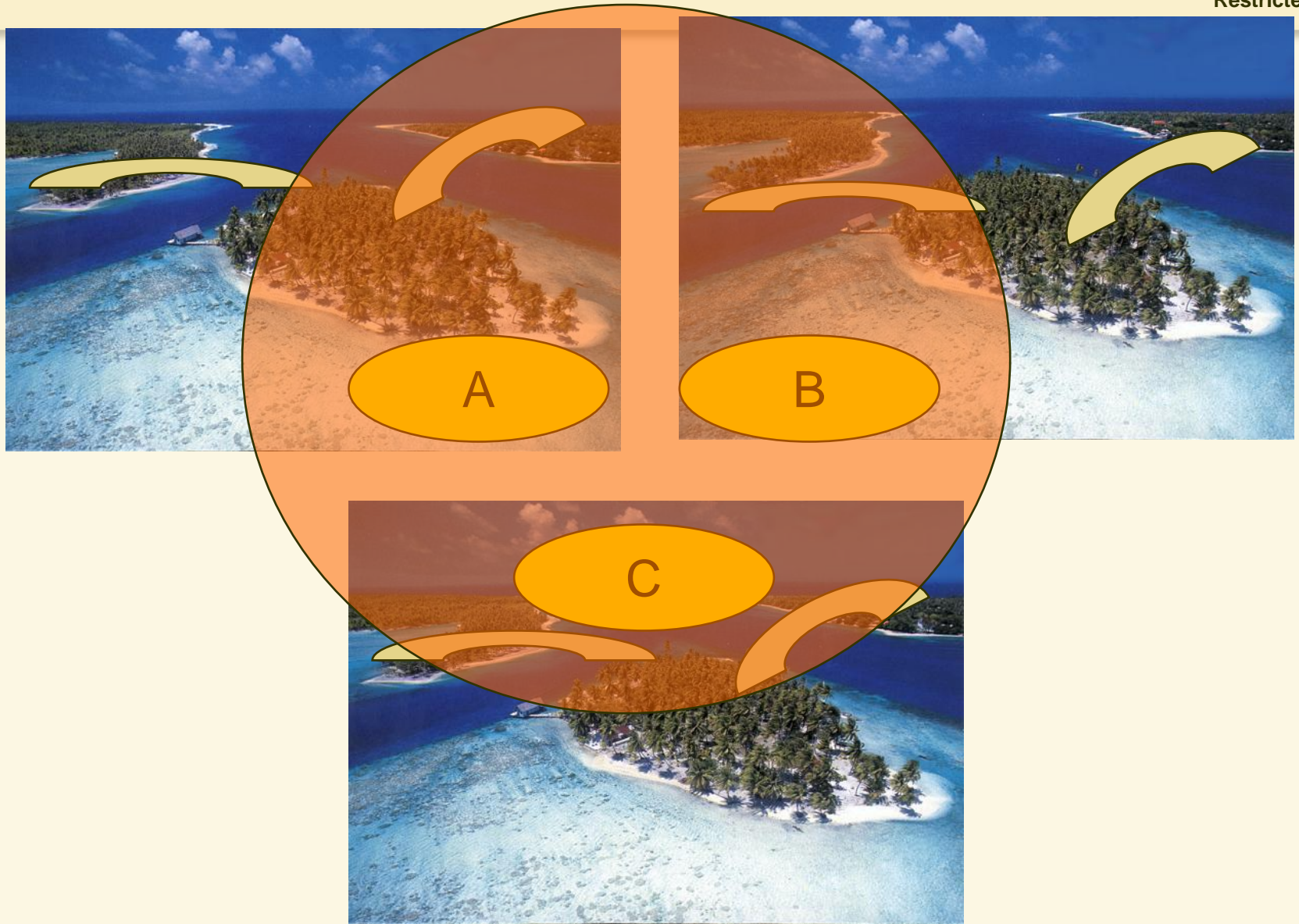
CPSS : The interdependencies of payment and settlement systems (2008)

- Implications for safety and efficiency
- Increased potential for spread of disruptions
- Implement wide coordination among interdependent stakeholders



Conclusion - Challenges

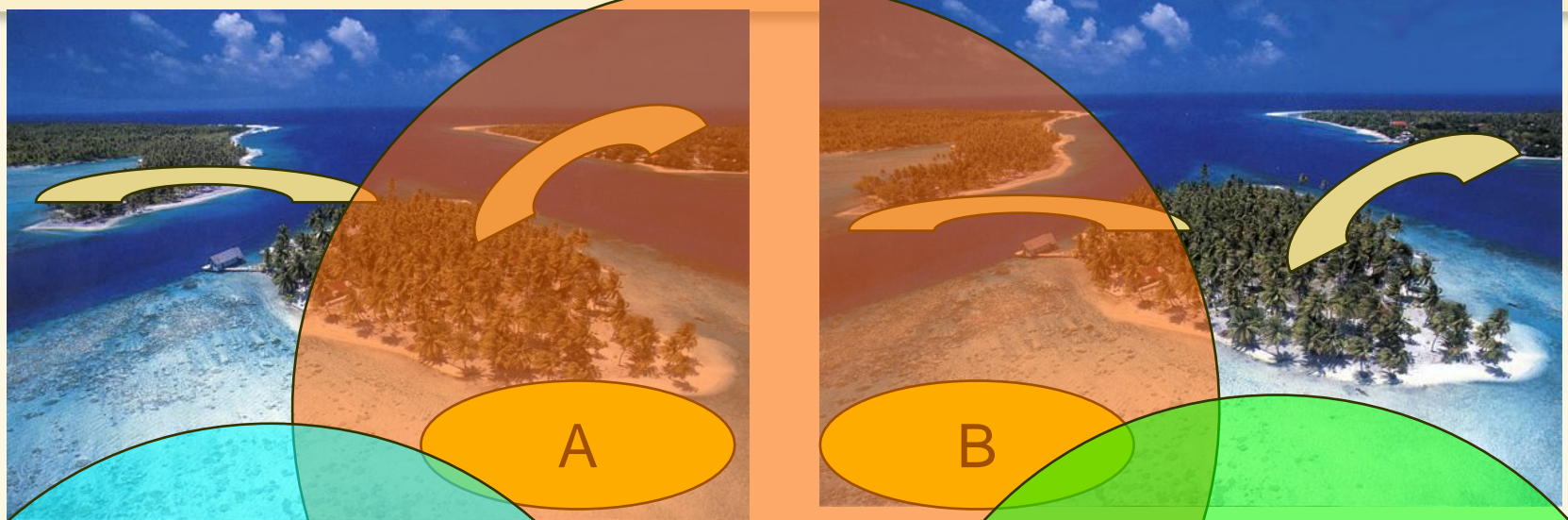






Deposit insur.

Restricted



A

B

C

Paym.Sys.

Banking sup.



Examples

- CPSS-IOSCO: Securities settlement systems
- BCBS-IADI: Working Group „Core Principles for Effective Banking Supervision“
- BCBS(-IASB): need to develop consistent fair value measurement guidance
- IADI – CPSS: ?



Deposit insurance – Payment systems

- In common:
 - Building blocks of safety net
- Different:
 - Consumer protection
 - Risk horizons
 - ...



Risk horizons

$$E = mc^2$$

Insurance = years (5)



Banks: months-years



Payment systems: second-day

AND: Incidents do occur



Deposit insurance – Payment systems

- In common:
 - Building blocks of safety net
- Different:
 - Risk horizons
 - Good dep. Insurance: transfer of risk
 - Good paym.sys: eliminate risk



THANK YOU

<http://www.bis.org>