



Instant Payments in Europe

Settlement in Central Bank Money vs Commercial Bank Money

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Current status

- There are 2 different models for Instant Payments:
 - TIPS (TARGET Instant Payment Settlement) = direct settlement in Central Bank money
 - ACH (Automated Clearing System) = interfaced with T2 via ASI6rt, pre-funded
- There is no liquidity pooling link available neither between the domestic ACH's nor between the ACH's and TIPS, as long as ACH's do not hold a technical account within TIPS.
- Payment System Providers can not operate on a single liquidity pool cross the various models and providers. Thus, PSP's are forced to maintain multiple ACH connections which leads to fragmentation of liquidity and operational burden.
- Liquidity can only be moved between the ACH's and with TIPS during T2 opening hours
- The bank's balance in other Instant Payment Systems (i.e. RT1) is treated as commercial bank money.
- Liquidity in TIPS is treated as Central Bank Liquidity
Therefore, all Eurosystem Monetary Policy Tools are eligible, including the re-use of Central Bank Reserves and Tiering.

ECB takes steps to ensure pan-European reach of instant payments

24 July 2020

The ECB's Governing Council has taken significant steps to support the full deployment of instant payments across the euro area, in line with objectives shared with the European Commission.

Pan-European instant payments can be ensured by the end of 2021. All Payment Service Providers (PSPs) which have adhered to the SCT Inst scheme and are reachable in TARGET2 should also become reachable in a [TIPS](#) central bank money liquidity account, either as a participant or as reachable party (i.e. through the account of another PSP which is a participant).

At the same time, all Automated Clearing Houses (ACHs) offering instant payment services should migrate their technical accounts from TARGET2 to TIPS. The Eurosystem will discuss with ACHs and PSPs whether a migration window is needed for this purpose.

This will enable the following...

Source: ECB <https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews200724.en.html>

ECB takes steps to ensure pan-European reach of instant payments

- ***The possibility of instant payments across the currency area.***
- ***PSPs to comply with the SEPA regulation:*** PSPs which have adhered to SCT Inst will now be able to comply with their legal obligations, without depending on the actions of other PSPs or ACHs.
- ***Make reachability a commodity, reflecting the fact that it is a legal requirement:*** Not only would TIPS benefit from 100% pan-European reachability, but all ACHs competing in the provision of instant payment services would automatically make this part of their service offer. ACHs would no longer depend on bilateral agreements to establish links, and there would be no potential credit exposure for cross-ACH transactions.
- ***Remove liquidity traps:*** ACH accounts can be funded/defunded from central bank money accounts in TIPS at any time, unlike the current limitations imposed by the opening hours of TARGET2. This also facilitates moving liquidity from one ACH to another without any time limitation, which can be particularly valuable during long weekends.
- ***A competitive marketplace*** where each PSP may decide independently (i) where to instruct (in an ACH or in TIPS) and (ii) where to hold its liquidity and settle (in an ACH or in TIPS). The choice that one PSP makes in this respect does not condition the choices of other PSPs.

The ultimate goal is to enable European citizens to make electronic payments in euro from and to any country in real time, both in physical shops and online.

Banks have to be reachable in TIPS by November 2021.

Minimum Reserve Requirements (MRR) and Tiering

*In September 2019, ECB introduced the two-tier system for remunerating excess liquidity holdings
The two-tier system aims to support bank-based transmission of monetary policy*



- Part of the excess liquidity holdings are to be exempt from negative deposit facility rate
 - Exempt tier is currently remunerated at the annual rate of 0%
 - Allowance is a multiple of an institution's MRR, current multiplier is set to six – subject to change
- Applicable are reserve holdings in excess of MRR, held in reserve accounts with the Eurosystem

Source: ECB <https://www.ecb.europa.eu/mopo/two-tier/html/index.en.html>

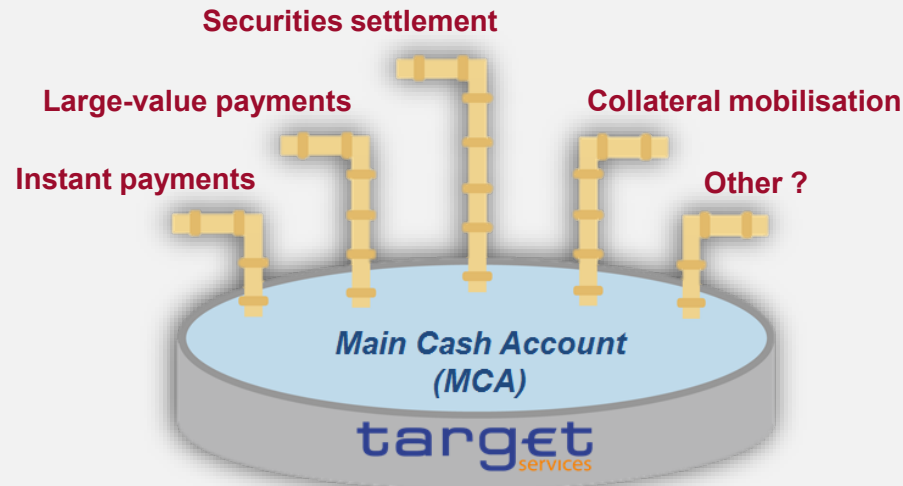
Future Developments

Increased market demand for Central Bank Money

Evolving market developments (driven by customer expectations and technological advancements) and regulatory initiatives (such as STEP2, CSDR) forced market participants to re-assess their liquidity operational models motivated by:

- Access to liquidity in moments of stress
- Capital and liquidity cost reliefs
- Further balance sheet netting

➤ **Single liquidity pool in EUR** – as opposed to Central Bank Money vs Commercial Bank Money



Source: based on a Presentation by Ulrich Bindseil January 2020

Operational aspects of a single EUR liquidity pool

T2 & IP settlement in ACH (e.g. RT1)

- Inflows in RT1 will not be available until the next Liquidity Adjustment Cycle (LAC)
- Liquidity transfers in RT1 are only possible for the next available LAC (currently 8 LACs per day)
- Unpredictable customer behavior and higher volumes in payments will further increase cost intensive pre-funding of RT1 account

No offsetting benefit

T2 & IP settlement in TIPS

- Offsetting effects due to liquidity pool advantages
- Effects will reduce Intraday Liquidity volatility and thereof payment portfolio requirements
- Clear operational advantage in TIPS due to immediate liquidity transfers from T2 and intraday liquidity neutral account balances during the night, weekends and holidays

Instant offsetting benefit

Example: In case of a dual approach, simultaneous in- and outflows at T2 and ACH cannot offset one another and therefore cause intraday reserve requirement



An increased availability and usage of instant payment infrastructure will ultimately lead to higher buffer requirements*. Offsetting benefits can be created through a single liquidity pool in the TARGET Services

** Our current buffer on our RT1 account of EUR 200m leading to intraday costs merely by the fact that it is excluded from Tiering and MR.*

Payment Portfolio

Basel Committee on Banking Supervision

- › BCBS 248 (monitoring tools for intraday liquidity management) reformed the intraday liquidity risk management for banks
- › It reinforced the importance to hold an dedicated Intraday Liquidity Reserve Portfolio for payment obligations on a timely basis under both normal and stressed conditions

Portfolio management

- › Ongoing intraday liquidity steering is performed by Treasury
- › Processing and routing of cash flows (credits and debits) is usually performed by Payment Department !!
- › The usage is measured by Risk Controlling throughout the day and reported to the regulator daily

Consequence

- › Payment Portfolio consists currently of unencumbered assets which must be available 24/7/365 and thus funded long-term
- › Looking forward, higher volumes of IP Transfers within other Instant Payment Systems– as opposed to TIPS – will translate into a second separate Payment Portfolio requirement

The costs for Payment Portfolio funding should be taken into account!

Settlement Possibilities in TIPS

Settlement via technical account ACH

- Increases complexity, requires second BIC
- Will be credited/debited on bank's IP account within the ACH (⇒ Commercial Bank Money!)
- Connectivity possible via ACH's Instructing Party Service



- Technical Accounts of ACHs are remunerated at deposit facility rate
- No benefit from Tiering and Minimum Reserve
- Limited liquidity management due to delays in funding and defunding of LACs

Settlement via own TIPS DCA

- In Central Bank Money
- Connectivity possible via direct connection to TIPS or via Instructing Party Service from ACH
- Internal Routing is necessary to ensure priority routing to TIPS

Instructing Party Service (Tactical Solution Commerzbank)

Advantages

- Already existing connection to ACH can be used to route transactions to/from TIPS
- Lower implementation efforts come in handy given existing project like T2-T2S Consolidation (ISO Migration)

Disadvantages

- Enhanced costs due to double charging of Instructing Party Service and TIPS transaction fees
- Potential performance issues due to additional layer in the transaction chain (10 seconds)

Direct connection to TIPS is key in order to stay on top of future instant payment infrastructure developments (new normal)

Conclusion and future vision

Conclusion

Single liquidity pool in Central Bank Money is leading to more intraday efficiency:

- Lower liquidity buffers
- Reduced stress buffers
- Offsetting effects within the TARGET Services (T2, T2S, TIPS)

Developments based on instant technology

- IP Bulk (Instant Payment Bulk) via file submission
- Request to Pay (sending an electronic request for a payment to the debtor account)
- European Payment Initiative (based on SCT Inst scheme centering around TIPS)
- Interconnectivity between TIPS and digital wallets / digital assets via API
- Central Bank Digital Currencies



All these developments require a liquidity management solution, where banks will benefit from one single liquidity pool in Central Bank Money

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