Box 19

THE OVERSIGHT OF RETAIL PAYMENT SYSTEMS

The Eurosystem's task of promoting the smooth operation of payment systems consists of ensuring the safety and efficiency of payment systems and the security of payment instruments. In pursuing this objective, to start off with, the Eurosystem concentrated on large-value payment systems, as these systems were regarded as the most relevant for financial stability in the euro area. However, turnover data for euro retail payment systems suggested that some of these systems had likewise reached a size, and thus relevance, where disruptions could trigger systemic risks.

Therefore, in June 2003 the Governing Council of the ECB adopted an oversight framework for retail payment systems operating in euro. It is important to note that this oversight framework is intended to ensure that retail payment systems cannot become vectors of systemic risks or economic malfunctioning in the euro area. The framework contained criteria for classifying retail payment systems into three different categories: systemically important retail payment systems (SIRPS), prominently important retail payment systems (PIRPS), and "other retail payment systems". The decisive factor in defining the classification criteria was the degree of disruption that a malfunctioning in one of these systems could cause in the financial markets and/or the economy in general.

The distinguishing feature of a SIRPS is that it can trigger severe disruptions or transmit shocks across the financial system. The main determinants in this respect are the value and the nature of the payments that the system processes. A payment system is likely to be of systemic importance if at least one of the following is true: (i) it is the only payment system in the country, or the principal system in terms of the aggregate value of payments; (ii) it mainly handles payments of high individual value; and/or (iii) it is used for the settlement of financial market transactions or the settlement of other payment systems. If the disruption of a retail payment system could threaten the stability of financial markets, the system is considered to be of systemic importance (i.e. a SIRPS). With regard to the criteria for a retail payment system being classified as a SIRPS, the Eurosystem took into account three factors: the market penetration within the respective retail payment market, the financial risks pertinent to the system, and the risk of a domino effect. The following three quantitative indicators are used in this respect:

– a market share of more than 75% of the respective retail payments market, i.e. the payments processed via interbank retail payment systems and via other payment arrangements ("market penetration");

– a processing of payments of more than 10% of the value of the national RTGS system or a processing of payments with an average daily value of more than €10 billion ("aggregate financial risk"); and

– a concentration ratio (i.e. the market share of the five largest participants) of 80%, or a netting ratio of 10% or less, or a net debit position of participants of at least €1 billion ("the risk of a domino effect").

Any systems fulfilling all of these criteria were considered to be SIRPS.

If the disruption of a retail system does not have systemic implications, but could nonetheless have a severe impact, such a system is considered to be of prominent importance for the functioning of the retail economy (i.e. a PIRPS). PIRPS are characterised by the fact that they play a prominent role in the processing and settlement of retail payments, and that their failure could have a major economic impact that could undermine the confidence of the public in payment systems and in the currency in general. In seeking to classify PIRPS, the focus was therefore on the concentration of the retail payments market and, in particular, the degree of market penetration of the respective system, on the basis of the following quantitative indicator:

– a market share of more than 25% of payments processed in the respective retail payments market, i.e. the payments processed via interbank retail payment systems and via other payment arrangements.

There are other retail payment systems that do not belong to either of the two previous categories. These systems have a lesser impact on the financial infrastructure and the real economy and therefore do not necessarily have to comply with the Core Principles or the Retail Standards. However, such systems do have to comply with the relevant oversight standards, as and if defined for them. Examples in this respect are the common oversight standards for e-money schemes and the standards defined at the national level by each NCB.

It was decided that euro retail payment systems have to comply with different sets of standards depending on their classification. SIRPS have to comply with the whole set of Core Principles, while PIRPS have to observe a sub-set of the Core Principles, namely Core Principles I, II, and VII to X. The oversight standards for other systems were not however further harmonised, and these other systems continue to be assessed against any applicable standards determined by the relevant overseer.

The Eurosystem's overseers identified 15 euro retail payment systems which either take the form of an automated clearing house (ACH) or a multilateral interbank agreement, and therefore fall within the scope of the Eurosystem's policy on retail payment systems. Six of these systems were classified as SIRPS, seven as PIRPS, while two fell into the category of "other systems". Subsequently these systems were assessed against the applicable Core Principles. The results of this assessment have been made available on the ECB website.