



EUROPEAN CENTRAL BANK

EUROSYSTEM

Patrick Papsdorf

Principal Market Infrastructure
Expert, ECB

How could business services be enhanced?

**Consultation on the future of
RTGS services**

Information session

22 March 2016, Frankfurt am Main

Overview

- 1 Assessment of current services
- 2 Ancillary system related services
- 3 Liquidity management services
- 4 Enhancing data analysis
- 5 Services related to regulatory compliance

Future enhanced business services may arise from ...

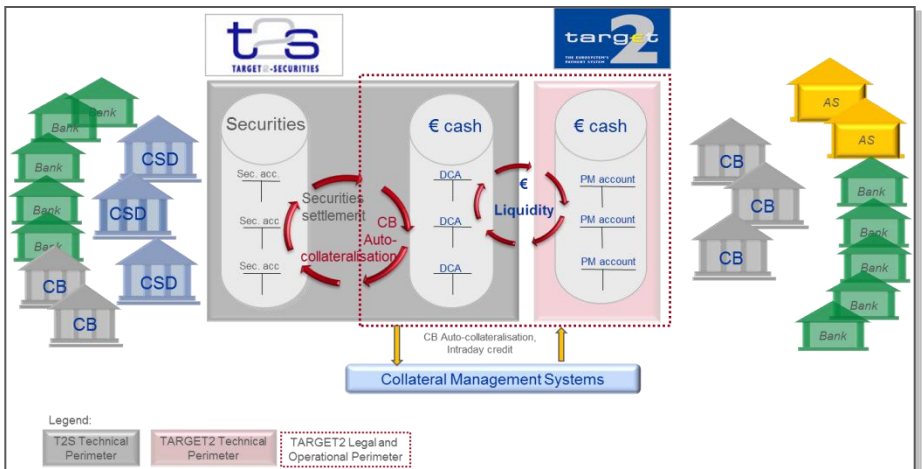
... reviewing today's RTGS services;



“TARGET2: Principles and structure”, 14 July 2003

Go-live 1st wave: 19 Nov 2007

... bringing the two platforms together;



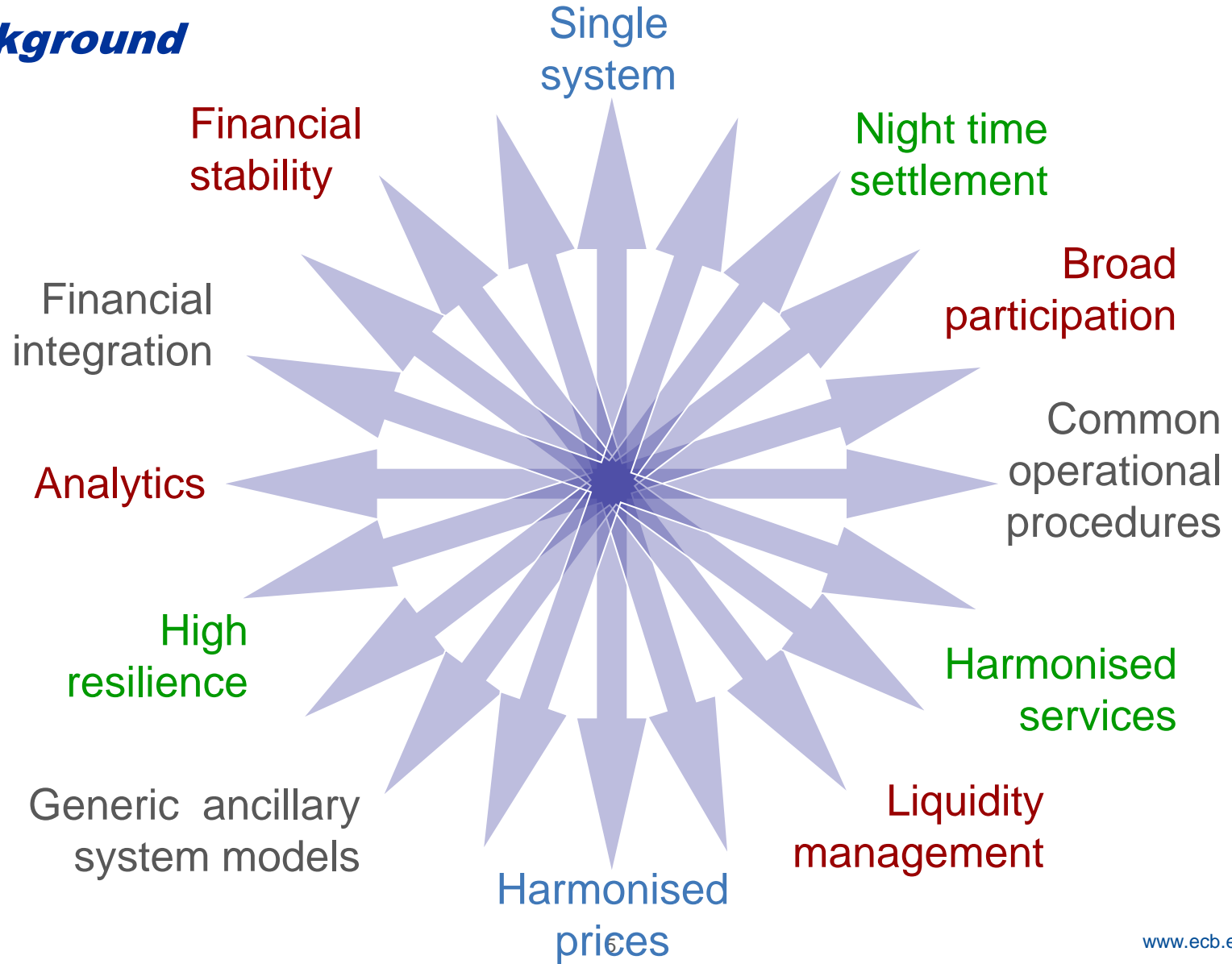
... understanding future needs of the market!

Overview

- 1 Assessment of current services**
- 2 Ancillary system related services
- 3 Liquidity management services
- 4 Enhancing data analysis
- 5 Services related to regulatory compliance

Assessment of current services

Background



Assessment of current services

Services offered to users

Mandatory core services

Payments Module			Information and Control Module	Static Data Module	Contingency Module
Part. interface	ASI	T2SI			

Participation

- High number of direct participants, indirect participants
- High use of unpublished BICs, multi-addressee/addressable BICs, internet based access

Transactions

- Demand for interbank and customer payments, ancillary system transactions



- Core services most important for system and market
- Broad participation and high use for payments

Assessment of current services

Services offered to users

Optional core services

Liquidity Management			T2S value added services
Pooling	Limits	Reservations, Priorities	

Optional liquidity management features

- Priorities setting and timed payments are frequently used
- Low use of account pooling
- Low use of limits
- Build-in features reduce liquidity needs

T2S VAS

- Relatively high use



- Liquidity situation plays a role for liquidity management features
- T2S VAS use is projected

Assessment of current services

Services offered to users

Ancillary system services

- High number of ancillary systems participating in TARGET2

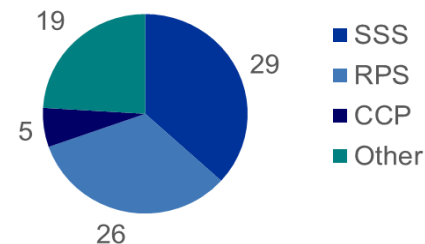
Services provide to all users if CB opted for it

- Growing number of CBs use those (reserve management, standing facilities, home accounting module)

Services provide to CBs only

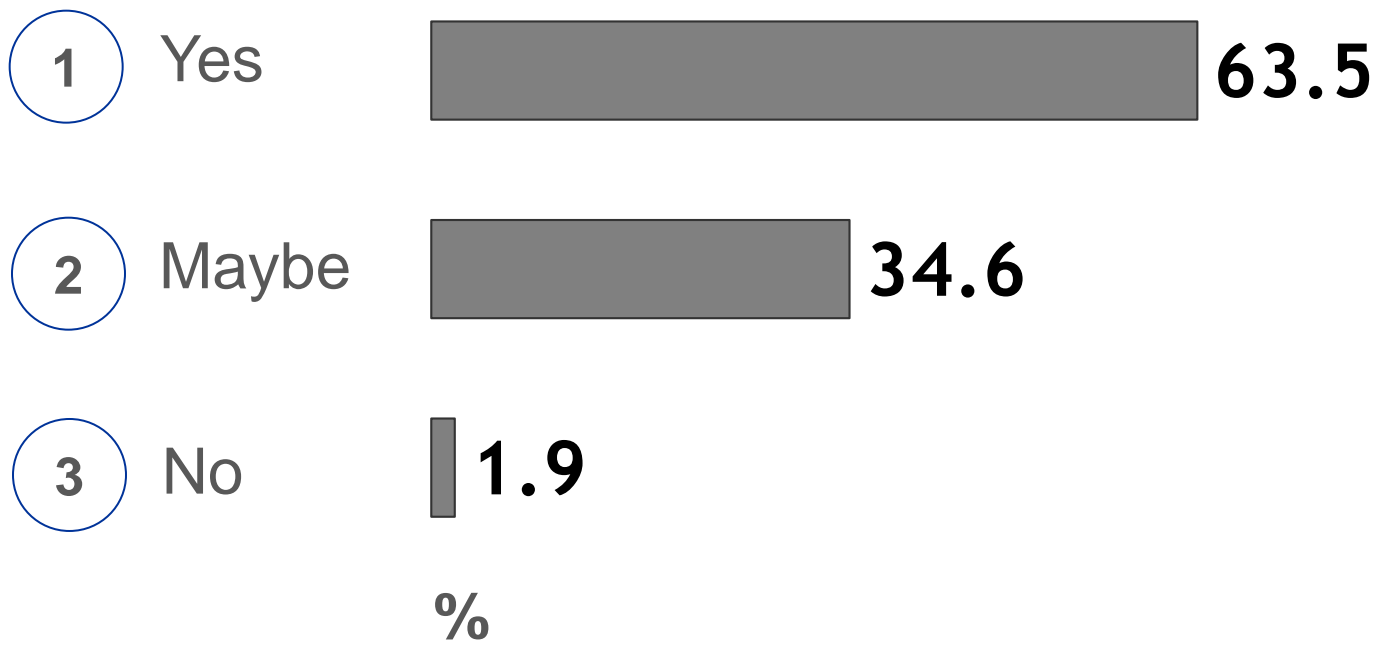
- Data warehouse, Billing and TARGET2 simulator

Ancillary systems by type



- Ancillary system services highly used
- CB services originate from CB tasks

Do you think all of today's TARGET2 services should continue to be provided?



The results above present the vote of the participants at the information session.

Overview

- 1 Assessment of current services
- 2 Ancillary system related services**
- 3 Liquidity management services
- 4 Enhancing data analysis
- 5 Services related to regulatory compliance

Ancillary system related services

Background

Around 80 financial market infrastructures today for finding settlement of their business in central bank money.

- 6 generic settlement models.
- One supports night time settlement.

Model 1 – Liquidity transfer
Model 2 – Real-time settlement
Model 3 – Bilateral settlement
Model 4 – Standard multilateral settlement
Model 5 – Simultaneous multilateral settlement
Model 6 – Dedicated liquidity

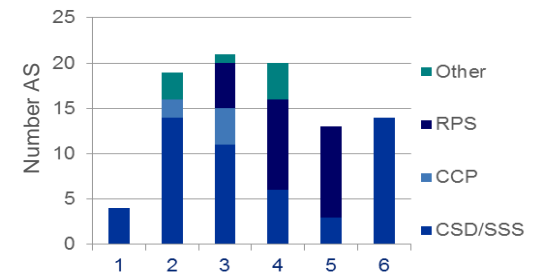
- Manifold developments since the design of the ancillary system models.
- With T2S and CSDs migration, the service orientation of the ancillary system services is changing.

Ancillary system related services

Options

- Align existing models with future needs and streamline models in terms of offered features and tools for handling abnormal situations.
- Availability of models in day-time and night time.
- Settlement messages could carry additional information.
- Support cross- ancillary system settlement
- Ancillary system participants may see further enhancements, like enhanced monitoring, automatic liquidity adjustments or limit systems for settlement banks to control positions of correspondents in respective ancillary system.

Use of ASI models



Ancillary system related services

Potential benefits

- Promoting and enabling settlement of ancillary systems in central bank money is a key objective.
- Consolidate settlement models to increase harmonization by still meeting the various needs of the different ancillary system.
- Support an advanced and harmonized contingency support.
- Achieve higher levels of efficiency and resilience.

Overview

- 1 Assessment of current services
- 2 Ancillary system related services
- 3 Liquidity management services**
- 4 Enhancing data analysis
- 5 Services related to regulatory compliance

Liquidity management services

Background

Successful (intraday) liquidity management is closely interrelated with the smooth functioning of a RTGS.

Objectives

- Reduce banks' liquidity needs and support their liquidity management.
- Allow banks to monitor and control their liquidity flows.
- Set incentive to not delay payments.



- Supports smooth operations and liquidity circulation.
- Reduce relatively higher liquidity needs of a basic RTGS.

Liquidity management services

Scope of options



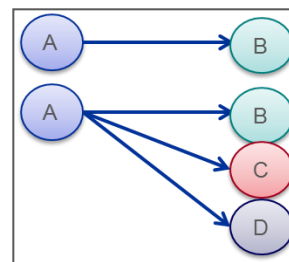
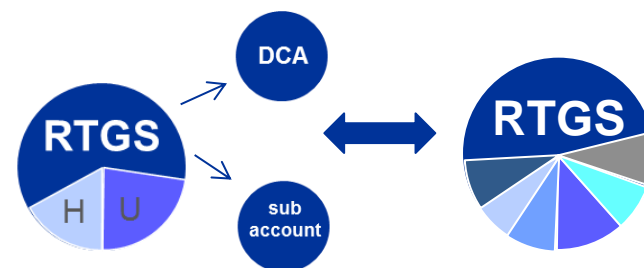
- Build-in optimisation mechanisms (e.g. offsetting, smart queues).
- Availability of central bank credit (intraday credit and auto-collateralisation).



Liquidity management services

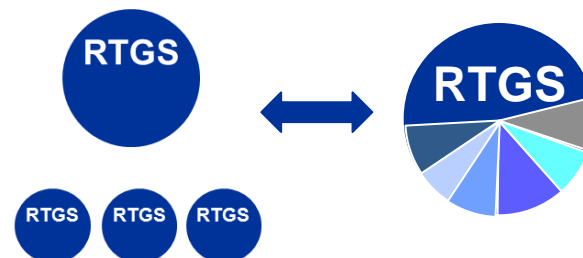
Options

- Reservations for specific payment categories.
- Dedicate /block liquidity for ancillary systems.
- Time-/event-driven predefined payments.
- Limit setting versus counterparties.



For banking groups:

- Pooling of separate accounts or
- Universal account with authorised group-members and limit system.



Reduce liquidity needs

Manage liquidity

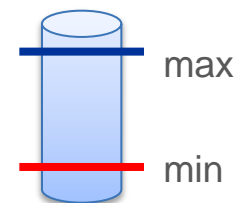
Monitor liquidity

Report liquidity info

Liquidity management services

Options

- Provide intraday monitoring capabilities with parametrized alerts:
 - Intraday patterns
 - Payment in-/and outflows
 - Activity of clients
- Definition of floor and ceiling account balances
- Definition of parameterised alerts for high-value payments, clients ...



- Alerts should usually not mean blocking of transactions.

Reduce
liquidity needs

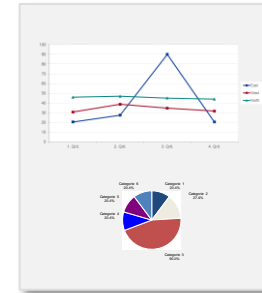
Manage
liquidity

Monitor
liquidity

Report
liquidity info

Liquidity management services *Options*

- Provision of intraday indicators
- Provision of reports for internal or external parties



Liquidity management services

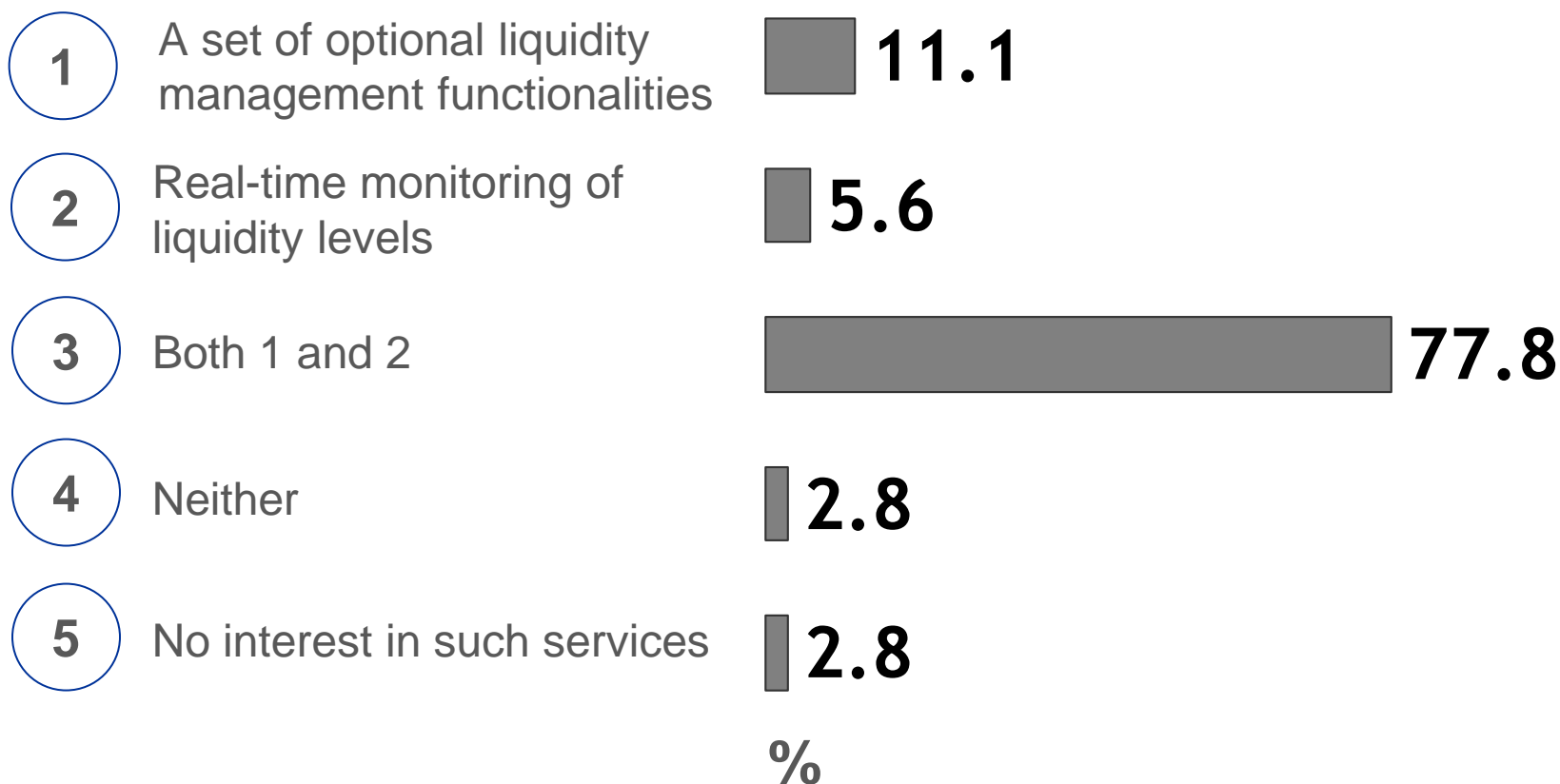
Potential benefits

- Participants could manage their liquidity using a variety of optional tools and monitoring features.
- Participants could manage their liquidity across group members and clients.
- Participants could receive reports and analysis of their (intraday) liquidity management.
- Participants would be supported in complying with regulatory requirements.



- Some of today's features are barely used.

What would you like the platform to offer in view of liquidity management services?



The results above present the vote of the participants at the information session.

Overview

- 1 Assessment of current services
- 2 Ancillary system related services
- 3 Liquidity management services
- 4 Enhancing data analysis**
- 5 Services related to regulatory compliance

Enhancing data analysis

Background

Data analytics can be a powerful tool for, e.g., risk management, client offerings or regulatory compliance.

- Progress on demand and supply side (velocity, volume, variety and tools).
- The Eurosystem could support its participants in their data analysis efforts thanks to:



The granularity of data.



The expertise in analytics and in system's functionalities.



The tools for running analysis.

Enhancing data analysis

Options

Eurosystem could support banks in assessing the use of RTGS functionalities:



Payment priority usage



Liquidity reservations usage



Definition of limits



Use of timed payments

Enhancing data analysis

Options

Eurosystem could support banks in the comprehensive management of (intraday) liquidity:



Analysis of central bank money usage



Identification of payment patterns and calendar effects



Intraday liquidity developments



Dependencies and timing aspects

Enhancing data analysis

Options

Eurosystem could provide participants with *ex post* analysis and the computation of statistics related to the position in the network and related risks:



Interdependencies (network) analysis



Tiered participation



Country and counterparty exposures



Benchmarking

Enhancing data analysis

Options

The Eurosystem can run stress simulations and analyse (in)direct implications of various scenarios on participants helping them to prepare for those:



Stress-testing of country or system wide shocks.



Simulations at participant(s) level



Technical failure



Financial failure



Simulations of changing payment behaviours or overall liquidity levels.

Enhancing data analysis

Potential benefits

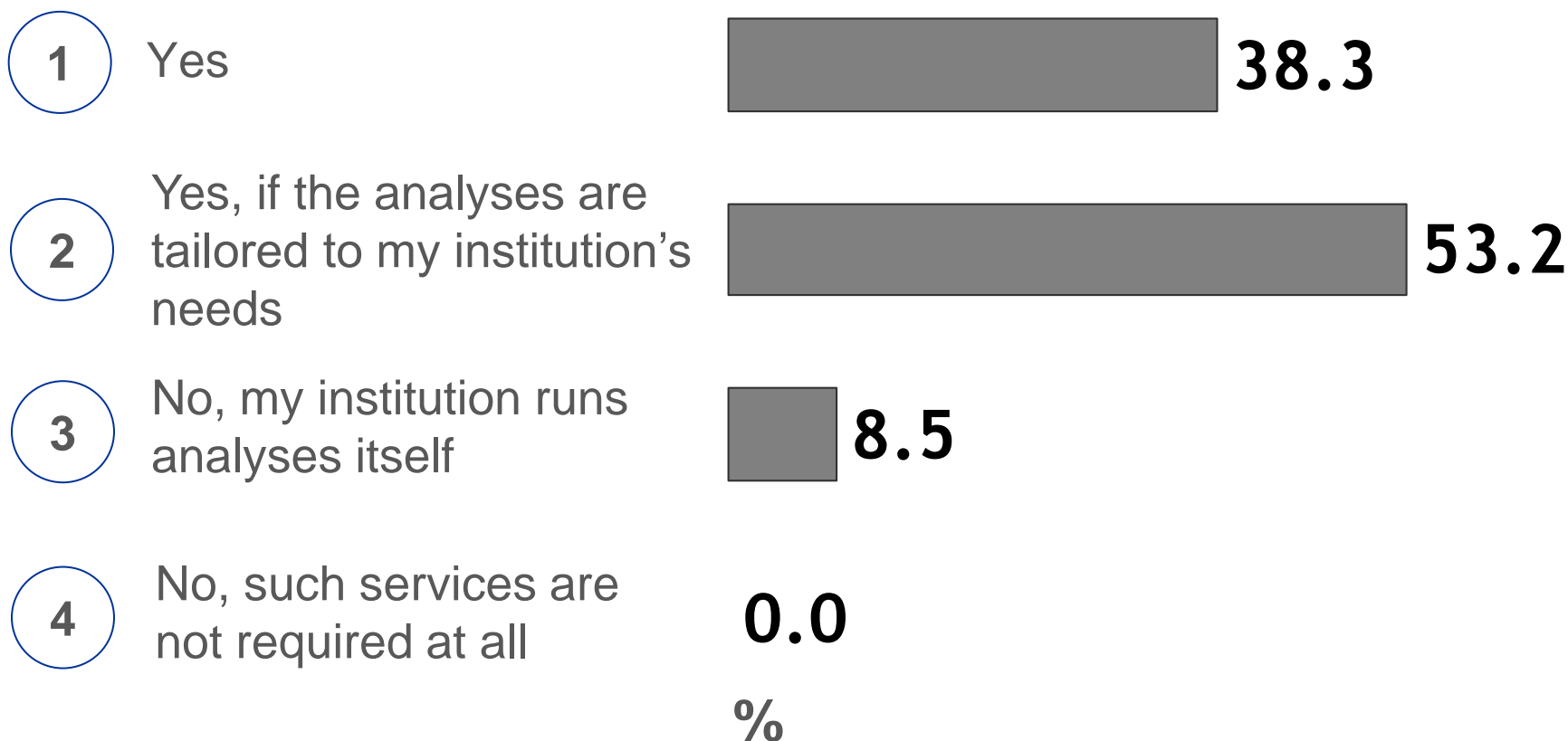
Supporting participants in identifying areas of risk, finding room for improvements and assessing regulatory compliance. Opportunities for participants to:

- outsource resource intensive task;
- access to state of the art high quality analysis with user-friendly output representation;
- access to tailored analysis following a standard or ad-hoc design.



- Analytics need to respect confidentiality requirements.

Are you interested in enhanced data analysis and business intelligence services?



The results above present the vote of the participants at the information session.

Overview

- 1 Assessment of current services
- 2 Ancillary system related services
- 3 Liquidity management services
- 4 Enhancing data analysis
- 5 Services related to regulatory compliance**

Services related to regulatory compliance

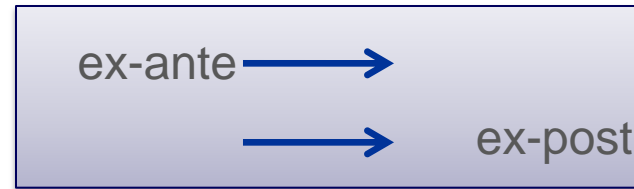
Background

- **AML, CTF:** combat the laundering of money from criminal activities and counter the financing of terrorist activities.
- **Sanctions:** UN and EU sanctions of countries, institutions, individuals.
- **KYC:** Know-your-customer (customer's customer), Know-your-transactions
- **Intraday liquidity management:** Requirements for intraday liquidity management and reporting thereof
- ...

Services related to regulatory compliance

Options

- Screening of transactions



- Identification of **suspicious payments and patterns**
- Support of transactions carrying **structured information**
- Set-up participant's profile to understand **country or counterparty exposures/connections**
- Support on **intraday liquidity management**

Services related to regulatory compliance

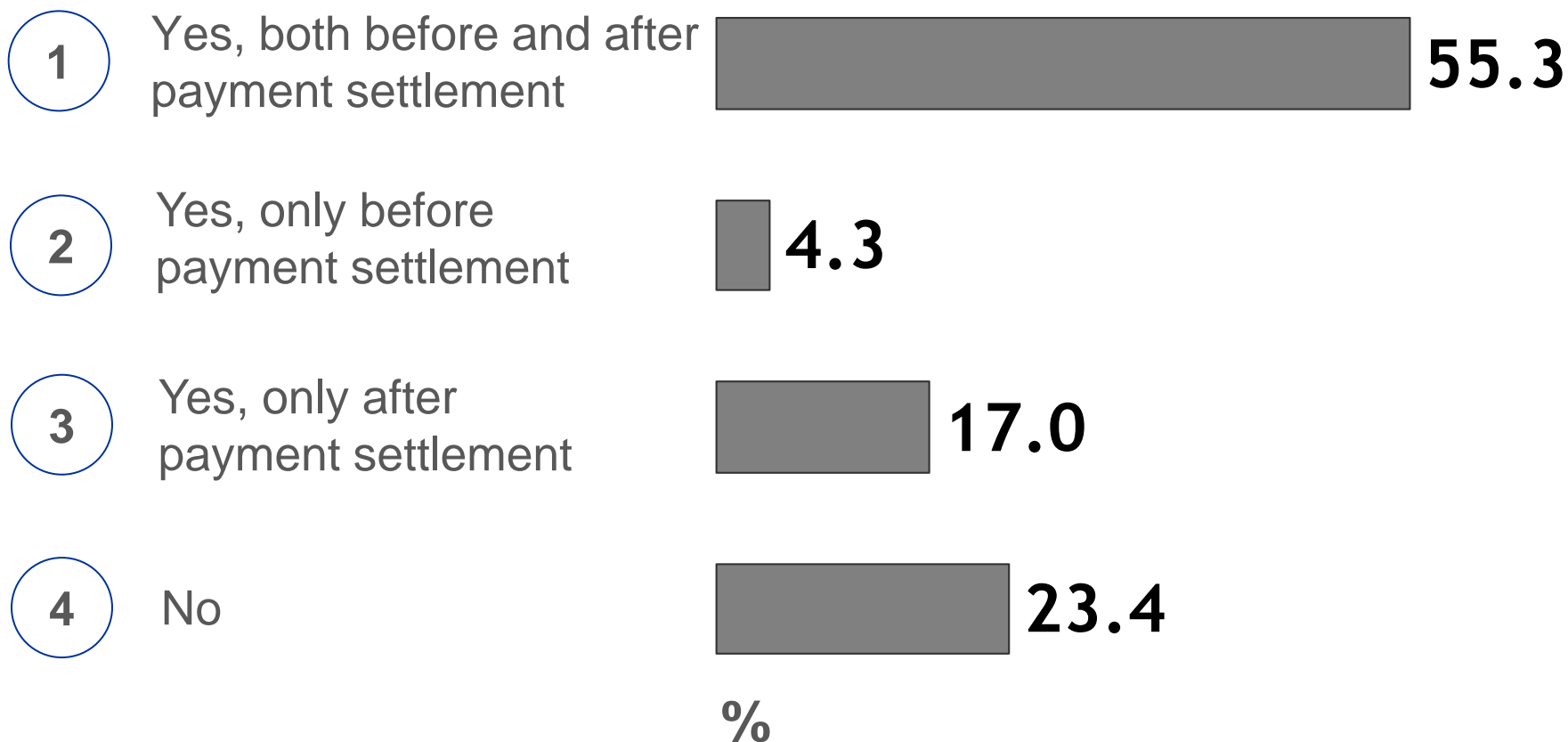
Potential benefits

- Optional services could support participants in complying with regulatory requirements.
- Reports may allow a participant to demonstrate its compliance.



- Participants' obligations in complying with the regulatory requirements would remain.
- Impacts of regulations of other jurisdictions.

Should the future RTGS services support banks in complying with regulatory requirements?



The results above present the vote of the participants at the information session.

Thank you for the attention and participation!

www.ecb.europa.eu/paym



@T2SECB

#target2 #t2s