Principles for Financial Market Infrastructures (PFMIs), retail payments, and financial inclusion *

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* This presentation does not necessarily express the views of the CPMI or BIS
The Committee on Payments and Market Infrastructures

**Mandate** (revised September 2014)

⇒ To promote the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy

⇒ The CPMI is a global *standard setting body* in the field of payments, clearing and settlement systems and related activities

⇒ It also serves as a *forum for central banks* to *monitor and analyse developments* in large value and retail payment, clearing and settlement arrangements, schemes and instruments both within and across jurisdictions

- Establishment in 1990 as *Committee on Payments and Settlement Systems* (until 1 September 2014)

- Hosted by the Bank for International Settlements in Basel), reporting to the Governors of the Global Economy Meeting
CPMI as a standard setting body
The PFMIs: New global standards for FMIs

- Part of the post-crisis G20 regulatory reforms
- The PFMIs were published by CPMI and IOSCO in April 2012, comprising of:
  - 24 Principles for FMIs
  - 5 Responsibilities for authorities
  - 5 Expectations for critical service providers
- Main goal of the PFMI is to improve the risk management framework and practices of FMIs and thereby augment the resilience of the financial system to negative shocks

- PFMI apply to systemically important (SI) FMIs
  - It is assumed that all CSDs, SSSs, CCPs and TRs are SI
  - Payment systems may or not be SI (e.g. retail systems)
- All FMIs are “encouraged” to observe the PFMI
Status of the PFMIs

- PFMIs are *recognized international standards* applicable to FMIs:
  - international best practice ("soft law") for *all* jurisdictions
  - *commitment of members* of the relevant SSBs to implement
- IMF and World Bank rely on the PFMIs in their FSAP and country assessment work
- Links of domestic FMIs with large foreign FMIs or participation of foreign banks will be influenced by the PFMI
  - e.g.: equivalence process in EU, BCBS QCCP framework
- Subject to *implementation monitoring* by CPMI-IOSCO (and FSB monitoring, IMF and World Bank FSAPs)
  - implementation may be rules-based, principles-based or a combination of both
  - focus on consistency of outcomes across jurisdictions
The PFMIs “ecosystem”

PFMIs (2012)
24 Principles + 5 Responsibilities

Assessment Methodology (2012)
Disclosure framework (2012)
Add. quantitative disclosures (2015)
Recovery and resolution (2014)
Application of PFMIs to central bank FMIIs (forthcoming)
Stress testing frameworks (forthcoming)
Critical service providers (2014)
Recommendations for settlement (forthcoming)
Trade reporting, data aggregation, harmonisation of data elements (LEI, UPI, UTI)
Collateral management services (2014)
Cyber resilience in FMIIs (2014)

Implementation monitoring

Committee on Payments and Market Infrastructures
CPMI/IOSCO/FSB member countries committed to adopt the PFMIs

EU, Belgium, Netherlands, France, Italy, Spain, Germany, Switzerland, UK, Sweden

9 + EU

1. Saudi Arabia, Turkey
2. South Africa
3. Brazil, Argentina, Chile
4. Canada, United States, Mexico
5. Russia, India, Indonesia, China, Hong Kong, Japan, South Korea, Singapore
6. EU, Belgium, Netherlands, France, Italy, Spain, Germany, Switzerland, UK, Sweden
The CPMI and retail payments

- Description and statistics on payment and settlement systems – Red Books (not only retail)
- Guidelines, principles, best practices
  - General Principles for international remittance services (January 2007)
- Policy and analytical reports:
  - Retail payment systems in selected countries: a comparative study (September 1999)
  - Clearing and settlement arrangements for retail payments in selected countries (September 2000)
  - Policy issues for central banks in retail payments (March 2003)
  - **Innovations in retail payments (May 2012)**
  - **Non-banks in retail payments (September 2014)**
  - **New WG on developments in retail payments**
Current CPMI focus on (retail) payments

**Retail payments systems**
- Faster (24/7) payment services
- New access channels (mobile, internet)

**Digital payments**
- Mobile payments
- Decentralised virtual currency schemes
- E-currencies

**Non-bank service providers**
- Telecom operators
- IT companies

**Cross-border payments**
- Remittances
- Correspondent banking
- CLS

Retail payments aspects of financial inclusion
Innovations in payments

- *Dynamic market*, but few innovations have significant impact (so far), regional differences are likely to persist
- Most innovations are national (role of *standardisation*?)
- *Speed* is gaining importance in retail payments (real-time)
- *Role of non-banks* is increasing
- *Security issues* will become ever more critical
- *Financial inclusion* is a driving force

⇒ *Regulation can be either driver or barrier*
How can innovations help include the excluded?

- Traditional providers (banks) often find no business case to serve some sectors with traditional payment instruments based in bank accounts.

- But innovations may change this perception (especially for new types of PSPs) as services might:
  - Rely on other types of accounts (e.g., payment accounts, prepaid accounts).
  - Reach underserved sectors of the population without branches (e.g., through agents).
  - Use new ways to initiate transactions and simplify authentication (e.g., through mobile devices, electronic IDs).

- Innovations in these areas might help to make supplying services to underserved sectors attractive; the demand already exists.

- This is particularly important in areas in which the services of the incumbents are unsatisfactory (e.g., certain cross-border remittances).

⇒ Access to basic payment services is a good first step towards the provision of more sophisticated services (deposits, credit, insurance).
CPMI and Financial Inclusion Work

- CPMI has a long history of contributing to the global efforts for financial inclusion (eg General Principles for international remittance services (January 2007))

- In November 2013, CPMI and World Bank launched a Joint task force on payments aspects of financial inclusion (PAFI)

- Members of the Task Force include 20 CPMI central banks and international institutions (WB, AfDB, CEMLA, EBRD, IADB and IMF)

- The group is looking at issues that affect access and usage of payment services, and those that foster or impede the role of payment services as a gateway to broader financial inclusion
Payments Aspects of Financial Inclusion

- Analytical framework
Payments Aspects of Financial Inclusion

- Key conclusions of the PAFI Task Force:
  - Efficient, accessible, and safe retail payment systems and services are critical for greater financial inclusion
  - Transaction accounts are a cornerstone for the provision of cashless retail payment services.
- Report will contain guidance for authorities on augmenting financial inclusion by improving access to and usage of transaction accounts
- Target date for public consultation on report: H2-2015