



Remarks to “Liquidity Saving Mechanisms and Bank behaviour”, presented by Marco Galbiati and Kimmo Soramäki



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The rationale behind the paper

- ◆ Central banks care about smooth and efficient settlement of payments through their systems
 - ◆ But they also care about financial stability so they will not allow the settlement of payments
 - ◆ if the participants do not have adequate financial means to do so (i.e. central bank money)
 - ◆ and – in worst case - if this would put their own credit standing at risk.
- ◆ But how should central banks react if participants have problems in settling payments in a way that the central bank feels comfortable with?
 - ◆ In particular if participants cannot obtain sufficient amount of central bank money without incurring excessive (opportunity) costs
- ◆ This is background for this presentation
 - ◆ After having been digested by a payment system overseer



The rationale behind the paper

- ◆ Alternative measures available to improve participants' liquidity position when settling payments in the central bank:
 - ◆ Improve the payment systems' efficiency by introducing liquidity saving measures
 - ◆ I.e. implementing "hybrid-features" in central bank's RTGS-system
 - ◆ A topic for research in many years
 - ◆ Allow foreign assets as collateral when granting intraday credit
 - ◆ A solution some central banks has chosen already or consider right now!
 - ◆ Not a topic in this presentation (Bank of England has published research on this topic)
 - ◆ Influence participants behaviour
 - ◆ E.g. by setting fees that increase (penalise?) participants' delay costs relative to liquidity costs
 - ◆ In some systems this is already done by having a fee structure where transaction fees increase during opening hours (low in the morning, high in the afternoon)
 - ◆ This presentation provide the overseer with insights on how to start assessing possible ways to influence participants behaviour

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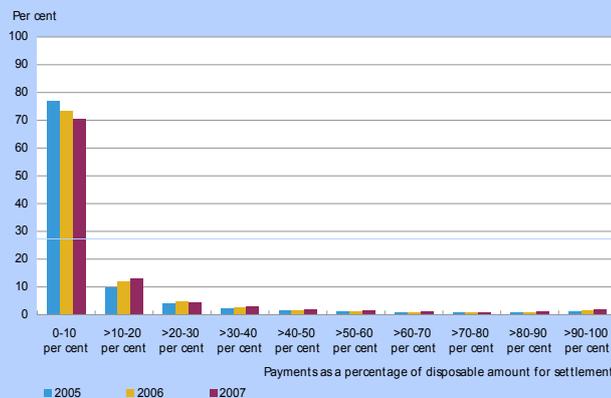
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A Danish perspective

Apparently, participants in Danmarks Nationalbank's RTGS system have ample liquidity as their utilisation of disposable amounts for settlement of payments is rather limited, but this is only part of the story ...



Note: In the compilation payments have been weighted by size. Payments of less than Kr. 1 million have been excluded.
Source: Danmarks Nationalbank.

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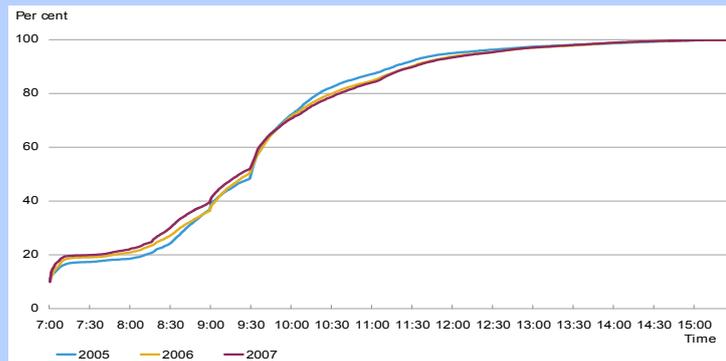
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A Danish perspective

... because the picture wouldn't be so rosy if it wasn't for the fact that the participants in Kronos have chosen to submit payments in a way that are rather coordinated ...

... But will it stay so forever? We don't know?



Note: Accumulation of interbank payments over Kronos' opening hours (7:00 a.m. to 3:30 p.m.).
Source: Danmarks Nationalbank.

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Last comments

- ◆ Highly relevant presentation:
 - ◆ Shows that central banks can gain much from influencing participants' behaviour with regard to ensuring safe and efficient settlement of payments
 - ◆ Could be a cheaper solution than start on building a new state-of-the art LVPS with fancy LSMs, etc. (which the central banks cannot even be sure would remedy the settlement process)
 - ◆ Proceeding this way could perhaps even be a way to reduce costs (and the subsidizing of payment settlement which take place) in many central banks
 - ◆ A final version of your paper would benefit from inclusion of a "Guide for (non-technical) overseers"
 - ◆ But anyway, your line of thought gives valuable insights which overseers cannot easily get if they only read the Core Principles report from 2001.

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