

## Settling Low Value Payments in Real Time: The experience of the Mexican RTGS



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### Properties of SPEI: Mexican LVPS

- **Study evaluates the effects of settling many low-value payments on the liquidity performance of a LVPS**
- **SPEI, the Mexican LVPS, is probably among the largest worldwide in terms of volume:**
  - Ø 230.000 transactions per day
  - Corresponds roughly to the combined share of DE+FR+IT in TARGET2 (i.e. about 69% of total TARGET2-volume)
- **80% share of payments below 7500 €, only 1,3% above 750.000 €**
  - Similarity to TARGET2-BBk with more than 50% below 12.500 € as opposed to rest of TARGET2
  - General remark: presentation switches between USD and MXN (not MXP) → makes it harder to compare

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## Integration of RPS in LVPS?



- **Slide 3: assumption that LVPS and retail payment systems (RPS) might converge in the near future.**
- **LVPS (as SPEI) often owned and/or operated by central bank**
  - Settlement in central bank money (core principle VI)
  - Financial stability, fulfillment of minimum reserve requirements, historical role of central banks, etc.
- **RPS serve other purposes and could be operated by normal market actors**
- **On the other hand: Higher level of fixed costs with multiple systems**
- **Costs of less than 0,04 EUR (0,05 USD) per transaction seem to be quite low:**  
**Cecoban S.A. has to offer its RPS at 0,00 MXN!**

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## Production and Consumption of Liquidity in SPEI



- **Slide 12: initial level of liquidity is defined as funds from other payment systems (see also formula for L on slide 15)**
  - SPEI only ancillary system to other LVPS?
- **No!**
- **SPEI seems to have some peculiarities worth to be known.**
  - Daily open market operations for regulating the supply of currency in circulation
  - Additional intraday repo transactions by Banco de Mexico, no pledge pool etc.
  - Proprietary Home Account: SIAC with limited collateralized overdraft possibility (link with SSS: SIDV)
  - Participants: Banks; non-bank financial entities: brokers, pension funds, FX traders, insurance, investment firms.
- **Slide 4: Some sort of liquidity saving mechanism integrated in SPEI**
  - SPEI is not a RTGS, but a "RTS": continuous netting
  - What does that mean? Bilateral offsetting, receipt reactive functionality?

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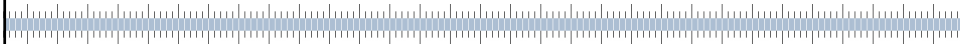
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## Results



- **Overall level of V seems to be low (~ 11 Mio. MXN\*min.)**
- **Banco de Mexico's liquidity provision mode leads to relatively efficient use of liquidity by bank managers and consequently high turnover.**
  - Case for free riding is not examined in this presentation. Only own resources are defined in L. The study should be enhanced by payments sent and received.
- **Neither the retardment V nor the measures for liquidity  $L_{\min}$  (all payments settled) or  $L_{\max}$  ( $V=0$ ) differ significantly when low-value payments are included or excluded.**
  - Low value payments have no negative impact. They do no harm.
- **Leads back to initial philosophic question: Central banks could easily attract low-value payments, but: should they?**



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