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Liquidity levels and delays in RIX – discussion

Settlement costs

- **impressive potential cost savings** (SEK 220 million = EUR 24 million per year!) – A NEED FOR ACTION!
- **THE REASON BEHIND & HOW TO ACHIEVE THESE SAVINGS?**
- **the reason behind:**
 - large liquidity needs due to payment patterns (liquidity ration of 20%!)
 - opportunity cost of holding collateral (REASONS? Liquidity premium? How deep is market in eligible collateral?)

Large liquidity needs

- peaks due to pre-determined times for settlement
- need for liquidity smoothing
- need to identify structural reasons that prevent this:
 - number of participants
 - relative market share
 - participant's area of specialisation
 - structure of payment systems and flows outside RTGS
 - structure of central bank accounts
 - others (opening/closing times, valuation of collateral)

How to achieve more even payment flows?

- a change in banks' behaviour:

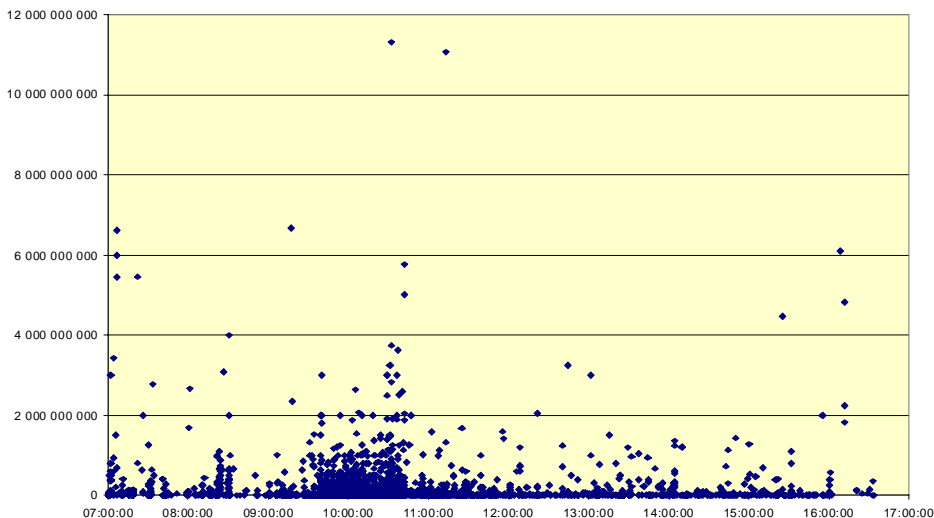
- As it seems just banks' agreements led to this problems. Why didn't this work?
- Submission of payments is not a one-off game! Banks should learn from this!
- Other possibilities for liquidity smoothing: system rules, throughput rules, fee structure

- alternative is **centrally (within the system) implemented optimisation mechanisms**: netting, offsetting, queue management,... Can be quite costly!

- **What do you see as the way out?**

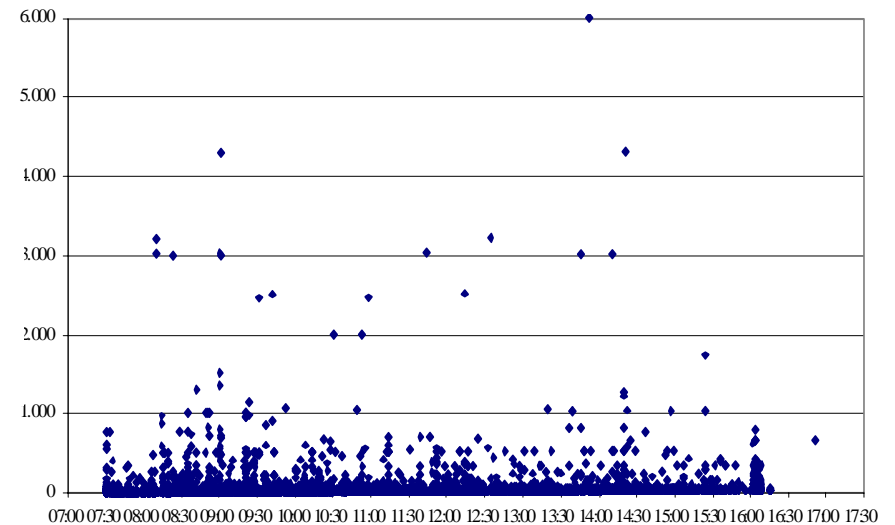
What should be achieved?

RIX, 9 September 2003



Liquidity ration = 20%

SIBPS (Slovenia), 14 November 2003



Liquidity ration = 14% (upper bound)
= 2% (lower bound)

Is there place for delays in RTGS at all?

- Swedish banks seem to prefer real-time settlement vs. liquidity costs
- ***“In a true real-time environment, there is generally little room for different types of advanced liquidity saving features, which are based on delaying payments. Customers are waiting for direct confirmation of their payments...In the real-time environment, customers expect direct delivery.”*** (Leinonen: Re-engineering Payment Systems for the E-world, 2000)
- Are (Swedish banks willing to take risk of losing customers?