

## What are the next milestones for high-value payments market infrastructures?

Monday 15 September – 11:00-12:00

### Risk of interdependencies must be managed

Faced with flood, fire or earthquake interlinked high-value payment systems have to run no matter what

When Hurricane Ike blew through Texas over the weekend it caused severe damage to J.P.Morgan's 17-storey office building in Houston Texas, which is home to some of the bank's global databases. However, when the financial markets opened on Monday morning, the bank was doing business as usual, the damage caused to its databases having been mitigated beforehand.

This resilience to risk in the high-value payments market was one of the key themes that emerged from the conference session, 'What are the next milestones for high value payments market infrastructure?' It soon became clear that disaster mitigation was uppermost in the minds of several panelists who understood the importance of continuity in the high-value payments industry. J.P.Morgan's Sue Webb, executive vice president and executive in treasury service products, outlined the importance of disaster risk mitigation from personal experience: "Resilience is core to any infrastructure. We wouldn't ►



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Sue Webb, J.P.Morgan

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ignore it and would do so at our peril.”

This sentiment was echoed by the Federal Reserve Bank of New York’s Lauren Hargraves, senior vice president, wholesale product office, who cited the imperative of payments continuity after 9/11. Bank of Japan’s Haruyuki Toyama, deputy DG in the payments and settlement department, added that, “In Japan, the greatest risk is from earthquake and it is not uncommon for employees to spend the night sleeping on the company premises.” Although this goes well beyond the call of duty for most employees in the financial services industry, it highlights the issue of mitigating threats to system continuity and safety.

The importance of high-value payments was outlined by Gilbert Lichter, CEO and secretary general at the EBA Clearing Euro Banking Association, who noted that the market is now turning its attention to increasing efficiencies in high-value payments and their market infrastructures.

“The market needs to be more aware of the difficulties caused by a possible technical outage in the high-value payments infrastructure,” he said. “It is important for the system to stand for absolute robustness.”

### CPSS report

Interdependence of regional payment systems and interoperability were also key themes. The panel made frequent reference to a recent report produced by the Committee on Payment and Settlement Systems (CPSS), which analyses the risks inherent in the mutual dependence of the many regional payment systems that form the global payments infrastructure. “The CPSS report is not saying that the interdependencies are bad, but that they need to think upfront to ensure that systems can run no matter what,” explained Hargraves.

The CPSS report highlights some of the risk management challenges that arise due to this interdependence. The EBA’s Lichter said

this is an issue that the market urgently needs to understand fully. “Interoperability between high-value payment systems in the eurozone is less of an issue, but between systems using different currencies, there are difficulties.” he observed.

### Blurring the lines

The panel also addressed the issue of payment systems processing for both high- and low-value payments. The blurring of the boundaries between low- and high-value transfers was generally greeted with scepticism by members of the panel. The Federal Reserve’s Hargraves called into question whether high-value systems can continue to achieve economies of scale if they are also processing low-value payments and if they would be able to maintain robust resilience.

Interoperability was another of the session’s buzzwords, with the speakers highlighting the need for high-value payment systems to enable users to manage their own

liquidity within the system. Bank of Japan’s Toyama predicted teething problems ahead. If Japan aims to integrate its high-value system with other regional systems it will have to overcome several difficulties such as the fragmentation in the Japanese banking sector and the use of Japanese characters rather than Roman script. The EBA’s Lichter raised the issue of how much access the public sector should have to the payments infrastructure.

When asked for their thoughts on the future of the high-value payments market infrastructure, the panel showed feelings of optimism mixed with trepidation. While Hargraves expressed the opinion that the CPSS report might lead to new risk assessments, she acknowledged that this will require a better understanding of how to assess risk. “There is definitely a need to think more broadly and to stop thinking in silos,” said J.P.Morgan’s Webb. “However, it might take a while for this to come about and will be similar to herding cats.” <<