



# SWIFT for payment market infrastructures

*Sibos, Hong Kong*

Haster Tang, Hong Kong Monetary Authority

Peter Gallagher, Reserve Bank of Australia

Stéphane Ernst, SWIFT

14 September 2009

# Agenda

- SWIFT offering for payment market infrastructures
- HKMA latest financial infrastructure development
- RBA same day settlement for low-value payment
- How SWIFT products and services help MIs in their transformation
- Q&A



How SWIFT helps HKMA and RBA deliver the next generation of payments services

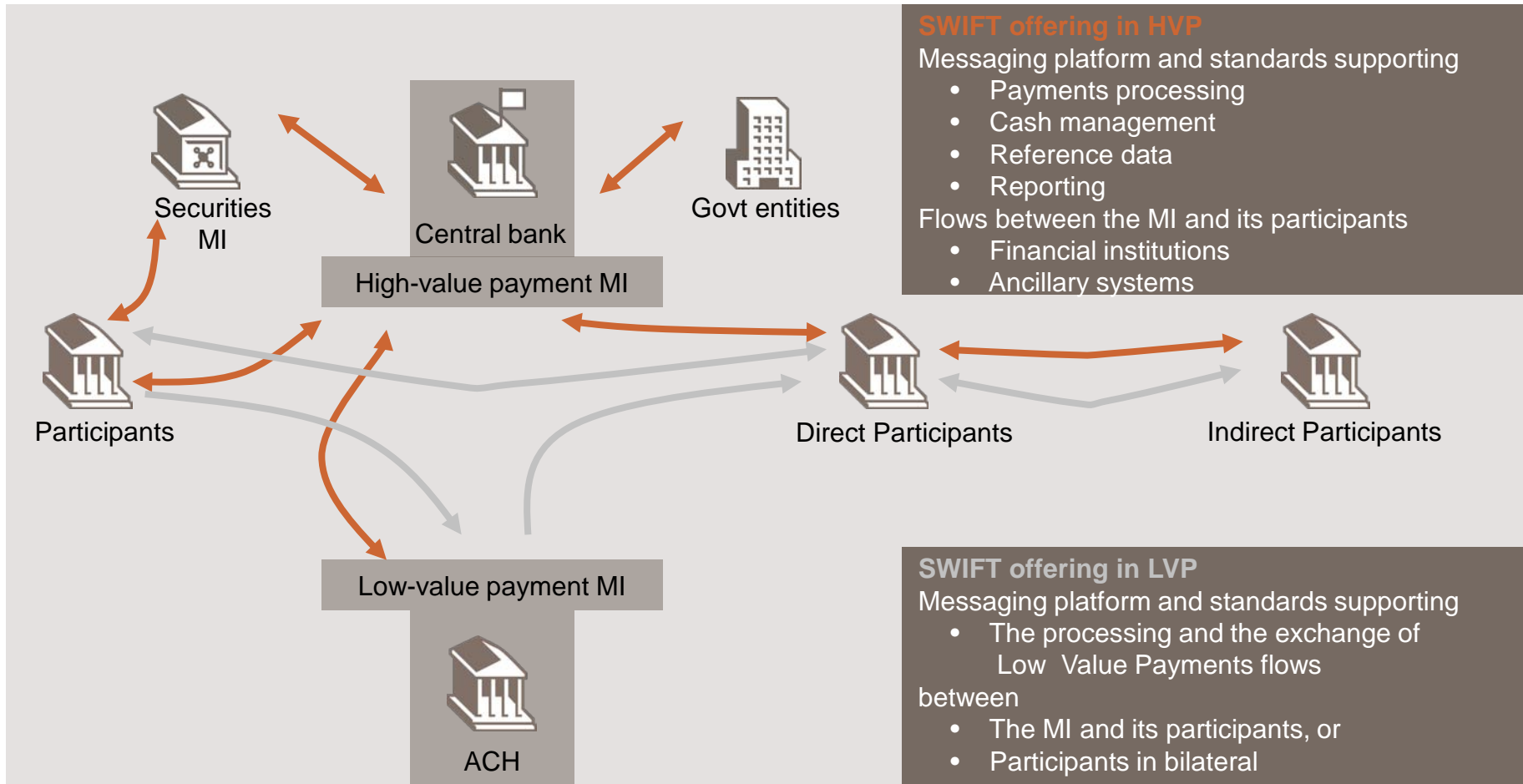


# SWIFT offering



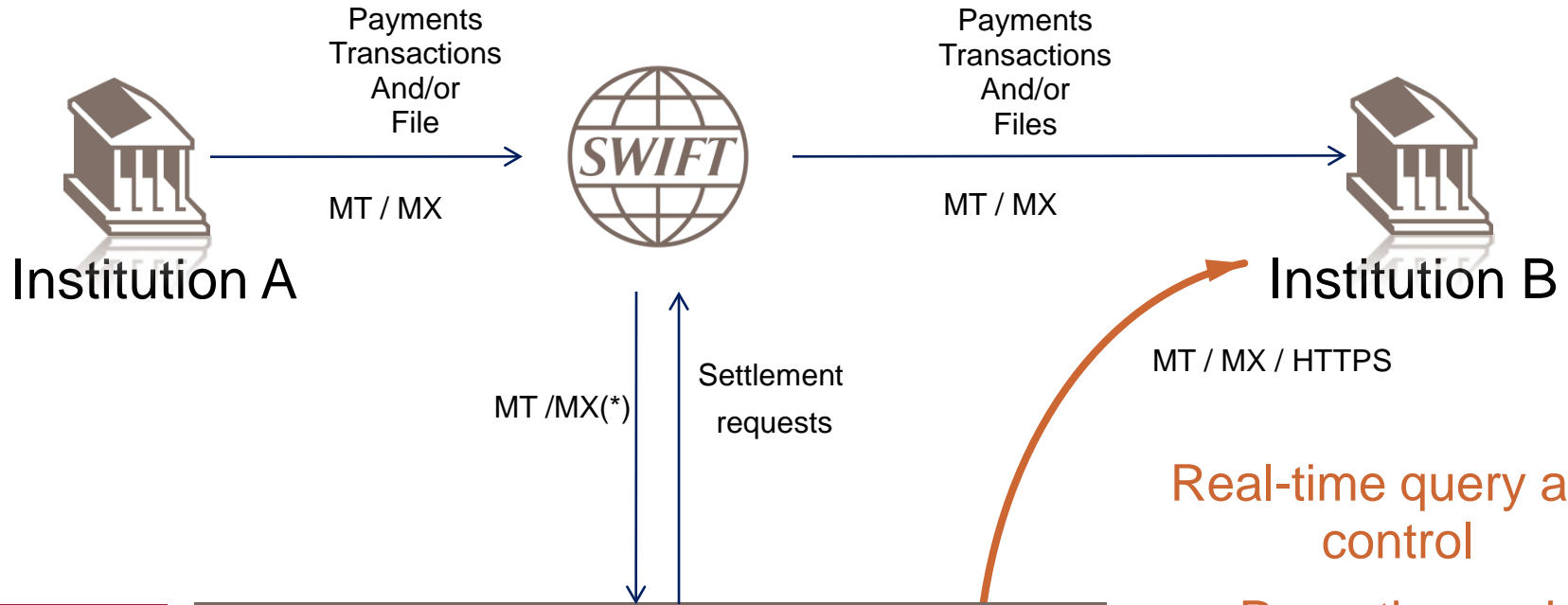
# SWIFT for high and low value

## Overview of the SWIFT offering

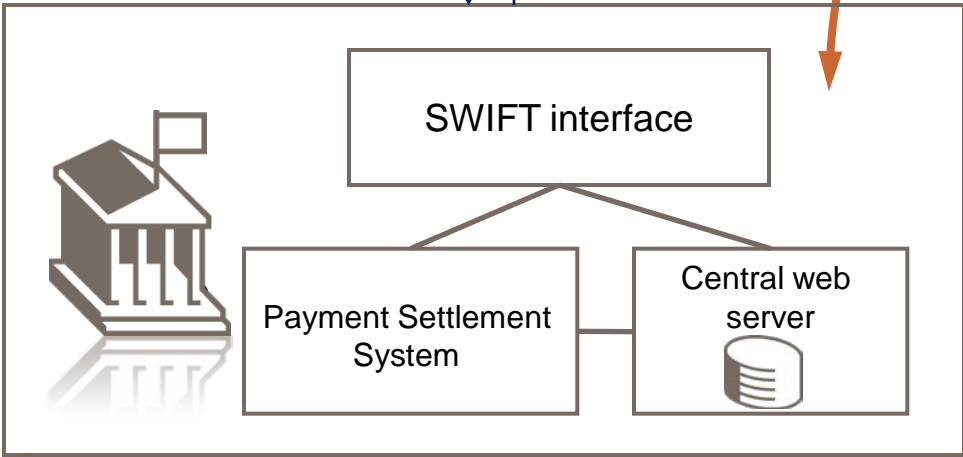


# PMI using SWIFT

## Typical high-level topology



How HKMA & RBA use the SWIFT offering today and will use SWIFT tomorrow ?



Legend  
FIN/FIN Copy or IA  
InterAct/Browse/FileAct  
(\*) IA Y-copy SWIFTNet R7

# The HKMA case



# A global trend to develop payment platform into high degree of interoperability

## Major keys for financial infrastructure development

- standards
- seamless end-to-end transmission
- economies of scale
- increasingly adopted by local market infrastructure, besides for cross border payments and securities transfers

# HKMA's experience in migrating RTGS systems to SWIFTNet



- Proprietary platform of RTGS systems to migrate to the open platform of SWIFTNet (Phase 1: 25 May 2009; Phase 2: mid-2010)
- An important move to maintain Hong Kong as an international financial centre

# Overall responses from bank users

The migration is well received by the banking industry:

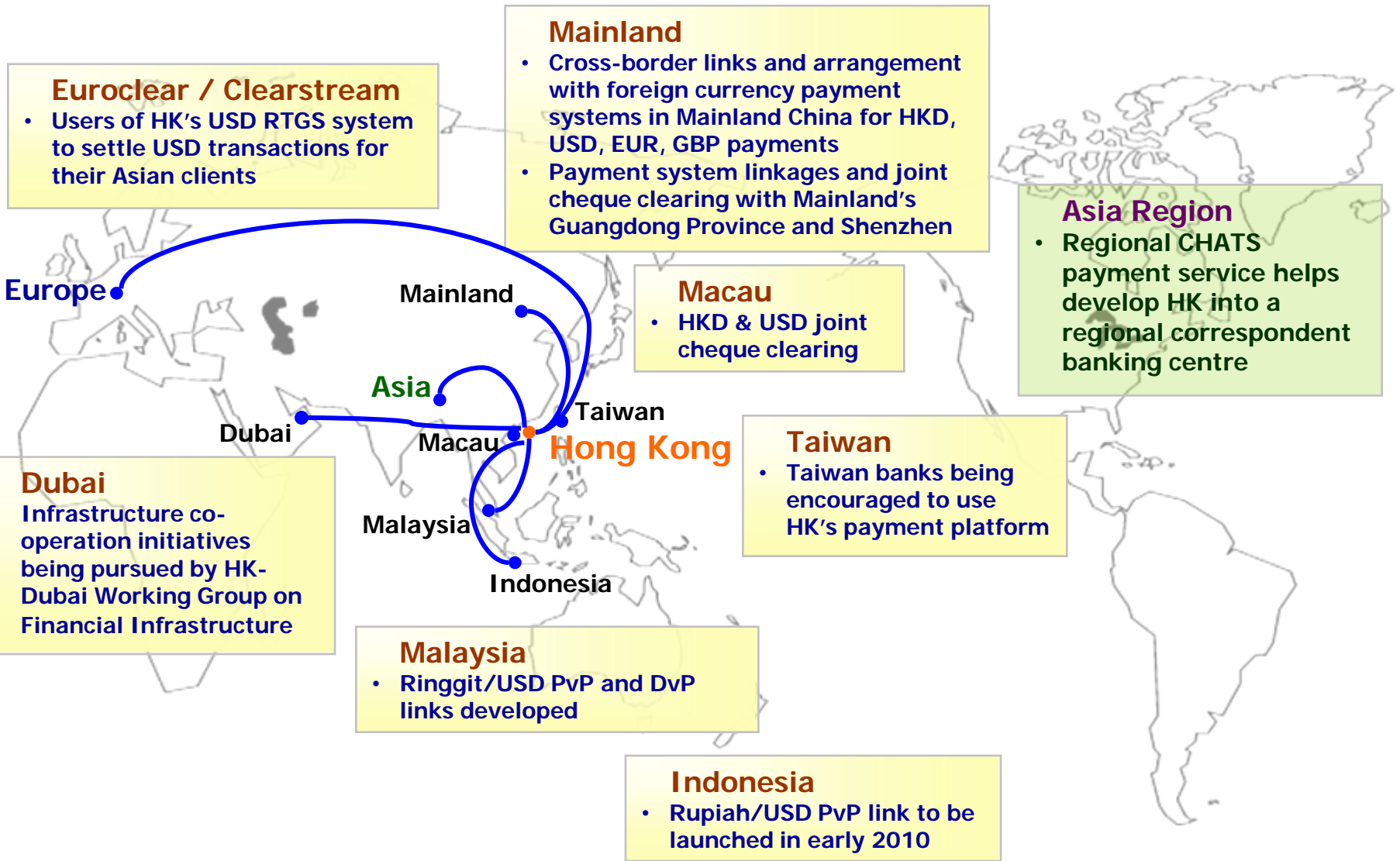
- enhancing the interoperability of the RTGS systems
- facilitating straight-through processing
- increasing operational efficiency of the RTGS system bank users as most of them have been using SWIFT for international payments for many years

# Hong Kong as a regional payment hub

The enhanced financial infrastructure can help facilitate Hong Kong's platform to go regional :

- Attracting more overseas financial institutions to join Hong Kong's RTGS systems as the access becomes more open and convenient
- Enhancing the efficiency of settling cross-border payments

# Hong Kong as a regional payment hub



# Lessons learnt from global financial crisis

- High degree of resilience of global payment and settlement systems under the stressed market conditions
- The smooth functioning of the systemically important systems during the turmoil has reflected the benefits of continued efforts in strengthening the financial infrastructure in the past decade
- Policymakers however are required to continue to closely review and examine:
  - global surveillance, market regulation, macroeconomic policies, systemic risk management and multilateral co-ordination.
  - building on the good track record, further improvement in the payment and settlement systems is included as one of the prescriptions to ensure healthy recovery of the world economy.

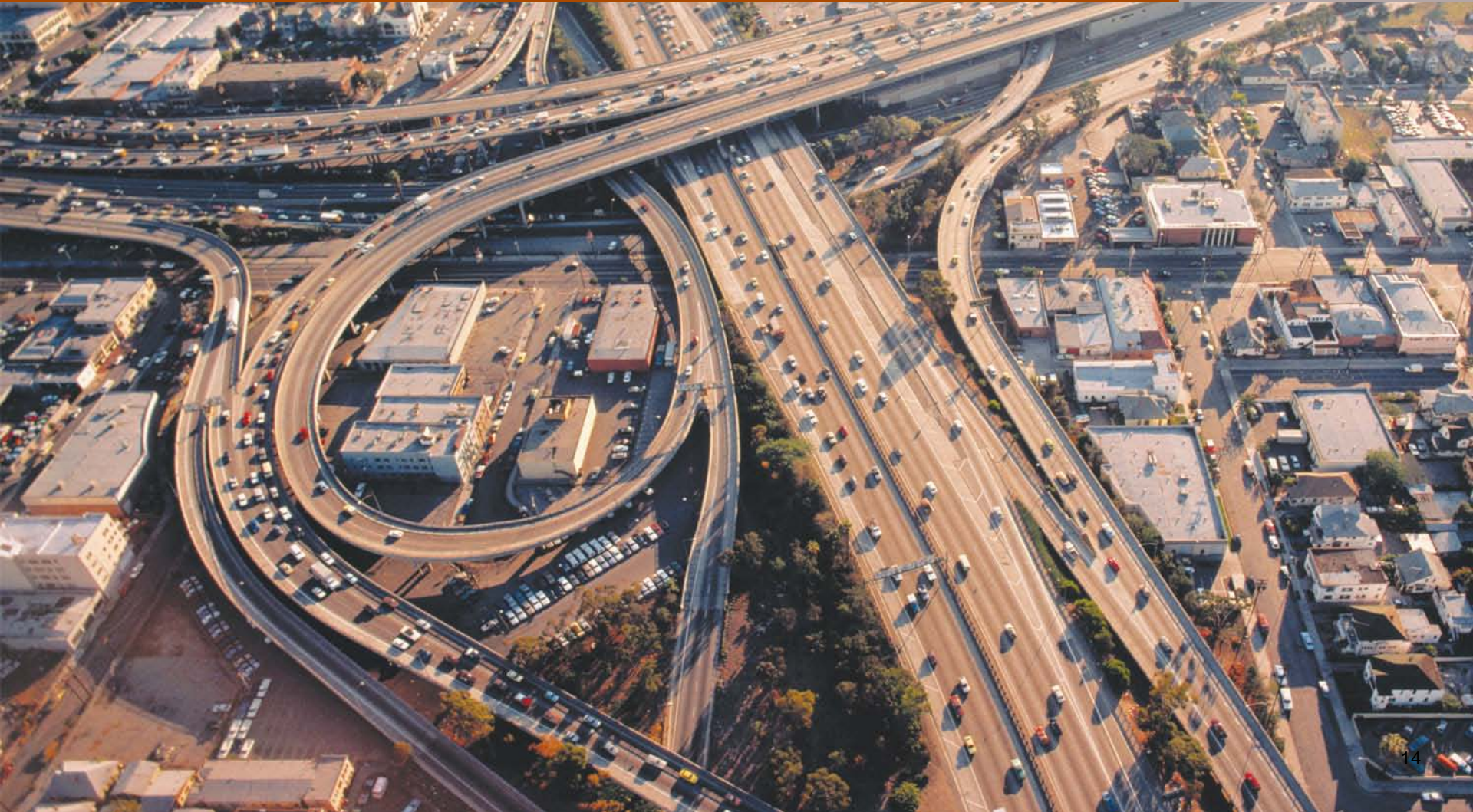
# New service for unit trust funds in Hong Kong

- Financial products are usually handled more efficiently with fewer contagion problems in a well-established processing system.
- There are financial intermediation channels which have been less thought of in the past and have not been included in formal and well-established systems.

## ***New service for unit trust funds in Hong Kong***

- Lack of a standardised processing platform for unit trust funds:
  - involving high operational risks and back-office costs and limits the scope for shortening the settlement cycle;
  - may come under pressure during times of heavy subscription and redemption in financial crisis
- The HKMA launched the CMU Fund Order Routing and Settlement Service in August 2009:
  - providing a standardised platform for the processing
  - enhancing the safety and efficiency
  - streamlining the processing flows among market participants

# The RBA case



# Low Value Feeder (LVF) Project Background

- Legacy low-value (retail) clearing and settlement arrangements in Australia implemented in 1993 before the advent of RTGS.
- Files are exchanged bilaterally and summaries for each retail clearing streams (direct entry, ATM/EFT, cheques) sent to the RBA acting as National Collator (no ACH).
- A single net obligation for each bank is settled at 9 AM the following morning.
- Previously considered that the low value inherent in retail payments did not justify the cost of moving away from net deferred settlement arrangements.
- Long term trend for increasing value in direct entry payments and banks concerned at residual settlement risk.
- The industry undertook a Risk Mitigation Project in 2004 but there were no reforms agreed at that time.



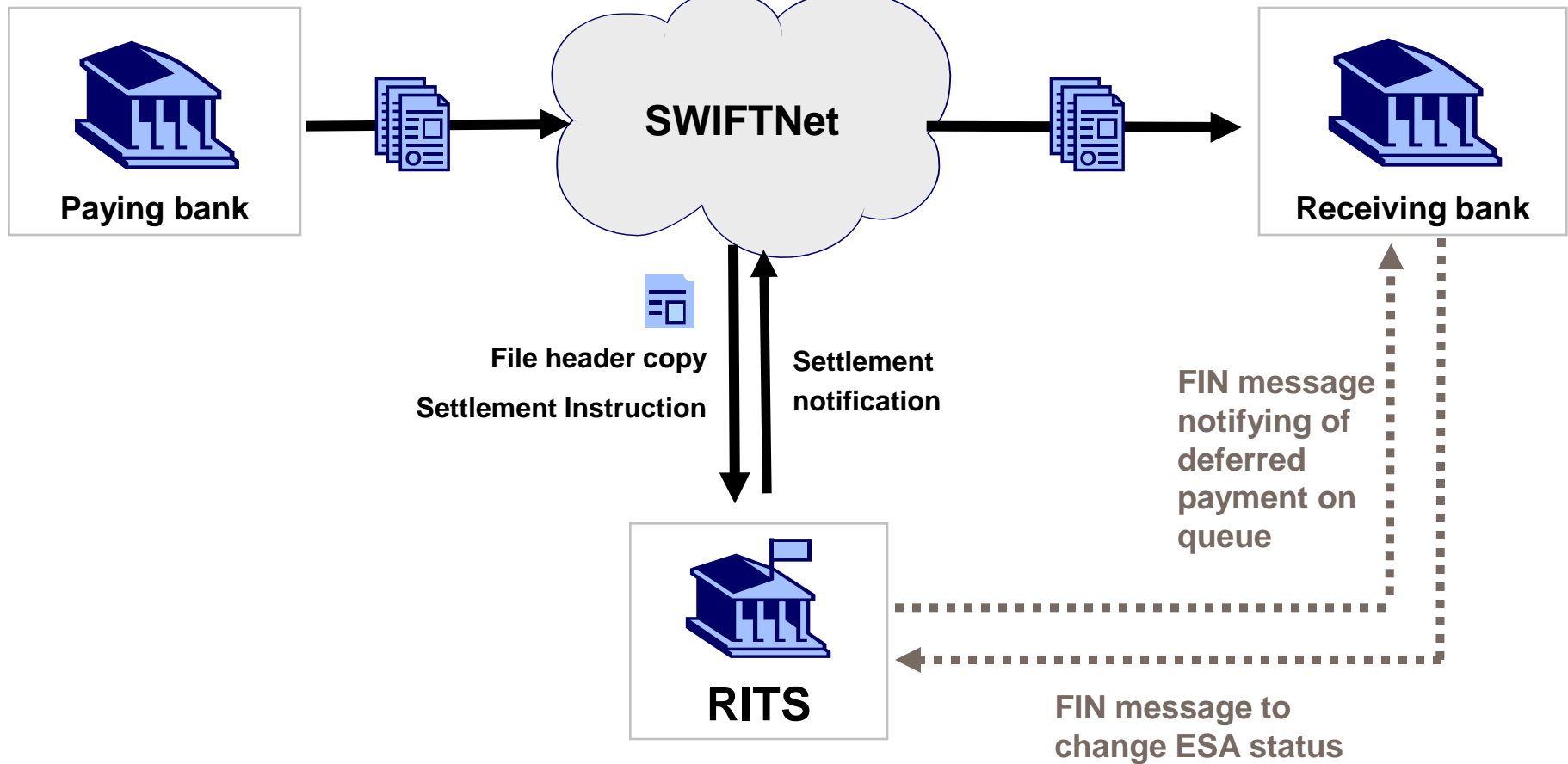
# LVF Project Background

- Remains demand for reform of low value (retail) settlement arrangements
  - Operational risk
  - Settlement risk
  - Reduce barriers to entry
  - Facilitate innovation
- RBA has sought to provide alternative same-day settlement options as part of RITS Evolution Program
  - Batch feeder (live 2006)
  - FileAct Copy (announced Aug 2007)
  - LVF (announced Nov 2008)
- Migrate away from 9 AM settlement
- Network replacement following withdrawal of low speed DDN service

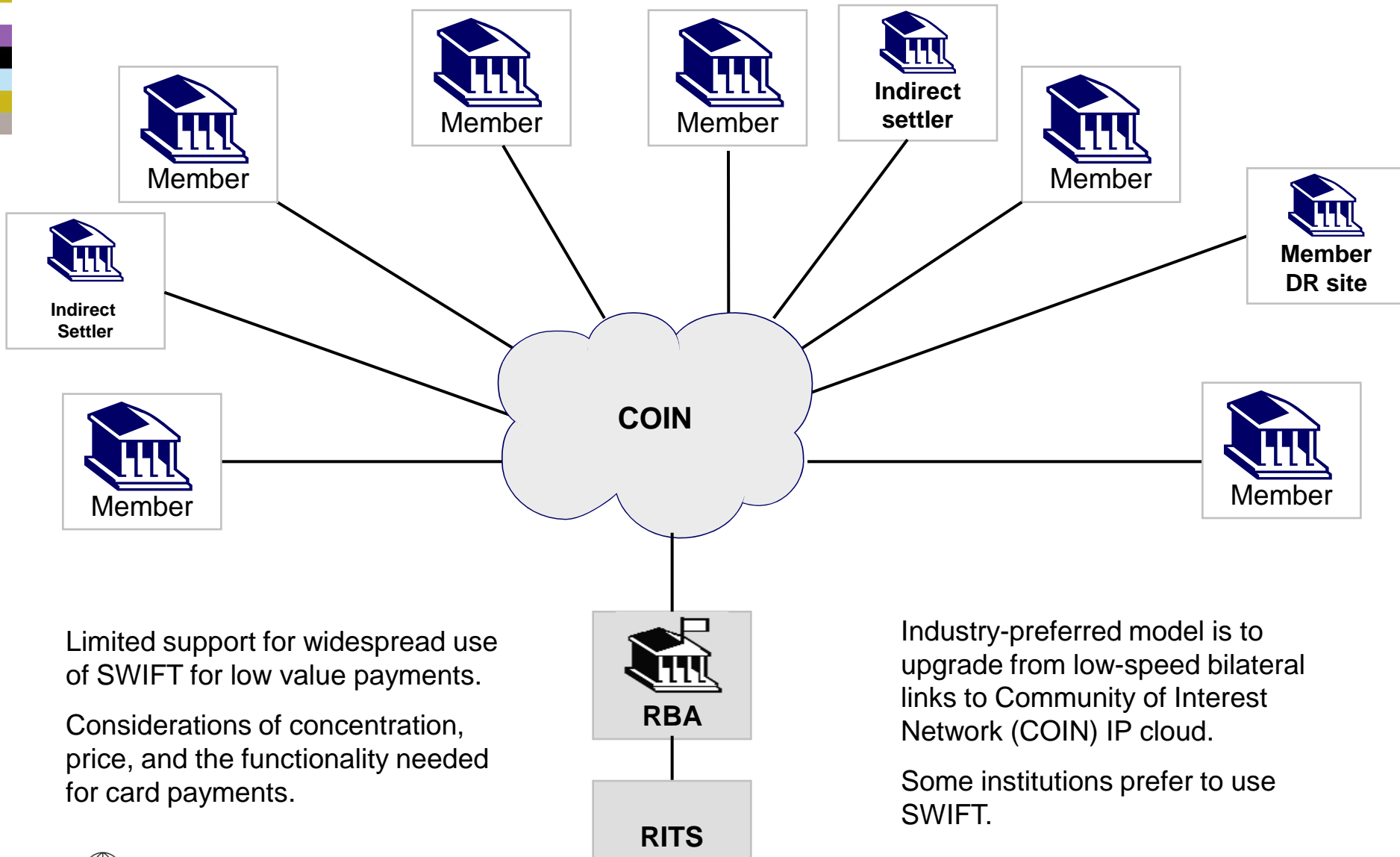


# SWIFT FileAct Header Copy Y-Copy model

File held until after settlement



# Industry network upgrade



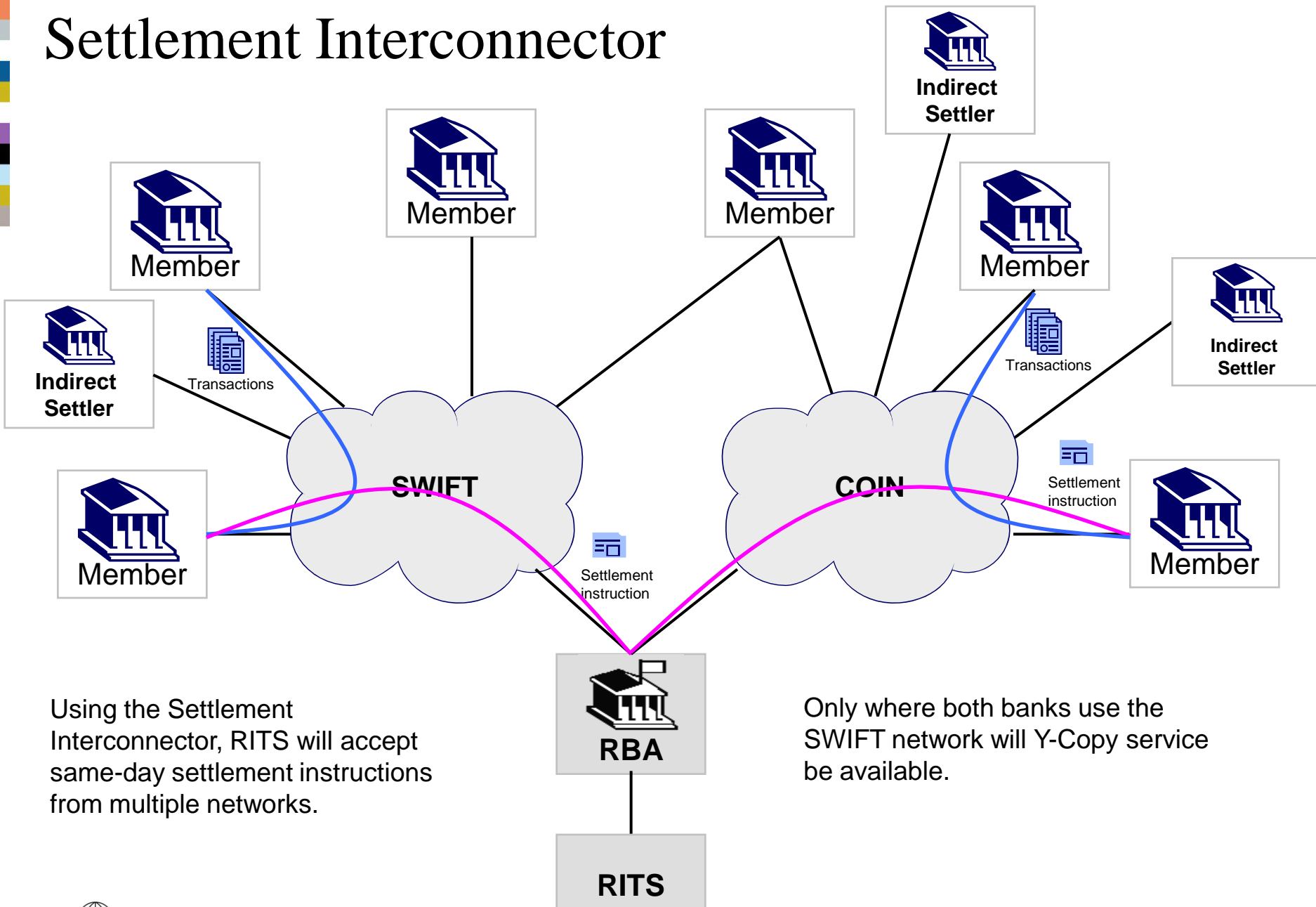
Limited support for widespread use of SWIFT for low value payments.

Considerations of concentration, price, and the functionality needed for card payments.

Industry-preferred model is to upgrade from low-speed bilateral links to Community of Interest Network (COIN) IP cloud.

Some institutions prefer to use SWIFT.

# Settlement Interconnector

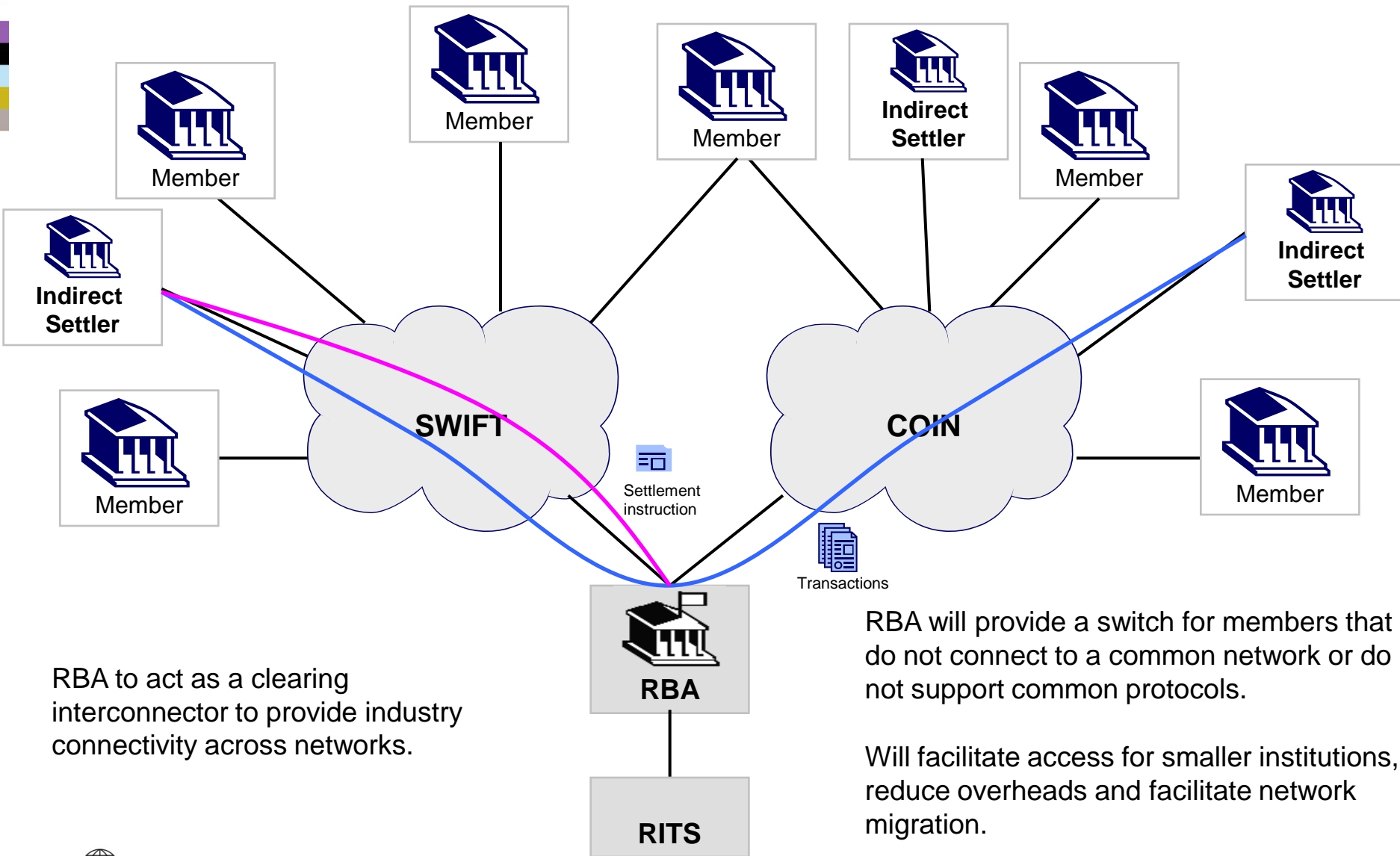


Using the Settlement Interconnector, RITS will accept same-day settlement instructions from multiple networks.

Only where both banks use the SWIFT network will Y-Copy service be available.



# Clearing Interconnector



RBA to act as a clearing interconnector to provide industry connectivity across networks.

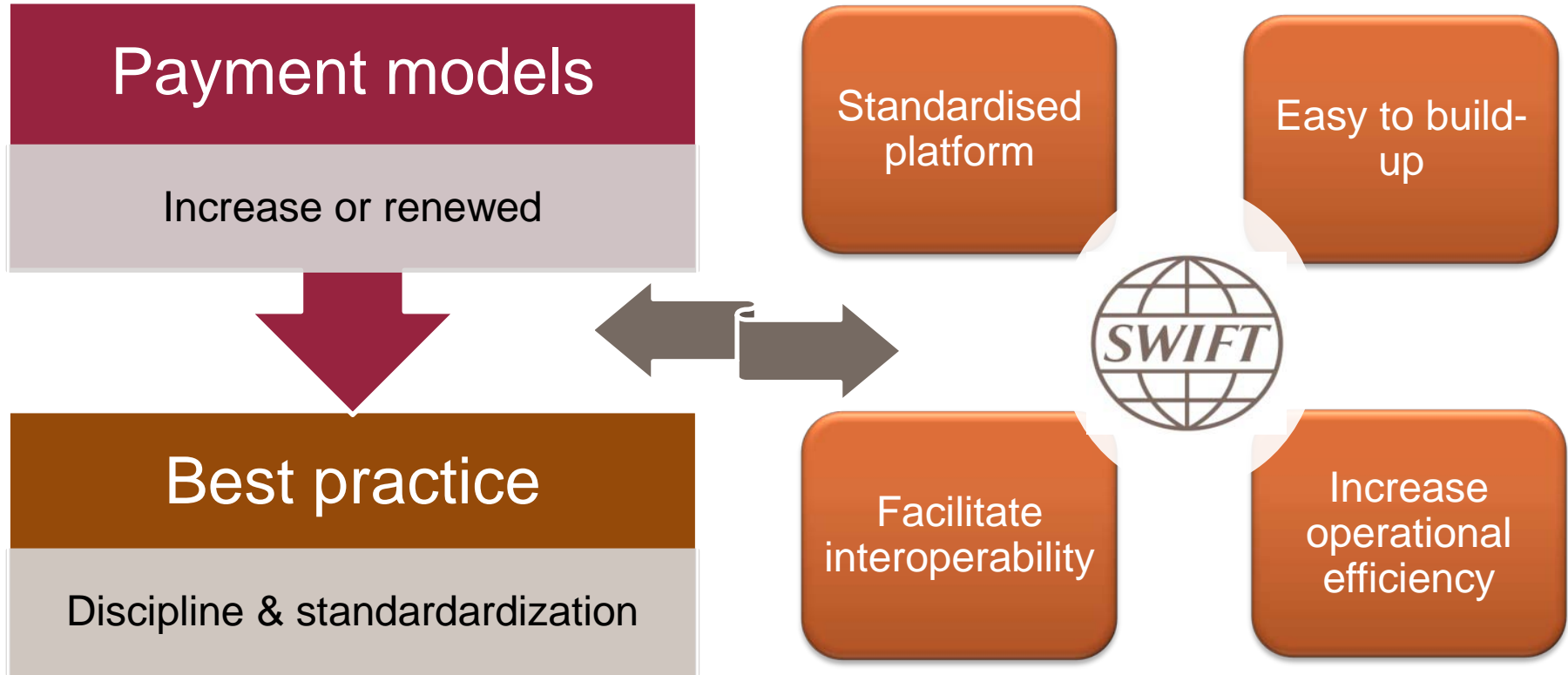
RBA will provide a switch for members that do not connect to a common network or do not support common protocols.

Will facilitate access for smaller institutions, reduce overheads and facilitate network migration.

# How SWIFT helps MI transformations



# How SWIFT offering supports MIs' transformation



**Customer centricity and innovative processes will enable SWIFT to continue alignment with market demand**



# Q&A





Thank you