Europe, Middle East and Africa RMB adoption: new frontiers for RMB internationalisation

Adoption slows in some European markets; stellar growth in UAE
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FOREWORD

By Alain Raes
Chief Executive, APAC & EMEA, SWIFT

Since the creation of SWIFT’s RMB Tracker in 2011, SWIFT has been supporting its customers and the broader financial industry with insights about the internationalisation of the Chinese currency the renminbi (RMB or CNY). The RMB Tracker, which is issued on a monthly basis, provides the community with a dynamic understanding of how RMB usage is changing and how it is influencing payment corridors around the world.

I am delighted to present this special edition of the RMB Tracker, which provides an updated and consolidated overview of the RMB’s journey towards internationalisation. With Sibos taking place in Geneva, this provides a perfect opportunity to take a closer look at some different markets across Europe, Middle East and Africa (EMEA) – including the most recent clearing centre in Zurich, appointed in November 2015 – and to look beyond the more established RMB centres such as London, which we reported on in April 2016.

This special report therefore offers a snapshot of four markets in EMEA – France, Germany, Switzerland and the UAE – based on August 2016 data and with additional analysis from SWIFT. It also includes comment from financial industry experts about the recent evolutions of the RMB and what it means in their markets, and looks forward to what the future has in store for the Chinese currency.

Despite a recent slowdown, reflected in the key indicators presented in this report, RMB internationalisation is stable overall and growing well in some key markets. The journey towards full internationalisation of the RMB is a long one, but the creation of new offshore centres around the world – including the imminent new centre in the UAE – combined with the progress of China’s new Cross Border inter-Bank Payments System (CIPS) will help move the RMB along its path towards internationalisation.

On 25 March 2016 SWIFT and CIPS signed a memorandum of understanding (MoU) to commence strategic cooperation. The MoU sets out plans to develop CIPS using SWIFT as a secure, efficient, standardised and reliable channel to connect CIPS with SWIFT’s global user community. Together with CIPS we are working on improving straight-through-processing rates for RMB payments, managing versions of standards, handling of Chinese characters and symbols, use of international routing and reference codes (the SWIFT BIC) and business intelligence tools for analysis and reporting.

All of this will enable real and continued growth of the RMB currency internationally.

I hope you find this Sibos special edition of the SWIFT RMB Tracker insightful. In terms of emerging economic opportunities, and despite the recent slowdown, I truly believe the RMB remains the game changer for many – not just for countries with designated offshore RMB centres, but for businesses and consumers around the world.
Since 2010, the RMB has steadily progressed along its path to become a global currency in international trade. SWIFT’s latest data indicates that many RMB data points continue to progress, however, the pace has slowed in some markets in the past few months. To enhance the internationalisation of the RMB, the following key factors are critical:

Expand the connectedness of RMB
On 30 November 2015, the International Monetary Fund (IMF) included the RMB in the Special Drawing Rights (SDR) basket along with four other major currencies. Concretely, the central banks will be able to use RMB to diversify their reserves. However, this inclusion needs to be supported by broader connectivity; progress of RMB internationalisation correlates with more banks serving their customers in RMB, and through improvements in RMB clearing and settlement financial infrastructures such as offshore clearing centres and CIPS.

Enhance RMB products and services suite
To support the growth of RMB in a manner that is safe, scalable, reliable, secure and resilient – financial institutions will need to invest in optimising products and services for their customers. SWIFT’s suite of products and services, such as business intelligence, messaging conversion and networks, contribute to an essential foundation for growing the global footprint of the RMB.

Ongoing focus on standards and community
The march towards a global currency requires ongoing industry focus on efficiency, automation and global message standardisation. As part of the journey, compliance to local and global regulations is ever more important.

In addition to global market developments, the Chinese authorities and policy makers have also acted to promote the RMB’s usage internationally. In the past years, China applied a ‘seven-engines’ approach, by (i) expanding currency swap contract coverage and amount, (ii) launching new offshore RMB clearing centres, (iii) establishing more free trade zones, (iv) further liberalizing capital account items, (v) introducing new RMB investment schemes, (vi) setting up new multinational financial institutions, and (vi) direct quotations with the RMB and widening RMB trading bands.

We would like to point out that the payments data presented in this report represent both customer payments (also known as MT 103) and institutional payments (also known as MT 202). Moreover, we don’t take into account payment intermediation by clearing banks and only look at direct traffic between the different countries.

This special edition will cover in more detail the below key RMB highlights based on August 2016 data:

**France**
leads Eurozone countries in RMB payments by value
- United Kingdom is still the leading offshore RMB clearing centre after Hong Kong, representing a share of 67.3% of all RMB payments made between Europe and China/Hong Kong in August 2016
- Evolution of the RMB payments by France over the past 3 years remains rather flat
- Close to 50% of France’s payments with China/Hong Kong were denominated in CNY in August 2016

**Euro continues to dominate the corridor for payments between Germany and China/Hong Kong with a share of 80.1%**
RMB usage in Germany, Europe’s first RMB centre to be set up, has been limited, with only a share of 10.9% for payments between Germany and China/Hong Kong

**Stellar performance of the United Arab Emirates in RMB adoption, following a +44.6% growth in payments value since August 2015 – and +210.8% since August 2014.**
More than 80% of the payments made between the UAE and China/Hong Kong in August 2016 were in CNY, representing one of the highest RMB adoption rates worldwide.

**RMB highlights based on August 2016 data:**

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<tr>
<th>Rank</th>
<th>Key Highlight</th>
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<tbody>
<tr>
<td>#5</td>
<td>as a World Payments Currency in value 1.86% of global payments by value – up from 0.9% and 0.84% in August 2013</td>
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<td>#2</td>
<td>in RMB adoption after Asia-Pacific</td>
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<tr>
<td>#3</td>
<td>currency in Switzerland for direct payments with China/Hong Kong, after HKD and CHF</td>
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<tr>
<td>19</td>
<td>official RMB clearing banks appointed by People’s Bank of China</td>
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<td></td>
<td>- Eight clearing centres are based in EMEA</td>
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<td>- A Memorandum of Understanding related to the set-up of a clearing centre in Dubai was signed in December 2015</td>
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+43.5% growth compared to November 2015 (when the local clearing centre was appointed) in RMB payments by value
CIPS versus CNAPS

China National Advanced Payment System (CNAPS) is China’s domestic RTGS for RMB payment.

Cross-border Interbank Payment System (CIPS) serves as a cross-border RMB payment infrastructure, providing clearing and settlement services for cross-border trade, investment, financing and other cross-border business.

Moving forward, CNAPS will continue handling domestic RMB payments whilst CIPS will be the platform to only process the cross-border RMB payments.

CIPS is operated by China International Payment Service Corp. (CIPS Co.). CIPS Co. was incorporated on July 31th, 2015 in Shanghai. It takes full charge of the operation, maintenance, participant management and business expansion of the CIPS, under the supervision and administration of People’s Bank of China.

Construction of the CIPS is carried out in two phases:

• In the first phase, which has been live since Oct 2015 with 20 onshore direct participants and 176 indirect participants, real-time full-amount settlement is adopted to increase the speed of payment and reduce the credit risk;

• In the second phase, which is planned to go live by end of 2017, a more liquidity-saving hybrid settlement mode will be employed to increase the liquidity efficiency of cross-border and offshore RMB clearing and settlement;

• In phase two, CIPS is also looking at interconnecting with several more China FMIs and extending its operating time to cover more time zones, as well as constantly improving its standards and services portfolio to enable broader participation from overseas community.
RMB bounced back to its position as fifth most used currency for global payments

According to SWIFT August 2016 data, the RMB is for the second consecutive month ahead of the Canadian dollar remaining in the top five of world payment currencies by value with a share of 1.86%. Just three years ago, in August 2013, the RMB was ranked at position #9 with a share of 0.84%. In the last three years, the RMB overtook several currencies, including the SEK, HKD, CHF and CAD. Despite the fact that RMB is in the top five currencies the gap compared to JPY remains high (3.37%) and it is difficult to predict if and by when the RMB might be in fourth position. It overtook JPY with a record high share of 2.79% in August 2015 then fell back, likely due to the devaluations of the RMB that took place in that month. As from then, the RMB usage has been negatively impacted by the volatility in the Chinese market and the slow-down of Chinese economy.

Overall, in the month between July and August 2016, global RMB payments increased in value by 4.81%, while payments across all currencies increased in value by 7.21%.

RMB back to #5 as global payments currency, overtaking the CAD again

With eight RMB clearing centres established in EMEA, government efforts to build RMB hubs are bearing fruit. In Europe, the UK is the largest offshore RMB hub outside Hong Kong, reflecting the importance of China to the UK. How this will develop in light of the UK’s decision to leave the EU is hard to say. While Germany, France and Switzerland are striving to increase their RMB business, the UK has achieved this status in an environment where there is nothing stopping other countries from doing so. In the Middle East, we are seeing increases in the volume and value of trade with China. As ancient silk road routes reawaken, we expect more Middle-Eastern-based companies to use the RMB to settle trade payments

— Vina Cheung
Global Head of RMB
Internationalisation, Global Liquidity and Cash Management, HSBC
Asia-Pacific, and more precisely Hong Kong, is still by far the leader in offshore RMB payments. The next biggest contributor to global RMB payments by value is Europe, with the United Kingdom the largest centre in this region.

When looking at RMB adoption, SWIFT data shows that Asia-Pacific represented 44.9% of all payments with China/Hong Kong in RMB in 2016 (January – August 2016), compared to 46.6% in the same period last year. Europe follows with 30.6%, a slight increase compared to last year. Africa and the Middle East are also showing strong adoption, mainly driven by the United Arab Emirates; however, the overall value is relatively small compared to the other regions. In the Americas, the RMB needle did not move much only reaching 2.8% of total RMB in 2016, a slight decrease compared to January – August 2015.

**Evolution RMB usage with China/Hong Kong per region**

<table>
<thead>
<tr>
<th>Region</th>
<th>% payments in RMB versus total with China/Hong Kong</th>
<th>Payments sent and received by value</th>
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<tr>
<td>Americas</td>
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<td>Europe</td>
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<td>Africa - Middle East</td>
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<td>Asia-Pacific</td>
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**Overview of the Clearing Banks**

The most recent clearing centre was appointed in Switzerland in November 2015, bringing the total to 19 RMB clearing centres globally. Eight clearing centres are based in EMEA, of which two are non-Eurozone, three are in the Eurozone, two are in Africa and one is in the Middle East. In December 2015, a Memorandum of Understanding related to the set-up of a clearing centre in Dubai was signed, which will lead to an additional clearing centre in the Middle East. The key advantages of such clearing centres is that corporates operating in these countries can access RMB products, open RMB accounts and use the currency to make payments to both onshore and offshore counterparts. The other benefit of local RMB clearers is that it is easier and less risky for the business to be settled in the Chinese currency, as the designated clearing bank in these countries can purchase a limited amount of RMB from the onshore market, should the offshore market lack liquidity.

We will analyse in more detail the usage of the RMB and its evolution in the following countries: the established clearing centres in Switzerland, France and Germany, and the potential clearing centre in the United Arab Emirates. Overall, the picture revealed is that RMB adoption in the three established centres is progressing at a slow pace while the UAE continues to show significant growth.

**The beginning of RMB internationalisation in Switzerland**

Many Swiss banks have been operating in China for several years to execute business transactions and manage customer assets. Setting up a RMB clearing centre opens the door to new business that holds significant potential for the banks and their customers in areas such as commodity trade financing and pension schemes. The development of a RMB market in Switzerland will also add to the strength of Switzerland as a financial centre.

The close collaboration between China and Switzerland is not a recent development. Switzerland and the People’s Republic of China have maintained bilateral relations since 1950. In fact, since 2010 China has been Switzerland’s most important trading partner in Asia. The free trade agreement that came into effect between the two countries on 1 July 2014 promotes further and improves their economic cooperation.

Recent SWIFT data shows that Switzerland’s use of RMB for payments by value is on the rise again since the appointment of the clearing centre in November 2015 (+43.5%), but the country is only ranked at position #8 in Europe, after United Kingdom, France, Germany, Netherlands, Luxembourg, Belgium and Sweden. Over time, the recent appointment of the clearing centre, as well as the highly developed financial services sector, should further strengthen its position in RMB usage.

Furthermore, SWIFT’s August 2016 data shows that the Chinese yuan is the third most active currency for payments between Switzerland and China/Hong Kong by value, at only 4%, while the HK dollar and Swiss franc continue to dominate the corridor. SWIFT also notes that the majority of RMB payments made by Switzerland were institutional transfers (88%), whilst only 12% were customer payments.

With the inclusion in SDR, there will be acceleration for RMB to transform from a trade settlement currency to a currency for investment and reserve. China Construction Bank, as a leading RMB business bank in China, will continue to support our CCB London Branch as the RMB Clearing Bank in UK, and CCB Zurich Branch as the RMB Clearing Bank in Switzerland. We are keen to the offshore RMB business in Europe, and will further promote RMB internationalisation, accelerate international transformation ourselves and provide the best possible service to our clients in Europe market.

— LI Biao
Chairman of the Board,
China Construction Bank (London) Ltd.

**Currency usage in Switzerland for direct payments with China and Hong Kong**

**Evolution RMB payments in Switzerland**

**Global ranking by payments volumes in August 2016:** #24
**Global ranking by payments values in August 2016:** #20
**RMB usage for payments with China and Hong Kong in August 2016:** 4.0%
**RMB Swap agreement signed in July 2014, CHF 21 billion (CNY 150 billion)**
**RQFII: January 2015, CNY 50 billion (CHF 7 billion)**
**Clearing Centre appointed in November 2015, China Construction Bank (Zurich branch)**

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China is France’s eighth-largest export partner and its third largest import destination; as a result, France is the leading Eurozone country in terms of RMB adoption. French and Chinese banks have considerably diversified their banking service offerings in RMB to provide solutions aimed at supporting businesses, including SMEs and mid-caps: trade finance, opening of bank accounts, capital transactions. Additionally, France with its RMB clearing offshore centre running since 2014 is well positioned to increase the volume in RMB.

However, according to SWIFT data the United Kingdom is still the leading offshore RMB clearing centre after Hong Kong, overtaking Singapore as of January 2016. Looking at Europe only, the United Kingdom represents a share of 67.3% of all RMB payments made between Europe and China/Hong Kong in August 2016, followed by France with 14.1% being the leading euro country.

Although the evolution of the RMB payments by France over the past three years remains rather flat, close to 50% of its payments with China/Hong Kong were denominated in CNY in August 2016. RMB adoption in France was at 46% in August 2014 so it did not increase over the last two years. SWIFT notes that the weight of customer payments is at 11% versus 89% for institutional payments. Three years ago only 5% of the RMB payments in France were customer payments. The rise is due to the increase in customer payments in RMB by value (+22.4% compared to last year).

RMB adoption in France is moving at a slow pace
The United Arab Emirates (UAE) is the second largest economy in the Middle East after Saudi Arabia. A clearing bank in the UAE could positively impact trade and investment in the Gulf because Dubai is one of the region’s leading business centres, handling flows of money and goods to countries in the six-nation Gulf Cooperation Council and beyond.

The People’s Bank of China will select a Chinese lender for clearing RMB transactions in the United Arab Emirates by the end of 2016. Most probably, one of the big four Chinese banks (Agricultural Bank of China, Industrial and Commercial Bank of China, Bank of China or China Construction Bank) will become the UAE’s clearing bank. This will further strengthen the economic relationship between China and the Middle East.

In the Middle East, the UAE is already the most active user of RMB for direct payments with China and Hong Kong (as presented in SWIFT’s January 2016 RMB tracker). The creation of a clearing centre will undoubtedly lead to a further increase in the volume and value of RMB direct payments.

Recent SWIFT data shows that the UAE leads Middle East adoption of exchanging RMB payments, following a 44.6% growth in payments value since August 2015. The UAE is now ranked #17 in the world for RMB payments value, up from #20 last year.

In addition, more than 80% of the payments made between the UAE and China/Hong Kong in August 2016 were done in RMB, representing one of the highest RMB adoption rates worldwide. It is important to note, however, that SWIFT data shows that 99% of these payments were institutional payments while only 1% were customer payments. We need to take into account that the majority of commercial trade between the two is still being intermediated by United States clearing banks.

SWIFT data shows that the UAE is leading in the Middle East in terms of use of the RMB for exchanging payments with China/Hong Kong. With an RMB clearer being selected before the end of the year and creating the UAE as an official RMB clearing centre, it is clear that further strong growth can be expected in this market.”

— Khaled Moharem
Head of Middle East & North Africa, SWIFT
Germany is Europe’s biggest supplier of goods and its third largest export market. While Germany is China’s largest trading partner in the European Union, it lags France in terms of adoption, being the second Eurozone country in terms of RMB payments by value.

SWIFT’s RMB tracker shows that RMB usage in Germany, Europe’s first RMB centre to be set up, has been limited. The evolution over the past years remains rather flat with a decrease of -24.9% compared to August 2015 (which was an exceptional month as mentioned in the introduction).

So there is still a great opportunity for RMB adoption in Germany and as institutions are still being encouraged to begin using the clearing facility in the country and deal in RMB, RMB adoption in Germany will most probably increase in the future.

Germany is China’s largest trading partner in the European Union; with banks and corporates being actively encouraged to use the renminbi clearing facility in Germany, we see huge potential for growth in RMB adoption.

— Jochen Metzger
Deutsche Bundesbank, Head of Payments and Settlement Systems Department

The growing importance of the RMB currency and its role in financial markets is evident. Because of this, financial institutions and corporates have already started to build their RMB strategy or are planning to do so in the near future but need more fact-based information to identify where their organisation stands.

To address these issues, SWIFT Business Intelligence provides a free Monthly RMB Tracker. Furthermore, in order to obtain more granular market information and a competitive framework, SWIFT has developed a compelling offering:

• At the core of SWIFT Business Intelligence sits the Watch platform, a portfolio of online reporting and analytical tools that give you direct and easy access to business intelligence about your financial institution and the global financial industry. For example, Watch Analytics provide you with direct access to business data of RMB transactions allowing you to perform a more dynamic search and analysis.

• In order to obtain more granular market information and a competitive framework, this can be acquired through its extended RMB Market Insights analysis report. SWIFT’s RMB Market Insights report responds to the needs of SWIFT customers (both Watch product users and non-users). With this, you can benefit from fact-based quarterly market analysis using unique data only available from SWIFT Business Intelligence.

• Similarly, the customised RMB analysis leverages SWIFT’s unique data and provides crucial competitive and strategic insights to optimise your business and support your decision-making.

For further information about SWIFT’s Business Intelligence RMB Consulting Services and the full Business Intelligence portfolio, please visit swift.com or e-mail watch@swift.com
More than 1,800 Financial Institutions in over 110 countries are already doing business in the Chinese currency: the Renminbi (RMB). Is yours one of them? Are you looking to understand more about RMB internationalisation, or further expand your RMB business?

SWIFT’s RMB Tracker provides a monthly report with a unique set of statistics to help you track and understand how the RMB is being used across geographies and financial sectors. To register for the free RMB Tracker or learn more about our RMB offering, visit www.swift.com or e-mail swiftforbanks@swift.com.

About SWIFT
SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,800 banking organisations, securities institutions and corporate customers in over 200 countries and territories. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest.

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About SWIFT and RMB Internationalisation
Since 2010, SWIFT has actively supported its customers and the financial industry regarding RMB internationalisation through various publications and reports. Through its Business Intelligence Solutions team, SWIFT publishes key adoption statistics in the RMB Tracker, insights on the implications of RMB internationalisation, perspectives on RMB clearing and offshore clearing guidelines, supports bank’s commercial RMB product launches and provides in-depth analysis and business intelligence, as well as engaging with offshore clearing centres and the Chinese financial community to support the further internationalisation of the RMB.

The SWIFT network fully supports global RMB transactions, and its messaging services enable Chinese character transportation via Chinese Commercial Code (CCC) in FIN or via Chinese characters in MX (ISO 20022 messages). It offers a suite of dedicated RMB business intelligence products and services to support financial institutions and corporates. In addition, SWIFT collaborates with the community to publish the Offshore and Cross-Border RMB Best Practice Guidelines, which facilitate standardised RMB back office operations.

Please visit www.swift.com for more information about RMB Internationalisation or join our new ‘Business Intelligence Transaction Banking’ LinkedIn group.