



BANK OF ENGLAND

News release

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A new heart for a changing payments system – speech by Minouche Shafik

In a speech to leaders in the payments sector, Minouche Shafik, Deputy Governor for Markets and Banking, announces that the Bank will develop a blueprint to modernise the UK's sterling settlement infrastructure to respond to changing needs.

The world of payments is being transformed...

It is now twenty years since the Bank introduced the Real Time Gross Settlement (RTGS) system. It plays a vital role in the safe functioning of the economy. By allowing banks to settle their obligations to each other electronically and immediately via the central bank, RTGS eliminates settlement risk on the largest payments flows.

The way payments are made has changed dramatically in recent years. Minouche highlights two drivers which are spurring the entry of new payment providers and changing the demands on payments infrastructure:

- Reflecting changes in the needs of households and companies, technological innovations are reshaping the ways in which retail and wholesale payments are initiated and processed. The range of cashless, real-time and mobile payments options continue to increase. And the emergence of Distributed Ledger Technology (DLT) enables verification of payments to be decentralised.
- Regulation is evolving from targeted interventions to a more dynamic focus on competition and innovation driven by the Payments Systems Regulator (PSR) which launched in 2015.

Minouche says that “looking forward...it is again time to ask fundamental questions about the shape of the Bank's settlement operations”.

The future of sterling settlement matters to everyone in the UK ...

The vast majority of payments in the real economy – “from salaries to company invoices, from car purchases to coffee sales, from pensions to investment flows” – ultimately settle over RTGS. Indeed it settles almost a third of the UK's annual GDP – or about £500bn - every single day. So it is no exaggeration to say that RTGS is the beating heart of the UK payment system.

Minouche highlights that by hosting the reserves accounts of the banking system, RTGS provides the means by which the Bank implements monetary policy and provides liquidity insurance for financial stability. The Bank's role as settlement agent reflects the trust placed in it by financial market participants and the wider public.

Minouche concludes that "in the pursuit of financial stability, the importance of resilience can hardly be overstated: a persistent disruption to people's ability to make and receive payments would cause great damage to the UK economy".

While the need to ensure stability is paramount, the Bank is uniquely placed at the heart of the payment system to support innovation...

Minouche sets out the four overarching questions which the blueprint for sterling settlement will seek to answer. First, what should the Bank's policy objectives be in the delivery of sterling settlement in central bank money? Second, what functions should the UK High Value Payments System have? Third, who should be able to access it, and how? And, fourth, what should the role of the Bank of England be in the delivery of that service?

Minouche emphasises that "when we make investment decisions in systems that will last for a decade or more, they need to enable the kinds of changes that users will demand. So we need to make sure that we have 'optionality' built in so that we can cope with different states of the world."

A new heart for a changing payments system...

The Bank will design a blueprint that can support the future demands placed on the UK's high-value sterling settlement system.

In the first part of 2016 the Bank will seek input from a wide range of stakeholders, before consulting formally on a small number of alternative ways forward later in the year. By the end of 2016 the Bank will have agreed a blueprint for high-value sterling settlement in the years ahead, with technological development of that blueprint beginning in 2017.

Minouche concludes by saying "innovation and stability can go hand in hand...Our challenge will be to navigate a path that redesigns RTGS in such a way that its resilience is further enhanced, while at the same time enabling innovation for the public good."

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