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A new RTGS service for the United Kingdom: safeguarding stability, enabling innovation

The Bank of England is consulting on the next generation of its Real-Time Gross Settlement (RTGS) service.

RTGS is not a household name. But it lies at the heart of safeguarding the Bank's mission for monetary and financial stability, providing the platform for sterling central bank reserves (the electronic counterpart to banknotes), and the ultimate risk-free means of final payment. On an average day, RTGS settles around £500 billion between banks; almost a third of the UK's annual GDP. Given its central role, the Bank must anticipate the demands that could be placed on RTGS in the medium term, safeguarding stability whilst also enabling innovation within a rapidly-changing payment ecosystem.

The consultation paper is informed by a wide-ranging outreach programme launched in January 2016 by Minouche Shafik, Deputy Governor for Markets and Banking. A dedicated review team has met with current and potential future users of the service, authorities, payment system operators, experts, and broader public interest groups. Those stakeholders highlighted five key strategic requirements for the next generation of RTGS. They were that the service must:

1. Be capable of responding to the changing structure of the financial system;
2. Recognise that payment system users want simpler and more resilient pathways for their payments;
3. Be capable of interfacing with a range of new technologies being used in the private sector, including distributed ledgers, if/when they achieve critical mass;
4. Remain highly resilient to the increasingly diverse range of threats to continuity of service; and
5. Have the capacity to support the future evolution of regulatory and monetary policy tools.

To respond to these drivers, stakeholders agreed that now was the right time for the Bank to develop the next generation of RTGS.

Stakeholders strongly encouraged the Bank to retain as its primary objective the safeguarding of the stability of the payments system as a whole, through the provision of a highly reliable, resilient and robust method of providing real-time gross settlement in central bank money of the largest, most system-critical, payments in the economy.

Where they are consistent with its primary objective of safeguarding stability, the Bank has chosen proposals judged likely to enable innovation, efficiency and competition in payments arrangements – both as a contributor to the UK’s medium-term economic prospects, and as a means of safeguarding financial stability, by reducing market concentration, identifying new risk-reducing technologies, and increasing the scope for electronic settlement in central bank money. That is consistent with the Bank’s strategy for enabling financial innovation.

Taken together, the Bank’s proposals are aimed at delivering a new RTGS that is resilient but flexible, with a high proportion of payments in the UK economy continuing to take place in (or backed by) central bank money, however the structure of financial markets and payments technology develops. Compared to the RTGS of today, the Bank’s proposals are intended to provide broader **access**, higher **resilience**, greater **interoperability**, and a wider range of **user functionality**. The proposals are summarised in the table overleaf.

A key enabler for delivering these changes will be a comprehensive rebuild of the RTGS technology platform. The Bank will make decisions on its resilience, including in particular its cyber defences, in consultation with intelligence partners. The cost of the rebuild will be recouped from future users in the normal way over time through a temporary increase in the RTGS tariff. A timetable for delivery of the new service will be published in 2017 with the provisional aim of completion in 2020.

Andrew Hauser, Executive Director for Banking, Payments and Financial Resilience, said:

“The world of payments is changing rapidly, and central banks need to keep pace if we are to deliver our mission of monetary and financial stability effectively in the years to come, whilst also enabling innovation and competition where we can. The proposals in this consultation document set out the changes the Bank of England believes are needed to deliver a new generation of RTGS service to meet that challenge. Taken together with prospective reforms to retail payments underway in the industry, these changes are designed to keep the UK payments infrastructure at the leading edge globally whilst underscoring our commitment to maintaining stability and confidence”.

Table A Proposed shape of next generation of the RTGS service

Service characteristic	Retained from current generation of RTGS	Enhancements for consultation
<p>Access: Facilitate greater direct access to central bank money settlement for institutions and infrastructures.</p>	<ul style="list-style-type: none"> • Broad range of settlement models for payment systems and securities settlement platforms. • Direct access to CHAPS required for institutions above value threshold. 	<ul style="list-style-type: none"> • Non-bank PSPs eligible for RTGS settlement accounts (subject to appropriate safeguards). • Streamlined testing, connectivity and onboarding requirements enabling much wider direct access for banks and broker-dealers. • Costs of access reduced by streamlined connectivity and contingency requirements. • Third-party aggregators able to provide technical connectivity for institutions seeking direct access to CHAPS. • Institutions of systemic importance required to access CHAPS directly.
<p>Resilience: Strengthen resilience of RTGS and flexibility to respond to emerging threats.</p>	<ul style="list-style-type: none"> • Recovery objectives. • Day-to-day dual-site operation. • Third settlement platform for contingencies. 	<ul style="list-style-type: none"> • Strengthened resilience framework. • Additional messaging channel (either in contingency or in regular operation).
<p>Interoperability: Promote harmonisation and convergence with critical domestic and international payment systems.</p>	<ul style="list-style-type: none"> • Strategic focus on settlement of high-value payments. • Securities ledger remains outside RTGS. 	<ul style="list-style-type: none"> • ISO 20022 messaging. • Payment synchronisation functionality. • Promote alternative processing arrangements for time-critical retail payments.
<p>User functionality: Support emerging user needs in a changing payment environment.</p>	<ul style="list-style-type: none"> • Liquidity saving mechanism and collateralised intraday liquidity. • Broad-based reserve account functionality for monetary policy implementation. • Simple business intelligence interface. 	<ul style="list-style-type: none"> • Near or true 24x7 operating capability. • API interface for richer access to payment and liquidity data. • Functionality for tracking RTGS payments. • Forward-dated payment submission. • Greater queue visibility in liquidity saving mechanism.

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Notes to Editors

- What is the RTGS service? RTGS is where banks hold their sterling bank accounts. Like any account they can store balances (“reserves”) on these accounts, or use them to make payments. The Bank of England has been operating RTGS since 1996 to provide a safe and immediate way for banks to exchange payments. Since 2006 it has been paying interest on reserves held in RTGS, to support the implementation of monetary policy as set by the MPC.
- What is ‘central bank money’? A settlement agent facilitates the transfer of funds between the customers of different banks. Since not all bank accounts are held at the same commercial bank, transfers between accounts create interbank obligations. To settle these obligations, an asset must be transferred between banks. The role of a settlement agent is to provide accounts to banks for this purpose. Where the settlement agent is a central bank the settlement of these obligations is described as being in central bank money.
- Why does the Bank run RTGS? All payment schemes require one institution to hold the settlement accounts of its members in which the settlement of obligations takes place. For systemically-important payment schemes, this role is performed by the Bank as it is the agent in the economy with the lowest risk of default. Default would lead to the loss of the mechanism for settling obligations as well as the loss of funds held in the settlement accounts and so the role is best played by the central bank to safeguard against these risks.
- What payment systems use RTGS? Currently seven major sterling payment schemes use RTGS as settlement agent. The largest flows are generated by CHAPS, the UK’s high-value payment system, used for financial market transactions and other high-value flows including house purchases, and by CREST, the settlement platform for UK securities (gilts, equities and debt securities) operated by Euroclear UK and Ireland. Due to the size of these systems, transactions are settled individually in real time. For five other payment schemes focused on retail payments, individual payments are not routed through RTGS but rather the net balances that build up between members of these systems are settled periodically in RTGS, either 3 times per day for Faster Payments (used for online and mobile payments) or once per day for Bacs (used for direct debits and salaries); Cheque and Credit (used for cheque processing); LINK (used for ATM withdrawals); and Visa Europe (used for card payments). The table below shows the average settlement volumes and values across RTGS for these schemes.
- Which types of institutions already have access to RTGS settlement accounts? Settlement accounts are required by members of payment schemes. Therefore banks, building societies, broker-dealers, central counterparties and other systemically-important financial market infrastructure are already permitted access to RTGS settlement accounts. But the majority of financial institutions choose to

access payment schemes indirectly via one of the members of the scheme and the settlement of their IOUs will occur through that member.

Average daily RTGS settlement volumes and values

	2011	2012	2013	2014	2015
CHAPS values (£mn)	£254,489	£284,591	£277,229	£268,615	£270,400
CHAPS volumes	135,555	134,665	138,245	144,353	148,412
CREST DvP values (£mn)	£322,118	£293,293	£303,717	£274,257	£240,480
CREST DvP volumes	6,859	7,325	8,388	9,050	9,391
Faster Payments net values (£mn)	£188	£502	£586	£606	£663
Bacs net values (£mn)	£3,269	£3,190	£3,071	£3,122	£3,159
Cheque & Credit net values (£mn)	£220	£232	£211	£196	£190
LINK net values (£mn)	£216	£235	£249	£271	£294
Visa net values (£mn)	NA	NA	£1,144	£1,149	£1,425