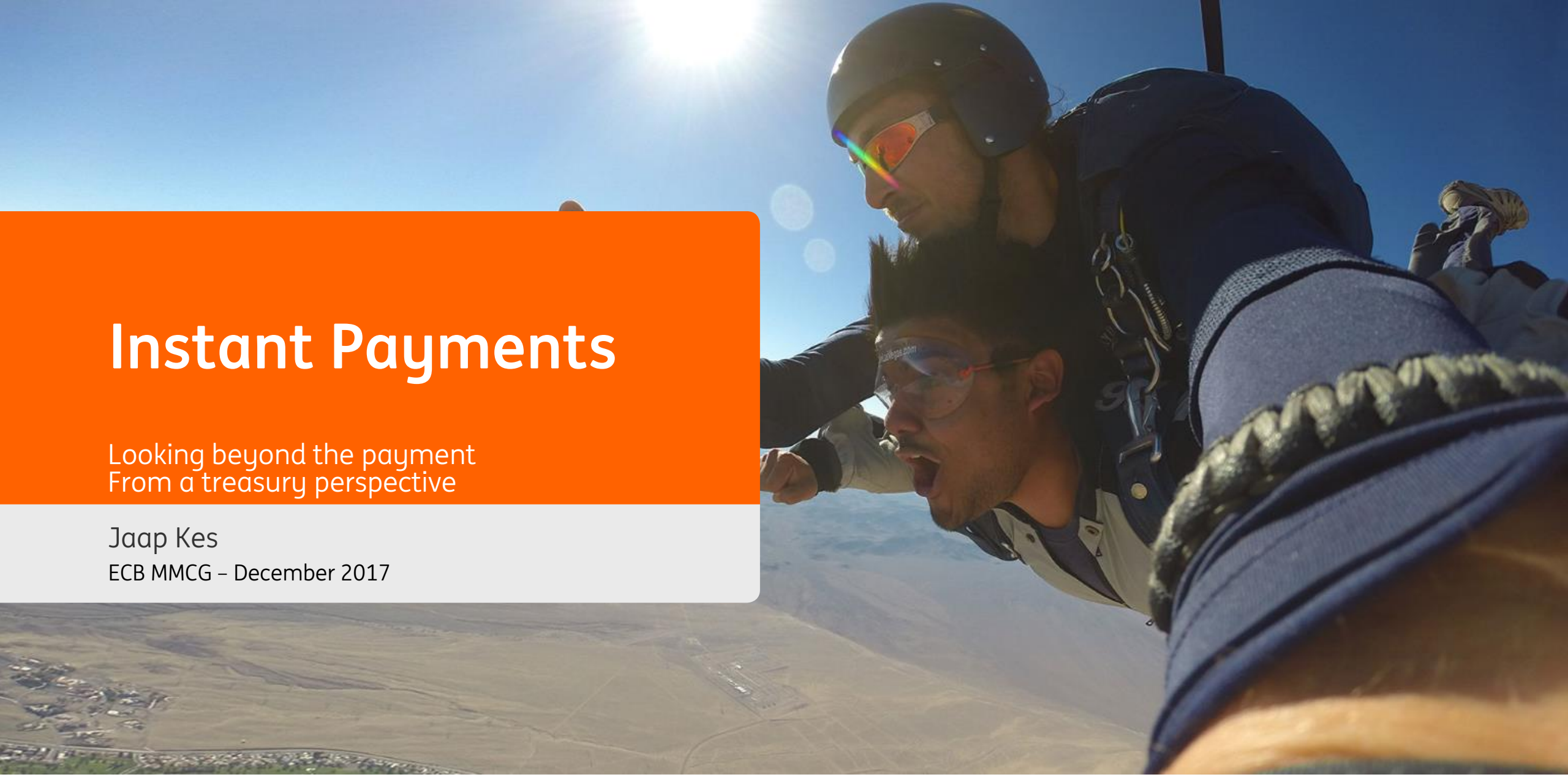

Instant Payments

Looking beyond the payment
From a treasury perspective

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ECB MMCG – December 2017

thinkforward

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Agenda

Instant Payments from a treasury perspective

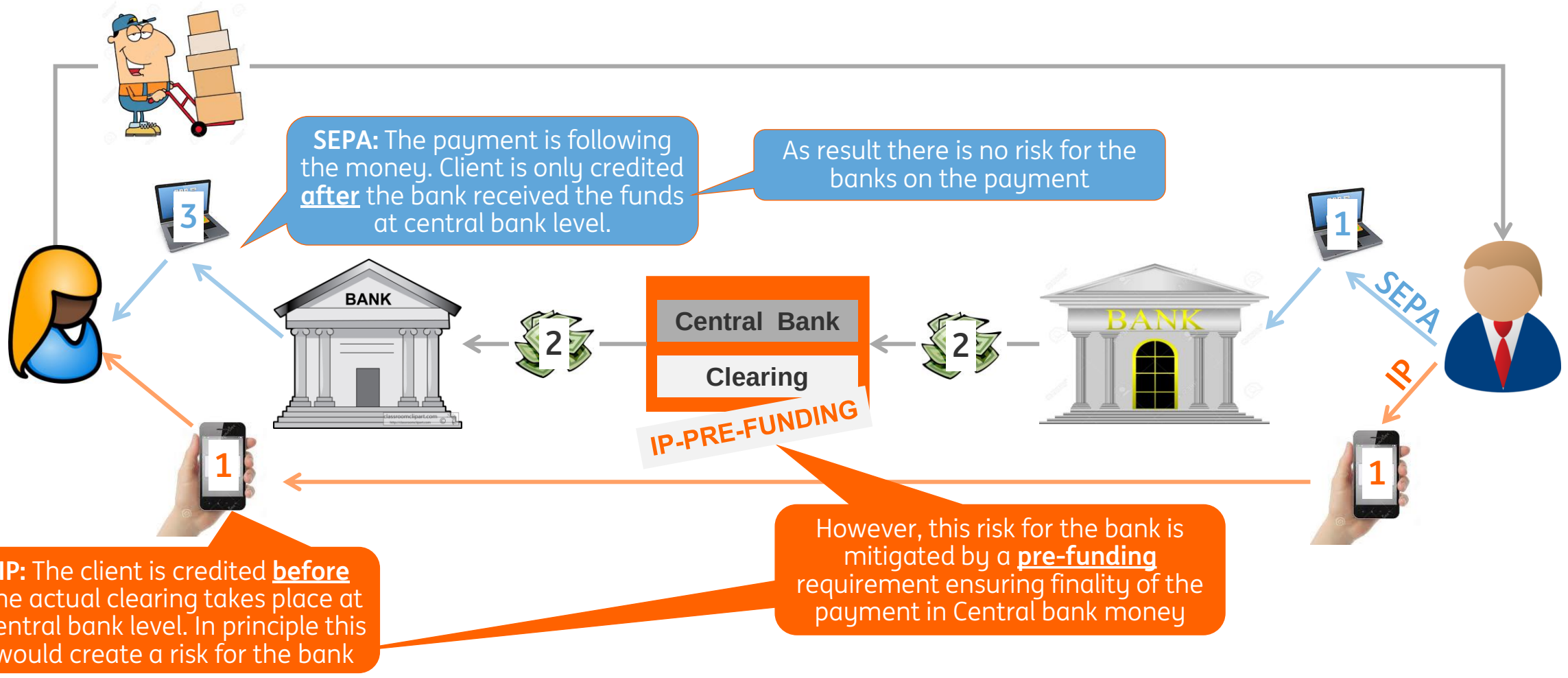
- From post-funding to prefunding
- Fragmentation in IP model
- Liquidity efficiency
- Pre-funding buffer size consideration
- A consolidated impact.....

Value date impact

- Current situation
- Instant payments situation

Electronic transfer (eg. SEPA) vs. Instant Payment

From Post-funding to Pre-funding



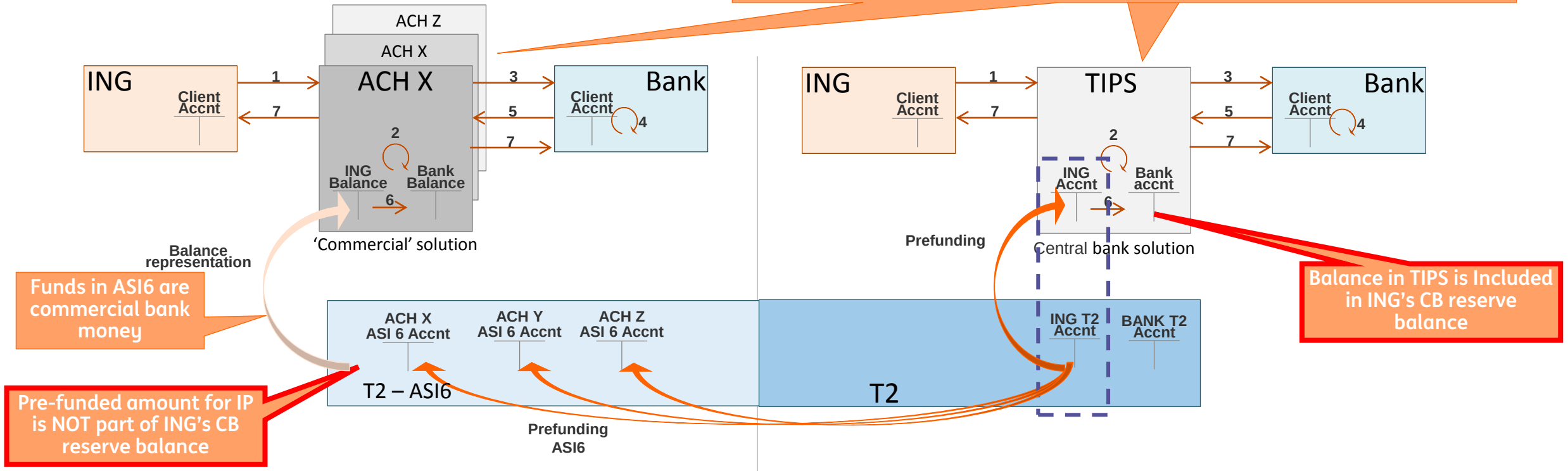
TIPS model vs ACH Model

Fragmentation of Pre-funding

The 2 different models and the multiple ACH solutions will cause fragmentation of the pre-funding requirement.

Overall this will result in **higher pre-funding.**

The interoperability between ACH's and between the commercial and central bank model will be limited to the processing of payments, but will not enable to fully pool the liquidity cross the IP providers.



Steps - simplified

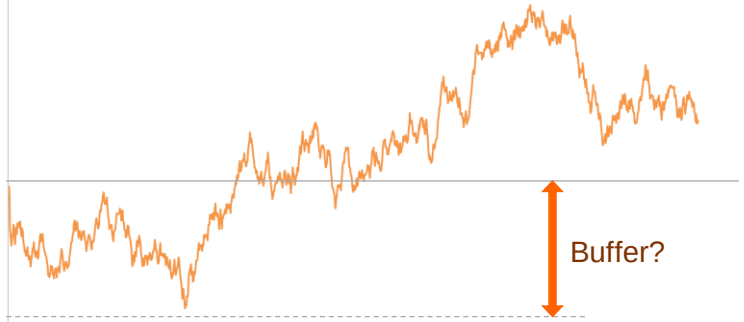
1 – After client initiates an IP, ING will forward the instruction to the IP provider
2 – Provider makes funds reservation
3 – Instruction is forwarded to the beneficiary bank
4 – Beneficiary banks checks if funds can be applied to beneficiary
5 – Beneficiary bank 'gives ok' to provider
6 – Provider settles the funds between the payer bank and beneficiary bank
7 – Provider informs both banks;

Liquidity Efficiency

Increase of liquidity needs by shortening the settlement cycles

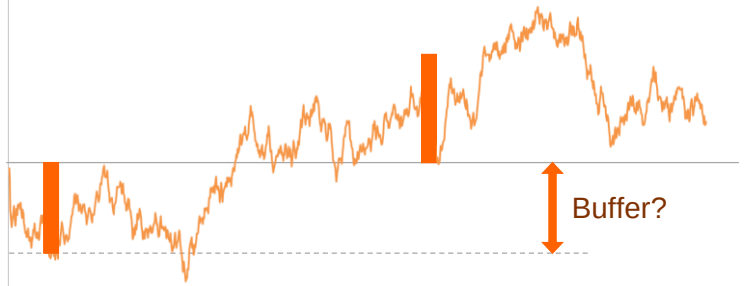
Pre-funding buffer Size rules?

How much overcapacity will be created?



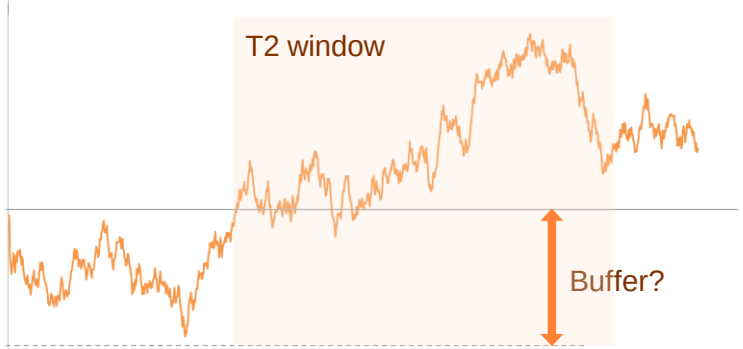
- How should we determine the size of the buffer?
- Who should do this? Bank? Regulator?
- Normal scenario? risk stress scenario's?
- Forecasting? Backtesting?
- Period? Day, Week, Month, Year?

If I have to hold a buffer against a year backtested stress scenario, I will hardly have the need to settle IP against T2 as I will run a 90% overcapacity in my buffer for 90% of the time.



- Can I include calibration against T2 in my buffer requirements and effectively lower my peak liquidity use?

If I'm allowed to include my T2 calibration into my buffer requirements, I can optimise my buffer requirement in a better way but would need a settlement mechanism supporting this.

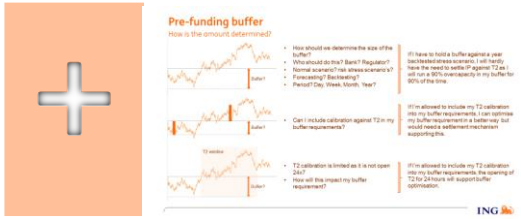


- T2 calibration is limited as it is not open 24x7
- As this will drive higher peak use, it will this impact the pre-funding requirement

If I'm allowed to include my T2 calibration into my buffer requirements, the opening of T2 for 24 hours will support pre-funding buffer optimisation.

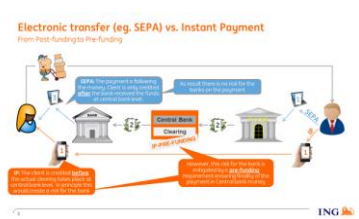
Liquidity in-efficiencies combined.....

Pre-Funding size and Costs

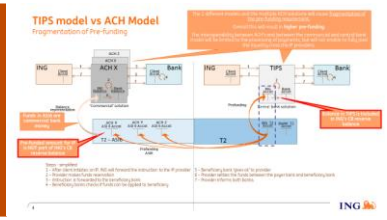


In-ability to calibrate funds between pools and against T2 outside T2 opening hours, no netting and thus increased overall need of pre-funding

Possible future rules around pre-funding levels based upon stress scenario's, increasing over capacity



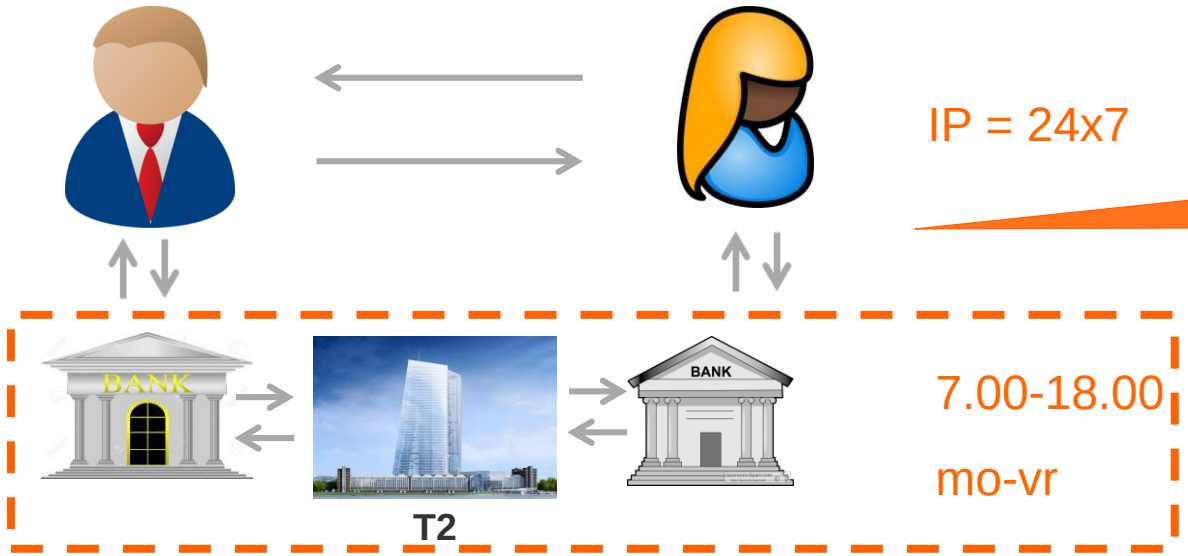
Pre-funding requirement driving the need to separate funds earlier (and partly outside reserve balance) and driving over capacity



Fragmentation of pools/wallets due to different models and various providers – no netting of liquidity cross models/providers

Netting effect is minimal due to instant nature of the payment

Value date impact



What will be the value date we apply to IP outside T2 opening time?

The PSD2 is not clear about this. This could lead to a situation where the sending bank applies a different value date compared to the receiving bank.

In that case the same funds could be subject to interest renumeration twice, which might create an insentive to move funds around Europe to benefit from this systemic 'mistake'

ISSUE 1

ISSUE 2

If the value date for the customer will follow the calendar logic, this will create a P&L impact.

Funds received in the evening or in the weekend can only be used by the bank on the following T2 opening day.

This P&L impact negatively impact the roll-out of the IP product beyond the retail payments space

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Summary.....

- Instant payments drives Liquidity in-efficiency on several fronts:
  - Netting effect will disappear as there is no offsetting possible
  - Fragmentation of models and providers – fragmentation of liquidity pools
  - Pre-funding requirement (no risk allowed – hence higher liquidity demand)
  - Pre-funding buffer size

  This will result in higher liquidity costs for payments!

- 24x7 nature of IP will give a value dating and business day conflict
  - What is the value date of an IP in the weekend?
  - Will T2 closing days become business days? Can tax be paid in the weekend?

  It's absolutely essential that the value and business day interpretation is equal cross the entire industry as other wise we will not only create confusion, but also the possibility to arbitrage on payment movements.