

Dieter Reichwein
European Central Bank
DG Market Infrastructure and
Payments
Market Infrastructure Management
Division

TIPS and enhancement of Eurosystem RTGS services

Ohrid, 3 June 2019

Agenda

- 1 Motivation for building TIPS**
- 2 TIPS – main features
- 3 TIPS – access and costs
- 4 TIPS – liquidity management
- 5 TIPS evolution
- 6 Enhancement of Eurosystem RTGS services

Launch of instant payments in euro

- In December 2014 the Euro Retail Payments Board (ERPB) called for “**at least one pan-European instant payment solution for euro**”
- After the ERPB call, the European Payments Council (EPC) developed the Rulebook for the **SEPA Credit Transfer Instant (SCT Inst) Scheme** by November 2016
- A **payment scheme** is a set of rules which payment service providers (PSPs) have agreed upon to execute transactions through a specific payment instrument
- The commercial launch of the SCT Inst scheme took place on **21 November 2017**



SCT Inst Scheme Rulebook

TIPS – main objective

Minimise the risk of fragmentation of the euro retail payments market by offering a service that can help ensure that any bank account holder in Europe can be reached

| | |
|---|--------|
| Direct participation | 1,056 |
| Indirect participation | 659 |
| Multi-addressee – Credit institution | 28 |
| Multi-addressee – Branch of direct | 1,279 |
| Addressable BIC – Correspondent | 4,091 |
| Addressable BIC – Branch of Direct | 33,024 |
| Addressable BIC – Branch of Indirect | 1,317 |
| Addressable BIC – Branch of Correspondent | 7,827 |

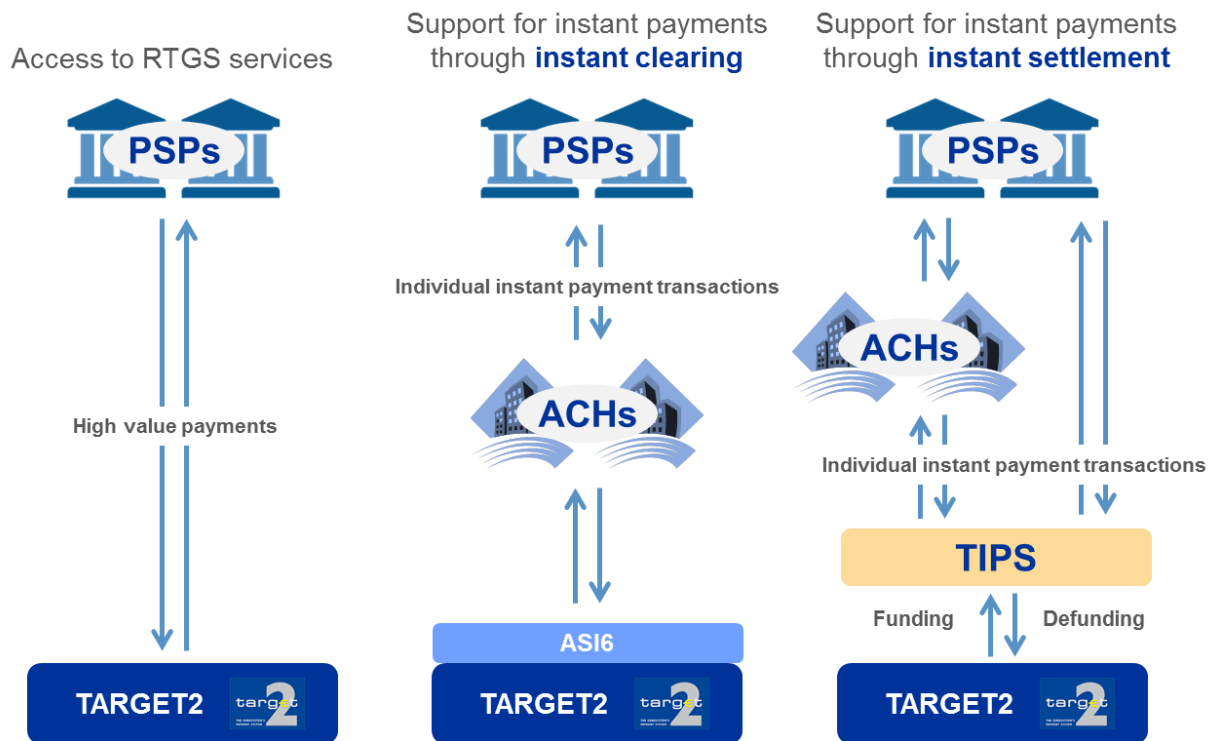
TIPS is in an optimal position to facilitate **pan-European reachability** thanks to the extensive **network** of participants/ addressable BICs in **TARGET2**



Co-existence of Payment Services

TIPS is able to complete the already existing offer of the Eurosystem in terms of payments:

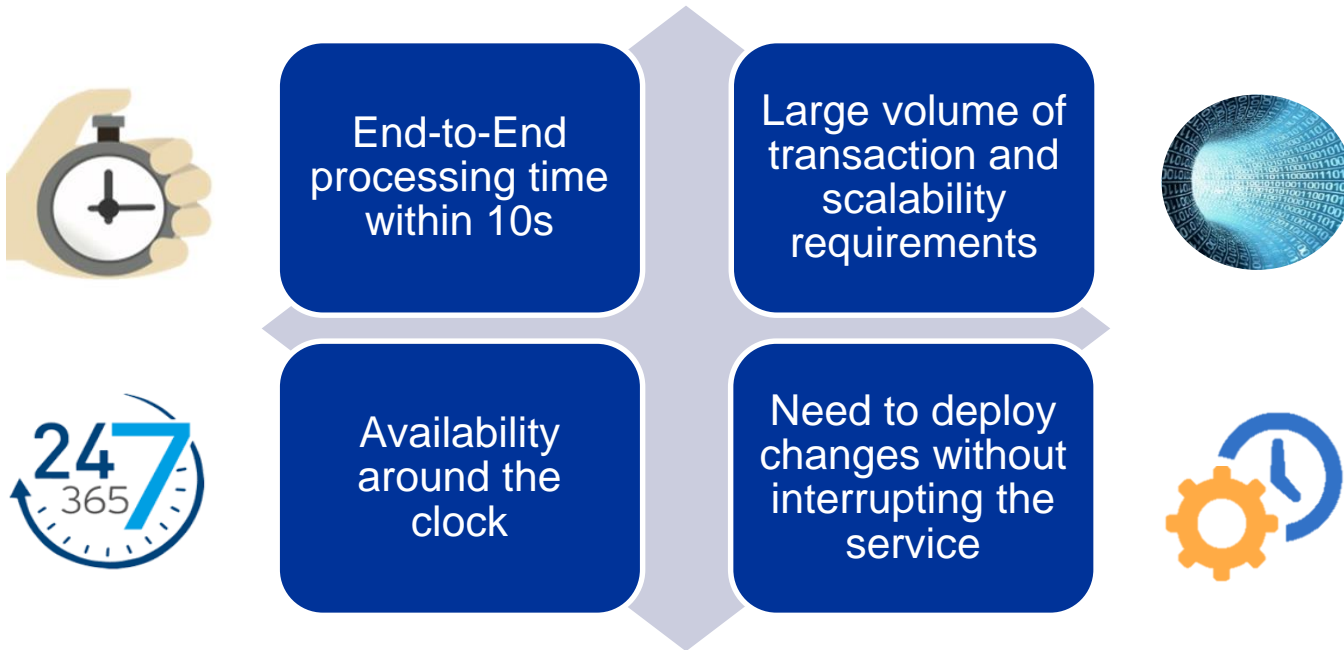
- High-value payments on RTGS accounts
- Settlement of cleared positions of instant payments in ACH through ASI6 RT procedure
- Settlement of individual instant payments on dedicated TIPS accounts



TIPS is able to facilitate reachability between PSPs connected to different ACHs, even without any links between the ACHs

Why TIPS (and not just T2)?

- TARGET2 technical solution could not be used for TIPS:



Agenda

- 1 Motivation for building TIPS
- 2 TIPS – main features**
- 3 TIPS – access and costs
- 4 TIPS – liquidity management
- 5 TIPS evolution
- 6 Enhancement of Eurosystem RTGS services

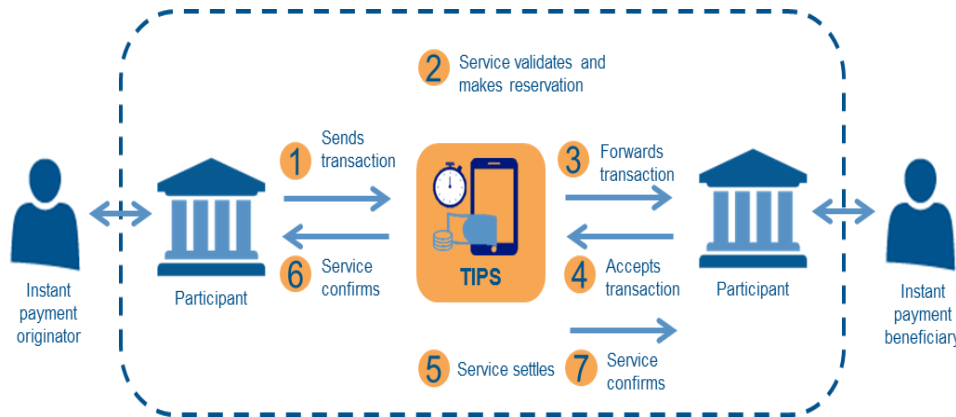
TIPS as a new TARGET service

TIPS is a service for instant payments:

- Settlement in **real-time** on a **gross basis** with immediate finality
- Settlement only if **sufficient funds** are available on the TIPS account to be debited, otherwise the transaction is rejected
- **Liquidity management** by funding/defunding from the RTGS account



TIPS: general principles



24/7/365
operating hours



Support compliance with
SCT Inst scheme



Multi-currency
technical capability



Settlement in
central bank money



Processing time
within **10 seconds**



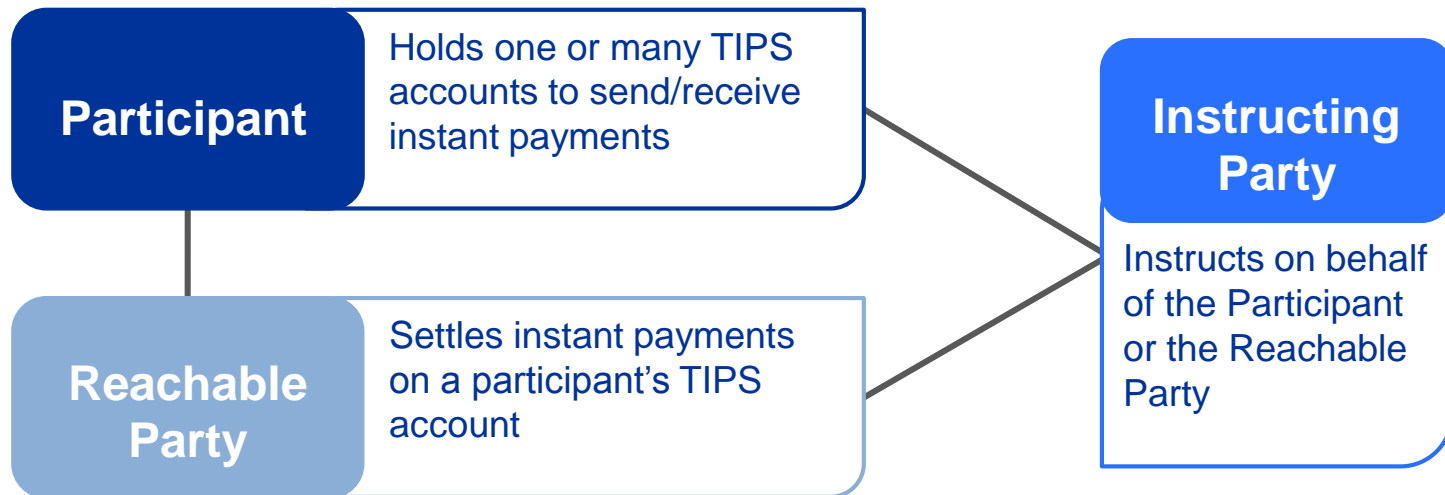
Operated on
full cost recovery

Agenda

- 1 Motivation for building TIPS
- 2 TIPS – main features
- 3 TIPS – access and costs**
- 4 TIPS – liquidity management
- 5 TIPS evolution
- 6 Enhancement of Eurosystem RTGS services

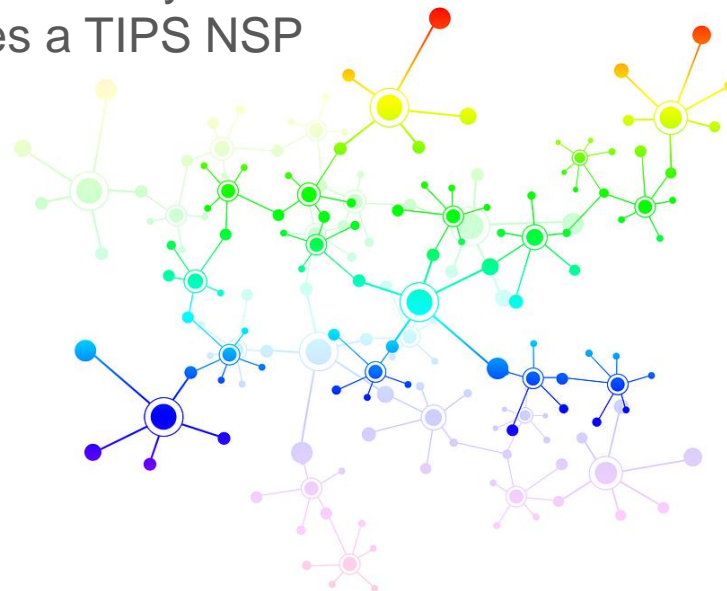
Who can access TIPS?

- Three major actors: **Participants**, **Reachable Parties** and **Instructing Parties**
- Participants must be **eligible for accessing TARGET2**



HOW can TIPS be accessed?

- TIPS Participant can **sponsor Network Service Providers (NSPs)**
- Subject to a successful **compliance check** by the TIPS Service Provider, the sponsored NSP becomes a TIPS NSP
- TIPS Participants shall have a contract with their selected NSP(s) and are responsible for their compliance vis-à-vis the TIPS connectivity requirements



Pricing scheme

- TIPS developed and operated under the principle of **full cost recovery**
- The pricing scheme designed to facilitate **high reachability**:



No entry fees



No fixed fees



No account management/information fees



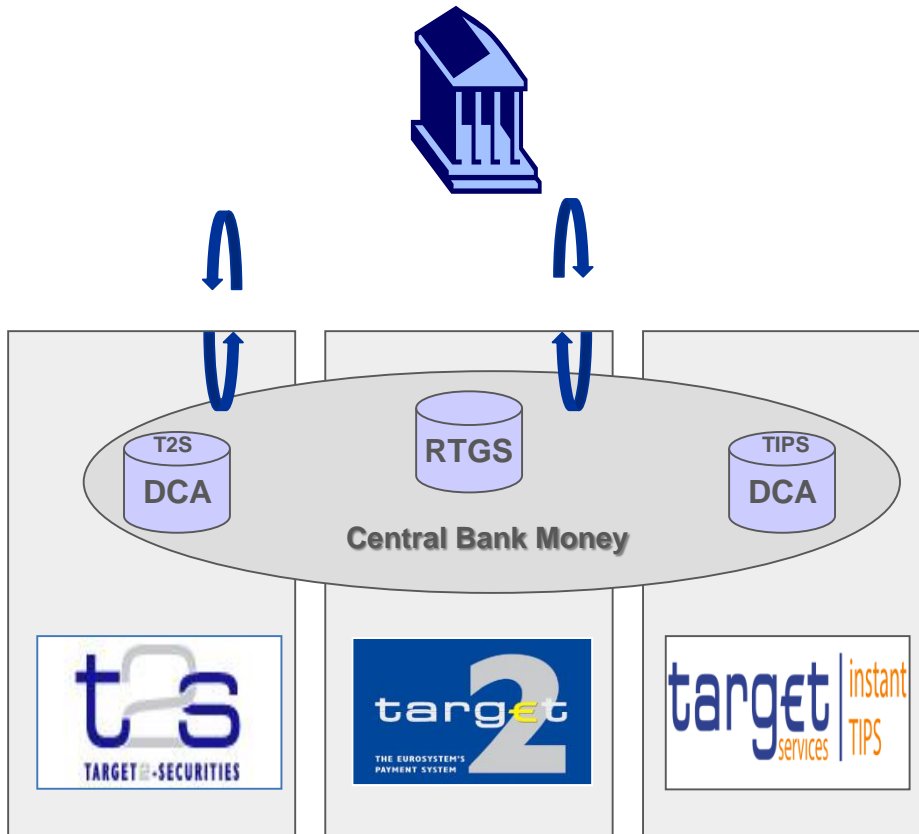
*Transaction fee: **0,20 eurocent (€0.002)***

- **Early joiner incentive:** first 10 million transactions until end 2019 free of charge

Agenda

- 1 Motivation for building TIPS
- 2 TIPS – main features
- 3 TIPS – access and costs
- 4 TIPS – liquidity management**
- 5 TIPS evolution
- 6 Enhancement of Eurosystem RTGS services

TIPS: liquidity management



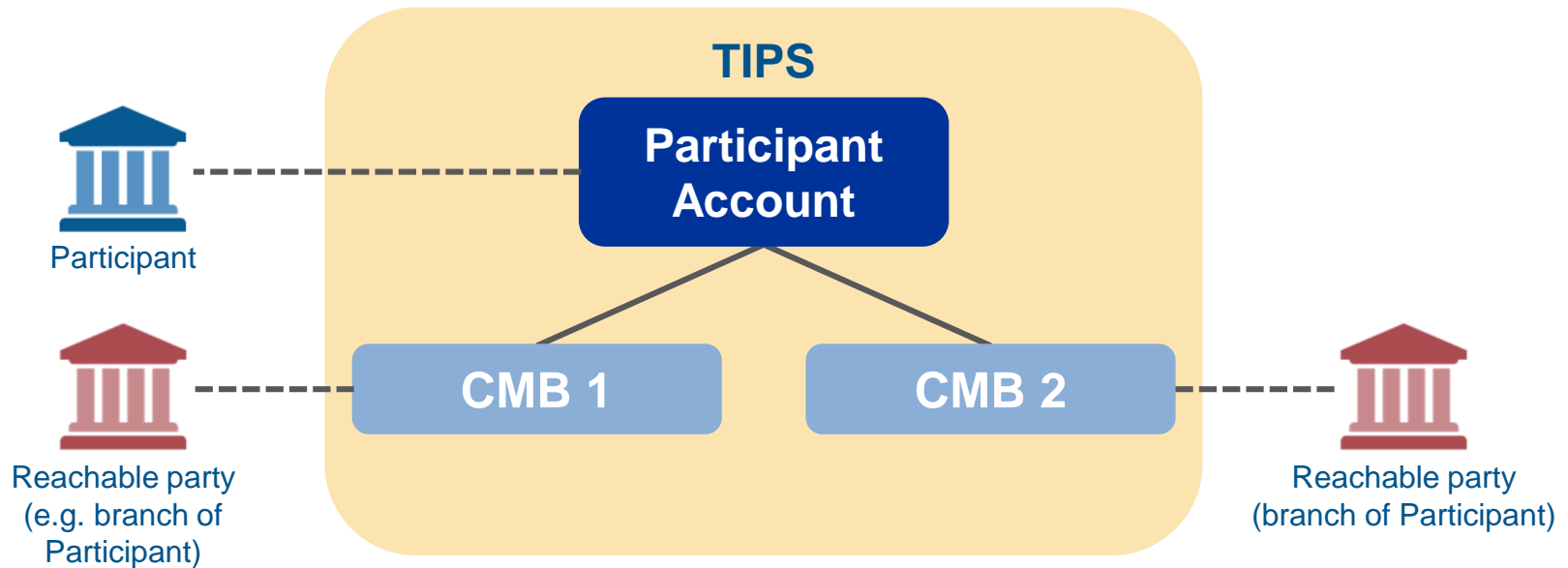
To properly manage their liquidity, participants need to:

- **monitor** each account real-time
- get a **consolidated** position real-time
- **push** and **pull** liquidity from/to RTGS to DCAs
- manage fulfilment of **reserves**
- control recourse to **standing facilities**

$$\text{Minimum reserve} = \text{TARGET2 end of day balance} + \text{TIPS balance at the time of TARGET2 end of day}$$

TIPS: liquidity management

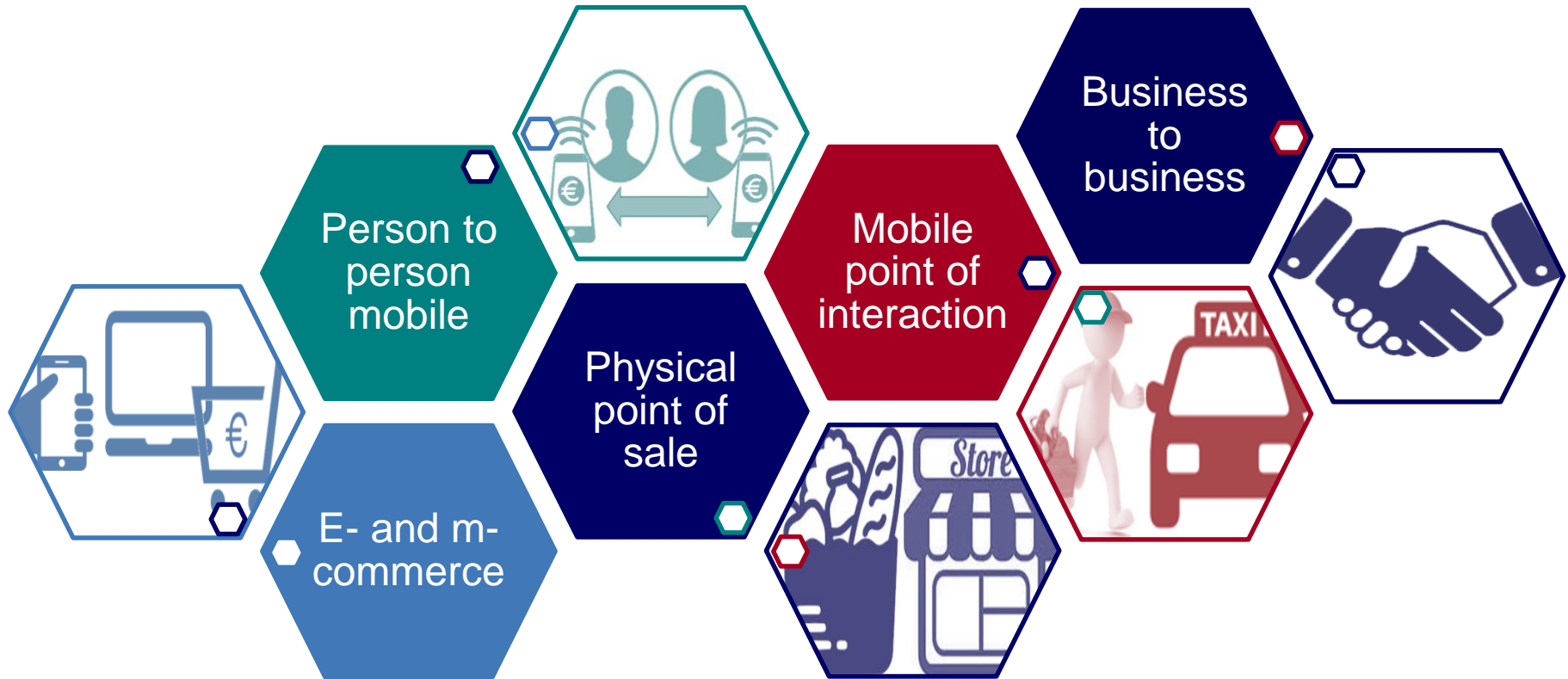
- Credit Memorandum Balance (CMB) allows participants to set **maximum limits** for Reachable Parties – efficient limit management without splitting of liquidity
- Settlement takes place in central bank money on the TIPS Participant's account



Agenda

- 1 Motivation for building TIPS
- 2 TIPS – main features
- 3 TIPS – access and costs
- 4 TIPS – liquidity management
- 5 TIPS evolution**
- 6 Enhancement of Eurosystem RTGS services

End-user solutions: bringing the benefits of instant to citizens and businesses across Europe



- SCT Inst provides an opportunity to develop efficient and user-friendly **European solutions** for all these use cases

Euro Retail Payments Board (ERPB) work on instant payments at the point-of-interaction

Consumers and merchants could benefit from user-friendly and efficient instant payments based solutions

Existing initiatives are limited in geographical scope and not interoperable with each other

- Need to ensure that end-users can pay EU-wide using interoperable solutions
- ERPB to analyse current barriers and how they can be overcome

ERPB work on a potential SEPA API Access Scheme

- The PSD2 can be seen as the first step towards open banking
- With this work stream the ERPB initiated further steps towards open banking by
 - exploring the possibility of complementing the “baseline” provided in the PSD2 with PIS/AIS value-added (“premium”) services via one standardised interface
 - for the mutual benefit of banks and third-party providers
- The initiative is a market-driven and coordinated process
- It shall not impede the efforts of market participants to duly implement PSD2 and related legal and regulatory requirements within the defined timelines!

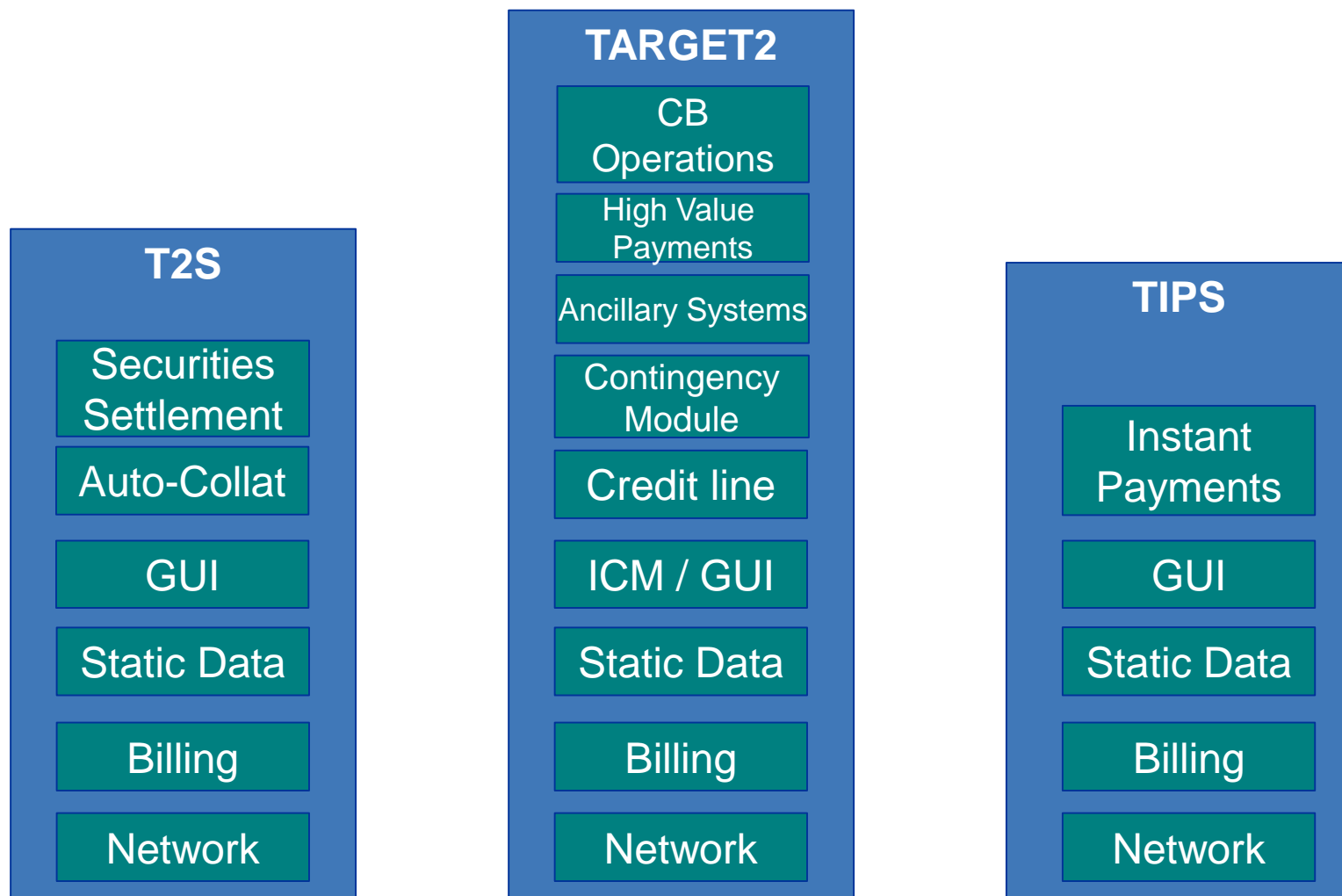
TIPS – what's next?

- Possible introduction of new functional features
- Investigating the possibility for the development of a Mobile Proxy Lookup (MPL) Service
- Bringing down connectivity cost
- Exploring ways of possibly facilitating international instant/fast payments (for example by linking TIPS with the SWIFT GPI for international payments)
- Establishment of the TIPS Consultative Group comprising all relevant stakeholder groups

Agenda

- 1 Motivation for building TIPS
- 2 TIPS – main features
- 3 TIPS – access and costs
- 4 TIPS – liquidity management
- 5 TIPS evolution
- 6 Enhancement of Eurosystem RTGS services**

Current architectural environment

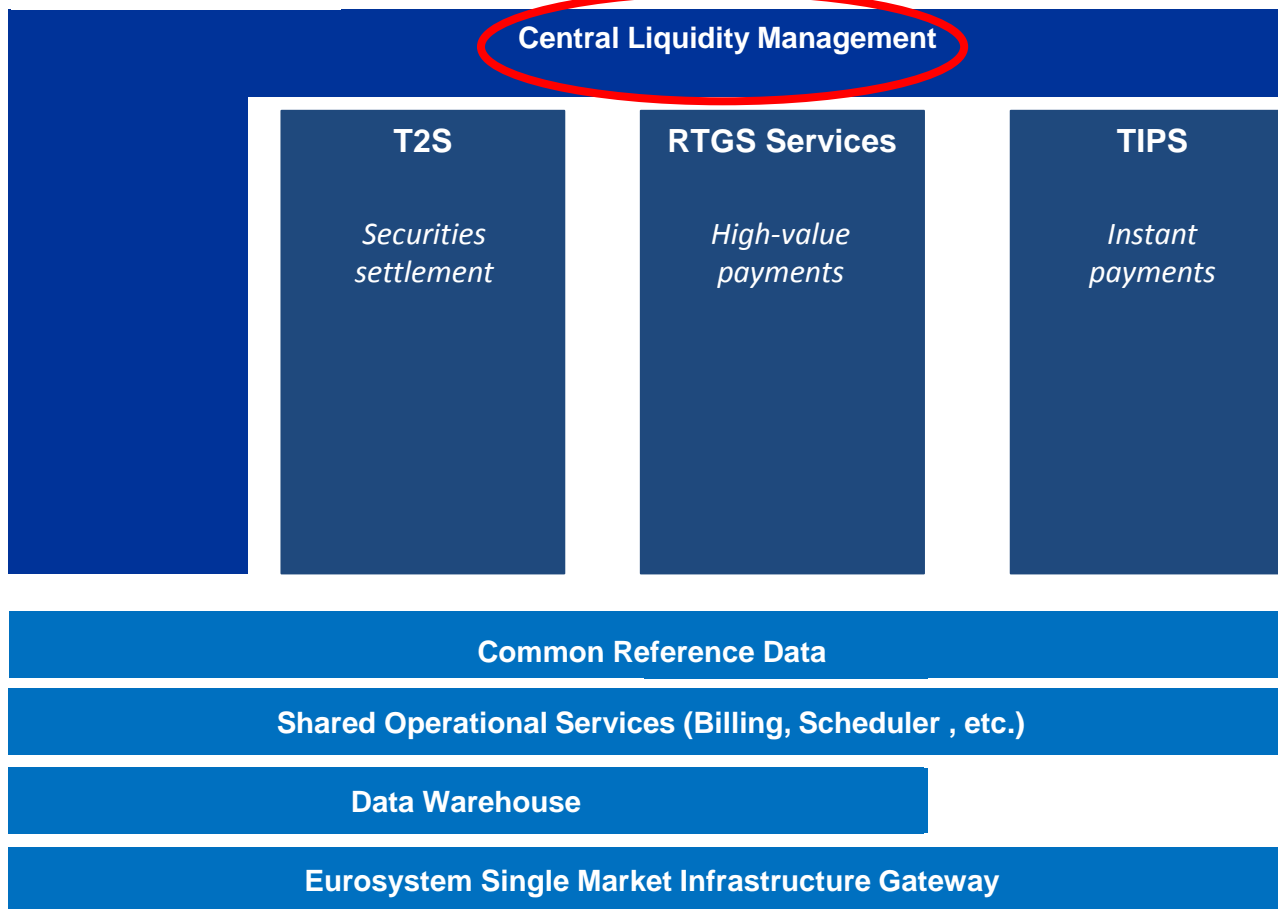


Objectives for the future set-up

- ✓ Optimised liquidity management
- ✓ Easier access to services via harmonised interface
- ✓ Aligned use of messaging standards (ISO 20022)
- ✓ Multi-network service providers
- ✓ Increased cyber resilience
- ✓ Ready for multi-currency settlement
- ✓ Improved efficiency and reduced operational costs
- ✓ Enhanced data analytics

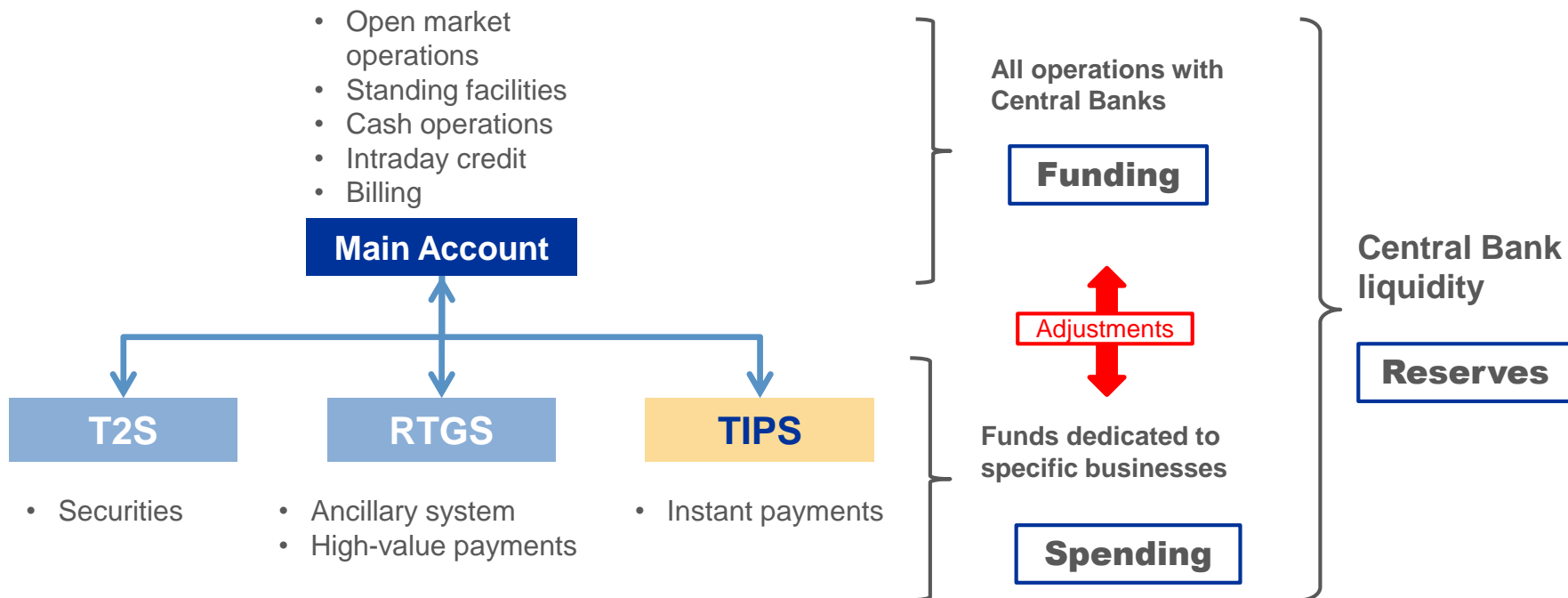
Towards consolidated services

target
services



Liquidity management

After the go-live of the T2-T2S Consolidation project (Nov 2021):



Go-live

Go-live planned for **November 2021**,
3 years after the delivery of message specifications to the market

Go-live to be performed
in a
big-bang approach

