ECONOMIC BASICS

Large Payment Systems

THE ESSENTIALS

Modern economies use a multitude of monetary exchanges. Payment systems, including large-value payment systems, better known as Real-Time Gross Settlement (RTGS), allow **money to circulate in the economy.** They play a vital role in supplying financial markets and participants in the market (e.g. individuals, firms, governments and central banks) with liquidity, ensuring payments and the successful completion of trade. In this way, they contribute directly to maintaining confidence in the currency and financial markets, meaning **financial stability** and economic growth.

Banks are essentially the actors that use large-value payment systems to transfer or receive money. Transfers from individuals and businesses are mainly processed in retail payment systems, which are themselves connected to large payment systems.

Central banks have a direct interest in ensuring the proper functioning of large-value payment systems - they themselves use these systems for the implementation of monetary policy (in particular commercial bank refinancing operations). Most central banks also run their own payment system for the settlement of large payments in central money, which in the UK is the Clearing House Automated Payment System (CHAPS).

Payment systems need to move money as quickly as possible. They must therefore be **safe and robust,** especially in a crisis situation. If large-scale payment systems were to malfunction, they could cause financial shocks by causing liquidity shortages that could be transmitted to different countries. For this reason, payment systems (as well as the **market infrastructure** of which they are part, e.g. securities settlement systems and clearing houses) are generally considered to be of **systemic importance - the failure of one actor can lead to the failure of other players through a contagion effect.**

Regulation of these activities is therefore necessary: regulation by national legislators, supervision entrusted to central banks and coordination of the authorities at international level.

UNDERSTANDING

Risks related to payment systems

Payment systems must be secured by a strong legal framework, robust technologies and procedures as well as appropriate external supervision, in order to limit the various risks associated with their activity.

Liquidity risk materialises when a participant does not have funds available to settle its maturing financial obligations (although it may be able to do so in the future).

Credit risk is the inability of a participant to pay its financial obligations in full, either at maturity or even at a later date.

Operational risk concerns failures related to the organisation of the manager of a payment system e.g. its human resources, its information systems or external events such as frauds or cyberattacks. Hence, for example, the obligation to back up systems in order to restart them quickly. Also to be taken into account are issues relating to data protection and the detection of high risk transactions (money laundering, terrorist financing).

Systemic risk refers to how the different types of risks can disrupt the smooth running of payments in the systems, or even impact the financial system, depending on the parties affected and the amounts involved.

One of the fundamental roles of the Bank of England is to promote the **smooth functioning** and **security** of payment systems.

This document was produced by the Banque de France and adapted by the Guernsey Financial Services Commission with the consent of the Banque de France as part of their collaboration in the field of financial education. The original version of this document can be consulted on the Banque de France's website, under the heading 'ABC de l'économie.'