Foreword

It is fair to say that payment systems have become one of the most vibrant areas of reform, be it in terms of policy, technology or products. This is shown by the rapid pace of change we observe in national and international payment systems around the world.

One of the reasons for this reform process is the realisation – not so long ago – of the importance of the financial market infrastructure, of which payment systems are an important part, for a safe and sound financial system. In fact, robust payment systems are widely considered to be a key requirement in maintaining and promoting financial stability. This was illustrated by the recent financial crisis where many things in the financial markets went wrong, but the payment systems – even at the worst moments when some of the markets froze – turned out to be resilient.

The main reason that the financial markets managed to avoid serious problems at the level of the market infrastructure can be found in the substantial efforts made by many stakeholders in the financial system over the past years. More precisely, during the decade preceding the recent crisis, the financial sector as a whole spent a great deal of effort on enhancing the market infrastructure, mainly by removing unnecessary counterparty risk from the financial system, both at the domestic level and at the global level.

This book provides an extensive overview of the world of payment systems. It starts by presenting the basic concepts and risks, describes traditional and advanced payment systems, provides useful insights in the trends and innovations in the payments landscape and ends with a description of the developments in a number of important currency areas, including the role played by CLS Bank in the settlement of foreign exchange transactions.

The attention paid to innovations in this book is, in my view, very important for a good understanding of the evolution taking place in payment systems. Technological progress contributed substantially to innovations in payment systems. Arguably, technology was the main driver behind the single most important innovation to enhance the soundness of payment systems: the introduction of real-time processing and settling of payments. The rationale behind this was simple: whereas net settlement systems settle at the end of the day, real-time gross settlement systems allow for the final and irrevocable settlement of each payment at the time of it being entered into the system. There is no longer the need to wait until the end of the day to be sure that a payment received that day has successfully settled. In a sense, this conceptually small step made possible a whole series of changes that fundamentally changed the risk profile of payment systems.

In this book, the reader will find all the information needed to understand the way payment systems function and will gain a better understanding of the current transformation taking place in this field.

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