

IV SYSTEMICALLY IMPORTANT PAYMENT AND SETTLEMENT SYSTEMS

PAYMENT AND SETTLEMENT SYSTEMS OF EESTI PANK

From April to September 2010, 94,669 payments a day were settled on average in the interbank payment and settlement systems managed by Eesti Pank, with a total value of 10.9 billion kroons (see Table 1).

The majority of payments are processed through the ESTA, the Settlement System of Ordinary Payments. The number of **ESTA** payments declined 4% from a year ago, while their total value increased 10%. The average ESTA payment has grown since the second half of 2009, reaching 17,200 kroons in the last six months, but it is still below its level at the end of 2008, when it was over 20,000 kroons in some months (see Figure 1).

The number of payments settled through the **EP RTGS**, the Real-Time Gross Settlement System, increased 13% from a year earlier, while the value of payments shrank 22% (see Figures 2-3).

Changes in interbank payment and settlement systems after the adoption of the euro

The introduction of the euro in Estonia will change the structure of the interbank payment and settlement systems managed by Eesti Pank. On 1 January 2011, the central bank will close the EP RTGS and will be managing two interbank systems from then on:

- 1) the Settlement System of Ordinary Payments (ESTA), with the euro as the settlement currency as of 1 January 2011, and
- 2) TARGET2-Eesti, a component system of the *Trans-European Automated Real-Time Gross Settlement Express Transfer system*.

Figure 1. Average size of ESTA payments



The transactions that have so far been processed in the EP RTGS will be transferred to the TARGET2-Eesti. As in the ESTA the transactions are settled relatively rapidly and it has no limits on the value of payments, the client and interbank payments that have been processed in the EP RTGS may be directed to the ESTA, instead of the TARGET2-Eesti. The TARGET2-Eesti will be processing the collateral transactions of the ESTA, cash transactions with Eesti Pank and transactions of monetary policy operations.

The **liquidity reserve** of the payment and settlement systems of Eesti Pank will decrease because of the gradual reduction of the reserve requirement ratio from 15% to 11% on 1 September 2010 and from 11% to 7% on 1 November 2010. As a

Table 1. The use of the payment and settlement systems of Eesti Pank (April–Sept 2010)

System	Turnover (EEK bn)	% in total payment turnover	Number of payments	% in total number of payments
ESTA	1.6	14.8	94,323	99.6
EP RTGS	4.7	42.6	216	0.2
TARGET2-Eesti	4.7	42.6	130	0.1
Total	10.9		94,669	

Figure 2. Average number of payments processed in ESTA and EP RTGS per day

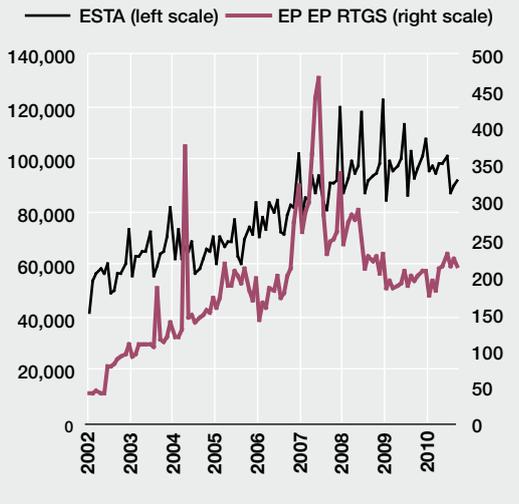
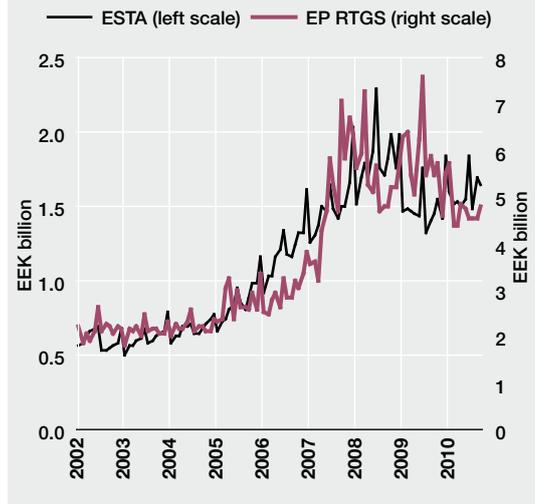


Figure 3. Average value of payments processed in ESTA and EP RTGS per day



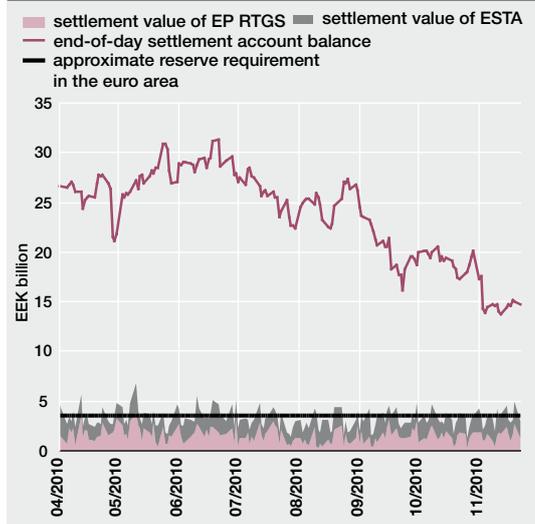
result of these two reductions, the balance of the kroon accounts held with Eesti Pank by commercial banks dropped from 26 billion kroons to 20 billion and then to 15 billion kroons respectively. In the euro area, the reserve requirement ratio is 2%, which means that the required reserve will decline to approximately 3.5 billion kroons. Data for the last six months indicate that the turnover of the ESTA and the EP RTGS¹ will exceed that amount on around seven days a month (see Figure 4). This means that **banks will have to pay more attention to liquidity management in the euro area resulting from the lower reserve requirement.**

Availability and failures of payment and settlement systems

There were no incidents in the operation of the Estonian payment and settlement systems in the past six months that threatened the stability of Estonia’s financial sector or jeopardised significantly the settlement of funds.

¹ Excluding currency exchange transactions and the transactions for the ESTA collateral.

Figure 4. Daily value of ESTA and EP RTGS (excluding FX transactions and ESTA collateral transactions) compared to the end-of-day settlement account balances of banks’ EEK accounts



In the second quarter of 2010, the **availability** of all three systems was 100%. In the third quarter, the availability of the EP RTGS and the TARGET2-Eesti remained 100%, while that of the ESTA was 99.9% (see Figure 5). The fall in ESTA's availability was caused by a fault on 16 July, when one bank had to resend its payment orders.

The acceptable availability is 99.7% for the TARGET2-Eesti and 99.4% for the ESTA and the EP RTGS. The acceptable availability is determined by the system operator and it shows the operation time of a system that is vital for the smooth operation of important business processes.

OVERSIGHT ASSESSMENT OF PAYMENT AND SETTLEMENT SYSTEMS

In 2010 the compliance of Estonia's payment and settlement systems with the requirements of the Eurosystem was assessed, as the introduction of the euro in an EU country requires that all systemically important payment and settlement systems of that country be assessed.

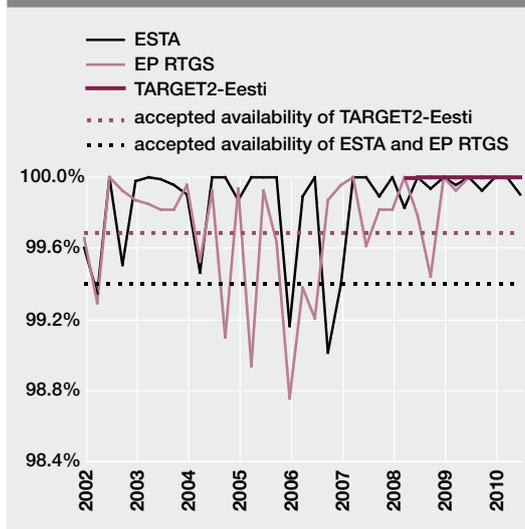
The systemically important **payment systems** in the euro area include

- all real-time gross settlement systems, including the TARGET2 along with its national component systems and other systems that settle time-critical transactions
- retail payment systems designated by central banks as systemically important for the euro area or a country that is part of it.

As domestic RTGS has to be closed once Estonia has joined the euro area and has to be replaced by the TARGET2-Eesti, there was no longer any need for Eesti Pank to assess its EP RTGS. The TARGET2-Eesti has been operating since May 2008, it has been assessed according to the framework of the European System of Central Banks (ESCB), and it complies with international standards².

² See *Financial Stability Review No 1/2008*, pp 66-67, http://www.eestipank.info/pub/en/dokumendid/publikatsioonid/seeriad/finantsvahendus/_2008_1/_6_108.pdf.

Figure 5. Availability of interbank settlement systems



The changeover to the euro means that the ESTA, which used to be a systemically important retail payment system (SIRPS), will be classified as a prominently important retail payment system (PIRPS). For this reason it was not necessary to assess the ESTA before the forthcoming changeover. Eesti Pank will assess the ESTA as a retail payment system operating with the euro after the changeover, probably in 2011.

There is one systemically important **securities settlement system** in Estonia, the one managed by the Estonian Central Securities Depository (ECSD).

Eesti Pank assessed this system in 2010 to define its readiness for the use in Eurosystem credit operations, specifically monetary policy and intraday credit operations between the central bank and credit institutions, using securities as collateral. The securities settlement system managed by the ECSD was assessed against international standards and the assessment was carried out jointly with the ESCB.

Eesti Pank recommends that the ECSD bring the opening hours of its system into compliance

with those of the TARGET2, and that it establish a remote backup facility in order to ensure sufficient operational reliability and availability. Earlier assessments have suggested changes in the ECSD's risk management procedures, which the ECSD has also carried out, including the introduction of real-time settlement facility on the principle of delivery versus payment and the expansion of the range of transactions that, if necessary, are covered by the assets of the guarantee fund. As a result of these changes, the ECSD has implemented two recommendations from earlier assessment reports. **The ESCB found the securities settlement system of the ECSD to be generally eligible for the Eurosystem operations**, meaning for settling the claims and liabilities arising from monetary policy and intraday credit transactions.

Despite this positive assessment the ECSD's settlement system cannot be used in the ESCB credit operations, because there are no eligible securities issued/settled in ECSD at the moment and the links that the ECSD has do not provide the transfer of assets which are eligible for Eurosystem credit operations. In case the eligible assets will be held or issued in the ECSD before 2013, Eesti Pank will have to conduct the light assessment of the ECSD's settlement system to check its compliance with the recommendations outlined in the 2010 assessment and to evaluate the changes made.

Eesti Pank applied for special authorisation from the Eurosystem to use remote access arrangements with international depositories³ in the ESCB credit operations. There were two reasons for this. First, the securities settlement system of the ECSD cannot be used in ESCB credit operations. Second, the existing Correspondent Central Banking Model (CCBM) that is used in the ESCB for the transmission of foreign collateral is not available for Eesti Pank and Estonia's credit institutions

during the whole settlement day, as the working hours of the CCBM are from 10AM to 5PM. The request of Eesti Pank was satisfied in October 2010, but its use was limited by a number of conditions. Eesti Pank has developed a procedure for using the remote access arrangements in the euro area. The compliance of these arrangements with international standards was assessed, and the Governing Council of the European Central Bank approved of the procedure at the end of 2010.

³ Clearstream Banking Luxembourg and Clearstream Bank (Belgium).