Conference "Time and speed in the financial system"
Paris, 11 January 2019

Banque de France Deputy Governor Sylvie Goulard opened the conference by sharing some thoughts about the consequences of speed for the economy in general and for central banks in particular. Mrs. Goulard recalled that faster mobility of capital and commodities has played a major role in the recent economic growth of developed countries. She however underlined that the acceleration of transactions also has an unclear impact on price and financial stability, inviting regulators to reconsider their policy frameworks in a long-term perspective. Furthermore, the Deputy Governor stressed the paradoxical need for long-term thinking to overcome the short-termism that the speed race generates.

Panel 1 – The payments market

Discussions quickly focused on the emergence of instant payment solutions, which represent a true opportunity for the future of retail payments according to the panellists. Nonetheless, most actors also underlined unanswered questions relating to their implementation, especially regarding the SEPA instant credit transfer (SCT Inst).

To begin with, the participants raised the issue of its business model, which remains undefined so far for the SCT Inst: while card payments generate interchange fees to the benefits of the schemes, such a pricing mechanism for credit transfers is still at stake in relation with the possible use cases. In the same time, in order to compete with notorious international card schemes already operating at a European-wide dimension, the adoption of SCT-inst based payment solutions requires a strong European brand embodying its local roots. But, if innovation moves quickly, customers' habits evolve in a much slower way; instant credit transfers should consequently become a complement to cards more than a replacement, at least in the coming years.

In addition, the panellists discussed market reconfigurations resulting from regulatory changes and innovations in the field of payments. In particular, the 2nd European Directive on Payment Services fostered the development of new security requirements and new actors, notably account aggregators and payment initiators. In terms of security, all speakers also advocated for more standardisation, endorsing among other things the initiative of the European Payments Council (EPC) to develop a European API.

They also laid emphasis on the central place of customer satisfaction, insisting on the fact that both private firms and public authorities should consider innovation from the customer's standpoint. To face the ambitions of major extra-European players, such as Chinese or American BigTechs, some speakers also recommended a European approach in the development of innovative payment solutions, notably based on SEPA instruments such as the SCT Inst.

Panel 2 – Financial market infrastructures

Contributing to reducing risks and increasing efficiency, real-time in financial market infrastructures (FMIs) has been widely advocated for. Real-time is also now to be considered with the need for more digitalised services that FMI users express. The ecosystem expects the development of services in the fields of risk mitigation, liquidity benefits and standardisation efficiency, as challenges to be navigated globally. The experience shows that real-time DvP settlement (which is now the norm for most financial instruments settled on the day) is not sufficient and that real-time should apply to the whole transaction cycle, which requires increasing digitalisation and cash management rethinking and related changes in business practices. In complement, the emphasis was also raised on the need for enhanced synchronisation across different time zones for global transactions.

However, real-time does not exempt all the actors from closely monitoring risk, liquidity, compliance and fraud; furthermore, in order to bring all the expected benefits for participants, it has to be equally applied by all the actors to be fully effective, which is costly and requires further harmonisation between the different FMIs.

Panel 3 – Financial markets

The notion of speed and time in markets is mainly a question of perception and posture. For some, the race for speed has been initiated by regulation and competition, but this race seems to be ending though. For others, the pressure to be quicker has always been there since the pigeons in the 19th century, but the technology has made it possible in the last couple of years. Disintermediation made possible by technology in markets is not new and is comparable to what happened with Uber or YouTube in other areas. This has induced a fundamental change in the market structure where the information is now in the order flow and no longer in the price of assets. For the panel, regulators and supervisors should keep up the pace and have to be able to cope with evolving technology and speed.

Some panellists thought that the speed advantage that is “bought” by some market participants with heavy investments in communication between exchanges should not happen as it is not socially benefiting. Others think that IT investments have always been there and will always be there as technology is moving quickly. Regulation should aim towards teaching the end users of the markets how to trade in this new environment.

In conclusion, some believe that speed may amplify but not cause a crisis. Indeed, the stake for speed is not the technology itself, but the capability to implement it in a safe way, in a context where time to market and 24/7 availability constraints are detrimental for proper testing and maintenance of the IT systems.

Panel 4 – Financial stability challenges

Many issues arise from the acceleration of exchanges and real time communication: the ability of the regulators to access the relevant data, the ability of central banks to operate their systems, the ability of the authorities to fight against any form of crime. RTGS operators need to plan for many more events. Their systems should be invisible for the participants, for the market to be as fluid as possible. At the same time standardization brings risks (such as cyber-attack): the real-time detection of atypical operations or events is a key priority for security and stability purposes. Regulation is itself partly responsible for the increased speed: the MIF regulation has led to market fragmentation and created opportunities for high frequency trading (HFT).

Electronic trading, carried by institutional investors, using electronic solutions to take positions, should not be mixed up with HFT, which seeks to make profit from bid-ask spread and provide liquidity, even if both contribute to the increase in liquidity. Thanks to these, asset managers have become price makers and not only price takers. Volatility is a downside of such evolutions.

Regulating authorities are not in the instant as much as traders, but speed still makes their mission harder to fulfil. Indeed, in terms of information quality, there is today a trade-off between speed and quality, as the volumes increase as well. The main issue is for public entities to catch up with the private sector's ability to process data, in order to analyse these data rapidly and in a scientific way. For this, regulating authorities need to explore and invest in the same advanced technologies used by the participants, such as artificial intelligence and machine learning, in order to take up the challenge of speed.