



BANK OF ENGLAND

Thoughts on Charles Kahn, Stephen Quinn & Will Roberds “Central Banks & Payment Systems: the Evolving Trade-off between Cost and Risk”

Paper presented at Norges Bank conference: “Of the Uses of
Central Banks: Lessons from History”

Ben Norman, Head, Business Strategy & Support, Monetary Analysis

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Outline of the Kahn/Quinn/Roberds (KQR) paper

- KQR present a simple theoretical framework to showcase:
 - the evolution of central bank payment systems; and
 - the interaction of central bank and private sector payment systems, as these innovate.
- KQR illustrate their model using three historical examples:
 - early modern Exchange Banks in continental Europe – in particular, the Bank of Amsterdam (17th century onwards);
 - early central banks in England and the United States – in particular, the Bank of England and Banks of the US / NY Clearing House (18th-19th centuries); and
 - CLS bank (early 21st century).
- KQR conclude there “*has been a steady if not always monotone progression towards lower costs and reduced risks in payments*”.



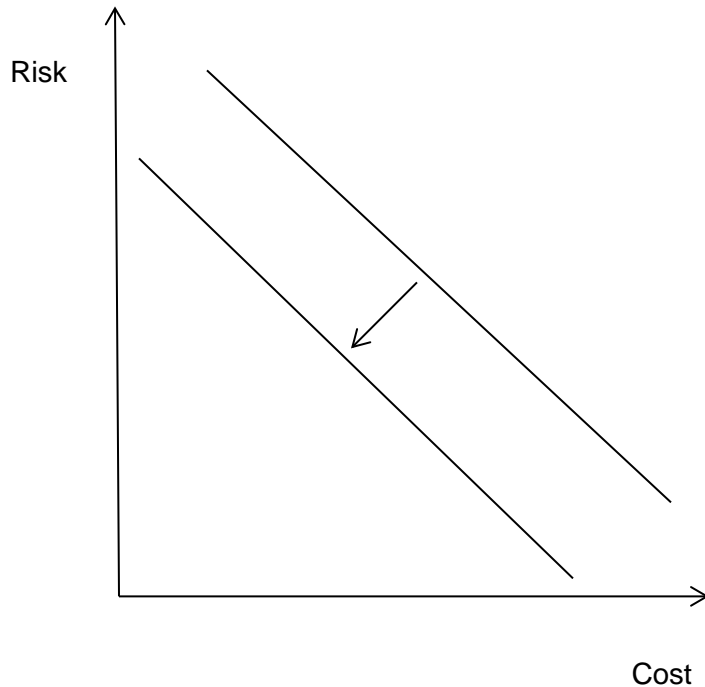
Outline of my thoughts

1. Why I like KQR's paper
2. How I could like KQR's paper even more



1. Why I like KQR's paper

Figure 1: Generic evolution of payment systems in risk/cost space



- KQR's framework is simple – even axiomatic
- It lends itself neatly to historical case studies
- It ought to be helpful to current policy makers as they consider the implications (for risk / efficiency) of further payment system innovations.



2. How I could like KQR's paper even more

- i. Are there lessons for policymakers from investigating further the “not always monotone” progression towards lower costs and reduced risks in payments?
 - Reviewing the introduction of RTGS?

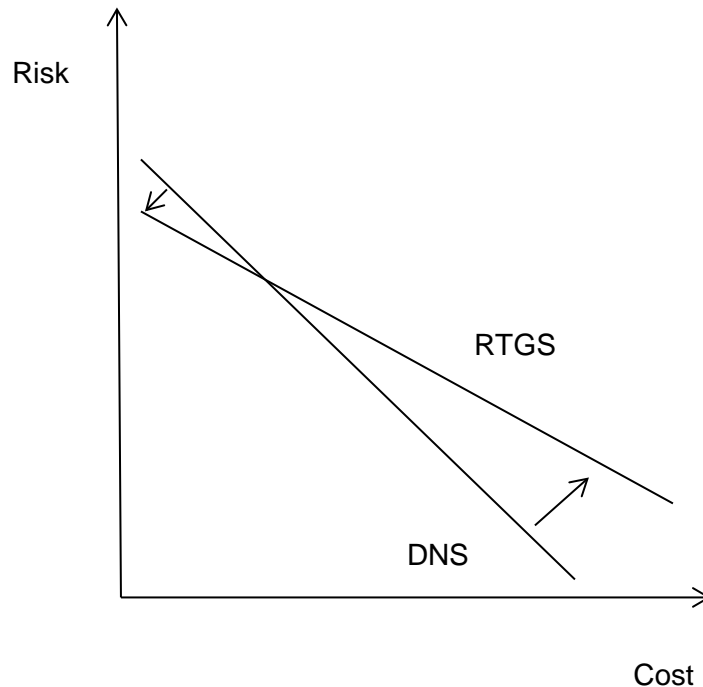
- ii. Introducing Haare



2. How I could like KQR's paper even more – part (i)

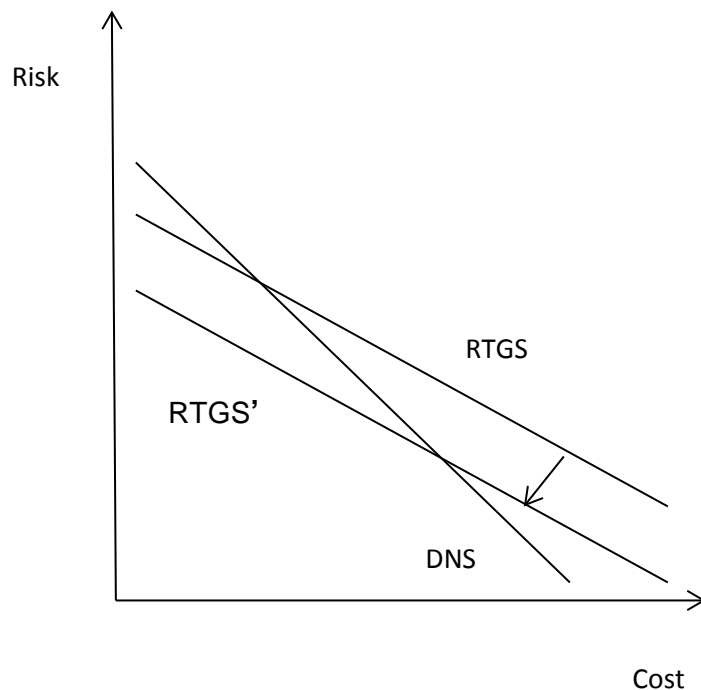
Figure 2: How the introduction of RTGS might have been (was?) perceived pre-financial crisis

- At the time RTGS was introduced – pre-financial crisis – some payment systems participants observed the increased costs much more than they did the reduced risks



2. How I could like KQR's paper more – part (i) (cont.)

Figure 3: How the introduction of RTGS could (should?) be perceived post-financial crisis



- Post-financial crisis, RTGS' is (alongside CCPs) rightly identified as the financial market infrastructure that prevented the ultimate meltdown.
- Is there a similar analysis that could be undertaken using this framework to understand current / likely forthcoming developments (e.g. Bitcoin; e.g. real-time settlement of retail payments; etc.)?



2. How I could like KQR's paper even more – part (ii)

- Introducing Haare



2. How I could like KQR's paper even more – part (ii)

- Harald Haare “Clearing and settlement at Norges Bank – a historical review”, *Norges Bank Economic Bulletin* (2007) Vol. 78
- Contains insights into how costs and risks have evolved in Norwegian payment systems since the foundation of the Norges Bank, 1816, through to the present-day (pre-crisis).



2. How I could like KQR's paper even more – part (ii)

- Early on, there were artificially high costs to using Norges Bank's payment system:

In 1825 it was already possible to transfer money between towns where Norges Bank had regional branches. ... [But Norges] Bank services were not readily accessible in the first few decades, as evidenced by the following announcement:

“From 9 to 10 on weekdays...Banknotes are exchanged; ... from 11 until 1 the Bank is open for those who have...any business to discharge with the Bank. Outside of these hours...[we] do not allow access to any persons other than employees.

Any persons living out of town who have any business with the Bank must arrange to have this carried out by a Commissioner here, as one cannot correspond with everyone and anyone on his personal affairs.

Signed: the Banking Administration in Christiania, 31st August 1825.”



2. How I could like KQR's paper even more - conclusion

- I am aware that *“after the conference there will be a tight editorial process and the final manuscripts are due to be sent off to the publisher of the conference volume by the end of December 2014.”*
- I am therefore not sure you want to follow-up on all of my suggestions here!
- But if you want to incorporate some of them, then – to make room – you could shorten the descriptive parts of the CLS case study?

