

January 2011

Norges Bank's 2009 Annual Report on Payment Systems: A review

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In June 2010, Norges Bank, the central bank of Norway, invited the authors to review their 2009 Annual Report on Payments Systems (“the report”). The report had the following statement of intent:

“Norges Bank is responsible for promoting robust and efficient payment systems in accordance with the Norges Bank Act and the Payment Systems Act. The Norges Bank Act states that Norges Bank shall promote an efficient payment systems in Norway and vis-à-vis other countries. The Payment Systems Act gives Norges Bank a special responsibility for the authorization and supervision of systems for clearing and settlement of money transfers between banks.

Norges Bank oversees the payment systems in order to identify factors that may weaken the stability of the financial system. The work is primarily aimed at minimizing risk in the clearing and settlement systems, but Norges Bank also monitors important trends in the payment systems as a whole. Furthermore, Norges Bank provides for secure and efficient settlement of payments between banks in their accounts in Norges Bank, and supplies the community with banknotes and coins in a manner that promotes an efficient payment system”

Norges Bank seeks the opinion of the review panel on:

- How the report contributes to the ends stipulated by the Central Bank Act.
- How the report measures up to work with the same intent done in leading central banks.

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- How the quality of Norges Bank's analysis and presentation in the report can be improved.

The review benefited of a seminar organized in September 2010 at which the authors of the assessment got the opportunity to discuss with Norges Bank staff their work and responsibilities in the field of payment systems. The review panel met, just after that seminar, Norges Bank's Governor and Vice Governor to discuss the preliminary findings.

The review panel would like stress that it was not tasked to review any policy taken by Norges Bank in the area of payment systems. In line with the terms of reference the panel would like to draw the attention to the following issues.

Overall, the review panel finds the report **very comprehensive** as it covers many areas in the field of payment systems for which central banks are usually responsible. In fact, Norges Bank was arguably among the first central banks to publish a structured report on retail payments. The Central Banking community has adopted two different approaches for publications on the payment and settlement infrastructure. Some Central Banks publish separate reports dealing with the different roles they play in the field of payment systems. Others, like Norges Bank, provide extensive reports providing an overview of all their activities in this field. It is recognized that taking one or other approach depends very much on the role Central Banks play in this field but it should also be noted that there is an advantage of having a complete description and assessments of the whole payments landscape in a certain region or country.

Moreover, the report provides a **good balance between description and analysis of recent developments**, charts and figures and basic explanations (grey boxes). Therefore, the report, and in particular the part on payment services (Part 1), is not only of interest for the experts, but also for the public in general. Another aspect to underscore is the inclusion of the statistical annex, as it provides a good overview of the main developments over time (e.g. use of different type of payment instruments including cash). These annexes follow a similar structure to other statistical reports like the ones produced by the European Central Bank and the Bank for International Settlements so that results can easily be compared with other regions.

Having a broad range of topics covered in the same report has certainly positive but also some negative implications. Norges Bank's report has two parts, the first part dealing with payment services (retail payments) and the second one dealing with interbank systems (wholesale payments). The review panel understands that further differentiation may be needed, in particular in the second part, which deals with interbank systems, not only in the field of payments but also in the field of securities settlements. The report would benefit of having a **further differentiation between securities and payments related issues**. It is recognized, however, that in some cases it is rather difficult to draw a clear border line between the two issues.

In this respect, the Norges Bank might want to rethink the **structure and content of several sections on the interbank systems of the report** (Part 2). This part could to some extent be refocused in the direction of an “oversight report” in which the descriptive part could be complemented with an oversight assessment and possible recommendations. In its current form it contains interesting descriptions of recent developments in the area of interbank systems. Some of this information such as the description of the systems could be moved to a supporting text, compendium or annex.

It is also noted that the **role of Norges Bank** in the field of payment services and interbank systems differ considerably between retail and interbank systems. This is clearly reflected in the report as the first part on payment services remains highly descriptive, with little room for assessment and policy considerations, while the second part on interbank systems in addition to providing a clear description of the interbank payments and securities settlement landscape provides a number of assessment and recommendations. The review panel considers that the report would benefit from a clear description of the role of Norges Bank in both areas so that the reader would better understand the different approaches taken in both of them.

Also in this respect, the report could benefit from explaining the **division of responsibilities among various authorities**, particularly Norges Bank and Finanstilsynet (FSA). The review panel understands that it is not clear to the reader how the responsibilities are assigned and for which areas there are shared responsibilities. For instance, which one is responsible for the security of retail payment instruments is not clear from the report. Is it the central bank, the FSA, or is this left to the industry? Also, it would be important to explain whether there is a structured exchange of views between the authorities and the payments industry and if so, what the format being used is (a frequently used format for such an exchange of views is national payments councils).

The review panel is of the view that Norges Bank could describe more clearly how it is aiming to fulfill its **mandate in the areas of payment and settlement systems**. This could be done, for instance, by expanding the preamble that contains a reference to the Norges Bank Act as well as to the Payment System Act. Typically, three different roles of central banks can be distinguished in the area of retail payment systems, the catalyst, operator, and overseer roles.⁴ It is the understanding of the review panel that the first part of the report focuses mainly on its **catalyst role** and, in this respect, its Annual Report on Payment Systems is an important tool to perform this role. For instance, the publication of cost estimates associated with different payment instruments serves this purpose by providing transparency to consumers and the financial sector.

Also in this respect the **purpose of writing the report** is not clear. In the preamble in page two, some indications are already given on the different roles of Norges Bank in the field of payments system. But this could be further expanded by explaining more in detail that the first part of the report aims to promote

4 CPSS, Policy issues for central banks in retail payments, March 2003.

efficiency in payment systems, whereas the second part aims to foster financial stability. In this vein, further explanations on how Part II complements Norges Bank's report on financial stability would most likely be helpful.

Closely related to the main purpose of the report is the recognition of the **intended audience**. One can think of several groups as being the report's target: the general public, the banking industry, people in academics, international readers, and the government. Some further explanations on the targeted reader would facilitate the understanding of the report.

Regarding the publication of data on the **costs of payment services**, the review panel recognizes that such information increases transparency and encourages users to choose efficient payment instruments. While such studies have been presented in previous reports (2007 and 2008), the explanations provided in the 2009 report are rather limited. Although the panel does not advocate repeating the degree of detail of previous reports, it would have welcomed more information on and interpretation of the costs figures provided in section 1.3.

Norges Bank's analysis in this field could benefit from similar studies made in other markets as this would, in particular, facilitate the comparison of results. Norges Bank could also refer to the considerable success of the Norwegian banking sector in the past in terms of adapting to cost based pricing.

Two features of the report, the **explanatory boxes** in the main text **and the appendix** in the back, provide great services to the general public and the banking industry, respectively. It looks, however, that the interest of the media has been mainly focused on the cost based pricing and the possible impact that this would have for consumers. Payment systems are rather technical and complex, and as such, are difficult to get the attention of the public in general. A way to address this could be through the organization of topical seminars for media professionals so that they get a better insight in payment systems. This would help to get a better dissemination and understanding of the main messages of the report instead of focusing only on a few of them.

While academics may find many of the observations put together in this report stimulating, so that the report in fact may spur research in the future, the **data provided** in the appendix is not very suitable for academic purposes. Norges Bank may here wish to consider accompanying the report with data available in electronic format.

Norges Bank could put more effort into making the report available for **international readers**. This is particularly important because Norway is not very present in many international forums. In this regard the report has potentially a crucial role to play in reaching out to the international payments community. Translating the report into English certainly facilitates the dissemination of the report. But this is not enough. In particular, it is difficult for a foreigner to understand the details of the Norwegian payments system and the particularities of Norwegian institutions such as NICS and NBO. To address this, it could be

considered to refer to supporting texts, in English, that the report can refer the interested reader to. As it is now, much of the supporting literature is available only in Norwegian.

Concerning **oversight**, the review panel would see some merit in providing more information on how oversight is conducted at Norges Bank. In this regard, it would be helpful to know what the scope for oversight is (which systems that are overseen by Norges Bank) and which methodology is applied (for example, does Norges Bank use the CPSS Core Principles, or rather a domestic adaptation thereof?). With respect to the latter, more transparency could be provided, for instance about the length of the oversight cycle, the procedures to induce change if a weakness is identified, and recent focuses of oversight activities.

Finally, the review panel remains occasionally unconvinced about the **relevance of some information** for a payments report (such as, on the changes on the collateral requirements of Norges Bank).

To **conclude**, the review panel would like to thank Norges Bank for the opportunity to assess its 2009 Annual Report on Payment Systems. Through the different meetings with Norges Bank staff in charge of payment systems as well as with the Governor and Deputy Governor of Norges Bank, the members of the review panel got a good insight of the work conducted in the field of payments systems. The review panel hopes that the recommendations provided in this review will help to increase even further the quality of further reports of Norges Bank in this field.