Welcome Remarks by
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At the Opening Ceremony of the

11th SEACEN–World Bank Advanced Course on
Payment and Settlement Systems for Emerging Economies
"Assessing PFMI Observance for Financial Stability
and Effective Oversight"
Sasana Kijang, Kuala Lumpur, 25 February – 1 March 2013

Ms. Luchia Christova
Senior Payment Systems Specialist
Payment Systems Development Group
The World Bank

Mr. G. Padmanabhan
Executive Director
Reserve Bank of India

Distinguished Resource Persons

Course Participants

Ladies and Gentlemen:

Good Morning.

On behalf of The SEACEN Centre, I would like to extend to all of you a cordial welcome to the **11th SEACEN Advanced Course on Payment and Settlement Systems for Emerging Economies.** For this year, the theme is on ***"Assessing Principles for Financial Market Infrastructures (PFMI) Observance for Financial Stability and Effective Oversight".***

The Course also marks our first full collaboration with the World Bank in the area of payment and settlement systems. I take this opportunity to record our deepest appreciation to the World Bank for partnering with us in building capacity of our member central banks in one of the most important central banking functions. I hope the collaboration will flourish for the mutual benefits of both institutions.

Ladies and Gentlemen:

On this opening day, I would like to share with you some of my thoughts on the payment and settlement systems and their relationship with the central banks based on the history of modern finance.

The origin of banks is known as the rise of the Italian Medici Bank in the 14th century. At that time, there were multiple systems of coinage, some gold, some silver, and some base metal. Any long-distance trade or tax payment needed conversion from one currency to another. The Medici Bank built up its reputation as a currency trader. Of particular importance in the Medici's early business were the bills of exchange which had developed in the Middle-Ages as a way of financing trade. The creditor could draw a bill on the debtor and either use the bill as a means of payment in its own right or obtain cash for it at a discount from a banker willing to act as a broker. But there were no cheques; instructions were given orally and written in the bank's books. There was no interest; instead depositors were given claims to the bank's annual profits. Unlike earlier Italian banks, branch managers of the Medici bank were junior partners who were remunerated with a share of the profits. With this decentralization, the Medici bank was so profitable with branches in Rome, Geneva, Florence, Pisa, London and Avignon.

This Italian banking system became the European model in the coming centuries. In Amsterdam, London and Stockholm, the next wave of financial innovation occurred as the forerunners of modern central banks. The Amsterdam Exchange Bank (called Wissel bank) was set up in 1609 to resolve the clearing problems at that time created by the 14 different mints and foreign coins in circulation there. By allowing merchants to set up accounts denominated in a standardized currency, this Exchange Bank pioneered the system of cheques and direct-debits or transfers that we take for granted today. This innovation allowed more and more commercial trade to take place without the need for the sums involved to materialize in actual coins. One limitation on this system was that the Exchange Bank maintained almost 100 percent ratio between its deposits and its reserves of precious metal and coin.

And then, with the foundation of the Swedish Riksbank in 1656, this barrier was broken through. The Riksbank lent amounts in excess of its metallic reserve, exploiting the fact that the money left on deposit could profitably be lent out to borrowers.

And then, with the creation of Bank of England in 1694, the Bank was endowed with distinctive privileges. From 1742 it established a legal monopoly on the issues of banknotes. This was a distinctive form of promissory note that did not bear interest, designed to facilitate payments without the need for both parties in transaction to have current accounts.

From this review of modern financial history, we can recognize that managing payment and settlement systems was the oldest core function of the forerunner central banks. It was in fact older than the functions of lending to commercial banks and issuing of a legal tender. Based on this recognition, I personally believe that modern central banks should continue to play a leading role in innovating their nation's payment and settlement systems and keeping the systems in sound, efficient and robust shape.

Ladies and Gentlemen:

From a humble beginning, innovation predicated upon globalization and IT advancement has spurred payment and settlement systems to become the most imperative and significant financial infrastructure. However, the proliferation of payment and settlement systems and expanding boundary of participants are not without risks. As payment and settlement systems are increasingly linked both within- and cross-border, systemic risk has become a critical issue of concern, along with other traditional credit, liquidity, operational and legal risks. This necessitates an initiative to harmonize and integrate the existing international standards for payment systems, central securities depositories, securities settlement systems, and central counterparties as one set of standards. These initiatives culminate to the CPSS-IOSCO Principles for Financial Market Infrastructures or PFMI which was issued in April 2012. It is used as a new benchmark in the Financial Stability Assessment exercise and all countries are encouraged to adopt them as soon as possible.

As is often the case for international standards, the PFMI are generally expressed in broad principles as they take into account the different context in which the standards will apply and the different ways to achieve the same results. While the approach allows flexibility, it also means that the principles are subject to interpretation. Accordingly, central banks need to understand the key considerations of each principle to make the right assessment. In this light, it is timely that this SEACEN Advanced Course focuses on how to use the FSAP methodology to assess PFMI observance of the systemically important payment systems for the ultimate purpose of financial stability and effective oversight.

Ladies and Gentlemen:

With this broad objective in mind, the Course uses a variety of instructional techniques to enhance learning effectiveness. In addition to lectures and panel discussion, participants will have the opportunity to apply the Principles on a fictional case study and wear the hats of central banks and World Bank/IMF. To enable in-depth learning, and given time constraint, the Course will focus on 4 Principles relating to financial risks. Specifically, at the end of the Course, participants will be able to describe the role of financial market infrastructure in financial system stability and implications for central banks; explain objectives and key features of the PFMI; assess observance of SIPS against selected PFMI; and identify best practices in complying with the PFMI based on country experience.

Judging from the overwhelming response received to our invitation for nomination, I believe that the theme of this Course addresses the urgent needs and interest of our member and invitee central banks. My only regret is that we are not able to accommodate all nominations without adversely affecting the effectiveness of the Course. As it is, the Course is participated by 39 well-qualified and suitable participants representing 19 central banks. With a faculty of well qualified and experienced experts from the Fed, World Bank, IMF and SEACEN member banks, I am confident that the next four days will be a highly engaging time of learning and sharing of experience.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Research and Training Centre. Our new vision is "***To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region***". As a Learning Hub, SEACEN aspires to drive central bank excellence in learning for the region, by providing a platform for collaboration for members to synergise efforts in central bank learning among themselves, and across SEACEN's network base. The vision would be achieved through SEACEN's mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this Workshop, we are confident that our vision will become a reality.

Coming back to this learning event, I am confident that participants will find it both fruitful and rewarding. Above all, the interaction among participants and with resource persons will provide an opportunity to learn from one another and strengthen the bond of friendship and cooperation. I also hope that you will be able to find time to enjoy the culture and beauty of Kuala Lumpur.

Allow me to conclude by once again thanking our collaborator, the World Bank, and resource persons for the valuable contributions and support, and all our member and invitee banks for nominating suitable participants to the Course.

I wish you a productive and rewarding learning experience. Thank you.