



Report on domestic payment transfers in Denmark

January 2012

Working group on domestic payment transfers

Summary

In a report published in January 2010, the working group on domestic payment transfers recommended three measures to reduce settlement times for retail payments:

- ◆ Rescheduling the settlement of all payments made during the weekend, so that these reach the recipients on Monday morning instead of Tuesday morning.
- ◆ Postponement of the data processing centres' deadlines for receiving payment orders, so that more payments made in the evening are settled during the night.
- ◆ An additional daytime settlement cycle for credit transfers to enable settlement on an intraday basis.

In its subsequent assessment, the Danish Bankers Association concluded that the benefits to customers would not match the added infrastructure costs for implementing these measures. In May 2011 it was decided that the working group should further investigate the opportunities for reducing settlement times.

The working group has outlined a new infrastructure for settlement of retail payments in Denmark. A combination of several measures will ensure significantly faster settlement of credit transfers and reduce the settlement time by 24 hours for Dankort payments initiated at weekends and on public holidays.

When the new infrastructure has been fully implemented, customers will have a choice of three speeds for credit transfers via online banking:

1. Night-time settlement – the payee receives the funds on the next banking day
2. Intraday settlement – the payee receives the funds on the same banking day
3. Fast settlement – the payee receives the funds shortly after the payment was made

Fast settlement of small-value payments will be available 24/7, and all amounts transferred will be available in the payee's account shortly after the initiation of the transfer. This option will be available up to a certain limit, which – when fully implemented – is expected to include the purchase of large consumer goods such as a car.

As regards intraday settlement and fast settlement of large-value payments, these may be effected on banking days before an early-afternoon deadline. The deadlines have not been finally determined yet. Credit transfers for night-time settlement must be executed before a deadline that will be sometime between 6 pm and 9 pm, depending on the payers' bank.

With the new payments infrastructure, retailers will receive Dankort payments on the first banking day after weekends and public holidays, which is one day earlier than today. The working group has discussed the possibilities of introducing further measures to speed up settlement of Dankort payments. Settlement of Dankort payments at weekends and on public holidays requires that the Danish money market, i.e. the banks, Danmarks Nationalbank, the stock exchange and the central securities depository, are open, so that the banks can obtain liquidity for settlement and earn interest on liquidity received. Intraday settlement of Dankort payments on weekdays is an option. Before making any decision concerning the restructuring of systems, retailers should investigate whether the accounting challenges are excessive relative to the benefits of receiving Dankort payments over the day.

To support the new transfer options, it is necessary both to develop new settlement systems and to adapt the existing systems. The future retail payments infrastructure will comprise:

- ◆ A new net settlement system for night-time settlement and intraday settlement of credit transfers.
- ◆ A new solution for fast settlement of small-value payments.
- ◆ Improved options for fast settlement of large-value payments via Danmarks Nationalbank's RTGS system, Kronos¹.
- ◆ The Sumclearing², which is still to process other payment types. The system must be adapted so that Dankort payments made at weekends are credited to the payees faster than today.

The new elements of the infrastructure will be prepared for new payment types in the future, such as mobile payments, as well as, at a later date, any restructuring of payments not initially affected.

Modernisation of the retail payments infrastructure is expected to cost between 200 and 300 million kroner. This estimate covers development costs for the new infrastructure, as well as Danmarks Nationalbank's and the data processing centres' costs for adaptation of their own systems, etc.

The shorter settlement times will be implemented gradually over the next three years. Rescheduling of weekend Dankort payments and fast settlement of large-value payments are expected to be implemented in 2012. Night-time and intraday settlement will be implemented in 2013 and fast settlement of small-value payments in 2014. Step-by-step implementation reduces the risks linked to the modernisation project and will lead to

¹ Kronos, which is owned by Danmarks Nationalbank, is a real-time gross settlement (RTGS) system that is used for real-time settlement of individual, primarily large and time-critical, payments in Danish kroner.

² The Sumclearing is the existing system for settlement of retail payments.

improved settlement times already in 2012. The order of implementation reflects that the least complex elements are implemented first.

The planned modernisation of the retail payments infrastructure is far more extensive than the three recommendations for reducing settlement times made by the working group in its report from January 2010. The planned measures will prepare the Danish retail payments infrastructure for the future, supporting new payment types and encouraging further use of electronic forms of payment.

With the planned measures, a retail payments infrastructure will be created in which the options for fast settlement of payments in Denmark fully match those in comparable countries.

RETAIL PAYMENT SERVICES IN DENMARK AND SELECTED OTHER COUNTRIES						
Activity	Denmark	Sweden	Norway	Finland	Netherlands	UK
Fast large-value payments for firms	Yes (2012)	Yes	Yes	Yes	Yes	Yes
Intraday settlement of credit transfers	Yes (2013)	Yes	Yes	Yes	Yes	Yes
Fast execution of small-value payments via online or mobile banking	Yes (2014)	Planned	No	No	Yes	Yes
Card payments credited to payee's account the day they are initiated	No	No	No	No	No	No

Source: Technical sub-working group on domestic payment transfers.

In the longer term, it would not seem expedient to maintain two net settlement systems for retail payments, i.e. both the Sumclearing and the new system for night-time and intraday credit transfers. Moreover, at some point a wish may arise to discuss the possibilities of further reducing settlement times. When the planned modernisation of the infrastructure is in place, it would be natural for the future Payments Council to discuss such topics.

Structure of the report

The report is in two parts. Part 1 describes the planned modernisation of the retail payments infrastructure. Part 2 describes the more technical aspects of this modernisation.

Part 1 of the report is divided into five chapters: Chapter 1 explains the background to the report. Chapter 2 outlines the need for shorter settlement times, and Chapter 3 describes how this need is to be met. Chapter 4 provides a cost estimate and presents the implementation strategy. Chapter 5 views the future Danish infrastructure in an international context.

Part 2 of the report is divided into three chapters: Chapter 6 provides a more detailed description of the future technical infrastructure for retail payments. Chapter 7 presents the future settlement concept at Danmarks Nationalbank. Chapter 8 contains an analysis of the possibilities of introducing shorter settlement times in general for Dankort payments.