Think big, start smart

Tuesday's special interest session, 'Payment Market Infrastructures: what's next in the Middle East?' will include presentations by a number of eminent panellists, including Philip Tromp, founder and former CEO of Perago and recently the founder of Tromp AG, a consultancy established to advise central banks on payment systems and regional integration. Insights asked him about the key lessons for any successful payment system reform.

In the years that you've been advising central banks about market infrastructure, have you changed your mind about anything?

I really don't think so. I've always held the view that countries should have a big picture – a long-term strategic view – then start with the RTGS and add other components over time. That's still my view. I have often been asked if a small country can justify investing in an RTGS system. I still believe that the RTGS is the heart of the financial system. Once that's working properly, you can start building on it.

How much of the infrastructure you need for an efficient RTGS is actually outside the control of the central bank?

If you are setting up a high value payments infrastructure you have to look at things like power and telecommunications and ensure you have appropriate disaster and contingency planning, but I'm not aware of any country, even in the most difficult situations, that has really battled with this.

You've always said, 'think big and start smart'. Do you think that central banks in the region are following your maxim?

One observation I would make – and it's not confined to the Middle East – is that central banks often do not always pay enough attention to the collaborative nature of settlement systems. If you take the 'think big and start smart' approach, you create a 'big picture' of where you want to go with the cooperation and input of the commercial banks. You get a joint understanding of what needs to be done overall and buy-in to what the central bank needs to do for the benefit of the whole community. Then you move on to implementation and you continue with the involvement of the commercial banks in the exercise.

I get the sense that in many cases the central bank moves on its own and doesn't involve the commercial banks until it is way down the path, which can make things quite difficult.

What about other bits of the financial infrastructure, such as securities markets? Do they need to be part of the planning process from the beginning?

I think that in the beginning you should focus on getting the payment system right. Once you have the real-time environment properly set up and properly controlled and managed, it paves the way for the development of other components of the financial market. I've seen that happen quite a few times. Once the central bank – or the industry for that matter – has achieved success with the RTGS environment, there's a confidence in the community that helps move other developments forward.

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Philip Tromp, Tromp AG

Do markets in the region follow the 95/5 rule? In other words, the bulk of value that passes through the payments system is contained in a small number of transactions?

You see exactly the same picture everywhere around the world. The only thing that is really different in each market is the number of peripheral transactions that are squeezed into the local environment because of local considerations. We find that in many cases there is an internally developed application that needs somehow to be included in, or bolted on to, the new system. But with a strategic view you can minimise these.

In your judgement, how successful have efforts been to create regional links among national payment systems in the absence of a common currency?

If we just focus on the payment systems, it's much more complex than people think. Take, for example, an internal system in a single institution. You have internal stakeholders with perhaps different views, but you have the head of the organisation that can enforce decisions. If you move to a national payment system, it becomes more complex, because you also have politics and competitive issues among the banks. But to an extent you still have the central bank governor who is able to enforce certain issues and act in the national interest.

The moment you move to a regional level, you have much bigger and stronger forces at play and that means you have to expend a lot more effort on building collaboration. You have to put more effort into the strategic view and achieving buy-in. If you have five countries at the table, you're likely to have two in favour and three against any proposal. It's a very complex situation. In my experience, people think that if they have five countries running RTGS systems, all they need to do is connect these systems. That's the technical side, which is probably the easiest aspect of the whole project. Look at how long it took the European Union to link their national payment systems. These things don't happen overnight. It can be done with careful planning, but it's very tough.

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