

CIPS ACCELERATES THE INTER- NATIONALISATION OF THE RMB

The cross-border interbank payments system (CIPS) launched by the Chinese central bank on 8 October 2015 has made it much easier for correspondent banks to execute payment instructions on behalf of clients participating in cross-border transactions denominated in renminbi (RMB). The fact that CIPS has also adopted the ISO 2022 international payments messaging standard is now facilitating the widening of the cross-border connectivity of CIPS, not only with other payments market infrastructures (PMIs), but with correspondent banks around the world as well. All the speakers in a session on CIPS at Sibos in Geneva on 26 September 2016 agreed that the use of global messaging standards by the new infrastructure is increasing RMB transaction volumes and accelerating the evolution of the RMB into a major global currency.

The first anniversary of the launch of the cross-border interbank payments system (CIPS) in China has just passed. Its adoption of global payments messaging standards is now set not only to accelerate the growth of CIPS, but to further internationalise the renminbi (RMB).

CIPS¹ was launched in October 2015 by the People's Bank of China (PBOC), and has since seen 27 direct participants and almost 400 indirect participants begin to use the system. Daily transaction volumes are around RMB 40 billion.

The introduction of CIPS is significant because it is a single hub for clearing RMB payments for both onshore and offshore banks, providing faster payment processing and reduced costs, particularly for international banks that have until now relied on offshore RMB clearing hubs and correspondent banking relationships. Moreover, CIPS is a real-time gross settlement system (RTGS) that provides direct access to the China National Advanced Payment System.

Strategic collaboration between CIPS and SWIFT yields dividends

A catalyst for the growth in the number of participants using CIPS has been the memorandum of understanding (MoU) agreed between CIPS and SWIFT, and signed in Beijing in March this year. The MoU is helping the new payment system to integrate with the global banking community.

To showcase the progress of CIPS since it penned the agreement with SWIFT, leading experts from the Chinese payments sector gathered at Sibos to explain current and future developments, in the context of the ongoing internationalisation of the RMB.

¹ "CIPS: The next generation of financial market infrastructure for RMB internationalisation."

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The positive role of CIPS is acknowledged by key players in the global RMB market. “CIPS is a clearing system that is owned and operated by the Chinese government,” commented Chaoyang Zhang, General Manager, Economics and Strategic Planning Department, Bank of China (Hong Kong) Limited, which is the first overseas bank to join CIPS as a direct participant. “Opening an account in CIPS is somewhat equivalent to opening an account in China’s central bank. This can effectively mitigate counterparty and clearing risks and is significant to ensure the stable operation of cross-border payments.”

Wider network of infrastructures and banks increasing RMB transaction volumes

From a practical perspective, a key priority is to ensure CIPS is inter-operable with international banks and payment market infrastructures (PMIs) through adoption of recognised processes and protocols.

“CIPS is working with SWIFT to update its user manual,” said Xin Zhang, General Manager, China International Payments Service Corporation. “We will evolve it into a comprehensive CIPS Rulebook which covers the standardised CIPS ISO 20022 messaging practices, the latest e-version of the Chinese Commercial Code (e-CCC) table, as well as the RMB payment routing reference data. Very importantly, we are also working on leveraging the SWIFT network to connect more overseas participants and enhancing our global RMB transaction data analysis platform.”

According to Abdul Raof Latiff, regional head of product development for payments and cash management at HSBC, interaction by the bank with CIPS has been positive already, and contributed to an increase in transaction volumes. “People have watched how China has put the system in place, and clearly we have seen a transformation of the RMB over the years,” said Raof Latiff.

Bank of China (Hong Kong) Limited sees CIPS equally positively. “In recent months, we have observed that many business transactions have begun to utilise the CIPS channel, which was a very good start,” said Chaoyang Zhang. “As the market participants are

getting familiar with CIPS, we believe CIPS volumes will grow rapidly afterwards.”

According to an HSBC survey conducted at the end of 2015, 56 per cent of RMB users expect to increase their use of the currency over the next 12 months. In addition, SWIFT message traffic statistics place the RMB as the fifth most-used currency in the world. It has doubled its share to 4 per cent, to become the eighth most actively traded currency in the world, overtaking the Mexican peso, according to the Bank for International Settlements (BIS).

“The ability to make faster, cheaper payments is key to making the RMB more active internationally,” added Raof Latiff of HSBC.

Further enhancements to CIPS are being implemented

Following steady growth in its first year of operation, the PBOC is preparing to roll out the second phase of CIPS, as part of its plans to enhance co-operation and co-ordination with international financial systems and infrastructures.

Suzhen Wang, the deputy General Secretary of the Payment and Clearing Association of China, characterised CIPS as the “expressway” to facilitate international usage of the RMB currency.

She added that CIPS convergence with new technologies and payment applications, such as mobile payment and fingerprint scanning, was generating an added benefit. It is becoming a means of integrating the payment system with global standards.

The plans of the PBOC to further integrate CIPS into international payment systems are unfolding against a broader backdrop of regulatory, macro-economic and financial market developments that are driving the internationalisation of the RMB.

For example, the RMB is now included in the basket of currencies on which special drawing rights (SDRs) at the International Monetary Fund (IMF) are based. Likewise, the opening up of the Chinese bond

markets is another factor that makes the successful development of CIPS, and its integration into global financial infrastructures and banking networks, all the more urgent.

Panellists concluded that building on the MoU with SWIFT, and further use of global message standards, would play a significant role in the future success of CIPS.

Starting with the planned roll-out of enhanced messaging systems and network expansion, CIPS is well-set to fulfil its destiny: supporting the continued evolution of the RMB into a truly global currency.

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