

Payment Systems and the Role of the Central Bank of the Russian Federation

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Abstract: The fundamental roles of the Central bank of the Russian Federation (Bank of Russia) are defined in this article, the functioning of the payment systems and the federal laws connected with the payment system of the Russian central bank (BRPS), which includes the system for intraregional electronic payments (VER), the system for interregional electronic payments (MER), the Banking Electronic Speedy Payment system (BESP system) and a payment system based on letters of advice, were analyzed.

Key words: Central bank • Bank of Russia • Payment systems • Federal laws • Risks • Monetary policy
• WTO • CIS • BRPS

INTRODUCTION

Payment systems play the fundamental role in the economy by providing a range of mechanisms through which transactions can be easily settled.

Moreover the term “payment system” has a wide range of meanings. As the Bank for International Settlements (BIS) states in its published work “A glossary of terms used in payments and settlement systems” that over the years the terminology relating to the payment systems has been steadily refined and as in most disciplines, payments terminology has also been enriched by a number of analytical studies, which have added new concepts and terms, the Committee on Payment and Settlement Systems (CPSS) of BIS has decided to bring together in a single publication all the standard terms and their definitions that have been published in the reports of the CPSS, the European Monetary Institute (EMI) and the European Central Bank (ECB) [1]. According to the publication the term “payment system” is defined as a system, which consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money [1].

It is a common knowledge that the control under the payments systems should be taken on the governmental

level, especially by the Central Banks. In the situation when we face the lack of the above mentioned control, the uncontrolled functioning of the system could lead to the negative circumstances not only in the country itself, but also in its` economy.

Payment systems nowadays play the crucial role in the every day`s life of each country worldwide. The functioning of the payment systems are closely connected with the risks that may arise. To facilitate convertibility between different forms of money, central banks support the existence of at least one payment system for their own currency that is widely accessible to banks [2].

Thereupon we will take a close look on the Russian payment systems and the role of the Central Bank of the Russian Federation in its` regulatory activity.

The payment system of the Russian Federation consists of the payment system of the Russian central bank (Bank of Russia), which is usually called the BRPS and the payment systems that are mainly operated by credit institutions. The BRPS itself comprises of the system for intraregional electronic payments (VER), the system for interregional electronic payments (MER), the Banking Electronic Speedy Payment system (BESP system) and a payment system based on letters of advice.

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Table 1: Payments processed by selected interbank funds transfer systems: volume of transactions (millions, total for the year)

	2008	2009	2010	2011	2012
Large-value payment systems					
BESP system					
Total transactions sent	0.006	0.063	0.205	0.626	1.189
Concentration ratio in terms of volume (%)	71.4	63.6	91.4	18.1	18.1
Large-value and retail payment systems					
VER					
Total transactions sent	752.61	748.67	819.34	898.65	923.36
Concentration ratio in terms of volume (%)	nap	nap	nap	nap	nap
MER					
Total transactions sent	184.44	192.55	238.50	287.62	333.94
Concentration ratio in terms of volume (%)	nap	nap	nap	nap	nap
Payments using letters of advice					
Total transactions sent	3.06	1.66	0.91	0.71	0.51
Concentration ratio in terms of volume (%)	nap	nap	nap	nap	nap

Table 2: Participation in selected interbank funds transfer systems (end of year)

	2008	2009	2010	2011	2012
Large-value payment systems					
BESP system					
Number of participants	739	1,155	3,343	3,248	2,892
Direct participants	739	1,155	3,343	3,248	2,892
Banks ¹	515	870	2,962	2,885	2,725
Central bank ²	192	205	292	279	82
Other direct participants	32	80	89	84	85
General government ³	nap	nap	81	82	82
Clearing and settlement organizations	nap	nap	8	2	2
Other ⁴	nap	nap	nap	nap	1
Large-value and retail payment systems					
VER ⁵					
Number of participants	4,123	3,948	3,738	3,590	2,991
Direct participants	4,123	3,948	3,738	3,590	2,991
Banks ¹	3,493	3,318	3,122	3,046	2,904
Central bank ²	630	630	608	542	85
Other direct participants	nap	nap	8	2	2
Clearing and settlement organizations	nap	nap	8	2	2
MER ⁶					
Number of participants	4,123	3,940	3,738	3,594	2,996
Direct participants	4,123	3,940	3,738	3,594	2,996
Banks ¹	3,493	3,312	3,122	3,049	2,908
Central bank ²	630	628	608	543	86
Other direct participants	nap	nap	8	2	2
Clearing and settlement organizations	nap	nap	8	2	2
Payments using letters of advice					
Number of participants	4,143	3,957	608	543	86
Direct participants	4,143	3,957	608	543	86
Banks ¹	3,511	3,327	nap	nap	nap
Central bank ²	632	630	608	543	86

Credit institutions and their branches. ² Bank of Russia branches. ³ The Federal Treasury and its regional offices. ⁴ The State Corporation Deposit Insurance Agency. ⁵ The VER systems (systems of intraregional electronic payments) ensure electronic payments in the Bank of Russia payment system (BRPS) regional subsystems. ⁶ The MER system (system of interregional electronic payments) ensures electronic payment interaction between the VER systems of different BRPS regional subsystems bilaterally between two different subsystems on a decentralized basis.

The most significant recent development was the creation of the BESP payment system within the BRPS framework. Introduced at the end of 2007, the BESP system provides nationwide settlement on a real-time gross settlement (RTGS) basis for both urgent interbank payments and the non-urgent payments of non-bank institutions [3].

Bank of Russia has established special monitoring center to manage and control the BESP system. As the BESP system is managed by the Bank of Russia, it has specific guidelines for operation and oversight, issues particular “regulations and instructions that set operational rules, payment procedures, system participation and the maintenance of the participants’ directory” [3].

It is important that “participation in the BESP system does not preclude Bank of Russia customers from effecting payments through the VER and MER systems” [3].

As we look at the statistics over the payments carried out through the payment system in Russia, we can see the increase in the volume of transactions carried out through BEST, VER and MER system on the annual basis (Table 2) [4] and at the same time we can see the decrease in the number of participants of the above mentioned payment systems (Table 1) [4].

As we look at the role of the Bank of Russia in the local payment systems, we can see a lot of positive changes that have been made not only in the structure of the systems itself, but also in the documentary basis. In 2011 was adopted and is still in force the Federal law of the Russian Federation as of 27.06.2011 # 161-FZ “On the national payment system” [5]. According to the article 3 of the Federal law dated 10.07.2002 # 86-FZ “On the Central Bank of the Russian Federation (Bank of Russia)” (hereinafter – Law # 86-FZ) one of the objective of the Bank of Russia is to ensure the stability and development of the national payment system. Bank of Russia, based on article 82.1 of the Law # 86-FZ, in March 2013 has adopted the Strategy of the development of the national payment system (NPS) (hereinafter-NPS Strategy) where it settles the main directions of development of the above mentioned system. And in conformity with the paragraph 2 of the NPS Strategy Bank of Russia accounts for the provision of the safe and smooth functioning of the Bank of Russia payment system as the core stabilizing factor which highly influences the NPS development [6].

Moreover, we can face the changes in the Russian central bank strategy, which, in accordance with the European central banks strategies, pays more attention

to the risks connected with the payment systems. For example, the Central bank of England in many of its works and particularly in its recent “Payment Systems Oversight Report 2012” which was published in March, 2013 confirms the vital role that risks could play in the payment systems and looks for the ways of minimizing such risks [7]. In Russia in part of reducing the risks of the payment systems the Government of the Russian Federation has adopted the Regulation as of 13.06.2012 # 584 “On provision of the guideline on information protection in the payment system” (hereinafter-Regulation # 584). According to the subparagraph “e” (in the Russian language the mentioned subparagraph stands for ‘r’ letter of the Russian alphabet) of the paragraph 4 of the Regulation # 584 it is specified that the rules of the payment system should include among the others the requirements to the information protection which will anticipate the analyses of the risks in breach of information protection and the risk management [8].

The Central Bank of the Russian Federation in its “Guidelines for the Single State Monetary Policy in 2014 and for 2015 and 2016” published in Russian and approved by the Bank of Russia Board of Directors on 08 November 2013, sees the top priority in developing the system of instruments of the Bank of Russia in the way of harmonization of particular operations of the monetary policy, functioning of payment system and financial markets [9]. At the same time in the same work, published in English, but approved by the Bank of Russia Board of Directors on 13 September 2013, Bank of Russia states “The Bank of Russia’s measures to develop the infrastructure and increase the depth of financial markets, as well as fine tune the Bank of Russia payment system, will enhance its monetary policy efficiency” [10].

In any case, in those two variants we can see that the Bank of Russia recognizes the importance of the payment system and its future development.

In the way of summarizing we could outline the main roles that the Central bank of the Russian Federation plays in the payment systems of Russia nowadays:

- Acts as a catalyst, initiating and coordinating the process of making adjustments to the national payment system rules and procedures that enhance its stability and efficiency;
- Pays close attention to the adoption of international standards in the domestic payment system;
- Promotes the development of the retail payments market by monitoring, analyzing and publishing reports and statistics;

- Cooperates in the field of payment services development with other central banks as well as with international financial organizations;
- Responsible for the effective and smooth functioning of the payment system (according to the Law # 86);
- Organizes cash circulation and non-cash payments;
- Plays a vital role in effectively organizing and regulating payments and settlements across the country's nine time zones [3].

Referring to the aforesaid we still have a lot of unsolved questions connected with the role of the Russian central bank in the payment system performance left: does the Bank of Russia pay enough attention in its regulatory and controlling activity over the NPS, what is the impact on Russian payment systems in view of the recent accession to the World Trade Organization (WTO), what will be the role of the Bank of Russia in forming the single payment area within the framework of its enlargement and expansion throughout the territories of the member-countries and future members of Common Free Market Zone (CFMZ: Russia, Belorussia and Kazakhstan), Eurasian Economic Community (EurAsEC) [11] and Commonwealth of Independent States (CIS) [12]?

And the main question, that we do not have the answer yet, is how will the payment systems be affected by all those recent changes that happen inside the Bank of Russia today?

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