

Ulrik Nødgaard: TIPS cross-currency

Speech by Mr Ulrik Nødgaard, Governor of the National Bank of Denmark, at the TIPS cross-currency event about TIPS cross-currency, Copenhagen, 1 October 2024.

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Check against delivery

Opening

It is a pleasure to see so many present here today and I am pleased to extend a warm welcome to all of you.

In a few weeks, the introduction of the instant payment system in Denmark will have its 10th anniversary. Something to commemorate, I think. It was a project, which went live after very good cooperation between the banking/payments sector and Denmark's Nationalbank.

We have achieved a lot over the past ten years, in cooperation with the banking /payments sector in Denmark. Cross-border payments have seen a large increase over that period and we now stand before a natural next stage for instant payments in Danish krone. For this journey we look forward to continuing this cooperation with you.

A special welcome to the speakers, our central bank colleagues from Norway and Iceland, and to Finanstilsynet, the Danish FSA, who are present in the audience.

The context for the TIPS cross-currency project

Allow me to sketch out the wider context of today's event. In April 2025, the Danish market will migrate from Kronos2 to T2 for wholesale payments in Danish krone, and from Straksclearing to TIPS for instant payments in Danish krone. This will make the Danish krone the first non-euro currency to be connected to all TARGET Services for payments and securities settlement. By becoming part of TARGET Services, we benefit from its efficiency and alignment with international (ISO) standards, and going forward we will become part of a strong community where we are united in ensuring IT-security and resilience for the Danish financial market.

I would like to mention the long-standing tradition among banks in the Nordics and across the euro area to cooperate in matters of payments infrastructure, as the basis for providing an attractive service to their customers. TIPS and the TIPS cross-currency service can fit this tradition. All Danish banks will join 'TIPS-DKK' for instant payments in Danish krone as direct participants or as a reachable party.

In line with the ECB's communication of July 2024, in view of the amendments to the EU Settlement Finality Directive, we are also looking into giving access to our payment systems to non-bank payment service providers.

Joining an existing platform

TIPS went into operation for settlement in euro in November 2018. Through TIPS, all euro area banks can reach each other for instant payments in euro, if they are a member of the EPC's instant credit transfer scheme. The scheme currently has around 2,300 members. This feat was helped by a set of reachability measures taken by the ECB that entered into force in November 2021. Swedish banks have been on TIPS for in-stant payments in Swedish krona since February 2024. Danish banks will start using it for instant payments in Danish krone in April 2025.

The central bank of Norway is progressing with formal discussions to join TIPS, whereas the central bank of Iceland has started assessing whether to join, for their respective currencies.

The global agenda for improving cross-border payments

I think we can all agree that domestic payments, and in particular instant payments, are efficient and work well in Denmark and the other Nordic countries. However, one thing is domestic payments, another thing is cross-border payments between the Nordic countries and with the euro area.

As you will likely know, improving cross-border payments has been high on the international agenda for some years. The global ambition is to en-sure faster, cheaper, more transparent and more accessible cross-border payments for the end users. It is good to keep this perspective in mind and not limit our discussions to schemes and infrastructures. The goal of all this work is to enable better services to Danish citizens and companies.

In an interconnected world, we, as central bank, but also as the payments industry, need to look beyond improving payments within our own coun-try, but also at improving cross-border payments, and certainly cross-border payments denominated in Danish krone. We see this as the natu-ral step forward for efficient and secure payments in Denmark, in line with the main objectives of the Danish central bank.

The TIPS cross-currency service

Now I turn to the topic of today: the TIPS cross-currency service. Making a connection between currencies present on the same platform is a unique opportunity to enable better cross-border payments. Swedish krona, euro and Danish krone will be the first currencies within the ser-vice. But there are many opportunities for further expansion. Should Nor-way and Iceland decide to participate in the cross-currency service in the future, all Nordic currencies would be on board.

The advantages for Danish banks and their customers include:

- the option to make and receive instant payments denominated in Danish krone across borders.
- the option to make and receive instant payments denominated in euro across borders – which is important in view of the EU Instant Payments Regulation (IPR).

- the option to make and receive instant payments denominated in other connected currencies, if and when TIPS sets up links with other central bank instant payment systems.

The migration will require efforts by the industry, but by joining an existing platform we think the amount of work is both well-contained and can be planned. Instant payments, in general, have challenging operational requirements, both on the sending and the receiving side. The cross-currency aspect adds further complications, for example the need to apply foreign exchange on a 24/7 basis. Finally, new EU legislation puts extra requirements on the processing of instant payments.

In this respect, I would like to stress that the technical infrastructure is in line with the Instant Payments Regulation (IPR), which will make it mandatory for most Danish banks to be able to provide instant credit transfers in euro from January 2027. We are working to ensure that the TIPS cross-currency service becomes the most attractive solution over time to comply with this regulation, if not from the start, then in the slightly longer term.

Whereas the TIPS cross-currency service will enable such instant payments in euro, there is a dependency on euro area banks to be reachable for these cross-border payments. I know that the ECB is working on this issue. I mentioned reachability of euro area banks. However, it is a two-way street. Ideally, for each currency, there is a high or even a full reach, also of banks in Denmark. Ensuring this is very high on the agenda for us at the Danish central bank.

Closing

Let me wrap this up. It is our great wish as central bank that we will have as good cooperation with you on the TIPS cross-currency project as we had with the launch of the instant payment system back in 2014 and as we have now with TARGET DKK. I realise this is a big wish, but I will do my best to make it happen from our side. With the programme for today, I am convinced that we have an interesting afternoon ahead of us. Thank you!