



News Release  
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## PROJECT LAUNCH AND SENSITIZATION PAYMENT SYSTEMS REFORMS

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Ladies and Gentlemen, the Bank of Jamaica is pleased to welcome you to the launch of the payment system reform project in Jamaica.

I would like first of all, to recognize and especially welcome Messrs. Mario Guadamillas and Massimo Cirasino of the World Bank, who will be working closely with the Central Bank as advisors on the project, and who will be sharing with us the experiences of countries that have modernized their payment systems.

We have arranged these briefing sessions to sensitize stakeholders to the risks associated with payment systems, and to the changes that will result from the reforms that will be implemented. The sessions will also provide information on the role of the Central Bank and the need for commitment to the reform process.

Ladies and Gentlemen, payment systems are critical to the stability and effective functioning of the financial system. They are the means by which funds are transferred among financial institutions, and consequently, **the major channels through which shocks can be transmitted to the financial system.**

Jamaica has two systemically important payment systems in operation: the large- value-Funds-Transfer System that is owned by the central bank (CIFTS) and the privately owned Automated Clearing House (ACH).

The ACH was conceived, fundamentally, as a responsibility of the banking system with the active participation of the Central Bank. Phase 1, which allowed for the electronic settlement of cheques, was implemented nearly three years ago. The clearing banks are now in the process of implementing the second phase of the ACH, to process direct debit and credit transactions electronically. This should be completed before year-end.

With the changing conditions in our economic and financial environment it is important that the design and operation of our payment systems are kept at the level of internationally accepted standards and practices. There is also no doubt that the flows through our payment systems have increased significantly, both in volume and value and this has increased the potential for added risk. Indeed, if problems were to arise in these systems, business and economic activity could be seriously disrupted and the stability of the financial system jeopardized.

As you all know central bankers are extremely risk-averse and will always try to solve problems long before they arise. Consequently, the comprehensive reform of the national payment system on which we have embarked is a process that will contribute significantly to the reducing the risks in individual institutions, in the Central Bank and in the entire financial system.

Our efforts in this regard led the Bank of Jamaica in 2002 to invite the World Bank, through its Western Hemisphere Payments and Securities Clearance and Settlement Initiative, to assist us in conducting an assessment of the payment and securities settlement systems in Jamaica. Together, we concluded that it was time for the system to be upgraded and its legal foundation strengthened, in order to remove any potential systemic risks and to maintain compliance with international best practice standards.

More recently, a joint International Monetary Fund (IMF) and World Bank Mission under the Financial Sector Assessment Programme (FSAP) confirmed this assessment.

Against this background, the Bank has established the following reform priorities:

1. reform the legal framework for payments and securities settlement;
2. ensure that the systemically important payment systems comply with international principles by launching a modern real time gross settlement (RTGS) system;
3. coordinate the effective integration of a sound and efficient securities settlement system, the Central Securities Depository, with a new RTGS system operated by the BOJ;
4. establish an effective payment system oversight function within the BOJ and ensure cooperation within the National Payments System by establishing a **National Payment System Council**.

The **National Payment System Council** will be responsible for overseeing the reforms and will also serve as a continuing forum for securing the commitment and cooperation of stakeholders in ensuring the observance of the rules and standards of the system. The Council will be comprised

of stakeholders who will make sure that decisions affecting the system are transparent and also that the decisions are disseminated to all the relevant parties.

With your cooperation and support, these are the priorities for the reform agenda that we intend to pursue with urgency.

The Bank of Jamaica will be also putting in place the operational arrangements for the payment system and will seek to have the oversight function entrenched in law.

As far as the Bank's vision for the reformed payment system is concerned, the details are set out in the Strategic Vision Document, copies of which I believe you have.

Tomorrow's Sensitisation Workshop will focus on stimulating further awareness with regard to the specific issues surrounding payment systems, and will seek your validation of the vision as well as the strategy for the reforms.

In closing, let me say that the Bank of Jamaica remains committed to its mission to engender and maintain monetary and financial system stability, and as we continue in our efforts to fulfil this mission, our attention will always be focused on mitigating the systemic aspects of risk that could threaten to undermine the achievement of this objective.

Once again, welcome to the launch of the payment system modernization project, and welcome to your role as partner and participant in this endeavour.

Thank you, ladies and gentlemen.

**Bank of Jamaica**