TIPS & ACH – 2 IP models

Impact of co-existence

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TIPS & ACH – Impact of Co-existence

Background:
• With TIPS the Eurosystem is introducing a new and different model for the processing of Instant Payments in Europe.
• TIPS is providing Instant Payment settlement in central bank money.
• You could also say that TIPS is combining Clearing and Settlement in the same process – this is mainly a definition question, but clear is that TIPS supports exactly the same Instant Payment product as per SEPAinst.
• ACH IP solutions make use of the ASI6 model and hence the IP payments are processed in Commercial bank money.

Questions:
• How would co-existence of TIPS and ACH solutions work?
• How is interoperability, reach and liquidity impacted by TIPS and ACH’s solutions?
• What is the impact of co-existence of these models?

Goal of these slides:
• Bring clarity in the models and differences
• Bring clarity in the interoperability and reachability aspects between TIPS and ACH
• Give an overview of some co-existence models possible & bring clarity in the impact of these.
**TIPS model vs ACH Model**

*Interoperability, Reachability and Liquidity*

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**ING**

- **Client Accnt**

**ACH X**

- **ING Balance**

- **Bank Balance**

- **T2 – ASI6**

- **ING T2 Accnt**

- **BANK T2 Accnt**

**Bank**

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1. ING → ACH X
2. ACH X → ING
3. Bank → Client Accnt
4. Client Accnt → Bank
5. Bank → Client Accnt
6. Client Accnt → Bank
7. ING → ACH X

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**ING**

- **Client Accnt**

**TIPS**

- **ING T2 Accnt**

- **BANK T2 Accnt**

**TIPS**

- **Client Accnt**

**Bank**

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1. ING → TIPS
2. TIPS → ING
3. Bank → Client Accnt
4. Client Accnt → Bank
5. Bank → Client Accnt
6. Client Accnt → Bank
7. ING → TIPS

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**Funds in ASI6 are commercial bank money**

**Prefunding**

**Pre-funded amount for IP is NOT part of ING’s CB reserve balance**

**Balance in TIPS is Included in ING’s CB reserve balance**

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**Interoperability, Reachability and Liquidity**

- **Interoperability model** still to be defined between the CSM’s
- **Reachability** is dependent on a fully functioning and efficient and effective interoperability model
- Only in that case a PSP can potentially connect to a single CSM and still reach all other PSP’s
- **Pre-funded amount for IP** is NOT part of ING’s CB reserve balance
- Funds in ASI6 are commercial bank money

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**Will start as a stand alone service with no interoperability**

**Reachability is limited to those participating in TIPS**

**Interoperability is not excluded for the future, but uncertain as T2 rules limit the possibilities to combine ASI6 and TIPS**

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**Pre-funded amount for IP** is NOT part of ING’s CB reserve balance
TIPS model & ACH Model
Co-existence model – ACH acting as service provider, instructing TIPS on behalf of PSP

Explanation:

• ING only connects to 1 ACH
• ING sends IP instruction to ACH X (1)
• ACH X examines the reachability of the IP instruction against the receiver bank
  ➢ If within ACH X (Bank A):
    • a reservation is made on ING account (2)
    • Instruction forwarded to receiver bank A (3)
    • Etc for steps 4-7
  ➢ If within TIPS (Bank B):
    • IP instruction is forwarded to TIPS (1B).
    • Reservation is made within TIPS (2B)
    • Instruction routed by TIPS to receiver bank B (3A)
    • Etc for steps, 4B, 5B, 6B, 7A and 7.
TIPS model & ACH Model
Co-existence model – ACH acting as service provider, instructing TIPS on behalf of PSP - IMPACT

ING will have a balance for IP processing in both the ACH as with TIPS

The single connection to 1 ACH is only representing a technical connection Interoperability, but does not prevent fragmentation of liquidity for Instant Payments

Are there different models possible whereby the fragmentation of liquidity is addressed?

If only 1 bank decides to only connect to TIPS, all other banks who want to reach this Bank are obliged to open a TIPS account as well

2 separate pools of Prefunded Liquidity which can not be netted or 're-balanced' against each other outside T2 opening
TIPS model & ACH Model
TIPS acting as ACH Connector instead of ACH interoperability?

Explanation:

• ING only connects to 1 ACH
• ING sends IP instruction to ACH X (1)
• ACH X examines the reachability of the IP instruction against the receiver bank
  ➢ If within ACH X (Bank A):
    • a reservation is made on ING Balance within ACH X (2)
    • Instruction forwarded to receiver bank A (3)
    • Etc for steps 4-7
  ➢ If within ACH Y (Bank Z):
    • IP instruction is forwarded to TIPS (1B).
    • Reservation is made within TIPS (2B)
    • Instruction routed by TIPS to ACH Y (3A)
    • ACH Y forwards to Bank Z (3)
    • Etc for steps, 4B, 5B, 6B, 7A and 7.
TIPS model & ACH Model
TIPS acting as ACH Connector instead of ACH interoperability: Raising more questions than providing answers.

Why would we still hold a separate balance in the ACH via ASI6 if everyone becomes reachable in TIPS?
And if that is the case, why would we continue to use the ACH to connect to TIPS?

Would this not simply be a very ineffective Interoperability model? And could it prevent proper ACH interoperability being build?

What is the added value for the ACH to be in between PSP and TIPS? Is it not only doubling the number of messages, costs and time?

In this model all banks would have to hold an account in TIPS in order to reach others and be reachable.
Bank A in this example does not have an account in TIPS, as such it could not send or receive payments from Bank Z.

What is the added value for the ACH to be in between PSP and TIPS? Is it not only doubling the number of messages, costs and time?

In this model all banks would have to hold an account in TIPS in order to reach others and be reachable.
Bank A in this example does not have an account in TIPS, as such it could not send or receive payments from Bank Z.

Would this not simply be a very ineffective Interoperability model? And could it prevent proper ACH interoperability being build?
TIPS model & ACH Model

Is Co-Existence model a Migration path towards……… TIPS?

[Diagram showing the flow of transactions between banks and accounts, including TIPS, ACH X, ACH Y, Bank A, Bank Z, ING, and other accounts.]
TIPS model & ACH Model

Is Co-Existence model a Migration path towards……… TIPS?
TIPS model & ACH Model
Is Co-Existence model a Migration path towards……. Full interoperable ACH model?
TIPS model & ACH Model

Is Co-Existance model a Migration path towards……. Full interoperable ACH model?
TIPS model & ACH Model
Is Co-Existance model a Migration path towards……. Integrated TIPS-ACH Model?

![Diagram of TIPS model & ACH Model]
TIPS model & ACH Model

Is Co-Existence model a Migration path towards…….. Integrated TIPS-ACH Model?