

# WHOLESALE PAYMENTS SYSTEMIC RISK MITIGATION

Over \$5 trillion is processed daily through the US Wholesale Payments System. ARC financial institutions are responsible for approximately 90% of this activity. The ARC convened expertise from top financial services firms and US Treasury to conduct analysis of the Wholesale Payments System, identify key risk gaps, and develop measures to increase its resilience.



Risk analysis revealed that it would only take approximately two hours for over \$100 billion in liquidity to become constrained if one of the larger participants in the Wholesale Payments System was disrupted by an outage. Additionally, the disruption of payment flows at this level could jeopardize the orderly settlement and closing of systemically important clearing houses and exchanges, creating a cascading impact into other markets. To stress the impact of systemic risks in the scenario, ARC financial firms extended the disruption to a multi-day outage creating a more significant loss of Wholesale Payments capability. Given the types of threats facing the sector today, participants considered software failure, insider threat, physical disaster, and/or a cyber-attack as potential causes of disruption to the Wholesale Payments system.

**ARC members combined the knowledge and resources of their individual resilience plans and built on their work at the Payments Risk Committee to create systemic resilience solutions and contingency plans that benefit the entire industry. For example:**

- Alternative payment solutions were identified to support an orderly end-of-day settlement of systemically important payments
- Identified the highest value payment accounts and confirmed alternative payment channels were in place or being put in place
- Explored concepts of Mutual Assistance, amongst financial institutions, including potential regulatory concerns
- Having a consistent approach for firms to pause—and later resume—some or all wholesale payments to mitigate exponential liquidity impacts and potential unintended consequences for a stricken institution
- Response frameworks were created to provide insight to how firms respond to, communicate, and recover from a systemic cyber event as a stricken or non-stricken bank. Industry and government together developed communication plans to prevent chaos and misinformation, which hurts market confidence.

Recognizing their critical function in the Wholesale Payments System, the largest financial institutions in America dedicate billions of dollars to their individual resilience plans and internal resources to ensure their security. Each institution runs differently, markets change, and threats evolve. Financial Services firms continuously review and update their resilience plans and convene through the ARC to mitigate the impact of any disruption to Wholesale Payments that could impact critical functions of our economy.

The US Wholesale Payments System is the connection point between financial markets, participants, and global services. It is central infrastructure for our ability to invest, borrow money, buy a house, finance our day to day lives, and virtually all other market activities involving US dollars. These processes and transactions provide financial resources that Americans, and the world, rely on every day and without it, the economy could grind to a halt. Former Federal Reserve Chairman Alan Greenspan indicated that one of his biggest fears was the disruption of the US payments system. He believed that if someone wanted to cripple the US economy, they would target the payments system.

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## ABOUT THE ANALYSIS & RESILIENCE CENTER FOR SYSTEMIC RISK (ARC)

The ARC is a coalition of financial services firms working together to identify, prioritize, and mitigate systemic risk to the nation's most critical infrastructure. The ARC delivers actionable solutions which reduce systemic risk by collaboration between our members, the US Government, and key sector partners to support the collective defense of our national and economic security.

**For more information about the ARC, visit <https://systemicrisk.org/>**