

ECB Operations Managers Group
23 June 2021 14:00 – 17:30 CET Via WEBEX

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) introduced the newcomers to the Group and presented the agenda of the meeting, which was then approved by the participants.

2. Future of custodian services

Virgilio Mendoza (Northern Trust) presented the topic 'The Future of custodian services'. After an introduction of Northern Trust as one of the world's largest global custodians, Virgil outlined the forces which are affecting the entire industry namely regulatory complexity, digitisation, demand for data and insight, efficiency and productivity, fee pressure, money in motion, technological changes and which have demanded significant investment efforts. Thus, markets grow more complex and more costly. To address these trends custodians take certain measures among which are: strengthening their operational resilience, accelerating digitisation of their business and operating platforms and automation, pursuing partnerships with fintechs, and developing new products and services to boost revenues and improve productivity.

Northern Trust is seeing the emergence of digital assets and digital ecosystems which will result in an increased number of markets in which custody services are offered. Moreover, digital and legacy systems will be serviced in parallel in the future. Virgilio talked about strategic opportunities for the market such as digital custody, digital market infrastructure and assets, digital central bank currencies, data and insight and artificial intelligence and areas in which Northern Trust has been focusing on, such as digitising its fund administration and transfer agency business, developing its blockchain private equity and fund administration capability. Northern Trust is partnering with a fintech company that is providing a blockchain-based digital bond exchange to deliver fractionalised bond ownership using blockchain technology, and completing the world's first blockchain-based bond trade in August 2020, and is co-investing with a financial institution to launch a cryptocurrency custodian for institutional investors.

3. BBVA strategy on bitcoin, crypto, DLT, and digital currencies

Ian Downes (BBVA) presented the BBVA strategy on blockchain, digital assets and digital currencies. First, he outlined the main trends in blockchain, including the crypto market size and evolution as well as crypto market players. Fiat players (from the institutional, private wealth and retail segment) are entering the space of crypto custody and trading and at the same time regulators, market players and investors have all expressed concerns regarding crypto currencies. This divergence of view highlights the different approaches that are being taken as a result of the growth of these markets and the technology that underpins them.

Second, he presented the BBVA blockchain strategy which is built around three 'E' pillars, namely Execution, Ecosystem and Expertise. Execution stands for end to end digital interactions by automation based on Distributed Ledger Technology (DLT), reinvented processes based on smart contracts and development of new business models to engage all user groups. Ecosystem includes benefits from talent and technical assets being developed by the community, understanding the direction of regulators/key market infrastructures and anticipation disruption impact from decentralisation. Expertise includes dissemination of knowledge through the organisation, creation of deep expertise in executing units and building toolkits for escalation.

BBVA has been working for more than 5 years on blockchain and digital assets, in the areas of payments, trade finance, lending and capital markets. The most recent launch is BBVA's digital assets custody service provided from BBVA Switzerland which currently supports Ether and Bitcoin. Finally, the underlying risk factors affecting projects on blockchain and digital assets were explained.

4. Back-Office operations: HR Challenges

Roland Kipper (Commerzbank) presented 'Back-Office operations: HR Challenges'. He elaborated on the workflow development in operations at his institution which evolved in various stages over decades and has ultimately led to near shoring and outsourcing of various blocks in the process chain. When conducting outsourcing activities, the development of new skill profiles, including knowledge of the entire process chain is crucial. Roland outlined the expectations of 'future' operational staff including among others flexible working modalities, challenging and interesting tasks, job rotation and a good work-life balance. The competencies of a 'next generation manager' should among others encompass focusing on leading instead of controlling, challenge and encourage the team, promote a fast fail culture (to see mistakes as opportunities for process improvement), seeking for regular feedback, and support diversity.

Roland presented the staff profile of his institution which includes familiarity with various asset classes, full understanding of the complete process flow and lifecycle events as well as IT expertise. Job expectations often do not meet the reality in the operational environment due to the restrictive nature of work. This makes it difficult to recruit new staff. His organisation now focusses on recruiting internal staff using an internal promotion and training program. Education of staff is key. He concluded that defining the operating target model of an institution and timely and transparent communication to staff is key to tackle HR challenges.

5. One year with COVID-19: Are we in a new normal: new risks and new solutions?

Cathal Feeney (AIB) presented 'Banking Operations: Sustainability, Covid and the New Normal', including the AIB's sustainability journey sustainability targets. The latter consists of climate action, economic and social inclusion and a future-proof bank concept. Cathal outlined the sustainability efforts in operations undertaken by his institution (which are including green products, digitisation, future proofing treasury & payment operations and sustainability initiatives launched during the COVID pandemic).

Kristin Claessens (BELFIUS) presented 'One year with COVID-19'. She described the implemented pre-COVID workplace projects at her institution, aiming for a new mindset within the bank. Those workplace projects focused on more trust, empowerment, flexibility and mobility for staff and have resulted in a

reorganisation of the configuration in all buildings, an updating of employee equipment & communication tools and a change of working modalities (such as gradual application of teleworking and the abolishment of working time recording). Kristin also explained that these pre-COVID achievements have significantly contributed to Belfius being able to adapt very quickly to the various challenges posed by the outbreak of the COVID pandemic. The post-COVID framework, which emphasises on client focus, flexibility, increased telework, teamwork, trust, autonomy and sustainability, has been developed and is now at the point of being implemented.

6. Quick survey on the 'new normal'

Members were asked to share insights on the 'new normal' and digitisation efforts in their institutions using a real-time voting application.

7. Tour-de-table on financial innovation projects

Members provided insights on their institution's financial innovation projects in a tour-de table, covering (i) one initiative on digitisation, bitcoin, crypto, DLT, and / or digital currencies (recently implemented or planned), (ii) their future target operation model for operations (if known yet), and (iii) an anticipation how digitisation or new operation models reflect on staff profiles and the 'next generation management skill profile'.

Regarding the initiatives on financial innovation projects, many members reported that significant progress has been made towards a paperless working environment and more straight-through processing, implementation of electronic archiving and digital signatures. Several members reported that they are observing the market trends rather than being actively involved in financial innovation projects. Other members reported on specific projects that they have been working on including Distributed Ledger Technology processes, Robotic Process Automation and crypto currency to gain experience in these fields.

In terms of the future target operation model, most of the members reported that they are in the process of implementing a hybrid working model (working on-site and remotely). Other initiatives mentioned were: restructuring measures such as outsourcing (nearshoring) to reduce office space and head count, implementation of flexible working hours, abolishment of working time recording, increased investment in technology for automation, and the introduction of new key performance indicators.

Concerning the effects of digitisation or new operation models on staff profiles and HR management, members stated that new staff should be tech-savvy, understand complete process flows ideally of many asset classes, and have a solid regulatory knowledge. The members stressed that it is challenging to find suitable staff and also to motivate new staff by providing an interesting work and supporting a good work-life balance. Overall, investments in training and staff development have been increased.

8. AOB

Members were asked to express their preferences on topics for the Work Programme 2022 via a real-time voting application. The results will be discussed at the next WebEx meeting in September.