

ECB Operations Managers Group
23 June 2022 14:00 – 17:30 CET Via WEBEX

Summary

1. Introduction

Emily Witt (Chair of the ECB Operations Managers Group) welcomed the members, who then approved the agenda of the meeting.

2. SWIFT Strategy and Developments around FX and Standards

Saskia Devolder (SWIFT) and Joe Halberstadt (SWIFT) presented the outcome of the latest SWIFT strategy review as well as the main developments in the areas of FX and messaging standards, including the impact of the ISO20022 migration. Looking at the market landscape and trends, Saskia underlined that the existing high fragmentation requires interoperability and interlinking between market infrastructures, in particular between various instant payment systems. The SWIFT strategy aims at addressing market trends by (i) implementing enhancements and removing remaining frictions at operational level to achieve speed and cost efficiency, (ii) facilitating interconnectivity of domestic payment systems, and (iii) streamlining and enhancing towards front-end services. Interoperability remains also in SWIFT focus when addressing new, 'disruptive' trends, such as Central Bank Digital Currencies (CBDC) and tokenisation of assets. Furthermore, SWIFT has implemented artificial intelligence for pre-validation checks that will improve the provision of instant, frictionless payments.

The blueprint for a different payments model, built around SWIFT's strategy, includes extending instant payments scope, enriching of ISO20022 data, global implementations of several SWIFT services, streamlined clients experience, support new forms of settlement and lowering costs for the customers.

The second part of the presentation by Joe Halberstadt, focused on the key FX enhancements within standards releases 2021, 2022 and 2023, which aimed among others, at improving STP processing, implementation of ISDA related changes and supporting trades in digital currencies. Joe also outlined the impact of the ISO20022 payments migration on FX, reminding that there are currently no plans to move FX flows to ISO20022. However, settlement payments will migrate to the new standard from November 2022 and thus also impact FX settlement payments.

Finally, the presenters estimate that in the next two years the SWIFT community will continue to be focused on ISO20022, increasing the benefits of the new standard by further implementing its functionalities to the business processes.

3. CSDR Settlement Discipline and Penalty Regime

Massimiliano Sacconi (Intesa Sanpaolo) analysed the initial impact of CSDR and its future developments. After a brief introduction and outlining available measures to address settlement fails, he looked both at the challenges faced during the CSDR implementation phase and at persisting problems, e.g. issues related to the accuracy, timeliness, and consistency of periodic cash penalties reports. Massimiliano presented the key points of the on-going review of CSDR and summarised the main market expectations, such as: i) the change of the buy-in nature from unconditional and mandatory to an optional process that may be requested by the receiving party in case of a fail by the seller, ii) exemptions from the scope of the regime for transactions that are technical or internal, and iii) establishment of a common database/source of CSDR relevant reference data, e.g. securities classification and prices.

4. Operational Risk Management in Treasury Operations post COVID-19

Kristin Claessens (Belfius) presented the Non-Financial Risk Management Framework applied at Belfius bank with a particular focus on the aspects that were important in the management and control of the Non-Financial Risks during - and after the COVID-19 pandemic. The overall conclusion is that the framework was very responsive (only very limited minor adjustments have been made). The lasting impact of the COVID-19 crisis is mainly in the area of hybrid work (implementation of a HR framework that allows colleagues to work remotely more often than before). The new 'meaningful and inspiring hybrid collaboration strategy' that is gradually being implemented is based on three pillars: (1) an adaptable physical environment, (2) adequate digital tools and (3) a new set of behavioural and technical skills. The renewed hybrid way of working is offered throughout the organization, with the exception of few very specific domains. In the Financial Markets area: the application of the new HR framework is quite general within Operations; a specific framework is being worked out for Front Office.

David Barry (AIB) complemented Kristin's presentation by showing how operational and risk management adjustments were rolled out at the AIB during the COVID-19 crisis. Main changes in this respect included the transition to remote work, accelerated digitalisation as well as governance changes. Together with the operational developments, also the risk culture evolved, leading to stronger focus on customer related processes and internal controls enhancements. Overall, post COVID-19 led to improvements in business continuity management, strengthened the focus on cyber threats, and emphasised change and talent risks that are faced by financial institutions.

5. Sourcing trends in operational activities, opportunities, and risks

Sara Alonso (ESM) gave an overview of outsourcing trends in operational activities. She expects further growth in outsourcing, in particular in the areas of IT and business process outsourcing, mainly driven by advanced standardization and digitalization. In order to fully exploit the benefits of outsourcing and to ensure operational resilience, related developments need to be followed by an adequate regulatory framework, encompassing both service providers and their clients. With reference to the ESM, Sara indicated selective reliance on outsourcing, with a high concentration for IT services.

Major current changes in this area encompass the transition to a public cloud, adoption of a multi-vendor sourcing model and incorporation of environmental, social and governance factors into the outsourcing requirements.

Sven Bollingh (KBC) gave insights of outsourcing activities at the KBC Group. The sourcing at the KBC Group has gradually evolved, combining external outsourcing (executed and monitored based on predefined SLAs and KPIs), mainly focused on commodity alike services, such as IT, and intra-group shared service centres sourcing other operational activities, e.g. compliance, payment and securities processing. In order to mitigate potential losses of internal knowledge, signalled as one of the main challenges, the KBC Group implemented obligatory training on elementary operational activities for all new joiners by theoretical training at the outsourcing entity and rotating as 'distant member' of the service centre for some time, before their allocation to specific teams.

6. Tour de table questions

In a tour de table, partially complementing the results of a survey, ECB OMG members shared their experience with preparations for ISO20022 migration, CSDR implementation, operational risk management post COVID-19, and sourcing trends.

- **Preparation to the ISO20022 migration:** most members consider their preparations to be on track. Main issues encountered in this respect include: (i) cross-dependence with Eurosystem market infrastructure projects, (ii) stability of the TARGET2 testing platform, (iii) delays on SWIFT side, (iv) insufficient knowledge sharing, (v) technical issues and (vi) complexity of external requirements.
- **CSDR implementation:** Limited on-going operational changes have been applied to further reduce settlement failures and no strong impact of CSDR on settlement efficiency is visible yet. Increased partial settlement may reduce settlement risks. Main issues with the implementation of Settlement Discipline Regime include (i) insufficient understanding of the CSDR regime by customers, (ii) timeliness and technical problems on CSDR reporting, (iii) differences in CSDs approaches and used reference data and (iv) adaptation to the new SWIFT message type (ISO20022).
- **Post COVID-19 operational risk management:** Allowed home office/teleworking, also for financial operations, is currently at the level of 40-50 percent, which is also considered by most of the ECB OMG members as an optimal split for the future from an operational risk management perspective. High reliance on teleworking or hybrid arrangements led to strengthening of operational controls and new performance monitoring and escalation procedures. Main issues indicated by the ECB OMG members include (i) maintaining team cohesion, (ii) developing comprehensive training programs and team learning, (iii) ensuring adequate technical performance levels with high system security and accessibility needs, (iv) developing new recruitment policies and (v) ensuring balanced on- and off-site presence of staff.

- **Sourcing trends:** While outsourcing remains an important measure to increase efficiency and lower costs, there is a growing tendency to develop hybrid sourcing strategies that combine the strengths of outsourcing and (captive) shared-services models. It requires knowledge transfers and increasing digital and IT knowledge in business areas and strict KPIs.

7. AOB

The next meeting will be organised as a hybrid-meeting in Frankfurt on 22 September 2022.