

## **A H E M Wellink: The role of the Nederlandsche Bank**

Address by Dr A H E M Wellink, President of the Nederlandsche Bank, on the occasion of the Russia-Netherlands Economic Forum at The Hague on 29 October 2001.

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### **Introduction**

It is with great pleasure that I've accepted the invitation to deliver a brief address this morning, not least, of course, because this Forum has been organised in co-operation with our colleagues of the Bank of Russia. At the request of the organising committee, I shall dwell briefly on the main tasks of the central bank of our country, the Nederlandsche Bank, as well as on the relations with the European Central Bank.

Some of you probably also attended the previous conference, held in Amsterdam in May 2000, which had 'Transition to the Market Economy: Actual Problems in Financial and Banking Sectors' for a theme. One of the items highlighted on that occasion was financial stability. Who could have suspected at the time that a mere eighteen months later, on the eleventh of September, an act of unprecedented brutality would put the international financial system under threat?

### **11 September: also an attack on financial stability**

On Tuesday the eleventh of September, it was soon brought home that the system of (international) payments was running the risk of becoming seriously unsettled. It was not at all certain either at that point whether the financial markets would continue to function properly. Fortunately, despite some minor hitches, payment systems could be kept operational. Even so, the American financial markets did not open again until the seventeenth of September. Since that day, the FED, the ECB and several other central banks have cut their interest rates. All in all, the monetary authorities have managed to ward off the acute threat to the financial system by a wide range of monetary measures. Their actions were swift and well co-ordinated. Presently, the authorities are seeking to cut off terrorist groups from their financing sources by tracking and freezing their bank balances. It may be clear that this is a comprehensive operation for the international banking system. In our country, the scope of the supervisory legislation will be extended to include trust offices and special financial institutions. The existing legislation, such as that governing the disclosure of unusual transactions, will be adjusted as well. These measures all serve to safeguard the integrity of the financial system.

I firmly believe that the currency markets would have grown quite restless if it hadn't been for the euro or the ECB. And the policy measures taken by the European central banks in response would have been far more difficult to implement than without the ECB as contact for consultations and co-ordination. This is a tangible example of the benefits brought by a single European currency and single central bank.

### **Distribution of tasks between the Nederlandsche Bank and the ECB**

I already mentioned it briefly a moment ago: payment systems, financial markets, interest rate cuts and bank balances. These are all terms that refer to the Nederlandsche Bank's three key tasks: contributing to and implementing the monetary policy, exercising prudential supervision and promoting the smooth operation of payment systems. By ensuring an adequate performance of these tasks, the Nederlandsche Bank controls the stability of the Dutch financial system. Financial stability in turn is difficult to achieve without properly functioning central banks. If we had a blazon, which we don't, it would probably read "Guardian of financial stability". The fact that stability is among our chief objectives manifests itself in the following highly coherent areas of activities, which I will briefly explain:

- contributing to and implementing the European monetary policy
- promoting the smooth operation of the payments system
- exercising supervision on banks, collective investment schemes and foreign exchange offices.

As you know, on 1 January 1999, the responsibility for the monetary policy of the member states participating in the Economic and Monetary Union, or EMU, was transferred to the Eurosystem. The Eurosystem comprises the ECB and the central banks of the euro area. So, instead of an unshared, national responsibility, monetary policy has become a shared, supranational task. The objective has not changed, though: maintaining price stability. The most important decision-making body within the Eurosystem is the Governing Council of the ECB. It is made up of the Executive Board of the ECB and the twelve central bank governors of the participating countries. The members of this council operate in a private capacity, and are there to promote European interests. National motives may not come into play in the Council's decision-making process, which proceeds from the "one man, one vote" principle. To prepare for the meetings, the governors can however draw on their own organisations' expertise, which, after all, is extensive. Together with the contribution of the ECB organisation, this makes for a multifaceted approach to issues.

The decentralised set-up of EMU was chosen deliberately and is laid down in the EU Treaty. It implies that the implementation of the monetary policy is practically fully delegated to the national central banks. Consequently, instead of to the ECB, the commercial banks in the Netherlands must turn to the Nederlandsche Bank for liquidity, and hold the statutory cash reserves on an account with the Nederlandsche Bank. Besides the implementation of monetary policy, the national banks are also entrusted with the management of the ECB reserves. So, we do not just manage our own gold and foreign exchange reserve assets, but also a part of the gold holdings in Frankfurt. Another example of the decentralised approach: should the Eurosystem decide to intervene in the foreign exchange markets, the dealing rooms of the national banks will also assist in the practical execution of the measures involved.

The second key task consists in promoting the smooth operation of payments. This task is assigned to us under the Bank Act and in our capacity as participant in the ESCB. For the settlement of transactions to be efficient, it is essential to have a payments system that is reliable. Everybody should be able to rest assured that the banknotes and coins they receive are genuine. This, of course, applies to guilders and euro alike. The Nederlandsche Bank orders the banknotes from Johan Enschedé in Haarlem, manages the supplies, sees to the distribution, checks whether incoming banknotes are soiled or false etc. The responsibility for the minting and issuing of the coins rests with the Minister of Finance. The coins are minted by the Koninklijke Nederlandse Munt at Utrecht, but, just as the banknotes, distributed by the Nederlandsche Bank.

The Nederlandsche Bank not only deals with cash payments, but also with non-cash, or funds, transfers. Funds transfers must be settled smoothly and at a reasonable fee. Under my chairmanship, a working committee composed of senior officers who are currently conducting a survey of the fees involved by payments and of the payments infrastructure. On the basis of the final report, which will probably appear in February 2002, the Nederlandsche Bank will make recommendations towards enhancing the efficiency and the competitive and innovative power of the Dutch payments system. The Nederlandsche Bank will also contribute to the efficiency of payments by ensuring that the payments systems and securities transaction systems are secure and reliable. This task is called "oversight".

And, last but not least, we come to supervision. As the supervisory task is purely a responsibility of the national authorities, the introduction of EMU has hardly had consequences for this task. However, the financial world and, consequently, supervision are really in a state of flux. Think, for example, of the ongoing process of concentration and internationalisation. Also the dividing lines between the various kinds of institution are fading as financial conglomerates are formed. The products and services offered by these conglomerates are growing increasingly complex. In view of the attendant risks and uncertainties, today's consumers must be better and more extensively informed than they used to be in the past.

The developments I just sketched call for a new supervisory approach in the Netherlands. Recently, the three supervisory authorities, the Securities Board of the Netherlands, the Pensions and Insurance Supervisory Authority of the Netherlands and the Nederlandsche Bank, submitted a proposal to the Minister of Finance regarding an adjustment of the current supervisory practice to the changed circumstances. To be precise, they proposed that supervision should be split up into behavioural supervision and prudential supervision. In the situation as envisaged, the Securities Board of the Netherlands was to deal with behavioural supervision, including customer protection, while prudential supervision would be the domain of the Nederlandsche Bank and the Pensions and Insurance Supervisory Authority of the Netherlands. In addition, the Nederlandsche Bank would continue to be

responsible for the supervision of the system, meaning that it would continue to promote the stability of the financial system.

### **Why national supervisors?**

The question regularly arises whether we should not be working towards a single European prudential supervisor.

One important argument in favour of national supervision is that national supervisors maintain close relations with individual institutions and financial markets in their countries. They are better placed to interpret information and identify and deal with problems swiftly and effectively than a single supranational supervisor would be. This helps the decision-making process. Of course, the ongoing internationalisation of the financial sector does have implications for supervision. That is why supervisors are continuously consulting on an international level about harmonisation of the rules and a level playing field. Besides, the Nederlandsche Bank has exchanged so-called memoranda of understanding with supervisors in a number of countries.

### **Synergy benefits**

The three key tasks of the Nederlandsche Bank, which I just discussed, do not stand alone, but interact. In each of the areas of activities, the Nederlandsche Bank has a key role. I'm aware that this isn't the case in all countries. In my view, however, the "Dutch" model has evident advantages, especially given the high degree of concentration of our banking system. In our country, banking supervision, monetary policy and payments are literally accommodated under one roof. I consider this essential, because of the common ground between the three areas and the synergy benefits for the information supply.

The benefits brought by the combination of the said task areas are manifest not only in good times, but also in bad times. In the event of a crisis, adequate and rapid action based on the latest information is imperative. The way in which the key tasks are organised at the Nederlandsche Bank enhances the quality of the decision-making process. This was once more made clear by the tragic event in the United States.

### **A final word**

Central banks play a pivotal role in bringing about financial stability. There can be no stability without confidence. Confidence in the value and authenticity of money; confidence, also, in the solvency and integrity of the financial institutions to which we entrust our money; confidence in the adequate operation of the financial infrastructure; and, confidence in the independence and expertise of the monetary and supervisory authorities. Confidence is not gained overnight, but takes time to grow because, to be trusted, the guardian of stability requires a track record. The Bank of Russia is a young central bank. It was founded in 1990 and, just like the ECB, is still in the middle of building up such a track record. I am convinced that the mutual contacts and exchange of ideas during this Forum will contribute to this process.