

Mr Hartmann outlines the Bundesbank's preparation for the Year 2000

Address by Mr Wendelin Hartmann, a member of the Directorate of the Deutsche Bundesbank and Chairman of the Committee on Payment and Settlement Systems, at a press conference in Frankfurt/Main on 18 June 1999.

Ladies and gentlemen,

Last weekend, a global Year 2000 test of the major international payment and settlement systems took place. On the initiative of the New York Clearing House (NYCH) nearly 500 internationally operating credit institutions from 20 countries participated in the test, for which they had 34 systems in America, Europe, Asia and Australia at their disposal (more detailed information is contained in the Internet excerpts from NYCH which you have before you).

The Year 2000 readiness of payment systems is of paramount importance to the financial sector. Every day, these global financial routes handle payments amounting to more than US\$ 1,500 billion for foreign exchange dealings alone. Disruptions to these systems impede the orderly flow of financial capital and may spread to all areas of the economy — both nationally and internationally — in the form of chain reactions. An orderly monetary policy and supply of money to the economy may thus be crucially impaired. For the central banks, it is therefore a major concern that payment systems are able to operate properly in the Year 2000.

For the organisation of this worldwide test, the Bundesbank assumed a coordinating role for the German banking industry with the New York Clearing House. It initially provided for an exchange of information with the credit institutions taking part in the test. Nationally, the Bundesbank, as the system operator, made both of its major large-value payment systems for the German and European market “Electronic Access Frankfurt” (EAF) and “Electronic Counter” (ELS) available for the test. For an EU-wide settlement, we also incorporated the national TARGET component into the test. The test took place under Year 2000 conditions. The simulation was of the exchange of payments for the first two business days following the changeover to the Year 2000, i.e. January 3 and 4, 2000.

Thirty-six credit institutions from all areas of the German banking industry, the private, public and cooperative sectors, used this opportunity to demonstrate their Year 2000 readiness in a test under realistic conditions. The institutions:

- submitted payments to the Electronic Counter, settled payments through Electronic Access in Frankfurt,
- executed payments via TARGET to Belgium, France, Italy and the United Kingdom and received payments from those countries,
- instructed their correspondents in Australia, Belgium, Brazil, Canada, France, Italy, Japan, Singapore, the United Kingdom and the United States to execute payments in those countries,
- received payment instructions from those countries and
- booked the incoming payments in their own accounts, or passed on the amounts as domestic follow-up payments via EAF and ELS to the beneficiary credit institutions.

The credit institutions participating in the test are to be regarded as the main players in payments in Germany. They cover around 70% of the market (in EAF, as much as 90%) in national large-value payments, and a good 80% of the market in cross-border payments.

The Bundesbank's payment systems worked without a hitch and the credit institutions participating in the test in Germany reported that their tests had been conducted successfully.

We are therefore able to say with a clear conscience that payments in Germany are ready for the Year 2000.

At a teleconference involving the European system operators and the New York Clearing House, it was likewise reported that the tests had been conducted successfully. The initiator of the test, the New York Clearing House, expressly pointed out that:

- this test was a one-off event, and
- is also non-repeatable because of its scale.

Despite all the satisfaction about the fact that the tests went extremely well, it must still be noted that this worldwide test was a unique and very demanding feat which demanded considerable organisational and technical input; this was also true of the German banking industry. This can be illustrated by a single and, on the whole, rather marginal figure: on each of the test days approximately 100 persons were on duty at the Bundesbank alone.

In saying that, however, the Global Street Test was only one milestone — albeit a very important and highly visible one — in our entire Year 2000 project. In the German banking industry alone, the test was preceded by extensive internal testing on the part of all participants, by interbank interface and processing tests, and by a preliminary national test from May 31 to June 2, 1999. These confirmed the functional viability and robustness of the Bundesbank's systems and their Year 2000-compliant connection to customer systems. As far as German large-value payments are concerned, the Global Street Test concludes an intensive and successful sequence of testing and does no more than document the fact that preparations were running smoothly and on schedule in "*Finanzplatz Germany*", or Germany as a financial centre.

Above and beyond the procedures in large-value payments, the Year 2000 problem naturally impinges on all the other business areas in which the central banks are involved. I would therefore like to use this opportunity to give you a brief overview of our Year 2000 Project.

The Bundesbank is giving top priority this year to the Year 2000 problem and took steps at an early stage to ensure the Year 2000 compliance of its in-house procedures and systems. For example, for some years now we have been paying attention to Year 2000 compliance not only in the design of new procedures but also when modifying and updating existing ones. The introduction of the euro on January 1, 1999 gave us a special advantage. This meant that a large number of systems and applications were completely redesigned and put into operation by that date, with due consideration naturally being given to Year 2000 requirements. This gave us extra time to come to grips with the much broader Year 2000 problem.

In 1997, the Bundesbank established a working group for the Year 2000 problem. This working group initially drew up an inventory of all the affected systems and procedures. Any required adjustment measures were initiated. We contacted the suppliers and manufacturers and awarded the necessary conversion contracts.

Current activities are geared to the deadline of July 1, 1999, which was set by the Bundesbank's management for completing the Year 2000 readiness of all the affected systems. An earlier date would not have been possible on account of the priority of carrying out conversion work for Stage Three of European Monetary Union. Preparations are running on schedule.

Preparation work in the European System of Central Banks is also running full steam ahead. A committee of senior representatives of the 15 national central banks and the European Central Bank, who are experts in computer technology, is coordinating the steps which are needed to make systems and applications throughout the ESCB — especially those used for refinancing and payments in the EMU — ready for the Year 2000. At present, the systems and applications between the national central banks and the ECB are undergoing intensive testing in order to make certain that the processing of data is Year 2000 compliant.

Despite all the efforts which are being undertaken at our level, it should not be forgotten that the ability of the entire banking industry to function depends on an adequate supply of basic amenities such as electricity, gas, water and telecommunications services. Hence, our preparations must not be confined to testing our own systems and applications. Precautionary and supporting measures have to be conceived and developed to prevent potential disruptions during the millennium date change.

The Governing Council of the European Central Bank already decided early this year that the TARGET system will be closed on December 31, 1999. This measure will enhance the security of the changeover to the Year 2000 since, as a result, all end-of-day and end-of-year work can be performed for all systems on that date and the backing-up of data can be concluded before midnight. The closing of the TARGET system means that the Bundesbank's counters will likewise be closed on December 31, 1999.

Even with the most careful preparation of the systems for the millennium date change, isolated problems cannot be ruled out. For that reason, particularly great importance will be attached to the subject of "contingency planning" in the time that remains. At present, the details of the Bundesbank's contingency plans are being finalised, with priority being assigned to the central bank's core procedures. What is important, if it comes to it, is that the basic operations in the individual business areas of the central bank are safeguarded by appropriate measures.

The question — one that is raised very frequently in this connection — about an adequate supply of currency was taken up and investigated by the Bundesbank at an early stage. This produced the conclusion that the German reserve holdings, relative to the currency in circulation, are completely adequate — also by international standards. No bottlenecks are to be expected, even in the event of a much higher, unforeseen demand for currency. Any refinancing facilities that are required will be available on an adequate scale in the form of the standing facility (formerly: lombard loan). The pledged collateral needed for this purpose is entirely sufficient.

Furthermore, intensive work is being undertaken on national and international communication networks in order to guarantee the necessary exchange of information between the market players and the central banks as well as the supervisory authorities during the first few days of the Year 2000. On this point, too, the European central banks can draw on a wealth of experience in connection with the changeover to the euro, since a network of this kind was already employed successfully at the turn of last year.

The information channels that have already been set up will be used for the changeover from 1999 to 2000. Owing to its position, the Bundesbank has already been involved for some considerable time in a wide variety of discussion forums dealing with the Year 2000 problem. Nationally, it maintains close contact with the German banking industry through the Year 2000 Forum of the Central Credit Committee. It is also represented in the expert group at the Federal Ministry of Economics and Technology.

In addition, the Bundesbank is cooperating closely with the Federal Banking Supervisory Authority on Y2K issues. In May 1998, for example, a questionnaire on the progress of conversion work was sent to a total of 3,851 institutions, computer centres and selected stockbrokers and subsequently analysed by the Federal Banking Supervisory Office in cooperation with the Bundesbank. Above and beyond that, the banking supervisory authorities maintain a permanent dialogue with the major internationally operating institutions. Because of their key position in payments, the Land Central Banks and the computer centres of the savings bank sector as well as the central institutions and computer centres of the cooperative banking sector are included in these discussions.

Internationally, the Bundesbank cooperates in the committees set up at the Bank for International Settlements. I would like to highlight the Bundesbank's participation in the Joint Year 2000 Council. With the backing of the Basel Committee on Banking Supervision, the Committee on Payment and

Settlement Systems (CPSS), and the area of securities and insurance, represented by the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), the aim of this body is to improve the exchange of information on Y2K issues worldwide. Various publications have dealt with key topics, most recently the necessity of maintaining contingency plans. An active dialogue with the supervisory authorities takes place at the conferences initiated by the Joint Year 2000 Council. Preparations are under way for a further round table under the aegis of the Bank for International Settlements at the beginning of July. This discussion, to which 200 guests from around the world are expected, will focus on the subject of contingency planning.

In summary, it can be said that, in the time which remains, the Bundesbank, being aware of its special position and duties, will take all the measures that are needed to ensure that its systems undergo a smooth transition from 1999 to 2000. In its national and international cooperation, the Bundesbank is making a major contribution to promoting preparatory work in the public and private sectors.

The Federal Banking Supervisory Office has announced just recently that the present stage of Year 2000 readiness achieved by the German credit institutions meets the expectations of the banking supervisory authorities and that, according to the information currently available, there is no reason to fear that the transition from 1999 to 2000 will cause any major disruptions in institutions' operations.

The Bundesbank sees this press conference as an appropriate opportunity to present the relevant information on its own Year 2000 preparations and the status of work in "*Finanzplatz Germany*". Furthermore, the Bundesbank uses its regularly updated website (<http://www.bundesbank.de>; "Year 2000" button) to report on the progress of the work being undertaken.