Simon Potter: New York Fed - strengthening relations with African central banks

Remarks by Mr Simon M Potter, Executive Vice President of the Markets Group of the Federal Reserve Bank of New York, to the Assembly of Governors of the Association of African Central Banks, South African Reserve Bank, Pretoria, 16 August 2017.

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Mr. Chairman, Mr. Vice-Chairman, and honorable governors and heads of delegation, I appreciate this opportunity for me and my colleagues from the Federal Reserve Bank of New York to speak before the Assembly of Governors of the Association of African Central Banks (AACB). Since its establishment in 1963, the AACB has played a vital role in fostering cooperation among central banks in Africa, and between central banks inside and outside of Africa. Through my participation in the Symposium yesterday, I got a sense of the challenges and purpose that drives your agenda in this diverse and dynamic region. The AACB is an important forum for exchanging views within the region and with international partners on these shared challenges and opportunities.

My colleagues and I have joined your meetings to seek enhanced dialogue with each of your institutions to strengthen our relationships and channels of communication. We view this engagement as an initial step in our long-term commitment to strengthen our ties with African central banks, and we are pleased to have already met bilaterally with many of you.

Several factors underpin why strengthening relations with African central banks is a high priority for the New York Fed at this time, as demonstrated by the range and seniority of our delegation.

First, in the increasingly interconnected global economy and financial markets, the need to better appreciate dynamics in cross border flows of capital and goods has never been greater in order to better understand developments in one's own economy. This is true in the U.S. as it is in all of your countries. As Africa has become an increasingly important contributor to global output, with some of the fastest growing economies in the world over the past two decades, a better shared grasp of the dynamics in both our economies is very much in all of our interests. Additionally, with the U.S. dollar serving as the world's primary reserve currency, we at the Fed have a very natural and symbiotic relationship with many central banks around the world including those in Africa. This is the broader context behind our efforts to enhance our cooperation with African central banks, building on existing people-to-people exchanges exemplified by the long-standing participation of African central bankers in the New York Fed's annual central bank seminar and specialized training courses, and other Federal Reserve cooperative training arrangements with African central banks on bank supervision topics. Participation in this gathering will hopefully only strengthen and deepen these relationships.

Second, the Federal Reserve and African central banks maintain direct operational ties through the U.S. dollar correspondent and custody accounts that many central banks in this room hold at the New York Fed. African countries represent approximately one-quarter of the total number of the Federal Reserve's foreign official accountholders, the second largest regional representation, with some very long-standing account relationships.

Let me speak for a moment about the role of our services to the global central banking community.

The Federal Reserve's provision of U.S. dollar account services to the global official community stems from our recognition that central banks around the world have a mutual need for correspondent banking and custody services to execute on core central banking functions in which the safety, confidentiality, and reliability of service provision is essential. Given the global role of the U.S. dollar as a reserve currency, we recognize the special role that our account infrastructure plays in supporting policy implementation by central banks around the world. As such, we devote significant attention and resources to maintaining a robust operational and risk management culture. This allows us to continue to provide these services for the benefit of the global central banking community.

This brings me to the third reason why enhancing relationships with African central banks is a high priority for us, and that is the need for stronger dialogue on the evolving risk environment in cross-border payments. Undoubtedly, there has been a significant shift in global perceptions of the seriousness of cyber threats across the board, be they in the realm of politics, business, finance, or the media. For financial institutions, while cyber threats at one point may have been regarded as a relatively minor cost of doing business, it is not an exaggeration to say that they are now viewed as potential existential threats, not just to individual firms but also to the broader financial system and critical infrastructures that support it. As central banks with broad mandates for financial stability, this is certainly a concern for us all.

For the Federal Reserve, a cyber breach at one of our central bank customers last year led to authenticated yet fraudulent SWIFT messages being sent to us to wire out substantial sums of money. While neither SWIFT nor Federal Reserve systems were breached, this incident was a strong reminder that the robustness of our customers' internal control environment is a matter that concerns the entire central bank community.

We recognize the challenges and complexities in strengthening prevention, detection, and incident response regimes around processing of fraudulent payment instructions. SWIFT users span the full range of IT sophistication and capacity, and remediating deficiencies in prevention and detection may require a substantial re-orientation of priorities and resources for some institutions. Overcoming these obstacles will be no easy task, but so long as there is a weak link in the cybersecurity chain cybercriminals will seek to exploit it.

Reflecting the complex, systemic, and cross-national nature of the threats, recent global initiatives have been undertaken at multiple levels. At the international level, SWIFT has taken the lead through its Customer Security Program (CSP). At the core of the CSP is promoting increased transparency concerning the adherence of SWIFT users to best practices on internal controls, with a related attestation required by the end of this year. At the global standard-setting level, the BIS Committee on Payments and Market Infrastructures (CPMI) initiated last year a Task Force on Wholesale Payments Security. The Task Force was established to look into the security of wholesale payments that involve banks, financial market infrastructures and other financial institutions. This effort builds on previous work by the CPMI on cyber security and operational risk and is working to make sure there are adequate checks and balances in place at each stage of the payments process.

While these international efforts are important and necessary, they are in themselves inadequate unless there is buy-in at the institutional level for strengthening internal risk frameworks, controls, and cultures. For some, this may require investing in expanded technical capabilities. But for all, this is represented by "going back to basics" by continuously reinforcing strong risk management policies and practices in your work environments. Cyber incidents often originate from an initial breakdown at the human level, be it inserting an unauthorized USB drive, leaving a token inserted overnight, clicking on an improper link, or falling prey to social engineering.

As we all move forward to strengthen the global financial system, we stand ready to cooperate with African central banks, a critical component of which is building strong relationships of trust and understanding. Our participation in these meetings are an important part of furthering our partnership and we look forward to a more comprehensive and sustained engagement going forward.