

Mr. Hartmann's welcoming remarks at the Year 2000 meeting in Frankfurt

Welcoming remarks by Wendelin Hartmann, a member of the Directorate of the Deutsche Bundesbank and Chairman of the G-10 Committee on Payment and Settlement Systems (CPSS), at the Year 2000 meeting of the European central banks and financial regulators organised by the Joint Year 2000 Council and the Deutsche Bundesbank in Frankfurt/Main on 30/10/98.

Ladies and gentlemen, On the occasion of a regional conference of the Joint Year 2000 Council, I warmly welcome you here to Frankfurt. As chairman of the CPSS and a member of the Joint Year 2000 Council it is an honour and a pleasure for me to act as host to this distinguished audience. Thank you all for coming to Frankfurt from Europe, Israel and The United States. I wish you a pleasant stay on the Main, and I hope our meeting gives us the opportunity not only to gain new insights but also to produce some useful results that may help us to meet the enormous challenges that still lie before us.

Joint Year 2000 Council

In April 1998, the Basle Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors and the International Organization of Securities Commissions announced the formation of the Joint Year 2000 Council. The sponsors' decision was motivated by their recognition of the severity of the challenges posed by the century-date change and of the potentially grave implications for the financial markets associated with a lack of readiness.

The Joint Year 2000 Council views its main task as being that of ensuring a high level of attention to the Year 2000 challenge within the global financial supervisors' community. At a number of regional meetings - of which this Frankfurt conference is one - financial market regulators and supervisors from both within and outside Europe have an opportunity to share strategies and experiences, to discuss possible contingency measures and establish contacts with national and international private sector initiatives. The first regional event took place in Sydney for the Asia-Pacific region in mid-October. The present Frankfurt meeting gathers regulators and supervisors from all over Europe. Further conferences are to be held in Miami for The Americas, in Riyadh for the Middle East, and in Pretoria for the African continent.

The programme of our conference today includes three panel discussions. The first one, on "the challenges to the private and public sector relating to Y2K problem", addresses Year 2000 issues in a more general manner, whereas the second on "remediation and testing", and the third, on "contingency planning" treat specific aspects related to Y2K. In a final summary panel we will try to find an answer to the question: "Where do we go from here?" (Good question, indeed.)

A press conference will take place after the first panel at 10.30 am. Our Joint Year 2000 Council chairman, Mr Roger W. Ferguson Jr, Member of the Board of Directors, Fed Washington, and I are going to present the Year 2000 problem and its implications for the global financial markets via all media to a - hopefully - broad public.

Around 12:30 you will be invited to lunch here at the hotel. Mr Edgar Meister, Member of the Board of the Deutsche Bundesbank and chairman of the Banking Supervision Committee of the European Central Bank, is going to give a luncheon address.

Scope and impact of the Year 2000 problem

Although generally well known, it has to be repeated: the cause of the Year 2000 computer problem is ridiculously simple. In the days when computer memory was scarce, programmers got into the frugal habit of using only two digits to write a date, so that 1998 was represented as 98. But, as 99 is a higher number than 00, millions of computers simply cannot place the year 2000. Instead, they may read the first year of the new millennium as the first year of the century, or as a date that does not exist. Even if they pass that test, they still may fail to notice that 2000, unlike most centennial years, is a leap year. Thus, at the century-date change - or even before - a large number of computer systems, software programs and embedded chip devices currently used will produce errors or will malfunction - unless the date or program logic is modified. With regard to embedded processors, any operation that functions using data-sensitive technology may be affected, be it medical pacemakers, heating systems, electricity or transportation.

For financial market participants, the Year 2000 problem is especially acute. Since financial institutions rely heavily on automation to manage information, it will be difficult or even impossible to conduct business if automated applications fail to work properly. Given the number and complexity of the date-dependent computer programs in use, the remediation effort will often have to be colossal.

The interdependence of the world's markets and economies makes the Year 2000 risk a true global problem and perhaps the biggest challenge ever faced by the world's financial industry. Difficulties are bound to arise in every region across the globe, and could have adverse (if temporary) economic effects. Unless resolute steps are taken to resolve the Year 2000 issues in all parts of the world, serious consequences are inevitable.

The Bundesbank's preparation for Y2K

Although you may get a different impression from recent media reports, in Germany preparation for the century-date change is in full swing and not at all behind the progress in other Western European countries. Let me describe briefly the activities in the financial sector, seen from a central banker's perspective.

The Bundesbank - like other EU central banks - is confronted with the Y2K problem in many respects. Internal preparatory work for the Year 2000 change started in good time. The Bank's management set July 1, 1999 as the deadline for making all affected systems and technical devices year-2000-proof. By that date, all computer-infrastructure facilities (systems and networks) and data-processing application procedures will be available in tested year 2000-proof versions. An earlier date is not possible, because conversion work for Stage Three of European monetary union is to be completed as a priority. In this context, by the way, a lot of preparatory work, mainly in applications for accounting and payment systems, will automatically be included with respect to Y2K.

With regard to the context of national payment and settlement systems, however, the Bundesbank acts as a key service provider but also as a central co-ordinator for cashless payments. The Bank's clearing facilities offer all credit institutions involved in payments a competitively neutral payment service for settling large-value and retail payments. Naturally, we have a strong interest in the smooth functioning of our IT- infrastructure. So I am happy to tell you that the Bundesbank has created a test environment for its public and private clients that is already in use. In the area of large-value payments as in the other procedures of electronic

access, the Bundesbank is offering interface tests for verifying year-2000-compatibility in interbank settlements. The electronic access test-centers are also available for the tests. Customers and software manufacturers can make direct arrangements with the relevant test center for the tests to be conducted. In the field of retail payments, the Bundesbank, as the primary “interface”, provides its customers with the year-2000-compatible processing of payment data. It will also ensure that its data-processing procedures are robust enough, should individual customer systems fail to operate in a year-2000-compatible manner.

As you all know, the Bundesbank is responsible for monetary policy in Germany till the end of this year, but will also continue to form part of the banking supervision authority after the start of Stage Three of European monetary union. In his luncheon address, my colleague Mr Edgar Meister, who is in charge of the Bundesbank’s Banking Supervision Department, and chairman of the ECB-Committee on this subject, is going to outline the Bank’s actions in that field in detail.

Co-ordination with other institutions’ activities

The Bundesbank is not only a part of the financial sector, but also a fiscal agent for the government. At the administrative level, the Bank is working closely with other official institutions to ensure the year-2000-compatibility of public authorities. The activities of the public financial sector are managed by the Ministry of Finance. In June 1998, a “Year 2000 Forum” was called into being by the German banking and insurance supervisory authorities, the Bundesbank and private banking associations as a platform for regulators and official and private credit institutions to exchange their views and experiences.

The government activities relating to the Y2K challenge as a whole are being co-ordinated by the Ministry of Economics. In this position, the ministry is also overseeing the preparatory activities of the industrial sector in Germany. Special attention is being given to the readiness of core infrastructure providers because of their major significance for economic activity in general. In particular, given the financial sector’s heavy dependence on telecommunications, water, energy and transportation, any failure to meet the Year 2000 challenge in any of these sectors could lead to serious disruptions at the national and international levels. In addition to that, it would probably adversely affect all contingency plans of the entire economy. As you know, our latest Joint Year 2000 Council Bulletin also focuses on this matter, and I hope that we will have an opportunity to attract public attention in this respect at the forthcoming press conference.

Preparations at the European level

At the European level, the Bundesbank, being a member of the ESCB, is taking part in the activities of the ECB to ensure the Year-2000-compliance of ESCB-wide systems and applications. The necessity for the ECB and the ESCB to give EMU top priority poses an additional challenge to their activities in connection with Y2K. However, all the new payment and accounting systems which will be implemented next year will be Y2K-proof, so that it should be possible to cope with the remaining challenges during 1999.

In operational terms, the newly developed large-value-payment system TARGET is going to function by joining together the 15 EU central banks’ existing real-time gross settlement (RTGS) systems, using what is known as the Interlinking System. S.W.I.F.T. is being used as the carrier for the „Interlinking System”, S.W.I.F.T. is therefore going to assume even

greater technical responsibility. That will mainly include ensuring steady and trouble-free operation - in particular, we are relying on S.W.I.F.T. having a firm grip on the Year 2000 challenge. This will be ensured by a joint task force of several central banks under the direction of the National Bank of Belgium. As S.W.I.F.T. is the main service-provider world-wide for the financial industry, a smooth transition to the next millennium is of paramount importance to us all.

Since our schedule today only allows me the time to make a few welcoming remarks, I don't want to make a short story long. I hope that we will all work successfully together at this conference, and thereby contribute to minimising the Year 2000 risk.