

Mr Stals discusses the importance of the Y2K problem and the responsibility of central banks

Opening remarks by the Governor of the South African Reserve Bank, Dr Chris Stals, at the Regional Year 2000 Meeting of Financial Regulators from Africa organised by the Joint Year 2000 Council and the South African Reserve Bank in Pretoria on 21/1/99.

1. Introduction

Fairly early in the second millennium, some time in the course of the eleventh century, the renowned Persian philosopher and poet Omar Khayyám, also known as the tentmaker of Naishapur, wrote the following verse:

“The Bird of Time has but a little way
To fly -- and Lo! the Bird is on the Wing”

(from The Rubáiyát)

Now, nine hundred years later and in the closing months of the same millennium, these words of wisdom become very appropriate once again, referring of course at this juncture to the Y2K problem of our modern electronic age. We can with all justification quote Khayyám and say:

“The Bird of Time has but a little way
To fly -- and Lo! the Bird is on the Wing”

I believe that this Conference will serve to bring this message more clearly to all parties concerned, and particularly to the financial regulators and supervisors of the Southern Africa region. Time to prepare our financial institutions and systems for this major event of the switch-over to the new millennium is indeed running out.

It is too late now to blame the designers and suppliers of electronic equipment for not having incorporated in the tools we use today four-digit date facilities. This will be tantamount to blaming Henry Ford for not having provided facilities for a CD player in his Model T Ford of about a hundred years ago.

The distance already covered by our Bird of Time took us beyond what the experts in this Y2K exercise will describe as the sensitisation, awareness, or risk identification phase. Those of us who have not gone through these preliminaries may have missed the boat already.

Looking through the programme for this Conference, there is a strong focus on the second and third phases, referred to as actions of remediation and of testing. I hope that most of our participants in this Conference find themselves, together with the Reserve Bank, already well advanced into these secondary stages of preparation for the switch-over date.

Tomorrow's meetings will proceed into a discussion of the final phases of risk assessment and contingency planning. I believe in this game the best advice for contingency planning is to provide for worst case scenarios, and eventually to enjoy the pleasure of having been wrong and unnecessarily pessimistic.

I must congratulate the organisers of this Conference for putting together a very well-structured and detailed programme. All the aspects and phases of this challenging exercise will be covered in the discussions of today and tomorrow at this Conference.

2. The importance of the Y2K problem for the global financial market

It is not necessary to elaborate on the importance of electronic data processing and communication systems for financial institutions and markets. It is, therefore, understandable why there is great concern that financial systems will be severely disrupted when the year 2000 arrives and computer systems have not been corrected to be able to process dates into the next century. Taking account of the extensive globalisation of financial markets, the exploding volume of worldwide cross-border transactions and the integrated inter-relationships of financial institutions and markets throughout the world, disruptions, if they do occur on any large scale, will not remain localised.

Just as the East Asian financial crisis of last year had a contagion effect and spread throughout the rest of the world in a matter of months, a breakdown in computer systems as a result of a Y2K-bug infection in any important financial centre will spread to other places. The only difference will be that in case of a Y2K problem, the transmission mechanism is open, uncontrollable and instantaneous. The potential for severe disruption of the global financial system is enormous and could have dire consequences.

Because of possible “knock-on” effects or “chain” reactions, it is imperative that all countries in the world take the necessary actions to remove the Year 2000 threat. These actions can best be initiated and monitored by governments and financial regulators.

There will be a temptation for countries that do comply timeously with the problem to restrict trade with, and reduce investment in, countries that are not seen to be making sufficient efforts to become compliant or are unable to satisfactorily prove compliance. In the present volatile world financial markets, the smaller economies with emerging financial markets, such as South Africa, cannot afford to add this additional burden to the perceived high risk exposures already linked to doing business with them.

3. The importance of the Y2K problem for financial regulators

The main purpose of this Conference is to assist financial regulators of the Southern Africa region to bring themselves and their constituencies, that is the financial institutions in the region, on board in this exercise of preparation for the Year 2000 electronic switch-over. The financial systems of the world are today in most countries entirely based on electronic data processing technology, and any major hitch in these systems will obviously have serious implications for financial markets, and therefore for total economic activity.

I referred to possible knock-on or chain effects in the global financial system, and the danger of global contagion from one or more infected centre. This danger of contagion is of course, equally important in the case of any domestic financial system. Because of the inter-dependence of financial institutions in any closed system, care must be taken that all the financial institutions in each country will be compliant by the end of this year. The programme that must be followed in this process of preparation provides no room for competition amongst individual institutions, but surely requires a high degree of co-operation. This provides a further reason why financial regulators have a major part to play. Problems must be overcome, not only by institutions within the financial system, but also by all the major clients of the financial institutions, such as government departments, public authorities, and major non-financial private sector corporations.

4. The responsibility of central banks in the Y2K problem

Central banks hold a pivotal position in domestic and international financial markets. They must obviously take a leading role in preparing their financial systems for this major event.

The South African Reserve Bank started at a very early stage in identifying all problem areas in its own information technology and communication systems. In terms of our programme, all electronic technology in use in the Bank must be in full compliance by 31 March 1999. Some parts of the internal system have already been tested. The crucially important Samos system for clearing and settlement transactions is to be tested and must be certified as fully compliant by all participants by mid-April 1999.

The Bank has also established a Financial System Risk Evaluation Committee which is tasked with identifying indirect exposures to the central bank and the financial system, and with developing contingency measures. The Committee is, for example, providing for additional stocks of bank notes to be available at all centres for an expected increase in demand around the dates of the switch-over, and is looking at a possible need from banking institutions for additional financial liquidity over this short transition period.

The South African Government last year also established the National Year 2000 Decision Support Centre to co-ordinate and provide advice on a national scale for the programme of preparing for the switch-over to the new millennium.

Finally, the Year 2000 problem has been on the agenda of discussions of the Committee of Governors of the countries of the Southern Africa Development Community (SADC) for the past eighteen months. All member countries will be requested to report back on the progress made in their country systems at the next meeting of this Committee in April.

5. Concluding remarks

I must thank the organisers of this Conference, and particularly the Joint Year 2000 Council, for arranging this seminar. It is timely, it is very much needed in our region, and it will hopefully contribute further to the awakening of a full awareness of the urgency of the problem. I am impressed by the list of participants, and the high quality of speakers who have made themselves available to share with us their experiences, and provide further guidance and assistance in our efforts to make sure that South Africa and the countries of the Southern Africa region will be compliant before the end of this year with the Y2K problem. Representatives from a number of the multinational financial institutions of the world, and a number of central banks and regulatory authorities from other countries and from South African institutions, will introduce, lead and guide the discussions at this Conference today and tomorrow. We thank all our speakers and facilitators for the sacrifices you are making to ensure a successful, stimulating and productive discussion at this seminar.

I welcome and thank all other participants in this Conference for accepting the invitation to be here today. We particularly welcome a number of participants from other African countries. Looking at the programme, I have no doubt that you will be amply rewarded.

In conclusion, I would like to thank my colleagues in the Reserve Bank, and also those staff members of the Bank for International Settlements in Basle, who were responsible for making all the arrangements for this Conference.

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