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**Introductory remarks by Bruno Gehrig,
Member of the Governing Board of the Swiss National Bank**

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Mastering the challenge of the millennium transition requires careful preparation and considerable resources. Malfunctions in electronic elements caused by the century date change can occur in all areas of the economy and life and cause havoc. The banking and financial sectors are particularly vulnerable, because they not only rely heavily on information technology but are also very sensitive to information.

Secure processing of transactions and the integrity of data are a crucial element of trust in the modern banking and financial world. If there are serious technical problems with transactions that financial institutions conduct with their customers, or if parts of the financial centre's infrastructure are disrupted for any length of time, this jeopardises customers' trust and might lead to reactions with disastrous consequences. In an effort to take precautions, the Swiss Bankers' Association is therefore called upon to play a key role.

Each financial organisation ought to have every interest in assuring its Year 2000 readiness. Since mid-1997, the Federal Banking Commission (FBC), for its part, has been monitoring the efforts undertaken by each individual bank and issues general guidelines on the topic. Interbank service providers for stock exchange trading (SWX), securities clearing (SECOM), and payment transactions (SIC) are also being scrutinised, however. At the moment, nothing points to any significant risk of malfunctions in the financial sector at the end of the year. The interbank test, which comprised nearly all the common IT systems, the joint ventures, and Postfinance did not uncover any deficiencies. Co-ordination among the financial market participants during this interbank test was efficient as well.

By international standards, Switzerland is addressing the Year 2000 issue with the utmost care, not only with regard to the financial centre but also including the other sectors of the economy. The international co-ordination group, Global 2000, has confirmed this fact. Furthermore, surveys conducted by this forum, which is composed of private and public institutions, show that compared with other sectors worldwide, the financial sector (banks, stock exchanges and clearing houses) is well advanced in its preparations.

The National Bank, in its efforts to cope with the Year 2000 problem, takes a three-prong approach:

- Firstly, assuring the smooth functioning of its own banking operations;
- Secondly, guaranteeing that the banking system is supplied with cash and sight deposits;
- Thirdly, carrying out co-ordination and communication efforts in Switzerland as a financial centre

We have reviewed our IT systems and tested the communication channels with our business partners. Of course, we also participated in the interbank test mentioned previously. In accordance with the results available, as far as our own operations are concerned, we can count on a smooth transition into the next millennium.

Toward the end of the year, we expect increased demand for cash by the business community. This normally happens as a result of a seasonally induced peak in transaction volume. The widespread awareness with regard to the Year 2000 problem and the resultant precaution mentality might further stimulate the demand for cash. This is rather unnecessary, however, given the fact that preparations are well under way.

We will, of course, meet any additional demand for banknotes. Our 60-million-franc supply of banknotes is considerable, both in absolute terms and in relation to the situation in other countries. We could easily cover the usual additional demand for banknotes at the end of year many times over. In addition, we do not foresee any bottlenecks or technical difficulties in the distribution of cash. Banks, the post office, manufacturers of automated teller machines as well as network providers have tested the cash dispensers of banks and the post office and found them to be Year 2000 compatible.

In view of increased banknote circulation and taking into account their own liquidity requirements, the banks' requirements for sight deposits with the National Bank may well exceed seasonal demand. We can easily cover the additional need by taking appropriate liquidity measures. In so doing, we rely on our proven monetary instruments: repo transactions, foreign exchange swaps, and onward placement of time deposits of the Confederation. We focus

on repo transactions, which combine the advantages of high volume potential, broad access to the market, collateral against advances, and efficient settlement. Smaller banks or foreign institutes can refinance themselves with repos directly with the National Bank. Should there be - contrary to expectations - technical problems at the turn of the year, we can conclude repos over the phone and process them manually.

Together with the Federal Banking Commission, we ask that banks do two things in view of liquidity management at the end of the year. Firstly, they must plan their liquidity needs carefully and also take into account friction scenarios, however unlikely they may be. Secondly, based on their planning, they must make arrangements to secure liquidity consisting of three elements: maintaining liquidity, securing interbank limits, and making available bonds admitted for repo transactions. It is important to have sufficient holdings of such securities both for the procurement of liquidity on the money market and with the National Bank. Beyond that, we give banks the opportunity to temporarily increase their lombard loan limit with us.

It is imperative that we have emergency plans in place so that we are not caught off guard even in the unlikely event of malfunctions. The Federal Banking Commission and the National Bank must play a coordination and communication role. For this purpose, both public institutions are represented in the steering committee of the banks, which is in charge of emergency planning for Switzerland as a financial centre. This committee will be operational around the clock from 31 December 1999 to 5 January 2000.

Owing to this package of measures, ranging from prevention, recommendations, controls, tests and action plans, we are confident that the millennium transition will go without a hitch. There is no reason to be apprehensive as to the stability of our financial centre.