

Banca d'Italia
Centro Donato Menichella

TARGET2
Push-the-button Event in Rome

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First of all, let me thank you all for having accepted my invitation. And welcome to Banca d'Italia, to be real-time witnesses to the first operational hours of TARGET2.

Today, 19 November 2007, is a crucial date for all of us. The launch of the new pan-European settlement system marks a new era in the field of large-value euro payments. The start-up of the new system may be considered both as a successful conclusion and a starting point. It is the operational outcome of a long and challenging project which began in Frankfurt, some 5 years ago, in the *ad-hoc* High Level Group, which was charged with investigating how the first generation of TARGET should evolve in the future. Some of you present here today can be regarded as the “Parents” of the new system.

TARGET2 is the first example of a far-reaching cooperative work done in the Eurosystem that could enhance integration of financial infrastructures in the euro area. TARGET2-Securities and CCBM2 are other concrete examples of such a fruitful cooperation. I am sure that this is only the first of many such projects in the future.

Let me take stock of the experience we have gained with the development and implementation of TARGET2. Briefly, I wish to recall (i) the role the Eurosystem is playing in the payment system arena; (ii) the benefits that the new system will bring to the EU banking and financial community; and, (iii) the big challenge that such a project has represented for EU central banks. Finally, I would like to share views with you on the lessons we can draw from this experience.

(i) Central banks have always been involved in payment systems, and especially in large-value transfer infrastructures. The reasons for this are found in the very purposes of central banks: namely, the conduct of monetary policy, the prevention of systemic risk and the promotion of financial stability.

Over the last twenty years, this traditional role of central banks has been challenged by the evolution of the financial system towards a more integrated and competitive environment. The process was accompanied by a major increase in large-value payment flows, both domestic and cross-border, being executed and settled in different currencies and involving a number of systems. The potential for serious systemic risk was obvious.

Central banks reacted to this challenge at the domestic level, by reforming national payment systems.

In 1999 it became clear that we all had to design, manage and control payment systems in a more appropriate pan-European perspective. European central banks built and have operated the first generation of TARGET, primarily to foster a prompt integration of national money markets, a pre-condition for the conduct of the single monetary policy.

Over time, this objective turned out to be no longer sufficient. Increasing integration in financial activity and competitive pressures were in due course pushing central banks to satisfy market demand for a common, technically resilient and equally accessible settlement system at the European level. The answer of central banks to the new, evolving market needs is the move from TARGET to TARGET2.

(ii) Now, just a few words on the **main benefits** TARGET2 is designed to bring to the banking and financial industry.

The first is the higher cost efficiency, from the implementation of a centralised system, enabling a substantial reduction in operational and maintenance costs, and making it possible to offer a more attractive fees structure.

Second, TARGET2 is a modular and flexible system, easy to adapt in the future in line with the requirements of users.

Third, TARGET2 will generate economies of scale and scope for its users, giving sizeable cost reductions. Obviously, this is particularly relevant for banking groups and multi-country banks, who can maintain a single account at the European level.

Fourth is the level playing field among users: all credit institutions and ancillary systems will be able to access the same advanced services, with a single price structure for both domestic and cross-border payments.

Fifth, TARGET2 will offer wide flexible liquidity management services in order to cope with users' demands. All functions can be managed in real time through the interactive services available through the system.

Finally, the system will provide high levels of business continuity. The "two regions-four sites" approach, in fact, will make it possible to cope

with either intra- and inter-regional disaster scenarios that threaten to paralyze the whole European marketplace.

(iii) Launching the new generation of TARGET has been **a major challenge for all EU central banks**. And for many reasons, not least was the need to reach consensus of all central banks and to engage in continuous dialogue with the market. The answer was the definition of a governance structure based on the well-known three levels. Such a structure will be more complex for T2S, since other private entities (CSDs and banks) are involved. The process will likely be more burdensome. On the other hand, joint work and close co-operation with the market is the best way to build a truly integrated financial community in Europe.

TARGET2 is the first example of a common project with technical centralisation by a pool of central banks, while still keeping business relationships with national communities decentralised.

TARGET2 is a unique achievement. The centralisation of operational procedures has been achieved by exploiting the expertise, skills and technological resources available in the central banks of the Eurosystem. For the first time, three central banks joined forces, combining and sharing work methodology, IT and operational procedures for a common, pan-European objective. An *ad-hoc* organizational structure with a high level of flexibility was set up, to guarantee efficiency and effectiveness in the development phase and to manage the cooperation between the common vision and the tasks under the responsibility of each of the three providing central banks.

Yet another new, and successful, factor was a deep integration of the human resources involved. For the first time, the staff of different central banks were required to work together and asked to move, even for long periods of time, to another central bank in a mutual exchange of working skills and expertise. Close operational cooperation had to be established among staff, and especially between administration and IT sectors.

We all know quite well that the relationships with other central banks were not always so easy to manage, but at the end the decision-making process proved satisfactory, thanks to intensive dialogue between us. A valuable contribution to the success of the initiative was also provided by our ECB colleagues.

Finally, in relationships with national banking communities, the consultation process proved very fruitful, though it was not always an easy task to take into account the different needs of national stakeholders.

The TARGET2 project has been a huge challenge also in terms of staff training and recruitment. Substantial resources were dedicated for English and technical courses to train the staff of the Operational Team, and new training methods explored, both within each of the 3CBs and at joint 3CB level. A wide training programme has been arranged to strengthen managerial skills and international communication. Also, an innovative initiative has successfully taken place: the so-called “*exchange programme*”. This envisaged a temporary exchange of staff between the Operational Teams. At Banca d’Italia, in search for the human resources needed to complete the staffing of the Italian Operational Team, *ad-hoc* vacancies have been launched to find elements to work for the OT and to be trained accordingly.

From a purely organisational perspective, Eurosystem central banks have been confronted with problems never encountered before, due to the unique nature of TARGET2. First of all, given the strategic importance of the functionalities offered by the system for the whole European marketplace, longer operating times were scheduled (which might even become a 24 hour-day in the future). Hence, it was necessary to redefine the system’s business day as well as staff shifts and staff availability.

At Banca d’Italia, the Payment System Department has been reorganised to ensure the necessary separation between L2 and L3 operational responsibilities. Accordingly, it was decided to set up a new unit for TARGET2, that serves exclusively the Eurosystem and not national interests. Furthermore, in order to manage the complexity of the project and the far-reaching repercussions for many Departments of the Bank with different fields of responsibility an *ad-hoc* Coordination Committee was set up. Its mandate is to monitor the development of the various phases of the project and get consensus inside the Bank.

What is the **lesson to be drawn** from such an experience?

In my opinion it is related to central banks’ role in the euro area and the concrete ways of pursuing it.

We need to take a step forward in the way the Eurosystem works: efficiency gains have to be sought. If we ask banks and financial markets to be efficient, we cannot lag behind. Whenever central banks have expertise and technical know-how, I think they have a duty to share them to build up *joint technical platforms* to offer to the financial community.

The evolution underway can lead to a kind of specialisation among central banks: it will not be a case of “everybody doing everything”, but of individual central banks specializing in different services (e.g., management of payment systems and direct supply of payment services, oversight, monetary policy operations, etc.) In the field of payment and settlement services the development of TARGET2, and the future implementation of T2S and CCBM2 are the most topical and concrete examples of this. I believe that there is an efficiency case for sharing common expertise if and whenever overall costs can be reduced and benefits for final users maximized.

And in doing so, the Eurosystem does not interfere with the dynamics of market competition. Indeed, I believe that by building and offering to the market common and technologically advanced settlement infrastructures, we foster competition and market integration in the euro area.

This asks of us not only to build technical platforms and infrastructures, but also to design common rules and standards for the euro area, and always with an eye on prevention and management of crisis situations.