



**BANCA D'ITALIA**  
EUROSISTEMA



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# INTERNATIONAL TECHNICAL COOPERATION NEWSLETTER



This newsletter is a twice-yearly publication intended to inform readers regularly about international technical cooperation at Banca d'Italia, especially seminars and workshops.

Further details on <https://www.bancaditalia.it/compiti/ricerca-economica/cooperazione-tecnica-internazionale/index.html?com.dotmarketing.htmlpage.language=1>

## Breaking News

On 9 July a consortium of central banks led by Banca d'Italia was officially awarded the Twinning Project AL 15 IPA FI 01 19 "Enhancing Bank of Albania's alignment with EU Acquis". In the project, funded by the European Commission, the Deutsche Bundesbank will be the junior partner; the National Bank of Romania and the Banque de France will also contribute by providing experts. The Twinning Project starting date, with the arrival of the Twinning Resident Advisor in Tirana, is planned for the autumn. More information will be available in the next edition of the Newsletter.

## 2019 (1<sup>st</sup> Semester)

## Highlights

In the first half of 2019 Banca d'Italia organized 32 international technical cooperation activities: a workshop, a seminar, a training event, 2 steering committees meetings, 14 study visit, 2 video conferences, 9 written consultations, and 2 missions. Some 159 representatives of 36 central banks and other organizations participated in the activities organized in Rome. A high-level workshop on the non-bank finance and financial intermediation in the Euro-Mediterranean countries was organized in Naples. More detailed information on the activities is available inside.

## Seminars & Workshops

### Workshop on 'Euro banknote production at Banca d'Italia—outstanding features'

(Rome, 18-19 February 2019)

*Participants: 24*

Nowadays, central banks are asked to produce highly sophisticated banknotes while keeping costs relatively low to meet the challenges of the development and growing diffusion of innovative means of payment and the competition with private manufacturers. The banknote industry in the euro area is part of this global trend; a milestone was the establishment of the Euro-system Production and Procurement System (EPPS),<sup>1</sup> where in-house printing works are called to increase efficiency also by working together. From this point of view, the recent re-organization of the Banca d'Italia's Banknotes Directorate offers an interesting case study.

[\[Read more on page 8\]](#)

### Seminar on 'Audit activities in a central bank'

(Rome, 1-3 April 2019)

*Participants: 26*

In the fast-paced, ever-changing world of

central banks, elements such as the financial crisis, government pressure and public scrutiny have shown that features like clear strategies, accountability and transparency are crucial to what is becoming the most valuable asset for our institutions: trust.

Ensuing intangible risks, like the reputational one, are grabbing the limelight as something that could undermine public confidence in central banks' ability to carry out their role.

In this new scenario, internal auditing is strongly committed to turning challenges into opportunities and acting as a primary player in protecting the values and reputation of the central bank as well as supporting the achievement of its goals.

To this end, constant improvement of the Internal Audit function is key to playing a strategic and advisory role that is able to provide significant business and risk insights in a future-focused perspective.

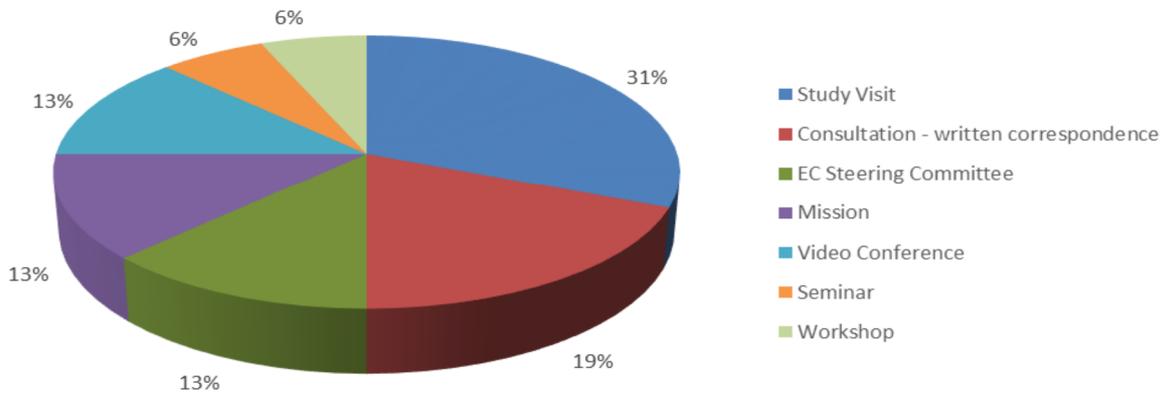
[\[Read more on page 9\]](#)

<sup>1</sup> Guideline ECB/2014/44



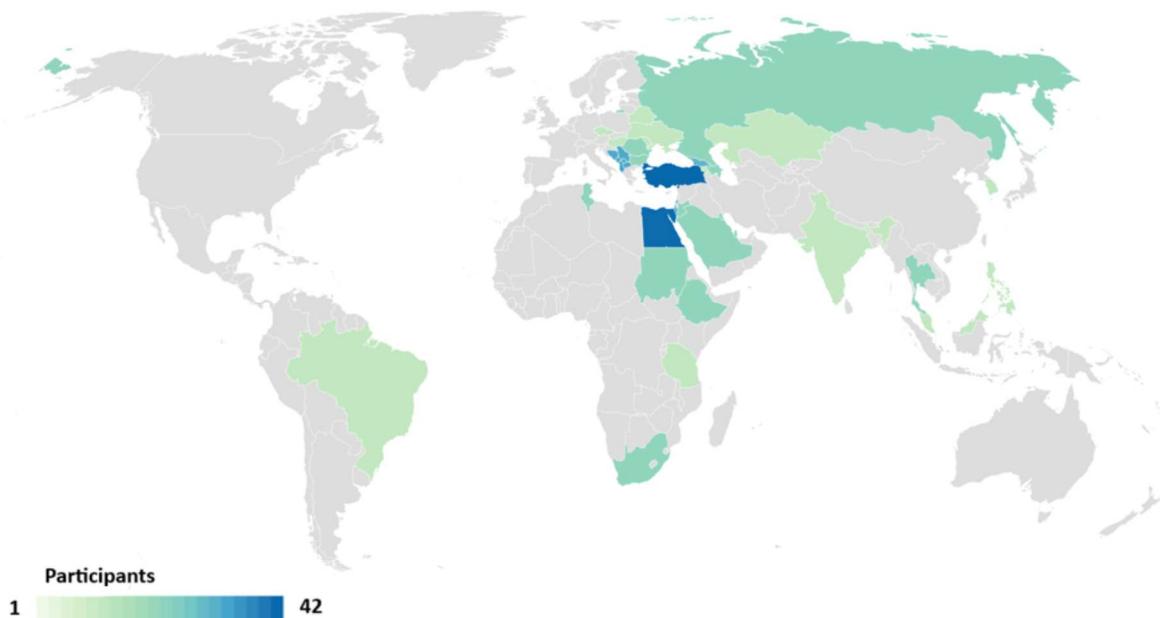
## 2019 (1<sup>st</sup> half) – Snippets of Information ...

*Breakdown of activities*



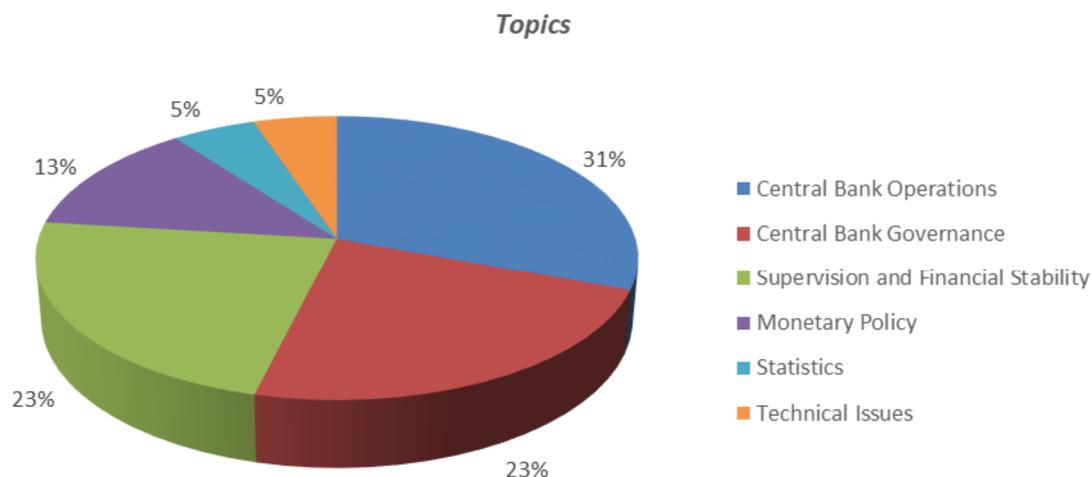
The first semester of 2019 was marked by a large number of study visits (12), eight of them regarding the Central Bank of Turkey. Two steering committee meetings and one training event in Rome (included among the study visits in the chart) were held within the framework of the EU-funded programme for strengthening the central bank capacities in the Western Balkans with a view to the integration to the European System of Central Banks.

*Participants*

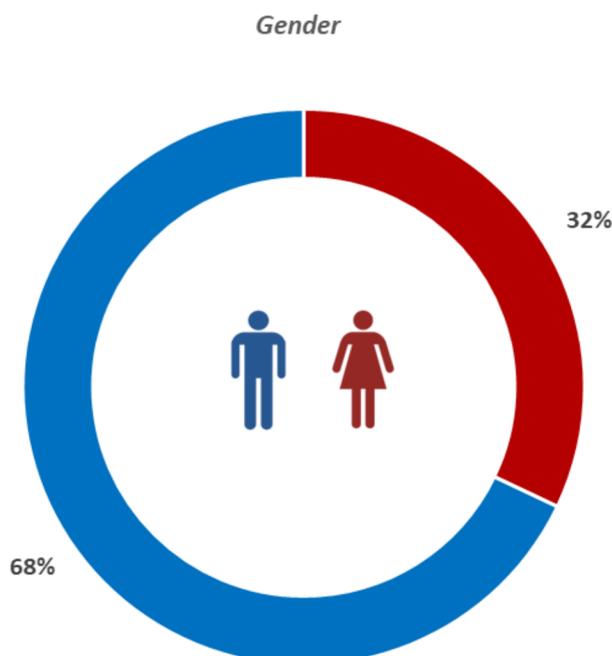


Most of the participants came from Turkey and Egypt; Bosnia and Herzegovina, Albania and Kosovo also accounted for a significant number.

## ... 2019 (1<sup>st</sup> half) – Snippets of Information



The most frequent topics discussed concerned the area of Central Bank Operations (in particular banknotes management and payment systems), followed by Supervision and Financial Stability as well as Central Bank Governance. Monetary policy issues also accounted for a significant share of the activities.



Accentuating the recent trend, male participants were twice as numerous as their female counterparts.

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## Forthcoming Seminars & Workshops

### Seminar on 'Central banks' communication' (Rome, 9-11 September 2019)

Central banks' communication has become a strategic function that helps NCBs to achieve their institutional goals and to be more accountable and transparent. In more dynamic environments, central banks need to communicate their many objectives, strategies, and decisions effectively to a large and diverse set of stakeholders. Innovations in IT and social media offer opportunities and challenges for external and internal commu-

nication. However, crafting effective communication is not easy, especially when the issues are complex or contentious. Alignment with stakeholders is important to foster support for the common good and to build a strong reputation to be better prepared in times of crisis. This seminar provides a forum for communication experts working in central banks and regulatory authorities to exchange views, share experiences, and deepen their understanding of related topics, with a specific focus on: the development of a communication strategy and the variables to be taken into account; the relationship with the media and stakeholders, building up a network; digital communication; internal communication, tools and goals; the monitoring and use of social media, "what and when" for a central bank; crisis communication; Eurosystem communications and the recent experience of Banca d'Italia.



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### Seminar on 'Portfolio management in a central bank' (Rome, 2-4 October 2019)

The seminar is designed to broaden the investment knowledge of central bankers and share the experience of Banca d'Italia as a reserve manager. The focus of the seminar is on portfolio management from a broad-based asset allocation perspective, including

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## Forthcoming Seminars & Workshops

the more technical aspects of the investment activity run within the Bank. The current framework adopted for the management of investment assets is presented in connection with the evolution of financial markets and monetary policy decisions over recent years. The programme also covers topics such as risk management, market infrastructure, and investment services offered to third parties. In terms of currencies, the emphasis is on developments in US dollar and euro asset markets, particularly those in which reserve managers are most active. Beyond the technical information covered, the seminar's collegial environment should offer extensive opportunities for networking.

### **Workshop on 'Customer protection in the banking sector - the role of Bank of Italy' (Rome, 4-5 November 2019)**

After a general overview of the Italian customer protection regulation and the role of the competent authorities, the workshop focuses on the role of Banca d'Italia: the organization of the Directorate General for Financial Supervision and Regulation and the emphasis on customer protection; mission, duties and responsibilities on customer protection (transparency and correctness controls, financial education, administrative support to the alternative dispute resolution – ADR – mechanism, complaints handling); key activities and the development of the control function (approach and

tools).

Special sessions are dedicated to the contribution of on-site inspections, the role of thematic inspections, enforcement tools, financial education, and the ADR mechanism.

### **Workshop on 'Reconciling financial intermediaries' reporting burden and regulators' information needs: PUMA2 — the Italian cooperative approach' (Rome, 9-10 December 2019)**

The workshop illustrates Italy's approach to data collection from monetary and financial intermediaries. Banca d'Italia adopts an integrated approach to reporting requirements, which consists in articulating the various information needs expressed by the different institutional functions within a single conceptual framework, to avoid requesting the same information twice. The approach of Banca d'Italia also consists in complementing the integrated reporting framework with the cooperative and voluntary "PUMA2" initiative involving the reporting agents: PUMA2 is a permanent table of experts that designs and maintains the methodology for conceptually bridging the content of the reporting framework with the reporting agents' internal databases. This makes it possible to improve the quality of data produced by the respondents while simultaneously lightening their reporting burden. The methodology and IT tools used for these tasks are also presented and discussed.



## General Information

Participation in the seminars and workshops is by invitation. Requests from institutions other than the regular beneficiaries are considered on a case-by-case basis.

We usually accept only one representative from each institution.

Seminars usually last 3 days; workshops last 2 days at the most.

Our seminars and workshops are as interactive as possible. Occasionally, selected participants are invited to deliver short presentations in order to stimulate discussion and debate.

The working language is English. Participation is free of charge.

In some cases hotel accommodation is provided by Banca d'Italia.

Travel expenses to and from Rome are not reimbursed.

Lunches are provided for the duration of the seminar/workshop. A courtesy dinner is also offered.

## Contacts

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*Banca d'Italia's conference centre 'Carlo Azeglio Ciampi'*

## Seminars & Workshops (...continued)

**(Workshop on 'Euro banknote production at Banca d'Italia—outstanding features', *continued from page 2*)**

Against this backdrop, the workshop held on 18-19 February 2019 was aimed at outlining the banknote production activities at Banca d'Italia, with a focus on its Research & Development strategy and Design & Origination facilities.

An introductory session provided an overview of the banknote industry within the Eurosystem context, along its three main components: the decentralized scenario with pooling, the EPPS two-pillar model, and the role of the European Central Bank and National Central Banks.

Next, the description of Banknotes Directorate's resources and activities (organizational set-up; machinery and equipment; workforce) as well as the illustration of the main manufacturing steps (printing stages, cutting and finishing) were integrated with an overview of the recent restructuring of the plant, aimed at enhancing efficiency through organizational streamlining and workforce reduction.

This set the tone for the following day's visit to the plant, which proved to be of primary interest for the participants, who asked several questions on the production steps; in turn, the participants themselves were invited to describe the channels through which their countries procure banknotes, whether by in-house printing works or by tendering.

Afterwards, the explanation of the various requirements set by the ECB for banknote production – security, quality, environment, health and safety – provided the opportunity to underline the growing importance of stakeholders' needs, even in a relatively protected sector. Noticeably, waste management aroused particular interest among the audience.

The strive for efficiency has a major ally in technological innovation: a presentation displayed the application of some of the latest technological developments to the manufacturing processes at Banca d'Italia, in particular on-line sheet tracing and computer vision. Following this, the valuable contribution of the Russian representative on how her country uses counterfeit analysis to assess the performance of security features paved

the way for the second part of the day, which dealt more specifically with R&D aspects.

In this regard, it is worth recalling that, in recognition of its many years of experience and expertise, in 2012 the ECB appointed Banca d'Italia as the Main R&D Test Print Centre for the euro area, and extended the assignment to the period 2016-20. Moreover, Banca d'Italia has been playing a pivotal role in the ES2 project for the development of the second series of euro banknotes. Besides its contribution to the general R&D function within the Eurosystem, Banca d'Italia carries out additional research on its own: in this respect it is strengthening cooperation with leading universities, research centers and private companies.



An interesting case study showed the introduction of high-denomination euro notes, starting from the comparison between the two series of notes up to the strategic implications of discontinuing the production of the €500 note.

The final session of the workshop was dedicated to communication topics. Firstly, the participants were informed about the largest-ever public initiative organized by Banca d'Italia, i.e. the interactive exhibition "The Bill of Ideas" held in the main Italian cities to make citizens aware of the technology incorporated in the euro banknotes. Secondly, the delegate of the Bank of Israel described the campaign run by her central bank to inform the public at large on the issuance of the New Israeli Shekel series.

*The views expressed during the seminars and workshops do not necessarily reflect the position of Banca d'Italia*

**(Seminar on 'Audit activities in a central bank' , continued from page 2)**

The seminar was specifically designed to delve into the internal audit activity at Banca d'Italia, outlining its organizational set-up, the methodologies applied and the way Banca d'Italia has taken on the role of independent trusted advisor so far. The seminar started with a session intended to present Banca d'Italia's audit function and its organizational context and to share the main pillars and values regarding internal auditing. Key concepts such as continuous training and improvement, effective communication skills, inclusiveness, alignment with the Governing Board's strategies and goals and coordination with other functions at Banca d'Italia have emerged along with the awareness that their sound combination is crucial to face any challenge successfully and to bring increasing value to the bank. With these important objectives in mind, during the second part of the day Banca d'Italia's IT auditors explained that they are sparing no efforts in the very significant challenge of cybersecurity auditing, providing assurance in the ever changing world of IT systems and helping to build a cyber-resilient culture.

The various points of view offered by participants coming from many different backgrounds contributed to a lively debate and everyone ultimately agreed on common values and priorities. The discussion was also enriched by the comparison with the experience of the central banks of Israel, the Czech Republic and Sudan.

The second day took the participants on a journey through the different off-site activities that are part of internal auditing at Banca d'Italia. The intention was to take a closer look at some audit activities performed regularly and the tools to measure their quality (methodologies, main processes and key performance indicators) but also to prepare the ground for presenting and discussing the possible developments in the role of internal auditors.

Over the years, internal auditors have been building a sound reputation as the main assurance provider regarding the internal control and risk management systems within the central banks, not to mention their important role in spreading risk awareness in the organization along with fostering cooperation among the various assurance providers. At this point in time, having built sound

processes and methodologies and having been recognized as a point of reference within central banks, internal auditors can add more value to the bank by providing value-for-money services as independent trusted advisors. This topic is very popular within the audit community and business corporations but there are still many open questions. The speakers drew the participants' attention to some hot topics like the bases of trust, and the key traits and attributes of a trusted advisor, and presented the steps undertaken so far to build and improve the role of internal audit as a trusted advisor in Banca d'Italia.

Currently, the reputation of internal auditors at Banca d'Italia is built on professional experience, invaluable lessons learnt, professional skills and essential attributes like credibility, reliability, the ability to forge strong relationships, and independence. Those are common essential traits



for both auditors and "advisors". However, there are some attributes commonly associated with advisors like empathy and customer orientation, that could sometimes be in conflict with the independence of internal auditors. In order not to jeopardize auditors' traditional independence, the speakers shared some extremely useful and successful safeguards that can be put in place at any

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stage of the audit cycle.

Mindful of the countless benefits for a central bank and its audit function, speakers and participants agreed that, given the appropriate safeguards and the chance to carry out training on relationship management and readiness of the organizational culture, internal audit can definitely act as a trusted advisor.

The last day of the seminar was dedicated to a familiar topic for the audit community: the three lines of defence model, which is based on the

definition of specific roles and clear responsibilities within a three-layered system. After presenting the implementation of the model in Banca d'Italia, this model was compared with the participants' situation through an instant survey. The results showed that the model is implemented in every bank participating in the seminar and that in most cases the relation between the lines is strong and successful. As an example of fruitful and valuable cooperation between second and third line, the Banca d'Italia's Organization Directorate shared practical examples of synergy between the audit function and the operational risk management.

To conclude, it is no secret that the full implementation of the three lines of defense model is extremely beneficial for the whole institution.

These benefits rely on the assumption that the smooth functioning of the organization is based on cooperation among the lines and that they are all equally important.



## The EU-funded programme for strengthening central bank capacities in the Western Balkans with a view to the integration into the European System of Central Banks <sup>2</sup>

In March 2019 the European Union launched a programme in favour of six Western Balkans countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia) to enhance their institutional capacity.

In this framework, Banca d'Italia took part in the first steering committee meeting held in Vienna on 26 March.

Banca d'Italia hosted in Rome the first training event on banking supervision (10-12 April) and the second steering committee meeting (4 June), which featured the participation of 28 representatives from donor and recipient institutions and one representative from the European Commission.

## Euromed workshop on 'Non-bank finance and financial intermediation' (Naples, 18-19 June 2019)

Along with the traditional technical cooperation activities, Banca d'Italia orga-

nized, jointly with the World Bank and the Banque de France, the 2019 edition of the Euromed workshop on "Non-bank finance and financial intermediation".

The event was aimed at facilitating high-level policy dialogue among Euro-Mediterranean coun-

<sup>2</sup> For more detailed information see the [Newsletter Special edition](#) issued in May.

tries with differing economic structures and financial systems, concentrating also on different types of non-bank finance intermediaries (NBFIs).

The workshop took place in the Banca d'Italia's Naples branch on 18-19 June. Thirty-three high-level participants attended the event. Representatives from central banks and financial authorities of the Eurozone, Southeastern Europe, Middle East and North Africa,<sup>3</sup> together with members from international and regional economic organizations,<sup>4</sup> discussed the main opportunities and risks of non-bank finance from both national and systemic perspectives.

Important policy issues were examined, such as the role of NBFIs in fostering economic growth through increased access to finance for small and

medium-sized enterprises and their role as a source of innovation.

The workshop also addressed the regulatory and supervisory framework for non-bank finance and macroprudential supervisory tools for the NBF sector.

Attention was also devoted to partnerships and to new technology as a way to expand the outreach of NBFIs, while considering the opportunities and risks inherent in FinTech services and the appropriate supervisory responses. Participants took stock of the recent announcement of new digital currency platforms by social media companies.

<sup>3</sup> Albania, Croatia, Cyprus, Egypt, France, Greece, Italy, Jordan, Lebanon, Morocco, Palestine, Portugal, Spain, Tunisia.

<sup>4</sup> European Central Bank, European Investment Bank, Financial Stability Board, International Monetary Fund, World Bank.



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