

Discussion of

A quantitative assessment of international best practices in relation to business continuity arrangements in payment systems

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Presentation Outline

- BoF-PSS2 a tool for central bank's oversight
- Simulation
- Results of simulation
- Challenges

BoF-PSS2 a tool for central bank's oversight

- **Oversight - contribution of central banks to the stability of financial system**
 - The primary objective of Denmark's Nationalbank's oversight is to ensure the efficiency and stability of the Danish payment and settlement systems so that they do not pose a threat to financial stability
- **The role of central banks as overseers of systemically important payment and settlement systems**
 - In view of the very large daily traffic in Kronos, it is important to financial stability in Denmark that system disruptions be kept at a very low level → to avoid the unforeseen credit and liquidity exposures as a result of prolonged recipients' claims on remitters, in the event of interruptions in the settlement of payments

BoF-PSS2 a tool for central bank's oversight

- **Vulnerability of payment and settlement systems requires special contingency measures**
 - Events that could threaten payment and settlement systems (IT systems & telecommunication failures, electrical failures, natural disasters, terrorism etc.)
 - Major operational disruption to payment and settlement systems may have systemic consequences or wide-ranging consequences to society
- **BoF- PSS2 – tool for central bank's oversight**
 - The overseers may replicate a payment system by modeling special events and/or participant behaviour → to test the systemic risk implications of those changes, or to prepare a worst case scenario for testing systems risk management or liquidity impact etc., or to analyse action taken in a crisis situation

Simulation

- Basic objectives of the project is to make oversight decision with regard to:
 - What means a major disruption in Kronos ?
 - What means a critical participant?
 - How does contingency measures (manual settlement of payments and stop sending rules) influence on what should be viewed as major disruptions and critical participants?

Simulation

- Simulations of operational disruption on system level or participant level
 - 22 days' transactions in Kronos (including interbank-transactions and pay-ins/pay-outs vis-à-vis CLS system)
 - scenarios on system level:
 - With/ without contingency measures
 - 3 different scenarios Kronos not operating :
 - S1-one whole day;
 - S2 -2 hours during the day;
 - S3 – end of the day
 - scenarios on participant level:
 - Similar to scenarios on system level
 - Try to identify critical participants
 - Including stop-sending rules in contingency measures

Simulation

- The assessment of incident's impact/ business continuity with BoF-PSS2

Focus on:

- Unexpected credit and liquidity exposures caused by incident
The level of exposures that the financial system can cope with

Results of simulation

- Extremely useful in the oversight of Kronos in relation to management of operational risks and business continuity
 - The role of continuity arrangements and stop sending in , rotectin_ the s_ stem

Challenges

- To extend the analyzed period (more than one month) – in order to get more reliable results as foundation for oversight decisions
- Alternative measures for a severe impact (indirect effect may be underestimated)
- Changes in participants behaviour

Thank You