

# Oversight, FMI Principles and Business Continuity Management



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# Agenda

- What is Oversight?
- Standards and methodology
- Practical example
- Overlay services and access to bank accounts
- Framework for Business Continuity Planning
- CPSS FMI Principles

# DNB – Oversight: Mission

Oversight aims to contribute to and maintain financial stability by

- Reducing systemic risks
- Promote adequate payment settlements in the Netherlands



Criterion for DNB Oversight: relevance for The Netherlands (both domestically and located abroad)

# DNB – Oversight - Objects

- Payment systems
  - wholesale
  - retail
- Payment instruments
- Securities clearing and settlement
- Risk-based approach, no scientific approach (so far)
- Accountability (and explain)
  - Annual Oversight Report,
  - <http://www.dnb.nl/Oversight>

# DNB – Oversight - Staffing

Domains:

- Management/Secretariat: 2
- Payment Systems & Products: 4
- Securities Clearing & Settlement: 4
- Business Continuity & Crisis management: 2

# DNB – Oversight - Staffing

- **Multidisciplinary in education** (lawyers, (it)auditors, financial risk experts, economists, policy makers)
- **Experience in Securities and/or payments**
- **Mixture of junior and senior staff, spread in work experience**

If not ideal:

- **Hire expertise and experience (within DNB or outside, e.g. by means of cooperating with other authorities)**

# Payments

- Payments oversight:
  - Large-value payment systems (wholesale)
  - Retail payment systems
  - Payment schemes (products/instruments)



# Oversight on Equens

- European Market Share: 10-15%
- 10 crossborder links with other Retail Payment Systems
- Regular meetings with operator: every 6 weeks
- Quarterly meetings with CEO Equens and Head Oversight

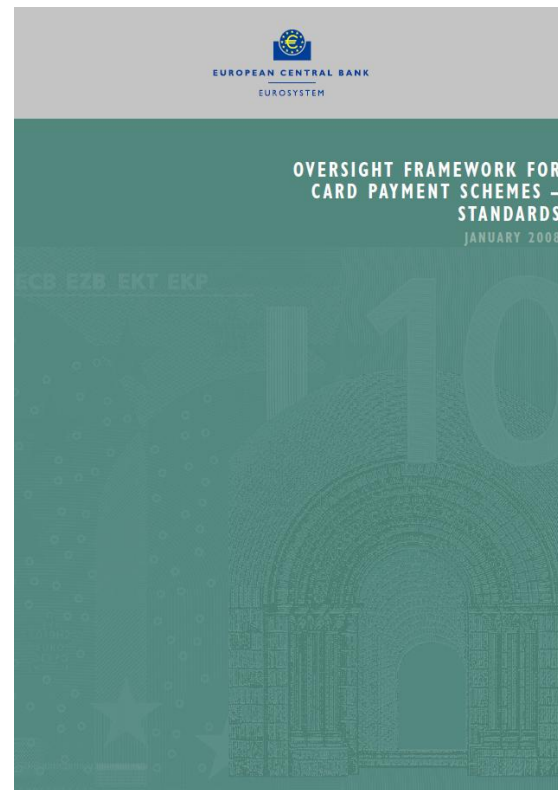


# Payment schemes

- Eurosystem Oversight Policy Framework
- Harmonized oversight approach and oversight standards for payment instruments
  - Card payment schemes (CPS)
  - Credit transfer schemes (CTS)
  - Direct debit schemes (DDS)
  - E-money schemes (EMS)

# Oversight (on payment schemes)

- Oversight framework:  
Standards
- Oversight methodology:  
Key issues
- Oversight guide:  
Key checkpoints



# Oversight standards (for payment schemes)

- Standard 1: The scheme should have a sound **legal basis** under all relevant jurisdictions
- Standard 2: The scheme should ensure that **comprehensive information**, including appropriate information on financial risks, is available for all actors
- Standard 3: The scheme should ensure an adequate degree of **security, operational reliability and business continuity**
- Standard 4: The scheme should implement effective, accountable and transparent **governance** arrangements
- Standard 5: The scheme should manage and contain **financial risks** in relation to the clearing and settlement process

# Oversight report

- Based on all the answers to the key issues (and the sound judgement of the overseer)
- The level of compliance to each standard is determined
- Recommendations are given

# Compliance levels

- *Observed:* all key issues are fulfilled
- *Broadly observed:* some minor problems are present which do not, however, have a significant impact on the fulfilment of the key issues and, thus, the safety and/or efficiency of the system
- *Partly observed:* significant issues/risks exist with a significant impact on the fulfilment of the key issues and, thus, the safety and/or efficiency of the system, but these issues/risks will be addressed by the system owner/operator within a reasonable time frame
- *Not observed:* significant issues/risks exist with a significant impact on the fulfilment of the key issues and, thus, the safety and/or efficiency of the system and the system operator/owner has not planned to address these issues/risks within a reasonable time frame.

# CPS Assessment in practice

- Assessment of national and international CPS
- International schemes: creditcard organizations (MasterCard, Visa, ...)
  - are assessed by Eurosystem
  - ECB or NCB lead overseer
- National schemes: i.e. PIN (NL)
  - are assessed by NCBs
- Peer reviews
  - by ECB and other NCBs
- Publication by Eurosystem

# PIN Assessment

- Procedure
- Process
- Results
- Experience

# PIN Assessment Procedure

- Notification to scheme owner (Currence) in October 2008
- DNB prepared Questionnaire based on Assessment Methodology
- Kick-off meeting with scheme owner in December 2008; presenting and discussion of questionnaire
- The scheme owner answers questionnaire by February 2009
- DNB assessed answers based on Assessment Guide
- Remaining issues discussed with scheme owner in June and August
- DNB prepared draft assessment report September and October
- Draft assessment report discussed with scheme owner in November
- Assessment report finalized in December 2009, send to scheme owner and send to Eurosystem for peer review
- Summary of assessment published in DNB Annual Report 2009



# PIN Assessment Planning

	2008			2009												2010	
	Oct	Nov	Dec	Jan	Feb	Mrt	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
notification	■																
questionnaire	■	■															
kick-off			■														
scheme owner answers				■	■												
DNB assesses						■	■	■	■	■							
remaining issues							■	■	■	■	■						
draft report												■	■				
report discussed														■			
report finalized															■		
publication																	■

# PIN Assessment Process

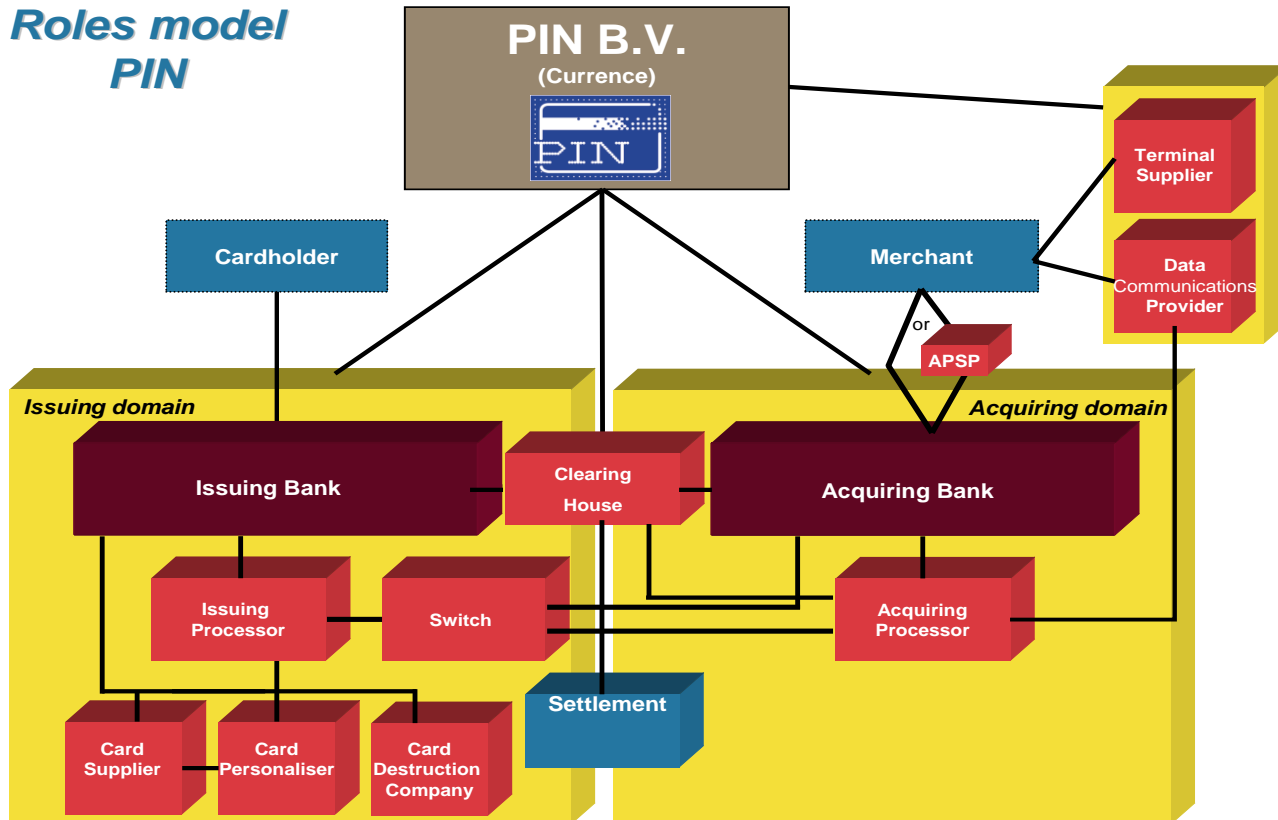
- Spreadsheet with all standards and key issues, including guide checkpoints
- Internal discussions
- Discussions with scheme owner
- Keep track of input, discussions, decisions
- Eurosystem spreadsheet with results on key issues and standards

# PIN Assessment Report

- CPS-Assessment report template:
  - A. General Information about the Assessment Process
  - B. General Information about the Card Payment Scheme
  - C. Overview of the CPS Compliance
  - D. Short overview about major findings
  - E. Detailed Assessment Report (not send to the scheme owner)
  - F. References
  - G. Appendices (incl. Eurosystem spreadsheet)

# PIN Scheme Overview

## Roles model PIN



# PIN Assessment Compliance

<b>Standard 1. The CPS should have a sound legal basis under all relevant jurisdictions.</b>	<b>Observed</b>
<b>Standard 2. The CPS should ensure that comprehensive information, including appropriate information on financial risks, is available to the actors.</b>	<b>Observed</b>
<b>Standard 3. The CPS should ensure an adequate degree of security, operational reliability and business continuity.</b>	<b>Observed</b>
<b>Standard 4. The CPS should have effective, accountable and transparent governance arrangements.</b>	<b>Observed</b>
<b>Standard 5. The CPS should manage and contain financial risks in relation to the clearing and settlement process.</b>	<b>Observed</b>

# PIN Assessment Recommendations

- Two recommendations:
  - One concerning skimming
  - One concerning the governance on part of the employed infrastructure
  
- Follow up:
  - Migration to EMV-chip
  - Appropriate part of the infrastructure will come under oversight

# PIN Assessment Experience

- Assessment framework was new
- Scheme owner was very cooperative
- Assessment took 16 months
- Spreadsheet helps to keep overview of the different key issues

# Conclusions PIN Assessment

- Oversight is simple !
  - There are clear standards and guidelines

But:

- Understand the scheme
  - Stay in touch with the scheme owner
  - Document as much as possible
  - Use your commonsense
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- The best way to learn:
    - just do it !





# Overlay services and access to bank accounts

Payment Services Directive: harmonisation

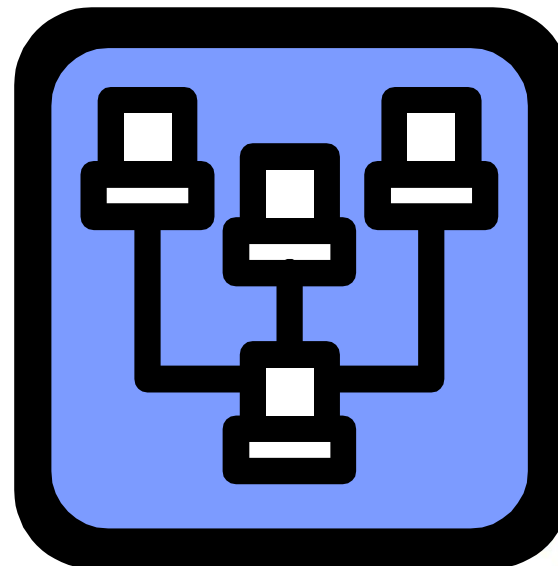
- Payment Service Providers: banks, ACHs
- Payment Institutions

SEPA Regulation

- migration to SEPA: end date(s)
- Changing the payment landscape

# New products and market parties

- Overlay Services e.g. Payment Network AG
- PayFair
- Internet shopping merchants
- ServiceCorner (NL)



# Aspects of access to payment accounts

- Commercial
- Security and risk mitigation
- Integrity
- Technical
- Liability and legal
- Fair price



# Dual consent: a new approach

- Integrated approach
- Access to a bank account by a third party is only acceptable if account holder and bank agree contractually on the conditions.

# Discussion points

- How to stimulate innovations and security in the access to payment accounts?
- Is Dual Consent a good solution for access to payment accounts?
- Are there other elements to take care on in the further analysing of the approach?

# What is Business Continuity?

- **Business Continuity Management:** a whole-of-business approach, that includes policies, standards, and procedures, to ensure (critical) operations can be maintained, or restored in a timely fashion, in the event of a disruption.
- Its **purpose** is to minimise the financial, legal, reputational and other material consequences arising from disruption

Source: BIS 2005



# BCP in an international context

- The American White Paper on Sound Practises to strengthen the Resilience of the US Financial System
- The Tripartite Standing Committee on Financial Stability
- Bank of Japan resilience plans
- Initiatives of the Eurosystem
- Joint Forum/Financial Stability Forum/BIS/CPSS' work

# DNB BCP Assessment Framework (1)

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- First version in 2004, current version of 2007;
  - Drafted in cooperation with the financial institutions
  - Commitment to use it on a high level
  - Assessment Framework consists of
    - 9 'principles'
    - Guidance note Human Factor
    - Agreement between DNB and the financial sector for joint BCP initiatives
  - In line with international principles such as BIS
  - Used by supervisor and overseer to assess the institutions
- of the financial core infrastructure against these principles





# DNB BCP Assessment Framework (2)

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1. BCP should be approved by the EB/senior management
2. Risk analyses of critical systems and activities should be made
3. Explicit attention should be paid to the human factor



# DNB BCP Assessment Framework (3)

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4. Each institution should have a crisis organisation, including senior management
5. Single points of failure (SPOFs) should be identified
6. Critical processes and systems should be resumed as quickly as possible



# DNB BCP Assessment Framework (4)

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7. A back-up site/secondary site should be available
8. Alternate systems and contingency procedures should be regularly tested and exercised
9. Each institutions should have a communication plan for all stakeholders



# Guidance Note Human factor

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- **Assessment showed that institutions have problems with principle 3, paying explicit attention to the human factor**
- **DNB developed a ‘Guidance note human factor’ to assess the human factor aspect for critical systems and business processes, depending on the level of knowledge that is required (specific in the extreme, highly specific, specific, not very specific, not specific)**
- **Matrix with level of required knowledge and human factor strategy → see [www.dnb.nl](http://www.dnb.nl) – payments - BCP**



# Required Knowledge

- Specific in the extreme.
- Highly specific.
- Specific.
- Not very specific.
- Not specific.



<i>Ways of ensuring staff continuity</i>	<i>1. double staffing at another location</i>	<i>2. planned scheduling days off</i>	<i>3. shift work</i>	<i>4. use of staff from another location where a similar situation is operational</i>	<i>5. use of staff from another location where a similar situation is not operational</i>
<i>Required level of knowledge of systems/business processes</i>					
<i>specific in the extreme (a)</i>					<i>red</i>
<i>highly specific (b)</i>					
<i>specific (c)</i>					
<i>not very specific (d)</i>		<i>green</i>			
<i>not specific (e)</i>					

# Principles for Financial Market Infrastructures (FMI)

Co-production of:

- BIS Committee on Payment and Settlement Systems
- Technical Committee of the International organization of Securities Commission (IOSCO)
- FMI Principles replaces all older separate principles for Systemically Important Payment Systems, Securities Settlement Systems and Retail Payment Systems
- Report was for public market consultation until 29 July 2011
- Final report was published on 16 April 2012

# FMI Principles

## General organisation

- Principle 1: Legal basis
- Principle 2: governance
- Principle 3: Framework for the comprehensive management of risks





# Thank You

