

Insideview

Securities Transaction Banking – A European Model

INTERVIEW WITH DR. RALF GISSEL, DEUTSCHE WERTPAPIERSERVICE BANK AG

As the historical development of transaction banks in the German market shows, bundling securities post-trade processes and volumes at bank level leads to efficiency gains. In a European context, the growing harmonization of legal and procedural conditions is opening the door to the cross-border settlement of securities transactions without barriers.

What do you see as the key drivers for change in the national and European securities services markets?

Impetus for change has emerged from various corners. As a result of the integration process in Europe, the European Commission has launched a range of initiatives aimed at harmonizing the conditions for the cross-border settlement of securities transactions, strengthening competition and cutting costs. One notable example is the intensity with which market participants are working to remove the remaining “Giovannini barriers” for efficient cross-border clearing and settlement. The Target2-Securities project initiated by the ECB and the participating national

central banks has given an additional boost to harmonization efforts and the general structural debate in the area of post-trading.

Due to the current situation in the banking sector, further cost savings – particularly among back office functions – are also helping to determine the agenda. As a result of these developments, the future-oriented, cost-cutting solutions offered by transaction banks are becoming increasingly important.

Could the transaction banking concept that is prevalent in Germany be a viable model for the rest of Europe?

In the German market, developments at user level, e.g. banks, are setting an example that could be rolled out in other markets. With the transaction banking business model, the banking sector has created an industrialized solution for the extensive automated bundling of volumes, processes and technologies. Independent, cross-association, user-led service providers are increasingly establishing themselves in this area. The example of dwpbank demonstrates that



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successful system consolidation is a means of ensuring competitive structures.

It will not be possible to transfer this proven German model to every other market in its present form. However, the basic transaction banking model has potential for Europe-wide implementation thanks to the harmonization of the relevant rules and regulations. The business benefits experienced in Germany become exponentially greater when extended to the rest of Europe. As such, European initiatives such as Target2-Securities are just the start of a dynamic development that will continue over the coming years.

Will this consolidation within Europe not serve to increase systemic risk? What will be the role of risk management at transaction banks, particularly in light of recent developments on the financial markets?

As the largest German transaction bank, bundling and managing operational risk is a key element of the value creation process for dwpbank. We are one of the six German banks to apply the Advanced Measurement Approach

(AMA) for the quantification of capital requirements for operational risk. To this end, the German Federal Financial Supervisory Authority (BaFin) has issued retrospective approval with effect from 1 July 2009. The legal basis for this process is the Basel II rules that have been implemented at European level, which are reflected in Germany in the form of the Solvency Ordinance.

By outsourcing their security services to dwpbank, banks can reduce their own risk profile by transferring the relevant risk to a specialized transaction bank, as well as bundling audit procedures.

In the crisis conditions and market volatility that have been prevalent since autumn 2008, these structures have proven to be crisis-resistant in spite of the dramatic upheaval on the financial markets and the need for rapid response times for the settlement of securities transactions.

Thank you for this interesting conversation.