

The Reserve Bank's Role in Preparations for the Year 2000

The Year 2000 problem has been a major preoccupation for financial institutions, which are heavily dependent on computer systems and electronic communications for their normal operations. The problem has arisen because some computer hardware and software are unable to deal correctly with dates beyond 31 December 1999. The Bank's preparations for the Year 2000 have embraced most areas of its operations. They involve a comprehensive program to ready its own systems and a number of initiatives to deal with system-wide issues, such as the preparedness of the Australian payments system, the availability of cash and the maintenance of public confidence in the financial system.

The Reserve Bank's technical preparations

The Bank's systems, services, processes and facilities are all Year 2000 ready.

The Bank will be able to offer normal banking services to its customers over the New Year. These include the payment of pensions and other social security payments on behalf of the Commonwealth Government, as well as the settlement of interbank obligations and the Bank's normal transactions in financial markets.

The Bank began its technical preparations for the Year 2000 in 1996. Since 1997, the Year 2000 project has been controlled by a Steering Committee which reports to the Governor and to the Reserve Bank Board. The Steering Committee, which is chaired by the Assistant Governor (Corporate Services), receives reports on progress from all business areas; Audit Department has been reviewing the project to identify risks and provide an independent check on reported progress. The Australian National Audit Office also conducted a Year 2000 performance audit, which included the Bank, with its positive Report (Report No. 22) tabled in Parliament in December 1998.

A "preservation strategy" has been implemented to ensure that any essential system changes through the remainder of 1999 do not threaten the Bank's Year 2000 compliance. The cost of the Bank's Year 2000 project is estimated at around \$5 million, the bulk of which is for existing staff redeployed from other activities.

System-wide initiatives

Because of its responsibilities for the payments system and for financial system stability, the Reserve Bank has been closely involved in the Year 2000 preparations of the financial industry; the Australian Prudential Regulation Authority (APRA) and its predecessors have been overseeing the preparations of individual financial institutions. The Bank is an active member of a number of interbank groups addressing Year 2000 issues and has been closely involved,

The Year 2000

The Australian financial system is ready for the Year 2000.

Banks and other financial institutions have been working hard over recent years to ensure that the so-called “millennium bug” will not disrupt their normal operations. They have spent more than \$1 billion and devoted a large number of staff to checking and updating their computer systems. Where problems have been found, they have been fixed. Outmoded ATMs and EFTPOS machines have been replaced; computer programs have been rewritten; and where necessary, new software has been installed.

Throughout this process, financial institutions have been exhaustively testing and re-testing their computer systems, both individually and on an industry-wide basis. Many institutions have also participated in a successful worldwide test conducted by major international banks. The industry-wide testing program, which is now complete, has been closely monitored by the financial regulators, under the auspices of the Council of Financial Regulators chaired by the Reserve Bank. With all this effort, the Australian financial system rightly enjoys a world-class reputation for its high level of Year 2000 preparedness.

In a recent public statement, the Governor has said “All financial institutions have extensive back-up systems to ensure that each night they keep multiple physical records of all account information. While some members of the public have expressed concerns for the safety of their deposits because they think records might disappear, there is no basis for this type of concern. The safest place for people to keep their savings is in the financial institution that they are already with. Withdrawal and conversion to cash would expose them to a lot of unnecessary risks.”

Banks and other financial institutions expect to provide their usual range of financial services, including the processing of payrolls and other payments, through the New Year. ATMs and EFTPOS machines are Year 2000 ready. If there were to be any disruptions to these facilities, comprehensive contingency plans will be in place to restore services quickly and efficiently. Of course, cheques and credit cards will also be able to be used over the New Year.

The Reserve Bank’s own computer systems are Year 2000 ready. In particular, those systems that the Reserve Bank uses to distribute pension and other government payments to banks, building societies and credit unions on behalf of Centrelink have been thoroughly tested. Pension payments will be made on time.

The Reserve Bank sees no need for people to withdraw more money over the New Year than they normally would for a long weekend. However, if people want to take out more cash to tide them over, the Reserve Bank has built up

ample stocks of currency notes to meet that demand. These stocks can be readily accessed by financial institutions if the need arises.

The Reserve Bank has been working closely with banks and other institutions to ensure that the financial system functions smoothly over the Year 2000 date change. Financial institutions will not have to curtail their normal activities because of concerns that there will not be adequate liquidity in the financial system.

Overall, the Reserve Bank's view is that the Australian financial system will be able to operate on a "business as usual" basis and the public should view the New Year as just another long weekend.

through its membership of the Australian Payments Clearing Association, in the testing of domestic payments clearing systems. The Bank has also been co-operating closely with other financial regulators in Australia under the auspices of the Council of Financial Regulators.

Industry-wide testing in the payments system was successfully completed, on schedule, by 30 June this year. Importantly, this included testing of the real-time gross settlement (RTGS) system for high-value interbank transactions, which is the core of the Australian payments system. In June, the Bank also participated in a successful worldwide test of international payments conducted by major international banks.

Financial institutions have undertaken comprehensive remedial action and extensive testing of their computer systems, and are now finalising contingency plans to deal with any unexpected Year 2000 problems. Contingency planning is also well under way in the payments system. The Bank is leading a review of existing contingency procedures for the RTGS system and for net settlement arrangements; it is also involved in industry contingency planning for low-value retail payments systems, including cheques, direct entry, ATMs and EFTPOS. These various efforts mean that the Australian financial system is very well prepared for the Year 2000.

To meet additional demands for the traditional means of making payments – namely, cash – the Reserve Bank is increasing its stock of currency notes ahead of the Year 2000. This is being done by printing additional notes and by retaining some used notes that would otherwise have not been reissued on quality grounds.

The Bank is also liaising with banks, building societies and credit unions, as well as armoured car companies, on arrangements for the distribution of cash. Later in the year, the Bank will distribute additional notes to financial institutions to ensure the ready availability of currency around the Year 2000. Financial institutions will be required to pay for these notes, as well as transportation and insurance costs, if and when they are used. The Bank has established a working



As part of its contingency planning in preparation for the Year 2000, the Reserve Bank has stockpiled additional supplies of cash in its vaults.

group involving financial institutions and the armoured car companies to co-ordinate these arrangements.

The Reserve Bank has also been working closely with banks and other financial institutions to ensure that they will have liquidity over the date change period. In June, the Bank announced measures it would be willing to take to provide financial institutions with greater certainty about their liquidity flows around the Year 2000. These were the extension of the term of repurchase agreement transactions out into the new calendar year, and a term deposit facility for institutions with Exchange Settlement accounts, to provide an additional avenue for them to hold liquid balances. The Bank also foreshadowed that, as the Year 2000 approached, it would operate in the market to ensure that market conditions remained consistent with the cash rate target. To the extent necessary, it would supplement its dealings in government securities with increased use of foreign exchange swaps and repurchase agreements in bank bills and certificates of deposit issued by banks operating in Australia.

With the technical preparations for Year 2000 all but complete, the priority over the remaining months of 1999 is to reassure the Australian community that their deposits are safe and that they can have full confidence in their financial institutions. The best-laid plans of institutions could be threatened if the public were to over-react to Year 2000 concerns. For this reason, the Reserve Bank has been talking to banks, building societies and credit unions about the need for clear communications with their customers and adequate training of staff to deal with customer queries. Over coming months, depositors can expect to receive reassurances from their financial institutions that their financial records will not be lost and that their deposits are not at risk from Year 2000 computer problems. The Bank is also closely monitoring public attitudes to, and media discussion of, the Year 2000 issue.

The Reserve Bank has been involved in a number of other initiatives designed to encourage public understanding of the Year 2000 problem. The Governor addressed the Year 2000 issue in a statement to the House of Representatives Standing Committee on Economics, Finance and Public Administration in June. Under the auspices of the Council of Financial Regulators, the Bank has jointly published a series of booklets on *Year 2000 Preparations in the Australian Banking and Financial System*, as a means of disclosing the Year 2000 progress of financial institutions to a wide audience. Together with APRA, the Bank has organised two industry seminars to discuss Year 2000 preparations in the financial system and other key sectors, and has taken part in Infrastructure Forums in a number of capital cities, sponsored by the year2k Industry Program of the Commonwealth Government.

Over the New Year period itself, the Reserve Bank and APRA will operate a joint communications centre. This centre will enable both institutions to be kept fully informed of developments in the payments system and more generally, and to communicate as necessary with financial institutions and other relevant parties.