

Managing volatility and risk by addressing the risks in technology

by Brigitte Daurelle, Chief Executive Officer of the ESES CSDs, Euroclear

I recently spoke around how liquidity, technology and sustainability are among the most pressing areas of risk in today's financial marketplace. Technology is certainly among the most pressing, just like liquidity.

Since the financial crisis of ten years ago, our reliance on interconnected financial infrastructure has only increased. Yet, new technology waits in the wings.

As yet, we can only speculate on its disruptive potential impact and the new vulnerabilities it may harbour. But, to my mind, technology risk can be broken down into two main areas - cyber security and fintech.

Eitherway, we must all master the risks and find new ways to collaborate with our industry peers and public institutions. We must focus on our clients evolving needs to deliver real value.

Dealing with the mounting cyber risk

The threat of cyber crime is intensifying. The World Economic Forum noting that cyber breaches recorded by businesses have almost doubled in the past five years. Some 350 million new malware variants were released. Banking 'trojans', designed to steal account log-in details, can now be purchased for as little as USD 500.

With the spread of cloud-based services, the potential risk scenario has widened in parallel. The number of targets for the cyber criminals is also growing exponentially. For example, the number of mobile devices in use is slated to rise from over 8 billion last year to more than 20 billion in 2020, again offering new ways in for cyber criminals.

Attacks on critical infrastructure are increasing, as most amply demonstrated by the WannaCry attack which affected 300,000 computers in 150 countries.

Building awareness and collaboration

Every firm needs to build in greater awareness of the very real risks posed by cyber crime. And many need to spend more – as much as three times more across Europe according to the European Cyber Security Organisation (ECISO). Cyber is often associated solely with software and machines. While important, this is not the entire picture. It is vital that the people-element is the focus-point in any awareness campaigns around increasing our digital security.



At Euroclear, we have a dedicated team to counter the cyber threat. We have company-wide resources allocated to it and we continuously review our cyber resilience programme.

Above all we recognise that cyber awareness must permeate every aspect of our daily behaviour at all levels of the organisation. As a critical market infrastructure there is no room for error. Vigilance is paramount.

To me it is clear that we are all stronger together. All of Europe – its member states, its critical infrastructures, its academia and its private sector organisations – all need to step up and collaborate on digital security.

Mastering the fintech challenge

Collaboration is also key in financial technology. Many incumbents worry that a more nimble start-up will threaten their business model. But I believe we should look at this less as a potential disruption than as an opportunity to collaborate.

In France, we see collaboration with new fintech players as a way of improving access to finance and supporting the stability of the market and the economy. This is the core tenet of the European Commission's recently published Fintech Action plan.

There are however some safety-first rules you need to follow in linking with a new entrant. You must do your due diligence. Has the start-up factored in all the risks? Has it fully satisfied the requirements of your regulator? What are the costs of failure?

Test, test and test again. No new technology at Euroclear goes live until it has been proven to be robust and compliant. Very few start-ups (or established organisations for that matter) spend as much time as us on testing, assessing risks and outlining contingency/recovery plans.

For me it's about delivering on our reputation for safety and robustness.

Our approach is distinctive – and it's paying off

Innovating for the sake of it, or playing around with fintech as a means to diversify, is pointless. At Euroclear, the thrust of our innovation is firmly on the core business – enhancing custody, information processes and collateral efficiency, for instance.

Some of the fruits of this approach are already visible – in our Global Collateral link-up with the DTC, in the expansion of our international network and in our use of data to create value-added information services.

We believe we can best exploit what fintech has to offer by focusing on the evolving needs of clients. That may be incremental rather than revolutionary. But it results in invaluable market change.



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