



INTERVIEW WITH ERIKA BALAIKIENĖ
COMPONENT LEADER FOR COMPONENT 1(A)
Head of Banking Supervision Division of Banking
and Insurance Supervision Department at the Bank of Lithuania

In 1994 Erika Balaikienė graduated from Vilnius Gediminas Technical University and has a Masters degree in Business and Economics. She started her professional experience as banking supervisor in 2002 at Credit Institutions Supervision Department of the Bank of Lithuania where she conducted off-site monitoring of banks, banking groups and credit institutions. Later she joined On-site Inspection Division where she was actively involved in arranging, organizing and participating in banks and credit unions on-site inspections. Currently Erika holds a position as a Head of Banking Supervision Division. She represents the Bank of Lithuania at the European institutions being a member at Standing Committee on Oversight and Practices (SCOP) at the European Banking Authority (EBA) and a member of Senior Management Network (SMN) at the European Central Bank (ECB) Single Supervisory Mechanism (SSM).

Increased maturity of market participants creates a more sustainable and sound banking system.

Banking supervision is constantly evolving. As banks themselves and public attitudes towards them change over time, so naturally supervisory approaches must change. I myself always follow the principle that business knows best their own strengths and weaknesses, and it is therefore the business that can and should accurately and objectively measure its risks and assess its capital and liquidity buffers. Therefore, we have given banks two powerful tools to help them assess their risks, their internal processes and the adequacy of these processes to set and calculate the buffers needed to mitigate risks. These two tools are called ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process).

We started the Twinning Project a year ago and we started with the processes I have mentioned above. These processes have been in place in the EU and Eurozone market for several years, so the experts involved in the Project had the opportunity to share good practices, successful examples and lessons learned. In discussions with NBU colleagues, we tried to find the most appropriate solution for their market, taking into account the development of the market and the economic environment in which they operate today. As a result, ICAAP and ILAAP documents have been drafted, are undergoing discussions with the market and will soon be approved and implemented.

As the practice of the EU countries shows, the implementation of these internal processes allows to significantly increase the responsibility and maturity of the banks themselves, strengthen their corporate governance, risk management and control.

However, the implementation of ICAAP and ILAAP in no way exempts us from banking supervision. On the contrary, bank supervisors need to understand and embrace the uniqueness, specificity and individuality of banks. In order to have the best possible understanding of a bank's activities and the risks it takes, to have the best possible sense of the risks that may arise or materialize in the future, we need to continuously improve and strengthen the supervisory tools and processes we have in place, of which SREP (Supervisory Review and Evaluation Process) is the one.



The second objective of the Twinning Project, on which we have started working since last autumn, is to improve the NBU's existing SREP process in order to bring it in line with practices in the European Union as well as with the EBA requirements.

Experts from Lithuania, the Netherlands and Greece working on the project are pleased to share their experience in implementing and improving SREP. Being a part of the Single Supervisory Mechanism, we are in a position to share our experiences within an international organisation.

We bring with us the practises that have already been tried and tested in the Eurozone, ones that provide for an extended assessment of a bank's situation in the process of off-site supervision. Beyond compliance with a set of regulatory benchmarks and analysis of financial and statistical indicators, the focus is also on the qualitative analysis of internal governance systems, risk management, information, and management reporting systems within a bank. When performing off-site supervision, it is always important to have knowledge and understanding of a bank's internal organisation, risk management practices, the quality of the internal decision-making processes, and the effectiveness and adequacy of their management systems. These aspects – long neglected in the past – have now become highly relevant in banking supervision. European and international experiences alike show that banking supervision is not just about numbers. Supervisor should know how the system functions and what methods are

applied. The focus is on evaluating the internal processes, strategies, and business models. These are the areas in which we intend to deepen our collaboration with the Ukrainian counterparts.

When designing a methodology, it is critical to understand which of the current practices are likely to be effective in this specific market and how to maximise the benefits, rather than simply copying a practice from a different context. Instead adjusting the standard practices to the market, novel approaches need to be implemented by taking the market realities into consideration.

When we started the Project, we never imagined that we would be locked in a pandemic for a long time and would have to work remotely. Of course, being part of a project without live communication is a bit of a challenge, but it is also an experience. We have met and made friends through technological means and we became close. Our communication and cooperation go beyond just meeting during scheduled missions - and this is very important and precious result. Together, we are a team that is consistently and persistently moving towards our goal. And we hope that the coming year will give us the opportunity to meet and talk in person, to admire the magnificent city of Kyiv, and to sit down for a cup of coffee in a cosy little café in the Old Town of Vilnius.



INTERVIEW WITH MARIIA PONOMARENKO
NBU LEADER FOR COMPONENT 1(A)

Head of the Supervisory Procedures Implementation Division
of Banking Supervision Department at the National Bank of Ukraine

“The implementation of measures defined in the Twinning project will introduce into the NBU’s supervisory practices the best European approaches to banking supervision and risk assessment of banking activities, and increase the efficiency of banking supervision.”

In 1989 Mariia Ponomarenko graduated from the National Economic Institute with a major in Finance and Credit. She worked in Ukrainian state-owned banks and in 1992 joined the NBU. Mariia Ponomarenko has considerable experience in the area of banking regulation and supervision, specifically in implementing approaches to the risk-based banking supervision under the SREP methodology (Supervisory Review and Evaluation Process).

What is the current status of the NBU’s implementation of the best international approaches to the risk-based supervision?

Improving banking regulation and supervision and introducing of the best international approaches to the risk-based supervision are the priorities of the NBU.

The NBU is making these efforts to ensure financial stability of the Ukrainian banking sector by implementing provisions of the EU-Ukraine Association Agreement and in accordance with the goals declared by the NBU in the Strategy of Ukrainian Financial Sector Development until 2025.

It is noteworthy that in recent years the NBU has significantly improved the banking laws on banking regulation and supervision. In particular, the Law of Ukraine On Banks and Banking was amended in 2020. The amendments provided the NBU with the mandate to use its professional judgment in the process of banking supervision.

Additionally, in August 2021, the NBU’s authority to establish increased values of economic ratios for a bank based on SREP

was regulated by the law. Also, new legal requirements to the capital structure, liquidity, and the bank’s assessment of internal capital adequacy and internal liquidity adequacy (ICAAP, ILAAP) were set. At the same time, the NBU has significantly improved the requirements to organizing corporate governance in banks, including the risk management system.

However, in view of the legal amendments, some regulatory requirements will come into effect in 2024 (specifically, requirements to the new capital structure and bank’s liquidity). During that period, the NBU will be working in the relevant areas in test mode. We regularly communicate with the banking community, including through established working groups, on the development, implementation of new requirements, and improvement of existing regulations on banking regulation and supervision.

In October 2020, the NBU started the implementation of the EU Twinning Project. Component 1(A) of the project aims to further improve the NBU’s existing approaches to implementing risk-based banking supervision within SREP.

I am very pleased to be able to contribute to the project implementation as the measures defined in the project will promote the introduction of the best European approaches to banking supervision and risk assessment of banking activities, and the increased efficiency of banking supervision at the NBU.



How do you assess current progress in the implementation of Component 1(A) of the Twinning project?

As part of implementing the Twinning project and its goals, the NBU experts together with their colleagues from central banks of Lithuania, Greece and the Netherlands worked on the development of new regulations that define the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) for banks. It should be noted that the NBU regulation that sets forth ICAAP for Ukrainian banks is expected to be approved by the NBU Board by the end of 2021.

We are currently working to improve the NBU's existing methodological approaches to SREP, taking into account the introduction of regulatory requirements for ICAAP and ILAAP.

Moreover, in 2022, together with our partners from the Bank of Lithuania we are planning to conduct pilot testing in three Ukrainian

banks to assess ICAAP. Also, the international experts will conduct training for banks on how to implement ICAAP and ILAAP, and will train supervisors in how to evaluate these processes.

We are deeply grateful to our Twinning project partners for their professionalism, willingness to share knowledge and engage in an open dialogue. I extend my heartfelt thanks to my colleague Erika Balaikienė, Leader for Component 1 (A) of the Twinning project for very productive cooperation and support.

Unfortunately, due to the COVID-19 restrictions, all our meetings since the start of the project have been held in the virtual-only format. Nevertheless, we are optimistic. We hope to meet our partners at the NBU premises in Kyiv to socialize and discuss pressing professional issues.



INTERVIEW WITH ROBERT KLEPACZ
NBP LEADER FOR COMPONENT 2(B)

Instant Payments System, Deputy Director of Payment System Department at the Narodowy Bank Polski

"Despite Covid-19 pandemic the on-line collaboration with NBU colleagues has been highly constructive, productive and both sides are highly motivated to exchange knowledge. This makes us very happy to share with them our expertise and our knowledge of the European best practices in the payment system area".

Robert Klepacz works as a Deputy Director / Payment Systems Department of the Narodowy Bank Polski. Robert's main activities and responsibilities include: Payments Systems Policy regulations connected with payment services, interbank clearing and settlement systems, analysing current development of the payment system in Poland (RTGS, retail systems, card schemes, payment services, payment innovations). Robert is a Member of the Payment Policy Working Group and alternate member of the Market Infrastructure and Payments Committee, which comprises experts from the European Central Bank and the national central banks of the EU Member States. In years 2017-2020 Robert held the post of the Chairman of the Supervisory Board of the National Clearing House (KIR S.A.).

1. You are working at the Payment Systems Department of the Narodowy Bank Polski, and are an expert in payment systems oversight. How long have you been working in this field?

I joined the Narodowy Bank Polski in 1990. In fact, my whole career has been focused on issues related to the payment system, including cashless payment instruments, retail payment systems, payment services and innovations. This is an area that is both complex and interesting. I am happy to be a part of the NBP's Payment Systems team.

2. I know that you have been a part of another Twinning project before. What do you think are some of the biggest challenges for this type of project.

Indeed, this is my fourth Twinning project. I strongly believe that the most important thing is to recognize the specific context in which a central bank is operating in order to better understand its goals, priorities, tasks and organizational structure. From a beneficiary's perspective, the multitude of new tasks connected with complex analyses, development of new methodologies – parallel to daily routine seems to be the most challenging. Additionally, allocation of resources is an important condition to the success of any such project.

3. After several missions completed, what are your impressions from this round of collaboration with your colleagues from NBU and other CB's?

Our counterparts have extensive experience, excellent expertise and training. They are familiar with the relevant aspects of European law, are open to new ideas and innovative solutions, and appreciate the importance of security and consumer protection objectives as for the payment system is concerned.

4. What are some of the most ambitious tasks facing the participants in the Twinning project?

Together with our Ukrainian colleagues we are continuing our discussion on selecting an optimum model for processing instant payments in Ukraine, in line with international standards.



The Twinning project experts focused on the instant payments systems and presented practical information derived from the experience of Polish, Hungarian and Lithuanian market. The scope of project activities includes on-line expert missions, expert forum, recommendations, training session, consultations, discussions, deskwork and research. Thanks to a series of consultations conducted by the NBU with financial market entities, we have obtained detailed knowledge about the needs and market expectations of the new instant payments system.

Based on the practical knowledge and guidelines gained through the progressing work in the Project, the NBU staff will be enabled to develop a technical specification including high level architecture, main requirements and business processes for the selected model for processing instant payments.

5. Due to Covid-19 pandemic, all activities have to be conducted in on-line basis. Despite the lack of let say „direct human factor”, how would you describe the atmosphere of your meetings with your National Bank counterparts? How easy is it to reach common understanding and arrive at decisions to which you both agree?

Definitely, we are all facing turbulent and uncertain times now. This new situation forces us to find other ways of cooperation and

modify channels of communication. Unstable and unpredictable environment demands from us more flexibility, especially in the area of organizing all our twinning activities.

However, despite Covid-19 pandemic the on-line collaboration with NBU colleagues has been highly constructive, productive and both sides are highly motivated to exchange knowledge. This makes us very happy to share with them our expertise and our knowledge of the European best practices in the payment system area. I would like to acknowledge Mr. Andriy Poddyerogin and his colleagues for the cooperation so far and contribution to the achievement of the project's goals.



INTERVIEW WITH ANDRIY PODDYEROGIN NBU LEADER FOR COMPONENT 2(B)

Instant Payments System, Director of Payment Systems
and Innovations Department at the National Bank of Ukraine

"The implementation of measures of the Twinning project is an important step towards the introduction of the instant payments system in Ukraine, which will promote the development payment infrastructure, enhance competition on payment market, and increase financial inclusion and promotion of cashless".

Andriy Poddyerogin has been working in the Ukrainian banking sector for almost 30 years and developed extensive expertise in the payment market.

All his professional activities are closely connected to developing cashless, payment systems, and card products in a number of Ukrainian banks.

In 1992, Andriy Poddyerogin graduated from Vadym Hetman National Economic University of Kyiv (Department of Finance and Economics) with a major in Finance and Credit. He also attended Sheffield University Management School (UK).

What is the aim of the Twinning project Component you are participating in?

The main aim of Component 2 (B) Instant Payments System of the Twinning project Strengthening the Institutional and Regulatory Capacity of the National Bank of Ukraine to Implement the EU-Ukraine Association Agreement is to design a model for instant payments architecture in Ukraine and a roadmap to implement it. This model will include the description of the operation principles of the instant payments system, types of payment flows, business cases, schemes for execution of payment transactions, channels of payment transactions initiation, etc.

What tasks need to be addressed by the Twinning project experts for the NBU? How successful is your cooperation?

In April 2021, the NBU for the first time presented its vision of the instant payments system design to participants of the Ukrainian financial market. It happened at the expert forum under the Twinning project. Banks, nonbank financial institutions and associations were introduced to the European instant payments systems and the NBU's first results in establishing a similar system in Ukraine in the future. At the event, the NBU received its first feedback from the market participants.

In order to create an instant payments system that will meet the needs of users and participants of financial market specifically in our country (with a view to our habits and needs), the NBU defined a partnership dialogue, feedback from the financial market participants, and their engagement in the system's development as the priorities in designing a model of the instant payments system.

Following the expert forum, the NBU held a series of meetings with the financial market participants to discuss the specifics and benefits of the future instant payments system.

The results of the meetings were presented to the Twinning project experts. In September 2021, the experts prepared recommendations on selecting the optimal model for processing instant payments in Ukraine. Those recommendations laid the groundwork for creation the draft of the Concept of the Instant payments system in Ukraine that was published for a public discussion.



The draft of the Concept considers the market needs in Ukraine and the international experience of highly qualified experts from Poland, Hungary and Lithuania. We would like to extend our special thank you to Mr. Robert Klepacz, Leader for Component 2 (B), and his colleagues Radostaw Łodyga, Árpád Cseh, and Martynas Rajunčius.

At the moment, we are actively working on creating a model for instant payments architecture in Ukraine. The NBU has recently participated in a training session on the technical aspects of the system held by the Twinning project experts in a team with the external experts from the Giro Zrt company,

which provides timely, safe and reliable payments in Hungary, and their colleagues from the KIR SA company – a key participant of the payment system infrastructure in Poland that offers comprehensive clearing services.

The NBU team is grateful to the Twinning project experts, who are highly competent, for the help, recommendations, and knowledge they shared during the project. We continue our work and hope for further fruitful cooperation.



Short description of expert missions and other activities carried out in the period from August to October 2021



Component 1A

The remote expert mission took place on 20-21 October 2021.

During the mission, STEs reviewed the draft ILAAP regulation prepared by the NBU and provided their comments, observations and suggestions. The subsequent Q&A session served to better situate the draft ILAAP regulation within the broader Ukrainian regulatory context, discuss parallels and differences with the EU approach to SREP ILAAP and provide certain comments and suggestions to further improve the draft document. It was agreed to finalize the draft ILAAP regulation till the end of the current year, provide it for consultations with market participants and organize the final discussion on the draft document based on comments and suggestions obtained from the market.

The STEs also reviewed the existing NBU regulation on liquidity risk evaluation. MS experts shared several practical examples how to calculate and evaluate liquidity positions in different currencies, and provided comments and suggestions as to how to improve and enhance the existing regulation. It was agreed to continue discussion about this document during the upcoming mission dedicated to the evaluation of liquidity risk and liquidity management.



Component 2B

During the remote expert mission which was held on 29-30 September 2021, the NBU presented the detailed information about the results of discussion with the key payments market stakeholders and market survey results on approaches to the design of instant

payments system in Ukraine. The results of the discussion with the key stakeholders related to central features of IPS model in Ukraine, in particular:

- ◆ types of payments and phases of implementation,
- ◆ methods of payment initiation and acceptance by merchants,
- ◆ payment scheme for different use cases/scenarios,
- ◆ use of aliases,
- ◆ use of QR codes,
- ◆ settlement of payments and liquidity management,
- ◆ technological aspects.

At the NBU request, STEs presented the information about the Polish BLIK mobile payment system, its main features, types of payments processed, transaction flow with the special focus on P2P transactions, relevant statistical data as well as benefits for banks resulting from the participation in the BLIK system.

MS experts also presented the draft recommendations for selecting an optimal model for instant payments in Ukraine. Recommendations were prepared on the basis of findings from the twinning missions, outcome of the NBU's discussion with the key payments market stakeholders, and STEs' experiences in the field of instant payments.

The draft recommendations contained both main goals and general characteristics of implementing an instant payment system in Ukraine, and the specific recommendations in the form of key elements that should be taken into account during the development of the instant payment system in Ukraine,

in particular: types of payments and stages of implementation, methods of payment initiation and acceptance, using of Aliases and QR-codes, expected functionality and features of the instant payment system.

STEs also presented the proposed instant payments processing and settlement model with the usage of alias functionality. They highlighted the important role of the NBU in setting up instant payments system. Sessions were followed by lively discussions, exchange of views, questions and answers.



Component 3C

The on-line expert mission was held on 15 September 2021.

The main issue for discussions during the mission was revising the draft amendments of the methodology of process management at the NBU. The NBU counterparts presented the changes in the system of process management organization implemented at the NBU. STEs gave a presentation on KPIs and their links to the strategic plan. The participants of the meeting had a session of questions and answers, particularly with regard to:

- ◆ relationship between KPI processes and the strategic goals of the bank,
- ◆ use of a balanced scorecard in the work,
- ◆ what is included in the process cost estimate (FTE, software, etc.),
- ◆ type of software used to manage the processes in the bank,
- ◆ process management challenges which could be solved with the system used, its advantages and disadvantages, number of staff to administer the system.

STEs shared their experience in the above mentioned areas and held further fruitful discussions with the NBU team.

The next expert mission was carried out on 11-12 October 2021 and was also dedicated to revising the proposed amendments of methodology of process management at the NBU. The NBU presented recent changes in the process management organization implemented after September 2021 mission, as well as changes that the NBU would like to implement and tools used for process optimization. STEs gave presentation on practical implementation of LEAN tools ASAICHI, 5WAY, KAIZEN, PDCA, VACA into process improvement practice.

One of the sessions was dedicated to the discussion of processes of centralization and decentralization alternatives in organizing prudential and market conduct supervision. The NBU presented suggestions developed in that area and received insights from STEs about important check points in reorganizing such functions. Mission completed with the discussion about the next steps and recommendations to be issued by STEs.



Component 4D

Workshop on the evaluation of technical assistance received and provided by the NBU took place on 9-10 September 2021.

The STEs shared their institutions' experience and provided technical advice concerning the following issues:

- ◆ programming and financing central bank's technical cooperation,
- ◆ the main principles of the organization of technical cooperation, participation in international TC projects, choosing partners, setting objectives, preparing the budget, coordination with other donors, promotion and visibility,
- ◆ implementing central bank's technical cooperation: instruments, long-term projects, cooperation with other departments and donor banks, experts' motivation, monitoring,

- ◆ general approach to TC evaluation – EU and international best practices,
- ◆ evaluation and results: evaluation tools and instruments, data collection, case studies.

The NBU colleagues were provided with a comprehensive picture of NBP and of LB approaches to managing the technical cooperation programmes. On the other hand, The NBU colleagues have familiarized the STEs with the NBU TC Programme, as well as the work on the future TC Strategy and evaluation forms.

The remote expert mission which took place on 20 October 2021 was devoted to the presentation of NBP and LB experience with regard to investor relations issues in central banks, and the presentation and discussion of draft IFIs-related recommendations (benchmark document). Main elements of the recommendations and the reasoning behind the proposed options were presented. The presentations were followed by the exchange of views on potential additional issues that could be included in the recommendations.

Project Steering Committee Meeting No. 4

The event took place in on-line format on 4 November 2021.

During the meeting, the Interim Quarterly Report of the Project covering the period from 1 July 2021 to 30 September 2021 was presented. The presentation contained a comprehensive description of the activities held during the reporting period with relevant statistics on missions and man-days used in every component, detailed information on progress review and current achievements of mandatory results by each sub-component, communication and visibility activities as well as the financial report of the Project for the reporting period.

Then the presentation of the draft Rolling Work Plan No. 3 followed. It outlined horizontal issues and activities planned for the next 6 months, i.e. between 1 November 2021 and 30 April 2022, based on the information which has been already accumulated by component leaders during previous periods.

The presentation contained the information on major activities planned for the coming months in every component as well as quantitative aspects specifying the reasons for difference in man-days consumed in different components,

selected risks and human resources. That information was complemented with financial aspects of the Rolling Work Plan No.3 for the period until 30 April 2022, estimated accumulated expenses by every component which were based on the assumption that many missions would be held in physical format in Kyiv.

The presentations were followed by the discussion session during which, in particular, the formalization of the Project's extension till end September 2022 and the steps to be taken for that purpose were discussed and agreed upon.

As the result of the meeting, the Steering Committee Members decided to approve the Interim Quarterly Report No. 3 for the period from 1 July to 30 September 2021 and the Rolling Work Plan No. 3 for the period from 1 November 2021 to 30 April 2022.