
CENTRAL BANKING

AWARDS 2022

WINNER



**Collateral management
services**

Vermeg

The Covid-19 pandemic has interrupted flows of goods and services worldwide, but many central banks have continued to press ahead with technological upgrades. That was the case for Vermeg's newest client, a Group of Seven central bank that appointed the firm in late 2020 to implement a new collateral management system after a competitive selection process.

Tight Covid restrictions meant the project had to be delivered almost 100% remotely – not an easy thing to pull off, given the complexities of dealing with central bank systems. But the final stages of implementation the central bank – which can't yet be named because of a non-disclosure agreement – are now under way.

The addition of the central bank to Vermeg's roster of clients means it now provides critical infrastructure to three of the G7 central banks: it implemented similar systems in the past for the Bank of England and Banque de France (BdF). The latter of those client relationships helped it land an even more ambitious project, delivering the Eurosystem Collateral Management System (ECMS).

"We are the backbone of the European collateral management system," notes Boujemaa Khaldi, a director at Vermeg. It is a big responsibility: the ECMS is a unified platform for managing assets used as collateral across all 19 countries of the eurozone and thousands of market participants. Go-live is planned for late next year.

Collateral management may not be as visible as other key infrastructure that central banks operate, such as payment systems. But it is just as critical – a role highlighted by the 'dash for cash' in March 2020, when central banks were forced to step in and backstop market liquidity using repos, among other operations. Even outside times of crisis, the collateral management system is in constant use, so its efficiency is critical to the smooth functioning of markets and the central bank itself.

Vermeg's system, Megara, is built as a modular suite of tools that can be tailored to specific client needs.

"Our solution is built with the central bank in mind from the beginning," Fergal Leonard, a general manager at Vermeg, tells *Central Banking*.

The company recognised early on that copying and pasting a system built for a commercial bank would not fit central banks' needs, although Megara is used by many commercial institutions.

This knowledge of the central banking community was a major positive, says Alain Busac, a director at the BdF, in charge of market infrastructures: "We needed a service provider that really knows collateral management and has deep knowledge, with proven practice in many central banks. Vermeg really has this deep and sound knowledge."

Megara provides the functionality to manage pools of collateral across the full 'lifecycle' of a repo. One critical function, Khaldi notes, is its



Boujemaa Khaldi, Vermeg

ability to recalculate collateral values in real time, updating margin calls as necessary. As well as more standard securities, the system can handle non-marketable assets, such as credit claims, which are harder to value.

Khaled Ben Abdeljelil, executive director at Vermeg, highlights several other functions. The system can now accommodate corporate actions without the collateral having to be substituted – something that used to be a “big headache” for central banks, he notes. Additionally, Megara has the “powerful feature” of being ISO20022-compliant, he says. And it has built-in security features to guard against data corruption, leaks and hacking.

Megara improves the efficiency of central bank systems in several ways. For one, it often replaces a handful of legacy systems, allowing them all to be managed through one dashboard. It is also designed to eliminate a lot of manual intervention.

“The system is highly automated,” says Khaldi. “Only exceptions are routed to the users, and the system shows them what to do when that happens.”

The result is a sharp increase in straight-through processing relative to legacy systems.

As well as having overseen the implementation of Vermeg’s systems at the BdF, Busac is now co-leader, with his counterpart at the Bank of Spain, on the ECMS project. Acceptance testing for the new system is expected to run until the third quarter of this year, having started in October 2021. User testing is set to follow, then migration ahead of a go-live is scheduled for November 2023.

“It is a very sensitive project,” Busac emphasises. The European Central Bank’s market infrastructure board set “deep requirements” for homogenising collateral management within the Eurosystem, ultimately settling on Vermeg because of the company’s strong product and high level of competency. Busac adds that Vermeg has poured significant resources into developing the system to meet the Eurosystem’s needs: “They know what is at stake – for the client and also for them.”

Khaldi says the company is “always going further”, and has several upgrades in the pipeline, including the addition of cryptocurrency coverage. An overhaul to the user experience should boost functionality. New monitoring tools will help users identify problems early, including the use of artificial intelligence to predict when issues might be developing, allowing timely intervention. Vermeg is also looking into ways of helping commercial banks keep up with their side of collateral management projects. Given the huge numbers of market participants, delays are common when installing new systems.

Many leading central banks are already using Megara for collateral management, and the project with the G7 central bank has its go-live this year. “We always work in partnership with central banks,” says Ben Abdeljelil. “We are doing this now in our new project. We don’t just implement the system, but bring something new and improved.” □



*Khaled Ben Abdeljelil,
Vermeg*