

CEE UPDATE: WHERE IS THE NETWORK MANAGEMENT INDUSTRY AT IN CENTRAL AND EASTERN EUROPE?

The new decade started with a severe economic crisis, but also with the hope that closer European cooperation will bring growth and synergies not only in the Western part of Europe but also in the Central – Eastern European region. CEE is still highly heterogeneous when it comes to the state of development of its capital markets or post trading infrastructure. While IT solutions in the post trading environment in Austria are highly matured, some countries like Ukraine have quite a long way to go.



T2S is definitely the catalyst of a more harmonized infrastructure for post-trade services and standards, and will contribute to achieve stronger financial integration not only in countries which join T2S but also the less developed CEE markets who will need to work on their national practices and infrastructures in order to increase operational efficiency and stay competitive. Croatia will soon be establishing its own CCP thereby strengthening the safety of the settlement process in line with the EMIR regulation while, in Poland, the introduction of netting will lead to a more efficient way to handle settlement and liquidity.

One of the persistent problems in most of the CEE markets (e.g. Slovakia, Bosnia, Serbia, etc.) is low liquidity. At the same time markets like Slovakia or Bosnia run 2 separate CSDs in parallel, which will need to be rationalized at one point of time in order to reach efficiency and economies of scale.

Today the custodian business has evolved into a complex industry, where the range of information, types of asset protection and innovative solutions provided by banks have become the focus of business participants. Much of the work done by the custodian banks is in the asset servicing area, which require quick reactions and quick distribution of information from market participants. This increases the need for innovation: to invest further in technology and automate more processes. Needless to say, experienced staff on the ground is a vital and competitive edge for providers, as securities holdings and activities become increasingly diversified and complex.

There are a few key challenges for custodians to maintain growth and profitability in a highly competitive environment which is resulting in a progressive decrease of pricing levels. The revenue compression concurs with the high investment need and growing regulatory and compliance requirements which, in turn, will

definitely squeeze out providers where economies of scale are not achievable within the foreseeable future. Post trade service providers will need to react quickly to the new competitive landscape and clients will need to select partners that best fit for their business model and risk profile.



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