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**Kalin Anev Janse, ESM Secretary General**

**“The ESM: From unexpected start-up to innovative international financial institution”**

McKinsey Global Digital Banking Conference

17 May 2019



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# The story starts in 2010

## OUR FIRST START-UP: 12 PERSON TEAM - FIGHTS THE BIGGEST CRISIS IN 80 YEARS

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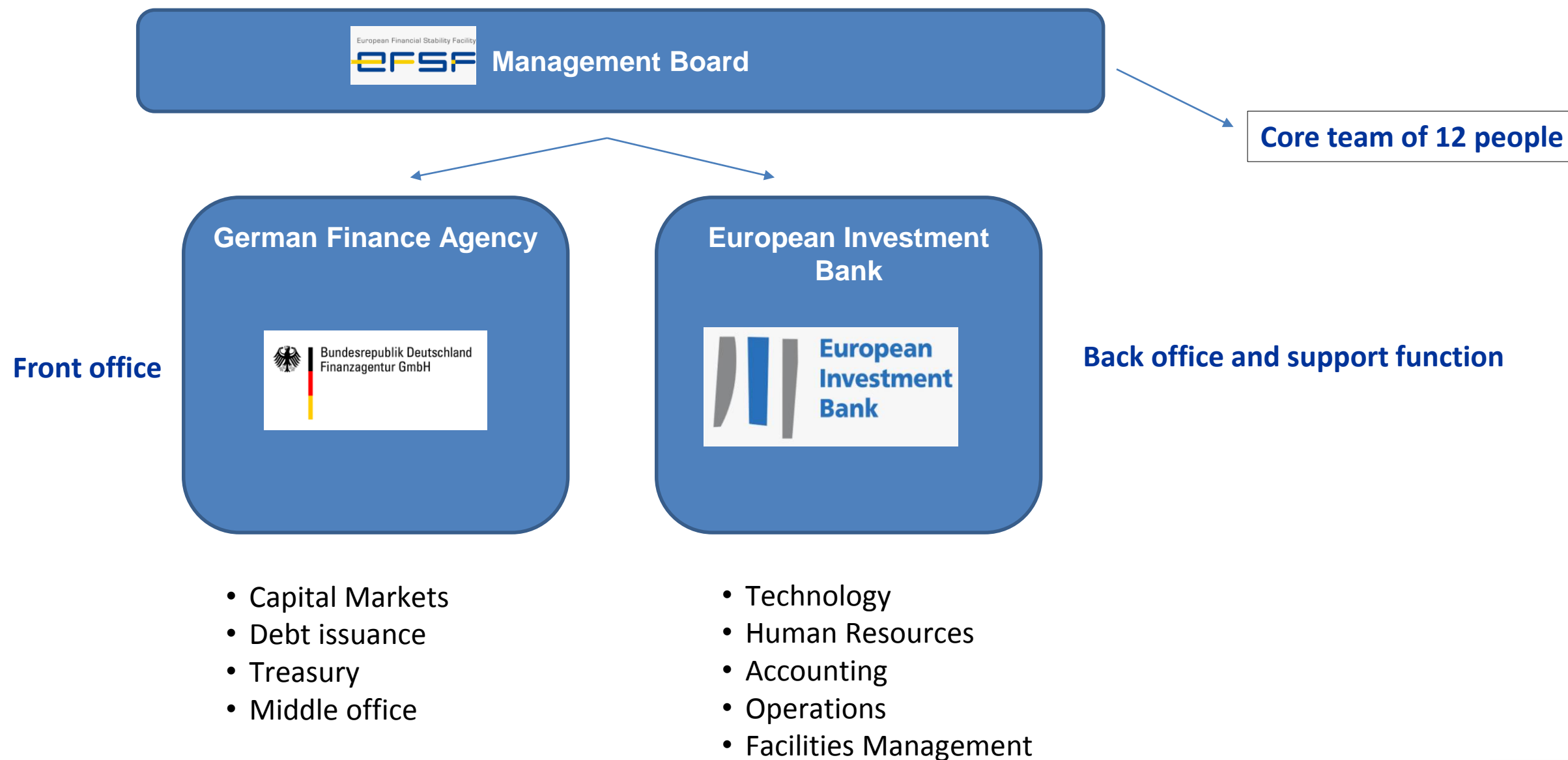
€440 billion firepower

Created in less than 8 weeks

12 first employees

Luxembourg private company

# VERY LEAN AND MODERN SETUP – OUTSOURCED FRONT OFFICE AND SUPPORT FUNCTIONS



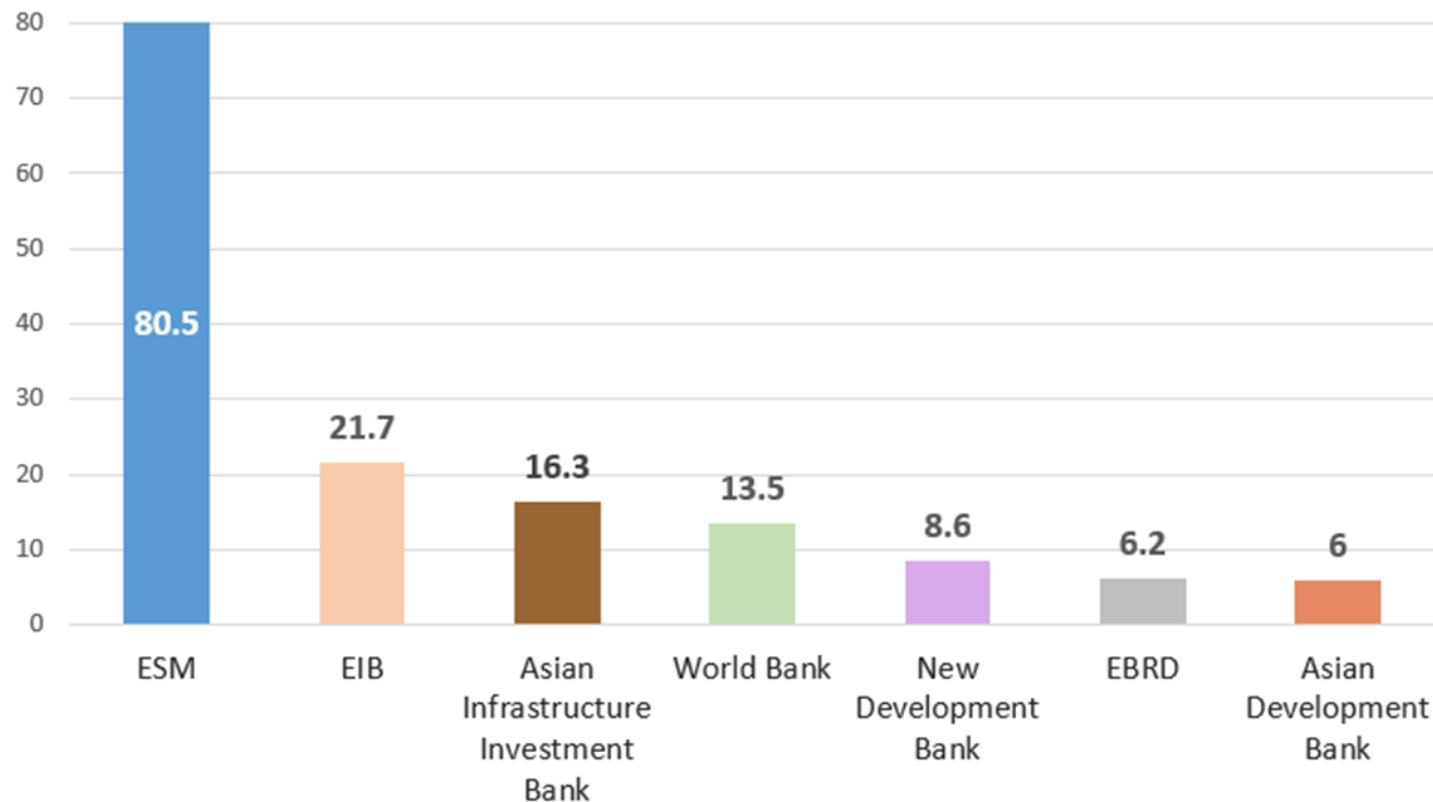
# THE UNTHINKABLE HAPPENED

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- Ireland requested EFSF support in November 2010
- Roadshows organized globally
- First bond exceeded all expectations: orderbook of **€45 billion - 9 times oversubscribed**
- A huge success for a company that was just **7 months old**
- **We were on our way**
- Others followed: Portugal, Greece – 2<sup>nd</sup> programme and Spain
- We issued close to **€200 billion** in bonds and disbursed **€175 billion** in loans
- It was time for a permanent institution: the **ESM**

# OUR SECOND START-UP: THE ESM – MOST CAPITALISED IFI IN THE WORLD

Paid-in capital of major international financial institutions (€ bn)



- ESM has a capital of over **€700 billion**, **€80.5 billion** of which is paid in
- The ESM is a **public international financial institution (IFI)**, set up by the 19 euro area' countries
- EFSF/ESM combined disbursed **€295 bn** in loans (three times more than the IMF) and issued **€300 bn+** in bonds. €32.5 bn this year
- Follow **“Cash for reform”** approach. Greece saves €12bn annual or 6% GDP

# CREATING A NEW AND MODERN IFI

- **Unique** chance to build an innovative public organisation **from scratch**.
- As a crisis resolution mechanism, it is in our mandate to be able to be **flexible and agile** in difficult economic and market situations.
- We had to be **fast, lean and modern**
- We entrenched it in our Mission, Vision and Values
- Technology became part of our **DNA**



European Stability Mechanism

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## "Using technology to build a modern public sector"

25/04/2017 | Speeches and presentations

ESM

 Washington, DC



European Stability Mechanism  


## STEP 1: INSOURCED CORE FUNCTIONS – AND THEN – FIRST MOVE IN INNOVATIVE CLOUD INFRASTRUCTURE

- Start **new modern public IFI** from a blank sheet
- **Cloud-first strategy** in 2012, before it became a trend
- **First mover** in many new technology solutions
- **No server** in house



\*Tier IV since 2018



## STEP 2: ADAPT TO THE WORKFORCE OF TOMORROW – FINTECH

- **Anywhere/Anytime** technology connectivity – also mobile
- A first mover among peers **internal social media** in 2012
- First public institution to join London based **Fintech circle** in 2014
- **Dare to experiment** - leverage Social Media senior management vlogs on Investor Roadshow
  - Two engaged staff members, 1 hour of programming resulting in a problem solving solution, gaining time and avoiding errors



Kalin Anev Janse  
@kaanev

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How does an ESM roadshow look like? This is our first ever ESM vlog ... a little hint: it's a road movie!



# STEP 3: LEVERAGE NEW TECHNOLOGY TO NAVIGATE CAPITAL MARKETS

- ESM/EFSF use 41 DCM banks and 1600+ global investors
- Sell side: €300 bn in the market, issue €30-40 bn a year. Buy side: €80bn invested capital – HQLA and ESG
- One of the biggest € dominated issuer and IFI investor
- Build a proprietary deep data market intelligence tool:
  - Two million+ data points -> trace every single trade of our bonds in the primary and secondary market via banks and electronic platforms
- Some insights and quantitative basis:
  - “Market sentiment” early geopolitical shifts in markets: EUR vs USD
  - Accomodating market shifts due to ECB QE
  - Fund managers and hedge funds shifting market sentiment

Europe

## Asia returns to ESM bond market

Investors trust Europe to resolve its problems and create growth

**Kalin Anev Janse**  
European Stability Mechanism

Volatility returned with a vengeance to fixed income markets in the middle of this year, propelled by political events such as the election of a right-wing Italian government and the threat of a global trade war. As often happens, many people commented that this could have serious implications for the cohesion of European monetary union.

We at the European Stability Mechanism believe such opinions are unfounded. In 2010, many wrongly predicted the euro area would break up. Today, EMU is much stronger than before Europe's sovereign debt crisis, economically as well as in its institutional architecture.

There is evidence that investors have not lost interest in the euro area. In two ESM deals before the summer, Asian investors returned to Europe's books in high numbers: 13% and 17%, well above the full-year average of 4% in 2017 and 9% in 2016.

Asian investors have always been loyal supporters of bonds issued by the ESM and its predecessor, the European Financial Stability Facility. At the start of the debt crisis, almost 40% of ESM/EFSF bonds in the primary market went to Asian investors. Over the years, that number gradually fell. Investors say the reasons for this are manifold, but are largely to do with low yields in Europe. At the same time, Asian investors have been net sellers of ESM bonds in the secondary market since 2015.

**Marked intelligence**  
These two trends caused the total volume of ESM bonds held by Asian investors to decline steadily since 2013. This year, however, the outflows are at their slowest pace since 2015. The data show there has been a clear inflection point since a trough in 2017.

If the primary-market interest illustrated by recent deals endures, net outflows may well end soon. The decision by the European Central Bank to end its quantitative easing programme by the end of 2018 is likely to accelerate this trend.

The data underpin what we at the ESM hear when meeting Asian investors: that they trust the ability of the euro area to fix its problems, and the capacity of the European economy to create higher standards of living and more jobs.

The reason these trends can be spotted so accurately is that the ESM has, since its founding in 2012, put great effort into monitoring trading of its bonds. We know of course who buys ESM bonds upon issuance. But we also ask all banks in our market group to report every deal in the secondary market. This has yielded a database of more than 200,000 trades.

Armed with these data, the ESM can draw conclusions such as the one above to better understand investor preferences and supports its euro area stability mandate.

The ESM helped preserve the integrity of the euro during EMU's worst crisis. In that time, it has also developed into a centre of excellent market intelligence.

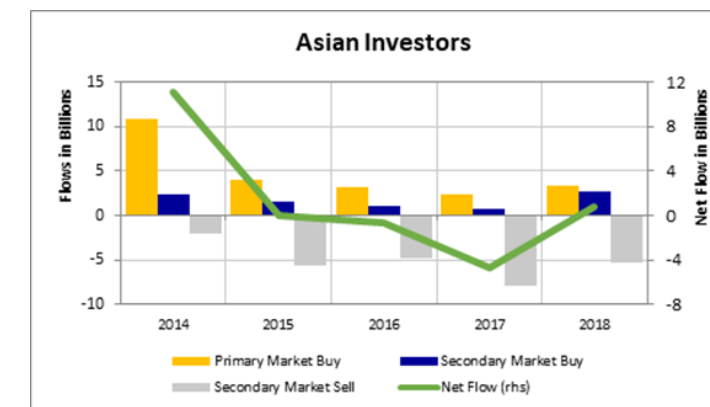
**Kalin Anev Janse is Secretary General of the European Stability Mechanism.**



'At the start of the debt crisis, almost 40% percent of our ESM/EFSF bonds in the primary market went to Asian investors.'

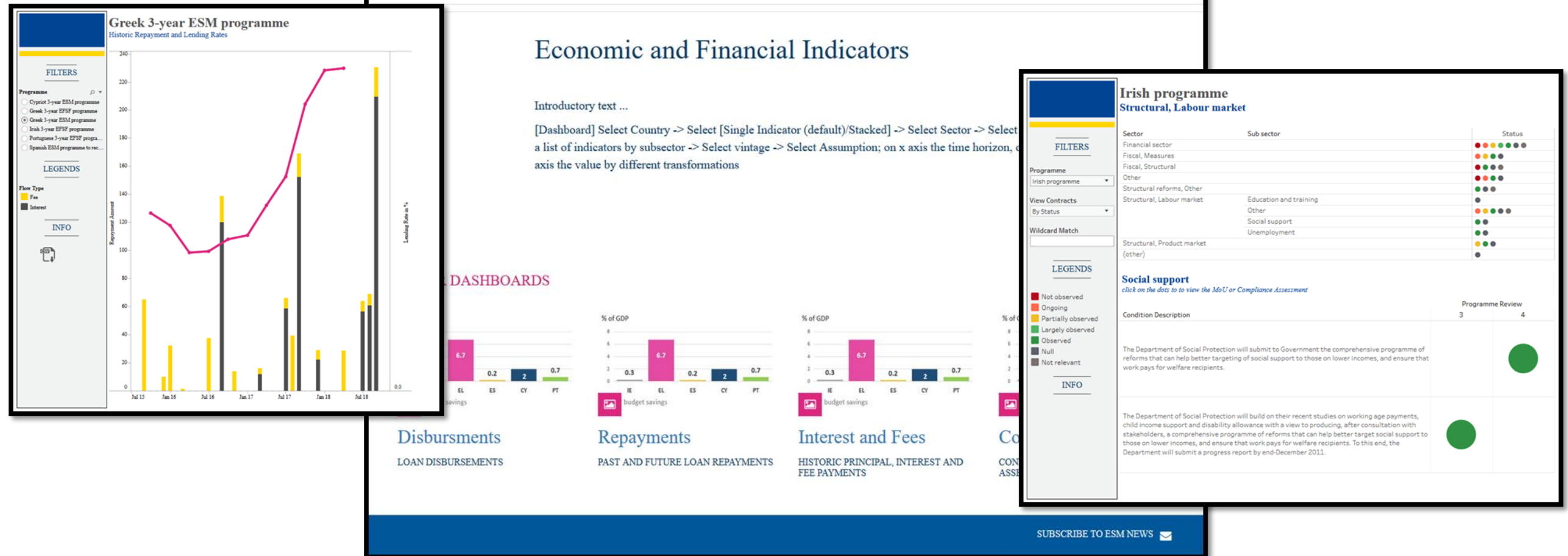
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# STEP 4: USE MODERN TECHNOLOGY TO BE TRANSPARENT FOR EUROPEAN CITIZENS ...

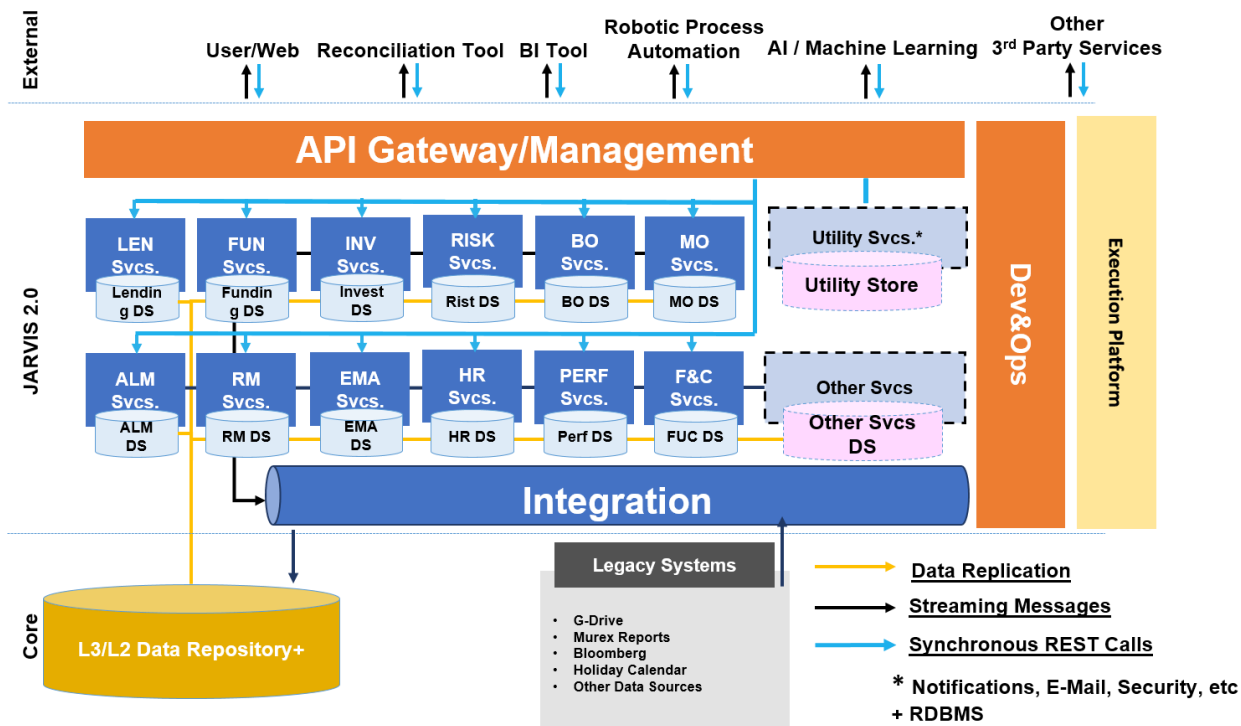
UNDER  
DEVELOPMENT\*



\* using  + a b l e a u +

## STEP 4: ... BUT THE REAL INNOVATION IS UNDER THE HOOD (MICROSERVICES AT THE ESM)

### ESM microservices



Inspired by **NETFLIX**

Netflix became the global leader in streaming services by:

- Embracing the cloud:  
Buy vs. build, scale, elasticity
- Implementing Microservices  
Agility, faster and smaller deployments, everything as a service, graceful degradation,



## STEP 5: BUILDING THE FUTURE OF MARKETS – EUROPEAN PUBLIC DEBT ISSUANCE PLATFORM

- Bond market infrastructure not changed since 1990s
- We launched new technology idea for **distribution of public debt instruments** in 2017
- Public engagement as of 2019
- Need for a **European debt issuance platform**
  - single and synchronized system front to back
  - More efficient issuance process for issuers, banks and investors
  - Neutral, pan European and harmonised
- **ECB should be in the lead**, supported by issuers like ESM
- Not only a great new technology, but also **strengthens euro as currency** and **deepens CMU**



## NOT EVERYTHING IS PERFECT

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- First mover in cloud means “teething-problems”
- European data storage and privacy have become major topics
- Cyber security risks are not insignificant
- Adaption problems and cultural resistance
- But benefits outweigh disadvantages

## WHAT WILL THE FUTURE BRING?

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- Euro area Summit December 2018: **New mandates for the ESM**
  - Backstop to SRF
  - Larger role in future financial assistance programmes
  - Easier use of precautionary credit lines
  - Bigger role outside programmes
- Finalizing the upgrade; approval for **ESM Treaty amendments** foreseen in June 2019
- Maintaining **long-term financial stability** in Europe (together with other institutions) is a very crucial and demanding mission
- With the aid of modern technology, as well as innovative and creating thinking, **we will be better prepared** to face the challenges of the future

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Thank you and I love to stay connected !



**@kaanev**

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