Issue 1, 2016

# Sibos Issues

sibos

ISSUE ONE 2016

The official daily newspaper of Sibos 2016 Geneva | 26-29 September



In the run-up to Sibos 2016, we're working harder than ever to ensure the conference meets your information and networking needs. Some of these changes are reflected in this edition's lead story and supporting articles, and we look forward to sharing more details with you in the coming months.

Best wishes
**Sven Bossu,**
**head of Sibos**

# Change: the only constant


## New look conference unveiled

Sibos 2016 in Geneva will offer delegates a refreshed format and agenda, reflecting the transformative changes taking place in the finance sector and among the clients it serves.

Under the banner 'Transforming the landscape', this year's conference will present a restructured programme that analyses and explores the technological, competitive and cultural shifts that are reshaping relationships with customers, peers and partners.

The aim of the revised Sibos – which will feature new session formats and a more prominent educational aspect – is to provide delegates with a clearer understanding of how innovation in technology, disruptive competition, profound culture shifts and changes in consumer behaviour are stimulating a period of inevitable and rapid transformation in the financial industry.

Four key themes will run throughout Sibos week:

- **Banking** – Focusing on payments and correspondent banking, this stream will look at the challenges of delivering upgraded service propositions to corporate and institutional clients in a highly regulated and increasingly digitised world.
- **Compliance** – Tackling one of the defining issues of the age, this stream provides delegates with deep insights into financial crime compliance and counter terrorist finance practice and policy, while also providing comprehensive coverage of the compliance tools, tactics and strategies being adopted by banks across business lines.
- **Culture** – In a technology-led industry, the behaviours and attitudes of individuals are still critical to the ability of firms to deliver value to stakeholders and customers. This new stream looks at the skills, practices and methodologies that will help the finance sector contribute to society in the long term.
- **Securities** – Having undergone significant regulatory change, the securities sector is now deploying technology innovation to drive new efficiencies and develop new services. This stream examines the ways in which market infrastructure operators, securities services firms, technology vendors and new service providers and collaborating and competing across the securities markets.

With so many forces transforming the landscape in which banks and other financial service firms operate, Sibos is changing too in response to delegates' evolving information needs. To find out more about this year's conference, see the regular updates on www.sibos.com. ■

## IN BRIEF



COMPLIANCE

## Reinforcing the chain

#Payments
#Data

### FATF Recommendation 16 highlights the end-to-end data quality challenge of financial crime compliance.

Many of the new requirements imposed by policy-makers since the financial crisis have forced financial institutions to obtain, store and report highly detailed data about risks relating to their businesses and their clients. Collecting and collating such disparate and granular information, often originating in multiple formats, is not a straightforward feat. Nothing illustrates this challenge better than Financial Action Task Force (FATF) Recommendation 16 introduced in 2012.

FATF 16 guidelines require national regulators to ensure financial institutions supply accurate information about the originators and beneficiaries of any wire transfers throughout the payment chain. The onus is on financial institutions to monitor these transfers and remedy accordingly where there is insufficient information about payment beneficiaries or originators.

The ultimate objective of FATF Recommendation 16 is the prevention of terrorism and other crimes and the detection and investigation of criminal activity when it occurs. The presence of originator and beneficiary information in wire transfer messages would enable authorities to obtain such details from banks in the context of their investigations. "As such, it is the responsibility of banks to capture all of the basic information such as account number, name, address,

continued on page 2

## Reinforcing the chain

continued from page 1

Image: iStock

and country information and store it in a message format and make it available throughout the payment chain," says Simon Muir, product manager, compliance at SWIFT.

### Tough approach

Regulators have made it abundantly clear that they will take a tough approach against any financial institutions which have carried out wire transfers involving bad actors or sanctioned entities or individuals. "These are important policy goals and for this reason there is scope for significant penalties if financial institutions fail to comply, which might include fines but also restrictions on business, remediation efforts and third-party oversight or audit of the financial institution," explains David Howes, deputy head, group financial crime compliance at Standard Chartered.

Identifying a sanctioned entity is not always straightforward, not least for institutions in the middle of a complex payment chain. Some originators and beneficiaries may have complex corporate structures or aliases, for example. Having mechanisms in place to detect irregular activity is crucial, and collecting information on beneficiaries and originators of wire transfers is a core component, says Muir, a former compliance officer who is now leading SWIFT's development and industry engagement efforts in support of the cooperative's new Payments Data Quality service.

A number of challenges exist, such as the implementation of FATF Recommendation 16 across jurisdictions with disparate legal and regulatory regimes. Many regulators do not feel it is within their remit to impose detailed operational obligations on financial institutions to adhere with the FATF 16 provisions. The lack of harmonisation across countries around implementing these rules can result in major divergences in supervisory oversight. "Firms should look at the Payment Market Practice Group (PMPG) guidelines for FATF Recommendation 16 published in September 2015. If a financial institution is following these guidelines, it should face few challenges in its role as a payment originator," says Howes.

The PMPG guidelines provide advice on how to format information in within messages when initiating a payment, but further big challenges arise in validating that the correct information is included in messages received from counterparts.

### Complex landscape

Operational realities also pose problems to initiators and recipients of payment messages. Data collection at many financial institutions continues to rely on manual and legacy processes, leading to process inefficiencies and/or errors. "Financial institutions are currently collecting data from a wide range of sources and jurisdictions and much of this debtor and creditor information on wire transfers will come in different formats. Financial institutions need to upgrade their systems accordingly to process this information accurately," comments Laurent Lafeuillade, deputy head of the interbank relationships department at Societe Generale.

The sheer weight of data must also be taken into account. "The volume of data that banks must deal with is significant. It is often derived from disparate payment systems in different locations and geographies and compiled in different formats. It can be very complicated," acknowledges Muir.

Issues arising from data complexity and volume are compounded by the fact that financial payment message data is frequently incomplete, inaccurate or unstructured. Although well-known, the barriers to eradicating underlying ingrained local practices can prove intractable, leading some banks to consider exiting relationships in jurisdictions where there are insufficient data controls and quality.

> **"If a financial institution is following PMPG guidelines, it should face few challenges in its role as a payment originator.**
>
> **David Howes,** deputy head, group financial crime compliance, Standard Chartered

A basic understanding of the arcane world of cross-border payment messages further illustrates the challenges posed by FATF Recommendation 16. The MT 103 is the SWIFT message used in cross-border payments where the payment originator, or beneficiary, or both, are non-financial institutions; for example, when a woman in country A uses her bank to wire money to a person in country B. Banks can also instruct such transactions using MT 202COV messages, which were introduced to enable straight-through processing, increase transparency, and support sanctions and anti-money laundering compliance by permitting end-to-end inclusion of the client and financial institution information from the original MT 103 message. As such, MT 202COV payments allow financial institutions, including those in the middle of the payments chain, to monitor transactions for compliance with FATF Recommendation 16.

MT 103 and MT 202COV messages contain mandatory fields for originator and beneficiary information, including account number, name, and address. Additional information such as customer identification number, national identity number, date and place of birth can also be added. While market practice exist for populating such information in MT 103 and MT 202COV messages, there is no actual enforcement of this guidance. Banks can use structured and unstructured fields, depending on message type used. Data is sometimes truncated due to the character limitations in SWIFT fields, Howes says.

### Structural support

Efforts are being made to migrate users to structured message field options and to educate them in the formats required to enable full automation by their counterparts; structured field usage for originator and beneficiary information will become mandatory in 2020. Greater use of structured data can allow for easier automation and enhanced post-transaction compliance monitoring. "If transactional messages are sent in the correct structured format, after usual embargo/sanction screening, data quality is improved and it allows firms to monitor debtors and creditors in line with their compliance requirements," says Lafeuillade.

But structured messaging data is not fail-safe as far as compliance with FATF Recommendation 16 is concerned. The

> **"Financial institutions need to upgrade their systems to process debtor and creditor information accurately.**
>
> **Laurent Lafeuillade,** deputy head, interbank relationships department, Societe Generale

**Publisher**: Sven Bossu, SWIFT ■ **Managing editor**: Alan Rowan, SWIFT ■ Sibos Issues is written and produced by Asset International on behalf of SWIFT ■
**Advertising contact**: Stephanie Gerniers, SWIFT; stephanie.gerniers@swift.com; +32 2 655 4734 ■ Printed by Innovative Print Solutions Pte Ltd

continued from page 2

**"It is the responsibility of banks to capture all of the basic information, store it in a message format and make it available throughout the payment chain.**

**Simon Muir,** product manager, compliance, SWIFT

accuracy of the data supplied on originators is ultimately the responsibility of the originator's bank and not the beneficiary's bank, and the originator bank is the only institution with the ability to check the accuracy of that data. The same is true at the other end of the payment chain; the beneficiary's bank is the only institution with the ability to check that the beneficiary's data is correct. However, all banks in the payment chain may be held liable for using erroneous data.

Efforts to harmonise standards on end-client information are hamstrung by the complexity and diversity of existing domestic payment systems and formats. Implementing the necessary changes would be time-consuming and costly. As such, banks' current policy is to review the relevant data in line with their own existing risk and compliance policies as opposed to an industry-wide standard.

## Upping the stakes

To support industry compliance, SWIFT has been developing Payments Data Quality, an advanced reporting and data analytics service that seeks to assist banks in checking that payment messages have the relevant originator and beneficiary information. The offering provides banks with a global view of the quality of information they send and messages they receive from counterparties to help address, and if necessary investigate, shortcomings or inconsistencies in data quality. Because the product offering is web-hosted centrally, there is no need to install systems and integrate them locally, Muir says.

Meanwhile, regulatory pressure is mounting. In the European Union, for instance, the Funds Transfer Regulation adopted in 2015 will mandate inclusion of originator and beneficiary information in payments messages by 2017. Singapore recently implemented FATF Recommendation 16 within MAS Notice 626, and other jurisdictions are expected to follow. As regulators look to ramp up penalties for failure to demonstrate best efforts to comply with FATF 16 Recommendations, the ability to verify information about originators and beneficiaries of wire transfers has never been more critical. ■

SECURITIES

# Europe – A market transformed

#Market Infrastructures

## Much has changed over the last half-decade, but are the biggest upheavals yet to come?

**"The tipping point of T2S will be from February 2017 when the lion's share of the markets will be on the platform.**

**Hugh Palmer,** T2S product manager, financial institutions and brokers, Societe Generale Securities Services

Since Sibos last took place on the shores of mainland Europe, the region's securities markets have faced innumerable challenges. As delegates gathered in Amsterdam for Sibos 2010, the supervisory and industry response to the 2008 global financial crisis was still taking shape. Over the next half-decade, against a backdrop of severe macro-economic and monetary policy conditions, Europe's securities markets have had to contend with an unprecedented wave of regulatory and market infrastructure change.

Some of these reforms were prompted directly by the crisis, others were already in train, such as proposals for harmonised settlement under the European Central Bank's TARGET2-Securities (T2S) project and front-office rule changes under the Markets for Financial Instruments Directive (MiFID).

With all these regulatory developments thrown into the melting pot of the European securities market, what have been the main impacts of these changes and what can we expect in the foreseeable future?

## Post-trade harmonisation

Almost a decade on from its genesis, the ECB's T2S single securities settlement platform went live in 2015. In harness with the Central Securities Depository Regulation (CSDR), the overall aim of this harmonisation initiative is to increase efficiency and reduce costs, while also introducing an element of competition among national post-trade infrastructure providers.

The project's path has not been entirely smooth so far. Delays to various markets joining up to T2S have increased the number of implementation waves from four to five along with intense scrutiny over costs. While the time horizon for cost savings to market participants has lengthened, industry experts still feel the project will overcome the remaining hurdles to successful adoption.

Hugh Palmer, T2S product manager, financial institutions and brokers, Societe Generale Securities Services, feels that the benefits will be felt when more markets are involved. "The tipping

continued on page 4

## Europe – A market transformed

continued from page 3

point of T2S will be from February 2017 when the lion's share of the markets will be on the platform. At that point, the benefits will start to kick in," Palmer asserts.

"In terms of a major driver for T2S, the amount of cash we will need to mobilise every day to settle the business of our clients across Europe, we are looking at a 35-40% estimated economy."

Alongside T2S, the wider principal of harmonisation has been

addressed through CSDR. The regulation not only brings Europe onto a shorter T+2 securities settlement cycle, admittedly causing certain interim operational challenges, but paves the way for a more dynamic post-trade market.

"In the short term there hasn't been a huge impact from T2S, but there has been from CSDR because the sell-side is being forced to deal with buy-side clients that are slower to adapt their market practices to reduce settlement failures," says Virginie O'Shea, senior consultant at Aite Group.

Henry Raschen, head of regulatory engagement for HSBC in Europe, says securities settlement processes had been neglected prior to the crisis.

"In 2010, regulators were not looking at CSD legislation as a priority, but now we have CSDR coming in, with elements to be implemented over the next couple of years. Questions are now asked about CSDs and the critical part they play in the whole financial markets infrastructure," he says.

### Visibility and liquidity

If post-trade issues were not receiving necessary levels of attention prior to the crisis, it may be in part due to the focus of European policy-makers and market participants on the wholesale changes to front-office processes and interaction with investment clients represented by MiFID, which came into force in November 2007.

Focused on the equity markets, MiFID had the effect of unleashing a wave of competition among national exchanges and independent trading venues, with new clearing houses also emerging to offer lower overall transaction costs in the main European stock markets.

Scott Coey, head of broker-dealer services, EMEA, BNY Mellon/Pershing sees one of the biggest legacies of MiFID as increased levels of pre- and post-trade transparency, which are due to be expanded into other

> **MiFID II offers the prospect of improvements in best execution and client categorisation.**
>
> **Henry Raschen,** head of regulatory engagement, HSBC Securities Services

non-equity asset classes under MiFID II from 2018.

"When MiFID initially came out, the emphasis was on providing greater visibility and liquidity, with greater fragmentation a by-product," said Coey.

As MiFID was rolled out, it was always the intention of European policymakers to draft MiFID II to extend and refine the scope of the original directive. However, MiFID II also became a vehicle for Europe's response to the financial crisis, outlining rules for new electronic venues for derivatives (known as organised trading facilities), while the separate European Market Infrastructure Regulation (EMIR) detailed plans for central reporting and central clearing of derivatives.

"MiFID and EMIR have to be looked at together in Europe, whereas in the US the exchange-based trading, clearing and reporting of derivatives were all picked up together under the Dodd Frank Act," explains Raschen.

Like any major piece of regulation, MiFID II imposes short-term burdens on service providers and infrastructure operators in pursuit of long-term benefits, in this case a more transparent and integrated securities market within the EU and increased cross-border investment.

With this in mind, experts are quick to recognise the new directive's future benefits. "MiFID II offers the prospect of improvements in best execution and client categorisation," says Raschen.

While MiFID II may cover a lot of ground, perhaps Basel III has had the most pervasive impact of post-crisis regulations, both in terms of securities and the wider financial markets, due to the restrictions it imposes on banks' use of leverage, capital and liquidity. "Basel III changed the entire cost dynamic of doing business in the capital markets," notes O'Shea. "There have already been exits from certain clearing business lines as a result of seeking to avoid capital charges."

For HSBC's Raschen, Basel III represents a necessary corrective for the industry. "Back in

> **For both the sell-side and the buy-side, regulatory change is now the norm.**
>
> **Scott Coey,** head of broker-dealer services, EMEA, BNY Mellon/Pershing

2008 a number of banks around the world had much lower levels of collateral than they should have had. Basel III requires them now to have higher levels," he says. "It is also a preventative measure, in view of an extension of the responsibilities of banks, notably through depositary liability for custodian banks. Regulators have sought to ensure that banks have adequate capital to be sufficiently resilient."

Despite the upheaval associated with Basel III, Coey also believes its guidelines will have a positive overall impact on the market. "Initially, regulatory change has been restrictive particularly for the sell-side, but the message for both the sell-side and the buy-side is that regulatory change is now the norm," he observes.

### New sources of uncertainty

Compared with 2010, we certainly have a much clearer idea about the regulatory framework for the European securities market. But with so much effort still involved in effecting internal change to meet compliance requirements, securities market may still be some way from understanding fully the future shape of the industry.

As O'Shea notes, "The main difference between 2010 and now has been the amount of change that comes with regulation. Previously, implementation of regulation would impact various segments of the market, but it wouldn't impact the whole market in the same way as Basel III has done."

The unforeseen implications of such major pieces of legislation will become more evident over time, but new sources of uncertainty continue to arise. Will reflections on the reality of MiFID II top the agenda at Sibos 2019 in London, for example, or will we be discussing the implications of Brexit? ■

> **Basel III changed the entire cost dynamic of doing business in the capital markets.**
>
> **Virginie O'Shea,** senior consultant, Aite Group

# A world of opportunity?

#Blockchain #Payments #Technology #Innotribe

## Correspondent banking faces mounting costs and risks, prompting a potential use case for blockchain.

Blockchain has become the financial industry's modern day penicillin – for almost any ill, distributed ledger technology is being prescribed as cure or remedy.

Be it moving settlement to T+0, or streamlining corporate actions, collateral transfers, securities clearing, trade finance or fund processing, blockchain has been touted as the solution to fixing to a range of otherwise intractable inefficiencies.

Beginning life as a public ledger for Bitcoin transactions, the technology now looks set to outgrow and potentially outlive its original purpose as the organisations across the established financial sector seek to find new applications for the blockchain. In most cases, the aim is to reduce costs and increase speed, efficiency and transparency. On the downside, substantial investment and long implementation timetables are required to replace complex legacy processes with a new technology which still has to convince sceptics about its robustness at scale and ability to fit into existing regulatory frameworks.

### In search of a remedy

While the financial markets are bullish on the prospects for blockchain, correspondent banking is suffocating under the weight of regulation and rising costs. A key challenge for providers of correspondent banking services in recent years has been the rise in know-your-customer (KYC) and anti-money laundering (AML) obligations as policy-makers step up their fight against financial crime and terrorist finance.

Correspondent banks manage chains of bilateral relationships across multiple geographies in order to transfer funds safely and securely between originators and beneficiaries on a global basis. As such, they face significant counterparty risks – and ever increasing costs as they put in new process layers to minimise these risks and meet regulatory obligations. It is perhaps no surprise that correspondent banking is one of the areas being tipped to benefit from use of blockchain technology.

Blockchain can counter issues of uncertainty and risk, while supporting transparency, according to Edward Budd, chief digital officer, Global Transaction Banking, Deutsche Bank.

"Blockchain technology can potentially be positively applied to correspondent banking as it would allow a process or an asset to be shared securely, efficiently, and with full certainty of its validity between several parties," he says.

"Benefits in scope are increased transparency, reduction of errors and speed and automation of transactions, which might have a roll-on effect on fees."

With regard to the regulatory and counterparty risk obligations of correspondent banks, blockchain has the potential to support due diligence requirements, experts note. And from a client service perspective, it offers the prospect of almost instant transaction processing, subject to critical mass being achieved.

### Greater speed, greater insight

Mark Buitenhek, global head of transaction services at ING, believes blockchain would increase transparency of the route and status of a transaction, while also reducing and removing reconciliation differences and other errors. Buitenhek adds that the technology would also allow banks to gain real-time updates into liquidity and cash positions.

"Besides that, blockchain technology might be able to help banks enter into relationships or interactions with more parties than they are able to at the moment. Blockchain technology might also eliminate several steps in the current process, reducing fees and thus costs for the customer," he says.

"Practically, what everyone hopes to solve using blockchain technology is greater insight into process, status and costs for customers with a higher certainty of transactions – and thus fewer errors – by reducing reconciliation differences and risk, by making transactions atomic."

Blockchain may appear primed to solve the major issues within correspondent banking, but it is by no means a quick fix. Sibos 2015 – where blockchain developer Hyperledger was crowned winner of the annual Innotribe Startup Challenge – reflected the growth in interest and innovation around the new technology. But while several consortia are already testing proofs of concept for different applications of blockchain, implementation timetables stretch out for several years.

Industry expert and founder of 3C Advisory Olaf Ransome believes another driver of blockchain adoption in correspondent banking could be the challenges faced by transaction banking franchises in adjusting to higher intraday liquidity costs under Basel III. As part of efforts to reduce counterparty credit risks, BCBS 248 requires banks to monitor the provision of intraday liquidity to correspondents much more carefully and is having the effect of limiting the availability and hiking the cost of providing liquidity via nostro accounts. Banks are finding it hard to pass on these higher costs within existing fee structures for correspondent banking services, making opportunities to cut costs are at a premium.

"So now we face the challenge and the opportunity of making use of blockchain. If to use that we had to move our fiat US dollars and euros to a digital format, then an ideal solution would be a 1:1 exchange into a single digital equivalent," he explains.

With the use of blockchain to curb the cost of intraday liquidity buffers dependent on banks agreeing a single digital version of each currency, however Ransome believes a solution is at least three years away. "We need one year to agree what we want, one to design and agree a solution and a year to implement," he says.

### A scalable solution?

Time aside, the key to blockchain implementation rests with the will to collaborate within the banking industry. The good news for correspondent banking is that connectivity and cooperation between the banks is well-established, for example through industry-wide utilities such as SWIFT. If banks can agree on standards, rules and infrastructure then there is every reason to expect that blockchain can be rolled out successfully within the correspondent banking world.

"The success of blockchain in correspondent banking crucially depends on its reach and network," says Budd, who nevertheless accepts that the technology still has much to prove. "Another challenge would be the scalability of a blockchain solution as thousands of transactions are processed every second. Further interoperability will be a key success factor, not only between different blockchains but also between legacy systems."

Budd believes the timescale for the adoption of blockchain for correspondent banking services will vary based on existing market practice in different geographies, regulatory environment and complexity of implementation. Even so, he suggests we could see the first commercial examples in late 2017.

"Moving to blockchain would require new investments, and some markets and market participants may not want to move until it becomes standard," he adds. "Full blockchain adoption might take another three to five years, and we expect the technology to be pervasive in five to ten years."

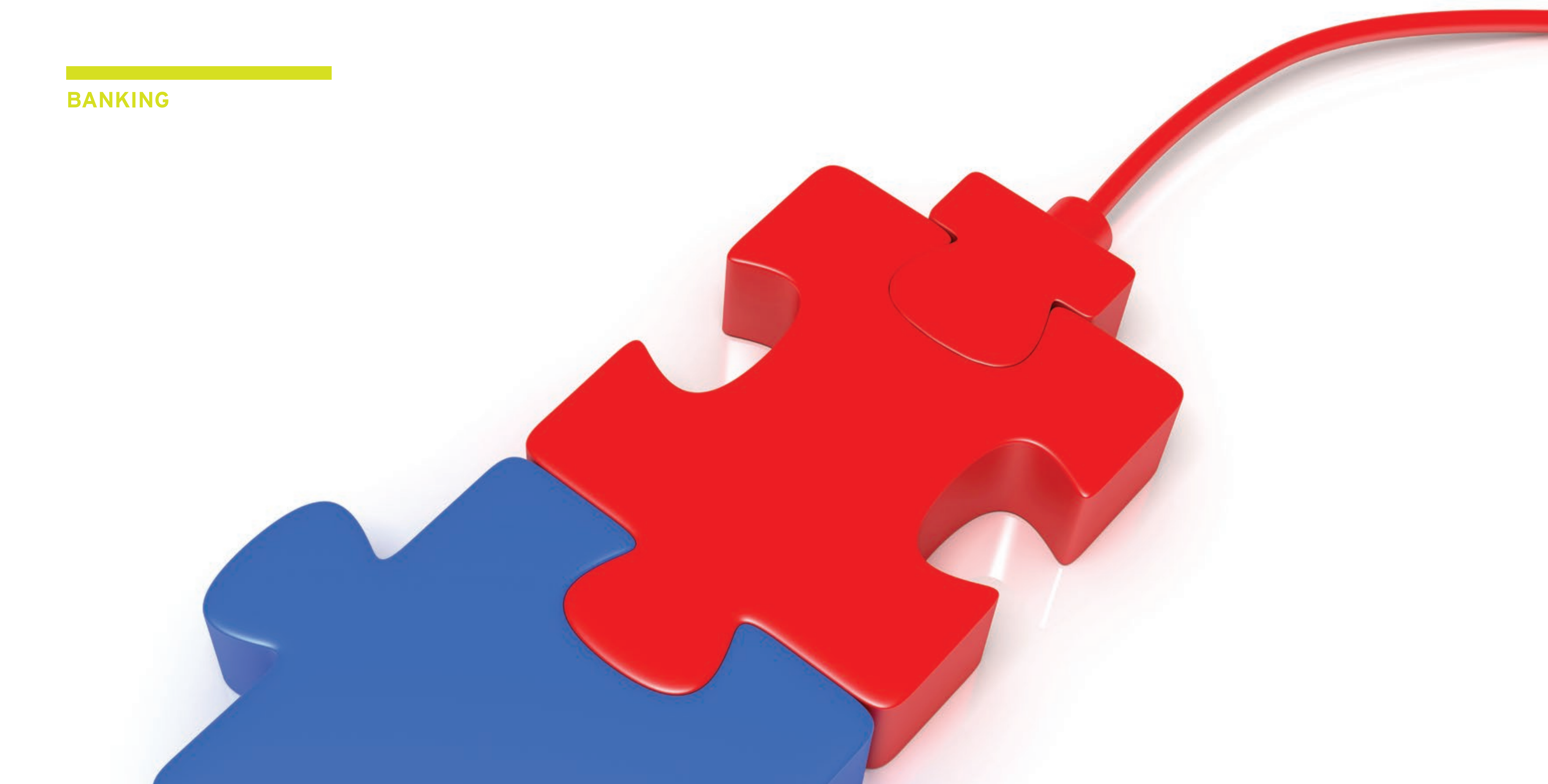
Given that cross-border payments are one of the existing uses of blockchain, albeit in Bitcoin, it might appear the proposition of using the technology for correspondent banking is one of the more likely cases for a rollout. Regulators, too, are likely to welcome any technology-based innovation that helps banks achieve KYC/AML compliance in a more cost-effective manner. Sibos 2016 in Geneva will be an ideal opportunity to assess progress. ■

**Blockchain technology might be able to help banks enter into relationships or interactions with more parties than they are able to at the moment.**

**Mark Buitenhek,** global head of transaction services, ING

**Further interoperability will be a key success factor, not only between different blockchains but also between legacy systems.**

**Edward Budd,** chief digital officer, Global Transaction Banking, Deutsche Bank



# Open questions

#Standards Forum #Payments #Technology

**Open APIs might be spurring a new era of payment service innovation, but creating appropriate governance is not as simple as plug and play.**

> **"Innovators don't want to wait for an annual standards release before implementing a new feature.**
>
> **Stephen Lindsay,** head of standards, SWIFT

Despite its relatively staid reputation, the payments industry has long been a field for innovation, both in terms of infrastructure and commercial services. Over the past few years, aggregated payment and account information services have been introduced by non-bank third-party service providers in a way that encourages competition across the sector, particularly in online transactions.

The direction of travel was evident from the time the first EU Payment Services Directive (PSD1) was introduced in 2007 with the aim of creating a single European payments market. New service providers emerged to allow clients of online merchants to initiate payments from their bank accounts rather than by credit card.

At the same time, concerns arose about the sharing of customer access credentials needed for these services to operate. "The contract for these services is usually between the provider and the merchant for the benefit of the merchant," explains Ruth Wandhöfer, global head of regulatory and market strategy, trade and treasury solutions, Citi. "As PS1 stipulated that payments users should not share their personalised security credentials with third parties, the European Commission was approached by the third-party service providers for reform that would allow them to be recognised and regulated under the PSD and remove this restriction in relation to their services."

## Encouraging competition

"The revised Payment Services Directive (PSD2) gives banks a hefty push in the direction of facilitating further competition, but it has been happening anyway," says Jerry Norton, managing director, financial services at CGI, an IT and business process services provider. PSD2 effectively mandates further opening up of the European payments market by the end of 2017, encouraging competition particularly in the areas of payment initiation and account aggregation.

At Sibos 2015 in Singapore, open APIs were in the spotlight as one way of facilitating the necessary data exchange between banks, their clients and the third-party service providers. "A single view of all your accounts in a variety of different banks and the ability to move money between them can be very attractive," says Stephen Lindsay, head of standards, SWIFT. "There are third parties already offering those services today, but they tend to work by 'screen scraping', which is not very efficient." This usually involves the third party logging in to a client account using their credentials. "Protected API methods would be a preferred solution," says Wandhöfer. "Banks can better control the data that is pushed to the third party, based on their users' consent."

Image: iStock

## Open questions

continued from page 6

> **From a B2B perspective, clients are driving demand consciously, because they can achieve efficiencies through APIs.**
>
> **Leda Glyptis,** director, Sapient Global Markets

An open API can be simply described as a means of accessing data from an application based on an open standard. It is essentially a public interface. In early February, the Open Banking Working Group (OBWG), established in 2015 at the behest of HM Treasury in the UK, released a report recommending the creation of an Open Banking Standard to facilitate the secure sharing of banking data via open APIs.

From a bank's perspective, however, things start to get complicated when open APIs are used to enable services to be built using data from individual customer accounts. Today, for a third party to obtain the requisite account information, access credentials must be shared by the client concerned – using information that banks would normally encourage their customers to keep private.

### Active governance

While existing standards-setting practices can help inform the process, they are not all immediately transferrable. "The technical and governance structures

> **The technical issue of defining an API is just the start of the journey.**
>
> **Jerry Norton,** managing director, financial services, CGI

we have in place for messaging standards don't necessarily work in the world of APIs, because it's all about agility and being able to move quickly," says Lindsay. "Innovators don't want to wait for an annual standards release before implementing a new feature." Nevertheless, he adds, "In the ISO 20022 methodology, we have captured the semantics of all the information that needs to be captured so we're not starting from scratch."

The OBWG report proposes that data-sharing is actively governed. Under the OBWG plan, an Open Banking Implementation Entity would plan, design and deliver future phases of the Open Banking Standard. "In our digitally enabled world, the need to seamlessly and efficiently connect different economic agents who are buying and selling goods and services is critical," says Matt Hammerstein, co-chair of the OBWG and Barclays' head of client and customer experience for personal and corporate banking.

The motivation of governments, regulators and third-party service providers to stimulate competition through APIs is clear, but are clients of payment services equally enthusiastic? "In the B2C space, demand is still limited, but in the B2B world, the demand for APIs is high and increasing," says Leda Glyptis, director, Sapient Global Markets and a consultant on digital business transformation. "From a B2B perspective, clients are driving it consciously, because they can achieve efficiencies through APIs. As you come closer to the SME and retail market, clients are not necessarily demanding APIs, but they are still driving demand for the kinds of service that APIs enable."

An outstanding question for those charged with creating a robust framework encompassing the necessary service providers is where liability sits when things do wrong. "Banks in the payments business will need to monitor risk more effectively," says Wandhöfer. Customers taking advantage of third-party services will have given consent, which banks can point to as having followed customer instructions. "PSD2 says third parties should authenticate themselves to the bank as such, but it is not clear how this would work and whether there will be consistency across Europe," says Wandhöfer. "In Germany, they have a very integrated access model with established contracts and liability, but we need to think about a more joined-up approach at a pan-European level."

> **PSD2 says third parties should authenticate themselves to the bank as such, but it is not clear how this would work and whether there will be consistency across Europe.**
>
> **Ruth Wandhöfer,** global head of regulatory and market strategy, trade and treasury solutions, Citi

The monitoring of consent is a significant legal issue in itself. "If a consumer gives consent to a third party directly, I, as a bank, may or may not be involved in or informed by my user and thus may have to rely on the third party," says Wandhöfer. She raises the theoretical possibility of a customer withdrawing consent from a third party, but that withdrawal not being forwarded to the bank. "That is a legal conundrum on which PSD2 has yet provide clarity," says Wandhöfer. "We are trying to formulate recommendations to the industry on how to deal with this. PSD2 only allows for additional contracts between third-party providers and banks, which could provide further clarity, if TPPs show an active interest."

### Unresolved liability issues

Norton at CGI agrees liability issues remain unresolved at present. "The technical issue of defining an API is just the start of the journey," he says. "The API will probably have to carry a lot of 'non-functional' information to allow the third-party provider to operate with the banks beyond the information needed to make a payment."

In addition, he says, there will be a need for tools to manage the APIs themselves. "I might have v1.2 for one client and v1.3 for a different client," says Norton. "The variations may be slight – perhaps a field here or there – but you need flexibility to be able to have variations and tools that allow you to manage them. If you have one standard, I suspect it will be too rigid."

In meeting these challenges, Glyptis draws a distinction between service providers founded to take advantage of the potential of APIs, essentially new institutions, and existing banks, which have both legacy technology and, more to the point, legacy business models. While the new service providers may have exciting business and operating models, they cannot necessarily be easily emulated by incumbents.

"Understanding how to frame the conversation is a challenge," she says. "For the services that banks get paid for historically, what happens to your price points once you start exposing your service through APIs? Articulating the business value is easier than saying what the API actually does, which is something the business people increasingly want to know. It's not another channel. It's a very different way of interacting with your clients and has an impact on product organisation and pricing structures." ■

# Building the future

**SWIFT's sixth London Business Forum, which attracted 1,300 delegates to east London's Tobacco Dock in April, provided a foretaste of the topics likely to feature on the Sibos menu in Geneva in September.**

**HM Treasury special FinTech envoy Eileen Burbidge** highlights the role of collaboration in encouraging innovation in her keynote address.

The theme for SWIFT's London Business Forum, 'Build the Future', was introduced by Javier Pérez-Tasso, chief executive, Americas & UK Region, SWIFT, who noted that today's rapidly-changing environment has brought a number of challenges to the fore. Companies have to remain resilient, compliant and cost-efficient, which is fundamental to their licence to operate, while also managing innovation and transformation, which is critical to staying relevant in the new fourth industrial revolution. Reflecting the sense of urgency engendered by multiple dynamic forces, he cited Moore's dictum that, "The pace of change has never been this fast, nor will it ever be this slow again."

## Nurturing innovation

In her opening keynote speech, Eileen Burbidge, partner, Passion Capital and special FinTech envoy for HM Treasury, drew attention to the UK's supportive climate for financial services in general and FinTech in particular. The question of how we build the future, she suggested, is really one of how to facilitate effective collaboration.

As an early stage venture capital backer of technology companies, Burbidge noted that 30-40% of Passion Capital's investment is in FinTech. Although this was not the firm's deliberate strategy from the outset, it soon became evident that some of the strongest value propositions were to be found in the realm of financial technology.

Burbidge stressed that innovation is far from alien to financial services, pointing to the example of SWIFT. What is new, she suggested, is the source of innovation in today's climate. Traditionally, innovation in financial services has come from within the financial institutions, but this has expanded to include other industries and users themselves. At the same time, she pointed out, policy makers and governments can expedite innovation.

Both banks and FinTechs should see themselves as part of a single ecosystem, Burbidge urged. Within the next decade, she predicted, the concepts of 'digital and 'FinTech' will no longer exist as separate sectors.

## Positive opportunities

To set the tone for much of the day's subsequent discussion, the plenary panel explored the theme of building the future. Gottfried Leibbrandt, CEO, SWIFT, presented his perspective alongside Andrew Hauser, executive director, banking, payments and financial resilience, Bank of England, Marion King, director of payments at RBS and Blythe Masters, CEO, Digital Asset Holdings.

Panellists agreed that innovation, properly channelled, is not the opposite of stability. On the contrary, an absence of innovation can itself harm stability, since a lack of investment in systems can introduce risk. Too little innovation meanwhile can lead to concentrated markets and single points of failure.

The commercial challenges of the post-crisis environment, with suppressed return on equity as a result of higher costs, lower revenues and greater capital requirements were a strong incentive for a new generation of entrepreneurs and technologies, panellists observed.

**Former Conservative cabinet minister John Redwood** puts the case for 'Brexit' in the closing panel session.

Panellists warn of the **systemic risks of apparent stability** in the London Business Forum's plenary debate.

While change is not always easy, particularly when it comes to business processes, positive opportunities now present themselves. Distributed ledger technologies, for example, offer a promise in the medium term of being able to mutualise financial market infrastructure in a way that enhances security, while also reducing costs substantially for market participants. The challenge remains "how to change the wheels on a moving bus".

## No return to BaU

Following a wide range of in-depth workshop sessions, attendees came together at the end of the day to hear a debate between two former cabinet ministers on a topic of significant macroeconomic and political uncertainty: the implications of the vote in a June referendum on the UK's membership of the EU. Arguing vigorously for Brexit, as it has come to be called, was John Redwood, Conservative MP for Woking and chairman of the Conservative Parliamentary Economic Affairs Committee. Supporting continued EU membership and engagement was Sir Vince Cable, the Liberal Democrat secretary of state at the Department for Business, Innovation and Skills in the previous coalition government. Moderated by Natasha de Teran, head of corporate affairs, SWIFT, the two panellists seemed to agree on one thing: whatever the outcome, the day after the vote would not herald a return to business as usual. ■

# This time, it's personal

#Diversity #Technology #Data

**Delivering a personalised customer experience in the digital age requires much more than technology innovation.**

> **The unbundling of banking services by FinTechs is one manifestation of personalisation.**
>
> **Scarlett Sieber,** senior vice-president, global business development, new digital businesses, BBVA

In BBVA's innovation centre in Madrid, an interactive map of the Spanish capital lights up in response to the transaction activity of its retail clients. The map not only illustrates the shopping habits of distinct customer segments, but also the scale of data at the disposal of banks as they aim to tailor their services based on a growing understanding of patterns of customer behaviour. "If 10% of our more affluent Madrid clients frequent a particular area at a particular time, how can we best use that information to service them better?" posits Scarlett Sieber, senior vice-president for global business development in the new digital businesses division at BBVA. "The same question applies to concentrations of millennials or other demographics."

In the age of the internet of things, we share vast and increasing amounts of digital information about our preferences and whereabouts. Firms such as Netflix, Amazon, Google and Uber already combine this data with machine-learning algorithms and easy-to-use interfaces to provide enhanced customer experiences and identify new commercial opportunities. As we explore this world of personalised digital services, we inevitably expect similarly bespoke functionality in other areas of everyday activity, such as banking. Banks like BBVA – which aims to be the world's first fully digital bank – are keen to meet this need before acknowledged leaders in the digital customer experience branch into banking.

## Feedback loop

At its core, the digital personalisation challenge for banks is to deliver a consistent, seamless customer experience across every device or platform, with every client transaction or communication contributing to a feedback loop to continuously refine and improve service levels. While it is important that this intelligence drives innovation, it must also enhance the trust on which the bank-client relationship is founded. KPMG Nunwood, an international customer experience consultancy, claims personalisation is the most important of 'six pillars' that underpin excellent customer experiences and support long-term customer relationships. In a recent report[1], it claimed banks have a "unique opportunity" to transform customer relationships by providing 'anticipatory services', which use proprietary data, analytics and third-party sources to let the customer know about things they might need before they know it themselves. In future, retail customers could rely on their banks to provide them with options when a home energy contract expires or even list locally available discounts for regular consumer purchases. "It is personalisation writ large and it's central to the future of banking," the report declared.

Retail banks around the world are already developing apps that help their customers make smarter purchasing and other key financial planning decisions, but these are unlikely to gain long-term customer traction and shareholder returns without operational and strategic underpinnings. And then there's the question of mounting competition.

> **Opening up the API layer will help banks develop better customer experiences.**
>
> **Jouk Pleiter,** CEO, Backbase

"The unbundling of banking services by FinTechs is one manifestation of personalisation. If you only really care about one banking service, why source it from a generalist rather than a specialist provider focuses solely on excellence in that one service?" asks BBVA's Sieber. "With so many specific customer verticals, personalisation has never been so important."

## Open to collaboration

Banks aren't as suited to agile customer-centric product development as most FinTech startups, but they do have the trust of millions of customers and as such are well-positioned to aggregate demand. As such, both banks and startups are increasingly open to collaboration. In September 2015, consulting group Forrester published a report[2] which outlined how banks could shift from their existing vertical structures to embrace 'omni-channel banking'. Broadly speaking, an omni-channel strategy retains core banking platforms, but introduces a digital banking services layer which enables the bank to incorporate the services of selected niche FinTech providers into a harmonised, consistent customer experience across multiple end-user devices. This approach encourages the kind of innovation that can deliver a more personalised customer experience, but sets it within a framework that also maintains trust, regulatory compliance and supports service quality.

One of the challenges of this transformation is for banks to adopt open APIs. While banks' applications were once black boxes to anyone but their developers, now they are seen as sources of valuable data and capabilities that can be opened up, re-used and built upon by other developers, including those working for third parties and FinTechs. "APIs are a critical enabler of optimised customer experience. Opening up the API layer will help banks develop better customer experiences," says Jouk Pleiter, CEO of Backbase, a technology vendor.

Backbase, which has made its name building digital solutions for retail banking, was one of a number of firms demonstrating the potential of personalisation in the wealth management space in Finovate Europe, a startup showcase event held in London in February. The first wave of 'robo-advisors' – front-end platforms that combine low fees, algorithm-driven vanilla investment options and intuitive web-based functionality – were initially regarded as cost-effective, scalable means of meeting low-level investment needs. Based on relatively few inputs on investor appetites and preferences, the robo-advisor would recommend from a range of options, typically passive investment vehicles such as popular, broad-based exchange-traded funds, but also provide a level of customer service. But as pioneers Betterment and Wealthfront drew response from Charles Schwab, Invesco and BlackRock, robo-advisors have become increasingly sophisticated, gradually moving up the value chain to the mass affluent and high net worth markets.

## Learning from experience

At Finovate, Backbase demonstrated its Digital Banking Platform, the wealth management version of which enables private banks and wealth managers to automate personalised services at scale, not just by providing multiple portfolio views and investment options, but also using existing client information to automatically offer specific types of financial planning for key life events. A competitor, Geneva-based InvestGlass, augmented its existing robo-advisor offering – which offers automated onboarding, portfolio optimisation and personalised advice – by unveiling new sales optimisation functionality. 'Leads' uses AI to learn from and respond to factors including client contact frequency requirements, preferred investment themes, past financial behaviour, ineligible securities and contact relevance.

Firms like Backbase and InvestGlass might be seen as disruptors, but they are aiming to put the machine-learnt personalisation at the disposal of relationship-owners, ie banks, rather than looking to usurp them. In both cases, the aim is to provide banks with an automated approach to service personalisation which is scalable. The machine-learning algorithms that underpin the new breed of robo-advisors are telling the sales team not only who to call about a particular service or investment opportunity, but who to call first and what to say, based on an expanding universe of structured and unstructured data.

In this context, the technology is drawing on data to help the banks' staff deliver a more targeted, personalise service. One of the ways in which BBVA is trying to do this in the retail space is through its BBVA Wallet, a proprietary mobile payments app which already has three million users globally. The app can be used to pay from the user's current account, take out a loan at the point of purchase, turn cards on and off (if mislaid or stolen), order new cards, pay off card balances, and define card profiles, thus capping spending or avoiding high FX rates. As well as providing the user with real-time balance info, the wallet provides merchants with analytics that track customer usage trends, thus supporting further personalisation.

For now it seems, there is no one path that banks must choose to get closer to their customer or one destination, but there is one over-arching principle: read the signs. "Is personalisation changing the delivery channels used by banks or their products? I think it's both. Banks have to listen to customers. Fortunately, there is much more data available to help banks serve customers better," says Sieber at BBVA. ■

1 Banking the Customer Experience Dividend – 2016 Banking Sector Briefing. KPMG Nunwood.

2 Omnichannel Banking Solutions – Q3 2015. Forrester

# Countdown to compliance

#Market Infrastructures

## Help is at hand for securities firms implementing ISSA's Financial Crime Compliance Principles.

The practical implications of financial crime compliance have become more tangible in the securities industry since the International Securities Services Association (ISSA) proposed a three-year time frame (to end-2018) for adoption of its Financial Crime Compliance Principles (FCCP). The adoption process requires that even long-established contractual relationships be revisited, and that their underlying documentation be redrafted into FCCP compliance. Such redrafting has to be, and has to be seen to be, a comprehensive application of due diligence.

### Compliance commitment

The good news is, first, that upwards of 90% (source: ISSA) of the industry favours FCCP adoption, and secondly, that ISSA itself is committed to supporting firms through the process. Mark Gem, head of compliance, Clearstream, and chair of ISSA's FCCP Working Group, says: "We are tasked with developing tools to help our industry get to the goal of adoption. For example, we are working on the due-diligence questionnaires that will enable people to assess the degree to which their counterparties are in compliance and developing the contractual elements that firms will need." ISSA is also, says Gem, "making sure that people are aware of the tools that are available to help them cross the finishing line; things like the industry utilities; things like off-the-shelf cloud-based name-streaming solutions".

Integral to ISSA's approach is the ambition that FCCP adoption should become a virtuous cycle, progressively achieving the global propagation of best practice. This seems realistic: if the whole industry wants and is working towards compliance, it will become very difficult for a non-compliant firm to find a non-compliant counterparty. FCCP adoption seems already to be facilitating – indeed, encouraging – co-operation between firms. Thomas Zeeb, chief executive officer, SIX Securities Services, and incoming chairman of ISSA, says: "Our experience with financial crime compliance so far has been that it brings us closer to our clients. We find ourselves working together with our clients to ensure that any potentially questionable transactions are not entered into. Our collaborative approach has been received very positively, very welcomed."

Perhaps the obvious question, given the securities industry's apparently enthusiastic acceptance of both the principles and the co-operative approach to their adoption, is: how much of a burden will practical adoption impose? Discussing the three-year time-frame, James Freis, chief compliance officer, Deutsche Börse Group, says: "Going from the principles to the implementation is really quite fundamental, especially for some of the bigger institutions. We know some of the steps, but actually to amend your contracts; to have your systems ready to request and evaluate more data and keep a record of that; that will take a lot of lead time."

### A matter of intent

Amending multiple contracts and systems is not a task to be taken lightly by securities services firms. But – to pose the question somewhat provocatively – couldn't we all just save time by agreeing to behave differently, and start from there? Answer: not if the ISSA principles are to be effective to their fullest possible extent. Today's regulatory environment is complex, sanctions seem to evolve and multiply, and even the simplest mistakes can be expensive. Zeeb says: "On the board of ISSA, we asked ourselves, how can we best manage the regulatory process going forward? How can we as an industry meet the intent of the regulatory requirements before a whole new series of legislation is created?" The key word is 'intent'. To comply with the letter of the law, as distinct from its intent, is to risk repeated regulatory interventions to address unforeseen 'small-print' infractions. Further, a clear understanding of the direction of travel among policymakers and regulators is most likely to result in meaningful change of behaviour rather than just check-box compliance.

> **We are working on the due-diligence questionnaires that will enable people to assess the degree to which their counterparties are in compliance.**
>
> **Mark Gem,** head of compliance, Clearstream, and chair, FCCP Working Group, ISSA

In drafting the principles, ISSA's intent is that they should at least draw a favourable response from regulators – and the signs are that this is happening. Olivier Goffard, head of group compliance and ethics, Euroclear Group, says: "We have already had good discussions with the International Organisation of Securities Commissions and the Financial Action Task Force. We hope that in the coming months, they might recognise the principles. Having other organisations behind the principles in addition to the many ISSA member firms will make them truly robust." Regulatory approval, like the principle-based approach itself, can be 'portable' across borders. If regulators discuss and validate a set of principles, then they and the industry are saved considerable time and effort defining and implementing distinct regulatory requirements.

The fragmented regulatory environment across jurisdictions informed ISSA's approach from the outset, as most securities services firms operate across borders, and thus face a multiplicity of regulatory requirements. "We want these to be global principles," says Freis. If the objective is global acceptance, then all that time spent going back and re-establishing contractual relationships is a necessary commitment: it's the process of putting in firm foundations. Zeeb says: "There is a lot to be done, but these are things that each organisation can do on its own timeline." Given their widespread acceptance, it's easy to forget that these are voluntary principles, and that there is no actual obligation to comply with the three-year timeline. But as Zeeb notes: "Compliance isn't just about facilitating relationships with regulators; it's about protecting the enterprise and industry from criminal activity."

> **Our experience with financial crime compliance so far has been that it brings us closer to our clients.**
>
> **Thomas Zeeb,** chief executive officer, SIX Securities Services, and chairman, ISSA

### No short cuts

While pursuing long-term, structural changes, inevitably short-term compliance considerations also arise. There is, Zeeb suggests, a "superficially appealing" response to pressure from regulators for full mutual disclosure between parties to a transaction. It is to put in place "fully

**Countdown to compliance**

continued from page 10

segregated accounts right the way through", in place of selective segregation and omnibus accounts. This would entail "huge change" and "huge cost" over "probably ten years". And it wouldn't be effective. Zeeb says: "We don't believe that such an approach addresses the core issue in disclosure. The fact that you know an account belongs to x, y or z doesn't help. You just end up with a huge database – you've got the haystack and you're looking for the needle. What you need is the appropriate filters to identify transactions, activities and scenarios that are questionable. You need a clear and agreed procedure for digging into those."

> **Having other organisations behind the principles will make them truly robust.**
>
> **Olivier Goffard,** head of group compliance and ethics, Euroclear Group

A clear and agreed procedure between any two parties requires mutual understanding and mutual trust – over and above any mutual obligation to hand over data. It requires, one might say, an approach based on a shared set of principles. Zeeb says: "I would much prefer transparency to be created thus: we have a questionable transaction, and we all commit to ensuring that – within the bounds of our various jurisdictional regulations – we meet the requirements of disclosure. That's collaboration focused on the exceptions and not just on the easy part of the process, which is building up the massive database." ■

> **To amend your contracts; to have your systems ready to request and evaluate more data; that will take a lot of lead time.**
>
> **James Freis,** chief compliance officer, Deutsche Börse Group

BANKING

# Standards shift as real-time payments aim for added value

#Payments #Standards Forum #Market Infrastructures

## Agreement on global market practice could prove a timely boost to national schemes, but cross-border complexities remain.

> **The rich set of data definitions, flexible character lengths and types make ISO 20022 a great standard for information flow.**
>
> **Jeremy Light,** managing director, Europe, Africa and Latin America, Accenture Payment Services

Sibos 2015 witnessed a major milestone in the continuing development of real-time payments systems, as industry leaders met to discuss proposed message standards for real-time payments services under the ISO 20022 universal messaging framework.

While real-time payments have been up and running in certain jurisdictions for quite some time, overall adoption across the world has been patchy, with only a handful of countries having implemented rapid payment systems to date. Moreover, as national, typically retail-focused initiatives, real-time payment systems were rarely designed with an eye to cross-border compatibility. This raises the prospect of trouble ahead as more countries launch their own real-time payments platforms, prompting demand for instant payment services on an international basis.

One early adopter of real-time payments is the UK, where the Faster Payments UK scheme went live in 2008. The UK system currently works on the ISO 8583 message standard, the de facto standard for credit and debit card payment services. Craig Tillotson, chief executive of Faster Payments UK, says the development of ISO 20022-based message standards is crucial to the further development of real-time payments.

"The UK system has been built on ISO 8583, in part because it is good at choreographing the exchange of messages, letting people know that their money has been sent and is available within seconds. However, it is far inferior to ISO 20022 in message terms and this is where making it a real-time standard will be crucial."

### Information-rich payments

Outlining the advantages of ISO 20022 over ISO 8583, Jeremy Light, managing director of Accenture Payment Services in Europe, Africa and Latin America, says: "Information about a payment is increasingly seen as important as the payment itself, and the rich set of data definitions, flexible character lengths and types (including Asian and Cyrillic texts) make ISO 20022 a great standard for information flow. In particular, the remittance field of the ISO 20022 standard is often cited as an example of how the standard is

continued on page 12

## Standards shift as real-time payments aim for added value

continued from page 11

suited to supporting rich payment information."

Singapore, Sweden, Denmark and Poland have already opted to use ISO 20022 over ISO 8538 to support their real-time payments infrastructure. Singapore's system was implemented over the course of 2015 and ISO 20022 was chosen primarily because of its ability to support rich information flows alongside the transactions themselves.

ISO 20022 has another major advantage, according to Light, in that it is supported by a large set of sophisticated toolkits and utilities across the banking world. Although not a real-time payments initiative, ISO 20022's adoption for credit transfers and direct debits in the Single Euro Payments Area almost a decade ago gave a significant boost to the universal standard framework and its usage by international banks. Interestingly, while ISO 8583 also has a multi-character remittance field, it has not been widely utilised and thus most systems simply do not support it, requiring expensive re-engineering in order to make it work. By contrast, the features of ISO 20022 are being widely used, which could offer real-time payments platforms the ability to support a wider range of features and services in the future.

This potential to offer new higher levels of service is considered crucial to encouraging meaningful levels of adoption by customers and banks alike, thereby helping banks to achieve returns on the significant investments needed both to develop real-time payment platforms and to adjust internal systems to deliver services on a 24/7 basis.

### Immediate appeal?

There have been concerns surrounding the cost of implementing real-time payments. Research by the US Federal Reserve Bank has indicated that migrating legacy systems to use faster payments could have a net neutral or negative revenue outcome. It is also seen as highly unlikely that retail consumers would be willing to pay extra for real-time services. And while business customers could be charged, this could inhibit adoption. Tillotson acknowledges charging for value-added services is unlikely, stressing that, "in the UK market, it has become increasingly clear that delivering a real-time, 24/7 service is a requirement of customers."

When consumers are so used to near real-time services, such as email, films on demand and same-day delivery from online retailers, payment processes that take longer than a day become a potential liability. But real-time payments can go further than simply convincing consumers that the banking industry is fit for the 21st century. One such example that has been popular with retailers is the provision of refunds.

"A number of UK retailers are now using Faster Payments to issue refunds, and some insurers are also refunding premiums this way," explains Tillotson. "For some, immediacy of funds can be very important and having to wait several days for a refund to be paid is highly inconvenient." Faster Payments UK is also looking at moving beyond real-time payment initiation to real-time payment requests.

Markets that are fast-followers rather than early adopters of real-time payments services are sometimes able to play 'leapfrog', seeing real-time requests as an essential use case. For example, Australia is currently in the process of building and testing its New Payments Platform (NPP). Australia's NPP, a collaborative initiative for which SWIFT supplies the network and switch components, is due to go live in the second half of 2017, and "will support multiple 'overlay' services that can be independently developed on top of NPP to offer innovative payment services to end-users", according to the Reserve Bank of Australia. E-commerce platforms, for instance, will be able to initiate payment requests directly into NPP.

> **Immediacy of funds can be very important and having to wait several days for a refund to be paid is highly inconvenient.**
>
> **Craig Tillotson,** chief executive, Faster Payments UK

### The cross-border conundrum

A key remaining question for real-time payments is the degree to which they will enable consumers to transact cross border. As Light says: "Just adopting ISO 20022 does not guarantee interoperability between the payment systems that use it. Domestic debit card schemes may use ISO 8583 but that does not make them compatible with the international schemes such as Visa, MasterCard and American Express, and is why they often cannot be used outside their home country or online. Similarly, unless local real-time payment systems use a common message and rules set with ISO 20022, then they may not be interoperable across borders with other ISO 20022-based payment systems."

Therefore, providing real-time payments on a cross-border basis is a long way from being realised. Firstly, message formats can differ considerably between countries and between systems, even within ISO 20022, but this is relatively minor compared to some of the other barriers to effectively process real-time payments cross-border and cross-currency. Foreign exchange is one major issue that has yet to be resolved, and banks would need to figure out when FX is fixed for all transactions using a real-time system.

Furthermore, even in the euro single-currency zone, where FX considerations do not apply, there has been great difficulty in reaching an agreement to enable cross-border and cross-system transactions in real-time, due to the need for banks to have certainty on availability of funds. To take real-time payments truly cross border would also require settlement agreements to be reached between currency zones to support EUR-USD real-time payments, for example.

### Raising awareness

The ISO 20022 Real-Time Payments Group (RTPG), which has been up-and-running for over a year now, brings more than 50 payments organisations around the world together to look at how ISO 20022 can be used to set global market practice for real-time payments.

"Just before Sibos last year, we published a draft of the market practice for payments clearing and settlement messages (pacs.008 and pacs.002), which the RTPG had deemed to be the core ISO 20022 real-time payment messages that any real-time payment system should be using," says Lauren Jones, head of standards, Payments UK. "We issued the draft ahead of Sibos essentially to raise awareness that there was a global group working on facilitating ISO 20022 real-time payments development." The new ISO 20022 message guidelines were developed by the ISO 20022 RTPG, facilitated by Payments UK, the trade association for the UK payments industry, which has been driving much of this work as part of its ongoing efforts to ensure greater global harmonisation of standards.

> **RTPG issued the draft ahead of Sibos to raise awareness that there was a global group working on facilitating ISO 20022 real-time payments development.**
>
> **Lauren Jones,** head of standards, Payments UK

On 18 April, 2016, the guidelines were published on the ISO20022.org website after gaining approval from the ISO 20022 Registration Management Group, the senior global registration body for the standard. "Following approval, these are now available for the industry to start using and building against," says Jones. SWIFT has been actively involved with the RTPG and has published its guidelines via its MyStandards platform to help ensure awareness and uptake of the agreed market practice is as wide as possible.

The published guidelines are the first in a series. The ISO 2022 RTPG is now taking its next step, which is moving beyond the core clearing and settlement messages to more 'optional' messages, including corporate-to-bank payments. "These are messages that each jurisdiction will make its own implementation decision about. While they are not seen as core for real-time payments implementation, countries may still wish to use them and therefore need to be more informed about how this can be done," says Jones. "We're hoping to publish these towards the end of the summer."

The aim is to develop a catalogue of guidelines covering all the ISO 20022 messages that may be used for real-time payments. With a number of key markets now undertaking work on their own real-time payments systems, including the Eurozone and the US, it seems as if 2016 could be the year real-time payments finally go global. ■

# Searching for the synthesisers

#Technology #Innotribe #Data

## What role can third-party solutions such as 'RegTech' and industry utilities play in helping banks tackle regulatory compliance reporting challenges?

"We are drowning in information, while starving for wisdom," observed the esteemed American entomologist and biologist Edward Osborne Wilson. He predicted a future in which the world would be run by 'synthesisers', defined as "people able to put together the right information at the right time, think critically about it, and make important choices wisely".

Today's 'RegTech' innovators have staked a claim to be considered 'synthesisers' as they develop tools that aggregate and standardise often unstructured data sets to help financial institutions meet their increasingly complex regulatory compliance and reporting obligations. Moreover, their claims are being taken increasingly seriously by a wide range of governments.

In his 2015 budget, UK chancellor George Osborne called on the Financial Conduct Authority (FCA) to work with the Prudential Regulation Authority (PRA) to "identify ways to support the adoption of new technologies to facilitate the delivery of regulatory requirements". The Monetary Authority of Singapore (MAS) has appointed a chief FinTech officer to head its FinTech & Innovation Group, while Ireland has placed "research, innovation and entrepreneurship in the international financial services sector" at the heart of the government's 'Strategy and vision for international financial services 2020'. Minister of state for finance Simon Harris has placed particular emphasis on governance, risk management and compliance applications of financial technology.

In November 2015, the UK's FCA published a 'Call for input: Supporting the development and adoption of RegTech', in tacit recognition of the need for new technologies to meet financial institutions' regulatory reporting and compliance requirements. "The RegTech CFI seeks to understand technology innovation across the FinTech sector which may aid firms with their regulatory and compliance requirements," the FCA told Sibos Issues. "By launching the CFI, we question whether there is anything we can do to support the development of this sector, which stands to benefit regulated firms."

### Terms of reference

From a regulatory standpoint, the terms of reference have changed, according to Brian Fahey, CEO of MyComplianceOffice (MCO), a provider of governance, risk and compliance IT solutions, with regulators focused less on assessing how a financial firm is gearing up to respond to regulation and more on the capabilities of individual firms. "The expectation is one of 'don't show me policies and procedures, but show me your reports'," says Fahey.

The use of technology to address regulatory requirements is not new. Long before RegTech came on the scene, major banks were deploying proprietary solutions, with more commoditised kit being offered to mid-tier firms by third-party technology vendors. The uptick in new regulation impacting the finance sector has caused a step change over the past decade, with firms gradually realising that 'flying solo' was costly, time-intensive and unsustainable. The result was a surge of collaboration and an increase in utility solutions to tackle specific non-competitive challenges. In some respects, these utilities have a claim to be Wilson's synthesisers too, in terms of their use of common data management processes to put together "the right information at the right time" to ensure regulatory compliance.

According to Luc Meurant, head of the financial crime compliance services division at SWIFT, utilities need four characteristics to ensure industry adoption. First, they must offer superior technologies and processes to unlock savings and increase efficiency; second, they must develop and encourage convergence in market practice and standards; third, they must deliver excellent operational management of the processes for which they take operational responsibility; fourth, they must offer a 'smart path' that enables step-by-step migration to use of the new utility, providing benefits to users at different stages.

"In the long term, common market practices must be adopted by users for utilities to work effectively, but banks can work gradually toward that goal. In the first instance, they achieve great benefits from a deeper understanding of how their peers handle the same regulatory requirements. But they don't need to move processes or transactions to a utility in a 'big bang'; perhaps identifying instead a subset of their overall business for a pilot migration, such as correspondent transactions," says Meurant.

continued on page 14

> **The expectation is one of 'don't show me policies and procedures, but show me your reports'.**
>
> **Brian Fahey,** CEO, MyComplianceOffice

> **Regulation is forcing stakeholders to go where no financial firm has gone before.**
>
> **Paul Fawsitt,** CEO, MoneyMate

# Searching for the synthesisers

continued from page 13

> **"Common market practices must be adopted by users for utilities to work effectively, but banks can work gradually toward that goal.**
>
> **Luc Meurant,** head of financial crime compliance services division, SWIFT

Nor do utilities need to be all things to all people. In the financial crime compliance space where SWIFT offers The KYC Registry – a shared platform for managing and exchanging know your customer (KYC) data – Meurant predicts the emergence of separate utilities for sanctions, KYC and monitoring processes.

## 'Intelligent' data mining

Although RegTech lacks a precise definition at present, a number of common themes and characteristics suggest a long-term role on the regulatory landscape too. For the FCA, potential applications include: accelerator initiatives that focus on delivering regulatory compliance reporting; real-time risk evaluation in areas such as trade surveillance, financial crime risk monitoring, KYC and anti-money laundering (AML) requirements; data streamlining and online visualisation tools; software integration tools that interact with regulatory reporting system; and leveraging cloud-based technologies for speed and efficiency.

By seeking to unravel cluttered and intertwined data sets for the purpose of regulatory compliance reporting, RegTech aims to bring agility, speed and ease of integration to a once time-consuming and manual-intensive process. Smart analytics are then overlaid on this to 'intelligently' mine data to unlock its value and meet specific reporting requirements. Deloitte's 2015 report, 'RegTech is the new FinTech: How agile regulatory technology is helping firms better understand and manage their risks', explains how new analytics tools can use the same data for multiple purposes.

But observers suggest these efforts are still in their infancy. When it comes to mining the right data sets to comply with the raft of regulation facing financial institutions the response to date has been lagging, according to Paul Fawsitt, CEO of Dublin-based MoneyMate, a provider of data and technology solutions to the funds and banking industry. "Regulation is forcing stakeholders to go where no financial firm has gone before."

A fundamental issue is that compliance and operations professionals are having to contend with a mass of unstructured data sets from which to craft reports. "The problem is a lack of standards," says Fahey. "The more we can get to a common baseline, the better the industry will be."

The challenge is to standardise regulatory reporting around structured ontologies, which define and compartmentalise the variables for a specific set of computations, as well as establishing their inter-relationships. Fahey's MCO is a member of the Financial Services Governance, Risk and Compliance Technology Centre (GRCTC) based in Cork, Ireland, where academic and business-led R&D is being undertaken on regulatory compliance requirements facing the finance industry. Other member firms include Citi, State Street and SAP. Current research is focused on the development of 'meaning centered' semantic technologies, which rely upon an encoding process whereby 'meaning' is stored separately from data and content. At one level, it is a form of artificial intelligence which allows a computer programme to differentiate between entities. But in future this type of technology could bring order to the unstructured data sets from which financial institutions need to derive standardised and meaningful compliance reports.

Work is centred on developing families of interlinked regulatory and GRC ontologies which capture regulatory concepts, taxonomies, and rules in formal semantics. The aim is to enable efficient access to, and smarter consumption of, financial regulations and to use semantic technologies to enable smarter analysis of both structured and unstructured data. From a broader perspective, the GRCTC hopes to help the industry address a range of requirements, from pinpointing the compliance imperatives within a regulation, to measuring risk or evaluating controls.

## Secure exchange

Alongside academic research and government-driven initiatives, the past 18 months has seen a rush to market of innovative start-ups, as well as new product roll-outs from established data depository and data distribution businesses. The FCA accepts the contribution of for-profit undertakings, albeit advising caution, in view of the high stakes. "Ultimately, industry must take the lead but we recognise that the FCA has a key part to play in ensuring we encourage appropriate innovation [in RegTech] that also provides proper levels of protection for consumers."

Silverfinch, a utility solution developed by Dublin-based MoneyMate, was singled out by Deloitte as an example of the type of 'disruptive' technology that will shape the future of regulatory compliance reporting. "[Silverfinch] demonstrates the power of technology disruption by turning data flow and reporting responsibility in the asset management and insurance industries on its head." MoneyMate's Fawsitt sees it slightly differently: "It's not disruptive technology, it's cohesive technology."

Launched in 2014, Silverfinch, a secure fund data utility that connects asset managers and insurers, was developed in response to the 'look-through' provision of Solvency II, which requires insurance companies to mine information on asset holdings for regulatory compliance reporting. Asset managers in turn are obliged to share information on insurers' asset holdings which, when it comes to collective investment products, can be of a highly sensitive, business-critical nature.

Silverfinch offers a single purpose-built standard utility that allows information to be exchanged in a secure, standardised format under the control of asset managers. It provides anonymity that not only protects the USP of individual asset managers but serves the compliance requirements of Solvency II. "It has the potential to revolutionise the way portfolio data is shared and disseminated among competing asset management firms," observes Fawsitt, who also sees an opportunity arising from MIFID II's transparency requirements.

SWIFT's Meurant says the potential for economies of scale makes a compelling case for utility solutions in the regulatory compliance space, pointing to widely predicted rises in regulatory costs, and the continued constraints on banks' access to capital. But he acknowledges the practical difficulties faced by banks in such a fluid, fast-changing regulatory environment. "You have to be something of a visionary to adopt new approaches with a multi-year implementation timeframe at the same time as addressing day-to-day compliance requirements. With such strong, active scrutiny from multiple regulators, it's hard to step back and see the big picture," he says. Moreover, with the ultimate liability for compliance remaining with the banks themselves, any form of outsourcing must deliver standards of performance superior to the processes they aim to replace, Meurant adds.


**Tracey McDermott,** (centre) acting chief executive, Financial Conduct Authority, speaking on a panel at the SWIFT London Business Forum 2014.

> **"Industry must take the lead but we recognise that the FCA has a key part to play in ensuring we encourage appropriate innovation.**
>
> **UK Financial Conduct Authority**

On the RegTech front, can private initiatives alone wrestle regulatory 'big data' to the ground and come up with the secure and standardised formats that today's regulatory compliance reporting demands? For Fawsitt there is no one-size-fits-all answer. "If the industry wants more control it will either leverage what's there or reinvent it." Common sense dictates that existing 'best-of-breed' solutions will be utilised and collaborative efforts will be encouraged where progress is needed. For the FCA the answer is simple: "To meet our objectives we must coordinate with other bodies, including industry bodies." ■

# Delivering the digital dividend

#Corporate Treasury #Payments #Technology

**Collaborative approaches are helping digital corporate services catch up with retail.**

The working lives of corporate treasurers are increasingly being shaped by how they interact with the digital world. As multinational firms take an ever more global perspective, in terms of sales and supply chains, there is a growing need for solutions that facilitate faster movement and settlement of cash as well as more immediate analysis and consolidation of information flows in the corporate treasury. Yet many are frustrated with the level of service they have received from banks with regards to digitalisation and automation of corporate treasury services.

"Retail clients do benefit more than corporates from digitalisation of financial services, due to the fact that the provision of services to the retail community in the main does not involve complex cross-border banking services," says Charles Legrand, founder of CN L & Associates.

## Raising expectations

Mark Buitenhek, global head of transaction services at ING, acknowledges that retail customers have experienced greater service improvements from digitalisation than corporates. "Expectations are shaped by their [clients] interactions with digital service providers such as Google, Facebook, Apple and Amazon. Customers – from large corporates to SMEs to consumers – now expect a similar experience from their bank," he says. "At the moment, retail customers are benefitting earlier and faster."

At Sibos 2015 in Singapore, corporate panellists voiced concerns over the pace of progress in applying digital technology to corporate banking services. Banks accepted their clients' frustrations and a number of steps have been taken since to move corporate banking to a more digitised environment.

Following an announcement in January, 51 banks announced their participation in a new global payments initiative, in association with SWIFT. The initiative is intended to improve the customer experience of corporate clients by increasing the speed, transparency and predictability of cross-border payments. Of these, 21 banks including Bank of America Merrill Lynch, BNY Mellon, Citi, JPMorgan Chase, Mizuho and Standard Chartered started the pilot in April, which is planned to run through to December. The banks that have signed up to the initiative will work with SWIFT to create a new service level agreement rulebook for cross-border payments to support "smart collaboration" between banks. The first phase of the project will focus on business-to-business payments, helping banks to deliver enhanced payments services to corporate treasuries, including same-day use of funds, greater transparency and predictability of fees, end-to-end tracking of payments, and delivery of richer payment data.

"Through the global payments innovation initiative, banks can use existing technology to quickly bring visible improvements to B2B payments for their corporate customers," said Magnus Carlsson, treasury and payments manager, Association for Financial Professionals (AFP). "From a corporate perspective this kind of development in the payments space is very encouraging as it means no significant changes need to be made to internal systems in order to potentially reap the benefits of the programme."

## Regulatory fragmentation

Product and service innovation by banks is taking place against a backdrop of regulatory change that can increase the challenges of delivering greater value to corporate clients. As well as constraints on budgets that can make it hard to make the necessary investment in product development, regulatory fragmentation can constrict efforts by banks to implement digitised services consistently.

For example, in Europe the European Markets Infrastructure Regulation (EMIR) requires post-trade reporting of over-the-counter (OTC) derivatives transactions by both parties to the transaction, whereas the US Dodd-Frank Act requires only banks to report such trades. As a result, corporates and their bank counterparts have been reporting the same trade to different trade repositories (Europe has registered six such reporting entities), causing significant reconciliation difficulties. The lack of automated solutions for trade reporting has resulted in heightened costs. Moreover, complex rules may be interpreted differently by regulated entities.

"The fact that different financial institutions are implementing the same regulation in different ways is also proving difficult for corporate treasurers," says Peter Matza, engagement director, the Association of Corporate Treasurers (ACT). "For example with know-your-customer (KYC) rules, there are several different platforms financial institutions are offering to corporate clients, but that is not an advantage for corporate treasurers who want one platform for KYC."

At the same time, the limitations on capital and leverage imposed by the Basel III capital adequacy regime are causing a step change in approach of banks to servicing corporate clients. "With the pressure to adhere to the international balance sheet requirements, banks are becoming more selective as to how they employ their services and liquidity – the latter being the 'oxygen' for their corporates," adds Legrand. "Banks need to be aware of their client's international needs, markets and aspirations. That comes down to relationship management of the client base."

> **"The fact that different financial institutions are implementing the same regulation in different ways is proving difficult for corporate treasurers.**
>
> **Peter Matza,** engagement director, Association of Corporate Treasurers

> **"Banks can use existing technology to quickly bring visible improvements to B2B payments for their corporate customers.**
>
> **Magnus Carlsson,** treasury and payments manager, Association for Financial Professionals

While corporates and banks continue to work together to improve process efficiency in the treasury, the new era of tighter budgets and slimmer balance sheets is inspiring corporate treasurers to take greater responsibility for finding solutions to their strategic and operational challenges. "Corporate treasurers will need to find other solutions to issues such as capital raising, working capital, supply chain finance and pensions," says the ACT's Matza.

## Leveraging technology

The desire to harness technology in the treasury is already leading to change. According to a Deutsche Bank-sponsored study published by the Economist Intelligence Unit last year, which surveyed 300 global corporate treasury and finance executives, around half of firms said their corporate treasury department was already using outsourcing technology services in the areas of foreign exchange risk management and cross-border transactions.

"Technology can help reduce the burden in treasury, and there are now more opportunities to outsource and more sophisticated options," said Jonathan Leon, treasurer at The Brink's Company, a US-based multinational security services firm in the study.

While many respondents noted growing use of cloud-based platforms in the treasury, the majority of respondents said they remain risk-averse when it comes to partnering with FinTech companies. Nevertheless, both the ACT's Matza and ING's Buitenhek see a key, long-term role for banks in supporting corporate treasury departments.

"As the environment in which corporates operate becomes more demanding due to complexity, regulation and volatility, we believe that a deep and insightful relationship with their primary bank is more and more valuable," says Buitenhek. "As increased digitisation offers greater insight and bespoke solutions based on deep sector and financial knowledge, the bank becomes even more crucial for sound decision-making." ■

sibos

# GENEVA

26 - 29 Sep 2016