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## CSD consortium focuses on fintech for emerging markets

By Heather McKenzie

A central securities depositories (CSDs) consortium has been founded to help emerging market CSDs investigate and take advantage of new technologies such as blockchain. Led by Russia's CSD, National Settlement Depository (NSD) and South Africa's Strate, the consortium will initially focus on working with CSDs in Africa, the Middle East and Eurasia.

A workshop on Saturday prior to Sibos outlined the concept to a number of representatives from CSDs. The idea originated from a conversation between the chief executive of Strate, Monica Singer, and Eddie Astanin, chairman of the executive board at NSD, during a CSD symposium in May this year. They both realised their organisations were conducting proof of concept exercises on the use of blockchain in proxy voting. "The similarities were enormous," said Singer, "and proved the reason for us to come together in this way."

Astanin added: "We were spending the same amount of money to investigate the same solution. We decided it didn't make sense to do this but would be better to share costs as we were moving in the same direction."

The concept of collaboration in the CSD space makes sense, said Singer, as it is not a competitive area and CSDs worldwide comply with the same principles, risk management, licensing rules and

regulations. Also, CSDs already engage in a great deal of collaboration, with a series of regional consortia overseen by the World Forum of CSDs.

A focus on the emerging market CSDs reflects the fact that in these markets they tend to be smaller organisations and do not have the resources or know how to pursue their own technology programs. "Such CSDs will benefit more from joining a consortium," said Singer. Astanin added that emerging and frontier CSDs were keen to understand how blockchain and other technologies could help them to improve customer service and to build trust in their respective financial markets.

Singer pointed out that much of the talk about blockchain in the securities industry emphasised custodians and that there was an assumption CSDs would be disintermediated by the technology. However, she argued that CSDs were an important part of the financial markets, acting as a trusted third party. They also weathered the financial crisis of 2008 while many other organisations fell by the wayside.

"CSDs are not going to be eliminated in a hurry," said Singer. "But we must be mindful that we cannot ignore new, disruptive technologies. In this consortium we have decided we will embrace these disruptive technologies and investigate how to apply them to our business." The role of the CSD could change with the introduction of

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"The correspondent banking model is still the best and most efficient way to transmit large value payments across borders"

Greg Murray, BAML



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# Cyber challenge can be met, says Swift

By Tanya Andreasyan

Swift has committed to help its members combat the cyber threat “in challenging times”, delegates heard during yesterday’s opening plenary session. Security will be a feature every day of the conference because “the cyber threat is here to stay”, said Swift chief executive, Gottfried Leibbrandt.

Swift chairman Yawar Shah added that Swift had pledged its full commitment to Swift members on security.

Leibbrandt advised members should start with “basic hygiene”, by securing their own environments with the necessary tools such as authentication, security credentials, anti-virus, firewalls, up to date patches to the security software etc.

He noted that his friends in the medical field tell him that if a surgeon washes his/her hands thoroughly for a full two minutes before an operation, the rate of deadly infections in the hospital could be cut in half, especially with the increased resilience of these infections to penicillin. “And yet the majority of the surgeons to do not comply with that, even though they know this is what they should be doing,” he said. Perhaps they need external pressure to comply, he mused. And this is what Swift is doing for banks to help them comply with their security departments. “We are rolling out a network of objectives, principles and around 30 controls that the banks should comply with to secure their environment.” The banks will then have to manifest that they have done the work, for the regulators and counterparties to see “that they

have washed their hands, so to speak”.

However, hygiene alone is not enough these days. Cyber criminals are becoming more sophisticated, their attacks more complex and their efforts more organised. For that, the market participants, including Swift, need to “share and prepare”. Swift published daily payment reports with metrics on risk and traffic, so banks can spot the problems and apply the necessary controls, be it inbound or outbound traffic.

“Financial transactions and payments are a truly global business,” Leibbrandt stated. So it is important to act as a united community. “What happened to one institution in one country may as well happen to another institution across the world”.

Leibbrandt suggested Swift members should “share and prepare”; share the indications of the attacks and breaches with Swift so that it can publish these (anonymously, of course) so other banks and financial institutions can learn and get ready for similar attacks.

By doing all of the above, the financial world can protect itself from the cyber threat. “It can be done,” Leibbrandt said.

He cited a collaborative effort between Swift and a group of banks involved in a suspicious transaction earlier this year. By working together, the breach was prevented. What contributed to the successful outcome, he pointed out, was Swift and the banks working in “real time” and sharing information.

But the threat is relentless, he warned. And so is the work to combat it. As well as the investment in core resiliency,



collaboration and education.

On other issues, Leibbrandt said fintech was also here to stay and is transforming the landscape, posing challenges and real opportunities to all.

Innovative fintech developers and their technologies, such as biometrics, pattern recognition and remote controlled detection, are just some examples of what’s available to combat the cyber threats, Leibbrandt said.

On a broader scale, “fintech will eat our lunch unless we adapt and innovate ourselves, and keep up with the pace of innovation”.

Needless to say, Swift is keen to emphasise its love of innovation. Leibbrandt cited the introduction of real-time payments in Australia – the New Payments Platform (NPP) – a high-profile technology modernisation project Swift has been involved in. Swift won the hotly-contested 12-year contract to build and operate the NPP infrastructure in late 2014 (at the time, the deal was

said to be worth A\$1 billion). NPP will allow Australian banks to offer instant payments to their clients and a host of new services on top of that.

In his concluding remarks, Leibbrandt talked about correspondent banking – “the great asset for the industry, with unique reach, established practices and deep liquidity – and how to take it to the next century. “One million active bilateral relationships on our network – one million friendships on the Facebook of financial services.”

Developments such as the Global Payments Innovation Initiative (GPII) is one of the solutions, with 80 banks signed up already and the “active pilot” project under way. It will bring “greater speed, traceability and transparency”, Leibbrandt said. An introductory session on GPII yesterday morning in the Swift auditorium was standing room only – an indication of the interest the initiative has generated.

# The future of money: humans need to keep the robots in check

By Paul Skeldon

Udayan Goyal's vision for the future of money revolves around seamless, instant micropayments being made continuously between autonomous apps and services all triggered by thoughts and actions of humans as they go about their daily lives.

Kicking off the *Future of Money* plenary with an animated film of his view of the world of the future, Goyal – the co-founder and managing partner at Apis Partners and Anthemis Group – described a world where the internet of things (IOT) and the world of payments combine to make everything you can possibly dream of happen. Ironically, the animation was hand drawn by a team of artists in India, rather than being rendered by the latest CGI technology – and this proved to be something of a leitmotif for the plenary.

This idea that an interconnected world – driven by interconnected payments – needs to be moderated at all stages by humans quickly emerged as the theme of the talk and was echoed by all the panellists. Jon Stein, chief executive and founder of Betterment, a service that automates the way people manage their money to save for a pension or college fund, said: "Betterment is a robo-advisor for people's money. While that sounds totally automated, interventions and contact with people are key to customer service."



This was also how Carlos J Menendez, president, enterprise partnerships at Mastercard, views increasing automation across financial services. "Consumers need trust and that comes from making sure there is ample intervention from humans in all the automated processes that we currently have and that we are likely to develop in the IOT future."

This was echoed by Doug Shulman, senior executive vice-president at BNY Mellon, who listed security, trust and interconnectedness as the three most important factors in developing new services. "In the interconnected world in which we live, we still have many proprietary stacks of technology but we intersect now

more and more with third party technology to deliver the services we want."

While technology is used to automate things, we don't want to turn ourselves into robots, said Amber Case, fellow at the Harvard Berkman Klein Centre. "Machines are really good at spotting patterns and humans are really good at curating things. We should use machines to collect data, but people must be the ones that design the systems that then use that data to make life better. Technology is ready for us, but are we ready for technology?"

Customer support and user experience are what people really need, she added. "Systems are

very brittle: they have a problem and they collapse. We need to look at how to make them more human so that when something goes wrong with them they survive and this needs people to step in to manage and run the technology. We need cybernetic feedback loops that are part machine and part person. We mustn't lose sight of the fact that technology was created by people for people."

Where does this leave the future of money? To make Goyal's vision a reality everyone in technology and banking circles has to take the view that technology isn't the answer, it is just a tool. People seem to be what will make it tick. People hold the power: how disruptive is that?

*Continued from page 1*

distributed ledger technology, but the financial markets require a trusted third party, she said. In a blockchain world, CSDs could retain overall supervision of a 'golden copy' of transactions in proxy voting, for example.

The consortium will enable CSDs to approach financial technology vendors as a group, rather than conduct bilateral conversations with them whereby the vendor subsequently sells the same solution to each CSD. "We will work together as a consortium,

developing RFPs and approaching vendors to create our own ecosystem for financial markets around the world," said Singer.

There are many areas where new technologies can bring in efficiencies and improvements, such as corporate actions, said Singer. "We need to tap into those possibilities but not do that individually."

The consortium will begin with a proof of concept on proxy voting, that will act as a test case "to prove we can work together", said Singer.

## Standards bodies embrace blockchain

By Neil Ainger

**A** FinTech Technical Advisory Group has been established by the International Standards Organisation (ISO) TC68 Financial Services Committee. ISO has also just recently approved a new blockchain committee.

"Most fintech firms wouldn't be here if it wasn't for the internet, which relies on standards, so they get the need for standardisation and understand how they need it to grow on a global scale," said Stephen Lindsay, Swift's head of standards, during the opening of the Standards Forum.

Carlos Philippen, head of operations at local Zürcher Kantonalbank and a member of the Swiss Commission for Financial Standards said his organisation was undertaking a drive to strengthen the involvement of fintech players in standards development. "It is important to engage them as many banks are outsourcing development to them."

The decision to set up a FinTech Technical Advisory Group and new communications team is part of a wider planned reorganisation of the over-arching ISO TC68 committee, which is ditching its previous three-pronged structure comprising securities, core banking/ payments and security groups – subject to a vote in November.

Karla McKenna, chair of the group, said: "We've taken some of these reorganisation decisions but still have a bit of work to do."

## Eurosystem updates infrastructure Vision

By Neil Ainger

**T**he European Central Bank has outlined its plans to consolidate the Target2 and Target2Securities (T2S) platforms, introduce a new European-wide instant payments platform by November 2017 and develop a new collateral management system. During yesterday's *European Market Infrastructure of Tomorrow* session, the Eurosystem's 'Vision 2020' plans were outlined by Yves Mersch, a member of the executive board at the ECB.

"The aim is for financial market integration," he said, while explaining that three investigations had been launched to scope out projects in each area. The instant payments investigation must end by the first quarter of 2017, making the November deadline tight, but work has already begun. He did not mention deadlines for the other projects but promised "at the end of the investigation a decision will be taken".

The ECB should work together with the European Securities and Markets Authority (Esm) and the European Commission to make it easier for financial institutions to implement their infrastructure update plans, said Philip Brown, co-chief executive of Clearstream Banking.

Concerns about a "reasonable level" of investment and joined up thinking when updating European securities, collateral and instant payment infrastructures were expressed by Lieve Mostrey, director of chief technology and services, Euroclear and also

by other members of the panel. The two retail bankers on the panel, Mark Buitenhok, global head of transaction services, ING and Antonio Massanell, deputy chairman of CaixaBank, called for standardisation and speed in regard to the instant payments project.

Buitenhok cited the decision not to include the mobile channel in the previous long-running single euro payments area (Sepa) as "a mistake" and warned that "anything that takes longer than five years [as Sepa did] could be overtaken by new technology and new realities".

Distributed ledger technology was inevitably one such potentially disruptive technology discussed by the panel. Massanell asked why existing infrastructure platforms from central bankers, Swift and other such providers, couldn't harness such innovations themselves in order to "help the banks by providing better platforms" that aid "cost control".

In a spirit of cooperation, Clearstream's Brown said the ongoing T2S migration, which Euroclear completed successfully ten days ago after missing its initial deadline six months ago, was "helping harmonisation" in the industry and "PSD II should too" on the retail side.

"A lot has been done already to bring together cash, securities and collateralisation, but please be clear what you want," he concluded.



## Banif opts for Pelican

**B**anif Bank (Malta) has selected the Pelican Transaction Banking platform. The solution will provide end to end automation of both Swift and single euro payments area payments, including integration with over the counter instructions, Banif's internet banking system and back office. Chris Micallef, head of operations and systems at Banif Bank Malta (pictured left signing the contract), said: "We required a solution that helps us make our payment functions more efficient. By using Pelican's innovative technology, we will be able to keep improving on our client service offerings and continue delivering a positive experience to all our customers." Pelican recently rebranded from ACE Software Solutions.

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# Navigating the payments storm

By Neil Ainger

The payments industry faces a perfect storm with immediate, open and context-based changes emanating from new technology, regulation and infrastructures set to 'transform the landscape'. The drive for instant payments on real-time infrastructures, which are accessible to outsiders, open banking application programming interfaces (APIs) and third-party services available from newcomers to the market, encouraged by the Payment Services Directive II and other such measures – threaten to take away valuable business unless banks respond to the challenge.

"Innovation has been bred out of bankers," warned Andy Schmidt, an advisor at the CEB TowerGroup consultancy (and a former banker) during yesterday's session, *The perfect storm in payments*. "That needs to change. We've lost our way and have not been at the forefront for the customer for 20 years."

The threat from new technology, regulation and customer expectations of fast, contextually relevant services was recognised by Claus Richter, head of cash management customer solutions at Nordea. "Transaction fees are going to zero," he said. "We need to invent another revenue stream."

Many different models will be tried and many will fail, he added. "There will be ongoing attempts at fee-based models, shared revenue models between banks and fintechs will emerge and so on, but the core thing they will all rely on is data."

Richter said technologically there were many new players in the payments business, but the conversation with fintech firms had changed from one about competition to one of cooperation. He said banks could take advantage of the nimbleness and speed of small tech-based firms in an open API banking environment.

Schmidt agreed, adding: "In my opinion data is the most under-leveraged asset banks have available to them at the moment."

Warren Gardiner, vice-president of strategy for enterprise payments at FIS, said banks traditionally dealt with easier to bolt on front-end technology, rather than difficult back-end overhauls, but that this was now changing as real time infrastructures

proliferated and aging bank architectures were digitised to eliminate silos.

Elsewhere at Sibos yesterday, Swift unveiled its Payments Data Quality (PDQ) service, an addition to the co-operative's financial crime compliance portfolio, writes *Tanya Andreasyan*. The solution is described as "an advanced reporting and data analytics service to help financial institutions comply with new international requirements for originator and beneficiary information in payments messages". It will help banks monitor their compliance with the Financial Action Task Force's Recommendation 16 for wire transfers, which was issued in 2012.

Brigitte De Wilde, head of financial crime intelligence and services at Swift, said the initial target is to on board large banks. However, she emphasised that smaller players were welcome too and would find PDQ useful.

Nordea Bank participated in the creation of PDQ. Lene Hedegaard Baltzarsen, senior financial anti-crime manager at Nordea, said: "First and foremost, PDQ will improve the quality of our data, both inbound and outbound and we see this as one piece in our broader stack of risk management tools we are currently implementing."

Nordea expects it to be a fast implementation – around four months – as the solution is delivered in the cloud and it will be incorporated into the bank's current risk management processes.

"As this is a collaborative tool, banks will benefit from each other's experience," Baltzarsen pointed out. For example, a "dummy list" that Nordea has incorporated – words that trigger alarm such as odd names like Mickey Mouse, or words such as 'secret' appearing in the send/receive fields will be shared with other banks to create a collaborative dummy list.

"Another benefit is that it is a retrospective analysis – there is no pressure in the cut-off time," added Baltzarsen. As this tool is running in parallel to operational procedures, Nordea can take its time to investigate the data (the bank has set the timeframe of one week).

## TAS and targit team up



Italy's TAS Group and targit GmbH Austria have signed a deal to collaborate on bringing a software as a service model for liquidity risk management and reporting within reach of tier two and three banks throughout Central and Eastern Europe, including Austria and Germany. The two organisations are offering banks in the region the ability to manage all aspects of liquidity, including T2S, while complying with BCBS 248 regulations. TAS Group is providing Aquarius, an integrated securities, cash and collateral management platform and all related support through the TAS Service Bureau, which is complemented by targit's business consulting, set-up and integration services. The new service is available immediately and provides early adopters the ability to fully comply with BCBS 248 when the regulations come into effect in 2017.



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## EDITOR

Heather McKenzie

DESIGN, PRODUCTION  
AND PHOTOGRAPHY

Kosh Naran

SUB-EDITOR AND  
REPORTER

Paul Skeldon

## REPORTERS

Tanya Andreasyan

Antony Peyton

Neil Ainger

## SALES MANAGER

Judith McInerney

## MARKETING MANAGER

Sophie Egan

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Court Road,  
London, W1T 7AD

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Fax: +44 20 7017 4085

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# When worlds collide: fintechs vs financial institutions



By David Bannister

The opportunity for traditional banking processes to be transformed that is presented by innovative financial technology (fintech) developers is at risk of being squandered in many cases because of cultural differences between large inflexible enterprise culture and the enthusiastic approach of the start-up developer world.

"Fintech is a nonsense term – and I don't mean to be dismissive of a lot of people's hard work – but it is being used in a way that is becoming mercurial and is starting to infantilise the conversation," said Leda Glyptis, a director at Sapient focusing on digital transformation. "It starts becoming a philosophical conversation and that's not an easy conversation to have in a boardroom."

The 'threat' fintechs pose to banks is exaggerated, said Steve Lemon, co-founder of cross-border payments as a service company Currency Cloud. "Fintechs are not a direct threat to banks," he said. "Bank A is not threatened by a fintech, but it is threatened by bank B plus a fintech."

For incumbent institutions, harnessing fintech will mean a change in culture as much as in the way technology is deployed, said Kevin Hanley, head of RBS's digital design team. "Fintechs and banks have completely different skills: fintechs find it hard to establish scale and banks find it hard to think openly. We don't want to be a fintech, but we have to recognise that we need to partner with, invest in and compete with them. The disaggregation of parts of the financial value chain means we have to ask how we can combine our assets with those of others, including other banks."

It has been clear that the disaggregation, or componentisation, of elements of the value chain, where some functions are effectively outsourced to a partner organisation, is likely to lead to some fundamental changes in the way banking operates. Regulation such as the Payment Services Directive II (PSD II) will accelerate this process, said Matt Cox, head of insight and innovation at Nationwide Building Society in the UK.

"PSD II will be a game changer and banks will potentially retreat from the customer facing side, which will become the fintechs' expertise," he said. "It changes the role of the branch and the role of technology is to give customers a choice in the way they interact with the bank."

Banks themselves will continue to innovate, he said, citing the possibility opened up by technology to transform mass market current accounts into "digital concierge services".

Hanley agreed: "We are exploring how opening our APIs can lead to third parties developing services for our customers." RBS meets around 1500 fintechs and technology providers each year. "We spend a lot of time thinking about how we interact with people in adjacent industries such as Apple and Google."

Christophe Chazot, group head of innovation at HSBC, said banks have to focus on what they are good at in terms of providing services that customers need to solve their problems. "The problem for corporates isn't connectivity, it's connectivity to liquidity, a problem for which banks have been providing solutions for some time." Banks were dealing with the 2008 crisis and fell behind, but that has now changed, he added, and banks are catching up; 50 per cent of HSBC's transactions are now on smartphones.

Bruce Weber, Dean and Professor at the Lerner College of Business and Economics at the University of Delaware, said in yesterday's session, *FinTech: Reshaping banking with co-opetition and disruption*, that banks do not pay enough attention to adoption behaviour and the issues that can prevent it. "There can be fantastic technology or software in a lab environment, but it often isn't successful in reality. Customers don't always jump on board as fast as the creators of the technology imagine."

All of the predictions about technology in the securities industry have been borne out, he added, but much more slowly than was anticipated; back in the early 1990s people thought it would take three to five years to move away from floor trading, but in fact it took 20 years.

Before a bank adds a particular product or service, it should analyse how the technology performs in relation to existing products and services and also how customers might react when they face the adoption decision. "More analysis needs to be done on why a customer decides to stop using an old system and adopt a new one," he said.

*David Bannister is a principal analyst, financial services technology, at Ovum*

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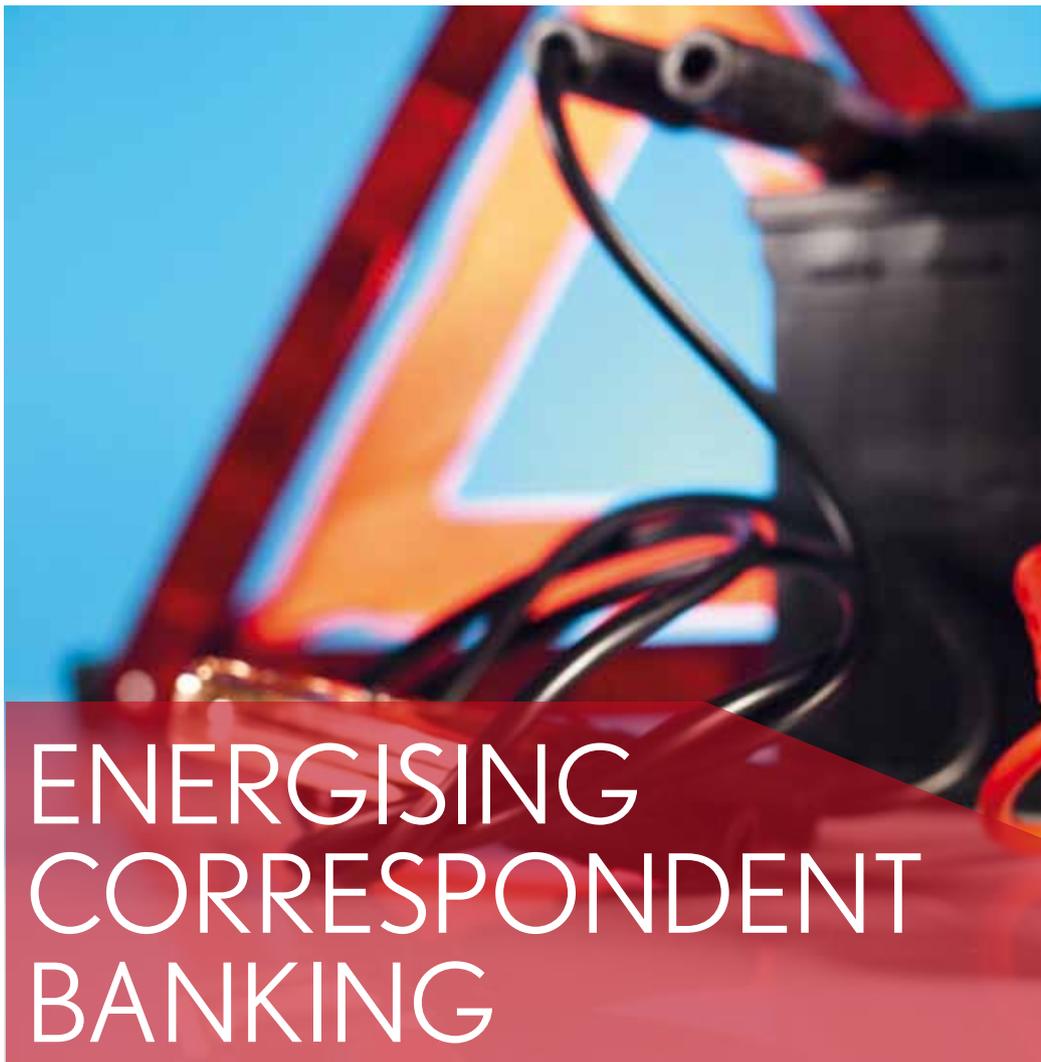
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Reports of the death of correspondent banking are highly exaggerated. But the business model is changing and Swift hopes its Global Payments Innovation Initiative will improve cross-border payments.  
*Heather McKenzie* reports



## ENERGISING CORRESPONDENT BANKING

Swift is often accused of moving slowly, yet the Global Payments Innovation Initiative (GPII) gives lie to that. First discussed at Sibos 2015 in Singapore, Swift will be making a big noise about the Initiative at this year's event. In less than a year, more than 70 correspondent banks have signed up to the GPII, which promises to deliver greater speed, transparency and end to end tracking in international payments. Critics would argue that it has taken Swift and its member banks decades to address corporates' concerns and are doing so now only because of competition from non-banks.

As a part of the Initiative, banks will follow a set of strict business rules for cross-border payments that have been designed by Swift in collaboration with the participating banks. GPII banks will be able to give their corporate treasury clients a

dramatically improved payment experience, with same-day use of funds, predictability and transparency of fees, end to end payments tracking in real time and the provision of rich remittance data for clients. These are all requirements that have been voiced by corporates over the years.

To enable payments tracking, Swift is developing and will host a cloud-based database. This will provide visibility on the status of a payment transaction, from the moment it is sent until it is confirmed, similar to tracking services provided by international shipping companies.

Wim Raymaekers, global head of banking market, Swift, says the GPII has been developed in a fast, yet controlled way. "We want to make sure that banks are ready to provide such services and we don't want to create too much expectation among their corporate customers before that is the case." The initial focus will be on the establishment of strong agreements between banks and

ensuring that banks are able to improve their systems to meet the aims of the Initiative.

A spokesperson for Bank of China (BOC), one of the more active GPII members, says the Initiative will drive a "multilateral win-win effect". He adds: "Change or innovation led by Swift usually has a significant impact on the global financial community that is far beyond any individual financial entity's commitment. GPII brings vigour into the global financial industry."

Greg Murray, head of global product management for high value payments and FI/NBFI products at Bank of America Merrill Lynch, another early adopter, says the bank "felt it was the right time to review options for improving the correspondent banking payment model. On the one hand the existing model is very mature, well-governed and efficient; but on the other hand it has elements that are not in keeping with current times."



The fact that during the past 20 years access to information has become almost instant and available to everyone through the internet has influenced expectations among corporate treasurers. He adds: "Corporate treasurers who in their personal lives have instant access to information, expect the same experience in their working lives. GPII is the most feasible way to achieve that in correspondent banking."

Correspondent banking is by its very nature global and Swift has signed up banks from all corners of the world; together they do nearly 75 per cent of all cross-border payments on the Swift network. Among them are Axis Bank, Bank of China, Banco do Brasil, Bangkok Bank, Bank of Nova Scotia, Credit Agricole, Icici Bank and Sberbank. Ajay Gupta, senior general manager at India's Icici Bank says: "The GPII is one such initiative where we believe that our clients will immensely benefit with same-day credit, increased visibility and certainty of charges. This will enhance the payments product in the correspondent banking portfolio, thereby enhancing our value proposition to corporate clients."

Sidharth Rath, group executive, corporate and transaction banking at another Indian institution, Axis Bank, adds: "We are witnessing new technologies and innovative solutions in the payment space. In this dynamic payment scenario, we need to embrace new technologies and initiatives to constantly align our correspondent banking proposition to cater to the ever increasing needs of our customers."

**"Change or innovation led by Swift usually has a significant impact on the global financial community that is far beyond any individual financial entity's commitment. GPII brings vigour into the global financial industry"**

**Bank of China**

**"In the background, we have financial technology companies introducing improvements to the user experience, providing a simpler and better way to shield corporate treasury customers from payments infrastructures. This has put pressure on banks to do the same thing"**

**Greg Murray, BAML**

GPII will go some way to addressing the challenges of real-time payments in correspondent banking, says Emmanuel de Board, global head of cash clearing services at Societe Generale. "Under the system, payments will be announced immediately to the beneficiary, which can then reuse the funds even if the actual transfer is made at the end of the day. The transfer of information regarding the transaction will be enough." In a real-time system, he adds, funds have to be transferred immediately, which requires real-time accounting systems on the part of banks. "Very few banks in Europe have such systems and to acquire them represents a significant investment."

Results from a business to business payments pilot, which is planned to go live in early 2017, will be presented during Sibos. Also, regular demonstrations of GPII functionalities and the payments tracker will be run on the Swift Lab stand.

During April and May this year, representatives from more than 40 banks attended a series of workshops in Frankfurt, Singapore, London and New York. The meetings discussed digital transformation of cross-border payments. A client-centric strategy was established that will deliver additional data-enhanced payments services as part of the Initiative.

GPII is being deployed on existing technology, reusing the MT103 messages and banks' existing payment engines and >>

# FOCUS ON DOMESTIC PAYMENTS FOR REAL TIME SUCCESS IN EUROPE, DELEGATES TOLD

Delegates attending yesterday's *Making real time successful in the Eurozone* session heard that the key to success for banks will be to initially focus on their own domestic payments markets – which still constitute the vast majority of their payments. Pascal Augé, Head of Global Transaction & Payment Services, Société Générale, pointed out that 95% of payments in the French market were domestic: "That is why we first need to address the domestic market when developing real time payments capabilities."

Fellow panellist, Patrick Tans, Senior General Manager Banking Products at KBC, agreed. "Our end goal for real time payments is clear – it has to be pan-European. But we will start at the local level and that is already happening in different countries."

Getting banks together to work with one domestic clearing and settlement mechanism (CSM) is important, said Rodolphe Meyer, Marketing & Business Development Director at French CSM STET. The next step, he added, will be to get interoperability with other CSMs across Europe. CSMs have worked with the Eurosystem on interoperability and the central bank had "good ideas" about how to do settlement, Meyer said. "We don't have to have 24-hour availability of TARGET2 but interoperability will be important."

Augé said the European payments landscape had a long history of fragmentation and different behaviours of CSMs. However, he was optimistic, saying "the more we share, the more we collectively can address the issues". SWIFT's global payments initiative (gpi) was an example of what the industry could do when it worked together, he added. By sorting out domestic real time payments, banks could share their experiences with others then work together to build a pan-European infrastructure.

A similar point was made by Christian Rhino, Divisional Board Member Group Banking Operations, Commerzbank. One of the lessons the industry learned from rolling out the Single Euro Payments Area (SEPA) was that the "only way to reduce pain is to share it". A member of the EBA Clearing board, he said 39 banks were collaborating on instant payments. "If you open up to other parties



you can share the pain and not have to invest millions on your own. It could turn out to be a really cheap platform."

There is plenty of motivation for banks to develop real time payments. Tans pointed out that the financial supply chain is slower than the physical supply chain – something those in the payments industry are aware of but also something that consumers and corporate payments users don't understand or accept. "We have to follow the physical supply chain because speed and convenience are the new normal. If we don't others will."

Real time payments will give banks the opportunity to increase income and reduce costs. "We don't see this at present, but once the infrastructure is built we can add overlay services and create new products that will deliver income and help us to get rid of expensive to process instruments such as cash and cheques."

Real time and instant payments are a normal evolution of processing, said Meyer, building as they do on the SEPA Credit Transfer (SCT). "Some communities want to migrate regular SCTs to SCT Inst and have one product that processes all SCTs instantly. This will be more efficient for all payments stakeholders and will open up new ways of innovating in payments."

Rhino added that big data would be the key to unlocking value in real time payments.

"We must learn how to create new and value added services around the payments, because the customer wants the actual real time payment for free." Tans said while in the short-term banks may not yet have a firm business case for real time payments, they do have a "staying in business case, which means it is easier to get into the IT budget round and also to explain things to your CEO. Long-term, I am convinced there will be a business case."

Stefano Favale, Head of Global Transaction Banking, Corporate & Investment Banking Division, Intesa Sanpaolo, said critical success factors for real time payments would include "clear and transparent rules on AML and compliance, as well as common rules around directories and other services".

He believes new regulations will also have an impact. "PSD2 will force the use of open APIs, this will also boost the use of instant payments."

Saskia Devolder, Head of Western Europe, SWIFT, said it was clear from the discussion that most banks will focus first on their domestic markets, because this represents the largest portion of their payments traffic. "As SWIFT, we have to look at where these markets link together, how best we can facilitate that interoperability and increase efficiency. As a cooperative, our role is to define a solution that serves the entire financial community."



infrastructure at all, it merely makes a minor adjustment to its current settlement requirements.”

There also has been some criticism that corporates were not involved in the early GPII discussions. Raymaekers responds: “We have engaged with corporates in an organised fashion and banks have said they want to engage more closely with them on this topic in the future. At Sibos this year for instance, we will conduct joint corporate and bank sessions on GPII.”

Matthew Williamson, global head of payments at vendor Misys says GPII is a clear drive towards defining industry standards that if it can be brought together in real-time with KYC initiatives “will certainly be interesting, but it must be given proper attention and thorough due diligence.” Williamson says the Initiative is an enabler for real-time processing across the full payments lifecycle. “A member bank will be able to generate a global unique transaction reference for GPII-qualified payments and process these payments as a matter of priority. But it could also create a lot of additional work before banks feel the benefit.” **DNS**

compliance filters, for example. Raymaekers says this will enable banks to deliver services to their corporate clients quickly. “We looked at new technologies such as distributed ledger, but believe that it is not yet ready today to be used for bank-grade applications.”

GPII is banks’ and Swift’s response to the new, innovative entrants in financial services. Says Murray: “In the background, we have financial technology companies introducing improvements to the user experience, providing a simpler and better way to shield corporate treasury customers from payments infrastructures. This has put pressure on banks to do the same thing.”

He believes Swift is in the best position to transform the correspondent banking model. “Although some commentators claim the correspondent banking model is dead, it is still the best and most efficient way to transmit large value payments across borders. The task now is to make these transactions even better and more efficient,” says Murray. Given the vastness and global nature of Swift’s membership, the organisation “clearly is in the best position to create standards and communicate these to thousands of banks around the world”, he adds.

Among the innovative new entrants in payments is Ripple, which argues that the future for cross-border transactions “requires more than a service level agreement update”. Meghan Elison, social media marketing associate at the company, wrote in June that global payments need fundamental change and a system designed with the scalability, flexibility, efficiency, security and redundancy of the internet. “Cross-border payments make up \$22.5 trillion annually and are increasing at a rate almost three times faster than the

global GDP.” However, she writes, current payment rails aren’t equipped to support real-time settlement for transfers in any amount nor do they have transparency in costs or payment status and settlement risk. While the same-day settlement that will be delivered by GPII “is an improvement”, she adds: “We don’t believe it will keep up with... businesses’ expectations for on-demand payments.”

According to Elison, GPII doesn’t address the “antiquated” infrastructure that makes real-time settlement a constant challenge. “GPII does not change the underlying

## Bank of China embraces GPII

Bank of China was the first GPII participating bank from China and is one of the leading banks in terms of project implementation.

GPII is particularly relevant for Chinese banks and corporates as an increasing number of Chinese companies are exploring overseas markets, buoyed by the strong economic growth and competitiveness of Chinese companies. Efficiently managing the funds flow of overseas companies has become their common concern under the trend of economic globalisation. The chief financial officer of a large multinational corporation in China says: “Via the global cash management services enabled by GPII, Bank of China is able to introduce visible, controllable funds monitoring and a better solution to group cross-border liquidity management.”

GPII will further improve BOC’s cash management capacity for corporates. First, it will enhance the level of account management of a corporate’s global account information. BOC’s cross-border account investigation service will enable corporates to look into their account balances and transactions globally via online banking or Swift messages on a 24x7 basis, realising centralised account management. Through the real-time processing and same-day credit facilities supported by GPII, the time efficiency in cross-border cash movement for a corporate group is secured. The BOC spokesperson says this will enable the centralisation of a corporate’s onshore and offshore liquidity and provide high levels of efficiency. “Last but not least, we can track the status of the payment and predict its charges. GPII requires participating banks to provide status reports to the originator immediately after processing. It offers the transparency and predictability of payment charges, which helps the corporate to control their financial expenditure,” he says.

He believes GPII will help build stronger ties among banks globally by setting new payment business cooperation models. The cloud-based common data platform will reduce the “friction factor” of information transfer among banks and fast information sharing including single payment, compliance data and local payment system information can be secured. This will fundamentally enhance the efficiency for interbank payment information exchange.



# MIND THE GAP

Blockchain technology is far from mature and there is a danger that regulation could crush innovation and competition. Professor *Michael Mainelli* and *Simon Mills*\* argue that a more measured approach to the technology would be to develop voluntary standards

**T**he applications developed by financial technology companies may streamline processes, create new products and enhance the efficiency of transactions. But you cannot set yourself up as a doctor, practise law, or claim to be an accountant unless you are licensed to operate by a professional body.

Make no mistake, the computer scientists developing cryptocurrencies and distributed autonomous organisations, the innovators behind developments in the shared economy and crowd-sourcing applications are brilliant. They have complete command of their code and a numinous vision of how the world could be. However, few of them have practical experience of running a business and fewer still have any understanding of financial services, how it is regulated, its global interconnectivity and the consequences of critical systems 'catching fire'.

The unregulated nature of the financial technology sector is a current source of strength. Innovation and competition run at an accelerated pace, resulting in new products and services that have the potential to transform the financial services

sector. One area of innovation in the banking sector is mutual distributed ledger (MDL, or blockchain) technology.

MDLs have the potential to replace any process which requires the use of a database by multiple parties. MDLs have a number of advantages over databases as, unlike databases, they are:

- **Permanent** – once entered into the ledger, records cannot be altered
- **Persistent** – their distributed, unalterable nature means that the loss of a complete database is almost impossible
- **Pervasive** – everyone has access and they can reach deep into replacing much inter-organisational messaging

In simple terms, MDLs are just databases but their power comes from allowing multiple organisations to work together smoothly and share trust and power. They reduce the likelihood of natural monopolies over information.

MDLs are not new. Z/Yen pioneered an early form of MDL in the mid-1990s and there are many other examples such as Ripple (2004) or the Estonian Government (2007). However, while such a technology has important implications, adoption has been slow. The rise of cryptocurrencies

such as Bitcoin (2009), which rely on MDLs, has spurred renewed interest. MDLs have shown their endurance in the harsh environment of cryptocurrencies. These currencies have problematic technical issues such as their 'mining' algorithms that, while mathematically intriguing, court controversy and consume enormous amounts of energy. There are also economic issues including the shakiness of currencies unbacked by fiat taxation or a commodity and social issues such as their role in facilitating illicit trades. There have been notable thefts of cryptocurrencies from wallets and exchanges, but their MDLs, their boring, underlying ledgers, have held up well.

Major players in the banking sector have been quick to grasp the potential of MDLs to transform the transaction model of everything from cash micropayments to complex derivatives trades, revolutionising the infrastructure that underpins markets today. The instinctive banking response before cryptocurrencies was that MDLs must be complex and insecure because they run on multiple machines. The current response is to rush to proof of concept demonstrators and join large consortia, such as R3 (a consortium partnership of more than

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# SmartStream's Corona Cash & Liquidity gains new live site, Raiffeisen Bank International

By Tanya Andreasyan

Austria's Raiffeisen Bank International (RBI) has gone live with new cash and liquidity reporting software, SmartStream Technologies' Corona. The bank has taken "a proactive approach to Basel III" – being the first in the region to do so, said the vendor. The new centralised solution will help to monitor and manage cash positions on an intraday basis, throughout the RBI group.



Christian Schiebl



Walfried Lemerz

"The project started about two years ago, when banks began to consider how to deal with the Basel III paper," Walfried Lemerz, head of payments, RBI, told *Daily News at Sibos* in an exclusive interview.

The initial phase of the implementation of the Corona Intraday solution was finalised in the first quarter of this year for the whole Raiffeisen Banking Group Austria.

SmartStream added that the go-live was "the result of a successful collaboration between SmartStream's product development team in Vienna and the bank's treasury domain experts".

The vendor's executive vice-president, Christian Schiebl, said the two companies have a long-standing relationship and the Corona system has been running at RBI for many years. "Over the years, RBI has worked closely with our product management," he said. The collaboration has resulted in enhancements of Corona that are now also used by other banks.

"When we initially engaged with RBI for BCBS 248 reporting, there were no other vendors in the market," Schiebl recalled. "The bank was getting offers from messaging vendors, however, as the data quality really needs to be as high as possible – since we are talking about an

official report to banking supervisors – RBI saw the advantage of producing the report based on reconciled data."

RBI is a very broad user of Corona, from standard reconciliations to exceptions management and cash and liquidity reporting for Basel III.

Lemerz noted that "the lack of global exchange of MT900/910 messages from Nostro banks" was a challenge. "RBI decided to derive the information from the MT942 by conservatively calculating the time stamps. Due to still missing legal requirements, RBI has had to manage the project on assumptions on the Basel III paper for a long time."

Schiebl agreed: "The single largest challenge was the fact that many intraday messages are missing time stamps, which are vital for being able to produce the report. We worked together with RBI on a methodology, a conservative approach that we included as a standard. RBI also discussed this approach with FMA, the local regulator and was given the green light."

It was vital for the RBI head office treasury department to have a tool that provided coverage for intraday liquidity aspects, in addition to the BCBS reporting requirements and those already part of

the current banking regulation, Lemerz said.

"Especially talking about the minimum requirements on intraday liquidity steering that were published in principle eight of the *Principles for Sound Liquidity Risk Management and Supervision*," he added.

## RECONCILIATION PAINS

"As we are talking about an official report to the banking supervisory authority it is very important that the quality of

the data that goes into the report is as high as possible. That can only be done through reconciliation," Schiebl said.

"The report will go through internal review and approval process before it is provided to the regulator. No one would really put their name on a report that most likely is based on data with errors... and there are always differences that need to be investigated and rectified. If the data is not reconciled, the report would have errors for sure."

## RESULTS

Corona provides the bank "with sufficient information from external data sources in a quality that was not available in our institution so far to support our intraday liquidity steering".

It enables RBI's treasury team to have a real-time view on external account balances and provides it with the external status of major cashflows on our main nostro accounts – "where we've already started monitoring in our live environment", Lemerz concluded.

The solution also provides monitoring capabilities for RBI, using the same database, added Schiebl, therefore there was no need "to invest in separate software and infrastructure".

50 financial institutions), but halt before implementation. Caution has been urged by the European Securities and Markets Authority and Swift. Working products have yet to be launched, unlike the insurance sector where a few MDL-based services are already in daily use.

There are a number of core banking risks associated with MDLs:

■ **Performance and taxonomies.**

Established technologies fit neatly into categories and their performance criteria are well known. The terminology for MDLs is fluid, blockchain as a term dates to 2012, 'permissioned versus un-permissioned' ledgers to 2015. This is a natural state for newly adopted technology, but how is a bank or a regulator to react to a financial technology firm that approaches them and says its work is based on a MDL or blockchain? How secure is it, what is its validation mechanism, how fast is it, what is its energy consumption, what are its throughput rates, how public is it, how opaque? More work needs to be done on helping people develop common language to understand what they are talking about

■ **Compliance.** Legal issues, such as the legality and enforceability of the records or code kept on MDLs, or the inclusion of personal data on the blockchain need to be carefully considered. Differences in financial and company laws across jurisdictions mean that supervising an MDL 'network' might be considerably more complex than supervising central market infrastructures. Different nodes might be established in different jurisdictions and subject to different privacy, insolvency and other requirements

■ **Liability and responsibility.** Protecting the participants in a MDL from joint liability is one important consideration, as is indemnity for mistakes, relying on joint information and information sharing structures for areas such as know your customer, anti-money laundering, sanctions screening and ultimate beneficial ownership. Determining roles, responsibilities and authority for the management of MDL processes is an important risk management consideration

■ **Security.** Malicious access to a public MDL, for example using a stolen key, would enable a hacker to gain access not only to the information stored at the point of attack, but also to the full breadth of information recorded on the ledgers. There



The knee-jerk response of governments to perceived risk is to legislate. However, as MDL technology is far from mature, early imposition of regulations might crush innovation and competition

are numerous configurations of public, private, permissioned, un-permissioned, transparent, opaque, read, write and multiple MDL key structures. Most of the practical work under way appears to be private permissioned opaque structures with keys controlling read and write access. However, these structures reduce the incentives for community participants to keep the entire ledger as they are unable to access most of it. This in turn creates opportunities for community managers with reduced abilities to exploit natural monopolies

■ **Governance.** MDLs, as with any technology, need to evolve. Evolution is more difficult because of their 'permanence'. Due to the persistence of data in MDLs, correcting transaction or data errors may be

difficult unless a single entity is authorised to promote changes across all nodes. This 'inability to evolve' has already resulted in upgrade problems at Bitcoin. Also, in order to reverse a hack, Ethereum resorted to 'tyranny of the majority' to overturn its own 'smart contract rules'. While Bitcoin has virtually no governance structure and Ethereum has tried a 'light' foundation structure, most commercial MDLs will require stronger governance structures

■ **Transparency and reporting.** MDLs could add complexity to risk management and oversight in securities markets. While the use of MDLs should in principle enhance transparency and the traceability of transactions, particularly in securities markets, the encryption of the information could make it harder to disentangle

## If MDLs begin to meet their hyped potential, they will need a rich set of standards to ensure that they are fit for purpose and fulfilling their purpose

objective of MDL standards but, in truth, has been the least important issue of the above. MDLs are, in most respects, flat files. Interoperability for a competent programmer is straightforward. That said, by interoperability many people implicitly include the XML consistency issues above

The knee-jerk response of governments to perceived risk is to legislate. However, as MDL technology is far from mature, early imposition of regulations might crush innovation and competition. A more measured approach would be to develop requirements, specifications, guidelines and characteristics that can be used consistently to ensure that the properties of the processes and services provided by MDLs are predictable and fit for their purpose. In other words, to develop voluntary standards markets.

Standards enable and constrain at the same time. Standards require collective action and the outcome of these collective initiatives often provides private benefits. Given the known winner takes all and lock-in problems associated with proprietary standards, what economic and legal frameworks would be most appropriate for MDL developers and users?

The simplest follows a well-trodden path, initially forged by the City of London's medieval livery companies. Develop a common standard, not owned by anyone, but enforced by competitive inspection. Technical and de-facto standards will emerge relatively easily, because MDLs work only via connectivity. Open standards, similar to the requests for comments issued by the Internet Engineering Taskforce (an open international community of network designers, operators, vendors and researchers concerned with the evolution of internet architecture), which set standards for internet developers will likely arise as developers share application programming interfaces (APIs) to build systems.

The final route, perhaps obviating regulation, is via voluntary standards markets, as used widely in shipping, aviation

and food industries. In this model, national accreditation bodies license certification bodies to inspect and certify against an independently-developed standard. Companies seeking to prove compliance with the standard can choose from a selection of competitive certification bodies that will provide a commercial audit. This is a robust model that has already gained some traction in the financial services sector. For example, the International Organisation for Standardisation's (ISO's) Committee 68, which is responsible for standardisation in the field of banking, securities and other financial services, has published more than 50 international standards and has a further 21 under development. Given the complex regulatory environment in which financial services operate, ensuring MDLs fit within the existing standards framework is challenging, although iterative 'standards for standards' such as PAS 99 or ISO 9000, may offer scope for expansion.

In conclusion, if MDLs begin to meet their hyped potential, they will need a rich set of standards to ensure that they are fit for purpose and fulfilling their purpose. For the banking sector, the real and perceived risks associated with using MDLs must be addressed. The most effective way of managing these risks is to bring standardisation to the technology driving the applications, to the professionals implementing it and to the governance of the processes themselves. This may be a bitter pill to swallow for the free-thinking evangelists of the financial technology revolution, but MDLs are strong medicine and we must avoid side effects. **DNS**

*\* Professor Michael Mainelli is executive chairman of Z/Yen Group and Principal Advisor to Long Finance. His latest book, The Price of Fish: A New Approach to Wicked Economics and Better Decisions, written with Ian Harris, won the 2012 Independent Publisher Book Awards Finance, Investment and Economics Gold Prize. Simon Mills is an associate at Z/Yen Group*

and process the identity of buyers and sellers. XML data standards, helping to ensure consistency of data structures and interpretation across MDLs, as well as standing data standards for codes and indices are not just MDL issues, but the increased inter-working of mutual processes heightens their importance

■ **Interoperability.** This probably has been the most commonly stated

# THE PATH TO PERFECT HARMONY

The nitty-gritty work has been done with ISO 20022, but new technology and regulations mean that institutions will have to standardise their workflows as well, writes *David Bannister\**



**W**ith widespread adoption of the ISO 20022 messaging standard announced for the many immediate payment initiatives under way internationally, you could be forgiven for thinking that the 'standards wars' have been won. The reality is that they are only just beginning.

In the past few years, ISO 20022 has certainly moved from being a technical issue to being a central component enabling new business services to be implemented, such as providing enriched data alongside basic transactional information. At the same time, there are other technical developments coming along, notably distributed ledger technology, that have the potential to change the way financial transactions are processed and also regulatory changes

that affect where banks sit in the financial value chain. It is also worth bearing in mind that ISO 20022 is intended for use only in payments, securities, foreign exchange, trade services and cards operations. Many of the changes in working practices that institutions will have to make lie outside those domains.

In this latter category, the stand-out event is the implementation of the access to accounts (XS2A) requirements of the European Union's second Payment Services Directive (PSD II). This will require banks to provide authorised third-party access to account information to enable competitive services and in some cases to initiate payments.

Taken together, all of these forces will require institutions to not only adopt industry-developed standards more

than they have hitherto, they will also have to adopt standards that have been developed to address a much wider range of stakeholders. These include consumers, corporates, small businesses, merchants and non-bank payment services providers. Payments industry participants are already considering the implications of a future world where payments will be initiated by autonomous machines in the so-called internet of things.

For the benefits of all of that to be realised, workflows and market practices will have to become much more integrated across enterprises and even across industry verticals. Simon Bailey, director of payments and transaction banking at CGI, goes as far as to say the implication of distributed ledger technology is that “workflows will be shared across enterprises” in a seamless way, which will be a challenge for an industry where even parts of the same institution often have different processes for the same task.

Fortunately, the connection between the standards world and those working on harmonising market practices always has been close. Considerable work has been undertaken behind the scenes for many years, chipping away

at the inconsistencies with a view to reaching a state where anything that can be done in a universal way is done that way. Anything that can't be done universally – such as functions that are affected by local regulatory requirements – can be catered for in the overall market framework.

This close linkage led last year to international efforts to ensure that the success of ISO 20022 internationally didn't also contain the seed of failure though different domestic implementations.

At Sibos last year, Swift announced its ISO 20022 Harmonisation Charter, an industry-driven framework to facilitate the roll out of ISO 20022 globally. Via the Charter the main industry stakeholders agreed to avoid such fragmentation and the risk of multiple versions being adopted across various markets, which leads to higher implementation costs. A special signing ceremony of the Charter will take place tomorrow at 10am at the Standards Forum.

The work of the Charter has been taken a stage further with the formation of a global market practice task force of market infrastructures and banks. Sponsored by the Payments Market Practice Group (PMPG), the task force “aims to address the evolving ISO 20022 standards requirements of high value payments systems (HVPS) providers”, as part of Swift's ISO 20022 harmonisation initiative.

The new task force, called HVPS+, will go beyond current market practice, delivering an additional set of ISO 20022 market practice guidelines for high value payments systems. It will take into account the evolving needs of market infrastructures and their members, including more structured, accurate and richer end to end data.

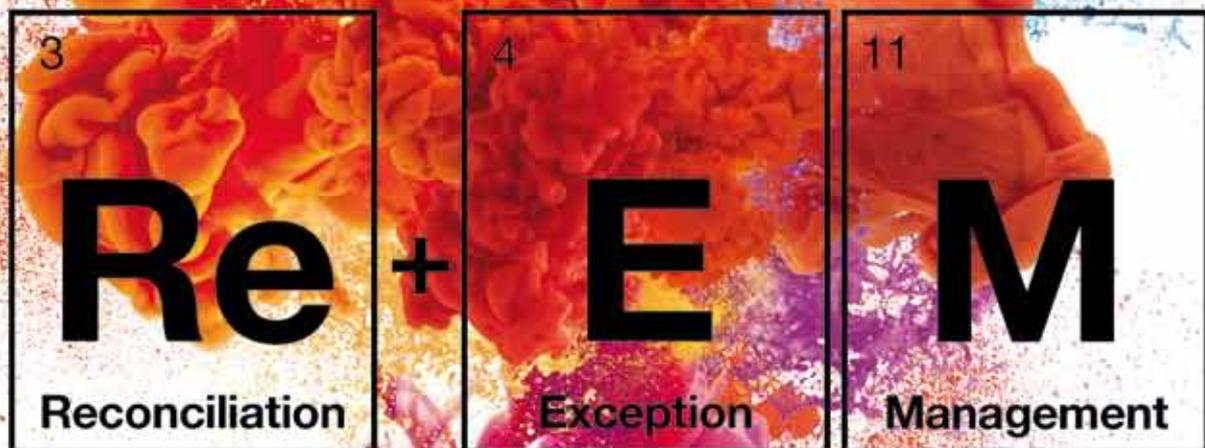
The initial members of the group include ABN Amro, Australian Payments Clearing Association, Banca d'Italia, Bank of America Merrill Lynch, Bank of England, EBA Clearing, European Central Bank, Federal Reserve Bank of New York, FirstRand Bank, Hong Kong Interbank Clearing, Payments Canada, Societe Generale, Standard Bank, The Clearing House and Wells Fargo. The first results of their work is expected around the end of this year or the start of 2017.

Roy DeCicco, managing director and industry issues executive at JPMorgan Treasury Services and co-chair, PMPG, says: >>

“We know that the implementation of PSD II will transform the payments landscape and pose a significant undertaking for the payments community across Europe, which is why it is ever important to ensure the exchange of views”

James Whittle, Payments UK

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those in the UK, where an Open Banking API is being introduced later this year. Efforts focused on market practices and rules are under way in order to prevent unnecessary fragmentation.

At a recent conference in London arranged by industry body Payments UK, delegates heard that fragmentation will lead to unnecessary duplication, increased costs and a dilution of the effects of opening the banking system unless institutions and other parties collaborate to keep fragmentation to a minimum.

Participants at the event called for consultation with “a universe of participants that aren’t just banks” to come together to develop a ‘rulebook’ on the wider issues of interpretation of the legal text, technical standards, common solutions and governance.

“We know that the implementation of PSD II will transform the payments landscape and pose a significant undertaking for the payments community across Europe, which is why it is ever important to ensure the exchange of views in order to help avoid the risk of fragmentation during the implementation process,” said James Whittle, director of industry policy at Payments UK. “In terms of what’s next, Payments UK will seek to set out how a ‘PSD2 implementation community’ could be formed ... our ambition is to establish the community as quickly as possible, provided there is sufficient support for this by a coalition of the willing.” **DNS**

*\* David Bannister is principal analyst, financial services technology, at Ovum*

“It is great to see market infrastructures and banks join together, to ensure this additional set of ISO 20022 HVPS+ market practice is future-proof and supported by all relevant stakeholders of the financial ecosystem”.

Bob Pepitone, Chips product manager at The Clearing House (TCH), adds: “The Clearing House is adopting ISO 20022 as its preferred messaging standard for real time and high value payments. As we prepare our implementation strategy to convert our proprietary Chips format specifications to ISO 20022, we would like to use this new global market practice as a baseline. This will allow our members to use the same formats and processes with TCH and other HVP communities, while incorporating the unique characteristics of the Chips messaging formats. This approach will definitely help to enable interoperability for all payments market infrastructures globally.”

Elsewhere, the Bank of Russia has based its Prospective Payment System (PPS) on ISO 20022.

Applying ISO 20022 in Russia will enable the creation of an electronic payment standard, which includes a monetary component for settlements of transactions on stock and forex markets, says Lev Khasis, COO of Sberbank. It will also address the issue of compatibility between Russian payment systems and international ones. This will help to make the Russian financial market more accessible to foreign participants. Other benefits of ISO 20022 will include the development of electronic document management in related industries (retail, accounting), end to end processing of payments and reduced costs for payment system participants.

In other parts of the industry, things are not so advanced, however. Sibos delegates will notice that a large number of sessions are given over to the other industry drivers coming over the horizon – application programming interfaces (APIs) and blockchain/distributed ledger technology.

The proliferation of blockchain protocols is likely to continue for a while, followed by a period of consolidation as it becomes clear which have greater applicability and acceptance in each market sector. But already the conversation has moved to the development of a mechanism for the differing protocols to communicate with each other. How they co-exist with existing standards, including ISO 20022, is a whole different issue, and will certainly be part of the conversation at Sibos.

Meanwhile, the imminent deadlines for implementation of PSD II make the issue of APIs a priority for banks in Europe, including





## SOCIÉTÉ GÉNÉRALE, LA BANQUE POSTALE AND SOPRA BANKING SOFTWARE LEAD THE FOCUS ON INSTANT PAYMENTS AT SIBOS

Last June, Société Générale and La Banque Postale announced an industrial partnership to pool their direct debit and credit transfer transaction processing platform. Between the two of them, they represent 25% of payments in France. Both banks have chosen Sopra Banking Software's payment platform to help them respond to payment challenges in Europe, including new regulations, cost pooling, security and innovative services.

This unique partnership between two banks and an industrial player enables the banks to tackle new market requirements, such as Instant Payments. Without doubt, Instant Payment is one of the major European payments challenges and an innovation that has been eagerly awaited. The banks will be able to offer their customers the possibility to access instant payment instruments to make a purchase or transfer, or pay a deposit etc., at any time and via any channel.

Sopra Banking Software is supporting banks when it comes to implementing Instant Payments thanks to its software solution that covers payment initiation, payments engines and connections to interbank exchange systems. The solution

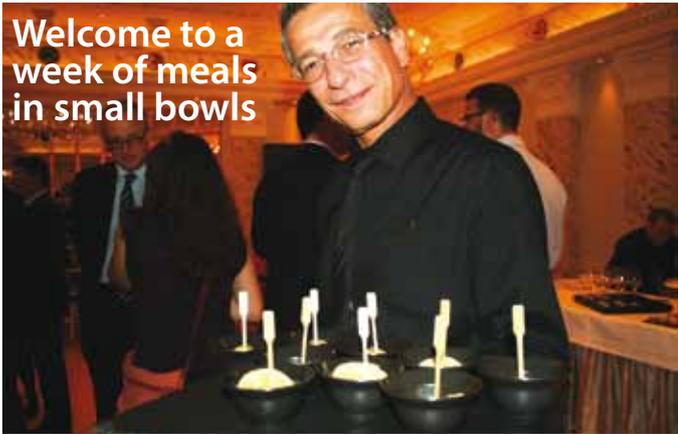
can be provided directly to European banks. Furthermore, Transactis, Société Générale and La Banque Postale's joint venture, will also be in a position to provide a full processing or dedicated Instant Payments offering, based on this solution.

Eric Pasquier, Sopra banking Software CEO, commented: **"Major economic, regulatory and technological transformations have had a significant impact on the European banking industry, in particular the world of payments. It is our mission to support banks as they strive to achieve optimum performance and create added value for their customers."**

Come and meet us on stand G77, Hall G.

# Daily News at Sibos

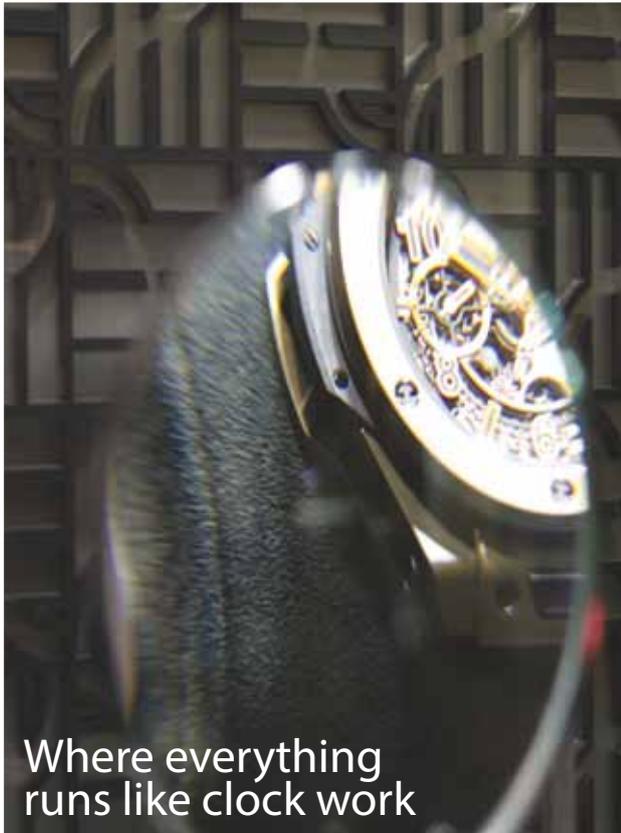
YOUR ULTIMATE GUIDE TO SIBOS 2016



Welcome to a week of meals in small bowls



A week of unbridled excitement



Where everything runs like clock work



Hats all folks

# Past, present and future

Payments software vendor Dovetail is one of the very few independent fintech beacons in the industry, having not fallen into the hands of a large tech conglomerate. The company pioneered the concept of a “payment services hub” – before analysts coined the term – and has maintained double digit growth over the last decade. So what’s next? *Banking Technology* talks to **Martin Coen**, Dovetail’s CEO.

With clients including Deutsche Bank, HSBC, JP Morgan, Bank of Montreal, Intesa Sanpaolo and ING, and its software used for processing tens of millions of transactions per day worth trillions of dollars – across everything from global securities settlements, large-scale corporate collections and disbursements through to SME and retail payments – it would be fair to say that Dovetail has earned its place among the global payments tech leaders.

## PIONEERING SPIRIT

From the outset, the company’s culture has been that of innovation, emphasises Coen.

“We pioneered fully integrating item-level, real-time processing of high- and low-value payments; we pioneered online personalisation of processing for product segments as well as individual customers and accounts; and we pioneered synchronous as well as asynchronous interaction with end customers onto the same business logic and state – supporting full omnichannel banking,” he states.

“Unlike others, we have focused on organically building a clean modern infrastructure for payments – not acquiring older applications to expand our capabilities in ways that would only replicate the silo limitations already suffered by banks.”

With the real-time payments putting even more pressure on legacy bank infrastructures and the increasing focus on digital transformation at a strategic level, the demand for modernising middle and back office payments infrastructures is growing rapidly.

Solutions for these increasingly outdated infrastructures might not be the most glamorous of technologies, but they are the backbone of any genuine tech renovation initiative. So, Coen points out, being truly customer-centric, real-time, agile and able to integrate with internal

and external systems, processes and services is not possible without a modern processing engine.

“A digitally enabled back-office designed for this purpose is essential,” he states.

“We are now seeing digital transformation strategies providing the necessary framework/blueprint for business cases in back office payments renovation.”

And there are increasing numbers of successful case studies that demonstrate what is possible. “We’ve implemented synchronous APIs for banks to offer real-time interactive services to their customers as well as enabled bank relationship managers the ability to customise product offerings for individual clients and accounts”.

## WALK THE DIGITAL WALK

But whilst everybody is talking the “digital” talk, are they walking the walk?

“We have seen significant transformation in segments for non-bank financial institutions and multi-nationals, more recently in retail, and now in large and medium size corporates segments,” Coen observes.

“But digital overhaul for banks is still in its early stages, especially in the way banks address the wider corporate market.”

Perhaps this is because the undertaking is harder than it first appears, he muses.

“Banks will need to deploy innovative products more rapidly than ever before while maintaining robust and secure operations and compliance.”

Payments are the lifeblood of commerce, with entire national, regional and global trade and commerce relying on payments to function, from making salary or pension payments, to collecting utility direct debits, to settling securities trades, or enabling a cargo ship to dock in a port.

“Some of our clients move trillions of dollars in value a day and the exacting



Martin Coen,  
Dovetail

requirements of their customers put a huge focus on payments and any changes to this environment.

“So for them – and for their customers – reducing payment processing from hours to seconds and increasing STP rates by over 300 basis points using adaptive repair makes a great difference.”

## THE SPEED OF CHANGE

“The exciting thing about the speed of change in payments right now is the sheer breadth and scale of the projects on the horizon,” Coen says.

“We have recently taken multiple orders for replacing large-scale legacy batch ACH systems in the US.” Thank the country’s real-time payments drive for that.

“We are also seeing the mainstream adoption of the public cloud for payments now a reality, with one of our clients about to move their entire wire operations to it.

And finally, banks around the world “are realising they need to move to a full 24x7x365 payment capabilities” – which translates into ample business opportunities for Dovetail.

“Overall, the next few years will be an exciting time for the payments industry and Dovetail.” **bt**

*This is how you p-p-p-pick up a penguin*



*Everybody was king fu fighting*



Wisdom, serenity and very slow to mate... but enough about me

Can you tell what it is yet?



**Daily News at Sibos**  
YOUR ULTIMATE GUIDE TO SIBOS 2016



## Research energizes the modernization journey in Canada

Canada is one of many countries around the world striving to make payments fast, frictionless and data rich. The country's approach to payments system modernization is rooted in collaboration and research, with an eye to the international experience and a deep dive into the needs and capabilities of the Canadian market, including an investigation into blockchain and cryptocurrencies. *Banking Technology* spoke with Payments Canada's Executive Director of Modernization, Jan Pilbauer, for more on lessons learned

When Payments Canada began its modernization journey in 2015, it was plain old Canadian Payments Association, a name that Jan Pilbauer says was not quite reflective of how far the organization had come nor where it was going. By then, it had begun its transformation from a member-centric, tightly governed body to an agent of change focused on transforming the payments landscape. The rebrand in June of 2016 was a reflection of that change and a signal to the marketplace that Payments Canada had a new approach to serving the Canadian economy.

While Payments Canada took leadership of payments modernization in Canada, Pilbauer and his team insisted it be a collaborative process, involving financial institutions, businesses, FinTechs, the Canadian public – essentially every user of the payments system. The job began with an immense piece of consultation work, called the *Vision for the Canadian Payments Ecosystem*, which represents a collective view of what more than 100 organizations across Canada want from a modernized payments system. The Vision distilled the breadth of insights into eight user needs: fast, data-rich, transparent, easy, cross-border convenience, oversight-based on activity, open & risk based access, and innovation. This level-setting piece of work formed the foundation of Payments Canada's modernization effort.

With the Vision exercise under way, the organization also dove deep into international research. Their position in the "second wave" of modernization initiatives

around the world was advantageous in that it gave them the opportunity to learn from other countries that had gone before them. Of note was a recent paper comparing payments system modernization initiatives from around the world. It became clear that all 27 modernized payments systems were subject to the same high-level drivers and ended up delivering similar features to their local marketplace. While each country's path to modernization was shaped by varied public policy priorities, user needs and legacy payment systems and resulted in a variety of core system configurations, most initiatives involved:

- Adding a new real-time retail system, not necessarily accompanied by real-time settlement
- Building new or enhancing batch retail payment systems
- Upgrading large-value payment systems to support interoperability of faster retail systems
- Leveraging centralized infrastructure to enhance overall functionality
- Widening access to core payment systems
- A holistic, multi-system approach to modernization

While the international research serves as a strong input to the Canadian modernization effort, the work that is currently getting attention in Canada is a combined effort between Payments Canada, the central Bank of Canada, commercial banks, and R3, a consortium of global financial institutions. The group

is conducting applied research into distributed ledger technology and how it could be applied to payment systems, specifically for bank-to-bank settlement and exchange.

According to Pilbauer, "the group has facilitated strong industry collaboration to evaluate and test the robustness of blockchain technology and its applicability in payments infrastructure. We are deepening our understanding of the technology's mechanics and the implications on the safety and soundness of our systems".

One of the key attributes of this research is a private network where trusted participants exchange a risk-free central bank cryptocurrency. Early findings indicate this concept could satisfy the existing principle of settlement finality without introducing additional credit risk.

So, will blockchain be part of Canada's future payments system?

"The risks distributed ledger technology could introduce are not yet well defined nor fully understood. It won't be market ready for critical payments systems for several years," says Pilbauer. "That said, this is extremely exciting research. It's certainly expanding our thinking and helping us to make informed decisions as we push forward on our modernization journey."

*Jan Pilbauer is part of the ISO 20022 harmonisation programme panel presenting on Wednesday, September 28. For more information on payment system modernization in Canada, visit [payments.ca](http://payments.ca)*

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Donald Trump? Where?





**banking  
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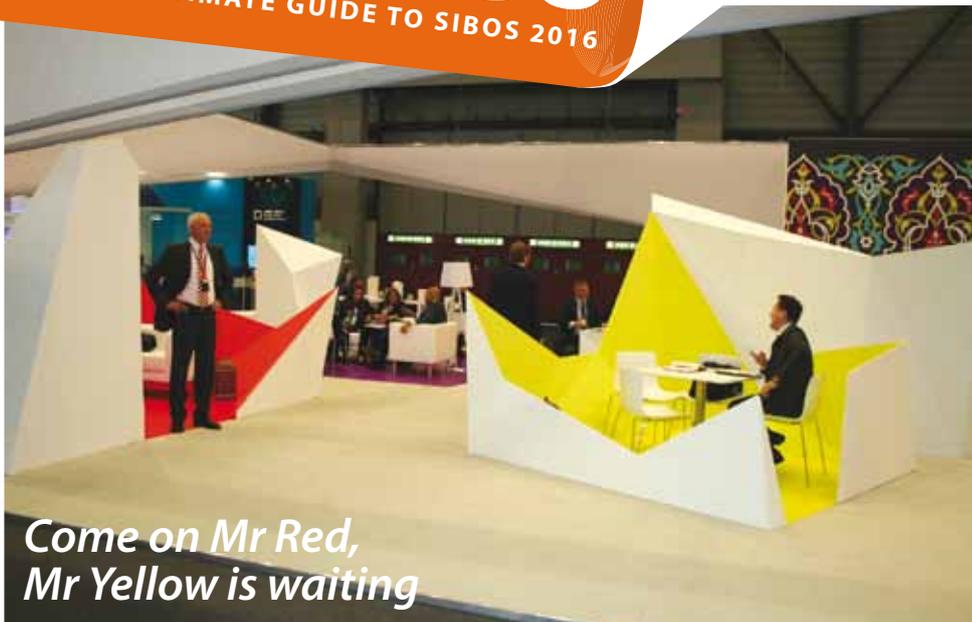
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CAUGHT ON CAMERA | Daily News at Sibos



*Come on Mr Red,  
Mr Yellow is waiting*

Never let the grass grow under your feet... the broccoli however must be free



Definitely ready for her close up



*Smoothie operator*

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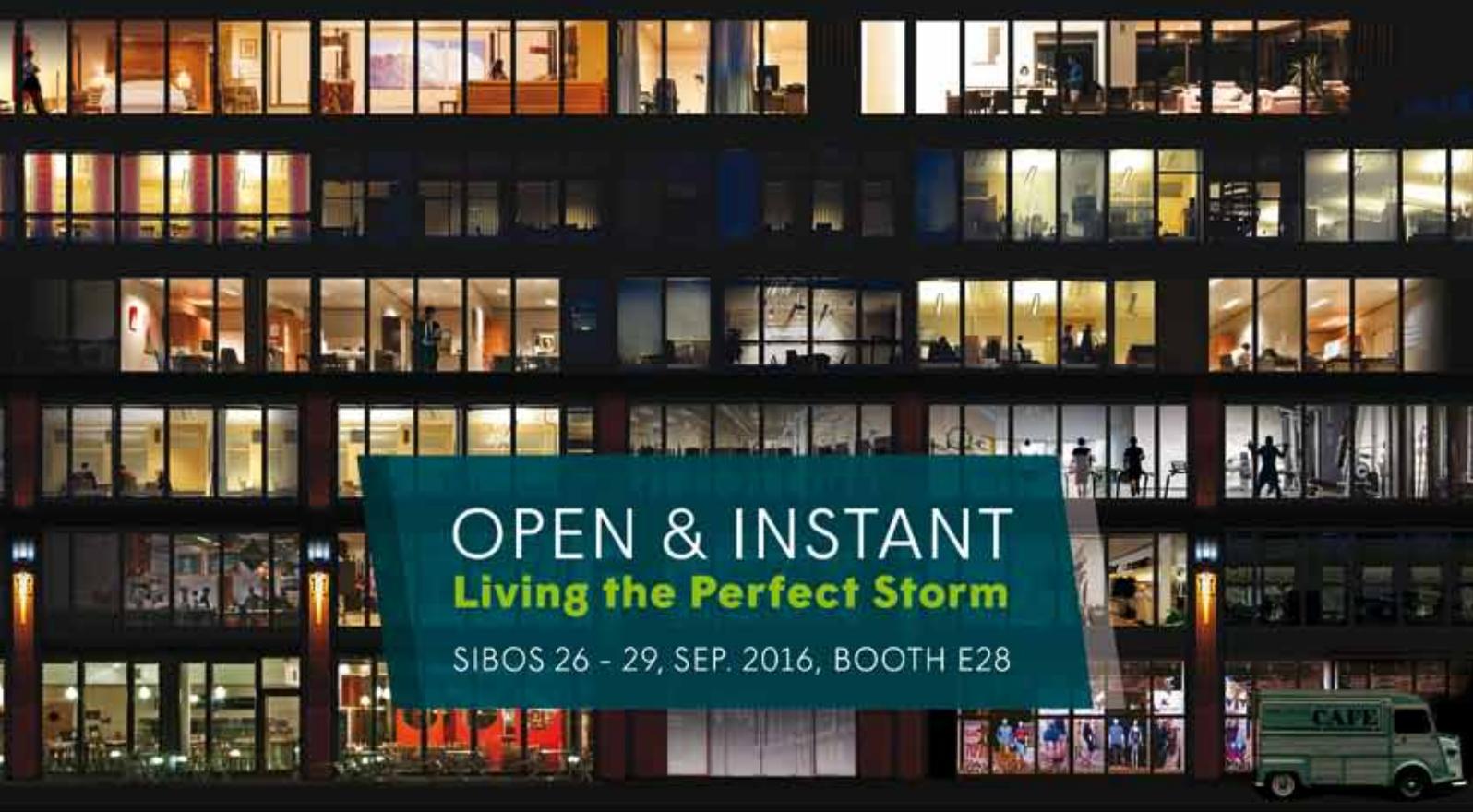
Sibos falls in love with Mondrian



It's the face to face networking that's key to a successful Sibos



*Three's never a crowd at Sibos*



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SIBOS 26 - 29, SEP. 2016, BOOTH E28

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