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Swift issues plea to collaborate in fight against cybercrime

By Neil Ainger

It is vital that the Swift community learns from cyber attacks and strengthens cooperation, delegates were told yesterday. Chief technology officer (CTO) of Swift, Craig Young, said such attacks were increasing in number and sophistication across all industries.

Marco Gercke, director of the Cybercrime Research Institute, said: "The financial industry is lacking co-operation. I know privacy is important to you but you can share information such as 'we were attacked on Monday and this is the method they used'. You should because you could be next."

Cheri McGuire, chief information security officer at Standard Chartered agreed, commenting that "cyber is a 'team sport' and we need to work together – it's not a competitive differentiator."

Rob Wainwright, director of the Europol law enforcement agency, was more optimistic, although he did mention a lack of adequate data hygiene as a concern at banks. "We see better co-operation now than we did in the past," he said. "But it's only what the criminals are doing themselves. They trade and talk on the dark web all the time."

Europol has stopped numerous distributed denial of service (DDOS) and other attacks, "but incidents have increased five-fold this year", he said, warning the industry not to rest on its laurels or stall its co-operation efforts.

McGuire pointed to the Cyber Defence Alliance that her bank, Santander, Deutsche and Barclays have initiated, "with other banks joining us", as a good example of collaboration and the Swift Customer Security Programme. This was launched after the Bangladesh Bank heist and is striving to improve education and cyber security best practice among Swift's partner banks.

Swift has also hired BAE Systems and Fox-IT to help its internal cyber security team to investigate any weaknesses in its procedures, and more importantly, to help strengthen the connectivity, education and software and security arrangements of its partner banks when accessing its network. Swift maintains its core is secure, but any lessening of trust in its network is a grave systemic threat to its existence, which relies on trust. This is why cyber has been such a crucial topic in Geneva.

Any network is only as strong as its weakest member. Swift's chief executive, Gottfried Leibbrandt, warned in June that banks with inadequate cyber defences could find themselves excluded from the organisation's payment network if they didn't have adequate cyber security.

Young stressed the need for practical and strategic planning, while Gercke urged banks to accept they cannot protect the perimeter

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"For many corporate treasurers flexibility is important"

Ruth Wandhöfer, Citi



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SIMPLY INTELLIGENT

Collaborate to drive correspondent banking

By Tanya Andreyan

More collaboration is required among members of the correspondent banking community, despite the progress that has been made through efforts such as the Global Payments Innovation (GPI) initiative.

In yesterday's session, *Evolution of correspondent banking: Can compliance help defend the model?*, Sberbank's group head of compliance, Larisa Zalomikhina, said banks "could go further working together to see how we can build up the knowledge and trust for each other and build a compliance piece into the platform".

Deutsche Bank's managing director of institutional cash management, Patricia Giangrande, added that banks need to work with their clients on education and perform onsite due diligence.

Also, as customers' expectations have changed and they demand real time service, the best way to meet these demands is to join forces and innovate as an industry, she said.

She called on the market to take up GPI – Deutsche Bank is one of its founding members – and also contribute more to Swift's KYC Registry, which "is still not fully populated", she said.

Sberbank's Zalomikhina cited an example of a data sharing initiative in Russia. "Our financial intelligence system is going to share information with banks about individuals and legal entities that are involved in suspicious transactions. This will push the compliance costs down."

Compliance has delayed the disruption in correspondent banking, observed Olivier Denecker, director of knowledge at McKinsey. And although this will be something for industry participants to deal with, there is no doubt that correspondent banking needs to change to become "faster, more open and transparent". Perhaps technology could help with this task, he mused, "to help to run cheaper and better".

Alexander Karner, deputy state secretary, Swiss Finance Ministry, and chair of the FSB Correspondent Banking



Coordination Group, spoke on behalf of regulators, emphasising that compliance in correspondent banking does not mean "regulators versus the private sector. We are all on the same side here", he commented.

But technology by itself is not enough, he observed. The FSB group is working on four work streams:

- Data-related initiatives, including sharing, technology and monitoring
- Regulatory clarification
- Confidence in the system,

that is, strong risk management, compliance and "state of the art banking supervision" (the latter is lacking in some countries);

- Technical solutions such as legal entity identifiers and the KYC Registry, which are "mainly private sector driven"

"Correspondent banking is here to stay, but it needs to evolve," concluded Denecker.

So what does correspondent banking need the most for this? "Innovation, communication and trust," summed up Zalomikhina.

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and networks all the time and to focus instead on data protection and a "recovery strategy".

McGuire referred to data as the "crown jewels" and recommended banks concentrate on that and protect the classic "three legs of the stool" – namely, people, process and technology, "otherwise the stool will fall over."

Chandan Sinha, executive director, Reserve Bank of India (RBI), shared his country's efforts in this field with the Sibos audience, which includes a formal co-operation procedure introduced in 2010 to fight cyber crime. "It was voluntary to start with, but is now

mandatory," he said. "RBI also issued new cyber security best practice guidelines in June 2016 on information sharing, data hygiene and so forth. Banks can benchmark against this and by 2018 all banks will have to pass a [cyber security] examination."

A clear warning there that cyber security is becoming a 'licence to play' issue for banks and that they need to invest and collaborate in the battle against fraudsters, politically motivated hackers and others. The Carbanak gang that stole \$1 billion from 100 banks across 30 countries is another recent example of the severity of the threat.

Meanwhile, Swift yesterday announced a new set of core security standards and an associated assurance framework for its customers. The standards will be mandatory for all customers, who will be required to demonstrate their compliance annually against the specified controls set out in the assurance framework.

Under the assurance framework, customers will be required to provide self-attestation against 16 mandatory controls on an annual basis. Self-attestation will start in the second quarter of 2017 when standards will be made applicable to all customers connected to Swift including those connected via service bureaus.

Markets still in “Dante’s circles of hell”

By Tanya Andreasyan

Eight years on from the financial crisis, the market climate remains challenging. The global economy is still very shaky, there is still plenty of uncertainty regarding ongoing reforms and interaction with regulators, lending is limited by higher capital requirements, extremely low (or even negative) interest rates are not generating good returns and banks need to invest heavily in IT infrastructures to appease the supervisors.

Yesterday’s plenary session, *Financial stability – the future of global finance*, brought together heavyweights of the financial world – Bank of Russia’s first deputy governor, Sergey Shvetsov, Eurofi’s chairman, David Wright and Hong Kong Exchanges & Clearing’s (HKEX) chief operating officer and group risk officer, Trevor Spanner



to discuss these challenges and offer some solutions to the industry.

“We are working on restoring trust,” said Wright. “Restoring trust means partly restoring stability.”

This is being done largely via regulation and ensuring (or at least making every possible effort) the mistakes of the financial crisis are not repeated. No more “too big to fail”, no more bank bailouts, the panellists said. Although they were quick to add that such is the theory. The practice could be very different.

“The financial world has become more global, but so has regulation,” said Spanner. And regulating the existing players is not enough; there is a raft of new entrants to the financial sector that regulators should be also taking into consideration.

“If we want the stability of the market, we must pay attention to the stability of the new players,” pointed out Shvetsov. Perhaps it is too early to regulate the newcomers – due to their size and still emerging business models – but they definitely need to be at least supervised by the authorities, he added.

But at the same time, the panellists pointed out that regulators should not be biased towards either traditional or emerging market participants. There must be a level playing field for both, they agreed.

Inevitably, conversation turned to politics and Brexit. Will the UK be displaced as one of the key global financial services hubs? Very unlikely, the panellists agreed. But the implications and even the processes of Brexit are yet to be understood and worked out (not least by the government officials charged with making it happen) – it is the waiting game that pains everyone.

“There are nine circles in Dante’s Hell and we are just at circle one of Brexit – Limbo,” said Wright.

CLS to develop payment netting service

By Frances Faulds

CLS Group (CLS) has started building a payment netting service, using existing message protocols and distributed ledger technology (DLT), which will be open to all FX market participants – not just CLS members – and will also enable CLS members to net some FX trades that are currently settled outside the CLS settlement service.

CLS Netting, scheduled to go live in 12-18 months, will provide the FX market’s first standardised payment netting process for trades settled in a total of 24 currencies – the 18 currencies currently settled by CLS today, plus an additional six non-CLS eligible currencies.

Speaking to *Daily News at Sibos* yesterday, Alan Marquard, chief strategy

and development officer at CLS, said: “While some of the larger banks have developed bilateral netting services themselves, this is the first time a solution has been presented that will coalesce the market around standards, reducing risk and cost in the FX market. This will not only bring the benefits of netting to a wider audience, but also will deliver greater value to CLS members in being able to net with non-CLS market participants.”

Of the 14 early adopters committed to go live with CLS Netting at launch, four are non-CLS members – Banco Actinver, Intesa Sanpaolo, as well as two buy-side market participants, Goldman Sachs Asset Management and Neuberger Berman.

Further firms from both within CLS and elsewhere are expected to come on board within the next year.

CLS will build the DLT platform for CLS Netting using Hyperledger Fabric, an industry-accepted, open-source solution. It will also work in collaboration with its technology partner IBM to help ensure that the platform meets the requirements necessary for delivering a resilient, secure, and scalable service.

Using the new system, participants will be able to submit FX instructions over existing Swift-based channels, or by connecting directly to the platform via the highly secure, permissioned distributed ledger, administered by CLS.

Swift GPI hailed a success by trial banks

By Neil Ainger

A pilot project to prove the concept of Swift's Global Payments Innovation (GPI) initiative has been hailed a success and has cleared the way for a go-live of the service in early 2017. Swift has been piloting the GPI with 21 banks, including Nordea, Citi, Bank of China and Intesa Sanpaolo since February – all of whom shared their experiences at Sibos yesterday.

During the pilot, 15 global banks representing more than 30 per cent of cross-border payments successfully tested the design and core functions of the GPI, while in parallel, ten additional global banks started to prepare for the service's launch.

"If you send a cross-border payment at the moment you've no idea where it is," said Tomas Moberg, global product and process manager at Nordea. "GPI will solve this. You'll know where a payment is and when a beneficiary has received it."

In November and December this year the banks will start the third phase of the pilot, dealing with each other directly on GPI. Steve Dumont, pilot programme manager at Swift, said: "The pilot shows it works." He added that Swift will work with other market infrastructures, such as Target 2 in Europe, to ensure widespread adoption. This is vital as "the transaction identifier needs to follow the chain all the way through, keeping the GPI end to end." It must not be blocked if the full benefits are to accrue.

The GPI rulebook mandates that cross-border payments must be credited same day, have transparency of fees, tracking capabilities and contain remittance information that remains unchanged for STP reasons. Global logistics companies have been providing similar functionality for packages for years, of course, so a similar service in the payments industry is long overdue.

Two products comprise the GPI: a directory, which will identify payment routes and a Swift GPI tracker. "It's really about the tracker for me," said Moberg, alluding to how this functionality will improve corporate and other services, where such data can be used to improve working capital and financial control. "Treasurers have been demanding improved cross-border traceability and speed from banks for some time."

Integration work is required from banks to align existing MT series financial messaging, "but it's not rocket science," said Moberg, insisting that "it's simple to do. We mapped the scope of the project within a month."

Mark McNulty, global head of FI payments and clearing, Citi, said the benefits of GPI were obvious: improving the customer experience, efficiency and adding "value services" to it, especially for corporates. "But the next phase is critical. We need to achieve scale next year. Banks need to commit to it to achieve network benefits, so it becomes a quasi-new standard."

Mauro Pernigo, product manager, international cash management, Intesa Sanpaolo, agreed adding GPI services were "very important to help smaller banks come on-board and encourage them to use GPI as it improves reach for our corporate customers".

Wu Qizhi, deputy general manager, head office clearing, Bank of China, was worried about third parties infiltrating the cross-border payment business unless the industry took action. "That is why it's great GPI is being led by Swift, because we're eager for change, but it's almost impossible for all these banks to talk to each other without Swift. I urge any banks still 'waiting and seeing' to make a decision [to join] quickly."

CMB inks Obor deal with Standard Chartered



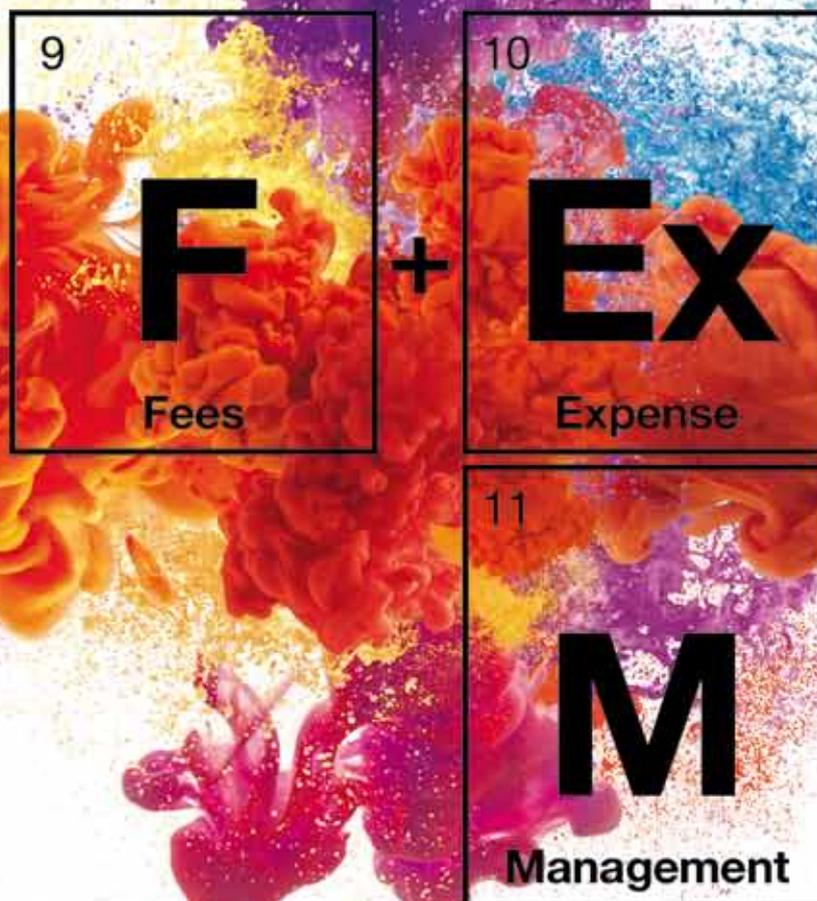
Standard Chartered Bank has entered into a One Belt One Road (Obor) strategic alliance with China Merchants Bank (CMB) to accelerate the Belt and Road initiative and help promote economic growth and regional cooperation for countries along the Road. Obor is a development strategy and framework that focuses on connectivity and cooperation among countries, primarily between the People's Republic of China and the rest of Eurasia.

Anurag Bajaj, global head, banks, Standard Chartered, said: "The signing of this agreement marks another milestone for Standard Chartered's Obor journey." The bank is present in more than 65 per cent of the Obor countries and is committed to supporting clients and their ecosystem in the Belt and Road projects, he added.

China Merchants Bank is the first joint-stock commercial bank in mainland China to establish the task force on Belt and Road related businesses. The two banks believe the partnership will help them to increase cooperation in the region and further accelerate the progress of Obor. Through the agreement, both banks will be able to leverage each other's expertise and provide more financial services and solutions across various areas, including project financing, renminbi internationalisation and bilateral investment treaties for multinational corporations.

Gongzheng Li, deputy general manager of the financial institutions department at China Merchants Bank, said: "Standard Chartered's proven track record, rich experience and strong expertise in the Belt and Road projects makes them the ideal partner for us. With this partnership, we will be able to expand our offerings and leverage Standard Chartered's unique network and franchise capabilities to better support our clients' growth plans."

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Lower cost is key benefit of blockchain

By Neil Ainger

Blockchain technology has the potential to help ease banks' profitability pressures, particularly in Europe's negative interest rate environment, an audience was told at an offsite briefing yesterday morning.

Patrick Laurent, a partner at Deloitte, told delegates at a breakfast meeting organised by Temenos that companies such as Ripple had already developed blockchain solutions that could help.

His assertion was supported by live polling at the event, which showed that the majority of the around 80 bankers, technologists, consultants and others gathered viewed lower infrastructure costs as the key benefit of blockchain technology. Enhanced customer service and transparency also scored highly as benefits for the banking industry.

"Our traditional earning models are being minimised," said Patrick Stutvoet, head of transactions, ABN Amro. "We need to look at cheaper ways to manage our operations," adding that blockchain can also help to reduce risk on collateral via faster fulfilment. "You are creating a single source of truth, which means you can transfer funds immediately, freeing up working capital for customers."

The audience identified trade finance, payments and lending as the key end use cases in corporate banking.

Stutvoet later added that his bank probably wouldn't use a public blockchain, or indeed cloud. "Trust matters to us. That is why we prefer the approach of a trusted consortium where you can still lower costs via collaboration, but it's not totally open."

Jordan Brandt, chief executive and co-founder of Inpher Inc, a Swiss startup that does computing on encrypted data, warned however that private or 'permitted' blockchains could make costs higher. "The assumption has to be that lower costs are achieved only via public blockchains."

Daniel Aranda, managing director, Europe at Ripple, disagreed slightly, pointing out that end users can get a utility out of using



blockchain technology themselves internally, although he did admit it is a "network influenced" play where the more people that use it – with appropriate privacy and banking controls – the better.

"We also needed to prove the concept with our initial rollouts of the technology," he said. "We've now done that and last week announced a six bank consortium including Bank of America, Standard Chartered and others."

Darryl Proctor, product director, transaction banking and payments, Temenos, welcomed the R3 consortium as a good example of collaboration, prompting further discussion of other practical end uses for the technology.

"ABN Amro has a blockchain tribe that selects end uses and tries to prove the concept," said Stutvoet. "We recently completed a project to set up a small consortium with a large retailer using smart contracts on the blockchain and are bringing it live now, less than a year after the project began." The tribe will next be looking at a transfer of funds use case, he added.

Inpher's Brandt made a plea for banks to understand the technology better. "Fundamentally it's the internet and cryptography that powers the blockchain," he said, "so you have trust already thanks to proven SSL and cryptography protocols."

In this environment you don't need to trust the institution, but this viewpoint was not universally supported as banks naturally worry about privacy, trust and certainty as key cornerstones of their business. "As do regulators," added Temenos' Proctor, pointing out that it'll take time for the technology to be accepted, as happened previously with the rise of cloud computing.

"Interoperability is fundamental to allowing an 'internet of value' that enables money to move around freely," said Ripple's Aranda, pointing to the open standards work the company is contributing to with the internet body, W3C, to improve distributed ledgers as an example. The end point must be to allow "databases of value" to connect using cryptography.

Equiniti double

It's a fintech double as Equiniti has developed a digital banking platform and launched a mobile biometric authentication and identity lifecycle solution.

The platform, expected to launch in the first half of 2017, provides analysis of collateral and financial data when corporates apply for loans, with "minimal human intervention".

Equiniti says an application for a loan can take up to three or

four weeks to process as a result of the number of documents, but reckons its new platform can cut that down to "as little as ten minutes".

For the latter solution, called Prequel, it worked with Daon to develop digital onboarding services in the UK.

Equiniti will deploy Daon's IdentityX Platform for biometric authentication in the Prequel mobile app.

The app is developed specifically for the financial services industry and includes credential verification to face and voice recognition capabilities. – Antony Peyton



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Blockchain: *the* theme for 2016

By Antony Peyton

Blockchain and distributed technology have been hot topics at Sibos this year, with a raft of announcements from banks and fintechs alike. One of the areas identified as of most promise is trade finance – an area of banking that is rife with paper-based processes.

Yesterday, Microsoft and Bank of America Merrill Lynch announced a collaboration on blockchain technology for trade finance. As part of this collaboration, the two companies will build and test technology, create frameworks and establish best practices for blockchain-powered exchanges between businesses and their customers and banks. Microsoft treasury experts will serve as advisors and initial test clients, establishing the first Microsoft Azure-powered blockchain transaction between a major corporate treasury and financial institution.

“By working with Bank of America Merrill Lynch on cloud-based blockchain technology, we aim to increase efficiency and reduce risk in our own treasury operations,” said Amy Hood, executive vice-president and chief financial officer at Microsoft. “Businesses across the globe – including Microsoft – are undergoing digital transformation to grow, compete and be more agile, and we see significant potential for blockchain to drive this transformation.”

Blockchain will enable trade finance processes to be digitised and automated, transaction settlement times shortened and business logic applied to related data. This will create a host of potential benefits for businesses and financial institutions including: more predictable working capital, reduced counterparty risk, improved operational efficiency and enhanced audit transparency, among other benefits. Development and testing of the initial application, built to optimise the letter of credit (LC) process, is in progress.

“The potential benefits of blockchain will help drive meaningful supply chain efficiencies to the clients of both

Microsoft and the bank,” said Ather Williams, head of Global Transaction Services at Bank of America Merrill Lynch. His colleague, Percy Batliwalla, head of global trade and supply chain finance, added: “This is a ground-breaking blockchain proof of concept that has the potential to help redefine, digitise and improve how trade finance instruments are executed today.”

Microsoft’s Azure blockchain as a service (Baas) was introduced in November 2015. Marley Gray, principal architect, Microsoft, Azure Blockchain Engineering, came up with the idea of Baas and describes it as a “less painful place to play” for large banks. The service initially started out as an “a la carte menu” for companies to try different blockchains; banks could choose the parts they liked. It was easy for Microsoft to talk to the big banks, he said, because “they were willing to talk to us as there are so many smaller players around and it is hard to go through 40 different blockchains”.

Existing letters of credit processes involve 15 steps, five banks, very manual processes and different time zones and costs. Combined, a conservative estimate of costs, according to Grey, is \$1500 per LC. Grey believes with blockchain, four steps will be involved, it will take minutes, no people are required and low costs can be invoked.

Michael Vrontamitis, global head of trade, product management at Standard Chartered Bank, has a “fundamental belief” in blockchain, but said it is not the ultimate solution to issues within the trade finance space.

While the bank has invested an undisclosed sum in Ripple and its distributed ledger network, it has also undertaken a “trade safe” project using blockchain.

This involved matching invoices against those of DBS Bank in Singapore to show specific use cases to solve a problem. Vrontamitis said Standard Chartered was “looking to make this commercially available early next year”. In terms of blockchain as a whole, it is

“just one part” of Standard Chartered’s strategy to provide banking as a service. He is keen to not just think about the supply chain, but also look at other commercial opportunities, such as lending or the digitisation of documents.

While there is a certain amount of optimism around blockchain’s potential in trade finance, the financial industry is still feeling its way in other areas.

Justin Chapman, senior vice-president at Northern Trust, told Sibos delegates on Monday that blockchain has a “case to do most things” due to its efficiency, but it won’t work for fixed income as it’s “not mature yet”.

Northern Trust has been deliberately focusing on smaller ecosystems in its use of blockchain. Vivek Ramachandran, who is involved in global trade and receivables finance for HSBC, said distributed ledger technology “lends itself nicely” to shipping and trade finance.

However, Brian Behlendorf, executive director of the Hyperledger Project, asked if the industry would be “stuck in ‘pilotville’”. He had a good point as people were talking about blockchain at last year’s Sibos and some will want to see some real action soon.

For Ashwin Kumar, group head of business and product development at Clearstream, “apps will appear in the next 12 months”. No specifics were given, but “where there is a chain that can be controlled, that could lead to apps”.

Over at Innotribe, the group’s Industry Challenge was focused on blockchain, writes Tanya Andreasyan. Three start-ups won the challenge to introduce blockchain to the securities sector: SmartContract, Rise and Coin Sciences.

The three companies will combine their expertise and resources with those of Swift to bring blockchain to the lifecycle of a bond and eventually deliver to market an enhancement to an existing commercial approach.

The next step is a series of proofs of concept (POC), which will involve three parties – the start-ups, Swift and potential customers.

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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KNect365, an Informa business, Maple House, 149 Tottenham Court Road, London, W1T 7AD

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Tel: +44 20 7017 4600

Fax: +44 20 7017 4085

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AI is fact not fantasy!

Parth Desai CEO and Founder of Pelican and AI guru discusses why AI is already fact not a fantasy, but cautions that we need to be realistic about what can really be achieved on the journey to true AI adoption in transaction banking and payments.

It's very encouraging to read that respected firms such as Gartner are predicting that AI will be pervasive in all new products by 2020. And there are many discussions happening today about the potential of artificial intelligence (AI) within financial services and how it will help to streamline processes and add value, but we also have to be very realistic about what is actually possible.

AI uses computing power and knowledge to simulate intelligent human behaviour and is undoubtedly already in play, particularly within the military and consumer worlds. But despite all the hype, and irrespective of the sector, it still has some way to go and should not be viewed as the panacea that will solve every single problem. In our opinion, AI is a game changer, but early adopters in financial services should view this as an iterative journey which, over time, will develop and dramatically transform the overall user experience. Within the domains of transaction banking and payments compliance, we are already seeing adoption of AI which is addressing very specific labour intensive processes, for example, least cost routing and repairs, sanctions filtering etc. The next natural progression will be in the areas of investigations, product innovation and reduced time to market. In each use case AI has proven to help reduce and in some instances replace, monotonous, knowledge intensive and repetitive tasks that are normally performed by people.

But herein lies the crux of the matter, currently AI can actually only add value to processes which require high levels of human participation. This is where the AI techniques of Natural Language Processing and Deep Machine Learning really come into their own. It provides the



ability to understand the interactions and intelligently develop insights from previous behaviours based on past experiences, events and behavioural data. It then repeats them when similar events occur and enables computers to learn to perform past actions automatically. In the financial domain, the learning has to be conducted in a controlled and supervised manner where insights gained and the reasons behind its actions continue to be reviewed by humans to ensure accuracy and consistent application during automation. A major benefit of this is that once the context and actions are understood, machine learning will also derive new ways of improving by knowledge discovery. This enables the continued development of the intelligence capabilities through experience and changes in behaviours.

The financial industry is crying out for change and this is why we have introduced the concept of Intelligence Payments Management (IPM). Based on

over 20 years of experience of being immersed in the understanding of AI, we believe IPM has the potential to transform the way every financial firm, and eventually, every corporate company will conduct business. Powered by the three key disciplines of AI – deep machine learning, natural language processing and knowledge based systems – IPM ensures machines can precisely process every payment and fully understand its purpose by applying human-like reasoning to every transaction.

Virtually every firm we speak to within the transaction banking and payments domains cite inefficiencies and the high dependency on human intervention as being major blockers. Many of these banks are struggling to cope with complex inefficiencies that are literally stifling opportunities to innovate at any level. This in turn is severely limiting their ability to quickly and efficiently create, and introduce new products and services, which satisfy the needs of an increasingly demanding customer base. Whilst for many, the idea that all interactions between man and machine will be enriched through AI, it is still almost a futurist concept. However, based on our existing customer experiences, we know different and truly believe that IPM has the potential to radically reduce costs, accelerate product innovation and significantly reduce time to market. This will finally liberate the banks and enable them to quickly and cost-effectively develop next generation products which deliver higher levels of customer satisfaction, improved profitability and provide a clear advantage in a deeply competitive and increasingly crowded marketplace. Let the journey begin.



DIGITISING THE TRANSACTION BANKING WORLD

In the aftermath of the financial crisis, transaction banking was considered a reliable source of income for global banking groups. But nearly a decade on, multiple factors are putting pressure on transaction banks' revenues.

This year's *World Payments Report** suggests banks increase their investments in digital solutions to offer more compelling propositions to their corporate treasury clients.

Heather McKenzie reports

Transaction banking, in which banks provide corporates with the payments and liquidity management services necessary for business operations, traditionally has been a strong source of income for banks across fee, interest and FX income revenue streams. However, external challenges are putting pressure on these revenue streams.

Each of the streams faces different pressures: traditional fee income from commoditisation of products, interest income from the low interest rate environment and FX income from low-cost alternative service providers. Another source of pressure, according to the Report, is the increasingly ambitious demands from corporate treasurers for digital solutions.

"Banks' revenue from transaction banking increasingly will be linked to the value-added offerings provided to corporates

while profitability will be linked to internal efficiency of operations," says the Report. "Transaction banking revenues are a mix of volume and value. Volume is the basic condition of offering transaction banking services but differentiation will come from value based on customer intimacy. Profitability will depend on an industrial strategy for plain vanilla offerings and flexibility to deliver added value."

A survey conducted by Capgemini for the Report found that the centralisation of account management services ranked as the top corporate expectation according to banks and corporate treasury respondents. Centralisation is attractive to corporates because they can improve return on cash positions and gain more control of their cash flows. Corporates' centralisation efforts include special structures such as in-house banks and shared service centres. Banks' most recent solutions include

Corporate treasurers are experimenting with digital and analytics-based solutions to improve their financial operations. The Report says initiatives are under way in various areas including customer analytics (360-degree counterparty analysis), fraud management (blocking suspect or unusual transactions), operational optimisation (automatic repair, bots) and compliance tracking. For example, corporates are using analytical techniques to improve their customer relationship management systems and to enable product or services refinement. Corporates are using customer engagement data to develop customised operating models for internal or external non-financial transactions. In risk tracking, analytics have helped corporates to manage their liquidity risk through faster credit decision making on their existing exposure to counterparties. Analytics are also helping corporate treasurers to identify and mitigate risks that arise in procurement and inventory management. In operational optimisation, corporates are implementing



Almost 70 per cent of payments industry executives believe fintech companies pose a key challenge for banks

participants viewed financial technology companies as the main challenge (71.4 per cent and 69.7 per cent, respectively). The challenge comes from financial technology companies' ability to innovate more quickly and provide a better customer experience by making use of the most advanced technologies. "Additionally, banks are challenged by fintechs due to their ability to shape and drive customer expectations at a rate with which banks cannot keep up on their own," says the Report. "While the above industry views might be more reflective of the retail banking business, transaction banks will need to ask how long it will be before such trends apply to them."

Transaction banks also face internal challenges from legacy technology that has created silos of operations. These structures mean it is often difficult for banks to meet the requirements of corporate treasurers. A tension exists between corporate treasurers, who believe they are not asking a bank for anything particularly new and the bank, which knows its operations are not structured to deliver change easily.

These internal and external challenges faced by banks are influencing their existing business strategies for transaction banking, says the Report. "Banks need to adopt agile practices and the latest technologies to improve their internal processes and meet challenges posed by the external disrupters. As a consequence, a digital agenda should be a top priority for banks."

Digitisation of transaction banking has gained momentum, according to the Report, and new services such as digital advisory and decision report are being rolled out. Digital advisory solutions that leverage the underlying core banking platform include credit assessment, supply chain financing and liquidity management structures. Decision support digitisation efforts are focused on providing information and tools that can help the corporate to optimise the source to settle cycle.

In the business to business mobile, e-invoicing and immediate payments areas, new services based on mobile devices have been developed such as B2B transaction authentication and reporting. Banks and payment services providers are also adopting electronic invoicing mechanisms to reduce overall transaction processing time. Also, some UK banks are developing corporate access services based on immediate payments systems.

virtual accounts for accounting and reconciliation, coupled with sweeping services for liquidity management.

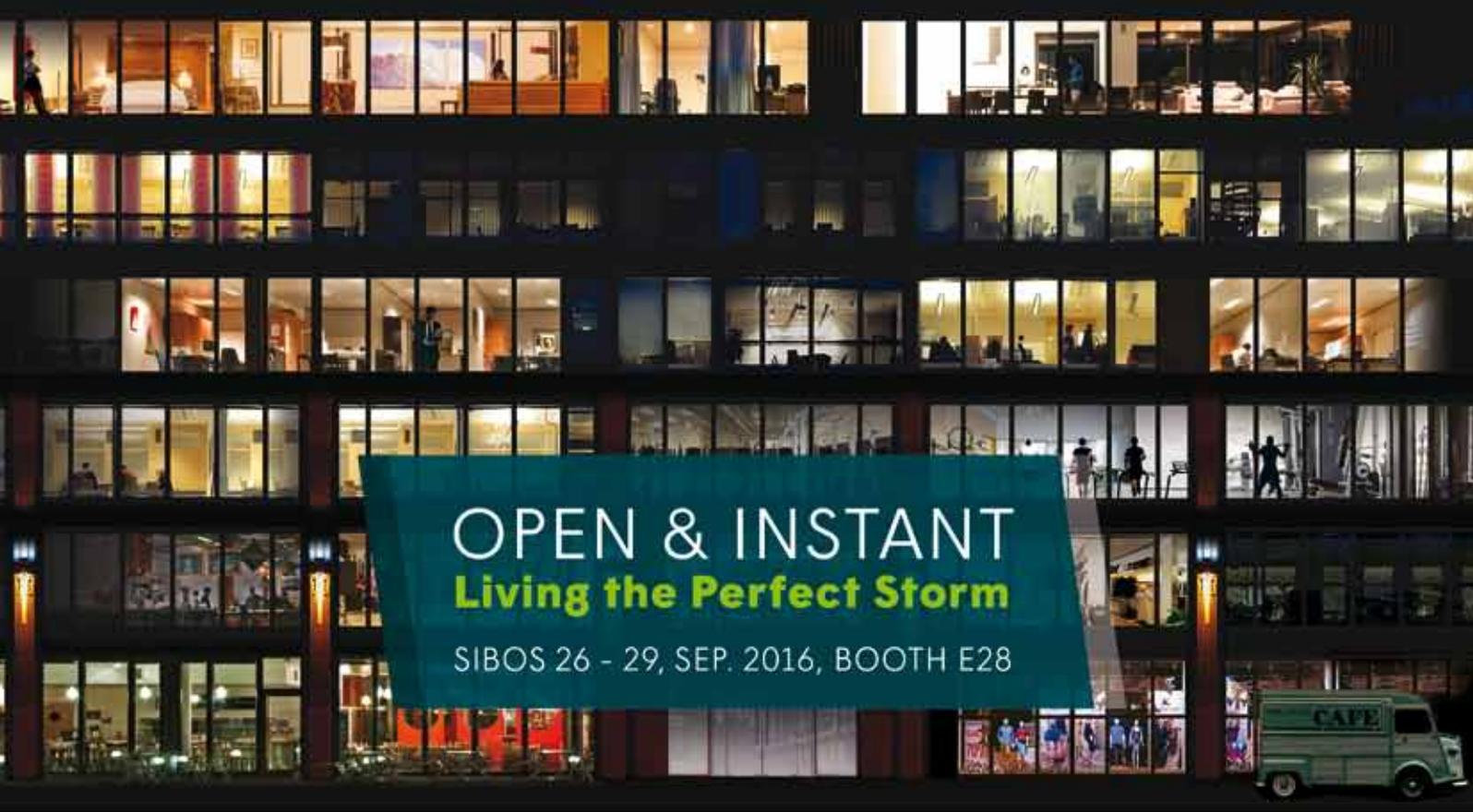
Corporates are also demanding optimisation of transaction banking operations, possibly because streamlined operations will allow corporate treasurers to optimise group cash flows and funding at lowest cost and risk.

While corporates gave a high ranking to fraud prevention and protection services, this was not reflected in the ranking by banks. A senior executive of a leading European payments processor told Capgemini: "Cybercrime and fraud are big challenges that are not necessarily receiving the attention they should get from the market. Recent Swift hacks show that the risks are imminent and authorities will need to determine their responses to these threats".

enterprise systems that provide unified and standardised transaction reporting across multiple departments and countries. Compliance tracking processes are required to be more agile and responsive rather than depending on AML protocols and fraud monitoring standards. Therefore, corporates are using data from compliance tracking to build governance models that measure exceptions and system tolerances. The successful adoption of analytics by corporates has increased the appetite for such solutions. This can be a catalyst for banks to improve their digital capabilities and provide complementary offerings.

Financial technology (fintech) companies are also posing a challenge to transaction banks. Almost 70 per cent of payments industry executives surveyed for the Report believe that these companies pose a key challenge for banks. Interestingly, both banks and non-bank payments industry

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While progress is being made by banks to pursue digital initiatives for corporates, they have also missed some opportunities, says the Report. During the e-commerce boom they ceded much of the space to PSPs such as PayPal, WorldPay and Global Payments and in the business to consumer (B2C) space they have lost market share to financial technology companies.

The Report suggests that financial technology companies have been more successful than banks in adopting a 'design for digital' mindset, which has helped them to gain B2C market share. Financial technology companies are active across a wide range of activities in B2C, including sign-up and underwrite, acceptance, authentication and authorisation, transaction capture and reporting. The success of these companies in the B2C domain, particularly in e-commerce, has been fuelled by the proliferation of mobile devices. Financial technology companies have also developed customised solutions such as peer to peer and cross-border payments, which have further increased adoption. The companies have leveraged their agility and technology capabilities to make successful forays into the B2C domain, a trend that might also be replicated in the corporate domain.

Those financial technology companies that are offering transaction banking services are setting a higher benchmark on digital capabilities, says the Report. These companies are offering services in niches such as liquidity reporting, account aggregation and FX. For example, in trade finance, financial technology companies are offering solutions to help corporates manage market and counterparty risks, including supply chain financing, invoice handling and electronic procurement. If

While banks have made progress in digitising services, this has not been recognised by corporate treasurers. Transaction banks will need to increase their investments and focus on better branding and communication to showcase their digital capabilities

banks are slow in digitising their product and services offerings, they may lose some of their profitable transaction banking business to these companies.

In order to address the challenge posed by financial technology companies, the Report says banks should assess their digital maturity across the enterprise. According to the online survey conducted for the Report, corporates have a lower perception of banks' digital capabilities than do banks themselves. While banks have made progress in digitising services, this has not been recognised by corporate treasurers. The Report says transaction banks will need

to increase their investments and focus on better branding and communication to showcase their digital capabilities.

"In order to be viewed as digital leaders, banks will need to invest and establish partnerships with organisations that can help them to execute their strategies for developing digital offerings," says the Report. A collaborative approach will be a critical foundation for banks if they wish to close the 'digital gap' that exists between them and financial technology companies, says the Report. It argues that partnering with financial technology companies will help banks to innovate at a faster rate in order to provide digital services to corporate treasurers.

Nearly 79 per cent of bank executives surveyed believe banks are looking to collaborate with financial technology companies. However, about 50 per cent of total respondents viewed these companies as competitors. Collaborating with financial technology companies is not without its risks. The Report says the main challenges banks will face in collaborative ventures include the financial stability of start-ups, assurances on business continuity, scalability and adaptability of solutions and regulatory considerations.

Another way for banks to increase collaboration with other industry players and accelerate innovation is to provide open application programming interface (API) access to their internal systems. Open APIs can act as enablers for banks to create a digital ecosystem via a bridge with third parties, says the Report. It cites four areas where open APIs offer advantages to transaction banks: new products and services, customer experience, customer insights and regulatory compliance.

Developing a collaborative mindset will help banks stay a step ahead of the competition, says the Report, and they can leverage industry initiatives such as the Payment Services Directive II to develop mutually beneficial business models. These models will help transaction banks to bring stability in treasury operations, reduce financial risk and efficiently adopt regulatory practices. **DNS**

** World Payments Report is published by Capgemini and BNP Paribas. It will be available from Capgemini, stand F80 and from BNP Paribas, stand E48 during Sibos*



SWIFT Sanctions Screening in Africa

The location of users



38

countries

Angola, Algeria, Benin, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Congo, Djibouti, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Gambia, Guinea, Ivory Coast, Kenya, Madagascar, Malawi, Mali, Mauritius, Morocco, Mozambique, Niger, Nigeria, RDC, Rwanda, Senegal, Sierra Leone, South Africa, Togo, Tanzania, Uganda, Zambia, Zimbabwe

The number and location of community deals



3

community deals

Ghana, Nigeria, Sierra Leone

The total number of users



140

number of users

including

11

central banks across 38 countries



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MIND GAMES

Artificial intelligence isn't new but the rise of mobile and cloud computing, combined with big data and cheap computing power, is driving a resurgence, writes *Neil Ainger*. Convergent technologies mean AI is finding new uses in financial services

Artificial intelligence (AI) will be used in "every single segment of financial services", predicts Christophe Chazot, group head of innovation, HSBC. "The software is getting more intelligent in a human sense, mimicking human reasoning."

The technology can help wealth advisors, back office staff and operations, traders and corporate finance teams. Chazot says AI technology is advancing in all parts of the bank across all divisions covering capital markets, retail, corporate and private banking. "We believe AI can help us meet our three digital objectives: to deliver a better, faster service to customers, connect more clients to more opportunities and do it in a secure way."

The bank is creating a series of labs around the world dedicated to AI, data, user experience and security, which overlap technologically and are designed to provide an in-house capability in line with some of its global competitors. The bank also hopes to mitigate the potential threat from technology-based new entrants that want to cherry-pick profitable lines of business.

Chazot says: "We need to 'own' these technologies by undertaking applied innovation research, co-operating with academia, and yes, by partnering with tech firms and start-ups where necessary, so that we can apply AI specifically to our problems. If we are just users, we will lose our edge."

The threat of displacement or disintermediation is one that Josh Sutton, global head of data and AI at Publicis. Sapient, recognises, commenting: "I'd be >>



"We need to 'own' these technologies... If we are just users, we will lose our edge"

Christophe Chazot, HSBC



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surprised if tech companies didn't grab some market share."

The technologies and concepts of which Chazot speaks aren't new – natural language processing, machine learning and neural networks have been around for years. But they are more powerful as computing power has advanced and, crucially, as the pool of available data and analytical tools grows.

Many financial institutions and technology companies such as Microsoft and Facebook have deployed powerful solutions for image or voice recognition to verify customers, use big data analysis to spot trends or opportunities and use digital assistants that are designed to help customers and automate processes. Commonwealth Bank of Australia, for example, has purchased Chip, a humanoid robot from PAL Robotics to carry out research into AI.

AI growth stagnated in the 1990s due to difficulties in maintaining the knowledge base to upgrade and manage AI systems, which was caused by a lack of data and tools at that time, says Parth Desai, the founder of Ace Software (now named Pelican). "AI has made a resurgence, however, due to the availability of vast amounts of data generated by devices and websites."

Vijay Mayadas, vice-president of strategy at Broadridge, says AI's time has finally come. "The rapid progress of self-driving vehicles and the defeat of the Go world champion Lee Sedol earlier this year by Google DeepMind's AlphaGo computer program – an event that many thought was at least a decade away – are strong signals that AI is likely to rapidly gain broader adoption."

Mayadas says significant progress has been made in applying machine learning techniques to robo-advisory and anti-money laundering and know your customer activities in financial services. "On the buy-side, many quantitative hedge funds have been at the cutting edge of implementing machine learning techniques to explore large market datasets to derive alpha. In operations technology there is also significant process automation. AI techniques can be applied to the 5 per cent of exceptions that drive 95 per cent of the work and cost of procedures."

AI is also used to combat fraud or market abuse and battle AI-enabled cyber attacks. "AI can help detect in real time when



suspicious transactions or trades are made much more effectively and on a larger scale than humans," says Lee Beardmore, chief technology officer at Capgemini.

Nicolas Mackel, chief executive of the Luxembourg for Finance trade body is moderating an Innotribe session today, *AI for financial services*. He thinks it is early days for the resurgent AI revolution, "but Moore's Law, which doubles computing power every 18 months, means its impact will soon be evident". In his opinion AI is "a huge business opportunity with risk management, investment and many other end uses that will emerge in years to come".

He adds: "I foresee co-operation between financial institutions and tech firms. I don't think AI will displace banks, nor do I think the machines will take over." Rather, financial services jobs will be restructured with new

jobs created to service the technology and put a greater focus on customers. Financial services itself will also be transformed, he adds. "AI will blur tech and business lines and it might enable new entrants to enter financial services. I also expect to see significant one-off instances where AI causes problems." High frequency trading and algos, for instance, led to circuit breakers on financial markets. AI may have unintended consequences.

"There is danger in every new technology," admits HSBC's Chazot. "We need to mitigate the risks, while recognising the opportunities, particularly how AI aligns with mobile, cloud computing and big data technology. The convergence of these trends and of applications that integrate all of them offer great opportunities that we as an industry must take." DNS

AI to watch

Technology companies and AI platforms to look out for are numerous but Wit.doc is interesting and was recently purchased by Facebook. The Viv AI platform enables developers to create an intelligent, conversational interface to anything. Capital One has partnered with Amazon Echo and its Alexa voice command and recognition technology to enable US customers to check their credit card balances and pay bills verbally. The Kik free messaging app for smartphones is also attracting and retaining large numbers of US teens with its add-on tools and addictive algos. If they monopolise the time of future generations what is to prevent FS applications in the future? This is the threat of closed ecosystems that leave retail banks as 'plumbers' without customer facetime.

There is also the problem that investment banks might incur unacceptably high costs or lose out to more data-centric tech firms or newcomers unless they invest in their own AI capabilities. This has prompted Goldman Sachs to invest in the Kensho start-up, which is seeking to more easily and cheaply deliver the type of financial data and analysis in which Bloomberg and Thomson Reuters specialise. The bank has also invested in Digital Reasoning, which specialises in cognitive computing for enterprises and automating the understanding of human communication via its Synthesys machine learning platform.

"There are hundreds of start-ups pioneering new techniques in specific industry niches," says Capgemini's Beardmore. "The evolving number of use-cases and numerous projects such as Elon Musk's OpenAI initiative mean the next five years, let alone 20, will be a very exciting time."

LIGHTING THE BLUE TOUCH PAPER

The single euro payments area is up and running and has proved to be a catalyst for change in the payments industry. *Heather McKenzie* looks at the story so far

It seems churlish that one of the most significant collaborative industry undertakings – the single euro payments area (Sepa) – should receive so little attention at this year's Sibos. This week's event marks the first Sibos in Europe since Sepa became fully operational in all euro zone countries on 1 August 2014. But on closer inspection, the lessons learned and the opportunities that Sepa has opened up can be identified in a number of the topics that are being discussed this week.

On Monday, panellists discussed the capital markets union, which is more or less the wholesale banking equivalent of Sepa. We have also heard, or are about to hear, about real-time payments and single platforms for payments. In only one session is Sepa mentioned – today's Swift auditorium session on SwiftRef, which will look at entity data identification. Much of the attention of payments industry participants in Europe has swung towards the Payment Services Directive (PSD, which provides the legal underpinning for Sepa). This opens up a wide range of opportunities for incumbent providers as well as for new entrants.

Sepa was a "catalyst for change for banks and their clients", says Rob Allighan, euro payables and receivables manager, global transaction services, Europe, Middle East and Africa at Bank of America Merrill Lynch. "Sepa forced them to think about new ways of rationalising treasury operations. BAML saw Sepa as an opportunity for change and we committed to it right from the start. Sepa has now become the *modus operandi* for our

clients to make efficient euro receivables and payables."

The initiative has enabled new solutions for working capital management such as payments on behalf of (Pobo) and collections on behalf of (Cobo), as well as solutions that streamline the number of physical accounts a client has, such as virtual account management (VAM).

One of the aims of Sepa was to enable corporate treasurers to use a single instrument for payments across the euro zone from as little as one bank or bank account. By setting up a Pobo structure, a corporate treasurer could allow the holding or governing entity to make all non-urgent euro payments from one account regardless of the originating entity. So for example, a subsidiary based in Asia Pacific could take advantage of a Pobo structure in Europe, making what is in essence a domestic payment via the holding company as an intercompany movement, rather than engaging in a costly FX deal to pay a supplier in the euro zone.

A similar situation applies for collections. A collection factory including Cobo acts as a processing centre in charge of centralising collections of receivables within a single collecting entity, on behalf of other operational entities.

One of the areas of greatest promise is in VAM, which delivers on the promise of bank account reduction. VAM solutions have been around for a while, with early forays into the technology based on a single physical bank account that was segregated into virtual accounts associated with individual customers. Payers were required to use a unique reference number to help >>



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“For many corporate treasurers, not all payments have to arrive at the right minute on the right day – flexibility is often more important to them. We have seen our customers combine high-value RTGS for some payments while using Sepa batch processes for others. They want choice”

Ruth Wandhöfer, Citi

a company or bank to identify where a payment had come from. The problem with this approach was that very often payers did not use the reference number, placed it in the wrong field, or it was truncated by a forwarding bank. As a result, matching rates on virtual accounts were often quite low.

This obstacle is being overcome with the use of international bank account numbers (Ibans). The principle remains the same: a single physical account is operated but divided into underlying virtual accounts, each of which represents a customer. However, those paying into accounts are required to use an Iban, which is unique to that payer. The idea is that customers are more familiar with the idea of an Iban and the concept that they are paying into a particular bank account.

VAM facilitates greater client control over payments but also improves how transaction data is brought together, utilised and reconciled, through just a single number which acts as a unique identifier.

By deploying VAM solutions, companies can close numerous external bank accounts and replace them with the one physical account that is comprised of underlying virtual accounts. The concept is being further developed to include Pobo and Cobo. With the latter, a central treasury can take responsibility for group-wide incoming payments. This will greatly reduce the effort involved in reconciling and matching payments received in subsidiaries' accounts.

Using VAM, companies can create a multi-level hierarchy of virtual accounts within their bank account structure that mirrors their business relationships. By setting up virtual accounts in this way, each incoming payment is nominally applied straight-through to the correct virtual account because the business entity is set up to be identified by this virtual account. This structure streamlines processing and removes any manual intervention. Under the receivables OBO structure, incoming payments can be correctly identified to the specific business entity for which it is intended.

Most of the large banks have been offering VAM for some time, but demand from corporates was low. However, pressure on costs and efficiency has driven larger corporates, which maintain scores of accounts, to examine VAM in more detail. The potential of initiatives such as Sepa has begun to be recognised by companies. Companies, supported by the introduction of Sepa, now have the possibility to centralise and optimise their Sepa payment receipts, while simultaneously improving reporting and limiting administration.

Ruth Wandhöfer, global head of regulatory and market strategy, Citi, says there has been “significant uptake” of Sepa instruments in the wholesale market. “Corporate treasurers have used Sepa as an opportunity to partially replace some of their high-value payments that are

usually executed via the Eurosystem’s Target2 real-time gross settlement system [RTGS],” she says. As Sepa payments have a maximum execution time of D+1, mandated by the PSD, this is seen as a cost efficient and relatively speedy alternative. We have been helping some clients, that did not implement XML capability themselves, to convert formats to XML before transactions are sent to the payments engine.”

Other corporate clients have started to implement ISO 20022 XML, which has enabled them to streamline their flows, often leveraging this standard globally. Wandhöfer says corporate treasurers appreciate that Sepa payments, either single or batch traffic, can be very efficient and less costly. “For many corporate treasurers, not all payments have to arrive at the right minute on the right day – flexibility is often more important to them. For example, corporate treasurers will retain the RTGS option for urgent payments, payments that require high levels of security, or payments that are for significant amounts. We have seen our customers combine high-value RTGS for some payments while using Sepa batch processes for others. They want choice.”

Plans are under way to introduce real-time payments via the Sepa Instant (SCT Inst) instrument, which has become the main focus for the European Payments Council. The target date for the publication of the SCT Inst scheme is November 2016, with the aim for it to enter into



force in November 2017. However, Wandhöfer says: "We have evidence that corporates, even with real-time solutions such as Sepa Instant, won't push all of their business through such a channel. They want choice of pricing as well as certainty of settlement. The choices made will depend on how different banks will design their offerings."

Allighan points up that the benefits of Sepa are much more easily identifiable to clients that deal in different jurisdictions across Sepa, whereas some wholly domestic-based corporates may have viewed it as a hindrance. "The benefits, such as having just one account for all euro AR and AP (although that may be far off at present), are easier to pinpoint for clients operating in multiple countries. For now, Sepa has enabled account rationalisation and has helped ease payments and receipts between euro zone countries. It also provides corporates with the opportunity to enter into new markets in the euro zone more easily. This will support the explosion of digital payments over the internet as customers buy goods from a wide range of countries."

While there has been uptake of Sepa among corporates, Neil Vernon, chief technology officer at Gresham Computing, says the initiative has fallen short of corporate treasurers' requirements. "Sepa fails on the most basic question for corporates – when they receive money they want to know from whom and for what. In developing Sepa, no one seems to have thought about the remittance information that banks need in order to process a payment," he says. As a result, companies are often sending Sepa payments messages then following them up with an Excel spreadsheet that contains more information.

He believes the problems arose from a lack of corporate input from the start of the Sepa development. "For a long time



"Sepa has provided the foundation layer to enable future innovation at BAML and also throughout the payments market as a whole"

Rob Allighan, BAML

the banking industry more or less ignored the entities that give rise to the majority of payments, that is, corporates. They should have been asking how they could serve corporates and optimise the processes they have to undertake."

Despite the problems, Sepa is under way and it is easy to forget what a significant undertaking it was and how much angst it caused during its development. "Despite the challenges, which all have been overcome, Sepa has inspired communities elsewhere in the world to think about regional payments integration, even in regions with no common currency," says Wandhöfer.

"The Gulf Cooperation Community as well as regional groups in Africa are pushing for harmonisation across markets and are using ISO 20022 XML and real-time payments as elements in this."

Allighan says BAML never saw Sepa as a simple regulatory requirement; it was always about providing the opportunity to explore the strategic direction in payments. "Sepa has provided the foundation layer to enable future innovation at BAML and also throughout the payments market as a whole. These innovations include instant Sepa credit transfers, which are set to go live in November 2017. Also, advances in VAM will help corporate treasurers with reconciliation and improve the speed with which they are able to allocate payments to accounts."

One of the biggest lessons Sepa taught the industry, says Wandhöfer, is that governance and decision-making have to be very clear from the beginning. "During the development of Sepa, the governance model of Sepa changed, given that non-bank payments services providers entered the market due to the PSD. This changed the dynamics of development, which had to be reflected in the governance. We learned that the industry should be ready for complexity and should work hand in hand with the European Commission, the European Central Bank and also aim to bring all stakeholders into the process as early as possible." **DNS**



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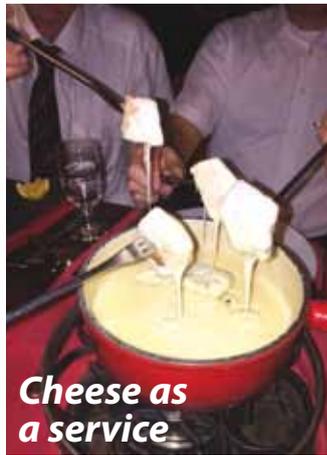
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Creating a Hyperconnected Corporate Bank of the Future

Banks are not competing with banks anymore, but against the ubiquitous, all pervading unified digital experience, which is driving the adoption of digital across the corporate banking value chain. Fintechs are a great example of how innovations in digital can deliver speed to market, a superior customer experience and better pricing. In fact, there was a spike in the number of Fintechs from 2011 to 2015, showing how much easier it is to get to market with a flexible, digitally-based infrastructure. Forty seven per cent of Fintechs set up in 2015 offered B2B services compared to 34% of Fintechs set up in 2011¹. Comparatively, the strength of

traditional banks lay in their rich customer data, built across years of trust and relationships. A strong, powerful strategy lies in the alliance of the technological prowess of the Fintechs complemented by the rich customer data of the banks, to provide the best banking experience to customers.

Enter the world of a hyperconnected bank. The hyperconnected corporate bank of the future will leverage technology such as Open API interfaces to enable an entire ecosystem of financial institutions, Fintechs and service providers to deliver the most complete set of offerings to customers. A middle services tier will

present the bouquet of services rendered by this hyperconnected ecosystem, as shown in Figure 1. A digital experience tier will leverage analytics to glean customer insights, and exploit product processors, to deliver the best-fit customized services, based on customer requests. It could be as simple as a chat message, once the security credentials are established.

There are a number of aspects that need to be examined when considering the hyperconnected bank of the future. Cross-border corporate payments, for example, remain a complex and imperfect exercise. Different payment systems limit interoperability, enforce dependence on several intermediaries, and add costs with delays to settlement. There isn't a one size fits all solution for cross-border payments. However, when technology underpinning a bank's payment system is modernized and its structural inefficiencies removed, and when banks open up to connect with other banks and service providers they can facilitate faster fund transfers and perhaps even instant payments. Disruption in the payments landscape is slowly moving from C2C to B2B², where banks get nearly 95% of that B2B cross-border payment revenue. Non-bank players and Fintechs are eager to take advantage of inefficiencies that exist today in the B2B cross-border payment ecosystem.

It is estimated that if cross-border payment efficiencies were to even match those of domestic payment efficiencies, it would cost the industry about \$150 billion in cross-border payment revenues.

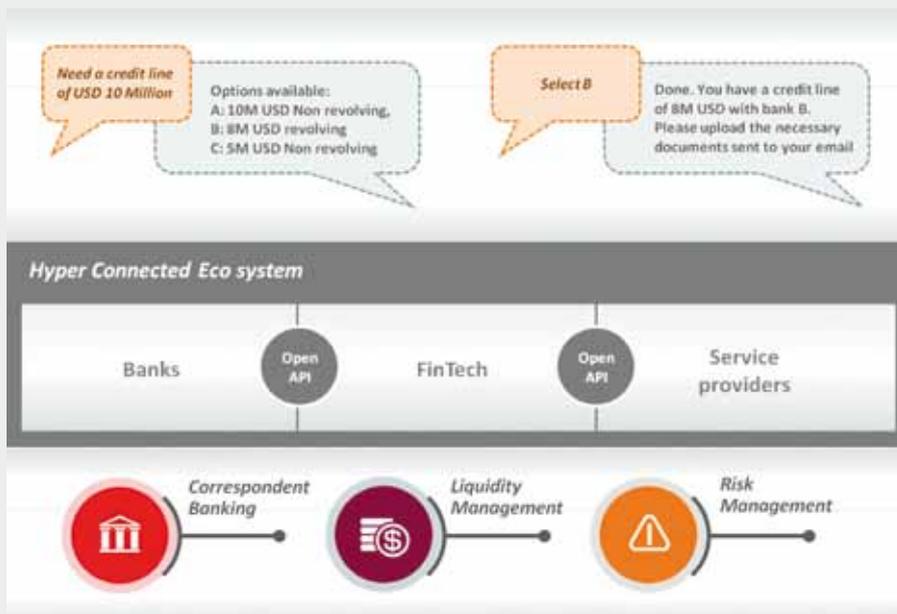


Figure 1: Hyperconnected ecosystem

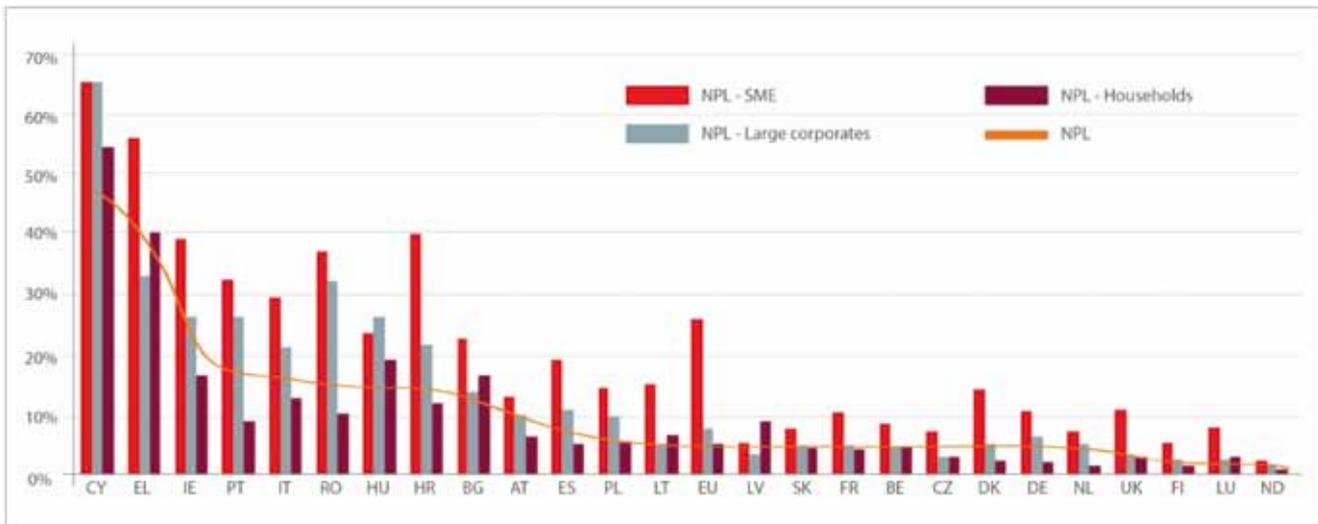


Figure 2: NPL ratio by debtor category (June 2015)⁴

Transaction costs for a cross-border service provider will be much less, compared to a bank, as it would not have to carry the cost of legacy infrastructure. Banks can partner such cross-border service providers and give the services to customers at a lower cost.

Liquidity management is another area that could gain immensely by leveraging the hyperconnected ecosystem. Hyper connectivity would allow banks and institutions to exchange information transparently and efficiently. It reduces financial risks and allows managing corporate supply chains intelligently. By building on an open ecosystem strategy, institutions can converse through global standards and protocols, allowing seamless information flow.

A treasury department can gain cash forecast information from different sources by connecting through the interfaces without deploying expensive integration software solutions. For corporate cash management units, open environment interfaces can be used to build applications that extract data from the extended financial supply chains for decision making. Hyper connectivity allows corporations

multiple source points that are needed for the management of liquidity positions. As the corporations expand globally the supply chain complexities will magnify wherein information disseminates from disconnected and disparate sources. Hyper connectivity will be the need and not the alternative.

Risk management remains central to the corporate banking marketplace, by virtue of the individual deal size. Hyperconnected ecosystems will enable banks to assess transaction patterns across banks and financial institutions to create a risk profile, not limited to a single bank. In a hyperconnected ecosystem, encumbered assets could be easily validated from the market place, thereby minimizing future risk of exposure due to potential unsecured lending. The advantages accrued from leveraging a hyperconnected ecosystem to manage NPLs can be judged by the fact

that, as of September 2015, the average rate of non-performing loans in the EU was at 5.9%³.

Achieving success in a hyperconnected scenario depends on how banks adapt their existing IT infrastructure. It is essential for banks to realign their IT strategy to deliver capabilities of an exceptional digital experience (A Digital Experience Tier), enhanced digital engagement (A Digital Engagement Tier) and a responsive back-end (A Product Processor Tier). Also, the IT strategy must allow for standalone deployment of key components to focus on areas of strategic importance to the bank. Combining the power of analytics and big data, banks can gain a deep customer insight to create a contextual digital engagement. Collectively, by leveraging RESTful services and Open APIs, banks can create a hyperconnected corporate banking experience.

¹ *Fintechs can help incumbents, not just disrupt them*, McKinsey, July 2016

² *Global Payments 2015: A Healthy Industry Confronts Disruption*, McKinsey, October 2015

³ *Non-performing loans in the Banking Union: stocktaking and challenges*, Economic Governance Support Unit, European Parliament, March 2016

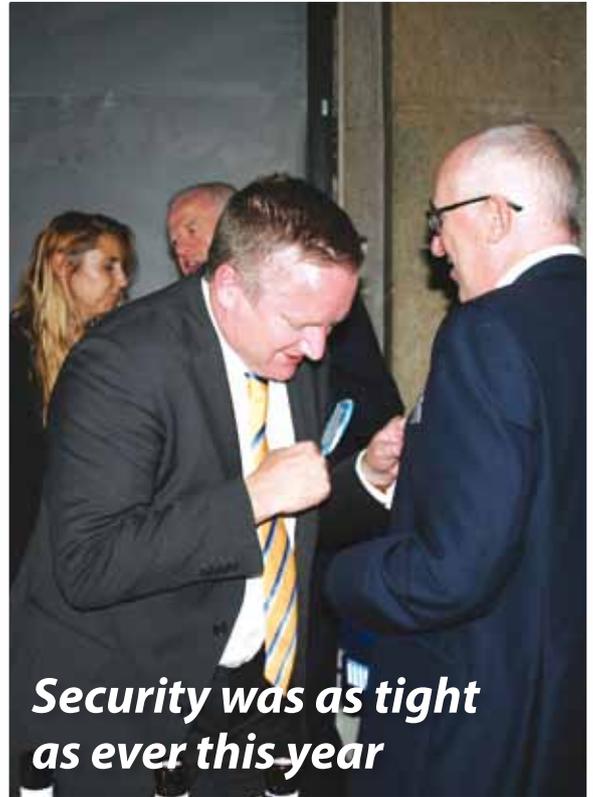
⁴ *EBA, 2015, p30*

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