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## NPP a marathon, not a sprint

By Heather McKenzie

Payments industry participants in countries about to embark on, or in the early days of, real-time and instant payments infrastructure projects should acknowledge that "it doesn't all have to happen on day one". During a session on Australia's New Payments Platform (NPP), Nigel Dobson, general manager, wholesale digital transformation at ANZ, advised banks to manage the scope of their individual projects very carefully.

"The management of the scope of what we would offer as banks was up to individual institutions," he said. "However, over time there was convergence on scope as we banks recognised the degree of complexity that has to be managed."

The NPP is a platform that will operate for between 10 to 15 years, he added, and therefore all of the opportunities it affords have time to emerge. "If you communicate clearly with your customers about this, you won't be penalised," he added. Earlier this month, the 13 local banks that set up the NPP announced that faster payments would start around the end of January 2018, after the Australia Day holiday. It is expected that four out of every five bank accounts will be eligible for faster payments, with some accounts held at international and smaller banks to qualify later.

Swift built the messaging infrastructure for NPP, which is based on ISO 20022 standards and will transport rich data along with payments.

Unlike most existing real-time payments systems, NPP will deliver real-time settlement in central bank



money, rather than relying on netting. Rachel Slade, executive general manager, deposits and transaction services, National Australia Bank, said this aspect made NPP unique compared to other markets. The decision to use ISO 20022 was also a differentiator and "very forward-thinking in terms of future interoperability".

The basic architecture of NPP is separate from an overlay services layer. Said Slade: "We are already thinking of the services we want to develop – and there is a lot of interest from fintechs, which makes this layer very exciting."

Katrina Stuart, relationship manager at NPP Australia, the company formed to oversee the build and operation of the platform, said the overlay services will enable organisations – fintechs, the NPP participants themselves, or any others – to create tailored services. "We expect a wide range of services to emerge," she said.

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*"Cross-border banking has become an expensive activity"*

John Campbell, ANZ



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# African payments start to modernise

By Antony Peyton

While Australia is about to launch its new payments infrastructure, Africa is just starting out on a programme to modernise its payments system. This process is being driven by Africa's largest automated clearing house (ACH), BankservAfrica, whose chief executive, Chris Hamilton, was chief executive of the Australian Payments Clearing Association from January 2006 to May 2016.

South Africa-based BankservAfrica believes it has the right experience and expertise to push for a modern payments infrastructure on the African continent. Things are happening, but they take time, said Martin Grunewald, executive head for digital infrastructure at the clearing house. "If we don't start, we won't get to the finish line".

Not only is the ACH a clearing house within its home country, it performs the same function for the Southern African Development Community (SADC), an inter-governmental organisation comprised of 16 states that seeks political and security co-operation.

Grunewald said globally, organisations are looking at their payments infrastructures. BankservAfrica is among these and embarked on a nine-month research project to study the landscape. The research was split into three components.

For the first, the ACH looked at developed and developing countries: Brazil, US, Canada, Mexico, UK, EU, India, Australia and Nigeria. This took up a big chunk of the work.

"For the second component, we interviewed all stakeholders in South Africa to understand where they see the country going. And for the third, we combined what we heard in South



Africa with phase one for a possible way forward," said Grunewald.

Where it is now with this plan is relatively clear as Grunewald said the stakeholders are "debating and getting consensus. We have determined the goals, drivers and what we do. Then we can start building business cases."

The process of design started this month and is scheduled to finish in six months. When that is reached, BankservAfrica "can start looking at the technologies and spend time with the design phase".

Grunewald said designing and building a modern payments system in Africa will be about "building one big track. Everything else – such as open APIs – will fall off that. If we go down that route, there are no reasons why we can't replicate it over the region. We will start with the SADC."

But Grunewald is aware of the challenges involved. For example, BankservAfrica will need to tie all the regions together. "Africa is very diverse, with different languages and currencies. But we are trying to build something properly in South Africa and in the SADC."

In his view, there is momentum in SADC – such as for high-value payments. And because it is made up of 16 states, what it does will be recognised by other economies on the continent as they "need that backbone to start progressing".

Many conversations about Africa will turn to the question of developing countries and how they can be helped more. South Africa, for example, has "two economies", said Grunewald. "The modern one is verging on a first world style economy, but a big chunk is left behind. A payments system for the future needs to cater for both economies to prevent conflict that one economy has to pay for the other."

In terms of specifics, he offers up East Africa as an example: "Mobile has done very well but it's gone as far it can go with closed loop and PSP. The next phase is evolution and, where there is interoperability between traditional systems and mobile, this will get the economies of the small operator, entrepreneur, or shop on the corner going."

Grunewald doesn't dodge the question of whether corruption in Africa will impede its plans for a payments infrastructure.

"If we have the support of the central banks across the region it will work to mitigate corruption. If the system is solid and there are no work-arounds – and cash is not so easy to work with – then the payments streams will help countries and banks to counter money laundering and fraud," he said.

"A good payments system will not stop all corruption, but it will start mitigating those risks."

*Continued from page 1*

Greg Johnston, managing director of the Reserve Bank of Australia, said going forward, the central bank is hoping for overlay services that can slice and dice offerings for different customer groups. "This system offers the opportunity to design payment instruments and services that will meet the detailed needs of different customer segments."

Preparing for NPP and real-time payments in Australia has required investment in the platform – which was shared by participants – but also in banks' own payment stacks. Asked by session host Carlo Palmers, market infrastructures market manager at Swift, how they would recoup investment, both Dobson and Slade said NPP wasn't about that. "I wouldn't say we think about it in terms of recovering investment. We think that what we have done will provide benefits beyond NPP and

beyond NAB. We are modernising our payments infrastructure and will be able to deliver new services to clients," said Slade.

Dobson agreed, adding that the industry is living in a new, real-time world that cannot be ignored if a bank wants to stay in business. Moreover, this is a fact for banks' corporate clients, too. "Once instant payments are available, consumers and customers will know that a company has their money, so they will expect instant delivery of the service they have paid for. Everyone must prepare for this and take advantage of the features and functionality that will be available."

Asked by Palmers if the RBA would have done anything different regarding its involvement in NPP, Johnston said no, before Dobson quipped: "You could have paid for it."

# Sberbank joins EEA to broaden cooperation

By Heather McKenzie

Sberbank has become the first Russian bank to join the Enterprise Ethereum Alliance (EEA). The non-commercial alliance was established in February 2017 to transform Ethereum into an enterprise-grade technology.

Ethereum is a decentralised platform that runs smart contracts – applications that run exactly as programmed, without any possibility of downtime, censorship, fraud or third-party interference.

These apps run on a custom-built blockchain, a powerful shared global infrastructure that can move value around and represent the ownership of property. This enables developers to create markets, store registries of debts or promises and move funds in accordance with instructions given long in the past (like a will or a futures contract) without a middle man or counterparty risk.

“Sberbank’s joining the Enterprise Ethereum Alliance is an important stage in achieving the goals on our technology agenda. This membership implies for us access to cutting-edge developments and international expertise in blockchain technology,” said first deputy chairman of Sberbank’s executive board Lev Khasis.

Other Ethereum alliance members include CME Group, Credit Suisse, DTCC, ING, JPMorgan, Santander, UBS, Accenture, Deloitte, Intel and Microsoft. High-tech start-ups and scientific and research organisations are also members of the alliance.

Khasis’ colleague, Igor Bulantsev, senior vice-president of Sberbank and head of Sberbank CIB, said: “Our entrance to the Alliance will help broaden cooperation between leading global companies in terms of developing the Ethereum platform. The



Alliance is actively developing and I hope that the bank’s expertise will be of use to all of its members. In addition, the bank will be able to influence the enhancement of the platform and its growth in the corporate sector. I hope that our union will further strengthen our relationship with the Ethereum Foundation and serve as a significant step towards developing blockchain technology in Russia.”

# JPM, RBC, ANZ form blockchain info network

By Antony Peyton

JP Morgan, Royal Bank of Canada (RBC) and ANZ Banking Group have launched the Interbank Information Network (IIN) – using blockchain for the payments process.

The banks hope that by using blockchain, IIN will reduce the number of participants currently needed to respond to compliance and other data-related inquiries that delay payments. JP Morgan points out that global payments processing is very complex. Multiple layers of communication occur among payment participants to verify and process transactions. Emma Loftus, head of global payments and FX, JP Morgan Treasury Services, said: “IIN will enhance the client experience, decreasing the amount of time – from weeks to hours – and costs associated with resolving payment delays.”

RBC and ANZ are the first two banks to join IIN. JP Morgan said other correspondent banks are expected to join in the coming months, but offers no specifics or timelines.

IIN is powered by Quorum, a permissioned-variant of the Ethereum blockchain, developed by JP Morgan and unveiled last year. At that time, Amber Baldet, program lead, blockchain centre of excellence, JP Morgan Chase, said it was working with Ethereum “because it has been around a while and banks are familiar with it”.

With Quorum, the firm said all public and private smart contracts are derived from a single, common, complete blockchain of transactions validated by every node in the network.

The plan from last year was not an ‘open for all’ network, as the nodes that run Quorum must get permission from a higher authority to join.

JP Morgan said its treasury services business processes about \$5 trillion in payments every day for clients in more than 100 countries. The business has been investing in technology “in particular, emerging technologies such as blockchain, machine learning and robotics”.

Elsewhere, another trio announced a separate blockchain development at Sibos.

Broadridge Financial Solutions, Natixis and Société Générale have “successfully completed” a pilot project that uses blockchain technology for bilateral repurchase, or repo, agreements.

The pilot utilises distributed ledger technology capabilities “to reduce operational risk for market participants by providing a secure record of repo trade details, reducing the need for reconciliation and removing obstacles to straight-through processing”, the participants said.

Vijay Mayadas, president of global fixed income and analytics at Broadridge, said the project has shown that blockchain “can play an instrumental role in reducing operational cost and complexity” within the bilateral repo market.

In turn, this pilot comes hot on the heels of another project – a proof of concept (POC) by Broadridge, JP Morgan, Santander and Northern Trust to apply DLT to the proxy voting process.

# Data vs money: no clear winner... yet

By Tanya Andreasyan

Sibos delegates yesterday pondered what was more valuable today – data or money, during a session focused on the future of money. For many, data is the ‘new oil’.

“Money is foundational,” said Ather Williams, head of business banking, Bank of America Merrill Lynch (BAML).

Megan Caywood, chief platform officer of UK-based challenger bank Starling, found it difficult to say, pointing out data and money are so interlinked. “But going forward, data will be fundamental.”

Richard Koh, founder and chief executive of fintech firm M-DAQ Group, opined that “data is more valuable than money”.

But all three agreed: data needs to be applied and interpreted in a meaningful way that benefits both the customer and the financial institution.

“There is too much data out there, too much noise,” Koh said. And quite often, the interpretation of data can do more harm than good, if applied incorrectly. For example, data analysis of ice cream sales on a beach in summer might show a spike in sales, Koh said. But if someone drowns at that beach, does it mean that the increased ice cream sales have caused it? Of course not. “So the art of data science is not to collect more data, but to get rid of the noise and analyse it in a meaningful way.”

We are now moving from the world of ‘Fintech 1.0’ to ‘Fintech 2.0’, which, using data science, technology and culture, will “reimagine banking”, Koh said.

This is the world where Starling wants to become “the Amazon of financial services”, Caywood said. “We are a tech company with a banking licence. We are mobile-first and

mobile-only,” she stated. The bank focuses on current accounts and the development of its Marketplace, which will enable customers to access a range of financial services provided by other entities, all via Starling’s mobile app.

The future has no place for physical branches for Starling, she stated.

BAML’s Williams, however, was less radical about bricks and mortar. “It’s about balance of digital and physical,” he said. “Branches are not going to die.” Their purpose, though, is changing. BAML, for instance, has transformed its branches from transactional places to sales and advisory, to help clients deal with more complex queries and/or making big financial decisions (for example, taking out a mortgage).

He said: “Look at Amazon. While the company started as pure online, it is now opening physical stores.” Ouch, Starling.

# Slow down, simplify and “be lazier” to win

By Tanya Andreasyan

While many companies talk about the “fail fast” approach when it comes to experimenting and innovating, Adnan Khan, head of European digital client experience strategy, Brown Brothers Harriman (BBH), recommends avoiding this phrase and mentality. “What does ‘fail’ mean?” he asked during a session on user experience. “Could it be ‘succeed slow’ instead?”

It’s all about individual people and bringing them together, observed another panellist, David Watson, head of digital cash products and Americas head of cash management, Deutsche Bank. Instead of devising and building something very complex and functionally rich in-house, adopt a “lazier” approach and involve clients in the design, development and delivery of the product, he recommended. And simplify!

Khan agreed: “Bring clients closer to UX and understand the client’s UX journey.”

After all, it is all about customer-centricity and learning what the customer wants or needs and the pain points they are trying to solve. Kendra Thompson, managing director and global head of wealth management at Accenture, said: “Don’t just create a product and then explain to the client why they should love it.”

However, this might require a change in more than just a mindset (which is not easy to implement) but also in a company’s business model and the way it makes money, she warned. “And that is very difficult to embrace.”

Leigh Mahoney, head of wholesale digital transformation, digital banking at ANZ, observed that today, “it is a customer who is dictating

the experience, not the tech”.

In the past, there was too much reliance on technology limitations and what it could deliver, he explained. Nowadays, technology has all the capabilities to create a smooth UX journey and a great product.

Mahoney also flagged the importance of breaking down the silos between departments in the organisation and how this can lead to creativity and innovation. For example, he said, cross-border payments, FX and foreign currency account businesses are standalone products; three siloed business lines. But doesn’t it make sense to combine them, he asked. “Cut the head, put them together and create a new product.”

The panellists agreed that the teams involved in the development of the product/UX need to be nimble and work in an agile way.

ANZ is leading by example.

Mahoney said the banking group was moving from the waterfall method of development, with pockets of agile, to fully agile enterprise-wide. This, he emphasised, requires “a major cultural change – from what it was to what it will be”.

The impetus has to come from the organisation’s top and all the way down in a clear communication, BBH’s Khan said. “Conduct internal marketing campaigns,” he recommended. “Effect the positive change for the client.”

Tapping into your organisation’s creativity will yield great results, Accenture’s Thompson said. “Bring out the people’s inherent creativity that comes from within. It’s not about wearing trendy jeans and sneakers. It’s about the sense of purpose.”

# The Real-Time Challenge



Parth Desai, Founder and CEO of pioneering A.I. solutions provider Pelican, looks at the challenges of real-time payments and financial crime compliance for banks.

The rapid global adoption of innovative digital and mobile payment services has driven the heightened market demand and expectation of 24/7 instant payments. From November a world of pan-European real-time payments will be upon us with the launch of the SEPA Instant Payment scheme.

Regulators are looking to drive diversification of providers, extend competition and offer a wider range of services at competitive price points. The additional flexibility and product offering looks set to be a gain for consumers and increasingly the business sector. The view from a banking perspective can however be somewhat different. The technical demands of processing 24/7/365 10-second transaction window payments across 34 territories is certainly a challenge for existing core banking systems.

### The Legacy Challenge

The fundamental IT difference between the current Sepa Credit Transfer product and the Instant Scheme is how they are processed. Sepa Credit Transfers are processed in batch and submitted to the clearing and settlement schemes at set times, and certainly at the end of each business day. Payment instructions are received and paid to the recipient with a window of circa twenty-four hours. A vast improvement on past payment cycles

of 3-5 days but still far from instant.

Sepa Instant Payments must be processed by banks at a transaction level and on a real-time basis. The European Payments Council requirement is that instant payments will be in the account of the beneficiary within a period of ten seconds or less. All within a 24/7/365 period - a truly instant movement of funds.

The batch vs single processing of payments raises many issues for banks and their system providers. This is not simply doing things faster but a radical revamp of payment processing with all the resultant business, compliance and regulatory checks (AML) happening at the same pace.

Existing core banking systems are simply ill-suited to today's requirement for real-time processing of payments on a 24/7 basis, every day with no downtime and the highest performance levels at all times, with real-time financial crime compliance, notifications, reporting and exceptions management.

The scale and impact of the change is not to be underestimated and the new pan-European real-time payments scheme will also need to co-exist with others - adding to the burden of managing multiple IT environments with the resultant effect on costs, controls, maintenance, risks and security. Payment solutions which are capable of 'bridging the gap' between legacy

batch systems and the always available requirements an instant payments environment will certainly be attractive to banks looking to capitalise on the significant growth potential of cross-border real-time payments.

Likewise, solutions that combine real-time AML and Sanctions capabilities will prove increasingly popular as banks struggle to adapt their existing patchwork of more leisurely compliance processes with the very small review times allowed in a real-time processing environment. The growing challenge of payment fraud is further heightened in a real-time environment, and the ability to leverage the unique pattern detection and self-learning capabilities of Artificial Intelligence technology will become essential as Banks look to enhance fraud detection and prevention capabilities.

### Strategic Review

If banks haven't already undertaken a strategic review of IT investment and infrastructure, now is probably a good time to do so. Real-time payments can be the catalyst for a new wave of innovative payments services. It will be the forward-thinking banks, able to see the longer term opportunity to innovate and develop new business products and services, that will be the true beneficiaries of real-time payments.

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# Treasurers look to tech to untangle knots

By Neil Ainger

Untangling the 'knots' at global treasuries, especially with regard to bank maintenance issues around know your customer (KYC) and other compliance activities, was the theme of a corporate treasury session yesterday at Sibos.

"I have eight full-time people and an army of lawyers working on KYC and other compliance demands. Bank maintenance is a pain," said Joseph Vasen, assistant treasurer and group treasury manager, Microsoft. "I see technology as a possible help in the future, especially distributed ledger technology [DLT] as it has notarisation capabilities. But it will require partnerships with banks, corporates, financial technology firms and regulators."

For Guy Ingram, former treasury development head at the brewers InBev and now a consultant, "actually having long-promised electronic bank account management (Ebam) capabilities would be nice", adding that things were still too manual and "couriers get far too much business out of us."

Technology would appear to be the means by which to untangle the knots treasurers face therefore, which was handy as Dr Ailish Campbell, assistant deputy minister and chief trade commissioner for the Canadian Government, gave a short overview of the country's fintech sector.

"There are more than 3000 fintech companies in Canada, with hubs here in Toronto, in Vancouver, Calgary and Montreal, attracting \$1 billion of investment since 2010," she said. She encouraged delegates to visit the Mars discovery district in Toronto and the University of Waterloo in Ontario, out of which BlackBerry grew.

A live poll during the session confirmed the reliance on technology to solve corporates' problems. Asked what event or changes have had the biggest impact on corporate treasuries during the past year, 31 per cent said new technology, such as artificial intelligence (AI) and distributed ledger. Uncertainty about the UK's exit from the European Union, and payment fraud and cyber security were each cited by 25 per cent of the audience. Other changes included the election of Donald Trump as US president (13 per cent) and the entry of new competitive fintechs (6 per cent). No one cited the rising interest rate environment or market and foreign exchange volatility.

The new technology that was of most interest to the corporate treasurers on the panel, and the bank representatives from BNP Paribas and Bank of America Merrill Lynch (BAML), was AI.



According to Microsoft's Vasen, his firm is already using AI for balance sheet hedging and cash forecasting. "Shortly we will be looking at a project for intercompany flows, so that cash is where it needs to be," he said.

Suresh Subramanian, head of trade and treasury solutions Americas at BNP Paribas said: "AI is important, especially the robotic automation element for a bank. But I think DLT and various other technologies will be important too."

That is why technology was the top finding of the live Sibos 2017 poll, although it was surprising to see an interest rate rise or FX volatility not on the list of corporate treasury priorities, suggesting there were perhaps more bankers in the room than treasurers.

Paul Taylor, global head of corporate sales, Emea global transaction services at BAML, said: "Data is the key thing. The way we mine, manipulate, store and use it to aid automation and service is the prize. AI is one part of that, but there are other useful technologies too."

Separately, over in the Standards Forum there was another corporate treasury focused session on digitalisation and the need for standards to enable it, but unfortunately the BAML and Canadian Imperial Bank of Commerce representatives were lacking a treasurer to debate with. Jane Miller, a consultant who used to work in Ford Motor Company's treasury for 30 years, gamely stood in.

"The next advance in treasury technology should be foundational," she said, meaning that it should integrate payments with cash visibility, securities transactions with compliance, and so on. Data can then flow freely across organisations in the financial and physical supply chain, including banks and corporates.

This nirvana requires standards, however, and as Benoit Desserre, head of global transaction banking at Société Générale, candidly admitted "we're in a competitive industry where you're going to keep what advantages you can, while also recognising the need to collaborate where possible to aid clients".

That is the crux of standards right there, but collaboration is necessary to enable true end to end digitalisation of corporate treasury practices.

The Sibos session moderator, Marc Delbaere, head of corporates and supply chain, Swift, pointed to some "successful projects" where collaboration is happening, such as its global payments innovation (GPI) project and in trade finance.

## Sberbank and Swift sign memorandum of co-operation for product push

Sberbank and Swift have signed a memorandum of co-operation regarding the development and piloting of products created and promoted by Swift. The parties agreed to co-ordinate steps to assess the potential application of blockchain in interbank settlement platforms.

In particular, Sberbank joined the international group of financial institutions testing the prototype of Swift's distributed ledger technology (DLT) platform, which has been developed as part of Swift's global payments innovation (GPI) initiative. This platform uses the blockchain-based distributed register to verify payment information in real time.

In addition, Sberbank said it plans to assess the potential of using the Swift Alliance Messaging Hub as a technological solution to help with the "centralisation and optimisation" of processing Sberbank's internal and external payment flows and other financial transactions.

## SmartStream launches new version of TLM reconciliations

SmartStream Technologies has added TLM View, which provides a user-driven approach to analytics to the latest version of its TLM Reconciliations product. The firm said this will help identify trends and exception patterns to further reduce manual intervention. Other features of the product include self-service user experience, trend analysis for match rates, exception reduction and model choices for each reconciliation. Another element of the latest release is TLM SmartRecs, SmartStream's onboarding and automated match rule creation solution, which now has further features, including data transformation functions.

SmartStream also announced that the derivatives execution and clearing business of BNP Paribas has implemented its fees and expense management solution. The bank will use it to control and reconcile payable brokerage fees; and for invoice issuance to execute commissions for DEC clients. Credit Suisse has expanded its partnership with the company to include the processing of listed derivatives brokerage fees.

## Digital Trade Chain changes name

The Digital Trade Chain initiative has been renamed we.trade. A shared platform using distributed ledger technology (DLT) for domestic and cross-border commerce, it was launched in January 2017 by IBM and seven banks: Deutsche Bank, HSBC, KBC, Natixis, Rabobank, Société Générale and UniCredit. Recently Banco Santander joined the consortium. The enlarged consortium will continue to develop the platform that can connect the parties involved in a trade transaction – the buyer, buyer's bank, seller, seller's bank and transporter. The commercialisation of the platform is expected in the second quarter of 2018. Test clients of the founding banks will be able to use the platform from February 2018. The

eight banks intend to establish a joint venture company before the end of this year that will own, manage and distribute the platform. The intention is to incorporate the new legal entity in the Republic of Ireland.

Also at Sibos, IBM announced two separate new payments deals, with Toronto-based Dream Payments, and KlickEx Group and Stellar. Dream Payments will offer services such as mobile point of sale solutions and business to business payments. KlickEx Group and Stellar have unveiled a new regional cross-border payments solution using IBM's blockchain technology. It will provide clearing and settlement of trades on a single network in real time.

## SmartContract unveils POC

SmartContract, which enables computable smart contracts, has unveiled a new a proof of concept (POC) for making/using smart contracts with Swift. The POC was built with the assistance of Barclays, BNP Paribas, Fidelity, Société Générale and Santander. If rolled out in a larger implementation, this type of offering would allow banks to easily connect their existing systems to smart contracts on various networks with one middleware. The POC was designed to show how smart contracts could simplify the buying, selling and payment of dividends from bonds. The the project makes notable use of interest rate data from the five banks.



John Barnes, former Liverpool FC star, has been appearing on Standard Chartered's stand this week. Here he meets Daily News at Sibos design star, Kosh Naran

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# It takes two to tango

The global correspondent banking network is under pressure in several countries as some financial institutions close relationships. **Heather McKenzie** reports

In a March 2017 report, *Recent Trends in Correspondent Banking Relationships – Further Considerations*, the International Monetary Fund (IMF) said to date, cross-border payments have remained stable and economic activity has been largely unaffected, despite a recent slight decrease in the number of correspondent banking relationships (CBRs). “However, in a limited number of countries, financial fragilities have been accentuated as their cross-border flows are concentrated through fewer CBRs or maintained through alternative arrangements,” stated the report. “These fragilities could undermine affected countries’ long-run growth and financial inclusion prospects by increasing costs of financial services and negatively affecting bank ratings.”

The factors leading to global banks’ withdrawal from relationships are varied, but generally reflect correspondent banks’ assessment of the profitability and risk of the relationships. Decisions to terminate CBRs often relate to the correspondent bank’s lack of confidence in the respondent bank’s capacity to effectively manage risk, said the IMF. Recent changes in the regulatory and enforcement landscape have

contributed to this phenomenon, notably with respect to more rigorous prudential requirements, economic and trade sanctions, anti-money laundering (AML) and combating the financing of terrorism and tax transparency standards.

Addressing the withdrawal of CBRs will take time and will require strengthened, coordinated and collective action on the part of public and private stakeholders. “The first port of call for all countries concerned with the withdrawal of CBRs includes measures to enhance respondent banks’ capacity to manage risks, improve communication between correspondent and respondent banks, strengthen and effectively implement regulatory and supervisory frameworks in line with international standards, particularly for AML/CTF [counter-terrorist financing] and remove impediments to information sharing,” said the report. “Other initiatives to address the underlying drivers of CBR withdrawal, particularly those related to correspondent banks’ profitability and risk assessment concerns, should be considered, though they tend to have more limited impact. In the event of a complete loss of CBRs by all commercial banks in a country, the public sector should also consider the feasibility of temporary mechanisms,



“To meet all the requirements under a well-managed agenda, cross-border banking has become an expensive activity, particularly in emerging markets, and ultimately banks have to decide if they want to play in the international cross-border payments space or not”

John Campbell, ANZ

including public-backed vehicles, to provide payment clearing services.”

The IMF is helping affected countries to improve their monitoring of CBRs and strengthen their legal, regulatory and supervisory frameworks. It is working with the Financial Stability Board, World Bank, G20, Financial Action Task Force, Arab Monetary Fund, Committee on Payments and Market Infrastructures and other stakeholders.

John Campbell, head of transaction banking international and financial institutions at ANZ, says large international banks have an important

role to play in connecting smaller banks in emerging markets to the global correspondent banking network. “In many cases, this access is critical for a country’s foreign-currency inflows and a lack of access can have serious humanitarian consequences. However, as part of facilitating cross-border flows, banks have an obligation to prevent financial crime – such as money laundering or breaching sanctions – and hence need certainty of the source of funds being processed.”

International banks are therefore left with something of a dilemma, he says. On the one hand, they don’t want to fall foul of regulators, but on the other there is a desire to aid financial inclusion.

“To meet all the requirements under a well-managed agenda, cross-border banking has become an expensive activity, particularly in emerging markets, and ultimately banks have to decide if they want to play in the international cross-border payments space or not.”

Rob Cleasby, global head: bank coverage, financial institutions group, CIB, Standard Bank of South Africa, says CBRs that enable the provision of cross-border USD/EUR payments have been terminated in certain jurisdictions in the past 18 months. “This undermines economic stability and growth of the exited country by increasing the cost of trade transactions in particular, whilst also hindering diaspora flows.”

From a Standard Bank Group perspective, in the lower end of the higher risk jurisdictions, correspondent banking services are mostly fungible between the correspondent banking institutions. For example, in Kenya, the exit of one

European institution was fully mitigated by another institution, however in Angola, the exit resulted in Standard Bank Group having to replace the USD clearing services through a bespoke solution which also mitigated some of the higher risk regulatory concerns. Other mitigating solutions such as changing the underlying currency of the transaction have had limited success in sub-Saharan African markets.

Campbell says several areas can be improved to make it easier for cross-border players. “There could be better communication between financial institutions and regulators to ensure a level playing field between international banks and domestic banks. Secondly, there is a mismatch of standards and regulations across the various markets. With higher standards in some emerging markets, cross-border banks would have greater comfort about the local standards to which domestic institutions are held. And thirdly, more could be done to ensure that emerging market banks are carrying out know your customer (KYC) and AML checks to the same standards as international banks – this would give cross-border players greater comfort about the control environment, especially around source of funds.”

Cleasby agrees better communication is required: “Global correspondent banks must engage with the local respondent banks with whom they are clearing to ensure that their internal controls, from an AML and CTF perspective are adequate and equate to the standards of that global correspondent bank. Furthermore, the global correspondent bank must, in partnership with the respondent banks, provide a platform of engagement between the two respective authorities to discuss and resolve, and formulate a plan to bridge the gap.”

To date, most lost correspondent banking relationships have simply been replaced by an alternative provider, says Cleasby, as his institution has been proactive in ensuring it has mitigated this risk to the best of its ability. “Critical to ensuring this success is the relationship between the correspondent and the respondent, the partnership and the understanding of the primary clearing business between these organisations.”

De-risking has also been driven by the global correspondent banks realigning and refocusing their business back into their core markets to comply with increased regulatory and capital requirements. Therefore, it is

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# Instant – the new normal

Carlo Palmers, Market Infrastructures Market Manager, SWIFT, talks to *Daily News at Sibos* editor Heather McKenzie

## HM: Why is SWIFT taking such a strong stand in instant payments?

**CP:** There is a clear demand from our customer community for us to become involved in instant payments [IP] and offer a solution. The payments industry globally is becoming very focused on IP and in some countries, many consider it to be the 'new normal'. SWIFT certainly believes that IP is the way forward for payments.

## HM: Tell us about the agreement you have just signed with EBA CLEARING

**CP:** SWIFT has a long-standing relationship with EBA CLEARING, providing the messaging and technology infrastructure of the Euro1 high-value payments system and the STEP2 low-value payments system. Now that EBA CLEARING is entering the IP world with its RT1 system, we felt it was appropriate that SWIFT should provide a connectivity solution to RT1 for our members. EBA CLEARING's customers want to use SWIFT as a channel for connecting to RT1.

## HM: SWIFT is also involved in other IP projects, in Europe as well as further afield. Can you outline those projects?

**CP:** Europe is a very important market for SWIFT and now that the European banking community is making moves into IP, it makes sense for us to be involved with EBA CLEARING. But we are also developing a connectivity solution for the European Central Bank's TARGET Instant Payments Settlement Service [TIPS] that is scheduled to go live in 2018.

Multiple clearing and settlement mechanisms (CSMs) will provide IP solutions across Europe and SWIFT believes it is important that we offer a multi-CSM solution to our member banks that will enable them to connect into any IP system. We will provide a single interface to connect over SWIFT channels to IP systems – whether the IP operator is EBA, the ECB or any other domestic market infrastructure.

This is however not a solution that will be limited to Europe; the interface will be applicable anywhere. Many of SWIFT's member banks, particularly the large global institutions, will want to use the same gateway to connect to IP systems anywhere. Many countries are in the early stages of developing IP solutions; some are already thinking about renewing.

The work we did with the Australian community on their New Payments Platform (NPP) forms the basis of our IP solutions going forward. We are using the same

basic components to ensure the required 24x7, instant, high-volume, low latency expectations.

In the US and Hong Kong, we are developing a slightly different approach, using Alliance Messaging Hub Instant to provide to our member banks a connectivity solution into the IP systems of The Clearing House and the Hong Kong Monetary Authority respectively. This also gives our members the flexibility to connect to an IP provider that is not using the SWIFT network. A bank in the US, for example, can install AMH Instant and handle IP processes, integration and payments orchestration via a SWIFT interface that will link to the other SWIFT elements within the institution.

## HM: What about cross-border payments? Will they become instant?

**CP:** This is an interesting challenge and really should be described as cross-currency, rather than cross-border, as the Eurozone has established cross-border payments through SEPA. Even so, cross-border IP in Europe will still be difficult because the different IP platforms must now interoperate in seconds. The technical solution for this will be much more complex than for a purely domestic system, such as that developed in Australia.

Cross-currency, there are equally formidable obstacles, including the FX element and finality guarantees. On the FX side there are plenty of organisations that can handle conversion – but none can do it within the five seconds required for some IP systems. Guarantees are more challenging because they require the agreement of a central bank and in a cross-currency transaction it may not be clear which central bank needs to provide the guarantee. This might be solved via a pre-funded liquidity pool to ensure finality, but it is not yet clear how these issues can be overcome.

## HM: Can SWIFT help the industry to overcome these challenges?

**CP:** We think so! Cross-currency IP will not happen on day one of any new IP system. But SWIFT's expertise in standards such as ISO 20022 will help. If you talk the same language, it is of enormous advantage and makes interoperation between systems much easier. Connectivity and standardization are at the heart of what we do. Furthermore, our GPI project already today supports the correspondent banking community to increase the execution speed of cross-currency transactions.

In addition to the challenges on the technical and operational levels, there are also business challenges. Banks and central banks will have to agree how cross-currency IP can be done. But again, SWIFT can help to facilitate discussions between these banks. We are a community and we bring people together.

Putting aside the cross-currency question, there are still challenges with IP and interoperability that are related to market practice and how different countries do things. Once we hook up systems, those differences will have to be considered. For example, currently, there isn't a standard definition of how instant an IP system will be; it ranges from five to 20 seconds. If you hook a five-second system up to one that clears in 20 seconds, there will be payment fails. There are some tough decisions for different payments communities and part of SWIFT's core mission is to help communities come together to define these market practices.

## HM: Going forward, what will you define as success for SWIFT and for the industry?

**CP:** A big part of what SWIFT wants to do is to help the industry realise its IP ambitions. In the EU, we are working to support member countries prepare for the ECB's Vision 2020, whereby it will consolidate all its market infrastructures – T2, T2S and TIPS – on to a single platform with a single interface that will rely on a single liquidity pool. That will make liquidity management very efficient for member banks. Our intent at SWIFT is to extend our Instant gateway to become this single gateway, which will give members access to the Eurosystem's single platform but also to other CSMs across Europe and beyond.

For the industry, successful IP solutions require ease of use, ubiquity and reach. Sweden's mobile payment system, Swish, is a good example; it provided a great user interface that was easy to use and consumers picked it up very quickly. All the banks participated in it from day one, providing the required ubiquity and reach and helping to drive uptake. Also Denmark is a good example, where the mobile app has become the second most popular smartphone app behind Facebook.

Clearly there are challenges ahead, but IP is the future for payments. SWIFT's expertise in standards, combined with our success in developing Australia's NPP, stand us in good stead to develop a multi-CSM connectivity solution that will help our members successfully participate in the new normal of instant payments.



## The cooperative approach needs to be supplemented with individual efforts to improve effectiveness

important, adds Cleasby, that local regulators clarify their regulatory expectations, strengthen regulation and supervision in line with international standards, promote industry initiatives to proactively address the concerns of the host market, and develop contingency plans to mitigate the risk of a loss of correspondent banking relationships in certain jurisdictions.

For several years, the industry has experienced a continuous decline in the number of correspondent banks worldwide, says Jack Jared, head of compliance, correspondent banking group at Citi treasury and trade solutions. "Some banks and some jurisdictions are finding it hard to access services in major currencies, especially US dollars. The most frequent explanation is 'increased regulatory requirements' or words to that effect."

Correspondent banking is a high-risk business from an AML and CTF perspective, he says, and clearing banks are required to mitigate that risk by performing enhanced due diligence, as required by regulations and their own AML risk management policies. Banks have addressed this at a jurisdictional and a portfolio level. "Banks have decided that certain jurisdictions may no longer fit their risk appetite, or due to distance or other factors, cannot maintain an adequate KYC process. Some correspondents have exited jurisdictions completely." At the portfolio level, it is virtually impossible, he says, to apply a risk-based approach to the quantity or quality of the due diligence carried out. The only respite is the frequency at which due diligence is conducted. "Without completing the entire KYC process, it is not possible to ascertain the potential AML/CTF risk originating from a correspondent relationship," he says.

Regulators and banks need to work together, says Jared, to find solutions to the duplicative work and cost incurred by the industry. "For example, more than 99 per cent of payments globally do not produce sanctions 'hits' yet the most basic cross-border payment will be screened four times. With a globally acceptable certification process for sanction-screening engines, the payment could be certified as 'good' by the first bank in the chain with the remaining banks eliminating their own work."

Gene Neyer, head of industry and regulatory at Finastra, identifies two types of de-risking; wholesale and selective. Wholesale de-risking involves complete withdrawal from countries, markets and/or customer segments, while selective de-risking is done where profitability is assessed on prudential requirements, legal enforcements, fines and reputational risk.

"This has created a number of unintended consequences – including high costs to compensate for the regulatory burden and the abandonment of service altogether, most injurious to the vulnerable and needy population," he says. "It also makes it harder for the legitimate customers to get access to the banking system, forcing them to use darker channels, thus making it much harder to detect and control illicit fund flows."

The good news, says Neyer, is that all stakeholders see the need for reform.

"Regulators must move beyond paying lip service to the 'risk-based approach' to clarify expectations and to provide clear rules and guidelines, especially with regards to enhanced requirements for high risk clients. Financial institutions should educate and influence governments and regulators to harmonise international compliance standards, and to foster transparency and information sharing."

An example is the interplay between data protection and KYC. While KYC requirements are escalating because countries have varying and sometimes conflicting, data protection laws, the information that can be shared is limited. This prevents the creation of effective KYC processes on an industry level. Another option would be globally agreed standards on what data is to be collected, and how the integrity of data will be validated and maintained.

The above developments will enable a more effective use of industry information utilities, he adds, be they a KYC registry from Swift or a blockchain solution from Tradle, as well as processing utilities, such as a user group of all the banks and the central bank in the Dominican Republic, which has been extended to a user group of six central American central banks. "Regulators should encourage shared solutions in the cooperative space as well as providing incentives for servicing high-risk jurisdictions and segments, thus balancing the penalties such as fines, with the rewards," he says.

The cooperative approach needs to be supplemented with individual efforts to improve effectiveness of existing procedures, for example using emerging AI techniques, such as machine learning to eliminate false positives and to improve identification of cases of misuse of the financial system. **DNS**

# A world of possibilities

Amid the hype around distributed ledger technology and blockchain it can seem they are technologies looking for solutions. In the heavily paper-based business of trade finance, such technology looks promising and progress is being made elsewhere. **Heather McKenzie** reports

**T**he milestones in applying digital ledger technology (DLT) to trade finance are coming thick and fast. In July, Japanese bank Mizuho completed a trade finance transaction between Australia and Japan, digitising all necessary documentation and sharing the data with multiple participants across a distributed ledger. In August, software firm R3 and 12 banks developed a prototype trade finance application on R3's DLT platform.

Trade finance is a complex, paper-based activity. It encompasses lending, issuing letters of credit, factoring, export credit and insurance. Companies involved with a trade finance transaction include importers and exporters, banks and financiers, insurers and export credit agencies, and other service providers, such as customs organisations. Documentation is an important aspect of trade finance, but it isn't standardised and invoices, letters of credit and bills of lading can differ greatly from country to country.

In the Mizuho project, several benefits were identified: shorter delivery time for trade documents (reduced from multiple days to two hours); reduction of time required to create and transmit documents, as well as labour and other costs through document digitisation; and increased transparency by sharing transaction details with all parties. There were challenges, however, as the bank found it was not possible to transmit trade transaction information in digital blockchain or DLT format to parties that did not use the platform. Also, transactions must be conducted as before, and enabling the transmission of the wide variety of information necessary for trade transactions

would require standardising the information for blockchain and DLT at an international level.

The key innovation that blockchain brings to the table is the ability to move to a distributed dataset, says Peter Jameson, co-head of product management, global transaction services at Bank of America Merrill Lynch. "For trade, the adoption challenge lies in the fact that today, much of this data is in paper form. For blockchain to play a role in trade finance, the industry needs to adopt a range of digitisation tools, and a dataset that can then leverage what this technology has to offer. Innovations such as enhanced character-recognition technology, robotics and artificial intelligence can all play a role in this digitisation journey."

But there are other challenges to consider in the adoption of blockchain technology, he adds. The cross-border nature of trade and the range of participants in any trade transaction make it difficult to drive forward a common set of standards that would make blockchain truly effective. "Add the fact that trade has traditionally lagged other parts of the transaction services world from a digitisation and automation point of view, and it would clearly be somewhat of a challenge to get all players, across all jurisdictions, to agree on the single set of standards that would be key to blockchain's trade success." Moreover, the cost benefits would not be "immediately obvious". Although inefficient, paper-based trade is tried and tested, and players are more inclined – particularly when seeking to mitigate risk – to "stick with what they know" over charting unknown innovative technology territory, he says.

Vinod Madhavan, head, trade at South Africa's Standard Bank, says the search for operational efficiencies in the largely paper intensive trade finance business means there should be increased adoption of digitisation and digitalisation in trade finance processes. "By digitisation, I mean the conversion of analogue content into digital form and digitalisation means the use of data or technologies in the trade and supply chain. We would expect adoption to happen across the physical supply chain, the financial supply chain (purchase to pay and order to cash) and in the documents chain, including movement of bills of lading, insurance certificates etc."



Standard Bank believes the benefits from the digitisation of the 'documents chain' can be realised fastest by enabling electronic copies of bills of lading to be sent from the exporter (or exporter's bank) to the importer (or importer's bank), in a manner that secures their legal transferability and drastically reduces delays in couriering the documents. Standard Bank has successfully conducted proofs of concept (POC) using blockchain in the digitisation of documents. It is working with various participants to achieve commercial viability. The bank also recently joined R3.

By the end of 2016, a consortium of seven European banks formed the Digital Trade

Chain (DTC) initiative. DTC is a blockchain-based digital platform for managing and tracking domestic and cross-border open account trade transactions. The members of the consortium are KBC, Unicredit, HSBC, Rabobank, Société Générale, Deutsche Bank and Natixis.

The aim of the project is to enable authorised European small and medium-size enterprises (SMEs) to increase and enhance trade transactions. Transactions will be initiated on a paperless and secure basis, with transactions tracked at each stage of the transaction lifecycle, through to the point of settlement and payment.

Launch is scheduled for 2018 in Belgium, France, Germany, Italy, the Netherlands and the UK. Inclusion of other countries and additional service providers may be considered in the future.

"The Digital Trade Chain initiative is helping us to understand the difference between a blockchain proof of concept and launching a real product," says Anne-Claire Gorge, global head of product management and innovation – trade services and finance at Société Générale. "All of the banks involved are working very well together, but it is still a very complex and challenging project." >>

**"For blockchain to play a role in trade finance, the industry needs to adopt a range of digitisation tools, and a dataset that can then leverage what this technology has to offer"**



Peter Jameson, BAML



The challenge does not come solely from a technology perspective, says Gorge. "We are creating a brand-new solution that is not defined by regulators. The project has started with a restricted scope of seven banks in Europe, which is designed to help keep complexity to a minimum. The aim is to ask other banks to join the initiative to extend the geographical reach as much as possible."

Vinay Mendonca, global head of product and propositions at HSBC, says unlike previous digitisation attempts in trade finance, some of the current DLT work streams are considering interoperability. "In the past, digitisation occurred only in islands as particular processes were digitised. Now we are looking at the full breadth of trade finance. If we get DLT in trade finance right, with seamless interoperability, our clients and other parties in the trade chain will benefit greatly," he says.

The key step-change for trade on the journey to blockchain adoption is how information could be digitised and captured early in the transaction cycle, so it can be further leveraged to the benefit of banks and clients, says Jameson. Capturing data up-front would mean that banks could use it for deeper analysis and profiling of client flows – either for enhancing risk management; supplementing compliance controls; or identifying client needs that could drive the cross-selling of other capabilities. "Taking it one step further, by driving automation, banks could achieve greater scale and reduce the reliance on people thereby improving efficiency, mitigating human error, reducing costs and managing risk more effectively," he says.

Many clients' frustrations in trade finance are related to what banks think of as 'ancillary processes', such as onboarding, the management of KYC, paper-based account opening, identity management and contract negotiation. Blockchain could arguably have a greater short-term positive impact on these processes than on trade or payment flows themselves. This is where the industry could begin its focus, to deliver tangible, short-term benefit, says Jameson.

Despite the challenges, the potential benefits blockchain could bring to trade flows cannot be ignored, says Jameson. "The distributed nature of the data could significantly reduce cycle times – for

example, by making data simultaneously available to all parties in a transaction, each could perform their respective checks in parallel, reaping immediate benefits over today's slower, linear approach. Furthermore, the availability of this data could significantly increase risk management and compliance checking. And when combined with the internet of things – by integrating data on the physical location of goods, containers or vessels – it's fair to say that blockchain infrastructure could become a very powerful tool for the industry."

Standard Chartered Bank's Hong Kong subsidiary announced in March that it had completed a DLT POC for smart contracts in trade finance. Standard Chartered is the lead bank of the DLT Trade Finance Working Group



**"We see significant potential in the application of smart contracts in trade finance and will continue to work with industry partners and regulators to make this a reality in the near future"**

Gautam Jain,  
Standard Chartered

under the Hong Kong Monetary Authority's Fintech Facilitation Office, collaborating with Deloitte Touche Tohmatsu and four other banks in Hong Kong.

The bank said the POC was a "significant milestone in the digitisation journey of trade finance". Gautam Jain, global head, digitisation and client access at Standard Chartered's transaction banking division, says DLT will deliver improved efficiency and greater transparency to trade finance clients. "We see significant potential in the application of smart contracts in trade finance and will continue to work with industry partners and regulators to make this a reality in the near future."

His colleague, regional chief information officer, Greater China and North Asia, Peter Clark, says DLT in trade finance is not just about digitising the processes, but also standardising the data models and enabling more collaboration among industry participants. In the next phase of the project, Standard Chartered will invite clients and a number of intermediaries to join the pilot.

Russia's Sberbank believes blockchain technology will significantly influence the financial sector in the future, says Evgeniy Kravchenko, senior managing director and head of Sberbank's trade finance and correspondent relations division. "We have about 20 projects under way related to the implementation of blockchain in various activities, including documentation exchange with state authorities, factoring, trade finance, payments, etc," he says. "As the technology is relatively new, most of our projects are at prototype or pilot stages. There are certain legislative issues that need to be addressed before most of the projects can be put into production." Most regulatory authorities,



including those in Russia, realise the necessity of creating transparent rules for this new sphere, including cryptocurrencies and smart contracts, for example.

“Like most leading banks, we have analysed the impact of DLT on traditional trade finance products and definitely believe that its use will be beneficial for all parties involved. Our pilot cross-border letter of credit transaction has proved the benefits of transparency and increased processing speed due to the electronic exchange of documents. This technology is definitely the future.”

While trade finance efforts are well under way, financial institutions are investigating other potential applications for blockchain and DLT. Nigel Dobson, general manager, transformation projects, ANZ, says: “There has been a lot of hype surrounding blockchain and distributed ledger technologies, which is why we have kept our proofs of concept to specific use cases that solve real-world problems.”

The bank has undertaken a POC of DLT for bank guarantees for commercial property leasing. ANZ digitised and improved the process for issuing, tracking and claiming on guarantees for Scentre Group, the operator of Westfield shopping malls. The Group leases retail space to about 11,500 retailers across Australia and New Zealand,



**“There has been a lot of hype surrounding blockchain and distributed ledger technologies, which is why we have kept our proofs of concept to use cases that solve real-world problems”**

Nigel Dobson, ANZ

who – instead of putting down a cash rental deposit – often use a rental bond, which is issued by a bank. “These bank guarantees are typically manual, paper-based, and can be difficult to verify,” says Dobson. “Also, tracking any changes to the rental agreement – and thus the bank guarantee – is particularly onerous. The trial addressed these issues and successfully showed how DLT could be used to digitise and standardise bank guarantees.” ANZ partnered with IBM Research and Westpac to test the technology for Scentre Group. Dobson says it is “highly desirable” for banks to collaborate in developing DLT solutions for customers, so they can be scaled for an entire industry sector. The next step for the bank guarantee is to move to a pilot stage where additional organisations from banks to large landlords are expected to take part. JP Morgan has been researching blockchain technology and potential use cases since 2014. “When Ethereum [a decentralised platform that runs smart contracts]

emerged in 2015, it quickly stood out to us for its ability to handle business logic via smart contracts and its uptake among early adopters and developers,” says Umar Farooq, head of channels, analytics and innovation, JP Morgan treasury services. “As we began developing use cases using Ethereum, we realised there were technical challenges we needed to address – privacy, scalability, throughput – before we could see a path to production.”

Because few players were looking at these issues from an enterprise perspective, JPM tackled them itself by developing Quorum, an enterprise-focused blockchain platform based on Ethereum.

“Quorum is now attracting contributions from leading blockchain startups and developers,” says Farooq. For example, zCash is adding privacy enhancements in a zero-knowledge settlement layer for Quorum and Amis Technologies in Taiwan is incorporating its recently released Istanbul BFT consensus. Also, Microsoft and Synechron are creating developer tools to make it easier to build on Quorum. “We’re seeing other institutions like Santander, IHS Markit, Broadridge and the Monetary Authority of Singapore use Quorum to build blockchain prototypes with support from the Enterprise Ethereum Alliance. A Quorum ecosystem is emerging beyond any single firm, JP Morgan included.”

Bank of America’s Jameson says during the past year, blockchain has morphed from idea to practical reality. “I believe 2018 will see us defining common industry goals and ensuring we take these forward on a pragmatic basis. We should also not ignore the other technological leaps that are contributing to a sea change in trade. Advances such as those in optical character recognition or voice recognition software have the potential to generate significant benefits too, helping to drive paper to electronic data early in the process.”

HSBC’s Mendonca says digitisation of trade finance is a journey, not a jump. “There will be steps along the way – for example, we will begin with digitising bills of lading and have already established an electronic bill of lading solution that is live with some title registry companies.”

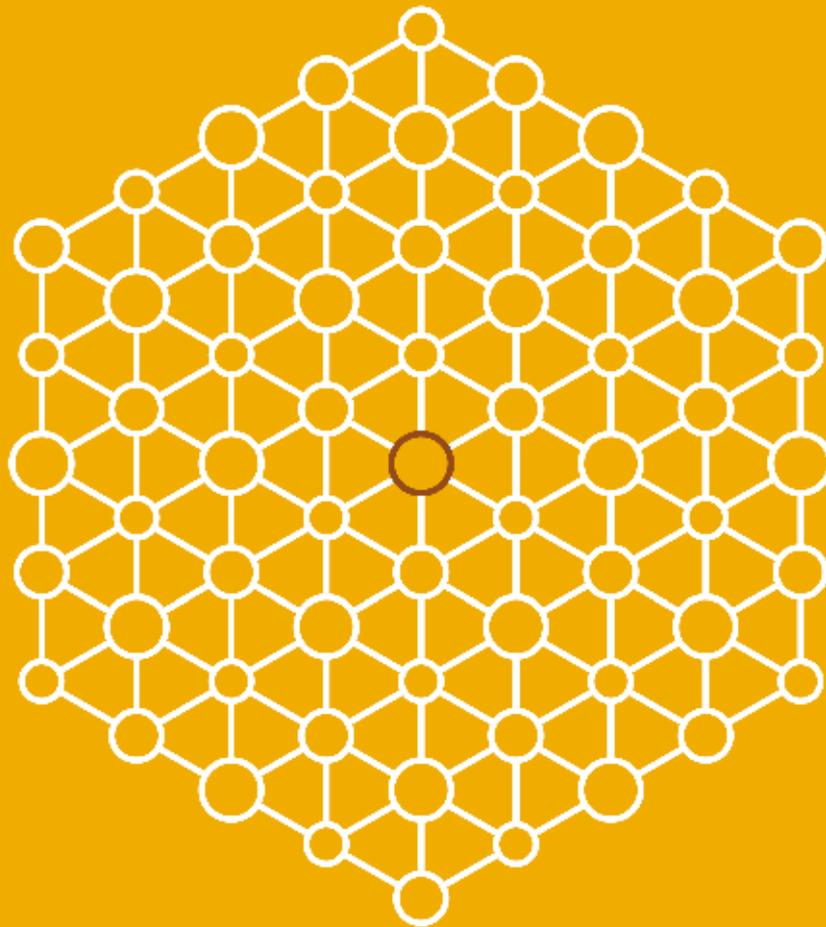
With each proof of concept initiative, the industry gains practical knowledge of DLT, he adds, which will take it ultimately to a truly digital future. **DNS**





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# Clear sky thinking

Swift's global payments innovation has taken giant steps towards solving many of the challenges corporates have faced with cross-border payments **Heather McKenzie** reports

**E**arlier this year, six leading Swiss companies – Asea Brown Boveri, Nestle, Roche, SBB, Swiss Re and Würth – issued an open letter urging banks worldwide to use Swift's global payments innovation (GPI) to improve cross-border payments. The corporates, which have international operations, said GPI addressed the challenges they face when making cross-border payments, and was a long overdue, essential improvement to cross-border payments.

"With considerable industry support across the globe and an increasing number of leading transaction banks committed to the service, we are convinced that Swift GPI represents a major improvement in cross-border payments," the letter stated. "The increasing number of banks going live on this service addresses the demands of corporate treasurers. Hence, banks cannot afford to not join the initiative and go live as soon as possible. Our expectation is that all of our cross-border payments will be end to end Swift GPI payments in the future."

Responding to the letter, Marc Delbaere, head of corporates and supply chain at Swift, said the cooperative had heard similar calls for action from corporates around the world. "Corporates want to know as fast as possible when a payment has been delivered to the end beneficiary. If there is an issue along the way, they would like to have more efficient ways of investigating exceptions."

Large, multi-banked corporates, used to multi-banking approaches on Swift, want a common experience across banks, he added. The cooperative is working very closely with the banks to bring these capabilities.

GPI combines real-time payments tracking with the certainty of same-day settlement and was launched in January 2017. At the time the letter was written, 20 global transaction banks had begun using or implementing the service. That number has climbed to more than 110 transaction banks from Europe, Asia Pacific, Africa and the Americas.

When the global payments innovation initiative becomes a reality for corporates, there will be a push for further innovation in global payments, says Aurélien Viry, global head of payments and cash management, Société Générale global transaction banking. "GPI is all about timing, transparency and efficiency. We are at the beginning of a journey, which may lead to many new capabilities and a change in the way banks charge their clients for global payments."

GPI is a legitimate response from the banking industry to the problems corporate treasurers face in making global payments, namely timing, transparency and traceability, he adds. In the past, treasury departments would make payments but didn't know when a payment would reach the counterparty. GPI puts a time limit on that, with banks committed to ensure payment arrives within two hours. Going forward, it is likely to be less than two hours and may even evolve into instant payment, says Viry. Transparency is addressed by GPI banks committing to inform treasurers of >>



# Open Banking brings increased revenue to those who can collaborate

With new banking reform on the horizon, this article assesses why customers will improve their financial and life circumstances if heritage banks and young FinTech firms find a way to combine their strengths, writes *Amit Dua*, President & Global Head – Client Facing Groups, SunTec Business Solutions

## PARTNERSHIPS ARE CATALYSTS FOR CHANGE

This evolution in the Financial Services industry is introducing more competition to High Street banks. The good news for customers is they could get better offers as every licensed bank, young and old, will be able to use tangible and intangible data from customers who allow their data to be shared. Some see this change as a threat to the old guard and ignoring the opportunity for progress.

Instead of blocking FinTechs, the more innovative banks are building strategic partnerships with the younger and tech-driven banking start-ups found within their ecosystem. With the limitless possibilities Open Banking will provide for banks to become the customer owner, smart banks shouldn't stop themselves at FinTechs and look to partner up with companies who can offer added value in their supply chain. One such tactic can be seen through cross-industry partnerships, which has happened between retailers and banks, bringing the value customers demand and expect.

For any collaboration to be successful, banks need to source and confirm the best partner for them. Having the right partner allows them to offer new tailored services to customers. This could mean better products for consumers, and a faster route to revenue for banks and their partners.

## COLLABORATION IS KEY - THE VALUE FOR BOTH PARTNERS AND CUSTOMERS

When it comes to sourcing new partnerships from January 2018 and beyond, banks have options. The bad news is that they have so many options it is quite easy to be overwhelmed, confused and make the wrong choice of partners. To avoid those deal breakers, banks need to be able to assess the value potential partners could bring their customers.

To ascertain the full value of each partner, banks should build a partnership

ecosystem, and be able to see across all of their customers and partners' transactions. Complete visibility across all transactional data gives product builders and marketers the true insight of any customer.

- Banks will be able to track value across its marketplace and see problems from a customer's point of view. This will create the upsell opportunity by assessing which additional products or services are needed by the customer.

- Banks will understand what their rivals are offering and can respond. This is the biggest change in the previously opaque industry. This broader vision gives banks the opportunity to evaluate and potentially poach the most lucrative partnerships.

- Banks which surround themselves with open ecosystems becomes a value aggregator will own the customers, partners and other stakeholders. The organisation owning the ecosystem will solely be able to enhance the total value of the entire system, thus controlling the economics.

## TECHNOLOGY IS THE ENABLER OF COLLABORATION

To put this partnership ecosystem in place and reap the benefits described, banks need to have the technology platform in place, enabling them to see across all transactions. Banks need a scalable infrastructure which can react to on boarding and offloading partners, and calculate the enumeration for partners based on performance-based goals and flexible enough to handle various payment models. Without it they are losing out on opportunities, in an industry where the competition will punish such mistakes.

This technology for Open Banking is rooted in APIs (Application Programming Interface) which allow banks to see transactions of data across their entire network. If deployed correctly, API technology can provide a secure environment for these transactions as access to these data pods will only be given to authorised parties. As news of data breaches multiply and consumer

anxiety over how their data is used increases, the Financial Services industry must set concise policies complementing the technology and educate both banks and consumers.

The most important asset APIs provide is greater data analytics capabilities because banks will have access to more data than previously allowed. This helps banks to identify sales opportunities which the customer has not spoken about yet. It allows banks to anticipate on those needs, which is the mark of a high quality service that customers value. Successful services in the digital age are those that anticipate customers' needs, using data driven insights to solve customer issues in a way that is exciting and almost magical to the customer.

## CUSTOMER DRIVEN BANKING – A NEW FRONTIER

Open Banking has a huge emphasis on customer centricity, as banks move away from a product focused mentality, prodded by strong, almost irresistible industry trends. This change will require a total cultural shift in the way banks operate daily and strong leadership will put banks on the right path to success.

Banks should work towards the long-term goal of providing not only basic savings and mortgage services, but a lifetime service which improves their customers' circumstances. Aside from making friends with industry partners, banks should look at cross-industry partnerships and change the way they create and manage partnerships.

The future is data driven and with the budget and talent pool available, banks should already be living in the future. There is some way to go until the winners of Open Banking is announced, but the victors will likely be those who own their customers by embracing collaboration in their culture and powered by a flexible technology platform. Those financial organisations who own the customer will own the economics.

the fees that will be attached to any cross-border payment. This is a breakthrough as correspondent banking has a complex pricing structure, which depends on several factors. "Often it is not clear which party to a transaction is imposing a fee, which can damage a bank's relationship with its corporate client," says Viry. Finally, traceability will enable corporates to discover where a payment is at any time and who is handling it. This is particularly useful if a client wishes to place another order for goods – knowing where the incoming payment from the receiver is will give the supplier more confidence to fulfil the subsequent order.

A further development of GPI could be the ability to recall payment transactions. At present, the recall of an incorrect transaction is time-consuming, inefficient and costly. Going forward, the GPI banks could collectively develop agreements for recall procedures that are fast and efficient.

The success of GPI will rest on getting the involvement of the key correspondent banks globally. Unless such participation is achieved, the traceability element of GPI will suffer. It is a sensitive issue for some correspondent banks, however. By participating in GPI, banks will to a certain extent reveal how much margin they make on correspondent banking. There are also technical issues. Some correspondent banks still process Swift payments manually and will be unable to commit to the two-hour time window in their service level agreements, let alone any shorter period. Participation in GPI for these banks will require significant investments in tools and systems.

Viry says GPI has been developed at a time when corporate clients are demanding more sophisticated cash management services. Because the charging arrangements in cash management are complex, different pricing models may emerge for GPI. Some banks may offer GPI services for free, but other services will attract a charge. The pricing will depend on the type of client and the business it does with the bank. Given the capabilities GPI will deliver, it is likely that many corporate clients will pay for this new service as it addresses so many problems associated with global payments, he says.

Beyond what is happening with GPI, a corporate banking strategy spokesperson

at Finastra says digitalisation has "ruthlessly exposed the inefficiencies in traditional transaction services". Moreover, globalisation has driven the fragmentation of corporate value chains, changing the services a bank needs to offer, and the ability to offer them in a more agile and tailored way. Although cash management, trade services and supply chain finance fall under the transaction banking banner, the platforms underpinning these services are often disparate. "To mitigate the jarring user experience of multiple logins, different user interfaces, mismatched data, and

**Although cash management, trade services and supply chain finance fall under the transaction banking banner, the platforms underpinning these services are often disparate**

inconsistent entitlements we see banks continuing to invest in sophisticated, integrated corporate digital front-ends," he says. However, regional nuances exist such as the proliferation of cheques in the US, boleto payments in Brazil and renminbi invoicing in Asia Pacific. A more globalised world means corporates are seeking market-specific online and file channel solutions from more regionally-focused banks.

The Finastra spokesperson identifies three features of transaction banks' digital transformation strategies. First is a focus on re-intermediation through legacy transformation, with banks simplifying fragmented corporate banking back-office platforms. The manifestation of this has been a focus on the digitalisation of commercial routines in the end to end credit process. According to Finastra research, conducted by McKinsey and Co in 2017, 60 per cent of corporate banks said corporate and commercial lending is the priority area for transformation, with 40 per cent saying they are now challenged by corporate clients on the issues of 'time to yes' and 'time to cash'. Another key driver is trade and supply chain finance. Transformation here, he says, involves the integrated delivery of a full range of cross-border working capital solutions, while also finding ways to digitally connect buyers, suppliers, distributors and other participants and marketplaces. An >>



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According to Finastra research, 60 per cent of corporate banks said corporate and commercial lending is the priority area for transformation, with 40 per cent saying they are now challenged by corporate clients on the issues of 'time to yes' and 'time to cash'

overarching goal is to remove paper from the process.

Second, digital corporate channels are evolving as banks invest heavily in core functionality of digital front offices, which push more towards corporate self-service. Automation has gained traction in payments and business as usual areas. In 2018, enabling innovation and revitalising legacy platforms with open APIs will simply be "table stakes. With this intertwining of bank services and corporate treasury, the one constant barrier will be security concerns. Where there is digital innovation, there will be new questions around data protection and cyber security. Legacy challenges, exacerbated by innovation initiatives."

Finally, banks have begun to "truly embrace" innovation. The single biggest enabler of innovation will be open banking as it forces financial institutions to embrace collaborative models, he says.

Nick Williams, managing director of commercial digital at Lloyds Banking Group, says banks are investing heavily in digital technology with varying degrees of capability among the competitors

in the sector. "Financial services firms are prioritising the simplification of the corporate customer experience with self-service, automation and improved data insight being delivered. To move technological capabilities forward, banks are partnering with fintechs to make use of the latest innovations," he says.

Clients expect to be protected from criminal fraud and cyber risk, he adds, and this is a "clear priority" for banks.

Ather Williams, head of global transaction services at Bank of America Merrill Lynch, says when it comes to corporate banking, financial institutions' focus and energy must be in two places: the current core legacy systems that allow all economies around the world to operate safely and securely, and the shifting paradigm of payments where new technologies and payments rails are emerging at a seemingly exponential rate. "We are taking an active role with those innovations, exploring how they can be adopted within the regulatory framework and in synchrony with other payments options our clients are using. This last point

– interoperability – is core to the success of any new technology though it's often overlooked."

BAML's Williams says corporates are undergoing an evolution driven by four macro trends: the growth in nationalism and digitisation, hyper-competition and network value. The hyper-competition follows when there's an unbundling of services and non-traditional players enter their market. Companies are also faced with the emergence of network value, where participants are interacting and sharing in creating value that didn't exist before. "These factors are creating a complex world for corporates and their treasurers. We, as banks, need to help corporates better understand these challenges and give them solutions to help overcome them. Those solutions are in three key areas: risk management, data analytics that provide new insights, and simplified operational processes," he says.

Agility and speed to market is important to the success of financial institutions; they need to deliver those new technologies faster than ever before. "At Bank of America Merrill Lynch, we are working alongside fintechs, clients and industry consortiums on developing these innovations. In some cases, we're also investing in our own platform. Bottom line – we'll work with the best technology solution no matter where it originates so long as it directly helps our clients adapt to the challenges of an evolving and complex world." **DNS**



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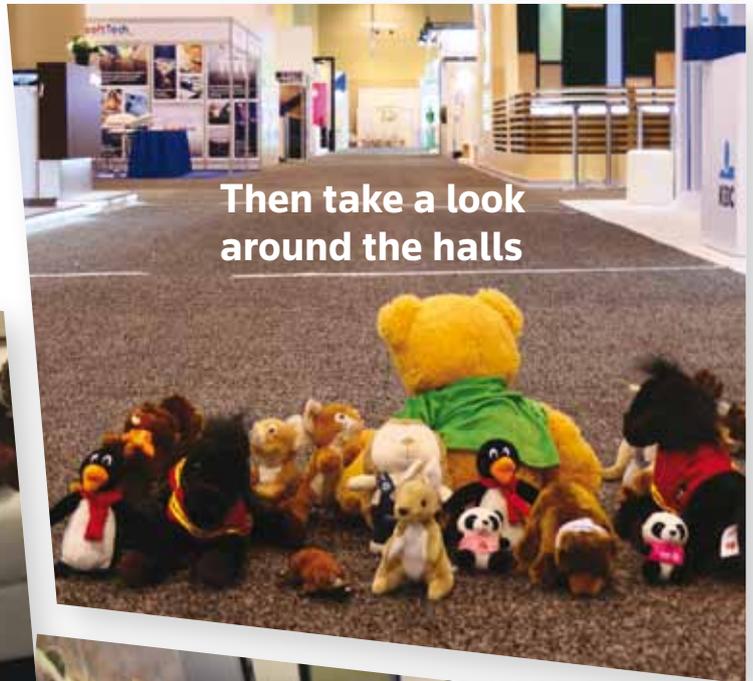
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*While you were sleeping; night at the M7CC*



**Our furry friends are also enjoying Sibos... they start with a look through the day's must-read publication**



**Then take a look around the halls**



**Busy, busy, busy – filming thought leadership interviews**

And catching up on the latest news





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They check out the conference sessions



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"Turn up the sound, cloth ears!"

# Daily News at Sibos

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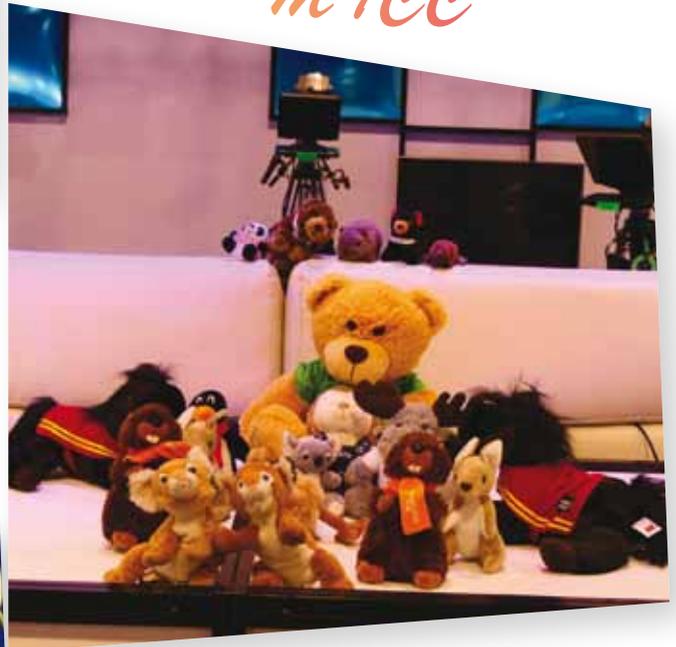


*While you were sleeping: night at the M7CC*



**Some take a moment to catch up around the water cooler**

There is always time to photo bomb Sibos TV



**A quick game of hide and seek**



Then a breath of fresh air



*While you were sleeping: night at the M7CC*



... to a rapt audience

**Refreshed, we head over for a keynote talk...**



A quick look at what's in store for next year...

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**... then time for a party. Bottoms up!**





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