

Daily News at Sibos

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THE INDEPENDENT NEWSPAPER

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ECB targets new RTGS platform

By Neil Ainger

The European Central Bank's (ECB's) governing council will decide by the end of this year whether to greenlight a new real-time gross settlement (RTGS) system to replace the decade-old Target2 platform.

"The working assumption is that it will go live by 2021 if confirmation is given," said Sylvain Debeaumont, head of market infrastructure, management, ECB, yesterday.

Target2Securities (T2S), launched in 2015 and finally fully live, will be consolidated into a revamped system "to avoid silos and high cost". A new Eurosystem Central Liquidity Management (CLM) layer – and new type of main account – will sit atop the revamped single settlement engine, RTGS and the Target Instant Payment Settlement (TIPS) platform, which is due to go live by November 2018.

Target Services will be the new brand name for what Marc Bayle de Jessé, head of the Directorate General Market Infrastructure and Payments, ECB, referred to as the "magic triangle" of enhanced securities, collateral and cash management services from the Eurosystem. "Treasurers will get alerts from the CLM layer if any limits are breached," explained Debeaumont, "so they can transfer money to ensure there is enough liquidity where it is needed to comply with global rules."

But that is not the only benefit of the proposed new RTGS and over-arching revamp. In common with the new TIPS payment platform, the new consolidated central bank money system would benefit from a multi-currency approach, so other European countries and nations outside of the eurozone can participate. The Danish krone will

be added next year to T2S, for example, and be compatible with TIPS. It will also focus on data analytics and cyber resiliency. This should be useful for the CLM layer. It will use ISO 20022 and will adopt a multi-network service provider model. This means various connectivity options and tech company-enabled services can be utilised on the enhanced Target Services platform.

Accessibility will be prioritised to encourage innovation and easy integration and alignment with other initiatives, such as the single euro payment area instant credit transfer scheme.

On the payments front, Mehdi Manaa, head of market infrastructure, development, ECB, said one of the main challenges of the TIPS project apart from its "tight" implementation scheme was the requirement for 24x7x365 operation. "Low latency, high volume and availability are the other challenges, alongside resiliency and scalability," he said as he outlined the envisaged efficiency parameters of 25,000 transactions per second, a response time of less than five seconds and "zero incident" resiliency.

In regard to TIPS pricing, Manaa said there would be no entry or fixed fees, no account management or information fees and a maximum price per instruction of 0.2 euro cents for the first two years.

"We hope the volume we capture allows us to go below this maximum price," he added.

Debeaumont said the consolidation of the securities, collateral and cash management services from the Eurosystem was "needed" and that "common modules" to serve all of the rebranded Target Services platform was "the future".

"Instant payments will become the new normal"

Evelien Witlox, ING



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EastNets launches AI-based fraud detection

By Antony Peyton

EastNets has launched en.SafeWatch PaymentGuard (en.SWPG), a real-time fraud detection solution for Swift payments, which the company claims could have prevented attacks such as that on Bangladesh Bank.

The company says en.SWPG is an artificial intelligence (AI)-powered solution, that can sort out “genuine transactions from suspicious ones and reduces the number of false positives”.

Hazem Mulhim, chief executive of the compliance, payment and cloud solutions and services company said the company “recognises the mounting salience of using technological advancements, such as AI, in equipping the global financial system to combat newly emerging threats”.

Mulhim said en.SWPG has been in development since February this year and sits on Swift’s Alliance Access – so “we deal with Swift’s software engine directly”. And the solution works directly with Swift’s access development kit (ADK). This means nothing is done in the back office.

Mulhim’s colleague, Deya Innab, chief strategy and product officer, said en.SWPG uses open source libraries for all its

developments. “We don’t build technologies, we use them to support what we do,” she said. This was how the solution was built.

In her view, EastNets could have stopped last year’s Bangladesh cyber hack. At that time, Bangladesh Bank said a total of \$101 million was “wrongly transmitted”, of which \$20 million went to a Sri Lankan bank. The fallout led to quarrels and questions, with Swift rejecting allegations made by the bank and Bangladesh Police’s Criminal Investigation Department officials that it was to blame.

Perhaps most firms would say they could prevent such an incident, but Innab said the attack was “not smart, it was silly” because it was not done at the usual times. In her view, EastNets’ consistency checks, use of archives and business intelligence to detect such patterns, would all have stopped it.

In terms of other developments, the company is working with Ripple and IBM on blockchain projects, but these are early days at present. The company is not looking to set the trend in this field, nor be the last. As Mulhim adds: “We want to follow the Swift standards.”

Sibos vs Swell

By Neil Ainger

The distributed ledger technology (DLT) firm Ripple has attracted attention on the opening day of this year’s Sibos with its cars outside the Metro Toronto Convention Centre (MTCC) ferrying people back and forth to its own rival Swell event downtown.

With banks, tech firms, corporate treasurers and speakers of the calibre of Dr Ben Bernanke, ex-chairman of the US Federal Reserve System, participating in the three-day Swell event in the Distillery District of Toronto, it could be seen as a potentially rivalrous gathering.

But this interpretation was initially rebutted by Javier Pérez-Tasso, chief executive, Americas & UK Region, Swift, who told *Daily News at Sibos*: “Sibos is an event where the financial services industry gathers together from diverse sectors from payments to securities. That ecosystem includes vendors such as Ripple, who are welcome to hold their own discussions. That is the strength of Sibos. We encourage networking.

“Debate is welcome around the challenges facing the industry, such as innovation and compliance, and Sibos is good at encouraging that debate. We want others to join in too and Ripple are welcome to hold their own events.”

However, he also pointed out that Swift has Sir Tim Berners Lee, inventor of the world wide web, on its own Sibos schedule too. He is opening the Innotribe stream at 8.30am today before going on to give a speech on the future of technology at Ripple’s Swell later.

His colleague Stephen Grainger, head of North America, Swift



added: “Ripple may have a role to play providing innovation on the top”, while Swift itself “sees our role as looking after the core”.

Ripple’s vice-president, marketing and communications, Monica Long, said Sibos was the place for bankers to come together. “We’ve sponsored Sibos for the past two years and are sponsoring again this year. But, we’ve been hearing from our customers for the past year asking us to create a forum for them to connect to other members and further grow the network, and to hear pointed industry commentary on the future implications of blockchain and digital assets.

“Featuring complementary programming to Sibos, Swell by Ripple is an inside look into our industry perspective, and an opportunity for banks, their corporate customers, and payment providers to meet in one place to advance the world of payments.” Delegates being ferried between Swell and Sibos will decide for themselves what role, if any, Ripple will play in the future.

Correction: Yesterday, we stated that users of EBA’s RTI system would be able to access the platform via SwiftNet Instant from next month. Of course we meant November 2018. Not time to panic just yet.

Collaboration vital to avoid dinosaur status

By Heather McKenzie

The question of whether – and in what form – banks will survive in the future depends largely on how the forces of changing customer behaviour, technology and regulation will play out on different types of banks. Asked in a poll during yesterday's session on the future of banks what types of organisations banks would be in ten years, most delegates viewed themselves as 'sharks' – predators that will aggressively attack these forces and seek to be innovators.

Session host, Thomas Olsen, partner at Bain & Company, had given delegates three options: sharks, cockroaches (banks that adapt and find small niches, or retreat to home markets, not necessarily leading as innovators) and dinosaurs (banks that are slow moving in how they react and at increased risk of extinction).

Alexander Bazarov, senior vice-president, co-head Sberbank CIB and a member of the bank's executive board said: "Out of the options – none of which is appealing – being a cockroach is probably the best. I see myself more as a dolphin – with some features of a shark, but friendlier and more cheerful."

Olsen observed that evolution is about survival of the fittest and asked Bazarov if banks had predators. Bazarov responded: "Strategically survival is a very simple choice. Obviously, no one chooses to be extinct or a dinosaur. Evolution is a survival game; you stay small or try to lead the change."

Sberbank believes different groups of players – all with huge amounts of information about their users – will merge in the future: ecommerce providers,



internet companies, including search engines, mobile operators, and banks. "We all have information and know something the others don't."

Banks can be in the centre of the future banking ecosystem but there are strategic questions to answer, including whether they have the resources, capacity, skills, knowledge and determination to be in the middle. If they don't – and not everyone can be – they should accept a position as a niche player, he added.

Frantz Teissedre, head of interbank relationships, Société Générale, said at last year's Sibos, financial technology companies were presented as foes. "Now it seems things are really different – we understand each other. It is common sense because banks know their customers and the regulatory environment while fintechs bring creativity, agility and concepts for customers. But banks are innovators, too. At Société

Générale, we have been doing account aggregation for the past ten years. The difference is, on top of internal banking innovation, fintechs provided a unique opportunity to accelerate this innovation. It means cost savings, commercial synergies and improved customer loyalty. These partnerships have strong value."

For regulators, fintechs have great ideas, capabilities to develop these ideas and prospective customer bases. However, regulators can sometimes be perceived as slowing down the process of innovation, said Petra Hielkema, division director payments and market infrastructure at De Nederlandsche Bank. On the other hand, there are many smaller payment services providers who appreciate the help regulators can provide in being non-political. "We have to accept not every fintech or new company will make it, but that's not a reason for them not to start

out. We also have a sandbox to allow companies to come and look at the ideas behind specific regulations and find a way to develop their products to be compliant. We don't have hundreds knocking on our door, but everyone is welcome."

Delegates were asked at the end of the session what would be the biggest obstacles to bank survival in the future. Few opted for the ability to attract talent – a mistake as far as Bazarov and Tom Eck, chief technology officer, IBM industry platforms, were concerned. Bazarov said it was a key challenge and if he were 30 years younger, he would not go into banking. Eck reckoned the audience "got the poll wrong. I am trying to recruit people now. The best AI programmers in the world are making NFL quarterback salaries. Supply and demand. Digital technology is moving so fast universities can't churn out enough people who know this stuff."

De-risking in trade finance: time to act

By Agnès Joly*

As financial authorities express concern about de-risking in correspondent banking, a similar phenomenon is emerging in trade finance, driven by the high costs of KYC compliance. There is a danger that some banks in some regions, such as Africa, will have difficulty connecting to the trade finance world. Banks need to collaborate to help corporate clients to connect with their customers and address the still unsatisfied demand for international trade services.

De-risking is a hot topic in the cash clearing universe as some correspondent banks withdraw from certain countries, currencies, or products to control costs and risk. At the same time, de-risking is becoming a phenomenon in the trade universe for the same reasons.

Banks' correspondent relationships are conducted via Swift's global network, which numbers 11,000 banks in 200 countries. Via Relationship Management Application (RMA) keys, banks can connect with each other. The RMA is a Swift-mandated filter that enables financial institutions to define which counterparties can send them FIN messages. Any unwanted traffic is blocked at the sender level, reducing the operational risks associated with handling unwanted messages and providing a first line of defence against fraud. RMA Plus, a more granular version of RMA, goes one step further by letting institutions specify which message type(s) they want to receive from, and send to, each of their counterparties.

At present, there are around 2.8 million RMA keys – active and inactive – within the Swift community, out of which around 40 per cent have not been used during past months. Société Générale, for example, has around 40,000 RMA keys out of which 28,000 are active. Regular clean-up of the stock needs therefore to be performed for more efficient monitoring.

The RMA keys enable banks to open channels with each other in a relatively easy and straightforward way on the Swift network – from a technical angle, the banks just need to agree with each other that they will use a RMA key. However, even if a channel is technically open, it would not be used for FIN messages unless a full know your customer (KYC) procedure is executed by each partner on the other and, as the case may be (high-risk country, for example) further authorisation as required from banks' compliance departments are obtained. It is not enough for the door to be open; to pass the threshold, specific authority must come from within the bank.

The costs of maintaining KYC for each key is currently estimated in a range of \$20,000-\$70,000, depending on the institution. KYC and compliance costs in trade finance may be a level above those in cash clearing as

financial regulators and compliance officers tend to regard trade finance as a specifically risky business from an anti-money laundering and counter-terrorist financing perspective.

In cash clearing, a bank requires only one partner bank to execute payments in a particular currency for a specific flow. A bank active in trade finance however, needs active relationships with many banks around the world in order to provide a variety of international commercial activities to its customers. The intensity of the network in trade finance is much greater than in cash clearing.

Globally, trade finance banks are reducing the number of active RMA keys to reduce KYC costs. As in cash clearing, this could have an impact on banks and their clients in some regions, specifically in emerging countries and for SMEs. While banks such as Société Générale will generally find a bank to trade with in countries where customers need it, some banks based in certain regions, such as Africa, increasingly have difficulty in finding a global or large regional bank to connect with them on trade finance. The de-risking in trade finance means some countries may have more difficulty connecting with the outside world.

Furthermore, the large regional and global banks will focus on where the best business is, trading with customers that have a more regular flow of trade and are deemed safe. Companies that perhaps do only a handful of trades per year, or a small, opportunistic business that wins a one-off export deal may struggle to find bank partners to access the overseas financial system.

The impact of de-risking in trade finance is not yet critical, but it is a topic that the ICC and Swift are aware of and that an institution like the International Finance Corporation is highlighting. Suggested actions include:

- Lobbying regulators for a better alignment of KYC requirements across jurisdictions. (Today, a bank with a large network like Société Générale may need several specific KYC for the same counterpart because of diverging regulatory requirements among countries)
- Pushing banks to use Swift's KYC Registry
- Streamlining and reducing KYC costs within each bank through better organisation, implementation of digitalised processes, etc
- More collaboration between banks, particularly large regional banks that could work together to help corporate clients to connect with their customers and do business.

**Agnès Joly is global head of trade finance at Société Générale*

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The voice of the B-Hive gigs at Sibos

By Antony Peyton

Like its executive chairman Fabian Vandenreydt (*pictured right*), B-Hive's origins lie firmly in Belgium. The collaborative innovation platform was launched earlier this year as the result of a recommendation made by an expert group on the future of finance in the country.

The organisation is the successor of Eggsplora, a platform in which several major banks, insurers and market infrastructure players started working together on common innovation challenges and making connections to the start-up and scale-up community.

At its unveiling, B-Hive said it builds further on Eggsplora, with support from the Belgian Government by means of a federal investment fund and several additional partners.

Vandenreydt previously worked as global head of securities markets, Innoribe and at the Swift Institute. But his move from there to B-Hive was not a difficult one.

He was already working as chairman of the B-Hive board while still at Swift and the latter is a shareholder of B-Hive alongside 12 other financial institutions and investment funds from Belgium.

Vandenreydt said: "I wanted to accelerate development of Brussels and Belgium as a financial technology innovation and collaboration hub in the heart of Europe. There was a lot to do, so this became a full-time job. And Swift was gracious enough to allow me to do this."

In terms of specifics, B-Hive is "about two things that reinforce each other: a set of focused innovation delivery programmes and a diverse, inclusive community of experts".

These programmes aim at "delivering joint learning, best practices and tech standards and, at its most ambitious, new shared services/utilities". B-Hive offers three programmes – TrustHive, CyberHive and TalentHive.

The first is a know your customer (KYC) project, where banks, insurers and market infrastructure in Belgium work on developing a collective KYC platform.

The CyberHive programme is building a "shared platform to scan, screen and assess innovative cyber software with our partners" and "developing awareness material for non-cyber experts in financial institutions, as everybody is impacted".

TalentHive looks at the impact of digitalisation on today's and tomorrow's jobs and which skills will be needed.



"We are looking at setting up a platform where young and more senior experts can work together on joint B-Hive projects," said Vandenreydt.

Looking to the future, Vandenreydt said B-Hive would focus until the year end on "delivering on milestones in the three key programmes above, as well as developing new programmes like OpenHive (on API tech standards and business models); and DigiHive on, for instance, the use of artificial intelligence (AI) for automation of back office processes".

However, start-ups are certainly not forgotten. "We will of course keep on supporting and growing our community of 120-plus start-ups in various ways." This includes coaching, exposure, events and participation in its delivery programmes. There is also a plan to create a separate company called Scaleups.eu.

This will "organise events about the tech scale-ups industry (beyond fintech) and help accelerate the growth of promising scale-ups in Europe – through coaching, financing etc".

As to the bigger picture, Vandenreydt believes augmented intelligence (machines and workforce), data visualisation/pattern analysis, cloud and the internet of things, are technologies to watch. However, he said he is "more interested in technology combined with process renewal, people and business models", namely "how to apply these enablers to concrete use cases".

KYC Registry aligns with Wolfsberg DDQ

By Heather McKenzie

Swift is aligning its KYC Registry with the new Wolfsberg Due Diligence Questionnaire (DDQ) for correspondent banks. First issued in 2004, the DDQ was updated in response to regulatory pressure.

Users of the KYC Registry, which is a global know your customer utility used by more than 4200 correspondent banks and fund industry organisations in over 200 countries, can now answer every Wolfsberg

DDQ question directly on the KYC Registry platform. Swift said this would increase the transparency of and further streamline due diligence processes.

The KYC Registry membership criteria was recently expanded to include all supervised financial institutions, even if they are not connected to Swift. This, said Swift, would facilitate even wider efficiency and effectiveness of due diligence processes.

Registry members upload their KYC data and documents for validation by Swift and exchange this information with their counterparties for use in onboarding and ongoing correspondent banking customer due diligence.

"Aligning the KYC Registry's content with the DDQ will enable Registry users to focus on risk assessment and analysis, rather than repetitive data collection," said Bart Claeys, head of KYC compliance services, Swift.

Data to be the "battleground", says RBC

By Tanya Andreasyan

Welcome to Sibos 2017 in Toronto – bringing together 8000-plus delegates from 150 countries. And this year we have a new (or the vintage new?) theme: data. Not the 'big data' that everyone was talking about a few Sibos conferences ago, but just data.

Setting the conference tone, Dave McKay, president and chief executive, Royal Bank of Canada (RBC, *pictured right*), stated: "The future success for most businesses relies on data". Companies' abilities to collect, analyse, derive value and apply it meaningfully is paramount, he emphasised.

"As a CEO, I am having conversations about data that would have been dismissed as science fiction just a few years back," McKay said. The "incredible advancements" in technology opened up great possibilities to the banking world in general and RBC in particular.

The bank is working on a number of data-related projects that involve machine learning and artificial intelligence (AI) – a number of these are done as a co-development – "to help clients build next-generation solutions".

For instance, RBC has joined forces with Wave, a business financial management solutions provider from Toronto, to integrate its invoicing, accounting, and business financial insights technology into RBC's online banking platform.

Wave's financial software and services, which include free invoicing, accounting, payment processing and receipt scanning are helping small business owners "to spend more time being the CEO of their business and less time being the CFO", according to the company.

Another example is using predictive analytics "to unlock the new sources of value". RBC is working with an Israeli fintech start-up, Personetics Cognitive Banking, to deliver two new services that provide AI-powered financial guidance and an automated savings programme through the bank's mobile app.

Based on predictive analysis of individual behaviour and spending patterns, Personetics says its solutions enable RBC to provide clients with personalised insight and advice for day to day money management.



"For banks, the battleground will be data," McKay told the Sibos delegates. The tech companies and social media platforms (Gafa et al) have created the "digital, socially connected world" and the financial services industry will have to adjust to the new reality.

Strategic partnerships (and not just within the financial services industry but with other verticals too) and open APIs are the way to create the "platform effect" akin to that of social media, McKay believes. Hence, banks need to learn "to be comfortable with sharing data.

"There is already more collaboration between fintechs and banks than ever before," he observed. To succeed, he believes, banks must work in small, agile teams, embracing diversity and inclusion, and shifting skills requirements "as the world changes". This is RBC's approach, he said.

The new world order is putting the customer at the heart of any business activity, McKay emphasised. "The strategy now is to build from the customer in, not from the organisation out," he explained. There is a need to do so quickly and efficiently and to bring value.

The emerging technologies can be of great help, he believes. "Blockchain has potential," he commented, "although we still need to clear the security and regulatory questions surrounding it, such as reversibility of transactions."

RBC is "experimenting" with blockchain/distributed ledger technology (DLT) for consumer, commercial and investment banking business lines, McKay said.

Projects include a collaborative proof of concept (POC) with a group of other Canadian banks and tech provider CGI to establish "seamless interoperability" between CGI's Trade360 trade finance platform Skuchain's blockchain-based Brackets platform for smart contracts.

According to the project participants, this "first-ever POC" enabled banks engaged in trade finance to integrate blockchain capabilities with existing trade finance platforms "potentially leading to added productivity, reduced costs and providing customers with a competitive advantage".

"The competitive landscape is fiercer and more varied than ever before," McKay concluded. "But the opportunities are greater than ever before too." Bankers, don't let them pass you by!

Innovation Hubs – where do you begin?



Bill North, Global Head of Sales for award-winning and A.I. pioneering solutions provider Pelican, looks at strategies Banks can adopt to choose the right innovation partners.

So your bank has decided to create an innovation hub. Maybe it has taken years to convince management that unless you innovate, the bank will be left behind as your competition is able to leap forward - not just in supporting new initiatives and regulation, but also in triggering new products and reducing risk.

Now that you've decided to go forth on your innovation journey, how do you go about analyzing your challenges and the best way forward? I'd like to propose three guidelines that will help you decide not only how to go forward, but also what type of fintech you should be talking to.

Many people associate fintech with a small start-up that recently developed some technology that they promise will change the world. While start-ups have many positives such as agility, focus, and energy, they are frequently missing a key aspect: proven technology. Innovation does not mean that you have to risk a project to get a solution that is forward thinking. Furthermore, often it's not just the technology that makes or breaks the project - it's the domain expertise and best practices that your Innovation Hub partner can bring to the table.

A valuable example is a bank's decision to innovate with a fintech that developed a cutting edge piece of technology at University. The technology was theoretically sound but had not been used in the industry supporting the volumes of payments the

production system processed every day. The project went over budget and delivery time while the fintech was ironing out the kinks in the process.

Another guideline is that the solution cannot live on its own. So many of your bank's processes have been formulated over the years and inevitably are supported by numerous pieces of technology and often by burdensome manual processes. As you analyze the challenge, you must consider the ecosystem in which the solution must not only live but also integrate with seamlessly.

Finally, as you partner with a fintech you must understand how agile the technology is and what it is capable of. Are key aspects like Artificial Intelligence, Machine Learning, API integration, UX, Analytics etc a core part of the platform? or do they need to be bolted-on? What happens in the middle of the project when a team member comes up with a great idea but the technology platform doesn't have what it needs - do you go find a new partner and scrap the work already done? A risky proposition for sure.

To review, you must take three things into consideration when deciding on a partner for your innovation hub: 1 - Domain expertise and experience; 2 - how the solution will live in your ecosystem; and 3 - how agile the platform is. Making sure these are properly analyzed and matched to your requirements will greatly enhance the possibility of a successful and innovative partnership.

Pelican 15-Minute Insight & Innovation Sessions - Stand #H52

	Tuesday 17 October	Wednesday 18 October	Thursday 19 October
10:00	The Real-Time Challenge	Innovation Hub Solutions	Payment Fraud
11:00	STP Revenue Opportunities	The AI Advantage	The Real-Time Challenge
14:00	The AI Advantage	Payment Fraud	STP Revenue Opportunities
15:00	Innovation Hub Solutions	Integrated Financial Crime Compliance	API and Open Banking



Instant gratification

With myriad domestic instant and real-time payments systems being deployed internationally, is the next logical step cross-border real-time payments? We asked some Sibos delegates what they think



Gavin Maclean, head of cash management and GTB product at Lloyds Banking Group

Over the past few years we've seen a gradual global adoption and implementation of instant payment solutions.

The UK, one of the first countries to implement an instant payment solution (Faster Payments) ten years ago, affords us a chance to review the existing and future opportunities for developments to instant payment schemes. The introduction of Faster Payments in the UK has driven both changes in consumer behaviour and the introduction of innovative solutions, such as the ability to split payments (for a meal), or to make payments while commuting.

To meet changing consumer needs and expectations, corporate innovation has included insurance companies paying claims quicker, instant refunds over the phone, and the ability for retailers to move to 'just in time' stock management.

Looking to the future, the focus is to drive increased access to Faster Payments and new solutions, including a new 'request to pay' service. The reviewed Payment Services Directive (PSD2) may increase this adoption, accelerating the use of instant payments both within the UK and Europe. It follows logically that with this extension, payment end users will increasingly expect this convenience to expand internationally in the future.

Achieving this convenience internationally will be complicated. In addition to managing multiple time zones and currency risks, international payments have increased information requirements, increasing the complexity of processing.

Further complicating matters, while domestic payments typically have only one regulator's rules to adhere to, international payments can pass through several jurisdictions, leading to an obligation to meet multiple and different regulatory requirements.

While time is taken for payments to cross international borders, time is also required for settlement between banks and conversion to local clearing formats. Given the additional processing and regulatory requirements for international payments and the complexity this brings, in the medium term, it may be more likely that we see the continued use of international payments for transmitting payments between countries and correspondent banks and then the use of domestic real-time payments to transmit the payment in-country, much like Lloyds Bank's Immediate Payments for UK, with the beneficiary bank notified that the payment originated overseas.

One final thought on how global reach is achievable with less complexity is to consider whether increased transparency of payment and FX charges (that PSD2 mandates), combined with the availability of payment status, through solutions such as Swift's global payments innovation (GPI) will meet client needs for international payment processing. Coupling this increase in transparency and status with domestic immediate payments may provide the speed, transparency and certainty that clients require.



David Kretz, head of global payments, global transaction services, Bank of America Merrill Lynch

With increasing adoption of electronic and mobile payments, and the continuing globalisation of commerce, the financial industry is focused on making payments truly global, fast, price-appropriate and data rich. One potential way to achieve these objectives is interoperability of local real-time payment (RTP) systems. End-users will likely come to expect real-time processing of their cross-border payments in the future.

With banks responsible for the actual movement of money, we recognise three primary challenges to RTP interoperability: settlement risk, regulation and oversight/standards. A real-time



Kent Marais, head of product, transactional products and services, Standard Bank

Africa already had a culture of prepaid and cash on delivery, with goods and services only transferred upon payment confirmation. The rapid deployment of mobile meant that mobile and instant payments spread relatively quickly in Africa. This process was supported by African regulators who encouraged the roll-out of instant payments, not only to broaden access to transaction services, but to also improve aspects such as convenience and frequency.

Instant payments have been adopted in Africa in a variety of ways, through local clearing and mobile money, as well as by both formal banks and fintechs.

For example, several African markets have implemented faster account to account payment instruments via local clearing, such as GhIPSS Instant Pay in Ghana, Pesalink in Kenya, NIBSS Instant Payment (NIP) in Nigeria, and real-time clearing in South Africa. Namibia will introduce instant payments soon.

There are already alternative payment operators in Africa that offer a real-time, cross-border payment capability. Some of these are well-established such as Money Gram, while others are relatively new entrants but growing quickly, such as Earthport or World Remit. As such, banks offering traditional cross-border payments are under increasing pressure to modernise. In response, for example, Swift has already launched a quicker cross-border payment product (Swift GPI). This reduces transaction time while allowing payment tracking.

In addition, several regions in Africa such as the Southern African Development Community, East African Community, and the West African Economic and Monetary Union have implemented regional real-time gross settlement systems.

Certain regional banks also offer real-time, cross-border payment solutions, native to their physical networks on the continent. The availability and real-time nature of these payments depend on the African market concerned, in line with local regulations, and are aimed either at existing customers, or at person to person payments.

In Africa, many banks already use their own networks to support internal instant payments. Banks also use existing instant payments infrastructures, like Swift.

Payments between mobile money wallet holders are also real time. Mobile money has been launched in many African markets. Many of these mobile money platforms are MNOs, the bank support playing different roles depending on local regulation. In certain markets however, mobile money does have to be offered via a bank utilising a mobile operator.

The Kenyan central bank reported 880 million mobile money payments during the first half of 2017, up 24 per cent on the first half of 2016, and leading all other types of payments in the country.

African banks and fintechs have also launched their own instant payment offerings. Standard Bank in South Africa, for example, offers Instant Money, a real-time payment from a bank account to a mobile phone which can then be cashed out at an ATM.

Banks in Africa are also partnering with instant payment fintechs such as Earthport, Ripple or other distributed ledger payment technologies that provide both transparency, speed and cost advantages to customers. This instant payment capability will either be integrated into a bank's offering, or provided as an easily used payments alternative, functioning seamlessly alongside existing bank payment services.

user experience depends on immediate funds availability to receivers, yet current settlement activities supporting cross-border payments do not occur in real time. Local regulations and the lack of a single overseeing body add complexity. Finally, the industry would need to achieve agreement on general governance, data standards and establish appropriate disclosures to support transparency.

Real-time payments are still new, with large markets like the US, Europe and Canada yet to launch. While there is a proven market for global remittances, most payments are local. Before undertaking this effort, we should ask what use cases we are addressing. Adoption of real-time has been seen in P2P, emergency payroll, cash on delivery commerce and other situations where truly instant payments are required. Global use cases for instant settlement may include delivery of content, and interoperability carries the potential of fewer local accounts for multinational corporations. Should the use cases and customer demand prove substantial, the industry will undoubtedly resolve any issues.



Christel Bagger,
head of payment
solutions, Nordea

While the ball is certainly rolling in this area, we are still in the early days; instant payment schemes have been launched in around 20 countries and progress is primarily

driven by mobile technology in the retail segment. We still must look to the future to see new innovative business models being adopted by corporates that will integrate the instant payment flow with an instant business flow, 24x7. But the ball is rolling fast, and it will speed up later this year and even more in 2018.

Payment services providers (PSPs) in Europe are working hard to adhere to the Sepa instant credit transfer (SCT^{inst}) which will be launched in November 2017. When this is a reality, an instant payment in euro will be available across countries, which will substantially increase the attention around instant payments.

In Denmark, we have had three years of experience with domestic real-time payments. Implemented in 2014, they are available through mobile solutions and online banking, both for retail and corporate customers. The maturity level is still low among corporates in Denmark, however; real-time payments via file (mass payments and treasury payments) are now being requested – but this is based on more traditional needs such as more efficient liquidity management and earlier shipments, rather than new business opportunities and business models.

A maximum value per instant payment exists, which is defined in the individual payment schemes, primarily to secure liquidity management in the financial institutions and sectors in an instant financial environment. This maximum value may limit the relevance of instant payments for corporates. For example, the value limit for a SCT^{inst} payment initially will be €15,000. In Denmark, the amount is DKK500,000 (€67,000).

For corporates to take advantage of instant payments on a larger scale, they should step up in terms of innovation, and examine and identify new business models and opportunities. In short, the speed at which we will see an increase in cross-border, instant or real-time payments will depend on the corporates' ability to see new valuable business models supported by instant payments.

Currently, no cross-border instant/real-time payment scheme exists, meaning there is no agreement on structures between financial institutions on the handling or exchanging of instant and real-time cross-border payments. Factors such as settlement, clearing, compliance, regulation and formats differ from country to country and region to region.

We are also talking about many different currencies at play, with each currency regulated separately and settlement and clearing taking place via a local central bank or the European Central Bank (ECB) for the euro.

Payment infrastructure/network providers have presented possible technical connectivity solutions for instant cross-border payments but they have no value without a payment scheme.



Manish Kohli, global
head of payments
and receivables, Citi
treasury and trade
solutions

The growth of instant payments schemes around the world has been driven by the growing need to deliver a superior payment experience to consumers and to address their needs of cost, speed, convenience and transparency. The growth of e-commerce has also been a catalyst and will further drive adoption as these schemes mature. Cards, and to an extent cash, have been the primary means to facilitate the immediate flows of funds in the past. With the advent of instant payments schemes, a shift away from cash and cards is expected.

While the rationale for domestic instant payments schemes has been very clear, the need for faster cross-border payments is also now becoming prominent and is driven by the same value-drivers seen for domestic instant payment systems. However instant payment systems that operate cross-border will need to have the best attributes of successful systems including request for debit, tokenised payments, and easy integration via APIs.

Setting up an industry-wide solution of cross-border instant payments schemes poses challenges that may need resolution across boundaries, legal jurisdictions and cultures. These include:

- **FX settlement** – Executing FX transactions on a 24x7 basis
- **Liquidity** – Ensuring 24x7 liquidity specially to handle cross-border traffic
- **Legal framework** – Determining which regulations will apply, how a dispute would be resolved
- **Regulator** – Who will regulate the scheme?
- **Scheme administrator** – Who would manage the scheme on a transnational basis?

■ **Agreement on standards**– Global agreement on the set of standards to be followed

■ **Scope of network** – The network should cover a critical mass of countries

Even though some of these challenges are complex and require significant cross-border collaboration, they can be overcome with the involvement of the right network players.

Finally, the current cross-border payment infrastructure which relies heavily on Swift messaging can also be upgraded to address some of the underlying drivers for the need for instant, cross-border payments. A ubiquitous and mandatory adoption of Swift GPI, a move to a data rich ISO 20022 standard by Swift, the introduction of payment scheme standards and rules (modelled on the lines of instant payment schemes), supplemented by further investment by banks into straight through processing, capacity to handle micropayments, etc, would help address market requirements by leveraging existing network backbones. This may be an easier way to deploy a cross-border ‘faster’ payment solution among willing participants.



Evelien Witlox, global head of payments and cards, ING

We believe that implementing instant payments with cross-border reach is key to enable true customer value; instant payments will become the new normal and has the potential to substitute existing products like urgent payments and card payments. These propositions have global reach. So, to be able to substitute these products, instant payments will also need to grow into global reach. We see use cases for retail and businesses. The use cases for retail are more urgent and therefore most countries will first roll out to the retail segment. We expect that other clients, such as corporates, will gradually also want to initiate instant payments (eg, high value payments). With the development of more use cases on the instant payment infrastructure we believe that the reach inevitably needs to move from domestic to global. This does not mean that new systems need to be defined for that, but that connecting the existing solutions will be the way towards cross-border payments. In Europe, the commonly defined SCT^{inst} will help to secure pan-European reach.

Customers need to understand what this payment capability means to them. Being able to execute payments around the clock sounds wonderful, but this also calls for 24x7 cash management. The major challenge for all banks will be to provide real customer

value instead of pushing a product. Therefore, it will be client expectations that will push the need for real-time and instant cross-border payments. The biggest challenge that all banks are facing is how to gain that reach. It is important that the ACH providers understand their importance in achieving that reach and that they play a vital role in connecting between themselves. The challenges there relate to using the same product functionality, agreeing on interoperability standards but also liquidity management.

Overcoming challenges will start with the client offering. We see that most countries have very specific local needs which only a local supplier can cater for. Collaboration on the front-end would stimulate pan-European solutions. For example, we see that the Hungarian National Bank has captured a ‘request for payment’ in its rulebook for domestic real-time payments. This request for payment is a great way to leverage instant payments for point of sale or e-commerce transactions. Instead of local communities proposing a local solution, we should try jointly to create such an initiative across Europe. It does not mean that all banks in Europe must support it; we could think of optional solutions as well.

We expect that the biggest volume will be created by domestic instant payments. However, there are very specific use cases for cross-border instant payments. There is a greater need here from corporate clients as they generally operate in an international environment, although we must consider that with the growing importance of e-commerce in the retail area, cross-border payments also gain momentum there.

Regtech to the Rescue

Regulatory technology is often cited as the 'answer' to the rising cost of compliance, risk and reporting duties at banks. Will it help financial institutions escape IT silos and enhance control over data? **Neil Ainger** investigates

The principle of applying technology, such as regulatory technology (regtech), to significant business challenges is "not new", says Paul Ellis, global head of regulatory product development at HSBC Securities Services. What is new is that regtech promises to marry the new landscape of post-financial crisis regulation to the new landscape of digital technologies.

Robert Garrison, chief information officer at the Depository Trust & Clearing Corporation, agrees. "If you define regtech as technology companies that provide services to financial market participants to assist in regulatory compliance, then it is not a new concept. However, regtech is undergoing a revival, spurred by new regulations and increased pressure to reduce costs, requiring greater collaboration between technology vendors and financial market participants."

Whether new or not, for Luc Meurant, head of financial crime compliance services, Swift, regtech companies have the potential to transform compliance in the same way financial technology (fintech) is transforming payments and other sectors.

Regtech is often considered a subset of fintech, particularly if the focus is on start-up companies. The UK's Financial Conduct Authority (FCA) defines regtech as a subset of fintech that focuses on technologies that may facilitate the delivery of regulatory

requirements more efficiently and effectively than existing capabilities. In a wider context, regtech also refers to utilities, such as Swift's KYC Registry and Thomson Reuters' Org ID know your customer (KYC) managed service.

Utilities enable banks to collectively move to shared services to get economies of scale on aggregated data in non-competitive areas. As consolidation increases, however, the fuel for this compliance trend will eventually die out. Using data in more creative ways via collaborating with regtech start-ups potentially offers longer-term, more comprehensive enterprise-wide benefits.

In the FCA's definition, regtech is another vertical within the wider fintech scene. Many of the same technologies that have been deployed on payment, capital market or other duties can find a different compliance end use. Data organising, tracking and delivery services can meet regulatory requirements and potentially pay for themselves by improving intraday liquidity monitoring and pricing, reducing risks and fines, improving service and data analysis capabilities.

Regtech can also be used by regulators to improve their ability to digest the greater volume of data that is fed to them due to

the Basel III capital adequacy regime, more stringent anti-money laundering (AML), KYC, sanctions, tax and other such rules.

Financial institutions can use technologies such as artificial intelligence (AI), machine learning and big data analytical techniques to organise and control their regtech data in a more efficient fashion. This enables simpler compliance



with financial crime controls, more efficient adherence to stringent conduct rules and Basel III reporting requirements. It also gives better data control, leading to improved customer targeting, tracking and service.

The need to protect data from numerous cyber risks also can be enhanced by improving data handling – a key characteristic of regtech solutions. Cloud computing, with appropriate security and standards, can be used as a supporting technology to improve the sharing of data across financial market infrastructures, where it is safe to do so.

Regtech start-ups are often better at data mastery than banks. Data is almost a religion for technology companies. FIs are therefore keen to collaborate with start-ups to learn how to use data better within their organisations, expose it more cheaply for regulatory reporting reasons, or to get simultaneous business benefits such as improved loan decisions, or better liquidity pricing.

Meanwhile, mastering internal or external data can also improve auditability and risk monitoring, for example on AML, across disparate financial supply chains. This may help to slow fines and de-risking by banks as well as lower the risk of reputational damage.



“Regtech is undergoing a revival, spurred by new regulations and increased pressure to reduce costs, requiring greater collaboration between technology vendors and financial market participants”

Robert Garrison, DTCC

“Superior regtech can reduce costs significantly, allowing companies to free up capital to invest in more productive areas,” says Simon Eacott, head of payments innovation at NatWest. “The potential of AI in regtech to analyse both internal structured and external unstructured big data at speed, with little manual effort, is attractive. In the risk management field, regtech can help create superior data modelling that more accurately conveys a company’s risk profile.”

Jean Devambe, global head of product and solutions, asset and fund services at BNP Paribas Securities Services, says the key driver in the rise of regtech is the increasing number of regulations “generating complexity and cost”.

The fall in banks’ return on equity since the 2008 crash and contemporaneous rise in compliance costs as new, more stringent regulations were introduced, mean that FIs must cut operational costs and increase controls. It is clear to see why trying to harness the innovation of fintech start-ups for compliance is attractive.

However, Garrison urges some caution on this point. Financial services providers are increasingly looking to partner with technology vendors to aid in compliance with new regulations and to address ongoing cost pressures, he says. Collaboration between financial market participants and technology vendors, particularly in the implementation of new technologies, can create efficiencies, reduce expenses and mitigate compliance risk. “However, modernising high-volume legacy systems that already facilitate compliance and operate well can be an extremely complex and expensive undertaking. Firms must therefore consider business cases whenever assessing technology changes to ensure the cost of the changes are aligned with the value that can be derived from them.

“Also, when implementing new technologies, while cost savings can be achieved by decommissioning systems, there are occasions when legacy systems have to remain in place and operate alongside new solutions, which means that the financial benefits may be reduced.”

The Boston Consulting Group report, *Global Risk 2017: Staying the Course in Banking*, estimates FIs spend \$18-\$21 billion on AML; \$16-\$19 billion on KYC; and \$11-\$15 billion on conduct surveillance.

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Fintech outside London *report*

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REPORT



- Where are they based and why?
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It's a big market for vendors. Cyber-defence risks, regulatory reporting duties and financial utilities mean that the compliance processing and related regtech market is potentially worth hundreds of billions of dollars.

Ruth Wandhofer, global head of regulatory and market strategy, treasury and trade solutions at Citi, says regtech is "collaborative rather than disruptive". In the wider fintech marketplace there are many start-ups that want to displace FIs or shave-off niche segments, but banks' knowledge of the compliance duties they face is a necessary component within regtech, unless players want to get their own licence.

"From a bank's point of view regtech is collaborative as we are looking for the best provider to help us with our compliance automation and data needs," says Wandhofer. "That may mean we invest internally or take a stake in a start-up, or we may buy a start-up outright to help us or to launch a wider third-party solution. Alternatively, it may mean participating in a shared financial utility to get economies of scale savings with other banks – whatever works best."

Pole Star is an example of a start-up and bank collaboration. It provides sanctions compliance and risk management software to banks, trading and finance companies, marine insurers and other maritime organisations. Citi supported the regtech firm after it won its regional Tech for Integrity Challenge Dublin on 18 May 2017. The London-based company won for its range of sanction screening compliance, AML and other risk management software. The mentoring, knowledge sharing and

"From a bank's point of view regtech is collaborative as we are looking for the best provider to help us with our compliance automation and data needs"

Ruth Wandhofer, Citi

other assistance available should lead to a better solution and may feed into Citi's trade solutions in future.

There are also standalone regtech companies. For example, Simility, a US-based start-up founded by former Google employees raised \$7.2 million in late 2015 in a Series A fundraising round led by venture capitalists Accel Partners. Simility offers a fraud prevention solution that uses AI machine learning. San Francisco-based Merlon Intelligence raised \$7.65 million in seed financing this year from the Data Collective venture capital fund and others. It targets AML via AI and enhanced big data analysis.

In the UK, hundreds of regtechs have been through the pioneering FCA regulatory sandbox, making the country something of a hotbed for regtech and other technology-based solutions.

Financial institutions should explore the collaboration opportunities available to them, via sandboxes or not. "We believe

cooperation between regtechs and FIs is the way forward," says BNP Paribas' Devambeze. "The combination of regtechs' technology expertise and banks' business experience is a powerful proposition, which can help solve many of the industry's challenges."

BNP Paribas recently took a minority stake in Fortia, a start-up which uses AI machine learning and business process monitoring to help the fund industry meet rising compliance requirements and manage mounting volumes of data. "As well as helping finance the growth of Fortia, we agreed to share our expertise and knowledge of their target market to help them develop their offering," he says. "We've now gone one step further and have decided to move our trustee and depositary business onto Fortia's platform to help our clients enhance controls and operational efficiency. Our partnership with Fortia illustrates the benefits of cooperation for banks and regtechs, but also the industry as a whole." **DNS**

REAL-TIME PAYMENTS – FORGING A PATH TO THE “NEW NORMAL”

In a recent webinar, “The Open, Instant Payments Market in Europe – Are You Riding the Wave?”, leading immediate payments experts from BNY Mellon, Rabobank, STET and ACI Worldwide discussed the challenges and opportunity surrounding real-time payments. Escalating customer expectations, regulatory requirements and technological developments are fueling the need for instant payments. Market providers agree that real-time payments will be the “new normal” and, it’s not a matter of *if*, it’s a matter of *when*.

Just a few years ago, discussions were focused on educating the market about the purpose and benefits of real-time payments. Today’s conversation is focused on addressing the business impact of immediate payments for banks and payment service providers. Concern surrounds both the short-term, with approaching timelines for implementation, and the long-term, with banks facing the impact on back-office processes, legacy infrastructure and how to retain customers by remaining competitive and relevant.

With the shift to instant payments, banks face challenges including:

- **Speed** – Customer demand for immediacy requires end-to-end transaction times similar to, or better than, the fastest current transaction type. Banks are already proactively driving down times ahead of real-time implementation to meet customer expectation.

- **Low Predictability** – Unpredictable volume makes banks hesitant to move forward given added infrastructure costs.

- **Reachability** – While most payments are still made locally, as the market drives for ubiquity, banks are faced with higher overhead, complexity, and potential risk with each CSM implementation.

Because real-time payments require a different infrastructure model than what may exist today, banks are facing key

implementation questions. Traditionally, banks have opted to handle development in-house, but with exponential overhead in an already costly business, banks are looking to the market for innovative solutions.

When Fintechs and startups entered the market, they were viewed as pure competition by banks. As the market continued to evolve, customer perception separated the two with Fintechs and startups perceived as agile and innovative

“That’s the million dollar question – how do we make money with real-time payments?”

Barry Kislingbury,
Director – Solution Consulting,
Immediate Payments, ACI Worldwide

compared to the less agile, but more stable and experienced banks. From a competitive standpoint this differentiation signaled a significant choice in how customers aligned their business needs with solution providers. Customers faced prioritizing and potentially sacrificing an important part of the solution – agility and innovation or expertise and stability.

Today, real-time payments are having a transformative impact on the competitive and collaborative landscape. Market providers – banks, payment service providers, Fintechs, startups and CSMs – are re-thinking relationships to achieve ubiquity through partnership, by leveraging respective strengths to achieve that goal. The benefits



of collaboration seem apparent, but may not be for everyone. Larger banks may opt to rearchitect their infrastructure internally for the long-term vision of the real-time world rather than solving the need through collaboration.

While the “how to get there conversation” is happening, it isn’t keeping everyone from asking the million dollar question, “How do we make money with real-time payments?”

It’s difficult to anticipate specific future products and services that will materialize, but everyone agrees there will be no shortage of opportunity such as cost savings through auto-reconciliation by leveraging ISO 20022 transaction data, greater negotiation of vendor discounts for real-time payment versus payments based on delivery schedule, and positioning retailers to offer special products or services or loyalty points because they know a customer is currently in store.

And beyond the growing use cases, institutions must consider that customer experience is increasingly finding more air coverage in revenue strategy. The emergence of open banking trends, cross-border payments, Request for Pay and proxy services are raising the competitive bar. Those who evolve and drive real-time innovations will succeed with customer wins and those who don’t will struggle to compete.

Join ACI for an overview of the real-time payment services platform landscape. Craig Ramsey, Director of Product Management, Transaction Banking and Immediate Payments, will take an in-depth look at GPI, real-time payments, open APIs, Blockchain, new revenue demands and non-functional requirements.

Date / Time: Tuesday, October 17, 2017 / 10:00-10:45 am EST

Location: Open Theatre Two (OT2)

Visit: ACI Worldwide at Stand K05, www.aciworldwide.com/ev/sibos

Standing at the crossroads



Financial technology has the potential to radically transform the securities industry. The fast pace of change could lead to disintermediation, according to an Iosco study. **Heather McKenzie** reports

In February, the International Organisation of Securities Committees (Iosco) published its report on financial technologies.

Studying a range of areas including financing platforms, retail trading and investment platforms, and institutional trading platforms, Iosco's report concluded that the industry is at "a crossroads of significant technology-driven change in the offering of financial services".

Key trends identified in the report include:

- Greater availability of data
- Exponential growth in computing power allowing the analysis of ever larger data sets

- Broader access to and the decreasing cost of goods and services
- Increasing disintermediation and re-intermediation
- Demographic and generational changes

"Fintech applications are developing at an increasingly faster pace, creating new opportunities to achieve better outcomes for investors. At the same time, as with any change, new risks and vulnerabilities may arise," states the report. Changes that are already under way are substantial and could lead to full disintermediation using technology.

Innovative fintech business models are disintermediating and re-intermediating certain regulated activities. For example, online equity crowdfunding platforms

intermediate share placements and disintermediate stock exchanges and underwriters; peer to peer lending platforms intermediate or sell loans and disintermediate banks and lenders, and robo-advisors provide automated investment advice and thereby disintermediate traditional advisors.

While financial institutions face significant changes from fintech, so too do regulators. As Iosco points up, while firms can operate globally, regulation is overseen within national or sub-national borders. This may create challenges in terms of regulatory consistency, as well as cross-border supervision and enforcement. It also creates a potential risk of regulatory arbitrage. The global nature of fintech may therefore contribute to challenges that may be addressed by international cooperation and the exchange of information among regulators.

Regulators have engaged in greater multilateral collaboration on the topic of digital innovation at Iosco, the Committee on Payments and Market Infrastructures, >>

the Financial Stability Board (FSB) and the Bank for International Settlements (BIS). Regulators also establish bilateral initiatives to share information about financial services innovations in their respective markets, including emerging trends and regulatory considerations.

Many jurisdictions have engaged in greater national regulatory coordination. For example, Hong Kong created a cross-regulatory collaboration group established at the level of the Financial Services and Treasury Bureau. Representatives of the fintech offices of Hong Kong's three regulatory bodies are part of this collaboration group. In Japan, the Working Group of the Financial System Council, which is the advisory body of the Financial Services Agency has been formed and has submitted findings. As a result, two major

Looking forward, says Iosco, regulators could, if desired, continue to explore how to best benefit from the trends in fintech and the closely associated regulatory technology

legislative amendments, to the Payment Services Act and the Banking Act have been enacted.

The rising use of technology in the delivery of financial services may increase the complexity of supervision, surveillance and enforcement. Regulators may face challenges addressing fintech development while fulfilling their regulatory mandate, such as promoting investor protection, market fairness and financial stability.

Regulators have increased their policy focus, for example by issuing new regulations and guidance on specific fintech areas. Regarding robo-advisers and other forms of automated or digital financial advice, regulators have relied on general suitability, know your customer (KYC), registration, training, best-execution, short-sale, disclosure, record-keeping, compliance and supervision rules to address the advice given. Regulators have also increased

THE EVOLVING PAYMENTS ECOSYSTEM – A SWOT ANALYSIS FROM A EUROPEAN PERSPECTIVE

The European payments landscape is in full transformation. Explore with us the business implications of upcoming regulatory changes (e.g. PSD2, XS2A, GDPR), the opportunities and challenges of adopting alternative models and technologies (Open APIs, Blockchain/DLT), and the relationship between financial institutions and Fintechs.

Tuesday, 17 October 2017

from 12:30 to 13:30

Room: Conference room 4

EBA @ Sibos: Stand E43

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The rising use of technology in the delivery of financial services may increase the complexity of supervision, surveillance and enforcement. Regulators may face challenges addressing fintech development while fulfilling their regulatory mandate

supervisory focus over new technologies including, for example, algorithmic trading, crowdfunding, P2P lending, financial platforms, use of cloud storage, cyber security, authentication and fraud control.

In distributed ledger technology (DLT), regulators could participate as one of the nodes of the ledger, thereby having access to all data, which in turn would enable regulators to have more complete and traceable real-time records. While it is still very early days for DLT, some regulators have already responded. In June 2016, the European Securities and Markets Authority issued a discussion paper, which includes an analysis of how DLT would (or would not) fit in the existing EU regulatory rulebook (mainly on post-trading issues).

In the same month, the French Parliament passed a law that allows some securities vouchers to be issued and exchanged on a DLT (referred to as securities electronic and distributed recording facility). It empowers the Government to issue a decree to specify how these securities vouchers, as well as how securities that are neither listed on a platform nor admitted to a central securities depository, would be exchanged through DLT. This in turn would result in a regulatory framework for DLT.

In January 2017, the US Financial Industry Regulatory Authority (Finra) issued a paper on the use of DLT in the securities industry. The paper requested comments on matters for which it would be appropriate to consider additional guidance, consistent with the principles of investor protection and market integrity, based on DLT applications and their implications for Finra rules.

In addition, many regulatory authorities are familiarising themselves with DLT through research, labs, innovation hubs and proof of concept projects. Furthermore, international organisations such as Iosco, the FSB and the BIS are observing the developments of DLT under their respective objectives.

Looking forward, says Iosco, regulators could, if desired, continue to explore how to best benefit from the trends in fintech and the closely associated regulatory technology

(regtech). For example, regulators may leverage the increase in available data, as well as the potentially greater capability to access and process this data, including using data analysis tools and software to evaluate compliance with regulatory requirements. Regulators also may explore leveraging new compliance software and surveillance tools.

Fintech has enabled new distribution and business models for products and services through internet- or mobile-based interfaces. Emerging from this is the shift towards digital customer onboarding and e-KYC, which can reduce compliance costs and increase accessibility to a broader investor base. There are differences in the regulatory approaches towards digital onboarding, heightening the importance for fintech platforms to be cognizant of and comply with such jurisdictional differences, >>



while also possibly increasing the risk of regulatory arbitrage between jurisdictions.

Cyber security and data protection concerns associated with fintech and increasing internet connectivity have been exacerbated by the frequency and sophistication of cyber attacks and breaches observed in both developed and emerging markets. These involved interruptions to the operations of platforms, theft of investors' personal details or sensitive financial information and losses to client assets, among others. Cyber attacks can undermine investor confidence in fintech firms and activities, says Iosco.

While cyber risk is common to both developed and emerging markets, emerging markets may be faced with additional risks due to more limited budgets assigned to investment in cyber security protection. Further, the growing role of emerging markets in global supply chains also may increase their risk of being used as a backdoor into larger markets.

To help capital market participants to navigate cyber security challenges and raise awareness of cyber security risks, several emerging market regulators such as India and Malaysia have developed or are developing cyber security frameworks and guidelines. To strengthen regulatory preparedness for a cyber incident, Iosco held a regulatory exercise simulating a cyber attack on participants across more than 40 jurisdictions. The simulation focused on the role of securities regulators when dealing with cyber attacks on regulated entities. It provided a platform to raise awareness of the consequences of the evolving cyber threat and to discuss effective responses.

Another potential area of risk is in retail trading. Trading and investment in securities through fintech is more self-directed and a significant segment of investors may be retail-based. In view of this, Iosco recommends that regulators strengthen financial literacy and investor education. This is because investors may not always understand the risks involved and be more motivated by short-term gains, while lacking the ability to evaluate the longer-term viability of the issuer's business models and risk. Increasing the level of investor

There are differences in the regulatory approaches towards digital onboarding, heightening the importance for fintech platforms to be cognizant of and comply with such jurisdictional differences

education might better equip investors with the necessary tools and skills to navigate the investment process using various types of fintech.

Most regulators view transparency and disclosure of information as critical to facilitate informed assessment and decision making by investors. For example, some securities regulators require financing platforms to prominently display relevant information relating to the issuers and to provide communication channels, such as discussion forums and live chat applications, that facilitate discussions relating to offerings on the platform.

Also, to manage the risk of making decisions too quickly, some regulators may impose specific requirements aimed at slowing down online decisions. For example, the Italian Consob Crowdfunding Regulation considered an impact assessment and investor survey. It asks online decision-makers to read some mandatory educational information and to fill in a questionnaire aimed at ascertaining the true understanding of the main characteristics and risks of using automated advice services.

As innovative start-ups and technology firms may not be familiar with the financial sector and how products or services

intersect with financial regulation, several regulators have established dedicated fintech offices, contact points and hubs. Dialogue between regulators and the industry through these dedicated fintech offices has also helped in bridging potential knowledge gaps.

Furthermore, some regulators are exploring the possibility of introducing regulatory sandbox frameworks, under which fintech companies offering financial services may be granted certain regulatory flexibilities to experiment with solutions in a defined environment within specified timeframes.

Other regulators consider that a sandbox may create an uneven playing field across market participants between those innovative firms selected to be part of the sandbox program, and other innovative firms and incumbent players. These regulators are of the view that sound regulation may help firms win the confidence of investors, and may lend credibility to their international development efforts. Finally, some regulators have set up labs and accelerator programmes to explore whether certain new technologies can assist the regulator itself in better achieving its regulatory objectives. **DNS**

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Instant Payments in Europe: moving from theory to practice

Carlo Palmers, Head of Market Infrastructures, SWIFT

We live in impatient times – everyone wants to be able to pay who they want when they want, instantly and regardless of location. The UK has had instant payments since 2008; Faster Payments volumes have exceeded all predictions and now exceed 135 million per month.

The push towards real time is global. In Europe, instant payments are progressing on several fronts, driven by regulations and market-led initiatives. The second Payment Services Directive (PSD2) will increase competition, drive innovation and open up new business models, while market initiatives such as ISO 20022 and the Eurosystem 2020 vision promote standardisation and interoperability.

If instant payments are attractive to consumers, they also deliver benefits to corporates and the broader economy. A real-time payments backbone boosts efficiency and is a catalyst for innovation, fuelling the creation of products and services for a range of customer segments – from new P2P apps for consumers to just-in-time supplier payments and real-time liquidity management for corporates.

However, real-time transactions demand significant infrastructure and process change; this means that, from an individual bank perspective, the business case may be elusive. Building and operating an integrated instant payments platform takes time, investment and resources. Although banks set out from different starting points, a lot needs to happen to turn theory into practice.

The practicalities are substantial and daunting. Payments touch almost every part of a bank's infrastructure, so all core banking systems must be available 24/7 and react immediately to instant payment-related queries and processes. Banks need to consider the impact of instant across each involved application and ensure that all supporting systems – from fraud detection to reporting – can support real-time operations.



Carlo Palmers, SWIFT

“There is a strong collective will to make instant payments a reality in Europe”

The success of instant payments in Europe will most likely be measured in domestic transaction volumes; but its future will have to be built across borders within the European Union. And this will require interoperability. Europe is becoming a patchwork of instant payment infrastructures, adopting the SEPA SCT Inst scheme with some customisation to fulfil domestic payment habits. Despite the efforts of the various European instant payment platform operators, it seems difficult to overcome the obstacles to interoperability. Because of this, some operators are now thinking of building technical facilitator services for their communities.

On the regulatory side, PSD2 comes into force in January 2018. It requires banks to open-up their customer payments and accounts information to accredited third parties, which are then free to develop payments and information services for these customers. This is why PSD2 is not only a challenge in terms of technology and regulatory compliance, but is a strategic and operational game changer. Combine this step-change with a move towards instant payments and we enter a new era in European financial services that is a major milestone on the way to a real-time digital economy throughout Europe. As new payment service providers (PSPs) work to take a bigger slice of the payments business, banks and other players will also need to carve out their role in this changing landscape. Many are adopting innovative new ideas, co-operating with fintech companies and extending their services to compete with these emerging PSPs.

So, where are we in terms of products and services? In November 2017, EBA CLEARING, STET and Equens will go live with their euro instant payments offerings, and other clearing and settlement mechanisms are there already. In June, the European Central Bank announced that it will offer an instant settlement service, called TIPS (TARGET Instant Payment Settlement), which will go live in November 2018. So, the move toward instant payments in Europe is gaining momentum. However, banks and PSPs have a lot to consider when deciding which role they wish to play in the instant payments value chain – and how they will make it pay for them.

There is clearly a strong collective will to make instant payments a reality in Europe and an active dialogue is driving progress. As is often the case, the road to competition will be paved with cooperation.



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instant payments over SWIFT, SWIFT Auditorium



This week we should finally find out exactly how many bankers it takes to change a lightbulb

Welcome to "Sod Is"



New game: pin the tail on the chatbot



So that's what closed the airport



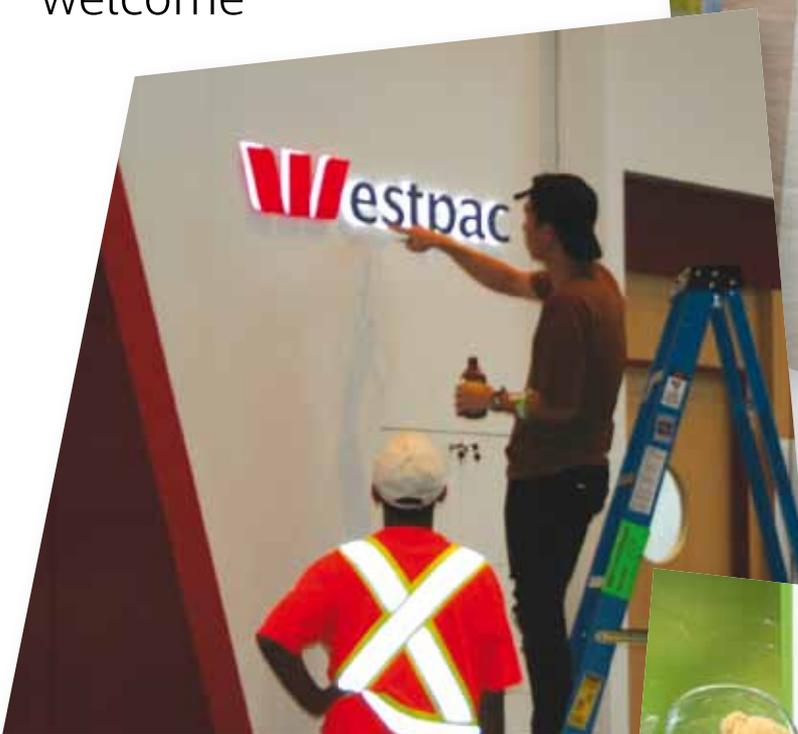
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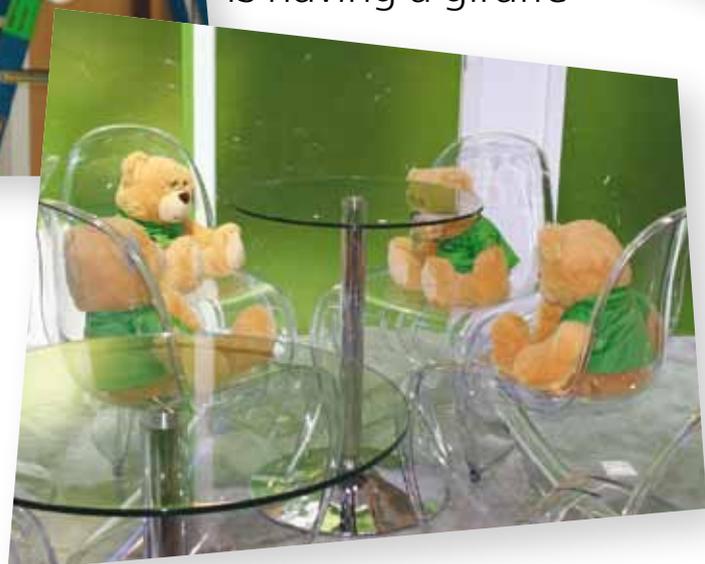
Innotribe opens mime school, total beginners welcome



At least someone is having a giraffe

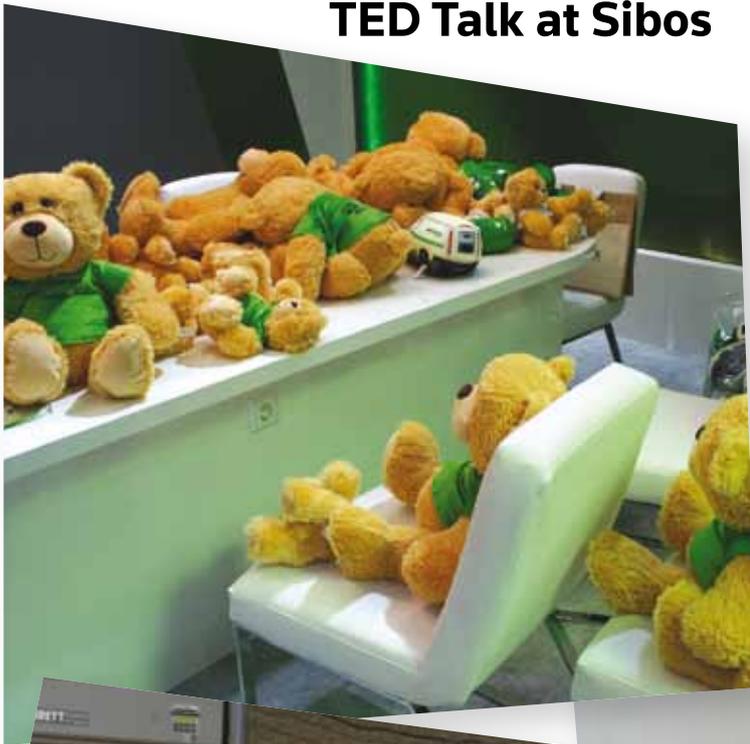


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flat out



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big pecker





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In the wild, Sibos delegates show off some of their strange mating rituals



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