www.bankingtech.com

banking technology

APRIL 2013

State banking

Banking is too important to be left to banks – can governments do any better?

GRAND DESIGNS

Profile: Arun Jain, founder of Polaris Technologies says good design leads to good technology products

SAME DAY, SAME SETTLEMENT

Same day payments are being adopted worldwide. What does that mean for D+1 settlement in Europe?

RIDING THE OTC ROLLERCOASTER

New rules for OTC derivatives are creating a complex cocktail of clearing, reporting and collateral requirements

LOOKING AFTER THE PENNIES

Personal financial management looks set to finally catch on


TRANSACTION
TRANSACTION
%85
TRANSACTION
%12
TRANSACTION
VALIDATION
TRANSACTION
VALIDATION
VALIDATION
%40
TRANSACTION
%56
DOWNLOADING %80
TRANSACTION


22


33


36

CONTENTS

04 News

NEWS ANALYSIS

11 Heather McKenzie: one law for the rich
12 Mobile apps will give boost to wealth management sector
13 Avoiding spreadsheet hell
14 Show report: FPL
15 Removing exhange barriers
16 Don't mention the regs
17 Corporate concerns

FEATURES

18 **State banking**
As well as changing the rules to encourage new entrant banks, the UK government plans an overhaul of the payments system. Will it end in tears?

22 **Same day, same payment?**
Same day payments are behind adopted in many countries worldwide. Will this lead to the demise of D+1 settlement in Europe?

24 **Riding the OTC rollercoaster**
As new rules for OTC derivatives take hold in Europe and the US, banks and asset managers face a complex cocktail of mandatory clearing, reporting and increased collateral requirements.

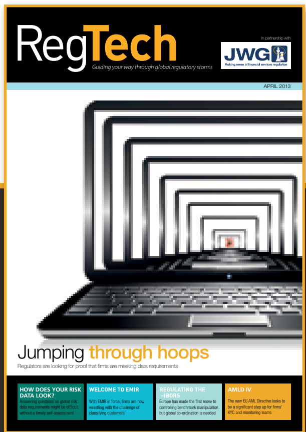
28 **Electronic bonds**
The fixed income market has lagged behind equities and FX in electronic trading, but that is changing rapidly.

30 **Looking after the pennies**
PFM tools have spluttered in and out of fashion, but a combination of mobile, tablet and internet banking may mean their time has come.

REGULARS

36 **Profile: Arun Jain, Polaris Financial Technologies**
Founder Arun Jain is taking Polaris into areas beyond its roots in IT service provision. At the heart of this is good design, he believes.

38 Appointments
42 Comments
43 Industry Events
48 Out of Office



OUTSIDE BACK COVER – REGTECH

The latest edition of the collaboration between *Banking Technology* and JWG examining the technology impact of regulatory compliance looks at risk data aggregation, the unknowns in customer classification, how global regulators are approaching benchmarking post-Libor, and the need to prove you're monitoring AML systems properly.

EDITOR David Bannister,
+44 207 017 4019
david.bannister@informa.com

SENIOR STAFF WRITER Elliott Holley,
+44 207 017 6492
elliott.holley@informa.com

***DAILY NEWS AT SIBOS* EDITOR**
Heather McKenzie

PRODUCTION Kosh Naran

Press Releases Send relevant releases to news@bankingtech.com

PUBLISHER Tim Banham,
+44 207 017 5218
tim.banham@informa.com

SALES MANAGER Sadie Jones,
+44 203 377 3506
sadie.jones@informa.com

MARKETING, CIRCULATION AND REPRINTS
Paul Waite,
+44 207 017 5614
paul.waite@informa.com

SUBSCRIPTIONS AND RENEWALS
Subscription enquiries: Customer Service Dept, Informa UK Ltd, Sheepen Place, Colchester, CO3 3LP. Tel: +44 (0)207 017 5533, Fax: +44 (0)20 7017 4783, Email: telecoms.enquiries@informa.com Annual Subscription: UK £690, Europe €860, US/rest of world $1,235.

Banking Technology is published 10 times a year by Informa Business Information, a trading division of Informa UK Ltd, 37-41 Mortimer Street, London, W1T 3JH, UK.

PRINTER Wyndeham Grange, Southwick, UK.

ISSN 0266-0865
www.bankingtech.com

banking technology
an **informa** business

Role reversal

A journalist, a politician and a banker walk into a bar … sounds like the beginning of a joke, doesn't it? Feel free to submit a punchline: personally, I'm starting to think that it would be a very sour joke.

With banker-bashing now an established national pastime, the press having spectacularly fouled their own nest and politicians going to jail for feathering theirs, it is pretty horrible to contemplate that these are people at the very top of our national life.

Not everyone who works in a bank is a villain, or could even be described as a banker, come to that. I've met many politicians over the years who are people of great integrity; heroes some of them. And, honestly, there are more journalists who hate the grotesques of the national press than there are working in it.

Things have gone a little wrong, I suggest, when politicians want to make new laws to "control" the press, ignoring the fact that everything the press was doing was already illegal under existing laws – illegal phone tapping, bribery of public officials, libel and perjury are all still illegal, aren't they?

Same goes for bankers. I'm as sure that the last few remaining tellers at my local bank were not fiddling the Libor contributions as I am that those elsewhere in the organisation who were are guilty of fraud, at least. (Despite what it may sound like sometimes, I even know some very nice barristers, and they like to use the phrase 'conspiracy to defraud', which gets you 10 years in the slammer.)

Nevertheless and notwithstanding, politicians plan to fix the broken banking system, which is fine and dandy – or it would be if they knew which bits are actually broken and how they might go about fixing them.

"People need a basic banking service," they say. How true, but is there anything wrong with the Post Office? It has branches everywhere, even in rural areas, just about. There used to be a savings and investment arm too, and though that's been hived off as National Savings & Investments. Post Offices are still where you probably go to start dealing with that side.

What about the payments system? That's broken too. Must be, the Chancellor of the Exchequer said so in a recent speech to JP Morgan employees. Businesses have to wait too long –"days" – to receive payments, he said, so the payments system must be fixed.

Perhaps spending some money on publicising the Faster Payments service might be a good idea? Governments in Australia, Singapore and even France seem to think it's a good idea.

I'm all in favour of improving the banking and payments systems – gives us something to write about, if nothing else. What worries me is that I also have a cupboard full of clocks, radios, children's toys and assorted domestic appliances that I've fixed to death over the years.

David Bannister, editor

Regulation will boost IT spend for buy-side

Banks, asset managers and hedge funds will have to increase their IT budgets in 2013 to take account of weak market growth and a raft of oncoming financial regulation, according to new research by Ovum.

Buy-side firms will need to invest to ensure compliance and to reduce their reliance on brokers, while sell-side firms will increase their IT spend to allow them to offer better services.

Client servicing will top the buy-side expenditure list, with buy-side firms keen to retain customers and avoid fallout from low investor returns. At the same time, a move towards intra-day reporting will help provide better insight into the performance of particular asset managers.

"The buy-side is finding ways to increase returns by reducing the reliance on a single broker and adopting multi-prime strategies as well as direct market access," said Rik Turner, senior analyst, financial services technology at Ovum. "With EMIR and MiFID II on the horizon, spending on compliance will remain a high priority."

On the sell-side, firms are increasingly investing in post-trade operations, according to the Ovum research. Meanwhile, cloud services and microwave connectivity are also becoming a realistic option. Late last year, Colt Technology Services opened a new microwave service between London and Frankfurt that it claimed would give traders speeds 40% faster than the nearest alternative.

"Despite the market instability, the sell-side is still increasing its IT spend," said Turner. "With an increased reliance on innovative technology to deliver returns for the buy-side, the sell-side is strategically outsourcing previously on-premise IT solutions to reduce costs and remain competitive. Although IT infrastructure investment will grow, the age-old focus on compliance will continue to dominate sell-side IT spend." ***BT***

Firms face multimillion costs to address gaps in industry plans for T2S

Implementation of Target2 – Securities will land firms with bills of as much as €27 million says a Swift research report

There are "major discrepancies" in firms' readiness for the implementation of Target2-Securities that leave "significant gaps" in the industry's plans, according to new research carried out by Celent and Swift.

The implementation of the Target2-Securities platform by the European Central Bank, coupled with the impact of the Central Securities Depositary Regulation proposed by the European Commission, will require market participants to undertake a thorough review of their current back office system capabilities, and invest anywhere between €7 million and €27 million each.

The research, based on detailed interviews with major participants in the European post-trade environment, found that the post-trade providers most affected by T2S – CSD and custodians – are the most advanced in their preparation. However, market participants that will be impacted to a lesser extent, such as banks and broker/dealers, are still navigating the complexity of T2S.

"We have found that while most market participants have a good high-level understanding of the T2S platform, there are some significant gaps in the industry's T2S adaptation plan," says Axel Pierron, the author of the report, The European Post-Trade Ecosystem under T2S: Dealing with Complexity.

While the long-term benefits of T2S in improving the efficiency of the European capital markets are clear, the report looks closely at the short-term challenges that banks, CSDs and custodians are facing. It estimates that the level of investment required to adapt a back office to the T2S ecosystem will range from €7 million for a market player that modifies its existing system using a communication hub plus adaptation layers to as much as €27 million for a player that decides to revamp its back office systems for both settlement and custody.

A significant portion of IT investment for T2S will be driven by communication complexity, the report finds. "Market participants will have to operate in an ecosystem that relies on disparate messaging formats, and where many local specificities remain. This situation not only generates additional cost but also raises some concerns about the operational risk incurred by market participants in case of communication failure and mismanagement," it states.

Alain Raes, chief executive for EMEA and Asia Pacific at Swift, (*pictured*) said: "Celent has clearly confirmed that many players require more information about the impact of T2S on their business models and operations. This new report provides excellent insight on the questions market participants must answer as they determine their approach to T2S readiness. It comes at just the time when the industry really needs to be able to tap into recognised sources of solutions and expertise, to help create standardised, streamlined and robust post-trade communications infrastructures, and support cost-effective, efficient adaptation to major market change." ***BT***

Online banking use falls as mobile use doubles finds Accenture study

Banks in the UK and Ireland need to adjust to changing consumer behaviour as customers cut back on the amount of time they spend banking online and visiting bank branches, according to new research by Accenture.

According to the survey, daily and weekly branch visits fell from 19% to 15% and daily and weekly online banking activity fell from 69% in 2010 to 61% in 2012. Meanwhile, inherently brief, more transactional banking activity rose significantly, with daily and weekly mobile banking more than doubling – from 7% in 2010 to 15% in 2012.

The study also revealed declines in consumer trust in banks, from 45% in 2011 to 40% in 2012, as well as a reduction from 41% to 38% in customers that believed their bank is fair and transparent. Consumers in the age range 18-24 were the most severely affected, registering declines of 61% to 49% in customer satisfaction and 48% to 37% in trust, as well as a decline from 41% to 31% in those who believe their bank is fair and transparent.

"This year's survey results underscored the banking industry's central challenge to re-engage customers, as the 'human element' of the relationship diminishes," said Peter Kirk, managing director of Accenture distribution and marketing services in the UK and Ireland. "Banks' success in rolling out efficient, user-friendly digital channels and its continuing consumer trust issues may be contributing to an increasingly arm's-length relationship between institutions and their customers, which impacts their opportunities to sell and build loyalty."

One of the only ratings to show positive growth was mobile banking, which increased from 10% in 2010 to 22% in 2012. According to Kirk, the findings indicate that banks need to focus on the customer experience, reward loyalty, and personalise how they engage with consumers using big data and analytics.

At the end of February, a separate YouGov poll conducted by BT revealed that customers cited peer review sections, web chat and compare my bank services as the most wanted tools and strong online banking services, the presence of a local branch and 24/7 availability of banking services as the strongest motivating factors that would persuade a customer to change banks. ***BT***

EMCF and EuroCCP merger "will cut costs"

As tough new collateral requirements bring ever greater pressure to bear on banks and financial market participants, the union of European clearing houses EMCF and EuroCCP into a new combined entity will help make clearing and settlement more efficient, according to Diana Chan, chief executive at EuroCCP.

"The conditions in the equity market favour cost reduction," Chan said. "Combining our two CCPs will help reduce settlement cost as it's no longer necessary to pay twice to settle. In addition, portfolio margining can provide users valuable cost efficiencies, at a time when economies of scale are growing in importance for customers."

Based in Amsterdam and called EuroCCP, the new entity will combine the risk management and customer service organisation of EuroCCP with the technology and operations infrastructure of EMCF. Chan will be chief executive and Jan Booij, the current chief executive of EMCF will be chief operating officer of the new entity.

"Nobody thinks having nine clearing houses in Europe is optimal," Chan said. "However, clearing interoperability can provide part of the solution, since in an interoperable system, users are able to select the clearing house of their choice to clear all of their trades, bringing major cost reductions." ***BT***

SEPA direct debit uptake "unacceptable"

The European Central Bank says that the speed of adoption of direct debits in line with the Single Euro Payments Area standards is "unacceptable" and urged regulators and payment service providers to make greater efforts to push the instrument or risk damaging the reputation of the scheme.

In its first Report on the Migration towards the Single Euro Payments Area, the ECB admits that the SDD core scheme "so far fails to capture a substantial transaction volume". It says that "given the popularity of legacy direct debit payment instrument in certain countries and the challenges associated with the new SDD collection process, the current situation is unacceptable"

Migration to the SDD is due to be complete by 1 February 2014, and a late migration would introduce risks that "could damage the reputation of the new direct debit scheme, which could then be difficult to restore".

The ECB suggests that countries that already work on the basis of a creditor mandate flow model should "strive to migrate" more than 50% of their legacy direct debit transactions by the end of the third quarter of 2013, while countries that originally worked on the basis of the debtor mandate flow model (which is harder to migrate from) should strive to migrate at least one- third of their transactions by the same deadline

"To generate a breakthrough, payment service providers should not only make their customer servicing channels ready for SEPA, they should also devote sufficient resources to familiarise end-users, both debtors and creditors, with technical, business and contractual issues related to migration to SDD," says the report. "Moreover, payment service providers should provide substantial assistance to debtors in order to explain how consumers' protection measures established under the legal framework could be exploited." ***BT***

The *Banking Technology* Awards 2013

WWW.BANKINGTECH.COM/AWARDS

Now in its 14th year the *Banking Technology* awards have become established as the premier event to recognise, reward and celebrate innovation and excellence in the use of IT in financial services.

Each year the awards constantly evolve to better reflect the industry. For the 2013 awards we're refreshing the awards categories and have recruited some new names to the judging panel. For the first time we will be opening up the awards to take entries from Asia and the Americas making the *Banking Technology* Awards a truly global event.

Visit www.bankingtech.com for the latest awards news including:

- **Readers Choice Awards:** cast your vote for what you consider to be the best system across a range of categories
- **Judged Award Categories:** see details of how you can enter your organisation for one of the award categories
- **Awards Sponsorship:** Get high profile branding before, during and after the awards with one of our range of sponsorship packages
- **Table Bookings:** Book your table at the leading IT in financial services social event and don't miss out to the prestigious *Banking Technology* Awards night.

Sponsored by:

ABE EBA
EURO BANKING ASSOCIATION

2012 ROLL OF HONOUR

Best Green IT Initiative by a Financial Institution
HSBC

Best Industry Infrastructure Initiative
EUROPEAN DATAWAREHOUSE

Best Enterprise Infrastructure Initiative
Bank of America Merrill Lynch

Best Internet Banking Services Provider
ALIOR BANK

Best Payments Systems Initiative
HSBC

Best Security Initiative
Santander

Best Trading Platform or Venue
BATS CHI-X EUROPE

Best Transaction/Wholesale Banking Initiative
HSBC

Best use of IT in Retail Banking
Standard Chartered

Best Use of IT in Investment Banking
citi

Best Use of IT in Funds/Asset Management
BARCLAYS

Best use of IT in Wholesale/Transaction Banking
RBS

Best Use of IT for the Purposes of Risk & Regulatory Change
Deutsche Bank

Best Use of Mobile Technology in Financial Services
BARCLAYS

Outstanding Contribution by a Female in Financial Technology
Kate Wignall

IT Team of the Year
LLOYDS BANKING GROUP

www.bankingtech.com/awards

CONTACTS

To sponsor the awards categories, to book your table or to discuss any other features of the *Banking Technology* Awards, please contact:

Sadie Jones, T: 44 203 377 3506, E: sadie.jones@informa.com

For general Awards enquiries please contact:

Paul Waite, T: +44 207 017 5614, E: paul.waite@informa.com

Follow us on Twitter: www.twitter.com/bankingtechno

Join us on LinkedIn: Go to www.bankingtech.com and click on the button on our home page

News in BRIEF

Reference and corporate actions data specialist **Exchange Data International** has struck a deal with Derivative Partners, a provider of risk management and valuation services for structured products, to provide valuations for a range of structured products and complex derivative instruments. The current service covers result sets combining various asset classes including equity, indices, FX and commodities, payoffs and pricing models.

WorldPay, has acquired YESpay International, a payments services provider. Using YESpay's technology, WorldPay will offer UK clients a complete payment service, including merchant acquiring, card processing and payment terminals integrated with point of sale systems. The acquisition, made for an undisclosed amount, is in response to demand from WorldPay's clients for integrated payment services to support the evolving needs of the "omni-channel shopper". On completion, WorldPay will acquire YESpay's businesses and assets including payment platforms and technologies, its 150 employees, based in the UK, Canada and India and over 3,000 customer relationships.

SEPA solutions specialist **Sentenial** has completed its planned investment in the Benelux Region with the opening of a fully-supported operational office in Amsterdam and the relocation and expansion of its Brussels office.

Both of these offices, part of continued expansion and investment across Europe, will be manned by local teams led by Luc Vanhecke, head of sales Benelux. The Benelux operation includes functions ranging from Sales to Implementation and will also leverage the company's international network for clients who require multi-country solutions.

The Dublin-based firm announced a €20 million expansion across Europe last November when it opened in Brussels. Last month it announced the hire of former Logica sales director Jean-Pierre Arens to spearhead the French expansion, based out of recently opened offices in the La Defence district of Paris.

Corvil, a provider of monitoring systems for high-performance financial applications, anhsa launched the Corvil Enterprise Monitoring System. The new solution is based on its flagship CorvilNet platform and delivers the same combination of high speed data capture, distributed transaction-application-network monitoring, and real-time business analysis. New enterprise application transaction monitoring and an enterprise-reporting module are now included to support a range of enterprise IT activities.

Information Mosaic and **Thomson Reuters** have agreed to integrate the latter's ISO-based corporate actions data feed with the former's corporate actions solution, IMActions. Customers will get access to corporate actions data covering 94,000 companies in more than 93 countries. Information Mosaic's senior vice president of business strategy, Gerard Bermingham, said: "We view this as a significant step and look forward to a very successful relationship. For users of Information Mosaic's post-trade platform, IMSecurities, adding additional Thomson Reuters data sets such as its Legal Entity Identifier reference, and pricing will provide even more value."

The Royal Bank of Scotland has announced a new product intended to help clients migrate to mandatory SEPA standards. Called the RBS SEPA Accelerator, the product has a feature that allows a corporate implementing the SEPA XML file format to independently initiate, monitor and amend file testing, validation and end-to-end simulation. This ensures that a corporate can self-test its SEPA readiness.

PKO Bank **Polski** has introduced a mobile payment service that covers all payment situations. Called IKO, the service is based on the Mobile Everywhere technology platform from Stockholm-based Accumulate, and Pera Mobile, the global open technology standard for mobile payment. The basic solution has been customised and functionally extended within PKO Bank Polski's project, with assistance from HP and Accumulate. HP was responsible for the full project at PKO, from requirement and specification, to the implementation, system integration and development of the banks back-end systems. The initial IKO service supports point-of-sale payments, which will include support for NFC in the future; online payments; person-to-person transfers using a proxy phone number; cardless cash withdrawal from ATMs; account balance, transaction history and settings such as PIN number.

Yorkshire Building Society is to offer online personal financial management capabilities through a multi-year agreement with technology provider eWise. The eWise PFM solution offers a suite of consumer services, including account data access, with private and secure account aggregation, account monitoring, transaction data, spend categorisation, net worth, single sign-on and the creation and management of budgets, that give end-users a tool to manage their finances online. It also features targeted offer management capabilities that help financial institutions create and manage cross-selling campaigns, built to deliver financial benefits to each individual consumer specifically.

Technology and information companies **CGI** and **Experian** have partnered to help banks and corporates meet the requirements of SEPA direct debits. CGI will offer Experian's pan-European bank account data validation services to improves straight-through processing levels as much as possible. Research from Experian suggests that under SEPA, many banks will not provide exception handling free of charge. Instead, firms may have to pay for up to 12% of all transactions, with a cost of payment failure at €50 per transaction. That would mean a corporate with 100,000 records could expect to see a cost of failure of €600,000 per monthly transaction cycle. Research shows the majority of businesses have yet to prepare for SEPA. ***BT***

The *Banking Technology* Awards 2013

A big change is in the air for the 2014 *Banking Technology* Awards: in response to the enormous interest the awards have generated from around the globe, we've decided to remove the geographical restrictions of previous years and welcome entries regardless of location.

There are two reasons behind this thinking. Firstly, previous awards were restricted to the Europe, Middle East and Africa regions, but it has become increasingly difficult to judge where things originate and where they are deployed, and where the parent bank is based.

Secondly, many of the entries submitted last year were rejected as being "out of area", though the projects were clearly world-class – in some cases they would have been shortlisted but for the geography.

Some of the entries we had to reject last year came from as far away as Hawaii, China and Laos, while banks from some of the Central Asian countries have long tried to persuade us that they are really in Europe.

This, by the way, only applies to the judged awards for financial institutions. The Readers' Choice Awards have always been open to international companies, with the proviso that their products/services should be available in the EMEA region. We'll replace that proviso and say that the products or services should have international applicability.

The submission process will start at the beginning of May and run until late summer. Entries will be carried out via our website, so check www.bankingtech.com/awards at the end of this month. We'll also be adding guidelines for entrants and other material as we progress.

Good luck to everyone.

David Bannister, editor

JUDGES PANEL

Fred Tingey Regulatory Programme Operations at, BNP Paribas

Geoff Kates managing director, Lepus

Helen Watt Senior program manager, JPMorgan

Kieran Hines practice leader, Datamonitor Financial Services

Professor Michael Mainelli FCCA FCSI executive chairman, Z/Yen Group

Ray O'Brien, Chief Operating Officer, Global Risk, HSBC

PJ Di Giammarino, founder and chief executive of JWG

www.bankingtech.com/awards

For sponsorship or table reservations please contact:
Sadie Jones, T: +44 203 377 3506, E: sadie.jones@informa.com

ENTRIES OPEN
1 MAY 2013

ENTERING THE AWARDS

WHO CAN ENTER
The *Banking Technology* Awards are open to banks and financial institutions operating globally.

WHAT IT MEANS TO WIN
For banks and financial institutions, winning a *Banking Technology* Award proves the value of your technology investments and your skill in driving return on those investments through the endorsement of credible experts. A *Banking Technology* Award is proof of the business awareness that your firm blends with its technology expertise to deliver the best possible outcomes for the institution. *Banking Technology* Award winners will enjoy detailed coverage in the official Awards magazine and on www.bankingtech.com. You can also highlight your winner status in your internal communications and marketing materials, adding prestige and credibility to your campaigns.

WHAT IT MEANS TO BE SHORTLISTED
We firmly believe that this is a significant achievement in itself and deserves more recognition.

The *Banking Technology* Awards mark the highest level of professional and commercial achievement in deploying and exploiting all forms of IT in financial services. Our team of judges is unique, selected for their experience in assessing technology projects and the effectiveness of IT solutions.

MULTIPLE ENTRIES
More than one category may be entered if the relevant criteria are met.

THE JUDGING PROCESS
All qualifying entries are considered by the *Banking Technology* Awards judges. Judges are not allowed to comment on or vote for entries from their own institutions.

AWARDS PRESENTATION
The shortlists for each category will be announced in September. The Awards 2012 will culminate in a gala black-tie dinner and Awards ceremony on 5 December 2012 at the Grand Connaught Rooms in London.

CONFIDENTIALITY
Brief details of all shortlisted entries will be published on our website and in the official Awards brochures. Entries should include a short (50-100 word) description that can be published in this way. All other information will be treated in strictest confidence.

THE RULES
For further information on entry guidelines including how to enter, the criteria for project categories and individual awards and general awards terms and conditions please visit: www.bankingtech.com/awards

Ian Alderton,
formerly RBS &
Wachovia

Daniel Mayo,
practice leader,
financial sector
technology, Ovum

Follow us on Twitter:
www.twitter.com/bankingtechno

Join us on LinkedIn: Go to
www.bankingtech.com and click
on the button on our home page

www.bankingtech.com/awards

For general Awards enquiries please contact:
Paul Waite, T: +44 207 017 5614, E: paul.waite@informa.com

One law for the rich

Alternative payments systems and banks operate under different rules in different countries. *Heather McKenzie* looks at a recent study of the situation

Last month, Bitcoin, a decentralised digital currency, hit a high in terms of value, trading at $40, up from $13 in January of this year and just $0.05 in 2010. Observers attributed the rise to a growing acceptance of Bitcoin among online merchants such as Wordpress and Reddit. Bitcoin is also a volatile currency because the number of transactions and overall value of the coins in circulation is relatively low. But for a growing number of people, wary of the debasing of currencies due to quantitative easing, alternatives such as Bitcoin are becoming more popular.

One of the main features of Bitcoin is that it is not controlled by a central bank or the banking system in general. Banks, as the incumbents of the payments system, are being challenged by competitors such as Bitcoin.

The implications of this from a regulatory perspective are examined by Zilvinas Bareisis of research firm Celent in his report, *Managing Digital Payments Risk: A Regulatory Perspective*. He says that even in markets with well-developed regulatory frameworks, gaps and ambiguities exist in digital payments regulation.

"Significant variation exists between countries in terms of the presence of legislation and regulation targeted at digital banking and payments," writes Bareisis. "In most developed markets, the regulations governing traditional electronic payments are well established, despite being patchy in places and having evolved over time."

With new payments systems entrants and mechanisms, risks are becoming more complex to manage, he argues. Any regulatory framework for payments must contain specific regulations aimed at achieving three fundamental objectives across traditional and digital payments:

- Protect the transacting parties, particularly the most vulnerable party;
- Promote a vibrant payments ecosystem by ensuring the health of individual payment providers via prudential regulation and reporting requirements and by focusing on market efficiency; and
- Safeguard broader societal interests, which acknowledges that payments do not operate in a vacuum.

Bareisis differentiates between traditional payments and digital payments. The traditional payments include cash, cheques and electronic payments such as credit cards, debit cards linked to a bank account, open-loop prepaid cards, and electronic bank transfers (debit and credit). The associated risk management practices and regulatory landscape are well established for these payments.

Digital payments, he says, are more difficult to define "as hundreds of offerings have been developed around the world, all aiming to address a gap in existing payments solutions or use a new technology".

To help make sense of these offerings – and to help regulators form policy – Celent has developed a taxonomy that places digital payments into five categories.

The categories are:

- Traditional payment facilitation;
- Non-bank stored value accounts;
- Virtual currencies;
- Mobile billing; and
- Credit facilitation.

"Celent believes that the proposed taxonomy enables banks and regulators to categorise new payment offerings based on the key characteristics and rapidly determine the most critical risk management and regulatory implications. As a result, it will help banks and regulators around the world navigate the complexities of new payment offerings and improve their ability to keep payments regulations up to speed with the market innovations," states the report.

Virtual currencies are perhaps the "most alternative" of the categories, writes Bareisis. Many consumer protection laws do not apply to virtual currencies, or are ambiguous about them, because they may not be considered financial accounts. This category also raises conceptual questions about where the boundary of financial regulation resides or ought to reside.

On one hand, virtual currencies can be compared to other non-bank stored value accounts. Both require pre-loading of funds into a provider's ecosystem. However, Bareisis contents that a crucial difference here is the currency exchange aspect. With non-bank stored value accounts, the funds remain denominated in a currency used by a country or group of countries. With virtual currencies, "real money" is exchanged for "value tokens" managed and supervised by a private entity. Distributed currencies, such as Bitcoin, pose more complex regulatory questions.

"On the other hand, if we distinguish virtual currencies, should the category also include other value tokens, such as frequent flier miles, which arguably can also be exchanged for goods? We contend that the main difference between virtual currencies and miles or loyalty points is that consumers use their 'real money' to actively buy a virtual currency, whereas they earn miles and other points as a consequence of purchasing real world goods," states the report

Banks and regulators should work together, says Celent, to develop new regulation that are based on a specific activity performed by the payments provider in the end-to-end payments value chain, rather than the provider's legal structure. ***BT***

Mobile apps will give boost to wealth management sector

Tools for advisors on the move have been around a long time, but the new generation of tablets are being embraced by wealth managers and vendors alike. *David Bannister* reports

An analysis of mobile solutions for financial advisors concludes that applications to support client interaction and advisory services "will become one of the most industry-disruptive, but potentially most rewarding" developments in the wealth management sector.

This is the main finding of *Mobile Apps for Financial Advisors and Wealth Managers* by Swiss research company MyPrivateBanking Research.

"Existing mobile solutions for financial advisors show the potential for greatly improving the interaction between advisor and client by supplying real-time information, multi-media content and new ways of communication." said Francis Groves, senior analyst at MyPrivateBanking. "This makes a real difference to client meetings and personal interaction between advisor and client that up until now has mainly been dominated by heaps of paper, often out-dated reports and portfolio data, with discussions of portfolios and performance where little scenario planning was possible."

The report looked at systems from Advent Black Diamond, Appway, Avaloq, Charles River Development, DST Systems; Finantix, Kony Solutions, MicroStrategy, PolarisFT and SunGard. It found that all demonstrated different aspects of good practice in solution design and four of the solutions were "not only well designed but had particular strengths in certain areas".

- Appway was commended for "outstanding support in winning new clients and complying with regulations across different jurisdictions".
- MicroStrategy's mobile solutions are commended "for their highly customisable offerings with a comprehensive range of functions". available;
- PolarisFT is singled out for "incorporating excellent design features for financial planning and performance viewing".
- SunGard's "focus on smaller wealth management businesses and very good use of mobile visualisation tools" gets it noticed by the report's authors.

But while each solution has unique strengths and features, "none have yet realised the full potential" of mobile apps. The design of most mobile solutions is still dominated by the legacy of the vendors' main wealth management platforms, which run on PCs and desktop computers.

It sees three particular shortcomings in current offerings:

- While these advisor solutions are generally rich in content and functionality, there is plenty of scope for developing their relevance to client meetings. For instance, six out of 10 vendors provide a comprehensive and detailed portfolio management system and five had good performance reporting capabilities but only four allowed *ad hoc* reports.
- Existing solutions "do an excellent job in helping advisors to carry lots of information into meetings but do less well when it comes to meeting dynamics". Just one of the solutions researched evidenced a well-thought out meeting preparation component.
- Report publishing and client contacting functions are "unnecessarily limited". None of the solutions covered in the report provided the kind of full and flexible report publishing options, both for standard and ad hoc reports, that we would hope to see available to advisors in client meetings.

MyPrivateBanking stresses that advisor mobile solutions have to bridge the needs of two different categories of user, the advisor or other representative of the wealth management firm and their clients. Consequently they need to handle a level of complexity and a depth of information that is of a completely different order to that required of most consumer apps.

"Mobile solutions for financial advisors need to enable not just single interactions but to help to sustain relationships that can last for many years," said Groves. "They must normally be capable of a large number of different functions but they also have to perform in a way that doesn't interfere with advisor being able to establish the all -important sense of connection with the client."

MyPrivateBanking recommends banks and wealth managers integrate mobile apps solutions in their advisory process and client interaction as soon as possible. In the decision making on which mobile solution to choose they should pay particular attention to identifying the functions required as well as assessing the coverage of markets and operating systems by different vendors. Testing a mobile solution under real-life conditions to assess the benefits for advisors and clients is "critically important", as is the need to have a clear grasp of the customising capabilities of the solution.

MyPrivateBanking analysed the systems against more than 30 functional criteria grouped in 10 categories such as CRM, onboarding financial planning, portfolio management, reporting and client communication ("including, of course the vital area of client meetings"). ***BT***

Avoiding spreadsheet hell

Spreadsheets are ubiquitous, but they are also a major source of risk, as high-profile examples have shown. *Tom Groenfeldt* reports on how firms ensure spreadsheet integrity

The JP Morgan Task Force Report into its Chief Investment Office's $6 billion-plus loss found the bank's Value at Risk was being calculated with an Excel spreadsheet that "required time-consuming manual inputs to entries and formulas, which increased the potential for errors".

At another point the report found "the model operated through a series of Excel spreadsheets, which had to be completed manually, by a process of copying and pasting data from one spreadsheet to another".

JPM is not alone: more than half of c-level executive in financial institutions say they have few or no controls over critical spreadsheets at their firms.

Nearly nine in ten (89%) rely on manual oversight to maintain data integrity, while only 11% report automated controls policy to fully understand changes between different versions of spreadsheets.

The research, conducted by Vision Critical for ClusterSeven, which sells spreadsheet control software, seems to indicate a large gap between executives' concerns and their actions to manage risk. Just over half (55%) of the top executives rate spreadsheet risk as either serious or very serious.

"Financial services firms, and the senior managers and executives that run them, rely heavily on spreadsheets for much of their business critical processes," said Ralph Baxter, chief executive of ClusterSeven. "However, there are significant risks associated with this and all stakeholders are now waking up to what these are. Risks include anything from basic 'cut and paste' errors to miscalculations, fraud and corrupted files."

Excel, easily the most widely used tool in finance, creates risk in the financial enterprise. Designed for the desktop, its power and ease of use have led to its widespread use in analytics, trading, modelling and reporting. Excel, designed for individual users, lacks controls, lockdowns and audit trails.

PWC has built an entire consulting practice around Excel, beginning with identification and risk measurement of end user computing (EUC) within a firm. "PwC recognises that EUC's are here to stay. Rather than attempting to remove them, we believe that organisations should understand their use and make sure that they are properly controlled," the company explains. It calls for developing a governance framework and then deciding when and where software should be used to monitor and control spreadsheets.

Implementing spreadsheet management often uncovers material errors in a company's accounts. In helping one firm move to an ERP system, PWC exported data out of hundreds of spreadsheets and modelled the results, which uncovered "a number of significant errors."

The consultancy notes that a number of regulations including Solvency II, SOX and Basel III will require improved controls over spreadsheets.

In London, the FSA has required financial firms to manage their spreadsheets, especially those used to feed their capital adequacy modelling under Solvency II, said Mark Allen, head of business intelligence at Canopius Managing Agents, an international insurance and reinsurance group based in London. It turned to ClusterSeven.

"We have approaching 1,000 key business spreadsheets managed under ClusterSeven," he said. "We haven't done all of them, and that is too many to be honest: some spreadsheets don't have material effect."

"Whenever possible we use SQL for financial reporting systems, but it's not realistic to replace spreadsheets. While we have our more complex Solvency II data in databases, there will always be the need to pull together information for presentations in spreadsheets."

Canopius found ClusterSeven didn't create problems for business users. "Some comparable systems are quite invasive. This just sits in the background and tracks changes. It's much easier to roll out software when it doesn't get in the way of users."

The principle can be extended to other off-the-shelf applications. ClusterSeven offers similar controls for the MS Access Database, which is tucked away in thousands of organisations running vital departmental tasks, often little known to anyone outside the group where it operates.

Another approach to improving on standalone Excel is available from WestClinTech in the US. It has built XelerateDB which can operate refined Excel calculations, and additional financial calculations, inside SQL Server where they can run up to 100 times faster than Excel and are fully protected by server security.

A commercial real estate financing company in the US with a market cap over $7 billion uses XLeratorDB to improve reporting and projections. When it relied on Excel spreadsheets, individual asset managers in different regions developed their ways of using the models, the firm's chief information officer said.

"The process was inconsistent, there was no visibility," he added. If a regional manager failed to update quarterly results in Excel, that would not necessarily be apparent to headquarters. "It only took one or two managers not to update their numbers to realise that we needed to correct this." **BT**

Cross asset trading to the fore for FPL delegates

Changes in market infrastructure and their effect on the way investment firms trade provoked lively discussion at FIX Protocol's London event. *David Bannister* and *Elliott Holley* report

While changes to the OTC derivatives world grab the headlines, trading is moving to a cross asset world, largely driven by regulation and standardisation – and after a few years of pain, firms may find that they are better off as a result.

That was one theme to emerge at the annual EMEA Trading Conference organised by FIX Protocol Ltd in London in March, and it dovetailed neatly into overarching issues such as regulation, the relationship between sell- and buy-side forms and the continuing complexity of connectivity as new venues emerge and disappear.

While different parts of the industry are moving at different rates – and have different motivations – the efficiencies of cross asset trading will prove attractive in the longer term. "We definitely see the value of cross asset trading," said one panellist. "Looking beyond the regulations there is an enormous amount of industrialisation [of processes] going on, and that lends itself to trading multiple asset classes, but it is not at all clear how we get beyond the regulations."

Several sessions focussed on the development of the FIX protocol into other asset classes. Originally developed for the equities markets back in 1992, FIX has since been widely adopted in FX markets and is now moving onto fixed income and the OTC derivatives market. The latter, in particular, has hitherto used FpML – the Financial Products Mark-up Language – developed by the International Securities Dealer Association.

Delegates heard in one session how the work done on extending FIX into the bonds market has developed in parallel with work on OTC derivatives, and how FPL has been working with ISDA to embed FpML payloads inside FIX messages. "There is quite a lot of synergy between bonds and derivatives – the commonality is OTC trading," said the presenter.

Another panellist related this back to the move to cross asset trading and responses to regulatory changes: "FIX is a good way to reduce cost and time to market … if we have to wait even two or three months for changes, it is not going to work very well." Part of the reason for this is that widespread FIX adoption has led to firms also aligning their processes along best practice lines, though there is a way to go. "Best practice is great for us because we might already be using it," he said. "In practice, it might be quite a few years before we get to that Nirvana state."

In the shorter term, the impact of imminent changes to the OTC derivatives markets is still far from clear. In particular, delegates pointed to the lack of clarity in international regulation: "Differences in the rules between EMIR and Dodd-Frank mean we'll have to build different platforms to cope with differing regulatory requirements," said one.

Looking slightly further out, a panellist said that he saw three potential ways the market could go.

"In OTC markets in the US, reporting requirements originally just covered credit derivatives, but have been broadened to include more and more instruments," he said. "A gradual increase in the scope of instruments falling under the new requirements is the first possibility. A second possibility is standardisation of contracts – for example, having a standard coupon and standard rollover dates. The third possibility is that all products become like futures, traded on a central limit order book. Maybe we'll transition between them. We need flexibility."

But even this is problematic, said another. "Flexibility means that there's too much flexibility. Can we standardise the business process, not at a FIX tag level but how the messages will communicate? If there's too much variation in that process, systems will have to change. The reality is the middle office doesn't have much money."

On a wider horizon, the issues and risks associated with shortened settlement cycles exercised several participants. "We now have the impetus behind T+2 to get this going and make it work. Multiple standards across multiple asset classes is not going to work," said a panellist. "The drive is to do more as close to the point of execution as we can – the only way is to do it once, at the time, and FIX is the only way to do that."

For another, the issue was that the market is becoming divided in its reaction to these changes, and with will bring risk and disadvantage at the smaller end of the industry. "The big investment managers are already there," he said. "Securities lending and FX are most affected by bringing forward the settlement cycle. It's the smaller players that don't have FIX – they will struggle. They won't notice until their trades keep failing because they didn't get ready for T+2."

This is a vicious circle, responded a fellow panellist. Smaller players don't have the backing or funds to make a business case to get ready for shortened settlement cycles.

Overall, however, it will reduce risk, most felt. "Faster settlement will reduce counterparty risk," summarised one speaker. "Sometimes confirmations aren't achieved in three days let alone two. If we get to T+2 it's going to be a massive improvement." ***BT***

Breaking down the barriers in the exchange business

The consolidation of trading venues is over and a new wave of alternatives are starting to set up shop. *Elliott Holley* reports on the plans of one high profile candidate.

Following a period of equity market consolidation, the time is right for a new entrant to step forward and transform the exchange business, according to Alasdair Haynes, chief executive of start-up trading venue Aquis Exchange.

"There is a need for more competition," Haynes told *Banking Technology*. "The exchange business is currently a duopoly. The market needs a terrier to help break down the barriers, to bring positive disruption and innovation – and we are happy to be that terrier."

> *"A lot of people are talking about how to save costs, but few are looking at how we can make the industry grow"*
>
> **Alasdair Haynes**, Aquis Exchange

Before starting Aquis, as chief executive Haynes was instrumental in the success of pan-European trading venue Chi-X Europe, which achieved a pan-European market share of approximately 30% within less than five years, according to figures provided by Thomson Reuters. Prior to that, he spent ten years as chief executive at agency broker ITG Europe, where he was involved in setting up ITG's Posit dark pool. In his previous positions, Haynes has consistently argued for greater competition, including an end to the residual monopoly national exchanges still retain over opening and closing auctions and market data.

"Where competition exists, prices come down," he said. "Where you have monopolies, prices have risen substantially. A lot of people are talking about how to save costs, but few are looking at how we can make the industry grow. We have a lot of innovative ideas on how to make that happen."

Aquis Exchange will depart from the usual exchange practice of charging participants a percentage of the value of each stock they trade. Instead, it will charge users for the message traffic they generate, in a similar manner to a telecoms firm. There will be a low usage band for small firms, an upper band for the largest users, and an exemption from charges for market makers when posting liquidity.

"Why pay more for trading GlaxoSmithKline than trading Vodafone?" said Haynes. "We are essentially managing message traffic – that is the job of an exchange. If this model works in equities, we can help bring business back on exchange, which is one of the objectives favoured by regulators."

One of the core concepts behind Aquis is the idea that there is a need to create a good 'ecology' between different kinds of market participants. To do that, Aquis abandons the maker-taker model used by venues including Chi-X and many others in recent years. Maker-taker pricing has traditionally been associated with high-frequency market making firms, which have boosted exchange volumes but also drawn fire from long-term institutional investors, who distrust HFT. Many asset managers have come to favour dark pools instead of the lit markets, increasing market fragmentation and reducing transparency.

"The only way back to growth is to get everybody in," said Haynes. "You need all types of flow mixing together. The problem with benefiting the maker is that the takers go elsewhere. On Aquis, everybody is on a level playing field."

The technology behind Aquis will be low-latency, with facilities for colocation and full interoperable clearing arrangements from launch. The exchange also intends to make technology a business line; Haynes confirmed that the firm has already sold its technology to another organisation, which is currently exploring opportunities in Africa. Aquis will start out focusing exclusively on equities, but Haynes made it clear that if the model is successful, the exchange will expand into other classes and become "agnostic to asset class".

Squawker is another new trading venue that is also planning to launch across Europe with a new business model. Christopher Gregory, co-founder and chief executive of Squawker, told *Banking Technology*: "This is about solving a problem for human beings. There is a growing divergence between human and machine trading. Order books provide fast, thin liquidity – lots of little orders. But it's very hard to interact with the market as a human being, because the liquidity is too shallow and is often gone before you can get there."

Squawker and Aquis Exchange differ in the sense that Squawker will offer a sell-side to sell-side negotiation service aimed at helping brokers to trade in blocks, whereas Aquis will be an exchange focused on creating a mixture of many different kinds of participant, including retail brokers, major sell-side firms and institutional investors.

Aquis Exchange has submitted its business application to the UK Financial Services Agency, and is hoping to go live in Q3 this year. ***BT***

Don't mention the regs

Try as they might, delegates at the FIA conference last month couldn't avoid regulation, but they saw some hope in the East, reports *Tom Groenfeldt*

Discussion of regulation seemed to be everywhere at the Futures Industry Association's conference in Boca Raton in mid-March. By the middle of the second day some speakers were promising not to mention it. But they usually did anyway.

Libor was the subject for Gary Gensler, chairman of the Commodity Futures Trading Commission, who described the industry's reliance on Libor and Euribor as "fragile".

"I believe that continuing to reference Libor and similar benchmark rates is unsustainable in the long run. A reference rate has to be based on facts, not fiction," said Gensler, adding that "Libor – central to borrowing, lending and hedging in our economy – has been readily and pervasively rigged."

With the European banks, Gensler noted the misconduct took place over several years, in offices across multiple countries and included several, even dozens, of people inside the banks reaching into senior management.

Problems with Libor continue, Gensler said. Publicly available data like credit default swaps pricing are at odds with Libor which often sits unchanged for days or even months.

"How is it that in 2012 – if we look at the 252 submission days for three-month US dollar Libor – the banks didn't change their rate 85% of the time?" asked Gensler. "When comparing Libor submissions to the same banks' credit default swaps spreads or to the broader markets' currency forward rates, why is there a continuing disconnect between Libor and what those other market rates tell us?"

That leads to the issue of finding alternatives, which is something of a work in progress.

Gensler said he agreed with a January recommendation from IOSCO that a benchmark "should, as a matter of priority, be anchored by observable transactions entered into at arm's length between buyers and sellers in order for it to function as a credible indicator of prices, rates or index values".

Among the possibilities for use as a benchmark are the overnight index swaps rate, benchmark rates based on actual short-term collateralised financings, and benchmarks based on government borrowing rates, he said.

The transitions would be a challenge, but a new benchmark could run parallel to the old until its value was proven.

"I recognise that moving on from Libor and Euribor may be challenging. It may be unpopular. But continuing to support Libor and Euribor to maintain stability – particularly as the interbank, unsecured market is essentially nonexistent – may only create more instability in the end."

On the other side of the world, growth is booming in Asia and the Singapore Exchange appears ready to take advantage of the absence of regional markets and common currencies to take a big chunk of the trading by offering contracts that provide exposure to Japan, China, Indonesia and Thailand among others.

With a middle class currently estimated at 525 million and expected to growth to 1.7 billion within a few years, Asia has a growing market for investment products.

But its markets remain highly fragmented, said Rama Pillai, deputy head of sales and clients at the Singapore Exchange, which is building its business on the closed borders, unconvertible currencies and lack of instruments to trade, hedge and manage risk across Asia.

He predicted it would be at least 10 to 15 years before Asia gets harmonised in its regulation and capital is allowed to move freely: "The fact is that Asia is so diverse and complex across the region, yet people need to find value and capital needs to find a home."

Regulatory arbitrage does not appear to be a goal among Asian firms. Panelists said they do not want business that is simply trying to escape rules in their home countries, in part because the business is unsustainable.

Jason Scott, managing director and head of listed derivatives, APAC, for Deutsche Bank, said some regulation in India and China is well ahead of the West. He expects China will open its equities markets; when that happens, index managers will need exposure to China and that will drive index futures and sector futures, creating a deep and liquid market inside and outside China over the next five to seven years.

Hong Kong is in an interesting position as China evolves. Charles Li, chief executive of Hong Kong Exchanges and Clearing Limited, said the territory's monetary policy is tied up with the Fed, while its underlying economy is tied to China, which has a different monetary policy.

"We are banking on the idea that China cannot keep its currency closed forever, and then we will be able to provide a platform and products for investors to manage risk and exposure to the two most important currencies – the Renminbi and the dollar." ***BT***

Corporate concerns

Despite everything, most corporate clients are happy with their banks – but they are worried about their banks' stability, according to a study from Ernst & Young

The good news is that 63% of corporate executives are "highly satisfied" with the service they get from their core banking partners; the bad news is less than half of them are confident that their banks are stable and operating securely within their risk parameters.

This is making them increasingly interested in the stability of the banks they work with and in understanding their risk profiles, according to a new study by Ernst & Young.

Steven Lewis, lead global banking analyst at the firm, said: "The lingering after-effects of the 2008 financial crisis and the on-going challenges in the Eurozone have forced corporations to focus on the stability of their core banking teams. Counterparty risk and exposure from banks have become heightened concerns for large corporates and as a result we predict that banks will have to be more transparent about their risk profiles."

This year's Ernst & Young corporate banking survey contains data from CFOs, treasurers, and senior financial executives from 20 global corporations across nine industries and 11 countries.

Corporates want to understand banks' risk profiles but lack key information, found the study, *Successful corporate banking: Focus on fundamentals* – while 69% think their bank's position and transparency on risk, liquidity and capital, and portfolio concentration are important, only 27% say their banks are willing to share this information.

"The single biggest disparity between client expectation and bank performance is around the lack of transparency on key risk parameters. For years banks have been evaluating the credit worthiness of the large corporates they work with, but the shoe is now on the other foot," said Niamh Prendergast, partner in banking and capital markets, Europe, Middle East, India and Africa, at Ernst & Young. "In Europe in particular the overwhelming sense from large corporates is that they would like more information about the risk profiles and portfolio concentrations of the banks they work with."

While 63% of corporate executives said that the more rigorous financial services regulations environment has not, to date, seriously affected their relationships with banks, there was a pervasive concern that change could be forced upon them as banks assess profitability of certain business lines.

In response, they are taking a few actions: relying less on senior bank facilities for future funding sources, turning towards European capital markets more frequently and judiciously spreading their business across a core group of systemically important financial institutions, large banks that are not systemically important and strong regional players. As evidence, 70% of corporate clients interviewed use more than five banks.

Perhaps worse news is that they also think that the most important thing is expensive: human contact.

It may seem counterintuitive in the context of job cuts and belt tightening, but corporate banking clients overwhelmingly recommend that banks concentrate on the intangible aspects of relationship management over tangible factors like cost, products and technologies to improve their service delivery. In fact, a vast majority (89%) of respondents voted service quality as the most important criterion for selecting and continuing their core banking relationships.

"A key takeaway here is listening: If you truly understand a client's needs and wants, then you can more consistently deliver a high-quality product or service," said Lewis. "It has never been more important for banks to demonstrate commitment and attentiveness to their corporate clients. And this holds true throughout good and bad economic cycles."

Corporate executives view their primary group of banks as "thinking partners," a source of innovative ideas and a provider of fiduciary guidance. While these services are highly regarded, 56% of respondents say that the greatest challenge in working with banks is the lack of consistency and quality of services across geographies. The second and third significant challenges were outdated processes and systems (35%) and bureaucracy and inflexibility (30%) respectively.

"Bells and whistles are superfluous if a proper investment in building trust is not made," said Lewis. "Corporates expect that top-tier banks come to the table with a certain depth and breadth of products and services. The challenge for banks will be making sure that their local teams are communicating, aligning compensation and rewards to extract the best work and reducing personnel turnover to ensure consistency in service quality and pricing across the globe."

To further stress the importance of global integration and communication, many corporate clients expect their banks to deliver the services requested directly and not through a partnership network. They cited mixed and challenging experiences in their responses. ***BT***

State **banking**

Banking is too important to be left to banks. Can government do any better? It certainly plans to try. *David Bannister* sums up the story so far …

At the beginning of March, George Osborne travelled to the English seaside town of Bournemouth to make a speech at the JP Morgan operations centre there.

It wasn't Henry V's St Crispin's Day speech, but it may well go down as a watershed moment in the history of the UK financial services sector. Osborne is Chancellor of the Exchequer in the UK's coalition government, which has embarked on the most radical changes to the sector since the Big Bang deregulation of the City of London in 1986. Perhaps longer.

"Any bunch of politicians can bash the banks, chase the headlines, court the populist streak. But what good would that do our country? The jobs, the investment, the banking system we all need would go with it," Osborne told the JPM staff.

"Let's take the anger we feel about the banks and turn it into change to build the banking system that works for us all. That is precisely what we are doing. And through the work we've done, the expert help we've enlisted, we can make 2013 the year of change in our banking system," he continued. "2013 is the year when we re-set our banking system. So the banks work for their customers – and not the other way round."

He went on to list "four concrete things" that are going to change this year.

"First, we've got a brand new watchdog with new powers to keep our banks safe so they don't bring down the economy," he said. "Second, we've got a new law to separate the

Stuart Monk / Shutterstock.com

branch on the high street from the dealing floor in the city to protect taxpayers when mistakes are made. Third, we're going to start, with the industry, changing the whole culture and ethics of the business, so they work for you. Fourth, we're going to give customers the most powerful weapon of all: choice."

The first of these became concrete this month, with the replacement of the Financial Services Authority with two new regulators, The Financial Conduct Authority and the Prudential Regulation Authority, and the Bank of England taking over macro-prudential responsibility for oversight of the financial system.

The issue of choice is essentially about retail banking, where new rules about how applications for banking licences are handled, and reductions in the capital and liquidity requirements for new entrants is intended to encourage new entrants – "challenger banks" – to the market. (*see panel*).

Concrete plans to separate retail and investment banking are yet to be defined – Osborne's government seems to be resisting calls to "electrify the ring-fence" from influential sources such as the Parliamentary Commission on Banking Standards, headed by Andrew Tyrie.

> *"The ICB was very clear – it was the government, not they who believe that the Payments Council should be brought into the scope of regulation."*
>
> **Gareth Lodge,** Celent

The current proposal would allow the regulator to split an individual bank if it was seen to be crossing the line between retail and investment actives, but Tyrie's Commission wants to go further and create legal powers to split the operations across the entire industry.

"The government rejected a number of important recommendations. We have concluded that the government's arguments are insubstantial," said Tyrie.

Further into Osborne's JPM speech, things took an interesting turn. Having gone into detail about the four concrete things, Osborne said, "today, we will go further" and turned his attention to the payments systems.

"Payments systems sit at the heart of the banking system. They are the hidden from view wirings that operate every time you get wages paid into your bank account, deposit a cheque or withdraw money from an ATM. It's how the money flows around the system," he said.

"At the moment, a new player in the industry has to go to one of the existing big banks to use the payment system. Asking your rival to provide you with the essential services you need at a reasonable price is not a recipe for success. And in other walks of life, like telecoms, we don't operate like that," Osborne continued. "There are no incentives on the big banks to deliver new and better services for users – like saving the cheque or creating new services like mobile payments."

Osborne listed a number of failings in the existing system – several of which were at odds with reality, commentators quickly pointed out – before delivering a surprise: "The system isn't working for customers, so we will change it. I can announce today that the Government will bring forward detailed proposals to open up the payment systems. We will make sure that new players in the market can access these systems in a fair and transparent way."

Osborne restated this in the annual budget speech later in the month, adding that the government would consult on bringing payment systems into a "competition-focused regulatory regime" where the regulator will have "strong powers to ensure that challenger banks have the opportunity to compete on a level playing field with their larger competitors by requiring that challengers can access the payments infrastructure".

HM Treasury has duly set the wheels in motion with the publication of the consultation document *Opening up UK Payments* at the end of March. (The consultation period closes on 25 June.)

In a previous round of consultation in July last year, the government said that its favoured approach was the introduction of a new public body,

the Payments Strategy Board, to set strategy across the UK payments industry. "Since the publication of that document, however, a number of developments have occurred that have led the Government to conclude that this option would not deliver its aims as set out in that document, and that these would be best achieved by pursuing an alternative approach of bringing payment systems under a new regime of economic regulation," says the Treasury announcement.

"The Government is now proposing to proceed with bringing payment systems under economic regulation, and establish a new competition-focused, utility-style regulator for retail payment systems."

Gareth Lodge, senior consultant, payments at Celent, suggests that the consultation is simply window-dressing and the government and Treasury are set to plough ahead with the new regulator – already nicknamed PayCom along the lines of other regulatory bodies like Ofcom – regardless of the responses.

He points to the fact that in the budget statement, it says that the government has shown its commitment to competition by adopting the recommendations of the Independent Commission on Banking in full.

Yes, says Lodge, up to a point. "While it did accept the recommendations in full, the Treasury also seems to be including things that weren't recommended – the ICB report clearly states that it did not find evidence that access to the payment systems was a barrier to entry, nor did the report recommend a PayCom," he said. "The ICB was very clear – it was the government not they who believe that the Payments Council should be brought into the scope of regulation."

He quotes the ICB:

> In its interim report, the ICB raised possible concerns about the ability of small banks to access the payment systems. It said there was some evidence to suggest that the ability of banks to access the payment systems through incumbents, and the ability of the Payments Council to maintain a level playing field in payments, were not conducive to a competitive market.
> However, the evidence was not clear-cut, and this was not raised as a substantial barrier by most new entrants. Therefore, the ICB did not make recommendations in this area, beyond suggesting that the Bank of England, in collaboration with the FCA and OFT, should monitor access to the payment systems and the effectiveness of the Payments Council in providing adequate governance to ensure innovation and competition.

The review of the payments systems, and the role of the Payments Council had long been expected – even the idea of a regulator with strong powers is not a new idea, but the triple whammy of new legislation regarding competition in banking, competition in payments and an increase in capital requirements all being announced in the same week was unexpected.

"I am not suggesting a review is a bad thing, nor even that PayCom itself is a bad thing. Unless the industry reflects on what it does well and what it doesn't well, it cannot ensure that it fixes what needs fixing and preserve what doesn't," said Lodge. "And that's my fundamental issue. The Government has prescribed the medicine, ignoring the advice of the specialists it had appointed (i.e. the ICB, the Cruickshank report, the OFT and its latest consultation), and is about to forcibly administer it, yet has neither articulated the diagnosis nor listened to the symptoms. PayCom cannot ever succeed unless it is clear what it is trying to achieve, why it seeks to achieve those goals, and what the measures of success are. We can only hope that the forthcoming consultation provides some reassurance." ***BT***

FSA'S SWANSONG OPENS A FAST TRACK FOR NEW ENTRANT BANKS

In future, the possibility of a bank failure will be accepted as a normal market process, and barriers to entry for new start-ups, including capital requirement obstacles, will be removed, the Financial Services Authority and the Bank of England have confirmed.

Potential new entrants who have "the development backing, capital and infrastructure to allow them to set the bank up at speed" – such as through subsidiarisation of branches or where they are able to use existing IT and other infrastructure – will also be able to take advantage of an improved authorisation process that should allow them to be fast-tracked through in just six months.

The Bank and the FSA have published the result of a review into barriers to new entrants in the last week of the FSA's existence. As of the beginning of this month, it was replaced by the Financial Conduct Authority and the Prudential Regulation Authority. New entrants to the banking sector will have to be approved by the PRA for prudential issues and the FCA for conduct.

The review "sets out significant changes to regulatory requirements and authorisation processes which, taken together, will reduce some of the regulatory barriers to entry into the banking sector and, as a result, enable an increased competitive challenge to existing banks".

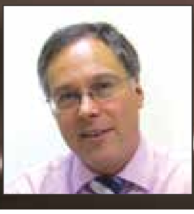
The arrival of the double-headed FCA/PRA regulatory regime will see the enactment of a range of measures intended to increase competition in the UK banking sector, reflecting a "major shift in approach to prudential regulation of banking start-ups".

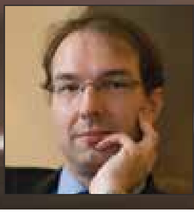
The PRA's philosophy of regulation is that "the possibility of bank failure should be accepted as a normal market process provided there are clear mechanisms in place to resolve banks smoothly without threatening financial stability".

Specifically the changes will involve removing the additional requirements that were previously applied to reflect the uncertainties inherent in start-ups, and which often resulted in capital requirements for start-ups being higher than for existing banks. On top of that, the Basel III regime will be implemented by applying to start-ups only the 4.5% minimum Core Tier I capital requirement instead of the 7% to 9.5% requirement that will apply to major existing banks.

New entrants will also benefit from reduced liquidity requirements and no automatic new bank liquidity premium.

Changes to the authorisation process will see the PRA and FCA introduce "a significant level of up-front support" to firms during the pre-application stage. Where an applicant firm is able to deliver a complete application form with all supporting materials, the PRA and FCA "will work together to complete all of the assessment and decision making within six months".





Same day, same settlement?

Same day payments are being adopted in many countries worldwide. *Neil Burton* and *Gareth Lodge* wonder if this will lead to the demise of D+1 settlement in Europe.

The Payment Services Directive in Europe mandated next-business-day settlement – D+1 – for payment transactions between EC states from Jan 2012. But with some European countries already using faster operating standards, is D+1 good enough?

For example, the Netherlands operates in 30-minute windows. This is why the UK government insisted that the banks invested in a near real-time system, UK Faster Payments, that has a higher operating standard than the (at that time expected) EC mandate. This reduces settlement risk, highlights the settlement positions (and therefore the capital to be held) much more clearly, and reduces bottlenecks.

So D+1 is likely to be gradually reduced because initially it sets a minimum standard; it is the starting point, not the aspiration.

Countries like India, which are essentially building payments infrastructure from scratch, believe that a faster payments service is a necessity today rather than at some point in the future. For India, while the costs in implementing are huge, the longer term benefits are even more so. The programme covers, among other things:

- Implementing a new and feature-rich RTGS system
- India Card – a domestic debit card
- A 24/7 near real-time faster payments service
- Upgrade of the ACH
- Creation of a dedicated mobile payments settlement network

Any one of these items is typically a once-in-a-generation project. But the scale of the benefit far outweighs the cost. And, unencumbered by legacy systems and participants seeking to protect established positions, payback is fast. McKinsey estimates the initial ROI would be somewhere between 6 months and a year.

This transformation of India's payment infrastructure will turn into a strong competitive advantage in the years to come.

Easier to build than renovate?

For mature economies, because of the need to adapt to existing systems and processes, payback takes much longer. Many mature economies are therefore frequently continuing to rely on infrastructures developed last century. The challenge is not only in the massive investment required, but also in the demand on scarce resources which are typically already fully deployed on maintenance and mandatory regulatory compliance. This results in a systemic aversion to strategic investment.

Such short-termism may no longer serve well. To quote another McKinsey study, "in 2010, 100 of the world's largest companies headquartered in mature economies derived just 17% of their total revenue from emerging markets – though those markets accounted for 36% of global GDP and are likely to contribute more than 70% of global GDP growth between now and 2025".[1] As fast-growth nations invest in payments systems which leap-frog those of the mature economies, they will surely compete strongly for the transaction banking business of the world's largest firms.

Further afield

A number of countries have taken the view that a faster payments clearing system is absolutely critical, and are acting accordingly. This is the case in Brazil and Mexico, and the process is also being undertaken in Canada. Poland has announced that it will introduce a faster payments system and Singapore is in the final stages of testing its near real-time payment system. Other countries such as Australia, Lithuania and the Hong Kong region are already following suit.

These changes are driven by a number of reasons, including improving risk management in financial systems. Whilst it may raise the bar in terms of operational controls – for example the need to ensure better AML and anti-fraud controls in sending payments – it also means that a bank's position in terms of central bank settlement accounts is far more transparent. This provides more visibility of potentially failing banks; which in turn makes isolating a failing bank far easier.

So where does this leave the US, the largest payments market?

Statistically, the US is somewhat lagging behind other countries which have already undertaken investments in same day payments at governmental level or because of regulatory pressures, or because their existing systems were due substantial investments. As yet, the regulatory drive does not exist for the US. The

question relating to whether there is a need to update their current systems becomes the focus, and can be argued on a number of fronts. Is there a demand from the market for example?

Some forms of same day ACH do exist of course, such as the FedACH SameDay service launched in August 2010 – currently being upgraded. Yet, whilst there are thousands of banks using the FedACH service, the numbers using the same day service count in low double figures, and most of those banks are relatively small.

The biggest challenge to uptake is that banks are unsure whether such a service could cannibalise their Wire revenue. But if the UK's experience is anything to go by, this concern is misplaced. CHAPS – the UK domestic RTGS – volumes have actually increased since the introduction of Faster Payments (though it isn't yet clear whether this is linked to the launch of Faster Payments).

So, are things about to change?

In September 2011, Nacha put out a consultation document for a rule change proposal. This proposal sets out the changes required to create a same day processing window, and potentially several processing windows. In order to drive enough scale to realise the economies which are a critical success factor for any clearing and settlement systems, the service was proposed to be mandatory for all participants (the Fed service is opt-in).

The vote took place in Q1 2012, with a majority of banks voting for it, but failing to reach the 75% required to proceed. Rumours abound, but the picture emerging is that some of those who voted against or abstained were concerned about the cost versus the benefit they would bear. Many believe that whilst they all paid for the investment costs of implementing NACHA IAT, 95% of the volume is from only two banks.

But with over 70% of votes in favour, the scale of demand is evident. As evidence continues to emerge, for example from the UK where Faster Payments is evidently replacing cheque and paper volumes, the business case can only strengthen. And a narrow focus on the cost of making the payment itself may be misleading. Banks make far more money from services adjacent to the transaction itself, and from the long term nature of the sticky relationships with their customer, to worry overly about preserving outdated methods. Sooner or later, faced with overwhelming benefits to consumers and businesses and slow action by the industry, the regulators will step in. Had transparency been implemented sooner, perhaps a better and cheaper approach to Dodd Frank Section 1073 could have been found.

Hold on – not so fast …

Not all payments need to, nor should, go faster. When consumers are asked if they'd like things faster, or immediate, the answer is of course yes. Since I can IM someone on the other side of the world immediately, and I can ship a parcel to another country reliably and predictably, and I can pay for my pizza from my mobile phone without waiting for a waiter, what's so hard about payments?

Indeed. But making payments involves substantial costs and risks, and there are multiple failed projects for every successful one. Market research can easily be misleading, if not thoroughly conducted. If the question was 'how much would you pay, how much is it worth to you' then the response is far more granular. For predictable payments, such as bill payments and salaries, certainty at low cost wins hands down over speed at a higher price.

For certain transaction types, separating the consumer experience from the clearing and settlement may even improve it. For example, most consumers would consider credit card transactions to be 'real-time'; the point-of-sale experience is, but the settlement process takes place much later. Online Banking ePayments also separate the two: OBePs enable a merchant to receive immediate and irrevocable notice that settlement will occur; the settlement itself may happen a day later. The real-time requirement here is the certainty that the money will come; not the receipt of the funds.

Tied up in this requirement is far more than the payment; merchants need to know what a payment is for. It is of little help if the funds arrive more quickly, but cannot be linked to the transaction. In that case the payer will continue to be chased, and may even be penalised for late payment, when all the time the funds were sitting in an unapplied receivables account somewhere. And where consumers seek change, corporates soon follow. Many consumers become SMEs or corporates the second they sit behind the desk in the morning.

Not all payments should be made faster. But, as the UK's Faster Payments has shown, new services can widen the market – by 'electronifying' transactions previously made by cash and cheque and by catalysing the launch of new services.

The evidence is mounting; not only is the absence of a same day settlement scheme an economic inhibitor; the existence of one can be an economic accelerator.

Neil Burton is head of product strategy at Earthport and Gareth Lodge is senior analyst, payments, at Celent

[1] *www.mckinsey.com/features/30_trillion_decathlon*

Riding the **OTC rollercoaster**

As new rules for OTC derivatives take hold in Europe and in the US, banks and asset managers face a complex cocktail of mandatory clearing, reporting and increased collateral requirements. *Elliott Holley* reports

Under the European Commission's European Market Infrastructure Regulation, enacted in the UK in January, the majority of OTC contracts will have to be centrally cleared and reported to a trade repository. In addition, contracts deemed sufficiently liquid will have to be executed multilaterally, i.e. on an exchange or organised trading facility.

The intention is to increase transparency and reduce systemic risk in OTC markets. A CCP acts as a central risk repository, reducing the danger to the market if a counterparty goes bust.

Major financial institutions such as CME Europe have positioned themselves to take advantage of the migration of large quantities of formerly OTC derivatives contracts on-exchange. An impending 'futurisation' of the derivatives markets has been widely touted, with participants expected to use standardised 'vanilla' futures to hedge their positions rather than more expensive customised contracts.

"There will be futurisation," said Jaki Walsh, head of EMEA OTC product at CME group. "We recently launched deliverable swap futures in the US. It's about ease of access to the market. If we can make futures that provide the kind of exposure clients want, perhaps that will provide them with an easier way to access the market than paying more for a complex bilaterally-traded OTC product."

CME Group is currently planning to launch the CME Europe exchange later this year, which will provide it with a springboard to launch new contracts, including hybrid futures and products that combine elements of both exchange-traded and OTC derivatives. These will be marketed at participants that had previously used customised bilaterally traded derivatives for hedging purposes.

A lack of choice

However, many participants have objected that mandatory clearing of instruments and the standardisation process itself may remove choice from end-users and potentially increase risk as participants attempt to use instruments that do not cover their hedging needs as closely as an OTC contract would. According to Ido de Geus, head of treasury and client portfolio management at Dutch asset manager PGGM Investments, high initial margins will lead to less hedging – creating an environment where risk is no longer effectively controlled and minimised.

"As the buy-side we need to shout harder to be heard," said de Geus. "Billions of euros of high quality assets will have to sit there doing nothing and that's going to be very expensive. There's no benefit to clear swaps yet, it's only going to cost you initial margin. The fact that clearing members often ask for additional collateral on top of the already high initial margins is incredible. It says that clearing members don't trust the initial margin levels of the CCPs. If they don't trust, why should we?"

These concerns have been echoed by other long-term investors. "If you reduce the ability to absorb risk, you increase the amount of risk," said Patrik Roos, managing director at Swedish hedge fund Vanna Capital at the TSAM conference in London last month. "In the current low volume environment, I'm not sure that's something we should be doing."

Lack of choice has also been cited as a problem by Anthony Belchambers, chief executive of the Futures and Options Association, who warned that high margin calls on illiquid contracts could make using a CCP uneconomic. "However, if the instrument is required to be CCP-cleared by law, market participants will have no choice," he said. For Belchambers, the risk is that regulation may be going too far. Alluding to a speech in which former British diplomat and Barclays vice chairman David Wright called for a much more granular approach to looking at the economic impact of a super-safe regulatory agenda, he added that it may be time to call a sanity check on the regulatory reform agenda [*see panel*].

"Some form of increased cost is inevitable, after the financial crisis," said Belchambers. "But the underlying question is, are we putting in so much safety into the markets that we are compressing innovation and the cost basis is going up to a point where we are going to damage other public policy objectives about our ability to manage risks?"

According to research published by BNY Mellon and Rule Financial in December, the amount of initial margin that will have to be sourced can be substantial – around 1-3% of the notional value of the contract for a typical 5-year vanilla interest rate swap. For long-dated or complex contracts, the amount of collateral required increases substantially because of the greater potential future exposure, to around 10% of notional for a 30-year and 15% of notional for 50-year tenors. In addition, the Investment Management Association has identified as "not unusual" the requirement for CCP-eligible collateral equivalent to 20% of the investment value of test portfolios to be able to meet initial and variation margin obligations on typical OTC derivatives strategies under mandatory clearing.

A lack of collateral

Other problems arising from the new rules include the difficulty of sourcing sufficient collateral to cover the clearing process. Many market participants expect that when coupled with Basel III requirements that banks should hold more capital, EMIR will result in a collateral shortfall. Research by analyst firm Celent has estimated the deficit could reach as high as $2 trillion.

"There will be a conflict between CCPs' need to sustain high levels of safety for controlling risk, and pressures from intermediaries who need more collateral," said Belchambers. "There may be pressure on regulators to accept collateral that is not quite as liquid as one might require, simply to keep the markets operating. Some clearing houses are now accepting gold, for example. At the same time, regulatory pressure on credit ratings agencies is pushing them to be super-safe in rating products. That means products will have low ratings – which automatically hits collateral. The problem is, a lack of access to the kind of collateral needed under the new regime may kill the ability of participants to trade in the market."

In response, in December the Basel Committee on Banking Supervision agreed to broaden the definition of assets considered 'high-quality' collateral – a step intended to reduce the pressure on financial institutions struggling to source adequate collateral and ease fears of a liquidity drought.

However, the move has been criticised by some observers, who suggested that the concept of a collateral shortfall was misleading. "We could be sowing the seeds of the next financial crisis," Bob Almanas, head of collateral management strategy at SIX Securities Services told *Banking Technology*. "Is it the case that there's not enough collateral, or is it just that we need to use collateral more efficiently? Breaking down siloes and resolving inefficient usage of collateral should be a priority."

Some efforts are already underway at using collateral in new ways. In January, central securities depositories in Germany, Spain, Brazil, South Africa and Australia formed the 'Liquidity Alliance'. The five companies – Clearstream, Iberclear, Cetip, Strate and ASX respectively – will meet each quarter to work out the most efficient way of dealing with collateral and to discuss partnerships, commercial opportunities and key issues.

> *"We could be sowing the seeds of the next financial crisis"*
>
> **Bob Almanas**, SIX Securities Services

"The Liquidity Alliance believes that forging partnerships with other like-minded infrastructures is the most sustainable way of extending reach and enabling cross-border collateral optimisation on a short time-to-market basis," said the group in an official statement. "This is key if market participants are to meet the new requirements and find effective global solutions to this ongoing global problem."

Meanwhile earlier the same month, Citi established a set of alliances with Clearstream and Euroclear Bank that will enable the tripartite agent managing collateralisation to instruct collateral moves on behalf of broker-dealers, potentially making the whole process easier.

"Optimising collateral means creating and using the widest possible collateral pools without jeopardising individual and country-specific requirements and the liquidity alliance is a major step in delivering a truly global liquidity and collateral pool," said Stefan Lepp, chief executive at Clearstream Banking.

For Andrew Lamb, chief executive at CME Clearing Europe, the argument that there will be a collateral shortfall does have some legitimate points – but he insists that any pain will be short-term and offset by greater transparency and market participation eventually.

"The collateral requirement will be a shock at first, but central clearing will also provide markets with new confidence and ultimately lead to new business"

Andrew Lamb, CME Clearing Europe

"Although the new rules bring higher capital requirements for uncleared swaps, that does not mean banks cannot continue to offer those contracts," he said. "The collateral requirement will be a shock at first, but central clearing will also provide markets with new confidence and ultimately lead to new business. Clearing will not reduce liquidity in the long term."

A lack of clarity

Aside from the question of user choice and the availability of collateral, representatives of large global banks and brokers have also expressed serious concerns about the uncertainty that remains over exactly which contracts will be covered by the new rules. The difficulty of predicting what mode of business will prevail in the new regulatory environment has also been exacerbated by differences between the regulatory reform agenda in Europe and the US.

At time of writing, the final rules for swap execution facilities in the US still have not been released, meaning that US swap execution facilities may use an RFQ system, non-anonymous matching and even one to one interaction by voice. Meanwhile in Europe the technical standards for EMIR came into force on 22 March, but the actual mandatory obligation to clear is not expected to be in place until Q1 next year. Andrew Parry, head of derivatives business technology at Bank of America Merrill Lynch, recently estimated three possible courses for OTC derivatives reform: a gradual increase in the scope of instruments falling under the new requirements; standardisation of contracts through standard coupon and standard rollover dates; and a transformation of all products to become like futures, traded on a central limit order book. It remains unclear which scenario will be proved right.

"From a clearinghouse perspective, I find significant lack of clarity on the clearing standards in EMIR," said Lamb. "The technical standards are not very well drafted. In addition, it's actually the national regulators who will take the lead for the next six months until the CCPs have been re-authorised. That's only going to add further complication."

According to Peter Best, business manager at interdealer broker ICAP, many banks are hedging their bets based on which rule-set is considered more favourable – with some firms even offshoring parts of their business and arranging outsourcing agreements in preparation.

THE RISKS OF RUNAWAY REGULATION

While laudable in intention, reforms to Europe's OTC derivatives markets may be in danger of inadvertently adding so much cost for participants that the original purpose is undermined, according to Anthony Belchambers, chief executive at the Futures and Options Association.

"The OTC markets did need reform," Belchambers told *Banking Technology*. "Before the crisis, the banking party was getting out of hand, and the regulators came and took away their punch bowl. But now the question is, is the regulatory party getting out of hand, and if so, who is going to come and take their punch bowl away?"

However, there are a number of issues with the new rules. Market participants will have to set aside collateral against their OTC positions; under Basel III, clearing houses may only accept high-quality, loss-resistant assets as acceptable collateral. But according to Belchambers, many financial market participants simply do not have that collateral available to them in the quantities needed to cover their trading and risk management needs.

Furthermore, since CCPs will need to adopt a safety-first approach in their role as repositories of risk, margin calls on relatively illiquid contracts are likely to be set high, especially if margin are set at a counter-cyclical rather than a pro-cyclical level. Secondly, margins are likely to be called on an intra-day basis, which may generate cash-flow problems for end users, and credit issues if the intermediary has to extend credit to cover the margin call. For Belchambers, the risk is that using a CCP could become uneconomic for some participants.

"If using derivatives to hedge risk becomes more expensive, some firms may cut back significantly on their use of derivatives markets," he said. "The danger is that this may combine with regulatory efforts to clamp down on activities such as short selling, proprietary trading at banks, high-frequency trading, so that derivatives exchanges struggle to fulfil their risk-transfer role."

Belchambers estimates that some 20-30% of contracts will not be suitable for clearing nor multilateral

"The lack of clarity over the final rules on OTC derivatives is forcing financial institutions to spend more resources than necessary," said Best. "At the same time, differences in the rules between EMIR and Dodd-Frank mean we'll have to build different platforms to cope with differing regulatory requirements."

Lack of clarity over pricing has also been highlighted as another potential pitfall for market participants struggling to understand the implications of the new rules. Anthony Belcher, head of pricing and reference data EMEA at Interactive Data, says there is a misplaced sense of confidence among many firms that EMIR will bring greater transparency by default. Banks rely on clear pricing to accurately calculate their risk exposure; fund managers also need to know that they obtained a fair value for products such as CDS contracts in their portfolios.

"Not every derivative instrument trades more than a couple of times a day," he said. "Of the approximately 3,000 single-name CDSs that exist, only around 20 trade more than five times a day. The problem then becomes, how do you obtain any degree of certainty about pricing, with such an illiquid instrument? Participants really need to make sure they talk with their counterparties to understand where price transparency will come from, how initial margin is calculated, and what the methodology was to get that price."

A lack of preparation

Perhaps relating to the lack of certainty over the final form of the rules, recent research by communications company IPC has highlighted a general lack of preparation among hedge funds, investment banks, broker-dealers and exchanges.

According to the study, released at the end of January, four out of five financial institutions are still not ready for the new regulations. Of the institutions questioned by IPC, some 36% reported that their company did not have a plan in place to deal with new regulations, while a further 62% said their firms were not well prepared, leaving only 19% who believed the industry was ready to meet the new rules. The lack of preparation belies the current scale of OTC derivatives trading; some 94% of the firms that responded to the survey are already trading OTC derivatives or plan to do so in the next six months, while 74% expect their firms' trading volumes to increase in the next year.

The IPC findings complemented a similar study released by BNY Mellon and Rule Financial in December, which found that the situation is even worse among buy-side firms. According to the BNY Mellon/Rule Financial joint paper, *To Clear or not to Clear . . . Collateral is the question*, only 20% of asset managers have finalised their adjustments to meet the new rules.

The technical standards for EMIR come into force on 22 March, after which CCPs will have six months to apply for registration. Once that takes place, a 90-day period will follow in which market participants are given notice that they must clear all products covered by the new rules. ***BT***

execution. However, legislation that mandates central clearing and multilateral execution may remove choice from market participants and place pressure on exchanges to list instruments that were never before traded on-exchange.

"There comes a tipping a tipping point in terms of liquidity when the contract is not worth listing," he said. "The problem is that if the contract is mandated to be multilaterally executed, and the cost of clearing that contract is so high that you don't want to use it, you won't have the option to just do an OTC deal. Market participants will have no choice."

Ultimately, the cost of new rules for OTC derivative may find its way back to the mainstream consumer, because participants that cut back significantly on their use of markets because of the increased cost of risk management may well decide to pass on the cost down the line to their customers. The firms that can afford closer management of risk through using an OTC product are likely to be the bigger institutions, so smaller or low-volume users stand to be particularly affected.

Collateral is also an issue in terms of supply and demand. Many market observers have already noted a general perception that there may not be enough collateral to service the needs of the entire financial community under the new rules. According to Belchambers, the pressure to accept collateral of a lower quality represents a severe tension between regulators and market participants that is unlikely to be resolved soon.

For Belchambers, some added cost in the wake of a financial crisis is inevitable, but the presence of too much regulation could have a stifling effect on innovation, damaging some of the very policy objectives that poltícians and regulators hold dear, such as promoting lending, economic growth and responsible capital raising.

"We should remember that the market was created to fit the needs of end users," he added. "Today we find ourselves in a situation where the regulator shapes the entire market, and the end users have to come up with the workarounds to make it viable. In my view, that's the wrong way round. We need to be careful – there's a growing awareness that we can't go too far down this track, before it starts to erode the entire fabric of economic viability."

Electronic **bonds**

The bond markets have trailed behind other asset classes in the move to electronic trading, but that is now changing rapidly, writes *David Bannister*

In contrast to the highly automated world of equities, bond trading is an area of the markets that is still heavily reliant on the telephone as a a trading tool, with person-to-person calls making up the bulk of activity on bond desks.

In the past few months, however, there has been a flurry of announcements of new electronic platforms from Citi, Deutsche Bank, Goldman Sachs, Morgan Stanley and others.

Counterintuitively, perhaps, this is partly because trade sizes are getting smaller, which according to a recent Celent report is driving institutional traders to look to complement their workflow and liquidity search with electronic order books.

Hitherto, electronic order books have tended to focus on the retail market, but they are highly advanced and likely to see increased adoption by the institutional buy side, which has to look elsewhere as dealers cut back on inventory holding.

"With more education of the available options and specialized vendors providing connectivity, aggregation, and smart order routing, adoption will accelerate," said David Easthope, research director with Celent's Securities & Investments Group and author of the report. "Whether the EOBs move from complementary to the de facto market will depend ultimately on whether a best execution culture for US corporates arrives on the buy side, and whether the regulators decide to put pressure in this direction."

In some ways the market currently resembles the European equities scene shortly after the first Markets in Financial Instruments Directive when new multilateral trading facilities sprang into being on the back of the regulation.

As with many of those MiFID-inspired MTFs, there will be a die-back as some platforms thrive and others wither. "While there is immediate potential for uptake at new EOBs as they complement buy side trader workflow, not all will survive," says Celent. "Some will remain highly focused on one segment of the market, while others will focus on a distinct set of clients. Even among the EOBs, the market is far from homogeneous. The institutional and retail markets will increasingly intersect as trade sizes fall, and we believe traders will direct an increasingly large flow of liquidity to the EOBs."

Behind the scenes, technical developments have been paving the way for this shift in market structure to develop very rapidly, benefiting from earlier work in equities and FX, and parallel work in response to OTC derivatives regulation.

A milestone in this was the recent announcement from FIX Protocol Ltd the non-profit, industry standards organisation behind the electronic trading standard FIX Protocol, of recommended best practices and accompanying implementation guidelines for the electronic trading of bonds. These recommendations will enable bond market participants to benefit from cost effective and efficient connectivity to the growing number of bond trading platforms emerging across the US and European markets.

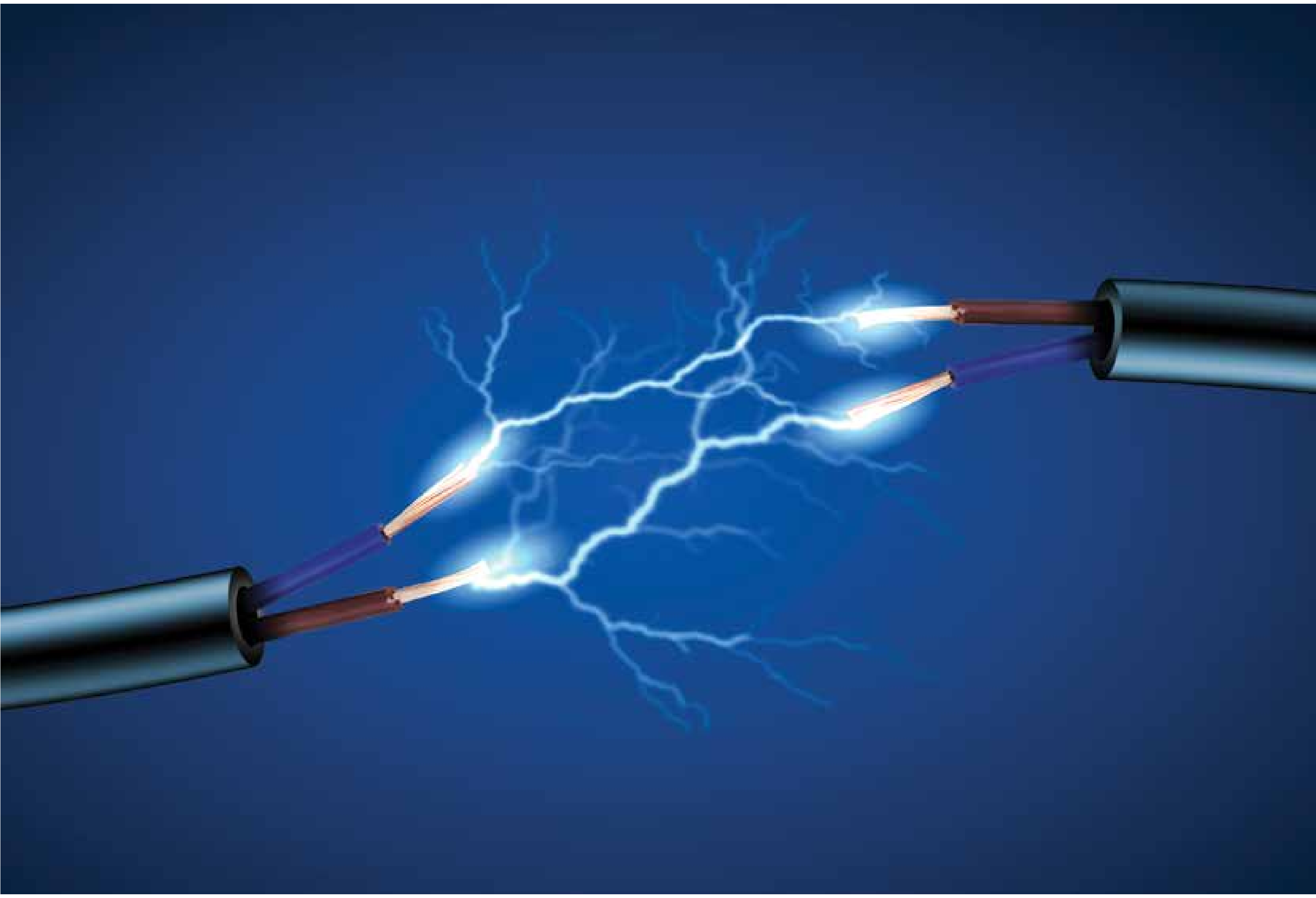
Regulatory efforts to increase capital requirements and enhance transparency, in this traditionally voice traded asset class, have led to market structure changes, creating an increasingly automated and venue-driven trading environment. The best practices and implementation guidelines provide recommendations to both existing and emerging venues, broker-dealers and market makers on how they can use the FIX Protocol to support their platforms. This development complements recommendations released in 2012 to support the trading of Credit Default Swaps and Interest Rate Swaps, which are currently being implemented by a number of Swap Execution Facilities.

"The completion and availability of best practices and implementation guidelines marks a key milestone in the development of FIX for Fixed Income," said Ric Elvir, co-chair of the FPL Global Fixed Income Committee, Credit Trading, UBS. "This should dramatically promote industry adoption as they will provide consistent guidance to bond market participants looking to explore the many benefits that standardisation offers. The next stages of this project will help to continue this progress, expanding the use of FIX for other credit based products."

The FPL guidelines have been produced by market participants who want to encourage the adoption of standards by fixed income trading venues. The recommendations explain how FIX can be implemented "in a consistent manner to lower implementation costs and deliver maximum industry-wide benefit". including recommendations for how FIX can be used to support fixed income trading on:

- Markets based on quote negotiation, utilising Request for Quote models
- Quote-driven markets based on streaming executable quotes
- Markets based on central limit order books

FPL says that the historically, fixed income markets have made less use of open trading standards such as the FIX Protocol for electronic trading compared to other asset classes. This goes back to the fact that a



great deal of fixed income trading has been carried out over voice. Where automation has occurred, it says trading venues chose to put in place proprietary protocols as both the workflows and the instruments involved have been more complex than in equities and foreign exchange.

As such, the cost of connectivity for market participants to fixed income electronic venues has been significantly higher than connectivity to other asset classes.

The creation of a standard set of guidelines for the implementation of the FIX Protocol for fixed income trading is expected to produce the following benefits:

- Significant cost savings for market participants in connectivity
- Faster and easier integration between market participants
- Faster time to market for electronic venues to introduce new features and products
- Greater vendor choice and technical flexibility for implementers
- Improved supportability of trading platforms across asset classes

Sassan Danesh, co-chair FPL Global Fixed Income Committee and managing partner, ETrading Software said: "This initiative is expected to play a significant role in the evolution of bond trading. In recent years this market has witnessed massive change and as it becomes increasingly electronic encouraging the use of FIX will be vital to its success. FIX adoption will ensure that an efficient trading environment is created, within which innovation and competition can flourish." ***BT***

WORK OF THE FPL GLOBAL FIXED INCOME COMMITTEE

In June 2011, FPL launched an initiative to create a series of fixed income best practices documents in response to a request by a group of 12 global fixed income dealers (the Fixed Income Connectivity Working Group).

The initial focus was to standardise OTC swaps trading by creating an industry agreed set of recommended FIX best practices. These documents were officially released by FPL in March 2012 and the majority of soon-to-be Swap Execution Facilities have agreed to implement the guidelines by mid-2013.

The committee then focused on extending the swaps recommendations to cash bond markets, covering the vast majority of electronically traded bonds, including G8 Government bonds, High Yield, Corporates, Supras/Agencies. The Phase 1 recommendations, released in February 2013, are now available for use by the global community.

Looking after the pennies

Over the years, PFM tools have spluttered in and out of fashion, but a combination of mobile, tablet and internet banking uptake may mean their time has come, reports *Elliott Holley*

Recent years have seen the emergence of a plethora of personal financial management tools, each of which purports to be the best way to keep track of your finances. Some of these services are view-only; others also allow users to make payments and transfers. Some are owned by large banks such as Bank of America; others are smaller independent operations such as UK-based Money Dashboard.

So, how to choose between them?

Last Month, Yorkshire Building Society launched personal financial management through a deal with technology provider eWise. The new system allows customers to view all their accounts in one place, and includes tools for monitoring, viewing transaction data, categorisation of spending and income and the creation and management of budgets.

The YBS tool is a useful illustration because it has many characteristics that are common to virtually all services. One of the best-known online personal financial management tools, Mint.com, was established in the US in 2006. As of February, the service claims to have 10 million users. On Mint, users can set up email and mobile alerts to help keep track of bills and stay within reach of their financial objectives. Mint is free to use and is available both online and as a mobile app.

In the UK, Mint has been emulated by Money Dashboard, a free account aggregation tool that is designed to bring together UK customers' current, savings and credit card accounts. Updated daily, the dashboard provides simple graphs to track where users are spending money; it can also show predicted future spending patterns. Outgoings are grouped into categories such as clothing, transport, household, going out and so on; likewise, income is grouped into employment, benefits, credit received and other categories.

The company's business model does not charge users for the service; instead it recommends financial products and services to its user base. If the customer chooses to use a product from a partner, Money Dashboard earns a referral fee. Money Dashboard is based in Edinburgh, and was founded by entrepreneur Gavin Littlejohn in 2011.

One step beyond

Some providers have gone a step further and added the ability to make payments and transfers. In the US, Pageonce offers the ability to pay bills and track all a user's accounts in one place. The tool covers credit card transactions, bills and payments and sends users alerts about important items such as bill due dates, overdrafts and suspicious activity to help them stay up to date with their finances. Users can also keep track of their frequent flyer miles, rewards, mobile minutes and mobile phone text and data usage. Founded in 2007, the service currently claims to have 7.5 million users.

Bank of America also offers budget planning and financial management tools, including an account aggregation service called My Portfolio similar to Mint and Money Dashboard.

Users can also combine their online banking with Quicken money management software, using Quicken Direct Connect or Web Connect, to allow them to transfer funds and make payments. Quicken is made by Intuit, the same company that owns Mint.com. The Bank of America service is free for the first three months, then $9.95 per month. Business customers pay $15 per month.

As with online banking tools, personal financial management offerings face a challenge to convince customers that it is safe to submit their data. In December 2012, news emerged that a criminal scam known as the Eurograbber attack had stolen £30 million from more than 30,000 accounts across 30 banks in four European countries, using malware that affected both PCs and bank customers' mobile phones. Other incidents, such as an attack using UK bank NatWest's mobile banking app in September, were smaller but also widely reported.

View-only services Mint and Money Dashboard both use 128-bit encryption. However, firms that cover payments and transfers may use higher bit encryption. US mobile payment service Venmo uses 256-bit encryption, as users are effectively selecting their friends from their phone or email contacts or from Facebook, and then using the service to transfer funds.

Thinking big, thinking small

To differentiate themselves from the competition, some personal financial management tools are targeted at very specific segments of the market. For example, Kiboo.com is a US-based firm that aims to understand young people and help them to manage their personal finances, using online and mobile tools and social networking features. Kiboo focuses on users aged 15-22, and includes tools that let users set goals and share them with friends and family, as well as tips, advice and community discussions on topics such as how to earn money at school, as well as how to give back something to society, for example through supporting projects to provide clean drinking water in developing countries.

"There is a disconnect between young people, the way they socialise, and the banking industry," said Lisa Halpern, chief executive and founder of Kiboo. "That divide centres most of all on communication. We are building a community where young people can have their first interaction with real money in an environment that is relevant to them."

Other firms are attempting to turn the problem on its head, by making personal financial management an integral part of the banking experience itself rather than offering it as a separate service. Finland-based startup online bank Holvi is currently planning to roll out across Europe with an entirely online banking service that combines elements of personal financial management with elements of online communities such as Facebook or Moneybar, the social network for investors.

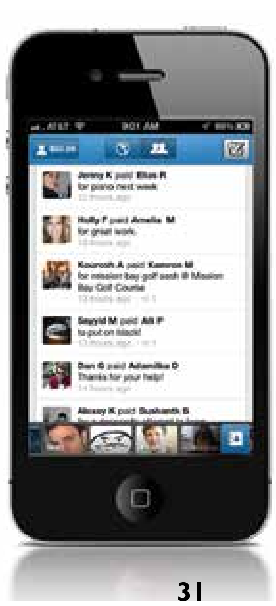
On Holvi, users are able to create different profiles for different purposes, such as running a business or organising a wedding, and can use Holvi to set targets and manage their budget. Users can also create a shared account and start group discussions. The idea is to create a more community-led approach. Users will also be able to buy and sell services directly from each other, such as learning to speak a new language or sports training, through a kind of iTunes-style store.

Holvi is backed by Nordic banking group Nordea, which will provide the transaction banking infrastructure the company needs to complete its planned pan-European rollout by the end of the year. The company has said it will not attempt to build the entire banking infrastructure itself. Instead, it is keen to partner with other firms so that it can focus on building the customer interface. Nordea is also providing Holvi with the APIs that it needs to connect the front-end that the customer sees, with Nordea's underlying core banking systems.

"We've re-thought every aspect of what an account is," said co-founder Kristoffer Lawson. "Traditionally banks offer everything in house – investments, cards, everything. But that model doesn't recognise the changes the internet has brought. Much more nimble companies like Wonga and Nutmeg are eating away at the core bank business. Our plan is to be part of that wave, and to partner with the transaction banks to provide a far superior user experience to the siloed systems of the past."

Similar offerings include Moven, formerly known as Movenbank, which consists of an entirely online bank that will enable users to pay their friends with Facebook, withdraw cash from ATMs and deposit cheques using a smartphone. It will also include personal financial management tools to help users "stay in the black". Moven even includes a personality test, designed to help users see whether they are more 'rockstar' or 'accountant'.

With the introduction of seven-day account switching expected to usher in a period of more intense competition in the UK this September, expect to see more banks rolling out personal financial management tools in the near future. ***BT***



Growth opportunities

An incubator programme now established in New York and London has been getting a lot of attention from banks. *Elliott Holley* and *Tom Groenfeldt* report

The FinTech Innovation Lab London is a joint venture by Accenture, leading City banks and venture capital firms with support from the Mayor of London, the City of London Corporation and the Technology Strategy Board.

Its aim was to help early-stage companies develop or modify their software for financial services, and better understand what financial firms want.

Their innovations ranged from cloud development tools and Big Data security and analysis applications, to search engines for voice recordings, behavioural biometric solutions for fighting fraud, open source banking APIs that would make it easy for banks to link to their party vendors providing customer interfaces in different languages or with a variety of music.

Announced last autumn, the London event is modelled on a similar programme that was co-founded by Accenture and the Partnership for New York City Fund and which is now in its third year.

Seven finalists were chosen in January, including Kiboo, a US-based firm that aims to help young people to manage their personal finances, Germany-based Tesobe, which is working on the Open Bank Project; and Swedish firm BehavioSec, which has developed a biometric software platform that helps confirm desktop, website or mobile users' identities by analysing the way they type, click and swipe on their computers and mobile devices.

"The underlying objective was to have successful growth companies," explained Julian Skan, head of banking for the EALA region at Accenture. "We were looking for companies who would benefit from advice to go into growth mode."

A few of the companies arrived with their technology fully developed; some others were eager to learn about the architecture, features and security required in finance.

"The gap we saw was not access to funds, but advice on how to navigate large complex banks which have vertically integrated IT departments in-house," explained Accenture's Skan.

The Canary Wharf group offered the program space for an innovation floor, so unlike New York, the tech companies were all in the same place and within easy reach of most bank headquarters. Development teams moved into Level39 in mid-January and wrapped up with a presentation to bankers on 20 March. (*sidebar*)

Each firm was paired with two or three mentor banks and every week the program had at least one plenary event or visit.

Paul Murphy is chief executive and co-founder of Calltrunk, a cloud-based service that lets users record their calls from any device – landline, mobile, Skype, or Mac – and then attach notes, share them through popular sites like Dropbox or Evernote and search them by recorded word or transcript.

He said the Lab provided an enormous amount of cross-pollination and camaraderie. "We are all in different spaces and shared notes on the banks we were interacting with, which is helpful."

One thing that surprised him is how siloed banks are. "We can't have one or two meetings; we need a dozen to understand how things fit together and how overlapping responsibilities and goals will affect our platform."

With the centralised location on Level39, Canary Wharf, bankers were able to quickly provide introductions to mentors, investment banking and research analysts.

"Accenture deciding to work with Canary Wharf Management made a real difference, as having everyone on Level39 has proved very efficient," Ellis said.

"It's been a pretty intense time," said Alastair Paterson, chief executive of Digital Shadows. "We have eight people in the company and we moved the whole team into One Canada Square because we recognised what an important experience it was for us."

The financial firms active in the Lab were Bank of America Merrill Lynch, Barclays, Citi, Credit Suisse, Goldman Sachs, HSBC, JP Morgan Chase, Lloyds Banking Group, RBS, UBS and VocaLink.

Understanding money centre banks

Olov Renberg is co-founder and chief operating officer of Stockholm's BehavioSec which can verify a person's identity by the way he types in a password, the way he moves a mouse or even by his swipe on a smartphone. America's Darpa – the Defense Advanced Research Projects Agency – calls it continuous authentication. The system can tell if an unauthorised user is sitting at someone's desk and typing into their computer.

Renberg said that dealing with London banks is far more complex than Scandinavian banks where his firm might have a single security officer to talk with. Working with a major City bank requires access to the right people.

"It's having that first conversation with the bank that is by far the hardest step," said Holt. "Having the idea is the easy part, but all the rest comes down to that conversation. It makes such a huge difference to us having this FinTech Innovation Lab to connect us with the people we need."

Skan said that banks have a broader range of interest in technology than they did before the crash. "Previously if you went in with big data they might say it is interesting if it can be used for trading, but if it is back office I am not interested. But now there is much more sense that the industry needs to reshape itself for long-term cost control. They are hungry to hear about cost reduction."

That's good for Waratek, (*Banking Technology, March 2013*) which has developed a Java virtual machine that can take costs out of the back office. "We have a proposition that is targeted at the bottom line, lowering the total cost of ownership for data centres," said John Matthew Holt, Waratek, chief technology officer.

"Here in the UK there is a very positive environment for financial services innovation," Lisa Halpern, founder and chief executive of Kiboo told *Banking Technology*. "We know that the banks are keen to reach out to customers in a younger age bracket. We have the technology for that, and it's fantastic to have this opportunity to partner with them and make it happen."

Kiboo focuses on users aged 15-22, and includes tools that let users set goals and share them with friends and family, as well as tips, advice and community discussions on topics such as how to earn money at school, as well as how to give back something to society, for example through supporting projects to provide clean drinking water in developing countries. ***BT***

CELEBRATION DAY

A stand-out feature of the investor day presentation at London's City Hall last month was the line-up of major global banks praising the project and the selected candidates – with Bank of America Merrill Lynch, Barclays, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Lloyds Banking Group, Morgan Stanley, RBS, UBS and VocaLink, the UK national payments infrastructure provider, all getting behind the event.

"The lab has brought the outside into the city," said Alistair Grant, chief information officer for EMEA at Citi. "We spend a lot of time innovating ourselves but to meet so many people with bright ideas has energised our own organisation. It's given us the opportunity to hear the great ideas that I probably wouldn't otherwise have heard, because it can be challenging to get visibility and access to major financial institutions. Start-up companies are an essential driver of innovation and growth, and this programme has been fantastic for getting me some time with the right people."

The City Hall presentation day concluded with a short speech from Adam Sodowick, founder and chief executive of True Office, a company that 'graduated' from the New York innovation lab nine months ago. True Office is a training tool aimed at compliance staff; it provides games that help employees to learn about risks and compliance issues. Sodowick observed that over a period of 90 days, his company moved from an iPad app to a commercial entity.

"The procurement process is the most important challenge," he said. "We came into the programme very raw, a company in beta. We are hugely indebted to the programme for transforming our company. We would still be trying to get a meeting with Alistair now if not for the programme."

Radoslaw Maciejewski / Shutterstock.com

This accelerated learning is a key feature of the way the programme can assist start-ups. "There has been some fast learning," said Ian Ellis, vice president in technology business development at Morgan Stanley, who participated in the New York FinTech Lab last year. "One firm came into the programme with a strong focus on the retail side of the business and then quickly discovered that the institutional side might offer a big opportunity as well."

Comparing the London and New York events, Ellis said: "The range of maturity among the companies was broadly similar between London and New York, from pre-revenue start-ups to more mature profitable emerging companies that are looking to transition industries. This variety has been a real strength of the program because it creates a mix of mentoring requirements from the companies."

Alessandro Hatami, director of internet strategy and chief operating officer of digital banking at Lloyds Banking Group, said: "We see fantastic opportunities here to improve our proposition, differentiate ourselves and make it richer and more customer-centric," said. "Business models we see here are things that we hadn't thought of as a stimulus to change. They can make our proposition strong."

In terms of technology, Ellis said that "there was a clear trend around security, cloud and virtualisation and how banks interact with their customers. The finalists provided very solid innovations. The decision came down to which company could benefit most from the mentoring program in the short time available."

Grand designs

Polaris Financial Technologies has plans to move beyond being a provider of IT services. At the opening of its new design centre in Chennai, *David Bannister* heard its founder's views on how design thinking will be central to those plans.

As Polaris Financial Technologies moves beyond its roots as a service provider to the financial industry it is staking quite a lot on its ability to deliver innovative, design-centred products in a rapidly changing world.

The company has just opened a new design centre at its Chennai headquarters (*see panel*) putting the subject, and its capabilities, front and centre.

Perhaps not surprisingly, Arun Jain, chairman and chief executive of the company, is a great believer in the power of design to transcend ordinary development work and deliver superior results – results that pay.

"In most applications, 98% of the functionality can be done by anyone; it's the last 2% that makes the difference," says Jain. "An audio system from Samsung will be 98% as good as one from Bose, but it is that last 2% that means Samsung can charge $50 and Bose can charge $500."

Such is the emphasis on design, Jain says, that the company has spent much of the last two years developing the concept behind the 8012 environment, studying examples of good design and best practice. "We spent 400 days planning it and 164 days on execution," he says.

Jain said that the centre marks a new phase in the development of Polaris, which has focussed on financial technology since its beginnings in services and outsourcing in 1993.

A crucial ealier phase stemmed from its 2003 merger with OrbiTech, a subsidiary of Citi, which saw it increase in scale and move to become more intellectual property-oriented as part of a deliberate plan to have products across all aspects of banking systems. "To improve time-to-market and implementation, you need to have intellectual property so that you can re-use code," said Jain. The main undertaking at this time was to break down the products into a service-oriented architecture model, a five year task involving 800 developers – something Jain said could only really have been done in India: "4,000 man-hours of development in the US would have cost us $400 million."

Behind this approach was the belief that the next generation of products would be cross-market, and this led to further simplification of the product components into "apps". At the same time, the financial crisis was at its height and this also fuelled the desire for simplicity in design. "We went back to the design table and saw that complexity was high – and we believe that complexity was why the crisis happened," says Jain. The apps form the basis of Polaris's Canvas environment, which allows applications to be built and configured on the fly, dramatically reducing both development and implementation time and costs.

Right at the beginning of the thinking, however, is a question that Jain puts like this: "How do you differentiate software experience and design experience? What does it look like?"

Everyone has different views of what design is, or even what is meant by good design, he says. "We experience it, but it is hard to define – where does it come from? How can we decompose it?"

After much thought, Polaris has come to the conclusion that good product design comes down to three elements: desirability, feasibility and viability. These are, respectively, the human, technological and business components of a well-designed product.

"When all three come together, that's design," says Jain, pointing out that Apple conceived the iPad tablet before the iPhone, but the technology to build touch screens of that size was not developed enough at the time, so the smaller device was launched first.

"There is always a bit of mystery, and solving that mystery is another element of good design – unearthing the blind spots is part of that 2% between Bose and Samsung."

Jain goes further in his attempt to define the elusive qualities of what the 8012 facility is striving for. "Design is important in context; you have to think about the ecosystem," he says. The model for the Polaris financial app store comes directly from Apple's iStore, though the former is really a vehicle for delivering systems components rather than stand-alone applications.

Taking the componentisation of design further, Jain talks in terms of "clusters of knowledge, skill and depth of expertise" in different areas. A surgeon, for instance, could have the knowledge of a particular procedure, learn the skill of the techniques to carry it out, but will only develop the depth of expertise after many repetitions. Such clusters can be thought of as being reconfigurable – a surgeon's depth of expertise will make it easier to learn a new procedure, for instance.

But there are also obstacles to implementing these lessons. Jain lists five "frictional forces" –ego, conflict, anger, fear and doubt – that can get in the way of new developments. People tend to suffer to greater or lesser extents from conditioning, which leads to "hardwiring of their knowledge clusters" and an unwillingness to adopt new approaches.

"People have blocks – a database must have an index, it has to be relational – then Big Data comes along and you have to think again," he says. "Or they say, 'this won't ever happen in India.'"

If some of this sounds like mysticism, that's perhaps because Jain has been looking widely for inspiration, including into Eastern scriptures; the contrast with Western culture is illuminating, he says. "Eastern scriptures tend to be more holistic, while the Western approach is deeper and narrower – combining the two can be very useful."

It can also be difficult, "In Indian culture, conflict is not seen as positive, but it can be," says Jain. "Friction can be a positive force – you can't stand on ice without friction."

At the other end of the scale, he sees other important lessons in areas such as industrial engineering, from which Polaris has borrowed time and motion study techniques. "The banking world doesn't apply the principles of industrialisation because it thinks it's different," says Jain. "It's not." ***BT***

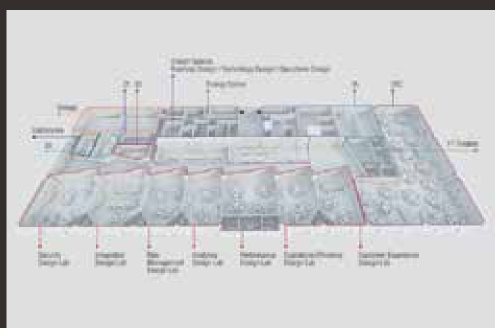
PUTTING DESIGN AT THE HEART OF DEVELOPMENT

Polaris Financial Technology's $10 million 8012 FT Design Center in Chennai, India, was unveiled last month as a place where customers will be able to work collaboratively with the vendor's development teams on applications and systems. The 8012 name comes from the latitude and longitude of Chennai.

At the heart of the centre are seven design labs, covering what the firm considers to be the elements essential to all financial technology developments: customer experience, operations efficiency, performance, analytics, risk management, integration and security. The elements create the acronym COPARIS.

Within these, developers work in teams of between five and seven people – not a random number, but based on research carried out at Harvard University, showing that this is the optimum number for collaborative working. Customers will be able to work alongside these teams to develop and customise applications

The Chennai facility is likely to be followed by others – albeit on a smaller scale – in London and New York, other company officials said. No location has been decided, but as the company's London offices are at Canary Wharf,



virtually on the Prime Meridian running through Greenwich, a good bet for the name of the London facility would have to be the 0052 FT Design Centre ...

APPOINTMENTS

Barclays names new operations and technology chief

Barclays has appointed Shaygan Kheradpir to the new role of chief operations and technology officer.

He will join the executive committee of Barclays and report directly to group chief executive Antony Jenkins.

"Improvements in the efficiency and effectiveness of our operations, facilitated in part by technological innovation and automation, were identified as a key priority in the Strategic Review we unveiled last month," said Jenkins. "The interconnectivity between this agenda, and the opportunities for Barclays and our customers and clients opened up through technological developments, are clear. The creation of this role is designed to ensure we have the appropriate focus on both areas."

Shaygan joined Barclays from Verizon in January 2011 in the role of chief operating

officer for retail and business banking. In his new role he will take responsibility for operational processes and systems across the whole group, including the investment and wealth management arms, as well as responsibility for the bank's technology agenda.

"Since joining Barclays in 2011, Shaygan has been instrumental in helping devise and drive technology solutions and operational improvements at Barclays, including leading the introduction of award-winning initiatives such as Barclays Pingit, and I look forward to supporting him in this new challenge."

Kheradpir himself said: "I am delighted to have this opportunity to lead our Operations and Technology organisation in delivering world class and innovative processes and systems focused on creating a 'Go-To' customer and client experience. This strategic work will be fundamental to Barclays achieving our Transform programme commitments."

Payment systems specialist **Dovetail** has hired **Rossana Salaris** as director of product strategy.

Salaris joins Dovetail with over 20 years of payment experience and has held many senior positions including at The Clearing House, serving as a NACHA Board Member and as a director of the International Payments Framework Association. Over this time, she has been instrumental in a number of innovative payment solutions including NACHA's Direct Deposit/Direct Payment Campaigns, EPN STP 820 and the emerging remittance standard for USD wire transfers.

She will be based in the Dovetail Secure Development Centre in Parsippany, New Jersey.

Broadridge Financial Solutions has appointed **James Drumm** as senior director, strategic account sales for Asia Pacific. He will be responsible for generating new business sales for Broadridge solutions, including its Gloss multi-asset, multi-currency processing system.

Drumm has over 20 years of experience in solution and consultative sales and relationship management in the financial services marketplace. He previously held senior director positions at Omgeo and has worked in sales and relationship management throughout Asia for companies including Dion Global and Thomson Reuters.

Swiss bank **UBS** has hired **Daniel Ott** from Credit Suisse to join as its chief information officer for Switzerland in June.

The Swiss role is newly created, and Ott will be reporting to Stefan Arn, who will continue as CIO for global asset management and wealth management. In the new position, Ott will join the UBS IT executive management committee, and have a dotted line report to Sabine Keller-Busse, chief operating officer of UBS Switzerland.

Ott has nearly 20 years' experience in the financial industry. At Credit Suisse in Zurich he was most recently CIO for the global private banking business division.

Fitch Solutions has appointed **Julian Acquari** as global head of sales for its suite of fixed-income products and services that span a range of research, data, analytical tools and related services for credit markets. Based in London, Acquari will report to managing director Gloria Aviotti. He joins from Monster.com, where he spent eight years holding a number of roles in sales, strategic planning and as a member of the European management board. Acquari previously spent nine years with Dun and Bradstreet where he led the UK & Ireland sales.

Shaun Bramham has been named regional head, Asia-Pacific, at **Instinet**, replacing Glenn Lesko, who is returning to the US. Bramham is currently chief operating officer of Nomura's Asia ex-Japan equities business. He will be responsible for all aspects of Instinet's brokerage operations in the region. Bramham began his career at Lehman Brothers in 1996 in the fixed income operations department in London, and subsequently held senior roles in operations in New York, Tokyo and Hong Kong. He was named global head of Nomura's execution services equity operations in 2009 before moving to his current role in 2011.

Thomas Book has been appointed chief executive of Eurex Clearing. He has been a member of the Eurex Clearing executive board since March 2007.

Newly appointed to the executive board are **Heike Eckert** as chief operating officer, **Thomas Laux** as chief risk officer and **Eric Müller** for treasury.

Eckert has over 15 years of experience in the financial industry. She has been head of clearing business development at Eurex Clearing since May 2010 and is currently responsible for the development of new clearing services for derivatives, securities and repo products.

Laux joined Eurex Clearing in 2006 and has been head of risk design since May 2010. Since then, he has been responsible for further developing the risk management system and default management process of the central counterparty mechanism. Currently, he is working on the overhaul of the risk methodology. Prior to joining Eurex Clearing in 2006, Laux spent six years at Deutsche Börse IT,

Müller has been responsible for corporate strategy at Deutsche Börse since the beginning of the year and reports in this role to chief executive Reto Francioni.

Along with the board's reconstitution, Gary Katz, Michael Peters and Peter Reitz will resign from the executive board of Eurex Clearing but will, together with Andreas Preuss, Thomas Book and Jürg Spillmann, continue their mandates as executive board members of Eurex Frankfurt and Eurex Zürich, the parent companies of Eurex Clearing.

Financial markets consultancy Catalyst Development has hired **Leon Rees** to lead its Technology Practice. He also joins the firm's senior management team, with a strategic role in the firm's expansion. Over the last 12 years, he has held technology leadership positions in a number of global banks, including global head of credit derivatives technology for Barclays Capital and global head of architecture, credit trading, risk and e-business for RBS Financial Markets. Most recently, he led the global portfolio of technology delivery and business support activities for Westpac Institutional Bank's financial markets and treasury businesses and then went on to found Markets Etc in Australia, before joining Catalyst.

Post-trade services provider Omgeo has appointed **Edward Haze**l of Goldman Sachs, **Richard Taggart** of State Street and **Susan Cosgrove** of the DTCC to its board of managers.

The Omgeo board members are responsible for representing the interests of all Omgeo's clients as decisions about strategy, governance and operations are made.

Hazel is the global co-head of securities operations at Goldman Sachs. He is a member of the firm's operations operating committee and operations risk committee and servces as co-chair of the Americas regional managers forum. Hazel joined Goldman Sachs in 1979.

Taggart is a senior vice president at State Street Global Services. He joined the firm in March 2012 to head the investment manager services business in North America. Taggart previously held leadership roles at Alliance Bernstein, Morgan Stanley and JP Morgan Chase.

Cosgrove is the general manager of settlement and asset services at the DTCC, responsible for all depository businesses. Cosgrove is a member of the DTCC's operating committee, management risk committee and strategy and planning council. He previously held roles at Lehman Brothers, Maxcor Financial Group and PricewaterhouseCoopers.

Dion Global Solutions has appointed **Stephen Mitchell** to its European sales team as sales executive. He joins Dion from Avaloq where he was responsible for new business development in the wealth management and private banking sector. He has previously worked in business development and sales for technology firms including Misys and Fiserv.

Calastone, the global fund transaction network, has opened an office in Zurich and appointed **Vittorio Pujatti** as director of Swiss sales & business development. His background is in sales and management at Swiss and International securities firms, including a stint as head of the US Equity Proprietary team at UBS in Zurich. ***BT***

EVENTS

APRIL 9-11 2013

International Payments Summit, London

The 21st anniversary of this industry fixture sees it moving venue to the Hilton London Tower Bridge. The draft agenda shows an emphasis on new opportunities in technology, developing markets and – of course – mobile.

www.icbi-events.com

APRIL 16-18 2013

TradeTech Europe, London

Since its launch in 2001, TradeTech, has become one of Europe's leading financial trading technology conferences and networking events. Top of the agenda for 2013 are the effect of market fragmentation of the buy-side, the lack of a consolidated tape, finding liquidity, flash trading and technology.

www.wbresearch.com

APRIL 21-24 2013

NACHA Payments 2013, San Diego

The main event will have 130 session in eight programme tracks covering ACHs, card solutions, corporate payments, global issues, healthcare opportunities, mobile banking and payments, risk & compliance and "The Payments Biz" – a track focussing on trends, challenges and strategies.

https://payments.nacha.org

APRIL 24-25 2013

Meftec 2013, Doha

The long-running Middle East Financial Technology Exhibition and Conference is moving venue to Qatar, after previous events in Bahrain, Abu Dhabi and Dubai.

www.meftec.com

APRIL 28-MAY 1 2013

Sifma Operations Conference, Boca Raton

SIFMA's 40th Annual Operations Conference + Exhibit brings together senior professionals from all corners of the financial services operations world.

www.sifma.org

MAY 21-22 2013

EBAday 2013, Berlin

The eighth annual EBAday forum, organised by the Euro Banking Association and Finextra, will build on the success of last year's conference in Edinburgh, EBAday 2013 will look beyond the practical compliance requirements of operating in a Single Euro Payments Area and discuss the challenges and opportunities in payments and transaction banking.

www.ebaday.com

IMMEDIATE PAYMENTS GATHER PACE GLOBALLY

Kris Kubiena, Proposition Delivery Director, VocaLink

Today's digitally demanding, fast-paced consumer expects to be able to make payments to any company, institution or person in real time, and increasingly, on the move. In a competitive market, the weight of consumer expectation coupled with regulatory pressure to innovate in this area presents banks with a key challenge – how to make effective use of new real time, mobile, online and alternative payment offerings to retain and attract new customers, and drive additional revenue.

VocaLink built the Faster Payments Service in 2008. The service was the first new payments system in the UK in over 20 years. It was born out of a requirement to speed up the traditional ACH processing and has delivered a fantastic platform for improved customer service and payment innovation. Government, businesses and consumers are now able to make bank to bank transfers to almost any UK account in near real time. The service has seen consistent growth since launch with over 2 billion payments securely processed and volumes are still rising. There has been a degree of substitution from the ACH but growth is now being seen from increased moves away from cheques and cash. Consumers alone are making ten million more electronic payments a year than before the service was launched.

The global drive to immediate payments

The success of Faster Payments in the UK has not gone unnoticed by other international markets. The Reserve Bank of Australia has recently publicised its desire for a plan to enable real-time payment transfers between banks in Australia. The aim is to facilitate fast payments for consumers and businesses with close to immediate availability of funds by 2016. The US Federal Reserve has also expressed its desire to make general purpose payment systems faster and more efficient. The ASEAN region and Asia Pac in general are also seeing significant activity and innovation in the payments arena and Singapore in particular is driving new services in the real-time space.

Enabled by an immediate payments infrastructure, mobile is one of the most important channels for banks when it comes to generating new payment processing revenue – a revenue stream that is not necessarily restricted to retail payments alone.

For example, mobile payment capabilities combined with electronic billing and real-time payments is a compelling service offering for corporates with large billing volumes, such as utility companies. A consolidated e-bill presentment and payments service adds value to the payments process by providing a single platform for viewing bills and gives control back to the user as they authorise each payment. This approach, when coupled with a "debit request" capability can help consumers while also providing the corporate with better payment accuracy. This improves cash flow, as well as reducing delinquency and back office work for the billing organisation.

Aside from the primary use case of mobile, banks and regulators across the globe are looking to implement immediate payments strategies that are centred on online and web commerce. With the growth of the retail industry online, online merchants can benefit from the improved cash flow that immediate payment services can bring. For the banks, this is an ideal service proposition to roll out to compete with and regain lost ground from new payment competitors in the market.

The benefits of immediate payments are not confined to the consumer or business – the process allows central banks to implement strategies that align with the regulatory drive to reduce the number of cash transactions in society. Although cash and cheque processing is considered by some as a strong revenue stream for banks, the inconvenience and security concerns associated with managing cash throughout the economy are significant. However, if banks are to successfully reduce their cash intake, they must offer an alternative that is equally convenient for the consumer. The combination of mobile transactions and an online capability across a real time payment switch offers such an alternative.

The most attractive bank use cases for immediate payments vary from region to region. For example, based on conversations with local banks in Asia Pac, it seems that the ability to enable mobile payments in real time would be of particular benefit in supporting the SME community. The benefit of receiving cleared funds would allow traders for example to begin work immediately without incurring the risk of debt or cash flow complications.

Immediate payments could also be used for social benefit, as indicated by research in the US, enabling insurance companies to disperse funds in real time to affected individuals, families and communities in the wake of natural disasters. This could also have been realised in Queensland, Australia, earlier this year, to allow immediate cash dispersal to flood victims, when access to a bank branch was not possible.

"Banks and regulators across the globe are looking to implement immediate payments strategies that are centred on online and web commerce"

Immediacy equals innovation

The fact is banks will find it challenging to fully benefit from new innovations in payments if they do not have a real time system in place.

Crucially, banks must look to the most appropriate formats and standards to get the most value from real-time payments. In an increasingly globalised economy, it would be short-sighted to implement an immediate payments capability based on a domestic, closed messaging standard. Instead, banks should look to use an open message standard with a rich data format such as ISO 20022 to facilitate the international expansion of this offering, and enable customers to move money around globally. This is simply not possible using a proprietary message format. VocaLink is also seeing increased desire for regional interoperability, in south east Asia and Scandinavia for example, and these initiatives can be severely hampered by the absence of a common messaging standard.

ISO 20022 has emerged as the *de facto* global message standard for electronic payments. The standard was originally designed for batch payments, however VocaLink has successfully adapted it to support single transaction processing across a real time switch, thus promoting and supporting interoperability between real time solutions at national, regional or international levels.

Staying ahead of the competition

New market entrants are wise to the fact that consumers expect a near real time service, and unencumbered by complex legacy IT infrastructure, are able to exploit their agility to offer this. It is a highly competitive landscape, and the longer the banks are unable to provide a real time service and meet customer demand, the more marginalised they will become.

The key hurdle for many banks and regulators is how to make a successful move from a heritage environment to a new system – a manoeuvre that must be negotiated strategically, cost-effectively, and with experts on board to help navigate this significant business change. Immediate payments will be the backbone to successful innovation for banks, and the adoption of this capability is a natural step in their evolution as they look to stand their ground against new and non-traditional entrants.

VOCALINK
safer payments, smarter partner

Tackling FATCA compliance: using new regulations to win a competitive edge

Reetu Kohsla, global director for financial crime/risk, fraud and compliance, Pegasystems

There has been a lot of hype around FATCA in the past two years. With January 2014 looming on the horizon, financial organisations are realising that action is needed now in order to be able to meet the first FATCA deadline for new account on-boarding.

By the start of next year, Foreign Financial Institutions will need to introduce new account opening and Know Your Customer procedures to identify US account holders. The additional checks and documentation required will mean that on-boarding times can be further extended, resulting in unnecessary delays. With an average time to on-boarding of corporate customers varying between 30 and 60 days this could significantly impoverish customer experience.

The next few stages of the regulation agenda will require organisations to review existing customer data and perform due diligence on new and current customers. Other changes will include establishing mechanisms for reporting certain information about US account holders to the US tax authorities and withholding a 30% tax on certain payments.

As financial organisations are required to introduce significant changes to their KYC, AML and on-boarding systems, becoming compliant risks incurring huge costs to their business. Moreover, the increased regulatory pressure and tough economic environment are forcing many FFIs to resort to manual KYC processes. This could lead to involuntary non-compliance and lack of consistent on-boarding.

Many organisations are seeking out-of-the-box solutions to cut down on FATCA compliance costs and to achieve quick results. Complex FFIs believe they will need to spend more than €100 Million (£86 Million) to become compliant. In addition, technology providers and consultants claim to offer 'out of the box' FATCA compliance solutions that are cost effective and ensure compliance.

FATCA requires FFI's to evaluate complex regulatory rules depending on their lines of business, countries, product inclusions and exemptions, pre-existing account rules, local law conflicts, privacy and disparate on-boarding systems and processes.

Adding a newly developed solution will not provide compliance, as 'out of the box' FATCA compliance simply does not exist and exposes an organisation to significant regulatory risk and potential penalties. Out-of-the-box solutions are not able to address the differences in law by product, line of business and jurisdictions for complex organisations.

What is needed is a more comprehensive approach that encompasses three critical components – legal advice, agile technology and consulting – that are tailored to an institution's specific operations and able to interface with existing on-boarding, transaction monitoring and KYC systems.

Integrating these components into their FATCA compliance strategy will help financial organisations achieve compliance efficiently.

Moreover, FFIs are now using FATCA as an opportunity to enhance KYC systems which will subsequently result in faster time to on-boarding and a more consistent customer experience across product types, geographies and lines of business.

This transformational change can only be delivered by incorporating FATCA requirements into rules-driven KYC solutions that wrap around existing systems and processes and take into account local legal requirements.

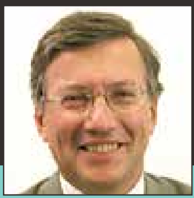
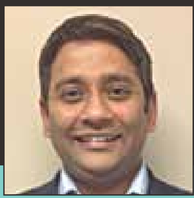
There are a couple of steps organisations need to take to be able to implement a comprehensive FATCA compliance strategy. First of all they need to be aware of the potential impact of FATCA on their business. This will require a review of existing KYC, AML and on-boarding systems to identify the scale of the changes required and the operational impact. It is essential to involve legal counsel, IT, business management and consultants as a managed service from the start.

For instance, FFIs will need to consider all applicable FATCA legal implications, local laws and cross-border requirements that will affect their compliance, on-boarding and operational strategy. Working with global law firms to understand jurisdictional impact and conflicts with local laws is critical to understanding the technology implementation approach and requirements that are specific to an organisation.

Another essential step is integrating data across multiple jurisdictions and lines of business and deciding if data should or can be aggregated. This is critical in identifying and managing customers who may meet minimum thresholds or exemptions.

Large complex financial institutions are now looking at driving business benefit through automation of KYC and on-boarding and leveraging these systems to drive product suitability rules to gain a competitive advantage. The investment in a unified approach to FATCA compliance ensures significant business benefits, including time to market, faster on-boarding and improved customer experience.

Ultimately, FFIs will be able to benefit from higher compliance standards, improved business agility and better services that will result in an unrivalled competitive edge.

Banking on digital solutions to build trust and innovation

Piercarlo Gera is global managing director of Accenture Financial Services, and Joydeep Bhattacharya is managing director of Accenture Interactive

With bank customer loyalty and trust at a low point, following the recent financial fallout and the economic downturn, banks are in need of a fresh start. Rising to the challenge of reconnecting with customers, rebuilding trust and renewing the banking experience, banks are starting to explore digital technologies and solutions. But is that enough?

Forward-looking financial services providers are seeing a silver lining and are rapidly capitalising on the digital wave to re-establish themselves as the bank of choice with customers. Accenture research* identified three business models for progressive banks, and digital is at the heart of them all:

- *Intelligent Multichannel Bank* – builds on multichannel experiences using strategic analytics solutions to engage customers and meet their financial needs.
- *Socially Engaging Bank* –leverages social media interactions to increase customer intimacy.
- *Financial/Non-Financial Digital Ecosystem* – leverages the power of mobile technology to put the bank at the centre of an ecosystem selling financial and non-financial services.

Taking a cue from the retail sector where Amazon, eBay and Starbucks have transformed customer experiences, financial institutions are realising that if they fail to respond nonbanking organisations will start to own the customer experience.

Customer intimacy

Adopting a Digital First mind-set is an effective way for banks to redefine their relationship with customers. By having a truly digital business, banks can move away from reactive, transaction-based customer relationships, towards a more intimate, proactive and personalised experience across multiple channels.

Digital First needs the backing of an integrated technology strategy to drive customer intimacy. There are a number of enabling technologies that will make the strategy meaningful and seamless. Here is a selection the research highlighted:

Digital intelligence

Analytics has evolved digital analytics encompassing customer interactions across online, mobile and social channels. This is giving marketers the opportunity to understand how customers user their digital properties and integrate those insights to deliver compelling experiences.

For example, UK customers with an American Express card can now sync their card account with their Foursquare account and take advantage of personalised offers based on location and spend patterns. This intelligence is fundamentally enabled by insights AmEx has from a richer profile of the customer and it helps deliver an experience that is contextual as well as relevant.

Amazon-like post-login experience

Experience has shown that over 90% of customers use their bank website to check their account balance or carry out specific transactions, and then they log off. The average interaction a customer has through online banking is functional and transactional. But there is a great opportunity to transform the experience into a dialog.

In a move towards providing a compelling post-login experience to customers, Bank of America has developed BankAmeriDeals – an application that allows online customers to select a series of cash back deals at shops and restaurants in a secure environment. This added value service uses transaction history coupled with their partner ecosystem to attract the attention of customers and reward them for loyalty.

Digital relationship management

Banco Bilbao Vizcaya Argentaria, one of Spain's largest banks, is breaking new ground by offering customers superior service through LOLA, a virtual assistant application that guides BBVA's internet banking customers. LOLA builds customer intimacy by making personalised recommendations, much as a real bank assistant would, leading the customer through customised pages where the structure and displayed information is tailored to suit the customer needs.

Socially Engaging Banking

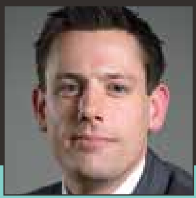
Banks have a great opportunity to use this channel for gathering insights, demonstrating transparency, engaging customers and for new product development. Leading organisations are going beyond using social to gather insights; they are making it part of an integrated customer experience strategy across channels.

New York City-based Moven (formerly Movenbank) is launching next generation banking services with social at its core.

Serving digital customers

A Digital First mind-set is fundamental for financial services providers focused on significantly enhancing customer satisfaction, building customer loyalty and deepening share of wallet. At a time when tech-savvy customers are increasingly demanding about how, where and when they want services from their banks, becoming a truly integrated digital business is essential for growth. Only by adopting Digital First can banks deliver reliable, relevant and innovative financial services which build a strong and loyal customer base.

**Banking 2016: Accelerating growth and optimising costs in distribution and marketing, Accenture 2012*



Banking on the real economy

David Woodroffe, director, product management, asset finance, SunGard

In March the proposed UK Banking Reform Bill went through its second reading in Parliament. With the broad aim of ring-fencing the utility side of UK banks, this should protect both consumers and businesses from the potential losses of high-risk investment banking operations.

Despite such attempts to address the banking system's failure, UK businesses have reduced their level of capital investment more dramatically since the financial crisis than firms in Germany, France and the USA. The resulting dip in capacity and productivity will, in turn, limit growth further down the line.

The World Economic Forum's *Global Competitiveness Report 2012-2013* has cited access to financing as "the most problematic factor for doing business" in the UK. So, it is more critical than ever for banks to provide the utility the "real economy" needs, by focusing on business investment and, above all, the capital finance requirements of the historically under-served small and medium-sized enterprise market.

One of the most direct (but lesser-known) ways that banks can help with capital investment is through asset finance: essentially a loan for using ("leasing") rather than owning equipment.

Traditionally, asset finance has had a lower profile than other types of loan. But the overall squeeze on lending and higher business loan rejection rates have led to an increased demand for leasing arrangements by SMEs. As a result, asset finance is now the third most common source of finance for businesses, after bank overdrafts and loans.

And its popularity continues to grow: according to the Finance and Leasing Association, core asset finance business grew by 5% year on year in January 2013.

Why asset finance?

The benefits of asset finance for businesses are clear. Rather than paying cash upfront the customer gets to minimise any impact on cash flow and spread the cost of equipment over the asset's economic life. So, there's a direct and immediately attractive correlation between expenditure and economic returns – and at the end of the contract, there is usually the option to buy the equipment or upgrade to take advantage of new technology.

While a business loan could arguably provide the same spread if structured correctly, asset finance doesn't usually require additional security to be provided, because the finance is secured to the asset itself. Added-value services can also be provided in direct relation to the equipment being leased, such as insurance, servicing or maintenance. But ultimately the decision to take out asset finance is likely to come down to cost, as it is typically cheaper than unsecured forms of lending.

On the supply side, the asset finance divisions of banks have, until now, enjoyed relative autonomy, with little interference from their parent organisation. The increased capital requirements of Basel III have changed all this, forcing banks to look more closely at the impact of each division on the balance sheet.

But in this respect, and against key performance indicators like return on equity and cost income ratio, asset finance also comes out well. The Leaseurope Index Q4 2012 revealed an average ROE of 14.7% across the industry and a cost income ratio of 48.3%.

All these positives aside, asset finance faces a number of challenges in today's climate. The recent withdrawal of ING Lease from the UK market sparked concerns across the industry that banks no longer view asset finance as fit for purpose, thanks to its relatively high capital requirements and the longer-term nature of its returns.

So, increasingly, banks' asset finance divisions need to demonstrate they are aligned with parent strategies and making efficient use of capital.

At system level, integration with overall strategy requires these divisions to use group-wide functions such as credit, reporting and payment processing. But they have tended to stick to outdated operational platforms that are costly to assimilate – presenting barriers rather than enabling integration with the rest of the bank.

What's more, the mixture of systems that asset finance divisions typically use, including spreadsheets, have hampered not only operational efficiency but also data quality and control. Those that can employ the advanced internal ratings based approach (A-IRB) will be in a far stronger position to meeting the increased capital requirements of Basel III. Key to taking that approach is better data and more sophisticated calculations.

In short, asset finance has all-round benefits for banks and customers alike – and with no other product is there such a close link between banking and the real economy.

But in the ongoing fight for capital within banks, asset finance divisions have to prove their worth. Only with the right technology can they deliver smarter, more efficient operations that make a definitive case, loud and clear, for leasing.

Resistant to digital banking? Consumers have never demanded it more

David Webber, managing director, Intelligent Environments

BT recently conducted some research among consumers from the UK, Spain, Hong Kong, France and Germany into how they see digital banking services, and the results inspired a few headlines that claimed the vast majority of consumers were 'resistant' to digital banking.

The research findings did indeed provide some interesting insights and showed that, despite the explosion in popularity and near-ubiquity of Facebook and Twitter, there was a significant lack of interest amongst consumers when it comes to engaging with their banks over social media channels. However, these same respondents did include online peer reviews, webchat facilities, and 'compare-my-bank' type services as among the best ways for financial organisations to give them information and help them make informed decisions. The research also found that respondents from every single market rated good online banking facilities and 24/7 access as two of the most influential factors when considering moving banks.

These results make the headlines that appeared on the back of this research rather surprising, because – what are all of these services, if not fundamental aspects of digital banking? It seems that the phrase 'digital banking' is often perceived as applying only to social media and mobile – a dangerously restrictive view, given today's increasingly channel-savvy consumer.

To talk about 'mobile', 'social',or 'online' banking is to make unnecessary distinctions within the umbrella term of 'digital banking'. If these terms are considered as separate for too long they will ultimately hold banks back from providing the seamless, intuitive, 'anytime anywhere' experience that customers demand. Mobile devices are integrated into consumers' lives and as such consumers rarely talk about 'digital banking', or think in terms of 'innovation' or 'digital strategies'; they simply see a gradual transition to greater convenience and ease of use.

Statistics compiled by Intelligent Environments last year confirmed that 51% of Britons saw an effective digital banking service as a key driving factor in loyalty towards their bank, and this figure highlights just how much banks need to focus on ensuring that their digital solutions meet their customers' increasingly high expectations.

Of course it is not enough to simply roll out a 'digital' solution for the sake of it. Banks must work hard to deliver features that customers did not even realise were possible, and which can be accessed via multiple digital channels in line with their digital lives. They need to be able to look into the future and predict, or, even better, define, what their customers will want in the coming years.

In today's multi-channel age, banks cannot afford to focus all their efforts on a single digital strategy any more than solely on the branch experience – the winners will be those that can see beyond channel-specific efforts and provide a truly integrated offering.

ACCUITY

BankersAccuity
Reed Business Information,
30 Farringdon Street, London, EC4A 4HH
Tel: +44 207 653 3800
Fax: +44 207 653 3828
Email: sales@bankersalmanac.com

BANKERSAccuity is the world's leading provider of international payment routing data and AML screening software enabling banks and corporations to maximise payment efficiency and ensure AML compliance.

Our **Payment Solutions** help maximise rates of payment STP and with our recent acquisition of CBNet, we are now the only company to source all payment data, including SSI's, SWIFT/BICs and National Bank Codes directly from the authoritative sources.

Our **Compliance Suite** includes the world's first compliance filtering engine, introduced in 1994, as well as a range of caution lists and screening solutions that provide a prime defence against participation in illicit financial activities, such as money laundering.

Our **Strategic Services Group** provides deployment, consulting, training and integration services. We are experts in reducing False Positive rates and helping improve rates of Payment STP.

Visit www.AccuitySolutions.com/bankingtech to sign up for a FREE trial of any of our industry-leading solutions.

CLEAR2PAY

Clear2Pay NV SA
Schaliënhoevedreef 20A
2800 Mechelen, Belgium
Tel: +32 15 79 52 00
Fax: +32 15 79 52 01
Jean de Crane, GM EMEA
Email: Jean.decrane@clear2pay.com
www.clear2pay.com

Clear2Pay is a payments modernisation company that actively supports global financial institutions to meet their payments unification goals through its pure SOA Open Payment Framework (OPF). The company facilitates financial organisations in their provision of payments services across the entire value and process chain: Card, ACH, Branch, Bulk, High Care and International Payments. Clear2Pay also offers solutions and services such as e-Banking, the Open Test Platform, ChargeBack, Consultancy and Training. Clients include financial institutions such as ING, Banco Santander, Crédit Agricole, VISA, MasterCard, BNP Paribas, The Federal Reserve, NETS (Denmark), The People Bank of China (PBOC), Rabobank, The Co-operative Financial Services and Commonwealth Bank. Clear2Pay operates out of 14 countries and employs over 650 staff. In 2011 the company won the XCelent Customer Base 2010 award.
For more information, please visit www.clear2pay.com.

FIDESSA GROUP

Fidessa
One Old Jewry
London
EC2R 8DN
Tel:+44 (0)20 7105 1000
Fax:+44 (0)20 7105 1001
Email: info@fidessa.com
Web: www.fidessa.com

Exceptional trading, investment and information solutions for the world's financial community.

85% of the world's premier financial institutions trust Fidessa to provide them with their multi-asset trading and investment infrastructure, their market data and analysis, and their decision making and workflow technology. $10 trillion worth of transactions flow across our global connectivity network each year. We offer unique access to the world's largest and most valuable trading community of buy-side and sell-side professionals, from global institutions and investment banks to boutique brokers and niche hedge funds.

A global business with scale, resilience and expertise, we've delivered around 25% compound growth since our stock market listing in 1997 and we're recognised as the thought leader in our space. We set the benchmark with our unrivalled set of mission-critical products and services and, uniquely, serve both the buy-side and sell-side communities. Ongoing investment in our leading-edge solutions ensures Fidessa remains the industry's number one choice.

ORC SOFTWARE

Orc Software
Americas: +1 312 327 8555
Asia Pacific: +852 2167 1950
EMEA: +46 8 506 477 00
Email: sales@orcsoftware.com
Web: www.orcsoftware.com

About Orc Software
Orc software (SSE: ORC) is the leading global provider of powerful solutions for the worldwide financial industry in the critical areas of advanced trading and low latency connectivity. Orc's customers include leading banks, trading and market-making firms, exchanges, brokerage houses, institutional investors and hedge funds.

Solution Description
Orc Trading and Orc Connect provide the tools for making the best trading and connectivity decisions with strong analytics, unmatched market access, powerful automated trading functionality, high performance futures and options trading capabilities, ultra-low latency and risk management.

Advanced trading solutions
Orc Trading applications
- Orc Trading for algorithmic trading
- Orc Trading for arbitrage
- Orc Trading for market making
- Orc Trading for risk management
- Orc Trading for warrants market making
- Orc Trading for volatility trading

Orc Connect applications
- Orc CameronFIX for FIX to FIX routing
- Orc CameronFIX for FIX integration

PETEREVANS

New Broad Street House
35 New Broad Street
London
United Kingdom
EC2M 1NH
Email: info@peterevans.com
Tel: +44 (0) 2920 402200
Web: www.peterevans.com

peterevans is a leading independent provider of front to back office solutions for the financial services sector. Clearly focused on the securities and investment market petervans has more than 23 years of experience of providing solutions to this sector.

xanite, peterevans new suite of products, offers a configurable, fully integrated, browser based, comprehensive front to back solution that can be either deployed as a single application or integrated as components into your existing platform. Each of the xanite modules can de delivered via an ASP or self-hosted. Covering wealth management, custody, corporate actions, clearing and settlement, private client and on-line stock broking with full operational and administrative support for the front, middle and back office. xanite gives full but controlled access to clients, portfolio, fund and relationship managers, brokers, middle and back office staff – on line anywhere in the world and provides a modern and flexible platform for expanding future business and revenues.

CONTACTS:

Sadie Jones on +44 (0) 203 377 3506 or
email: sadie.jones@informa.com

SMARTSTREAM TECHNOLOGIES

SmartStream Technologies is a recognised leader in financial transaction management software that enablesfirms to overcome critical transaction processing issues through increased automation.

SmartStream's industry-leading automated match rates create more proactive, exceptions-based processes that lower the cost per transaction while enabling firms to reduce operational risk, strengthen compliance and controls, and improve customer service.

As a result, more than 1,500 clients, including 75 of the world's top 100 banks, 8 of the top 10 asset managers, and 8 of the top 10 custodians rely on SmartStream Transaction Lifecycle Management (TLM®) solutions to deliver greater efficiency to their trading operations.

For more information about SmartStream and our solutions visit: www.smartstream-stp.com

SmartStream Technologies
St Helen's
1 Undershaft
London
EC3A 8EE
United Kingdom
Tel: +44 (0)20 7898 0600
Email: marketing@smartstream-stp.com
Web: www.smartstream-stp.com

SUNGARD

About SunGard

With annual revenue of $5 billion, SunGard is a global leader in software and processing solutions for financial services, higher education and the public sector. Visit SunGard at www.sungard.com

Adaptiv

SunGard's Adaptiv provides enterprise-wide credit and market risk management and operations solutions for financial services institutions. Adaptiv assists institutions of varying size and complexity to deploy technology to meet both internal and regulatory requirements for risk management and operational control. Adaptiv helps financial services institutions from the banking, hedge fund, asset management, insurance and corporate sectors with its deep understanding of risk management and operational processes. www.sungard.com/adaptiv.

Front Arena

A trading solution serving a range of financial institutions, SunGard's Front Arena solution provides straight-through processing by integrating sales and distribution functions, trading capabilities and risk management. Institutional asset managers and brokers, traders, and market makers use Front Arena to trade equities, fixed-income, interest rate derivatives, and credit. For more information, visit www.sungard.com/frontarena

Securities Finance

Around the world, $11 trillion in securities financing is managed on SunGard's proven solutions for international and U.S. domestic securities lending and repo for over 250 clients. Through our Loanet, Global One, Martini and Astec Analytics products and services, we provide comprehensive business solutions and information with worldwide reach for equities or fixed income securities financing Contact: securitiesfinance@sungard.com

Call a SunGard expert today: 0044 (0)208 081 2779

Email: adaptiv.marketing@sungard.com
Tel: +44 (0)208 081 2779
Fax: +44 (0)208 081 2001

TIETO

Tieto is an IT service company providing IT, R&D and consulting services. With approximately 16 000 experts, we are among the leading IT service companies in Northern Europe and the global leader in selected segments. We specialize in areas where we have the deepest understanding of our customers' businesses and needs. Our superior customer centricity and Nordic expertise set us apart from our competitors.

Tieto Financial Services offers services, solutions and products to financial institutions throughout Europe. Our customers include major banks and financial institutions that have chosen us for our capability to take total responsibility for any assignment.

We enable Financial Institutions to utilize their business potential by combining our technology skills and deep financial industry knowledge with advanced Nordic customer behavior. Working with Tieto you get a reliable, committed long-term partner that helps you to industrialize your day-to-day IT-operations and get the most out of your IT investments.

Tieto
Kutojantie 6-8
02630 Espoo
Finland
Tel: +3582072010
Fax: +358207263025
financial.services@tieto.com
www.tieto.com/financialservices

TCS FINANCIAL SOLUTIONS

TCS Financial Solutions, a strategic business unit of Tata Consultancy Services, enables transformation in financial services through a holistic suite of solutions for firms in banking, capital markets and insurance, and diversified financial institutions. Each solution in the TCS BαNCS family runs as a scalable and robust service, integrated with existing enterprise infrastructures and technology architectures.

Our mission is to provide best of breed solutions that drive growth, reduce costs, mitigate risk and offer faster speed to market for 240+ institutions in over 80 countries.

TCS BαNCS is an integrated financial services platform. Its embedded transformation intelligence enables flexible, open and collaborative deployment and distribution of financial products and services.

TCS BαNCS aspires to be better than established benchmarks, which is why we've embedded an Alpha ("α") consciously within our brand, to remind ourselves of the superior returns that we strive to deliver. Our ability to foster rapid time-to-market with new products allows organisations to transform themselves into nimble competitors with scalable offerings.

Our Co-Innovation Network is a true partnership for sharing best practices and innovation, and our 'Experience Certainty' mindset ensures the brightest of futures for all our customers.

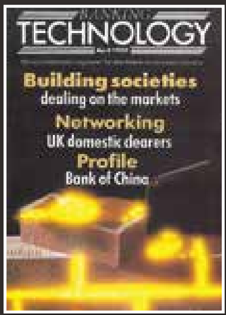
For more information, visit www.tcs.com/bancs or contact us at tcs.bancs@tcs.com

About Tata Consultancy Services

Tata Consultancy Services is an IT services, business solutions and outsourcing organisation with over 143,000 IT consultants located across the world delivering real results to global businesses through its unique Global Network Delivery Model™.

TCS Financial Solutions
Web: www.tcs.com

FROM THE ARCHIVE



10 YEARS AGO

CLS survives first IT glitch …FSA to offer guidance not rules on operational risk … real-time nostro facilitated by SwiftNet IP network … July SEPA deadline concentrates banks' minds … mobile banking on the agenda at mobile World Congress …

20 YEARS AGO

Recriminations fly as LSE scraps £75m Taurus project … European Committee for Banking Standards formed … Financial Networks Association starts tests of rival for Swift … real-time settlement threatens European securities firms … CIOs have "toughest job" in financial services firms …

25 YEARS AGO

Soviet Union gets first credit card … voice-operated phone banking on trial at RBS … Dutch banks create electronic funds transfer protocol … Bank of China expands in Hong Kong ahead of 1997 handover … US Treasury aims to replace cheques … Paris Bourse automates settlement systems …

FATCA woes for US au pairs in Switzerland

They were never going to be happy in Switzerland about the US FATCA legislation that will be used to hunt down people avoiding US taxes, but it's a surprise to hear that some Swiss burghers are feeling sorry for a group of US citizens who have become part of the fabric of society there – au pairs.

It seems that many young people fund their time in Europe by working as au pairs for Swiss families, who are happy to pay their wages into the local bank.

Alas, with all of the paperwork that onboarding a US citizen now involves for a Swiss bank (or a German, French or UK one, for that matter), several have started simply refusing to open new accounts for them.

Unless they already have some sort of account, or the employer is willing to pay cash (and thus perhaps become complicit in money laundering as well as abetting tax evasion) the au pairs are heading home.

Frivolous as this may sound, the Swiss gentlemen who told us of their banks' unwillingness to deal with US citizens is not restricted to domestic help. Even quite large corporates are starting to find that local banks are resistant to the idea of handling new business, particularly anything that looks like a recently-created legal entity.

One possible development being discussed in the cafés of Zurich is the establishment of independent new banks and put all US-related accounts into those.

Normally, the Swiss banks would have shrugged and expected their government to discreetly ignore Washington, but times have changed, say our morose new chums.

Print is not dead – it's just turned baaaad

As a rule of thumb, the fastest adopters of new technology are pornographers and criminals (two sets that often overlap). So it should come as no surprise that the latest thing to worry security specialists is 3-D printing.

You'll have seen the stories in the papers about how you can create real working guns with 3-D printers – but not real working ammunition, presumably – and how one squillionaire is planning to send some to Mars so that they can start building, er, buildings for habitation by future generations of human colonists.

There is even a WikiLeaks-style site that has set itself up as a repository for copyrighted 3-D compatible plans that you can download and create objects from. Will that put counterfeiters of name-brand goods out of business? Or will it just mean that there are more of them.

If you're the kind of person who sits around thinking up ways of protecting the financial markets, this opens up a world of possibilities: just think of the things you could print that might be used in a physical version of cybercrime, urged one such person over a surreptitious cappuccino recently.

Okay, how about those little pens they have in branches? They must be really valuable – why else are they always tied down?

"No", replied our chum, adjusting his white hat (had that been 3-D printed?). "Think bigger."

"How big?"

"About as big as an ATM machine."

"WTF? Really?"

RegTech

Guiding your way through global regulatory storms

In partnership with JWG

Making sense of financial services regulation

APRIL 2013

Jumping through hoops

Regulators are looking for proof that firms are meeting data requirements

HOW DOES YOUR RISK DATA LOOK?
Answering questions on global risk data requirements might be difficult without a timely self-assessment

WELCOME TO EMIR
With EMIR in force, firms are now wrestling with the challenge of classifying customers

REGULATING THE –IBORS
Europe has made the first move to controlling benchmark manipulation but global co-ordination is needed

AMLD IV
The new EU AML Directive looks to be a significant step up for firms' KYC and monitoring teams

Proof reading

There's a branch of mathematics called proof theory, concerned with the provability of proofs. It's one of those areas of maths that blows your mind if you are not an actual mathematician.

Many people in IT will have come across the concept reading Douglas Hofstadter's *Gödel, Escher, Bach: an Eternal Golden Braid,* which was published in 1979, just as the PC revolution was starting. Like *A Brief History of Time,* many people had it on their bookshelves.

Kurt Gödel, a logician and mathematician, was central to the development of proof theory. His main work was called the incompleteness theory, and it may have some relevance to some of the latest regulatory demands faced by financial services firms. As the content of this month's RegTech shows, regulators are increasingly demanding that firms not only collect particular sets of information and follow certain processes; they must also be able to "prove" that they are doing so.

Gödel would be a handy man to have around as an expert witness in some of the cases that are likely to come up because of the subjective nature of some of the proofs that will be required. As this month's feature on risk data points out, "there are many nuances in the principles and hence many grey areas".

Grey areas are good for logicians, who can happily think up ways of making them less grey, or formally defining the extent of their greyness. Grey areas are also good for lawyers, because they can earn a lot of money advising clients about the greyness, and more for arguing about it with other lawyers in court.

Grey areas are less good for business, which is why London's insurance market has spent centuries removing ambiguities from its rules. More recently, the international bond markets have been operating on similar lines – there will be conflicts, but there is a defined and respected resolution path.

Looking on the bright side, perhaps we are seeing the start of a similar process. Over time, the grey areas may be thrashed out.

Let's hope so. For now it looks as though the principle of "innocent until proven guilty" is being replaced by "guilty, by reason of being a banker".

David Bannister, editor

PJ Di Giammarino, chief executive, JWG

EDITOR David Bannister,
+44 207 017 4019
david.bannister@informa.com

SENIOR STAFF WRITER Elliott Holley,
+44 207 017 6492
elliott.holley@informa.com

***DAILY NEWS AT SIBOS* EDITOR**
Heather McKenzie

PRODUCTION Kosh Naran

PRESS RELEASES
Send relevant releases to
news@bankingtech.com

PUBLISHER Tim Banham,
+44 207 017 5218
tim.banham@informa.com

SALES MANAGER Sadie Jones,
+44 203 377 3506
sadie.jones@informa.com

MARKETING, CIRCULATION AND REPRINTS
Paul Waite,
+44 207 017 5614
paul.waite@informa.com

SUBSCRIPTIONS AND RENEWALS
Subscription enquiries: Customer Service Dept, Informa UK Ltd, Sheepen Place, Colchester, CO3 3LP. Tel: +44 (0)207 017 5533, Fax: +44 (0)20 7017 4783, Email: telecoms.enquiries@informa.com Annual Subscription: UK £690, Europe €860, US/rest of world $1,235.

Banking Technology is published 10 times a year by Informa Business Information, a trading division of Informa UK Ltd, 37-41 Mortimer Street, London, W1T 3JH, UK.

PRINTER Wyndeham Grange, Southwick, UK.

ISSN 0266-0865
www.bankingtech.com

Mirror, mirror: how does your risk data look?

Being ready to answer regulatory questions on how well you meet global risk data requirements might be difficult without a timely self-assessment

Following the release of the Basel Committee on Banking Supervision's Principles for Effective Risk Data Aggregation, middle and back office professionals in major financial centres now find themselves with a number of difficult questions, that senior management must be able to answer and evidence. Many are faced with a collective action problem within their own firm as they try to form a view of where they stand.

In a nutshell, the introduction of these principles means that firms can no longer afford to cut corners. As of January 2013, firms are being pushed to assess how they collect, aggregate and report their data. Though this has always been done in the past, new requirements necessitate fundamental changes to be able to prove that both their current and future target operating models are understood, resourced, owned and governed properly.

So how ready are we to look into the risk data mirror and be satisfied with the result? Existing research shows that firms are at varied stages of preparedness. For instance, in a 2012 IIF survey, only 28% of firms surveyed said that data aggregation plans were complete within their firm. However, this was before the release of the BCBS' Principles and so the number now looks to be even less.

We advocate a strong self-assessment now, to: figure out the size and cost of the problem, and secure budget; to keep up with risk management in the industry, and safeguard reputations; and to take advantage of the efficiencies that can be gained from good data management. For this purpose, firms will need a checklist against which to validate their risk data aggregation capabilities.

Such a checklist should naturally be based upon the requirements themselves. However, this does not mean that the requirements are, in themselves, an adequate checklist. Many of the imperatives allow substantial room for interpretation. So when asked a vague question, such as 'does your board promote the identification, assessment and management of risks to data quality?' the tendency is to answer 'yes, it does'.

But if the question the regulator is asking is 'how do they do this?' or 'do they do it x times a year, or to y standard?' then the answer is likely to be more hesitant. Hesitation is not good: it means that it is quite likely that the principle is 'materially non-compliant' and that significant actions are needed in order to achieve full compliance. Therefore, banks should first determine their own standards for compliance and then assess themselves more meaningfully against these.

There are many nuances in the principles and hence many grey areas. For example, in the governance space, banks are required to 'consider' risk data aggregation as part of any acquisition or divestiture. However, clearly 'consideration' is a broad scale, as are many other critical concepts, in terms of its breadth and depth of coverage.

Even within a more objective discipline like data architecture a similar interpretative challenge is encountered. The principles ask for the monitoring of the accuracy of risk data. This clearly requires some kind of metric capable of judging accuracy. However, again, this can be seen on a scale: from a bare-bones estimate up to a comprehensive measurement.

Part of the self-assessment will therefore involve determining what this scale is for each of the imperatives within the principles, and then placing the firm's target operating model somewhere on that scale. In placing the marker, firms will have to consider many things, including the marginal cost/benefit of moving up the scale, what other firms are doing, and the method of interpretation.

Another key differentiator in the governance example above is in the proof of the action taken. Tacit understanding cannot be verified, whereas a meeting can. Here it is important to note that 'proof' does not simply mean 'auditability'. But, as a result of the principles, both internal staff and regulators will also be checking up on firms' risk data aggregation. Therefore, when answering 'yes' to a question on the checklist, the assessor's first follow-up question should always be 'how can I prove this?'

This proof also will obviously take different forms depending on the context. For instance, any changes made to the governance level will probably rely on documentary evidence. Here, again, firms will have to decide what 'documentary evidence' means to them and where their target operating model is on a scale of different depths of proof.

Sometimes, after a long period of indulgence, it can be difficult to look into the mirror and confirm that your fitness regime has slipped. Firms should take the opportunity they have now to stand before the self-assessment mirror and identify the key changes that need to be made, before the regulators come knocking.

TOP TWITTER ALERTS

- Focus on SIBs: BCBS promises to turn up the heat on banks in 2013 over risk management, governance, and data aggregation
- ESMA issues final remuneration guidelines on #AIFMs including remuneration committee "unfettered" access to risk management data
- Regulation SCI: SEC's new tech rules to replace voluntary compliance program; operational risk high on global agenda

KNOWN UNKNOWNS

- How will firms find the middle ground between the BCBS' Principles for Effective Risk Data Aggregation and other risk data initiatives, such as Basel III and the EDTF?
- What will be the outcome of regulators' visits to firms in 'early 2013'?
- How do firms compare with one another and what does 'good' look like?

THEMES

- Regulators are taking a tougher stance on back office hygiene
- Risk data aggregation is important to supporting other efforts such as RRPs
- Timely self-assessment can save significant work further down the line.

TOP TWITTER ALERTS

- EMIR deadline: ISDA publishes NFC Representation Protocol; allows participants to amend multiple ISDA Master Agreements
- With the first #EMIR deadline looming in 11 days, how will your OTC BAU need to change?
- FSA releases EMIR notification reports for NFCs over the threshold: no group identifiers required?

KNOWN UNKNOWNS

- Will firms' EMIR classifications be 'good enough' for the regulator now?
- Are the current industry solutions fit for purpose?
- How exposed is the industry to mis-classification without industry alignment?

THEMES

- The industry lacks clarity on a common approach to customer classification
- Customer classification differs between regulatory regimes, e.g. Dodd-Frank
- There are no common standards for customer classification across jurisdictions?

Welcome to EMIR: the known unknowns of customer classification

With EMIR in force, firms are now wrestling with the challenge of classifying their customers – without an industry viewpoint the dialogue could get ugly …

EMIR's first implementation date has now been passed. From 15 March, investment firms and corporates will now need to notify ESMA if they have passed the clearing threshold, confirm their uncleared OTC trades and begin preparations to implement EMIR's risk mitigation techniques. In order to do this, you need to know your counterparties' classification; whether they are a Financial Counterparty (FC), Non-Financial Counterparty (NFC), or a NFC over the clearing threshold (NFC+).

Of course, it is not a huge issue to identify a financial counterparty. JWG research shows that 95.6% of commonly used industry codes can be used to identify non-financial counterparties with a high degree of certainty. The real complexity of this classification exercise comes with identifying non-financial counterparties over the clearing threshold. Unlike other regulatory regimes this classification relies on a firm's partial view of the marketplace that may not be shared by others.

For example, a big firm must now make a judgement on whether a large oil company's subsidiary in Paris can be considered to be a NFC when the trade being conducted is likely to put it over the clearing threshold.

Client classification will have a bearing on the timely confirmation of uncleared trades and eventually the clearing of trades subject to the clearing obligation and the correct posting of margin. Failure to correctly classify counterparties or, just as importantly, classification of clients which is different from that of your competitors, may adversely impact a firm's ability to do business.

What's the problem then? Firstly, unlike MiFID, firms cannot rely completely on self-certification. This is because, while there is an EMIR requirement for NFCs to notify authorities when they, or any others in their group, have breached the threshold, there is no such obligation to inform the marketplace of their status. This means that a firm's customer is under no obligation to ensure all its trading partners classify it in the same way. Even the NFC that breaches the clearing threshold (NFC+) is under no regulatory obligation to inform its counterparties – it must only inform its competent authorities and ESMA. And ESMA is under no obligation to share its NFC+ register.

For these reasons, ESMA stated in public forum in Mid-2012 that self-certification of status 'may not be sufficient'. Some take the view that it would be very easy for regulators to leverage this uncertainty to obtain 'easy wins' by finding fault with current approaches in a transparent manner (e.g. through fines, speeches, etc.).

The ISDA Protocol is one attempt to solve the problem of the NFC+ in a legal fashion, but does not attempt to make the initial division between FCs and NFCs. While the contract provides legal certainty on counterparties' status, in that liability for mis-classification lies with the self-certifier, it only focuses on whether or not the threshold has been breached. As such, this may only provide a partial answer.

Many corporates will not be willing to legally self-certify their status. This is due to the complexity of assessing whether they have breached the asset threshold on a group-wide basis. Many do not have the extensive internal monitoring systems required to maintain the accuracy of their classification, especially when they may be in danger of breaching the threshold on a trade-by-trade basis. This means that a large part of the certainty required by a firm will need to be obtained directly.

In addition, it is worth mentioning the British Bankers' Association Data Management Advisory Panel, which has been working on a methodology for using industry codes to classify counterparties on 'day 1'.

The fundamental barrier to a consistent interpretation across Europe is the lack of clarity as to what, exactly, the politicians and regulators meant about what counterparties should know about each other. Did they mean that every firm should know their customer's precise status in intimate detail – including up to the minute knowledge of how much trading they are doing with other firms? Or, did they merely mean that we should have a general understanding of what was likely to be their status based on a profile?

Firms are facing many of the same practical challenges for EMIR as they do for AML, FATCA and a host of other regulations in 2013. This speaks to the larger challenge facing the industry, the inability to get guidance needed to be able to implement requirements in a consistent and cost-effective way.

With a number of regulations requiring changes to the way you classify customers, this is not an issue that is going away anytime soon.

Regulating the -IBORs: a global view of benchmarks?

Europe has made the first move to controlling benchmark manipulation but global co-ordination is needed at this stage to create an approach that works for everyone

Benchmark manipulation and fallout from it is not new news, but the global drive to regulate benchmarks is. The political sensitivity surrounding regulation in this space means that national regulators are racing at different speeds and approaches to implement reforms to ensure benchmarks are transparently regulated and set. As this race continues, global regulators such as IOSCO will be challenged to coordinate local regulators in a concrete benchmark regulation framework.

Politicians are keen to be seen as aggressively holding bankers accountable for an action that contributed to the financial crisis. Putting evidence of poor behaviour in the public domain and levying large fines may well be a path towards a more trustworthy system, but it has led to a rushed and splintered rulemaking process.

Today, EU regulators are leading the race to implement benchmark reforms via market abuse regulation and through a recent joint ESMA/EBA consultation. Globally, IOSCO is still behind, forming a task force and releasing its high-level consultation report on financial benchmarks. The US still has yet to make a move. Clearly, without these major players on the same page, benchmark regulation may remain more a fiction than a reality.

There are many flavours of benchmark that are used for a variety of purposes. At present, there is no concrete definition of a benchmark, so ESMA and the EBA are attempting to create their own. However, where ESMA runs a very abstract definition of a benchmark, IOSCO has taken a more practical approach, in its 2013 consultation, by including a 'use test' that limits the scope. This means that the global, IOSCO, definition of a benchmark would come closer to the conventional usage of the word 'benchmark', whereas the EU definition would include other rates, such as market indices.

Ultimately, there are clear ways to differentiate between indices – for example, the delineation between benchmarks set subjectively (and therefore open to manipulation) and market indices set automatically (and therefore harder to manipulate). As ever, there will be many ways to classify and 'carve out' various types of market activity and we have only just begun to see a discussion of what this will look like.

Fundamental to the benchmark discussion is the 'emperor's new clothes' problem: indices are valid if people believe in them. If the calculation behind a benchmark changes, confidence may not automatically transfer to the new indicator. This creates a risk that someone may decide that the benchmark does not reflect the realities of the market. In this case, we have introduced risk into the system and potentially destabilised it.

The banks and their suppliers will feel the pinch as they need to change massive systems portfolios and data feeds. Thousands of applications, spreadsheets, databases and online web portals would need to be modified to bring legacy systems up to date. On the other hand, the place where the costs are most likely to be felt by end investors is where loan agreements and their like, which were pinned to certain benchmarks (e.g., LIBOR, EURIBOR), are forced to change. This would involve re-evaluating existing contracts, possibly followed by redrafting/termination, in order to rebase the contract on a new benchmark.

Clearly, a one-size-fits-all approach is not going to work in relation to benchmarks. Therefore, based on responses to ESMA's consultation, it appears many firms would like the freedom to take a proportionate, or risk-based, approach. Proportionality would allow firms and market participants to exercise their own judgment when subscribing to benchmarks. And the exercise of this judgment could then be supervised by a regulator.

However, not all jurisdictions buy the idea of proportionality. Many are more likely, given the industry's record of bad practice in the benchmarking arena, to introduce prescriptive rules that remove any room for firms to exercise judgement.

With Brussels just announcing that banking cartels can be fined up to 10% for each of their transgressions – potentially putting more than 30% of a bank's global turnover at risk – things are due to move quickly in this space. The European Parliament is scheduled to debate benchmarks in three months. CFTC and IOSCO have announced a roundtable at the end of February that should help give clarity on what regulation is coming. Ultimately, however, without binding consequences, regulators will fall short of creating the global agenda necessary to rule out a repeat of LIBOR.

TOP TWITTER ALERTS

- Heavy fines coming: EU says benchmark antitrust investigation is nearing final stages, with many banks implicated
- The watchers watched: FSA cleared of major regulatory failure but admits it was slow to respond to LIBOR-rigging
- The UK's Hogg Committee invites would-be LIBOR administrators to submit pre-tender questionnaire

KNOWN UNKNOWNS

- How will the market react to new, untested benchmarks?
- Will regulation come to cover things such as market indices, like the FTSE 100?
- Will US benchmark regulation align with global approaches?

THEMES

- Benchmarks are politically charged and a global issue
- Benchmarks are ubiquitous and entrenched within the financial system
- Global benchmarks will be difficult for a single jurisdiction to regulate

AMLD IV – Prove you're doing it right

The new EU Anti-Money Laundering Directive looks to be a significant step up for firms' KYC and monitoring teams' risk management, systems and controls in 2014

Anti-Money Laundering systems and controls continue to make news in the wake of the high profile failures of 2012. On 5 February, the proposal for the updated EU Anti-Money Laundering Directive was finally released. The proposal imposes a number of new requirements significantly increasing the scope and volume of firms' KYC processes likely to be required by 2014:

- Fewer due diligence exemptions – regulated institutions are now not always eligible for SDD
- PEP definition includes domestic politicians – PEPs may no longer be automatically high risk
- Disclosure of firms' beneficial ownership - new calculation requirements and disclosures of beneficial owners
- Transaction monitoring thresholds for due diligence have been decreased by 50%

These new requirements will heavily impact customer due diligence meaning the ways firms view their money laundering risk will have to be updated in their entirety. And the burden of proving this has gone up.

Drawing heavily on the extensive review of the 3rd Money Laundering Directive, as well as the 2012 Financial Action Task Force recommendations, the 4th Anti-Money Laundering Directive gold-plates the FATF recommendations in a number of areas with the aim of tightening existing rules and increasing the scope of the risk based approach.

So what does this actually mean for firms? The risk-based approach is designed to be all about proportionality. The more risk, the greater the due diligence done. For financial services, however, it has long been considered that certain categories of client or transaction can be automatically considered to be low risk. Historically this has meant that, for example, a Tier 1 sell-side institution would likely not conduct extensive due diligence with other large, regulated (and therefore assumed to be 'low risk') institutions.

A number of these exemptions have been removed and AMLD IV is requiring firms to challenge the assumption that some categories can be considered low risk without any knowledge to verify that assumption. Judgement is required, and firms will be forced to defend that judgement. It may very well be the case that in the next round of regulatory visits firms will be asked difficult questions about relationships considered low risk for many years that firms will be without evidence for.

The result of this, for many institutions, will be a vast expansion in the number of clients now requiring documentation, checks, and enhanced controls.

The lowered transaction monitoring thresholds will also further increase the scope and volume of due diligence checks required.

However, it's not just these (lack of) exemptions that are increasing focus on a judgement based approach. The new definition of politically exposed persons, that has been amended to include domestic politicians and members of international organisations, has the ability to vastly increase the volumes of accounts requiring due diligence.

While a minor requirement taken in isolation, considering that the application of PEP checks now required for the client base is no longer exempt from automatic low risk status, the cost quickly rises. The identification and subsequent reviews to uncover all new PEPs within firms' client bases, as well as new accounts, will significantly increase the cost, complexity and latency of acquiring customers.

There are still opportunities for cost savings, however. Domestic political exposure doesn't necessarily mean an increased risk of money laundering in-and-of-itself; but PEP checks have now become another indicator of risk to be taken into consideration when making a holistic assessment of a client. Making a holistic assessment, as part of the risk based approach, requires extensive data sources, controls and rules on how to treat data. Implementing this into an automated solution may be tricky.

But it doesn't stop there. New rules on the calculation and disclosure of beneficial ownership add further complexity. New requirements to disclose beneficial ownership mean all firms have to report their own beneficial owners on a continual basis. While this may be very useful for due diligence checks, and will considerably reduce the burden of verification across the industry, the mechanism on how this new information will be made available to all parties is yet unclear. In any case, due diligence systems will have to be altered and third party information providers will need review.

The proposed rules still require formal adoption by the European Parliament and the Council of Ministers. Thus, it is likely that implementation at the national level won't be scheduled until late 2014. Firms will need to start the dialogue now.

AMLD IV means firms will need to know significantly more about their overall client base's business for AML purposes. That may require investment in new staff and monitoring systems. While it may be that firms' customers' risk levels will remain the same, it may be very expensive to prove it.

TOP TWITTER ALERTS

- Closer alignment between FATCA and AML requirements? FinCEN is updating FBAR reports to require TINs
- Customer data reviews req? AMLD expands PEP def, harmonises calculation, new disclosure reqs for beneficial ownership

KNOWN UNKNOWNS

- After lobbying, what will the final measures entail?
- Will the directive get the Swiss, British or German finish?
- What standards will be available for defining a risk based approach within the firm?

THEMES

- Anti-money laundering remains a political focus and more fines to come
- The ways firms view their money laundering risk will be updated in their entirety
- New global standards will expand scope of client documentation, checks, and enhanced controls