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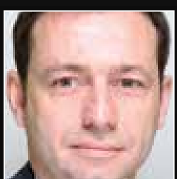
FEBRUARY 2013

The SEPA end date is now just a year away: is everybody ready?
Of course not.



Expanding on all fronts
Interview: Massimiliano Alvisini, UKI regional director, Western Union Financial Services.

Exchanges: time for a rebuild
A series of embarrassing systems failures has brought the structure of markets into question.

Mobile explosion
Gazillions of users, but NFC take-up still sputtering

Common complaints
Turning complaint handling to positive advantage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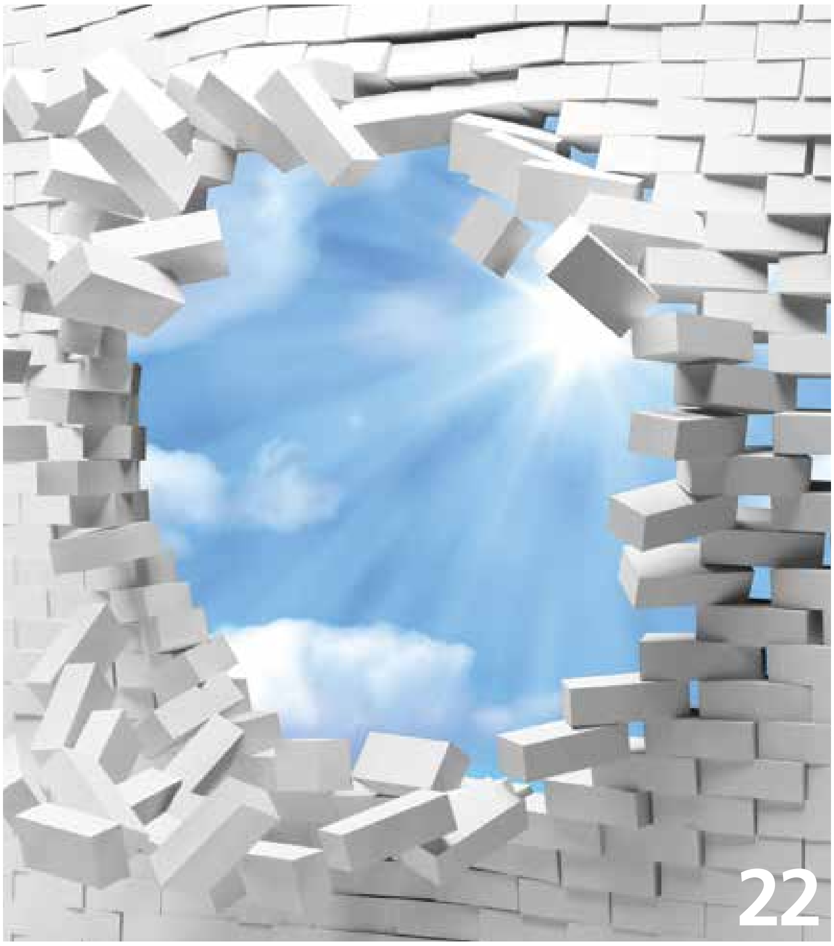

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Gear **changes**

It's hard to avoid the phrase 'not fit for purpose' these days. My learned colleague Professor Google tells us that in recent months the phrase has been applied to the A12 road in Essex, the way Brighton and Hove City Council calculates overtime payments for its workers, the entire UK Border Agency and several existing or proposed pieces of legislation – immigration, planning, social security and equal pay.

There are plenty of others, but that's surely enough to illustrate that the phrase has become hackneyed to the point of losing any meaning. It is, I'm sorry to say, no longer fit for purpose.

This is because it sounds like a clever way of saying something is inadequate, or simply doesn't work, but that's not really what it means, or not solely. Fit for purpose means something is capable of doing the job for which it was intended or designed: in 1922, when the A12 was first named – thanks again to Professor G – it was probably more than capable of doing what it was meant to do, and no doubt a big improvement on the road that had been there since the Romans.

It's not usually that big a deal when phrases change their meaning, and it doesn't do to moan on about it (though don't get me started on the distinction between 'back in the day' and 'in the old days'). It is important when the use of a glib cliché obscures the underlying problem, leading to a 'fix' that does nothing of the sort.

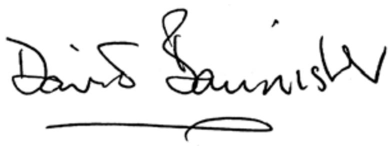
The problem with the A12, to stick to that, is that it needs some repairs and improvements, not that it needs replacement. You could argue – many do – that as the real purpose of a road is to move people and goods, replacing it with a railway would improve the situation, but that probably wouldn't satisfy the man from the Automobile Association who says it's not fit for purpose.

All of which has some bearing on the debate about bank IT systems. Failures in the infrastructural systems that banks provide for consumers and businesses are pretty much inevitable, but they will still lead to headlines saying that bank systems are 'not fit for purpose'.

They are, just as the A12 was in 1922. The difference is that no-one is trying to run train services, or land aircraft in the cycle lane on the A12 on a regular or frequent basis.

With banking systems, that is pretty much what people are trying to do – run globally-interconnected, 24/7 real-time systems on boxes originally intended to run overnight batch updates fed to them on punch cards (an old but surprisingly long-lived form of offline storage, youngsters).

It's the purpose that's changed, not the systems. Recognise that and there might be a chance of addressing the new purpose. ***BT***



David Bannister
Editor

Nasdaq to turn into tech provider

Nasdaq OMX is to combine its market technology and corporate solutions businesses, in a move that it says will provide more transparency to customers and a stronger business proposition.

The market technology business is the part of Nasdaq that sells trading technology, an increasingly important source of revenue for global exchanges. Nasdaq claims it has helped to provide technology for some 70 exchanges around the world, as well as risk management and surveillance tools. Corporate solutions provides market intelligence and communications tools designed to help companies communicate with stakeholders and reduce risk. The new combined unit will be led by Anna Ewing, executive vice president of global technology solutions at Nasdaq OMX.

"We're not just an equities exchange anymore," said a source close to the situation. "We sell technology, and we need to combine the expertise we have to push forward."

Competition over the opportunity to sell trading technology to emerging market exchanges around the globe has become commonplace, as exchanges in the US and Europe look for alternative source of income to compensate them for the loss of market share they have suffered in their home markets.

Nasdaq OMX's main rival in this space are other exchanges, including NYSE Technologies, which recently provided its technology to the Qatar Exchange in Doha. The London Stock Exchange is also active selling trading technology via its subsidiary MillenniumIT. Deutsche Börse's Xetra technology is also used by other stock exchanges in Europe.

Aside from its efforts in trading technology, Nasdaq is also currently negotiating to acquire Thomson Reuters' investor relations, PR and multimedia solutions businesses. The deal is not yet finalised, but the Nasdaq offer currently stands at $390 million in

Bank headcount cuts bite deep

Investment banking suffered worst, but few were spared as January saw more job losses in the banking industry, reports **Elliott Holley**.

In late January, Lloyds Banking Group announced plans to axe a further 940 jobs, the latest in a series of savage headcount culls at major financial institutions exacerbated by lacklustre macroeconomic performance in Europe, a declining stock market and tightening financial regulation.

Lloyds has made 31,000 redundancies since 2009, including staff at its Halifax branches. The cuts have been echoed at other banks, including Citigroup, which has announced 11,150 job cuts since November 2012 alone, and Morgan Stanley, which has cut 1,600 within the last three months. The Citi redundancies are part of a corporate restructuring plan that aims to cut $1.1 billion in annual costs by 2014, with $900 million of that to be achieved by the end of this year. Cuts at UBS, where 10,000 employees will be axed by 2015 under the firm's restructuring plan, represent 16% of the bank's workforce, according to figures provided by Bloomberg Industries.

Many of the cuts at the large wholesale banks have taken place in the investment banking sector – for example, Morgan Stanley reportedly plans to cut 15% of its investment banking staff in Asia. In September, Deutsche Bank cut 10% of its equities sales and trading staff; the bank cut some 2,000 jobs from its investment banking arm by the end of the year, and is also currently said to be considering a 20% bonus cut in Europe. However, the latest round of Lloyds cuts include axing or offshoring 400 jobs in IT and human resources, as well as 175 redundancies at the branch level.

Trade union Unite has condemned the cuts at Lloyds, calling on the bank to rethink its strategy rather than removing so many of its staff.

"Since 2009 Lloyds has slashed a quarter of its workforce. It is a complete disgrace that the bank, which is 41% owned by the taxpayer, continues to cut jobs in such a cavalier way. Unite opposes these cuts and will be doing everything possible to stop compulsory redundancies. "

However, Lloyds has insisted that the cuts are a part of its strategic review, agreed in June 2011, in which it decided that it would cut 15,000 jobs between then and the end of 2014. "This is about streamlining the business and making services more efficient for customers," said a spokesperson for the bank.

Other observers have suggested that the cuts represent a longer-term shift in the financial services industry. According to Simmy Grewal, senior analyst at Aite Group, banks are unlikely to see a return to the same level of profits that characterised the larger investment banks before the financial crisis.

"The industry has changed fundamentally," she told *Banking Technology*. "Rising capital requirements make it harder to make money; without enough revenue, banks have no choice but to cut costs. The industry is saturated – the banks can't maintain the scale they have been used to."

Pointing out that during the period 2007/8, banks made deep cuts to their workforce only to hire back many of the same staff 18 months later, Grewal added that the lack of long-term planning at some institutions was a hindrance to their return to profitability. It might be better, she argued, for banks to specialise in their particular areas of expertise and cut back in sectors where they are simply duplicating the same commoditised services. Shared infrastructures, for example in the post-trade space, might offer a real improvement both for banks and their customers.

In November last year, Norwegian broker Christiania outsourced its own execution to another company, execution specialist Neonet. Although execution has traditionally been seen as a core part of a brokerage business, Christiania decided to focus on its research expertise as its core value-added service, cutting away the need to maintain any permanent staff or infrastructure for execution.

"With limited revenue growth or declines, the importance of cost control in preserving profitability raises the value of effective management," said Alison Williams, senior banks analyst at Bloomberg Industries. "The ability to drive costs lower while making strategic choices that balance future opportunities and existing business is crucial."

The Bloomberg job cut figures make for interesting comparison with research by Morgan McKinley's London Employment Monitor at the end of last year, which showed that the number of available financial services jobs in London fell from 3,859 in October 2011 to 2,457 one year later, representing a decrease of 36%. Though the McKinley figures represent job vacancies across all financial services firms, it does give some impression of the filter-through effect of the crisis on overall activity in the sector.

The figures also suggest that the branch cuts in the UK have been echoed by similar measures in the US. In retail banking, Bloomberg found that revenue pressure has all but halted the expansion of bank branches since 2008, and may be beginning a contraction. Data suggests that US bank SunTrust made a 1.5% cut in branches and 8% cut in branch staff over the last year, while rival KeyCord closed 19 branches by the end of 2012 with a target of a further 50 to 60 by the end of this year. ***BT***

Payments Council pushes mobile payments back another year

The UK Payments Council has announced that the introduction of its planned Mobile Payments Service has been pushed back until "spring 2014" – a year after its previously expected introduction, and two years after Barclays broke and launched its PingIt service.

The delay comes despite commitments from financial institutions that represent 90% of current accounts in the UK, with Barclays, Cumberland Building Society, Danske Bank, HSBC Bank, Lloyds Banking Group, Metro Bank, Royal Bank of Scotland and Santander lining up in support.

A spokesman for the Payments Council said that the lengthened deadline was to ensure that the service is "as ubiquitous as possible" when it does launch. "The extra time is to ensure that we have that ubiquity – although the institutions that have committed represent 90% of current accounts, we are not looking at this being limited to current accounts. We want to attract innovative payment services providers."

The Mobile Payments Service will be open to any Payment Services Provider that has access to the Faster Payments or Link networks. Both of these are operated by VocaLink, which was also contracted by the Payments Council to manage the proxy database of mobile numbers that is central to the service.

Testing of the database was completed in December, and VocaLink executives had previously said that they expected the service to be available in the first quarter of this year.

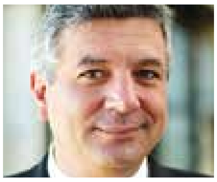
The new service will move money directly between accounts using the established Faster Payments service, which processed more than 800 million online and phone banking payments in 2012; and the Link network, which processed 3.1 billion real-time ATM withdrawals last year.

Further announcements of additional non-bank PSPs committing to the service are expected in the year-long countdown to its introduction, the Payments Council spokesman said. Closer to the actual launch, those that have signed up will be canvassing customers to get them to sign up via their online banking service, mobile app or other approved method to provide their mobile number and confirm which account they want to link it to.

This will be accompanied by a Payments Council awareness campaign in the national media. Getting maximum exposure as part of this is one reason why it is unlikely that another bank might follow Barclay's example and introduce a service ahead of time, according to one source familiar with the negotiations.

While some institutions are frustrated by the delay, they see a need for a united front, and that means "almost by definition they have to move at the pace of the slowest", said the source. "It is a year's delay against the originally conceived introduction, but the banks have been taking stock of what they want to be able to offer, and there have been considerable enhancements to the nature of the service." ***BT***

Swift's Innotribe Challenge 2013 opens for entries



Swift has opened its Innotribe Startup Challenge 2013 for entries. The year-round competition is intended to introduce financial industry decision makers and early-stage investors to the "innovations and emerging companies that are poised to transform the industry".

This year's Challenge is expected to attract hundreds of early-stage start-ups and growth-stage innovators from around the world. It includes three regional showcases in the US, Asia and Europe. Dozens of industry professionals will select five of the companies as finalists –three start-ups and two growth-stage innovators – at each of the three events to present to in a final held at Swift's annual Sibos conference, which this year is in Dubai in September.

Kosta Peric, head of innovation at Swift and co-founder of Innotribe said: "The Innotribe Startup Challenge is an unrivalled opportunity for the most innovative entrepreneurs and professionals of our industry to engage with senior decision makers from global financial institutions. The 2012 Challenge was a huge step towards bridging the gap between the start-up and wider financial communities, and I know that this will continue in 2013. This year, CTOs and other executives are under pressure to cost-effectively maintain their levels of excellence but are also expected to implement innovative new projects. Collaboration between start-ups and investors to help create products that the whole finance community can benefit from is what Innotribe is all about."

To be eligible, start-ups must have a working prototype and less than $1 million in revenue or investment. Growth-stage companies must introduce innovations that have not yet been publically announced.

In 2012, more than 400 financial technology and service start-ups entered the competition, with 15 finalists chosen to compete in the final at Sibos in Osaka.

This year's regional showcases will be held in London in April, Singapore in May and New York in June 2013. ***BT***

■ *http://innotribe.com/*

CGI, which recently acquired UK software house Logica, has formed a partnership with mobile banking and payment specialist Monetise to offer joint services for banking and payments companies using the Monitise platform. The alliance between CGI and Monitise will initially focus on European retail banks in the UK, Benelux, Nordics, Germany and France.

Hong Kong Exchanges and Clearing has signed a deal with low-latency specialist Telstra Global to establish a point of presence at its new data centre at Tseung Kwan O. This will give market participants at HKEx access to Telstra's high-speed EPL Express service, which connects toNew York, London, Frankfurt, Singapore and Tokyo, and allow financial institutions to access HKEx more easily using the Telstra network. Rival company RTS Realtime Systems already has its own data centre presence in Hong Kong, part its ambitious plans for expansion in Asia Pacific, and Thomson Reuters has been planning to launch its own Elektron co-located service at HKEx's data centre since April last year.

Squawker, the start-up block trading venue based on social networking principles, has moved one step closer to its goal of providing a pan-European mid-point matching service for banks and brokers, following a deal between it and Switzerland's SIX Financial. Under the deal, SIX Financial Information will provide the market data that Squawker will need to match its sell-side clients at the mid-point. The real-time data is fundamental to the working of a platform that markets itself as a sell-side to sell-side block crossing network.

Central securities depository Clearstream has partnered with Belgian bank and insurance firm Belfius to develop a new collateral service for bilateral trades, focusing on OTC derivatives and aimed at corporates and medium-sized banks. Due to be launched before the end of this year, the deal should allow Clearstream customers to use their collateral more effectively for cleared and uncleared OTC derivatives trades by reducing fragmentation. Clearstream will offer margin calls, dispute management, portfolio reconciliation, legal contract review and administration, payments and settlements reporting, a cash reinvestment mechanism and collateral transformation.

An alliance between central securities depositories in Germany, Spain, Brazil, South Africa and Australia aims to tackle the expected global shortfall in collateral arising from tough new financial regulation. Dubbed the Liquidity Alliance, the group consists of Clearstream, Iberclear, Cetip, Strate and ASX. The five companies will meet each quarter to work out the most efficient way of dealing with collateral and to discuss partnerships, commercial opportunities and key issues.

Interdealer broker ICAP has raised $36 million through the sale of a 12% stake in its Traiana post-trade processing and risk management business to a consortium of banks – Bank of America Merrill Lynch, Barclays, Citi, Deutsche Bank, JP Morgan, Nomura, and the Royal Bank of Scotland. The money will be used to develop the Traiana operation, which provides global banks, broker/dealers, buy side firms and trading platforms with services to automate post-trade processing and risk management of financial transactions in listed and over-the-counter trading markets.

Institutional investors have expressed support for controversial new proposals in Germany to control high-frequency trading, including a requirement to obtain a licence or stop trading. The German parliament's finance committee is currently reviewing the draft regulation, which includes measures to impose minimum tick sizes, order to trade ratios, and an obligation for HFT firms to submit their algorithms and trading strategies to the regulator.

IT2 Treasury Solutions, a UK company that provides treasury management software and services for large corporations and small and mid-sized financial institutions, has been bought by Wall Street Systems, a subsidiary of trading technology provider ION Trading. The IT2 software supports treasury in its entirety, including cash, debt and investment, financial risk, treasury accounting and hedge accounting. It also provides payments, eBAM and FX exposure management.

ATM maker **Diebold** has developed an ATM that lets customers withdraw cash without using a card. To complete a withdrawal, the bank customer scans the ATM's QR code using a smartphone. When the devices synchronise via the cloud, a transaction screen appears on the smartphone, allowing the user to select the withdrawal amount. The cloud server then sends a one-time code to the smartphone, which the customer enters on the ATM screen to authenticate the transaction and receive cash. The device was previewed at the recent Consumer Electronics Show in Las Vegas.

BNY Mellon is planning to open a new issuer central securities depository that it claims will offer market participants more efficient post-trade services. The new Belgium-based facility will offer issuer, settlement and safekeeping services for market participants across Europe and other global markets. BNY Mellon says that the new CSD will offer clients the advantages of interoperability by linking with other CSDs around the world. The firm says clients will benefit from faster settlement by maintaining both seller and buyer accounts within BNY Mellon CSD.

Wegelin and Co is to close following a prosecution for helping US citizens evade taxes. The bank, which has existed since 1741 and was Switzerland's oldest, has transferred the majority of its clients and staff to Swiss bank Notenstein, a 100% subsidiary of Raiffeisen Switzerland. Wegelin, based in St Gallen, Switzerland. The bank pleaded guilty to charges of conspiracy to help US citizens evade $1.2 billion in taxes since 2002 and agreed to pay $57.8 million in compensation to the US Government.

Data users wanting to use Reuters Instrument Codes to access data carried on consolidated data feeds from other information providers will be able to do so following the resolution of a European Commission investigation into whether Thomson Reuters was abusing its monopoly position. In 2009 the EC announced an investigation into Thomson Reuters' practices in the area of real-time market datafeeds, looking in particular at whether customers or competitors are prevented from mapping RICs to alternative identification codes of other data feed suppliers "to the detriment of competition". Earlier this year, Thomson Reuters proposed a compromise solution – it would offer an Extended RIC Licence, allowing users to map RICs under certain conditions for a fee. Following market testing, the EC has accepted this and declared it legally binding .*BT*

Market moving

Bankers always say that alternative payments systems will move into the mainstream. As mobile technologies become the norm, **Heather McKenzie** wonders if this still holds true.

According to John Donahoe, chief executive of online marketplace eBay, "mobile is becoming the new normal". Donahoe was speaking during a conference call with investors last month, at which the company announced record profits.

Mobile eBay applications have been downloaded on more than 120 million devices such as smartphones and tablet computers. Donahoe predicted that PayPal (which is an eBay subsidiary) together with eBay's marketplace division, will each process more than $20 billion in mobile transactions this year.

Among the new moves being made by eBay in the mobile market is a partnership with equipment manufacturer NCR that will enable people to pay at restaurants with their smartphones and a deal with a chain of drinks outlets to allow customers to pre-order and pay for a drink from their smartphones.

Ebay's moves are just one example of the growing tide of mobile payments applications. A joint European Financial Marketing Association and Oliver Wyman report, *Advanced and mobile payments: what's stopping you?,* says alternative payments methods are gaining traction. Between July and September 2012, Oliver Wyman and EFMA conducted a survey of 148 banks in Europe, the Middle East and Africa and a further ten banks from the rest of the world.

According to the survey more than 80% of banks offer internet payments and servicing capabilities, while fewer than 60% offer mobile banking services via a mobile-optimised website. Only 30% offer contactless credit or debit card capabilities, with that number falling to less than 20% for payments using near field communication standards.

Banks are increasing their spending on alternative payment methods, with 30% saying they are investing "heavily" as these methods are essential to their future business, says the report. Half of the banks surveyed are investing only in order to keep pace or catch up with their competitors. This approach is not enough in an environment where new, non-bank competitors are gaining ground, says the report.

"Banks believe that merchants are reluctant to adopt the new technology because they fear consumers will not use it, and vice versa" James Sherwin-Smith, a senior manager within the payments practice at Oliver Wyman, and author of the report, says. "The risk for banks is that new competitors will invest enough in both the technology and the marketing to overcome these barriers. This will weaken the role that banks play in fulfilling their customers' everyday transactional needs, with an associated loss of the valuable information this provides."

Patrick Desmarès, EFMA secretary general warns banks that they no longer have the payments field to themselves and will have to fight against retailers, mobile phone providers, technology firms and new start-ups to gain a share of the market. "Even if banks decide not to push hard in the alternative payments space, this should be a considered, strategic decision."

The report states: "The risk for banks is that someone else will invest enough in technology and marketing to get consumers and merchants over their doubts, end the impasse and further weaken banks' hold on their customers."

It is often said at payments conferences that all alternative payments eventually find their way into the banking system; but it remains to be seen whether this always will be the case and whether banks are not missing out on a bigger slice of the pie by being more involved in mobile payments.

Banks' priorities in alternative payments are very focused on internet banking, while payment via SMS on mobiles is very niche. Mobile banking solutions are becoming commonplace with payment and point of sales solutions a development priority for the banks surveyed. On the other hand, contactless, mobile wallet and optical payments technology remain rare developments although the survey revealed that some banks are beginning to develop solutions in these areas.

Banks identified gaining new customers and building deeper relationships with existing customers as the two main reasons they have for investing in alternative payments. Just over 50% felt such investment would differentiate their institution from competitors, while just over 40% think alternative payments will deliver increased revenues per customer. Very few respondents considered such investment would reduce costs and none thought it would help in customer retention.

Says the report: "Customers may not switch their current account to a new bank in search of superior payments provision, but if they switch to making payments through non-bank channels, banks may still lose extremely valuable business and information."

The generally modest, if growing, investment in alternative payments is also motivated by what many banks perceive to be a standoff between consumers and merchants, says the report. "Consumers are reluctant to adopt new payments technology unless they believe it will be accepted by most merchants, and merchants are reluctant to adopt technology that has low levels of consumer usage."

The report suggests this stand-off could be ended if banks invest not only in developing the technology but make it available at low or no cost to their customers. What is stopping them, suggests the report, is that retail bank customers tend to be loyal to their bank and that banks have always dominated the payments market. But, warns the report, banks no longer have the payments field to themselves.

There is a significant dilemma that banks perceive in alternative payments and innovation. According to the report, respondents believe the main beneficiaries of alternative payments services will be consumers and payment card networks. The biggest losers, they fear, will be current account providers, ie, banks.

Payments businesses can no longer be run as mature businesses that deliver stable returns based on established technology and scale. Continuous innovation in payments methods, often by organisations other than banks, is rendering the traditional approach – bolting on new layers of capability to legacy platforms – unworkable, says the report. It is a short-term fix that stores problems for later on. ***BT***

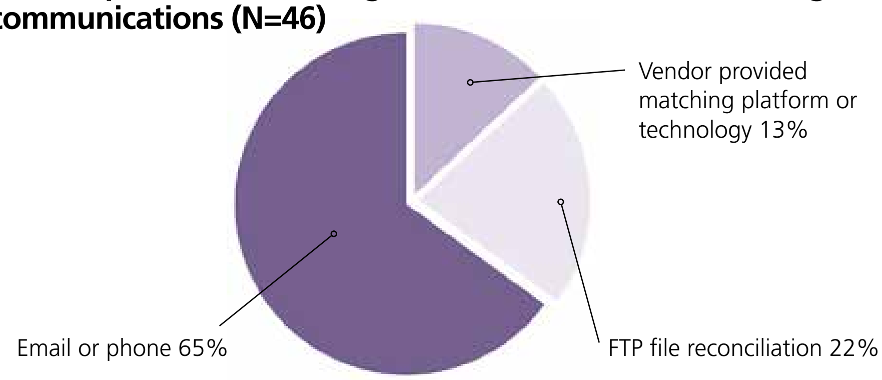
Poor relations, poor results

The skewing of budgets and attention towards the front office means that many brokers are still relying on antiquated systems for trade confirmation. Elliott Holley reports.

Too many brokers are still using outdated methods such as email and telephone to confirm trade matches, undermining the advantages gleaned from high-performance trading technology, according to a new study by financial research firm Aite Group is Broker-to-Broker Matching: Plus Ça Change…

Of 46 firms surveyed by Aite, the majority (65%) send email or telephone confirmation messages to their broker counterparts and a minority send file transfer protocol files (22%) or use electronic matching technology (13%). Two of the top 10 largest institutional brokers have still not invested in connectivity to electronic trade matching platforms, although both plan to do so in the next 12 months.

Current process for sending out broker-to-broker matching communications (N=46)



The findings illustrate the stark contrast between the front-end trading desks and the mid- and back-office areas at many brokers, which typically receive less investment due to their perceived status as a pure cost centre that contributes little or no additional revenue to the business. While most brokers have developed high-tech trading tools at the front office, including algorithms, direct market access, smart order routing technology and low-latency connectivity, few have spared the same kind of expense away from the front line.

"The middle-office often gets passed over in favour of the front-office," said Virginie O'Shea, senior analyst at Aite. "The result is an anomaly – a super-fast front end that has all the latest low-latency kit to keep up with the cheetah traders, and a slow back end that simply doesn't have the same level of resources."

'Cheetah traders' refers to the kind of latency-sensitive, high-speed market participants such as HFT prop trading firms that have come to dominate equity markets in recent years. Mid- and back-office processes cover position keeping, trade confirmation, clearing and settlement processes that take place after the trade has been matched at the market.

Mid- and small-tier brokers can be particularly reluctant to invest in the mid- and back-office, as their revenue centres have been hard-pressed by a combination of declining commission revenues and increasing regulatory burdens in recent years. The broker commission pool decreased by 29% last year, according to estimates provided by TABB Group. Meanwhile, staff cuts at many major financial institutions have further added to the difficulty of finding sufficient resources. The result, according to Aite, is a reliance on manual processes that are prone to human error.

"Staff are using spreadsheets and emails to keep track of matches," said O'Shea. "That represents a big operational risk. Mistakes can easily creep in, while employees are being tied up in a time-consuming and inefficient process. This isn't being looked at enough."

Despite the warnings, the majority of respondents to the survey (53%) have experienced a decrease in spending on trade support over the last two years, with most of these reporting a moderate (20%) or significant (20%) decrease in budget on a year-over-year basis. The average estimate for overall spending on broker-to-broker trade support is between 3% and 10% of the brokerage firm's overall annual budget, Aite found.

Just 11% of respondents have plans to adopt electronic trade confirmation processes in the next 12 months, while 9% will invest "in the near future". Moreover, the Aite research suggests that this situation is unlikely to improve any time soon. Headcounts have shrunk and may continue to do so as the tough economic climate could compel more firms to downsize and offshore, said the report.

"The vast majority of brokerage firms have not adopted broker-to-broker electronic trade confirmation technology," added O'Shea. "Although there could be some regulatory imperatives to invest for tier-1 firms, this lack of adoption will remain the case for the majority of the tier-2 and -3 market for a long time to come." ***BT***

■ *www.aite.com*

Moscow reforms will "fundamentally change" Russian markets

Plans to reshape the country's financial services sector and make Moscow a powerhouse are falling into place, writes **Elliott Holley.**

The upcoming IPO of Russia's Moscow Exchange is just one step in a titanic effort to transform Russia's capital markets and attract attention from international investors – and it may not be the most important one, according to Serge Alexandre of electronic trading services at Russian broker Otkritie.

"There have been huge investments from the exchange," said Alexandre. "The need for more IPOs on the domestic Russian market is vital. But the real crunch is the establishment of a central securities depository, which means that US investors will find it far cheaper and faster to access Russia, and the switch to T+2 settlement later this year, which will fundamentally change the nature of doing business in Russia."

The Russian government has been keen in recent years to promote Moscow as a major international financial centre. To that end, the country's RTS and MICEX exchanges were merged in 2011 to create the Moscow Exchange. Then in November 2012, a CSD was created by Russia's NSD, which is also part of the Moscow Exchange.

That was important because under US Securities and Exchange Commission rule 17F7, US investors had to place assets with a depository. Without a CSD, settlement arrangements for Russia were widely viewed by outsiders as complicated, expensive and inefficient. A CSD provides transparency over securities ownership and can help reduce risk in the event of a bad trade. In December, Russia's NSD received further support when the Russian Federal Markets Service agreed to provide information regarding Russian issuers and securities issues to NSD so that it can fulfil its role more effectively.

Equally important for the future is the planned switch of the entire Russian market to T+2 settlement later this year. At present, Russia operates a T+0 settlement cycle, which means that trades settle immediately at the point of the transaction. This system is a major obstacle to many foreign investors, because the seller must be able to pay at the moment of the transaction. At present, most of Europe uses T+3 settlement, with the exception of Germany, which operates on a T+2 basis. But the Moscow Exchange is due to move 20 of the most liquid stocks from its MICEX order book to T+2 settlement next month, with the remainder due to follow by the end of July.

"This is a major change," said Alexandre. "With the rising levels of automation and STP in post-trade processing, several European countries are already looking at T+2 settlement, which can help reduce risk because the assets have to be held for less days. Moscow Exchange is positioning itself for the future."

While Alexandre suggests it is doubtful whether the planned switch can take place in February as planned, citing lack of preparedness among market participants, he does believe it can comfortably be achieved well before the end of this year. However, despite the internal market reforms the Moscow Exchange must still compete with the London Stock Exchange's international order book for IPO listings.

At present, the IOB is overwhelmingly dominated by Russian companies, while the number of IPOs in Russia has fallen from 14 in 2007 to just 1 in 2011 and zero in 2012, according to figures provided by PricewaterhouseCoopers.

Part of the problem for Moscow Exchange is that the IOB is often seen as a way for companies to gain wider exposure than they would on the domestic Russian market. Its advantages include the ability to trade in US dollars, the T+3 settlement cycle, potentially deeper liquidity at the closing auction, and its inclusion in the MSCI Russia Index, according to Otkritie. But the company's research also suggests that investors should still visit the local Russian market, because not all Russian stocks have a depository receipt; it has estimated that the IOB still only represents 20% of the available trading opportunity in Russia. Either way, Moscow's plan to IPO on the domestic bourse has been widely seen as a statement intended to encourage liquidity back to Russia's home markets.

Developments in technology are also helping to make connectivity to Russia an easier proposition for international investors keen to try their luck in the BRIC market.

Earlier this month, technology and connectivity provider TMX Atrium launched a new high-speed route from Frankfurt to Moscow, so traders based there can also take advantage of the link to connect to Russia faster than before.

Meanwhile, in September last year, BT set out its plans to expand its reach into the country through a new network link with Rostelecom, Russia's national telecoms operator, improving the opportunities for foreign institutional investors to access Russia's markets through the BT Radianz Cloud.

"It will take time, but Russia is changing," said Alexandre. "Much of the heavy lifting has already been done. It's now more a question of gradual refinements, and of investors getting used to trading in Moscow. Russia is open for business." ***BT***

Riding the payments roller-coaster

Banks are often seen as being marginalised by rapid changes in payments technology, but they could actually be in a very good position to rebuild trust and reputation if they take the opportunity.

UK banks are still in "a difficult place" as they face economic uncertainty, increased cost and competitive pressures, complex regulations and rapid technological changes – but the changes that are happening in the payments industry offer scope for them to reclaim the initiative and deploy innovative solutions.

That was the message from a panel of experts convened by Oracle at the British Bankers' Association in London recently.

The stage was set by Eric Leenders, retail banking executive at the British Bankers' Association, who said that the banking industry is still "in a difficult place", having fallen from grace in the financial crisis, and still suffers from a lack of trust. Underneath that, however, retail banking is still a simple business: taking deposits making loans, and handling payments.

Leenders pointed on that all of these are changing in subtle ways – looking at the UK loan market, he pointed out that if current trends continue, the largest category of unsecured loans will be student loans within three to four years. More generally, he said that banks are also affected by the wider economy, where the trend seems to still be that people are "saving not spending".

On top of this, the spectre of payment protection insurance mis-selling continues to haunt the industry, while the "Twin Peaks" of new regulatory bodies replacing the former Financial Services Authority will usher in a new regulatory approach. [The Financial Prudence Authority will be responsible for the financial stability of the industry and the Financial Conduct Authority will be responsible for, among other things, the way the industry interacts with its customers, including payments services.]

"There will be a whole new approach to supervision, more akin to the US or Japanese approach," said Leenders. This move away from 'light-touch' supervision is also likely to result in further attempts to have the industry compensate for past products. "PPI is only an example of the retrospective application of legislation," he said.

One potential area of trouble on the horizon concerns endowment or interest-only mortgages, which were heavily marketed in the 1980s and are now coming to maturity: with an endowment mortgage, the consumer repaid only the interest on the loan, not the loan itself, plus

a proportion into an investment that would pay the loan on maturity. A combination of falling interest rates and rampant house price inflation means that many home-owners now face the possibility of begin unable to repay the principle.

In the face of these market conditions, banks are looking at simplification of their business models and product offerings, and increasingly looking to migrate their customer base upwards to the more profitable mass affluent sector, while continually working to contain costs.

While technological changes are affecting all areas of banking, payments services is undergoing a more dramatic shift than most. The combination of mobile developments and a move to real-time systems, together with government-led modernisation initiatives and wider changes in the regulatory framework, such as the Single Euro Payments Area, have created a rapidly changing and confusing environment.

In many ways, the UK is ahead environment of the curve in adopting new payment technologies. David Gradwell, head of consulting at payment infrastructure provider VocaLink told the audience that the Faster Payments System has been rapidly taken up, as demonstrated by the fact that almost all standing order payments have migrated from the BACS scheme to FPS.

VocaLink has been commissioned by the UK Payments Council to manage the proxy database that will be used for the mobile person-to-person money transfer scheme that is scheduled to come into operation in the first quarter of 2014.

The database maps account details to a proxy, simplifying the process of transferring money. Typically, this proxy will be a mobile phone number, but it could actually be pretty much anything, said Gradwell. One option might be for a proxy to be a National Insurance or Social Security number, for instance.

VocaLink will be managing the service, proving it via Faster Payments or the Link scheme used for ATMs, which has a wider membership. It is developing interfaces for banks that already have mobile service offerings and also a version for banks that haven't yet developed their own, providing a managed service, including the registration process. "It's not a zero cost, but as IT projects in banks go, this is as easy as it gets," he said.

Rob Kotlarz, business development director at Sterci, which provides payment systems to Lloyds and HSBC, said that this sort of innovation, far from disintermediating the banking industry, plays to its strengths: "When people say that banks are going to be redundant going forward it amuses me, because banks are the market infrastructure, and that is the competitive advantage the have in payments – PayPal wouldn't work without Bank of New York Mellon's connectivity to that market infrastructure."

Rik de Deyn, senior director, banking, at Oracle agreed, pointing out that a common infrastructure across payment channels has other benefits too. Addressing Leenders' point about cost containment, he said that taking "payments as a business" and modernising payments systems has significant impact on running costs – in some examples he gave this amounted to a 66% reduction in total cost of ownership over five years.

"Some things are non-negotiable, like business continuity, but that saving moves from the maintenance budget to innovation," he said. ***BT***

Washington watchdog raps regulators over Dodd-Frank rule-making

A lack of co-ordination between agencies, insufficient cost/benefit analysis and poor data from which to work are highlighted as issues for US agencies. **David Bannister** reports.

US financial services regulators have not properly evaluated the impact of rules they have proposed or introduced in implementing the Dodd-Frank Act, and should improve their co-ordination says a critical report from a congressional watchdog, the Government Accountability Office.

While the GAO found that those Dodd-Frank rules that have been enacted seem to have contributed to improvements in bank's stability and ability to weather a future crisis, it said that the Department of the Treasury, Securities & Exchange Commission and Commodities Futures Trading Commission and others have not implemented previous recommendations on how they evaluate alternative approaches and have not been formal enough in the way they co-ordinate their activities.

The report re-iterates those recommendations, and while not adding any more, suggests a set of analyses of the impact that the rules are having on banks' stability that could be used as a baseline for further analysis.

The GAO is careful to emphasis the on-going nature of the work and the difficulty faced by the agencies: "The full impact of the Dodd-Frank Act remains uncertain," it says. "Although federal agencies continue to implement the act through rulemakings, much work remains. For example, according to one estimate, regulators have finalised less than half of the total rules that may be needed to implement the act. Furthermore, sufficient time has not elapsed to measure the impact of those rules that are final and effective."

Nonetheless, it pulls no punches: "... CFTC and SEC generally did not evaluate the benefits and costs of their proposed rules' requirements compared to such alternative requirements. Instead, their rule proposals only presented the proposed set of requirements composing their rules and discussed the potential benefits and costs of their overall regulatory approaches."

Critics of the regulators are likely to seize on criticisms of the extent to which the agencies preformed cost/benefit analysis on rules and alternatives. "The regulators generally did not quantitatively analyse the benefits and, to a lesser degree, costs of the rules we reviewed," it says. "CFTC, the Federal Reserve, and SEC did not quantitatively analyse the benefits of these rules. CFTC and SEC monetised and quantified paperwork-related costs under PRA, but did not quantify any other costs."

It also gives credit where it is due, acknowledging examples of good practice as well as bad.

"Two of the major rules we reviewed did not evaluate alternative approaches for key provisions in their rule proposals, but the final rule releases did evaluate alternatives considered by the agencies," it says. "In implementing the Dodd-Frank provisions, the agencies exercised discretion in designing the various requirements that composed their rules, such as defining key terms and determining who will be subject to the regulations and how. In their rule proposals, CFTC and SEC identified alternative approaches for key provisions of their rule proposals."

One example of this comes from the swaps market. The CFTC identified the consolidated tape approach – used in the US securities markets to publicly report data on securities – as an alternative method for distributing swap transaction data in real time, while the SEC considered requiring potential whistleblowers to use in-house complaint and reporting procedures before they make a whistleblower submission to SEC.

The agencies are often working in new areas and have little to guide them: they told the GOA that developing a baseline from which to assess the benefits and costs of what would have happened in the absence of a regulation was complicated by the lack of reliable data to quantify the benefits and costs. "CFTC staff told us that they were challenged because little public data were available about the opaque swaps market," the report says. "Moreover, because the rule created a new regulatory regime, CFTC did not have the data needed for the analysis. Instead, CFTC had to rely on market participants to voluntarily provide it with proprietary data. CFTC staff said that they did receive some proprietary data but that they were incomplete."

Co-ordination between agencies continues at an informal level, but that may not be adequate to eliminate the potential for differences in related rules. "Regulators have co-ordinated on 19 of the 54 substantive regulations that we reviewed, in some cases voluntarily co-ordinating their activities and also extending co-ordination internationally," the GOA says. "According to agency staff, most inter-agency co-ordination during rulemaking largely was informal and conducted at the staff level. Differences in rules could remain after inter-agency co-ordination, because the rules reflected differences in factors such as regulatory jurisdiction or market or product type. While a few regulators have made progress on developing guidance for inter-agency co-ordination during rulemaking, most have not."

"This report brings to light the fundamental issue of the day for regulatory reform: we are not taking the time to properly articulate the business case for the way in which we think banking should be supervised. Quite simply, the political intent can be achieved in many ways - and experts are required to make sense of how to meet many different objectives at once," said PJ Di Giammarino, chief executive at regulatory impact specialist JWG. "The G20's financial services regulatory reform programme has kicked off what is sure to be one of the largest technology and operations projects ever undertaken. We can't afford to do it in the dark. Better targets, blueprints and road maps are needed urgently if we don't want to fail. This won't happen without better engagement models that include the banks at a meaningful level." ***BT***

■ *www.gao.gov/assets/660/650947.pdf*

Splitting the difference

IT spending is nudging upward around the globe, but regional differences show up in banks' priorities. **David Bannister** looks at some new figures.

Total bank IT spending across North America, Europe, and Asia-Pacific will grow to $179.2 billion in 2013, an increase of 3.4% over last year according to research and consulting firm Celent.

In a new report, *IT Spending in Banking: A Global Perspective*, the firm says that "this slight upward shift is an encouraging indicator of future growth" but warns that "regional nuances cannot be ignored".

Although 2012 saw a reduction in global IT spending growth, 2013 will "take us to more positive and encouraging territory", it says, but the regional nuances that affect these figures mean that the picture "is not encouraging across all regions".

This time last year Celent was forecasting a 3.1% growth for 2013, so it has revised upwards, continuing to believe that the momentum is "positive and consistent". Spending in 2012 was $173.3 billion, an increase of 2.8% over 2011, and looking ahead, the firm continues to have a positive outlook, predicting IT spending to grow by 3.6% in 2014 and 3.4% in 2015.

The majority of the growth is coming from Asia Pacific, which has become the largest market globally. Spending by banks in Asia-Pacific will grow by 5.9% in 2013 to $62.3 billion. This growth will continue: IT spending will grow by 5.8% in 2014 to reach $66.5 billion.

North American banks, specifically US banks, are also reporting positive and encouraging results: growth is rising faster than anticipated. In this region, Celent predicts that spending will grow by a "solid" 4% in 2013 to $56.9 billion, and in 2014 it will increase further, growing by 4.4% to $59.4 billion.

Europe remains the fly in the global ointment: "Once again, European banks are in far deeper trouble and are reporting little to no growth," says the report. "Inflation is predicted for many countries in Europe to run at levels higher than 2.0% for the next several years at least, so the growth is marginal at best, and potentially a reduction in real terms. Spending by European banks will grow 0.4% in 2013 to $59.5 billion. European spending growth will continue to be flat through 2015 as spending increases by just 0.3% to $59.9 billion."

> "The percentage of funds dedicated to maintenance activities is still astronomical but is slowly coming down; this allocation should drop to 76.6% – $147.0 billion – in 2015."

European banks are also having the most difficulty in reducing the cost of maintenance, which remains the top item in any IT budget.

"Of the total investment in IT in 2013, a whopping 77.1% ($138.2 billion) goes to maintenance," says Celent. "The percentage of funds dedicated to maintenance activities is still astronomical but is slowly coming down; this allocation should drop to 76.6% ($147.0 billion) in 2015."

Unfortunately, the report notes that global economic conditions and uncertainty have "resulted in a slow shift to increased spending on new investments … this will change as financial services firms put greater emphasis on innovation. It will, however, take several years before it has a material impact".

New investment spending at North American banks has rebounded, and growth rates are strong compared to 2012 (6.8% compared to 3.8% growth in 2012). Asia-Pacific banks are continuing to ramp up new investment spending, though growth rates will decline in 2015, it concludes.

Banks will need to spend on new investments at least partly as a result of necessary system upgrades. "Frequently, financial institutions are running systems that are too obsolete, too slow, and inflexible," it says. "Systems like these prevent banks from achieving optimum operational efficiency, impede product development, and increase operational risk. Slowly but surely, many financial services firms that rely on technologies that are nearly 30 years old are realising the competitive advantage of modernising their core systems and byzantine legacy systems."

■ *www.celent.com*

Top Retail and Corporate Banking Trends:

North America	Europe	Asia Pacific
Offers, offers everywhere	Focus on understanding liquidity better	Launch of next generation e-banking systems
Digitalisation of the relationship with the customer	Driving SEPA to completion	Preparing for Basel III
Living on cloud 9	Turning regulation into an opportunity	Enhancing operational risk management
The convergence of online and mobile banking	Locating the place to re-engage with retail customers	Improving market and credit risk management
One solution to rule them all?	Accessing innovation at low cost and low risk	Post-earthquake business continuity in Japan
Mobile RDC mainstreaming	Turning off paper for more than just cost reasons	Foreign and regional banks entering emerging markets
Social media: listening, but then what?	Cards regulation: It is Europe's turn now	Renewal of core banking systems
A tipping point in branch transformation	Putting the "customer first"	Big data and customer behaviour analysis
Liquidity: challenges and opportunities to come	Keeping pace with client demands	Potential disruption from new business models
Riding the wave of regulation		Deregulation of capital markets activities

Trendy techs top CIO priority lists for 2013 says Gartner study

A perfect storm of disruptive technologies is putting cash-strapped CIOs on the back-foot and changing their relationship with the rest of the business, writes **David Bannister**.

Faced with flatlining IT budgets, global CIOs must better exploit the business potential of technology to achieve results – currently they realise only 43% of that potential says Gartner.

Top of the priority list is what the research firm calls 'digital technologies'. In this it includes mobile, analytics, Big Data, social media networking and cloud, all of which "have reached a tipping point with business executives" in the past 18 months.

The findings are from *Hunting and Harvesting in a Digital World: The 2013 CIO Agenda*, a global survey of CIOs by Gartner Executive Programs. Carried out in the fourth quarter of last year, the survey covered 2,053 CIOs, representing more than $230 billion in IT budgets across 36 industries in 41 countries.

"Digital technologies provide a platform to achieve results, but only if CIOs adopt new roles and behaviours to find digital value," said Mark McDonald, group vice president and Gartner Fellow. "CIOs require a new agenda that incorporates hunting for new digital innovations and opportunities, and harvesting value from products, services and operations.

McDonald said that not all of those surveyed are worried about the changes that are taking place around them – far from it, in fact. "In a world of change, it is concerning that around half of CIOs surveyed do not see IT's enterprise role changing over the next three years," he said. "IT needs new tools if it hopes to hunt for technology-intensive innovation and harvest raised business performance from transformed IT infrastructure, operations and applications. Without change, CIOs and IT consign themselves to tending a garden of legacy assets and responsibilities."

The survey showed that IT budgets have been flat to negative ever since the dot-com bust of 2002. For 2013 budgets are projected to be slightly down, with a weighted global average decline of 0.5%. EMEA is the only region to show slight growth of 0.4% in 2013. "While most CIO IT budgets in Western Countries are expected to be flat or negative, German CIOs are the most pessimistic with an estimate of 2% decline in their IT budgets in 2013," said Dave Aron, vice president and Gartner Fellow.

Digital technologies dominate CIO technology priorities for 2013. The top 10 global technology priorities revealed by the survey reflect a greater emphasis on externally-oriented digital technologies, as opposed to traditional IT.

CIOs see these technologies as disrupting business fundamentally over the next 10 years. When asked which digital technologies would be most disruptive, 70% of CIOs cited mobile technologies, followed by big data/analytics at 55%, social media at 54% and public cloud at 51%. The potential for disruption of each of these technologies is real, but CIOs see their greatest disruptive power coming in combination.

"As CIOs continue to amplify the organisation with digital technologies while improving IT organisational structure, management and governance, 2013 promises to be a year of dual priorities," said Aron. "Key CIO strategies identified in the survey reflect the realities of these dual business priorities and confirm the need to expand IT's ability to hunt for new opportunities and harvest current business value. While CIOs recognise that IT's value contribution comes from delivering business solutions, they also recognise that the prioritisation and delivery of specific results must change."

As needs and opportunities evolve, more CIOs will find themselves leading in areas outside of traditional IT. In addition to their traditional role, they are starting to assume responsibility for hunting for digital opportunities and harvesting value. 67% of CIOs surveyed have significant leadership responsibilities outside of IT, with only 33% having no other such responsibilities. This situation contrasts sharply with 2008, when almost half of CIOs had no responsibilities outside of IT. Almost a fifth of CIOs now act as their enterprise's chief digital officer, leading digital commerce and channels. Although this nascent role varies in scope and style, it normally includes championing the digital vision for the business.

"IT cannot expect to secure additional funding without assuming new responsibilities or producing new results," said Aron. "Reacting to limited budgets by restructuring costs, outsourcing and doing more with less made sense from 2002 to 2011, when the supply of innovative technologies was scarce. Adapting to, and leading, in the digital world requires doing things differently, yet in ways consistent with the demands of digital technologies. CIOs need to make the case that mainstream emerging mobile, big data, social and cloud technologies justify revisiting IT budget and investment levels." ***BT***

Top 10 CIO Business and Technology Priorities in 2013

Top 10 Business Priorities	Ranking	Top 10 Technology Priorities	Ranking
Increasing enterprise growth	1	Analytics and business intelligence	1
Delivering operational results	2	Mobile technologies	2
Reducing enterprise costs	3	Cloud computing (SaaS, IaaS, PaaS)	3
Attracting and retaining new customers	4	Collaboration technologies (workflow)	4
Improving IT applications and infrastructure	5	Legacy modernisation	5
Creating new products and services (innovation)	6	IT management	6
Improving efficiency	7	CRM	7
Attracting and retaining the workforce	8	Virtualisation	8
Implementing analytics and big data	9	Security	9
Expanding into new markets and geographies	10	ERP Applications	10

Source: Gartner Executive Programs (January 2013)

Planning for **profitability**

Regulatory demands and improved profitability are fuelling a move to dynamic capital planning, but few banks have firm plans reports **Tom Groenfeldt**.

Banks are moving toward more dynamic capital planning both to meet regulatory demands and to improve profitability, according to Alwin Meyer, chief operating officer, risk and performance management for SunGard's banking business.

"Regulators are certainly a main driver," said Meyer. "However, what we see is that banks are undertaking capital planning to ensure their profitability."

A survey of banks by Chartis Research on behalf of SunGard has found that although banks across the globe are placing greater emphasis on capital planning and stress testing, few have well formulated and defined plans in this area.

The survey, which covered 146 industry practitioners, found that banks are ranking capital planning as their highest priority. Many don't, however, seem to be in any rush to actually do anything about it. Over 45% of respondents confirmed that their current capital planning programmes are not fully defined and had only partial sponsorship from the board of directors.

A cultural shift towards capital planning must occur to help ensure banks have the necessary frameworks to effectively manage capital and help address current and future regulatory challenges, advised Chartis.

"Capital planning is becoming more and more strategic," explained Peyman Mestchian, managing partner at Chartis, speaking at a SunGard conference recently. "Capital planning used to be an annual planning cycle. Now annual has become quarterly or monthly and in some banks it is daily and intraday." Doing capital planning once a year in the modern financial world is a little nonsensical, he added.

Still, dynamic capital planning is at best a work in progress: "When we asked the banks how they would characterise their current capital planning, only one quarter said it was well formulated and systematic."

The Chartis report says they should get moving because regulations will require them to. Some of the findings had a familiar, even historical, feel, such as the conclusion that "banks will also seek to rely less on traditional performance based measurements, and to move towards more risk-adjusted performance metrics." RAROC anyone?

"Capital planning used to be an annual planning cycle. Now annual has become quarterly or monthly and in some banks it is daily and intraday."

Peyman Mestchian, Chartis

Chartis said that while banks are directing their risk management to regulatory demands, they should also be looking at improving risk management to improve profitability.

"Basel III, the Dodd-Frank Act, and other domestic post-crisis regulations are not going away and regulation will remain a major constraint on banks and will keep the cost of capital high. To adjust to the post-crisis financial environment, banks must adapt their capital management and capital planning programs not only to comply with regulations, but to improve the efficiency of their use of capital."

Mestchian said that many chief risk officers who were interviewed shared their pain around the sheer volume of regulatory requirements, especially in compliance and capital adequacy.

"Many risk people felt they were spending too much time on compliance and not having enough time for day-to-day risk management; that could be an unintended consequence."

Top concerns were skewed toward regulatory compliance with capital planning, including capital stress testing followed by calculation of regulatory capital and regulatory capital adequacy reporting.

The emphasis on regulatory capital adequacy has short-changed economic capital, capital allocation and might hamper efforts to use capital efficiently to price risk, Chartis reported. The report does not ask why banks don't simply assign more resources to capital planning so they can cover both regulatory requirements and business requirements such as risk management and cost reduction.

"Banks operate today under enormous pressure on their margins from various angles, putting their profitability at stake," said Meyer."Risk management and compliance remains a focus investment area and is still expected to get significantly increased budgets compared to 2012 according to a review performed by Risk magazine in late 2012. Nevertheless the ever increasing regulatory burden absorbs existing and additional funds in a way that puts the genuine risk management tasks at stake.

Kirk Wylie, founder and chief executive of the London-based risk management firm OpenGamma, agreed with Chartis that banks can't do both.

"One reason is that the requirements keep changing. We still don't have confirmation on exactly how Dodd-Frank will play out and Basel III is a shifting target," said Wylie. "Staffing is a problem because there is a fixed number of people industry-wide who have the quantitative and business knowledge to be able to work in these areas."

Capital planning does enjoy high-level attention with responsibility roughly divided between the chief risk officer and the chief financial officer, or the demand side of capital and the supply side, according to the report. It would probably help if banks understood what capital planning is – 45% said it is not fully defined, 26% thought it was tactical and a tiny 2.4% had no current process in place.

To achieve good capital planning, banks will need to invest in IT and systems. Chartis said that "data systems are largely inadequate because they are often piecemeal, rather than part of an integrated whole. Moreover, investment in these systems is hard to come by, because the business case of long-term savings through IT has not been heard. ***BT***

SEPA – the final countdown

More than a decade in the making, the Single Euro Payment Area comes into force in a year's time. Is everybody ready? Far from it, finds **David Bannister**.

Discussions around the implementation of the Single European Payments Area seem to have been going on forever, dominating the agenda wherever payments people gather.

The European Union published regulation in March 2012 that set two end dates for Payment Service Providers to comply with new regulations on direct credits and direct debits. This effectively abolishes previous national instruments and compels the use of IBANs, ISO 20022 and pan-European reach by:

- End of 2014 for eurozone countries;
- End of October 2016 for member states not using the single currency

This was largely welcomed as bringing down the curtain on the ongoing saga and giving some finality to proceedings. Despite this deadline, despite delays along the way, and despite the impending introduction of regulatory penalties in 2014, it is clear that many are not yet ready.

Whether this matters or not depends largely where you are coming from – both literally and figuratively, given that not all European Union member states are in the eurozone and don't have to be compliant till 2016.

Most banks are ready, to all intents and purposes, but what does that matter if their corporate and small business customers aren't? Research shows that most aren't, even in the larger European economies like France and Germany *(see panel)*. And what will the regulators do when it becomes apparent that deadlines aren't being met? The law – Regulation (EU) No 260/2012 – sets the requirement for member states to set their penalties for non-compliance in the first half of 2013, and as the derogated authority, to administer their application after the end-dates have arrived.

"I guess that means we'll have a better idea soon of how and how hard the regulators might bite," says Gareth Lodge, senior payments analyst with industry research firm Celent. "The challenge is that not every bank is 100% ready, though to be fair the majority of those who matter are. It's also not clear to every bank, and therefore every corporate, about every detail yet. Add to that "he who pays my salary gets my priority", and I suspect the lower down the food chain you are, the less attention you'll get."

It seems unlikely that banks will simply let corporate clients blunder into a situation where one day payments and receipts simply fail to work; it is simply not in their interest – rather the opposite, as SEPA will mean that many corporates will be look at reducing multiple banking relationships to a more efficient select few. For some time the larger banks, at least, have been aware of this danger and moved in different ways to protect their client bases, such as by offering enhanced collection management services that will add value to the corporate.

"This is commercial banking we are talking about," says Simon Bailey, director of payments and transaction banking at CGI, which acquired UK software house Logica last year. "They are not complete sociopaths. Certainly among our clients we are seeing a lot of effort going in to ensure that corporate customers don't wake up one morning next year to find out that their invoices aren't getting paid."

Bailey and Lodge agree that there is a concern as to what the regulators might do, and point out that while the UK is not in the eurozone, most of the larger banks based in London have considerable volumes of euro transactions on behalf of corporate clients.

"Don't forget that 40% of UK trade is done with other member states, most of which are in the eurozone," says Bailey. "Banks aren't going to let that fail if they can help it, and the Treasury would take a dim view if any of them do."

Lodge says that the position of the UK remains unclear even at this late stage. "No-one has really – though I suspect the Payments Council would disagree – taken a leadership position on the interesting question of whether SEPA matters to the UK. In theory, as a non-euro country, UK doesn't have to be compatible until 2016. But will that put the UK at a commercial disadvantage compared to their European counterparts?"

On the other hand, he says, the structure of the market does have some benefits, particularly around SEPA Direct Debits: "On the Direct Debit front, the volumes are fairly concentrated – in the UK, the top 100 users handle about 80% of the volume – that becomes a much more manageable issue, but still not straightforward."

The state of readiness is less of an issue for credit transfers than for direct debits says Fundtech. Currently, Direct Debits are less than 1% of cross-border traffic, though this is expected to change after next year's deadline (SEPA Credit Transfers represent 30% of payments, and usage has plateaued, according to the European Central Bank.)

The Direct Credit issue also has to be addressed but is less onerous, says cross-border payment specialist Earthport, which is currently conducting a survey on the implications of the state of readiness among banks and corporates. For example, it says:

- For UK corporates executing payments in euros, the transactions must use International Bank Account Numbers and (for bulk transactions) be executed using ISO 20022 formatted messages, by their banks. In the event that a UK firm submits non-IBAN instructions

Corporate readiness: patchy at best

Europe's businesses are unprepared for the arrival of the Single Euro Payments Area in February 2014, with many completely unaware of its consequences, according to research by IT business services provider Steria, *writes Elliott Holley*.

Some 65% of businesses in France and 58% in Germany have not even started migrating to SEPA direct debits, while in the UK, which is not a member of the Eurozone, the figure is 97%. Across the region, one business in five issuing direct debits is not even aware of SEPA, according to the survey. Just 9% of German businesses issuing direct debits have migrated to SEPA, while in France the figure is 6% and the UK 3%.

Despite the lack of adoption, SEPA will affect 96% of businesses in France and Germany and 65% of British businesses with European cross-border sales activities. All businesses that use credit transfers or direct debits denominated in euros will need to comply with SEPA from February 2014 at the latest. In total, SEPA covers the 27 countries in the EU, plus Iceland, Norway, Liechtenstein, Switzerland and Monaco.

"SEPA direct debit's impact goes beyond IT and affects many business functions," said the Steria document. "Businesses need to assess thoroughly SEPA direct debit's consequences to plan for their migration."

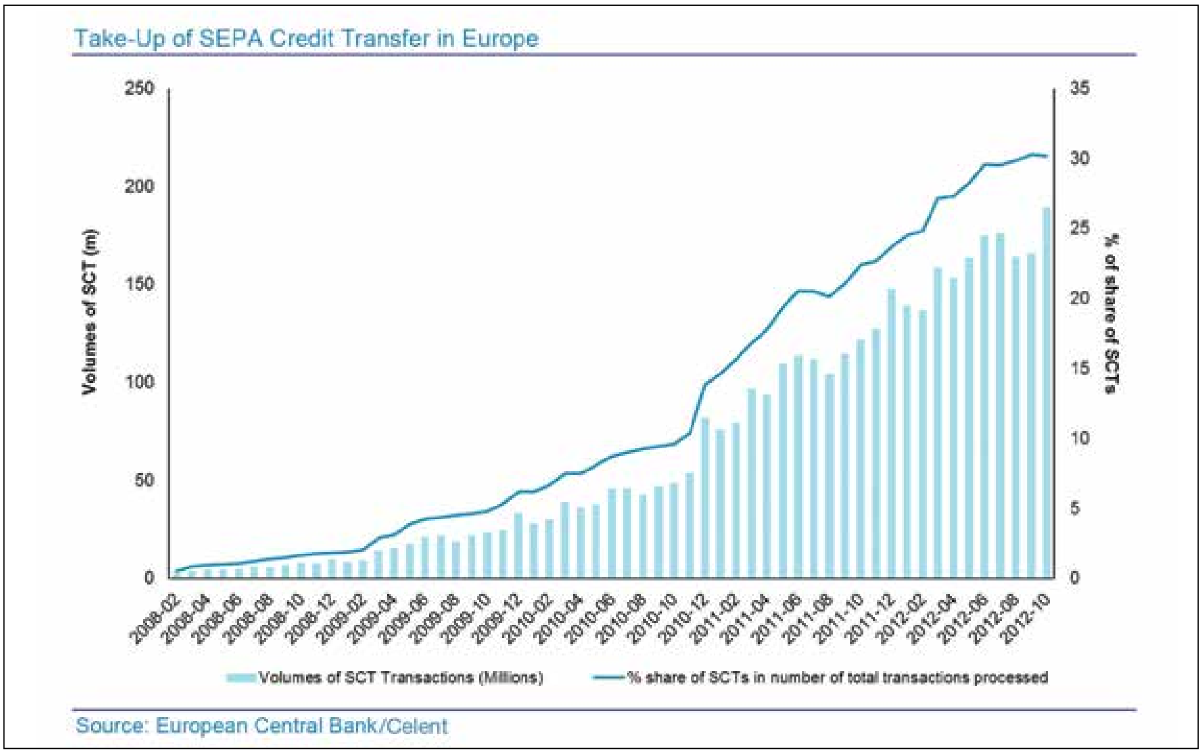
SEPA encompasses card payments within the SEPA card framework, as well as direct debit and credit transfer transactions. As of September 2012, 30% of credit transfers had migrated to the SEPA credit transfer scheme and 2% of direct debits used the SEPA direct debit scheme.

Part of the problem may stem from ambivalence about the benefits of the project. Some 40% of European businesses think that SEPA direct debit simplifies payments, while 33% consider it will make the payment process more complex. In the UK, 74% of businesses are not aware of SEPA direct debit at all.

"Europe currently has a very fragmented payments landscape and SEPA contributes to the convergence of different payment methods," added the Steria document. "As payment methods tend to converge in the future, European businesses can benefit from SEPA to plan ahead, redesign cash management processes and generate synergies between business units. SEPA is a matter of seizing opportunities to become innovative."

Last month, the pan-European payment infrastructure provider EBA Clearing introduced SEPA services on its STEP2 platform. STEP2 is the pan-European Automated Clearing House that processes bulk payments in the euro. The change meant the time needed to send SDD Core collections to debtor's banks decreased from five days plus to just one day, making bulk transfers in euros more efficient.

The Steria research was based on a survey of 300 businesses in France, Germany and the UK.



post 2014, its bank may well impose additional charges and there may be delays in processing.

- UK firms making euro collections, such as direct debits with entities in euro countries, will need to adopt SEPA DD by 2014. Postponing will not contravene any law, but it will result in inability to collect – which in turn could lead to loss of customers and income.

"The larger UK banks are by definition international. All of them clear and settle not only sterling but also euro, and are competing for international business against international and European competitors which are operating to the shorter end-date. It should be clear that it is the prized commercial customer which is at stake here," the company says in a letter distributed to the survey sample.

The conclusion is that UK corporates are possibly disadvantaging themselves by not being SEPA ready at the same time as their European competitors. It is assumed that the banks are already capable of supplying the necessary clearing and settlement services, but that their customers are not necessarily capable of supplying the data and managing the agreements which apply to euro, even if they already know that they are going to have to treat their euro and sterling instructions differently.

Fundtech stakes a similar view, arguing that "corporates will have an issue if banks don't provide the XML transformation services and further legislation on this could add problems for them".

It goes further, saying that the real prize, beyond the capability to actually make payments, is to harness the information that the new standard formats will include in the payments instructions and messages. The SEPA legislation not only intends for payments to be accepted across the EU and be priced the same, but is also intended as a framework allowing more information to be shared between all parties concerned, enabling better reconciliation, automation, full transparency etc. Corporates will be mandated to use the new message formats and provide a full set of data when submitting payments to the bank.

"The information provided that accompanies payments will make the difference: they have to move to IBAN, if they're collecting on behalf of another company then they have to include the full details of both companies, the reference numbers, invoice numbers, shipping details and other information," it says. The downside is that this means, of course, that legacy systems in both banks and corporates have to be expanded to handle these requirements.

Logica's Bailey says that the exploitation of this information will be of benefit to both sides but will be some way down the line. "There is still a lot to do in bread and butter areas such as mandate management, and that is going to involve banks and corporates coming together," he says.

For SEPA pessimists – of which there are a large number – the reaction of the corporates is the key factor. At last year's International Payments Summit in London, one delegate said that the corporates are like Sherlock Holmes' dog that didn't bark in the night: they are simply underwhelmed.

The extent of their underwhelmedness is quite staggering. In the middle of last year a Dutch Central Bank study showed: among SMEs, only 22% were aware of SEPA and knew what they had to do, while 44%, hadn't heard of it. Even among large companies, 38% had heard about it but did not know exactly what it involved.

Given that all of the large banks have been mounting intensive awareness campaigns for several years now, this is pretty astonishing. If the situation hasn't changed by 1 February next year, the reaction of the regulators will be interesting to watch. *BT*

Face the facts

Complaints against banks are rising. Can complaints handling systems provide benefits beyond simple automation? If it's approached correctly, yes, finds **David Bannister**.

Payment protection insurance has dominated the coverage of complaints against banks for some time now, but many observers think that it is just the beginning of a wave of grievances about to engulf the retail banking industry.

According to the UK Financial Ombudsman service, Insurance-related complaints made up 70% of the new complaints it received last year, with payment protection responsible for 85% of that.

By comparison, other complaints look to be miniscule, but this is only a relative position, and while many of the remainder are about banking practices rather than things that are broken or otherwise fixable, complaints are complaints and all companies ought to take them seriously.

The Financial Ombudsman's last annual figures cover March 2011-March 2012, and show a lot of issues that reflect the general economic situation, For instance, it reported that for the third year running it saw a substantial number of complaints from consumers who said their current account problems related to financial hardship they were experiencing – often also saying that charges applied to their current accounts had added to the problem.

Many consumers who refer complaints to the Ombudsman about these charges believe that current-account providers should limit the charges to the actual cost of the work charged for – for example, the cost of returning an unpaid direct debit.

"This means we have to spend time in many cases clarifying the legal position before we can start working on an outcome that the consumer can understand. From what we see, this problem is often caused when

Case study: Lloyds Banking Group

Charter UK has provided Lloyds Banking Group with the largest single platform complaint handling system of any major bank in Europe, replacing more than 40 disparate complaint handling systems that were in use across 30 different brands.

These systems included numerous internal databases, spreadsheets and third party applications that demanded high levels of support. The new system now provides Lloyds with a single web-based system for data gathering/analysis and front office complaint resolution in order to increase the speed at which problems can be identified, resolved and solutions presented to customers. In one case, the single source of 1,000 monthly complaints, paying bills over the telephone, was identified and resolved in less than 48 hours.

Martin Dodd, customer services director of Lloyds Banking Group says: "The real leading edge capability that Charter UK has given us is root cause understanding – the ability to understand why customers are complaining so that we can fix the problems straight away. As you can imagine, with an organisation our size, fixing these processes early on will allow us to reduce our expenditure substantially."

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Lloyds Bank

consumers (or their representatives) have looked at out-of-date or inaccurate information about bank charges on the internet," it said.

Also on the rise were complaints about "packaged" accounts, where the consumer pays a monthly fee for a current account that includes some insurance products (such as travel insurance) and/or other special features (such as an automatic overdraft facility or a discounted borrowing rate).

The latest annual set of complaints data from the Ombudsman are due at the end of the current quarter. Interim figures suggest that PPI will still be at the top of the list, but stripping this out, it is likely there will be some other issues that are moving up the agenda, such as endowment mortgages and interbank money transfers.

With the recent Retail Distribution Review changing the way in which banks are allowed to give financial advice – and the subsequent withdrawal of several High Street banks from the advisory market – the trend towards more complaints about products and services can only continue.

The automation of complaints handling is not a new idea, and a number of vendors provide systems and services in this area.

With the rise in social media, much of the conversation in this area concerns the use of social media, and its integration into existing channels such as the call centre.

"The public perception of banks has been battered in recent years, but financial institutions have been working hard to repair the damage. A key tool in their strategy has been to improve customer service in a multichannel environment," says Joe Doyle, vice-president of global marketing at leading customer care provider Sitel. "A comprehensive approach to improving customer service requires banks to look far beyond traditional call centre operations, as much of the interaction with banks is moving away from the telephone and towards digital channels. Nevertheless, call centres remain a priority as they expand to handle other kinds of contact, such as live chat, email and social media."

Doyle says that the most important element driving these channels is speed. Sitel recently conducted a survey of 1,000 people in the UK, aged 16–64, that found customers increasingly select channels that offer the fastest response. For example, the data showed a year-on-year increase of 6% in customers selecting live chat as their preferred method of communication, with figures for email (-3%) and phone (-1%) falling. Approximately 26% of respondents believe that companies could improve their customer experience if they responded quickly to questions on social media sites like Twitter.

Gathering the data in a cohesive manner means that firms stand a better chance of correcting problems in services. Using the complaints data as a feedback mechanism can have considerable benefits beyond simply appeasing angry customers and staying off the Financial Ombudsman's list of most-complained about organisations.

"This something that some organisations are coming to recognise: a proactive approach to handling customer feedback is going to lead to significant returns," says Paul Clark, chief executive of Charter UK, the company that worked with Lloyds *Banking Group* on the complaints handling project that was a finalist in the 2012 *Banking Technology* Awards (*see panel*).

"In the regulated case of the financial services industry, there are some clear individuals that stand out as having grasped this challenge, and Lloyds is pretty much at the top of the tree," he says. "It is following the guidance of the FSA but going further in terms of the use it is making of the information. Our role is to enable then to get a single view of the organisation, and their role is to wrap around that with their staff and processes to ensure that they are taking advantage of the feedback."

A key approach is what Charter UK calls Root Cause Analysis. "It enables a firm to analysis the feedback it is getting to understand what is at the root of the complaints they are receiving, and to address it – removing the root of the problem reduces the number of complaints," says Clark.

Sometimes this can simply be a training need, or the need to have better information for both staff and customers – something that the Financial Ombudsman often finds to be behind the problem too.

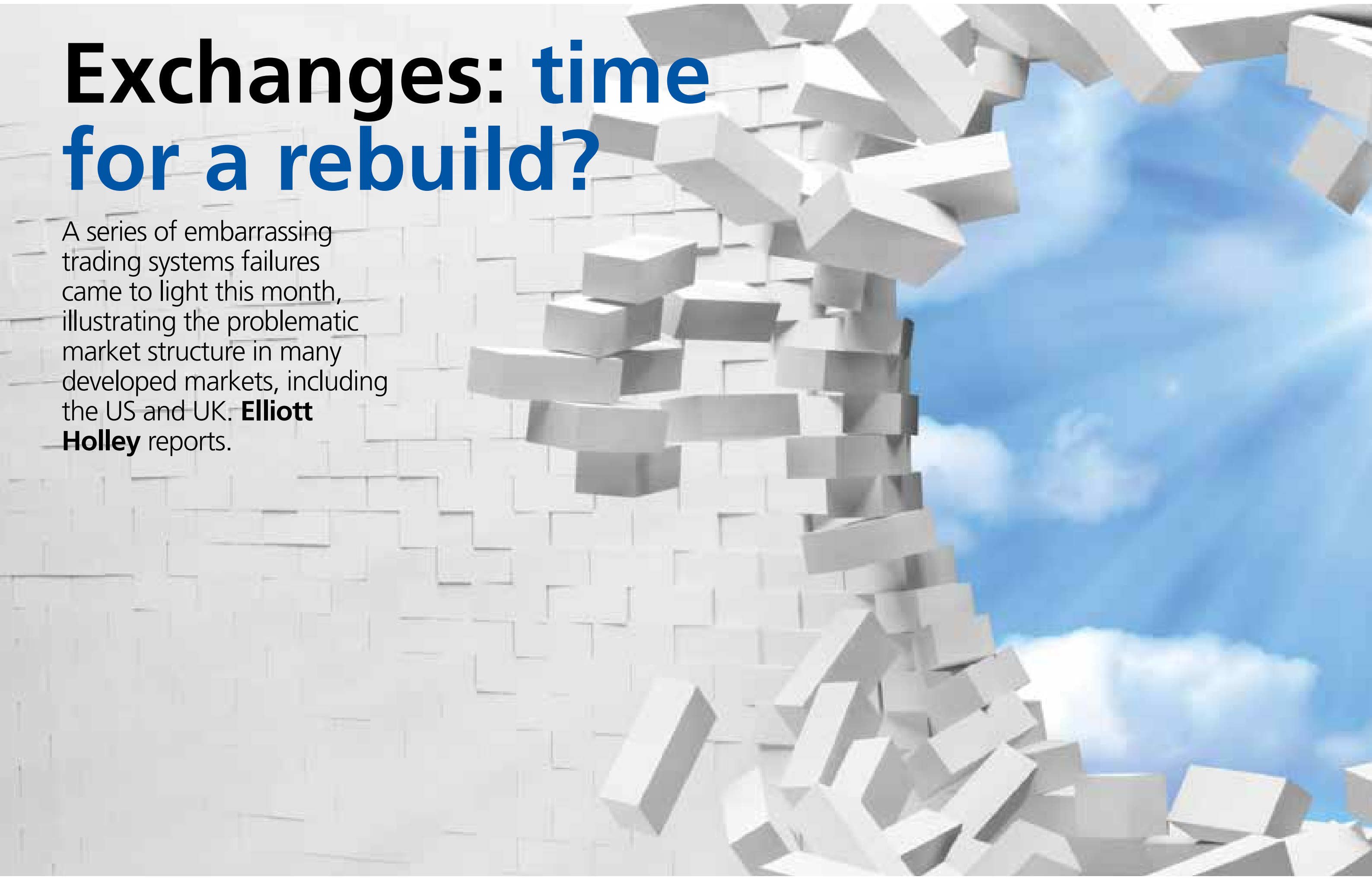
"It is really about using the free advise that customers are giving, and the organisation taking the opportunity to review the services it thought the customer was going to receive and adjust it so that they are actually receiving it," says Clark. "No organisation ever sets out to sell rubbish products." ***BT***

Banking related compaints 2011-2012

payment protection insurance (PPI)	157,716	104,597
credit cards	19,183	17,466
current accounts	14,595	19,944
including complaints about		
- business bank-charges	414	1,359
- direct debits and standing orders	538	571
mortgages	9,537	7,067
unsecured loans	6,262	5,820
savings accounts	4,286	4,783
investment-linked products	3,308	3,784
including complaints about		
- investment ISAs	904	834
- unit-linked bonds	856	849
- "with-profits" bonds	542	683
- guaranteed-income bonds	352	408
- "structured" products	139	550
- unit trusts	138	125
- PEPs	51	45
mortgage endowments	3,267	3,048
other banking services	2,955	2,733
including complaints about		
- cash machines	836	878
- money transfer	688	529
- cheque clearing	670	691
- electronic payment	403	369
- foreign currency	74	55
- safe custody	70	63
derivatives	237	350
including complaints about		
- spread-betting	165	219

Exchanges: time for a rebuild?

A series of embarrassing trading systems failures came to light this month, illustrating the problematic market structure in many developed markets, including the US and UK. **Elliott Holley** reports.



On 3 January, just three days into the New Year, US exchange Nasdaq reported that it was investigating a problem with the data feeds for its Universal Trading Platform. The outage lasted around 10 minutes, and affected users viewing consolidated tape C, a public utility provided by the DTCC using data collected from US exchanges including Nasdaq. During that period, investors were unable to view Nasdaq-listed stocks. Then on 10 January, US exchange operator BATS Global Markets admitted that it had uncovered a technical fault that may have caused it to accidentally breach best execution regulation on thousands of client transactions over a four-year period.

The technical problems at Nasdaq and BATS have reinforced the impression among many market observers that there may be something seriously wrong with equity market structure. Recent history reads like a catalogue of disaster for many of the world's most prominent trading venues. In February 2011, the London Stock Exchange experienced a series of crashes, including an incident where trading was halted for four hours, as it attempted to migrate to its new MillenniumIT trading engine. In March 2012, BATS was forced to cancel its own IPO after a trading glitch caused shares to collapse to less than a cent in value in seconds. Then in May 2012, Nasdaq suffered an embarrassing trading malfunction during the IPO of Facebook, which left investors unable to see whether their transactions had gone ahead.

"This all adds to the general sense that markets are under-regulated and technology has got out of hand," said Paul Squires, head of trading at AXA Investment Managers in London.

The race for pace

Many institutional investors argue that the problem stems from the obsession many exchanges and trading venues have had over the last few years with boosting profits by making themselves more attractive to high-frequency traders. HFTs typically boost trading volumes, leading to more fees for the exchange to collect. Senior industry participants such as Tony Mackay, founder of Chi-X Europe, have argued that excessive focus on speed has harmed the integrity of equity markets, as exchanges have stripped out much of the functionality on which longer-term institutional traders used to rely for the sake of greater speed.

"The BATS issue just sums up the problems with the arms race to technology that has caused so many problems for traditional investors," Adrian Fitzpatrick, head of investment dealing at Kames Capital, told *Banking Technology*. "If I wanted to play Xbox all day I would stay at home. Regulators need to realise what the market is for and from my perspective it should be for institutions not HFT."

However, not everyone agrees that exchange outages are more common today than previously. According to Frederic Ponzo, managing partner at capital markets consultancy GreySpark Partners, the issue is not so much that exchange outages happen more often now than in the past, but that the fragmented structure of equity markets, in which tens of alternative trading systems, dark pools and broker crossing networks compete with each other for order flow, all relies on primary exchanges for price formation.

"The problem here is twofold," he said. "We are missing the regulation we need on market resilience, and secondly when the reference market goes down, the entire system of alternative marketplaces collapses because there is no alternative for price discovery."

Alternative markets such as BATS Europe take the prices formed at the primary exchange as their starting point, as they do not have listings businesses of their own. The same is true of dark pools and broker crossing networks, which typically use a reference price derived from the main exchanges.

"When the system crashes, it hurts a lot more, because the entire marketplace is more fragile," added Ponzo. "There's nothing in the rules for trading platforms about market resilience, and that is an issue."

Regulators in the US and Europe have been particularly concerned with market stability since the flash crash of 10 May 2010, in which $1 trillion was briefly wiped from the value of the US stock market. The crash was blamed on an erroneous order, which was then picked up by algorithms which fed off each other to create the crash.

In June 2012, the US Securities and Exchange Commission approved proposals to replace the US' existing single stock circuit breaker safety net with a system in which the entire market can be temporarily suspended, to alleviate the effect of unusually large sudden price movements. However, some buy-side market participants have questioned the move, suggesting that to prevent price formation during a moment of market stress could stop the market from achieving equilibrium, and may even exacerbate volatility when the market reopens.

Divisive medicine

In Europe, much of the market structure debate has come to centre on the role of HFT and how it affects longer-term investors, who are typically identified with the real economy. Italy's Borsa Italiana introduced a scheme last April that charges HFTs that exceed an order-to-cancel ratio of 1:100. The aim is to cut down on the amount of 'noise' they generate by making it more expensive to cancel too many orders. In France, the introduction of a unilateral financial transaction tax has made it less profitable for HFTs to enter and exit the market based on tiny price differences; senior politicians, including the country's finance minister, have also called for an outright ban on HFT.

Meanwhile, as *Banking Technology* was closing for press, the German parliament was considering its own legislation that would impose tougher controls on HFT, including a registration requirement, minimum tick size rules, and an obligation to submit algorithms and trading strategies to the regulator. The German move was met with cautious approval by buy-side market participants, who argue that action is needed to redress the balance between HFT and longer-term investors.

"All we want is a level playing field," said Fitzpatrick. "Currently the market is skewed towards HFT. The regulators need to decide who and what the market is for – a playground for HFT, or a genuine market place for retail and institutional investors."

MiFID II, the European Commission legislation that will set out the rules for securities trading across Europe, currently contains proposals intended to hit HFT, including a minimum order resting time, as well as an obligation for market makers to provide continuous liquidity regardless of market conditions

Both moves have been criticised by market participants, who argue that the former would simply make it even easier for HFTs to target institutional flows, while the latter would effectively drive many HFTs from the market, with severe adverse effects on liquidity.

Other senior buy-side representatives have also expressed some concerns about liquidity. "The increased governance is unsurprising and welcome, particularly in highlighting the order to trade ratio," said Squires at AXA Investment Managers. "It shows that some regulators are not prepared to wait for the tri-partite MiFID II process to reach any conclusions before implementing their own national directives on some issues like HFT. The downside is that it is further squeezing liquidity – HFTs account for around 40% of European volumes. European equity trading volumes have fallen from €1.4 trillion in January 2008 to just €485.5 billion in December 2012, according to figures provided by Thomson Reuters equity market share reporter.

Debates have also raged over the extent to which regulators should get involved – and whether re-adjusting the market to penalise HFTs and favour long-term investors would provide a lasting solution to the market structure problem. According to GreySpark's Ponzo, while exchanges have cut corners to provide for HFTs at the expense of the longer-term investor, a competitive market structure should still negate the need for regulation, since alternative providers are free to set up services that provide for under-served sectors of the market, such as long-term investors.

Citing Eos Airlines, which ran a business-class only airline service in the mid-2000s, Ponzo suggested that HFT was the equivalent of the economy class passenger who might not drink the complimentary champagne, but was still legitimately entitled to use the service. The lesson for equity markets, he added, was that specialisation of trading venues, some towards the high-end long-term investor and some towards the HFT, was a better solution than a monopolistic market structure.

"Different venues have different roles," he said. "For example, BATS is the cheapest – it's the Ryanair of trading. It gets you from A to B cheaply, and that is a useful service. In response, exchanges like the LSE have cut costs to pursue that 'economy class' HFT part of the market. But some customers want to fly business class, and those customers are moving to other venues that provide a more high-end service. There is nothing wrong with that."

Keeping watch

Other observers worry that the lack of tools to maintain surveillance over fragmented capital markets could be endangering investors. Speaking during a panel discussion hosted by SunGard in January, Richard Gardiner, policy advisor at the Federation of European Securities Exchanges warned that market abuse could be taking place undetected, due to the difficulty of tracking activity spread across multiple exchanges or trading venues.

"There's no single person checking for abuse in particular names over five or six venues," he said. "This needs to be looked at. Right now, even if you think there is abuse taking place, there's no way to get the data to prove it."

Part of the difficulty is the lack of a consolidated tape of post-trade data in Europe. In the US, post-trade data is provided in real-time as a public utility by the DTCC, but in Europe no comparable service exists to provide a complete view of market activity at a cost affordable to the mainstream consumer. In November last year, BATS Chi-X Europe chief executive Mark Hemsley said that the original MiFID had failed to provide the full benefits anticipated, and criticised "vested interests" at the primary exchanges for holding up the creation of a consolidated tape because of the threat it posed to their profits from market data.

The European Commission's upcoming MiFID II does support the creation of a consolidated tape, but the draft document leaves it open to a public tender process, rather than setting a specific provider – a measure that has been met with disappointment in some circles. In late November, an industry initiative called the COBA Project published an open letter to the industry, calling for the creation of a consolidated tape by Q2 2013. Meanwhile, FIX Protocol has published its own set of guidelines that focus on the standards that could be used to build the tape. The FPL suggestions include the introduction of standards to identify where a trade was issued and in which currency, on which trading venue or exchange the order was executed, and the time the trade was executed and reported, expressed to the nearest millisecond, or if available, microsecond.

"We need more surveillance," said Christina Ploom, risk analyst at Swedish government body Finansinspektionen. "Everyone talks about the possibility of market abuse, but nobody has a full picture. I can't emphasise enough how important this issue is to a stable, effective market structure." ***BT***

Mobile momentum

Banks are finally responding to the growth in mobile use and see it as an important channel, but the market is still confused. **Elliott Holley** reports.

With uptake of mobile banking services predicted to reach 1 billion by 2017, banks are starting to view the mobile channel as an indispensable revenue stream, according to Nitin Bhas, senior analyst at telecoms research firm Juniper Research.

But another report, from Celent, says that near field communication technology advocates face continued disappointment in 2013 as it is likely to be overshadowed by other developments in retail payments.

The conflation of contactless NFC-based payments, widely used in transit systems such as Transport for London's Oyster cards, with mobile banking and payments more generally, has confused debate about the topic and provided ammunition for sceptics.

It is certainly true that mobile banking services have been slow to truly take off; they have been since the late 1990s, but have not achieved widespread success outside of Japan till more recently. Now, however, one-third of UK consumers expect to be using smartphones to do all their banking by 2020, while two-thirds of banks expect everyone to be using mobile banking in some capacity by 2017, according to a report published in September by business technology provider Avanade.

Similar growth is found in other European markets. Italy's mobile payments industry is already picking up – some 19% of Italians cite mobile as their preferred method of paying for goods and services, according to research by ISPO Ricerche. Users were often young (39% were aged 18-24 years), well-educated (37% had a university degree) and successful (32% were managers and entrepreneurs).

"In developed nations where the banked population is approaching 100%, mBanking is largely additive and bank-led, integrating the physical product with the digital in forming a complete banking package, particularly targeting young banking customers who organise most of their lives through the mobile device," said Bhas. "This has been reinforced by heightened usage of applications and substantial tablet uptake. Consequently, an ultra-developed reality is beginning to materialise, demonstrated by the launch of a completely branchless bank in Japan."

Meanwhile, in developing countries such as Kenya, where the mobile payments service M-Pesa has some 18 million users, mobile payments have achieved enormous success in banking customers who do not have a traditional bank account. Such services take advantage of relatively high levels of mobile penetration, versus the lack of conventional banking infrastructure. In November, M-Pesa partnered with ICICI Bank to launch in India. Although mobile banking was not new in the country – it began in 2002 with SMS banking – the arrival of the M-Pesa brand was a signal of the potential international providers see in the service. Mobile phones had achieved a 74.2%

market penetration in India by September 2012, a figure equivalent to 937 million handsets, according to statistics provided by WCIS World Cellular Information Service.

One hindrance to mainstream adoption has been security. According to Juniper's Bhas, security companies themselves will need to counter these threats by ensuring that their fraud identification systems transition seamlessly from the online to mobile channels to enable to them track activity such as fake alerts and fake request for account information. App stores should also undertake tougher monitoring and enhanced authority over new app developments so as to respond efficiently to deployments of malicious applications, he suggests.

"Banks need to convince consumers that mobile device security is of the same grade as online security, if not better," he said.

Fortunately for the consumer, mobile devices often contain technologies such as GPS that track the user's location, front-facing cameras that can be used for face-recognition, and other biometric tools such as voice recognition technology and in some cases fingerprint technology.

Ben Knieff, head of fraud at financial crime and technology specialist NICE Actimize thinks mobile banking could eventually become safer than online banking. "While consumers didn't like biometrics 10 or even five years ago, rising usage of the technology on sites like Facebook has made it more acceptable," he said. "Consumer sentiment is changing, and I believe there could actually be an opportunity to use some of these technologies to make mobile banking even safer than internet banking is today."

The concept of a new kind of payments technology infrastructure is also being supported by defence and security technology provider Thales e-Security. In a recent paper, the firm suggested that established payment firms such as PayPal, Google, Apple and start-up firms such as Square will not necessarily use the phone itself as a security layer – instead they will opt for cloud security.

According to Thales e-Security, the advantages of a cloud-oriented approach are that the user credentials are stored remotely, so less likely to be lost; fees will be more tailored to the consumer; and clearing will be carried out using fast non-card clearing services such as the Automated Clearing House in the US.

"As an industry we have been talking about the arrival of mobile payments for almost a decade now," said Ian Hermon, mobile payment security specialist at Thales e-Security. "Even though we have seen big players, such as Starbucks in the retail market, invest in mobile payment platforms, we are still a long way off from having one universally accepted model. Whether the industry moves to place its trust in the handset or in the cloud, one thing is for certain: TSMs need to be trusted by all ecosystem participants to guarantee the success of the overall mobile NFC infrastructure."

Meanwhile, NFC use sputters along, never quite igniting, and likely to be overshadowed by other developments in retail payments, says Celent.

"NFC has been touted as the next big thing for many years now," said Zilvinas Bareisis, senior analyst with Celent's banking group and author of the report. "But to use it to make payments using a phone, as though it were a card, is still very hard. Some markets, such as Poland, are well ahead with the infrastructure – making it more likely to prevail there – but in other markets, such as the US, the infrastructure bill is huge and convincing retailers and merchants is difficult."

"It's an anomaly, and it should logically be considered as a Card Present transaction for the sake of fairness and common sense. That's why I propose a third category for transactions, the Mobile Present."

Online and mobile payments are predicted to make up approximately 45% of UK retailers' total revenue by 2014, according to some estimates. However, many businesses have been reluctant to invest in the technology as yet due to a combination of high costs and scepticism over whether the retail customer will use it.

Part of the problem for NFC digital wallets is that while the physical POS world is dominated by cards and the mobile equivalent is to have payment credentials inside the phone and sent to the POS via NFC, the online world is dominated by cloud-based wallets such as PayPal. That makes it difficult to bridge the online-offline convergence of customers who use their mobiles while shopping to read product reviews, compare prices and order online, or pick up an item from a local store, according to Celent.

Further compounding the difficulty is the limited ability of the consumer to use the technology. Apple's iPhone 5 does not support NFC – a state of affairs that presents a "huge drawback" given the popularity of the phones and their high share of the smartphone market, says Bareisis. In addition, customers often do not realise that to make NFC payments, they need to ensure that their device has an NFC SIM installed – a requirement that adds further cost.

Lack of interoperability between banks is also an issue. Existing agreements between banks and telcos are often arranged on a bilateral basis, meaning that only the customers of a particular bank can take advantage of the new service.

"You need to be able to make a mobile payment, regardless of which bank you are using and where you are located, for the technology to achieve its full use," said Bareisis. "But collaboration between banks and other firms is difficult and takes time."

While several consortia have been set up in recent years, these have struggled to achieve success. In the Netherlands, a joint venture between the country's largest banks and mobile network operators known unofficially as 'Sixpack' disbanded without achieving its goals, when T-Mobile, one of the founding partners, decided to follow its own route to market. In the US, a similar project called Isis is also struggling, according to Celent.

Other top trends identified by the firm for the upcoming year include the growth of the digital wallet, and the rise of cloud-based wallets.

For Bareisis, the advantage of cloud-based wallets is their ease of use. Users are able to sign in with a username and password, rather than re-entering their entire card number and details every time they want to make a transaction. In the coming year, he expects more providers to look at ways to bring cloud-based wallets to the point of sale.

"Cloud-based wallets have a lot of potential," he said. "I don't know if it will happen in 2013, but the cloud will come to the POS."

Both Visa and MasterCard developed their own digital wallet solutions in recent months, V.me by Visa and PayPass Wallet Services.

V.me by Visa was designed as a means of improving the experience of using cards for online shopping – replacing the Verified by Visa process currently used – and extending it to other platforms such as tablets and smartphones. The pilots in the UK, US and Spain that started in November are scheduled to run until spring this year, and Visa is expecting widespread adoption to start from autumn 2013.

PayPass Wallet Services allows payment service providers to accept electronic payments across multiple channels, whether the purchase is made online using a computer, tablet or smartphone. The initiative is currently supported by ten UK payment service providers.

Celent also notes that push payments in Europe, such as new P2P solutions in the UK and the pan-European Online Banking e-Payments initiative MyBank, which is expected to launch in March, also continue to grow.

Finally, Bareisis suggests more regulation is needed on alternative payments to maintain a level playing field, as well as the introduction of a new transaction category, mobile present, for payment networks to take account of the increasing use of mobile devices to initiate transactions.

At present, transactions are divided between those where the card is present, and those where it is not. If the card is present, the risk is considered lower, so a lower fee is charged to use the card. However, Bareisis points out that with mobile payments, they can be considered both Card Present and Card Not-Present, since the customer is present at the retail outlet together with the mobile device, but the card details are stored remotely in the cloud.

"In many ways it's still a safe transaction because the customer is present in the store," he said. "It's an anomaly, and it should logically be considered as a Card Present transaction for the sake of fairness and common sense. That's why I propose a third category for transactions, the Mobile Present, to take account of the new technology." ***BT***

The other half of the equation

When it was announced that Barclays had won the *Banking Technology* Award 2012 for Best Use of Mobile Technology, not many were surprised: PingIt, its person-to-person-mobile payments service had already established itself as shorthand for mobile banking in many people's eyes.

In fact, the award was for the corporate application of the technology, which Barclays thinks will give a significant boost to the use of mobile payments and wallets by providing the missing link between consumers, retailers and corporates.

The bank has prepared some 100 use cases for PingIt for Corporates, ranging from utility bill payment to charitable donations to roadside assistance companies. "It's all about efficiencies and the efficient receipt of funds, and providing customers with an alternative means of payment," said Maurice Cleaves, global head of cash management at Barclays Corporate Banking.

Introduced as a person-to-person payment mechanism in February, Pingit uses a proxy system to allow funds to be transferred from one mobile phone to another. The corporate version simply extends this to corporate banking accounts, but in doing so it opens a range of new services.

Cleaves said corporate use of the service can answer a number of needs in different scenarios. Utility bills, for instance, "have never really moved to electronic payments", said Cleaves. Pingit allows billers to add a QR code to each bill that a customer's PingIt smartphone app can scan to initiate payment. It also automatically populates the transaction with the correct billing details, including reference numbers, amounts, customer details and so forth, and so combines the same immediacy of payment enjoyed by the customer with the benefits of automatic account reconcilation.

Ultimately, the use cases are limited only by the imagination of the corporate customers, Cleaves said. One example he gives is that of a roadside assistance service, where the member's status might not cover the cost of spare parts: a QR code displayed on the door of the recovery vehicle to initiate the payment and generate an SMS message to the driver confirming the transaction.

Cleaves points out that 13 per cent of downloads of the PingIt consumer version have been made by customers of banks other than Barclays, who can use it as a stored value wallet by transferring funds to it.

In this way they have a primary wallet and a series of subsidiary wallets for Starbucks or other wallet services. "If you think of it in corporate cash management terms, where you have pooling for instance, you can see how that joins the consumer, retail and corporate needs to the bank," said Cleaves. "Barclays customers have the advantage of PingIt linked to their primary account.

BEST USE OF MOBILE TECHNOLOGY IN FINANCIAL SERVICES

Barclays Bank

Pingit for Corporates

A question of identity

Changing patterns of financial crime are showing a dramatic rise in fraud using old-fashioned methods of identity theft. **David Bannister** looks at the latest numbers.

While technology continues to successfully prevent crime in many areas, it can't reduce the number of criminals, and the result seems to be that they are turning back to lo-tech methods to get their hands on other peoples' goods and money.

According to two recent reports on criminal activity in the UK, this is leading to a surge of identity fraud, which soared during 2012, accounting for half of all financial fraud in the UK. This drove the level of account takeover frauds up by 53% during the year, according to CIFAS, the UK Fraud Prevention Service.

Overall, fraud was up 5%, a slowdown from the 9% growth recorded in 2011. The 250,000 confirmed frauds identified during 2012 by CIFAS Members is the highest number ever recorded. More than 150,000 cases had an identifiable victim.

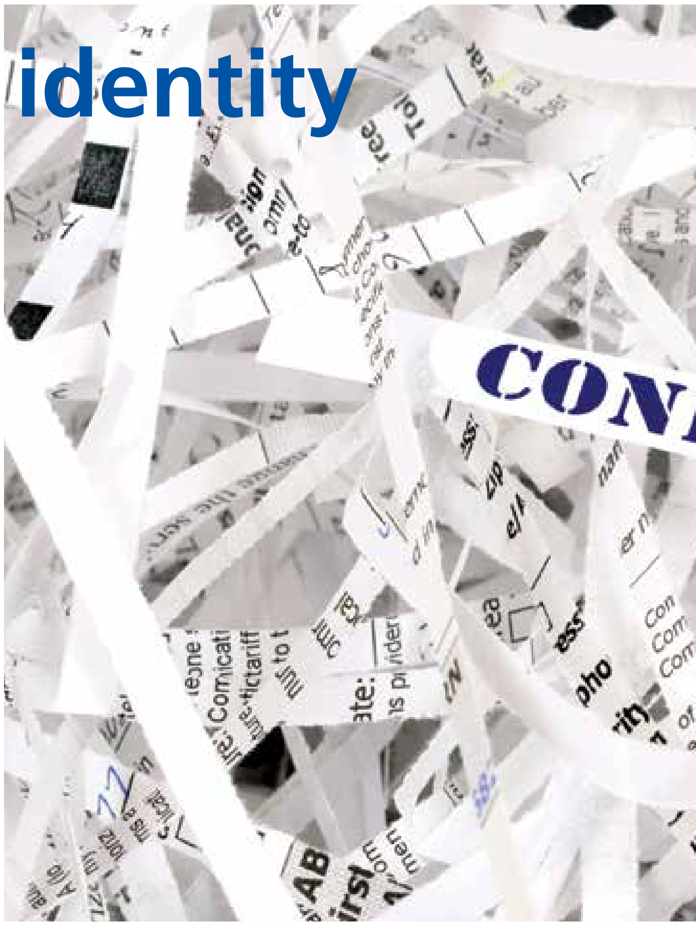
The fraudulent use of identity details (both fictitious and real) is "the biggest and most perturbing fraud threat", says CIFAS.

This is echoed by the latest bi-annual Fraud Barometer from KPMG, which has shown a rise in individuals committing more traditional swindles such as Ponzi schemes, cheque fraud and procurement fraud.

Drilling into the detail, the KPMG analysis shows that identity fraud more than doubled in value to £26.3 million from £12.3 million the year before. Counterfeit goods fraud was three times the five-year average at £22.9 million and Ponzi Schemes worth £72 million came to court – again three times the £20 million level seen in 2011. The data shows a similar rising trend for procurement fraud, which increased to £21.4 million in 2012.

Hitesh Patel, UK Forensic Partner at KPMG, said: "What we are seeing is individuals looking to feather their nests through ripping off employers, banks or the government. In the last few years we have become used to sophisticated frauds at eye-watering values. While the total value of fraud has dropped substantially in the absence of so-called fraud 'super' cases, the old-fashioned con man hasn't given up his tricks. Times may be tough but the data shows that some people are unwilling to give up the lifestyles they've become accustomed to."

The analysis also shows that insider fraud is hitting corporates hard. Fraud perpetrated by either management or employees accounted for 80% of the financial loss through fraud experienced by UK businesses in 2012. The number of cases involving employee fraud rose to 35 in 2012, up from 22 the year before. Their value has also seen a sharp climb, more than doubling from £12.0 million in 2011 to £25.1 million over the past 12 months.



"Simple, opportunistic fraud remains evergreen and, on the ground, our clients' current experience is very much that fraud is still prevalent."

Hitesh Patel, KPMG

There was also a marked increase in cases involving individuals over-claiming benefits or evading tax (15 cases compared to three in 2011).

"Tax evasion is one of the hot topics of the moment but an increasing assault on the social welfare budgets, particularly benefit fraud, is a real and increasing threat for the government, as shown by the latest figures," said Patel. "For all the talk of austerity, measures really kick in this year and accordingly we expect to see an increase in this kind of fraud this year as personal pressures mount for individuals. Fraudulent actions of individuals in both the public and private sectors exacerbate the need to make cuts in the first place and cause more than just monetary loss: jobs can be lost and already tight government budgets are stretched further, with implications for the delivery of services."

Patel went on to say: "Simple, opportunistic fraud remains evergreen and, on the ground, our clients' current experience is very much that fraud is still prevalent. Organisations need to consider these basic fraud threats, as well as the new and complex threats.

For example, we are seeing a large number of clients being approached by suppliers purporting to have changed their bank details at present, and requesting payment to the updated account. In a number of cases, sadly we are seeing this succeed. Additionally, the banks, perhaps focused on regulatory efforts to combat financial crime at the front end, such as money laundering, are also enduring an increase in old-fashioned back office fraud."

The report suggests that there is some good news in the fight against fraud. Over the past year the number of cases perpetrated by professional criminals fell from 98 at the end of 2011 (valued at £1.4 billion) to 79 in the 12 months to December 2012 (valued at £414 million). There is however no room for complacency as organised crime still accounts for 50% of the total fraud value prosecuted in 2012.

"While it's good news to see a drop in the value of fraud perpetrated organisations should not be fooled into thinking that they can drop their guard. The history of KPMG's Fraud Barometer tells us that the trend is a rising one. We are simply catching our breath," Patel said.

Facility or account takeover, where a fraudster gains access to and hijacks the running of an account, rocketed by 53%, and now accounts for 65% of all identity related fraud. The combined number of real victims of both types of fraud has also risen by 24% from the levels in 2011.

Kate Beddington-Brown, CIFAS head of communications, said: "These increases serve as a warning and a challenge to organisations and consumers equally. Organisations have invested heavily in updating and refreshing their security processes recently, ensuring that extra steps are taken to validate the identity of people with whom they are dealing. In spite of this, however, identity crimes have continued to rise – demonstrating that far more must be done. Equally, for individuals, it is obvious that fraud relating to personal data is an immense criminal trade so, fundamentally, we all have to do all we can to ensure that we also protect ourselves from becoming a victim, as well as demanding that the organisations we deal with take their security responsibilities seriously."

On the other hand, frauds committed by the genuine account holder or applicant have all declined: the most notable being the decrease in fraudulent misuse of an account which fell in 2012 by over 15% from the record levels seen in 2011. There has also been a fall in proven false insurance claims and instances of individuals submitting false details or documents in support of an application.

CIFAS says that a "substantial proportion" of these frauds still bear the hallmarks of 'money mule' activity where a criminal recruits someone to use their account on the fraudster's behalf.

"With the cost of living increasing, pay levels frozen for many, benefit changes taking effect and a sluggish economy, it is unsurprising that fraud has increased," said Peter Hurst, CIFAS chief executive. "Prevention remains better than cure, however, and it is time for all organisations and consumers to start reviewing their approaches to preventing fraud rather than just dealing with its effects. Investment in proper fraud prevention systems and approaches, from online security to data sharing, and education are the cornerstones of such an approach and – without them – the only thing that is guaranteed is ever increasing fraud losses to organisations and society at large." ***BT***

The Digital Dole

To combat ID fraud, the UK Government has outlined a scheme under which benefits claimants can register for the new Universal Credit benefit system using digital services when it comes into operation in October.

In the initial announcement the Post Office, Cassidian, Digidentity, Experian, Ingeus, Mydex, and Verizon were named as the providers chosen to design and deliver a secure online identity registration service for the Department for Work and Pensions. It was recently reported that PayPal has also been considered as a mechanism or provider.

The identity registration service will enable benefit claimants to choose who will validate their identity by automatically checking their authenticity with the provider before processing online benefit claims.

The Minister for Welfare Reform Lord Freud said: "We are working with cyber security experts to ensure we are clear about the threats to the online process and we are confident that the providers announced today will offer an effective, safe and free-to-use identity service for future online benefit claims."

As well as offering a "safe and secure system, providers will be required to offer a simplified registration process, minimise the number of usernames and passwords a customer will need to remember and reduce the costs incurred across Government for the management of Identity Assurance".

The online Identity Assurance model will be incorporated into Universal Credit as it's developed and rolled-out. Over time Identity Assurance will become available to all UK citizens who need to access online public services.

Expanding on all fronts

As the global payments markets changes, Western Union has plans to change with it. Massimiliano Alvisini, regional director UK, Ireland & Nordics explains how and why to **David Bannister**.

The role of Western Union in the international payments infrastructure is closely identified with person-to-person cash transfers through a wide range of outlets – it currently has 510,000 agents worldwide.

In recent years, it has also faced criticism for being expensive, and for being vulnerable to exploitation by money-launderers. Both are issues that it recognises and is responding to, it says.

In fact, competitive prices and products alongside demonstrable compliance with AML and other regulations are central to its development plans, says Massimiliano – 'Max' – Alvisini, regional director UK, Ireland & Nordics, at Western Union Financial Services.

According to Alvisini, the company's natural market consists of "those businesses and people who are not properly supported by the financial services industry", and within that market he says the company is rapidly changing.

"We are moving from being a single product company – substantially a money transfer, cash-to-cash, company – to a multi-channel, multi-product company," he says. "Multichannel is a journey that we have already started on, and we have already differentiated our business opportunities to offer payments online. That is now one of our best performing channels, growing at 40% year on year."

Inevitably, another area of development is mobile. “We can provide services from the UK to more than 15 countries, particularly some of the developing countries such as Kenya, where you can send money to people and they can use it in their everyday lives, for instance to pay taxes, something which they can’t do in Europe at the moment,” he says.

A further change is away from cash to account-based money transfer, an area where it has signed a number of deals with banks and is looking actively for more.

“In Europe we have signed important deals with Unicredit in Italy, Banco Transylvania in Romania and others – altogether we signed 23 partnership deals with banks in Europe in 2012,” he says.

On the global stage, last September a deal was announced with Industrial and Commercial Bank of China that allows the bank’s customers to send or receive money from their online bank accounts on a 24/7 basis around the world through Western Union’s network.

This came on top of previously announced deals with Postal Savings Bank of China, Agriculture Bank of China and China Everbright Bank, adding ICBI’s 115 million online banking customers to the network.

On the product side the firm has also been expanding its portfolio. “We launched prepaid cards this year in the UK, Austria and Germany, which was done in partnership with MasterCard, and in partnership with Allianz for insurance services that will be fully developed in 2012,” Alvisini says.

“This is moving us to being the leading financial services provider for the under-served, with multi-channel and multi-product offerings,” he says.

With a range of products and services such as Western Union is currently assembling, at what point does it cross over into becoming a competitor or alternative for traditional bank accounts rather than simple a payment services provider?

“It is a combination and a partnership. One of our key growth engines in 2012 has been account-based transfers, providing individuals and businesses with services that banks cannot give them, but it has been a joint effort to create partnerships.”

Away from the giant international banks, many regional banks are looking to provide their customers with international services that are below the threshold, in terms of cost and complexity, of traditional correspondent banking. In particular, small- and medium- sized businesses can have needs for international payments or transfer services on an *ad hoc* basis that their banks don’t have the networks and technology to provide.

Currently they might use credit cards for such transactions, but it is not an ideal solution, and it is an area into which Western Union can step, closing the gap for the banks and their smaller customers. “It is much more of a partnership, and we are becoming much more associated with the banks,” he says. “Obviously they like to have a reliable partner to provide services that for them are too expensive and for us are a core business. Over time that means we can attract new consumers to the banking sector and they are potentially customers for other banking products such as loans and mortgages and so on.”

“We have invested $35 million in digital services – which is a combination of online and mobile – because we really believe in these technologies and we want to expand in these areas,” he says. “We see a lot of growth in these areas, so it is an investment where we can expect a lot of return. As well as online growing at 40%, account-based transfers up by 35% and mobile at 25%, so there is a huge potential for double-digit growth with these technologies.”

With aggressive expansion plans like this, payment providers such as Western Union are inevitably seen by some traditional players in the payments market as less of a partnership opportunity and more of a threat. One complaint that has been heard with increasing frequency over the past few years is that they are able to develop new channels and services more rapidly than banks because they are less burdened by regulation.

Alvisini dismisses this point of view, and says that regulatory compliance is not a burden, but a positive. “We consider it as a key asset,” he says. “One of our key strengths is our best-in-class compliance. We invest heavily in this area of the business – £100 million a year – and we have just taken on 600 people across the globe to work in this area. Compliance is an asset for the company, and we have a strong focus on it, collaborating with the agencies across the different countries. We have scale, we have technology and we have relationships with the different regulators to support them and to become a leading operator with best-in-class compliance procedures and processes.”

As a US company operating on a global scale, Western Union is bang in the middle of the firing line when it comes to the increasingly extra-territorial application of US laws, such as the recent punitive approach to AML breaches and the imminent introduction of FATCA, the Foreign Account Tax Compliance Act, which will require anyone moving money over a certain threshold for US citizens to demonstrate to the US Treasury that no tax is liable on that money, no matter what currency and no matter where.

“We have closed down part of the business in Mexico, that simply didn’t have the structure to handle the AML requirements that were necessary for compliance. That obviously has an impact on the business, but as we consider compliance to be one of our key differentiators we are prepared to pay a price for that,” he says.

The burgeoning alternative payment field, and the rise of mobile-based P2P services operating in developing areas to service the unbanked means that Western Union is facing increased competition across the board. “We are not the only player, but we think we are at the forefront: we have invested heavily to face these challenges and have the assets to succeed in the next few years because our base is very, very solid,” says Alvisini. “With 510,000 locations across the globe, no-one can really touch us on reach, which is attractive. With the partnerships we have put in place such as MasterCard for pre-paid cards, and the growth in the electronic channels, we see the combination of capabilities as the real differentiator in the coming years.” ***BT***

APPOINTMENTS

Swift appoints Kennel to head market infrastructure efforts

Swift, the Brussels-based financial messaging consortium has appointed **Juliette Kennel** to the newly-created post of head of market infrastructures. Kennel, formerly head of standards, will be responsible for bringing together Swift's activities in this area.

Swift's relationships with other market infrastructures is a focus for Gottfried Leibbrandt, who took over as chief executive last summer, along with the role that the organisation can play as a provider of utility services to its member banks. Last year it introduced sanctions screening services and a number of other initiatives, such as MyStandards and the Digital Asset Grid development, that increasingly extend its role beyond payments messaging.

Kennel became head of standards at the beginning of 2011, having spent the previous year working on the Lean@Swift transformation programme that Swift introduced to increase organisational efficiency by 30%. Before joining Swift, she worked at Clearstream as head of marketing communications and previously worked at Société Généralé

Stephen Lindsay has taken over as head of standards. He joined Swift as head of development for standards in 2007, having spent the previous 20 years at Misys Banking Systems.

VocaLink, the international payment provider, has made three senior appointments in its strategy & business development division. **Nick Millar** joins as strategy and customer insight director, **Jim Wadsworth** as product development director and **Phil Harrison** as commercial director, alternative payments. The new hires report to Paul Stoddart, managing director of strategy & business development.

Millar joins from Visa Europe, where he was head of strategy. In his new role, he will develop VocaLink's corporate strategy to maximise the value of core infrastructure capabilities and support emerging payment models. His previous roles including head of strategy for Standard Chartered Bank's Global Consumer Banking arm and a period as a consultant for AT Kearney in Singapore and London.

Wadsworth was previously with Accourt, where he led its mobile and digital payments practice. He will be responsible for identifying and delivering new product and service opportunities and will also play a role in VocaLink's Alternative Payments programme. He has also held senior roles at Barclaycard, JP Morgan, Vodafone and Simpay.

Harrison comes from Clairmail Mobile Solutions (now Monitise) where he was managing director for EMEA. In a 25-year career in retail banking and payment technologies he has worked at Visa, ACI, Accenture, Western Union Bank and Advanced Payment Solutions. His role at VocaLink is to engage with banks to promote its Alternative Payments initiative.

Former **Liquidnet Europe** head **John Barker** is to take up a new role at Russian financial services firm BCS Financial Group.

Barker, who left Liquidnet in May 2012, will take up a role as non-executive director for BCS as the firm plans its push into western Europe.

BCS was established in Russia in 1995 and currently specialises in trading Russia and other emerging markets. The company covers execution services, treasury services, securities lending, financing, technology hosting, networking and research. The firm currently has 100 offices and services approximately 3,700 corporate and 100,000 individual clients globally.

Before moving to BCS, Barker spent 11 years at Liquidnet, taking the platform from its inception by founder Seth Merrin, through to become one of the most prominent dark pools in Europe. By February 2009, the platform had achieved 50% dark market share. The period also saw Liquidnet expand into Asia via Hong Kong.

Specialist financial outsourcing company HML has hired **Nigel Turner** as its new chief commercial officer. Reporting to chief executive Andrew Jones, Turner is responsible for generating and developing commercial relationships with clients, as well as developing and marketing new products. He joins HML from Logica, where he was head of its global products business supplying solutions to financial services firms. Before that, he was head of the global financial services product group of SchlumbergerSema.

Post-trade software company **Information Mosaic** has appointed **Ulrich Kunz** as non-executive chairman to help drive its ambitions to expand into analytics. Kunz has previously worked at UBS, Systor, SIX Telekurs and Cincom Systems.

Based in Zurich, Kunz retains his role as chairman and founder of Kunz and Partner, a management consulting practice. He is also engaged in a variety of senior advisory roles to financial services firms and technology providers.

Nasdaq has appointed **Bradley Peterson** as global chief information officer. Previously, Peterson was chief information for US investment house Charles Schwab, where he and his team developed the firm's mobile brokerage and banking applications. Before that, he served as CIO for eBay and chief technology officer for Epoch Investment Partners. Peterson also served in several technology leadership roles at Pacific Telesis and AT&T Communications.

Financial research company **Defaqto** has appointed **Patrick Gale** as its new non-executive chairman. Gale replaces Rupert Pennant-Rea, who served as chairman for six years.

Gale has 30 years' experience in

financial services, including leadership and board experience working for IFA networks, financial technology companies and consultancies. Previously, Gale was chief executive of UK financial services firm Sesame, and more recently, executive chairman of financial advice firm Positive Solutions and business advice/education company Origen. He has also worked for banking technology firm Misys, as well as HBOS, Aegon and Just Retirement.

Founded in 1994, UK-based Defaqto specialises in rating, comparing and analysing financial products and funds.

The **Futures Industry Association** has appointed **Allison Lurton** as senior vice president and deputy general counsel. In her new role Lurton will help to advise the FIA on regulatory matters and develop FIA policy as part of the association's senior management. She will report to Barbara Wierzynski, FIA's general counsel.

Lurton joins FIA from law firm Covington & Burling, where she works at the Washington DC office. She has advised financial institutions, energy firms and pension funds on regulatory reforms being implemented as part of the Dodd-Frank act in the US. Prior to joining Covington & Burling in 2010, she spent seven years at the Commodity Futures Trading Commission, serving as chief trial attorney in the CFTC's enforcement division and counsel to CFTC commissioners.

Electronic transaction specialist **Consult Hyperion** has opened a New York office. **Lanny Byers** and Howard Hall will serve as co-managing directors, reporting to chief executive Neil McEvoy.

Byers brings over 20 years of experience in the electronic payments industry in card programme management and consulting. Having held SVP & GM positions within card groups at Bank of America and Western Union, he has worked as a consultant for the past 11 years' consulting experience, first at MasterCard and more recently with his own independent consultancy delivering payment and loyalty solutions.

Hall has a background in electronic security and identity having built and sold several companies including Vericept to Trustwave and, most recently Riverglass, to ASG Software.

Peter Reitz, managing director of **Eurex Repo** and Eurex Bonds since 2006, has stepped down from the post. He will continue to bear overall responsibility for the two subsidiaries on the Eurex Executive Board.

Frank Gast and **Rene Winkler** have been appointed to the Eurex Repo management team; with **Marcel Naas** as responsible managing director. Gast had been head of sales in Zurich since 2010 and was previously responsible for developing the Securities Lending market. Prior to that he worked at BearingPoint in Frankfurt for eight years and Dublin for three years.

Winkler, a certified banker, has been responsible for corporate and market development at Eurex Repo since December 2007. He joined Deutsche Börse Group in 2006, before which he was employed as a project manager at Dresdner Bank for some 10 years, among other positions.

On the bonds side, Johannes Wessling, a new appointee to the Eurex Bonds management team, will assume responsibility for all Eurex Bonds business activities, along with Naas, who has been a managing director there since September 2006. Wessling has worked for Eurex Bonds since 2002 and has been in charge of business and product development since 2010. He joined Deutsche Börse Group in 1995.

Kinetic Partners, a global advisor to the financial services industry, has appointed **Julian Korek** as chief executive and expanded its management team to include two ex-regulators. **Andrew Shrimpton** and **Monique Melis**, have been appointed to the management team alongside Geoff Varga and Nick Matthews, who lead the firm's corporate recovery and restructuring, and forensic practices, respectively.

David Butler, one of the founders of Kinetic Partners, will be leaving the firm in the near future and will be pursuing other opportunities.

Commissioner **Jill Sommers** has stepped down from US derivatives regulator the **Commodities Futures Trading Commission** after five years. Sommers, who has been a key figure in the implementation of Dodd-Frank legislation over the past two years, will leave at the end of the current quarter.

Credit information and analytics specialist **Equifax** has appointed **Martin Hagerty** to head its banking & financial institutions team. Hagerty has more than 30 years' experience across the banking and financial services industry. He joins Equifax from HSBC where, most recently, he was head of retail risk, Latin America with responsibility for credit risk and performance of 12 countries. In previous roles at HSBC, he was deputy head, retail banking, Continental Europe and head, retail risk, UK. His career in the consumer credit sector also includes launching the &more credit card for M&S Financial Services as well as developing a credit structure, with strong fraud policies. In addition, he has held key risk management positions at MBNA and HBOS.

The **Financial Services Authority** has appointed **Marian Glen** and **Charles McKenna** as non-executive directors to the board of the Financial Services Compensation Scheme, as of the beginning of this month.

Glen was general counsel at Aegon UK from 2009 to 2011 and prior to that was a partner at Shepherd and Wedderburn from 1994 to 2008. She was also involved in the programme of remediation for Scottish Equitable customers and worked on the effective provision of redress.

McKenna spent 22 years as a corporate partner at Allen and Overy, specialising in corporate transactions, financial services and regulatory bodies. In the 1980s he was involved in the formation of The Securities Association, the first UK self-regulating organisation. This included advising on its constitution and rule book. he was also involved in creating Allen and Overy's regulatory practice and served for three years on the Board of Hart Citizens Advice Bureau Service.

Skrill, an online payment provider, has appointed **Craig Doyle** as SVP of sales and marketing. Doyle brings over 10 years of experience in the payments industry, in various roles at Ingenico. Most recently he was managing director of the Northern European Region, VP of marketing and solutions for Europe and an executive committee member. He was responsible for creating, developing and implementing a full payment service provider solution for various market segments, such as banks, acquirers and leading retailers within Europe. Prior to this, he held various director responsibilities within Ingenico, including EVP Acquiring Business Unit, where he developed his expertise from both a functional and industry perspective. He began his career in the banking and

finance industry in South Africa, where he worked for 12 years in business development and financing.

Capgemini Group has appointed **Thierry Delaporte** as chief executive of its global Financial Services Business Unit, succeeding Aiman Ezzat who has been appointed chief financial officer of the Capgemini Group.

Delaporte moves from his current role as chief operating officer and head of sales for Application Services One, a position he has held since early 2011. Delaporte has more than 17 years of experience with Capgemini, holding various CFO and COO roles across Europe, Asia Pacific and North America.

He joined the Capgemini Group in 1995, working for its local professional services subsidiary Sogeti as the group internal auditor, and began his career in 1992 as a senior auditor at Arthur Andersen in Paris and London.

ATM maker **Diebold** has made a series of management changes following the announcement that **Thomas Swidarski**, president and chief executive officer, has left the company. George Mayes, previously executive vice president, global operations, has been promoted to the newly created position of chief operating officer, reporting directly to Henry Wallace, executive chairman, who has assumed regular oversight of the company until a new chief executive is hired; Mayes will be responsible for daily operations. The search process for a new chief executive is currently underway.

Mayes has been with Diebold in 2005 as vice president, global manufacturing, and was appointed executive vice president of global operations in April 2008. He began his career at General Motors, where he spent 15 years in manufacturing, quality and engineering

"We wish to thank Tom for the leadership and integrity he provided during his 17-year career at Diebold – the past seven years as our chief executive. This was a very difficult decision, and we wish Tom all the best in the next step in his career," said Wallace. "Progress has been made over the past several years in many areas. However, the board's judgment is that given the company's ongoing performance and pace with which it is delivering tangible value, it is in our stakeholders' best interests to make a change in leadership at this time." ***BT***

Events

FEBRUARY 11 2013

Regulatory Technology World, London

Overcoming the lack of consistency in international regulation will be a key theme at this event, featuring heads of compliance and regulation from global investment banks.

www.terrapinn.com

FEBRUARY 28 - MARCH 1 2013

Operational Efficiency, Amsterdam

This is EFMA's eighth annual conference devoted to operational excellence and efficiency. The key topic will be the challenges in terms of operational excellence.

www.efma.com

MARCH 20-22 2013

EPCA Payment Summit, Brussels

The 2.5 day programme consists of dedicated pre-conference workshops followed by a plenary and specialised tracks.

Top professionals and thought leaders from all over the world will present key developments in payments and transactions with ample room for in depth discussions. The EPCA Summit 2013 will cooperate closely with European Banking Associations, such as NVB, the Dutch Bankers Association, in setting the agenda.

http://transactives.dcportal42.nl/

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 a prime source of strategies, information and networking.

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 – what new technologies are going to most affect the order flow and the markets? How can you best prepare for the next big technological change in the markets?

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 in the market. There are also breakout and educational sessions, a range of networking events and more than 100 exhibitors.

https://payments.nacha.org

APRIL 24-25 2013

Meftec 2013, Doha

The long-running Middle East Financial Technology Exhibition and Conference continues to be "a bespoke learning, networking and business experience that blends an industry-leading conference with a tightly focused exhibition and high-class social functions". This year it 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

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IT pros willing to back the bankers

Richard Nott,
www.cwJobs.co.uk

The finance sector has been plagued with bad press over the past five years, with little respite for those in the industry, but despite the issues faced by the sector, 59% of IT jobseekers would still consider entering the industry.

CWJobs has conducted research that shows that despite the high profile issues faced by the industry, IT jobseekers would still consider moving in to the sector. Jobseekers disclosed that it isn't simply the lure of the banker's bonus that is driving interest. Nearly three quarters of IT professionals would enter the industry to learn new skills (73%), with the high salary (53%) and benefits (23%) that the sector is renowned for coming second.

The IT industry has always been forward thinking and fast moving, and the use of IT within the finance industry hasn't escaped this either, meaning it is facing new challenges as the technology evolves. Almost half of IT professionals saw this as a positive reason to make the move, with 44% stating they would consider a move into a finance role because they believed the work would be more interesting than what they are currently doing.

IT professionals also see potential disadvantages to working in finance: the majority of respondents (98%) said that they thought the work would be harder, and 88% assumed they would be expected to work longer hours, a view that appears to reflect perceptions of the broader finance industry.

With over two thirds of IT jobseekers interested in this sector, the benefits may outweigh the challenges, as professionals are willing to overlook disadvantages for the perceived benefit of a stimulating and interesting career jump.

The financial industry needs IT professionals to assist with the quickly evolving needs of the sector and its customer's expectations.

The widespread adoption of online banking means the industry is facing enhanced challenges and threats from viruses and attacks on their online systems. Mobile banking and m-commerce have intensified this, with so much secure and sensitive data being transferred between thousands of devices on a daily basis, security of this data is a priority that cannot be ignored. The widespread reporting of NatWest's cash application issues have demonstrated how easy it can be to succumb to threats. As technology evolves so do cyber-criminal tactics, creating a sustained demand for specialist IT pros to manage and combat it.

Mobile banking can be accessed on a wide array of mobile handsets. Different handsets use different operating platforms, with some supporting Java ME, others supporting SIM Application Toolkit, and others only using simple SMS. These different mobile platforms mean banks now rely on a variety of types of data encryption and application coding, causing issues in security and interoperability. This requires highly skilled IT professionals to manage and correlate the variety of different needs provided by this mix of platforms.

> "Financial institutions should move on from only recruiting candidates with existing sector experience, and look to encourage other professionals into an industry that clearly requires them."

Financial institutions have acquired a reputation for only recruiting candidates with experience within the sector. With technology and threats advancing at such a phenomenal rate however, a reassessment of this approach is needed. With finance companies now striving to attract new customers and keep on top of the latest technology trends driving our culture, it's likely a need for specialist IT professionals will also grow.

In order to manage this, banks need to be willing to respond by looking at a wider pool of candidates, with the skills to manage a variety of projects.

While IT professionals have identified the opportunities in this sector, they haven't forgotten the struggles, only one in five IT jobseekers believes finance is a secure industry. Alongside this, IT professionals do appear to hold some concerns about its accessibility to those who don't already hold experience in the sector.

This is reflected by 63% of jobseekers saying they thought finance would be a harder sector to enter than other industries. Only 50% believe they would be considered for a role in this industry based on their current CV.

Further demonstrating the barriers to entering the financial sector, nearly half (48%) of IT professionals admitted they didn't know which skills would be required for a career in financial services. Skilled up IT pros could be missing out on opportunities in this sector as a result.

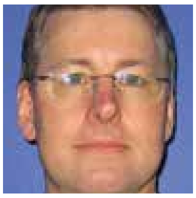
In order to encourage jobseekers to enter this sector, the IT industry needs to place more emphasis on educating IT professionals on what a career in financial services entails, and the skill sets required to enter it – both in a professional and educational capacity. With 90% of professionals happy to re-train to enter this sector, it's clear there is enthusiasm from jobseekers.

As the adoption of banking technology grows, the sector is likely to have a sustained need for skilled, motivated IT professionals to help navigate the challenges presented from innovations and ever-present threats. Encouragingly, CWJobs' survey responses have demonstrated an eagerness from candidates to enter the sector to fulfill this need. If the financial sector is keen to avoid the technical breaches that have served to further darken the sectors' image, recruitment of some of these willing IT professionals should be of paramount importance.

It is clear jobseekers are willing to consider moving into the finance sector, perceiving that the benefits of finance outweigh the challenges. Financial institutions should move on from only recruiting candidates with existing sector experience, and look to encourage other professionals into an industry that clearly requires them.

Richard Nott, website director at www.cwJobs.co.uk

Unlocking the potential of Big Data



Anthony Duffy,
Fujitsu UKI

It's a familiar story: austerity, an economy in and out of recession and no end to the tunnel in sight. At the centre of the national crisis sits a banking industry tarnished in the public's eyes by poor performance, excessive pay and the ongoing need for state support. Just where does the industry go from here and how does it start to rebuild trust?

Banks might start by looking at their business with fresh eyes. True revenue opportunities must be taken while costs continue to be carefully managed. The customer relationship must be revisited, with banks considering whether the client management strategies of yesterday will work so well tomorrow. Banks might also recognise that they sit on a vast amount of information which – if only if could be easily accessed and cost-effectively managed – could provide new insights and new opportunities, both for them and their clients.

Despite the significant advances that banks have made elsewhere in their operations, relatively little use has been made of information contained in their own databases. This is set to change, as the volume of data created and collected accelerates significantly – some estimates suggest a sevenfold increase before the end of the decade.

Traditionally, many banks have tended to build bespoke IT systems. However, this comes at a cost – in terms of time, money and other resources. Yet growing interest in Big Data means that things might soon change. Thomson Reuters estimates that, in 2011, venture firms invested almost $2.5 billion in organisations focused on Big Data, up from $1.5 billion in 2010. Much of this money went into the four key components of any Big Data strategy: the storage and network services that support Big Data platforms; the platforms themselves, which enable data to be analysed; and the software applications that make sense of it – be it apps that enable large volumes of information to be processed or those data-driven apps that provide further, detailed insight. The consequence of this is that more "off the shelf" solutions are becoming available and the cost of storing and analysing data is falling – meaning that the opportunity to maximise the Big Data opportunity is now coming within reach of much more of the financial services industry.

The value of Big Data to the retail banking industry is estimated at more than £6 billion over the next five years. Immediate cost-reduction opportunities lie in fraud and sanctions management, while account management can be enhanced by enhanced customer insight. Taking a longer-term view offers banks the potential of significant new revenue streams.

Fraud is estimated to cost the UK banking industry around £1.5 billion per year. Within this, mortgage fraud runs at around £1 billion and plastic card fraud at about £340 million. In the Big Data world, spotting the relatively small number of fraudulent transactions in a sea of legitimate payments becomes less difficult, despite the sizeable shift in behavioural patterns towards electronic and mobile/internet payments.

Checking customers' names against a sanctions blacklist can become highly complicated in a world where a bank has multiple customers with the same or a similar name. Each search runs the risk of flagging a false positive, thus embarrassing the bank and ruining an otherwise strong client relationship. By using Big Data techniques, this reputational risk can be mitigated and managed.

Big Data can also be used to enhance account and relationship management. By co-ordinating the collection of data already in the public domain – such as share price movements, a change in auditors or a director selling shares in his company – and passing it to account teams, understanding of key client businesses can be improved. Further insights can be derived from additional internal data, perhaps focussed around the early identification of potential problems – for example, how credit lines are being used against agreed limits; to monitor account crediting behaviours, as problem accounts often credit funds late in the day; and to identify payments patterns of potential interest.

One of the most exciting areas for Big Data lies in the potential to create new income streams for banks. By being located at the centre of the "payments web", banks have unique insight into how, where, with whom and when customers are spending money. By analysing such information, banks can build an insight into customer intelligence and behaviours that they may well be able to monetise. Current examples of such innovation include:

- an Australian bank is working with a retailer with to understand where the retailers' customers live; when and where they shop; and how much they spend. This information is then used to refine the retailer's branch location/relocation strategy;
- an American payments company is partnering with a retailer to send discount offers to cardholders who use their cards in the vicinity of the retailer's stores;
- a Japanese mobile 'phone network is partnering with a fast-food restaurant to send e-vouchers to customers who use their 'phone to pay for food. Each e-voucher entitles the customer to a discount the next time they buy a meal in the restaurant.

Of course, the value and potential of the payments business has not gone unnoticed by others. In the first three quarters of 2012, Facebook made more than half a billion dollars from its global payments activities[1], while PayPal customers used its service to make more than six million payments per day in Q3 2012 alone. And they're unlikely to stop there. So another challenge for banks is to defend the payments business, both to protect their historic investment and to maximise access to valuable customer data.

At Fujitsu, we are seeing banks increasingly recognising the current and potential value of their business data – not least in informing ways by which the customer relationship might be "reset". But many are daunted by difficult decisions around which high-performing IT infrastructure to select; finding and managing the highly-skilled, knowledgeable and data-aware personnel required; and funding Big Data initiatives, both in terms of money are other scare resources. These are no small challenges. But we are confident that the potential rewards offered by a successful implementation justify the effort.

Anthony Duffy is director of retail banking at Fujitsu UK & Ireland

[1] Techcrunch.com – Facebook's payments revenue feels some heat …, 23 October 2012

The African banking evolution

Simon Pont,
ECR Retail Systems

Mobile phones may have revolutionised the way of life of the African population, but when it comes to mobile banking there are a variety of technologies circulating which each provide precise services and levels of connectivity and functionality.

In order for the banking evolution to move up to the next level, the focus needs to shift from technological innovation to the delivery of solutions that place a greater emphasis on customer service and on helping businesses fulfil their potential by providing them with optimum transparency and traceability,

Significant investment in infrastructure and technology has accelerated growth in Africa over the past decade establishing it as the second-fastest growing economic region in the world, with an annual growth rate of 5.1%.

That growth has largely been triggered by a boom in mobile technology. In 1998, there were less than four million mobile phones on the continent. By the end of last year that figure had swelled to 735 million, establishing Africa as the second-largest mobile market by connections after Asia, and the fastest-growing mobile market in the world.

Mobile banking has been a key driver of this growth. Improved capabilities of smartphones – specifically advances in their functionality and connectivity – have created a wealth of opportunities for the African population. While consumers in the western world may take the benefits of smartphones for granted, for Africans they represent a whole way of life. They're a device which enables people to carry out all the essential tasks we have been accustomed to performing for decades. Banking plays a vital role in that mix.

Africa's banking evolution began six years ago with the launch of Safaricom's M-Pesa, a service that allows users to store money on their mobiles and then use it to pay their utility bill or send money to their friends via text. At the time it was revolutionary. It was a cheap, easy-to-use service that granted millions of Africans the ability to access their bank account via a mobile, removing both the hefty charges of doing so, and the need to go into the bank itself. Since then, the continent has seen rapid technological changes, with record take-up rates.

But there are multiple interpretations of mobile. Mobile phones may allow for one-off electronic payments to be made, but what about deposits and business banking? What are the alternatives? How do you evaluate the different options? Is there enough spectrum to accommodate the increasing demand? These questions are all vital, but it's not all about technological innovation. Investment in technology is important, but it's great service which helps secure a high customer retention percentage.

> "It's not all about technological innovation. Investment in technology is important, but it's great service which helps secure a high customer retention percentage."

First National Bank, Ghana's premier savings and loans bank – the only private bank with active working branches in each of the 12 regions of Ghana – recognised the need for a handheld mobile point of sale solution that would improve the customer experience; while at the same streamline the operational process for its branch managers across the region.

The FNSL solution equips agents on the ground with a handheld terminal with on-board banking software, built-in printer, barcode scanner and GPRS connectivity. This computerised revenue banking management system bypasses issues with connectivity and speeds up the process of collecting payments. Customers making a deposit can be issued with a receipt instantly, legitimising the transaction at the point of contact. Customers can therefore rely on the convenience and trustworthiness of handing over money at their home or small business with the certainty that the transaction has been made securely and reliably. Since the introduction of the new solution, FNSL has seen transactions increase by 10%.

Previously, unless Africans deposited their money in person, there was no way of legitimising the transaction process; you had to rely on the collectors to deposit the cash on your behalf. Mobile technology has not only improved security but increased confidence in the technology of the doorstep banking concept.

Amma Korang, a vegetables trader in Ghana's Makola No.1 Market, hails the technology as a major breakthrough: "The new machines give traders confidence that the money collected is actually going into our accounts, as we can see for ourselves our account details being brought up on the computer."

Additionally, branch managers can access real-time updates of all the revenues being collected on the ground, enabling them to concentrate on managing their employees' performance more closely, removing the need to spend time reconciling discrepancies with client accounts.

"The ECR revenue management system has enabled the bank to get full visibility of our operations and customers," says Hilda Nkansah, relationship manager, First National Bank. "Now our mobilisers all insist on using the terminal because of the speed and ease of use."

So what does the future hold for banking in Africa? According to California-based mobile-banking innovator Carol Realini, executive chairman, Obopay: "Africa is the Silicon Valley of banking: the future of banking is being defined here … it's going to change the world". That may sound like a bold statement, but when you look at the past six years it is hard to dispute. And with global mobile transactions estimated to exceed $1 trillion dollars by 2015, Africa's growing dominance on the banking stage is hard to ignore.

That said, growth beyond initial penetration will all depend on how the major banks and their customers respond and embrace these new technologies. Perhaps the biggest consideration is how all parties manage the ongoing impact of mass mobile penetration.

Simon Pont is chief executive of ECR Retail Systems.

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OUT OF OFFICE

FEBRUARY 2013

Low frequency trading

There's lots to read about High Frequency Trading elsewhere in this mag and on the website, so here at the back of the book we're happy to report that there are some people out there who have taken on-board the obvious point that HFT and algo trading are not synonymous.

So hats off to Rising Sum, which has built a platform that identifies investment opportunities "using the acquisition criteria favoured by Berkshire Hathaway, Warren Buffet's highly successful investment vehicle".

Buffet is, of course, famous for buying stock in companies that he considers have true value, rather than just a share price that is heading in one direction or the other. Then he holds onto them for a while.

Taking Buffet's criteria as a starting point, risingsum.com lets investors enter their stocks into the system and find out if any of their existing holdings would pass the Buffett Test.

Even so, we wouldn't normally pass it on, but the chairman of the company is Kevin Ashby, whose previous roles include being founding chairman and chief executive of Saxo Bank Asia/Pacific, chief executive of Patsystems and chairman of Anvil, the last two of which were acquired by ION. ***BT***

Electronic Banking? Meet the man who wrote the book(s) …

Leaving no stone unturned in our mission to bring you information and data on banking systems from all corners of the globe, it is with some excitement that we pass on news from the learned journal *Decision Support Systems*.

The December 2012 (Vol. 54 No. 1) of said journal contains an article entitled *Three decades of research on consumer adoption and utilisation of electronic banking channels:* A literature analysis by Hartmut Hoehle, Eusebio Scornavacca and Sid Huff. This dedicated trio has trawled the scientific literature since 1984 – the year that *Banking Technology* was founded, as it happens – analysing 247 internationally reviewed scientific articles.

Their conclusion is that Tommi Laukkanen, professor of marketing at the University of Eastern Finland, is the most productive researcher on the use of electronic banking in the world, describing him as "by far the most prolific author in this field".

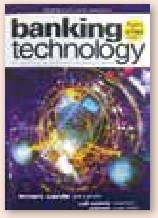
Professor Laukkanen is modest about the observation: "Even though this field of research is relatively narrow, it feels good to be in the forefront. It is a great honour to receive this kind of recognition to one's work," he said, in a press release drawing it to our attention.

Just how narrow or otherwise Laukkanen's work is can be gauged from this paper on a highly topical subject: *How national culture determines mobile banking non-adoption?* In the paper Laukkanen and his colleagues say that "by leaning on the earlier literature we identified and validated five cultural dimensions, namely Uncertainty avoidance, Individualism, Collectivism, Long-term orientation, and Masculinity and used them as independent variables in a logistic regression model to predict mobile banking usage and non-usage". ***BT***

From the Archive

10 Years ago

GSTP creditors fear the worst … banks start to outsource staff functions … Visa adds fraud checks to cross-border payment system … banks struggling with business case for electronic bill resentment and payment services … wooing the mass affluent back to the branch …



15 Years ago

CBOT and Liffe close open outcry link after three months … SunGard brings subsidiaries under one banner … Russian banks test offline prepaid card … Deutsche Bank spends $50 million on asynchronous transfer mode networking as part of $1 billion IT overhaul … smart cards and mobile phones set to transform banking services …

20 Years ago

Swift splits into six divisions in major overhaul … banks struggle with money laundering rules … Italy enables bill paying at ATMs … EU tells banks to improve cross-border payments systems … securities industry bodies get together with Swift to build message standards …

25 Years ago

French banks plan online payments clearing network … trading firms review comms strategy to cut costs … Trax bond trading system 'on track' … US retail brokers look to build coast-to-coast network … London Stock Exchange picks Tandem to run Sequal matching and confirmation service …

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Fightin' Talk

The regulatory backlash begins …

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Illuminating data?

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Time to talk about how?

LEGAL ENTITY IDENTIFIERS
Between a "ROC" and hard decisions

RECOVERY & RESOLUTION
The operational effects of bail-in

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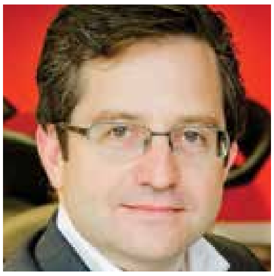
Making sense of financial services regulation

Fightin' talk: the regulatory backlash begins …

After the annual Sibos conference organised by Swift, the bank-owned messaging consortium last October, it seemed that banks and financial institutions were emerging from the state of mourning that the 2008 financial crisis had induced, and beginning to engage with regulators and politicians in a constructive dialogue.

It seemed that the industry, particularly the banking industry, had recognised that new frameworks and rules were necessary, and if it didn't get involved in drafting them, all sorts of mayhem would result. For their part, regulators actively seek feedback from the industries that they deal with – they don't want unworkable laws any more than the industry does. From 20,000 feet it looked like a positive development.

Less than three months later, as we assess the real impact that regulation is having at ground level for trading – a rather important piece of the puzzle – it looks less so. There may be some areas where the dialogue is constructive, but overall, the atmosphere is becoming acrimonious. On two occasions recently, we've carried stories about regulators being heckled at industry conferences by audience members – and even by fellow panellists, in the case of Philippe Guillot, executive director of the markets directorate at French regulator AMF, speaking in London last month.

The case of Guillot gives a clue as to the reason for the rise in temperature: if the regulators have the capacity to compromise, their political masters don't. Guillot was talking about High Frequency Trading, which the French and German governments would like to see curbed, if not actually banned.

Unfortunately it's a bit more complicated than that: HFT has supporters even among those who don't use it, for its contribution to market liquidity among other things. Perhaps there should be a special exchange just for HFT trading? Might that not violate the competition principles on which the German/French-initiated European Union is based?

Meanwhile, over in the US, a row has blown up between the DTCC, the settlement mechanism for the US securities markets, and the Commodities Futures Trading Commission, which regulates commodities trading (and hence derivatives) in the US (and hence everywhere else, in its view).

Tangled as it is in bureaucratic legalese, the DTCC's letter commenting on CFTC proposals is as close to apoplectic as that organisation ever gets. It expresses concern "over the lack of clarity as part of an overall arbitrary and inconsistent rulemaking process" relating to regulatory reporting of OTC derivatives trades, and particularly the impact of the Chicago Mercantile Exchange's proposed Rule 1001.

The DTCC is acting as the representative of a range of trade associations and market participants – including Citi, Deutsche Bank and JP Morgan – who "have expressed serious concern" over the proposed rule.

Just run those words through an imaginary semantic reverse engineering process: if the DTCC is using language like "arbitrary and inconsistent" and "lack of clarity", what sort of language do you think it is hearing from those market participants? Proper Anglo-Saxon banking language, I'd bet.

Far from coming out of a post-crisis period of grieving and re-learning how to engage with the wider world, the financial services industry looks like it is returning to its old belligerent self.

David Bannister, editor

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TOP TWITTER ALERTS:

- EC releases 140 responses to the EU shadow banking green paper
- China's opaque shadow banking may be 50% of GDP. FSB's recent policy recommendations designed with such scale in mind?
- Can it all fit together? 2 FSB shadow banking CPs on policy framework, securities & repos detail huge reporting reqs:

Repos/sec lending: illuminating data?

With five turbulent years having passed since the crisis, regulatory data collection tools have been refined, standardised identifiers nearly constructed and more frequent and granular reporting rolled into regulation by the likes of Dodd-Frank and EMIR. Now that regulators have this mass of data, what is the next step in linking it and putting it to use?

In 2013, global regulators are finally taking a good look at connecting the data dots. The FSB has especially taken the lead here, releasing three consultation papers in November 2012 regarding the oversight and regulation of entities and securities lending and repos. Data concerns are most strongly evident in the consultation *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos*.

The paper's goals are laudable in their drive for securities lending/repo transparency, asking the industry to examine and refine current data collection points for repo/securities lending, such as trade repositories, surveys and periodic market reporting for everything from principal amount to maturity information. The IMF has also thrown its weight behind the effort in its recent working paper detailing the potential synergy between the G20 Data Gaps Initiative and its Special Data Dissemination (SDDS) group for financial stability analysis.

Of all these initiatives, the one closest to the ground is shadow banking regulation focused on securities lending/repos. At last, information architects have a set of real strategic questions to answer.

There's no doubt the IMF and FSB are taking a long-awaited step in the right direction and, if done correctly, this could have the potential to result in huge savings in reporting costs for firms and the prevention of another 'shadow' crisis. However, the necessary nuts and bolts to construct a robust infrastructure for data collection that will make the regulation useful are still missing.

So, where should regulators begin in order to get this right?

Firstly, the FSB's programme of data collection assumes the pre-existence of authoritative stores of transaction – and other – data, including repo/securities trade repositories. At present, these do not exist in the necessary numbers, meaning interim data sources will have to be leveraged whilst the transition to more defined collection points, such as repo/securities trade repositories, are made.

To effectively gauge the depth of the shadows, the FSB and IMF will have to conduct an assessment of current sources including:

- **Trade repositories:** Present in the US (DTCC) but do not currently deal with repos in the EU. There are plans to build further repositories, but it's unclear when they will be in place
- **ICMA surveys:** European repo data including total value, counterparty, geographical, collateral, cash currency, clearing and settlement and maturity
- **Central banks:** e.g., US Fed, which provides FedWire service for tracking principal and interest, daily balance report, list of participants
- **Brokers:** EU/US repo broker data; average EU/US daily volumes
- **CCPs:** Transactional information between clearing members
- **Tri-party custodian-agents:** Widening and narrowing of sets (eligible collateral profiles) could provide information on parties' risk appetite
- **IMF Standards for Data Dissemination:** SDDS Plus prescribes a survey of high-level data on claims/liabilities covering many shadow banking activities.

Clearly, there is no shortage of dots to connect. While the FSB characterises repo trade repositories as an ideal fix to the problem of organising this data, these will never be the 'be-all-and-end-all' for repo data, which has been described as "spotty" and "difficult to understand" by the Fed. To take the most efficient approach with a smart view of how this regulation should look, the FSB should, in conjunction with market participants, identify the most robust current baseline that could be created.

If this surveying is conducted correctly, it will enable more informed policy decisions and allow for the refinement of inadequate data sources, while helping to avoid feedback issues from creating new data flows that could distort the market. Armed with a more realistic picture of the sector and a more reliable data set, regulators will be able to identify and mitigate potential issues like market idiosyncrasies, categorisation issues and multiple identifiers, and ultimately achieve an enhanced data set.

Naturally, it isn't just about data sources. Mapping data gaps based on a consolidated reporting regime will be of little use without universal standards. One of the biggest obstacles will be in achieving a universal Legal Entity Identifier for assigning counterparties to transactions and identifying their parentage/ownership structures. No less a challenge is the existence of a unique product identifier (UPI), also required to map individual components of pooled securities, give regulators a complete lifecycle view of the products and, ultimately, aggregate and compare that data.

As with any regulatory initiative of this scale, with risk comes reward. The FSB and IMF should seize the opportunity before them and be able to do their job better, faster, cheaper and ultimately more safely. In the coming months, all eyes will be on them. They have a lot on their plate – will they make data a priority?

KNOWN UNKNOWNS

- Will shadow banking regulations mandate new composite risk databases?
- How will global regulators pursue shadow banking data collection?
- Without global FS data standards, how will non-financial company standards be created?

THEMES

- Before market infrastructures to collect shadow banking data can be designed, more information must be analysed and collected
- Securities lending/repos sector is the first battleground in a very wide field
- Nascent market infrastructure foundations, like identifiers and trade repositories, are going to be tested sooner than some may have thought

TOP TWITTER ALERTS:

- Rift deepens over national v EU regs? French support for German HFT controls seen as "excessive" intervention in UK
- German #HFT licensing req a step too far? Industry says transparency to be done "jointly" not one country at a time
- New material for MiFID policy? FSA report finds no evidence that HFT impacts execution costs of institutional investors

HFT: time to talk about how?

KNOWN UNKNOWNS

- Will the soon-to-be-finalised MiFID II eliminate national gold-plating of HFT requirements and act as a starting point for similar regulation outside Europe?
- Will a global standards committee be forced to examine common HFT practices?
- Will HFT ID requirements drive the adoption of industry standards?

THEMES

- The arms race to regulate HFT will result in more complication and higher costs for market participants
- HFT regulation is surging ahead without global leadership or a landing spot
- Effective HFT regulation can only be developed with cross-industry engagement.

It's 2013 and we're still talking about regulating HFT in the absence of data quality and standards conversations. That needs to change.

2012 seemed like the year of regulators taking a prolonged look at computer trading – defining what it might be, its potential effects, why it may be problematic. It is still far from clear that we have answers to these fundamental questions.

Regardless, HFT has become a national obsession, resulting in a complex and divergent landscape for those trying to move the invisible hand.

Those who are aiming to come up with a singular view will find it difficult. The Germans are pushing ahead with licensing and minimum time orders ahead of an already delayed MiFID II, apparently including circuit breakers, organised trading facilities and minimum tick sizes. The CFTC is still musing over a "concept release" of HFT regulation, with a fledgling definition and FINRA has announced in 2013 it will use "examinations and targeted investigations" to ensure firms have adequate "testing and controls" related to HFT and algos. How these controls will work without a robust set of trading workflows and identification requirements is a question that should be keeping ESMA awake at night.

The UK's long awaited set of answers didn't appear last year. Highlighting the controversy that follows HFT wherever it goes, the Foresight Commission's weighty computer trading study had far fewer practical suggestions than expected. Perhaps even worse, aspersions have been cast about conflicts of interest, its highly academic nature and quantity over quality in its methodology and data set.

This confused regulatory space is ignoring one indisputable fact: HFT is part of the financial system and it is not going to go away. Politicians, in their drive to make markets safer without concentrating on real underlying issues, are actually introducing poorly conceived controls that don't get the job – whatever that is meant to be – done. The bottom line is that trading is a technical arms race and regulators will always be one step behind.

In light of this, regulators and the industry must concentrate on not only defining what exactly HFT is, but also refining data collection, aggregation and analysis to balance political demands for market safety, without stifling capital allocation. This will require examining the market infrastructures that facilitate computer trading and the trade information they produce. With many other regulatory initiatives also struggling with issues of data collection, aggregation and analysis, regulators should ensure that HFT features in the larger conversations on standards and data quality.

Shining a light onto the issue, the FSA has provided the industry with valuable insight into the depth of this problem. In its January paper, *High Frequency Trading and the Execution Costs of Institutional Investors*, it takes a more practical approach in examining HFT by comparing 30 days of trading data. The diagnosis at the centre of the report is that regulators do not have the data required to regulate, nor the standards to make this data truly useable.

The report begins on a familiar note: the lack of a common definition of HFT makes it difficult to be sure the scope of the trading activity is adequately captured. This data was then juxtaposed to HFT data from exchanges, held by the FSA. Huge discrepancies over the course of a year are apparent, with the FSA data detailing 70-80% of HFT trading at the beginning of 2010 and only 40% by end 2010. The reason? Unregulated HFTs are "not observed", and firms that have HFTs that are not regulated under MiFID do not need to report. Rather obviously, the report concludes this is "not a fair representation of true HFT activity"!

The report does, however, identify another key roadblock to an accurate representation of HFT activity – poor data quality. Some examples include trading time inconsistencies between FSA and exchange clocks, misreporting of counterparty codes, instrument and venue data and only trades reported with BIC codes able to be identified.

Without a robust understanding of HFT, regulators and politicians will be unable to regulate effectively in both their own interests and the interests of the industry. They must begin with collecting and aggregating a robust data set, based on common units of measurement, such as tick sizes and minimum resting times. While there is potential for this to be mandated in MiFID II, and it is supported by the Foresight Commission, the lack of global agreement on these requirements will result in traders taking advantage of regulatory inconsistencies. Therefore, a more practice-based, unified definition of HFT must be crafted, that will finally allow regulators to focus on the practices they wish to control.

As supported by the FSA's research, HFT must also be included in discussions over identifiers, a mix of which is creating a convoluted landscape today, and market conduct specialists could benefit heavily from uniform standards, such as the Legal Entity Identifier.

The ultimate key to success for these efforts will be getting the right people around the table, including exchanges, traders, regulators and academics, to offer the right balance between theory and practice. Through this cross-industry collaboration, the confusion over what HFT is, and the problems in obtaining quality, standardised data to solve the problem can finally be addressed. To get this right, all major markets need to be sitting at this table, which is still waiting to be set for the discussion.

TOP TWITTER ALERTS:

- Last FSB LEI progress report: FSB #LEI moving onward to selecting ROC's Board of Directors; more news from end Jan mtg
- FSB requests legal advice on Switzerland for home of LEI: will it support the ROC charter and COU operations?
- Survival rules? interim identifiers (CICI) before 30 November may not transition to LEI says FSB's 4th progress report

The LEI: between a "ROC" and hard decisions

As the global method of identifying entities and their ownership structures, the Legal Entity Identifier forms a central part of the G20's crisis-prevention toolbox.

After a few chaotic years of LEI debate and design, regulators are finally nearing the long anticipated starting line for use of the world's first singular identifier.

The LEI is of critical importance to multiple other regulatory initiatives, with everything from Dodd-Frank's post-trade regulation, through the FSB's new shadow banking regulation proposals, to tracking computer trading. This means that the number of use cases in the minds of regulators across the globe for this identifier is potentially limitless.

In recent months, considerable progress has been made towards establishing the bodies that will implement and run the LEI. However, despite all this regulatory hustle, we appear to be no closer to consensus on what it will take to have a 'good LEI'. As a result, both firms and regulators are showing hesitation in implementing it, casting doubt over the probability of the FSB achieving its 31 March operational milestone in LEI development.

Even this late in the game, the FSB has yet to settle on what information will appear on the screen when an LEI is queried. Quite simply, we know what the phone number looks like, but not what information will be available about who is paying the phone bill.

Why, at this late stage is this the case? In a nutshell … it's complicated. For example, one of the longest running issues, the status of a counterparty's ownership structure, is still unresolved. Some have advocated for its inclusion from the beginning while others have argued for it to be applied following the LEI's launch. The challenge is that there is no single answer. In large part, the answer to this question is tha it depends on what it will be used for.

While it would be much better to have this view up front, there has been far too little regulatory prescription of the many ways regulators would like to use the code. In the absence of direction, the PSPG has settled on a conceptual data model, detailing and mapping key concepts such as classification, condition and product arrangement.

Multiple regulations, such as Dodd-Frank and EMIR, offer differing definitions of these information items, meaning common regulatory ground must be found before the data model can move from concept to practice. This is crucial in order to fulfil the PSPG's stated goal for the LEI architecture of not only being "fit-to-use" but also to be "ready-to-use".

There are also looming questions over the LEI's compatibility with privacy law. Many countries maintain their own data protection laws and some regulators have acknowledged potential situations where firms operating internationally could be caught in a Catch-22 between disclosure and non-disclosure obligations.

The delay in coming to a decision over these issues – content, architecture and privacy – has forced regulators to implement divergent interim identifiers while awaiting a finalised LEI.

In Europe, LEI use is looking even more distant. July should see the beginning of reporting under EMIR, when eligible firms will be required to identify counterparties using the Bank Identifier Code, a pre-existing, as opposed to an interim, identifier. Unsurprisingly, the BIC has its own problems. Swift, the BIC's provider, has insufficient resources to handle the registration of the hundreds of thousands of non-financials that are required to register under EMIR.

It is widely agreed that LEI implementation is a public good, given its instrumentality in mitigating systemic risk. However, many parties have different interests in LEI use – the COU, national regulators, regional regulators, global regulators, central banks, financial market infrastructures and firms – and its utility will have to be proven by demonstrating to these players that their needs will be met. For instance, in order for the LEI to become the authoritative identifier, firms will want to know that data they receive has been verified and continually updated. However, there is also greater value that can be built into this process, such as the ability to deal in multiple languages, jurisdictions and character sets. Therefore, these use cases must define quality metrics of 'what good looks like', in order to offer best practice examples for firms and regulators.

The FSB's final progress note on the LEI notes big wins regarding a robust governance structure for the LEI. Until now, the making of important decisions was delayed by the lack of dedicated LEI governance, though this has now been overcome by the chartering of the Regulatory Oversight Committee (ROC) last November. This body is now charged with the finalisation of the technical and architectural details, including the establishment of the Central Operating Unit to coordinate the federated Local Operating Units. At its first meeting, in Toronto at the end of January, the ROC will ultimately decide just how much this momentum will continue, as there are multiple pressing operational issues up for discussion.

This could potentially be a make-or-break moment for the LEI. One way or another, decisions will soon be made that dictate whether the noble concept of a common code for finance becomes a reality – or not.

KNOWN UNKNOWNS

- What will the timeline for operational LEI implementation be?
- What will the final regulatory use cases for the LEI look like?
- What legislative barriers will the LEI encounter after deployment?

THEMES

- A large amount of work still must be completed before the LEI is ready for use
- Regulatory use cases for the LEI still need to be fully developed
- All eyes are on the FSB milestones of January and March to steer the implementation course.

TOP TWITTER ALERTS:

- EU RRP Directive loses some bite: member States powers to penalise firms for deficient living wills reined in
- FSB RRP paper: firms seek discretion on when to implement RRPs and call for multilateral agreements between regulators
- EBA on Liikanen: yes to "full consistency" on #RRPs; "predictable" bail-in & ensure structural measures "enforceable"

Recovery & Resolution: the operational effects of bail-in

KNOWN UNKNOWNS

- How will the UK legislative framework change in the wake of the Financial Services Bill?
- Will other jurisdictions' move towards bank resolution rules include bail-in?
- Will politics accelerate the adoption of bail-in globally in recovery and resolution plans?

THEMES

- Know your firm: institutions will need to look at the bigger picture in assessing the potential impacts of bail-in on their operations
- Though timelines are not set, firms must start considering the potential effects of bail-in on their operating models today
- Bail-in will continue to be attractive to politicians as it has popular support

Recovery and resolution plans have been on the minds (and to-do lists) of ops and tech departments at the world's biggest banks ever since they were mandated by the G20 in 2011.

Systemic banks are at various stages in their submission of RRPs to regulators. In the US, tier 1 banks will have already submitted their first plans under Title I of Dodd-Frank, with the other tiers due to submit later in 2013. In the UK, aside from the largest institutions, submission has been delayed multiple times, with a policy statement finally expected this quarter.

Regardless of these shifting timelines and requirements, ops and tech professionals in both jurisdictions will soon have to submit annual data on key operations including staff and their roles, contractual dependencies and outsourcing and data recovery measures.

More than ever, this reinforces the imperative to Know Your Firm. That, however, might soon become more complicated.

Towards the end of last year, the Bank of England signed an agreement with the US Federal Deposit Insurance Corporation (FDIC) that may have a significant effect on the shape of those RRPs already in the works. The agreement was a commitment by both parties pledging to use the bail-in model of bank resolution. To cut a very complicated story short, a bail-in is the opposite of the now infamous bailout, in that it forces shareholders, rather than the taxpayer, to shoulder the bank's losses. In light of this, operations will need to understand the potential effects of bail-ins on their senior management, HR and contracts.

The most important potential effect of bail-in is that it significantly decreases senior management's job security in times of financial stress. If things get tough, the regulator takes over the firm as a quasi-administrator, immediately dismisses the senior management and forces the old shareholders out. It then selects its own replacements until the firm is buoyant again, at which point the new shareholders are free to elect a new board. As a result, firms can no longer rely on the same key individuals being present when they are needed most – when the firm is struggling to get back on its feet.

Therefore, as part of their RRPs, professionals will want to consider multiple scenarios where key figures, such as chief operating officers, are removed and replaced with unknown external persons. The results of this will be unique to each firm. But, in all cases, firms will want to make sure that their roles, procedures, responsibilities and organisational charts are well defined and documented so that key staff can be replaced quickly.

Those in the accounting and auditing functions, and those managing them, will also have to consider the effects of bail-in, particularly in relation to where capital is held within the corporate structure. Control of the firm is achieved by a 'single point of entry' approach. This simply means taking control of the parent company as opposed to its subsidiaries. And when the regulator seizes the parent company, it also seizes the company's capital, which it then uses in the process of stabilising the firm, meaning these funds are off-limits during the bail-in. The success of a bail-in will depend on how much capital is at the regulator's disposal in this way.

However, capital is raised by issuing debt at different levels within the company. Some firms frequently issue debt at the holding company level, while others, especially in the UK, issue it at the subsidiary level. As a result, UK regulators may require more capital to be raised at the parent company level. In either case, firms will have to pay greater attention than ever before to where capital is held within their institution. With the potential for up to 10% of all liabilities to be frozen (according to the EU draft RRP Directive), firms will want to have a clear idea of how they will maintain liquidity throughout the rest of the institution, were the holding company to be seized. This will involve a significant amount of modelling and comprehensive scenario analyses.

Lastly, the agreement may have huge repercussions for legal departments and their budgets. In order to prevent contagion, the bail-in model involves the freezing of contracts, preventing them from being terminated. Not only does this cast doubt over the future of commercial contracts but also over outsourcing, service level agreements, licensing, IP arrangements and beyond, especially where these are in the name of the parent company

Ultimately, in subscribing to bail-in, the UK and US are attempting to set a precedent in the hope that other jurisdictions will follow their lead. But there are clear risks of this regulation fragmenting, with some countries refusing to endorse bail-in, or pursuing differing bilateral agreements altogether. Despite these pitfalls, the facts that bail-in is included in the EU Crisis Management Directive, and is being pursued by the US and UK, are a strong indication that it is set to become a permanent feature of regulatory agendas. Because of this, firms would be well-advised not to delay making the necessary preparations to stay ahead of what comes next.

This agreement means, now more than ever, that it is in firms' commercial interest to have clear plans for all recovery and resolution eventualities, especially bail-in which otherwise might prove ruinous.