

# Daily News at Sibos

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## Banks and crypto lovers battle it out

By Lisa Creffield

Blockchain has been one of the biggest buzzwords at Sibos 2018. It's being embraced as a way for financial institutions to have more efficient systems, removing the need to reconcile multiple disparate databases and enabling real-time accounting. But there's still scepticism over blockchain-based virtual currencies.

UBS recently claimed that Bitcoin fails to meet the basic criteria to be considered money or a viable new asset class, due to its "fixed supply and unusual demand dynamics" which make it susceptible to high price volatility.

Joe Lubin, co-founder of Ethereum and founder of ConsenSys, points out that this view isn't universal. He notes that banks including Goldman Sachs and Morgan Stanley, as well as some hedge funds, have put together trading desks for crypto assets. But he also stops short of describing Bitcoin as money.

"Bitcoin is not necessarily money, it's Bitcoin. It can be used as a payment mechanism, it's being used as a store of value. We at ConsenSys don't pay a lot of attention to Bitcoin or cryptocurrencies really, we build decentralised application platforms on Ethereum," he says.

Daimler and several banks have already issued bonds on the Ethereum platform. Daimler issued a €100 million bond on a private version of the Ethereum blockchain in 2017, and in March 2018 unveiled MobiCOIN, a cryptocurrency rewards programme for eco-friendly drivers.

"So the world of crypto assets, whether they're that narrow slice that's cryptocurrency, or crypto equities or crypto commodities like Ether, and commodities for storage and bandwidth and compute, different kinds of bonds, those things are becoming increasingly utilised by legacy world financial institutions," Lubin says.

But with controversy over cryptocurrency issues such as pre-mining - New York University professor Nouriel Roubini, has accused Lubin and co-founder of pre-mining Ether coins, which Lubin counters with: "Nouriel is a marketer who doesn't understand our space at all" - there is a

"Bitcoin is not necessarily money, it's Bitcoin."

question over how cryptocurrencies can be made to work fairly and independently.

"I believe that Ether and the Ethereum network operate quite fairly. They have decentralised governance where many different kinds of actors are involved in different kinds of decisions... if any one of those elements goes rogue, probably the other elements will continue the Ethereum platform, where that rogue element might fork off and start its own new system," Lubin says.

*"Do financial services have a 'God-given' right to smart ledgers?"*



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## EastNets shows off new AI-based fraud and money laundering tools

By Alexandra Cain

Compliance and payments solutions business EastNets has launched a new artificial intelligence (AI) solution for detecting and combating money laundering and payment fraud.

It is also taking the opportunity at Sibos to showcase Swift's global payments innovation (gpi) service, through which banks can provide cross-border payments, transparent bank fees and FX rates. It allows banks to credit payments to beneficiaries within seconds.

"Crimes such as money laundering cost the global economy between \$1 trillion and \$2 trillion dollars annually, or nearly 2% of

global GDP. This underscores the need for institutions to commit greater resources to remain compliant, particularly through investing in the latest technology – such as AI," says Hazem Mulhim, EastNets' CEO.

EastNets' flagship SafeWatch PaymentGuard (ENPG) product is also on display. ENPG is an AI-powered, anti-fraud technology designed to disarm financial criminals. It detects and acts on fraudulent Swift payments using machine learning. The solution is able to tell the difference between genuine transactions and suspicious ones and reduces false

positives, helping banks to lower costs and reduce human errors.

Other EastNet initiatives being featured at Sibos include its real-time anti-money laundering (AML) solution, EastNets SafeWatch360 Transaction Risk Radar (TR360); EastNetsSafeTrade, a new AML tool; and a product to help banks implement Swift gpi.

These tools join the growing cohort of machine-learning technologies designed to combat the efforts of cyber criminals. An IDC report has found global spending on cognitive and AI systems will grow to \$19.1 billion in 2018.

## Temenos launches Centre of Excellence for AI

By Tanya Andreasyan

Banking software firm Temenos is ramping up its artificial intelligence (AI) capabilities. The vendor says its AI initiative "will enable banks to offer personalised services to customers, augment users' decisions with data-driven machine intelligence, and maximise straight-through processing (STP) rates for financial transactions at reduced cost with limited or no human intervention".

The initiative is global, Temenos emphasises, and will be powered by a new Centre of Excellence for AI, which, amongst other things, will "foster a collaborative ecosystem" with Temenos' clients and partners.

AI capabilities will be "injected" throughout its front-to-back office banking platform, available on premise and in the cloud.

To begin with, the main focus



will be on the front-office solutions, payment exemptions handling and real-time fraud detection.

The company says it "has invested heavily in AI across its technology stack from AI-based fraud detection tools, to machine-learning and predictive analytics models". It also launched a robo-

advisor solution, as part of its WealthSuite proposition.

"Our drive for innovation is constant," states Prema Varadhan, VP of AI Centre of Excellence, Temenos. "We invest over 20% of our annual revenues in R&D, an amount that surpasses what a global tier 1 bank would typically spend on its core banking systems, the bulk of which is usually spent on maintenance of legacy systems rather than innovation.

"Our vision is to build and fully embed own and third party AI capability throughout our banking platform to improve efficiency, automate processes, and crucially provide personalised customer engagements.

"AI is an integral part of our platform and an essential component in creating the intelligent bank of the future."

## Deutsche Bank opens its tech to third parties

By Tanya Andreasyan

Deutsche Bank has accelerated the opening of its IT systems to third-party service providers across its corporate and investment banking and private and commercial banking divisions.

The bank says it is building an “ecosystem” of application programming interfaces (APIs), which will enable third-party providers – for example, fintechs – to develop new services and applications using the bank’s client data.

It aims “to establish the broadest possible range of applications linked to its data and systems – expanding beyond traditional financial services”.

Thomas Nielsen, chief digital officer

at Deutsche Bank’s global transaction bank, cites companies like SAP, Amazon and Apple that “have created ecosystems around their platforms and systems, allowing third parties to play in their gardens”.

The financial services industry, he feels, “is now undergoing the same evolution”.

“This gives banks much greater potential for innovation and growth than they can generate by being single product-oriented. This will play a central role in driving the platform economy in banking,” adds Nielsen, who sees numerous opportunities for applications serving commercial clients right across cash and

risk management, trade finance and securities services.

Deutsche Bank’s investment bank is building on the existing Deutsche Bank Application Programming Interface (dbAPI), which was launched in the private and commercial arm of the bank last year, and which is already linked to “numerous” external applications, according to the bank.

Deutsche Bank is calling on a broad range of partners, from “financial service providers that want to enhance existing applications with the aid of bank data, or firms that want to build completely new solutions based on that data”.

## The future of money: from product to experience

By Alexandra Cain

Delegates attending the standing-room-only day three Sibos session on “The Future of Money” entered, “the era of contextual financial services, where what you’re seeking finds you”.

Moderator Udayan Goyal, co-founder and managing partner of financial services consultancy APIS Partners, framed the session by explaining, “we’re moving away from a product approach to an experience approach”.

This is being driven by access to massive amounts of data. But the question is at what point data may prevent people from being able to access financial products.

Additionally, the tug-o-war between traditional financial services businesses and technology companies when it comes to collecting and using financial data, alongside tech companies’ moves into financial services, is intensifying.

“Tech companies have lots of data and they want to customise experiences using this data,” Goyal said, explaining the big risk for banks is tech companies’ zero cost of acquisition of their customers.

Panellists said the solution to this challenge is collaboration between the Googles and Facebooks of the world with financial services businesses.



“Collaboration will result in the consumption of experiences, with products embedded in the experience,” Goyal said.

Panel member Brett King, CEO and founder of mobile financial services business Moven, agreed. For instance, he predicts credit cards will disappear in the future. “Banks just need to provide access to credit – they need to strip away the product to provide the utility,” he said.

The first step of this process, according to panellist Neal Cross, chief innovation officer, DBS is “trying to mask the complexity” involved in financial services.

One business that is excelling in this area is Ant Financial. Senior director Jie Song explained how the business is

providing a mobile payment solution to a customer selling tents at base camp at Mt Everest. Previously he had to travel for a day to get to a bank. That’s no longer necessary now he’s able to take mobile payments. Which means he doesn’t have to bother with coins and change and he can access his funds immediately.

“This means his life is much easier,” said Song.

There is, however, a dark side to data. “We need to explore its nefarious consequences,” said Goyal, who questioned how much data is too much and what happens if people become uninsurable or unable to access credit because institutions have too much information.

“There’s a danger in taking humans out of the equation, you can’t put everything in a box and replace humanity with a digital substitute. We will always need human interaction, it’s not all about ones and zeros,” said Cross.

This message should give comfort to the many people working in financial services concerned about the future of their roles.

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## AML struggles amidst new payment methods

By Henry Vilar

The face of payments has changed dramatically in the past few years. However, this change hasn't been driven by new technology, as much as by the mass adoption of these technologies, allowed by a series of factors affecting customer behaviour.

At day three of Sibos, in the panel "The digital revolution: managing the emerging AML and regulatory risks of new payment methods", we managed to get an insightful take in how banks, regulators and fintechs struggle with anti-money laundering (AML) compliance in the light of the rise of new payment methods.

The panel was formed by the following speakers: David Howes, global head, financial crime compliance, Standard Chartered; Lauren Girard, MD head of compliance at JP Morgan Treasury; Natalie Hall, GM, financial

crimes compliance at Commonwealth Bank of Australia; and Hiromi Yamaoka, director general of the payment and settlement systems department, the Bank of Japan.

The whole panel seemed to agree on the premise that the boundaries of what constitutes new payment methods are not clearly delineated. Do banks really understand what these payment methods entail?

Plus, transaction information is often stored in a fragmented manner. This means that while each bank has information of their respective side of the transaction, fintechs may have access to the whole picture. This gets even more complicated when you look at the disparity of AML legislation across geographies, particularly in Asia.

As the digitisation of payment increases,

the risk for the individual decreases, but for banks, it increases. This means that AML regulation around new payment methods needs to keep up. Girard suggests that the best way to do this is to overlay the control framework that we see in correspondent banking and adapt it to new payment methods.

The panels quipped about the idea of a "Jason Bourne"-esque image where law enforcement agencies can track individuals accurately based off their card credit activity. "We're not there, and it's unlikely that we'll get there any time soon, but if banks, fintechs, and regulators sit together to discuss a regulation and collaboration framework, we might get somewhere," said Hall.

"It's everybody's responsibility, after all," said Girard.

## Need for speed: ML reducing fraud in payments

By Alexandra Cain

Machine learning (ML) must have broad application across the growing network of real-time payment pathways to reduce the opportunity for fraud, according to experts at the day three Sibos session on combatting fraud on real time payments.

"ML or decision science is key. The only way to beat real-time fraud is to play in real time and this can only be done on an ML basis. We need to be predictive and not reactive," said panellist David Rich, executive vice-president, Mastercard.

Fellow panellist HSBC's global head of correspondent banking, Barbara Patow, explained the bank uses ML to screen 1.2 million payments a day and stops 75,000 payments. Of these, 35,000 are closed, although staff are involved in these decisions.

Panellists stressed the need to be able to detect fraud before it happens in the real-time payment environment, and voiced concerns about a potential rise in fraud as a result of instant payments.

Rich told the audience there is already \$2 trillion in illicit funds in the global financial services system and real-time payments will exacerbate this problem.

"Criminals are very organised and they



collaborate, constantly probing for the weakest link," he said, explaining how Mastercard is often able to trace frozen funds involved in money laundering back to the source and repatriate it.

Australia's New Payments Platform (NPP) has been designed to facilitate real-time payments and as such, banks are introducing new ways to reduce payment fraud.

"There's a real focus on fraud in the NPP world," said Westpac's global transaction services general manager, Di Challenor. She explained how the bank is able to recognise where a device such as a smart phone is when a customer opens internet banking. If the phone is used in

a way it's not normally used, the bank receives an alert to indicate a fraud may be being perpetrated.

Although Challenor acknowledged consumers may view this as intrusive, they look to banks for fraud detection.

"The NPP has rich data and great benefits, but as a bank we have to assess it and ensure there is no financial crime risk. We're looking at digital IDs to protect money movement and citizen information," she told the audience.

Panellists called for an industry-wide response to tackle the issue of fraud in real-time payments.

"We need to bring regulators on the journey and as a community work together and evolve together," said Patow.

Additionally, NPP Australia's general counsel and company secretary, Vanessa Chapman, said ensuring the platform and market participants comply with minimum standards will help give counterparties in a transaction assurance they won't be unduly exposed to fraud.

"Good prudential supervision and reasonable standards allows you to trust each other as banks," she said.



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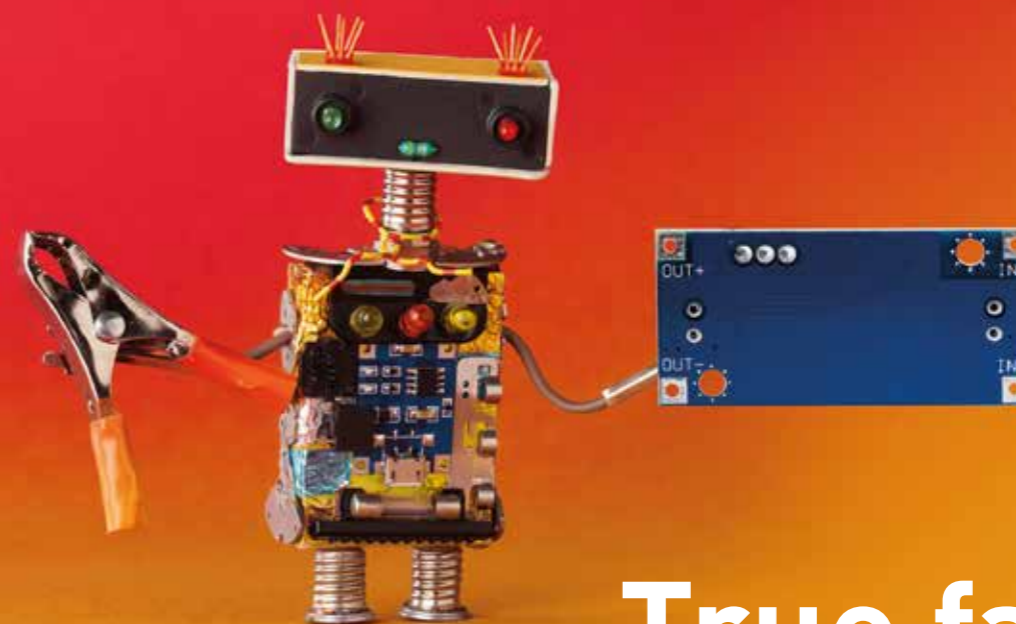
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## True faith

*Richard Buckle, founder and CEO of Pyalla Technologies, asks if banking can embrace artificial intelligence to better foster trust.*

The article I wrote a short time ago for this publication (see day two's issue) began in Dallas, Texas. Nothing unusual about that but many years ago as an Australian living in Canada, with ambitions to eventually work in the US, my first serious foray into the US was two months I spent living in Dallas. The nostalgic similarity doesn't end in Dallas as shortly I will be back in Sydney for Sibos 2018 and this time I am a naturalised US citizen visiting town. It has been five years since I last visited the Antipodes and I expect to see a lot of changes as a result of the ongoing building boom, particularly around the harbour and in the central business district

where a number of Australian banks have their headquarters. However, trust me, banks are having it tough in Australia as more misdeeds continue to surface with a Royal Commission looking into their practices.

To give this Royal Commission its full title, it may come as a surprise for many that indeed, this is "The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry". Whenever I read of misconduct it conjures up all sorts of shenanigans but rarely do I associate any shenanigans with staid old bricks and mortar banks. Indeed, in that article I wrote and referenced above,

I quoted from an article published back in February, "Fintechs see their profile rise, with banks playing a large part". Anthony Rjeily, digital and fintech practice leader for KPMG, had said that: "Right now there's a high level of interest on both sides when it comes to the marriage of fintechs and banks ... Both sides bring value propositions that are very complementary: Fintechs bring an innovation culture, new business models and new methodologies that banks struggle with due to legacy infrastructure. On the flip side, banks have the consumer trust and distribution channels" that many fintechs lack. Misconduct and trust rarely appear in the same paragraph of any article on finance, but here you have it. Even as a potential downside for fintechs is lack of trust, banking seems to be offering breadcrumbs as they succumb to a serious erosion of public trust. And yet, many observers keep their >>



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fingers crossed in the belief that this is all a temporary apparition in Australia and the banks will get better. However, one alternative view is that it really isn't the banks at fault, but rather the people in the banks having apparently lost all sense of good old Aussie "fair go" – could it be possible to take those bankers out of banking? If so, why not all the bankers – could it be possible to automate in such a manner that decision making is guided by algorithms?

With as many discussions taking place around artificial intelligence (AI) as there are these days, Whether in the media or during conferences, the question has to be asked – can banking embrace AI to better foster trust and indeed, if banks are having problems as fundamental as ensuring trust, does this throw open the door even wider for fintechs? Or is this still all backwards, is the future of AI more about trust than what we expect from banks and fintechs? Just as important, if the face of our bank manager reveals nothing, what of the algorithms powering AI – will we trust essentially the black box that is the computer and its algorithms?

In an article published in July, "The Future of Artificial Intelligence Depends on Trust", authors Anand Rao and Euan Cameron note how "some machine-learning models that underlie AI applications qualify as black boxes, meaning we can't always understand exactly how a given algorithm has decided what action to take. It is human nature to distrust what we don't understand, and much about AI may not be completely clear. And since distrust goes hand in hand with lack of acceptance, it becomes imperative for companies to open the black box".



Offering one explanation, Rao and Cameron then suggest that it will be important "to open up the AI black box and facilitate trust, companies must develop AI systems that perform reliably – that is, make correct decisions – time after time. The machine-learning models on which the systems are based must also be transparent, explainable, and able to achieve repeatable results. We call this combination of features an AI model's interpretability".

**"Misconduct and trust rarely appear in the same paragraph of any article on finance."**

The misconduct of Australian banks certainly doesn't help strengthen trust between them and their customers. Furthermore, the prospect of somehow banks and fintechs getting together because banks are more trustworthy than fintechs doesn't ring true for all markets. On the other hand, with all of its upside potential to improve trust between financial institutions (FIs) and their customers, it will take time before AI becomes trustworthy – remember the premise of the Tom Cruise movie, *Minority Report*, where a pre-crime unit, a specialised police department apprehending criminals based on foreknowledge – what could possibly go wrong? You didn't get your car loan? No, we cannot tell you how we came to the conclusion as it is proprietary. Great! It is a real shame we didn't have some form of foreknowledge highlighting the ongoing misconduct among bankers. On the other hand if it was all just a case of simply getting customers to deepen the trust they have in their respective FIs, we might not even need computers or AI. Of course, trust me, isn't that all we want from those who watch over our money? **DNS**

*Richard Buckle*

# NatWest at Sibos: partnerships and collaboration

In the midst of people in suits running around trying to make it on time to their next meeting, we managed to have a sit down with *Martin Fiddaman*, Head of Financial Institutions, Transaction Services at NatWest.

Right off the bat, Fiddaman exclaims: "Sibos is great!" When asked about it, he tells us that he's loving how Sibos has become this great place to meet, connect, and overall catch up with customers and suppliers from all over the world, particularly those from places he very rarely visits.

"Plus, we can showcase all the exciting stuff we have been up to! Namely, we've partnered with some of the R3 banks to develop Voltron and Marco Polo; as well as two of our exciting partnerships, with Vocalink and BioCatch, focused on enhancing our anti-fraud efforts," he continues.

Voltron and Marco Polo are trade platforms that run on R3's Corda blockchain platform. Voltron is an open platform for documentary trade and Marco Polo is an open account trade option. The R3 partnership with Voltron was, in fact, announced at Sibos this week. NatWest, as a founding member, is naturally confident it will use blockchain technology to bring "significant efficiencies" to transacting open account trade as well as digital letters of credit.

One of the NatWest's current partnerships is with Vocalink, whose Corporate Fraud Insights solution is helping NatWest successfully identify fraudulent transactions, with an accuracy rate of around 95%. It is being currently applied only to the BACS payment network, for both retail and corporate customers. "This implementation naturally brings cost reductions and positive risk management implications. This is a free service, built with customers in mind, and we are currently the only bank on the UK to deploy this service," he says.

"In a position like mine, there are four things that we consider when making decisions around partnerships and



Martin Fiddaman, NatWest

implementations," Fiddaman explains. "Is it going to improve customer experience? Is it going to increase revenues? Is it going to reduce cost? And lastly, is it going to help us manage risk? For all this partnership, the answer is most definitely yes.

The second partnership is with an Australian behavioural biometrics firm called BioCatch. This firm's tech doesn't read fingerprints, or scans faces, but it creates a personal pattern of how you use your mobile device – NatWest is currently looking into implementing it on desktops – and blocks access to the user when it spots that they're not interacting with the phone like they usually do. Namely, that they're a different person.

"As banks become more and more digitally-enabled, they have to manage more data, and they manage more and more digital interactions with their customers, they have more cybersecurity duties. This means they need tools to manage all this, and tech can undoubtedly help, particularly with new artificial intelligence, like in the firms we've been talking about".

It's becoming increasingly clear, for everybody in the industry, that banks cannot manage it all. Collaboration with partners and other banks is key, says Fiddaman, like the ones NatWest proudly showcases. "And nowadays, regulators are looking more at payment services processors to step up their activities to protect customers from fraud."

"I feel that we have, as banks, a moral duty to protect customers from these attacks, while providing them with increasingly better customer experience. NatWest is trying to become a thought leader in this area, and thus, we have arranged workshops, created communication channels, and helped educate customers about how to behave to minimise exposure to fraud," Fiddaman concludes.

"It's important to clearly define your problem statement, look for the right partners to help you meet your challenges, and establish those communication channels with other institutions and share best practice ideas in the fight against cyber crime. Sibos is a great place to do that." **DNS**

# Alpha-bets: S-Z

In the fourth and final part of our new feature for *Daily News at Sibos*, we have a quick look at fintech firms that are worth keeping an eye on at the Sydney event. This article focuses on four names within the S-Z letter range. *Antony Peyton*, *Daily News at Sibos* editor, makes his choices.

## TEMENOS

It's been a good time for the core banking provider. There has been a healthy flow of new takers for its T24 system, but let's focus on its £1.4 billion acquisition of trading platform provider Fidessa in early 2018.

The thinking behind that, according to Andreas Andreades, executive chairman of Temenos, is to "accelerate both companies complementary growth strategies in banking and capital markets and will enable us to cross-sell into our existing client bases and capture a greater share of the IT and software spend of banks especially as they move to the cloud".

Staying on this M&A theme, Temenos said in May that it wanted to make it a success in the US. It was looking for more acquisitions to complement its existing offerings.

In an interview with *FinTech Futures* at the Temenos Community Forum in Dublin, Jay Mossman, chairman of the vendor's North America advisory board, said the areas of focus are anti-money laundering, fraud and wealth management. For the latter, trust accounting is especially of interest, as it's specific to the US.

It will be interesting to see if Temenos can retain its momentum and to find out the results of its ambitious intentions in acquisitions.



## TOKEN

This isn't a token open banking mention, but the real deal called Token.

In May, the UK's Financial Conduct Authority (FCA) authorised the California-based firm to deliver payment initiation and account information services, under the terms of PSD2.

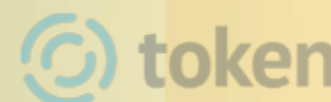
This gave Token some handy momentum – and in June cross-border payments platform Caxton FX started piloting a new direct payments solution for clients of its multi-currency prepaid Mastercard.

As you guessed, the new capabilities came courtesy of a partnership with Token.

Soon after that, in July, Sberbank in Slovenia also teamed with Token as it sought to move beyond PSD2 compliance and toward a full embrace of open banking.

Aleš Zajc, deputy CEO in charge of retail banking for Sberbank in Slovenia, says: "With Token's frictionless authentication programmed into each transaction, we will be able to increase payment speed and convenience without ever compromising on security."

Token will be very aware that while open banking has been kind to it so far, a lot of other companies are also seeking out some action in this new arena.



## WELLS FARGO

The bank has been having a woeful time. There's no other way of putting it as we're not in the sugar-coated business. We leave that to banks and fintechs.

In April, it was hit with a \$1 billion fine by the Consumer Financial Protection Bureau (CFPB) for its auto-loan administration and mortgage practices.

The bureau also found that Wells Fargo violated the Consumer Financial Protection Act (CFPA) in how it charged certain borrowers for mortgage interest rate-lock extensions.

That was followed by another downer. In June, the United Services Automobile Association (USAA) was suing Wells Fargo on grounds of intellectual property charges for unspecified damages, over USAA's remote deposit capture patents.

"We've been abundantly patient with Wells Fargo," Nathan McKinley, a USAA vice-president and its head of corporate development, said. "Now is the time for us to get the court's assistance."

Wells Fargo stayed silent.

In September, its wholesale banking unit was probed for fraud; and the bank said it will cut down its staff by up to 26,500 over the next three years.

So why put the bank in Alpha-bets? Well, it can only get better and we want to see how it will achieve that. It needs to show off some innovations or digital developments.

WELLS  
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## WESTPAC

As one of the big four banks Down Under, Westpac is going to have a fight on its hands as quite a few challengers have appeared. They are very keen to upset the status quo – and some of the founders have had caustic words to say on the old order.

You may know the new challengers – such as Xinja, Volt, Judo Capital and 86 400.

There is also the Royal Commission into banking – where the big four were slammed for their greed, lack of honesty and misconduct.

But let's give Westpac some credit as it has been creative. In May, the new mobile peer-to-peer (P2P) payments platform Beem IT got up and running in Australia.

This followed on from October 2017, when three of the nation's largest banks, the Commonwealth Bank of Australia (CBA), National Australia Bank (NAB) and Westpac partnered to create the app.

In what was described as an apparent bid to compete with new companies entering the finance sector, Beem IT is designed to allow customers to have a digital wallet on their mobile and make P2P payments.

That's one thing but if Westpac wants to stop the challenger banks gaining momentum it's going to have to come up with a lot more ideas.

Antony Peyton, @TonyBankingTech

# APIs and the customer journey to Open Banking

Nadish Lad, director and head of payments product, Volante Technologies

The current primary focus for banks around PSD2 and Open Banking is ensuring that they are able to satisfy the regulatory requirements. Compliance with the technical implementation aspects of PSD2 come into force in July 2019.

As banks now hurry towards ensuring compliance, we see a different approach being adopted by tier 1 banks (versus tier 2 and 3 banks), which are making significant investments with the obvious intention of commercialising Open Banking further down the line.

The larger banks are embarking on huge projects, making large scale changes to their front ends and working on a model in which they will become initiators and third-party providers (TPPs) themselves.

The smaller, tier 2 and tier 3 institutions are not currently focused on how Open Banking will help them generate revenue; they are looking for a minimal change approach to meet the regulatory demands of the revised Payment Services Directive (PSD2) quickly and simply.

That is where Volante comes into the frame with a practical and attractive proposition, an "out of the box" solution which is easy to implement and delivers the future proofing capabilities needed as Open Banking evolves, while at the same time delivering compliance with the regulatory requirements of PSD2. An example of this is the recent Volante announcement of Qatar Islamic Bank (QIB UK) taking Volante's VolPay Channel: Open Banking solution.

For Open Banking to work, banks have to create and expose APIs for third parties to use – and this is where the real challenge lies. APIs on their own are easy to create, but they have to be executed within a seamless customer journey including secure and well-orchestrated integration with the bank's existing systems.



Nadish Lad,  
Volante Technologies

"For Open Banking to work, banks have to create and expose APIs for third parties to use – and this is where the real challenge lies."

Nadish Lad, Volante Technologies

This is new territory for banks and for TPPs and the customers whose accounts are being opened up. It creates a variety of issues around security authentication and reporting. Some of the banks' core internal systems are legacy-based and to create a real-time API and go through this functionality of payment initiation and security authentication is a challenge for many systems.

An additional unknown is that there is a lot of speculation around how comfortable customers will be in terms of exposing their accounts to third parties.

One of the recurring themes is that Open Banking on its own is not going to be a significant revenue generator, at least not in the short or medium term. What seems to be a more immediate revenue generator is the use of Open Banking when

connected with services such as real time or instant payments.

Current methods of sending payments could be consolidated in real time APIs, but a real time API running on a back-end system still operating on batch mode is not going to offer a great customer experience or fulfil the full potential of Open Banking.

What we are seeing is that banks are looking to combine Open Banking with real-time or instant payments and indeed, that is how a truly seamless customer experience can be created. The commercialisation aspect of Open Banking is not only going to be about building APIs and exposing customer accounts to TPPs, it is also about combining these with propositions such as real time or instant payments and then building a seamless user journey that a customer or a TPP would be willing to pay for. **DNS**





Some pointers to current CTO feelings might include Swift announcing that blockchain is not ready for mainstream use in March; and an Interxion event in London in May - where major wholesale financial systems providers admitted to each other that no 'proof-of-concept' projects have led to valid 'use-cases'.

**Follow the paperwork**

For over two decades I ran a commercial shipping vessel, a Thames sailing barge. Moving a commercial vessel involves paper, manifests, insurance certificates etc. Perhaps 50 documents in a straightforward movement. Each document has costs, perhaps a minimum of \$25 per each. And payments, a few, perhaps five or so.

So a banker arrives: "With the wonder of blockchain (which I barely understand) I can save you money on the transaction, except that with Bitcoin it costs at least \$10 in energy, perhaps \$50, and I have to make a profit, so call that \$100." My real cost was the minimum of \$1,000 in shipping documentation, not making some banker a profit from the far fewer payments.

I recall Sibos 2016 in Geneva when a blockchain payment firm announced that in eight weeks, eight programmers had created a transaction that took eight minutes to exchange some shipping documents from the US to Austria for \$8. I also remember somebody from a card provider: "I just want to understand the wonder I'm supposed to admire, because we move payments round the world in three seconds for five pence".

In short, existing central third parties, such as DTCC or SIX or Mastercard/Visa, have little to fear. Yet outside financial services Z/Yen has clients since 2014 in government, healthcare, advertising, or tracking fish using our smart ledger technology, ChainZy.

**So, what's the point?**

Smart ledger technology is basically anti-cheating technology. Yes, financial services is full of cheats, Libor, FX etc.

I have long contended that smart ledgers (a) apply to areas where we have failed to establish central third parties, such as anti-money-laundering documentation transfer, and (b) are not about payments, such as identity, documentation, or agreement exchange.

For financial services firms, we need to look towards new applications, not infrastructure replacement where central third parties are doing good jobs. The implication for clients is that they can reduce their paperwork, including the paperwork associated with payments, but existing, efficient, centralised payment systems may be the mechanisms for the final leg, the 'last mile' of payment processes.

For financial services firms, the idea is to follow, not lead. To help clients reduce their bureaucracy and paperwork. To stop believing that more expensive payment systems can be foisted on captive customers. And most of all, to help clients with the totality of their transactions, not just be greedy margin-merchants on their payments. *DNS*



**ABOUT THE AUTHOR**

Professor Michael Mainelli is executive chairman of Z/Yen Group and principal advisor to Long Finance. Z/Yen is the creator of the Global Financial Centres Index, and co-created a smart ledger in 1995.

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# APRA and the art of extraction



APRA's economic and financial statistics reform: extracting value from tech and new data demands

Banks are well advised to prepare to meet the new data demands emerging with the Australian Prudential and Regulatory Authority's (APRA) updates to its economic and financial statistics (EFS) reporting regime, taking effect in early 2019.

And while compliance with the new regime should be banks' primary goal, EFS change programmes can do more than simply tick the boxes on the compliance checklist. In fact,

preparing for EFS creates chances to extract more value from technology infrastructure and processes, and generate data that serves strategic purposes, as Douglas Cheung, regulatory product manager for Wolters Kluwer's Finance, Risk & Reporting business, examines.

With APRA introducing various regulatory changes at once, many banks are struggling to do the minimum when it comes to data management. A recent survey of Australia's authorised deposit-taking >>



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institutions which Wolters Kluwer conducted in 2017 showed three-quarters are still using fully or partially manual approaches to producing regulatory reports. Most evidently see such approaches as inadequate for the future, with 82% either planning or considering changes.

There are several reasons why data management in the context of reforms like APRA's EFS is such a challenge. First, sourcing new types of data is often complex and costly. Many institutions operate across borders and the availability of data depends on where it is stored — if it is stored at all.

We've already seen cases where clients have faced issues with the requirement to report more data for amounts not denominated in AUD ("non-AUD data"). If sourcing data is dependent on head office systems based outside of Australia that aren't subject to requirements to split local and non-local currencies, institutions may not have the capability internally to generate and provide that data as per APRA requirements. This means compiling it manually until

the banks find a way to adjust their systems — and that manual effort will include procedure development, documentation, and most likely a review and approval process as well.

Even after they find a way to source the data, banks need to determine what structure or processes to put in place to reliably and securely retrieve it. This inevitably requires additional time from staff, documentation and even more system changes if automation is attempted.

**The pain of parallel runs**

Parallel runs like those envisioned in the EFS timetable, which essentially require banks to do everything twice, are another area of concern. Not only do banks need to dual report, they also need to prepare for new reporting forms, which means more teams working overtime. For the sake of data integrity, an analysis will be performed during the parallel run to check if data is landing in new reports in line with current reports. This is effectively an old versus new report reconciliation, another process that's delicate and time-consuming. >>

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Rising to these challenges means understanding the true capabilities of current systems and determining to what extent they can be used for future reporting requirements. Many teams forget just how much their systems are able to do; manuals and operational documentation get lost or forgotten over the years, and systems get slapped with the 'legacy' label. We've seen instances where teams have pushed themselves to the limit to manually complete statutory and management reports, only to find out months later that their "legacy" systems were perfectly capable of group consolidation reporting, trend analysis and ad hoc management report development.

Staffing skill sets also need to be considered. The loss of just one or two key people can impact an organisation's ability to coax the necessary data from their infrastructure, while engaging the right experts makes it easier to leverage current resources. Just like systems, people can often do more than whatever their job formally

entails, and should be deployed flexibly to address specific issues or better align skill sets.

It's therefore vital that institutions conduct a comprehensive assessment of whether current systems and processes can be upgraded to meet evolving finance team requirements. As we've noted earlier, it's also important to look holistically at all requirements and pinpoint any current and likely future interdependencies, so any system changes are built to last.

**Mind the gaps**

Investing in more robust infrastructure can significantly enhance the efficiency of reporting. However, this should be preceded by a thorough gap analysis between current infrastructure and what's needed to meet new regulatory demands. From there a bank can determine whether to leverage current infrastructure, spend on new resources, or do a bit of both to best achieve compliance, efficiency gains and return on investment.

The findings of a gap analysis can be used to identify areas of potential or synergies in existing systems that can be tweaked or leveraged to produce "quick wins" in terms of meeting new regulatory demands. These wins in turn can build momentum for a more ambitious, extended change program. By using a modular and incremental approach to extend their reporting capabilities, supported by the right personnel strategies, banks can adapt to future regulatory changes faster, and improve their ability to integrate new data sources.

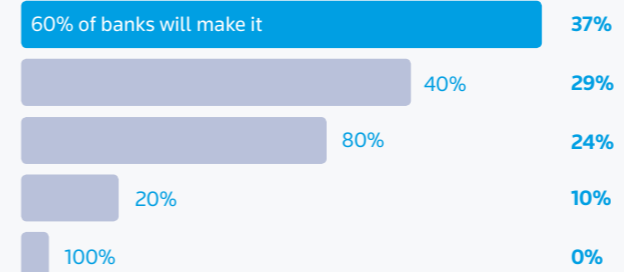
It's also worth bearing in mind that new data sources can be channelled directly to the management reporting groups that bridge business and finance, slicing and dicing system information to produce findings that inform sound management decisions. The resource investments that are at times required by initiatives like APRA's EFS, in other words, can pay off in more ways than one. **DNS**








# Polls and Souls

Welcome to our new feature that captures the best Twitter polls and tweets from the show.

What percentage of incumbent banks will make it – ten years in the future?







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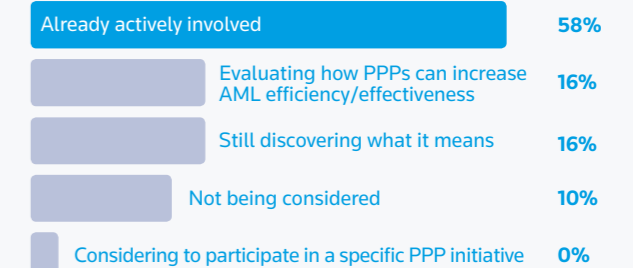







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