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DECEMBER/JANUARY 2012/2013



### On board the enterprise

Stanley Young on Bloomberg's broadening offerings

### ART for art's sake

Assess, Rationalise and Transform is the motto for risk management optimisation

### The Year Ahead

A round-up of views on what 2013 might bring

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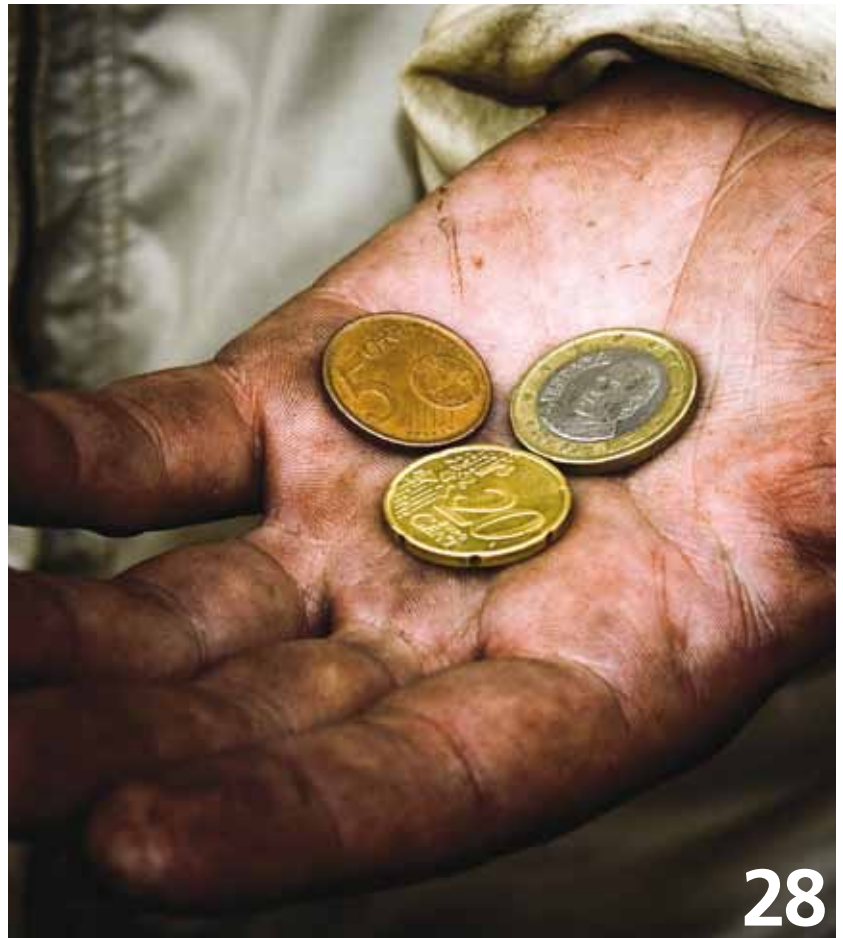
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## Accentuate the positive



**I'm sure I won't be the only person who'll be glad to see the back of 2012, though for some blessed few it will, I hope, have been a year to remember for good reasons.**

Councillors say that for about three years after a bereavement, incidents that remind the person of the deceased will trigger grief and unhappiness, but after that first few years only the happy memories remain.

It's probably not as exact as that, but it means that sometime around late 2015, I'll look back at this year and remember all the good and positive things that have happened during it.

Which means that the first half of the year will be a complete blank.

In fact, I think I'll get ahead of things and deliberately forget January to June now, putting me three years ahead of schedule.

Certainly in the second half of the year, there seemed to be a growing air of confidence. At the Sibos conference in Osaka, it was quite clear, and at other events, large and small, many of the conversations have had a similar tone. It's a sort of well, it's been a tough couple of years, but we're still here and there are things that need to be done attitude.

The shell-shocked demeanour that has characterised financial services professionals since the events of 2007/8 seems to be lifting. It's not quite like the bit where Aslan returns to Narnia, but you get my drift, I hope.

There are a couple of areas where this is particularly noticeable. One is in people's attitude to regulation: at an event the other week the person next to me groaned when someone spoke of the "regulatory burden" on the industry. "Is it not possible for anyone in this industry to say 'regulatory' without adding 'burden'?" he muttered, only half to himself.

Perhaps not yet, but the increasingly positive tone of our RegTech content suggests that we might, as an industry, be going in the right direction, particularly by trying to work with regulators and others to get the right structures in place.

The other area is in mobile and alternative payment methods. For years banks have been told that they are going to be disintermediated by non-banks and new, agile, competitors who don't have the banks' legacy and regulatory burdens (damn, there I go again ...)

Yet the positive reception given to Barclays' Pingit application, and the possibilities opening up through the forthcoming expansion of a similar approach that will work for all UK banks suggests that there will be a future where my primary bank account is still pretty much the one I have today, but my means of accessing it conveniently will have vastly grown.

So, definitely, positively, a Happy New Year to all.

## European firms not ready for SEPA

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 new research by IT business services provider Steria.

SEPA is intended to simplify and harmonise bank transfers in the European Union. As one of the pillars of European integration, it is meant to help underpin the use of the single currency.

However, 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 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. **BT**

## ECB tweaks T2S timetable, but project "still on schedule" for 2016 completion

A clarification of the difference between "implementation" and "migration" means that the T2S infrastructure will still be on time, writes **Elliott Holley**.

Despite delays and arguments over migration, the European Central Bank's Target2 Securitised project to improve Europe's post-trade infrastructure is now back on track, according to industry participants.

T2S was originally scheduled for 2014 implementation. However, during Sibos 2011 the ECB announced that the go-live date would be pushed back to June 2015. The latest agreement, according to T2S Board chairman Jean-Michel Godeffroy (*right*) in the ECB's T2S OnLine quarterly review for Autumn 2012, is that migration to T2S will take place in 2015, with final implementation complete by 2016.

Adding to the timetable complexity is a recent announcement that SP3, the third synchronisation point of T2S, will now take place in April/May 2013, rather than before the end of 2012 as previously planned. In addition, some observers had voiced concerns that during the migration to T2S, the Euroclear and Clearstream groups, which form around two-thirds of T2S volumes, were scheduled to migrate as part of the same wave – potentially increasing the risk associated with the migration.

However, Denis Peters, director of marketing and communications at Brussels-based post-trade services firm Euroclear, insists that SP3 has no impact on the final date for T2S as a whole. Moreover, he insists that the problem of risk concentration in the third wave of T2S migration, which would also have included CSDs in Germany, has now been resolved.

"This is not a major problem for us," he said. "We have decided to move forward the migration of three of our CSDs – Belgium, France and the Netherlands – to July 2016, while Finland will move in November 2016. This is to avoid there being too many high-volume CSDs migrating at once."

Nevertheless, the ECB is still cautious about the second wave of T2S migration. The organisation's Autumn 2012 document states that while the organisation would have preferred a migration date prior to July 2016 for the second wave of migration, it cannot force a CSD that has indicated a preferred migration date to advance it.

Part of the difficulty of the move towards T2S is the number of change requests submitted by the CSDs as part of the process. Some 34 requests were raised by the CSDs as part of their feasibility assessments. Of these, four are now being assessed by the ECB, which will ultimately decide whether or not the proposed changes will be implemented in practice.

"The Board's decision will be driven by the very strict approach established by the governing council of the ECB, according to which a change request can be approved for the first release of T2S only if its adoption is indispensable for the proper functioning of the platform," said the ECB document.

Another problem for T2S has been the difficulty of estimating the cost of the project. Last month, Alain Raes, chief executive EMEA at Swift, estimated the price tag for T2S at up to €3 billion. According to Tony Freeman, global head of industry relations at post-trade services company Omgeo, the benefits of T2S were always going to be realised over the longer-term, rather than immediately.

"T2S was put forward by the ECB as a public good, to create the kind of efficiencies in settlement that people had hoped would result from the euro," he said. "The



expectation in the industry was that there would be fewer CSDs, settlement would become commoditised, and costs come down.”

Freeman points out that with the decline of equity trading volumes since the project was originally drawn up, the cost savings brought about by T2S may be lower per unit than planned. European equity trading volumes have fallen from €1.253 trillion in October 2008 to €651.636 billion in October 2012, according to figures provided by Thomson Reuters. That means that even with the lower unit cost offered by a more streamlined settlement regime, it may take longer to recoup the costs of T2S migration.

“It’s hard to gauge what the cost will be, and volumes are uncertain,” he said. “The benefits aren’t going to materialise overnight, but the long-term picture is that Europe’s post-trade environment will be simpler and cheaper, even if it never reaches quite the same level of harmonisation as the US.”

Despite the difficulties, recent months have seen major financial institutions moving closer in their preparations for T2S. In November, Citi chose to use Swift’s Value Added Network service to connect to the project. Swift holds a connectivity licence for T2S, and will build the network that will link CSDs with the ECB and charge fees to users. **BT**

## Banks must do more to use tools like Twitter to interact with customers

**F**inancial institutions are still not using social media to its full potential and are missing out as a result, according to a new report by German IT firm GFT.

At present, there are approximately 1.5 billion users of social networks worldwide. While many financial services firms do have a social media presence, the GFT study, *Impact of Social Media on the Financial Services Sector*, argues that most firms are still concentrating on one-way social marketing activities, rather than truly integrating social media into customer relationship management.

“The moment has now come to go one step further and achieve true direct interaction through social media channels,” said Christopher Ortiz, head of GFT UK. “Social media will not be a true opportunity for banks until they can share in the customer’s experience, understand and anticipate the customer’s needs and respond quickly and effectively to those needs.”

Social media channels and strategies differ between institutions. Some stock exchanges, such as NYSE Euronext, have well-developed Facebook pages. Others such as the London Stock Exchange are entirely absent from Facebook, but more active on twitter. The GFT document insists that financial institutions need to do more to beef up their social media presence and make it more interactive for customers.

Already, peer-to-peer loans, micropayments and banking communities have advanced, partly due to social media technology. GFT

sees an opportunity to combine the communication channels provided by tools like Facebook, twitter and LinkedIn with the huge quantities of data that can be extracted on customers, so that banks can use the information to provide better products and services to clients.

“Taking advantage of the use of social media and its convergence with other factors, such as mobility via smartphones, is vital for banks to be able to accompany their customers at all times and, wherever they might be, to be able to offer services that are best suited to their needs or a fast response to any problem that might arise,” stated the GFT document.

The GFT warning is far from the first of its kind. Earlier this year, a report by consultancy Ctrl-Shift argued that banks must learn to use information services to provide value to their customers, or face the prospect of disintermediation by newer, quicker firms.

The Ctrl-Shift report, entitled *What are banks for? Customer loyalty in retail banking*, suggested that the rise of social media, mobile technology and the internet will combine with the UK Payments Council’s introduction of account switching in September 2013 to force banks away from traditional ‘push’ business models towards a more customer-centric ‘pull’ model. That means using information about customers to tailor products more directly to their needs, rather than simply developing a product and hoping consumers will use it. **BT**

## M-Pesa moves to savings and loans

**T**he M-Pesa mobile money service is broadening out to provide interest-bearing deposit accounts and micro loans in Kenya under the brand M-Shwari.

M-Shwari is a partnership between Safaricom, Vodafone, and Commercial Bank of Africa, a long standing user of Temenos systems, whose T24 R12 core banking system will support the processing of electronic loan and bank account transactions made through the M-Pesa platform.

M-Pesa is the poster-child for mobile banking services, having attracted 17 million subscribers – 80% of the adult population in Kenya – in the five years since it launched.

Across Africa, it is expected that the basic banking services currently being used will rapidly be overhauled by more sophisticated services. At the recent Sibos conference, Simon Freemantle, senior economist at Standard Bank, told a session that it is expected that 400 million deposit accounts will be opened over the next 10 years.

Safaricom customers can sign up to the M-Shwari interest bearing savings account or apply for micro loans, provided by CBA, directly through the M-Pesa menu on their phone. If successful, the loan money is sent by CBA to the customer’s M-Pesa account immediately, highlighting the convenience and simplicity of M-Shwari.

The system is connected to a Government of Kenya database to enable real-time Know Your Customer verification during customer enrolment, and uses a credit score algorithm based on their credit history as well as usage of Safaricom products, to determine a customer’s loan eligibility and maximum loan amount.

David Arnott, chief executive at Temenos, said: “Our involvement advances two of our most important corporate objectives: firstly, to be at the forefront of technology innovation in the financial services industry and, secondly, to advance technology as a means of lowering costs and making banking services more accessible. Today, there are 5 billion mobile phone subscribers compared to 2.2 billion bank account holders and so mobile banking represents a big opportunity to bank the unbanked.” **BT**

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**BNP Paribas Securities Services** is planning to offer a post-trade service for banks and brokers that want to take advantage of the new cross-trade deal between the London Stock Exchange and the Singapore Exchange. Under the cross-trade deal, the top 37 companies listed on SGX will become available to trade on the LSE before the end of this year; in return, blue-chip FTSE 100 stocks from the LSE will become available on SGX in the first half of 2013. The idea is to boost liquidity at both exchanges and make it easier for international investors to access each other's markets.

The creation of a new united bourse for Japan, called the **Japan Exchange Group**, has come one step closer with the final approval of Japan's Financial Services Agency for the listing of JPX stock on the Tokyo bourse. Formed from the Osaka Securities Exchange and the Tokyo Stock Exchange, JPX will commence operations as a fully merged company under its new name on 1 January 2013. The combination of the two exchanges has been underway for much of the past 12 months; the merger is expected to provide new opportunities from the integration of cash equities and derivatives onto the same bourse.

**Banks will soon be able to use combined services from Fundtech**, a company that provides transaction banking software, and **Zafin Labs**, a relationship banking specialist, following a partnership between the two firms. The alliance covers the pricing, billing, profitability simulation and payments services offered by banks. **Fundtech's Global PAYplus Services Platform** is a payments services hub designed to support payments, including high-value, immediate, mass and SEPA payments. **Zafin Labs' miRevenue Solution Suite** is a pricing engine that covers different currencies and countries. Its abilities include revenue capture, product bundling and relationship pricing. The idea is that a combined system will help banks to automate pricing decisions and minimise revenue leakage.

**Thomson Reuters** has added a map that measures the impact of weather, natural disasters and political events on commodity production and freight to its Eikon desktop. The interactive map is designed to let commodity market participants to track the global movement and production of commodities in real-time and forecast the impact of various factors on supply and demand and therefore price. Users can identify and monitor production plants, refineries and mines and check on the progress of shipping vessels around the globe. Custom filters can be used to search by commodity, region or operating status, and the results can be shared with colleagues.

Global investment bank **Jefferies** has chosen a cash management solution from software firm **TwoFour Systems** for its UK and US-based **Jefferies Bache Treasury** business, to help it keep better track of its business processes. The **TwoFour CM** cash management technology is designed to provide intra-day real-time aggregation of balances and cash flows. It also consolidates cash forecasting and processing of payments and receipts in one core system and provides global real-time liquidity views, intra-day cash-flow matching and exception handling. The idea is to reduce settlement risk while increasing funding accuracy. In addition, the product includes a blotter that helps users see details of consolidated balances and the actual cash flow item level.

**ABN Amro Clearing**, the post-trade business of ABN Amro, has chosen tools from Nasdaq OMX to help it prevent market abuse in equity, derivative and commodity markets in Europe, Asia Pacific and the US. The firm will use Smarts Broker, an automated trade monitoring service, to identify any suspicious trading behaviour and detect potential market abuse. The tools cover insider trading, market manipulation, violations of order handling rules and irregular trading patterns. They also include data analysis applications Spread Graph and Market Replay, which were built to help users evaluate trading against historical market data.

**Clearstream**, the international central securities depository, is to extend its post-trade investment services offering to service hedge funds from a new branch in Dublin. The move means that it will be able to service the entire range of fund types – mutual funds, exchange-traded funds and hedge funds. The **Deutsche Börse** subsidiary said that it has signed six pilot customers for the new services, which were set up following "a steep increase in client demand for such investments". Over time the new services will be fully integrated into Clearstream's fund processing environment.

SIX Payment Services has chosen Clear2Pay's CBK solution to support its chargeback business and processes on a single platform. The CBK Chargeback system replaces two old systems and will evolve over time to encompass both acquiring and issuing chargebacks for credit and debit cards. The new system has so far been implemented in Switzerland and Austria, where underlying processes were also improved to a higher level of efficiency during the implementation. A feature of the software is the use of configuration parameters that speed up the process of on-boarding new clients.

A new service called **MasterCard rePower** that lets users transform cash into electronic money on a prepaid account has launched in Europe. Developed by MasterCard together with **CQR Payments Group**, the cash reload service is designed to help users top-up their prepaid cards using vouchers that are redeemed on the MasterCard rePower website. The funds are immediately available to the cardholder to spend wherever MasterCard or Maestro cards are accepted. **CQR Payment Group** will provide the acquiring, processing and customer services as well as a dedicated MasterCard redemption website.

The number of payment cards in China has doubled since 2007, reaching three billion by the end of 2011, and, according to a new study by **RBR**. They don't get much use though – there were only two payments made per card during 2011. A new report, **Payment Cards in China 2012**, from the research firm says that there are 2.7 cards per adult, "which is relatively high by international standards", but the average masks wide variation across the country and the heavy bias towards debit cards, which make up 88% of the total. The majority of cards, merchants, EFTPOS terminals and payments are found in the developed eastern parts of the country.

**Société Générale** is to migrate its UK corporate customer base to **3SKey**, Swift's digital identity solution. It is already using 3SKey in France to allow corporate customers to digitally sign files of payments sent to the bank over a variety of channels and will extend this to corporate customers in the UK accessing its international cash management services via its proprietary web banking portal.

## FSA demands top-level AML supervision at HSBC

HSBC buys Get Out of Jail card and FSA orders it to shut stable door following a US Senate report on illegal money movements and a \$1.9 billion settlement with the Department of Justice, writes **David Bannister**.

**The Financial Services Authority has instructed HSBC to set-up a board-level committee with a mandate to oversee matters relating to anti-money laundering, sanctions, terrorist financing and proliferation financing.**

The bank will also have to appoint an FSA-approved group money laundering reporting officer “with responsibility for ensuring that systems and controls are in place across the group, to ensure it is in compliance with all relevant legal and regulatory requirements”.

On top of that, it will have to employ an independent monitor to “oversee compliance with UK anti-money laundering, sanctions, terrorist financing and proliferation financing requirements and to provide independent reporting to the HSBC Board committee and regulators”.

As lead regulator for the HSBC Group globally, the FSA is responding to the issues in respect of HSBC’s compliance with anti-money laundering rules and US sanctions requirements that saw it being fined a record \$1.9 billion in a settlement over money laundering charges this week.

The FSA says it worked closely with the US authorities and this action “is separate to, but coordinated with the actions taken by them”.

The bank says that it has already done most of the things that the FSA is mandating, and over the past few years it has made other changes.

“We accept responsibility for our past mistakes. We have said we are profoundly sorry for them, and we do so again. The HSBC of today is a fundamentally different organisation from the one that made those mistakes. Over the last two years, under new senior leadership, we have been taking concrete steps to put right what went wrong and to participate actively with government authorities in bringing to light and addressing these matters,” said Stuart Gulliver, group chief executive.

The Department of Justice has recognised these efforts in the agreement, the bank says, quoting the DoJ as saying: “Management has made significant strides in improving ‘tone from the top’ and ensuring that a culture of compliance permeates the institution. The efforts of management have dramatically improved HSBC Bank USA’s and HSBC Group’s

Bank Secrecy Act/Anti-Money Laundering and Office of Foreign Assets Control compliance programs.”

The agreement with the Department of Justice is technically a five-year Deferred Prosecution Agreement – a sort of Get Out of Jail card that is far from free. The bank has also reached agreement to achieve a global resolution with all other US government agencies that have investigated its past conduct related to these issues.

“Over the last two years, under new senior leadership, we have been taking concrete steps to put right what went wrong and to participate actively with government authorities in bringing to light and addressing these matters”

Under these agreements, HSBC will make payments totalling \$1.921 billion and “continue to cooperate fully with regulatory and law enforcement authorities, and take further action to strengthen its compliance policies and procedures”.

In the past few years, the bank’s board “has taken decisive action to direct management to fix past shortcomings as they have come to light”, it says.

Since 2011, with new senior leadership teams in place at both HSBC Group and HSBC North America, it has “taken extensive and concerted steps to put in place the highest standards for the future”.

In the US it says it has already undertaken the “voluntary remedial measures”, including:

- increased its spending on anti-money laundering approximately nine-fold between 2009 and 2011;
- increased its AML staffing nearly ten-fold between 2010 and 2012;
- revamped its Know Your Customer programme, including treating non-US

HSBC Group Affiliates as third parties subject to the same due diligence as all other customers;

- exited 109 correspondent relationships for risk reasons;
- clawed back bonuses for a number of senior officers, and
- spent over \$290 million on remedial measures.

As a group it has also undertaken a comprehensive overhaul of its structure, controls, and procedures, some of which are part of the DPA. Among other measures, it has:

- simplified its control structure, “allowing the group to manage risks worldwide more effectively”
  - elevated the role of group compliance and given it direct oversight over every compliance officer globally, so that both accountability and escalation now flow directly to and from HSBC Group Compliance
  - created the new role of head of group financial crime compliance and group money laundering reporting officer, who will help to establish a Global Financial Intelligence Unit
  - made other new senior hires with “extensive experience handling relevant international legal and regulatory issues”, including a new chief legal officer and a new global general counsel for litigation and regulatory affairs
  - adopted a set of guidelines limiting business in those countries that pose a high financial crime risk
  - issued a new global sanctions policy using a more extensive and consistent set of lists to screen all cross-border payments
  - commenced a review of all Know Your Customer files across the entire Group – the first phase of this remediation will cost an estimated \$700m over five years, and
  - undertaken to implement single global standards “shaped by the highest or most effective anti-money laundering standards available in any location where the HSBC Group operates”
- Over the five-year term of the agreement with the DoJ, the bank says that an independent monitor “will evaluate HSBC’s progress in fully implementing these and other measures it recommends, and will produce regular assessments of the effectiveness of HSBC’s compliance function”. **BT**



## Crunching the payments numbers

As electronic payments become the norm and increasingly standard, the next development phase will focus on making use of the data inherent in payments messages, writes **Heather McKenzie**.

### The latest dispatches from the war on cash make good reading for financial institutions: non-cash payments are increasing.

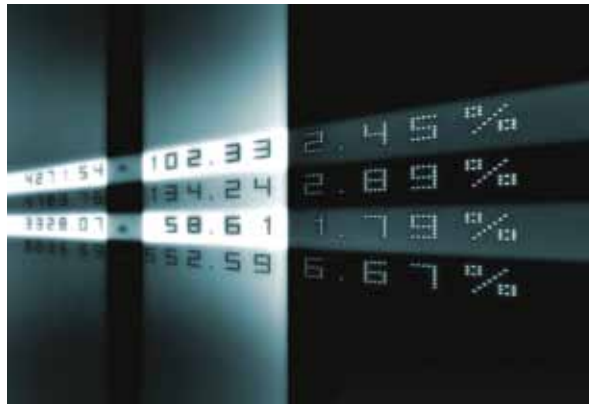
Two recent reports suggest consumers are slowly moving to electronic means of payment, in many cases strongly encouraged by regulators, financial institutions and/or governments.

Financial industry analysts Celent identified a global increase in non-cash payments of 5% between 2010 and 2011, in its November 2012 report, *Global Non-Cash Payments, Trends and Forecasts*. Another report, *World Payments Report 2012*, cited a 7.1% increase in volumes, fuelled by an increase of more than 30% in Russia and in China. Published in October 2012, the report uses figures from 2010, the most recent year for which final official data for all regions is available.

Celent estimates that there were 304.8 billion non-cash transactions in 2011, a growth of 14.6 billion.

This was a smaller increase than the previous year (when volumes increased by 17.3 billion items), and smaller than the forecast for years through to 2015. Author of the report, Gareth Lodge, says this reflects the large growth in 2010, partly as a result of normality returning after the challenges banks faced in 2009, and partly as the result of consumer behaviour changing in uncertain economic conditions. While the overall growth rate was 5%, this comprised large growth in use of debit cards (8.9%) and a significant fall in the use of cheques, equivalent to a 7.4% fall over 2010 volumes.

Two key trends are identified by Lodge: the use of cheques is in "significant" decline globally and debit cards have become the preferred payment card option. Celent found that the US accounts for more than half (58.5%) of all cheques written globally. From 2008 to 2011 cheque use declined by 6.6% and now account for 11.6% of all non-cash payments globally. While in decline in most regions of the world, the Middle East and Africa recorded growth in the use of cash and within that region Iran was the main driver. Celent reckons this growth was due to a



lack of alternative payment mechanisms and also a push to improve transparency in statistics, which means there is better recognition of cheque volumes. On its website, the Central Bank of the Islamic Republic of Iran says double digit inflation in the country and the relative stability of the currency has encouraged the greater use of cheques.

Debit cards are being more commonly used globally as a substitute, mainly for cheques. Celent's report says: "Many consumers see both cheques and debit cards as a form of cash, and so substitution between them is natural." This is not all driven by consumer choice, however. As Celent points out, in the UK many retail outlets no longer accept cheques as a form of payment.

Debit cards are now the most popular method of non-cash payment in three regions: Europe, North America, and Middle East and Africa, says Celent.

Credit and debit cards are the biggest driver of non-cash payments volumes globally, according to the WPR. That report found cards accounted for 55.8% of all non-cash payments in 2010, up from 53.4% in 2009. Debit cards accounted for more than one in three of all payments, particularly as more consumers use cards for smaller value transactions.

The number crunching when it comes to payments trends is one thing; what financial institutions can do to take advantage of the shifting sands of the payments environment is another. Celent says the two key trends of declining cheque use and increasing debit card use highlight the challenge financial institutions

face when they want to innovate in payments. Cheque volumes are declining, but the cheque will not become extinct "in our lifetimes". The brouhaha that ensued in the UK when the Payments Council tried to phase out cheques illustrates this belief. As Lodge writes: "This seems at odds with the complaints the [UK] regulator has made about the lack of progress in payments innovation. [Regulators] expect the banks to cover the cost of running a mechanism designed centuries ago, yet berate them for not introducing something that will almost certainly replace them."

He predicts similar dilemmas will arise for financial regulators the world over. "How do you balance the needs of such a diverse set of customers, protecting consumer choice, but implement new products which have the challenge of displacing habits formed over many decades?"

Lodge says there will be three fundamental ways to deal with this dilemma. First, payments will become faster with many countries moving to same day, and increasingly real time, payments. The UK already has a faster payments system, Singapore is about to go live and both Australia and Canada have had regulatory reviews which explicitly called for such systems.

Second, there will be greater demands to extract value from payments, recognising that the information about a payment is often as valuable as the payment itself. Lodge says payments visibility has improved and the next stage in the evolution of payments will be how the data will be put to use.

Finally, standards will proliferate: ISO 20022 is destined to become the base line standard for payments and associated processes, he writes. However, as happened with the earlier versions of the single euro payments area credit transfer 'standard' there will be deliberate or inadvertent interpretations of the standard by different interest groups. The first phase in standardisation of the payments industry will be a move to ISO 20022; the second phase will be convergence to a more uniform adoption of ISO 20022. **BT**

## TradeTech delegates heckle EC policymaker

Audience members shouted down an EC speaker at a recent confence in London, giving vent to their frustration over regulatory proposals. **Elliott Holley** was there.

**Jasper Jorritsma, a policy officer at the European Commission, was heckled by audience members critical of “Byzantine” proposals to force market makers to stay active in financial markets, regardless of the prevailing market conditions.**

At a session during TradeTech Liquidity in London this week Jorritsma had been explaining how European rule-changes, including MiFID and MiFIR, would attempt to bring greater transparency and stability to financial markets. The European Commission’s upcoming MiFID II legislation contains a provision requiring market makers to provide “reliable” liquidity by posting firm, two-sided quotes regardless of the prevailing market. The measure is an attempt to prevent HFT firms from exiting the market during periods of stress, which could in theory result in greater market volatility.

“High-frequency market makers using algorithms will have to obey the rules by providing continuous liquidity, or stop their activities,” he said. “We don’t want to encourage them, we want to oblige them to stay in the market.”

At that point, one member of the audience demanded to know why, under the proposed rules, anyone would want to be a market maker. Jorritsma responded that it was not a question of choice, but of complying with the rules.

The incident was picked up by Christophe Roupie, global head of trading and securities financing, AXA Investment Managers, who suggested it illustrates a dangerous lack of communication and understanding between trading market practitioners and rule makers in Brussels.

“When I listen to some of the proposals, there is such a disconnect between our day to day, and the proposals,” he said. “Politicians don’t understand the benefits to the real economy of a financial services industry that works well. That’s dangerous – if you want to support the real economy, we have to be aligned.”

Roupie added that as a representative of the buy-side, he felt frustrated that despite sending responses to industry consultations on regulatory change, Brussels was not listening. The gap between the two sides would not be closed, he suggested, until politicians and regulators understand what the buy-side does.



“The calibration is completely wrong,” he said. “Expertise in the market is not being looked at. It’s shocking that regulators have asked me not to come to Brussels with a bank. Don’t tell me not to come just because banks aren’t the flavour of the month. Stigmatising people is not going to work.”

MiFID II, which is currently being negotiated between the European Parliament and the Council of Ministers, is expected to take effect in 2015 and 2016, according to the latest estimates from Kay Swinburne, MEP and member of the European Parliament’s ECON Committee. But market participants have widely expressed concerns that the length of time taken to reach an agreement on the rules places pressure on market participants and undermines the efficiency of the whole process.

“The process of Brussels is exhausting and inefficient,” added Karl Spielmann, head of legal and compliance at EuroCCP. “We’ve had three consultations on EMIR, and yet it’s still unclear which voices are being listened to. It’s Byzantine. Dodd-Frank took three years, and we’re in danger of making that look quick.”

In April this year, Brussels-based public interest body Finance Watch produced a paper entitled ‘Investing not betting’, in which it called for greater regulatory controls on high-frequency trading, and suggested the introduction of minimum order resting times for equity markets, to allow long-term investors sufficient time to interact with the market. That proposal

was picked up by legislators, and included in the draft MiFID II text.

However, the proposal has since been rebutted by the UK Government’s Foresight Project, which published its own research in October. The Foresight document, which analysed the effects of computerised trading, found no evidence that such a measure would help long-term investors. Instead, it suggested that the measure would merely benefit HFT firms by making it even easier to pick off institutional flows.

Jorritsma insisted that the European Commission was listening to buy-side market participants about the impact of all proposed new rules. “Lobbying is not just how many people you have,” he said. “It’s also who you are and whether your interests are legitimate. The buy-side does have a loud voice when it says something. They are very much heard.”

In response, John Serocold, senior director at the International Capital Markets Association suggested that level one regulation should not be the only source of stability for capital markets, and that excessive rule-making might serve to do more harm than good to market participants.

“A founding principle of the EU is subsidiarity, which means let the work be done as close to the people as possible,” Serocold said. “Don’t make rules for which market makers can trade which hours. We should have not 10% enforcement and 90% regulation, but 90% enforcement and 10% regulation.” **BT**

# A consolidated tape is still the missing link for MiFID

The full potential of European market reform will not be realised until affordable market data is available to address the issue of fragmentation, reports **Elliott Holley**.

**Europe has failed to achieve the potential of the original Markets in Financial Instruments Directive because there is still no affordable consolidated tape of post-trade data, according to a panel of senior capital markets participants.**

"The biggest criticism of MiFID was the fragmentation it brought, but we never received the antidote – the consolidated tape," said Mark Hemsley, chief executive of BATS Chi-X Europe. Speaking at the Trade Tech Liquidity conference in London last month, he added, "Why is that? I suspect it's because vested interests make tens of millions of euros out of market data, and a truly affordable and available consolidated tape would undermine that."

Adopted in 2007, MiFID changed Europe's trading landscape by redefining the nature of trading venues – and introducing new concepts such as the Multilateral Trading Facility – in an attempt to bring pricing transparency to the market. While that led to reductions in the cost of execution, it also increased the cost of connectivity and market data, since participants then needed to reconcile information from a host of different competing exchanges, MTFs, dark pools and broker crossing networks.

In the US, post-trade data is provided to all market participants in real time by public utility the DTCC. Inspired partly by the US example, Robert Barnes, chief executive at UBS MTF, called in September for the creation of a consolidated tape of post-trade data for Europe. Yet so far, there is still no single universally accepted post-trade picture that market participants can look at to assess which trades went where and why.

"A consolidated tape shows where the best execution is," said Hemsley. "If that was available more freely at a reasonable cost, the buy-side and retail investors would consume it. What if regulators say we need pan-European circuit breakers? They have to use a common source. It's a vital part of the infrastructure."

Commercially available solutions do exist, such as Fidessa's Fragulator or the tools provided by market data vendors Thomson Reuters and Bloomberg, but some observers contend that the cost of those solutions is too high for the majority of market participants. Meanwhile, the

exchanges have become increasingly dependent on market data as a source of revenue, because the introduction of competing share trading platforms has eaten away at their revenue from trading fees. The London Stock Exchange currently makes 27% of its revenue from market data, according to its 2012 annual statement. Capital markets income represented just 37% of its total.

**"The biggest criticism of MiFID was the fragmentation it brought, but we never received the antidote – the consolidated tape."**

"Market data is under-priced in some areas," said Michael Krogmann, executive director for Xetra market development at Deutsche Börse. "There's so much volume traded on the data from exchanges. We are the place for price discovery. Price discovery has a clear value. We support a commercial solution for data on a pan-European basis. Regulation won't really help. A commercially-driven one is the solution."

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. MiFID II, which is currently being negotiated between the European Parliament and the Council of Ministers, is expected to take effect in 2015 and 2016, according to the latest estimates from Kay Swinburne, MEP and member of the European Parliament's ECON Committee.

Increasing frustration over the lengthy wait for a solution to the consolidated tape question has led several groups of industry participants to propose their own solutions in recent months. 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.

The co-founders of the COBA Project are Graham Dick, former head of business

development at Chi-X Europe, and Mark Schaedel, former head of market data at NYSE Euronext. Their plan, developed over the last six months, is to establish an independent Consolidated Tape Administrator to decide where the data should come from, how the revenues should be divided, and who should pay. The stated intention of the COBA Project is to make the data available at a reasonable cost to all market participants.

"Following six months of extensive consultations with European and domestic regulatory bodies, regulated markets, MTFs, key buy-side and sell-side institutions, we believe that we have established a framework which addresses all of the regulatory, technical and commercial issues and has sufficient industry support to move forward", said Dick. "There is now no reason to delay further. With the commitment and cooperation of key stakeholders, the first phase of implementation can be delivered by the end of the second quarter 2013."

Meanwhile, the impetus to build a consolidated tape has also received support from FIX Protocol, which has published its own set of guidelines that focus on the standards that could be used to build the tape. According to Jim Kaye, global steering committee co-chair at FPL, the organisation's recommendations lay the groundwork for a consolidated tape by ensuring that any would-be provider works in the same way from a data perspective.

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.

"As well as defining standards for the data itself, the document defines certain standards for how to use and process the data," Kaye told *Banking Technology* earlier this month. "For example when dealing with trade amendments or cancellations, FPL lays down clear guidelines for handling things like timestamps and trade identifiers. It's having clear and consistent rules like that that make a consolidated tape possible." **BT**

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## Internet fraud: follow the money

Combating fraud by creating mechanisms to enable authorities to turn off the flow of money to the fraudsters is examined by a new study. **David Bannister** reports.

**While the internet has provided economic growth, new forms of social exchange and political revolution, it has also been the field for new types of fraud and rights infringements.** If the financing used by people who illegally upload or otherwise exploit content were cut off, it might be possible to combat the spread of their activities.

In a position paper entitled *Attacking the Money Supply to Fight Against Online Illegal Content?*, Cédric Manara, professor of law at EDHEC Business School, examines the extent to which the collaboration of intermediaries has put an end to illegal activity on the Internet. This study looks at two main types of revenue made from online activity—money earned directly and that earned through the monetisation (through advertising, for example) of a site – and provides a framework for implementing a proposal to cut off the lifeline that allows counterfeiters to flourish.

The aim of the study is to spark debate about preventive mechanisms targeting financial flows; during November 2012 it was presented to and discussed by representatives of UNIFAB (Union des Fabricants, the French Anti-Counterfeiting Association), Google, PayPal and ASiC (Association des Services internet Communautaires, the French Association of internet Community Services).

“The internet has provided economic growth, new forms of social exchange and political revolution, it has also seen the rise of new types of fraud and rights infringements that sometimes share the characteristics of the internet itself: they can be global, large-scale, widely distributed, etc. The increase in specifically internet based offences has sometimes led to the creation of internet-based mechanisms designed to eliminate them, such as the dispute-resolution mechanism invented to combat the fraudulent registration of domain names, or the notice and take down approach to eliminating content that infringes a right,” the paper notes.

The first of these mechanisms, the Uniform Dispute Resolution Policy (UDRP), arose from the need to attack those who register domain names that are identical or close to trademarks at a low cost, and who can easily avoid legal action by hiding or modifying their identity and by choosing their domicile in a friendly jurisdiction.

The paper looks at different types of fraudulent activities, and some example of how they have been addressed by institutions and authorities.

“It would appear possible to implement a mechanism that targets the payment of revenue associated with alleged illegal activity, but such a mechanism must be accompanied by certain guarantees if we are to avoid abuses or unwanted secondary effects,” it concludes, but adds that “The idea that such a mechanism can be put in place presupposes that it is possible to identify payments that benefit fraudulent activities and that appropriate action can be taken.”

According to the author, people “who struggle against online rights infringements – in particular companies with intellectual property rights – often face difficulties in identifying the persons behind the infringement. Even if they achieve this, they may face a second obstacle in seeking quick sanctions against those responsible, depending on the speed of the relevant judicial procedures and jurisdiction. Identifying the fraudsters themselves is possible providing they communicate their identity, but this of course is understandably rare”.

The weak point is that fraudsters who seek to make revenue directly from their online activities hide their identity on their website, but must provide information that will allow them to receive money on an account opened by them with an electronic payment service provider.

Even so, “while it is therefore easy for a third party to determine the destination of a payment made to a fraudster, this does not allow them to determine the identity of the payment beneficiary” without recourse to injunction and other lengthy (and costly) legal proceedings. “The time this takes would allow a well-organised fraudster to switch intermediaries or change his account to avoid using the same account during this period and thereby avoid being traced, not to mention the possibility that the identity used to open the account in the first place was false,” says the paper. “The time required for action to be taken actually allows for the preservation of the illegal activity and acts against those looking to sanction the violation of their rights; even if the data for identification purposes has been obtained, one cannot be certain of correctly identifying the

individual concerned. It is clear from the mechanisms for the circulation of payments that beneficiaries cannot immediately be identified.”

Another possibility, based on the example of advertising-based fraud on websites would be to introduce an authority responsible for inspecting the disputed website and who would order the intermediary to suspend all payments benefiting the publisher of the website deemed by it to be irregular. “Such a mechanism would make it possible to delegate responsibility for determining the legality of a website to a third party with the legal authority to do so. However, this may have an impact on the need for a quick response to any claim that rights have been clearly violated, thus heightening the risk of a ‘cat and mouse game’ in which the fraudster repeatedly changes the payment service provider through which he operates.”

The creation of this new mechanism would compel intermediaries to review the website of any publisher whose payments are subject to suspension. If an intermediary carries out an analysis on the basis of an illegal advertisement brought to his attention, this analysis relates to the ad in question; but in principle intermediaries would also examine any content that has been indicated (for example by an advertiser) as illegal. The fact that intermediaries are committed not to enter into partnership with providers of online space on sites with illegal content means that they would be forced to remove such ads and block or close the account of the provider in question. In practice the consequence of this is the outcome sought by the proposed mechanism: the suspension of the account leads to the suspension of payments, without any need to create a specific system for the sequestration of these payments. Self regulation appears to be a better tool than a legislative change (too complex to be designed) to implement the suggested measures. This is in line with the e-commerce directive of June 8, 2000 that encourages the drawing up of codes of conduct. To enhance collaboration, a Memorandum of Understanding could be drafted, following the example of the one already signed in the EU between rights holders and e-commerce platforms, it concludes. **BT**



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## Banks line up behind V.me by Visa for e-commerce

Visa's new wallet will allow banks to re-integrate themselves in the consumer e-commerce world, to the benefit of all parties. **David Bannister** reports.

**With three named banks lined up as pilots – RBS/NatWest, Bank of America and BBVA –and others in the pipeline, the V.me by Visa digital wallet is being positioned as the platform on which banks can create an e-commerce infrastructure that will appeal to consumers and retailers across a variety of platforms.**

Primarily, V.me is 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 are starting now are scheduled to run until the spring of next year, and Visa is expecting widespread adoption to start from next autumn.

A central part of Visa's thinking is that when it comes to e-commerce payment services, the best place for access to be administered is by banks through their internet banking services. Most consumer banks issue debit and credit cards through the Visa scheme, making it relatively easy for them to extend the service to their customer base, as they are already doing with the PayWave contactless payment cards.

"The boundaries between online and face-to-face transactions are blurring," said Jonathon Vaux, senior vice president and key account manager at Visa Europe. Many retailers are now offering "Click & Collect" services where the consumer buys online and collects at a store. The payment experience should be identical whatever the channel, he said.

Vaux said that Visa is attempting to create a set of rails on which banks – and only Visa scheme members can use V.me – can create their own services, taking advantage of the ubiquity of a widely accepted payment method and the security of the system.

Security is another differentiator of the V.me approach, which Visa says addresses a number of issues, not least of which is the removal of the need for consumers to supply card details to online retailers. By being embedded in the merchant website, V.me validates the card the card chosen by the user through their bank. For the consumer, this combines security with ease of use.

How banks deploy V.me is up to them. The expectation is that many will want to build it into smartphone apps, but



Allzetta: Mobile is most important

whether they will brand the result as a "digital wallet" is not a given. The term digital wallet causes some confusion, said Vaux. "There will be many entrants and the reality is that not all of them will survive – some of them are very limited," he said. "Your iTunes account is a wallet, if you think about it, but you can only use it online at the iTunes store. We are trying to make something more general."

Zilvinas Bareisis, senior analyst with Celent's Banking Group, cautioned against banks going it alone in a recent report. "Banks should think twice before going down the path of launching their own branded independent wallets," he said. "For some, it might make sense, but many others will likely be better off focusing on making their payment credentials available and 'top of wallet' in the wallets already out in the market, as well as enhancing and extending their mobile banking platforms with value-added services, including payments."

Announcing that RBS will be the first UK financial institution to use V.me by Visa digital wallet for RBS and NatWest consumers, Steve Rubenstein, director of everyday banking at the bank, said: "We believe that a proposition which reduces the effort of buying things online,

while also improving security, for our customers is exactly the sort of thing we want to deliver. V.me clearly delivers this and we look forward to offering it to our customers in 2013."

Mariano Dima, executive vice president of product and marketing solutions at Visa Europe, said: "The feedback from banks in the UK has been extremely positive and we will be announcing further V.me support from several major banks in the coming months."

Visa Europe said the service will also launch in France in late 2012 and further issuing banks will be confirmed for all three European markets at a later date.

The whole issue of mobile technology is "the single most important thing we are working on at the moment", said Sandra Alzetta, head of innovation at Visa Europe.

She reckons it is pretty important to consumers too – one in seven euros is spent via Visa cards, and in the UK it is one in three pounds. "We love plastic dearly. It has been very good to us, but if we can embrace new technologies we can make things better for our consumers," she said.

For instance, cards provide a good customer experience at the high value payment end of the spectrum, but they are not so good on-line, which is where the V.me concept comes in. With smartphones, the opportunity exists to create more interactive services, but the same wallet can be used, further unifying the user experience.

Allzetta said that Visa has found that there are two clear consumer demands in mobile payments – "secure and easy, informal person-to-person payments" and email or SMS alerts for receipts and security messages.

It is not easy, however: the software has to be certified for each NFC-enabled handset – Visa has currently certified 20 models.

Coupled with the need for banks to thoroughly test their systems and put processes in place to integrate new payments technology and real-time mobile banking apps, this means that while Visa is sure that contactless payments and mobile banking apps will appear, it won't be in the short term. "Towards the end of next year we'll see phones with banking apps and NFC beginning to appear," said Alzetta. **BT**

## Eurograbber fraud highlights need for stronger security

A headline-grabbing €36 million hacking attack shows how criminals change tactics and increasingly blend their attack methods, writes **Elliott Holley**.

**A cyber-attack in which an estimated €36 million was stolen from 30,000 corporate and private bank accounts in Italy, Germany, the Netherlands and Spain illustrates the need for banks and customers to be vigilant against the threat of mobile banking crime, according to consulting and financial services firm Deloitte.**

The attack also showed how criminals are mixing their methods, targets and attack routes, with a range of techniques, platforms and customer groups being involved.

"We've seen an increase in attacks against business and commercial online banking systems in 2012 and anticipate this will continue to increase," said Nick Seaver, partner in Deloitte's enterprise risk services practice. "Criminals are adapting their methods and blending different methods such as phishing and malware. Banks need to evolve and adapt their techniques."

### Methods of crime

The so-called Eurograbber attack used malware to target the PCs and mobile handsets of users, carrying out automatic transfers that varied in value from €500 to €250,000, according to research by security vendors Check Point and Versafe in November. The fraud included a malware attack known as the Zeus Trojan or Zitmo, which infected computers and mobile devices and enabled the hackers to intercept and steal the SMS messages sent by banks to their customers.

With the stolen transaction authentication numbers obtained by SMS, the criminals could then use the code to withdraw funds from their victims' accounts. The Trojan was developed specifically for Android and BlackBerry devices, to maximise the potential 'target'.

The incident follows on from a similar problem at UK bank NatWest in September this year. In the case of NatWest, criminals stole money from customer accounts using 'Get cash', a feature of the bank's mobile app. Get cash worked by letting customers use a passcode created by their online account to withdraw cash via mobile. Although NatWest subsequently withdrew the facility, financial crime and technology specialist NICE Actimize suggested at

the time that the hackers likely used phishing emails to extract the code – meaning that withdrawing the app did nothing to solve the underlying problem.

### Trouble ahead?

Since September, the chances of being attacked by malware are unlikely to have substantially decreased, according to online security firm F-Secure. The firm's research catalogued 51,447 unique samples of Android malware in Q3 2012, and despite the introduction of a new security system, Bouncer, on Google's Android Play Store, the number continues to increase. That rise has been partially attributed to the increase in Android smartphone adoption, with Android phones capturing 81% of the Chinese market, for example. The rise of third-party apps, which may be less secure, has also been blamed.

According to Pat Carroll, chief executive at security firm ValidSoft, existing bank security in the UK is over-reliant on PINs and the use of SMS as a means of authorising a transaction. Instead, banks active in the region would do well to learn from Australia, where mobile operators have already warned financial institutions not to use SMS for transmitting one-time passcodes.

"I believe that in the UK we will see an increase in losses attributable to hijacked SMS messages if banks continue to use the medium as a supposedly secure transport mechanism without the appropriate defence mechanisms in place," he said.

### Fighting back

Fortunately for the UK consumer, counter-measures are already entering the market. Santander recently won the Banking Technology Award 2012 for Best Security Initiative, based on its solution to SIM-swapping, a technique in which criminals use a replacement SIM card to acquire security messages and one-time passwords sent to the consumer by the bank.

The Santander solution uses ValidSoft technology to work out which SIM the customer is using. When the customer performs a high-risk transaction that requires a one-time passcode, it will check whether the SIM has changed since the last genuine transaction. If

a SIM swap is detected, Santander receives a report and payment can be held until it has been validated with the customer. Any payments that have been initiated can also be checked in real time and automatically released. If no fake SIM is detected, the system knows that it is safe to call the customer to check the payment. (See this month's Awards Supplement for more details.)

For banks, Deloitte's Seaver suggested that the best remedy is to undertake regular, in-depth assessments of their security controls and processes, implement robust multi-layered defences including effective transaction monitoring systems, and continue to educate customers to help protect themselves by avoiding suspicious attachments and being careful with the personal data they make available online, for example by social media sites. That is a view shared by Carroll.

"Using the customer's mobile phone as an authentication and transaction verification device is entirely sound, but what's needed is a layered approach based on voice rather than SMS, and combining visible and invisible security checks such as call-forward and SIM Swap detection," he said. "I believe the message is getting out there but 2013 will still see increased losses due to SMS vulnerability."

Gabi Reish, head of product management at Check Point Software Technologies, believes that inclusive solutions that work on multiple levels are the best counter against threats. "The best way to prevent these attacks is with a multi-layered security solution that spans network, data, and endpoints, powered by real time threat intelligence," said Reish. But what about the individual customer? Check Point has some final advice.

"Online banking customers should make efforts to ensure their computer is current and to also conduct their online banking transactions from the most secure environment possible," said the Check Point document. "A computer that is current in OS and application updates and security protections combined with an office network that is protected with multiple layers of security will provide the most protection against attacks like Eurograbber." **BT**

## Video banking 2.0 targets retail bank productivity

Technological progress has meant that video services can be deployed to improve customer experience and increase a bank's reach. **Elliott Holley** reports.

**Once considered too difficult and unreliable to be viable, technology has progressed to the point where video banking can now help banks increase engagement with the retail customer while cutting costs, according to Gene Pranger, chief executive and founder at uGenius, a provider of personal transaction technologies.**

"Customer expectations have changed," he said. "ATMs have been limited in their usefulness. They could show you information but there wasn't much interaction. Video banking points can provide a full service that lets you do everything in one go."

The idea of having a video banking service is not new. As far back as the mid-1990s, financial institutions were experimenting to find a solution. According to Pranger, one of the first video banking systems was installed on the campus at the University of California, Los Angeles in 1996. But those efforts never gained widespread traction, partly because of bandwidth and reliability issues, and partly because of consumer expectations.

"This was before most people used the internet," he said. "Consumer acceptance of kiosk solutions was not so high, nor were people used to using self-service technology, as they are today. The customer didn't understand it, and it was also difficult to keep the technology operating."

Today, the idea is to combine video banking with extended business hours, so that consumers can access retail banking services seven days a week and late into weekday evenings, removing the pressure to consume services during



the working day when most people are busy.

"Who wants to take their lunch hour and go to the bank? You can't just have staff working between 11AM and 3PM – that's not modern," said Willard G. Ross, chief retail officer at Coastal Federal Credit Union. "The ability of this technology to help us extend the hours of service is a real tangible benefit to the consumer. Also, if you use a cheque at an ATM, there's a two-day delay before it's processed. If you use a video point, it is resolved immediately."

Drive-through video banking solutions are already available in the US. BBVA Compass, a bank that provides banking, wealth management, credit card and financial services, adopted a drive-through ATM with the help of Wincor Nixdorf. The Cineo 2590 uses face-

recognition technology that is designed to identify the driver at any level. To ensure security, the ATM uses directional hearing technology – meaning that private conversations about personal finance can only be heard by the user.

From the financial institution perspective, the technology may also offer the prospect of cost savings, according to Ross. In the past, if an institution was operating 63 bank branches, it would need a minimum of 63 staff to cover those locations. But with the arrival of standalone video banking points, the staff count can be greatly reduced, as only a few of the machines will ever be in use simultaneously.

"It takes away the brick and mortar concept," he said. "Instead of having 63 members of staff covering 63 banking locations, you can have seven and cover them all from a centralised point. At the same time, you can't build branches everywhere – this technology helps fill in the gaps."

Coastal Federal Credit Union plans to install five new video banking points in the New Year. Meanwhile, uGenius has an internet-based tablet app that allows users with smartphones to engage with their banking service providers. Although at a relatively early stage of development, the aim is to provide a service in which the consumer can connect to a bank specialist such as a mortgage officer, whilst on the move.

"Wherever there are smartphones, you can have a conversation with a provider," said Pranger. "The difficulties are more perceived than real. Once customers gain confidence, and especially once 4G comes along, the sky is the limit."

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## Leading with remittances – a new retail banking segment

Do banks really know all about remittances, or are they missing an opportunity? **Neil Burton** considers the question



Remittances have accounted for 3-4% of India's GDP since 2000

**The remit of the World Bank and the Gates Foundation is to focus on flows of money to developing economies, so much of the publicity is about those and as a result, much of what we understand about remittances is about those markets.** And they are not to be underestimated.

Last year migrant communities generated huge transaction volumes – over two billion payment transactions a year. In context, that is more payments than many countries generate. Indeed, in non-cash terms, it would rank in the top 25 markets in the world and is the equivalent to the total non-cash payments for the entire Russian population.

Remittance flows to developing countries are estimated to have reached \$372 billion in 2011, and are expected to grow at 7-8% annually to reach \$467

billion by 2014. As these figures clearly show, dismissing remittance sums as loose change can result in missed revenue opportunities for banks.

Perhaps surprisingly, there are considerable flows into developed countries as well. Remittance flows to high-income countries, such as Poland and Canada, reached \$129 billion in 2011 and are expected to increase to \$148 billion by 2014. The UK receives about double the amount it sends. In Belgium, the home of the European Commission, the figure is closer to two-and-a-half times, and in France it is three times.

In the case of the latter countries, one might argue that SEPA, the Single Euro Payments Area, will increase that figure as it makes Europe a single market with no border banking. In fact, this is likely to happen sooner than we expect.

By removing the barriers, it should encourage more payments to be made.

Some initiatives are advocating change to boost services to the 'lightly-banked' on a global scale. One suggestion has been how central banks could create the right environment to allow postal service providers to offer more financial products in partnership with banks. The UN Postal Union has over 660,000 outlets throughout the world and in many developing countries, larger networks than banks. More than one billion people in 50 countries already use postal banking services, adding up to \$1.6 billion in savings and deposit accounts.

With central banks offering the right regulatory environment, the use of 'light' banking licences could allow postal operators or others, such as telcos – M-Pesa in Kenya being the oft-quoted

poster child – the ability to operate retail accounts. To quote the report authors: “If only 50 posts ... can bank a billion people, then the remaining operators in UPU’s 192 member countries, such as Nigeria, Russia, Mexico ... could easily provide a gateway to financially include at least 500 million unbanked people directly or through bank partnerships.”

That’s a lot of potential new bank customers.

The profile of a ‘typical’ remittance sender has changed. Economic emigrants, especially those in OECD countries, are becoming new citizens. Where their needs once were low-margin money transfers, today they have become fully-banked. This isn’t a new phenomenon; in fact it’s always been this way.

The population of the US is based on exactly that principle. Consider the US-India remittance corridor, for example. The median household income of an Indian-born resident in the USA is almost double that of native US residents. Indians are one of the fastest growing ethnic communities in the United States.

According to the 2000 US census, 64% of Indian-born residents have a bachelor degree, compared with 28% of US-born nationals, and are five times more likely to have a master’s degree or above.

Remittances have accounted for 3-4% of India’s GDP since 2000. The Reserve Bank of India reports that workers’ remittances to India reached \$46.4 billion for the fiscal year 2008/09, up from \$2.1 billion in 1990/91. Although more than half of these remittances are used for family maintenance, the rest are either deposited in bank accounts (20%) or invested in land, property, and securities (7%).

The size of this market is such that it even has recognised segments – NRI & PIO. NRIs – Non-resident Indians – and PIO – People of Indian Origin – both of whom have requirements to send money back to India. These range from the simple sending money to family, or organising accommodation for trips home, to quite complex, such as investing in India. With restrictions placed on foreign investment, much of the inward investment is actually by NRIs.

Looked at from the perspective of the recipient nations, remittances account for more than 5% of Gross National Income in 28 countries. Since the average fee paid by a sender is up to 9%, for most of these countries, fees amounting to around 0.5% of GDP are ‘left on the table’. To put

that into context, it is roughly equal to the foreign aid received in those countries.

Consequently, in a communiqué in July 2009, G8 development ministers called for the commission charged on making remittances to be halved, from the 2009 average 10% to 5%, within five years. The communiqué indicated that the measure would free up \$12 to \$15 billion for immigrants’ home countries.

These statistics suggest that the G8 countries can have the greatest effect by reducing fees charged in their own backyards. The G8 countries are popular destinations for emigrants. At least four of the G8 countries are amongst the top 10 destination countries for people emigrating from 19 of the 28 countries. Halving the fees for these 19 countries would generate over \$4 billion per annum. It is noteworthy that both banking and payments are amongst the largest and most mature markets in many of those G8 countries.

Part of the issue has been looking at the value of the customer today and not longer term. Although remittances are usually viewed in the context of financial inclusion of unbanked customers, an increasing proportion of P2P transactions come from payments between accounts. With expat professionals and high skilled migrants comprising a huge proportion of immigrant communities in developed countries, the traditional profile of the remittance customer has dramatically changed.

As emigrants become established in their new countries, they gradually become more affluent, going up a scale from financially included to having broader financial needs. Money sent to their home country changes from funds for sustenance, towards funds used for inward investment, property or businesses.

These customers increasingly look like traditional new retail banking clients. The annuity value of a new retail client is much greater than transaction and FX fees which can be earned from remittances. At the same time, research often shows that these customers are often more sophisticated in their use of FX in particular, than the bank realises. By underestimating the needs of this group, banks are underestimating the size of the opportunity.

Typically and traditionally most banks worldwide are domestic in their focus – they concentrate on payments between bank accounts in their own country.

Some banks service cross-border payments and are au fait with the in’s

and out’s of correspondent banking and Swift messaging standards. But the correspondent banking model isn’t ideally suited to P2P payments and remittances.

If a new provider were to move into the market and treat the high end segment of remittances as a lead entry product to acquire more retail customers, the value of doing so is actually much larger. A bank would benefit from more than just the fees, but from the total relationship with the new customer, who has broad and long term requirements. Whilst it’s often said that the buyers of remittance services are amongst the most sophisticated followers of FX rates in the world, the convenience and control of being able to transact through their bank account for a lower cost, could attract those individuals as new bank customers.

Remittances should not be looked at in isolation. To a service provider, account-to-account remittances ‘will often be indistinguishable from any other low value, cross-border transfers, including small payments to and from businesses’. Furthermore, like the checking account, remittance services are a ‘lead-with’ banking product – a way to earn the right to cross-sell a portfolio of services.

To capture the growing segment of migrant professionals, banks need to view remittances in the context of the long-term relationship with the customer, not just in terms of transaction fees for low value payments. By effectively addressing the changing needs of these communities, banks could establish an ongoing relationship across a wider portfolio of services that cater to the needs of fully banked customers.

This is a great opportunity that shouldn’t be missed. The question is how can banks bring down the costs of cross-border remittance payments, while delivering a fast, reliable and convenient service?

Just as we have seen in mobile payments, launching a new service and hoping that customers will come rarely works. Therefore banks need to carefully plan their approach and consider how best to serve this new client segment. Partnering with an established payment provider will enable banks to leverage domestic payment schemes for international transfers to deliver fast, reliable and low cost remittance payments. This will enable banks to cater to the needs of the growing number of migrant customers, while innovating with new products and services to stay ahead of their competitors. **BT**

Job prospects look thin as 2013 arrives, but in some areas of technology hiring is growing and salaries are edging back up. David Bannister tries to look on the bright side.

**School careers masters have a reputation for giving wildly inaccurate advice to young adults about to enter the world of employment – a 2012 Nobel Prize winner was advised by his schoolmasters that he was too stupid to take up science.**

Thankfully he ignored them and cell research is enriched by his decision. Those looking simply to be enriched might look on a career in the financial IT sector with slightly less enthusiasm, and a careers advisor looking to discourage them need only point to recent headlines.

2012 has seen a series of high profile financial institutions announce swingeing cuts across their organisations, with job losses in the 10-20,000 range at each.

At the beginning of December, Citi announced that it planned to cut 11,000 positions globally – 4% of its workforce, which has fallen by about a third since the start of the crisis.

This announcement, largely affecting its retail banking operations, followed on the heels of an announcement in October from Bank of America, which is to lose 30,000 staff worldwide, and close 750 branches.

In Europe, the roll of names that have announced similar-sized cuts include Deutsche Bank and UBS. According to Thomson Reuters, cuts at major banks have been larger in Europe than in the US or Asia Pacific – with 160,000 posts axed in the past year.



According to some estimates, the sector is still over-staffed – The Guardian recently quoted Caio Gilberti, of the financial services practice of consultancy AlixPartners, as saying: “There are still 300,000 too many full-time employees in the top financial services players in Europe.” Gilberti said cutting those jobs could save the banks just over €20bn from their collective cost base.

Away from the headlines, the IT and operations functions in banks have long borne the brunt of many of these cuts. In some ways, technology is the victim of its own success, and automation inevitably leads to less employment. One man’s “efficiency saving” is another man’s redundancy check.

But it is not all doom and gloom. In some sectors, hiring is growing and salaries are edging up.

“The demand for risk professionals has significantly increased, due to continued changes within the regulatory landscape. The changes have significantly increased the complexity of capital calculation and interpretation within a business risk function. Demand is also bolstered by organisations’ need to review and improve their risk infrastructure and technology systems,” says Guy Emmerson, operations director for banking and financial services at recruitment specialist Badenoch & Clark. In the firm’s latest review of the jobs market it reports that overall permanent salaries are up almost 4% year-on-year.

Looking at the issue the other way around, where once the financial sector was seen as a glamorous place to work initial findings from new research shows banks face major challenges attracting, retaining and motivating the very best technologists in the face of this competition from mainstream technology companies.

In the study on what he has dubbed the High Performance Technologist, Philip Ullah, a partner at Catalyst, says that solving these challenges is important because the top 1% or 2% of the technology population can add significant value to a bank’s bottom line. “Good programmers can be as valuable as good traders if they can develop the code that will give a bank an advantage the front office did not even see,” he says. “A bank that does not have a critical mass of technologists recognised as world-class experts in their field will struggle to compete with those that do.”

Opinions differ on what defines a High Performance Technologist. According to one managing director interviewed, “a good technologist does the work of five average technologists, but a High Performance Technologist does the *thinking* of five good technologists”.

Catalyst has recently initiated a large-scale study into the make-up of a High Performance Technologist, drawing out the differences between good and great on a range of behaviours.



## TECHNOLOGY SALARIES – LONDON

	2012	2013	Change
<b>LEADERSHIP</b>			
Chief Information Officer (CIO)	£150,250 - £225,500+	£154,250 - £231,000+	2.5%
Chief Technology Officer (CTO)	£131,750 - £182,500+	£134,750 - £186,500+	2.2%
Chief Architect	£118,500 - £167,500+	£121,750 - £172,000+	2.7%
Chief Information Security Officer (CSO)	£89,500 - £115,750+	£93,750 - £121,000+	4.6%
IT Director	£88,000 - £132,250	£89,750 - £135,250	2.2%
IT Manager/Head of IT	£74,750 - £116,250	£76,500 - £118,750	2.2%
<b>ARCHITECTURE &amp; DEVELOPMENT</b>			
Enterprise Architect	£74,500 - £127,750	£76,250 - £130,500	2.2%
Technical Architect	£75,250 - £115,250	£77,000 - £117,750	2.2%
Infrastructure Architect	£74,250 - £102,750	£76,000 - £105,250	2.4%
Data Architect	£73,750 - £105,750	£75,500 - £108,500	2.5%
Solutions Architect	£55,500 - £94,750	£56,750 - £96,750	2.2%
Development Manager	£84,750 - £119,250	£86,750 - £121,750	2.2%
Lead Developer	£56,500 - £115,000	£58,000 - £118,250	2.8%
Software Developer	£34,750 - £85,500	£35,500 - £88,000	2.7%
Database/Business Intelligence Developer	£43,750 - £66,250	£45,750 - £69,250	4.5%
Quantitative Developer	£65,000 - £121,500	£68,000 - £127,500	4.8%
<b>BUSINESS ANALYSIS, PROJECT MANAGEMENT &amp; TESTING</b>			
Programme Manager	£84,500 - £119,750	£86,750 - £123,000	2.7%
Project Manager	£55,250 - £96,000	£56,750 - £98,750	2.8%
Project Management Office (PMO) Head	£85,000 - £106,250	£83,000 - £103,750	-2.4%
Project Management Office (PMO) Manager	£75,000 - £95,000	£73,250 - £93,000	-2.2%
Project Management Office (PMO) Analyst	£35,250 - £55,750	£34,500 - £54,500	-2.2%
Senior Business Analyst	£72,500 - £105,000	£71,500 - £103,750	-1.3%
Business Analyst	£45,000 - £75,250	£44,500 - £74,250	-1.2%
Test Programme Manager	£81,500 - £104,750	£82,750 - £106,250	1.5%
QA/Test Manager	£50,000 - £74,500	£50,750 - £75,500	1.4%
QA/Test Analyst	£40,000 - £59,750	£40,500 - £60,500	1.3%

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This will allow banks to identify the rising technology stars and start to develop these behaviours from an early stage.

The study also involves collecting data on what differentiates the very best technologists from their less able colleagues in terms of their motivations and career aspirations.

This will allow banks to distinguish those who are best kept working with the technology from those who are suited to leadership roles, and to keep them motivated and performing to their full potential.

By knowing who to target and the key behaviours to develop, a bank can create a pipeline that ensures it has a sufficient number of top technologists in the right roles to help deliver on its strategic agenda and have an impact on the bottom line

The early findings from the research highlight a number of common challenges faced by banks as they compete for the best technology talent.

Up until the financial crisis, investment banking had its own 'cool' and was more than capable of competing with technology firms. But in the last year salaries for new recruits have had to rise by 5% to offset what PricewaterhouseCoopers call "reputational issues".

Early findings from the research also point to other

challenges that are broader in scope than those highlighted here: the loss of basic programming skills as more work is off-shored to low cost centres; the dearth of women among the best technologists; new business models that require different skills and approaches from technologists.

"Enhancing understanding of these things will make significant inroads into the challenges outlined here and allow banks to use these people to make a real difference to their bottom line," says the study.

Regulation and retention is also the central themes for Robert Half Financial Services, whose 2013 salary guide shows technology salaries up in the range 2-4% in most areas, though down in others (see tables or visit [www.roberthalf.co.uk](http://www.roberthalf.co.uk) for full details).

Phil Sheridan, managing director, Robert Half Financial Services ends the year on a seasonally positive note: "According to our research, growth may well be on the horizon. Business outlook has improved, with most financial services executives indicating that they are 'somewhat' or 'very' confident in their companies' growth prospects compared with last year," he says. "Finance professionals in particular are benefitting from this optimism as companies look for additional insight and strategy into business process improvement, cost savings and new sources of revenue." **BT**

## TECHNOLOGY SALARIES – LONDON *continued*

	2012	2013	Change
<b>INFRASTRUCTURE &amp; ENGINEERING</b>			
Database Manager	£54,750 - £96,000	£56,250 - £98,250	2.5%
Database Administrator	£49,250 - £86,750	£50,500 - £89,000	2.6%
Data Analyst	£37,750 - £52,250	£39,250 - £54,000	3.6%
Business Intelligence Analyst	£45,750 - £77,250	£47,500 - £80,000	3.7%
Network Architect	£74,250 - £96,750	£76,000 - £99,250	2.5%
Network Manager	£60,500 - £89,750	£61,750 - £91,750	2.2%
Network Engineer	£44,750 - £76,750	£46,000 - £78,500	2.5%
Network Administrator	£34,750 - £49,500	£35,500 - £50,750	2.4%
Telecommunications Manager	£43,750 - £74,750	£44,500 - £76,250	1.9%
Telecommunications Specialist	£32,250 - £53,750	£32,750 - £54,750	1.7%
UNIX Manager	£80,250 - £101,750	£82,250 - £104,250	2.5%
UNIX Administrator	£44,000 - £76,500	£45,250 - £78,250	2.5%
<b>IT SUPPORT &amp; OPERATIONS</b>			
Support Manager	£40,250 - £75,500	£41,500 - £77,750	3.0%
Systems/Virtualization Engineer	£40,000 - £59,750	£41,750 - £62,500	4.5%
Systems Administrator	£41,750 - £54,250	£41,250 - £53,500	-1.3%
Desktop, First/Second Line Support	£25,000 - £45,500	£25,750 - £46,750	2.8%
Trade Floor Support Manager	£60,250 - £75,500	£59,250 - £74,250	-1.7%
Trade Floor Support	£44,750 - £62,750	£44,250 - £62,000	-1.2%
Applications/Production Support Manager	£80,000 - £107,500	£81,250 - £109,500	1.7%
Senior Applications/Production Support	£64,250 - £81,250	£63,500 - £79,250	-1.9%
Applications/Production Support Analyst	£63,000 - £74,750	£65,250 - £74,500	1.5%
<b>COMPLIANCE, AUDIT, RISK &amp; SECURITY</b>			
Information Security Manager	£69,500 - £97,500	£73,250 - £102,750	5.4%
Information Security Officer	£48,000 - £71,500	£50,500 - £75,500	5.4%
Security Network Engineer	£52,500 - £67,750	£54,750 - £70,750	4.4%
Security Network Administrator	£46,500 - £62,750	£48,500 - £65,500	4.3%
Security Systems Administrator	£49,750 - £65,000	£52,000 - £67,750	4.4%
Senior IT Auditor	£64,000 - £82,500	£66,000 - £85,250	3.2%
IT Auditor	£45,000 - £66,250	£46,500 - £68,500	3.4%



## Another year over ...

As the curtain comes down on 2012, **David Bannister** looks at what people have been predicting for 2013. And wishes he hadn't.

**Depressingly, many of the predictions for 2013 concern the inevitable rise in fraud and other financial crime, and more risks from hackers who may or may not be financially motivated.**

Good news for providers of software and systems to prevent this, of course, as a report from Detica NetReveal shows: investment in managing financial crime and compliance remains a high priority, with "a significant uptick" in planned expenditure for 2013.

According to Detica, which is now part of BAE systems, fraud management is a key area with 86% of respondents forecasting budget growth (compared to 45% in 2012 and 47% in 2011) and highlighting the application process, payments, the online channel and insider fraud as priority areas of focus.

For anti-money laundering, 84% expected increased budget in 2013 (compared to 34% in 2012 and 38% in 2011) but many organizations are still grappling with the effectiveness of automated detection systems.

Financial institutions are also reacting to impending legislation such as the Foreign Account Tax Compliance Act, although 44% of respondents are still evaluating the impact of the legislation, and recent regulatory enforcements which registered record fines for Tier 1 financial institutions in 2012.

The outlook for continued investment in financial crime detection and prevention remains positive for 2013, with anticipated annual growth well in excess of previous years. On average 83% of respondents expect

an increase in their financial crime and compliance budgets, compared with 42% in both 2011 and 2010. Cross industry data sharing is becoming more common place with just less than 50% of respondents operating some kind of data sharing scheme but privacy laws and data protection are often cited as a barrier to data sharing.

George Robbins, UK general manager & director, Detica NetReveal said: "As the financial services industry stabilises, we are seeing strong evidence of investment catch-up, with financial institutions increasingly recognising the power of advanced technology to identify and prevent fraud. Regulatory pressures continue to drive compliance budgets, along with new challenges such as FATCA now firmly on the horizon and generating new waves of activity."

On the hacking front, Jeff Hudson, chief executive at enterprise key and certificate management specialist, Venafi suggests that 2013 should be the year when you take control of your IT systems in the face of an explosion of Bring Your Own Device and cloud computing.

"Many pundits, leading media outlets and even some security experts are reporting that enterprises needn't be overly concerned about Flame and Stuxnet-style malware attacks, citing the fact that they were executed by well-funded espionage intelligence groups whose target was hostile nation states and not businesses," said Hudson. "However, our view is

that companies should be concerned, as unfortunately the tools and techniques for executing these types of attacks are now in the hands of common criminals and rogue entities. In the coming year, these types of attacks are likely to increase especially against enterprise organisations, and are likely to result in significant and costly public breaches and unplanned outages. Therefore, companies should protect themselves against the likes of Flame and Stuxnet-style malware attacks.”

Mikko Hypponen, chief research officer at F-Secure Labs, says that it is not just hackers that firms should be worried about – it’ll be possible to get caught in the cross-fire. “It’s clear from past leaks about Stuxnet, Flame, and Gauss that the cyber arms race is well underway,” he said. “While we may not always be aware of nation-states’ covert cyber operations, we can expect that governments are more and more involved in such activity. In 2013, we’ll most likely see more leaks that definitively demonstrate this, and from countries who haven’t previously been seen as a source of attacks. As the arms race heats up, the odds of leaks increase.”

### Mobile to the rescue

On the positive side, mainstream adoption of bank-led mobile payments services and the results of investment in removing siloed channels will see retail banks start to redress the balance between the opposing pressures of cost reduction and the need to invest in innovation in the coming year.

According to a new report from Ovum – 2013 Trends to Watch: Retail Banking Technology – “efficiency and productivity will remain the banking sector’s mantra, however these will be driven more by innovation and service transformation than in previous years”.

Denise Montgomery, research director, financial services at Ovum, said: “While banks display continued uncertainty as to where to invest, 2013 will see many begin to cement their strategies. In most cases, these strategies will be finalised in the next 12-24 months.”

The consumer-driven digital economy and mobile revolution are the primary drivers of the “digital disruption” that fuels this need for innovation, with mobile payment solutions in particular set to continue to evolve and enter the market in earnest during 2013, the report says.

“Whether the bank in question sees itself as a technology company that does banking functions or as financial advisors, they will invest in innovation to meet the larger disruptions of the digital age or invest in more incremental innovation to improve process efficiency and customer experience,” says Ovum. “These customer experience enhancements will focus on creating a seamless cross-channel experience, incorporating digital communications driven by targeted analytics.

Key trends include:

- The consumer driven digital economy and mobile revolution create disruption and the need to invest in innovation
- Mobile payments solutions will continue to evolve and enter the market in earnest
- Customer experience enhancements will focus

on creating seamless cross-channel experience, incorporating digital communication driven by targeted analytics

■ Data, information, and analytics will improve decision making as Big Data continues its march to centre stage

■ Cross enterprise process efficiencies will entail building or extending online banking capabilities and resolving strategies around real-time core banking platforms where these have not been replaced.

Of course, all of this may be wrong – that’s the joy of crystal-ball gazing. **BT**

## Investment in Innovation is still key



**Mohit Joshi**

*Vice president and head, Financial Services Europe, Infosys*

Despite conflicting priorities and the sluggish economic climate, 2012 saw banks increase their investment in innovation. In fact, a survey conducted in the latter half of the year showed that 76% of banks have increased their investment in innovation from the previous year.

The global study of 300 bankers also showed that 79% of banks see innovation as key to future proofing businesses. However, what’s most interesting are the areas of innovation that they’re choosing to invest in. 87% of respondents stated their focus is on integrating existing business processes, such as CRM or marketing, with social media, whilst 86% said it’s on adopting interactive services, such as web chat, video conferencing, and click-to-call. What these findings highlight is that improving the customer experience through greater interactivity is likely to be a key focus for many financial organisations in 2013.

In the banking sector, as with many others, big data has been the industry buzz word for 2012, with business and IT teams alike keen to engage in big data projects. However, in too many cases, this initial enthusiasm has generated a scatter-gun approach to implementation, which in turn, has meant banks have failed to fully reap the rewards. 2013 will see excitement die down and banks take a strategic approach to their big data projects, prioritising only those that directly support their wider business aims.

Key to this more targeted approach will be an increased focus on the quality, rather than quantity, of data analysed. As banks seek to do more with their data, it’s only by eliminating duplicate or poor quality information that they can truly ensure their analysis is accurate and their business benefits from the insights big data can glean.

2012 has been a big year for mobile innovations, with the launch of 4G and even more tablets and smart phones entering the market, ensuring that more consumers than ever before are able to access the internet whenever and wherever they want. And yet, banks have not matched this pace and many have been slow to embrace the opportunities on offer from mobile banking. 2013 looks set to change this however, with our recent global survey suggesting that next year, 93% of banks expect to offer mobile payment services and 89% plan to offer bespoke tablet banking applications to customers within the next three years.”

“2012 has seen battle intensify between traditional highstreet players and the new breed of banks who originate in the FMCG or retail sector, such as Tesco Bank and M&S Bank. Key to the successful growth of these new entrants to the market is their lack of cumbersome legacy IT systems. By being more agile and having lower operating costs than their competitors, these banks are able to offer customers a wider range of services, often at a more reasonable price. In order for high street banks to effectively take on these challengers, they need to ensure that 2013 is the year they reduce their reliance on legacy infrastructure and instead adopt more scalable and efficient technologies such as cloud computing.



## A time to build

The role of risk management is changing. **Dan Travers**, head of product management for SunGard's Adaptiv solution, discusses how that creates an opportunity for transformational change.

In the aftermath of the financial crisis, risk management was found lacking. Risk managers had clearly failed to foresee the systemic risk: focussing on specific risks in specific areas meant that the big picture was missed.

Since then, there has been a move towards addressing this, which is having an effect on the way risk management is handled in most firms, who are addressing the issue of taking a view across the enterprise rather in silos.

Dan Travers, head of product management for SunGard's Adaptiv solution, says that this is not simply a question of risk managers having a wider view, but is having an effect on the way risk functions work with others.

"It is becoming less siloed in a number of ways, one of the most striking of which is the relationship between risk management and the front office – and I'd also include finance, collateral and other groups," he says. "Previously they could get away with relatively little discussion between each other and they are now finding that their interests are overlapping."

He points to the example of credit value adjustment (CVA), which has been used for a number of years. "It started as a finance requirement in most banks and now the front office is increasingly taking ownership of the calculation," he says. "We are now seeing a little more of that in collateral – not just in OTC collateral, but also central counterparties. Ultimately, if it affects the pricing, the front office will take ownership, and as regulation increasingly affects the pricing, the front office will want to know how the numbers have been calculated."

In the background is a more general stringency in the approach to risk, engendered by the lack of liquidity. It was a topic that was in evidence at the recent RiskMinds conference in Amsterdam. "One thing that came out was that banks, which in some ways have been able to be somewhat sloppy with healthy margins for a number of years, are now having to be very tight with their decision-making on how to allocate liquidity," says Travers. "The pressure is on and people are adjusting rapidly as new things like central clearing come into play.

That adds to the cost, and it offers opportunities of reducing that cost such as choosing the optimal clearing venue, optimising collateral and optimising margins across futures and swaps, for instance."

Regulation continues to be a huge driver in risk, and there are signs that the regulatory landscape is becoming clearer. "Clarity is good, and the other thing about that is transparency – the word was mentioned countless times at RiskMinds," says Travers. "Good risk management is about providing transparency and good regulation provides transparency. Slowly it is getting there."

Clarity of regulation is starting to become important as people see a way through the trees "One of the things about the tactical fire drill that has gone on over the past few years is that people now feel that they have overcome a lot of hurdles; they can lift their eyes a little bit and look around," he says. "They can consider what businesses they are in and use tools to calculate how much capital those businesses are consuming. That means they can make more strategic decisions and use risk management more strategically."

The concept of strategic risk management involves more than just collecting all the numbers. "You have to produce actionable information out of all that data," he says. "Out of that comes enterprise risk management which means looking at capital consumption across market risk, credit risk, operational risk – definitely liquidity risk – and getting your data in better shape with analysis tools that allow you to understand it."

The recent announcement that the deadline for US banks to implement the Basel III requirements once again raises the issue of regulatory arbitrage. "The US is significantly behind Europe and so delay to Basel is a concern because global banks will have two sets of regulations to deal with for a while. There is also uncertainty that comes with the delay: will it be changed, or watered-down? I don't think anyone thinks Basel III is perfect, so I can definitely see things changing," says Travers.

"On the plus side, for the European banks, we have seen a lot of people move to internal models because of it, and that gets people thinking

about more advanced features. European banks have been forced to invest in this earlier, to think about their data and put in analytics, and that could be an advantage later. There are a few things that could be done better, but there are a lot of positives that come from Basel III."

As a more positive perception of regulations emerges, it is worth asking how history will view the current turmoil. If, for instance, we project ourselves five or 10 years into the future and look back to this year, will we be saying that it was a period of transition that we had to go through to improve the situation, or will things still be changing?

"We are currently somewhere in the first half of a period of a lot change, I suspect," says Travers. "No-one knows what the banking world is going to look like. We are still seeing a lot of unexploded bombs going off as they are uncovered – things like the Libor scandal – and as those continue to come out it will likely lead to more regulation."

This is not necessarily a bad thing: while the industry is being forced to change by external forces in the form of regulation, it does provide an opportunity to radically improve the whole business model, in which risk management has a crucial role.

"The important thing is the opportunity for transformational change. While banks are doing tactical things like responding to regulation, connecting to central clearing houses and so on, there is a simultaneous opportunity to have an eye on the strategic ball to ensure that underlying architectures are in good shape so that when the next regulation comes out you can deal with it" says Travers. "We may not know what the bank is going to look like in the future, but you can lay the foundations to be agile enough to respond to the future."

*Dan Travers was talking to David Bannister*

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# Brokers face grim prospects for 2013

Dwindling trade flows are forcing brokers to rethink their business models, says **Elliott Holley**.

**Brokers are being forced to consider novel approaches to doing business – including outsourcing of areas that have been previously seen as core – as they struggle to work out viable economic models for their products and services.**

“The traditional brokerage model can’t continue,” said Rebecca Healey, senior analyst at Tabb Group. “There isn’t the flow in Europe to pay for broker services. Firms are being forced to rip up the rule book, as austerity deepens.”

A novel deal between Norwegian broker Christiania and execution specialist Neonet, in which the broker outsourced its execution, may point the way to the future.

Christiania Securities focuses on technical stock analysis in Nordic markets, including the Oslo Stock Exchange. According to Oddbjørn Hollen, chief executive, the firm made a strategic decision to outsource its execution so that it could focus on its core business – providing advisory services and research.

Under the deal, Christiania will use Neonet’s execution services on a pay-as-you-go model. The idea is that the broker will save money by ridding itself of the need to form and maintain expensive exchange memberships, and costly in-house resources such as IT and R&D staff dedicated to execution technology.

“Neonet is connected to many markets,” he said. “It is better for us to tap that network rather than attempt to pay for it ourselves. They also have many algorithms, which we would have to buy or develop separately if we were providing execution ourselves. The cost savings are significant.”

## A long hard winter

The dilemma faced by Christiania is representative of the pressures on sell-side business in general. Commission revenues have fallen significantly since the financial crisis, with a 29% fall this year alone, according to TABB Group. At the same time, equity trading volumes have collapsed and show little sign of emerging from a prolonged slump. European equity trading volumes have fallen from €1.253 trillion in October 2008 to €651.636 billion four years later and just €603.699 billion by November 2012, according to figures provided by Thomson Reuters.

To make matters worse, an oncoming tide of tough financial regulation has brought the need to invest in new technology for compliance and reporting. Legislation

such as Basel III imposes higher capital requirements on banks, while Dodd-Frank in the US and EMIR in Europe introduce additional costs by mandating the centralised clearing and reporting of OTC derivatives. Other rules included in Dodd-Frank and MiFID II in Europe impose tighter regulatory scrutiny and tougher sanctions for firms that break the rules.

In a recent whitepaper, *‘Survival of the fittest part II – Walk the line’*, Steve Grob, director of market strategy at technology provider Fidessa, argued that drawing a distinction between business areas that add value, and sources of cost that do not, could make the difference between success and failure. “Firms must challenge the traditional idea that all technology investment is a source of value,” he said. “A more radical approach is required.”

## Keeping warm

The immediate financial advantage of outsourcing is the replacement of fixed costs with variable costs, which then enables the firm doing the outsourcing to adjust more flexibly to changing market conditions. Solutions such as cloud technology, in which companies effectively outsource much of their IT hardware, software and support infrastructure, have become hugely popular among many businesses for their cost saving potential. However, large financial institutions have traditionally been reluctant to accept the cloud, partly due to concerns over the security of information held on a cloud server.





## Treading on ice

Despite increasing levels of commoditisation, opinions among the buy-side remain divided over whether outsourcing execution is the best solution. Some 62% of respondents to the Tabb Group survey saw electronic execution as the most important service provided by their core broker, yet 77% of respondents accepted the need for their broker to use outsourced services.

However, Tabb Group's Healey contends that the need to find new sources of revenue to help counter the sell-side commission pool drought may be more dangerous than the need to cut costs. Some of the larger bulge-bracket firms have begun offering their research to a wider client audience, she says – a move that has inadvertently encouraged customers to turn to rival providers, since the alpha-generating potential of the research is now nullified.

“What's happening is that buy-side firms are turning to local, smaller research providers for unique insight that the rest of the market doesn't necessarily have,” she said. “In a smaller pool of participants, each armed with the

same information, the opportunity to take advantage of bulge-bracket research is inevitably reduced if it is shared too widely.”

At present, 47% of buy-side firms surveyed use bulge-bracket research, compared to 42% using CSAs to access independent research, according to the Tabb figures. While talk of disintermediation of large financial institutions by smaller firms seems unlikely to become a reality, at least in the short term, there seems little doubt that the bigger picture is changing. Healey believes that commission sharing agreements are likely to grow in importance, as many firms would rather pay a small amount to top up their research when needed than 20 basis points to have it on tap.

Meanwhile, according to Grob, the pressure brought about by changing political circumstances and the difficult macroeconomic environment means that structural changes once seen as temporary are now becoming “entrenched and irreversible” at many financial services firms. In other words, innovation – including unusual outsourcing agreements – is virtually the only protection available to financial services firms seeking to preserve their businesses.

“A unique source of value today may very well be a commodity service tomorrow,” he added. “Like blocks falling in a game of Tetris, the arrival and integration of new sources of value can and should push the old differentiating factors below the line into the realms of commoditisation.” **BT**

Recent months have seen that position substantially erode. In September, exchange group Nasdaq OMX launched a financial cloud service with help from Amazon Web Services. Others are still considering their next move; France's Société Générale is reported to be considering outsourcing 400 jobs in its back office to consulting company Accenture. But there seems little doubt that cloud technology and the associated outsourcing of non-core business will continue to grow in popularity.

“Customers want value-added services,” said Tabb Group's Healey. “Today, there is still a lot of unnecessary duplication. Outsourcing agreements that enable firms to play to their greatest strengths are likely to become increasingly common.”

Christiania outsourced its execution business because it saw research and advisory services as more core to its value proposition as a company. That decision reflects the fact that execution has itself become increasingly commoditised in recent years. On the sell-side, brokers increasingly field essentially the same sets of algorithms, while on the buy-side, investors are increasingly switching from stock-picking, which has produced poor returns since the financial crisis, towards the use of electronic trading, including algorithms. According to recent Tabb Group research, 66% of buy-side traders surveyed are switching away from sales traders in favour of algorithms.



## ART for art's sake

Reacting to regulatory change is one thing, but the real goal is to build clarity and confidence that banks are doing the right thing in the right way at the right time say **Pierre Pourquery** and **Richard Powell**.

**Since the 2007 global financial crisis there has been a lot of debate on potential changes across the banking services industry and the potential consequences.** Recent market surveys suggest that surprisingly little progress has been made in risk and compliance management and some lack of clarity as to what to do next.

The 2012 Institute of International Finance and Ernst & Young study on financial services risk management showed that there is still much to be done with nearly two-thirds predicting continued increases in risk management IT and data spend for at least the next several years. Over 80% of respondents listed data quality and availability and over 70% listed data and systems as the top challenges

to complying with the new regulatory requirements. At the same time, the business models of many banks continue to be challenged and leadership demands continue to change. Priorities need to be re-aligned and operating models streamlined.

The problem is clear for all to see: global bank IT spending is high and increasing, revenues are low and falling, and there is a coming regulatory tsunami still to contend with. According to the International Monetary Fund, banks are as risky as they were before the crisis and regulators are urged to consider further direct restrictions on lenders' business activities. The situation is set to get worse before it gets better. Banks have to become much more effective with much less.

With the unprecedented regulatory reforms and stressed economic environment optimising use of scarce capital, liquidity and collateral resources represent major challenges; change-the-bank spend is, however, limited. Banks need to improve significantly the operational effectiveness and efficiency of their operating model and optimise use of scarce transformational resources. Without doubt, the major challenge remains the adaptation of their Risk IT infrastructure.

This challenge should not be underestimated. The cost of compliance is high and likely to get higher over time, not lower. Some studies have shown that the cost of compliance may reduce ROE by up to 3%.

Delivering a Risk IT infrastructure that is compliant with the regulation will not be enough; it needs to be cost efficient and effective. Never before has the change imperative been greater and the available resources lower.

### The art of risk management

While the future is uncertain and confidence is low, gaining consensus on target risk and compliance capabilities and operating models is critical. Market evidence suggests a lack of consensus, no clear delivery roadmaps linking strategy to execution and nervousness around dealing with complex and fragmented technology and data landscapes. Despite this, banks need to dramatically reduce operating costs to maintain RoE and need more effective risk management in order to steer the business.

Banks need to build a robust business case and a roadmap balancing tactical and strategic change. Transformation to date has largely disappointed due to lack of integration and consensus, poor data quality, ineffective operations, no expert judgement (over reliance on quantitative data), and poor flexibility – all adding to the challenges ahead.

There is an unprecedented need to achieve aggressive RoE and cost efficiency targets and fundamental de-risking of the businesses to enable growth with confidence. Banks must be confident about where they are headed with clear risk and compliance capability objectives and priorities based on a well defined risk maturity model:

- **Ensuring Compliance** – focus on fixing immediate compliance priorities
- **Achieving Operational Effectiveness** – focus on cost efficiency and reduced probability of losses
- **Enabling Business Steering** – focus on ensuring that the enterprise-wide risk and support processes are well embedded into the business process of the bank and is supported by a strong risk culture (enhance strategic decision making)

There is an ART (Assess, Rationalise, and Transform) to risk management.

### Assess

Banks must put first things first and assess where they really are. It is critical to baseline costs, projects and resources across the organisation. Adopting a component model based approach across businesses, products, support functions and geographies will enable like-for-like assessments of capabilities and

costs from an IT, data, organisational, process and control perspective.

Armed with an inventory of projects and operating costs, banks can apply their risk and compliance priorities to ensure resources are focused on core capabilities and initiatives. Banks that fail to establish a holistic view will dig up the road more than once in efforts to achieve compliance and are unlikely to identify opportunities to transform and rationalise. Not only must banks do the right thing, they must also do it at the right time to avoid unnecessary compliance and opportunity costs. A good example of this is around “surveillance” in investment banking. Following recent unauthorised trading incidents, banks undertake many different types of surveillance. They typically approach these different types of surveillance in isolation from each other with different teams, controls, data, processes and solutions used. But there is overlap between these types of surveillance and a “holistic surveillance” approach should be considered. This will enable the consolidation of all surveillance typologies (market, trade, trader, employee, counterparty, cross market, etc) into a single platform. Benefits include the reduction in the number of surveillance platforms, cost savings on licences, hardware & resources, as well as the significant reduction in false positive rates due to a better connectivity of data and techniques.

### Rationalise

Banks need to rationalise their capabilities and change portfolios in alignment with risk and compliance priorities. Once banks understand their cost base and operating model they need to think beyond incremental by applying robust transformation principles to transform the business and mature risk management. Mapping existing capabilities against agreed target states, banks can identify key transformation components.

Banks need to think big and set efficiency and effectiveness targets at 30% and up by integrating capabilities, centralising services, eliminating redundancy, removing duplication, outsourcing/offshoring non core capabilities and establishing a common set of fit-for-purpose tools and services. Banks must focus spend only on prioritised initiatives aimed at bolstering prioritised capabilities adopting an optimal granularity approach to ensure all change and expenditure is both necessary and sufficient; and no more.

### Transform

Banks need to rationalise in the right way by adopting the optimal transformation approach; build on existing, start from scratch, or minimise existing. The chosen path will depend on a number of key factors including the capability and flexibility of supporting vendors, current levels of integration, required interoperability, and diversity across the organisation from a people, process, IT and data perspective.

Building on existing capabilities can deliver cost effective solutions with less disruption and enable greater integration of data and technology services. Depending on the bank component model and



supporting architecture, this less radical approach may not deliver the necessary cost savings and if not executed well can reduce agility and capacity for future innovation. This approach may well be the right choice but should not be chosen solely on the basis of lower delivery risk or fears over wasting sunken capital. The challenge of dealing with increasing layers of technology and data architecture should, however, not be underestimated.

Starting from scratch may seem radical but architected correctly with a robust migration strategy represents an innovative approach which can deliver significant transformation at a reduced time to market. Once implemented the architecture can offer greater flexibility and provide the foundations for further end-to-end transformation and risk maturity. Costs and delivery risks, however, need to be carefully managed with focus on both short term and longer term benefit release. Big steps can deliver big rewards but such large scale transformation needs to be delivered with care. Current regulation on recovery and resolution planning is an important driver towards this approach as it can push banks to build autonomous IT components in their businesses and legal entities.

Minimising what you have can deliver significant operational benefits through reduced cost and risk of operations and a significant increase in effectiveness through resource optimisation and focus on prioritised IT and data service components. A minimise strategy can help banks regain focus on achieving a fit-for-purpose level of information and supporting IT and data services, demanding justification for all in scope components and resource spend. By adopting a pure minimise approach banks may be able to do more with less but may be less able to capitalise on future opportunities; lowering competitive advantage. Banks adopting this approach need to demonstrate to regulators that they are doing more than simply cutting corners.

### Keep the faith

With a well defined transformation approach and execution discipline banks will crystallise significant results. At a time of such transformation it has never

been more important to get back to basics:

■ **Focus on excellence of execution and delivery** – strong delivery teams with right mix and strong stakeholder buy-in

■ **Make it global, holistic and integrated** – align to global structure, identify all key costs/benefits, gaps and duplications and generate significant cost savings with new operating model and IT infrastructure

■ **Focus on business steering** – integrate risk, finance and treasury capabilities to meet increasingly complex capital and liquidity management requirements

■ **Prioritisation** – ‘Fit-for-purpose’ and not ‘best-in-class’ is what matters most

IT and data present some of the biggest challenges, and equally, opportunities to enabling successful transformation. Banks need to release significant benefit potential through effective duplication and prioritisation analysis and maximise opportunities to increase efficiency and effectiveness.

Banks that think holistically and make the right prioritisation and rationalisation calls can both deliver compliance at a lower cost and mature their risk and compliance capabilities. Banks can deliver transformation with confidence by adopting clear capability objectives and priorities and applying standard component models and tried and tested approaches to identify opportunities beyond regulatory compliance. Opportunities can be funded by ensuring a fit-for-purpose (vs. best-in-class) approach to compliance and with effective management and rationalisation of global change portfolio spend.

There is an ART to risk management and by using the risk maturity model, transformation principles, components and approach, regulatory change can be architected and delivered to maximise efficiency and deliver competitive advantage. Banks need to view transformation spend as an investment and not as a cost to minimise. Banks can be confident that they are making the right change happen in the right way at the right time. Banks can, and must, maximise the bang for their buck. **BT**

*Pierre Pourquery is a partner and Richard Powell a senior manager, in Financial Services at Ernst & Young EMEA*

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# Going mobile in 2013

By **Chris Dunne**, Payment Services Director, Vocalink

The financial services industry is arguably in the midst of the most difficult period it has faced since The Great Depression in the 1930s. In the aftermath of the 2008 crisis, banks must respond to pressure applied from governments, regulators and customers alike. This is having a significant impact on profits and reputation, leaving banks to consider how best to respond.

In early 2012 PwC conducted a survey that found 61% of respondents still trust their banks with their current account over alternative providers. Despite the emergence of new entrants in the payments market attempting to capitalise on the 'anti-bank' sentiment, including start-ups and retailers, banks can find solace in statistics such as this.

This resilient trust creates opportunities for banks to deliver innovations designed to improve customers' banking experience. Mobile payments is one area that banks should be looking to capitalise on in 2013.

With an increasing number of mobile payment options now available, mobile payments technology is rapidly approaching its watershed moment at which such transactions will be wholly accepted in the mainstream. In 2013, banks will be working towards delivering customer focused mobile payment services that meet demands for consumers and businesses alike. However there are still some barriers that are holding it back from ubiquity amongst users – this is where banks should be aiming to innovate.

## Barriers to entry

One difficulty currently facing mobile payments technology is the clunky consumer experience. The lengthy online registration process that many apps require acts as an immediate turn off to new users and gives reason for them to resort to more traditional means of payment such as cards or cash.

The issue of security also needs to be addressed. There is a level of distrust in contactless point-of-sale terminals, particularly with regards to the lack of PIN authentication. If mobile payments are to become truly universal in their use then they must be supported by a secure and robust network infrastructure to allay such fears.

Finally the largest hurdle for the technology to overcome is the changing of consumers' behaviour. In order for mobile to replace incumbent methods of payment or even simply sit alongside, the service must achieve a critical mass of users very rapidly from launch, with a clear growth path to universal reach. If consumers attempt to use the service and find that their counterparty can't accept the payment, then the service will struggle to take off.

## Going mobile

Mobile payments are an exciting innovation and, rightly so, are championed by the industry as the way to pay in the future. However for mobile money to be fully embraced the financial services industry needs to choose a common approach for interoperability and then differentiate with offers and rewards.

While new entrants can enter the market with an untarnished reputation, the full power and benefits of mobile payments will not be unlocked until our high street banks can demonstrate to society and businesses that they are the key forces behind mobile payments. Banks can begin a fight back against the smaller, more agile, start-ups, as these new market entrants can't match the banks' existing customer base.

2013 can be the year that banks capitalise on their trust and reclaim positivity about the delivery of innovative financial services again. However the onus is on them to react to the opportunity in front of them.



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## On board **the enterprise**

Following Bloomberg's decision to open its terminals to third-party applications, **David Bannister** spoke to Stanley Young about how the famously closed firm is opening up.

**Like Apple under Steve Jobs, Bloomberg has a long-held reputation for being a 'closed' sort of company, reluctant to compromise its products or its ways of working.**

The deal is straight: for a fixed-fee, you get the Bloomberg service, providing news, market data and analytics, and other information content that anyone operating in the markets would need. For a long time, this came as a stand-alone terminal – Bloomberg supplied the hardware, and even the Ethernet cable at one time – and that was that. Rival information providers supplied data feeds that could be used with market data distribution systems, had add-on premium

services and encouraged an ecosystems of third-party application developers to emerge.

Continuing the Apple analogy, the rivals were more like the free-wheeling Google Android market, with Reuters perhaps in the role of incumbent industry giant Microsoft.

So when, in November this year, Bloomberg announced its App Portal, through which third-party applications could run natively in the Bloomberg environment, market data industry watchers were a little taken aback.

"It is a massive change for the Bloomberg community," says Stanley Young, chief executive

at Bloomberg's enterprise products and solutions. "It really is the first time that we have allowed third-parties to interact with the Bloomberg API, and not just as a widget on a screen, but as a function of the terminal that integrates with other functions. It acts in every respect as though it is a Bloomberg application."

Why now – decades after rivals were doing the same thing? "I think we recognise that the world is moving on and that Bloomberg doesn't have a monopoly on innovation. Although we believe that the Bloomberg community is second to none, we also believe that there is a point in time where the technology allows for people to build very sophisticated applications very quickly and to have that fully integrated with our data is a phenomenal opportunity for us and for our clients."

There are boundaries, though – there will be no order or execution management systems, for instance. Or anything that competes with existing functionality, or compromises the performance and security of the platform. Or that Bloomberg thinks doesn't add value or won't be used by many clients.

Young sees Bloomberg's relationship to the developer community almost as a consultative role. "These are mathematicians, physicists – even sociologists – and they may have a great idea, but they have no understanding of how to take it to market, which we obviously do," he says. This means that Bloomberg will work with them in introducing clients to help develop the concepts and improve the application, for instance.

"We have opened the Bloomberg terminal to enable innovation, and innovation takes many forms. There are those who can articulate very well, know what the market wants, create the product and launch it, and there are those who create a dialogue between innovator, end-user and the facilitator of the dialogue – us – to take a concept, refine and develop it further and then launch it. We're in the middle of that process," he says.

The addition of third-party applications also takes Bloomberg further away from its purist single-price policy, as there is a premium to be paid for the additional functionality, but Young says the company has already been moving in that direction. "As Bloomberg has developed we have also developed other business models where, for example, there is a transaction fee for executing on Tradebook, our broker dealer, and some of the other trading solutions. The model has diversified away from one fixed fee," he says. "What we are open to is the idea that people may want more; they may want a slightly different flavour of something. The terminal and its user base – and our ability to distribute to every key desktop in the world – has a value that we now want to monetise with third-party applications."

In some ways, the arrival of Young earlier this year was another indicator of a cultural shift at the company, where senior management has been in place almost since the beginning. Young was an outsider, having spent the previous three and a half years as chief executive of NYSE Technologies (where, incidentally, he was replaced by Jon Robson, a market data veteran who was head of the enterprise division at Thomson Reuters).

"I think that over 30 years, Bloomberg has been constantly evolving, but it has stuck to certain principles and tenets that were clearly defined early on, but, now that I am on the inside, I find that it is tremendously innovative and constantly thinking about the business model," he says. "Bloomberg always operates in a sort of box, but within that box there are tremendous thought processes and ideas going on."

Other factors are also driving this change, not least of which is the fact that Bloomberg has long since shaken off the role of the pretender to Reuters' crown as the market leader. "As we understand our ability to influence global financial markets, and also as the markets have evolved, our clients are asking us to do more and more. People think of us, quite rightly, as a data and analytics company, but it has always been Bloomberg data, or contributed data. Take the Enterprise Data Management business that we acquired recently, Bloomberg PolarLake. That's a technology that we bought because it was hugely innovative but it also illustrates how Bloomberg is evolving."

The acquisition of Dublin-based PolarLake – one of the few examples of Bloomberg ever making an acquisition – will take the company into the EDM market, competing against vendors such as Asset Control and GoldenSource, and that means structural changes.

"It comes under me as a business, but it is a completely separate operating entity," says Young. "It has to be arms' length from Bloomberg proper because it will be aggregating competitors' data with our own data. Bloomberg Data Solutions will be a client of Bloomberg PolarLake, just as Telekurs, S&P, Thomson Reuters and others will be, to enable it to offer a pricing aggregation service to clients. It will give clients a rules engine to apply their own rules – it takes the client's rules and applies them to the aggregated data."

Young agrees that wouldn't have happened in the past when the company was only interested in selling Bloomberg data. "We are turning ourselves into a workflow provider to the industry," he says: "We have always been a workflow provider in the front office, but we are extending that from the terminal to support other parts of the business, which I think is an example of Bloomberg using its infrastructure and capabilities to offer more to the industry."

Even so, Young says that this quite radical move still fits in the box defined by the tenets laid down by the company founders 30 years ago. "We bought an enterprise software company and we are turning it into a software as a service company, and we are following the true Bloomberg style – we are not a software company, we are a solutions-based managed services company, and in that way we know we can control the service right to the desktop of the end-user."

It also means that the service will be much simpler to implement for users compared to the products and services of the existing EDM supplier. So much so, in fact, that they might be well advised to consider the fate of the market-dominating information providers of 20 years ago who underestimated the attraction of Michael Bloomberg's simple fixed-price, one-size-fits-all model of the dealer terminal to their cost. **BT**

# APPOINTMENTS

Gamekeeper turned poacher?



**Barclays** has appointed former FSA chief executive **Hector Sants** as head of compliance and government and regulatory relations. Sants will report directly to recently-appointed group chief executive Antony Jenkins.

In his new role, Sants will oversee all compliance activities across Barclays, including all regions in which Barclays does business. This will mean that for the first time, all compliance staff within the bank report to one individual, and operate independent of business and regional management teams.

Sants previously served as deputy governor designate of the Bank of England and CEO designate of the Prudential Regulation Authority. He was also a member of the Financial Policy Committee of the Bank of England. Before that, he spent five years heading up the UK FSA. He has also worked at Credit Suisse First Boston, UBS and Donaldson, Lufkin and Jenrette International Securities.

Sants will take up his role at the bank on 21 January 2013.

**OpenGamma**, a provider of analytics and risk management software, has appointed **Mas Nakachi** as global chief operating officer and chief executive, North America. Nakachi joins OpenGamma from Calypso Technology, where he was most recently director of business development for the rates, fixed-income and credit business. In this position, Nakachi was responsible for ecosystem development, marketing, client support and new product development. He previously served as Calypso's director of strategy and corporate development, and began his career developing and growing Calypso's credit derivatives business. Nakachi brings over a decade of experience to his role at OpenGamma. Based in New York, he will oversee the company's North American operations and work with the London-based executive team to manage all operational areas of the business.

**Experian**, a provider of information services, has appointed **Andy Marshall** as director of sales, credit services, Experian UK and Ireland. In his new role, Marshall will be responsible for the strategic development and growth of the Credit Services sales organisation. His key focus will be on client relationships and driving sales. Marshall previously held sales and management roles at Sainsbury's, Coca-Cola and Energis. He joins Experian from legal search services provider LexisNexis UK, where he worked for six years.

US post-trade services utility the **DTCC** has appointed **Christopher Behney** as head of enterprise production assurance at its Dallas office. As head of EPA, Behney will oversee IT infrastructure for the company's production environments.

He will report to Robert Garrison, chief information officer, and will lead a team of 300 people who oversee the DTCC's IT operations in the US, UK and India. Before joining the DTCC, Behney served as regional head of the group technology organisation at UBS, where he spent the last ten years. At UBS, he carried out a full renovation of enterprise storage. He has also held executive positions at Enron, where he worked on architecture and infrastructure solutions.

**IPC Systems**, a provider of trading communications solutions, has appointed **Stephen Crowe** to the position of vice president of global business development for IPC's trading systems division.

In his new role, Crowe will be responsible for developing relationships and driving revenue growth with the company's strategic customers. Crowe brings over 24 years of experience within the telecoms, technology and financial services industries. He will be working closely with sales teams across all of IPC's regions to increase product awareness and new business opportunities.

Prior to joining IPC, Crowe served as global head of sales for the banking and financial markets division at rival BT, where he was responsible for trading systems sales.

**Arcotech**, the real-time market data technology specialist, has hired **Darren Simons** as senior sales executive. Simons has 15 years of experience in the market data technology industry, starting with several roles at Caplin Systems dealing with vendor connectivity and e-commerce trading portals. He subsequently worked for RTS Realtime Systems, specialising

in exchange trading solutions. He joins Arcotech from Object Trading, a provider of exchange trading and market data solutions.

**RTS Realtime Systems** has set out an ambitious plan to centre its technology business on growth opportunities in Asia Pacific, starting with a new data centre in Shanghai, as well as its first office in China in the new year and a new data centre in Tokyo, Japan. To support the Asian push, **Steffen Gemuenden**, chief executive at RTS, will re-locate from Chicago to RTS Asia Pacific headquarters in Singapore in January. Andy Woodhouse, managing director for APAC, will move from Singapore to the firm's Hong Kong office to focus on clients in North Asia and China. RTS has increased its Asia Pacific staff from 15 in January 2011 to 60 as of November 2012.

Banking software provider **Avaloq Group** has appointed **Martin Frick** as head of business process outsourcing. He has 20 years of experience in IT and outsourcing as CIO and COO, and will report to company chief executive Francisco Fernandez. Before joining Avaloq, Frick worked for Xchanging in Frankfurt as COO of continental Europe, responsible for business production, implementation and IT at the Xchanging Transaction Bank. He was in charge of security transaction processing, the implementation of new compensation withholding tax regulations and new corporate structures, including BPO and outsourcing. Prior to that, Frick was CIO at car hire company Avis Europe in the UK, in charge of the firm's IT and back-office divisions, and before that, CIO of the Winterthur Insurance Group.

Financial control systems specialist **Erudine Financial** has appointed industry veteran **Ian Chester** as commercial director to support the firm's launch into financial services. Chester joins from Calypso Technologies, where he served as a general manager for EMEA, focusing on business development. Prior to Calypso, he held a similar role at Odyssey Financial Technologies. He also spent five years at Financial Objects, beginning his role as sales director before becoming chief executive. Chester's other roles include director level jobs at Terence Chapman Associates, and BIS Banking Systems. He also founded Glenview Consulting, where he worked with City Networks and Message Automation Limited.

**BPC Banking Technologies**, a provider of open system e-payment solutions, has appointed **Angelo Bertini** as managing director of its operations in the Middle East and North Africa, where he will be responsible for developing and strengthening the company's business.

Bertini brings over 18 years of payment expertise to BPC. Before joining BPC, he worked for payment systems specialist ACI Worldwide since 2005, where he was head of the Dubai office as well as senior sales executive focusing on the Middle East and North Africa region.

Before ACI, Angelo was the vice president and general manager MEA at security systems provider S2 Systems. Earlier in his career, he was responsible for business development across the MEA region for Western Union.



The **Futures and Options Association** has appointed former Financial Services Authority policy leader **Natasha**

**Stromberg** as head of regulation, with core responsibility for working groups on energy, power, emissions, metals and other commodities-related areas.

Stromberg joins the FOA from the FSA, where she was most recently a senior associate in the derivatives market infrastructure and policy unit. In this role, she acted as lead supervisor of the London Metal Exchange. In addition to her time at the FSA, where she was the policy lead for global commodity market regulation, she also has experience in the investment banking industry, including risk, client clearing and business management roles at Morgan Stanley, Deutsche Bank and ABN AMRO. **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](http://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](http://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.dportal42.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](http://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](http://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](http://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](http://www.sifma.org)

### MAY 21-22 2013

#### EBAday 2013, Berlin

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

### SEPTEMBER 16-19 2013

#### Sibos 2013, Dubai

The mother of all financial services conferences and exhibition makes its first visit to the Middle East.

[www.sibos.com](http://www.sibos.com)

### NOVEMBER 5-7 2013

#### BAI Retail Delivery, Denver

Reports from 2012 suggest that the BAI event is on the road to recovering its crown as the main event in the global retail banking calendar.

[www.bai.org/retaildelivery](http://www.bai.org/retaildelivery)

# Homage to Catalonia



**Karl Rieder,**  
GFT

**Back in May, I chaired the 2012 Future of Mobile Banking conference held in London.** At the event, I expressed my disappointment with the state of mobile banking (and with my own bank, in particular). It's clear that banking hadn't yet taken full advantage of the new technologies which have so revolutionised other industries such as media, advertising, retail, or music.

Six months on, there has been some improvement, but overall, the picture hasn't changed much.

While all of the four large retail banks in the UK have mobile applications, their quality is varied and generally not very good: customer reviews of their iOS versions range from 1.5 to 3 stars out of 5. Standard functionality such as viewing account balance and recent transactions, finding ATMs and branches, and making transfers is commonplace, but there isn't much else on offer.

The most notable exception is Barclays Pingit, which allows any person with a UK bank account to transfer money to any other Pingit user.

In this regard, the UK is trailing what is being done abroad. For example, some very interesting things are happening in Catalonia.

La Caixa, Spain's third largest bank, not only offers a wide variety of mobile apps to its customers, it even has its own app store. There is of course a core banking app far better than its UK counterparts, but also a host of smaller, focused apps. These include apps to track stocks, view credit card movements and balance, load a pre-paid phone card, pay bills, convert currencies, set up payment by instalments, block a credit card, deposit a check, etc. etc. In fact, there are over 50 apps for a variety of phones and tablets. La Caixa has also extended its ATM-based ServiCaixa system to mobile. Amongst other things, this lets La Caixa customers buy tickets for the cinema, concerts, theatre, sports, museums, and other events. La Caixa has been able to take its wide range of offerings and successfully get them onto the phones of their customers.

Banc Sabadell, another Catalan bank, has taken a bit different approach. It has

used new technologies such as mobile and social networking to improve customer services and sales. Their motto "bring the bank with you" gives you a good idea of where they are and the direction they are heading. Banc Sabadell has created very user-friendly apps that aim to encourage a more direct interaction with the bank in order to deepen the relationship. Their strategy is particularly focused around social networking.

**UK banks can and should do more. They are missing an excellent opportunity to improve the service to their customers and strengthen the relationship with them.**

Some banks in the UK have started to use social networks for marketing purposes – the viral aspect of these networks allows the bank to intensify brand awareness not only with its own customers but with their customers' "friends" as well. For example, Barclaycard has created a social community for users of its credit card. HSBC has also taken some steps into this arena with its "Values" campaign, which aims to create discussion around topics not even related to banking. Barclays uses Twitter to respond to customer queries.

Banc Sabadell, though, has defined its mobile strategy around social networking. It is working to closely join the bank's customers and employees, so that they can establish a more active and close relationship with one another. The mobile becomes the first and most important connection the customer has to the bank, but in a way which remains human.

The use of new technologies doesn't come easy, and there is resistance. With mobile applications, there is still a perception by the public that mobile banking may not be secure. In the most recent survey that I have read, nearly two-thirds of UK smartphone owners still have not yet adopted mobile banking because of security concerns.

With social networking there are also regulatory issues. Consumer privacy and maintenance of records of social media activity are just two examples of the many issues which are affected by the regulatory environment.

UK banks are struggling with technical questions as well. IT departments are weighing-in on the continuously evolving debate between using HTML5 or "native" code to build mobile apps. The problem that businesses face is that each of the different mobile platforms (the four most important being Apple iOS, Google Android, Microsoft Windows, and RIM BlackBerry) uses different programming languages and environments. This means that to develop an app for all four platforms, businesses have to write four versions of the code, developed by four different teams. This of course is costly and difficult to maintain. HTML5, on the other hand, is the common denominator, providing a rich user interface for all devices – a cost-effective approach. HTML5-based apps, though, don't have the same level of performance nor the degree of integration with the mobile phone functionality such as the camera, GPS, compass, calendar, contacts, accelerometer, etc. So, banks have to make strategic decisions about what technologies to use. These are decisions which will affect not only the quality of the apps they develop, but also the staff they hire. I know that in more than one case, these decisions are holding organisations back from moving forward.

Despite these challenges, UK banks can and should do more. They are missing an excellent opportunity to improve the service to their customers and strengthen the relationship with them. This can even help to re-establish trust – something the banking sector is sorely lacking.

For me personally, as six months ago, I continue to be disappointed with my bank's poor mobile offering. Some banks, such as the Catalan ones that I have mentioned, clearly get it; they are providing novel applications to their customers and improving the banking experience. Sadly, my bank is not one of them.

**Karl Rieder is delivery manager at GFT**  
■ [www.gft.com](http://www.gft.com)

## New payments solutions for a digital age



**Ron van Wezel,**  
Deutsche Bank

**A digital revolution is underway for both business-to-consumer and business-to-business transactions – one that is transforming the way in which organisations and clients interact.** The charge is being led by smart devices and mobile phone/tablet innovation, making such technology the platform of choice for purchasing goods and services online, which is itself a growing route for conducting business.

In response to this shift, businesses are developing innovative applications that improve customer interaction and brand loyalty by digitally replicating and enhancing real world forms of interaction.

Despite the scale of such technological advancements, the methods that form the backbone of commerce have failed to keep up with this trend. Indeed, the majority of payment solutions have barely changed since the pre-digital era.

In recognition of this – and in response to consumer demand for greater cohesion between on- and offline shopping experiences – new payment instruments are starting to emerge. And such innovation brings with it the potential to enhance the consumer experience and transform the way payments are made and managed for both B2C and B2B transactions.

The rise of online commerce has been dramatic. Visa's forecast for online shopping on this year's Mega Monday – the first Monday of December – in the UK was up 21% on the previous year (making it the country's biggest online shopping day ever), and Deloitte expects £3.5 billion of sales within the UK in December to be purchased on or influenced by smart phones. Similarly, figures from the US commerce department show that the total value of e-commerce sales in the US in 2011 came to \$193.4 billion – an increase of 16.1% from the preceding year. Yet this is only 5% of total retail sales in the US – so there is enormous potential for growth.

By embracing the growing popularity and market penetration of smart devices, emerging payment methods have the power to transform the world into a 24 hours, seven days a week shopping centre. New solutions can power the convergence of the on- and offline spheres by enabling the online purchase of goods in actual shops. For example, customers can simply use their smart phones to pay online, interacting with the merchants' point-of-

sale terminal – no physical interaction is required between the phone and the terminal.

One vision that we expect to be realised is that of a digital wallet – an innovation designed to replace its physical counterpart. Consisting of a smart payment app, a digital wallet will provide access to the consumer's bank or card account, allowing real-time settlement of funds between the merchant and its client. Furthermore, it will enable integration with merchants' online platforms and marketing tools, including loyalty schemes.

While there is still some way to go before such solutions are fully developed and implemented, the ability of modern technology to advance B2C commerce is increasingly apparent. For example, in emerging markets – where business is conducted by billions of people without bank accounts – new payment schemes (such as the Kenya-based M-Pesa) leverage the high penetration of mobile phones to offer mobile money accounts.

The popularity of such schemes is clear: M-Pesa alone acts as a conduit for over 25% of Kenya's GDP. Such schemes demonstrate the power of technologically-advanced innovative solutions to revolutionise commerce in all corners of the world.

The B2C market is not the only one set to benefit from emerging payment streams. Technology advances being realised in the consumer space are increasingly influencing the development of banking technology. And this is particularly evident in the realm of B2B payments.

The most significant benefit to be derived in this respect comes from an increase in efficiency – an area where paper-based (i.e. cash or cheque) transactions, despite their current market dominance, lag behind. Certainly, paper-based transactions generate a number of inefficiencies that increase cost and risk as well as hinder flexibility. And these inefficiencies apply not just to payments made between businesses, but also to businesses' internal payments, such as salaries and expenses. Paper-based disbursement systems are not only costly and inefficient, but also suffer from a lack of transparency – reducing the degree of control businesses have over expenditures.

Emerging payments have the potential to solve such problems. One solution

gaining traction is the use of pre-paid corporate cards. Such cards – once issued by a bank and loaded centrally – can be used by beneficiaries for point-of-sale payments and cash withdrawals from ATMs. Businesses can manage these cards remotely – imposing limits and placing restrictions on where they can be used. They can also benefit from clear audit trails for improved expense tracking and monitoring. Furthermore, by removing the need for physical transportation of cash, such cards can greatly increase efficiency while reducing cost. In light of such benefits it is unsurprising that a study commissioned by MasterCard forecasts the value of payments made by prepaid cards to grow at an annual rate of 225%, to reach £2.4 trillion in 2017.

The efficiency and security of cashless payments can also be found on the collections side. Certainly, solutions that can reduce Days Sales Outstanding to speed up the cash conversion cycle and eliminate the risks inherent in the transportation of cash are invaluable when the flow of working capital is crucial.

Some global banks now offer cashless collections solutions that enable businesses to present invoices to customers electronically – via a mobile communication channel such as SMS – and allow the inspection and approval of these invoices anytime, anywhere. The digital nature of such solutions also allows immediate settlement of payments, via direct debit, card payment or other legacy payment instruments.

As the payments industry responds to the technological revolution taking place – the benefits of adopting emerging payment solutions are clear. Consumers can enjoy enhanced, integrated and more convenient shopping and payment experiences. And businesses have even more to gain – from greater efficiency, improved risk mitigation, enhanced transparency and working capital management, and superior data management.

Successfully realising such benefits, however, will require a reassessment of working practices and the development of close relationships with innovative providers in order to leverage the latest payments solutions.

**Ron van Wezel is global head of emerging payment streams at Deutsche Bank**

# Surfing the regulatory tsunami



**Paul Vescovi,**  
Experian Credit Services

**Lenders are facing an unprecedented period of regulatory reform and we believe the impact will be extensive, due primarily to the complexities of compliance and the risks of non-compliance.** How banks respond to this regulation will materially shape their competitiveness going forward.

Basel III, which will start to come into force at the beginning of 2013, requires banks to hold a greater amount of expensive capital than previously and introduces new liquidity requirements.

Larger banks have been increasing their capital levels in preparation for Basel III and they are also looking at top down strategic restructuring. We can, however, demonstrate that a bottom up approach utilising cutting edge optimisation technology to determine lending strategies can drive significant additional profit for the same amount of regulatory capital.

Smaller banks are already focusing more on achieving the advanced approach to capital calculations. This will require technology investment in flexible decision engine software that can automate Basel compliant calculations. With this in mind, it will also be worthwhile for these smaller banks to spend time reinventing their operational decisioning processes utilising this software investment to drive out additional business benefits from the technology.

The UK faces a myriad of further national regulation due in no small part to the perception that its banks were at the centre of the financial crisis. Whilst too numerous to look at in detail here, a couple of key themes are emerging from conduct risk – forbearance and affordability.

The primary aim of the forbearance guidance issued by the FSA in 2011 is to ensure that the actions of lenders enable the customer to achieve a full repayment of arrears or to at least recover the customer to a sustainable position on their mortgage. We have seen evidence that lenders' forbearance is keeping repossession rates at an all time low. However, it remains to be seen if the longer term impact on some customers is that they are left owing more than if the measures had not been in place.

The guidance includes arduous internal and external reporting obligations. In fact, the FSA has concerns that some reporting

practices have the “effect of concealing the full effect of impairment and forbearance and thus may not present the true nature of credit risk within retail portfolios”. Most legacy collections systems simply aren't capable of managing forbearance facilities whilst ensuring the loss risks are fully accounted for and that provisions and capital reporting take into account the true contractual shortfall.

**“The UK faces a myriad of further national regulation due in no small part to the perception that its banks were at the centre of the financial crisis.”**

This understanding of the “true” impairment must be incorporated into all decision-making processes. Significant systems upgrade or replacement investment will be necessary to provide the flexibility to deliver these requirements.

The guidance also insists the lender ensure that customers can afford any new repayments over the lifetime of the mortgage and this must be evaluated as rigorously as new business affordability.

Finally, whilst the forbearance guidance applies to mortgages specifically, the FSA has given clear indications that it expects these principles to apply elsewhere and we expect the new regulatory regime to turn its attention to other lending products in the near future.

Regulation around assessing affordability is ubiquitous. Most recently, the Mortgage Market Review published in October 2012. The majority of the MMR rules will be introduced in the first quarter of 2014, and checks for responsible lending and affordability are some of the main criteria.

We see many different affordability standards and approaches taken by lenders. These differ by the product offered, from mortgages and personal loans to credit cards and overdrafts. These then differ even further depending on what stage of the credit life cycle a customer may be in, such as acquisition, customer management or collections.

Ultimately, there are three key components that lenders should consider in order to meet the requirements of affordability – income verification, current indebtedness and customer capacity.

For many, the current assessment and verification of income is a manual process. Income verification models, derived from current account turnover data available from credit bureaux, such as Experian, give an alternative view of a customer's income, as well as reducing the level of time and resource associated with the task.

A comprehensive view of the level of indebtedness a consumer has with all lenders is invaluable, even where the assessing lender has the primary current account relationship.

Customer capacity is the estimate of an individual's disposable income. A clear view of this can be achieved by assessing income minus all outgoings, including deducting taxation, mortgage and rent payments, credit repayment commitments and other expenditure adjusted for family composition.

In all cases, comprehensive internal and external credit bureau data and flexible decision making capabilities will play a key role in enabling lenders to effectively assess affordability, particularly where there is no prime current account relationship.

The biggest impact of the regulation highlighted is likely to be on the IT infrastructure – workflow, level of automated decision making and support systems. Lenders will need to consider how predictive and flexible their current analytical models and techniques are when it comes to decision-making, as well as whether their verification processes are sufficient. Vital to all this will be the data that is available to them, both internal and external, and how accessible this is.

In order to successfully “surf” this regulatory tsunami, it is worth enlisting the services of experts, such as Experian's Global Consulting Practice, to ascertain the degree of compliance already achieved, as well as providing a roadmap to achieving full compliance and maximising some of the windfall opportunities created.

**Paul Vescovi is managing director of Experian's UK&I Credit Services business**

# Congratulations to our 2012 winners



Thank you to everyone who attended the event for making it such a huge success, and of course a big thank you to our fantastic sponsors for helping to make it all happen!

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# OUT OF OFFICE

DECEMBER/JANUARY 2012/2013



## Algorithms create new highs (and lows) at Barclays

**A**s we're broadly in agreement with the view of a character in Carla Lane's sit-com *The Liver Birds* that opera is "just Italians arguing to music", we'd best pass on this news with as little critical comment as possible.

Following the success of oddball opera subject – *Nixon in China*, *Jerry Springer: The Opera* – and the growth of reality TV it was only a matter of time before someone came up with the idea of a "reality opera" that "focused on the drama unfolding on an "open outcry" stock trading floor, the type of trading floor on which traditionally traders shout and use hand-signals".

The culprits creative talents behind this are Alexis Kirke, a composer at the Interdisciplinary Centre for Computer Music Research at Plymouth University, and Greg Davies, head of behavioural and quantitative finance at Barclays, who "have taken reality performances to another level by partnering with Barclays to produce a reality opera".

Melodies were "carefully crafted with evolutionary computer algorithms". During the performance singers "sang what they wanted, when they wanted, within certain rules, just like the freedom people have in reality TV programmes."

Davies role was to apply his behavioural finance expertise to create the market within which the singer-traders were responding, "generating the ebb and flow of emotion and money on a trading floor".

To enable the music to express the emotional activity on the trading floor, Kirke composed what he calls "trading phrases" such that when most singers were buying, the harmonies between them were pleasant, and when most were selling, the harmonies clashed. When two performers sang 'buy' and 'sell' melodies for the same asset, the two sounded in time and harmonious.

*Open Outcry* featured 12 singers and a cellist, Joseph Spooner. The audience sat at tables among the "traders" (in the trading pit), and the conductor rang a bell to signify the market opening. As the cellist played, large screens displayed stock information and the conductor guided some aspects of the permissible actions of the singers. The performers sang one musical phrase to buy each asset and another to sell. The prices were largely driven by random market movements generated by a computer model, though the conductor did have some power to influence stock prices, as did the effect of the "trading" between the singers themselves.

[www.multivu.com/mnr/58659-barclays-opera](http://www.multivu.com/mnr/58659-barclays-opera)

## From the Archive



10  
Years  
ago

Mobile payments hampered by bank/telco rivalries ... CLS extends to investment managers ... GSTPA closed down by shareholders ... Visa launches P2P cross border ... retail banks lie up for core replacements ... UK sees boom in custodian banking ...



15  
Years  
ago

Firms flock to State Street's Global Link ... banks worried about new entrants in capital markets ... ERP vendors forge links with banks ... world's first internet-only bank to be sold as losses mount ... e-commerce storage requirements straining bank infrastructures ...



20  
Years  
ago

Management shake-up at Swift as new chief executive settles in ... ISITC keen to set up in Europe ... EC data protection regs attacked by banks ... Bank of France builds settlement systems for ECU-denominated bonds ... Facilities management and outsourcing are highlights of poor year for financial technology ...



25  
Years  
ago

China to establish Renminbi capital clearing network ... Swift "twice as fast as telex" says study ... IT absorbing 35% of trading margins in City dealing rooms ... plans to connect European exchanges face obstacles ... MasterCard and Visa in US point-of-sale alliance ...

# RegTech

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DECEMBER/JANUARY 2012/2013



## Emerging into the light

Will regulatory clarity  
come in 2013?

### OUT OF THE SHADOWS, INTO THE RULEBOOKS?

Shadow banking could soon force infrastructure upgrades and additional business costs – will the industry find ways to ease the pain?

### FATCA: GOOD NEWS IN DISGUISE?

Can a controversial tax reporting initiative be good for your bottom line?

### EU LEADING DATA HUB CHARGE WHERE US LEFT OFF

EU clearing obligation rules will require new counterparty classification and monitoring systems. Is this a standard data hub opportunity?

### 2013: A VERY NEW YEAR

Five years after the crisis started, real change is finally in store

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## Forced into the light?

**2012 has been a banner year for regulation.** With over 70,000 pages of nonstop rulemaking, shifting deadlines, political sea changes and game changing fines, the industry is entering the holiday period with its head spinning.

Five turbulent years since the crisis, the industry is finally beginning to see some semblance of a global regulatory order. Despite all the doom and prolonged gloom of this year, 2013 may bring new collaborative opportunities in the world of regulatory operations and technology. Is it a time for bounded optimism?

The events of the past week may suggest strongly otherwise. As we close this calendar, both HSBC and Standard Chartered Bank have made “settlements” with US regulatory authorities for “failings” in their anti-money laundering and sanctions monitoring procedures. In the case of HSBC, that settlement was an eye-watering \$1.9 billion. Standard Chartered will pay more than \$600 million globally to settle its sanctions score.

The two cases also show not only the seriousness but the reach of US authorities and breadth of stakeholders involved: following the allegations earlier this year, Standard Chartered was negotiating with the Federal Bank of New York, the Office of Foreign Assets Control, the District Attorney of New York’s Office and the Department of Justice.

The faint absurdity of so many bodies jostling for position has highlighted the fragmentation of regulatory oversight that the G20 seeks to eliminate. While the

financial pain of the settlements will further concentrate the minds of the most senior management in financial services firms on the need to address the entirety of the regulatory requirements which do, in fact, differ.

The good news is that there are still multiple valuable regulatory opportunities for alignment in 2013. As discussed in this issue, this unlikely ‘gift’ from the regulators comes in many unexpected forms: shadow banking, FATCA and clearing obligation rules. Who would have thought?

It certainly has the potential to be a harbinger of good news, and along with some of the other trends that we have chronicled since launching RegTech as a joint venture between *Banking Technology* and JWG, provides grounds for thinking that some sort of consensus is starting to emerge among all parties as to the scope and shape of the problem, and how best to go about solving it.

The bad news is that five years on from the financial crisis, we are only halfway through the fallout and the press is full of major job cuts, budget issues and restructuring of both the private and the public sector. It does make one wonder precisely who is going to pick up the pieces.

No matter – it is the season of Goodwill to All, so let us be optimistic and say that, at the very least, we are starting to get an idea of what JWG set out to identify – what does ‘good’ look like? In the ‘light’ of 2013, the industry looks set to find out – one way or another ...

David Bannister, editor

PJ Di Giammarino, chief executive, JWG

**TOP TWITTER ALERTS:**

- › EP resolution on shadow banking: call for "rapid adoption" of clear approach to central data collection in "early 2013"
- › Can it all fit together? 2 FSB shadow banking CPs on policy framework, securities & repos detail huge reporting reqs:
- › More data=smaller shadow: FSB shadow banking report calls for essential improvements in data availability, granularity

## Out of the shadows, into the rulebooks?

Shadow banking could soon force infrastructure upgrades and additional business costs – will the industry find ways to ease the pain?

**As repos, securities and, potentially, CCPs become part of the transparency agenda via new shadow banking regulation, this could mean in infrastructure upgrades and increased costs for the next couple of years.**

As we said in October, 2012 has been the year that shadow banking made its grand entrance onto regulatory agendas across the world's major financial jurisdictions, creating huge regulatory expectations for 2013. With shadow banking estimated to comprise 25-30% of the total financial system, these regulatory reforms mean institutions that 'look like a bank and quack like a bank', (or, rather, provide maturity transformation outside of banks) will be subject to bank-like regulation.

This represents a sea change for firms that are not used to being under the regulatory spotlight, who will soon face huge infrastructure and business challenges as these agendas progress. At this point, the shadow banking regulatory push is more a wish list than a consensus. However, it's clear the regulators are not satisfied with the status quo.

After the dust settled from this year's G20 meeting, the FSB released 132 pages of new shadow banking regulation spread out over four documents, including three consultation papers. The documents essentially hint that concrete regulation is coming down the regulatory pipeline in the areas of securities lending, repos, money market funds and ill-defined "other shadow banking entities". After much talk, the reality has now hit the industry that shadow banking regulation is here to stay. In the world of securities lending and repos, the FSB calls for improvements in transparency by collecting and aggregating data to capture more granular exposure data, ideally allowing regulators to better detect risk concentration.

The FSB focuses heavily on transparency measures, including a long list of transaction, firm level and aggregate data fields for possible reporting. However, the recommendations are still up in the air over the most practical of issues: what form the regulatory reporting will take and whether through the mediums of official surveys or trade repositories. How exactly this will occur isn't precisely defined, meaning there is the possibility of regulators adding complex new reporting requirements that can contribute to, rather than prevent, systemic risk. Somewhat obviously, the FSB suggests that this massive collection exercise "could leverage" the work of the FSB's data gaps initiative, but surprisingly gives no commitment to using this. The recent European Parliament resolution on shadow banking might provide some answers to joining up these reporting

**KNOWN UNKNOWNs**

- › Will regulators push to have CCPs collect securities lending and repo data?
- › How will shadow banking reporting demands be reconciled with transaction and risk reporting initiatives?
- › What will the next iteration of global shadow banking rules look like?

**THEMES**

- › While regulation in this space is not fixed, firms must begin thinking about its effects on their reporting systems
- › New shadow banking proposals are on their way into rulebooks soon
- › Demands for transparency will result in increased business, infrastructure and data costs

demands, calling for the creation of a Euro repo transactions database maintained by the ECB but, globally, the industry will be left scratching its head.

But it's not just repos facing a drive for transparency through reporting. Despite being dropped from the SEC's agenda after aggressive industry lobbying, the FSOC has resurrected MMF reforms as part of a shadow banking regulatory push. The FSOC's recent public consultation discusses MMF regulatory options for floating net asset value costs (NAVs), NAV buffers and minimum balance at risk (MBR), each bringing potentially large operational and technology costs. The reprogramming of existing systems, or installing new systems, for calculation and for tracking buffer levels, will not be cheap or easy.

Certain market infrastructures are also falling under scrutiny to process this data, such as central counterparties. In its recent consultation on Proposed Policy Recommendations on Securities Lending and Repos, the FSB asks the industry to consider the potential of introducing CCPs to the securities lending and repo markets. While this may make information collection easier for regulators, it might result in a number of business issues for entities that would be required to report this data. Cost would figure highly, with additional millions in fees and margins posted required. Furthermore, current CCPs would not have the operational capacity to potentially handle this increased reporting demand. Is this really an example of a reporting solution to make the lives of regulators easier, or a move that could increase risk in the system?

With shadow banking regulation still in early draft form globally, the industry still has the ability to influence this regulatory debate before it becomes law. There are multiple regulatory data collection initiatives underway, such as risk reporting under the CRR (COREP), the FSB Common Data Template, derivatives and transaction reporting under Dodd-Frank and EMIR, and these are entering an already crowded space. Clearly, regulators will need the help of the market to get this right in leveraging pre-existing data and reporting requirements.

This will mean approaching the problem from multiple perspectives, in order to find the best way to address the infrastructures and business challenges, including offering compelling business and use cases for adoption.

The level of uncertainty in this regulatory space is unprecedented and may be moving faster than people think. But, the question remains: can the industry and the regulators finally provide a solution to exploit this opportunity to its fullest potential, in the interests of cost and systemic safety?

**TOP TWITTER ALERTS:**

- › What's the best way to align FATCA with existing AML requirements? JWG's response to the HMRC's CP has some ideas
- › 50 countries on board, 146 left. US Treasury publishes list of jurisdictions supporting/potentially supporting FATCA
- › Welcome breathing room! – IRS delays FATCA implementation to 2014: will this result in more alignment with the IGAs?

# FATCA: good news (in disguise) for your cost-income ratio?

Can a controversial tax reporting initiative actually be good for your bottom line? We explore how.

**KNOWN UNKNOWNs**

- › How much harmonisation can be achieved between local implementations of FATCA IGA's?
- › Will FATCA inspire other countries to legislate their own extra-territorial tax evasion regimes?
- › Can we expect to see the FATCA compliance timeline pushed back again?

**THEMES**

- › FATCA is making huge customer data demands on financial institutions globally
- › There is potential for considerable synergy between the customer data collected for both money laundering and tax purposes
- › The UK implementation of FATCA is an opportunity to streamline information sharing across jurisdictions

**The US Foreign Account Tax Compliance Act (FATCA) has been heavily criticised, and accused of being a “kind of US backward imperialism” and “an atomic bomb used to kill a fly”.** At its heart, FATCA exists to track down US citizens hiding money offshore by requiring foreign institutions to share customer information about accounts held by US citizens directly with the Internal Revenue Service.

In spite of this criticism, the IRS has unblinkingly moved ahead with pursuing bilateral intergovernmental agreements (IGAs) with more than 50 jurisdictions, which are already inspiring similar reciprocal rules abroad. While these deals would spare firms from requirements such as reporting client information directly to the IRS and withholding US taxes from clients, including exempting certain government-backed investments, the bottom line is that FATCA is a big ask in the world of KYC data.

With the final FATCA rule expected from the US by the end of the year, some jurisdictions, such as the UK, are speeding ahead in implementing their IGAs. In a recently finished consultation for the HMRC, the industry was asked about “implementing the UK-US FATCA agreement”, which touched on a variety of industry concerns, including data collection and maintenance, reporting formats, identifiers and the ability to look back on historical data. While the HMRC's approach is robust, there are some serious issues that require immediate, coordinated thought as they offer multiple avenues for coordination and connection across regulation.

FATCA will require firms to collect much more customer data directly from clients, meaning strong clarity in the final rules will be required in order to make the necessary system and policy changes. Reporting masses of customer data will require standardised reporting formats, especially for fields which currently don't exist, such as dates, currency or identifiers. Without clarity on these issues, firms don't have a definite idea of what exactly they need to implement. This ambiguity is continuing to create anxiety across the industry on whether they will be able to meet the compliance deadlines.

What makes this such a bitter pill for the industry to swallow is that firms collect much of this information anyway as part of their existing KYC procedures. For example, firms already collect beneficial ownership information to a threshold of 25% under the Money Laundering Regulations in the UK, but FATCA considerably increases that burden by requiring that information at 10% in many cases. The Risk Based

Approach in Anti-Money Laundering controls was designed for the exact purpose of eliminating such undue burdens, but this is not permitted under FATCA. Such examples mean firms have to reconfigure their systems to account for a whole set of new standards that were developed, seemingly, in isolation of current anti-money laundering regulations. The accompanying data refresh requirements, accuracy controls and monitoring systems are already well-established and unnecessary changes will prove very expensive.

With 140+ countries still not under IGAs, criss-crossing standards on identifiers, information collection and reporting, as well as differences in local laws, mean FATCA presents a huge challenge for firms to streamline these practices globally.

Many are hoping that the burden will be alleviated by the marketplace, yet in the absence of detailed standards, data providers can't currently have the capability to effectively produce the information required.

There are many opportunities for alignment. FATCA offers a valuable opportunity for leveraging and entrenching singular identifier use. Currently, institutions attempting to comply with FATCA have no guidance around what entity identifiers would be required for registration and reporting templates, with most firms using different internal identifiers for aggregating data. With the global LEI deadline looming and multiple regulations calling for its use, its inclusion in FATCA could be a very helpful addition.

Clearly, there are many opportunities for innovative third party solutions. In the current fragmented FATCA landscape, data collection is likely to vary country by country across an ever increasing number of jurisdictions. Beyond this, we are likely to see further data and reporting divergences between those countries that have forged IGAs with the US and those that have stayed on the periphery. With the UK already announcing its use of FATCA as a means to collect data on offshore tax evaders in traditional havens such as the Channel Islands and Guernsey, we can expect other IGA countries to follow suit. If information collection is not streamlined, what is a big ask today will be an impossible ask tomorrow.

Of course, tax is not the be all and end all for a bank. But it is a good place to start. Getting international reporting right could help with other initiatives.

Ultimately, it could be seen as a big win for the industry, reducing unnecessary cost burdens and minimising divergent regulatory approaches for the future.

Who would have thought?

**TOP TWITTER ALERTS:**

- › A fairly complex plan FSA speech confirms EMIR timely confirmation obligations likely to begin March 2013:
- › SEC proposed rule on capital, margin and segregation for SDs /MSPs: alignment with EMIR possible? Comments Jan 2013:
- › Timelines not exactly fixed: EC #EMIR FAQ confirms potential implementation date for EMIR TS to be February 2013

# EU leading data hub charge where US left off

New, prescriptive EU clearing obligation rules will require new counterparty classification and monitoring systems. Is this a standard data hub opportunity?

**With EMIR having entered into force on 16 August 2012, and the release of final draft technical standards by ESMA in September, firms will soon be facing rules on clearing obligations and eligible counterparty regimes that will have a significant impact on their client classification systems.**

Dodd-Frank classification requirements have already forced many firms to implement changes to their procedures. There are key differences between the US and EU regulatory approach. Dodd-Frank specifically targets certain activities (i.e., swap dealing) and exempts those not covered by that definition.

EMIR is much broader and its rules apply to all market counterparties. These include traditional financial institutions (banks, insurers, funds, etc.) which are classified as financial counterparties (FC), whereas corporates and bodies engaged in financial activities, but not predominantly, are classified as non-financial counterparties (NFC).

These definitions are complicated by exemptions criteria. For example, an NFC over the clearing threshold (between €1-3 billion depending on asset class) has to be classified as such (NFC+). Depending on whether a foreign institution's country of supervision can be considered 'equivalent' to the EU's regime, it may be subject to a '3rd country' exemption and, if a transaction is undertaken under the same group umbrella, an 'intragroup' exemption may apply.

Furthermore, EMIR exempts certain non-covered activities and activities below a certain asset threshold. However, if that threshold is breached by any one asset class, then all other activities carried out by that firm, across the group, fall under the obligations set out by EMIR. In terms of verification, Dodd-Frank allows participants to satisfy their verification obligations through self-certifications, accomplished through an ISDA questionnaire. ESMA, however, has shown a reluctance to allow for similar self-certification. When presented with some of the stark difficulties faced in complying, many firms will be tempted to continue to apply their Dodd-Frank oriented approach. EMIR presents a unique set of challenges that will make this difficult, if not impossible.

Five major issues exist for EU firms facing the challenge of meeting EMIR client classification requirements. These are: no single source for collection of classification data; no standards for verification of classification status; no accepted standards on monitoring and triggers; appropriate identifiers and hierarchy linkages are not available; and, finally, the sell-side has not yet engaged with the NFC community to help solve this problem.

**KNOWN UNKNOWN**S

- › What will the final standards for derivative valuation and margin allocation look like?
- › Can ESMA cope with the volume of new asset classes that can be registered for clearing?
- › Is alignment possible with the Dodd-Frank classification regime?

**THEMES**

- › The EU has taken a more complex approach to classification monitoring requirements than the US
- › It is yet unclear what role trade associations and standards bodies are playing in the EMIR pre-trade discussion
- › Regulators are reluctant to provide specific guidance without consensus across the entire EU industry

In the EU, firms are now grappling with the problem that, in order to make the determination on whether a counterparty is a NFC or NFC+, new reference information is required, that must include information on positions across the group. But with no single source for collection of classification data, although regulators will be collecting this information, they are currently legally prevented from sharing it with the marketplace. This is exacerbated by the lack of standards for verification of classification status. The US has developed standards in the form of the Dodd-Frank protocol to address this issue, however a similar model would not work in Europe due to the potential fluctuation of NFC status.

An obvious solution to this problem may be a central hub that would serve as a single source for the status of counterparties. This solution presents a number of significant practical challenges. Firstly, there is a possibility that, as happened with the LEI, a federated, rather than a centralised model would develop, reducing the effectiveness of the utility. In addition to the lack of a single source of information, an additional hurdle faced by firms is the lack of accepted standards on monitoring and triggers. Common practice across the industry must be defined and accepted on issues such as database refreshes. Refreshing the data held to determine classification status of counterparties is likely to have a significant impact on firms. A quarterly refresh would be extremely onerous, yet an annual rate, as required under Dodd-Frank, may be unsuitable to meet EU regulatory requirements.

Naturally, when it comes to collecting additional data, no conversation is complete without identifiers. In order to track asset thresholds across a NFC group, firms will require much more information about entity hierarchies. While the LEI is a potential solution, there is growing doubt that a global LEI will be available in time for the FSB's March deadline. Adding to this problem is the fact that the LEI still has yet to be endorsed by regulators as a reliable source of hierarchy data for this particular use-case.

So, who will take the lead in helping firms solve the problems presented by the classification requirements in EMIR? The buy-side has begun work towards resolving some of these issues but there is a distinct lack of engagement between the sell-side and the NFCs.

Ultimately, there is a clearly exhibited need for industry guidance which must cover data collection, verification and monitoring aspects of the classification issues.

**TOP TWITTER ALERTS:**

- › HMRC consults on 2013 UK implementation of FATCA: 24 questions on reporting, transitions, aggregation due 23/11
- › UBS Puerto Rico settles with SEC for cool \$26m for misleading investors, hiding liquidity crisis; SEC says expect more
- › Entrenching Euroscepticism: UK foreign secretary calls for audit of impact of EU law on UK's position in single market:

# 2013: a very New Year

Five years after the crisis started, real change is finally in store. Who is on the naughty and nice lists?

## KNOWN UNKNOWNNS

- › 140,000 pages of regulation will beget many unintended consequences
- › Which regulations will need to return to political drawing boards?
- › Will 2013 be the year standards move from talk to action?

## THEMES

- › The market is desperately trying to sort out if or how new rules apply
- › More than ever, practical 'so whats' matter
- › 2013 is a pivotal year where political, supervisory and firm priorities are set

**In 2012, the industry saw a flurry of financial sector reforms.** With over 140,000 pages of regulation produced over the past an ambitious but often discordant global regulatory framework has developed, leaving ops and tech departments in a constant state of insecurity and confusion.

Elections in some of the world's major economies have not impacted rulebooks as some had imagined (and hoped), with political mandates remaining strong to keep regulation high on the agenda. This year we will have said goodbye to a number of titans of regulation and even toppled a bank chief or two. However, even as the 'old guard' hands over to newly empowered regulatory bodies, the true effects of these reforms on the economy are beginning to be felt. Put another way, five years on from the start of the crisis the rubber is actually beginning to hit the road even though the drivers have changed.

What does this mean for 2013? Can the industry expect another 70,000 pages as a New Year's gift? Most certainly, yes. As much as we would all like to come back from a long winter's nap and find the problems gone, some wishes just won't come true.

One 2013 reality is certain: constant regulatory change for the industry is here to stay and the ability to manage this change in this volatile environment will be indispensable. The reality of rulemaking for the foreseeable future is that many objectives will be in play at once. Politicians just don't want to change the way trading is done, they also want to upgrade the way financial crime is policed and the way firms evaluate risk – all while protecting the consumer.

Some unappreciated regulatory gifts will have to go back to the store. If the political return policy holds true, we might see some rules returning to the drawing board, even as other new rules are produced. Regulators might even have many gifts they are forced to exchange. 2012 has been a year of shifting and completely missed deadlines, with Solvency II, FATCA, Basel III, RRP for banks, MiFID II/MiFIR, AMLD, the Data Protection Regulations, COREP the Volcker Rule all facing setbacks. As JWG research showed, this drift has cost the industry tens of billions.

Despite these missed targets, some major regulations have stayed on schedule, such as key post-trade reforms (Dodd-Frank, EMIR), the AIFMD, PRIIPS, Shadow Banking and US recovery plans. Perhaps most importantly, the paradigm of global coordination is looking more established than ever before. Even an LEI, of some description, is moving towards the statute books.

More than ever, the regulatory landscape is fraught with no single view of 'what good looks like' resulting in

higher cost products with decreasing returns. Today's large infrastructures were not designed to cope with both increasing volumes and complex change requirements. In 2013, front, middle and back offices will be wrestling with the regulatory deltas at paragraph level across customer segments, product types and geographies.

If we had one wish for all our jolly industry fellows, it would be that New Year cheer would kick off a collaborative spirit across the industry. Gone would be the days when regulators locked themselves up without the industry and a shared view of the problem became the norm. Banned would be the executive committee level conversations that exclude the op and tech engineers. Never more would the key suppliers be left out on the doorstep.

Will we get our wish? Probably not. But it could happen, if only because of the severe fines now on offer for those that are on the naughty list. In 2012 we woke up to the fact that regulators now have much bigger and more varied sticks – increased capital/liquidity buffers, forced absences from the market and, of course, jail time.

What's more, the ways in which firms are being observed have changed. New, invasive approaches based on communication protocols like XBRL and FPL now allow regulators to get their hands on a firms' data directly. They can use this to run their own stress tests and challenge the way that assets were valued. Furthermore, G-SIB risk reports will provide regulators with an ability to compare banks' activities across the globe in seconds.

So should you tell the boss what the 2013 resolution is? The answer is in large part relative: your target should depend on what others do and get fined for. If, for example, you have a relatively weak KYC capability, reliant on scores of disconnected databases – it might be time to start upgrading the target operating model.

Can regulations tell you what that model should be? No. However, they can provide useful guidance on what you should – and perhaps more importantly, should not – be able to do. Of course, this will suffice for now but it won't last long. A few more thousand pages of text in 2013 will mean your KYC operating model will need to adapt quickly. One priority is therefore clear – you need to be speaking to your peers at other firms to work out what good looks like for the industry.

At the end of the day, developing the capability to manage change in a volatile world will differentiate your cost/income and PE ratios. It is therefore critical to get in front of the changes in the 70,000 pages that matter, define the 'so what' and decide what this means to you.

Merry Christmas and happy holidays from all of us on the RegTech team.