TRANSFORMING THE LANDSCAPE
FINEXTRA’S INSIGHTS FROM SIBOS 2016
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Technology dominated discussions at Sibos 2016 to an extent we have not seen previously. Historically, Sibos has been an event attended largely by bankers focusing mainly on business issues, while technologists have played a supporting role. This year the roles reversed to reflect a focus on the ever-increasing importance of technology in shaping the future of the financial industry.

After years of absorption in complying with post-financial crisis regulation, banks have taken a look at their technology estates and realised the importance of bridging the gap that has grown up in order to better deliver value to their customers and continue to drive out operational cost and complexity. Banks now need to respond to new entrants by harnessing technology to offer compelling customer propositions and disrupt incumbent businesses with competitive new models.

The regulatory theme naturally remained part of the discussion in Geneva. Interestingly, one of the most talked-about pieces of regulation was PSD2 – itself a catalyst for technology-driven disruption through its introduction of open banking underpinned by open APIs.

While a number of banks embrace this development as an opportunity to generate competitive technological advantages, others have accepted that they must remain open but are cautious of the consequences. It is clear that there are opportunities for banks to leverage access to the customer information held by other providers, but it is also clear that implementing open APIs will take work. Certainly, this trend will lead to a renewed focus for banks on having a modular, flexible set of middle and back office systems capable of adapting to the real-time world.
Digitalisation and openness by definition pose cyber concerns. As such, cybersecurity was a significant discussion topic at Sibos this year. The overriding message reflected the notion that banks need to concentrate on remaining ahead of attacks by ensuring their technology and services are made ever-more secure.

Blockchain remained a prevalent topic in Geneva this year. I heard evidence of progress since 2015’s event in terms of finding real-world opportunities to leverage blockchain’s potential. There was, however, a consensus that industry-wide adoption of blockchain-based solutions remains premature.

Excitement also grew around topics such as machine learning, robotics and artificial intelligence. In addition, some recent innovations are now bedding in and enabling banks to deliver inventive new products and services to their customers. Real-time payments, for example, are increasingly a reality across the world, and in leveraging this capability, banks are developing innovative solutions such as virtual accounts.

The criticality of collaboration was hugely emphasized this year. Partnerships are essential for banks to access all the technology they need – in the front office to deliver exemplary customer experience and in the middle and back offices to underpin digital transformation and open banking. Conversations around the imperative of partnering will undoubtedly continue to evolve in the coming months and will be central to discussions at Sibos next year in Toronto.

FINEXTRA’S FIVE KEY TAKEAWAYS FROM SIBOS 2016

#1: The digitalisation discussion was dominated by open banking and open APIs, which create both opportunities and challenges for banks.

#2: Cybercrime – like regulation – is a fact of life to be managed, but for both, there are technology solutions to help.

#3: Blockchain is STILL a buzzword and the subject of hype, but the technology is maturing and the industry has made progress in determining its applications and in beginning to prove its value.

#4: Artificial intelligence is set to have a major impact on financial services and it and other leading edge and emerging technologies demand attention, experimentation and exploitation.

#5: Customer experience is key: consumer expectations are shaping corporate demands, and banks must break down the silos and collaborate to deliver relevant, meaningful innovation to their clients.

For more of Finextra’s coverage of Sibos 2016 visit http://finextra.com/sibos/
Earlier this year, it was announced that Canadian bank ATB Financial had collaborated with SAP, Ripple and Germany’s ReiseBank to send the first real international blockchain payment from Canada to Germany. ATB successfully transferred CA$1000 to ReiseBank using a network built on SAP technology and Ripple’s network of enterprise blockchain solutions. The payment, which would typically have taken between two to six business days to process because of requirements such as settling with the counterparty bank and reconciling accounts, was completed in around 20 seconds.

Following a Sibos in Geneva at which the blockchain discussion had clearly matured into a focus on practical use cases, Nilesh Dusane, Head of Sales, Ripple, and Laurence Leyden, General Manager, EMEA Financial Services, SAP, discuss the significance of the ATB transaction and the outlook for use of distributed ledger technology in cross-border payments.

**What are the challenges in cross-border payments that could be addressed by blockchain?**

**ND:** Historically the cross-border payments industry has mainly served corporates wanting to make high-value payments. In the past few years we have seen the rise of new corporates like Uber and Airbnb, which are global from the outset, and want to send low-value payments all over the world. Legacy wire systems for cross-border payments have been built for high-value, low-volume payments and are batch in nature, and these newer corporates don’t believe the existing systems can satisfy their need for high-volume, low-value cross-border payments. A second macro trend is the steady growth of remittance-type transactions, which legacy payment
systems are not optimised to handle. These are two of the key areas for which banks have validated a technology like Ripple can be very useful.

**LL:** We see several problems in cross-border payments. They’re expensive, they take too much time, and there is no visibility on them. You fill something out and hope the payment gets there. The immediacy that blockchain can bring will clearly be a major benefit here – along with transparency and the ability to reduce costs. Identity and security in the environment will also be very important. If you move to a process that takes seconds you need confidence in the parties involved and faith that the payment will get to the right recipient.

There is also a value to be derived around the efficacy of transactions. Think about the ethical supply chain, the ability to be sure of the provenance of meat or the age of workers. Historically it has been very difficult to achieve visibility on the end-to-end supply chain, and blockchain will provide a much greater level of transparency on this.

**How can we assess the appetite of the industry to deploy blockchain for cross-border payments?**

**ND:** At Sibos in Geneva we were able to announce that more than 20 banks are now providing production quality solutions over Ripple. Developments like the ATB/ReiseBank transaction with SAP also validate the appetite, and show that banks are moving beyond the experimentation phase with this technology. It is important to remember the nature of these two banks. ATB is a small bank in Canada, ReiseBank a small bank in Germany. Typically they would have to go through big correspondent banks to get a cross-border payment completed. These are exactly the types of players that will gain and pass on great efficiencies through the use of blockchain technologies in cross-border payments.

**LL:** Certainly at Sibos the topic of blockchain came up in every keynote and most conversations. Banks are clearly focused on understanding how to get on top of this technology, and the speed of adoption does seem to be accelerating.

**How will blockchain work with existing infrastructure in the cross-border payments landscape?**

**ND:** One of the core components of our technology is the Interledger protocol. This enables different ledger systems to interact with one another. There have always been and will always be multiple ledgers. If I want to send money from my bank account to my friend’s Paypal account, I am connecting two ledgers. When ExxonMobil wants to pay its truck drivers around the world, in Kenya it has to use M-Pesa, another ledger. Ripple’s Interledger protocol has been built specifically to connect all these ledgers together.
What do banks need to do to their own technology stacks to be ready for blockchain?

LL: There are a lot of interim technologies in place within organisations, implemented to make up for batch processing. These shadow processes, the smoke and mirrors put in to cover up systems that can’t cope with real-time transactions, will have to be re-examined. It will no longer be viable to treat certain activities in isolation, or to rely on workarounds. Banks will also have to look at some of the processes – around security for example – which are currently done in the time allowed in a batch environment. There won’t be the luxury anymore of time to make qualitative decisions. They will have to rely on technology to make those decisions as an inherent part of the process.

How will the industry get from promising demonstrations to mainstream adoption of blockchain for cross-border payments?

ND: Last year at Sibos in Singapore, 90% of the questions we were asked were about our technology. This year in Geneva, the questions all centred on problems that banks had in different areas of payments, and demands that their customers were making of them. The adoption of this technology is happening now, and customers are driving the demand. In the next six months to a year, dozens of institutions will be using technologies like Ripple for real cross-border money movement.

The way we are working with banks is that we have identified specific pain-points and are working with them on solutions to address those challenges. For example, we look at specific corridors – a particular bank might work with a lot of banks in Australia or China. Key to this collaborative approach is our newly created Global Payments Steering Group. The founding members of this group are Bank of America Merrill Lynch, Santander, UniCredit, Standard Chartered, Westpac Banking Corporation, and Royal Bank of Canada, and its focus will be to oversee the creation and maintenance of payment transaction rules – the standards for using our technology in cross-border payments.

LL: I would echo the importance of collaboration. We brought 12 customers together to talk about this topic during Sibos in Geneva, and the general feeling in the room was that the banks now see blockchain as a collaborative activity. They acknowledged that sometimes they have looked at the technology on an individual basis, but they are now starting to realise it’s a wider subject, and one on which they must collaborate.

Great progress has already been made, but understanding of the technology still needs to be broader. We also need to further prove the technology – and we will see the industry working on more and varied use cases to continue to establish how blockchain can best bring value.
KEY TAKEAWAY #1:

The digitalisation discussion was dominated by open banking and open APIs, which create both opportunities and challenges for banks.

HIGHLIGHTS:

– Banks recognise the opportunities created by the move to open banking underpinned by open APIs
– Open banking is another driver for collaboration between banks and fintechs
– Banks face a challenge in ensuring their systems can handle open APIs

During the Sibos Big Issue Debate on disruptive technology innovation, Sanoke Viswanathan, Chief Administration Officer and Interim Chief Information Officer for the Corporate and Investment Bank at JP Morgan, name-checked one of the most talked-about technology innovations of the week – open APIs. These are “really important”, he told delegates, “because they change the way we do business together”: “APIs are going to allow us to interact with our clients and partners in new ways, in an in-depth way where we can exchange data, we can exchange code, we can work off each other’s platforms, and we’re not dependent on logging into a web portal or a mobile app in order to interact with each other.”

API is not strictly about technology, but enabling a compelling customer experience – that’s where the value lies,” added Massimo Proverbio, Senior Managing Director, Accenture Payments. “And the beauty of APIs is that they can be built quickly and often, making them easier to develop and more relevant to customers.

If the measure of a topic’s importance is how much people talk about it during Sibos, then open APIs and open banking certainly attained a ubiquity in Geneva to rival that achieved by blockchain during Sibos in Singapore last year. In part the focus on open APIs stemmed from the current preoccupation with the revised Payment Services Directive (PSD2), which mandates the opening up of account information by banks to third parties, most likely via APIs.
However, the API discussion at Sibos was bigger than PSD2 and went beyond the European markets directly impacted by the regulation, to reflect a global move by banks to embrace open banking, with greater or lesser degrees of willingness.

The carrot for banks is that while open banking paves the way for new competition, it also creates new business opportunities for incumbents, as Ruth Wandhöfer, Global Head of Regulatory & Market Strategy, Citi, told Finextra during Sibos. “I think there is a lot of opportunity for banks to offer new services in the account information and payment initiation spaces,” she said. “What third parties can do, banks can also do in terms of being allowed to offer more services. We are moving to a more technology innovative environment, the use of APIs, the delivery of more interesting customer services, so I think PSD2 is a great opportunity for banks to explore that at this point.”

It may indeed be the case that the move to open banking will enable banks to be part of a rich digital ecosystem delivering tailored, contextual customer experiences. But as Patrik Havander, Head of Strategy & Communication, Transaction Banking, Nordea, pointed out, open banking driven by open APIs also brings challenges. Some of these are technical. “The open banking landscape will put tremendous stress on the system,” he said. “The amount of transactions per second will be millions instead of thousands and that needs to be handled of course, and that is a discussion that needs to be had.”

Certainly, the readiness of banks’ systems for open APIs is a consideration. “PSD2 and what it enables have implications for banks,” said Andy Hirst, Vice President, Banking Solutions, SAP. “You need to have a real-time live business architecture to do real-time data, and you need to have the APIs in place to be able to extract that data and send it to third parties, and that leads to lots of challenges for banks in the next few years in the lead-up to PSD2 coming in.”

Acknowledging the technology implications of open banking, Pierangelo Mortara, Executive Vice President & Deputy General Manager at Unicredit Business...
WHAT THEY WERE SAYING ON TWITTER...

@jamesplloyd  
@colmlyon on the topic of “PSD2 – The opportunity to reinvent the online payment and banking experience” @Sibos

@JenniferSertl  
Force Function: #api landscape requires that all business realise that developers are part of your customer experience @petervan #sibos

@amarovdan  
In banking, the further you get from the UI- the older the tech-like an archaeological dig. API revolution will be hard. @sibos @innotribe

@maartenXL  
#BCG at #Sibos: while #PSD2 is a game changer, banks are not yet sufficiently prepared to face the challenge

@DigitalBankGuru  
“Open APIs is a fundamental shift in thinking, it doesn’t represent an incremental change.” @Lui_Zurawski #PSD2 #payments #Sibos

@Sibos  
‘Developments like PSD2 have brought disruption, banks need to rethink how they do things’ @bbva #Culture #Banking

Integrated Solutions, said: “For a payments engine it’s quite important to be on an open architecture and be ready tomorrow for open API services.” His colleague Fabio Cesaretti, SVP – Global Head of CIB IT&Ops, Unicredit, elaborated further on what he described as the “two-speed IT paradigm” facing most banks. “It’s quite common to find banks having a huge transformation pipeline in front of them. The majority of this transformation is about enabling effectively the two speed IT paradigm, that means to be able to manage at the same time legacy and digital components of the value chain.”

In addition to the technology challenge, there is a need for banks to “leverage the innovation in the market in order to properly partner with fintechs”, Cesaretti continued. A number of commentators pointed out the fact that for banks, open APIs present challenges beyond the technical. Observing that “APIs have become so commonplace in other industries and really need to show their face in the banking industry”, Vincent Brennan, Head of Group Operations & Payments at Bank of Ireland and Deputy Chairman of the Board of the Euro Banking Association, told Finextra that “APIs for banks need to focus not only on technical aspects but also on legal, operational and other aspects as well”.

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“What are the business model implications for banks? How in an open banking world could banks consider sourcing products and services, and distributing products and services? At the EBA, we are trying to encourage our members to take the broader business issues into account,” he said.

The move towards open banking certainly seems set to further solidify the trend which began in earnest at Sibos 2015 in Singapore for banks and fintechs to view each other as partners rather than competitors. For Viswanathan, part of the “huge applicability” of open APIs in the early stages is “simply allowing us to work with start-ups in a different way”, he told delegates. “We are able to expose our data through APIs and start-ups with ideas are able to plug into them and just build their applications on top of them. And this becomes part of the ecosystem. We’ve had the same discussions with some of our key clients. They are starting to build their own applications using our APIs. We have long term partnerships that are just evolving as a part of this.”

Collaboration with fintechs in the context of open banking is essential, agreed Havander. “We need to be an attractive platform for developers, for fintechs, and in that sense we need to collaborate with them and treat them like clients more or less in order for them to stay with us and not somewhere else in order to deliver interesting value propositions,” he told Finextra.

However, there will be “different levels of collaboration” he continued – and banks must put some thought into which fintechs they want to work with most closely. “We could have a vetting process. For some we will want only to share the information we are required to by the regulation. For others, we might want to build closed API groups and collaborate on stronger new propositions,” he said.

Brennan also highlighted this organisational and strategic dimensions of the open banking question. “When you look at a concept like open APIs and open banking, the key is the word open. The banks must open up to others – be that fintechs or other suppliers. They have to ask themselves who among the players out there would I consider collaborating with, and how will I organise to do that? Should I do that on a single bank basis or should I consider it at an industry level?”

The overall tone of the Sibos 2016 discussion on open banking and open APIs reflected the fact that banks see positives in the development but are also concerned by some ongoing challenges – technical, strategic and organisational.

Havander encapsulated the prevalent view of banks on open banking currently when he said: “Open banking is probably the best thing that has happened to the banking community. We see great opportunities in the open banking landscape. However, there are some questions that still need to be answered.”
KEY TAKEAWAY #2:

Cybercrime – like regulation – is a fact of life to be managed, but for both, there are technology solutions to help.

HIGHLIGHTS:

– The mood around cyber was pragmatic: innovate to get the problem under control
– A number of new technologies can be applied to address both the cyber and the compliance challenges
– Cyber and regtech are additional drivers for collaboration between banks and their partners

Cyber security was always going to be high on the agenda at Sibos 2016, given the much publicised hacks against Swift’s customers this year, but in the event the mood about cyber at the event was less doom-laden than in Singapore last year. Swift CEO Gottfried Leibbrandt got straight down to business in the opening plenary, warning delegates to expect to hear about the topic every day in Geneva, because “the cyber threat is here to stay”.

However, he also set the tone for a pragmatic discussion about the problem and how the industry can tackle it, making an unusual but effective comparison between the cyber threat and disease in the earliest cities. The rise of digitalisation and the internet of things has created a fertile environment for cyber hacks just as the first cities were a fertile territory for disease, but just as city-dwellers transformed these diseases from “an existential threat to a manageable nuisance”, so must the financial industry tame the cyber threat, Leibbrandt told delegates.

Curtailing innovation is definitively not the answer, he continued, because “fintech will eat our lunch unless we adapt and innovate ourselves, and keep up with the pace of innovation”. On the contrary, banks should step up innovation and direct it at the cyber challenge – and there are technologies (and fintechs) out there which can be leveraged to tackle and neutralise the cyber threat, he said, name-checking biometrics, pattern recognition and remote controlled detection.
Of course Swift made use of Sibos to push its new Customer Security Programme, which, as Alain Raes, Chief Executive, EMEA and Asia-Pacific, Swift, told Finextra, is built around three pillars. “The first is about the banks – how can we help them to further strengthen their protection? We have defined a certain number of actions that they will have to take to ensure their environment is fully protected,” he said, and this will include operating with the latest release of software to access Swift. They will also have to make sure their protections are known to their counterparties by fulfilling a programme of self-attestations, he continued.

The second pillar revolves around banks’ counterparties, Raes said, and here there are different ways to “attack the problem” – “before the event, after the event and eventually on the fly”. Swift will oversee a rationalisation of use of its existing Relationship Management Application (RMA) tool – used by banks to authenticate with whom they are dealing over Swift – he says, to make it more efficient. The co-operative will also introduce a new data report enabling banks to reconcile their records with Swift’s in order to identify anomalies. Eventually, Swift could also introduce a mechanism to monitor and query transactions on the fly, he said, in a similar manner to credit card checking systems that look for irregular card use.

The third pillar is about the community, Raes continued. “This is about sharing information about what is going on in each and every environment. There is a clear need to learn from each other. Swift is doing this already, but we would like to find a way in which we can do this all together, and eventually have a data repository in which we can store the information.”

While cyber security was much discussed during Sibos 2016, it did not dominate to the detriment of the innovation discussion – quite the contrary – and in that way the approach of the Sibos community to cyber this year was similar to its approach to regulation in Singapore (an approach which continued in the same vein in Geneva). The cyber threat will not go away any more than the regulatory burden will go away, but there was a strong sense that financial institutions should leverage innovative technologies to solve these problems – singly and together.

In that context, a number of technology solutions were identified as having the potential to help. Stephen Scharf, Managing Director and Chief Security Officer,
More on cyber @sibos Basic Cyber Hygiene such as changing passwords frequently, actually goes a long way. #sibos

‘It’s vitally important that physical, fraud, forensic and cyber security resources work very closely together.’ – @KalyaniSabric at #Sibos

#Equiniti @ Sibos market risk no longer the greatest threat. It is now operational risk including cyber. IBM see 20bn cyber incidents a day

UBS Group CEO Sergio Ermotti today at #Sibos: “You need collaboration to address cyber risk” #innovation #cybersecurity

#Sibos hot topic in the headlines >>Market grows for #regtech: #AI & biometrics help banks comply with rules http://ow.ly/gtta305fg9K via @FT

@lwintermeyer: ‘RegTech is emerging as one of the FinTech megatrends this year and into 2017’ @InnFin @Sibos

The question is does fintech/regtech offer regulators to opportunity to approach regulation in a more strategic manner #Sibos

#regtech is a better way for us to run our business – Chris Corrado from @LSEGplc says at #sibos #fintech

DLT & Cyber wrap up the sibos week Innotribe > cyber: “finding the needle in the needle stack”

DTCC, suggested blockchain – despite the cyber issues faced by Bitcoin – could have a role here. “When we look at probably the most known version of distributed ledger, Bitcoin, most of the cyber issues we have seen there were not on the core technology but on the endpoints. So it’ll be interesting to see how the endpoints are managed and how we make sure that’s not an entry point for a potential issue,” he said. “One of the challenges with security is making sure we have appropriate resiliency and back-up of systems, and one of the nice things about distributed ledger is it has the potential to allow us to store things in multiple places, so if we do have an outage in one or even two or three locations, we would still have recoverability. That part of distributed ledger is very exciting from a security perspective.”

Mike Blalock, General Manager – Financial Services Industry, Intel, suggested machine learning can be applied in the cyber area among others. “In financial services, we are seeing three primary areas for the application of machine learning,” he said. “The first is compliance and risk management, with use cases like AML and fraud detection. The second is around customer engagement and customer satisfaction – that 360 degree view of a customer. Here we are seeing machine learning being used in recommendation engines for financial products to anticipate product needs or interest, at an individual level, integrating personal and contextual information. And the third area is around cyber security and IT operational analytics within the bank.”
Similar technologies were mentioned by panelists during the session When RegTech meets FinTech: How technology disruption intersects with regulation in securities. Chris Corrado, Group COO and CIO of the London Stock Exchange Group, defined regtech as “enabling compliance and a better way to run a business” and said “applying machine learning and cognitive computing is a smarter way to do that”. “We intend to apply cognitive computing to cyber security as well, and predictive analytics to the stability of our operations,” he continued.

In the same session, David Geale, Director of Policy, Financial Services at the UK’s Financial Conduct Authority (FCA), described how regtech can be applied to address “some fairly intractable problems”. “Firms don’t like doing regulatory reporting – it costs them money,” he said. “Equally, we as regulators need data, we need to be able to see patterns, we need to know what’s happening in the market.” Following a successful hackathon on financial inclusion earlier this year, the FCA will hold a second on regulatory reporting, Geale continued. He too suggested that a number of leading edge technologies can be applied to simplify the compliance challenge. “This goes beyond blockchain,” he said. “We are thinking about how cloud could be utilised by firms for communicating with the regulator, how machine learning can be applied to identify risks, and how APIs can be used to help customers switch bank accounts.”

David Rutter, Founder and CEO of R3, highlighted how together a range of technologies can be exploited to minimise the compliance burden and bring benefits industry wide. “It’s really a confluence of technologies which includes big data, cloud computing, artificial intelligence and some really cool cryptographic maths inspired by bitcoin, which is allowing us to reconsider how we do a lot of human-based, redundant activities. That’s what regtech is for us,” he said. “It’ll be much more efficient, and five years from now banks’ compliance departments will be smaller and less expensive - and that’s exciting for all of us.”

Collaboration between banks and regtechs is certainly the way to go, suggested Mathieu Maurier, Global Head of Sales and Relationship Management, Societe Generale Securities Services, speaking to Finextra. “Regtechs are helping organisations to turn data from big data to smart data, and to meet their regulatory requirements,” he said. “Firms have huge regulatory constraints, and are dealing with a lot of data. If you look at the business of a global custodian we are performing depository functions and fund accounting functions, and those functions are being in a nutshell constrained by a lot of new regulation. Fintechs and regtechs are there to help us move from big data to smart data, and to be more nimble and more agile.

“There’s definitely a huge space for global organisations to partner with fintechs and regtechs in order to be more compliant with the rules. There’s a paradoxical situation whereby the more data you have, the higher the risk of breaching compliance is. Strong co-operation between large global firms and regulatory technology firms is definitely the way forward,” Maurier concluded.
KEY TAKEAWAY #3:

Blockchain is STILL a buzzword and the subject of hype, but the technology is maturing and the industry has made progress in determining its applications and in beginning to prove its value.

HIGHLIGHTS:

– Blockchain is still more talked about than used but despite some fatigue, the excitement remains
– Use cases are coming thick and fast and will help drive adoption ‘niche by niche’
– Collaboration will be critical to bring blockchain potential to fruition

Much of the surprisingly loud noise about blockchain (or distributed ledger technology) at Sibos in Singapore last year was ‘unofficial’ – chat around the exhibition hall and on the fringes of the conference rather than on the main stages. In Geneva, it was mentioned frequently during the official conference, reflecting the journey towards the mainstream that this technology has taken during the intervening year.

Blockchain even made it into the speech of the local dignitary delivering the opening keynote of the event – Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank. His measured words reflected the calmer approach to the technology that was in evidence throughout Sibos 2016. Considering the potential role of blockchain in the market infrastructure context, he said: “The conventional centralised model market infrastructures are built on is already low cost and meets high safety standards and improvements are being made all the time. Distributed ledger technology meanwhile has yet to prove it can outperform the existing set-up with respect to safety and efficiency. Having said this there may be some scope for deploying distributed ledger in certain complex financial market functions or infrastructures.”

Thomas Zeeb, Chief Executive Office, SIX Securities, told Finextra he had observed a distinct evolution in the industry’s thinking about blockchain. “Last year there was a huge amount of hype and a lot of talk about blockchain taking out 95% of back
office costs and so on. I think over the past 12 months there’s been more of a sober review, looking at where there are real benefits and perhaps not putting the solution ahead of the analysis of the problems but looking at it from a business perspective and saying is there a solution we can use the technology and the approach for? That’s a fairly significant move forward and I think this discussion is on a more balanced basis now than it was a year ago.”

There was still a lot of excitement at Sibos about blockchain - Ginni Rometty, Chairman, President and Chief Executive Officer of IBM, whipped up a good deal of it during her session at the event, when she said that “blockchain will do for transactions what the internet did for information” – and rightly so, given the value it will bring in terms of process simplification and attendant cost reductions, as Falk Rieker, Global Vice President, Global IBU Head of Banking, SAP, pointed out. “Regardless of what you think about blockchain, the last 12 months have been pretty amazing,” he said. “We have seen a record number of companies focusing on blockchain. We have seen a record amount of investment in blockchain firms. We have seen almost every bank doing some sort of blockchain activity. Everyone is clear the technology is too important to ignore.”

Gautam Jain, Global Head, Digitisation & Client Access, Transaction Banking, Standard Chartered, agreed. “Blockchain is a huge enabler and what it can make better is some of the business models that have existed in the industry for quite some time. Using this really exciting technology banks like ours have started thinking, what are the really interesting client propositions we can bring to the market to help our clients do business in a much easier way?”

Some of these use cases are very well known now – trade finance, securities post-trade, cross-border payments, syndicated lending, KYC – but others emerged in Geneva as well. Sounding the familiar note of caution – “distributed ledger technology is pretty nascent... we’re probably at the peak of over-inflated expectation about what blockchain can or cannot do...” – Cian Burke, Global Head of Securities Services, HSBC, nevertheless said, “I do think there are some clear opportunities”, among them various aspects of reference data. “In areas such as gold clearing and OTC clearing, activities which are very paper intensive, the opportunity
So, there was obviously (again) a lot of #blockchain chatter #Sibos; but, mostly, it was more anchored in reality this time around #progress

Bankers, what was the hottest topic at SIBOS? IF it wasn't Blockchain; it was right up there.

Too Many Cooks Will Spoil #blockchain Broth, Says @setl_io chief #Sibos

Blockchain is truly rocking the financial world. It's become the main topic at #Sibos.

“Fail fast and fail cheap”... not a heavy rock album by AC/DC but a view on #blockchain: @KatieKinnear Sep 29

Blockchain: Where will we be in a year? @obussmann predicts momentum, “snowball effect” & use across multiple industries #Innotribe #Sibos

“There are a lot of hurdles that we need to go through before industry adoption of #blockchain can occur” – John Ahearn, @ Citib Sibos

Is blockchain a fast lane? @BBHNewYork McGovern sees more of ‘a bus lane under construction – how many will get on?’ #Securities #Sibos

to leverage blockchain and that one, immutable version of the truth, will have huge value,” he continued. “We are also doing a lot of work with asset managers around using the technology as a data backbone to bridge the airgaps between us as a securities services provider and them as asset managers.”

Speaking during the Sibos session, Blockchain 2020: What next for adoption by the financial industry?, Philippe Denis, Chief Digital Officer, BNP Paribas, talked about his bank’s work with blockchain to support equity crowd funding and crowd lending businesses. Speaking to Finextra, Philippe Ruault, Chief Innovation and Digital Officer, BNP Paribas Securities Services, emphasised the need “to apply blockchain in specific niche areas where we have client demand”. So far, this has translated into a use case in private equities, supporting a number of corporate clients to maintain their register of securities on the blockchain, he said.

The work by individual banks on use cases is a critical part of the evolution towards wide-scale adoption, Ruault said. “I think there will be a long-term implementation of blockchains in co-operation between banks, but in the short term it has to be focused on niche areas where there is a real problem to solve, whether it be private stocks or diamonds or gold, for instance, where I see a few companies now applying blockchain in these very specific topics.”
Justin Chapman, Senior Vice President, Global Head of Market Advocacy & Innovation Research, Northern Trust, made a similar observation during the Blockchain 2020 session. “What we tried to do was not boil the whole ocean,” he said. “Am I looking at fixed income and equity positions globally? Probably not. The technology is not mature enough and the volumes and the number of players you would have to get involved would be a challenge. So we have particularly tried to look at activities where we could get together with a smaller number of organisations and focus on creating that smaller ecosystem – value propositions that can be contained, highly manual processes within the value chain, where use of blockchain can be managed, proved and piloted, and run in parallel to existing processes.”

Panellists in this session agreed that adoption will go “niche by niche”, with implementation for wide-scale use, led potentially by market infrastructures, taking at least 36 months. This session also surfaced a point made elsewhere – that collaboration will be essential for blockchain to reach its full potential in the financial services industry. Vivek Ramachandran, Global Trade & Receivables Finance, HSBC, said: “Live examples are going to be important – but collaboration is going to be key. All of us need to work together because having multiple ecosystems that don’t talk to each other is the sure fire way to make the system fail. We need to come together, figure out the four, five or 10 big industry painpoints, which will transform things, and work on those together, and I think the onus is also on the consortia – Hyperledger, R3 et cetera – to work together as well in that context.”

Rieker at SAP echoed this call for collaboration. “From our experience, the best approach for blockchain is to partner. I certainly see stronger collaboration in future and it’s refreshing to see the financial services industry getting together on this issue. This collaboration is happening not only between the banks, it’s also happening between the banks and their vendors.”

Ruault highlighted the question mark over whether the regulators will sanction wide-scale use of blockchain to underpin critical market infrastructure. This regulatory aspect was discussed extensively during the Blockchain 2020 session, which also drilled down into some other key questions still to be answered, including which features of blockchain – immutability, confidentiality, permissionless – will really be appropriate for financial services use.

Though this may not be exploiting the technology at its purest, Chapman was absolutely clear that in this industry, blockchains will have to be permissioned. “Even in a permissioned environment, we have a challenge creating a governance structure with the appropriate permissions, with the appropriate keys, that reflects the privacy laws in different jurisdictions, and the rules governing access to information across borders. If we try to do that in a permissionless environment we will not get the traction we need. We need a club – or a few different clubs that talk to each other in a pre-agreed way.”
KEY TAKEAWAY #4:

Artificial intelligence is set to have a major impact on financial services and it and other leading edge and emerging technologies demand attention, experimentation and exploitation.

HIGHLIGHTS:

- AI and other technologies forming part of cognitive computing promise greater efficiency, easier compliance and competitive edge
- To leverage these innovations banks need to optimise their core systems
- These emerging technologies are more powerful together than separately, and in the ecosystem rather than individual banks alone

Rometty: Ultimate competitive advantage for banks will come from cognitive computing

Sibos has historically been a business-focused conference – the debate quite consciously driven around business issues and avoiding the minutiae of technology. By contrast, the technology conversation at Sibos 2016 took centre stage. Certain innovations rose to the surface, chief among them artificial intelligence (AI, variously referred to as machine learning and cognitive computing), demonstrating both that blockchain is not the only game in town, and that the industry has recognised the power of these technologies to underpin further digital transformation.

During her plenary address on Cognitive Business and the Future of Financial Services, Ginni Rometty, Chairman, President and Chief Executive Officer of IBM, told delegates that technology and regulation are driving an era of “unprecedented change”. Grouping AI, machine learning, big data and blockchain together as a “cognitive business and technology model”, Rometty said “there is a moment of opportunity if you choose to seize it”, with these technologies offering the potential to reduce costs and improve opportunity spotting and compliance. The winners, she predicted, will be those businesses that are able to deploy these technologies effectively. “You will need some new technology to deal with all of the data that is out there in order to gain insights, comply and operate efficiently,” she said.
During the subsequent panel discussion, Sergio Ermotti, Group Chief Executive of UBS, urged delegates to embrace cognitive technology. “We shouldn’t be afraid of it,” he said. “We, as an industry, have legacy systems that cannot keep up with the rising amount of transactions and new regulations. No matter how good you are, you cannot catch up with that demand – you need help.”

Speaking at the Sibos Big Issue Debate on disruptive technology innovation, Sanoke Viswanathan, Chief Administration Officer and Interim Chief Information Officer for the Corporate and Investment Bank at JP Morgan, highlighted a number of critical technologies banks must harness to deliver on customer needs and reduce efficiency to compensate for shrinking margins. One is big data analytics. “At JP Morgan we have over 200 petabytes of data,” he said. “Just in the last 12 months we have literally doubled our big data nodes in the company, and that’s just the start. The important thing about data is not how much data there is or how we process it, but what we do with it, and we’re finding early glimmers of really exciting use cases. One example is using insights from our data to be able to predict and help our equity capital markets bankers have a better sense of targets for equity offerings. So the machines are able to come up with early indicators of here are the top 10 lists of companies you should be thinking about. This is increasing the bankers’ leverage and time to market with their ideas.”

Another exciting technology is robotics, he said. “We think there’s huge applicability of software bots across the banking system. We’ve applied them in a number of spaces and we’ve found it very helpful in taking a lot of automated repetitive tasks off the humans and doing them in a systematic way in the background. They’re very reliable if you programme them correctly. We’re applying these in sales and research, and we are looking at applying them in various parts of operations. At the moment the kinds of bots we are working with are process automation bots – we’re taking an existing process that’s repetitive, manual and tedious. In the future there will be more and more machine learning built bots that will help us interact in a more intelligent way with our clients.”

“So will bankers be confronting robots and artificial intelligence? Yes. Definitely. Should we fear this? No. We should embrace the change and get empowered with these new AI technologies. Leave the robos to do the dirty stuff, and we can concentrate on the human part of our job.”

Alexandre Gaillard, CEO and Founder, Invest Glass
AI was certainly widely discussed at Sibos. Alexandre Gaillard, CEO and Founder of Invest Glass, described it as the “open door – or maybe the closing door – of the knowledge economy”. “So will bankers be confronting robots and artificial intelligence? Yes. Definitely. Should we fear this? No. We should embrace the change and get empowered with these new AI technologies. Leave the robos to do the dirty stuff and we can concentrate on the human part of our job.”

Cian Burke, Global Head of Securities Services, HSBC, echoed the importance of data. “As a global financial services organisation we have access to a huge array of very complex, diverse data, so tools that can help us harvest that data and provide some of the complex analytical computation over it are giving us an opportunity as a securities services provider to add value to our clients,” he said. “Data, data analytics and big data technologies are relatively well-evolved, and we are having lots of meaningful conversations around how to use that data to provide real insight and value to our clients.”

Another technology with great potential is biometrics, Burke added. “If you think about the end to end processes that we run, there are various stages along that evolution where we are requiring authentication of instructions, whether that’s by wet signature or digital encryption – and I think increasingly the concept of biometrics to authenticate instructions is something which could actually evolve and become really important to our industry.”

That said, the challenge of adopting these bleeding edge technologies should not be underestimated, and there are some prerequisites. As Andy Hirst, Vice President, Banking Solutions, SAP, pointed out: “The technology has a very wide scope from predictive analytics to AI to cognitive computing so banks have to work out where they are on that maturity curve and work with the pieces that are going to help them along that particular journey.” Banks also need a real-time data platform to exploit this technology, Hirst added. Mike Blalock, General Manager – Financial Services Industry, Intel, agreed. “You need an agile, scalable, open architecture, optimised for data to deliver innovation and new value and services to your customer.”
It was clear from the technology discussions during Sibos 2016 that these innovations are really powerful in concert rather than singly. “The trick is not to look at all these things in isolation but at how they are going to work together in tandem and in harmony to create something which we didn’t have the ability to do previously,” said Gautam Jain, Global Head, Digitisation & Client Access, Transaction Banking, Standard Chartered.

In addition, the potential of these technologies is inextricably linked with the rise of fintechs and with the need for banks to collaborate with them to maximise the benefit of these innovations. Stephanie Wolf, Head of Americas Financial Institutions Treasury Sales, Bank of America Merrill Lynch, highlighted the importance of collaboration. “Fintech for me and for most of my peers and clients means I have a partner, a partner who is going to help me deliver products and services more quickly, more efficiently and at a lower cost to me and therefore at a lower cost to my clients.”
KEY TAKEAWAY #5:

Customer experience is key: consumer expectations are shaping corporate demands, and banks must break down the silos and collaborate to deliver relevant, meaningful innovation to their clients.

HIGHLIGHTS:

- Corporates want experiences to match those they are used to in their personal digital lives
- Banks need to listen to and work more deeply with their corporates to determine their needs
- Organisational and cultural change – and partnering with fintechs – essential to optimise customer experience

Sibos 2016 marked 20 years of Swift for corporates, and the Sibos organisers this year gave corporates the floor a number of times to address the question of whether their banks are doing enough for them. The upshot was that in many areas they are not, and the message came over strongly that often the banks need to do a better job of the basics. For example, John Marshall, Director, Bank Strategy & Solutions, GE, told a session on why Banks should stop differentiating non-competitive services that despite the number of its 65 banks that have implemented solutions like Swift, many “still insist on us logging into a portal to pull down statements”. “This is a manual exercise – so it is not helping us,” he told delegates.

Furthermore, he suggested, innovation can be a distraction from getting the basics right. “Frankly, I don’t want to hear another virtual account pitch, or about another auto-reconciliation tool. Just use Field 61 in MT940 and our systems can handle that,” he said.

The good news is that the banks clearly recognise the need to both make sure innovation is relevant, and that they are putting the customer and the customer’s experience at the heart of it. As Sean Gilchrist, Managing Director, Commercial Digital, Lloyds Bank, told Finextra: “The biggest thing to focus on is the client. There’s some fantastic technology and new propositions out there but if we’re not lining it up to what clients want then we are missing a trick, and there are lots of examples of technology that have come out and are not going anywhere because they have not been meeting a client need at that point in time.”
Banks are being forced to rethink client experience for their corporate customers in part because of the revolution in client experience in the consumer world. “Retail is quite a few generations ahead experientially from what corporate customers are expecting – and payments are now going to be forced to catch up,” said Dan Marovitz, President of Europe at Earthport. “The experiential chasm between buying a digital good and the expectation that the payment will come when it comes – that no longer really works. That is the pressure point. It’s the experience of the internet, it’s the set of expectations that are set by the internet – and really that retail consumer experience – which are going to drive the payments industry to modernise at a pace that hasn’t really been seen before.”

Erik Zingmark, Co-Head of Transaction Banking, Nordea, also highlighted the influence of the consumer customer experience. “Digitalisation is creating a market place where customers’ needs are changing,” he said. “They are expecting omni-channel, 24x7, richer information, simpler solutions, and the way banks need to respond is first of all to listen to the customers – not only the corporate customers and financial institutions but the consumers, because the consumers have a very strong position in deciding next generation technology. To listen and to collaborate is very important for banks.”

The influence of consumer experiences notwithstanding, another challenge for banks in the corporate banking space is that corporates’ needs are different from consumer needs – and differ from corporate to corporate, as Ebru Pakcan, Head of Global Payments for the Treasury and Trade Solutions business at Citi, pointed out. “Many corporates place a lot of value on information because they need to pass it back to their customers and suppliers and counterparties, so one could argue that the speed at which payments are done is often not as important for the corporation, and information might be much more important,” she said. “By the same token when it comes to charges, transparency is often a more important phenomenon for corporations than the pure or absolute charge. Therefore, what is very important is to be able to understand what the customers’ true needs are, and being able to innovate around that end to end proposition rather than just trying to do a cookie cutter solution.”
WHAT THEY WERE SAYING ON TWITTER...

Closing @Innotribe @Sibos with @rushkoff “business that makes your customer poorer is bad business”

Core Data is universal; the secret lies in knowing what the customer wants and is doing in real-time #DataManagement, #SIBOS

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“Banks need to focus on creating customer value first” – Philip Bruno @McKinsey #Sibos

Live #sibos #Instant #Payment become inevitable in the #realtime world: it’s a customer expectation @TomLambrecht7 @laurenthupet @Sibos

“Have the customer’s voice at the table, then truly hear it” @MQMcLane on moving beyond #diversity and focusing on #inclusiveness #Sibos

‘The contextual bank is one with the interaction at its core—not just the payment. Why does my customer want to move money?’ @herberr #sibos

Preparing digital transformation?, understanding banks’ customer behaviour more critical than ever @dellservices @sibos #Sibos #DoMoreFSIT

Discovering those true needs will require a deeper relationship between bank and corporate, suggested Kevin Brown, Independent Non-Executive Director and Senior Advisor Global Payments. “Banks need to start working very closely with their corporates — not just at the corporate treasurer level, but starting to work with the heads of digital in the corporates that they support, because banks are not yet identifying all of the areas of friction that might exist in the corporates’ business that they are supporting.”

The key will be to move from transaction oriented relationships to value added relationships, said Laurence Leyden, General Manager, Financial Services, EMEA, SAP. “Currently there are a lot of silos within the corporate banking environment, and what we need to do is work out how we bring those various silos together,” he said. “One interesting element if you focus on how banks meet customer needs is that it is often ending up in a product sale, and what the customers really want to know is how banks can add value to them. How can banks bring together all of those elements into much more of a smooth value chain, focusing on aspects like the future development of the company and how the bank can help it grow and flourish, as opposed to just selling the next product?”
Digitalisation needs to eliminate silos in order that banks can deliver what customers want at the point they want to consume it, he continued. “We are also moving into a world that is much more connected, and where relationships will be much more fluid, and there will be a need to look at how that is protected. There’ll be a much stronger focus on identity, delegated authorities, the efficacy of those transaction elements. Moving into a real-time world will require banks to look at the overall end-to-end provision of service and drive a lot of banks to look at their core systems and at how the business network can come together.”

In addition to the technology element, creating optimal customer experiences in the digital context also requires cultural change – which, according to Sanoke Viswanathan, Chief Administration Officer and Interim Chief Information Officer for the Corporate and Investment Bank at JP Morgan, is happening. “What I see now when I talk about new technologies, when there is a discussion in product development about offering something new to a client, is that the discussion has moved on from ‘oh, that’s not the way we do business, it’s too hard to achieve’, to a discussion which is more around, ‘that’s interesting, I really want to know more, how are we going to balance this with everything else we are doing’? The dialogue is totally different, and that’s in itself a huge change culturally,” he told delegates.

The silos are also breaking down, he suggested. “I am also noticing the hard silos between the front, middle and back office – that these terminologies are disappearing. The underlying theme dominating the conversations here this week has been technology. Technology historically wasn’t seen as the business opportunity, but it is now. And that’s exciting to me as well. For too long we have been in an industry where the silos are too strong and collaboration has been almost like a Herculean act. It takes a lot of effort to pull it together. But the fact that it’s beginning to happen now is very exciting.”

The need to deliver optimal customer experience is also another driver for collaboration between banks and fintechs. This is partly about taking “advantage of each other’s strengths”, as Diane Reyes, Global Head of Payments & Cash Management at HSBC, put it. “The fintechs are agile, they have great development capability, and great speed to market, and the banks are very knowledgeable, have a great customer footprint, and have huge market presence, and – very important – our compliance and regulatory expertise,” she told Finextra.

It is also a reflection of the cultural and organisational change being fostered by digitalisation, suggested Viswanathan. “The boundaries between what happens inside a bank and what happens outside are shifting. It’s facilitated by APIs, the cloud, distributed ledgers and so on, but it’s really interesting to see that when it comes to delivering a service to a client, we are beginning to become more and more agnostic about whether we are manufacturing and delivering it or are we just sourcing it from someone else who is a better provider of it. When that comes together, we are going to see some really exciting outcomes for the clients,” he said.
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