

Financial IT

Innovations in FinTech

ECOSYSTEM BANKING TO HELP SMES BOUNCE BACK

Anders la Cour,
Co-founder and Chief Executive
Officer, Banking Circle

HOW BIONICIDS HELP BANKS CUT OFF ONLINE BANKING FRAUD AT THE SOURCE

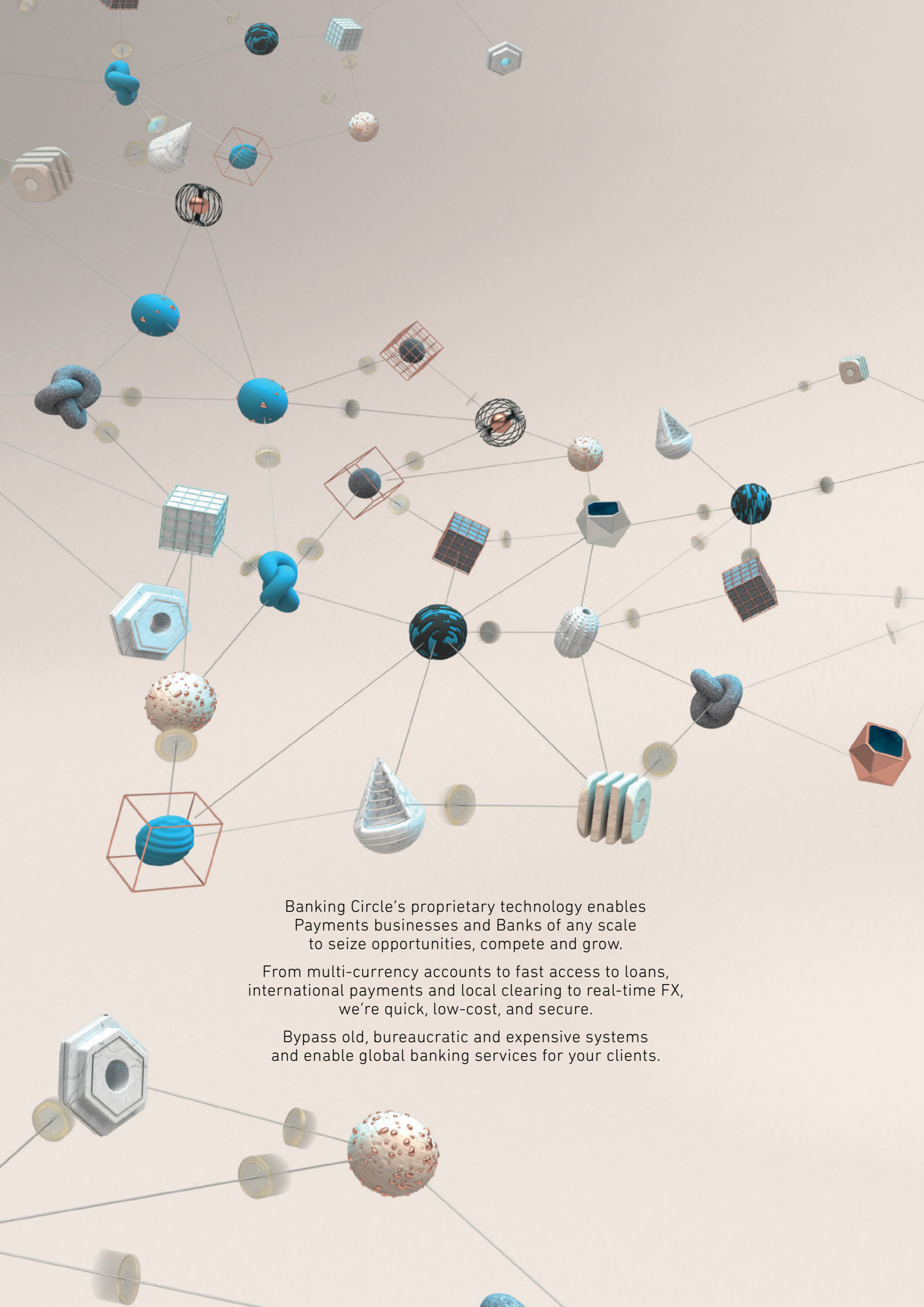
Tim Ayling,
VP EMEA, buguroo

THE NEXT GENERATION OF PAYMENT TECHNOLOGY IS HERE, AND IT IS NOW!

Premnath Balakrishnan,
Director – Technology,
ITS Group

Graham Bright,
Compliance and Operations,
Euro Exim Bank Ltd

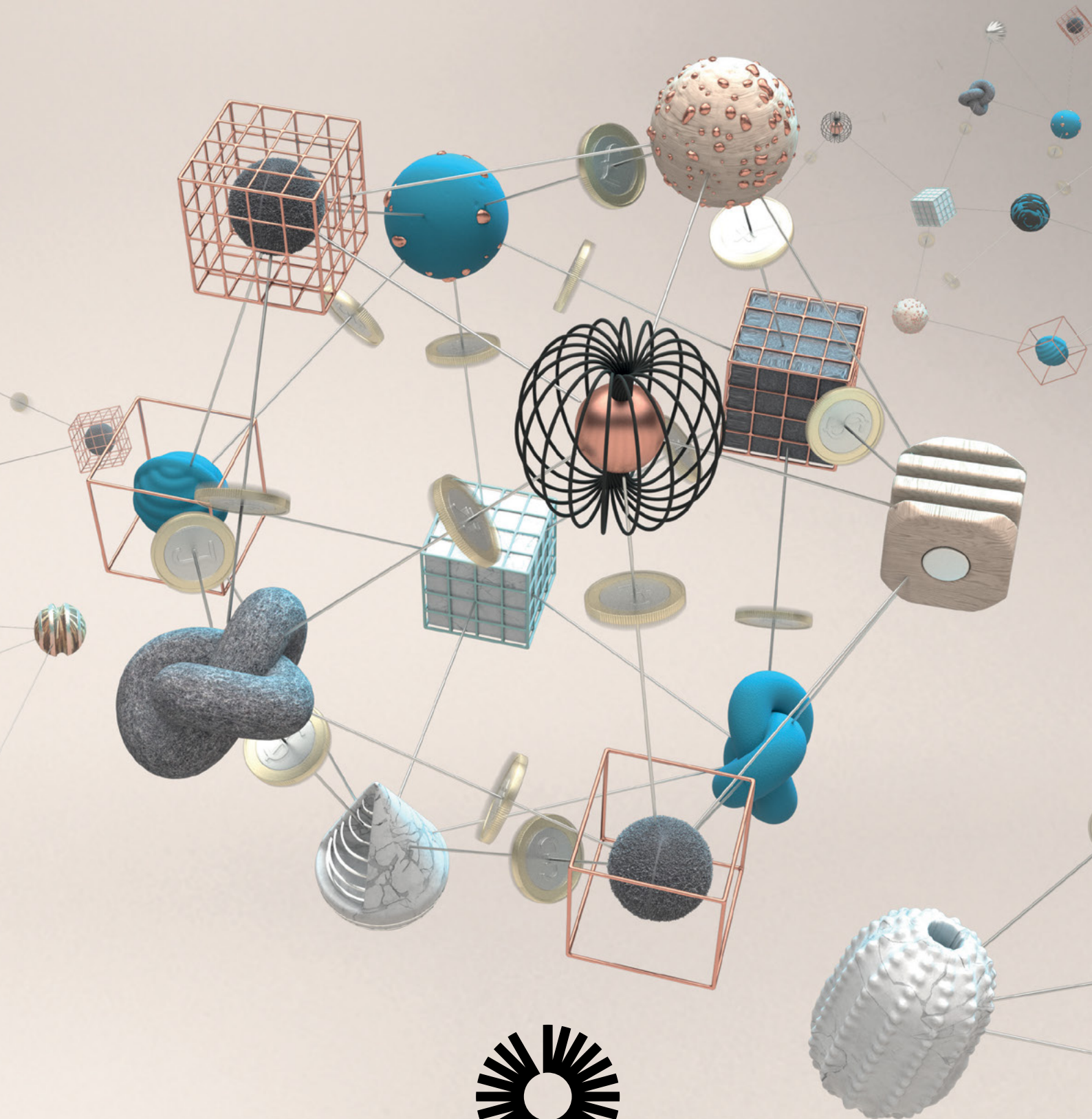
RIPPLE AND THE TRADE FINANCE REVOLUTION



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THREE BIG CALLS FOR 2021



Andrew Hutchings,
Editor-In-Chief, Financial IT

At the intersection of financial services and technology, not all the opportunities are in the spotlight all the time. The same is true of the challenges. In 2016, for instance, numerous contributors to Financial IT were excited about the potential for blockchain. Back then, other observers were worried about the erosion of correspondent banking relationships in many emerging markets.

Blockchain back in the spotlight

Neither blockchain nor correspondent banking were much discussed by our contributors through 2018, 2019 and 2020. In this edition of Financial IT, however, a lead contributor explains how his organisation – a specialist bank – is working with Ripple's Network to provide digital trade finance solutions to importers and exporters (mainly) in emerging markets. A crucial feature of the trade finance services is that counter-parties' local currencies are converted into/out of Ripple's XRP crypto-currency.

This arrangement solves two problems. The liquidity in the market for XRP

is enormous, with the result that the currency conversions are cheap and easy: in conventional foreign exchange markets, by contrast, it is often expensive and difficult to convert a currency into or out of US dollars. Secondly, payments relating to international trade have traditionally required access to correspondent banks. However, risk management (including Know Your Client – KYC) issues have caused many international banks to cut relationships with banks in emerging markets. Ripple's Network essentially performs many of the roles that would otherwise have been carried out by correspondent banks.

For the world's exporters and importers, 2021 will be a very different year to 2020. In some countries (such as India), governments are actively promoting local manufacturers. To the extent that those manufacturers are sourcing from or selling to other countries, this will have an impact on the patterns of global trade. In any case, volumes will be rising as the global economy recovers from the disruption relating to the Covid-19 pandemic. ***One of the big calls – or predictions – that we confidently make for 2021 is that***

CHANGING TRADE PATTERNS, CHANGED EMPLOYMENT PATTERNS AND SOARING FINES FROM REGULATORS ARE BIG LEGACIES FROM 2020.

blockchain will play a much more important role than previously in payments and finance supporting global trade.

Virtually free and instant foreign currency payments

In the Sibos 2020 edition of Financial IT, we discussed (among other things) why remote working will remain the norm. We reasoned that any loss of efficiency from not having employees in the same location will be more than offset by the benefits to the employer of the employees' providing office space for free. In this edition, one of our contributors highlights how 46% of financial services companies are using hybrid cloud technology (i.e. allowing the transfer of data between private and public clouds) to support remote working by employees and contractors. Employers have recognised that remote working is here to stay.

Some of the remote workers will be based in different countries to their employer and will need to be paid in foreign currencies. This edition of Financial IT includes a discussion of P27: due to go active in the coming year, this is an initiative in the

Nordic countries which will be the world's first real-time, cross-border and multi-currency payments platform. ***Our second big call is that the surge in cross-border remote working will inspire similar initiatives in other parts of the world: instant and cheap B2C and C2C payments will become much more common in 2021.***

RegTech to the fore

In this edition, one of our contributors discusses the soaring costs for financial institutions of non-compliance with KYC and Anti-Money Laundering/ Combating the Finance of Terrorism (AML/CFT) rules. In Europe alone, fines increased from EUR378mn in 2019 to EUR650mn in 2020. These expenses are in addition to losses associated with cyber-crime – a topic covered by another of our contributors. The growth of expenses associated with cyber-security breaches of all kinds is unsustainable. ***Our third big call for 2021 is that technology will make it much easier for financial institutions to know for certain whom they are really dealing with.***

We wish all readers and contributors a prosperous New Year.

Financial IT Innovations in FinTech

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FACIAL RECOGNITION: WHO CAN IT BE NOW?

Who can it be knocking at my door? Go 'way, don't come 'round here no more. Who can it be now?

These 1981 lyrics of Men at Work foretold the usage of Facial Recognition (FR) today.

The changes brought on by the great pandemic of COVID-19 have given governments a justifiable reason for the increase of CCTV cameras using FR technology. This has increased mass surveillance touching over half the global population. This is a keyway for monitoring people that is increasing every day. There are 110 countries that have publicly acknowledged their regular use of FR and only 3 countries where it is fully banned, Belgium, Morocco, and Luxemburg.

Facial recognition is technology that matches the human face from an image or video against a database of faces. FR is combined with Artificial Intelligence (AI), 3D Face Recovery (3DFR), Human Identification at Distance (HID), Thermal Facial Imagery (TFI), and Facial Emotion Recognition (FER) to make it more effective. Combining these technologies into algorithms is now common around the world to build huge biometric identification databases. Automated decision-making with FR can be used for predictive policing, credit decisions, and employment. FR can capture the identities of thousands even millions of people at any time.

The global FR market is estimated at \$7 billion on pace to increase almost 20% a year over the next 5 years. China will account for an estimated 45 percent of the facial recognition technology market. In 2017, China filed over 900 FR patents, compared to 96 by the U.S.

Facebook has its DeepFace and Google its FaceNet programs. Russia's Central Bank, in 2017, deployed countrywide a program to collect faces, voices, iris scans, and fingerprints. In the U.S., FR is legal in 45 states to identify people in public without consent. New York, California, Washington, Illinois, and Texas banned FR for commercial use. In India, the Aadhaar program accounts for 1.26 billion people. All Indian residents over 18, have their name, birth date, gender, address, photograph, fingerprints, and iris



*Chris Principe,
Publisher, Financial IT*

scans in Aadhaar. China has one FR camera installed for every 12 citizens. Since December 2019, China requires a facial scan for anyone seeking mobile phone services – about 850 million people.

To most, FR is an easy way to unlock your phone or pay for items. At the government level, FR is key to mass surveillance. FR allows the matching of billions of images that are screen scrapped every day from your social media and other websites, as well as driver's-license databases. Faceprint storage comes from everywhere you go - stores, gyms, parking lots, schools, travel, hotels, restaurants, food shopping, etc. Every picture you post can be used for FR surveillance. Better think twice about what you upload.

Delta Airlines use it for passenger check-in. Miami Airport will have FR for all international flights by 2021. Walmart uses FR for security, prevent shoplifting, and to proactively advert-target you. In Japan, FR is enabling a new kind of smartphone banking system letting bank customers use their faces instead of their bank cards speeding up transactions. FR is also used to identify important customers informing the bank manager to come and greet them personally.

Facial recognition can be deployed in almost every dimension of life, from banking and commerce to transportation and communications. FR can be used to send out "verbal warnings" if you are spotted doing something you should not. FR in new vehicles can tell when a driver is tired and take accident prevention actions like shutting off your car. FR can track employee productivity and behavior, including if you are not smiling enough.

Australia proposed using FR for age verification of people watching online porn. The government project called Lamppost-as-a-Platform (LaaP) will fit a camera on every lamppost in Singapore. In Moscow, they used over 100,000 FR cameras to monitor COVID-19 quarantine rules violators. Cracking down on crime worked in Brazil where FR found Interpol's second most wanted criminal. After hurricane Dorian, the Bahamas used FR to identify thousands of missing and displaced people. Israel uses FR to keep a close eye on Palestinians at 27 West Bank checkpoints. Turkey mounted FR on drones for border control and security. The city of Nice has the most FR cameras in France. In the U.A.E., police use discreet FR smart glasses to scan crowds with positive matches showing on their lens.

You have zero expectation of privacy in public. Anyone at any time can record you or take pictures of you. You are recorded on cameras everywhere you go without even knowing. FR can be used to watch, track, or analyze citizens - and even assign them a "social credit" score or calculate a "personal risk" score. Your insufficient scores may lead to arrest, quarantine, even denied employment or travel. Governments will be able to determine your location 24/7 tracking your actions and behavior. With COVID-19, governments have granted themselves all sorts of new powers. The impact on personal freedom will be long-lasting as the ripple effects of the global pandemic start to take shape.

All I wish is to be alone. Stay away, don't you invade my home. Who can it be now?

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Mainframe Modernisation Business Barometer Report

Exploring global trends in the mainframe market, the challenges facing organisations and the case for application modernisation among financial services organisations globally.

The Highlights

6% say it's essential to modernise legacy systems to meet regulatory and legislative demand

95% say there would be minor or no risks of non-compliance or security issues if they didn't modernise

60% say they face difficulty integrating legacy systems with modern technology

43% face challenges recruiting talent to maintain legacy systems

38% suffer reduced levels of customer service because of legacy systems

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of the report at:**

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DRIVING A HOLISTIC APPROACH TO OPERATIONAL RESILIENCE IN 2021 AND BEYOND

Businesses around the globe have been significantly impacted by the COVID-19 pandemic and the crisis has driven the need for modernisation and transformation in every sector. The “new normal” of business has revealed an urgent need for intelligent decision-making to help organisations make better, faster decisions that accelerate their business outcomes.

The banking and financial services sector is no exemption. Higher operating costs, changing customer expectations, evolving regulations and digitisation, were hurdles that banks were already working to overcome, but the Coronavirus crisis brought a new mix of challenges to the table.

The current landscape

Rapid digitisation coupled with COVID-related challenges has exposed critical operational resilience gaps across the banking sector and has challenged business continuity plans in a way that has never before been experienced. Leading to an increase in service outages at some of the world’s leading financial institutions and a mounting pressure for financial institutions to improve operational resilience or face the risk of long-term business impact.

These outages are not only leaving banks vulnerable to regulatory challenges and potential financial and reputational damage, they are reinforcing concern amongst bank customers that financial institutions could be doing more to stabilise their operations and services to not only overcome the uncertain times we have

faced, but to ensure they are safeguarded in the future.

These growing concerns among customers can negatively impact on customer expectations, which can lead to a decrease in customer satisfaction and result in a decrease in customer loyalty and retention.

Business continuity and COVID-19

The disruption caused to business continuity as a result of a pandemic is unlike those caused by other common causes such as natural disasters, infrastructure failures or cyber attacks which are relatively short in comparison. Operational disruptions caused by a pandemic can be prolonged, often lasting for weeks, months or longer and the impact is often far more widespread, and in the case of COVID-19 global.

As we have seen with COVID-19 the disruptions can also come in waves. Businesses and financial institutions around the world first experienced disruptions to business continuity and outages in March during the height of the first wave of the pandemic. Many continued to experience disruptions caused by changes to their processes, staff shortages and new ways of working and the second wave in the Autumn caused further disruption.

Challenges preventing digitisation plans

Recognising the need to adapt and accelerate digitisation plans to help them reduce outages and enhance customer satisfaction

Andrew Warren,
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Andrew Warren
Andrew Warren is Head of Banking & Financial Services and a member of the Executive team at Cognizant UK & Ireland. He leads a team responsible for driving results for Cognizant's Financial Services clients, from first idea to final outcome. He has 25 years' experience of driving profitable growth in both Corporate and Private Equity-backed businesses, serving clients across a range of sectors including Public Sector, Retail, Hospitality, Travel, Transport and, of course, Financial Services. Prior to Cognizant, Andrew held senior leadership roles at Vertex and Capgemini.

and drive customer loyalty, many banks and financial institutions have encountered issues that prohibit them from improving their operational resiliency. These include:

- Banks are often focussed on traditional activities such as business continuity planning (BCP) and disaster recovery (DR), and in the process neglect other business critical activities such as coordinating the way they manage an event response and the processes they use to identify and remediate the root cause.
- Typically, financial institutions and banks do not use robust business-centric measures for operational resiliency, such as a resiliency risk index or customer satisfaction impact index.
- Many banks have an inconsistent approach to how they enforce operational resiliency across the organisation. Rather than working as one integrated team that draws key individuals from business, operations and technology and across leadership and operation levels, they rely on separate teams that often operate with different playbooks that are not well aligned.
- A lack of access to real-time to operational data on areas including high-value transactions that are stuck, or client transactions which are being disrupted during an outage can affect their ability to make informed and strong decisions.
- Some banks and financial institutions are not particularly well organised when it comes to managing customer communications around outages.

Looking ahead to 2021 & beyond

Banks, and the financial services industry as a whole, must transform to build a stronger core with robust operational resilience to ensure they withstand future shocks, be self-sustainable to foresee and manage risks, reduce their dependencies, improve customer loyalty and drive the prioritisation of key activities.

Customer experience and customer centricity are vital for ensuring customer satisfaction and enhancing customer loyalty, the importance of both increases during times of disruption and must play a vital role when banks are building out their operational resilience and business continuity plans.

Traditionally, financial institutions take many different approaches to transformation, such as developing new platforms and partnering with fintechs. It is imperative that the partnerships between banks and fintechs

are built on trust and the banks must be sure that the association with their chosen partners will have a positive impact not only in helping them achieve their objectives but also on their reputation. Building trusted partnerships with fintechs can help enhance customer trust.

To ensure operational resilience in 2021 and beyond, it is imperative that banks adopt contingency measures that encompass business, operations and technology functions. These measures should include integrated and aligned response playbooks, support models and enhanced event management capability.

Following our work with leading global banks, Cognizant has developed a robust framework and tool kit to help banks drive a holistic approach to operational resilience that helps them simplify processes, achieve cost optimisation, reinvigorate their Net Promoter Score (NPS) and makes them more agile to new ways of working and the “new normal”.

Our framework consists of the following measures:

Operational resiliency starts with an integrated program

Preparation and adoption of an integrated contingency playbook that includes business, operations, fraud/cyber and technology is one of the most effective yet overlooked resiliency measures that can provide immediate gains.

An integrated response team prioritises key services, along with a set of scenarios, failure points and corresponding resiliency strategies, such as a response matrix for potential issues, decision trees to pursue different recovery options and a validated escalation tree with primary and back-up personnel.

Banks must modernise their digital telemetry capabilities

This helps instrument critical solution stacks with highly effective alerting and monitoring capabilities that can quickly pinpoint the outage root-cause and help accelerate the resolution. Equipping banks with the tools they need to overcome outage challenges and improve customer experience which will improve overall customer satisfaction.

Advanced process automation and real-time operational reporting

Access to an automated operational reporting dashboard that delivers real-time operational reporting is highly effective to the resiliency posture. Armed with this intelligence, banks can rapidly narrow their focus on a targeted set of impacted customers or transactions.

A robust event management process can streamline client engagement

For example, banks with wires operations can set up a war room to manage outages in wires services. We have helped clients set up such war rooms that adopt pre-defined process-overwrite- approvals, manual risk measurement models and wires-entry alternatives.

We have also helped prepare pre-defined communication templates and guidelines that banks can leverage to act quickly initiate customer updates for different scenarios based on issue root cause, time-to-recovery and cut-off times.

Strengthen DR & BCP readiness with additional due diligence

Banks should define decision frameworks to help teams assess and address potential component failover options during an outage. This can include inventory of DR set-up activities for application components, as well as details that include types of configuration, point of contacts, risks and mitigations.

Reassessment of partner capabilities can help fortify resiliency

Supplier contingency and resiliency evaluations can help banks assess and address concerns in areas such as change and incident management, technology and platform integration, SLA definitions and adherence, as well as communications.

Make better decisions faster

Banks need to consider applying objective measures such as NPS, a reflection of customer satisfaction, as well as a risk index, a reflection of frequency and length of outages as objective measures for resilience.

Adopting metrics that the entire organisation, including business, operations and technology, tracks on a monthly basis to measure progress against their different initiatives and objectives can help significantly boost resiliency.

Operational resilience will become the new imperative for banks. Banks will need to be better and faster in how they deploy and use digital technologies, including automation and Artificial Intelligence (AI), to ensure they achieve further cost and efficiency targets by streamlining their processes.

If they are to thrive in 2021 and beyond they must look at new ways to ensure operational resilience and how they can maintain their focus on the customer, drive customer satisfaction and improve customer loyalty and retention.



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ECOSYSTEM BANKING TO HELP SMES BOUNCE BACK

Despite representing a significant and potentially hugely profitable opportunity, SMEs today are still left in the cold when it comes to accessing affordable banking solutions. Whether it's bank accounts, cross border payments or business loans, SMEs face financial exclusion that leaves them unable to compete with bigger players. This limits their potential and hampers their growth. As SMEs play such an important role in economies around the world, this is having a negative impact across the board.

With the aim of exploring the challenges facing SMEs – and identifying the opportunities for the financial services sector to support a post-COVID SME bounce-back – Banking Circle commissioned a new white paper: [Bounce-back Banking: 5 markers for success in delivering SME financial services](#).

Of course, the difficulty for SMEs in accessing suitable and affordable banking, payments and lending solutions is

nothing new. The brightest and hungriest firms have, for many years, faced this challenge. But when you factor in a global pandemic that forced thousands of those businesses to shut down for weeks or months at a time bringing cashflow to a standstill overnight, and the picture grows bleaker still.

Out in the cold

With little cash left in the accounts and government support not always going far enough, SMEs need additional funding to pay rent, utility bills and payroll, not to mention ordering stock for anticipated customer demand. They also need cost-effective payment and foreign exchange services. However, unable to provide a long credit history or report consistent revenue, many SMEs find that their usual bank can't help, and they are left unable to gain access to the services they need.

Indeed, our latest research revealed a significant gap between SME needs and expectations, and the quality of advice and service they receive. Since new

regulations and tougher restrictions came into play after the last global recession, banks have found it more difficult to offer financial services to smaller businesses. And the wide range of business models, distribution and ambitions means no two firms are alike, making them more difficult for banks to serve.

There is no one-size-fits-all SME lending solution, and few banks have the flexibility or resources necessary to offer suitable solutions at affordable rates. Neither existing corporate nor retail-focused offerings are suitable, so SMEs are left out in the cold.

Today, though, banks are increasingly partnering with external providers to serve SMEs in new ways.

The Platform solution

As the Banking Circle white paper explains, money transfer companies like WorldFirst and TransferWise have grown rapidly by offering cheaper, faster transactions; start-ups like Prosper and Lending Club have also experienced rapid

growth for their lending solutions. But, as established institutions utilise their customer relationships, brand trust, liquidity and clearing capabilities to hit back by offering multi-currency accounts, these FinTechs have hit a speed-bump. Fewer customers are switching away from traditional banks.

The FinTechs, however, haven't sat back and accepted defeat. Far from it. Instead they have responded by reinventing themselves as platforms for banks to access on a 'white-label' basis. Examples include SME loan specialist Kabbage, now offering bank loan processing and access to non-traditional sources of underwriting data. Sandbox now offers banks the capacity to integrate third-party apps to enable faster, cheaper foreign exchange through bank customer channels. These are both examples of platform-based banking, giving banks access to the speed and lower cost of FinTech solutions so they can better serve SMEs while maintaining profitability.

Some European SMEs are turning away from banks in certain service areas, and more could follow. To remedy this situation, banks should think creatively about service provision, especially in areas like lending, credit and money transfer. Partnering with specialist providers in a platform or white label arrangement reduces cost and enables tailored services through existing banks' digital channels.

Preparing for the Bounce-back

When banks first started, market requirements were very different, and no one could have imagined the cross border, digital, international trading landscape in which we find ourselves today. The once-pioneering systems and in-house servers on which banks are built now present a significant challenge in deploying new software and applying best practices.

50% of banks told us in research conducted earlier this year that the move to digital services is a major challenge, yet two-thirds believe they are keeping pace with technological change. However, smaller companies are turning to alternative providers for faster, cheaper solutions – almost half (48%) of SMEs have looked elsewhere for banking solutions that better suit their needs.

A future-proofed vision

No single provider can successfully meet the diverse needs of the entire SME community. Ultimately, achieving total financial inclusion for SMEs requires a joined-up ecosystem, where various financial providers connect their solutions. Making these connections will be of vital importance to global economies as we look to recover from the worst health crisis in a century, and one of the biggest economic shocks in history.

Partnering with specialist providers within the financial ecosystem in a platform or white label arrangement reduces cost and enables tailored services through existing banks' digital channels. Our research found that 80% of retail banks and 74% of commercial banks have already worked with infrastructure providers.

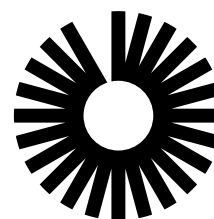
Financial infrastructure providers like Banking Circle are focused on developing the technology to process payments directly, and to integrate to a vast network of local clearing and payments schemes. Using decoupled architecture, we can easily update or replace individual pieces of architecture with limited impact on the rest – meaning we can quickly add more functionality and work within new geographies. This means we are uniquely placed to give banks and payment businesses the ability to provide their business customers with faster and cheaper cross border banking solutions.

As we all know, SMEs are vital – so much so that they are often referred to as 'the backbone of the economy', and rightly so. In the EU alone, there are more than 22.2 million SMEs in the nonfinancial business economy, making up over 99% of the region's businesses, accounting for 67% of EU employment and contributing more than half of all business turnover. But poor access to payments, lending and bank accounts is putting these precious businesses at serious risk – today more than ever before. Providers of all types need to make changes so they can serve smaller businesses better.

To find out more about how financial services providers can improve their service for SMEs, download the white paper here: [Bounce-back banking: 5 markers for success in delivering SME financial services](#)



Anders la Cour,
Co-founder and Chief Executive Officer,
Banking Circle



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RIPPLE AND THE TRADE FINANCE REVOLUTION

Interview with Graham Bright, Compliance and Operations at Euro Exim Bank Ltd

Financial IT: Please give us a brief history and overview of Euro Exim Bank.

Graham Bright: We were first registered in the UK in 2015 as a small payments institution. However, the competitive pressures meant that we needed to focus on our strength – which was, and is, trade finance. We realised that we needed a jurisdiction with a very strong regulator and that was politically and geographically close to key markets. This led us to St. Lucia in the Caribbean. The St. Lucia Financial Services Regulatory Authority (FSRA) is very highly regarded and collaborates closely with other regulators across the Eastern Caribbean Currency Union (ECCU) and CARICOM. Many of our key people are physically on the ground in St. Lucia. We have a representative office here in London and are looking to convert our affiliate office in India to a representative office. Singapore and Dubai are other cities where we are looking to establish representative offices.

In the last five years, we have seen exponential growth in staff, where the number of people working with the bank has risen from three to over 200. We assist corporates anywhere in the world who are looking to import goods or services.

Financial IT: What are the problems that Euro Exim Bank looks to solve?

Graham Bright: The financial eco-system which supports international trade is complex. When a small company in a developing country wants to import goods or services, it traditionally approaches its local bank. Meanwhile, the regulatory burden of the global banking industry – and

especially in relation to Anti-Money Laundering/ Countering the Finance of Terrorism (AML/CFT) issues continues to grow.

With de-risking and pressure on liquidity, many of the world's leading international banks have turned away from supporting smaller corporates in developing countries and, indeed, the local institutions which served them as correspondent banks in those countries.

We fill the gap. Relative to large banks, we have lower infrastructure/operating costs and closer relationships with our clients. We provide the financial instruments that enable smaller companies in developing countries to engage in international trade. Our offerings include Letters of Credit (LC), Standby Letters of Credit (SBLC), Bank Guarantees and Proofs of Funds. We also provide Advance Payment Guarantees and associated products. Our clients and their counter-parties are looking for greater security and certainty in an increasingly complicated environment. Put another way, the level of trust held by many traders in their counter-parties has been falling.

Financial IT: How and where do you do business?

Graham Bright: First of all, I would say that we are driven by ethical and ESG considerations. We do not facilitate any transactions that involve livestock or are in any way contrary to our CSR policies. As an example, agricultural products must be clearly from sustainable and ethical sources. Indeed, the majority of our business is from raw materials and manufactured goods.

Second, I'd note that most of the transactions involve multiple imports and exports through a series of developing countries. For instance, we might facilitate the shipment



Graham Bright JP

Graham Bright is Head – Compliance and Operations at Euro Exim Bank Ltd, an innovative financial institution specialising in Trade Finance – issuing and relaying LCs, SBLCs, Performance Bonds and Bank Guarantees facilitating global trade.

With a number of roles and more than 35 years (with 20 years at SWIFT) in the finance industry, his experience encompasses working collaboratively with industry utilities, regulators and Central Banks (CHAPS and Enquiry link projects), consulting, and partner/channels management. He holds a BA (Hons) degree in Business Studies, and is also a serving UK Justice of the Peace in Magistrates Court having sat on Criminal and Proceeds of Crime trials, and sits on Crown Court appeals.

Formerly Director of FSI Solutions and Strategy at EMC, he was financial SME with responsibility for paperless banking, compliance and risk solutions. Prior to EMC, he was Managing Director of Financial Tradeware, provider of broker and hedge funds trading systems.

Euro Exim Bank Ltd, has recently announced its participation with Ripple, for real-time payments, low liquidity requirements for FX transfers using XRP cryptocurrency, and embedding trade messages in Ripple instructions, providing new instruction delivery solutions for the industry.

Graham is a regular contributor to trade journals (GTR, TFR), with published thought leadership articles in financial technology press, and a speaker at international trade industry conferences such as SIBOS, GTR and Ripple Regional events.

of cotton from West Africa to Malaysia, where the cotton is turned into garments, and then the finished goods shipped from Malaysia to retailers in, say, the UK. In fact we see our role in facilitating the movement of goods between developing countries – in Latin America/ Caribbean, Africa, the Middle East – especially Dubai, India, South East Asia and China – as something where we really have a competitive edge. Of particular note are Dubai's excellent transportation infrastructure, strong business environment and physical proximity to the large populations of Europe, India and China: this is why we are looking to open a representative office there.

India is a key market for us, too. The government is keen to boost the local manufacturing sector, and to reduce dependence on imported goods. That means that, in the first instance, sophisticated equipment will have to be imported, and major investment in infrastructure and all its supporting services. Additionally, we are looking to help Indian exporters who are looking to sell products into developed countries.

Financial IT: What is your competitive edge?

Graham Bright: Relative to our competition, I'd say that we do things in a faster and better way – and we do them more cost effectively. Many banks that were previously competitive with us are pulling out of the trade sector. This has been bad news for a lot of correspondent banks, as well as for the smaller corporates who make up the bulk of our clientele.

In many cases, our clients – be they exporters or importers – have been operating in situations where they cannot cost effectively trade their local currency for the currency of the counter-party. Both sides have typically needed to exchange into/ out of US dollars. Frequently, one or both of the counter-parties have faced low liquidity in their respective financial markets, with the result that trade especially in low volume or value this was very difficult and/or expensive. This is the major problem that we seek to solve.

Financial IT: Great, so where does Ripple come into the picture?

Graham Bright: Participation with Ripple is what makes us different. Our solutions are based on our membership of Ripple's eco-system. Using the On-Demand Liquidity capabilities of RippleNet, our clients are able to switch into/out of their own currencies using Ripple's XRP crypto-currency as the underlying digital asset. The supply of/ demand for liquidity is effectively almost unlimited. The switches into/ out of XRP take place almost immediately, with the result that many of the risks associated with a traditional foreign currency transaction in a developing country are absent.

Our counter-parties are the trading companies who are our clients. We reach them through the currency corridors within Ripple's eco-system. In contrast to traditional providers of payment mechanisms cross-currency, there is no longer a reliance on traditional correspondent bank relationships, and even major banks are using Ripple's eco-system. We are also able to operate outside the SWIFT network.

Ripple has acknowledged that we are one of the first regulated banks to be actually a part of their eco-system. What is really important, though, is that messages that are sent to counter-parties through Ripple's network include fields of unlimited length. Within a Ripple message, we have the capability to

embed all the complex documentation associated with a trade finance transaction. Provided that our client agrees, we can automate the sending of the necessary documentation – an LC or whatever – to the client's counter-party at the time that the payment is made.

In other words, we are taking advantage of a dedicated, tried and tested platform, which is based on Blockchain distributed ledger technology. Of course, the potential for Ripple goes a long way beyond trade finance and the associated payments. Ultimately, the network may also carry the entire range and scope of financial messages. What is essential is that the counter-party understand the format(s) of the key message(s) that contain the supporting documentation.

Successful messaging networks depend on standardisation, rationalisation and re-useability. Ripple's distributed ledger -based system, in addition to its crypto-currency XRP, delivers all of these.

Financial IT: What are the key facets of your new Merchant Account Facility?

Graham Bright: We have been focusing exclusively on trade finance in the past. We don't offer loans, deposits, collateralisation, discounting of invoices and other services. What we have found is that our clients want to use new ways to pay us and their suppliers. That is why we set up the new Merchant Account Facility. The clients can use a credit card, M-Pesa and other digital means to make payment to us at any time. We charge fees on the basis of the size of the invoice that is being supported by a LC or other instrument. We are essentially a merchant that is selling trade finance services. Importantly, onboarding of clients to the Merchant Account Facility gives us the opportunity to carry out immediate payments, all supported by tight due diligence.

Financial IT: Taking a three year view, how do you envisage that the world of trade finance will change?

Graham Bright: Taking a three-year view, I'd say that we anticipate a revolution in trade finance. In particular, we expect greater usage of technology-based enablers. The use of Blockchain in identifying counter-parties, facilitating payments and exchange of documents is a good example. There should also be more standardisation and digital exchange of immutable, unchallenged documents. We will see fewer institutions involved with trade finance. Many of the existing players will either outsource to specialist organisations such as ourselves or leave the business altogether. Supply chains will also become more diversified. The 'Made In India' campaign and others like it in states exercising more nationalistic and isolationist stances will affect the source and destinations of global manufacturing. Particular African countries will benefit from changing demand for raw materials. More generally, we expect that sales of services through digital channels will also increase.

Within 12 months, we should see a reversal of the dip in global trade which was the result of the Covid-19 pandemic. It is very encouraging that China is already reporting record levels of imports and exports, and Brexit trade deals will reveal new partnerships. Never forget the potential for trade to boost sustainable growth, improve social welfare and reduce poverty. The revolution should produce many winners, with benefits for all.



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We facilitate trade finance through our extensive experience and electronic communication linking you to our comprehensive network of counterparts in Asia, Europe, the Middle East, Australasia and Latin America

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HOW BIONICIDS HELP BANKS CUT OFF ONLINE BANKING FRAUD AT THE SOURCE



Tim Ayling,
VP EMEA, buguroo

Financial institutions around the world have seen a rise in online banking fraud in recent years, as fraudsters continue to take advantage of readily available identity data, anonymising tools, bots and mules to steal from their unsuspecting victims. KPMG's 2019 [Global Banking Fraud Survey](#) reveals six in ten retail banks experienced increased fraud volumes and every second one registered an increase in fraud losses. Covid scams have given fresh impetus to these fraudsters, especially those targeting the [underbanked](#).

The cybercrime economy – potentially [worth as much](#) as \$1.5 trillion annually – boasts a vast underworld marketplace for stolen identities, compromised financial data and the tools and knowledge fraudsters need to succeed. It's a losing game for those financial institutions that spend their resources reacting to fraud and mitigating its consequences rather than building resilience to proactively and strategically block fraudsters from carrying out their operations in the first place.

The main weakness of traditional online banking fraud prevention strategies is that they are limited to static points in the user's journey within the bank system, such as when they set up an account, log in to the online banking platform or carry out the transaction. This approach does not only fail to provide continuous, passive authentication to legitimate customers throughout their entire online session, but also enables malicious actors who have previously infiltrated the bank's system to move around freely. These seemingly legitimate customer accounts hide dangerous criminals.

Building BionicIDs for career criminals

To move to a proactive footing, banks first need to identify these hidden actors through their behavioural biometric data such as

typing rhythm, mouse movements, finger size, clicking frequency and even the angle at which they hold their mobile device. Combining these user-specific biometric markers with other data such as geolocation, network intelligence and malware inspection, banks can build unique cyber profiles, or BionicIDs, for their customers. Any anomalies in the user's typical patterns of behaviour may suggest fraudulent activity. These include:

- Multiple individuals using the same infrastructure during the same timeframe may suggest an attacker is stealing from several victims at the same time
- One device with multiple unrelated accounts being accessed rapidly could be a sign of a bot testing stolen credentials
- One account tied to multiple BionicIDs could hide an attacker impersonating a legitimate account holder
- One BionicID tied to multiple accounts might mean an attacker is accessing multiple victim accounts

Since behavioural biometric analysis can be applied to every moment of the customer's online banking journey, fraud teams can continuously scan for anomalies and evaluate risk scores in real time. Modern fraud prevention, however, must and can go further than this. Powered by the right algorithms, this technology can be used proactively to reveal fraudulent activity, while providing intelligence to help block future attacks at the source. buguroo's unique capability Fraudster Hunter, performs link analysis on BionicIDs to help banks visualise the connections between users, devices, IP addresses and sessions, helping fraud teams uncover hidden relationships and discover the accounts being used to commit fraud as well as those at risk of it. This capability can be used to stop New Account Fraud (NAF), Account Takeover (ATO), and uncover money mule activity.

Zeroing in on fraudsters reveals the big picture

A granular approach to fraud detection can further help to discover systematic fraud campaigns and deter repeat offenders. For example, once fraudsters are revealed and blocked from accessing the bank's system or carrying out a transaction, fraud teams can create a bespoke rule so when the same user tries again, the bank can recognise them and automatically thwart their log in attempts. This is where Fraudster Hunter's latest capability Policy Manager comes in. By enabling fraud teams to create rules, banks can leverage automated and customisable fraud prevention strategies to suit their unique challenges.

Beyond blacklisting individual users, link analysis can be used to uncover larger networks of criminals, too. Take a single device which is found to be linked to multiple accounts and is being used by seemingly unrelated people. It's possible the same device is linked to other IP addresses, that are in turn linked to other devices and other accounts, and so on. Identifying a single suspicious connection, fraud teams can potentially reveal organised fraud rings, applying rules to automatically block them and even freeze entire networks of mule accounts.

This works the other way around, too, to reveal the real user behind fraudulent activity. With the ability to cross reference user BionicID information with customer data, banks can trace malicious activity back to individual actors and pinpoint the accounts they set up. Online fraudsters usually register an account with the bank prior to an attack in order to carry out detailed reconnaissance and work out the security features of the victim organisation. If the bank spots an

anomaly in the system, such as the same bionic profile appearing in several accounts, it may be able to identify the attacker's own – initially set up to conduct reconnaissance – and locate them.

Case in point: A network of over 400 mule accounts rendered powerless

One of Europe's top three biggest digital banks, with over 1.2 million clients and \$10 billion in customer assets, contacted buguroo to help detect what it suspected to be a large number of mule accounts. A cybercrime group had tricked consumers into buying products that didn't exist, directing them to pay into mule accounts with the bank. The lender was able to detect some fraudulent activity due to suspicious behaviour patterns but found it difficult to identify all the fraudsters.

Fraudster Hunter was able to profile the malicious actors through their behavioural biometrics, associated BionicIDs and geolocation information, before linking this activity to identify other fraudulently created accounts. In total, the bank uncovered a network of 425 mule accounts registered using stolen or synthetic identities. The bank was able to freeze these accounts and halt the campaign in real-time, notify the police to help with their investigation, and now has information to detect any future activity by these same fraudsters.

A strategic advantage for banks and the wider industry

When fraudulent actors leave dirty footprints in a bank's internal system, those marks are forever tied to their BionicIDs. And while individual cases won't always reveal fraud rings, they still generate a transaction risk score for the bank so it can take measures to mitigate fraud risk in a transparent and dynamic manner, swiftly stop new fraud schemes and maintain customer trust and brand reputation.

This capability is not limited to individual banks. The financial industry as a whole is caught up in a vicious cycle where cybercriminal gangs are fast-moving targets – they exploit a financial institution until they are discovered, at which point they move on to their next victim. Breaking this pattern requires the financial services industry to enhance global collaborative efforts and improved information sharing. While historically admitting fraud losses and sharing potentially sensitive proprietary information were seen as damaging to banks' own competitiveness, this no longer needs to be the case. Using BionicID data, banks don't have to give out personally identifiable information to aid industry-wide fraud detection efforts. What's more, BionicIDs can be applied in a range of scenarios outside of the online banking sphere, from e-commerce Card Not Present (CNP) transactions to policing account access across a range of online services.

Whatever the use case, BionicIDs are giving fraudsters a criminal record which is truly unshakeable.



AML Toolkits: Essential identity verification support for the digital economy

In September this year, the European Commission submitted its communication to the European Parliament on a digital finance strategy and the future of Anti-Money Laundering (AML) regulations. ‘The future of finance is digital’ was the Commission’s opening headline, a statement that truly reflects this year, with global expectations and demand for digital transactions rising exponentially.

The Commission and EU member states are in the midst of reviewing AML laws as well as other digital regulations, for example, the Union’s eIDAS Regulation for electronic identity and trust services. Such reviews and updates aim to better meet institutional risk while promoting innovations that serve and protect private and public digital services.

Protection for digital transactions

Indeed, digital technologies are key to transformative applications within the financial services sector, from digital payments, bank account transactions, to opening a new bank account remotely. As beneficiaries of these services, consumers

must be protected from the risks and threats that exist around these digital transactions. For nearly a decade, AML legislation has been influenced by assurance standards such as The G7’s Financial Action Task Force (FATF), whose focus is to protect the financial system from unrelenting criminal and terrorist activities.

Lawmakers have set the bar high with laws to ensure compliance, and they show little sign of easing expectations within various market sectors that fall under AML legislation. For financial institutions, that means they must not only fulfil strict compliance requirements, but they must also continually improve their due diligence requirements in a transparent manner.

Impact of failing AML compliance

The stakes are high and potentially costly for financial institutions, but this has expanded to other entities with the increased maturity of AML laws. AML scrutiny has grown to other sectors including payment institutions, crypto currencies, electronic wallet providers, real estate, gaming operators, art

dealers, insurance providers, as well as legal and accounting institutions.

However, what lawmakers and solution providers are finding is that organisations often do not devote sufficient resources to AML compliance.

For misses and lack of compliance, heavy fines are levied. Financial industry consultancy, Duff & Phelps reported that institutions paid EUR € 378 million (USD \$444 million) in fines for AML violations in 2019. However, with the speed at which the world has changed in response to Covid-19, that number swelled to nearly EUR € 650 million (USD \$706 million) between January and June 2020.

For financial institutions in particular, this reiterates the need for continuous improvement in order to conform to AML laws and avoid risk.

A digitised KYC process

A key priority for any discussion around the future of digital finance is the Know Your Customer (KYC) element. This must be at the top of any company’s risk management and AML ‘to do’ list.

The KYC process ensures that an institution's customers are genuine. It assesses and monitors risks and is an integral part of preventing and identifying money laundering, terrorist financing and other criminal activities such as identity fraud. The digitisation of KYC procedures has revolutionised an institution's mandate to verify and validate a customer's ID and biometric data within minutes, versus hours or days. Financial institutions operate in a world where risk mitigation provides institutions valuable metadata in near real time with the unique ability to tailor their relationships with customers. Though the task can be burdensome for banks, this ability to converse with customers can yield significant value.

Technological accuracy is critical

Accuracy in technology is vital to innovation, healthy competition, and tackling fraud. To build further trust in the financial services industry, among clients, users and regulators, it is vital that identity solution providers are disciplined in the way they engage in identification processes. In an industry projected to grow to EUR €12.5 billion (USD \$15 billion) by the year 2024[1], IDnow is confident of its place as one of the most reliable and secure solution providers in the KYC compliance sphere.

How IDnow is responding

As a leading European identity verification provider, IDnow is at the forefront of technology development and regulatory compliance. Its solutions meet the highest levels of security and fraud detection requirements within strictly regulated environments. With one of the world's most advanced identity-as-a-service platforms, IDnow can verify in near real time the identities of more than 4.3 billion people from 65 different countries.

As one of the first providers to offer legally secure video identification of customers and electronic signatures without additional hardware, IDnow's goal is to provide its customers with products that achieve the best in class solutions that are legally compliant and meet their security and conversion needs. The firm's confidence and success in delivering such results permitted it to move forward with its semi-automated and automated identification platforms.

IDnow's AutoIdent hybrid product continues to function at the highest assurance levels. As an automated ID verification process, the system incorporates Artificial Intelligence (AI) and Machine Learning (ML) – using biometric facial recognition and optical security feature verification, all while using dynamic video streaming. This process produces hundreds of images versus a single static image, while concluding with a human-based review to identify the user.

IDnow has witnessed relentless growth in fraudulent activity and increasing sophistication around it. Its team of experts constantly study and build effective analyses of cyber threats and counter measures to existing and potential attacks. It actively contributes to building stronger technical criteria in identity proofing standards, which ultimately can serve as a blueprint for more effective regulation.

Global Consultancy McKinsey estimates that two to five percent of annual global GDP (EUR €1.82 trillion or USD \$2 trillion) is fraudulent activity. In IDnow's experience operating at the highest levels of security, it is the most capable of meeting and even exceeding security requirements beyond a face-to-face identification. For example, 20% of fraud is detected via IDnow's identity fraud network. In required cases, IDnow includes a double check where an ident specialist is consulted. A double check that combines AI and ML technology with an agent, will greatly enhance the security and accuracy of our identification process[2].

Long-term technological evolution

The digital industry will continue to rapidly evolve to meet customer preferences – at the touch of a mobile app. Novel concepts to tackle the digital identity sector are now focusing on portable identities and even sovereign identities. As the picture takes shape, leading global technology companies and policy makers are exploring the move from national identity schemes to 'person-centric' identity schemes of Self Sovereign Identity (SSI).

This era marks a significant technological evolution and now that we have witnessed the effects of a global crisis, a greater reliance on remote identification methods will be all the more vital to ensure integrity in the AML process.



Rayissa Armata,
Head of Regulatory Affairs at IDnow

IDnow.

THE NEXT GENERATION OF PAYMENT TECHNOLOGY IS HERE, AND IT IS NOW!

The financial landscape is being transformed at a very rapid pace. More consumers are becoming tech-savvy and are demanding more sophisticated and easier banking experiences. Meanwhile, FinTech companies are developing newer products. They are the main change drivers within this dynamic industry.

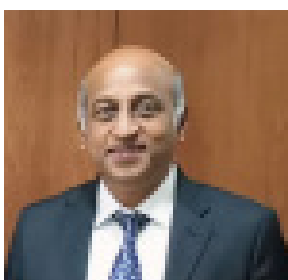
The current trends are driven by new and enhanced modes of communication such as contactless payments, biometric authentication, NFC payments, early payment settlements and so on. Contactless payments, in particular, got more attention in 2020 thanks to the Covid-19 Pandemic. ISO 20022 has emerged as the lingua franca for financial messaging: it provides an opportunity to simplify and evaluate payments platforms. Biometric technology has

moved from fingerprint to facial recognition and now to iris scanning. Further developments in biometrics will provide new opportunities.

The future of the global payments system is being shaped by newer technologies such as Blockchain, Machine Learning, IoT, Artificial Intelligence and Open Banking.

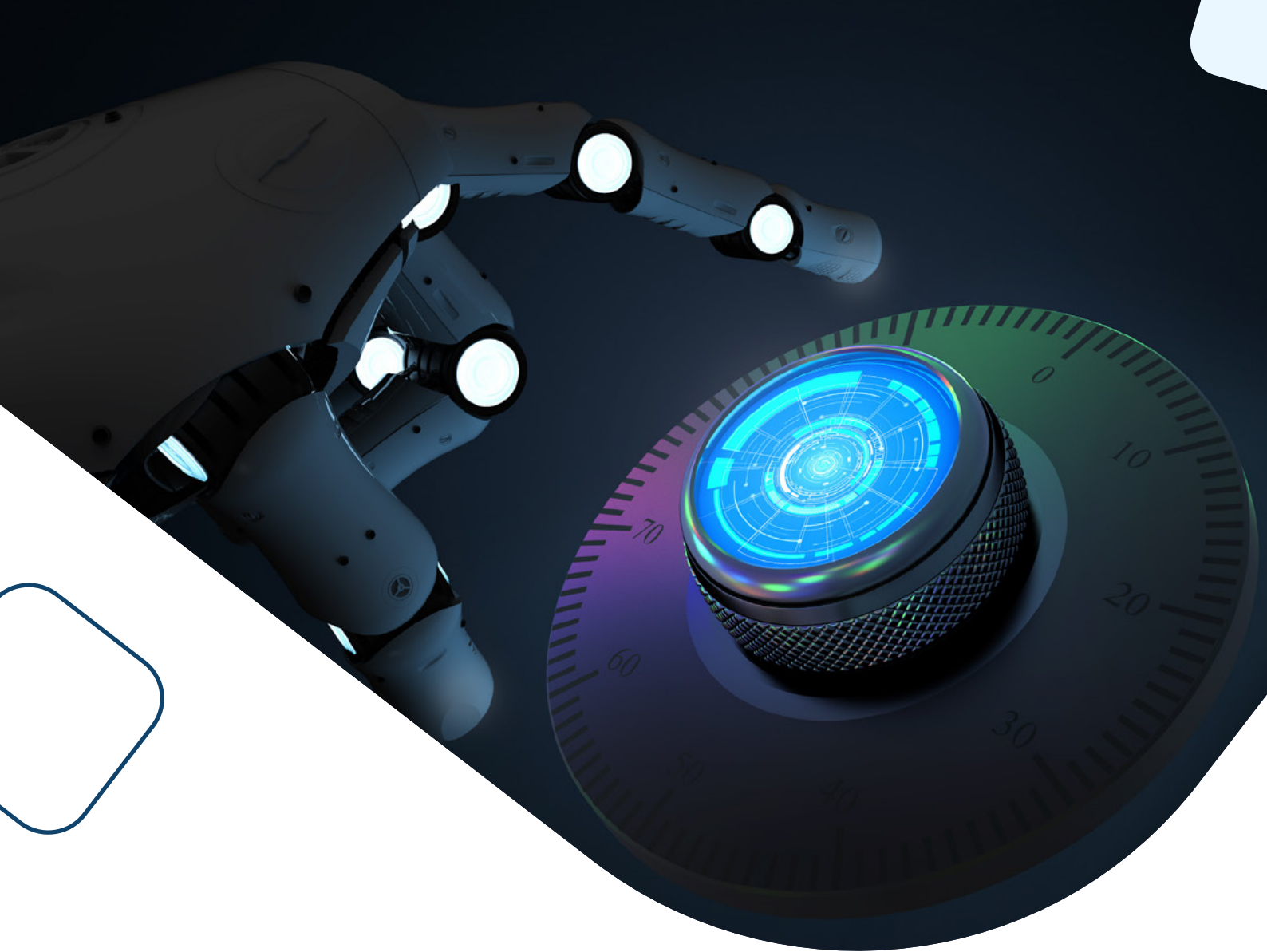
All these trends are evident in the Gulf and Africa. At ITS, we are developing robust payment solutions and enhancing capabilities by integrating with niche players.

Our focus is on payments and collections systems for financial services companies. These systems incorporate both national and international transfers. We are helping our customers to build robust and agile payment processing networks.



Premnath Balakrishnan,
Director – Technology, ITS Group





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THE THREE MAJOR AREAS BANKS CAN FOCUS FOR CORPORATE REAL TIME PAYMENT (RTP) USE CASES

There are three major areas on which banks can focus their attention for corporate RTP use cases: fraud screening, domestic payments, and cross-border payments.

The complexity of fraud monitoring for corporate payments is already more complicated than for consumer payments. This complexity will multiply in a real-time world, where data (both payments data and payments-related information) exchanges between parties within seconds. The volume of digital payments, and even more so associated data, will grow exponentially as real-time payment systems mature and new players have direct access to interbank infrastructures. In this environment, manual exceptions processing as practiced by banks and others today will not be sufficient. Banks will have to take risk-based judgements on using customer data and new technologies to automate Know Your Customer (KYC) processes and sanctions checks. ISO 20022 will play a key role in enabling analytics for banks, which can allow more automated KYC and sanctions checks, and more advanced insights into the KYC and fraud data flows. This last part is of crucial importance for corporates, as a recent survey from Strategic Treasurer found

that over half of all corporate respondents experienced fraud in the last year.

Banks and other stakeholders will have to collaborate on developing secure proxies for businesses to facilitate easier access to real-time payment systems. Unlike consumers, who can use common proxies such as an email address or mobile phone number to make payments, businesses large and small typically do not have a single proxy that can mask bank account details. In Singapore, companies can use the government-issued Unique Entity Number (UEN) to send and receive real-time payments using the PayNow Corporate service overseen by the Association of Banks in Singapore, which leverages the real-time FAST payment system. Ensuring secure proxies that clearly link to bank account details will be a key step in avoiding a spike in fraud rates as business use of RTP evolves.

In a domestic context, real-time payments can offer businesses more transparency on payment flows as well as greater flexibility and control over their fund transfers. European banks already derive a majority of their revenue (52%) from commercial payments, and this trend is on the rise as volumes accelerate. By incorporating real-time payments, banks

can offer their business customers a vital tool for paying suppliers and employees. Just-in-time supplier payments can allow small businesses to save on inventory (e.g. for consumer home goods such as kitchen appliances) and larger retailers such as supermarkets to pay local suppliers without the need to wait for funds to clear. Invoice details can also seamlessly flow with these payments, and reconciliation automated for each party in the transaction. A majority of UK corporates now use the Faster Payments System and almost half of all medium-sized businesses surveyed in the Bottomline 2020 Business Payments Barometer plan to integrate real-time payments in their business within the coming year.

RTP offers an excellent opportunity for corporates to pay gig economy workers at the end of a shift, giving employees immediate access to funds while providing the employer with an up-to-the-second overview of available liquidity. As workers in the gig economy expand and employers increasingly shift to hourly and part-time work, this flexibility will be essential for retailers and merchants who employ large numbers of people. This trend is likely to continue apace as the economic effects of the Covid-19 crisis become clear. And for

larger value payments, real-time payments could present a lower-cost alternative to RTGS/wire payments, which come with high fees and operational inefficiencies (e.g. the need to go to a bank branch to execute a payment). Real-time systems in both Europe and the United States have raised the transaction value limit of real-time payments to EUR 100,000 and USD 100,000, respectively. Many payments made using wire systems today that are under USD 100,000 could flow to real-time payment systems to provide greater speed, lower cost, and more flexibility for corporates and banks alike.

Perhaps the most significant area for the disruption that RTP will bring for corporates is in international payments, which are far more important for businesses than for consumers. As McKinsey has shown, business payments (B2B and B2C) make up 97% of cross-border payment flows (measured in value) and represent almost two-thirds (65%) of revenue from cross-border payments. The massive inefficiencies embedded into cross-border payments processing leads to significant delays in the financial settlement as well as high costs. These inefficiencies are being tackled by both legacy players such as SWIFT, as well as innovative fintechs and interest has reached the G20 recently. The introduction of SWIFT gpi in 2017 has led to immediate benefits for banks sending funds internationally. By 2019, 65% of cross-border flows in the SWIFT network leveraged gpi, with payments flows almost doubling from 2018 to 2019 (from USD 40 trillion to USD 77 trillion). Banks are increasingly looking to new players such as TransferWise and Ripple as well as new initiatives from established players such as Visa B2B Connect and Mastercard MoneySend to help increase the speed and efficiency of cross-border payments. As cross-border trade and commerce continue to grow, and global standards like ISO 20022 proliferate, the competitiveness of international payments for banks and their corporate customers is set to take off in the coming years. A failure to address the inefficiencies of cross-border payments means that banks risk being disintermediated in this profitable space.

RTP offers an essential tool that can help address cross-border pain points and bring real value to businesses of all sizes with ISO 20022 as a critical building block.

The use of the standard in major real-time payment systems as well as SWIFT gpi means that banks and their clients can gain interoperability through a single global standard. Cross-border flows and transactional information can be bundled and automated, leading to less manual processing for reconciliation exceptions processing. The rich data capacity of ISO 20022 enables banks to provide multi-jurisdictional KYC and sanctions checks efficiently for corporate clients without the need to supplement payments messaging with calls to third-party or proprietary systems. Increased speed of processing for cross-border payments will also bring considerable benefits to banks and corporates alike. Linkages between domestic real-time payment systems in Singapore and Australia with SWIFT gpi have led to test runs that have seen payments between the countries cleared in a matter of seconds, with end-to-end processing completed in as little as 25 seconds. By integrating transactional information and increasing processing speed, banks can provide full account visibility of both domestic and cross-border payment flows to corporates and small businesses embedded in B2B supply chains. From here, banks can offer a single dashboard for corporates that incorporates this information and adds related services such as insurance and loans, thereby providing a single source of truth for global, regional, and domestic payment flows. Combined with AI and big data analytics, this information can forecast payment flows, liquidity needs, and proactively mitigate fraud to put real time control into the hands of the corporate finance team.

What unites these corporate use cases is that each goes beyond the exchange of funds to provide additional value in the operation of the business. With the emerging interoperability across the world, choices also start to appear for corporates. We can see greater account visibility, real time cash flows, better terms on financing and loans, enhanced and automated reconciliation, flexible pay-outs to part-time employees or perhaps insurance disbursements, transparency and certainty on cross-border payment flows and more – all of which improve the life of the corporate treasurer and finance decision makers well beyond the acceleration of the payment itself.



Ed Adshead-Grant,
General Manager & Director, Payments
at Bottomline Technologies

With over 20 years' experience in the payments sector, Ed is responsible for driving the strategic development and execution of the payments business segment for the EMEA line of business. Having worked at leading IT software and service companies for projects in over 30 countries, Ed has held a number of global strategy, product and client management roles with PwC, First Data Corporation, Pepper Consultants and Hewlett-Packard. Ed is passionate about helping financial institutions and corporates to better power and protect their payments and financial messaging.

P27 NORDIC PAYMENTS CROSS-BORDER PAYMENTS AS SIMPLE AS TEXTING

Twenty-seven million people live in the five Nordic countries of Sweden, Denmark, Finland, Norway, and Iceland. Yet despite their geographic proximity and cultural affinities, each country uses a separate currency: the Danish kroner, the Icelandic krona, the Swedish krona, the Norwegian krone, and in Finland, the euro.

This situation imposes challenges and costs for cross-border transactions in the Nordics, which has high levels of regional trade and travel.

That's why banks in Denmark, Sweden and Finland started P27, a joint initiative by Danske Bank (Denmark), Handelsbanken (Sweden), Nordea (Denmark), OP Financial Group (Finland), SEB (Sweden) and Swedbank (Sweden).

P27 aims to build the world's first real-time, cross-border payment system to support multiple currencies in multiple countries. Within the Nordic countries, P27 will enable integrated payments for domestic and cross-border payments. Also, P27 will support transactions throughout the eurozone in harmonization with Single Euro Payments Area (SEPA) standards.

P27 intends to establish a Nordics Payment Platform (NPP) to be made available to other financial institutions in the region. NPP will be modeled on similar multi-country platforms that handle SEPA, except that where SEPA platforms support only euro payments, NPP will support multiple currencies.

The initial launch will support payments within Denmark, Finland and Sweden, and the platform will be expandable to allow for payments in other Nordic countries.

The Nordics Payments Council (NPC) is working toward defining the rulebooks and implementation guidelines for P27, based on those created for SEPA by the European Payments Council (EPC). P27 messages will

be built using ISO 20022 XML messages, enabling high levels of flexibility, extensibility and straight through processing, with efficient reconciliation and AML compliance.

Go-live for the P27 initiative, subject to regulatory approvals, is scheduled for mid-2021. The first phase will involve building the underlying clearing platform for NPP to support base-level functionality for the go-live.

Concurrently, additional products and value-added services will be developed to progressively enhance the NPP platform over the next two to three years. P27 will introduce enhancements and new features throughout the development cycle, demanding banks to manage continuous delivery for production roll-out without impacting business as usual.

A few examples of some of the forthcoming value-added services include:

- Request to Pay
- Account Assurance Services
- Common Nordic Proxy Services
- Pan-Nordics Direct Debit

TCS BaNCS for Payments

To meet the visionary goals, significant technical challenges and ambitious timetable for deployment of the P27 platform, banks in the Nordics will find the perfect fit with TCS BaNCS for Payments, a state-of-the-art solution offering extensive capabilities for multi-product payments within a single platform and a modern API-based architecture enabling seamless integration with customer channels, internal systems and market infrastructures.

TCS BaNCS for Payments has been deployed in more than 25 countries for global and regional organizations and supports more than 40 clearing systems.

Built with native support for ISO 20022 standards, TCS BaNCS for Payments includes

easy-to-configure configuration options that enables out-of-the-box support and high levels of flexibility for dashboards, pricing structures, reporting, accounting rules and payments routing.

As a proven multi-entity, multi-currency, multi-country solution with extensive experience in SEPA deployments for multiple banks across Europe, TCS BaNCS for Payments is the ideal fit for the P27 deployment.

TCS BaNCS for Payments will be used for end-to-end payments processing for P27, including:

- Receiving real-time payment instructions through web and mobile interfaces
- Handling batch payment instructions through API-based links with participating financial institutions and commercial customers
- Clearing and settlement
- Supporting banking needs for both private and corporate customers

TCS BaNCS for Payments is entirely aligned with the P27 roadmap and ready to meet the migration challenges for participating banks.

Furthermore, the microservices architecture of TCS BaNCS for Payments will enable participating banks to support P27 within the context of their existing application landscapes. Following the initial migration, banks may also enable a centralized hub for payment processing that will support credit transfers, direct debits, and real-time payments for multi-currency, multi-entity payments through a single application, powered by TCS BaNCS.

The modern architecture of TCS BaNCS will allow for rapid rollout of new offerings through continuous delivery, ensuring that participating banks in the Nordics will enjoy fast time-to-market and competitive advantage through the P27 initiative.

TCS BaNCS Global Banking Platform

Creating Trusted Digital Relationships




Uncertain times beget innovation. Banking is no different. With the right tools and technology, banks the world over are laying the foundation for transforming social distance into elevated customer management and experiences while bringing in resilient ways of navigating financial uncertainty.

Creating more cohesive and personal digital journeys that engender trust. That's what the TCS BaNCS Global Banking Platform is all about.

A contemporary digital banking solution with a global footprint, it leverages a rich ecosystem of partners and FinTechs, actionable data insights, cognitive tools and APIs, to help your bank launch new products and even new business models, acting as a platform for collaboration. It can help you dynamically define and create digital products and services that are contextually right for your customers, while also increasing revenue opportunities for your bank. The solution's cloud native architecture and microservices based approach paired with agile methodology, can help you scale, innovate and create the experience your customers expect today.

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A close-up portrait of Tom Kelleher, a middle-aged man with short, light brown hair and blue eyes. He is smiling slightly and wearing a white collared shirt. The background is plain white.

Tom Kelleher,
Commercial Director,
Icon Solutions

POWERING INSTANT PAYMENTS

An interview with Tom Kelleher, Commercial Director at Icon Solutions

Financial IT: To kick off this, could you please tell us more about Icon Solutions?

Tom Kelleher: Icon Solutions is a payments technology and consultancy provider. We work to empower banks and payment service providers in the financial services sector to realise the potential of payments in the real-time, 24/7, open, data-driven world.

The journey we embarked on in 2009 was grounded in delivering some of the most complex IT programmes within the banking industry. Through those projects, we evolved a model based on the key disciplines a team needs to safely deliver complex IT. We focused on building a company strategy that centred on the three disciplines of a 'successful delivery'. Technical skills, subject matter expertise and having the right processes and controls to run a program.

We underpinned these skills with a guiding principle that our experts had to have the ability to engage with and support the various stakeholders. Wrapping all of this under the strapline 'Complexity Simplified', we cemented our reputation as a great delivery partner, and demand for our services has been growing by 20-30% year-on-year.

Financial IT: What are the differentiating features of Icon Solutions?

Tom Kelleher: Icon is uniquely placed as a payments vendor, as we provide both consultancy services and a payments solution product.

Icon was set up to offer IT expertise with deep payments knowledge to develop, implement and run innovative, mission-critical payment solutions for financial institutions.

In 2016 we pivoted after realizing two things. Firstly, we didn't have the scale or global reach to help everyone who needed assistance. Secondly, the traditionally 'conservative' payments ecosystem hadn't yet embraced a world of low-cost, agile technology products.

To sit alongside our consultancy services, we used all our delivery, technical and domain knowledge to create our IPF product. It represents our vision of 'what good looks like' in the payments execution world and offers banks a safe and cost-effective way to approach the transformation journey.

Financial IT: The coronavirus pandemic represents a turning point for every

industry. There's been an accelerated shift of digital adoption in consumer behaviour. How does the acceleration change the competitive landscape?

Tom Kelleher: The acceleration in digital adoption over the last few years has exacerbated many of the challenges that banks were already facing – operational resiliency, rising costs, squeezed margins and increased competition from fintechs, aggregator services and challenger banks.

Given the sheer scale and immediacy of these challenges, it is apparent that over-engineered and one-size legacy systems just no longer cut it if banks want to remain competitive. They are inflexible, limit time to market for new services, are costly to maintain and do not meet the evolving requirements of the new payments landscape.

As outdated legacy systems are being pushed to breaking point, banks need to start or accelerate their transformation journey, with systemic buffers in their banking architecture to meet demand surges and value-added services to stay competitive. Moreover, we expect there will be renewed regulatory focus on the potentially catastrophic impact of outages during crises, so banks really need to ensure operational resilience now.

In simple terms, competing – at least short term – is about consolidating and building for recovery. A strategic technical roadmap for payment transformation will be key to save costs, increase resiliency, innovate and, ultimately, thrive rather than just survive.

Financial IT: How are you meeting the current industry challenges? And how Icon is innovating to provide relief and enable recovery to address the challenges?

Tom Kelleher: The need for payments transformation is urgent, but there is no one-size-fits-all solution and executing a transformation strategy can be highly complex. Many banks have been running and adapting their existing legacy systems over the last 30+ years, and, for many, transforming them is a daunting proposition.

We work with many complex banks to develop their payments strategy in line with their vision, strategy, roadmap and business objectives. A key step in this process is aligning the different product, operations and IT teams within a bank to ensure everyone is working

towards a single, pragmatic payments transformation approach. On top of that, we offer banks our cloud-native, open source technology, IPF, to reduce complexity and costs, increase operational resilience and offer new value-added services.

Ultimately though, you can have all the technology in the world and still not solve any problems. So our focus is on partnerships that support banks to seize new market opportunities, develop additional services and deliver more value to customers. This will allow them to secure their place in the digital era.


Financial IT: What is next for Icon Solutions?

Tom Kelleher: We recently announced a strategic investment from J.P. Morgan. This investment will accelerate Icon's progression as we will directly benefit from the support, scale and insight of a global banking leader and one of the most visionary technology companies in the world.

The investment is also a validation of our vision and underpins our ability to support the ever-growing demand for technology transformation. Looking forward, we can now accelerate our strategic roadmap, invest more in our technology and team, and expand our geographic reach to further enhance delivery of payments and enterprise services to our customers.

Tom is responsible for strategic engagements across leading global financial institutions in the UK and internationally. Tom's early recognition of the substantial change and disruption to the payments industry, created a unique opportunity for Icon to provide strategic guidance and technology solutions to enable the transformation of payments estates



A portrait of Mike Shafro, CEO of xpate, smiling. He is wearing a black hoodie. The background is dark with vibrant neon lights in blue, pink, and yellow. The word "xpate" is visible in large, glowing blue letters on the left side of the image.

Mike Shafro,

CEO of xpate, the payments platform that prioritises simplicity, speed and user experience, offers insight into the evolution of cross-border payments and how businesses can navigate and alleviate the stresses and strains associated with this necessary evil.

SOLVING THE CROSS-BORDER PAYMENTS CONUNDRUM

[Back to the Table of Contents](#)

This year has been unlike any other on record. We can no longer travel to our favourite restaurant – much less see the world – and yet, for so many it's business as usual.

While some companies are undoubtedly feeling the pressure and challenges brought on by the global pandemic, others are thankfully thriving and looking ahead. Some even have lofty expansion plans that involve breaking into new regions, which presents its own unique set of challenges, including utilising cross-border payments, which facilitates the flow of money between European buyers and sellers to the tune of €143 billion.

The internet of things

We're fortunate to be living through the 'Next Norm', as it's being dubbed, with access to the internet.

From the influx of millennials reaching the age when banking and payments solutions are a consideration, to a world where remote working from our home offices, conservatories or bedrooms is advised, there has never been a better time for digital services to up their game.

Even the unexpected are turning to the internet to enrich their lives and the lives of others. I read a piece recently about a 91-year-old English professor in America, who had been teaching for some 50-plus years. Despite his vast experience and teaching practices, he turned to Zoom in a bid to avoid disrupting his students' studies.

The countless global businesses who work out of multiple countries face a similar decision when it comes to their operation. For those who choose to embrace change and innovation to enter new markets, drum up investment and entice the strongest, international talent, cross-border payment restrictions are holding them back.

Breaking down the problem

The legal, regulatory and administrative processes associated with cross-border payments have long slowed down the payment of people and suppliers, proving a costly inconvenience for businesses of every size and sector.

These issues inherently lie with banks and financial institutions (FI), who are required to establish direct links with one

another in the same nation to send and receive cross-border payments. Not every FI has a counterpart in any given region, however, which means money must often be transferred between numerous institutions – typically four – and in multiple countries before reaching its final recipient.

What's more, it's common for companies to have to present documentation to substantiate the purpose for payments. Invoices, customs forms, tax declaration forms – the list is endless. These requirements vary from country to country and can take varying times to be authenticated.

One of the reasons why we at xpate are so passionate about taking the hassle out of cross-border payments is because we understand, first hand, the inconveniences other businesses face.

A large proportion of our team is distributed. We, too, want to be able to pay our people without facing costly inconveniences and delays...and we can.

Out of the physical restrictions that have been put on the world as a result of the Covid-19 pandemic, so too come opportunities.

Companies are increasingly looking to save costs on unnecessary office space in favour of remote working. Lots are doing this very well, efficiently managing distributed teams. With this comes the realisation that they no longer need to find the best person for the job within a 30-mile commute of the office and instead can fish in the wider world's talent pool.

If we consider every business now has this opportunity at its fingertips, it immediately exacerbates the cross-border payments conundrum.

A driver for change

In a bid to curtail these issues and encourage cross-border payments, the Financial Stability Board, along with IMF and other key institutions, has produced a roadmap, which was recently endorsed by the G20. It sets out a list of concrete reforms, practical steps and milestones, including extended operating hours of countries' settlement systems so that they overlap and cross-border transactions can be settled in real time, that institutions will be held accountable to implement.

Alongside regulatory bodies are the fintech firms themselves who are striving for change.

We, too, are frustrated by what should be a simple method of payment, which is instead hindered by friction.

The potential for interception by hackers, alone, who can swipe funds or even our personal data for themselves, is reason to continually develop solutions that keep businesses efficient, streamlined and, of course, protected.

Technological evolution

We've become accustomed to an easy, convenient life – the internet plays a fundamental role in this mentality.

We need and expect solutions that can automate and simplify processes and paperwork – so why should cross-border payments be any different?

If we are to truly seize the opportunities globalisation has brought with it, we must implement automation – both technological and administrative – that takes over manual tasks, negates friction and opens opportunities for greater cost-saving measures while enhancing customer experience.

Let's consider the time and costs that could be saved if we streamlined business procedures and if you were to work with a payments platform that prioritised onboarding and AML processes, for example.

The implementation of APIs is all well and good, but if FIs aren't using them properly and larger payments platforms stick to cumbersome onboarding requirements that were acceptable a few years ago, customers will forever face costly delays and complacent business protocols.

Now is the time to go the extra mile to help customers.

As we predict the demand for cross-border payments will increase as a result of the ongoing pandemic, so too will the desire to reduce the time spent making transactions and instead do what businesses should be doing: thriving.





Laura Rekario,
Research Analyst, RBR

CUSTOMER DEMAND IS A KEY DRIVER OF AUTOMATED DEPOSIT TECHNOLOGY WORLDWIDE

Customer demand for quick and convenient transactions is one of the key factors driving growth in the number of automated deposit ATMs worldwide, research by strategic research and consulting company RBR has found.

Deposit Automation and Recycling 2019 shows that automated deposit ATMs, which allow customers to deposit banknotes in bulk for crediting to their bank accounts, can offer a number of benefits to customers: accounts are credited instantly, teller lines and waiting times at branches are greatly reduced and, depending on where the machines are installed, they are also available outside standard branch opening hours. Where individuals and businesses previously had no alternative to relying on teller service for cash and cheque deposits, they can now carry out these operations using self-service terminals, affording customers more privacy, convenience, and flexibility when it comes to basic banking operations.

Customer demand remains high in many, but not all, cash-heavy markets

The study reveals that customer demand for automated deposits continues to be strong in many markets with high cash use, such as Russia and Turkey, where a high proportion of ATMs already accept automated deposits. Customers in these countries are well-accustomed to using self-service devices for a variety of operations and increasingly expect all terminals to be multifunctional.

In other cash-heavy markets, however, like Indonesia and Italy, demand for automated deposits is not as high. Customers express concerns about carrying around large amounts of cash for depositing, and about the reliability of deposit ATMs due to reportedly frequent malfunctions. Many customers also still prefer face-to-face interaction with branch staff to using impersonal self-service devices, in spite of the increasing availability of such devices in today's branch banking environment.

The shift away from cash does not always result in reduced demand for deposit ATMs

Some markets where cash is used less are nevertheless seeing high demand for deposit ATMs. In Canada, envelope deposit terminals have long been used, but deployers increasingly see the potential of automated deposit technology for faster, easier deposits and CIT-related cost savings. In the UK and Germany, customers are satisfied with service improvements associated with such ATMs and increasingly expect that automated deposits should be available in all bank locations.

By contrast, in Belgium and the Netherlands, shifts in spending habits away from cash and towards electronic payment methods have led to lower demand; consequently, the total number of deposit ATMs in these countries is expected to fall in the coming years. In China, the use of mobile payment platforms such as Alipay and WeChat Pay has risen sharply in recent years and they have all but overtaken cash as the preferred means of payment. Over the next few years, while the overall number of ATMs in China is forecast to continue falling as it has done in recent years, it is worth noting that the number of ATMs with automated deposit functionality is expected to remain relatively stable.

Banks can also reap the benefits of automated deposit ATMs

There are also many benefits for banks in deploying automated deposit ATMs. Such machines allow them to migrate deposit transactions away from the teller to the self-service channel, which in turn cuts queues, shortens customer waiting times, and frees staff to perform other more revenue-generating and value-adding roles, like sales or advisory activities. The redeployment of staff in this way can help banks reduce operational costs, save in key areas such as wages and security measures, and increase the overall efficiency of branches.

RBR's research shows that deployers are keenly interested in the potential cost savings associated with the deployment of automated deposit ATMs, because it can help them justify the higher original purchase cost of such machines compared to that of traditional cash-out only ATMs. Cash-recycling ATMs, which redispense the same notes that previous customers have deposited, have the potential to further reduce costs by allowing banks to optimise cash management and CIT visits, particularly in rural areas, for example, where ATMs can be situated a long way from one another.

COVID-19 may accelerate the move towards self-service deposits

COVID-19 is another factor that may drive the further deployment of deposit ATMs in future. Although the pandemic has caused cash use to fall in many markets, most banks will continue to handle cash deposits from both consumers and businesses. Self-service terminals minimise contact between customers and branch staff, thereby supporting social distancing in addition to reducing operational costs.

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Sridhar Iyengar,
MD for Zoho Europe



TIME FOR A NEW CUSTOMER EXPERIENCE STRATEGY?

EXPLORING THE BEST WAY TO TAKE ADVANTAGE OF SURGING ONLINE DEMAND

UK finance companies are in a precarious position. Having entered into a second national lockdown this year, and with economic volatility predicted for the indefinite future, many UK finance companies, fintechs and banks are looking to alter their business model.

Even with the arrival of a vaccine, it is unlikely that business life will revert to what it was prior to the pandemic.

Remote working, social distancing and lockdowns have changed the very essence of customer expectations and journeys.

Whilst we would all love to see the return of bustling high-streets and busy banking branches, there is just no replacing the instant, online or over-the-phone service that many consumers have now come to expect.

Businesses have been rapidly digitalising over the last two to three decades. However, Covid-19 has managed to push this level of digitalisation in a completely new height, one which we might not otherwise have expected to see for another five to ten years.

Even the most tech-adverse consumers are now having to operate online, and the demand for online services has surged.

Many in the finance sector couldn't initially cope, with 47% of consumers reporting significant delays in their banks onboarding process since the start of the first national lockdown, for example. This is most likely due to outdated legacy IT systems in traditional banks, the abundance of regulations slowing down application processes, and the sheer numbers of consumers who were signing up for new online services, seeking financial aid or changing providers.

Now, over nine months into the pandemic, the majority of businesses and financial institutions should have at least begun to adapt their systems to deal with the long-term transition to higher consumer expectations.

This involves helping sales teams and marketers to understand exactly where their restricted budgets should be invested. That, in turn, requires insight and analytics.

Surging online demand for specific services means there is now an abundance of data running through a company's system every day. But without the right tools in place to draw out insights to determine how to best engage with customers, along with a CRM system to run an engagement programme, companies cannot maximise the opportunity at hand.

CX as a driver of a more efficient hybrid customer relationship

Data fed through a company's website or services can reveal exactly what customer preferences are, and where it is their attention is drawn to. Business Intelligence (BI) tools can extract this data and enable insights to be drawn which provide decision makers with an informative overview of aspects such as sales drivers, marketing effectiveness and levels of customer engagement. This helps to inform the direction of a company's consumer experience (CX) strategy - which may need to change given behavioural changes and means of engagement in the current era.

A true CX strategy needs the insights from BI tools to determine the right

approach, as well as a CRM toolkit to run a customer programme in the right way down to the micro-level. A strong CX programme will be hugely beneficial in the finance sector, where the turnaround of, and interaction with, customers is very high.

Trend prediction

The landscape in any given area of national or global business and finance can change very drastically. Predicting trends before close market competitors can, has always been a core component in business buoyancy. BI tools are likely to offer companies a sweeping insight into the overall direction of consumer demands, and popularity for certain offerings or initiatives. They can also help determine levels of engagement from a CRM programme.

Communication and collaboration

Interestingly, the lack of physical customer engagement and in-person internal team meetings, due to the pandemic, has provided CRM and BI tools with a strategic new role in facilitating internal coordination and customer engagement.





Dom Poloniecki,
General Manager, Sales,
Western Europe & SSA



FINANCIAL SERVICES IT AT HYBRID CLOUD TIPPING POINT

Nutanix survey shows FS companies moving beyond hybrid cloud adoption to realising the benefits

The mixing of private and public clouds to create a scalable hybrid infrastructure has long been the aspirational model for IT across the board, and nowhere more than in financial services. Indeed, when it comes to making hybrid dreams a reality, FS organisations are ahead of the game, already moving beyond justifying hybrid cloud purely on cost grounds to using it to deliver strategic business outcomes.

At the tipping point

The overwhelming desire to adopt hybrid cloud in the FS sector is in no doubt. As clearly shown by the results of the Nutanix Enterprise Cloud Index 2020 which found 86 percent rating it as their preferred operational model and over half (54%) expecting to be hybrid-only in the next 5 years.

That's indicative of a real tipping point in hybrid cloud adoption, further reinforced by other results showing the necessary building blocks now almost ubiquitous. Half (50%) of FS companies, for example, said they had already migrated their legacy datacentres to Hyperconverged Infrastructure (HCI) or are in the process of doing so, with a further 38% expecting to follow suit in 12-24 months.

That's hugely significant.

Firstly, because HCI brings the same technology that enabled hyperscalers to the enterprise; if it works for them, it can work for FS too. And, secondly, because it's a key enabler when it comes to building scalable and easily managed private clouds as part of a hybrid cloud model.

But that's not all. The Nutanix report also provides evidence of accelerating adoption of cloud technology in all its forms, including a growing willingness to mix private and multiple public clouds together. Not only do FS companies already run more apps in private clouds than most other sectors (only outstripped by tech and telecoms), but 39% are upping private cloud usage this year and almost as many (34%) are deploying more public cloud apps.

Strategy not cost

Taken in isolation, you might be forgiven for thinking that cost reduction is the main driver at work here. After all, there are well recognised savings to be had from replacing expensive servers and complex storage networks with simpler commodity hardware enabled

by HCI technology to deliver cloud-like scalability and software-defined flexibility on-premise. Likewise it's possible to save money by moving from the traditional Capex financing of the on-premise datacentre to the OPEX model of the cloud altogether.

Cost, however, is no longer the primary driver, as the Nutanix report also shows.

When asked for reasons why they were making changes to their IT models (whatever the process or direction) only 27% of companies put cost saving at the top of the list. The majority were instead focused on achieving better business outcomes with goals such as the flexibility to deliver on business requirements (55%), the ability to improve customer support (46%) and (of particular relevance in the time of a pandemic) to better support remote workers (46%).

Delivering on any or all of those aims could, of course, be achieved by merely switching to HCI in the datacentre. Or by only building a private cloud or just using public clouds for business IT. So why the upswing towards mixing them all up and building a hybrid cloud?

Why hybrid?

The answer is choice. More specifically, it's about having the flexibility to concentrate on delivery of strategic business outcomes quickly, easily and - crucially - without the need to keep within the limitations of a particular IT model.

As previous Nutanix surveys have shown, FS companies consistently express a desire to run workloads in the infrastructure best suited to them and move around as circumstances change. Be that needing to enhance security; rapidly on-board new apps during takeovers and acquisitions; reach new markets with different compliance needs and so on.

Whatever the need, the long stated ideal is the ability to move workloads dynamically based on, not just cost and technology concerns, but time-to-market pressures, the need to cope with peaks in demand and a variety of other common business variables.

Delivering on that ideal can only be achieved with hybrid cloud. Indeed, by mixing private and public cloud infrastructures to support this fluidity with common interfaces and management, plus uniform security across on-premise, private and public cloud platforms, is now an achievable reality.

That's why financial services companies aspire to hybrid cloud. And that's why they're at a tipping point as technology and information chiefs wake up to the realisation that hybrid cloud isn't just good for the budget, it is good for the business as a whole and for the delivery of strategic business outcomes.



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UNDERSTANDING THE MODERN CHALLENGES OF THE RECONCILIATION PROCESS

Mihir Joglekar,
Business Analyst,
AutoRek



Through this article we look to explore some of these basic challenges of the reconciliation process and understand if technology can be adequately leveraged to resolve these.

What is a Reconciliation?

A 'reconciliation' is commonly defined in its purest form as the process to end a disagreement with somebody and the start of a good relationship with them. However, within the context of finance and accounting, it is a process that compares internal financial records of your organisation at an acceptable level of granularity (transaction or balance), set against external sources like bank statements or ledger records of other organisations with which your records have a direct or indirect association.

Simplistically, the principle of a reconciliation consists of 4 basic stages:

- **Recognition:** The acknowledgement that there are variances (also commonly called breaks) between two or more distinct sets of comparable records.
- **Detection:** The investigation and documentation of these specific breaks and their respective root sources.
- **Preparation:** The collation of associated facts to ensure a full understanding of what action is needed (root cause analysis) to guarantee the agreed breaks are resolved.
- **Action:** Finally taking the necessary step(s) to settle these differences amicably.

These stages ensure accuracy and consistency of financial accounting, whilst ensuring an accurate balance sheet, and provide financial integrity.

So, what business difficulties does the reconciliation process solve?

The reconciliation process delivers effective management and reporting of organisational cashflows which in turn avoids any unexpected overdraft or credit charges. It also supports the detection and prevention of fraudulent activity both internally and externally. Reconciliations encourage good recording keeping and provide comprehensive audit trails both as part of internal governance and external scrutiny. The risk of large one-off or cumulative material breaks which could result in mandatory regulatory penalties or sanctions and reputational damage is significantly reduced if a reconciliation process is in place. Having a clean set of management information available supports an effective decision-making process, which affirms confidence and transparency to stakeholders.

How are reconciliations categorised?

Generally speaking, reconciliations can be grouped into two main classes and can be performed on a daily, weekly, monthly or on-demand basis. The following categories are common within many financial services firms.

- **Investigative Reconciliation:**

This category uses an analytical approach based on estimations and detailed operational knowledge of the business. Organisations using this approach typically project financial data over a set period of time based on historic insight and activity.

Periodically, organisations reconcile their accounts based on a predetermined tolerance threshold and all breaks are then investigated to ensure errors are addressed. This method is preferred by non-banking and financial sector companies.

- **Extract Reconciliation:**

This category compares transactions on an ongoing basis between two related but discreet data sources to exact match the corresponding identical transactions, based on a set of predetermined rule sets. Where transactions do not match, exceptions are generated to be reviewed.

A good example of an extract reconciliation is the reconciliation of physical expense receipts and invoice settlement with cashflows in a bank statement. Organisations typically with large transactional volumes, like banks and financial services providers, prefer this approach.

Within both of these categories, there are a further number of main reconciliation types including merchant reconciliation, bank reconciliation, balance sheet reconciliation, cash reconciliation and ATM cash reconciliation.

What are the challenges of manual reconciliation?

Simply, organisations cannot successfully operate and remain compliant without effective reconciliation processes having been deployed to support them.

Historically, for a number of organisations reconciliations processes have predominately been manual and at best semi-automated using generic business spreadsheet applications making them perilous, time consuming and prone to error.

Organisations depending on manual processing face many key challenges including: higher frequency of breaks, absence of control and audibility and increased reliance on conjecture. Other significant challenges include elevated operational inefficiency, difficulty with scalability & volatility management and finally the inability to support a modern operating model.

Global operating models increase the complexity of processing and scalability across multiple operating environments and cultures. Manual processes are unable to address the below considerations associated with complex operations:

- Distributed Team working
- Multiple Time zones
- Workload Management
- Training and Knowledge Sharing

In a world where the majority of organisations are remote working, operational resilience remains high on the agenda. Operational Resilience can be defined as an organisation's ability to anticipate, prepare, respond and adapt to uncertainties and disruptions while successfully delivering services to its client base. It requires both tactical and strategic thinking.

Both risk and resilience are intrinsically connected and an organisation's ability to effectively address operational risks across business functions will contribute to its overall resilience. Manual processing presents a number of challenges for firms when it comes to operational resilience and ensuring operational efficiency.

Understanding the advantages of automating reconciliations

By eliminating the need for time-consuming and error-prone manual reconciliations, firms can reduce costs, meet regulatory requirements and achieve operational resilience. Automated processes encompass data integrity, workflow and accurate management information. They also process any reconciliation including accounts, cash, balance sheets, ledger, sub-ledger, payments. The consolidation of data is streamlined from disparate systems and a comprehensive audit trail is created, providing the transparency and governance required to meet reporting requirements.

Gain the benefits of automated processes today

In summary, a fully automated reconciliation solution is scalable and replicable adding a number of significant advantages to organisations. Some of the key benefits include:

- Reconcile data in any format
- Real-time insight into status and exposure
- Accurate and granular reporting
- Comprehensive audit trails
- Easily able to support an environment of increased volatility.



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