SWIFT Business Forum London 2015 Report

Harnessing change in financial services

Many in the burgeoning 'fintech' community think the financial industry is ripe for change. But the financial industry is interwoven with the political governance of countries, and also has a good track record of adapting to change. Will new entrants transform the financial industry with disruptive technologies? How incumbents – and challengers – harness change in financial services was the key theme of this year's SWIFT Business Forum London, attended by more than 1100 people on 23 April at The Brewery.

During the day, delegates heard about the opportunities and challenges across financial services – in funds and investment management, compliance and corporate banking, among other areas. The financial crisis of 2008 was a seismic change and brought the era of universal banking to a close, Arun Aggarwal, Managing Director, UK, Ireland & Nordics, SWIFT, told delegates during the opening session. New 'challenger' banks are emerging in an environment of low interest rates and falling margins. He posed the question, "How far will the fintech disruptors truly transform the industry from the outside?" Aggarwal suggested the key to success for incumbent banks will be to take a holistic approach to product innovation that is informed by customer centricity and operational excellence. This was a theme picked up throughout the day, as speaker after speaker reminded the audience that client service is the key to success.

Innovation and the customer experience

In any business, customer experience matters – not the "technological wizardry behind it", said keynote speaker Sir David Clementi, Chairman of Virgin Money and World First and Former Deputy Governor of the Bank of England. "Financial services companies must recognise that customers are individuals first. Technology has a role to play in creating customer experience, but a clever technologist does not lose sight of the customer."

Technology is, of course, a focus of many delegates at any SWIFT gathering. Usama Fayyad, Chief Data Officer at Barclays Bank, estimated that banks were "10-20 years behind" in terms of using new technology to deliver services to customers. If banks didn't act by adopting new skills and new ways of delivering services, they could be disintermediated. "We should leverage the trust we have with clients and create new products and new revenue models," he told delegates.

Disintermediation by new financial technology companies and challenger banks is a concern for many incumbents. Gottfried Leibbrandt, CEO, SWIFT, said fintech would "change banking as we know it" but would not cause the demise of banks, because they have a good record of adopting new technology.

> "HOW FAR WILL THE FINTECH DISRUPTORS TRULY TRANSFORM THE INDUSTRY FROM THE OUTSIDE?"
>
> *Arun Aggarwal, Managing Director, UK, Ireland & Nordics, SWIFT*

There are challenges, of course. Craig Donaldson, CEO of challenger Metro Bank, said large legacy companies such as banks are "ripe for disruption". By trying to be "all things to all people", banks have stretched their technology systems and other organisations are able to deliver better service and processes in specific areas. Donaldson also stressed the importance of culture, of "getting the right people together in the right place". "It is the culture of the organisation that defines what is delivered to the customers."

Daniel Marovitz, President, Europe at Earthport, agreed that fintech companies won't kill banks, suggesting that banks should view such companies as a "pool of innovation". Marovitz said often an innovative spark within a bank can be smothered by the weight of regulation and sheer complexity of processes and procedures. By using a small, outsourced pool of innovators banks can benefit from cooperative possibilities.

> "WE SHOULD LEVERAGE THE TRUST WE HAVE WITH CLIENTS AND CREATE NEW PRODUCTS AND NEW REVENUE MODELS."
>
> *Usama Fayyad, Chief Data Officer, Barclays*

HSBC is taking a partnership approach to innovation, as explained by Christope Chazot, Group Head of Innovation at the bank. “Fintech is essential to the development of a bank. We are partnering with companies and investing in them in order to develop our business and help us to deliver better services and be more efficient.”

Seeing fintech companies as a useful resource, rather than as a threat, was an approach all panellists recommended.

> “FINTECH IS ESSENTIAL TO THE DEVELOPMENT OF A BANK.”
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> *Christophe Chazot,*
> *Group Head of Innovation, HSBC*

The real-time payments opportunity

One area where banks need to hold their own against fintech companies and deliver the customer centricity that is seen as key to success is that of real-time payments. Alain Raes, Chief Executive EMEA and Asia Pacific at SWIFT, told delegates that 18 countries are operating real-time payment systems while another 12 are exploring real-time. SWIFT is working with Australian banks to develop the New Payments Platform, a real-time payments solution that will go live in 2017.

The effort required to deliver such real-time capabilities should not be underestimated, he said. “Real-time payments are not about building a new platform. They are about integrating all of the moving parts into a real-time system.”

Real-time payments can deliver positive results for banks, which can take the lead in developing offerings, and the ultimate winners will be consumers, delegates heard. UK consumers, for example, now have the PayM system for mobile faster payments, which was built on the infrastructure of Faster Payments. Craig Tillotson, Chief Executive of Faster Payments, said consumers have recognised that the way they manage money is changing. “Real-time is now a must have, rather than a nice to have.”

Professor Robert Kauffman, Associate Dean, School of Information Systems, Singapore Management University, said many of the countries using real-time payment systems have strong SME sectors. These companies need to be paid fast or their businesses will suffer, he said. But there are other drivers of real-time payments, as evidenced in Denmark, where the central bank mandated shorter payment settlement times because the Danish people felt they were entitled to their money faster.

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>
> *Craig Donaldson, CEO, Metro Bank*

Michael Mueller, MD Global Head of Cash Management, Barclays, warned delegates that it takes a long time for innovation to get into the market. “SEPA took 20 years to deliver products. From a bank point of view implementing innovation is not as easy as it looks. The bank infrastructure has to be ready for real-time payments. As an industry we must not underestimate the complexity of real-time - but we also need to move payments into the 21st century.”

> “REAL-TIME PAYMENTS ARE NOT ABOUT BUILDING A NEW PLATFORM. THEY ARE ABOUT INTEGRATING ALL OF THE MOVING PARTS INTO A REAL-TIME SYSTEM.”
>
> *Alain Raes, Chief Executive,*
> *EMEA and Asia Pacific, SWIFT*

The compliance challenge

It may have come as a surprise to some delegates during the opening keynote address that Clementi said well-run compliance departments should be seen as a distinction, rather than a handicap. Compliance has been a huge challenge for financial services institutions ever since the 2008 financial crisis. The regulatory burden is increasing, but strategies to cope are developing.

Increased automation, collaboration and more intelligent use of Know Your Customer (KYC) utilities will enable financial services firms to better navigate higher regulatory hurdles, according to a number of speakers during the Compliance Forum.

Customer service is also an important element in compliance. David Deane, Group Head of Client and Data Services at Deutsche Bank, said the industry needed to better serve higher risk customers. "The biggest change we have to make is being able to focus on our highest risk customers – about 20% of our total." By automating as many processes as possible in the low-risk space, the bank can deal more effectively with high risk clients. Partnership can also help in compliance: by engaging with business partners, banks can better understand their customers. SWIFT, for example, can help firms to map client behaviour and identify patterns that can assist banks in investigating KYC issues.

Cate Kemp, Global Transaction Compliance Director at Lloyds Banking Group, said the industry should have a greater understanding of the data it has. "As an industry, we are out chasing information when we have a lot of it already. In the gold rush of chasing more data, we run the risk of not sweating out what we have already." Kemp suggested that deep analysis is the key to truly knowing banking customers, suggesting that firms couple traditional due diligence with dynamic transaction monitoring.

Jean-Marc Guiteau, Global Head of Compliance Operational Risk at BNP Paribas, said businesses could still benefit from further clarification on what is required of them for KYC purposes. "The requirement from regulators is that we have an end to end view of the customer, all the investors and intermediaries. We can address this by doing due diligence, we can address it through information-sharing, but it remains a real concern and the regulations are not really clear."

One way of bringing greater clarity to financial regulations is via harmonisation of compliance standards across international borders. For example, Thomas Piontek, Senior Regulatory Advisor at Commerzbank, said his bank was harmonising local standards in order to produce a global compliance manual based on the highest possible standards. A similar approach is being

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> *Cate Kemp, Global Transaction Compliance Director, Lloyds Banking Group*

taken at Citi. Peter Drake, Director and Head of Europe Middle East and Africa Trade & Transaction Solutions and Anti-Money Laundering, said Citi has a particular challenge given the diversity of markets in which it operates. "We have a physical presence in more than 100 countries worldwide… so we have an incentive to maintain that gold standard."

Russell Saunders, Global Payments Managing Director at Lloyds Banking Group, explained that regulatory requirements in some jurisdictions were proving burdensome for smaller clients. In the UK, for example, SMEs "don't have time to discuss KYC".

Martin Taylor, Managing Director of Equiniti Investment Services, said there were also issues for overseas clients looking to do business in the UK. "The majority of our customers overseas struggle with the whole KYC process. The days of asking for a bank statement to prove identity are long gone. How do you make it easier for customers to prove who they are whilst meeting all of the different regulations?"

Commerzbank's Piontek said banks will likely move away from pure 'identification' in a traditional sense to something far more detailed, based on transactions and different behaviours.

Sanctions and the securities industry

One of the most onerous compliance issues is sanctions, particularly as they are increasingly imposed as an alternative to traditional diplomacy. Achieving transparency in securities flows has become a focus of financial regulators. However, replacing omnibus accounts with segregated 'named' accounts will be costly and not the silver bullet regulators seek on transparency, according to the experts who spoke on the topic during the forum.

Mark Gem, Chief Compliance Officer and Executive Board Member at Clearstream, said regulators are demanding increased security and vigilance regarding omnibus accounts.

Oliver Goffard, Head of Group Compliance and Ethics at Euroclear, said identifying beneficial ownership is very difficult. "If regulators want to push towards a simpler process… there is a huge risk for organisations and the impact on the capital that will be required. There are many factors that need to be taken into consideration."

Justin Chapman, Senior Vice-President and Global Head of Process Management at Northern Trust, agreed. "The repercussions of that simple solution could be huge. The whole infrastructure that we operate is built on multiple layers of omnibus structures. Even significant market infrastructure [developments] like T2S are built around omnibus structures. I think the cost to the industry would be huge."

CME Group hosted a discussion on one of the most impactful European regulations, the Markets in Financial Instruments Directive (MIFID). In January 2017 existing MIFID requirements will be broadened and extended, with core requirements focused on transparency, data publication and reporting.

John Herbst, partner, Norton Rose Fulbright, said a number of issues were challenging industry participants, including the definition of a liquid market, cross-border convergence with Dodd-Frank requirements and data publication as it relates to a consolidated tape.

Data publication is also a big issue for Matthew Gravelle, who handles Government Relations at CME Group. Questions remained about who the new commercial intermediators would be, who would operate them and how they would differentiate their services. "We are starting to get more colour on how they are going to be regulated," he said. "It looks to be a bit more interventionist than had been previously expected. Depending on where you are in the market - that could be a good or a bad thing."

Joe Halberstadt, Principal Standards Consultant at SWIFT, said the focus in Europe was to bring European reporting more into line with what is happening in the US with Dodd-Frank requirements, particularly concerning real-time reporting. "We can learn some lessons from US," he told delegates.

Funds and Investment Management: a rapidly changing landscape

How innovation can affect customers was a focus during the opening session of the Funds & Investment Management Forum. Just a couple of weeks on from the UK's Pension Freedom Day, Jeffrey Mushens, Technical Director of TISA and the forum opening panel's moderator, said the reforms were something the government didn't really understand the impact of, and "terrifying" for existing industry participants.

Jamie Jenkins, Head of Pensions Strategy, Standard Life, said the biggest change for consumers to come from these pension freedoms is to move the point at which they need to make decisions about their retirement income. "Three years ago you had to be engaged enough to join a pension scheme and at retirement most people took an annuity. With auto-enrolment, people don't need to be engaged at all to save for retirement, but at retirement they need to be very engaged," said Jenkins.

Helen Dean, Executive Director, Product and Marketing, NEST, said: "People will be highly engaged, but will also be worried and highly stressed and highly stressed people can make bad decisions." Dean thinks that the pensions industry can help people manage the significant risk of making the wrong decision.

Jane Vass, Head of Public Policy, Age UK, pointed out that the number of people in the UK aged 85+ is set to double in the next 20 years and treble in the next 30. While people won't be "stupid" with their pension pots, a default option for those who can't or don't understand the decisions that need to be made should be available. "There's no doubt that people are very scared about taking financial advice. They worry whether they can afford it and fear losing control of their finances."

For Tom McPhail, Head of Pensions Research, Hargreaves Lansdown, the pension freedoms are positive, but he sees a huge disconnect between auto-enrolment and the freedoms. "The freedoms have been introduced recklessly fast and we'll have to live with the consequences of that." On the benefits of financial education, McPhail was emphatic, describing financial education in general as pointless, whereas he sees financial advice at the point of engagement as useful. He also points out that, despite auto-enrolment, nearly 10 million people in work in the UK are still not saving for their retirement. "There will always be some people who won't engage."

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The panelists agreed that the timeframe for the pension freedoms hasn't allowed the industry to develop the new products that are needed, but Jenkins believes that this will come. Dean also sees new products as key. Although Vass agrees, she believes that the industry must take care when developing and marketing these products. "Innovation hasn't always worked in the consumers' best interests. This first generation is the bellwether that will establish trust in the pension system for the years to come."

The intricacies of the UK pensions fund industry were highlighted in a special session hosted by KAS BANK. This focused on the impact of the Pensions Regulator's Defined Benefit Code of Practice, which sets out a new funding code for DB schemes. Delegates heard there were no right or wrong answers to how to deal with the code: "Schemes, trustee boards and sponsors are all different and it is about finding a way to make things work," said Jonathan Reynolds, Client Director, Capital Cranfield Trustees. One approach is for trustees and the plan sponsor to undergo joint training on the new code so that they see all aspects from both perspectives. Otherwise, said Reynolds, it is easy to cherry-pick aspects of the Code that appeal and overlook those that seem less attractive.

In the same session, Neha Bhagrava, Investment Consultant at Redington, said an integrated approach towards covenant, funding and investment would help to solve the challenges firms faced in adopting the Code. This would involve a shift in mind set towards a consensus between all participants.

Chris Sier, Managing Director UK at KAS BANK, said data – and the transparency it delivers – can be used as a tool to support the DB Code. However at present trustees do not fully understand the need for data. It is important that other market players educate trustees about the usefulness of data in helping them to "do their jobs properly".

In a subsequent session, the future of funds automation was discussed. Tony Stenning, Head of UK Retail, Blackrock, said automation minimises operational risk, shortens the time out of the market for investors, and also ensures transparency at every level. Olivier Portenseigne, Chief Commercial Officer, Fundsquare, highlighted the fact that automation helped asset managers to roll products out to market very quickly. "Automation is very important, especially where you are linking to authorities in multiple jurisdictions," he said.

Neil Wise, Vice-President, Investment Funds Services, Clearstream, said automation in the post-trade arena is very important and that asset safety is a key concern for custodians. Despite STP rates in the UK of more than 90% for institutional investors, Richard Barrett, Executive Director Operations, IFDS said his firm still gets 250,000 manual orders to process per month, most of which come from end investors.

Some of the move towards increased automation in the UK has been driven, according to Barrett, by regulators mandating shorter settlement cycles. Portenseigne pointed out that meeting the changing compliance regulations has generated many automation projects during the past five years. He believes that the speed of automation will increase in the future, with cost reduction a key driver. Investors will no longer accept high funds costs and in order to be competitive, firms will have to automate more.

Olivier Lens, Head of Funds and Investment Management for EMEA at SWIFT, said asset managers would welcome a uniform standard around corporate actions provided by an industry utility. "This would create operational efficiency and help asset managers lower their costs, and ultimately benefit end investors."

The final Funds & Investment Management Forum session focused on the shifting dynamic in outsourcing. The trend to outsourcing began around 15 years ago. Mathew Davey, Head of Asset Manager Client Management Group, UKMEA, State Street, said general agreement has been reached over those 15 years about what is included in the outsourcing product set. An important lesson is that the key factor to enable outsourcing to work is to have a cultural fit between the organisations involved. Lee Toms, Head of Investment Operations, Legal & General Investment Management, agreed that the importance of the alignment between asset manager and outsourcer can't be underestimated. "The provider business has to be a viable business and stand on its own two feet."

> **"WE DON'T SEE ANY DIFFERENCE IN PERFORMANCE OR RISK BETWEEN FUNDS WITH OUTSOURCING AND THOSE WITHOUT."**
>
> *Armin Schwienbacher, Professor of Finance, Université de Lille 2 and SKEMA Business School*

Terri Van Praagh, Senior Vice-President, Head of Investment Operations Outsourcing, Northern Trust, said the early days of lift-out outsourcing arrangements involved moving staff "who weren't so great and processes that weren't so great". It's very dangerous to look at a flawed process and try to outsource it, she added.

Armin Schwienbacher, Professor of Finance, Université de Lille 2 and SKEMA Business School, cited research on the effects of outsourcing on European funds operations. Although 48% of funds have some form of outsourcing, the most prevalent services outsourced remain transfer agency, custodian services and administration. "It doesn't matter whether the funds are large or small and we don't see any difference in performance or risk between funds with outsourcing and those without," he said.

Looking forward to potential new areas of outsourcing, Van Praagh said regulations were forcing asset managers into a world of administration. "The guys on the front line should be focusing on getting returns for investors, not producing reports for regulators." Davey believes that managing the increasing complexity in the asset mix at the same time as trying to reduce costs for investors is a big challenge for asset managers and outsourcers alike. "There is a subtle shift under way from a process-led model to a data-led model," he said.

Toms believes that the outsourcing market will consolidate over the next few years, with fewer, bigger players remaining. Van Praagh also envisages consolidation and a more component-driven market.

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Are corporates getting what they want?

A growing number of corporates are using SWIFT; 12% of the co-operative's membership is now corporates, or 1405 companies representing 28,000 corporate entities. SWIFT membership is no longer an option only for large, multi-banked multinationals, said Neil Gray, Senior Sales Manager, Corporates Business EMEA at SWIFT. Moreover, SWIFT is going beyond messaging into areas such as cloud-based business applications that can be integrated into the Alliance Lite2 solution, said Andre Casterman, Global Head, Corporate and Supply Chain Markets, SWIFT. The ISO 20022 standard, he added, is enabling banks to deliver innovative solutions to their corporate clients.

But are the corporates happy with bank solutions? Neil Garrod, Treasurer, Vodafone was adamant during the first session in the Corporates Forum that banks were not meeting corporates' risk needs. While the traditional FX and interest rate risks were well catered for, bigger picture risks such as cyber attacks and a repeat of a global financial meltdown were not well understood. "Quantitative easing is a big experiment and no one knows what the outcomes might be. There are no products being offered by banks to hedge any macro or cyber risks. And counterparty risks with banks are still very high on the agenda of corporates," he said.

Vodafone is interested in self-funding its supply chain, but its banks have not offered any ideas as to how that can be collateralised: "They are not innovating in the way they should," he concluded.

Another corporate representative, Nick Dadswell, Director, Finance Business Services at Schneider Electric, had similar complaints. "Banks come to me and say 'let's do supplier finance', but we never get past the starting block. No bank wants to set up a new system. We are interested in security, automation and big data and the only way for companies to get this is to have a global solution; it won't be achieved via one bank or one banking solution."

The bank representatives in the debate acknowledged the corporates' concerns and agreed that risk and visibility of cash are a major concern. Charles-Henry Dubarry de Lassale, Head of Corporate Innovation & Solutions for Global Payments and Cash Management, HSBC, said banks have to collaborate with corporates, and when necessary with vendors, to develop the solutions required. "We cannot expect corporates to improve their risk management if each bank sticks to its proprietary systems. We shouldn't fear an open market, but should look for ways of bringing value to corporate clients."

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> *Neil Garrod, Treasurer, Vodafone*

Philip Hong, Director, Head of Channel Services EMEA at Citi, said banks need to use the information they have at their disposal in order to help corporate customers reconcile payments. "The information we have is an opportunity. It changes the dynamic between banks and corporates," he said.

Innovation in the trade and supply chain was discussed during a session produced in association with Lloyds Bank. A challenger to banks' domination in this area is essDOCS, a business network that is replacing paper documents with electronic ones. "We are trying to accelerate change in this landscape," said Ashley Skaanild, Head of Trade Finance and Chemicals at essDOCS. "We set out to disrupt and have grown into a trade finance environment."

Kaustubh Joshi, Associate Director Europe Region at Standard Chartered, said boutiques such as essDOCS had competitive technology and did not face the KYC challenges of banks.

Rene Chinnery, Head of Supply Chain Finance at Lloyds Bank, cautioned about the value in digitising paper documents: "If you digitise a piece of paper, you are not that much further forward than when you had the piece of paper. We want an end to end process with digitisation that removes the need to look at documents at all. We want to develop a supplier finance system that will be untouched by human hands."

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> *Philip Hong, Director, Head of Channel Services EMEA, Citi*

Innovation is occurring in the corporate to corporate space, said SWIFT's Casterman. "All the information flows are being dematerialised, not just the transfer mechanism between seller and buyer. This is not digitising paper; it is about new, cloud-based processes that link all the players." The data created can be used by liquidity providers to offer supplier financing; change is happening outside of the financial industry and Casterman said banks need to be prepared to hook into that innovation and transform data in financial services.

Industry pain points: collateral management and intraday liquidity challenges

Automation provides a great opportunity for banks to tackle the challenges they face when it comes to collateral management and also intraday liquidity. The new regulatory environment has placed an emphasis on the use of collateral and its management. Basel III, EMIR and Dodd-Frank have driven a number of initiatives and many firms are looking at how they can streamline operational processes and investment in technology and automation to support their future needs. Ross Dilworth, Head of Liquidity, Collateral and Network at Barclays and Richard Glen, Head of Global Securities Financing Sales and Broker-Dealer Relations, UK and Ireland at Clearstream Banking, were joined by Phillip Langton, Head of Collateral Management, NetOTC and Richard Wilding, Head of Collateral & Risk, Eurex Clearing, in discussing the implications of automation in collateral management.

The panellists concluded that the market is looking for utility style solutions, but as yet there is no single answer to the challenges. SWIFT is helping with standardised messaging for collateral management. The December 2015 deadline for uncleared OTC derivatives had been pushed back so that banks, brokers and the larger asset managers have been given a breathing space to prepare for the new rules. These rules will be introduced on 1 September 2016 and will require market participants to post margin for privately agreed OTC deals. However, in an audience vote, 36% of delegates said they were still just analysing options.

Real-time, online insight into data was presented as an effective approach to intraday liquidity management in a session hosted by Planixs and Vodafone. With the Bank of England stressing intraday liquidity management as a critical function, banks would be well advised to review their operations in this regard. Gary Manning, Director at Planixs, said banks were using credit intraday to a very large extent and often were unaware of how overdrawn they become. "This is a complex issue, but banks can capture data and use it to create real-time views across their correspondent banking networks." New BCBS requirements stipulate that "every single metric" has to be reported, added Manning. A number of banks are not ready for this, nor are they embracing the real-time technology that is available. Manning said: "Banks generally are not beginning with the right technology. They must apply technology in order to turn data into insight."

IN AN AUDIENCE VOTE, 36% OF DELEGATES SAID THEY WERE STILL JUST ANALYSING OPTIONS FOR DEALING WITH NEW RULES ON PRIVATELY AGREED OTC DEALS.

The role of SWIFT

Throughout the day, SWIFT held a series of presentations on the role it has to play for and with the community. The challenges its members face require optimised processes, increased control, transparency and visibility. This can be done via innovation and the leveraging of operational excellence.

During the event, SWIFT announced that its KYC Registry now has users from across 109 countries, facilitating compliance with a growing number of correspondent relationships worldwide. Launched in December 2014, the KYC Registry provides a simple, secure way to exchange a standardised set of information for correspondent banking KYC compliance, increasing efficiency and reducing risk. Banks contribute an agreed baseline set of data and documentation for validation by SWIFT, which the contributors can then share with their counterparties. Each bank retains ownership of its own information, as well as control over which other institutions can view it. To maximise the Registry's benefits, SWIFT has made data consumption free in 2015 for banks that contribute their own KYC information to the Registry and promote it to their correspondents.

Via the SWIFT Watch and intraday liquidity reporting tools, SWIFT is transforming data into actionable business insights. By using Watch, banks can get a clear overview of their traffic on SWIFT and also an overview of how their use compares with overall market totals and shares. Sourcing the right data from the SWIFT network can help banks to comply with the BCBS intraday liquidity requirements.

Achievements in standards, particularly ISO 20022, were also highlighted. SWIFT has identified 200 initiatives in 90 countries based on ISO 20022. The standard will help to facilitate end to end solutions, but a lack of harmonisation is a significant challenge. SWIFT is helping banks to carry out impact assessments, solution designs and is offering training on products and solutions for banks implementing ISO 20022 projects. Polly Quinn, Senior Product Manager, Market Infrastructures and Regulatory Change at Bank of America Merrill Lynch, provided some insights on ISO 20022 implementation. She said banks must develop a methodology to protect investments when migrating to ISO 20022. Information and harmonisation of data are paramount in the migration process, she added.

Cloud computing continues to attract attention and SWIFT is offering trusted cloud connectivity as part of its Alliance portfolio. Challenges that banks are looking to overcome include security, data management (including issues such as data location, retention, ownership and non-repudiation), standardisation and compliance. However, the benefits of cloud computing are evident: additional customers can be reached without significant further investment. SWIFT has ambitious plans for cloud services, including the evolution of its Cloud Portfolio and strengthening of partnerships with members and vendor partners.

The shape of things to come

This year's Business Forum London illustrated just how challenging it is for SWIFT members to tackle regulatory and operational issues while also keeping an eye on innovative developments that very often occur outside of the financial industry. One way SWIFT helps with this is through the Innotribe Startup Challenge.

Innotribe bridges the gap between the financial services industry and today's brightest start-ups, by organising regional Startup Challenge showcases around the world and a final each year at Sibos. The London showcase for 2015 took place the day before the SWIFT Business Forum London, and the five successful start-ups - Pariti, Sedicii, XWare42, Elliptic and Revolut - were also given the opportunity to pitch to and network with potential investors, partners and customers at the forum.

Pariti is a new service to help people out of high interest debt by creating a mobile product for consumers to track all their finances together in one tool and to build credit-worthiness. Sedicii has created an algorithm that generates a unique signature, meaning that an individual and organisation can prove identity without actually disclosing the information held. Xware42 draws together additional data related to a transaction which banks can use to enrich their transactional data and provide this to consumers online. Elliptic ensures that blockchain transactions can be secure and auditable. Revolut is a 'personal money cloud'. It enables users to send, exchange and spend without paying bank fees.

> **"THERE IS A THREAT FOR ESTABLISHED BUSINESSES WITH LEGACY SYSTEMS AND LONG-SERVING STAFF THAT THEY WILL BE OVERTAKEN BY COMPANIES WITH NEW TECHNOLOGY AND YOUNG STAFF."**
>
> *Sir David Clementi, Chairman of Virgin Money and World First, Former Deputy Governor of the Bank of England*

Innovation is also occuring thanks to open APIs, which enable content to be created and shared between banks, customers and third party vendors quickly and efficiently. Companies that use open APIs can tap into the pool of ideas, services, products and talent available in the community, cutting the cost of development while boosting the sophistication of their own offerings.

Rhiannon Butterfield, Head of Regulatory and Government Engagement at the UK's Payments Council, said an API/ Open Data consultation will potentially have a big impact on the banking sector. "There are a number of challenges but also opportunities. There is also a significant overlap with regulatory requirements emerging from Europe under PSD2 to enable payment initiation and account information services. There is therefore a need to ensure that, as far as possible, there is alignment between the two."

Irene Graham, Executive Director of Business Finance at the BBA, discussed with Butterfield how open APIs should be standardised and regulated. This will not be easy as regulators are still grappling with how open APIs should be implemented. The difficulty for UK banks is that there are two sources of rule-making on the subject – the UK Treasury, which published the Fingleton Report last autumn, and the European Commission, whose upcoming Payment Services Directive II contains provision for access to bank accounts. Unfortunately, these regulatory initiatives differ and banks may find they have to implement two different standards simultaneously.

Graham said the key questions were what standards will apply to the data, how these standards will be policed, how third party companies can be vetted and who will carry out the vetting. "Whatever gets created here isn't just a banking asset – it will benefit the consumer as well," she said. "Remember that 60% of consumer credit is not provided by banks but by alternatives such as building societies. We have to be mindful of what customers want and make sure we protect and educate them. This is bigger than just banks alone."

The future of money

The panel brought together to discuss the future of money comprised representatives from Coinstructors, NXT 2 Pay, Innovate Finance, COLU and Epiphyte.

Epiphyte is a previous winner of the Innotribe Challenge. Its co-founder and general counsel, Gabrielle Patrick, said in the US the banking industry was still using 1970s infrastructure, which meant that it is still faster to move money via road transport than it is to move it electronically. Such an industry is clearly under threat, he said.

The blockchain – a distributed public ledger for the transfer of assets – was much in discussion throughout the forum, particularly in the future of money session. Panellists debated whether the blockchain would act as a platform for services to be layered on top of it, similar to how the internet evolved. NXT 2 Pay has set up as a partner to facilitate anyone wanting to pilot on blockchain technology. Such layering could enable incumbents to harness the technology rather than being disintermediated by it.

The panellists also discussed the potential applications of blockchain technology, which include aid payments, tax payments, international remittances, access to documents such as property ledgers, voting, and linking to mobile payment mechanisms such as M-Pesa.

Good businesses will harness technology and a desire to simplify experience for customers, Clementi told the Forum audience at the start of the day. "There is a threat for established businesses with legacy systems and long-serving staff that they will be overtaken by companies with new technology and young staff."

The level of attendance – and engagement – at the SWIFT Business Forum London 2015 suggested that banks are taking these threats seriously and are assessing the opportunities that exist in the constantly changing landscape of financial services.

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