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Change now to survive

Banks must recognise need to evolve – Takeshi Kunibe

SWIFT to support banks through "backward compatibility"

Takeshi Kunibe, president and CEO of Sumitomo Mitsui Banking Corporation (SMBC), opened Japan's first Sibos with a welcome and a warning.

Acknowledging Osaka's mercantile history and innovative present, Kunibe said that it was fitting that SWIFT should chose "a city with a culture of accepting new ideas" in which to discuss how banks can leverage technology to build better services for customers. But he also suggested that continued economic and regulatory uncertainty should not be used as an excuse to put off tough decisions.

"Responding to change is key to survival," said Kunibe. Quoting Ian Bremner's 'Every nation for itself', he added: "The most obvious near-term losers in the G-zero era will be those who refuse to recognise the new reality and the need for change."

Identifying the three key sources of change impacting banks as post-crisis regulatory pressures, macro-economic uncertainties and technology innovation, the CEO of SMBC said commercial and in particular transaction services would be critical in securing the future of banks.

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SWIFT PRICING

Keeping the promise

Sustainable cost reduction in a low growth world

In the aftermath of the financial crisis, SWIFT remains on track to meet its strategic commitment to continued price reductions.

SWIFT has long operated a strategic approach to pricing with commitments to the community over the life cycle of each five-year strategy. In the past few years, promised reductions have been enabled by SWIFT's own cost management programme. "We are now on a sustainable path of continuously improving our cost structure," says Udo Braun, member of the executive board, group markets operations, Commerzbank, Germany and head of the Pricing Board Task Force (PBTF).

Progress in this regard has been reflected in message pricing, says Francis Vanbever, CFO, SWIFT. "A rigorous programme of cost restructuring has allowed us to continue to decrease prices despite the fact that volumes are not growing at the same pace as in the past," he comments.

Strategic commitments

In each of the two last strategy cycles, beginning in 2001 and 2006, the cooperative committed to reducing its prices by 50% over a five-year period. The second of

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WHAT'S ON

Tuesday 30 October

Plenary

11:00-12:15 *Plenary room*
How seismic is this shift? A discussion about the implications of emerging growth markets

In conversation with …

14:00-15:00 *Conference room 3*
In conversation with Larry Hatheway, global chief economist, UBS AG

Main conference sessions

09:30-10:30 *Conference room 3*
Building a global LEI solution: an Asian perspective

14:00-15:00 *Conference room 2*
Trade repositories: global versus Local

16:00-17:00 *Conference room 2*
Building future-proof operating models in wholesale transaction banking

16:00-17:00 *Conference room 3*
The regulation agenda: where do we stand?

Standards Forum

(Standards forum stand)

09:00-09:30
Rise and shine with Professor Poppe – gaining implementation insights

09:30-10:15
Business panel – why payment market infrastructure are adopting ISO 20022

10:30-11:15
Let's get practical – first hand implementation advice for ISO 20022

11:15-11:45
Education session – MyStandards: what is it and why you should care

12:30-13:30
Food for thought – Standardisation models: the jungle versus the walled garden

14:00-14:45
Business panel – why securities market infrastructures are adopting ISO 20022

15:15-15:45
Up close and personal with Gottfried Leibbrandt, SWIFT

16:00-17:00
Let's get practical – a customer's take on MyStandards

17:00-18:00
Standards Forum networking cocktail

Corporate Forum

9:00-09:30 *Conference room 1*
Corporate Forum opening

09:30-10:30 *Conference room 1*
Adapting to new global trade flows and to the rise of Asia in global commerce

Hyatt room Saki
Increasing efficiency of our trade transactions on Letters of Credit

11:15-12:15 *Hyatt room Yume*
RMB internationalisation – what does it mean for corporate treasurers?

12:30-14:00
Hyatt Crystal ballroom
Lunch and networking

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'Change now to survive' *continued from page 1*

On the regulatory front, the combined effect of Basel II and national laws such as the US's Dodd-Frank Act was to move banks from excessive risk-taking and toward commercial banking and annuity businesses such as transaction services. Sluggish western growth would force Asian economies to depend more on domestic demand, requiring banks to support commercial transactions within the region. Moreover, technology developments were providing businesses of all kinds with increasingly detailed insights into consumer behaviour. With approximately six billion mobile phones in use globally and 30 million smart devices sold annually in Japan alone, Kunibe argued that beyond the clear opportunity represented by mobile payments, banks should use newly available data flows to better understand customer habits and develop future generations of financial services.

"Commercial banking should be at the heart of our business," said Kunibe, adding, "We must upgrade our transaction banking capabilities."

Kunibe concluded his welcome address with a tribute to the spirit of collaboration among banks, both in Japan and globally. The concerted efforts of Japanese banks in the aftermath of the March 2011 natural disaster had proved the soundness of country's financial system, he said, noting also that Japanese banks would "never forget" the support shown by SWIFT and its member banks.

Delivering value

An emphasis on supporting banks' efforts to develop new services also ran through the SWIFT plenary, in which chairman Yawah Shah and CEO Gottfried Leibbrandt gave brief opening presentations before being joined for a Q&A session by SibosTV anchor Kavita Maharaj.

In Shah's assessment of whether SWIFT is delivering economic value to members, he claimed lowering banks' costs and risks through the development of new shared services and the provision of reliable access to counterparts was as much a part of the SWIFT proposition as bringing down message pricing (see opposite, Keeping the promise). "For the first time ever, at Sibos we have a Compliance Forum," he observed.

Recalling his first Sibos, as co-head of McKinsey's European payments practice in Atlanta in 2004, Leibbrandt, suggested that the parting shot of Heidi Miller – "SWIFT, what have you done for me lately?" – had left an impression. Echoing Shah, he said that SWIFT's infrastructure and capabilities could help banks to comply with the diverse raft of financial regulatory change without having to invest vast sums at a time of revenue uncertainty.

"Wouldn't it be nice if all this new stuff would fit your legacy systems, rather than having

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'Sustainable cost reduction in a low growth world' *continued from page 1*

these targets was actually achieved a year ahead of schedule. However, when the SWIFT2015 strategy was launched, the financial crisis had hit and its longer-term ramifications were still being assessed. "The previous two strategic challenges had involved a firm commitment to a 50% price reduction," says Vanbever. "However, we agreed with the Board that we couldn't make such a precise pledge in SWIFT2015, because we didn't know what volumes would be over the lifetime of the plan. What we committed to the Board was a 30-50% price decrease."

Before the crisis of 2008, says Vanbever, price reductions were supported by a combination of prudent cost management and economies of scale resulting from surging volumes. "With volume growth being a fraction of what it was in the past and even decreasing in 2008 and 2009, we have still been able to meet our price reduction goals through cost restructuring," he says. "Our comprehensive cost management programme proved timely in compensating for the loss of further economies of scale."

As a result, says Vanbever, SWIFT remains well on track to deliver on its commitment to further reducing costs for members between 2010 and 2015. In terms of message pricing specifically, he notes, "We are actually slightly ahead of where we might have expected to be. The latest projection is that we will be nearer the 50% than the 30% target."

Volume patterns

The impact of volume trends on the final result remains to be determined. SWIFT has a number of tools in its business intelligence area, such as the SWIFT Index, that have been shown to provide a reliable forecast of near-term GDP trends, which are closely correlated to SWIFT traffic volumes. Longer term, however, there is still a widely felt sense of uncertainty in the industry as a whole.

"When we are looking out further than 12 months, we engage in detailed scenario planning," says Vanbever. This covers a range of extreme scenarios, including an actual decrease in volumes, such as occurred in the year following the spark of the crisis in September 2008. Vanbever expects modest growth in 2013 and remains cautious about the

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WHAT'S ON

Tuesday 30 October

14:00-15:00 *Conference room 1*
Transaction and liquidity management in Asia

15:00-16:00
SWIFT Auditorium
Supply chain finance for corporates – the bank payment obligation

16:00-17:00
SWIFT Auditorium
Alliance Lite2 – It's never been easier to connect to SWIFT

16:00-17:00
SWIFT Auditorium
3SKey: how can you save more time, effort and money?

18:00
Hyatt Crystal ballroom
Corporate and Supply Chain cocktail

Technology Forum

09:30-10:30
Conference room 2
Arm yourself for cyber war – are you next?

12:30-14:30
Networking lunch: by invitation only
Enquiries to technology.forum@swift.com

16:00-17:00 *Conference room 1*
Back to the future: legacy platforms

Innotribe *(Innotribe space)*

09:30-10:30
SWIFT applications platform

12:30-14:30
Hyper-economics

15:45-17:30
The future of organisations

SWIFT Auditorium Sessions

Hall 5 unless otherwise stated

09:00-09:45
SWIFT Integration Solutions – delivering tailored solutions to your individual business needs

10:00-10:45
SWIFT Index

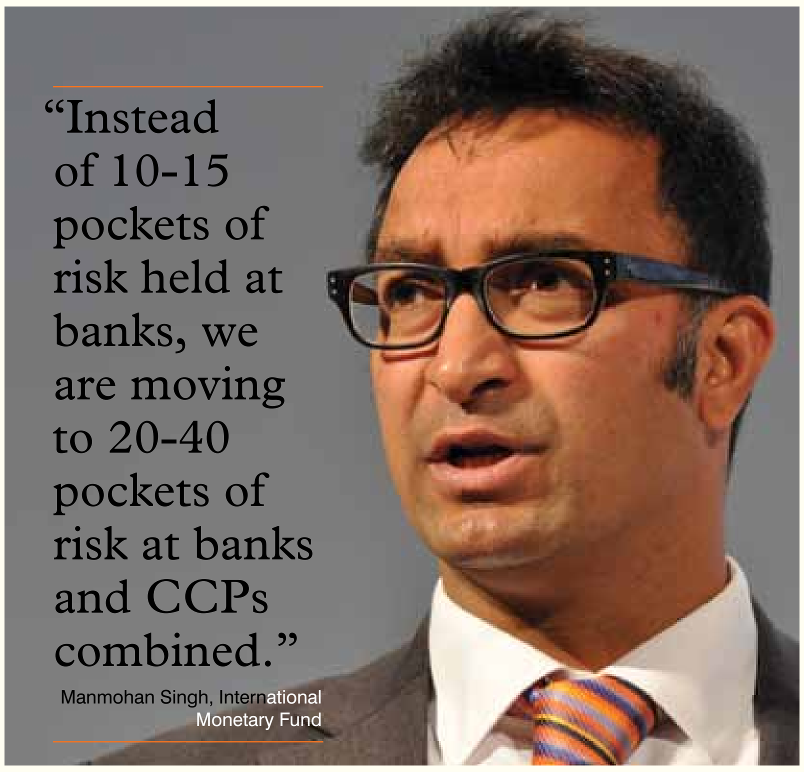
13:00-13:45
Update on SWIFT's collateral, clearing and settlement solutions

14:00-14:45
End-to-end consulting solutions from SWIFT

The **Compliance Forum** opening address will now be held in the *SWIFT Auditorium, Hall 5*, Wednesday 31 October at 09:00

Danger of OTC clearing risk being moved downstream?

Are CCPs really the answer to reducing risk in the OTC derivatives market?



"Instead of 10-15 pockets of risk held at banks, we are moving to 20-40 pockets of risk at banks and CCPs combined."

Manmohan Singh, International Monetary Fund

As global markets edge closer to a new regulatory landscape for OTC derivatives, questions remain as to whether the new world will result in a safer environment or simply shift risk from banks to clearing houses.

This year's Osaka conference explored this issue with a new debate format known as the Sibos Colloquium, sponsored by the SWIFT Institute, which pitted the views of Manmohan Singh, senior economist at the International Monetary Fund, against Godfried De Vidts, director of European affairs at ICAP.

Emanating from the Group of 20's 2009 Pittsburgh summit, the new swaps rules will push a portion of the OTC derivatives market through central counterparties (CCPs) with the aim of reducing systemic risk.

Singh estimated the cost of this risk to be USD 2 trillion, which comprises the under-collateralised portion of swaps held by banks.

But he warned that the new rules would only transfer the risk to a new type of entity, rather than reducing it, and could eventually lead to another situation that requires a taxpayer bailout.

"Instead of 10-15 pockets of risk held at banks, we are moving to 20-40 pockets of risk at banks and CCPs combined," he said. "If the plan is to give CCPs the same job as banks, in terms of risk mitigation, there better be good economics behind it."

Possible ways to increase the effectiveness of central clearing, said Singh, would be to funnel cleared swaps through a single CCP that would be backed by a host of central banks. The primary benefit of this structure would be the greater possibility for netting, i.e. the ability to reduce the collateral needed against contracts by setting them off against related products. However, the complexities associated with this model mean it has not been considered by regulators.

"Another alternative would be for CCPs to interoperate, but this is unlikely because clearing houses have targeted niche markets and the differences between national bankruptcy laws pose challenges," said Singh.

Complicating the situation further, are the firms that will be exempt from the new swaps rules, such as sovereign entities, insurers and corporate firms, in addition to the exotic products that CCPs will have difficulty in valuing and therefore can't be cleared – referred to by Singh as a "time bomb".

Exemptions and exotic products combined could represent a large part of the market and means banks will still hold significant risks on their books.

"If everyone posted collateral there would not be a need for CCPs," said Singh. "Those firms that have exemptions to the rules creates an asymmetry, which means the risk remains in the system."

Proactive on risk

Taking the stand after Singh, ICAP's De Vidts agreed that moving OTC derivatives from a bilateral world to a cleared one would not eliminate the associated risks, but noted that a number of solutions are emerging that would help to limit the dangers.

One of these cited by De Vidts is TriOptima's triBalance tool, which attempts to reduce portfolio risk exposures across bilateral transactions and cleared swaps.

By taking steps to reduce the risk exposure associated with bilateral counterparties and CCPs, banks can decrease margin requirements and the regulatory capital required for new rules like Basel III, contributing to the decrease in systemic risk that regulators crave.

"Margin and capital for OTC derivatives do address the risk in the system but don't address the underlying cause," said De Vidts. "Banks should be proactively looking at what's happening in this market and looking for ways to reduce risks."

The Colloquium session was designed to promote the work being carried out by the SWIFT Institute, a new initiative created to better link academic research with financial market realities. The session was introduced by SWIFT CEO Gottfried Leibbrandt, who said the aim of the scheme is to "answer those deeper questions that are not easily solved."

From 2013, the Institute will offer 12 grants per year for research projects targeting issues related to transaction banking. This follows on from the grants already issued in 2012, which include research on the challenges associated with internationalisation of the RMB and how to reach the 'unbanked'.

'Sustainable cost reduction in a low growth world' *continued from page 2*

medium term. "I'm convinced that the days of 12-15% volume growth are gone for some time. The next three to five years are unlikely to reproduce the spectacular growth in traffic we saw before the crisis. We therefore have to learn to live with lower growth."

Adding to the uncertainty, says Braun, are a number of intentional industry developments, "There are planned external events that may well have an impact on volumes, such as market infrastructure consolidation and T2S," he points out. Then there are new regulations in the offing on the use of central counterparties (CCPs). "That might provide opportunities for SWIFT, but it might also result in less traffic in certain areas," says Braun.

Volume incentives

The move from simple per-message pricing to a broader range of traffic-related options has brought incentives to move volumes onto SWIFT that might otherwise have been carried over other networks, including internal platforms. The fixed fee programme, for example, was introduced to allow high-volume users to achieve certainty of costs independently of variations in volume. This has now been extended to other member tiers. "The fixed fee was initially only for large customers who incurred more than EUR 1 million a year in message fees," says Vanbever. "It has now been extended to mid-tier institutions. Seven have already joined the programme."

In addition, Vanbever highlights the potential impact of the point-to-point discount. This is a cash discount to customers who bring traffic from high-volume bilateral links onto SWIFT. "Even if you are on a fixed fee, this benefits you, because you receive a credit note," he explains. "That's been very effective in moving volumes back to SWIFT, including internal traffic."

"A rigorous programme of cost restructuring has allowed us to continue to decrease prices despite the fact that volumes are not growing at the same pace as in the past."

Francis Vanbever, SWIFT

Taken as a whole, these options have brought greater flexibility to members in addressing their own cost restructuring imperatives. "It's not just the price SWIFT charges, but the total cost of ownership that needs to be taken into account," says Braun. "We as customers are able to benefit not just from cost restructuring within SWIFT, but also SWIFT business intelligence to inform our own cost infrastructures."

Braun believes that the community as a whole is happy with what SWIFT has delivered over the past four or five years from a pricing perspective, especially within the context of the financial crisis. "We saw SWIFT take a similar approach to the way our own institutions acted, reviewing our cost structure to make us more agile in responding to external events," says Braun. "As a result, SWIFT is clearly on a more sustainable path."

Technology alone no panacea for regulatory burden

A new focus on data and a 'C-suite' rethink is needed before technology can help solve compliance woes.

The solution to increasing financial regulatory pressure is not technological. Instead, how information is structured and a re-evaluation of C-suite priorities is crucial to meeting watchdog expectations, according to leading experts.

In a Monday morning panel chaired by Simon Topping, head of KPMG Financial Services' Regulatory Centre of Excellence in Asia Pacific, the question was posed; can technology carry the regulation burden?

"The first challenge is that regulators expect systems to not only be able to handle more complex data but also to stress test that data," said Topping. "For the first time, there are direct regulations requiring global systemically importent institutions to have new data for macroeconomic analysis, and current systems have not necessarily been built for that purpose."

Focussing on prudential regulation, Mark Lawrence, founder, Mark Lawrence Group, advised that rather than looking at regulatory burden from a technological viewpoint, it was important to understand regulator intent.

"The global financial crisis was a catastrophic failure to anticipate, identify and manage risk," he said. "The point of Basel II and III is to lay out standards so that risk management works well and is focused on credit and market risk, providing minimum standards of aggregation, management and reporting. But Basel is not a technology project. It is a risk project with a large technology component. The crisis happened not because Basel II didn't work, but because it was not yet implemented by 2007-8 and it is still not yet implemented by many banks today."

Fragmented IT platforms and a lack of system integrity meant institutions were unable adequately understand their total credit exposure to their largest counterparties.

Part of the problem

Lee Fulmer, CTO, cash management, J.P. Morgan, rejected any notion that technology was an answer to regulatory burden, instead categorising it as an 'enabler'. Far too often, the first thought in banks is to analyse data and decide how to migrate it into a new system, he said.

"Approaching a problem from a data perspective means you're assuming the problem is technological to begin with," Fulmer said. "And usually it isn't. We're spending a lot of money to meet regulation but we're spending it in different places. There may be 200 or 300 little projects within a bank, spent in different ways to give the regulators what they want. But managers should take a step back and look at how they want to run the business efficiently."

> "Approaching a problem from data means you're assuming the problem is technological to begin with. And usually it isn't."
>
> Lee Fulmer, J.P. Morgan

> "We need a robust data structure before technology can ever help us."
>
> David Saul, State Street

David Saul, chief scientist, State Street said the difficulty was to put fragmented data together in a way which met regulatory requirements but also made businesses more efficient.

"We hear a lot about big data. Institutions have large volumes of data to deal with from a wide range of sources – both structured and unstructured," observed Saul. "The problem is that traditional methods of extracting data and putting it together in warehouses takes too long to meet requirements as timeframes decrease and complexity increases. We need a robust data structure before technology can ever help us."

Saul is a proponent of semantic database technology, which applies to data management the same concept the internet uses to find relationships between vastly different websites; search engines can find similar meanings in various websites which have no pre-existing relationship to each other. "In the same way a semantic approach to data in a bank could recognise the relationship between a client entry in one database and a client name in an unstructured piece of data. It can create aggregation without knowing anything about who created the data or why," Saul said.

The utility of such an approach was uniting the data necessary to fulfil regulatory requirements in a cost efficient manner which would also help business functions.

Presently the Enterprise Data Management Council is working on its Financial Industry Business Ontology (FIBO) initiative to develop a standard for semantic database management in the industry.

"The benefit is you can exchange information from company to company and regulator to regulator in a standard way," said Saul.

'Change now to survive' *continued from page 2*

to build new connections?" he asked. "Only SWIFT can offer a reusable, single window onto your financial world … As the world becomes more complex, SWIFT becomes more relevant."

Pointing to new market infrastructures such as TARGET2-Securities and trade repositories for OTC derivatives transactions, as well as the moving target of sanctions compliance, Leibbrandt said SWIFT would make banks' infrastructures "backward compatible", letting them choose their own technology investment deadlines.

In conversation, Leibbrandt also looked to new areas of growth for SWIFT. Noting SWIFT's role in helping Asian banks integrate local standards as they moved increasingly onto the global stage – assisted now by enhanced capabilities in Kuala Lumpur and Singapore – he also argued that the reforms in the securities and derivatives markets also presented significant opportunities.

"Competing in the dynamic securities environment brings out our best," Leibbrandt said. "It is a vast space that is under pressure through the downsizing of investment banks, but it is an area in which we can help."

Global franchise

The need to respond to threats and opportunities is real for both banks and SWIFT. Noting the speed at which technology services are migrating to cloud-based delivery options – including those used at his children's school – Leibbrandt said SWIFT had often been viewed by clients as a cloud-like service.

But he also pointed out that the cooperative needed to be alert to technology developments both to ensure the cooperative's relevance into the future as well as those that might pose a more malevolent risk. "Cyber-crime makes our value proposition stand out. At the same time, we must work harder to ensure we are safe from attacks," he said.

Shah also noted the threats to the integrity of SWIFT's global franchise from a changing regulatory environment.

"We are a trusted and neutral third party that exists to connect and to serve banks," said Shah. "It is our job to ensure SWIFT remains global, neutral and trusted."

Summing up SWIFT's value proposition, Leibbrandt recalled the comment from one satisfied customer: "SWIFT is the reason I can sleep at night." And we will continue to work hard, he assured the audience, "so our customers have more reasons to sleep peacefully at night."

Interpreter, engineer and visionary

The future CIO requires the skillset of renaissance man

Will current changes in IT services, regulation and customer expectations transform the role of the CIO? And what kinds of people will be heading up IT in our financial institutions in the future?

As with Olympic athletes, so with CIOs – the role doesn't change, but what it takes to perform at the level expected just keeps on increasing, according to Taylor Bodman, global head of HR, operations and systems, Brown Brothers Harriman & Co.

Take the challenge of mobile technology in the enterprise. "It's not just a linear extension of the problem – it takes us from 2D to 3D," suggests Steve Ellis, head of wholesale services at Wells Fargo Bank. "Imagine – we're the person who was meant to defend the institution against the invader … now we're expected to go out there and shake hands with the hoard. We're interacting in a very complex environment."

> "We were the person who was meant to defend the institution against the invader … now we're expected to go out there and shake hands with the hoard."
>
> Steve Ellis, Wells Fargo Bank

Marcus Treacher, global head of eCommerce, PCM, HSBC, pointed out the paradox that, at the same time, the CIO still needs to keep the institution safe. "CIOs are under greater pressure to maintain the integrity and secrecy of the data while reaching out widely to the eco system," he said.

Coping with complexity

The CIO must be able to interpret the ever-more complex world of technology for his or her senior colleagues and, importantly, dispel the myths and show where the value lies that will help move the business forward. Susan Hwee, managing director & head, group technology & operations at United Overseas Bank, said "CIOs need to decipher and look through the smoke screens – some of which are created by vendors." But she also stressed the importance of the CIO's role as systems architect and engineer. "At the end of the day, if the engineering isn't right, your institution will be on the front page of the papers," she warned.

The creative tension between the business and IT provided some interesting reflections. Bodman highlighted the trend towards a more collaborative development environment, where business users can take advantage of more intuitive tools to prototype and collaborate with IT on development, potentially signalling the end of the business requirements document forever.

So what kind of skills will the next generation of CIOs have? Should they be artists or scientist? it takes all kinds to get a good result, according to Bodman. All the panellists agreed with Ellis's view that the separate, centre of excellence data centre would become a thing of the past and – as Bodman put it, "the CIO must be part of the business – front and centre with the Board and the customers." In future, said Treacher "Our leaders will need to be even braver because there's more to manage, more exposure."

Banks can't duck the data management challenge

For technology to carry the regulatory burden, managing data effectively is key, says Bank of America's Catherine Bessant

As banks struggle to meet the growing demands of regulators, Catherine Bessant, global technology and operations executive at Bank of America says that technology has to carry the regulatory burden. The fact that risk management has taken prime place in the technology investment decisions of financial institutions is evidence that technology has to – and does – carry the regulatory burden, contends Bessant. This was not the case a few years ago, she said. Bessant was speaking at Monday's technology keynote, with Paul Taylor, technology and telecoms editor of The Financial Times.

Having accepted that there is no alternative to seeking technological solutions, meeting the challenge of the regulatory burden lies in managing data effectively. "The most important thing is construction and management of data," she said. "We have to be at the cutting edge when it comes to data – its architecture, its construction and even its very use."

As regulations keep changing each day, Bessant insists that the design of systems should be more relational than hierarchical. Firms need to design systems in a way that is suited for re-engineering, reuse and flexibility, she said, in order to ensure that more regulatory requirements can be managed in an effective and timely manner.

Once a campaigner for regulatory consistency across jurisdictions, she no longer sees that as a reality today. So stepping back from that, she thinks that systems have to be designed in a way that can deliver according to jurisdictional demands.

Securing data

Banks are entering a new age of cyber security attack, noted Bessant. "All of us need to keep thinking that we are the next target," she observed, and banks need to invest in aggressive methodology for safeguarding against this. Each day around 20-25% of her time is spent on risk management activities. Information security she feels is a shared responsibility of business and technology. "The places where we are vulnerable are not often driven by technology. We are vulnerable down to the individual user and the daily business practice of using multiple devices accounts for a big portion of concern."

"We have to be at the cutting edge when it comes to data – its architecture, its construction and even its very use."

Catherine Bessant, Bank of America

Even though many firms are still contemplating on whether to allow 'bring your own device' (BYOD), Bessant is an advocate of BYOD. "Today no one wants constraints on the device they use." Facilitating BYOD does not require a technological breakthrough, she maintained, but a lot of disciple, the right rules of engagement and a clear understanding of how and where data is stored and accessed. The firm's IT department should own all the applications that are used. "All free and open-source software that people use should come from the technology department," she insists.

In an age where "elasticity is key," said Bessant, cloud computing is best suited to deliver solutions. "It means the ability to have resources at the peak time and not pay for them when we don't use them."

But all this requires an even greater effort identifying technological redundancy within banks. "As an industry we are facing the question of legacy systems," she observed, "… and whether we hang on to them, incrementally modify them or whether we modify them at all."

No resolution yet on risk transfer

Market structures under no illusions on elimination of risk, call for balancing act by regulators

The securities market infrastructures fora at this year's Sibos started on a sobering note with Global Custodian editor-in-chief Dominic Hobson noting that central counterparties (CCPs) by their nature concentrate and redistribute risk in the financial system rather than reduce it. These "fragile" entities are tasked with finding additional capital as regulators want them to have "skin in the game". While CCPs net transactions against each other, trading large numbers means greater demands for liquidity, Hobson said.

Hobson said clearing brokers would struggle to make their margins completely while CCPs would suck the margin of collateral dry. We're putting cash and collateral in the hands of the thinly capitalised institutions, he added.

No action plan

"CCPs inject liquidity into the system on the way up and withdraw it precipitately on the way down," Hobson said, adding that CCPs are a worrying panic transmission mechanism in the financial system. Rather than eliminate risk, CCPs concentrate risk and redistribute that risk to their clearing members, creating a risk hurricane. Broker-dealers have to find variation margin, but we are not eliminating the risk of default – we are repackaging default as liquidity risk, Hobson insisted. CCPs are going to eat a lot of collateral, adding to trading costs, he warned, observing that in theory brokers are free to pile on as much leverage as they can because they know who will ultimately pay. Multilateral netting at CCPs even helps them to cut the capital cost of over trading as does anonymous trading – ultimately speculative traders are going to be drawn to the market.

"We've yet to put together an action plan in the case of a failure of a CCP and a central securities depository (CSD)," said Hobson.

Opening up the discussion, John Gubert, chairman of UniCredit's global securities services executive committee, asked panelists from the CSD and CCP world to comment on the sustainability of these market infrastructures and whether they felt the situation was catastrophic, given Hobson's comments about risk. Euroclear CEO Tim Howell said certain aspects of risk can be eliminated. "The more CCP netting, the more efficient things will be," he said. "The infrastructures allow you to mitigate risk to some degree, but saying CCPs are the answer is simplistic. It's a balancing act for regulators. It's a case of helpful competition and risk mitigation."

Diana Chan, CEO of EuroCCP, agreed that there is a means to reduce risk through netting. "Bilateral is a riskier transaction," said Chan. "CCPs always work through their collateral and they won't risk their own capital to take risks. If there is a problem then they take action to manage a default situation. There needs to be a resolution regime for CCPs to protect against financial institution failure."

Sergei Sinkevich, managing director, primary market and globalisation, Moscow Exchange, said: "The risk-reward ratio is an issue. How much risk appetite these CCPs have is also important. We need to look at risk policies for CCPs. Interoperability among these CCPs could help in mitigating risks."

Gubert then asked whether the current market infrastructures are safe or whether defaults were inevitable. Howell replied that while defaults are inevitable, they do not derail the system. "There will be a shortage of collateral but regulation would be a good outcome," he said.

Chan said: "The notion that there is not enough collateral is not justified. Collateral transformation and more dispersing of risk not through one provider but maybe several could be a good solution."

Collateral arbitrage

Given the concentration of risk through CCPs, the question of default was explored further. Howell said some infrastructures could be amalgamators of risk.

The panelists then tackled the matter of collateral arbitrage, which could have a significant impact on leverage. Hobson noted that if a party fails to deliver collateral the event becomes systemic.

Howell replied: "There, you would look to the infrastructure as liquidity sources. But if you've got the assets, it's second order."

Howell added: "It's difficult to have rules for collateral arbitrage. There is a cost for mitigating risk, high capital and the people."

Broaching the subject of client failure, Chan argued that more needs to be done to prepare for that risk in terms of liquidity. "Trust in the system, intervention from central bank, CSD and centralisation – it is not all bad and we do have a place where infrastructure comes together," she said.

Hobson pointed to the risk of concentration saying that netting allows brokers to do more trades knowing that they do not have to take responsibility. "I'd like to see more firewalls to make things more containable."

"The notion that there is not enough collateral is not justified."

Diana Chan, EuroCCP

Chan commented that CCPs should have special status as they are closing out positions. "There could be a virtual position ahead of other creditors and there is interest not just in the US," she said.

Chan concluded that the situation is tending towards interoperability. "We are too blasé about risk. We need transparency and resolution for CCPs."

Market infrastructures juggle costs and volumes

How far can securities market infrastructures lower costs in the face of lower volumes and greater fragmentation?

The second session on securities market infrastructure at Sibos addressed the cost of securities settlement amidst an ever-changing regulatory landscape, characterised by low transaction volumes and CCP netting.

Against this backdrop, Global Custodian editor-in-chief and panel moderator Dominic Hobson asked panellists from the custodian, broker-dealer and infrastructure community for their thoughts on whether transaction volumes would rise. Robert Scharfe, CEO, Luxembourg Stock Exchange, gave an upbeat view of the landscape from the Grand Duchy. "We have 45,000 stocks listed for trading," he said. Trading volumes may not come back any time soon, but OTC derivatives on exchange can create more volumes," he said. In contrast, Goran Förs, head of global transaction services at SEB, described the reduction in volumes as damaging. "They won't come back in the future," he commented.

Christopher Flanagan, co-chief administrative officer for Asia ex-Japan, Nomura, commented on the region's role in sustaining securities business. "For broker-dealers, investment bank margins are going down," he said. "Our exchange and custodian customers want lower commissions. Asia is the bright spot. It will provide customers for us all."

"[Equity] trading volumes may not come back any time soon, but OTC derivatives on exchange can create more volumes."

Robert Scharfe, Luxembourg Stock Exchange

Costs of fragmentation

Panellists addressed the cost implications of a lack of harmonisation among market infrastructures. Providing the Asian perspective, Flanagan remarked that, "Asia has different capital markets in each location. I'm hopeful that stage-by-stage things will improve and liquidity will grow with an opportunity for new exchanges."

In Europe meanwhile, Scharfe saw the role of exchanges as having changed under MiFID with more competition in terms of organised trading facilities (OTFs) and multilateral trading facilities (MTFs). Exchanges, however, have a pubic institutional role. Instead of cherry-picking they need to cover the full range of securities. "Luxembourg is flexible here," he commented.

In the European post-trade arena, Förs noted that while he does not yet see competition, the environment in Europe is changing in terms of how CSDs will operate in a post-T2S world. "In 10 years, the custody part of the business will be much closer to what CSDs do," he predicted.

Förs queried the need for four separate CSDs in the Scandinavian region alongside greater fragmentation in trading venues. "Consolidation will happen," he predicted, "and consolidation will link up markets."

Where does the custody business go in an environment of T2S and increased regulatory change? "Global custody demands will increase as they take on more risk for beneficial owners," said Fors. "We need to see change on how we price things as a result. Sub-custody will also change in the next 10 years. We'll handle more of the complicated asset servicing, particularly with FATCA coming on-stream."

Ownership implications

Panellists addressed the question of whether market infrastructures should be user-owned or user-governed and which option would result in cheaper transactions. "A utility that is not market-owned is like a plane without a pilot," said Scharfe. "We need to justify our investment by getting the benefits of competition and a utility."

"There is a preference for a competitive environment, which drives price," said Flanagan. While vertical and horizontal models for infrastructure integration exist in Asia, he noted, "Preference differs from country to country as each is at a different stage of development."

However the challenges of the present environment are prioritised, panellists acknowledged that maintaining the status quo for securities infrastructures is not an option. "Exchanges need to reinvent themselves as broker-dealers adapt to funds and OTFs," Flanagan commented.

ISSA tackles industry issues … and issuers

The International Securities Services Association (ISSA) is on a drive to diversify. Sibos Issues spoke with ISSA chairman Josef Landolt and secretary Urs Stähli

From left to right: Josef Landolt and Urs Stähli, ISSA

You recently revamped ISSA's structure, introducing working groups that reported for the first time this year. What was the thinking behind the change?

Josef Landolt: Globally we're the only organisation to cover the whole value chain of the financial services industry. But it isn't a huge organisation so we've focused on the topics our members are most concerned about. We'll be working intensively with other organisations such as ISDA (International Swaps & Derivatives Association) and the AGC (Association of Global Custodians). Otherwise, the big danger is that you duplicate the work already done by others.

Which issues are your members most concerned about?

Josef Landolt: The working Group reports presented at the ISSA symposium in June this year clearly showed the need to address collateral management, hidden risks, and communication standards.

Urs Stähli: But the example of corporate actions shows that addressing issues of wider concern is not so easy. ISSA issued its first paper on corporate actions 25 years ago. Now, 25 years later, we're still talking about standards. In those days we were talking about structuring messages. Now we're talking about the whole value chain. But it's clear that today custodians are still the ones who have to translate issuers' prospectuses for end-investors – even though the issuer should be able to put something in simple words that can be understood by the investor.

So why haven't they?

Urs Stähli: You can appeal to issuers. They're the ones producing hundred-page prospectuses, but they don't want to take responsibility for investors understanding them. Custodians are cleansing five or six sources to create the so-called golden source. They could each be employing 50 people to sift through the information: that's a significant cost. It's a crazy industry.

One incentive would be to create standards for proxy voting. Issuers are much more interested in that because it's their life-blood. It facilitates information from the issuer to the end-investor in a much more streamlined way.

What else is on ISSA's agenda?

Josef Landolt: Collateral management is one topic. It will be a huge challenge to get the right collateral in the right place at the right time. It goes with another topic – OTC derivatives, which will play a role in collateral management. The question is how you value derivatives because that will tell you how much collateral you have to bring in.

It's relevant for the whole value-chain – for custodians, CSDs, broker-dealers and asset managers, and also for CCPs.

Another topic is out-of-network assets – for example, collateral for securities lending deposited elsewhere and not under the custodian's control – which came out of the working group on hidden risks.

You've talked about supporting other organisations in their efforts to lobby regulators. How will that work?

Josef Landolt: Historically, the financial services industry has been reluctant to give too much information to regulators. But today there's a totally different understanding. The regulators always have the stronger hand because they make the rules. But if the industry can't manage the rules, for some players it will be the end of the road.

In the meantime, what further changes are planned for ISSA?

Josef Landolt: We'll increase the Board from 11 members to between 15 and 18. It's a clear ambition to look for much more diversification at board level – with respect to both disciplines and geographies. We're strong on CSDs and global custodians. We're weak on the broker-dealer side and we have a big challenge to attract asset managers. At the same time, we're strong in Europe and North America but we're weak in Asia and Latin America. So we have a clear idea of who we want to add to the Board from those regions. We're also striving to gain more members from these constituencies.

Standardising the standardisers

While interoperability is one of the broadly accepted benefits of standardisation, how can individual corporate needs be accommodated in standards development?

The first 'food for thought' session at this year's Standards Forum was edgy from the opening. The session, entitled 'Can a community medicine also remedy internal disorders?' certainly demonstrated a lack of standardisation in how to approach the issue. Agreement across the panel was limited to a general acknowledgement that industry standards could help internal standardisation efforts, particularly at the level of definition of data elements. There were, however, clear differences on how far from global standards one could stray in adapting them for internal needs.

Part of the problem, suggested Richard Soley, chairman and CEO of Object Management Group, Inc. (OMG), was the lack of priority given to standards at the level of corporate strategy. He challenged a panel of vendors, standardisers and bankers to explore how best companies can make use of industry standardisation efforts to meet their own company needs.

For Fiona Hamilton, vice president, EMEA operations, Volante Technologies Ltd, the extent to which customers need to tweak standards and their choice of models from which to start the process depends on the complexity of the asset classes and commercial activities in which they are active. Investment banks may well start with FIX or FpML while those involved in payments will start with ISO 20022. "But you cannot say that one standard will ever be perfect for all companies," Hamilton stressed. The aim should be to draw on existing international achievements to create a canonical model for the enterprise at the start of the adaptation process. This, she suggested, would allow changes to industry standards to be incorporated as needed. Though involving more effort at the outset, such an approach would make subsequent changes at an international level less onerous to integrate at company level where necessary.

This led to a query from Soley about how much change is possible in one's adaptation of a standard before adversely affecting the benefits that might be expected from interoperability.

Form versus content

Kevin Houstoun, chairman and founder, Rapid Addition and co-chair, Global Technical Committee, FIX Protocol, stressed that the individual corporate's approach to standards is coloured by its perceived function as a 'gateway' technology, allowing users to carry out the real business they want to do. He used the example of shipping containers as emblematic. They provide a standard form of carriage, but without any focus on what users choose to transport in them.

Soley commented that shipping containers have far fewer constraints in their design than financial services standards do. Houstoun accepted that, in one respect at least, shipping containers do not serve as a good model for the standardisation process: that of governance. "Different standards were created for different regions and that made the harmonisation process more difficult than it needed to be," he noted.

Pragmatic accommodation

The Bank Industry Architecture Network (BIAN) was created to promote a flexible architectural model for the growth of banking services, addressing both the challenges of interoperability and integration costs. Hans Tesselaar, program director within ING Bank and executive director at BIAN, suggested that standardisation bodies should have limited achievable objectives. "A key issue for a market body in the standards area is to reuse what already exists," he said. "They should to be prepared to recognise that success will ultimately be defined by their becoming obsolete at some point," he said. Houstoun, however, was not having that. "Standards bodies can evolve," he countered. "You need a standards organisation to help users avoid technical obsolescence in their own systems."

Synthesising the challenge of customising while retaining interoperability, Marc Delbaere, head of standards research & development, SWIFT suggested that all data and enterprise architects see what they do as unique, and implied that a range of motivations can affect the approach that each corporate standardisation effort can take. Nevertheless, he stressed, that is not an impediment to leveraging industry standards for internal uses. He noted that there are two aspects to leveraging standards: interoperability and accelerating efficient internal processes. Even if interoperability is lost in the process of the latter, "it is still worth something."

Hamilton suggested meanwhile that, handled efficiently, the process of prioritising internal standardisation need not necessarily hamper the cause of interoperability, which can be dealt with centrally within the organisation. "The whole purpose of the exercise of canonical modelling is to create a lingua franca for internal uses," she commented. Changes in external messaging needs can be accommodated within that model.

Acknowledging customisation of standards at a company level as inevitable, Delbaere proposed a 'meta' approach of, as far as possible, standardising the way that customisation at a company level is achieved.

In a question from the floor, Karla McKenna, director, market practice and standards, Citi Transaction Services, noted that one of the purposes of internal systems is to support real business transaction needs with external counterparties, and asked how, in that light, internal standards could differ significantly from international standards. Tesselaar suggested a new culinary analogy. Standards management should involve a layered approach, he said, moving from 'spaghetti' to 'lasagna'. Change can be effected at one layer without changing the entire system structure.

"You need a standards organisation to help users avoid technical obsolescence in their own systems."

Kevin Houstoun, FIX

What's your standard?

http://www.dialogueonline.info/blogs/paul-miserez/what-your-favourite-standard

COMPLIANCE FORUM PROGRAMME

Wednesday 31 October

09:00-09:4 — *SWIFT Auditorium*
Compliance Forum opening address

09:45-10:45 — *SWIFT Auditorium*
Global variations in the focus on financial crime – an Asian perspective

11:00-12:15 — *Plenary room*
Big Issue Debate: Regulation – will global transaction banking survive?

12:30-13:30 — *Standards Forum stand 3B10*
Food for thought: Standards and Regulation

14:00-15:00 — *SWIFT Auditorium*
Sanctions screening: you'll sleep better

15:30-16:10 — *Hyatt room Mai*
Case study: a country-specific approach to complying with sanctions regulations – Ghana

16:15-17:00 — *Hyatt room Mai*
Sanctions meet Business Intelligence

17:00-19:00 — *Hyatt Regency ballroom*
Compliance Forum cocktail

Thursday 1 November

09:30-10:30 — *Conference room 2*
Analytics application in financial crime – joining the dots

11:00-12:00 — *SWIFT Auditorium*
Sanctions testing – for an effective, efficient sanctions environment

13:00-13:45 — *Community room 2*
Case study: financial crime analytics in practice

13:45-14:45 — *Community room 2*
The future of correspondent banking in a changing regulatory environment

15:00-15:45 — *Community room 2*
Compliance Forum closing address with the Chairman of the SWIFT Sanctions Advisory Group.

Keeping standards development in the public eye

Satoru Yamadera of Bank of Japan explained to a full Standards Forum audience his long engagement with the standards world

"The greatest challenge [for LEI] will be to implement the regulators' intention at a global level."

Satoru Yamadera, Bank of Japan

In one of several innovations at this year's Standards Forum, a number of well-known personalities in the standards world are being interviewed by Richard Sterneberg, consultant, GPlus Limited, in an effort to find out what makes them tick.

First up on Monday afternoon was Satoru Yamadera of Bank of Japan, where he serves as director, head of the International Standardisation Group, Centre for Information Technology Studies. Though working for the central bank, Yamadera is intimately involved in the Japanese financial community's standardisation efforts, being particularly active in the development and promotion of the Legal Entity Identifier (LEI). Unlike in Europe and US, where standardisation is essentially a private sector affair, in Asia, he noted, the central bank often plays an important role. Yamadera himself acts as the secretariat of ISO/TC68 committee of Japan.

What, Sterneberg asked, is the most challenging aspect of the LEI initiative? Yamadera welcomed the fact that the Financial Stability Board (FSB) has taken on the governance of the project. "That allows us to focus on the technical side, where the greatest challenge will be to implement the regulators' intention at a global level," he said. He suggested that dealing with language differences was a work in progress but that the private sector would find a way to step up to the plate.

Yamadera argued strongly in favour of continued coordination between the private sector and regulators, pointing out that the FSB LEI Implementation Group (IG) is working closely with private sector experts through a Private Sector Preparatory Group (PSPG). While LEI is slated for live launch in March 2013, Yamadera hinted that his willing involvement with the standardisation process was unlikely to end any time soon.

If you can't beat them …

The future of payments in emerging markets lies not with banks or telcos but (probably) both.

Everyone knows you can make money from offering payments services to the unbanked – but no-one seems quite sure how, it emerged from a panel convened Monday to discuss emerging payments opportunities in rapidly developing economies.

Neeraj Aggarwal, partner and managing director at Boston Consulting Group, in his introduction identified four payments models potentially involving banks: business correspondent relationships; pre-paid cards; M-wallets; and mobile branchless banking. But all of them would have to break through what he described as "the quality-cost paradigm".

"The traditional trade-off between quality and cost – between the branch network and the call centre – no longer applies," he said. "The economics need to be reviewed."

"The best solution for each market will be unique to that market."

Neeraj Aggarwal, Boston Consulting Group

Panellists agreed that any of the new models for growth markets would change the payments landscape – but market-by-market rather than in a regional sweep. "The best solution for each market will be unique to that market," said Aggarwal, pointing to the influence of existing conditions such as mobile penetration in India and near-ubiquitous pre-paid cards in Brazil.

Jairam Sridharan, SVP of retail banking at Axis Bank, contrasted Brazil, where card usage has been growing at an annual rate of 28% for the past five years and all participants in the value chain made money, with India, where banks had insufficient incentive to invest in the cards market.

"In Brazil, everyone's losing money on low-value tickets."

Eduardo Chedid Simões, Cielo

"In India, card usage has been 'just going to explode' for 10 years now. I hope it happens at some time – my career depends on it," he said. "But banks in India tend to have an incumbent mentality. Until Indian banks think like nimble non-banks, non-banks will go and eat our lunch."

Potential partnerships

In fact, some panelists – and much of the audience, judging by a straw poll – saw non-banks such as telcos, retailers and independent payments providers less as competitors than as potential joint-venture partners.

Eduardo Chedid Simões, executive vice-president of products and business at payment provider Cielo, pointed to deals struck between banks and three out of four of Brazil's largest telcos. Yet he insisted there had to be value for both parties beyond providing the plumbing.

"You don't need a telco to reach customers on their cellphones – you need an app," he said. "You have to ask who owns the app and how you manage it if the partnership splits up in five years' time. Everyone's facing the customer – but through what?"

In the Russian market, where 20% of the population is unbanked and telcos and other market participants face the same regulatory barriers to entry as banks, it's a question of multiple players trying (and possibly failing) new models, according to Vladimir Tatarchuk, first deputy chairman of the board at Alfa-Bank. "Everyone is trying to understand what the market will look like," he said.

Breaking even

In the meantime, even those who see unbanked payments services as potentially profitable in the long term are currently struggling to break even. If there is to be long-term value for banks in emerging markets payments, it will be in upselling to savings accounts and credit, or – as Sridharan suggested – selling both payments services and non-financial products and services such as lottery tickets.

Where none of the panel saw value was in the payments plumbing or – at least in the short term – in low-value payments.

"In Brazil, everyone's losing money on low-value tickets," said Chedid Simões. "Banks and telcos tried to do it alone and failed. The joint ventures have a big challenge ahead of them. We're looking for different models all the time."

Tatarchuk agreed. "In Russia it's too early to decide on a model," he said. "It's too early to tell which of them might work."

"Until Indian banks think like nimble non-banks, non-banks will go and eat our lunch."

Jairam Sridharan, Axis Bank

Market prepares for new era of trade reporting

Reporting of OTC derivatives trades has begun in earnest in the US, but complexities in other regions are yet to be solved.

A myriad of trade reporting requirements stemming from impending OTC derivatives regulation will pose challenges for all market participants and span all asset classes.

A panel of experts closely involved in developing and operating trade repositories for derivatives offered Sibos delegates an insight into what to expect across the various regions in a Monday afternoon session entitled, 'Trade repositories – Tackling new regulatory requirements for OTC derivatives'.

The goal of regulators is to use trade repositories to increase transparency in the derivatives market and mitigate systemic risk.

"The main work on trade repositories will need to be done by the largest 20-30 derivatives dealers, but reporting will affect all types of market participants and the differences between the rules across jurisdictions needs to be looked at," said Karel Engelen, director and head of technology solutions at the International Swaps and Derivatives Association.

"Reporting will affect all types of market participants and the differences between the rules across jurisdictions needs to be looked at."

Karel Engelen, International Swaps and Derivatives Association

One major concern, noted Engelen, will be dealing with cross-border trades. For example, market participants are still unsure how to report a trade in a German interest rate swap, conducted between a Singaporean and US institution.

Moving forward

Leading the way is the Commodity Futures and Trading Commission, the US regulator that has oversight for index-based swaps, with reporting for credit derivatives and interest rate swaps launched on 12 October, with other asset classes set to follow in January. Japan, Singapore, Hong Kong and Australia are preparing their respective trade reporting rules for introduction in 2013.

A key difference between US and Europe, which is reforming swaps trading via the European market infrastructure regulation, is a requirement by the latter to report listed, as well as over-the-counter, trades.

Europe is expected to start reporting derivatives trades by 1 July 2013, and Jesús Benito, managing director of REGIS-TR, a European trade repository formed through a joint venture of central securities depositories Iberclear and Clearstream, said testing of his facility would begin within two weeks.

He added REGIS-TR was looking for value-added services to further help the market prepare for the new rules.

SWIFT and ISDA are currently collaborating on a white paper to help establish best practice for derivatives trade reporting.

"Swaps traders, clearing houses, trade repositories and trading venues will all require a complex network of connections to each other," Benito said. "There is room to innovate and offer new solutions that will help to ease this burden."

INNOTRIBE

Making light work of innovation

To innovate successfully, you need adaptability, resilience and the ability to change constantly. The only mistake is to do nothing

"You may be big, but innovation, like judo, will use your weight against you and throw you about," said Gottfried Liebbrandt, CEO, SWIFT, introducing Monday morning's 'Innovation Opening: The Tribe on the Tatami'. To illustrate the point, Aiko Sato, Judo Women's World Champion, then threw Dr Christopher Sier, director, Financial Services Network, across the tatami mat laid out on stage.

This was Innotribe's debut appearance on the main plenary stage, and the session continued in characteristic style. Throughout the session, key principles underlying both judo and innovation were illustrated by further demonstrations of skill by Aiko Sato; Dr Sier got a lot of practice at landing on the mat. The two were loudly applauded at the close, and not only because delegates had understood the message that size is no defence against world-class skill – nor indeed against innovation.

Mobile markets

But the message of the session went further than that. First speaker was Mark Pesce, founder, FutureSpeak, who used a story about the development of 'Coconuts-as-a-Service' in Kerala to describe the impact of mobile technology (among coconut pickers in particular and on communities in general). "Since the dawn of time, markets have been located in particular places at particular times. Now, every mobile is a market," observed Pesce. Coconut pickers, like the rest of us, are now networked.

Pesce went on to discuss the disaggregation of services as a mechanism towards achieving both leaps of efficiency and innovation. "Your customers will find uses for the services you offer that you can't even imagine," said Pesce. But did this suggest that innovation could be outsourced to customers? Kosta Peric, head of innovations, SWIFT, took the stage. "We need to discuss how we innovate, and for that, I will use my prop," said Peric.

The prop was a toy castle. "We all know these were built in the middle ages to protect, to keep you safe, to last for a long time. Your core business is your castle." Inside the castle, said Peric, the goal is to optimise, and new ideas tend not to be welcome. But new ideas are vitally necessary for innovation; castle-owners need to develop a "sandbox" in which ideas can be tried without endangering the enterprise. "Innotribe is the industry's sandbox," said Peric, citing the SWIFT Application Platform, the Digital Asset Grid and the Banks For A Better World initiative as ideas currently in the sandbox.

"It's notable that we start Sibos Osaka with an Innotribe plenary session on innovation."

Sean Park, Anthemis Group

Sudden Death

It was time for Aiko Sato to illustrate another principle. This, the screen told us, would be: sudden death. Happily for Dr Sier, "sudden death" should be understood to mean failure, which is vital to innovation. Once again, Dr Sier failed to stay on his feet against Sato's attack, and William Saito, founder & CEO, InTecur, K.K., took to the stage. "Fail quickly, fail often, become comfortable with failure," said Saito. Why? "Because the opposite of success is doing nothing." Failure is a necessary stage in the innovation process.

Aiko Sato threw Dr Sier some more, to illustrate the principle that continuous competition is important to innovation, and then Sean Park, founder, Anthemis Group, told delegates: "The business models of the industrial age are increasingly irrelevant. The business models of the information age are all about modularity." Everything is digital; companies can "pick and combine" high-performance modules. "Over the next 50 years, the winning companies will show adaptability and resilience. The ability to change constantly is an actual skillset," said Park.

But the final triumph of this highly innovative session was still to come. If Dr Sier could endure ten more throws, the screen told us, he would earn the right to throw the Judo Women's World Champion. The audience count down with him: "…three …two …one."

And Dr Sier had his moment. Smiling widely, to applause, he was helped from the stage.

Ignite talks catch fire

Four speakers delivered a lively and exciting sequence of Ignite Talks in the Innotribe Tent at 12.30 on Monday. First up was Shamir Karkal, founder and CTO of Simple. "It's one thing to know exactly where you're keeping billions of dollars in customer assets, but quite another to understand your own personal finances," said Karkal. Even bankers can get frustrated trying to work out how much they've spent in a month, and thus how much they can safely spend.

"I'm here to listen to you guys and find out how we can work together to make the planet a better place."

Professor Carolyn Stephens, The London School of Hygiene and Tropical Medicine

That was the insight that led to the founding of Simple. "We decided to help customers by giving them an online banking interface that is modern, human and – yes, simple," said Karkal. Simple works with FDIC-insured partners to provide banking services; this enables a core focus on the customer experience. "We control the technology and we craft the experience," said Karkal. Simple delivers its plastic cards in linen envelopes rather than glued to letters; customer reaction to this is sometimes so positive that a picture of both card and envelope is posted online – leading inevitably to card replacement because too many details have thus been divulged.

Interestingly, the prominent number on the customer's Simple homepage is the "safe-to-spend-number", which is supported by analytics down to a literally granular level. "I could pretty much answer any question about my finances, down to how much I've spent on coffee in any given month," said Karkal. Banks make money by keeping customers confused; the Simple approach is to lower the barriers that frustrate customers – including bankers – as they try to engage with their personal finances.

Mick Jagger generation

Then Jesper Koll, head of R&D worldwide, J.P.Morgan, spoke about a subject that was – to judge from his enthusiasm – close to his heart. "I am one of the last Japan optimists. Japan is very much alive," said Koll. Debt to GDP might stand at 230%, but the debt is funded. Real-estate prices are the same as they were, in Yen terms, in

Spring 1981. But the key fact, said Koll, is that Japan is approaching a "demographic sweet spot." The significant chart showed salaries peaking at 55. "The baby-boomers represented a down-pull because their salaries had peaked, but now that the Mick Jagger generation has retired, there's a young bulge coming through," said Koll. Tokyo has more Michelin stars than Paris, and – Koll's final, light-hearted clincher – the 1JPY coin floats in water.

Yobie Benjamin, global chief technology officer, Citi Transaction Services and Citi Enterprise Payments, spoke about what he had learned in his first two years at Citi. "Doing digital payments and digital banking is a lot more difficult than it sounds," said Benjamin. Nils Boesen, director of knowledge, innovation and capacity, United Nations Development Programme, closed the session with an account of the UNDP's work around the globe – and a call for partnership with the financial-services industry. "We are so different, and yet we have so much in common," said Boesen.

Does money have a future?

There was standing room only for Monday afternoon's Innotribe session on the 'Future of Money'. And with good reason: the session heard from a wide range of speakers with views ranging from surprising, through innovative, to revolutionary – all of them convincing. Eli Gothill, research technologist, Webisteme, demonstrated a quick way to create "punk money" using Twitter; Yoni Assia, founder and CEO, Etoro, pulled up several live trading accounts to show that crowd-sourcing your investment decisions can be a successful investment strategy.

The session began to the sound of a steam train; the metaphor underlying the session would be rail travel. "Banks and other providers travel on the tracks; some of us are the tracks," said co-moderator Chris Skinner, chairman of the Financial Services Club and CEO, Balatro. It was fitting, given its content, that the session ended with an updated soundtrack – Kraftwerk, 'Trans-Europe Express'.

"We are at a railway crossing today, where one of two things are happening. We are either inventing new ways to use the infrastructure, or we are reinventing the infrastructure itself," said co-moderator Udayan Goyal, founder and managing director, Anthemis Group. Approaches varied from region to region around the world, said Goyal. Then Paul Wilmore, managing director, Barclaycard US, gave a fascinating account of using social media to create communities around financial products. This entailed a two-way engagement with the customer, and was a potential source of innovation.

"A caller said, I know it costs you USD5 every time one of us calls with a question. If I don't call for a month, will you credit USD5 to the community? I don't think we can, but my point is, we would never have thought of that," said Wilmore. Vipul Shah, managing director, product strategy executive T&SS, J.P.Morgan, developed the theme of engagement with the customer. "It is our strong belief that a payment represents an opportunity for a customer to reach out and have a relationship with the recipient," said Shah.

This was a strikingly pro-active stance. "We all win in a digital revolution," said Shah, who then went on to emphasise the importance of simplicity in product development for a "connected world". Through the session, Chris Skinner had been calling votes on which services were akin to steam trains, which to InterCity trains, and which were state-of-the-art bullet trains. Most so far had been InterCity; now, the session voted Kenya and Tanzania's text-based M Pesa service the first unequivocal bullet train.

But this was also the point at which the session left the tracks altogether. "You're talking about trains and rails; I'm going to tell you about intergalactic transportation," said Yoni Assia, founder and CEO, Etoro.

"Those guys did contradict each other, but that proved the point. They came from different sides and could generate new ideas by the contradiction. I liked the presentation. Very catchy."

Yuri Rabinovitch, Spectrum Systems

"You can buy anything three clicks away on the global network," said Assia. Etoro is accessible via Facebook, and everything on it is open – including its founder's and the session co-moderator's trading histories; for a short time, we were watching a boundary-stretching exercise in full disclosure.

Then it was time for a reality check. "Will we wake up in a few years with a single digital currency? It's as likely as all of us waking up speaking Esperanto," said Mike Laven, CEO, The Currency Cloud. Laven argued that, although it was still true that financial activity could be tracked back to a bank, the value chain could be profitably disaggregated. "Innovation is a state of mind," said Laven.

Then Eli Gothill came to the stage and created money. The "banknote" was in fact a tweet promising to pay the bearer on demand a pint of beer, but that was a secondary characteristic. "It may be a beer, but it's also a promise," said Gothill.

"From Innotribe I'm expecting inspiration. I come from the development industry. What I expect to take away is inspiration from a world that in so many aspects is different and in so many aspects is the same. Development is like the financial sector; it's the glue that holds the world together. If we do not change, we cannot address the problems of tomorrow."

Nils Boesen, United Nations Development Programme

Gottfried Leibbrandt, #SWIFT – Twitter Q&A

Gottfried Leibbrandt @Geo Leib

Sibos Issues @SibosIssues 1m
What technology #innovation do you rely on most every day?

Gottfried Leibbrandt @Geo Leib 1m 30
Email!

Sibos Issues @SibosIssues 2m 20
What is the single most profound way in which technology #innovation is changing lives today?

Gottfried Leibbrandt @Geo Leib 4m 15
It's shortening distances and truly creating a global community. I really think the world is becoming flat

Sibos Issues @SibosIssues 6m
Which innovator do you most admire (person or company)?

Gottfried Leibbrandt @Geo Leib 7m 45
SWIFT. I am actually serious: it was and is a resounding example of innovation in interbank communications

Sibos Issues @SibosIssues 8m
What's the best piece of advice you can give to a #start-up?

Gottfried Leibbrandt @Geo Leib 8m 20
Adapt and improve based on market feedback, then adapt again, and again

Sibos Issues @SibosIssues 10m
What is the most important thing a bank's CEO can do to foster #innovation?

Gottfried Leibbrandt @Geo Leib 11m 55
Look for competitive spaces where innovation will lead to market share gain, then focus on positive customer feedback

Sibos Issues @SibosIssues 12m 20
How should banks use #social media?

Gottfried Leibbrandt @Geo Leib 13m 40
Create direct engagement between employees and customers, rather than use it as corporate broadcast channel

Sibos Issues @SibosIssues 14m
What is the most recent exciting #innovation by a bank and why?

Gottfried Leibbrandt @Geo Leib 15m 15
iDeal, created by Dutch banks, leveraging ACH and e-Banking tokens. For Dutch internet payments it is now bigger than cards or Paypal

Sibos Issues @SibosIssues 16m 17
What technologies have the biggest potential to improve value to banks' clients?

Gottfried Leibbrandt @Geo Leib 16m 55
No, but the train is leaving the station

Sibos Issues @SibosIssues 18m 15
What technologies have the biggest potential to improve value to banks' clients?

Gottfried Leibbrandt @Geo Leib 18m 30
Smart comparison software

Sibos Issues @SibosIssues 19m 20
What should SWIFT's role be in fostering #innovation?

Gottfried Leibbrandt @Geo Leib 21m 45
Twofold: keep innovating our own offering; and act as #innovation catalyst for our banks

Sibos Issues @SibosIssues 23m 15
What will you be doing to support this in your role as CEO of SWIFT?

Gottfried Leibbrandt @Geo Leib 24 5m
Help create an 'innovation agenda' to focus #innovation on specific areas in our product offering

Sibos Issues @SibosIssues 26 30m
What has been the single biggest achievement of #Innotribe to date?

Gottfried Leibbrandt @Geo Leib 27m
To act as a catalyst for banking innovation

Sibos Issues @SibosIssues 27m 15
Why should Sibos delegates spend more time in the Innotribe stream?

Gottfried Leibbrandt @Geo Leib 28m 10
Very impressive and inspiring speakers – and it is fun!

Sibos Issues @SibosIssues 29m
What question should I have asked?

Gottfried Leibbrandt @Geo Leib 31m
What is the Digital Asset Grid? *(see left)*

400 firms on the blocks for the $ 50,000 prize

For budding entrepreneurs, there's no better way to get your Fin Tech business idea off the ground than to take the Innotribe Startup Challenge. This exciting programme puts you in front of venture capitalists, angels and influencers actively investing in innovation. Now, here at Sibos, 15 finalists will meet with top banks and financial institutions to compete for the $50,000 award. Watch the Grand Final at 12.15pm, Thursday at the Innotribe tent.

The growth of Asia cannot be ignored

he importance of the Asia-Pacific region to SWIFT's future growth strategy was made clear to the SWIFT Chairpersons assembled in Osaka

"The growth of Asia cannot be ignored," said Ian Johnston, SWIFT's Asia-Pacific CEO. Sibos 2012 is the largest event SWIFT has held in the region, attracting 6,000 delegates, a quarter from Japan alone. For Johnston the conclusion is simple: "SWIFT cannot afford to underinvest in the region."

With the shift of economic power continuing to travel from west to east and the increasing influence of the middle class in China, India and the ASEAN region, Johnston recognised the need for SWIFT to rebalance its priorities, by growing the cooperative's staff presence in Asia.

Efforts are already underway, with new Asia hubs being built in Malaysia and Singapore. The new corporate service centre in Kuala Lumpur will focus on services such as IT development, human resources and back office support.

"Our Asia strategy is focused on two core elements – protecting and growing SWIFT's core business, while harnessing the local talent pool and pursuing growth in Japan, China, India and ASEAN," said Johnston.

In Japan, SWIFT is working with JASDEC, the country's securities depository, to implement ISO 20022 standards and SWIFTNet, collaborating with the Tokyo Stock Exchange to standardise corporate actions messages and aiding the Japan Securities Clearing Corporation with its central counterparty development plans.

Dealing with change

Assessing the challenges for SWIFT overall, chairman Yawar Shah, emphasised the need for SWIFT to remain a neutral, third party organisation and asked how, in this complex world of regulation, the community can better leverage SWIFT's competencies to help the industry solve this challenge. He also stressed the need for SWIFT to retain its reputation as a resilient and secure payments network that remains vigilant on the threats to cyber security.

Addressing the chairperson's meeting for the first time as CEO, Gottfried Leibbrandt urged national member groups and user groups to continue to keep SWIFT honest. Focusing on the initiatives SWIFT is pursuing in the coming months, Leibbrandt said key priorities were the renewing of the core FIN application in a way that is transparent to our users, and investing in a third data centre located in Switzerland that will provide additional resilience and capacity to the network.

Smooth transitions

With a whole host of regulations – such as FATCA and Dodd-Frank in the US – and cross-border initiatives, like Europe's TARGET2Securities, leading to widespread modifications to back-office protocols, Leibbrandt said SWIFT was focused on helping its member organisation meet these changes without needing to redesign entire infrastructures. "Enabling smooth transitions will allow institutions to focus on being competitive," he said.

A number of SWIFT managers updated the audience on the progress of significant initiatives. André Boico, head of pricing and business analytics at SWIFT, offered an insight into FIN traffic over the last 12 months.

While FIN messages reached over 20 million in a day for the first time on 31 May, the overall picture was mixed, with treasury and trade messages down 11.1% and 3.1% respectively. But Boico was buoyant on prospects for next year, largely driven by greater use of FileAct, SWIFT's transfer system for exchanging batches of financial messages and large reports.

Head of cloud services Juan Martinez gave an overview of a new framework for partner marketing, centred on SWIFT's business partners, certification programme and service bureaus, while Jacques Littré, senior business analyst for securities standards development, outlined the key role chairpersons would play in standards maintenance and change requests.

The 137 SWIFT chairpersons were then invited to share their thoughts and ideas on how their roles could evolve to ensure they maximise their value to the entire community. The assembled chairpersons were split into groups and asked to assess the current structure of member groups and how further co-operation across and within the groups could be fostered, leading to a more effective process of engagement with the wider SWIFT community.

The day continued with updates on SWIFT's products and services and regional breakout sessions.

SWIFT traffic highlights

FIN traffic records year-to-date growth of 3.3%.

On Friday, 26 October, FIN traffic reached 16.4 million messages, bringing average daily message volume for October to 18.1 million (See figure 1). This represents a year-on-year growth rate of 1.9% over October 2011. The busiest day so far this month was Tuesday 9 October, with 18.3 million messages. Year-to-date average daily volume also stands at 18.1 million messages, representing a growth of 3.3% over the same period in 2011.

Solid growth of 7.4% in the Payments market year-to-date 2012 was offset by slower growth of 1.0% in the Securities market and a drop of -11.6% in the Treasury market.

A milestone was reached on 31 May this year, when FIN traffic breached the bar of 20 million messages, reaching 20,007,371. The latest FIN peak day was recorded on Friday 28 September, with 20,391,611 messages. This represented an increase of 300,282 messages or 1.5% over the previous peak on 29 June. With 10.84 million messages, 28 September was also a peak for payments – the fourth so far in 2012.

> A milestone was reached on 31 May this year, when FIN traffic breached the bar of 20 million messages

Figure 1

SWIFT FIN daly traffic evolution

Millions of messages

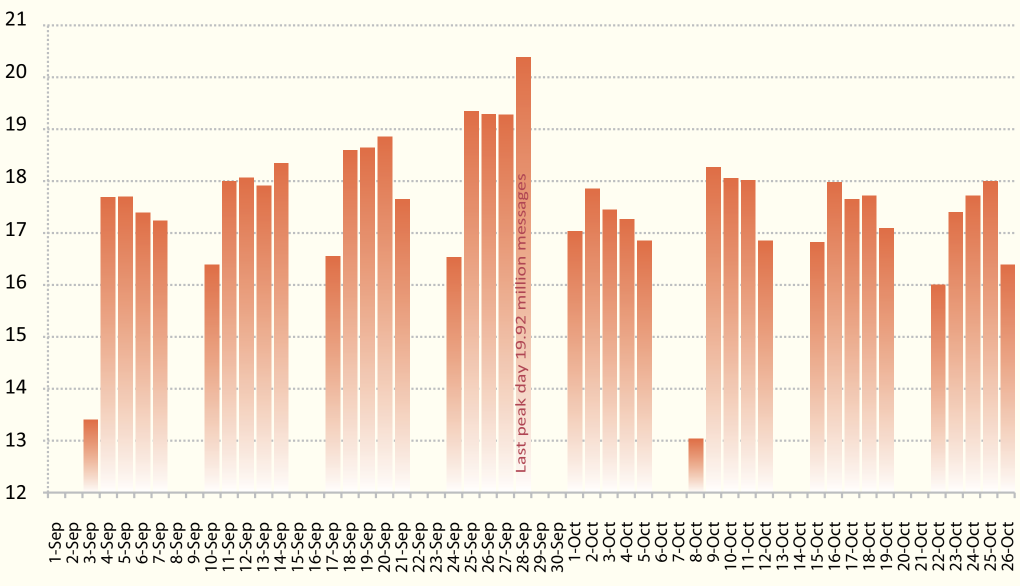


Figure 2: FIN traffic ytd (total SWIFT)

Figure 4: FIN traffic ytd (Americas)

Figure 3: FIN traffic ytd (EMEA)

Figure 5: FIN traffic ytd (Asia Pacific)

LINK UP MARKETS AGREES SWIFT SHIFT TO T2S

CSD CEO describes SWIFT deal as 'a natural evolution'

> 'One of the conditions was that it has to be backwards-compatible'
>
> Thomas Zeeb, CEO, Six Securities

Link Up Markets – a partnership between 11 CSDs – on Monday signed a letter of intent to connect to the European Central Bank's T2S settlement infrastructure via SWIFT.

Under the agreement, which follows a year of discussion, SWIFT will not only provide the CSDs with connectivity to T2S when it launches in 2015 but will work with each member to address the implications for their domestic markets.

Although the Link Up Markets board unanimously agreed to the migration, implementation will be complicated by the geographical and corporate diversity of the CSDs involved. "It's a natural evolution for Link Up Markets but we've all got different shareholder structures, from those with user-led structures to those publicly listed parents," said Thomas Zeeb, CEO of Six Securities and a Link Up Markets board member.

"It's an interesting process because there are so many moving parts," he added, pointing out that Swiss-based Six Securities, as a non-Eurozone member, was currently in dialogue with domestic regulators and the Swiss central bank to ensure alignment.

The partners' existing interoperability platform comes as part of the deal. "In theory, it delivers much of what T2S will deliver in the future but using structures already in place," said Zeeb.

"One of the conditions was that it has to be backwards-compatible," he said. "There's been a lot of resistance from banks to moving away from 15022 unless they absolutely have to, for example for their funds business. This solution allows every bank to decide its own conversion timeline."

Frank Versmessen, global head of post-trade securities at SWIFT, said his team had constructed the project around a community value proposition (CVP) agreed with Link Up Markets. "Crafting that CVP together with them has made the conversation very easy," he said. "CSDs are evolving constantly. They have their own strategic challenges. From a communication, operational and standards point of view, we need to know what the ideal product would be for them. We're much more partners than client and provider."

at the end of the day…

Fix of the day

Hard to beat breakfasts

Coffee? Bagel? Croissant? Sushi? We've scoured the exhibition halls to bring you the best breakfasts of Osaka 2012.

Choshoku is Japanese for breakfast and this year's early-rising delegate has plenty of "oishii" (tasty) options.

Coffee and treats can be found in every hall but there are some key destinations for avid foodies. The Hall 4 and 5 brekkie mecca is the Royal Bank of Canada stand, with delicate pastries and a beany, bitter cup of Joe. Citi, Clearstream, Barclays and Standard Bank are also serving rich brews.

At the back of Hall 3 you'll find a sushi stand for those wanting to go native. And the sophisticates among us will flock to SWIFT's HQ in Hall 1 for freshly ground espresso in lovely Japanese bone china.

But rivalling the famous restaurants of the Dotonbori district in downtown Osaka is a microcosm of early morning delicacies near the entrance to Hall 2. HSBC wins the award for the best coffee on site, flying in from Europe their own Italian barista, Franco Russo. RBS's fruit cups are a delight and if you're looking for a morning pick-me-up after a hard night of networking, try a refreshing fruit mocktail from Euroclear. Choose from Collateral Highway Colada, EasyWay Sling or TaxGenix Twist. Deutsche Bank wins the award for broadest menu serving, pastries, sweet buns, coffee, juice and salmon bagels.

"If you're looking for a morning pick-me-up after a night of networking, try a refreshing fruit mocktail!"

Found on Twitter #Sibos

L @Alltomiron 4m
RT @mpesce: First impression of #sibos: MY GOD, IT'S FULL OF SUITS!

Bernard Lunn @bernardlunn 41m
Wow #sibos is trending. Who knew this was interesting? The Society for Wrangling International Free Trips (SWIFT) just became famous

Jonathan Williams @jmlw1 1h 2m 20
Any other Brits think that Gottfried looks like Matt Smith? 'Banking networks are cooool' #sibos

IBS Intelligence @IBSIntelligence 1h
Oops, 24 hours too early for lunch with Clearstream, almost gate crashed their lunch with UBS instead #sibos

Standards Forum @standardsforum 2h
Standards are like sushi:nice bottom & top layer, but can be a mess in between when talking about internal data models. #sfosaka #sibos

Respect Network @respectnet 3h
The opening talks at #sibos #innotribe are so full of great information you feel as if your head will explode cc @petervan

Cracking the language nut

No matter how enthusiastic a world traveller you are, sometimes you yearn for a taste of home. Just a couple of days in Osaka was enough to drive Kim Bratanata to explore some pretty unusual convenience stores in the vicinity of the Intex Center in search of her favourite comfort food. But imagine Kim's horror when she saw that Japan's best-selling brand of peanut butter was called CREAP. Did Kim overcome her initial disgust and make the purchase that would offer her a taste of her much-missed breakfast treat? We may never know.

Today, tonight and tomorrow…

Reflections on day one of Sibos

Today I most enjoyed the ICC briefing on supply chain finance initiatives. **Tonight** I'm attending the Deutsche Bank reception. **Tomorrow** I'm most looking forward to more of my first ever Sibos. *Gilles Marie-Jeanne, Mauritius Commercial Bank*

Today I most enjoyed the atmosphere and great meetings with good clients. **Tonight** I have a dinner invitation with a bank. **Tomorrow** I'm most looking forward to more fruitful conversations with partners and potential new partners. *Gesa Kiel, Helaba*

Today I most enjoyed the opening plenary by Takeshi Kunibe, president of Sumitomo Mitsui Banking Corporation. **Tonight** I'm attending a securities company reception. **Tomorrow** I'm most looking forward to another insightful day at Sibos in Osaka. *Yuki Tonami, Daiwa Institute of Research*

Today I most enjoyed the Innotribe sessions. **Tonight** I'm having dinner with colleagues in downtown Osaka. **Tomorrow** I'm most looking forward to Hyper-economies, 12:30-14:30 in the Innotribe space. *Sander Scholten, Hewlett-Packard*

Today I most enjoyed the fantastic organisation of the event. Everything is so easy to find! **Tonight** I'm attending the Deutsche Bank reception. **Tomorrow** I'm most looking forward to more Sibos and the compliance sessions on Wednesday. *Aldegonde Roger, Lombard Odier*

Takeaways

The corporate gifts you might want to take home

How about an amplifier for your iPhone? Available from the Conran Shop on London's Fulham Road for GBP 50 or free of charge for Sibos delegates from the Smartstream stand.

Sibos by numbers

24,000…
Steps per day, Jack Morton technical director is averaging on his pedometer.

35,000…
Kilograms of air freight and 92 containers of equipment shipped to Osaka for Sibos.

6,000…
Registrations came from 137 nationalities.

25…
Tonne of truss in the plenary and 3km of truss in all conference rooms to comply with earthquake regulations.