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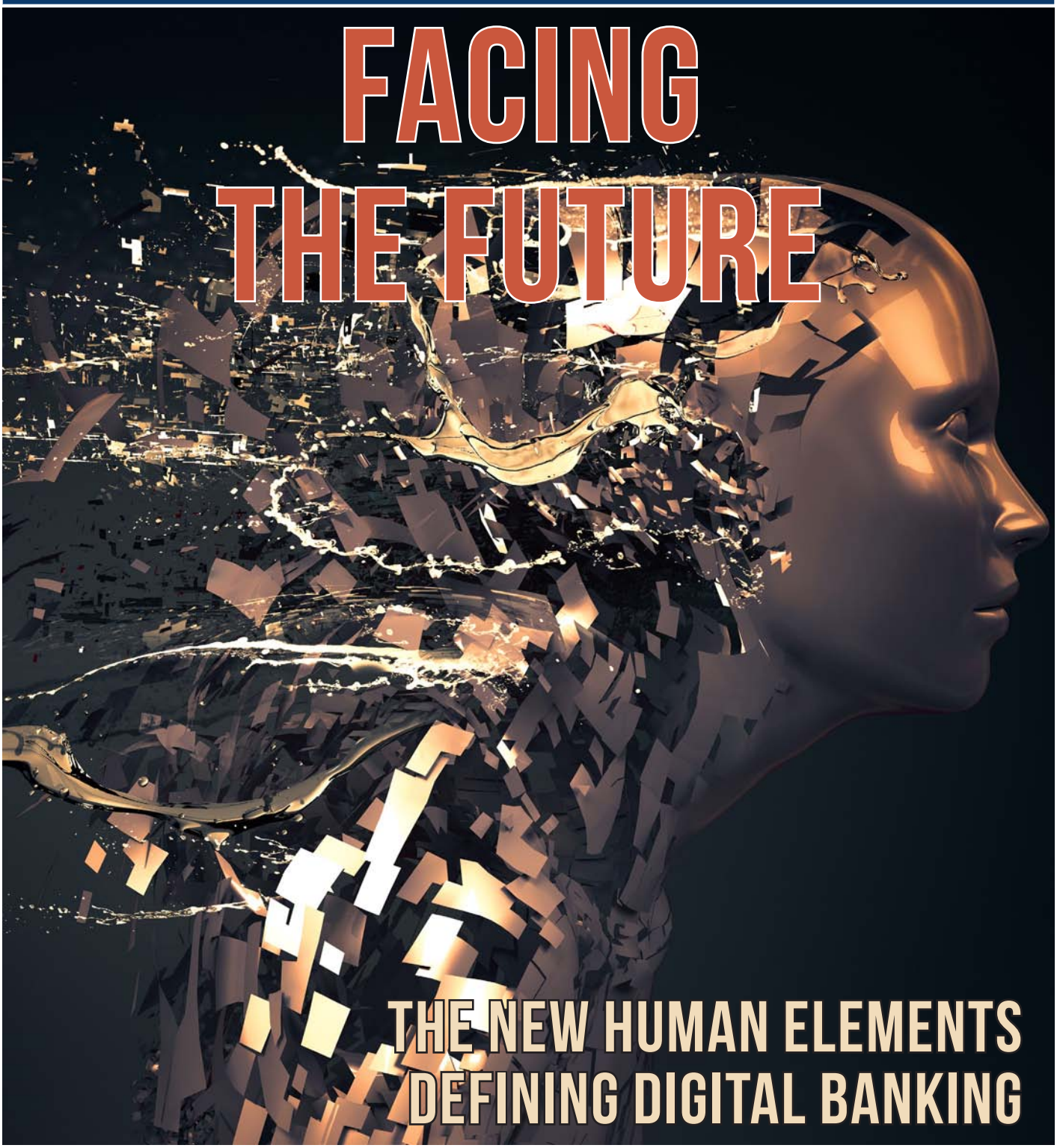

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15th November 2017 • Amsterdam

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'WE ARE AT A PRECARIOUS TIME – A DOWNTURN IS COMING'

Douglas Blakey, Editor

When Richard Nesbitt speaks, the banking sector ought to listen.

Nesbitt is CEO of the Global Risk Institute (GRI) in Financial Services, a fast-growing globally recognised research organisation in the management of emerging risks. So it was a pleasure to sit down with him when he visited London in September – among his other roles is visiting professor at the London School of Economics – to talk about risk.

Prior to taking his role with the GRI, Nesbitt was COO of CIBC, with responsibility for the global operations of wholesale banking, technology and operations; strategy and corporate development; CIBC's international operations, including CIBC FirstCaribbean International Bank; and treasury.

Founded by the government of Canada, the province of Ontario, Toronto-Dominion Bank and Manulife in 2011, Nesbitt says the GRI was created to capitalise on the strength Canada demonstrated in its risk management during the financial crisis.

While the GRI is expanding outside its Canadian base – in particular in the US and the UK – Nesbitt makes a fair point when he comments on his domestic market: "No equity support from government; Canada's banks are tremendously strong; it has been a golden age in Canadian banking" are just some of his very quotable soundbites.

GRI surveys of its members show that financial institutions have lately changed their views of the most serious danger facing their industry. In 2015 it was 'conduct risk/risk culture'. This year's survey highlighted that the most acute worry was 'cyber/IT risk': "In terms of cyber, members feel quite vulnerable."

The GRI advises members on fraud, money laundering, tax evasion, terrorist financing as well as fraudulent insurance claims. According to Nesbitt, the GRI is giving members access to industry experts and equipping them with knowledge to help them mitigate threats, identify consumer trends and capitalise on new opportunities in technology.

Other notable changes include the increasing potential threat to the financial sector of climate change. "Climate change has moved up from the 12th most serious risk to eighth in just two years, and that is a huge change," says Nesbitt. "We have been promoting the fact that financial institutions have to spend more time thinking about the impact of climate change and the impact of public policy on climate change. But it is not universal. The pensions and insurance companies already are fairly focused, but the banks themselves are less concerned about the direct impact of climate change."

Climate change is a critical global concern that presents issues of with warmer temperatures, increased water scarcity, and more frequent and severe weather events. "All these factors threaten the financial sector and economic security. The physical risks of climate change present a clear threat to operations, but new investment opportunities and product offerings are also needed to respond to the changing world needs. The GRI is engaged in expanding the financial sector's understanding of climate-related risks, and specifically in identifying proactive responses."

Nesbitt is upbeat about how banks will cope with the threat posed by fintechs. "Most fintechs will fail but some will succeed, and so where are the Amazons, the eBays and Facebooks? They are out there – we just do not know which ones they are." We might need 10 years for that to play out. "Fintechs partnering with fintechs are great for consumers but they are a threat as regards their potential to split away some high-margin business on the fees side." But banks will not go out of business because of fintechs. Banks are not stupid, and the most significant evolution in consumer finance in recent years is mobile banking, and who adopted that? The banks. As Nesbitt himself notes: "I only use mobile banking now."

Nesbitt continues: "We are at a precarious time in terms of the explosion in the amount of debt, and those low interest rates that have to be adjusted upwards. Economies are based on central banks buying the debts of countries, states and organisations – we could easily see stagflation."

Nobody knows how this will unwind, but this cannot unwind without pain. We are already eight years into an economic expansion, and the average expansion post a recession is six years. At some point economies will slow down. And this is all at a time when governments have less flexibility because they have increased their debt so much. Banks simply must make sure they have prudent capital ratios and prudent leverage ratios.

"Now is the time to get the balance sheet in order and avoid excessive debt – a downturn is coming." ■

GET IN TOUCH WITH THE EDITOR AT: **DOUGLAS.BLAKEY@VERDICT.CO.UK**

UMPQUA: PIONEERING THE HUMAN TOUCH IN DIGITAL BANKING

US-based Umpqua Bank is partnering with several financial institutions in other countries to develop a human-friendly approach to digital banking. The first offering from Umpqua's Pivotus Ventures development team is a service enabling customers to enjoy digital access to dedicated real-life advisors. *Robin Arnfield* reports

Umpqua Bank – pronounced 'ump' as in 'umpire' and 'qua' as in 'aqua' – was founded in 1953 in a small town by the South Umpqua River, Oregon.

Headquartered in Portland, Oregon, the community bank has a long history of innovation, and originated the concept of bank branches as "stores".

"We realised over 20 years ago that we needed to do something different to compete with the larger banks," says Umpqua president and CEO Cort O'Haver. "We saw that people treated bank branches like post offices, somewhere you didn't want to go to unless you had to. So we created a retail environment in our stores where you would want to go in to do business and meet other people.

"Of course, a lot of other banks have copied this concept. But we're still known for our unique human face-to-face experience in our branches."

INNOVATIONS

Umpqua opened an Innovation Lab 10 in 2007 in one of its Portland stores to showcase technologies to improve the customer experience.

Umpqua has opened up its 300 stores across the American West to local communities as a space where customers, local businesses and organisations, and community members can host events such as business meetings, children's parties, and book clubs.

Another Umpqua innovation was the development of the Universal Associate. "In lieu of a teller and a team of more specialised bankers, we created the Universal Associate, an empowered expert who can handle most customer concerns on the spot, no hand-off required," Umpqua says on its website.

"Umpqua receives visits from banks from all over the world, who want to see its branches," a spokesperson says. "In fact, we had to start charging as we get so many visits."

PIVOTUS VENTURES

In 2015, Umpqua launched Pivotus Ventures to develop and commercialise technologies that emphasise the human aspect of digital banking for Umpqua and its financial institution (FI) partners.

Umpqua and Pivotus deliberately chose like-minded FIs as partners which share Umpqua's focus on customer service and the

human touch. While the partner FIs do not hold equity in Pivotus, they do contribute funding to its development programme.

In 2016, Umpqua and Pivotus signed a technology development agreement with its first partner, the UK's Nationwide Building Society. This was followed in August 2017 by agreements with Netherlands-based De Volksbank, and with CUA, Australia's largest credit union.

"We're planning to sign up one additional financial institution partner for Pivotus," says Ray Davis, a veteran banker who is former president and CEO of Umpqua and now CEO of Pivotus and executive chair of Umpqua.

"We chose the name Pivotus because we decided we need to pivot the bank from branch-based transactions and operations to more of a digital-based bank that still has the human touch. Our view is that customers should always be able to talk to our staff any time they want to.

"Pivotus's value proposition to Umpqua and its collaborator FIs is that it will generate top-line non-interest income revenue for these FIs, drive efficiencies dramatically in the way we do our business, and take the customer experience up to the highest level possible," adds Davis.

"Pivotus has assembled an excellent development team," says Marc DeCastro, Research Director at IDC Financial Insights.

Steve Götz, Pivotus's COO, has a background in technology incubation as a venture capitalist and is a former technology director at AT&T Labs, while chief data scientist Dr Andrew Eichenbaum has worked with Orange, Intel and Intuit.

'BEST FINANCIAL FRIEND'

The first technology to be developed by Pivotus provides FIs' customers with digital access to a dedicated real-life bank employee, a "best financial friend (BFF)" targeted for rollout in 2018.

"We're currently piloting BFF in the greater Portland, Oregon market," says Umpqua's O'Haver. "'Best financial friend' is the term we are using for the pilot, but this will change. The BFF can do anything that tellers in branches can do, such as transferring funds or paying bills.

"We realised some years ago that, with the move to digital banking, we needed to make our unique personal and human experience a digital experience. When you sign up for a BFF, you select from a list of possible BFFs and you see a button on your app with your BFF's picture."

Umpqua's BFF pilot is currently only available for Apple iOS devices. Nationwide Building Society is in an early-stage pilot of BFF, a Nationwide spokesperson tells *RBI*.

"The concept of video banking – the banker in your pocket – is really interesting," says IDC's DeCastro.

O'Haver explains that the purpose of the BFF pilot is to discover how customers want to use the application. "Ultimately, we want to use data analytics with BFF so that, for example, an associate could say to a customer, 'I see you regularly make mortgage payments to Bank X, but we could offer you a better mortgage rate.'"

"Pivotus will be commercialising the BFF technology in early 2018 to financial institutions around the world," says Davis.

UMPQUA INNOVATIONS

- **App Walls:** These large-format interactive touchscreens in Umpqua locations feature bank products and services as well as a collection of in-house and curated mobile apps.
- **The President's Phone:** All Umpqua stores include a telephone that connects directly to the CEO's desk.
- **Local Spotlight:** Umpqua showcases and sells products from local companies, and returns all proceeds directly to those small businesses.

NEXTGEN

Umpqua has a modernisation programme called Umpqua NextGen which, O'Haver said in a second-quarter 2017 earnings call, "represents an evolution of Umpqua Bank, not a change to its core strategy".

"Our BFF technology is a key element in NextGen," O'Haver tells *RBI*.

NextGen's goal is to increase Umpqua's return on average tangible common equity to 13-15% by 2020, O'Haver told the earnings call. Following a series of bank acquisitions, Umpqua completed a core IT systems upgrade two years ago, and all its systems are now on a single platform.

MODEL FOR INNOVATION

"Umpqua has always been a model bank for innovations," says Celent analyst Stephen Greer. "For example, its CEO allows any bank customer to call him directly from within an Umpqua branch.

"Historically, it has been very consistently focused on branch enhancements. Umpqua employs a flat organisational structure which has been really successful in fostering innovation and creating its concept of 'universal bankers' in the branch."

"Since the launch of its Innovation Lab, 10 years ago, Umpqua has been the role model for successful retail banking in the community," says international retail banking consultant David Cavell.

"Its combination of service standards, community outreach and innovative use of technology provides an industry showcase for the valuable role the branch can play within an omnichannel delivery model. Importantly, this has worked for the benefit of both Umpqua's customers and its shareholders." ■

THE NEW WAYS TO IMPROVE THE CUSTOMER EXPERIENCE

Financial institutions are constantly looking for a way to differentiate themselves from the competition. As prices and interest rates flatten for bank accounts, customer experience is looking to be the way forward. However, this is a difficult thing to maintain. *Patrick Brusnahan* writes

With the constant pressure on profits affecting banks, an easy way to get more from your customers in through a better, and more personalised, customer experience.

GFT found that 67% of UK consumers would be more likely to take out a loan, credit card, or mortgage with their bank if it were able to provide personalised advice on the product. This increases to 78% among the 16-24 age bracket.

Fifty-five percent of consumers would be happy with the bank monitoring their spending habits if it was then able to improve their usage of disposable income. Depressingly for the sector, however, only 10% of UK customers felt that their bank provided them with useful advice.

According to KPMG, financial services are slowly improving in their Customer Experience Excellence (CEE). The sector's CEE rating improved by one percentage point between 2015 and 2016.

While the leading brand for CEE in financial service was First Direct for yet another year, other institutions leaped massively. Nationwide jumped 14 places up the rankings, as did PayPal.

STRIKING THE BALANCE

A common discussion point when considering customer experience is how it balances out with security. While every customer wants an easy and frictionless solution, it must be present without hindering security.

However, adding too many checks and authorisation factors can greatly hinder an experience. Speaking to *RBI*, Tommy Petrogiannis, president of e-signature solution company eSignLive, says: "That's something we have been looking at; the balance between security and customer experience. I think it is a difficult thing to achieve perfectly."

> "THE WHOLE IDEA BEHIND SMILE & SIGN WAS TO MAKE IT SEAMLESS, FOR THE CUSTOMER TO NOT EVEN REALISE THAT IT IS TAKING PLACE

eSignLive has introduced Smile & Sign, a product that uses facial recognition biometrics as a factor for security. "The whole idea behind Smile & Sign was to make it seamless, for the customer to not even realise that it is taking place behind the scenes from a security aspect. It has little intrusion on what they have to do but it adds much more security than they would typically experience through using a password," Petrogiannis explains.

Ross Durston, MD of financial services at Maru/edr, says: "In terms of delivering a great customer experience, especially in financial services, there is a fine line.

"Security is key across all businesses, but I think for financial services, as you are playing with money, it is even more important.

"You could say a financial services organisation should be making everything as secure as possible, but if you went extreme on that, you would hate it. It would be a terrible customer experience."

BIOMETRICS

Biometrics are often considered to be the solution to this balance. Utilising already-present factors such as fingerprints or retinas is thought to be more frictionless than a password.

"Biometrics take multiple forms," says Petrogiannis. "Usually there are two classes: static and dynamic. Static is fingerprints or retinas, which do not change; dynamic is facial features or signatures, which change with time.

"Traditionally, people tried to focus on static biometrics as much as possible. Only in the last few years has the price point for the tools to be able to take advantage of static biometrics been right. Now we can start to introduce these sorts of technologies into everyday devices."

Durston adds: "I think people are becoming more agreeable now to more frictionless security measures such as biometrics. The increased adoption through mobile phone is such that banks should be leveraging it, and I think they are.

"I do not think it will be long until retina scanning, heartbeat sensing or voice recognition become more acceptable as well. Banks may even need to be leading the way with this, as security is so important there."

On the other hand, are biometrics enough? As the sector moves towards two-factor authentication, can both factors be biometric?

"We need multiple forms of biometrics in order to cover all use cases," Petrogiannis explains.

"There is no perfect solution yet. If you look at fingerprints, for example, certain cultures have very fine fingerprint patterns where many fingerprint scanners cannot detect the nuances or subtleties. You have to provide multiple types, ideally in one package, so that if there are failures we can revert to something else which can compensate. There are limitations."

ARTIFICIAL INTELLIGENCE

While creating a customer experience is a difficult challenge in itself, maintaining one is exponentially harder.

If a problem is spotted, it needs to be solved as quickly as possible. Tracking so many users is nigh-on impossible for a person, and that is where automation and artificial intelligence get involved.

Michael Allen, VP EMEA at US application-performance-management software company Dynatrace, says: "We track each and every user. Our AI looks at everything. It looks at availability issues, change in performance versus change in infrastructure, to big deviances.

"If something has slowed down by 100 milliseconds, maybe it is not a problem. However if it is slowed from 100 milliseconds to seconds, that needs to be handled immediately. There is a lot that needs to be looked at, AI does that and hones in on the real problem."

Detecting a problem is not enough. Fixing a problem is necessary to continue great customer experiences. However, that is easier said than done, as many issues do not necessarily have a quick fix.

"Often, a lot of time is lost not necessarily in the resolution or the detection," Allen explains. "It is the bit in the middle, particularly for banks.

"They have legacy systems that were built 20-30 years ago, often running off the mainframe, and layers upon layers of technology have been built over the years," he continues.

"It is finding where in that chain the culprit is, as a lot of them also have different owners. That can take days – and sometimes weeks – to find the root cause.

"There is no way humans can do that, so we automate everything. By automating it, we reduce the amount of problems as it is less prone to human errors."

With the amount of data analysis available to financial services, it can be easy to drown in all the information. Honing on the correct problem instead of poring through terabytes of wild goose chases is crucial.

"I hate this statement, but there is a whole risk of analysis paralysis where you just do not know where to look as there is so much data available to you," notes Durston.

"If you structure it in the right way, what you should be able to do is driver-type analyses to help to understand the most important factors in customer experience. If you can understand the touchpoint and the customer journey, you can understand what is getting better and what is going down."

> "THERE IS A WHOLE RISK OF ANALYSIS PARALYSIS, WHERE YOU JUST DO NOT KNOW WHERE TO LOOK AS THERE IS SO MUCH DATA AVAILABLE TO YOU

The question remains: Are customers ready to use their retinas as a password, or have their entire lives analysed through data?

Petrogiannis concludes: "The more people use things and the more we offer, the more massive players introduce these things. Already there is a generation growing up with mobile phones, and the education hurdle for them is not hard.

"Some people say it is too easy and wonder if it is really secure. You definitely have that element, and quite often putting feedback into the solution – something as simple as a message that says you are securely logged on – helps allay that concern.

"If you do not have that feedback you get a bad reaction from a lot of first-timers." ■

BANCO DO BRASIL: A NEW PLATFORM FOR OPEN BANKING

***Robin Arnfield* reports as Banco do Brasil, one of Latin America's largest banks, launches an open banking platform**

In June 2017, Banco do Brasil (BB) launched its Open Banking developer portal and invited fintechs and other companies to partner with it to develop services for retail and corporate customers.

The bank is initially offering two APIs: Financial Reports, enabling customers to consult balances for BB current accounts, investment funds and credit card statements; and Payments, enabling online debit card payments at e-commerce and travel sites.

"The choice of these two APIs to initiate BB's open platform is significant," says Guilherme Lima of Brazilian consultancy Ponto Futuro Consultoria Estratégica.

"There are several promising Brazilian and foreign startups that allow consumers to manage their personal and family budgets, and many others that offer different models of payments to m-commerce and e-commerce retailers. With this initiative, Banco do Brasil increases the probability of being able to offer breakthrough solutions to its customer base."

BB announced in August 2017 that its first Open Banking partner is ContaAzul, a Brazilian management platform allowing micro- and small businesses (MSB) to control finances, sales and stock, and to send electronic invoices. BB's MSB clients are now able to access bank account balances and credit card statements via ContaAzul, and Since February 2017 BB has been testing the ContaAzul platform with 70 MSB clients.

"Open Banking is part of the BB Beta program, a group of solutions that are still under development such as applications, processes, and integrations," the bank says. BB's website provides a link to the BB Beta programme where customers can try out new apps and services.

"We expect to announce additional Open Banking partnerships in 2017," a BB spokesperson tells *RBI*.

A REGIONAL FIRST

"Banco do Brasil is the first traditional/incumbent Latin American-headquartered bank to offer open banking in the region," say Celent analysts Patricia Hines, Juan Mazzini, and Stephen Greer. "Brazilian digital-only FI Banco Original has opened four APIs for third-party development (Connect, Accounts, Investments, and Payments) on its Banco Original Devs portal.

"The first 100% digital bank in Brazil, Banco Original was launched entirely from the ground up with innovative technology. Through its Open Banking platform, it has developed open APIs that leverage third-party developers and banking services through platforms like Instagram and Facebook."

Banco Original's open banking initiative won Celent's April 2017 Model Bank Award for Consumer Digital Platforms.

"BB offers integration with Facebook, Instagram and PayPal," says Jerry Silva, global banking research director at IDC Financial Insights. "Customers can deposit cheques and get balances via Instagram and get balances." In addition, BB customers can make P2P transfers via WhatsApp.

The banking industry's emerging Open Banking API developer portals are primarily sandboxes, the Celent analysts note. "An API sandbox is an environment that testers can use to mimic the characteristics of the production environment and create simulated responses from banking APIs," they say.

"Open banking is necessary for bank transformation in the era of connected banking, and Spain's BBVA is really the leader here," says IDC's Silva. "All the banks in Latin America are heading to open APIs, as being a connected bank is all about modernising one's infrastructure for open APIs."

Mexican regional bank BanRegio Grupo Financier (BanRegio) offers open banking APIs in its BanRegio Developers portal. Citi offers five types of API for its Mexican subsidiary Citibanamex, accessible from the Citi Developer Hub, which include accounts, authorisation, cards, pay with points, and ATM branch locator. Citi launched its global API developer hub in late 2016 and currently supports 10 countries, with plans to expand availability to all 96 countries in its geographic footprint. BBVA currently offers its Open Banking APIs in Spain and the US and plans to expand its BBVA API Market further into Latin America and Mexico.

In late 2016, BB opened a fintech lab, the Banco do Brasil Advanced Laboratory, based at the Plug and Play Tech Center in Sunnyvale, California. Banco Original opened its Build, Buy and Partner Group in 2015, also housed at Plug and Play Tech Center. The group functions as Banco Original's innovation centre of excellence focused on more experimental, leading-edge innovations.

"The Lab is intended to help reinforce BB's innovation efforts, to assimilate and disseminate digital culture, identify opportunities for the bank, identify start-ups in their initial stages of operation, and find solutions developed by fintechs," a BB spokesperson tells *RBI*.

In November 2016, BB launched its totally digital Conta Fácil BB (Easy Account) current account, which can only be opened and operated via smartphone and requires no paper documentation.

"BB is a digital leader in Brazil and competes in digital with other Brazilian incumbent banks such as Bradesco with its new digital platform Next, Itaú, and Santander Brasil," says Celent.

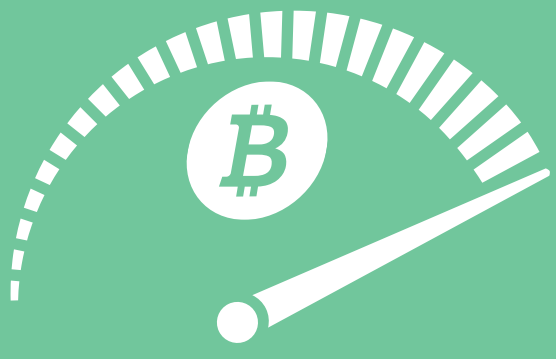
"New Brazilian challenger banks like Banco Original and Banco Neon are aiming to dispute this leadership in terms of digital and innovation, though with significantly less scale than incumbents.

"It's not surprising that Brazilian banks continue to heavily invest in digital, with 61.9% of transactions made though digital channels in Brazil in 2016. It's not a matter of leading, it's pure survival instinct," adds Celent in a note to *RBI*.

"Banco do Brasil's (open banking) move is in response to the wild success of digital-only banks," says Lindsay Lehr, senior director at Americas Market Intelligence. "It points to the strong pivoting of the market toward online channels and a desire to better engage millennials who want an online-only banking experience." ■

BLOCKCHAIN AND ITS NEW ROLE IN SPEEDING UP P2P REMITTANCES

Start-ups Abra and Circle Internet Financial are using the blockchain to speed up - and reduce the cost of – cross-border remittances. *Robin Arnfield* speaks to the businesses and industry analysts to find out more about the propositions, and whether wider adoption is a possibility



The blockchain provides an alternative, real-time infrastructure to SWIFT for banks and remittance services.

Currently, the only way to transfer fiat currency via the blockchain is to convert it into a cryptocurrency such as Bitcoin or Ripple and then back to fiat currency. Major banks including BBVA, SEB and UBS are piloting the blockchain and Ripple for inter-bank transfers.

"I'm not aware of a way to transfer funds via hard currency inter-bank on a blockchain," Ben Knieff, payments industry consultant at New York-based Outside Look, tells *RBI*. "But, theoretically, it should be possible to avoid converting funds to cryptocurrency by using smart contracts, such as can be implemented with Ethereum." Ethereum is an open-source blockchain-based platform for smart contracts.

"Blockchain-based inter-bank transfers would have huge value, as clearing-houses – the current method for transferring hard currency - are slow and expensive," says Knieff.

"This is why SWIFT has a blockchain proof of concept, as blockchains could make SWIFT obsolete and become the next-generation equivalent of ISO 20022."

But Knieff says he cannot imagine inter-bank transfers converting to cryptocurrency, as there's too much risk and too much volume involved. "Bitcoin, the largest cryptocurrency by volume, couldn't handle the billions of dollars of inter-bank transfers that occur daily," he says. "I can, however, imagine smart contracts for such transfers that would net-settle end of day."

VALUE PROPOSITION

"Abra and Circle have a real value proposition in reducing the cost of cross-border remittances by offering dramatically lower fee structures," says Knieff. "By using cryptocurrencies such as Bitcoin, the transaction cost approaches – but doesn't reach – zero. This is attractive compared to traditional cross-border remittances charging fees that can exceed 10% of the transaction value. Lower fees mean more money being sent home in a situation where every dollar counts."

Knieff says there are risks due to the volatility of exchange rates between the cryptocurrency and both the remitter and receiver's home hard currency. "Some of this risk can be mitigated by guaranteeing a certain destination value," he says. "This can work when a firm has enough volume to even out the risk, and can process transactions quickly enough to mitigate much of the risk."

"One of the advantages of traditional cross-border remittances is that both ends of the transaction can be in cash," Knieff continues. "You can go to a Western Union or MoneyGram branch with $500 cash, send a remittance, and the recipient can walk out at the other end with cash in their home currency minus fees," he notes.

"Since many remitters and receivers operate primarily in cash, being underbanked, it may be challenging for them to move to more electronic transactions. I think that blockchain-based P2P firms recognise these challenges, and that they will work hard to evolve the customer experience."


Eric Rosenthal, Abra

There is also a trust factor, Knieff says. "Some users may find it difficult to trust their hard-earned funds to new services with unknown brands despite the lower costs," he explains. "While security is very strong with blockchain-based payments, as they are cryptographically secure and immutable, there have been cases where cryptocurrency wallets have been hacked and tokens stolen."

ABRA

Abra, which has raised around $20m in investment, wants to become the WhatsApp of money. The US startup offers a single app in 200 countries enabling consumers to send money from any cellphone number to any other cellphone number anywhere worldwide.

"Abra has built the first global, peer-to-peer, digital cash, money transfer app," it says.

In 2008, Bill Barhydt, Abra's founder, set up a mobile P2P transfer firm called M-Via, renamed Boom Financial, which was later sold to Caribbean telco Digicel.

"What Bill learnt from Boom went into Abra," says Eric Rosenthal, Abra's vice-president, business development. "His vision was to set up a mobile money company that let you send money from any smartphone to any other smartphone worldwide.

"But, because like other mobile remittance providers Boom was predicated on having custody of funds, it was not able to deliver on Bill's vision of a smartphone app letting you send money by knowing the recipient's phone number. Because Boom was custodial and was based on prepaid cards, it needed e-money licences in every country where it operated in order to fulfill that vision."

It was the frustration of trying to roll out a custodial-based solution involving prepaid cards for remittances that led Barhydt to start Abra.

"Abra isn't custodial, nor are we the legal counterparty of the transactions on our system, all of which are done via cellphone numbers," says Rosenthal.

"To deliver a non-custodial platform using a fully interoperable mobile app, you have to rethink the business model. You have to remove yourself from the funds flow and use new technology – we decided to use the blockchain for this."

Rosenthal contrasts Abra's approach with Circle which, being custodial, needs to be licensed in each market where it operates, he says. "Similarly, PayPal needs to be licensed wherever it has subsidiaries," he notes. "This requirement restricts a company's rollout."

DIGITAL EQUIVALENT OF GOLD

"We applied the concept of a shared economy platform like Uber or Alibaba to replicate in digital form what happened 100 years ago," says Rosenthal. "Back then, someone would buy gold with cash and send the gold to someone who would sell it for cash.

"The entity selling the gold to the sender had the compliance responsibility, as did the entity buying the gold from the recipient, while the courier was solely responsible for the physical movement of value. With the Bitcoin and blockchain being used for value transfer, we enable that same kind of transaction in digital, non-custodial form, with the blockchain replacing couriers and Bitcoin replacing gold."

Abra orchestrates the connectivity between digital currency sellers and buyers, using the blockchain to transfer value from one phone to another. It then facilitates the offboarding or withdrawal of that value by enabling conversion from Bitcoin to fiat.

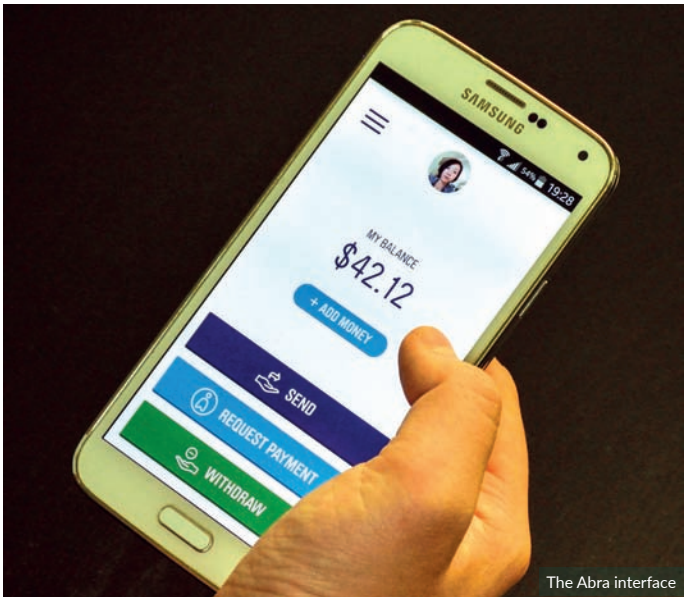
"We're building a global liquidity network that lets people have on-ramps and off-ramps to get in and out of our network," says Rosenthal.

"Our digital hedge locks in the value of the Bitcoin and pegs it to the user's fiat currency value," he continues. "Unlike other Bitcoin wallets which are custodial, we don't require users to learn how to use Bitcoin. If you want to go mass market, you can't expect people to learn a new currency."

Abra lets users send any amount of money in any currency they choose, including domestic P2P transfers, and also exchange Bitcoins for fiat currencies. "We're usually competitive from an FX perspective," Rosenthal says. "But, in very competitive corridors, we might be on par with other services."

> "IF YOU WANT TO GO MASS MARKET, YOU CAN'T EXPECT PEOPLE TO LEARN A NEW CURRENCY

Abra said in July 2017 that American Express, one of its investors, allows card members to use Amex cards to directly fund their Abra wallets. "Although you can – indirectly – buy digital currency with debit or credit cards, apart from Amex, no other major card network has directly supported the ability to do that for a Bitcoin-enabled app," Rosenthal notes.



The Abra interface

"How you fund an Abra wallet depends on your country of residence. In individual countries we support different funding mechanisms. In the US, it's Amex and ACH, in Europe it might be SEPA, or in some countries it could be debit cards."

TELLERS

Abra operates a "teller" network of people who are able to transact on its behalf. "If you need euros for a trip to Europe, and I have euros, I can act as a teller for you," Rosenthal says. "You give me dollars and I give you euros. You're actually doing a digital currency exchange with me, but it looks like you're topping up your digital wallet. We also have institutional networks which operate as our master tellers and manage liquidity across a larger retail footprint."

In addition to exchanging fiat currencies, including cash transactions, Abra human tellers can purchase Bitcoins from third-party bitcoin wallets. Banks and payment processors offering Abra funding mechanisms in different countries join the Abra Network, with Abra taking care of their integration with the Network. They do not get involved in Bitcoin transactions, Rosenthal explains.

Abra already lets people use its app for digital payments. "But we won't see significant investment into that line of business until our liquidity network is bigger," says Rosenthal. "We're interested in enabling different types of payments regardless of the use cases."

CIRCLE

Backed by investors such as Goldman Sachs and Baidu, which have collectively invested over $140m in the company, Circle Internet Financial leverages Bitcoin as a settlement mechanism to process cross-border remittances. In May 2017 *Retail Banker International* named Circle as best non-bank competitor in the 2017 Global Retail Banking Awards at its annual Retail Banking Conference in London.

Customers download Circle's social payments app, and can fund their Circle Pay wallets by using UK, US or European debit cards and bank accounts. The company is also building open protocols that will use Bitcoin and Ethereum blockchains in order to move money around in the future.

Circle says its customers in the US, UK and Europe can send and receive money instantly cross-border with no fees and no foreign exchange mark-up. Since September 2017, customers can request and send funds in a single group conversation, and create a destination to host payments for an event or cause.

Circle makes its money by trading cryptocurrencies on digital currency exchanges and over the counter. In August 2017, Circle directly traded over $2bn in crypto-assets.

Circle started life as a Bitcoin exchange, but no longer allows customers to buy and sell Bitcoin directly from Circle, referring them instead to its partner Coinbase, a US-based Bitcoin exchange. Circle has an European Economic Area (EEA) E-Money Institution licence from the UK's Financial Conduct Authority, and is registered as a money services business with the US Department of Treasury's FinCEN. It operates in the US, the UK, and in 29 European countries including Spain, Ireland, Italy and France. The company said in September 2017 that it will soon be available in every EEA country.

Circle says UK customers can receive payments into their UK bank accounts nearly instantly via the Faster Payments scheme. Users can also transfer funds on the same day into most European bank accounts via SEPA withdrawals.

In September 2017, Circle said that growth of customers in Europe has exceeded 800% year on year, and that its payment volume has grown by over 700% in Europe alone in the past year. According to a news release, Circle is on track to process over $1bn in total transaction volume on an annual basis, and is seeking new investors.

WORLDREMIT

WorldRemit was founded by Somaliland refugee Ismail Ahmed to make remittances mobile-first and to lower costs compared to traditional remittance channels.

A spokesperson tells *RBI* that WorldRemit currently has partnerships across six continents. Transfer funding mechanisms include Android Pay, Apple Pay, debit cards and bank account transfers, and the business is looking at adding Samsung Pay.

"We don't use the blockchain," says Brion Nazzaro, WorldRemit's compliance director. "In our business model, using the blockchain would require quite a few players to say they are willing to do it that way for the blockchain to become feasible for us.

"If you have a closed-loop system, the blockchain is an efficient way to manage the transactions. But, if you make the blockchain more open, you need to get multiple participants to integrate with the blockchain."

Nazzaro says there is value in the blockchain if everyone in the value chain implements it and there are no integration issues. "Also, using the blockchain on the back end, you wouldn't need to expose the individual end user to the blockchain, and you would settle in the same way that you already do so," he says.

Nazzaro says another reason why WorldRemit would not use the blockchain is that it already has an adequate remittance system. "The blockchain acts as a core transaction journal system and we already have a core system that works fine for recording transactions and can lock in their value," he says.

WorldRemit's business model involves the firm holding accounts with multiple banks around the world and processing bulk transfers to these accounts on behalf of clients sending funds to specific countries.

"We have money transmission licences in all the countries where we send money from," says Nazzaro. "In Europe, we have a Payment Services Directive licence. As we aren't a stored-value provider, we don't have e-money issuer licences." ■

A GUIDE TO GDPR AND ITS FORCE IN THE FINANCIAL SERVICES SECTOR

The upcoming GDPR is forward-looking and attempts to regulate new, more intrusive technologies that we may not even know exist yet. Shoosmiths' *JP Buckley* and *Rachel Edwards* offer a legal overview of the new measures, and the steps required to comply

We need the General Data Protection Regulation (GDPR). With the current law, the Data Protection Act 1998 or DPA, turning 20 years old in 2018, which is the year that the GDPR becomes law, it has not kept pace with the internet age and the rapid increase of technological developments, with most day-to-day activities now conveniently at the tap of a mobile device or in the scope of big data.

The aim of the GDPR is to ensure transparency and increased rights for data subjects. It aims to make those organisations that collect and use personal data and determining how it is used – called 'controllers' – accountable for the security of that data and to put the protection of individuals' privacy at the core of any business, especially those that are data-rich.

The GDPR is forward-looking and attempts to regulate new, more intrusive technologies that we may not even know exist yet.

The GDPR has the force of regulatory fines behind it, which will go some way to achieving its aims. Maximum fines range from €10m ($11.9m) or 2% of global turnover, whichever is higher, for one set of compliance obligations to €20m or 4% of global turnover, whichever is higher, for breaches of the most critical compliance obligations.

However it is not just about fines – it is about the reputational impact of a breach with your customers, suppliers and partners – which can take months and even years to recover from.

FINANCIAL SERVICES

Organisations in the financial services sector are heavily reliant on personal data to provide their services. There is also significant value in the data that they collect as it can tell a very personalised tale about what a customer's spending habits are, why they bought a certain product or service at a particular time and what products or services they would be interested in.

The opportunity to harvest and profile this data has always been there, and has been acted upon more and more with technological advances and the demand of convenience in a consumer-facing sector. The impending GDPR era means those organisations making use of data must do it in a clear and transparent way.

> "PRIVACY NOTICES CANNOT BE BURIED AWAY IN A BANK'S TERMS AND CONDITIONS, NOR CAN CONSENTS BE HIDDEN AWAY IN A PRIVACY POLICY

In order to be clear and transparent, controllers must provide certain information to individuals about the use of their personal data. Individuals have the right to be informed about the purpose of processing their data, and any processing must be carried out on one of a defined list of 'lawful bases'. Financial services firms will rely in part on the necessity of processing for compliance with a legal obligation – for fraud prevention, for example.

Another legal basis relied on will be the consent of the data subject. Significantly under the GDPR, the meaning of 'consent' is being tightened. This means that privacy notices cannot be buried away in a bank's terms and conditions, nor can consents be hidden away in a privacy policy. Rather, consent should be granular and obtained for each specific type of processing that relies on consent as the legal basis.

When consent is obtained, it must be as easy for a data subject to withdraw as it was to give it. Therefore, controllers should keep a record of consents obtained and be able to easily, and relatively quickly, update their systems if consent is withdrawn. However, consent – and especially with these changes – is not always the best legal basis to rely on. It is unlikely to work any longer in any employment context, and this will have

implications for employment contracts and policies.

The floor is opening up for the financial services sector with the implementation of the Payment Service Directive II (PSDII) in January next year, which, in a nutshell, allows third-party service providers, which are chosen by customers, automatic access via a bank's API to the customer's financial data – provided the third-party service provider is licensed.

A key area of risk, particularly with this incoming change, is the allocation of responsibility between two parties that share data. Where a payment provider is permitted access to a bank's customer data, there is inherent risk for the bank as the original gatekeeper of the customer's data. The bank will need to ensure that any access it grants to a third party service provider is on the basis of a properly obtained consent – in its strict GDPR meaning – from the customer. Once consent is obtained, banks are reliant on the third party complying with its own GDPR obligations and to only use the data for the intended purpose.

Further, by allowing third-party access to its systems, banks are increasing their vulnerability to hackers and other cybersecurity risks. Fuller contract-management and breach-management systems and processes will be needed to deal with this.

Individuals currently have limited rights under the DPA in regard to their personal data. The GDPR creates new rights for individuals and enhances existing ones.

Relevant to the financial services sector is an individual's right to data portability, which some service providers already offer through the midata scheme. Other rights include the right of access, rectification and to object – all existing but enhanced rights under the GDPR – and the right to erasure, to restrict processing and not to be subject of a decision based solely on automated decision-making in certain circumstances – all new rights under the GDPR. Organisations need to ensure that their systems allow them to comply with a request by a data subject to exercise any of these rights.

DOES IT GO FAR ENOUGH?

The GDPR imposes direct liability on to 'processors', which are those organisations that process personal data on behalf of a controller, such as a cloud storage provider or platform provider.

This is a considerable change from the DPA, where processors were only regulated by their contracts with controllers. The fact that all parties involved with the processing of personal data have direct obligations under the GDPR and can, therefore, be directly liable for a fine, means that GDPR obligations are being taken more seriously. However, not all processors have yet become aware of this reality and controllers may find it difficult to engage processors in detailed discussions on GDPR due diligence, contract terms and ongoing contract management for these reasons. The inclusion of processors, and the ability to apply fines and other sanctions to processors means that there will be a more holistic approach to good data management, which is good for us all.

The financial services industry is one of the main sectors affected by data breaches, primarily due to loss or theft, hacking or malware attacks and insider threats.

The GDPR brings in stricter reporting requirements – for example, serious breaches must be reported by controllers to the ICO within 72 hours – with the aim of encouraging more transparency and controls around the security of data. There are additional requirements for processors to report breaches to controllers, and controllers to inform individuals where their privacy or rights are at risk.

Reputational risks and increased fines for non-compliance go a long way to ensure that compliance with GDPR requirements is a priority. However, one area in which the GDPR could have been better is around the number of areas left for member states to determine their own approach. For multi-national organisations, this is an area which will require careful management.

CONCLUSION

Getting to grips with GDPR now can lead to a competitive advantage: An organisation that understands the data it holds and its processing activities can make better use of that data and promote its trustworthiness to customers and potential partners. Starting that process is important, and embracing the issues and challenges found will have great benefit.

Those in the financial services sector are often more technology-savvy, particularly those organisations that provide value added and convenience services.

Compliance with the GDPR is essential and must be achieved alongside other regulatory requirements in unison, rather than as a separate 'tick box' exercise – and must be integrated into business as usual for the real benefits to be achieved. ■

FINANCIAL SERVICES AND HOW APIS WILL TRANSFORM THEM

Opening banking and application programming interfaces (APIs) are presenting a world of possibilities. In an evolving digital environment where customer experience is key, APIs will play a key role in helping finance businesses meet new expectations, writes Mambu's *Eugene Danilkis*

APIs enable the flow of information between applications, like the valves of an engine working to improve performance and efficiency.

They give different business areas within an institution the ability to easily access customer data, draw insights and create innovative products tailored to consumer, market and regulatory needs.

For partners or third-party developers, they provide access to the core platforms on which they can develop more innovative products. End customers benefit from enhanced products, services and more transparency enabling them to better manage their personal finance. They also put customers in charge of their personal information, putting more power in their hands. All these combine to create a reimagined banking system that is geared towards a common end goal: a better user experience.

Legacy bank systems are not built for this level of agility. For most established institutions the absence of a standard set of APIs or a single consistent data model makes integration very difficult, and scaling up prohibitively complex. Systems are siloed, do not 'talk' to each other and need a large number of resources with specialist skills to operate and maintain.

At the opposite end of spectrum are lean and agile technologies such as cloud services and APIs, which most fintechs leverage. By creating loosely coupled ecosystems, these fintechs drive value by leveraging technology to streamline operations, enable automated processes and reduce the overall cost of doing business. It is established institutions' inability to move in the same manner, access and share data, and quickly innovate that is holding them back.

MODULAR AND SIMPLE

The industry-standard use of Representational State Transfer (RESTful) APIs together with a public directory of data model component descriptions underpins the new technology. These allow a platform's functionality to be exposed in a read-and-write manner, offering manipulation of data in every way, not just access. Using these tools, there is no need for specialised IT or technical teams. APIs empower in-house developers with the ability to innovative, adding new features and functionality like custom mobile apps, chatbots or voice recognition capability to their ecosystem in weeks, not years. New products or iterations of existing offerings can be rolled out, integrated and modified at fractions of the cost and time it would take with a siloed system.

APIs enable a modular system architecture, allowing multiple integrations from new payment networks, customer-facing channels or custom-code for process automation to card-processing services and other complimentary cloud services. This gives institutions the flexibility to work with best-in-class providers in each area. Both the business and IT teams are able to make changes quickly, adopt new technologies or switch providers and services – all without having to depend on an army of consultants for execution and customisation.

In any large organisation, data security is always a concern. With API-driven systems, access to system data and capabilities is done solely through the APIs, offering significantly more security than manual or file-driven processes, and thereby reducing the chance of human error.

Single Policy Enforcement points can be introduced such as API management to ensure the integrity and security of information and govern the API access centrally across systems. This is also an effective tool in combating fraud and enforcing necessary segregation of duty regulation, given its ability to access and monitor information across systems.

Credit decisioning is ordinarily a highly complex and resource-heavy process, but many fintechs are using APIs to automate and speed up the process by using third-party services to cover critical steps. Combining these services such as identity validation and credit ranking alongside internal insights into customer behaviour decreases new loan approval times from five days to one minute. A single developer would be able to implement these business process automations in a matter of days, speeding up a cumbersome process cost-effectively.

Open APIs allow industry players like fintech vendors, software providers and developers to easily integrate to an institution's banking and lending capability. Not only does this help the institutions deliver an enhanced and personal experience, but it also offers a lucrative new source of revenue. According to HBR, Salesforce.com generates 50% of its revenue through APIs, Expedia.com generates 90% and eBay, 60%. By creating a marketplace environment and leveraging its platform and access to data, institutions will be able to see a growing return on their API investment.

This technology allows for innovation and customisation in scenarios that institutions cannot possibly predict. The more people build on the solution, the more opportunities there are to differentiate.

Almost like building an architecture without a precise end goal, APIs can take banks into different markets, open up innovation and allow the capability to build something unique. In time, the need to personalise services will become the new normal, and it will become necessary to fall into line. ■

MONEYOU SCORES DIGITAL ID VERIFICATION HIT

Onboarding new customers digitally and securely while meeting stringent KYC regulations has gone from a nice-to-have to a must-have facility in what seems like no time at all. *Douglas Blakey* speaks with MoneYou and tech partner Mitek about their successful collaboration

ABN Amro's digital subsidiary, MoneYou, offers savings accounts, mortgages and other financial services across the Netherlands, Belgium, Germany and Austria.

The facility to offer a seamless and compliant way for new customers to apply for a new product is no luxury – it is a business necessity. At the same time, as with all digital banks, it must verify the new customer's identity and comply with KYC regulations.

RBI talks to MoneYou chief operations officer Theo van Bon about why the bank elected to adopt Mitek's proposition.

RBI: Why Mitek? There are many other firms claiming to offer similar kinds of proposition – what swung ABN Amro and MoneYou in favour of Mitek?

Theo van Bon (TvB): Ultimately, it was a combination of the product and our personal relationship.

Being just around the corner in the Netherlands always helps, and being able to offer the ability to work with a Dutch team that is part of a very mature company with a robust roadmap and product offering was a winning combination.

RBI: Does the project cover all of MoneYou's products?

TvB: Mitek worked with MoneYou when it was a savings account provider. As they expand their offerings, we're looking forward to working with them across all of their banking products.

RBI: What has been the attitude of the local regulator? Have inhibitors to full digital onboarding in markets such as France or Italy perhaps slowed the rate of innovation? Or in Spain, where ImaginBank required new customers to print off a signed contract and have a courier collect it…?

TvB: The local regulator has been favourable to digital solutions – in fact, the Netherlands will have several top banks either live or going live soon with digital forms of ID verification.

Additionally, AML5 and PSD2 regulations have language about digital solutions being an acceptable alternative for customer verification. Overall the regulator in the Netherlands seems to be very open-minded regarding digital ID verification.

RBI: Is this a first in the local market and is it giving MoneYou a competitive advantage?

TvB: It is not quite a first. MoneYou's parent company, ABN Amro, rolled out digital identity verification with PIN and the use of a selfie. It certainly gives it a speed and usability advantage over the status quo.

Many potential bank account applicants using digital channels still need to scan or fax in an ID document, or even go through the process of presenting themselves in person at a physical branch to complete an account opening. ■

'ALWAYS LOOKING FOR THE NEXT OPPORTUNITY'

René Hendrikse, vice-president and MD for EMEA at Mitek, tells *RBI* that the firm's prospects for future growth across a number of markets is hugely positive.

"With the ability to support a wide variety of documents across Europe, we're always looking for the next opportunity. With the latest AML and KYC regulations lowering the threshold for KYC checks, the need for a fast, seamless ID verification for payments and payments processing has become a key pain point," Hendrikse says.

He adds: "The mandatory registration of SIM cards in many countries in the EU, including Belgium, France, Spain and Germany, is driving the need for a simple, secure and cost-effective digital ID verification option for many telecom operators."

Hendrikse notes that beyond those markets, Mitek is seeing demand for ever more digital, instant experiences.

"While user experiences often suffer when regulation-driven ID checks come into play, with digital ID verification we are allowing financial service providers to bridge the gap between user expectation and required customer due diligence," he explains.

Mitek is focused on growing demand for its services in Europe and North America, but sees worldwide interest for digital ID verification. "Whether it's providing ID verification and allowing users to submit trailing documents with their phone for a loan application, verifying someone is who they claim to be in a sharing economy rental or transaction, or allowing users who have been locked out of their P2P payment account to re-authenticate, the number of applications for digital ID verification is as limitless as the digital economy itself," says Hendrikse.

Looking ahead, the advent of PSD2 offers further scope for new business wins. "It will accelerate the adoption of digital ID verification. Beyond the impact to traditional banks, companies and financial service providers building on the open API will trigger the creation of new types of financial service that we haven't even thought of yet.

"These new financial services, however innovative, will still need to meet the requirements for KYC and AML regulations," Hendrikse continues.

"With Open API we can start to see more options for ID verification based on banking information. The combination of being able to validate customers with their ID document, and being able to use their financial history as a second factor of authentication, as well as part of the application, can create further opportunities for financial services." ■

SEPTEMBER NEWS

RHB Bank launches chatbot for personal loans

Malaysia's RHB Bank Group has teamed up with financial comparison site RinggitPlus to introduce ChatBot, a real-time messenger platform that facilitates loan applications.

The platform will allow the bank's customers to apply for personal loans at any time on the RinggitPlus website.

Customers will also be able to check eligibility for a loan quickly by SMS, thereby removing the inconvenience of submitting forms at the initial stage of application.

Once approved, customers will be required to visit the bank's sales centres or sales hubs to complete the process and collect their loan.

RHB Banking Group's retail banking acting head, Nazri Othman, said: "With ChatBot, we aim to achieve an increase of 67% or MYR5m ($1.1m) in personal loan disbursement on a monthly basis.

"RHB targets to grow our personal loan disbursement by 60% to MYR60m by year-end," Othman added. ■

ITALY LAUNCHES FINTECH HUB IN MILAN

The Italian government has established its first dedicated hub for the financial technology industry in Milan, known as the Milan Fintech District.

The new hub will serve as a dedicated location for start-ups, entrepreneurs, financial institutions, investors and universities, which will be offered office space and co-working facilities.

Most than 30 businesses, including those involved in crowdfunding, peer-to-peer lending, blockchain and cryptocurrency-based technologies, and robo-advice have already selected the hub as their base.

Minister of Economy and Finance Pier Carlo Padoan said: "Supporting the development of the fintech sector drives growth and modernisation of the country's financial sector. It benefits all businesses and citizens as it fosters opportunities which enable job and value creation.

"The Fintech District, a dynamic and thriving commercial environment, has been equipped with the resources required to serve the needs of startups and SMEs. This initiative further demonstrates the attractiveness of Milan as European financial hub." ■

CONSUMERS OPEN TO SHARING BANK DATA

Consumers across the world are increasingly demanding new services and are open to the idea of sharing data with new financial service providers, according to a survey by ACI Worldwide and YouGov.

In the UK, the services most demanded by consumers from current account providers include loyalty discounts and offers, better security and fraud prevention, and real-time banking services.

Access to more varied ATM services was preferred by 30% of consumers in Italy, 27% in the US and 32% in Hungary. More control over banking services was preferred by 25% of UK consumers, 26% in France and 25% in the US.

UK consumers are also open to the idea of data sharing, although 55% also expressed a desire to know what happens to their personal data and how it is protected before they use these services.

In the US, UK and Germany, consumers are relatively happy with their current account provider, and do not intend to move to switch providers. Plans to switch in the next 12 months were found in 47%, 34% and 39% of consumers in Italy, France and Spain respectively.

The study also found that credit and debit card fees, along with various banking services, as the biggest concerns for consumers across the world. Moreover, a low degree of awareness was found across all countries regarding the real-time payments schemes to be introduced in the US and Europe.

Commenting on the results, ACI Worldwide's retail banking and consumer payments practice lead EMEA, Lu Zurawski, said: "The data suggests that we have reached a tipping point at the intersection of technology and financial services, where the majority of consumers now trust technology enough that they want it to enhance their financial lives.

"This is great news for the banking industry, as many banks and financial service providers have been leveraging these new technologies for some time." ■

SEC TO ESTABLISH CYBERSECURITY UNIT

The US Securities and Exchange Commission (SEC) has announced plans to create a unit to tackle cyberthreat.

The new unit will focus particularly on misconduct involving distributed ledger technology, initial coin offerings, misconduct using the dark web, market manipulation schemes through electronic and social media, intrusions into retail brokerage accounts, and cyberthreats to trading platforms.

The cyberunit will be led by Robert Cohen, and will also include staff from the business's enforcement division. Cohen is currently co-chief of the market abuse unit at SEC.

"The unit, which has been in the planning stages for months, complements the chairman's initiatives to implement an internal cybersecurity risk profile and create a cybersecurity working group to co-ordinate information sharing, risk monitoring, and incident response efforts throughout the agency," SEC said in a statement.

The regulator also established a retail strategy task force that will develop initiatives to detect misconduct affecting retail investors using data analytics and technology. The task force will comprise enforcement personnel across the country, who will work alongside SEC employees including SEC's national exam programme and the office of investor education and advocacy.

SEC enforcement division co-director Steven Peikin said: "By dedicating additional resources and expertise to developing strategies to address misconduct that victimises retail investors, the division will better protect our most vulnerable market participants." ■

Optimism continues to deteriorate among UK financial services businesses: CBI/PwC

Despite a rise in business volumes, UK financial services firms continue to remain less positive about the future. The quarter ending September 2017 marks the longest run of falling sentiment since the global financial crisis of 2008, according to the CBI/PwC *Financial Services Survey*.

The study found that 12% of businesses were more optimistic about the overall situation in the quarter to September compared with three months ago, while 18% were less optimistic. Banks and building societies were found to be less optimistic, while finance houses, life insurers and investment managers were more optimistic compared to the previous quarter.

The drop in optimism contrasts with business volumes, which rose for 28% of businesses and fell for 15%. Firms also expect to speed up the growth in business volumes next quarter, with 34% expecting them to increase and 7% expecting them to decline.

However, overall profitability decreased in the quarter, with 27% of firms reporting a rise in profits and 14% reporting otherwise. Further, 28% of the firms said they increased headcount during the period, while 29% said the contrary. Firms also said they plan to increase the pace of hiring in the next quarter.

The study also noted that firms plan to increase investment in IT spending, marketing, land and buildings, as well as vehicles, plant and machinery in the year ahead.

However, regulation, competition and level of demand were highlighted as potential impediments to business growth over the coming year.

The study also found concerns easing over the deterioration in financial market conditions, with 17% of respondents expecting a low likelihood of a worsening in financial market conditions over the next six months, and 6% expecting it to be highly likely.

Also, over two-thirds of businesses said it was critically important to retain the UK's place as a leading fintech and innovation centre, while 67% indicated access to global and domestic talent as critically important.

Commenting on the findings, CBI chief economist Rain Newton-Smith said: "While demand in the sector is expected to hold up in the near term, we cannot ignore the fact that optimism has dropped in almost every quarter for the past two years.

"With Brexit uncertainty affecting the wider economy, it's vital that substantive progress is made during the next round of Brexit negotiations, so that transitional arrangements can be agreed and businesses can make decisions now about investment and employment that will affect economic growth and jobs far into the future." ■

ABN AMRO FINED FOR MIFID RULE VIOLATIONS

ABN Amro Bank and ABN Amro Clearing Bank have been penalised by the Netherlands Authority for the Financial Markets (AFM) for failing to comply with MiFID requirements.

According to MiFID regulations, banks need to submit transactions in listed financial instruments to the regulator. ABN Amro Clearing Bank failed to report 11,911 such transactions, mainly carried out on the Stuttgart Exchange between 13 September 2014 and 11 April 2016. The entity was fined €500,000 ($587,000) by the watchdog for the reporting failure.

ABN Amro Bank was fined €400,000 for failing to notify details of 86,796 transactions between 2 February 2010 and 1 July 2015 to the regulator. The transactions were conducted by various bank departments across different trading platforms.

AFM reduced the fine as ABN Amro Bank discovered the breach itself and notified it to the regulator. Neither company objected to AFM's ruling.

Earlier this year, ABN Amro's card business was fined €2.4m by AFM for offering excessive credit limits to clients. ■

AUSTRALIA'S BIG FOUR DROP ATM FEES

Australia's big four banks have scrapped ATM withdrawal fees as they try to revive their images following various scandals and tougher regulatory standards.

Commonwealth Bank of Australia (CBA), Westpac, National Australia Bank (NAB), and Australia & New Zealand Banking Group (ANZ) have decided to remove the AUD2 ($1.60) ATM withdrawal fee previously charged to customers of other banks. The move will, however, only apply to domestic users and will not cover customers using overseas cards.

"We have been listening to consumer groups and our customers and understand that there's a need to make changes that benefit all Australians, no matter who they bank with. This is one of the steps we're taking to make that happen," CBA said in a statement.

"As Australia's largest bank, with one of the largest branch and ATM networks, we think this change will benefit many Australians and hopefully demonstrate our willingness to listen and act on customer feedback."

The latest initiative comes shortly after the Australian Transaction Reports and Analysis Centre filed a civil suit against CBA for alleged money laundering and financial crime.

The Australian Prudential Regulation Authority launched an inquiry into the bank's governance soon afterwards. ■

EX-BARCLAYS CEO RECEIVES £34M FOR STARTUP

10x Future Technologies, a fintech founded by former Barclays CEO Anthony Jenkins, has raised £34m ($45.5m) in Series A funding from Ping An Global Voyager Fund, a subsidiary of China's Ping An Insurance, and consultancy Oliver Wyman.

Launched in October 2016, the fintech offers a cloud-based core banking platform that enables banks to better tailor mortgage, credit card, loan, saving and current account offerings. The funding will allow the startup to expand its talent in data analytics and artificial intelligence.

The funding makes Ping A fund the largest third-party shareholder in 10x. It also establishes a strategic partnership between Ping An and 10x, under which Ping An will market 10x offerings in Asia.

Ping An Group chief innovation officer and Ping An Global Voyager Fund chair and CEO Jonathan Larsen said: "10x Future Technologies and Ping An share a vision that technology is the key driver in the financial sector to offer customers drastically improved services at a drastically lower cost of delivery. 10x represents a breakthrough in banking technology and is a wake-up call to banks everywhere.

"We are looking forward to working with 10x Future Technologies to bring the company's capabilities to Asia, given the vast local demand for innovative technologies that will transform the finance industry," Larsen added. ■

HSBC CHINA LAUNCHES 'SELFIE' PAYMENTS

HSBC has launched facial-recognition technology for its customers in China that will allow them to pay with a 'selfie'.

To make a payment using the service, users need to blink into their smartphone camera in selfie mode. Transactions are authenticated after matching the selfie with a photo on the database. Customers will be allowed to transfer up to CNY50,000 ($7,600) daily.

China is the first country where the selfie payment service is being introduced by HSBC. The bank previously used a token device to authorise fund transfers.

HSBC China's executive vice-president and head of retail banking and wealth management Richard Li said: "We believe there is a huge growth opportunity, stemming from Chinese consumers' enthusiasm for new technology.

He added: "Investing in digital banking is one of our priorities to ensure we continue to provide the services people want and expect from us." ■

Russian central bank bails out B&N Bank

The central bank of Russia has agreed to bail out B&N Bank after it ran into financial problems.

The Bank of Russia will serve as a key investor to boost the lender's capital position after it asked for help from the central bank.

The investment, the details of which were not disclosed, will be funded by the Banking Sector Consolidation Fund. The capital will be injected into B&N Bank, affiliated lender Rost Bank, and bank subsidiaries. The central bank said it will not place a moratorium on creditors' demands or impose a bail-in option.

"The measures aimed at improving the banks' financial stability are being implemented in co-operation with the banks' current owners and executives, which is set to secure the continuity of their operations in the banking sector, as well as, moving forward, make all necessary arrangements towards the banks' operational development in the future," Bank of Russia said in a statement.

The latest bailout is the second in just a few weeks. At the end of last month, the central bank also decided to bail out Bank Otkritie Financial, which was facing a deposit run. ■

BANKS' NEXT CHALLENGE COMES FROM PAYMENT AND TECH FIRMS

Payments and technology businesses are increasingly challenging traditional banks as a growing number of consumers use non-financial providers for essential activities such as paying bills, transferring money, and taking out loans, according to a survey by Fiserv.

The study found that 88% of respondents were comfortable with paying bills through a bank or credit union, 52% through a payments company, 40% through a technology company, and 16% through a social company.

Overall, 82% were comfortable with taking out a loan from a bank or credit union, 32% from a payments company, 29% from a technology firm, and 14% from a social company.

The study also found that half of respondents had used a voice-activated device feature within the past year, with 26% using it to carry out a banking function within the past 30 days.

Younger, wealthy and urban consumers were found to be more likely to use non-financial providers to conduct financial activities, with 65% of millennials found to be comfortable with a payments company and 63% with a technology company, as against 26% and 24% respectively for non-millennials.

Despite rising adoption of alternative banking channels, 90% of millennials indicated a preference for a national bank, credit union, community bank or regional provider as their primary financial provider.

Fiserv COO Mark Ernst said: "Technology and payments companies may give banks and credit unions a run for the money as consumers become comfortable using these companies for financial activities, an undeniable signal for financial institutions to take note.

"It's critical that financial institutions think of themselves as technology providers in order to capture the opportunity to expand upon existing customer relationships and meet the demand for fast, convenient solutions that make people's lives easier." ■

MAS SETS UP CYBERSECURITY PANEL

The Monetary Authority of Singapore (MAS) has formed a Cyber Security Advisory Panel (CSAP) that will advise the regulator on how to strengthen the resilience of the city-state's financial services sector to cyberthreats. The panel will advise the regulator on evolving technologies and cyberthreats and their effect on the financial system. It will also outline best practices in cybersecurity.

The panel will include cybersecurity thought leaders from across the world, with members serving two-year terms. CSAP will hold its first meeting next month.

MAS MD Ravi Menon said: "As financial institutions adopt new technologies and financial services are increasingly distributed using digital platforms, strong cybersecurity is critical to sustaining trust and confidence.

"We look forward to tapping on the CSAP's expertise to help ensure that Singapore's financial sector remains dynamic and secure in an increasingly digital world."

Last year, MAS created an International Technology Advisory Panel to advise the regulator on international developments in the fintech arena. ■

JPMorgan selects Bill.com as digital payment platform

JPMorgan Chase has joined with Bill.com, a US-based business-to-business (B2B) payments network, to enable businesses to send and receive electronic payments and invoices faster.

The bank will integrate Bill.com's B2B payments solution into its digital platform for businesses. Bill.com's technology will also help customers electronically manage and store invoices and documents, sync information with leading accounting software, and phase out data entry. The bank said the solution will help clients save up to 50% of time spent on manual bill management.

JPMorgan Chase CEO of business banking Andrew Kresse said: "Being the easiest bank to work with includes finding ways to help businesses move toward digital automation and quicker time to money. This solution does just that and truly adds value by offering back something every business owner needs a little more of: time in their day."

Bill.com founder and CEO Rene Lacerte added: "We're thrilled to work with JPMorgan Chase to re-engineer how businesses pay and get paid. Chase clients will be able to say goodbye to sending and receiving paper checks and hello to a new era of time and cost savings." ■

HDFC LAUNCHES EMI DEBIT CARD OPTION

Indian private sector lender HDFC Bank has launched the EasyEMI facility on debit cards, enabling customers to make payments in instalments.

Customers will have pre-approved loan amounts, and can select the EasyEMI option when making offline or online payments with debit cards. It can be used to purchase consumer durables, electronics, mobiles, furniture, fitness equipment, flight and train tickets, and medical treatment.

The bank has set INR10,000 ($155) as the minimum amount to use the EasyEMI option, which is available on credit and debit cards, and at merchant outlets.

HDFC Bank's Parag Rao said: "It is a simple, quick and convenient option for our customers to fulfil their desires." ■

THE CHALLENGES OF 2017: IS THE CUSTOMER BEING FORGOTTEN?

In adapting to changes, it is essential that banks never lose sight of the end goal: ensuring all efforts are focused on the customer and delivering the best possible service, writes *Martin Häring*, CMO at Finastra

Preparations for the upcoming PSD2 and GDPR legislation have been keeping senior bank management, compliance and IT teams busy this year.

As well as the compliance challenges, the most progressive banks are also readying themselves to capitalise on the potential of enabling technologies – such as artificial intelligence (AI) and cloud computing.

Let us look at areas that have been making the headlines in 2017 and review banks' progress from a customer-centric viewpoint.

Looking first at PSD2, it appears that banks are largely on track – at least from a technical perspective.

Thankfully, senior bank executives have grasped the seriousness and implications of getting it right, and the most progressive EU banks are positioning themselves to exploit a new app-driven era of openness in banking. But beyond the technical requirements of open APIs, it is critical that banks ensure they are looking at the overall customer experience. The objective has to be for the bank to retain and build on its relationship with the customer by offering a much richer and more tailored experience.

While banks will have to respond to customer requests to share their data with third parties, they should also recognise the opportunity presented if customers grant them access to data held by other banks where they hold accounts.

This data can be used to build a fuller picture of each customer which, combined with powerful analytics, can help banks develop tailored and alluring offers.

In this context, it is essential that CRM systems and marketing automation tools are tightly integrated with the banking platform, allowing the bank to be as proactive and responsive as possible to customer needs.

From the customer's perspective, a whole new era of greater choice and convenience is on the horizon. Delivering the best possible service to customers will separate the winners from the losers over the longer term.

Hot on the heels of PSD2, the General Data Protection Regulation also comes into effect in 2018. Some banks argue that they are being pulled in different directions by each piece of legislation – opening up access to customer data on the one hand while needing to offering greater protection on the other.

Assessing the progress made in preparing to meet the requirements of GDPR is harder to quantify as banks are not giving much away about their activities in this area. I see the challenges of GDPR compliance becoming more prominent towards the end of this year as the true scale of the challenge emerges.

DATA ADVANTAGES

Data is undoubtedly the most valuable commodity banks possess, and every effort must be made to get the strategy right when extracting the maximum value from information while remaining within supranational and national rules, and ensuring the trust of the customer.

The data held by banks has the potential to give tremendous insight into individuals' spending and saving patterns. While some customers will be open to sharing information with trusted third parties, others will be much more guarded in their approach. Either way, all customers deserve the full protection set out by GDPR.

The banking sector must get its house in order or face some severe consequences which are both financial and reputational in nature. Estimates predict EU banks could be fined €4.7bn ($5.64bn) in the three years post-implementation for data breaches – with the penalties being much stiffer than the ones baked into current legislation. Arguably banks are in a good position, as they have been the trusted custodians of customer data for years – giving them an advantage over new players that customers are less familiar with. But for some banks the complexities associated with legacy IT systems may make full compliance with GDPR by 25 May 2018 impossible.

Some serious conversations need to be held – and decisions taken – about whether banks need to be given more time in order to successfully meet the exacting requirements of the legislation.

AI and machine learning offer huge scope in allowing banks, fintechs and other players to deliver seriously useful insights to customers exactly when they need it – for example, in relation to how they can adjust their spending and saving habits to achieve the best outcome.

Using AI to bring together information across all areas of the bank for each customer can be incredibly powerful.

For example, in helping to understand when customers may be receptive to new offers, and equally when they might not be happy or looking elsewhere – for example by flagging when access is granted to third-party service providers.

It is essential that banks start laying the foundations for cognitive technologies today, as part of the drive to provide operational and service excellence. AI will be a crucial enabler in helping them capitalise on the opportunity of open banking while delivering all services in full compliance with industry regulation.

Open banking and PSD2 are also encouraging banks to adopt a more open mindset – and to explore how they can come together with fintechs and other service providers to offer a more joined-up, complete experience to the end customer.

By taking a more collaborative approach, banks will be able to quickly offer customers access to new offerings and services. This buy-versus-build approach is important in reducing innovation cycles and delivering innovative and varied offerings to customers.

Banking is emerging from the era of having to do more with less. For the remainder of 2017, and the foreseeable future, it is about doing more with more, with multiple parties aligning to deliver ever greater value to customers. ■

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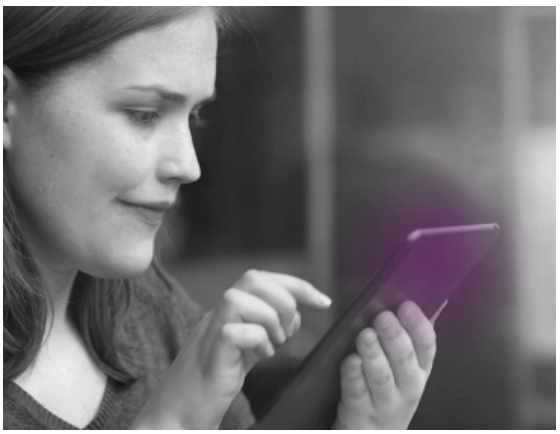

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