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Financial IT

Innovations in FinTech

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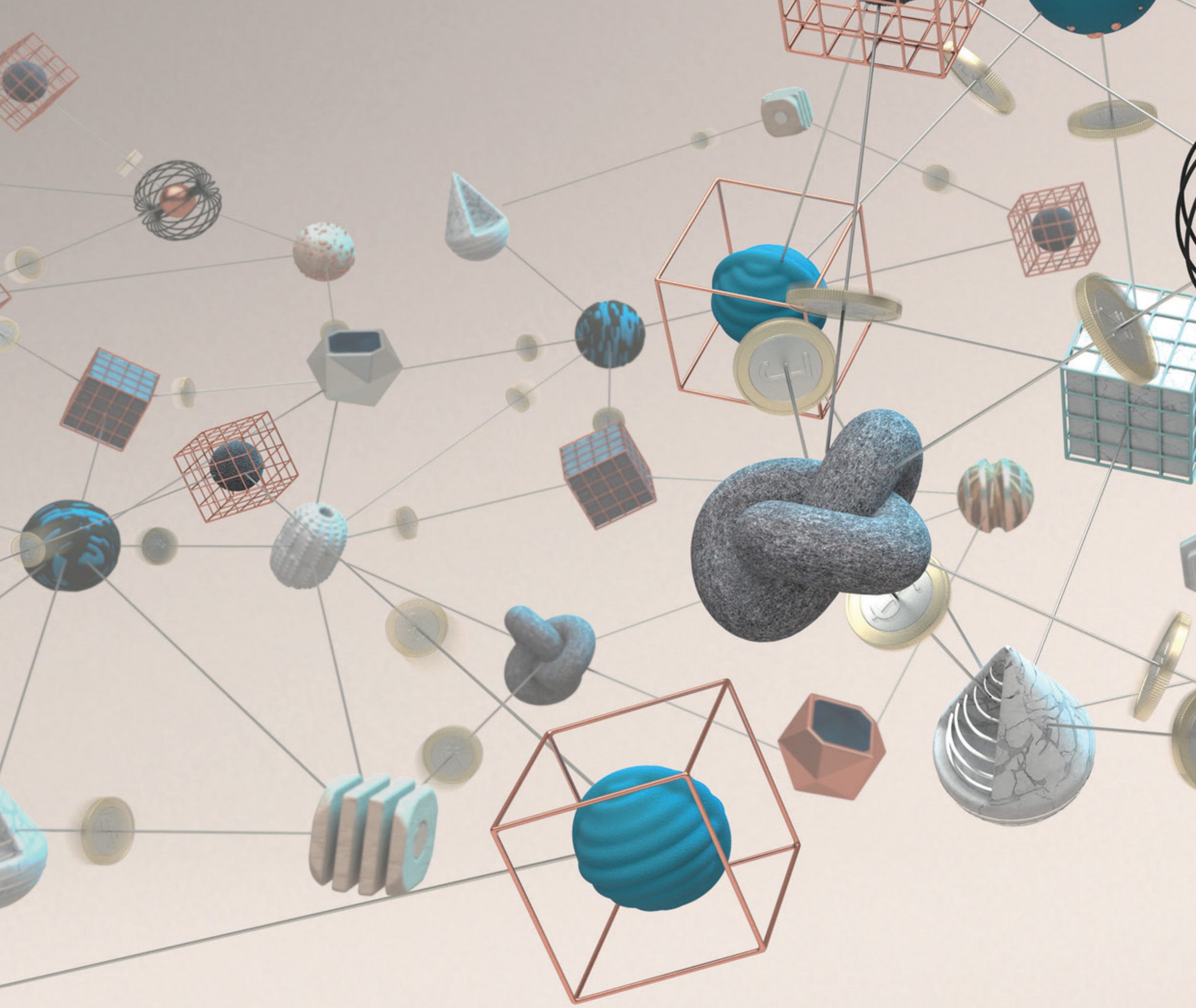
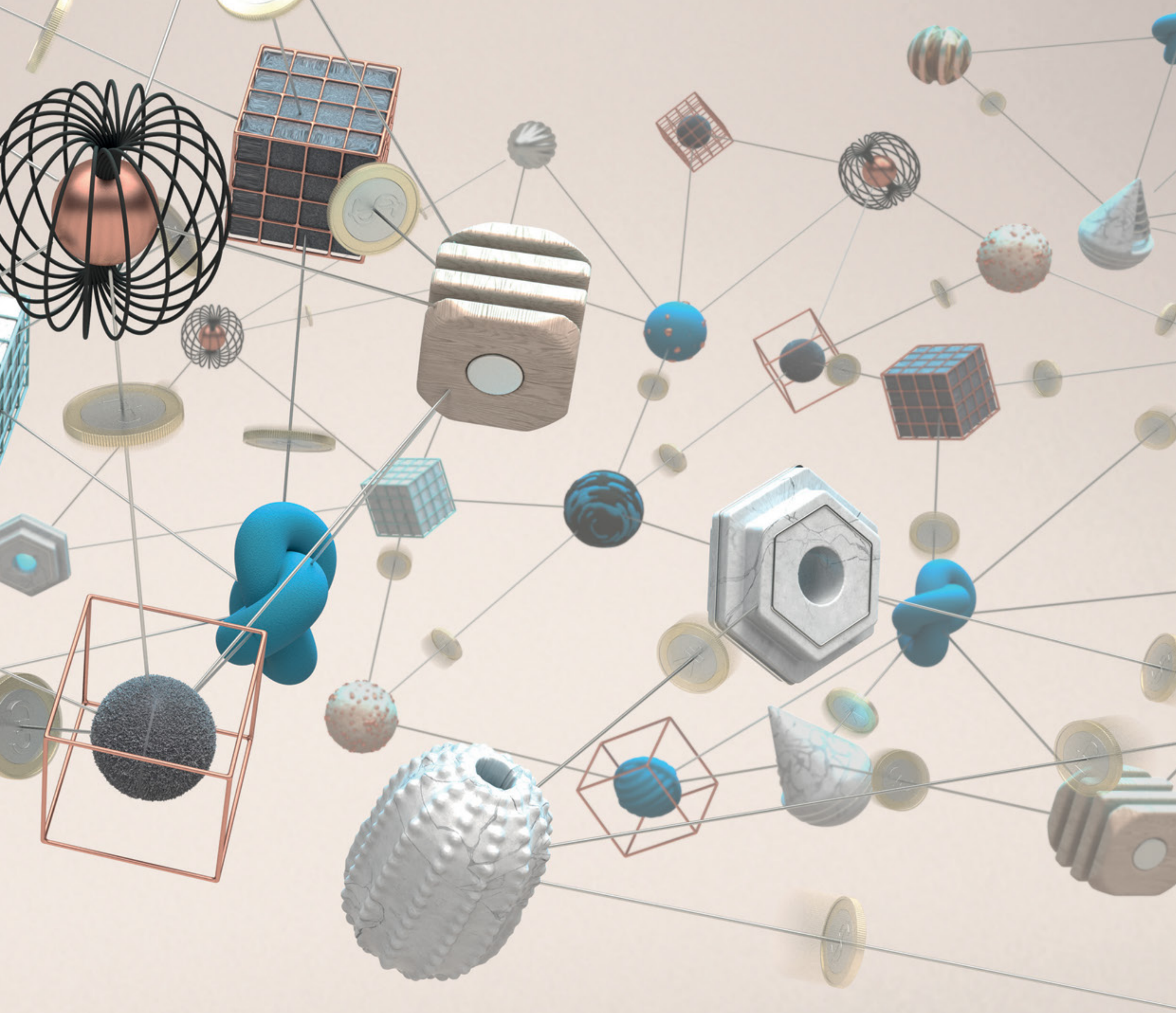
THE EVOLUTION OF FINTECH: HOW DISRUPTIVE CHALLENGERS BLUR THE LINES BETWEEN TECH AND BANKING





Banking Circle's proprietary technology enables Payments businesses, Banks and Marketplaces of any scale to seize opportunities, compete and grow.

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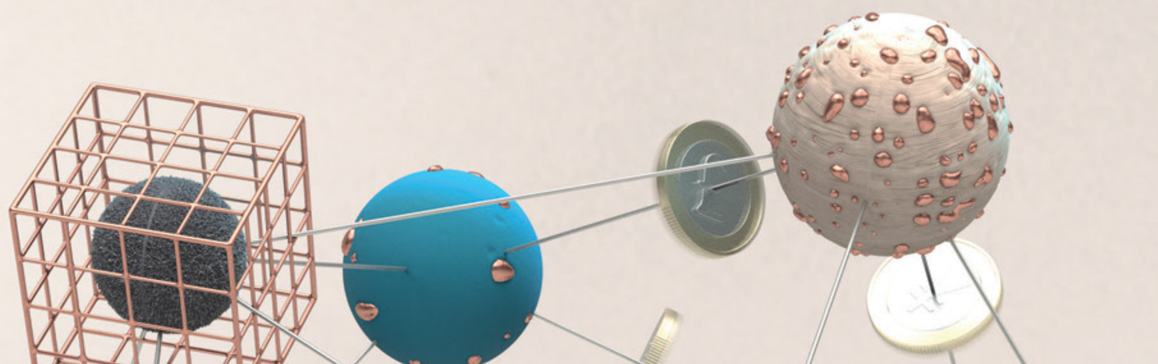
Bypass old, bureaucratic and expensive systems and enable global banking services for your clients.



THE MIRROR AND THE MICROPHONE OF FINTECH

WHAT REALLY MATTERS RIGHT NOW TO FINTECH'S DECISION-MAKERS?

Andrew Hutchings,
Editor-In-Chief, Financial IT

In preparing this edition of Financial IT, we spoke to the organisers of the Money20/20 Europe conference, which takes place in Amsterdam on 6-8 June.

The organisers see themselves as being the 'mirror and microphone' of fintech. We fully agree with that description. Accordingly, we put three questions to them.

Perpetual motion

Our first question was: what do the organisers consider to be the biggest changes that have taken place over the last year?

We expected a response that discussed specific developments – such as the arrival of ISO20022 or the rise in the prices of major crypto-currencies over the last six months.

Instead, the organisers suggested that the biggest change was change itself. Fintech is characterised by perpetual motion. No two annual conferences can be the same when the organisers are seeking to encourage the conversations that matter and to generate fresh perspectives. This is achieved through the new content that is delivered and the new experience that is provided to the fintech decision-makers who attend the conference.

Topics not sectors

This led to our second question: what do the decision-makers actually want to talk about?

We expected a list of different sectors of the fintech universe – payments, regtech, insuretech, crypto-currencies and so on.

However, the agenda for the conference gave a very different picture. In terms of the number of events dedicated to each of them, the most important topics are: Smooth Interactions (45 or so, as of the third week of May); Strategic Decisions (40); Socio Economic Impact (30); Unexpected Finance (28); and Start-Ups (28).

It is reassuring – and not surprising – that the 12 contributed articles in this edition of Financial IT show the same picture. One third are dedicated to Smooth Interactions – new technologies or new approaches that improve the user experience or otherwise bring positive outcomes. Another third of the articles are clearly devoted to strategic issues. The other third are devoted to Socio Economic Impact and/or Unexpected Finance.

The new companies on the block

That brings this Editors' Letter to Start-Ups. Our third question was simply: are the Start-Ups who are presenting at Money20/20 Europe united by particular themes or trends?

The conference organisers replied that the Start-Ups – in many ways a diverse group of new companies – are united mainly by their desire to connect with others. They are looking to network.

Sabrina Akramova,
Managing Editor, Financial IT

Therefore, the number of Start-Ups whose people are attending the conference will be a lot larger than the number of new companies that formally presenting their business models at Money20/20 Europe.

Our own research has identified about 2,700 Start-Ups in the world of fintech. These are companies that have been established since 2012 and that have not listed on any stock exchange. We are looking at how those companies are funding themselves.

Of course, access to funds – at a time that financing is not as easy as it has been in the past – is something that Money20/20 Europe will also be considering through its Funding the Ecosystem workshop.

We wish everyone who is involved with Money20/20 Europe a most successful conference.

Andrew Hutchings, Editor-in-Chief, Financial IT

Sabrina Akramova, Managing Editor, Financial IT

Financial IT
Innovations in FinTech

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EVERYTHING EFFECTS EVERYTHING

by Chris Principe,
Publisher, Financial IT

The weight of Artificial Intelligence (AI) is growing everyday even if we do not see it. The use of AI goes back years before most had ever heard the term AI. Slowly AI has been ingrained into our lives. It has become our helper, guide or unseen force that pushes us without us noticing that we are being pushed. AI is a dependence that we do not feel we are dependent upon. It is such an unseen force in our lives that if lost we would not be able to recover without it.

In short, AI is a heavy part of our day and of our life and we don't realize it. So, how did this happen and when?

Let's look back in history to see where the first seeds of AI were planted. For me, I can think of several television shows and movies that first start the direction for AI. There were the shows Lost in Space with the Robinson Robot and Star Trek with Mr. Spock, who seemed to have been born with AI. These shows started the imagination of what to expect in the future. Then there was the movie, 2001 a Space Odyssey with HAL 9000 computer who was able to react faster and smarter than the two astronauts. HAL 9000 was an early example of evil AI on film. HAL calmly murmurs the classic "I'm sorry, Dave. I'm afraid I can't do that," to Commander David Bowman who is locked out of the spacecraft. This was a watershed moment. Suddenly, homicidal computers were within our grasp, no longer confined to the imaginations of science fiction writers.

Fast forward to present times. According to Harvard, we make 35,000+ decisions per day. An increasing number of those decisions are made through AI. Just like IBM Big Blue playing Chess, we let Amazon AI pick our clothes and match them for us. Sometimes it is hard to notice. On Amazon, they found that using AI to make additional recommendations has increased their sales of those recommendations by 37%. When you pick out a shirt to buy and right away you see the pants, belt, shoes, and tie that goes with your shirt, it makes it simple for the online retailer to upsell to us.

When you go to Netflix to watch a movie or show at the end, they are using AI to select the next show for you. This makes it so easy that you do it without searching for anything else. TV and movies are picked out for you. It won't be long before they will be able to personally select the commercials and ads you see by using AI to target you directly. This will be based on your choices and compared against people with similarities to have you see and buy without thinking about it.

AI has made taking your vacations and trips much easier. Buy a plane ticket and see hotels, rental cars, and other opportunities to spend money plus suggestions to start planning your next trip. All of this is based on your past choices, what similar people choose and the predictive reasoning of AI. As you fly, Air Traffic Controllers use AI for predicting outcomes of the planes in the air. If you're travelling and want to find a restaurant, leave it to AI. In fact, AI can even pair the food and wine for each course that you dine on.

If you want to eat at home, then you can do so with your kitchen connected to the Internet of Things (IOT). Your refrigerator will use sensors for checking what you are out of and ordering it for you. Your order can be delivered with Smart Locks on your door. This will allow only the delivery person to bring in and put away the items that your refrigerator has ordered for you. Are you not sure of what to make? AI can select recipes for you based on your likes, time of day, day of the week, special occasion, dietary needs, and how many people. Through IOT, a search can be done of what ingredients are in the kitchen. Then AI can select your recipe based on what's on hand.

Already on the roads are self-driving cars that use AI. Soon your car will be able to start up with the heater or A/C on, depending on the weather, before you even walk out to the garage. Your AI driven car will then drop you at work and self-drive, self-park, self-fuel, self-fund as an Uber, while at work or at home. Thinking ahead, there is no reason for your car to waste time in the garage. AI can have it self-driving as an Uber throughout the night. What car could you have if your car pays for your car loan?

In the Metaverse there are no boundaries to what great things can be done by AI. We're talking about things that can only be done in the virtual world, with no physical world restrictions: sports, travel, contests, living beyond our means, meeting others, Space adventures and historic reliving. I am getting goosebumps with the infinite possibilities of AI in the Metaverse.

In other words, AI is in everything. Perhaps it is everything. It affects everything. Indeed, it effects everything.

The question that I will leave you with is simple. How will AI enhance our lives so that we are able to experience more? The danger is more of us may become hopeless couch potatoes!


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Put innovation at the core of your payments business
Innovation should be second nature. It should be something you do every day rather than in a lab on the side. Make innovation your priority.

THE EVOLUTION OF FINTECH: HOW DISRUPTIVE CHALLENGERS BLUR THE LINES BETWEEN TECH AND BANKING

Laust Bertelsen, CEO at Banking Circle looks at how the business to business financial ecosystem is pivoting to facilitate better, faster and more cost-effective services.

As The Payments Association will tell you, the utilisation of technology to enable financial transactions began way back in the 19th Century when electronic fund transfers were first made using telegraphs and Morse code. The next big step in FinTech occurred from the 1960s, as finance began to digitalise and eventually went online in the 1990s. However, perhaps the biggest leap forward came swiftly on the heels of the 2008 financial crisis, when regulation shifted and the market saw a new type of provider enter the financial landscape.

New entrants didn't have the same legacy infrastructure slowing them down, so were free to innovate, to stir up the industry and deliver exciting solutions. They were able to respond to the growing list of pain points and frustrations faced by businesses and consumers transacting in an increasingly global online marketplace. An example of that innovation was Banking Circle. It was launched in 2015 (then known as Saxo Payments), to bring faster, lower cost cross-border B2B payments than incumbent banks were able to deliver.

A FinTech history

Much has been said and written about FinTechs over the past 15 years, and looking through the Banking Circle archives gives an interesting glimpse of the shifting landscape as the ecosystem has evolved.

In 2015, we highlighted that *"Historically, banks have dominated the entire market, but times are changing and the FinTech invaders are beginning to disrupt the peace. Banks certainly have their place, but their share is undoubtedly being challenged."*

The following year, we added *"FinTechs are in the perfect position to bring innovation to the international B2B landscape. With no legacy infrastructures, lower running costs versus incumbents and increased transparency, the new breed of challengers can finally get payments moving. But this isn't just a question of charging less than traditional banks and cutting them out of the picture. In fact, banks remain extremely important, and are absolutely necessary for services such as deposits and clearing. FinTechs should therefore be looking to complement the services provided by traditional banks, and offering a specific solution that is carefully and expertly designed to meet a need not currently being met effectively, if at all."*

In late 2017, we did a spot of future-gazing, saying that "With the help of Financial Utilities providing non-core services, challenger banks, FinTechs and alternative payment providers will be able to compete alongside traditional banks, improving the overall offering available to consumers and businesses. Financial Utilities are able to provide access to a global account infrastructure which meets the needs of internationally trading merchants, helping them to reach their potential in all the markets within which they want to trade."

How FinTechs relate to banks is a significant portion of how they have evolved. Entering the market to challenge banks' offering, then shifting to provide complementary solutions before being able to compete successfully alongside, blurring the lines between what is a bank and what is a FinTech.

Changing regulation and Open Banking have allowed those lines to become even harder to distinguish, with the growth of embedded finance being a key example. Companies don't even need to be a specialist FinTech business to offer financial services today – as long as they have a partner that can deliver that expertise. FinTechs are now able to offer traditional financial services, including loans and debit cards.

The average consumer would be forgiven for having a hard time accurately distinguishing between a bank and a FinTech in 2023.

Shifting needs

However, as FinTechs have evolved, so too have their requirements and the pain points they seek to resolve. Developing alongside – and integral to the evolution of FinTechs – Banking Circle has adapted, updated and overhauled its offering to ensure it is always able to meet its clients' needs, and those of its clients' underlying customers. With an ambition to provide payments solutions to empower rather than hinder global commerce, Banking Circle has been committed to innovation from day one.

In the early days, Banking Circle was a payments provider, going on to gain its Banking Licence in 2019. Even pre-licence, the business offered a wide range of innovative payment solutions that broke down barriers to international trade by removing complexity and avoiding reliance upon the outdated correspondent banking network famed for adding time and cost to cross-border payments.

The first non-bank to provide virtual accounts with International Bank Account Numbers (IBANs), Banking Circle was uniquely able to allow its Bank, Payments business and online marketplace clients to provide their customers with fast and low cost international payments.

Once granted a Banking Licence, Banking Circle became connected to the European Central Bank and joined the SEPA clearing scheme, to provide an even more sophisticated range of solutions to clients and their customers. 2021 saw the Bank transition to become cloud-based, enabling faster and greater scalability and adaptability to match and exceed ever-changing market needs. Speed to market for new solutions and new clients vastly improved.

Innovative thinking and product development focused on designing from the ground up, rather than adapting existing solutions has won Banking Circle a swathe of industry awards. A rapidly growing customer base and the accolade of handling 10% of European B2C ecommerce payments further underline the role the Payments Bank is playing in today's B2B financial ecosystem.

FinTech challenges today

Despite their success and expansion over the years, FinTechs still face numerous challenges on their journey to providing the best possible financial services for businesses and consumers.

BANKING CIRCLE

As in all markets, margins are becoming ever tighter and the need to reduce costs and speed up cash flow is growing by the day. There is a good deal of focus on improving efficiency, to reduce spend on resources and remove complexity which slows down internal processes. However, this is counterbalanced by the need for a wider range of products and services. A key challenge for FinTechs is understanding what their merchant customers need and being able to create differentiation for competitive edge.

FinTechs' merchant customers are shifting online, meaning digital payment methods are essential and must be accessible to all customers. Recent Banking Circle research amongst merchants in the UK, Germany and the Netherlands found that just 34% still use a physical outlet for sales. 49% use online marketplaces, 46% their own website and 39% harness social media as their sales channel.

FinTechs, therefore, need to be able to offer payment options that work seamlessly in each of these environments. They also need to be able to support merchants needs as they become more complex, for example trading cross-border.

Offering banking services ... without being a bank

The more FinTechs can add to the portfolio of services they offer merchants, the greater 'stickiness' they have which helps the company to remain competitive. However, what FinTechs really want is the ability to offer banking services without being a bank – and without having to deal with all the regulatory and capital requirements that go along with that title. FinTechs want their customers to see them as their bank. They want their own Bank Identifier Code (BIC) to simplify cross-border payments and they want to provide instant settlement, direct debits, credit and clearing.

Such big ambitions need innovative partners and innovative solutions which Banking Circle is delivering.

Realising FinTech ambitions

Those FinTechs offering access to a suite of solutions and added-value propositions in one place will be an attractive option for merchants. Keeping multiple solutions under one roof simplifies integration as well as payments themselves. The more solutions a FinTech provides to its customers, the more payments those customers will send to that FinTech.

The challenge, however, is that no non-bank FinTech can single-handedly build and maintain a broad enough suite of solutions to remain competitive. FinTechs were built to meet a specific need and to meet it better than a traditional bank. They were not built with the capacity to design, engineer, launch, run and continually update and upgrade a vast array of financial services solutions.

The only way for FinTechs to offer their customers a wide enough range of propositions is in partnership with expert external partners like Banking Circle. The financial ecosystem contains almost limitless broad and niche financial solutions ready and waiting for FinTechs to pick and mix. Choosing the right partner with the right solutions means FinTechs can offer market-leading solutions underpinned by fit-for-purpose tech and supported by the relevant regulatory expertise.

Recognising the global marketplace in which so many merchants now operate is critical. According to the recent Banking Circle research, of the four biggest pain points merchants experienced with their Payment Services Provider (PSPs), two relate directly to cross-border payments: speed of settlements (29.5%) and FX facilities (27.5%).

Banking Circle's multicurrency FX service for payments is available 24/7, with a Request for Quote (RFQ) facility available for same day settlement. This can be accessed via API and Client Portal enabling instant settlement of FX trades for payments within extended opening hoursFuture developments are set to give FinTechs the facility to book FX trades without pre-funding their account at the time of booking.

Further improving the cross-border payments process, other initiatives from Banking Circle give FinTechs important added-value in a competitive marketplace.

With Agency Banking, Fintechs can use Banking Circle's clearing and settlement connection to become indirect participants in SEPA Credit Transfer. Using their own accounts for payments and collections presents the fintech as the Financial Institution and their underlying customers as sender or receiver, increasing payments transparency, allowing them to stay in control of the customer relationship and be as close to the SEPA scheme as possible without being a direct participant.

FinTechs can also leverage Banking Circle's Correspondent Banking solutions to access the Payment Bank's global network and gain direct access to national clearing systems. They can send and receive cross border payments quoting their own BIC and IBAN, which can be done via SWIFT and API integration.

New Intraday and Overnight settlement options help with FinTech treasury management by improving speed of settlement and enabling them to pay out sooner. Plus, Banking Circle's Fiduciary Arrangement allows FinTechs to manage their counterparty risk exposure and improve their cash management without changing their daily operational setup.

Real-time direct clearing and settlement in EUR and GBP

Banking Circle has also just announced it has joined the UK Faster Payments Service (FPS) as a Direct Participant for GBP. This gives clients access to real-time direct clearing and settlement for both EUR and GBP, available 24/7 for payments of up to £1,000,000. Payments are usually instant and are processed within a maximum time frame of just two hours.

Tomorrow's history

As we move forward, customer expectations will continue to rise and FinTechs will need to innovate more quickly to meet changing needs if they are to remain competitive and retain customers. Embracing new technology is essential in future-proofing the FinTech offering, with Machine Learning and Artificial Intelligence playing increasingly important roles in all areas – from tailored Buy Now Pay Later offers within the payment journey to advanced fraud detection and decision-making processes.

Banking Circle continues to innovate to deliver solutions that will not only enable even the smallest FinTech to offer market-leading solutions capable of being personalised for each customer. It will also ensure payments are more accessible, faster and more secure regardless of geography or currency.

Technology is increasing financial inclusion by providing access to banking solutions for anyone, anywhere. This is an exciting time to be playing a part in the FinTech journey, and we very much look forward to seeing what is around the corner and what opportunities it brings for Banking Circle to deliver new and innovative solutions to help our clients to help their customers gain and retain market advantage.

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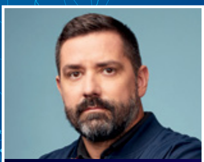

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Steve Naudé is Head of Wise Platform, Wise's infrastructure offering for banks and non-banks around the world looking to improve or enhance cross-border payments for their customers. Wise Platform allows other companies to leverage the power of Wise and embed the best way to send, receive, and manage money internationally into their existing infrastructure. Today, Wise Platform is live with more than 60 banks, financial institutions and other major enterprises across the world, including Monzo, Google Pay, Interactive Brokers, and Bank Mandiri, Indonesia's largest bank by assets.

Wise Platform:

Powering Global Payments through Partnerships

An Interview with Steve Naudé, Head of Wise Platform.

Financial IT: Wise Platform has been generating a buzz since last year's Money20/20 with the launch of some exciting partners and new products. Before you tell us a bit more about the year you've had, can you start by explaining what Wise Platform is?

Steve Naudé: Absolutely. Many people know Wise as the company building the best way to move and manage money around the world: for over a decade, Wise has built a global payments network that makes sending and managing money internationally faster and cheaper than via big banks. We have over 16 million personal and business customers worldwide, move £9bn per month and save customers £1.5bn a year compared with big banks.

The thing is – the best way to send money internationally isn't necessarily via the Wise app itself. It's for customers to be able to access the same cheap, fast, transparent and convenient international payments Wise is known for, directly from their existing bank or business tool platform.

That's why we built Wise Platform, a cross-border infrastructure provider for banks and non-banks alike. We work with financial institutions and major enterprises to build Wise's unique FX solutions directly into their existing app or platform.

We currently work with over 60 partners worldwide, including some of the world's largest banks, neobanks and business tool providers such as Monzo, Shinhan Bank, Google Pay, Bank Mandiri, and Ramp.

Financial IT: How exactly does Wise Platform work, and what kind of infrastructure services are you offering to partners?

Steve Naudé: Wise Platform is built around Wise's proprietary technology stack, which automates and streamlines the cross-border payment process. We've built a network of local banks and direct integrations into low cost, instant payment schemes in countries all over the world. When we combine this with automated operations, deep liquidity and real time compliance checks, we can move money instantly at a very low price compared with our competitors – over 50% of payments made on Wise's network arrive in under 20 seconds.

In terms of the infrastructure services we're offering to banks, we're essentially providing a turnkey solution for cross-border payments. Banks can integrate our technology into their existing systems and offer their customers the same fast, low-cost, and transparent international payments that Wise is known for, whether that's sending, receiving, or spending money around the world.

Financial IT: That sounds like a significant shift for Wise. What motivated the company to start offering these services to banks?

Steve Naudé: We see Wise Platform as a natural evolution of our business and our mission: money without borders for everyone. Wise has spent over a decade building a platform that's both scalable and reliable, and which millions of customers are already choosing over their current provider.

In fact, Wise Platform got started after we received an influx of Hungarian customers, all from one bank. It turned out that the bank's own staff were sending their customers to us because they were unhappy with their own service. This was a hassle for the customers, though, and we thought there must be a better way. So, we began building a solution which we now call Wise Platform, an infrastructure solution that banks, financial institutions and large businesses can use to provide faster, cheaper and more transparent international payments directly to their customers.

The only way we'll achieve our mission is by bringing Wise directly to where the majority of customers already are.

Financial IT: You've launched with some large bank and fintech partners recently – can you share more about these partnerships and what you're trying to achieve?

Steve Naudé: Last year we launched in four new markets and opened up cheap, fast, transparent and convenient international payments to almost 10 million people and businesses worldwide. And in the first half of 2023 alone we've launched with some iconic names, including global investment platform Interactive Brokers (IBKR) and Bank Mandiri, the second largest bank in Indonesia by assets.

Bank Mandiri is one of our biggest partners yet; they chose us because they wanted to give their customers access to faster, cheaper, and more transparent international payments. Our solution enables 16 million customers to send money affordably and transparently to 5 currencies, and over 50% of those payments will arrive instantly (in under 20 seconds). Mandiri is also the first Indonesian bank to go fully transparent, which is something we're hugely excited about.

Alongside banks and financial institutions, we work with a range of online platforms – from workforce platforms like Globalization-Partners and Deel to investment platforms like Interactive Brokers (IBKR) and Tiger Brokers. Ultimately, wherever customers are moving money internationally – whether that's spending, receiving, holding or spending it – we want to be the underlying infrastructure that is making that happen.

Financial IT: How does Wise differentiate itself from other providers of cross-border payments infrastructure?

Steve Naudé: There are a few things that make Wise Platform unique. First, we've got both the experience of building this infrastructure and serving 16 million customers directly. This means that from the start, what we've built is optimised to tackle real customer pain points – whether that's collecting the right information at the right time, creating self-serve flows, or providing delivery estimates that are accurate 90% of time to within a 1 hour window.

We're optimised for instant payments – over 50% of payments made with Wise arrive instantly (in under 20 seconds). Part of this is because we've built direct connections to 13 payment schemes across different markets, including Europe, Brazil and the US, which means we don't use a bank to process payments but are scheme members ourselves. But it's also helped by the fact that we've automated much of our operations, can complete real-time compliance screening, and have constant liquidity.

At Wise we're all about driving down costs, to drive down prices for customers. While there's no silver bullet, we aim to optimise each and every step of the process to make it more efficient. This sets us apart.

And finally, our technology is also built to be scalable. We handle millions of transactions per day, and we have a proven track record of uptime and performance. We've been working on this for 12+ years and now have over 5,000 people dedicated to it; this is an investment that few banks or companies will be able to make on their own.

Financial IT: What are Wise's plans for the future when it comes to offering infrastructure services to banks?

Steve Naudé: We're hugely excited about the potential of Wise Platform. Our aim is to open up every product currently available to Wise customers for our partners too, so that everyone, no matter where they are or who they bank with, has access to the same fast, cheap, convenient and transparent international payments.

By taking our products to customers, rather than waiting for them to come to us, we're able to disrupt the world of international payments faster and more efficiently, and ultimately achieve our mission of money without borders. We're really only just getting started.


MONEY
20/20

EMBEDDING FINANCE AND ADDED VALUE IN B2B TRANSACTIONS

If you've ever used Uber to book and pay for a taxi, opted to buy now and pay later on an online store, or taken out travel insurance while booking a flight, then you already know how embedded finance is revolutionising financial experiences for consumers. Now, providers of embedded financial services are turning their eyes to the world of B2B.

The world of financial services is in a state of flux. Innovative fintech companies are ushering in new ways for consumers and businesses to discover and interact with financial products in a way that doesn't interrupt or disrupt their everyday lives.

This is nothing new, of course. The first fully functioning mobile banking app was launched back in 2011, and mobile banking has been around since the mid 1990s. Both of these innovations reduced physical journeys for users while increasing accessibility to banking services.

However, in more recent years, we've seen financial services and products go a step further, breaking free from the constraints of banking apps and financial services websites and embedding themselves directly into the online journeys where they're needed most.

With lots of press attention over the last couple of years, the term 'embedded finance' may appear to be a buzzword – but this trend is far from a flash in the pan. Research has found that embedded finance accounted for $2.6 trillion, or nearly 5% of total US financial transactions, in 2021, and that by 2026 the transaction value will reach $7.2 trillion. For perspective, that's greater than the combined current value of all fintech startups and the top global banks and insurers.

What is embedded finance?

Put simply, embedded finance is the integration of financial services or tools – traditionally provided via a financial services institution – within the platform or processes of a non-financial organisation, such as an e-commerce retailer or a travel provider.

Embedded finance empowers such businesses to offer financial products and services at the point of need without redirecting customers to the separate website or app of a bank or financial institution. In some cases, services are embedded so seamlessly that users don't even have to enter any details to access them.

Embedded finance for B2B

The most widely available forms of embedded finance in B2B transactions are embedded lending, embedded payments and embedded insurance:

- Embedded payments permit instant payments and one-click checkouts. Think Paypal and mobile wallets.
- Embedded lending provides access to credit and financing options at the point of purchase. The most common form of this is Buy Now, Pay Later (BNPL).
- Embedded insurance enables buyers to add cover and protect business risk when purchasing goods or services during the checkout flow.

Significantly, all these embedded tools enable the business buyer to access the financial service without leaving the marketplace, app, e-commerce site or other platform from which they're purchasing.

The driving forces behind B2B embedded finance

None of this is happening by accident. With estimates suggesting that up to 80% of all buyer-supplier transactions will be done digitally by 2025, providers of embedded financial services are focusing their efforts on B2B.

The embedded finance revolution for businesses is being driven by three key technological developments.

APIs

Application programming interfaces (APIs) enable computer interfaces to communicate with one another. For example, an API lets you log in to an app with your Facebook account to save you from creating a new profile, or enables you to embed a Google map on your website.

In B2B trade, APIs are used to embed payment, lending and insurance solutions from third party providers within online checkouts. It creates seamless user experiences that don't rely on clunky redirects. Put simply, they're the reason that these services can be embedded at all.

Open banking

Embedded finance may be viewed as an evolution of how open banking is delivered. Open banking compels banks to share data with intermediary players via APIs when requested by the customer. Embedded finance is a direct application of this – a prime use case for open banking technology.

Embedded lending provides one example of how open banking is being used in B2B. Through access to a business' (or business owner's) open banking data, lenders are able to more accurately assess credit risk and offer larger credit limits and better payment terms to small and medium-sized enterprises (SMEs) and sole traders with limited credit history.

Louis Carbonnier is the co-founder and co-CEO of Hokodo where he leads commercial strategy and product development. Hokodo is a fintech startup offering B2B Buy Now, Pay Later and other payment solutions for B2B. Taking care of credit checks, collections and risk management, Hokodo empowers suppliers to offer instant trade credit online – even for first time buyers.

Louis was previously the head and founder of the Digital Agency at Euler Hermes, the world's leading trade credit insurer and part of the Allianz Group. The Euler Hermes Digital Agency (EHDA) was launched in 2015 and quickly became one of the most recognised corporate innovation teams in the financial services sector, with its tech-driven innovations and unparalleled vision to shape a better future for B2B Trade. EHDA attracted top entrepreneurs and digital talents in the US, UK, France, Northern Europe and APAC.

Louis started his career in strategy consulting at Oliver Wyman where he was a Principal in the Financial Services practice. Louis consulted for more than 30 leading financial institutions and delivered more than 80 engagements across Europe, North America and Asia-Pacific.

Real time technology

Processing payments, extending credit and providing insurance are all procedures that require various checks to ensure legitimacy and security. In the past, this has made B2B transactions sluggish and complex, plagued by manual processes and paperwork.

Real time technology automates the vast majority of those checks, meaning that business buyers can make purchases and take out insurance policies instantly at the point of purchase. Significantly, they are able to access the payment terms they need and deserve instead of being asked to pay up front.

How B2B businesses benefit from embedding financial services

B2B businesses that choose to embed financial services realise numerous benefits covering efficiency, accessibility and profitability. Let's take a closer look at some of the key advantages.

New revenue streams

The first major benefit of embedded finance is the discovery of new revenue streams. When businesses offer preferred payment methods or the option to defer payment by 60 days, for example, they unlock new revenue opportunities that might otherwise have gone unrealised.

Improved user experience

Secondly, the provision of embedded financial products boosts the user experience (UX) for customers. No longer is the buyer journey interrupted by jarring redirects and repetitive form filling. In turn, this improves a myriad of business KPIs including conversions, customer loyalty and cart abandonment. Not only is revenue increased per buyer, but churn is also reduced.

Greater efficiency

With payments streamlined and a reduced checkout friction, B2B suppliers benefit from increased efficiency and cost savings.

Increased financial inclusion

Embedded finance is also a tool that promotes fintech for good by improving financial inclusion. With embedded solutions like insurance or lending, businesses that have been historically underserved by banks can access the financial tools they need to thrive and grow, which ultimately stimulates growth in B2B transactions and the wider economy.

The way that businesses interact and transact with each other is undergoing a seismic shift thanks to the opportunities and benefits presented by embedded finance. In the coming months and years, I expect to see embedded lending, insurance and payments to become increasingly prevalent in the B2B space, while disruptive fintech companies leverage open banking, APIs and real time technology to offer even more innovative embedded solutions in tax, accounting and other areas. It's a very exciting time to be in fintech!


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Into the Fold
How APMs Foster Financial and Economic Inclusion

A significant share of the world's population does not have a bank account. This presents a serious barrier to economic opportunities and excludes a large portion of the world's population from participating in the global economy that is increasingly digital. Improving these communities' access to financial services delivers economic growth and furthers financial inclusion.

While some governments – particularly in Latin America have made great strides in reducing the unbanked population in recent years, large numbers still remain. With limited access to traditional payment methods like credit cards and bank transfers, alternative payment methods (APMs) have emerged to serve the needs of these communities. These include prepaid cards, vouchers, digital wallets and mobile payments, with different methods preferred in different regions. In Africa, which has a high unbanked population but comparatively widespread mobile phone adoption, popular solutions like M-PESA and MTN Mobile Money rely on phone-based payments. In Latin America, vouchers like Boleto (Brazil) or OXXO (Mexico) are instead a popular means of payment.

The mobile money solutions popular in Africa allow payments to be made between two users via mobile phone. These solutions open up a range of possibilities for smaller businesses to accept cashless payments without requiring a bank account, and without requiring any additional infrastructure like card readers. These solutions have high adoption rates – transactions made via mobile wallets were equal to 87% of GDP in Kenya and 82% in Ghana. As well as accepting digital payments, businesses can use these solutions to pay their suppliers without needing to resort to cash payments. There are still some barriers, however. While digital payments and e-commerce are given a welcome boost by these solutions, converting mobile money into actual cash can prove its own challenge. This often requires an official ID, something that many African small business owners lack.

Boleto (literally meaning "ticket") is a Brazilian voucher-based payment system, and typical of the voucher-based systems popular across Latin America (e.g. OXXO in Mexico). The boleto is a printed or virtual voucher that includes payment information and a bar code. The outstanding amount can be paid using the voucher at one of the thousands of participating outlets in Brazil, including post offices and convenience stores. Boletos can be used for online purchases, where users simply select the Boleto option at checkout, before taking the voucher to a participating store to complete payment. Boletos are also commonly used to pay for other regular expenses like rent and utility bills.

These local payment methods directly benefit local businesses, who experience reduced friction when accepting payments from customers or remunerating suppliers.

This increased efficiency drives economic growth: meanwhile, being less reliant on cash is also an advantage for unbanked entrepreneurs with nowhere to safely deposit their earnings. As well as simplifying the payment process, many providers also offer additional financial services, such as loans, insurance and even pension schemes. This boosts economic opportunities, allowing for investment in more efficient means of production that would otherwise represent unsurmountable one-off payments. The resulting wealth generation should play a significant role in developing these regions, further accelerating their integration into the global economy.

What about the online merchants? Those active in these markets benefit from offering these local payment methods to consumers as well. Merchants find a larger potential customer base, and – especially when supported by international enterprises – more closely connect the local population with the global economy. However, international merchants may be dissuaded from offering these payment methods due to the perceived cost of integrating them. The cost of developing, testing and maintaining a new payment integration is not a small undertaking, and these costs can quickly add up if multiple payment methods need to be implemented for multiple regions.

One way to eliminate these development costs and associated risks is a payment orchestration platform like IXOPAY. IXOPAY uses a single API to integrate hundreds of payment providers and payment methods. These include mobile money solutions like M-PESA and MTN Mobile Money, as well as voucher solutions like Boleto and OXXO. Working together with partners including dLocal, EBANX, PPRO and DPO, IXOPAY offers a wide range of local payment methods popular in emerging markets.

Integration is a one-off process. Once the IXOPAY API has been integrated, additional payment service providers can be added ad-hoc according to the needs of any enterprise. As all providers use the same API, there are no additional development overheads. Various international enterprises already offer these local alternative payment methods via IXOPAY and our ever-growing number of global partners. As well as offering many alternative payment methods, IXOPAY naturally supports more traditional options like credit cards and bank transfers required by global enterprises. IXOPAY constantly adds new payment providers and methods to our catalog, with integrations also available on demand.

IXOPAY

Thomas Beinhart,
Partner and Relationship Manager,
IXOPAY

FIGHTING FRAUD: Can Data and Technology Change the Game from Whack-a-Mole

"If citizens were being routinely mugged and having millions of pounds stolen from their wallets in broad daylight, every organisation involved in allowing this to happen would have no choice but to deal with it swiftly, and the perpetrators would be brought to justice in court."

Those words from the House of Lords' report "Fighting Fraud: Breaking the Chain" were in response to the jaw-dropping statistic that fraud accounts for 41 percent of all crimes against individuals in the UK. And the UK isn't an isolated case. Of the 2.3 million fraud reports in the US in 2022, 26 percent indicated a monetary loss to fraud totalling nearly $8.8 billion – an increase of almost $2.6 billion over 2021.

Technology has made payments faster and easier for people. This is a positive development. But, the proliferation of instant messaging, text, and new forms of payment like P2P push payments, FedNow, and SEPA Instant Credit Transfers, present criminals with more channels than ever to trick consumers and defraud them of their money.

Against this backdrop, payment companies, financial institutions, and e-commerce businesses struggle between the expectations of consumers for speed, convenience and security and those of regulators for robust systems that identify and prevent financial crimes like payment fraud.

In our State of Financial Crime report for 2023, we found that credit and debit card fraud remained a significant concern for compliance executives in organizations around the world. Much of this is driven by e-commerce, with purchases made via phone, internet, or mail-order using stolen cards estimated to surpass $10bn by 2024. Financial crime executives also expressed concern about emerging typologies such as synthetic identity fraud.

Technology needs to look across all channels and payment rails with coverage of fraud scenarios across key touchpoints in the lifecycle of a transaction to detect payment-agnostic frauds (e.g. account takeover, authorized push payment, synthetic identity, and relationship fraud). Technology should also be flexible to support structured data formats like ISO 20022 as well as custom data formats that can be provided by specific organizations.

Artificial Intelligence (AI) has re-emerged as a key component in the fight against fraud. Credit card and check fraud detection methods are early examples of how AI was implemented to look for simple transaction anomalies that could indicate fraud. Today, financial institutions that leverage the power of AI have the potential to dramatically improve the detection of the majority of known fraud typologies. By adding a layer of artificial intelligence to existing tools and processes, a potentially fraudulent transaction is identified and assigned a risk level faster and more efficiently than ever before.

ComplyAdvantage uses AI across our full assortment of fraud and AML solutions, which allows fraud risk management and compliance teams to:

- **Automatically triage alerts.** Prioritise the incoming fraud alerts by risk level, assigning a high level of risk to those showing the most suspicious activity. It will also continuously improve based on analysts' feedback.
- **Enable more effective tuning.** Improve and adjust underlying fraud rules' parameters and thresholds. This enables more risk-responsive alerting, which helps enhance detections and reduce false positives.
- **Uncover more bad actors.** Weak evidence related to one person alone may not lead to an escalation. But through the use of an AI overlay, analysts can leverage weak correlates in their data pools to identify and disrupt clusters of criminal activity.

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Vatsa Narasimha,
CEO, ComplyAdvantage

Vatsa Narasimha is the COO & CFO of ComplyAdvantage, the leader in financial crime intelligence.
Founded in 2014, ComplyAdvantage works with over 500 enterprise clients across 75 countries. Backed by Index Ventures and Balderton Capital, ComplyAdvantage has four global hubs in New York, London, Cluj-Napoca, and Singapore.

- **Identify true actors working behind the scenes** using identity clustering to seek out hidden relationships. The team can now see connections and red flags that were previously invisible to them.
- **Get greater insights and explainability** around the reasons for an alert being generated, providing teams with the confidence that they can back up their decisions should they be audited or receive an inquiry from senior stakeholders.

The question on everyone's mind now is how regulators will approach AI. Globally, it is US regulators who are taking the first step in this area. The OCC has released practical guidance on model risk management. The UK regulators are not far behind. But, whatever guidance they offer will be driven by the need to be "auditable" – there will need to be a demonstrable reason why certain decisions or actions were made. That works well when AI is applied in a one-way direction where it ingests and helps the user understand what it is looking at. However, when it becomes a two-way transaction, ingesting information and then providing output without a demonstrable step-by-step, documentable reason for the output could be an area of concern for regulators.

So, if financial institutions are considering an AI-based fraud detection solution, here are three things they should consider:

- **Speed** – Money moves instantly with real-time settlements. That means any technology managing fraud risk needs to operate instantly, at the speed of customer expectations, to identify risk and stop the fraud before any money is lost. There are at least 55 real-time payment rails worldwide, and established channels such as ACH, SWIFT MT, and SEPA are all undergoing change to be able to support increased speed in the payments they offer. Risk detection solutions must meet the challenges of this faster-paced world.
- **Data and technology** – Data is the fuel that drives financial crime risk management, which helps stop fraud. Financial data, non-financial data, curated data focused on financial crime taxonomies, and investigative data-driven machine learning technology, enable organizations to fight fraud by uncovering known and unknown attack vectors. New payment message formats with richer structured data such as ISO20022 offer new possibilities for detecting fraud. Advanced techniques such as behavioral analytics and identity clustering to detect anomalies and fraud patterns across multiple accounts are an area of increasing interest for financial institutions
- **Focus** – Adopting a risk-based approach and triaging alerts accordingly is critical. Identifying the channels, transactions, and relationships that expose any organization to the most risk is essential to support effective risk management while not introducing unnecessary customer friction. Empower analysts with insights – driven alerts, with explainable logic to improve analyst efficiency.

It's easy to get excited by the advances we've seen in recent tech developments and to see them as a panacea for everything that ails the financial system. However, technology alone will not end the threat of fraud. AI must enhance human capabilities and should be seen as a critical component of any financial institution’s strategy now – and in preparation for the future – in the fight against fraud.

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The
State of
Financial
Crime
2023

THE MOST OVERLOOKED SECURITY ISSUES FACING THE FINANCIAL SERVICES SECTOR

Data is a major part of the role of any CISO. When it comes to the financial services industry, data is even more important and valuable than in other industries. Securing storage and backup systems isn't always obvious and isn't always the focus of many CISOs or their teams. I admit that it wasn't part of my focus until quite recently.

So, what is the big picture of securing storage and backup? Is this a Cinderella area in the pursuit of business security? How can you prepare? And where do you go from here? I will share with you my views in this article.

All Eyes On Storage And Backup

It's no secret that modern security is focused on data, particularly in the financial services industry. The rise – and sophistication – of ransomware attacks has been documented by all parties concerned.

From industry publications like Bleeping Computer...

"The ALPHV ransomware operation exploits veritas backup exec bugs for initial access. U.S. Cybersecurity and Infrastructure Security Agency (CISA) adds these 3 security issues to its list."

...to analysts like Gartner...

"Harden the components of enterprise backup and recovery infrastructure against attacks by routinely examining backup application, storage and network access and comparing this against expected or baseline activity."

...to governments finally addressing the issue, like in last year's White House memo:

"Test the security of your systems and your ability to defend against a sophisticated attack."

Ransomware is focused on data. As such, the key to mitigating (and ideally neutralizing) that threat is to secure data in storage and backup.

We tend to think of backups as the final layer of protection against ransomware, though in reality they are simply another repository of data in storage, ready to be harvested if not appropriately secured.

This begs the question: are we as Chief Information Security Officers (CISOs) and other security leaders currently focused on the most pressing risks?

The Unspoken Gap

The value of business data is growing annually in virtually every organization. Malicious actors recognize this fact, so data-centered attacks continue to grow both in number and sophistication.

Are we really rising to this challenge as CISOs and security leaders? Have we spent enough time analyzing and reinforcing those darker parts of our storage and backup infrastructure that any smart threat would target? This industry-wide oversight is exactly why so many of these attacks succeed.

There are other myths that many CISOs and security leaders believe which feed the current exponential growth of attacks and further demonstrate the industry's continued failure to harden storage and backup systems. They are the greatest current oversight in cybersecurity.

The Shift In Voice And Focus Of The Financial Services CISO

The truth? In a cloud-fuelled world, storage layers deserve as much attention as computing and networking layers. Cloud providers offer cloud storage as a separate service, carrying a separate set of risks – access keys in AWS S3 storage, for example.

Storage security issues aren't limited to the cloud either; they spread across the full spectrum of hybrid and on-premise infrastructures. All these modes of storage constitute separate systems, but for whatever reason they haven't enjoyed the same attention from infrastructure and security experts as those on other layers.

The need for change is also reflected in this Financial Services Research Report, which analyzed the state of storage & backup security:

- Two-thirds believe that a storage attack will have 'significant' or 'catastrophic' impacts.
- 60% are not confident in their ability to recover from a ransomware attack.
- Two-thirds say that securing backups and storage was addressed in recent external audits.

John Meakin, Former CISO, RBS, Standard Chartered, Deutsche Bank:

John Meakin is a seasoned and experienced CISO with more than 30 years of experience in various financial services companies, such as RBC, Standard Chartered, and Deutsche Bank. He is also a member of Continuity's advisory board.

Heading For A Better Future... But How? Four Steps For Success

Now that we understand the problem, what's the solution?

Many CISOs already follow the steps below when faced with a new threat. While I'm not here to deliver a tutorial that teaches a fisherman how to fish, I note that it is critical to revisit the fundamentals: in this way, we will ensure that we're covering the increasing storage & backup security problem in the correct and thorough way that it deserves. At this point we're playing a game of catch-up, and can ill-afford missteps.

Use the following four steps to form the foundation of our storage and backup security approach:

1. Education

The first step is to understand the capabilities of our storage and backup devices. In our real environment, what do we have (not just in theory)? Specifically, which vendors do we use, how are their technologies deployed, and how are roles and responsibilities defined?

An excellent place to begin in this phase is to perform an initial assessment of our storage and backup security. This assessment will detail any risks identified and include the corrective steps for remediation.

The [NIST Special Publication 800-209; Security Guidelines for Storage Infrastructure] (co-authored by Continuity) is an excellent resource for those looking to develop their storage infrastructure knowledge. It provides a thorough overview of current storage technologies and their relative risk landscapes.

2. Definition

Once we get the lay of the land, we should define 'secure enough' baselines of our storage and backup environments. The map of the baselines needs to be detailed since these environments are complex and the attack surface is convoluted.

For instance: what kind of roles are needed? What kind of controls do we want to have? What level of auditing do we expect?

Once we define these baselines, it's much easier for the storage admins to ensure that they're fully implemented, audited and monitored

We also need to define threats and robust security protocols.

3. Implementation

With knowledge accrued and threats defined, the rubber needs to meet the road. Now comes the stage of implementing the controls that were previously defined. Please note: usually when the initial gap analysis is done (remember step 1), we will likely end up with a long list of deviations. Now's the time to straighten them out.

Implementing automation in performing these changes is key.

Another practice I recommend here is to build KPIs and automatic measurements for the predefined baselines, in order to make sure they are always met.

So, in essence, at this stage security leaders must:

- Harden storage
- Implement controls

4. Ongoing risk management

Storage and backup security demands active, ongoing risk management. As threats continue to evolve, so must we. In order to keep up, we can lean on:

- Measurement
- Reporting
- Automation

While the above steps might seem obvious, until now their implementation within the area of storage and backup has been less so. CISOs need to be in dialogue with the IT infrastructure teams to ensure that this set of risks is being taken as seriously as it needs to be.

Conclusion

Data is the bread and butter of the 21st century. And just as these valuable resources have always been securely stored and protected, so must an organization make significant investments in data protection, and storage and backup hardening. CISOs have the skill to do it; many simply lack the know-how. The problem needs to be reframed in the minds of security experts, and fast, as the problem of ransomware is already surging.

CONTINUITY

Financial IT
Innovations in FinTech

DIGITISATION IN THE GCC: Will established FIs choose to disrupt or be disrupted?

The Gulf Cooperation Council (GCC) region is well known for combining tradition and innovation in the payments space. On one hand, there is a high population of young tech-savvy digital natives with one of the highest smartphone penetration rates in the world: and on the other, there are payment behaviours driven by culture, with a heavy propensity towards cash.

In recent years, there has been a seismic shift towards digital payments driven by socio-cultural factors, changing consumer preferences and government initiatives that encourage both innovation and competition. In this era of market transformation, cash is no longer king, or at least it won't be for long. Those that come out on top will be the financial institutions (FIs) that reimagine and overhaul their digitisation strategies and subsequently adapt to ensure both relevancy and market share.

Whilst traditional banks still dominate in the market, governmental bodies across the region are working to actively advance digital transformation in order to position the GCC as a global fintech hub. Consequently, neobanks and other financial disruptors are making significant headway and becoming serious competition in a financial services landscape that, just a few short years ago, was deemed very conservative and averse to change.

Prior to this accelerated digital revolution, traditional banks were not standing still and were making inroads into this space. Over the years, established FIs have been building out their products and services in order to offer them online via websites and apps in parallel with increased internet access and smartphone penetration. However, digitising existing services as an extended offering and building digital-first, mobile-first products and services from scratch are two very different approaches with differing outcomes.

Traditional banking products and services developed in a pre-internet, pre-smartphone era, were built around the constraints of the available technology, rather than being enabled by it. As such, these systems were built with cards at the front and centre as the sole payment method: FIs still running their businesses on this infrastructure find themselves left at a disadvantage whereby they are unable to natively represent the objects and functions of the modern payments world. Unencumbered by these constraints, fintechs and neobanks have entered the GCC, bringing exciting new products and services to market, serving previously underserved market segments and ultimately opening up new revenue streams. Without all the disadvantages of legacy technology, processes, and mindsets, these new entrants are in a position where they can easily adapt to changing and wide-ranging consumer preferences in an agile and more accessible way. As the shift to online services accelerates, the playing field between traditional and digital banks is levelling up.

Across the GCC, digital banking is becoming ingrained as part of everyday life with millions of consumers jumping onto the digital bandwagon over the last 12 months. There are currently 25 neobanks serving 25 million people in the region which is only set to increase. A recent study by McKinsey found that over 50% of consumers in this geography are willing to hold their main account with a purely digital bank, whilst 80% were willing to shift a portion of their holdings to the bank with the most compelling digital-only proposition.

To compete, traditional banks must work hard to evolve. Embracing digital transformation as part of a wider business strategy that addresses long-term ROI and encompasses business, operations and technology is a herculean task. In a bid to get ahead of the game, several well-established FIs have built symbiotic digital equivalents, such as Neo by Mashreq Bank and ila from Bank ABC. These entities are extending their parent bank offerings with minimal levels of independence in terms of strategy and development. Other institutions are partnering with, and in some circumstances, acquiring fintechs for newer functionality and often forming innovation labs.

The danger here is that system modernisation is not a simple revenue-generating plug-in. Innovation labs are often run as separate parts of the business and can quickly become unintentional silos that lack cohesion with the overarching strategic requirements of the bank as a whole. Whilst there is a very prominent trend to partner with as many service providers as possible to quickly navigate the market and offer a robust package of financial products, this business growth cannot be carried out opportunistically. Instead, change needs to be driven by a carefully constructed strategy with a future-proof vision in order to evaluate longevity of the proposition. If unchecked, such enthusiastic expansions can exacerbate complexity - whereby the bank becomes a systems integrator at the mercy of its vendors, rather than the owner of its value-chain.

Fintech disruptors with digitisation built into their very DNA can easily adapt to changing and wide-ranging consumer preferences, due to the underlying platform architectures they are built on. In order to compete, banks need to carry out extensive impact analysis, whether to integrate, buy, build, outsource, replace, or upgrade parts or all their business in order to create an integrated payments hub with a single customer view. Digitisation from the ground up can initially appear more daunting, expensive, time-consuming and risky the more established the bank, but this doesn't have to be the case.

Investing into the future of the business is about long-term value creation, whether streamlining operational costs, establishing vendor-independence, speeding up bringing new products and services to market, ensuring regulation and compliance, reducing service delivery costs or increasing performance, flexibility, scalability and future-readiness. Many concerns and fears can be alleviated by partnering with a vendor that can offer flexible pricing, various migration options and deployment models to suit an FIs requirements now and well into the future.

Truly effective long-term transformation ultimately comes down to the underlying technology with legacy infrastructure rails only hindering progress. In an instant payments world, can FIs in the Middle East continue to run on payments platforms that are card-centric? In an Open Banking world, can systems afford not to be architected as API-first? In a real-time payments world, can batch-oriented systems go the distance? And, in an agile and integrated payments ecosystem, can FIs compete to remain relevant on antiquated technologies?

Complex legacy system architectures equate to limited manoeuvrability, scalability and system responsiveness which becomes a huge burden in an increasingly future-focused ecosystem swiftly filling up with newer more agile payments players. These modern disruptors offer immediacy and transparency, 24/7 availability, instant access, and above all, the convenience of personalised customer experiences.

As the appetite for all things digital increases to include everything cashless from banking to e-commerce, encompassing digital wallets, P2P transfers and everything in between, banks in the GCC need to expedite their digital transformation strategies and take advantage of their already established customer bases, consumer trust and loyalty. By moving towards a more holistic, customer-centric approach built on serving, rather than providing, banks can become digital enablers with comprehensive, intuitive and inclusive product and service offerings for businesses and consumers alike. As a one-stop shop, or financial supermarket, traditional FIs in the GCC have the breadth of experience to blow fintech disruptors out of the water and position themselves at the forefront of the modern, digital payments landscape.

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Aran Brown,
CEO and Co-Founder,
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CROSS-BORDER PAYMENTS: YOU CAN'T SOLVE COMPLEXITY WITH MORE COMPLEXITY

The challenges of cross-border payments are all too familiar to multinational enterprises. Beyond navigating the costs and volatility of foreign exchange, there's the need to comply with laws and regulations that vary from country to country. Businesses must also contend with the high fees charged for cross-border payments, which can also vary considerably according to the countries and transaction types involved.

As a result, the payments experience of many businesses leaves a lot to be desired. Statistics back this up, with three quarters of businesses (76%) suffering from excessive transaction fees for cross-border payments, and more than a third reporting delays of more than five days.

The rise of networks of networks

Given the complexities of cross-border payments, businesses are increasingly turning to networks of interconnected third-party payments providers and financial institutions to help accelerate access to payments technology. However, given the fragmented nature of international payments infrastructure and laws, no single payments network can solve an organisation's entire global payments processing needs. As a result, companies build networks upon networks.

The scale of these networks is impressive. Research suggests that businesses have on average connections with more than four different payment processors and more than three different merchant acquiring banks. Sixty percent of these organisations do so for greater overall flexibility, while 51% say it is to improve geographic coverage.

This approach often means that businesses are three or four times removed from the flow of funds. For instance, a UK business wanting to access Indonesia for a transaction, connects to a US fintech that sits on top of a processor in Singapore, which in turn sits on top of a local PSP in Indonesia. It's only after passing through these intermediaries that the business is finally connected to the main payment methods in the country.

The complexity dilemma

As more businesses delve into the mechanics of their payments networks, they're discovering just what they're sacrificing for quick access to connecting technology.

First, is that being so far removed from the flow of funds means that relying on these networks of networks becomes incredibly expensive for scaling businesses — as payment volumes grow, the unit economics start to break down. From sourcing and managing multiple supplier relationships, to refining contracts; from negotiating fees, to navigating unfamiliar regulatory frameworks; the friction and associated cost is endless.

There is also a cost that accrues from managing a range of different pricing models across different suppliers. For instance, most global marketplaces hold upwards of seven different banking and payments relationships – typically with sub-optimal pricing that ties up capital and resources.

Furthermore, as more networks are added, the overall complexity of the system increases. And the more systems to integrate, the higher the chance of interoperability challenges arising. As a result, businesses need to dedicate specific resources to keeping systems up and running and fixing them when things go wrong, which becomes extremely complex with multiple service providers. Difficulties in troubleshooting issues can lead to delays in processing payments.

The advent of payments curation

For most organisations, networks of networks do accelerate the adoption of payments technologies for cross-border requirements, but they do not solve the complexity dilemma, they simply add yet more complexity that ultimately shows up in their bottom line.

Fortunately, innovations in the fintech landscape promise to solve this challenge decisively. One solution is the addition of a payments "curation" layer to the enterprise payments stack. As the name suggests, the payments curation layer brings order to the networks of networks by enabling organisations to connect to best-in-class payments products in each region through one platform, one contract, and one API.

Rather than having to stitch together an inefficient, costly and complex patchwork of service providers, enterprises using payments curation technologies benefit from a solution that sits within the flow of funds, giving them the visibility lacking in networks of networks. The approach also enables cost efficiencies through optimised commercial relationships that leverage economies of scale.

In short, payments curation delivers one contract to scale internationally, simplifying the management of payments, and making for a cost-effective approach to international growth. Payments processing remains a highly complex operation, but with payments curation that complexity is finally eradicated from the business user, freeing them to focus on their core revenue-generating activities.

Paytrix

BUILDING A DIGITAL ASSET PROPOSITION WITH SUSTAINABILITY AT ITS CORE

The world's energy system is in crisis. Developing the capacity to deliver net zero over the next decade is set to become arguably the most important transition that humanity has ever made.

Against this challenging backdrop, the decarbonisation of digital assets has become one of the most pressing challenges facing the nascent sector.

Cryptocurrencies, in particular, have built up a bad reputation when it comes to environmental impact. It's understandable why – bitcoin, for example, consumes more electricity in a year than Sweden, Norway or the United Arab Emirates (UAE).

It's of course important to address the high energy consumption that some crypto assets create. But it should also be noted that some cryptocurrencies are powered by energy-efficient blockchain systems based on proof-of-stake principles – though all use electricity nonetheless.

There are ways to reduce crypto's carbon footprint, and this is fast becoming an ESG priority for investors and regulators alike. And this is only part of a more complex story. Blockchain technology actually has huge potential to help revolutionise the energy sector by encouraging the use of renewable energy sources.

Adopting a pioneering approach

To date, Zumo has completed two projects related to the quantification of cryptocurrency electricity consumption and subsequent purchase of Renewable Energy Certificates (RECs) – one involving a consumer crypto app's bitcoin purchases, and the other accounting for historical ETH activity.

One year ago, Zumo completed the Zero Hero pilot project, a live trial to buy RECs to compensate for the electricity usage of bitcoin bought via a direct-to-consumer crypto app, which is powered by Zumo's infrastructure.

In total, £1.5 million worth of bitcoin was covered by Zero Hero REC purchases, with 850 megawatt-hours (MWh) of electricity compensated via the programme – enough energy to drive an electric vehicle for more than 2.6 million miles*. We also bought 126.36 MWh for the purpose of decarbonising historical ETH emissions, participating in the ground-breaking Blocks.garden initiative.

The Zero Hero results are presented in full in our subsequent report – 'Decarbonising Crypto: Towards Practical Solutions'. In addition to exploring the outcomes of the project, the report offers a range of practical takeaways for digital asset solution providers, encompassing critical thinking regarding methodologies and best practice approaches to renewable energy procurement.

We produced this report because we are keen to engage, and collaborate with, other players across the industry when it comes to the topic of decarbonisation.

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* Electric vehicles consume 0.2 KWh/Km, making 2.64 million miles for the 850 MWh

Kirsteen Harrison,
Environmental Adviser,
Zumo

By working together on concrete actions to decarbonise the crypto sector, we believe we can turn the current narrative around digital assets on its head, making our youthful sector a standout example of the successful decarbonisation of an entire industry.

Under the regulatory spotlight

There is no time to waste. Earlier this year, the UK's economic and finance ministry, HM Treasury (HMT), published its consultation and call for evidence on the future financial services regulatory regime for crypto assets.

As part of the process, HMT requested information from stakeholders on sustainability-related aspects of crypto asset activities. In particular, it was seeking industry views on whether the existing sustainability disclosure requirements could be modified to cover crypto asset activities. So, it's safe to say that sustainability disclosures are coming in the UK.

In the European Union (EU), the situation is further advanced. In April 2023, the EU Parliament approved its Regulation on Markets in Crypto-assets (MiCA), specifically noting its commitment to environmental impact disclosures and the need to factor this into investor decision-making.

When it comes to making the right investment decisions, we believe investors should have access to pertinent information regarding environmental impact and energy consumption. This should include a clear breakdown of the material environmental considerations, their assessed impact and the methodology applied in doing so.

In the case of digital assets, this is almost wholly a question of electricity consumption, and this should therefore form the primary focus of such disclosures. And because of this, we consider it important that electricity consumption figures are accompanied with an estimation of renewables share and progression in renewables share (as far as it is publicly available). Somewhat like an electric vehicle, the immediate environmental impact of a digital asset is as big or as small as the cleanliness of the electricity generation that powers it, and this should form a key metric for investor assessments of environmental impact.

In all cases, figures may differ significantly depending on the methodology applied. It's crucial, therefore, that data sources and calculation methodologies are clearly disclosed, together with the reason for choosing the specific methodology applied.

Also, it's important to share information about the measures, if any, the preparer of the disclosure is taking to mitigate the environmental impact of its own holdings or operations. This recognises that while an individual entity has no say over, for example, the overall bitcoin network, the entity may be willing and able to calculate environmental impact for its own slice of network usage.

Emerging mechanisms include the RECs, used by Zumo, procured for an amount of electricity equivalent to that calculated for the investor's/entity's specific holdings/activity. And, critically, market-based REC procurement methods are derived from recognised accounting standards under the GHG Protocol, meaning they are interoperable with other recognised sustainability standards.

A growing international issue

It's not just the UK and Europe that are pushing ahead on carbon-related disclosures. In October 2022, Zumo became a member of the World Economic Forum's (WEF) Crypto Sustainability Coalition – so we've witnessed the wider international discourse first-hand.

Part of the Crypto Impact and Sustainability Accelerator, the Coalition explored how blockchain tools can be better leveraged to contribute to meaningful progress towards positive climate action.

In April 2023, the WEF released an insight report, entitled 'Guidelines for improving blockchain's environmental, social and economic impact'. Zumo contributed to this landmark report, and was also featured as a case study.

Part of a series of three reports focusing on the intersection of blockchain and sustainability, the focus of this report is to outline guiding principles and provide a timely overview of the current state of play related to the environmental impact of blockchain technologies. The report provides an approach for a unified impact assessment that balances economic, environmental and social perspectives so that blockchain solutions are ready for upcoming regulation, rather than lagging behind it.

It's therefore imperative that fintechs, asset managers and any other organisation that wishes to offer digital assets to their customers get prepared to measure and disclose the environmental impact – and quickly.

Providing the right solution

Last year, Zumo and our partner Zero Labs, a renewable-energy-as-a-service company building programmable decarbonisation technologies, were awarded funding by Innovate UK, the UK's national innovation agency, to fund research into the decarbonisation of crypto, specifically finding practical ways in which wallets and platforms can scale the use of renewable energy.

Together, we have been working hard to conceptualise a targeted solution to help decarbonise crypto holdings. We believe that such a solution needs to effectively fulfil three criteria.

Firstly, in terms of measurement, it needs to robustly quantify the environmental impact of an organisation's digital asset offering using publicly available and scrutinised electricity consumption attribution methodologies.

When it comes to mitigating the environmental impact of the holdings, it needs to procure strategically sourced RECs to compensate for the impact at platform and end customer level.

And last, but certainly not least, it needs to be able to accurately showcase the publicly verifiable proofs of an organisation's climate action.

We have put a lot of resources into finding the right solution for the digital assets market, and will be able to share more soon. Stay tuned!

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AI: A critical weapon in the fight against financial crime

Financial crime is an issue that's becoming more widespread, more dangerous and more relevant to our daily lives. Fraud is now the most prevalent crime in the UK, with over half of consumers describing themselves directly as a victim of financial crime.

There are two sides to every coin, and while criminals are taking advantage of the significant developments in the AI space, so too are those attempting to combat financial crime and protect consumers. Our recent research shows that there is a clear knowledge gap amongst consumers on the different types of fraud and how to best spot criminal activity. As a result, it's vital that banks tighten up their defences and educate customers on how to recognise, and effectively counter fraudulent activity.

AI as tool for attack

Romance scams surged during the pandemic when many were forced into isolation and human contact became scarcer. However, as the world opened up again unfortunately these types of scams haven't shown any signs of slowing down. Lloyds Bank reported that romance scams have increased by more than 30% since 2022, and in our own report on The Human Impact of Fraud and Financial Crime on Customer Trust in Banks, over a third had either been a victim or know someone who has been a victim of a romance scam.

Up until recently, romance scams were typically performed by one person attempting to scam one or two victims at a time. However, scammers are now increasingly turning to AI to take advantage of unsuspecting individuals en masse.

Generative AI, a system capable of generating text, images, or other media in response to prompts has been exploited by criminals. Many perpetrators have turned to deepfake technology for malicious purposes, creating highly realistic personas to trick unsuspecting individuals with not only AI-generated images but also voices too. Additionally, tools such as ChatGPT have also been exploited by fraudsters, allowing them to create highly realistic messages which they use to trick victims into thinking that they're someone else.

As generative AI develops, it's going to become even more difficult to spot what's real and what's fake. Banks are rapidly adopting technology which improves their fraud detection capabilities while also investing in educating customers on how the technology works.

AI as a tool for defence

While criminals learn to take advantage of developments in the AI space, so too do those looking to stop them. Businesses across the financial services space can utilise AI to strengthen their barriers, understand their customers better, and stop criminals before they've even started.

AI can be used to help a bank build a complete picture of a customer and spot when something is unusual. By analysing large behavioural datasets such as transaction trends, or what time they typically access their online banking, AI can identify patterns of "good behaviour".

When an action is undertaken that is out of the ordinary, protective AI can identify the suspicious behaviour, flag it and stop it immediately before any serious harm is done.

Getting it right and building trust

While AI can be a powerful tool in the fight to prevent crime, financial services businesses need to strike the right balance between protecting customers, and not causing unnecessary friction. False positives, when a legitimate transaction is flagged as suspicious, cause significant headaches for customers. Mistakenly identifying a customer as a fraudster is one of the most widespread issues for financial institutions with customers citing a mistakenly blocked transaction as a leading factor for switching banks. Utilising AI to build a better, single view of the customer can help keep false positives low while maximising fraud detection.

Trust is the most important currency a bank holds, and not responding effectively to fraud and scams can strip away that trust almost immediately. As criminals get more sophisticated and aggressive in their behaviour, people want to feel secure in the fact that their bank has the most effective technology to help protect them. Research shows that AI can help establish that trust, with over half of respondents feeling reassured that their bank uses new technology to help tackle criminal behaviour.

It's critical that banks put AI at the forefront of their fraud prevention strategies whilst widening their educational services to help arm their customers. Only by doing this, they can be sure to retain loyalty whilst effectively tackling the bad guys.

feedzai

Pedro Barata,
Chief Product Officer,
Feedzai

Pedro Barata is Chief Product Officer at Feedzai, where he leads product development and management to bring the most advanced financial crime-fighting technology to market. Prior to joining Feedzai, Pedro worked for Critical Software, where he helped design and develop systems for CMMi appraisals, globally supporting project management initiatives.

THE POWER OF PARTNERSHIPS: HOW FINANCIAL ENTERPRISES THRIVE WITH FINTECHS IN THE ERA OF AI

The financial landscape is evolving quickly, with competition growing fiercer by the day. As customers demand more, many fintech companies are rising to the challenge, crafting visually appealing and user-friendly products that engage their users. These companies are increasingly leveraging artificial intelligence (AI) and other cutting-edge technologies to revolutionise the customer experience. Meanwhile, many traditional financial enterprises are struggling to keep up. They often lack the in-house expertise or agility to adapt their products and services to these new standards, and it takes much longer to get their updates to market as a result.

In my experience, the people who work at financial enterprises don't lack the ambition of those younger, nimbler fintechs. They're simply fighting against their business's legacy technology and slow-moving nature. But some financial enterprises have dealt with this challenge by forging partnerships with fintechs to harness the power of AI and other emerging technologies, which they can't do alone.

Fintech companies excel at creating exceptional products by focusing on the customer experience, with intuitive, data-led and personalised user journeys at their core. These companies increasingly utilise AI for intelligent data analysis, risk management and fraud detection, which can provide valuable insights for financial enterprises. Partnering with fintechs enables financial enterprises to incorporate these features into their digital offerings easily and quickly, helping maintain their relevance within the financial sector.

But what makes a successful partnership?

To fully benefit from collaborating with fintechs, financial enterprises should seek to boost their expertise by forming partnerships with fintechs that have a proven track record of success. That isn’t to say that the fintech must have a dozen successful case studies under their belts, rather that they have a strong, experienced team. Fintechs often boast team members with backgrounds in finance, data, design and technology, such as AI and machine learning, offering a wealth of experience and expertise. So by partnering with fintechs, financial enterprises can reap the benefits without having to spend a fortune building out their own team.

Traditional approaches to technology adoption within the finance sector can be sluggish, causing larger legacy businesses to lag behind their more nimble competitors. So the most fruitful partnerships will be those that prioritise execution. Financial enterprises should seek fintech partners that deliver easy-to-implement solutions that can be swiftly adapted to their needs. This adaptability will streamline processes and enables financial enterprises to respond effectively to the ever-changing market demands.

Financial enterprises should also seek fintech partners that are willing to provide comprehensive long-term support. This includes assistance with product deployment, customisation and ongoing maintenance, as well as keeping pace with advancements in AI and other emerging technologies.

Ultimately, the future of financial enterprises hinges on their ability to adapt to the relentless pace of change. To flourish, they must concentrate on delivering exceptional customer experiences, collaborate with skilled fintechs, and embrace AI and other cutting-edge technology. In doing so, they can bring new products and services to market more quickly, delighting their customers and securing their position as a go-to provider in the ever-evolving financial landscape.

dimply

Dimply provides adaptive financial experiences to help financial enterprises build and deliver personalized and engaging fintech experiences for customers around the world.
Co-founded in 2020, Dimply is on a mission to help people think and feel better about money. Headquartered in Dublin with an additional office in London and team members located in more than 10 different countries, Dimply is supporting financial enterprises in the banking, bancassurance and wealth management sectors.

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Alan Quinlan,
CEO,
Dimply.

Alan has over 20 years of experience in the banking wealth management and startup sectors. An experienced CEO, having previously co-founded a digital advice technology business, Alan is adept at identifying and capitalising on key technological trends to better serve the financial services industry.

FINANCIAL INCLUSION: A MISSION-CRITICAL PRIORITY FOR ALL FINTECHS

Monika Liikamaa,
Co-founder and Co-CEO,
Enfuce

Monika Liikamaa is Co-founder and Co-CEO of Enfuce. Monika's visionary thinking and her over 20 years of experience in the fast-paced payment industry has enabled Enfuce to integrate services for its customers in record time. Building sustainable solutions is a core value of the company and this is made possible thanks to Monika's wide knowledge of the industry. Monika believes wholeheartedly that a business is nothing without a great team of people, and that is why she has joined forces with industry experts as co-founders and employees.

If there was ever a challenge that fintech was designed to solve, it's financial inclusion. An estimated two billion people around the world are excluded from the formal financial system. With all of the cards, digital wallets and mobile payment solutions now available, it should be easier than ever before to get speedy, secure money services to those who need it most.

But too often, those of us in fintech focus on the solution to the problem, overlooking the very people dealing with the problems of financial exclusion day after day. We should all be aware of the need to help the unbanked and underbanked: however, to break down the barriers to financial inclusion, first we need to understand the many forms that financial exclusion can take.

Only then can fintech innovators get the right payment solution into the hands of those who will directly benefit. Once that happens, the indirect benefits of people accessing finance for the first time will begin to ripple outwards and touch the lives of even more people.

Global instability cascades downwards, causing gender poverty divides

Global instability, conflict and climate disasters are not just ever present, but increasing in frequency and intensity. The lingering effects of the COVID-19 pandemic, rising inflation, increasing migration and rising food insecurity continue to adversely impact people in both mature and emerging economies.

Nobody is immune to illness, loss of employment, family break-ups or other factors which can affect household income. Healthcare costs due to COVID-19 pushed more than 500 million people into extreme poverty. For those in less developed regions, or those in areas more at risk from natural disasters, unexpected life events like these often prolong cycles of poverty, and are amplified acutely in developing economies, where 30% of adults remain unbanked.

It's no surprise that women disproportionately suffer from financial exclusion, lacking access to resources, technology, and education. According to the United Nations, around 400 million women and girls worldwide are living in extreme poverty. And over the last 10 years, 80% of the 250 million people forcibly displaced by natural disasters in emerging economies were women.

Although much progress has been made to close the gender equality gap, women in emerging economies are still six percentage points less likely than men to own a bank or financial account. Financial exclusion prevents women from building independent lives, gaining employment, building credit profiles, and providing better and healthier standards of living for themselves and their loved ones.

Where fintech solutions can help is by providing access to digital financial services that can leapfrog local infrastructure issues such as lack of bricks-and-mortar banking outlets or electricity supply gaps.

Mobile money, peer-to-peer remittance and digital wallet solutions are just some of the innovations that have enabled people to access finance at their fingertips. In emerging economies, UN data shows that 37% of women opened their first account at a financial institution to receive a wage payment or money from the government.

Increasingly, many governments, aid organisations and other entities have enabled the financially excluded in these areas to receive social benefit or government disbursement payments and remittances straight to their mobile phones. When combined with digital ID, mobile phone payment solutions can further extend and accelerate people's access to other financial or public services, helping to close the financial exclusion gap even faster.

Migration and refugee inclusion

A sad consequence of global instability, war and climate disasters is the forced migration of people who flee to safer areas. The impact of climate change is worsening, disproportionately affecting low-income individuals and women, and pushing more people into poverty.

As a result of climate change, food insecurity and malnutrition is worsening too. In 2020, just under 2.4 billion people were without food or unable to eat a consistently healthy, balanced diet – and women are more likely than men to report food insecurity in almost two-thirds of countries worldwide.

Aid agencies and governments have long grappled with the challenge of making disaster relief or food relief disbursements safer, quicker and more efficient. Cash or paper-voucher disbursement schemes are prone to delays in delivery, loss, theft and damage. But fintech solutions, such as prepaid cards in either plastic or digital wallet form, are making it possible for aid disbursement programmes to give even more flexibility, efficiency and dignity to aid recipients.

Aid disbursement programmes delivered through digital wallets can reach marginalised or remote populations where the only tool aid recipients have is a mobile phone. Funds can be loaded into wallets over-the-air, spending controls can be implemented by aid organisations remotely, and recipients can receive notifications to keep them updated. Fintech innovations like these are proving to be a huge help to aid organisations that can now control how funds are distributed and spent, and stay compliant with regulations at the same time.

As more recipients are enrolled in such programmes, and as transaction volumes rise, cloud-based platforms can scale effortlessly to cope with increased usage, and can also add new services (such as contact channel notifications, transaction alerts, remittance functions and so on) remotely and effortlessly.

And there is a hugely personal element which many organisations overlook. Aid recipients may have a fear of appearing vulnerable, or have stigma about waiting in line for cash. When those in need are desperate to buy food, clothing or hygiene products, being denied because they don't have formal identification credentials is a devastating indignity. When they have suffered so much already, it's vital to give aid recipients dignity and privacy.

Prepaid aid cards, branded with the familiar logos of payment schemes like Visa, look like any mainstream credit and debit cards, affording the recipient not only dignity, but also the opportunity to make purchases at any card-accepting location. That's financial inclusion in action.

Climate change, sustainability and inclusion are intertwined

As governments, companies and consumers around the world embark on the journey towards net zero carbon, we are now gaining a much greater understanding of how climate change is directly influencing the frequency of natural disasters and extreme weather events globally.

Consumers want ethically and environmentally sound actions from the businesses they transact with. But there is often a disconnect between what companies say and what companies do when it comes to their climate conscious activities, leading to accusations of "greenwashing". Increasingly, the quest to go green will become a mission-critical priority for fintechs and their clients – whether that's by reducing their own carbon emissions or devising green payment solutions that can help consumers make eco-friendly, carbon-neutral purchases.

We're now seeing more companies issue payment cards made from recyclable, sustainable materials, helping in the quest to reduce plastic usage. Other services like carbon footprint tracking tools can be easily embedded throughout the payment

Denise Johansson,
Co-founder and Co-CEO,
Enfuce

Denise Johansson is the Co-Founder and Co-CEO of Enfuce, the first in the world to put payment processing in the public cloud. Developing products and services that are deeply rooted in a 'people first' and 'fintech for good' ethos, she is a bold and fearless disruptor who has helped numerous European fintechs and financial institutions enter new markets quickly with safe, secure and scalable card products. Denise's commitment to exceptional solution performance and people-focused service quality has elevated Enfuce to become the payments partner of choice for businesses looking to expand their capabilities and reach new markets.

ecosystem, including merchant checkouts, neobank money management services and more.

When fintech solutions are built with practical, visible eco-friendly credentials like these, they can go a long way in helping companies to meet ESG objectives, appeal to climate-conscious consumers and show prospective employees that they are positive places to work at. Furthermore, those fintechs which actively pursue sustainable initiatives are more likely to attract more funding and investment, thereby producing stronger financial returns, and build positive relationships with regulators.

Conclusion: inclusion is what will fuel innovation

Fintechs like to think of themselves as disruptors. What could be more disruptive than solving some of the most persistent and painful human problems affecting populations around the world? Harnessing the power of fintech to alleviate human suffering, poverty and improve access to financial services should be the overarching objectives for us all.

Fintechs have the potential to address all of these issues by leveraging technology to create new products and services that are more accessible, affordable, and convenient. The processing platforms that aid the flow of quick and secure payments transactions also need to be trustworthy, available and ensure consistent uptime all the time. At Enfuce, we believe that fintech should be a force for good in the world. That's why we have built the cloud-powered technology, services like our First Aid card, and flexible embedded payments modules that are empowering businesses, governments, charities and other fintechs to deliver people-focused solutions that solve real human problems. But faced with the scale of the financial exclusion problem, one company can only achieve so much on its own.

We should all aim to do what we can with our collective resources to build an ecosystem that is open, affordable, and inclusive for everyone. By sharing our expertise, knowledge, technology and values, we can accelerate the pace of financial inclusion innovation efforts far quicker than if we were stubbornly trying to go it alone. Whatever knowledge we have from our combined years and experience, all of us in the fintech and payments industries need to collaborate so that it's not just our own customers who benefit, but future customers we can extend our hands to.

Ultimately, the financial inclusion challenge we are trying to solve is so big that it needs all of us – fintechs, banks, vendors and governments – to put aside our competitive interests and embrace cooperation for the benefit of everyone. At Enfuce, we are determined to set the example for the rest of the fintech industry to follow.

Enfuce

Enfuce is a one-stop shop for modern card issuing and payment processing. Founded in 2016, Enfuce has become one of Europe's leading payment processors that delivers cutting edge debit, prepaid, and credit card solutions across Europe and scaling globally. It has teams in Finland, Germany, Latvia, Sweden, and the UK. With Enfuce card solutions, traditional banks, neobanks, and fintechs can create next-level payment experiences for their end users now and into the future.

Enfuce has raised a total of €62 million in several funding rounds and been awarded with recognitions like the Visa Fintech Fast Track programme, Mastercard Lighthouse Development Programme, and 2019 PayTech Award for Best Payments solution for Payment Systems in the Cloud.

For more information, please visit www.enfuce.com/.

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WE NEED INDUSTRY COLLABORATION IN CBDC EXPLORATION

CBDCs have rapidly emerged over the last couple of years, with over 100 central and commercial banks now exploring the use of central-bank digital currency in local markets.

However, as financial institutions and markets continue to experiment and develop CBDCs, the financial industry needs to assess how it can incorporate them into the evolving global payments landscape to allow for seamless interoperability and frictionless cross-border payments.

The risk of fragmentation

The growth in popularity of CBDCs has largely been focused on how digital versions of existing central bank money can achieve domestic policy goals, with less focus on the potential that lies in cross-border use cases.

CBDCs offer many opportunities for the financial industry globally, but challenges will still arise regarding adoption, in particular as there will be multiple CBDC platforms in development in parallel to existing traditional payment systems.

Although CBDCs are new forms of fiat currencies that have the potential for new payment capabilities, they are not necessarily a replacement for payment infrastructures and processes. Therefore, CBDCs and traditional infrastructures will need to learn to co-exist and work together as the industry trials how to integrate them with existing payment systems.

The risk of fragmentation will arise if central banks continue to focus on developing digital currencies based on different technologies, protocols and procedures, and leave collaboration unaddressed.

Ultimately, this could lead to a range of disconnected ‘digital islands’ for CBDCs globally. For CBDCs to reach their full potential, a multilateral interoperability solution that connects CBDC networks and existing payment systems globally will be needed, as this will enable CBDC transactions to seamlessly flow across borders.

We should take a straightforward approach

As CBDCs continue to be developed across the world, any interoperability solution will need to be straightforward for all institutions and markets across the world, and solutions will need to allow banks to easily integrate their domestic CBDC flows with their cross-border payments system. Connectors can be used to enable communication between different CBDC networks and payment systems.

Fortunately, integrating CBDC connectors into existing cross-border payment systems will not require a reinvention of new practices to ensure security, compliance, authentication, and tracking.

Leveraging industry standards such as ISO 20022 will also ensure CBDC transactions carry rich and standardised payment data. Establishing a solution to bring interoperability to CBDCs will not be a quick process, however continuous industry collaboration, innovation and experimentation will pave the way to a frictionless future for digital currencies.

Our experimentation with CBDCs

Interoperability is critical in cross-border payments, and we’re certain that with various standards, technologies and

Nick Kerigan,
Managing Director, Head of Innovation, Swift

Nick is Head of Innovation Execution at Swift. In that role, he is responsible for the performance of the innovation strategy, ensuring that innovation delivers on its mandate to accelerate and de-risk the creation of new products and services that deliver value to customers.
Nick has a wealth of experience from over 20 years working in payments and banking across developed and emerging markets.
Prior to joining Swift in July 2020, he was Managing Director for Future Payments at Barclays, creating next-gen customer experiences and partnering with FinTechs.
His expertise is in digital payments, growth strategies and product development, grounded in behavioural trends.
Nick is a thought leader and top-100 financial sector influencer.

protocols implemented for different CBDCs, especially taking into consideration an expected long coexistence period of fiat currencies and CBDCs, the demand for interoperability will only grow stronger.

Therefore, in 2021, we carried out our first CBDC experiment, focusing on how we could enable interoperability and solve the enhanced compatibility request in BIS multi-CBDC Model 1 by acting as an orchestration layer, enabling institutions to continue with the formats and protocols they use today.

More recently, we announced in October that we'd developed an experimental interlinking solution that enabled CBDCs to move between DLT-based and fiat-based systems using the existing financial infrastructure. The solution was then tested and experimented in a sandbox environment with 18 central and commercial banks. The sandbox was designed so that central and commercial banks could test and validate the effectiveness of the solution and share insight to guide its continual development.

The CBDC sandbox saw broad global participation, with organisations including the Banque de France, the Deutsche Bundesbank, the Monetary Authority of Singapore, BNP Paribas, HSBC, Intesa Sanpaolo, NatWest, Royal Bank of Canada, SMBC, Société Générale, Standard Chartered and UBS. Additional central banks were observers, providing input and feedback without participating in the sandbox.

During the 12-week testing period, almost 5,000 transactions were simulated between two different blockchain networks and with existing fiat-based payment systems. As a result, the central and commercial bank participants saw clear potential and value in the solution, and expressed support for its continued development.

While our sandbox was successful, more collaboration and innovation will be needed from financial institutions, globally. Collaboration in innovation will help continual development, to achieve the goal of frictionless cross-border CBDC payments and transactions.

Inspired by the positive sandbox feedback, we are now developing a beta version of the CBDC solution, which will be tested shortly with select central banks. A second phase of sandbox testing will also be follow, where the Swift community can collaborate further, focusing on new use cases such as security settlement (e.g. cross-asset exchange), trade finance, and conditional payments.

What's next for CBDCs?

CBDCs will only continue to become more relevant and important for banks and the financial industry. The potential of CBDCs has not yet been harnessed on a global level, and interoperability will be key to reducing fragmentation. Moving forward it will be important for the industry to keep a clear vision of frictionless CBDC transactions when developing platforms and solutions for the currencies to operate on. Swift is committed to playing a strong role in that collaboration.

Swift

by Chris Principe,
Publisher, Financial IT

TAIWAN FINANCIAL SUPERVISORY COMMISSION – PREVENTING FRAUD

During my time in Taipei to attend the Smart City Summit & Expo, I had the honor of meeting with Brenda Hu, Director General of Planning, and Christine Liu, Assistant Director General of the Financial Supervisory Commission of Taiwan (FSC).

The FSC is an independent government agency subordinate to the Executive Yuan of Taiwan. It is the competent authority responsible for development, supervision, regulation, and examination of financial markets and financial service enterprises in the securities markets, banking, and the insurance sector. The meeting was held to discuss the current situation of banking in Taiwan and abroad.

During the meeting, we discussed several key issues related to fraud in the banking sector in Taiwan. Specifically, we discussed the increasing prevalence of fraud globally, which has caused significant financial losses for both banks and consumers. In response, the FSC has been working diligently to improve bank security and prevent fraud.

One of the most important initiatives of the FSC has been to develop stricter regulations and guidelines for banks in Taiwan. These regulations are aimed at improving the overall security of banking transactions and preventing hackers and fraudsters from accessing personal and financial information.

A key goal of the FSC is to increase collaboration among banks in Taiwan to share information and best practices for preventing fraud while increasing accessibility to banking services. This includes working together on cybersecurity measures to ensure that all banks are following the same standards for protecting customer information.

Overall, the meeting with Brenda Hu and Christine Liu was enlightening and productive. We were able to discuss many important issues related to fraud and bank security and brainstorm potential solutions to these issues.

by Chris Principe,
Publisher, Financial IT

THE EXCITEMENT OF SMART CITY LIFE

The Taiwan Smart City Summit & Expo (SCSE) was held in March 2023 hosted by and in collaboration with the Taiwan Computer Association (TCA). The event showcased the latest advancements in technology and integrating this technology into making city life more efficient, sustainable, and convenient. The SCSE attracted over 100,000 experts, tech enthusiasts, and professionals to join 500 exhibitors from around the world.

Since 2014, the SCSE has been organized with the aim of introducing innovative and cutting-edge technologies from local as well as international protagonists. The event was open to the public, and attracted participants from diverse sectors including government officials, entrepreneurs, and technology enthusiasts. Attendees could learn about how real technology is being applied to modern urban challenges.

The event kicked off with an opening ceremony presided over by Mr. Paul SL Peng, the Chairman of the TCA. There were speeches from distinguished guests from the government and private sectors.

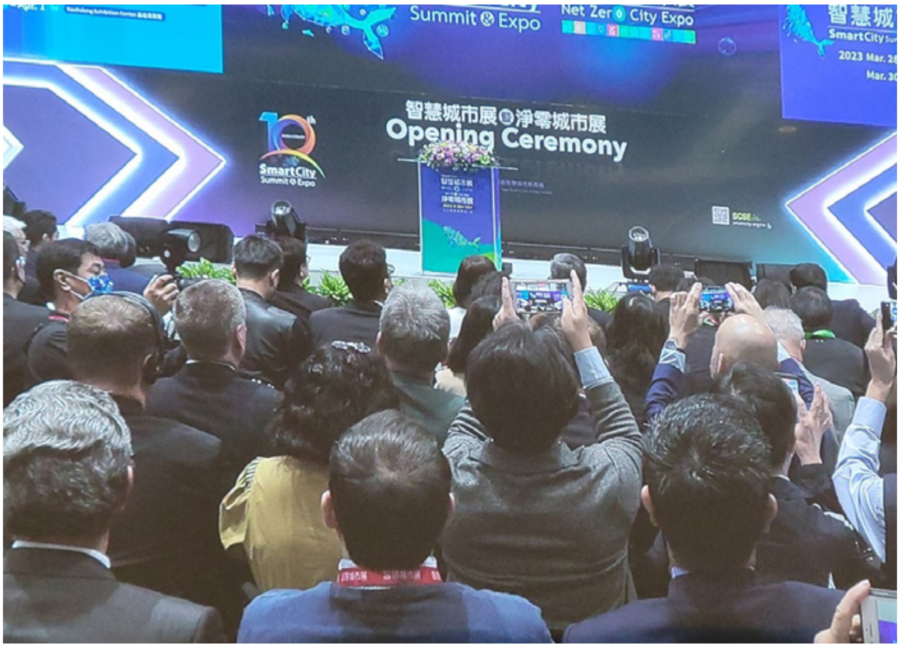
The SCSE is becoming ever more relevant with the passing of the years. As cities continue to grow, there is a greater need for solutions that can help us live more sustainably and promote wellness. Mankind needs smarter and happier cities.

The SCSE is one-of-a-kind. It shows the best in technological innovations, such as smart transportation systems, energy management systems, financial solutions, healthcare technologies, and more. The SCSE attracts many participants from foreign countries, including academic delegations from Southeast Asia, Europe, Africa, and the United States. These foreign participants bring with them knowledge and expertise in their respective fields and industries, making the SCSE an international platform for smart city development discussions.

At the center of the event was the exhibition hall, which featured dozens of cutting-edge technology solutions for cities of the future. Among the most notable exhibits were those that demonstrated how Big Data analysis can be used to optimize city planning efforts. Also, on show were smart traffic management systems that leverage artificial intelligence (AI) to improve public transportation, and energy-efficient building designs that utilize IoT sensors to minimize energy consumption and emissions.

On exhibition was the Virtual Reality (VR) technology which showcased a simulation of Taiwan's new Smart Transportation System. The visitors put on VR headsets and were immersed in the experience of taking a virtual ride on the system. Another exhibit featured was a vehicle parking system which optimizes the use of available space and helps prevent congestion. Additionally, TCA organized a hackathon event, where teams of tech enthusiasts competed to develop the best smart city solution.

There was also a series of panel discussions and keynote presentations featuring thought leaders and experts in the Smart City arena. Attendees had the opportunity to engage with some of the industry's most influential voices, who



SCSE Opening Ceremony

Philip T.Y. Wang and Chris Principe

Governor Bryan (center) and Team

shared insights and practical advice on how to harness technology to address the complex challenges that modern cities face.

On my visit, I was honored to be hosted by Mr. Philip T.Y. Wang, a former Taiwan diplomat and now TCA Senior Global Advisor. Philip was extraordinary in his ability to anticipate my needs with introductions that were outstanding. Additionally, he facilitated my invitations to the Go Smart Awards Ceremony as well as a visit to the Taiwan's tech giant, MiTAC headquarters. Working directly with Philip certainly enhanced my experience to report back on the SCSE and their extraordinary activities.

The Go Smart Awards are to reward those companies that have made extensive strides in beneficial technology. The opening was an encouraging speech from Taipei City Mayor Mr. Wan-an Chiang. During the awards Philip

Liang Su and Chris Principe

Wang kindly introduced me to Chairman Liang Su of MiTAC and together we had a lively, interesting conversation. The next day saw my visit to MiTAC which was filled with interesting solutions and products. I was fortunate to be guided throughout by Woody and Alex Chen, who showed and explained many of the MiTAC developed tech solutions and physical products. There were solutions for libraries, schools, and banks. Physical products encompassed metro systems, airports, naval equipment, railroads, and automotive infotainment systems. MiTAC is truly a great company that is setting new standards with its investments in people, products, and technology – and all for improving our world.

One of the highlights for me was time spent with the U.S. Virgin Island delegation. Governor Albert Bryan Jr is the first USVI governor to lead a team to Taiwan. Organized by Anthony Weeks, USVI delegate to Taiwan and leader of the SEDI-CASE initiative, set the goal of securing the USVI International Trade and Investments Office in Taipei, Taiwan. The USVI team gained valuable experience and knowledge to enhance the relationship between USVI and Taiwan. Additionally, the USVI and Taiwan formed a strong partnership as World Trade Centers. This was further enhanced by retired Colonel John A. Clendenin, speaking at the event on Smart City Supply Logistics, which was well received. The visit of Governor Bryan and team has solidified further economic prospects between USVI and Taiwan. Additionally, I took part in an interesting discussion session with the team from Montgomery County Maryland, USA. Their focus was on providing an excellent set of policies for companies to build their U.S. presence from Montgomery, Maryland.

In conclusion, the SCSE was a grand success, with many participants stating that they were impressed by the innovative solutions showcased during the event. The event fulfilled its objective of bringing together inventors, industry experts, government, and the public to discuss and exchange ideas about the future of smart cities. The TCA can take pride in putting on a well-organized event that was appreciated by the participants.

Clearly, Taiwan is at the forefront of smart city development, and its tech companies are playing a crucial role. The event was truly eye-opening, and it left me feeling optimistic about the future of our cities and the potential for technology to improve our quality of life. The success of the SCSE underscores the immense growth potential for smart city development worldwide.

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