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FINANCIAL STABILITY

Regulatory Integration
Takes Centre Stage

IBM Enhances
Its Performance
Management Solution

Intuit Introduces
Money Manager in India

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EDITOR'S NOTE

Stability of global financial system has become the centre of focus for most of the governments and regulators worldwide as a strategic response to the crisis. Far reaching changes in the regulatory framework for supervising and monitoring financial sector are being debated and worked out. While the immediate response to the crisis was a concerted and coordinated effort between governments and central banks of different countries, the hallmark of post-crisis global reform is the coordination between multiple regulators of financial sector, viz banking, insurance and securities.

A major problem encountered by standards and codes setting bodies both at international and national level is the complexity of financial interconnection, both within a sector and between sectors. The problem becomes acute when such interconnection exists within a group of entities having separate legal structures. Another problem relates to enormous differences in the scale. The so-called 'broad brush' cannot be applied to a large financial group which operates across sectors and has footprints across jurisdictions on one hand, and to a small cooperative bank or NBFC which has a limited footprint even within a country, on the other.

It is well known that innovations in financial sector often tread on the regulatory boundary, and attempt to maximise the regulatory arbitrage. Coordination between sectoral regulators within a jurisdiction and supervisory colleges comprising of regulators from different jurisdictions are some of the recent mechanisms being put in place to plug these loopholes.

While these developments in regulatory reform are needed to ensure financial stability and avert major financial crisis, their implementation will have to be suitably calibrated to differences in stage of economic development and demography between different countries and in scale of operations between firms. The zeal for financial stability should not stifle growth.

Hari Misra

Hari Misra

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IBM ENHANCES ITS PERFORMANCE MANAGEMENT SOLUTION

IBM has upgraded its Cognos Corporate Performance Management (CPM) software, along with its new pre-built financial models. The enhancements include improved analytic capabilities in Cognos TM1 and budget consolidation capabilities in Cognos 8 Controller. Cognos TM1 is an enterprise planning software that provides forecasts and budgets while Cognos 8 Controller is financial consolidation software that supports the consolidating and reporting process.

With the new enhancements, the company claims that its Cognos TM1 solution will help finance leverage trusted information for better, faster decisions and continuous optimisation throughout the organisation as the new features will extend analytics into the hands of end users. The latest release of management consolidation solution, Cognos 8 Controller is aimed at providing finance workers accurate, certified and auditable financial results for external reporting and performance management. The solution will help chief financial officers (CFOs) and finance managers leverage analytics to anticipate performance gaps, prioritise resources, and gain insight into profit and growth. 'Plan to succeed, budget on how not to fail, and forecast for predictability' is the new mantra, says Chandrashekhar Sankholkar, country manager, Cognos, software group, IBM India.

The sheer size and the potential that the business intelligence (BI) software market holds is one of the key drivers for IBM to upgrade its performance management solutions. 'As put by industry analysts, the business analytics market worldwide is worth $105 billion with a compound annual growth rate of 8 percent - that is faster than the overall IT market. Also, recent IBM Global CIO Study has revealed that 83 percent of business leaders identified analytics as a top priority for their businesses,' informs Sankholkar.

Chandrashekhar Sankholkar

According to the Gartner Magic Quadrant report released earlier this year though there is a significant increase in the adoption of corporate performance management software in recent years, a relatively large number of organisations still use spreadsheets for performance management. There is a sizable potential customer base for IBM's new financial models if the CFOs and finance managers opt for them as against the spreadsheets and manual budgeting processes. Cognos 8 Controller solution is designed to replace manual spreadsheets or legacy consolidation solutions. 'IBM is betting big on business analytics. In the past decade, IBM has undergone a significant shift in its business model, away from commoditised piece products to the one that is focused on higher value, high margin capabilities in order to build a comprehensive portfolio around business analytics,' confirms Sankholkar.

The new analytic finance solutions claim to reduce customer planning cycles in half and reduce reporting cycles from days to minutes. Constant customer feedback is an integral part of product enhancement strategy. Commenting on the benefits that would accrue to companies by adopting the solution, Sankholkar says, 'Consistent enhancements to performance management software are designed to help CFOs and finance managers drive smarter decisions for better business outcomes. Predictive analytics is another area which has generated acute interest for competitive advantage and the benefits that accrue.'

Elaborates Sankholkar: 'While the ERP wave on business automation brought in the efficiencies associated with streamlining processes and business accountability, the realisation has dawned that ERP is only about counting the money that one has already earned. Increasingly, businesses look to answering three questions at every level and each functional department in order to take decisions for smarter business outcomes: How are we doing it (through dashboards, scorecards,

consolidated views), why (drilldowns, ad hoc queries, analysis); and what should we be doing (planning and budgeting). A good performance management software primarily revolves around strategy execution percolated to each entity in the organisation. Planning and budgeting are the dots that connect strategy to execution'.

IBM's Cognos TM1 solution is used in various sectors globally. In the banking and financial services space, its clientele includes Deutsche Bank, JPMorgan Chase, Genworth, and SunTrust. 'In India, leading companies have embraced TM1 for planning at the office of finance or business departments: SBI, HDFC Bank, US Technologies, MindTree, Marico, Hindustan Unilever, Pantaloon, Asian Paints and Madura Garments,' informs Sankholkar.

New version of Cognos 8 Controller extends core financial consolidation capabilities with enhanced allocations and stronger formula calculations used for preparing financial reports and analysis. It is synchronised with Cognos TM1 solution. 'Whilst today it is true that the entire reporting cycle has been supported by Controller, our synchronisation of TM1 and Controller have been focused on leveraging TM1 and BI to support business reporting, and financial and management reporting. The updates are direct, real-time, incremental with metadata/data synchronisation,' says Sankholkar. 'The collaborative abilities of TM1 ensure that everyone plays and everyone contributes to the strategy of an organisation,' responds Sankholkar to the question on whether Cognos TM1 holds the capability of addressing business variances which are identified.

What are the key performance metrics that IBM Cognos Performance Blueprints will focus on? 'It is natural tendency to benchmark one's performance versus the best in the world. For instance, Dell may want to benchmark with FedEx for on-time shipments while OTC drug manufacturers may want to benchmark proliferation with cigarette distribution companies. Performance management is about increasing shareholder value. IBM Cognos Performance Blueprints are our value added services to our customers in collating the knowledge of existing customers; industry thought leaders and experienced consultants,' says Sankholkar. 'The primary aim is to give a blueprint considering the factors, metrics that need to be considered in that area and in developing a sample model. The performance metrics will vary depending on the area that the blueprint covers,' he adds. For banking and financial services, IBM Cognos Performance Blueprints consist of targeted, pre-built data, process and policy models based on proven best practices in bank operations and financial services planning, budgeting and forecasting.

Over the past few years, there has been an apparent increase in interest in BI software market. In 2007, IBM had acquired Cognos, Canada based BI solution provider. In the same year, SAP acquired Business Objects, also a provider of BI software; and Oracle bought Hyperion, another competitor of Cognos. Currently, SAP, IBM, Oracle, SAS and Accenture are few of the major players in this field. As a part of IBM's key business strategy for 2010 to grow its presence in the BI market, it continues to invest in the data analytics and BI software. 'IBM has invested more than $12 billion just in the last 4 years, in organic innovation and acquisitions. This includes 13 acquisitions. IBM's latest acquisition is SPSS, a predictive analytics solutions provider, at $1.2 billion. In the past 11 months, IBM has opened 6 new analytics centres worldwide, and assembled 4,000 analytics consultants with industry expertise,' informs Sankholkar.

A survey of 225 business leaders worldwide conducted by IBM recently, revealed that one out of every three business leaders makes critical decisions without the access to the right information, while more than 50 percent of them do not even have access to the information across their organisation required to do their jobs. The study entails that business leaders worldwide are recognising the fact that analytics is a single major opportunity to close gaps and create business advantage. Sankholkar views similar and significant growth in business analytics software demand in the Indian market in next few years. 'The situation is no different in India. In fact the high adoption curve of IT and ERP systems in the past decade indicates that the growth of performance management systems would be higher here. IBM is primarily focused on four key plays in 2010: smarter planet; analytics and optimisation; growth markets; and cloud & next generation data centres. The business analytics portfolio at IBM in India lies in the top 3 of its four key plays for 2010,' he says.

INTUIT INTRODUCES MONEY MANAGER IN INDIA

US-based Intuit, which established its presence in India in 2005 as a development centre to provide services to global markets, is now having plans to develop and sell products specifically for the Indian market. Pursuing its business strategy aimed at the rapidly growing Indian market the vendor began by establishing a global business division in the country in year 2008. Money Manager is its first product rolled out for the Indian market in association with financial information website MoneyControl. It is a web based personal finance tool which consolidates information from multiple bank accounts and investments enabling the user to view and manage all personal financial information though a single window. The tool comes with a 90-day free trial, after which the service costs just INR 1 per day. Currently, Money Manager supports integration with few of the major Indian banks including ICICI, HDFC, State Bank of India and Union Bank.

Umang Bedi, managing director, Intuit, India talks about product features and Intuit India's business strategy and future plans in a candid interview with Hari Misra, editor, CRO. Here are the edited excerpts of the interview.

CRO: Money Manager has been launched in India only recently, although Intuit has been around in the country for over 5 years now. What has been the engagement model earlier?

Bedi: Intuit started its operations in India in 2005, and during that

Umang Bedi

period we started our India development centre, which is also our global innovation centre for building products for global markets. During the initial years, we were developing products mainly focused on global markets, especially US and Canada. We started the India business division in 2008, wherein we decided to innovate locally for India and make products in India for Indian market. For this, we planned to first study the market and then try and release products which are specifically focused on the Indian consumer. Until 2008, we were only an innovation or a development centre. It was only in 2008 that we put together a business team in India.

CRO: When did you roll out your first product for the Indian market?

Bedi: The first product has been launched recently. We had started conducting research on consumers in India in early 2008, about six months prior to my joining the company, and over the last couple of months we formulated Intuit Money Manager product. In August 2009, we launched the beta, and continued that beta for five months to get feedback from customers. We finally launched the product in January 2010.

CRO: What are the basic features that Intuit Money Manager offers?

Bedi: It is an innovative online personal finance tool that helps track money. In terms of features, it helps to bring all the accounts across multiple financial institutions in one window, thereby enabling the consumer to get a view of his net worth versus his assets. That has been the major wow of the product. So, if the Indian consumer has relationship with various financial institutions for various financial instruments, such as, savings account, credit card, insurance, home loan, bullion, stocks and mutual funds; we bring all of this into one window giving the consumer a clear view of his net worth. Apart from this, we also help build business intelligence for the consumer to plan, track and grow his money. For instance, we give consumers a clear view as to what the trend has been across their income, across their savings, across their expenses, for them to plan for future goals. These goals, whether expense or savings goals, can be easily set in the tool. Since the system tracks the entire portfolio, it would help the consumers to exactly know how

much money they need to curtail in terms of expenses and finally also give them a view to better manage their taxes. The system also has an alert mechanism to alert consumers. For example, if the user does not want to come online every day, we alert them over SMS and/or email depending on their medium of choice.

CRO: So, the target clientele for this would essentially be middleclass of India?

Bedi: Yes, you are absolutely right. Usually, the rich individuals of the country do have some kind of wealth manager. Our vision is to be the money manager for India and for every mass affluent Indian in the country. If you look at this market, there are close to about 100 to 150 million mass affluent Indians in the country today. In the last five years, this number has been growing steadily at about 70 to 80 percent. Out of this, about 15 to 20 million people use Internet banking and the number is growing by 20 to 30 percent every year. So, the early adopters of our product would be the ones who are already banking online.

CRO: Currently, would you be deploying this product only via MoneyControl or do you have some other plans as well?

Bedi: In terms of deployment, let me share with you that we have a 25-year heritage of offering personal finance solution in the global market. Today, we have over 15 million consumers who are using our personal finance offering and we have about 87 percent of market share.

Since we use a hosted SAS model, the software is deployed at our premises only. We are a trusted custodian of third party data and for the past 25 years there has been no single major data breach that has been reported from our data centres. We have tied up with MoneyControl as a window to increase our consumer reach because there is a large target audience that is of relevance at MoneyControl. As we go forward, we are looking to tie up with large partners within the financial domain. These could be some of the large banks and financial institutions in the country.

CRO: So, you will use MoneyControl to reach out to the clientele, but the product will be delivered by Intuit?

Bedi: Absolutely correct.

CRO: Does it require a customer to give you his personal credentials like Internet banking user id and password for aggregating multiple accounts?

Bedi: People trust us as the third party aggregator because of our relationship with several financial institutions. Globally, there are about 25,000 relevant financial institutions, of which more than 5,000 have adopted Open Financial Exchange (OFX) standard. OFX standard was developed by a consortium led by Intuit in 1997, and it has now become a de facto standard. Our endeavour is to increase the adoption of OFX among the financial institutions in India. While using OFX as a standard, financial transactions and financial information can be shared between financial institutions in a secure manner, and users are not required to share their credential information with us. Until OFX becomes a standard in India, we request the users for their credentials as we use a web direct technology to integrate their accounts. We will follow this approach till the OFX standard becomes highly relevant.

CRO: The web direct technology that you mention uses screen scraping? Is it secure enough?

Bedi: Absolutely. We have developed one of the most secure offering with the lowest error rates recorded. Today, we integrate with over 25,000 financial institutions in a combination of screen-scraping and OFX. We have been successful in this approach, fundamentally because of the security and the data privacy features that we have built into the product. The first level of security is at the product level itself, wherein the product is a VeriSign certified solution. Secondly, the product does not have any transactional capabilities. It is a view-only system. Therefore, it does not ask the user for their transaction passwords; only their authentication passwords. The next thing is how we integrate at a partner level and build the security. We maintain complete user anonymity. This is maintained by a standard called the Federated Identity Management standard, which is based on the Security Assertion Markup Language (SAML) 2.0. Thus, we ensure complete user anonymity and non-transactional capability on the data communication part. Lastly, at the company level, which is the third level of security, all our data centres are ISO27001 and SAS70 compliant.

In India, we understand that the transactional data cannot be

moved outside the country due to the regulatory framework, and for this we have set up our data centres in India which are 100 percent compliant with the regulations. Security is a big priority for us.

CRO: Do you have plans to introduce your other products in India, as you move forward?

Bedi: In terms of our product strategy, we have three to four popular flagship brands. We serve over 45 million consumers and small businesses, 15 million of which are from personal domain. Quicken, QuickBooks and TurboTax are almost like household names in the US today. We decided to look at Indian market from a slightly different perspective. Although consumers and small businesses have very similar challenges, the way Indian consumers want access to technology is different. Hence, we are using our comfort-driven innovation and design-for-delight methodologies, wherein we use ethnographic observation in a process called follow-me-home to understand the core pain points. We do not ask any questions during this follow-me-home process, we only observe them contextually from their home and offices and try to identify the pain points. Based on this, we develop solutions, some of which are even designed right from scratch. We plan to deliver this using mobile and online SaaS methodology. Online and mobile will be our platforms of choice. When we looked at small businesses, a lot of them did not have a computer, and were more comfortable with the mobile phones. As we move forward, you will see a forging product for consumers and small businesses in India on mobile and SaaS platforms. In fact, our first small business offering is expected to be launched in the next few months.

CRO: How big is Intuit in India right now?

Bedi: We have over 300 employees in India, which are split between two lines of business. One is our engineering centre and the other is core India business. Within the engineering centre we have carved out a division called the global business division, and these engineers work on writing the product and software for the Indian market. We are planning to ramp up that strength over the next 2 years to about 500 to 600 people.

READIMINDS LAUNCHES TRANSACTION SECURITY SOLUTION

Singapore-headquartered ReadiMinds has recently announced the release of its transaction security solution for online banking and securities trading systems. This solution adds layer one security on its ReadiONE platform to provide banks and other financial institutions an integrated platform with two-factor authentication (2FA) software for identity protection as well as site authentication for protection against phishing/pharming attacks. ‘This newly improved layer one security provides both phishing protection and identity fraud prevention on a single ReadiONE platform. Moreover, the solution is a zero-code implementation system, meaning it is fully configurable,’ says Naren Nagpal, CEO, ReadiMinds.

To make it more convenient and cost-effective for the financial institutions, ReadiMinds has made the solution available on a transaction or usage based pricing. Also, it is offered as both a hosted model and an onsite implementation solution. ReadiMinds’ integrated anti-phishing and identity fraud prevention system, part of layer security on ReadiONE, is currently available globally. ReadiMinds’ products and solutions are primarily sold through its business partners across various geographies.

Commenting on the major drivers behind the launch of this solution, Nagpal says that ‘based on the market feedback, we announced an integrated, multi-layered, anti-phishing and identity fraud prevention system, as layer one security, on a single ReadiONE platform. In other words, we strengthened layer one security on ReadiONE, which earlier provided only the identity fraud prevention.’ ‘Usually, identity fraud prevention is the first

transaction security step by a financial institution which also happens to be a regulatory requirement in most countries. However, in most cases, phishing/pharming attacks, that happen to be one of the biggest causes of identity theft, do not get addressed. And even in those cases, where they do, it is done through a separate solution. Trying to address online transaction security challenges using separate systems leaves security gaps,' he adds.

ReadiONE a financial crime, security, risk and compliance management software platform, is the company's flagship product. It was first released in year 2006 after 7 years of research and development. The platform also provides additional security layers for cross-channel fraud prevention including online banking frauds, payment card frauds, branch banking frauds; anti-money laundering (AML); credit risk mitigation; and compliance. 'It takes about 1-3 months on an average to implement the solution depending on customer requirements,' responds Nagpal to the question on timeline required for an onsite implementation at a financial institution.

ReadiONE is essentially a real-time monitoring and response system which consists of various modules including workbench, core (real-time monitoring/surveillance and analytics platform), response management, and Web-Services Suite (WSS). The system is available on modular basis and can be scaled up as the customer's volumes and challenges grow.

'ReadiONE system design is modular and customer can opt for

Naren Nagpal

what is needed,' explains Nagpal, and adds that 'the system provides low-price entry point and grows as customer requirements grow'.

In addition to ReadiONE, ReadiMinds also provides ReadiSCORE, a 'predictive' risk scoring system for credit risk management. The solution uses artificial intelligence techniques, to learn, predict and mitigate credit risk.

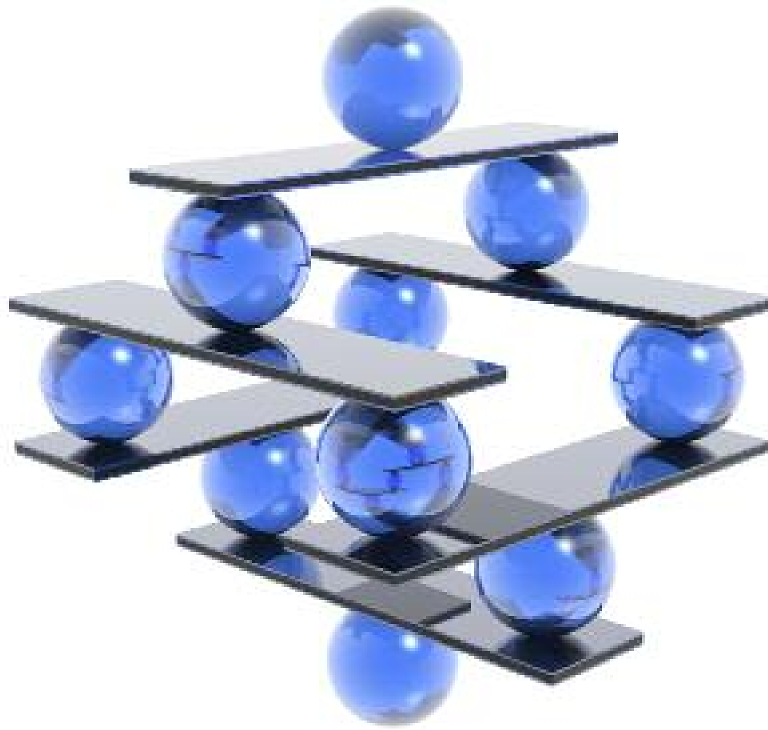
Responding to the question whether he foresees the integrated solutions eventually replacing the other two factor authentication systems like hardware tokens at banks, Nagpal says: 'Indeed, point solutions like 2FA are on their way out, being replaced by integrated, multi-layered solutions. Hardware tokens, specifically, have lost their market share significantly in developed countries quite sometime back.

These are highly inconvenient and costly due to the hardware cost, implementation cost and distribution management. It is an emerging global best practice by the BFSI industry globally to take a holistic view and opt for a multi-layered transaction security and financial fraud prevention system that gets deployed on an integrated/single software platform to monitor and mitigate all aspects of financial crime across the enterprise.'

Founded in 2000, the company has offices in Singapore and Bangalore, India. The company specialises in financial crime, security, risk and compliance management software solutions for the BFSI industry. Its India office mainly provides software development and key support services. ReadiMinds is currently focused on markets in Asia, Middle East and Africa. 'We are now increasingly focusing on USA and Europe,' informs Nagpal.

On the growth of security solutions and services for financial sector in next couple of years, especially in India, Nagpal says that 'there is significant scope for growth for online transaction security industry in India'. 'India's growth is attracting large number of fraudsters, and therefore Indian financial regulators and services industry need to take increasingly tougher measures towards transaction security and online fraud prevention. We expect the regulators and the industry to increasingly take more holistic view, that of financial crime prevention,' he elaborates.

On the future plans to expand their presence in Asia, Nagpal says, 'we are further strengthening our system integration partner network and adding more human resources in the APAC region.'



FINANCIAL STABILITY

Regulatory Integration Takes Centre Stage

Hari Misra

In his budget speech this year, the finance minister (FM) Pranab Mukherjee has made two far reaching announcements. The one is about setting up of the Financial Stability and Development Council (FSDC) to be chaired by the FM himself, and the other is Financial Sector Legislative Reforms Commission (FSLRC). The FSLRC has the job of rewriting and cleaning up of existing financial sector legislations with a view to make them better aligned with the present market reality.

Putting to rest the speculations that the FSDC might act as a super regulator the FM has categorically denied that this is not the objective of the proposed council mandate. 'The primary objective of this council is to have more coordination to maintain the required stability in the market,' he clarified. The existing regulatory and supervisory infrastructure for addressing systemic risks in the Indian financial markets presently consists of a coordination mechanism in the form of a High Level Coordination Committee on Financial Markets (HLCCFM). The HLCCFM is chaired by the governor of the Reserve Bank of India (RBI) and has representation from the ministry of finance, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) and the Pension Fund Regulatory and Development Authority (PFRDA).

Though the RBI governor is likely to head the coordination panel in FSDC, even RBI is concerned about the eventual role of FSDC. In its first Financial Stability Report released last month, the RBI observes that 'FSDC is to monitor macroprudential supervision of the economy, including the functioning of large financial conglomerates, and to address inter-regulatory coordination issues. A key issue to be addressed would be the nature of the relationship of the FSDC with the existing HLCCFM.' Who will handle the SEBI-IRDA tussle on Unit Linked Insurance Policy (ULIP) issue, the HLCCFM or the FSDC? It would take some time for the role, responsibilities and powers of the FSDC to take concrete shape without hopefully impinging too much on the independence and autonomy of various sectoral regulators.

Regulatory integration

In January this year, as a part of the global effort to reform and strengthen financial regulation by the G-20 leaders coordinated by the Financial Stability Board (FSB), the Joint Forum of the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS),

released a report titled 'Review of the Differentiated Nature and Scope of Financial Regulation: Key Issues and Recommendations'. The report identified five key issue areas:

- Key regulatory differences across the banking, insurance, and securities sectors;
- Supervision and regulation of financial groups;
- Mortgage origination;
- Hedge funds; and
- Credit risk transfer products (focusing on credit default swaps and financial guarantee insurance).

It is not difficult to see that the first two areas are structural. Globally, financial regulation developed in a sector-specific manner as is evident by the independent development of core principles or standards in each financial sector - banks, insurance and securities. However, it is being increasingly felt that such sector-specific approach to supervision increases the potential for regulatory gaps which in turn give rise to supervisory challenges and create opportunities for regulatory arbitrage.

The differences in financial regulation among the banking, insurance, and securities sectors owe their existence, in a large part, to the specific attributes of each financial sector. To understand these differences and to identify the gaps, the Joint Forum compared the core principles for financial supervision in each sector. These core principles, issued independently by the BCBS, IAIS, and IOSCO, reflect characteristics of the respective sector and also the nature of the supervised financial institutions. 'Despite different formats, content and language used, the core principles review revealed substantial commonalities across sectors. Indeed, differences among each sector's core principles have been decreasing slightly over time, reflecting the converging nature of the business in the three sectors,' observes the report.

But, the comparison also brought out the fact that some of the existing differences among the core principles are necessary since they reflect intrinsic characteristics of the banking, insurance, and securities sectors. For instance, the IOSCO core principles are focused on not only the regulation and supervision of securities firms, but also that of markets, exchanges, collective investment schemes, and disclosure by issuers. The BCBS and IAIS core principles focus only on the framework to supervise financial institutions in their respective sectors, not markets. Differences in the nature of the businesses conducted by institutions within each sector also contribute towards regulatory differentiation. For example, insurance companies offer protection against uncertain future events. Therefore, much of the insurance sector regulation is directed towards the valuation of technical provisions as these are estimations of the cost of future liabilities. Similarly, credit risk and its concentration occupy a major place in banking regulation.

The need for coordination among various regulators has been underlined by the financial crisis, as observed by the G-20 in its report 'Enhancing Sound Regulation and Strengthening Transparency'. 'As a supplement to sound micro-prudential and market integrity regulation, national financial regulatory frameworks should be reinforced with a macro-prudential overlay that promotes a system-wide approach to financial regulation and oversight and mitigates the build-up of excess risks across the system. In most jurisdictions, this will require improved coordination mechanisms between various financial authorities, mandates for all financial authorities to take account of financial system stability, and effective tools to address systemic risks.'

Financial interconnection and regulatory gaps

What had started out as lax underwriting approach in the US towards home mortgages, soon spread from the financial sector to the real sector in advanced economies and concomitantly spread geographically from the advanced economies to the emerging market economies and soon engulfed the global economy. The speed at which it spread among financial sector institutions, between financial and real sector, and between developed and emerging economies, clearly brings out the extent of global financial interconnection.

One of the key structures in this global financial interconnection are financial groups that offer services in banking, insurance, or securities, in various combinations, and are also known as 'financial conglomerates'. According to The Joint Forum report, 'they often operate across multiple jurisdictions, have multiple interdependencies, and comprise both regulated and unregulated entities'. 'They use an array of legal entities and

structures to derive synergies and cost savings, and they take advantage of differences in taxation, supervision, and regulation. These overlaps and linkages blur the traditional supervisory and regulatory boundaries across the three sectors.' It is not difficult to see the problems that such groups or conglomerates pose to effective regulation, and their capability to contribute to systemic risk. Specifically, these pose three major problems, viz existence of unregulated or under-regulated entities within the group, intra-group transactions and exposures including those involving unregulated entities, and unregulated parent companies of regulated entities (holding company structure). These financial groups create various regulated and unregulated entities to take advantage of supervisory and regulatory differences across sectors and across jurisdictions.

An unregulated entity is established to engage in both financial and non-financial activities, often in a jurisdiction other than in which the related regulated entity operates, and does not legally have a direct connection to the related regulated entity. These unregulated entities are set up in foreign jurisdictions to take advantage of tax neutrality, cost, and the development of business specialties within jurisdictions.

Any approach to supervision and regulation of financial groups has to balance two conflicting aspects. From the legal aspect a financial group comprises a set of separate legal entities, while from the economic aspect it is a single, diversified economic unit that pools risks.

Supervisory colleges

One of the major reasons of the recent financial crisis was the lack of relevant information about unregulated entities. Though the BCBS, IOSCO, and IAIS core principles clearly mention the supervisory responsibility of obtaining information on a group-wide basis; in reality, obtaining group-wide information is, at best, difficult. For example, some jurisdictions specialise in the formation and administration of unregulated special purpose entities (SPE). The absence of regulation of SPEs ensures that only as much information is available as is required within that jurisdiction. Legal structures pose another problem in getting group-wide information. The board of a company may not be legally required to provide company information to unrelated third parties, even if these are foreign supervisors. It may not even possess information desired by the supervisor if it is under no obligation to do so. The regulated entity might not have access to group-wide information.

It is possible for one regulator to obtain information about regulated entities within a group from other relevant regulators but it will experience difficulties in accessing information about unregulated entities. This difficulty increases when unregulated entities are located in foreign jurisdictions. Core principles prescribed by BCBS, IOSCO, or IAIS do not provide any guidance in this area of getting information on unregulated entities. As the core principles concentrate more on direct ownership rather than on a financial group as a whole, adherence to the core principles alone cannot help identify unregulated entities that pose risk to the stability of regulated entities of a financial group in some jurisdictions.

Even if the group-wide supervision is effectively implemented by the home supervisor, it will not always help host supervisors in obtaining relevant information because they neither have a jurisdiction over entities higher up in the group, nor do they have a direct link to the unregulated entity in their jurisdiction. To overcome these problems of cross-jurisdictional issues and cooperation and information exchange among supervisors, establishment of supervisory colleges, which comprise supervisors involved in the oversight of all the entities that are part of a financial group has been tried with success. Such supervisory colleges have been established for most of the large global financial conglomerates.

The structure of a supervisory college can vary according to the structure and organisation of the financial group and the jurisdictions involved in its supervision. These colleges can foster a working relationship among supervisors and facilitate the exchange of information. Their major role is to identify the key relationships within a financial group and assess the risks posed by different entities to each other. While this mechanism solves quite a few issues, it fails when there are only unregulated entities in a particular jurisdiction, because there is no supervisor who can participate in the college and take action at the level of the unregulated entity.

So far, supervisory colleges have been established involving a

single sector. In October 2009, the IAIS issued a guidance paper on the 'Use of Supervisory Colleges in Group-Wide Supervision'. Supervisory colleges have also been established in the banking sector. The FSB is actively involved in promoting this mechanism and identifying best practices. As quite a few financial groups offer services in all the three sectors, establishment of multi-sector supervisory colleges is the need of the hour to get the complete picture of financial groups.

Indian scene

India first participated in the Financial Sector Assessment Programme (FSAP) in 2001 and conducted a self assessment of compliance with international standards and codes in 2002 and another review in 2004. The FSAP is a joint initiative of the International Monetary Fund (IMF) and the World Bank which started in 1999. It attempts to assess the stability and resilience of financial systems of member countries. The programme includes assessments of the status and implementation of various international financial standards and codes in the regulation and supervision of institutions and markets; financial infrastructure in terms of legal provisions, liquidity management, payments systems, corporate governance, accounting and auditing; transparency in monetary, financial and fiscal policies; and data dissemination. In 2006, The Committee on Financial Sector Assessment (CFSA) was constituted by the government of India in consultation with the RBI having Dr Rakesh Mohan, then deputy governor, RBI, as its chairman and Dr D Subbarao, then finance secretary, government of India and now governor, RBI, as co-chairman. The CFSA was to undertake comprehensive assessment of the Indian financial sector focusing upon stability and development, and the status and implementation of various international financial standards and codes. One of the four advisory panels constituted by the CFSA headed by MBN Rao, then chairman and managing director, Canara Bank, and also chairman of IBA, was for the assessment of financial stability and stress testing.

The CFSA submitted its voluminous report in March last year. Its assessment was: 'Indian financial system is essentially sound and resilient, and that systemic stability is robust. Compliance with international standards and codes is generally satisfactory. Single-factor stress-tests for credit and market risks and liquidity ratio and scenario analysis carried out showed no significant vulnerabilities in the banking system.' The report also observed that 'systemic multi-factor stress tests could not be carried out owing to the lack of data and appropriate models for carrying out such stress tests' and spelt out steps to carry this work forward.

The CFSA report also highlighted areas where there was an immediate need for improvement. One such area was timely implementation of bankruptcy proceedings, while the other was effective enforcement of creditor rights and contract enforcement. 'A quick resolution of stressed assets of financial intermediaries is essential for the efficient functioning of credit and financial markets,' the report observed.

The RBI had put in place a scheme of Prompt Corrective Action (PCA) since December 2002, which is applicable to scheduled commercial banks, except regional rural banks (RRBs). Under the scheme the RBI takes structured and discretionary actions against those banks that exhibit weaknesses in certain predetermined financial and prudential parameters. There are systemic linkages between cooperative banks, systemically important NBFCs, mutual funds and insurance companies. The CFSA report recommended that 'it is desirable in the interests of financial stability that such a scheme may also be evolved and implemented by the RBI for cooperative banks and systemically important NBFCs, by SEBI for systemically important mutual funds, and by IRDA for insurance companies'.

It is also necessary to develop a set of vulnerability indicators to facilitate model-building for providing early warning signals and linking the stress tests to appropriate macroeconomic scenarios. Estimation of economic capital to facilitate the adoption of Risk Adjusted Return on Capital (RAROC) methodology and dynamic provisioning would strengthen risk management infrastructure in banks.The RBI established a Financial Stability Unit in August 2009, and has recently come out with the first financial stability report (FSR).

Inaugural FSR: Salient observations

- Signs of recovery in the economic growth.
- Gradual withdrawal of stimulus package has begun.
- S&P has recently upgraded its

outlook on India from 'Negative' to 'Stable'.

- Banking sector is adequately capitalised with higher core capital, and sustainable financial leverage.
- Stress tests for credit and market risk reveal banks' ability to withstand unexpected levels of stress.
- Percentage share of low cost current and savings account (CASA) deposits in total deposits is high.
- Stress tests indicate that even in a worst case scenario where all restructured standard advances become NPAs, the stress would not be significant.
- Liquidity scenario analysis shows some potential risk.
- Margins of banks may face pressure from the mark-to-market (MTM) impact on the investment portfolio, increased provisioning requirement and calculation of interest on savings bank deposits on a daily basis from this month.
- While Asset Liability Management (ALM) analysis does not indicate any significant mismatches right now, the increase in credit to long term infrastructure and commercial real-estate projects could result in ALM mismatches later.
- Over-reliance on bulk deposits is a matter of concern, both from cost and liquidity standpoints.
- Balance sheets of households and corporates do not exhibit excessive leveraging.
- Propensity to take unhedged corporate foreign exchange exposures is a potential source of risk to the banks.

While NBFCs were generally able to manage the fallout of the crisis without creating systemic issues, ALM mismatches, credit quality and the flows between NBFCs and other financial sector entities need to be closely monitored. The framework for monitoring and regulating systemically important financial institutions (financial conglomerates) needs to be strengthened. The RBI is in the process of implementing an enhanced framework for regulation and supervision of financial conglomerates in consultation with other sectoral regulators. The real challenge in developing financial markets and products in the future would be the de-concentration of risks from the banking system.

Central counterparties have emerged as critical elements for the smooth functioning of the financial markets and as a means to reduce systemic risk posed by derivative markets. These entities are increasingly becoming systemically important market institutions and need to be regulated more firmly for robust risk management systems. Their capital, margining and collateral requirements need to be assessed from a prudential and systemic stability perspective. Other factors which have a bearing on financial stability are inflationary pressures and expectations, management of government borrowing programme, and capital flows.
It is true that the nature and intensity of the impact of the global crisis on India was very different from that in some of the developed economies. There was no material stress on the balance sheets of banks and NBFCs on account of toxic financial instruments. There were no solvency issues with any of the financial institutions requiring direct financial support from the government.

End-note

There is a concerted and coordinated effort internationally to change and reform the regulatory framework to make the global financial system safe, stable, and resilient. There are a host of issues and initiatives being discussed and debated under the leadership of G-20, FSB, and global code and standards setting bodies like the BCBS, IOSCO, and IAIS to focus the regulatory framework on systemic risk containment. While the discussions continue, broad agreement has been arrived in the following areas:

- More stringent regulatory standards on capital, liquidity and leverage for banks,
- Extending regulatory oversight to unregulated systemically important financial entities such as hedge funds, financial groups etc,
- Recognising and addressing systemic risks arising from the interconnectedness among financial sector entities, and
- Regulation of financial markets and market infrastructure from a systemic risk perspective.

These proposed changes to global regulatory framework, when adopted by national supervisors are likely to increase levels of regulatory capital requirements of banks. This could seriously impact the ability of banks to provide credit for economic growth. Thus, the critical challenge would be to balance the needs of financial stability while ensuring adequate flow of credit to the real economy. It is important to undertake a quantitative impact assessment and calibrate regulatory policies to mitigate any adverse impact on lending to the real economy.

TECHNOLOGY FOR NEW AGE BANKING

Trends and Opportunities in 2010

The Confederation of Indian Industry (CII) and PricewaterhouseCoopers (PwC) recently conducted a joint study to assess how banks are leveraging technology to drive business growth and gain competitive advantage over their peers, after the downturn. We present here an abridged version of the 32 page research report titled 'Revving Up New Age Banking with Technology'. Interested readers may find more details at com/in/en/publications/Revving-up-new-age-banking-with-technology.jhtml –Ed.

2009 was a year of immense challenges across the financial world, but it appears that the worst is finally behind us. As we emerge out of the recessionary climate, there is a marked change in the perception of IT as a function; with a general consensus among banks across the board that technology would serve as a key enabler in helping banks meet their strategic objectives. The report highlights four perspectives that are going to affect technology spend by Indian banks in 2010 - risk and compliance management, current technology usage, customer centric measures and new initiatives.

The survey findings reveal that in the current banking scenario, loan growth in the banking system, as mapped at end January 2010 is well above the multi-year low (9.7 percent in October 2008). Infrastructure loans are expected to be the key driver for loan growth this year as against the agriculture sector that witnessed the fastest growth until last year. Infrastructure loans have contributed in a major way to the growth of industry loans. They accounted for 72 percent of incremental addition to industry loans in 2009. Outstanding loan approvals towards infrastructure continue to be high.

On the other hand, a decline is also reported in personal loan growth, where the credit card segment seems to have been affected the most.

The key concern areas for banks this year would primarily be non-performing assets (NPAs) and treasury income. Asset quality remains a concern among most banks, even though the pace of slippages is declining. Recognition of NPAs in the agriculture segment (default of loans covered under the farm loan waiver scheme) aggravated the rise in NPAs for several banks. Rising bond yields impacted the treasury operation whereby a declining trend in treasury profits was witnessed across banks.

Technology usage

Innovative technology is the 'in' thing

Technology is perceived as a strategic function, to help meet a bank's objectives in most areas of operation. Last year, change in the nature of delivery of products and services far preceded other factors in impacting the technology landscape. However, this year new technology innovations are predominantly the driving force for IT adoption in banks. So much so that even much greater complexity of regulatory and compliance requirements and security threats have been perceived to have lesser impact. The report says that as high as 86 percent of respondents believe that IT is a strategic function to help meet the organisation's objectives in most areas of operation. This is a drastic change in view of the role of IT, as the number of respondents who feel IT helps improve efficiency and reduces costs, has reduced to more than half when compared to last year. The latest IT trends highlight that supporting drivers for technology innovations like business process management, enterprise service hubs, blade servers, and unstructured data aggregations are likely to be perceived as a strategic function in banks.

Outsourcing gains acceptance

Survey also reveals that the market of outsourcing and shared services is likely to be bigger in 2010 as more private and also public sector banks opt for these services. As compared to last year, the response towards IT operations outsourcing has improved considerably. The major positive response is from the private sector, where as much as 86 percent of the banks are evaluating outsourcing. The numbers are still lower in the public sector where only 33 percent consider evaluating outsourcing and shared services. Both private and public sector banks put together, the response towards evaluating cost reduction through shared services or

outsourcing stands at 64 percent. Economics is still a major criterion for outsourcing/shared services. Outsourcing of non-core functions is seen as a key enabler for converting capital expenditure into operational expenditure. Both the sectors have so far outsourced low value-add services only.

According to PWC, many outsourcing deals collapse before the contract ends, citing rising costs and mistrust between service providers and customers, thus implying that saving money is not a sound reason to outsource. At the same time, factors that support business growth like access to talent and capabilities and maximising business model flexibility are key drivers. Nonetheless, leading outsourcing customers and service providers are shifting from traditional to collaborative business models.

Banks need better information management systems

The survey responses depict that there is a clear need for better and sophisticated information systems management in banks and this is likely to be one of the major IT areas in which banks are expected to invest this year. Data quality and completeness - with banks grappling for accurate customer data and a single view of the customer, are reported to be key challenges for Indian banks today.

Only 7 percent of the total respondents rated their information management systems as highly sophisticated with the presence of an Enterprise Data Warehouse (EDW) and system driven reporting and analytical capabilities. 36 percent of the respondents rated their information management system as advanced but lacked analytical capabilities, while the rest still have only a basic information management system.

Since quality of data available is the backbone of any well-informed decision, it is imperative that banks focus on improving data quality. According to the report, banks today face more problems with data quality than data availability. Only a mere 22 percent of the respondents confirmed having complete and accurate customer and accounts related data with a single version of truth across source systems, whereas 57 percent respondents reported that although they had clean data, there was no single version of truth across source systems. For the remaining, data was complete but lacked accuracy and had multiple versions of truth across source systems.

With regard to data availability, 64 percent respondents rated it as good with all the information required by the management available from an organised data source, while the rest lacked an organised data source and information was available to the management by reconciling data from multiple source systems.

Risk and compliance management

Banks have treaded the path of investing in technologies for Basel II and regulatory compliance, with most banks under the process of implementing Basel II solutions for regulatory compliance. Risk and compliance needs are definitely a priority for banks as RBI has announced the application timeframe/deadline for Basel II advanced approaches. To address the requirements almost half the respondent banks have taken an approach of a mix of in-house developed tools. The absence of a comprehensive suite of risk management tools is the major cause of concern for most of the banks today. More than half of the banks are reported to be investing in credit risk and integrated risk management technologies.

In their survey, PWC specifically asked the banks about Basel II implementation as well as the state of regulatory compliance. The results show that 14 percent of the banks have responded that they have already implemented Basel II and almost 80 percent said that regulatory compliance technologies are under implementation. Figure 1 clearly shows the key regulatory compliance technologies which banks have or plan to invest in.

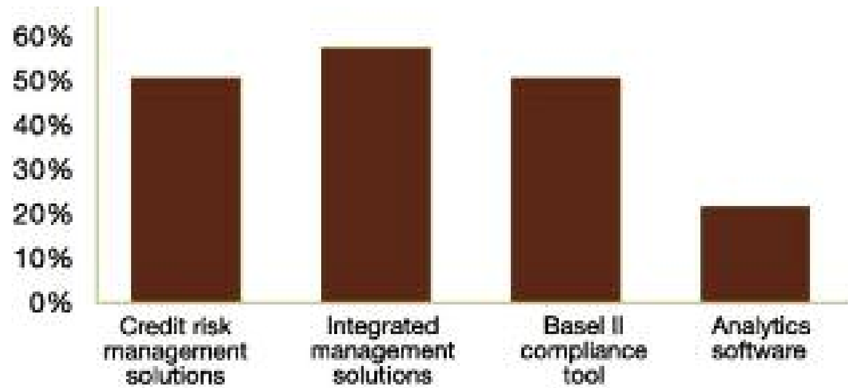
Technology is envisaged to play a pivotal role in managing the 3 pillars of operational, credit and market risks, in a multitude of functions. PWC in their survey, asked banks how technology can play a role in managing the above identified risks. The responses are discussed briefly below:

- Most of the respondents believe that advanced and sophisticated systems are required to meet operational risk challenges in enterprise-wide deployments, data security and identity management.
- For credit risk management, most banks use the online interface of CIBIL whereas some in house systems have also been developed to interface with CIBIL at more mature information systems. Few banks

have also developed in-house systems and rating models for managing credit risk.

- Banks have identified the role of technology to be of major importance in managing the third pillar, business risk. Technologies like business intelligence, analytics and other data mining techniques will also provide competitive advantage to banks.

Figure 1: Investments in regulatory compliance technologies



Customer centric measures

Customer centric growth is recognised as the key to combat the competitive market scenario post the downturn. There is focus on growth in customer base through acquisition, as well as retention of existing customers and increasing their relationship value through an increased share of wallet. Banks are redefining their focus from their product lines to a comprehensive single view of the customer.

According to the survey, customer centric measures ranked at the top, with all the respondents ranking it as a most important measure to combat competitiveness. New products and functionalities followed as the second most important strategy for gaining that extra competitive edge, while internal efficiencies and inorganic growth were considered having lesser impact in combating competitiveness.

In these trying times when building new customers is tough, it is of paramount importance that banks have systems in place to perform proper data analysis to identify business potential. This is where technologies such as data warehousing/mining play a critical role. While majority (almost 80 percent) of the respondents had invested in a CRM solution, surprisingly only 71 percent of the banks actually measured their return on investments on these initiatives. The key CRM modules that are owned by banks are exhibited in Figure 2.

Moreover, the survey revealed that while operational CRM would help banks streamline their delivery channels, CRM packed with the power of Business Intelligence would provide the banks with more actionable information for enhanced decision making. Data warehousing and data mining can help banks identify the right customers for particular products.

Banks are pushing hard for an increased share of customer wallets to drive their organic growth, and many banks are focusing their strategies (and technology investments) on 'raising the bar' in their delivery channel and distribution capabilities. However, many believe that banking products are easily copied commodities with marginal differentiation in the hearts and minds of customers.

In the banking industry today, competition makes it difficult for banks to show differentiation and even harder to show profits.

In this situation, competitive advantage will be derived by those banks that effectively leverage their processes and systems around customers and channels in order to deliver innovative products and services, thereby retaining the customer and enhancing lifetime value.

New initiatives

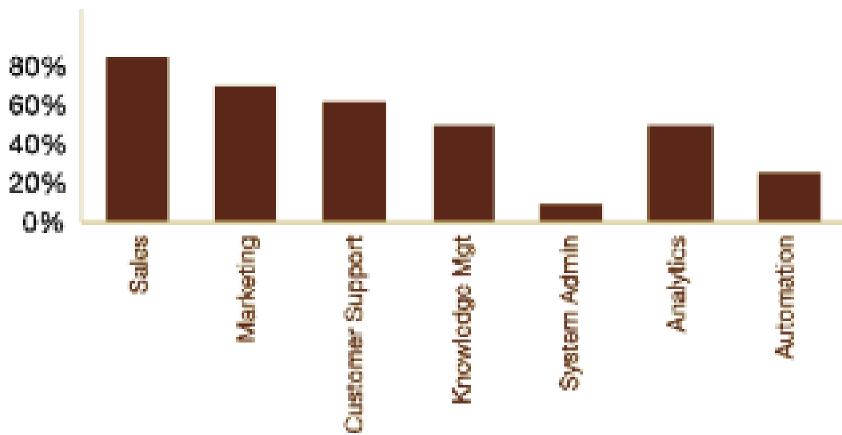
Centralisation is the key

Centralising cash management is viewed as the key to increasing efficiencies in bank processes by offering improved visibility and control over cash. However, very few banks have actually implemented payment factories at this point of time.

The inclusion of asset tracking as part of the payment factory will lead to greater efficiency and control in managing the assets of the bank.

Banks, which are part of a large corporate group, are planning to extend this concept and operate as a shared service centre for the entire group.

Figure 2: Customer relationship management modules owned by banks



Going green

The green initiative is touching almost every aspect of business. Banks as corporations have also taken a lead in reducing their carbon footprint by introducing several initiatives such as moving to paperless and online transactions, using power efficient hardware, offering innovative products such as green mortgages, etc.

With mobile banking picking up momentum, the green initiatives of the banks will get a boost. Contactless transaction in the near future will eliminate the paper involved in retail transactions. More than 70 percent of banks that PWC interviewed, had climate change as a part of their agenda, with online banking and less paper work as environment friendly initiatives.

Profitable channels

Banks have always strived to understand their profitable channels, customers and products. With the advent of core banking, identifying customer segments, channels and products became simpler. However banks still struggle to determine profitability at a customer level.

Rural banking

With focus shifting to alternate customer channels, rural channels have become crucially important for banks. 30 percent of the banks had a rural base of 10-25 percent while another third of the banks had a base of 25-50 percent in the rural areas. Innovations such as Biometric ATMs and Banks on Wheels have been adopted by several banks. Banking correspondents have been widely used for increasing the reach. Microfinance, agro-lending, village adoptions, no-frills accounts have been other ways of tapping into the rural sector. Yet, a key challenge in this segment is to win the trust and accessibility of the rural customer.

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Sd/-
T S Chandrasekaran
Publisher

March 1, 2010

K(NOW) AND FOREVER – YOUR CUSTOMER!

Anthony Sequeira

'Time for mankind, used to be earmarked by two significant denominations, AD and BC – now there is a third; 9/11' - a loosely translated narrative from the main protagonist, Rizwan Khan of the international record breaking Bollywood movie, 'My Name is Khan'.

KYC – origins

Seldom does a Bollywood film dialogue apply more accurately to global financial transactions and international banking than this one. Post the 9/11 terrorist attacks on the World Trade Centre, Osama Bin Laden's laundered funds' trail led to unpublished accounts of Clearstream, a Luxembourg based clearing house, with account records of Bahrain International Bank. The money laundering trail revealed how the terrorist's activities were being funded with complex international financial transactions. The estimated magnitude of the money laundering menace is in the vicinity of a staggering $800 billion to $1.5 trillion a year (2 to 5 percent of the World's GDP).

Combating terrorist financing rose to a crescendo post 9/11 with the war on terror, and based on legislative mandates such as the USA Patriot Act 2002 financial service providers began to view Know Your Customer (KYC) as a priority risk mitigating function rather than a recommended course of action.

KYC legislation was principally not absent prior to 9/11. Regulated financial service providers since the early 1990s have been required to conduct due diligence and customer identification checks in order to mitigate their own operational risks, and to ensure a consistent and acceptable level of service. The USA Patriot Act effectively provided federal regulators with a new range of tools and powers for fighting terror financing and money laundering and was in effect a firmer and more extensive articulation of existing laws.

KYC – what, how and why?

In accordance with the updated KYC legislation, federal regulators would hold financial institutions accountable for the effectiveness of their initial customer identification and ongoing KYC screening. Institutions were required to keep detailed auditable records of the steps that were taken to verify prospective clients' identities.

To that effect, KYC is the regulatory compliance mandate imposed on financial service providers to implement a Customer Identification Programme and perform due diligence checks before doing business with a person or an entity.

Essentially KYC guidelines follow a four-pronged approach:

- *Customer acceptance policy:* All banks shall develop criteria for accepting any person as their customer to restrict any anonymous accounts and ensure documentation mentioned in KYC.

- *Customer identification* procedures: Customer to be identified not only while opening the account, but also at the time when the bank has a doubt about his transactions.

- *Monitoring of transactions:* Identifying an abnormal or unusual transaction and keeping a watch on higher risk group of the account is essential in monitoring transactions.

- *Risk management:* Managing internal work to reduce the risk of any unwanted activity. Also, managing responsibilities, duties and various audits along with regular employee training for KYC procedures.

KYC – where?

When the US banking and financial sector sneezes, the world economy comes down with flu and so the new stringent norms trickled down strongly and rather quickly across the globe. Anti-money laundering (AML) compliance strategies used by some of the other countries include effective legal framework and tax systems, sound financial institutions, efficient tracking and monitoring systems to identify irregular financial transactions.

Few of the key laws relating to money laundering in some major countries are enumerated below:

USA

USA Patriot Act 2001; Money Laundering and Financial Crimes Strategy Act 1998; Annunzio-Wylie Anti-Money Laundering Act 1992; Money Laundering Control Act 1986; Bank Secrecy Act 1970.

UK

Money Laundering Regulations 2007; Proceeds of Crime Act 2002; and Terrorism Act of 2000.

Germany

Section 261 of the Criminal Code 1998; Money Laundering Act of October 25, 1993.

Australia

The Anti-Money Laundering and Counter Terrorism Financing Act 2006.

Malaysia

Anti-Money Laundering Act 2001.

India

The Prevention of Money Laundering Act 2002.

Comply to KYC norms or else ...

Quite a few finance houses realised the criticality of KYC and the cost of not taking KYC norms seriously the hard way.

- The Office of the Comptroller of the Currency (OCC) imposed a $41 million fine on a bank for violating AML laws by failing to report suspicious activity in its embassy banking division.
- A financial institution was fined $80 miilion by Financial Crimes Enforcement Network (FinCEN) for poor monitoring that allowed $3.2 billion to move from Russia to US shell companies. Wire transfers to sanctioned countries were also uncovered.
- FinCEN also fined a bank $40 million for failing to report suspicious activity related to an illegal AML scheme and lacking appropriate controls.
- The Indian central bank, Reserve Bank of India (RBI) has penalised several Indian and multinational banks between INR 2.5 to 0.5 million for flouting KYC norms over the last decade.

The challenges

While financial institutions clamored to meet these regulations, it had its fair share of detractors which included top management from banks complaining that the KYC compliance mandate, for all its positive outcomes, has burdened companies and organisations with a substantial administrative obligation. Additionally, KYC norms entailed the creation of auditable proof of due diligence activities, beyond the need for customer identification.

Money laundering racketeers have always played a cat and mouse game with such compliance regulations, often emerging a step ahead. Formal banking channels have been bypassed by underground banking channels like 'hawala' in India and Pakistan and 'fie chen' or 'flying money' in China. Given the fact that rising number of banking transactions are multilingual, multi-currency, multi-country and that money has achieved 'megabyte' status (as now defined by software symbols), money laundering has only proliferated; thanks to open borders, privatisation, free trade zones, weak states, off shore banking centres, electronic financial transfers, smartcards and cyber banking. Smurfing and kiting are some of the new avatars of money laundering.

The absence of uniform stringent international KYC guidelines and mandated compliance to the same only leads to financial bodies implementing largely manual processes driven by handoffs between the new account opening, client identification and upgraded due diligence units. These 'reasonable' AML compliance implementations often also need to deal with multiple data sources, potentially complex customer credit risk scoring, continually changing requirements, complex compliance responsibilities, multiple organisation entities and lines of business/product offerings across multiple countries each with different compliance requirements and the absence of a single unique identifier of personal information such as a social security number in most countries. Combine that with ever growing volumes, a constantly evolving financial offerings basket and mergers and acquisitions in the banking space - a certain recipe for expensive, inconsistent, inefficient compliance solution implementation.

'Killing your customer' is the expansion that bankers often like to pass off the KYC acronym for, given that it saddles business development with bottlenecks as is evident while catering to multi-staffing companies, low wage/migrant worker population,

cash payments etc. However, this is only short-sighted thinking. KYC processes and compliance have a broader benefit to the financial institutions and to the financial business community in general.

KYC compliance shifts towards a risk mitigation strategy

Over the last decade, a paradigm shift has been observed in the way AML and KYC compliance has been viewed; from a traditional defensive function primarily for mandatory checklist reporting and such regulatory compliance to a podium on which the integrity and market reputation of any financial organisation stands. There is now a shift in focus towards compliance as a risk management tool in the way financial institutions approach money laundering as a form of terrorism financing. At the helm of such a risk based approach is the identification of the risk as the financial institutions are most susceptible to it and then letting that drive the selection of the right risk mitigating tool - a compliance solution from a vendor with known expertise in the same.

Compounding difficulty of the selection

For the currently existing KYC norms or its resemblance at the financial institution – does one remedy it, upgrade it, use internal resources to run the project or outsource it completely?

With the current technology ecosystem - disparate database landscape holding key detection information, different entities, business lines, countries – does the focus remain on creation of monolithic databases or work with analytics massaging data mountain to enable better pattern visibility? Do financial institutions evaluate a single flexible framework across all business lines and countries that intelligently aligns all dotted data to ensure KYC process automation or create individual silos with manual interventions of a trained compliance battalion?

Since much of the process is about handling content; data, imaged documentation, audit trail reporting; such solution often involves the amalgamation of broader, seemingly unrelated technologies like CRM, workflow, content management into a single AML program. The heart of the selection lies in the organisational fit of the solution in its current landscape which is compliance and technology oriented around the compliance norms mandated.

In the face of new Basel II and Sarbanes-Oxley compliance frameworks, a flurry of activity has been initiated but it seems to be in meeting rooms involving compliance officers and technology heads at most banking organisations. Pressure to adhere to the norms have led many to adopt quick-fix solutions to meet the immediate compliance norms with a promise of looking up more robust, comprehensive programs driven by a risk based approach to compliance in Phase II.

All this is towards making sure that next time a Rizwan Khan or a Steve Kahn walks into any bank anywhere in the world and declares ‘My name is Khan and I am not a terrorist’, KYC compliance systems can kick in to check his claim and create a saving account for him.

Biography

Anthony Sequeira *is the subject matter expert, KYC and AML Compliance Solution Suite, Polaris Software Lab.*

Anthony has been at the helm of the KYC and AML compliance strategic practice at Polaris and handles the Intellect product and solutions for this area. He has done his masters in business administration from Sydenham Institute of Management and with an overall industry experience spanning more than 15 years Anthony brings rich domain knowledge to the worktable that Polaris uses to service its global clients facing KYC and AML compliance challenges.

TIETO EXPANDS OPERATIONS IN INDIA AND CHINA

Tieto Corporation, a Finland based IT services company has recently announced to open new sites in India and China. The increased focus on the two countries is a part of company's growth strategy to expand their footprint and strengthen their operations in Asia. The two new sites are planned in Bangalore, India and in Hangzhou, China. Rajat Chauhan and Patrick Lui have been appointed as the country manager of Tieto India and Tieto China, respectively. The company currently operates through Pune and Hyderabad offices in India. Tieto initially entered India in 2005 by acquiring a company specialising in healthcare IT systems in Pune. It acquired Fortuna Technologies, an Indian research and development company in Hyderabad in 2007. Tieto had started its telecom R&D operations in Bangalore in July 2009. The new outfit plans to integrate the existing telecom R&D operations as many of Tieto's R&D customers have significant presence in Bangalore whereas their Pune centre will primarily provide IT services for selected industries such as financial services. Tieto India is mainly focused on four sectors; financial services, healthcare, welfare and telecom. For the initial market entry into financial services space in India, the company plans to explore their potential in areas like payments, cards and capital markets.

Tieto's key offerings in the banking space include wide range of solutions and services in core banking, cash management, payments, cards and electronic banking. One of the more popular

Hannu Syrjälä

solutions is their Global Payment solution, an integrated and scalable solution, composed of various independent modules, that supports all forms of multi banking requirements. The standalone components of the solution which can be implemented independently are based on thin web-based clients for all user interfaces. Their banking solutions have been implemented by several banks in Norway, Sweden, Denmark, UK, USA, Germany, Spain including Malaysia and Hong Kong in Asia.

Founded in 1968 in Finland, the company has made several mergers and acquisitions, the merger with Enator AB, a Sweden based company in 1999 being the last when it became TietoEnator. In 2009, the company changed its name to Tieto Corporation. It has over 17,000 employees spread over offices in 30 countries. Tieto is active globally with offices in more than 30 countries currently.

Here are the excerpts of an exclusive interview with Hannu Syrjälä, president and CEO, Tieto Corporation.

CRO: What are the major drivers for your renewed focus on the Indian market?

Syrjälä: As the IT industry continues to go global, the significance of standardised services and efficient service provision will rise. To answer this trend, we are transforming Tieto into a horizontally integrated company with strong global delivery centres that boost cross-border growth and cooperation. Our ramp-up of global delivery capacity will continue, especially in India and in China.

Our established presence in India enables us to serve our customers flexibly and cost-efficiently. Combining our local onsite talent and capabilities with our off-shore resources brings great growth opportunities for us and for our customers. Many of our telecom customers have markets in India and we want to be there to serve their needs. We believe that in the near future Asia will be one of the biggest sources of new business for them.

CRO: What are the key features of your eBanking Suite?

Syrjälä: In addition to basic Internet banking, which is self service functionality like accounts, cards and payments, our eBanking Suite offers elements that make transactional Internet banking a sales tool for the banks bringing new revenue streams. Furthermore, latest functionality can provide end users financial advisory based on their profile,

behaviour and banking data as well as categorised transaction. The suite's multi-channel platform enables our customers to provide seamless service to end users across different channels and devices.

CRO: Does the solution need to be customised according to each client's geographical footprint?

Syrjälä: Tieto's eBanking Suite is suitable for different brands, languages, countries, currencies and suits various roles, devices as well as channels. Our customers can create customised solutions for the end users depending on local market needs. The solution has been the backbone of major banks that are highly competitive and mature financial institutions of the Nordic region.

CRO: What are the major Tieto banking solutions that would be made available for the Indian market?

Syrjälä: At the moment, there are no concrete plans for market entry. Areas like payments, cards and capital markets are the ones where we see a potential and would most likely be the first ones to be made available for the Indian market.

CRO: Which partners do you work with for providing banking solutions?

Syrjälä: We are not tied to any specific partners. The fact that we have several partners means we can bring the best fit to our customers. Tieto professionals have integrated banking solutions to several players' solutions.

CRO: What role will the Bangalore outfit perform for Tieto? Would it also undertake marketing and business development activities?

Syrjälä: Bangalore delivery centre is an extension to Tieto's global R&D footprint and provides customer closeness and talent pool for capturing multi-site and local opportunities among our existing customers. By having presence in Bangalore, Tieto is aiming to expand its customer base within telecom R&D as many of the target customers have operations in the city.

Business development for global customers is managed centrally to achieve greater consistency and effectiveness. In Tieto, we have an integrated approach to marketing and business development and our decision-making follows a process that ensures all stakeholders are involved and committed. In this respect, the physical location becomes irrelevant.

CRO: Which products or solution lines are being supported by the Bangalore and Pune offices and for which markets/regions?

Syrjälä: Our Pune centre has a global role in Tieto's network and concentrates primarily on IT services for select industries such as financial services. Bangalore will focus on telecom R&D, especially on devices R&D. We are currently proactively ramping up capabilities in smartphone platforms like Symbian and Mobile Linux. As India is not only a devices market but also a large services market for many telecom original equipment manufacturers (OEMs), Tieto is actively strengthening its capabilities in this area also. In the future, the boundaries could blur depending on the customer needs.

CRO: What are the major geographies that you have plans to focus on, in next two-three years?

Syrjälä: Northern Europe, Germany and Russia are our main markets, of which Finland and Sweden are the largest. We constantly evaluate our business portfolio and also explore new potential go-to-market countries. One of these is Poland, which is clearly a robust market for our offerings.

CRO: Do you also plan to set up more regional offices in APAC region in future?

Syrjälä: The importance of Asia has been growing during the past years and this is why we have now decided to open new offices in Bangalore, India and Hangzhou, China. Additional new offices are not ruled out, but at the moment we are focused on ramping up the two newest sites.

CRO: What are Tieto's future plans to enhance its presence in Indian financial market?

Syrjälä: We are in the process of investigating the market and its potential for us. Simultaneously we are building a competence centre of financial services in our Pune site.

CRO: What according to you are going to be major areas of IT spending by banks in emerging markets like India and China, in next couple of years?

Syrjälä: We believe that the major spending will occur in the areas of payment solutions eg cards and mobile payments. Wealth accumulation as a driver may lead to growth and investments also in capital markets and wealth area.

CIO STRATEGIES INDIA FORUM

A two-day forum, 'CIO Strategies India' was organied by Naseba on March 18-19, 2010 at Grand Hyatt, Mumbai. The 4th annual CIO Strategies India forum highlighted IT leaders' priorities and the challenges they face in their roles as decision makers.

The panel discussions at the forum focused on the top priorities of CIOs in 2010; the role of cloud computing as the preferred business platform; the role of CIOs in enterprise environmental sustainability; embracing a dynamic business network to create smarter organisations; challenges in adopting new technologies; and creating a leaner business process flow to optimise the supply chain.

Adobe and Salesforce contributed to the forum by hosting knowledge sharing workshops. Adobe focused on LiveCycle solutions for enabling intuitive user experiences by lowering costs, enhancing productivity and streamlining processes. Salesforce provided insights on the benefits of cloud computing for enterprises and its value in reducing costs, improving efficiency, and accelerating business.

Akamai, Singapore Telecommunications, Plantronics, Verint, Alcatel Lucent, Citrix, Lifesize, Mphasis, APC by Schneider Electric, BakBone, Trignon, Emptoris, BOB Tech Solutions, Netex.es, and RedHat were the other leading IT solution providers that partnered with Naseba for the event.

The forum gathered over 175 key IT decision makers from India's leading companies at an exclusive knowledge sharing platform. Key speakers at the forum included Sandeep Phanasgaonkar, president and chief technology officer, Reliance Capital Ltd; Sumeet Vaid, chief executive officer, Freedom Financial Planners; Laxman Badiga, chief information officer, Wipro Technologies; Vikas Gadre, chief executive officer, Tata Chemicals – Biofuels; Pravir Vohra, group chief technology officer, ICICI Bank; Ajay Dhir, group chief information officer, Jindal Steel; Satish Pendse, chief information officer, Hindustan Construction Company; Dr Sumit Chowdhury, chief information officer, Reliance Communications; and Aruna Rao, chief technology officer, Kotak Mahindra Group.

The latest industry trends highlighted at the forum included cloud computing, green IT, intuitive user experiences, unified communications, optimising network performance, improving web infrastructure performance, decision management, reducing costs associated with IT integration, risk management and IT governance, enterprise data storage, customer relationship management, Web 2.0 communication and collaboration, business process management, business intelligence, and enterprise application integration. Other notable speakers, panellists and moderators included Sunil Pandita, business head, Adobe Systems; Mani Mulki, executive vice president, information systems, Godrej Industries; David Briskman, chief information officer, Ranbaxy Laboratories; Rakesh Bhatt, chief information officer, Bajaj Finance; Upal Chakraborty, chief information officer, DLF India; Hari Misra, managing director, Finsight Media; Rahul Neel Mani, editor, CTO Forum; and Asmita Junnarkar, chief technology officer, Voltas Limited.

Naseba also celebrated the achievements of India's leading IT thought leaders and rewarded them at the Top CIO Awards 2009-2010 ceremony, held on March 18, 2010 at Grand Hyatt, Mumbai. Winners of the Top CIO Awards 2009-2010 included:

- Laxman Badiga, chief information officer, Wipro Technologies
- David Briskman, chief information officer, Ranbaxy Laboratories
- Vikas Gadre, chief executive officer, Tata Chemicals – Biofuels
- Dr Sumit Chowdhury, chief information officer, Reliance Communications
- Pravir Vohra, group chief technology officer, ICICI Bank
- Arun Gupta, group chief information officer, Shoppers Stop
- Sunil Mehta, SVP and area systems director - Central Asia, JWT
- Jai Menon, group chief information officer, Bharti Enterprises

Commenting on the forum, Mohammed Saleem, general manager – India, Naseba said, 'The 4th annual CIO Strategies India forum provided a platform for IT decision makers from across industries to share knowledge and gain insights on the latest industry trends for achieving operational excellence with superior business-IT alignment.' He also proposed a vote of thanks.

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Measuring, Quantifying & Modeling Operational Risk

The Advanced Measurement Approach

Utilizing advanced operational risk management tools to predict future risks and losses better

29 - 30 June 2010, Singapore

HIGHLIGHTS

- Building an incident database by overcoming the lack of data and data validity challenges
- Analyzing if the operational risk computation supports the risk management framework
- Complying with the qualifying criteria of AMA
- Using the right and justifiable assumptions for Scenario Analysis
- Addressing AMA implementation problems with Basel II

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