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November 2013

Velocitates

commentaria from the SWIFT Institute

The SWIFT Institute

Welcome to the final issue of Velocitates for 2013! One of the core tenets of the SWIFT Institute is the dissemination of knowledge and information, and through this quarterly newsletter that is exactly what we will do.

The year is rapidly drawing to a close, and what a year it's been. In our first full year of being up and running, the SWIFT Institute has issued 14 research grants, seen five of those completed with working papers published, and held two conferences bringing academia and the financial industry together. On top of that there was a very successful Sibos in Dubai, and two more research grants to be issued by the end of the year.

The past few months have seen four new working papers published. You can download the papers on Common Financial Language, RMB Internationalisation, New Regulations and Collateral Requirements, and Financing of SMEs from our website.

Sibos, the annual financial services event organised by SWIFT, was held in Dubai in September and was a huge success. Professor Jonathan Batten presented the RMB Internationalisation research, whilst Professor Alistair Milne presented the Common Financial Language research. You can read about both sessions below.

Sibos also had Financial Inclusion on the agenda, being the subject of one of the two Big Issue Debates that week. This session followed on from the SWIFT Institute's first conference, held at the Harvard Kennedy School earlier this year, on this very subject.

Our hot topic article this month looks at women in the financial industry, and asks 'What will it take to get more women onto Boards' of financial firms? We spoke to Tom Kirchmaier, who along with Renée Adams, received a SWIFT Institute research grant earlier this year to study gender diversity in finance. We also spoke to Lieve Mostrey from Euroclear and Ann Cairns from MasterCard, who provided their perspectives on the subject from within the industry.

We recently issued Calls for Proposals on the topic of Standards & Big Data. A large number of submissions were received all proposing very interesting research ideas. In the end we could not pick just one, so we have issued two research grants in this area. Both will be presented at our

Standardisation conference to be held in London, March 2014. The details of these two research grants will be announced on our web site soon.

And to close out the year, we have just issued two more Calls for Proposals, on the *Transformation of the European Securities Settlement Landscape*, and *Capital Market Value Chains in Asia and the Role of Automation in the Post Trade Environment*. I look forward to receiving your submissions for both of these. We will announce the details of these grants in January.

Best wishes for the new year ahead. See you in 2014!

Peter Ware

Topics in this issue
[News](), [Hot Topic](), [Research](), [Conferences](), [Coming Soon]()

News

Sibos Wrap-up

In September 2013 more than 7,600 financial industry professionals gathered in Dubai where this year's annual Sibos conference was held. The SWIFT Institute organised three sessions. The first two saw new research presented on Common Financial Language and RMB Internationalisation. The third session, one of the main plenary sessions at Sibos, was on Financial Inclusion and came about as a direct result of the SWIFT Institute's conference on the topic held at the Harvard Kennedy School earlier this year.

The following three articles originally appeared in Sibos Issues, published daily during Sibos. The articles on Common Financial Language and Financial Inclusion provide coverage of the Sibos sessions, whilst the RMB Internationalisation article was a preview ahead of the session.

Left to right...

- Alistair Milne, Professor of Financial Economics at Loughborough University School of Business and Economics
- Peter Ware, Director, SWIFT Institute
- Dr. Seung Jae Lee, Advisor, Office of Regional Economic Integration, at the Asia Development Bank

COMMON FINANCIAL LANGUAGE
Common language faces regulatory hurdle
Divergent laws and regulation hold back development of common financial language

Instead of attempting to create an overarching common financial language (CFL), the securities industry should create multiple, sector-specific languages, speakers on Monday's 'A common financial language for the securities industry' session, said. Seung Jae Lee, secretary of the ASEAN+3 Bond Market Forum initiative for the Asian Development Bank said building an effective common language would hinge on the industry resolving underlying regulatory issues.

Click [here]() for the full Sibos Wrap-up article on Common Language.

RMB INTERNATIONALISATION

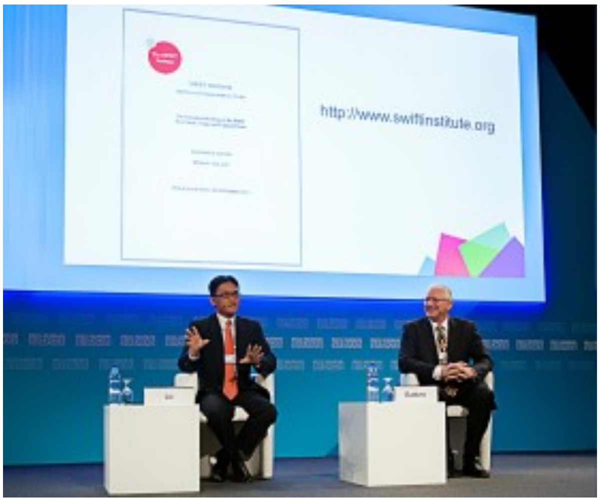
Opening China's capital account is only half the story

Nearly four years after the first push to internationalise the Renminbi (RMB), Chi Lo, senior strategist for Greater China, BNP Paribas Investment Partners, and a speaker at the session on RMB internationalisation discusses why momentum has stalled and what China needs to do next.

How has the internationalisation of the RMB to date been influenced by regional and global macro economic developments?

Chi Lo: The internationalisation of the RMB has not been influenced much by global economic and monetary developments, be it quantitative easing in the US or the European debt crisis. I think it's because, firstly, the RMB has not been a major currency on the world financial stage. And secondly, China still has a closed capital account. This means international events don't really affect China directly. Asia is where the momentum of the RMB internationalisation comes from. Outside of Asia there is only limited usage of RMB for trade.

Click here for the full Sibos Wrap-up article on RMB Internationalisation.



Left to right...

- Chi Lo, Senior Strategist for Greater China of BNP Paribas Investment Partners
- Jonathan Batten, Distinguished Professor of Finance, Monash University

Left to right...

- Ann Cairns, President, International Markets – MasterCard
- Osama Al Rahma, Director – Al Fardan Group and General Manager – Al Fardan Exchange
- Shri K.R. Kamath, Chairman, IBA and Chairman & Managing Director, Punjab National Bank

FINANCIAL INCLUSION

Financial inclusion: a virtuous circle - Banking is not global while half the world's population remains unbanked

Digital payments delivered on mobile technology promises to bring banking services to the unbanked and underprivileged, slashing the costs of payments services and helping raise people out of poverty

Leveraging mobile technology will be vital to extending financial inclusion to the world's poor and underprivileged, with the potential to introduce as many as 2.5 billion 'unbanked' people to financial services.

For panellists at Tuesday's plenary session on financial inclusion and the role of payments, supporting technology for payments was seen as a

- Rodger Voorhies, Director, Financial Services for the Poor – Bill & Melinda Gates Foundation
- John Owens, Senior Policy Advisor – AFI (Alliance for Financial Inclusion)

vital first step to introducing people in the developing world to the broader universe of financial products. "Payments are the connective tissue that can help onboard the world's poor into other financial services," stated Rodger Voorhies, director of financial services for the poor at the Bill & Melinda Gates Foundation.Financial services play a major role in bringing people out of poverty, Voorhies said, by pro- viding opportunities and buffering people against risks that can change lives for the better.

Click here for the full Sibos Wrap-up article on Financial Inclusion.

Sibos 2014 - Boston

Sibos 2014 will take place at the Boston Convention & Exhibition Center from 29 September to 2 October.

Founded in 1630, Boston, Massachusetts, is one of the oldest cities in the United States. Today, the Greater Boston Area, home to 4.5 million people, is the tenth largest metropolitan area in the US.

Boston is a global financial and educational hub, and among the top 30 most economically powerful cities in the world. It comes as no surprise then that it is also a frontrunner when it comes to high-tech innovation, making it the fourth largest cyber-city in the country.

Metropolitan Boston has 58 colleges and universities, whilst in the Greater Boston area the number increases to more than 100. It's no wonder then that this city of great intellectual influence led William Tudor to dub Boston "The Athens of America" in 1819. With so many colleges and universities in the area, the SWIFT Institute is planning something special for Sibos 2014. Details will be announced soon.

Registration for Sibos 2014 Boston opens in March 2014.

Boston, or more specifically neighbouring Cambridge, boasts two of the world's highest ranked universities - MIT and Harvard - amongst many others. As of 2013, 846 individuals have been awarded the Nobel Prize, with at least 129 having some affiliation with universities in Cambridge. The links to academia go back centuries, with the city of Cambridge being named after the University of Cambridge in England. Cambridge's early history includes the establishment of Harvard in 1636, the oldest institution of higher education in the United States...older in fact than the country by a full 140 years. Harvard was named after the College's first benefactor, John Harvard, who upon his death in 1638 left his library and half his estate to the institution.

Sovereign-bank Nexus and Collateral Use in OTC Derivatives

by Manmohan Singh, Senior Economist, International Monetary Fund

This article focuses on the role of collateral in the OTC derivative contracts between sovereigns and large banks. Due to the sizable volume of business (and associated revenue), most banks do not force sovereigns to post collateral when the sovereigns are “out of the money” on their derivative contracts. If however, banks are “out of the money”, sovereigns do have to post collateral. The rhetoric about cutting the umbilical cord between banks and sovereigns will not get full traction unless sovereigns post collateral on all their derivatives contracts with banks. Estimates of “out of collateral” positions are not trivial and thus cannot be ignored when discussing the sovereign/bank nexus.

Current market practices for those using OTC derivative contracts results in residual derivative liabilities and derivative assets. By residual we mean after all possible netting has been done within the OTC derivatives book of a large bank and after the (limited) collateral posted on the contracts has been subtracted. Thus, this residual risk captures the shortfall of collateral stemming from clients of large banks not posting their share of collateral to the banks and vice versa - also called one-way CSAs (credit support annexes) rather than two-way CSAs where both parties to the contract post collateral to each other. It is estimated that the 10-15 largest players in the OTC derivatives market may have about $1.5 to 2.0 trillion in under-collateralization for derivative receivables and a similar amount of derivative payables. Such residual liabilities and assets exist because clients’ of large banks such as sovereigns, AAA insurers/pension funds, large corporates, multilateral institutions (e.g. EBRD), Fannie Freddie, and the “Berkshire Hathaway” type of corporates do not post their full share of collateral. They are viewed by large banks as privileged and (presumably) safe clients.

Click here for the full Sovereign-bank Nexus article.

Hot Topic

Women in Finance

One oft-quoted assumption regarding the recent 2008 financial crisis maintains that if more women had sat on the boards of financial institutions during that period, the crisis would not have become so acute. With recent proposals put forward by the EU regarding the imposition of quotas for women in non-executive positions on listed companies, the issue of women in finance needs to be more closely examined in order to distinguish fact from fallacy.

The SWIFT Institute interviewed academic Tom Kirchmaier, Lecturer in Business Economics and Strategy at Manchester Business School and Fellow of the Financial Markets Group at London School of Economics, who has jointly been awarded a research grant by the SWIFT Institute with Renée Adams, Professor of Finance, Commonwealth Bank Chair in Finance at the Australian School of Business, to look at the subject of Gender Diversification. Also questioned were Lieve Mostrey, Executive Director, Chief Technology & Services Officer of Euroclear, and Ann Cairns, President, International Markets of MasterCard, in order to provide differing

Norway tops the charts for the highest number of women sitting on boards with 37% in 2010, compared to 6.5% in the UK and 7.6% in Germany (Investment firms excluded from total figures. Adams and Kirchmaier (2013), “Making It to the Top: From Female Labor Force Participation to Boardroom Gender Diversity”. Norway was also the first country to mandate, back in 2005, that 40% of non-executive board members of listed companies should be women. What is behind Norway’s progressive stance on gender diversity and is it working?

Norway has long had a background of social inclusiveness and history of industry perspectives on the subject of quotas for women on boards. Various senior female global business leaders from within MasterCard also provided their thoughts on diversity, thereby providing a snapshot view from within one global organisation.

promoting gender equality. It was one of the first nations to grant women the right to vote in 1913 and in 1981 it elected its first female Prime Minister, Gro Harlem Brundtland, who championed gender equity. Seventeen years later, Norway has voted in another female Prime Minister, Erna Solberg. Saadia Zahidi of the World Economic Forum claims that Nordic countries continue to lead the way in this area because they have a long history of investing in people: "They are small economies with small populations; they recognize that talent matters, and that talent has to be men and women."

Eight years on, however, and there have been questions on whether quotas are necessarily the right way to achieve gender diversity. The number of women working in the public sector was 71% in 2011, compared with 37% in the private sector, according to Statistics Norway. Men earned 15.7% more on average than women in 2012. None of the 25 biggest companies on the Oslo bourse has a female chief executive, and only one has a woman as chief financial officer.

"I don't think you can use quotas to get more women into the corporate world," Solberg said in an interview with Bloomberg. "You have to give women more opportunities to build better CVs." More research needs to be developed into why, for example, more women in Norway choose to work in the public sector. Childcare, and the flexible hours that need to go with it, are informally cited as reasons. Still, Norwegians now accept women in the upper echelons of the workplace as part of the way of life. "The percentage of women taking part in the labor force increased from some 45 percent to over 80 percent in 20 years," outgoing Finance Minister Sigbjoern Johnsen said in a speech this month. "That is the most forward looking investment that we've done."

PART 1:
Interview with Tom Kirchmaier, Lecturer in Business Economics and Strategy at Manchester Business School and Fellow of the Financial Markets Group at London School of Economics, co-author with Renée Adams of new research paper 'Women in Finance'.

Dr. Kirchmaier believes that if society as a whole wants to improve firm performance, female participation in the workforce is a necessity. The issue regarding the number of women on boards, on the other hand, is more a matter of practicality as it provides a convenient benchmark to study career advancement in women. There are currently only two valid data points to measure this advancement, the first being how many women graduate from university (in 2010-11, 55% of undergraduate students in the UK were women), and the second being the number of women holding board positions (15% of all directorships in FTSE 100 were women). The dramatic decline in numbers raises the question - where are we losing all the women along the way?

...continues in full article.

PART 2:
Questions to Lieve Mostrey, Executive Director, Chief Technology & Services Officer of Euroclear, and Ann Cairns, President, International Markets of MasterCard:

What Will it Take to Get More Women onto Boards?

Two differing perspectives from leading figures in the financial services industry

Ann Cairns, President, International Markets of MasterCard

Lieve Mostrey, Executive Director, Chief Technology & Services Officer of Euroclear

Is it "tougher" to get to the top in financial services?

"Finance can be a great place for women to work. It doesn't have some of the physical challenges of other industries. It is a relationship-based business, combining analytical skills with thoughtful risk-taking. There can be a lot of client interaction and plenty of opportunities for people management. I know lots of women who are great at these things. So skill gaps aren't blocking their way to the boardroom!

I spent a short part of my career in Investment Banking in the 1980s and in the restructuring industry after Lehman Brothers collapsed. This area of banking is volatile, demands long hours and can lead to an unbalanced life. It is not an easy place to work for woman or men that have the demands of families. So I can understand why we see fewer women choosing to build their careers there - although some thrive in the environment."

"All studies that compare sectors show the financial sector as being behind the curve. Whilst not the worst in diversity, we are certainly not the best. It is difficult to pinpoint the factors that yield such results, although there are certainly areas in finance where the culture is very macho and high in testosterone, such as trading. The reward model of the sector makes it more competitive.

More research needs to be done in this area since some sectors (e.g. construction, heavy industry) have a challenge of attracting women in the first place. In finance, however, the inflow is balanced - talent is lost along the corporate ladder."

Read full topic discussion

Research

Four New Working Papers Published

It's been a busy few months with four research projects completed and the resulting working papers published; two of which were presented at Sibos in Dubai.

The Prospects for Common Language in Wholesale Financial Services

- Malcolm Chisholm - AskGet Consulting

The name of the SWIFT Institute newsletter, Velocitates, comes from the Latin velocitas meaning swiftness, and in our case the plural, therefore swiftnesses. Velocitates appeared in print in the early

- Alistair Milne - School of Business & Economics, Loughborough University

The Internationalisation of the RMB: New Starts, Jumps and Tipping Points

- Jonathan A. Batten - Department of Banking & Finance, Monash University
- Peter G. Szilagyi - Judge Business School, University of Cambridge

New Regulations and Collateral Requirements – Implications for the OTC Derivatives Market

- Manmohan Singh – Senior Economist, the IMF

Financing the SME Value Chains

- Asad Ata, Manish Shukla and Mahender Singh, Malaysia Institute for Supply Chain Innovation

Our sincere thanks to all of the researchers above, for their efforts and hard work over the past year.

Two New Grants Issued: Standards & Big Data

Details of these grants will be available on our web site soon.

Two New Calls for Proposals Issued:

- Transformation of the European Securities Settlement Landscape - download
- Capital Market Value Chains in Asia and the Role of Automation in the Post Trade Environment - download

1700s in the world's first scientific journal; The Philosophical Transactions published by the Royal Society of London for Improving Natural Knowledge. The journal's aim was, and continues to be, to inform readers of the latest scientific discoveries. A worthy aim, and a goal the SWIFT Institute will strive to emulate.

Research Underway

Unit Cost of Financial Services
Network Liquidity Effects (two separate studies)
Impact of the Development of FMIs on Economic Growth in Developing Countries
Cybercrime
Gender Diversity
Regulatory Compliance - Extraterritorial Challenge
Standards & Big Data - 1
Standards & Big Data - 2

For more details visit our web site.

Completed Research

Can mobile money be used to promote savings? Evidence from Northern Ghana
Common Language in Wholesale Financial Services
The Internationalisation of the RMB: New Starts, Jumps and Tipping Points
New Regulations and Collateral Requirements – Implications for the OTC Derivatives Market
Financing the SME Value Chains

To download the working papers visit our web site.

Conferences

Every year we will host two or three conferences where we will bring together academia and the financial industry to engage in dialogue on a specific topic. Some of these conferences will be intimate gatherings by invitation only, whilst others will be much larger in scale for which you can register to attend. Visit the SWIFT Institute regularly to find out about upcoming events.

Our first event, the Financial Inclusion Research Conference, was held at the Harvard Kennedy School earlier this year. The wrap-up report from that conference is available for download here.

Our second event, China's Emergence in International Finance, was a great success! As mentioned above it was held in Shanghai, China on 10th and 11th July.

In ***2014*** we plan to host two events each focused on topics impacting the financial industry. In the first half of the year we will look at ***standardisation***, whilst in the second half of the year we will look at ***cybercrime***. More details will be announced soon. In the meantime, of course, the SWIFT Institute will be at Sibos in Dubai...

Future

- 25/3/2014
- **Standardisation in the Financial Industry**
  Venue - TBC, London, United Kingdom

  Description: A full day of in depth discussion around the future of financial standards. Research into ***Standards & Big Data*** and ***Common Financial Language*** will be presented. Academic researchers and financial industry practitioners will debate the ***Standards Roadmap***, ***Standards and Regulation***, and the overall ***Future of Standards*** in three different panel sessions.

  This event will be hosted in partnership with SWIFT's ***Standards Forum***.

  Agenda: The full agenda along with speaker details will be available soon here.

Coming Soon

Here is what you can look forward to from the SWIFT Institute in the months ahead...

- Full details of the Standardisation in the Financial Industry conference - *December 2013*
- New working papers published on Network Liquidity Effects and Unit Costs of Financial Services - *January 2014*
- Next issue of Velocitates – *March / April 2014*

Visit the website to see what else is happening at the SWIFT Institute.

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