

April 2015



Welcome to the April 2015 issue of Velocitates. One of the core tenets of the SWIFT Institute is the dissemination of knowledge and information, and through this newsletter that is exactly what we'll do.

It seems like only yesterday when 2015 began, and here we are already 1/3 of the way through it. As ever there is a lot going on in terms of research and events, and much more to come throughout the year.

Our first call for proposals of 2015 focused on compliance risks facing third-party payment providers. This resulted in a grant going to a team of researchers at Belgium's KU Leuven. Our second call for proposals focused on the impact of regulation calling for increased competition and innovation in banking. This was a very popular topic, for which two grants are being issued. Details of these will be announced soon.

Our first conference of 2015 harks back to our last conference of 2014. We will revisit the topic of cyber-security in the financial industry, in an event in Delaware in partnership with the University of Delaware on 18 May. Our second event of the year will be on 3 November in New York on the topic of regulation and standards.

Sibos is of course never far from our thoughts. This year Sibos takes place in Singapore from 12 - 15 October. The SWIFT Institute will again bring a variety of academics to the event to lecture on a wide range of topics impacting the global financial industry. Our agenda is already finalised, with a great line-up of speakers, which we will announce soon.

Several research projects from 2014 are nearing completion, with two working papers due to be published soon:

- *An Analysis of Bitcoin as a Novel Distributed System*
- *Outsourcing in Investment Management Funds: Operational Improvements vs. Risks*

Finally, we have created our first infographic giving a high level overview of the SWIFT Institute. I hope you like it.

I look forward to bringing you the next issue of Velocitates in the coming months, and as ever appreciate your ongoing input and support.

Peter Ware



Bridging the Gap between Academia and Financial Services

Snapshot: April 2015



Goals of the SWIFT Institute

- ▶ To bring science and practice together
- ▶ To fund independent research
- ▶ To support knowledge-led debate



10

Papers published

Diversity of grantees



24

Grants awarded in the following areas of research:



Upcoming research

- Cyber Security
- Compliance
- Real-Time Retail Payment
- Women in Finance
- Big Data
- Bitcoin & Virtual Currencies
- Outsourcing

To find out more, download the research papers, or to register for events, please visit <http://www.swiftinstitute.org> | follow us on [LinkedIn](#): SWIFT Institute or [Twitter](#): @SWIFTInstitute

To download a pdf of our infographic, click [here](#).

News

The Scope of Mutual Fund Outsourcing: Fees, Performance and Risks

By Douglas Cumming, Armin Schwiendacher and Feng Zhan

What are the consequences of a mutual fund outsourcing different types of services: advisors, custodians, administrators, and transfer agents? A new study funded by the SWIFT Institute shows that mutual fund service outsourcing benefits investors – in terms of evidence of lower subscription fees, as well as some evidence pertaining to fund performance.

In a competitive market, firms face the choice of managing functions inside the firm or outsourcing some of these functions to external service providers. This is especially true in the mutual fund industry, and particularly when mutual fund managers are facing constraints on resources and opportunities (or capabilities) to undertake diversified portfolios globally. Managers in mutual fund companies are involved in a variety of functions: managing the fund on a daily basis, maintaining information related to the fund, providing investment and portfolio management advice, and calculating net asset value (NAV). Empirically, the authors observe that many of these functions have been outsourced to external service providers. An important question for both the practitioners and academics alike is whether or not outsourcing affects portfolio selection and thus has an impact on the fund's operating risk and performance.

Based on principal-agent theory, outsourced funds could have either a higher or lower risk-return relationship. On the one hand, external services may oversee investment decisions more thoroughly, as there are no conflicts of interest with management, leading to more oversight with less risky portfolios. On the other hand, external services may oversee fund management less effectively compared with internal services, leading to less efficient monitoring and more risky portfolios. For example, the UK Financial Conduct Authority (FCA, 2013) has expressed such concerns regarding the "oversight risk" in the fund management industry. Eventually, this may impact the level of fees as more players get involved along the chain of operations, especially if outsourcing generates performance inefficiencies.

Read the full article [here](#).

Cyber security Focus: Human Cognizance vs Automated Speed



Craig Young
Chief Technology Officer,
SWIFT



David S. Ebert
Director of DHS Visual
Analytics Center of
Excellence
Purdue University



The City of London Police chief Adrian Leppard [recently claimed](#) that UK banks are covering up the true scale of cyber crime with up to 80% of online crime going unreported to authorities. This very same topic was touched upon in last September's edition of the SWIFT Institute newsletter featuring the [Hot Topic of cyber security](#).

Clearly an issue that is not about to fade from the spotlight anytime soon, the SWIFT Institute questioned two participants of the upcoming [Cyber Security in the Financial Services Industry](#) conference, co-hosted by the SWIFT Institute and the University of Delaware. Craig Young, SWIFT's new Chief Technology Officer, and David S. Ebert, Director of DHS Visual Analytics Center of Excellence at Purdue University, spoke to us about the level of consideration the financial services industry needed to give to cyber attacks.

Given that one of the conference's panels on 'Malicious Insider Threats' will feature guests from the FBI and Raytheon, we asked whether the financial services industry had much to learn from other industries with regards to cyber security. From David Ebert's point of view, the answer was a resounding 'yes' in that adapting and adopting practices from other fields could be very beneficial, even necessary, given that this dynamically evolving threat was common amongst many industries and parts of society.

Read the full article [here](#).

Hot Topic



John Wong,
Managing Director,
Group Head
Transaction
Banking, Global
Banking at
Maybank, Malaysia

ASEAN Central Banks v Tech Start-ups: Examining the Success Factors of Regional Payments Projects

The world has increasingly come to expect faster payments. Even the thought of paying for items by a simple swipe of a watch no longer raises eyebrows. Meanwhile, the process of sending money overseas remains costly and painfully slow.

Integrating regional payment systems with the development

Emmanuel Daniel,
founder of The
Asian Banker in
Singapore



and implementation of common rules, standards and infrastructures across different countries is a daunting task.

In order to assist regional development organisations and domestic payment systems, Dr. Leo Lipis and Colin Adams, both from the independent payments industry consultants Lipis Advisors GmbH, have written a paper for the SWIFT Institute entitled, "[Cross-Border Low Value Payments and Regional Integration: Enablers and Disablers](#)". In order to examine how the factors identified in the working paper could be applied to the ASEAN Economic Community, due to be implemented on 31st December 2015, the SWIFT Institute took the time to interview John Wong, Managing Director, Group Head Transaction Banking, Global Banking at Malaysia's Maybank, and Emmanuel Daniel, founder of The Asian Banker in Singapore.

Factors of success

The purpose of the Lipis and Adams Working Paper is to identify common factors deemed essential to regional payments integration. The authors of the paper interviewed representatives of nine major organisations including: Association of Southeast Asian Nations (ASEAN); Common Market for Eastern and Southern Africa (COMESA); International Payments Framework Association (IPFA); Nordic Payments Area (NPA); South African Development Community (SADC); Single Euro Payments Area (SEPA); Sistema de Pagamentos em Moedas Locais (SML); West African Economic and Monetary Union (WAEMU); and West African Monetary Zone (WAMZ).

Common features across all nine of the organisations mentioned above were found as follows:

1. Targeted scope: migration to a regional scheme is more successful if one payment product is dealt with at a time;
2. Common Data Standard: integral for cross-communication;
3. Common Scheme: a set of rules for businesses and the technical ability to allow interoperability between different countries and stakeholders;
4. Existence of a common currency for settlement: a domestic or third currency and a single settlement system to settle regional transactions;
5. The importance of the need for a modern domestic system before trying to pursue a regional payment scheme.

Read the full article [here](#).

Did you know...



What's in an ASEAN name?

The Association of Southeast Asian Nations (ASEAN) now encompasses Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

If ASEAN were combined together as one country, it would be the seventh largest economy in the world with a combined GDP of \$2.4 trillion in 2013. By 2050, it is expected to become the fourth largest economy. Households in the area are gradually becoming wealthier with 67 million households in ASEAN defined as 'consumers'; this figure is projected to increase to 125 million by 2025, making the region a strong future consumer market.

The area remains diverse, however, especially in terms of the different stages of development amongst the ASEAN countries. Accounting for 7% of global exports, there is a great diversity in the range of manufactured goods being produced. Singapore and Malaysia lead in electronics, Thailand specialises in leading vehicle and automotive-parts, and Vietnam excels at textiles and

apparel. Natural resources such as palm oil, coal, cocoa and tin are prominent in Indonesia's list of exports, with the Philippines exporting manufactured and agricultural products alongside a business-process-outsourcing industry. Myanmar, which has remained a closed economy until recently, reportedly has large reserves of oil, gas and precious minerals.

ASEAN was founded in the city of Bangkok in 1967. The origins of the name 'Bangkok' are unclear, however, one theory is it is derived from the Thai words Bang Ko (Bang meaning "a village situated on a stream" and Ko meaning "island"). One might not know that Bangkok also has the longest name in the world, spelled out in full as "Krung Thep Mahanakhon amon Rattanakosin mahintara ayuthaya mahadilok phoP nopharat Ratchathani Burirom udomratchaniwet mahasathan amon piman awatan Sathit sakkathattiya witsanukam Prast."

This translates to "The city of angels, the great city, the residence of the Emerald Buddha, the impregnable city of God Indra, the grand capital of the world carved with nine precious gems, happy city, rich within the enormous Royal Palace similar to the heavenly kingdom, realm of the reincarnated god, a city offered to Indra and built by Vishnukarn"; or called "Krung Thep" for short by the Thais.

Research

New Working Papers Pending

Two grants issued in 2014 are nearing completion. The working papers are currently under review and will be published soon.

- *An Analysis of Bitcoin as a Novel Distributed System*
- *Outsourcing in Investment Management Funds: Operational Improvements vs. Risks*

New Grant Issued

- *Money Laundering Risks Facing Third-party Payment Providers in Emerging Economies and the Counter Policies & Measures* - This grant went to a research team at KU Leuven in Belgium

Details of all issued grants can be found [here](#).

Two New Grants Pending

Our most recent Call for Proposals focused on the impact of regulation calling for increased competition and innovation in banking. This resulted in a significant number of excellent submissions by researchers from around the world. Two grants will be issued on this topic, and will be announced soon.

By the Numbers

24 grants issued
10 completed

Did you know...



*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 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

Modelling the cost of financial services across countries using a Dynamic Hierarchical Bayes framework
A global perspective of women in finance
A predictive cybercrime cost model for the financial industry
Regulatory Compliance - Extraterritorial Challenge
Examination of Financial Data Collection Processes and Standards
Analysis of Domestic / Cross-Border Clearing & Settlement Systems in Asia
Operational Risk in Investment Management Institutions Through Outsourcing
The Role of Securitisation in China's Capital Markets
Near Real-time Retail Payment and Settlement Systems Mechanism Design
An Analysis of Bitcoin as a Novel Distributed System
The Influence of Virtual Currency on Fiat Currency
Multinational Banking and Conflicts among US-EU AML/CTF Compliance & Privacy Law: Operational & Political Views in Context
The Role of Big Data in Governance: A Regulatory and Legal Perspective of Analytics in Global Financial Services
Money Laundering Risks Facing Third-party Payment Providers in Emerging Economies and the Counter Policies & Measures

For more details visit our web site.

Completed Research

Can mobile money be used to promote savings? Evidence from Northern Ghana
The Prospects for a Common Language in Wholesale Financial Services
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
A Dynamic Stochastic Network Model of the Unsecured Interbank Lending Market
Macroprudential Oversight, Risk Communication and Visualization
The Global Network of Payment Flows
Theory of Optimum Financial Areas: Retooling the Debate on the Governance of Global Finance
Cross-border Low Value Payments and Regional Integration: Enablers and Disablers

To download the working papers visit our web site.

Conferences

Every year we will host at least two conferences where we will bring together academia and the financial industry to engage in dialogue on a specific topic. Visit the [SWIFT Institute](#) regularly to find out about upcoming events.

Our next event is *Cyber-security in the Financial Industry*, in partnership with the University of Delaware on 18 May. There is still time to register, via the link in the list below.

We will be teaming up with SWIFT's Standards Forum at an event in New York on 3 November focused on standards and financial regulation. And of course the SWIFT Institute will be returning to Sibos, which this year takes place at the Marina Bay Sands in Singapore in mid-October.

Future

- 18 May 2015
- **Cyber Security in the Financial Industry**
Partner - University of Delaware
Venue - Clayton Hall Conference Center, University of Delaware, Newton, Delaware,

United States of America

Register at [Events](#).

- 12 - 15 October 2015
- **Sibos**
Venue - Marina Bay Sands, Singapore

Full details will be announced soon - [Sibos](#).

- 3 November 2015
- **Standards and Regulation**
Partner - TBC
Venue - 10 on the Park, New York, New York, United States of America

Full details will be announced soon - [Events](#).

Coming Soon

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

- New research paper published - *An Analysis of Bitcoin as a Novel Distributed System - Q2*
- New research paper published - *Outsourcing in Investment Management Funds: Operational Improvements vs. Risks - Q2*
- New working papers published – Q2
- Next issue of *Velocitates* – Q3

[Visit the website](#) to see what else is happening at the SWIFT Institute.

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