

AI will help bank compliance: Temenos

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The banks' slow shift away from clunky legacy systems towards standardised software packages will eventually make compliance with things such as anti-money laundering legislation easier for both regulators and financial institutions, a financial software executive says.

Temenos' Asia Pacific head Martin Frick said Australian banks are adopting standardised software packages from the likes of his company, Infosys and Oracle to modernise systems, speed up development and save money.

"Business software is all economies of scale. We have 3000 clients globally and we build a function and can deploy it to all of them at once," Mr Frick said.

"If you have to build the same function on your own, it takes longer and you need all the testing and development skills in-house. It's a very cumbersome process.

"Using more software packages will lead to an increase in the quality of software and standardisation of how things are done, so it's easier for regulators to check. At the moment if you go to a big bank, then the next, you'll find something very different in each of them which makes it harder to regulate."

Westpac chief executive Brian Hartzer was forced to step down and chairman Lindsay Maxsted brought forward his retirement after AUSTRAC hit the bank with 23 million breaches of anti-money laundering laws and ignoring patterns of transactions consistent with child exploitation.

Temenos provides software for core banking functions such as accounts,

loans, deposits, anti-money laundering, wealth and front office management.

Its biggest rivals are companies such as Infosys and Oracle, but increasingly the competition is coming from Chinese players like Yusys and banks such as Westpac, which has started to offer banking-as-a-service products.

In the Asia Pacific region, Temenos grew its revenue by 30 per cent in the first six months of 2019, jumping from \$US64.7 million in the previous corresponding period to \$US84 million.

Australia is its third-biggest market in the region. It has gone from having only a handful of people employed here five years ago to more than 300.

The growth is due in part to the acquisition of local companies Avoka for \$US245 million (\$362 million) and Rubik for \$US50 million.

Mr Frick said local neobanks such as Judo and Volt Bank were opting to use its entire stack of cloud-based software to run their digital banking products, but the big four were also using some of its software modules.

But because of the difficulties in moving off legacy systems, penetration of software packages throughout the banking sector remains relatively low.

Mr Frick estimated penetration in banking at 30 per cent, whereas in industries such as retail more than 90 per cent of businesses were running software from the likes of SAP or Salesforce.

He said software companies like Temenos were well equipped to keep anti-money-laundering software up to date and he believes – like TransferWise chief executive Taavet Hinrikus – it is easier than ever to monitor digital

transactions.

"Classic traditional anti-money-laundering detection was based on rules – you put rules into a system and applied it to the data that was input," he said. "What you do now is use emerging technologies like artificial intelligence and big data to use logic and detect patterns and it gives you a better granularity of checking, rather than just saying a transaction is right or wrong.

"There's a lot going on [in machine learning and AI] that constantly improves detection."

As part of the company's growth here, Temenos has appointed an Australia manager for the first time, former Microsoft Australia director of digital strategy and services, Michelle Tea.

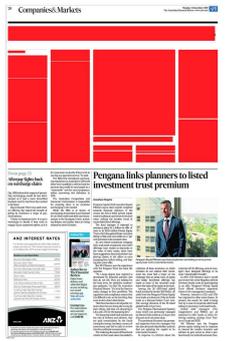
In the next few years, Temenos expects most of its growth to be driven by the rise of the new challenger banks. It is also going after the credit unions.

While the new banks provide a growth opportunity, Mr Frick said they faced a tough battle with the incumbents as they tried to build up trust with consumers.

"It's difficult to say if the challenger banks can have a dominant position in Australia. It's a very specific market with the top four having more than 75 per cent market share. It's super difficult to challenge that," he said.

"At the moment trust is an issue. I'm happy to do a cross-border transaction with TransferWise, but would I give them all my wealth? I don't think so.

"But I think they will go after the most lucrative pieces of banking. A good example already is cross-border payments because banks have traditionally made a fortune from this."



Temenos APAC boss Martin Frick says advances in technology have made it easier to detect money laundering and crime financing.