In this issue:

**Innovation focus**
Main Incubator: Hatching the bank of the future

**Expert view**
ISO 20022 migration

**What’s trending?**
Cybersecurity in a new working environment

**Regional spotlight**
Are the clouds clearing over Eastern Europe?
Looking beyond the crisis in Latin America
Contents

Editorial welcome 03

Innovation focus: Hatching the bank of the future 05

Regional spotlight: Are the clouds clearing over Eastern Europe? 10

Expert view: Will you be reachable by 2022? Staying focused on a steady ISO 20022 migration 13

Regional spotlight: Looking beyond the crisis in Latin America 17

What’s trending?: Cybersecurity in a new working environment 20

Commerzbank in the news 23

In the press... 24
Editorial welcome

Fostering resilience in the banking sector

Nikolaus Giesbert
Divisional Board Member, Institutionals

Back in March, the consequences – both human and economic – of the COVID-19 pandemic had yet to be fully understood. Now, six months on, the picture is gradually becoming clearer, both in terms of the economic impacts across all regions worldwide, but also with respect to the ongoing transformation in areas such as digitalisation, sustainability and regulation.

The COVID-19 crisis has necessitated great and rapid change, but we are confident that the aftermath will be fertile ground for innovation and opportunity. In this FI.News, Michael Spitz, CEO of Commerzbank’s wholly-owned research and development subsidiary, main incubator, emphasises that financial institutions are accelerating their digitalisation programmes as well as seeking engagement with the FinTech community in their quest to drive efficiency and provide more digital interactions with their clients. Only by taking a holistic view of the future, and by strategically aligning with that vision, can financial institutions truly harness the power of technology. And hand-
in-hand with digital innovation, comes cybersecurity – something which Igor
Podebrad explains has been a source of concern for many during the crisis with
financial institutions having to adapt their processes to work around social and
commercial restrictions. Also, Ingrid Weißkopf and Roland Nehl highlight the
importance of banks remaining in control of their ISO 20022 migration, even
while coping with the other challenges facing the industry in 2020. Further
afIELD, Juan Löhnert outlines how financial institutions are coping with the
crisis in Latin America, and the changes underway that are likely to draw trade
and investment into the region. And, lastly, Hans Krohn explains how financial
institutions are navigating the dual shocks of political instability and COVID-19
in Eastern Europe’s Commonwealth of Independent States (CIS).

Of course, the crisis is not yet over, and much uncertainty remains. But
financial institutions across the world have proved themselves remarkably
resilient – adapting their operations to the evolving situation and, in many
instances, helping to enable strong crisis responses – and we should take heart
from this. For our part, we are with you every step of the way: Commerzbank
is founded on strong relationships, the personal approach and an in-depth
knowledge of our clients.

As we approach the latter months of the year, I would ordinarily invite you to
meet us at Sibos. On this occasion, we look forward to participating in virtual
discussions in October and to future opportunities to share our progress and
stories from the past year with you in person once it is safe again to do so. We
hope you enjoy reading our latest edition of FiNews and, above all, we hope
you stay safe and healthy.
The financial services landscape is in the midst of a paradigm shift, driven in part by innovative technology which is ushering in new business models, actors and channels for the provision of finance. What can we expect financial services provision and consumption to look like today, tomorrow, and in a decade’s time? This is a crucial question to answer if we are to strategically invest and innovate in next-generation technology.

Of course, there is no single way in which the industry is being shaped, nor one answer for how it will continue to transform in the future. Instead, there is a multitude of potential scenarios ranging from the status quo to incremental improvements (many of which we already see happening today), to entirely new (and bold) visions of the future.

At main incubator, we have identified five non-mutually exclusive scenarios – applicable across all areas of banking (from lending to capital markets to market infrastructure) – that outline how technology is shaping this emerging landscape, and the bank of the future (see the box-out below). These are defined by two crucial elements: who manages the customer relationship or interface; and who will provide the services and take the risk.

Only by reflecting on the industry’s ongoing transformation and understanding these developing banking models and new stakeholders can incumbent banks assess the opportunities – and seize them by harnessing the power of technology to increase efficiency and offer new services for clients.

When it comes to technology investment and development, we must be visionary.

Sustainable ventures

Irrespective of whether the emerging landscape is dominated by “Better Banks” or a “Fractional Banks”, we can be certain about one attribute of
The first potential scenario, the “Better Bank”, is very similar to the experience we are already accustomed to today – with the optimisation and improvement of pre-existing market infrastructure. The next scenario, the “New Bank”, sees further development of digital banks. Again, this does not step too far away from today’s reality. Indeed, we already see many of these banks growing in terms of scope and influence. In January 2020, for instance, China’s Ant Financial, the world’s largest online financial platform, applied for a digital banking licence in Singapore, one of the world’s most important financial hubs.

Scenario three, the “Invisible Bank”, sees greater cooperation between fintechs and banks, where the consumer interface is handled not by the bank itself, which simply provides the financial infrastructure and financial market access (Solarisbank’s banking-as-a-service platform is a good example of this). The fourth scenario, “Fractional Bank”, is a bolder vision of the future, and builds on the concept of Open Banking whereby banks use open APIs to enable third-party developers to build applications and services around the financial institution. And, lastly, the most striking vision of the future: “No Bank”. The development of a so-called “core banking platform” on an open-source basis is an example of how future technologies could shock the existing infrastructure in this direction.
the bank of the future: it will be a bank that puts sustainability at its core. Certainly, this seems a natural progression. If we were to plot “the evolution of banking services” it would begin with banks as product-focused entities before becoming profit centres and, later, becoming client-centric entities. Even later still, banking strategy focused both on the client’s needs and its wider environment, including its stakeholders and its supply chain.

The next phase, in my view, is an environment where the sustainability of the planet is top of the agenda. And the bank of tomorrow’s value proposition will most certainly reflect this – not only because bank leadership teams are more focused on these issues, but also because from a societal, governmental and political standpoint it will be expected (and perhaps even demanded). Clients will also seek banks to play a major role in environmental shifts – or will take their business elsewhere.

So how are we addressing this at main incubator?

As a strategic early-stage investor for Commerzbank (which completed more investments in fintech than any other bank in Europe), main incubator invests in tech start-ups whose solutions offer added value for the bank and its clients in their digital transformations – and their drives towards a more sustainable future.

We can now count numerous success stories of fintechs whose products are either used by the bank or integrated into our client offering (the ultimate aims): Conpend is used by Commerzbank to automate compliance pre-checks in trade finance transaction processing, Authada is used for secure online authentication, and Valsight helps optimise clients’ important control processes such as financial planning, forecast and simulation of “what-if” scenarios. These are to name but a few.

The next step for us is to more closely align our business and investments with the global UN Sustainable Development Goals (SDGs) – which highlight 17 crucial areas of necessary change, from poverty, to climate change and environmental degradation, to peace and justice. These goals constitute our “North Star”, and the same should go for every other institution in the financial services landscape.

Some of these goals are of course easier to achieve than others. It remains difficult to make a business case for investment in “life below water” for instance – which will likely need further government
support. Yet, as for others, we can certainly already work towards responsible consumption, which lends itself to investment in recycling or energy efficiency.

We are doing far more than simply paying lip-service to these goals: we are making it mandatory for our portfolio companies to comply with some of the SDGs and we ourselves are converting to renewable energy wherever possible. Further, we have been asked by the European Commission to devise an investment method to facilitate a greater number of investments that more closely address the SDGs.

Experimenting with emerging technologies

All our investments originating from the venture capital arm are focused on technologies and start-ups that are already commercially viable and able to solve the bank’s, or its client’s problems today. But what about tomorrow? It is also important for us to invest in our own research and development so we understand how cutting-edge technology may affect our industry in three-to-five years. Banks that only “buy” and not “build” will not have sufficient knowledge and experience of these new technologies when they do eventually come to market.

To keep pace and to identify those developments that are within the scope of our activities, it is useful to classify technology into nine different levels of “readiness” (see Figure 2).

Those in technology readiness levels one-to-three are at the earliest stage of development and, while on our radar, are only likely to come to fruition post-2025. Our work here focuses on understanding the status of the technology and

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**Main incubator recognised with Handelsblatt Diamond Star award**

On the eve of the Handelsblatt Banking Summit 2020, which took place on 2-3 September, main incubator was recognised with a digital banking “Diamond Star award” for its project Lissi, which creates extensive possibilities for the data sovereignty of individuals, companies and institutions.

Read more about the award on the main incubator website.
assessing how it will impact society. At the other end of the spectrum, readiness levels seven-to-nine, are technologies already in production and able to impact the financial industry: cloud, big data, machine learning, blockchain. When a technology solution reaches this level, we would pass over to Commerzbank, which can test using vaster amounts of data, apply to pilot or live scenarios and better understand its aptitude and how it can be incorporated into the client offering.

This leaves our focus in R&D on technologies that, while maturing, are likely to come into their own in three-to-five years: networks (such as 5G), robotics, IOT, artificial intelligence (AI) and quantum computing. I could talk at length on each of these, but for now will just touch on two that are of particular interest.

One: AI. And by AI, I mean “real” AI; intelligent machines that can simulate – or exceed – human thinking. Here, we are exploring the potential of GPT-3, an AI language model developed by San Francisco-based OpenAI. For me, this technology could be a game-changer. With machine learning, you need to train the system over time, and it requires copious and accurate data to produce better results. AI, such as GPT-3, however can be asked one question and provide an accurate answer. The potential is astonishing.

Two: quantum computing. This is a new focus area for us and something that we believe is going to revolutionise the financial services industry. Today, some of the most innovative pilots and new solutions centre on the power and potential of blockchain, but I believe in time quantum computing will have, as big, or not bigger, impact on the industry.

The financial landscape of the future? Let’s go and create it.
Are the clouds clearing over Eastern Europe?

Amid challenging circumstances for the region, Hans Krohn speaks to FI.News about why relationship banking has proven increasingly crucial and where the opportunities may appear on the horizon.

**Hans, how have the Commonwealth of Independent States (CIS) reacted to this year’s challenges?**

Hans Krohn: Due to the COVID-19 shock, there has been a marked slowdown in trade activity across the CIS nations. The GDP of the region’s largest country, Russia, could shrink by 6% this year, according to World Bank forecasts – its most severe decline since 2009. Much like their western counterparts, the region’s governments, central banks and regulators have introduced ample measures to contain the economic fallout, including vast financial relief packages, short-term liquidity buffers and temporary covenant and repayment holidays.

The success or otherwise of these support measures will become evident over the next six months or so. Should a second COVID-19 outbreak prompt a further round of large-scale lockdowns, we would likely see a rise in bankruptcies and non-performing loans – at which point, weakening economic conditions could begin to impact the region’s financial institutions. In short, the outlook for the region rests in a precarious state of uncertainty.

**The situation in Belarus has captured headlines in recent months. What has been the impact on trade?**

HK: The continued unrest in Belarus has only compounded the challenging environment. Immediately before the political unrest resurfaced, the country had received much attention for avoiding lockdown measures – a decision that enabled the country to keep producing at a time when neighbouring countries were not. Despite this, much like neighbouring Russia, GDP is expected to fall by 6% this year, which would represent the country’s largest economic decline in over two decades. The country’s lack of diversification and reliance on the economic health of its largest trading partner, Russia, means its recovery prospects are somewhat limited and may be protracted.
**Q** How has the current situation affected operations for bank and non-bank financial institutions?

**HK:** The situation has understandably sparked caution among the international community – and, of course, among financial institutions. Reportedly, in the wake of political turmoil, and in expectation of potential sanctions against the country, investors quickly grew cautious of holding Belarusian sovereign bonds, which prompted a fast sell-off.

For financial institutions supplying credit lines to the country, the situation has posed challenges for some time. While risk fees on Belarus were continuing to decrease – and quite substantially so – pre-unrest, this was not reflective of an improved risk profile. Rather, falling fees were largely due to the torrent of new market entrants all vying for position in the Belarusian market. Of course, this is changing now and many of the latest entrants have been fast to retreat, yet it remains to be seen where the market will level out as the political, economic and public-health situations in Belarus – and CIS, more broadly – begin to show some clarity.

**Q** How, if at all, has the current situation shaped Commerzbank’s approach to the CIS market?

**HK:** Our focus has not really changed: our priority in these markets is to conduct business that supports our exporting corporate clients, while adhering to the most stringent compliance and regulatory controls.

That said, I do believe the current situation has served to underscore the importance of relationship banking. In the case of Belarus, for example, Commerzbank, as one of the first western European banks to establish a presence in the country, has been able to build very strong relationships with Belarusian banks. As a result, we have been able to remain a preferred partner compared to new entrants. This has served us well in the current environment which has necessitated a shift from face-to-face business to servicing our clients virtually – our firmly-grounded market knowledge, longstanding relationships and range of solutions continued to prove invaluable for our clients. And this is where, I believe, we have fared better than many and shall continue to in the future.
Understandably, it has been quite a tough year in the CIS region, but do you see the clouds clearing?

HK: Certainly - no crisis lasts forever. The region has potential to become a hotbed for digital innovation since there’s plenty of know-how and a clear focus on emerging technologies. Without the restraints of legacy systems, some CIS nations are demonstrating digital capabilities that even exceed those of their western counterparts. It is a clearly a matter of “watch this space”.

Yet another area of burgeoning possibility for the region is diversification – not only from being production-based to service-led economies, but also towards sustainable practices. While some countries are more advanced in their diversification efforts, what’s interesting is the introduction of newer players. For instance, Armenia has set out its intentions to join the charge by announcing the build of its first utility-scale solar power plant, which will contribute 128 gigawatts (GW) of power each year – enough to displace 40,000 tonnes of carbon emissions.

In conclusion, there are some good reasons for optimism in the region as it re-emerges from a tough spell. Commerzbank is ready to assist our clients and partners to seize new opportunities as they arise.
Will you be reachable by 2022? Staying focused on a steady ISO 20022 migration

From an operational perspective, ISO 20022 is expected to bring multiple benefits, such as complete remittance data, fewer payment errors, and better sanctions screening, to name a few. It will lay the foundation for a uniform standard and a harmonised payments landscape globally. But despite SWIFT’s decision earlier this year to postpone the introduction of ISO 20022 by one year, little time is left. Ingrid Weißkopf and Dr Roland Nehl tell FI.News that financial institutions ought to take careful steps to ensure a seamless migration process, or at the very least, their ability to receive the new standard from November 2022.

The ISO 20022 format is already used, or about to be introduced, around the world by various payment infrastructures. In Europe, banks and infrastructures have gained broad ISO 20022 experience already in the last decade with SEPA. However, the initiative of SWIFT, when put together with various central bank initiatives, goes one step further and will introduce the new format as a new global standard. The introduction of XML as the single language in payments will therefore have an immense impact on the industry and the digitalisation efforts of banks and clients alike.

**More data means more precision**

The headline benefit for financial institutions is standardisation – streamlining the various messaging protocols that currently exist between countries and regions, and introducing a global universal standard that will improve straight-through processing (STP) rates. Indeed, the project’s ultimate goal is to achieve frictionless
global payment flows. Of course, this will not be immediately achievable given the scale of the endeavour in transforming what is currently a highly heterogenous global payments landscape. SWIFT therefore foresees a coexistence phase, during which old and new standards operate in parallel, with SWIFT continuing to bridge the gap between the disparate regional XML-infrastructures at their varying stages of development.

At a more nuts-and-bolts level, ISO 20022 provides for richer information to be provided alongside a transaction. Data is considered by some as “the oil of the 21st century” and structured information has become a crucial resource, with its importance likely to only grow with time. The extra information provides financial institutions with more and better structured transaction data.

Such data also serves a compliance function, helping to address regulatory checks which have shown a tendency to become increasingly onerous. Of course, the quality of the data is by no means assured by the process – it is still up to the banks themselves to feed high quality information into the system.

A project requiring patience

Implementing the new standard nevertheless comes with its fair share of challenges. SWIFT’s decision to delay the implementation of ISO 20022 by 12 months – to November 2022 – has afforded financial institutions additional breathing room. But this extra time ought to be used prudently: ISO 20022 migration fundamentally challenges banks, as it has an impact on operations, technology, product development and management alike. Older systems need to be replaced, and a bank’s entire IT infrastructure requires reassessing to identify what needs to be done to cope with the new setup. In simple terms, every system that will, or could, come into contact with ISO 20022-formatted data must be positioned to receive, process and deliver compatible data.

Aside from the cost and manpower involved in adapting existing infrastructure, banks must come to reckon with the inevitable learning curve that comes with such a different payment messaging framework. Some instances of data truncation – whereby a data-rich ISO 20022 payment is converted to an older messaging format resulting in a loss of information – are to be expected whenever a bank’s IT infrastructure cannot cope with the rich data in XML. However, banks must at least be capable to receive the ISO 20022 format by SWIFT from November 2022.

What’s more, ISO 20022 is just a format that uses XML as language, and therefore its use is always subject to content definition: In some markets where ISO 20022 has already been adopted locally, the content of “Beneficiary Name”, for instance, might have been defined differently in country A from country B. Even if this is only in terms of the
length of characters, there is still a difference. So, distinct local practices – perhaps best thought of as “dialects” – have emerged from the common XML language. Ironing out these quirks once the standard has been adopted globally will eventually help to fully realise the goal of frictionless global payment flows.

Navigating the migration

Since ISO 20022 allows the flow of far more data than the current ISO 15022 standard used for SWIFT messaging, “big data”, as a treasure chest for innovation and value-add services, looks promising. However, we recommend that, at first, the status quo is securely migrated and up and running. The development and implementation of value-add services thereafter, to promote a better client experience, is a multi-year project.

The migration must ultimately be regarded as a process. ISO 20022 requires banks to review their existing business model in advance and to rethink their future setup before taking any steps towards migration. The future business model will impact the planning and allocation of resources. Our advice would be to think first and then act accordingly. Once the future business model is clear and resources are available, banks can then concentrate on executing a proper migration, and then start

<table>
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<th>Clearing System</th>
<th>Transition description</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>TARGET2</td>
<td>High-value payments in EUR, access to central bank money; big bang approach</td>
<td>November 2022</td>
</tr>
<tr>
<td>EURO1</td>
<td>High-value payments in EUR; big bang approach</td>
<td>November 2022</td>
</tr>
<tr>
<td>SWIFT CBPR+</td>
<td>“Cross-Border Payments and Reporting Plus” in any currency via the correspondent bank network</td>
<td>Year-end 2022 until 2025</td>
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<tr>
<td>CHAPS</td>
<td>GBP high-value wholesale payments as well as time-critical, lower-value payments</td>
<td>Spring 2022; like-for-like approach H1 2023; full ISO 20022</td>
</tr>
<tr>
<td>CHATS</td>
<td>RTGS system in Hong Kong</td>
<td>October 2023 (tentative)</td>
</tr>
<tr>
<td>CHIPS, Fedwire</td>
<td>USD clearings</td>
<td>Expected 2023</td>
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Timeline for ISO 20022 migration (extract)
developing new products and services afterwards. The latter could potentially be done in parallel, but most likely will only be possible after completing a successful migration.

The first deadline European financial institutions should remember is November 2022, which represents the “European big bang” moment for the ISO 20022 migration. This is the target date for Europe’s largest high-value clearing systems, including TARGET2 (Eurosysten), to migrate to the ISO 20022 messaging standard. The Eurosystem has proposed that TARGET2 and TARGET2-Securities (T2S) are consolidated and replaced in this timeframe with a new real-time gross settlement (RTGS) system that uses ISO 20022 messages.

The upcoming ISO 20022 transition will all but confirm the standard’s universal application in cross-border payments. In turn, we expect larger institutions to become fully ISO 20022-ready for November 2022 (conforming to the big bang approach), but smaller institutions upon further inspection might find that they needn’t follow suit – at least initially. Of course, while back offices must be ready to receive ISO 20022 messages by November 2022, the capability to initiate transfers in the new format can be developed throughout the transitory phase until local messaging standards cease to be supported. That said, we anticipate that every institution’s migration process will involve all stakeholders from all corners of the business to understand the full impacts of the project’s requirements. Ultimately, whatever approach our clients choose to adopt, we at Commerzbank are relishing the prospects that standardised payment messaging could deliver well into the future.

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**Action checklist for implementation**

- Define project governance (centrally, locally), allocate resources and allow management team to decide swiftly;
- Define project set up (agile vs. waterfall, all relevant methods, IT-architecture, consult SWIFT.org);
- Understand all dependencies to other ISO 20022 initiatives (TIPS, TARGET2, domestic RTGS systems etc.);
- Define approach and strategy in relation to your business model. End game should be a fully-fledged ISO 20022 capability. Evaluate which options fit your situation, for instance:
  - Local vs. global approach, or a mixture;
  - External translation service with proper sanctions handling;
  - Internal translation service with proper sanctions handling;
  - If you have an ISO 20022 capability, define your outgoing XML-strategy (big bang, stepwise);
  - By which means do payments from your clients reach your organisation? (payment initiation);
  - How do you report the execution of payments to your clients? (MT94x, MT95x, camt.05x);
  - Consider the seamless flow of payments to and from the CBPR+ cross board payments network (leg out/in);
  - Be aware of data truncation when converting MX into MT;
  - Reconsider your billing and pricing model;
  - Consider the impact on your network infrastructure; while FIN messages are there, how will you handle your MX traffic? This applies to the access to the CBPR+ network (API access; FINplus/InterAct) and to the internal routing of MX messages;
- Develop training for all affected internal stakeholders (sales, back office, teams responsible for exceptions and investigations).
Regional spotlight

Looking beyond the crisis in Latin America

Juan Löhnert
Regional Head, Latin America, Institutionals

Now the global epicentre of the COVID-19 pandemic, Latin America's financial institutions face an arduous climb to recovery. Juan Löhnert tells FI.News how banks in the region are faring, and points to the region's sustainability and digitalisation agendas as the possible bright spots.

Financial institutions operating in Latin America have had a hair-raising few months. At the beginning of the COVID-19 crisis, events taking place in the European markets gave some early indication of what was to come. But, from June, Latin America fell victim to becoming the virus' global epicentre – with Brazil ranking second only to the U.S. in terms of the highest death rates globally.

Between a rock and a hard place

Government and central bank responses across the region have varied considerably, but suspended commerce, interrupted cross-border trade and reduced capital inflows have affected all countries without exception. For countries with pre-existing economic issues – such as Argentina – the situation has proved even more severe. Already struggling with unsustainable levels of foreign debt pre-pandemic, some predict Argentina could face its ninth sovereign debt default, with economic grievances exacerbated by the need to protect public health.
With the understanding that the current crisis is not a banking crisis, and that there would be greater economic contractions if lenders were to withdraw capacity, the focus for financial institutions in the region has been on maintaining transparency and solvency as much as possible to keep economies afloat. Regional banking regulators were quick to introduce measures such as credit facilities for financial institutions, loan moratoriums, looser loan classification and provisioning, as well as relief on capital requirements - to incentivise the banking system to continue lending. But, nonetheless, the landscape for financial institutions has changed substantially in recent months.

Our focus is now on helping our clients in ways that will support their longer-term ambitions and operational stability.

A changed landscape

First, a few less committed capital providers retreated from the region entirely when the crisis began, piling further pressure on available liquidity sources. Second, as with all other regions, a dramatic slowdown in trade activity was the consequence of commercial lockdowns. And, third, from an operational perspective, the crisis necessitated a large-scale reassessment of risk and lending appetite for financial institutions in the region. Across the board we have seen a general shift towards shorter tenors, as well as reduced appetite for larger transactions during the worst of the uncertainty. That said, we are beginning to see an uptick in demand for the issuance of letters of credit – a promising sign of trade recovery.

Commerzbank is proud to have been among the banks that stood by its clients in the region throughout this difficult period. Having operated in Latin America for more than a century and continued to provide services through numerous crises, our instinct was not to retreat, but to entrench – to impart our experience and expertise in order to provide valued support to our clients. Over the past few months, we have been busy helping our clients to structure transactions in a way that would enable them to access the liquidity they need and to minimise the risks of doing business amid the uncertainty.

Further, we have endeavoured to leverage our global footprint and capabilities and connect our Latin American clients to the broader products and services available across the bank to ensure maximum support. This, in dialogue with the relationship management teams, has enabled us to offer value-add services according to their evolving needs; something which has proved hugely valuable in helping our clients in the region to navigate through the crisis. In sum, we have brought the whole bank to our clients.

Technology provides a way forward

Our focus is now on helping our clients in ways that will support their longer-term ambitions and operational stability. This, of course, means wider adoption of digital strategies. During the crisis, herculean efforts were made to find workarounds and solutions to the logistical challenges raised by the restrictive measures necessitated by the pandemic. Financial institutions that were already digitally-savvy have fared better during the crisis, while the less well-equipped have had little option but to ascend the learning curve at record pace.

Though it is perhaps too soon to tell exactly how this renewed impetus will manifest in the wake of the pandemic, it is unlikely to lose momentum. The crisis has shown that banks need to become digital enterprises in order to thrive, not only to ensure greater resilience and business continuity, but also to make services to clients more efficient, and critically, more competitive. The benefits of blockchain, for instance, in terms of streamlining
trade transactions and promoting transparency, have really been showcased in the context of the crisis, and we expect to see increasing uptake of digital methods across all sectors.

**Sustainable recovery**

Another agenda that is universally gathering steam is sustainability. There now seems to be collective agreement across most regions, including Latin America, that there is a need to expedite the transition towards a greener economy to build resilience against future shocks and to protect the planet. Banks play a huge part in this transition – as match-makers for borrowers and investors with similar values, as trail-blazers for the adoption of sustainable practices, as well as capital providers for sustainable ventures. In Latin America, some estimate there is around US$8 billion of financing needed per annum in the run up to 2030 in order to sufficiently reduce the social and environmental effects of climate change. The magnitude of this investment shows that all financial institutions must be involved in the process and should encourage their clients to prioritise sustainable considerations also.

For our part, we at Commerzbank endeavour to be a leading influence for our clients in this respect. Environmental, social and governance (ESG) is playing a growing role or even becoming an integral part of our client’s organisations, so we are continually in dialogue with our clients on the subject to help them prepare potential green bond issues. Commerzbank has a long and proven track record in sustainable finance – in 2007, for example, we were bookrunner in the first ever green bond issuance, and even just since 2018, we have been the lead manager on more than 50 sustainable transactions. Of course, the tough environment at present means Latin American financial institutions will likely look to prioritise returns over sustainable credentials, though we anticipate a rapid development in the medium term.

Doubtless, the COVID-19 crisis has left severe economic damage in its wake – damage that, given the financial measures introduced to mitigate the immediate-term economic impacts, we are unlikely to see the full extent of until as late as 2021. But the region’s post-pandemic recovery prospects will be determined, in large part, by how quickly it can adapt its financial systems to become more digitised, sustainable and, thereby, resilient. This is the future of banking, and could open up new avenues of opportunity that would draw trade and investment in to the region. Our hope is that the crisis, if nothing else, propels this vision into action sooner than expected.
As financial institutions and their clients are increasingly adopting remote work patterns, Dr Igor Podebrad evaluates how Commerzbank’s cybersecurity practices fared through the COVID-19 crisis.

Many experts have warned that the pandemic may give rise to increased cyberattacks. Particularly the normalisation of home office and remote maintenance practices raises concerns regarding the ease of access to bank clients and employees for hackers. Undoubtedly, we have mobilised against such relentless online attacks and are ever alert. This is especially crucial during these precarious times: if the biological virus were to be followed by a technological one, trust in the stability of financial institutions would be severely undermined.

In fact, we have observed how client account activity has increased sharply with the onset of the shutdown. At first, the extent to which
the pandemic could be contained was difficult to predict. Fearing a crisis of confidence in the banking sector, people “secured” their wealth (deposit volumes amounting to 100,000) by moving it to different accounts. This trend was evident across the banking sector. Due to the increase in account movements of atypical volumes and behavioural patterns, our fraud prevention systems have picked up significantly more false positives. These had to be cleared manually. Fortunately, the alerts have mostly proven to be uncritical.

Legitimate instances of cyberattacks could largely be detected and diffused using the common methods that were established prior to the pandemic. One explanation is that most cyberattacks may be traced back to already defined and well-understood practices. New and unprecedented means of attack are uncommon. This is because the deployment of ordinary procedures using ransomware (for example, encryption trojans) against clients remains the lucrative and cost-efficient choice when considering that the development of new methods requires time and funding.

Employee awareness and preventative measures are an important (if not the most crucial) key.

Regarding attacks against the bank, COVID-19 has not proven to be more or less of a challenge than “ordinary” circumstances. Although more than 80% of our employees have temporarily refrained from using office facilities and instead favoured home office arrangements, Commerzbank has fortunately not been targeted by any substantial cyberattacks.

Another explanation is that Commerzbank has had its prior experiences with remote work practices. The required infrastructure had already been established years ago and has undergone development ever since. No matter if five or 10,000 employees are remotely accessing our IT systems – from a cybersecurity perspective, it makes no difference provided that we foster the growth of our systems and monitoring capacities.

In persistently precarious situations such as the current one, people may be inclined to make the hasty decision to turn to user-friendly but insecure consumer solutions when working from home. Online meeting platforms have thus experienced a spike in traffic. Commerzbank, however, has consciously decided to restrict the number of permitted videoconferencing systems which has become the subject of much internal debate. Particularly during the initial phases of COVID-19 some providers had to adjust their systems’ security and data protection controls in order to cater for the unexpected demand increase. The use of Zoom, for example, was initially prohibited across our corporation for this reason. We can only rely on platforms which make sufficient guarantees regarding data security and privacy.

In any case, we as a bank must establish appropriate cyber defence measures in adherence to statutory regulations. We need to align business processes and segments, as well as the company’s organisation, leadership, and culture with these legal provisions. This is also valued by financial supervisory bodies and has become evident in their methods. Cyber resilience is therefore a central component of the security strategy adopted by banks. We maintain emergency procedures for when worst comes to worst and are, at any time, informed as to what our critical information assets are, which risks they are exposed to, and the protective measures required to ensure their safety.

All in all, criminal activity against bank clients has indeed noticeably risen in recent times. Independently of the COVID-19 pandemic, private persons have been increasingly targeted by social-engineering attacks through both cyber and ordinary channels. However, under the
circumstances brought upon by the pandemic a few phenomena have developed that give tailwinds to criminals:

1. People have a heightened and persistent need for information and feel overwhelmed due to the various risks that are exacerbated by the pandemic. Their susceptibility to stress and the prevalence of inauthentic news sources render them easy targets for cyber criminals.

2. Many people were willing to offer help and were misled by their good intentions to open devious email attachments and links that would have otherwise fallen to their suspicion.

3. People are deeply concerned about the threat to their wealth and are keen to find practical solutions such as alternative investment opportunities.

The combination of these circumstances created new opportunities for cybercriminals. Thereby, the human factor is a particularly important barrier to hostile attempts.

This is not only true for bank clients, but also for bank employees: employee awareness and preventative measures are an important (if not the most crucial) key. That by itself may suffice in averting severe damage and reducing exposure. Employees that are aware of this issue usually develop an instinct for dubious situations. Although they may not always be able to explain their suspicion, their reactions will not conform to the attackers’ objectives. Instead, they choose to make further inquiries or turn to an expert. We continuously train our employees to become vigilant for potential attacks and capable of identifying suspicious behavioural patterns.

This is even more relevant when considering that mobile work arrangements will prevail in the future. A strict division between home and office work will no longer exist. Therefore, it is essential that employees become familiar with the changing circumstances and their respective implications as soon as possible.

Despite all the suffering it has caused, we need to acknowledge that the COVID-19 pandemic has also given impetus to an array of positive developments. Most notably, the virus has accelerated the pace of digitalisation to unprecedented levels. We should mobilise this sentiment to digitally penetrate even the most remote corners of society. Now is the time for digital business models, digital content, and digital processes. We should make immediate use of its momentum. In pursuit of our mission to provide adequate security, we will stay ahead of these developments as they unfold.
Commerzbank in the news

Commerzbank’s second Green Bond finds extensive interest from investors

On 16 September 2020, Commerzbank AG successfully issued another Green Bond with an issuance volume of €500 million. It is the bank’s second own Green Bond after the first issuance in October 2018. The bank will use the proceeds to refinance renewable energy projects.

“Sustainability is very important for Commerzbank. In recent years, we have significantly expanded our financing for renewable energy projects. This means that we were now able to issue the second Commerzbank Green Bond providing our investors with an opportunity to participate in the sustainable transformation of the economy,” said Inga Johal, Divisional Board Member Group Treasury at Commerzbank.

“We are also responding to the continuing increase in demand for sustainable asset classes. For us as an issuer, it is particularly important to widen the Bank’s investor base by issuing Green Bonds. The great success of our issuance shows that Green Bonds are no longer a niche topic.”

The non-preferred senior Bond attracted extraordinarily keen investor interest. With a volume of more than €4 billion, the final order book at re-offer was eight times subscribed. The Bond has a term of 5.5 years with a call date in March 2025 and an annual coupon of 0.75%. Joint lead managers for the transaction were Commerzbank, Danske Bank, ING, Natixis and Santander.

Commerzbank obtained its second party opinion from the renowned sustainability rating agency, Sustainalytics. It confirms that the Bond complies with the latest Green Bond Principles. This market standard provides investors with a high degree of transparency with regards to how the funds are actually used. Commerzbank has earmarked the proceeds from the Bond for loans for onshore and offshore wind projects and solar projects in Germany, other European countries, and North America. The projects financed by the Green Bond aim to help avoid CO2 emissions of around 850,000 tons per year.

Commerzbank is an established player in the market for sustainable and green bonds. For years, the bank has supported its clients to prepare sustainable bonds and place them in the international capital market.

“We have strong expertise in this relatively young market. In the current year, we have already lead-managed 25 green and social bond issues with an aggregate volume of more than 27 billion euros,” says Marie-Claire Ouziel, Global Head of Bonds.
Sustainable finance: for the good of tomorrow

As the world grapples with the COVID-19 pandemic, society’s vulnerability to natural disasters has become painfully apparent. Sustainable finance had already been gaining momentum pre-crisis, but the current situation has prompted a greater sense of urgency around the need to prioritise the transition towards a greener global economy.

In a recent article for Renewables Investor, Long Say Huan, senior banker for financial institutions at Commerzbank, outlined why financial institutions are uniquely positioned to drive this change.

Say Huan writes: “No longer are environmental and social problems considered solely issues for governments, international institutions and NGOs to solve. The related economic downturn has necessitated a rebuilding of large segments of the economy, which, in turn represents a unique opportunity to overhaul the current system and consider how our financial decisions impact the environment and society in the long term.”

Sustainable practices among the financial community has grown in line with the COVID-19 response. Indeed, the recent oversubscription of Kookmin Bank’s COVID-19 Response Sustainability Bond — the first COVID-related issuance by a non-sovereign institution in Asia — provides tangible evidence of this growing interest.

The issuance, which Commerzbank played a part in successfully pricing, attracted orders worth US$3.9 billion from 180 investors across Asia, Europe and the U.S. — a sum exceeding the offering of US$500 million by almost eightfold.

For Long Say Huan, the further transitioning to a greener economy requires stakeholders to look beyond immediate commercial gains towards long-term sustainable profitability, something that in the post-COVID economic environment may, on the surface, look less appealing but is absolutely necessary. Though this could appear less economical for banks, sustainability-linked products and services have been shown to hold longer-term commercial benefits for the borrower and creditor.

Of course, this nascent sector needs to be supported by effective regulatory frameworks — a notion that has been largely welcomed by financial institutions and corporates alike. A significant step forward in this regard will be the launch of the EU Taxonomy, which comes into effect in late 2020. While the Taxonomy is an EU-led initiative, we anticipate its influence to extend well beyond the EU’s jurisdiction and will likely be a starting point for sustainable issuers and investors worldwide.

The myth that sustainable investment and better returns are mutually exclusive should be debunked, concludes Long Say Huan. Evidence is already building that rejects this misconception. He writes: “As we look to recover from the economic devastations of the COVID-19 pandemic, the public and private sector alike should be looking ahead to lay sustainable foundations for the good of tomorrow.”

Read the full article on the Renewables Investor website.
Watch our latest videos

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Commerzbank at 150

This year marks 150 years since Commerzbank first opened its doors. Our latest video celebrates our past, present and future. Click below to watch.

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