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Episode 4: Reimagining Growth through Fintech Innovation

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Hi, I'm Carin Looi, and I lead the asset owner business in Asia-Pacific at BNY. BNY Rapid Insights is a series of short podcasts aimed at providing exclusive industry views and perspectives on the most pressing topics impacting asset owners, to help you turn insights into opportunity and prepare for the future. Today, I'm joined by Mike Demissie, Head of Innovation and Advanced Solutions at BNY, and we'll be discussing how we are reimagining growth through fintech innovation, especially since we have been recently recognized by Asia Asset Management as the Best Fintech Innovation in Securities Servicing and named one of America's Most Innovative Companies by Fortune, both of which we are very honored and privileged to have received. Mike will be sharing more about our innovation strategy, our collaboration with leading fintech companies, and how this translates into more value for our clients, including asset owners. On this note, I'd like to welcome Mike. Mike just to kick off, large corporations are finding ways of enhancing innovation in the workplace. What's BNY's strategy around this?

Michael Demissie

Hi Carin. Good to be with you and glad to be discussing this important topic. Yes, innovation is really essential for the long-term success of a company. You know, we need to adapt to evolving client needs, embrace emerging technologies and find ways to meet our client and employee needs. We need to do that in a responsible manner and a risk managed way. So not only understand the powerful capabilities of these new technologies, but also scrutinize what new incremental risks that they introduce and how we're going to manage it. So to your question, you know, BNY has been doing that effectively, and that's been key to our long-term success as a firm and it's even more important now as the pace of change has accelerated with digital capabilities, meaning you need to innovate and adapt faster than we did in the past. So to that end, our strategy has several facets. I think one, innovation should be core to the business strategy and not a sideshow. Right, so it is, you know, should be very purpose-driven, should be anchored in understanding client needs and how to meet that effectively, efficiently and in a risk managed way.

And when we explore new capabilities, we consider these risks thoroughly. So that's really an important part of our strategy as well. And central teams can serve as a catalyst to accelerate innovation. You know, they connect threads in a large organization like ours. So that's also part of the execution strategy that we embraced. And you know the last thing I would mention is, we don't need to build everything ourselves. So partnership is really an essential component of that strategy. But that's really something that we're continuing to improve on. You know, just allow us to actually get the best of what the market has to offer and tap into the core strength that we have in the firm as well.

Carin Looi

Thank you, Mike. And on this point, could you share a bit around how BNY is innovating in the security services space and what can asset owners expect to see next?

Michael Demissie

Sure. I'll give you three examples. I think one would be, you know, with the emergence of digital assets. We saw a need to support our clients as they adopt this new asset class and as we move towards representing traditional assets in a tokenized form. So that meant, you know, extending our product and service offerings to

accommodate this emerging asset class and doing it in an integrated manner while keeping, you know, the high standard that we have for ourselves and what clients have come to expect in terms of risk management, resiliency and the scale and how we offer our services. And we're also investing in the infrastructure to support all the adjacent needs in that space as well. So that's one area, you can see us looking into investing more and more. Second, you know, AI [artificial intelligence] is here. It is immensely transformative capability and we're applying it to address our client needs in several areas, starting with actually, you know, how we actually do things internally better. For example, we're using machine learning to give our clients now real-time indication of how likely a trade is going to settle on time or not. And they can use that insight to take any necessary action and mitigate late settlements. We're also using AI to forecast our cash balances, whether it is our end-of-day or beyond. And so we can make more informed liquidity management decisions. And this is the capability that can be extended to clients as well as they are dealing with similar type of, you know, challenges in their own shops. AI is also helping us identify anomalies faster than we could otherwise. So we can examine and scrutinize unusual activities and help us manage risk better. Third, you know, we're driving more and more automation. I mean, this should come as no surprise. That is really the direction of travel, so we can serve our clients more efficiently and quickly, and reduce, while, reducing risk, and freeing up our experts to focus more on value added areas as well. So this gives you a little different flavors of transformation and innovation that is happening in the securities space.

Carin Looi

Thanks, Mike. And indeed, right, digital assets, AI, automation are some of the key themes we are hearing from asset owners as we engage them. And to what extent are fintech part of our innovation success?

Michael Demissie

Sure, and I touched on it earlier. I think, you know, working with and collaboration with the fintech ecosystem is absolutely core to our strategy. We know what we're good at and we also know that we don't need to build everything and we can accelerate the time-to-market. We can tap into laser focused, you know, fintechs who are solving particular components that can really be part of the pieces of the puzzle. And so fintechs play really an important role in our client solutions landscape. And to tap into that, BNY has a very deliberate strategy and infrastructure to help us take advantage of that in a more effective way. So we have a dedicated team for digital partnership. And this team helps us actually scan the ecosystem and identify the right fintechs that are tackling the problems of interest for our clients and our services internally. And this group also helps, you know, onboard them to our environment. As you can imagine being a large, highly regulated institution, there is a very robust processes actually to work with any partner and guiding these, sometimes smaller firms. And that process is essential. And also we see it as a two-way street. And so we support them as well to really understand insights from our clients, you know, share meaningful challenges to them, so we can really just help them shape their product roadmap and the evolution as well as something that they value. And when appropriate, we make strategic investments as well. So it is an essential part of our digital and innovation strategy and we're going to continue to do that even more as we go forward.

Carin Looi

Thanks, Mike. And it seems that being very deliberate around incorporating fintech into our innovations, it is part of the way we drive success. Just on that note, innovation is always linked to advances in technology. And in your view, what are the areas of longer-term exploration worth looking into?

Michael Demissie

Absolutely. I mean, there's a long list that maybe, you know, starting with couple that I mentioned earlier. One, AI is really coming of age right now. Innovation is happening at an incredible speed. I'm sure, you know, folks have been seeing, you know, the capabilities like ChatGPT and generative AI in recent weeks and how that's really captured people's imagination and the potential of this powerful capability and the enterprise opportunity to use AI is really just as real. What you know, whether it is processing a large amount of data and uncovering insights, actionable insights and like the ones we talked about earlier. That's really something that AI can help us, you know, harness. And also from a risk management perspective, you know, really helps us actually again, digest large amounts of data and flag anomalies, flag unusual areas that actually we should pay attention to and to scrutinize and just make sure whether there's a problem or something that we need to pay attention to sooner, you know, that can happen in a more effectively as well. And also in driving automation. So whether it is, you

know, being able to ingest unstructured data for instance you can imagine interactions that are happening with clients. And that can come in various forms, whether it is voice, text, various forms of documents and being able to make sense of that in effective way and quickly. You know, AI is really, really a powerful capability that can help us do that. So that's a very robust area that where we recognize and where, you know, we're applying more and more.

Another one is, you know, we're excited about the opportunities around blockchain and distributed ledger technology (DLT). Cryptocurrencies are tip of the spear. But the underlying technology that really underpins that space, we see a lot more opportunities for it, whether it is in tokenization of assets or digital cash, and that really transforms financial services. So that's an area that we are very intently and deliberately exploring and collaboration with our clients to support their needs tomorrow.

Carin Looi

Thanks, Mike. Looks like there's a lot of developments in this area and just a final word for our audience here. What are the insights to summarize what we have just spoke about?

Michael Demissie

I would call out a few things. I think, one, core strategy should address, you know, the critical challenges that our clients and employees face. So it really needs to be purposeful when we're thinking of innovation, when we're thinking of, you know, digitization, we should never lose sight of that. Two. There are very powerful transformative technologies like we discussed whether it's AI, blockchain, DLT. And you know, having a deeper understanding of these capabilities and how they can help solve client needs and how they can transform the way we do things is really essential. And three, we really need to have a robust risk management practice when considering emerging capabilities to really understand what new, if any, or incremental risks are being introduced and how do we safeguard ourselves and our clients from that effectively. So there really needs to be a thorough consideration when it comes to risk of these powerful capabilities. And the last one is, it really is a partnership game we should not be doing it alone. So having the right engagement model to tap into the fintech ecosystem is absolutely essential to the success.

Carin Looi

Thank you, Mike, for the opportunity to discuss the exciting topic on our innovation journey and strategy. As we have heard from Mike, the financial industry is constantly evolving and collaborating with fintech allows us to leverage each other's strengths and expertise to create new and innovative solutions for our clients. To learn more about trends and insights relevant to asset owners, please do check out the Asset Owner Academy on our website. Thank you all for listening.

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