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Best Practices for CSDs in the Fintech Era

AECSD & AMEDA

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Fintech Transforming Financial Services and Capital Markets

▶ Enabling Technologies:

- **APIs:** Enable open banking and integration with third-party applications.
- **Cloud Computing:** Provides scalability and cost-efficiency
- **AI and Machine Learning:** Improve decision-making, fraud detection, and customer services.
- **Blockchain:** Powers cryptocurrencies, decentralized finance (DeFi), digital assets and tokenization. Uses smartcontracts.

▶ Specialized Fintech Areas:

- **Paytech:** Digital payment solutions, mobile wallets, real-time payments.
- **Wealthtech:** Technology-driven wealth management, robo-advisors, and automated investing.
- **SustainTech:** Green finance, carbon tracking, and climate-focused investment platforms.
- **Cryptocurrency & Digital Assets:** Blockchain-based currencies, digital assets, and tokenization of RWAs.
- **Other Areas:** Insurtech, Regtech, LendTech, and more..

▶ Global Fintech Revenues: Regional Outlook



Source: The Second Wave Resilient, Inclusive, Exponential Fintechs, BCG, September 2023

Evolving Role of CSDs in a Digital World

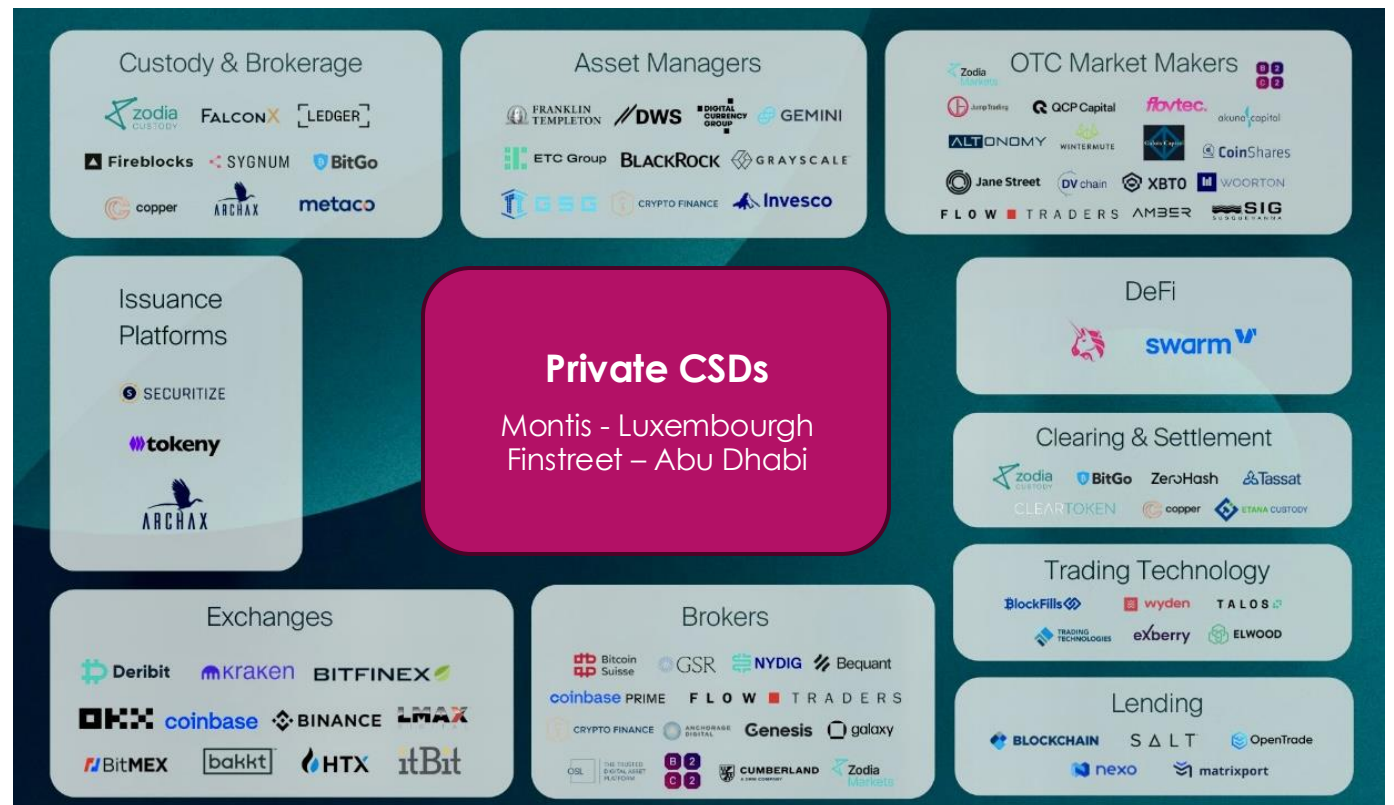
▶ Major transformation in Capital Markets :

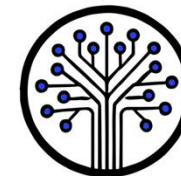
- Significant changes due to fintech adoption
- Shifting investor expectations.
- Industry moves beyond traditional processes
- Rapid rise of digital assets and tokenized assets altering fundamentally how markets operate.

▶ Traditional role of CSDs as a key institution:

- Maintaining trust in local financial markets
- Providing reliable post-trade services.
- Settlement: Accuracy and timeliness.
- Safekeeping: Ensuring safety, security and integrity.
- Registration: Ownership and enforceability

▶ New Players in a New Digital World:





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CSDs Must Adapt to Remain Relevant

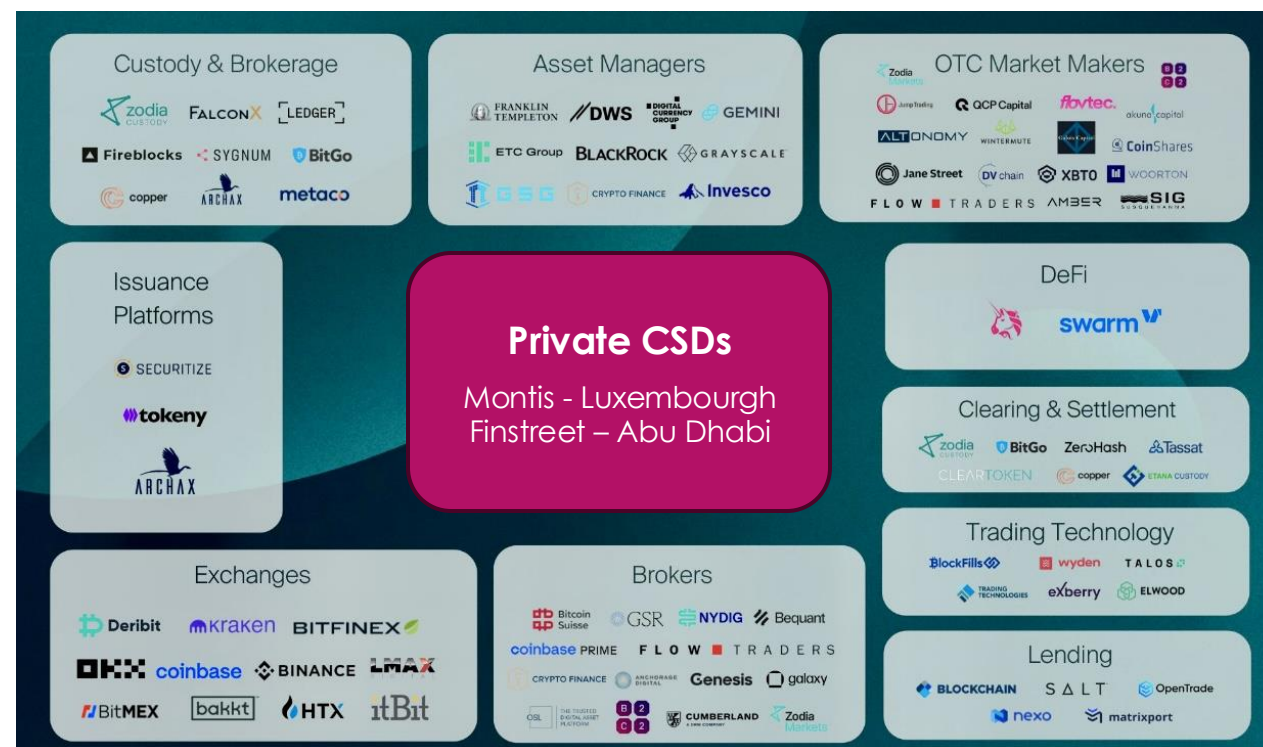
▶ Staying Viable and Competitive:

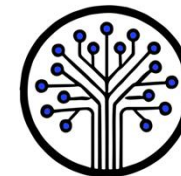
- New entrants in the market (e.g. **private CSDs**) to bridge and serve both traditional securities and digital assets
- Local CSDs need to innovate or risk being left behind.
- Integrate relevant technologies to remain viable and competitive (e.g. blockchain & smart contracts, AI)
- Transition from purely traditional instruments into digital assets ideally with hybrid operational models and interoperability.

▶ Bridging traditional & digital markets essential:

- CSDs are in a unique position to bridge the gap between conventional and digital asset markets.
 - **Hybrid Models:** Offering custodial and settlement services for both types of assets (traditional and digital).
 - **Interoperability:** Ensuring systems can integrate traditional with digital assets, allowing seamless trading and settlement.
- As facilitators of both worlds, CSDs can help the markets transition smoothly while safeguarding their existing roles.

▶ New Players in a New Digital World:





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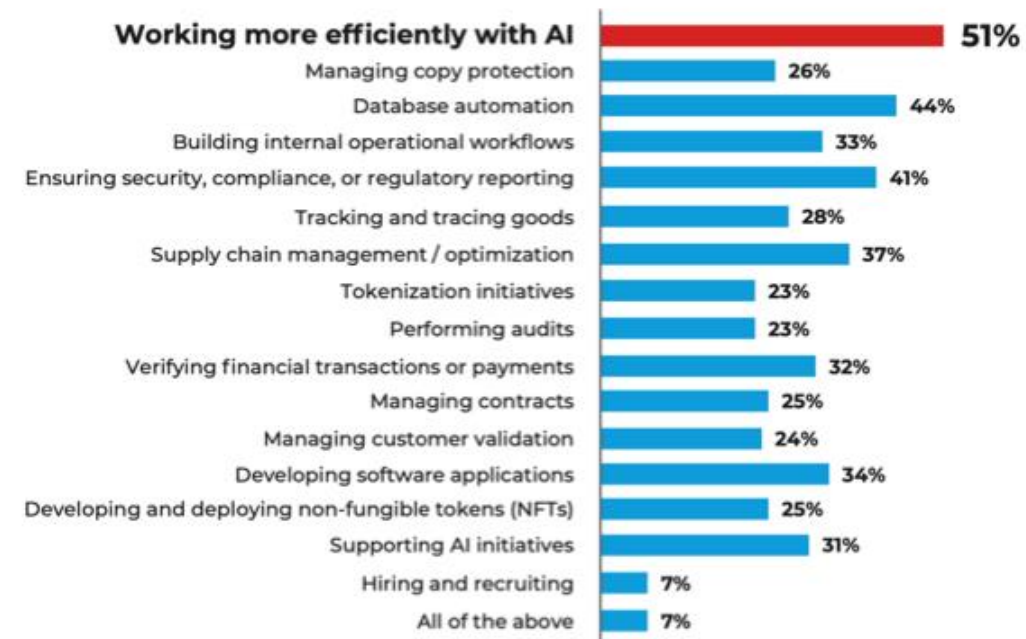
Use of Artificial Intelligence

► Operational Efficiencies, Risk Management, Client Services:

- **Operational Efficiency:** By automating transaction processing and reducing manual entry errors, AI significantly improves the speed and accuracy of securities settlement, leading to reduced operational costs
- **Predictive Settlement:** AI can forecast potential settlement failures, allowing CSDs to proactively mitigate risks by suggesting timely interventions, reducing default risks.
- **Risk Management:** AI-driven systems enhance anomaly detection, identifying fraudulent activities faster and with greater accuracy, ensuring that CSDs maintain secure and compliant operations.
- **Client Interaction:** AI tools such as chatbots and virtual assistants can provide real-time responses to client inquiries, enhancing engagement and satisfaction by streamlining support.
- **Document Management:** AI can streamline complex legal and compliance documentation processes, extracting relevant information efficiently and improving data accuracy, especially in KYC checks and compliance monitoring.

► Use of AI & Blockchain Complement Each Other:

Which of the following best describes how your organization uses blockchain technology today?



Key Take-Aways

A Changing World also for the CSDs:

- ▶ CSDs **role is being reshaped** in the face of rapid technological advancements and new ways of doing business
- ▶ A brand **new competition is emerging in the form of private CSDs** with cutting edge solutions **bridging traditional and digital assets**.
- ▶ Local CSDs need to embrace innovation, keep with new technologies and new paradigm, in order to **remain viable and relevant**.

Fintech to Adopt:

- ▶ Blockchain enables digital assets and tokenization, and uses **smart contracts** for processing. **Trading, clearing and settlement are real-time**.
- ▶ **AI** has a growing importance in improving **operational efficiency, enhancing risk management, and client servicing**.
- ▶ **Blockchain and AI are deemed complementary** and being used also for this purpose.

Not Without Challenges

- ▶ There are **challenges, from regulatory hurdles to the complexity of integrating digital and traditional systems**, however, the stakes and opportunities far outweigh them.
- ▶ **Knowledge and preparation is critical**. Equipping leadership and teams at the CSDs with the right tools, through tailored training and continuous learning, is essential for navigating this transformation.

Conclusion

- ▶ **Embracing innovation**, CSDs will not only ensure survival but also **cement their unique place** in a rapidly evolving financial ecosystem.