News

Exclusive: 'On a mission' – Santosh Tripathy, SmartStream in "The Paytech Magazine"

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You can't wait for the end of the day to take control of transactions that 'don't compute', says Santosh Tripathy, Practice Lead for Digital Payments at SmartStream.

This summer's Wirecard AG scandal, shortly followed by the FinCEN files exposure – the disclosure of confidential suspicious activity reports (SARs) that banks send to the US Financial Crimes Enforcement Network – sent a shiver down the spine of data controllers the world over.

The German payments processor, before its ignominious collapse into insolvency, had championed and facilitated digital payments – but then €1.9bn 'disappeared' from the heart of the organisation. The FinCEN disclosure, on the other hand, revealed that banks could identify and flag discrepancies in transactions that pointed to potential money laundering and other activities, even if senior management chose not to act on it.

The dotted line that connects both of these events is data integrity and the need for automated data analysis that's up to the task. In payments, it all starts with a single transaction that could and should be spotted when it hits reconciliations. But, as the payments industry functions at an ever-accelerated rate, delivering transactions in real time and globally, such exceptions need to be detected fast: at super-human speed, in fact, in order to manage exposure to risk optimally.

SmartStream, one of the leaders in delivering real-time control and greater visibility into payment processing, has embraced artificial intelligence (AI) and machine learning to detect and resolve unmatched settlements, and flag those that could turn out to be benign or malicious.

Practice lead for digital payments at SmartStream, Santosh Tripathy, believes accurate, real-time reconciliations might have prevented a Wirecard situation. And, if acted upon, perhaps even avoided some of the worst consequences of the activities exposed in the FinCEN files. We asked him how the company is helping to address the data integrity challenge.

The PAYTECH MAGAZINE: How is 'real time' pushing innovation, AI and machine learning in payments and settlement?

Santosh Tripathy: The entire payments industry, across the ecosystem, has ironed out the challenges with recent innovations. From issuing to the way we are acquiring transactions, to processing, to the whole settlement business, in addition to the new regulation that has come along in the form of open banking, and the infrastructure around faster payments.

Transactions have become more frictionless and seamless and, in settlement, we're talking about real-time payments where settlement is instantaneous.

Someone has described open banking as the 'iPhone moment of payments'. The moment the entire ecosystem got opened up and Apple allowed developers to participate and collaborate, and most of the applications that we know came about... the same happened with open banking. The way fintechs are participating, and coming up with new solutions in payments, was unknown a few years ago.

There is a statistic that 87 per cent of countries now have some form of open banking or application programming interface (API) banking .

As transactions are moving faster, the need to manage operations in real time, in a very seamless and frictionless way, is more important than ever. You cannot afford to wait until close of business to tackle these scenarios, you have to do it on a real-time basis. In a few years from now, transactions will happen at a speed we cannot anticipate, which means the operation has to support you at the same speed and level of innovation.

How are you supposed to gain this speed and efficiency without including innovations like AI and machine learning in your platform?

TPM: How critical is it for banks to have their payments platforms streamlined for real-time checks and reconciliation?

ST: Regulators, fintech providers, banks, all of them have now realised the importance of the right controls to handle the amount of volume and variations in the payments that happening around the world. If the payment is happening in real time, the settlement has already happened, exceptions have happened; you can't wait for the end of the day to take control of all these transactions that have gone wrong. It's too late for that, and it increases the exposure to risk, both reputational and financial.

Most clients have started looking at reconciliation on a near-real-time basis. Real-time payments definitely warrant that. But the amount of investment that's happening in the control space is not enough. Companies, fintechs, banks, and all players involved, should start focussing on the right controls, start investing in that space. If there had been the right controls, checks and balances by a third party, not internal and inward-focussed, we could have avoided a situation like Wirecard.

That's why it's important that we bring the right controls, checks and balances to the operations.

TPM:With that in mind, then, what does SmartStream Air offer when it comes to payments reconciliation?

ST: SmartStream is a specialist in the operations controls space, which means we take care of the entire burden of any risks, either financial or reputational, that an entity could be subjected to if they are not handling transactions and the operations properly. Our platform is available in the Cloud and as part of managed services. Any new or existing player who wants to leverage the experience and capabilities of our platform and resources can start on day one, without going through the entire journey of setting up these operations in-house. Our managed service is working particularly well for some of the largest banks in the world. It means that any new and growing business does not have to worry about the burden on its operations. That's fundamental. We are there to ensure that no bank or fintech player is at a risk of either losing their clients' business or money.

The rapid pace at which innovations are happening, means you have very limited time to adapt, which means the platform you are using should be able to do that on your behalf.

So, applying AI and machine learning in reconciliation, as we have done with SmartStream Air, helps bridge that gap. A business or organisation does not have to worry about file formats, where this transaction is coming from, and what the matching criteria needs to be for the datasets. That is the job of the platform. The client is responsible only for managing exceptions and risk.

The platform algorithms are the best in class and can onboard and reconcile transactions in almost real time.

TPM:What's SmartStream's role within the payments ecosystem?

ST: Everything has become a commodity or a service – from know your customer (KYC) , to settlements, to issuing cards, to the acquiring business, there are specialists doing those jobs. Twenty years back, the entire burden was on one entity: a bank had to do the KYC, bring on the merchants, process transactions, settle, handle disputes, etc.

We would encourage our partners – and some of them are already part of this journey – to use our expertise, both in terms of our solutions and our people, to expand and become a force in their business. Let us manage their operations and the risks associated to them. Because we are on a mission here – to bring the same seamless and frictionless experience of making a payment into the operations space.

The velocity, the variety and the volume of the transactions in the digital payments space, and the rate at which they are changing, is huge, which means some of these challenges trickle down to operations, and operations will find it difficult to handle in the future. If the payment modes and methods are changing and the whole ecosystem is coming up with a new variety of transaction flow, you have to think about how operations would handle that.

We have a platform that is robust, which is scalable, has no restriction on the way transactions are captured or processed, which allows the business to grow at the speed it wants to.

Operations should not, and shall not become a bottleneck to the growth of the business.