

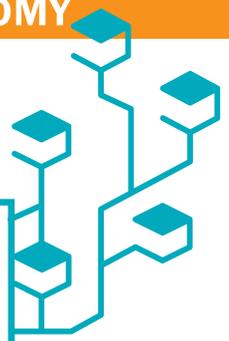
Dr. Ali Divandari, head of Monetary and Banking
Research Institute, Central Bank of Iran

Transparency *in* Banking

From Know Your
Customer (KYC)
to Know Your
Transaction (KYT)

Dr. Ali Divandari, the director of the Monetary and Banking Research Institute (MBRI) affiliated to the Central Bank of Iran (CBI), has said in an interview that those seeking investment in a secure market with low risk should not ignore the Iranian market. Having a Ph.D. in strategic management, Divandari has previously served as the managing-director of Mellat Bank and Parsian Bank.

MBRI is a think tank which carries out research in the broad area of Monetary Policy and Banking in Iran. It also organizes several conferences during the year including conference on electronic banking any payment system. The annual Conference on E-Banking and Payment Systems offers participants a unique opportunity to engage with leading banking industry figures, corporations, and academics to debate and collaborate in the areas of payment systems and banking. EBPS is a leading banking event in Iran where networking and doing business are at the top of the agenda. In addition to the conference, EBPS hosts a high-class exhibition, where participants can meet top institutions in e-banking and payment systems. To learn more about EBPS and its mission Iran Economy Magazine had the opportunity to interview Dr. Divandari Secretary of Conference in his office in central Tehran.



■ **We are grateful to have you with Iran Economy Magazine for an interview. First things first, would you tell us about the aim of the 8th annual conference on Electronic Banking and Payment Systems?**

Organized by Iran's Monetary and Banking Research Institute (MBRI) and initiated by the Central Bank, the annual Conference on Electronic Banking and Payment Systems (EBPS) was launched in 2012. The summit showcases the latest achievements of the e-banking industry and provides a platform for innovations in that industry. It offers an open border to domestic and international banking industry as well as corporations, information technology companies, and key stakeholders, important clients in the banking system in one time under one roof to debate and collaborate for a brighter future.

The 8th Conference on Electronic Banking and Payment Systems focuses on blockchain considering its capability in revolutionizing Iran's banking industry. In assessing banking industry trends, payments by blockchain technology, we look at developments in the field of information technology with blockchain technology, barriers and challenges facing the banking and payment industry, developments in cryptocurrency and new business environment, and so on.

■ **As you pointed out, the main focus of this year's conference is the blockchain revolution. What was the reason behind the theme, and how is the topic addressed in this year's conference?**

Blockchain is a fundamental technology that may change financial, economic and even social structures in the coming years. In today's world, the financial system and banking industry have witnessed a tremendous change with the technology. Blockchain will greatly reduce transaction costs by setting up a major structural change on financial transactions, data storage and tracking. It also has the potential to turn into a system to record all transactions, and if that is the case, the economy will once again experience a dramatic change and new sources will emerge in accordance with blockchain.

Thus, the 8th annual Conference on Electronic Banking and Payment Systems will kick off with the Blockchain Revolution theme. Experience shows that for a fundamental innovation such as blockchain to bring about a revolution, various technical, legal, organizational and even social obstacles should gradually get eliminated. Thus, the conference is organized in six main categories: blockchain technology and distribution locations, cryptocurrency, alternative payment system, financial technology (fintech), payment and open banking, fraud-money laundering-scam and ways to counter them, and digital evolution.

■ **In general, how familiar are Iranian banks with blockchain technology and how often do they use it in banking services?**

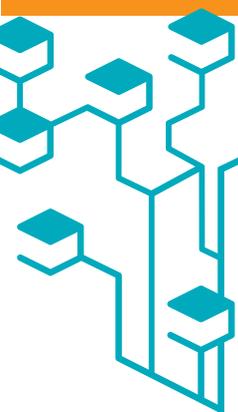
As of now, Iranian banks have taken one of the two following approaches in relation to blockchain technology. One ambi-

tious but accessible approach considered by banks leading the way and willing to take a risk for more rewards is to put blockchain R&D on the agenda. The other approach taken by conservative banks is to hold out for the maturity of blockchain technology and then pursue the path already laid out by other financial institutes.

Wrong decisions are made for lack of knowledge of emerging technologies that can lead to irreparable losses in banking systems. Thus, the 8th annual Conference on Electronic Banking and Payment Systems intends to inform financial institutes of the benefits and challenges posed by this technology.

■ **Blockchain is considered a new technology both in Iran and other countries. What measures should be taken to encourage banks to benefit from this technology and make the most of it? Does the Monetary and Banking Research Institute (MBRI) have any plans to offer training courses for blockchain or similar technologies such as the Internet of Things (IoT), artificial intelligence (AI) and open banking to financial institutes?**

The Monetary and Banking Research Institute as the research arm of the Central Bank of Iran aims at promoting the knowledge of managers, banking and finance experts, and holds conferences such as electronic banking conference as well as monetary and foreign exchange policy conferences. The institute also organizes training courses. Thus, according to the conditions and challenges of the banking network and the needs of the relevant organiza-



tions, the curriculum is arranged in the form of specialized meetings and workshops that as of late is through the various education courses organized throughout the year on modern banking technologies, including blockchain, IoT, big data, open banking, and so on and so forth. In blockchain technology alone, there are workshops offered on, for example, the application of blockchain and cryptocurrency in the banking industry, blockchain for business, blockchain companies, valuing cryptocurrencies and Bitcoin mining, and various consensus-building techniques in the blockchain. The classes will be offered at a faster pace in the future.

■ **How do you view the country's banking infrastructure conditions for the development of electronic banking? What areas require infrastructure development?**

The successful implementation of e-banking, not just in Iran, but in any state, depends on infrastructure. The most important of which are: technical infrastructure, management and organizational factors, socio-cultural infrastructure, and e-banking legal and regulatory infrastructure.

In our country, in terms of infrastructure in electronic banking and payment systems, we are in a satisfactory state compared to other industries. In fact, this industry has grown relatively drastically in the past decade. Nonetheless, among infrastructures required for the development of e-banking, legal infrastructure is most vital. That is because the development of any new technology before public approval requires legal acceptance, i.e., the existence of the necessary laws in that area. The legal infrastructure

reduces the risk of e-banking based systems and fully uses its capacity.

Thus, opening up to newer technologies becomes essential in some areas, such as combating offenses and money laundering, and ways to assure proper identification checks.

■ **What is your opinion on the use of cryptocurrency in Iran's banking system? Iran will have to deal with basic needs and humanitarian assistance without having access to the financial services of Swat. How can adopting a national cryptocurrency help Iran get around the economic and financial sanctions?**

The fact is that over time, we are a witness to new cryptocurrencies and the formation of a crypto economy. In the digital world, cryptocurrency is digital money that can be transferred quickly, freely, efficiently and at a low cost.

Therefore, although the introduction of the cryptocurrency into the traditional economy is still a major challenge, crypto economy models will provide new options for value creation that goes beyond the capabilities of old currencies. In recent years, the Monetary and Banking Research Institute has conducted extensive research on the national cryptocurrency, and even its sample has been made for economic purposes.

In addition, the national cryptocurrency, designed by the Informatics Services Corporation (ISC) at the request of the Central Bank is currently undergoing a pilot examination which after the approval of the CBI will be available in Iran's banking system. However, the main issue here is, as of yet, there is no demand or target market for the national cryptocurrency. It

seems that a cryptocurrency adopted by trading partners of a country is more applicable than a national cryptocurrency.

■ **Does Iran's banking system have a way out of the brutal economic pressure imposed by the US government, or can it be eased to some extent? How hopeful are you of the implementation of EU's Special Purpose Vehicle (SVP) mechanism for trade with Iran?**

Some countries have secured national cryptocurrency to bypass US sanctions and expand economic and financial relations with Iran. Frankly, a large part of the challenges, associated with digital currencies and blockchain technology is political. Therefore, with the international financial transaction at high volume of exchanges, protocols, and strict rules, the adoption of cryptocurrencies won't ease up sanctions on us. For example, if the volume of exchanges exceeds a certain limit, the entire transaction will be subject to potential money laundering and the transparency in the banking sector from, Know Your Customer (KYC) will turn into Know Your Transaction (KYT).

■ **Please explain about FinTech (fintech) and startups, and how these emerging businesses can get funds and support to get off the ground?**

Fintech, a portmanteau of financial technology, is an emerging industry that uses technology to improve activities in finance. Financial technology companies consist of both startups and established financial institutions. Technology companies try to replace or enhance the usage of financial services provided by existing financial companies. Fintech refers to



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DIVANDARI

new applications, processes, products and business models in the financial services industry.

Active companies in the field of financial technology are often startups trying to fit in financial systems and challenge traditional companies. In fact, the majority of blockchain technological innovations in financial services come from startups, and the next generation of banking and payment services will also come from startups and fintech.

The active young men in financial technology have a better understanding of their own generation's needs and offer better solutions at lower cost. The main issue is how to support fintech.

The Monetary and Banking Research Institute is currently implementing a new scheme to introduce fintech companies to Iranian and international investors. The institute aims to provide an interactive platform where banks, fintech firms, and national and foreign investors all participate. Part of the annual Electronic Banking and Payment Systems Conference has always been dedicated to fintech, competitions in this area, and interesting topics for youngsters on transitions from traditional banking to modern banking.

■ **How do you assess Iranian fintech companies participating in foreign countries?**

In today's fast paced world, innovation and technology are evolving rapidly and moving faster than the law and regulation. We have fintech firms in Iran that can operate internationally, but they face strict and cumbersome laws and licensing rules. Thus, for financial technology companies

to work at their optimum level internationally and provide better products, the administrative rules have to ease up.

In recent years, Iranian fintech entrepreneurs have migrated to neighboring countries or developed states to offer financial services. Fintech struggles largely to find capital and ways to attract it, as well as to reassure investors of a safer return of their money.

■ **Aside from the US administration pressure on Iranian banks, what are the major problems of Iran's banking system?**

Increase in the monetary base and high liquidity, increase in bank dues, banks' insufficient capital, complying with laws of the country where the international banking system presents problems locally. In fact, Iran's banking system struggles with three major hurdles: organizations interfering with the Central Bank policymaking and supervision, government and non-government bank dues, and inadequacy of banks' capital and, consequently, reduction of

bank facility. In the recent solutions offered by the Central Bank and the Ministry of Economic Affairs and Finance to reform the structure of Iran's banking system, these issues are being addressed.

