



Future conversations:

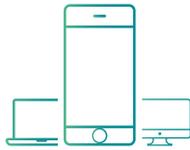
Secure mobile messaging in wealth management

How secure mobile messaging can
combat fraud, reduce compliance
risk and support client engagement

July 2016

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People spend more time online on their smartphones

than on laptops and PCs³



Mobile messaging is the fastest growing and most predominant digital vehicle ever.

There are **2.5 billion people** in the world⁴ on messaging apps today



2/3 people in US¹ and UK² own a smartphone

Key Facts

A recent study from the US suggests that up to



1/2 of the financial industry's employees

are using mobile messaging outside of firms' secure environments⁵



CEO email fraud has cost businesses around the globe more than

\$2 billion in little over two years⁶ and the threat is growing

¹Source: Pew Research Center (2015) *US smartphone usage 2015*. [Online] Available at: www.pewinternet.org/files/2015/03/PI_Smartphones_0401151.pdf

²Ofcom (2015) *Facts & figures*. [Online] Available from media.ofcom.org.uk/facts/

³Ofcom (6 August 2015) *The UK is now a smartphone society*. [Online] Available at: media.ofcom.org.uk/news/2015/cmr-uk-2015/

⁴The Guardian (22 Jan 2016) *Marketers should stop ignoring instant messages*. [Online] Available at: www.theguardian.com/media-network/2016/jan/22/marketing-instant-messenger-whatsapp-facebook

⁵Infinite Convergence Solutions (26 Oct 2015) *Press release* [Online] Available at: www.infinite-convergence.com/study_finds_employees_using_unsecure_mobile_messaging_apps_and_services_is_rampant_in_finance_industry

⁶FT (24 Feb 2016) *CEO email scam costs companies \$2bn*. [Online] Available at: <https://next.ft.com/content/83b4e9be-db16-11e5-a72f-1e7744c66818>

**“Novastone
for Finance’s
secure mobile
messaging
application
was born
out of the
increasing
friction in
doing business
in private
banking.”**

Despite the digital revolution and much talk about firms becoming more client centric, we have seen more rather than less friction being introduced into the relationship between relationship manager and client.

One of the prime reasons for this is of course our overdependence on email, a technology that was never designed to be robustly secure and which is now proving decreasingly up to the task of delivering information safely to the intended recipients in a straightforward and timely manner.

Messages are getting buried, lost and increasingly and worryingly, intercepted.

This is causing millions and millions of dollars to be diverted to criminals’ bank accounts and to private data being leaked which in turn leads to further financial and reputational risks for institutions and clients.

Where institutions live or die on their reputations, this failure of security is leading to increasing checks being added to even quite straightforward transactions before business can be done.

The result is less business, less satisfied customers and often not as much information and data security as one would like.

At the same time the rapid adoption of smart phones is changing the way that we communicate, organise and manage our personal and business lives, shop, bank, digest news, and so on. We are increasingly managing our lives on the go, not from behind a computer. Mobile messaging allows both institutions’ professional staff and their clients to keep in touch and do business wherever they are and whatever else they are doing.

Novastone for Finance is able to facilitate conversations in a way that is orchestrated and managed, secure, easy to use, and of course recordable, auditable and supportive of the needs of risk and compliance teams within institutions.

It is a win for banks and other financial and professional services firms, and their high-value clients.



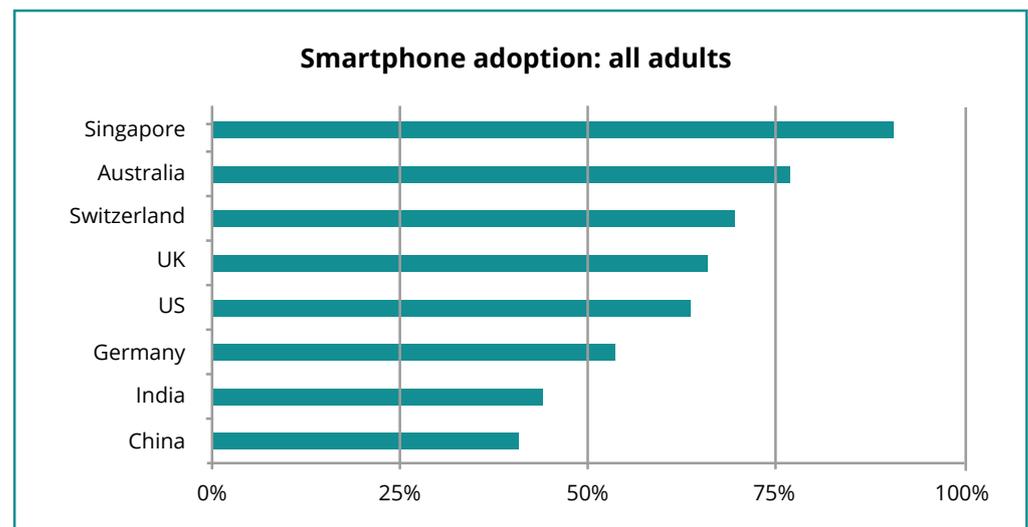
Douglas Orr
CEO, Novatone Media

The rapid rise of mobile messaging

“The fastest growing technology isn’t the smartphone, live video streaming or blogging; it’s instant messaging (IM). Its rapid growth has destroyed the text message business and put the power of instant, peer-to-peer communication in the hands of over 2.5 billion people around the world (expected to grow to 3.6 billion by 2018)⁷.”

The rapid growth of mobile instant messaging has been fuelled by a number of factors:

1. Smartphone adoption globally has grown extremely quickly. The majority of UK and US adults own a smartphone and use it for longer each day on average than they do their laptops and PCs.
2. Combined with superfast 4G, this level of adoption is changing the way adults of all ages shop, bank and communicate.
3. Mobile instant messaging is easy to use – this is crucial as research shows that this is the greatest driver of FinTech adoption⁸.
4. Trust levels are high with mobile instant messaging as users can be confident their messages will reach their intended recipient. Increasing fraud and spam means that email no longer inspires that trust and confidence - if indeed it ever did.
5. Mobile instant messaging can incorporate location maps, images, videos, attachments and other items, which allows for a far better, richer conversational exchange.



Source:
**Pew Research Center,
Ofcom, SMS global,
Zenithoptimedia**

⁷The Guardian (22 Jan 2016) *Marketers should stop ignoring instant messages*
[Online] Available at: www.theguardian.com/media-network/2016/jan/22/marketing-instant-messenger-whatsapp-facebook

⁸Source: EY (2015) *Fintech Adoption Index*.
[Online] Available at: www.ey.com/GL/en/Industries/Financial-Services/ey-fintech-adoption-index

Mobile messaging and business

Mobile instant messaging is playing an increasingly important role in the workplace as a medium for professional, personal communication - both as a supplement to and a replacement for e-mail.

Easy to use and convenient people are attracted by the ability to share ideas and information in real-time as a more efficient way of working than dealing with the more delayed responses of e-mail. Mobile instant messaging also offers a better ability to retain the context of conversations – so often lost in email chains.

“Once you interact with a business, you open a thread that will stay forever. You never lose context, and the business never loses context about who you are and your past purchases. It removes all the friction.”

David Marcus
CEO, Facebook Messenger

“...UHNWIs are some of the most prolific users of, and investors in, technology..”

Emma Haffenden
Senior Analyst, MyPrivateBanking

According to Silicon Valley e-discovery and litigation support firm BlackStone Discovery the question isn't whether mobile messaging is going to replace work e-mail – the question is whether or not it has already. For wealth managers the fact that high net worth individuals tend to be early adopters⁹ and heavier users than average of new forms of communication means pressure on front office staff particularly to use mobile instant messaging is already coming from their clients.

Studies from the US indicate that that 80 to 90 percent of all companies have some mobile messaging use by employees¹⁰ and that unsecured mobile instant messaging usage is in use by up to half of the financial industry's employees¹¹.

The dangers of unofficial mobile messaging

One of the reasons that informal instant app usage is dangerous for firms is that it risks them falling foul of legal and regulatory requirements to record data and conversations and to make them readily available for review and audit.

For financial institutions particularly regulations on financial promotions and record keeping such as SEC 17a-3 and 17a-4 and Finra Rule 3110 in the US and rules set out in the FCA's Code of Business chapters 11 and 4 in the UK. Some regulators also cover mobile messaging under their social media policies - see the SEC's 2012 risk alert on investment adviser use of social media¹².

MiFID II will tighten rules around product governance, suitability and disseminating content. It will require robust monitoring systems to ensure a firm's digital communications with its clients are always appropriate and in line with a client's best interest. Firms will be required to keep records of all electronic communications for up to seven years from any device, ensuring that they maintain adequate records of disclosures of potential conflicts of interest.

⁹Wealthmanagement.com (24 March 2016) *UHNW Advisors Are Losing the Digital Race*. [Online] Available at: <http://wealthmanagement.com/high-net-worth/uhnw-advisors-are-losing-digital-race>

¹⁰Tech News World (28 March 2005) *Managing IM and E-Mail Threats in the Workplace*. [Online] Available at: www.technewsworld.com/story/43300.html

¹¹Infinite Convergence Solutions (26 Oct 2015) *Press release*. [Online] Available at: www.infinite-convergence.com/study_finds_employees_using_unsecure_mobile_messaging_apps_and_services_is_rampant_in_finance_industry

¹²SEC (4 Jan 2012) *Investment Adviser Use of Social Media*. [Online] Available at: www.sec.gov/about/offices/ocie/riskalert-socialmedia.pdf

The use of mobile messaging apps outside of a firms' secure and recorded IT and compliance environments is not just a problem for risk, compliance and legal departments however.

Without a formal infrastructure around mobile messaging use in firms, there is a danger that staff may not be using it in an appropriately business-like fashion.

The informal "water cooler" nature of mobile messaging conversations can lull employees into a false sense of security both about the degree to which their conversations are stored and may re-emerge during later legal and/or regulatory investigations, and about the "more candid and less reflective observations" they might be tempted to make.

The answer is not to attempt to clamp down - the genie is out of the bottle and the potential business benefits are too great - but rather to provide a suitable infrastructure and framework. Firms need to have policies that are clear to staff and enterprise-class mobile instant message platforms that encourage staff to switch over.

As law firm Robins, Kaplan, Miller & Ciresian put it in an article in *Corporate Counsel* magazine:

"For most enterprises, instant messaging will become more prevalent as time passes. Although this development may alarm in-house counsel, proactive management of instant messaging can mitigate risk and enable the organization to leverage the value of that platform for the business."¹³

Supporting relationships

Improved client experience

"Our research now shows that as reporting and IT systems improve, so the bond between an individual relationship manager and the client weakens, and, instead, clients' loyalty to the institution's service experience strengthens."¹⁴

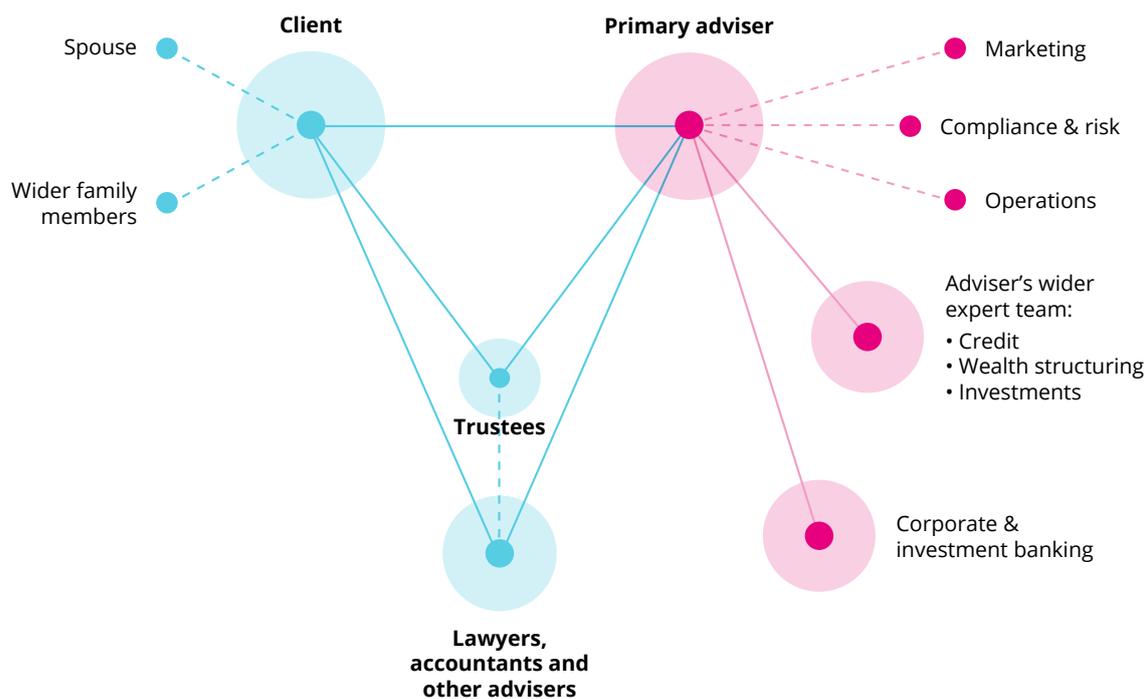
Implementing an enterprise mobile messaging system offers firms the opportunity to support an improved client experience. Clients will love it for being easy and safe, and will not want to give the functionality up easily, which supports retention, and as it eases conversation and supports speedy transactions, clients may increase the amount of business they do with firms that provide it over those relying on email and scheduled telephone call backs or video calls.

Acting as the conduit to a full range of capabilities inside and outside of a firm is a key competitive differentiator, according to the 2015 World Wealth Report, and enterprise mobile messaging applications that enable the managed orchestration of meetings with the full range of a firm's specialist experts can play a key part in developing a differentiated and valued service proposition.

¹³Seth A. Northrup & Li Zhu (14 March 2014) Let's Chat About the Legal Risks of Instant Messaging. *Corporate Counsel* [Online] Available at: www.robinskaplan.com

¹⁴Wealthbriefing (2013) *The new normal: codifying superior experience in wealth management*. p. 30

Figure 1: Mobile messaging to orchestrate conversations in the wealth management environment



Other positives for clients include:

- Providing an improved speed for client query handling and client notification in response to major market movements or news.
- The ability to support concierge services and events.
- Greater personalisation via the ability to track client preferences over time as interactions yield data to support content and communication programmes.¹⁵

Efficiency and productivity

Relationship managers often complain that a very significant proportion of their time is spent in client administration. Mobile messaging can incorporate functionality to support a fluid process for a range of scenarios currently punctuated by frustrating stop-start exchanges such as the efforts required to:

- Open client accounts with all the associated compliance requirements such as KYC and AML.
- Location confirmation which may be required before certain information exchanges and product conversations can be had compliantly.
- Confirm transactions securely.
- Conduct effective product suitability assessments.

Confidentiality

Non-enterprise mobile messaging solutions built around chatrooms do not support the relationship managers central role or have the ability to orchestrate conversations between parties where confidentiality and privacy are important considerations. The ability to set permissions by level, role and responsibilities to map a firm's business model to ensure conversations are orchestrated within agreed parameters and permissions may be crucial for private banks and wealth managers.

¹⁵Not all such functionality is standard on enterprise mobile messaging applications.

Instant messaging as a solution to email fraud

Email fraud is on the rise. “Phishing” exercises - the sending out of thousands of anonymous emails in the hope of a response - are giving way to more targeted activity referred to as “spear fishing” where attackers craft emails targeted at their victims, who, following the spear phishing analogy, are “whales” or high-value targets.

The attacks use a range of techniques such as scheduling fraudulent wire transfers or diverting funds scheduled to be sent from one account to another.

A typical example involves criminals hacking into an email chain between someone selling a property, the buyer, their solicitors and estate agents, and sending an email – usually on the day of sale completion – to tell the relevant parties that bank account details have changed at the last minute. Once transfers have been completed, retrieving misdirected funds is problematic at best.

“Whaling emails can be more difficult to detect because they don’t contain a hyperlink or malicious attachment, and rely solely on social-engineering to trick their targets”

According to the UK’s Daily Telegraph: “Leading experts in the fields of cyber-security now suggest the public should avoid email when giving or receiving payment instructions to solicitors.” One organisation has even campaigned for communicating sensitive information such as bank account details by post rather than email. Cautious but often impractical.

The very wealthy and those who manage their private investments are key targets for cyber criminals seeking to trick them into misdirecting transfers of large sums of money to bank accounts under their control.

Businesses are also at risk and invoice scams are becoming more sophisticated and pervasive. Fake emails purporting to come from chief executives to senior employees asking for money transfers are estimated to have cost US businesses as much as \$2bn in the past two years, according to the FBI.

“Whaling emails can be more difficult to detect because they don’t contain a hyperlink or malicious attachment, and rely solely on social-engineering to trick their targets,” said Mimecast in a warning issued in December last year.

Access to personal information has made this sort of fraud easier. According to an article in the Financial Times in February 2016, organisations that list details of senior staff online and networking sites such as LinkedIn are being “filleted by criminals to find people with board-level job titles”. Posing as recruiters, criminals are setting up fake LinkedIn accounts which then allow hackers to map the networks of business professionals and gain the trust of those in them. By making such connections users can be encouraged to reveal personal details and/or email addresses which get used in spear-phishing campaigns.

Firms are now seeking alternatives that are more reliable than email – which was never, in fairness, designed with this level of privacy or security in mind – and more convenient than arranging a telephone call between busy parties who may not even be in the same time zone.

¹⁶Daily Telegraph (23 April 2016) *Property sellers warned not to email solicitors.* [Online] Available at: www.telegraph.co.uk/money/consumer-affairs/property-sellers-warned-not-to-email-solicitors-we-lost-204000/

¹⁷Financial Times (24 February 2016) *CEO email scam costs companies \$2bn.* [Online] Available at: <https://next.ft.com/content/83b4e9be-db16-11e5-a72f-1e7744c66818>

¹⁸Mimecast press release (23 Dec 2015). Available at: www.businesswire.com/news/home/20151223005366/en

¹⁹Financial Times (3 Feb 2016) *Cyber criminals focus on the super-wealthy.* Available at: <https://next.ft.com/content/dbd3724c-da20-11e5-a72f-1e7744c66818>

How does mobile instant messaging work?



VS



VS



IM vs chat

Instant messaging is similar to online chat which also offers real-time text transmission over the internet but which usually includes multicast transmission, usually referred to as “chat rooms”, where participants might be anonymous or might be previously unknown to each other. In business environments this has had some success in project collaboration but it is increasingly found to be struggling with larger group discussions and isn't generally found to be appropriate for more secure conversations supporting high-value relationship.

IM basics

Instant messaging is a set of communication technologies used primarily, but not exclusively, for text-based communication between two or more participants over the internet or other types of networks. Systems tend to facilitate connections between specified known users. Short messages are typically transmitted between two or more parties, when each user chooses to complete a message and select “send”.

More advanced instant messaging can add file transfer, clickable hyperlinks and so on.

Instant messaging differs from other technologies such as email due to the perceived quasi-synchronicity of the communications by the users. Some systems²⁰ permit messages to be sent to users not then ‘logged on’ (offline messages), thus removing some differences between IM and email (often done by sending the message to the associated email account).

IM vs text messaging

Text messaging is tied to a mobile phone number and anyone using your phone can send, receive and look at your texts. Instant messenger programmes require a log in providing more security and privacy. The extent of that security and privacy depends on the application's individual security infrastructure.

Encryption as a response to the security concerns of non-enterprise mobile messaging systems merely makes the problem of creating accessible auditable records for institutions worse. In addition even if adding a mechanism to record such conversations were possible, many of these chat applications have their data servers in places that financial institutions might not want them to be in – eg the United States.

Other recent developments have been in artificial intelligence and chat bots. Bots are what non-enterprise chat solutions have had to invent in order to enable them to facilitate interaction with commercial partners' apps within their chat application. Chat bots are computer programs that mimic conversation with people using artificial intelligence but the experience isn't entirely smooth or friction free as it might be. Properly built enterprise secure mobile messaging services have the inbuilt ability to create orchestrated, managed conversations in different forms and formats with different functionality with different parts of an organisation naturally. And securely of course.

Summary

The rapid rise in mobile messaging has taken the business world by surprise but firms are beginning to embrace the technology as a solution to a host of issues they have with email - from fraud to in-box overload.

Wealth managers and private banks need to review their strategy for this technology quickly to ensure they reap the business benefits and manage the risks effectively.

At its best mobile messaging offers a simpler but richer experience for clients, both individual and corporate, and forward thinking firms are seeking ways to incorporate the technology into their business models.

However mobile messaging platforms differ and effective partner selection is key:

No chat rooms: Look for configurable engagement models with effective permission management.

Secure: High level security protocols for client (and institution) piece of mind. Protection against data loss.

Auditable record of conversations to support legal and regulatory requirements across jurisdictions.

Geolocation: So that where a client is based at any given time can be easily and definitively established to ensure compliant client conversations and sales.

Rich conversations: The ability to incorporate rich media such as pdfs, graphs and charts.

Proprietary and branded: Client relationship management within a firm's own environment, secure retention of client conversion history and ability to white label.

Service: A good enterprise messaging solution should provide 24/7 monitoring and support with dedicated personnel.

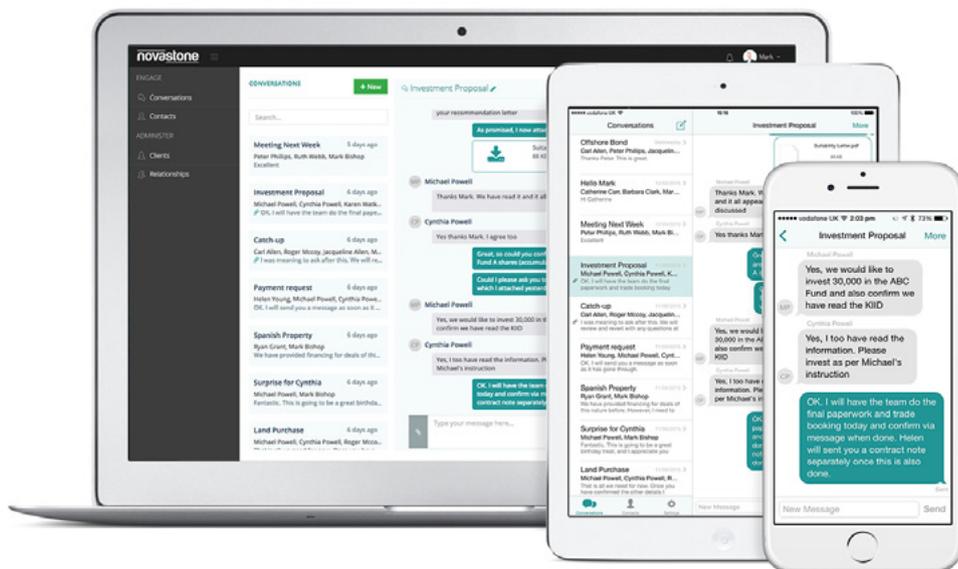
About novastone

Novastone is a London-based, international financial technology company that builds white label messaging solutions for high value client interactions primarily in wealth management, banking and business. Novastone's secure, mobile-centred instant messaging platform is designed for firms that deliver a high-touch, personalised client experience through relationship teams, particularly in finance/financial services but also in the wider business world.

Novastone's platform has been built in response to the way that mobile messaging is changing the way that people communicate seeking real-time, conversations – both two-way and multi-way.

It is easy to use, secure and auditable.

www.novastonemedia.com



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