

The RegTech Forum presents:

The Digital Transformation Deep-Dive

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Contributions from:



Welcome to the RegTech Forum

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Welcome to the RegTech Forum, a vibrant community of regulators, regulated firms and their technology and service providers. Facilitating discussion, collaboration and insight on the challenges and opportunities within RegTech – and ultimately a marketplace to do business.

As readers of previous whitepapers and our newsletter will know, The RegTech Forum is growing. Our established thought leadership events continue on September 12th with a deep dive into the Buy-side, in association with our principal partner Liquidnet. In October we'll be discussing "RegTech and the Supply Chain", looking at how RegTech can help minimise the risk in this important area. We will be exploring the same topic at our first New York event in November, as part of Markets Media week. We also hope to announce new events in Dublin, Paris, Zurich and Luxembourg soon.

In our advisory business, we are working with three new companies helping them with business development activities, a relationship that is built on their membership of our community. **Sign up today (for FREE)**, membership has its privileges.

We have also just launched our **RegTech Markets directory** - a curated resource of RegTech providers (**click here for the full announcement**). The first compilation of the sector: structured, researched and market-wide. Providing the "go-to" reference library for Regulated Firms, RegTech companies and Investors. Divided into functional categories, the directory will help firms match problem to solution, identify participants, locate the "white space", measure market maturity, and spot the opportunities. The directory is curated by our members and we have had amazing response to requests for judges, with senior market experts signed up from Barclays, Rabobank, Unicredit, WestPac, BNY Mellon, Credit Suisse, Dominican Trust, Standard Chartered and more.

This momentum and the traction the RegTech Forum is gathering would not have been possible without the support of our contributors, sponsors and attendees – thank you. We look forward to welcoming you to our next event.

Executive Summary



Vincent Kelly

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One of RegTech's key aspects is the impact that Digital Transformation is having on participants and their providers. Data is now a valuable commodity, and as the volumes continue to soar upwards, new and innovative solutions are being developed every day to help Buy- and Sell-side institutions gather, store, manage, analyse and monetise this information.

As such, we dedicated the fifth RegTech Forum London event to this important topic. Hosted at Europe's most creative collaborative workspace, Second Home in Spitalfields, we welcomed over 100 guests from every corner of the market, to hear a selection of recognised experts share their thoughts on the challenges, and opportunities, Digital Transformation is bringing.

The night began with a Keynote address from Andrew Reid, Deutsche Bank's Global Head of Digital Market Management & Governance, who explained how the Bank is bringing data and Digital into the heart of strategy. He was followed by Polina Evstifeeva, also from Deutsche Bank, who discussed her role as Vice President within the Market Advocacy function, and how branches within RegTech could be applied proactively manage regulatory change.

Bob Fuller, Chief Administration Officer at Fixnetix, then took the stage. He discussed the intended, and unintended, impacts of regulation on market infrastructure. Tom Fairbairn from Solace followed, sharing his experience as Systems Architect to explore how firms will have to manage the increasing data volumes as a result of the increasing number of data sources.

Rounding off the speaker presentation portion of the evening, Paul Charmatz, Managing Director at Encompass Corporation, gave an overview into how the Know Your Customer (KYC) / Anti-money Laundering (AML) process has evolved and is continuing to innovate to stay ahead of financial crime. The evening continued into the night with an excellent Q&A session, hosted via a digital platform provisioned by Solace.

A review of the key thoughts from the night, as well as further ideas shared by the speakers, is presented below in the Panel Insights section. I look forward to discussing these topics with you at the next RegTech Forum event.

Deutsche Bank: Deutsche Bank AG is a German global banking and financial services company, with its headquarters in the Deutsche Bank Twin Towers in Frankfurt.

Encompass: Know Your Customer (KYC) software for banking, finance, legal and accountancy. Onboard clients with ease and ensure AML regulation.

Fixnetix: Fixnetix, a DXC Technology company, is a trusted Managed Service Provider dedicated to the global capital markets community, supplying services that facilitate low latency electronic trading and market data, connectivity utilities, IT infrastructure and risk solutions in support of regulatory compliance. As a proven partner to market participants worldwide, clients can outsource the provision of fully managed Front Office solutions, reducing total cost of ownership and improving time to market.

Solace: Solace provides technology that improves the speed and efficiency with which information flows between applications, connected devices, data centers and clouds.

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Andrew Reid

**Global Head of Digital Market
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RegTech, FinTech and Digitisation play an increasingly significant part in Deutsche Bank's client engagements. Before transitioning into my current role I ran European Corporate Cash Management, where we continue to have active conversations with clients and partners on the impact and opportunities these distinct, yet interacting themes present.

As part of my new position heading up Deutsche Bank's Digital Market Management and Governance function, I have spoken to a number of people, both from the bank and within the markets, about the key themes and topics. What is absolutely unquestionable, is that digital transformation and digitisation top the agenda of the market's focus and priorities. Digital technology, advanced analytics fuelled by data, effective data processing – these are all transforming how companies are working, competing, resourcing and creating value.

Creating Greater Value from Data

At 'The Hive' in Dublin, Deutsche Bank's Data Innovation Hub, a team of 80-90 people is exploring a range of data and digital programmes, linking topics across anti-financial crime (AFC), data quality, client analytics, research & development, and incubator projects. Working with colleagues in London and India, they look at a range of themes: e.g. platform, feed, data and analytic tool services, and all of the interactions therein.

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Competitive advantage lies in creating greater value from data, leveraging the growing mass of information, and transforming it into business insight using analytic techniques. This new approach will require the use of multi-disciplinary teams and cultural change – for Banks as well as Corporates.

Proactive Response to Change

Transformation dominates our client discussions: whether operational (doing things better, faster or cheaper) or core transformation (doing things in a fundamentally different way). Yet opportunities abound, and how we engage with clients is having to change accordingly. We often 'come to the table' in a consultative capacity – formal RFPs and engagements are becoming less frequent, and there is a drive for more collaborative work and co-creation with the 'design thinking'-based approaches required to best address problem solving.

Navigating the Regulatory Stream

At the same time, navigating the continuing stream of regulatory developments is an equal, associated and pressing requirement – to prepare our organisation, and also to effectively advise our clients. Deutsche Bank's Global Transaction Bank currently tracks approximately 230 regulations, with some 145 consultation papers having been published since January 2017 alone, which our teams are actively engaged on and reviewing. This is a key function for us due to the global nature of our business and that of our clients. It's our belief that proactive advice and awareness around these advisory and regulatory topics is a growing requirement, and also an 'enabler' for new opportunity – as well as being a competitive differentiator.

Collaboration & Co-opetition

We are fortunate to have clients in over 190 countries, and the regulatory developments have to be considered as well against a portfolio of over 150 global products. Hence, complexity levels are high. As ever, technology will have a key role to play in addressing these challenges and enabling us to deliver the highest level of service to our clients. As such, Deutsche Bank is very excited to be participating in the RegTech Forum, and look forward to working and engaging with the community going forward – as well as contributing to the discussion in what is a very fast-moving and interesting space.

Contributors

Polina Evstifeeva

Vice President, Market Advocacy



Paul Charmatz

Managing Director



Bob Fuller

Chief Administration Officer



Tom Fairbairn

Systems Architect



We compared and contrasted the views of each of our speakers –acknowledged experts in their chosen fields – with the thoughts and views of the other panel members. Taking four topics in turn: Market Advocacy, Infrastructural Change, Technology Scalability and KYC/AML, we can build a clear picture and insight into the impact – and future – of Digital Transformation.

Advocacy: Engaging Proactively with Regulators

Polina Evstifeeva, Vice President for Market Advocacy in Deutsche Bank's Global Transaction Bank explained that today's RegTech solutions and innovators are a response to the increased regulatory agenda following the 2008 financial crisis. "Basel, MiFID, the Central Securities Depositories Regulation (CSDR) – regulators wanted to restrict the possibility of another market collapse, while maintaining growth. In the EU, the Capital Markets Union aims to bring more investment into the European markets, which they do by encouraging digitalisation and bringing new players into the market, such as FinTechs and more recently, RegTechs."

Many of these 'new players' and existing participants are keen to build a proactive dialogue with regulators. As Tom Fairbairn, Systems Architect at Solace put it, "engaging in the regulatory process is important: something that [these firms] should spend time on and allocate resources to." Bob Fuller, Chief Administration Officer at Fixnetix, agreed: "[Engaging with regulators] gives a number of advantages, including early indications of any business implications, as well as increases in budget that might be required."

However, this is not without its challenges. As Paul Charmatz, Encompass Corporation's Managing Director explained, "the Regulators are not always equipped to deal with this level of feedback – it might be better dealt with by trade bodies representing these organisations, although some regulators such as the FCA have shown themselves to be very receptive to this type of dialogue."

Ultimately, the opportunity that technology can bring to this Market Advocacy is enormous. For Polina Evstifeeva, there are three key areas where RegTech solutions can significantly ease the regulatory burden on market participants: Regulatory Compliance, Regulatory Reporting, and Financial Crime (including AML/KYC)

"With so many regulations coming out daily, it's an enormous task to review each one and understand its potential impact to Deutsche Bank, the Global Transaction Bank, and our range of products. So any solution that can help with that, and which can flag regulations in our system when they are updated, to ensure that we are in compliance with the laws on time, would be a great help."

Regulatory Reporting is another area ripe for RegTech innovation. As Polina explained, "Reporting requirements for the banking industry continue to grow. The challenge for Banks is how to respond quickly to the changing requirements, and being able to produce any type of reports that might be required in the future. Currently, Banks must tailor IT systems to each new regulatory requirement, and regulators receive data from the Banks in many forms and means.

*Engaging with regulators can provide early indications of **business implications and budget increases that may be required***

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Due to the costs and inefficiencies associated with an area that has grown and will continue to grow exponentially in the next few years, this would appear to be a prime area for RegTech to focus. A system that contains all banking data in digital form (including old information and data in paper form) could allow for managing and retrieving any data that the bank has. This should make the reporting process easier.”

In the field of Financial Crime, much of the focus is on Anti-money Laundering (AML) and Know Your Customer (KYC) with regulators’ demands for increased transparency straining existing capabilities. As Polina explained, “We are now talking about enormous amounts of data. The question and challenge for the Banks is how to standardise and analyse this data, what is the most efficient way to do that, the balance between automated processes and human checks and balances, and finally interoperability between existing legacy technologies and the new solutions that are being developed every day.”

The Intended, and Unintended, Consequences of Regulation

Despite regulators’ best intentions, Bob Fuller believes that regulation can have unintended consequences – for market infrastructure, and the culture of compliance.

“Best Execution is a good example of the burden of proof lying with participants: Banks must be able to prove they provided the best service to clients. Having the correct and complete data available, in the right place, at the right time, all the time – is critical.” RegTech services such as Best Execution (as a service) are entering the market place to relieve some of that burden from participants.

And there can be real implications – Bob pointed to the PPI scandal Banks have faced in recent years. “They have no option but to pay out on claims, because they can’t prove that the products were sold fairly.

Turning to the question of infrastructure, Bob continued: “MiFID I’s impact on the Equities market brought massive opportunities, because Banks could trade on more than one venue. It led to the birth of new venues like Bats Chi-X and Equiduct.” Compared with MiFID II, Bob argued that MiFID I’s impact was tiny.

Informal links within a Bank today will have to move to an STP model – the transparency required by MiFID II will demand data from almost every business area

“MiFID II says you must be a transparent pane of glass to your customer on how you execute a trade.” He continued, “On one single day we will change the Fixed Income market, the Derivatives market and the Equities market again, building on the changes brought about by MiFID I. We change to an environment where – if you don’t get the data right at the very beginning – you won’t be able to report it correctly.”

As a result, Bob predicted that the structure of these markets will change dramatically – and faster than predicted. “The ‘Equification of Markets’ will see techniques developed in the Equities market transferred to Fixed Income and Derivatives markets.”

For Tom Fairbairn, that change will extend into individual organisations. “Areas of the business that once had informal, paper-based linkages will have to move to an automated, straight-through processing (STP) model. [Regulated transparency] will require information from almost every area of the business – which will likely have an impact on the current boundaries between different functions within the business.”

These changes will make RegTech firms very important as part of helping Banks manage this transition. “In some ways, the new players have a better chance of winning that battle, because the big Banks have huge legacy systems that they’ll need to manufacture into this real-time environment. The new guys don’t.” Or, as Paul Charnatz put it, “The need for auditable process and data storage will become more and more prevalent. Infrastructure is only likely to increase in volume and complexity.”

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“When we leave the EU, it is highly likely that we will be considered ‘non-GDPR’. Some Banks are already considering splitting themselves into a European entity and UK entity, as they will not be able to trade easily between the two. Add to that the fact that America is unlikely to get third-party equivalence due to recent political developments – and we are all going to be very busy in the coming months and years.”

Scaling Technology to Meet Regulatory Requirements

For Tom Fairbairn, Systems Architect at Solace, the increasing regulatory requirements are having – and going to have – one clear impact: the massive increase in the amount of data market participants have to hold, manage and move. Making services and offerings digitally available – from on-boarding, to KYC and through to post-trade – will be a competitive advantage. A key part of any solution will be to design with this in mind – having scalability as a central principle in RegTech solutions.

“Looking back to the LIBOR scandal, the FX spot fixing scandal, traders colluded over Bloomberg messenger. This and other developments have led to the idea that all forms of communication, all the data that relates to a trade, are important when it comes to provable execution. So firms have begun locking down access to these communication mechanisms. This – combined with the increase of venues such as Organised Trading Facilities (OTFs), mean that there will be a huge new array of data sources.

New regulatory requirements are going to compound this issue, in Tom’s view. “These venues have increasing transparency requirements – so they’ll produce more data. In the commodity derivative trading space, the number of fields within transaction reporting will increase from 26 to 65. That will produce more data.”

*Given the challenges posed by Brexit, with Banks considering splitting themselves into UK and EU entities – **we’re all going to be very busy in the coming years***

Then, that data needs to be moved. “It’s no good being at the source, it needs to get to its destination, feeding into analytics systems and regulatory requirements systems.”

User demands for improved user experiences, the availability of data and the need to protect privacy or provide consent will also drive further complexity. “In the case of KYC, as a user I want an integrated system. For example, I want to be able to authorise Bank A to transfer my personal information gathered during a KYC check to Bank B, but in a secure and consented way. As a Bank, I want my data available in the case of business continuity, disaster recovery, and I need as close to 100% uptime as possible, because when my system is down people stand up in forums and talk about me.”

While legacy technology can, eventually, process these data requirements, it comes at a cost – both in terms of time and money. According to Bob Fuller, “There is no limit to using legacy technology, but the cost of continuing along that path will likely become too high to be supported by the business. Indeed, the vast increase in data being processed and stored will need to be addressed. The use of well established vendors like Fixnetix should aid this transition.”

*Firms’ control over communication channels, combined with new venues such as OTFs, **will drive an increase in the number of data sources and the complexity of managing that data***

For Paul Charmatz, these developments point to one clear conclusion: “As we know, legacy technologies are cumbersome and slow – it can be more challenging to move data than should otherwise be the case. It will be important that firms look to how they can utilise and make best use of the new technologies coming to market, in order to solve these data issues.”

Tom’s final point explored the conflict between a technology-first approach, and a regulation-first approach. “It’s quite tempting as technologists to deploy the best-of-breed, point-to-point solution for a given task. But from a regulatory perspective there’s a danger there: how will you capture that data, how will you consolidate that data, and how will you correlate it if it’s from multiple different systems.”

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The answer, Tom proposed, was a single platform approach. "If we can deploy this technology to focus on adding value, rather than chasing the regulators' tails, then our technologists can get on with providing new products. The regulations are only going to increase, so the key will be to make sure that the solutions being deployed now are flexible enough, scalable enough and advanced enough to deal with these future challenges that we don't yet know about.

Know Your Data – Digital Transformation for KYC

Paul Charmatz, Managing Director at Encompass Corporation, began by providing a brief outline of the purpose of KYC/AML functions in a financial crime world: checking individual and institutional customers, understanding business ownership, the line of business they are active in, where revenue is generated – to protect financial institutions from supporting or providing services to criminal, terrorist or otherwise suspect activities.

Paul went on to outline the developments KYC/AML functions have seen since the 2008 financial crisis. "Prior to 2008 Banks consumed Business Information from specialist companies like Dun & Bradstreet or Experian – as well as market data providers such as Thomson Reuters and Dow Jones. Following the crisis, there was an enormous increase in the amount of compliance staff, and these people discovered that the data that they had wasn't as detailed as they needed."

As a result, Banks began aggregating Business Information from multiple suppliers to develop a clearer picture of their existing and prospective customers. However, that brought a challenge. "The next technical development was Master Data Management: massive databases, either stored in-house or by a third-party, that amassed all this data on all of these companies, putting it all in one place, linking it together, and making it quickly accessible.

*The key will to avoid chasing the Regulators' tail: **deploying solutions that are flexible, scalable and advanced enough to deal with future challenges***

*The utility model is interesting in principle, but its adoption has been slow – **because Banks' proprietary data & process are still seen as part of their competitive advantage***

Paul then explained that while this approach was comprehensive, it cost an enormous amount of time and resource. "One global Tier 1 Bank has 3,000 compliance people in London, all of whom are involved in the process of on-boarding their customers and periodically re-checking their 1.2 million corporate customers. So the next phase of the evolution, which I think is now, is automating that process for people. Using a single piece of software that sits on top of multiple databases, accesses the information in a uniform way, and provides a single report with all of the documents pulled from the various suppliers – date-stamped and held in a place that can be used for regulators in the future."

Looking to the future, Paul discussed the process of turning this data into a utility, to be shared by a pool of Banks as part of the 'co-opetition' paradigm that has featured throughout this report. "There is one in South Africa now being run by Thomson Reuters.

There's a similar test in Austria as well. So the question of data being turned into a utility is a very interesting one, and I'm looking forward to seeing the result of these experiments in the future."

Tom Fairbairn agreed that there is a potential for utilities: "It's inevitable that Banks will share information – the regulators will force them, either directly through utilities or via initiatives like the Open Banking API. It will also be in their economic interest – in the KYC example, gathering, maintaining and retrieving that information is a significant burden. If that can be distributed among institutions in a way that works, then obviously it will produce savings for them."

However, one of the central principles of this 'co-opetition' could pose a significant obstacle to wider adoption of utilities across the market. "The main issue in [agreeing to participate / contribute to a data utility] is acceptance and agreement between Banks on what services / data are not business differentiating." Or, as Paul Charmatz concluded, "The utility model is interesting in principle, but its adoption has been slow – because Banks' proprietary data and process are still considered as an advantage."

Panel Insights

In summary, the seven key insights to take away on Digital Transformation

1. Engaging with regulators can provide early indications of legislative developments, business implications and budget increases that may be required.
2. For activities like Best Execution, the burden of proof lies with the Banks – they must have the data to demonstrate to their clients that they provided the best service.
3. Informal links within a bank today will have to move to an STP model – the transparency required by MiFID II will demand data from almost every business area.
4. Given the infrastructural challenges posed by MiFID II and Brexit, with Banks considering splitting themselves into UK and EU entities – participants across the market are all going to be very busy in the coming years.
5. Firms' control over communication channels, combined with new venues such as OTFs, will drive an increase in the number of data sources and the complexity of managing the higher volumes of data.
6. The key will be to avoid chasing the Regulators' tail: deploying solutions that are flexible, scalable and advanced enough to deal with future challenges.
7. The utility model is interesting in principle, but its adoption has been slow – because Banks' proprietary data & process are still seen as part of their competitive advantage.

The RegTech Forum events and community will continue to grow, mature and build meaningful connections between innovators, entrepreneurs and venture capitalists in the space. To attend or to contribute towards the next event, please register your interest at www.regtechforum.co