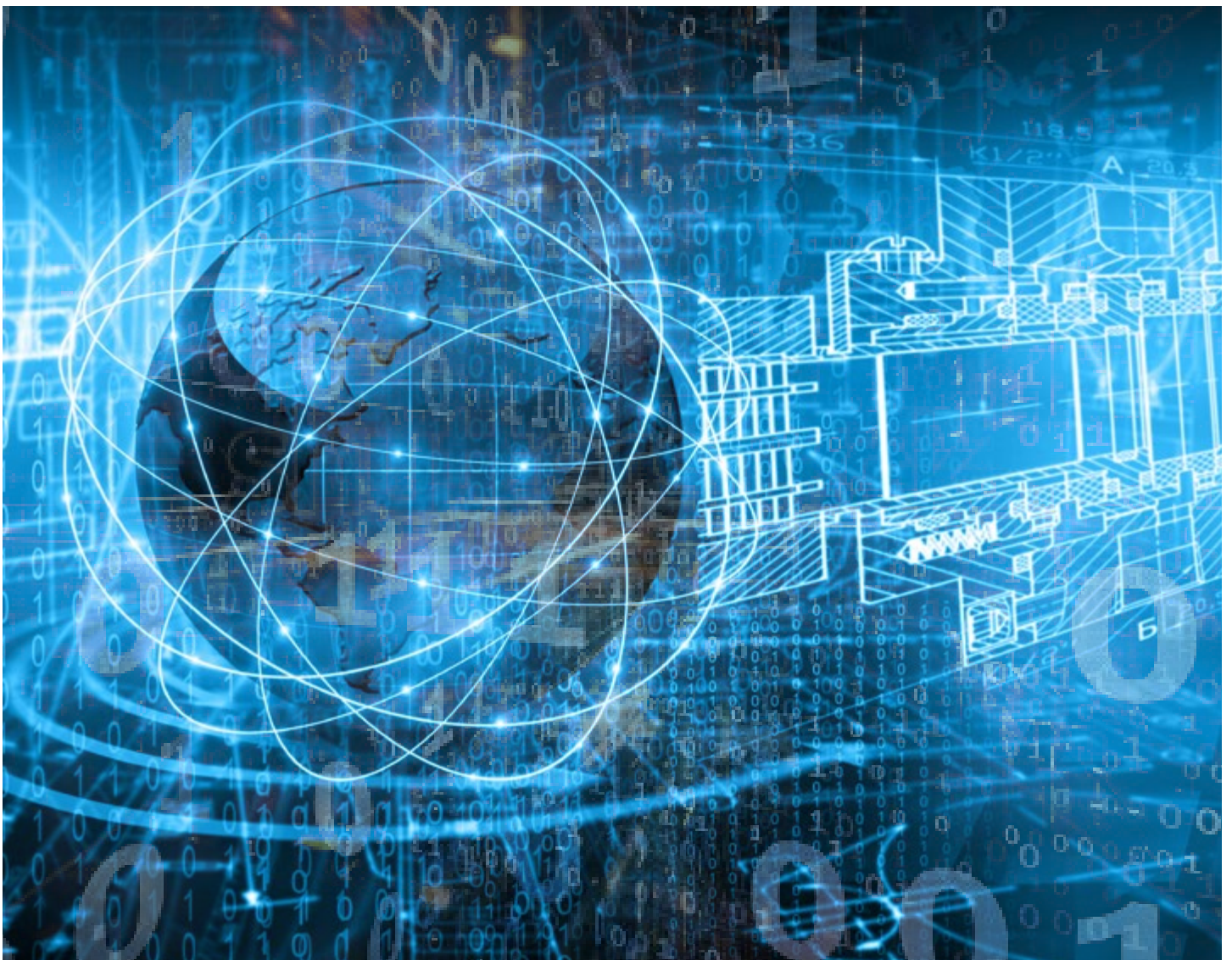


A WHITE PAPER FROM FINEXTRA  
IN ASSOCIATION WITH PEGASYSTEMS  
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# BUILDING REGTECH INTO YOUR FINTECH STRATEGY: INNOVATING TO STAY COMPETITIVE IN THE DIGITAL AGE



Finextra

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01

# FOREWORD

## TOWARDS INDUSTRIAL STRENGTH REGTECH



By Reetu Khosla, Senior Director, Risk,  
Compliance and Onboarding, Pegasystems

Regtech has become one of the most used of the canon of financial technology buzzwords. But what does it offer and how should the industry embrace this concept?

Essentially, regtech aims to simplify and speed up compliance and release of regulatory requirements linked to onboarding new and existing customers.

It is vital for banks to accelerate and improve onboarding and know your customer (KYC) processes to not only meet regulations but also to stay competitive in the digital global marketplace. Large and often changing regulatory requirements and enforcement are impacting onboarding times globally. This, combined with the impact on time to revenue and customer experience, is driving banks to re-establish their regulatory and onboarding processes across jurisdictions, lines of business and client base.

As a result, the major global banks are investing in KYC, regulatory, and onboarding technology not only to reduce the impact on costs but as part of the broader digital transformation agenda. And they need to do it fast to not only stay competitive, but to minimise the impact of regulatory scrutiny while keeping up with the constant change.

The need for a streamlined, dedicated solution makes regtech attractive. But in advancing a regtech strategy, what should banks consider? The most innovative banks understand the pace of regulatory change is almost impossible to keep up with, and are turning to regulatory technology for their compliance needs, using regtech to rapidly respond to audit and regulatory findings with capabilities including automated bulk case creation, routing and escalation, as well as the auditability of rule changes.



But in reaching out for solutions, there is a risk that regtech could be deployed as point solutions when in fact, such solutions need to be part of a broader client lifecycle management and digital transformation technology that offers front-to-back office onboarding, a global view of the customer and the ability to drive multi-jurisdictional and multi-product onboarding on a global scale.

In short, the goal should be around ‘one client, one view’ in a digital age. The regtech solutions that large global banks select need to be industrial strength and to be able to adapt to change and to scale. As large global banks look at their regtech strategies, they should think about not only their broader fintech and digital transformation strategies across lines of business, but a target operating model that can be tested and quickly re-adjusted and specialised. The idea of ‘standardisation’ is still a work in progress as the adoption of KYC utilities continues, and other considerations include the fact that in a ‘start-up’ environment, there is a risk of selecting technologies that cannot be part of a broader agenda to transform client experience and digitalisation.

Pegasystems has worked with Finextra on the research presented in this white paper in order to further explore the challenges banks face in balancing regulatory compliance with meeting the demands of world-class customer service – and the opportunities and potential pitfalls presented by regtech solutions in this context.

I hope you find the paper informative and interesting, and I invite you to get in touch if you would like to discuss any aspect of regulation, regtech or client lifecycle management in further detail.

**“As large global banks look at their regtech strategies, they should think about not only their broader fintech and digital transformation strategies across lines of business, but a target operating model that can be tested and quickly re-adjusted and specialised.”**



# INTRODUCTION

Disruption is changing the landscape in which banks operate. Agile new entrants are coming to market with exciting, technology-driven, customer-focused propositions. By contrast, many established banks are saddled with legacy technology and legacy business models that are siloed. In the current regulation-heavy environment, these players face escalating regulatory compliance efforts and costs just to stay in business – and are significantly hampered in their ability to respond to changing customer needs and new competition.

Banks face a clear challenge in balancing the time and money that must be spent on regulatory compliance with the time and money that need to be spent on sharpening customer focus and renewing technology in order to compete with new entrants and meet evolving customer needs.

To add further difficulty, the increasing demands of regulation can have a directly detrimental impact on the experience banks give to their customers, just at a time when new rivals are hovering, looking to win over the disenchanted clients of incumbent providers. As more and more regulation is brought into play, the amount of information banks need to gather during the onboarding process is growing. As the saying goes, you don't get a second chance to make a good first impression, and a long, painful onboarding experience is unlikely to encourage new customers to recommend their bank to others. Yet, banks have no choice but to meet their compliance obligations.

In light of these conflicting demands, financial institutions need to control the cost of keeping up with regulatory change while minimising the impact on operations and the bottom line. Maintaining a global approach to client management requires the ability to monitor and manage regional differences in regulation. Banks also need to protect their revenues in this digital age, especially by minimising the time to transact even while fulfilling regulatory demands.



Against this backdrop, the fintech movement represents both a challenge and an opportunity for banks. Fintech is creating a new source of competition for them, but innovative new technologies can also underpin their response to new customer requirements and new market entrants. The much-hyped subset of fintech, regtech, could hold the key to mastering the regulatory burden, simplifying and speeding onboarding, and turning every new and existing customer into a recommender, rather than a detractor.

That said, it is also important that banks approach regtech in the context of their existing fintech and digital transformation strategies. Otherwise, there is a risk that regtech systems could be deployed as point solutions, thus creating new operational silos that could potentially impede future regulatory demands, efficiency and innovation. To avoid this, regtech solutions need to be implemented in the context of broader client lifecycle management and digital transformation solutions, designed to provide a global view of the customer and to drive multi-jurisdictional and multi-product onboarding on a global scale.

Based on in-depth interviews with a range of industry experts from leading financial institutions and other ecosystem players, this research explores the challenges banks face from regulation, fintech and changing customer demands, and looks at the options available to them to turn these challenges into opportunities.

In particular, the paper examines how, by leveraging regtech in a coherent way – that is, by exploiting not only the new data sources and data analytics techniques that the regtech movement is producing, but also the latest in orchestration and client lifecycle management solutions to enable the data to be applied in the right place, at the right time, and in the right way – banks can leverage innovation, stay competitive in a world in which if a large corporate can transact more quickly with one bank than another it will move, and boost their ability to respond to new competition in this changing landscape.

**“Fintech is creating a new source of competition for banks, but innovative new technologies can also underpin their response to new customer requirements and new market entrants – and the much-hyped subset of fintech, regtech, could hold the key to mastering the regulatory burden, simplifying and speeding onboarding, and turning every new and existing customer into a recommender, rather than a detractor.”**

## REGULATION: A DOUBLE-EDGED SWORD

The rise in banking stocks in the US since the Republican election victory was due in no small part to the anticipation that the new administration will herald a period of less stringent regulation. As Beth Mooney, Chairman and CEO, KeyCorp, told delegates during The Clearing House Annual Conference in New York recently, the markets' "constructive reaction to the election" was down to the fact it was "... perceived as a catalyst. People are looking for something other than the status quo, and they believe that expected tax and regulatory relief will be a catalyst for growth."

Clearly, a reduction in the regulatory burden would be a good thing for banks, given the severely negative impact heavy regulation has had on the banking business, suggested Jason Goldberg, Managing Director, Barclays. "Investors have been afraid to hold banks' stocks because of the cost of all the new rules," he said. "Regarding regulation, at the very least as long as the pendulum stops swinging out, it'll be very beneficial."

Indeed, throughout this high-powered banking conference, the sense of relief that the regulatory burden might be lessened was palpable. However, there were also warnings that the picture is unlikely to be so clear cut. As Eugene Ludwig, Founder and Chief Executive Officer, Promontory Financial Group, put it: "It's always the lightning bolt you don't see that kills you. For the banking industry, it is potentially a positive environment, but it is also potentially challenging. It's one foot after the other on the tightrope over the crocodile pit – the banks need to be very careful and thoughtful."

In reality, of course, reducing the regulatory burden is far easier said than done. Unpicking the wealth of regulation put in place since the financial crisis would take a great deal of time and effort, and in all probability the ongoing fight against terrorism will mean that anti-money laundering rules continue to be made more stringent. Banks will likely have to deal with the pain of regulation for some time to come.



That pain is well-documented. The Thomson Reuters seventh annual Cost of Compliance survey, which canvasses the views of compliance practitioners at more than 300 financial services firms worldwide, consistently reveals significant regulatory fatigue and overload. The 2016 findings – like those in 2015 – suggest 69 percent of firms expect regulators to publish even more information in the next year, with 26 percent expecting significantly more. More than one-third of the firms spend at least an entire day each week keeping track of steadily rising regulatory change.

“There is a very long list of regulation that is impacting and it is increasing the cost of processing transactions for many stakeholders in an environment which is already constrained,” says Mathieu Maurier, Global Head of Sales and Relationship Management, Societe Generale Securities Services. “There are scarce resources everywhere and this is an additional cost at a time when resources are limited and margins are compressed. And for international clients, the intersection of local requirements and global footprint is creating an additional challenge.”

For transaction banks, regulation is among a number of challenging issues, says Michael Spiegel, Global Head of Trade Finance & Cash Management Corporates, Deutsche Bank. “One is the increase in complexity due to more and tighter regulation that is not entirely harmonised across countries or regions,” he told Finextra. “A second is the increase of operational costs due to adherence to compliance, transaction monitoring and the prevention of cyber-attacks. Thirdly, there is an increase in potential operational risk dealing with certain counterparties or countries.”

While regulation designed to increase the safety and soundness of the markets, and to prevent terrorist financing, creates one set of challenges for banks, especially when it comes to onboarding, KYC and AML, another strand of regulation – designed to increase competition in the market – creates another set. As Erkki Poutiainen, Strategy Manager, Nordea, told Finextra, partly as a consequence of a regulatory environment designed to foster competition, “The payments business recently has attracted a lot of new players. Mainly their focus is providing the service experience to the end user. But it is even more important that things work – the plumbing,” he said. “To create regulation that respects these responsibilities and the two different sets of stakeholders in an equal way is a challenge.”

Tuomas Toivonen, Co-Founder of Holvi, the Finnish business bank start-up acquired by BBVA, agrees that “regulation is not just constraining, it is really opening up access and making it easier for new entrants to come to the market”. “You have new entrants – new banks and fintech providers – and you have services you can buy now from players that you would really never have



**Poutiainen: Creating regulation that equally respects all responsibilities is a challenge**



**“Yes, our objective is to make the whole customer experience as slick as we can make it, but we have a moral imperative. We have no desire to have our reputation damaged by being a bank that has lax rules. Reputations are hard to build and once damaged difficult to recover.”**

**MARK MULLEN, CEO, ATOM BANK**

associated with financial services before. Customers want tailored services, and the question is whether the banks are agile enough to provide these, or will they be something other new entrants will provide?”

Of course, regulation designed to open up competition benefits more than just new entrants, as Teresa Connors, Head of Payments Market Management, RBS, points out. “Many of the changes in the payments landscape are designed to create innovation from all payment service providers (PSPs),” she says. Of the work of the new Payment Systems Regulator (PSR) in the UK, for example, she adds: “The PSR’s Simplifying Access to Promote Competition Forum Working Group, led by Marion King, Director of Payments, RBS, comprised a wide range of stakeholders including banks of different sizes, technology companies and payment system operators. This is positive, and the PSR’s emphasis on competition in infrastructure provision gives both small and large providers reassurance that they will be able to access and compete on equal terms.”

Nor is regulation in itself a negative force, says Mark Mullen, CEO of UK challenger bank Atom. “Yes, our objective is to make the whole customer experience as slick as we can make it, but we have a moral imperative. We have no desire to have our reputation damaged by being a bank that has lax rules. Reputations are hard to build and once damaged difficult to recover. It is important to design an experience from the customer in, but that inevitably requires compromise – and I think customers in the main have a growing acceptance that security in all its forms plays a bigger role in our lives.”

Sean Gilchrist, Managing Director, Commercial Digital, Lloyds Banking Group, makes a similar point. “Regulation is something we should welcome. If you think about what the regulators are trying to do, they are trying to make a better industry for our clients, and therefore we need to look at that as an opportunity, remember it’s for the clients, and think about how we can take the regulation on board and work with the regulator, keeping the client at the front of our mind, and come up with innovative services for them that meet their needs and help them to do what they need to do.”

Regulation both helps and hinders innovation, suggests Joan McGowan, Senior Analyst, Celent. “The answer to the question of whether regulation is making it harder for banks to innovate is yes and no,” she says. “Yes, in the



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MATHIEU MAURIER, GLOBAL HEAD OF SALES AND RELATIONSHIP MANAGEMENT, SOCIETE GENERALE SECURITIES SERVICES

sense that budgets are restricted and processes are becoming much tighter due to regulatory requirements. No, in the sense that new technologies are extending the bank’s value chain, allowing banks to execute faster, running leaner and cheaper, and thus to engage customers more profitably. Winners will be banks that achieve financial and operational efficiency in an environment that is forcing firms to weigh risk/reward considerations more carefully.”

Connors at RBS agrees regulation can be a boost to innovation, as well as a challenge to it. “The level of regulation remains high. The UK benefits from strong government interest in payments and technology, and this raises the level of regulation – but makes for a stronger, safer and more innovative market. Within RBS, regulation is a spur for innovation. Regulation can demand changes to systems, products and services, so a mandatory change gives the opportunity to go over and beyond the change demanded by regulation and improve the customer experience.”

Regulatory compliance can provide product and service opportunities for financial institutions as well, as Maurier at Societe Generale Securities Services says. “First and foremost, as a universal bank, we have to be compliant, but as an asset servicing provider we are also building solutions to allow other organisations to be compliant – so yes, the increasing regulatory burden is a challenge, but it is also helping us to develop new solutions for our customers. Regulation is helping us to innovate.”

This double-edged sword of regulation as it relates to innovation is also reflected in the relationship between regulation and technology, as the 2016 Cost of Compliance survey reveals. According to the survey, more compliance professionals are now looking to technology as a bigger challenge than ever before, as regulatory actions drive technology change, and the remit of compliance broadens to cover cyber risks. However, they are also viewing technology as a bigger opportunity than ever before – as they assess the potential of regtech to help them manage many key aspects of compliance and customer experience.



**McGowan: New technologies are extending the bank’s value chain**

## CUSTOMER ONBOARDING: FALLING AT THE FIRST HURDLE

There is no question that complex due diligence requirements are impacting the customer onboarding process. As a recent survey carried out by Finextra in association with Pegasystems showed, 88 per cent of banks believe that KYC due diligence requirements are affecting their onboarding times. Even more worryingly, only 21 per cent of banks believe their current KYC technology is flexible enough to rapidly handle changing rules.

As Susan Feinberg, Senior Analyst Celent, points out, due to the increasing emphasis on AML, the client onboarding process – especially for corporate and institutional clients – has become an even bigger burden not just for banks but for corporates. “The need to thoroughly understand a prospective client’s corporate structure requires the collection and analysis of a combination of public and non-public information that can take weeks to complete and often requires multiple touchpoints with the company in order to complete due diligence,” she says. “For banks operating globally or with global clients, the need to comply with regulations in different jurisdictions, which are inconsistent and often unclear, means that banks end up requesting information that may not actually be required for a specific onboarding process. In addition, one bank’s process can be much more burdensome than another’s because of that particular bank’s experience with the regulators.”

The sense that banks are failing in the fundamentals, and frequently not delivering the onboarding experience their customers would like, was corroborated during several sessions at Sibos 2016 in Geneva. The event marked 20 years of Swift for corporates, and there were a number of sessions designed to address the issue of whether banks are doing enough for their corporate banking customers. The upshot was that they are not, and the strong message from the corporates represented on the panels was for banks to get the basics right. The view from the corporate treasurer was clearly that greater strides need to be taken, most obviously in basic services such as onboarding, KYC and AML.

This was highlighted during the discussion, *Banks should stop differentiating non-competitive services*, part of the Sibos Standards Forum, very keenly by John Marshall, Director, Bank Strategy & Solutions, GE, taking on Spiegel from

Deutsche Bank, in a head-to-head debate. The complex and lengthy onboarding requirements that exist today were tackled in the debate. Spiegel said: “We can’t even set a common standard in a single country, amongst ourselves, and I think that is something we need to address as banks with regulators so that we can figure out a way to determine what is truly required, with a little room for interpretation as possible. This is where we have collectively failed. We need to start creating a different ecosystem. We all have the same ends; we want to make it safer and risk-free, but need to realise that we need to team up.”

Celent’s Feinberg – who moderated this debate – also highlights KYC and onboarding as “probably the biggest complaint of the multinational corporates” speaking at Sibos 2016. “They are being asked to produce a lot more documentation, slowing down the implementation of new banking services, which is especially frustrating at this time when many corporates are being forced to find new banking relationships because of banks exiting specific markets,” she says. “The inconsistency between banks is another frustration for global corporates, as well as banks claiming that a particular need for documentation is regulatory when, in fact, it is bank policy for risk management purposes. In these times, when banks are striving to make it ‘easier to do business’ with them, the actual and perceived regulatory requirements are making it harder.”

Disappointing customers in this way has some dangerous potential business consequences, Feinberg emphasises. “The impact of this unsatisfactory process has a number of consequences, not the least of which is delayed revenue from the new client. The way a bank handles a complex onboarding process sets the tone for the entire client relationship. Onboarding becomes an important competitive differentiator. How a bank chooses to present and manage those regulatory requirements with their prospective clients at the beginning of the relationship can mean the difference between ‘getting off on the right foot – or stepping in it’. This is truer than ever in today’s digital environment. A negative onboarding experience – even when the bank offers superior digital banking solutions – often leads to a lower share of wallet.”

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SUSAN FEINBERG, SENIOR ANALYST, CELENT

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**TOM DURKIN, MANAGING DIRECTOR, DIGITAL CHANNELS, BANK OF AMERICA MERRILL LYNCH**

Banks commonly hear complaints about the onboarding process from corporates, Tom Durkin, Managing Director, Digital Channels, Bank of America Merrill Lynch, told Finextra. “Onboarding is a critical time for our corporate customers, and there are probably three areas that they talk to us about in terms of improving the efficiency of the process,” he says. “The first is the documentation process, and the initial experience that goes with that. The second is the technical resource capability – what they can do on their side to line up the technical resources, and how the bank can help them with that. And the third is visibility. How can they gain a visible understanding of the comprehensive work that has to be done? When you combine those three aspects from a corporate customers’ standpoint they add up to numerous points along the way that have got to be tackled from a bank onboarding standpoint,” Durkin adds.

There are benefits for the bank in improving client onboarding, he continues. “The banks are very focused on efficiency and cost. Think about a long and painful onboarding. It’s the first experience the customer has. Imagine it in the same terms as your reaction to a new Uber driver who you rate socially. The corporate customer’s first experience could lead to a good referral in terms of additional business they may bring to the bank. It could set the stage for additional products they want to deploy. It’s the first customer experience point that you could translate to a positive aspect.”

It is important to be realistic about how much can be achieved in the onboarding process, cautions Brendan Reilly, Global Head of Client & Market Execution, Barclays. “I don’t really see a client ever being delighted by an onboarding experience because no one likes the process of providing information no matter how good it is,” he says. However, the “opportunity is large” nonetheless, he adds. “It is possible to materially improve the onboarding experience and it is exceedingly important to do it, because during that first operational experience the client has with you – in that moment – they will become a recommender or a detractor. Corporates are members of the same associations. They talk to each other. We don’t want detractors. It’s important

to align the customer experience along with getting the right information, so as a bank you don't open yourself up to risk. But it can also be a differentiator if you get it right."

The complexity of the onboarding challenge is being exacerbated by regulation, Reilly agrees. "It's clearly getting more complicated. When we talk about AML and KYC, this is quite a big bucket. There are many drivers for the gathering of information in general from the client, when we onboard them, and which we have to refresh when they are a client." As part of its project to streamline onboarding, Barclays sought a number of opportunities to drive efficiency, Reilly says. "We looked at lots of different measures. How often do we touch the client? The more often you go back, the less sense of urgency the client has about becoming a customer. How many times are we duplicating requests for information? How quickly are we doing this? Are we doing processes in serial that could be done in parallel?"

Operating across multiple jurisdictions makes the process even more complicated, he acknowledges – and global banks can leverage efficiencies from achieving standardisation across different markets – but he cautions that it is better to tackle one country at a time. "The important thing is to get it right in one jurisdiction first – and by getting it right I mean end-to-end: the ability to present a simple solution to the client to help them to gather the right information, pre-populating as much as you can, preventing them from having to repeat information, making it simple for them to upload documents, and when you've got the information, allowing it to flow through your systems end-to-end. This is difficult in one jurisdiction: it's very difficult in multiple jurisdictions. But it is possible if you decide on your base line data, and then build a process to gather the additional data per jurisdiction.

"Solve it first in one location, create a good client experience, and then use that technology and your baseline to tackle other jurisdictions, and you'll be on the path to success – but it is not an easy path," Reilly says.



## FINTECH NEW ENTRANTS: FRIEND OR FOE?

As Atom Bank's Mullen points out, "there isn't a different set of rules for neobanks". New entrants get no special relief versus incumbents from having to comply with KYC and AML regulations in the onboarding process. "The underlying rules and guidelines are the same for all players," he says, "and that is important for our credibility anyway. What a digital bank shares with an established bank by way of framework is pretty recognisable. All of that architecture has to be created for your institution whether you're a tech-based business or not. It's the iceberg below the waterline. It's pretty unattractive as a spend, but it's your ticket to the game. What you're trying to do is minimise the disruption it causes to the customer at the front line. It has to be as simple, transparent, intuitive and fast as you can make it, because the baseline expectation in the mobile and digital world is for everything to happen instantly."

While being new and tech-driven doesn't guarantee a new entrant an easy ride when it comes to compliance, the legacy-free nature of start-ups can be an advantage, suggests Kevin Brown, Senior Advisor, Global Payments. "If you have a clean set of systems, you can design the customer servicing functionality in a modular way, collecting the data once and making it available to multiple systems". He also highlights that additionally we have already seen business models developed whereby new entrants offer only less risk-laden products and services, and rely on the KYC and AML checks done by incumbents through validating a customer's linked or funding account at the incumbent. Whilst this provides customers with a better, smoother, easier onboarding experience, it carries some risk and does not recognise the extent of the work undertaken by their established banks.

Colm Lyon, CEO and Co-Founder of Ireland-based Fire Financial, a neobank targeting consumers and businesses, agrees new entrants have an advantage. "We are focusing on how seamless the integration can be," he says. "Corporate customers have been very frustrated by the customer experience. The account opening process is an issue – the time it takes to get through KYC et cetera." Fire's approach is to operate a "data layer", populated with the additional information customers provide. "It's CRM and a payment system all combined,"



**Lyon: Corporate customers have been frustrated by the customer experience**

Lyon says. “Banking today is very much account and transaction-based. The customer’s experience is logging in and seeing transactions. If you log into Fire, you see who you have paid and who has paid you, and then you drill down into the transactions. You see a relationship view of the transactions, not an account view. We also charge everything in real-time, so our customers are not shocked at the end of the month.

“It’s not rocket science. It’s very simple,” he adds.

Indeed, simplicity is the essence of what fintechs are bringing, according to many observers. Addressing The Clearing House Annual Conference, Betsy Graseck, Managing Director, Morgan Stanley, told delegates that “fintechs have moved the ball forward with speed, execution, agility and interface”. She cited the example of digital wallet Venmo, which she said “has brought an Amazon-like experience in banking land”, “a simplicity which is “table stakes at this point if you want to drive your organisation forward”.

On the plus side, Graseck highlighted the collaboration which it has become fashionable to predict between banks and fintechs. “The energising element of fintech is like biotech to the pharma industry,” she told delegates, adding that fintechs “have brought the banking industry together to allow more collaboration and have the same service elements embedded into bank offerings”.

The spirit of collaboration was highlighted throughout the New York conference, with Jim McDade, Senior Vice President, The Clearing House, summing up the general view well: “The fintechs’ ideas, married to our capabilities and infrastructure, can realise some strong outcomes if we play together in the same sandbox,” he said.

Collaboration is certainly the way forward, says Heikki Harkonen, Head of Business Development, Business Innovation, Nordea. “In the past few years, fintech has been a big boom and we have seen everyone trying to play banks and fintechs off against each other, and what we have seen in the past year is that we are going from competition to collaboration and that is what you can see every bank is doing or attempting to do,” he told Finextra.

Gautam Jain, Global Head, Digitisation & Client Access, Transaction banking, Standard Chartered, agrees. “Fintechs have got some fantastic ideas and fantastic technology and banks have got the client base and distribution capabilities. Co-operation between these two streams was inevitable and we are seeing a lot of that starting to happen. These days it’s more about co-operation and partnership rather than fighting with each other for relevance,” he says.





Some observers believe that co-operation with fintechs is essential if banks are to leverage the potential of new technologies across the business. “In the next years the whole financial industry will change, driven by the economic and political environment, and by the way technology is impacting our business in a more intensive way,” says Andreas Lambropoulos, Head of Strategic Initiatives for BNP Paribas International Financial Services.

There is also a belief on the part of banks that their expertise in compliance is one of the reasons fintechs will want to partner with them. “There is some business for everyone to do, and we all have to realise that different organisations bring different skills and different advantages to the marketplace,” says Ebru Pakcan, Head of Treasury and Trade Solutions for the EMEA region at Citi. “Fintechs need to work with each other and with banks and clients and regulators alike to deliver end to end value for the customer. Some of the fintechs are really focusing on the customer value proposition, a niche flow and a particular service and I do believe they are going to succeed, but along the way they will need partners, banks, willing to partner with them to help them scale up some of their propositions and also to manage some of the things that are a bit more difficult, like liquidity, risk, compliance and regulation – the things that banks are good at,” she adds.

Erik Zingmark, Co-Head of Transaction Banking, Nordea, also highlights banks’ regulatory strengths. “The thought about competition between banks and fintechs is already in the museums,” he says. “Collaboration is key. We have started to realise our respective strengths, and if we don’t collaborate we won’t bring the full value to the customer. Both parties have their challenges when it comes to collaboration. Banks need to be more open, transparent and forward looking. But fintechs also need to understand the industry, understand there is something called compliance, understand why the banks have behaved the way they have behaved.”

**“Fintechs need to work with each other and with banks and clients and regulators alike to deliver end to end value for the customer. Some of the fintechs are really focusing on the customer value proposition, a niche flow and a particular service and I do believe they are going to succeed, but along the way they will need partners, banks, willing to partner with them to help them scale up some of their propositions and also to manage some of the things that are a bit more difficult, like liquidity, risk, compliance and regulation – the things that banks are good at.”**

**EBRU PAKCAN, HEAD OF TREASURY AND TRADE SOLUTIONS, EMEA, CITI**

Even some of the new entrants believe that collaboration between neo and incumbent banks is the way forward – though as Mircea Mihaescu, Chief Operating Officer at neobank Moven, points out, there are challenges to be overcome. “The main obstacle to collaboration between banks and fintechs is cultural,” he says. “Banks have a lot of executives who don’t have experience with technologies, with customer experience, with the new ways of doing banking. As they learn what is possible, and to focus on customers not products – that you should start with your customer, not the transaction – these kinds of experiences will be targeted by incumbent banks, and the CEOs and the chief digital officers that see this will be the ones that ensure their banks survive.”

Collaboration between banks and fintechs is all well and good, but there are limits, as William Rogers, chairman and CEO of SunTrust Banks, told delegates at The Clearing House Annual Conference. “We’re in a world where banks and fintechs are living in concentric circles and watching each other very carefully. The fintechs that come out and try to destroy us – they’re not our partners.”

In any event, banks can learn from fintechs, partners or not, Rogers added. “They were built from the customer backwards, and we can learn from that.”

Gilchrist at Lloyds agrees. “Customers expect to be able to bank anytime and anywhere, and we have to adapt to that in the commercial sector as well, especially as we see the emergence of fintechs competing in areas we wouldn’t expect and going after revenue pools that we wouldn’t expect them to. Our response needs to be quite thoughtful in terms of how we are going to operate in this fast-changing world,” he says.

“The biggest thing to focus on is the client. There’s some fantastic technology and propositions coming out there but if we are not focusing on what our clients need and want then we are just missing a trick. As an industry, we then need to start to think about what our competitors are doing. I don’t mean the banks, I mean the fintechs: they are very good at getting things to market quickly, seeing how customers and clients use it and then iterating and proving it. As a bank, we’ve got to get into a small company start up mindset and operate in a more agile way than ever before – without losing that focus on the client.”



**Mihaescu:**  
The main obstacle  
to collaboration  
between banks and  
fintechs is cultural

## REGTECH: THE MISSING LINK?

One of the hottest fintech narratives of 2016 has been the regtech story. As Stephanie Wolf, Head of Global Financial Institutions, Public Sector Banking and Canada Sales, Bank of America Merrill Lynch, told Finextra: “Innovation has come to play in regulatory compliance, as we think about how we can bring digital technologies and new ways of looking at data and at flows. Innovation is going to help me do my client due diligence even more effectively.”

Banks are not alone in their excitement about regtech. The regulators themselves are wading in as well, notably the UK’s Financial Conduct Authority, which has conducted and published its findings on a market consultation on regtech, as well as convening a hackathon which brought together 100 developers and 30 organisations to build a prototype or proof-of-concept application to help to streamline regulatory reporting and improve firms’ understanding of compliance requirements.

Participants included financial services firms, academics, large technology firms and fintech start-ups, including Barclays, Credit Suisse, Monzo, Santander, Suade and Wolters Kluwer, as well as post graduate students from UCL and Cambridge University.

“Technology plays a fundamental and increasingly pivotal role in delivering innovative financial products and services and the FCA is committed to fostering innovation to promote effective competition in the interests of consumers,” said the FCA. “We have a particular interest in working with those involved in developing technologies to improve regulatory compliance, reporting and data sharing known as regtech.”

The size of the prize in resolving regulatory compliance challenges is also proving to be a magnet for developers of leading edge technologies. “There are some interesting solutions and technologies out there and we are starting to get some idea of how they could be deployed in the onboarding context,” says Ruth Wandhöfer, Global Head of Regulatory & Market Strategy, Citi. “They are not fully fledged applications, they are not available for us to buy yet, but banks need to engage a lot with the innovators to see how these technologies could be applied for the benefit of the customer experience.”

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One of the technologies in the frame to help address the regulatory compliance challenge is blockchain (or distributed ledger technology). As Nick Armstrong, Co-Founder and CEO of blockchain start-up Identitii, told Finextra, during 2016 there was a shift in thinking about blockchain away from simple asset transfer applications towards more complex use cases around information sharing. “The killer apps will be those that can work with existing legacy systems within banks. We think it’s largely around compliance – improving KYC, AML, sanctions screening. Anything which requires a single source of truth for information is where the value of blockchain comes in. The real benefit is in the exchange of information in a trusted way between parties who don’t necessarily trust each other and that is where the compliance use cases really start to become interesting,” he says.

Indeed, a report from Quinlan & Associates has estimated that blockchain technology could deliver the industry \$4.6 billion in annual AML cost savings – representing 32% of current annual costs – in the form of reduced compliance headcount, lower technology spend and fewer regulatory penalties.

Meanwhile, through the blockchain consortium R3, 10 global banks – among them BBVA, ING, UBS, Nordea, Societe Generale and US Bank – have worked on a proof of concept for a distributed ledger technology-based shared KYC registry. The PoC was designed to show how distributed ledger technology can help banks fulfill basic KYC requirements of new customer onboarding while providing increased transparency, security and cost-efficiencies. In addition, it provided bank clients with a single interface for managing their global identity, which in turn simplifies and streamlines the onboarding process.

David Rutter, CEO of R3, says: “The growing complexity and cost of KYC compliance requirements presents a major challenge for banks onboarding new clients and is having a negative impact on those client relationships. Distributed ledger technology can provide a unified view of clients whilst also significantly reducing costs and time spent verifying identity.”

Big data is another hot technology tipped to contribute to the regtech cause. “Regtechs are helping organisations move from big data to smart data and meet regulatory requirements,” says Maurier at Societe Generale Securities Services. “Banks have got huge regulatory constraints and are dealing with a lot of data and regtechs are helping them. Fintechs and regtechs are here to help us get a more meaningful output from big data, and to be nimbler and more agile,” he says.

Key big data technologies such as data lakes are helping banks to circumvent traditional data challenges, Maurier continues. “In the past, the difficulty we have been facing is having data in multiple systems, organised in different departments, set in silos. The organisations had the data but they were not able to exploit it in an agile way. The cost was prohibitive. New technology such as data lakes allows us to group data from multiple systems into a single repository and this is helping institutions to be much more responsive and agile. The data is then being extracted to meet specific needs, irrespective of the fact that it was being handled by different systems. This means you can be more agile in for example creating specific reports.”

**“The growing complexity and cost of KYC compliance requirements presents a major challenge for banks onboarding new clients and is having a negative impact on those client relationships. Distributed ledger technology can provide a unified view of clients whilst also significantly reducing costs and time spent verifying identity.”**

DAVID RUTTER, CEO OF R3



# INTEGRATING REGTECH: THINKING CROSS-JURISDICTION AND END-TO-END

While regtech is rightfully attracting a great deal of interest, it is important not to overlook an important dimension. Many regtech solutions – especially those in key areas such as big data analytics – are focused on meeting regulatory requirements (such as reporting). There is also a need to manage the application of regulations on a global basis, as well as the fulfilment of the rules.

In addition to the requirement for the right information to comply, banks need to be able to identify which regulations apply where and for what products, and to approach compliance with them in a consistent manner. Alongside the strand of regtech which is improving the data side of compliance, banks also need to exploit the strand of regtech which integrates those data sources, and underpins orchestration of the application of regulation. Without orchestration, an increase in data sources can become a hindrance rather than helping as they exploit more data sources, banks need to be able to get it to the right place and apply it to the right requirements.

In this context, a key driver for the implementation of solutions to enable this orchestration are variations in rules from jurisdiction to jurisdiction. As EU member states implement 4AMLD into national law for example, it is certain that nuances in application will emerge market by market. For a bank operating across multiple markets, this means change – and change that is different in different jurisdictions. As a consequence, solutions need to be able to adapt rapidly to change – with that change effected by business users.

Speaking during a Pegasystems conference recently, the director of one leading investment bank highlighted both the size and the complexity of the regulatory challenge in this regard. “We’re at the point now where we’re challenged with potentially having to re-evaluate nearly a third of the entire client portfolio because of some regulations,” he told delegates, “and the thing that’s actually motivating everyone to move forward with this has been this global pressure of regulations and being able to understand how these changes impact our footprint with respect to these regulations.”



**“Client data is always changing, and the rules on that are always changing, and the response to those rules is constantly evolving. It’s not an onboarding event. It’s a complete lifecycle.”**

**DIRECTOR AT AN INVESTMENT BANK**

During the same session, a development manager for client lifecycle management technology at another international bank emphasised the need to plan for continual change. “What we always have to keep in mind is when designing the system, you’re not designing for today’s regulations or today’s ecosystem. You need to be able to see five years from now what the regulatory environment will look like.”

The investment bank director echoed this important point. Any solutions deployed by the bank need to be able to “manage and understand the dynamic nature” of client data, he said. “Client data is always changing, and the rules on that are always changing, and the response to those rules is constantly evolving. It’s not an onboarding event. It’s a complete lifecycle.”

Clearly, while the barriers compliance obligations and legacy technologies and processes create in the bank onboarding process for corporates are significant and much-rued by customers, the problems don’t end with onboarding. As Reilly at Barclays points out, banks are obliged to reconfirm information about corporates throughout the relationship.

Brown reinforces this point. “Banks should not look at this just as an onboarding issue,” he says. “The bigger challenge is probably the ongoing maintenance of KYC data, and there are some interesting opportunities to leverage fintech/regtech solutions here.”

Above and beyond improving customer experience, the impact of a positive onboarding experience can have long term business benefits for banks, as Durkin at Bank of America Merrill Lynch says. “So much goes into the onboarding process and then it’s left behind – the initial testing, the aspect of the organisations working together through different hurdles. Over the long run, we need to leverage this. We have to capitalise on the knowledge we may learn during the onboarding process and bring it to bear during the future relationship.”



**Brown: KYC is not just an onboarding issue**

But this positive outcome is only possible if banks' investment in innovative technologies to improve onboarding is part of a coherent approach to improving customer lifecycle management end-to-end.

The desire to solve pressing and damaging issues with the onboarding process – coupled with the current hype around regtech – could lead banks to reach out for solutions to deploy on a standalone basis, to solve particular problems, without a view on their wider applicability. This in turn could result in the implementation of siloed systems which stand in the way of coherent, streamlined client lifecycle management infrastructures.

Banks should in fact seek solutions which can underpin front to back office onboarding, a global view of the customer and rapid updating to reflect regulatory changes – without the requirement for any hard coding. The reality for banks is that change is a constant. Acquisitions, new products, and extending business into new jurisdictions are all frequent occurrences. While many banks may start the CLM journey to solve a single problem – in one line of business or with one product – the leaders will take a forward-thinking approach to ensure they can build on their capabilities and be flexible to change.

In tandem, many leading banks are moving to a shared service model for due diligence for example, replacing the historical manual checklist applied by analysts with technology which embeds the rules, dictated by the bank's compliance experts, in its logic – so in effect the technology enforces the regulations, while also providing a target operating model in the application.

CLM solutions which enable these approaches empower banks to understand and benefit from global compliance, cost savings and revenue gains much more quickly, and by avoiding a siloed deployment, financial institutions can use regtech solutions of this type to cut onboarding time and costs by approximately 70 per cent. This also means faster time to transact and a true digital experience for the customer across lines of business, breaking down silos.

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**“One universal bank recently implemented an end-to-end client lifecycle and work optimisation platform in nine countries for more than 200 production users in three months. It now has the opportunity to deliver benefits in terms of reducing the cost of service per client and compliance and increasing transparency and customer centricity. A unified solution that combined regtech and customer service enabled the bank to rapidly deploy using pre-built processes and requirements.”**

One universal bank recently realised these benefits by working with a regtech solution. The bank’s internal customers were expressing concern about the global cost of its existing platforms, the lack of personalisation and local compliance adherence and the lack of IT agility they offered. Its global banking and investor solutions group embarked upon a transformation programme, focused on two goals: replacing its inhouse client onboarding platform, and implementing a new global customer services platform.

As a result of this project, this bank implemented an end-to-end client lifecycle and work optimisation platform in nine countries for more than 200 production users in three months. It now has the opportunity to deliver the benefits it wanted to reap, in terms of reducing the cost of service per client and compliance and increasing transparency and customer centricity. The application will now be deployed globally. A pre-built unified solution that combined regtech and customer service enabled the bank to rapidly deploy using pre-built processes and requirements.

In conclusion, when approaching the onboarding challenge, and considering regtech solutions to help, banks should keep the bigger picture – and the longer-term strategy – in mind, and ensure that any regtech deployment is seamlessly integrated with their client lifecycle management and digital transformation approaches, in order to deliver the best results for their customers and their own future business development.

As McGowan at Celent says: “CLM technology that is focused on providing a faster, more fully engaged and contextually aware experience for the customer is a game changer. Once implemented, regtech will allow banks time and investment to focus on innovation, new products and improved revenues.”



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