

The RegTech Forum Zurich presents:

Financial Crime: How the Good Guys Are Winning the Fight

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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.

The past weeks and months have been a busy time for the RegTech Forum, where in addition to our established London events we have recognised and responded to the need for RegTech events across Europe. On May 22nd we worked with BNP Paribas and Tech Plug & Play to host some of Paris' leading RegTech thought leaders and community members at their newly opened site on the Champs Elysées. Some key insights and actions points are available in **Paris Primed for RegTech Revolution** and the **audio highlights** of the evening. Then, on June 22nd we held our first event for the Swiss financial services community: 'The RegTech Forum in Association with Capco in Zurich', discussing the challenges and opportunities of RegTech in the Financial Crime area. A topical subject as just a few days later the Fourth Anti-Money Laundering Directive (4MLD) came into effect in many countries around the world. We decided therefore to make Fighting Financial Crime the focus of this paper.

The challenges of increasing regulation, reduced investment resources and the need for innovative technology solutions are the same across country borders and regulatory jurisdictions. We were so delighted to forge a new community of Swiss market participants and thought leaders. We hope to return to Switzerland later in the year for our Autumn/Winter series, following the market's summer recess.

As well as expanding across the world, the RegTech Forum itself has grown and evolved into three distinct verticals. Complementing our established thought leadership events, we now provide advisory and business development for community members and their early stage RegTech firms. We are also planning a venture fund to provide selected RegTech companies with the opportunity to pitch, present and demonstrate their offerings to a curated audience, to receive funding and operational support. We will be releasing more information on these and other developments over the coming weeks and months.

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.

Videos, interviews and white papers from all our events are available at **regtechforum.co**. Please register at **regtechforum/register** to join our thriving community, receive updates, and early access to thought leadership assets like this white paper report. We look forward to welcoming you to our next event.

Executive Summary



Vincent Kelly

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The application of RegTech to Financial Crime – including Know Your Customer (KYC), Anti-Money Laundering (AML), and Counter Terrorist Financing (CTF) – has gained momentum across the world. At the RegTech Forum we recognised the Swiss financial community's desire to embrace this trend – and were proud to host our first Zurich event in association with Capco on a swelteringly hot night, June 22nd.

The evening was split across two topics: a taster menu of Financial Crime and Regulatory Change being provided to Swiss RegTech participants. Reviewing the options available for tackling illegal behaviour – and exploring how those technologies might be integrated into existing architectures. A group of expert speakers with deep knowledge of the Swiss market spoke following a keynote address from Capco partner Dr. Ingo Rauser, which put the night in context.

First on the agenda was Financial Crime. We charted how technology has changed within banks' AML functions: the move from telephones and written mail, to Excel, then 'intelligent' tools which were implemented without considering how they might 'talk' to each other. John Davies from Kompli-Global and Thomson Reuters' Leo Perego then explored how technology might improve these situations.

Moving then to Regulatory Change, Dr. Philipp Hartmann from Credit Suisse shared his thoughts on how best to manage Regulatory Change. His **5 I's** methodology, as well as thoughts from all of our speakers, is explored in the Panel Insights section below. Following Dr. Hartmann, Ralf Huber from Apiax and Neuroprofiler's Tiphaine Saltini explored how technologies such as Machine Readable regulatory data and automated Investor profiling can integrate with and improve existing systems.

The moderated breakout sessions, chaired by Dr Rob Straw (Swiss Finance Institute) and Maria Bozhkova-Peytcheva (Capco) sparked lively discussion between attendees. That, and the networking which went late into the night, demonstrated the interest RegTech holds to the Swiss finance community. Thank you to Capco Zurich for hosting the event, I look forward to discussing the ideas raised in this white paper report with you at our next Swiss event.

Apiax: Apiax transforms complex regulations into easy-to-use digital compliance rules, which are always up-to-date and verified, consumable via an API.

Capco: Actively transforming the future of finance to create a resilient market of transparency, trust and capital strength.

Credit Suisse: Credit Suisse Group is a leading financial services company, advising clients in all aspects of finance, across the globe and around the clock.

Kompli-Global: Your trusted Enhanced Due Diligence partner, providing in-depth, accurate global intelligence to engage and retain profitable business without fear of regulatory sanction and reputational damage.

Neuroprofiler: Neuroprofiler is a Geneva-based behavioral finance game to help financial advisors assess the investor profile of their clients in line with MiFID II regulation.

Thomson Reuters: The intelligence, technology and human expertise you need to find trusted answers. Thomson Reuters is The Answer Company.

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Dr. Ingo Rauser

Partner
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Capco was delighted to be involved and host the first RegTech Forum event in Switzerland, a region within the financial services industry that is perhaps behind other countries in their understanding of RegTech, but as always, is ready to take advantage of all that RegTech has to offer.

Buzzword or Building Block?

'RegTech' has become the industry buzzword across Zurich – everyone is talking about it, and trying to understand how it might address their needs. But what does it actually mean? As consultants, at Capco we like to start at the beginning, and a dictionary search will tell you that RegTech is the application of new technology to facilitate the delivery of regulatory requirements.

Addressing a Clear Need

RegTech also offers a route to solving a clear need: the increased pace and complexity of the regulations – domestic and international – that Swiss financial institutions must now comply with. The need to perform more enhanced reporting, to provide a better and more transparent service to clients, and to comply with legislations that can differ from region to region – these are pressing requirements facing the Swiss banking community.

RegTech in Switzerland is just at the beginning
- addressing these challenges is more important than ever

A Toolkit for Success

Implementing this technology into banks' systems to meet clear needs sounds simple – but in practice it is rarely straightforward. While there are certain areas – KYC, AML, Authentication – where RegTech is already making an impact in Switzerland, given our connections with Capco colleagues around the world, we must acknowledge that Switzerland has a long way to go to benefit fully from RegTech. Swiss banks – even compared to other financial institutions – face the challenge of constrained investment resources, legacy systems, and data that is siloed and non-uniform within individual firms.

Bringing the Market Up to Date

The promise of RegTech is modern technology solutions with startup agility able to react to changing customer demands. The solutions often take advantage of cloud-based SAAS technology, requiring sensitive data to be anonymised to ensure data protection. It remains to be seen whether these RegTech companies can respond to very Swiss specific market constraints, such as Banking secrecy.

Taking the First Step

It's a challenge, but one that we think the Swiss banking community is more than able to overcome. The first step involves learning, education and collaborative thinking – which is why we were so happy to host June's event. We look forward to seeing you at others in the near future.

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We asked our panel of experts to discuss some of the challenges facing Swiss financial institutions – both in terms of data and infrastructure, for areas including Financial Crime and managing Regulatory Change.

Getting to Grips With the Data

Dr. Ingo Rauser, Partner at Capco, defined Banks as essentially being the accumulators of massive amounts of client data, and the matching of that data with financial products and services. From that perspective, with the increased regulatory burden, the growing demand for transparency, and the need for Banks to improve their Know Your Customer (KYC), Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) processes, Swiss banks must begin to get their data in order to comply. But what will this actually entail?

AML or Compliance employees in Swiss Banks have seen massive technology and data changes in recent decades - and the results pose a significant challenge to these institutions today. 25 years ago, their world was much simpler: everything went by telephone or mail. Then came Excel, and everything was done on paper. Then came the advent of 'intelligent' tools – but Banks today can often have over 100 different systems, each for a specific problem area, and none of these systems talk to each other.

Leo Perego, Managing Consultant at Thomson Reuters, agreed that managing this data, and normalising it into a standard that makes it useful within an institution, will be key. "In the AML and Financial Crime areas we create and gather huge amounts of data. The challenge is always being able to make sense of that, to get visibility into what data we actually have, and then to understand how best to use that data. This is where Machine Learning is helping us to make sense of the vast amount of data in a more intelligent and structured way."

Of course, once systems are able to talk to each other, and visibility into standardised datasets is achieved, there is a third challenge. As Maria Bozhkova-Peytcheva, Managing Principal for Financial Crime at Capco Zurich, explained: "then comes the issue of matching internal databases with an external world of data – from third parties or the web. How you structure them to match together, minimise duplication, reduce the amount to be really workable for your Compliance team."

As Maria went on to say, that overlap between Compliance teams and IT can prove to be an issue on its own. "Very often there is a lack of understanding: people may know the regulations but cannot cope with IT topics, or understand the technology without being able to speak the language of compliance."

We need people who understand the technology, and can also speak the language of compliance

Compliance That's Strategic – Not Tactical

To the point above on technology change in recent decades, implementing solutions to specific problems in a non-strategic way will often result in over-complicated, expensive and inefficient infrastructures. Given the increased regulatory burden today and the drive to remain competitive for Swiss banks, tactical solutions cannot be the answer. So how do financial institutions manage regulatory change in a strategic way?

Dr. Philipp Hartmann, Regulatory Oversight & Implementation, SVEB at Credit Suisse, has a '5 I's' methodology: **Identify** a new requirement, assess its **Impact**, **Interpret** the regulation, **Implement** a suitable solution, and **Integrate** it into the control and monitoring system. This kind of rigorous planning, and understanding every step along the process before a solution is adopted, can enable companies to avoid short-sighted solutions, and select tools that can integrate with their existing – and future – technologies in a seamless and efficient manner.

John Davies, Chairman at Kompl-Global, agreed that structure is key – but also pointed out that for many Swiss institutions, there is no one person responsible for driving this methodology through their organisation. "It's a question of turning this process into a 'business as usual' function for a team or individual, rather than asking people to contribute to a project or initiative while they also try to do their day job. You need a blend of old school knowledge and experience, with people who know the regulations and what technology can – and cannot – do to help."

Is the Customer Always Right?

The highest levels of client service have been an underpinning ideal of Swiss banking for centuries. So what impact will incoming regulations, and the technology used to overcome them, have on this vital relationship?

The response from our panel highlighted the possibilities and opportunities technology can deliver – as well as the extreme administrative burden client-facing employees currently experience in Swiss Banks. As Tiphaine Saltini, CEO at Neuroprofi, explained: "In the past a Financial Advisor might be able to fully understand and learn their clients' investment appetites, risk appetite and needs over time. Today, compliance can take up to 60-70% of a Financial Advisor's time. Many of our clients are concerned about that, they feel they are not taking care of their customers as they used to."

You need a blend of old school knowledge and experience, with people who know the regulations and what technology can and cannot do to help

Ralf Huber, Co-Founder of Apiax, agreed – and added that integrating the right technology into the relationship has the potential to dramatically improve client experience.

"Today, Banks limit their Relationship Managers to serving clients in a specific number of countries – dealing with the regulations in 20 different countries

is just too complex for a human operator. However, in a 'compliance by design' situation, where rules and policies are built digitally into the system, the client will benefit from faster, clearer and more compliant answers. And Banks will be able to sell products to clients directly in a compliant way – which isn't possible today."

Compliance can take up to 60-70% of a Financial Advisor's time.

This can lead to employees feeling they are not taking care of clients like they used to

RegTech: Opportunities, Challenges, Possibilities

According to Dr. Ingo Rauser, "the Swiss market is nearing the peak of regulatory change – that is, in the next few years, the number of 'tentpole' regulations such as MiFID II, GDPR, PSD2 and others will plateau, and then reduce." Of course, some EU-based regulations do not directly apply – but certainly have their equivalent regulation quickly written into Swiss law. He continued, "However, to maintain and continue to meet these regulations, the cost of compliance is going to increase year-on-year." In that context, leveraging innovative, flexible and extensible technology to meet these requirements makes complete sense – but what are the options out there for Swiss financial institutions?

Panel Insights

As Ralf Huber put it, Switzerland is exploring all the “usual suspects” when it comes to recent technology innovations: “you have Blockchain, you have AI in general, Machine Learning techniques. But really, the first step for many of these Banks is to digitise processes and implement a framework that gives an overview of what is happening across mapped data, client data, product data – in a way that I can understand as a user, or a legal compliance officer.”

Speaking about the potential Machine Learning has for Swiss financial markets, Leo Perego agreed that improvements in data are necessary, but also mentioned human capital improvement. “We’re going to need more people, more skills, in this area and the other areas of exciting technology, who can understand the power of the technology from a regulatory perspective. Or who can translate the regulatory requirement into a technical perspective. Ultimately, we lack the people and skills to understand these two areas together – we need a change of mind that will start with the stakeholders, and the people, themselves.”

John Davies agreed, and warned against seeing Regulatory Technology as any kind of ‘heal-all’ miracle cure. “I think one has to be very careful in understanding exactly what technology can and can’t do: it can implement rules, it can follow its instructions, but ultimately is still requires someone cleverer, or more experienced, than a machine to actually examine the results and determine whether a thing is right or wrong.”

The Increasing Regulatory Burden

Our panel expressed their sympathy for Swiss banks, and the sheer volume of regulatory change facing these institutions in the future – many of whom are already challenged by compliance today.

According to Dr. Philipp Hartmann, the first priority for firms is to identify – amidst the large number of legislative updates, policies, ordinances and so on – which changes are the most important and potentially impactful for the user’s bank. “You can sign up to a provider of regulatory change alerts, but you could receive 60 to 100 alerts a day – how do I identify the really relevant ones? How do I make sure I don’t miss a really important one?”

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A suite of regulation affecting Swiss financial services companies will certainly require scrutiny: the catchily named FinFraG, FIDLEG and FINIG ([see here for more detail](#)). FIDLEG, widely viewed as FINMA’s response to MiFID II, replicates many of ESMA’s requirements – while adding a Swiss finish. Given the overlap, Swiss financial institutions may run the risk of duplication of efforts here, according to Tiphaine Saltini: “for a lot of banks, I think the first thing will be understanding how much they have to comply with MiFID II when they already are working on FIDLEG compliance.”

The smart Banks will need to find a balance, between FINMA’s expectations, which have been lenient historically, and regulators from the UK, the US, Hong Kong and Singapore

For Maria Bozhkova-Peytcheva, the key is understanding the impact global regulations will have on Swiss financial institutions. “The General Data Privacy Regulation (GDPR) is going to affect the whole of Swiss industry – not just banks – and I think we are underestimating the effort there, because it is coming into force in May 2018. Similarly, PSD2 – the Payments Services Directive – is around the corner, as is 4MLD. These regulations are going to have significant impact. The smart Banks will need to find a balance, between FINMA’s expectations, which have been lenient historically, and regulators from the UK, the US, Hong Kong and Singapore for example – in order to avoid large fines from these regulators.

The most amount of scrutiny, however, may not come from external sources – it may come from within the banks themselves. As the panel concluded: “every incident we have harms our reputation. We already have our own interest, without any regulatory pressure, to have the best information, the clearest picture of our clients, and the ability to use the data we have to identify and prevent Financial Crime.”

Panel Insights

In summary, the seven key insights to take away on Financial Crime & Regulatory Change:

- 1.** We need people who understand the technology, and can also speak the language of compliance.
- 2.** You need a blend of old school knowledge and experience, with people who know the regulations and what technology can – can cannot – do to help.
- 3.** Compliance can take up to 60-70% of a Financial Advisor's time. This can lead to employees feeling they are not taking care of clients like they used to.
- 4.** 'Compliance by design' will enable clients to benefit from faster, clearer and more compliant answers – and Banks will be able to sell products to clients directly in a compliant way – which isn't possible today.
- 5.** While the Swiss market may be nearing the 'peak' of regulatory change – i.e. new regulations coming in – the cost of compliance will continue to increase year-on-year
- 6.** Technology can implement rules, it can follow its instructions, but ultimately is still requires someone to examine the results and determine what is right or wrong.
- 7.** MiFID II, GDPR and PSD2. FinFraG, FIDLEG and FINIG. Smart banks will find a balance between FINMA's requirements and other global regulators, to avoid large fines from the UK, US, Singapore and Hong Kong

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