The next frontier: An open source RegTech stack
Who am I?

My history

- Twenty years in the finance industry
- Started as a developer, then architect, then project manager
- Have worked at both vendors, and investment banks
- Have spent much of my career building regulatory technology

What I do at Adaptive

- Responsible for a portfolio of large-scale projects for our clients
- Deliver programs of work across many functional areas
- Delivered a major 1yr+ RegTech platform for a consortium of banks
This talk will be looking at three questions:

- Why is there a problem?
- What do we do about it?
- How will we do it?
Why is there a problem?
Building and operating RegTech is necessary. It’s also costly.

- New build spend[^4]:
  - Compliance: 40%
  - Other: 60%

- General revenue spend[^1]:
  - Compliance: 10%
  - Other: 90%
Building and operating RegTech platforms needs armies of people.

- Just three banks hired 6,600+ compliance staff in 2016[^3]
- One tier one American bank has 26,000 compliance staff[^5]
What's the problem?

There are a lot of vendor point solutions.

- Some are great - but onboarding and integration can be hard
- This results in integration spend, and integration risk
The expectations are immense.

- One bank generates 50,000 pages for the ECB alone, each quarter[^2]
- Industry-wide, average 50,000 regulatory updates per year[^3]

This is only going one way...

[^2]: Data source: [Banking Sector]...
[^3]: Data source: [Industry Report]...
What's the problem?

We don’t have the bandwidth to engage with emerging technologies...

Artificial Intelligence (AI)

Machine Learning (ML)

KYD, not KYC
Big technology firms are starting to enter the market.

- They don’t have large and fractured tech stacks
- They don’t have two hundred year histories of acquisition
- They don’t have decades-old old legacy systems

What they **do** have is determination, and deep pockets.
What are we going to do?
As an industry, we have three possible futures.

- we can be disrupted
- we can be acquired
- we can compete

Competing means focusing spend on areas that represent:

- competitive advantage
- differentiation
- but not utilities

Wait. What’s a utility?
What are we going to do?

A utility / commodity is something **necessary**, but not **differentiating**.
What are we going to do?

What specific requirements do we have of this RegTech utility?

- Needs to lower costs
- Needs total transparency of implementation
- Not ‘just another vendor relationship’
- Needs to use an approach that enables efficient knowledge transfer and co-operation between organizations
- Should still allow for point solutions, in-house and from multiple vendors, where they bring value
Enter Open Source - with an Open Core model.

- Proprietary point solutions
- Proprietary differentiating add-ons
- Vendor point solutions
- Vendor point solutions
How are we going to do this?

It’s important to realize that this is not a silver bullet for costs.

Companies that use open core still pay armies of developers to contribute to and maintain their open core solutions.

But, without doubt, they are smaller armies.
So how about if one firm decouples its RegTech stack…

..and open sources it?
What are we going to do?

This is how all functional building blocks have been open sourced by the industry up till now. But it’s not going to work.

It will be coupled across three dimensions:

○ Technical
○ Process
○ Operating model

More importantly, what’s the incentive?
What we need is a federated open-core model, driven and overseen by a committee of representatives, who all benefit in their own ways.

- **Buy Side**
  - Lowered costs
  - Lower compliance risk

- **Sell Side**
  - Lowered costs
  - Lower compliance risk

- **Vendor**
  - Clear integration points
  - Architecture for value-add

- **Regulator**
  - Full transparency
  - Easy small alterations
  - Lower cost of entry
  - Confidence in compliance

**What are we going to do?**
So what we need to produce is an open source, and open core, regulatory tech stack, produced and driven by all four quadrants:

- The buy side
- The sell side
- Vendors
- The regulators

But how?
How are we going to do this?
How are we going to do this?

The good news: the industry has shown that it’s possible to collaborate successfully.

- FDC3
- TradeWeb
- Many others...
To succeed, what would we need to agree on?

- Where to start?
  - Regulatory reporting seems like a good candidate, right?
  - Standard-ish data goes in
  - A known process is applied
  - A standard outcome is expected

- A standardized information model?
  - Dozens already exist. We can pick one.
To succeed, we would need to agree on:

- A technology platform?
  - Much of the industry agrees on a few languages and platforms

- Data security and privacy?
  - Again, there is broad agreement here
  - Many of these discussions are happening around the Cloud

- A governance / operating model?
  - FINOS have already solved this problem
In summary...
In summary

The problem:
- Cost
- Problems with point solutions
- Increasing requirements
- New entrants from BigTech

The solution:
- Firms change their mentality about open source
- Finance change their mentality about RegTech
- We adopt a new federal open-core model

And everyone in the RegTech world supports this new utility - because they have the incentive to do so.
Many thanks for listening!

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