

 Adaptive

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



---

## Agenda

This talk will be looking at three questions:

- Why is there a problem?
- What do we do about it?
- How will we do it?

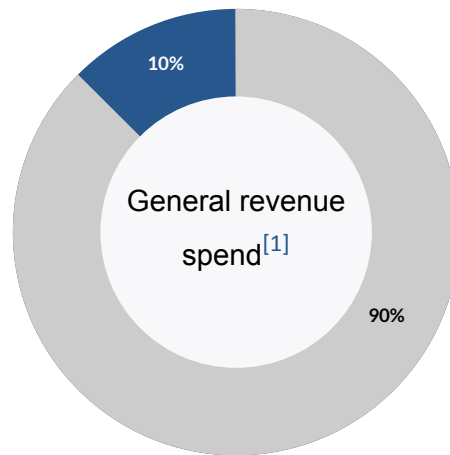
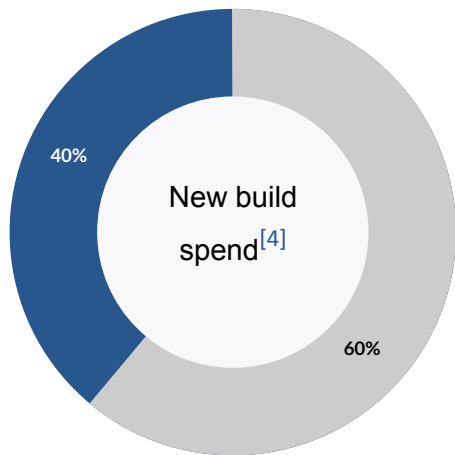
---

The next frontier

# Why is there a problem?

## What's the problem?

Building and operating RegTech is necessary. It's also costly.



Compliance

Other

---

## What's the problem?

- Building and operating RegTech platforms needs **armies** of people.
  - Just three banks hired 6,600+ compliance staff in 2016<sup>[3]</sup>
  - One tier one American bank has 26,000 compliance staff<sup>[5]</sup>

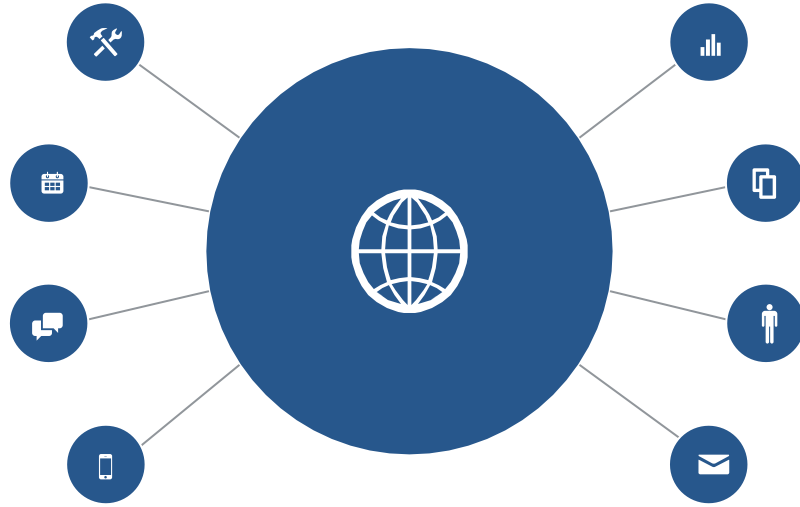


---

## 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**

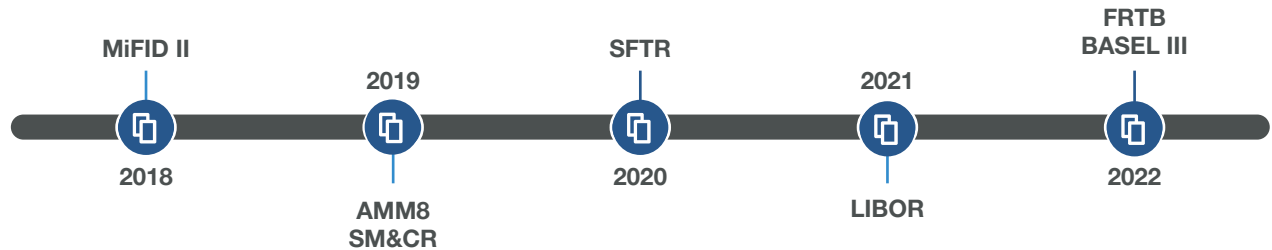


## What's the problem?

The expectations are immense.

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

This is only going one way...





What's the problem?

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



---

## What's the problem?

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.

---

The Next Frontier

What are we going to do?

---

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**

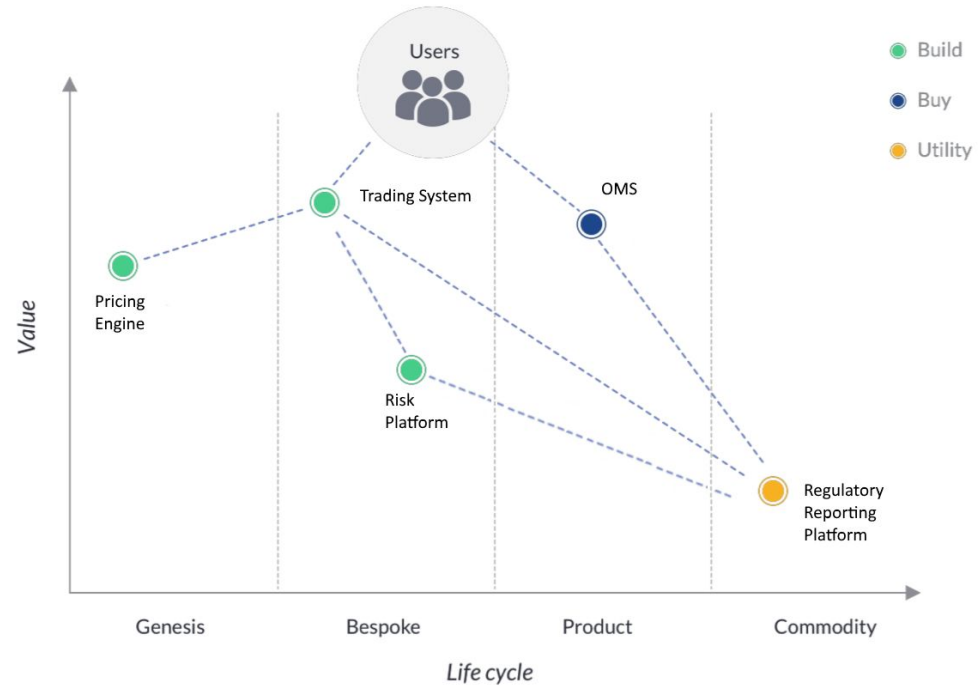
Competing means focusing spend on areas that represent:

- 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**.



---

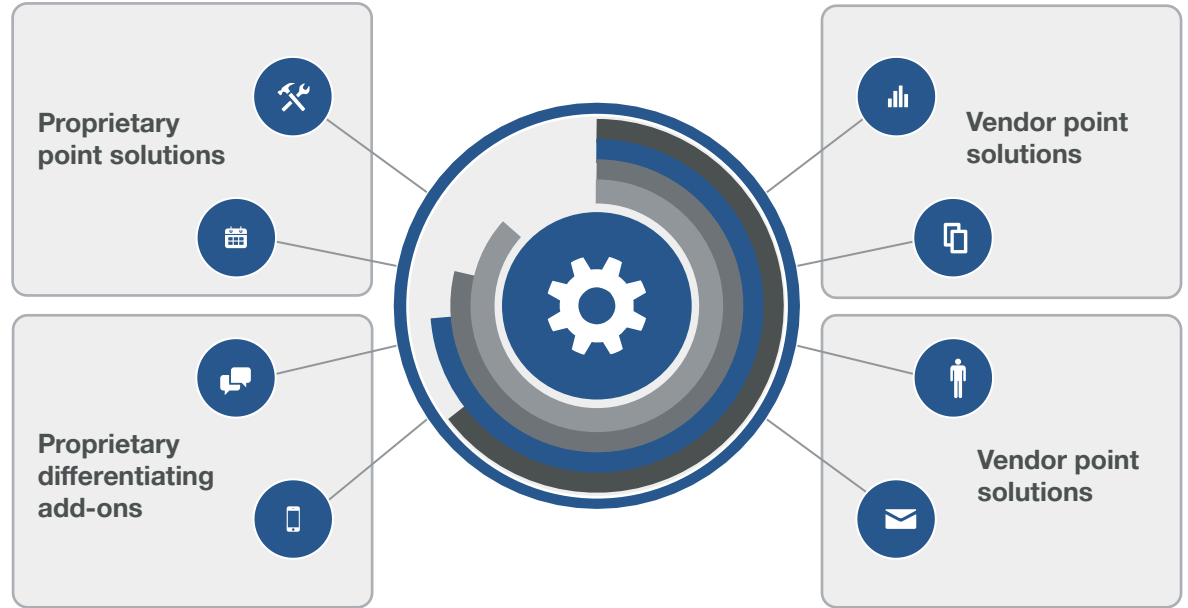
What are we going to do?

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

What are we going to do?

Enter Open Source - with an Open Core model.



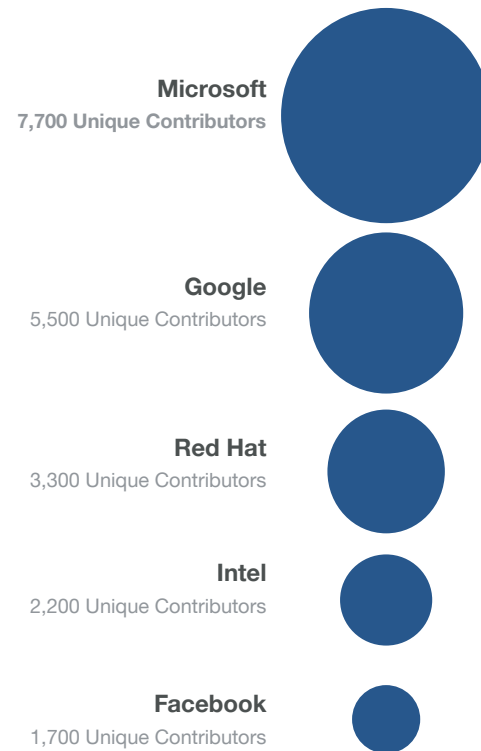
---

## 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.



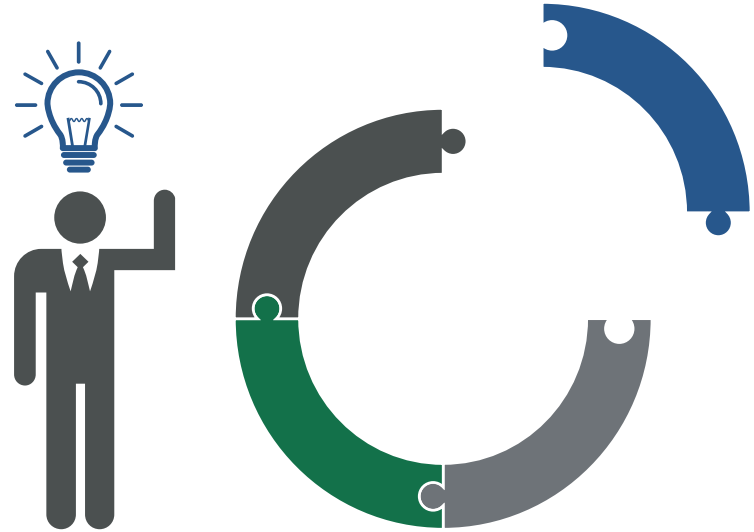


---

What are we going to do?

So how about if one firm decouples its RegTech stack...

..and open sources it?



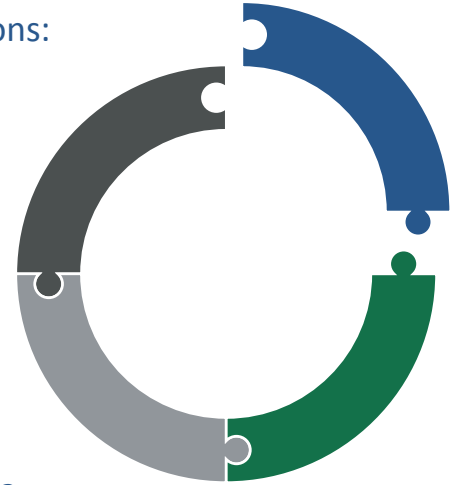
---

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

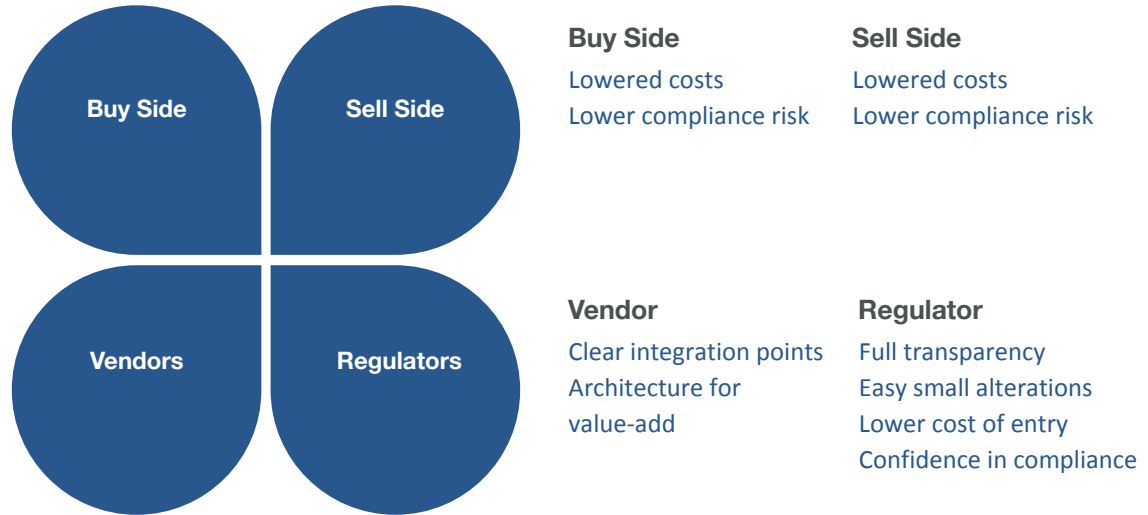


More importantly, what's the incentive?

---

## What are we going to do?

What we need is a federated open-core model, driven and overseen by a committee of representatives, who all benefit in their own ways.



---

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?

---

The Next Frontier

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...



---

How are we going to do this?

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.

---

How are we going to do this?

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...

### 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!

## Follow us:

 <https://weareadaptive.com>

 @weareadaptive

 [info@weareadaptive.com](mailto:info@weareadaptive.com)

 [github.com/AdaptiveConsulting](https://github.com/AdaptiveConsulting)

---

# References

- [1] Melis, M (2018), Too much of a good thing? In *Global Regulatory Outlook*, Duff and Phelps, available online @ <https://www.duffandphelps.com/-/media/assets/pdfs/publications/compliance-and-regulatory-consulting/global-regulatory-outlook-2018.ashx>
- [2] Mulder, J., (2019), Tacking Regulation with Innovation, *The RegTech Book*, Millennial Press, p.27
- [3] Polites, J., (2017), Why RegTech is a booming industry, available online @ <https://blog.atrivity.com/why-regtech-is-a-booming-industry>
- [4] Netke, S., (2019), RegTech and the science of regulation, *The RegTech Book*, Millennial Press, p.58
- [5] Nonan, L., (2015), Banks push back over surging compliance and regulatory costs, available online @ <https://www.ft.com/content/e1323e18-0478-11e5-95ad-00144feabdc0>