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01:02

Hello, Graham. Hello Federica

01:05

Hi. Good morning. How are you?

01:07

Good morning. I'm doing well. I'm doing fine. How are you? Cool. Good. Good. Yeah.

01:13

Yeah. Thank you for your time for availability for the interview, by the way.

01:17

No problem. I'm just taking a coffee here. Sorry for the noise. Sounds good. No, good spot. Sit, and we can have a chat

01:36

connection lost

01:45

I can still hear you. Okay. Yeah, I just lost you for I think 2015 seconds.

01:53

is probably because we're walking around. Sit here and stay once. Good to go. I was asking, Are you? Are you based in London right now?

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Yeah, yeah, I'm in London for quickfield. And for two months more, more or less. And then I'll decide maybe I'll stay here. And I just

02:18

thank you. And and you're studying there, regionally from?

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I'm from Italy? Yeah, studying, studying in Italy. I came here just for the final dissertation. Since it's a research project with a professor that is based in London, so I, I came here to, to develop it. And yeah, I don't know whether you you readily look a little questions or talk with, with Eric, basically, the researcher has started as an attempt to understand how the evolution, the technological evolution of low tech sector may impact businesses. And given that a lot of interviewees told me about the aspect of regulation, I said to myself, Okay, I should talk also with someone who's involved in that aspect. So, here we are.

03:14

Okay. Yeah. I remember reading some of the questions. Honestly, it was already when the invite was sent to me. So yeah, laughter helped me remember them again.

03:25

Yeah, yeah. No worries, no worries. ask good questions. Before we started, do you mind if I record our voices just to make sure that I don't lose any information? No, I don't mind. Of course. No, no name is gonna appear in the thesis or the interviews will be anonymous. So

03:42

okay, okay. No, no, I don't mind you can record.

03:47

So I would start by asking you a brief question on what are the main solutions, the main tool that the rec tech space is seeing right now? technological tools, I mean, so tools that bridge the gap between the regulation and the companies and and where the sector is going. So like, brief overview of what we have now and what you foresee is coming as your opinion in a few years.

04:15

Okay. In the big thing that's coming, and maybe probably help you understand those are the exists today is that today, still regulation is based on a template. What I mean by that is, imagine you have a balance sheet, the asset side and you have certain posts or positions that are predefined, okay, my bank has this amount of cash, my bank has this amount for good shots, my bank has this amount of derivatives. The regulator creates such a template for you. And the only thing you really need to do is fill it in. That means that Whether you're a really big bank, or really small bank, the type of reporting that you're doing the structure of your report, the way that you report, it remains more or less the same. If the same template, what the evolution that we're seeing is that regulatory is moving away from a template defined way of reporting to a more granular data type of reporting, where instead of you filling in a template and you making certain derivations and allocations and calculations to come up with those numbers, it will just ask you a full data set of all your individual products, your individual positions, which means that, in that case, it's a chain. Portfolio being packed as a huge portfolio. Yeah. So the volumes of data that will be reported the type of data that's reported. That's, that's definitely something that is going to change in the future. In terms of technology, the way financial institutions and banks communicated data is today the day mostly done in XBRL format. It's x barrel is short for Extensible business reporting language. It's have you do you have a comprehension? Or do you know what XML or experience

06:50

is? comprehension? Maybe is a strong word. But yeah, of course, I know that I know the, the you call it the acronym? Yeah.

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Yeah. So XBRL is a standardised way to structure your data and to report it. But to be able to define an XBRL regulator needs to first define something which they call a taxonomy. Okay. And taxonomy is a list of definitions, dimensions, a kind of stuff that help you describe and define the data in a harmonised way. Okay,

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how often is this taxonomy released by the regulator,

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from the European banking authority is sort of the Trailblazer with this technology, so they were one of the first to start with it. They currently do around one to two releases on a yearly basis, all the changes in the taxonomy, they have to first become a law. And after the law, they can be technically implemented. So it's a process that goes quite slow, so there aren't too many releases. And also, too, you have to ask to mention the burden on all the banks need to do their reporting, there would be too many releases it would be would be possible. So I'd say it's maximum of two releases a year. More, more realistically, it's it's once a year, that the big tech Salomi update.

08:35

So correct me if I'm wrong. Maybe it doesn't make sense to like to create, supposing the responsible or tool that automate the changes from the taxonomy to the like the software of the bank, because I mean, since it's, like once every six months, maybe there is no need for having a kind of tool that automatically immediately when the new taxonomy gets out. The regulated bank is immediately like, good to go.

09:12

Well, it's in one part, you can actually do what you describe. And for another part of the data chain, you can't. So, we have something which recall. But first, maybe let's take it from the beginning. First, you need to still get your data. allocate your data, make certain calculations to come up with the figures that you need to report. Once you have those figures, you need to find a way to transform them to this XBRL format, in order for you to have a valid file that the regulator will accept and that they can directly ingest in their own system. Start with realise the transformation towards xbrl is something that's impacted by a new taxonomy release, because the xbrl will look slightly different or have slightly different characteristics or content. But the way it's defined in the taxonomy and technical protocol, they release it in technical files that actually developers they can pass into the system. There is a certain logic behind it. So you have to imagine if you know how to parse xbrl version one into your system, you probably can do it with version two, or version three as well. So that's, that's the step of having your data sitting somewhere and transforming it into a xbrl file, then if you go further back, you have a whole repository of business logic that helps you calculate the data, of course there without involvement of business analyst, of the developers of people that really know the data of the company. There's no way you can automate this process because still somebody need to analyse, okay, what are the requirements? Yeah, it's quite functional as well. So, for example, what's coming up now is implementation of what they call Basel four, which is not really Basel four, it's a part of Basel three, but because it's quite a big part that hasn't been implemented yet, in the certain people will talk about Basler for Basel four impacts the way banks calculate their credit risk and report their credit risk. So it isn't just a technical change that you have to do there is a whole business logic of how this credit risk was calculated. Yeah, it's to be analysed and needs to be adapted.

12:12

Okay, I see understand, thank you. Okay, hey. CCE told me this. First of all, you work in sup tech or reg tech, Reg tech. Tech, okay. Okay. That's cool. Are the tools different from big banks and small banks, and also the tool for being compiled, regulatory compliant, and the direct deck, and also you know, about the same tools that are applied for different industries, that is not the financial industry. So it'd be that there is a parallel with the different industries.

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I'd say it's even between big and small banks. It changes a lot. You'll see different architectures and different approaches to the same problem. There are banks that want to work with vendors as little as possible. For example, if you look at in our market, what Wolters Kluwer is doing Wolters Kluwer financial services they're offering to financial industry consists more of, we have tools for both your risk calculation for your, for your finance departments. Okay, similarly for your general ledger, for consolidation for ratio reporting.

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So it's our one stop shop. Basically,

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it's a one stop shop exactly as you say, We can do everything, everything is already integrated with each other outside of out of the box. Then you have other vendors like, which are hidden in the Regnology that offers more specialised products. So you have River, what we still call an end to end offering that can do all your regulatory calculations, and then your reporting. But it doesn't come for example, with an ETL, which you use to connect our tool to the data warehouse where you can find the data to feed if it doesn't come with a really good risk calculator. So going back to the example of credit risk, big banks, especially in Europe, generally like to use their own models for credit risk calculation. So the regulator for in this specific example, the regulator prescribes for you what they call the standardized approach, which is a fully defined model, how credit risk should be calculated. And as something as at Regnology that's offered because that's regulatory defined calculations, something we do.

If a bank wants to go with what they call in the legislation, the IRB approach internal ratings based and then is the regulator that assess the

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regulator, then, you know, firstly, to assess whether your model is good or not, then you can use it. But if you have the green light, you can basically use your own model. And then you need a different kind of tool, probably risk calculators to build that model in. So one difference is some like what we call the best of breed. For every individual problem, we take an individual solution, and you make religious ETL to make them communicate with each other, and others. SSU called it prefer more a one stop shop. So one solution that incorporates multiple components that hopefully can give a single solution to to a wider problem. That's one thing. And then there is the added see how model and the technologies, I see that a lot of banks still have a lot of legacy technologies. That's that a lot of time mainly because I'll give you a good example. Three years ago, I worked with a big bank in the Netherlands. It was called ABN AMRO. And ABN AMRO after the financial crisis bought a lot of other banks. In Nigeria, the bank was called fortis, which was split in two, and one part was sold to ABN AMRO, and the other part was sold to BNP Paribas from France. The thing is, if a bank buys over different banks, they also buy over a whole IT infrastructure. A whole team of people working on that IT infrastructure, which you need to find a way to consolidate and integrate those different ways of reporting. A lot of the time. Such a project is so difficult, it's endless project, it never ends until a bank says, Hey, we're going to start all over again. And this makes that a lot of banks have a very, yes, see, it looks quite chaotic. Okay, for also, for the ex Fortis bank, they use that system still, which was an in house tool for the AVN for they use the system, then they need to build an intermediary layer to ensure that the data from both systems come together. Some processes are still very manual, this and that a lot of things still done with Excel. It's just, it is horrible, but it is what banks know. And I mean, everybody does it. Everybody. If you have, if you have an issue, you're easily, quickly go to Excel, even though there are there are better tools, but the ease of use of Excel makes that it's super sticky. And everybody knows it. So there is also a very big differences.

New challenger banks have a huge advantage sheet. Because it's much easier to start with, let's say tabula rasa, blank slate, and to build a technology stack on top of that, then to start with a patchwork of all technologies that you have to replace and find a plan to do it. And the big issue is always you have to, you cannot stop reporting. You cannot, you cannot just switch up the systems. So every time you have such a big change project in a bank, where you need to replace technology, you need to make sure that the business as usual continues on while at the same time building in parallel a new technology stack, and then find a way how to switch off the one system and move it to the other one without disrupting any business processes. So it's a really difficult exercise. So you'll see that legacy banks and especially banks that have gone through a lot of consolidation sometimes really use ancient old technology, just because it's still work. And it's really expensive and difficult to, to replace it.

Yeah, from what I'm understanding from you and directly. Yeah, this is interesting because whereas in the local legal tech space, now there are a lot of, I would say just two providers most of the times and understanding that in the rec tech space, you are not two provide us you are basically our consultants, you have to really understand the process of the bank or the regulator you're working with, you have to implement a technological solution software that suits the needs of the bank. Mr. Right. So it's much more tailored. The solution for the client is not just you provide the tool and the bar, the client buys the tool, and it's ready to.

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Actually, I would counter that is in a sense that what you need to report is so well defined in legislation in technical effectual protocols that you can to a really big degree standardize and harmonize that across financial institutions. It's actually one of the features of Regnology is the fact that look, we serve around 3000 banks in Europe. We try to standardize the way that they calculate the figures that they need to report and how they report as much as possible. Because also considered there is power in the group. In the sense that 3000 banks reporting exactly the same way. Why not just join them? Yeah. And do it like, because if the regulator then says, Guys, I don't know what what you're doing is correct. You're not alone. You're not one single bank that was deviating from the back end, and interpreted legislations just slightly different and other regulators coming to them because they're an easy target and telling them hey, if you have to resubmit everything, because you calculated it wrong. Now there is 3000 banks that submitted it slightly wrong. Here, good luck coming to them and saying hey, now the whole industry needs to redo it. So that is the power of group the power of harmonising and standardizing your methods across you know, across different banks. Yeah, perfect. Okay, good.

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I love when someone counteracting ideas Yes.

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But at will to maybe talk about the industry at sea, the big players are Wolters Kluwer is a company that's grown a lot last year. So disagreement is the big legacy player. Yeah. They're huge. They're part of a huge multinational. They exist for a long time, but the half slightly legacy technology. And because of their size, they're not very challenging, very slow to change, then you have very important new challenges, which has grown tremendously over the last couple of years. Very popular with American Tier One banks. They are called Adenza. And their software is called axiom. Yeah. They are very good with data they have three were very they basically offer you tools that are standardised to a little degree, but are still very customizable by the bank themself. And that's why they're, they're loved by tier one banks. Because tier one banks have the knowledge expertise and the people to still configure things themselves. If you sell something to like really small bank, they don't want to do anything themselves. They don't have time you don't have people maybe there is three people in the organisation directly reporting that to swamped with day to day business. So they generally are like fully out of the box and the less product tier one bank. They have so many people they want to do their own thing. So I was seeing all this glue where you have a dancer with axiom. Then you have a technology which used to be very important. And then you have forgot the name. It's Otherwise, I'll come back to you by mail for that one. And then those are at, say, the four big players that also can offer you very wide coverage. So that's always important to, to remember, what really defines is the data chain that the product has. So does it does just to last mile last mile, we mean, it just converts to it XBRL, basically, but it doesn't calculate any values themselves, or does it do end to end. So the four big players all offer full end to end solution, which you by definition, you need a certain size, you need a certain amount of business analysts, developers to maintain such a huge repository of business logic. And they will also have a wide coverage in terms of jurisdictions and types of reports that they can accommodate everything from the European banking authority to national legislation, APAC, Australia, US reporting, etc. Yeah. Okay. And then let's add C outside of this big four, you have some challenges as well, I'd say Vermeg is one of those challenges. V, E, R, M, E, G,

26:44

And then next to all those, we have a lot of small players that just offered last month, that that are there to fill gaps or black holes for banks. So you can imagine you're a financial institution, you are active in 40 jurisdictions, which means by definition, you're probably in all four jurisdictions need to do some reporting, you go to a defender, and they tell you, I can offer you 37 of the 40 jurisdictions that you have. A lot of times what they do is they take care of very small local players, for the three jurisdictions that are still outstanding, to plug it there. So you have a lot of smaller, more niche players as well. Most of the time, just offer a last mile solution, or limited coverage.

27:42

Okay, since we have a short time, if you have two minutes left, otherwise, the one that was? The question is, it's a weird one. Do you think that small companies, and I mean, like every kind of company possible, may be affected by the fact that banks are implementing reg tech tools? Because I mean, every company has some kind of relationship with banks, whether it is a loan or credit, or they're financed, because there's more companies that have to grow. You think that the adoption of these tools may in some way? It's a weird question, influence the companies that enter interfaces with with the bank.

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Very indirectly, probably, I mean, probably influences them is. Just the legislative burden is a huge cost for banks.

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Even though banks do a lot, and that are specialised companies offering solutions. Still, you'll see the amount of data points that the bank need to report this on increasing the complexity of calculations they need to do, and of data that they need to provide this is increasing. So it's a huge cost for them. And obviously, that's something that I think affects companies that interface with the bank. It makes the bank less profitable. Next to that. Banks probably should compare it to 20 30 years ago, need to gather much more information about our clientele today than they did in the past because they need that information to stay compliance and stand. You know, you have all different industry in this about an anti money laundering and terrorist financing. Next to that, I think some burden also comes from the regular ratio reporting session where you need to be able to group your counterparties in a certain efficient scene, you need to be able to slice and dice and dimension your data based on characteristics of your counterparties, which means you need in your front office a way to gather the data as well.

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Okay. So, it eases a little bit the onboarding process of a new client for the bank.

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And then I would say the opposite in increases it in complexity, because there are more information you need to gather from the client.

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Okay, but not but do you mean the direct regulatory framework, or the reg tech tool to make the onboarding easier or tougher?

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I'd say it's very indirect. Okay, it doesn't affect maybe, it doesn't affect because the information enters in the end via the front-end tool that the banking agents etc are using and that's where the data's change starts and the data chain ends with the reg tech tool. 🡪 it’s a conversion tool

So there's a huge gap between both the IC,

31:19

IC finally makes sense. Make sense? Okay, I think, more or less, we covered everything. And you can ask your personal question if yes, because I'm really finding this reg tech space very interesting. And I feel like that is a market that will be growing because of regulation is getting more and more granular. I don't have a techie background, in the sense that I study industrial engineering, and then I'm studying management and stuff related to business financing, corporate finance, how you think they are profile like mine could be could be starting a potential career in the Red Cross with tech.

32:06

Okay, don't worry about technical background or not. People with a technical background they become they are started out as developers. People with a non technical background like you and like me, that you either become a business analyst, which means that you become part of, let's say, the team of developers that maintain the product, but you translate the functional requirements into technical specs that they have to implement. mean it, these guys, they cannot read the basket for it. So you understand that and it's your job to transform that into business logic. And it's their job to implement the business logic and code into the product. It's one gateway and the other gateway I'd say