"Is disruption a good thing?"

by Shiva Keihaninejad, Sarah Christman and Raza Sadiq

Remember your feelings the first time you heard about FinTech, InsureTech and RegTech? Perhaps there was a mixture of confusion, fear of an unknown future, impossible to implement or ignore? It is happening right now, and we should all embrace it. The Institute of Risk Management and EY recently welcomed a tech and finance savvy panel and audience to the EY building in Canary Wharf to take stock of this topic in the finance industry.

The attendees heard from Kerim Derhalli, Michael Sicsic, Satya Pemmaraju, and Ruth Middleton, the panel was moderated by Raza Sadiq. The session was opened by Richard Jones of EY. Richard explained that EY has evolved from its rich history in auditing major tech companies (e.g. Apple; Google; Oracle) to offering extensive advisory services, both to FinTechs looking to develop further, and to blue chip clients looking to understand the opportunities FinTech offers. As a result it was gratifying to welcome the IRM and guests and host a forum on such a relevant topic.

Nicola Crawford, Chair IRM, then thanked the hosts **EY** and the **Trestle Group** for flying in Satya from New York and introduced a reinvigorated **IRM-SIG in ERM in Banking and Financial Services** and thanked the team and Raza for carrying out such events, of which this a third! Nicola then introduced Helene from the UCL faculty.

Helene Panzarino stressed that while FinTech is well recognised in the finance industry, InsureTech is still at the starting stage but on the rise. InsureTech has not been as disruptive as FinTech was with banking. InsureTech has been more collaborative, which is seen as a good thing.

"Tech is in everything…the focus is on usage vs loyalty."

Helene Panzarino

The insurance industry is worth trillions but has high barriers. Linking up with entrepreneurs might be difficult to justify but it's a match made in heaven – one side brings the regulatory compliance, the funding, the client base, the brand loyalty and the other side brings the agile tech, streamlining and some healthy disruption.

Richard Jones introducing the audience to EY and the day's topic. Photo credit: Darius Mayhew

Satya introduced the audience to Droit and gave a brief presentation on its simple and effective web-based platform targeting the capital markets technology and financial institutions, trading derivatives, and securities. This platform is based on Artificial Intelligence engines that automate all the global rule-making across all asset classes within real time trading engines.

Droit provides the audit trail recording the decision details including risk mitigation rules issued by G20 regulators. The audit trail helps answer the critical questions, "How do we know the bots are doing the right thing?" and "Why was this decision taken?" This has been a ground-breaking effort, adopted by eight large global banks with another three expected to join shortly, making Droit a potential standard to the industry.

Satya and Richard chatting over coffee before the event. Photo credit: Darius Mayhew

Raza then introduced the panel and invited them to discuss about the good, the bad and ugly (or uncertain) side of disruptive technology in the FinTech, InsureTech and RegTech space.

Kerim started the discussion with the notion that technology can be disruptive for a bookshop owner but for the rest of us it has been quite transformational. Amazon and eBay in ecommerce, Netflix and Spotify in music and entertainment, TripAdvisor and Uber in travel are all household names now. Benefits have been to the consumers, the variety of choices, the access to information, flexibility and empowerment.

"Technology can be disruptive for a bookshop owner but for the rest of us it has been quite transformational."

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The challenge for FinTech and financial industries more broadly is to translate those benefits and bring them to the finance industry. So far, it has happened in a very marginal way. Technology creates enormous benefit for society in employment and innovation.

Kerim expressed that if financial services can contribute to social benefit by bringing even a fraction of the $5trillion of annual revenues in the industry back into the economy through FinTech innovation and partnership it would be substantial. If we can raise the level of education and increase the transparency of information throughout financial services, then we can then bring down the cost of capital, reduce uncertainty and volatility, and increase the investment opportunities and hence global productivity and growth.

Michael addresses an audience question. Photo Credit: Darius Mayhew

Michael gave insight into the three FCA objectives: consumer protection, market integrity and competition for the benefit of consumers. He explained how Fintech is "tech innovation" and is seen as a good thing to support competition for the benefit of consumers. FCA is supporting Innovation through the banner of Project Innovate that includes various initiatives: Innovation Hub, Regulatory Sandbox and "techsprint" on RegTech. Michael stressed that the innovation hub has already agreed to support 350 out of 700 ideas and 28 firms have been authorised to trade. The Regulatory Sandbox is for existing players - for both small and large companies, providing a 'safe space' for businesses to test innovative products, services, or business models without immediately incurring all the normal regulatory framework.

Ruth took us back 10 years, to when the Internet really took off and how today, sensors and devices at home are having a transformational effect, including for example, how we can manage day to day risks, such as with 'fitbit' and 'nest' devices helping to manage our lifestyle/health and heating. The rate of adoption has increased significantly.

"For financial services disruptive innovation brings with it the potential for leaner structure through automation. You also have the potential to create products that are tailored to customer needs – an opportunity to develop new products that reflect the quantified self – a better potential to understand customer behaviour."

Ruth Middleton, EY

Ruth explained that disruptive innovation is bringing a potential for leaner structures, and also for insurers to develop more conditioned models – streamlined and predictive underwriting through advanced analytics, based on the big data gathered from sources such as credit information, social media, health information, which enables them to price risks better. With more data available we see our models become more conditioned, moving from stochastic models at one end to deterministic at the other (where more variables are known). These models will help us understand risks better.

Satya looked at the benefit of disruptive technology from another aspect; the backend and deep infrastructure where the plumbing of this ecosystem exists. The area that will benefit from "disruption" is the legal agreement, abstracting the agreements and transacting them more efficiently.

The panellists debated what challenges or complications financial services have to cope with in the current environment and future. Michael presented the challenges in a positive way. The challenge for the start-ups is not only the regulatory knowledge but also knowledge of financial products. However, the integration of innovative technology and business models with the existing business and BAU is a challenge for the large firms. Risk Management should continue focusing on this developing the plumbing so that the infrastructure is supportive.

"Business is a funnel for the consumers… the ecosystem is legal in nature and which is crying out for disruption…"

Satya Pemmaraju, Droit

Returning to Satya's comment on 'plumbing', the panel noted that legacy is a big challenge. Bringing technology into financial services requires a large IT transformation. Satya mentioned that most of the banks and large trading institutions have IT infrastructure that are decades old and the transformation is incredibly expensive. Satya further elaborated on the fear automation brings with it. What is the 'new narrative' for an age which is more or less completely automated? This needs to be thought out and disruption needs to be framed within that narrative.

Ruth Middleton chatting with Carolyn Williams, IRM . Photo Credit: Darius Mayhew

Ruth shared that management need to consider their business model and the opportunities or threats that technology disruption could bring to every element of the value chain. Sometimes slotting technology into the value chain through partnering with or acquiring a start-up is quicker and more cost effective than developing it internally. Firms should be open to change otherwise their business model could become irrelevant and they could see themselves surpassed by other businesses.

The panellists gather for audience questions. Photo Credit: Darius Mayhew

Also, we all need to ask what is the right talent set. Kerim and Ruth raised that attracting talent, training to ensure employees maintain the right skills to keep them relevant to the changing environment is a challenge as the jobs and products are continually evolving. The jobs that we have seen today and the jobs that have been promised to the next generation and generation after may not be there when they get there.

Educating consumers to understand new products and concepts, such as pay as you live and pay as you drive, is a challenge for businesses as well. Consumers' knowledge of products can have a direct impact on their premium level.

Also from an industry standpoint we need to see a rise and acknowledgement of technologists in light of the changes in the industry. Kerim made the comment that in most banks, we only see promotions based on being a great marketer and less so of a good risk manager or a technologist. The audience agreed!

Shiva Keihaninejad and Nicola Crawford, Chair IRM, engaging with our guests.
Photo Credit: Darius Mayhew

After summarising the panellists' views and comments, Raza steered the conversation towards what we should do now and what happens next.

Satya and Kerim agreed that more focus is required on "transforming data" rather than merely collecting more data and letting statistics drive decisions around it. Satya specifically mentioned big data, the need for optimisation and decision-making, must have transparency in the data collected before deemed production ready. Kerim stressed the importance of making information and market data freely available to people as they have the right to make informed decisions. Fund Manager performance and the fee structures should be more transparent.

Ruth highlighted that the wealth of available data is phenomenal making it an attractive target to cyber-attack both internally or externally. Some interesting research recently released mentions that around 30% of cyber-attacks come from inside the business. In its recent publication on Cyber Risk, The PRA has shown concern about the loss which can be incurred due to "silent" cyber risk.

"What is the 'new narrative' for an age which is more or less completely automated? This needs to be thought out and disruption needs to be framed within that narrative."

Satya Pemmaraju, Droit

To close out, Michael asked - do people understand what data is collected about them? Michael noted that one of the concerns for regulators is when technology is used to create situations of unfairness and which goes against the principles of good conduct and 'fair treatment'. As financial services move towards a more self-sufficient environment, there is the risk of moving from a risk of mis-selling towards the risk of mis-buying. To prevent this trend, the responsibility falls on the provider to supply information and details to consumers in a clear, simple and coherent manner. Technology resilience is also an area of key concern from a regulatory perspective in light of the cyber risk which is fast becoming a key concern.

The panel concluded that there are many ugly aspects out there that balance the good. It's our job to help our businesses cope with those aspects.

Raza opened the floor to Q&A from the audience.

The audience appreciated Satya's work and questioned how ISDA taxonomy and other agreements could be digitalised and embedded into its real time trading decision-making. Satya explained that they looked at "the law" as a 'mathematician' as opposed to unstructured information or database. The model is based on deep structures inherent and shared among different regulators when they write legal text around financial transactions. Satya also referred to the UN format for issuing and structuring legislation, which is machine readable.

Satya went on to explain – if legislation has been published in PDF/ HTML/ XML formats, Droit is able to 'parse' the text into a digital format and annotate the digitised text into data structures in an efficient manner. They also then have industry processes which examine these texts overnight, if there are any changes. The process bridges the gap between digital and analogue information.

Question raised by the audience was – "there are lots of Insuretech funds, which is a good one and how do you know which is bad? And how can we identify?" Raza made reference to Kerim and how he managed to get the 'hot air' out of the last e-commerce bubble in the late 1990s. Kerim explained that he inherited a business which was spending hundreds of millions of Euros in an uncoordinated way. Kerim stressed that for a large bank it is of prime importance to provide the customer a coordinated experience.

"The customer wants a coordinated ecommerce experience from the bank."

Kerim Derhalli, invstr

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Ruth further stressed the importance of mis-buying (referring to Michael's point), the onus being on the insurer to explain to the policy holder the details.

One attendee asked the panel's opinion on whether risk management will completely influence the pace of technology change. Ruth stressed that the risk managers will influence the rate of adoption rather than the pace of technology change. What insurers need is a new breed of risk manager who understand technology, both the opportunities and the risks.

Michael then concluded that risk management's role fundamentally remains the same of protecting and ensuring that the firm's objective is met. The question for an insurance risk manager remains the same - what is it that you're trying to disrupt? Is it product design? Is it distribution? And what are the risks linked to this objective? Expertise of understanding what the technology is may be required, but the fundamental question of risk management remains the same. Go back to basics.

The audience asks their questions. Photo Credit: Darius Mayhew

The event was packed with insight and the audience was keen to ask more questions. However, it was time for Raza to draw the event to a close.

If you attended and are looking for a chance to ask your question, or if you weren't able to attend, and would like to clarify the key points in this article, contact us!

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Darius, Shiva, Kerim, Sarah, Satya, Michael, Richard, Ruth, Helene, Ipsita and Raza.
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