



The digital transformation opportunity

THE FUNDS INDUSTRY IS LOOKING AT ADOPTING NEW TYPES OF TECHNOLOGY, FROM AUTOMATION TO ESG REPORTING, BLOCKCHAIN AND TOKENISATION. A *FUNDSTECH* ROUNDTABLE IN MARCH EXPLORED HOW THESE WILL REVOLUTIONISE THE SECTOR.

PANEL

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***FundsTech* – Where has digital transformation been the most evident in the industry over the past year or so, and what’s been driving this?**

AJ Harper, Euroclear – We are looking closely at how to create dashboard views into the underlying data that constitutes people’s ownership of investment products. Dashboards have been around for quite some time, so the innovation is not in the dashboard itself. Rather, the innovation is in all the data structuring that happens from the point of sale, perhaps at an institution that has a high-net-wealth client in Chile and then moves into an ETF via the market exchange, then goes through a financial market infrastructure such as

Euroclear and ends up at an issuer.

Petra Roche, Metrosoft – If you look at the pandemic, Covid-19 has probably removed the traditional barriers to digital transformation. Financial services institutions that have historically struggled with their digital transformation journey were able to identify gaps in their technologies and respond quickly to close them. The pandemic has just highlighted where those gaps are.

I was impressed by how quickly financial institutions in Luxembourg, for example, have gone from scarcely imagining their employees working from home to transitioning tens of thousands of employees to a remote working model. And doing that with

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a large percentage of their workforce abroad in Germany, France or Belgium.

Luc Falempin, Tokeny Solutions – We saw many large groups changing their priorities. Digital became the top priority and tech became an enabler. There was a realisation that a shift was possible and needed. It accelerated our business.

Also, we saw a different kind of demand from the end investors because they want more transparency. When everything becomes digital, you want to get more data, visualise it and know exactly who is doing what to make sure you put your money in the right place.

Alexander Stevens, Greenomy – Digital transformation has been most evident in the field of environmental, social and governance (ESG) innovation. The challenges are the lack of ESG data and the necessity of putting in place technologies that can potentially help generate proxies and capture raw data to generate the mandatory ESG reporting. For us at Greenomy, this is the field we are experts in. We are an innovator and a tech provider focusing specifically on ESG.

We have a market infrastructure approach where we are partnering up with other innovators and established players. Everyone has their niche, and by bringing all together, we can generate much more added value for the entire market.

FundsTech – Have regulatory drivers increased demand for better reporting and data?

Stevens – Financial reporting has been there for years, but now non-financial ESG reporting has become mandatory and more complex, as legislation is

standardising it and listing a series of requirements.

New EU delegated acts are coming out on average every six months, and then every three years they will be reviewed. In total, we have referenced, so far, 2,500 datapoints in the EU Taxonomy alone.

The goal is to have all concerned players interact with each other. Issuers are taken step by step through the legislation and their existing databases are matched to the reporting template. Once that's done, we convert the report into data models that financial institutions can access for their own reporting exercise.

FundsTech – What is Euroclear's approach to this and how do you see the ESG reporting area developing with new technology?

Harper – Our strategy is focused on three pillars: ESG issuance, ESG data and analytics, and ESG market uplift.

For the first pillar, if you digitalise the taxonomy, people can spend time assessing how they can impact and improve sustainability, rather than their energy going into the administrative tasks in the reporting environment. And that has real value.

For reporting, once you begin to create sufficient source data, you have the opportunity to create a network effect, as the data becomes very valuable because the authenticity is high, the granularity is high, and the users of it can then make decisions based on it.

The second pillar is around enabling asset managers to access fact-based objective data, so they can ask what-ifs and determine how they're going to position their portfolios.

The third pillar focuses on our role with network participants to build an



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alliance around people who want to change the way the issuance process operates in ESG. Fundamentally, as the number of sustainable securities goes up – and there are around about 7,000 use-of-proceeds bonds today – we think there's a meaningful opportunity to enhance that.

FundsTech – Does the industry need to think differently about innovation from a conceptual level?

Roche – One of the challenges is the

data, or sometimes the unavailability of quality client data. People often overlook the fact that the same data exists in many different places, such as your TA [transfer agency] application, your CRM [customer relationship management] system, etc. The data is replicated and not properly reconciled, which results in different information on the same entity in different places. API [application programming interface] and real-time connectivity can help create a golden source of data;

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basically, have one place that holds all the information, which results in less reconciliation, less maintenance of data in different places, and less incorrect data.

At Metrosoft, we believe in the use of trusted data sources, not in paper. Moving away from paper-based processes and having an entity-based central system that holds your golden source of data. Each entity, each investor, each UBO [ultimate beneficial owner] only exists once, and we should be leveraging data on entities.

Stevens – The mindset change already started a few years ago. We have more and more big players running pilots with fintechs and regtechs such as ours, and it's becoming increasingly easy.

Today, there is a good ecosystem in Europe. Greenomy, for example, is interacting with the four corners of Europe and so we see some differences, but the overall momentum is improving. Some elements that may slow down implementation are security requirements and outsourcing requirements.

We see more and more sandboxes being adopted across Europe. The UK Financial Conduct Authority (FCA) set up the first digital sandbox in 2020 and other countries across Europe are working now on developing sandboxes. That is indeed a great way of making sure the financial markets evolve.

FundsTech – Luc, how else does the industry need to be thinking about blockchain and digital assets from the conceptual level to embrace these changes going forward?

Falempin – For private markets, the challenge is to switch from papers, or Excel, to something digital. Private

markets are in silos, so data is replicated in many different places and each in a different system, so this is exactly where we think blockchain brings value. It's able to bring a common ledger where you can transfer value that is shared with everybody.

FundsTech – What are your thoughts on how blockchain could drive the push towards T+0 settlement?

Harper – The transfer agency space is littered with lots of old-fashioned ways of collecting, processing, handling and reporting data. Blockchain could provide a different environment.

Firms want to be excellent at portfolio management, and in the past, they had to hold all the retail investor information. Think about how much duplication there is if the same banks in Singapore or Chile have already gone through the work of replying to all the KYC [know your customer] and regulatory data required to work with the asset management community. Could you use blockchain to allow multiple asset managers to benefit from that regulatory response or that compliance response?

Today, the industry is processing trillions of euros in funds, and ETFs could take out an expense by just eliminating that legacy process of many people providing the same information over and over again. Now, the challenge is how do you get digital ledger technology (DLT) to support that legacy process in a lean way?

At Euroclear we call that initiative DFMI – the digital financial market infrastructure.

Roche – DLT will be used more to streamline and digitise the business and the processes, and eliminate the

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need for reconciliation of data, and eliminate intermediaries.

The CSSF, the regulator here in Luxembourg, has published a white paper outlining the potential opportunities offered by DLT and blockchain in financial services, and they do mention KYC and customer identification as areas where DLT will increasingly be used, which is something that Anthony mentioned earlier.

Falempin – Even if we don't share the KYC status itself, we could make it easier for investors to share their data.

Roche – Yes, and even not asking investors for the information but using publicly available sources. Some trusted sources you can connect to via APIs and you get the required information directly without having to bother the investor anymore.

Falempin – We have made an identity solution, a self-sovereign one, so step by step you enrich your data with your information or data coming from other sources. You can then submit this data every time you want to invest in a new product. It's a way to not redo the work.

Everybody is doing the same work and when you want to make a transfer, you need to make sure the other people have done the work that you need to do as well.

Today, we can do the T+0 settlement on-chain. The issue is more an operational process now to make sure everybody works the same way. So, it is taking some time, but now at least everybody wants to go in this direction.

FundsTech – Why is trust an

important element within digitalisation?

Roche – Trust is fundamental for all business relationships. Working together with people you trust is essential for growth, evolution and is the key to agility. It generates innovative ideas and moves things forward quickly, which is required when we talk about digitalisation.

Stevens – A way to have more trust in regtechs and fintechs could be to set up a European agency that would certify or verify all the different solutions that are in the market. It could be a private agency that runs through different frameworks – ISO certifications and ISA audits – at an affordable cost for the nascent solution providers.

It could be the industry providing subsidies, or governments or regulators making sure that when financial actors are looking for solutions, they can check and say, 'OK, this solution has been vetted, it properly applies the legislation, and we can rely on it.'

Now, how about a bank offering a new solution to its customers? I think the trust should be built all around the added value you are bringing to them, because anything new always has a steep learning curve.

If you can convey the message about how much resource and time they are going to save by using such a solution, they will put the effort into using it and start slowly trusting it.

Falempin – It is obvious we need big players to do projects because all the other ones don't want to be the first ones. In the blockchain, it is quite structural and strategic, so we need more large financial institutions to launch projects, and actually, many of

them are doing it step by step.

On this idea, a few years ago when Facebook announced, 'We will do some kind of stablecoins,' suddenly everybody was contacting us, 'What is it about? What is tokenisation? What is blockchain? Should we do something? We thought we had five or ten years to think about it and it's coming now.' We need that kind of trigger so that people will realise they can benefit from these new technologies. There are opportunities and it's OK to be among the first ones. Usually, that's what we need to trigger some big changes, and blockchain is a big change.

FundsTech – Luc, will companies like Tokeny come under regulatory frameworks, and what have regulators said recently about the treatment of blockchain provider companies?

Falempin – Currently, we cannot be regulated because there is no status for us. After all, we are just a tech provider. We have some issues like this, so we would like to be regulated, but it doesn't make too much sense for what we do. As a fintech, if you don't work with the big players you don't exist, so the step is quite high.

On March 14, the laws for the EU's Markets in Crypto Assets (MiCA) should be proposed. It will say that security tokens are securities, so MiFID rules should apply. Everybody knows this already and in some countries, such as Luxembourg, it has been made clear. At least it will harmonise at the European level, which will make a lot of things easier.

The issue is more on the stablecoin side because it's nice to have securities on the blockchain, but if you want to do any kind of settlement on the

blockchain, you need stablecoins. So, you need to represent the cash on the blockchain, and those cash tokens are not very clear in terms of regulation in Europe.

That's why if you check the crypto markets, all the top stablecoins are in dollars. That is an issue we have in Europe and we need to react quickly.

Regulators are quite innovation-oriented. We are very much welcomed by all of the regulators and they want to understand.

FundsTech – What are your thoughts on how artificial intelligence and machine learning are transforming the industry, and improving services and outcomes?

Harper – From an ESG standpoint, you look at the data that's being collected by Greenomy; that's at the source, and it then may be certified. When you get that information, it provides comfort because that's original data, not proxy data.

If you're an investor and you want to see the whole market, you need a database that's going to get every ISIN [international securities identification number] that's out there. With corporate ISINs, you're looking at tens of thousands of entities, and when you begin to add in the fixed income then take that up to several million, and you add in the private markets, there's lots of information to track.

We are at a crossroads which is: How are you going to do all that data collection? Are you going to use people in back offices to do that or are you going to try to use AI and automation?

When you look at companies reporting on sustainability, you have a sustainability report – it's a pdf that's hanging off a website. But it's not

structured in a way that one can easily grab the information. So, can the AI be smart enough to go to the right points to begin assessing that entity's information against ESG metrics?

That's where we see AI, particularly with smart subject-matter practitioners who can target how it's being used, and perhaps look at it after the data is collected, as a real game-changer in sustainability.

Stevens – AI can be an aggregator, so you can source different data sources and generate ESG scores. Nevertheless, there is always going to be a percentage that will not be the accurate score. AI also needs to be constantly taught, so with those algorithms there's always a certain human intervention that's necessary at the beginning to improve them. It will take years before we get something that's fully accurate and that we can rely on.

Another challenge with AI is the algorithms are a black box and so you never know how they exactly work. Do regulators need to be able to have access to that black box? We need to ask ourselves if there is a necessity for tech providers to have to write down their algorithms in plain words and explain the logic so that regulators can be able to look through them.

This would incur huge costs for the tech provider that needs to translate it into simple words, but also for the regulator that will need to understand it.

So, AI is one of the solutions, but it has its setbacks. We need to push forward AI and machine learning to make it as successful as possible, but we also need to put in place all the oversight necessary to avoid that black box and avoid mistakes.

FundsTech – What do funds need to



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AJ Harper, Euroclear

focus on now to ensure they can take advantage of digital opportunities and remain competitive?

Falempin – Distribution is changing. Asset managers want distribution networks that are as light as possible, so it's something to focus on. Everything becomes digital now. With mobile apps, for example, you can buy shares in all parts of the world for free, so distribution is changing.

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Roche – One focus needs to be the avoidance of duplication of data, especially customer data.

Harper – It's not the technology, it's what you do with it. It's not the data science, it's how you apply it. The terms that underpin our challenges today are actionability and interoperability. Actionability is now not just the data and analytics, but the ability to take the analytics and create impact through action – so, implementing changes in the investment portfolio.

That concept of actionable is then enabled for the asset managers and for the wealth managers that are using investment products, ultimately to support us as consumers. Those two key elements of interoperable and actionable for me are key takeaways from today's discussion, and a mandate for the asset manager and wealth manager community.

Stevens – What we need is much more widespread change that comes from the top and from the regulators that are pushing for the widespread adoption of specific technologies across different players.

With blockchain and DLT, the reality is that today you have specific experiences, pilots or specific players here and there, but it's not widespread yet. So, how do we make sure you go to the next stage? We reached a plateau and now it's all about making it mainstream. Therefore, whether it's regulators or standard setters, you need to have that kick and push for specific technologies to become more and more widespread.

I'm looking at players such as Euroclear and Swift, which are the market infrastructure providers – they are the standard-setters.

In our field at Greenomy, we are lucky that the market is eager enough that we do get a lot of support from the industry and they help us push forward our technology because it's tackling the climate emergency. Any technology, whether it's blockchain, AI, supotech [supervisory technology], regtech, is key. So, the faster we can implement it, the more synergies and the more added value we create, not only in the EU, but across the globe.

FundsTech – What are your key takeaways from this discussion?

Harper – Much of what we touched on in terms of blockchain, AI and digital transformation, in my view, resonates with the word 'transparency'. And that transparency and personalisation are the things we're trying to get to support ESG and better investment solutions.

While settlement cycles could be made even faster, near real-time, people still need basic things: 'I see what I'm investing in and I can have it personalised to me,' and our job in between is to make that a better experience.

Roche – In financial services, we tend to hold on to old processes, and a change in mindset is required. Change the old processes and accept or embrace new technologies. Trust in the change, and then it will work.

Falempin – We need to make sure people understand what they can do with blockchain technologies and start using them. Of course, it's a long process but investors want more transparency and personalisation, so they want a different type of distribution, and more control over what they do.



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Petra Roche, Metrossoft

Stevens – I would say collective intelligence because, in technology innovation, several players need to work together.

It's all about putting in place a collaborative ecosystem that can help identify the challenges, identify the solutions, put them in place, pilot them, and then push them to production and make them mainstream and used by everyone. Besides the mindset, the ecosystem is also key. **ft**