RT Directory

The RegTech Markets presents:

RegTech Markets Directory 2017: Insights & Intelligence

December 2017 – **London**

Executive Summary

Authors

Jason Boud
Co-founder, RegTech Markets

Mike Wilson
Co-founder, RegTech Markets

Dr. Sian Lewin
Regulatory Change Expert,
RegTech Markets

RegTech is application of technology to help firms satisfy their regulatory obligations

The Rise & Rise of RegTech

"RegTech" has been the buzz-word of 2017, with what seems wave after wave of blogs, conferences, articles and LinkedIn posts – a lot of which were of dubious quality and lacked any real insight. All year the markets have been struggling to understand exactly what RegTech is and what problems are being solved by it. What's it all about?

At RegTech Markets we set out on an ambitious program to explore the issues at the very heart of our industry and get to the answer. Forming a 1,000 strong global community made up of the regulators, regulated firms, technology investors – and the RegTech suppliers. Curating a series of events with topics that cut across the themes of Disrupting the Status Quo, Collaboration, Artificial Intelligence, Digital Transformation, and Financial Crime to name a few.

As we progressed through the year the same questions kept coming up…

• What exactly is RegTech?

• Is it just Financial Crime?

• Does it only apply to Financial Services?

• Is the sector aligned and driven by a particular regulation? Is it all about MiFID II?

• What makes a good RegTech product or solution?

• Who are the best RegTech companies?

• How do you most effectively measure success and deliver an ROI?

• Which technology trends matter? Data science? Blockchain and DLT?

So, kicking off in July we began the process of researching and compiling the RegTech Markets Directory – on a mission to get clarity and an objective assessment of the space. We organised the landscape into seven categories:

• Cyber, Data Privacy, Identity

• Financial Crime

• General Compliance

• Market Integrity & Transparency

• Regulatory Reporting / Regulatory Risk Analytics & Calculations

• Regulatory Data & Information Management

• Regulatory Intelligence/Change/GRC Frameworks

We canvassed our community and the market, selecting and inviting over 600 firms to submit their products for consideration.

The results are now online at http://regtechmarkets.co/directory/.

Spotlight Awards 2017: Insight & Intelligence

The companies were also offered to take part in our Spotlight Awards, with 130 firms submitting detailed presentations of their offering, case studies, benefits and ROI. These entries were judged by an independent panel of experts from banks, asset managers, technologists, industry bodies, regulators and investors – with the top fifty progressing to 'demo days'. This led to hundreds of hours of demonstrations and pitches, where companies could impress the judges with their knowledge of the problems facing the industry – including feedback from the 'client coal face'. The end result was tremendous, creating a unique picture of the make-up, location, maturity and trajectory of the sector to be shared across the community:

- The creation of seven market validated categories that span across RegTech
- A qualified, cleansed directory of 464 products
- The Top 50 firms selected as Spotlight contenders judged by an expert panel
- With 8 category winning firms

So what is 'RegTech'? Our judges, steering committee and wider community defined RegTech as:

"The application of technology to help firms satisfy their regulatory obligations."

But what makes a good RegTech product or solution? Our starting point is that it must solve a recognisable problem, can demonstrate tangible benefits, and is delivered in a smart and sustainable way.

Spotlight Awards - Steering Committee & Judges

Figure 1. Over 30 judges from some great organizations

Spotlight Awards 2017: Insight & Intelligence

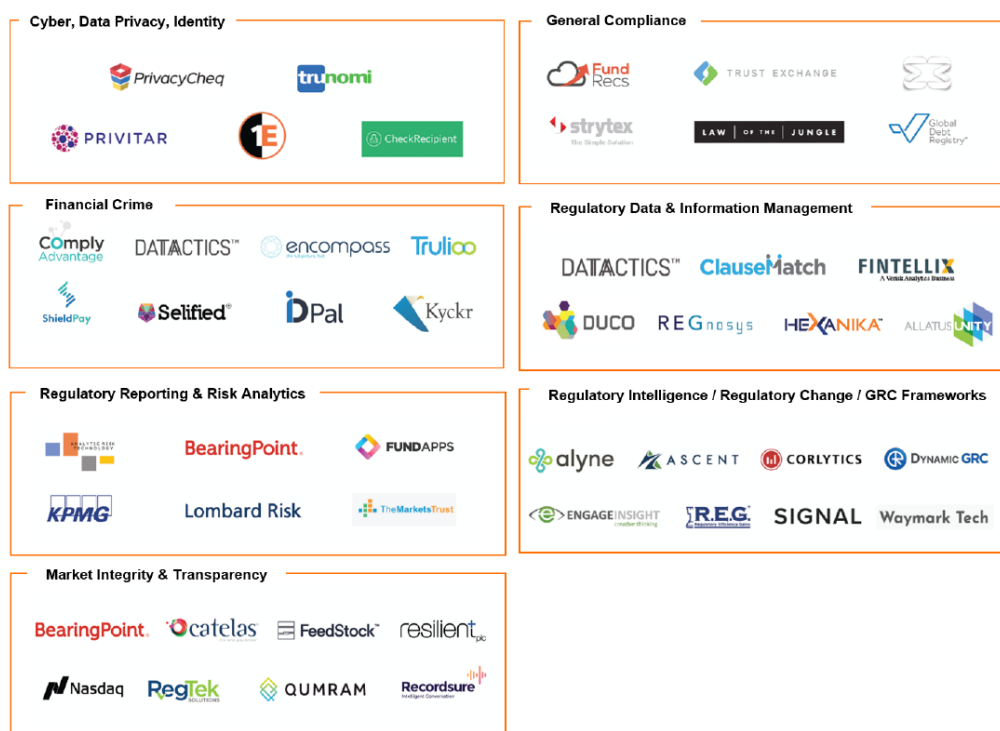## Spotlight Awards - Category Finalists

Figure 2. The top 50 companies reached the spotlight

RegTech Markets Insights

Our 2017 events program, the global RegTech Markets community and the field work undertaken to compile the directory has given us tremendous insight into the marketplace, its maturity, viability and sustainability. There are both positives and negatives to consider:

Positives

- There is real engagement and investment across the market from regulators, regulated firms and technology providers – regtech is on the agenda, and its not going away

- The number of RegTech products coming to market has grown steadily since 2007, with 68 new products in our data entering the market in 2016 (16% increase YoY)

- Our 2017 year-to-date figures are indicative of a similar level of product innovation this year - we do not believe we have yet reached peak RegTech

- The UK is emerging as the top location for starting and growing a RegTech company in Europe and is competing with the US to be the overall global hub of RegTech innovation

- Financial Crime is the most dominant category of RegTech products, but there is a more even spread across the other categories than we anticipated

- RegTech is entering a second wave of maturity

The United Kingdom is emerging as the top location for starting and growing a RegTech company

Negatives

• We are seeing a lack of revenue growth from many of the RegTech companies, with existing revenue further under threat by new entrants

• There is low capital entry requirements for start-ups, with many new entrants that are difficult to differentiate, all chasing the same problem set

• Regulated firms are struggling to identify, test and procure solutions in a timely manner

• The firms that do overcome these challenges are further struggling to measure and justify return on investment

• The typical 18-24 month sales cycles within financial services companies is further complicated by a lack of a clear RegTech buyer

• Many RegTech CEO's we speak to are struggling to see the value of the innovation lab function found in many large companies, a common complaint being that these functions seem to be disconnected from the business owners

Regulated firms are struggling to identify, test and procure solutions in a timely manner

RegTech - Yet To Peak?

How has the RegTech Market grown since 2007, how fast is the sector growing – what is the trajectory?

• Before the financial crisis, fewer than 68 products addressing regulatory needs had been introduced to the market, which is what we would have expected

• From 2007-2011, there was a 135% increase in new RegTech products, with an additional 92 products created

• The period 2012-2016 saw the biggest surge in growth with an increase of 158% and a total of 254 new products being launched over this time

• In 2016 alone, we saw 68 new products enter the market. This rapid growth reflects the peak in regulatory changes and implementation and the rise of FinTech investment
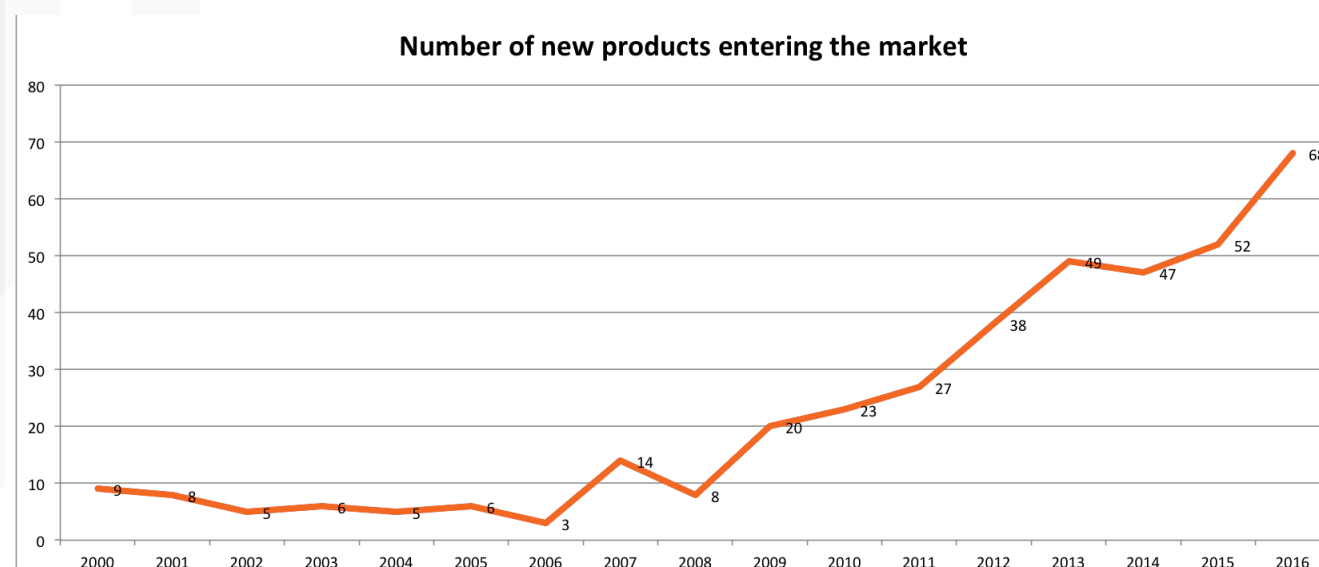
Number of new products entering the market

Figure 3: Number of new products entering the market

Spotlight Awards 2017: Insight & Intelligence

Since the early part of the decade, the rate of regulatory rule change has exploded both in complexity and volume. This continues to grow steadily, peaking in 2016 with 52,506 regulatory alerts being issued collectively by global regulators according to Thomson Reuters[1].

Whilst investment activity in FinTech overall has softened during 2016 and 17, venture funding in RegTech has continued to climb at a tremendous rate over the same period. KPMG noted in their pace of Fintech Q2, 2017 report that:

"RegTech investment and deal volume continued to gain strength in Q2 2017 with a mid-year total of $591 million invested across 60 deals. RegTech investment has already exceeded 2015's annual results and is on pace to surpass 2016's record. Deal volume is also on track to exceed 2014's peak high of 106 deals."

Similarly, CB Insights European RegTech map notes that:

"...since 2013, private RegTech companies have raised approximately $4.96B in disclosed equity funding across 585 deals globally. While the US leads in RegTech deals and funding, countries in Europe collectively account for 18% of global RegTech deal share. Europe has been a hotbed for early-stage RegTech startups with a focus on solutions for the financial services industry."

They go onto predict a total of $1.29bn of new RegTech funding by the end of 2017.

RegTech has become truly global in nature, and resources such as the RegTech Markets Directory are critical

Our RegTech directory data is telling a similar story and we tracked 49 new products entering the market in 2017 (until the end of September). We anticipate that 2017 total numbers will match or even exceed the 2016 high of 68 new products. Our sense is that the number of new products entering the RegTech market has not yet peaked, especially as current investment levels look to be continuing. If there is slight slowing in the pace of regulatory change, this will provide regulated firms with the opportunity to look at strategic replacements for their existing tactical solutions, which could prompt more growth and take-up of RegTech products.

Ian Hollowbread, a member of ING's UK's Innovation Council and Chair of the Association of Foreign Banks RegTech Working Group believes we are only seeing the beginning of RegTech:

"ING is an active participant in the RegTech marketplace. Through our Innovation process we search for, meet and test a wide variety of solutions from across the globe".

He believes the industry will grow, making the task of finding the right solution much harder.

"RegTech has become truly global in nature, and resources such as the RegTech Markets Directory are critical to ensure the best products surface to the top, in a way that buyers can trust."

Best Location for a RegTech?

What is geographical spread of the products and companies in our directory. Where are RegTechs located – where is the talent?

- As expected the number of products from companies based in the UK and USA was fairly close

- The USA is slightly ahead of the UK – however the main difference is a very geographically , localised and fragmented market in the USA

- Ireland, Australia and Switzerland are relatively close to each other for 3rd position

- Followed by increasingly active RegTech communities in France, Luxembourg, Holland and Germany

---

1: Thomson Reuters (2017) Cost of Compliance Survey, 2017
2: https://www.cbinsights.com/research/regtech-europe-market-map/

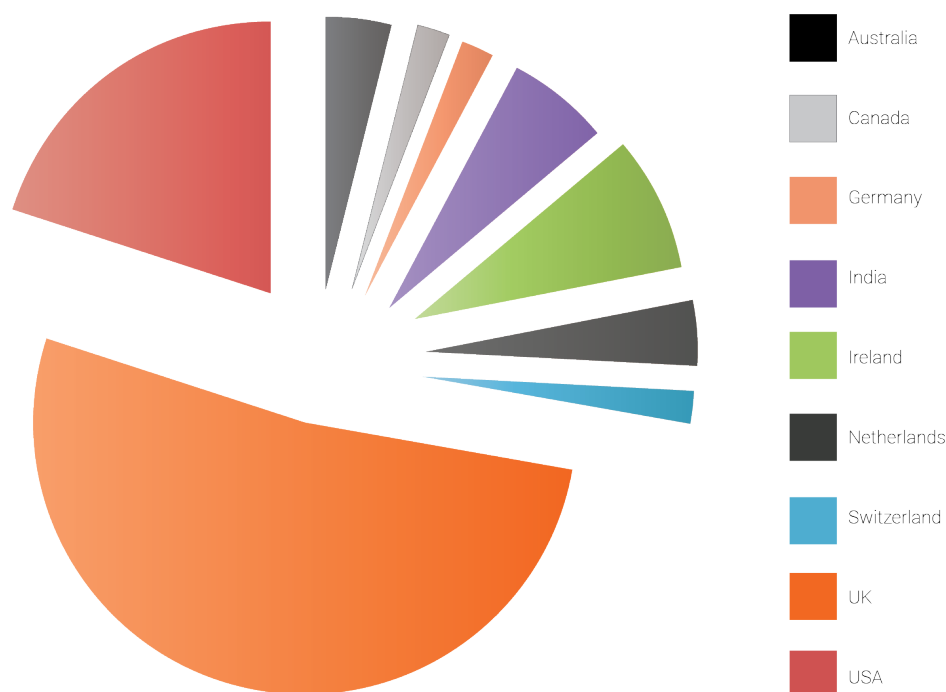# Spotlight Awards 2017: Insight & Intelligence

Figure 4: Headquarters of the Top 50 companies.

The UK has a leading position in the marketplace as shown by locations of the Top 50 companies in the figure above, further supported by both the government and the regulators. On 22nd November, the UK government reaffirmed its commitment to having a leading regulatory and technology environment in the UK. Within the Autumn Budget 2017 speech, the Rt Hon Philip Hammond announced a new £10bn Regulators' Pioneer Fund, established to:

"help regulators to develop innovative approaches aimed at getting new products and services to market."

Adrian Gumbley, CEO of Marionete believes there is a lot of innovation in the UK but still much room for improvement:

"The UK RegTech Market has both ideas and talent, but has some way to go to be recognised by mainstream businesses."

He also signposting that there are unexplored areas that the industry can improve in:

"The RegTech and technology market in general has not yet fully exploited data innovation; as such, the market still has room for a lot of development."

RegTech - Entering the Second Wave

We consider the growth across RegTech throughout 2012 to 2016 as Wave One, where we saw companies jostling for position. We now are beginning to enter Wave Two, with successful RegTech companies gaining traction, increasing revenue and pulling away. Those companies will become more dominant as the early companies run out of money or the access to working capital becomes harder to attain. We predict that on average a new RegTech company needs three years of working capital to make an impact into the regulatory technology space, especially when dealing with some of the larger, more conservative financial organisations.

Spotlight Awards 2017: Insight & Intelligence

Early movers in the acquisition market have been Thomson Reuters (Complinet) and IBM (Promontory). In 2017 we are seeing others follows suit – including:

- NASDAQ (Sybenetix)
- Exiger (Outside IQ)
- Cinnobar (Ancoa)
- Trading Technologies (Neurensic)
- Dynatrace (Qumram)

We asked Dr. Stephen Christie, CEO of advisory and investment company Neural Insights, how he sees the market developing:

"We see a lot of the same ideas in the marketplace, but even good ideas don't necessarily translate into successful businesses. When I became chairman of Sybenetix, we had most of the right ingredients in place, but it still took a further 4 years of investment, product rework and client engagements to become an attractive proposition to an acquirer."

Conclusion

Our RegTech Directory initiative has enabled us to give our community a clear and categorised view of the RegTech marketplace. Identifying the opportunities, where the white space might be – where is the oversupply – and provide some indicators to where this vibrant and growing industry may be headed.

We believe that RegTech promises much. As Nick Cook, Head of the FCA's RegTech & Advanced Analytics Department describes:

"We see the potential for RegTech solutions to support a move towards more preventative and/or real-time detective compliance solutions, to embed compliance by design and to realise efficiencies and improvements in the consistency of repeat process. We also see opportunities for RegTech to achieve better compliance outcomes through the timely provision of relevant information to financial services professionals."

But there are challenges and there will be casualties.

- The industry must drive towards better collaboration
- Create credible utilities or platform initiatives
- Reduce the burden on new entrants and offer them more than small ticket proof-of-concepts (POCs)
- Accelerate the procurement process
- Demonstrate and validate the real ROI that is possible and reward suppliers
- Champion the business transformational properties that RegTech solutions can deliver

"We see the potential for RegTech solutions to support a move towards more preventative and/or real-time detective compliance solutions, compliance outcomes through the timely provision of relevant information to financial services professionals."

The Spotlight Awards were sponsored by our partner, Marionete, helping RegTech firms delivering data innovation.

To close, a huge thank you from all of us to the innovators, the agitators, the code writers and rule makers. We salute each and every one of you for making our RT Markets adventure so much fun and rewarding work. For RegTech – it is time for us to go beyond the regulation, beyond the rule. Together we can deliver fundamental, long-term and sustainable positive change to the financial markets, benefiting all members of our industry, community and society. Anything less and we have missed the opportunity.

Who is RegTech For?

Research has suggested that, as a percentage of overall regulatory spending, the outlay on regulatory technology will grow from 4.7% to 34.3% in 2022[3] – a total of $76.3bn. Whilst the current figures are relatively modest in comparison, the RegTech market is buoyant as evidenced by the 464 products listed in the 2017 edition of the RegTech Markets Directory.

The phenomenal scale of regulatory change since the Global Financial Crisis has left no aspect of the financial industry unaffected. This is driving demand for more efficient, automated and 'intelligent' solutions. New regulations, such as the transaction reporting for MiFID II and the additional EU capital requirements (COREP), require firms to significantly increase the volume and granularity of data that is reported to regulators.

Regulators, such as the Prudential Regulation Authority (PRA), are not just using this data for risk-based assessments of individual firms but also to perform macro-economic analysis, the results of which are used to influence UK and international policy. Regulators and regulated firms alike share the same technology infrastructure constraints in their ability to process and gain analytical insights from these enormous data sets. So the market is looking to RegTech to help solve these problems. Addressing the high level of manual processing, across disparate data sources and formats – all of which hamper regulatory reporting, monitoring and surveillance capabilities and the task of managing regulatory change and compliance in an organised, holistic manner.

RegTech – The Customers (and Buyers)

Every area of a financial firm is regulated, and it can be hard to understand who might be the primary users of a particular RegTech solution – and even who might be the overall sponsor of a project. Who controls decision making, purchasing and governance?

From the perspective of the regulated firm, it is not always evident which RegTech solution providers have a product that solves their specific regulatory problem.

In the marketplace we are seeing a clear separation between point solutions solving isolated issues, versus end-to-end products providing complete regulatory compliance. For example, in combatting financial crime, there is a contrast between KYC solutions that simplify the customer-onboarding process, and those that help firms manage financial crime compliance throughout the customer lifecycle.

RegTech – The Solutions Providers

Below, we showcase the 8 Spotlight Award winners and explain why they won in their respective categories.

Bearingpoint - Holland

Category - Regulatory Reporting / Regulatory Risk Analytics & Calculations

BearingPoint is an international provider of RegTech and RiskTech across the regulatory value chain for Financial Services. With products spanning multiple categories, BearingPoint really set the standard for regulatory data and reporting. Abacus360 Regulator is a new generation data collection platform for the end-to-end process of prudential supervision for central banks and supervisory authorities. Abacus360 is a technological advancement of the Abacus platform, which has been used by BearingPoint's customers and proven over more than 20 years. The system allows customers to perform ad-hoc data collection and / or stress-testing exercises much more efficiently than more traditional solutions. Abacus360 Regulator, with its very short implementation period, is in use at several national central banks. BearingPoint were a worthy winner of this category, as their experience and understanding of regulation gained over many years has enabled them to not only understand the challenges of prudential regulatory reporting, but also develop a truly innovative solution.

3: Juniper Research- How RegTech Can Save Banks Billions

Appendix A

Duco - UK

Category - Regulatory Data & Information Management

Duco's flagship product, Duco Cube, is a leading self-service reconciliation solution. It is used by their customers for regulatory reporting controls across a variety of regimes including MiFID, MiFID II, EMIR and Dodd-Frank. Duco Cube impressed the judges by its ease of integration and its ability for non-technologists to set up complex reconciliations from scratch in just 2.4 hours, compared to the industry average of more than 64 days (excluding data gathering).

Law of the Jungle - Australia

Category - General Compliance

Law of the Jungle Marketing is a cloud solution that risk-proofs marketing communications and makes compliance agile and effortless. By building in smart workflow and other techniques, this software defines the regulatory demands of each piece of content and guides the team in real time through the steps to compliance. Law of the Jungle has been adopted across a wide range of industry verticals, including Financial Services, Healthcare, Pharma and Fast-Moving Consumer Goods (FMCG) – with further opportunities identified in Gaming, Energy, Telecommunications and Retail. The judges considered this product to be of significant value for consumer -focussed financial services firms, to ensure their marketing materials are compliant.

Qumram - Switzerland

Category - Market Integrity & Transparency

Qumram is a global provider of digital compliance and risk management solutions, with a six-year track record in RegTech. Most financial institutions record voice and email communications, but for many the security of digital channels remains a blind spot. Qumram creates an indisputable audit trail that ensures 100% compliance with digital record-keeping regulations (e.g. ESMA MiFID-II, GDPR, SEC 17a-4, FFSA, FIDLEG and more). Their product does this by recording and allowing on-demand replay of all digital activity, across all channels (web, social, mobile), and retaining these recordings in accordance with regulatory requirements, usually three to ten years. The judges believed that Qumram has a deep understanding of the problems that financial firms face in ensuring their digital record-keeping is compliant, but goes beyond compliance by allowing its customers to analyse the captured data to provide business insights that reduce costs and increase profitability.

Privitar - UK

Category - Excellence Award

Privitar is a privacy engineering software company. Privitar enables organisations to use, share and derive insight from data without compromising on privacy and security. Privitar products create opportunities by allowing broader use of valuable information assets for collaboration and sharing; whilst reducing the risk associated with storing, processing and using sensitive data, due toΩbreaches, regulatory penalties and misuse.

Privitar Publisher is a software application which anonymises sensitive data and creates a safe copy suitable for system development and testing; analytics, data science and machine learning; sharing with third parties; and processing in cloud environments. Privitar Publisher unlocks this sensitive data for safe use, by removing the identifying information while preserving the valuable patterns and relationships in the large-scale data. Privitar was awarded the Excellence Award in recognition of this company's exceptional success in 2017, most notably the July Series A funding round. Privitar shows a clear commitment to technical innovation, thought leadership and has a proven ability to help its clients comply with the regulatory requirements they face.

Appendix A

REG UK LTD - UK

Category - Regulatory Intelligence/Change/GRC Frameworks

REG's online Broker/Agency Management solution aggregates key financial, corporate, sanctions and regulatory data from multiple sources and allows for the electronic exchange of Terms of Business Agreements (TOBAs). REG provides a turn-key solution for rapid broker onboarding and subsequent exception-based risk monitoring. REG reduces the costs of regulatory compliance, mitigates the risk of regulatory failure and frees valuable compliance resources for re-allocation.

In a highly-competitive and growing product category, the expert panel thought that REG UK demonstrated a unique solution for a regulatory problem that was particularly difficult for their customers to solve.

ShieldPay - UK

Category - Financial Crime

ShieldPay is a payment service provider and instant digital escrow service that enables secure transactions and payments between consumers all over the world. The unique and patent pending payments technology protects both buyer and seller in a payment as money is secured from the buyer and only ever released to the seller when both sides are happy. This next generation payment process creates a hugely valuable environment of trust and security.

The judges were impressed by the application of an old idea to solving problems created by new products and technologies that enable peer-to-peer payments.

Trunomi - UK

Category - Cyber, Data Privacy, Identity

Trunomi provides customer consent and data rights management technology which enables businesses to request, receive and capture customer consent to the use of their personal data. For the business, the product creates consent receipts and converts them to customer data rights accessible across all data systems. This allows businesses to comply with EU GDPR and ePrivacy Regulation by putting in place auditable workflows to record and prove lawfulness of processing of customer data. For the customer, Trunomi provides control and transparency over how their personal data is used. The expert panel was impressed by Trunomi's elegant solution and how it meets the seeming paradox of data protection and identity verification.

Although much focus on RegTech has been in capital markets and on the Global Systemically Important Banks (G-SIBs) , it is clear that there are many benefits to some of the underlying technology. Adrian Gumbley explained that this was one of the main motivations for him to establish Marionete:

"We are industry vertical agnostic, and see an advantage in being able to share experiences and techniques employed in one sector and applying these benefits in another. In addition to financial services, Marionete has worked with logistics, automotive, Regulatory Technology, B2C and marketing organisations to deliver their bespoke data projects."

Appendix A

RegTech – Solutions For Which Problems?

Not surprisingly at 124 products, Financial Crime is the largest category across the landscape. Looking back at when the products entered the market, this category also has some of the earliest products launched. We do expect new entrants into this category to slow down over the next few years.

With so much focus on MIFD II, the Market Integrity and Transparency category – including companies doing surveillance, monitoring and trade reporting – is the next biggest, however the spread of products across the other categories is relatively even.
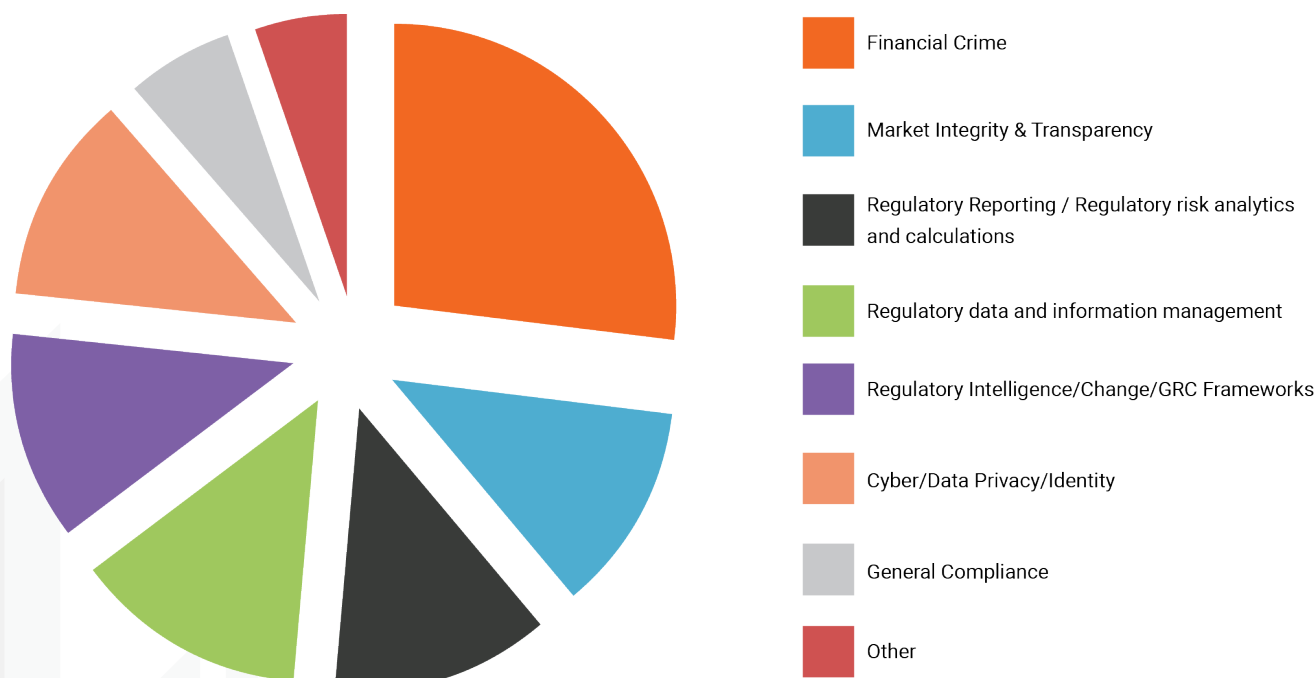

- Financial Crime
- Market Integrity & Transparency
- Regulatory Reporting / Regulatory risk analytics and calculations
- Regulatory data and information management
- Regulatory Intelligence/Change/GRC Frameworks
- Cyber/Data Privacy/Identity
- General Compliance
- Other

Figure 5: Spotlight Award submissions arranged by category

The Process

Submission:

Solution providers were invited to provide information about their products via a self-service questionnaire, giving us a base level of information. RegTech solution providers were able to self-select the most suitable category for their offering (e.g. Financial Crime, Regulatory Intelligence).

Round 1:

The RegTech Markets editorial team assessed that that:

- The solution provider completed the questionnaire with enough information to be featured
- The solution provider/product was assigned into the correct category
- The solution provider/product should feature in the directory

- Note: All companies that passed this first assessment will feature in the final published directory

Round 2:

An industry panel of experts – RegTech Markets community members – then scored each company that put itself forward for the "The Spotlight Awards" against the following criteria:

- Has the company clearly and accurately described the problems they solve?
- Has the company clearly and accurately described their solution and how it works?
- Are the benefits of this solution clear (including ROI)?
- How accurate, useful and credible is the supporting evidence provided?

The top 8 companies by score were selected from each category to progress to the next round.

Round 3:

Offerings selected for this round were invited through to a (virtual) Demo Day.

Each company conducted a pitch/demo for 10 minutes to an industry panel of experts. One product from each category received the Best-in-Category "Spotlight award"

Creating the Categories

When we started to compile the RegTech Markets directory, we found that no standard taxonomy or categorization existed for RegTech so....we wrote our own and are happy to offer it to the community for improvement.

Financial Crime
Products addressing regulatory requirements associated with money laundering, fraud, terrorist financing, bribery and corruption.

Market Integrity and Transparency
Market surveillance to prevent and investigate abusive, manipulative or illegal market behaviour and / or to comply with the increased transparency requirements of MIFID II. For example , we also include trade reporting products in this category.

Regulatory Intelligence & Change / GRC Frameworks
The process of managing regulatory change is no longer a project. Tools and products to track and communicate legal and regulatory changes emanating from policy-makers, regulators, legislation. Provision of holistic solutions that effectively manage the risks associated with regulatory change across the whole enterprise.

Regulatory Reporting
Solutions designed to streamline regulatory reporting requirements including IFRS-based financial reporting templates for supervisory purposes (FINREP) and capital requirements (common reporting COREP) and own funds reporting templates required by the Capital Requirements Regulation & Directive (CRR/CRD IV).

Regulatory Risk Analytics and Calculations
Technology that can perform complex risk calculations for regulatory requirements such as CRR/CRD IV, AIFMD, FRTB, Solvency II & UCITS IV. Also companies that calculate the fairness of algorithms.

Cybersecurity / Data & Identity Protection
Encompasses measures taken to keep electronic information private and safe from damage or theft. It is also used to make sure these devices and data are not misused and that data never leaves it's legal jurisdiction without consent.

General Compliance
Vendor risk management / supply chain management, Document / inventory management, Compliance of marketing material, Compliance training.

Other
Companies that submitted products we felt weren't either RegTech products or that were in a non FS sector.