The crash, systemic risk and regulation: is IT making things better or worse?

London October 5th.
Leaders in financial services and capital markets met at the stunning Armourer's Hall in London to hear a riveting panel discussion moderated by Cliff Moyce (Global Head, Finance Practice, DataArt) on the role of IT in financial markets systemic risk.

Moderated by

Cliff Moyce
Global Head,
Finance Practice,
DataArt

Paul Humphrey
Head of Fixed-Income,
Rates & FX (FICC) Strategy,
Euronext

Richard Snookes
Head of CIB Financial
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Bernie Thurston
Consultant -
Data Strategy,
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Stephen Taylor
CEO,
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Chris Gledhill
CEO &
Co-Founder,
Secco

Julia Royle
Reputation
Management
Consultant

DATAART

DataArt Financial Round Table 2016

Cliff Moyce, DataArt's Global Head of Finance Practice, and moderator for the event said:

"Once again the DataArt Financial Roundtable brought together the City in a lively and thought-provoking discussion revisiting the causes of the 2007/8 crash in the light of more recent developments and the possible role of technology in helping stop a repeat occurrence. The discussion bought to the fore fears that some current regulatory approaches are being less effective than imagined in reducing risk, and some regulation may even be exacerbating risk. The issues discussed at DataArt's Financial Roundtable are set to determine the future of financial services and capital markets, globally."

Event summary and conclusions

DataArt Financial
Round Table 2016

Though **technology** may have exacerbated some symptoms of the crash, it **was not a causal factor**.

Everyone bears some responsibility for the crash, from the buyers and sellers of mortgages all the way up to the people creating and trading the leveraged instruments and the regulators and politicians controlling the system.

Regulators and politicians don't always understand the side effects of the regulations that they create. **Some aspects of regulation can be partially blamed for the crash.**

Technology is helping manage the huge data requirements that current and future regulations demand and is also **increasing visibility for risk and senior management teams.**

The industry needs to take this post- (and possible pre-) crash time to reflect on itself and examine its moral compass.

Remuneration and incentives should be adjusted so traders don't just benefit from the upside of taking risk. They must also bear the downside.

There are serious concerns that the push by regulators and politicians to a more centrally cleared world will lead to concentration risk at the three main clearing houses and make them too big to fail.

Retail banks run a real risk of being disintermediated because they **don't know the value of the data they hold** and what to do with it. As APIs are opening up, banks will no longer face their customers directly. Instead, there will be better customer experiences from many different providers. E.g. from Apps that exist right now, to Facebook, to Google, to Apple developing AI / Machine Learning based chat bots that can interface and discuss banking choices with their clients.

Regulators don't have the financial clout to hire people with the required skills and as such find it very difficult to control larger institutions. They need to either do more with less, or **find ways of recruiting experts at the end of their career** (as happens in the legal industry).

RegTech will help mitigate risk, but companies need to be very clear about the problem they're trying to solve and be similarly careful about the cost / benefit of doing the work. Also, it depends on and doesn't solve data quality issues (it's not useful to put large amounts of technology on top of bad quality data).

Regulators may not fully understand the ideas behind the majority of disruptive financial technology firms, which makes changing the current banking environment challenging.

Blockchain isn't going to solve the twentieth century banking model we still operate in the 21st century. We need to move on from Blockchain hype; there are no silver bullets.

There's **a huge push into AI advice**, such as Robo-advisory services, and the future there is more about retail customer risk, managing spending patterns and future event modelling, and automating a financial Personal Assistant.

Retail banks haven't realised that they **are now selling trust and security**, not moving money. The ones that realise that and work out that the future model for them is about identity and data security are the ones that will succeed.

Once common identifiers are fixed, then Banks have a huge advantage that they will be able to use to scale up their current products. Banks are skilled at talking across currencies, countries and entities, while Facebook, Google, Alibaba and their ilk are designed to only talk within their own networks.