Article

GENERATING BANKING & FINANCIAL SERVICES IMPACT

KYC utilities: No longer sitting on the sidelines

Previously plagued by confusion in the market and slow-going momentum, the financial services industry is now at an inflection point for adoption of KYC utilities. The question no longer is whether to join a utility; it's at what point you should join.

Roughly two years ago, “KYC utilities” became the big buzzword in financial services. It’s not a sexy phrase, but it does what it says on the tin: standardizes requirements and mutualizes costs. Fast forward to today and the question is: Have these “RegTech innovators” made their mark? Previously plagued by confusion in the market and slow-going momentum, the industry is now at an inflection point for adoption.

I recently had the honor of participating in a breakfast seminar hosted by Citi with BlackRock, PIMCO, and Morgan Stanley. There were two topics in particular that dominated the session. The first highlighted the challenges faced by the buy side, corporates and sell side in managing KYC, regulation, tax and credit and legal agreements. The second, very much focused on industry adoption and the importance of buy-side firms and corporates driving usage of the service if we want to change the painful way the industry meets these regulatory requirements.

It comes as no surprise that there are a plethora of regulatory and compliance initiatives that buy-side, corporates and sell-side firms are struggling to deal with. During the session, 97% of participants agreed that since the financial crisis, there has been a significant uptick in the amount of time and effort they spend on KYC and tax initiatives. The countdown to FATCA remediation, new CRS reporting for 2017, margin rules and pending MiFID II requirements are only a few of the upcoming hurdles faced in the pursuit of compliance. The level of administration around these tasks alone is a heavy lift. Perhaps that is why 35% of the audience believed that account opening takes too long and delays business. Furthermore, 31% said that there is a complete lack of standardization in requests for information and documentation.

Wouldn’t the shift to a utility just make sense then? The large G14 banks have been the early movers on this front. Buy-side and corporate institutions, on the other hand, have taken a wait-and-see approach, yet they are increasingly feeling the regulatory squeeze when it comes to onboarding because of the number of counterparties they deal with.

We are now at an inflection point as the sell side, corporates and buy side realize that the current processes aren’t sustainable. As one firm put it: The question isn’t whether or not to join a utility; it’s at what point should you join.

At what point does a utility exceed the threshold of manual processes and a lack of standardization? The inevitability is a bit like the initial adoption of mobile phones when they first emerged. Once you had one, you never looked back. Now we have smartphones and an interconnected ecosystem of devices and apps much like the ecosystem of data in regulatory and compliance—the more there is, the more interdependent it becomes.

This article was authored by Jon May, CEO, kyc.com – joint venture between Genpact and Markit, and first published in TabbFORUM’s opinion paper.