

Is Smart Risk Management the Future of Finance?

Over the past decade, risk management in banking has transformed dramatically. Brought about by an onslaught of new regulations that came on the heels of the global financial crisis, banks have now transformed their operations in order to comply and manage risks more effectively. In the coming years, the blueprint of what a bank's risk function will once again undergo a sea change as fintech come to fore.

For example, we have seen the rise of Bitcoin, along with many other cryptocurrencies using blockchain technology. Using a decentralised system, the idea being propagated by cryptocurrency enthusiasts is that people should be able to send and receive money, peer to peer, without any intervention by central authorities like governments or central banks. Once it happens, transactions will be faster, cheaper and supposedly, risk-free as full control belongs to the individual himself.

We've also seen the rise of neobanks or digital banks, whose physical branch is not necessarily a requirement for a customer to perform regular banking transactions. Due to competitive pressure,

some of them have customised their offerings and processes to make their risk models more precise. As a result, they can undercut traditional banks, especially on price.

On the flip side though, traditional banks are collaborating with fintechs to explore new ways to undertake vital functions. Banks nowadays are using fintechs to help them handle credit risk underwriting, fraud detection and even regulatory compliance and reporting. Looking at the big picture, collaborating with the next generation of fintechs presents a more strategic benefit. And in the area of risk management, the potential areas of collaboration are aplenty.

The Future of Finance

One of the best approaches in striking a win-win situation between big banks and fintech start-ups is one that is both collaborative and incentive-driven. In the banking space, one of the loudest voices for this win-win approach is UBS through its Future of Finance Challenge.



UBS Future of Finance Challenge 2019 is an open competition for fintech start-ups and tech entrepreneurs around the world. Its goal is to find an innovative and potentially disruptive technological ideas and solutions that address specific challenges to support the transformation of banks for the future of finance. Part of this initiative are cash prizes and opportunities worth over USD \$200,000 and 150 hours of dedicated coaching from UBS experts, mentors and partners.

UBS's ambition is to help shape a more open and collaborative financial services industry and to jointly develop new innovative solutions for its clients. This open approach enables all stakeholders to embrace the pace of technological change and learn from entrepreneurs about products and services that will not only offer short-term gains but will also have a lasting benefit for banking customers and the industry in general.

While it can be hard to navigate the structures of large organizations, especially banks, UBS's global reach and world-class banking expertise allows competition participants a unique point of entry, giving them the opportunity to test their ideas or develop them with a big bank's support.

“In the coming years, the blueprint of what a bank’s risk function will once again undergo a sea change as fintech come to fore.”

Transforming Banking through Smart Risk Management

Just recently, the Swiss multinational investment bank and financial services company announced the winner of UBS Future of Finance Challenge 2019 in Smart Risk Management. Using a novel technological approach to model and present regulatory obligations across a company, Solidatus was declared the winner.

Solidatus is an intuitive, simple to use web-based application that gives businesses the ability to rapidly map and visualise their data landscape. Unlike other expensive metadata applications, which require extensive work to be completed before it is usable, Solidatus starts building your data map immediately in front of your eyes.

In handing out the award, August Hatecke, Co-Head Wealth Management Asia Pacific, UBS Global Wealth Management; Country Head UBS Singapore, said, "In today's complex and increasingly digital business environment, risk management is at the core of what we do. I am excited to see all the Smart Risk Management solutions presented to us today at the UBS Future of Finance Challenge Finals held in Singapore. We always strive to be the best risk-managed bank and look forward to collaboration with fintech startups and aspiring technology entrepreneurs to join us on this journey."

Novel ideas for smart risk management never seem to run short. Aside from Solidatus, a roster of innovative companies has also presented solutions that smartly tackles risk management in areas such as due diligence, data sharing and digital compliance.

"Banks and fintechs forging an alliance for smart risk management is the future of finance. Anything less will be a missed opportunity."

"UBS's ambition is to help shape a more open and collaborative financial services industry and to jointly develop new innovative solutions for its clients."

Enhanced Due Diligence. Neotas provides a due diligence tool that uses advanced technologies (Natural Language Processing (NLP), machine learning) and human insight to incorporate open source (web-based) data into the client due diligence process.

Digital Compliance Solutions. Apiax provides digital compliance solutions to companies faced with ever-rising amounts of laws, rules and regulations.

AI-Based AML Transaction Monitoring. Tookitaki is focused on AML transaction monitoring, using a combination of supervised and unsupervised machine learning to deliver real-time anomaly detection with actionable analytics and model explainability.

Secure Data Sharing. Sedicii's solution allows for secure data sharing within Financial Institutions and between FIs, using cutting edge encryption methods.

Regulatory Tracking. Cube scans regulatory data globally and using AI, provides tailored and relevance-filtered updates to FIs, including impact assessments.

Enhanced Investigations & Analysis. Polixis' tool allows for analysis of very large data sets, including entity resolution, and subsequent analysis to detect potentially fincrime-related anomalies for investigation.

Regulatory Compliance Evidencing. Solidatus uses a novel technological approach to model and present regulatory obligations across a company, to enhance transparency and assist demonstrating implementation and compliance.

Regulatory Tracking. Corlytics used AI-based text analysis and NLP to assemble regulatory information into defined categories, mapped to

source regulators, to enable organisations to measure their regulatory risk.

Regulatory Tracking. Ascent automatically delivers targeted regulatory obligations and rule changes that apply to the customer, all housed in a cloud-based platform that enables end-to-end obligations management.



Formidable Partnership

In the end, the goal will always be about serving the best interest of the customer – and by doing so, the interests of the company and its shareholders are also served. Banks and fintechs forging an alliance for smart risk management is the future of finance. Anything less will be a missed opportunity. The seamless and simple apps that customers are used to, serves as a big draw that invites them to avail of more products and services. As customers' expectations increase, the same level of service is also expected. This wouldn't be a problem at all when a formidable partnership between banks and fintechs is forged right at the onset.

The Digital Banker provides custom content solutions for global financial services organisations, technology vendors and regulators. To learn more, email info@digitalbankeronline.com.

Important information: The content of this report is provided for information purposes only. It does not offer any recommendation. It is very important to do your own research with due diligence before making any investment based on your own circumstances. Please note that we do all we can to ensure accuracy and timeliness of the information presented herein but errors may still understandably occur in some cases. If you believe that a serious inaccuracy has been made, please email info@digitalbankeronline.com. The Digital Banker accepts no responsibility whatsoever for any direct or indirect losses arising from the use of this report or its contents.