

# MAN ON A MISSION

*FUNDS EUROPE* TALKS TO METROSOFT'S MATEUSZ DEREJSKI ABOUT THE FIRM'S COMPLIANCE SOLUTION AND THE IMPORTANCE OF USING TECHNOLOGY TO TRANSFORM THE BUSINESS.

**THE GROWTH OF REGTECH** has been a defining feature of the investment management industry in recent years. It has put new technology at the heart of the compliance challenge as managers continue to grapple with a relentless wave of new regulatory requirements.

But while the development and application of artificial intelligence (AI), big data analysis and machine learning (ML) technology may yet prove to be crucial in terms of detecting unusual trading patterns and early evidence of fraud, compliance is above all primarily a business process, maintains Mateusz Derejski, managing director of software firm Metrosoft, which has developed the Fundsphere Compliance product.

"Ultimately it is not about the technology, it is about using technology in the business process in a way to make it as simple and efficient as possible," says Derejski.

The beginnings of today's regtech market can be traced back to the regulations that followed the attack on the World Trade Center in New York on September 11, 2001, says Derejski. Those events put a global spotlight on global money trails and exposed the lack of supervision that enabled terrorists to be financed with little trace.

This in turn led to the introduction of the US Patriot Act, which in turn led to the emergence of a wave of new anti-money laundering (AML) products.

However, the vast majority of these products were designed specifically for the banking sector, with very



few aimed at the asset managers who were similarly faced with new regulatory requirements. "We decided to develop our own solution from scratch," says Derejski.

But why the need for something so specific? "The rules for fraud

surveillance and anti-money laundering are very specific to the type of transactions in the asset management industry," he says.

"It is not a case of monitoring money transfers but tracing transactions and behaviours resulting from specifics of

» KEEP IT SIMPLE - Compliance is above all a business process, says Metrosoft managing director Mateusz Derejski.

investment funds trading. You need software that can take into account units, prices, exchanges and track a number of counterparties located all over the world – investors, brokers, financial advisers, interested parties and more.”

Compliance in the funds industry is a more complex undertaking in terms of the software and also one that requires an understanding of the industry and its machinations, says Derejski. “The steps taken to hide illicit activity are more sophisticated and therefore more difficult to track.”

#### **Customised system**

Metrosoft’s system, Fundsphere Compliance, addressed these complexities by developing a configurable solution for AML rules, giving clients the freedom to customise the system for institutional and retail investors, for brokers and for different account types and fund vehicles.

“It is a single system with pre-defined sets of rules that can be configured differently in unlimited instances for different participants, investors, intermediaries and accounts,” says Derejski. “This enables users to develop on their own an effective compliance process that meets global and local AML requirements.”

This approach proved invaluable in enhancing Fundsphere Compliance for the introduction of Know Your Customer (KYC) rules, which were created in 2009 and continue to be a primary challenge for asset managers and their service providers almost a decade later.

“We extended the service so that we could audit new and current investors against a blacklist but also manage the extensive documentation process involved in client on-boarding,” says Derejski. “The key challenge is how you make the KYC process as efficient as possible, not just for asset

managers but for their investors.”

The system is also able to centralise information from different sources into a secure data flow and automate the reporting process, including the generation of automated alerts when significant breach of compliance occurs, says Derejski.

## **“WE ARE USING TECHNOLOGY TO PROVIDE A RISK-BASED AND AUTOMATED APPROACH THAT REDUCES MANUAL ERRORS AND PROCESSING TIME BUT STILL MEETS THE HIGH STANDARDS FOR COMPLIANCE.”**

“A lot of other systems in the market only have access to a limited, pre-defined scope of data. But because Fundsphere Compliance is integrated with and used by many transfer agents as well as asset managers, we are able to use our knowledge to access a much wider range of information and analyse it in real time.”

While the system was highly advanced when it was introduced, Metrossoft has also ensured that it keeps up to date in terms of both new regulations and new technology, both of which have their challenges.

#### **Rules and regulations**

The release of new regulatory requirements shows no sign of letting up, with MiFID II and Pripis being the new releases in 2018 and GDPR being introduced while

AML and KYC rules continue to evolve.

And then there is the technology. As the regtech ‘tag’ has grown in popularity, so has the mention of AI, ML and other new tools. However, Derejski says that firms should take a realistic view of what is currently possible in terms of applying these types of tools in the asset management industry.

“There is a lot of hype around big data analysis but the truth is that the available data in the asset management world is not ‘big’ enough,” says Derejski.

Artificial intelligence tools need data samples in the billions, rather than the hundreds and thousands, to be able to provide any truly actionable insights. This makes it much harder to detect meaningful patterns from rigorous statistical analysis. Compliance is also a highly sensitive area for asset managers and their clients, making data much less available.

Nevertheless, Fundsphere Compliance is able to apply a significant amount of analysis to clients’ investors beyond checking their identity against sanctions blacklists. For example, the system can analyse investors’ historical transaction patterns and monitor any activity that belies that historical behaviour.

Making KYC reporting a painless experience for managers and investors remains the priority for Fundsphere Compliance, says Derejski, hence the emphasis on the business process as well as the technology.

“Both AML and KYC reporting are seen as mandatory costs that contain little or no value to the end investors in an environment where margins are shrinking and everyone is looking to minimise costs.

“This is why we are using technology to provide a risk-based and automated approach that reduces manual errors and processing time but still meets the high standards for compliance,” says Derejski. “That is our mission.”