

How The Trifecta of Digital Platforms, Generational Shift and Data Intelligence Is Shaping the Future of Financial Services

DTCC Fintech

Welcome Remarks

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Good afternoon and thank you for joining us at DTCC Fintech. We're really excited to host our fourth fintech conference. Today, we have an outstanding program that focuses on transforming infrastructure in a digital world, but I want to spend a few minutes before we begin by setting the tone for the discussions that will follow.

Looking back to our first event in 2016, it's amazing how much progress we've made as an industry in advancing the use of new technologies. I don't think any of us foresaw just how ubiquitous cloud computing, artificial intelligence and robotics would be in such a short period of time.

Ironically, however, the technology that was hogging the spotlight back then – distributed ledgers – remains elusive. The potential of DLT is undeniable, but the question remains whether its enormous power to transform financial services will ever be fully harnessed.

Personally, I have confidence in the technology, but our own experience with it reinforces that it's going to take time and patience, and much more hard work and practice. Saying that, recent moves towards open platforms, open source and creation of standards all are positive steps to drive greater uptake of DLT.

None of this is surprising. Over the course of my career, I feel like I've binge watched dozens of episodes of "the technology hype cycle." And while the characters and plots are different, the storyline is almost always the same – new players are going to disrupt the incumbents with cutting-edge technologies that are going to transform the industry...until they don't.

For those of you who might have missed it, *Global Custodian* recently published an article about how quickly market infrastructures have embraced fintech, and in what they described as "a brutal sense of irony," it explains how "the disruptor has become disrupted by the disruptee." I bet some start-ups never saw that one coming.

But, you're now seeing start-ups evolving from disruptive competitors to trusted partners as well. It's also an important reminder of a universal truth – the future never unfolds in a way that any of us can predict.

So, with that said, let me make a prediction. I'm certain beyond a doubt that the market infrastructures of today will not exist in their current form 10 years from now...if not sooner than that.

I say that with confidence because we're at the start of a great transition for financial services. It's the dawn of a new technology revolution in which the emergence of digital platforms, the rise of APIs, an oncoming generational shift and advances in organizing "data under management" are transforming expectations, reordering priorities and altering the complexion of the industry.

Today, we stand at an inflection point – one that will have a profound impact on the future of banking.

This is most apparent in the move toward digital platforms. When we speak about the pace of change, the first thing that comes to mind is the remarkable speed of digital transformation. In case there was any doubt, the digital platform is king, not just for commerce but for financial services as well.

We see it everywhere. Companies are creating platforms and apps, hoping to find gold in the digital form. At the center of this universe is data sharing through application programming interfaces or APIs, which enable data to flow seamlessly between systems.

We're all using APIs today, whether on Facebook, Amazon and every other major platform. If you make a reservation on Open Table or used Trip Advisor to plan a vacation, odds are the maps you see are being accessed through an API.

In financial services, APIs and open or shared banking models in the U.S., Europe, East Africa and Asia are dramatically transforming those markets and ecosystems. And as we see with every new technology during its infancy, including DLT, most firms are competing to develop the platform that will be embraced as the standard.

The one certainty about APIs is that they will spark a significant change in the way the industry operates across the retail, institutional and post-trade areas. In the past and still today, financial firms spend lots of time and money developing applications for clients to conduct business. But these applications tend to be inflexible. You can't use them the way you wanted to; you have to use them the way we tell you to.

For instance, if a client wants to move collateral to another firm, they can as long as the counterparty is within DTCC. It's not a very client-centric way of doing business in the on-demand age of Netflix, Hulu and Amazon.

This shift in expectations has led to the growth of client-empowered finance in recent years, and post-trade will need to follow suit. So, what does this mean for the future? It's much more likely that providers will create the digital platforms and APIs that will allow clients to interact with each other the way they want to do it.

At DTCC, we've already begun this transformation. Last year, we created an internal API Marketplace – similar to the App store on your phone – to make it easier for our team of developers to find and reuse software within the organization.

We're now building on this initiative by establishing an external API Marketplace that will offer our clients a single, central location to access APIs into our products and services. We expect to launch this Marketplace and an initial set of APIs later this year. Longer-term, however, we plan to expand the platform approach to our ecosystem and offer a much broader and diverse set of APIs and capabilities to support our clients.

This represents a dramatic shift in how we operate, but we're committed to staying ahead of the innovation curve. We want to make our services available to clients when they want them, how they want them, and in a way that best meets their individual needs.

We want to provide firms with the architecture to help them organize their businesses in a more intuitive way and to create their own modules to be used on our digital platform.

As we do this, we're also focused on developing standards and processes to allow parties to speak directly to each other on our platforms, but to do so in a way that protects the safety and soundness of the global markets.

There's still a great deal to explore, but this is exciting work, and we're looking forward to collaborating with all of you and other stakeholders to reimagine the post-trade landscape of tomorrow.

The emergence of digital platforms and the rise of APIs are occurring at the exact moment that the industry has begun experiencing a generational shift that will transform our business. Millennials, but even more so, Gen Z'ers, are unique in that they've been immersed in technology since their earliest days. It's all they have ever known.

Because of this, they see the world through a very different lens, and this will have a profound impact on all aspects of our industry. Young people aren't following the traditional models in their own finances. Their loyalty is based primarily on convenience. They want to transact business over their phones in real-time, with an exceptional, frictionless and entirely digital client experience.

It's true that this generation is foregoing traditional financial services. They favor online sites like Marcus, Robinhood or Betterment to save and invest, and apps like Venmo and Cash App to exchange money. It only follows that they'll be looking for the same things in the workplace.

More and more, young entrepreneurs are turning to crowd-funding sites like Kickstarter to raise capital, bypassing banks entirely.

Last year, we saw a spike in Initial Coin Offerings that transitioned to Security Token Offerings, a new tool for raising capital that is challenging today's issuance models. These are not momentary blips – they're transformational changes that will have long-term implications on financial markets and society itself.

As I said earlier, the future will unfold in ways we can't predict. The digitization of finance and this generational shift will represent a significant challenge for traditional banks that lack great apps to provide a seamless client experience. Ease of use, as re-defined by the new generations, will be the defining characteristic for the next generation of financial giants.

If you think I'm overstating the case, ask yourself one question: How long does it take a firm to onboard clients? The reason I ask is because a member of my team recently took advantage of a delay in a meeting to open a Betterment account. He did this as a test. He was registered and completed his first trade in five minutes. We've been forewarned – we're are facing a serious challenge to the status quo.

This generational shift is also creating other changes, including a significant recasting of the racial, ethnic and cultural profile of society. The industry will need to adapt to reflect the world around us and prioritize diversity and inclusion.

It's no secret that diverse organizations continue to outperform non-diverse companies in virtually every metric used. It's also no secret that our industry continues to struggle to achieve an adequate level of diversity and is increasingly losing top talent to Silicon Valley.

Moving forward, we need to do a better job attracting, recruiting and retaining the best and brightest workers, and creating diverse and inclusive environments that reestablishes financial services as an industry of choice.

A year ago, at this event, I talked about the importance of identifying diverse slates of candidates for open positions, expanding mentoring and sponsorship programs and preparing candidates for senior positions. That's why I felt such pride earlier when I watched the opening video.

We're very proud to put a spotlight on our female leaders because advancing the careers of women at our firm – and closing the gender gap in technology – is a priority for us.

A few months ago, we created a new senior role – reporting directly to me – that's focused on hiring and advancing diverse candidates, particularly at more senior levels. We're also building the base of talent available and proactively expanding the pipeline of women who choose technology careers.

That's also one of the reasons why we continue to collaborate with groups such as Girls Who Code, to help develop women leaders for the future. This is a business imperative for us at DTCC, and while I recognize that change won't happen overnight, we will hold ourselves accountable for improving in this area.

We've discussed digital platforms and generational shifts, but the third leg of our trifecta today –which underpins the other two—is data intelligence. I see data intelligence as the way in which firms organize and interpret data under management, in the same way investment firms manage assets under management. Data is the lifeblood of any successful organization

and to put it simply, firms that understand their data, understand their clients.

We're committed to using technology—including data science, applied machine learning and artificial intelligence—to help our clients better understand their data under management to deliver even greater efficiencies, cost savings and to lower their risk.

For example, more precise machine learning algorithms can identify patterns and correlate data streams that will help businesses turn mountains of data into competitive insights and meaningful recommendations.

We know that data is the fuel that powers artificial intelligence and machine learning, and the equation is very straightforward: The richer the data, the smarter the technology in identifying trends and creating insights.

As you can see, we certainly have our work cut out for ourselves. But as I close today, I also want to reinforce that we have an extraordinary opportunity to adapt and embrace new technologies to meet the needs of our clients. This is a period of dramatic change. It's in our collective best interest to work together to build a fully integrated digital ecosystem that includes technology designed specifically for clients to conduct business their way.

We also need to recognize that diversity will bring new viewpoints, which will challenge conventional thinking -- and this will make our industry stronger.

I hope I've gotten you thinking about these issues and ready for an afternoon of interactive discussion. As we get set to start the program, I want to thank today's sponsors – Accenture, AWS Financial Services and Infosys—as well as our exhibitors. We appreciate their support and partnership.

I'd like to ask my good friend and one of the most interesting and innovative minds in the industry to join me on stage. Marty Chavez is Global Co-Head of the Securities Division at Goldman Sachs and serves as a member of the Management Committee and Steering Committee on Regulatory Reform. He is also one of the foremost leaders on new technologies and their application across financial services. Please join me in welcoming Marty.