

European Commission

Submitted via [http://ec.europa.eu/finance/consultations/2015/retail-financial-services/index\\_en.htm](http://ec.europa.eu/finance/consultations/2015/retail-financial-services/index_en.htm)

## ***European Commission Green Paper on retail financial services***

London, March 16<sup>th</sup> 2016

Dear Sirs,

We welcome the publication of the *Green Paper* (the “**GP**”) on retail financial services and appreciate the opportunity to provide you with our comments.<sup>1</sup>

### **Introduction**

Markit<sup>2</sup> is a leading global diversified provider of financial information services and financial technology solutions.<sup>3</sup> Founded in 2003, we employ over 4,000 people in 11 countries and our shares are listed on Nasdaq (ticker: MRKT). Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of the G20 commitments for OTC derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 140 comment letters to regulatory authorities around the world and have participated in numerous roundtables.

Markit provides products and services that enhance transparency, reduce risk and improve operational efficiency of financial market activities. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. By setting common standards and facilitating market participants’ compliance with various regulatory requirements, many of Markit’s services help lower compliance costs, level the playing field between small and large firms and foster a competitive marketplace. As an example, Markit’s KYC Services provide a standardised end-to-end managed service that centralises “Know Your Client” (KYC) data and process management.

We also support investment managers, wealth managers, and brokers in creating solutions to facilitate their clients’ investment decisions (so called robo-advice).<sup>4</sup> As a managed technology service working closely with our customers, we create innovative engaging designs that are easily implementable and support investment decisions. We believe Markit is one of the world’s largest employers of web designers focused solely on the presentation of financial information and workflows and we are expert in presenting complex information so that users can understand and use it to make informed investment decisions in a timely manner. During a typical week, our services support more than 2.3 billion page views of dynamic content and more than 2.5 million unique users log into the pages we host. Markit On Demand’s unique position as the provider of

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<sup>1</sup> This letter contains the text used in Markit’s response, although the format of the response was different given the requirement to complete an online form and this has also led to some repetition. Not all questions have been answered.

<sup>2</sup> Please see [www.markit.com](http://www.markit.com) for further details.

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<sup>4</sup> See <https://www.markit.com/product/markit-on-demand> for more details.

technology services to a large number of asset managers and other investment professionals in numerous jurisdictions means we have broad-based experience of how financial institutions connect and interact with their clients.

Although our clients are not retail consumers, we support our clients in building services for their retail consumers and we have experience of operating digital services such as KYC.com that we believe would be useful for the Commission.

## Comments

### **Question 4. What can be done to ensure that digitalisation of financial services does not result in increased financial exclusion, in particular of those digitally illiterate?**

Distribution mechanisms vary between member states and this effectively means that choice and information vary throughout the EU. We believe that growth in pan-EU robo-advice and guidance can help to improve the level of financial literacy in the population by providing information on investment possibilities. This would help close the so called advice gap,<sup>5</sup> a form of financial exclusion as a large part of society has no meaningful access to advice. Robo-advice also has the potential to improve the efficiency investment within the EU in line with the objectives of the Capital Markets Union.<sup>6</sup>

Levels of financial literacy in the population are generally low and, regardless of whether the person ultimately takes formal advice, use of robo-advice or guidance services potentially have educational benefits for consumers. We believe that simple to use, accessible websites can allow investors to receive examples of different investment options open to them and enable them to either make a more suitable investment decision or realise that it would be worth seeking more tailored advice.

Our experience suggests that a lack of regulatory clarity around the classification of robo-advice services is holding back investment in anything but the most cursory of services in the EU. As well as holding back the development of the sector, this situation stops providers well short of being able to provide any meaningful insight, education or guidance. We have encouraged authorities in the UK and EU to provide the clarity that would allow portals to offer contextual information, education and customised guidance for potential investors prior to any sales process and formal advice process being offered.<sup>7</sup> We would encourage the Commission to recognise that the current rules around advice envisage a face to face process, but robo-models enable a more seamless process where consumers can move from information through guidance to advice depending upon their appetite to engage with the service, these rules should be revisited to facilitate greater use of robo-models whilst maintaining clear but proportionate levels of protection for consumers as they move through the stages.

As the GP recognises, greater use of digital platforms has the potential to increase cross-border provision of financial services and robo-advice is no exception, if consumers had confidence in the platforms. The European Commission should look to encourage growth in the robo-advice sector.

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<sup>5</sup> As identified in documents such as the UK Financial Market Advice Review - [www.fca.org.uk/static/documents/famr-cfi.pdf](http://www.fca.org.uk/static/documents/famr-cfi.pdf). Also see the Discussion Paper on automation in financial advice by the Joint Committee of the European Supervisory Authorities - [www.eba.europa.eu/documents/10180/1299866/JC+2015+080+Discussion+Paper+on+automation+in+financial+advice.pdf](http://www.eba.europa.eu/documents/10180/1299866/JC+2015+080+Discussion+Paper+on+automation+in+financial+advice.pdf).

<sup>6</sup> [http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index\\_en.htm](http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index_en.htm)

<sup>7</sup> See our responses at: [www.markit.com/Company/RegulatoryResponsesFile?CMSID=74a6251fec2540d687f5fd5430242b8c](http://www.markit.com/Company/RegulatoryResponsesFile?CMSID=74a6251fec2540d687f5fd5430242b8c) and [www.markit.com/Company/RegulatoryResponsesFile?CMSID=c0348e2070854348b2d2a84b147dc4f8](http://www.markit.com/Company/RegulatoryResponsesFile?CMSID=c0348e2070854348b2d2a84b147dc4f8).

**Question 23. Is further action needed to improve the application of EU-level AML legislation, particularly to ensure that service providers can identify customers at a distance, whilst maintaining the standards of the current framework?**

Markit is a leading provider of KYC utilities including kyc.com and KY3P.<sup>8</sup> Although these utilities are not directly aimed at the retail business, we believe that elements of our experience establishing and operating such services could be relevant for the European Commission's work.

KYC utilities provided by Markit (and its competitors) work by allowing counterparties to upload the relevant documentation required to comply with 'know your customer' verification requirements (such as AML checks) to a centralised hub and for this to be then distributed in line with the relationships between customers to their chosen banks. The advantage of this is that the customer only needs to do this once and each bank only needs to request the documentation from the utility's service. Without such a service, both customer and bank would need to duplicate the verification process every time a new relationship is established (and often these processes are slightly different, further increasing the burden and the difficulty for the customer when they wish to change their banking relationships).

Firm by firm approaches to KYC requirements lead to many different requirements which are burdensome for consumers and difficult for regulators to assess. This is also likely to make cross-border arrangements more complicated. The use of KYC utilities, as described above, could encourage banks to agree appropriate standards with the relevant providers that would work across many member states and therefore reduce a significant barrier to cross-border financial services.

Unfortunately the adoption of such utilities has been hindered by (a) a lack of clarity about supervisory expectations and (b) dependence on firms' customers for the actual adoption of a service. We would therefore encourage the European Commission, working with national and European authorities to:

- provide sufficient clarity in regulation or supervisory practice so that firms understand that the use of shared services like KYC utilities are an acceptable way to comply with regulatory requirements;
- ensure mechanisms exist so that industry standards developed for KYC utilities that meet or surpass regulatory or supervisory expectations can be formally endorsed;
- coordinate such endorsement between authorities across member states; and
- support action to address slow adoption by firms' customers, for example allow banks to impose requirements to use KYC utilities.

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We hope that our above comments are helpful. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. If you have any questions, please do not hesitate to contact the undersigned or David Cook at [david.cook@markit.com](mailto:david.cook@markit.com).

Yours sincerely,



Marcus Schüler

<sup>8</sup> For more information see [www.markit.com/product/ky3p](http://www.markit.com/product/ky3p) and [www.kyc.com](http://www.kyc.com).

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