



**WHITE PAPER**

# **REGULATORY COMPLIANCE AND REGTECH**

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## **Opportunities Abound in 2019**

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**This white paper asserts that the adoption and use of RegTech does not have to be an adversarial response to what many might feel is an overwhelming David & Goliath situation. Rather, the effective leveraging of RegTech may represent an opportunity for Financial Institutions (i.e., the “David” in this scenario) to seize and hold the advantage.<sup>1</sup>**

## The Giant Beckons a Response

Collectively the regulatory governing bodies are indeed giant: More than 750 global regulatory bodies are pushing over 2,500 compliance rule books, and giving rise to an average of ~201 daily regulatory alerts.

For financial services, the regulatory and compliance spend in 2017 was projected to be over \$100B.<sup>2</sup> This is largely because the penalty cost for failing to adhere to regulatory requirements is so severe: Depending on the nature of the offense, repercussions for noncompliance include the potential for civil and criminal prosecution, banking license implications, reputational damage, and stiff financial penalties. In monetary terms alone, the numbers are staggering, with more than \$342 billion in fines assessed between 2009 and 2017<sup>3</sup> – with some troubled firms receiving fines well in excess of \$1 billion dollars each.<sup>4</sup>

To cope with regulatory compliance requirements, Financial Institutions are committing 15% of their employees<sup>5</sup> and 10% of their annual revenue<sup>6</sup> towards the daunting effort. Clearly those factors seem to stack the equation unfairly, and the adage of “something has to give” is more than applicable.

## Armed with RegTech

There has been no other time of such momentum in financial services like the present. The industry is at the confluence point of major technology advances, ever increasing customer expectations, stiff competition and massively complex (and growing) regulatory precedence.

Out of necessity, as well as capitalistic opportunity, we now witness the rise and advent of a new era of Regulation Technology (aka RegTech). Its initial beginnings can be traced to the aftermath of the 2008 global financial crisis; since then RegTech has continued to mature, improve and expand to now stand equally aside its more commonly popular sibling, FinTech. In fact, Bloomberg projects a \$118.7 billion dollar global demand for regulatory, compliance and governance software by 2020.<sup>7</sup>

Regulation Technology has been defined as the “application of new technology to regulation-related activities in order to shift them from analog-era to digital and computational models and, thereby, gain dramatic increases in effectiveness, efficiency and scalability” as well as “the willingness of development teams to embrace technology to overcome compliance challenges has played a crucial role in the growth of RegTech”.<sup>8</sup>

Advancements in areas such as Big Data, Artificial Intelligence (AI), Machine Learning (ML), and cloud computing are enabling RegTech to gain traction and favor with FIs to ultimately automate processes and solution workflows that previously required dedicated human intervention. Equally as important, banking executives are gaining comfort with the adoption of new operating models such as Software as a Service (SaaS) and Platform as a Service (PaaS).



<sup>1</sup> [Ted Talk](#)

<sup>2</sup> Thomson Reuters – [Cost of Compliance 2017 Report](#)

<sup>3</sup> Medici – [Increasing Regulatory Complexity and the Cost of Compliance by Elena Mesropyan September 18, 2018](#)

<sup>4</sup> [The Guardian](#) and Reuters

<sup>5</sup> Medici – [How European Banks Are Using RegTech Solutions by Elena Mesropyan June 6, 2018](#)

<sup>6</sup> Duff and Phelps – [Global Regulatory Outlook 2018](#)

<sup>7</sup> The FinTech Times – [Top RegTech Trends for 2018: Expert Opinion March 16, 2018](#)

<sup>8</sup> [Harvard Kennedy School – via Financierworldwide](#)

## To the Victor Go the Spoils

While tremendous attention and priority is given to Digital Banking initiatives in the middle and back-office, areas of compliance and regulatory reporting automation have not yet experienced the same energetic and exuberant focus from the Banking C-Level. In fact, data indicates that less than 17% of firms have implemented a RegTech solution.<sup>9</sup> This despite new regulation initiatives such as the Payment Services Directive (PSD2) and General Data Protection Regulation (GDPR), and the revised Markets in Financial Instruments Directive (MiFID II) that have had their enforcement implementation dates transpire in 2018.

Further major compliance areas regarding stress testing, capital requirements, anti-money laundering, liquidity coverage ratio and numerous other regulatory reporting requirements provide financial institutions ample surface area to identify targeted areas ripe for improvement and automation.

For banks that see RegTech as a valuable opportunity, the potential benefits of RegTech are many. These include:

- Enhanced Effectiveness
  - Metrics/data analytics help to identify areas of greatest risk and uncover trending risks through forward-looking analytics
  - Greater consistency and accuracy
- Greater Efficiencies
  - Reduced operating and compliance costs
  - Process optimization
  - Streamlined and defined workflows
- Better Management of Compliance Risks
  - A more tailored risk-based approach
  - Aggregated view of risks
- Improved Regulatory Management
  - Ability to lower regulatory exposure
  - Improved readiness to support regulatory inquiries
  - Full data traceability
- Expanded Testing and Monitoring Coverage
  - Timely identification of risks and quick response
- Improved Resource Allocation
  - Deploy individuals to the most impactful activity (reallocation)<sup>10</sup>

## Smartly Step Forward and Seize the Opportunities

Financial Institutions can start to explore the new technologies and capabilities in RegTech through concentrated projects that help identify the fit-for-purpose match of the solution within your bank's environment, workflow and team skillsets. As an example, piloting a technology implementation on a small scale – such as a technology that improves workflow in regulatory reporting – is a safe approach because risks are limited and new risks unlikely. It is also a quick and efficient way to explore new technologies and their possible long-term return on investments.<sup>11</sup>

A key growth area in the RegTech domain is the automation of regulatory reporting. RegTech intends to solve the problems caused by multiple data sources, systems and errors arising from manual review. A RegTech solution can search multiple data sources and compile reports that are comprehensive, coherent and standardized. Not only does this save considerable time and effort for banks, thus freeing up people's time to concentrate on more skilled and value-added tasks, but the standardized reporting is a lot easier for the regulator to analyze.<sup>12</sup>

## In Summary

Yes, RegTech has been around since the aftermath of the 2008 global financial crisis, but 2019 could represent a pivotal year in which bank executives shift their mindset and perspective views on RegTech.

Rather than simply seeing RegTech as a better automated cost takeout measure necessary to “deal with” the ever-building pressure of regulation and compliance, savvy bank executives will see the synergy and cumulative power that RegTech shares with many of their other strategic objectives. With the growing comfort level of C-Level executives to adopt new technology for areas such as core cloud processing, AI/ML analytics, open digital application program interfaces (APIs), and streamlined capital market initiatives, the centralization and harnessing of all of the data critical to operating a successful and progressive financial institution will allow RegTech to move beyond simply “getting the job done better” to become a leverageable asset for the bank – an asset which provides full transparency and peace of mind to banking executives that not only is the bank complying with the regulations, but the tasks are being accomplished faster, less expensively, more accurately and in a timely manner. This newfound perspective will further enable executives to devote more time, energy and effort on other value-add revenue-generating objectives.

<sup>9</sup> CBInsights

<sup>10</sup> KPMG “Streamlining to create value – the future of compliance”

<sup>11</sup> Grant Thornton – “Is RegTech the future of compliance?” March 8, 2018

<sup>12</sup> Banking Technology Magazine “The rise of regtech” August 28, 2018



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