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# Current Trends

**RegTech**

**“The Future of Regulatory Landscape”**

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# Current Trends



## Concept

- **RegTech** (Regulatory Technology), is a category of new technological solutions, particularly advanced software and data analytics, that helps businesses comply with regulatory requirements more efficiently and effectively. It encompasses the application of technology in various areas, including risk management, compliance monitoring, reporting, and regulatory change management.
- **RegTech** solutions utilize various technologies such as artificial intelligence (AI), machine learning, natural language processing, big data analytics, blockchain, and cloud computing. These technologies enable businesses to automate compliance processes, monitor transactions in real-time, and generate accurate and timely reports for regulatory authorities. RegTech plays a role at the regulatory level in reducing the cost of compliance and improving the regulatory environment.
- **RegTech** solutions address both regulators in search of supervision (SupTech) and regulated entities in search of compliance (CompTech).

## Background

- Emerging regulatory technologies were initially applied to FinTech in the wake of rapid development of the financial sector. Continuous technological evolution has led financial institutions to introduce new digital business models, resulting in the emergence of newer risks. The concept of RegTech emerged as a response to the updated risks and the increasing complexity, volume and cost of regulatory requirements. Regulatory oversight has become more data-driven, with regulators making more detailed and frequent data requests. Regulatory pressures combined with fast-evolving customer expectations, have obliged financial institutions to apply new solutions, that can assist in meeting these expectations in a timely and cost-effective manner. Traditional methods of compliance, which often rely on manual processes and outdated systems, have become inefficient and costly. RegTech solutions aim to streamline regulatory compliance by leveraging technology to automate processes, improve data analysis, and enhance decision-making.
- According to a study conducted by Deloitte in 2021, the global RegTech market across the world has reached a value of **7.9\$ Bn** in **2021** in terms of revenue, taking into consideration that the financial services sector had the largest market share, representing **39%** of the global RegTech market in **2021**.
- A more recent study published by Saudi Arabia Digital Government Authority in **March 2023** showed that global RegTech spending is estimated to increase to **\$204 billion** by **2026** and RegTech is estimated to make up **%50** of global regulatory compliance budgets by **2026**.
- The value of RegTech practices in the financial services industry demonstrated significant benefits to institutions, customers and regulators.

## Benefits

**RegTech offers several significant benefits for the regulators and the financial institutions, helping them address the complex regulatory landscape and improve their compliance processes. Some key benefits of RegTech solutions adoption include the following:**

- **Enhanced compliance efficiency:**  
RegTech solutions automate and streamline compliance processes, reducing the need for manual effort and paperwork. It enables financial institutions to efficiently manage and track compliance tasks, such as customer due diligence, risk assessments, and reporting obligations. This automation helps save time, reduce costs, and improve overall compliance efficiency.
- **Real-time monitoring and risk management:**  
RegTech solutions can monitor transactions and activities in real-time, identify suspicious patterns or anomalies, and take proactive measures to mitigate risks. This real-time monitoring enhances fraud detection, anti-money laundering efforts, and overall risk management effectiveness.
- **Streamline regulatory change management functions:**  
RegTech solutions offer features that help institutions stay updated with regulatory changes and reflect newly introduced requirements. These solutions provide alerts, regulatory intelligence, and automated compliance updates, enabling financial institutions to respond promptly to regulatory changes and ensure compliance.
- **Enhanced data management monitoring and reporting:** When compared to a traditional sample-based approach, RegTech solutions allow for a more comprehensive review of large data sets. RegTech leverages big data analytics to handle large volumes of data generated by financial institutions. It helps in data integration, cleansing, and analysis, allowing institutions to generate accurate and timely reports for regulatory authorities

- **Improved risk assessment and fraud prevention through predictive analytics:**  
RegTech solutions employ advanced analytics to assess risks and detect fraudulent activities more effectively. By analyzing vast amounts of data, these solutions can identify potential risks, patterns of financial crime, and suspicious activities, enabling financial institutions to take proactive measures to prevent fraud and mitigate risks.
- **Lowering compliance cost:**  
Cost management is increasingly critical to maintaining profitability in the face of a challenging business environment. Traditional compliance processes often involve manual work, which can be time-consuming and labor-intensive. RegTech automates many compliance tasks, reducing the need for manual effort and associated costs. By streamlining processes and improving efficiency, financial institutions can achieve cost savings in compliance operations.
- **Enhanced customer experience:** RegTech solutions can also contribute to an improved customer experience. As a result of delivering compliance checks in a faster and more efficient way, financial institutions using AML and onboarding Regtech solutions can reduce the burden of repetitive tasks on customers, resulting in a smoother onboarding process and quicker turnaround times. This improved experience can help attract and retain customers while maintaining compliance standards.
- **Better service quality:** Effective compliance and risk management processes make the financial sector safer and more competitive, and push providers to improve service quality.
- **Accelerate financial inclusion:** RegTech solutions can help financial institutions with the identification of customers' needs, and ultimately help them to comply with consumer protection standards and achieve higher financial inclusion rates.

## Challenges

While RegTech offers numerous benefits to the financial and banking sectors, there are also certain challenges that need to be addressed for successful implementation. Some key challenges of RegTech in the banking sector include:

- **Complex regulatory environment:** The banking sector operates under a complex and constantly evolving regulatory environment. Financial institutions need to comply with multiple regulations, such as anti-money laundering (AML), know your customer (KYC), Basel agreements and more. Implementing RegTech solutions that can effectively address the requirements of various regulations and keep up with changes can be a challenge.
- **Data quality and integration:** RegTech relies on accurate and high-quality data for effective compliance. However, financial institutions often face challenges related to data quality, consistency, and integration. Data may be scattered across various systems and silos, making it difficult to accurate analysis. It is well noted that ensuring data accuracy, completeness, and integration across different platforms and systems is crucial for the success of RegTech solutions.
- **Legacy systems and infrastructure:** Many banks still rely on legacy systems and infrastructure that may not be compatible with modern RegTech solutions. Integrating new technologies and solutions with existing systems can be complex and time-consuming. Upgrading or replacing legacy systems to support RegTech implementation can be a significant challenge for banks, requiring careful planning and investment.
- **Data privacy and security:** RegTech involves the processing and analysis of sensitive customer data. Ensuring data privacy and security is of extreme importance to protect customer information from unauthorized access or breaches. Banks must implement robust cybersecurity measures and comply with data protection regulations while leveraging RegTech solutions. Striking a balance between compliance and data security can be a challenge.
- **Change management and cultural shift:** Implementing RegTech may require changes in processes, workflows, and organizational culture. Integrating new technologies and automation may encounter resistance from employees who are accustomed to traditional ways of working. Change management and fostering a culture that embraces technology and innovation are essential for efficient RegTech adoption.

- **Cost and return on investment (ROI):** While RegTech solutions can lead to long-term cost savings and efficiency gains, the initial investment and implementation costs can be significant. Financial institutions need to carefully assess the cost-benefit analysis and evaluate the return on investment of implementing RegTech solutions. Balancing the upfront costs with the expected benefits and ROI can pose a challenge.
- **Third party risk management:** As long as the RegTech providers are one of the main players in the Regtech ecosystem, banks and financial institutions should carry out a proper due diligence on Regtech providers, while ensuring the protection of the clients' data. To mitigate these concerns, institutions should conduct thorough due diligence before selecting a third-party RegTech provider. This includes assessing the provider's reputation, security measures, track record, and the flexibility and scalability of their technology. Additionally, institutions should establish robust contractual agreements that clearly define data privacy and security requirements, service-level expectations, compliance obligations, and mechanisms for dispute resolution. Ongoing monitoring and evaluation of the RegTech solutions' performance and effectiveness are also crucial to ensure continued compliance and risk mitigation. Addressing the mentioned challenges requires collaboration between banks, regulators, and technology providers. Regulatory authorities need to provide clear guidance and standards for RegTech implementation, and banks need to invest in upgrading their infrastructure, data management capabilities, and employee training to effectively leverage RegTech solutions.

## Practical Cases

### Case 1: Aargauische Kantonalbank (AKB) - Switzerland

Switzerland Bank- based AKB faced increasing compliance costs and struggled to keep track and comply with changing anti-money laundering regulations in Switzerland and the European Union. To solve this issue, the bank applied a Regtech solution offered by NetGuardians to manage these challenges. Using artificial intelligence and machine learning models, the solution automated many tasks that AKB previously performed manually. It also enhanced fraud detection accuracy by detecting new fraud patterns. This effectively reduced the cost of compliance for AKB by 75% and reduced the time spent on investigating risks by 93%. Additionally, the solution ensures compliance with the "Customer Security Programme", an updated regulation in the Swiss AML landscape. The solution keeps the AKB AML systems up to the standard.



### **Case 2: Solaris Bank – Berlin**

Berlin based Solaris bank faced several challenges to cope with the increasingly changing regulatory environment in the European Union, combined with the complexity of developing a compliant process for its fully digital product. The bank turned to IDNow's Regtech solutions to ensure compliance with various cross-geographic regulations related to automatic identity verification. The bank enhanced the entire customer onboarding process for the customer onboarding process without compromising compliance. The provided solution includes insight analysis, compliance reporting, data privacy, generating time savings for the bank. Additionally, the fully digital customer onboarding process enhanced customer experience, resulting in 80% conversion rate. The benefits also include complying with applicable European laws such as GDPR and AML.

### **Case 3: Orange Telecom**

Orange aimed to make the Orange Flex (a subscription-based telecommunications app launched in 2019 in Poland) experience fully digital, and to do so they needed to move away from face-to-face customer verification. Orange's leadership had concerns about the reliability of a fully digital verification process in terms of technology and compliance with AML and KYC regulations.

Orange turned to Onfido Verification Suite and it enabled them to digitize and automate customer verification processes by confirming customers' identity through the analysis of their documents and the comparison of photo IDs and selfies. The solution leverages AI to verify customers' identities, checks AML and KYC compliance by accessing databases in over 160 countries, and shares the results as KPIs on dashboards.

This Regtech solution leverages AI and APIs to conduct biometric verifications for customer onboarding and fraud detection, to comply with AML and KYC regulations.

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