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How Regulatory Technology (RegTech) Can Empower Financial Institutions



Take Control. Be in Control. Demonstrate Control

Over the last decade, the financial services industry has seen a significant uptick in regulation with multijurisdictional and interlinked regulatory requirements impacting business globally. The key element across these regulations has been that financial institutions need to ensure that they are operating their business in a prudent and controlled manner.

RegTech is a discipline which applies technological innovations to achieve compliance with regulatory requirements. It can help meet this requirement by allowing Financial Institutions to: Take Control, Be in Control, and Demonstrate Control of regulation through better defined, documented and auditable digital operations. This will allow firms to break down regulatory siloes and manage requirements holistically.

Regulatory Drivers

In recent years, financial institutions have become all too familiar with implementing new regulations. Due to time constraints these regulations often have been looked at in a siloed fashion. At the same time, similar or overlapping requirements exist in those regulations – e.g. transaction reporting under The European Market Infrastructure Regulation (EMIR), Markets in Financial Instruments Directive (MiFID), Securities Financing Transactions Regulation (SFTR), etc.

The increased regulatory pressure means that regulators have come to expect more of financial institutions. The room for error is becoming smaller and smaller. Financial institutions need to be able to respond to regulatory requests quickly. Therefore, compliance and risk departments are looking at how the firm can be in control of all requirements. Most importantly, the business needs to know that they are still fit for business.

This all starts with the firm's policies and procedures. To demonstrate that the institution is in control of managing their regulatory requirements, financial institutions should be able to show the existence, design, and effectiveness of policies and procedures that take into account the specificities of their business and the regulatory requirements, documenting assumptions, interpretations and actual business practices. Also, the policies and procedures need to cater for a control framework demonstrating the effectiveness of the policies and procedures governing the firm's core business.

Regulatory Technology (RegTech)

Risk and Regulatory professionals cannot achieve the enterprise-wide control these regulations call for without working closely with their technology colleagues. In fact, according to a survey of Chief Information Officers conducted by SourceMedia in 2017, about 70% of CIOs surveyed answered they will increase their spending in Technology. Together with Security and Mobile device management software, Compliance was named as one of the key focus areas for technology investments.

Anticipated investments sit at the nexus of Regulatory, Cost-cutting, and Innovation initiatives. Banks are examining how they can increase the efficiency of and control over regulatory initiatives through technology. While technology has been supporting regulatory compliance for a long time, rapid developments in areas such as Blockchain, Big Data Analytics, and Artificial Intelligence have sparked a new dimension to RegTech. Its potential now reaches way beyond simply complying with siloed regulations to achieving business value. As technologies such as Robotics, Data Science and Natural Language Processing (NLP) evolve at a tremendous pace, so too do the opportunities.

RegTech enables financial institutions to: perform activities required by law, such as transaction reporting, record keeping, Anti-money laundering (AML)/Know your customer (KYC) and monitoring more effectively; automate analyses and processes for fast implementation and accurate interpretation and compliance with less risk of human error (Take Control); transcend complex and obscure regulatory siloes within the organization by concentrating overlapping regulatory topics, utilizing data rationalization and simplifying the IT landscape; receive real time updates of all positions, occurrences and affiliated risks within the firm (Be in Control); and ultimately able to report to whomever (regulator, auditor, clients as well as internally) at any time (Demonstrate Control).

Evaluating RegTech Solutions and Approaches

In our view, a truly effective implementation of RegTech starts with strategizing and mapping business needs. "Is your company in need of more control, of more efficient processes, or both?" RegTech delivers the greatest value when it is delivering both increased efficiency and enhanced control above all else. Businesses can then map technology approaches to those that are best fit to help address these business needs. For example, if your business needs revolve around increased control and improvement of operational efficiency in the KYC domain, preferred applications would be found in the area of Biometrics and Artificial Intelligence (e.g. Robotics). Every solution (built or bought) comes

with benefits and costs, which must be analyzed thoroughly to find a fitting and future-proof solution.

Once a suitable technology has been identified, the bank can evaluate available solutions on the market versus building strategies in order to find the best fit for the organization. In areas such as KYC/AML, there are several purpose-built FinTech solutions but there are also a number of challenges that still remain unsolved. This makes it one of the continued areas for RegTech Innovation.

In either case, once the desired scenario is enacted, a strong rollout plan will consider:

- Project management – governance, timelines, scope & objectives;
- Operating model adjustment – gap analysis & capability mapping; translation to impacts across organization lines, functions, processes, technology & data, change management;
- IT Architecture adjustment – alignment with the organization's existing IT Architecture; strategies to overcome Legacy Infrastructure (eg. GUI, OpenAPI, and Micro-services);
- Development / Integration – whether off-the-shelf, bespoke or purpose-built.

RegTech is an increasingly popular area that financial institutions are embracing to increase efficiency and gain further control over their compliance and business initiatives. This starts with expert knowledge of the regulations themselves and how they apply to the business, but it does not stop there. The true value from RegTech comes from being able to understand how to apply innovative new technologies to drive not just compliance but business value, marring regulatory depth with technology prowess for true digital innovation.