

THE RISE OF REGTECH ...AND THE IMPACT ON COMPLIANCE



Systemic risk in financial institutions was a big factor in the last financial crash. Market participants are inter- (and often intra-) connected in an unprecedented way, so no one knew their true risk position. This, combined with poor control of data – use of Excel for recording was rife in the industry – and poorly integrated legacy IT systems meant that there was no single or true view of risk. Regulators clearly identified all of these as issues and one of the aims of the subsequent regulatory storm is to address these points with the aim of preventing a similar event in the future.

This ongoing period of great regulatory change has forced funds to dramatically increase their time and money spent on the regulatory functions: not only compliance officers but teams of people bringing data together for reporting. The rise of RegTech (regulatory technology) allows funds to refocus again on their core mission and help provide far better and more efficient data management, giving firms that all-important ability to have a single view of their risk position and providing management with a high-level view on their fund's performance across all positions.

RegTech is a response to the demands put on financial institutions to improve their processes and satisfy new regulatory and [compliance](#) requirements. It leverages technology as a means of developing solutions for improving the exchange of regulatory data within the finance industry. RegTech supplies solutions that address regulatory challenges through modern technology tools and techniques. For example, most companies provide their solutions as software-as-a-service in the cloud. This reduces

implementation time, helping businesses to reduce the pain of complex regulatory compliance and focus on their primary goals. Many of these solutions have the potential to improve the relationship between firms and regulators through automation of previously manual and error-prone processes.

RegTech is agile and fast, allowing cluttered and intertwined data sets to be organised and managed while new inputs, functionality and reports can be built and configured quickly. It can be quickly integrated with current infrastructure and the integrated data gives much better analytics – be they risk, compliance or management – than legacy solutions were able to.

Many compliance problems are solved by RegTech: reporting, market-abuse monitoring, anti-money laundering, know your customer and call and chat monitoring. It manages to do this effectively and efficiently by using modern techniques and technologies such as big data, data visualization, distributed and immutable ledgers, machine learning, semantic analysis and natural language processing.

The key difference between RegTech and traditional legacy solutions is that RegTech solutions are designed to be flexible and agile. Since many funds are undergoing rapid business change in response to the seemingly ever-shifting regulatory environment, any compliance platform must be easy and cheap to change and add new functionality to.

RegTech will be an important part of firms' response to compliance changes in the future, and regulators should respond appropriately. In the U.K., we regularly see FCA (Financial Conduct Authority) staff among the delegates at conferences where new technology that affects regulation is discussed, and this is very welcome. Having knowledgeable regulators will help the industry: they have an important role promoting RegTech implementation and developing the market. RegTech is a niche market, requiring collaboration between unlikely partners: regulators, regulatory experts, financial institutions, technologists, software developers and entrepreneurs. The FCA has made good progress here too, setting up Project Innovate to help nurture projects and promote innovation across finance. However, since the market is relatively new, firms should develop a clear view on how to manage the risks of implementing a RegTech solution in order to minimize their exposure and maximise the potential benefits: uncertain development paths due to the changing regulatory environment, provider reliability, increased regulatory scrutiny, limited judgement and privacy.

Can RegTech help with all compliance challenges? Definitely not. While RegTech is a welcome development and a step improvement on legacy systems, it will only fulfill its full potential if businesses change how they work. Without significant changes to culture, organisation, processes, data and technology within financial institutions, the full value of RegTech will not be seen, and progress will be limited. RegTech is the best opportunity firms have had for a long time to make these changes, which will only make them more efficient and better focused on their core business.

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