

A LITTLE BROTHER OF FINTECH

Regtech field is called a 'little brother of Fintech'. Regtech is not about cost, it's about compliance at the end of the day. So, what Regtech does is it helps you to provide better regulatory

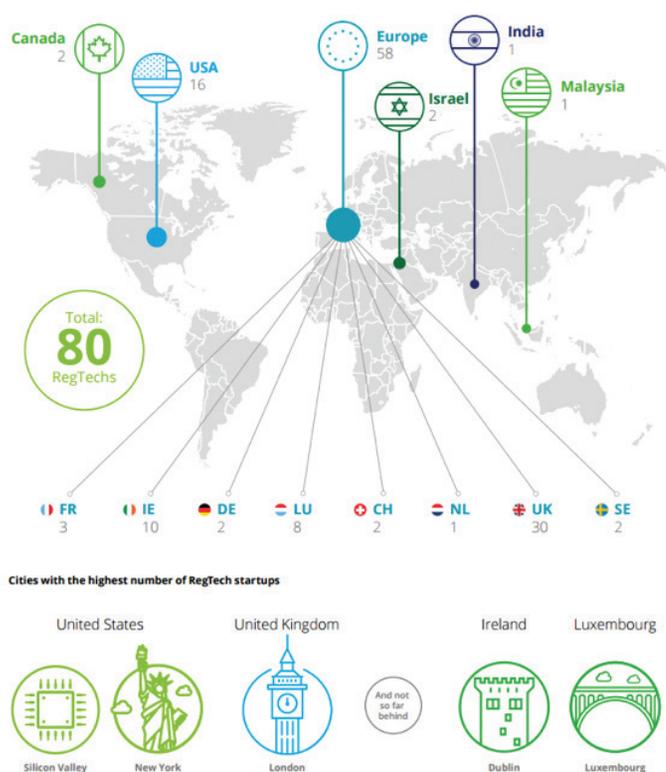
The fact is that RegTechs are becoming more numerous every month and each of them promises to offer radically advanced solutions to existing problems or even brand new value propositions. "The task now is to find those solutions that offer true added value and will pass the test of time," it is mentioned in the recently released **Deloitte's research 'The Regtech universe on the rise'**.

Europe (with its roughly 60 Regtechs, including around 30 from the UK) and USA (with its roughly 20 Regtechs) are the global epicenters of the raising Regtech industry. Among cities with the highest number of Regtech startups can be mentioned: New York, London and Silicon Valley. Dublin and Luxembourg are not so far behind.

"We are going to explore an emerging trend in the Finance ecosystem: Regtech. First, RegTech is a reality, much more than just a new buzzword but a real topic that we need to carefully look at and integrate into our business models. Regtech improves the way

Geographical overview of the RegTech universe

While we kept Europe as our focus for the moment, we included quite a few RegTechs from further away that propose solutions that are too interesting to ignore. Stay tuned to watch the universe grow in the coming weeks and months.



Source: Deloitte's research 'The Regtech universe on the rise'

of regulation for the business. We can see 5 categories of Regtech: reporting solutions, transaction monitoring, risk management, identity management and controls, and compliance solutions," **François-Kim Hugé, Partner of Deloitte**, says.

Big challenge for a Regulator

The digitalisation is growing across nations. But firms and governments are still failing to keep up with technology progress, even if we see a particular declarations and movements.

As European regulators believe, tech is linked to society. **Luxembourg Prime Minister Xavier Bettel** notes that tech represents a big challenge for any regulator. "We need to be active in the future, and as a country, we shouldn't be afraid of tomorrow. We are working on developing the digital area and we know the importance of digital skills to prepare the future and to bring the digitalisation to the next level. All our political decisions are integrated with a digital reflex."

Asian regulators also keep their hand on pulse. **Naser Hakimi, Director General, IT of Central Bank of I.R.Iran-CBI**, speaking at ICO Spring Luxembourg about Banking and Payments in Iran, and Regulator's challenges toward FinTech, stresses that Iran makes a lot of advancements in technology and regulation. "Our challenges and innovation are based on open-banking, peer-to-peer solutions and a strategy towards blockchain."

Spotlighting how to tech your reg burden into a competitive advantage with 2Gears, **Bert Boerman**, Co-founder & CEO, Governance.io, says: "People think that there is too much regulation, that regulation brings them nightmares. Our approach is to see the bigger picture but there are so many areas to control. The paradox? More data brings more controls. But the aim of regulation is the investor's protection. And tech can turn Reg into an asset thanks to new insights into clients' real-time collaboration, thanks to the access to structured data or documents or thanks to the reduction of the costs".

As it is mentioned in a report titled '**Future of RegTech for Regulators**' by Innovate Finance's

Transatlantic Policy Working Group (TPWG) and Strategic Partner Hogan Lovells, it is very important for Regulators to become the leaders of digital changes. That means to create an eco-system, digital financial infrastructure and to implement new rules and processes to encourage businesses and other stakeholders to get involved in regulation and compliance processes.

What is Regtech about?

Regtech can be explained as a symbiotic approach based on efficient collaboration between Compliance & Risk teams and IT teams, **Luc Maquil, co-founder of KYCTech**, explains. Some experts as **Philip Treleven, Professor & Director of UK Financial Computing Centre at University College London**, consider Regtech as a major catalyst for efficient and effective finance industry.

Mash Patel, CEO, Kurtosys focuses on the intimate links between the new digital experience and RegTech. "The next twenty years will be based on data. For example, the data produced and copied in one year reached 21 zettabytes. Data redefines the entire sales, marketing and client servicing ecosystems. Data and content are currencies to firms. Digital is about to change the way we do things. And compliance is the guardian of the reputation of your firm because the reputation's damage is incalculable

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things. And compliance is the guardian of the reputation of your firm because the reputation's damage is incalculable and uncontrollable. The digital Regtech is an opportunity to transform how you think about compliance”.

Nadia Manzari, Head of Innovation, Payments, Markets Infrastructures and Governance at CSSF, explains, Regtech makes online payments solutions easier, it changes the financial area and monitors the risks.

The potential benefits of Regtech are far outweigh simply reducing costs for businesses, **Hussayn Kassai, CEO and Co-Founder** of Onfido, believes. “Certainly, that's one part of it: Regtech like our Identity Verification platform, which automates KYC & AML processes, is proven to reduce the costs of compliance and manual review, increase conversion rates and reduce the risk of fraud. But, beyond that, Regtech could be incredibly powerful in bridging the gap between regulators and business, while protecting the best interests of consumers. Regtech enables regulators to successfully implement and audit their compliance requirements and offers businesses a cost-effective way of meeting them. Most importantly, Regtech makes these services available to those who, until now, have been excluded from our economy - the 2 billion unbanked people worldwide.” As a summary - RegTech could be classified in 3 ways:

- **Verification and compliance** – inconsistency, standards, verifying the right data (data collection)
- **Enablement and efficiency** – processing data in an automated way where possible (data processing)
- **Analysis** – take advantage of data (data analysis)

Experts underline some key Regtech features. The key differentiator of Regtech is agility, **Evgeny Likhoded, ClauseMatch CEO & Founder**, says. He believes, Regtech allows the use of advanced technologies to extract, transfer and load data sets that are cluttered and tangled to create consumable information. This is done quickly and efficiently, giving businesses the agility to solve real-world problems and to stay ahead of the competition. “The cost of compliance in financial services has risen sharply over recent years. However, Regtech brings more value than simply saving money. Companies using regulatory technology are adapting to new technologies and sophisticated data analytics to glean the information they need to make calculated decisions. This is critically important for senior managers in financial institutions, who may be held personally liable for some cases of non-compliance. Regtech unleashes a

much-needed resource: human capacity. Regtech is about automating manual tasks, by releasing compliance officers from administrative duties and developing their skills so they can feel a renewed sense of value and satisfaction in their roles. Regtech also brings extra convenience and visibility to the regulators, as they want the market to function in the best possible way. That's why the FCA encourages the adoption of new technologies.”

Cost reduction is clearly a significant driver of regtech, and one of the major benefits that regtech can offer. However, Regtech goes much further than reducing cost however. “At its best, Regtech deploys technology to reduce risk, flag up matters before they crystallise into problems and enables firms to reach conclusions that can aid their compliance programme, via sophisticated analysis of large datasets, or by monitoring of trader behaviour (as two examples). Regtech solutions can also perform more mundane compliance tasks, thus freeing up human resource to focus on subtlety and nuance and to write papers on things like the ‘culture’ of their organisation, and how that could be improved,” **Jane Walshe, CEO & Co-Founder Enforcd**, explains.

A year of Regtech

Most experts do believe that 2017 year will be the year of Regtech. Very powerful factors speak in favour of this fact – from Big Four reports until the upcoming drastic regulatory changes. “We're living through a unique and unprecedented period of rapid regulatory change. For instance, Brexit in the UK and the new president of the US, Donald Trump, both challenge the legal systems of the two countries tending to rewrite them. Moreover, there is a global trend. The number of regulatory changes a bank has to deal with daily has increased from 10 in 2004, to 185 this year (figures by TR). It becomes impossible to deal with this scale and pace of change without taking radical measures and embracing regulatory technology,” **Evgeny Likhoded, ClauseMatch CEO & Founder**, explains.

On his point of view, still, on the one hand, adoption of Regtech is still provoking suspicions about the risks of new technology, and the false threat that Regtech poses to the jobs of compliance officers and lawyers. The main regulatory barriers to innovation, as indicated by 54% of participants of a survey conducted by PwC, are data storage, privacy and protection. On the other hand, big new regulatory packages such as MiFID, GDPR and SFTR are coming into application over the next several months and many firms are still struggling to adjust to that. “They're racing to get new compliance

procedures into place, and many feel out of control. This brings an understanding that a business can't run successfully without adopting regulatory technology. And perhaps this kind of thinking is going to dominate in 2017,” he says.

Philip Creed, Director, Head of RegTech fscom, explains, that the instability of the UK and US markets, with BREXIT and Trump's “Deregulation” promise, means that regulation is rapidly changing. “For financial services firms to keep with the pace of regulatory change they must employ specialists. In the EU new regulation is coming thick and fast, Forth Money Laundering Directive (4MLD), MiFID II, IFRS 9, PSD2 and GDPR will all effect financial services. Reflecting this, a recent Thomson Reuters survey revealed organisations plan to spend more time and money on compliance activities. As these companies seek to streamline processes, such as Know Your Customer (KYC), we can expect to see a significant investment in RegTech.”

RegTech is definitely on top of the agenda at the moment, **Nasir Zubairi, CEO of the LHOFT**, believes. “Regulatory related technologies ensure firms are safe and compliant while they innovate to keep up with changing customer behaviors and needs, while also helping to eradicate increasingly penalising overheads. To put it with other words, RegTech is a bit like the “helmet a skier wears when racing down a black run” - it effectively protects financial institutions while they move forward at speed.” On his point of view there are the following **Pros & Cons of Regtech**:

The pros: RegTech solutions reduce the complexity and capacity-demanding qualities of compliance while constantly and quickly adapting to new changes in regulations. With RegTech, companies are able to put capital to better use, reduce risks within the system, and improve supervision via enhanced insights. There is quite substantial demand from financial institutions to reduce regulatory overheads due to the squeeze on margins.

The cons: Regtech solutions require in-depth know-how of regulation and bank operations. Therefore, teams operating in this space usually need to have an experienced banker on board – not so easy. Likewise, firms operating in this space must understand that the sales cycle will be a minimum of 6-9 months with a financial institution.

Benefits for consumers and companies

Regtech is helping customers to get a better service and advice. It advances

the protection of customers against many kinds of fraud, **Evgeny Likhoded suggests**. “The benefits that Regtech brings to companies include cost savings, time efficiencies, risk reductions and increased opportunity prospects. With the help of Regtech, companies can be safe in the knowledge that human errors are minimised. Innovative technologies can support firms to develop advanced data analytic capabilities including scenario analytics, trend and horizon scanning, which regulators deem to be important tools that could improve the quality of information.”

RegTech massively improves the onboarding process, **Wayne Johnson, CEO & Co-Founder of Encompass**, notes. “For some customers this means they can be onboarded almost instantaneously. From the company's perspective, they know exactly who they are onboarding.”

Susanne Chishti, CEO & Founder of FINTECHCircle, considers consumer benefit when for instance the account opening process is faster. “The market overall benefits when market manipulation and insider dealing cases can be prevented via Regtech innovation. Companies benefits as they have to fear regulatory sanction and reputational damage less if they have a well designed compliance and conduct framework implemented combined with effective automated controls.”

RegTech offers extraordinary potential to make the existing compliance team more effective, giving them insight, data, analysis and transparency on the behavior, culture and conduct of their institution. They have never had such visibility and reporting certainty in the past, **Alex Viall, Head of Regulatory Intelligence behavox**, explains. “RegTech liberates incredibly valuable and scarce resource (highly qualified compliance professionals) to be deployed more effectively.”

Regtech is fairly broad in coverage. Aside from the obvious reporting and KYC elements, it can also mean renewing infrastructure i.e. using this technology to take a bigger step and drive tech renewal, **Nasir Zubairi, concludes**. “Indeed, institutions should use the regulatory and technology drivers of change to reassess how their IT-teams work. Rather than taking on large projects that take five to ten years to complete, continuous delivery would deliver value from day one – implementing IT-systems and infrastructure in the frame of knowing they will change again rather than implementing systems with the false belief they will last ten years.”

Expert comments

About Regtech domination

HUSSAYN KASSAI

CEO and Co-Founder Onfido

Regtech has been on the rise for some time, and in 2017 it will really begin to dominate the market. By 2020, there will be 300 million pages of regulations, and it's likely that fines for non-compliance will rise accordingly. RegTech can help people to compete.

The name 'Regtech' has only come about recently, but the concept has existed for a while. Adding tech and removing paper processes can offer a competitive advantage, as well as lowering overheads as the costs of increased compliance soar. Where FinTech has exploded over the last few years, Regtech is now emerging as its enabler.

There are only around 150 RegTech companies at the moment, but I expect to see that number increase significantly in 2017. One potential blocker, however, is that the need for Regtech solutions is outstripping awareness and trust within financial services. Much of the law and guidance around financial services predates their automation, meaning businesses are slow to switch to technologies that could be saving them time and money, while providing a better user experience for their customers. As Regtech continues to make its presence felt, I'd hope to see that attitude change so its full potential can be realised.

About Regtech collaborations

EVGENY LIKHODED

CEO & Founder ClauseMatch

The Regtech ecosystem is all about collaborating or losing. That's why advocates of collaboration in the Regtech space are becoming more and more prevalent. As JWG's CEO, PJ Di Giammarino commented at a RegTech Conference in February 2017, "If the RegTech industry is a mountain, we are now only at basecamp. Serious cooperation and collaboration between technology companies, regulators and financial institutions is necessary to drive the innovation in the timeframe required."

For instance, ClauseMatch and JWG are partnering to develop a unique

Regtech solution to simplify and better structure how regulatory changes are driven through internal banking policies. The prototype of this solution was first developed at the FCA tech sprint. Regulators are encouraging the development of innovative solutions as there are few off-the-shelf tools that can ease compliance processes. While financial regulation in the UK and in many other countries continues to change rapidly, the joint solution offered by JWG and ClauseMatch ensures a streamlined response to regulatory updates and performs gap analyses between policies and regulatory obligations on a real-time basis.

About spheres under Regtech's influence

JANE WALSH

CEO & Co-Founder Enford

Lots of innovative Regtech solutions focus on KYC, client onboarding and the mitigation of client, counterparty and supply chain risk. Ever slicker solutions are being brought to market that can be used by firms to quickly onboard clients in a more frictionless way than has been seen in the past. Firms such as Onfido deploy identification technology that can aid the unbanked to get access to financial services and so Regtech can do its bit to help the vulnerable and disenfranchised. Some of the more cutting edge Regtechs are focusing on mapping of behaviours, with a view to providing accurate red flags when a trader or advisor is about to do something unexpected. This technology is starting in financial services but could be used in other industries also. Sybenetix is active in this space – and is a firm that uses behavioural science to monitor investment managers' decisions. My own Regtech firm which is focused on global enforcement activity aims to help firms identify and manage conduct risk, and to improve culture. We use Regtech to aid qualitative, rather than quantitative, compliance – again, a new direction for Regtech.

About the Regtech's benefits

ALEX VIALI

Head of Regulatory Intelligence behavox

RegTech is just beginning, its widespread adoption will probably take a decade as institutions recognise the value and efficiency that it lends and the new process/technology is embedded and becomes acceptable market practice in the eyes of the auditors and regulators.

First though the institutions need to migrate from their ancient legacy systems and approach and this requires energy, investment and a new approach/competency and there are very divergent appetites for this from one institution to another.

RegTech is having an impact in almost every sector of financial services – it is being adopted in wholesale and retail, across product verticals (banking, insurance, asset management etc) and types of institution (regulator, regulated, exchange, consultant). RegTech can make the investment process much more efficient, clear and painless for the consumer (eg cloud-held ID verification for KYC/AML purposes); it can also create checks and balances in the advisory chain to ensure that consumers are protected and mis-selling is reduced (eg PPI in the UK).

About Regtech in practice

PHILIP CREED

Director, Head of RegTech fscm

Our product KYC-Pro is a Regtech use case. We focus on AML onboarding and risk assessment of our client's customers. A classic example I have encountered with my clients who operate in international remittance: migrants who are sending funds back to family or friends in another jurisdiction. The standard method of onboarding remotely in the UK is to use electronic verification, this hits the clients personal details against credit data, electoral and more to decide if this person is who they say they are. Migrants tend to have very low pass rates for electronic verification as they may not have lived in the UK long enough to have built up a solid credit profile, as such if you still wish to automate your onboarding for individual what should you do next, facial recognition, social media screening, both, more, the decisions to be made are endless.

Our solution understands what the financial services client is looking to achieve. How they want to onboard their clients is critical. We match them to the most appropriate solution for their needs, advising on and implementing other Regtech solutions we have trialed and tested, and know are fit for purpose. We can funnel these solutions through our API to allow our client one point of integration and add our compliance expertise to our technology. This ensures the process is efficient and their developer's time is spent productively on the product rather than the back-end.

About the Regtech's future

SUSANNE CHISHTI

CEO & Founder of FINTECHCircle

Regtech will grow enormously as Regtech companies often offer compliance solutions which are both more cost-effective and of better quality. Furthermore Regtech can support regulators to deal with the risks of false data models (which would lead to false predictions), discriminatory practises which might be coded into systems and the requirement of more transparency by Tech giants moving into Financial Services

About the role of technology in changing regulatory landscape

WENDY BROOKS

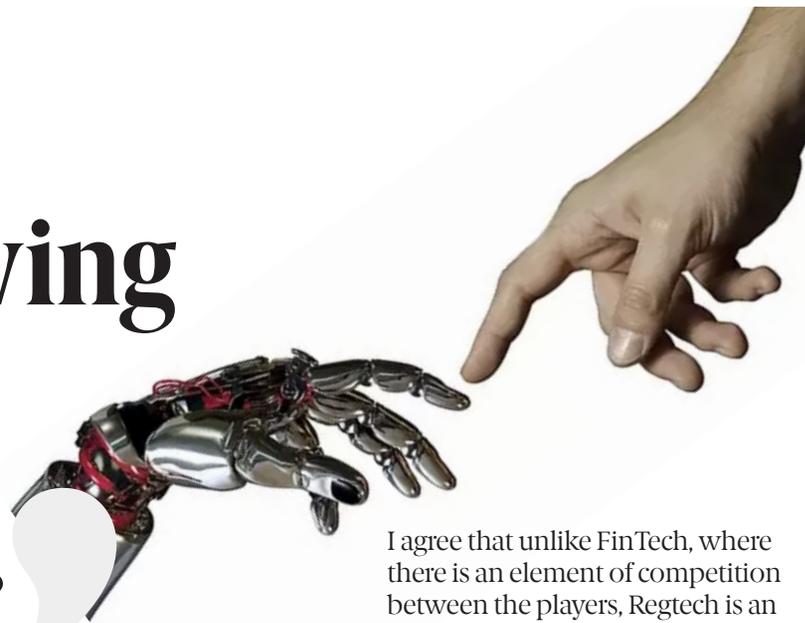
Director, Global Compliance of Western Union

With the ever changing regulatory landscape, technology will play an increasingly vital role in the compliance process in the years to come and will be a key part of the future of finance. At Western Union, we process 31 transactions every second, 365 days a year. As you can imagine, to manage such sheer volume and scale it's critical we have a robust compliance programme in place – and to do so efficiently and effectively we have to rely heavily on technology. More broadly, in the backdrop of an evolving financial system, with new technology and innovation emerging all the time, it's important that the compliance function not only keeps pace with change – but also innovates itself. A collaborative dialogue between business functions will ultimately increase visibility and usefulness of such new technology.

Given the complexities around regulatory compliance – and variances between different jurisdictions around the globe – technology is an important tool to help our teams be accurate, effective and proficient in their roles. In terms of the specific ways we use technology, there are two sides to the coin. We have customer-facing platforms which continually update. But there's also the back-end compliance side of things, where we apply new technology to existing compliance functions and data processes.

We're seeing vast swathes of new innovation so the question is not necessarily whether the technology is available, rather it's how we should use it. At its core, compliance is human-thought processing – so we shouldn't seek to automate the process entirely. But instead, we can examine ways in which new technology can enhance and support the skills of compliance experts, and help be successful in their jobs. That's really the key.

Regtech becomes the doorkeeper to the growing conversations between machine and humans...



I agree that unlike FinTech, where there is an element of competition between the players, Regtech is an area where everyone could win by cooperating. The benefits of working together far outweigh “going the solo way” like the Fintech Fraternity. Regtech brings to the consumers and companies the following benefits:

RAJESH CHAKRABARTI, Marketing, Innovation and Strategy Technologist Banking Consultant of World Bank Group

Regtech though growing in prominence from 2015 is seeing a massive focus this year simply because it becomes the doorkeeper to the ever growing conversations between machine and humans. These conversations carry data both private and public and somewhere lines need to be drawn and that's exactly what the primary role of Regtech is. Simply put Regtech is actually technology that aims to deliver “sure footed, configurable, easy to integrate, reliable, secure and cost-effective” regulatory solutions

In my views Regtech is more about recognising values so far. The right use of it may result in reducing costs but that's more a secondary outcome of the process. In an era where fintech has disrupted the normalcy in the Financial services environment, it is but obvious that Regtech will herald in disruptive processes in regulatory practices. That is the only logical conclusion.

As per my understandings the following areas will be directly impacted by Regtech and here's

how:

- 1. Agility** – Cluttered and intertwined data sets can be de-coupled and organised through ETL (Extract, Transfer Load) technologies.
- 2. Speed** – Reports can be configured and generated quickly.
- 3. Integration** – Short timeframes to get solution up and running
- 4. Analytics** – Regtech uses analytic tools to intelligently mine existing “big data” data sets and unlock their true potential e.g. using the same data for multiple purposes.

For Companies:

- Enhancing regulatory framework
- Automating the same to negate unwanted human bias
- Enhancing company compliance
- Reducing internal workload by outsourcing
- Easier detection of infractions
- An attempt to eliminate conduct risk

For Consumers:

- Easier and Faster On Boarding
- Enhanced Customer retention and Loyalty
- Over period of time, reduced service costs for customers

Regtech and money transfers



AMIT SHARMA

Senior Vice President, Money Transfer Solution Engineering of Western Union

A lot compliance solutions and Regtech companies are focusing around banks and ‘account’ focused businesses which have a tight relationship with their customers – as is the case on the b2b payments side of Western Union.

However, when it comes to the broader remittance and money transfer side of Western Union, compliance is a very different. For example, a customer may wish to send money to relative in another

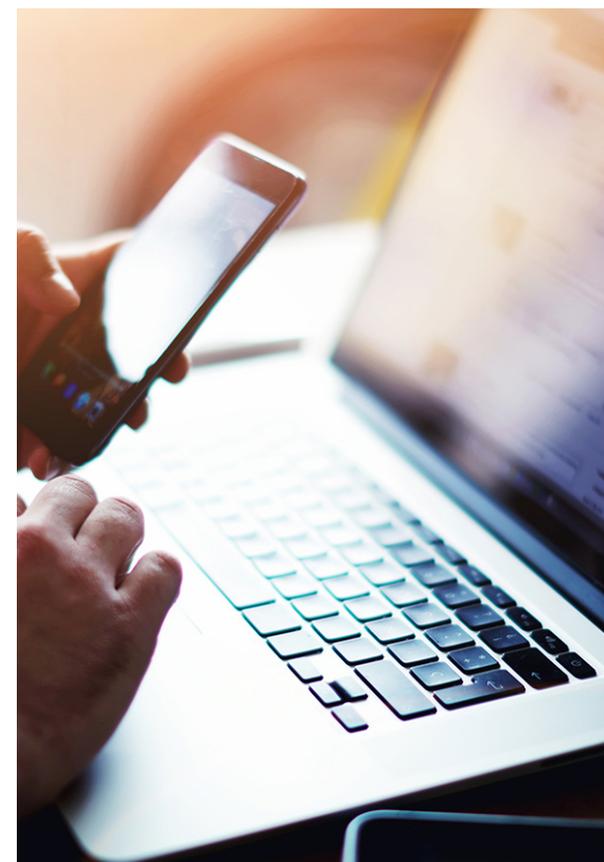
country who may not have an account with Western Union or have a relationship with a local agent on the ground.

In these instances, it's vital that we do our due diligence and carry out comprehensive consumer matching, identification and verification checks as part of our KYC (“know your customer”) process. Given the global nature of money transfer and financial transactions today, this is an increasingly important area and one in which Regtech is playing an increasingly important role.

However, KYC is not simply about compliance, but is part of the overall customer experience. New technology can make the verification process simpler, smoother and easier so users can transfer money as quickly as possible.

So in this sense there are two primary benefits of new Regtech solutions. The improvements it can make to the end customer journey and the more tangible or functional benefits for compliance professionals and regulators. In some cases Regtech is actually replacing manual processes, which in the past required vast amounts of paper work – which naturally helps streamline the process.

In the UK and US, there is already a certain level of maturity when it comes to take up of Regtech solutions through the use of digital reports, documents and visual solutions. More and more we're seeing elements of financial services become digitized, and in the years to come this trend is likely to only continue.



Regtech start-ups to be mentioned*

- **ComplyAdvantage** – uses machine learning and AI technology to help finance firms do legal checks on clients to make sure they're not breaking any rules by dealing with them. The firm says that its dynamic proprietary database, which covers sanctions and watchlists, politically exposed persons, and global adverse media lets it create structured profiles of high risk individuals and companies and their associates.

- **Gremln Social** - a social media platform specifically for regulated industries. It provides social media marketing and compliance tools for banks and financial institutions.

- **Finect** - a compliant communication platform for financial professionals. The company offers a social networking platform for financial advisors, asset managers, individual investors, and other professionals. It enables its users to present and promote business; access real-time product trends, news, and opinions; and engage with clients

and prospects by creating private and public groups.

- **Qumram** - software that helps ensure complaint communication by recording digital interactions from web, social, and mobile channels.

- **Clausematch** - Next-Gen document editing platform for real-time collaborative workflow. Data solution to manage key information documents.

- **My Virtual Strongbox** - the kind of secure document storage technology that can help FIs better manage customer documentation.

- **Global Debt Registry** - provides compliance and risk management solutions to the account management industry.

- **OutsideIQ** - enables FIs to uncover regulatory risk using a combination of machine learning and human analysis.

- **FundAmerica** - offers back office financial technology services for the crowdfunding industry. Top crowdfunding software solutions for affordability, security, fast setup and support.

- **QCR, CreditHQ and FICO** - credit risk analysis startups.

- **Avalara** - helps businesses of all sizes achieve compliance with transactional taxes, including VAT, sales tax, excise tax, communications tax, and other tax types.

- **VATBox** – a global cloud-based provider of automated VAT recovery and governance solutions.

- **Sybenetix** - provides Market Surveillance and Compliance Monitoring software for banks, asset managers, hedge funds, exchanges and regulators.

- **Auvenir** - a Deloitte venture, cloud-based auditing technologies. It seamlessly integrates advanced

technology to enhance the financial audit workflow, improving efficiencies and communications for auditors and their clients.

- **Trustev** - a global provider of digital verification technology. The start-up verifies the identity of online shoppers by generating a digital fingerprint through various social media accounts.

- **Encompass** – software, which enables AML /KYC checks and initial client screening to be completed up to 10 times faster and with significantly lower costs. Startup takes international data feeds from 14 information providers including public data such as Companies House and the Land Registry in the UK to global information providers on Politically Exposed Persons (PEPs).

***The list is not intended to be exhaustive and aims to provide some examples on how different technologies can be applied to Regtech field.**

Source: Finovate Blog, The Fintech Times