

RegTech: The necessary innovation in the regulatory compliance space



Overview

Ever since the Global financial crisis occurred in 2008, there has been a major ask for strict regulation across the processes/workflows in the finance world. To meet the compliance, regulators demand the insights into the minute details of the data. With accurate Analytics, risk prevention is the immediate need of the hour.

These demands have led to an emerging space called RegTech, where several new companies have come up. RegTech has reaped its attention within the FinTech ecosystem, thus igniting interest from major regulators, central banks, other traditional risks, and regulatory consultancy firms. As of now, UK's Financial Conduct Authority (FCA) and IIF have taken initiatives to prioritize the interactions/relations between regulators and financial entities by emphasizing the key role played by RegTech in any financial system.

Introduction to RegTech

"RegTech- The tech space which employs newer technologies to provide solution(s) to regulatory and compliance requirements in better ways (speed, automation) thus being overall very effective".

It plays an important role in automating the compliance tasks and reducing the corresponding operational risks. Also, the Analytics part can come out with real-time alerts on violations and obligations thus managing the overall compliance risks.

Any business unit in which regulation and compliance have a say is an opportunity to explore RegTech solutions. Be it in finance/insurance/real-estate/high-tech (AI, Robots) tax regulatory bodies, international accounting standards, regulatory reporting, and liquidity risk management. Anti-money laundering and combating the financing of terrorism (AML/CFT) regulations is an area with strong regulatory requirements too, as are advisory services and investor protection.

Thus, RegTech is an awesome tech space that provides dynamism, faster resolutions, increased integration, and analytics.



RegTech Trends and Benefits

Trends

RegTech is an emerging trend and there is neither a closed definition nor a record of accomplishment to confirm its potential benefits. Currently, companies in this tech space are focusing mainly on three areas:

- Modeling and forecasting
- Identity validation and
- Real-time monitoring and behavioral analytics

Benefits

- Big data mining
- Compliance/Risk evaluation apps for a Real-time scenarios
- Analytics related to Biometrics and social media analysis such as Know Your Customer (KYC) tools for AML/CFT compliance
- Readymade Accounting and compliance applications that interact directly with regulatory reporting systems
- Predictive modeling, which looks to identify patterns of activity, such as unusual use of communications, non-routine patterns of leaving the office, non-completion of training, or missing mandatory leave, which may flag potential conduct concerns
- Open platforms and networks for sharing of data, format standards and common processes
- More secure and faster processes followed by financial industry due to improvements in cryptography
- Identifying new regulations applying to a financial institution, interpreting their implications and allocating the different compliance obligations to the responsible units across the organization is currently a labor-intensive and complex process, which could be enhanced through automated interpretation of regulations



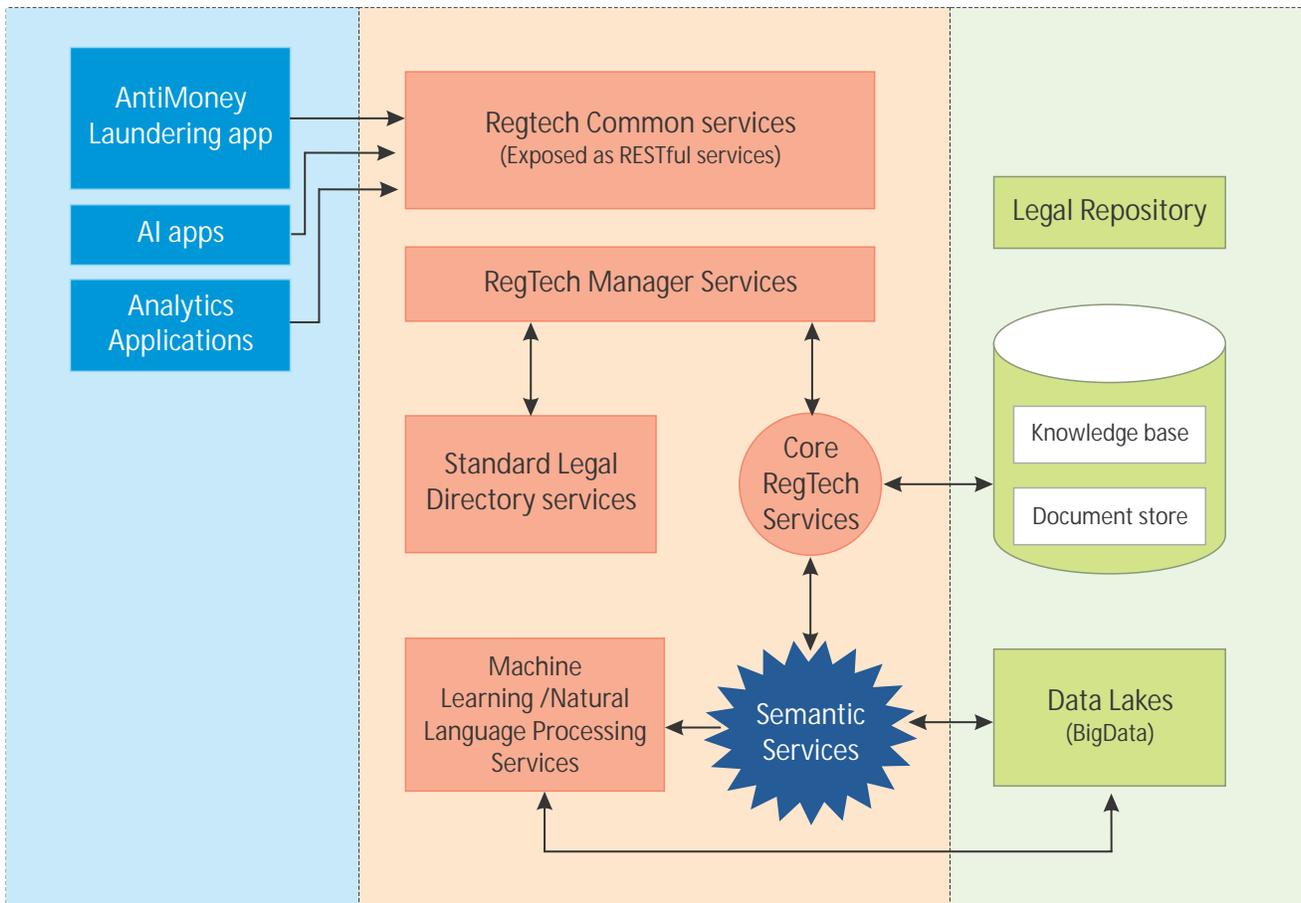
Where Does RegTech Work Best?

While the growth of RegTech is promising, is it a panacea for all compliance challenges?

Unfortunately the answer is probably no given the importance of subjectivity and the numerous other factors that must be considered in managing these risks. Where we have seen it work well however includes heavily quant based obligations, information based obligations and risk identification and management tools including:



A typical process flow of a RegTech solution



Standard legal directory services

Standard legal directory services are specific to a country/region.

Semantic Services

Semantic Services act as the heart of Regtech services that offer ontology of regulatory monitoring and semantic intelligence.

Ontology

An ontology comprises of various concepts and groupings in a domain that shows their properties and the relations between them. It is the first step for building a semantic regulatory system.

Semantic intelligence

Semantic intelligence focuses on the relationship between signifiers like words, phrases, signs, and symbols; and most importantly on what they stand for.

Knowledge base

Knowledge base is a repository of all the legal documents, experts, NLP texts, RDFs (Resource description Framework) etc.

Document store

Document store consists of refined large set of legal documents that are readily accessible. (Ex: XML DB like Legal XML)

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