Change is in the air. Following years in which the focus in the financial services industry has been on cost containment and managing the impact of new regulations, firms are now turning their attention back to strategic growth. Acquisitions and new product development initiatives are once again priorities, while a renewed focus on customer service delivery and client acquisition are set to fuel renewed growth strategies. Yet, as the environment continues its rapid pace of change, effective management of ongoing regulatory impacts and reducing compliance costs remain top-of-mind. In many cases, organizations are looking to regulatory technology (regtech) to help meet these disparate business goals.

While software solutions have long been used to address regulatory requirements, rising compliance costs due to the new regulations implemented over the past 8 years have driven the industry to seek newer, more powerful solutions. “In recent years, we have seen the cost of regulatory compliance increase steeply,” says John Ivanoski, Global Lead of Regtech at KPMG International. “Current estimates put compliance spend at more than US$70 billion in the US alone — and that number will only increase. The industry has to respond.”
Enter regtech. Whereas previous technologies delivered according to specified requirements, agility is at the heart of regtech solutions. This means that not only are regtech solutions able to adapt to the needs of an ever-changing regulatory environment, the technologies, once integrated into a business’ processes, are able to deliver against a broader range of business challenges. For example, the robotics process automation (RPA) that provides the capability to deliver real-time compliance and automated reporting can also provide the agility needed to help respond to competitive pressures in the marketplace, deliver a better customer experience and achieve greater consumer protection.

As a result, regtech is uniquely positioned to assist companies to not only control costs and manage regulatory requirements, but also to address other critical areas that can help improve customer service, develop new offerings and achieve greater competitive differentiation.

**Making the most of business data**

One area where regtech is well positioned to help accelerate growth goals is in drawing meaningful, actionable information from masses of data. The financial services industry has long looked for more efficient and effective ways to achieve full value from ‘big data’, such as customer information, risk and financial data, operational information, and more. However, despite the considerable value that can be gleaned from these sources, the safe and practical use, storage and management of this data has long been a challenge. Additional risks from possible cyber attacks, non-compliance with regulatory obligations, and the impact of human bias in data management have further hindered such efforts.

Regtech solutions take another approach: instead of a ‘big data’ mind-set, regtech promotes ‘smart data’. By using new technologies such as cognitive computing and machine learning, regtech solutions can more effectively structure and find meaningful patterns in the volumes of accessible data. Significant impacts in this area include the ability to gain better insights into regulatory practices, automating complex reporting, conducting meaningful analyses of critical compliance risk areas, and creating an end-to-end view of compliance, reporting and data.

However, once enabled, the benefits of using a cognitive system in business processes reach far beyond regulatory compliance and reporting. With the cognitive technologies used to process both the structured and unstructured data (such as the contents of proprietary systems and shared information from online sources, customers and the Internet of Things), financial services firms are better enabled to ‘unlock’ the vast potential inherent in their data stores. For example, firms can perform more detailed and effective customer and counterparty credit analyses and underwriting of small business loans.

Provided that data security and cyber attack countermeasures are kept as priorities, there is also considerable potential in this area to use this data and the patterns it holds to achieve greater competitive advantage. “The quality of the information used as a foundation for business decisions is a critical concern for today’s CEOs,” says John Ivanoski. “With a cognitive system to find and confirm meaningful patterns in an ocean of data, CEOs can be confident in the validity of actionable information and respond more swiftly to market changes and opportunities.” Businesses are already taking note. Current research shows that 85 percent of CEOs recognize the importance of integrating automated business processes with artificial intelligence (AI) and cognitive processes.

**Regtech supporting innovation**

Many discussions of the importance of regtech focus on its ability to answer immediate business needs, drive operational efficiencies and reduce costs in regulatory compliance and risk management. Regtech firms, regulators and financial services firms alike are focused on finding ways to use new and evolving technologies to solve regulatory challenges; and areas such as regulatory compliance transformation, automation of complex reporting, risk monitoring and analytics, and automation of risk management are obvious points of focus. However, the implications and benefits of the technologies harnessed by regtech goes far beyond regulatory applications.

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— John Ivanoski
The costs associated with the implementation and use of such technologies should not be applied only against time/cost savings and risk reduction from regulatory compliance, but also to the other benefits achieved through technological advances across the business.

A few key impact areas might include:

— **Enhancing the customer experience.** As customer experience is an increasingly critical component to attracting and retaining customers, as well as in deepening the customer relationship, regtech solutions are offering additional capabilities to help on this front. Technology such as natural language and robotics processing, used in automating core business processes, can be used to deliver real-time customer service interactions; while automated fraud prevention and detection, consumer protection laws, anti-money laundering and know your customer (KYC) can reduce customer wait times.

— **Reducing head count spend.** Through automation of key functions, financial services firms can not only improve compliance through the reduction in human error and bias in fundamental processes, but also reduce compliance-related head count spend. Firms can then reallocate compliance resources or use fewer, more highly skilled resources to analyze and use critical judgment to assess the outputs of machine reporting.

— **Reducing reliance on third-party service providers.** Automation of customer service and back-office automation to address customer needs can, in turn, further address risk by reducing reliance on low-cost outsourced service providers. This means that, in addition to delivering a more consistent, on-brand customer experience, firms can manage and reduce security risks and other vulnerabilities stemming from use of third-party service firms.

— **Transforming labor strategies.** Use of digital labor solutions to onshore functions allows for significant transformation in enterprise labor strategies, which can not only potentially reduce sourcing cost but also mitigate sourcing risk. For example, global firms impacted by the UK’s Brexit vote might leverage digital labor solutions to provide relief to more restrictive passporting rights, while US firms might use these solutions to enable rapid implementation of components of the new administration’s proposed corporate income tax reform.

**Taking next steps**

As with the integration of any technology, care and foresight is required to understand the optimal path forward. When exploring which regtech solutions or service providers provide a best fit for business needs, financial services firms should consider the following:

1. **Assess current state.** Review the legacy, current and emerging technologies already at use within the firm, and understand any limitations. Give special attention to critical interdependencies across the three lines of defense.
2. Understand your options. Firms have the option to build, buy or partner with an external regtech or fintech provider in order to meet specified needs. Existing partnerships can be beneficial, but be sure not to limit options early on. Also be aware of the rapidly changing pace of the market — new options are emerging all the time.

3. Look for immediate wins. Many regtech solutions can be quickly implemented into current systems. This provides the power to swiftly target specific challenges, whether in an end-to-end process or at identified points in the value chain.

4. Assess and address additional risk factors. Any process transformation — especially one that involves technology — can open the door to unintended risks or exacerbate existing points of weakness. As such, firms must not only review risk factors such as data- and cyber-security measures and algorithmic biases, but also assess risks associated with the change process itself. Firms should embed risk and compliance frameworks up front in the design phase of regtech initiatives, and revisit their effectiveness throughout the program life cycle.

The benefits that regtech can bring are clear: not only can these technologies help streamline, simplify and optimize the business processes required to meet regulatory standards and reduce associated costs, but they can also provide critical support for business growth, improve customer service delivery and help accelerate speed to market. As a result, financial services organizations that embrace these technologies now may be uniquely positioned to gain competitive advantage in the years to come.

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