

# REACHING OUT FOR REGTECH

REGTECH — AIMED AT STREAMLINING AND IMPROVING REGULATORY PROCESSES — IS ON THE RISE, ALONG WITH A REQUIREMENT FOR ORGANISATIONS TO BALANCE THEIR ASSOCIATED RISKS WITH THE DANGERS OF STANDING STILL



Words:  
**Alexa Robertson**

**WHEN IT COMES** to regulation, we're living in a 'more' time. More requirements. More in-depth screening. More verification processes. All across more interactions with more third-party institutions.

The increased regulatory pressure on organisations, along with the catalyst of Covid-19, is leading many to overhaul their processes and streamline customer experience through the use of technology.

But, as is often the case during any time of transition, making the shift to regtech can be daunting, particularly for smaller businesses or those less experienced in implementing new technologies.

For Stephane Gimenez, Founder and CEO of Jersey-based fintech start-up MYCDD, embracing the opportunity of regtech is vital to ensure organisations don't miss out on connecting with new customers — given the requirements being placed on businesses.

"More and more individuals are having more engagements with third-party financial institutions — lawyers, banks, accountants and such," he says.

"Everybody needs KYC (Know Your Customer) documents. Regardless of where an organisation is based in the world, it has to share those documents so many times during the onboarding process that it's pushing businesses away from our jurisdiction towards easier jurisdictions."

Gimenez continues: "There is also an increasing number of documents required, which means multiplying those processes by the number of businesses that need those documents.

"Furthermore, each of those establishments has to review and renew those documents on a regular basis. Every time an individual or organisation re-engages for a new piece of work, it has to submit these documents over and over."

It's an outdated process, says Gimenez, given the increase in regulation.

"The process has been around for 20 to 30 years but has got more and more complicated because of anti-money laundering, the risks associated and what we constantly hear about in the news," he says. "The requirements are continuing to grow,

and many businesses are now essentially relying on manual labour – picking up the phone or sending an email – to request those documents. The effort and resource that requires can be huge.”

#### COMMON SENSE APPROACH

Incorporating regtech to reduce the cost of this activity is basically common sense, according to Richard Field, Partner in the dispute resolution team at Appleby and a member of the Digital Guernsey Panel.

“Regulatory compliance has long been seen as a ‘cost of doing business’ – a necessary but expanding list of requirements, all of which require training, investment and, significantly, time,” he says.

“In terms of whether such costs – and time – can be minimised, while maintaining high standards of compliance, then technology clearly has a role to play. It can also help reduce elements of human error, which in the case of repetitive, mundane tasks makes common sense.

Field continues: “The ability to leverage machine learning and artificial

intelligence (AI), or just simply automate processes, means the more complex tasks can be reserved for the experienced compliance professionals, enabling them to focus on the more technical areas of risk mitigation or compliance as opposed to the low-value, repetitive tasks.

“The ability to sift, analyse and extract relevant data is also crucial in a world where we are swamped with information. Ensuring you are risk-screening the correct individual for sanctions purposes, for example, is fundamental.”

Gimenez gives an example of ‘cleaning up’ the KYC status of a number of businesses that had been acquired across two jurisdictions by a company he was working with.

“We had to go through in excess of 50,000 individuals in less than a year to get all the documentation we needed,” he says. “It took 18 months and the cost to the firm

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was astronomical. Anyone would think that's a one-off exercise, but it's not really because all these 50,000 individuals will all be reviewed at some point in time. So those spikes of KYC happen on top of day-to-day work, which completely disrupts normal working efforts."

**GREAT EXPECTATIONS**

As well as increasing efficiencies, tapping into the benefits of regtech is essential for ensuring Channel Islands-based organisations keep up with the increased digital literacy and expectations of new and existing customers.

"It's going to depend on the nature of the business, but there is an obvious risk – organisations that fail to prioritise [the shift to regtech] could be left behind," says Sandra Lawrence, Executive Director, Collas Crill Compliance.

"One of the things that's happened post-Covid is clients have noticed that firms can use regtech if they want to, so there is a client-driven demand out there where organisations are increasingly expected to provide that as part of their service."

Richard Field agrees that clients are becoming increasingly sophisticated and requiring higher levels of service without any compromise on quality or cost.

"They are also much more used to 'on-demand' service in their daily life now, whether it be streaming movies, accessing

weather, shopping, music or financial data, or ordering items online.

"Rightly or wrongly, this is driving a higher level of expectation," he says. "This necessitates investment in technical solutions to increase response times and accuracy of data, and reduce the human cost of regulatory compliance."

**BALANCING THE RISKS**

Streamlining onboarding processes through the integration of technology is not, of course, without risk. "The risks associated with getting it wrong – whether civil

or criminal sanctions in the context of AML/CFT sanctions issues, or late filing of returns from a corporate governance perspective – are increasing," says Field.

"The time and cost involved in rectifying issues is also significant. In a market where D&O insurance is harder to come by, and often prohibitively expensive, prevention is far better than cure."

Sandra Lawrence believes it's also vital to ensure that data protection processes are prioritised when planning the implementation of any new technology.

"So many firms forget to even think about data protection at the very beginning," she says. "I would urge all organisations to keep this front of mind, right from the proof-of-concept stage of the solution they are considering, and all the way through the process.

"It's all well and good having a great system, but if you're breaching data protection laws, that's obviously going to be counter-productive."



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**HOW TO MAKE THE MOVE**

So, how can organisations that are ready to make the shift to regtech choose the right solution for their business model? And which solutions are proving the most effective for the early adopters?

In the finance industry, the initial focus has been on identity management and customer onboarding, says Field, which are often the highest 'compliance costs' in the sector.

"Juxtaposing what can be a lengthy and complex process with what can be a short and low-value engagement is a difficult task to manage," he says.

"We've also seen tools in use for regulatory reporting, transaction monitoring and wider risk management and compliance.

"Quite often, the use of a digital portal, where information is centrally deposited or accessed, can reduce the risk of using outdated documents."

Scott Nelson, Director for Trust and Corporate Services at Fairway Group and a member of the Jersey Finance Digital Assets Working Group, says that despite all these challenges, there are ways of phasing in regtech so organisations aren't overwhelmed by the transition.

"The natural way into it would be to start with the electronic identity verifications and address locator technologies, so that when organisations are collecting data up front from clients, it's all digital and the process is seamless," he says. "When customers then come to refresh



these during the lifecycle of these processes, that can be done digitally as well. This can sit alongside the screening software that everyone's already using.

"The Fairway Group is taking the fairly bold step in the new year of moving to a fully digital onboarding process. Everything will be accessed via a portal that will be underpinned by regulatory technology, and that's how we will collect all the necessary data for client onboarding."

Many of the most successful systems, says Sandra Lawrence, are based on a triage model that balances automation with the requirement for a human touch.

"The systems that really work well incorporate hybrid business indicators that come up as part of the onboarding process for new businesses," she explains. "If enough of these are triggered, the technology flags that a human is required to get involved.

"That seems to work best because there are always going to be processes in that relationship where you need a human brain to review, on a case-by-case basis, how the firm should proceed."

### FEAR OF THE UNKNOWN

While the arguments for embracing regtech are plentiful, concerns about the unknown and the reliance on processes that have often been around for decades are some of the main barriers to change.

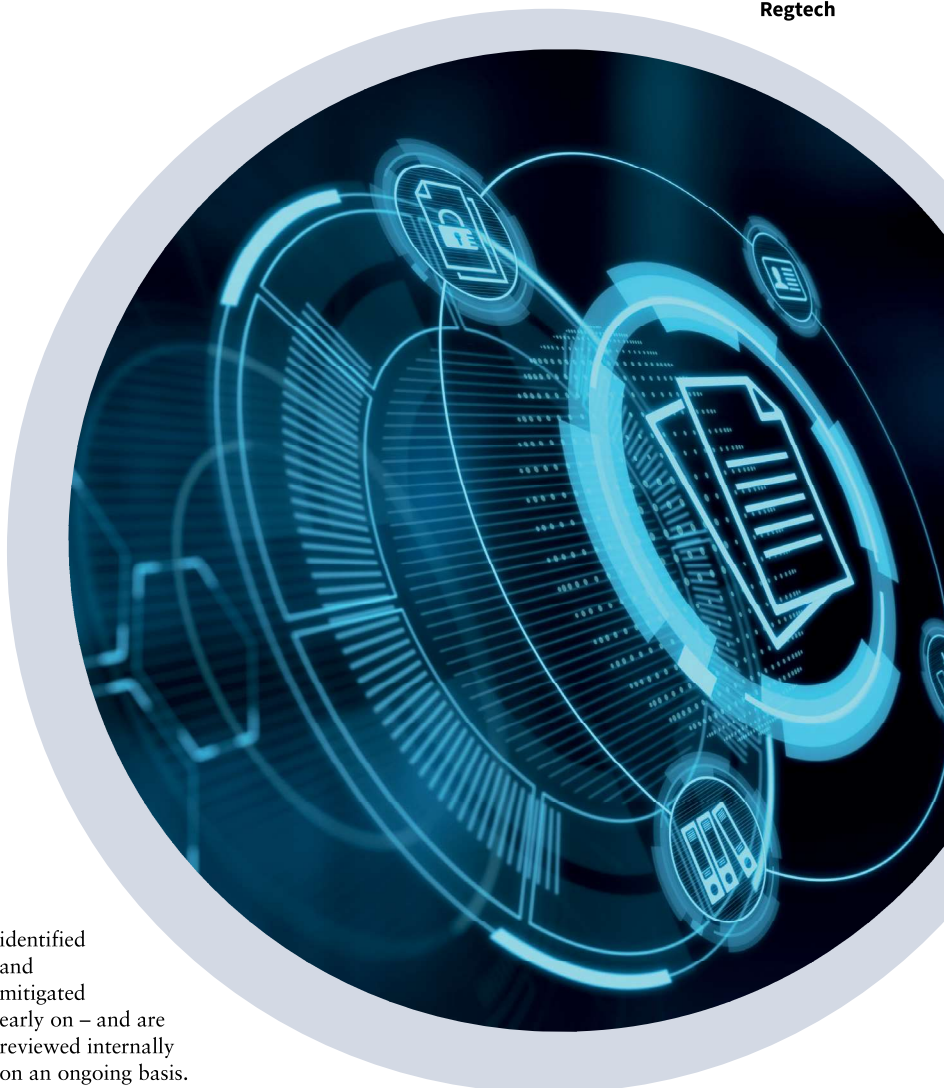
"There can be a big fear of the unknown around new technology," says Lawrence. "Firms have to really consider the key advantages of using regtech – how much time it could save on current processes in the long term, for example, and how it could benefit the organisation financially.

"Businesses should treat it like any other system. Data protection and cyber security are vital, so organisations need to make sure these kinds of risks have been

identified and mitigated early on – and are reviewed internally on an ongoing basis.

"You must ensure the system continues to work for you as a business," she adds.

"Once the door is open to it, I think people will start looking towards new systems of regtech and how they can further improve their business processes in the future," concludes Nelson. "It's a really exciting time." ■



## DIGITAL FINANCE INNOVATION

Innovations in technology are increasingly helping to support businesses on the road to recovery, as well as the day-to-day businesses in today's digital society.

KPMG has recently formed a partnership with The ID Register to bring a full suite of onboarding and advisory services to Channel Islands clients.

"As well as the private markets, we work in liquidation or bank failure situations, where we are able to build an online portal through which customers can submit claims electronically," says Linda Johnson, Advisory Partner at KPMG.

"The system can separate valid and non-valid claims by matching up information held on file against the information submitted within the claim.

"Due diligence is submitted electronically, which can then be compared with a database of individuals and/or corporations

with an elevated level of risk. This helps to manage financial, regulatory and reputational risk.

"Once the validity of both the claim and the claimant has been established and is deemed to be at an acceptable level of risk, a payment in full or in part can be made to the claimant's bank account."

Tim Andrews, Founder of The ID Register, based in Guernsey, says working with a regulated firm helps to ease the burden of implementing new technology.

To ensure that the technologies are adopted successfully, he says, firms should address the following key factors:

- Governance, testing and ongoing monitoring
- Data quality and existing processes
- Knowledge and skills of staff
- Operational resilience and controls.