A series of short articles, sharing insights from four experienced RegTech practitioners
Welcome!

With one regulatory change occurring every twelve minutes on average in financial services, demand for a more digital, joined-up approach, which enables regulated financial institutions to manage regulatory intelligence and regulatory change more effectively, has never been higher.

Increasingly, senior executives are looking to Regulatory Technology (RegTech) to address the monumental compliance challenge that has arisen as a result of digital transformation, heightened focus on data privacy and security, increased surveillance around AML, KYC and cybersecurity, and the permanent global sea change in regulation.

This e-book shares the thoughts of some of CUBE’s Management Team around the RegTech outlook for 2019, what’s driving the digital approach to compliance transformation, new challenges relating to the governance of information assets, and some perspectives on the demand for talent in this new era of AI!

Enjoy reading, and don’t hesitate to reach out to any of the authors to learn more.

Ben Richmond
Founder and CEO

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7 Reasons why 2019 will be a Pivotal Year for RegTech

A huge market and a vast opportunity landscape are setting the stage for 2019 – the year of the RegTech revolution (yes really!). But success will only come for those able to gain traction and trust in the marketplace. RegTechs will need to be purposeful if they are to thrive and prosper over the long term.

Here are my predictions for the coming year.

#1 – The C-suite will recognize the compliance automation opportunity

For RegTech, it is all about the opportunity to automate regulatory risk and compliance processes, which is huge. For that to be realized, financial services executives need to get on board and make big strategic decisions around RegTech. The fact of the matter is that current manual and legacy approaches to regulatory compliance and risk are not sustainable, given the pace and cost of regulatory change. We’re fast-approaching $400 billion in enforcement fines since 2008, and many banks are spending 10-20% of operating costs keeping the right side of the Regulator. Regulatory compliance and risk processes are ripe for automation that leverages AI robotic process automation (RPA). And RPA is, to me, where there’s an immense opportunity to drive really deep insight and analytics, to keep on top of regulatory obligations and to ensure they are acted upon. 2019 will see the C-suite recognize that there are more intelligent ways to digitize compliance automation; ways that properly integrate with a bank’s own systems and processes. Doing that well eliminates huge amounts of cost and redundant manual processing. It also significantly mitigates risk and that, to me, is a major opportunity.

#2 – Collaborations and partnerships will be rife

Financial institutions are not looking to build in-house solutions to solve their regulatory problems. For RegTech, they just want a cost-cutting, low-maintenance, process-efficient solution to get regulatory change management under control. Unlike FinTech, which tends to address front-end, consumer-facing challenges, RegTech is a very different non-confrontational proposition.

#3 – Early pioneers will stride ahead, because size matters

While demand for RegTech is growing, there are only so many Tier 1 banks to sell enterprise-wide RegTech to – and banks always like to work with proven, low-risk, established providers. So, the RegTechs who carved an early foothold and made a name for themselves with fully-capable production deployments (not only proofs of concept), the ones that got traction and started to build credibility, are clearly going to be the successful ones. It’s not a feature-function competition issue, it’s more about who is best positioned to get a seat at the table to talk to senior-level buyers and influencers.

And although there are also big Tier 2 and 3 segments, they are at an earlier stage of RegTech adoption. For many small or newly-formed RegTechs, cash may run out before they are able to get the traction they need in the market. Whether that’s because they didn’t win enough customers and drive revenues, or they underestimated the financial backing required to stay the course, they may be less able to meet new opportunities going forward.

This bodes well for the RegTech industry because we can seek to collaborate and partner with financial institutions to solve their issues. We’re not a threat to their business; we’re their regulatory compliance problem solver.

Early RegTech pioneers are proving that there is a market, and an appetite for financial institutions to buy. RegTech start-ups are still entering, and overall RegTech is a growth market. In 2019 I predict that we will see some small providers experience very real challenges due to the dynamics of the market, including the lengthy nature of financial services procurement processes, demanding technological specifications, and funding requirements. Some will remain too small, for too long, for a bank to do business with. We’ll see a good deal of collaboration and partnerships, as point-solution providers strive to reformulate their offerings into a broader capability suite, to compete with the RegTech platform providers who are achieving the greatest traction right now.
#4 – Managing regulatory complexity and change will be mission-critical

Brexit aside, there can be few challenges more complex for financial services firms to address than regulatory compliance. And the RegTech market itself is both complex and expansive. While there is great promise, actually being able to deliver an enterprise-class capability is the mandate. There are countless RegTechs courting buyers of AML and KYC solutions – there are some great ideas, lots of great tech and effective tools in the market, many already proven out on a global scale. But instead of scratching the tip of the iceberg, I believe that game-changing differentiation will be established around the whole process of being able to normalize the broad-scale world of regulation, and to understand it – through compliance digitization, the building out of smart-process automations, and the delivery of deep insight.

Ultimately, regulatory compliance is mission-critical, and you can’t afford to get it wrong. The financial impact is pervasive. Failure to perform results in crippling enforcement fines, damaged reputation, lost customers and revenues, and depressed stock values. The most effective damage limitation strategy is to leverage cognitive technologies (AI, and so on) to manage regulatory change at enterprise scale, and to view life as a three-way partnership between your financial institution, your RegTech provider and the Regulators.

#5 – Getting friendly with the Regulator is key

To manage regulatory compliance and regulatory change successfully, everyone has a role to play in joining the dots between what a bank needs to achieve, the outcome the regulator is looking for, and what a RegTech provider can actually deliver. The FCA in the UK has led the charge, setting up the Financial Innovation Network (which now has 11 active regulator members globally), and creating collaborative initiatives including global sandboxes, Tech Sprints and consultations, designed to shape the future of digital regulation and accelerate the adoption of RegTech solutions.

There is a long way to go, but this is a huge step in the right direction. All stakeholders should make it their New Year’s Resolution to get involved in 2019.

#6 – The Regulators will lead by example and embrace SupTech

Off the back of that three-way relationship will come ‘SupTech’ – the inspirational yet logical concept of supervisory agencies using innovative technology to digitize reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance by financial institutions. RegTech providers are closely monitoring SupTech; if we fill banks with intelligent compliance automation, regulators will need to keep one step ahead technologically, or they will be less able to perform their supervisory role as effectively.

#7 – Trust will remain King!

The majority of post-2008 regulation was spawned out of an urgency for consumer protection, and to reinstate trust in the bank-consumer relationship – possibly the most important reason to ensure compliance! But that need for trust extends to the bank-RegTech provider relationship too. Because the stakes (and penalties) are so high for banks, and the role RegTechs play is of mission-critical importance, we have to deliver in every instance. We have a duty of care to everyone in the financial services food chain to deliver, and we have to be fully confident in that.

Ultimately, my prediction is that what we do at CUBE will help all of us sleep better at night. By ensuring that regulation is monitored and managed effectively, our money and other financial affairs will be better cared for, and the supervisors we rely on will be better able to check – it’s a win-win situation.
Never-ending regulation combined with an increasingly complex regulatory overlap have made life tough for banks in recent times.

The statistics are brutal – close to $400 billion in enforcement fines since 2008, up to 10% of revenues consumed by compliance, amounting to upwards of one billion dollars spent annually on compliance by some of the world’s biggest financial institutions. These numbers alone are driving change.

Both regulators and chief compliance officers now know that current approaches to regulatory compliance and risk are not sustainable and that a digitized approach that embraces new and innovative technologies is now needed.

Aging systems and manual process are just not cutting it

An Ernst &Young report, ‘How digitization is strengthening compliance and anti-fraud programs,’ summarizes this well: “Traditional compliance and fraud prevention programs are built on four-eyes principles, management oversight, and sign-offs. Add that to occasional, often inconsistent audits and the resulting systems fall short of meeting these new challenges. They are simply too slow, too ineffective, and too expensive,” it says.

Financial institutions now realize that the pace of change is not abating and that only a holistic approach will do. The days of being able to deploy a series of point solutions that deal with a single regulation are long gone. The sheer volume and complexity of regulation, especially when dealing with regulation across multiple jurisdictions or regulation that transcends borders, is such that to even contemplate tackling it manually moving forward is, at best, risky.

So, what should compliance officers look for?

The answer is to seek out a more joined-up, technology-enabled approach; one that provides the means to gain enterprise-wide oversight, maps the regulatory universe onto business operations, gives visibility into whether an institution is meeting compliance obligations, whether its policies are distributed appropriately across all jurisdictions and lines of business, and whether compliance processes are being executed effectively.

Not only does this kind of approach deliver operational efficiency in spades, but it also serves to quieten fears over reputational risk.

Indeed, reputational risk is now a fundamental concern as it is a threat to revenues – customer acquisition, retention, and share price. A recent Burnmark/CUBE poll run during our ‘RegTech for Information Governance’ webinar found that 60% of financial institutions fear reputational risk, and 30% enforcement fines, when asked what they consider to be the greatest financial impact of non-compliance. I am sure even just a few years ago the results would have been very different! The biggest fears in relation to information assets compliance are limitations of current technology and being unable to evidence compliance to the regulator (both 36%).

RegTech is the only way to address all these challenges, allowing for scale, depth and reach that has never previously been imagined. Banks know this and are supporting change from the top down.

Senior management is realizing the opportunity to leverage technology for ‘compliance transformation’, a back-office function historically at the bottom of the pile for tech-spend. Compliance officers should be looking for senior-level support, which is both vital and is, happily, beginning to happen. Compliance as a culture is also essential and is actually happening. Spending on RegTech proves it!

A report by Accenture, ‘2018 Compliance risk study: financial services,’ says that backing technology transformation is the top spending priority for respondents, both over the next 12 months (57%) and within the next three years (51%). This is the result of compliance moving towards deploying technology, to support and improve the effectiveness of their people to fulfil its mandate.

Within this change is cultural evolution, a key requirement for attracting and retaining the right people. Job titles specifically charged with implementing RegTech and driving regulatory change management initiatives have started to appear on a regular basis.
Collaboration is the key to RegTech success

Central to compliance digitization is the willingness to work with RegTechs to effect positive progression. Financial institutions are acknowledging the need for external help to solve these issues. They are gaining a real understanding of what Artificial Intelligence (AI), and associated tools including Machine Learning (ML) and Natural Language Processing (NLP), can do to help – but they know this is something they would be hard pushed to do themselves.

The pace of progress in AI technology is startling, now providing the opportunity to deliver smart insights and automated, cognitive decision-making, at enterprise scale. Robotic process automation is also delivering operational efficiency for compliance at a level previously unimaginable, and the ability to generate a defensible audit trail is the icing on the cake. The technology can be applied holistically and mapped over the whole business, and increased use of open API architectures is allowing previously isolated silos to be joined up, so that information is able to flow where it needs to, without delay.

The same kind of technology also appeals to the regulator and a new case use, Supervisory Technology (SupTech), is coming to the fore. Like the banks, regulators need a joined-up digitized approach too. They need to get a better grip on the intended and unintended consequences of any new regulation, and they need to make it easier for financial institutions to comply.

The UK’s Financial Conduct Authority (FCA), for one, is now actively looking to technology for answers. The regulator is looking to see how their handbook can become more easily accessible by making it machine readable, and thus giving it a level of automated interpretation. This means banks can understand their obligations and report back more easily and uniformly, with automated support. Along with an open API network it will be easier for the FCA to ingest data from many regulated entities and analyze it to identify market trends or areas that need change.

A second use for the regulator is being able to model the impact of any proposed changes before they go out to consultation. This involves the technology being able to machine read the proposal, to understand the sentiment and then map that onto different types of organizations and business lines, to simulate the likely impact of what is to be proposed.

This compliance transformation via a digitized holistic approach means that a bank and regulator alike can have a visible and actionable understanding of regulatory impact over all business lines, products, policies and controls, before or as soon as it happens.

In short then, what is now needed is the whole picture. Having reach and depth of regulatory intelligence is crucial and allows for granular understanding of regulatory impact on all lines of business and jurisdictions, so chief compliance officers can take the right actions to avoid non-compliance and penalties. If we can see the entire compliance universe and understand how that relates to the financial institution as whole, then everyone has greater control.

Not just a nice to have – a need to have.
The need to properly guard and govern information is a given, as are the challenges of doing so. But the volume of data and the regulation surrounding it have combined to up the ante to fever pitch in the past few years.

The main thrust of financial regulation in the past has been towards proper audit and record keeping, being able to demonstrate to the regulator that the proper process has been followed, with adequate controls and safeguards in place. Previously, the need was simply to know how records were stored, where and in which format, and to have a secure process regarding access and retention.

But the past ten years have seen a sea change in regulation that touches all areas, and in many cases overlaps; privacy, cybersecurity, AML, and data protection – you name it – there’s a regulation for it. Regulation that deals comprehensively with data security and privacy, including GDPR and the California Privacy Act, has focused the compliance lens on the need to collect and store data appropriately, alongside the requirement to prove that no personal data or records are retained for longer than the regulatory requirement – which is a huge step change for records managers.

In addition, there is the need to be compliant across many jurisdictions – each with their own rules. Records containing personal data must be protected in transit as well as at rest in the archive.

The governance of information assets has never been so granular, or so closely scrutinized. Without proper processes there is a risk that by solving one problem a bank unintentionally ends up creating another. This goes around in circles until the robbing Peter to pay Paul approach falls over in front of the regulator – at which point the risk of fines and reputational damage becomes very real indeed.

Banks know they need to act. Infogov basics puts the risk of not managing information succinctly: “Poor information management and non-compliance carry heavy penalties and can lead to lost business and reputation, financial penalties and even prison sentences,” it says.

“The challenge for Financial Services organizations is how to effectively govern collaboration across a global and distributed environment, in a world of extensive and rapidly expanding regulations,” it adds.

As well as the risk, the cost of this regulatory fragmentation is immense. The sheer effort and resource that is required to keep on top of such a granular, interconnected and infinite task can be debilitating. No wonder that banks are looking for new ways to achieve operational efficiencies and govern information assets more effectively.

PwC addresses this within its governance, risk and control frameworks provision. It says: “Today’s compliance risk management requires more-responsive and more-predictive processes and monitoring, frequent updates to policies, and high levels of efficiency in order to manage costs while expanding risk coverage. Without a strong technological underpinning to help compliance functions operate in real time, all of these requirements are challenging, if not impossible, to meet.”

A comprehensive 2018 research report by Burnmark ‘RegTech for Information Governance’ summarizes the issue: “Digitization has changed this entire industry. Records, especially those with regulatory significance, have become critical information assets containing valuable personal data that must be protected and governed with care, under the watchful eyes of regulators and legislators,” it says.

The need to properly guard & govern information is a given, as are the challenges of doing so. But the volume of data & the regulation surrounding it have combined to up the ante to fever pitch in the past few years http://bit.ly/2LnRM1O #RegTech #InformationGovernance
“The hidden costs of not managing information governance effectively and ethically have risen in an unprecedented way in the past couple of years. Technology is the answer to a lot of the problems caused by legacy,” concludes Burnmark Research Director, Devie Mohan.

Creation of comprehensive and supportive governance, risk and control frameworks should now be a top priority for all organizations.

Where should you start?

Three categories of information assets are ideally suited to technology-enabled governance, because obligations relating to them have become intertwined due to heightened focus on records, data, privacy and security.

1. **Know your records** – focusing primarily on records management, including records retention and disposition obligations

2. **Privacy and security** – ensuring that personal data is managed compliantly, and that policies for collection, handling and cross-border transfer are administered effectively

3. **Electronic communications** – ensuring that communications exchanged electronically are recorded, retained and administered in accordance with regulatory obligations, regardless of the channel used

What is in place for governing these information assets today is not working.

Returning to the Burnmark research survey, 60% of respondents think legacy systems are not capable of handling the complexity of regulations. 50% said new regulations around data are an issue and 30% said specifically that regulation around privacy poses a challenge. 80% see automation of processes around governance as a high priority in the short term, while 70% see it as a priority in the long term too. 60% see better technology as a high priority, in both the short and long term.

The figures are compelling. To support information governance, financial institutions need to invest in a modern data-driven compliance function that can be monitored on both a vertical and horizontal level to map and maintain regulation on a holistic basis, and to manage sometimes conflicting regulation. In practical terms compliance is far more do-able when RegTech is deployed as a single platform, giving a single, consolidated view across the enterprise, as well as over the requirements of multiple jurisdictions.

Better analytics, Artificial Intelligence (AI) and other upcoming innovations all have their part to play and, as the regulatory environment has grown more complex, we are seeing that RegTech is mission-critical in information governance. And when AI and Robotic Process Automation combine, time and cost savings gained through elimination of manual tasks and the freeing up of costly human resource are vast. More effective governance of information assets also has a positive impact in terms of being able to leverage large volumes of information to increase market share, drive revenue, and maintain a competitive advantage.

In conclusion, better governance leads to risk reduction via a robust, auditable position achieved via fit-for-purpose RegTech that enables financial institutions to demonstrate that they have policies and procedures in place, and can test to see that execution is correct or fixable.
Throughout 2018 one conversation that has resonated across the sector concerns the huge shortage of talent, when it comes to attracting the right people to drive the RegTech industry forward. But small, high-growth companies can (and should) compete well against the big guns to get the right people in place and retain them. Our ‘can do’ culture enables talented people to make a visible difference, very quickly.

Scarcity of talent has arisen from the pace of technological innovation, which has accelerated rapidly over a relatively short period of time. The art of the possible has expanded and demand for innovative AI-driven solutions that feed the digital economy is now high. In fact customer demand for digitized and connected services is such that every company is now, to a greater or lesser extent, a tech company focusing on how best to harness technology to meet those demands. And the financial services industry is no exception.

Technical capability has dovetailed with a regulatory trend that opens up markets and makes the possible both do-able and desirable. AI-driven RegTech is thriving; regulatory sandboxes, innovation labs and incubators are giving start-ups traction in the market, and also helping more developed companies like CUBE to become well-established, well-regarded and attract the attention of Tier 1 customers.

But this success can only continue if we can attract and retain the right people. A recent report by Ernst & Young ‘How you can bridge the AI skills gap,’ said that 56% of senior AI professionals believe that lack of qualified AI talent is the single biggest barrier to AI implementation across business operations. At the same time a survey from O’Reilly, ‘How companies are putting AI to work through deep learning,’ agreed that the AI skills gap is the largest hindrance for AI adoption.

The crux of the problem is this: the AI skills gap means we are addressing a small pool of AI talent, fighting for the best candidates.

In engineering, AI and ML talent is often sucked up by the FANGs (Facebook, Amazon/Apple, Netflix and Google) offering massive salaries and other perks. A piece in the NYTimes recently looked at how newly qualified AI specialists in the US, with PhDs or lower qualifications and just a few years of experience, are earning $300,000 to $500,000 or more annually, in salary and stock. In addition, these tech giants have immense budgets for recruitment, far outpacing those in other spaces.

Like the FANGs, we are fostering strong links within academia, building out our networks with PhD candidates and others who have more established academic careers. Universities are the biggest employer of AI talent in the UK, and across the globe academia is a great source of AI candidates. The UK government is already funding more digital, mathematics and technical education, to increase the supply of candidates, as announced in its 2017 Industrial Strategy whitepaper. And in June 2017 US lawmakers backed H.R. 2353, the Strengthening Career and Technical Education for the 21st Century Act, allowing state-level funding for technical education programs.

Looking internationally is another approach. We know that different regions have the skills set that we need, and specialist pockets such as South America and Asia are well worth a look.

#AI-driven #RegTech is thriving; regulatory sandboxes, innovation labs & incubators are giving starts-ups traction in the market & also helping more developed companies to become well-established, well-regarded & attract the attention of Tier 1 customers
What RegTechs offer AI talent that bigger companies cannot

The answer, I believe, lies in offering a working culture that is intimate, entrepreneurial and fast-paced, where the most talented AI specialists have a real chance of making an immediate impact. RegTechs like CUBE are not constrained by hierarchy or structure; instead, we foster an empowered culture, where people have an immediate opportunity to make their mark and see the fruits of their work, developing solutions, influencing direction and delivering value to customers, straight away.

Smaller businesses also tend to be more transparent. So people within them get an enterprise-wide view and a hand in how best to drive the company forward, seeing it develop as a direct result of their efforts.

This is really pertinent, because RegTech is evolving rapidly, customer demand is at an all-time high, and firms like CUBE need people who get excited by big data challenges. It is the number one issue within financial services, and something that appeals to everyone.

Beyond that we are looking for people who thrive on rapid results and positive outcomes, which are achievable when working in an agile, ‘can do’ environment where the art of the possible becomes algorithm development and product refinement, very quickly. We look for people who can embrace the task in hand, but also want to understand the broader monetization and commercialization issues.

This sentiment is something that PwC’s ‘Responsible AI’ report captured well. It emphasizes not just the technical skills that are in demand due to the adoption of AI, but also, “the need to think differently about technology, business development, and strategic execution.”

In essence, the report says that reshaped operating models and decision-making processes are needed to underpin the entire business, rather than just the technology and innovation teams.

Happily, this direction of travel dovetails well with what CUBE has to offer. And while we are mindful of the AI skills gap, we believe that our hands-on approach and company culture provides an inherently attractive environment – for top-class candidates who like that sort of thing!
About CUBE

CUBE is a Regulatory Technology (RegTech) solution that captures financial services regulations from multiple jurisdictions, extracts regulatory obligations (rules), maps these rules onto your internal policies and procedures, and then automates the process of maintaining compliance, as regulations change.

We utilize Artificial Intelligence (AI) and Machine Learning to achieve the smartest and most efficient automation possible.

2 million staff in 180 countries, working in 60 languages, are consuming regulatory intelligence and managing regulatory change, powered by CUBE.

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Regtech For Information Governance

What?
New independent research report

Launched by?
Leading FinTech research firm Burnmark, in association with CUBE

Why?
To explore compliance challenges faced by multi-jurisdictional financial institutions around the governance of information assets, in light of new and changing regulations.

Featuring
- New regulatory complexities resulting from heightened privacy and security, and its impact on records and data
- Challenges associated with managing regulatory change
- Points of view from Deutsche Bank, Scotiabank and other regulatory change experts
- Results from an information and data governance survey
- Trends, best practice advice, and more

Download report now!