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How Australian FinTechs are benefitting
from RegTech adoption

How RegTech adoption is benefitting Australian FinTechs

RegTech innovations are allowing Australian FinTechs to significantly reduce regulatory costs and risk - while freeing up compliance and risk teams to focus on higher- value tasks.

According to ASIC's RegTech Initiatives 2019-2020 report, RegTech has "...has significant potential to help businesses enhance their risk management and compliance activities. These enhancements will help deliver 'compliance by design' business models, as well as better consumer and market integrity outcomes."
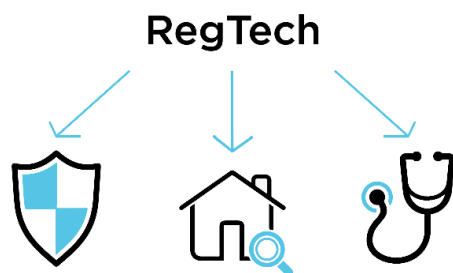
What is RegTech?

RegTech, or regulatory technology, is designed to help organisations automate and enhance regulatory monitoring, reporting and compliance. As with many such technologies, RegTech is not designed to replace the role of people. Instead, it is a powerful tool to help employees ensure the application of standardised and consistent regulatory processes, while freeing them up to focus on higher-value tasks – tasks which require a human touch and deliver greater benefit to the business.

While the majority of existing RegTech solutions are focused on financial regulation, it has also been leveraged for other regulated industries such as healthcare. RegTech differs from FinTech, which is the application of technology to meet the challenges of financial services. It also differs from SupTech which is the application of technology in service of improving how supervisory agencies such as regulators conduct supervision. RegTech is enabling organisations to automatically monitor and respond to rising regulation, and in doing so, to become more flexible and customer-centric. Customers expect to be served safely and efficiently, while having the widest choice of options which are appropriate to their needs and circumstances.RegTech is helping meet this consumer demand.

The technology can be applied to a wide range of areas:

Policy management

Compliance training

Activity management

Auditing

Risk management

Know your customer

Anti-money laundering

Income verification

Responsible lending solutions

RegTech

What is RegTech?

Australia's excellent regulatory track record has underpinned a rich and diverse RegTech sector, consistently ranking in the top echelon globally for product development and innovation.
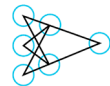
RegTech solutions can incorporate a range of new technologies designed to help organisations make the most of their data, including:

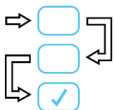**Artificial intelligence**

Machine learning
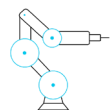
Deep learning

Natural language processing

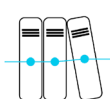**Voice-to-text translation**

Blockchain

Workflow management

Robotic process automation

Knowledge automation

The advantages of RegTech for Australian FinTechs

RegTech enables analysis of large, high-data volumes at speed and in real-time, but the benefits are not just limited to the big players at the top end of town. In some ways, smaller FinTechs are benefitting the most from these new technologies. By easing the regulatory burden while enhancing compliance, RegTech is levelling the playing field by helping smaller FinTechs scale their operations, expand into new areas and punch above their weight.

Exponential growth in data volumes means that FinTechs of all sizes must evaluate implementing RegTech to undertake risk management and compliance functions. RegTech innovations can serve to augment and enhance a wide range of functions within FinTechs operating in the financial services sector. These functions include:

Anti-bribery and corruption compliance

KYC (know your customer) and AML (anti-money laundering) compliance

Countering the financing of terrorism

Data risk management and security

Financial compliance

Fraud risk management

Future of Financial Advice (FoFA) compliance

Privacy and personal identification

Product safety and compliance

Responsible lending

Supplier/contractor/supply chain compliance

Foreign Account Tax Compliance Act (FATCA) and common reporting standard (CRS) compliance

Financial crime risk management
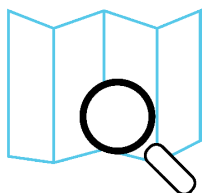
Monitoring financial promotions

RegTech is delivering a wealth of benefits to both back-end and front-end operations, such as greater efficiencies in evaluating sales practices as well as the provision of financial advice and promotions.

AFSL and AML-CTF obligations are two examples of key areas where RegTech has been delivering clear benefits as new and innovative products, services and business models emerge. With growing scrutiny from regulators when it comes to AFSL and AML-CTF compliance, emerging FinTechs may lack the in-house expertise to meet these obligations – presenting a significant risk to the business.
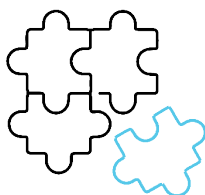
Along with enhancing and streamlining operations, RegTech is also significantly reducing FinTechs' cost of compliance by offering insight which allows for more targeted implementation of identification, investigation and problem- solving procedures.

The value proposition also includes significant potential savings when it comes to fines for non-compliance, which are becoming more frequent and severe. Along with this is the prevention of reputational damage to organisations which find themselves making headlines due to compliance breaches attributable to a lack of oversight and insight into their operations.

RegTech is also helping combat the hidden cost of financial crimes in terms of the personal devastation they can cause to victims along with the wider social harm.

Identify   **Investigate**   **Problem Solve**

What is end-to-end compliance?

RegTech also underpins an end-to-end (E2E) compliance initiative to implement fully traceable processes which connect external regulatory events to an organisation's specific obligations, all the way through to that organisation's internal controls, policies and procedures.

E2E compliance leverages technology to create a complete functional system of compliance which:

Alerts the organisation to relevant new regulations or changes to existing regulations.

Directs to the exact parts of internal controls, policies or procedures which are impacted by regulatory changes.

Manages obligations digitally.

Easily produces records of compliance activities.

Generates useful reporting dashboards.
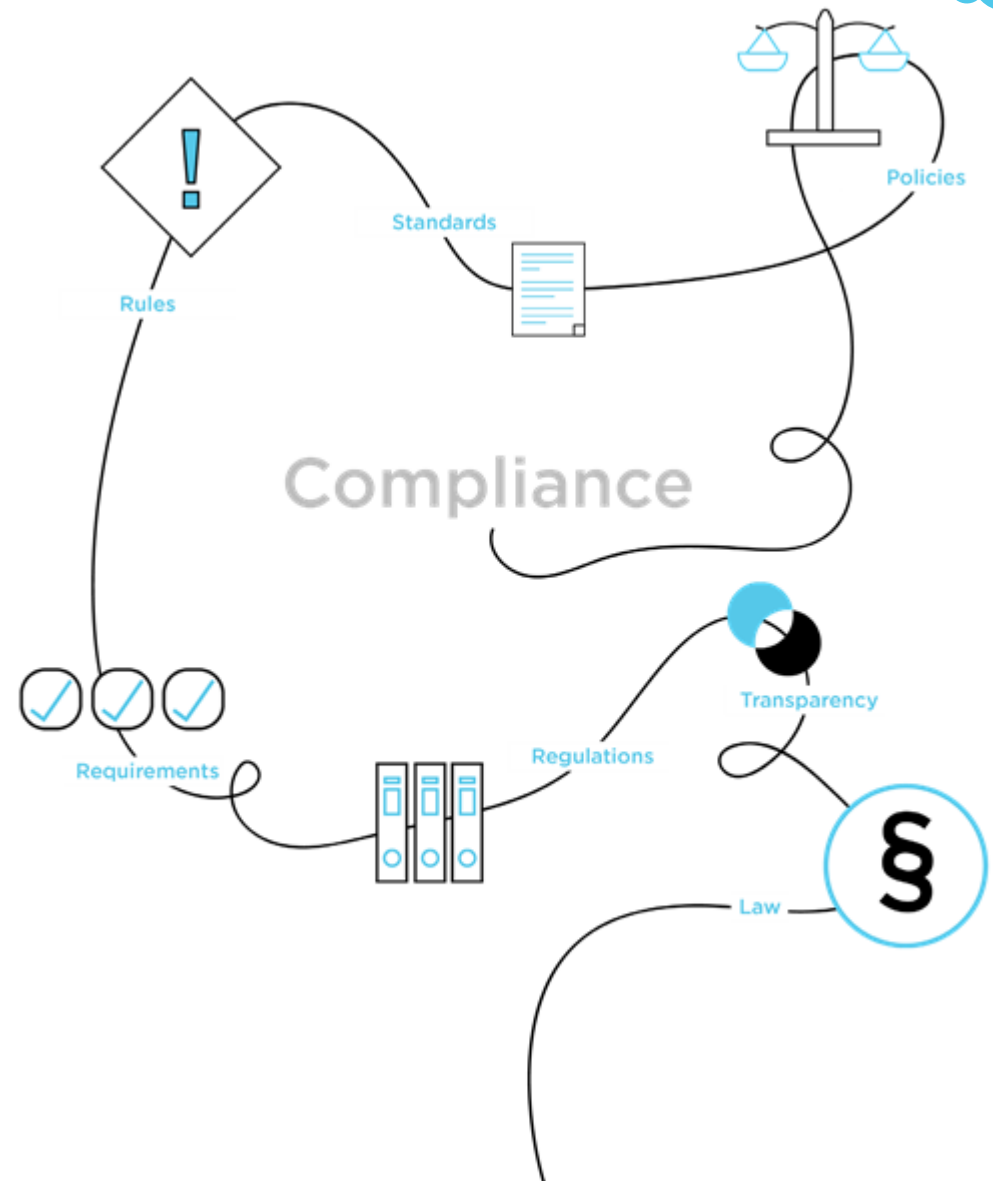
Issues for Australian FinTechs To Consider

It is important to appreciate that there is always a role for humans in handling regulatory obligations - RegTech will not replace a FinTech's risk management and compliance professionals. Instead, RegTech is augmenting the role of these professionals, allowing them to follow through on actionable insight and focus on more strategic and significant risk and compliance matters.

One barrier to RegTech adoption has been simply a lack of awareness that these new technologies exist, with some technology solutions providers still sticking with spreadsheets and other manual processes for undertaking audits and risk assessments – leaving FinTechs to miss out on the full transformational benefits of digitisation.

There can also be a reluctance on the part of some FinTechs to accept change and embrace new technologies such as cloud-based services. These concerns have eased as regulators give the nod to technological advances and extol the benefits of RegTech to organisations when it comes to meeting their regulatory obligations in a disrupted and rapidly-changing sector.

Issues for Australian FinTechs To Consider

Industry bodies such as The RegTech Association, a centre of global RegTech excellence, are also working to facilitate the building of higher performing, ethical and compliant Australian businesses through RegTech innovation and investment.

That said, RegTech implementation is not simple and FinTechs should not underestimate the challenges involved. Successful RegTech adoption requires dedicated subject matter and software development experts to scope, design and implement solutions. This is not a once-off set and forget process, as making the most of the technology also requires careful ongoing management and refinement.

Finding the right partners to provide this ongoing support is key, not just when it comes to the technology itself but also to embedding it in the business. Along with improving workflows, this incorporates areas such as staff training and change management to ensure that a RegTech investment achieves its full potential for the business.

RegTech adoption does require a greater focus on cyber-security, resilience and privacy. As with the use of any cloud-based systems for storing, monitoring, tracking and processing data, FinTechs and regulators must consider, manage and mitigate the risks involved.

> **This is not a once-off set and forget process.**

How Gen Advisory Can Help

There is a lot more to adopting RegTech than simply installing software. It requires a holistic approach from conception to deployment and beyond to ensure your investment doesn't wither on the vine.

One key aspect is to educate stakeholders about the technology, to ensure they appreciate the full benefits it offers to the business and how this aligns with the business strategy. This can include improving effectiveness and efficiency, addressing key pain points and risks, freeing up employees to focus on higher-value tasks and underpinning new initiates which drive new revenues.

Gen Advisory can help ensure your organisation makes the most of RegTech by supporting and managing the impact on company culture, communications, research & development and learning & development. We provide end-to-end support, from needs analysis and strategic planning through to project implementation, to ensure that your organisation maximises the value of its RegTech investment.

Rather than jump in the deep end, the best approach is to begin with a pilot with clearly defined goals. Working with Gen Advisory can assist you with defining, developing and implementing a RegTech pilot. There are also the crucial tasks of gathering feedback and acting on the learnings from your pilot. A pilot lets the decision-makers and other key stakeholders see real tangible results before making a full commitment.
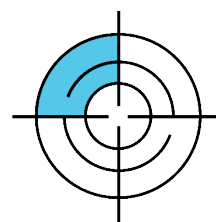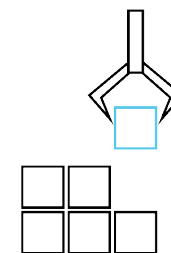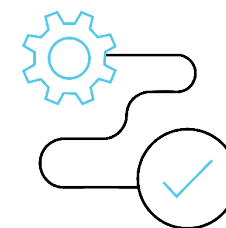
Define   **Develop**   **Implement**

To learn more about how RegTech can benefit your organisation, call Gen Advisory on **(02) 8088 0744**.

RegTech FAQs

What is RegTech?
RegTech is the application of emerging technology to improve the way organisations manage regulatory compliance.

Will RegTech eliminate jobs?
No, RegTech solutions work best not when replacing people but when augmenting them.

What technologies does RegTech use?
RegTech utilises a wide range of technologies. Examples of these include:
Machine learning: analyses large data sets to train a system to complete a task.

Natural language processing: analyses text to extract meaning and insight.

Blockchain: enables secure sharing of Know Your Customer data within or between organisations.

Robotic process automation: automates laborious manual processes, like the production of routine documentation.

SOURCE: Ascent RegTech

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