10 points …

on regtech

This KWM BriefSheet sets out 10 points on regtech and the way it can transform compliance and client relationships

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▪ **Regulatory technology or "regtech" is …** Technology that helps people comply with their regulatory obligations or facilitates regulators to execute their mandates. Regtech encompasses a range of technologies utilising algorithms, data analytics and machine learning, with an endless range of applications.

▪ **Regulation is costly to comply with — and to supervise.** Compliance costs have increased significantly in recent years. In 2013 one bank hired 4,000 additional compliance staff and in 2014 another bank spent an extra €1.3bn on compliance. Regulators are stretched to monitor compliance, with more regulation to supervise and more data to interpret and understand. Well-designed regtech can ease these burdens.

▪ **Regtech tools can detect reportable matters, predict problems …** Regtech enables the analysis of large volumes of data to extend to both real-time surveillance and the predictive detection of suspicious matters or significant breaches of financial services laws.

▪ **… and self-adjust over time.** Machine learning can help compliance algorithms become more powerful over time so that instead of relying on pre-programmed indicators of non-compliant behaviour, the algorithm uses statistical analysis to self-adjust, picking out the truest predictors of risk (rather than the most obvious ones). For example, the algorithm could find that loan repayments made by a third party are a truer indicator of money laundering than repayments of unusually high amounts.

▪ **Regtech can build controls into the regulated operations themselves.** Regtech can build controls into operations so that the entity (or algorithm) that wants to complete a process or enter into a transaction cannot do so if it would result in a breach of certain regulations or policies. One example is a plug-in to a derivative smart contract that determines whether the trade should be cleared. If the plug-in deems the transaction compliant, it submits the transaction for clearing. If the transaction is rejected, then the plug-in automatically terminates the transaction.

▪ **Regtech can help foster appropriate organisational culture.** Culture is key and there is an opportunity to use data analytics to monitor and interpret unstructured qualitative data on decision-making and behaviour in organisations. New tools are able to review marketing materials for consistency with consumer protection laws, and soon we should see tools that can monitor and help improve internal conduct and culture.

▪ **Regtech can do more than save costs.** An obvious use for regtech is automating compliance processes that are currently completed by staff manually. But regtech can do much more. Consider the data you own or have access to but don't yet exploit for compliance purposes — the insights regtech can draw from this data can help you meet a range of regulatory requirements (or if you're a regulator, help you monitor compliance).

▪ **It can enhance the customer experience through regulatory compliance …** Regtech can also enable a frictionless customer experience. As one example: KYC does not have to be an obstacle to customer onboarding. Paper can be replaced with prepopulated digital forms that only ask the person the minimum questions required by law. Even better, access to a user-driven ID on a blockchain, where Government and private service providers have already attested to a customer's identity, would allow customers to provide only a key to verify their identity securely.

▪ **… by pulling data from more sources to meet regulatory requirements.** Lenders have to understand customers' creditworthiness to satisfy their responsible lending obligations. Tools currently on the market help lenders look beyond traditional factors with user-permissioned access to customers' real-time financial data and digital footprint. Money laundering and terrorism financing risk can also be assessed both at the client level and enterprise-wide with regtech software tailored to the specific organisation.

▪ **And regtech will change the way regulators supervise compliance.** As technology develops to allow regulators to analyse the vast troves of data they already possess, it will be easier to detect (and predict) structural problems, as well as areas of concern in real-time — preventing harm from occurring in the first place. Regtech will also allow regulators to adopt a truly risk-based approach, focusing regulation on frequently non-compliant or high-risk areas and targeting them efficiently, ultimately requiring less direct contact with regulated entities.

We are here to help you

KATE JACKSON-MAYNES
Partner, Sydney
T +61 2 9296 2358
M +61 438 487 126
kate.jackson-maynes
@au.kwm.com

KATHERINE FORREST
Partner, Melbourne
T +61 3 9643 4129
M +61 408 643 216
katherine.forrest
@au.kwm.com

ROSLYN HINCHLIFFE
Senior Associate, Sydney
T +61 2 9296 2065
M +61 422 702 976
roslyn.hinchliffe
@au.kwm.com

AMELIA JAMIESON
Solicitor, Sydney
T +61 2 9296 2208
M +61 478 114 208
amelia.jamieson
@au.kwm.com