mercati, intermediari, istituzioni
FinRiskAlert

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The new opportunity: RegTech

a cura di Deloitte Italia

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A new context brings new challenges

.The increasing levels of regulation and more challenging regulatory expectations are having significant operational impacts on firms requiring people, process and technology based solutions.

In respect of new legislation and regulation this can create challenges around understanding, implementing and embedding the new requirements whereas for existing legislation there can be challenges around understanding and managing the risks.

In addition, as EBA suggests in its recent paper on FinTech topic, the evolving nature of technological innovation will require a new regulatory and supervisory approach that should have such characteristics as:

- **Risk Based**, expanding the regulatory perimeter to include activities and risks regardless the new FinTech business
- **Flexible and principles-based**, maintaining a forward-looking approach as new technologies change quickly and continuously
- **Holistic in Nature**, increasing the focus to policy issues that are not traditionally associated with financial sector supervision, such as cybersecurity, data use and privacy (stronger coordination with non-financial regulators)
- **Cross-Border**, ensuring international cooperation

This, however, needs to be part of an overall, cross-sectoral approach, drawing from the other EU financial authorities from the securities, insurance, and other financial areas (including ESMA and EIOPA), with the strongly international coordination led by the Financial Stability Board (FSB).

Organizations need to solve complex compliance challenges in light of this changing landscape, such as linking compliance to strategy, managing regulators and compliance operations, and navigating the compliance technology ecosystem. In particular, a snapshot of the main challenges in these different areas is listed below:

Regulators

- Responding to new regulations
- Higher regulatory scrutiny
- Influencing regulators to enable innovation
- Brand and reputation risks of non-compliance

Strategy

- Creating a compelling business case for change
- Driving strategic decision making from compliance data
- Need for an enterprise governance program

Operations

- Reducing compliance costs
- Transparency and compliance reporting
- Managing inefficiencies in paper-driven processes

Technology

- Applying new technologies to existing platforms
- Managing disparate tech solutions and vendors
- Understanding the new technology ecosystem
- Lack of technology awareness
- Managing and analyzing compliance data

New opportunities to leverage RegTech

RegTech solutions, powered by emerging technologies, help deliver richer and faster insights, drive efficiencies in compliance processes through automation, reduce costs, and offer foresight into emerging risk issues. These emerging technologies, such as advanced analytics, RPA, cognitive computing, and cloud, is enabling the creation of RegTech solutions to help address some of the compliance, regulatory, and risk management needs. At the same time, new opportunities are growing for financial services institutions (FSIs) to leverage RegTech for compliance:

Technology-enabled process efficiencies

- **Robotic process automation (RPA)** | Leveraging rules-based systems to automate repeatable, logic-based business processes, such as checking internal compliance controls for organizations
- **Intelligent automation** | Using cognitive technologies to build self-learning systems for automating intuitive tasks, such as compliance investigations processing, data extraction, and quality control

Data sharing and aggregation

- **Regulatory data sharing** | Managing compliance requirements by allowing organizations to share proprietary data with business partners and alliances over a secure network

- **Regulatory data aggregation |** Accessing alternate datasets, comprised of structured and unstructured information, aggregated from multiple sources, to make identity verification and compliance more accurate and efficient

Data-driven insights generation

- **Real-time data monitoring and anomaly detection |** Monitoring structured and unstructured compliance data in real-time for various purposes, such as identifying possibilities of non-compliance and detecting threat of money laundering
- **AI/advanced analytics-enabled prediction of risks |** Analyzing entity data and behavior for predicting regulatory and compliance risks. Allows organizations to mitigate risks proactively and address their compliance requirements

Platform development

- **Compliance over cloud |** Offering easy-to-adopt, flexible compliance solutions on cloud-hosted platforms to enable businesses to address compliance issues at lower costs
- **Blockchain-based platforms for compliance |** Creating immutable, agreed-upon, aggregated, and efficient compliance records for processes, such as AML/KYC and transaction reporting
- **On-demand compliance expertise |** Providing easy access to specialized skills for assisting FSIs with their regulatory and compliance requirements

Where does RegTech lead?

RegTech has a very bright future, with a huge amount to opportunity for those developing this type of technology to automate and enable new way of business.

As you stand at the crossroads of this new paradigm in the RegTech age, have a look at the following real cases of RegTech implementations:

Data insights for customer protection | software that analyzes "big data" on customers (huge volumes of data) and allows company to perform smart analysis and clustering (e.g. identify the Positive and Negative Target Markets, understand the real customer needs, analyze the usual customer behaviors, monitor the correct selling process reducing the miss-selling cases, produce consumable reports for board of directors, etc.)

Digital Identity for customer on-boarding| software that allows both the automatic, quick, secure registration of the customers' identity information, during the complex on-boarding process (also enabling the digitalization of the entire operation – no face to face required). Moreover, this software creates a digital identity of the customer and enables the automatically sharing of a full range of information across the entire market (in a secure, encrypted, tracked way)

Deep dive transaction monitoring | software that, using complex cognitive algorithms, allows several different scenario analysis on customer data in order to help the identification of trends and from a regulatory perspective help to recognize outliers, right down to the individual customer transaction level

Intelligent help desk | software that allows the automatic management, through Artificial Intelligence engines, of trouble ticketing in some category of services (e.g. electronic banking, loans, investment, payments, …)

Contracts analysis automation | software that analyzes the completeness and accuracy of contract filling, ensuring their compliance with regulations in a fast and effective way. This software, with a minimum set of standard rules, is able to check and identify automatically the missing /incorrect parts of the contract

Predictive process transformation & regulatory reporting | software that organizes huge volume of data /information and allows deep processes check-up in order to identify process inefficiencies and operating risks. Moreover, the software allows bespoke reporting to be created in a way that is flexible enough to meet regulatory requirements of today and configurable to meet the regulatory requirements of tomorrow.

Final conclusions

In the short term, RegTech solutions will help FSI firms to automate the more mundane compliance tasks and reduce operational risks associated with meeting compliance and reporting obligations. In the longer term, they will likely empower compliance functions to make informed risk choices based on data provided insight about the compliance risks it faces and how it mitigates and manages those risks. Moreover, in any case, RegTech solutions will bring huge benefits in terms of processes efficiency and business improvement.

RegTech firms approach the solution from a technology solution-oriented point of view rather than a strategic one centered around key regulatory needs leading to suboptimal business outcomes.

For FSI organizations, the road to implement RegTech solutions starts understanding their business challenges, identifying the RegTech opportunities with the highest business value and designing a compelling future-state vision to develop the optimal implementation plan.

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EIOPA: final report on 2017 Oversight Activities

02/05/2018 11:53

The European Insurance and Occupational Pensions Authority (EIOPA) published its 2017 oversight activities report, adressed to the European Parliament. During last year, EIOPA conducted a number of activities that contributed to high-quality effective supervision, as well as overseeing the level playing field and appropriate application of supervisory measures within the European Union.

Particularly, a growing number of issues related to cross-border business activities was detected, as a consequence of the 'freedom to provide services'. Under the Solvency II Directive, once authorised by the home national supervisory authority, insurance and reinsurance undertakings have the right to establish a branch within the territory of another Member State (known as freedom of establishment) or may pursue their business in another Member State (known as the freedom to provide services) without any further authorisation.

To enhance cooperation and communication between supervisory authorities in such situations, EIOPA rolled out cooperation platforms, a new and important tool that facilitates stronger and timely cooperation between national supervisors in the assessment of the impact of cross-border activities and identification of preventive measures. By the close of 2017, nine cooperation platforms were operational, and the benefits of these platforms have been identified for both home and host supervisors.

Furthermore, a wide range of tools such as balance sheet reviews, peer reviews, consistency projects on internal models, participation in meetings of colleges and bilateral engagements with national supervisory authorities continued to be used to enhance the supervisory capacity of national supervisors. F

This year, in the field of oversight, EIOPA will pay specific attention to further implementation of prudential regulation, Solvency II, and conduct of business supervision. In particular, EIOPA will continue to focus on the close interaction with national supervisory authorities, improvements in supervisory practices in the authorisation process and supporting reviews of business models to detect those models posing material prudential or conduct risk.

EIOPA Oversight Activities 2017 (PDF)

FSB publishes toolkit to mitigate misconduct risk

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The Financial Stability Board (FSB) released a toolkit that firms and supervisors can use to mitigate misconduct risk. The FSB's work in this area follows widespread misconduct in the financial sector including the manipulation of wholesale markets and retail misselling. Such misconduct in the financial sector on a broad scale creates mistrust, weakening the ability of the markets to allocate capital to the real economy, which in turn may give rise to systemic risks.

Mitigating misconduct risk requires a multifaceted approach. The report identifies 19 tools that firms and supervisors could use to address the three main issues identified by the FSB as part of its earlier work on misconduct, namely:

- Mitigating cultural drivers of misconduct – including tools to effectively develop and communicate strategies for reducing misconduct in firms and for authorities to effectively supervise such approaches.
- Strengthening individual responsibility and accountability – including tools that seek to identify key responsibilities and functions in a firm, and assign them to individuals to promote accountability and increase transparency.
- Addressing the "rolling bad apples" phenomenon – including tools to improve interview processes and onboarding of new employees and for regular updates to background checks to avoid hiring individuals with a history of misconduct.

The toolkit provides a set of options based on the shared experience and diversity of perspective of FSB members in dealing with misconduct issues.

Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors (PDF)

Banca d'Italia: rapporto sulla stabilità finanziaria 2018

02/05/2018 10:46

Banca d'Italia ha pubblicato il primo rapporto sulla stabilità finanziaria 2018, che include anche l'andamento del mercato assicurativo. In sintesi, i rischi per la stabilità finanziaria appaiono mitigati dalla crescita robusta dell'economia globale e dal rafforzamento del settore bancario nell'area Euro.

I rischi connessi con l'uscita del Regno Unito dalla Unione Europea si sono attenuati a seguito dell'intesa su un periodo di transizione, anche se rimangono incertezze sulla ratifica dell'accordo e sul futuro assetto per l'accesso a infrastrutture e mercati finanziari.

In Italia l'impatto sul costo medio dei titoli di Stato di un eventuale rialzo dei tassi di interesse sarebbe attenuato dalla loro lunga vita residua. L'alto livello del debito pubblico rende tuttavia l'economia italiana vulnerabile a forti tensioni sui mercati finanziari e a revisioni al ribasso delle prospettive di crescita.

La situazione finanziaria delle famiglie italiane è solida. L'indebitamento è contenuto; la crescita del reddito disponibile e i bassi tassi di interesse né favoriscono la sostenibilità. La ripresa economica sostiene la redditività delle imprese e né attenua la vulnerabilità. Permangono però aree di fragilità tra le piccole e medie imprese e nel settore delle costruzioni, caratterizzato da un indebitamento elevato e da livelli di attività ancora contenuti.

La qualità del credito bancario continua invece a migliorare. I flussi di nuovi prestiti deteriorati sono sui livelli precedenti la crisi finanziaria. Il peso dei crediti deteriorati nei bilanci degli intermediari è in forte riduzione, soprattutto per le banche che hanno effettuato ingenti operazioni di cessione.

Il completamento di alcuni aumenti di capitale ha ridotto il divario in termini di patrimonializzazione rispetto alla media degli altri paesi europei. La redditività delle banche sta aumentando, ma rimane molto bassa per numerosi intermediari di piccola e media dimensione. La necessità di ampliare i ricavi e di ridurre i costi operativi è accentuata dall'imminente introduzione del requisito MREL, che potrebbe determinare incrementi rilevanti del costo della raccolta.

Gli indici di solvibilità delle assicurazioni italiane sono aumentati. L'impatto del periodo di bassi tassi di interesse sulle compagnie italiane è stato meno pronunciato che in altri paesi. Prosegue la diversificazione degli investimenti finanziari, ma le compagnie restano esposte ai rischi connessi con l'eventuale acuirsi di tensioni sui mercati del debito sovrano.

La crescita sostenuta del risparmio gestito contiene invece i rischi per la stabilità finanziaria, a causa del buon allineamento tra la liquidità dell'attivo e del passivo dei fondi comuni e della ridotta dimensione di quelli caratterizzati da un'elevata leva finanziaria

Rapporto Stabilità Finanziaria 1 — 2018 (PDF)

BIS: report on Fintech credit market

02/05/2018 10:25

The Bank of International Settlement (BIS) published today a report on FinTech credit, that is, credit activity facilitated by electronic platforms such as peer-to-peer lenders. The report aims at shed light on the significant uncertainty as to how FinTech credit markets will develop and how they will affect the nature of credit provision and the traditional banking sector.

The study draws on public sources and ongoing work in member institutions to analyse the functioning of FinTech credit markets, including the size, growth and nature of activities. It also assesses the potential microfinancial benefits and risks of these activities, andconsiders the possible implications for financial stability in the event that FinTech credit should grow to account for a significant share of overall credit.

Conduct and prudential regulatory policies in selected countries are also outlined. The report provides several key messages. The nature of FinTech credit activity varies significantly across and within countries, due to heterogeneity in the business models of FinTech credit platforms. Although FinTech credit markets have expanded at a fast pace over recent years, they currently remain small in size relative to credit extended by traditional intermediaries.

A bigger share of FinTech-facilitated credit in the financial system could have both financial stability benefits and risks in the future, including access to alternative funding sources in the economy and efficiency pressures on incumbent banks, but also the potential for weaker lending standards and more procyclical credit provision in the economy.

The emergence of FinTech credit markets poses challenges for policymakers in monitoring and regulating such activity. Having good-quality data will be key as these markets develop.

Fintech Credit: Market structure, business models and financial stability implications (PDF)