

RegTech as a Competitive Advantage

Round Table Discussion Key Point Summary

Key drivers of Regulatory Technology (RegTech):

- Changes to the U.S. and European regulatory landscapes have driven the interest in RegTech
- The raft of EU regulation following the financial crisis has also galvanised the interest and need for RegTech

RegTech Encompasses Solutions Including:

- Know your customer requirements, anti-money laundering, artificial intelligence and machine learning and blockchain

The FCA and RegTech:

- The FCA are eager to embrace RegTech and consider it to be a means of fulfilling their mandate of promoting effective competition in the interests of consumers and also encouraging technological innovation
- In the past, regulators have failed to adequately analyse the masses of data they have obtained from firms, however with the FCA ramping up their data processing capabilities this appears to be changing. The new Market Data Processor (MDP) system is an example of this, with the FCA acknowledging that changes brought about by regulation, in particular MiFID II, require systems to be in place to deal with large volumes of data
- The FCA plans to explore RegTech initiatives for anti- money laundering and financial crime to ensure greater transparency of reporting and compliance
- Other regulators like ESMA also appear to encouraging the use of RegTech

Challenges with Data:

- One of the biggest challenges facing the industry are the vast regulatory requirements, and the colossal amounts of data which need to be shared with the regulator. For example, MiFID II will be the largest data collection exercise the industry has ever been subject to
- Tensions with other regulations like the General Data Protection Regulation (GDPR) also give rise to conflicting obligations. Scalability is one of the key issues - how will data be stored? Will it be sent offshore? GDPR for example does not allow data to be sent outside of the EEA in the same way as currently

Opportunities Presented by RegTech:

- **Strains on resources:** A recurring theme within the industry is that the monitoring and controlling of regulatory procedures is putting a significant strain on firms' resources. RegTech offers a streamlining platform to enable firms to be more efficient and alleviate resourcing pressures
- **Mountains of data – what to do with it?** Data is the new commodity for businesses, however often compliance departments are overstretched and do not have the skill set to look at different products to aggregate data, nor does the data flow through a customer relationship management interface. RegTech provides an opportunity for firms to reconnect with their customer base through continually developing technologies which support the streamlining of data and customer relationship management
- **Integration of data:** RegTech systems will integrate data from many different sources, enabling the effective analyse of multiple data streams in one place. It is likely data will be provided via a number of specialised sources, and those streams will talk and collaborate with each other
- **Specific innovations:** The Second Payment Services Directive (PSD2) focuses on strong customer authentication and secure ID. RegTech has provided a means for firms to authenticate customers via smartphone

Practical Tips when Harnessing a RegTech Solution

- Good RegTech is aggregated data provided in one single service solution. The synergy between regulators will have a bearing on this
- When designing international systems, it is important to consider the international networks your business has, and to ensure that the system provided fits the business' needs and can be modified on an ongoing basis. If systems do not integrate correctly, businesses simply will not use them.

K&L GATES

Anchorage Austin Beijing Berlin Boston Brisbane Brussels Charleston Charlotte Chicago Dallas Doha
Dubai Fort Worth Frankfurt Harrisburg Hong Kong Houston London Los Angeles Melbourne Miami Milan Munich
Newark New York Orange County Palo Alto Paris Perth Pittsburgh Portland Raleigh Research Triangle Park San Francisco
São Paulo Seattle Seoul Shanghai Singapore Sydney Taipei Tokyo Warsaw Washington, D.C. Wilmington

This publication is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer.

©2017 K&L Gates LLP. All Rights Reserved.