



REGTECH ~ EVOLVING TRENDS AMIDST DIGITAL INNOVATION

Whitepaper



1.1 Introduction

Over the past few years, the concept of regtech has taken on much importance within the financial services ecosystem and beyond. During the COVID-19 pandemic, regulatory compliance has become more complicated and essential, meaning regtech is a highly dynamic and rapidly evolving area.

We utilise the UK FCA's definition of regtech, which is:

'A subset of Fintech that focuses on technology that may facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities.'

However, we believe that regtech will also become important in areas other than financial services, as highly regulated verticals seek to ease their compliance burdens.

Digital onboarding and how to onboard remotely in a safe, user-friendly way that respects KYC (Know Your Customer) regulations has become of critical importance during the pandemic, and we expect that this will remain at the centre of the regtech market. As such, this new element will be analysed extensively within this report.

1.2 Challenges Faced by the Regtech Market

The regtech market is facing several challenges, while adapting to the constantly changing global regulatory framework and utilising technological systems like blockchain to deploy effective regulatory solutions.

The emergence of fintech in the new post-pandemic way accelerated the digitisation of regtech applications and changed the landscape positively.

There was a notable rise seen in the investment in regtech firms, due to businesses having to cope with increasing levels of regulation that have come into force between 2012 and 2021, including AML (Anti-money Laundering), KIC, MiFID II (the second Markets in Financial Instruments Directive), Basel III, PSD2 (the Second Payment Services Directive). Beyond simply meeting regulatory requirements, many regtech firms enable businesses to access the 'big data' that holds the potential to both address many compliance concerns and provide valuable insights into their business. Regtech solutions can also assist firms by enabling them to access their data in a cost-effective way and identify risks, predict compliance failures and enhance coordination across their business.

Even with changes to regulations, there are still multiple challenges for organisations in rationalising their regulatory compliance strategies. This section outlines five significant challenges, which are particularly difficult for highly regulated businesses to deal with.

i. Balancing Budgets and Increasing Compliance Costs

The cost of compliance and risk mitigation over the last five years has been increasing and hence dominated the funds available to firms. In comparison with the pre-financial crisis, the total spent on compliance has increased considerably, not only for banks, but also for retail.

Policy makers, regulators and shareholders want to ensure the effectiveness of regulatory requirements. These increasing compliance-related cost pressures, coupled with low interest rates and a slow economy have affected the budgets.

ii. Volume of Regulatory Change

After the financial crisis, financial service firms have seen unprecedented levels of regulatory change, as governments and policy makers have sought to ensure that a similar global problem should not present itself again.

iii. Driving Demonstratable Cultural Change

The development of regtech has the potential to bridge the gap between the culture of the past, where compliance was a comparatively small mandatory function, to the



culture of the future, where it will pervade almost every aspect of a financial institution's operations.

iv. Increasing Personal Accountability

Compliance and risk professionals are always at risk of committing one mistake which can cost the firms in an unimaginable way. It is impossible to completely remove the risk of human error, but deploying a dedicated solution for compliance can accelerate the operations of risk professionals and remove some of their fears.

v. Implementation and Embedding of Regulatory Change

Financial institutions need to reconsider their take on the impact of regulation. It should be done in a structured way to ensure consistency and to mitigate regulatory risk. Plenty of existing regulations evolve over time and this requires constant monitoring and review of business processes to ensure ongoing compliance.

As a result of these and other challenges, organisations are seeking regtech solutions to improve their compliance without increasing their workload. The main objectives for regtech deployment are outlined below:

- To address a lack of experience or skill in the organisation with regulatory functions.
- To adequately adhere to compliance requirements as laid out by relevant regulators.
- To provide reassurance that processes are being followed correctly throughout complex business processes.
- To save on costs associated with compliance through the automation of current, resource-draining processes.
- To avoid fines for non-compliance levied by government and regulatory bodies.

For highly regulated businesses, regulatory compliance is not optional; having the most effective regulatory compliance strategy is a basic requirement. What businesses must then decide is the most effective way to complete these

requirements, which is increasingly becoming an argument over which technological solutions to deploy.

1.3 Challenges to Digital Onboarding Use

This section will outline the major challenges of implementing and operating digital onboarding systems.

- **Potential Regulatory Hurdles:** KYC/AML requirements are highly complicated, with different variations around the world. As such, it is important that systems used for digital onboarding can meet these requirements. This means several things. Firstly, the solution must be suitable for the market it is intended for, or able to be customised to match it. Secondly, the systems must be incredibly robust. This is in terms of two facets: that it can handle the volume of onboarding requests, and that it can correctly validate identity in a way that is robust enough to satisfy requirements. If systems fail on any of these counts, then the chances are that there will be a major exposure to regulatory interventions/fines.
- **Process Change:** Banks are large organisations, with highly complex infrastructures and requirements. Processes in some cases will have been embedded for many years, so retaining staff, altering the way systems work and ensuring a smooth transition is not an easy task. This is why changing these systems must be part of an overall digital transformation strategy, which encompasses ensuring an effective core banking system and retaining/redeploying staff.
- **Disadvantages with Older Users:** A major problem with digital onboarding is that it in some cases comes at the expense of access to traditional services in branch. A report from the NCRC (National Community Reinvestment Coalition) published in December 2020 found that more than 4,400 bank branches closed in the US between 2017 and 2020 — a 5.1% drop from 85,993 to 81,586. In the UK, consumer association Which? found that 13,000 cash dispensers had disappeared in just three years. These developments are restricting access to financial services, which is a major issue. Older users are also less likely to use a smartphone or use digital banking, so moving to a heavily digitally focused model risks alienating some users. The best way to de-risk this approach is to continue some aspects of access to physical services, such as partnerships with retail stores.



- **Requirement for Manual Work:** While digital onboarding does have the potential to reduce resourcing requirements, this is not always the case. If a bank deploys a traditional selfie system which is not automated, then staff will have to manually review each onboarding attempt. This is not just for new accounts – new devices will often be validated this way before existing accounts can be accessed. Deploying systems in this basic way means that while the process is digitised, the resource requirements are still high. To reduce this potential concern, banks should consider deploying AI-based services at scale.
- **Superior User Experience:** By offering AI in digital onboarding, decisions can be near-instantaneous, rather than there being a delay as with older systems that require manual review. This creates a truly instant experience for the user, which can be leveraged in marketing campaigns.
- **Continual Improvement:** AI offers the ability to refine its own performance over time; increasing approval rates while eliminating fraud. This process takes intensive training and customisation of rules-based systems under a non-AI model.

1.4 Digital Onboarding: Future Outlook

AI is increasingly central to the digital onboarding process – whether this includes automatically verifying identities using selfie onboarding or building and checking identities against KYC data. These verification methods, among many others, are not standalone or the complete picture by themselves and therefore, the future will have a greater fusion between different digital onboarding mechanisms. It is impossible to figure out which is more important, as the concept of digital onboarding works best when all mechanisms work together, with different techniques fused to create an effective whole.

It is clear that going forward, digital onboarding is a critical regtech area. While spurred on by the pandemic, the change to digital onboarding is fundamental. As such, all FIs and other heavily regulated businesses should plan their transition to digital onboarding as soon as possible, to reap the biggest benefits of its introduction.

The use of AI is also critical here in delivering the true promise of digital onboarding. In its most basic form, digital onboarding translates physical processes into the digital realm. Using AI unlocks the following benefits:

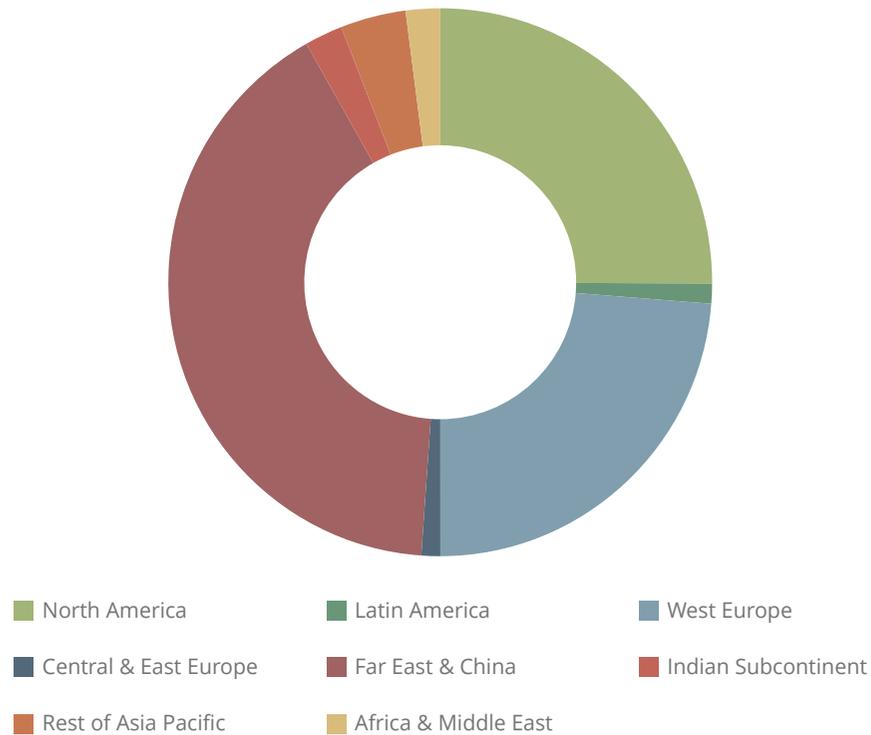
- **Scalability:** By adopting an AI-based system, the digital onboarding systems become highly scalable. This means that as digital operations grow, the onboarding systems can keep pace.
- **Time & Cost Savings:** By introducing an AI system that reduces manual processing, this can decrease time spent by staff and the subsequent costs to the business.



1.5 Market Forecast Summary: Total Regtech Spend

Global regtech spend will exceed \$204 billion by 2026; accounting for over half of all regtech spend for the first time. This spend will grow from \$68 billion in 2022; representing a growth of over 200% over the next four years. The integration of regtech services with BaaS (Banking-as-a-Service) models will be key to realising this future market growth.

Figure 1: Total Spend on Regtech in 2026, Split by 8 Key Regions: \$203 Billion



Source: Juniper Research

- BaaS models, which include outsourcing regtech services, such as digital onboarding, will be key in accelerating AI-based automation for online document verification and KYC processes.
- AI-powered onboarding enables financial institutions to benefit from real-time progress reporting and automation, which help meet rising client expectations and reduce compliance cost. 26% of digital onboarding processes in the banking market will use AI systems by 2026, compared to just 8% in 2022. Beyond digital onboarding, regtech will leverage BaaS models to swiftly expand the use of AI in banking for more comprehensive tasks, such as fraud detection and mitigation.
- Regtech vendors must also provide verification services in emerging areas where compliance is being disrupted, such as cryptocurrency exchanges, digital healthcare and online gambling. Impending changes to regulations in these markets will provide significant opportunities for regtech vendors to broaden their focus beyond financial markets to capitalise on new addressable user bases.



Order the Full Research

With detailed coverage of market benefits, challenges and future outlook forecasts, discover invaluable insights into the evolution of this interesting area. Featuring an expanded 60-strong country list, the latest version of this new Regtech report also includes the Juniper Research Competitor Leaderboard, highlighting 18 vendors; providing an invaluable resource for stakeholders seeking to understand the vendor landscape in the market.

Key Features

- **Market Dynamics:** Detailed assessment of how the market is evolving, what the regulatory environment is in different countries and its role in future growth.
- **Segment Analysis:** Future outlook and comprehensive analysis of digital onboarding and KYC.
- **Juniper Research Competitor Leaderboard:** Key player capability and capacity assessment for 18 regtech vendors including:
 - Behavox
 - Feedzai
 - Moody's Corporation
 - Symphony Ayasadi
 - Tookitaki
 - Trunomi
- **Benchmark Industry Forecasts:** Forecasts for regulatory technology spending, split by KYC checks for banking and property sales done via legacy checks and AI systems, as well as splits by our 8 key regions and 60 countries.

What's in this Research?

1. **Market Trends & Opportunities:** Detailed analysis and strategic recommendations for the expansion of regtech vendors, including evaluation of crucial areas, such as the role of industry collaborations and how fragmentation will affect market growth in future.
2. **Strategic Analysis:** Examines the future outlook for the regulatory technology ecosystem and provides comprehensive analysis of key trends and market disruptions. The report also offers an assessment of 18 major players within the market and their positioning via our Competitor Leaderboard.
3. **Interactive Forecast Excel:** Highly granular dataset comprising over 28,000 datapoints; allied to regional and sector analysis tools. Includes regional and country-level analysis, together with 5-year forecasts for the regtech market, including transaction global regulatory and compliance spending, total KYC checks for banking and property sales, total time saved during KYC checked carried via AI systems and legacy systems.
4. **harvest Digital Markets Intelligence Centre:** Visualises all the data in easy to use and exportable graphs, tables and charts, and features continuous data updates for 12 months.



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