Keeping pace with regulatory change

Choosing the right technology

Introduction

Financial institutions have to comply with a wide range of changing global and local regulations – across anti-money laundering (AML), know your customer (KYC), fraud, payments, and lending. Often, there is a consistent stream of guidance around upcoming changes for some time before the regulation is finalized, resulting in regulatory compliance teams spending a lot of time trying to figure out what their internal policies and procedures should look like. Once the regulations are released, there is a rush to implement the requirements. At the same time, the next wave of impending regulatory changes is building. A great example of this is the US AML Act 2020, which was enacted on January 1, 2021, with regulations rolling out over an extended period of time after consultation and shaping.

It seems the only constant is change. The key to being agile enough to deal with this, is to embrace the FinTech/RegTech capabilities that have evolved in recent years, and to make choices based on business and regulatory needs to meet immediate challenges and create a strategic foundation for the future.

Change – what's the big deal?

Change is not an easy thing for financial institutions, especially when it comes to regulations. The number of stakeholders affected by new or changed regulations is large and covers the front- to back-office teams of the business, compliance, legal, IT, operations, and so on. Each must understand how and to what extent the regulatory changes affect them. From process, to procedure, to personnel, to technology – the effects can be widespread and reaching a consensus can be difficult. Oftentimes, outside counsel, consulting firms, or both must be brought in as objective third parties to understand regulatory impacts on a financial institution.

In addition to the number of interested parties, regulatory uncertainty adds another layer of complexity to financial institutions responding to regulatory change. Many regulations are not prescriptive, requiring financial institutions to develop specific interpretations and risk-based approaches to meeting the mandates. A prime example of this are AML regulations.

Regulatory uncertainty adds another depth of complexity to financial institutions.

FinTech and RegTech are the key

Once a bank has identified the process, procedure, and personnel changes that must be made, technology is often used to make or support those changes. This is one of the areas in which technology can be a gift or a curse. Why? Certain historical practices can lead to technology being a hindrance instead of an accelerator. For example:

- IT working separately from other stakeholders (business, compliance, legal, operations).
- The use of non-flexible, black box technology.
- Reliance on siloed, point solutions.

What can these practices do to negatively impact meeting regulatory change? Here are some examples:

Unnecessary delays caused by:

- The business providing many requirements for IT to interpret and implement – creating a lengthy back and forth.
- Using outside vendor resources to update black box technology. These resources may not always be available when needed.
- The number of systems and applications that need to be updated. With siloed systems, there are multiple systems doing the same things across jurisdictions or lines of business. Each needs to be updated, including dependencies, which creates an exponentially longer time to completion.

High costs caused by:

- Outside vendor resources that can be expensive because of their limited availability and expertise.
- Lengthy implementation times
- The use of siloed solutions that create the need to maintain multiple, dependent systems.

As a result, financial institutions need to be careful in selecting the technology they will use to support their compliance programs. Financial institutions should consider not just capabilities of technology, but how those technologies will separate or bring together IT and other stakeholders. Technologies that are more business friendly will engender a culture of collaboration with IT, while black box, hard-coded technologies will continue to create a gap between IT and the rest of the company.

At the same time, financial institutions need to be forward-looking and ensure that their technology makes them future-proof. Any solutions selected should be able to grow with an institution, meeting the challenges that expanded business and increased regulatory demands will bring. By ignoring the big picture or future regulatory demands, financial institutions risk taking one step forward and two steps back. For compliance officers, this means leaving their comfort zone to better understand and embrace technology.

Compliance must understand and embrace FinTech/RegTech benefits

Compliance officers' responsibilities have generally focused on ensuring that their policies and programs are compliant with regulations. With regulatory requirements growing and impacting business through increased onboarding times and the resulting customer dissatisfaction, the expectations for those compliance officers have evolved. Compliance costs are so high that compliance departments can no longer request more headcount to deal with the growing demands placed on their teams. Instead, officers need to consider robotics, machine learning, data analytics, AI, and even business process management solutions as a way to enhance the speed and quality of the work produced by their teams. FinTech and RegTech are now central parts of compliance programs, that compliance officers are expected to be knowledgeable in.

Compliance officers need to step outside of their comfort zone.

Choosing the right technology

With the large variety of technologies and solutions, understanding and identifying the right one is no easy task. The temptation is to only worry about current problems, ignoring the big picture and the future. Given that the state of financial compliance is in constant flux, this is a big risk. By using solutions that are not easily adaptable to future changes and challenges, compliance officers will have to keep looking for new solutions and spend more money.

Instead, compliance officers should look for technologies that solve their immediate issues, while also having the scalability, reliability, and configurability to grow and change with their compliance program. Here are some key things that compliance officers should remember as they evolve into technology experts:

1. Step back from your current problem and take a big-picture view of how your current technology choice could affect your organization in the future.

2. Discover how Pega can help you gain a broad perspective on the different approaches to solving compliance problems.

3. Invest in the right tech. There are a lot of new and exciting technologies, but using technology to get the basics right can reap huge rewards.

4. Speak to peers to understand their experiences with certain technologies.

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