

RegTech needs a culture makeover to survive

Regulation is rapidly digitising, but the gap between people, tech, talk and action is growing. Collaboration and standards are needed, is an ecosystem approach the answer?

How much Regulation?

The world faces structural uncertainty, recessionary and economic pressures married with ESG concerns, and an unrelenting rise in fraud and cybercrime. Increased regulatory scrutiny is also becoming the new normal. Amidst this turmoil, the financial services sector needs certainty in its systems of regulation.

The pace of new regulations has been accelerating, up 700 per-cent since the financial crisis. This has increased the cost of compliance, which is five per-cent of revenue. Compliance teams have also ballooned. This comes as the UK government looks to change the regulatory landscape post Brexit.

“There has to be a paradigm shift in culture. We need change with a new era of collaboration, accountability and efficiency joining the dots between regulators, banks and technology providers,” explains Sarah Sinclair, founder of Change Gap, an ecosystem advocate, championing sustainable RegTech.

“This momentous rise in regulation magnifies gaps between business and regulators, technology players and in-house capabilities. A culture of trust and partnership in the industry is urgently needed. This also must extend to the end consumer. We need to do things differently and nurture a true ecosystem that works purposefully to provide real value,” states Sinclair.

For regulators, there’s been a need to introduce new regulations as financial products have proliferated. At the same time, the RegTech market has boomed. Investment has more than tripled over the last five years, yet the wholesale of RegTech adoption is proportionately slow. The UK’s Financial Conduct Authority has not prescribed solutions to evolving regulation either, it has set the scene instead. The aim has been to support experimentation.

How big is the gap?

“There is a big disconnect between those that set the rules and those that implement policies. This yawning gap is also an opportunity. Trust and confidence is critical to bridge the gaps and prove what this complex marketplace can achieve,” describes the CEO of Change Gap.

“The sector now needs RegTech solutions designed *with* partners rather than *for* them. Strategic and pro-active implementation is crucial. If you think compliance is a cost centre perhaps consider the alternative – and the cost will be felt in risk, reputation and inability to scale.”

Regulatory reporting for UK banks costs up to £4.5 billion a year tying up scarce resources that could be used for improving customer services, many roll out similar solutions. Models have been duplicated using consultants, lawyers, technology and solution providers at great expense, whilst standards and sustainable solutions are in woefully short supply. Despite investment, fraud had increased by 25 per-cent and is higher than before the pandemic.

“Regulation cannot keep pace. Companies cannot keep up either. There are no clear paths as to who to trust. The general public is losing out in the process. Culturally within financial services we need to think about the consequences of failure to create a RegTech market that is responsible and sustainable,” details Sinclair.

She points out, “there needs to be a better blueprint for what success looks like. Standards in data, technology, practices are lacking in today’s RegTech market, and this is already creating a barrier of trust between vendors and buyers. Standards are easy to develop but difficult to adopt, and this is where collaboration is critical to closing the gap. Collaboration is at the heart of our mission.”

Ecosystem

An ecosystem underpinned by thought leadership, trusted partnerships, PoCs and open-source solutions can help. The goal is to make regulation effective by simplifying compliance processes whilst keeping both risk and human capital under control.

“The market needs better orchestration, whilst ensuring consumer safety. Our role is to act as a trusted guide. Change Gap is a pioneering force. We’re inviting all parties to benefit. As we approach 2023 with uncertainty, the launch of Co-Labs comes with celebration of success to date. We’ve had a lot of support for creating this ecosystem, and industry stakeholders are confident that this will make a huge positive impact on the RegTech market globally,” explains the CEO of Change Gap.

She concludes, "we have the right tools, mindset and energy to create a ‘bigger pie’ for all, driven by this ecosystem approach. By reducing the trust gap we will accelerate the adoption of key use cases. As a vendor ourselves, we are walking the walk, inviting competitors in RegTech to join us. The sector needs fresh solutions. Change Gap is partnering with key parties to provide novel ways to cooperate and coexist in this market, so everyone wins. With consumers as our ultimate client, they will also be invited to play a role. The future is bright.”