

# Deloitte.



**The Future of Regulatory Productivity,  
powered by RegTech**

Financial Services

# Regulatory productivity: Is there an answer?

Regulatory expectations have increased for all financial services institutions (FSIs). Even as penalties are levied for non-compliance with existing rules, new rules continue to be released. The recent US presidential election does not yet offer clarity as to the rate at which this will continue. However, one thing is clear: the cost of compliance is a heavy burden.

The cost of compliance and risk mitigation over the last eight years has jettisoned almost all discretionary funding available to firms. Compared to pre-financial crisis spending levels, operating costs spent on compliance have increased by over 60 percent for retail and corporate banks. Policy makers, regulators, and shareholders are looking for firms to not only meet new regulatory requirements, but to ensure the effectiveness of all that has already been built. These increasing compliance-related cost pressures, coupled with low interest rates, a slow economy, and stagnant revenue growth, have not resulted in significant downward pressure on returns.

Complying with regulations is becoming an increasingly complex, cross-functional effort. It is no longer a domain of just the CCO or CRO. Other CXO roles, like the CISO, Chief Conduct Officer, CFO, and CDO—and, indeed, front-office executives—have critical parts to play in the planning and implementation for compliance. For example, the DOL Fiduciary rule has significant impacts on sales (financial advisors), operations, compliance, reporting, and recordkeeping, to name a few of the functions being impacted. Operations processes in these areas and the technology applications that underpin these processes are also heavily impacted.

Many CXOs across institutions are looking for opportunities to dramatically improve regulatory productivity (i.e., meet compliance requirements at lower costs). The focus on traditional cost reduction options—process reengineering, lean, location-based strategies, and automation—have yielded some relief, but now many CXOs are looking at emerging technologies for transformation. Most FSIs do not have the capital or the time to rebuild their platforms.

Emerging technologies, such as blockchain, robotic process automation (RPA), and cognitive computing, seem to offer significant transformative potential in operations and regulatory productivity. Additionally, regulators are also fostering environments that encourage the use of these technologies by firms. However, many organizations are struggling to leverage them in the most efficient manner.

The challenges and choices can seem overwhelming. Where should you start? Who should lead? What technologies offer the most promise? Will the transformed compliance efforts meet with regulatory approval?

Navigating these is akin to piecing together a complex puzzle without the picture that shows the final result. Organizations will have to involve multiple functions, processes, and technologies, and ensure that the technologies involved are well controlled and do not introduce unintended or new risks into the environment.

Deloitte has developed a framework to help FSIs assess their options and put the puzzle pieces together.

CXOs across the organization 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.



### Managing regulators

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



### Compliance strategy

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



### Compliance operations

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



### Compliance technology

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

Financial services institutions are focusing on multiple alternatives, often enabled by emerging technology developments that will allow them to address these complex issues effectively.

# Innovative technology: Opportunities for solving regulatory challenges

The advent of emerging technologies, such as advanced analytics, RPA, cognitive computing, and cloud, is enabling the creation of differentiated regulatory technology (RegTech) solutions to help address some of the compliance, regulatory, and risk management needs. These 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.

## Opportunities 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.

Many FSIs are also looking to leverage RegTech firms\* to provide solutions. However, navigating the choices and what solutions are being offered may not be easy:



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



The market is saturated with RegTech firms, making it tough for many FSIs to see through the fog. In addition, many are in nascent stages, and they typically offer solutions that solve only a small portion of the gamut of compliance needs.



Many RegTech firms lack a deep understanding of the FSI's business and the complex risk, regulatory, and compliance challenges.

## To effectively identify the right solution (and provider) and most impactful areas for transformation, firms need:

- A deep understanding of regulatory requirements
- Extensive experience with existing enterprise compliance processes
- Robust knowledge of the RegTech solution and its effective application

\* RegTech collectively refers to companies that are harnessing emerging technologies to help institutions improve compliance.

# The Deloitte advantage

Identifying the most impactful areas for transformation, applying the right solution (and provider), and overcoming other factors that hinder effective adoption of technology is critical for FSIs to solve their compliance challenges. With our experience across regulations, compliance, and technology, Deloitte is well-positioned to help clients address these issues.

**Deep regulatory experience:** We are the leading professional services firm in the regulatory and compliance space. We have a strong bench of experienced professionals and former regulators and work closely with FSIs to interpret the impact of regulations and transform processes to make compliance more efficient and effective.

**Compliance experience:** Our deep understanding of compliance processes have helped strengthen our credentials as a "trusted advisor" to many of the leading

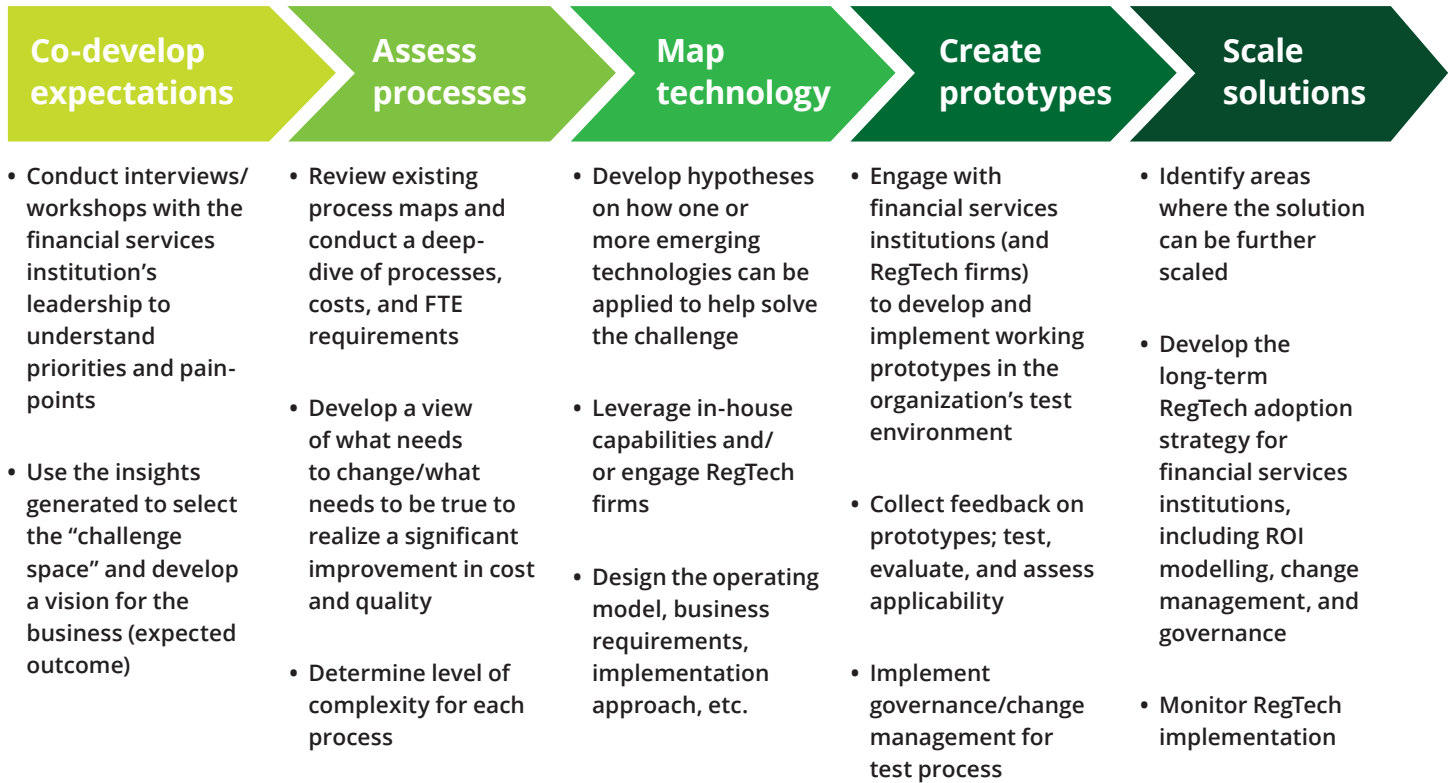
financial services institutions. We help them interpret regulations, identify impacts, and transform or implement processes to effect compliance.

**Technology knowledge:** We have an ecosystem of relationships with many leading vendors in various areas of emerging technologies to enhance our understanding of their capabilities and the applicability of their solutions to client problems.

In model risk management (MRM), we have deep experience in the understanding of processes related to the development, validation, implementation, and governance of models. Given our experience in MRM, we know where and how to apply emerging technologies like RPA to help clients increase the efficiency and efficacy of their model validation processes.



Based on our deep understanding of the changing market landscape and experience in the compliance and technology domains, Deloitte has built a RegTech adoption methodology/framework to:



Our approach to applying technology is centered around understanding our clients' business challenges and collaboratively developing a plan to help solve them. We are focused on helping our clients identify RegTech opportunities with the highest business value, design a compelling future-state vision, identify the strongest RegTech providers, and develop an implementation plan. With this methodology and our deep-rooted industry, regulatory, compliance, and risk experience, we are well-positioned as the right-fit advisor for your strategic journey.

# Contacts

## **Monica O'Reilly**

### **Principal | Deloitte Advisory**

Deloitte & Touche LLP

monoreilly@deloitte.com

+1 415 783 5780

## **Dilip Krishna**

### **Managing Director | Deloitte Advisory**

Deloitte & Touche LLP

dkrishna@deloitte.com

+1 212 436 7939



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