The RegTech universe on the rise

The Big Bang...
Throughout the past decade, regulatory changes and the rapid development of financial technology (FinTech) profoundly changed the landscape of financial services as a whole.

One of these changes is the emergence of what could be a called FinTech’s little brother: RegTech. Put simply, RegTech companies (RegTechs) offer solutions that use technology to solve compliance and regulatory issues.

As is the case with FinTechs, this description may apply to companies that were well in business before the buzzword RegTech was born.
The costs of regulatory obligations foster RegTech leap

**>USD 300 Billion**
Post 2008 crisis regulatory fines
(source: FT research)

**492%**
Volume of regulatory change between 2008 and 2015
(source: Thomson Reuters)

**x45**
Increase of regulatory fines in 20 large US and EU universal banks between 2010-2014
(source: McKinsey)

**10-15%**
Of total workforce dedicated to governance, risk management, compliance
(source: McKinsey)
The fact is that RegTechs are becoming more numerous every month and each of them promises to offer radically advanced solutions to existing problems or even brand new value propositions. The task now is to find those solutions that offer true added value and will pass the test of time.

To that end, we have been performing an analysis of the RegTech players on the market and mapped the companies we found into a “RegTech Universe.” We consider this to be a continuous exercise, adding companies and information to the universe every day and are excited to share this information with you on an ongoing basis.

But for now, find some key findings on next pages.

Go to www2.deloitte.com/lu/regtechuniverse to see the RegTech universe we have analyzed so far.
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Top benefits the financial sector can get from RegTech

A recent study by Thompson Reuters showed that organizations are expecting to spend an increasing amount of money and time on compliance activities. How many of these activities could be facilitated by RegTech solutions? Think about an application that could save you valuable time during the ever increasing demands of the KYC process by allowing you access to a multitude of information sources and databases at once. The benefits of RegTech are there, if they are used smartly and are integrated seamlessly into the current organizational structure.

1. Source: please see on page 14
Geographical overview of the RegTech universe
While we kept Europe as our focus for the moment, we included quite a few RegTechs from further away that propose solutions that are too interesting to ignore. Stay tuned to watch the universe grow in the coming weeks and months.
RegTech solutions favor a one-size-fits-all approach
RegTechs that focus purely on the banking or the insurance sector are few and far between. Most of the universe is looking to address all players in the financial industry with their solutions, providing an approach that is flexible and broad enough to cover a multitude of requirements across the band. Only a small number focuses specifically on, for instance, the banking or insurance sector.

From business needs to RegTech features

Financial industry 100%

- Banking 5%
- Investment funds 11%
- Insurance 1%
- Payments and money transfer 8%

RegTech universe

- Compliance 29%
- Risk management 16%
- Identity management and Control 28%
- Reporting 10%
- Transaction monitoring 17%
- Scenario modeling and forecasting
- Risk exposure computation
- Risk reporting
- Identity management
- Identity controls
- Health check
- Web due diligence and security
- Project management
- Regulatory watch and on-line library
- Reporting solutions
- Transaction monitoring and auditing system
Main technology supporting RegTech solutions

**Cloud computing**
Cloud, open platforms and networks for sharing of data, format standards, and common processes.

**Blockchain**
Technology allowing the creation and verification of transactions on a network instantaneously without a central authority. Used to track and speed up the transaction life cycle and cut costs while lowering the risk of fraud.

**Application program interface**
Software solution that allows off-the-shelf RegTech tools to interact directly with regulatory reporting systems.

**Machine learning**
Technology that learns from data and allows automatic reassessment and refinement of processes in reaction to input from users.

**Big Data**
Real-time processing tools/techniques of Big Data to create value out of the massive amount of available heterogeneous and textual data.

**Data mining and analytics**
Use of machine learning and behavioral analysis that offers the potential of powerful data mining and simulation techniques for enhanced decision making and artificial intelligence.

**Predictive analysis**
Solution that looks to identify patterns of activity, such as unusual use of communications, non-routine patterns of leaving the office, non-completion of training, or missing mandatory leave, which may flag potential conduct concerns.

**Smart contracts**
Computer programs to enforce the negotiation or performance of a contract. Smart contracts aim to provide security that is superior to traditional contract law and to reduce other transaction costs associated with contracting through automation.

**Visualization solutions**
New technical solutions for a user-friendly data presentation in order to make sense and to speed up the understanding of complex, heterogeneous, and abundant data.
The majority of RegTechs are still in the startup phase and are no older than three years. With more than half of the RegTechs focusing on “Tech,” there is plenty of room for added-value services.

**Issues addressed**
The one-size-fits-all approach that RegTechs take regarding the sector of the financial industry does not apply when it comes to the issue addressed. About half of the RegTechs focus on one specific problem that their technology intends to solve, e.g., certain KYC requirements. It remains to be seen if those RegTechs that concentrate their strength will endure over those that hope to address a multitude of issues.

**Type of solution**
The “Tech” in RegTech holds true for the service offered, with the majority focusing on a technology-only approach and only some adding a service layer. This too might be a hurdle to overcome during the maturity process of the RegTechs analyzed.

![Chart showing specific and multi-purpose services and technology consulting and technology]

- **Specific**
  - Technology: 61%
  - Consulting & Technology: 39%

- **Multi-purpose**
  - Technology: 78%
  - Consulting & Technology: 22%
The majority of RegTechs are still in the startup phase and are no older than three years. However, more than 40 percent have more than ten employees. This gives a good indication of the potential of the market but it also shows that there is a long way to go before many of the RegTechs in the universe have built up enough reputation to really get to the movers and shakers of the financial industry.

With all this information fresh in our minds, let us take a look back at the introduction: “The task now is to find those solutions that offer true added value and will pass the test of time.” The RegTech universe is a complex space that may seem like a strange new world and it is a continuing mission to seek out new solutions and understand their value propositions for concrete problems at hand. This in itself is an exciting assignment we look forward to working on. Another one is to look at the technology solutions out there and understand if there is a service gap that needs to be filled. In any case, many new players on the market make for interesting times ahead.

**Size in number of employees**

- 1-10 employees: 38%
- 11-50 employees: 46%
- 51-200 employees: 11%
- 201-1000 employees: 5%

**Years since incorporation**

- 0-3 years: 54%
- 4-10 years: 33%
- 10-20 years: 8%
- 20+ years: 5%
In addition to presenting you with our RegTech universe, find below some Q&A that might sound familiar; these are questions our clients are asking now.

What practical steps does the industry need to take to reap the benefits of the growth of the RegTech sector?
First and foremost, we need to invest in confirming what RegTech really can bring in terms of value. By overcoming the buzzword and understanding how RegTechs can influence existing processes today, the industry will not only ensure the continuous growth of the RegTech sector, but grow right alongside it.

Secondly, we believe that many players in the financial industry need to invest even more in innovation programs. Financial firms do have their product development teams, but R&D is not usually a part of their DNA; it is not embedded in their corporate structure. However, in order to ensure and eventually benefit from the growth of the RegTech concept, integrating innovation in the company culture and corporate structure of financial firms is key to stay ahead of the game.

What role do the regulators play when it comes to the adoption of RegTech in the financial services industry?
On one hand, regulators need to embrace new technology and be open and flexible enough to rapidly capture the opportunities that new technologies offer to facilitate processes for the industry and for themselves. Here, what is extremely important to factor in is that new technology has a global reach and cannot be looked at in isolation. For instance, the global recognition of standards with regards to electronic Signatures would certainly be a great accelerator for many developments in business processes and for processes within the regulatory institutions.

One the other hand, regulators need to accelerate the creation of regulatory frameworks to help stabilize promising developments. For instance, cryptocurrencies such as bitcoin, the use of smart contracts, or cloud-based solutions need a sandbox-like environment in which they can improve and eventually prove their stability and maturity as serious concepts for the industry.

What we have seen in our endeavor to understand and promote the RegTech evolution, is that while there are countless promising concepts out there, deep understanding of the regulatory minefield only comes with experience. In this setting, Deloitte is uniquely placed to assist startups and incumbent companies to navigate through requirements and ensure their idea adds true value from a regulatory standpoint. At the end of the day, that is going to make the difference in terms of user and client expectation.

How can the interaction between RegTech solution providers and financial services firms be improved?
First, RegTech providers should find an appropriate way of presenting themselves to the financial community. They now come in numbers and in many different shapes and forms with different maturity levels. This makes it very difficult for established firms to identify the universe of RegTechs, and even more difficult to identify what will suit their needs. Hence, RegTech companies need to look at themselves through the eyes of the established firms, introducing their solution by addressing the particular needs of the firms and focus on how precisely they can add value. At Deloitte we are looking at ways to facilitate this process for RegTechs, using our established network within the industry, so we invite you to watch this space—there's interesting stuff to come!
How much of an imperative is there for heads of compliance/regulatory reporting to be looking into RegTech at the moment? Is it a given that firms will increasingly adopt RegTech solutions, or is there still work to be done? “Growing and more demanding regulations” has been quoted as a very significant change factor in every single presentation of the challenges in the financial industry in the last 20 years. This is simply to make the point that those companies that will have the means to effectively tackle present and future regulatory developments will have a competitive advantage over the others.

In that sense, heads of compliance and regulatory reporting have a great role to play. They perhaps should change the way that they perceive their role, which is often linked to “safeguards and control” and incorporate “business enabler and business development” in their job description. We believe that this is a great paradigm for heads of compliance and we, at Deloitte, would certainly be happy to facilitate the transition.