RegTech:
The way forward for KSA
Abstract
The use of technology to streamline regulatory processes continues to grow and evolve at a rapid pace not only in the Financial Services sector but in other sectors as well. This report states the various benefits that Regulatory Technologies (RegTech) offer and how these are proven by their rapid growth and asks the question of how the Kingdom of Saudi Arabia can galvanize RegTech growth in an effective, change-provoking, and sustainable manner.

The transformational potential of Regulatory Technologies (RegTech) has been confirmed in the last years and RegTech is starting to be positioned as a key solution to meet the increasing demands of regulatory compliance across sectors.

Regulations are fast evolving and becoming increasingly complex. In addition, costs of compliance to those regulations are soaring as regulated entities are expanding their coverage of operations and managing more and more data. In summary, the market is changing and is becoming more aggressive which translates to an increasing, urgent need to become compliant. The emergence of new technologies has accelerated in recent years, bringing along with, the capability to solve problems that were previously unworkable, or too costly to solve. RegTech as a solution employs emerging technology to help address the needs and requirements of the intricate and ever-evolving regulatory landscape.

RegTech initially emerged as a solution explored by financial institutions seeking to improve their compliance practices by using emerging technology. RegTech was conceived in the Financial Services sector mostly after the 2008 global financial crisis to enable organizations to cope with the sudden overload of regulatory complexities and related costs. However, RegTech soon started to diversify to other sectors as it proved to improve compliance, supervisory, and regulatory capabilities.

What is RegTech?
Although a common definition of RegTech is yet to be agreed on, few common themes within the application of RegTech solution have already been identified:
- RegTech solutions can generate benefits for the ecosystem by improving monitoring and regulatory compliance
- RegTech solutions historically have been closely associated with Financial Services and now they is starting to diversify to other sectors
- RegTech solutions address both regulators in search of supervision (SupTech) and regulated entities in search of compliance (CompTech)
- RegTech solutions aim at solving specific regulatory issues / objectives as opposed to general operational tasks

RegTech solutions aim at combining one or more advanced and/or emerging technologies. It is worth highlighting two aspects of this definition: (1) RegTech solutions today cover the end-to-end regulatory market-both from a regulator's perspective in search of supervision, and from a business’ perspective in search of compliance, and (2) RegTech is now applicable in any sector, not just the Financial Services sector.

The key to understanding RegTech and how it differs from other familiar terms such as FinTech or Digitization is the fact that the solution solves specific regulatory issues. Both FinTech and Digitization involve the use of advanced and/or emerging technologies the way RegTech does. But the difference lies in the key objective of this solution: FinTech to support financial processes (e.g., digital payment solutions); Digitization to transform individual institutional operations (e.g., redesign of in-store registration processes).

RegTech emerges as a solution to face the fast-evolving regulatory landscape. RegTech uses new technologies such as Artificial Intelligence, Machine Learning and Robotic Process Automation (RPA) among others, to simplify regulatory reporting, management, and compliance. It offers numerous benefits both for regulators and regulated entities. Regulators can increase their supervisory efficiency and market oversight capabilities, while regulated entities can improve their regulatory efficiency and corporate risk capabilities.

Figure 1: Key RegTech benefits

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<tr>
<th>Regulators</th>
<th>Beneficiaries</th>
<th>Regulated Entities</th>
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<tr>
<td>Supervisory Efficiency</td>
<td>Customer &amp; Employee Experience</td>
<td>Cost Saving</td>
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<td>Market Oversight</td>
<td>Analytics</td>
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<td>Regulatory Efficiency</td>
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<td>Time Saving</td>
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<td>Compliance</td>
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Figure 1: Key RegTech benefits
**CASE STUDY | Orange Telecom uses Onfido RegTech solutions to digitize and automate customer verification process**

**The challenge:**

Orange aimed to make the Orange Flex (a subscription-based telecommunications app launched in 2019 in Poland) experience fully digital, and to do so they needed to move away from face-to-face customer verification. Yet, Orange’s leadership had concerns about the reliability of a fully digital verification process in terms of technology and compliance with AML and KYC regulations.

**The solution:**

Onfido Verification Suite enabled Orange to digitize and automate customer verification processes by confirming customers’ identity through the analysis of their documents and the comparison of photo IDs and selfies.

The solution leverages AI to verify customers’ identities, checks AML and KYC compliance by accessing databases in over 160 countries, and shares the results as KPIs on dashboards.

**Why is it RegTech?**

This solution can be considered as RegTech as it leverages AI and APIs to conduct biometric verifications for customer onboarding and fraud detection, to comply with AML and KYC regulations.

**RegTech market is expected to reach US$45.8 billion by 2032**

The global RegTech market reached US$7.9 billion in 2022 and is projected to grow at a CAGR of 17% to reach US$45.8 billion by 2032. This is concentrated predominantly in the more developed pockets of the world – Europe, UK, and North America. From sectors perspective, while the majority of the RegTech market is taken by the Financial Services Sector, other sectors like ICT are starting to leverage RegTech solutions.

GCC countries appear the readiest for RegTech adoption in the Middle East and Africa, because of the customers’ preferences for digital services, which are also pushed by regulators and policymakers in line with national digital agendas. The RegTech market in the GCC countries is projected to grow from US$160 Mn in 2021 to US$1.1 Bn in 2032.

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**Figure 2: Global RegTech market by geography in 2021 and 2032 (Deloitte and FMI Report, 2022)**
If we analyze the RegTech Market in 2021 by industry, the Financial Services sector had the largest market share, representing 39% of the global RegTech market in 2021, and is projected to grow to represent 48% of the market by 2032. The ICT sector is the second most attractive sector for RegTech and is projected to attract 23% of the total market revenues in 2032.

**RegTech market in Saudi Arabia (KSA) is also starting to accelerate**

The global RegTech market is poised for significant growth in the coming years, and Saudi Arabia is following suit. The local ecosystem of RegTech providers is starting to evolve, and some homegrown RegTech providers are emerging. A majority of the homegrown RegTech providers started as IT Solutions providers and recently expanded their portfolios to include RegTech as well.

Following the global trend, RegTech providers operating in KSA are oriented to the Financial Services sector, followed by Government, ICT, and others.

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*Figure 3: Global RegTech market by Industry in 2021 and 2032 (Deloitte and FMI Report, 2022)*

*Figure 4: RegTech providers in KSA (Deloitte, 2022)*
RegTech has the potential to achieve the ambitions laid out in Vision 2030, including stimulating the digital economy, boosting SME contribution to the GDP, and enhancing Foreign Direct Investments in the Kingdom.
For RegTech to flourish, the ecosystem and its components must be catalyzed. Governments and government agencies are well-positioned to shape the growth of many of the enablers, which in turn can stimulate the core elements and boost the demand and supply of RegTech. Enhancing regulation is key to promote a stable ecosystem. Encouraging associations to connect with RegTech stakeholders nationally and internationally, promoting funding (e.g., incentives), attracting innovative solutions and startups (e.g., sandboxes) or nurturing and attracting talent are some of the potential measures to boost the enabling components.

The time is now
This is an opportune time to scale up effort and investments in growing the RegTech ecosystem. RegTech provides the solution to the pressing requirement of modernizing regulatory compliance. The use cases and benefits of RegTech have been evidentially proven, to some extent, in the Financial Services sector, which is arguably among the most challenging ones in terms of regulatory complexity and sensitivity of data.

RegTech is revolutionizing the way regulators and regulated entities operate. The market for RegTech is expanding as a result of increasing corporate complexity and shifting regulatory requirements and as more organizations adopt this technology. RegTech helps regulators track regulatory compliance and regulated entities meet the regulatory requirements. As more regulators and companies adopt these solutions, the need to join the trend will increase. It would be therefore prudent for Saudi Arabia to build prominence in RegTech in different sectors, becoming a leader in the region and a hub for RegTech companies willing to serve this growing market.

Encouraging the development and adoption of emerging technologies, such as Artificial Intelligence, Machine Learning, Natural Language Processing will support the Kingdom's 2030 ambition of economic diversification and digital transformation.
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