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REG
TECHNOLOGIES



BUILDING A FASTER, SMARTER, SAFER MARKET: RESEARCH REPORT

Navigating the compliance landscape and the
use of technology for financial services firms

This research report delves into the challenges posed by the ever-evolving regulatory landscape, which have resulted in decreased process efficiency and compliance impacts. Despite the proliferation of technology, the market remains hesitant to fully embrace regulatory technology (RegTech) solutions. However, businesses that have adopted RegTech have experienced significant benefits in streamlining their compliance operations. How can the market overcome the barriers and leverage technology to thrive in the face of regulatory pressures?

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INTRODUCTION

In 2021, REG carried out research into the compliance processes of the insurance industry, exploring its understanding and usage of technology to enhance and automate compliance processes. Since then, both the market and technology have evolved. As the market becomes suffocated by the burden of mounting regulation and the imperative to combat financial crime remains stronger than ever, how much are companies still relying on outdated tools and processes when the benefits of technology adoption are so strong?

The ever-changing and complex regulatory requirements place a heavy burden on insurance and financial services organisations, leading to increased costs, siloed resource allocation, and operational inefficiencies. Regulated businesses need to act faster, smarter and safer to ensure the integrity of their organisation. RegTech is renowned for its ability to streamline, automate and accelerate B2B trade, and it is evident it needs to be taken advantage of. There is no time for error prone processes, periodic checks of trading partners and slow or missed reactions to adverse changes. With technology there to be taken advantage of, is the market exploiting these advancements effectively?

By examining the evolving landscape of regulatory compliance and the role of technology, including insights into the many compliance challenges faced by insurance and financial services firms, this research seeks to shed light on the need for swift and intelligent adoption of RegTech to ensure the integrity and efficiency of organisations in the face of complex regulatory challenges.

In October 2023, REG Technologies carried out extensive research to understand attitudes and sentiments in the insurance and financial services market around the following subjects:

- Starting Business Relationships
- Regulatory Processes and Reviews
- Compliance Challenges
- Regulatory Burden Pressures
- International Regulatory Adherence
- Usage & Knowledge of RegTech Solutions

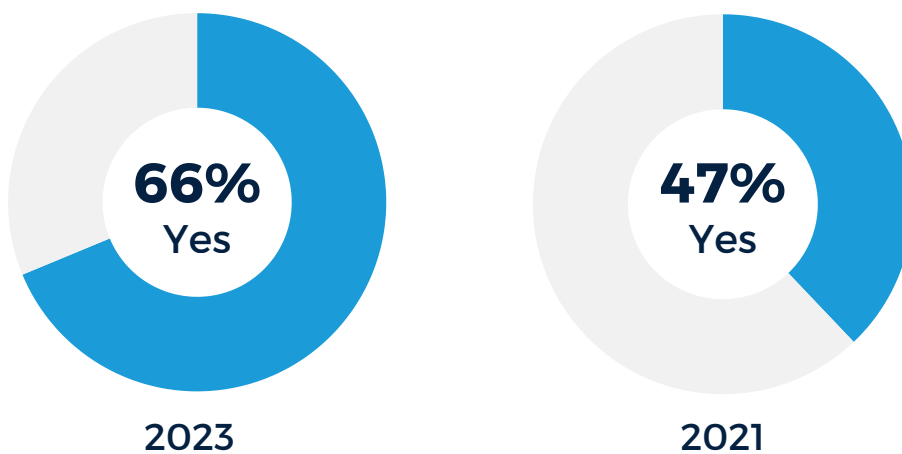
Respondents included 282 compliance professionals and were categorised as working in General Insurance (GI) and Reinsurance or Financial Services (FS) and Investment Activities in either the US or UK markets.

This document summarises the results of the research and includes analysis and views from REG Technologies.

STARTING BUSINESS RELATIONSHIPS

In industries that rely heavily on relationship building, the market is missing opportunities by promoting slow processes and hard to meet demands of statutory and regulatory obligations.

Do statutory and regulatory obligations slow down starting new business relationships?



66% of both GI and FS companies feel that regulatory and statutory obligations slow down starting new business relationships, compared to an average of 47% three years ago. This figure is concerning, as it indicates organisations are increasingly struggling to meet compliance demands, resulting in missed revenue opportunities.

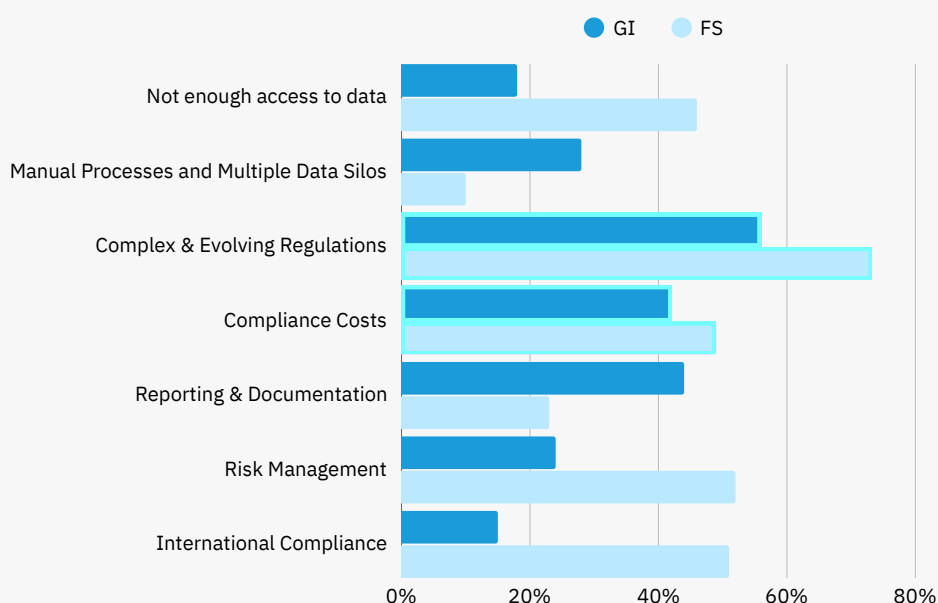
As expected, there is a clear correlation between the number of employees and the length of time taken to start new businesses relationships, with larger companies stating they feel the burden more. UK companies were also identified to be impeded by statutory and regulatory obligations more than the US when forming new relationships.

CHALLENGES IN MEETING REGULATORY REQUIREMENTS

Complex and ever evolving regulations are seemingly burdening operations, leaving firms overwhelmed and susceptible to non-compliance. Likewise, the rise in compliance costs is clearly influencing both sector's abilities to meet the demands of regulators. Meeting regulatory standards is not a maybe it's a must, so with burdening expenses both from monetary influences and manual operations, and the clear deficit in streamlined processes, why are firms not exploiting the technology that is readily available? Outdated process are hampering operations, diminishing firms' abilities to conduct appropriate risk assessments.



What are the biggest challenges you face in meeting regulatory requirements?



- It is evident the FS sector has automated and centralised their processes at a higher rate than the GI. Only 10% of FS firms state manual processes and multiple data silos affect regulatory adherence efficacy, compared to 28% of the latter.
- It is clear the GI sector is more equipped to access relevant data compared to the FS sector, with nearly half of respondents from the FS sector stating this was a significant challenge.
- Time, lack of understanding of regulations and bureaucracy were also noted to be contributing factors to the challenges.

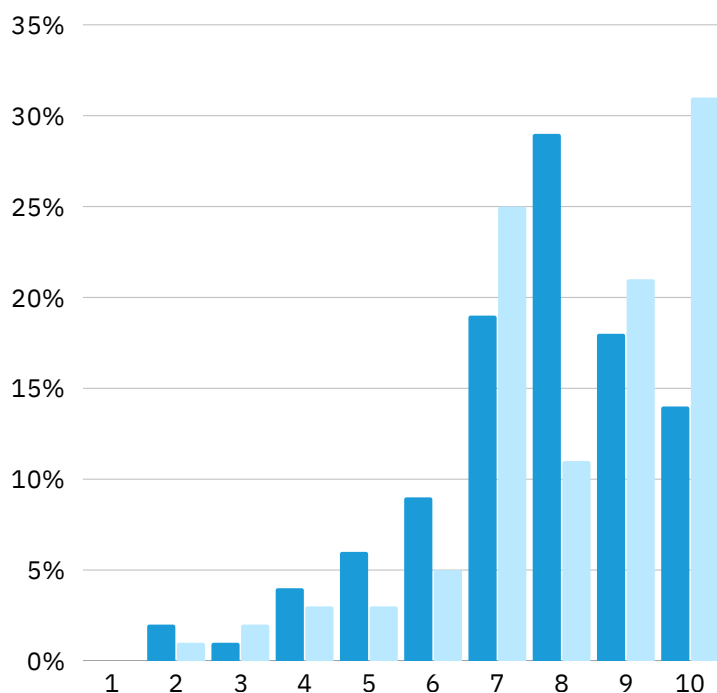
THE REGULATORY BURDEN

“The regulatory burden is only set to continue intensifying”

(Clyde & Co, 2023)

On a scale of 1-10, How would you rate the level of regulatory burden on your organisation?

● GI ● FS



The impact of the regulatory burden is being felt across both sectors - this is only worsening, with 74% of all respondents in agreement that it has increased over the past year.

Has this burden increased or decreased in the past year?

69%

Increased

GI

79%

Increased

FS

Factors Influencing Regulatory Burden:

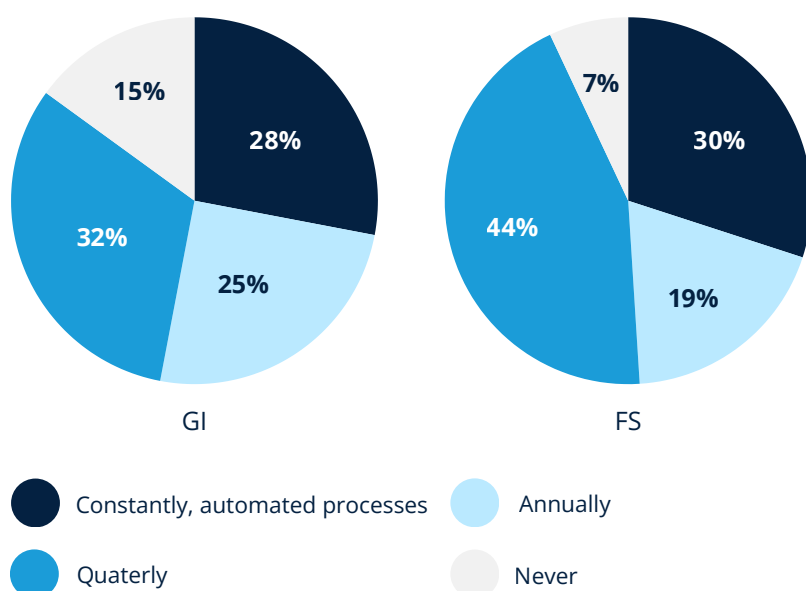
- Operational Inefficiencies
- Proliferation of Regulations
- Frequent Changes and Updates
- Heightened Scrutiny
- Data Management and Reporting
- Increased Compliance Costs

With no signs of abatement due to the complexities and heightened scrutiny the market faces, what can the market do to release the pressure? To navigate the regulatory burden effectively, financial institutions must adopt proactive compliance strategies. This involves embracing sophisticated compliance systems like RegTech solutions. By leveraging automation technology to streamline regulatory processes, management and reporting, investment returns are quickly evident and firms can set an exemplary standard for regulatory adherence.

REVIEWING RELATIONSHIPS

Continuous due diligence is essential, as it not only prevents financial crime and compliance violations, but also serves as a dynamic catalyst for informed decision-making, risk mitigation, and sustained business development.

How frequently do you review your trading partners?



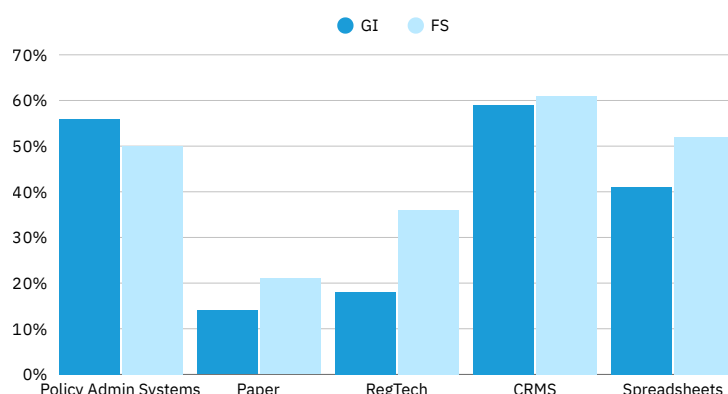
Despite an average 10% growth in continual monitoring of trading partners from 19% in 2021, **over 70% of the FS and GI market still rely on infrequent reviews and manual processes when reviewing their counterparties**. This is especially true for small companies who are most likely to review their trading partners on only an annual basis. Contributing to these periodic checks is the lack of capacity among smaller firms. However, this infrequency leaves defence systems weak and companies more susceptible to compliance breaches by employing a non-reactive approach. Continuous due diligence is becoming increasingly important as it ensures ongoing compliance, timely risk identification, and a proactive approach to demanding regulations.

RELATIONSHIP TECHNOLOGY

With an average confidence rate of 83% regarding abilities to manage and mitigate potential risks associated with third-party vendors or business partners, how can sentiment be so strong when the market still heavily relies on outdated and traditional technologies which hamper effective compliance management?

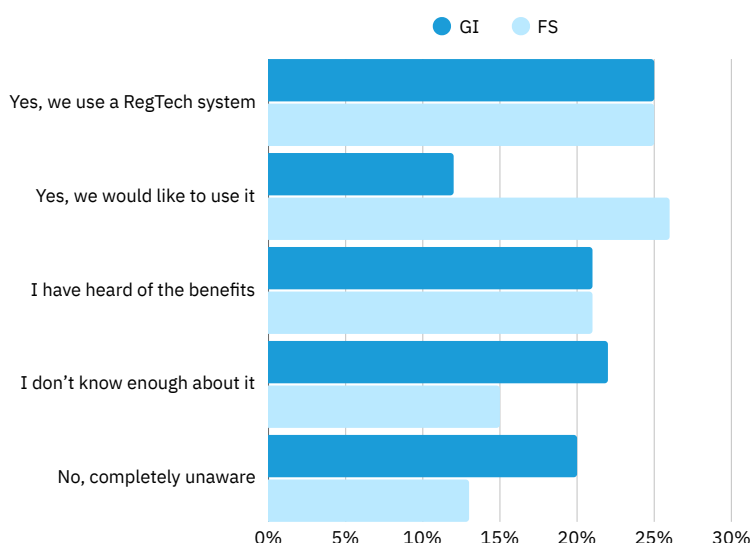
The predominant tools for managing regulatory, legal, and compliance risks in the GI and FS sectors are Customer Relationship Management systems (CRMs) and Policy Administration Systems, with paper-based methods being the least favoured. Despite the known risks of errors, spreadsheets persist in their usage as a tool for managing regulatory tasks.

How do you manage your regulatory, legal and compliance risks?



Large companies (over 500 employees) favour CRMs and Policy Administration Systems, emphasising scalability, while smaller enterprises lean towards spreadsheets. RegTech finds its niche among mid-sized companies (100-1000 employees), showcasing its adaptability for comprehensive yet manageable regulatory solutions.

Are you aware of RegTech and how it can automate your regulatory, trading and legal obligations?

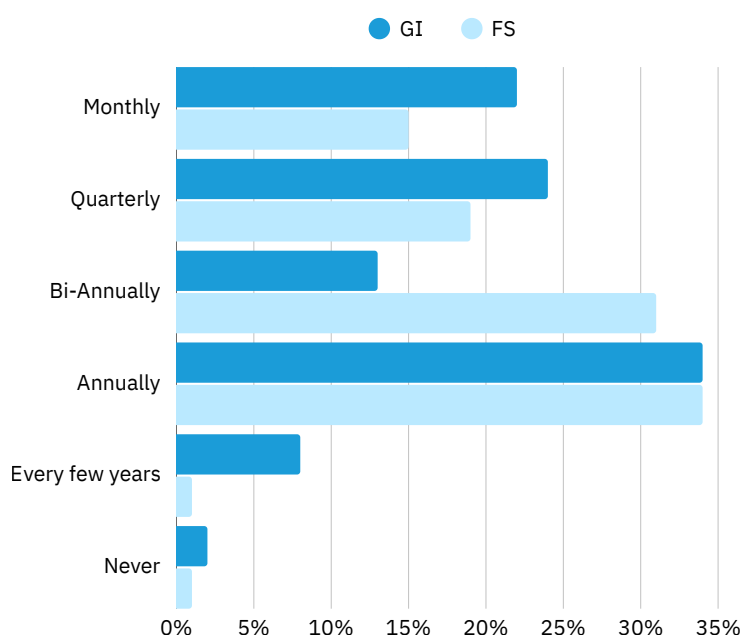


There has been substantial growth in the adoption of RegTech since 2021, with an increase from an average usage rate of 7% to 25%, however utilisation still falls below a third of the industry. RegTech's capacity to provide real-time data and comprehensive insights, enhance data accuracy, and streamline compliance processes, offers a more robust and error-resistant solution to navigating the complexities of the regulatory environment. It is encouraging that 21% of respondents acknowledge these benefits, with FS firms displaying a heightened interest in adoption. But with an average of 35% of the market either stating complete naivety or lack of knowledge of the software, the data suggests the need for increased education of RegTech amongst the market, to ensure a cohesive and streamlined approach to compliance and risk mitigation.

REVIEWING PROCEDURES

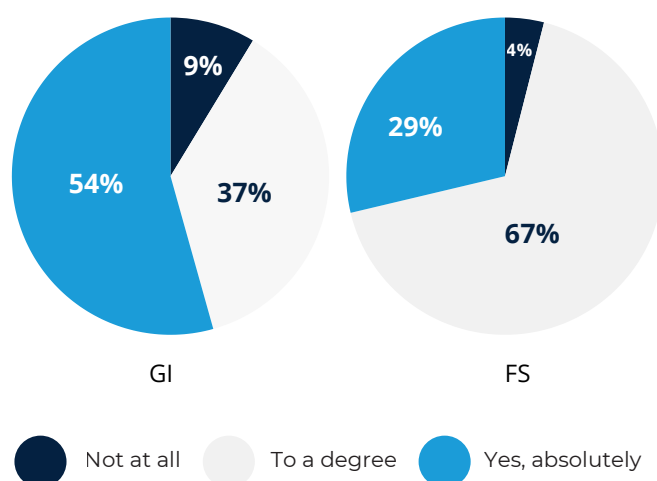
Reviewing internal procedures to appease external regulations and audits is vital, to ensure operations meet the demands of the evolving landscape. Outdated processes and the inability to be reactive in an industry that prides itself on being secure, trusted and reliable, can lead to failed audits and fines that otherwise could have been avoided.

How frequently do you review and update your compliance policies and procedures?



90% of both sectors are adamant that meeting external compliance requirements is a top priority, however the majority only review processes annually - is this enough?

Do business development, agency and compliance departments work together effectively?



With nearly a quarter of FS respondents stating cross-team collaboration is only effective to a degree, it is evident processes need to be enhanced. Hence, it is essential to conduct comprehensive and regular evaluations of procedures, to examine every possible avenue for accelerating processes.

GI firms remain more positive in their ability to effectively collaborate across departments compared to FS firms, with 54% stating high confidence compared to only 29% of the FS pool.

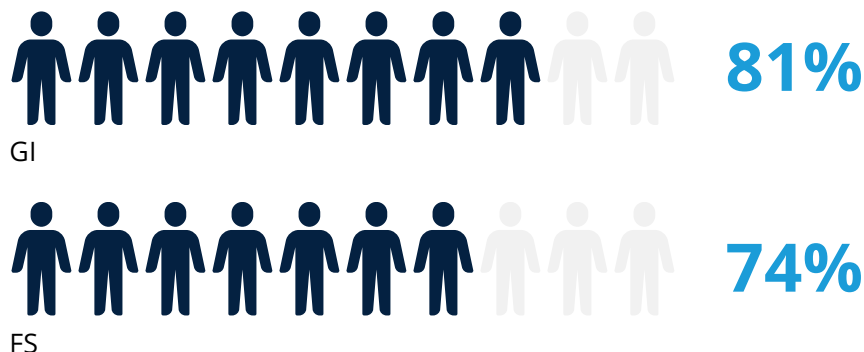
By proactively seeking out and leveraging technology that accelerates processes, organisations can position themselves as trusted and reliable entities, while gaining a competitive advantage in the market.



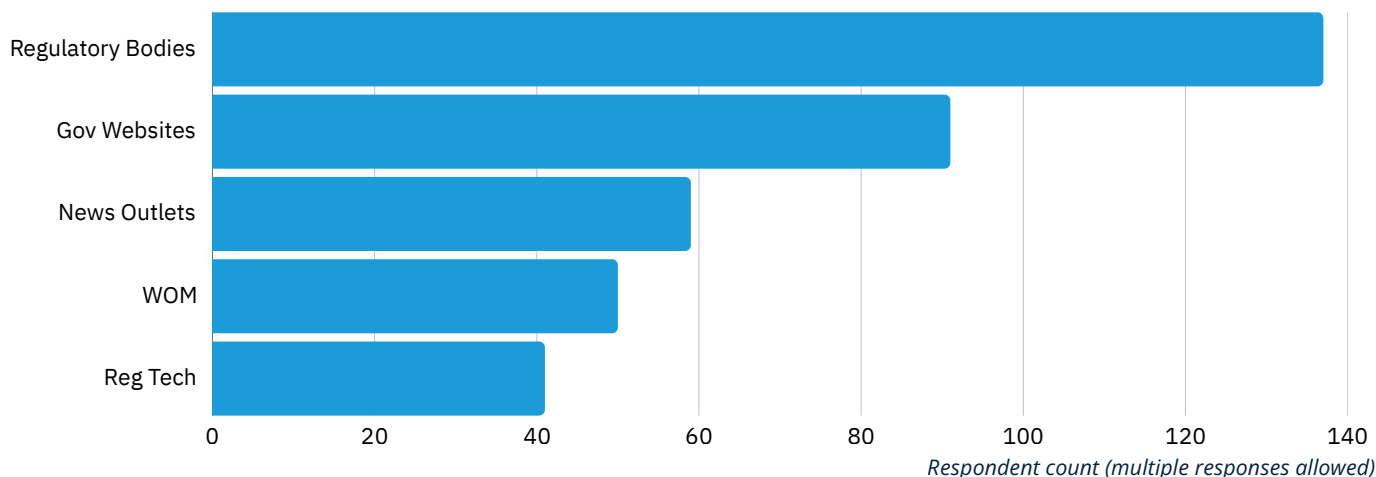
KEEPING UP TO DATE

In the GI and FS sector, the demand for news and information to stay informed about regulatory changes is evident across both, yet the review of such updates tends to be infrequent.

Do you want to be kept up to date with the latest news and coverage about your trading partners?



How do you stay informed about the changes in regulations and laws that affect your organisation?

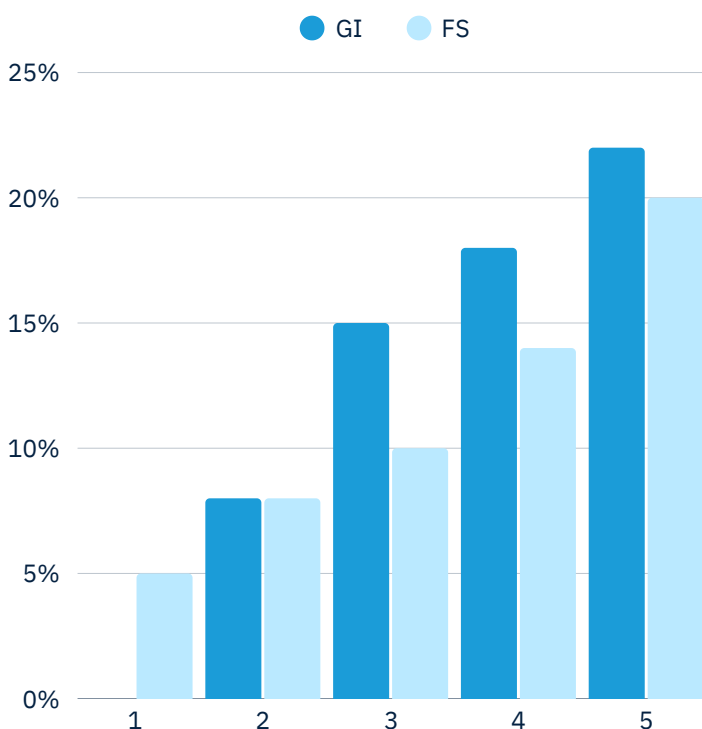


Overall, regulatory bodies are the primary point of reference for monitoring changes in regulations and laws. 87% of respondents who use RegTech to manage their regulatory, legal and compliance risks stated they also use it to stay informed. However, despite its encompassing capabilities, RegTech remains underutilised. This underutilisation is significant, considering that RegTech serves as a dynamic platform that not only ensures real-time updates, but also combines data from multiple sources, including regulatory bodies, government websites, and news outlets. This proactive approach not only streamlines information access, but also enhances the reliability of staying informed amidst the constant changes in the regulatory landscape.



INTERNATIONAL REGULATORY ADHERENCE

Out of the 148 respondents who stated they operate internationally, we asked the question - How confident are you in ensuring compliance with global regulations, on a scale from 1-10?



It's great to see the overall sentiment to this question was positive, with 40% and 34% of respondents stating high confidence levels (4+) in the GI and FS sector respectively, and the insurance industry displaying the highest rates of confidence with international trade. However, with the complexities of international trade and regulation, ensuring robust adherence to differentiating regulations is paramount. The market must continue to adopt dynamic strategies to ensure it remains vigilant when facing the complex international landscape.



COMPLIANCE ISSUES

With regulatory fines reaching £53m in 2023, as sanctioned by the FCA, and global AML fines totalling over £5bn in 2022, compliance issues are certainly not scarce among GI and FS firms. Companies and individuals failing to adhere to regulatory standards are at a higher risk than ever from fines and penalties.

Within the last 12 months, 81 respondents declared that they had faced compliance or legal problems. When asked to divulge what these issues were, the standout themes were:



Regulatory Changes and Challenges

Including compliance with increasing regulations, from Consumer Duty to AML to banking; complexities and workload of constant regulatory reforms; regulatory overreach and lack of understanding of regulations leading to non-compliance



International Compliance

Including struggling with compliance with international standards; differences between countries, especially in the realms of finance and trading



Financial Crime

Including tax evasion; money laundering; consumer lending laws; failing to detect financial fraud



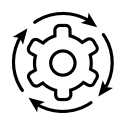
Data Protection and Cybersecurity

Including issues with securing information across countries; compliance with know your customer (KYC) requirements; software bugs and system breaches



Legal Challenges

Including lawsuits against competitors and from customers; legal compliance challenges; unclear disclosure; GDPR compliance; sanctions affecting business with Russian clients; CMS issues; internal SOX¹ not meeting standards; dealing with the SEC



Operational and Internal Challenges

Including acquiring new brokers; ineffective teams; staff not being compliant; lack of diversity; networking challenges; internal auditing issues; opening new businesses, workplace fraud, policy failures, infrequent reviews

(1) The Sarbanes-Oxley Act of 2002 is a U.S. Congress law, established to help protect investors from fraudulent financial reporting by corporations.



SUMMARY

3 years on, the market is struggling more than ever to adhere to regulatory standards and mitigate risks associated with trading partners. These challenges are being heavily influenced by the mounting regulatory burden, which has been noted to only continue intensifying. As a result, firms are left dealing with significant consequences imposed by regulators from failing to comply.

Meeting compliance standards is noted as a top priority amongst the market, yet many are failing to do so efficiently due to the outdated and manual processes employed. It is evident GI and FS firms need to act diligently to ensure the integrity of their organisation, but can they when reliance on inefficient and error prone operations is so prominent?

Although firms have started to embrace technological advancements in the form of RegTech to manage their regulatory, compliance and trading needs, the lack of adoption across the market proves a worrying concern. Undoubtedly, the market needs to be proactive in choosing their compliance solutions, and invest in intelligent technology proved to provide a first line of defence against financial crime, inform business decisions, manage third-party risks and ensure a centralised approach to due diligence and compliance.

The plethora of compliance challenges across the market serves as a stark reminder of the complexities and challenges faced by regulated businesses when continuing to operate in a de-centralised, inefficient and unreliable manner. RegTech offers pioneering solutions to overcome compliance challenges.

Ultimately, in today's complex and ever-changing regulatory world, businesses must find a way to stay ahead of the curve. Players that arm themselves with the best compliance tools, information and analytics are ensuring they are best equipped to manage regulatory needs, succeed in holding a competitive advantage, access routes to revenue fast and accelerate trade faster, smarter and safer.

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