Regtech

What is regtech?

Regulatory technology, often shortened to regtech, is a subsection of fintech that specifically focuses on providing companies with technology solutions which help them meet their regulatory requirements and processes. Although the term regtech technically applies to all regulated industries its main use is within financial services. In this Jersey Finance Put Simply we focus on regtech in the context of financial services in Jersey.

After the 2008 financial crisis, many new laws and regulations were introduced to improve consumer protection and protect the financial system. This meant financial services companies had additional work to do to meet these requirements with many firms turning to the use of technology to help.

What is financial services regulation?

Financial services regulation refers to the rules and laws which have been put in place to protect consumers from unintended or harmful practices by financial services firms. In Jersey, financial services regulation is set by the Government of Jersey and enforced by the Jersey Financial Services Commission (JFSC).

Which regulations firms have to comply with varies by the type of activity firms are permitted to undertake. Common examples of regulatory requirements can include knowing who your clients are (KYC), reporting suspicious activity, preventing fraudulent activity, and ensuring adequate processes and controls are in place to protect clients and the firm. Financial services firms have compliance teams to undertake appropriate checks and decisions to ensure firms are complying with relevant regulations. More information can be found by visiting the JFSC website.

Why is regtech important?

Criminals, and those seeking to cause harm to a financial services organisations or their clients, are becoming increasingly sophisticated in the way they do things and the technology used. Regtech is an important way of using technology to protect firms and their clients by improving the way risks can be managed.

What are the benefits of regtech?

It is not mandatory to use regtech, the majority of checks and controls a business must follow can be done manually, however regtech can sometimes improve or even automate processes making them faster and cheaper.

Different organisations will have different risks that they want to manage, so will use different regtech solutions to get the benefits that meet their business needs, but the main benefit is improving the way an organisation meets their regulatory requirements.

What are some examples of regtech?

Emerging technologies, different regulations and different types of financial services activity, combined with the evolving sophistication of criminals, mean that regtech is an evolving area. The examples below are the most commonly used types of regtech by financial services firms in Jersey.

Identity verification
Also known as ID&V, E-ID or eKYC, these regtech solutions include digital solutions for undertaking KYC checks to help identify whether an individual is who they say they are. Some solutions help with the collection of evidence of identity and some can collect and verify the information too. These can be online or mobile phone apps that can scan documents to check their authenticity and help undertake checks on an individual's address.

Client screening
Regtech can automate the requirement to undertake checks on a client against certain aspects, such as known lists of criminals or terrorists, whether people or companies are subject to prohibited or sanctioned activities, or whether the person is a politically exposed person. Screening solutions flag any matches so that an organisation can act upon the alert and help prevent the use of a financial services

firm for money laundering or the funding of terrorist organisations. This helps to develop a full understanding of the client, so that businesses have better information to risk-profile their clients. This allows organisations to make more informed decisions on whether they want to take-on a client.
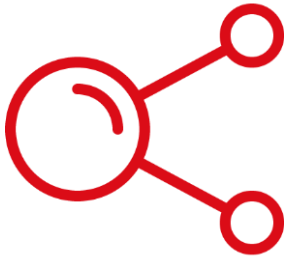
Transaction monitoring

These are solutions that can monitor types of transactions undertaken by a client and flag any suspicious activity or change in client behaviour which may be a sign of fraud or criminal activity taking place.

Trade and reporting solutions

Certain business activities have a regulatory requirement to ensure processes were correctly followed. This can include proving that the client was given clear information or that the client agreed to a set of terms and conditions before undertaking an activity such as a trade or payment.

Reporting solutions can also be used to prove to the client, as part of internal control checks, or to a regulator, that the firm has operated within the rules of the regulation.

Do regulators use regtech?

Financial services regulators such as the JFSC do not have any clients so they do not use regtech in the same way as financial services firms, but that does not stop them using certain types of regtech to independently understand activities and checks undertaken by firms that they supervise. Supervisory technology also known as Suptech is the use of technology by supervisory agencies such as the JFSC to help supervision of regulated financial services firms.

More and more frequently around the world, supervisory agencies have explored how digitising reporting and regulatory processes can create more efficient and proactive monitoring of risk and compliance within financial services firms. Two areas of 'Suptech' have been explored most by supervisory authorities; data collection (which includes reporting, data management and virtual assistance); and data analytics (including market surveillance, misconduct analysis and micro/macro prudential supervision).

Regtech and regulatory collaboration

Across the world many regulators have found that through sharing thinking and ideas and by working together they can encourage a common set of best practices or standards which in turn help provide the clarity needed for regtech firms to grow and for finance firms to use the regtech solutions available.

The JFSC engage with international organisations including the International Organisation of Securities Commissions (IOSCO) and the Global Financial Innovation Network (GFIN) to monitor fintech and regtech developments around the world.

Through its engagement, the JFSC can consider any regulatory implications, prepare any regulatory amendments and engage the local community in a meaningful, timely way. Equally, it gives the JFSC the opportunity to collaborate with like-minded regulators and industry bodies across the world.

Global Financial Innovation Network

The JFSC is a member of the Global Financial Innovation Network (GFIN) – a group of financial regulators and related organisations committed to supporting fintech and regtech innovation in the interest of consumers.

GFIN has three primary functions:
- to act as a network of regulators to collaborate and share experience of innovation in respective markets, including emerging technologies and business models, and to provide accessible regulatory contact information for firms;
- to provide a forum for joint regtech work and collaborative knowledge sharing/lessons learned; and
- to provide firms with an environment in which to trial cross-border solutions.

What are sandboxes and regulatory sandboxes?

A sandbox environment is generally defined as a ring-fenced area where real world development, testing and trials of new ideas, products, and services can be undertaken. In private companies these can also be known as innovation labs or hubs, often with dedicated teams of people to support the firm's innovation priorities.

Sandboxes, labs, or hubs allow the client to sign-up to help a firm with their exploratory ideas in the understanding that there may sometimes be changes to the product or times when the service may be unavailable.

A regulatory sandbox largely acts in the same way however the regulator is directly involved in the process and has oversight of the activities being undertaken. The regulator has the right to impose certain conditions on a company to protect the underlying consumer, these could include restricting the amount of clients that may use the technology solution, limiting transaction sizes, reducing the client types or market that a firm may sell the product to, or the time that a company may use the regulatory sandbox for.

Does Jersey have a sandbox?

Jersey's response to fintech and regtech innovation is strong, the JFSC has the ability to apply individual conditions to a firm they regulate to ensure robust protections are in place. Regulated firms or fintechs seeking to work with a regulated firm that want regulatory oversight can approach the JFSC to find out more.
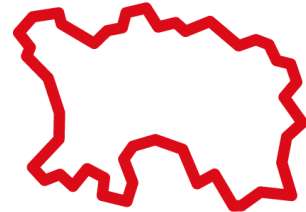
To support fintech growth and adoption Jersey's fintech sandbox is run by Digital Jersey who provide a wide range of support to fintech businesses including assistance with business licensing, networking, co-working space. More information can be found on the Digital Jersey website.

Where can I find more information?

For more information on regtech or fintech visit the dedicated Jersey Finance fintech page.