The rise of regtech

Rise Insights report
#HomeofFinTech
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Foreword: Regtech empowers greater regulatory compliance

Regtech is all the rage since the Great Recession in 2008, when we saw the collapse of financial institutions and phrases like “too big to fail” got thrown around.

Loose compliance controls, the lack of risk management frameworks, the lack of forethought on the impact of systemic failure on our economies, the lack of accountability to customers and fraudulent behaviours shocked the financial world and beyond, which called for a transformation in oversight. With vast amounts of data that needed to be analysed, catalogued, curated, explained and presented, a paradigm shift from people power to automation was required. Fintech fit the bill. In particular, one part of it, regtech, was focused on making regulatory reporting more efficient and accurate in order to prevent or lessen the impact of future economic disasters.

In the intervening years, businesses have transformed the way they interact and transact with customers—it’s faster and nimbler than ever before. But for large organisations like big banks and financial institutions, it can be a difficult pivot, especially if they’re still operating with legacy systems. Which is why they’ve increasingly looked to partner with fintechs that offer targeted solutions that can be quickly implemented and be compatible with their evolving technology estates.

According to Forbes, over 65% of banks have partnered with at least one fintech over the last three years. Other research shows regtech investments can save the UK’s top five banks over £500 million annually in compliance costs. These two data points speak to the importance of regulatory reporting. In 2020 alone, a staggering number of fines were levied on financial institutions and, according to research, share prices of companies caught up in anti-money laundering (AML) scandals take a big hit.

At its heart, regulatory reporting is really about data, as you may have read in our past report “Making data count with AI”. Vast amounts and types of data need to be sifted through and computed when both modelling and reporting. In a digital world, this should no longer be a manual process. Combined with advanced data analytics tools such as AI and ML, regtech can help tap into massive datasets collated from giants in the banking and e-commerce industries, enabling companies to have big data tools without the pain of managing big data themselves.

How does that help? To take just one example, it leads to more accurate pinpointing of unusual activity by linking information like address, phone, email and device to a single individual.

As with all things digital, the frontier keeps expanding. Regtech’s next challenges lie with blockchain and crypto. The excitement surrounding blockchain (a decentralised, encrypted system for securely storing information) and cryptocurrencies is abundantly clear, but as with all new technology, new ways of perpetrati...
A PoC for greater oversight

As a result of damaging financial crises, sweeping regulatory changes brought innovators to the drawing board.
Regtech spurred on by a rapidly changing regulatory environment

Over the past decade, regulatory compliance has been a dominant theme for financial institutions. In a post-Great Recession landscape, mitigating risk and adhering to new and evolving requirements have remained key priorities, with firms having to adjust their operational practices to meet the demands.

This mounting complexity has provided the impetus for a rapidly growing regtech sector, which has emerged as one of the fastest advancing areas of financial technology. The global regtech market size is expected to grow from $5.46 billion in 2019 to $28.33 billion by 2027, with spending on regtech estimated to make up more than 50% of global compliance budgets by 2026.

Sector growth is also evident in increased deal activity. For example, the total value of venture capital, private equity and merger and acquisition investment deals in regtech increased from $1.7 billion in 2019 to $12 billion in 2021. This growth is spread across several different areas, including client identification, data privacy, transaction monitoring, risk management and regulatory reporting.

So, what’s driving the regtech boom?

Regtech solutions are not just a ‘nice-to-have’—complying with regulations is a mission-critical part of businesses’ operations and is often beyond the reach of legacy technology. Since the 2008 financial crash, global regulators have stepped up their scrutiny of banking practices and imposed more than $300 billion in fines and penalties on banks. To avoid penalties, financial institutions have increasingly turned to technology-driven solutions that can help maintain the accuracy of regulatory disclosure and meet compliance requirements.

In addition, many G20 regulatory reforms are currently under way. The amendments to the Commodity Futures Trading Commission’s swaps reporting rules (CFTC Rewrite) in December 2022—as well as upcoming changes to the European Markets
Infrastructure Regulation (EMIR Refit) and to several Asia-Pacific reporting regimes in 2024 and beyond—are part of a global overhaul of G20 trade reporting rules. Regtech is playing a central role in helping firms comply with these ever-evolving standards.

The realisation that constant regulatory changes are a fixture has significantly boosted regtech applications. According to the Global City 2021 regtech report, almost two-thirds of regtech firms experienced sales growth in 2020. Meanwhile, KPMG has outlined regtech as a “particularly hot sector in the EMEA region in the last few months” in the wake of macroeconomic headwinds and upcoming regulatory changes.

Regulators and supervisors themselves have ramped up their involvement across a number of regtech projects. Several of these are in an advanced stage. Following their successful digital regulatory reporting pilot, the UK’s Bank of England and Financial Conduct Authority are executing on a strategic Transforming Data Collection (TDC) plan. The European Commission’s Machine Readable and Execution Reporting Requirements (MRER) proof-of-concept is leading to actionable recommendations to the various European Supervision Authorities. These types of initiatives demonstrate regtech’s real-world impact, providing the catalyst for the industry adoption of such solutions.

Regtech success: Digital Regulatory Reporting (DRR)

Typically, three common denominators are the hallmark of successful regtech implementation—collaboration, standardisation and the spur of regulatory change. One of the most successful implementations that features all three is the Digital Regulatory Reporting (DRR) programme.

Regulatory reporting is a complex and expensive area of compliance. For instance, the Bank of England estimates that regulatory reporting activity costs UK banks a minimum of £2-4.5 billion annually. Reporting firms face an array of overlapping, often ambiguous and ever-changing data requirements across jurisdictions. For every reporting regime, firms must typically sift through hundreds of pages of legal text, which they must then manually interpret and code in their IT systems.

Instead of each firm individually interpreting the rules, DRR allows market participants to work together to develop a standardised interpretation of the regulations and store it in an openly accessible format as both human-readable and machine-executable code. As a result, DRR is also emerging as a primary tool to help mitigate any divergence between jurisdictions. Collaboration works because there is no competitive advantage in reporting differently from other firms—in fact, using a standardised interpretation reduces non-compliance risk.

Following the International Swaps and Derivatives Association’s (ISDA) launch of the full open source version of the DRR model, with an initial focus on the CFTC Rewrite which went live in December 2022, firms can now leverage DRR in a live production setting. Recently, BNP Paribas announced that it had successfully tested and implemented DRR against the amended CFTC rules.

Regtech in the short term...

Although technology is a vital enabler of compliance, the sector needs to overcome several challenges. The Global City 2021 regtech report found that the largest barrier to regtech adoption in the UK is long procurement cycles in buying organisations, with over 10% of regulated institutions citing complex onboarding processes as a major hindrance. Looking ahead, vendors and financial institutions will need to find ways of ensuring that firms have the right infrastructure in place to integrate regtech into their operational systems.

Likewise, although regtech has grown rapidly, many financial services firms lack full understanding of how these solutions work and the benefits they bring. According to the Financial Conduct Authority, 41% of industry participants believe that regtech companies could communicate their offering more clearly.

The regtech market is still maturing. While we should expect barriers towards greater adoption, this should not detract from the exciting opportunities that regtech presents. The sector is ultimately on a strong upwards trajectory, with game-changing programmes like DRR demonstrating that it will continue to lead the way in financial innovation.
Regulation and regtech for next-gen economies

Many argue that effective financial regulation is the cornerstone of a vibrant economy and dynamic society. It enables economic and social confidence and provides a stable financial services ecosystem, ensuring the interests of citizens, investors and enterprises are well-served.

This message came through loud and clear during the research of the Fintech Research and Innovation Roadmap, led by Fintech Scotland and published in March 2022. Industry participants reached a unanimous view that technology has the power to change our approach to regulation with a new paradigm that combines technologies such as AI, ML, API, cloud infrastructure and DLT, with human intelligence and expertise.

No longer a ‘nice to have’, regtech is now a ‘must have’

Markets, services and institutions are working with new and emerging technologies in ways that were perhaps unknown prior to the 2008 financial crisis. Driven by customers’ digital experiences in other industries, the future of financial services will be enabled through technology and fintech innovation. Fintech enables instantaneous customer experiences and creates new ways of consuming financial products and services. The rapid evolution of fintech also requires a similar pace for the use and adoption of technology in regulation, risk and compliance.

Both are needed, side-by-side, to help financial institutions remain competitive and enable all of us to have confidence in the evolution of the future digital economy. But regtech needs to keep evolving because it has the potential to drive more confidence in regulatory compliance than current options.
Regtech innovation = greater inclusion

To put it another way, regtech innovation will mean financial products are less complex and expensive for consumers, driving more inclusion. Imagine a financial services landscape supported by technology, data and regulation that anticipates and interprets consumer need, proactively helps address climate change, builds financial resilience, enables risks to be mitigated before they crystallise and reduces debt and the cost of services. That’s a win-win for customers and businesses.

Open banking presents an example of this evolution, where regulation, tech and data are helping build financial resilience. Open banking coupled with mobile banking and ML algorithms can enable lenders to look at and analyse real-time income, spending and saving data for their customers, taking just minutes to assess and stress test affordability for a loan or mortgage.

Regtech: Efficient compliance without cutting corners

The imperative for customers and businesses is that regtech can enable efficient and effective services. In 2021, the UK financial services industry reportedly spent 5% of revenue on regulatory compliance, or approximately £8.7 billion.² The application of technology for risk analysis and compliance can reduce regulatory costs. It also has the potential to lower systemic sector risk because they’re managed even more accurately and effectively. These benefits can be achieved with the automation of compliance processes, Know Your Customer (KYC) and onboarding processes, and credit risk assessments. Other innovation examples support vulnerable customers or have the ability to confirm the status of investments that are branded as ethical or green.

However, automation is only a small step. Regtech offers more than just an efficiency tool.

It has the potential for continuous monitoring capacity, providing close to real-time insights, using deep learning, AI, sensing and other technologies. It can help proactively identify problems rather than continue with rear-view perspectives that take action after a risk or issue has crystallised. It will support the evolution of real-time decision-making, making products more accessible, and enable fintech innovation to create the future of finance. All possible with the advances in technology, augmented with human intelligence and expertise, and data.

Data with regtech empowers regulators beyond oversight

Since the financial crisis in 2008, there has been a significant increase in the volume and types of data supplied, required and demanded from regulators across the world. It creates an emphasis for Know-Your-Data. And this is where regtech can help.

Imagine a scenario where completing a regulatory return takes milliseconds or one in which regulatory returns are a thing of the past! As regtech solutions evolve, real-time and proportionate regulatory regimes that identify risks and enable more efficient regulatory compliance can become reality. Further, regtech could build regulatory confidence in the level of risks being held in institutions and across markets, introduce the potential to free up excess regulatory capital and reduce the time in investigating risks and serious breaches.

Data, technology and the development of regtech will enable change beyond regulatory supervision and oversight. Regulators need to develop regulatory approaches that don’t hinder digital development and innovation while still limiting risks to consumers and financial stability. Deep learning, AI and data analytics are already informing the future of policy development. It creates the possibility for new regulations to be developed in an agile way, for rules and guidelines to keep pace with changes, consumer/market risks, changing technology and business needs.

Plain and simple—digital economies need regtech

Regtech will help shape the logical evolution of financial services regulation. Here in the UK, it will become the cornerstone of a vibrant economy and dynamic society. Collaboration, commitment and strategy are needed to help realise this opportunity and achieve its true potential, and the Fintech Research and Innovation Roadmap provides an impetus for action, with industry commitment to collaborate and enable change. Join us as we progress this global opportunity!
In the era of regtech, regulators are also innovators

When people think of regtech, what probably comes to mind is a branch of fintech that helps financial services firms evolve their regulatory technology after the market crash in 2008. Of course, regulators have skin in that game, too.

Case in point: The Financial Conduct Authority’s (FCA) interactions with the financial services industry are adapting to an increasingly digital era so that it keeps up with the pace of change and tackles emerging risks to consumers and markets.

How has the FCA implemented new tech solutions?

For starters, our Innovation Hub recognises there is no 'one size fits all' solution for helping both established and startup firms meet regulatory expectations. The FCA is enhancing its capabilities to enable closer collaboration with industry to promote regtech solutions, assisting more firms at different stages in their digital maturity to meet higher regulatory standards. On our side, we improve our own understanding of the novel regtech tools that are being deployed across the industry.

So, this is win-win for both firms and regulators, because there are opportunities for technology to enhance the FCA’s strategy for supervising firms and prevent serious harm to consumers. This has led to significant investment in technology enabling a supervisory approach that protects consumers, ensures market integrity and promotes effective competition, whilst creating an environment for responsible innovation to flourish.
A new gold standard for the regulatory approach

At the FCA, we use our unique position to bring together industry participants, fintechs, regulators and government and to encourage collaboration that enables the financial services sector to harness the full potential of innovative regtech solutions. We have developed a number of tools to engage with the industry and promote the regtech ecosystem, including:

- An Emerging Technology and Research function, which researches emerging regtech trends as well as supply-and-demand perspectives. For example, within this space, the FCA liaises with academics and enthusiasts on specific themes, one of which is privacy-enhancing technologies (PET). PETs are being developed as the next-gen solutions for data privacy and anonymisation.
- The regtech-suptech network within the Digital Regulatory Cooperation Forum (DRCF), which identifies common challenges and opportunities amongst regulators with diverse remits for regtech research and suptech development. Suptech is a branch of regtech that specifically develops new technology to help supervisory agencies improve how they conduct business.4

TechSprints and Digital Sandbox initiatives, which bring together multidisciplinary experts to develop technology-led proofs of concept that address regulatory and industry challenges. Recent examples include the Anti-Money Laundering (AML) and Authorised Push Payment Fraud TechSprints, the Sustainability TechSprint and the Digital Sandbox pilot on monitoring and verifying ESG data and disclosures. For a more comprehensive list of the TechSprints we’ve held, including videos, go to our website. More information about the Digital Sandbox can be found here.

Showcase Days, which offer regtech vendors a unique opportunity to present their technology solutions to us, build networks and spark ideas for internal suptech deployment. Themes have included anti-fraud, market surveillance, regulatory reporting, prudential analytics and social media analytics.6

Chairing the regtech and suptech workstream of the Global Financial Innovation Network (GFIN), a collaborative, knowledge-sharing network of over 80 members. The workstream has focused on suptech, the regtech ecosystem and regulatory reporting.7

Competition is key to meeting higher standards

In the interest of consumers, the FCA promotes competition and facilitates industry growth by supporting firms in their ambition to take new regulatory compliance tools to market. Through Innovation Pathways, we help firms with novel business models navigate the regulatory landscape by providing informal steers and signposting to useful materials.8 We also allow firms to test innovative business models with real consumers and regulatory oversight through our Regulatory Sandbox.9

Many of these firms are using technology to deliver new or augment existing business models, in an effort to develop more effective services for consumers. We support technology vendors applying their solutions to regulatory processes across a range of use cases, including preventing financial crime, assessing creditworthiness, advancing financial inclusion and identifying harm.

The FCA will remain a tech innovator

Regulators and firms across the globe are harnessing emerging technologies to drive new opportunities in regtech and suptech. We’re committed to digital transformation by leveraging advanced analytics and intelligence tools to support our mission of becoming a digital- and data-led regulator. In 2023, the FCA will lead the GFIN’s most ambitious project to date. By convening firms and GFIN members in a cross-border TechSprint, we hope to produce solutions that will assist regulators in tackling the issue of greenwashing (misleading investors about the environmental impact of a company’s operations). Other work is being done with the exploration of synthetic data as a potential future regulatory tool to enable privacy-compliant innovation and data sharing. We believe this technology could increase the effectiveness in AML and fraud detection.

To find out more visit the FCA’s Innovation Hub https://www.fca.org.uk/firms/innovation.
Dynamic solutions

Regtech blends automation and human insight to design solutions that help keep businesses on the straight and narrow.
Regtech can be a game-changer if you’re serious about data

Technology as a solution to problems has always been the calling card of humankind, but regtech was one of the more interesting niches to arise from the ‘tech’ explosion that followed the coining of ‘fintech’, itself a term thought to have originated when internet banking went mainstream.  

The idea that dedicated technologies could aid regulatory compliance, augmenting or indeed replacing human efforts to demonstrate financial diligence, must have excited regulatory professionals labouring under a post-crash swathe of compliance and liquidity requirements in 2008 and beyond. The financial crisis saw compliance teams receiving budgets for recruitment frenzies from as early as 2010, seeing their numbers swell in response to a wide array of new regulations that could not be met by the technology of the time. So the job fell to humans to complete. The teams were tasked with demonstrating they really did know who they were doing business with, but in the absence of mature technology, this was not sustainable in the long run, so it was inevitable that regtech would be given life.

Millions of data points can get messy...

Regulatory authorities care most about who is doing what business and with whom. More specifically, they look at organisational data: founders, management and leadership, and exactly how business is being conducted. Some elements are captured ‘point-in-time’, such as identity verification documentation, while others are captured in real time, such as financial transactions.

Many data sources must be evaluated and validated to onboard even a single customer. Is the company, or are any individuals associated with it, subject to sanctions? Is the company attempting to cover their identity to reincorporate and avoid paying liabilities, known as ‘phoenixing’? Once this review is complete, the company must report it to a regulatory authority to comply with regulations such as anti-money laundering and transaction reporting. But the problem with all this data collection is that it’s often manual, which means there’s potential for data entry errors and validation inaccuracies.

This is where technology steps in and does the heavy lifting.

“The large reliance on human input to the process makes it ripe for automation, removing the risk of human error or omission.”

Matt Flenley
Head of Marketing,
Datactics

1 Money Lens  2 Investopedia  3 Ascent  4 FCA
....but regtech helps connect the dots

Back to evaluating ‘who’—the company being analysed. Regtechs like Datactics connect to external data sources like the Global Legal Entity Identifier Foundation (GLEIF) and Companies House to match, validate and augment customer and corporation records.

Next, when analysing ‘what’ kind of business the company engages in, regtechs like LexisNexis provide transaction monitoring to identify patterns, outliers or unexpected behaviour that will allow a company to prevent transactions completing or that will aid in recovery of suspicious funds. This includes where companies are using a complex network of subsidiaries and suppliers to circumvent embargoes such as weapons regulations or doing business with sanctioned countries.

Finally, ‘whom’—digging deep into the business partners with whom this company transacts. The reason for examining these transactions is twofold: to abide by regulatory requirements and to avoid fines, which can be steep. A lot goes into that first part, including accurately recording and reporting transactions, as well as retaining and refreshing information according to regulatory constraints.

Navigating these requirements is made easier by firms such as ClauseMatch (2014 Barclays Accelerator graduate and 2020 Rise Fintech Company of the Year Award), which identifies the rules and regulations banks must adhere to and demonstrate their compliance with, to avoid being fined.

The next evolution of regtech

Regulatory authorities have long desired the ability to regulate remotely, rather than rely on returns from financial firms issued to them either periodically or on demand. This is in part because of the prohibitive cost to banks (of preparing reports) as well as to regulatory agencies (of conducting manual reviews). The large reliance on human input to the process makes it ripe for automation, removing the risk of human error or omission.

However, a lack of standardisation on the financial firms’ side has made that problematic, as has access to datastores within banks themselves. The risk and regulatory reporting departments are usually based in business teams, rather than in technology teams, so they have less flexibility and capacity to purchase software and solutions. But there’s hope. The ambition to implement machine-executable regulations, as demonstrated in a recent Financial Conduct Authority (FCA) TechSprint, and work towards remote, on-demand regulatory enforcement, remains particularly enticing for regulators.

Additionally, emerging technology in the open-source space, such as that developed by Morphir, is making it easier to map regulations across domains and technologies. This is designed to make such business logic—in this case, the way that regulations are implemented in an organisation—portable across different parts of a business and beyond an individual financial firm.

What’s in your database?

Regtech is an important ally to both the business and risk teams of any organisation, particularly when it fulfils one or more of the following requirements:

• A focus on the business user, with an intuitive user interface that doesn’t require any programming capability, such as those used for mobile banking apps

• A simple procurement process, with the ability to leverage professional services to augment the financial firm’s team

• Out-of-the-box connectivity to external data sources for companies, sanctions, individuals and transactions

• Prebuilt regulatory rules that are highly customisable, enabling firms to keep up to date with emerging standards

• Interoperability with data sources, datastores and other parts of the regulatory reporting value chain.

But, as with many things in life, you get what you pay for—in this case, the quality of the regulatory data a company outputs reflects the quality it ingests. Regtech, while revolutionary in the regulatory and compliance space, is no miracle worker. Since compliance is only as good as the data it uses, firms should first ensure that their data is fit for purpose before implementing any solutions.
Next-gen KYC/AML tech critical for success

With the current rate of financial crime and a turbulent regulatory landscape putting pressure on regulated firms, particularly financial institutions, Know Your Customer (KYC) and Anti-Money Laundering (AML) due diligence requires a refresh.

While modernisation efforts typically take place within the walls of an institution, with oversight from regulators, the role that regtech firms play has become increasingly important.

For their part, regtechs provide crucial services that span the compliance life cycle, including verification, monitoring, reporting, data compliance management, risk analysis and other functions. Since each of these individual functions are so complex, regtechs typically focus on only one of these categories.

As an industry, it’s no surprise that regtech is on the rise. Globally, regtech saw a 202% jump in equity investment from H2 2020 to H1 2021, representing $3.5 billion in funding. Regtech firms that address KYC and AML – which sits within the verification category – represent the largest share of the market, making up 30% of regtechs by category.¹

Regtech verification firms are tasked with helping financial institutions collate and cross-reference reams of data to help unravel corporate and ownership structures, to improve the process of KYC and AML due diligence and reduce associated operational costs. With the cost of KYC/AML compliance an estimated $56 billion in 2022 in North America alone – up 13.6% year-on-year – it’s little wonder that these services are in demand.²

“Our research has shown that four out of 10 UK businesses abandon banking services applications due to slow due diligence.”

Alex Ford
President,
Encompass – North America

¹ “Understanding the North American Regtech Market”, Encompass, 2022 ² LexisNexis
However, some costs are out of your hands

The increase in the cost of KYC is in part due to an increasingly uncertain financial and regulatory environment. For example, following the Russian-Ukrainian war and other economic conflicts, sanctions activity in 2022 has reached historic levels. Globally, corporate transparency initiatives have added cost pressures to financial institutions, which have to commit additional time and resources to meet the evolving standards. In the US, there’s also been an increase in beneficial ownership regulations (i.e. laws that require regulated firms to identify the ultimate beneficiary of a company or account), led by the Financial Crimes Enforcement Network (FinCEN).

Moving from spreadsheets to automation

Staffing and economic realities also factor into the rising cost of compliance. To address these costs and meet the expectations of speed and ease that the market has come to expect, compliance functions will be required to digitally transform how they process KYC by adopting regtech solutions.

Traditionally, the KYC/AML process of a financial institution has included highly manual, spreadsheet-based workflows, as front-line and operational teams would perform the research and due diligence, taking days or weeks to complete. This has started to change within the past few years, as the regtech market has matured.

The underlying value that most regtechs provide is digitisation. In the context of KYC, digitisation improves speed, accuracy and consistency. Further, digitisation assists compliance teams by removing manual work and transforming how financial institutions collect and unwrap complex corporate structures. Finally, digitisation allows financial institutions to create an interoperable and integrated compliance ecosystem.

In other words, time is money

At Encompass, that’s a big part of our value proposition. At a minimum, a firm’s KYC process typically ranges from ownership discovery to the ability to import and export data in real time to everything in between (e.g. advanced reporting and audit trails). We’ve developed a solution that can help transform that manual process, which can take up to 10 hours, into one that can be turned around in just minutes. In fact, our research has shown that four in 10 UK businesses abandon banking services applications due to slow due diligence processes. Regtechs have also since applied automation and AI to KYC, introducing speed and intelligence to the process. For example, regtechs can automate the ingestion of data, intelligently sorting and triangulating that data with that of the KYC subject. Each step of the KYC process can then be replicated per the prescribed compliance process by adding digitised controls, as opposed to relying on the best judgment of a human analyst. Plus, by pursuing automation, the initial stages of the KYC process can be completed within minutes. In some cases, this can be achieved with zero human intervention or, in others, significantly reducing the amount of client outreach required when clients are onboarded or reviewed throughout the relationship.

Ultimately, what’s best for business is reducing client friction

This is particularly important with economic tightening, when every deal or day of trading counts, and conversion rates are critical. What’s more, automation can also help financial institutions adjust their KYC process to be in-line with changes in regulatory policy and to meet compliance standards across jurisdictions as regulation evolves.

Regtech innovation can undoubtedly help financial institutions navigate their efforts to modernise their KYC/AML process. But it’s on the financial institutions themselves to commit to the technology and methodologies in order to truly reap the benefits.

Alex Ford
President, Encompass – North America
@Encompass-Corporation

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Who cares wins: New regulation puts customer outcomes at the heart of business decision making

Hailed as the biggest regulatory shake up in a decade, Consumer Duty has been one of financial services’ most hotly debated topics in recent years.¹

Despite many organisations insisting they put their customers at the heart of what they do, a recent Aveni survey of Chief Risk Officers (CRO) found that less than 20% of executive decision makers’ time is spent discussing customer outcomes at executive committees.² Putting that in real terms, if the committee convenes for three hours each month, that’s less than 36 minutes spent discussing whether outcomes are good, what’s being done in instances where services or products have fallen short and whether customers are receiving good value over time.

That’s not enough.

Simply put, good customer outcomes are the goal

The Financial Conduct Authority’s (FCA) intent is to raise customer outcomes alongside profitability and other key performance indicators (KPIs), enabling companies to differentiate themselves from competition with hard evidence. Consumer Duty outcomes include:

- Consumer Understanding
- Products and Services
- Price and Value
- Consumer Support.

Over the coming years, standards and accreditations will emerge and form a key part of the decision-making criteria for new customers. This will raise the stakes in board rooms with executive pay being aligned to customer outcomes. There is an expectation that this is the direction of travel with a staggering 79% of CROs saying they would align their compensation to Consumer Duty outcomes.³

But is their confidence misplaced?

Some aspects of Consumer Duty are highly subjective. Take Buy Now Pay Later (BNPL), where a customer can buy a pair of £50 trainers that will cost them £150 to pay back over 12 months. On the face of it, you can hardly argue that’s fair value. But what if the terms of this service are clearly laid out, customers confirm they understand the implications and they still choose to use the service? If the demand is there and the communications and consequences are clear, some would say the onus falls on the consumer to take more responsibility for their spending behaviour.
Rewiring the traditional ‘Three Lines of Defence’

What Consumer Duty does make clear is that the traditional three lines of defence (3LOD) model doesn’t cut it any longer. Generally speaking, the 3LOD model is layered with:

1. Internal systems and operational controls (risk owners)
2. Compliance functions (risk oversight)
3. Internal audit functions (risk assurance)

But the FCA thinks more must be done by paying closer attention to customer interactions. According to Aveni research, less than 2% of customer interactions are ever assessed by Quality Assurance (QA) teams. But if you’re operating in high-risk sectors such as BNPL, you should consider whether anything less than 100% assurance means you’re shouldering too much personal risk.

Let’s face it – a manual QA process is already cumbersome. Factor in new requirements from the FCA, and that means more data points to analyse along the customer journey to validate outcomes. Result: plunging efficiency. We’ve seen that the typical QA process for customer calls can take up to 90 minutes to complete. Then think about assessing all previous customer contact, marketing materials sent and changes in circumstances, and review times will increase significantly. This is perhaps an unintended consequence of the regulation and, unless firms are willing to double or triple the size of their compliance teams, it’s where the strategic use of technology becomes essential.

By leveraging regtech, you create opportunities

In recent years, there have been major advances in machine learning (ML) and natural language processing (NLP) that have automated analytics platforms to monitor every customer interaction. Going forward, large language models (LLMs) like ChatGPT will fundamentally transform the way businesses operate. As these technologies combine and model data from disparate sources and produce unique business intelligence, we expect risk and compliance functions to benefit most. This transitions risk and compliance from a cost centre to a potent value driver.

Still, human expertise will always be required. NLP systems will allow humans to triage the riskiest cases, identify Consumer Duty KPIs that can track performance against the four key outcomes and management teams can identify potential themes and create benchmarks that track progress against the competition. Organisations can then learn from each other and understand the progress they’re making in embedding Consumer Duty outcomes as a key business performance metric.

Consumer Duty is so much more than regulatory box-ticking

Firms that continue to look at Consumer Duty this way will end up asking themselves some hard questions around:

- How their peers are evolving products and services so quickly
- How they’re working with fewer people and getting better customer-outcome results
- Why they’re more successful at driving loyalty and satisfaction

The answer is that these firms have taken the opportunity that Consumer Duty presents to establish risk and compliance functions as a central nervous system of a business thus driving value throughout multiple areas of the organisation, reducing costs with automation and promoting competitive advantage through more informed decision making.

Joseph Twigg
CEO,
Aveni AI
josephtwigg
For crypto to work well, it’ll take a village

Much like the internet was for the exchange of information, digital assets and their underlying blockchain technology make up the foundation for the ‘exchange of value.’

The cryptocurrency movement was created out of the 2008 financial crisis with the belief that the financial system should be better. Similar to the fallout from the 2008 financial crisis, and particularly in light of recent events with the collapse of FTX,¹ the regulation of cryptocurrencies must accelerate to protect consumers and provide order to the ecosystem.

What happened at FTX wasn’t a failure of crypto or its underlying technology, rather the failure of executives from one organisation, defined by a lack of transparency and alleged fraud. These scenarios happen in every industry and, unfortunately, they’re likely to happen again. But with regulation and other measures from across the industry—and the globe—future fallout should be mitigated in the event of a similar occurrence (particularly for the most financially vulnerable). So, this is win-win for both firms and regulators, because there are opportunities for technology to enhance the FCA’s strategy for supervising firms and prevent serious harm to consumers. This has led to significant investment in technology enabling a supervisory approach that protects consumers, ensures market integrity and promotes effective competition, whilst creating an environment for responsible innovation to flourish.²

The tech behind crypto has staying power

Fundamentally, there’s huge demand for new models of ownership in the economy. Factors impacting the existing financial system mean it’s in danger of not working for many people—just look at income inequality³ as one measure. At Chainalysis, our research team spends a lot of time studying how ordinary people and businesses use cryptocurrencies. We’ve found that use cases vary all over the world and range from gaming, art and music, all the way to raising money for war efforts (as we’ve seen with the global support for Ukraine). Crypto is a cross-border, instantaneous and cheap way to exchange value—the demand for that is only going to increase.

¹ Investopedia ² World Economic Forum
But as a global community, we need to take stock of the financial services industry and advocate for a better, safer ecosystem.

Even prior to recent events surrounding FTX, we'd seen a marked escalation in policy moves from governments at the national and international level, including:

• The Financial Stability Board’s (FSB’s) crypto policy consultation
• The International Organization of Securities Commissions’ (IOSCO’s) launch of workstreams on DeFi and crypto regulation
• The OECD’s new Crypto Asset Reporting Framework for tax obligations
• National government moves, such as the EU’s Markets in Crypto-Assets (MiCA)
• Singapore’s new consumer protection proposals
• Several bills proposed by lawmakers in the US

Events such as FTX’s collapse are usually accelerants for such policymaking and can lend urgency to strategic and effective policies that can be implemented quickly. But legislators have been grappling with many of the issues that are underscored by recent events. For example, issues related to custody requirements and segregation of customer assets, management of potential conflicts of interest between different activities within a company group, auditing obligations and bankruptcy arrangements. Those issues need to be fully fleshed out, then prioritised for action.

Back to advancing crypto. It’s not the tech holding us back, rather it’s the willingness to hold an open dialogue among all global participants. Policy and regulation can only be successfully addressed if that attitude is adopted. Like many internet-enabled technologies, digital assets are inherently borderless. Their ability to move value seamlessly across the world naturally raises the question of determining whose responsibility it is to oversee them. Answer: Everyone’s.

Effectiveness requires collaboration and alignment nationally and globally, as well as striking the appropriate balance between consumer protection and innovation between the industry and policymakers across jurisdictions.

Reg + tech = the art of the possible

How will this be done? In two ways.

First, regtech firms must empower regulators. Traditional finance is very opaque — regulators have no access to transaction data without requesting that information directly from financial institutions. However, blockchain allows for an unprecedented level of transparency that can be a huge benefit to regulatory supervisors. Because of this transparency and tools like those provided by Chainalysis, regulators have a scalable way to understand blockchains, map transactions, investigate fraud and make regulatory decisions.

Regtech firms can also provide access to data, expert analysis and tools that contribute to a better understanding of events and their ongoing implications in the market.

Second, blockchain technology’s inherent transparency must be leveraged for both the private and public sectors. Around the world, exchanges and companies of every shape and size use tools like the ones Chainalysis offers to comply with global regulations (think Know Your Customer, sanctions and Anti-Money Laundering). The purpose of these tools is to build trust in blockchains by harnessing their inherent transparency to manage risk and root out illicit activity. In similar fashion, regtech firms must build tools that can help private companies validate their own mechanisms for protecting consumers and the broader public.

In the end, crypto must inspire confidence

Given lawmakers’ and regulators’ attention to crypto, there may soon be an opportunity for financial institutions to more confidently enter the cryptocurrency space with more regulatory guidance, combined with the transparency brought through high-quality data and analytics. Consumers who are interested in cryptocurrency, and who trust familiar, regulated financial institutions, may have more options in the not-so-distant future.

Michael Gronager
Co-Founder and Chief Executive Officer, Chainalysis
gronager
@gronager

RISE INSIGHTS | THE RISE OF REGTECH

1 Financial Stability Board
2 IOSCO
3 OECD
4 Chainalysis
5 Monetary Authority of Singapore
6 Chainalysis
7 Chainalysis
DLT and blockchain critical to regulating client data

Despite all the media noise surrounding Distributed Ledger Technology (DLT) and blockchain, retail banking is in the early stages of realising their benefits.

Thus far, much of the hype has been focused on the retail ownership of crypto assets like Bitcoin (BTC) and Ether.

However, at the end of 2022, BTC dropped to two-year lows,1 while the rest of the market experienced strong selling pressure following the collapse of crypto exchange FTX.2 Despite these events, ownership of such assets is now almost 5% of the adult population in the UK.3 Some institutions and endowments had already started taking steps to incorporate these cryptocurrencies into their broader asset allocations.4

So why would anyone feel comfortable investing in a potentially risky commodity? The answer is DLT and blockchain.

Even if people don’t fully understand cryptocurrencies and non-fungible tokens (NFTs), they’ve accepted the technologies that underpin them and what it delivers—faster and cheaper transactions, automated contracts and consensus-based security. More than a single solution or technology, DLT and blockchain are becoming an underlying approach for global system infrastructure, sitting on top of and integrating with existing systems. Regulators, investors, managers and firms alike recognise this and are evolving the ways in which they communicate and share data.

1 The Cryptonomist 2 Investopedia 3 Cybercrew 4 Coin Telegraph
Regulations can be complex...

One such application of DLT is navigating complex regulatory frameworks. Case in point: The digital delivery of certain onboarding documentation and ongoing customer communication, such as terms and conditions and customer statements, is heavily regulated, complex and often over-reliant on paper. Not only is that last bit costly, but it also isn’t sustainable in a world in which corporations and individuals alike seek to reduce their carbon footprint. Ironically, part of this problem can be linked back to the very thing we put in place to secure data—regulation. In 2017, the Financial Conduct Authority passed a legal requirement that documents must:

• Be directed to customers personally
• Remain accessible for as long as they’re required
• Contain information that remains unchanged.

Email attachments weren’t the solution for a variety of reasons. Take your pick between data corruption, bounce-backs, spam, malware or the attachment of documents that could be edited. Nor were mobile apps or secure websites and portals, which can be subject to low adoption rates in some regions. And just like technology, regulation doesn’t stand still—new Consumer Duty regulations stipulate financial services companies must ensure customers receive their relevant information.

…and regtech simplifies the challenges

Back to DLT and blockchain.

Solutions like ours, docStribute®, use DLT to help institutions meet their legal requirements by secure digital means. We’ve developed a proprietary algorithm that assigns hash values (unique identifiers) to documents so they can be stored to the DLT ledger. Once stored, an immutable hyperlink is generated that can be shared via email, SMS or messenger service with a call to action, such as unlocking documents so they can be viewed or signed. Furthermore, we ensure integrity by partnering with the Hedera Consensus Service, an open-source, public distributed ledger, ensuring that all documents are originated from a trusted source.

DLT solutions like ours help reduce paper waste and substantially decrease the CO2 equivalent per document compared to postal delivery and other digital alternatives. But the real key for any regtech solution that uses DLT is immutability—being able to securely distribute confidential documents so they can’t be altered or tampered with in any way. In other words, DLT provides maximum trust with client data, one document at a time, minus tons of paper waste and an expanding carbon footprint from PDFs.

The possibilities are only limited by imagination

Moving forward, regtech applications based on DLT and blockchain must continue to be adopted by banks and financial institutions of all remits. Since regulation is here to stay, then so is regtech. DLT and blockchain will be critical resources in keeping firms compliant in such a way that growth isn’t hampered, but incentivised.

In the next five to 10 years, DLT and blockchain adoption should become all but universal thanks to this technology’s ability to improve confidence between communicating parties, reduce friction in the value chain and speed up complicated multiple-party processes (e.g. documentation related to the movement of goods within the UK and other countries). It’s also likely that, as these new technologies take hold, some incumbent players in the value chain may need to be reimagined as the migration to a new model becomes ubiquitous. Regardless, the twin obstacles of time and security are both practically eradicated by the technology, with improvements in transparency, compliance and auditability resulting in mutual benefits to financial institutions, regulators and watchdogs.
Accounting for more than just rules and regs

Oversight alone is critical, but there's also fairness and social awareness to consider. Regtech is key to unlocking more opportunities for a greater number of people and businesses.
Regtech’s role in promoting financial inclusion

Regtech is evolving by the day. Here in the UK, the Financial Conduct Authority (FCA) first coined the phrase ‘regtech’ and, years ago, introduced the innovative Regulatory Sandbox, which is a form of incubator for nascent digital enterprises.¹

But even in countries with the most developed financial and banking sectors, financial inclusion hasn’t evolved quickly enough so that financial opportunities are a reality for everyone. For instance, in the UK, over one million people still don’t have a transactional bank account,² millions more don’t have basic insurance cover or access to affordable credit³ and more than a quarter have no emergency savings.⁴

Why is this?

Part of the explanation is that legacy financial services are poorly designed to meet the changing needs of individuals who are most vulnerable and whose circumstances can frequently change. A monthly direct debit is of little use to someone on a ‘zero-hours contract’, which is indicative of a person who has a casual work agreement with an employer for hours when they arise.² What about a low-income individual who lives in a high-crime postcode? Insurers may put them in a high-risk category that requires a higher premium, thus forcing that individual to juggle between basic necessities. Moreover, those on the lowest incomes are less attractive customers to high street banks, which have high fixed costs.

So, how do you level the playing field?

By harnessing the power of digital financial solutions (DFS), which can more readily meet individual needs by tailoring products and services more appropriately. In particular, fintechs and insurtechs can more nimbly develop solutions than traditional banks which, in turn, can lower the cost of servicing lower-income customers.

Now, we can extend the example of improving financial opportunities for individuals to transforming financial inclusion to an entire developing nation. Again, DFS plays a key role in that it will reduce costs. Previously, the absence of banking infrastructure

¹ Deloitte  ² BBC  ³ The Independent  ⁴ The Independent  ⁵ UK Government
in many developing nations was a major roadblock to financial inclusion, but the evolution of mobile banking has forged a new road ahead. According to the World Bank: “fintech has the potential to lower costs, while increasing speed and accessibility, allowing for more tailored financial services that can scale. Over the last decade, 1.2 billion previously unbanked adults gained access to financial services, and the unbanked population fell by 35%, primarily boosted by the increase in mobile money accounts.”

But the World Bank also points out that digital solutions might also exclude people, due to a lack of connectivity in more remote regions and because those populations likely aren’t as tech savvy as their urban counterparts. Meanwhile, the rise in digital products has increased data breaches, cyber hacks, money laundering and other fraudulent activities. Online fraud and digital scams proliferate, increasing the vulnerability of those on the edge of both digital and financial inclusion.

With the DFS implementations built on top of or replacing legacy systems, and the resultant uptick in digital crime, regulators around the world have struggled to keep pace with the complex relationship between expanding financial inclusion and mitigating cyber-risk. Multiple regulators, such as central banks, are involved in the regulation of DFS. The task of coordinating between these, and other, regulatory agencies (e.g. the FCA) in order to monitor new market participants and technologies is a nearly impossible responsibility for regulators in developed nations.

**Regtech to the rescue!**

Regtech can directly assist regulators in this process by impacting the supervision of the DFS ecosystem, and can address critical DFS processes, such as agent monitoring. Some examples include:

*The Central Bank of Nigeria*, which issued guidelines for third-party agents to deliver financial services, the objectives of which are to provide minimum standards and requirements for agent banking operations, enhance financial inclusion and provide for agent banking as a delivery channel for offering banking services in a cost-effective manner." The Fintech Times

*The Nepal Central Bank*, which established a portal to track financial inclusion progress in the country over a span of years. The portal provides real-time data to map financial access and identify gaps, helping to approve new bank branches – their location, size and impact.

*Non-bank DFS providers in Tanzania*, which must report all transactions to two regulators. Regtech is used to automate the compliance process and reduce human hours required.

**Regtech is here to stay**

DFS can’t continue evolving without regtech and the critical role it plays. By using technologies such as artificial intelligence (AI), big data, cloud computing and machine learning (ML), regtech will help companies develop more effective compliance methodologies, which is critical for data security. Regtech will also deliver financial services to a wider audience, thus promoting greater financial inclusion.

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**Chris Pond**

Chair of the Financial Inclusion Commission and Lending Standards Board, (Former member of HM Treasury Fintech Development Panel)

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*The Fintech Times*  
*Central Bank of Nigeria*  
*United Nations*  
*AFI – Digital Credit Regulation in Tanzania*
Regtech helps companies go green

The world may be heading into a recession in 2023, but one area of continued growth for financial services companies is around climate action.

Regulators in the UK, EU and US are clear: Environmental, social and governance (ESG) pressure on companies will increase the need to balance financial and environmental considerations. The Covid-era clamour to ‘build back better’ has quietened, but the spirit remains as companies seek to invest in greener assets, including renewable energy generation and better battery technology.

ESG is no longer a niche concern—financial services companies will come under more scrutiny as they prove their ESG adherence to regulators and investors. In that regard, accurate ESG data is essential.

Regulatory compliance is only one part of the ESG picture

Companies in the financial industry have historically seen ESG as a regulatory and reputational risk to be managed, because of its links with business-critical challenges such as corporate disclosures, governance failures and greenwashing (conveying false information about a company’s environmental soundness). But despite the potential challenges that ESG brings, there are also opportunities: raising money from environmentally-focused investors, investing in climate-proofed assets such as renewables and building trust with customers and other stakeholders.

The question becomes: How can companies unlock these benefits?
Greater oversight with regtech

Financial services companies need greater oversight of the environmental performance of their physical assets and business operations. Furthermore, they need to ensure compliance with ESG commitments and show a track record of making the right business decisions. Regtech helps achieve those goals.

There are many ways that digital companies can help financial services firms with their ESG performance. Digitisation helps them define key metrics in their ESG reporting, and collate and analyse information related to their emissions, financial performance and operations as compared to their targets. This means they can better measure, understand, manage and report on sustainability. More importantly, regtech goes far beyond the simple automation of processes. Working with reputable digital partners helps firms ensure they’re using accurate and relevant data. This is key to greening operations, as well as making data transparent, traceable and auditable.

In short, regtech helps companies achieve two goals:

- Innovating on regulatory compliance to ensure risk management
- Identifying business opportunities.

Goal 1: Innovative compliance

Owners of renewables and green infrastructure assets have long known the benefit of digital systems. For example, they help them comply with regulations, such as by using advanced control systems to automatically turn off projects at certain times or in response to the presence of endangered species, or by monitoring production and electricity markets so they can dispatch power in response to supply gaps.

But regtech is innovating beyond asset-level control systems, such as with:

- **Cap-and-trade schemes**, which seek to reduce emissions by setting limits on pollution. However, one of the big problems at present is ‘double counting’, where emission reductions are counted twice, by the buyer and seller, as a result of fragmented architecture and regulations. This can be solved via the use of ‘smart meters’ to report real-time data and emissions, as well as the use of contracts to ensure both parties know their reporting and monitoring obligations.

Goal 2: Identifying opportunities

It’s important for companies to understand that just because they’re complying with regulations, it doesn’t mean revenue streams will dry up. In fact, ESG compliance creates more opportunities. Once companies understand which deals comply with current environmental regulations, they can more easily identify projects and firms that fit their investment philosophy. No less important is that compliant companies’ investments become future-proofed because, in honouring ESG commitments, they will be able to cope with tougher ESG rules as they evolve. Also, the company is less likely of holding onto inefficient projects that are at risk of becoming stranded assets.

Going forward, deals will need to have ESG at their core

Access to accurate information on real-world performance can help companies find ways to make their existing operations more efficient and reduce emissions. It’s important as firms look to reduce their emissions and energy prices in 2023.

The use of regtech to analyse the potential of infrastructure investments will only become more important this year. Infrastructure is often seen as a safe haven for investors in recessionary times due to their stable income streams and, if the world heads into a recession in 2023, those deals need to have ESG at their core.

Peter Bance
Chief Executive Officer, Origami

Peter Bance-08a9095

3 Gold Standard
4 Mordor Intelligence
From our Rise sites
Rise London

In 2022, our community in Rise London gained momentum with a rush of activity despite reports of a decline in growth and funding. Across the financial services industry, our members navigated the turbulent landscape with innovative solutions.

It was encouraging to observe sustainability as a strong theme running through all areas of fintech. Key players, including incumbents, regulators and fintechs, remained focused on collaboration to solve some of the biggest challenges within this sphere. Barclays, too, continue to uphold their commitment to supporting the climate agenda with a significant increase of equity capital available to invest into climate-tech startups over the next five years. At Rise London, we’re excited to support this agenda into 2023 and beyond by helping bridge the gap between fintechs and sustainability. This includes collaborating deeper with companies in Barclays’ Sustainable Impact Capital portfolio, including Origami, who feature in this report and are an active resident member in our London hub.

In addition to sustainability, regtech is another growing area of interest that’s dominating the conversation. Identified as an area of potential growth in a number of industry reports, including the HM Government’s Kalifa Report of UK Fintech and Fintech Scotland’s Fintech Research & Innovation Roadmap 2022-31, it’s no surprise more UK fintechs are exploring and embedding regulatory solutions within their offerings, such as Rise resident members Detected and Datactics.

We continued to further support innovative compliance, namely by hosting the Barclays Central Bank Digital Currency (CBDC) Hackathon in September 2022, which explored the future of money in a safe and compliant way. It was a pleasure to welcome teams from across the world into Rise London and hear from them as they showcased their innovative and pioneering solutions developed during the two-day hackathon. We extend a massive congratulations to the winning team from Lloyds Banking Group. The buzz generated by the Barclays CBDC Hackathon was a real testament to the potential this area of fintech holds, and we look forward to supporting more open innovation events like this in the future. More importantly, this event demonstrated the very core of our purpose – creating dynamic possibilities for the fintech community to collaborate cohesively.

At Rise London, we welcome fresh ideas with open arms. We remain committed to facilitating conversations, events and opportunities with the goal of pushing sustainable innovation within fintech. As we prepare to deliver new thought leadership, diverse perspectives and a lineup of events across 2023, we want to hear from you! If you have special interest in getting involved within the UK fintech ecosystem, get in touch and help us drive the conversation.

Grace Harrod
Head of Rise London & Fintech Platform Lead, Rise London

1 Startups Magazine 2 PWC 3 Barclays 4 Barclays 5 NorthFlow 6 Fintech Scotland 7 Detected 8 Datactics
Rise India

As businesses and services returned to normality, 2022 saw consumer demands returning to previous levels.

Unified Payments Interface (UPI) transactions, made via India’s instant real-time payment system, leapt from 4.6 million monthly transactions in January 2022 to 7.3 million monthly transactions in November 2022. ¹ With increasing digital adoption and the increase in consumer consumption, India’s financial regulator, the Reserve Bank of India (RBI), launched three key initiatives during the Global Fintech Fest 2022: Linking credit cards to UPI, UPI Lite and cross-border bill payments.²

Another key milestone was RBI’s controlled launch of a retail Central Bank Digital Currency (CBDC), the digital rupee, in four cities with four key banks.³ During the pilot phase, the CBDC will mirror the rupee and have the same denominations of notes and coins as currently available. The option will be available to a select group of customers and merchants, where the payment will be facilitated using QR codes. India has also witnessed Web3 gaining increased traction. A recent report by NASSCOM said India is positioned to take advantage of what is being touted as the next iteration of internet.⁴ At Rise India, we’re keeping track of developments in this space and recently organised a masterclass on Web3 under our Rise Skillshare series.

These trends also brought new regulatory and compliance guidelines to protect consumers as RBI announced that non-bank issuers of prepaid payment instruments (PPIs) can’t load cards and digital wallets with funds through credit lines.⁵ This led to many digital lending fintechs remodelling their businesses as the guidelines were enforced from 1 December, 2022. It will be interesting to see how it pans out for the sector as well as consumers in 2023.

Rise India alumni fintechs continue to grow and innovate: Signzy (digital banking infrastructure provider) raised $26 million from Gaja Capital.⁶ New business models and partnerships also evolved in the fintech sector in 2022. In December, we held a panel discussion on upcoming key fintech trends with industry leaders from fields such as Web3/DeFi, credit reporting, neobanking and venture capital.

While global macroeconomic growth has been slow and affected the financial sector, the broader outlook for the Indian fintech landscape looks exciting as we continue to see innovations in sectors such as wealthtech. In this regard, India has made significant progress through open banking and personalised offerings with banks, and how the banks as well as fintechs react to the developments in Web3 and the metaverse.

¹ NPCI ² NPCI ³ Financial Express ⁴ Times of India ⁵ PYMNTS ⁶ Fintech Singapore
As we look back on 2022, the year offered a unique set of industry-wide opportunities and challenges. In late October, the conference circuit ended at Money 20/20 USA in Las Vegas. There, the prevailing sentiment from both industry experts and fintech friends alike focused once again on the benefits of banks and fintechs working together in person, diversifying product lines and innovating through partnerships with startups.

While the macro-environment continues to drive uncertainty in the new year, our community remains cautiously optimistic of opportunities for startups with differentiated products and banks that are looking for partners at scale. I’ve long been saying “the more boring, the better,” and today you can see that the most resilient startups positioned for success in raising, building and scaling are those focused on customer needs in terms of compliance and regulation. An increased focus on compliance and regulation in fintech, addressing the ever-changing and endlessly complex US regulatory environment, offers an exciting opportunity for regulatory, compliance and operational technologies to evolve.

As banks continue pursuing fintech partnerships, they’re uniquely positioned to support regtech as prioritising compliance remains top of mind. Regulators are chiming in…

Looking at the US regulatory environment, government agencies such as the Consumer Financial Protection Bureau (CFPB), Securities & Exchange Commission (SEC) and Office of the Comptroller of the Currency (OCC) have taken a keen interest in fintech and have issued several reports and guidance on the industry. Where we’ve seen particular interest is on Banking-as-a-Service (BaaS), which allows banks to offer their APIs to third parties to create new services. The CFPB has expressed support for BaaS as a way to increase access to financial services for underserved communities, yet has also emphasised the importance of consumer protection and urged BaaS providers to implement strong compliance programmes to prevent fraud and protect consumer data. “Given the rapid growth of consumer offerings by nonbanks, the CFPB is now utilising a dormant authority to hold non-banks to the same standards that banks are held to,” CFPB Director Rohit Chopra said.

The SEC recognised the benefits of regtech for financial institutions, including increased efficiency and reduced compliance costs. They’ve particularly highlighted the use of regtech with Know Your Customer (KYC) and anti-money laundering (AML) requirements in the launch of their Strategic Hub for Innovation and Financial Technology (FinHub) earlier this year.

…but regtech is paving the way

I’ve seen several regtech companies addressing these core issues. The connectivity for partnerships between banks and fintechs will need to be proactive rather than reactive as we’ve seen from our members building collaborative platforms for governance, risk and compliance. These fintechs include Clausematch and Themis, as well as business product dashboards like upSWOT. Adoption of technology at the intersection of fintech and regtech will continue to be the defining advantage bank-fintech partnerships need in 2023 and beyond.
This infographic shows companies resident at our Rise locations. The information is accurate at the time of publication.
About Rise, created by Barclays

Rise, created by Barclays, is a global community of the world’s top innovators and entrepreneurs working together to create the future of financial services. By connecting technology, talent and trends, the mission of Rise is to accelerate innovation and growth in the financial services industry.

To join our community, or keep in touch with the latest from Rise, visit or follow us on:

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#HomeofFinTech

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