



*Just in Time*

**EBA analysis of RegTech in the EU Financial Sector:**  
*Deep Dives into RegTech Segments*

Oct 2021



# At a Glance

01	<a href="#">Introduction</a>	3
02	<a href="#">AML/CFT</a>	5
03	<a href="#">Fraud Prevention</a>	9
04	<a href="#">Prudential Reporting</a>	12
05	<a href="#">Annex</a>	16



# 01

---

## Introduction



# Introduction

The EBA reports identifies five areas with a relevant impact from RegTech solutions. In the previous JIT [02] an overview of the main segments has been given. This work focuses on the three areas listed below.

Segment	Goal	Benefits
<b>AML/CFT</b> (Anti Money-Laundering / Countering the Financing of Terrorism)	Comply with obligations under Directive (EU) 2015/849 (AMLD), with a particular focus on the customer due diligence (CDD) requirements	Increasing data quality and process efficiency and effectiveness
<b>Fraud Prevention</b> (Identifying subjects that are likely to be fraudstered)	Uncover fraud trends and patterns in the following areas of activity: <ul style="list-style-type: none"> <li>• Payment transactions</li> <li>• Client application usage</li> <li>• Fraud schemes</li> </ul>	Increased process effectiveness and efficiency, real-time monitoring, cost savings
<b>Prudential Reporting</b> (Producing reports and data analysis)	Assist FIs with their reporting functions and obligations	Correctness of analytics, ease of use, customized report designs, data handling integration, near-real-time production

# 02

---

## AML/CFT

Overview

Drivers

Benefits, Challenges and Risks



# AML/CFT 1/3

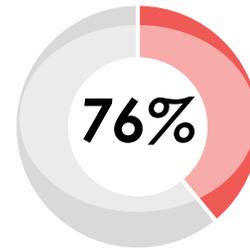
## Overview

The first step of RegTech regarding AML/CFT occurred in January 2018 with “[Opinion on the use of innovative solutions by credit and financial institutions](#)” published by EBA, ESA and EIOPA. In the latter, the factors that should be considered by Competent Authorities when innovative solution are used by firms are described:

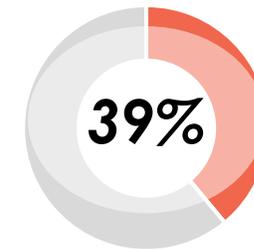
- The *Customer Due Diligence* measures
- The control measure in place to manage any risk related to innovative solution

This instruments are updated and inserted in “[The ML/TF Risk Factors Guidelines](#)” published by EBA in March 2021. With the future in mind, EBA provides a response on the [digital finance strategy/action plan](#) and [the future AML/CFT framework in the EU](#). Currently, the focus of work is on “Guidelines on Remote On-Boarding and Digital Identities” as requested by European Commission.

**AML/CFT** is the area where RegTech is **most active** in the market from both a supply and demand perspective



Percentage of participating FIs with some experience in RegTech solutions for the AML/CFT area



Percentage of responding RegTech providers offer solutions for AML/CFT area

# AML/CFT 2/3

## Drivers

On **Fls** side, half of the surveyed rely on external standard solutions and only a small percentage has external solutions tailored to their needs. Instead **RegTech providers** source on average 41% of their technologies in-house, around half of which are sourced through external technologies to complement their products or developed in-house with external support. Below the RegTech drivers that explain the impact on AML/CFT area.

### 5 Major Area of activities

1. Sanctions/PEP screening tools
2. Identification and verification of natural and legal persons (ID&V)
3. Adverse media screening solutions
4. Tools for assessment of the risk associated with the business relationship
5. Behavior and transaction monitoring

### 5 Main triggers for RegTech solutions implementation

1. Need to enhance risk management and monitoring/sampling
2. Reduce human error
3. Enhance systems and data integration
4. Enable professionals to focus on higher value tasks
5. Facilitate predictive analytics

### 5 Fls reasons to use RegTech providers' solutions

1. Regulatory changes
2. Effectivity reasons
3. Cost pressure
4. Organizing complex information
5. Regulatory data integration

# AML/CFT 3/3

## Benefits, Challenges and Risks

The **top three technologies** used in AML/CFT RegTech solutions are:

1. Cloud Computing,
2. Data Transfers Protocols
3. Machine Learning

Followed by Semantics/Graph Analysis, Predictive Data Analytics, Natural Language Processing.



### Benefits

The benefit of AML/CFT RegTech solutions impacts **compliance**: in detail they increase the **process efficiency and effectiveness** and increase the **data quality**.

### Challenges

**RegTech providers'** top three 'highly relevant' general **FIs'** top three 'highly relevant' general **barriers**: obstacles:

- |  |  |
|--|--|
| <ol style="list-style-type: none"><li>1. <b>Security, data privacy and protection issues</b></li><li>2. <b>Lack of regulatory standards</b></li><li>3. The <b>cost of user acquisition</b></li></ol> | <ol style="list-style-type: none"><li>1. Changes to <b>national or international regulations</b></li><li>2. Integration with <b>legacy systems</b></li><li>3. <b>Data quality</b> issues</li></ol> |
|--|--|

### Risks

The main risks are related to:

- **Legal risk**, due to many firms use the same tools then they are vulnerable on the same points
- **Concentration and reputational risks** due to lack of understanding of what controls RegTech providers have in place to handle data protection concerns and related responsibility. Moreover, there is a perceived lack of transparency for some application that makes difficult to explain the controls in place

# 03

---

## Fraud Prevention

Overview

Benefits, Challenges and Risks



# Fraud Prevention 1/2

## Overview

Fraud prevention represents the **third segment** where the RegTech market is the most active from a FI perspective (40%), and the **second** one for RegTech providers (26%). It addresses the behaviour and transaction monitoring. It is used in diverse products and services to uncover trends and patterns in real time. Most solutions are **external solutions** rather than **developed in-house**.

### 3 Major Area of activities

1. Payment transactions
2. Client application usage
3. Fraud schemes (e.g., Phishing, Smishing, Identity fraud, Plastic card fraud, Customer on-boarding).

### 6 Main triggers for RegTech solutions implementation

1. Need to enhance monitoring
2. Enhance risk management
3. Reduce human error
4. Reduce costs
5. Facilitate predictive analytics
6. Enhance systems and data integration

# Fraud Prevention 2/2

## Benefits, Challenges and Risks

The **top three technologies** used in fraud prevention RegTech solutions are:

1. Machine Learning
2. Cloud Compounding
3. Predictive Data Analytics

Followed by Semantics/Graph Analysis and Data Transfer Protocols.

Furthermore, RegTech providers offers biometrics solution (e.g., fingerprint scanner).



### Benefits

The **main benefits** are: i) increased process effectiveness, ii) increased process efficiency, iv) real-time monitoring, v) cost savings, improved data quality, vi) ease of integration with existing systems, vii) information sharing.

### Challenges

The main **challenges** are: i) roll-out across different countries (e.g., due to the lack of buyer education and awareness), ii) integration into clients' legacy applications; iii) general obstacles and its operational challenges, iv) legal and regulatory obstacles.

### Risks

The **main risks** are related to:

- Automation without an effective oversight
- Desired golden source data (in case of cyberattack vulnerabilities)
- Interactions with existent legacy infrastructures (that may not perform as expected)
- Specific technologies' risk

# 04

## Prudential Reporting

Overview

EBA Cost of Compliance Study (CoC)

Benefits, Challenges and Risks



# Prudential Reporting 1/3

## Overview

It is the **least mature** of the major RegTech segments.

Small and medium-sized institutions almost exclusively rely on **service providers' solutions** while large institutions rely more strongly on **internal IT solutions**.

The RegTech solution has a huge impact in **reporting process chain**, especially for:

- Understanding the regulatory data requirements,
- Data validation
- Data reconciliation steps.



The **top three technologies** used are:

- **Data Transfer Protocols** (used by 62% of RegTech providers' solutions)
- **Cloud Compounding** (used by 54% of RegTech providers' solutions)
- **Machine Learning and AI**, comprehensive of Predictive Data Analytics, Natural Language Processing, Robotic Process Automation (used by 31% of Rof RegTech providers' solutions)

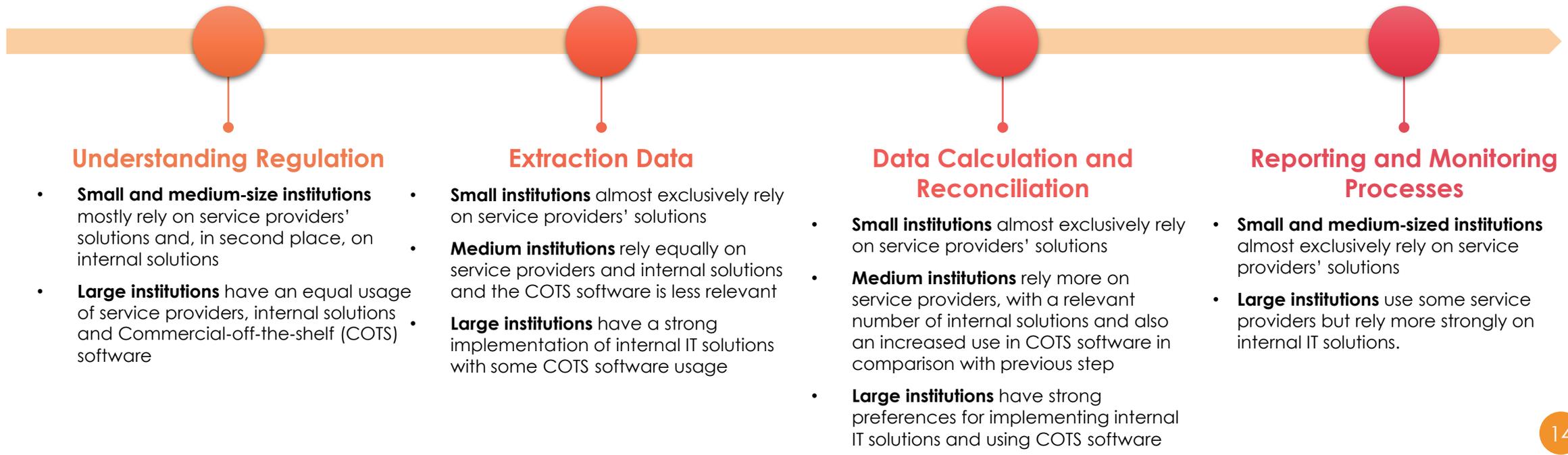
# Prudential Reporting 2/3

## EBA Cost of Compliance study (CoC)

The **EBA Cost of Compliance study (CoC)** gathered evidence on the **nature and complexity of the IT solutions** used for regulatory compliance and associated **reporting obligations**.

The **objective** of this study was to **identify how FIs perform regulatory reporting on top of their regulatory compliance**, and to **understand the general setup of the IT solutions** used along the four **different phases of the regulatory data chain**.

For the purpose of the CoC study, the FIs were asked to answer how they use technology and organize their data through the four principal phases of their processes of regulatory and reporting compliance: i) understanding regulation; ii) extracting data from sources; iii) calculating and reconciling data; and iv) reporting and monitoring data for compliance.



# Prudential Reporting 3/3

## Benefits, Challenges and Risks

### Benefits

The **main benefits** are related to:

- State-of-the-art technology
- Rapid implementation
- The correctness of analytics, ease of use
- Customised report designs
- Data and benchmark handling integrated
- Near-real-time production
- High productivity and high quality with consistency (enter data once)

### Challenges

The main **challenges** impact the following areas:

- **Legacy systems and data quality:** Often legacy solutions provide breadth coverage but do not provide the necessary depth, while RegTech providers usually offer deep solutions to narrow problem spaces, i.e. they do not provide the same coverage as legacy solutions.
- **Ongoing regulatory changes:** changes of national and international regulation entail barriers to integration with legacy systems and interoperability when different types of non-standardized reports are requested by different competent authorities.
- **Lack of data standardization:** The differences in standard definitions, procedures, or technical requirements from the different authorities can add difficulties to the efficient definition and operation of data systems. EBA and ECB are working on data standardization and the creation of common definitions.

### Risks

There is a risk that RegTech solutions could be used to avoid the responsibility of FIs to set up accurate controls on the quality of data reported to authorities. The supervised entities using RegTech solutions should remain responsible for the quality of the data reported to competent authorities

# 05

---

## Annex

Reasons for Fis and RegTech Provider for Implementing  
Regtech Solutions



# Annex

## Reasons for Fis and RegTech Provider for Implementing Regtech Solutions

	Reasons for FI to adopt RegTech solutions								Reasons for Providers to implement RegTech solutions					
	Enhance risk management	Enhance monitoring/sampling	Reduce human Error	Facilitate predictive analysis	Enable professionals to foster on higher value tasks	Reduce costs	Attract and retain costumers	Face Covid-19 global lock down challenges	Ongoing Regulatory changes	Cost Pressures	Need for Efficiency	Need for Effectivity	Organising complex information	Regulatory Data Integration
AML/CFT	92%	87%	66%	32%	37%	13%	11%	3%	80%	60%	90%	67%	60%	47%
Fraud Prevention	80%	80%	50%	30%	10%	35%	15%	15%	40%	35%	60%	75%	40%	20%
Prudential Reporting	57%	36%	57%	29%	14%	7%	0%	7%	85%	69%	85%	46%	54%	85%
ICT security	88%	72%	52%	12%	4%	24%	0%	20%	70%	50%	50%	60%	60%	10%
CWA	100%	100%	50%	60%	50%	40%	30%	10%	60%	40%	60%	60%	40%	40%

Fis emphasize:

- Enhanced risk management, monitoring and sampling capabilities
- Reduction in human errors

RegTech providers highlight:

- Increased efficiency and ability to reduce the impact of ongoing regulatory change

# Sources and Literature

- [01] **European Bankin Authority.** [Eba Analysis Of Regtech In The Eu Financial Sector](#). EBA, July 2021.

---

- [02] **Iason Consulting Ltd.** [EBA Analysis of RegTech in the EU Financial Sector](#). Iason Consulting Ltd, September 2021.

---




# Company Profile

**Iason** is an international firm that consults Financial Institutions on Risk Management. Iason integrates deep industry knowledge with specialised expertise in Market, Liquidity, Funding, Credit and Counterparty Risk, in Organisational Set-Up and in Strategic Planning.

**Lorena Corna**



*This document was prepared in collaboration with Luca Pinna, who at the time was working for Iason Consulting.*

This is an Iason creation.

The ideas and the model frameworks described in this presentation are the fruit of the intellectual efforts and of the skills of the people working in Iason. You may not reproduce or transmit any part of this document in any form or by any means, electronic or mechanical, including photocopying and recording, for any purpose without the express written permission of **Iason Consulting Ltd.**

[www.iasonltd.com](http://www.iasonltd.com)