RegTech and SupTech: Innovation, Risks and Opportunities
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Content

1. EBA approach to Fintech
2. RegTech
3. SupTech
4. Changes in prudential supervision – Operational Resilience
EBA priorities in FinTech 2018 - 2019

EBA FinTech Roadmap

- Regulatory perimeter
- Sandboxes and innovation hubs
- Business model changes, risks and opportunities
- Cyber security
- Consumers and conduct
- AML / CFT

Regtech and SupTech: where do we see the frontier?
EBA FinTech Knowledge Hub

- Identify emerging **trends and risks**
- Monitor **FinTech impact**
- Facilitate exchange of **information**
- Support the **supervisory** community
- Produce related **publications**
- Prepare **policy** proposals
### RegTech – Examples

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
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</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>• Real-time monitoring of compliance levels and compliance risk</td>
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<tr>
<td>Identity Management and Control</td>
<td>• Counterpart due diligence and KYC, AML controls and fraud detection</td>
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<td>Risk Management</td>
<td>• Generation of risk data, risk data aggregation, internal risk reporting</td>
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<td>Regulatory Reporting</td>
<td>• Increase the accuracy and timeliness of reported data</td>
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<tr>
<td>Transaction Monitoring</td>
<td>• End-to-end integrity validation, anti-fraud and market abuse identification systems, back-office automation, risk alerts</td>
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<tr>
<td>Trading in Financial Markets</td>
<td>• Margin calculations, choosing central counterparties and trading venues, assessing exposures</td>
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*Source: Toronto Centre (August 2017). FinTech, RegTech and SupTech: What They Mean for Financial Supervision*
RegTech and AML: Friends or foes?

* AML legislation is flexible and technology neutral
* AML/CFT requirements have opened new avenues for innovations and RegTech:
  - MOBILE APP USED TO VERIFY CUSTOMERS’ IDENTITY
  - ARTIFICIAL INTELLIGENCE USED TO MONITOR TRANSACTIONS
  - KYC UTILITIES USED TO GATHER CUSTOMER DUE DILIGENCE DOCUMENTATION
* RegTech solutions can potentially enhance the effectiveness and efficiency of AML/CFT controls and reduce compliance costs

* FinTech products and services can be designed solely for ML/TF purposes
* FinTech firms can be specifically set up, controlled or owned by criminals to launder money
* RegTech can potentially increase the exposure to ML/TF risks by weakening controls if ill understood or badly applied

Regtech and Suptech: where do we see the frontier?
RegTech and AML – EBA Opinion on the use of innovative CDD solutions

**Purpose: Promoting the Responsible Use of RegTech Solutions**

- **Mitigants:** Firm should have an in-depth understanding of the solution and ensure that it retains oversight and control of its processes.

- **Risk Factors:** Related to the Development of the Solution (In-House/Externally)
  - Solution provides a combination of checks that ensure the information obtained can be linked to a particular customer and the customer’s location.

- **Risk Factors:** The Quality and Adequacy of CDD Measures
  - Firm should ensure that the extent of CDD measures applied by using innovative solutions is commensurate to the AML/TF risks.

- **Risk Factors:** Delivery Channel and Geographical Location
  - Solution provides enhanced ability to identify fraudulent or counterfeited documentation and data authenticity.

- **Mitigants:** Firm should have an in-depth understanding of the solution and ensure that it retains oversight and control of its processes.

**The responsibility for meeting the AML/ CFT obligations remains with the firm.**
SupTech
Opportunity to enhance supervision

**Market conduct**
- Real-time market surveillance (identification of suspicious transactions, fraud, misconduct)

**AML / CTF**
- Know Your Customer solutions

**Consumer protection**
- Chat bots
- Natural Language Processing for complaints’ categorisation

**Macro prudential supervision / Financial stability**
- Social media sentiment to predict retail depositor trust
- Now casting real estate prices

**Micro prudential supervision**
- Unstructured data analysis (e.g. Board minutes, disclosures)
- Data validation
- Analysis, risk identification

Sources: EBA; FSB (November 2017). *Artificial intelligence and machine learning in financial services*
SupTech – EBA database
European Centralised Infrastructure of Data (EUCLID)

**Currently**
- 200 large banking groups
- 85% of EU total assets

**In the Future**
- 500 banking groups
- 4,000 individual banks
- 100% of EU total assets

**Benefits of improved scope of analysis:**
- Better understanding of risks
- Impact assessment without increasing reporting burden
- Proportionality in banking regulation

- Business models analysis
- Reducing reporting burden (less *ad-hoc*)
- Benchmarking / Market discipline

Opportunity to leverage SupTech solutions (big data and machine learning)
SupTech
Supervisory data flow in EU: an overview

Regtech and Suptech: where do we see the frontier?
SupTech
Data visualisation tool to turn data into insights
Changes in prudential supervision
New element - Operational Resilience

Operational risk
- Controls
- Capital

INNOVATIVE

Cyber-risk

Special focus

Operational Resilience
- Pen-testing
- Incident reporting
- Information sharing

Number of regulatory and supervisory initiatives

IT supervision: high priority

TRADITIONAL

BCBS - Operational Resilience Working Group

ECB TIBER-EU - the first European framework for controlled cyber hacking to test resilience of financial market entities

EBA Guidelines on ICT Risk Management
Risks and opportunities

RISKS?
- Amplification of cyber-related risks
- Over reliance on tech-models
- Incentives to ‘game’ SupTech-based supervision
- Skills and talent

OPPORTUNITIES?
- Effective solutions for data collection and analysis
- More effective evidence-based supervision
- More precise calibration of regulation and impact assessment
- Improved risk management
- Effective AML/CTF solutions
- Lower compliance cost