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RegTech and the changing face of compliance and financial crime

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Foreword

Staying ahead of regulatory change is a mammoth task for many financial institutions.

For example, it took **30,000 pages and 1.5 million paragraphs** to fully describe the rules for MiFID II — and that's just one legislative framework. According to regulatory thinktank JWG, the UK had likely amassed a staggering 300 million pages of financial regulations by 2020.

The annual cost of anti-money laundering (AML) compliance alone has reached an estimated £28.7 billion in the country. For perspective, that's more than half the UK Government spends on its entire yearly defence budget.

Faced with increasing regulatory pressures, it's not surprising that financial institutions are turning to regulatory technology, or RegTech, to ease the burden.

Are these cutting-edge systems, which can help automate compliance processes, becoming essential rather than just desirable? And what impact could that have on compliance recruitment?

In this report, we examine the latest RegTech trends and how they are shaping the compliance and financial crime landscape, particularly with regards to UK staffing and hiring practices.

We hope this report provides useful insight into this rapidly evolving area of corporate governance, and we welcome your feedback on how we can better support your compliance and financial crime recruitment needs.

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RegTech: the current state of play

What is RegTech?

RegTech is the collective name for a range of different technologies that support areas such as compliance management, AML and counter-terrorist financing, regulatory reporting and sanctions screening.

These technologies enable compliance and financial crime teams to automate a number of time-consuming manual processes, freeing themselves up to perform more sophisticated, value-added tasks.

Typically operating as cloud-based software-as-a-service applications, RegTech utilises emerging technologies and techniques such as artificial intelligence (AI) and machine learning, data analytics and blockchain.

The RegTech market today

The global RegTech market will be worth approximately $7 billion (£5 billion) by the end of 2021, more than doubling to nearly **$16 billion** within five years. In the UK, 82% of RegTech vendors expect their sales to increase in 2021, a marked increase on the 65% that **reported a rise** in purchases the previous year.

Financial crime continues to be the primary investment focus, with 60% of providers in this section of the market expecting strong sales growth of 10% or more. However, areas such as regulatory and compliance management (55%) and regulatory reporting (53%) are gaining momentum.

These trends echo what we're hearing from both clients and candidates: while RegTech has traditionally been AML focused, the technology is now being welcomed more broadly across the regulatory compliance spectrum.

In addition to improved fraud control through real-time transaction monitoring and KYC identity verification and onboarding processes, RegTech is evolving to automate a number of other key compliance tasks.

These include:

- Horizon scanning for regulatory changes at the regional and national level
- Proactively identifying and reporting regulatory risks
- Mapping regulatory risks to internal business processes
- Enhancing financial information security
- Employee surveillance to spot insider trading and other internal threats
- Big data analysis to extract insights about key risks, markets and customers

Approximately 68,000 people work in the UK RegTech industry. It accounts for 2.3% of the country's total tech jobs.

Source: 2021: A Critical Year for RegTech

Drivers of RegTech growth

The most obvious driver of RegTech demand is the sheer volume of new regulations and regulatory expectations. After the 2008 global financial crisis, governments worldwide made sweeping reforms in efforts to boost the resilience of banks and restore confidence in the financial services sector.

Across the G20, 50,000 regulations were published between 2009 and 2012. A further 50,000 regulatory updates occurred in 2015, nearly **double the amount** in 2012.

Within financial crime, for example, increased AML regulations (and the fear of resulting fines) was recently cited by companies as the main reason **why compliance costs continue to rise**.

Far fewer respondents thought either evolving criminal threats or customer demands for faster payments were important external drivers of costs.

However, the ongoing shift from cash to digital payments, which has only accelerated during the Covid-19 pandemic, will undoubtedly prove a factor in the need to improve fraud detection moving forward.

How are RegTech solutions being used?

›26%

26% information verification.

›15%

15% data compliance management.

›14%

14% implementation and governance.

›13%

13% monitoring.

›13%

13% risk analysis.

›10%

10% regulatory analysis.

›9%

9% regulatory reporting.

The impact of Covid-19

Many companies fast-tracked their digital transformation projects due to Covid-19, and RegTech appears to be no exception.

Over 85% of RegTech vendors agreed or strongly agreed that their **technology has a vital role** to play in helping financial institutions overcome the challenges posed by the pandemic.

And while it's hardly surprising that tech vendors would promote their solutions in this way, more than seven in ten went as far as to say Covid-19 was a 'watershed moment' for the industry.

Moreover, 70% of financial institutions themselves said the pandemic had increased their reliance on fintech and RegTech solutions, jumping to **81%** for globally systemically important financial service institutions (G-SIFIs).

Tellingly, however, tech vendors ranked Covid-19 last on a list of 11 factors with the greatest future potential to stimulate RegTech growth in the UK. In other words, the pandemic is seen as more of a one-off catalyst for change rather than an ongoing driver of increased adoption.

What are the future drivers of RegTech growth?

01. Supervisors/regulators encouraging use of RegTech (69% of RegTech vendors agreed)

02. Better RegTech education at the board level (62%)

03. Increased number of enforcement actions from regulators (55%)

04. Greater adoption of cloud technology (47%)

05. Increased complexity of the UK's financial landscape (47%)

11. The impact of Covid-19 (26%)

How RegTech fits into UK compliance functions

Our research has revealed a complex ecosystem of RegTech deployments at firms, with many implementing multiple different platforms to meet their specific needs.

For example, one of our clients — an award-winning online broker across all major traded asset classes — uses a combination of Scila, Behavox and Apama to fulfil its varied compliance and financial crime requirements.

Elsewhere, Nice Actimize and Featurespace remain some of the most commonly used surveillance tools. But this is an active space where many RegTech start-ups are pushing the envelope.

"On the trade surveillance side, we believe that TradingHub is a new wave system that is a huge step forward from Nice Actimize," a Head of Surveillance at a UK Big Four bank told us.

"For communications surveillance, Behavox, Shield and SteelEye are up-and-coming platforms with really innovative technology that can identify early warning signs of misconduct."

Internal versus external Regtech

Most financial organisations have a patchwork of third-party and internally developed RegTech solutions. This hybrid approach has grown steadily more popular over the last five years.

In 2017, 41% of businesses opted for a mix and match of internal and external RegTech. Last year, that figure had risen to **56%**.

A hybrid approach is often used because one-size-fits-all software from third-party providers rarely fits the bespoke needs of a large financial organisation with multijurisdictional considerations.

Several major banks also confirmed they were building or had already completed bespoke in-house RegTech platforms. However, these solutions require a huge initial capital outlay, as well as substantial resources to develop.

The Head of Financial Advisory at a leading payment processing firm said: "We've had problems with in-house solutions in the past. They can take years to implement, by which time they're already out of date compared with the innovative new RegTech platforms available."

RegTech deployments in 2020

6%

6% developed entirely in house.

56%

56% hybrid mix.

12%

12% fully outsourced.

4%

4% other.

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The impact of RegTech on recruitment

To better understand how RegTech is affecting hiring practices, it's important to first establish some of the wider trends that we're seeing in compliance and financial crime in recent years.

The rise of fintechs

Across the financial services sector, it's no secret that fintechs have been gradually gaining market share from incumbent banks. However, 2020 saw fintechs begin to approach a crucial milestone in their development: profitability.

Following four consecutive years of decline, the fintech sector recorded 11% year-on-year deal activity growth in the final quarter of 2020.

And while Covid-19 may have posed a number of operational and budget issues for the financial services sector, fintechs were already well-positioned to leverage the latest technologies to deliver their services digitally during the pandemic. But success draws scrutiny, and regulators are keeping a closer eye on fintechs.

The Financial Conduct Authority (FCA) is planning to introduce tighter safeguarding rules for payment institutions and e-money companies, which means fintechs will be held to higher risk management standards. The FCA already released temporary guidance to fintechs regarding their safeguarding practices in 2020 after the collapse of Wirecard.

In May 2021, the regulator also said some fintechs were misleading their customers about how regulated their products are. It subsequently ordered 300 companies to remind customers - within six weeks - of the risks of storing money in accounts that aren't protected by the Financial Services Compensation Scheme.

The upshot is that regulatory compliance is higher on the agenda than it's perhaps ever been before at fintechs and challenger banks, which is being reflected in recruitment activity.

UK fintech market

- Fintech in the UK generates £11 billion of annual revenues
- London represents 10% of the total global fintech market
- 71% of consumers now use at least one fintech firm's services

Source: *Kalifa Review of UK Fintech*

One job board reported an 800% increase in fintech jobs posted between 2019 and 2020.

Compliance hiring trends

Over the last two years, we have seen a marked increase in the number of compliance roles advertised by fintech firms.

Our data show there was a 100% increase in fintech compliance vacancies listed in 2021, when compared with the previous year. Job openings at big banks also rose, but by a more modest 11%.

This means that hiring activity overall is now better balanced between incumbents and fintechs. Challenger firms comprised 22% of new compliance vacancies in 2020, but now they are responsible for approximately 40% of listings.

What does this mean for compliance teams? A trend that we're witnessing is a shift in the skillsets that employers are looking for.

Many incumbent financial institutions have traditionally recruited large, siloed teams of specialists. It's an approach that enables them to cover a broad spectrum of compliance and financial crime responsibilities, while still having the focused skillsets needed to tackle complex and specific tasks.

Conversely, fintechs typically have smaller corporate governance teams overall, with less of a requirement for deep subject matter expertise within particular areas of compliance or financial crime.

49% of digital bank executives strongly desire collaboration with RegTech firms

Source: *Capgemini and Efma World Fintech Report 2021*

Generalists who have a broad set of skills and can utilise the right RegTech can cover a significant amount of compliance ground in these firms. Our research shows, on average, between 70-80% of tech roles at fintechs and challenger banks are more general in scope, compared with less than a fifth of positions at incumbent banks.

However, it's worth noting that large financial institutions also seem to be moving towards having a more even balance of generalists and specialists.

There is a sense among some of our clients that siloed teams of specialists can lead to account-ability issues. For example, while individuals may be aware that problems exist within the compliance and financial crime functions, they are not always incentivised to act if these concerns fall outside their specific niche.

Will tech visas help fintechs win skills race?

In the 2021 Budget, UK Chancellor Rishi Sunak announced a new scheme to help fast-track visa applications for candidates who have a job offer from a digital product-led UK start-up, which includes many of the country's fintech and RegTech firms.

The Tech Nation Visa will mean potential employees no longer have to obtain a third-party endorsement or receive support from a sponsoring organisation.

Rafa Plantier, Head of UK and Ireland at open banking platform Tink, said: "The new visa presents a golden opportunity for the UK to continue to trailblaze in fintech – encouraging entrepreneurialism, investment and growth."

As hiring ramps up in fintechs, and incumbents shake up the composition of their teams, we believe demand for broader skills that allow a more holistic view of the business will continue to increase. As a result, we may also see a corresponding rise in the adoption of RegTech platforms that could support these roles.

Will RegTech affect headcounts?

The RegTech market continues to mature. There is clearly appetite for platforms that can automate onerous compliance tasks and deliver insights that not only reduce regulatory breaches but also identify potential areas of future risk.

Historically, there have been concerns that implementing RegTech would result in job losses within compliance teams. More than a third of businesses in 2017 believed this to be the case. Just three years later, **one in 10** said the same.

Today, 62% of organisations agree that the main benefit of implementing RegTech is compliance teams have more time to spend on value-added activities.

"While RegTech hasn't changed the type of technical or soft skills that we're looking for, it has allowed us to focus on our key compliance areas rather than performing administration tasks," the Chief Operating Officer of a leading equity firm told us.

A fifth of compliance teams even hinted at increased headcounts, with a **notable shift** towards higher-skilled compliance officers who can understand and deploy these technologies effectively.

We feel this is an accurate assessment. Our discussions with clients suggest there will always be a need for compliance professionals who have the skills and experience to leverage the output and insights from RegTech effectively.

Fintechs are already adept at using the latest emerging technologies to keep their organisations agile, and RegTech is just an extension of this. These solutions enable market challengers to scale their operations exponentially; they can remain compliant while delivering increasingly sophisticated services to more customers with fewer staff.

Larger financial institutions have traditionally been slow to adopt emerging technologies quickly due to how embedded legacy systems are in their processes.

However, these firms are also focusing on how RegTech can help them, with 55% of compliance teams at G-SIFIs expecting to be more involved in **assessing fintech and RegTech solutions** over the next 12 months.

Demand for specialist skills rises

Many RegTech platforms use highly sophisticated emerging technologies, and organisations recognise they need to broaden skillsets within their compliance and financial crime functions to utilise these technologies effectively.

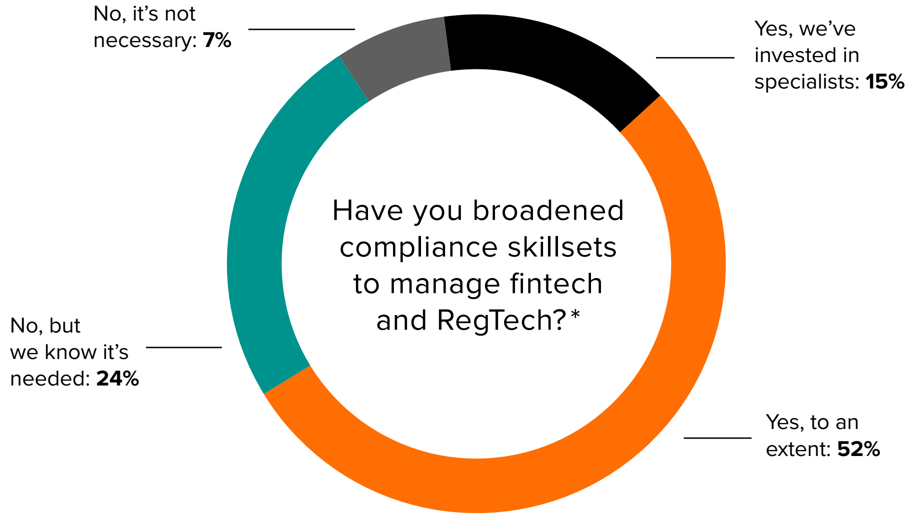
And yet, only 15% of financial institutions invested in specialist skills to accommodate fintech and RegTech disruption in 2020.

This was despite a growing recognition that these capabilities are required. While a quarter of firms claimed specialists weren't necessary in 2016, just 7% said the same just four years later.

It's not just compliance teams that need to broaden their skillsets. A growing number of senior executives, especially at larger organisations, believe board-level specialisms in RegTech and other financial technologies are crucial.

In 2018, just 2% of G-SIFIs had brought in specialist skills to their boards. By 2020, this had jumped to 22%, which is also notably higher than the industry as a whole (12%).

Among firms that haven't deployed RegTech platforms, a lack of in-house skills was the second most commonly cited reason for holding back, behind only budgetary concerns.



Interim shortages

Many financial institutions turn to the contractor market to plug skills gaps in their operations. However, recent changes to IR35 off-payroll working rules could lead to a significant exodus of interim talent from various industries. While the reforms were introduced in April 2021, **55% of SMEs** that use contractors have yet to formally adhere to the changes. As such, the true impact on the interim market may not be felt for some time.

*Source: *Thomson Reuters*

What skills are needed?

It's clear from our research and discussions with Heads of Compliance and Financial Crime that how RegTech is deployed varies considerably from company to company.

This has a significant impact on which skills are needed when hiring into compliance departments.

For example, firms with bespoke platforms that are developed and managed in-house typically require more technical, data-driven professionals than businesses that outsource to a third-party RegTech provider.

Nevertheless, a number of broader trends has emerged:

▶ The importance of systems experience

Many of the clients we spoke to said familiarity with their company's RegTech platforms, particularly transactions monitoring and sanctions screening software, is becoming a key differentiator between candidates.

"In the future, we will be looking specifically at people who not only have financial crime skillsets but also specific platforms experience," said one Group Head of FCC at a top insurance and asset management firm.

For companies that have their own custom-built systems, candidates who have experience working with other bespoke platforms are especially desirable.

▶ Assurance and advisory need technical competence

Compliance professionals who possess technical knowledge are increasingly in-demand within assurance and advisory roles. This is particularly true for AI-led segments of financial markets, such as electronic and algorithmic trading.

The ability to understand and interpret the advantages and disadvantages of RegTech enables assurance and advisory professionals to better communicate this information to key stakeholders, including senior management.

"It's a case of technical competence rather than deep expertise," a Head of Compliance told us.

▶ Compliance meets data science

Among businesses that are investing heavily in compliance automation, there is a big push for hiring professionals with data science skills, including machine learning experience and knowledge of coding languages such as Python.

This trend is most common among larger financial services organisations, many of which are looking to update and coordinate existing platforms, which requires expanding their data teams.

"Data management is a big issue due to a number of legacy systems we have in place," said a Group Head of FCC. "It's a huge challenge for us now and will continue to be in the future."

As a result, candidates with risk and audit back-grounds could become increasingly sought-after in compliance roles because they typically have more experience of handling and analysing data.

▶ Soft skills still crucial

While demand for technical capabilities may be on the rise, many of our interviewees were quick to emphasise the importance of interpersonal skills. Good communication and stakeholder engagement experience were cited repeatedly as traits that Heads of Compliance looked for when hiring compliance professionals.

This was particularly true for senior roles, where an individual might be expected to act as a conduit between data teams and the wider business. They may also have to take on the role of RegTech advocate, persuading the C-suite to invest in expensive new technologies that will help embed automation into the function.

▶ RegTech doesn't replace people

We have already discussed how RegTech may affect headcounts, and our view that these platforms will supplement rather than replace people was widely held among senior compliance professionals.

Many predicted that lower-level compliance positions may be lost when tasks are automated, but these are often replaced with more senior roles.

In other words, machines may be doing more of the heavy lifting, but only humans have the skills and experience to investigate the results when the computer says no.

When asked how it would affect their job personally the Head of Compliance Assurance at a big four bank that is investing heavily in automation technology told us: “While RegTech is fantastic at automating the alert phase, the human element remains critical, and the vast majority of final controls remain manual. It can still be a job for life!”

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Working with a specialist recruiter

Working with a specialist recruiter

When looking to build a team that can support and negate any potential issues posed by changing regulatory pressures, engaging a specialist recruiter will save you time and money. Barclay Simpson has one of the most established compliance recruitment teams with a proven track record across all functions of compliance and risk management.

To ensure you get the bespoke compliance profess-ionals you need to protect your organisation, our consultants are knowledgeable across all areas of compliance and can suggest tailored solutions to suit you. Get in touch to learn how working with Barclay Simpson can help you build the compliance function you need to secure your company's future.

Conclusion

RegTech has the potential to revolutionise how regulatory compliance and financial crime departments operate. The effective implementation of these platforms is already helping companies cut costs, improve efficiency and deliver key forward-looking insights.

But despite the growing prominence of RegTech, people will always be at the centre of the compliance process. And candidates who exist at the intersection of technology, compliance and financial services are already rare, particularly those with good interpersonal skills, which still remain so fundamental to the job.

Firms must therefore find ways to build strong, digitally capable compliance teams if they want to manage an ever-increasing regulatory burden and take advantage of the opportunities presented by RegTech.

Providing effective Compliance recruitment and workforce solutions

When looking to build a team that can support and negate any potential challenges posed by changing regulatory pressures, engaging a specialist recruiter will save you time and money. Barclay Simpson has specialised in the recruitment of compliance professionals since 2002. Our practice differentiates regulatory from financial crime compliance and is further divided into industry sectors.

Our team has extensive experience of recruiting on a permanent and contract basis for positions across financial and professional services. We have built extensive networks of contacts across banking, investment and trading firms as well as insurance and fintech companies. As one of the most established recruiters in this market we also have a sophisticated database of compliance professionals.

Get in touch to learn how working with Barclay Simpson can help you build the compliance team you need to secure your company's future.

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