



THE REGTECH ADVANTAGE: TACKLING REGULATION WITH INNOVATION

THIS PAPER AT A GLANCE

1. The weight of regulation is increasing in many industries.
2. RegTech, once the provenance of financial services, is helping companies across sectors manage the compliance burdens more efficiently.
3. But it is not a panacea and must be approached carefully in order to realise the full benefits.
4. Gemserv has experience of introducing RegTech to the energy sector and can help your business explore the benefits.

EXECUTIVE SUMMARY

The weight of regulation and reporting requirements is increasing across various industries. This has resulted in new technologies and solutions entering the market aimed at easing the compliance burden. In the last few years, hundreds of start-ups have begun to apply digital technology – including APIs, artificial intelligence (AI) and robotic process automation (RPA) to numerous and burdensome tasks related to regulation and compliance.

One key digital transformation is achieved through the use of Regulatory Technology. Commonly known as RegTech, it refers to the management of regulatory processes and compliance through the use of digital technology.

Though pioneered by the financial industry, RegTech is increasingly realising its true potential through application to a vast array of sectors, and therefore its use should no longer be seen as limited to banks and financial institutions only. Having successfully introduced RegTech to the UK Energy sector, Gemserv is making three key recommendations for organisations to consider:

1. **Re-evaluate the traditional approach to regulatory compliance** – in light of new use cases consider digital technology to improve operational efficiency and cost savings to manage compliance and reporting.
2. **Consider RegTech as an enabler rather than a disruptor** – technology developments provide an opportunity for an organisation's compliance function to reposition its role in the service of its customers and firm's business. RegTech can be a key enabler to this change, though it may not always be the starting point.
3. **A partnership approach** - RegTech firms tend to work in partnership with their clients. Internal solutions and RegTech must complement each other to capitalise on and increase internal expertise through the know-how and innovation that RegTech brings.

The impact of RegTech and the synergies with initiatives that can be carried out internally is an opportunity to be seized. This paper builds the case for the application of RegTech beyond the financial sector and beyond compliance to score efficiency, costs and competitive benefits.

CONSIDER REGTECH AS AN ENABLER RATHER THAN A DISRUPTOR

DIGITALISATION OF GOVERNANCE IN THE UK ENERGY SECTOR

While the UK's Financial Conduct Authority (FCA) defines RegTech as "a subset of Financial Technology", it can be applied to any regulated industry in the context of managing regulatory or compliance process. This means that other regulated industries such as Manufacturing, Energy, Medicine, and Environment have a series of use cases for RegTech application. These include – protection of personal data while remaining compliant with GDPR, automated reporting with user friendly visual presentations, process management that allows for efficient workflow management and managing regulatory risks. The falling cost of cloud computing together with developments in data science and predictive trends are further strengthening the business case for RegTech.

Foundational capabilities such as 'smart document collaboration' has witnessed its application in the UK energy sector. CodeWorks^[1] - a bespoke RegTech solution introduced by Gemserv has been successfully deployed to the Smart Energy Code (SEC) in 2019. Since then, Gemserv is exploring ways to introduce digital solutions to other energy industry codes, including the Retail Energy Code (REC) with a vision of transforming the sector's governance through the implementation of a single digital regulatory platform. The underlying drivers for such transition include simplification of codes text, ease of use by participants, better outcomes for consumers, and a cost-effective transition towards a net zero economy.

Pre-empting the shift, many existing code bodies have started their journeys towards digitalisation. These are welcome steps in the right direction but are being adopted in isolation. An effective Code governance regime needs an integrated digitalisation strategy that is built on the basic principles of standardisation and interoperability. To this effect Gemserv has recently produced a paper on 'reforming governance of the UK energy market'^[2], calling for early 'no-regrets actions' among other strategic recommendations to catalyse an effective reform process.

1 <https://gemserv.com/our-thoughts/gemserv-launches-new-platform-codeworks-to-provide-a-digital-solution-to-code-management/>

2 <https://gemserv.com/our-thoughts/energy-markets-net-zero/>

ENABLER RATHER THAN A DISRUPTOR TO ENERGY SECTOR PLAYERS

More recently, the UK energy market has witnessed the influx of new players who have successfully disrupted the Big Six, using different business models and more efficient, seamless technology. Reacting in patchworks, incumbents were largely mired with antiquated legacy IT infrastructures. This is changing in the COVID-19 era where players through necessity or by design, are implementing the roll out of technology with a more digital-first approach when it comes to holding virtual meetings, collaborating with colleagues, or delivering entire services.

Within the sector there are two broad groups that are likely to maintain and even accelerate digital transformation.

1. The digital leaders who are likely to continue advancements to drive competitive advantage.
2. The adopters who are now evaluating more areas and functions where digital transformation will enable them to compete efficiently and successfully in a challenging environment.

Both groups must place due consideration to digital compliance while embracing advanced tech capabilities such as advance analytics and cloud computing.

Digital compliance technologies, including RegTech, make it possible to:

- ◆ manage licencing obligations efficiently;
- ◆ maintain compliance dashboard that highlights code requirements;
- ◆ respond quickly to operational information requests; and,
- ◆ assure that regulator audits can be carried out with greater efficiency and control.

The synergies with RegTech and initiatives that can be carried out internally is an opportunity to be seized while considering the following additional benefits:

- ◆ improved operational efficiency – a direct cost saving;
- ◆ improved document control, navigation and visibility – a single customer view;
- ◆ automated version control and attestation workflows for compliance management;
- ◆ digital document assurance, audit trail of edits, decisions, and approvals;
- ◆ customised reporting and visualisation – an improved user experience and interface;
- ◆ builds a 'golden thread' across legislation, policy and guidance; and,
- ◆ knowledge retention in the platform – a reduced risk from any organisational change.

We believe that RegTech providers should be seen as delivery partners, addressing the key compliance, implementation and cost issues for today's energy markets. This in turn allows institutions to re-focus on their core business – the customer.

OVERCOME CHALLENGES IN OTHER SECTORS

HEALTHCARE

The NHS Long Term Plan^[3], published in January 2019 stated that all providers across acute, community, and mental health settings, will be expected to advance to a core level of digitisation by 2024. Since publication, various digital transformation programmes are now underway. However, the reliance on a combination of paper-based and digital methods (for example SharePoint Intranet) can still be seen across many healthcare institutions. In order to bring greater efficiencies in information governance, the healthcare institutions must accelerate the adoption of automated solutions.

Several RegTech solutions already automate the internalisation of policy change, documentation and compliance in this sector, but achieving transformation at scale has proved elusive. Key areas of transformation include, data management and information sharing, compliance and data privacy, digital literacy and training of clinical staff. Through addressing these areas Healthcare institutions can substantially improve performance, and further enhance existing plans to improve governance and accountability.

ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG)

Responsible investing and ESG drivers are gaining prominence across markets. One example of the increasing prominence of ESG is the UK's intention to make the Taskforce on climate-related Financial Disclosures (TCFD)^[4] mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

RegTech solutions built using AI and machine learning will find their use in identifying ESG high performers and potential investments that could be incorporated into products and portfolios and ultimately offered to clients. Consumer demand and the introduction of hard regulatory requirements are expected to make the utilisation of ESG "RegTech" solutions the norm rather than the exception. This alone is a sufficient reason to adopt RegTech early as TCFD and other standards could be used to demonstrate the authenticity of business values and draw new customers.

3 <https://www.longtermplan.nhs.uk/wp-content/uploads/2019/08/nhs-long-term-plan-version-1.2.pdf>

4 <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap>

AUTOMOTIVE

The global drive to decarbonise transport means moving away from fossil fuels. While much of the energy system design is linear in nature (extract – process – transport – burn), the shift to clean fuel is a closed loop system where considerations for a circular economy will be baked into each step. Considering the number of interactions and amount of data flow at each step, a far greater degree of regulation is required to ensure that the holding parties account to a higher standard of ecological and environmental stewardship. There is little doubt that companies operating in the sector will develop business cases for adopting a smart solution to manage the increase in regulations. The shift in itself requires various rules be scanned, interpreted and managed. RegTech has the potential to do this at a fraction of the cost.

TELECOM

Tracking regulatory change is especially relevant for the large corporations that operate across various jurisdictions. With 5G and faster fibre connectivity to our homes - supporting the shift to more remote working - telecoms companies will come under greater scrutiny in terms of maintaining data privacy while enabling better economic outcomes (for both businesses and consumers). RegTech has the potential to offer significant efficiencies in policy management and compliance to players operating locally as well as globally - dealing with multiple regulation.

OTHERS

A myriad of regulations are in place for industries such as Oil and Gas, Rail, Construction, Shipping, Air Traffic, Fishing, Supply chain and Pharmaceutical. Similarly, industries that are largely unregulated in many parts of the world such as forestry, paper and sawmills might all witness an increasing weight of regulation going forward. RegTech has strong potential for both regulators and players to manage this transition smoothly towards the ultimate benefit of end-users.

THE BOTTOM LINE

RegTech solutions are becoming a logical generator of efficiencies and cost savings for regulated firms as manual activities and processes become increasingly unsustainable and outdated. However certain key success factors must be kept in mind to successfully implement these new digital solutions:

- A) Clearly defined pain points or process gaps through an assessment of the organisation's regulatory and risk management requirements.
- B) Mapping these pain points and process gaps to the local and broader operating context to identify the root causes and remedies, involving colleagues during ideation workshops to explore the process and tooling changes that may be required.
- C) Developing a proof of concept – including a heat map of the organisation's capabilities for identifying the right solution that complements the internal systems.
- D) Preparing the operational model to identify possible issues with IT and architecture e.g., interaction with existing systems on GDPR, security and compliance.
- E) Finally, planning the integration to ensure a successful mobilisation and coordination of the various teams and expertise.

To find out more about how your regulatory, policy and compliance functions could benefit from regulatory technology please send us your details [here](#) or get in touch through bd@gemserv.com.

REGTECH
SOLUTIONS
ARE BECOMING
A LOGICAL
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