The Different Flavors of RegTech and SupTech: How Companies and Regulatory Agencies Are Leveraging Technology to Improve Regulatory Compliance and Supervision

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When the calendar turned to 2020, my first thought was about how futuristic the year sounded and what kind of interesting things it had in store. At that time, no one could possibly have imagined that some of those interesting things would be face masks, working from home, and wearing the same loungewear so often that you begin to lose any concept of time. Still, the COVID-19 pandemic has hammered home the point even further that technology touches nearly every facet of our everyday lives. Consider something as benign as a lamp: you can purchase it on Amazon, turn it on or off using Google, and pay for the electricity that powers it via app. Given this and the current state of the world we live in, it should come as no surprise that modern technology has even impacted financial services industries and the regulatory environments in which they operate. Through RegTech and SupTech, both industry and regulatory agencies are finding ways to modernize compliance and create a more efficient and increasingly digital regulatory landscape.

WHAT ARE REGTECH AND SUPTECH?

"RegTech" refers to technology that has been developed for industry to address regulatory challenges. Those challenges might include meeting compliance requirements, assessing risk management, and reporting data. "SupTech," on the other hand, describes the use of technology by supervisory and regulatory agencies to improve efficiency in their duties overseeing industry. SupTech includes streamlining administrative and operational procedures, as well as utilizing automation in the supervision process. Ultimately, the combination of RegTech and SupTech ideally will lead to a more robust compliance environment through proactive monitoring by supervisory agencies, enhanced reporting from industry, and better overall oversight. An added benefit of this efficiency is lower costs for industry in complying with regulations and better allocation of resources by supervisory authorities. A true win-win.

DEVELOPMENTS IN REGTECH

RegTech is a booming industry, expected to be worth over $55 billion by 2025. With such growth comes some inevitable questions. How do regulators view RegTech? Do RegTech programs have the blessing of the agencies with which they are trying to comply? Regulators at both the state and federal level recognize the impacts RegTech has on industry and are actively trying to keep up with the innovation they are seeing.

In July 2019, New York Department of Financial Services (NYDFS) Superintendent Linda Lacewell announced the establishment of the NYDFS Research and Innovation Division. The Division's intent is to ensure that NYDFS keeps pace with innovation in all sectors of the financial services industry. NYDFS further showed its dedication to fostering and tracking innovation by joining the Global Financial Innovation Network (GFIN) in October. GFIN seeks to support financial innovation by providing more efficient ways for firms to interact with regulators to develop new products that will benefit consumers.

In an August 2019 speech, Federal Deposit Insurance Corporation (FDIC) Chairman Jelena McWilliams emphasized the growing role of RegTech, noting that the FDIC will need to step in if regulators do not agree on joint guidance regarding bank use of artificial intelligence. Banks could potentially use AI to comply with laws and regulations concerning anti-money-laundering controls and other vital compliance programs. Small banks, as McWilliams noted, are more likely to turn to technology for competitive advantages and must be sure that their attempts at innovation will not be stifled by regulatory uncertainty.

DEVELOPMENTS IN SUPTECH

Despite the heightened emphasis on tracking industry innovation, regulatory agencies aren't merely sitting back and watching industry utilize technology. In fact, groups of agencies have banded together to explore SupTech initiatives that allow them to better leverage technology in supervising and communicating with industry.

Back in 2017, the Conference of State Bank Supervisors (CSBS) launched Vision 2020, an effort to modernize state regulation of nonbank financial companies. Vision 2020 focused on six major initiatives: (1) creating the Fintech Industry Advisory Panel, which allows industry to provide input on state regulation; (2) redesigning the Nationwide Multistate Licensing System & Registry (NMLS) with a more automated and data-driven approach; (3) harmonizing multistate supervision through uniformity in examinations and consistent best practices; (4) assisting state banking departments in recognizing weaknesses in order to perform at a higher standard; (5) enabling banks to service nonbanks by addressing the risks involved and demonstrating how to comply with state and federal laws; and (6) improving third-party supervision through support for federal legislation to amend the Bank Services Company Act to allow state and federal regulators to better coordinate supervision.

In January 2020, CSBS released its Vision 2020 Accountability Report. Prepared by the Fintech Industry Advisory Panel, the report outlines progress made on the group's initiatives to streamline state licensing and supervision of fintech companies. The report focuses on the increased use of technology for licensing and exams. Notably, CSBS has: (1) expanded the use of NMLS across all license types for nonbank financial services, (2) developed state licensing guidelines that are consistent across multiple states, and (3) launched a new state examination system. The report also noted a more consistent and streamlined approach nationwide to the licensing and regulation of money service businesses.

As part of the Vision 2020 initiative, CSBS announced in February 2020 the nationwide roll out of the State Examination System (SES). SES is designed to allow state agencies to securely perform examinations, investigations, consumer complaint processing, and enforcement actions. The customer complaint management system—released just this past September—allows state financial regulators to input, manage, and address customer complaints electronically. Summaries of all complaints entered will be available to any state regulator using SES, allowing state regulators to identify trends and potential bad actors. Although SES is clearly a SupTech solution, it also has some RegTech elements. The goal of SES is to bring every interaction a company has with state regulators onto a single platform. Giving companies a one-stop-shop digital platform for all regulator interactions would create massive time and cost efficiencies.

Feels a little like the future, doesn't it?