

# Embedded RegTech: Applying tech and compliance functions to future-proof your investment management business

**Abhijeet Singh Hazare, Director of EMEA Sales for Banking & Capital Markets Solutions at Azentio, describes RegTech's main regulatory functions that help businesses act by the regulations.**

The challenges associated with increasing volumes of regulation and levels of complexity have been well-documented in recent years. It is a well-known fact that investment managers have struggled to bring about a change to this issue. It felt like getting hit by wave after wave of regulations since the 2008 financial markets crash. Managers had to commit an almost disproportionate amount of financial and human resources to comply with regulations. The challenge is to keep up with regulations efficiently and effectively, without crashing their bank in the process.

Although many compliance teams can now access technologies and functionalities that simply did not exist ten years ago, the processes have become more and more challenging. This is due to the underlying regulations that are increasingly complex, nuanced, and ever-changing. Managing this continual increase, in both the number and scope of financial services regulation, is widely acknowledged as unworkable without having access to intelligent systems. These systems are able to adapt, process, double-check, and deliver alerts to compliance teams in an accurate and timely fashion. While firms try to adopt more regulatory processes, it has become crucial that they update and refresh their review processes and supervisory procedures.

## RegTech is happy to help!

RegTech is an offshoot of FinTech, and automatically manages regulatory processes set by regulators. RegTech solutions use various technology-enabled processes, such as leveraging machine learning, Cloud computing, and Blockchain. Combining these powerful technologies reduces risk; because the technology can manage data volumes that a human cannot handle, and thus introduces efficiency into the process. Additionally, the technology can be leveraged to model 'what-if' scenarios, to identify when a compliance breach is likely to occur and give the compliance team ample time to react and change course.

This is highly valuable to overstretched compliance teams. No surprise then that [the estimated worth](#) of the global RegTech market, by 2026, will significantly rise to US\$33.1 Billion, in comparison to a figure of approximately US\$5.31 billion, in 2019.

However, it is worth noting that RegTech is not here to replace the human element. Its key role is to make the processes a lot better, faster, and more accurate. In doing so, it will free up humans by granting them the additional room to focus on more strategic and enhanced tasks, including advancing RegTech, while everything evolves and changes. RegTech requires a human focus to hone the technologies that make things more effective and efficient and to enable a firm to scale and refine its capabilities.



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Vendors must collaborate with investment managers and compliance teams to:

- Solve issues related to the adoption and evolution of regulation,
- Be able to adopt multiple 'what-if' scenarios, and
- Empower teams to manage and evolve their technological response to compliance.

We all know that the breadth of regulatory change through the likes of MiFID II, Basel III, AMLD5, ISOSCO, ISO22022, and Dodd-Frank II is pretty much unmanageable without technology. A solution should absolutely be able to manage investment guidelines, reporting, and filings for all main regulators.

Our flagship software solution for Investment Management industry **MFund Plus™** fulfils these needs with preconfigured settings, and helps our clients to leverage it in a way that fits them best. Another critical area where we excel, is the product suitability assessment with regards to the customer's risk profile and investment objectives.

One of our major clients, Tata Asset Management, a large investment management conglomerate, uses our solution for various business lines. These include: management, alternate investments (AIF), portfolio management (PMS), where we are managing SEBI compliance guidelines, Shariah compliance (ethical funds), UCITS guidelines (special UCITS compliance funds), along with required reporting and filings for AIF, PMS and the asset management segment.

### Breaches

A solution should not just be looking to manage the actual rules and then applying them. It also needs to leverage technologies to provide advanced 'what-if' scenario analysis. With this, the solution can warn well ahead of a potential breach so that a change, of course, can be set to predict and manage risks.

This is the role of our highly-engineered and configurable rule engine. This easy-to-use tool allows the team to set up investment guidelines for pre-trade compliance and breach management. The system flags any breaches on a real-time basis so that changes in workflow can be easily incorporated quickly.

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To maximise this capability, we have incorporated cognitive techniques to predict breaches. In addition, we have applied the same model to deliver an ESG compliant investment framework. We are using AI/ML capabilities to screen over 200 parameters of a security or investment, and rate them on ESG principals on a defined scale. Then again, we use them in the pre-trade compliance or reporting to ensure that all funds and investors are within their thresholds at all times.

We strongly believe that compliance functions need to continually evolve to be more industry-driven, while also becoming more proactive and able to produce results in real-time. Technology will give firms the flexibility and intelligence to actively manage compliance. Those able to harness powerful data analytics afforded by AI and Blockchain will have a significant advantage moving forward.

But this relies on embracing change and being willing to consider new ways of working. For this, a partnership approach is needed, where the vendor actively works with the investment manager to first assess what is required and what is currently missing and then draws up a practical implementation plan. The ability to work alongside the investment manager for as long as it takes, as well as equipping him/her with the skills and confidence to tweak and configure the system as things evolve is so important. Still, it really pays dividends in the short and long term.

**Azentio Software** recently won WealthBriefingAsia's award for Best RegTech Platform in India for its general Investment Management Platform – **MFund Plus™**



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