Digital Transformation Accelerates RegTech Usage For Proactive Change Management

Regulatory Technology Enables Firms To Balance Regulatory Demands With Customer Expectations

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Overview

Current State

Challenges

Opportunity

Conclusion

Growing Customer Expectations For Privacy And Risk Reduction Propel RegTech

In today's economy, data is always increasing in value. To win and preserve customer trust and keep ahead of the competition, companies must prioritize protecting their data. Our study shows that regulatory technology (RegTech) usage is increasing as companies digitally transform. For this study, we define RegTech as specialized software using advanced techniques, such as artificial intelligence, robotic process automation, and/or machine learning, to improve the efficiency and effectiveness of risk and compliance reporting and monitoring.

As part of digital transformation, firms must understand regulatory compliance is no longer an acceptable minimum. They must proactively manage change to best practices in a constantly evolving market to win, serve, and retain customers.

Key Findings

Ninety percent of respondents in this study have implemented or are expanding their use of RegTech.

Compliance monitoring is expected to be the top driver for investment in RegTech in the next two years.

Respondents expect RegTech to help their companies most with fraud and cybersecurity, as well as keeping up with audits and changing regulatory requirements.

Eighty-five percent of leaders say they are getting at least some value out of their RegTech solutions.

Overview

Current State

Challenges

Opportunity

Conclusion

Data Is The Fuel And Compliance The Cost Of Digital Transformation

Over 80% of the respondents in our survey believe they have successfully digitally transformed. Additionally, most decision makers in our study (81%) say their companies have successfully implemented RegTech into at least one area of their business. As they continue to digitally transform, they will capture and process more data than ever.

In the first three quarters of 2019, regulatory technology raked in $4.6 billion in funding at a year-over-year growth rate of 103%. That makes RegTech the fastest-growing category that Forrester tracks, and it shows no sign of slowing. Headlines of data breaches and privacy concerns, coupled with a wave of new GDPR-like regulations, are the backdrop of growing demand for technology tools that help firms meet compliance challenges.[1]

Where is your organization in your digital transformation (DT) journey?

4%

15%

81%

- We are evaluating and designing our DT journey.
- We are undergoing our DT journey.
- We have successfully digitally transformed.

How far along is your company on your RegTech implementation journey?

11%

7%

21%

61%

- We are evaluating and designing our RegTech journey.
- We are in early phases of implementation.
- We have successfully implemented RegTech into one area of our business.
- We have successfully implemented RegTech into multiple areas of our business.

RegTech Provides Much Needed Relief From Burdensome, Manual Processes

Companies are applying RegTech to key use cases like monitoring employee conduct violations, safety and sustainability, and anti-money-laundering/know-you-customer compliance. Respondents in our study rated all these use cases as important because they are all important to risk and compliance. These use cases require a lot of manual effort, and RegTech solutions alleviate that burden.

As firms continue to collect huge volumes of data to improve digital customer experience, risk and compliance professionals will turn to automation. These pros will need to use technology, like RegTech, to automate the processing and collection of this data and mitigate inherent risks associated with data security.[2] Applying RegTech across your business can reduce manual work and allow compliance teams to focus on the biggest risks.

What use cases are you applying RegTech to today?

(Select all that apply.)

Monitoring employee conduct violations (e.g., insider trading)
74%

Safety and sustainability
72%

Anti-money-laundering/know-your-customer (KYC) compliance
71%

Monitoring and auditing controls
71%

Third-party risk management
67%

Anomaly detection (e.g., fraud prevention and financial crimes)
65%

Overview

Current State

Challenges

Opportunity

Conclusion

Risk Reduction Drives RegTech Investment

Trust is in short supply these days. Recent headlines of data breaches and privacy concerns are driving a greater need for technology that help firms meet compliance challenges. A key priority for investment in RegTech both today and in the future is the need to protect and secure data. Customers expect and demand that their data be kept private and safe; companies that fail to meet these expectations will lose their business.

Data is acquired in real time; hence, continuous controls are necessary to monitor control effectiveness in real time. Even small organizations can struggle with tracking the numerous risk and compliance (R&C) functions, requirements, and assets they have in place — and it's even more challenging when you factor in the constantly evolving external risk and regulatory environments of large enterprises.[3]

What are the priorities driving your investment in RegTech today?

(Top three shown.)

74%   Data privacy and security

68%   Regulatory change management

67%   Ongoing/continuous compliance monitoring

What do you think the drivers will be in the next two years?

(Top three shown.)

84%   Ongoing/continuous compliance monitoring

83%   Data privacy and security

82%   Creating a better experience for our customers

Overview

Current State

Challenges

Opportunity

Conclusion

Change Management Strains Resources And Time

Meeting customer demands requires change management. Companies must anticipate that changes in regulatory, market, and economic factors will require updates to priorities, resource levels, and budgets. This requires a fundamental change in thinking. They must manage to best practices instead of simply meeting compliance standards. Think of compliance as the floor level, not the ceiling.

Simply meeting compliance standards puts you a step behind your competition. Companies that can move at the speed of the changing market will win customers at a faster rate. But our survey shows that companies are struggling to keep up. A lack of the right resources and technology makes keeping up with regulatory compliance and the intensity of audits very difficult.

What are the challenges your organization is facing with regulatory compliance/technology?

(Select all that apply.)

32%
High cost of regulatory compliance

30%
High cost and resource intensity of audits

24%
Inability to keep up with data privacy regulations

23%
Inefficiency of investigations

23%
Inability to meet compliance requirements in a timely manner

21%
Inability to keep up with fraud and cybersecurity challenges

15%
Inability to keep up with audit cycles

13%
Inability to keep up with changing regulatory requirements

Overview

Current State

Challenges
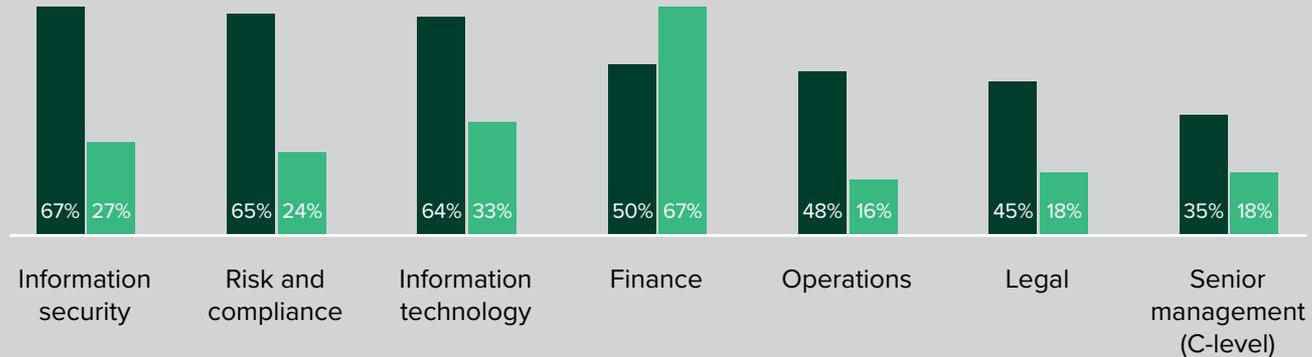
Opportunity

Conclusion

RegTech Investment Increases, But Alignment On Strategy Remains Muddled

The need to not only meet risk and compliance requirements but manage their data security to best practices is driving companies to increase their spending on technology, staff, salaries, and consultants in the next two years. Decision makers expect investment in technology to increase the most with staff/resources a close second. Companies have realized that investing in technology is a more sustainable option than continuously adding staff to keep up with compliance workloads.

However, the right people need to be in the conversation about RegTech investment and strategy. Information security and risk and compliance teams have the most responsibility for RegTech strategy, but finance and the board of directors dictate the RegTech budget. Companies must bring all key parties to the table to get the right perspectives on both budget and strategy.

Which of the following departments at your company is responsible for setting your RegTech strategy/budget?

● Strategy
● Budget

	Information security	Risk and compliance	Information technology	Finance	Operations	Legal	Senior management (C-level)
Strategy	67%	65%	64%	50%	48%	45%	35%
Budget	27%	24%	33%	67%	16%	18%	18%

Expectations For RegTech Are High, But Are They Realistic?

Companies are looking to RegTech to address some of their biggest challenges. They expect RegTech to help them reduce the cost of meeting regulatory compliance requirements and meet them in a timelier way. Additionally, they expect RegTech to help them keep up with changing regulatory requirements. An area companies are expecting RegTech to really help is keeping up with fraud and cybersecurity challenges.

RegTech can help firms navigate the shifting regulatory landscape and efficiently and accurately keep pace with the velocity of data coming in from business transactions and customer interactions. But the technology alone will not eliminate all the challenges respondents say their companies are experiencing. Leveraging RegTech with change management best practices is a critical first step to balancing compliance and customer experience.

Overview

Current State

Challenges

Opportunity

Conclusion

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Which of the following challenges are you expecting RegTech solutions to solve?

(Select all that apply.)

54%
Reducing the cost of regulatory compliance

54%
Reducing the cost and resource intensity of audits

51%
Keeping up with fraud and cybersecurity challenges

49%
Keeping up with changing regulatory requirements

48%
Keeping up with audit cycles

46%
Meeting compliance requirements in a timely way

43%
Keeping up with data privacy regulations

41%
Inefficiency of investigations

True Value Of RegTech Is Ability To Connect And Contextualize Data

Ninety-two percent of decision makers agree that RegTech is a critical way to meet their regulatory compliance requirements. They are looking to RegTech to connect their data and address all the areas of risk across their business. Continual monitoring is the key to performance management. The quicker the data can be surfaced, given context, and acted upon, the better enterprises can manage strategic risk.[4]

Companies are aware of the amount of time they are spending on meeting regulatory requirements. Ninety-four percent of respondents believe that RegTech can help them gain efficiencies and allow their risk and compliance teams time back to focus on other tasks.

To what extent do you agree with the following statements?

(Somewhat/strongly agree)

94%

Efficiencies gained by the implementation of RegTech would provide our compliance and risk expert/team significant time back in their week to focus on other tasks.

92%

We see RegTech as a critical way to meet our regulatory requirements by ensuring compliance with all laws and policies required of our business.

91%

We need support for connecting and addressing all the areas of risk across the separate disciplines in our business.

Conclusion

Changes to regulatory, market, and economic factors are not going to stop. It is time for companies to recognize that meeting compliance requirements is no longer enough. Change management requires managing to best practices to maintain and improve customer trust. RegTech helps organizations level up their change management today:

- Manage change to best practices. Think about compliance like a house: Meeting regulatory compliance is the floor, the minimum you can do, but strive to reach the ceiling through change management.

- RegTech allows you to automate the processing and collection of data, which mitigates the risks associated with data security.

- RegTech reduces the burden of intense audits and changing regulatory requirements and improves data privacy.

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Overview

Current State

Challenges

Opportunity

Conclusion

Methodology

This Opportunity Snapshot was commissioned by IBM. To create this profile, Forrester Consulting supplemented this research with custom survey questions asked of compliance, risk, and security mangers+ at US enterprises. The custom survey began and was completed in November 2019.

ENDNOTES

[1] Source: "Predictions 2020: New Tech," Forrester Research, Inc., November 1, 2019.

[2] Source: "Transformation, Third Parties, And Threats Shape The Landscape Of GRC Technology," Forrester Research, Inc., October 25, 2019.

[3] Source: "The Forrester Tech Tide™: Governance, Risk, And Compliance Management, Q2 2018," Forrester Research, Inc., May 1, 2018.

[4] Source: "The Forrester Tech Tide™: Governance, Risk, And Compliance Management, Q4 2019," Forrester Research, Inc., October 23, 2019.

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Demographics

GEOGRAPHY

100% US

COMPANY SIZE

56% 1,000 to 4,999 employees

30% 5,000 to 19,999 employees

14% 20,000+ employees

TITLE/POSITION

12% VP or C-level

22% Director

65% Manager

USE OF REGTECH

Expanding **67%**

Implemented **23%**

Planning to implement **9%**

Interested but no plans **1%**

Note: Percentages may not total 100 because of rounding.