

GRC SOLUTIONS

ComplyWith – Unplugged July 2019

News and developments from Australia, challenges for compliance and the opportunities for technology to enable success



The Royal Commission

Over 12 months, 68 days of hearings, 130 witnesses and more than 10,000 public submissions, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry unearthed a large number of anecdotal instances of misconduct and a substantial set of systemic failures in terms of compliance, monitoring, incentive structures and company culture in Australia's large financial institutions.

Key recommendations from Commissioner Kenneth Hayne, made in February 2019, included:

- Referring 24 cases for potential prosecutions– some civil and some criminal – in which all the major banks were listed, except Westpac.
- Suggesting that the current regime of regulators need to improve their enforcement of existing standards. ASIC in particular was pushed to prosecute more often or face the possibility of its prosecutorial powers being handed to another body.
- Calling for an end to practices like conflicted remuneration (advising for a client and being paid commission by a financial institution with an interest in the client's business)
- Calling for a compensation scheme of last resort, funded by the banks.

APRA Reviews

Focus on Conduct Risk & Measuring Culture



More rigorous board oversight



Exacting accountability standards reinforced by remuneration practices



Upgrade the authority and capability of the operation risk management and compliance functions



Embed the “should we?” question into all key decision-making processes



Cultural change to support enhanced risk identification and remediation

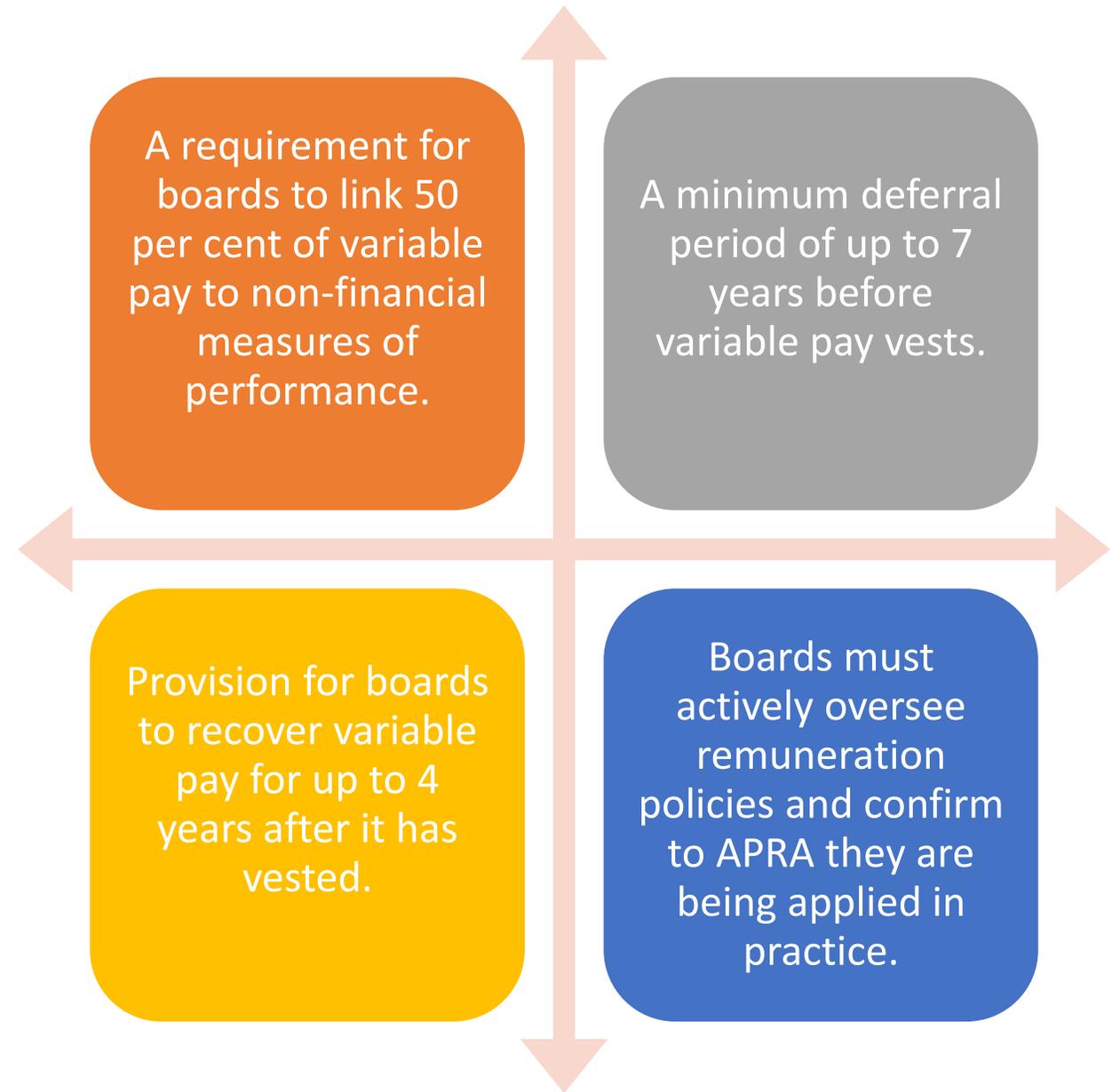
Individual Accountability

BEAR Regime
to be extended
to other
sectors

“I view individual accountability as perhaps the most effective general deterrent tool in our arsenal, because it can have a broad effect on corporate culture in a way that immeasurably benefits individual investors, preventing misconduct before it starts.”

Steven Peikin, Co-Director, Division of Enforcement at the U.S. Securities and Exchange Commission (SEC). Keynote address to the UJA Federation, New York. (May 2018)

The four planks to APRA's executive remuneration reform agenda



Anti Money Laundering

Australia has been promising to introduce comprehensive “Tranche 2” laws, with support from both major political parties, since 2006.

If brought in, the number of regulated entities will grow from 14,000 today to 130,000.

AUSTRAC staff numbers are around 300. Where will they find enough staff for a 10-fold increase in regulated entities?

Anti Money Laundering

Recent regulatory enforcement actions

YEAR	BANK	BANKING REGULATOR	AMOUNT US\$
2018	Commonwealth Bank of Australia	Australia	AU\$ 700 million
2018	Shanghai Pudong Development Bank	China	US\$ 72 million
2018	China Construction Bank	South Africa	US\$ 6.2 million
2018	Standard Chartered Bank - Singapore	Singapore	S\$5.2 million
2018	NongHyup Korea Bank	U.S.A.	US\$ 11 million
2017	Coutts Bank	Hong Kong	HKD 7 million
2016	Standard Chartered Bank – Singapore	Singapore	US\$ 3.7 million
2016	Agricultural Bank of China Ltd	U.S.A.	US\$ 215 million
2016	BSI Bank - Singapore	Singapore	US\$ 9.6 million
2016	Falcon Private Bank – Singapore	Singapore	US\$ 3.1 million
2016	Mega International Commercial Bank	U.S.A.	US\$ 180 million

Monetary Authority of Singapore withdraw banking licence of BSI Bank & Falcon Private Bank in 2016

Sources: Christo Botes – Bureau Van Dijk

HKMA Hong Kong Banking Regulator; Monetary Authority of Singapore; New York Department of Financial Services.

Afterpay v AUSTRAC: unstoppable force meets immovable object

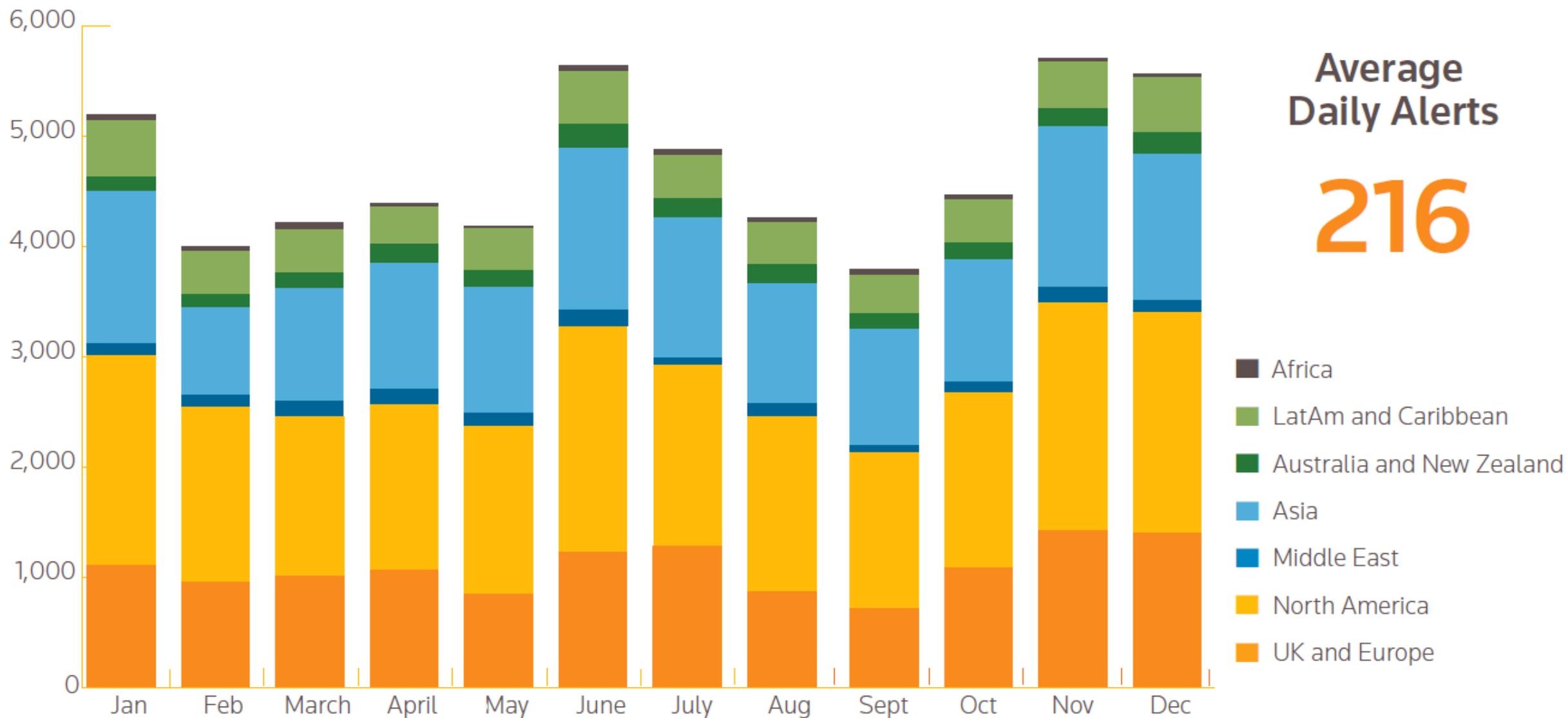
AUSTRAC has “reasonable grounds to suspect that Afterpay is a reporting entity that has contravened and/or is contravening sections 32 and 81 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*” June 12th 2019



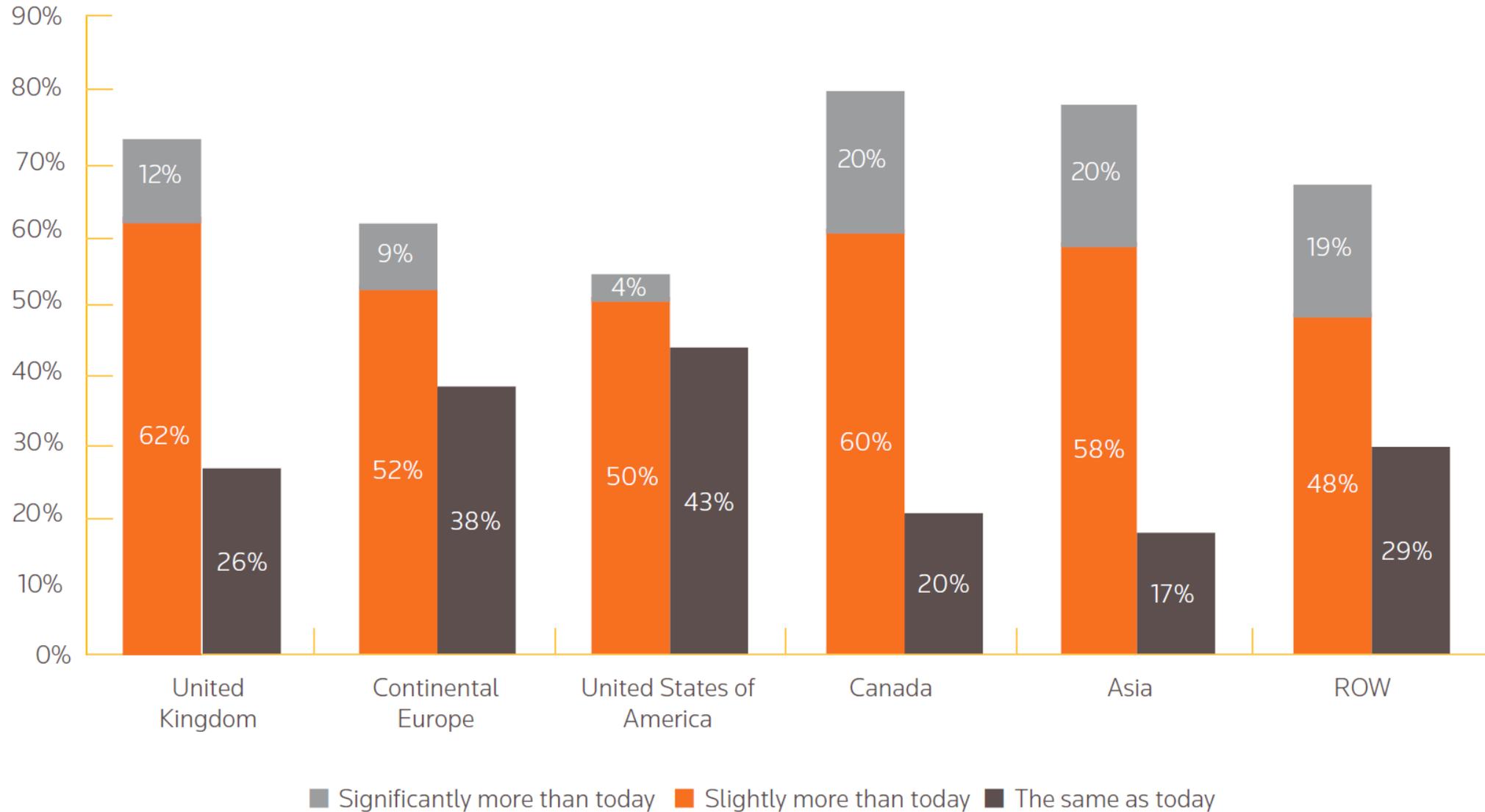
Shop Now. Pay Later. Interest-free

- Section 32 of that Act requires reporting entities to first verify their customers before providing the designated service.
- Section 81 prohibits a reporting entity from providing a designated service to a customer without having an AML/CTF program in place

Source: Australian Financial Review



Compliance Salaries set to Rise



The Royal Commission

Australian Securities and Investments Commission executive director of financial services Michael Saadat said an ***“if not, why not”*** approach would be adopted to force banks to explain why, when they aren't using the latest technology including systems offered by startups...

“In the past, we have probably more cautious about being prescriptive about particular types of technology, but it is looking like we will be bolder about that in the future,”

Mr Saadat said. **“I don't think we would say: ‘you must use a particular type of technology’, but it will probably reach the point where if you aren't using a type of technology, you have some explaining to do,”**

The Rise of RegTech

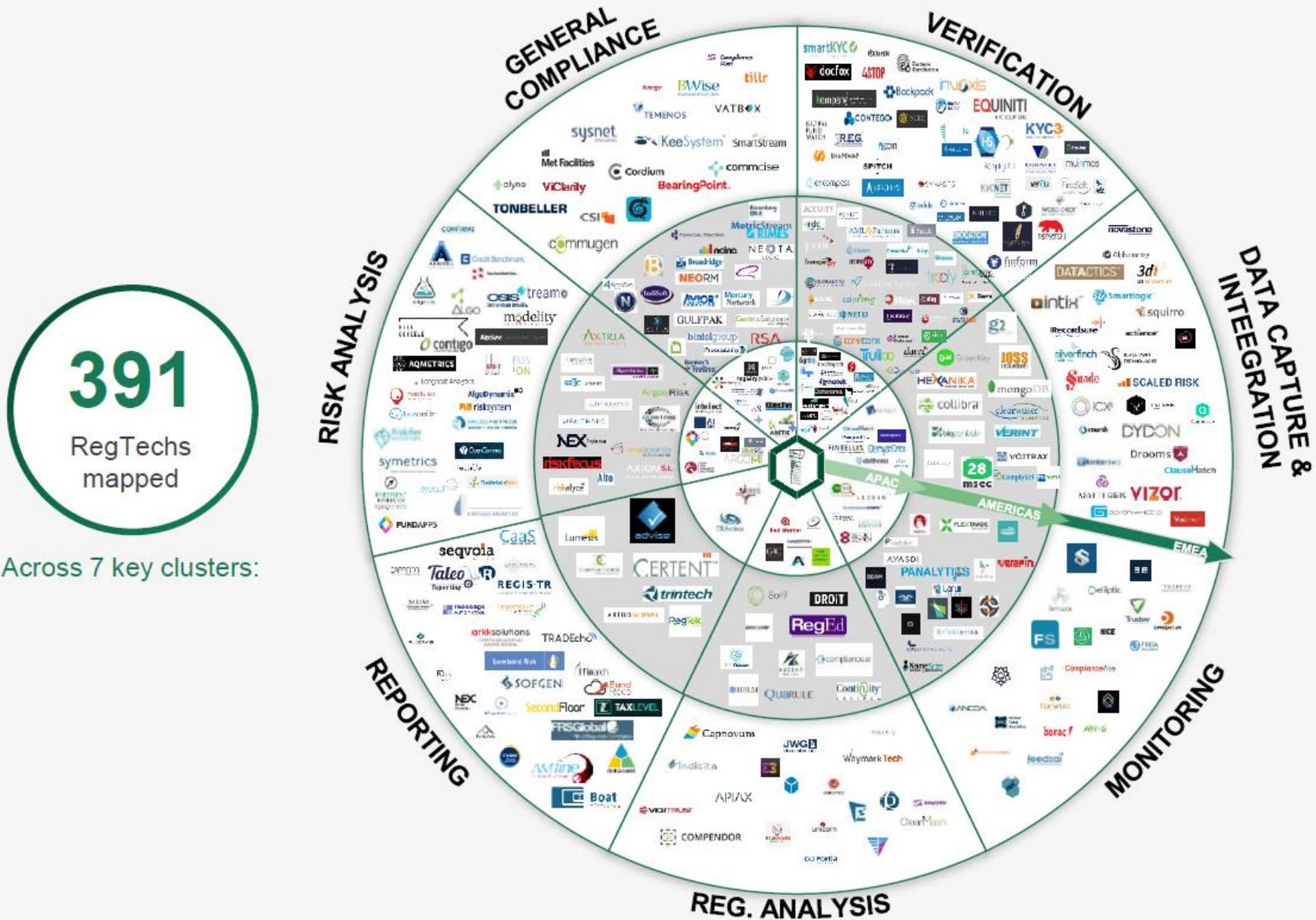
November 2016 – Singapore hosts first FinTech Festival. Over 1,000 people attend RegTech day. ASIC Chair Greg Medcraft speaks on the importance of RegTech.

January 2017 - Scott Morrison (Now Aus PM) told the G20 conference in Germany that governments around the world must use emerging regulatory technology, or 'RegTech', to reduce compliance costs.

June 2018 - ASIC Chair James Shipton tells Australian Senate Committee he wants Australia to lead the world in Regtech

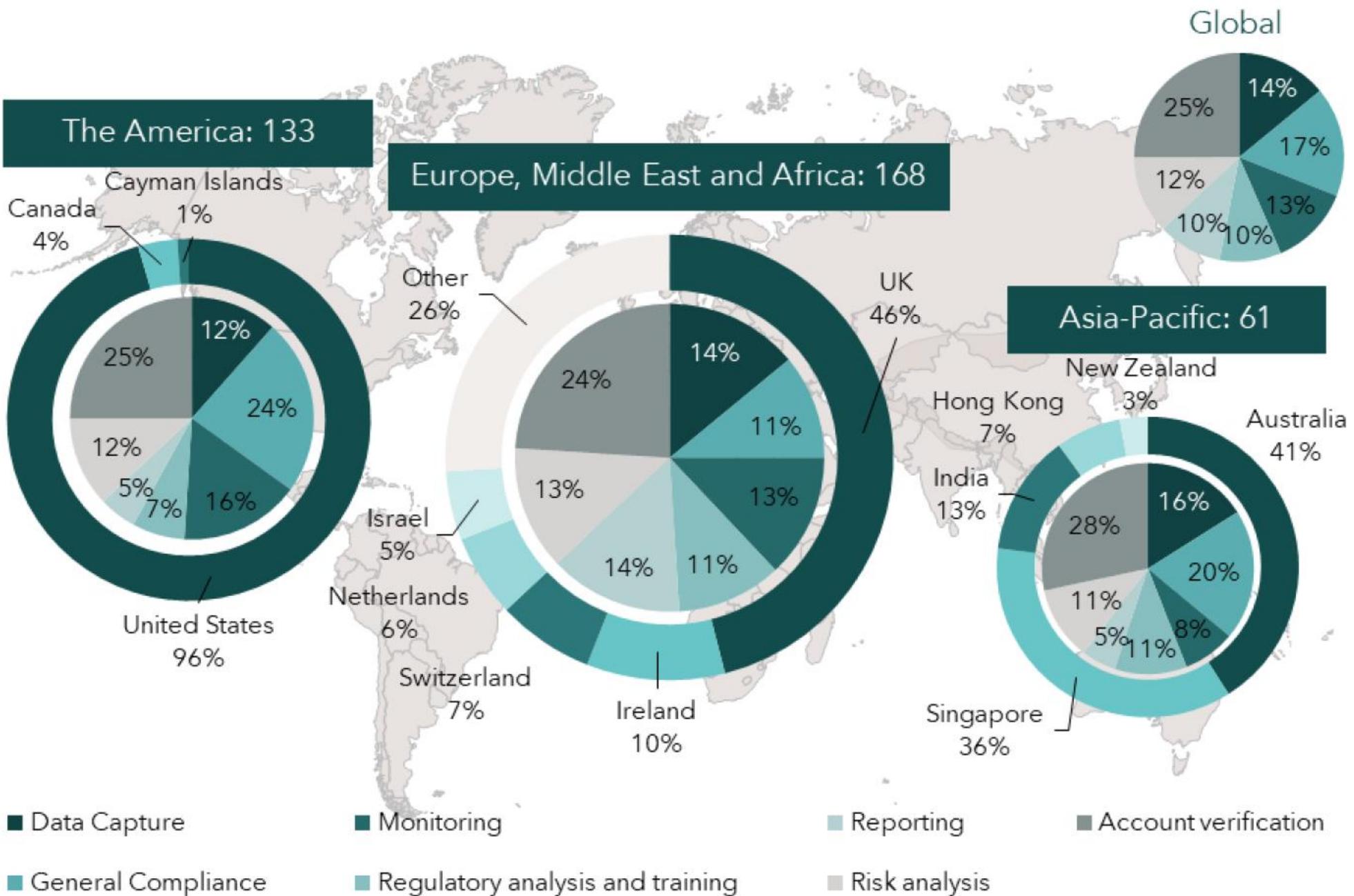
Why APAC as a centre of global RegTech excellence?

- Our financial services market is highly concentrated with the big four banks holding the lion's share of the market.
- The Australian financial services sector is the largest sector of the national economy of Australia contributing around \$A140 billion to gross domestic product each year.
- There are over 450,000 people working in financial services in Australia. That's Singapore and New York combined.
- Our regulators are very supportive of the new era of technology and recognise that they will benefit along with the regulated entities
- The RegTech Association has created a platform for open dialogue between regulators, RegTechs and regulated entities that is the envy of the world.



Interviews across:

- 60** RegTechs
- 15** Banks
- 6** Associations
- 9** Regulators



Key Technologies Underpinning RegTech



Big Data Analytics

- Programmable reporting
- Data visualization
- Gathering insights from structured as well as unstructured data pools/lakes
- Modern data visualization techniques for interpretation



RPA/IPA

- Reduces time to insight
- Enables productivity and efficiency gains by automating non-value-added human activities
- Reduces human error quotient
- Reduces people cost
- Enables redeployment of freed-up resources for more productive purposes



AI/ML/NLP

- Machine intelligence in regulatory tracking & reporting
- Real-time fraud monitoring & risk profiling
- Assisted intelligence driving down false positives
- NLP & visual analytics for ID verification (KYC)



Blockchain and DLT

- Shared ledger for a central AML/KYC repository for regulators & FIs driving efficiency gains
- Sharing of cost-burden for KYC/AML directives among partner FIs
- Immutable record of transactions enabling a traceable audit trail



APIs

- Enhance integration of disparate compliance functions across departments
- Allow for Plug-and-play integration of modern technology solutions to FIs' core systems
- Enable automated reporting of data to regulators through data democratization



Cloud Computing

- Standardized and common data storage
- Common pool of key compliance functions on a single platform, enabling efficiency gains
- Enables scaling-up the operations of compliance functions in a timely, cost-effective manner
- Most RegTechs are cloud-native.



Biometrics

- Facial recognition, IRIS scan, and fingerprints for KYC authentication
- Aadhaar in India is a live example of a biometric-based identity pool, enabling eKYC and easier onboarding
- Profile creation for fraud prevention



Cryptography

- Enables secure, faster, efficient, and more effective data sharing within financial institutions for data aggregation
- Drives efficiency in risk data aggregation processes
- Other impact areas include data sharing with other financial institutions, clients, regulators, and FinTech solution providers

Source: GOMEDICI.

The Role of RegTech

- Freeing up valuable compliance resources from mundane and repetitive tasks whilst providing deeper insights through sophisticated data analytics
- Delivering regulatory updates and obligations more efficiently and effectively using machine readable regulation, NLP and AI.
- Developing agile technologies that address today's regulatory and compliance issues whilst integrating with legacy systems
- Embedding “compliance by design” into new systems to reduce exposure to compliance failures and fines.
- Building a culture of compliance. Delivering better outcomes for employees, investors and most importantly consumers.

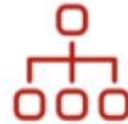
Business Benefits of RegTech



Variable, performance-based modular cost structure as against upfront capital cost on untested technologies



By making compliance less complex and capacity-demanding, RegTech solutions could free up capital for more productive uses.



Reduction in cost of hiring expensive compliance talent pool by outsourcing key functions



A more competitive industry with fewer / lower barriers to entry



Improved quality and efficiency of supervision, thus reducing systemic risk



Lower cost of technology solutions, including the benefit of cheaper cloud-based services



Enhanced efficiency, capacity, and speed of compliance



Non-invasive implementations eliminating the need to upgrade legacy systems



Programmable, API-driven actionable insights for compliance



End-to-end data management with a granular view of insights

Source: GOMEDICI.



RegTech

What's Working



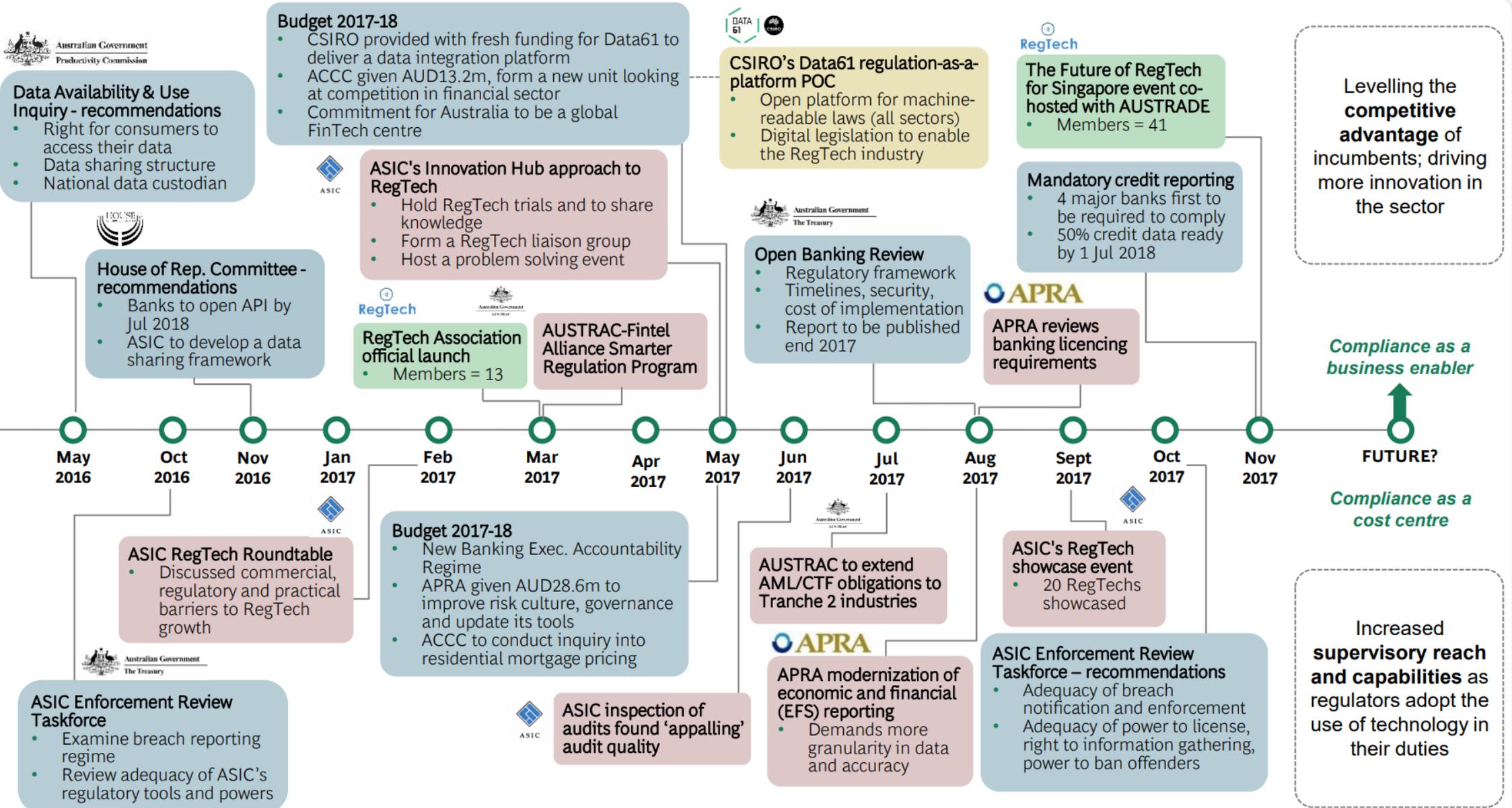
ASIC

- RegTech Liaison Forums. Held quarterly these facilitate discussion across the industry
- RegTech trials of Natural Language Processing (NLP)
- As part of \$70m in additional funding announced in August 2018, \$6 million has been allocated to promote Australia as a world leader in the development and adoption of regulatory technology solutions for the financial services industry.

POLICY SUPPORT: A MANDATE FOR GREATER ACCOUNTABILITY AND COMPETITION IN FINANCIAL SERVICES ARE THE OVERARCHING THEMES DRIVING THE REGTECH SCENE

INNOVATION & COMPETITION

ACCOUNTABILITY



Key: Government (Blue), CSIRO (Yellow), Regulators (Pink), Association (Green)

Fintech Regulatory Engagement - Global Impact



At least 36 **Memorandums of Understanding** (MOUs) were signed between regulators in 2016 (10) and 2017 (26), forming frameworks and enabling access to information

 Innovation hubs
 Regulatory sandboxes

Source: Thomson Reuters Regulatory Intelligence – Fintech, Regtech and the Role of Compliance 2017

Developing The Global Dialogue

ASIC has issued a consultation paper on a proposed Global Financial Innovation Network (GFIN). The CP provides for:

- An information sharing network of regulators
- An opt-in arrangement for regulators to undertake joint work including regtech related trials
- An opt-in arrangement for regulators to enable cross-border trials by innovative businesses



AUSTRAC

- Active participant in numerous RegTech Association events based around AML.
- June 2018 - Ran their own, very effective, RegTech showcase event
- Engages with the RegTech innovators to review platforms and provide “negative assurance.”

APRA

- Investing in new data collection platform (D2A) with the opportunity for RegTech plugin services



RegTech

Hurdles to RegTech
Adoption

The Royal Commission

“The Royal Commission has created both an opportunity for RegTech but also less spoken about, has created an inhibitor for RegTechs. This is because financial institutions have now become more risk adverse towards technology, even ones that help tackle some of the regulatory risks and concerns that have come out of the report. Instead, they have deferred to what they understand and have done for years which is hire more compliance experts, attempting to solve the problem with people rather than technology.”

Evan Wong, CEO, Checkbox.ai

Investment in RegTech– \$20bn by 2020

■ ■ ▶ RegTech is growing rapidly...

■ ■ ▶ ...Fastest growth in APAC, UK being most impactful..

■ ■ ▶ ...and 3 out of 4 European Investment firms already considering adopting RegTech in some ways

“Silicon Valley everywhere

There are hundreds of RegTech start-ups with a lot of brains and money working on various alternatives to trusted financial services.”



Jamie Dimon
Chairman and CEO of
JP Morgan Chase

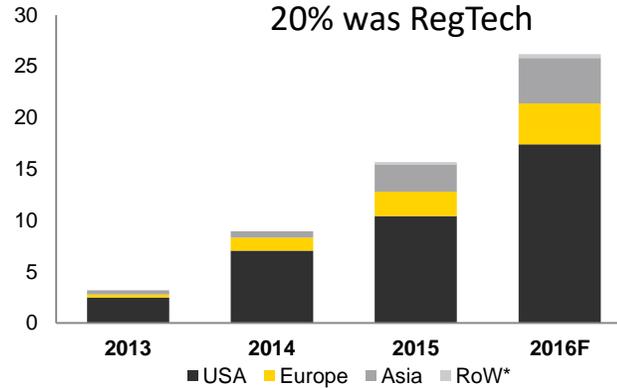


“We are looking for innovative and disruptive RegTech ideas and solutions that will support the transformation of the banking industry.”

Sergio Emotti
CEO of UBS



\$16.6bn global FinTech investment 2016 – 20% was RegTech



“We need to revolutionise risk resilience because the world has changed...to become an applied RegTech user bank that’ll help achieve its objectives”

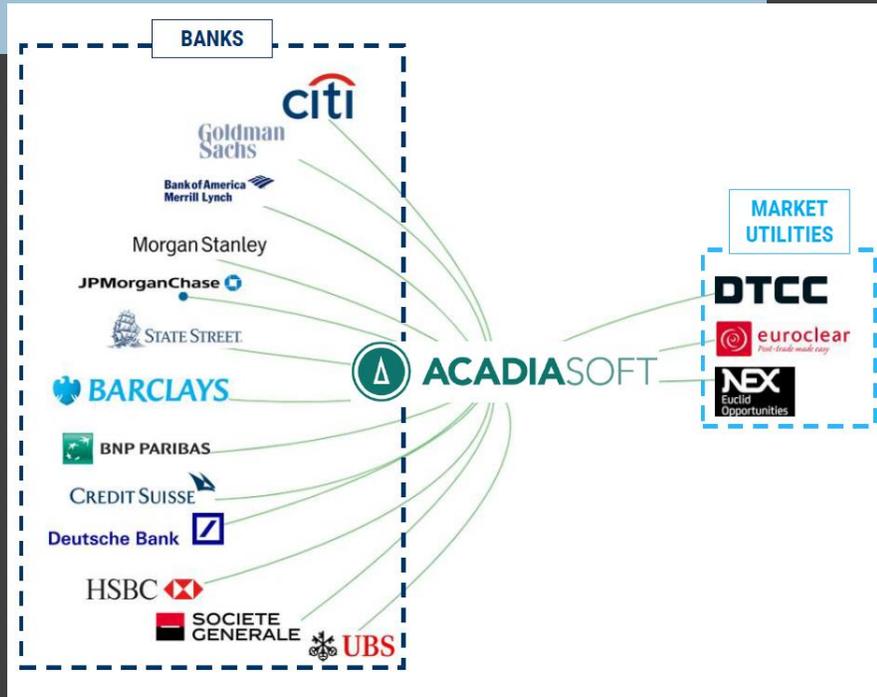


John Cryan
CEO of Deutsche Bank

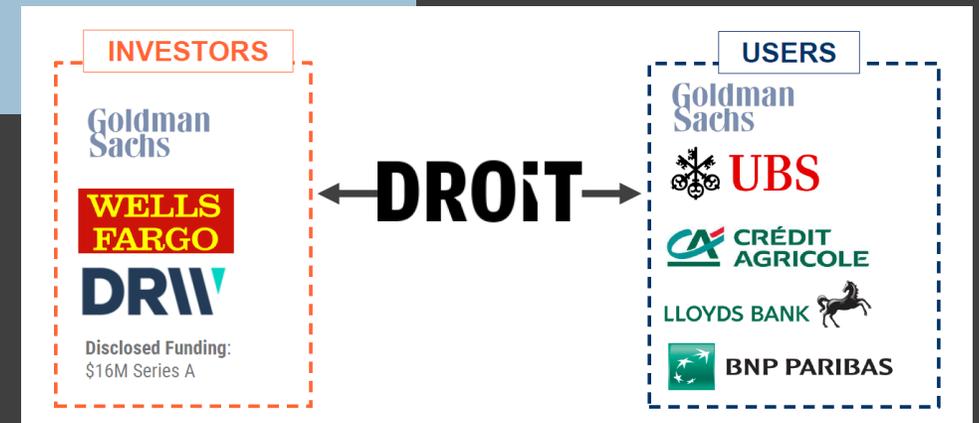


Internationally Banks are Co-investing in RegTech Software

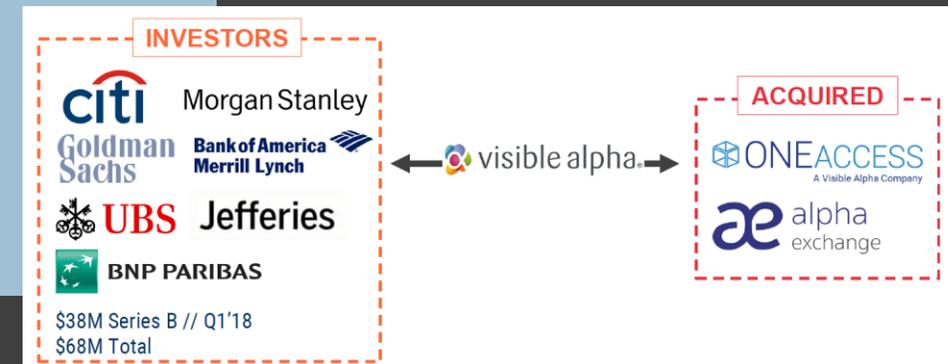
ArcaidaSoft raised \$30m to create solutions that support full implementation of International Swaps and Derivatives Association (ISDA) Collateral Requirements.



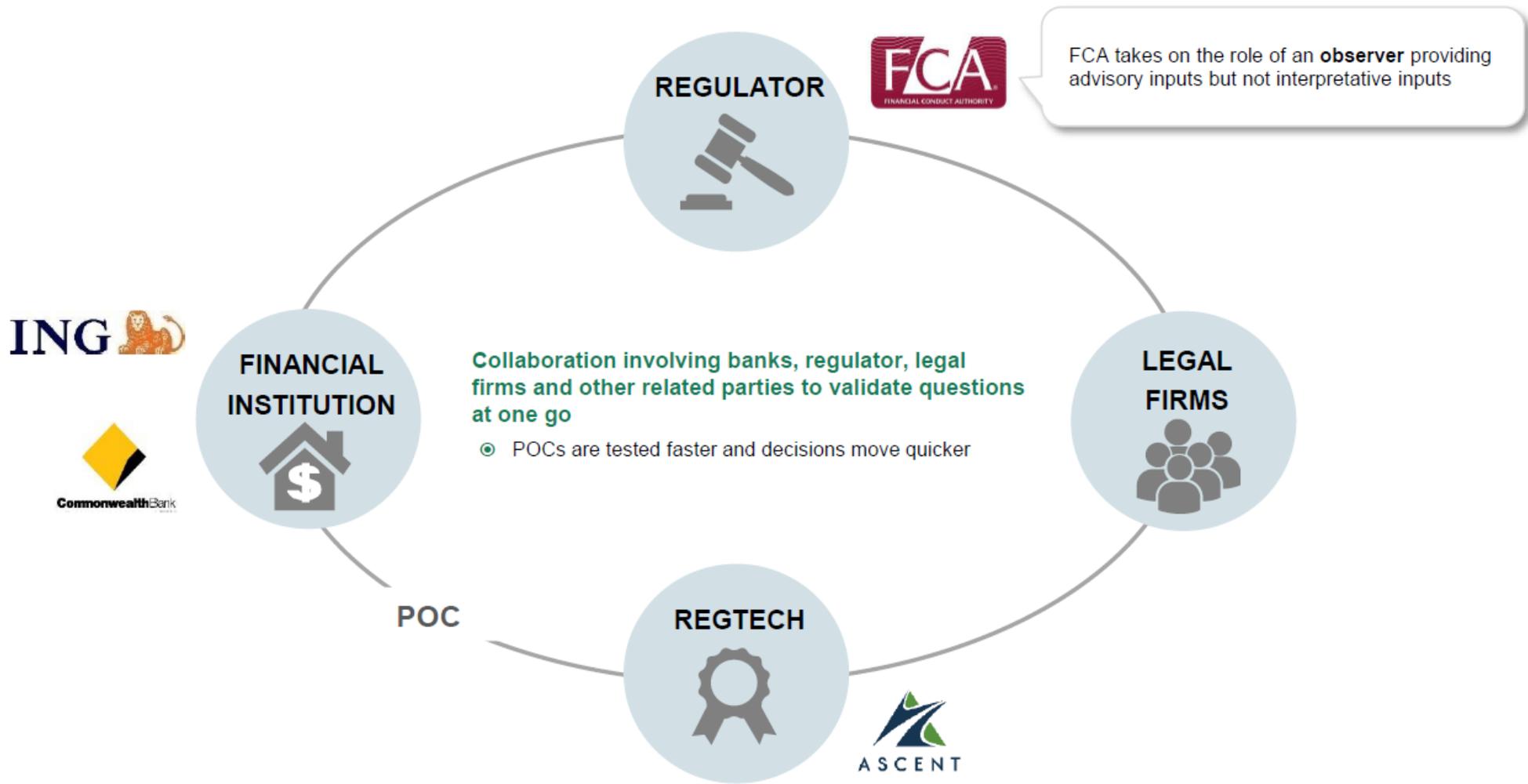
Droit raised \$16m to develop their Adept platform which provides pre-trade decision making and post-trade reporting for OTC Derivatives.



Visible Alpha raised \$30m and acquired RegTech reporting software company One Access to launch a compliance platform to track and value research products and services.



CBA, ING AND FCA POC WITH ASCENT TECHNOLOGIES

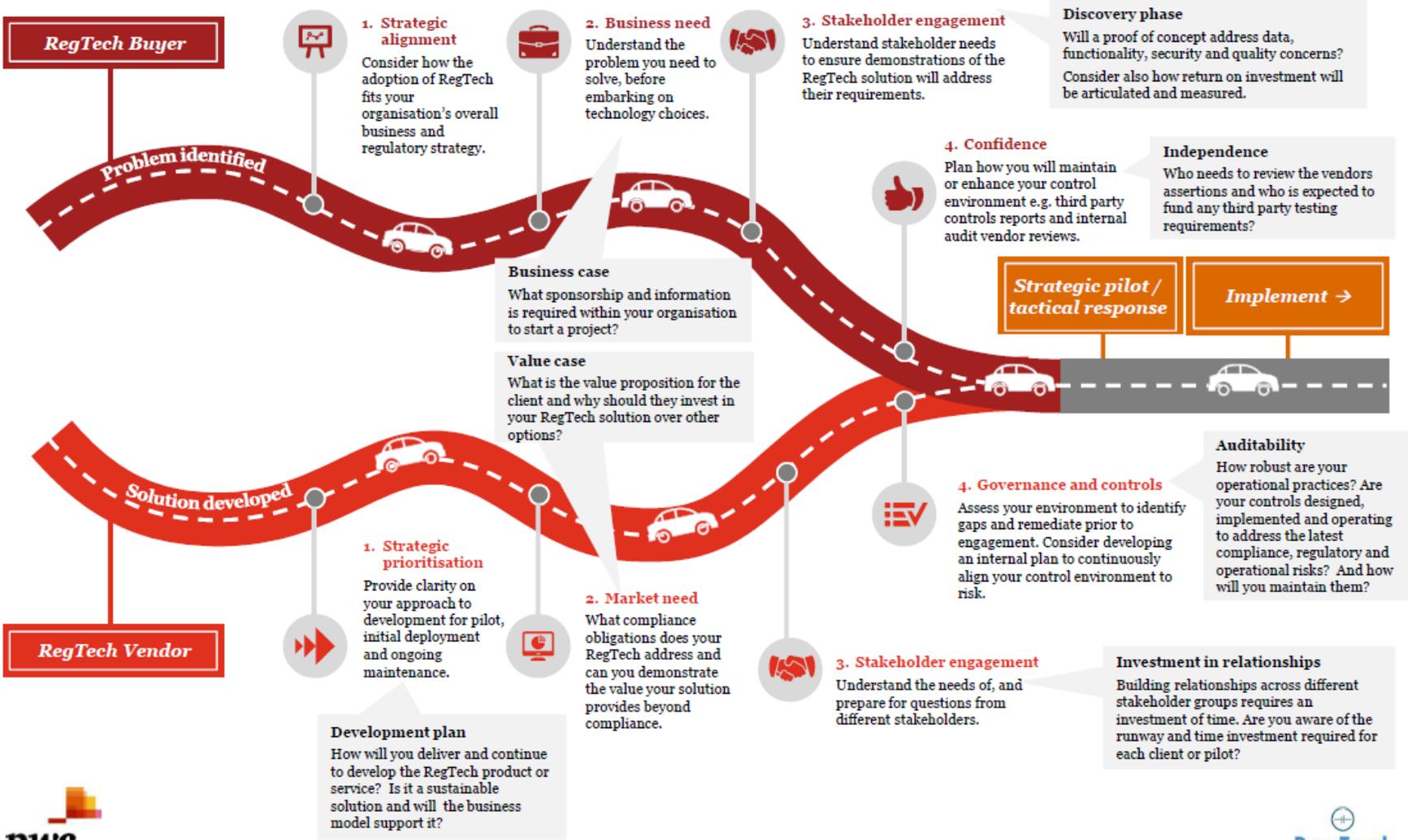


Issues for APAC RegTech

- Funding – Little interest from local VCs & banks
- Building interoperability with other RegTechs and legacy systems
- Scaling up for global deployments
- Inability to ringfence PoCs
- Looking overseas before looking locally.
- Slow and cumbersome procurement processes
- Using cloud but still strong resistance to cloud

Roadmap to accelerate RegTech adoption

Whether you have a RegTech solution or need a RegTech solution you can use this roadmap as a guide to accelerate your way to implementation.



The RegTech Association role

- Create community and facilitate collaboration through an open platform for discussion.
- Promote Proof of Concepts (PoCs)
- Create for industry by industry programs to educate, provoke and create opportunities
 - Education series
 - Industry events
 - Raising profile with government, media and trade partners



RegTech

The RegTech Association was founded in 2017 as a non-profit organisation that focuses on supporting the growth of the sector. Australia can be a global leader in building higher performing, ethical and compliant businesses through RegTech innovation and investment

<https://regtech.org.au/>

LinkedIn Group – The RegTech Association

<https://www.linkedin.com/groups/7067196>

GRC

solutions



Sydney, Melbourne, Perth,
Brisbane, Singapore and New York.



contactus@grcsolutions.com.au

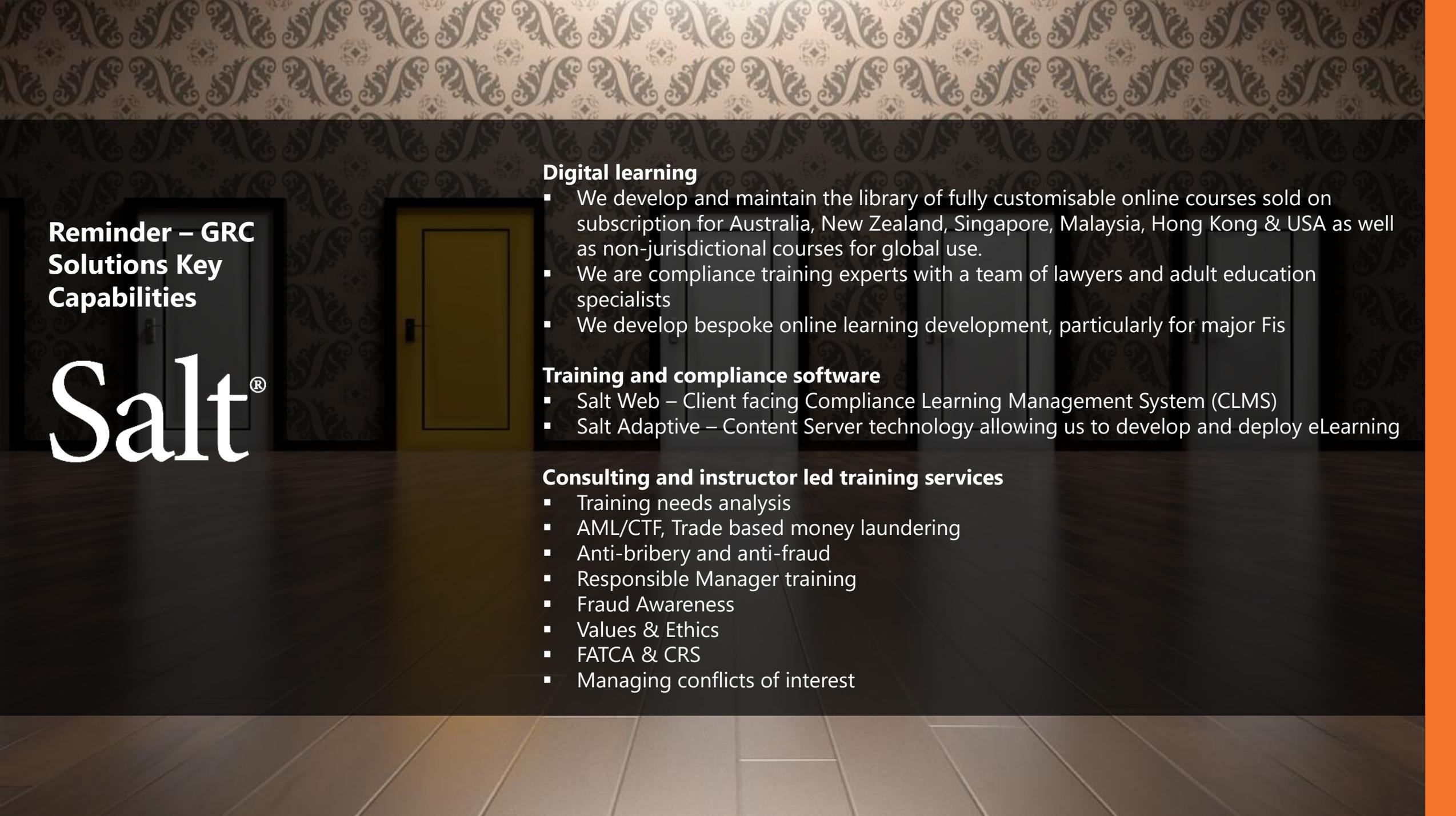
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GRC Solutions Corporate Overview



- GRC Solutions is a recognised leader in the compliance training market in the Asia Pacific region
 - We are not just another eLearning development company – we know compliance
- We have a tight knit team of just over 40 staff spread across our offices in Sydney, Melbourne, Brisbane, Perth, Singapore and New York
- We help hundreds of organisations navigate complex legal and regulatory environments and build resilient organisational cultures
- In 2018 & 2019 GRC Solutions won LearnX **Best Compliance Training Project** award and **Best Bespoke/Custom Model** award



**Reminder – GRC
Solutions Key
Capabilities**

Salt[®]

Digital learning

- We develop and maintain the library of fully customisable online courses sold on subscription for Australia, New Zealand, Singapore, Malaysia, Hong Kong & USA as well as non-jurisdictional courses for global use.
- We are compliance training experts with a team of lawyers and adult education specialists
- We develop bespoke online learning development, particularly for major Fis

Training and compliance software

- Salt Web – Client facing Compliance Learning Management System (CLMS)
- Salt Adaptive – Content Server technology allowing us to develop and deploy eLearning

Consulting and instructor led training services

- Training needs analysis
- AML/CTF, Trade based money laundering
- Anti-bribery and anti-fraud
- Responsible Manager training
- Fraud Awareness
- Values & Ethics
- FATCA & CRS
- Managing conflicts of interest

Our Valued Customers



J.P.Morgan

