



An Article

HOW REGTECH IS ENHANCING THE SAFETY OF MODERN BANKING OPERATIONS



“Eneke the bird says that since men have learned to shoot without missing, he has learned to fly without perching”.

Chinua Achebe, Things Fall Apart.

Nigeria’s fledgling fintech industry has recorded a number of successes in recent years. In 2019, foreign direct investments in Nigeria’s fintech space grew to \$460,000,000 (Four Hundred And Sixty Million Dollars)¹. In March 2021, Flutterwave, a payment designing platform, was reported by Techcrunch² to be valued at \$1,000,000,000 (One Billion Dollars). This comes in the wake of the purchase of Paystack, another online payment platform, for \$200,000,000 (Two Hundred Million Dollars) by American fintech giants – Stripe in October, 2020.³

It is without a doubt that the successes recorded by these fintech companies are owed to the positive benefits offered by their technological disruption of traditional banking practices. The speed, convenience, and reductions in the costs of transactions are but a few notable mentions in this regard.

In spite of the exponential growth of Fintech in Nigeria and the attendant successes, there abound inherent concerns associated with it in many regards. These include unclear regulations, fear of fraud, chargebacks, lack of trust, cybersecurity and data privacy issues. This piece focuses on the challenges in the Fintech space, and how AI in the form of Regtech can help address them.

Indeed, regulators (the government) now strongly rely on Regtech which is essentially the application of technology to ensure regulatory compliance. It is this tactic of solving Fintech problems via Regtech that this article discusses. In doing so, we shall engage the very laudable applications of Artificial Intelligence (AI) in financial services, the role of Regtech in regulatory compliance, and how the Nigerian regulatory space can deploy same.

The Meaning of Artificial Intelligence (AI), Regtech and Fintech and their Applications in Modern Finance.

AI is essentially the use of computer science to simulate human intelligence in performing tasks typically requiring human input and discernment.

Fintech is the use of computer science or technology to facilitate or enable financial/bank services. A common example here would be a bank’s mobile app to facilitate cash transfer, airtime recharge, and generally to pay bills of all sorts.

Regtech is the use of technology to enable ease of compliance with regulatory standards and requirements.

Over the course of its advent, Fintech has disrupted traditional financial processes by deploying artificial intelligence in a myriad of ways, for example:

- a. Online banking transactions
- b. Electronic wallets to support financial activities such as trade in cryptocurrencies
- c. Creation of more reliable credit worthiness profiles
- d. Trading stock
- e. Robo-Advisory etc.

It is without a doubt that the use of AI in financial technology has contributed to several lofty advancements albeit, creating a number of problems in financial spheres such as cybersecurity threats, the unreliability of data, and most pertinent to this discussion – the difficulty in ensuring that these emerging technologies comply with laid down governmental laws.

The Utility of Regtech

The entire gamut of Regtech is to facilitate compliance with societal laws. It achieves this in a number of ways:

- a. **Ensuring Compliance:** This evidently is the most common deployment of Regtech. Regtech in this regard, can be used to provide real-time and automated compliance not only with local laws but international laws. For example, a regulatory tech software can be specifically deployed to ensure that a cybersecurity directive (of an institution such as the United Nations) flag all credit payments to a company recently identified as a terrorism funder. Such use will not only ensure the implementation of the directive in real-time but would also save the cost of undertaking manual compliance.
- b. **Effective Identity Management:** Regtech is also used by financial institutions to identify fraudulent transactions based on regulatory provisions and in relation to specific individuals. For example, Regtech can be used to flag financial in-flows to bank accounts suspected of money laundering activities.
- c. **Effective Risk Management:** Regtech employs machine learning to detect financial risks stipulated by laid down regulations or internal risk assessment standards akin to individual companies.
- d. **Transaction Monitoring:** Regtech is deployed here to enable the monitoring of financial transactions by actions such as end-to-end integrity validations, fraud identification procedures etcetera.

What Nigerian Regulators Can Do with Regtech

It is without a doubt that the appreciation and high usage of

Regtech are used by the entities being regulated to ensure compliance with laid down regulations.

A 2017 report projects that the spending of banks globally on Regtech in a bid to avoid regulatory sanctions would increase from USD10 Billion in 2017 to USD176 Billion in 2022.⁴ Indeed it is also clear that in today's technological age, newer and more innovative technologies emerge to disrupt traditional practices in every sector.

There is therefore an obvious need for investment in Regtech by Regulators in Nigeria's financial sector. First, it is believed here that the deployment of efficient Regtech systems would give more effect to governmental regulations as the use of technology and indeed AI would ensure that non-compliances are tracked easily and at a much faster rate. Consider for example, the notoriety of Ponzi schemes in Nigeria. In a webinar session organised by the Securities and Exchange Commission in March 2021, Lamido Yuguda, the Director-General of the Commission, observed that over 18 Billion Naira has been lost by 3 million Nigerians since the inception of the wave of Ponzi schemes in the country.⁵

Indeed, it is believed that Ponzi schemes and indeed all other fraudulent practices in breach of capital market rules can ideally be addressed by the deployment of Regtech systems

that leverage advanced data analytics and artificial intelligence to generally identify suspicious financial dealings or activities on which such Ponzi schemes thrive.

Secondly, the investment in Regtech by regulators is also needed to ensure that a culture of proactivity and general efficacy in dealing with fintech trends that are not expressly provided for in law are dealt with. This will ensure that the norm of government regulators playing catch-up to new innovative trends is grossly reduced. This will ensure that new but illegal technologies are prevented from ever taking off before they occasion harm on the sanctity of the financial ecosystem.

CONCLUSION

Indeed, by deliberate and conscious efforts to invest in regulatory technology, Regtech would afford government regulators in the banking and financial sector a golden opportunity to be ahead of the pack in matters of compliance and achieving the desired intendment of government regulations.

By deploying effective Regtech, the government can ensure that all dealings within Nigerian financial spheres (including those in fintech) conform with the laid down governmental statutes and regulations and further align with governmental policies.

END NOTES

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