EUROFI VIEWS MAGAZINE - ZAGREB APRIL 2020

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Basel IV, Common Data Standards and Artificial Intelligence

Artificial intelligence (AI) and machine learning (ML) in the RegTech industry are disrupting regulatory compliance. By creating a common data standard, RegTech companies can leverage AI and ML tools to perform analysis on standardised data to spot discrepancies faster and more accurately. Where regulation was previously a cost centre for financial institutions, compliance functions can now create value by cutting costs and producing highly accurate data that financial institutions can then use to make strategic business decisions. Institutions that employ such software are already enjoying cost savings, whilst investors, the public and supervisors can benefit from standardised, highly accurate regulatory submissions.

The Basel Accords provide a good example of the benefits of standardisation in regulation and compliance. With Basel III, the Basel Committee on Banking Supervision (BCBS) introduced new capital, liquidity, and leverage requirements following the financial crisis of 2007/2008. For most financial institutions, this meant significant added expenses on consultants, manual processes, and contractors who were hired to cope with regulatory demands. The manual processes and disparity among contractors' approaches resulted in discrepancies in compliance with Basel III among financial institutions. To address this, the BCBS introduced Basel IV in 2017 to restrict the use of internal models for calculating capital at financial institutions. Standardisation was the ultimate objective.

The RegTech industry can help financial institutions capitalise on increased standardisation in financial regulation. It can transform financial institutions' disparate data through a common data standard into an easily machine-readable format. AI and ML advancements can then use this data to produce the highly accurate regulatory submissions that the BCBS were after with the introduction of Basel IV. The RegTech industry's ability to leverage AI and ML is the best way of achieving uniformly high standards in capital, liquidity, and leverage, and ensuring a stable and secure financial services industry that is effectively supervised. Those financial institutions that entrust their compliance to the RegTech industry can set precedent for RegTech innovation and compliance in the years to come. ●