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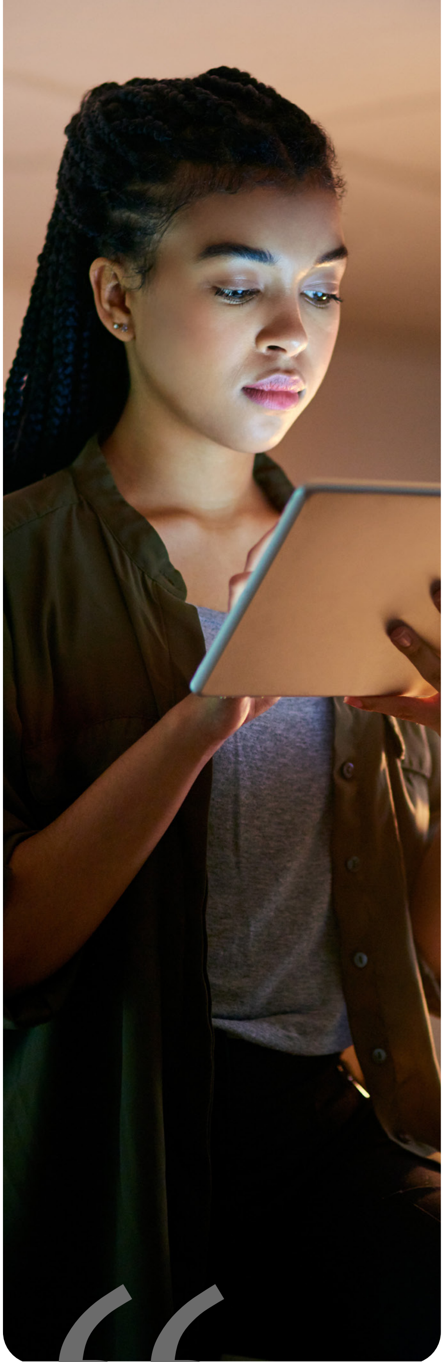
How RegTech can turbocharge economic transformation



Regulations are increasingly complex, dynamic—and for many organizations, burdensome. While regulatory compliance is a global issue, it is urgent for GCC countries with their bold economic diversification and technology plans, such as in Artificial Intelligence, logistics, and financial technology. If they observe regulations and anticipate issues, GCC economies can flourish and create jobs. One way to ensure regulatory compliance is Regulatory Technology (RegTech). By combining advanced digital tools, data analytics, and automation, RegTech provides knowledge, detection, and compliance. It streamlines processes, alerts against violations, creates reassurance, and can enhance operations. Indeed, intensifying digital transformation in GCC countries can provide a greenfield for RegTech development and innovation.

Given their ambitions, GCC organizations need RegTech. Domestic and international regulators have intensified scrutiny in multiple areas, including anti-money laundering; data privacy; and environmental, social, and governance compliance—which costs. For example, LexisNexis Risk Solutions puts the burden of global financial compliance in 2023 at US$206.1 billion, with financial crime compliance in 2021 in the Middle East (with the exception of the UAE) costing $11.9 billion. Also, regulations can overlap or conflict, causing confusion, as occurred in the U.K. with data retention requirements.

Already GCC organizations recognize RegTech's importance. In the Middle East, including the GCC, Technavio forecasts 20% compound annual growth in the RegTech market growth from 2023 to 2027, reaching a value of $1.2 billion.[1] That is unsurprising. The predictive analytics, machine learning, and blockchain technology underlying RegTech can automate and streamline compliance. RegTech reduces the cost and the risk of human error. We estimate that RegTech can cut compliance costs by 30% to 50%.[2]

RegTech provides a robust mechanism to keep pace with fast-changing regulations, particularly through real-time monitoring and reporting capabilities. These allow for immediate rectification of issues, minimizing the risk of non-compliance and penalties. That is vital in sectors like healthcare, which demands protection of patient data regulations, and logistics, in which adherence to international trade laws is essential if the GCC is to become a global logistics hub. Automated compliance processes also create clear and easily accessible audit trails.

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Adopting RegTech is not, however, as simple as buying new software or systems. Rather, implementing RegTech requires collaboration among the entities within its ecosystem such as regulators, regulated entities, and RegTech providers. That is because of how RegTech develops—new regulations must take into consideration how they could be integrated into RegTech solutions, while these solutions should consider how the companies and regulators operate. There are five steps.

First, organizations should modernize existing IT systems incrementally while integrating RegTech in a modular fashion (which means stepwise, one system and one solution at a time). Many organizations have legacy IT systems they are replacing, given the need to implement data analytics and modernize IT. These legacy systems can impede proper regulatory compliance. Organizations can take a phased approach to minimize disruption and spread deployment costs over time. Complementing that, providers can make their offerings modular so that they integrate easily with organizations' IT systems.

Second, providers and organizations must secure their data. RegTech uses highly sensitive information. Organizations need advanced encryption technologies and policies. They should develop strong data governance, including policies and procedures for data protection, access control, and regulatory compliance. Organizations should conduct regular security audits and vulnerability assessments. In tandem, providers must put data integrity and security at the core of development strategies to eliminate data privacy or security risks.

Third, organizations and providers should collaborate with regulators to streamline regulatory standards. RegTech is not about blindly enforcing regulations, it can improve them. By cooperating, RegTech companies and regulators can reduce complexity and costs. Regulators could also work with providers to test software in "sandboxes" (which allow for experimentation). That would mean better understanding of regulatory requirements and innovation. Such collaboration can extend to users and developing the standards that issue and coordinate regulations, as these make RegTech more effective and scalable.

Fourth, governments and regulators can make RegTech affordable. High implementation costs pose a significant barrier for smaller institutions and organizations. Another issue is the cost of scaling, which can deter RegTech adoption by small organizations with insufficient funds or legacy systems. Governments and regulators can offer financial incentives to offset initial RegTech implementation costs. Regulators can incentivize RegTech adoption through partnerships that share development and implementation costs. In particular, regulators and providers could incentivize organizations to acquire cloud-based RegTech, which reduces the need for on-premises infrastructure and is scalable in a cost-effective manner.

Fifth, providers should design their products so that they grow with organizations and handle larger data volumes, regulatory requirements, and changes. Ensuring that RegTech integrates with various systems and platforms, while promoting a cohesive and efficient regulatory environment, must be a joint effort among regulators and providers.

> By adopting and developing RegTech, GCC countries can turbocharge their economic transformation.

[1] Technavio, Global RegTech Market 2023-2027.

[2] "Given that the average cost of non-compliance globally is $14.82 million, whereas the cost of compliance is $5.47 million, RegTech solutions that ensure compliance are assumed to reduce costs by up to 63% by avoiding fines and penalties" https://static.fortra.com/globalscape/pdfs/guides/gs-true-cost-of-compliance-data-protection-regulations-gd.pdf, https://www.corporatecomplianceinsights.com/true-cost-compliance/; "According to ACA Group, RegTech can reduce the risk of penalties by automating reporting, improving data accuracy, and preventing regulatory breaches" https://www.acaglobal.com/insights/addressing-rising-cost-non-compliance-regtech; "With AI and blockchain, institutions can streamline costly procedures like KYC and AML checks, potentially cutting compliance costs by up to 50%" https://www.bobsguide.com/top-10-regtech-trends-for-2025/; "In one case, AKB's implementation of RegTech reduced the cost of compliance for AKB by 75%" https://www.cst.gov.sa/ar/mediacenter/activitiesandevents/Documents/RegTech-The-Future-of-Regulatory-Landscape.pdf; "RegTech solutions can cut compliance costs by 30-50%, especially for tasks related to Know Your Customer (KYC) and Anti-Money Laundering" https://reciprocity.com/resources/what-is-regtech-and-why-does-it-matter/.

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