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◎**FOCUS** RISK MANAGEMENT

# Regtech's role in risk management

From data automation to merger prep, regtech can provide myriad ways to aid risk management. Two community banks tell us how they're taking advantage of this technology. By Elizabeth Judd

**A**s Charter Bank in Eau Claire, Wis., prepared for its August merger with Nicolet National Bank, chief information officer Erik LeMay discovered yet another upside to regtech: having all his vendor contracts in a single place for another bank to peruse.

In the busy stages of merger prep, regtech proved to be a lifesaver, LeMay says, noting that he could grant Nicolet access to all live third-party contracts, rather than approaching employees individually and asking them to list the contracts they had signed off on.

Naturally, this future merger was not part of the calculus in 2017, when the $1.1 billion-asset community bank began using Ncontracts for vendor management. "The driver was risk management and making sure we understand who our vendors are, what data they have of ours and what services they provide, and then who *their* vendors are," LeMay says. "Fourth-party vendors were a key component."

For community banks everywhere, vendor management is only one of many risk-management tasks where regtech is providing an assist. Bank Secrecy Act (BSA) and anti-money laundering (AML) compliance, data protection and cybersecurity, fraud monitoring, and data automation and aggregation for reporting are other challenges spurring bankers to seek regtech partnerships.

Many of the latest regtech solutions, says Neil Katkov, a director with research and advisory firm Celent's risk practice, were "created in response to the demands of smaller institutions like community banks."

Not only are there more regtech solutions out there today, but the price tag isn't always a dealbreaker anymore. Katkov points out that regtech is more affordable now that banks don't need to use on-premise software solutions but can instead take advantage of new software as a service (SaaS) models.

## Addressing a changing landscape

Robert Johnston, CEO at Adlumin, which helps companies secure sensitive data while achieving compliance objectives, points out that community banks are facing mounting challenges around risk management from a regulatory standpoint.

"Community banks are sometimes regulated at the local level, the state level, the national level and often by insurers, too," he says. "The world from a fraud or cybersecurity perspective is not getting any safer."

Another challenge for which regtech provides some relief is the hiring dilemma community banks face in the current tough job market.

"Regulatory compliance is very expensive and takes a lot of expertise and manpower," observes Thomas Ko, senior vice president and general counsel at $9.8 billion-asset Columbia Bank in Fair Lawn, N.J.

"The great promise of regtech solutions—if not necessarily always the reality—is that they provide us with a way to leverage fewer but more sophisticated staff," he says.

Shawn O'Brien, president at solutions vendor QwickRate, agrees that the talent pipeline is a growing preoccupation for regulators and community bankers. "In a number of communities, replacement talent is much more difficult to find," he says. "Many banks are not going to be able to find homegrown talent, and so they'll have to look to regtech."

One more reason community banks love regtech is that when new compliance challenges arise, vendors quickly innovate.

For instance, as community banks scramble to meet the

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> **—ERIK LEMAY, CHARTER BANK**

year-end deadline to report expected credit losses as part of new CECL compliance, QwickRate added CECLSolver to its suite of QwickAnalytics offerings. As of June, says O'Brien, more than 350 community banks were using the tool to "measure and anticipate credit losses for the future."

"It makes the process of trying to estimate those reserve levels much easier for the bank," he explains.

"CECL is coming fast—and we've built something to help the community banks address this."

### Appreciating regtech's promise
Succeeding with regtech hinges on an understanding of what regtech tools can and cannot accomplish.

Charter Bank's LeMay takes time to make sure leaders "don't have a false sense of security that vendor management is handled, and so we don't have to worry about it."

He continues: "You can outsource the work or the tasking side of things, but you can't outsource the responsibility for vendor management and all of the pieces that go into it."

Columbia's Ko agrees: "I cringe at the idea of a super lean and mean bank where there's a couple of bankers using regtech to eliminate the need for intelligent management of infrastructure."

Both LeMay and Ko emphasize the importance of educating the entire bank on both the possibilities and the limitations of regtech.

"Regtech is a set of tools," Ko says. "They can't magically spit out decisions, but they can let you leverage your people's capabilities better." ∎

**Elizabeth Judd** is a writer in Maryland.

### Selecting the right vendor

Deciding to embrace regtech is one thing. But choosing a vendor? That's a different challenge altogether.

Neil Katkov, a director at solutions vendor Celent, notes that determining the right solution is complicated by the number of regtech vendors popping up, even though he has found that "only a handful have significant traction in terms of client bases." Whenever possible, he advises, community banks should opt for vendors that have a solid customer base of clients using the latest iteration of whichever solution is on offer.

Thomas Ko, senior vice president and general counsel at Columbia Bank in Fair Lawn, N.J., advises bankers to listen critically when a vendor is pitching a solution, making sure that what's promised can actually be delivered. "Regtech products are getting more sophisticated," he says, "but sometimes the ambition is a little bit greater than the delivery."