



The Health Benefits Of Regtech

by [Steve Brown](#)

How cool is this? Scientists have just discovered a new super antibiotic that blows up drug resistant super bugs. It literally tears the bug's surface right off it and then kills it. Now that is a big deal indeed. On the banking front, we are always looking around for big things and these days one of them seems to be a banking antibiotic focused on dealing with regulatory overload by leveraging technology.

It is a simple fact that regulatory challenges can be found across the community banking landscape. It is also true that many of these issues have been created or exacerbated by the aggressive evolution and impact of technology on the industry. Enter a fancy new word that blends regulatory and technology to create "RegTech". The goal of RegTech services is to help bankers use technology to comply with regulations in a more efficient and less expensive way.

Given a bevy of new regulations like Dodd-Frank, Basel III, closer scrutiny on Bank Secrecy Act and a host of other regulations, community banks are facing heightened expense and staff demands that they can ill afford to meet. Yet, with non-compliance fines soaring to \$160B in the US, the cost of being out of compliance makes it imperative for banks to find solutions.

One such area may be RegTech and there is plenty of action in this space to be sure. Consider research by Bain finds more than 80 emerging RegTechs firms are already in motion. These companies focus on helping compliance departments meet their regulatory needs (from governance and capital planning to consumer protection), address cyber threats and even deal with credit quality concerns.

One area brought to light by credit rating agency Moody's that rings true for community banks perhaps is around the upcoming current expected credit loss (CECL) standard that will be triggering soon. Certainly, CECL will be a modeling challenge for banks and Moody's points out that banks will only have 10 days after they close their books to report life of loan estimates. That sort of pressure, combined with a tight timeline, likely points to a process heavily supported by technology.

As the wheels continue to turn around RegTech development, Bain points out regulatory costs continue to affect banks' investment decisions. Bain estimates governance, risk and compliance account for as much as 20% of the total cost of running most major banks. They further indicate this impact is also driving roughly 40% of banks' project costs. One has to wonder if this cost is even higher for community banks that have limited personnel resources to begin with and much shallower pockets to keep up with the onslaught of regulatory demands.

Certainly, given there are at least 80 companies already playing in this new RegTech space, community bankers should be selective because not all will make it. Conducting a deep dive on financial viability, looking closely at experience and understanding the risks of such vendors are good first steps. Vendor due diligence here is critical, so be sure to understand not only the items above, but things like capitalization of the company as well.

Service offerings in RegTech are still evolving, so community bankers have time to look around, but things are changing too so doing so effectively will be important.

For now, one easy way to start down this road is to look internally at your own bank first. Start by reviewing your own data to understand where you may have issues that need to be addressed and begin there. After all, the old adage of garbage-in-garbage-out still holds so a clean starting point is critical.

In the meantime, we will all probably be keeping our eyes open for more information about this new super bug killing antibiotic, as we monitor how it is adopted within the healthcare industry.

BANK NEWS

M&A Activity

1) Heartland Financial USA (\$8.3B, IA) will acquire Citywide Banks (\$1.4B, CO) for about \$203mm in cash and stock. 2) Gulf Coast Bank and Trust Co. (\$1.5B, LA) will acquire SBA lending company CapitalSpring SBLC (TX) for an undisclosed sum. 3) Progress Bank and Trust (\$730mm, AL) will acquire First Partners Bank (\$274mm, AL) for about \$41.9mm or roughly 1.37x tangible book.

Rate Hike

Fed Richmond President Lacker said the next rate increase should be soon and that "rates need to rise more briskly than markets now seem to expect."

Bank Stocks

Bankers will be happy to hear that bank analyst Mike Mayo said bank stocks can rise another 50% in the next 3Ys, even without White House actions, deregulation or higher interest rates.

Parental Help

Trulia research finds 40% of those aged 18 to 34Ys old are still living with parents, siblings or relatives as of the end of 2015, the highest level in 75Ys (1940).

Biggest Challenges

A survey of bankers by ICBA finds some of the biggest business challenges cited were: complying with regulations (58%), increasing earnings (44%), increasing loans (43%), keeping up with technology needs or advancements (35%), attracting and retaining qualified staff (26%), addressing data security (25%), planning for succession (17%) and reducing expenses (15%).

Not Moving

Pew research finds 20% of millennials say they changed their address last year vs. 26% of Gen X who did so at their same age and 27% of Baby Boomers at that age.

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