

VISIO BLOC

CHAINING INNOVATIVE IDEAS

A student-run bi-monthly newsletter that aims to share and promote the development of regulatory technology

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THE REGTECH ISSUE

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REGTECH AND BLOCKCHAIN: HOW DO BOTH TECHNOLOGIES COINCIDE?

by Chaintope Malaysia

What if one day, you wake up to self-driving cars, machine-led banks, robot-operated restaurants, and drone-delivered online shopping? Welcome to the Fourth Industrial Revolution! Automation and artificial intelligence are agents of change in the Fourth Industrial Revolution, an evolution that will inevitably lead to redundant jobs. These jobs will be performed by machines more cheaply and consistently. Some positions expected to become obsolete include bookkeeping clerks, team assemblers, and customer service representatives.

As we approach our days ahead in automation and robotics, we have to face the fact that sooner or later, technology will outgrow human skill and talent, which will lead to the deterioration of human interaction in jobs.

Blockchain is known as a disruptive technology. Why? This is mainly because blockchain serves to reduce workflow redundancies while increasing efficiency and bringing down costs. The technology is set to make tidal waves across industries. Blockchain is a distributed system of recordkeeping makes the data tamper-resistant. While many users may access, inspect, or add to the data, they cannot delete it. The original information stays put, leaving a permanent and public information trail. Given that the technology is known for its transparency, immutability, and incorruptibility, it's no wonder that industries such as healthcare, supply chain, insurance, energy and many others are jumping on the bandwagon to adopt blockchain.

On this note, Regulatory Technology (RegTech) may seem like a complicated buzzword, but in essence, it is a standard developed by FinTech companies, particularly financial institutions, to streamline the process of doing business. RegTech redefines the issue of compliance with the many regulations governing financial institutions (Basel III, Dodd-Frank Act, AML, KYC laws, etc). According to Deloitte, "RegTech seeks to provide nimble, configurable, reliable, secure, cost-effective and enhanced opportunities for revenue growth."

RegTech provides support throughout the **Onboarding, Monitoring, Detection, and Reporting stages**, a process that resembles blockchain systems used in supply chain management. Under RegTech, the Onboarding process relates to signing up new customers, while Monitoring looks at records, thresholds, regulations, market trends, etc. De-

tection covers tools to ensure fraud is not committed and funds received are not laundered money, while Reporting suggests compliance requirements, regulatory information, and various other reporting activities.

A supply chain that utilizes blockchain throughout the process involves Recording, Tracking, Assigning, Linking and Sharing. Document Recording and Tracking mirror the RegTech process of Monitoring. Every product that moves in the supply chain through different intermediaries is recorded on the blockchain ledger. On the other hand, Assigning and Linking relate to the RegTech process of Detection. It involves verifying certifications of certain products to differentiate between its various properties, such as fair trade and organic. Products are traced using serial numbers, bar codes, and digital tags, which are then stored on the cloud or blockchain ledger. This ensures the documents are secured at the same time, avoiding issues such as "inside jobs" or fraud.

The Sharing process in the supply chain relates to the RegTech process of Reporting. All information that is transferred from one party to another through the supply chain is stored on the blockchain. This allows users or departments involved to cross-check information or data that is stored. This process mirrors Reporting standards in RegTech, where every process is tracked and reported in accordance with compliance guidelines, regulatory information, and so on. The Sharing process in the supply chain and Reporting process in RegTech help curb corruption while ensuring trust and mutual benefits are gained among all parties involved.

As we approach an era with constant developments in technology, we at Chaintope strongly believe that blockchain is a technology that will enhance processes, reduce costs, and limit bureaucracy, especially in government departments and regulatory processes. Although the technology is still in its infancy and regulators have been tight lipped on blockchain until a framework can be established, we foresee exponential growth and strongly believe many will begin adoption sooner or later due to its robustness, traceability, and immutability. We are happy to be creating a social structure that will transform lives and businesses while bringing a better future to the world.