

# DIMENSIONS OF COMPLIANCE RISK & ROLE OF REGTECH

## Abstract

It is widely believed that regulatory scrutiny would continue to be a dominating driver of changes to compliance risk management processes. There are some key features which collectively outline how compliance risk is manifested and is managed within an organization. These features are referred to as the dimensions of compliance risk. These dimensions guide in identifying, assessing, and mitigating the risk of non-compliance with laws, regulations, or internal policies. This paper makes an attempt to identify the dimensions of compliance risks and explore the scope of leveraging the evolving regulatory technology (RegTech) for avoiding to a great extent the legacy system of juggling of paperwork like a circus with the hope that compliance is complete and factual enough to dodge hefty regulatory fines rendering the days of drowning in a sea of legal documents, struggling to keep up with ever-changing regulations a reminiscent of the past.

## Introduction

Compliance risk refers to the latent potential for possible material financial losses on account of legal and regulatory sanctions and/ or reputation damages an organization might suffer due to its failures, deliberate or otherwise, to obey the applicable laws, regulations, industry standards, and internal policies. An organization would have legal, financial and criminal exposures entailing financial and/ or reputational losses due to its failure to adhere to applicable laws, rules and regulations, related self-regulatory organization standards, and codes of conduct applicable to its activities. In an increasingly regulated and interconnected business environment,



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managing compliance risk has become a core element of sound governance and risk management.

Compliance risk emanates from several sources which includes changes in laws, rules and regulations, weak internal controls, poor employee awareness, ineffective monitoring systems besides third-party relationships. For financial institutions in particular, compliance risk is closely linked to regulatory expectations about customer safety and protection, anti-money laundering (AML), data protection, market integrity, and adherence to prudential norms.

Compliance risk is dynamic and forward-looking. Regulatory stipulations have been evolving rapidly in response to emerging market developments, technological innovation, and systemic concerns. Failure to anticipate or adapt to such emerging changes exposes the organizations to risks of enforcement actions, penalties, operational disruptions, and erosion of stakeholder trust.

Prudent compliance risk management calls for quick identification of applicable regulatory obligations, assessment of the likelihood and impact of non-compliance, effective implementation robust policies and controls, steadfast fostering of an organisation wide culture of ethical conduct, and continuous monitoring and reporting compliance performance. Increasingly, organizations are also leveraging regulatory technology (RegTech)

solutions to enhance efficiency, transparency, and real-time compliance oversight.

In essence, compliance risk management is not merely a defensive function but a strategic enabler that supports sustainable growth, strengthens institutional credibility, and reinforces accountability in an evolving regulatory landscape.

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### Dimensions of Compliance Risk

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Listed below are the **key dimensions of compliance risk**:

- 1. Regulatory Dimension:** It refers to adherence to applicable laws, rules, and regulations prescribed by appropriate competent authorities. Non-compliance thereto can trigger imposition by competent regulatory authorities of penalties, sanctions, or suspension/cancellation of license for doing business.
- 2. Legal Dimension:** It refers to violations of contractual or legal obligations. This includes lawsuits, legal disputes, or breaches of fiduciary duty.
- 3. Operational Dimension:** This is Linked to processes, controls, and internal systems that ensure compliance. Weak governance, poor documentation, or lack of employee training can trigger breaches (e.g., deficient internal controls rendering it easy to perpetrate insider trading or data leaks)
- 4. Reputational Dimension:** This points to potential impacts of compliance failures on trust and credibility. Even minor regulatory breaches can severely impair the public confidence. A compliance breach has the potential for negative media coverage.
- 5. Financial Dimension:** Represents the direct and indirect monetary losses due to

non-compliance by way of fines, legal costs, and revenue loss from damaged relationships. Penalties imposed by the regulators might lead to erosion of stakeholders' confidence.

- 6. Strategic Dimension:** This may arise when compliance issues affect business strategy or long-term goals. Compliance must be ingrained into decision-making process so as to avoid strategic slipups. Entering a new market without in-depth regulatory due diligence is a big no.

### 7. Technological (or Digital) Dimension

This arises from digital transformation, cybersecurity, and data governance and includes risks linked to AI, RegTech tools, and data privacy laws (e.g., DPDP Act 2023, GDPR (General Data Protection Regulation-Europe), Non-compliance with digital consent or algorithmic transparency norms which refer to rules and principles that require organisation to be open, explainable and accountable about how algorithms particularly AI and automated decision making system work and affect stakeholders.

- 8. Ethical Dimension:** Involves adherence to ethical standards and organizational values beyond legal requirements. Misconduct, even if technically legal (viz., mis-sales practices or misuse of customer data) can pose serious compliance and reputation risks.

### RegTech (Regulatory Technology)

RegTech is the application of emerging technology to improve the management of regulatory compliance. Born in response to the regulatory demands emanated in the wake of 2008 global financial crisis, RegTech continues to mature rapidly. RegTech Landscape comprises three elements viz., Legislator and regulators, Financial institutions and RegTech companies. Legislator and regulators prescribe and enforce rule/regulation while financial institutions comply and operate in the regulatory environment as set out by regulators, by either using inhouse framework/technologies for regulatory compliance or outsource solutions from specialized RegTech companies which create regulatory technology solutions to help financial institutions to remain compliant.

RegTech is leveraging evolving advanced technology to fortify the regulatory and compliance risk management processes within the organization, particularly in the financial sector. It supports institutions in adhering to the regulatory stipulations more effectively, efficiently, accurately, and at lower cost. RegTech helps to automate and streamline compliance and regulatory reporting. RegTech uses technologies viz., Artificial Intelligence (AI) & Machine Learning (ML) – for predictive risk detection, Natural Language Processing (NLP) – to interpret complex legal and regulatory texts, Big Data & Analytics – for handling massive compliance datasets; Blockchain – for secure, auditable recordkeeping; Cloud Computing – for scalable and flexible compliance solutions. The main objectives of RegTech are to automate compliance processes, improve reporting accuracy and transparency, mitigate costs entailed in manual compliance checks, facilitate real-time monitoring of transactions and risks, strengthen data governance and audit readiness. **RegTech** automates submission of returns /data to regulators and can track and flag suspicious transactions or activities using AI. Machine learning tools are deployed to detect anomalies and potential fraud in real time. It tracks regulatory updates and monitors **rule changes** using AI/NLP and helps institutions adapt policies accordingly and thus can play effective roles in Regulatory Change Management. RegTech can facilitate the processes to ensure adherence to the provisions of laws like GDPR or India's Digital Personal Data Protection Act. It can be gainfully used for identity management through use of blockchain to securely store and share customer identity data and for KYC through digital onboarding, e-KYC, and biometric verification.

Reg Tech is being progressively supported by regulators like **RBI, SEBI, and IRDAI** towards improvement in quality of governance and reduction in compliance burden for financial institutions.

### Benefits accruing form using RegTech

Besides reduced compliance cost and effort, its use enhances accuracy and speed. It sharpens real-time risk visibility to the entity. RegTech helps improving transparency and auditability. Improved customer experience can be delivered through faster

onboarding and verification.

### Technology tools used by Reg Tech

1. **Ayasdi** – AI-based AML detection: Ayasdi, now a part of SymphonyAI as **Symphony AyasdiAI**, is a RegTech entity that leverage artificial intelligence (AI) and machine learning (ML) to aid financial institutions in compliance, risk management, and in detection of financial crimes.
2. **Ascent RegTech** – Automated regulatory change tracking: Ascent AI facilitates institutions to steer regulatory compliance with promptness and confidence, economising on cost, mitigating risk, and complexity of compliance. **AscentAI Regulatory Lifecycle Management™ (RLM) Platform** is an automated solution that covers the full regulatory lifecycle, dovetailing horizon scanning specifically tailored to customised business needs, with regulatory change management automation. Use of AscentAI, enable entities to mitigate risk, increase productivity, eliminate manual work.
3. **Trulioo / Onfido** – Digital identity verification : Trulioo and Onfido are leading digital identity verification platforms, both offering KYC/AML solutions, but they differ in focus: Trulioo excels in broad global compliance (195+ countries, massive data) with user-friendliness for small & medium businesses, while Onfido leans into advanced AI/biometrics, deeper customization for SDK(software development kits)<sup>#</sup>, and strong fraud detection, also often preferred by larger enterprises needing intricate identity proofing. Trulioo offers extensive data/document checks, whereas Onfido provides advanced biometric authentication (like liveness checks).
4. **Comply Advantage** –It is a leading global RegTech company providing AI-driven financial crime intelligence and risk management software, helping businesses fight money laundering (AML), fraud, and terrorism financing with real-time data, screening (KYC/KYB), and transaction monitoring for compliance, using machine learning to power its cloud-based solutions for financial institutions worldwide.

**5. Tookitaki (India)** – Machine learning–driven compliance platform : Tookitaki is a global tech company, has its headquarter in Singapore and also has significant presence in India (Bangalore). It is providing AI-powered solutions to provide protection against financial crime with focus on AML and fraud prevention for financial institutions. They use an exclusive Federated AI approach@ and community-driven insights through their FinCense@@ platform to strengthen the traditional compliance systems, enabling real-time fraud detection, effective transaction monitoring, and risk management with explainable AI(Methods and tools that make the decisions and inner workings of AI models understandable to humans) to help banks reduce costs and comply with regulations more effectively.

### RegTech in Indian Banking

In the midst of growing regulatory complexity and fast occurring digital transformation, Indian banks have been increasingly implementing Reg Tech to automate and reinforce compliance, for risk monitoring, and for regulatory reporting. Big banks and digital lenders have initiated the use of AI and analytics-driven tools to automate KYC/AM scrutiny to determine and verify its accuracy, quality, or condition, for real-time transaction monitoring, for fraud detection, and in regulatory filings to improve accuracy and operational efficiency lessening manual workload. Reg Tech is in the process of gradually growing from niche experimentation to a mainstream component of compliance infrastructure in Indian banking. The process is driven by digital growth and stricter oversight, in the existing supportive and vibrant ecosystem of Indian and global providers besides regulatory initiatives like RBI’s sandbox and self-regulatory frameworks.

### Reg Tech Challenges

Reg Tech encounters a host of challenges too. These may be listed as under

- ⊙ Data security and privacy concerns
- ⊙ Integration with legacy systems
- ⊙ Constantly evolving regulations
- ⊙ Need for regulatory acceptance and

standardization

- ⊙ Cybersecurity
- ⊙ Need for collaboration between regulators and tech providers

### Conclusion

Compliance risk has been evolving with multiple dimensionalities in response to more demanding regulator pressing for stronger proof of resilience, security, and uptime. Institutions must be in readiness to prove that their infrastructure can withstand all potential disruptions, quickly adapt to changes whenever needed, and deliver services with near zero downtime. Deficiencies and shortcomings in this regard can trigger steep penalties, cause reputational damage, and entail loss of customer trust.

Compliance risks today traverse multiple dimensions from regulatory interpretation and operational controls to data integrity, conduct expectations, and third-party vulnerabilities. Amidst more dynamic, evolving and digitally intensive regulatory environments, legacy compliance models often struggle to keep pace. RegTech enables an innovative response by automating monitoring, improving data quality, providing real-time optics of the business, and entrenching compliance directly into business process workflows. Holistically, a multidimensional understanding of compliance risk and with smart leverage on RegTech solutions allow institutions to shift from reactive compliance to proactive, scalable, cost effective and resilient compliance risk management. MA

Notes:

@Federated AI Learning (or Federated Learning) is a machine-learning approach where many devices or servers collaboratively train a model without sharing their raw data. Instead of sending data to a central server, each device trains locally and sends only model updates (e.g., gradients or parameters). A central server then aggregates these updates to improve the global model.

@@ FinCense is a compliance and financial-crime prevention platform developed by Tookitaki. It started as Tookitaki’s “Anti Money Laundering Suite (AMLS)” but was rebranded in 2024 to FinCense to better reflect its expanded scope beyond traditional AML. FinCense brings together fraud detection and AML (Anti-Money Laundering) capabilities under a unified system (sometimes referred to by the combined acronym “FRAML”).

#An SKD is a ready-made set of tools and codes that helps developers quickly add specific features to their apps without building everything from scratch.