



EMPOWERING INSURERS WITH REGTECH: BRIDGING THE GAP BETWEEN REGULATIONS AND TECHNOLOGICAL INNOVATION

Abstract

Regulatory technology, or RegTech, encompasses a variety of advanced technologies designed to streamline compliance, enhance risk management, and improve data protection. RegTech addresses challenges such as integration with legacy systems and data privacy concerns. This paper considers the transformative potential of RegTech in the insurance industry. It looks at the critical role of these solutions in driving innovation and examines key use cases for ensuring compliance in an ever-changing regulatory environment.

Introduction

The insurance industry is undergoing a significant transformation driven by advancements in regulatory technology (RegTech). Insurance RegTech is the convergence of regulatory technology and the insurance industry. This field is revolutionizing compliance, risk management, and data protection activities of insurance organizations. As regulatory demands grow more complex, traditional manual processes are proving inadequate, prompting insurers to adopt advanced technological solutions.

Challenges Insurers Face from Regulatory and Compliance Bodies

Compliance in the insurance sector is complex and ever-evolving due to stringent regulations, diverse jurisdictions, and the increasing demand for transparency and accountability. The foremost challenges faced by insurers are:



Dynamic regulatory landscape

Regulations in the insurance industry are frequently updated in response to emerging risks, market developments, and global events. Keeping up with these changes and ensuring timely compliance is a significant challenge. Furthermore, insurers with operations across multiple geographies must navigate a complex web of local and international regulations, each with its own requirements and standards.



Data privacy and security

Insurers must comply with stringent data protection and privacy laws like the General Data Protection Regulation (GDPR) in the EU, which require careful handling, storage, and processing of personal data. As insurers increasingly handle sensitive customer data, they must establish robust cybersecurity measures to protect against breaches, penalties, and reputational damage.



Complex product offerings

Insurance products are highly varied, ranging from life and health insurance to property and casualty insurance. Each product type may be subject to different regulatory requirements, making compliance a multifaceted challenge. Moreover, as insurers seek to customize product offerings as they drive innovation, there will be challenges ensuring that the new offerings comply with existing regulations.



Third-party vendor management

Insurers often rely on third-party vendors for services such as claims processing, IT support, and customer service. It is important to ensure that these vendor operations are compliant with the relevant regulations and do not expose the insurer to additional risks. Further, outsourcing certain functions to third parties, particularly in global or offshore locations, can add to regulatory complexity and increase risk management requirements.



Customer transparency and fair treatment

Insurers are required to provide clear, accurate, and timely information to customers to ensure that their policies and terms are clearly disclosed and well-understood. This entails meeting standards for transparency in pricing, policy terms, and claims processes.



Rising cost of compliance

Compliance activities require significant financial and human resources. As regulations become more stringent, the cost of compliance will continue to increase, thereby impacting profitability.



Ethical considerations and governance

Regulatory scrutiny can extend to areas such as environmental impact, social responsibility, and corporate governance (ESG). This puts pressure on insurers to adhere to high ethical standards. Often, strong governance frameworks are necessary to ensure that compliance is embedded at all levels of the organization. This requires robust oversight and control mechanisms. innovations, there will be challenges ensuring that the new offerings comply with existing regulations.



Regulatory reporting and audits

Insurers must regularly report to regulators on various aspects of their operations including financial performance, risk management, and compliance activities. The complexity and frequency of these reports can be overwhelming. Regulatory audits are also becoming more rigorous. Regulators conduct in-depth examinations of the insurance organization's compliance with laws and regulations, which require extensive preparation and can disrupt business operations.

Key Technologies in RegTech and their Applications

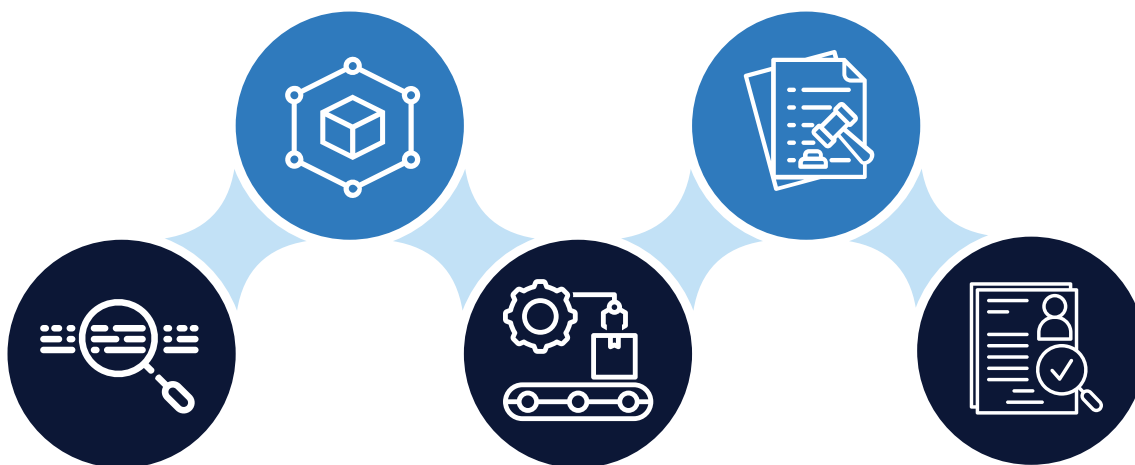
The RegTech market provides innovative and technology-driven solutions that assist insurance organizations in navigating the complex regulatory landscape. These solutions address the intricacies of regulatory compliance, data management, risk mitigation, and operational efficiency. RegTech also leverages artificial intelligence (AI), automation, data analytics, machine learning (ML), and cloud computing to help insurers keep pace with regulatory changes, manage risks more effectively, and reduce compliance costs. These technologies are further described below:

Blockchain

This technology revolutionizes how trust is built within the system. Blockchain facilitates regulatory compliance for insurers by providing a transparent and immutable record of all transactions. Regulators can access the blockchain to verify that insurers are complying with relevant laws and regulations.

Regulatory reporting software

Specialized software solutions automate the collection, analysis, and submission of regulatory reports. These tools ensure that insurers meet reporting requirements accurately and on time.



AI and ML

AI/ML algorithms can analyze large datasets to detect patterns, predict risks and automate decision-making processes. These technologies are particularly useful in fraud detection, underwriting, and claims management.

RPA

Robotic process automation (RPA) automates repetitive and rule-based tasks such as data entry and compliance reporting. This reduces manual workload, minimizes errors, and accelerates processing time.

Identity verification and KYC solutions

RegTech tools for identity verification and Know Your Customer (KYC) processes enhance customer onboarding by ensuring compliance. These solutions use biometric data, digital identity verification, and other advanced methods to authenticate customers.



Benefits of RegTech Solutions in Insurance

RegTech solutions help insurers adopt a systematic and intelligent approach to complying with regulatory standards. These solutions allow insurers to confidently innovate and expand their offerings in new markets. Some of the key benefits of RegTech in insurance are:



It is significant to note that the potential of RegTech extends beyond compliance. These solutions are increasingly driving value in other key insurance areas such as customer engagement, fraud prevention, and operational efficiency.

Implementing RegTech in Insurance

Insurance organizations need a strategic and structured approach to ensure successful integration and adoption of RegTech solutions. Figure 1 provides an outline of the key steps needed to systematically implement RegTech across compliance operations within insurance.

PROCESS FLOW TO EMBED REGTECH IN INSURANCE

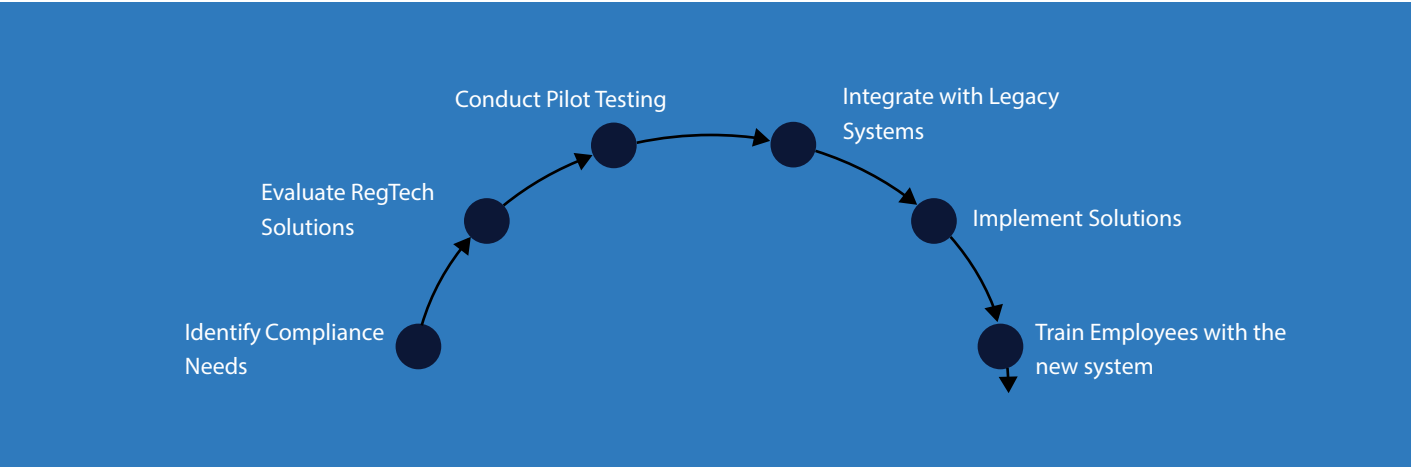


Fig. 1: Embedding RegTech in the insurance landscape



Step 1: Identify specific requirements

Insurers should conduct a thorough assessment to identify specific compliance requirements, challenges, and areas where RegTech can provide the most value. During this stage, they should establish clear and measurable success metrics such as compliance accuracy, cost savings, and process efficiency improvements.



Step 2: Evaluate solution options

This step begins with performing due diligence to assess various solutions based on their stability, security measures, and compliance with industry standards. Thereafter, a comprehensive plan for pilot testing must be developed. This should include objectives, scope, timeline, and resource requirements.



Step 3: Run a pilot implementation

It is useful to first implement the RegTech solution in a specific business unit. This helps evaluate its performance and uncover any potential issues or customization needs. Users and stakeholders can also provide valuable feedback on solution effectiveness and identify areas for improvement.



Step 4: Assess integration requirements

Insurers must evaluate the technical requirements for integrating the RegTech solution with their existing legacy systems and data infrastructure. Here, a test integration plan is critical and must include timelines, resources, potential, and test suites to ensure seamless integration.



Step 5: Roll out the solution

In this step, the focus is on complete solution rollout. Insurers should monitor progress and optimize the implementation process for other business units. Comprehensive training programs can be organized to help users seamlessly adopt the RegTech solution. Periodic audits must also be conducted to assess the effectiveness of the RegTech solution and identify areas for improvement.



Step 6: Future innovation

As with any new technological implementation, it is important for insurers to stay updated on emerging RegTech trends and innovations in order to continuously enhance the solution capabilities.



Use Cases: Automating Compliance and Regulatory Reporting for Group Benefits Open Enrollment

Group benefit insurance refers to insurance plans for a group of people such as employees or customers. It includes multiple policies such as health, life, or disability coverage for multiple people under a single contract. Group benefit insurance plans have complex regulatory & compliance requirements. Hence, the use cases of RegTech are particularly useful for insurers that provide such services. Some of the key use cases are mentioned below:

Automated compliance checks for benefits plans

During open enrollment, insurers and employers must ensure that the offered group benefit plans comply with various regulations such as the Affordable Care Act (ACA) in the US, ERISA (Employee Retirement Income Security Act), and regional laws. A RegTech platform can automatically verify whether such benefit plans comply with applicable laws and standards. The solution can check for essential benefits coverage, contribution limits, and compliance with non-discrimination rules. Real-time alerts can also notify administrators when the plan design changes or if any offering violates regulatory standards.



Automated KYC and AML verification for employers



Open enrollment involves verifying the legitimacy of employers and whether they meet anti-money laundering (AML) and KYC criteria. A RegTech system can automate KYC and AML checks during open enrollment. It can verify employer information, flag any suspicious activities, and ensure that the group insurance policies comply with AML regulations. By automating this process, insurers can reduce manual work and ensure faster onboarding of group insurance customers.

Data privacy and security compliance

During open enrollment, employers and insurers handle a significant amount of sensitive and personal customer data including employee health information. Insurers must ensure compliance with data protection regulations like HIPAA in the US and GDPR in Europe. A RegTech platform can help insurers automate data privacy management during the enrollment process. This includes secure handling of employee data, automated encryption and anonymization, as well as continuous monitoring to ensure compliance with GDPR or HIPAA requirements. In the event of a data breach, the system can automatically alert administrators and regulators, thereby minimizing legal exposure.



Regulatory reporting and audit trail management



Open enrollment requires accurate and timely regulatory reporting on employee benefit plans. Insurers must track and report to regulators any changes in policy coverage, enrollment status, and employer contributions. A RegTech platform can automatically generate and submit the necessary reports to regulatory authorities. It can create an audit trail of all activities undertaken during the enrollment period such as changes in employee enrollment status, employer contributions, and plan elections. These records can also be used during regulatory audits or disputes to ensure that all actions were compliant.

Fraud detection and prevention

There is a significant potential for fraud during open enrollment. Employees may submit inaccurate or fraudulent information to receive coverage for which they are ineligible. Employers may also falsify information to get lower premiums. AI-powered RegTech platforms can detect anomalies in enrollment data and flag potentially fraudulent activities. By analyzing large datasets and employee behaviors, the system can identify patterns and discrepancies such as duplicate records or false information. Such early detection can prevent fraudulent activities before they result in financial losses and reputational damage.



Real-time compliance with evolving regulations



Regulatory requirements for employee benefits can change frequently, making it challenging for insurers to stay up to date with the latest changes during open enrollment. Failing to comply with new regulations can result in penalties. RegTech platforms can provide real-time compliance updates and alerts. For instance, the system can automatically adjust compliance checks in accordance with new regulations such as changes in the ACA or local healthcare laws. Moreover, it can notify employers or insurers of any changes that need to be made to group benefits plans. This helps insurers and HR departments stay compliant without manual intervention.

Employee education and compliance verification

Employees should understand the benefits they are choosing during open enrollment and how factors such as contribution limits or coverage mandates comply with regulations. RegTech tools can give employees personalized compliance information during open enrollment. For instance, an AI-driven system can explain complex regulations such as the impact of ACA requirements on their coverage options. It can also ensure that employees select compliant options and provide real-time feedback on whether their plan selections meet regulatory standards.



The automation of compliance checks, data privacy management, and fraud detection using the right RegTech solutions minimizes the risk of regulatory breaches. By reducing the manual effort required to verify compliance and manage data security, insurers and employers can focus more on supporting employees during open enrollment.

Conclusion

The market conditions for insurance RegTech are being shaped by a combination of regulatory demands, technological advancements, competitive pressures, and evolving customer expectations. These are the factors driving the adoption of RegTech solutions, presenting both opportunities and challenges for insurers and technology providers. Despite challenges such as integration with legacy systems, data privacy concerns, and regulatory uncertainty, the adoption of RegTech promises significant benefits. The implementation of RegTech in group benefit open enrollment can help insurers and employers comply with evolving regulations. It will also reduce the administrative burden, enhance data security, and improve fraud detection and prevention. The future of RegTech in insurance is poised for growth owing to greater use of digital technologies, increased collaboration with regulators, and a focus on customer-centric solutions. Insurers embracing RegTech will be better equipped to navigate the evolving regulatory landscape and meet the demands of the modern market.



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