AML for MSBs & FinTech: The Compliance Conundrum

Insight Article

TABLE OF CONTENTS

FinTech Innovation Collides with Reality

Innovation abounds in the money service business (MSB) space. The rapid pace of change has forced the industry to redefine financial services, and rethink consumer expectations. Traditionally, a MSB offers check cashing, foreign currency exchange services, or selling money orders, travelers' checks or pre-paid access (formerly stored value) products. But today, financial technology, or FinTech, has seen explosive growth and has effectively changed the way people access these financial services around the world.

The ease, efficiency, and cost-effective access to these services through the internet and mobile devices attracts millions of customers each year.

But, as many FinTech and MSB organizations are aware, these same financial services are often subject to strict anti-money laundering (AML) regulations within the jurisdictions they operate. While the industry continues to innovate and disrupt, regulators still expect organizations to implement sound anti-money laundering (AML) compliance programs or face additional scrutiny and potential fines. And the consequences of this scenario are detrimental to the future outlook of these organizations. For example, for young startups looking to compete in a competitive market and grow its user base, a civil money penalty could negatively impact investor funding, R&D investment, and irreparably harm its reputation by undermining the confidence of its customers.

FinTech has historically looked at regulations and compliance as a barrier to entry and an innovation stifler. However, the FinTech industry doesn't have to be scared of compliance. In fact, financial technology, payments, and MSBs that put compliance first give themselves a competitive advantage.

This insight article seeks to outline a roadmap for FinTech to implement sound compliance controls using intelligent, innovative regulatory technology (RegTech) built for their space.

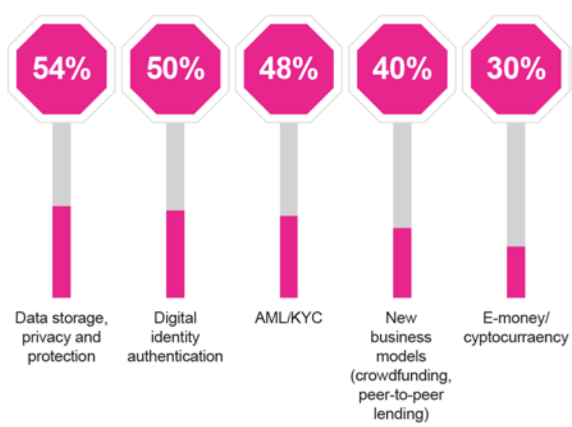
Compliance Challenges for MSBs & FinTech

MSBs and FinTech operate in a highly competitive space, and growing fast is often the number one priority. But as the FinTech industry continues to see unprecedented VC investment and natural maturity, regulators are looking for smart ways to implement reporting and regulatory requirements. But addressing compliance isn't easy, and even established institutions also struggle with the following challenges.

Challenge: KYC Being an Afterthought

Due to their business structure, customers of FinTech and MSBs are typically anonymous and lack identification details. The desire to have a frictionless onboarding process and maintain a rapid speed of doing business sometimes results in know-your-customer (KYC) and due diligence compliance initiatives taking a backseat. In fact, according to PWC's recent Global FinTech Survey, nearly half of the respondents (48%) identified AML/KYC as a regulatory barrier to innovation.

In which areas do you see regulatory barriers to innovation in FinTech?



Source: PwC Global FinTech Survey 2017

Challenge: Immature Technology & Processes

The FinTech industry has not yet established best practices or clear guidelines for addressing AML compliance. Unlike the banking industry, FinTech lacks tried, tested, and validated processes that fit their unique business needs.

Even established financial institutions continue to struggle in this area, and are still often cited by regulators for not enforcing consistent processes internally.

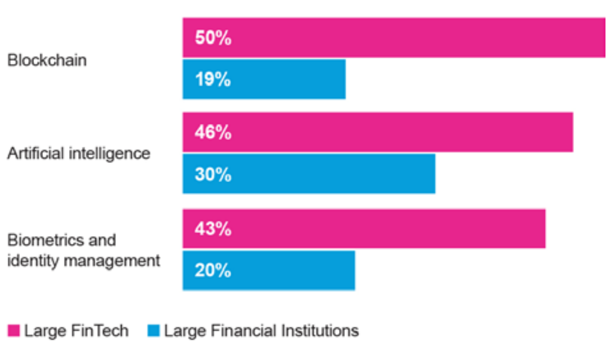
Challenge: The Cost of Compliance

With the cost of compliance rising and new risks continuing to emerge, it's imperative that firms find a scalable path to more sustainable compliance programs. The global regulatory landscape is complex and expectations and requirements can change quickly, and are even sometimes conflicting.

In response, AML technology is also innovating at a rapid pace through automation advancements that provide new insights like blockchain, advanced analytics, machine learning, AI, and robotics.

By applying these technologies to AML processes, teams can balance the cost of compliance by effectively automating repetitive or mundane tasks and focusing on high-value, strategic tasks and investigations.

Percentage of large companies that identified these emerging technologies as the most relevant to invest in within tho next 12 months



Source: PwC Global FinTech Survey 2017

Creating a Culture of Compliance

The strategies organizations use to address these challenges need a strong culture of compliance behind them in order to be successful. A culture of compliance is meant to increase transparency and help streamline operations. Where should you focus the most on creating a culture of compliance?

Training: If you are subject to AML regulations, then you are required to have a formal, documented training program in place. Organizations can ensure they're implementing an effective program by also attending industry events like tradeshows, conferences, and user groups, where best practices, insight, and knowledge is openly shared.

Customer Service Interaction: Extend training beyond your compliance officers and compliance managers. Customer service employees may not be part of the compliance team, but there may be synergies your organization can leverage. For example do you have front office-facing employees that interact with customers? Have you thought about how customer service can enhance your KYC or due diligence process?

Make compliance an integral part of all employee onboarding and ongoing training programs, whether they're in marketing or accounting.

Executive Level Management: A culture of compliance must start at the very top with executive level management and even the board of directors in order to be truly successful.

In March of 2017, NICE Actimize conducted a survey among compliance professionals from regions all over the world and from all types of industries including banks, MSBs, issuers and acquirers, insurance, etc., and the last question we asked was an open ended question: “What would make the greatest difference in your organization’s efforts?”

A common thread in the responses was this desire for more support from senior management.

> **“Support from senior management…and a push to increase anti-money laundering (AML) culture throughout the [organization].”**

Case Studies: What Does AML Look Like for FinTech?

Watch List Filtering & Sanctions Screening

The Organization: A global money transfer organization needed effective watch list and sanction screening for their operations. This organization provides payment services like money orders, payment processing, and remittance, and operates via over 350,000 agent locations in over 200 countries.

The Business Need: Operating in many different jurisdictions meant that this organization’s AML program needed to address different and often conflicting regulator expectations and detection scenarios. For example, operations occur in several high risk regions, and so this organization needed a way to centralize their alert system and the ability to effectively screen their customer base through multiple lists and scenarios.

The Solution: This organization is now able to screen multiple lists, both internal and external lists provided by the various jurisdictions they do business in. They’ve also implemented effective politically exposed person (PEP) screening, and enforced consistency across the organization including implementing a centralized workflow that marries disparate systems.

Complete Customer Risk Assessment & Due Diligence

The Organization: This customer is a global payments technology company that connects multiple client-types including consumers, businesses, financial institutions, and governments in more than 200 countries and territories to fast, secure and reliable electronic payments. Additionally, many banks issue credit cards on their network and therefore are a household-name with high brand recognition.

The Business Need: The protection this customer needed is very specific. For example, due to many financial institutions issuing credit cards on their network, this customer need the ability to screen and onboard quickly. Furthermore, because of the company’s vast global footprint, they required a single solution that could address each product line and each customer type with unique and specific onboarding requirements such as

- Specific due diligence and KYC questions
- Unique onboarding workflows
- Unique risk thresholds

The Solution: Actimize recognizes that anti-money laundering programs shouldn't be a one-size fits all approach, and has a reputation in the industry for having a flexible and configurable system that can adapt to its customer's unique business needs. Actimize's onboarding software can be customized and personalized for unique and efficient experiences based on the client type. This approach creates efficiencies that help reduce false positives so that the alerts that are being generated are fewer and of higher quality. Additionally, it facilitates an agile onboarding process that help manage the desire for a speedy onboarding process with the required KYC/CDD controls.

Case Management & SAR Filing

The Organization: This technology leader out of Silicon Valley wouldn't have previously been known as a FinTech player, but it continues to invest strategically in financial services offerings and thus required a way to centralize their SAR filings, alerts, and case investigations.

The Business Need: They realized how at risk they were. For example, their homegrown system wasn't scalable as the business grew, and so they sought a system that allowed their users to have visual insights from their data, and consolidate everything into one view.

The Solution: As a result they experience increased productivity across the board.

Conclusion: The Biggest Opportunity for FinTech & MSBs is Compliance

The industry is evolving at a rapid rate with no signs of slowing down. FinTechs have a unique opportunity to drive compliance initiatives internally, because unlike banks, FinTechs are less weighed down by the inertia of change and red tape.

Today's innovative AML technology can automate these processes to make sure they are enforced consistently, efficient, low cost, and effective. This is especially important for satisfying the expectation of regulators. Additionally, sound compliance programs and strategies deter negative news and fines that cause reputational damage and a loss of consumer confidence.

It cannot be overstated: non-compliance is not an option. Those companies that put compliance first gain an advantage over their competitors, and are more likely to come out on top in the race to capture market share.

How NICE Actimize Can Help

Actimize's Intelligent AML Solution Suite empowers organizations to proactively manage end-to-end AML risk by intelligently and efficiently correlating financial crime activities. Through innovative technology, financial organizations ensure cost-effective AML operations for a positive, holistic customer experience.

Protect with a Scalable AML Solution

A complete AML suite with an open and extensible architecture is able to grow and scale with your organization, offering the best long-term investment. Technology innovations like advanced analytics, anomaly detection, Network Risk Intelligence, and Machine Learning ensure coverage for regulatory and internal risk changes. Financial organizations benefit through a self-sufficient compliance program that supports strategic business growth.

Achieve High Quality Alerts with an "Analytics Everywhere" Approach

Actimize takes an "analytics everywhere" approach to its AML suite, meaning every layer of the system is built with comprehensive out-of-the-box coverage for tuning and detection. As a result, alert quality is increased, false positives are reduced, and tuning, testing, data acquisition, and model deployment are fast and efficient.

Intelligent Automation Applied to AML

NICE Robotic Process Automation (RPA) lowers the cost of compliance by automating the repetitive elements of your program. Applying automation to investigations, due diligence, and reporting operations to speed up investigations and reduce human error.

ABOUT NICE ACTIMIZE

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers and investors assets by identifying financial crime, preventing fraud and providing regulatory compliance. The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.

info@niceactimize.com | www.niceactimize.com | www.niceactimize.com/blog | @nice_actimize | linkedin.com/company/actimize | facebook.com/niceactimize

NICE · ACTIMIZE