April 2021 FinTech Financial Crime Roundtable: Key Takeaways

EXIGER
Governance. Risk. Compliance.

ABOUT EXIGER

Exiger is the global authority on financial crime and risk compliance introducing technology-enabled solutions to the market's biggest compliance challenges. Exiger is changing the way banks, corporations and governmental agencies fight financial crime by combining industry expertise and artificial intelligence to root out bribery, corruption, sanctions violations, money laundering and terrorist financing. In recognition of the growing volume and complexity of data and regulations, Exiger is committed to working with clients to create a more sustainable compliance environment through its holistic and innovative approach to problem solving. Powering its Advisory, Diligence and Government Services solutions, Exiger has developed purpose-built technology—DDIQ and Insight 3PM—trained and deployed by its subject matter experts to accelerate the auditability, efficiency, quality and cost effectiveness of clients' compliance operations. Exiger operates in seven countries and eleven cities around the world, including London, New York City, the Washington, D.C. metro area, San Antonio, Toronto, Bucharest, Hong Kong, Singapore and Sydney.

Exiger hosted its second virtual Roundtable under Chatham House Rules attended by senior financial crime leaders from various FinTechs based in the UK, Europe and the US. The focus areas of the discussion were:

- recent regulatory and industry developments, and
- key challenges and best practices in designing and implementing effective and sustainable Financial Crime Compliance Programmes.

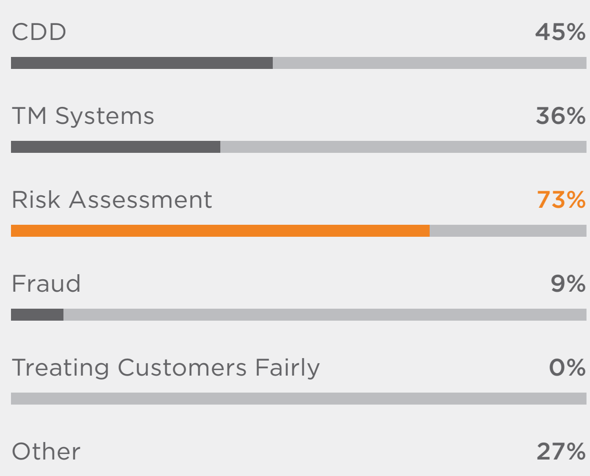
Exiger provided an update on the latest UK, EU and US regulatory developments in FinTech and cryptoassets to the Roundtable participants. Regulators and Central Banks around the world, including the European Central Bank and the Bank of England are currently exploring the efficacy of Central Bank Digital Currencies. Meanwhile, UK regulators are making efforts to better understand FinTech and encourage innovation, borne out of the FCA's decision to implement a Scalebox featuring a regulatory nursery, as recommended by the Kalifa Review of UK Fintech. In the US, a similar trend is emerging, but heightened scrutiny of cryptoassets in some regulatory quarters is expected to continue. Further, the Anti Money Laundering Act 2021 has aligned the US more closely to the UK and EU by emphasising the need for a risk-based approach.

As their understanding of FinTech operating models evolves, regulators may look to satisfy the demand from within the sector for more specific guidance, especially on new technologies and services such as Open Banking. Banking as a Service (BaaS) has proven increasingly popular as it gives FinTechs greater scope to expand whilst satisfying their regulatory obligations.

Exiger also shared with the group the latest regulatory news in relation to virtual assets. As per the Bank for International Settlements, supervision remains "nascent globally" and enforcement actions have been limited, mostly targeting unregistered activity or fraud. As highlighted by FATF, numerous jurisdictions are looking to strengthen their regulatory oversight of VASPs in particular. Looking to the future, we may see new approaches to regulation which seek to take advantage of the data-rich nature of the cryptoasset sector.

Participants were of the opinion that current regulatory focus areas at FinTechs were Risk Assessment, Customer Due Diligence (CDD), and Transaction Monitoring systems (TM), based on anonymised polling conducted during the Roundtable.

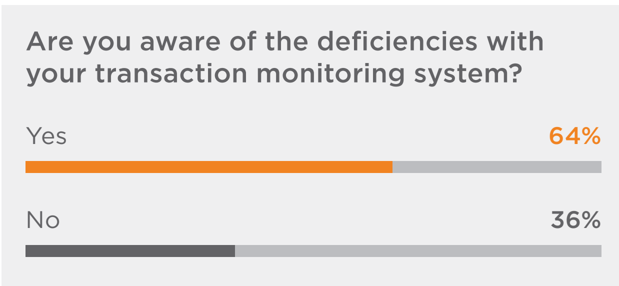
What topics do you think your regulators are most concerned with? (Multiple Choice)



Key Takeaways

Transaction Monitoring Systems

64% of participants said they were aware of deficiencies in their TM system, and the majority indicated that their firm intends to change their system this year.



- In-house systems may be effective whilst a firm has a relatively limited client base or product offering, but rapidly growing FinTechs need to ensure that, as with all other controls, their TM system is able to keep pace with expansion of their business.
- One of the biggest TM-related challenges identified by participants was recruiting and maintaining resources with sufficient technical expertise.
- Several participants had experienced varying levels of customer service from large third-party vendors and a lack of control over the timeline for issue resolution. The unique nature of many FinTech firms can mean they are better suited to partner with smaller vendors with whom they can build tailored solutions. Participants concurred that what matters is the vendor's trustworthiness and responsiveness.
- Post-implementation testing can help to create a robust TM system that can withstand regulatory scrutiny. In some FinTechs responsibility for testing sits with compliance, who have the opportunity to work with developers, offering valuable oversight opportunities. In other firms the same developer teams create and test systems, and if there are capacity constraints internally then third parties may be required to perform independent testing.

The biggest systems challenge for participants most often relate to data integration across platforms and technical expertise and resourcing. Participants expressed concerns over the soundness of their TM system calibrations and at times went as far as questioning whether current TM systems were fit for purpose.

Customer Risk Assessment (CRA)

- Deficiencies in customer risk models are a common problem amongst FinTechs and recently there has been a push towards AI-led models with compliance acting as a quality assurance of model output.
- Participants discussed whether to build an in-house CRA model or purchase a third-party solution. A firm has better

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knowledge of the system if it is built in-house, and there is a faster response when changes to the model need to be made. Conversely, regulators may be more on-guard when it comes to in-house systems that they are less familiar with, meaning firms will need to work harder to demonstrate their effectiveness.

- The consensus from participants was that developing an in-house CRA model was preferable, whereas in contrast using vendor developed TM systems was advantageous in the current environment.

Banking as a Service (BaaS)

- The group discussed the extent to which certain compliance processes can be outsourced to partner banks where BaaS arrangements are in place. Partner banks' access to data will largely determine which processes can be outsourced, but any reliance must be coupled with effective oversight.

Risk Appetite Statements (RAS)

- A major challenge expressed during the forum was the creation of a practical RAS (and corresponding Management Information) that informs processes such as CDD, rather than having a high level statement which cannot be translated into actions and at worst only serves to give an air of compliance.
- Participants noted that as compliance professionals they need to champion the creation of an effective governance framework into which to report risk appetite metrics, but it sometimes also falls on them to foster a better understanding of those metrics by the Board of Directors.

Governance Frameworks

- In some FinTechs, big strides have been made in relation to the governance of new products and the pursuit of new business. However, it can still be challenging at times to adequately convey compliance and financial crime issues to committees comprised of individuals from other professional backgrounds.
- Emerging compliance issues with no clear regulatory guidance present some of the toughest challenges in a committee setting. There is pressure on compliance professionals to make a strong case for enacting industry best practices and using a risk based approach, rather than simply implementing the systems and controls which are strictly necessary.

The Role of the First Line of Defence

- Some firms have created compliance operations or similar teams which sit within the First Line of Defence, and while such teams are well educated on financial crime, there is greater scope for upskilling the rest of the business.
- FinTechs want to avoid the 'race to the bottom' in which the FinTech who asks the fewest CDD questions is the most competitive. News of regulatory enforcement actions can be a powerful disincentive to this kind of behaviour and wide circulation within firms helps to raise awareness.

Working Through COVID-19 and Beyond

- The general feeling amongst participants was that compliance spend and headcount will either increase or remain constant as we move beyond COVID-19.
- With regulators increasingly focusing on culture, firms need to ensure that the risks presented by their working arrangement (WFO vs WFH) are adequately mitigated.
- A potential challenge in the near future could be integrating contrasting working arrangements. For instance, a firm whose staff spend all of their time in the office may acquire a fully remote working company. Strong management and setting clear expectations of staff is essential in navigating these challenges.

In summary, Exiger's second FinTech Roundtable covered a number of key areas that are crucial to the establishment of an effective financial crime programme within FinTech firms. As noted by participants, there are many more topics to cover - such as data handling, management of SARs and screening & verification – that will be explored at the next Roundtable event.

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