

Fintech Compliance Survey Report

The Outsized Role of Compliance in Fintech Hypergrowth

A special report from **LendIt** and
ComplyAdvantage on connections between business
growth and financial crime risk detection.

LendIt Fintech

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Introduction

The most promising fintechs exploit speed and agility. But to “move fast and break things” – and capitalize on the rapid scale this maxim may unlock – they must also reduce front-end risk. Concerningly, compliance investments in particular lag sexier investments in platform or end-user experience.

But underinvesting in compliance and risk has devastating effects. In early 2021, for example, US financial regulator FINRA levied substantial risk management related fines against trading app Robinhood¹. Cryptocurrency platform BitMEX incurred \$100 million in AML related penalties². For challenger bank Monzo, the UK’s Financial Conduct Authority (FCA) investigation into financial crime regulation breaches overshadows impressive 100% year-on-year deposit growth³.

According to Compliance Week, in 2020, regulators handed out \$2.2 billion in AML fines, up from \$444 million in 2019. The first six months of 2021 reflected a similar trend, with \$994 million in fines assessed over 17 actions⁴.

Importantly, growth requires meaningful financial crime risk data and detection efforts. Mature risk practices and technology may not only limit downside risk, but actually accelerate growth.

Recently, LendIt and ComplyAdvantage collaborated on a market survey to assess fintech risk program maturity and understand the risk process profiles of top performers. Our goal was simple: Discover how risk management and measurement maturity relate to business growth.

We also expected to uncover insights connecting technology, data, and enterprise agility. This report explores our findings to these issues—and more.

¹<https://www.coindesk.com/markets/2021/07/21/robinhood-crypto-expects-to-pay-30m-fine-to-ny-state-regulatory-body>

²<https://www.complianceweek.com/regulatory-enforcement/crypto-platform-bitmex-to-pay-100m-for-registration-aml-violations/30671>

³<https://www.ft.com/content/3b3281ef-f992-44c8-9afe-fdd507f6e80f>

⁴<https://www.complianceweek.com/surveys-and-benchmarking/pandemic-not-slowing-rising-aml-fine-totals-report-says/30727/article>

Harmonizing high-growth and risk & compliance rigor

Central to the fintech ethos is improving conventional financial experiences with better technology. Innovations like open banking and digital currency ecosystems simplify once opaque and expensive consumer experiences – upending entire business models, applications, and processes.

Following fintech breakthroughs, however, is more complex criminality.

As Deloitte notes, new technologies introduce unforeseen loopholes for financial crime activities. For instance, diversifying across new lending and depository products heightens exposure⁵.

The competitive pace of fintechs – alongside evolving requirements across financial markets and regulators – presents a dual challenge: sustaining growth while balancing risk management obligations.

While agility and technology help deliver products with less overhead, these features can actually hamper operations. For example, digital banks “must show they’re compliant with all relevant regulations – even though they’re often operating with significantly smaller compliance teams⁶.”

New opportunities to transact with trust.

Fintechs need more than headcount or retrofitted, legacy risk assessment and compliance tools. Fortunately, a variety of platform providers and AI-powered technologies exist to help fintechs tackle the myriad elements of financial crime regulation, geographic variations, and business-model complexity.

According to ComplyAdvantage’s The State of Financial Crime 2022 report, this means opportunities to innovate and embrace new solutions in a cautious manner to increase financial crime measure effectiveness⁷.

⁵https://www2.deloitte.com/content/dam/Deloitte/de/Documents/finance/Deloitte_FinTech.pdf

⁶<https://complyadvantage.com/insights/a-guide-to-anti-money-laundering-aml-for-digital-banks>

⁷<https://complyadvantage.com/insights/the-state-of-financial-crime-2022/>

Survey Insight

The highest growth fintechs have risk solutions that support rapid, sustained business expansion.

We posed the question in Figure 1 to hundreds of fintech companies. **Responses suggest that hyper growth companies have flexible technologies that improve responsiveness to risks posed by emerging technologies.**

From our findings, an important question surfaced: Can an agile, data-enabled approach to risk management actually promote growth?

For hyper growth companies with reported compound annual growth rate (CAGR) of 40%+, over 50% *Agreed* or *Strongly Agreed* with the statement that their risk solutions address challenges posed by new technologies. For companies with a CAGR of 10% or less, only 30% agreed.

This isn't only a function of enterprise size. For large companies (>500) employees that reported a CAGR of less than 10%, about 50% agreed with the Figure

1 statement. But for large enterprises with a CAGR *in excess* of 10%, nearly 75% agreed. Even large enterprises derive outsized benefits from flexible technologies.

This echoes the sentiment of other hyper growth fintechs including Coinbase and Kraken. "Suddenly, touting adherence to the rulebook looks very smart⁸," Bloomberg notes.

Geographic expansion or new products often ignite rapid growth. But these changes surface additional AML/CFT risks. To mitigate these, banks need to make changes to their AML/CFT processes. Choosing scalable technology solutions will give them the flexibility they need to do so effectively⁹.

In a recent Fintech FinCrime Exchange survey, 61% of those interviewed said they believe their speed of scale poses a bigger risk than products themselves¹⁰.

FIGURE 1



⁸<https://www.bloomberg.com/news/articles/2021-07-12/coinbase-kraken-and-gemini-play-by-the-rules-to-beat-binance>

⁹<https://complyadvantage.com/insights/a-guide-to-anti-money-laundering-aml-for-digital-banks>

Look at the recent experience of virtual asset service providers: Despite criticism from FinCEN, many risk professionals in this space do not risk-assess the coins they support because of transaction monitoring capability limitations. This type of risk/growth tradeoff is both common – and concerning.

Stricter regulations require agile solutions.

Growing concern around issues like money laundering requires FIs to implement complex control mechanisms to identify, verify, and monitor users. As threat actor capabilities expand, regulators tighten requirements. In particular, companies need scalable solutions across customer screening and monitoring and transaction monitoring.

“Fintechs need AML solutions that fit their technological approach,” shares Charles Delingpole, Founder & CEO at ComplyAdvantage. “Functionality like APIs for easy integration, state-of-the-art tooling for AML analysts, and seamless customer onboarding are table-stakes for hyper growth companies.”

Regarding innovative responses to regulation, Delingpole highlights the vision of banking-as-a-service provider Raisin Bank. The bank’s plan to “introduce AML solutions via standardized API into its cloud-native core banking solution” shines as an example of applying technology to ensure compliance with complex application and transaction monitoring mandates¹⁰.

Beyond labor-intensive risk management.

Manual compliance operations slow growth prospects. For blockchain infrastructure company Paxos, manual onboarding and batch transaction processing reduced competitiveness and left the compliance team unable to proactively mitigate risk. But with automated, AI-driven financial crime risk

and detection technology, the company removed a growth impediment. A BSA/AML officer Paxos shares, “What took one of our associates one full week to do can now be done in a matter of hours [...] we saw an 80% improvement in efficiency.”¹²

Mindsets behind non-investment.

For fintechs that don’t adequately modernize compliance, we see three common scenarios. To realize growth goals, companies must recognize their susceptibility to any/all of these and adjust –

1. **Misplaced focus.** Limited capital puts a focus on product development, sales, or marketing instead of risk. Intense market or investor pressures exacerbate this. Leadership teams may unwittingly adopt a “better to ask for forgiveness than for permission” mindset.
2. **Misdirected allocation to headcount.** In some cases, fintechs invest in compliance but direct spend toward the wrong people. For instance, trying to cover all risk and compliance functions with a ‘one-size-fits-all’ hire, instead of sourcing specific disciplines like fraud.
3. **Misdirected allocation to technology.** Instead of misapplying budget to hires, other fintechs enable the wrong technology. In this case, an in-house engineering team may try to build a homegrown transaction monitoring system to fit a specific product or service use case; the system proves unmanageable because it triggers too many alerts, or can’t scale.

¹⁰<https://complyadvantage.com/insights/crypto-state-of-play-5-insights-and-best-practices-from-industry-leaders/>

¹¹<https://www.businesswire.com/news/home/20211206005505/en/Raisin-Bank-Teams-up-With-ComplyAdvantage-to-Scale-Its-Anti-money-Laundering-Program>

¹²<https://complyadvantage.com/insights/paxos/>

Survey Insight

The highest growth fintechs deliver both rapid and comprehensive onboarding.

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“Growth and compliance need to go together, and you can’t always onboard new staff when you onboard new customers.”

Valentina Butera

Head of AML and Anti-Fraud Operations, Holvi

Friction-free onboarding precedes rapid growth. According to leaders surveyed, over 80% of hyper growth companies complete know-your-customer (KYC) checks in less than 24 hours. For companies with a CAGR of 10% or less, this drops to 60%.

According to the Financial Action Task Force (FATF), “inconsistent customer onboarding and due diligence obligations” is the biggest factor contributing to increased costs and reduced speed¹³. Large enterprises in particular noted the downside of burdensome onboarding. Over 50% of these leaders cited “friction with customer onboarding” as stalling growth.

Market pressure to speed up product and service delivery shows no signs of easing. Once marketed as a differentiator, speed is now expected. One report on upstart digital banks suggests that “Customers are less willing to wait even 24 to 48 hours for a company to perform any necessary due diligence during the onboarding process¹⁴”

Over 80%

of hyper growth fintechs
complete KYC checks in less
than 24 hours

¹³<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/cross-border-payments.html>

¹⁴<https://complyadvantage.com/insights/a-guide-to-anti-money-laundering-aml-for-digital-banks>



“By investing in AML, financial institutions create competitive advantages.”

McKinsey & Company

Rigor and speed are both embraced.

Leading fintechs don't swap onboarding speed for rigor. This is short sighted – and may expose the company to regulatory and compliance issues. Often, the pressure to speed up onboarding leaves companies vulnerable to missing warning signs when approving account openings or transactions.

Rapid onboarding may also compromise high-touch customer service objectives. McKinsey suggests that some FIs spurn technology and combat financial crime risk with people and manual controls (e.g. - 'checkers checking the checkers')¹⁵. This multiplies inefficiencies.

FIs may end up with compliance programs built for individual countries, product lines, and customer segments — “with all the duplication that suggests.” With this approach, poor data quality and access issues persist. And when absorbed alongside insufficient analytics, FIs will routinely investigate low-risk accounts.

Fragmented systems and platforms limit automated transaction monitoring and due diligence too. Compliance teams spend the bulk of their time collecting data and in “stare and compare” sessions, instead of real investigations.

For low growth companies, over 30% of leaders replied True when posed with the statement: As my company has added customers, it has taken us longer to deliver new services. For hyper growth companies, the response rate was just 21%.

Automated AML spurs efficient KYC, onboarding, and service delivery.

Automating onboarding improves procedural accuracy and reduces human errors – particularly in customer due diligence. One fintech leader who noted that KYC onboarding took over 96 hours, attributes the issue to a “significant amount of manual work.”

Another surveyed leader laments the “lack of automation” and the absence of an end-to-end platform.

For effective CDD and KYC, fintechs must verify customers against relevant official databases and lists. Software automation adds speed and efficiency and increases the amount of data that they can safely handle¹⁶. Additionally, the right onboarding software “can be calibrated to suit different regulatory environments and adjusted quickly if the situation changes,” shares Delingpole.

For digital currency platform Ziglu, reducing manual, back-end compliance checks and integrating automatic screening against sanctions, watchlists, and PEPs data accelerated onboarding time: customer account opening now takes under three minutes¹⁷.

Consumer fintech Curve notes how automated screening allowed the platform to scale to over one million customers in two years because of a “highly configurable, flexible, and scalable” screening process solution¹⁸.

¹⁵<https://www.mckinsey.com/business-functions/risk-and-resilience/our-insights/the-new-frontier-in-anti-money-laundering>

¹⁶<https://complyadvantage.com/insights/aml-client-onboarding/>

¹⁷<https://complyadvantage.com/insights/ziglu-reduced-predicted-on-boarding-time-considerably/>

¹⁸<https://www.youtube.com/watch?v=c70zSF3Pxsw>

The highest growth fintechs actively and regularly assess customer and partner risk profiles.

Only 23%

of low growth fintechs reassess risk profiles every day

Nearly half of hyper growth companies report that they reassess risk profiles of customers and partners *daily*, while over 70% reassess every month.

Compare this to companies with sub-10% CAGR – only 23% of these fintechs reassess risk profiles every day. Over 50% of this cohort only reassess yearly, or “not at all” after onboarding.

Regularly identifying negative news and adverse media is a critical risk assessment step.

But weak processes, non-reputable noise, and issues like delayed, flat-file uploads turn off some compliance teams. In contrast, hyper growth companies deploy integrated platforms with functionality like AI/NLP to analyze adverse media at scale.

According to Comply Advantage, key categories to review must include¹⁹–

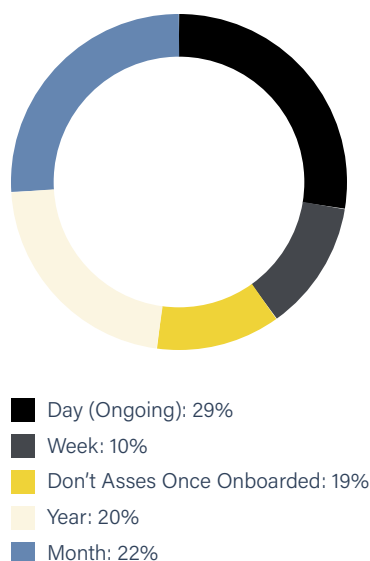
- Financial crime: Money laundering, terrorism financing, fraud
- Narcotics: Drug abuse, production, or distribution
- Cybercrime: Any offense involving a computer, or networked device (phone, tablet)
- Regulatory: Non-compliance with regulations may result in criminal prosecution or indicate involvement in associated criminal activities.

Although implying that ongoing risk assessment causes growth may be overreaching, **the data clearly show a relationship between assessment capabilities, frequency, and growth.**

¹⁹<https://complyadvantage.com/insights/aml-client-onboarding/>

FIGURE 2

My organization reassesses the risk profile of customers and partners every...



Poor technology is behind infrequent reassessment.

Infrequent reassessment appears to be a function of technological capability, not risk appetite. Multiple respondents who do not reassess customers or partners after onboarding blame the “lack of technology and automation integrations” and “datasets that are not up-to-date.”

Solving technology hurdles to improve reassessment capacity must be a priority.

One regtech leader puts it bluntly: “Partners and customers with crappy risk profiles cause problems²⁰.” For Monzo, the aftereffects of alleged money laundering issues compounded as savings provider partner OakNorth paused offers²¹.

Even small fintechs should be careful, warns Deloitte. “[Regulators] do not discriminate”, and reputational risks threaten “the safety and soundness of the financial institution²².”

Unknown insights are still out there.

Survey results suggest that fintechs of all sizes and growth profiles still have an opportunity to derive better insights.

Only three percentage points separated hyper growth and lower growth leader agreement to the statement – “Our current financial crime risk methodologies, detection solutions, and tools identify risks (e.g. high-risk individuals or businesses) I was previously unaware of.”

Interestingly, persistent process immaturity exists even for tech-forward fintechs. This likely centers on client or partner insights – and reliance on things like manual internet searches or bolt-on data providers that compile AML exposure data manually and resell it.

“Your risk assessment shouldn’t be a tick-the-box exercise to show a regulator. You need to be able to truly understand the level and type of criminology that can come into your business,” shares Simon McFeely, Global Head of Risk and Compliance, Transfermate. For risk management teams, platforms like Comply Advantage add differentiation via new

²⁰LendIt & Tim Donovan Interview - November 2021

²¹<https://www.easterneye.biz/monzo-takes-another-blow-as-oaknorth-pauses-products-amid-probe/>

²²<https://www2.deloitte.com/us/en/pages/regulatory/articles/future-of-fintechs-risk-and-regulatory-compliance.html>

insights and data processing. Their research²³ exposes functional disparity between legacy risk management tools and modern platforms:

OPPORTUNITY	LEGACY APPROACH	NEW SOLUTIONS
Transaction Monitoring	<ul style="list-style-type: none"> • Lack real-time transaction monitoring capabilities. • Manage using a “check box” approach instead of a risk-based approach to AML/ CFT. • Unable to identify trends and patterns in data sets that may reveal new - or wider - illicit activities. 	<ul style="list-style-type: none"> • Automate data analysis in real-time, on an ongoing basis. • Build comprehensive views of customers' financial behavior quickly and efficiently – even predict future activity to determine whether customers present an ongoing money laundering or terror-financing threat. • Automatically alert AML teams of the need for closer scrutiny and to generate suspicious activity reports.
Customer Screening	<ul style="list-style-type: none"> • Employ a standardized approach, leading to false positives and negatives, creating over-screening and alert fatigue. • Rely on dated analytical techniques that cannot cope with modern fintechs' velocity and data volumes. • Add user friction; don't allow for automated onboarding and monitoring processes. • Compile AML exposure manually, then package and sell it, increasing the likelihood of outdated records. 	<ul style="list-style-type: none"> • Automate updates of tens of thousands of existing profiles every day with new risk insights. • Improved customer experiences, streamlined alert and remediation processes. • Mitigate false positive scenarios using innovations like search matching algorithms. • Thousands of structured sources contribute to comprehensive global coverage of Sanctions, PEPs & Watchlists.
Adverse Media	<ul style="list-style-type: none"> • Depend on time-consuming manual checks of vast, unsorted amounts of media – an operational non-starter for growing financial institutions. • Suffer from poor categorization functionality; difficult to limit search and view customer profiles that contain categories relevant to jurisdiction and product line. • Retrieve irrelevant context; low predictive value from keyword searches. 	<ul style="list-style-type: none"> • Handle millions of adverse mentions and consistently add hundreds of thousands of new entity profiles per month. • Cover tens of thousands unique media sources and process hundreds of millions of articles per month with integrated machine learning. • Reduce excess noise with categorization, tailored-searches, and facilitated, automated screening and monitoring.

²³<https://complyadvantage.com/insights/a-new-dawn-for-compliance-whitepaper/>

Conclusion

Some years ago, Facebook's Libra digital currency monopolized headlines. With an army of world-class engineers and deep-pocketed partners, project success seemed certain. Then, it derailed.

Corporates including PayPal, Visa, Mastercard, Stripe, eBay, and Mercado Pago withdrew support citing concern about the project's ability to "meet regulatory expectations and potential exposure to enforcement actions²⁴."

The exit was a blow – and revealed the headwinds that poor compliance and regulatory mechanisms stir up. For projects that do succeed, innovative, automated, and agile risk management is central. Fortunately, new solutions and platforms exist that enable this. As our survey shows, hyper growth fintechs are already seizing these advantages.

²⁴<https://www.cnn.com/2019/10/14/mnuchin-libra-backers-may-have-dropped-out-for-fear-of-enforcement.html>

Methodology

LendIt and ComplyAdvantage collaborated on a survey sent to 1,000+ LendIt subscribers, including domestic and international fintechs and financial services providers. The number of respondents was $n = 101$. Participants were asked to complete 15 questions on topics of risk management processes, technology, performance, and data collection.

LendIt Fintech

About LendIt

LendIt Fintech is the world's largest Fintech media company. Every day we celebrate, educate, and connect the people who power the Fintech industry. Our products include large scale industry events, executive roundtables, daily news emails, podcasts, white papers, and webinars. Like much of the economy today, financial services are experiencing a rapid upheaval. We are seeing a multi-decade transformation where fintech will take center stage as everything becomes digital. LendIt Fintech is there for you, reporting the news on a daily basis, enabling real time discussion and insights with LendIt Fintech Digital and empowering our community with connections and in-depth learning at our physical events. To learn more, visit LendIt.com.

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About ComplyAdvantage

ComplyAdvantage believes that compliance doesn't have to be painful. Businesses need real-time financial crime insight to put them in control. We enable you to understand the real risk of who you're doing business with, through the world's only global, real-time risk database of people and companies. We actively identify tens of thousands of risk events from millions of structured and unstructured data points - every single day.

Our suite of configurable cloud services integrates seamlessly to help automate and reduce the frustration of complying with Sanctions, AML and CTF regulations. To learn more, visit ComplyAdvantage.com.

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Appendix

Bloomberg	https://www.bloomberg.com/news/articles/2021-07-12/coinbase-kraken-and-gemini-play-by-the-rules-to-beat-binance
Business Wire	https://www.businesswire.com/news/home/20211206005505/en/Raisin-Bank-Teams-up-With-ComplyAdvantage-to-Scale-Its-Anti-money-Laundering-Program
CNBC	https://www.cnbc.com/2019/10/14/mnuchin-libra-backers-may-have-dropped-out-for-fear-of-enforcement.html
Coindesk	https://www.coindesk.com/markets/2021/07/21/robinhood-crypto-expects-to-pay-30m-fine-to-ny-state-regulatory-body
Compliance Week	https://www.complianceweek.com/regulatory-enforcement/crypto-platform-bitmex-to-pay-100m-for-registration-aml-violations/30671
	https://www.complianceweek.com/surveys-and-benchmarking/pandemic-not-slowing-rising-aml-fine-totals-report-says/30727.article
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Financial Action Task Force	https://www.fatf-gafi.org/publications/fatfrecommendations/documents/cross-border-payments.html
Financial Times	https://www.ft.com/content/3b3281ef-f992-44c8-9afe-fdd507f6e80f
McKinsey	https://www.mckinsey.com/business-functions/risk-and-resilience/our-insights/the-new-frontier-in-anti-money-laundering