



# Customer due diligence – today and tomorrow

---

Peter Oakes  
Board Director & Advisory Committee  
Fintech and Regtech  
Fintech Ireland

Friday 2<sup>nd</sup> February 2018



# Company Board & Advisory Board Member - FinServ, FinTech, RegTech & Service Providers



**Susquehanna International**  
Non-Executive Board Director  
Options Market  
Maker/Finserv/Fintech  
Regulated MiFID by Central Bank of Ireland  
[www.sig.com](http://www.sig.com)



**TransferMate**  
(Interpay Ltd / InterPay Inc)  
Non-Executive Board Director  
Payments/Finserv/ Fintech  
Regulated by CBI, 47 USA State  
regulators, AUSTRAC, JFSC  
[www.transfermate.com](http://www.transfermate.com)



**Galligan Johnstone. Lawyers**  
Strategic Consultant  
Regulated by the Law Society of Ireland  
[www.gis.ie](http://www.gis.ie)



**KYCKR**  
Regtech, KYC.  
Advisory Committee Member.  
Listed on ASX  
[www.kyckr.com](http://www.kyckr.com)



**AKCE Group**  
Advisory Board Member  
Group Parent of Ozan, FaceKart,  
Clearsettle, Banking, Software  
Development



**Clearsettle**  
Advisory Board Member  
Payments/Emoney/E-wallet/Prepaid  
Cards/Finserv/Fintech  
Regulated by FCA  
[www.clearsettle.com](http://www.clearsettle.com)



**Ozan**  
Advisory Board Member  
Payments/Emoney/E-wallet/Prepaid  
Cards/Finserv/Fintech  
Regulated by FCA  
[www.ozan.com](http://www.ozan.com)



**FaceKart**  
Advisory Board Member  
Payments/Emoney/E-  
Vouchers/Finserv/Fintech  
Regulated by FCA  
[www.facekart.com](http://www.facekart.com)



**Corlytics**  
Advisory Board Member  
Regtech/Regulatory Intelligence  
[www.corlytics.com](http://www.corlytics.com)



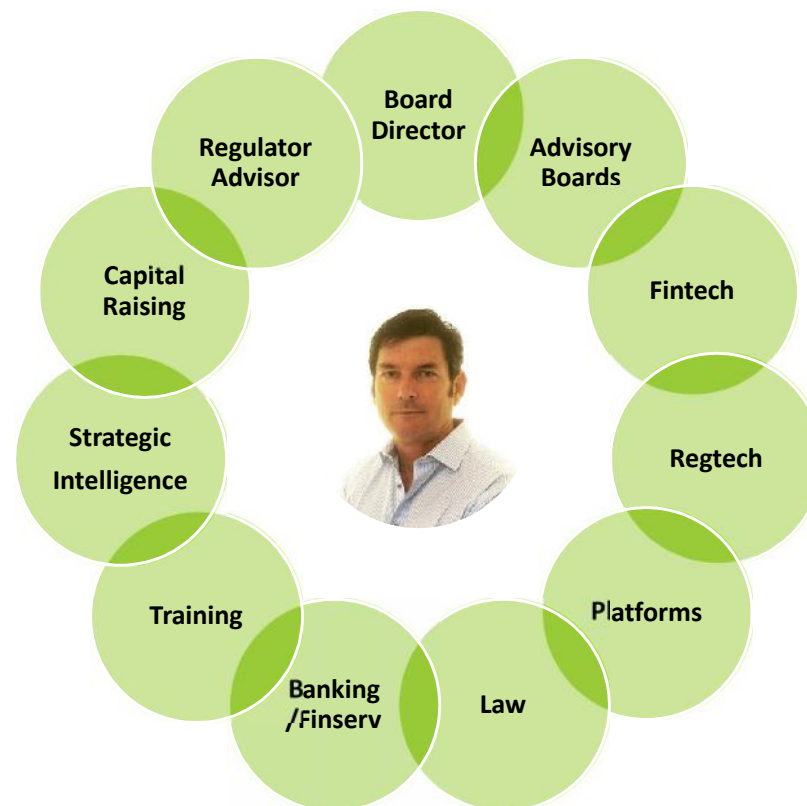
**Ignition Wealth (Irish operations)**  
Advisory Board Member  
Robo Advisor/Wealth  
Management/Platform  
Australian operations regulated by  
ASIC  
[www.ignitionwealth.com](http://www.ignitionwealth.com)



**Deposify**  
Advisory  
Fintech  
Regulated by DoJ of Ireland  
[www.deposify.com](http://www.deposify.com)



**Plynk**  
Advisory Board  
Payments/Finserv/ Fintech  
[www.plynk.me](http://www.plynk.me)



# What is FinTech & RegTech



Financial technology, also known as **FinTech**, is a line of business based on using software to provide financial services. FinTech companies are generally start-ups founded *with the purpose of disrupting incumbent financial systems and corporations that rely less on software*

Regulatory Technology, or RegTech, is derived from the definition of FinTech - *primarily signifying the technology applied to resolving issues regarding regulation within the financial industry*. It helps companies to better manage and understand their legal/regulatory risks as well to easily adhere to their regulatory obligations

## Increasing Regulatory Costs (1/2)

- The six largest US banks spent US\$70.2BN on compliance in 2013, twice the US\$34.7 billion spent in 2007.<sup>1</sup>
- In 2015, the Financial Times estimated that some of the world's largest banks each **spent an additional US\$4 billion a year** on compliance since the financial crisis.<sup>2</sup>

<sup>1</sup> "[The Regulatory Price-Tag: Cost Implications of Post-Crisis Regulatory Reform](#)," Federal Financial Analytics; see also:

"[Nuns With Guns: The Strange Day-to-Day Struggles Between Bankers and Regulators](#)," The Wall Street Journal

<sup>2</sup> "[Banks Face Pushback Over Surging Compliance and Regulatory Costs](#)," Financial Times

## Increasing Regulatory Costs (2/2) - *the “societal good” argument for regtech!*

- *“Global banks misconduct costs have reached **\$320 billion** ... that could otherwise have supported up to **\$5 trillion of lending to households and business** ... but there is a bigger cost ...”*
- Mark Carney, Governor, Bank of England (21 March 2017)



# Regulation & FinServ / FinTech



Three things Central Banks / Regulators care (*deeply*) about:

- Financial Stability**
- Market Integrity**
- Consumer Protection**

Important for RegTech providers and regulated firms (including FinTech) to think carefully about what regulators care about!

# Financial Crime – Market Integrity, Conduct Risk & Financial Stability



- We probably all agree that financial crime falls within **Market Integrity**
  - Financial Crime also comes within **Conduct Risk**
  
- But what about the crime of money laundering leading to **Financial Instability**?
  - Corruption and Money Laundering as a Threat to Financial Stability: 'Lava Jato' Case Study, 2016

# Economic Crime 2012 – 2017

- ❑ **USD \$38.4bn** - amount of economic crime fines since Jan 2012 issued by global regulators. **97%** of all fines from US regulators.
- ❑ **USD \$13.25bn** - amount the top 10 European banks have paid to US regulators since 2012. Average fine for European firms to US regulators is **10x** the average of US firms
- ❑ **18%** - percentage of all regulatory enforcement fines arising from economic crime since 2012 (927 cases)

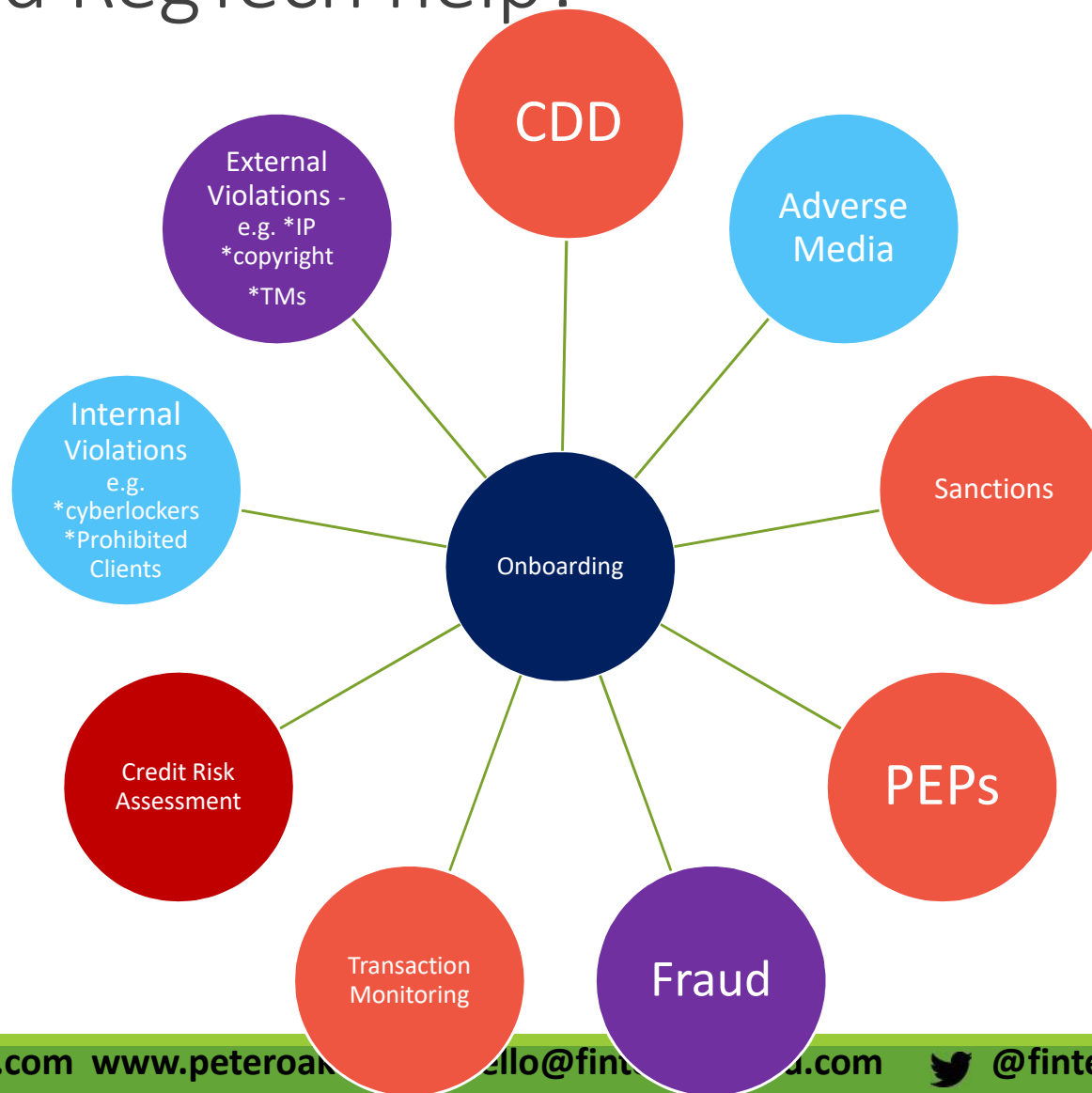


Source: Corlytics

<http://www.corlytics.com/corlytics-barometer/#Market>



# Where could RegTech help?



- As a board director, you need to think about these areas
- Failure = F&P issues, fines, reputational damage and loss of livelihood
- There's a symbiotic relationship between MLRO and Non-Executive Directors!

## Para 41(1) IoM Code

A **person who contravenes** requirements of this Code is **guilty of an offence and liable** —

(a) on **summary conviction** to custody for a term not exceeding **12 months** or to a fine not exceeding **£5,000**, or to both;

(b) on **conviction on information**, to custody not exceeding **2 years or to a fine**, or to both.



## Para 41(4) IoM Code

If an **offence** under this paragraph is **committed by a body corporate or foundation** and it is proved that the offence —

(a) was **committed with the consent or connivance** of; or

(b) was **attributable to neglect on the part of,**

**an officer** of the body, **the officer**, as well as the body, **is guilty of the offence** and liable to the penalty provided for it.



# Parts 3 & 4 IoM Code

<b>PART 3 – RISK ASSESSMENT AND ONGOING MONITORING</b>		<b>14</b>
<hr/>		
6	Business risk assessment .....	14
7	Customer risk assessment .....	15
8	Technological developments risk assessment .....	15
9	Ongoing monitoring.....	16
 <b>PART 4 – CUSTOMER DUE DILIGENCE</b>		 <b>17</b>
<hr/>		
10	New business relationships.....	17
11	Continuing business relationships .....	18
12	Occasional transactions.....	19
13	Beneficial ownership and control.....	19
14	Politically exposed persons .....	21
15	Enhanced customer due diligence.....	21

# 10(3) IoM Code – *Is your RegTech solution a reliable, independent source?*

- (3) The procedures referred to in sub-paragraph (1) are —
- (a) the identification of the customer;
  - (b) the verification of the identity of the customer using reliable, independent source documents;
  - (c) the verification of the legal status of the customer using relevant information obtained from a reliable, independent source;
  - (d) the obtaining of information on the nature and intended purpose of the business relationship; and
  - (e) the taking of reasonable measures to establish the source of funds.

# Assessment of risks associated with FinTech

## 8 Technological developments risk assessment

- (1) A relevant person must carry out an assessment (a “**technological developments risk assessment**”) that estimates the risk of ML/FT posed by any technological developments to the relevant person’s business.
  
- (3) The technological developments risk assessment must have regard to all relevant factors including —
  - (a) the business risk assessment carried out under paragraph 6;
  - (b) digital information and document storage;
  - (c) electronic verification of documents; and
  - (d) data and transaction screening systems.

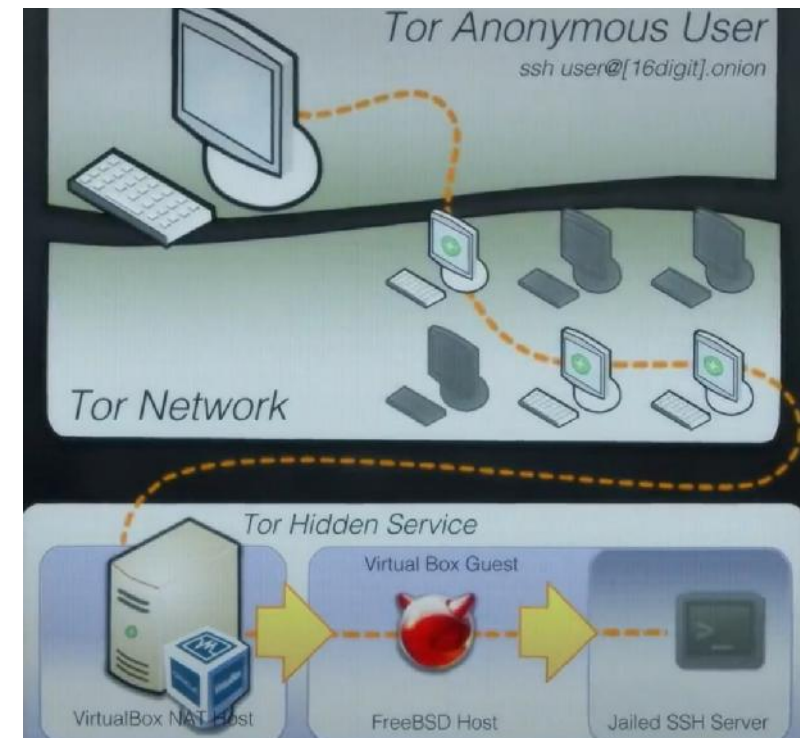
# One extreme to another?

- ❑ Prior to the 3<sup>rd</sup> EU Money Laundering Directive, general feeling in industry was that guidance was too prescriptive
- ❑ With the advent of the risk-based approach in the 3<sup>rd</sup> Directive, the general feeling in industry was that guidance was too light – e.g. how to perform a risk assessment and how to perform enhanced customer due diligence
- ❑ Notwithstanding the lever arch volumes of money laundering guidance notes

# Centralised Regulators v Decentralised Financial System

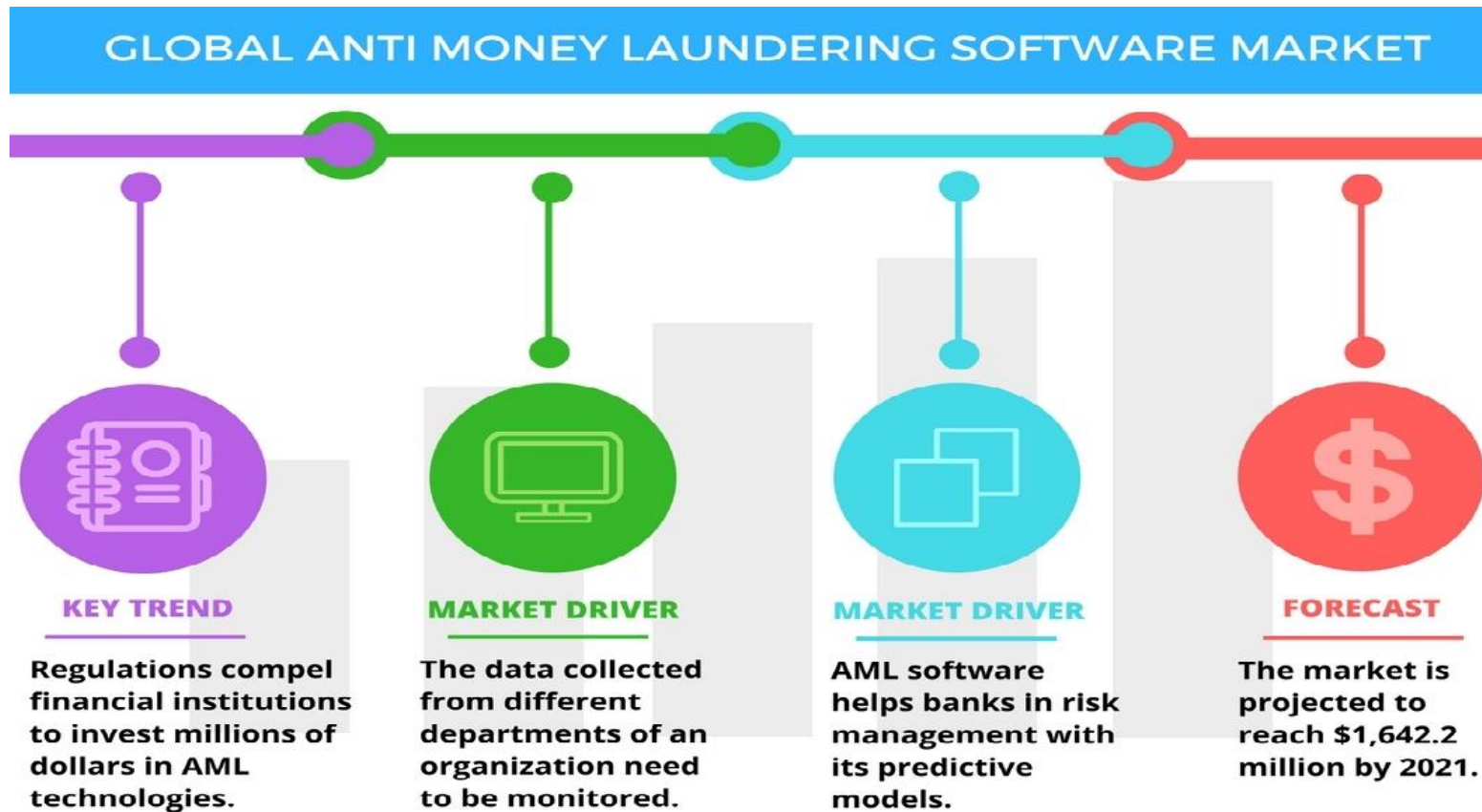
- How do we supervise in a world of anonymity; where access to an online financial service is not via google, bing, yahoo nor apps by android, apple etc but something like Tor?
- Then consider a distributed ledger where access to a record which is verified by 10,000+ computers (e.g. a client asset register) is gained via 10,000 connected computers denying traceability

**Financial Stability, Market Integrity and Consumer Protection** may be at material risk (and we will not even know it)



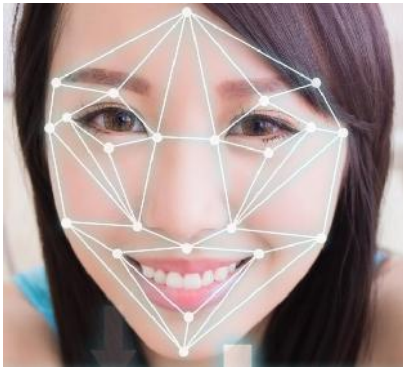


# A \$1.6bn market?

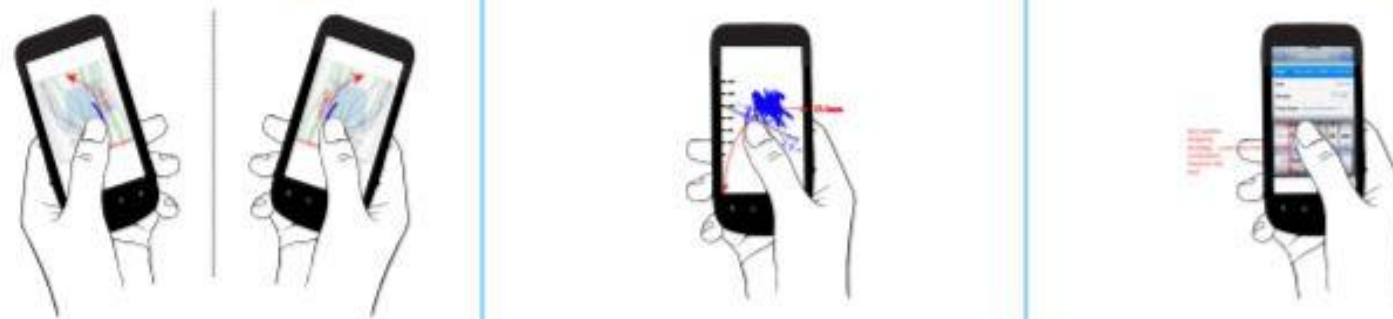




# AI-Powered Continuous Authentication & Fraud Detection



**Device Holding** **Hand Size** **Invisible Challenge™**



*Leading banks and other enterprises around the world use BioCatch Behavioral Biometrics for continuous authentication after login to prevent real-time fraud and identity theft that occurs as a result of social engineering, Remote Access Trojans, malware or stolen credentials.*

# RegTech – simplifying AML/CDD compliance



Accuity	Global Fund	Mitek
Actimize	Watch	muinmos
Alacra	Intelligo Group	Onfido
AML Partners	InvestGlass	OpusDatum
Arachnys	Invoxis	PassFort
Arctic Intelligence	Know Your	Risk Ident
ComplyAdvantage	Customer	Simple KYC
Contego	Kompli	Signyz
Cynopsis Solutions	KoreConX	Trade
Digital Reasoning	KYC-Chain	Informatics
DueDil	KYC3	Tradle
EarlyIQ	KYC360°KYC	TransparINT
Encompas	Exchange Net	Trulioo
Fenergo	Kyckr *	Trunomi

# CDD meets DLT, SMARTTRACTS, AI and CRYPTO



# Ongoing CDD (1/2)

AI can help reduce AML risk by facilitating the data collection process using external sources, such as:

- public registrars
- private databases
- social media
- other unstructured data

to prepopulate data and streamline customer interaction.

AI validation and verification solutions can then cross-reference customer-provided ownership and identity information with a variety of these sources to ensure its veracity.

# Ongoing CDD (2/2) - data science & AI strategies

## Artificial Intelligence in KYC|AML



### Link Analysis

- Identify customer links with bad actors
- Identify links with dubious jurisdictions, companies, UBOs



### Pattern Recognition

- Patterns in customer behaviour
- Simplify questionnaire



### Unstructured Data Analysis

- Analyze news, social media and web information, linguistic analysis, long lists, employee communication



### Workflow Automation

- Generating documents, reports, audit trails and notifications; task assignments
- Dashboards for info aggregation and reporting

Source: Celent

# Personal Experience of Evaluating RegTech Solutions



- Engaged with 20+ RegTech providers
- Evaluated in detail offerings of 16 providers for clients
- Tests/trials using vendor APIs connected to client 'test' and 'live' environments
- Could not find one RegTech provider to suitable for all onboarding / CDD requirements
- *Each client ended up with at least 3 vendors!*

# The hottest new cryptocurrency & ICO - ShiteCoin

ShiteCoin - Ireland's first web registered cryptocurrency - [www.shitecoin.com](http://www.shitecoin.com) Social / Email (but don't bother) 

HOME WHY?

*The future is brite, the future is shite with ShiteCoin*

 02/02/2018 SHITECOIN - **TODAY'S PRICE: €21,965.14 (USD 27,487.42).**  
*SHITECOIN IS POWERED BY IRELAND'S CRAICCHAIN*

**ShiteCoin is valued by experts on a weekly basis. This is performed using a methodology taking into account the trade weighted valuation of underlying assets (i.e. Net Asset Value) adjusted for variances in the delta of blockchain, Ireland's GDP & the number of RyanAir flights which arrive on time.** The right to amend the valuation methodology is reserved and no correspondence will be entered into. The value of any investment may go up or down. past performance is no indication of future performance.

To purchase shitecoin email [hello@shitecoin.com](mailto:hello@shitecoin.com).

**Why buy shitecoin?** ShiteCoin was officially launched on 6 November 2014 at just €0.01. It is now valued at over €22,000. That's a 2.2 MILLION fold increase. The average capital gain by early stage investors who invested €10 is now €22 MILLION. The day ShiteCoin was launched, bitcoin was priced at \$348.23, meaning that as at 03 February 2018 BTC has only appreciated 20.6x in price. The same amount invested in Ireland's crypto currency ShiteCoin would now be worth \$612.5 MILLION (€490 MILLION). Ah, the luck & humour of the Irish!



# Thank you

	<p><a href="https://ie.linkedin.com/in/peteroakes">https://ie.linkedin.com/in/peteroakes</a> <a href="https://www.linkedin.com/groups/8321352">https://www.linkedin.com/groups/8321352</a></p>
	<p><a href="mailto:hello@fintechireland.com">hello@fintechireland.com</a> <a href="mailto:hello@fintechuk.com">hello@fintechuk.com</a> <a href="mailto:peter@peteroakes.com">peter@peteroakes.com</a></p>
	<p>Ireland: +353 87 273 1434 UK: +44 75 635 26834</p>