Handbook FinTech Regulations.

How to balance increasing AML requirements with Customer Experience.
Fintech has emerged as one of the fastest-growing sectors in the financial services industry and has radically disrupted traditional banking.

Innovation is evolving rapidly – faster payments, open banking, distributed ledger technology, artificial intelligence, robotics, digital assets, and cloud computing. However, this unprecedented success also brings about more and more regulatory requirements and challenges.

In recent years, Fintechs have achieved incredible growth and flexibility: They are able to launch quickly, adapt fast and focus on scalability. They frequently operate in more than one country from an early stage. This rapid, global growth doesn’t come without challenges. Financial services are among the most heavily regulated sectors in the world, so it’s not surprising that regulation has emerged as the number-one concern among governments as Fintech companies take off. As technology is integrated into financial services processes, regulatory problems for such companies have multiplied, but determining the regulatory obligations of any business can be a mammoth task.
Throughout Europe, compliance in the financial services industry is distinct from country to country and falls within a range of jurisdictions. In most countries, until a couple of years ago Fintechs were unregulated and have become fertile ground for scams and frauds. Because of the diversity of Fintech offerings and the disparate industries it impacts, it is difficult to formulate a single and comprehensive approach to these problems. For the most part, governments have used existing regulations and, in some cases, customized them to regulate Fintech.

This is an ongoing process and many Fintech business models are affected in more ways than one, specifically since Fintechs operating in more than one country must be compliant in multiple jurisdictions.

Businesses that fail to comply with AML and KYC regulations risk major regulatory fines and irreparable damage to customer relationships when something goes wrong. Hence, it is crucial to address the regulations swiftly and find solutions that integrate seamlessly into one’s own business and aim to embed automation into the processes. By implementing a strong KYC system from the start, entrepreneurs can concentrate on growing their businesses instead of worrying about potentially running afoul of the law later. Doing so will prevent firms from exposing themselves to regulatory and compliance risks and help them scale more easily.
Regulatory Challenges Fintechs Must Face.

Digitization within the financial sector has led to a competitive market offering access to services, products, new payment services, loans and increased capital – all possible in near real-time.

Thriving innovations have also affected the rate of financial sector crime, namely a significant rise in money laundering and terrorist financing. Financial crime is a serious threat, estimated by the UN at $800 billion to $2 trillion worldwide per year.

The European Union’s 5th Anti-Money Laundering Directive (AMLD 5) came into force on January 10th of this year, with the aim of creating greater transparency to due diligence requirements and limiting anonymity in order to combat financial crime.

$800bn - $2tn/year

Financial crime estimated by the UN.

The impact of AMLD 5 is meant to be more far-reaching and now strengthens regulatory controls across new sectors, including cryptocurrencies, custodian wallet providers, estate agents and rental intermediaries, all gaming operators and art dealers.

The Directive also places greater emphasis on transparency around beneficial ownership in order to fight financial criminals who have hidden behind complex corporate structures.
Lastly, the 5th Directive ensures access to trusted data, giving the Member States the necessary framework to update their risk mitigation processes.

For those industries that have not been subject to AML law before or entities that require updates to internal risk mitigation processes, compliance can be costly and complicated. The first requirement of risk mitigation, KYC can identify fraudsters before they can commit further financial crime.

Relevant amendments to AMLD 5 will now impact data collection and processing, such as KYC requirements, controls, risk assessment and mitigation, as well as customer due diligence for new and obliged entities within various industry sectors and for each Member State. Amendments include:

1. **Cryptocurrencies.**

   All platforms that offer exchanges in virtual currencies or cryptocurrencies, including providers of electronic wallets for cryptocurrencies like Bitcoin, Ether or Ripple, will face stricter controls. Exchanges are now required to register with relevant competent authorities, conduct customer due diligence (CDD), and prepare suspicious activity reports (SARs). Financial intelligence units (FIUs) are required to keep records with the name and addresses of any customer purchasing virtual currencies.

2. **Prepaid cards.**

   New thresholds for prepaid cards have been set from 150€ to 250€, with a 50€ online limit. Cards are allowed only within the EU, unless such cards are issued by a country with equivalent AML standards. Payment recipients will be allowed to accept e-money if the payment originates from countries that adhere to AML standards.

3. **Beneficial ownership.**

   Under AMLD 5, greater transparency around ultimate beneficial owners (UBOs) now requires Member States to maintain interconnected and publicly available national UBO registries. National authorities will have access to registries for bank accounts and trusts.
Politically exposed persons.

Member States must create politically exposed person (PEP) lists that include information such as titles, function and roles.

High-value goods.

Storing and moving funds through high-value goods has been a source of criminal activity. The Directive extends the range of goods that are now subject to reporting requirements with new thresholds, including art, oil, precious metals, tobacco, historical, cultural and archaeological artifacts.

High-risk countries.

The EU identifies those countries with sub-standard AML regulations. Companies that conduct business with such countries are required to perform enhanced due diligence, including further investigations into the sources of wealth.

The 5th Directive demonstrates a renewed commitment to support EU integration and tackles one of its biggest challenges: financial crime. Working at both a central level and with national supervisors, the EU establishes a legal framework for all Member States, whereby each nation is responsible for implementing and enforcing the Directive’s regulations as part of their own national AML laws.

Stricter requirements are essential to fighting financial sector crime. Failure to adhere to regulations carries the risk of strict enforcement in the form of fines, naming and shaming, and potentially the loss of operating licenses. The stakes for EU and UK financial institutions are high. Designing a system that is effective, addresses inefficiencies, and uniformly supports technological innovations in anti-money laundering / combatting finance of terrorism (AML/ CFT) is an ongoing effort.
The Fintech Ecosystem.
As you can see, the Fintech ecosystem contains various industries. Hence, Fintechs should always be on top of the developments in the regulatory landscape and re-evaluate the choice of their KYC provider on a regular basis. On top of regulatory compliance, ask yourself frequently if your onboarding really offers a premium customer experience compared to your competitors. Ultimately, it all comes down to the following questions:

- Are you AMLD 5 **compliant in all markets** you currently offer your products and services?

- What is your current KYC solution? How is it **integrated into your product or systems**?

- Does the solution provide **high conversion rates** and **outstanding customer experience**?

- Is it a solution that also **helps your company’s goals** in the long run?

- Does your KYC provider cover as many countries as possible? Not only recognizing all types of international IDs to serve a wide range of customers, but also being compliant in more than just your home market. Can your KYC provider be your **partner in expanding to other markets**?
Do You Know Your Customer?

An increasing number of Fintechs challenge the classic banks – regardless of whether their use case focuses on payment, savings or crypto transactions, KYC and simple, comfortable digital user onboarding are becoming more and more crucial for business success.

Seamless onboarding.

Today’s customers have wants and needs that are prompting a major rethink in all industries: They demand rapid responses and high-quality service. Against this backdrop, an integral part of any digital strategy must be enhanced customer experience. Millennials, in particular, expect financial service providers to understand their imperatives and to offer personalized, tailor-made solutions.

Opening an account in person at a physical branch is regarded as an anachronism, while the ability to bank anywhere and anytime is a given. However, delivering on this expectation is not always that simple. The corresponding digital processes must not only comply with legal requirements but also be intuitive, fast and convenient for the user. Consequently, your services should be available both online and on mobile devices. After all, nowadays transactions are increasingly finalized using mobile devices.
**KYC is key.**

If you want to offer your customer a convenient way of opening an account via agent or AI-based identification, you must ensure that your solution covers all platforms that your customers use – from desktop to mobile, from Android to iOS. Of course, you must be compliant with the KYC requirements of your respective industry and country.

If you not only want to identify your customers, but would also like to have contracts signed online, an eSigning solution will further improve your onboarding process. Sign contracts in less than five minutes with a qualified electronic signature (QES) that is recognized throughout Europe and has the same legal validity as a handwritten signature.

**Choose the right partner.**

The annual damages inflicted worldwide by Internet fraud are expected to total six billion US dollars this year. As a result, cyberfraud is one of the greatest threats to our economy and the fastest-growing field of malicious moneymaking.

Any company with digital business operations must address this challenge. It is essential to partner with an ID verification specialist you can completely trust – and who has the skills, resources and state-of-the-art technologies required to prevent even the most sophisticated fraud attempts.

“As a technology company with a full banking license, solarisBank provides banking-as-a-service to businesses without an own banking license to enable them to offer financial services. The fact that IDnow had an easy-to-integrate, lean API was a big plus to us. IDnow’s video identification service is fully Know Your Customer (KYC) compliant which helps our customers to fight fraud and onboard customers faster.”

Delia König,  
Managing Director Identity Unit at solarisBank

Solarisbank
Onboarding by mail was an unnecessary bottleneck that conflicted with our original vision of a different experience from visiting an investment banker in an office. That’s why we’re delighted to have IDnow as our technology partner, to unlock the scalability of our platform.”

Kevin Linser, Co-founder of Selma Finance

It is important that the identification process offers security for both us and our clients. We work with sensitive data and were looking for a partner we could trust, with security expertise, and knowledge of regulatory requirements and the divergent legislative situations.”

Jari Hautaranta, Customer Due Diligence Manager at Holvi
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1. Usage of NemID for verification
2. Usage of BankID for verification
3. AI allowed if a selfie for document matching is provided
4. Usage currently under review by authorities
5. AI allowed if an additional check by an agent after the verification is included in the process

Country/Product-Matrix

A comprehensive overview of the regulator approved digital KYC process by country.
How IDnow Can Help You.

**Higher conversion rates.**
Better conversion rates on any device so you can win more customers.

**Comprehensive compliance.**
The modular identity verification process can be modified to match various legal or regulatory requirements.

**Outstanding reliability.**
Advanced artificial intelligence (AI)-driven identity verification prevents fraud.

**Ideal for global deployment.**
Made for a connected world: Identify people anywhere and anytime.
**AutoIdent.**

Deep ID recognition intelligence ensures effective authentication.

AutoIdent provides great fraud prevention in conjunction with better conversion rates and comprehensive compliance. Our hybrid identity verification solution combines the best of humans and machines. We leverage state-of-the-art machine learning technology and a network of identity and fraud specialists to enable you to increase your onboarding rates – while keeping fraudsters at bay.

**VideoIdent.**

Since the approval of video identification in compliance with the Money Laundering Act in Germany in 2014, many financial institutions and Fintechs have opted for this way of doing digital onboarding.

It offers significant advantages for both banks and companies, as well as their customers. With IDnow’s Video Verification, you can verify your customers’ identity within a few minutes – it’s easy, secure, and in compliance with the law.

Our EU-patented solution results in a clear increase in conversion rates compared to traditional offline procedures. It combines AI-based technology with the expertise of highly qualified ident specialists.

**eSign.**

In just a few minutes, IDnow’s eSign enables contract conclusion without media disruption or additional hardware.

All the customer needs is Internet access, a device with a camera and their valid ID document. The customer will first be identified before being taken directly to the contract signing. Everything happens within the same process. That creates a great user experience, which in turn significantly increases the conversion rate.
About IDnow.

IDnow’s mission is to leverage its identity verification as a service (IVaaS) platform in order to make the connected world a safer place. The ID validation solution from IDnow can be deployed in any industry where companies have online customer interactions that require robust security. IDnow’s solutions employ artificial intelligence to validate the presence of security features on an ID document and to reliably detect forgeries. Potentially, the identities of more than 7 billion customers in 195 countries could be verified.

IDnow supports a wide variety of use cases, both in regulated industries in Europe and for entirely new digital business models worldwide. The platform allows the ID process to be tailored on a case-by-case basis to specific regional, legal, and business requirements.

Questions? Let’s talk!

Alexis Segovia

Head of FinTech Relations, IDnow
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Potentially verifying over 7 billion people in 195 countries

Over 280 clients around the globe

Team of 330

Founded in 2014