The KYB

PREPARE FOR THE FUTURE: NAVIGATE THE FINTECH LANDSCAPE WITH SECURE B2B OPERATIONS

Learn how technology advancements help identify and mitigate fraud while providing comprehensive KYB solutions for secure Fintech operations.

An Insightful Read For C-Suite, Managers, Decisions Makers And Compliance Officers

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INTRODUCTION

Fintech has adapted to the evolving changes in the tech landscape while moving toward growth and transformation within the industry. However, it still needs advanced regulations and working security infrastructure to stay ahead of the sophisticated digital trends.

To successfully mitigate underlying security threats, all while staying compliant and secure, Fintech firms have turned to Know Your Business (KYB) solutions. Although KYB provides the Fintech industry a shield against threats while helping them streamline corporate verification and risk assessment procedures, there can be some challenges. The right KYB service can be a deal breaker for the business. Still, the wrong implementation and configuration of KYB can threaten the organisation as well as make the data vulnerable to cybercriminals, which means a permanent exit from the corporate world.

Understanding the extent of security challenges that occur regularly in the sector is the first step in effectively fighting digital fraud. This whitepaper provides insights into the hurdles and strikes the right balance between current industry trends, and compliance while coping with the regularly occurring fraud. It also provides an overview of the best-in-class solutions Fintech industries can implement to ensure the protection of their business along with UBOs, clients, or partners while staying compliant with the rules and regulations of the country or jurisdiction they're functioning in.

"Global Fintech industry is under increasing regulatory pressure to implement adequate KYB protocols in preventing illicit activities"

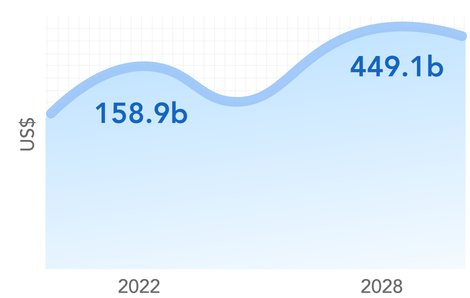
FINTECH: AN INNOVATIVE, GROWING INDUSTRY

10,755
startups in 2021
(Source: CFTE)

Fintech refers to the use of technology to modernize business processes. There are a total of five industries in Fintech, including digital payments, investments, capital raising, assets, and neobanking. **As of November 2021, in the US, Fintech was home to 10,755 startups**[1], making it the region with the most Fintech startups globally.

The total value of investments in Fintech companies worldwide increased drastically between 2010 and 2019, reaching $216.8 billion. However, investments in Fintech startups fell by over one-third in 2020, below $125 billion. The investment value climbed again in 2021, reaching over $239 billion. However, 2022 was another slow year for Fintech, as the value of investments fell noticeably, while it remained significantly higher than the value measured in 2020[2].

The United States dominates the North American Fintech market, with a share of 37.50% in 2021. The USA attracted the highest investment in the sector, accounting for more than 40% of the total[5].



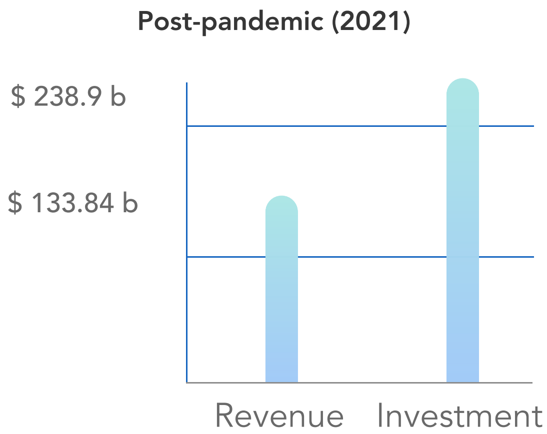
(Source: Digital Journal)

In 2018, global Fintech investment reached a new high of $111.8 billion. In Europe alone, 536 transactions raised $34.2 billion[3]. There are presently **over 1600 Fintech companies in the UK, with the majority based in London.** However, in 2022, the Fintech market was $158.9b, and by 2028, it is predicted to reach $ 449.1b[4].

"The variables such as increased consumer demand for online financing, a spike in the use of advanced technologies in banking and financial institutions. An explosive rise in technologies such as machine learning and artificial intelligence in business capacity for decision-making are some of the key variables accelerating Fintech technology adoption."

1 CFTE - Fintech startups
2 Statista - Investment in Fintech Industry
3 IMF e-library - Fintech in Europe
4 Daily Journal - Fintech market size
5 Vantage Market - Global Industry Assessment

FINTECH: AN INNOVATIVE, GROWING INDUSTRY



(Source: Vantage Market Research)

Fintech, like every other business, reached rock bottom during COVID-19; investment in the Fintech industry plummeted from **$216.8 billion in 2019 to $124.9 billion in 2020**[6]. The post-pandemic period was a flourishing moment for the Fintech businesses, bringing in not only **$238.9 billion in investment but also $133.84 billion in revenue**[7].

$1.5 trillion

(Source: UMEA)

Fintech to generate $1.5 trillion revenue by 2030

Financial technology has been used in insurance, trading, banking, and digitized risk management. Currently, it maintains 2% of an important chunk of the worldwide economy. It is expected to generate $1.5 trillion yearly revenue by 2030, accounting for 25% of all high-value industries[8]. The Asian-Pacific Fintech market will be worth **$324 billion by 2026,** expanding at a **28.2% CAGR from 2021 to 2026**[9].

“The dominance of the US and Europe in regtech investment and innovation is gradually shifting. The Asia Pacific region is expected to be the engine of regtech growth due to the presence of emerging countries as well as the financial hubs in Hong Kong (SAR), Singapore, and India. Such growth is to be expected because of accelerated adoption of new technologies, high investments in digital transformation, swift expansion of domestic enterprises, extensive development of infrastructure and crucially, the rapid growth of the middle class and GDPs in the region.”

Fabiano Gobbo, Global Leader, Financial Risk Management, KPMG International

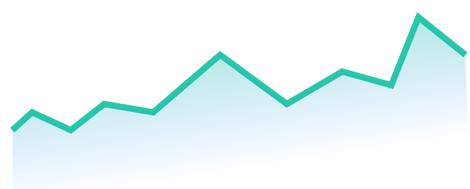
[6] QED Investors - Future of finance
[7] BCG - Asia-Pecific Fintech revenue prediction
[8] UMEA University - Risk of Fintech
[9] Vantage Market - Global Industry Assessment

A QUICK LOOK BACK TO 2022

X1	Sales	Investment
Y1 (H2'22)	2,885	$63.2b
Y2 (H1'23)	2,153	$52.4b

(Source: KPMG)

The total amount of Fintech investment and the number of Fintech agreements globally fell from $63.2 billion over 2,885 sales in H2'22 to $52.4 billion across 2,153 deals in H1'23, but the outlook wasn't all bad. Despite market volatility and decreased investment in both the EMEA and ASPAC regions, Fintech funding in the USA increased from $28.9 billion in H2'22 to $36 billion in H1'23[11]



$556.58b

Fintech market investment by 2030

(Source: Vantage Market Research)

Worldwide Fintech market investment was estimated at USD 133.84 billion in 2022, rising to $556.58 billion by 2030. Over the projection period, the international market is expected to develop at a compound annual growth rate (CAGR) of 19.50%[10].

Several Fintech subsectors received significant funding in H1'23. At the halfway point of the year, investment in logistics and supply chain-focused Fintech was considerably above all prior annual totals ($8.2 billion), while funding in ESG-focused Fintech was $1.7 billion higher than the total for 2022. In the USA alone, the Fintech funding reached $36.1B with 1,011 deals. Fintech investor attitude in the first half of 2023 can be described as highly cautious[12].

(Source: KPMG)

[10] Fintech Nexus - Fintech trends 2023

[11] KPMG - pulse of Fintech

[12] KPMG - pulse of Fintech

CHALLENGES FACED IN FINTECH INDUSTRY

The worldwide Fintech market faced significant challenges in the first six months of 2023. Some issues were predictable, such as elevated interest rates, inflation, deflated values, and a shortage of exits; others, such as the collapse of numerous banks in the United States, were not.

Market problems are projected to persist in the second half of 2023, making for another tumultuous six months. Even if financial activity stays muted, AI is projected to be a big topic of discussion – and potentially funding. Fintechs have seen unprecedented growth in 2022, but where there are possibilities, there is more competition and heightened regulatory scrutiny.

Risky Business

The risks have been heightened in the Fintech industry due to the large sums of money circulating around. Competition is fiercer than ever, with advanced tech companies joining the industry to fight with market veterans and app-based digital financial sectors.

Regulatory scrutiny is also at an all-time high, with penalties for lax Anti-Money Laundering (AML) systems reaching historic highs in recent years. In the whole post-financial catastrophe decade, 2008-2018, a $26 billion fine was collected by authorities in different sectors. However, the authorities collected a **$10 billion fine** last year; with little hint of a reduction in enforcement.

Mobile trading app, **Robinhood was fined a record $70 million**[13] by FINRA for several system and policy failures, while watchdogs in the UK have expressed worry about a lack of understanding about systems and controls within some big digital banks such as Revolut.

Digital Fraud

AI-based KYB products are becoming more common as the Fintech industry undergoes digital transformation. However, AI-driven digital fraud has proliferated as anti-fraud and KYB tools have become more widely available. It is simple for fraudsters to take over a corporate account and steal all of the money, resulting in businesses billions of dollars. Aside from that, it is difficult to determine whether the individual investing in the firm and cooperating with businesses is real in the digital sphere. Companies can now utilize synthetic data to onboard an erroneous party.

[13] CNBC - Robinhood

Under and Over Regulations

Fintech firms operate in a complex and complicated regulatory environment that is either under or too regulated. Meeting compliance standards, getting required licences, complying with data protection and Anti-Money Laundering (AML) regulations can all be time-consuming as well as expensive.

Given the quantity of criminal behavior that flourishes in an uncontrolled environment, regulatory steps to safeguard the Fintech industry are required. However, such efforts in the lack of a delicate hand might lead to over-regulation. This occurs when legislatures place so many barriers in the way of businesses and providers that both are driven out of licenced marketplaces.

Overwhelming Compliance

Depending on the type of business, Fintech must adhere to KYB regulations, which might be tedious for them. Similarly, legislation requiring firms to "know your customer" allows them to be on the lookout for illegal conduct such as evasion of taxes or money laundering. Insurance, borrowing, stock investment, and financial consulting are among the services covered by the rules. Nonetheless, all institutions must adhere to specific guidelines.

In 2022, the total number of firms subject to AML penalties exceeded twofold[14]. According to a report by the Financial Conduct Authority (FCA), so far, £35,167,900 has been charged as a penalty to several industries in 2023. The most severe penalties were still confined to banks, with Malaysian institution AmBank struck for $700 million for its involvement in the 1MDB financial crisis[15], but the wider range of infractions entangled other Fintech firms. Although official statistics for 2022 fines are likely to be released until early 2023, all indications point to their following an identical trajectory to 2021. The first half of 2023 has undoubtedly seen a surge of 88%[16] in regulatory penalties, comparatively to the last year and sees no sign of taming down in the new future.

"Thousands of Fintechs currently compete against financial institutions without the strict surveillance and prerequisites confronting national banks and the federal government savings associations."

The Federal Trade Commission (FTC) is the primary regulatory authority for a Fintech company to be dealt with. If they intend to do business in the EU, they must also comprehend and comply with the General Data Protection Regulation (GDPR).

Over the last year, the cryptocurrency industry has progressively found itself in the sights of law authorities. BlockFi agreed to pay $100 million[17] in penalties for system and control breaches in February, the largest-ever compliance penalty for a crypto business. A few months ago, Helix, a huge cryptocurrency-centric company, received a penalty of $60 million for the dark web money laundering charges[18], and the organization's top operator, Larry Harmon, was sentenced to 20 years in jail.

[14] Compliance week - penalties in 2021
[15] Reuters - 1MDB-linked settlement
[16] H1'23 Penalties
[17] SEC - BlockFi penalty
[18] DOJ - Darknet crypto laundering

The prominent penalties in the recent year include a **$360,000 charge imposed** by the regulator of Abu Dhabi's independent financial centre on Wise, formerly known as TransferWise. Indeed, the UAE is a prime example of a region under increased regulatory scrutiny as a result of its recently expanded banking sector. Wise's local affiliate was fined $360,000 for omitting to track down and verify the source of cash or wealth held by customers with significant risks who were carrying out operations on their behalf.

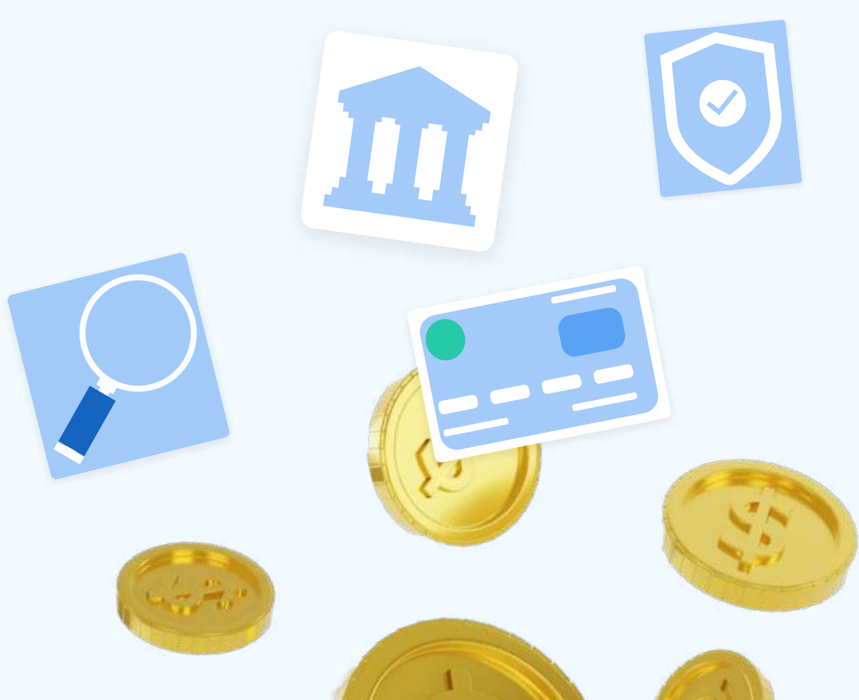
A corporation must account for any financial harm arising from an adverse reputation and the expense of meeting or failing to meet regulatory obligations. A respected business appreciates its reputation as well as relationships with other businesses. It places a premium on building trust and providing an environment of security.

Data Security

Cybersecurity concerns affect almost every sector. A corporation may wish to undertake frequent cybersecurity audits, create a security procedure, back up every record regularly to the cloud and internally, identify who has authority over what data and why, and secure all forms of communication. Any data breach can destroy a company's reputation and result in a slew of fines as well as additional fees that can be incredibly pricey.

Fintech Acquisition

In H1 2023, Fintech acquisition activity fell more than other sectors. The number of[19] Fintech acquisitions declined by 50% in H1 2023 relative to the prior year, totaling 174 acquisitios . When compared to the general market, Fintech acquisition activity fell by 20%. The median initial stages assessment (Series A to C) dropped 23% from last year's period, while late-stage appraisals (Series C+) dropped 77% year on year. The standard **Fintech acquisition size in H1'23 was $844m, up threefold from H1'22.**



[19] Fintech Global - Fintech acquisition

STRIKING BALANCE BETWEEN INDUSTRY TRENDS AND COMPLIANCE

Fintech is a modern component that has taken its position worldwide and has been promoted due to the fear of its potential risks. Fintech is any innovation that utilizes cutting-edge technology to improve the financing sector, and its offerings rely on the ease and rapidity of technology. Furthermore, technology must be distributed globally to see rapid growth in Fintech.

Implementing effective anti-fraud procedures positions your company favourably with regulators, increases capacity to continue doing business, and safeguards the industry brand. The key to successfully managing this required procedure is to strike an equilibrium between efficiency and effortless incorporation of KYB regulations into the client onboarding procedure.

KYB provides a variety of benefits despite the obstacles it brings about. It's more secure, takes less time, and may improve client relationships. Fintech is rapidly changing and being utilized by a growing number of consumers and businesses to handle their finances. The KYB industry, on the contrary, is rapidly adopting new methods of doing business verification. With the increased use of Fintech, organizations will require a cost-effective and adaptable solution for their safety as well as verification against other companies that seek their services. Integrating KYB with Fintech services would result in a secure and dependable financial management system, ideal for enterprises of all sizes.

"The growing complexity, costs, and risks in managing regulatory and legal obligations on a global basis is a persistent challenge for the financial services industry. Through the application of AI and machine learning, global and regional banks can access emerging regtech solutions that can help them to more accurately assess and monitor their compliance obligations across multiple markets in real-time and with greater confidence."

Ian Pollari, Global Co-Leader of Fintech, KPMG International

ELIMINATE RISK WITH KYB

The Fintech industry is the prime target of fraudsters, illicit financiers, and terrorists. This poses a serious risk to the secure functioning of Fintechs. KYB services serve an important role in reducing financial fraud and criminal activity. These verification methods are based on a risk rating system, and when an entity receives a high-risk rating, it is detected and submitted to legal authorities.

Money Laundering Prevention

KYB services necessitate that businesses produce a full breakdown of their financial expenses that are directly related to the firm. This can assist organizations in blocking financial operations that have a high-risk score and may be attempts at money laundering. These operations are reported to legal authorities and assist businesses in remaining compliant with AML requirements.

Terrorist Financing

These technological systems, which can trace the origin of money activity, aid in preventing terrorist financing. Many terrorist organizations utilize Fintechs to fund their operations because they typically lack a physical presence and can also carry out processes via blockchain. KYB services can detect these financial activities and take appropriate action.

Sanction Evasion

Many entities can use Fintechs' to circumvent sanctions. They try to avoid sanctions by concealing their funds in an untraceable location so that they can engage in forbidden activities without getting caught. KYB screening automatically bans and reports such acts, saving firms the time and effort of human reporting

PARTNER WITH THE KYB TO EMBRACE DIGITAL EXCELLENCE

KYB has offered unparalleled compliance software to firms in high-growth industries such as Fintech, Medtech, blockchain technology, and real estate. We prioritize the implementation of a cost-effective, comprehensive business verification solution that interfaces seamlessly with our client's current computing stack.

While KYB is required, it should not be disruptive. With this in mind, we created KYB solution employing the finest practices in customer-centric, human-centred UI design. At 'The KYB,' we aim to transform company verification procedures while also empowering companies to streamline their Know Your Business practices through seamless and compliant solutions. We are committed to reducing the risk of fraud, facilitating safe transactions, and creating trust in the e-commerce ecosystem.

Our Solutions

Innovation

Our risk evaluation services are customized to meet each customer's specific needs and requirements.

Global Reach

Our risk assessment procedure is completely automated, covering over 225+ countries and jurisdictions.

Real-Time Data Access

Gain real-time access to 225+ credible data sources and easily check your partner or client.

Customer Contentment

By identifying potential hazards in real-time, our risk assessment services assist organizations in meeting regulatory, legal, and moral obligations.

A COMPLETE KYB SOLUTION FOR SECURE FINTECH ACTIVITIES

We provide industry-grade, inventive, know your business service specifically for the Fintech industry, assisting them in streamlining corporate client validation and risk evaluation procedures. It also provides a rapid and effective onboarding experience that includes instant verification and full compliance achievement.

Our State-of-the-Art Fintech Verification Solution

Our KYB service for the Fintech industry monitors and mitigates unauthorized access and cyber risks in real-time. It's scalable and flexible per the company's requirements. Our cutting-edge Fintech verification solution enables businesses to:

Locate Shell Companies

By validating your clients across 225+ official information sources, you can eliminate the possibility of onboarding shell companies.

Regulatory Compliance

With a carefully designed KYB verification, you may stay compliant with globally recognized and ever-changing Fintech rules in 225+ countries and jurisdictions.

Improved Conversion Rates

With an easy-to-use, fast, and precise business verification solution, you can provide a flawless onboarding experience and increase conversion rates.

The KYB

Verifying Businesses Globally The Fast
& Efficient Way

READY TO OVERCOME KYB CHALLENGES & SCALE TRUST IN YOUR FINTECH BUSINESS?

Contact our experts and see how they integrate KYB solutions into your existing processes.

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