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Neobanks focused on speed can't afford to let compliance fall by the wayside

Article

The news: Digital-only banking players have to prioritize anti-money laundering (AML) compliance even as they move fast in the pursuit of growth, per a new report from

ComplyAdvantage, a regulatory technology firm.

How we got here: ComplyAdvantage names two reasons why digital banks are vulnerable to poor compliance:

- **Speed:** The firm states that taking a **"fail fast and learn fast"** approach is common among start-ups, but unworkable in banking because of public and government expectations that financial institutions are responsible for identifying illicit funds transfers. Moving quickly helps with account openings, but it has happened **at the expense of customer due diligence**.
- **Lean Teams:** Digital banks prioritize keeping their teams lean and often have "significantly smaller" teams dedicated to compliance. Those teams have also placed a higher priority on product development and technological agility.

The report also points to two recent examples of digital players facing AML issues:

- Germany-based **N26** being required by home-market regulator **BaFin** to operate under an appointed commissioner.
- UK-based **Monzo** being subject to a probe by the **Financial Conduct Authority (FCA)**, also its home-market regulator.

Proposed outlooks: The firm calls on digital banks to include "a few non-negotiables" in their AML approaches:

- Add compliance tools that can be scaled alongside customer growth.
- Embrace automation when it's helpful—but not when doing so makes it harder to identify the risk of financial crimes.
- Carefully assess financial crimes risks, including how they relate to a bank's customer base and jurisdiction.

The big takeaway: ComplyAdvantage highlights a significant problem for digital banking players: They may want to act fast, but they can't treat their legal obligations as lower priorities.

This tension is also on the minds of financial services professionals. For example, it was raised at a **Money20/20** session by the Fintech Fight Club debate team last month, which covered whether banks or fintechs are more innovative. Defenders of the banking side argued that pushing pace is outweighed by the risks of catastrophes like losing customers' funds, or betraying their confidence and trust.

Moving forward, digital banks will need to increase their compliance investment, particularly when they are still in their early stages. For example, they could turn to regtech-focused companies offering assistance with AML and know your customer (KYC) processes, such as:

- Alloy, which offers customer-approvals automation that includes a large breadth of data sources.
- Quantexa for pattern detection with AI.