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UK watchdog warns challenger banks to be more vigilant over financial crime defenses

Article

The news: The UK's Financial Conduct Authority (FCA) warned challenger banks that their inadequate financial crime defenses could be exposing them to "money mule networks"

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laundering cash.

What the FCA's review found: The regulator reported that its review of six unnamed challenger banks led it to conclude:

- **Monitoring of transaction alerts** is "ineffective" and **controls** around financial crimes are weak.
- **Insufficient checks are performed on new customers.**
- Most banks **failed to identify high-risk customers** during onboarding and weren't gathering information like applicants' income and occupation.
- But the FCA did praise banks' **"innovative use of technology"** to verify customers quickly.

What this means: Challenger banks aim to utilize quick, hassle-free onboarding and loan approvals to try to outcompete incumbent lenders and win new customers. But in their haste to lower the barriers to accessing financial products, they are ignoring sound risk management practices and credit-risk-worthiness assessment metrics.

- The FCA's review may highlight **endemic flaws among challenger banks' controls** compared with incumbents, and the greater risks that these banks, the financial system, and their customers could be exposing themselves to.
- It could also signal a **harder stance by the watchdog**. The regulator singled out banks' role in stamping out sanctions evasion in the wake of Russia's invasion of Ukraine and reducing money laundering, which costs the UK £100 billion ($137.5 billion) annually, per the National Crime Agency.

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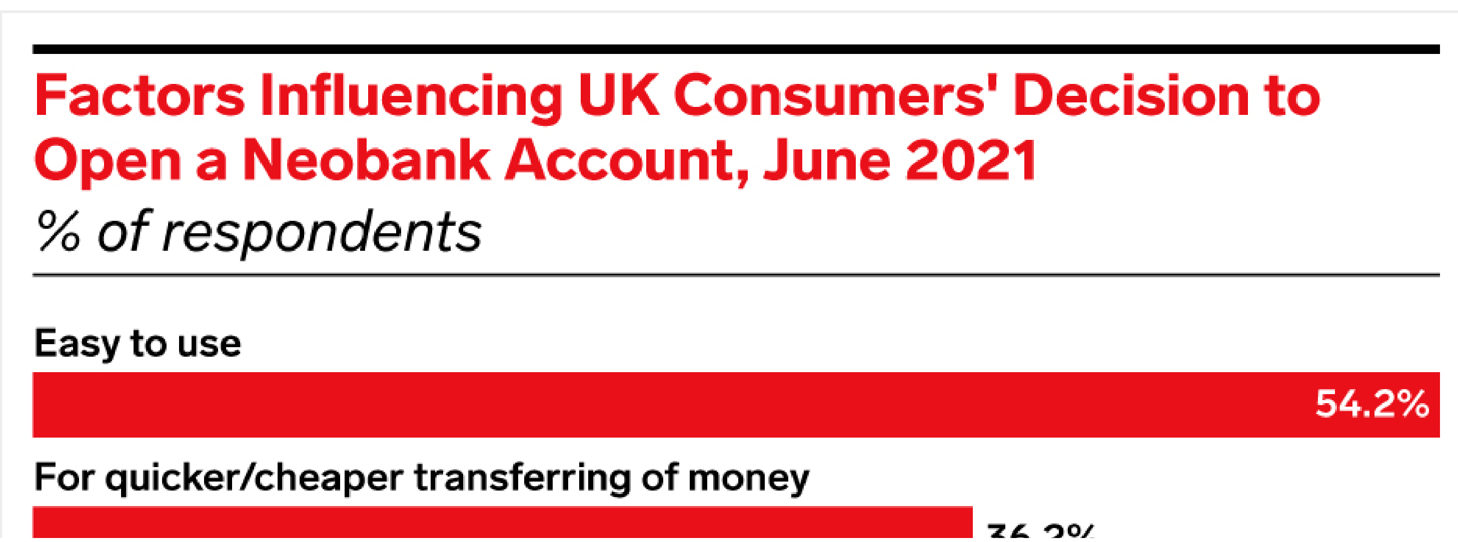

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The big takeaway: The FCA has long been a supporter of fintech-friendly oversight in the UK to level the playing field between incumbents and neobanks, and to help maintain the UK's status as a global financial services headquarters. However, as British challenger banks have flourished, financial controls of some have not kept pace with their rapid growth.

Challenger banks must strike a balance between reducing barriers to entry for customers while minimizing the risk of crime through robust controls. Those that fail to do this risk harsh

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punishment like the heavy fines handed to **NatWest** and **HSBC** in December and as well as potentially losing business due to reputational damage.

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