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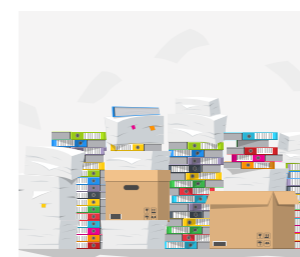
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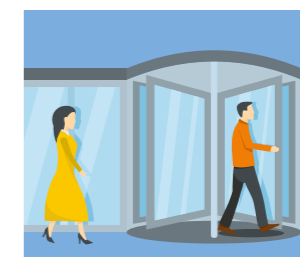


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Editor's note



Sibos is going fully digital for the first time since its inception in 1978. As such, this year's *Daily News at Sibos* will be providing you with all your fintech news in one supplement.

This year's theme, "driving the evolution of smart finance" is explored through a compliance lens, as the advent of technology spawns the challenge of keeping up with regulatory implementation and customer service difficulties.

Alex Hamilton, deputy editor at *FinTech Futures*, discusses the effects of the recent Financial Crimes Enforcement Network (FinCEN) files leaks with Rachel Woolley, global director of financial crime at Fenargo, David McLaughlin, chief executive officer (CEO) of QuantaVerse, James Heinzman, executive vice president for financial services at ThetaRay, and Jane Jee, CEO of Kompl-Global. All four market participants hope that the leaks are going to trigger some definite

activity among regulators and banks.

I speak to Florin Hrituliac, a Revolut personal account customer in Romania, who is exploring legal action against the challenger bank for blocking his account "without any clarifications from their chat agents". The piece reveals that the customer's account was "locked" by Revolut for five months prior to his court filing, without him receiving any notice.

The supplement also features analysis from Ruby Hinchliffe, reporter at *FinTech Futures*, who unpacks the reasons behind the "revolving door" of talent within the fintech industry, whilst Anders la Cour, co-founder and chief executive officer of Banking Circle, explores how collaboration will be the key to success for post-pandemic banking services.

Feel free to check out our website for this year's latest Sibos news.

A stylized, handwritten signature in black ink.

Editor, Sharon Kimathi

Banking Circle launches POBO and COBO payments transparency solutions



Financial infrastructure provider, Banking Circle, has launched its new payments-on-behalf-of (POBO) and collections-on-behalf-of solutions (COBO) to tackle the compliance and reconciliation issues often faced in global business-to-business (B2B) payments.

The new Banking Circle solutions address B2B payments reconciliation issues which, in turn, can cause delays in settlement and impact cashflow.

POBO and COBO aim to enable financial institutions to offer immediate visibility of the sender's details when processing B2B payments, and to collect funds locally into accounts in the underlying customer's name.

The solutions are available globally through Swift, Faster Payments, CHAPS, single euro payments area (SEPA) and local clearing.

POBO and COBO are currently available to payments businesses in 24 currencies. Its currency offerings to banks currently includes British sterling and euros, with more currencies and local capabilities planned down the line.

Financial institutions can manage payments on behalf of their customers, enabling funds to be sent out and received with full payment transparency, providing clarity and ease of reconciliation for beneficiaries.

The service also allow payments businesses and banks to comply with Wire Transfer Regulations (WTR). POBO and COBO provide banks and payments businesses with an optimised end-to-end payment solution and visible payment chain which is WTR compliant.

"Existing solutions do not provide institutions with true unique international bank account number (IBANs), with payments often still received in the name of the payments business or bank rather than in the name of the payer," explains Anders la Cour, co-founder and chief executive officer (CEO) of Banking Circle. "And this lack of payments ownership can lead to reconciliation issues which, in turn, can delay settlement times, thereby impacting on cashflow."

He adds "In response, we have built a solution that allows banks and payments businesses to give their customers access to transparent, local payments and collections

across borders, without the need for a physical presence or a relationship with a correspondent bank in that region.

"It was important that our new solution allowed providers to comply with complex payments regulation without Banking Circle taking ownership of the relationship. As a result, the financial institution remains in control of the relationship and customer experience, while Banking Circle provides the infrastructure for payments and collections to be made quickly and at low cost, regardless of international borders."

Smoother, faster reconciliation is achieved through dedicated multi-currency virtual IBANs in multiple jurisdictions, delivering improvements across reconciliation, consolidation, risk management, operational efficiency, transaction processing and liquidity management.

The solutions can be accessed by new and existing Banking Circle clients, with just a connected or unconnected bank identifier code (BIC) required by the payments business. POBO and COBO are available via application programming interface (API), user interface (UI) and Swift.

helping Italian SMEs in cooperation with Intesa Sanpaolo Group, while €38 million will be used for the tourism and hospitality industry, and €20 million will go towards traditional SME loans.

"These investors were all won over by October's technology," says October founder and CEO Olivier Goy.

"[It] allows them to efficiently deploy large sums while respecting standardised processes following precise and tailor-made risk policies."

ING consolidates innovation arms into ING Neo, Legrand to step down

ING has decided to merge all its innovation arms into one new entity: ING Neo.

This will see the Netherlands-based bank wind down ING Ventures. Operations brought under Neo will include the bank's chief innovation office, and the WB innovation office.

Its current chief executive officer (CEO), Benoît Legrand, will be stepping down in December for another – as of yet unidentified – role at the bank.

Legrand has led ING Ventures for the last five years. The division has had a big role in the bank's reputation as a leading innovator in Europe.

Under Legrand, ING Ventures established a €300 million fund. It currently holds more than 30



investments in fintechs such as WeLab, Fintonic and Cobase.

ING's Annerie Vreugdenhil is set to head up ING Neo come January 2021, but her appointment is still subject to Dutch Works Council advice.

Vreugdenhil headed up ING's commercial banking unit in the Netherlands for six years. Before heading up real estate finance, and finally becoming

chief innovation officer of ING's wholesale banking unit.

The new head of Neo has worked at ING for nearly 30 years. During this time, Vreugdenhil worked across ING's WB Labs in Singapore, London and Amsterdam. She also worked closely with ING Ventures, according to the bank.

The idea behind Neo is for ING to streamline its various innovation operations into one, single unit, with one boss at the top.

"To increase the speed and impact of our performance, we are combining all our innovation activities into one dedicated business," the bank explains.

Neo will report directly to ING's CEO, Steven van Rijswijk.

Tokyo Stock Exchange grinds to a halt in worst outage for 21 years



The Tokyo Stock Exchange (TSE) shut down for an entire day's trading on 1 October, in its worst outage since 1999.

The exchange announced the shutdown at 9 am local time, adding later that all trading would be halted for the entire day.

Traders reported that activity on the exchange on 2 October appeared broadly normal, though volumes were lower than many had expected.

Japan Exchange Group blames the shutdown on unspecified hardware responsible for relaying

market information. When that equipment failed, a backup failed to take its place.

The outage is the first to affect all listed stocks on the TSE since 2005. Exchanges in Nagoya, Fukuoka, and Sapporo were also affected by the downtime.

All four exchanges use cash equity systems built by Fujitsu.

Government spokesperson Katsunobu Kato called the issues "very regrettable" in a press conference.

Japan's financial regulator has demanded a full report into the technical problems that paralysed the TSE.

According to data from the World Federation of Exchanges, the TSE runs the world's third-

largest equity market in 2019. It operates nearly \$6.2 trillion worth of stocks and lists 3,700 companies.

Kato says the shutdown shows no indication of foul play, or the trademarks of a cyber-attack.

The New Zealand stock exchange, NZX, halted trading for three days in August after a targeted cyberattack left systems down.

Network connectivity issues caused the exchange to shut down trading in its cash markets at 11:10 am local time.

NZX took the decision to keep its main board, debt markets and shareholders market closed, and to shut down the derivatives market.

French lendtech October raises €258m



French credit fintech, October, has raised €258 million for investment in small and medium-sized enterprises (SMEs) in Europe.

October provides SMEs with credit lines and a loan it guarantees to offer a few days after an application. The firm says it uses intricate data and analysis to ensure that its loans are risk-free.

The fintech offers loans ranging from €30,000 to €5 million. Interest rates are variable on depending on

the risk profile associated with an applicant.

It claims to have handed out more than 1,000 loans since 2014 with a combined value of more than €448 million.

October has relied on institutional investors to provide it with the cash to funnel into SMEs and European businesses during the COVID-19 pandemic.

It currently provides services in France, Spain, Italy, the Netherlands, and Germany.

The €200 million will focus on

FinCEN Files: Legacy technology “not up to the challenge” to tackle AML

By Alex Hamilton, deputy editor, FinTech Futures

Legacy technology is just “not up to the challenge” when it comes to dealing with anti-money laundering (AML) requirements, and overreporting from banks playing it safe is putting regulators under undue pressure, say market participants.

A major leak in September showed major banks allowing oligarchs, mobsters, and criminals to launder money more than \$2 trillion.

Buzzfeed News obtained more than 2,100 suspicious activity reports (SARs) filed by banks and financial institutions. These were originally submitted to the US Treasury's Financial Crimes Enforcement Network (FinCEN).

Analysis by the International Consortium of Investigative Journalists (ICIJ) found that between 1999 and 2017 banks flagged transactions worth trillions in SARs submitted to FinCEN.

SARs in their eyes

“Whilst a large number of SAR filings may indicate effective controls in the financial institutions, it may also suggest they are overreporting so as to avoid future regulatory issues as a ‘just in case measure,’” says Rachel Woolley, global director of financial crime at Fenengo.

“This results in increased numbers of reports that [financial intelligence

units], which are under resourced, need to investigate. This inevitably leads to inefficiencies and further compounds the resourcing issues.

“Currently the process is hugely manual in many countries. It’s also important to note that when financial institutions (FIs) report, it often relates to a transaction or series of transactions that have already taken place.”

David McLaughlin, chief executive officer (CEO) of QuantaVerse, says that finding financial crime among the millions of SAR reports is like “finding a needle in a stack of needles”. He says that legacy technology relief upon by incumbents is “not up to the challenge”.

“Although two million SARs are filed annually, it’s estimated that financial institutions never even identify between 50% and 70% of the money laundered through global systems. Those are transactions that are never alerted and never investigated with no chance of SARs being filed.

“It’s clear that improved systems need to be deployed throughout the entire chain of financial crime identification and investigation.”

For James Heinzman, executive vice president for financial services at ThetaRay, the leak itself is of greater importance. “The bigger

problem at hand that needs to be addressed immediately is the fact that there was a breach in security that led to these leaks, and that leak needs to be identified.

“The privacy of the people involved — the investigators that determine whether there is something that can be considered criminal or suspicious activity — is paramount to preserve the integrity of the program, and this breach really compromises that.”

Support for regulators

FinCEN’s SAR database is available to more than 450 law enforcement and regulatory agencies in the US. More than 13,000 users use the system millions of times every year. According to US Treasury figures, the number of people working at FinCEN has shrunk by more than 10% since 2010.

Jamal Al-Hindi, acting director of FinCEN in 2017, testified that year to congress that the department faced hiring issues.

Heinzman says regulators are always going to receive an unfair share of the blame when stories like these emerge. “In reality, the blame should be placed on the funding of these agencies.”

He adds: “Regulators are doing good work with what little funding they have, and they’re working well

with banks and the industry as a whole to identify issues.”

Jane Jee, CEO of Kompli-Global, says that there are “disparate rules which are not applied consistently”, especially among the 25 AML supervisors in the UK.

“The files show failures by banks and by implication law firms and accountants. Therefore, the regulators need more expertise and need to create a panel of experts to assess where technology can help reduce abuse.”

Fenengo’s Woolley says that issues arise as the SAR process is looked at in silos. “Many of the issues discussed in recent days refer to the inconsistencies in the SAR reports themselves. These require manual review to make sense of what is being reported.

“Stretched resources are now having to first identify relevant information, extract it, assess it and then make a decision. This increases the time to determine if a SAR was warranted in the first place.”

The 4AMLD/5AMLD solution

The FinCEN leaks concern suspicious transactions flagged between 1999 and 2017. The European Union’s fourth and fifth anti-money laundering directives (4AMLD & 5AMLD) have come into force since. Have these historical

issues been plugged by newer legislation?

“I think knowing your customers better is a part of the equation, but it’s not the complete answer,” says Heinzman.

“In order to get a full picture of what’s suspicious, of course you need to know who your customers are and who they’re transacting with, but even more importantly banks need to know what their activities are as well.

“This includes both what they’re actually doing, and what their business is in the context of their relationships. [Regulation is] never going to completely solve this issue as it’s only one piece of the puzzle.”

Kompli-Global’s Jee says there is “no doubt” that some issues have been resolved. She believes that company registered are remain a point of contention.

“Companies House [in the UK] is still the weak link as there are practically no checks carried out on the information filed. Now, there are proposals to reform but when will they come into force?”

Looking forward

Woolley believes that the leaks are going to trigger some definite activity among regulators and banks. “Ticking boxes to show you met the minimum standard isn’t working. We

need a more joined-up approach that focuses on effective outcomes.”

Jee says the current controls on AML “are not working well enough” but there are steps being taken to combat it.

“These cases should not be dismissed as old cases because many can still occur today. More should be done to stop dirty money getting into the financial system and moving round the world.”

Heinzman says that it remains important to keep in mind that the leaked SARs were banks investigating and reporting.

“What happened after they reported it to FinCEN? We don’t know. Also, bear in mind that these aren’t definitively criminal findings; they’re just reports of suspicion. They should certainly be investigated, but whether or not they have been is another story.

“The biggest ramification isn’t the SAR itself. It’s the fact that a lot of information about sources and the means to identify this suspicious activity will give the bad guys insight into how things work at the banks.

“There’s going to be scrutiny around the security of these reports, and how information like this could be leaked. This breach has jeopardised the integrity of the whole financial crime investigation and reporting system.”



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SPOTLIGHT: COLLABORATION

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The value of 20/20 hindsight

Anders la Cour, Co-founder and Chief Executive Officer of financial infrastructure provider Banking Circle examines the lessons of 2020, and how collaboration will be key to success for post-pandemic banking services.

Like almost every other industry, financial institutions of all types have been planning and implementing increased digitalisation for some years. However, COVID-19 and resulting nationwide restrictions undoubtedly accelerated the rate at which new tech and processes have been launched. It also changed the focus of research we commissioned at the start of the year.

A study was carried out amongst financial institutions in Europe to assess changing trends in the development, delivery, and support of banking services for businesses. However, timing is all and the research was refined to not only address its original objectives but also provide a unique snapshot of business planning and confidence at this critical and historic time in the life of so many providers.

BUSINESS AS USUAL

According to the results, the challenges most urgently focusing the minds of the best in financial services are aligned to a business as usual world: 58% said the impact of regulation was one of their top three challenges, and 53% listed the implications of constantly

evolving expectations of customers as a top-three challenge. These are not new challenges; in fact, they could have topped any similar poll in the past ten years or more.

To meet these challenges, as well as newer challenges presented by the pandemic, financial institutions must look outside of their own business.

Collaboration is a key aspect of a futureproof business, even when the future is unclear. Payments businesses should look for other organisations as potential partnership opportunities, whether current competitors, partners, customers, or suppliers. The distinction between these categories is blurring all the time and it is increasingly clear that businesses are all in this together. Working together providers can deliver new solutions more quickly and provide customers with a better service.

In this fast-paced and highly competitive market it is extremely important for banks, payments businesses and FinTechs to understand the role of financial infrastructure alongside new applications, services and solutions, working together to

optimise delivery of the right propositions to meet customer need. Financial institutions must take time to understand the future, using the lessons of the past – including those learned during the pandemic – to determine longer-term thinking around the infrastructure that enables success.

We still face a rapidly changing landscape, especially with many regions now returning to lockdown or increasing restrictions, but one thing became clear very early on: the importance of digital provision. Through the trials of the current global crisis, the value of digital has taken on new and immediate significance. 2020 has provided excellent learning opportunities and forced innovation that was long overdue in many areas, and 20/20 hindsight will be invaluable to futureproof businesses. This will help financial institutions of all types to regain clarity and confidence and see 2020 as a time that lay strong foundations for a bold new future.

A series of white papers based on the study is available to download at bankingcircle.com

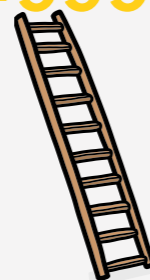


The FinCEN files leak

More than
2,100
Suspicious Activity Reports (SARs) sent by banks to the US Financial Crimes Investigation Network (FinCEN) were reported on by BuzzFeed News.

Since an initial leak, the International Consortium of Investigative Journalists (ICIJ) – which is made up of 400 reporters – investigated these files, dated from

1999

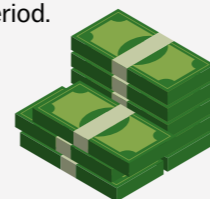


2017

The analysis found that banks had allowed oligarchs, mobsters, and criminals to launder money worth more than

\$2 trillion

during this time period.



What's a SAR?

A SAR is submitted by a bank when it spots a suspicious transaction – be that unusually large, frequent transfers, money moved offshore, or simply transactions which don't make sense.

The reason banks outside the US are involved, is because all transactions made in US dollars need to be sent to FinCEN regardless of where they took place.

Banks submit a wave of SARs every day to regulators. The 2,100 files listed in the FinCEN leak account for **less than 0.02%** of the **12 million reports** sent by banks between 2011 and 2017.



Who's in the report?

The FinCEN files are made up of reports from some 90 banks and financial institutions. Deutsche Bank accounts for more than half of suspicious payments in the leak. Here's the top ten banks listed in the leak:



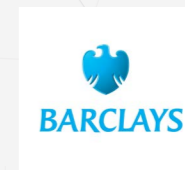
How did the market react?

Shares of HSBC Holdings, already trading at decade lows, **slid 5%**

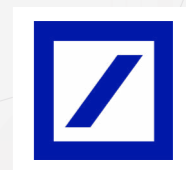
on 21 September. Market Insider called this a **near 25-year low** for the Hong Kong-listed bank.



dropped more than 3.2%



dropped 5.4%

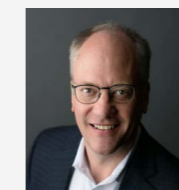


fell more than 9%

Standard Chartered's share slid **more than 3.2%** the same day, whilst Barclays' **dropped 5.4%**. Shares in Deutsche Bank, Germany's largest lender and the worst to come out of the leak, fell **more than 9%**.

For some banks, the 21 September saw almost all the gains they'd achieved since the depths of the coronavirus crisis cleaned out.

What the industry told us



"Although two million SARs are filed annually, its estimated that financial institutions never even identify between 50% and 70% of the money laundered through global systems. Those are transactions that are never alerted and never investigated with no chance of SARs being filed."

David McLaughlin, CEO of QuantaVerse

"The bigger problem at hand that needs to be addressed immediately is the fact that there was a breach in security that led to these leaks, and that leak needs to be identified."

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"The files show failures by banks and by implication law firms and accountants. Therefore, the regulators need more expertise and need to create a panel of experts to assess where technology can help reduce abuse."

Jane Jee, CEO of Kompl-Global

"Ticking boxes to show you met the minimum standard isn't working. We need a more joined-up approach that focuses on effective outcomes."

Rachel Woolley, global director of financial crime at Fenergo



Why do some fintech start-ups experience high exec churn rates?

By Ruby Hinchliffe, reporter, FinTech Futures

It's a familiar trajectory in the fintech space. When a fast-growing start-up reaches a certain size, it often begins to experience an unusually high executive employee turnover.

"A revolving door at the top of any business is probably a failure of establishing buy in – whether that's of the vision you have for the business, strategy or culture," Snoop's chief commercial officer, Scott Mowbray, tells *FinTech Futures*.

This month, we saw Revolut's head of regulatory compliance, Christopher Singh, left the \$5.5 billion challenger last month after less than two years. He'd previously spent more than nine years at the UK's Financial Conduct Authority (FCA). He's moving to incumbent Barclays.

Singh's exit comes just a month after the high-profile departure of Richard Davies Revolut's banking CEO who previously spent more than 11 years at Barclays and HSBC. But whilst Revolut seems to hit the headlines more than most, it's by no means the only fintech experiencing abrupt executive departures.

According to Wired, Gemini lost its head of European expansion in September. Julian Sawyer spent less than a year at the crypto exchange start-up, having

previously co-founded Starling Bank. In the last year, N26 has lost more than seven of its executives. The most recent departure being its chief product officer (CPO) Georgina Smallwood, who left after less than two years.

Regulation can turn things sour

Amid the roles which see the highest turnovers, risk-related roles continue to top the list.

Take Monzo's chief risk officer (CRO) position as an example. Ruth Doubleday filled the role in 2017 after nearly ten years at the FCA. A year and one month later, she left. Then the role remained vacant for over a year, before Lisa Nowell joined in October 2019. Nowell has been at Monzo for just over a year.

Since 2016, Revolut has lost two chief risk officers, a chief compliance officer, two money laundering reporting officers, and a chief information security officer (CISO) who left after just two months in November 2019.

"The reality check comes when the service they [fintech start-ups] offer is being captured by the financial regulation or license requirement[s]," Olivier Guillaumond, global head of ING Labs and fintechs, tells *FinTech*

Futures. "Fintechs may have focused on the 'tech' part first, rather than on any regulatory risk elements coming from operating in a heavily regulated industry.

"Risk function may be something either omitted, or regarded less important or even hampering growth, leading to getting people in the position who may facilitate company ambitions over a solid risk function." Guillaumond also highlights that "in a start-up, flexibility and multitasking is everything", but that "these are not always the key words we associate with senior risk officers".

Back in October 2019, Monzo's chief operations officer said he was "not so sure" Monzo needed to become a bank to succeed. He reasoned that since securing its UK banking licence in 2017, Monzo's processes had become more expensive and slower. It was clear the exec felt the company had drifted from the initial agility it was founded upon. Almost exactly a month later, the COO left Monzo.

ING's Guillaumond thinks neobanks "are on the edge of two worlds when it comes to regulation". He explains: "Starting as a tech and moving to banking services exposes senior officers to [the] same type of accountability

regimes as is for traditional banks. Yet the scale and maturity of risk and compliance functions differs significantly – exposing senior execs to greater accountability risks than might be visible immediately from [the] outside."

Pace can breed big egos

A number of fintechs have undergone assassinations of their culture over the years. Freetrade, Revolut and, most recently, N26 have all been exposed for harbouring unhealthy – some former employees dubbing them "toxic" – workplace atmospheres.

In 2019, 22 of Freetrade's staff left the start-up – that was close to half the fintech's total employee count of 53. The high attrition rate and claims from ex-employees that the start-up bred a "culture of fear" were reported in two separate investigations by *Business Insider* and *City AM* in January.

Just last month, N26's employees published a statement saying their confidence in management was at an "all-time low". *Finance Forward* reported on the call for a works council, which saw N26 co-founders try and get an injunction against employees meeting up. This forced two





separate unions to get involved to host the meetings in alternative locations.

Peter Trebelev, head of growth at Islamic challenger Rizq, thinks the pace at which these start-ups grow comes at the cost of a healthy workplace. “The ones that succeed, especially at the start, are talented, competitive, and results-driven by nature – which means they can also be unforgiving, and somewhat arrogant,” Trebelev tells *FinTech Futures*.

“And, if you really think about it, you can understand why. [...] Many founders enter the mindset that an hour lost is an hour gained by the competition. What isn’t as easy to consider and measure, is the fallout that occurs from this pace combined with unreasonable or unaligned expectations.”

“Missed targets and blame games lead to a lack of motivation and care – which turn into mistakes, a toxic culture that spreads, and, finally, employees that either leave or get forced out.”

A source told *FinTech Futures* in April that an ex-Monzo employee went for an interview with a start-up previously critiqued for its toxic workplace culture. “He went for an interview with the three founders, and he said afterwards that they were all total nutters,” the source said.

They pointed to the “delusional” mindset some execs disseminate through the rest of their companies, which often puts off sound candidates as early as the interview stage.

Outgrowing each other

N26’s co-founder Valentin Stalf has said in the past that the reason for the start-up’s past high churn rate of prominent executives is due to its growth beyond start-up status. In some cases, this does seem to be the reason. In an email seen by *Finance Forward*, Smallwood – the CPO who left in August – said she wanted to work at an early-stage start-up again.

“It isn’t uncommon for the company to ‘outgrow’ the executive’s current abilities,” Israeli fintech Lightico’s CEO, Zviki Ben Ishay, tells *FinTech Futures*. “[But] the other side of this might be the opposite, where an executive feels that he or she has achieved new professional milestones and is eager to prove those in new organisations.”

“That transition can help them solidify their new skills, and [potentially] earn them a title and compensation boost. [To] minimise churn, both executives and companies need to continually work to ensure that there is good fit between the role and the executive.”

The question “why do some

fintech start-ups experience high exec churn rates?” can be answered from two different lenses.

From a company perspective, it’s down to a mixture of timing – particularly the moment a fintech moves into a more regulated space – and the pace at which it grows – particularly when said pace outpaces its employees.

From an employee perspective, it seems to be down to the matching of jobs and people. Both Guillaumond and Ben Ishay agree that there needs to be more clarity around the true nature of certain roles.

But it’s also down to – in some cases – the individual. Regardless of the company, the start-up world attracts a lot of execs who like to build, but then not necessarily maintain. Tom Blomfield’s recent swap of titles from CEO to president is a good example of this.

“I went through all the stuff I love about my job, and it was all the stuff I did in the first two or three years,” he told TechCrunch in May. “And I went through all the stuff that drains me, and it’s all the stuff I’ve done in the last two years.” Blomfield’s takeaway on his experience is something a lot of people in the fintech industry can resonate with but decide to leave a firm without the option of trying their skills in a different position.

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what’s concrete?**



Revolut faces lawsuit in Romania over blocked account

By Sharon Kimathi, editor, FinTech Futures

Digital bank, Revolut, is facing a lawsuit after blocking a customer's account in Romania.

Florin Hrituliac, a Revolut personal account customer in Romania, tried to transfer RON 20,000 (\$4,832.68) from his company's bank account to his Revolut account on 9 September 2020, but was unable to access these funds. Hrituliac tells *FinTech Futures* that his account was blocked for five days "without any clarifications from their chat agents". The fintech unblocked the customer's account on 15 September.

Revolut claims that the customer's account was actually "locked" on 21 May 2020. A spokesperson at the company tells *FinTech Futures* that the account was rarely used and undergoing a review, hence the account being locked. They explain that the customer was unable to access these funds "due to a mistake on our end where [the] review wasn't completed on time," according to the spokesperson. Revolut has since apologised to Hrituliac for the delay.

Hrituliac, a Revolut customer since April 2019, notes that he was unaware of his account's blocking as "it appeared active and there was no reason provided". Revolut believes that the customer should have received a notification, as all it requires is a verification on some occasions. "Because of the soft block, it should be immediately flagged until documents are provided or the review is completed," says the Revolut spokesperson. He adds that the internal review can take either minutes or hours depending on the case. But the firm did not finish the review until they became aware of Hrituliac's account issues on 10 September.

Although Hrituliac was aware of Revolut making the statement about blocking his account in May to national media outlets, he tells *FinTech Futures*, that he "was not aware of this at the time of filing the lawsuit". This was because Hrituliac made payments without any issue in between.

"If Revolut blocked the account since May this means that it was blocked for five months – still no notification

received concerning this," he says. "I had full confidence in transferring the amount of RON 20,000 to my Revolut account; should I have been informed it was blocked, I would sort out the issue first, then transfer the money."

Hrituliac alleges that this piece of information went unaddressed in chat discussions with the first agent. "She pointed that this transfer was only flagged for further verification, not that the account is/was blocked."

Initially, Hrituliac believed that his account was blocked for five days, "without any clarification from their chat agents". Due to Revolut's lack of response, Hrituliac promptly filed a lawsuit against the fintech in Romanian courts on 11 September, registered in Brasov court under the number 17723/197/2020.

He highlights that the funds appeared as pending/blocked on 10 September at 00:34 am. "I contacted an agent via chat at 8 am and they unblocked the amount on 15 September after several newspapers and websites posted articles regarding court action against

Revolut," he says.

Hrituliac then sent his query to various national media outlets. This led Revolut Romania to publicly declare that it was making "extra efforts in order to unblock the amount because of the court action".

"This is unfair to similar customers who were not able to go to court," says Hrituliac. He finds it "disappointing that they only paid attention to this issue only after public information about court action have been made popular by some websites and newspapers".

The *Financial Times* reported on Revolut's surge in complaints due to its freezing or closing of accounts on 17 September. The report highlights data from Resolver, the online complaints service, that received 3,911 complaints about Revolut so far this year, as compared to its 2,487 for the whole of 2019. Of this year's complaints, 332 were about problems accessing funds, 79 were transfer errors and 176 were multiple complaints involving more than one issue.

In the *FT*'s report, UK Revolut account user, Richard Walker, had his account suspended after a £150,000 transfer from a friend.

"As a lawyer and now a full-time parent, Walker was aware that banks and electronic banking apps are required by the Proceeds of Crime Act 2002 to monitor accounts for money laundering and fraudulent activity," notes the *FT*. "A large sum being paid in from a foreign account looked suspicious. He decided to contact his bank to explain."

"But Revolut did not have a telephone number. Instead it had an in-app chat facility that failed to work. A conversation would be started but not finished. A member of the Revolut team left the chat without closing it. Walker found it impossible to make progress on finding his money or receiving a full explanation."

Hrituliac also faced a comparable situation with chat agents. "After so many attempts to get a piece of information from Revolut agents (documented in the print screens), and no reply from their side, I felt



mistreated,” he says. “Upon a search on Google I have realised such bad things happen on a regular basis with Revolut, and affected customers just do not have any means to contact the company, other than the chat window in the Revolut app,” he adds.

“Basically, they do not care about our money. This is when I decided to file a lawsuit against Revolut in my local court.”

Hrituliac’s account was finally unblocked “without any documents, just based on my explanations,” he adds. “Which again shows many flaws in their anti-money laundering (AML) procedures.”

Revolut claims that the freezing of accounts “could be due to either a breach of our terms and conditions or as part of our security checks which continuously monitor to keep our customers safe. This measure is a regulatory requirement.”

However, Yaron Hazan, vice president of regulatory affairs at ThetaRay, believes that it may be down to Revolut’s

lack of adequate de-risking procedures. “Its ongoing monitoring activities are not in line with the standards of large and commercial banks,” says Hazan. He finds that new digital banks face the conundrum of suspending accounts when met with suspicious activity; however, conventional procedure dictates that they should be going through appropriate AML protocols, flagging these instances to regulators before suspending account activity.

“Only a few cases of regulatory requirements specifically state anything about freezing accounts, freezing money and not providing services, and those are mainly about sanctions,” says Hazan. Otherwise, it is down to the bank to simply manage the risk.

Michael Cumming-Bruce, senior associate at law firm, Cooke Young, Keidan, thinks the problems come from the firm’s rapid expansion. “Unfortunately, adolescent growing pains are often a part of life for companies, as

for people, and it may be that Revolut are now learning the hard way why established banks spend so much time and money on ensuring regulatory compliance in the course of carrying out their business activities.” Hrituliac points to Revolut’s recent job posting for a money laundering reposting officer in Bucharest.

Cummings-Bruce believes the future still seems bright for Revolut, “who despite these awkward customer-facing issues and the pandemic have managed to grow their customer base to over 12 million individuals (which may also help explain these recent difficulties)”.

The fintech’s new money laundering officer will have to tackle this case and more, as Hrituliac’s situation has garnered a lot of interest since his post about it in a Revolut Romania group on Facebook. “Immediately, I have been contacted by messenger by other customers interested in filing a class lawsuit against Revolut in Romania – I redirected them to my lawyer.”

Accelerating growth and building resilience in corporate banking: Benefits of moving to open APIs



Stability of financial institutions during and beyond COVID-19

By Udi Ziv, chief executive officer at Earnix

As part of its announcement on interest rate policy, the Federal Reserve of New York stated that “sustainably achieving maximum employment and price stability depends on a stable financial system. The new interest rate policy framework will, at least in part, determine how the United States will recover from the COVID-19 economic fallout”.

Globally, financial institutions are grappling with dynamic stock market fluctuations caused by the pandemic, and it remains to be seen what the long-term impact on the stability of the United States' financial system will be. What we do know is that the preparedness of US financial institutions to serve consumers in an era of high unemployment and low wages, and the impact of government economic assistance, both indirect and direct, on consumers, will be the key indicators.

A few weeks ago, New York Fed economists released a report assessing which borrowers are benefiting the most from debt relief and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Interestingly, the report pointed out that “mortgage benefits are not automatic; mortgagors must actively seek out these benefits by contacting servicers and proving financial hardships”.

It is obvious what that means

for consumers, but less so for banks. How do banks contribute to stabilising the economy at a time when many borrowers are experiencing or will be experiencing financial hardship? How should banks provide consumers with what they need and can afford, at the time when they need it, and in a way that does not pose a significant risk to the financial industry?

Financial institutions need predictability. Making smart decisions in the financial services industry requires assessing real-time data and using that assessment to create product offerings for consumers that reflect and proactively recognise their changing needs.

AI-powered personalisation is imperative

The COVID-19 pandemic has given rise to the need for consumer access to loans and credit, which has been challenging for banks. The problem lays in their inability to leverage the existing data to guide their decisions to lend. Consumers needs are at a peak, and without analytics and sophisticated pricing, banks are at a loss. First, banks must shift to thinking of consumers as individuals, as opposed to consumer market segments. By tailoring a loan to a consumer's needs and preferences and in

a way that reflects their unique financial situation, banks can achieve a level of certainty in their decision to lend. This requires sophisticated use of consumer modelling which allows for a high level of product personalisation that banks have no way of doing using manual processes. Advanced modelling methods using artificial intelligence (AI) and machine learning (ML) techniques enable banks to be more agile as they adapt to changes in government loan assistance offerings, credit options and rates.

Immediate market response

Market fluctuations are dynamic and fast. Many risk-based financial institutions, such as banks and insurers, still base their prices on statistical analytical models that cannot adapt to the market at the speed that the market now requires. They have a limited basis upon which to determine the pricing of their products, which in and of itself increases risk.

Even basic consumer segment-based product personalisation no longer applies. Any insurance company incorrectly pricing a product and selling at a large volume is at risk of going out of business. Despite low interest rates, some banks constrained lending reducing consumer access to credit due to concerns

about delinquency levels. Analytical systems that leverage advanced statistical methods provide a viable solution to this problem. Systemised solutions have the ability to monitor market performance and update pricing strategies against market rates in real-time. This enables financial institutions to make minor adjustments to prices, in defined thresholds, to more precisely meet consumer needs and offer a loan that reflects changes both in the market and in a consumer's financial situation. However, the key to accomplishing this is not to simply have solutions that monitor market performance, rather, it is in the ability to implement it as part of a financial institution's operations in a timely manner.

Being proactive, not reactive

Deployment of AI and ML allows financial institutions to

determine what financial product the consumer needs and prefers and do so proactively. Now more than ever, banks should recognise consumers' financial hardship and assess their ability to afford a loan based on their new financial circumstances.

Banks can employ enterprise-wide analytical models that can detect when a borrower is experiencing financial hardship, based on late or missed payments, and proactively offer refinancing options, as opposed to letting the consumer default on a loan. That does not mean that the loan adjustment will not extend the term of the loan or have a higher interest rate. It means that recognising when a consumer is struggling to meet the terms of their loan and acting on it, can instil trust in the bank's ability to continue to serve the consumer through thick and thin.

The COVID-19 pandemic is driving the need for financial

institutions to advance their business velocity, to be more agile and dynamic in how they operate, whilst being sensitive to changing consumer needs. The use of smarter analytics can enable that and in a way that allows banks to externalise its value almost immediately.

It comes down to offering products that reflect consumers' financial situation or risk affecting the business' bottom line. Tailoring a product to a single consumer, as opposed to a consumer market segment, is not easy, but it is not impossible. AI alone is not the solution either.

But the real-time deployment of AI and analytics to bring the most value to that consumer, at that particular moment in their life, is a good way to start. That way, our financial institutions can become sustainable during uncertain environments, and beyond the one we are currently in.



