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Algemeen nieuws

Speech Steven Maijoor - “How can FinTechs help combat financial crime and strengthen trust in the financial system?”

11 juni 2021

Algemeen

Lees voor

Steven Maijoor

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organised by Holland Fintech. He talked about how FinTechs can help combat financial crime and strengthen trust in the financial system. He pointed out that the misuse of the financial system for money laundering and the financing of terrorism is one of the most serious problems facing the industry today, adding that “[t]he innovative technology that FinTechs developed for the better, can also be used to fight against the worst.”

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Speaker: Steven Maijoor
Location: Online event

It is a pleasure to talk to you today in my new role as Member of the Governing Board of De Nederlandsche Bank.

The fintech sector is not new to me, of course. In my previous role, as Chair of ESMA, I came to know it as a sector that is constantly changing, but at the same time has already arrived. Innovative financial technology is no longer something for the future, but is now an established part of our financial system. Fintech has found its way into many people’s daily lives – and will continue to do so.

At De Nederlandsche Bank we welcome this. We welcome any technological innovation that has the potential to contribute to our society’s welfare, while also contributing to a trustworthy and stable financial system.

According to the Holland Fintech website, fintech solutions “enhance economic empowerment and financial inclusion globally”. However, in order to achieve this, the public’s trust must be earned. People need to feel safe in the knowledge that their payments are secure, and that no one is rigging the financial system.

For us, as supervisors and central bank, trust goes hand in hand with rules, regulation and supervision. This means finding the right balance between giving enough room to promising technological innovations, and addressing the risks they bring. Too much leeway for risks represents potential erosion of public trust in the financial system.

Public confidence in the financial sector is currently high, at least in the Netherlands. This was one of the key findings of a household survey by De Nederlandsche Bank earlier this year.

So let’s build on this – and let’s do that together.

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take the fight against financial economic crime. The misuse of the financial system for money laundering and the financing of terrorism is one of the most serious problems facing the industry today.

Given the financial sector’s role in monetary transactions, it is uniquely placed to fulfil the role of gatekeeper. To be the one on the lookout. To be the one who decides who can or cannot make use of the financial system.

But even though financial institutions are increasing their gatekeeper efforts, there is of course only so much humans can do by themselves. Simply being in the position of gatekeeper, does not, unfortunately, come with superhuman powers.

So this is where fintech comes in. In a sense, technology is just that kind of superhuman power that we need. Because the innovative technology that many of you developed for the better, can also be used to fight against the worst.

And there are already quite a few examples where the application of new smart technologies could contribute to combat financial crime.

Let me give you three examples:

First – Artificial Intelligence and video detection allow financial institutions to fulfil their legal obligation to verify a new customer’s identity remotely. For example, with the use of AI, financial institutions can automatically verify

- the authenticity of an ID or passport;
- whether the photo on the ID or passport matches the customer; or
- whether the photo is of a real person and not a photoshopped image or deep-fake.

Second – news websites or public databases hold a massive amount of data on people’s involvement with financial crime. Open Source Intelligence tools can be applied to cross-check the names of new and existing customers with these databases or websites. And once something suspicious comes up, this could trigger further investigations.

Third – machine learning. Several financial institutions are experimenting with machine learning as part of their transaction monitoring. They use this technology to detect suspicious outliers and patterns.

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identify suspicious transactions, based on previous analyses.

Machine learning also allows financial institutions to conduct better risk assessments of their customers. It means they can intensify monitoring of riskier customers – and ultimately, part ways with customers whose risk appetite is out of sync with their own.

Obviously, in order for this technology to be effective, the customer and transaction data need to be reliable, complete and consistent. However, as supervisors, we notice that this is not always a given.

All too often, data quality is not yet at a sufficient level to fully exploit the potential of this advanced technology to prevent and detect financial crime. That is why DNB calls on financial institutions to first and foremost get their data in order.

In short, these three examples mean the sector can surpass what would be humanly possible. This way, we can really scale up our efforts to prevent and detect financial crime. And in doing so, strengthen trust in the financial system, which benefits us all.

However, I do want to mention one concern today – and that is the risk of money laundering facilitated by new parties, specifically crypto service providers.

Cryptos are characterized by anonymity, a rapid movement on a global scale, and by the absence of centralized parties. These distinctive features of cryptos increase the risk of being used for money laundering and terrorist financing.

The Dutch Public Prosecution Office notes an increase in criminal activities linked to cryptos. Last April, for instance, they announced they had seized 8.2 million euros worth of crypto assets in 2020. A sharp increase compared to the 1.1 million euros in 2019.

The concern that cryptos, because of their characteristics, more easily facilitate criminal activities is also shared by the European legislator.

That is why the EU’s amended Anti-Money Laundering Directive now includes two types of crypto service providers: crypto companies that exchange fiat to crypto and crypto companies that offer custodian wallets.

And since the Dutch implementation of the Anti-Money Laundering Directive in 2021, both types of crypto companies also fall under the scope of the Dutch Anti-Money Laundering Legislation – in short, because these companies are able to monitor who is behind what transaction.

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We need to make sure there is continuous monitoring of transactions and customer behaviour.

We need to ensure a level playing field between new and existing financial institutions.

We need to set a bar in order to protect the stability and trustworthiness of the financial system.

Currently, a registration obligation is in place. And when a crypto company is legally registered, it becomes a gatekeeper in preventing and detecting financial economic crime.

Since the obligation to register came into effect, 20 crypto companies have met the regulatory requirements. There are, of course, more crypto companies. And many of them did not make the grade.

However, as a supervisor, I want to stress that legal requirements will have to be met – this is the only way we can ensure a fair and trustworthy financial system that benefits all parties involved.

Of course, we will help registered crypto companies with meeting the requirements by providing guidance.

Given the rapid development of crypto technology, especially compared to changes in the national or international regulatory framework, I can also say that a regulatory catch up is bound to happen. Both the scope and extent of the requirements are likely to be expanded.

To conclude, let me sketch a vision for the future.

The effectiveness of any anti-money laundering system is the sum of its parts. And to successfully fight against financial crime, you need to start at the beginning, with customer due diligence. Financial institutions need to know who they are dealing with.

And it doesn’t end there, of course. During the whole customer life-cycle, financial institutions need to stay vigilant. They need to manage their risks, monitor customers and transactions, and follow up on suspicious activities, and if needed, contact the authorities.

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But Fintech has great potential to make a valuable contribution here.

So I call on all of you: let’s work towards a common goal.

Each from their own perspective;

Each with their own expertise;

And each with their own instruments;

To ensure a fair, stable, and trustworthy financial system.

Thank you everyone for listening, thank you Holland Fintech for inviting me, and I look forward to the discussion.

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