Part 2

Exposed: the AML RegTech Ponzi Scheme.

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It has taken a decade for global governments' support of RegTechs to elevate them to their current prominent position. However, skepticism about their true benefits has also arisen.

Recently, Innovate Finance, representing the UK financial technology sector, proposed that UK regulators conduct a 'RegTech test' whenever new regulations are introduced. The aim of such a test is to assess how technology can effectively enable compliance for regulated firms [11]. Whether driven by concerns over cost, reliability, skepticism about marketing claims, or simply unease about a decade of long-winded actions, this proposal suggests that uncertainties persist.

Despite this, Innovate Finance appears reluctant to fully investigate these concerns. They much rather be compliant with the governments' messaging and maintain that RegTechs could potentially reduce Anti-Money Laundering (AML) costs and enhance international competitiveness and medium to long-term growth [11].

A nurturing environment

Encouraged by government support globally, funding continues for existing and new RegTech firms. Whilst they may be competing for the same role or even the primary place in society – where it can ascent to ranks of being the most valuable 'unicorn' in the world – it seems there is to be no let up. In 2023, the UK unicorn Quantexa was successful in a $129 million Series E funding round that elevated the company's valuation to $1.8 billion [19]. Founded in 2016, the company initially concentrated on assisting HSBC in investigating money laundering networks by enriching the bank's customer information with publicly available data [20]. Today, Quantexa is marketed as a one-stop shop to 'protect, optimize, and grow your organization with the power of Quantexa's Decision Intelligence Platform and outcome-driven solutions' [21].

With so many RegTechs chasing the same 'unicorn dream' – a wave of RegTech rebranding has ensued. Niche compliance tools were sold no longer as simply AML compliance solutions but equally suitable for adjacent markets and industries such as fraud, cybercrime, corruption, and other forms of financial crimes. ComplyAdvantage is a fine example of the market spread that has ensued. Attracting £113 million in 5 funding rounds [22] it now describes itself as 'an industry-leading and trusted SaaS-based risk intelligence platform that unites global intelligence to combat financial crime' [23].

Alongside ComplyAdvantage is SymphonyAI. In 2022, SymphonyAI acquired NetReveal; British Aerospace and Engineering (BAE)'s financial crimes software business. Today it boldly asserts its role in 'providing predictive and generative AI for the future of financial crime prevention' [24]. The billionaire Romesh Wadhwani has invested what many see as a small fortune with plans to take the company public as revenue is projected to grow [25].

Dismissing the ROI

RegTech companies typically promise to combat, fight, and prevent all types of financial crimes – today and in the future. Despite using world class decision intelligence, a notable lack of empirical and verifiable evidence, or simple proof actually exists. Take SymphonyAI's NetReveal as an example. Despite over 200 banks using it [26], the company has yet to demonstrate publicly how its product effectively reduces money laundering. Equally, Quantexa's work with HSBC – claiming access to 87% [27] of the world's trade flows has seemingly had no real impact on the level of money laundering through annual trade transactions. Additionally, the staggering $40 billion in venture capital poured into new RegTech ventures between 2015 and 2021 [28] has failed to yield any credible and notable results in the war on dirty money.

What shocks many onlookers, is that the estimated $2.9 trillion [29] in global annual money laundering has remained valid since 1999. Criminals continue to openly utilise bin bags of dirty cash [30] as banking deposits. Money, people, technology have all had no beneficial influence on dirty money and the underpinning criminality. Yet, the persistent high level of money laundering is not simply a fault of certain countries having less mature AML controls. Together the UK and the USA account for 40% of all money laundering. Two key countries sitting comfortably amongst the 36 countries belonging to the Organisation for Economic Cooperation and Development (OECD) [31].

Pushing for the truth

Still, many RegTech professionals privately acknowledge their technology development work typically centres around reducing false positives and simple automation of rudimentary compliance processes – not fighting financial crime [32]. Despite what some see as sham claims of grandeur, the core value underpinning a RegTech is to make the existing compliance faster, cheaper, and less burdensome. The truth is in the name – Regulatory Technology (RegTech). Not Fighting Financial Crime Technology (FFCtech).

Nevertheless, even todays promises are mostly bogus. Comments such as "it's the RPA aspect, robotic process automation, primarily why that [technology] would be brought in" [32] and "the way that we're spending that money is not really actually curbing money laundering. I think, yes, we report some stuff, but I don't think it's meaningful. I do think that again is one of those things that it's actually counterproductive..." [32] help to establish a truer assessment.

Still, the funding, investment, claims, and media coverage continue. It is clear RegTech firms are forever hesitant to associate themselves with negative compliance outcomes. As banks face fines, RegTechs stay quiet. As banks face regulatory criticism, RegTechs remain unscathed – managing to somehow escape scrutiny. Moreover, they continue to apply fear-based marketing to push banks into purchasing more features of their products. As one RegTech employee told it, "we do need to gently twist a few arms to say you really need to be doing this, because here's what's happened to your peers. Your next-door neighbour got a USD 250 million fine" [32].

The taxpayers continue to pay

It is true, the UKs AML approach has led to a small number of prosecutions and confiscations of illicitly generated funds. Yet what is ignored is that these publicly advertised and endorsed outcomes fall into insignificance when compared to the trillions of dollars associated with such activities [33]. It is normal for UK policymakers to overlook economic crimes because they do not 'bang, bleed, or shout' [34]. Perhaps this is why a mere 0.6% of police officers in England and Wales are now dedicated to investigating fraud, money laundering, and other economic crimes [34]. Many recognise this as a low commitment rate – which it is. These crimes cost the UK taxpayers approximately £380 billion per year; a figure that is equal to 23 times greater than traditional crimes [34].

While the UKs FCA is active in AML enforcement actions, efforts are directed only towards the regulated sector and not the criminals. As one interviewee said when they participated in a research study undertaken in 2023, "that's the thing, it's about the depth of pockets, not about level of criminal endeavour"…. and …. "I don't expect anyone to feel sorry for international banks, we make a lot of money, but it's a lot easier to fine a bank with a lot of money than it is to capture a criminal" [32] its clear there is a real and logical imbalance.

It is this imbalance which continues to be manipulated. Regulated firms often have little option but to pay for RegTech solutions. It also appears spending on RegTech sooths their desire to challenge regulators or law enforcement authorities – many of whom are still seen as unaccountable [35].

"Even if a regulated firm has the best and most efficient staff who would never let crime proceeds go through the firm's accounts, that will not matter to a regulator if the firm cannot demonstrate that it has documented a process that fits the regulator's concept of the right process. As there are no clear definitions of what a right process is, it becomes a 'human factor' variable or, a matter of arbitrariness…The fact that this client is not a criminal, has never committed a crime and is unlikely to commit a crime will not matter to the regulator" [35].

Behold: the RegTech Ponzi scheme

As described by the notable AML experts, the global war on dirty money is being led "down tramlines that were originally badly set and now trap us all in keeping going in the wrong direction" [36]. Commentary also highlights how "the Regulators really don't know how to tackle the elephant in the room" [32]. It is this and other such statements which highlight how AML regulators may, at best, choose to ignore, or when pushed, hide behind the unregulated and thus unaccountable RegTech Ponzi scheme they were instrumental in creating. The result of which is a perfect smoke screen for an ongoing failure in addressing money laundering.

Similar to the way a Ponzi scheme promises a high rate of return with negligible risk to the investor, RegTechs use government backing to influence the market into believing their exaggerated assertions of making the world a safer place by combating, fighting, and preventing future financial crimes. The Ponzi masterminds have used their questionable return on investment (ROI) claims to inspire a continuous stream of funding. All of this is taking place whilst millions of taxpayers throughout the UK continue to suffer from unsolved money laundering consequences.

Although in the midst of significant investment, it appears few banks, regulators, commentators, and critics have decided to query whether there is actual wealth or benefit beneath the surface of the many RegTech derived claims. For now, the RegTech Ponzi scheme is managing to maintain an illusion of a successful preventative technology solution.

Still, as with anything that seems ‘too good to be true’ the time is nearly upon us when the market will demand empirical and valid ROI data. From this will come a need for better understanding of the true ‘value for money’ from the many investors who somehow saw potential in RegTechs. When this happens, and it will, its clear there will be many RegTech advocates running for the hills. No doubt they will be closely chased by investors who failed to really understand where their money was going.

As it currently stands, it is the millions of taxpayers who continue to have the most to lose. It is they who pay for failure after failure, poor decision making, poor policy making and still they are unable to rely on the AML regulators to do anything for them. Why, because it is the same AML regulators who have decided to hide in plain sight and yet deflect their core responsibilities.

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