Accelerating Growth Through Automated Compliance Operations

Goldmoney®
CASE STUDY

How one company grew from $0 to $350M in 2.5 years by automating compliance.

Imagine starting or working at a new FinTech company. Many of you reading this already do. You want your company to grow as much as possible, as fast as possible. This is especially true if your company is mission driven, and you're working for more than just shareholder profit. The following case-study documents the story of **GoldMoney**, a FinTech company that planned ahead, so that it could achieve:

$2 BILLION

Hockey-Stick
Growth

Going Public in Three Years
With **$2 billion in
Client Assets**

Obtaining **1.5 million
User Signups** From 150+
Countries.

Growth isn't an accident or something that just comes; it requires planning, and a tremendous amount of hard work. Hypergrowth requires even more, including product-market fit, happy and loyal early adopters, effective sales and marketing, proper pricing, a team that is both capable of handling the ensuing craziness, and flexible enough to iterate quickly; but most importantly, a strong value proposition that customers will rally behind.

Many factors can prevent hypergrowth or even growth, and compliance is at the top of the list.

Too rigid of compliance and the user experience is hampered; customers get frustrated and don't complete the sign-up, or complete the sign-up and don't use the product because of further onboarding friction. Without early adopters, achieving traction becomes even more difficult. Customer acquisition growth is more important than ever, and since your marketing team needs new customers just to replace those who left - you are a leaky bucket. Moreover, with fewer users there are fewer people telling their colleagues, family and friends how great your product is. You lose out on one of the most effective forms of marketing.

Too light of compliance and you're always playing catch-up, which is twice as much work as doing it right the first time. This is the easiest approach upfront, but far from the best. Companies often open beta products to staff, then friends and family, then a soft-launch, followed by opening it to the public. If you don't have your compliance posture in the first step, you're not going to do it in the subsequent steps because you have no reason to worry about your staff, or your family. As things progress and you're ready to launch, you don't want anything to hamper growth.

Smart Compliance

So, what's the answer? Smart compliance. What does this mean? You do what's required and you automate everything else. What does this get you? The ability to manage compliance to an extent that you can grow exponentially with minimal staff and third-party expenses. By having risk and compliance set-up and running from the very beginning, once you launch, your sole focus is on growing the business.

So, the question then is, how did GoldMoney do it? How did they scale so easily and grow so fast? They had a receptive audience around the world, very effective marketing, proper pricing, a team that was capable of handling the growth, and a strong value proposition that customers rallied behind. They also had an automated compliance operation. With constrained resources this was the best, and only, way. They used IdentityMind because we provide automated AML and risk management in one place, with an infrastructure to support them as they experienced hypergrowth.

Set-up

Know Your Customer (KYC)
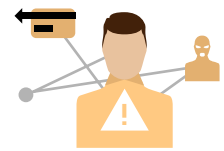More than a simple check, this is knowing:
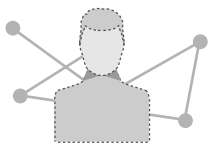
1
That the Customer is Real

2
That the Applicant is Authorized to Use the Identity Information
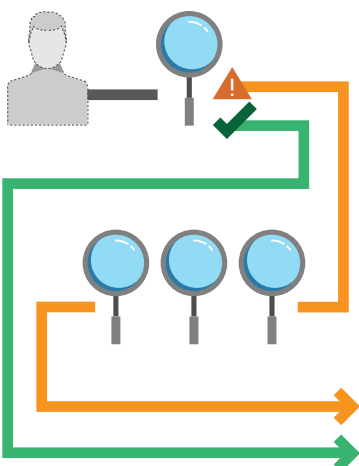

3
That You Can Legally Do Business With the Individual

4
The Risk of the Transaction

Stages
Rather than conducting a single, KYC on every sign-up, when users first went to the GoldMoney site, a light KYC was performed. Sanctions, black lists, and geography were checked. When the user conducted transactions is when the KYC began. The more the user tried to do, the more KYC. Staged KYC minimizes user experience friction, so that compliance processes and procedures don't have a negative impact on customer acquisition growth, and product usability.

Risk Based Approach
Most users were good, but not all of them. Users who presented more risk for various reasons including failing of specific tests underwent additional KYC.

Region, Country Specific Onboarding
Some countries have very prescriptive KYC requirements, demanding you doing it the way specified by regulation, others provide more discretion to the institution.

Third-party Services Used:
- Document verification with face match
- Name and Address validation
- Device Fingerprint validation
- IP address validation
- Email address validation
- Sanctions Screening

Fraud Prevention

KYC is a problem later, fraud is a problem now. Fraudsters mean immediate losses that are extremely painful, and hard to recover from.

- **Rules:** Easy to create, can build on any desired attribute
- **Geography-Based Risk:** Adjust scrutiny based on geographies; some are riskier than others, and behavior that is normal in one location may be suspicious in another
- **Reports:** See how the rules are doing and perform analytics
- **eDNA**: Shared reputational database of digital identities from all of IDM's clients. This alerted them to whether we had seen customers before and whether they were good or bad

Transaction Monitoring

Required by nearly every government in the world. It's critical to know what customers are doing and changes in behavior.

- Different thresholds for consumers vs. businesses
- Automatic bunching of a customer's alerts for faster disposition
- Case Management system that pre-populates all data in relevant transactions + ability to upload documents
- Pre-populated SAR filing

What Can be Automated and What Cannot

Over 99% of compliance and risk can be automated, but not all of it. Below is how GoldMoney automated as much as they did.

Know Your Customer (KYC)

GoldMoney uses a staged approach to ensure all applicants receive the proper KYC. If a potential customer fails one stage or is higher risk, they undergo additional KYC for risk reduction purposes. However, the one portion of KYC they don't automate is review of potential matches to sanction screening lists.

Countries large and small have lists of individuals that companies are prevented from working with. Preventing companies from working with these entities, especially financial institutions, is a billion-dollar industry. In conjunction with sanctions screening, potential customers must be reviewed for being politically exposed persons, these are individuals who are more susceptible to money laundering due to their position or connections.

Less than 0.5% of potential customer applications match to sanctions screening lists and need to be reviewed by GoldMoney.

Transaction Monitoring

All alerts are created automatically and with different levels of severity. GoldMoney only needs to manually review less than 0.3% of all transactions for suspicious activity. This ensures the coverage they need with coexistence of manual review and automated processes.

Fraud Prevention

GoldMoney creates rules and uses machine learning so that applicants are accepted or rejected.

Product Growth

All FinTech companies want to do great things, and GoldMoney is no exception. How they define great is preserving and growing the wealth of individuals and companies around the world, despite the current and future economic turbulence. Their first product enabled customers, businesses or consumers, to convert and store any currency they wished, in a way that insulated it from the massive swings of the FOREX market. Whether they were holding Albanian Lek, bitcoins, or the Nigerian Naira, customers could convert and store any currency they wish into gold or other precious metals.

That was their first product, but it was far from the last. Within two years they had expanded into:

Payments
Apple Pay, Alipay, bitcoin, China UnionPay, PayPal and WeChat Pay prepaid card

Money Service Business
Ability to send money from one user to another B2B, B2C as well as C2B and C2C

Lending
Clients can borrow from holdings, and asset-backed lending allows clients to receive rates at below 3%

Private Wealth Management

Because of the launch of the various products, there has been tremendous growth in the company:

Financial
- Revenue of $523.8 million annually
- Gross Operating Profit of $8.7 million annually
- IPO and market cap of $350m

Company
- Acquisition of rival company to expand geographic footprint
- Investment in other companies
- Headcount grew from 5 to 65

Regulatory
- Register with various regulatory bodies: Financial Crimes Enforcement Network ("FinCEN"), Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), Jersey Financial Services Commission
- Examinations from regulatory bodies worldwide

Legacy Systems

As GoldMoney has grown, it has purchased other companies and had to combine different systems into one for enhanced performance and efficiencies of scale. It has done so by using data from multiple companies and sending to a central compliance system via API. This has enabled them to grow and quickly integrate existing systems into their own without the need for running multiple systems, better track customers across platforms, and keep all the data in one place which makes them more efficient.

By performing smart compliance GoldMoney has set themselves up for strong continued growth. At every stage – pre-launch, rapid growth, IPO, and sustained growth – they have expanded accessibility and layered their framework for global distribution. Often start-ups in the FinTech or payments space have at least 20% of their staff supporting compliance; Goldmoney company has only 4.6%. More importantly, the resources usually dedicated to compliance have been used to launch new products that have helped the company grow. No company launches with a goal of focusing on their regulatory compliance. However, by performing smart compliance and automating as much as possible, you're better able to achieve fantastic growth, which is why you started the business in the first place.

Conclusion

When you grow, you face the very painful task of going back to all your customers and trying to validate them. Do you know where your customers are located? Not just where they say they are, but where they really are?

Companies that work with US citizens must follow US law, same for Canada and many other countries. You must get the information required by that country, and it's not all the same. For instance, the UK doesn't accept document verification the same way the United States does.

Moreover, not only does additional validation alienate and anger existing customers who don't understand why they previously could work with you but now must do KYC, but some customers simply won't do it. How are you going to gain their information? We've seen interesting tactics including raffles, access to premium products, etc. But there will always be customers who don't respond. How are you going to track them down? In addition, who's going to be doing this? Likely you'll be small enough that your founders will be doing remediation instead of building products, raising money, and working on the strategy.

Most countries including the United States mandate that regulated financial entities have an annual independent audit. When local or national examiners come, one of the first things they ask for is the results of the audits. An internal auditor finding is huge, and as a result there will likely be further scrutiny of your company in the form of:

• Fines
• More frequent audits in the future
• Deeper audits in the future
• Negative news coverage and brand damage

Finally, not doing proper compliance is essentially betting your own company will fail. Someone who believes their company is going to survive and grow knows this must be done upfront. Not doing it is saying, "it won't be an issue because we'll never grow to a size where regulators will care about us."

Digital Identities in Action

The IDM platform provides a much needed Digital Identity Layer to Financial Services. Leveraging an API, this layer powers the usage of identities for Fraud Prevention, KYC, Sanctions Screening, Enhanced Due Diligence and Transaction Monitoring to prevent and detect Money Laundering. The platform offers all the necessary tools to efficiently operationalize these functions.

These are the results our clients are benefiting from by using IDM's platform:

Reduction of Transactional Fraud

After a short period of usage, our clients are able to reduce their current chargebacks, on average, by **60%**.

Reduction of Manual Review Time

The current industry average for manual review rates is about 22% of payment transactions. Our clients experience between **3% and 7%**.

Reduction of Onboarding Fraud

The combination of account origination fraud prevention, KYC and Sanctions Screening are a strong combination to prevent or rapidly detect account origination fraud. Some of our clients have expressed IDM has virtually eliminated their account origination fraud.

Reduction of False Positives in Sanctions Screening

Our platform offers many ways to reduce false positives and to tune the matching algorithms. The eDNA™ information of both the identities evaluated and those in sanctions and PEP lists allows for multi-attribute comparison.
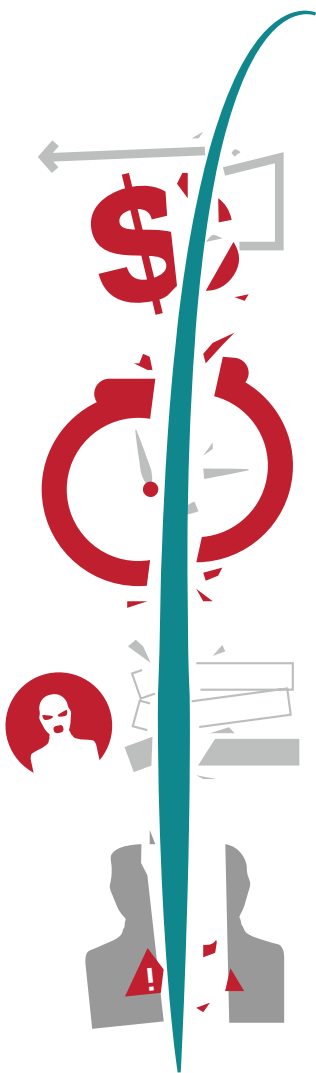
If you have questions or comments about this white paper, or would like to see other use cases, feel free to contact us through twitter at **@identitymind** or send us an email to **evangelist@identitymind.com**.