How Cognito Helps Crypto Companies Stay Compliant

Cryptocurrency has been quickly moving from the margins to the mainstream — but the journey to securing crypto transactions isn't over yet. There's currently a perceived gap between cryptocurrency businesses and the regulatory frameworks that govern financial services and institutions across the globe.

Let's look at where those gaps are, and how a modern, intelligent Know Your Customer (KYC) and Anti-Money Laundering (AML) solution can help close them.

CRYPTOCURRENCY BY THE NUMBERS

Cryptocurrency is a huge opportunity — the market value is projected to reach **$1.4 billion** by 2024, with a compound annual growth rate of **6.18%.**

But crypto is being held back by missed opportunities:

Losses from cryptocurrency fraud, scams, and theft increased 533% in 2019.

Criminal activity involving cryptocurrency totaled $4.3 billion in 2019, harming the industry's reputation.

The biggest concern? Money laundering.

The United Nations calculates that **90%** of all money laundering goes undetected — to the tune of **2-5%** of the global GDP.

Criminals used crypto exchanges to launder **$1 billion** in 2018 **$2.8 billion** in 2019.

And **$1.36 billion** was lost to thefts, hacks, and frauds in the first five months of 2020 alone.

A recent survey showed that 70% of financial and cryptocurrency professionals consider criminal activity a top concern for the crypto space:

- **84%** are worried about money laundering
- **79%** are worried about terrorist funding
- **76%** are worried about human trafficking

And **56%** of polled governments and **63%** of banks agree cryptocurrencies pose a considerable cybercrime risk.

So it comes as no surprise that national and international lawmakers are ramping up regulation.

THE CHANGING REGULATORY LANDSCAPE

As of November 2018, the Financial Crimes Enforcement Network (FinCEN) within the U.S. Department of the Treasury began enforcing the Bank Secrecy Act for crypto exchanges — otherwise known as the "travel rule." Now they're held to the same AML obligation as banks, including:

- **Verifying the identities of customers**
- **Naming originators and beneficiaries of transfers of $3,000 or higher**
- **Retaining records for at least five years**

In June 2020, the Financial Action Task Force (FATF) rolled out a new set of global, intergovernmental standards for AML that exceed current efforts in most of its 200+ member and observer states.

The Department of Justice released a new Cryptocurrency Enforcement Framework in October 2020 that broadens its regulatory scope from exchanges and firms to a range of third parties, including crypto kiosks, money services businesses, and virtual currency casinos.

HOW CRYPTOCURRENCY COMPANIES CAN ACE COMPLIANCE

If crypto exchanges and wallets are going to continue their impressive growth, they need to be seen as responsible and legitimate.

- At present, **56%** of crypto exchanges lack sufficient KYC processes.

So, how can this be improved?

It begins with better onboarding

Onboarding flows have been a huge point of friction for crypto companies, since different KYC verifications have to be completed for each exchange — a costly and time-consuming process that leads to high levels of abandonment.

That's why organizations need a robust, automated solution that compiles reliable personally identifiable information (PII) for new customers, drawing from a range of official sources such as government agencies and credit bureaus.

That's where Cognito comes in.

The process can be started with as little as a phone number — then our industry-leading API connects the PII dots behind the scenes.

Cognito verifies the name, date of birth, address, phone number, and SSN of new sign-ups to keep you in compliance with CIP and KYC regulations.

Taking a phone number-first approach is an effective way to fight fraudsters, connecting each customer with a real location and identity.

And because all of these identifiers are stored and displayed on a single dashboard, manually viewing and verifying this information becomes a streamlined process.

Automate your re-scans

The FATF states that automation is the only feasible way to monitor virtual asset transactions at scale.

KYC is the foundation of your AML program. Once you have a comprehensive, verified profile of your customers, it's critical to screen them continuously so you can accurately score their risk profile and proactively catch red flags.

Cognito is able to scan hundreds of millions of users per month, with regular re-scans allowing you to see the slightest changes in a customer's status.

Watchlist monitoring means that you have a detailed record of any hits on your customers, along with all the information required for investigations.

Politically exposed persons (PEPs) are easily identified by constantly cross-checking with international sanctions lists.

The FATF recommends that AML programs follow a risk-based model that includes enhanced due diligence for customers flagged as high-risk — processes that Cognito supports.

Cognito's industry-leading search algorithms also provide intelligent global language handling, from **phonetic and semantic similarity** to **differences in translation and transliteration**. This greatly reduces instances of missed hits and false positives — and sets Cognito apart from other automated solutions.

With its culture of anonymity, cryptocurrency has inadvertently hindered widespread adoption by leaving the door open underhanded activity. But that can be changed simply by verifying who's on each end of virtual asset transactions.

With a comprehensive, automated KYC and AML solution like Cognito, crypto exchanges can comply with increasingly stringent regulations and shift people's views on the industry as a whole.

Cognito