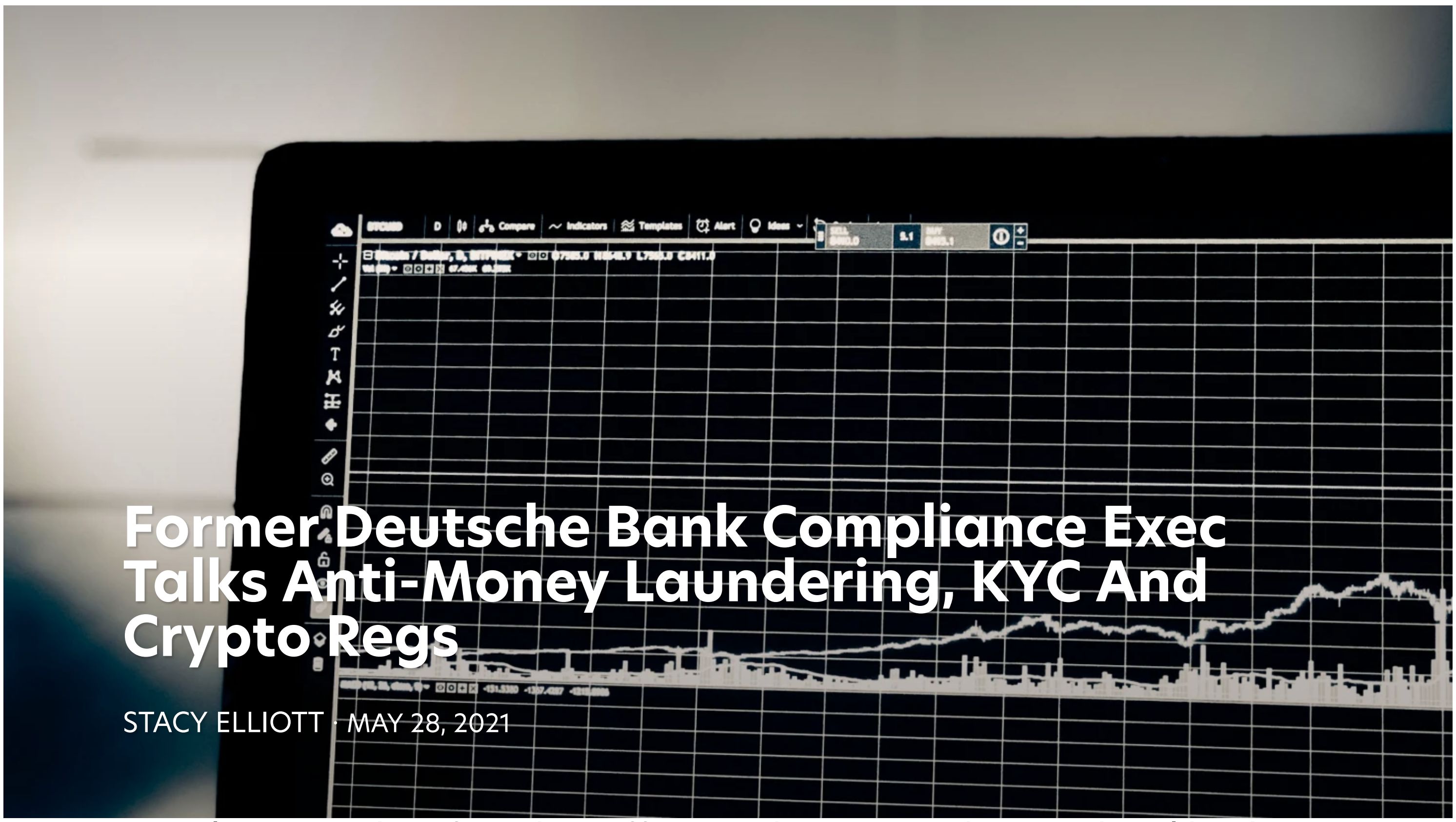

Former Deutsche Bank Compliance Exec Talks Anti-Money Laundering, KYC And Crypto Regs

STACY ELLIOTT · MAY 28, 2021

Digipli CEO and co-founder Jeff Horvath says another incident like the hacking of the Colonial Pipeline could force regulators hands on crypto regs

Welcome to **The Ask**, where each week **Crypto Investor** interviews essential voices doing the work to make crypto ‘mainstream.’ Exchange lightly edited.

This week, senior reporter Stacy Elliott spoke with **Jeff Horvath**, CEO and co-founder of **DigiPli**. The firm offers **fintech** and **crypto** firms an outsourced compliance solution for U.S. federal anti-money laundering (**AML**) and **Know Your Customer** (**KYC**) regulations.

Before launching the company, the former regulatory attorney was the global chief compliance officer at **Fitch Ratings Agency** and spent 14 years as a managing director and compliance executive at **Deutsche Bank**. In his conversation with Crypto Investor, he talks about compliance, enhanced due diligence and what could force regulators' hands on crypto.

What are you seeing in fintech and crypto that makes you think those firms need an onboarding-as-a-service solution for AML and KYC?

I spent 14 to 15 years in **Deutsche Bank** providing advice on how to more efficiently and effectively comply with regulations. And there is a different mindset, especially when it comes to the smaller startups who are really being pushed to scale their operations. They're really focusing on their core product. And they haven't, like the **Goldmans** of the world or **Deutsche Banks** of the world, gone through a comprehensive review by **regulators** and been fined X-number of **billions of dollars** to prompt that culture of, 'Hey, we really need to make sure everybody knows this stuff.'

Does it make sense for smaller firms to start worrying about regulations now?

One thing I've learned from doing this for so long is that a regulator will always look at everything in hindsight. They'll say, 'Well how come you didn't look at this a little bit harder?' And hindsight being 20-20 you would expect to be held to whatever the laws might have been at that particular time, say three years ago. Yeah, that's when the account was opened, but things might have changed in the interim and you're held to a different standard than you were when that account was originally created.

So, yes, I understand that there's a lot of [firms] out there that are doing the bare minimum. But, whether that's the best result for their **management** or for their **shareholders** is another question.

What are you watching to gauge how and when we might see U.S. crypto regulations materialize?

The **Anti-Money Laundering Act of 2020**, which was passed in January, and put in a whole slew of new regulations. The regulators, basically **FinCEN** and others, are trying to figure out how to implement those into practice. So we will see a lot of implementation of legislation and rules coming out to put the AMLA of 2020 into practice. Now, whether there will be something new... It wouldn't surprise me, just because of the focus on anti-money laundering and the fact that [U.S. Treasury Secretary **Janet Yellen**] is not a proponent of cryptocurrencies.

And you couple that with what you see out there in the public. So you see the hackers of the **Colonial Pipeline** demanding crypto, right, and **Bitcoin** being used to fund the attack in the **Capitol**. So, there are these events that are very visible, that can encourage a regulatory swing. I think the most likely scenario would be if there's another high-profile case that involves cryptocurrency and political backlash that demands action.

What kinds of questions should someone ask to gauge how much a project has thought about compliance? Or how prepared are they for regulation from the feds?

So, [at a traditional bank], a **money service business** (MSB) will generally be considered a **higher-risk vendor account**. Higher-risk accounts will go through something called **enhanced due diligence**. The banks will say, 'Let me see your policies and procedures. Let me see your last **independent audit**. Give me the C.V. of your **compliance officer** or the most recent **SOC** certification. They may do a sample testing of your client base.

And while the law doesn't require the MSBs to do that, oftentimes the enhanced due diligence processes of the banks will suggest that there's a little bit more that the bank wants the MSB to do to get things a little bit more in parallel so the bank isn't exposed to **risk**.

The same sort of enhanced due diligence that the bank would apply to MSBs would be something that a **private equity firm** or **hedge funds** should be looking at when they're making these sorts of investments because that's a huge exposure if they don't understand that and get it right.