

Why Schwarzthal Tech is backing KYN to replace broken KYC

Founded in 2019, Schwarzthal Tech is a UK-based RegTech startup that is developing Wunderschild Know Your Network™, an AI-driven platform that provides financial crime intelligence and speeds up the look-up process for beneficiaries. Two years into its existence, what is next for the company?



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 ** KNOW YOUR NETWORK **

Schwarzthal Tech aims to revolutionise the way compliance works in the financial sector by bringing a paradigm shift from the traditional KYC towards the new concept of Know Your Network™ through its Wunderschild platform.

Dr. Marius-Cristian Frunza – founder of Schwarzthal – claims that what sets Wunderschild apart from competitors is that the platform is able to detect hidden connections before a company onboards criminals and flags problems as they arise for existing customers. “Our technology moves beyond KYC and navigates the Matrix (underlying network) of each customer. In a nutshell, it searches the Matrix to see who is Mr. Smith – to look into the global extended network of a customer for the bad guy.”

He added that the product also benefits from ‘massive proprietary data infrastructures’ to harbour current and past information and its entity resolution algorithms help to cross information to link data from all jurisdictions in multiple languages. In addition, Frunza mentioned that the platform merges customer screening and transaction monitoring.

Broken KYC

The need for strong KYC is vital for all well-to-do companies – it has always been in the best interest for companies across a vast range of industries to make sure the identity of their clients is proper and not potentially damaging for the company. With traditional KYC ruling the roost for much of the last two decades, is it about to get knocked off its perch?

Frunza remarked, “KYC came to power in the 2000s with the sole purpose to check the identity of clients and companies. Over the past two decades, financial crises have become overly complex. Criminals organise themselves in vast global transnational criminal networks encompassing myriads of companies, persons and bank accounts. Financial crime cases are never about one person or one firm but involve organised networks of companies and individuals.”

In the eyes of Frunza, many financial institutions and corporates are struggling to deal with the increased challenges set by the ‘rampant’ level of crimes. In an age where more people than ever are becoming digitally-native, combined with an increased market for financial crime mostly fuelled by a mixture of increased online activity and technological innovation, old KYC/AML processes are not only looking old hat, but are seeming to be ‘less and less helpful’, Frunza underlines.

The reason behind this inability to hold back the financial crime wave, Frunza believes, is because KYC as a concept is broken and not fit for purpose to tackle financial crime. He believes a new approach is needed for the next decade and beyond, “Know Your Network™ is a network-based screening solution and a sound dynamic, multi-dimensional and forward-looking alternative to KYC.”

The inability of traditional KYC to be the answer for the growing global financial crime wave can be somewhat indicative of the RegTech industry also. According to Frunza, the RegTech industry is ‘focusing almost exclusively on compliance-driven solutions for the financial industry’, something the Schwarzthal founder believes shows that the industry took a rather risk-averse stand.

He believes there are 'very few solutions' that are designed and capable to tackle the rampant financial crime. While many companies hope to reduce their compliance risk, many of these businesses are still left in the unknown with respect to their exposure to financial crime.

Frunza said, "The roaring twenties marked the collective unconscious with their unprecedented violence and rampant crime. There are many similarities between the post-WW1 era and the current socio-economic context. Both periods represent a fertile ground for the development of anti-social activities. The current hyperinflationary environment breeds heightened crime and corruption. The 2020s could very much be like the roaring 20s and bring a crime spree."

Trends and the pandemic

The CyberTech market is currently becoming ever more diverse with innovation in the sector swelling. According to Frunza, one key trend in the space right now is AI and its possible usages. He commented, "Most solutions providers in the industry are packaging turnkey AI technologies supplied by the tech giants such as Amazon or Google. For instance, in the RegTech space, there is practically no bespoke AI technology built-in to answer the sector's specific needs. AI needed to qualify and manage financial crime or cybersecurity risks is very different from AI used to sell ads on YouTube."

Another area which Frunza sees as key is providing accessible solutions for small and medium sized enterprises. He believes the CyberTech industry focuses 'almost exclusively' on banks and big corporates. However, other sectors, as well as SMEs, experience the same pains as the bigger companies do – underlining a big need for change.

The growing instability of industrial and company-wide cybersecurity is also a worrying and considerably prescient trend. The huge increase in cyberattacks last year has shown little signs of slowing down this year, and with the rise of the Russia-Ukraine crisis, there is a huge looming threat for cyberwar.

Frunza said, "WW3 will be cyber. The ongoing Ukraine conflict underlined the risk of a global cyber war. Bypassing sanctions, increasing cyberattacks, and fake news are depicting the shape of things to come in a multi-polarised global conflict."

"Both of these trends are structurally important for our company's development roadmap," Frunza claims. "Building comprehensive and cost-effective AI solutions should empower all parties involved in the real economy to qualify and reduce their exposure to financial crime risk."

Has the pandemic changed the CyberTech market? With a huge migration of people moving online at the onset of Covid-19, this provided new possibilities for dangerous threat actors who could use the web to scam and swindle individuals and companies alike, with government departments also in the firing line.

Frunza believes the pandemic 'brought many new challenges to cyberspace', adding, "The accelerated digitalisation of many sectors of the real economy generated new opportunities but open the gates to new threats. Therefore, CyberTech should answer promptly the needs generated by this new dynamic. The rampant cybersecurity issues represent the key challenge of the sector."

2022 and beyond

Following three years in existence, Schwarzthal is looking to move from strength to strength as it ingrains its place in the CyberTech industry. Earlier this year, Schwarzthal raised £150k in pre-seed funding in a round that was led by SFC Capital, which is the largest startup fund in the UK. Frunza highlighted that his company has also expanded its sales and marketing team over the past year as well as increasing its annual revenue ten-fold.

What has the company got planned for the rest of the year and beyond? Frunza underlined that the company is planning to build new use-cases for its KYN concept. He added, "We look to leverage our network-based technology for the crypto economy, which is partially exposed to financial crime risk ●"



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