Enabling Frictionless Anti-Money Laundering Workflows with Intelligent Data

Regulators are increasingly viewing banks as the first line of defense against money laundering. Consequently, they are asking banks to gather information on their customers that will help surface, identify, and prevent money laundering. This has triggered a hot chase after data and documentation internal and external to the organization.

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SPi Global

Anti-Money Laundering (AML) is a challenging regulation for banks – even more so for large, diverse financial institutions with a global footprint. What makes complying with AML regulations a challenge is because it involves complex data, documentation in multiple formats, and significant human intervention in the form of AML analysts.

Regulations promulgated in the aftermath of the financial crisis, technological innovations, diverse identity regimes, and the need to correlate data from multiple sources, have created a complex environment of regulatory change for the banking sector. The banking sector has taken its compliance obligations seriously and has made significant investments in time, effort, and capital to meet compliance requirements.

It is estimated that the banking industry as a whole is incurring about *$270 billion a year as compliance-related costs*. Yet banks are facing non-compliance issues that result in inculpating fines and incapacitating reputational damage.

1. DECONSTRUCTING AML SOLUTIONS

AML compliance processes are predominantly investigator or AML analyst led. Despite technology accounting for a lion-share of the financial crimes budget, most banks report that a significant majority of AML activities are manual or non-analytical in nature. AML analysts manually gather information such as the origin of customers, nature of businesses, holding structures, political affiliations, and connections, financial histories, referrals, sanctions, indictments, liabilities, news reports, wire transfers, frequency and volume of transactions, currencies, and geographies across which transactions have been conducted, gathered in disparate formats and from diverse sources.

Today, the emergence of easy to adopt regulatory technologies that facilitate financial regulatory compliance and users in-process monitoring are helping AML analysts take informed decisions. These self-sufficient systems are capable of accelerating and strengthening AML processes through automation. Under the hood, AML solutions are a set of data-centric automated tools with machine learning capability based on implicit reasoning and Natural Language Processing (NLP).

Despite the ubiquitous nature of regulatory technologies, most banks persist with manual AML processes. A significant number of AML activities are administrative or non-analytical such as collecting data from diverse systems and importing the data into other systems for further analysis. This could account for the fact why despite billions of dollars in industry investment, banks are still exposed to steep fines and reputational damage for failing to identify organized crime, sanctions evasion, or terrorism.

2. EMPOWERING AML ANALYSTS

Banks are leveraging an AML analyst-centered approach to fight financial crime. This approach has in many ways improved collaboration among banks, law-enforcement agencies, and regulators. The AML analyst-centered approach has also proved to be highly effective and efficient.

AML analysts perform diverse roles in AML. Primarily, their role is to drive AML investigations. In practice, it would boil down to learning about their clients in-depth, gathering information on clients from various sources, and documenting the information. The role would equally involve liaising with compliance teams on specific requirements and reviewing data to ensure AML regulations are met.

Over and above, AML analysts should have an understanding of how to build a comprehensive profile of client activities from disparate and diverse sources for transactional risk assessment. In addition, the analysts' ability to identify missing data, source additional data, and integrate it with sophisticated automated analytical and digital processes and tools could mean the difference between identifying a case of money laundering or failing to flag it.

To comply with these ever-growing regulatory demands as well as industry standards, banks must empower AML analysts with advanced digital solutions to scour public and non-public sources for data, ensure data quality to draw out inferences, and analyze structured and unstructured information to reach meaningful conclusions.

2.1 Curating the Watchlists

Watchlist screening is a fundamental task in all AML programs. It reduces by letting banks screen customers against all sanction lists. Considering the fact that the Office of Foreign Assets Control (OFAC) watchlist contains nearly 27,000 records, customer screening against all watchlists will result in innumerable hits, a sizeable number of which would be false positives.

Consequently, there are AML workflows integrated with matching algorithms to help avoid missed matches and decrease false positives. Therefore, banks can benefit from supplementary solutions that offer AML analysts out-of-the-box support for all commercial and free watchlists and adding selected watchlists for screening customers.

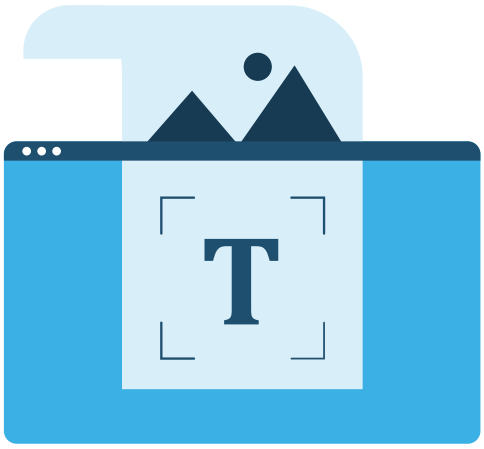
2.2 Bridging Knowing Your Customer Gaps

The increasing use of data analytics for identifying trends and building a holistic view of the risk and digital identity verification and proofing has contributed to the emergence of cutting-edge solutions that offer speed and reliability. Furthermore, banks in addition to their focus on gleaning insights from structured data are automating routines and employing semantic analysis to analyze unstructured data. They are also deploying the cognitive capabilities of Artificial Intelligence (AI) and machine learning to determine patterns that denote potential risks from unstructured data.

The ever-present threat of AML enforcement action and the impact of Know Your Customer (KYC) challenges on banks can be significantly minimized by providing AML analysts access to a single source of information. The golden source can improve a bank's ability to have a 360-degree view of their clients and consequently, reduce the risk of inviting hefty fines and bottom-line impact.

2.3 Adding Structure to Customer Due Diligence

Banks continue to verify identities through documents obtained from reliable sources as a part of the Customer Due Diligence (CDD) process. It is the primary step that allows them to onboard trust-worthy customers. The variety of text formats/templates such as ID documents, financial statements, passports, driver's licenses, green cards, and more means that AML analysts have to manually validate the documents as a part of the identity verification process.



Optical Character Recognition (OCR) technology can minimize the time and effort spent by AML analysts on identity verification. By leveraging OCR technology, a repository can be searched for digital files having a specific document, and subsequently, the document can be viewed, edited, and repurposed for sending information to other systems. By employing algorithms, data can be extracted and verified, thereby reducing the overhead associated with manual identity verification in the banking industry.

2.4 Piecing Enhanced Customer Due Diligence Together

For banks when a Political Exposed Person (PEP) is involved, the key is to employ enhanced CDD to establish whether or not a PEP is committing a crime. The unavailability of customer data necessary to meet due diligence requirements, information across foreign jurisdictions, and beneficial ownership information are, however, roadblocks to establishing whether PEP is committing a crime.

To meet PEP regulations for money laundering, banks should ensure their internal systems are integrated with an automated solution for searching and putting together information that would help in performing additional due diligence based on risk assessment. Subsequently, banks can carry out supplementary analyses, such as verifying information submitted by accountholders; identifying the Ultimate Beneficial Owners; and performing a KYC check on individual ultimate beneficial owner. The solution may automate the data collection phase, but an AML analyst is nevertheless required to interpret the results and make the final call on the match.

3. MAKING SMART AML SOLUTIONS SMARTER

AML solutions today are replete with the functionality needed by AML analysts for screening, monitoring, and investigating money laundering activities. For instance, analyzing multiple feeds from diverse back-end systems is now possible because of the advancements in data management. Further, AML analysts can monitor, for example, a million transactions in a day, because of the exponential growth of computing power.

Yet, amidst this progress, banks are exploring solutions that would supplement the cutting-edge AML solutions of today and help overcome the operational challenges involved in complying with AML regulations.

To understand how additional technological interventions can help alleviate the pain points of AML compliance, it is useful to examine how they can augment the workflow solutions.

3.1 Monitoring Global Watch Lists

Today, there are AML workflows that have built-in integrations and consolidations for the Office of Foreign Assets Control (OFAC) and Dow Jones watchlists feeds. However, AML analysts need to go through other watchlists – around 1500 in number according to a conservative estimate—separately and then ingest data from these feeds into the AML solution.

Consequently, there are out of the box solutions that consolidate watchlists other than OFAC and Dow Jones watchlists into one convenient and comprehensive source. Furthermore, these solutions can regularly collect, normalize, and validate data from multiple sanctions and caution lists from around the world. The data can be enriched to reduce false positives and uploaded into the AML solutions to provide the highest level of compliance.

In practice, the consolidation of all global watchlists will reduce the time spent by AML analysts on reviewing the alerts and minimize human errors.

3.2 Digitizing CDD Documents

Most AML workflows can check data once it has been uploaded in a structured format. However, structuring documents such as passports, driver's licenses, green cards, and more in a format that is compatible with these workflows is a challenge.

Banks can leverage a combination of plug and play solutions for particular document formats and bespoke solutions for unique document types for structuring documents. The structured data can then be pushed into the AML workflow so that the documents can be validated. This would help minimize the number of rejected files and hence significantly reduce the effort an AML analyst is required to put in.

3.3 Building 360-Degree Risk Models

As money launderers become more sophisticated, banks are leveraging advanced risk-rating models for flagging suspicious actors and activities. AML analysts are applying machine learning and statistical analysis to better-quality data and dynamic profiles of customers and their behavior. This requires updated customer data by supplementing it with external data scraped and extracted from institutions. Subsequently, this data is fed into risk models to get a 360-degree view of a potential client, flag potential data-quality issues, and prioritize remediation.

The challenge here is AML analysts review data from several sources unnecessarily, thereby diluting the effectiveness of AML efforts. The effectiveness of the AML analysts can be dialed up by leveraging an intelligent scraping and extraction solution that can be customized to scrape data from specific institutions such as courts, charities, trusts, hedge funds, etc. AML analysts can then use AML workflows to analyze the data from a specific source and build a 360-degree risk model for a customer.

4. CONCLUSION

What the industry needs are solutions that would act as adjutants to the cutting edge AML workflows of the present day.

The solution should reduce the load on AML analysts by offering an automated way of searching and sifting through the burgeoning volumes of unstructured data along with the structured data. It must have digitization capabilities to feed AML workflows with structured data extracted from passports, driver's licenses, green cards, etc. This would facilitate the analytics layer in the AML work-flow to understand and track monetary trails. In addition, using risk models AML analysts can uncover relationships and predict patterns that would signal suspicious activities.

When deployed, the solution should look for appropriate high-quality data independently across public, syndicated, and third-party sources. The solution should interpret, synthesize, and standardize unstructured data so that AML workflows can compile profiles aligned with regulatory requirements. The solution should enable AML workflows to leverage industry-and-business-specific models to query and analyze data from identified sources and flag activities for AML analysts to make informed decisions.

5. HOW SPi GLOBAL CAN HELP

We are excited to partner with Nice Actimize and enable users with robust out-of-the-box and customizable solutions for processing documents, public data, and images. At SPi Global, we specialize in unlocking insights hidden in unstructured data with ease, thanks to our end-to-end platform, SPARK.

SPARK is your one-stop-shop for structuring all types of unstructured data. Documents including passports, driver's licenses, contracts, bank statements, and more can be easily structured and fed into Nice Actimize's X-sights. Or you may need to acquire data from multiple public sources, like watchlists or regulatory authorities. SPARK can consolidate and maintain all your watchlists across 30 global sources. Need additional data for EDD on your enterprise customers? We have you covered. SPARK's pre-built modules can help grab data from courts, governing bodies, and even social directories.

Our overarching goal is to help customers streamline AML workflows for analysis through easily structured feeds into X-sights. Our flexible platform can be customized for any of your data needs.

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