White Paper

Addressing Key AML Challenges for Financial Institutions

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It's easy to underestimate the burden money laundering and its compliance requirements place on financial institutions. Banks and credit unions are an irresistible target for money launderers, especially as digital payments increase. Keeping up with the threat can be costly.

Without the proper controls in place to detect and prevent money laundering, financial institutions leave themselves vulnerable to savvy criminals. Regulatory compliance, reputation and business integrity are at risk when a money-laundering scheme goes undetected.

Complying with increased regulation can be difficult. The U.S. Anti-Money Laundering Act of 2020, passed in 2021, was a significant legislative effort to curb illegal financial transactions.

Among its goals are to:

- Improve information sharing
- Modernize anti-money laundering (AML) laws
- Encourage the advancement in technological innovation by financial institutions
- Reinforce current AML and terrorism financing policies
- Establish uniform beneficial ownership requirements
- Establish a database at the Financial Crimes Enforcement Network of the Department of the Treasury (FinCEN) for beneficial ownership information

The stakes are high. Regulators have levied enforcement actions which include billions of dollars in fines against financial institutions. In 2020, global regulators imposed $10.4 billion in penalties related to compliance issues, most related to AML. The reputational impact that occurs when money-laundering issues are made public can result in future revenue losses and higher costs. And we should never lose sight of the fact that money laundering is not a victimless crime.

By developing comprehensive AML programs and taking advantage of advanced technologies, financial institutions can minimize their risk and meet rigorous compliance requirements while maintaining operational efficiency.

According to the United Nations Office on Drugs and Crime, the estimated amount of money laundered globally is two to five percent of global gross domestic product, or between $800 billion and $2 trillion per year. Less than 0.2 percent of this money laundered is detected.

Reducing Risk While Increasing Efficiency

Financial institutions should weigh the risk of undetected money laundering with the operational impact of a cumbersome manual detection effort. Increasing headcount or adding manual reviews that slow down the business aren't realistic or feasible for most organizations.

Financial institutions want to remain efficient and responsive to clients' needs. The answer lies in developing a comprehensive AML program supported by the most effective technology for financial crime detection.

There are three keys to developing a comprehensive AML program.

1. Implement a Risk-Based Approach

Evaluate your AML program to make sure you are focusing your detection and control efforts where your organization is most vulnerable to money laundering. This risk-based approach enables a more effective, efficient and compliant program.

According to the Financial Action Task Force, authorities and the private sector need to take a risk-based approach to managing money-laundering risk to respond to evolving risks. That means mitigating the money laundering and terrorist financing risks without disrupting essential and legitimate financial services.

In a risk-based approach to AML, financial institutions are expected to identify, assess and understand the money-laundering risks to which they are exposed and take AML measures commensurate to those risks to effectively mitigate them.

Steps to setting up an effective risk-based approach include:

Allocate Responsibility – An effective risk-based plan builds on and reflects an institution's legal and regulatory strategies and obligations across all jurisdictions in which the institution operates.

Identify Risk – Access to accurate, timely and objective data about money-laundering risks is a prerequisite for an effective AML program. Without readily available data, it is difficult for financial institutions to correctly identify, assess and mitigate money-laundering risk.

Assess Risk – It's important for financial institutions to determine the effect of identified money-laundering threats, the likelihood of those risks occurring and the effect they would have on each organization.

Mitigate Risk – When applying a risk-based approach, financial institutions should decide on the most effective and appropriate way to mitigate an identified money-laundering risk and take enhanced measures to manage and mitigate high-risk money-laundering situations. In low-risk cases, exemptions or simplified actions can be applied.

How Technology Supports a Risk-Based Approach

The right technology platform can support a risk-based approach by assessing all pertinent data and assigning a risk score to each transaction. Risk scores are generated based on risk profiles that factor in characteristics such as the customer's exposure to sanctions, country of domicile, product type and account values.

In addition to enabling financial institutions to take quick action on high-risk situations, risk scores enable organizations to immediately respond to regulatory requests to show the highest risk relationships. Each risk score and profile are monitored on an ongoing basis and updated with any changes in the subject's characteristics or behavior. Risk scores also inform detection scenarios, ensuring that high-risk activities are investigated first.

A robust and flexible data integration architecture in the AML solution effectively manages data and provides secure data transmission and record-keeping and a method for data reconciliation, anomaly detection and reporting.

Case in Point

In 2020, Deutsche Bank AG was fined 13.5 million euros ($16 million) by Frankfurt prosecutors for money-laundering violations related to work with Danske Bank A/S. The bank failed on more than 600 occasions to file timely alerts to authorities about suspicious transactions.

2. Provide Fast, Accurate and Compliant Onboarding

Smooth and successful customer onboarding is increasingly important. As competition in the financial services industry heats up, many financial institutions are driving growth by acquiring new customers and increasing wallet share from existing customers. These strategies center on improving the customer experience at each touchpoint throughout the customer life cycle, with a strong emphasis on the first interaction – customer onboarding.

Onboarding with speed, accuracy and compliance provides a significant advantage over industry peers and allows for rapid expansion into new markets. However, onboarding new customers as a regulated company can be complex. Legal entities can be used to facilitate money laundering and other crimes because their true ownership can be concealed. Under FinCEN's Beneficial Ownership Rule, an institution must create and maintain written procedures reasonably designed to identify and verify beneficial owner(s) of legal entity customers and include such systems in its AML compliance program.

Beneficial ownership and related requirements such as the Customer Identification Program and Customer Due Diligence/Enhanced Due Diligence should not delay new-business onboarding, yet legacy systems and manual steps can slow the process considerably.

How Technology Supports Onboarding

Key solutions to meet those requirements include automated watch-list filtering and sanctions screening, customer profiling and know-your-customer (KYC) questionnaires.

Watch-list filtering technology screens customer and vendor data against sanctions and politically exposed persons (PEP) lists as well as custom lists and those provided by third-party data service providers. Watch-list filtering supports regulatory compliance with organizations like the Office of Foreign Assets Control, Office of Superintendent of Financial Institutions and United Nations.

Configurable KYC questionnaires in an AML solution facilitate the capture of information required to build accurate client profiles and risk scores for initial due diligence, enhanced due diligence, and ongoing transaction behavior and risk monitoring.

With automated solutions, onboarding takes much less time and effort while increasing accuracy in risk assessment.

Case in Point

In 2018, the Financial Industry Regulatory Authority (FINRA) fined Industrial and Commercial Bank of China Financial Services LLC $5.3 million for systemic AML compliance failures, including its failure to have a reasonable AML program in place to monitor and detect suspicious transactions and other violations, including financial, record-keeping and operational violations.

3. Balance Program Costs With Reduced Risk

According to the 2018 Global Anti-Money Laundering and Sanctions Compliance Survey by Alix Partners, compliance executive respondents reported that the cost of AML and sanctions compliance has been increasing and will continue increasing as new challenges emerge. A majority (59 percent) consider their AML and sanctions compliance budgets inadequate or severely inadequate.

Compliance executives said they worry about the adequacy of their budgets and the allocation of their personnel. As compliance departments struggle to keep pace with the digital transformation of financial services, financial institutions must strategically invest in technologies designed to control costs and increase productivity through improved operational efficiency.

How Technology Supports Automated Monitoring

Monitoring large and complex data sets is impossible to do manually. A comprehensive AML solution provides automated monitoring, alerting and reporting capabilities that allow compliance departments to prioritize their efforts and focus on real threats while improving efficiency and managing costs. An AML solution can sift through large volumes of client and transactional data to detect and report suspicious activity, which helps financial institutions meet regulatory requirements and minimize exposure. It can also reduce the number of false alerts that require valuable investigation time.

A configurable analytics engine combined with best-practice detection scenarios and informed by machine learning based on historical outcomes of investigations empowers institutions to automatically monitor internal and external activity for red-flag behavior, improving productivity and compliance.

Time-saving capabilities for reporting can include preconfigured templates for specific regulatory reports, such as suspicious activity reports and transaction reports that are autopopulated with case details and can be electronically filed for those jurisdictions with electronic-filing requirements. That also improves compliance.

Meeting New Challenges

Money now moves around the world with greater speed and ease than ever before. Rapid advances in technology have turned the financial infrastructure into a perpetually operating global ecosystem.

This increasingly complex environment demands continued innovation in risk management and regulatory compliance. By taking advantage of advanced AML technologies, financial institutions can overcome the limitations of outdated systems and manual processes while meeting the expectations of customers and regulators.

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