LEVERAGING DATA AND ARTIFICIAL INTELLIGENCE FOR ANTI-MONEY LAUNDERING COMPLIANCE

Financial institutions play a pivotal role in combatting money laundering. Harnessing the power of data and artificial intelligence will be key as they look to meet their AML responsibilities while ensuring compliance with increasingly stringent regulatory standards.

Anti-money laundering (AML) is a global challenge that affects every country and every sector of the economy. According to the United Nations, the estimated amount of money laundered globally in one year is 2 to 5 percent of global GDP, equivalent to USD 800 billion to USD 2 trillion (approximately EUR 750 billion to EUR 1,875 trillion).[1] This scenario is reflected, for example, in the case of Belgium, with the number of suspicious transaction reports submitted to the national Financial Intelligence Unit (FIU) in 2022 increasing by 16.39 percent year-on-year, and by 70.62 percent compared to 2020.[2]

KEY AML CHALLENGES

AML compliance involves complex and costly know your customer (KYC) obligations, global and individual customer risk assessments, tailored customer due diligence measures, transaction monitoring, internal controls, governance, and reporting duties.

Across these obligations, specific challenges arise, potentially impeding the effectiveness of AML efforts. These include:

Regulatory and environmental changes – Financial institutions operate within a constantly evolving regulatory and financial landscape (with new financial products and services continually entering the market). Adapting to changes requires continuous updates to AML protocols, which can be both time-consuming and resource intensive.

Transaction monitoring false positives – The prevalence of false positives in transaction monitoring can lead to wasted resources and hinder the identification of genuinely suspicious activities.

Risk scoring optimization – Developing accurate risk scoring models is crucial to prioritizing resources effectively and avoiding overburdening lower-risk customers.

Technological advancements – Rapid technological advancements (such as cryptocurrencies, blockchain, artificial intelligence, biometrics, etc.) should be considered as presenting both new risks as well as new opportunities for AML strategies.

Customer experience – Balancing stringent AML checks with seamless customer experience is essential to maintain customer trust and satisfaction.

OPPORTUNITIES FOR FINANCIAL SERVICES FIRMS

Leveraging data and AI can help financial institutions overcome these challenges and better meet their AML obligations. Some of the benefits of leveraging data for AML purposes include:

Holistic data approach – This involves including multiple data sources (such as customer information, transaction records, risk profiles, watchlists, and external databases) into a wholesome approach that can help financial institutions enrich their risk assessments, enhance their investigations, verify their information sources, and cross-check their findings.

Transaction monitoring thresholds – Data analysis helps calibrate transaction monitoring scenarios and thresholds, reducing false positives and enhancing detection rates.

Automated decision-making processes – Automation and AI can help firms reduce human errors, biases, inconsistencies, and delays in AML compliance.

Optimized internal processes – Data-driven insights can help institutions streamline workflows, improve efficiency, reduce costs, and increase productivity in AML compliance.

Data visualization – Clear visual representations of data facilitate comprehension, enabling faster and better-informed decision-making.

AI and machine learning integration – Incorporating AI and machine learning techniques can help financial institutions learn from data patterns, identify anomalies, predict outcomes, and adapt to changes in AML compliance.

DATA CONSIDERATIONS

While data holds immense potential, particular measures are required to harness it effectively, of which the following are most significant:

Robust database architecture and quality – Data integrity and reliability are pivotal. Financial institutions must invest in robust architecture and ensure data quality to derive accurate insights.

Data literacy – Financial institutions should invest in enhancing data literacy across their teams to maximize the value extracted from data.

Data collection – Financial institutions need to ensure that their data collection enables them to obtain relevant, accurate and timely data from internal and external sources.

Regulatory compliance and transparency – Financial institutions must respect regulatory boundaries, avoiding black box solutions, to ensure compliance with relevant laws and regulations and to provide justification for data-driven decisions.

Data privacy and security – Financial institutions must adhere to strict data privacy and security protocols to maintain trust.

ARTIFICIAL INTELLIGENCE CONSIDERATIONS

On March 13, 2024, the European Parliament adopted the EU Artificial Intelligence Act.[3] The Act marks a significant milestone as the first extensive legislation on artificial intelligence across an entire economic union. Its primary goals are to guarantee the safety and transparency of AI systems and to safeguard consumers within the EU from potential risks.

Alongside these aims, the Act acknowledges the importance of fostering innovation and investment in the AI industry, striving to strike a balance between regulation and advancement in the field.

Under the AI Act, high-risk systems, defined as those with the potential to adversely affect people's safety or fundamental rights, are permissible but subject to adherence to several new guidelines. The Act provides guidelines for risk management, data governance, documentation, transparency, oversight, and quality requirements for high-risk AI systems. These guidelines must be followed when using AI for AML purposes.

The AI Act forms a crucial component of the wider European data strategy, which seeks to unlock the potential of data for innovation while upholding privacy and data protection standards.

Given that banks already have robust risk management processes in place for tasks such as AML and fraud detection, the best approach for banks to achieve compliance with the EU AI Act is to consider AI systems with inherent risk management capabilities.

CONCLUSION

Data and AI are highly valuable assets on the frontline of the money laundering battle. However, using these assets to ensure compliance with AML obligations requires careful management and governance.

Financial institutions need to adopt a data- and innovation-driven culture and strategy that will enable them to optimally leverage technology for AML purposes and address any challenges that may arise. In doing so, not only will they improve compliance, but also enhance operational efficiency and increase customer satisfaction, gaining competitive advantage.

Capco is the perfect partner for banks and financial institutions to provide comprehensive advisory services for AML related topics based on our broad business and technical expertise and implementation experience. We also bring a broad knowledge base and expertise in the areas of data management and analysis as well as AI. This unique blend of skills together with our knowledge of available tools in the market allows us to guide banks and financial institutions in the optimal use of data and AI to combat financial crime and money laundering.

Partnering with Capco also means having a trusted advisor who can guide you through the complexities of AML regulations as well as the latest technological innovations. With our expertise in regulation, compliance, transformation, consulting, and business models, combined with our delivery excellence, technical know-how and a global partnership ecosystem, we provide the support and resources needed to achieve your goals.

Contact us to find out how we can create solutions that offer you the agility and competitive edge to succeed in today's constantly evolving markets.

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