

Navigating AML and KYC Compliance: Opportunities & Challenges



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It's a 'real problem' with 'real costs'

More than **\$8 billion** in AML fines handed out in **2019**

Standard Chartered fined \$1.1bn for money-laundering and sanctions breaches

Settlements with US and UK authorities force bank to take hit in first-quarter results

Know-your-customer compliance costing banks their corporate clients **EXTRA**

Monday, December 16, 2019 4:01 AM ET

By [Sanne Wass](#)
Market Intelligence

Swedbank admits to money-laundering failings

Sweden's oldest bank offers clearest comments yet on lapses in \$135bn dirty money scandal

Report: Danske could face fines of 13.5B Danish kroner over money laundering

Monday, January 6, 2020 9:17 AM ET

By [Akankshita Mukhopadhyay](#)
Market Intelligence

RBI fines HDFC Bank Rs 1 crore for violation of KYC norms

Westpac says expenses to rise by up to A\$80M due to money laundering scandal

Tuesday, November 26, 2019 3:43 AM ET

By [Ranina Sanglap](#)
Market Intelligence

Regulators fine U.S. Bank more than \$600M for AML errors

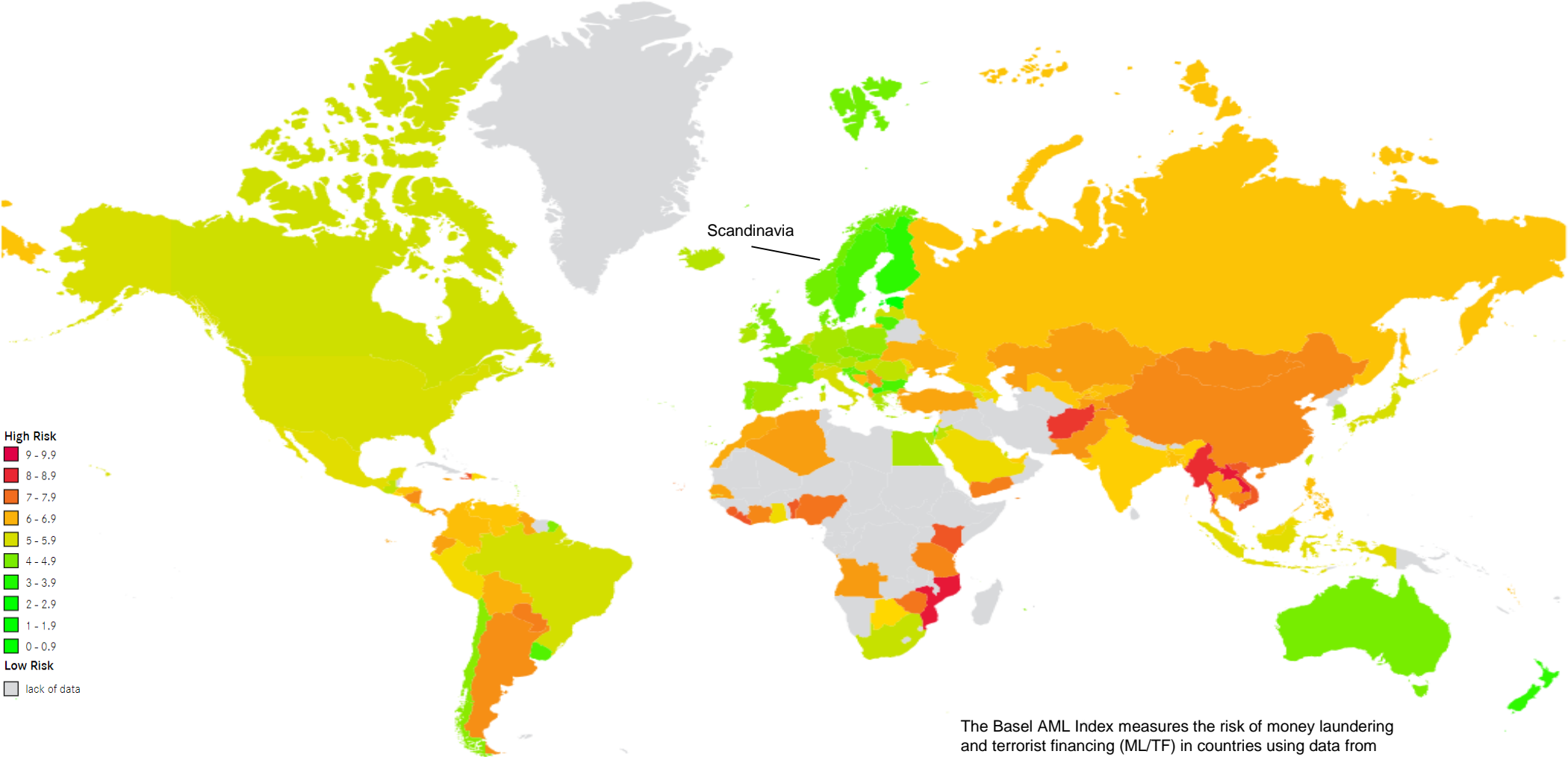
Deutsche Bank faces action over \$20bn Russian money-laundering scheme

Source: Association of Certified Financial Crime Specialists (ACFCS)

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It is everywhere..



Source: Basel Institute of Governance
<https://www.baselgovernance.org/basel-aml-index/public-edition-map>, accessed Feb 10, 2020

The Basel AML Index measures the risk of money laundering and terrorist financing (ML/TF) in countries using data from publicly available sources such as the Financial Action Task Force (FATF), Transparency International, the World Bank and the World Economic Forum.

And has ‘real implications’

Ineffective and inefficient AML and KYC programs have major regulatory implications, which are further enhanced by reputational and brand risk.

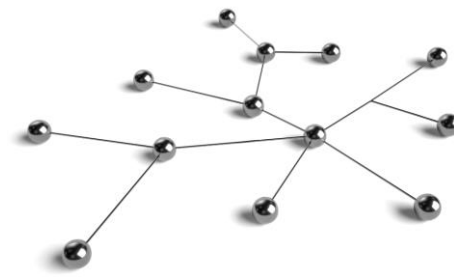
Loss of revenue generation

- On-boarding times fail to meet client expectations
- Poor client experience leads to direct and indirect loss of revenue
- Lack of transparency for the business and the client through the process

The Cost Burden

- Fragmented operating model means more resource allocation
- Inconsistent policies and regulations across regions add to the costs
- Data completeness and quality lacks what is required

And it is getting bigger...



Digitalisation will be make it harder

Digital platforms bring new AML and KYC challenges and provide new venues for financial crime

- **E-commerce** – \$3.5T global market* used by criminals to pose as legitimate merchants or payment providers to move money across.
- **Mobile solutions** – Businesses continue to embrace mobile banking, banks need to evolve their AML/KYC programs to stay up to date
- **Cryptocurrencies** – Even regulators are playing catch up; can't ignore, can't overdo.
- **Cyber crime** - Using sophisticated technology/hacks to target weak IT systems.

Source:

*eMarketer, May 2019 (<https://www.emarketer.com/content/global-ecommerce-2019>)

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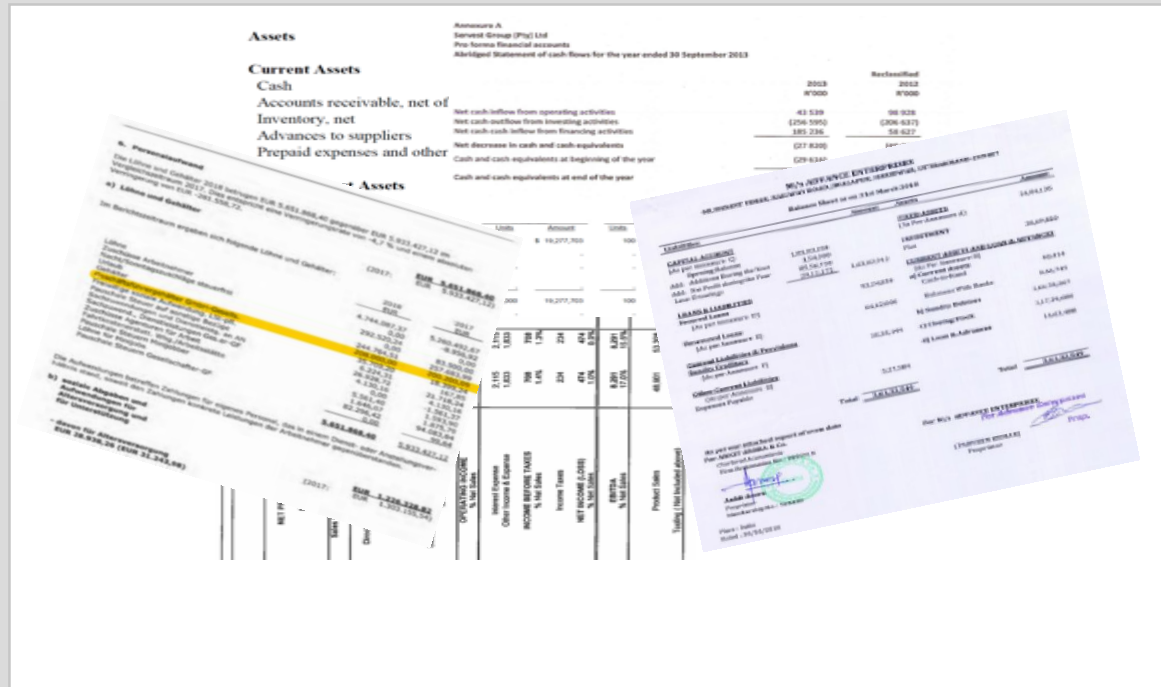
Technology brings new opportunities..

Shifting focus towards building **smarter, automated AML programs** is necessary to keep up with new money laundering tactics

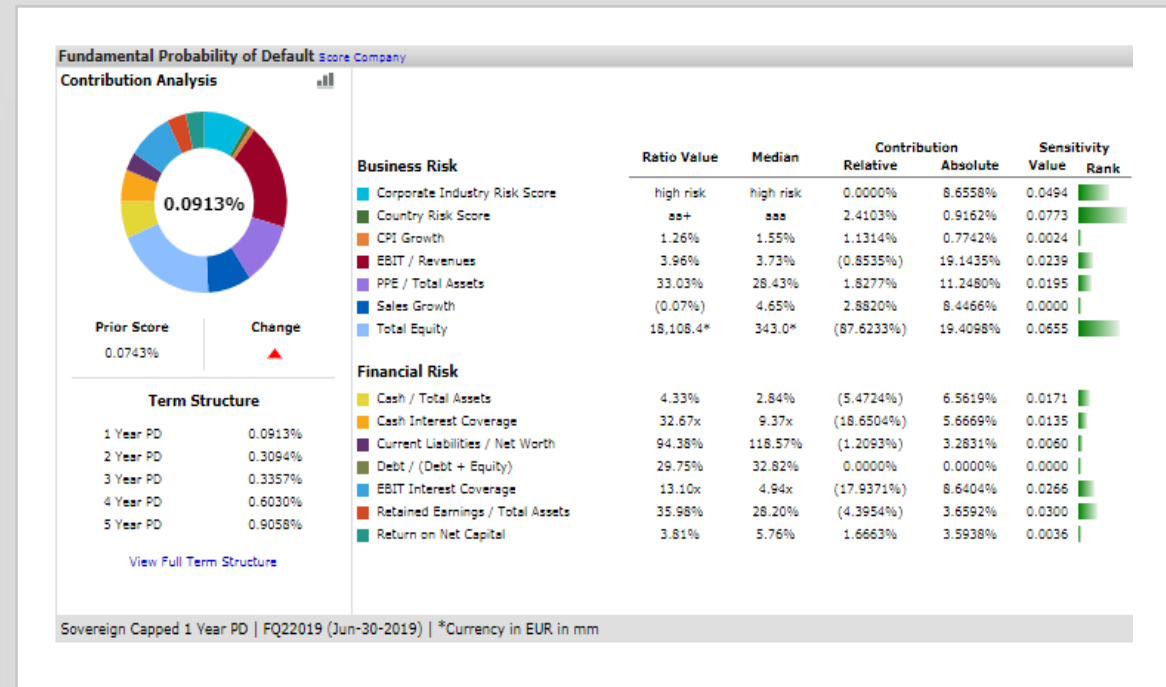
- **Robotics** to seamlessly acquire data to establish client identity
- **AI and machine learning** to enhance data screening and EDD processes
- Integrate KYC workflow across internal departments and build a **centralised digital system**
- **Digital recognition** systems to power verification systems (facial/speech/video)
- Make sense of huge amount of internal data across the business using **data analytics**
- **Blockchain** to securely transfer documents and data across the business and client portals

Auto-Spreading tools to create standardized reports

Start



End



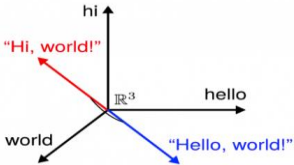
Source: S&P Global Market Intelligence, November 2019. For illustrative purposes only.

Using AI and Machine Learning to Link Data Sets

	Existing Company	Company 1	Company 2
Company Name	The Cool Inc	The Cool Incorporated	Cool Incorporated
Score 1		87%	80%
City	London	Greater London	London
Score 2		90%	90%
Street	Berwick Street	Oxford Street	Berwick
Score 3		0%	95%

Linking model incorporates:

- String similarity
- Cosine similarity
- Disambiguation features



Source: S&P Global Market Intelligence. November 2019. For illustrative purposes only.

Everything comes with a price..

More the technology = darker the blackbox

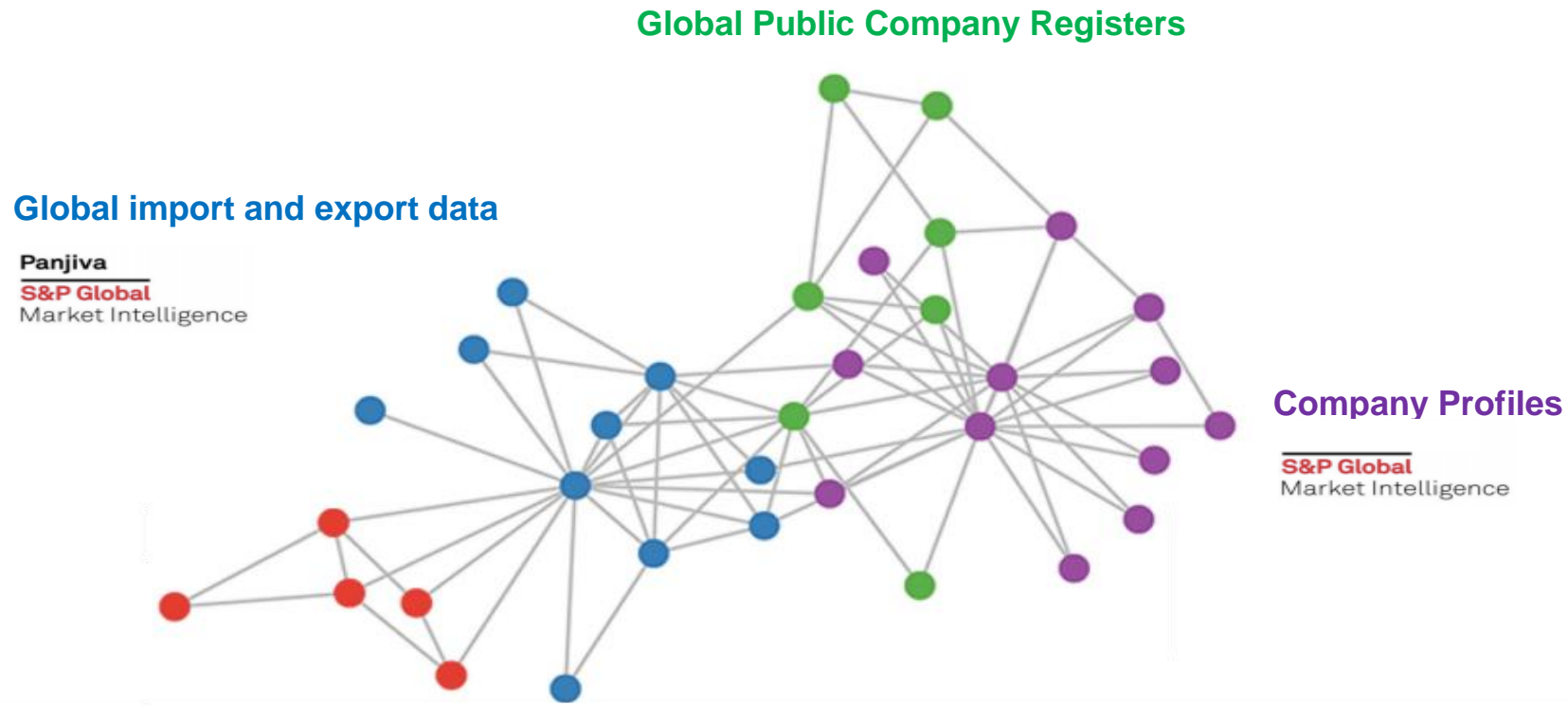
- Risk of losing **auditability** and **traceability**
- **ML and AI are not a one size fits all solution** – they are as good as the data being input
- **Technology is not a one time investment** – key is to build, maintain and evolve
- **New security threats** – data breaches are becoming more common with the use of technology, cyber risks are increasing

The global data challenge..

can be solved by data vendors

- Data availability is **patchy across different regions**
- Acquiring **reliable** and **comprehensive private company** data continues to be a **struggle**
- **Different regulations and reporting standards** make it even harder
- **Alternative data is becoming more and more relevant** – ultimate beneficiary to customer and supplier information
- **Global sustainability efforts** will add **another layer of complexity**

Interconnect Multiple Data Sets to Build a More Complete Picture



Ability to link new and alternative data sets with existing data helps identify risks patterns in the network that were not possible before...

- Transactions of dubious business explanation
- Activities in high-risk jurisdictions

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Key takeaways..

- AML and KYC is **real problem with real costs** attached to it, and it **will only get bigger as we move into the digital era**
- **Technology brings efficiency** in multiple AML and KYC process and workflows
- **But comes with new security and transparency threats** and solves half of the problem
- **Reliable and quality data is hard to get and process**, where partnering with data vendors can help
- An **enterprise level view** and **collaborative approach** is key

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