



Ill-gotten gains

Determined to shake off compliance's reputation as 'anti-business', a new breed of 'regtech' firms are reimagining how financial institutions manage their financial crime risk.

Stephen Ball, VP of Sales & Marketing at **ComplyAdvantage**, explains how big data, AI and machine learning can help fight corruption



Each year businesses spend billions on software and data as they attempt to comply with regulations to prevent financial crime. And yet only a fraction of illicit funds – a tiny fraction – is captured.

In the UK alone, it's estimated that just 0.1 per cent of the 'dirty' money criminals tried to reintroduce into the economy in 2014/15 was seized by the authorities. In other words, for every £1 identified by businesses' anti-money laundering (AML) procedures, £999 washed straight through. The question, given the intense scrutiny most transactions are now subjected to, is why the protocols are failing so badly.

ComplyAdvantage believes the way businesses screen and monitor their customer relationships to prevent money laundering, terrorist financing and sanction violations is fundamentally broken. Put simply, for most companies the current approach just isn't working.

According to Stephen Ball, VP of sales and marketing and one of a team of risk experts, engineers and data scientists who make it their business to know the criminals' business, regulation itself can be its own worst enemy.

"The Financial Conduct Authority in the UK is quite forward thinking but, in general, regulations focus on principles. They don't talk about how you're actually going to achieve it," says Ball. "As regulations require the industry to monitor more and more things, it becomes increasingly complex for businesses to monitor anything. They end up layering technologies on top of each other to try to remedy the situation.

"MLD 4, for example, the fourth money laundering directive to come out of Europe, will mean more companies are now covered by the regulations. However, those companies that were already covered will now have to be more proactive and conduct enhanced due diligence across more of their customer base. If they've got static systems, it's hard to keep up."

A question of attitude

Legacy technology solutions and obsolete data are insufficient to cope with today's fluid, fast-paced and multi-jurisdictional commercial environment, especially when combined with increasingly tech-savvy and sophisticated criminals. On top of which, the attitude companies take to compliance within the industry is often wrong, says Ball.

"Many compliance folk are quite jaded.

They got into the role to fight financial crime, but now they're just ticking boxes, knowing the system is ineffective at stopping the bad guys. Even worse, fines at banks are often expected and baked into pricing models."

Too often, the question businesses ask themselves is 'what do we need to do to comply?' rather than the more visceral and compelling 'what do we need to do to stop money laundering and terrorist financing?'

"For example, companies tick the box to say they are screening for the US Office of Foreign Assets Control sanctions. But does it work? If I was a criminal on the sanctions list, I could easily manipulate my name very slightly to not get picked up, or use a relative or associate to transact with a financial institution instead," says Ball.

This failure is costly both for financial institutions and for society at large. For companies, compliance becomes a painful tick-box exercise, framed by the threat of ballooning fines for violations. For everybody else, the failure of AML and counter terrorist financing programmes damages all aspects of the world we live in – from anti-crime efforts and confidence in government to the integrity of the global financial system and international security.

It's too much to expect overwhelmed compliance departments, often relying on

from their decisions and doesn't keep showing them the same information repeatedly, that means their compliance team can focus on issues that matter rather than irrelevant alerts. Then they can be much more effective at stopping money laundering."

Reducing human error

ComplyAdvantage has used machine learning and artificial intelligence to create a proprietary dynamic global database of individuals, organisations and their connections that pose financial crime risks, either because they are on sanctions and watch lists or because they are politically exposed. It also monitors those linked to criminal activity in the media. Its screening platform helps automate the process for deciding the level of financial crime risk that a customer or transaction poses, along with an integrated platform to monitor customer behaviour and spot suspicious activity in real time.

The aim is to minimise human error by maximising the use of intuitive technology.

"Big banks will spend a huge amount of money on a very complex system to satisfy a regulator and, two years later, they're still only using three per cent of its functionality," says Ball. "It's all very well having technology, but you need to be able to use it."

The ComplyAdvantage platform takes an

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legacy technologies generating hours of manual work, to adequately police such a system, says Ball. That's where AI comes in.

"AI makes sense where you have any process that is largely manual and relies on low-level decision-making. Your sanction list might be reasonably static, but the connections to the people on the sanction list and the stories in the media, are incredibly dynamic. Monitoring those is no longer really possible using manual processes and it's one key area that we see as being ripe for artificial intelligence.

"It's also about reducing the number of false positives. Businesses have a problem trying to see the wood for the trees if they've got too many of those going through. But if they can use a smart system, something that learns

easy-to-use approach providing real time rich and reliable data. "What we find is that if we give better information to the compliance team in a readily accessible format – things like news articles, pictures from around the web – then that can really help them make the right decision faster.

"Our product continues to develop very rapidly, so we're trying to build a community of users who can feed into it," says Ball, who's preparing to enter the US market and grow the company in Asia as well as Europe.

"If you look at the way the good tech companies build their products, it's all about the users and the community. They have good ideas too and together we can help solve their problems."