Smart
AML.

A **smart approach to AML** at every stage of the compliance process.

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New tools
for old problems

- Implementation issues and false positives often plague AML systems – resulting in wasted resources and demotivated compliance teams.

- These problems require compliance solutions which satisfy regulatory responsibilities without generating unmanageable workloads, preventing employees from spotting illicit behaviour, or worse, creating 'false–negatives'. In other words, financial institutions need a smarter approach to AML.

- "Smart AML" means building an effective, data–centric compliance process, based on the latest technology and configured to your risk–based approach – using tools which work for your business, your clients, and the regulators.

Applying technology to AML problems allows you to:

- ✓ Balance customer experience with regulatory requirements

- ✓ Optimize resources across AML teams

- ✓ Deliver AML/CFT compliance which meaningfully impacts financial crime

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A smart approach to AML at every stage of the compliance process...

1 Onboarding –

first impressions count

- The onboarding experience is crucial. Unnecessary delays and the customer could walk away before ever benefiting from your services. Being smart about implementing a risk based approach powered by technology can help remove the friction, making your onboarding experience as smooth as possible.

What are some levers you can use at onboarding?

- Be smart about screening. A US firm transacting only in dollars and euros doesn't need to create more noise by screening names against the Australian sanctions list.

- Smart screening is also an option if you need to screen against multiple lists. Use your AML tools to set up risk segments for different customer groups or products. Be more specific to reduce unnecessary alerts.

- Even the smartest screening process can produce multiple alerts. Minimize noise, and get a clearer picture of an entity's risk, by selecting a data provider which can consolidate data into a single profile.

- A risk based approach to PEPs and Adverse Media screening is another opportunity to reduce false positives. If you're conducting international transfers, think about screening against national level PEPs while leaving out those elected to local councils.

Once you decide what to screen against, understanding why alerts are generated is key to tuning your AML solution to your unique requirements. Establish the capability of your algorithm to screen for:

Equivalent names, including:

- Transcription variations (Husain, Hussein)

- Homophones (Jaqueline, Jacklyn)

- Phonetic matching (Irbah, Ibra)

- Hypocorisms (James/Jimmy/Jim)

- Common abbreviations (limited, ltd)

Screening equivalent names can help to avoid missing true positives as a result of geographic or cultural differences. For maximum effect, tune your search to the regional norms in which you operate.

Fuzzy logic

- Allowing for characters to be inserted, omitted or replaced (Yelstin, Yelstn, Yelspin)

Beyond spelling errors, fuzzy logic is particularly useful for screening names which have been transliterated from non–Latin script. Consider building in a higher threshold of fuzziness, or narrower search parameters, depending on your requirements.

Using APIs to automate AML compliance

Choose a screening vendor with a multi–directional RESTful API in order to carry out checks in near realtime – and get payments where they need to be quickly and compliantly.

3
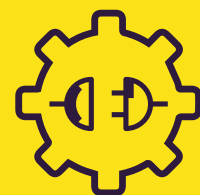
Is the data you are using giving you the right results?

4 factors to consider when selecting an AML data provider:

Breadth
Does your data provider cover all the source lists and types of risks that will be required by your regulators and business risk appetite? Do they have extensive adverse media coverage in all major languages across the world?

Depth
How detailed is the data on each entity? Do profiles have secondary identifiers such a date of birth or nationalities? Does your data provider go even further and provide photos which could help you easily discount an alert?

Timeliness of updates
How often does your data provider update their data on each entity? Would they catch a PEP leaving office? Would they be able to include OFAC sanction update on the same day that it's issued?

Consolidated profiles
Are profile consolidated or are you having to remediate the same alert, across multiple profiles for the same entity? Data profiles that are clean and consolidated with links that are unbroken will drastically cut the time required to remediate them.

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2 Payment screening &
transaction monitoring

Minimizing risk throughout the client lifecycle

Firms can streamline the onboarding experience for new customers through progressive onboarding – that is, performing basic checks for new customers, and additional checks when those clients engage in certain activities, including:

- When a customer makes their first payment

- When transactional activity crosses a certain threshold

- When a customer deviates from expected behavior, e.g. they send money to a new country

> Plugging adverse media checks into your solution at this point is a way to render greater contextual information and establish whetheralerts are false or true positives.

Transaction monitoring – making rules work

- Payment firms typically bulk–upload their monthly transaction data, and process AML alerts retrospectively – a practice which means dealing with high volumes of data in one go. Closer analysis may reveal that certain rules, not properly calibrated, are generating more alerts than others and by extension, unnecessary false positives.

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Avoid unnecessary false positives by:

- Monitoring transactions in smaller batches.

- Regularly auditing your rules to make sure they are producing the expected level of alerts.

- Making sure the data that you input is properly formatted for your transaction monitoring tool.

- Finding a vendor who will work with you to ensure you understand how your tool works and how to get the most out of your rules.

3 Ongoing Monitoring

Making sure your risk exposure hasn't changed

Ongoing monitoring is a way to continuously screen customer names in the background of normal compliance checks – allowing you to generate AML alerts proactively when a client's risk exposure changes, instead of waiting to find out during a periodic KYC refresh, or worse, when a regulator raises the alarm.

What should you proactively screen your client base against?

- Additions to sanctions lists – The faster you're alerted to changes on a sanctions list, the faster you can move to stop payments.

- Changes to PEP status – When a long–term client wins a local election (you'll need to know their PEP status quickly).

- Breaking adverse media – has one of your clients just been reported for committing insurance fraud?

Ongoing monitoring is an opportunity to eliminate part of your periodic review process – knowing that you'll be alerted if new information emerges.

4 Remediation & Reporting

Clear the noise, report meaningful insights

- Having implemented a risk basedapproach, truly configured to your needs, your false positive rate will have been reduced. Applying the latest technology to remediation and reporting means that you can quickly cut through any remaining noise and derive meaningful insights.

- In–house contextual information will speed up decisioning. By selecting an AML tool that allows you to integrate with other platforms like your CRM will allow you to further streamline remediation. If an entity breaks a rule for doing business in a new country, it is good to know quickly if their KYC profile indicates they had plans to expand to new markets.

Reporting suspicious behavior

When looking for an AML screening tool, review the quality of the case management functionality:

- Will the tool generate a clear audit trail that will make it easier to report suspicious activity? In other words, does it place all necessary details at hand in a logical, easily accessible interface?

- Does the tool allow you to easily escalate alerts, giving you the option to add formattable comments and clearly convey queries to your team?

Case Study

Cutting operational workload by
70%

A firm was using a manual screening process, with a match rate of 22%, to onboard newclients. Compliance officers were spending an average of 5 minutes remediating each alert, totalling 40 hours a week. By tailoring screening criteria to the risk of specific customersegments, the firm was able to reduce their remediation time to 2–3 hours a day – time saved to focus on growing the business.

How can you measure the success of new technology?

Have you improved the onboarding process for new customers?

◻ Onboarding time has been reduced

◻ Straight through processing of payments has been optimized

Has your false positive rate been affected?

◻ The false positive rate has decreased

◻ The time taken to remediate false positives has decreased

Has your ability to spot true positives improved?

◻ Meaningful alerts are brought to your attention faster

◻ Customer segment outliers are easier to spot thanks to sophisticated rule configuration

Have you optimized your internal processes?

◻ An implemented, fully risk–based approach has reduced unnecessary work

◻ Compliance teams are working on alerts holistically – making the most of their skills and resources

Want to know more?

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