ORACLE

# THE WATCHLIST

## Trending Now: Anti-Money Laundering
*Customer Screening and Transaction Verification*

Anti-money laundering regulations (AML), including Know Your Customer (KYC) requirements, are hardly a new concept in the world of financial services. Over the years, financial institutions have largely mastered the mechanics of compliance. That's not to say, however, that there isn't significant opportunity for improvement, especially when it comes to boosting accuracy, efficiency, and productivity. Banks that embrace innovation around their AML strategies stand to leapfrog the competition when it comes stronger performance, growth, and customer relationships.

## 5 Trends to Watch and Opportunities for Action in 2018

1

**False positives continue to grow – escalating the need for skilled resources and eroding confidence in data accuracy and the screening.** Industry statistics peg the false-positive rate for suspicious activity alerts between 75% and 90%. And, approximately 25% of these alerts are sent to a level-two senior analyst for review – further straining already-scare resources. The 2016 Dow Jones and Association of Certified Anti-Money Laundering Specialists (ACAMS) Global Anti-Money Laundering Survey found that 55% of alerts take more than 5 minutes to close, 30% take more than 30 minutes, and 10% take more than an hour. Consider the impact when managing thousands of alerts each month. In short, it represents a tremendous amount of manpower, time, and money – all of which are increasingly scarce. As important, high volumes of false positives can erode organizational confidence in the data and client screening processes and actually make it more likely that a bank will miss a valid alert in the deluge of false positives. There are tremendous opportunities and upsides to working smarter and faster when it comes to AML processes – including lower costs and better outcomes. It all starts with tackling the false positive obstacle.

2

**"De-risking" gains momentum as a strategy for avoiding the penalties and prosecution associated with AML non-compliance.** This approach, at face value, appears to simplify the customer due diligence process by denying banking services to entire business segments. In reality, however, it is counterproductive – resulting in lost revenue from legitimate businesses in a specific segment and presenting risk to a firm's reputation. Seeking to discourage this practice, the Financial Action Task Force (FATF) on Money Laundering advocates a risk-based approach that encompasses a case-by-case assessment, robust initial customer due diligence (CDD) measures that include identity verification using reliable and independent data and documentation along with screening against various watch lists. The group also advocates ongoing customer due diligence and monitoring as an organization detects changes to a customer's profile and/or behavior. Data analysis and reporting transparency are vital, as well, to document end-to-end payment flows.

3

**The regulatory landscape continues to evolve and expand.** Change is the only constant when it comes to the regulatory environment, and AML is no exception. We see the introduction of more prescriptive requirements that call for expanded ongoing monitoring and analysis. For example, in January 2017, the New York Department of Financial Services (DFS) instituted new transaction monitoring and filtering requirements for New York banks. Among the provisions, starting April 15, 2018, each subject bank must submit an annual certification of compliance, signed by the bank's board of directors or by a designated senior officer. The most significant change is the move from a risk-based assessment to a model that requires specific measures for transaction monitoring and filtering. The new requirements also call for ongoing analysis to ensure systems are working correctly and for greater transparency of AML and filtering systems. While the regulation applies to financial institutions operating in New York, it could serve as a model for other jurisdictions. Similarly, earlier this year, we saw the introduction of the 4th European Union AML Directive. While many AML professionals think the new rules will make it easier to prevent money laundering, the new requirements, which call for more frequent checks, are likely to significantly elevate compliance costs.

It's also important to note that the insurance sector is the next frontier for AML compliance scrutiny. As regulations around KYC and transaction verification have intensified in the banking sector, criminals are increasingly looking to the insurance industry as a new domain for money laundering, particularly in the United States. Progressive insurers will increasingly look to be ahead of the curve to protect their organizations.

4

**Current AML processes impair productivity and customer relationships.** A 2016 Thomson Reuters study found that 89% of corporate banking customers have not had a good KYC experience, and 13% had switched banks as a result – rendering a direct hit to the bottom line. In the same study, financial organizations and their corporate customers were in agreement that more stringent KYC requirements are complicating on-boarding processes and straining relationships. The study revealed a 22% jump between 2015 and 2016 in the time needed to on-board a client. Furthermore, 30% of corporate respondents reported that it takes more than two months to on-board a customer, and 10% said it takes more than four months. At the same time, firms are applying more resources, which are often scarce, to KYC responsibilities. Financial institutions that take aim at accelerating AML processes through additional automation and next-generation analysis stand to boost productivity and strengthen relationships through faster on-boarding.

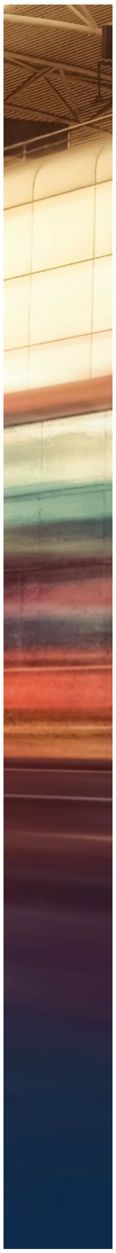
5

**Legacy AML solutions present an obstacle to efficiency and growth.** AML point solutions continue to proliferate in today's financial institutions. There are many reasons for this current state, including serial acquisitions and unique requirements for various jurisdictions that early AML solutions could not accommodate. Firms are realizing that, while their legacy systems enable them to meet regulatory requirements, these same systems are holding them back, including discouraging expansion into new geographic areas. This patchwork of point solutions is difficult and expensive to manage and maintain, cannot accommodate all the data formats in today's modern institutions, and does not enable vital enterprise-wide visibility. Multiple solutions also add to the complexity of entering a new geographic market. For example, if online identity verification is available in a country where a firm wishes to set up operations, there are lengthy approval processes and cumbersome integrations that must be accomplished to secure reliable and trusted data sources onto the firm's platform. This process can take anywhere from three to nine months to set up for each vendor depending on its maturity and technical requirements. With a point-solution approach, the complexity, expense, and time required to complete this process grows exponentially – significantly limiting business agility.

# Opportunity Awaits

Financial institutions are beginning to take a careful look at their legacy AML systems with an eye toward expanding automation, improving performance, standardizing processes, and increasing transparency – and addressing the lingering false positive issue.

Considerations should include:



**Unified platform** for enterprise-wide risk based monitoring, investigations, and reporting for suspicious activities

**A focus on data quality**, leveraging a layered approach to ensure that a firm can truly identify a single customer across all lines of business and integrate both internal and external data – structured and unstructured and in Latin and non-Latin character formats – into the system

**Open data model** to facilitate integration of a wide range of data from third-party systems, including criminal records, white lists, and black lists, and not only identify customers on those lists but also determine when a customer might be transacting with an individual on a watch list

**Flexibility to configure the solution and scalability** as the amount and types of data sources continue to multiply rapidly and compliance requirements expand

**A comprehensive transparent behavior detection library and robust case management capabilities** to streamline analysis, resolution, and regulatory reporting in a single, unified platform

**Automated analytics** to improve alert accuracy and reduce compliance costs. With regulators giving more scrutiny to the methodologies behind AML compliance programs, firms must also be equipped to defend the models they use to automate analysis. As such, firms seek solutions with models and algorithms that have proven themselves in the market

**Portability** – supporting a "build once and deploy often" approach – which is important for AML solutions to consider as businesses enter new markets and lines of business

**Ability to manage global multi-national** regulations, guidelines, and best practices from a single solution that supports

Firms that invest wisely can create a compliance environment that meets immediate and future AML requirements and serves as a platform for improving overall governance and risk management – while fostering stronger customer relationships and improved performance.

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