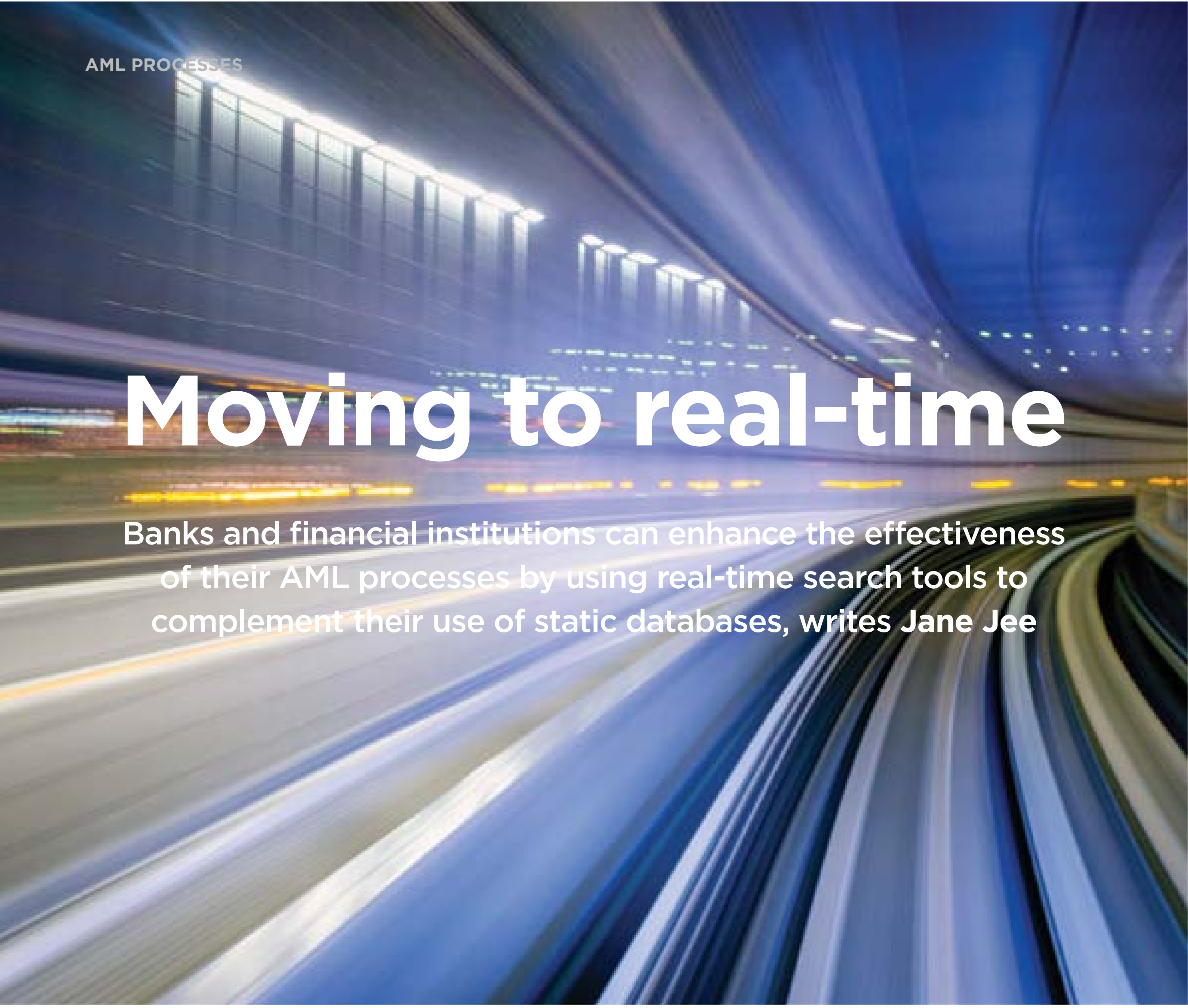

Moving to real-time

Banks and financial institutions can enhance the effectiveness of their AML processes by using real-time search tools to complement their use of static databases, writes Jane Jee

Money launderers and those who commit financial crimes are getting smarter in their efforts to conceal the origin of their funds. Using the latest technology and often taking advantage of privacy and data protection laws, many criminals can take steps to hide their murky past. It's no wonder, then, that people such as the outgoing head of Europol, Rob Wainwright, are concerned that Europe is losing the fight against financial crime.[1]

For banks, financial institutions and other companies that are in industries with a high money laundering risk, identifying these bad actors is necessary to comply with the law, avoid fines and protect reputations. Such companies have been spending ever-increasing sums of money on compliance, often with little real tangible benefit. They need purpose-designed technology to achieve greater efficiency and avoid negative consequences.

Static limitations

The major static databases have long been a key part of this technology mix, providing an incredibly rich source of information to help banks comply with stringent anti-money laundering (AML) legislation in a variety of ways. They offer a resource to help banks identify whether new or existing customers – individuals or businesses – have links with money laundering, terrorism or other financial crime via stringent Know Your Customer (KYC) and Know Your Business (KYB) checks. In doing so, they help simplify the compliance process for management teams.

However, recent court cases in the UK and beyond have highlighted

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the potential limitations of relying exclusively on static databases to carry out KYC checks.

Last year, for instance, it was reported that Finsbury Park Mosque had “won an apology and damages” from a leading database provider “after it was erroneously included on a global database linking it to terrorism activities”.[2] The mosque’s risk status had long been downgraded by intelligence services and terror watchdogs, due to the efforts of its new leadership team. However, the information about the mosque had not been updated in the databases used by major UK banks, leading to its bank account being closed incorrectly.

As this case shows, it may be desirable for banks and financial institutions to enhance their static databases with complementary checks to ensure their KYC and KYB processes remain effective. But what do such organisations need to know to optimise their due diligence procedures?

Understanding the issue

The incident involving Finsbury Park Mosque serves to highlight the consequences of failing to optimise AML compliance processes. A heavy penalty was meted out to the data solution provider that provided out-of-date adverse information.

The key issue here is that there may be a lag between the data contained in even the most up-to-date static registers and information available elsewhere, on the web, the deep web and in media outlets. The expansion of the internet, combined with advances in global communications networks, means that the information available to bankson the individuals and organisations that they do business with must be accurate and accessed in real time. It is, therefore, imperative that such institutions take steps to make sure they act on up-to-date information when a customer applies to them and ongoing monitoring of customers takes place at appropriate intervals (which, in the case of high-risk customers, may be continually).

In this climate – with so much information to sift through, and the need to search thoroughly and frequently – financial institutions may wish to complement their use of static databases with new search tools capable of performing the tasks quickly and accurately. Imagine trying to navigate the web without Google, or the globe without a compass. Real time searching is vital to ensure checks are as thorough as possible, while minimising the burden on human compliance managers.

Addressing the problem now

For financial institutions operating in the UK, in particular, it is important to address this problem sooner rather than later. Brexit is on the horizon and the UK is updating its AML legislation to ensure it continues to be a world-leading financial hub, while tackling international financial crime. Such regulatory changes make it all the more important for banks and financial institutions to improve their due diligence processes.

The Sanctions and Anti-Money Laundering Bill 2017-19[3], for example, is set to replace existing EU directives in the UK. This includes new requirements for KYC checks by banks, and for businesses and other organisations in other sectors considered to be at risk of money laundering. The legislation includes a new sanctions list not just for PEPs and REPs, but for companies that fail to perform appropriate due diligence by exploring all the information available to them.

To meet these requirements, it is imperative that banks and financial institutions fully understand the definitions of PEPs found in the legislation. They should also understand what is meant by the term “REP” – an American concept, referring to individuals that are subject to adverse information or so-called “negative news”.

In addition to all of this, they must understand how individuals can become REPs and PEPs, so that they can take the most suitable steps to perform deeper due diligence.

Finding complementary solutions

So, with all this in mind, what can banks and financial institutions do to make their KYC checks and due diligence processes fit for the future?

The answer rests in the many advances in regulatory technology (RegTech) over recent years. There is a new generation of “real-time” search tools that has been developed to be an ideal complement to static databases, helping to support banks and financial institutions.

In particular, advanced search tools featuring innovative artificial intelligence (AI) technology are capable of carrying out quick and accurate searches not just of the web and deep web, but a huge number and variety of databases and watchlists too. These tools are able to search such sources for information in real time and in multiple languages, helping to maximise the likelihood of spotting adverse information relating to customers. This is particularly helpful if they are based – or carry out activity – overseas.

More than this, the technology is able to carry out KYC checks on multiple customers simultaneously and, if necessary, search continuously, 24 hours a day, seven days a week. Doing all of this, it can flag any adverse intelligence to human compliance managers the instant it appears, without any delay.

When used as a complement to static databases, real-time search tools can play a key role in helping banks and financial institutions do all they can to identify bad actors. In doing so, such organisations can maintain the best possible defence against money laundering and terrorist financing.

Time to act

International money laundering remains a serious problem, with negative economic and social consequences for nations around the world. It is no wonder that governments globally are working hard to tackle the issue through legislation and collaboration with businesses.

Banks and other members of the financial sector have a vital role in helping to identify and prevent crime. By incorporating static databases into their due diligence processes, they are already making incredible progress in supporting ►

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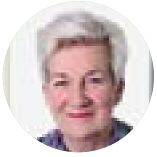
governments in achieving this goal.

However, with the globalisation of the financial system and the expansion of the global communications network, the amount of information available on individuals and businesses is growing exponentially. It is becoming harder for human compliance managers to carry out comprehensive KYC checks on their own, and even more of a challenge for them to take account of any delays in updating the information available on databases and watchlists.

This makes it essential that financial institutions take steps to upgrade their compliance processes by complementing their existing databases with new technology capable of accessing and monitoring all the new information as and when it arrives. Unless regulated entities act now, they could be risking penalties for non-compliance. More than that, they could be leaving gaps in national and international defences for criminals to exploit, with negative repercussions for wider society.



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1. https://www.politico.eu/article/europe-money-laundering-is-losing-the-fight-against-dirty-money-europol-crime-rob-wainwright/
2. https://www.theguardian.com/uk-news/2017/feb/01/finsbury-park-mosque-wins-apology-and-damages-from-reuters; and http://www.middleeasteye.net/news/london-mosque-wins-apology-over-terrorism-database-listing-805588886e
3. https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8232#fullreport