

**Fintelekt**<sup>®</sup>



Webinar:

# Fine-tuning AML Transaction Monitoring

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August 5, 2020

# Key Issues for Discussion

- Implementing red flag indicators & scenarios
- Technology and vendor selection
- Best practices for reducing false positives
- Dealing with challenges such as data integration, training, staffing

# Douglas Wolfson

Director - Financial Crime Compliance - Asia,  
LexisNexis Risk Solutions

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Headquartered out of Hong Kong, Douglas drives the strategy and product development of the leading risk tools used by the biggest banks in the world that help to mitigate financial crime compliance issues. Douglas has 18 years of financial services, risk management and international business experience. His deep experience includes leading risk management departments at the world's most recognizable financial institutions. He received a Bachelor of Arts degree in International relations from Colgate University. He also is the co-founder and organizing committee member of the Blue Tie Ball in Hong Kong, an event created to raise awareness about and reduce the stigma around mental illness.



# Asyraf Rifaei Assrangkuhun

Group Head, AML/CFT Transactions  
Monitoring & Investigation Operations,  
AmBank Malaysia

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Asyraf has over 20 years of experience in Banking Operations & Compliance with specialisation to International Trade Finance and Financial Crime Compliance. Asyraf is well experienced in managing relationships with all bank stakeholders and local and foreign regulators. Before AmBank, Asyraf has worked in JP Morgan and Citibank.



# Fine Tuning AML Transaction Monitoring

5<sup>th</sup> August 2020  
1:30pm HKT

**Douglas Wolfson**  
Director Financial Crime Compliance  
LexisNexis® Risk Solutions



# Agenda

## The Problem Statement

- Insights from the 2019 LNRS TCOC Survey
- Key Challenges Facing Compliance Departments

## Risk vs Efficiency

## Data Protection & Information Security

- Encryption and Anonymization

## The Future of Transaction Monitoring



# Background & Objective of the **True Cost of Compliance 2019 Survey**

We conducted a survey of the APAC financial services market. Specific objectives included to:

- Identify the drivers and influencers impacting AML compliance (and change);
- Understand spending trends for AML compliance, including:
  - How spending is divided by cost of compliance area (e.g. sanctions, transaction monitoring, technology, KYC due diligence etc...);
  - The human resources component of these costs, particularly numbers of FTEs for compliance screening and sanctions screening; and
  - The processing time component (e.g., length of time to complete customer due diligence by type of client/entity);
- Determine the business impact of the AML compliance environment, particularly with regard to new regulations and provisions;
- Identify the challenges and opportunities associated with AML compliance, including with non-bank payment providers; and
- Understand the role of technology with the above.

# Methodology

- Respondents included decision makers within the financial crime function who oversee KYC remediation, sanctions monitoring and/or AML transaction monitoring. Organizations represent banks, investment firms, asset management firms, and money services bureaus.
- Respondents were not made aware that the survey was for LexisNexis Risk Solutions and we did not receive any specific company information from the respondents.

# Straight Through Processing vs Manual Labor

## **Adding Compliance Staff Seems like the Right Solution**

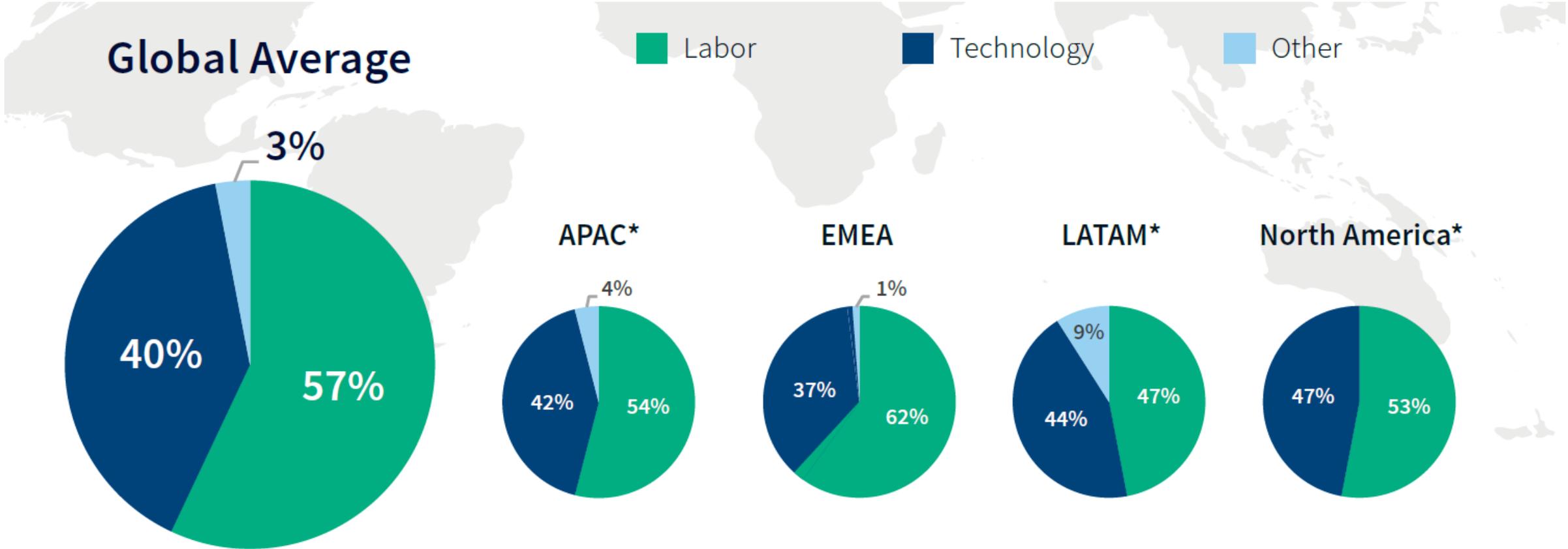
- It is easy to throw more people at a problem
  - As Business, and thus compliance departments, grow, it is easy to add more bodies
  - New hires and contract hires, especially at a junior investigation level, is straightforward

## **But it is not a Long Term Solution**

- Adding people often papers over a problem instead of solving it
  - It hides the inefficiencies in a process
  - It creates further inefficiencies and workarounds
  - It slows down approval processes
  - It increases costs
  - It creates employee and client dissatisfaction

**People can not process as much data and information as efficiently as technology**

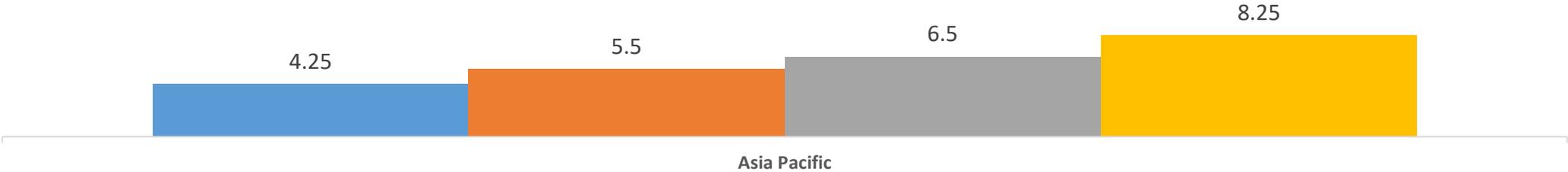
# Cost Split of a Compliance Program



# Manual Processes Mean Hours to Clear Alerts

### Average Hours to Clear the Following Types of Alerts

■ KYC Due Diligence   ■ Sanctions Alerts   ■ Periodic Watchlists   ■ AML Transaction Monitoring

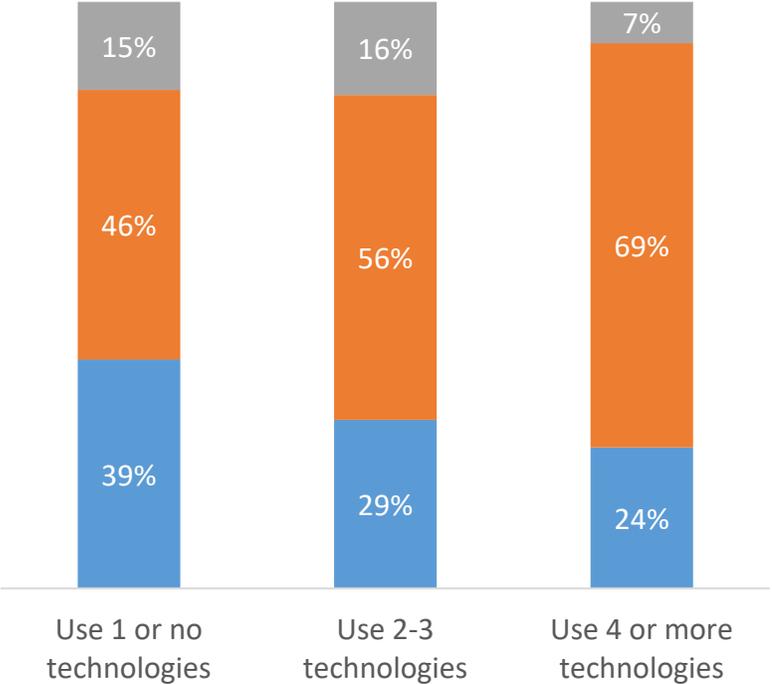


% Who Expect Alert Volumes to Increase in 2019   **77.5%**  
Average Expected Increase   **10.8%**

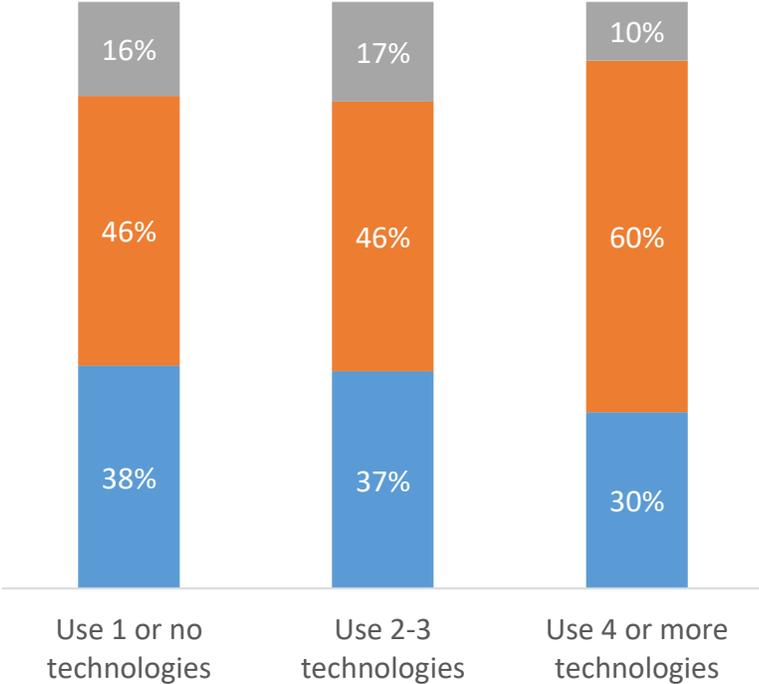
# However, Technology can Improve Results...

## AML Compliance Impact on ...

### Productivity

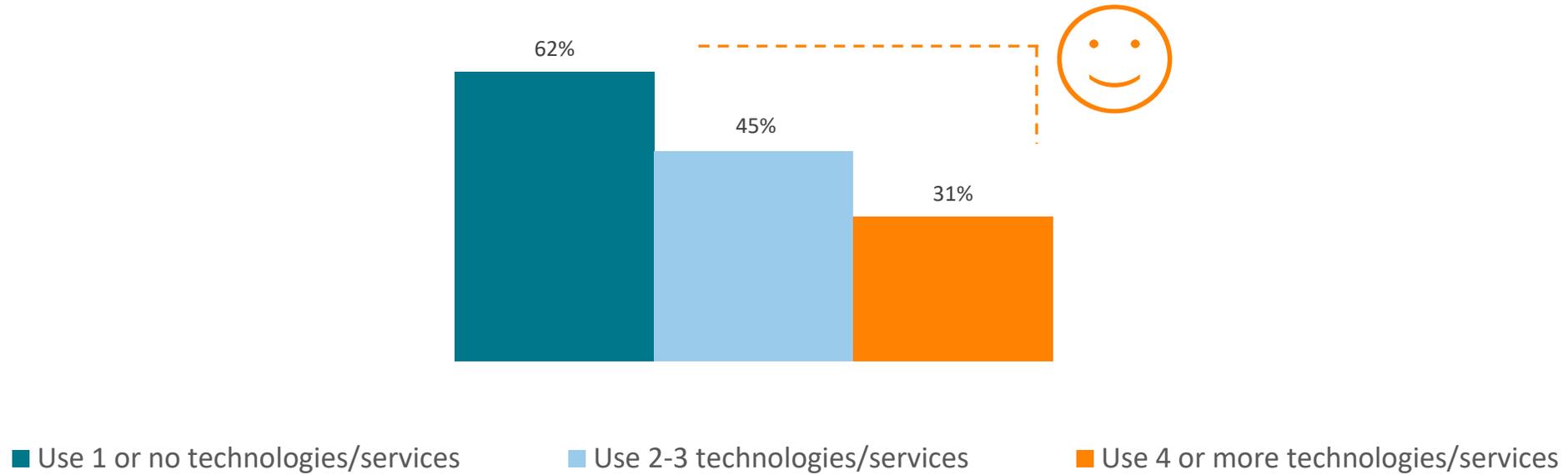


### Customer Acquisition



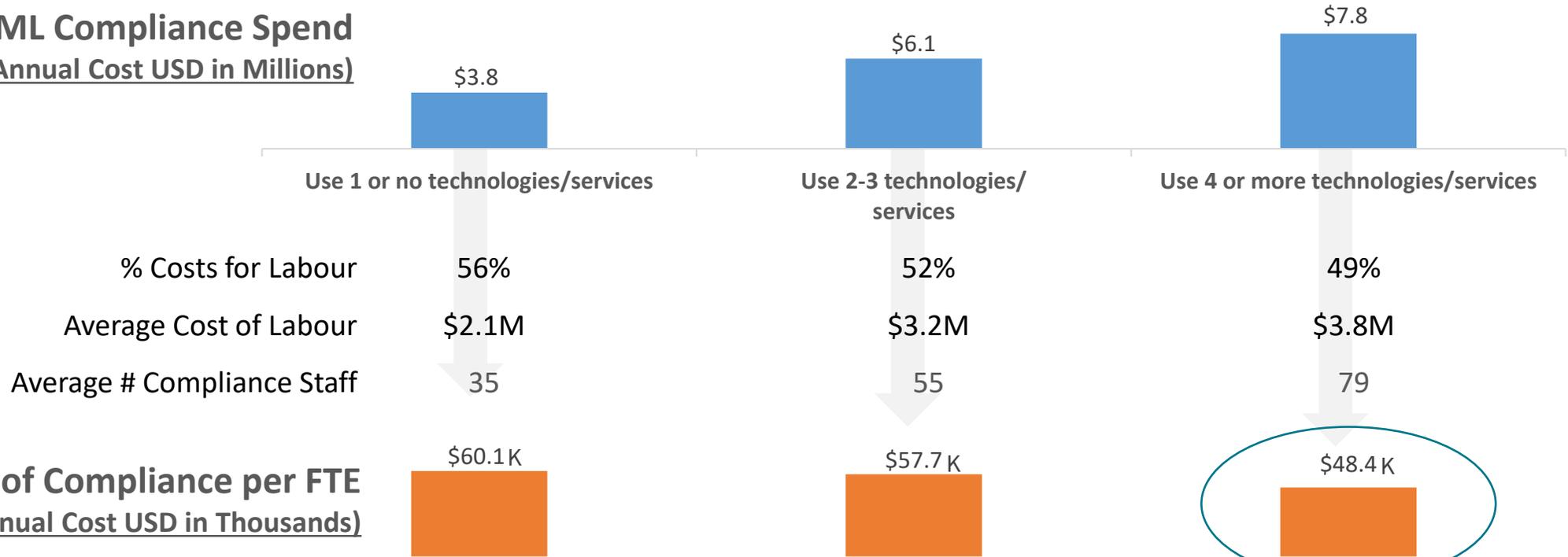
# ...Can Improve Job Satisfaction...

% Somewhat to Very Concerned About Job Satisfaction of Compliance Staff



# ...And Most Importantly, Can Improve the Bottom Line

## Average of AML Compliance Spend (Annual Cost USD in Millions)



# Risk vs Efficiency

## **The approach that a company takes should be based on:**

- AML Enterprise Risk Assessment
- Risk Based Approach
- Technology Assessment

## **Once the Business Risks are understood, constant analysis and improvement should be made**

- Similar to the way Machine Learning works
- Use the best data and models to ensure that alerts are only generated for real risk
- Refine models to ensure False Positives are reduced while True Positives are still captured
- Use Machine Learning and Artificial Intelligence where appropriate
  - Most importantly use data analytics

## **Ensure that the workflow of the systems is efficient and appropriate for the business**

- Where at all possible, systems should speak directly to each other
- This reduces manual work for good business and alerts alike

# Data Protection and Information Security

## **This is becoming significantly more important globally**

- GDPR (Europe/UK)
- PDP(O) (HK)
- PDPC (Singapore)
- Personal Data Protection Bill (India)

## **Under the PDPB, data must be protected, while at rest and in transit**

- Encryption
- Anonymization

## **There is the “Right to be Forgotten”, discussions are underway to allow key exemptions**

- Prevention and detection of any unlawful activity including fraud
- Money Laundering
- Counter Financing of Terrorism



# Transaction Monitoring Now

## The Reserve Bank of India has set rules for Transaction Monitoring

- Banks should set thresholds for:
  - Large cash transactions versus balances
  - Very high account turnover versus balances
  - Limits for different categories of accounts

## Transaction Monitoring is *post-facto*

- Therefore the risky transactions have already been completed

**These Types of Rules lead to Threshold Monitoring instead of Transaction Monitoring**



# Transaction Monitoring of the Future

**“Banks can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer...”** – RBI Master Circular (KYC norms/AML standards)

## **Transaction Monitoring must be behavior based**

- Ability to compare current versus past behavior
- Ability to compare behavior versus expected behavior
- Ability to find suspicious behavior based on suspicious payment patterns elsewhere in the network
- Ability to review historical money laundering cases to review current risks

**Money Launderers will work below the thresholds that Bank set**

**Therefore, monitoring must be based on normal and reasonable behavior, not set thresholds**

**Transaction monitoring should be real time, not after the fact, so risky transactions can be blocked**



## Let's Connect



**Douglas Wolfson**

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**About LexisNexis Risk Solutions**

LexisNexis Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX Group (LSE: REL/NYSE: RELX), a global provider of information and analytics for professional and business customers across industries. RELX is a FTSE 100 company and is based in London. For more information, please visit [www.risk.lexisnexis.com](http://www.risk.lexisnexis.com) and [www.relx.com](http://www.relx.com).



# **FINE-TUNING AML TRANSACTION MONITORING**

**By Asyraf Rifaei Assrangkuun**



### **Regulatory Change & Political Uncertainty**

Increased governance and multi jurisdiction AML compliance requirements overlooking the ever-changing political climate



### **Inadequate Staff Training**

Guidance and training are not kept up to date to incorporate different type of typologies and case studies

# Compliance Challenges



### **Ever-Increasing New Trends**

Disparate transactions and increasing complexities of fraud and cybercrimes modus operandi



### **All Things "Tech"**

The speed of change in technology , technology expenses and challenges associated with legacy system are some of the concerns



### **Continuous Risk Assessment**

Financial institution have to assess the risks dynamically for each customer, and change risk levels accordingly, to align with bank's risk appetite



# Opportunities



## Building Human Capital

- Adequate and Update Training Strategy
- Knowledge Sharing Amongst Industry Players
- Develop Future Talent (Compliance Officer)



## Process Re-Engineering

- Refining Process & Control Gaps
- Classification and Prioritization of Higher Risk Alerts
- Robotic Process Automation
- Collaboration between Reporting Institution and FinTech companies



## Technology

- Increase Technology Capabilities Using Data
- Refine Thresholds & Scenarios
- Reduce False Positive
- Real Time Alerts Triggers
- Expansion of Coverage – ML/TF Risk to FC Risk

The background is a teal color with a network diagram consisting of numerous light blue circular nodes connected by thin white lines. A central, more prominent network structure is highlighted with white nodes and lines, forming a roughly circular shape. The text "THANK YOU" is centered within this white network structure.

THANK YOU

# Thank you for attending!

## Next Steps:

- Participants who attend the webinar or listen to the recording will be invited to complete a multiple-choice assessment. The link to the assessment will be sent by ABA.
- Participants who pass the assessment will be eligible to purchase Fintelekt-ABA Participation Certificates at the following price:
  - Standard Issuance Fees: US\$ 50 per participant.
  - Discounted Issuance Fees for participants from Asian Bankers Association Member Banks: US\$ 25 per participant.
- Participants who pass the assessment will be notified via email and sent a secure online payment link to purchase the certificate if they so desire.
- The certificate will be sent to participants in .PDF format via email within two working days on receipt of payment.

The logo for Fintelekt, featuring the word "Fintelekt" in a bold, red, sans-serif font with a registered trademark symbol (®) to its upper right. It is positioned on the left side of a white rectangular banner.

**Fintelekt®**

The logo for the Asian Bankers Association (ABA), featuring the letters "ABA" in a large, gold, serif font. Below "ABA" is the text "ASIAN BANKERS ASSOCIATION" in a smaller, gold, sans-serif font, all contained within a white rectangular banner.

**ABA**  
ASIAN BANKERS ASSOCIATION

Upcoming Webinar:

# Optimising AML Screening

*September 9, 2020 - 11.00 am IST / 1.30 pm SGT*

Register FREE at: [fintelekt.com/webinars](https://fintelekt.com/webinars)