SUTHERLAND

White Paper

TRANSFORMING AML COMPLIANCE: A NEW CUSTOMER-CENTRIC MODEL FOR MANAGING AML RISK

How financial institutions can better balance compliance and customer experience through automation, turning smart data flows into operational efficiencies that unlock new revenue opportunities

Executive Summary

Financial institutions are stuck between a rock and a hard place when it comes to AML compliance. They're spending hundreds of millions of dollars on AML/KYC capabilities to keep pace with broadening regulations. Yet their operating costs continue to increase. In fact, it's estimated that the overall cost of AML compliance has grown by 60 percent in the last decade.[1]

One of the main issues contributing to this is the structure of traditional AML programs. As core obligations have changed, financial institutions have introduced new capabilities to meet them. But these capabilities have been layered in using different vendors and technologies, leading to fragmented systems and processes. The data necessary for AML risk management is therefore being captured and stored in many different places and is often inconsistent, creating a significant data quality challenge that must be overcome.

Financial institutions have a lot of information about customers across their different systems. But they don't have a comprehensive view of each customer's risk profile or how it's changing in real time. The insight they need is spread out. It isn't being centralized and shared, which makes AML teams reliant on manual checks and redundant data collection efforts. This contributes to lengthy processing times, inconveniencing customers and causing delays in onboarding and provisioning of services.

With poor data quality affecting everything from efficiency and control effectiveness to the customer experience and revenue generation, financial institutions need a way to overcome this challenge. They need a solution that can collate, cleanse and enrich data from disparate sources by taking advantage of the power of AI and automation. Doing so can introduce new operational efficiencies and transform the customer experience. It can also turn AML programs into a value driver, bringing AML risk into decision making processes and opening up new revenue generation opportunities.

The question is, where should they start?

1 Source: https://www2.deloitte.com/us/en/pages/regulatory/articles/cost-of-compliance-regulatory-productivity.html

Table of Contents

AML Compliance is Broken

Financial institutions around the world are throwing huge sums at AML compliance. More than $271 billion is spent globally each year,[2] with a significant percentage of that spend attributed to labor rather than technology. Yet expectations, particularly regarding customer risk, keep going up across the board. Combined with continued reliance on ineffective manual processes, this is putting reputations on the line.

When you look at today's complex financial landscape and the rapid pace of change, it's easy to see why.

More than $271 billion is spent globally each year.

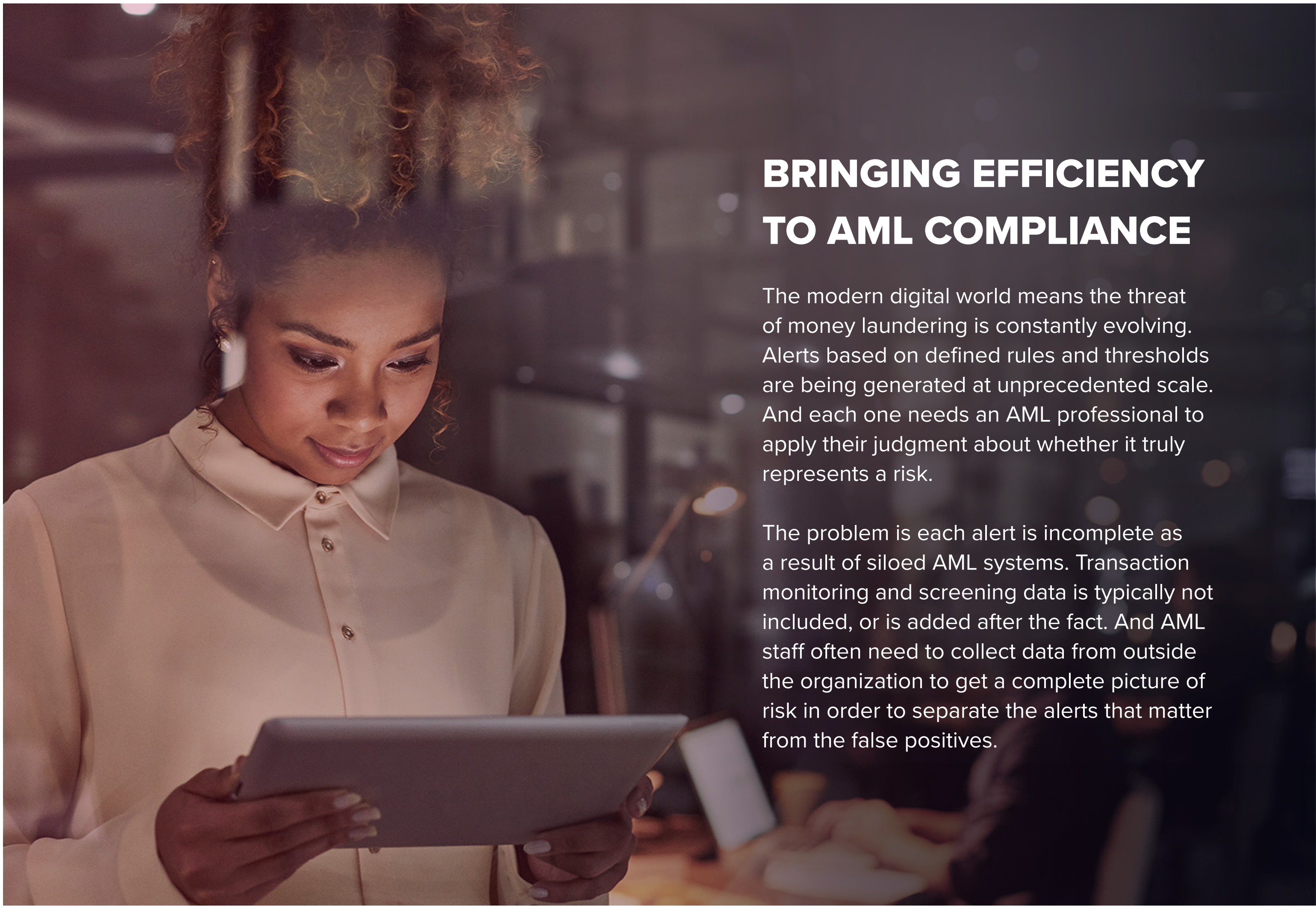
2 Source: https://risk.lexisnexis.com/global/en/insights-resources/research/true-cost-of-financial-crime-compliance-study-global-report

The Impact of Siloed Systems on AML

Financial institutions are expected to prevent money laundering domestically and across international borders, stop money flows to sanctioned parties (including countries, individuals and organizations) and remove the ability of criminal and terrorist groups from operating using banking networks. Above all, they must demonstrate a clear understanding of each customer's risk profile, including the location and source of their funds. Sorting, investigating and reporting on suspected money laundering activities must happen on an ever-increasing scale. But the costs associated with doing so are onerous, and they continue to grow – especially when operating in multiple jurisdictions with different rules and interpretations, each adding an extra layer of complexity.

Financial institutions must continually check a variety of data to assess each customer's risk rating, which is no mean feat. Even for a typical commercial banking customer, this will involve many complex interactions across the AML lifecycle – whether that's KYC checks, watchlist screening or transaction screening and monitoring.

This is difficult enough as it is. But it's made even harder thanks to the operational and technological challenges financial institutions face, leaving AML teams stretched thin as they try to keep up. This increases the likelihood of criminal activity slipping through the cracks due to human error or delays, opening up the risk of greater regulatory scrutiny and potential penalties.



BRINGING EFFICIENCY TO AML COMPLIANCE

The modern digital world means the threat of money laundering is constantly evolving. Alerts based on defined rules and thresholds are being generated at unprecedented scale. And each one needs an AML professional to apply their judgment about whether it truly represents a risk.

The problem is each alert is incomplete as a result of siloed AML systems. Transaction monitoring and screening data is typically not included, or is added after the fact. And AML staff often need to collect data from outside the organization to get a complete picture of risk in order to separate the alerts that matter from the false positives.

LEGACY PROGRAMS ARE CREATING CHALLENGES

Financial institutions face a range of challenges due to the pressure of operating in today's heavily regulated financial markets where piecemeal compliance efforts are not able to deliver the required results. These challenges fall under two main categories:

OPERATIONAL CHALLENGES

INEFFICIENT PROCESSES
Inconsistent and non-standard KYC processes, resulting in duplicated efforts and lower staff productivity.

LABOR-INTENSIVE OPERATIONS
Significant manual processing that stems from non-joined up systems increases the likelihood of errors and poor data quality.

REPUTATION MANAGEMENT
Delays in onboarding, repetitive requests for the same information and inconsistent KYC update processes create a bad customer experience.

LACK OF AGILITY
Continued reliance on manual operations makes it hard to keep pace with ever-evolving, sometimes sudden compliance requirements.

TECHNOLOGICAL CHALLENGES

BAD DATA QUALITY
Siloed systems result in fragmented and often duplicated data, which is difficult to search for compliance purposes.

OLDER TECHNOLOGY
Further investment is needed to enhance capabilities and scale operations, enabling banks to proactively manage risk while reducing the total cost of compliance.

MANUAL CONTROLS
Expanded AML/KYC requirements have increased the number of checks and balances. Without automation capabilities, this creates more inefficiencies.

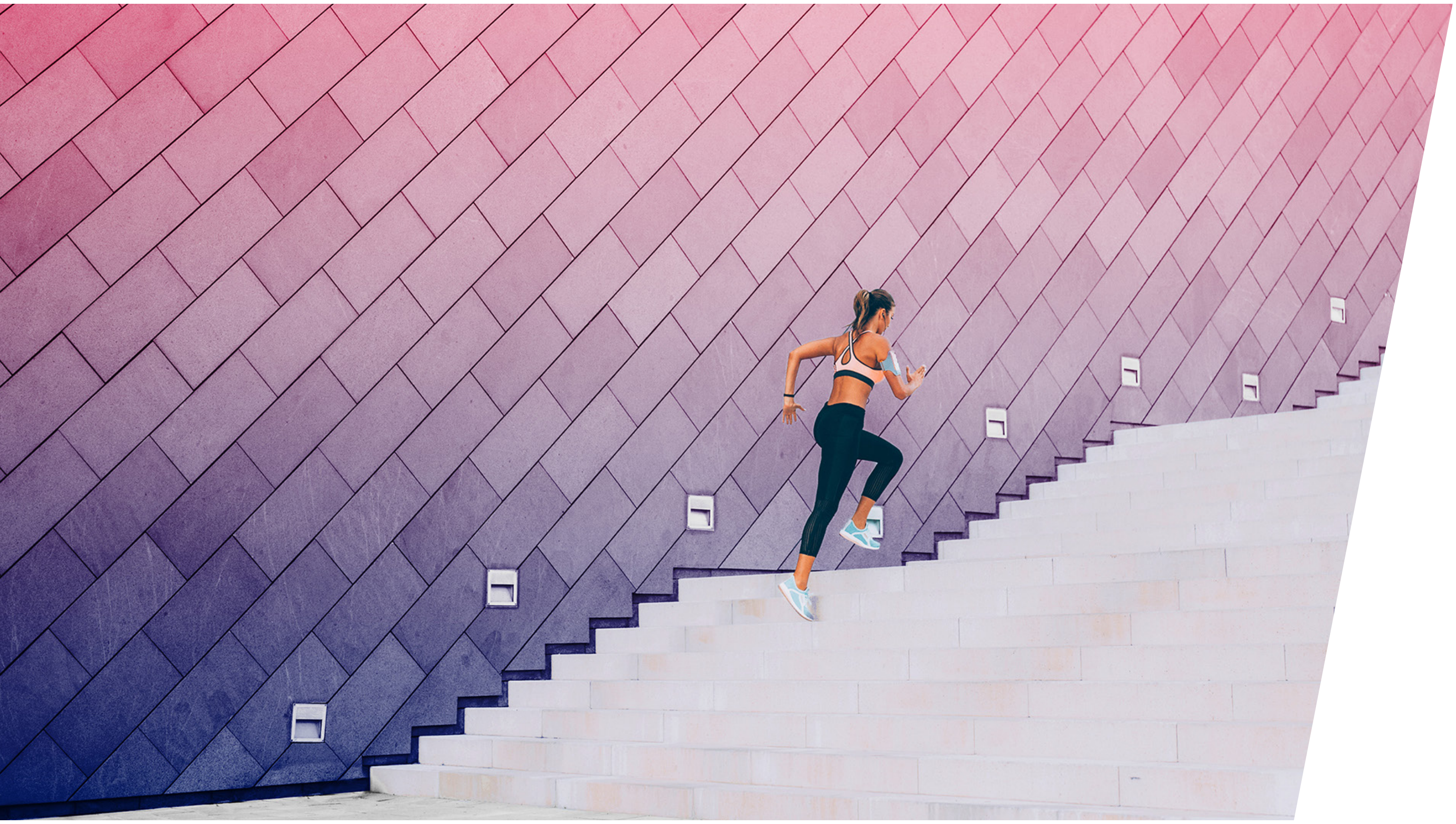
DECISION ENGINES
Algorithms based on poor quality data can make it hard to strike the right balance. Too many false positives hurts productivity. Too few and there's risk of missing positive matches.

Now Is the Time to Act

The challenges associated with AML have been building for a while. But several developments in the last 12 months have highlighted why now is the time to act:

- The Russia-Ukraine conflict which suddenly added new sanctions and compliance requirements after governments around the world imposed restrictions against Russian banks.[3]
- New rules and processes in the US related to identifying the Ultimate Beneficial Owner (UBO) of legal entities after FinCEN established a nationwide UBO reporting requirement per the Corporate Transparency Act.[4]
- The continued development of cutting-edge technology in the banking sector. This includes new developments in Artificial Intelligence (AI) and Natural Language Processing (NLP), along with analytics models and other advancements that can help tackle the data quality issue faced by financial institutions.

Although many compliance officers and business leaders may feel at odds with competing goals, this doesn't have to be the case. Rethinking their current approach to AML can help turn developments like the ones listed above into business opportunities as AML/KYC challenges become business value drivers.



3 Source: https://infomineo.com/the-impact-of-the-russian-war-in-ukraine-on-the-financial-sector/

4 Source: https://bankingjournal.aba.com/2022/12/demystifying-beneficial-ownership/

From Burden to Business Advantage: Transforming Compliance With Automation

Despite investment in digital processes and platforms, financial institutions still face dissatisfied customers due to disconnected processes that increase friction and detract from the overall experience. Transforming AML compliance starts with connecting these systems together using process optimization and automation.

However, effective automation in the financial sector is complex. It's not as easy as flicking the "on" switch and getting immediate access to improved digital workflows. Instead, automation is only as good as the data that these processes and systems rely upon.

Set the Right Foundations

To get a handle on better data quality so they can tackle the challenges they face, financial institutions must first integrate the existing AML silos of KYC, transaction monitoring and sanctions screening in a reliable, repeatable and sustainable way.

Integration across these silos will set the foundations for:

- Optimal data acquisition processes and new operational efficiencies.
- Real-time KYC, which will help get time to revenue recognition as low as possible.
- Decreased risk of false positives due to better data quality.
- A more complete picture of the customer and related parties, leading to better risk decisions.
- The ability to respond more easily to new regulatory requirements in the future.

A Centralized Risk Model Creates Business Advantage

Getting this right will help AML professionals partner with their business colleagues. By capturing data in a new automated way and joining it up behind the scenes, it's possible to bring together the customer relationship management (CRM) stream with the compliance stream. However, introducing connectivity between disparate AML systems is only part of it.

To truly enhance data quality and deliver a new model for AML compliance that can drive value across the business, these new data flows must then be:

- Analyzed to assess accuracy and completeness.
- Cleansed and standardized.
- Verified and enriched for better matching and ongoing monitoring based on that quality data.

Enrichment is a key part of this process. It builds a deeper understanding of the customer and creates a 360-degree view of AML risk across all parties, products, services and geographies – including hidden relationships both within and outside the organization.

The result is a more timely and robust AML risk assessment based on a consolidated risk rating for each customer. The deeper insight this creates can then be used to enhance the overall experience by providing better and more complete information to relationship managers and customer service teams. This is key for driving greater value, whether that is through better pricing, more targeted offers or other avenues to help increase share of wallet.

All this depends on automation and AI. Automation helps dramatically reduce the need for manual intervention to collate and cleanse the data necessary for AML compliance, while AI supercharges the ability to detect, investigate, report and mitigate adverse events, enabling continual monitoring and a dynamic understanding of customer risk. For financial institutions, this simultaneously introduces more efficient, cost effective processes with an approach that sets out the foundations for delivering a better customer experience.

Putting Customer-Centric Compliance Into Practice

Implemented correctly, automation and AI can transform static KYC and associated AML compliance efforts into real-time systems that put the customer at the center of business value. Previously manual, labor-intensive processes can become digital workflows that help drive satisfaction and unlock new revenue opportunities.

For financial institutions, this creates a new mindset that links business benefits with compliance. Through AI and automation, people, processes and technology can come together to drive a range of benefits.

Let's look at how this approach can help overcome common issues that impact the customer experience, and the steps forward-thinking institutions can take to make this a reality.

TURNING AML INVESTMENTS INTO BUSINESS VALUE

Financial institutions looking to drive more value from their investment in AML programs can do so in four ways:

1. Reducing the total cost of compliance.
2. Improving the overall customer experience.
3. Enhancing the effectiveness of controls.
4. Optimizing systems to create added value for the customer.

By putting customer-centric compliance into practice through automation, financial institutions can achieve all four while being able to truly 'know' the customer in a way they haven't been able to before.

DELIVER A SUPERIOR CUSTOMER EXPERIENCE

Problem

A lack of integration between systems leads to redundant requests for information and supporting documentation. This gives customers the impression that the institution doesn't know them or care about their quality of experience.

Solution

KYC data collection can be streamlined through new automated processes and better integration across the board. This helps minimize information requests, preventing AML staff having to ask for the same documents multiple times. Data verification and validation can then be automated against internal systems and third-party databases, which consolidates KYC for customers who already have a relationship with the financial institution.

Steps to achieve this

1. Ensure existing data is cleansed, standardized and verified to avoid redundant requests.
2. Use technology to automate KYC processes and minimize customer outreach via public data.
3. Identify any missing data, and consider who should collect it.

UNLOCK NEW REVENUE OPPORTUNITIES

Problem

The ongoing digitization of financial services has increased customer expectations. They want customized financial products based on a deeper understanding of who they are and what they need. And they are no longer willing to endure long lead times before getting access to products and services.

Solution

Collected customer data can satisfy both compliance requirements and revenue opportunities. By ensuring data quality through automation and smart data flows, financial institutions can accelerate onboarding and account opening, improving time to revenue. Having a more complete customer picture also enables enhanced risk identification. Financial institutions can use these insights to better price business based on each customer's risk profile. This makes it easier to expand relationships with the right customers, not those who present undue AML risk.

Steps to achieve this

1. Leverage technology to gain a complete picture of each customer.
2. Implement a data dashboard that highlights new opportunities based on a customer's profile.
3. Empower relationship managers to use this insight to create deeper connections.

ESTABLISH MORE EFFECTIVE CONTROLS

Problem

New regulations are putting more requirements on financial institutions. Risk, including hidden risk, is increasing which is driving larger penalties.

Solution

Automated processes can improve the effectiveness of controls. Combining real-time KYC with advanced monitoring capabilities enables financial institutions to identify hidden risks. By gaining a holistic view of each customer and the surrounding network of stakeholders, they can better identify how risk changes as client activity changes. This gives comprehensive and proactive risk insights related to engaging with that client. Financial institutions can anticipate further issues that may arise as a result, reducing AML risk, significant fines and increased regulatory scrutiny.

Steps to achieve this

1. Leverage technology to perform real-time, continual risk-based customer assessment.
2. Implement a data dashboard that highlights opportunities and pain points for each customer.
3. Conduct advanced analysis and data visualization to identify future risks ahead of time.

INTRODUCE GREATER EFFICIENCY

Problem

Business leaders must find a way to keep the cost of compliance under control, while also preventing AML programs from impacting the customer experience.

Solution

A significant percentage of spending on AML compliance is on people. By integrating systems and enabling smart data flows financial institutions can reduce the number of people needed to achieve compliance. By managing risk more effectively, they can also reduce the overall cost to the business from fines and associated outlays.

Steps to achieve this

1. Link AML technologies and operational processes to enable smart data flows.
2. Automate data collection and risk monitoring to lower the cost of compliance per customer.
3. Apply standardized compliance reports across all operations.

HOW CAN FINANCIAL INSTITUTIONS UNLOCK THESE BENEFITS?

Large institutions are already making changes to their systems to bring efficiency to AML compliance. However, as processes are still heavily manual, this hasn't led to a decline in the number of staff involved. What's missing is a way to link AML technologies together to gain a consolidated risk rating based on a complete picture of each customer's profile, without having to rip and replace the infrastructure they have.

Many challenger and mid-sized banks also need a way to upgrade their (often inflexible) legacy systems to achieve this goal, while fintechs must design their processes and tech stack in a way that will help them better meet compliance requirements as regulatory scrutiny increases.

Advanced automation and AI technology can help overcome these hurdles in a flexible way, working with existing systems rather than replacing them to drive greater value from AML investments.

How Sutherland AML Converts AML/KYC Challenges Into Business Value

Financial institutions need to layer in additional capabilities on top of their existing solutions to tackle the data quality issue they face. Only then can they start spending less time on data collection and more time investing in building customer relationships so they can position themselves as a modern, customer-centric player in today's increasingly competitive financial landscape.

Sutherland AML makes this possible. Combining FinScan – Innovative Systems' data integration, data quality and AML compliance technology – with Sutherland's global footprint for managed services and digital transformation expertise, Sutherland AML helps financial institutions rethink their approach to AML compliance.

The Sutherland AML Difference

An advanced automation solution, Sutherland AML gives financial institutions a complete picture of each customer. Through more efficient gathering and interpretation of data, and more accurately detecting and predicting risk through AI, Sutherland AML gives the protection and risk management financial institutions need to confidently focus on business outcomes for sustained growth.

The benefits of Sutherland AML

- **Smart data collection:** Gather data more intelligently to better enable KYC, transaction monitoring and sanctions screening processes.
- **Continuous monitoring:** Continuously capture and understand customer due diligence data and activity through a real-time dashboard with advanced drill-down analytics, giving the ability to quickly identify and address changes in customer risk.
- **Deep insights:** Gain a true 360-degree view of the customer (including customer risk), taking advantage of AI to analyze data at scale and unlock meaning and insight.
- **Reliable data:** Clean and match data to help ensure its accuracy and minimize false positives.
- **Dynamic customer profiling:** Create and maintain dynamic customer risk ratings for actionable recommendations, architecting compliance data for a deeper understanding of the customer and their relationships.
- **Frictionless operations:** Make onboarding and ongoing business operations safer and more efficient with tighter controls.
- **Flexible implementation:** Available as an end-to-end compliance system or a layered solution that can complement existing deployments.

See how Sutherland AML can help convert AML/KYC challenges into business value, transforming AML compliance by introducing smart data flows without having to rip and replace.

Want to learn more? Let's talk.
We'd love to hear from you.