COMPLY ADVANTAGE®

The Role of Tech and Talent in Transaction Screening

Contents

Introduction

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Worldwide anti-money laundering (AML) fines have spiked – increasing by over 50% in 2022 - resulting in more than $2 billion in penalties for banks alone.

At the same time, following historical trends, financial crime is increasing in parallel with economic uncertainty. In our 2023 State of Financial Crime report, 58 percent of firms globally said they planned to increase compliance staff in response to an expected rise in financial crime. Yet the role of personnel is only half the question, as effective teams need to be supported by robust data and technology.

Our technology and talent survey drilled into this issue, asking 600 global firms to share their perspectives on the role of staffing and technology in compliance. Fifty percent revealed they planned to hire 21-40 senior compliance staff in the next 12 months, and 52 percent said they planned to hire 21-40 junior or mid-level staff.

Firms also reflected an understanding that an exclusive reliance on staffing isn't scalable and won't solve data-related problems. The vast majority of respondents – 90 percent – also plan to spend more on transaction screening technology in the coming 12 months.

90% of firms plan to spend more on transaction screening in the next 12 months

This comes as no surprise, given the compliance and risk challenges firms have experienced as a result of sanctions imposed by many major economies due to the war in Ukraine.

As the scope of sanctions continues to widen, our survey results reflect a greater awareness that teams need powerful, real-time tools to support them.

This guide aims to shed light on current transaction screening pain points against this backdrop. Nearly 40 percent of respondents said their biggest frustration was integrating transaction screening into their wider compliance tech stack. Indeed, siloed data and tools can prevent compliance teams from investigating risk effectively. The survey results show that firms need to integrate risk management across transaction screening, wider compliance processes, and even fraud. Increasingly, risk management needs to break out of these siloes so that all parties have access to a complete picture of interconnected risks.

As we will see, the need for a faster and more effective screening process can be addressed with the right combination of tech and personnel. By understanding the challenges and opportunities associated with this critical aspect of financial crime risk management, we hope businesses are able to make informed decisions to safeguard their operations and take proactive steps toward keeping criminal cash out of the global financial system.

Best wishes,

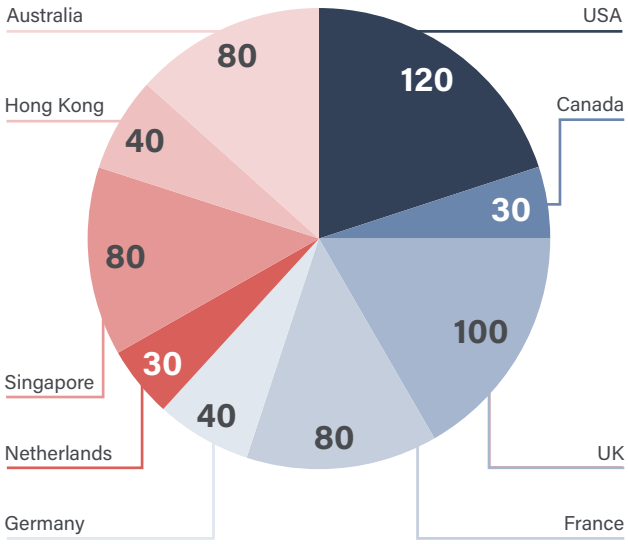
Methodology

Respondents to our survey were senior financial crime decision-makers. 99 percent said they either set their organization's financial crime and compliance strategy or are involved in strategic decision-making.

The size of organizations surveyed was diverse, but with 43 percent of respondents working for firms with 1000 or more employees, many lead teams for larger financial institutions. Market segments that weighed heavily in the responses included banks, digital banks, insurance, capital markets, and investment.

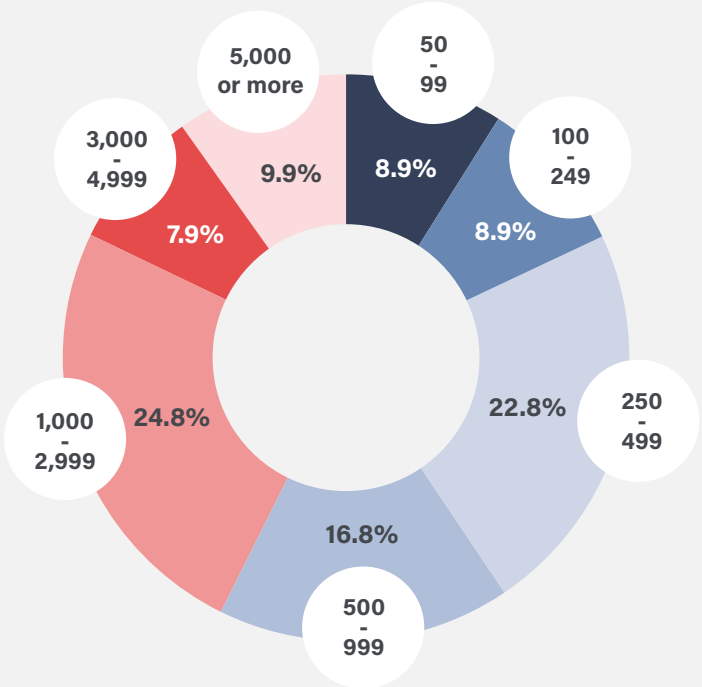
The survey was also global, taking in major financial services markets across the Americas, Europe, and Asia-Pacific. The highest number of responses came from the United States, United Kingdom, France, Singapore, and Australia.

Respondent country



Source: ComplyAdvantage Tech and Talent survey, June 2023

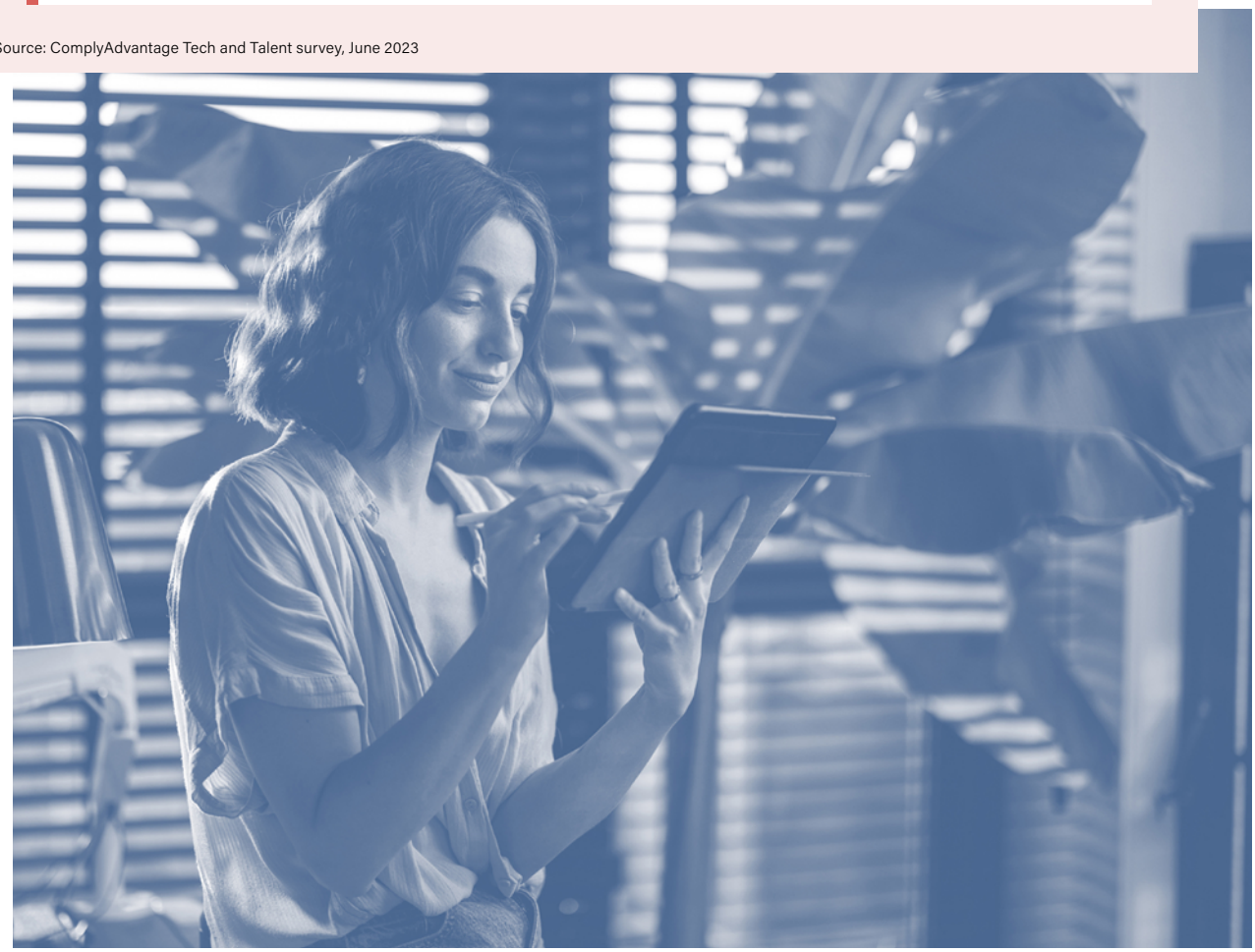
Number of employees



Source: ComplyAdvantage Tech and Talent survey, June 2023

Primary responsibility

Source: ComplyAdvantage Tech and Talent survey, June 2023



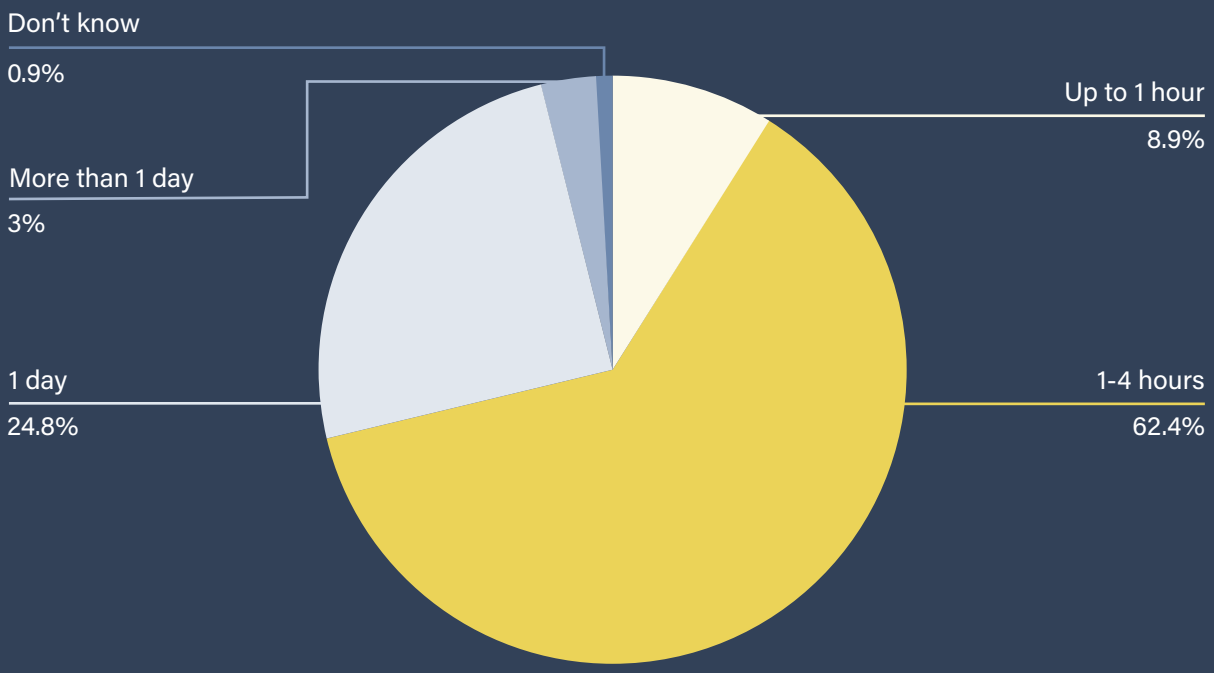
Resolve Alerts More Efficiently

More than 90 percent of firms we surveyed said that, on average, it takes them an hour or longer to resolve a transaction screening alert. Over a quarter of respondents said the process takes a day or more. Given the prevalence of backlogs often flooded with false positives generated by inefficient systems, these rates are commercially unsustainable.

Now, with the rapid acceleration in the adoption of real-time payments (RTP), firms have an even greater need for transaction screening efficiency. When we asked financial crime leaders about their current screening challenges, over a third were dissatisfied with processing times for faster payments. Another factor compounding the problem is a lack of alert clarity: 35 percent of firms said insufficient alert detail or explainability was a top frustration.

It's important for firms to assess the level of operational coverage they need to ensure efficiency, accountability, and quality control. When we asked how many people typically review a single transaction screening alert, more than a third said only one individual was assigned to the task. This figure was highest among midsize firms with 259-499 employees. It was also high for larger firms.

On average, how many business hours does it take to remediate an alert generated by your organization's transaction screening solution?



Source: ComplyAdvantage Tech and Talent survey, June 2023

What does this mean for your firm?

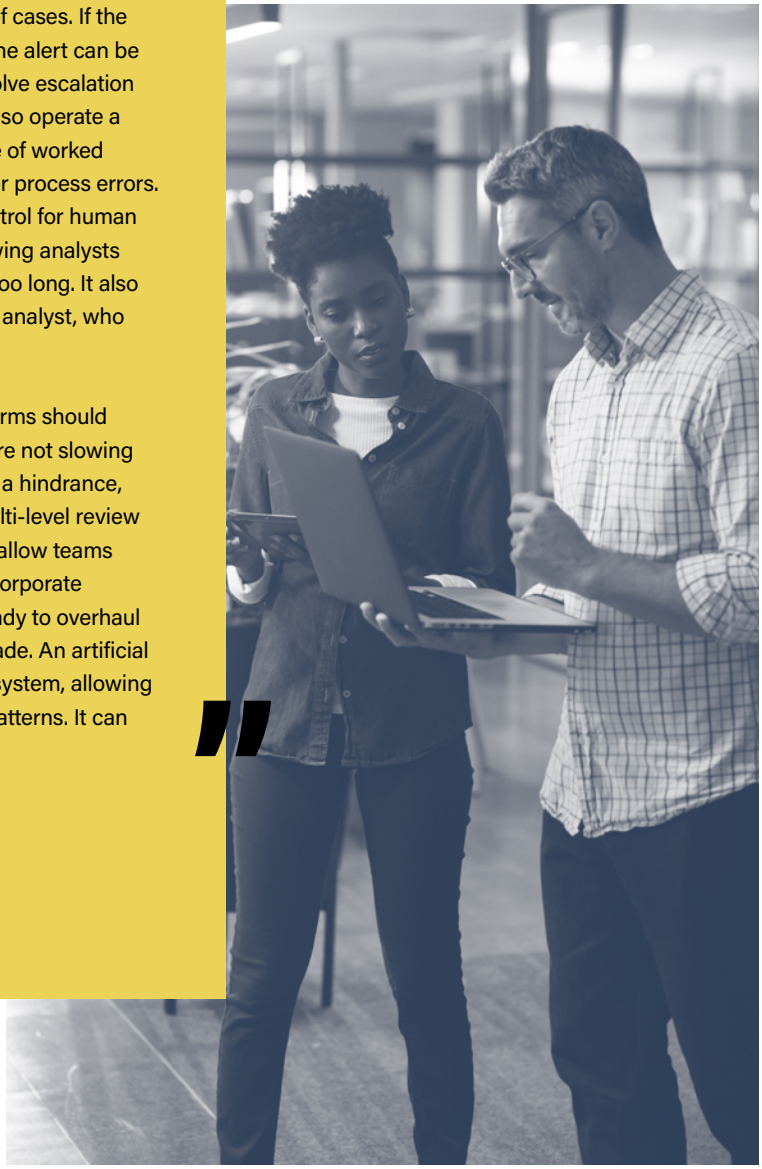
"These figures suggest a lack of robust analyst support for alert investigations. Analysts may also be affected by a lack of technological efficiency, with current systems unable to provide clear, accurate, and comprehensive data for investigations. The higher numbers of midsize firms lacking multi-level reviews may be due to the increased pressures and limited resources inherent as startups begin to scale. If firms are to stay ahead of growing financial crime risks and regulatory requirements, they must revamp their approach to transaction screening.

Firms should focus on two areas:

1. **Ensure a robust review process is in place for alerts being generated.** This should include passing an alert review through multiple analysts. Ideally, the first analyst's investigation (if completed to the point of closure) should be followed up by a further Quality Checking review process in 100% of cases. If the initial analyst is unable to satisfy themselves that the alert can be closed, a deeper investigation of the case may involve escalation to a smaller, more experienced team. Many firms also operate a further Quality Assurance process where a sample of worked Alerts are periodically checked for administrative or process errors. This ensures accountability, provides a built-in control for human error, and can help streamline the process by allowing analysts to tag-team rather than bog down in one alert for too long. It also provides a career progression path for the 'Level 1' analyst, who tend to be closer to the start of their careers.

2. **Provide reviewers with robust data and tools.** Firms should be sure that their alerting and investigation tools are not slowing analysts down. The right tool should be a help, not a hindrance, providing configurable workflows that adapt to multi-level review processes. Cutting-edge screening solutions now allow teams to move past traditional rule-based methods to incorporate artificial intelligence (AI), but even firms not yet ready to overhaul a legacy system can take advantage of an AI upgrade. An artificial intelligence overlay can interface with an existing system, allowing teams to see hidden risks by connecting unseen patterns. It can also prioritize alerts by risk level."

Iain Armstrong
Global Regulatory Affairs Practice Lead, ComplayAdvantage



Improve Sanctions and PEP Data

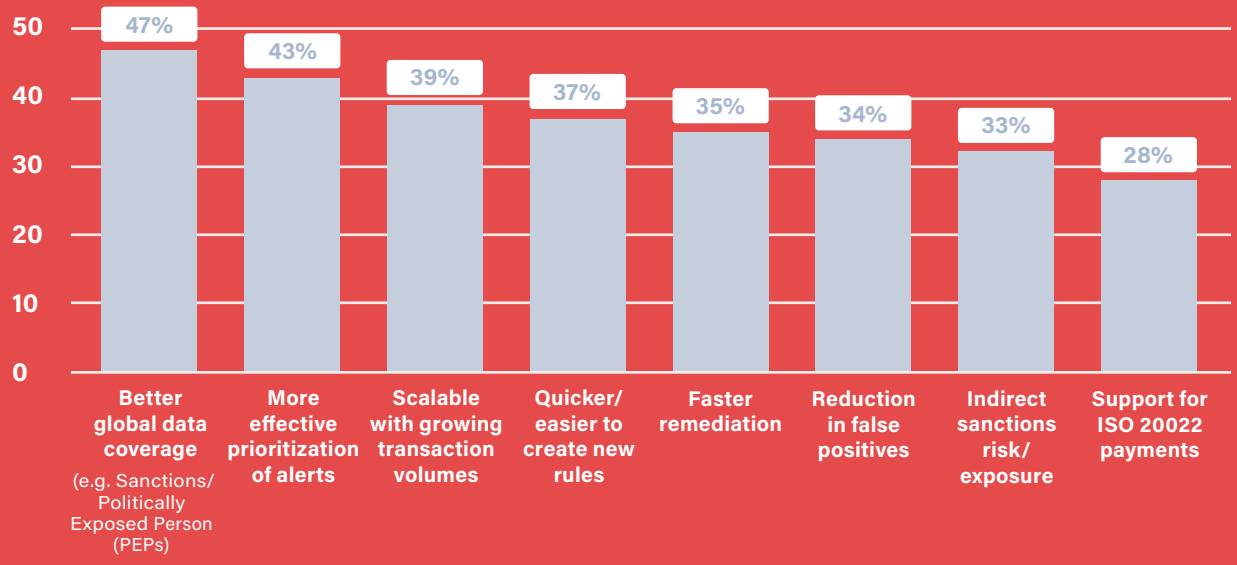
As the sanctions and financial crime landscape continues to grow more challenging, it's becoming increasingly important to have accurate and comprehensive data. Nearly half of surveyed firms (47 percent) want to improve their transaction screening data coverage, including sanctions and PEPs.

A third were specifically frustrated with a lack of real-time sanctions updates. This augments the picture we discussed in our 2023 State of Financial Crime report. We then saw that nearly a third of firms – 29 percent – were most focused on improving their sanctions compliance. Meanwhile, almost 40 percent of those respondents prioritized the detection of PEPs and relatives and close associates (RCAs).

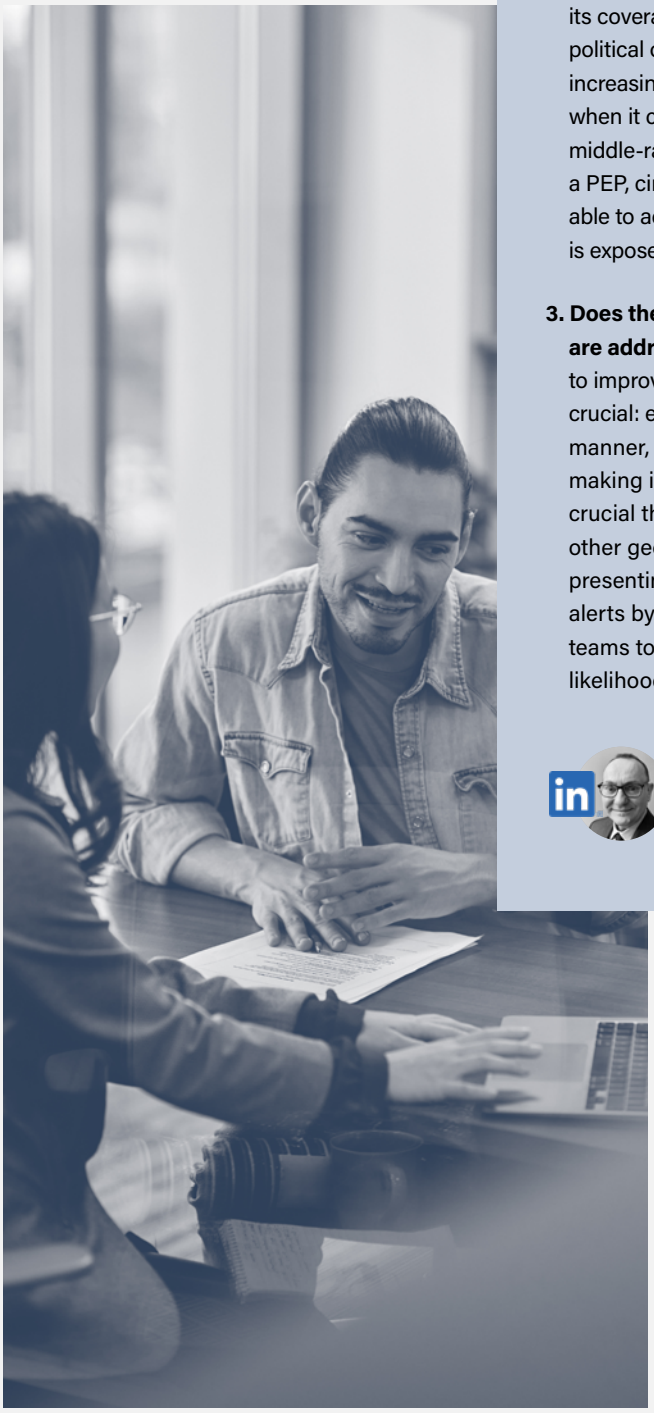
These statistics reflect an awareness of the continuing risks surrounding sanctions violations – and the complex political and financial landscape PEPs exist in. As our 2023 State of Financial Crime report discussed, the growing focus on ultimate beneficial owners (UBOs) means firms must widen their nets as they try to capture PEP risk in their UBO populations. Meanwhile, regulators are always updating sanctions, even as sanctioned entities continuously look for ways to evade them -- resulting in still more sanctions from regulators. This creates a landscape in which firms must be as up-to-date as possible on both criminal typologies and the newest regulations to effectively prevent sanctions evasion through their accounts.

Increasingly, firms need technology that can access and clearly present the right data. This includes comprehensive yet flexible PEP data that reflects firms' nuanced risks, and sanctions data matching constantly-evolving global policies. Companies reviewing their approach to transaction screening must ensure it is holistic, with integrated and continually updated data. Firms should audit their existing tools to ensure they support a risk-based approach.

If your organization were to invest in a new transaction screening solution, what would be the primary benefits your organization would be looking to achieve?



Source: ComplyAdvantage Tech and Talent survey, June 2023



What does this mean for your firm?

When firms consider new solutions for their transaction screening, here are some key questions to ask:

1. **How up-to-date is the solution's sanctions and risk data?** Is the update process static or ongoing? If ongoing, how often is the data updated – and how quickly does it become available? Where is the data sourced from?

2. **How nuanced is the available PEP data?** How comprehensive is its coverage of relatives and close associates (RCAs) and mid-level political officials? Our State of Financial Crime data shows that firms increasingly recognize that there is no "one size fits all" classification when it comes to PEPs. In particular, there is a recognition that middle-ranking and even more junior officials could act on behalf of a PEP, circumventing AML/CFT controls. A screening tool should be able to adapt to a firm's unique risk profile – especially when the firm is exposed to high-risk jurisdictions.

3. **Does the solution show the highest risks first to ensure they are addressed swiftly?** 43 percent of firms we surveyed wanted to improve their transaction screening alert prioritization. This is crucial: even real-time data must be interpreted in a risk-based manner, or analysts may face a backlog of false positives – making it hard to see and investigate true positives. It is crucial that any tool with access to current sanctions, PEP, and other geopolitical risk data can effectively highlight the alerts presenting the greatest risk. Artificial intelligence can prioritize alerts by risk, even for legacy systems. This enables analyst teams to focus their time on the highest risks – and reduce the likelihood of missing suspicious activity.

Andrew Davies
Global Head of Regulatory Affairs, ComplyAdvantage

Integrate Transaction Screening Data

When asked what challenges they face with their current transaction screening solution, nearly 40 percent of firms chose integration with their wider compliance tech stack. Close behind, 35 percent of firms cite the lack of explainability or detail on alerted transactions.

Siloed data can contribute to a lack of necessary information for analysts reviewing alerts – and lower investigative effectiveness as crucial information is obscured. Even veteran analysts will be unable to detect risks or reliably block suspicious activity if their tools cannot provide them with the required information. It can also contribute to low employee morale and burnout, negatively impacting staff turnover rates. This suggests that a firm's focus in addressing this concern should be twofold.

First, integrated risk management data is crucial to keeping pace with regulatory requirements and effectively managing risk. As firms evaluate their current solutions' ability to keep pace with their risks, a crucial consideration is whether transaction screening solutions have access to the full data picture. Second, the most engaged analysts can find a lack of key information frustrating and overwhelming – and in a job seeker's market, they may well go elsewhere, adding to a firm's costs. Firms could consider whether the data their tools access is comprehensive and clear enough for employees to feel they can do their job.

It's also worth considering that 47 percent of respondents felt their adverse media solutions were "very well integrated" into their financial crime risk management architectures – so model firms that are making good progress do exist.

What does this mean for your firm?

Firms looking into a new transaction screening solution should consider two things:

1. **How the tool interfaces with the entire compliance process.** Can the solution access and process relevant data and enable analyst interaction with the wider compliance team? Siloed data hampers risk management efficiency and effectiveness.

   Yet as financial crime, sanctions, and customer risk data grow more complex, the need has never been greater for reliable, streamlined financial crime risk management. Integrated data and risk management tools not only help ensure risks are caught more quickly, but also help to fight employee burnout and turnover – improving a firm's return on investment for their personnel. Even for frustrated employees that stay, morale has a significant impact on investigative effectiveness. Integrated information and processes can help boost morale and improve investigations.

2. **The information available to explain an alert.** Explainability is often discussed in light of AI, but legacy systems that do not integrate well with wider compliance processes also present transparency challenges to analysts. Teams investigating transaction screening alerts need clear, easily accessible information on why the alert was generated and how it connects to the wider picture. With legacy processes, the challenge is that traditional rules only look at a given set of defined transaction features that can leave out crucial information and result in missed risks.

   Firms looking to update their transaction screening solution should consider tools whose APIs enable them to integrate with the whole risk management tech stack. This is crucial to breaking transaction screening out of a siloed framework. Tools should enable analysts to access the full range of relevant risk information across the whole risk management function.

Iain Armstrong
Global Regulatory Affairs Practice Lead, ComplayAdvantage

What are your organization's top challenges with its current transaction screening solution?

Source: ComplyAdvantage Tech and Talent survey, June 2023

Next steps

After reading this report, financial crime leaders can:

- ☑ **Benchmark their transaction screening function's performance against the data included here.**
  How does it compare? Is it ahead of or behind peers?

- ☑ **Identify priorities and the biggest gaps.**
  While a long-term plan that looks at the full suite of financial crime technologies is ideal, realistically, a proof of concept must be found.

- ☑ **Set practical goals.**
  By what percentage should improved data decrease average alert resolution times? How can you benchmark available PEP data against your firm's risk profile? There are plenty of productive and worthwhile objectives - find the metrics that you want to focus on and relate to your specific risk exposure.

- ☑ **Sell the plan to executive leadership.**
  Armed with industry benchmarks and measurable improvement goals, financial crime leaders can provide their executive leaders with the insights and data required to support funding and change management conversations.

- ☑ **Track change incrementally.**
  When the plan is in action, be realistic about how quickly you'll see results. Breaking overarching goals down into chunks that are measurable in days and weeks helps keep teams and executives on board. It ensures there are opportunities to check in and review if course corrections are needed.

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