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The need to curb money laundering

By Amit Singh

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The Anti-Money Laundering (AML) market makes up a significant proportion of the global Gross Domestic Product (GDP), but the real issue is that money laundering is used to fund other illicit activities, such as smuggling, bribery, corruption, cybercrime, illegal arms dealing, human trafficking, modern slavery, and more.

Source: ©Andriy Popov 123rf

According to a study by Global Newswire, the global Anti- Money Laundering (AML) market is expected to reach $2.3858bn by 2026 (from an estimated at $974.2m in 2019) and expected to grow at a compound annual growth rate (CAGR) of 13.6% from 2019 to 2027.

The need to curb money laundering is clear, and there are many laws in place around this.

For example, in Europe, the 5th Anti-Money Laundering Directive (5AMLD) came into effect in January 2020, with the goal to improve the EU's efforts by preventing the misuse of the financial system for the purpose of money laundering and funding terrorist activities.

However, in today's complex digital world, it can be difficult to effectively perform the required levels of due diligence, and to effectively perform Know Your Customer (KYC) initiatives, without the right tools for the job.

A global challenge

Money laundering is a global challenge that is rapidly evolving due to a changing economy and the rapid digitalisation of money, combined with ever-growing numbers of cross-border transactions.

Digital transformation opens the door for criminal groups to run complex money laundering schemes while continuing to evolve their technique.

Against the backdrop of the Covid-19 pandemic, financial institutions must comply with various Anti-Money Laundering (AML) laws and regulations with less funding and manpower than ever.

The current climate calls for innovation and modernisation by shifting to a next-generation AML software.

Next-generation technology is key

To prevent money laundering, financial institutions need to know who their customers are, where the money is coming from and where it is going.

This is simply not possible to achieve without the use of technology.

Access to data, effective AML technology, and importantly, automation, are all essential in exposing risks such as money laundering.

According to the Refinitiv Global Risk and Compliance Report 2021, “organisations which use innovative technologies are not just better protected from customer and third-party risk, they are more aware of them and crucially are more likely to continue investing in further prevention and mitigation.”

Next-generation AML tools help organisations to utilise data and analytics to detect and flag unusual activities for follow up and helps them to more effectively perform KYC processes.

In addition, AML tools need to automate transaction monitoring to manage risk and reduce the manual workload around customer monitoring.

Payments need to be screened, and senders and receivers need to be effectively identified, which requires visibility from end to end.

Financial institutions also need tools like intelligent alerting, potential risk identification and analysis.

There is an ongoing challenge involved with AML initiatives and customer service – the goal is to balance the two, so that customer onboarding is not negatively affected by AML and KYC, which frustrates the many legitimate customers of a bank.

Meeting changing regulatory requirements

AML is an ever-evolving field, with the laws and regulations constantly being updated to meet new challenges.

It is therefore crucial for financial institutions to ensure that their AML software is up to date and meets the latest standards and regulatory requirements.

One example is how KYC is evolving into KYX – from Know Your Customer to Know Your Entity – because money laundering is wider than just individual customers.

Organisations need to know not only their customers, but their employees, channel partners and distributors as well. Dynamic customer due diligence is also emerging as a crucial tool in enabling real-time risk management.

New technologies such as machine learning and artificial intelligence play a key role in enabling financial institutions to stay on top of the latest developments in AML.

ABOUT THE AUTHOR

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