Opportunities and Challenges of New Technologies for AML/CFT/CPF

New Technologies in AML/CFT/CPF

The Financial Action Task Force (FATF) defines "new technologies" as innovative skills, methods and processes that are used to achieve goals relating to the effective implementation of Anti Money Laundering/ Countering the Financing of Terrorism/ Countering Proliferation Financing (AML/CFT/CPF) requirements or innovative ways to use established technology-based processes to comply with AML/CFT/CPF obligations.

What are the Main Benefits of the Use of New Technologies?

- AML/CFT/CPF Effectiveness
- Better risk management
- Cost savings
- Accuracy of results
- Auditability
- Better Human Resource (HR) management

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Opportunities of New Technologies for AML/CFT /CPF

Advantages of New Technologies for Supervisors

The ability to:

♦ Supervise a larger number of entities;

♦ Better identify and understand the risks associated with different sectors/individual entities;

♦ Monitor compliance with AML/CFT/CPF standards and act swiftly in cases of non-compliance;

♦ Communicate more efficiently with the supervised entities and carry out additional information requests;

♦ Store, process and report on larger sets of supervisory data; and

♦ Exchange information with other competent authorities.

Advantages for the Private Sector

The ability to:

♦ Better identify, understand and manage ML/TF/PF risks;

♦ Process and analyze larger sets of data in a quick and more accurate manner;

♦ Efficiently onboard customers through digital practices;

♦ Achieve greater auditability, accountability and overall good governance;

♦ Reduce costs and maximize human resources to more complex areas associated with ML/TF/PF; and

♦ Improve the quality of suspicious activity report (SAR) submissions.

Digital Identification solutions Example (India - eKYC)

India has implemented a Central KYC Register (CKYC) which is a centralized repository of KYC records of customers in the financial sector with uniform KYC norms to allow inter-usability. CKYC avoids customers having to perform KYC formalities with multiple Financial Institutions (FIs) ahead of establishing business relationships.

Challenges to Implementing New Technologies for AML/CFT/CPF

Regulatory Challenges

♦ Supervisors may not have the expertise or resources that would allow them to understand and adequately supervise new technologies used by regulated entities;

♦ Limited acceptance/adoption of new technologies by supervisors;

♦ Poor data harmonization and data quality;

♦ Availability of ML/TF/PF cases to train machine learning systems to better identify cases; and

♦ Security and protection from criminal interference. Increases in the number of criminal cases using new technologies, such as fraud.

Unintended Consequences and Potential for Abuse

♦ Lack of transparency can undermine the ability to assess the accuracy in identifying suspicious transactions and other illicit activity;

♦ Inadequate use of Risk Based Approach (RBA) can lead to the exclusion of underserved communities due to the high level of assurance about the real identity of the individual; and

♦ Abuse of technology or disclosure of personal information and privacy breaches.

Operational Challenges

♦ Costs of updating/replacing legacy systems and new technology tools/systems;

♦ It may be difficult to integrate with legacy systems and/or be beyond the regulated entity's technical capacity to use appropriately and effectively;

♦ Smaller FIs may lack the internal capacity to evaluate the effectiveness of new technology among different vendors/products; and

♦ As a result of the lack of data harmonization, technology use at scale might be impossible. Using big data most efficiently, for instance, requires that it be made available across multiple entities. Without this scalability, some technological tools might not be financially feasible.

Assessing AML/CFT/CPF Effectiveness and How To Address Residual Risks

♦ Continuous monitoring of new technologies to detect ML/TF/PF needed by entities.

♦ Effectiveness measurements is a feedback loop to re-calibrate technology use.

Types of New Technologies for AML/CFT/CPF

❖ **Artificial Intelligence (AI)** - AI is the science of mimicking human thinking abilities to perform tasks that typically require human intelligence, such as recognizing patterns, making predictions and recommendations, or decisions.

❖ **Natural Language Processing and soft computing techniques** - Natural language processing (NLP) is a branch of AI that enables computers to understand, interpret and manipulate human language. For example, connecting search engine results with PEP lists, identifying fraud attempts and monitoring sanctions lists.

❖ **Distributed Ledger Technology (or Blockchain technology)** - DLT may improve traceability of transactions on a cross border basis, and even global scale, potentially making identity verification easier.

❖ **Digital Solutions for Customer Due Diligence**

❖ **Application Programming Interfaces (APIs) -** An API is a type of software which allows different applications to connect and communicate. APIs are also often used to provide payment services, for instance, in accepting donations over websites.

A responsible use of new technologies, including digital identity and cutting-edge transaction monitoring and analysis solutions (including collaborative analytics) can assist effective, risk-based implementation of the FATF Standards by the public and private sectors, as well as, promote financial inclusion.

Suggested Actions to Support the Use of Technology in AML/CFT/CPF

1. Create an enabling environment by both government and the private sector for responsible innovation to enhance AML/CFT/CPF effectiveness;

2. Ensure Privacy and Data Protection when implementing new technologies;

3. Promote AML/CFT/CPF innovation which supports financial inclusion by design;

4. Develop and communicate policies and regulatory approaches to innovation that are flexible, technology-neutral, outcomes-based and in line with the risk-based approach;

5. Exercise informed oversight; and

6. Promote and Facilitate Cooperation.

These Actions note that new technologies for AML/CFT/CPF must be developed and implemented in a way that reflects threats as well as opportunities, ensuring that their use is compatible with international standards of data protection, privacy and cybersecurity.

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For More Information

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