Insight

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IS ARTIFICIAL INTELLIGENCE A GAME CHANGER FOR THE AML INDUSTRY?

by Alberto de la Portilla

BSA/AML compliance officers have often struggled with their Boards to ensure that their departments have sufficient staffing to accommodate the bank's operations. So in August 2018, when BCI Miami announced it was adopting artificial intelligence to integrate into its AML compliance program, the news provided one local compliance officer with a credible alternative solution.

"When we analyzed the data, we realized that the number of false positives is very high," said Alba Prestamo, Executive Vice President and Chief Compliance Officer at Banesco USA, one of South Florida's leading state-chartered institutions. "Industry wide, 95 percent of BSA alerts are false positives, but even though they are false positives, you have to invest time to analyze them to come to that conclusion," she said, during a telephone interview last week.

Prestamo said although current AML monitoring systems are rules-based and they are tested and validated annually, "at the end of the day, they are still rules-based."

BCI's announcement was the first by a major South Florida bank. Prestamo contacted them for some guidance and information and then began to look at options. To date, they have had presentations from six different vendors. "What we found was that many of these companies are on different levels of the curve and are not one-hundred percent AI," said Prestamo. She suspects that many AI vendors may not produce the same kind of efficiency when you go "full blown AI."

In December 2018, the Federal Reserve, FinCEN, and other regulators issued a joint statement aimed at "encouraging banks to consider, evaluate and where appropriate, responsibly implement innovative approaches" to meet AML obligations. A key takeaway from the joint statement is that banks that test or implement AI will not necessarily be penalized if AI identifies suspicious activity that was not previously captured by existing rules-based monitoring systems.

This was a good start, said Prestamo, who has more than 35 years of experience in risk management. But she is also wary of the realities that come with regulatory encouragement at the federal level versus the actual bank examination process. To soften the blow, she has been in communication from the outset with her regulator, the FDIC. "I told them I want you to be part of this journey. I don't want to do it by myself."

One of the concerns Prestamo sees with AI that will certainly require guidance from regulators is data validation. "Remember that in the U.S., we have to do this. Yet these AI companies don't want to disclose their proprietary process. And if you don't disclose, how can you test it? That's a big challenge. How are we going to do data validation?"

Nevertheless, she's encouraged by the power and potential of AI and how it can improve BSA efficiency. "AI looks at behavior. If you deviate from your behavior, it alerts you. In the past, certain behavior has ended up in a SAR. But AI may tell you that those alerts that did not previously generate a SAR, … is acceptable behavior and therefore will not produce an alert."

The result? "More productive alerts," she said. But more productive alerts does not necessarily mean fewer alerts, only better quality data for BSA analysts to analyze.

AI will indeed alter AML staffing levels across banks worldwide. It may take some time as regulators and examiners become more comfortable with it, but it is inevitable.

AI will have a substantial ripple effect on the AML industry, and this should not be feared, but welcomed, as long as the industry does not become over-reliant on AI. When asked if he's concerned about the prospect of artificial intelligence taking over, Apple CEO Tim Cook told NPR last year, "I don't really worry about machines thinking like people; I worry about people thinking like machines."

HOW EFFECTIVE IS YOUR BSA/AML COMPLIANCE MANUAL?

by Isabelle Wheeler

More than simply codifying your institution's internal AML controls, an effective Compliance Manual provides a roadmap to your compliance program for management, staff and independent testing. An effective Compliance Manual should help the user understand WHAT the controls are, WHEN they should be implemented, BY WHOM, and HOW compliance is measured. It should:

- Be well organized: Users (including staff, external auditors, and regulators) must be able to easily find what the policies are for each key risk area.
- Be specific: Make it clear what is expected and who is responsible.
- Include the methodology employed in risk measurement and monitoring programs.
- Cover the entire Compliance Program: Governance, Staffing and Training, Independent Testing, Customer Due Diligence and Monitoring & Reporting.
- Be reviewed and approved annually by the Board.
- Reflect what you really do, not only what you are required to do by regulation.
- Differentiate between *policies* (what you want done) and *procedures* (how you want it done).
- Include references to applicable laws and regulations, as well as AML Red Flags, but they should not be a substitute for the institution's own procedures.

Finally, to be effective your staff must know and understand what is in the Compliance Manual. You must keep records of when the manual and any updates are distributed, and staff must acknowledge receipt.

COUNTRY FOCUS: GUATEMALA

With the largest economy in Central America, Guatemala faces serious social and economic challenges, including income inequality, extreme poverty, and official corruption. It continues to be a major transshipment route for South American narcotics destined for the United States and for cash returning to South America. According to the 2018 International Narcotics Control Strategy Report (INCSR), money is typically laundered through real estate, ranching, and the gaming industry. It is also laundered through small transactions either in small banks along the Guatemala-Mexico border, or by travelers crossing into Guatemala from other countries. The U.S. State Department has categorized Guatemala as a Country/Jurisdiction of Primary Concern in respect to Money Laundering and Financial Crimes. The Basel AML Index for 2018 assigned Guatemala a rating of 4.95 – substantially improved from 2017 – ranking it Nº 84 among 129 countries (lower numbers equal higher AML risk).

Regulatory Framework: Guatemala has a solid legal framework that has improved in recent years, but like many countries in the region it suffers from implementation weaknesses, often due to lack of coordination among the Superintendencia Bancaria (SIB), the Intendencia de Verificación Especial (IVE - Guatemala's FIU), and the Ministerio Público, as well as chronic understaffing in those agencies. Guatemala is a member of GAFILAT, and the IVE is a member of the Egmont Group.

Landscape: As of January 2019, there were 17 banking institutions and 13 financing institutions (financieras) that fall under the supervision of the SIB.

AML Weaknesses: Although enhanced due diligence of PEPs is required, professional service providers (notaries, attorneys, etc) are not covered, and casinos are largely unregulated. Guatemala does not currently prohibit structuring of deposits to avoid reporting requirements. Under the Central America Four Border Control Agreement, travelers crossing into Guatemala from El Salvador, Honduras and Nicaragua are not required to report cash in amounts greater than US$ 10,000.

AML Strengths: Despite facing political headwinds and corruption, Guatemalan authorities are becoming more effective in investigating and prosecuting financial crimes, thanks to increased transparency and professionalism, especially in the financial sector. Many Guatemalan banks understand the importance of AML compliance and are committed to good governance, strong internal controls and industry-standard training.

integro advisers

14 NE 1st Ave, Suite 503, Miami, FL 33132
Tel. 305.374.5710 | Fax 305.374.5718
www.integro-advisers.com