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ARTIFICIAL INTELLIGENCE IN ACTION: A FLORIDA BANK GOES ALL IN

By Alberto de la Portilla

In last month's *Insight*, we featured an article on artificial intelligence ("AI") and whether it was a game changer for the anti-money laundering compliance industry. This month we interviewed Michele Fernandez, SVP Head of Compliance and Regional Compliance Officer for BCI Miami, the first major Florida-based financial institution to announce it was integrating AI into its AML compliance program. For banks considering AI technology, the BCI Miami example offers a rational blueprint.

"The process came out of the need to be more efficient within the BSA area. We went on a quest to find providers that fit our need," said Fernandez, reached by phone last week. "That is the first step: What is it that you are trying to accomplish in order to find the vendor that suits your particular need?" She said the vetting process took an entire year.

BCI Miami's full dive into the discussion and subsequent advancement of new technology in its BSA/AML compliance area was a natural extension of what she said was BCI's senior management's push for more innovation to solve every-day problems. The top-down support was important, she said.

Throughout the exploratory phase BCI Miami maintained in frequent contact with their regulators, the Federal Reserve and Florida's Office of Financial Regulation. "We let them know what we were doing, what we were looking at, and what we intended to use [AI] for."

BCI Miami's goal is for the AI technology to assist the BSA unit with alert resolution. "We are automating the analysis piece of the alerts. Obviously the decision-making is not something that the technology can deliver. That is something that will be done by humans," she said.

BCI Miami plans to run the AI technology parallel to its existing monitoring system and will likely maintain the parallel process for the duration of the AI contract, or three (3) years, until they feel total comfort with the new technology. She said that during their current beta-testing phase they plan to fine tune the new system to fit the Bank's risk appetite.

"We are going to use the technology to identify false positives, hopefully that our traditional monitoring system did not catch. But we are going to compare its performance to our existing monitoring system to see how effective it is in identifying unusual activity and obviously, also at the same time, minimizing the false negatives."

Fernandez is hoping to get past the testing phase soon and begin full production later this year, a timeline that seems reasonable to ensure that the bank has had sufficient time to assess its performance compared to its traditional, rules-based monitoring process.

She admitted that implementing the new technology has taken longer than they anticipated. "We want to make sure to get things right… [that] we have all the components, i.e., data points, necessary in order for it to be as effective as possible."

She also said that BCI Miami has dedicated more resources than expected to the project, but they have also incorporated additional data elements to the AI technology that are presently located outside of the bank's transaction monitoring system, such as ATM transaction details and check deposit dates.

Despite the lengthy progression and investment of additional resources, Fernandez is confident of AI's power in transforming her BSA compliance department. "My investigations team, those tasked with analyzing and closing these alerts, most of the time spent is on the analysis piece. That is the most time-consuming. I think the whole industry suffers with that."

Fernandez is right. Bank investigative units have expanded substantially in recent years to keep up with the day-to-day monitoring and to avoid back-logs in alerts, investigations, and suspicious activity reporting.

Nevertheless, AI's impact on staffing is going to be positive, she said. "The work will still be there. We see it reducing the analysis time." She said BCI Miami's initial testing has shown that AI can be effective in uncovering information that will lead to better decisions. "We feel [AI will] help our analysts be more effective, so they can focus their attention on other higher-risk matters."

PREPARING AN EFFECTIVE RISK ASSESSMENT

by Isabelle Wheeler

A risk assessment is the foundation of a Bank's AML/CFT compliance program. It helps identify the institution's inherent business risks and provides measures, processes and controls to reduce the impact of those risks to business operations. A well-developed risk assessment allows the Board of Directors to understand the bank's AML risk profile and enables the bank to apply appropriate risk management processes to the AML compliance program to mitigate risk. Steps in preparing a risk assessment include:

- Develop and document a methodology.
- Analyze key risk areas (clients, products and services, jurisdictions, distribution channels and transactional activity) using both quantitative and qualitative information.
- Analyze processes to understand where AML risk occurs.
- Measure inherent risk *in the absence of controls* by assessing both the *probability* of occurrence, and the *impact* if a risk event occurs.
- Identify the key controls or appropriate mitigators to reduce the inherent risk, including technology, the knowledge and experience of staff and the compliance culture set by the board and senior management.
- Measure the strength of each control process.
- Residual risk results when the appropriate controls have been identified and are considered sufficient to mitigate the probability and impact of exposure to risk. However, it is important to emphasize that controls mitigate risk, they do not eliminate risk

The Risk Assessment should be approved by the board and communicated with all business lines across the bank and should be reviewed and updated every 12 to 18 months or when changes occur to the bank's risk profile.

COUNTRY FOCUS: NICARAGUA

Nicaragua is the poorest country in Central America, and the second-poorest in the Western Hemisphere. The country suffers from extreme income inequality and widespread official corruption. OFAC last week targeted Nicaragua's government regime and its financial networks due to "blatant corruption, violence, and violations of basic human rights." Laureano Facundo Ortega Murillo, the son of President Daniel Ortega, and Banco Corporativo aka Banco Nacional were added to OFAC's Specially Designated Nationals List. According to the 2018 International Narcotics Control Strategy Report (INCSR), it is vulnerable to money laundering as a transit country for illegal narcotics, mostly cocaine. Nicaragua's geography and limited border control in remote regions leaves it vulnerable to cross-border movement of contraband and criminal activity. Money laundering also occurs via traditional mechanisms such as real estate transactions, sale of vehicles, livestock farming, money transfers, lending, and serial small transactions. The U.S. State Department has categorized Nicaragua as a Country/Jurisdiction of Primary Concern in respect to Money Laundering and Financial Crimes. The Basel AML Index for 2018 assigned Nicaragua a rating of 6.79, ranking it 3rd worst among Latam and Caribbean countries.

Regulatory Framework: In 2018, the government passed new AML/CFT laws that increased the responsibilities of the Unidad de Analysis Financiero (UIF - Nicaragua's FIU), and expanded covered entities to include real estate agencies, car dealerships, fiduciary services and certified public accountants. Regulations include comprehensive customer due diligence and suspicious activity reporting, as well as enhanced due diligence for domestic and foreign PEPs. Nicaragua is a member of GAFILAT, and applied for membership in Egmont Group, but the application remains pending.

Landscape: As of April 2019, there were 8 banking institutions and 4 financing institutions (financieras) that fall under the supervision of the Superintendencia de Bancos y Otras Instituciones Financieras (SIBOIF).

AML Weaknesses: Public corruption, exacerbated by foreign business influence, has hampered enforcement of AML laws. The UAF lacks autonomy and transparency, which has allowed financial regulations to be used against government opponents. Identity falsification, counterfeiting, and piracy should be included in the legal framework as predicate offenses for money laundering.

AML Strengths: In 2018 Nicaragua conducted 11 money laundering prosecutions involving 26 people and obtained three convictions. The most recent FATF statement recognized Nicaragua's significant progress in improving its AML/CFT regime. Perhaps the most important factor in Nicaragua's favor is the strength of its financial sector, which will provide the institutions themselves with the necessary incentives to develop strong AML programs.