Using AI is the *only* way to address sanctions and adverse media screening

Financial institutions must innovate to keep up with industry best practice and regulatory expectations

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Financial crime is a moving target, with bad actors becoming increasingly sophisticated and harnessing the power of new technologies such as artificial intelligence. And despite ongoing efforts to strengthen safeguards against money laundering, terrorist financing, and corruption, financial institutions are falling behind.

Combatting financial crime comes with significant risks, responsibilities, and operational expenditures. Research published by LexisNexis Risk Solutions in 2023 puts the cost of financial crime compliance at $206.1 billion globally. Banks and other financial institutions are under increased pressure and scrutiny to do better, and many are running afoul of government regulators. Those same regulators are also expecting financial institutions to be in step with industry standards.

The battle of FinCrime professionals

Screening of persons, legal entities, and transactions is integral to satisfactory sanctions and AML programs. Screening by names identifies targeted persons during the onboarding process and the lifecycle of the customer relationship, while adverse-media screening is a fundamental part of the know your customer (KYC) process. The latter is particularly critical when dealing with high-risk customers. It involves examining public and third-party data sources for unfavorable news regarding customers, counterparties, beneficial owners, and others doing business with a financial institution who may present risks regarding reputation, money laundering, terrorist financing, and fraud.

The efficacy of these screening processes has deteriorated over time, with backlogs making it even more impossible to take proactive measures against financial crime. Teams are also under a lot of stress in today's compliance operations environment as they struggle to mitigate the risk of missing something that really should be escalated. The potential for errors, delays, improper decisioning, inadequate recordkeeping, and other problems is evident given the rote, mundane, and repetitive nature of the task. There is simply too much work to do and not enough people to do it in a timely, accurate, and efficient manner.

In sanctions screening, for instance, the large percentage of false positives – up to 99 percent for most financial institutions – creates the need to then undertake manual and redundant reviews. This is incredibly inefficient, plus there is the added risk of analysts being conditioned to the false positive, resulting in missed actual positives.

Imagine dozens or even hundreds of analysts working for a large financial institution undertaking daily searches, gathering, and assessing a high volume and wide range of data, concluding on each search (which may involve determining whether to escalate), and then creating a narrative and an audit trail to justify the decision to onboard, re-risk, maintain, or terminate a customer relationship. Again, these human-led tasks are just not sustainable from cost and efficiency perspectives.

Moreover, both screening processes are increasingly difficult to manage. Sanctions lists and adverse-media screening sources are constantly evolving, which is further complicated by the overwhelming and ever-growing amounts of structured and unstructured data available, most of which are irrelevant and possibly inaccurate. Another aggravating factor is the actual determination of what constitutes a close or true match, involving the use of "fuzzy logic" along with other methods, which include complex variables such as alphabets, languages, cultures, spelling, abbreviations, acronyms, and aliases.

Financial institutions need to significantly ramp up the speed and accuracy of screening, ideally to outpace criminals, while adhering to complex and rigorous compliance and documentation processes. The solution isn't adding capacity with human capital but, rather, employing AI tools such as automated screening analysis, which are more effective in assessing, managing, and mitigating risk.

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Automated screening for speed and accuracy

The amount of time senior sanctions and AML managers spend on issues related to screening processes takes away from their ability to focus on overall sanctions and AML risk management. Financial institutions that embrace intelligent solutions are already exploring the use of AI digital workers to transition human labor to automated processes, and they're achieving outsized results. The ability "to hire" AI that works 24/7/365 has already been a game changer for financial crime programs, resolving staffing challenges by improving quality, rapidly scaling, and increasing capacity, so that the team can focus on true investigative work and risk analysis.

For instance, in one use case, a large community bank leveraged an AI digital worker instead of its former news source for adverse-media monitoring and saw an immediate cost cut of $250,000. It also automated the work equivalent of 17 full-time staff, saving $1.4 million in operational expenses.

The benefits of AI tools for financial institutions are far-reaching:

- **Increased speed, capacity, and comprehensiveness:** An automated alert screening solution can scour and process content – including source information the moment it enters the public domain – in a fraction of the time it takes a human, greatly increasing the scope and comprehensiveness of work performed.

- **Mitigate risk with continuous, real-time screening:** Relying on one-time or sporadic screening presents ongoing AML risks, while AI-based technology, such as perpetual KYC, allows for a continuous process instead of adhering to fixed refresh dates. When new, relevant information must be assessed, or a development of interest about a customer occurs, the financial institution is notified in real-time, enabling it to take immediate action to reduce sanctions and AML risk exposure.

- **Improved accuracy:** AI workers are not subject to human error, and machine learning means the quality of screening results continuously improves.

- **Reduced false positives:** AI-based system algorithms are a powerful tool for assessing customer risk profiles against customer data, enabling them to identify and clear poor-quality alerts and obvious false positives. Each decision is supported with additional information and justification to enhance reliability.

  Seamless customer due diligence: Screening should link to other aspects of the KYC process, such as updating the customer's identity, associates, beneficial owners, and risk score. AI-based technology seamlessly and quickly enables this.

- **Complete record/profile:** AI-based technology distills its analysis into a single, structured, highly detailed report. For example, adverse media-screening reports include crucial elements such as the source, title, and publication date of each article that contained useful information and an extract including the key details, referenced to the customer's name along with an explanation of whether it is the same person.

- **Auditability:** An AI-based system eliminates cumbersome manual processes, automatically generating an audit log that shows dates, full research, what was captured, where it was captured, what was raised, what was auto-cleared, what was resolved, and what was flagged as a potential issue. This allows an auditor (or a regulator) to review or recreate the search exactly as it was performed.

It is not just automation in a vacuum – as human in the loop and oversight of the processes drive regulatory acceptance of AI solutions.

Artificial intelligence – with human oversight

It can be difficult for financial institutions to reimagine replacing longstanding processes that require considerable human expertise, judgment, and oversight. However, the successful integration of AI tools isn't about replacing people with robots. In fact, it requires the active participation, endorsement, and ongoing support of top-level executives (including resource allocation) to align the entire organization toward the innovation-implementation goal. This is particularly crucial since regulators expect AI models to be transparent and open to scrutiny, which requires human oversight and communication with regulators.

For instance, financial institutions cannot employ systems that are "black boxes," where decisions are made without any insight into the inputs, outputs, and learning processes. Users must be able to articulate the relationships between inputs and outputs, as well as re-enact and retrace the results and identify and manage changes in model performance and behavior. Regulators and stakeholders must have unrestricted access to information about the model architecture, data used for training, and the logic governing the decision-making process.

These requirements might sound complex but, by its very nature, artificial intelligence enables the democratization of data. This means timely and reliable data is available to everyone across the business, so it can be accessed quickly and on demand to satisfy the need for transparency and traceability across a bank's operations.

Modern AI-based tools can greatly assist financial institutions in:

Accountability

Financial institutions must be able to trace decisions back to specific components within the AI model and, as necessary, hold parties accountable for any issues arising from the model's behavior.

Model risk management

This critical expectation for regulators involves elements such as robust model development, implementation, and use; a sound model-validation process that quantifies the ability of a statistical model to produce predictions or outputs with enough fidelity to be used reliably to achieve business objectives; and proper governance that sets out an effective framework with defined roles and responsibilities for clear communication of model limitations and assumptions.

Metrics

Teams must be able to demonstrate the effective functioning of the AI system by ensuring an examiner or supervisor can be readily shown a comprehensive, up-to-date set of metrics (e.g., timeliness of alert decisioning, rate of false positives, AI determinations overturned by human supervisors).

Governance and documentation

Regulators understand the complexity of data sources used in AI and expect that financial institutions have robust governance and documentation in place to ensure that data quality and provenance is appropriately monitored. Comprehensive reports of the AI model's development, training process, and deployment should be available to regulators, auditors, and other stakeholders.

Regulators have already embraced AI-driven innovation as an appropriate, even necessary, development in addressing financial crime. Introducing an AI system into a legacy process can be done relatively quickly and efficiently, and on a reasonable budget, but the best approach is to start slowly and with modest goals.

The benefits of employing modern AI-based tools to enhance the sanctions and adverse-media screening processes are compelling and can help financial institutions fight the battle against financial crime faster and more efficiently. However, there also are challenges attendant to implementing AI-based tools, including the need for robust data quality and potential bias in AI models. Successful implementation of these tools and ensuring a smooth integration and scalable solution require a strategic approach with careful planning, internal support, collaboration between IT and business units, and attention to regulatory requirements. Overlaying all this is the strong need for collaboration between those with technological versus subject matter expertise.

Capgemini and WorkFusion can help financial institutions transform their sanctions and adverse media screening programs to address the challenges of financial crime compliance, while empowering teams to deliver more value in a complex compliance environment. Contact us to learn more today.

Our experts

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Manish Chopra heads the Risk, Regulatory and Financial Crime Business for Banking and Capital Markets at Capgemini. He has over 25 years of experience in risk management, analytics and operations, having partnered with CXOs in financial services and payments organizations to develop end-to-end risk and compliance solutions powered by data, domain, process and digital capabilities. He is a certified change management coach and a Six Sigma Master Black Belt, having led the global rollout of training and mentoring senior risk leaders at GE Capital. He regularly contributes to industry publications, events and forums as a thought leader on risk and compliance in financial services.

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Jeffrey F. Ingber is a financial services industry veteran who held senior management positions in both government service and the private sector for over three decades. As a consultant, he provides advice on management of a variety of risks, including AML, fraud and economic sanctions compliance, corporate compliance, legal, operational, and reputational risk. A former General Counsel who has extensive experience in the field of clearance and settlement of financial instruments, and is well practiced in managing large groups of legal staff.

Ingber holds a Doctor of Jurisprudence (JD) degree from New York University School of Law and a B.A. in Economics from Queen's College, New York.

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Art Mueller has more than 20 years of experience working in Financial Crimes programs across several global financial institutions including Rabobank, Commerzbank, UBS, and American Express. Most recently he was the Head of AML and Sanctions for Rabobank, North America. Art has now brought that experience and in-depth knowledge of AML and Sanctions processes and technology to WorkFusion and its customers to help them streamline, simplify, and optimize these functions to effectively and efficiently fight financial crime. Art has a law degree from Albany Law School and a Bachelor of Science in Business Management from St John's University.

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About WorkFusion

WorkFusion is the leading provider of AI digital workforce solutions for Fortune 500 enterprises, healthcare, transportation, banking, and financial services companies. Its AI Digital Workers augment traditional teams by performing highly skilled and decision-centric work in operations areas including anti-money laundering programs such as sanctions screening alert review, adverse media monitoring, and know your customer; customer service and onboarding; account opening and transaction monitoring; and other document-intensive compliance activities. Organizations can hire pre-built or configurable AI Digital Workers or choose to build their own using the company's Work.AI platform. WorkFusion enables organizations to increase workforce capacity, save money, enhance customer experience, improve employee satisfaction, and ensure ongoing compliance. For more information, visit **workfusion.com**.