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The 2024 Impact Awards in AML

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FinScan®

The 2024 Impact Awards in AML

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Introduction

Datos Insights' 2024 Impact Awards in AML aim to identify and recognize those financial organizations and vendors leading the industry with new and disruptive financial crime products and capabilities. As financial crimes become increasingly sophisticated and regulatory scrutiny intensifies, the need for innovative solutions to combat money laundering, fraud, and other illicit activities has never been greater.

The financial crime landscape continues to evolve rapidly, with criminals employing increasingly sophisticated techniques to evade detection. Traditional approaches to AML and fraud prevention are often insufficient to keep pace with these evolving threats. Financial institutions face mounting pressure to enhance their financial crime detection and prevention capabilities while simultaneously improving operational efficiency and customer experience.

In response to these challenges, technology providers are developing innovative tools, capabilities, and solutions that leverage advanced technologies such as data analytics, machine learning, and generative AI. These solutions aim to streamline processes, reduce false positives, uncover hidden risks, and provide more comprehensive and accurate risk assessments.

Datos Insights designated the following five individual categories for its 2024 Impact Awards in AML:

- **Best KYC/KYB Innovation:** This category features new solutions, innovations, or data sets streamlining and enriching the KYC/KYB processes underlying the onboarding, servicing, ongoing risk profiling, and due diligence of individual and corporate customers.
- **Best Sanctions/Watchlist Screening Innovation:** These are new solutions, innovations, or data sets that optimize the risk-based checking of individuals, entities, and incoming and outgoing payments and transactions against sanctions, politically exposed persons, and adverse media lists, as well as other risk-relevant information.
- **Best AML Transaction Monitoring Innovation:** These are solutions, innovations, or data sets that elevate ongoing risk-based AML transaction monitoring to detect suspicious or unusual activity indicating potential money laundering, terrorist financing, or other illicit activity.

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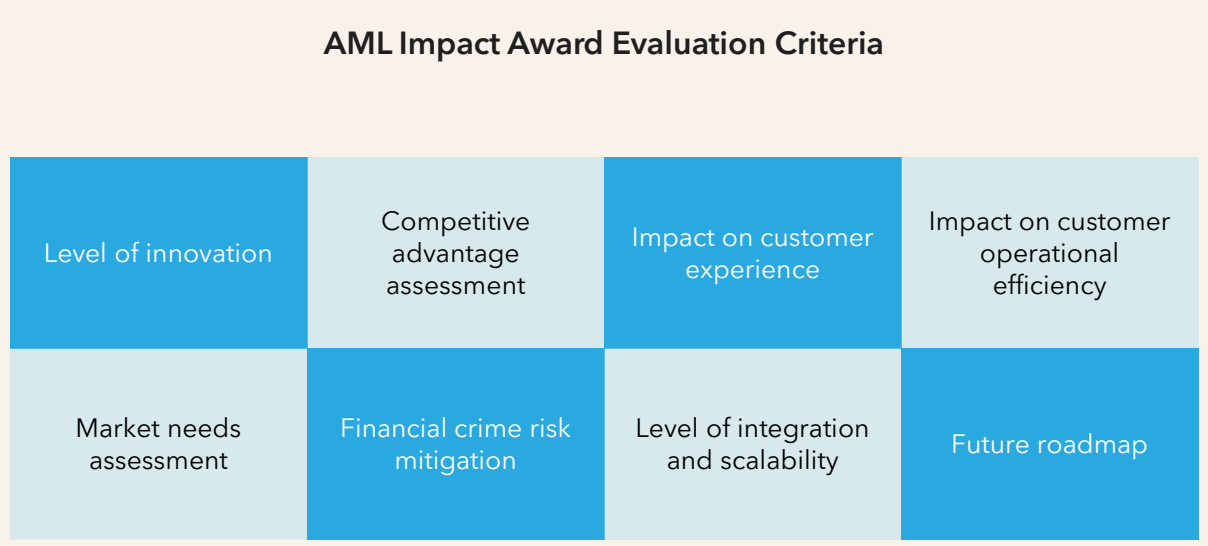
- **Best Financial Crime Investigation and Reporting Innovation:** This category features new solutions, innovations, or data sets that transform and modernize the tasks and processes that support prioritizing, decisioning, and documenting suspicious activity and watchlist filtering alert investigations, and develop and submit necessary reporting to senior management and regulatory authorities.
- **Best Joint AML and Fraud Transaction Monitoring Innovation:** These are solutions, innovations, or data sets that facilitate increased collaboration or detection across fraud and AML domains by streamlining or optimizing information and data sharing or mining, case management, detection, or investigation.

Methodology

In April 2024, Datos Insights solicited nominations for its 2024 Impact Awards in AML. All nominated initiatives were required to be in production and must have been implemented within the last two years. Strategic Advisors from Datos Insights' Fraud & AML practice, along with an external panel of subject matter experts and industry thought leaders, evaluated the submissions and determined the individual category winners.

Each AML nomination was evaluated across several criteria (Figure 1).

Figure 1: Evaluation Criteria for AML Impact Awards



Source: Datos Insights

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The AML Market: Challenges and Opportunities

Sustaining effective financial crime risk management continues to be extremely challenging and complex. The breadth of AML technology solutions must go beyond traditional capabilities to take on new market forces, combat expanding financial crime, and achieve regulatory compliance while elevating the customer experience and uplifting operational efficiency. Table A identifies several key AML challenges that financial organizations and technology solution providers seek to address with innovative tools and approaches.

Table A: AML Market Challenges and Opportunities

AML challenge	Impact
Increasing complexity of KYC and onboarding processes	FIs face growing challenges in implementing and sustaining effective yet efficient customer onboarding. Advanced technologies can automate document-heavy and time-consuming work aligned to specific financial crime compliance analyst job roles. It can review and disposition alerts, conduct third-party enrichment searches, gather data, and record evidence and supporting documentation in near real time.
Rising sanctions and watchlist screening demands	FIs are expected to appropriately identify and assess the risk of each transaction before processing it. Without comprehensive knowledge of all parties involved in a transaction, it is difficult to assess risk and act appropriately. Reliable and rigorous systems and processes are required to meet ever-changing regulatory environments and the increasing complexity of global sanctions regimes. New technologies are enabling more comprehensive and efficient screening of transactions and parties, improving risk assessment and regulatory compliance. These solutions often incorporate AI and machine learning to reduce false positives and provide more accurate risk assessments.

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AML challenge	Impact
Time-consuming and complicated financial crime investigations	Analysts and investigators face the daunting task of grappling with a substantial volume of information from numerous data sources and applications. This leads to delays and inefficiencies in performing critical analysis and making informed decisions. The increasing sophistication of financial crimes also requires more complex and time-intensive investigations. Innovative platforms are using new technologies to streamline data access and ingestion, facilitate context development, cultivate risk-relevant insights, and optimize analytical processes for financial crime investigations. These tools aim to reduce investigation time and improve the quality and consistency of regulatory reporting.
Growing need for integrated AML and fraud monitoring	As financial crimes become increasingly complex, there is a growing need for solutions that can address both AML and fraud concerns in a more integrated manner. Traditional approaches often rely on separate, siloed systems for critical fraud and AML processes, leading to inefficiencies and increased costs. The widespread adoption of real-time payment systems is increasing the urgency for more real-time detection and transaction monitoring across fraud and AML contexts. Solutions that combine fraud prevention and AML capabilities are emerging, leveraging AI and machine learning to provide more real-time detection and monitoring across both domains. These platforms aim to provide a more holistic view of financial crime risks and improve operational efficiency.
Challenges in detecting and preventing trade-based money laundering	Trade-based money laundering continues to challenge FIs. The complexity of international trade transactions, coupled with the volume of global trade, makes it difficult to identify suspicious activities. Institutions struggle to effectively monitor and analyze trade-finance documents, identify price anomalies, and track the movement of goods across borders. Solutions that combine AI, machine learning, and data analytics can monitor trade-finance activities more effectively. These offerings often incorporate document digitization, vessel tracking, and price anomaly detection capabilities.

Source: Datos Insights

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FinScan: Best Sanction/Watchlist Innovation

By Becki LaPorte

The winner of the 2024 AML Impact Award for Best Sanction/Watchlist Innovation is FinScan and its FinScan Enhance innovation.

Trusted by organizations worldwide, Innovative Systems, Inc.'s FinScan offers advanced AML compliance technology and consulting solutions. Built on decades of experience in data management and proprietary matching technologies, FinScan provides a data-first, risk-based approach to ensure accuracy and efficiency in identifying and reducing risk, accelerating AML compliance workflows, and optimizing team productivity. FinScan's comprehensive, integrated platform includes KYC, sanctions screening, risk scoring, data quality, and advisory services for implementing a holistic compliance program.

Table B lists key information about FinScan and its award-winning innovation.

Table B: FinScan and FinScan Enhance

Category	Details
Organization	Innovative Systems Inc.
Date founded	• Innovative Systems, 1968 • FinScan, 2005
Headquarters	Pittsburgh
Innovation	FinScan Enhance
Brief description	FinScan Enhance is a data quality module integrated into FinScan's core sanction compliance tool that can boost risk detection and create efficiencies. It processes customer data for true entity resolution irrespective of the underlying data quality.
Value proposition	FinScan Enhance addresses the challenge of poor data quality in AML and sanctions programs. It uncovers hidden risks, reduces false positives, improves analyst productivity, and helps organizations meet regulatory requirements for data integrity in compliance processes.

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Category	Details
Key benefits	Improved risk detection and compliance, enhanced operational efficiency, reduced false positives and negatives, better resource allocation, and improved customer experience.
Website	finscan.com

Source: FinScan, Datos Insights

Innovation: FinScan Enhance

Recognizing the ongoing challenges in AML operations related to data quality, FinScan developed FinScan Enhance as an integrated module within its core sanctions compliance tool. This comprehensive data quality solution aims to transform how FIs detect, investigate, and report suspicious activities by addressing data integrity issues at the source. FinScan Enhance processes customer data to determine the true entity for screening, reveals names and entities hidden in joint accounts and address lines, and exposes the true entity around dummy data and noise words.

The key to FinScan Enhance's effectiveness is its use of multiple data processing and matching approaches. The solution creates subrecords of discovered entities and screens them against sanctions lists to uncover any entity that may have gone unnoticed. It also improves analyst review productivity by identifying duplicate records within the same database and across multiple data sources despite misspellings, abbreviations, and name and address variations. This accelerates the process of clearing matches, saving time and costs while ensuring optimal use of compliance resources and budget.

FinScan Enhance is designed to be flexible and configurable, allowing FIs to tailor it to their specific needs and risk appetites. It integrates robust model governance features to ensure regulatory compliance and model transparency.

Market Challenges and Needs

Data quality has been an issue for organizations for decades. Traditional data management approaches often involve separate vendors for data quality and compliance, leading to data that may be mastered for business operations but not necessarily optimized for compliance purposes.

Today, the stakes are increasing for compliance professionals as they are responsible for the consequences of bad data. Poor data quality often erodes the efficacy of an

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organization's AML and sanctions program, negatively impacting both risk mitigation and productivity. Individual and entity names hidden in joint accounts, address lines, and around noise words can impair the effectiveness of any matching technology and an organization's ability to detect risk.

Guidance from regulators and AML industry bodies across the globe, such as the U.S. Office of the Comptroller of the Currency, The New York State Department of Financial Services, and the Wolfsberg Group, expect data quality to be an essential component of an adequate sanctions program. Many sanction enforcement penalties imposed on FIs and other global companies can frequently be traced back to poor data quality and insufficient data governance measures.

FinScan Enhance addresses these challenges by providing a comprehensive, compliance-specific data quality solution integrated directly into the screening process.

How It Works

Deeply integrated into FinScan's core sanctions compliance tool, FinScan Enhance leverages advanced data processing and matching technologies to improve the quality of data used in AML and sanctions screening processes. The system ingests and analyzes customer data from various sources, processes it to uncover hidden entities and remove noise, and optimizes it for effective screening. FinScan Enhance operates through several key components:

- **Data profiling:** The solution's detailed profiling exercise analyzes the existing condition of customer data and uncovers gaps in customer data feeds.
- **Entity discovery:** FinScan Enhance identifies and extracts hidden names and entities from joint accounts, address lines, and other fields.
- **Subrecord creation:** The solution creates additional subrecords for discovered entities to ensure comprehensive screening.
- **Deduplication:** FinScan Enhance identifies duplicate records within and across data sources, allowing for consistent remediation decisions.
- **Noise word removal:** The system removes irrelevant data that can impair matching effectiveness.

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- **Enhanced screening:** The preprocessed and deduplicated data is screened against sanctions lists and other relevant databases.
- **Results optimization:** The solution applies consistent remediation decisions to duplicate alerts, reducing unnecessary reviews.

These components work in concert to provide FIs with a more precise, efficient, and effective AML monitoring system. By addressing data quality issues at the source, FinScan Enhance aims to reduce false positives, uncover hidden risks, and streamline investigative processes.

Key Quantitative and Qualitative Results

The implementation of FinScan Enhance has yielded impressive results by addressing key AML challenges. Table C highlights some of the realized benefits of FinScan Enhance.

Table C: FinScan Enhance Key Benefits

Benefit	Description
Improved risk detection	By uncovering hidden names and entities, FinScan Enhance helps organizations identify risks that might otherwise go undetected. In one implementation, it revealed 407 exact matches against the list maintained by the U.S. Office of Foreign Assets and Control (OFAC) from previously hidden names.
Enhanced data integrity	FinScan Enhance helps to ensure accurate and complete data flows through the compliance program, helping organizations meet regulatory requirements.
Reduced false positives	By removing noise words and optimizing data quality, FinScan Enhance can reduce false-positive volume when compared to legacy systems.
Improved operational efficiency	By identifying and consolidating duplicate records, organizations can boost analyst productivity. In one deployment, a client was able to remove over 500,000 redundant customer records from the review queue.
Better resource allocation	By automating data quality processes and reducing unnecessary reviews, organizations can allocate compliance resources more effectively.

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Benefit	Description
Enhanced customer experience	Reducing false positives leads to smoother customer onboarding and fewer transaction delays, improving overall customer satisfaction.

Source: FinScan, Datos Insights

A notable example of FinScan Enhance's impact involves an insurance company that heavily relied on exact birth dates to identify sanctions matches. A profiling exercise revealed that 2.4 million individual records were missing date of birth data when fed into the compliance system. This error would have led to any risk from these 2.4 million customers going undetected. FinScan Enhance uncovered over 40,000 records with additional names of both organizations and individuals "hidden" in the second and third address lines.

Future Roadmap

In the next 12 to 14 months, FinScan plans to extend the FinScan Enhance capabilities beyond watchlist and transaction screening use cases to cover UBOs, identity validation, and customer verification. This expansion will allow all of FinScan's AML and KYC modules to take advantage of its advanced data processing capabilities.

For the longer term, FinScan is investigating the creation of a compliance-centric data warehouse. This initiative aims to serve as a database similar to master data management tools but specifically designed for compliance use cases such as hidden records, networking and householding relationships, and common client keys. The goal is to cover all fraud and AML use cases related to onboarding and ongoing monitoring for watchlist, transaction monitoring, and fraud environments.

Datos Insights' Take

Poor data quality has long been a critical challenge in AML and sanctions compliance, often leading to ineffective risk detection, high false-positive rates, and operational inefficiencies. FinScan Enhance represents an innovative approach to addressing many of these longstanding challenges. By integrating advanced data quality processes directly into the screening workflow, the solution offers a holistic approach that enhances every aspect of the AML process, from data ingestion and preprocessing to alert generation and investigation.

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Particularly noteworthy is FinScan Enhance's ability to uncover hidden risks that traditional screening processes might miss. By identifying and extracting names and entities from joint accounts, address lines, and other nonstandard fields, the solution enhances the effectiveness of sanctions and PEP screening. The reported discovery of over 400 OFAC list matches from previously hidden names in one implementation underscores the potential impact of this capability.

The solution's approach to deduplication and consistent remediation is another key strength. By identifying duplicate records across various data sources and allowing for consistent decision-making, FinScan Enhance can improve operational efficiency. This not only reduces the workload on compliance analysts but also ensures more consistent and accurate risk assessments.

FinScan is a worthy winner of the 2024 AML Impact Award for Sanctions/Watchlist Screening Innovation. FinScan Enhance addresses a critical industry challenge, delivering measurable benefits in risk detection, operational efficiency, and regulatory compliance. As regulatory scrutiny of data governance in compliance processes continues to increase, solutions like FinScan Enhance are becoming increasingly valuable to FIs and other organizations subject to AML and sanctions regulations.

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Conclusion

The AML market is at a critical juncture. As the financial crime landscape continues to evolve, the development and adoption of advanced technologies play a crucial role in combating illicit activities and protecting the integrity of the global financial system. The innovations recognized in the 2024 Datos Insights Impact Awards in AML demonstrate the potential for technology to transform AML practices and contribute to a safer, more secure financial system.

Effective AML programs will require robust governance structures, well-trained personnel, and a strong culture of compliance. FIs must continue to invest in these areas alongside their technology investments to build comprehensive and successful AML programs. Moreover, as these technologies become more sophisticated, FIs and regulators must also grapple with new challenges, such as ensuring the explainability of AI-driven decisions, managing data privacy concerns, and maintaining human oversight of automated systems. Addressing these challenges will be crucial to the long-term success and acceptance of these innovative AML solutions.

While adopting new technologies can bring its own challenges, those FIs that lean into innovation are likely to see significant improvements in their ability to detect and prevent financial crimes while also enhancing operational efficiency and customer experience.

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