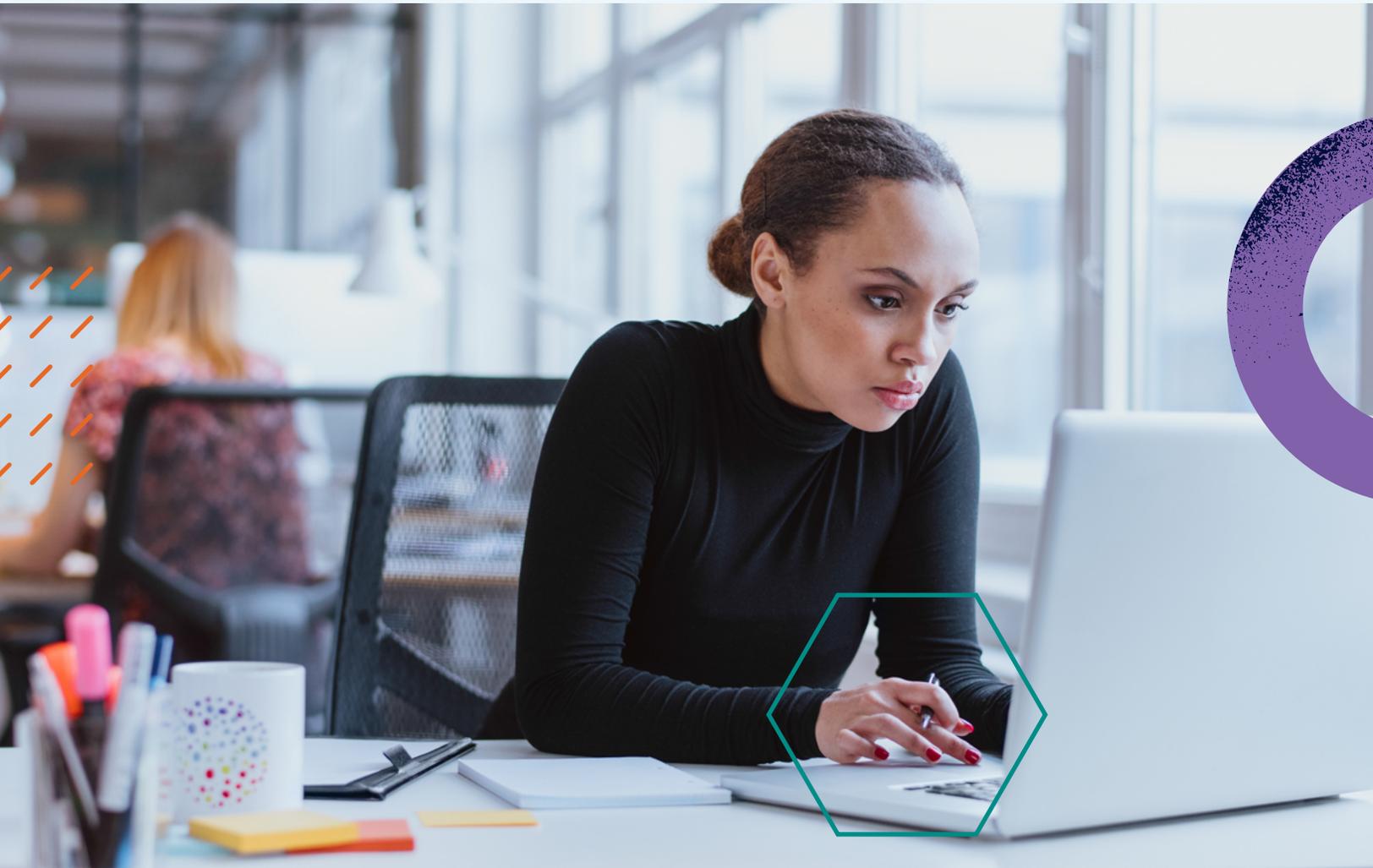




For Financial Institutions:

# How to Evolve Your Suspicious Activity Detection



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# AML Transaction Monitoring: The Race to Keep Up with a Changing World

Last year rapidly accelerated the ongoing shift in how financial institutions interact with their customers. Hundreds of millions of people were forced into stay-at-home measures as the world manages the SARS-CoV-2 virus and the disease it causes, Coronavirus Disease 2019 (COVID-19). COVID-19 has pushed financial institutions to double-down on their already massive investments to meet growing digital customer demands. This shift in customer touchpoints and digital banking product development has also created massive opportunities. Financial institutions who are capable of rising to the challenge have a tremendous market in front of them:

- [CapGemini noted](#) that global non-cash transactions surged in 2019 to reach 708.5 billion transactions, with an expected step change in 2020 totals.
- [McKinsey's recent global payment report](#) captures the revenue opportunity around these transactions to be about \$2 trillion.

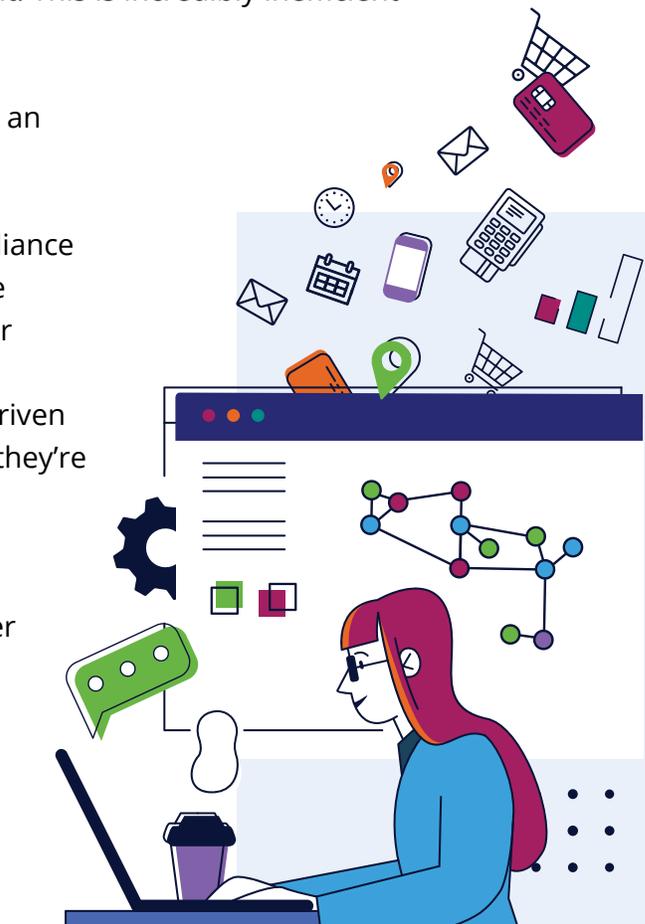


Achieving a truly digital-first banking operation comes with its own set of challenges. As institutions eye the benefits of the digital shift (both through their own preparedness and ongoing investment and development) they must not lose sight of the risks associated with increased digital transaction volume. Regulatory obligations continue to press forward, and financial institutions are expected to employ the same level of technology used within its business on its risk controls. COVID-19 not only forced a rethink of product development — compliance teams too must reimagine their control framework. They must confront this shifting landscape holistically, from transaction capture, to process workflow, to reporting, and finally governance.

A well designed transaction monitoring system is a crucial component to delivering an effective anti-money laundering compliance program. Many organizations continue to use platforms that are still plagued with the historical issues. Lack of enterprise data access, legacy technical debt, suitability for purpose — all contribute to an increased cost and operational burden. Many currently deployed systems tend to be the evolution of an untuned, rules-based system, and, unsurprisingly, high-false positives are often a result. This is incredibly inefficient given the technology at their disposal in 2021.

So what should compliance teams be looking for in an effective transaction monitoring system?

Machine learning solutions are an option for compliance teams to reduce risk exposure, automate mundane processes (and decision making, depending on your appetite), and work on alerts that matter. Focus on solutions that primarily rely on quantitative, data-driven statistical analysis, that are capable of 'learning' as they're fed data — allowing for more accurate detection. Take note that simply purchasing a license and implementing a solution isn't enough in itself. Organizations should be asking themselves whether they are ready to harness the possibilities of employing machine learning. There are a number of steps that financial institutions need to take in order to prepare both their compliance teams, and business, for advances in transaction monitoring technology.





### The Current Environment

- Systems are an evolution from rules-based
- Have 'glued on' analytics to make more informed decisions and to identify patterns of potentially suspicious activity
- Proven to be suboptimal: rigid workflows, noise in the output, laborious operational changes necessary when processes are updated.
- Extremely high false-positive rates = inefficient return on investment + analyst fatigue + increased risk exposure



### The Future of AML Transaction Monitoring Solutions

- Transitioning towards quantitative, data-driven statistical analysis tools
- Incorporate the ability for your system to 'learn' as customers interact with your business
- Ingests disparate data from all areas of your enterprise in a seamless fashion



### The Challenges in Achieving this Future

- Internal views on the importance of transaction monitoring aren't aligned with regulatory obligations that need to be addressed (internal views tend to be more aligned with the concept of 'doing the minimum')
- Often there is a perception that transaction monitoring is a one-size-fits-all approach, and doesn't need to be tailored to fit organizational needs
- Data inconsistencies and disparate locations — data is very much scattered across the organization and captured in various forms by various tools, making it very difficult to leverage for actionable decisions
- Misaligned thresholds while tuning
- Exploding operational costs compounding with budgetary constraints



### Opportunities for Financial Institutions Along Way

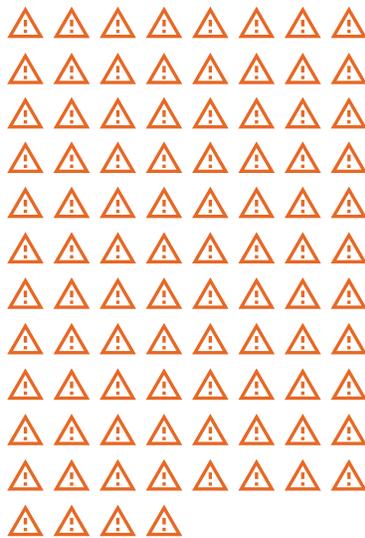
- Improve your data sourcing
- Enhance operational workflows and how teams interact and collaborate
- Employ stable, nimble technology to pivot your business to meet rapidly shifting market requirements

# Moving Away from Defensive SAR Filing: Is it Unusual or Truly Suspicious?

One of the greatest challenges AML transaction monitoring teams face is the amount of noise produced in attempting to identify suspicious activity. Basic rules created in good faith, (i.e. flag all transactions with a specific country code in the ID) while theoretically useful, often result in unavoidably high false positives. Rules are created and left to stagnate.

## A Typical Transaction Monitoring System Would Produce:

**Of 100**  
total alerts...



**90**  
are reviewed and deemed to be  
not suspicious...



**10**  
have to be investigated further  
and a SAR has to be filed...



**1**  
alert can be considered to be  
'truly suspicious.'

The sheer volume of alerts drag productivity and efficiency down, creating 'fatigue' amongst monitoring teams. These teams are often stretched thin to begin with. This compounds issues and breeds a — defensive SAR filing approach (filing SARs on unusual / non-normal behavior) rather than acting on impactful alerts and behavior that is more apt to be truly **suspicious**.

The economic shift underway means that customer interactions and touchpoints have shifted as well. So has behavior. Transaction volumes are increasing. Activity that continues to be flagged is proving to be customer adjusting to the digitization of the economy and banking in the wake of current global conditions.



**90%**  
*of transaction-monitoring  
alerts turn out to be  
false positives.*

Source: McKinsey

To quantify the size of the problem, McKinsey reports that, for most financial institutions, more than 90 percent of transaction-monitoring alerts turn out to be false positives. Monitoring teams are spending massive amounts of time processing alerts and reports that produce little actionable intelligence or the sheer volumes are unable to be worked by law enforcement. The [recent FinCEN files leak](#) is the latest instance to raise public awareness on the issues at hand.

So how does a financial institution effectively implement a transaction monitoring system that can accurately separate the unusual from the truly suspicious?

# Be Comprehensive in your Transaction Monitoring Approach: Turn the tide on suspicious transactions

Taking financial crime fighting to the next level isn't easy — you're not alone in this journey. [A survey of financial crime professionals](#) at Aite's recent FCC conference disclosed that >50% of respondents are at least 'likely' to invest or upgrade their AML transaction monitoring solutions and >25% already had done so. 70% of those surveyed expect to increase AML spending in the next two years.

There are some basic actions your organization can take to get rid of the noise and get back to both detecting and preventing financial crime:

## → **Tune your rules (constantly)**

Always question whether or not your institution has the right controls and thresholds in place based on your customer makeup and the products they're using. Back-test proposed changes vs. historical outputs to understand how the changes are performing. Ensure that your team is measuring the results and sharing them internally — whether it be in the next management deck or through other internal channels.

## → **Clean up and expand your data**

Missing information, unstructured customer and transaction information, and invalid inputs all hinder performance. Poor data in, poor results out. It doesn't have to be that way — financial institutions have a lot of powerful technology at their disposal. Use this technology to identify quality issues. Pull together disparate pieces of data into a cohesive understanding of clients and their activity.

Simultaneously, ensure that your data sources are constantly being assessed. While you need a tool that is capable of uniting disparate data streams, make sure that these are the right data sources. Often you are leveraging only a very small portion of the data that is already available to you. Why aren't you incorporating more data into the decision making process?

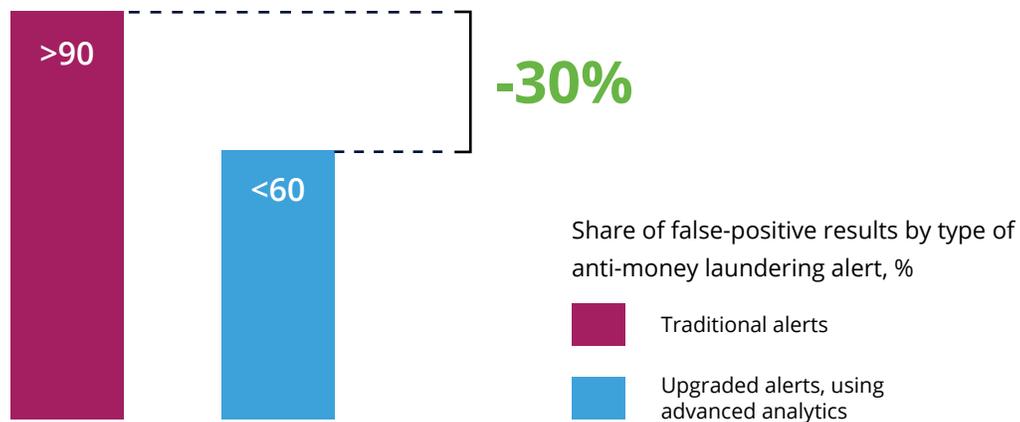
→ **Keep your models simple...**

Whether you're applying machine learning or have established a basic monitoring structure, don't over-complicate your approach. It may look promising on a PowerPoint presentation but the downstream impact to your teams and processes can be devastating. Keep it simple.

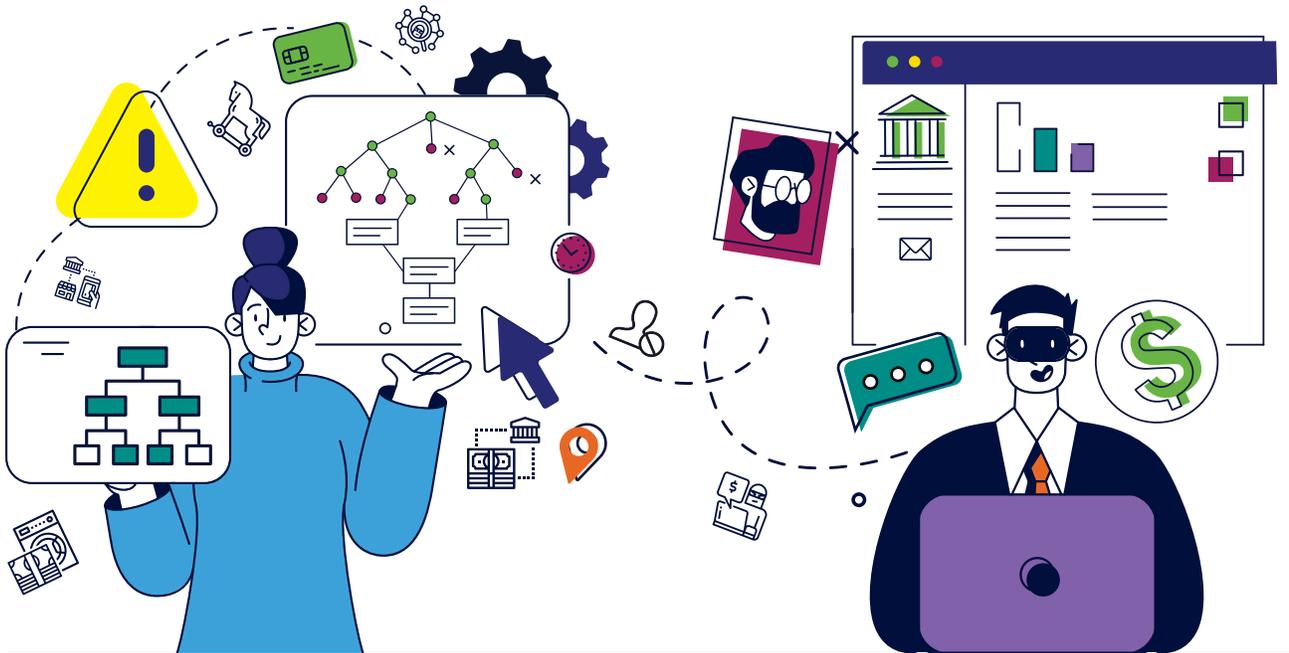
→ **...but advance your analytical thinking**

While many AML teams continue to use basic rules to monitor transactions, leveraging advanced analytics, in combination, has shown to drastically improve the accuracy of alerts. In turn this reduces alert generation while simultaneously increasing the value of alerts your analysts are working.

**Advanced analytics can help reduce false-positive results in anti-money laundering alerts.**



Source: McKinsey



→ **Prioritize alerts that matter**

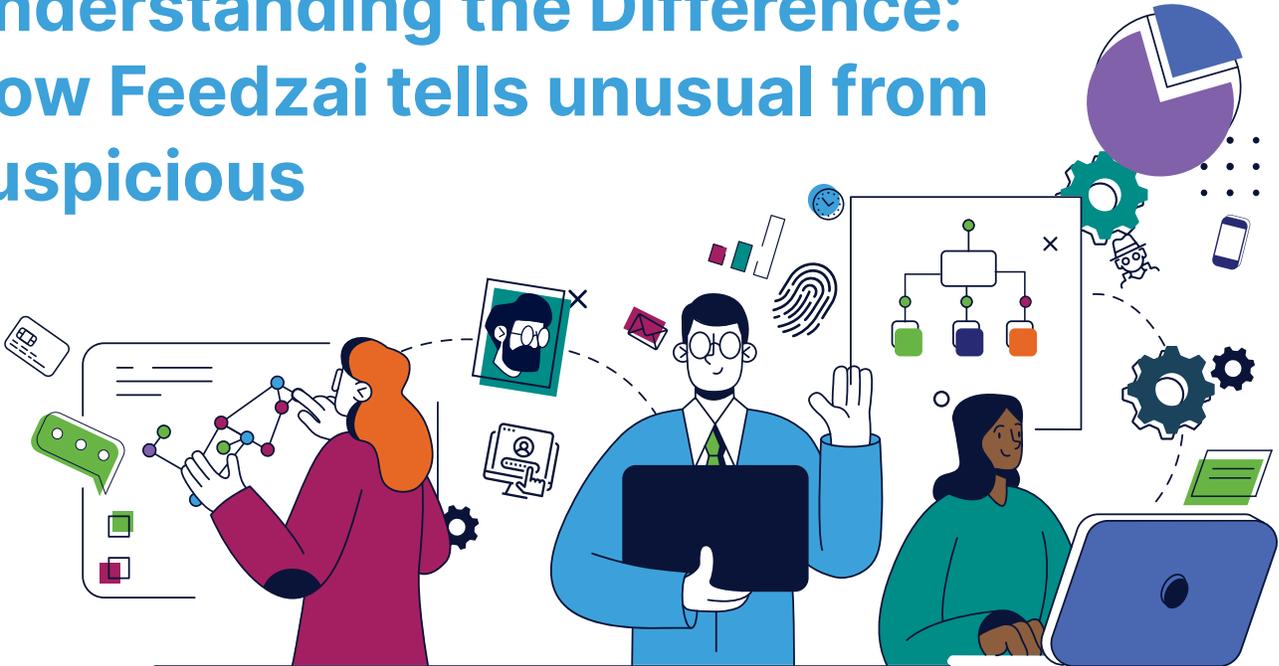
You've reduced the significant amount of noise. The next step is to develop a process to support your new detection strategies. Leverage your technology to identify alerts that are closer to your organization's understanding of suspicious behavior. Now route the more impactful alerts to your veteran and skilled investigators. Establish a strong feedback loop with these teams to ensure data gaps (via 3rd party enrichers) can be quickly identified and closed.

→ **Enhance your KPI game**

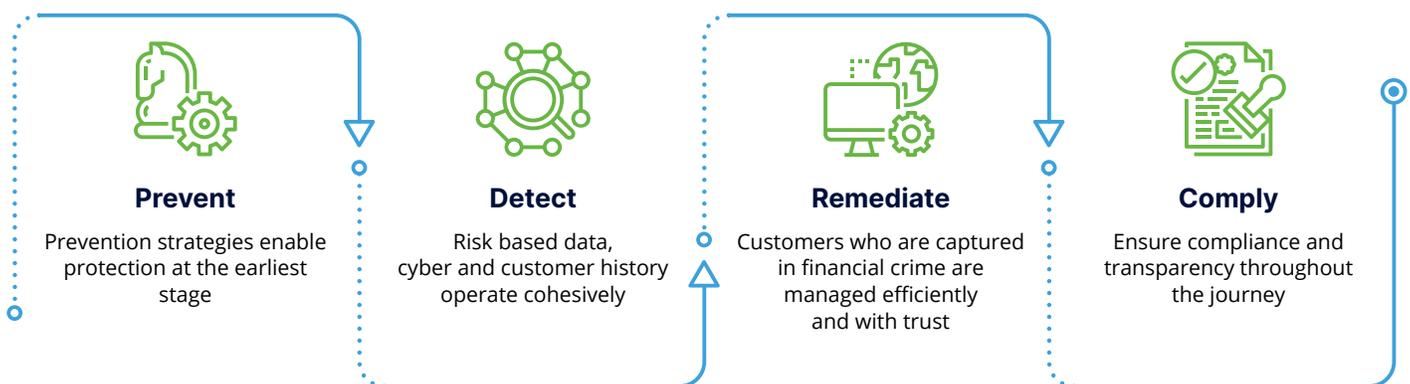
Finally, ensure that you are tracking KPIs diligently and that you are focused on the proper KPIs:

- Continue to fine-tune your KPIs for appropriateness. Are you measuring the right metrics so that you can get back to tuning your setup and team approach? If you're not constantly reviewing and questioning the efficacy of your metrics you're missing opportunities.
- Examine the linkage of your KPIs to Key Results and, ultimately, your Objectives. This speaks to the need to question whether you're measuring the right metrics. If they're not helping you achieve your objectives, then there's a break that needs to be examined;

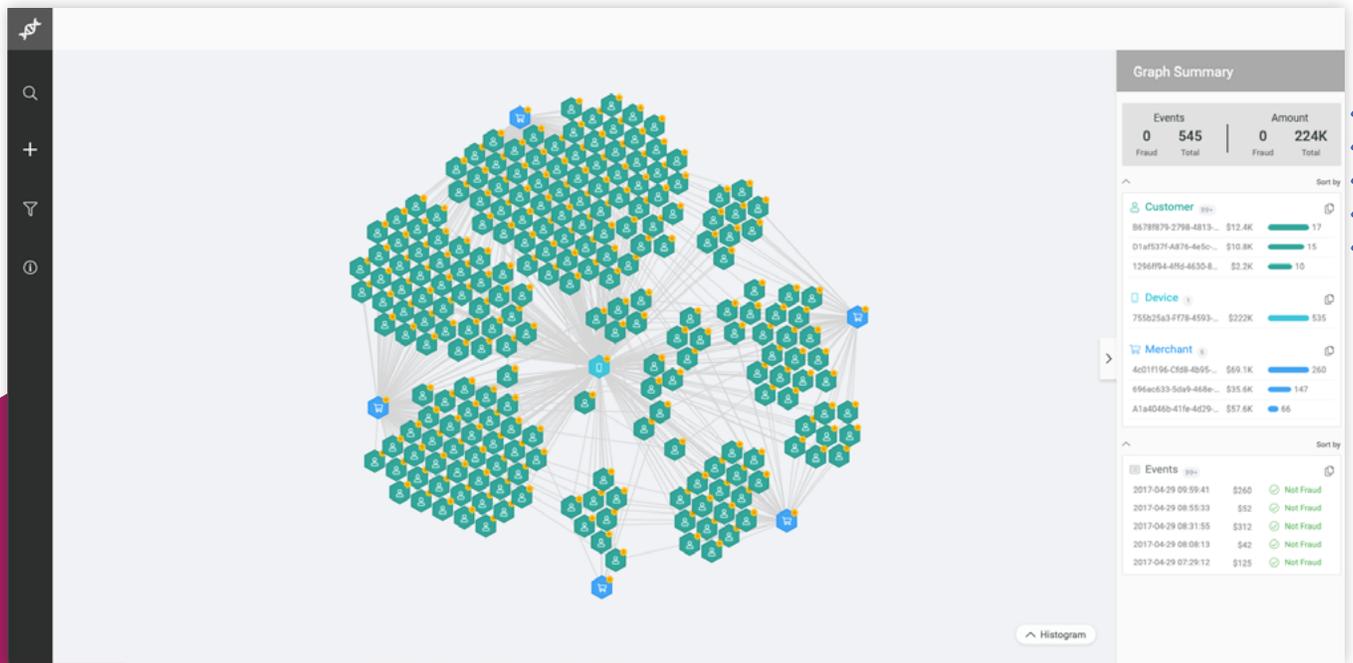
# Understanding the Difference: How Feedzai tells unusual from suspicious



Feedzai has built a unified platform to manage the entire risk lifecycle of money laundering. Utilize all available data and tools to quickly discern the difference between unusual and suspicious, Feedzai can dramatically reduce the amount of noise your compliance team has to manage.



Our platform and tools are built with a four-pronged risk mitigation approach in mind. Following this approach, and incorporating data and insights from each portion of this journey, enables Feedzai's tools to more accurately detect suspicious behavior.



### Feedzai Whitebox Explanations: Built-in Explainability

One of the biggest weaknesses of machine learning when compared to rules is the difficulty understanding why a model outputs the result it does. Feedzai's human-readable Whitebox Explanations explains the logic behind risk scores. Give your investigators important context and a clear understanding of exactly why the system came to the decision it did.



### Feedzai Pulse: Keep up with changing behavior

In order to keep up with a changing customer landscape transaction monitoring solutions have to be nimble. Tuning rules and models to keep up with quickly shifting customer behavior and regulator expectations is paramount. Feedzai Pulse, our data science environment, provides both powerful & highly controllable tools to ensure your business stays ahead of regulatory and customer needs.



### Feedzai Genome: Visualize Financial Crime

While most investigators still work alerts the 'old fashioned' way — documents & spreadsheets — Feedzai Genome provides investigators with the ability to visualize the shape of financial crime. Don't spend hours tying together disparate events. Genome provides a clear and concise visualization of what exactly happened, drastically reducing investigation time.



### Feedzai Segment-of-One Profiling: Hypergranular Profiling

Feedzai's segment-of-one profiles are hypergranular profiles that are built around every entity within your system. These ultra-accurate profiles help build a picture of what 'normal' looks like with unparalleled accuracy, ensuring that any deviation from the norm can quickly be identified and assessed.



### Feedzai AML SMEs: Stay Ahead of a Changing AML Regulatory Landscape

Earlier we highlighted the digital progression of our economy. Regulatory expectations follow the economy. They also track how consumers interact with financial institutions and the exploitation of their services by illicit actors. In this evolving space the right partner is critical. They will work with your organization and provide desired guidance. They understand your needs and help you solve problems in a collaborative fashion.

Feedzai Subject Matter Experts (SMEs) have faced the challenges our clients face, as former regulators, compliance leaders, and AML officers. When we deliver product enhancements they are there every step of the way to ensure current (and known future) expectations are considered. They are your voice within Feedzai.

#### Quantifiable Results:

When working in conjunction, the features above enable some of the best results in the industry.

1-2%

Industry average of alerted transactions that end up requiring a SAR to be filed

10%

Results with Feedzai's AML Solution (a 5-10x increase in accuracy)

# Accelerating Monitoring by Leveraging Cloud

Agility is key when it comes to combating money laundering in a changing digital world. Ensuring that your tools are dynamic enough to support both the changing regulatory and customer landscape is critical, and by deploying a transaction monitoring solution on Feedzai's cloud, FIs can rapidly pivot to meet changing needs and expectations. Feedzai's cloud also makes deployment (both of a new system, and of new models) painless, with models being ready in just days, not weeks.

Also, with Feedzai's open platform, financial institutions can easily connect new data streams from previously disparate sources via an API. These new data streams can be quickly incorporated into a cloud-based scoring process, enabling an agile fraud response.

## Why Cloud?



### Easy to Deploy:

Ready-to-go detection scenarios and case investigation interfaces



### Quicker Time to Value:

Quick time to value, tangible ROI on deployment



### Cost-effective:

Premium services and advanced technology at a competitive price



### Turnkey AI:

Zero-day strategies with auto-configured models





# One Platform to Manage Financial Crime

Every year, Feedzai's risk management platform scores trillions of dollars of transactions to protect the world's largest companies. Fully AI-enabled to stay ahead of emerging financial crime and money laundering patterns, Feedzai mitigates even the most deceptive criminals so that banks, issuers, acquirers, and merchants can focus on growth.

Feedzai is considered best in class by Aite and one of the most successful AI companies by Forbes. The world's largest banks, processors, and retailers use Feedzai's fraud prevention and anti-money laundering products to safeguard trillions of dollars and manage risk while improving customer experience.

## Feedzai Anti-Money Laundering