

The State of Global AML Compliance 2023

feedzai[↑]

August 2023



Executive Summary

Navigating Crossroads: Combining Human Insight and AI Developments in your AML Strategy

Anti-Money Laundering (AML) effectiveness continues to be a challenging goal for financial institutions and regulators in our increasingly connected world. As criminal networks evolve in sophistication, so must the strategies employed to prevent and detect money laundering. Financial institutions and regulatory authorities constantly seek balance in combatting these networks without stifling business growth. Our report aims to provide a comprehensive analysis of the current AML landscape and sheds light on the integration of cutting-edge technologies with traditional AML practices.

According to survey participants, money laundering methods are growing in complexity and embracing technological advancements. The data reveals that shell companies are preferred for money laundering. Cryptocurrencies maintain their high-risk status in AML programs. Generative AI (GenAI) is on our minds, yet we collectively seek to harness its capabilities to benefit the fight against financial crime. Tradition meets evolution.

Know Your Customer (KYC) and transaction monitoring remain the bedrock of effective AML programs. However, the volume and complexity of transactions are growing exponentially. Evolution is required. We need to accelerate our exploration of Artificial Intelligence (AI) and Machine Learning (ML) models. Our report underscores how

leveraging AI and ML can not only enhance the efficiency of existing AML protocols but also play a crucial role in identifying and adapting to new forms of money laundering.

However, as the data suggests, challenges persist. The monitoring of cryptocurrencies (effectively) still challenges many of our respondents. Growing use of digital payments invites new money laundering techniques.

This report examines the current AML landscape and goes a step further to examine the collaborative aspect of combating money laundering. Respondents are pressing for collaboration with law enforcement, government agencies, and other financial institutions. We address the possibility of data-sharing, collective maintenance of customer data, and establishing a cohesive and robust AML community.

Collectively we are at a crossroads to shape how effective the future of AML programs will be. Join Feedzai and the participants as we navigate these crossroads, paving the way for an innovative, collaborative, and effective AML strategy that combines the best of human insights with the power of AI.



Pedro Barata
Co-Founder and Chief
Product Officer

Methodology

We received responses from 271 individuals, representing 77 companies around the world. Beyond basic demographic information, we asked a total of 19 questions, and allowed for more than one answer for several questions. We analyzed the responses through a system of three categories:

Overall responses

This is the total response regardless of region, role, or industry. If responses from roles or regions differed from the overall results, we reported those findings.

Response by role

Respondents were given four categories with descriptions from which they could self-identify. They were as follows:

Senior Management Director of AML, Global Head of AML and Sanctions, Senior VP of AML Compliance, etc.

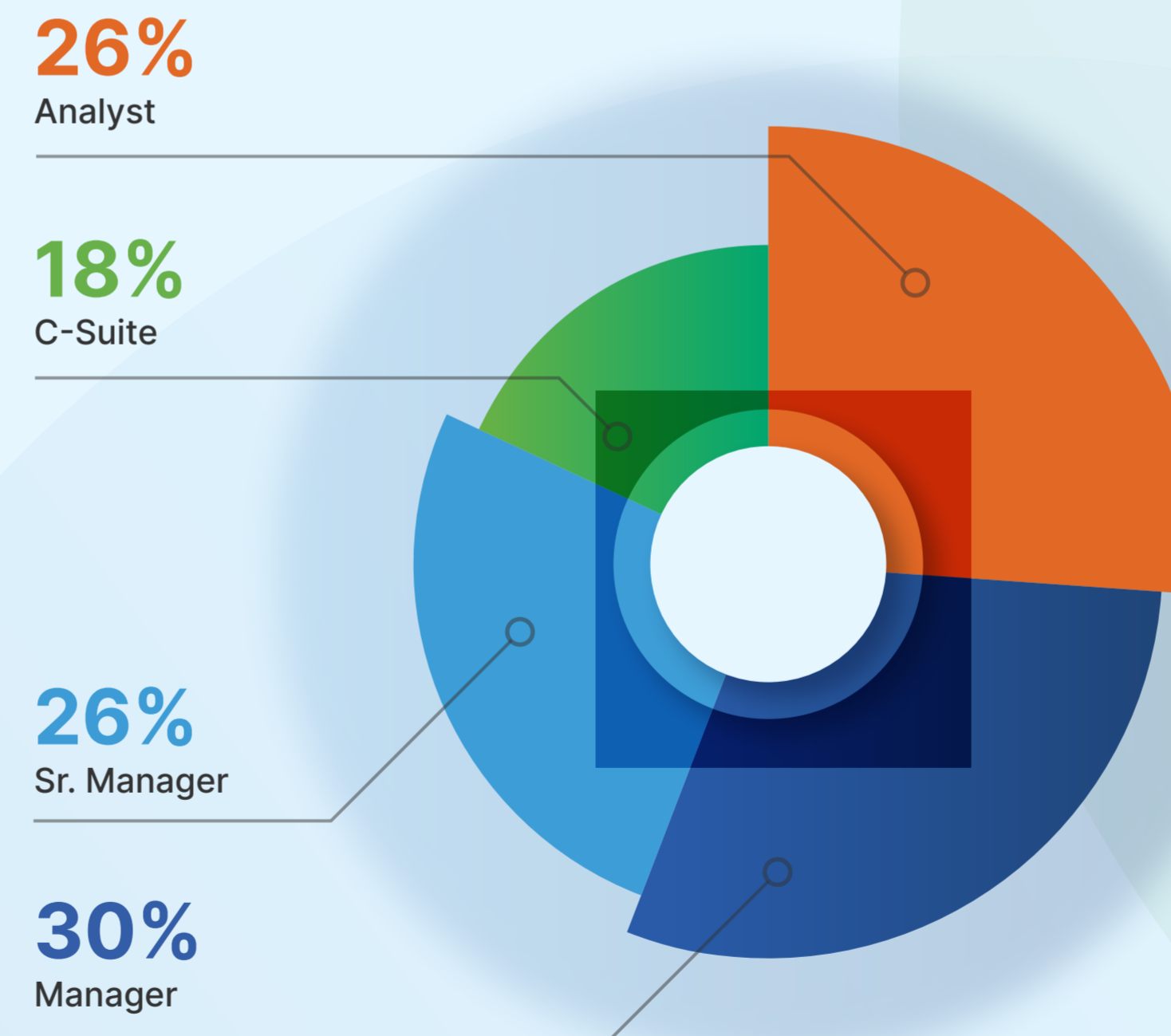
Middle Management Compliance Manager, AML Manager, KYC Manager, etc.

Analyst/Investigator AML Analyst, Compliance Analysts, SAR Analyst, Investigative Specialist, etc.

C-Suite Chief Compliance Officer, Chief Risk Officer, etc.

The report refers to these roles as Analyst, Manager, Sr. Manager, and C-Suite/Executive. We received a fairly distributed response, with Executive accounting for slightly fewer responses and the Manager level accounting for somewhat more.

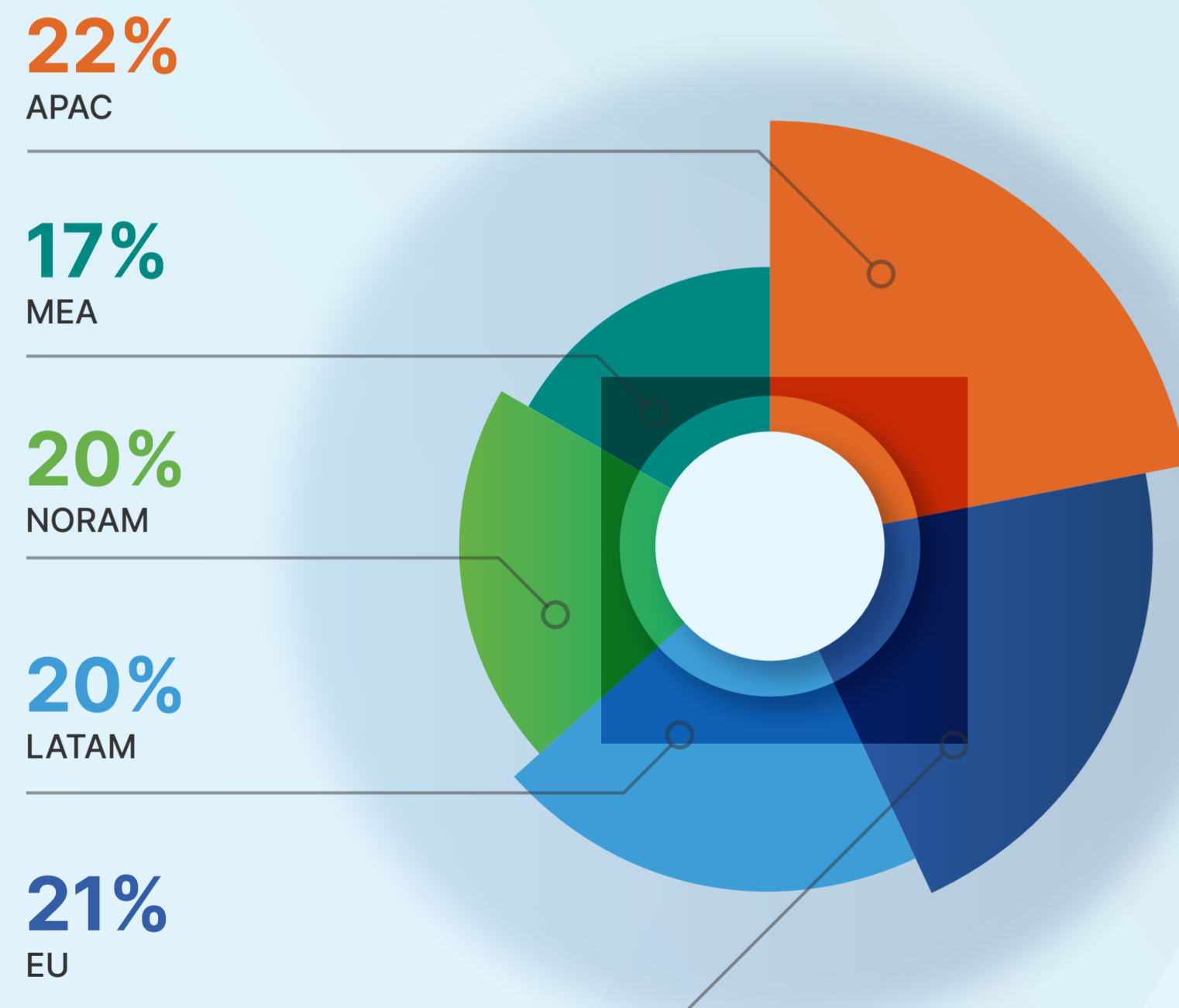
What is your role?



Response by geographical region

Regions were categorized as Asia Pacific (APAC), Europe (EU), Latin America (LATAM), the Middle East and Africa (MEA), and North America (NORAM). We received a relatively equal number of responses from all regions.

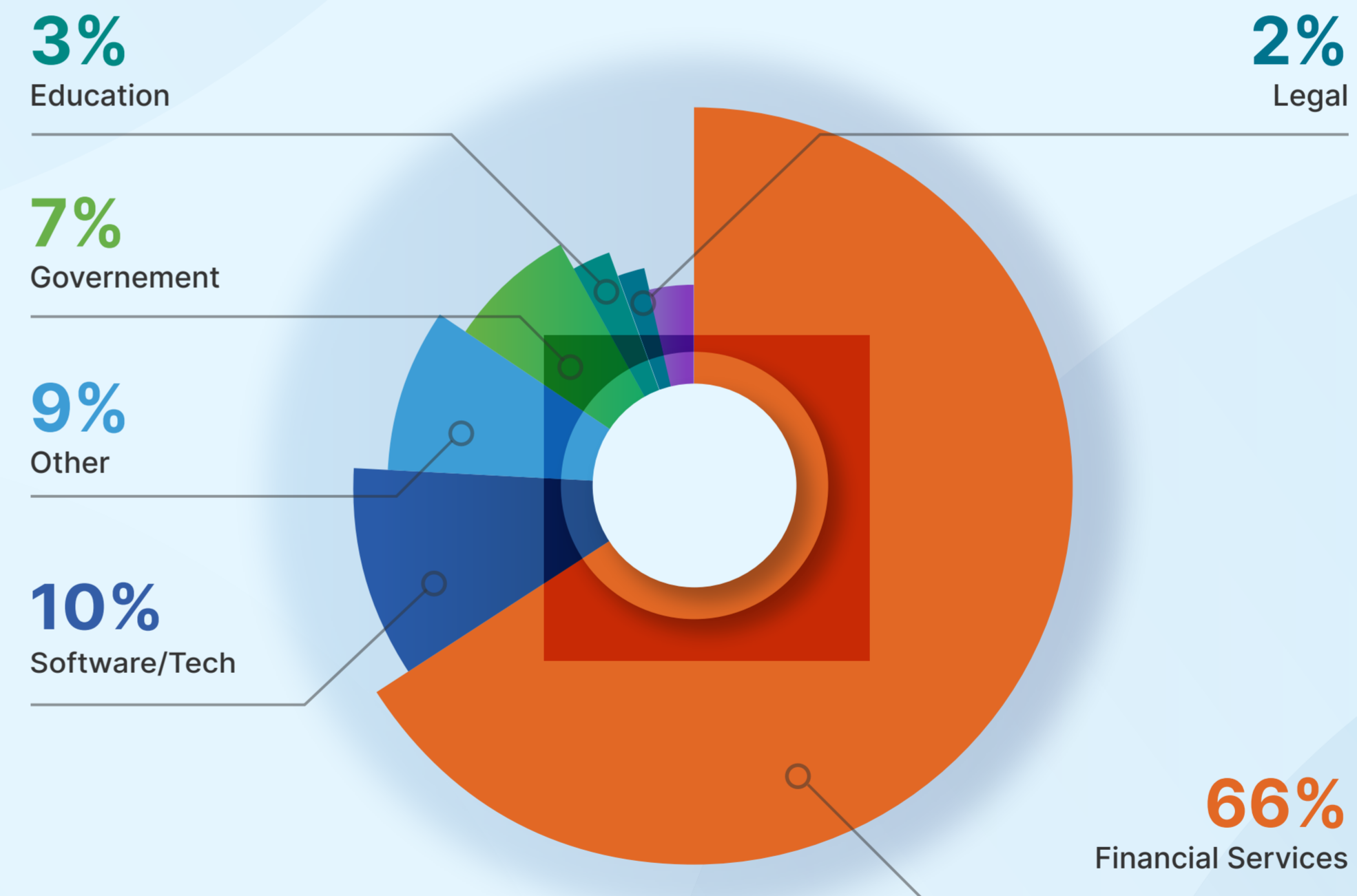
Where are you located?



Response by industry

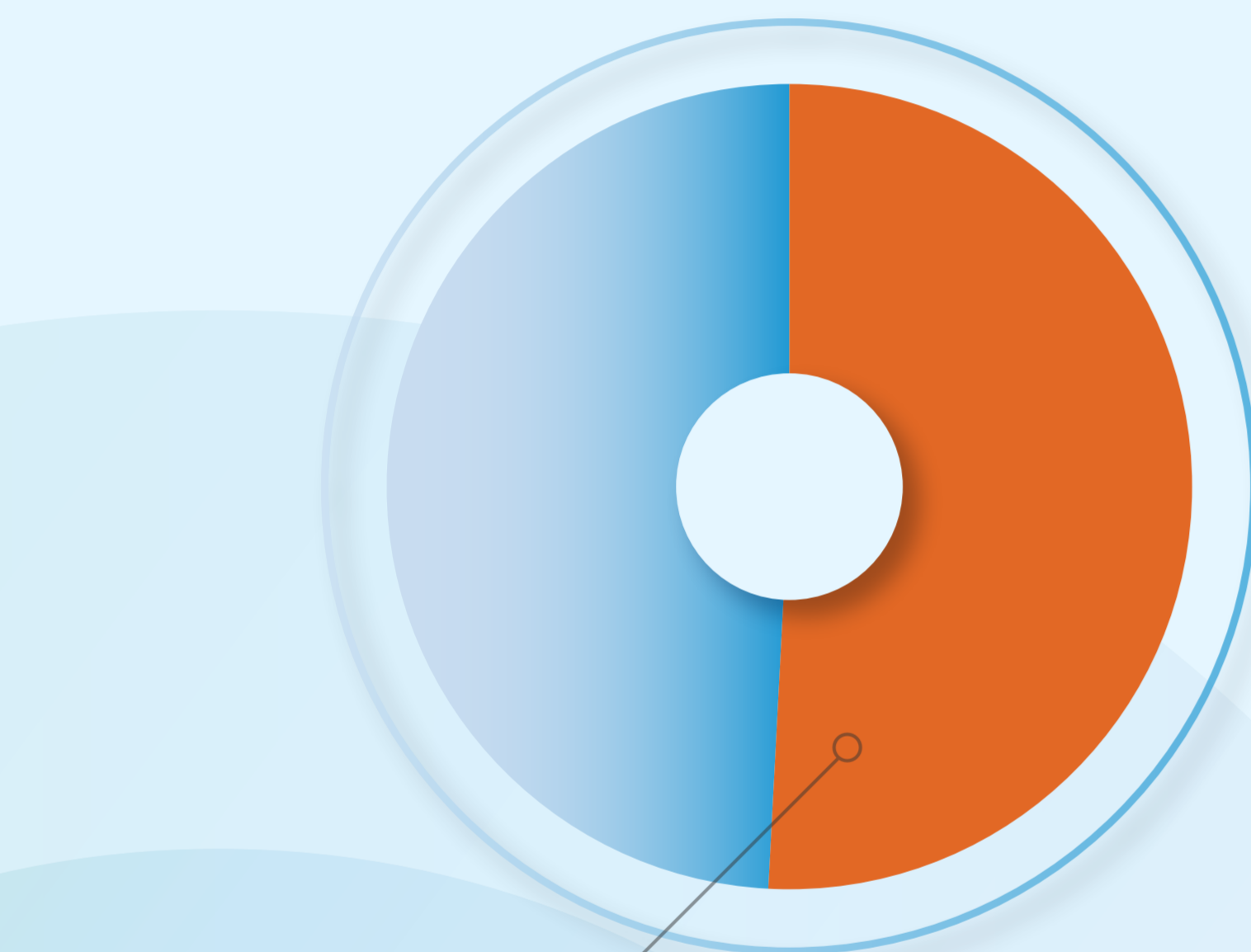
While we gathered the industry information, we did not analyze responses by industry. Over 66% of responses came from the financial services sector, which we defined on the survey as retail banks, challenger banks, and related entities.

What industry are you in?



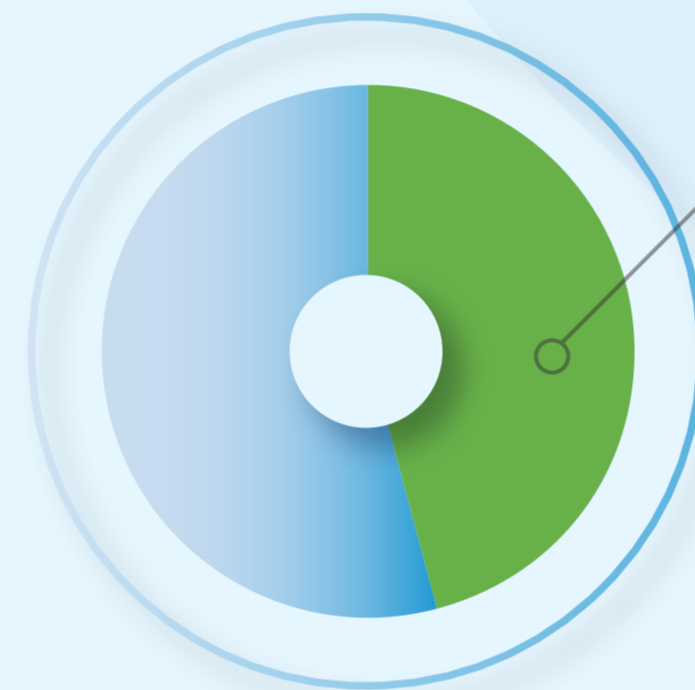
We greatly appreciate all respondents for their invaluable insights in shaping this report. These findings will guide AML professionals, policymakers, and stakeholders in understanding the current situation and developing future strategies to combat money laundering.

Key Findings/Overview



51%

see AI as the key to the future of AML programs



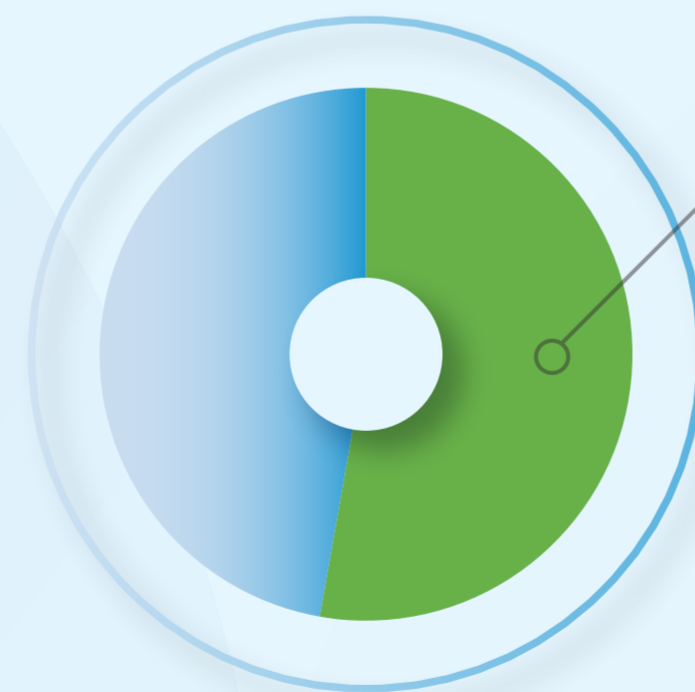
46%

say increasingly sophisticated money laundering techniques are among the biggest challenges they face



40%

are not using technology to monitor crypto transactions



53%

report money laundering activities are broadly related to crypto transactions



80%

of respondents say money laundering regulations are somewhat effective at best

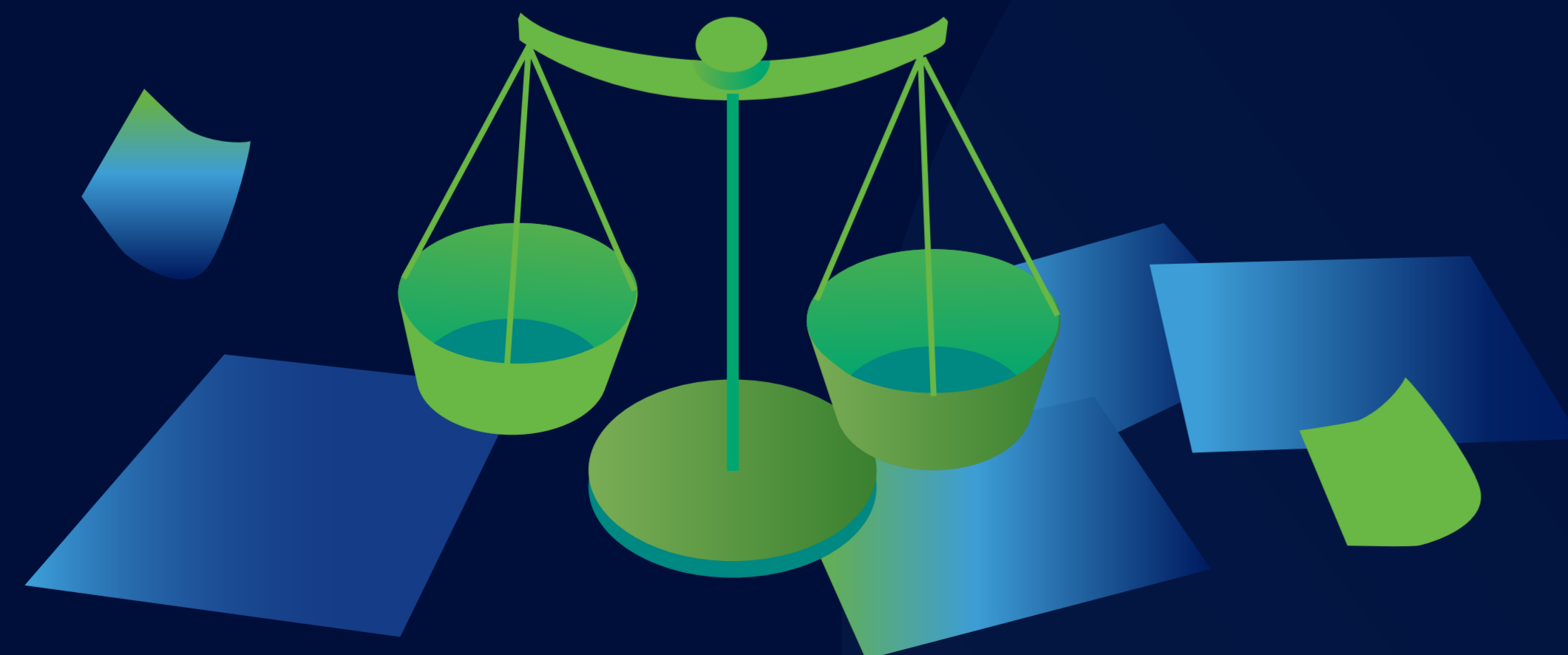
Survey Results



How effective are current AML regulations in preventing money laundering?

Anti-Money Laundering (AML) compliance is fundamentally concerned with adhering to regulations that aim to prevent money laundering. **An overwhelming majority of survey participants reported that AML regulations have a moderate level of effectiveness in mitigating money laundering.**

This highlights the importance of intelligent regulation – one that is strategic in pinpointing and addressing the key vulnerabilities exploited in money laundering – over more regulation.



01%

Other

10%

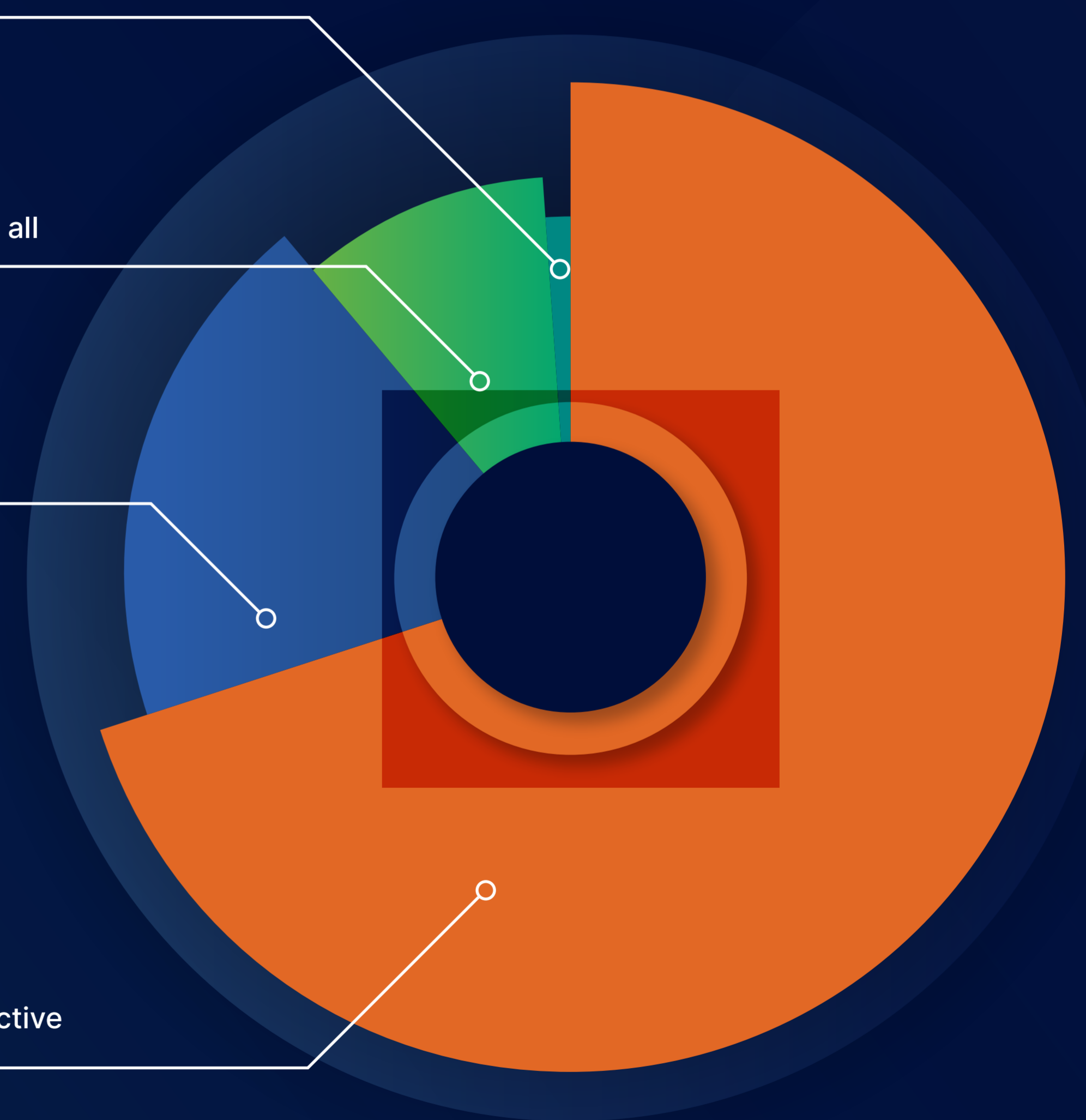
Not effective at all

19%

Very effective

70%

Somewhat effective



What countries present the most significant money laundering risks?

Russia topping the list at 52% is unsurprising. Nigeria and China are tied in second place (35%) — and the US and North Korea round out the top five geopolitical money laundering jurisdictions.

The inclusion of North Korea (31%) may be surprising to some, as it does not have a significant global financial market presence. However, its inclusion likely reflects concerns regarding state-sponsored illicit financial activities and sanctions evasion.



Comparison 2023 vs. 2022 Top Countries for Money Laundering Risk



2022



2023



Last year, Ukraine was highlighted as one of the major hubs for money laundering. The global financial community's strong support for Ukraine in light of the ongoing conflict might be a reason for this change, as the war threatens trade.

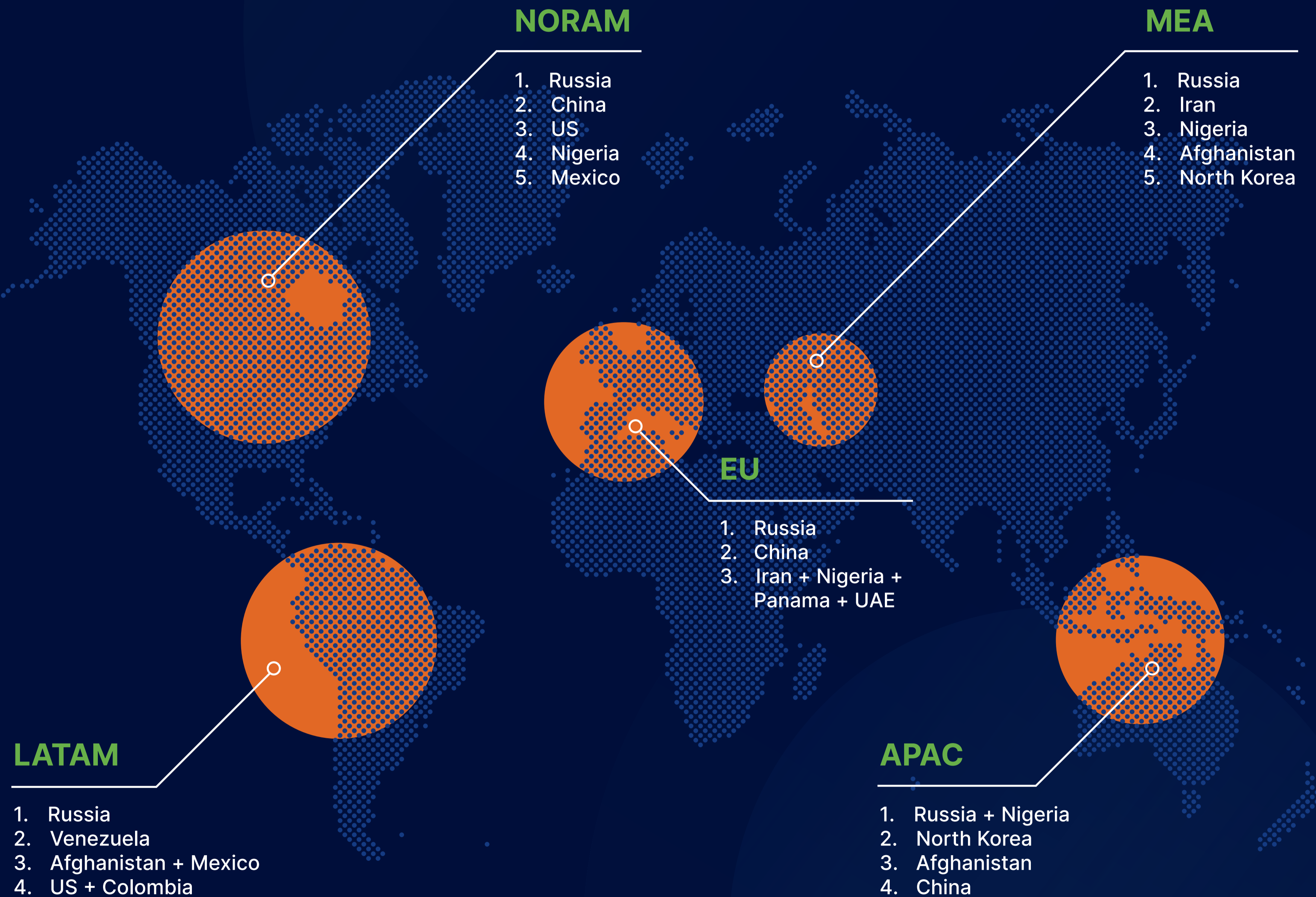
Nonetheless, caution is advised. There's a high risk of money laundering, with billions of dollars in foreign aid pouring into Ukraine and insufficient checks on how this money is used.

Regional View

Geopolitical Money Laundering Risk

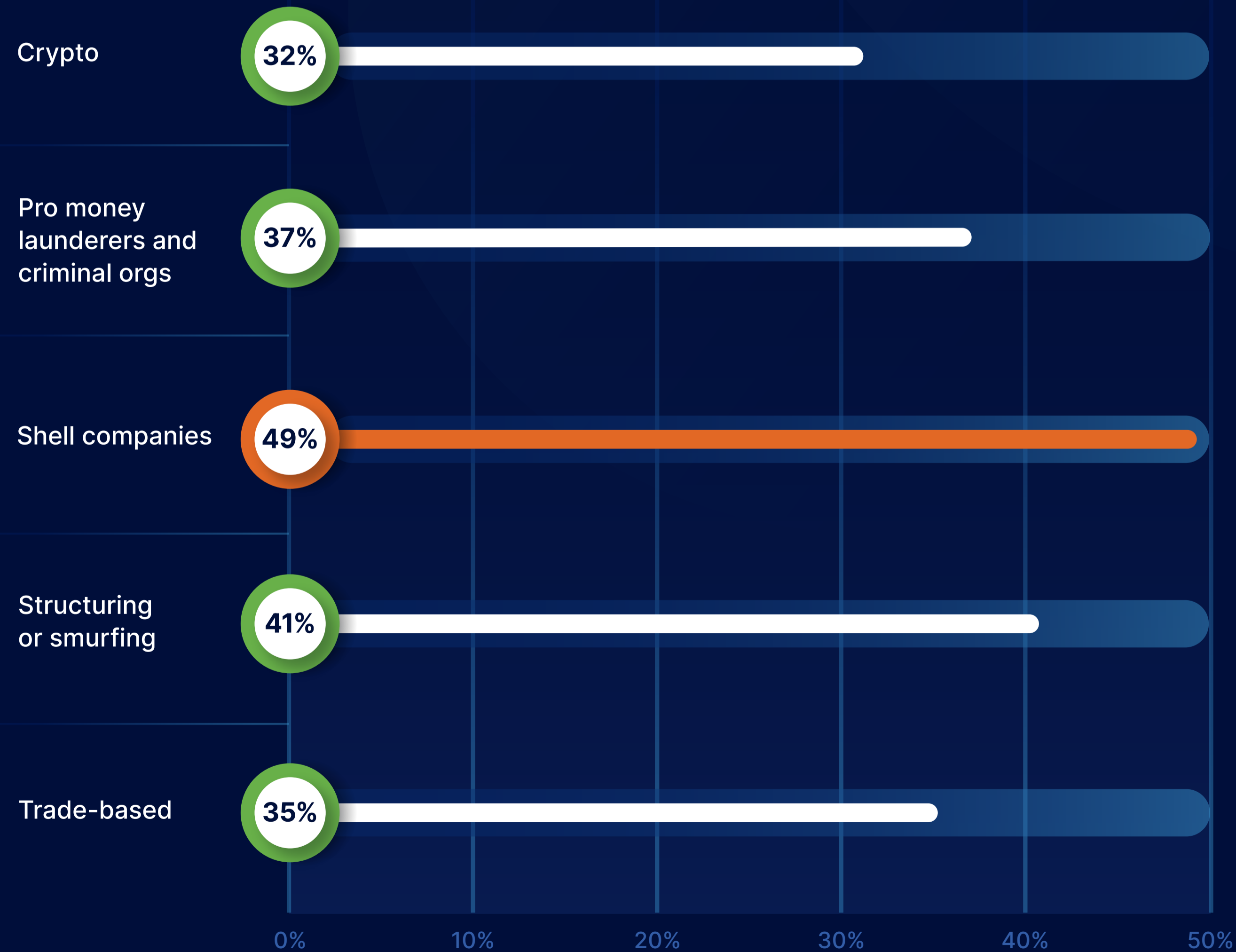
Given the numerous sanctions on Russia, it is unsurprising that every region views it as a top money laundering threat. Entities transacting with Russia face intense scrutiny from international regulators.

Aside from Russia, different regions prioritize money laundering issues within their neighboring countries. In Latin America (LATAM), heavily sanctioned Venezuela is a top money laundering concern. In the Middle East and Africa (MEA), Iran, Nigeria, and Afghanistan rank just behind Russia. The only true outlier is Europe (EU), which lists no other EU-based nation as a country of concern.



What are the most common money laundering methods?

(select 2)



It's worth pointing out that shell companies don't fit neatly into the "method" category for money laundering. Shell companies are better described as a "vehicle" that enables money laundering activities.

Comparison 2023 vs. 2022

Top 5 Money Laundering Methods

Cryptocurrency remains among the most significant AML concerns, but it's not the most important in 2023 compared to 2022.

Shell companies may be a more prominent concern due to the increased scrutiny of Companies House, the US registration list, and ultimate beneficial owners (UBOs) databases. These regulatory efforts aim to make it more difficult for criminals to use shell companies to launder money. However, in practice, they are poor at actually containing accurate and reliable data.



2023



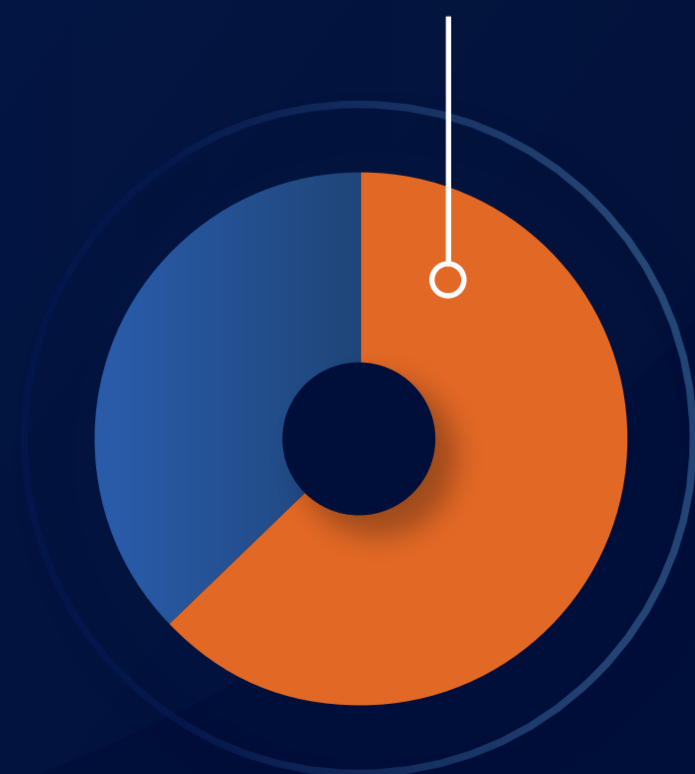
2022

What are the most effective measures for preventing money laundering?

Traditional KYC is primarily used to evaluate the risk of money laundering or terrorist financing. But Know Your Counterparty assesses other risks, such as fraud and corruption by verifying the identity and assessing the risk of all parties involved in a financial transaction.

63%

KYC/pKYC/CDD

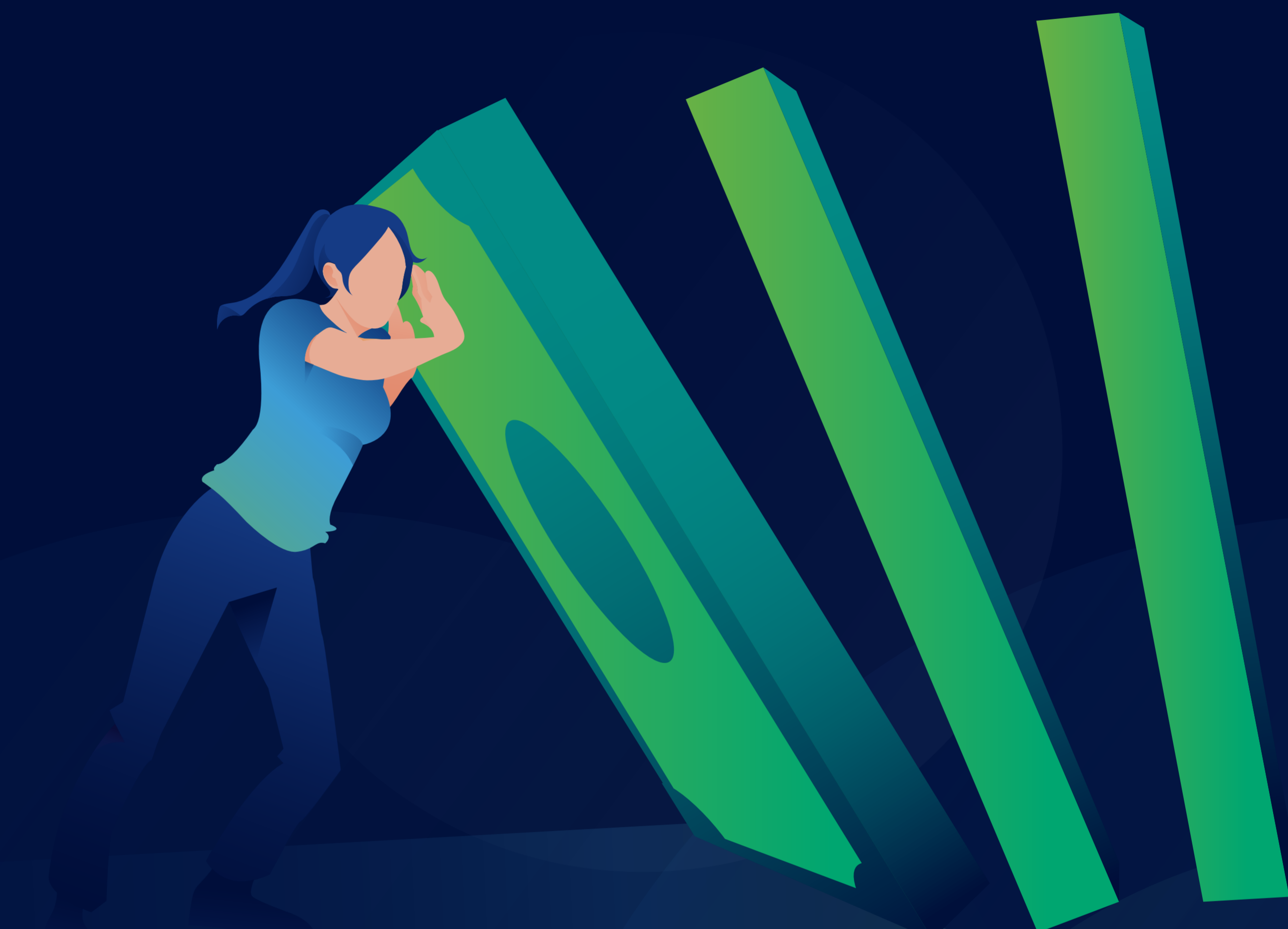


57%

Transaction Monitoring



Preventing money laundering requires a thorough strategy based on a strong internal AML culture, deep understanding of customers and business partners, and diligently implementing KYC and CDD procedures. It's also crucial to use the appropriate tools and processes suitable for the type of business being managed.



What market change needs to occur to significantly reduce money laundering and associated crimes?

Overwhelmingly, participants emphasized the dire need for enhanced collaboration among governments, financial institutions, and inter-institutional, which was also the leading answer last year.

2%

Other

7%

More rigorous customer verification

10%

More investment in tech

14%

Improved social responsibility and education

28%

More focus on fraud-money laundering link

39%

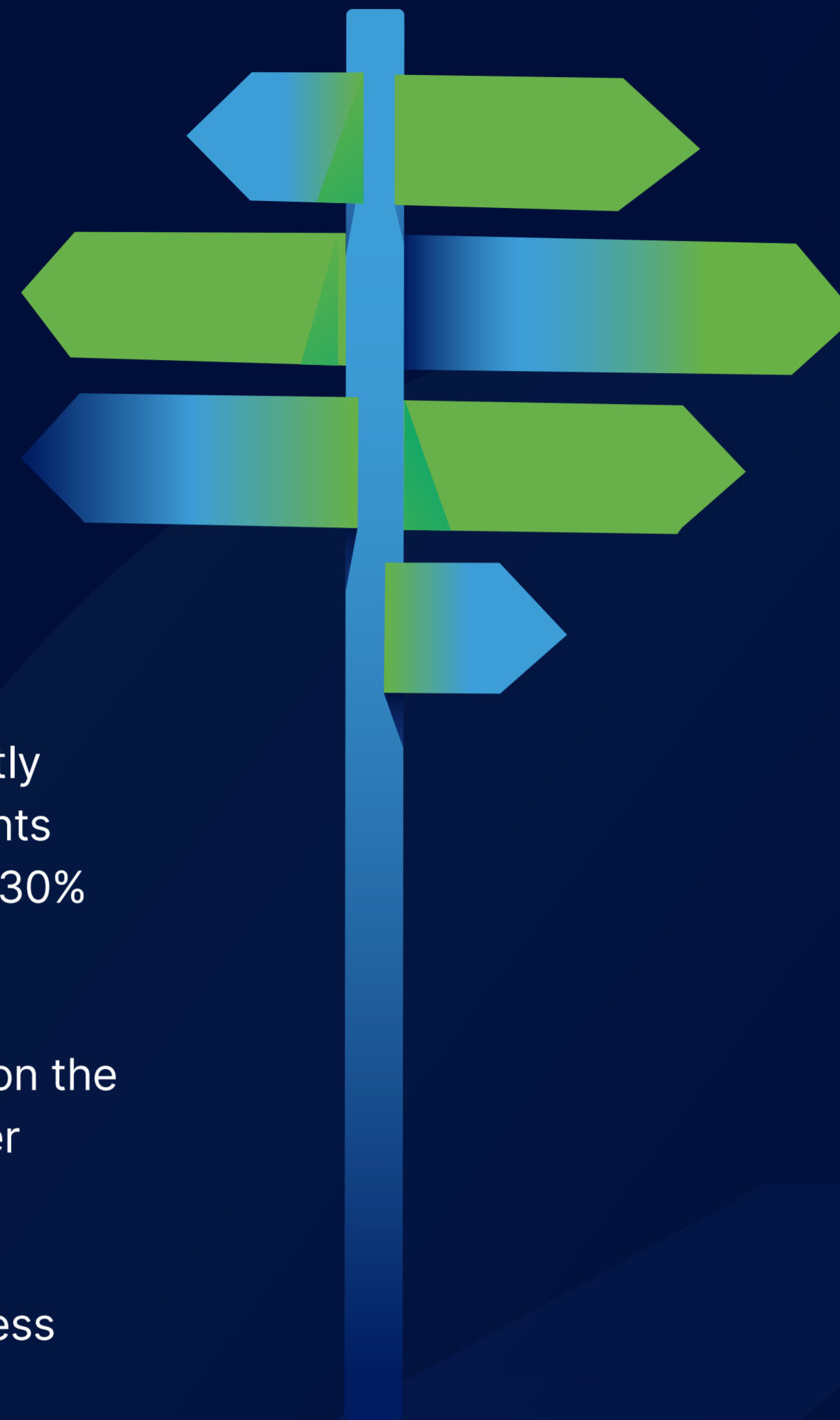
More collaboration with governments and other FIs



Regional View Needed Market Changes

The APAC region, the EU, and NORAM significantly prioritize increased collaboration with governments and institutions. In NORAM, the choice is almost 30% higher than the next ranking item.

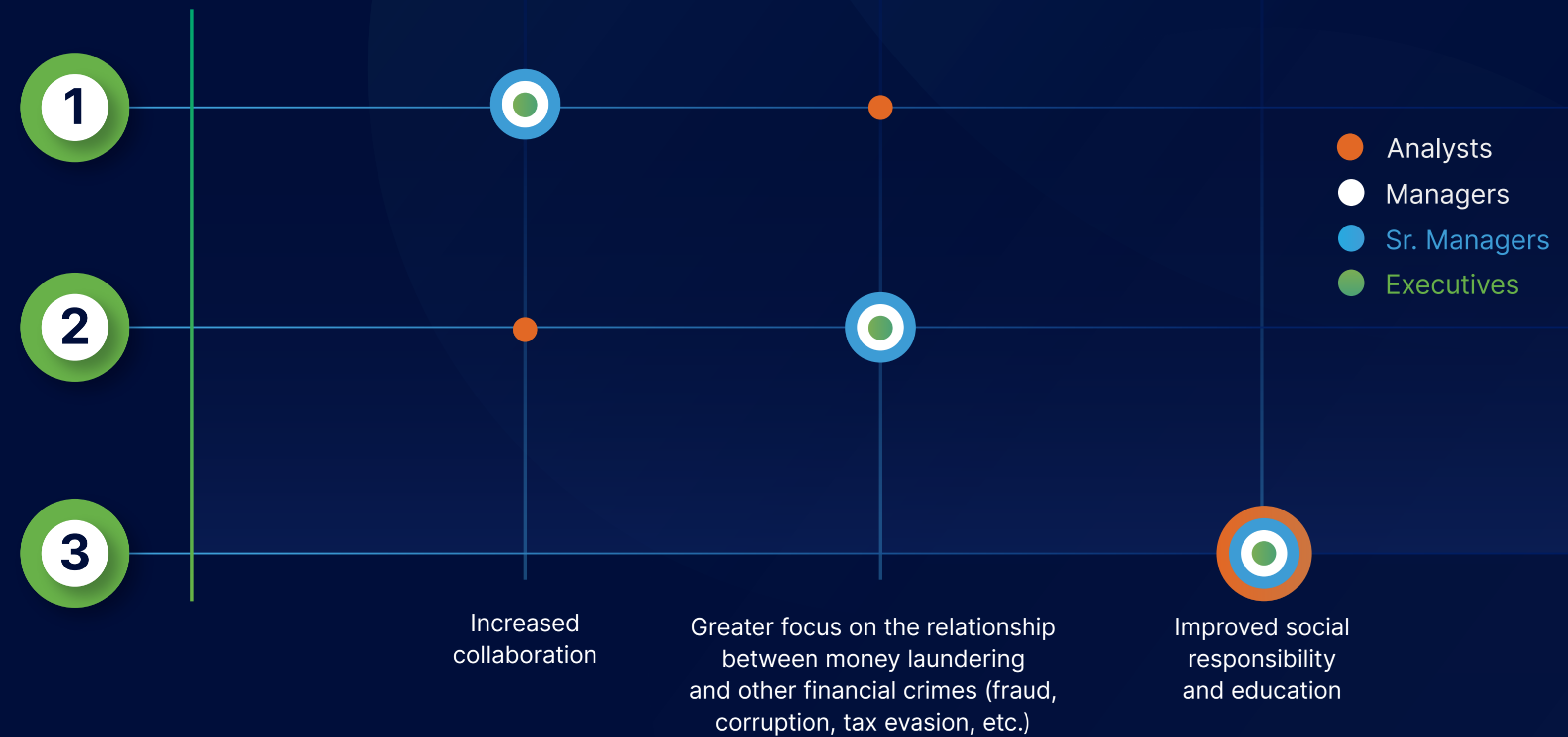
The MEA and LATAM regions prioritize focusing on the relationship between money laundering and other crimes (e.g., fraud and corruption). This may be because respondents in these regions are more distrustful of their governments and, therefore, less inclined to collaborate with them.



- Increased collaboration between governments and FIs
- Greater focus on the relationship between fraud and money laundering
- Improved social responsibility and education



Reported by Role Needed Market Challenges



Analysts were more likely to call for greater focus on the relationship between money laundering and other types of financial crime.

This disparity may be attributable to each party's specific role. Analysts see finding links between money laundering and other types of financial crime

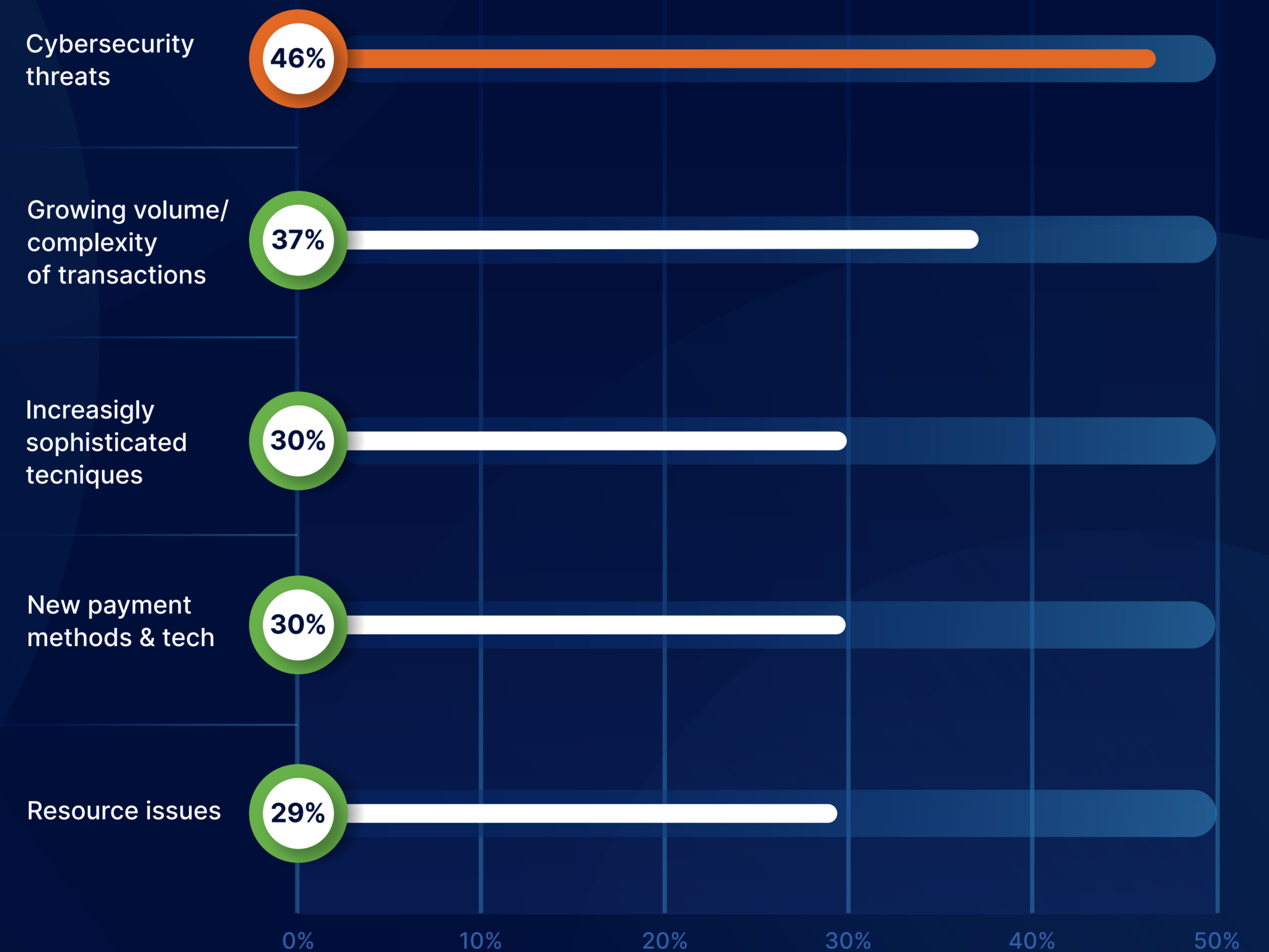
as a critical part of their jobs. Meanwhile, collaborative efforts with governments are more likely to be initiated and overseen at the managerial level.



Name the two biggest **market challenges** impacting your AML program in the next two years

Results showing the impact of AI (46%) aren't shocking, considering how revolutionary GenAI technology is and how much attention it has in the media. Further, as the technologies evolve, AML professionals must stay ahead, which can be demanding considering the pace at which criminal strategies are developing.

It's crucial to understand that there's a strong connection between cybersecurity, technology, new payment methods, and the evolving sophistication of money laundering tactics. They are all intertwined; developments in one area can have ripple effects on others.



Comparison 2023 vs. 2022 AML Market Challenges

Comparing this year's results to last year's results, we see major changes:



Regulations plummeted from #1 to #7

We believe this is because there has been a marked decline in new regulations.



Crypto dropped from #2 to #6

Significant changes in the crypto market are likely driving this change.



Regional View

AML Market Challenges

The MEA region stood apart from others with a tie between new payment methods and technologies and cybersecurity threats. Several MEA-based nations are relatively new to the global financial system and may have weaker AML regulations or enforcement in place.

APAC and NORAM, home to some of the largest financial markets in the world, are experiencing rapid growth in new payment method and technology adoption. As a result, there's a growing demand for AML resources.

While the EU region is also seeing rapid growth, it has strong government support and isn't lacking in AML resources.



APAC

- 1 Sophisticated money laundering techniques, including GenAI
- 2 Resources
- 3 Volume and complexity of transactions



NORAM

- 1 Sophisticated money laundering techniques, including GenAI
- 2 Resources
- 3 Volume and complexity of transactions



EU

- 1 Sophisticated money laundering techniques, including GenAI
- 2 New payment methods and technologies
- 3 Crypto



LATAM

- 1 Sophisticated money laundering techniques, including GenAI
- 2 New payment methods and technologies
- 3 Cybersecurity threats



MEA

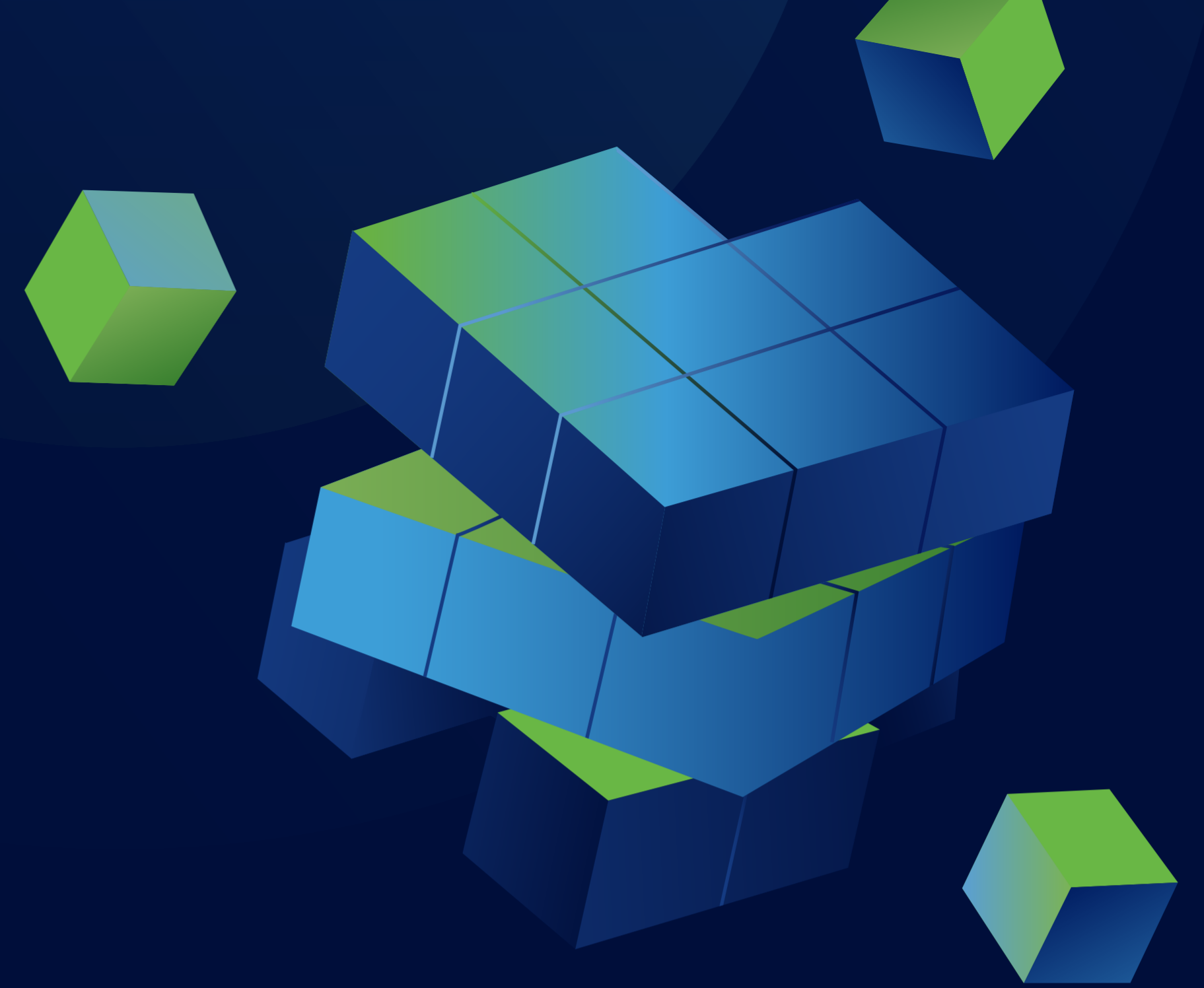
- 1 New payment methods and technologies
- 1 Cybersecurity threats
- 2 Sophisticated money laundering techniques, including GenAI
- 2 Volume and complexity of transactions
- 3 Crypto

Reported by Role

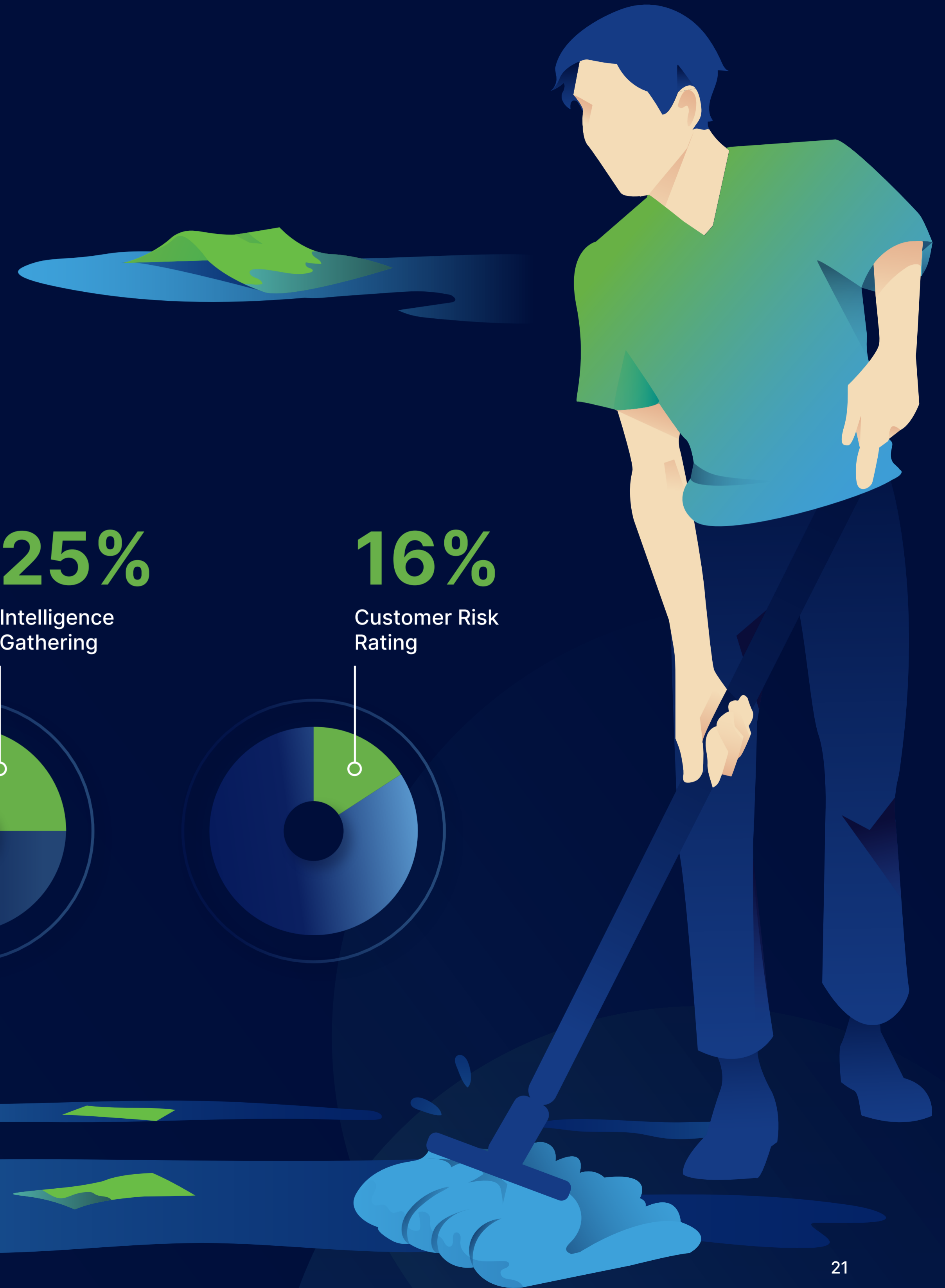
AML Market Challenges

Frontline-front office division influenced the primary concerns within the organization. Analysts emerged as the group most apprehensive about the escalating sophistication of money laundering tactics, surpassing other roles in their level of concern.

Crypto-related issues topped the list for analysts and C-suite executives but did not hold the same significance for managers or senior managers.



In which areas are your AML program **least successful** or still developing?



40%

Crypto Monitoring



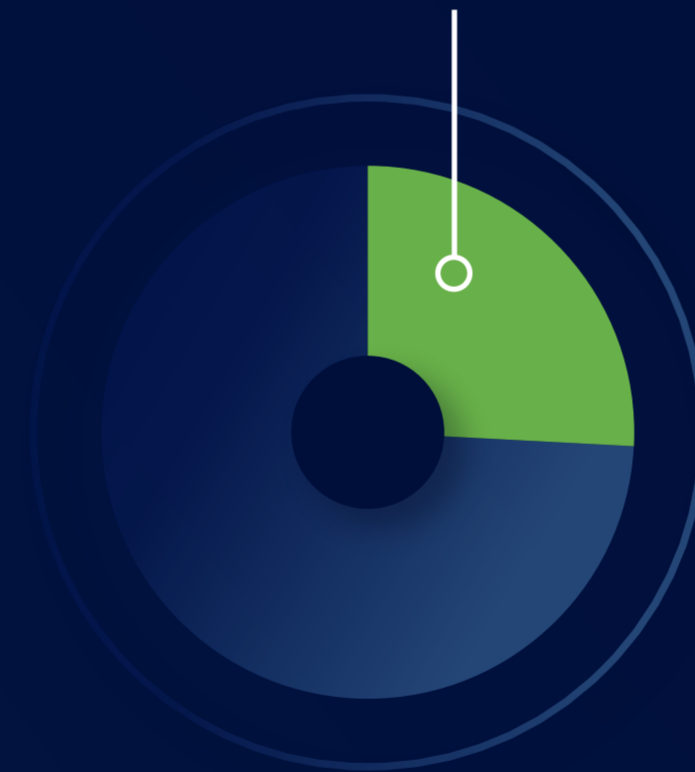
36%

Automation and Technology



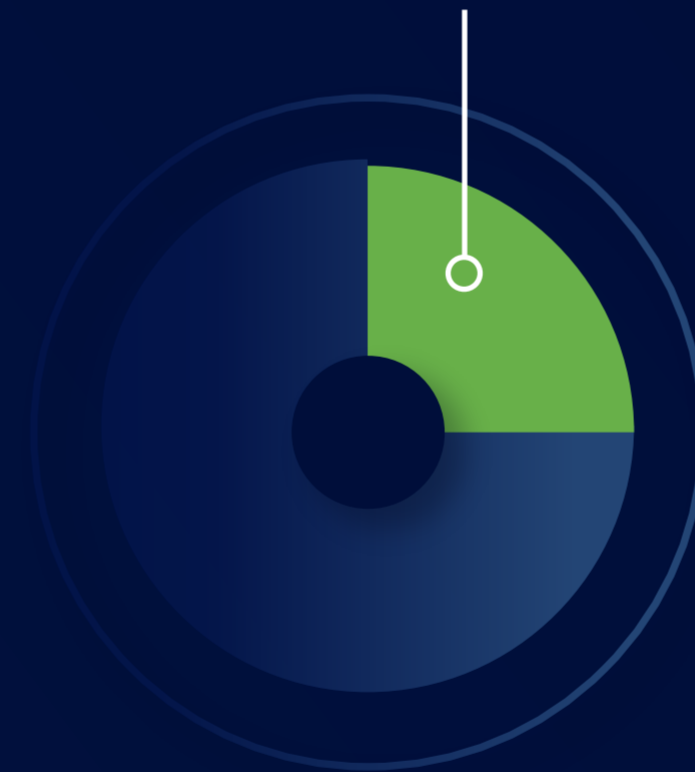
26%

Transaction Monitoring



25%

Intelligence Gathering

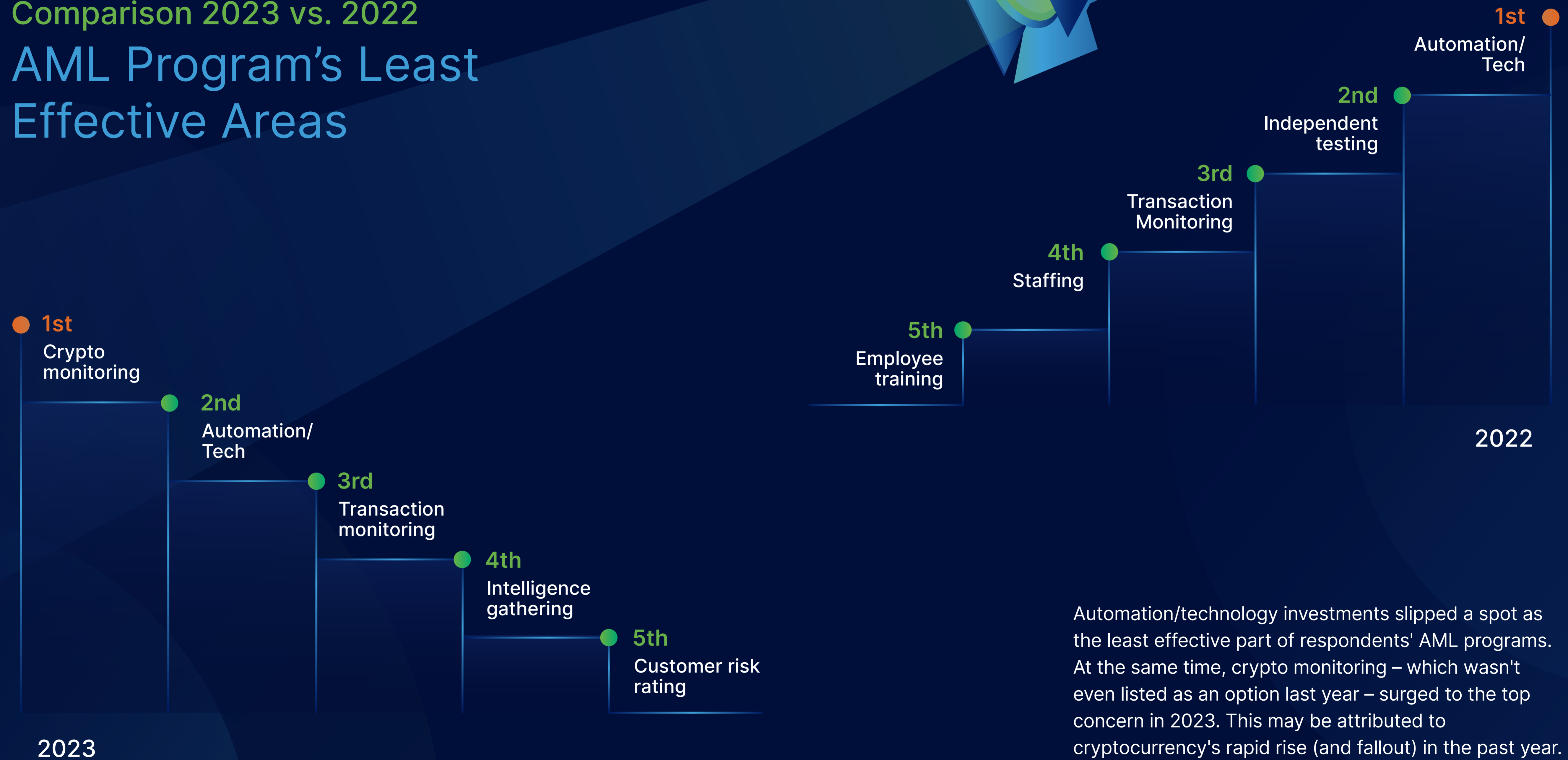


16%

Customer Risk Rating



Comparison 2023 vs. 2022 AML Program's Least Effective Areas



Automation/technology investments slipped a spot as the least effective part of respondents' AML programs. At the same time, crypto monitoring – which wasn't even listed as an option last year – surged to the top concern in 2023. This may be attributed to cryptocurrency's rapid rise (and fallout) in the past year.

Regional View AML Program Challenges

All regions ranked crypto monitoring as their program's least successful or least mature area, except NORAM.

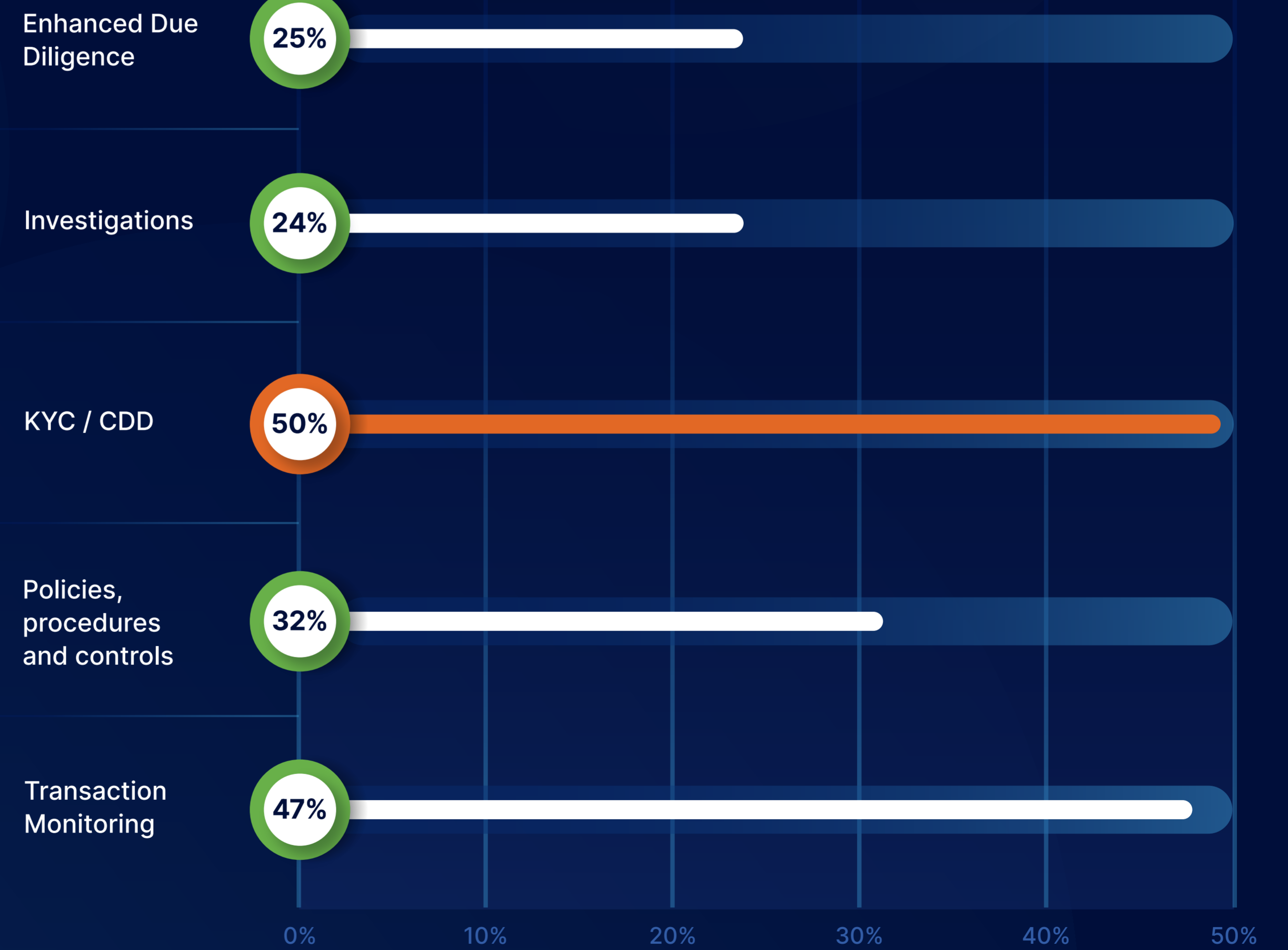
In NORAM, regulators are bearish on crypto. That makes integrating and implementing advanced automation and technology more critical. The burgeoning cryptocurrency market might be perceived as a more immediate challenge in other regions.



Reported by Role AML Program Challenges



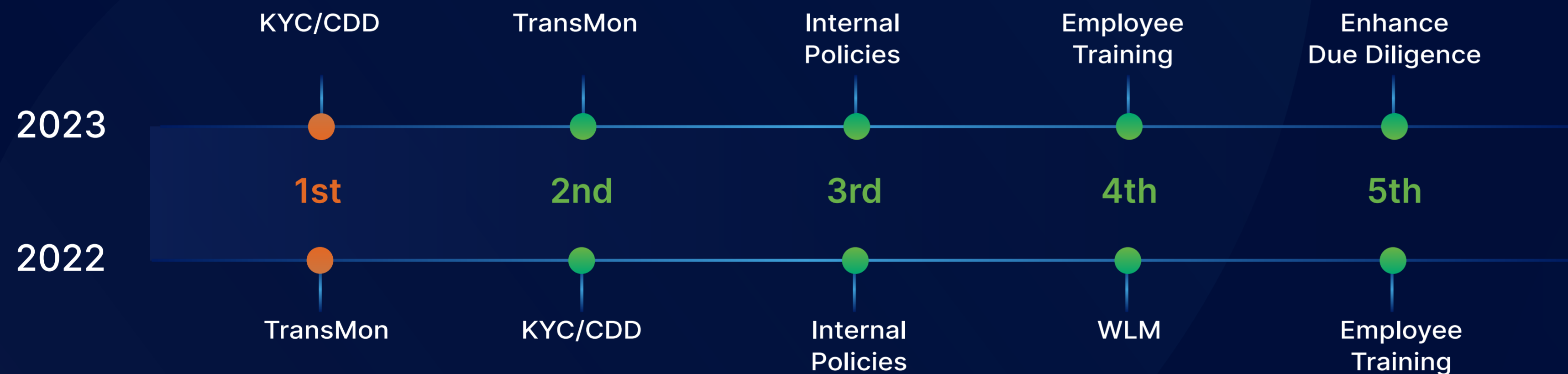
In which areas is your AML program most successful or mature?



Comparison 2023 vs. 2022 Programs' Success and Maturity



Respondents showed remarkable year-over-year consistency, with a few significant shifts.



KYC/CDD was the top program component, a sign of its improved effectiveness due to technological advances.

Transaction monitoring dropped slightly in ranking, possibly due to increasingly complex transactions or a shift in AML focus. Despite its drop, it remains a vital part of AML programs and ideal area for AI optimization.

Enhanced Due Diligence emerged in the top five categories in 2023 likely driven Russian sanctions. This reflects a heightened focus on investigating high-risk customers. However, watchlist management dropped from the top five, suggesting changing risk management priorities or a refocused effort in combating money laundering.

Regional View

Programs' Success and Maturity

The MEA region differed from the rest.

MEA is home to several countries that are relatively new to the global financial system. As a result, these countries may have weaker AML regulations or enforcement than other regions.

APAC

1. KYC/CDD
2. Transaction Monitoring
3. Enhanced Due Diligence
4. Internal policies, procedures, and controls
5. Employee training

EU

1. KYC/CDD
2. Transaction Monitoring
3. Internal policies, procedures, and controls
4. Employee training
5. Customer Risk Rating

LATAM

1. Transaction Monitoring
2. KYC/CDD
3. Internal policies, procedures, and controls
4. Employee training
5. Enhanced Due Diligence

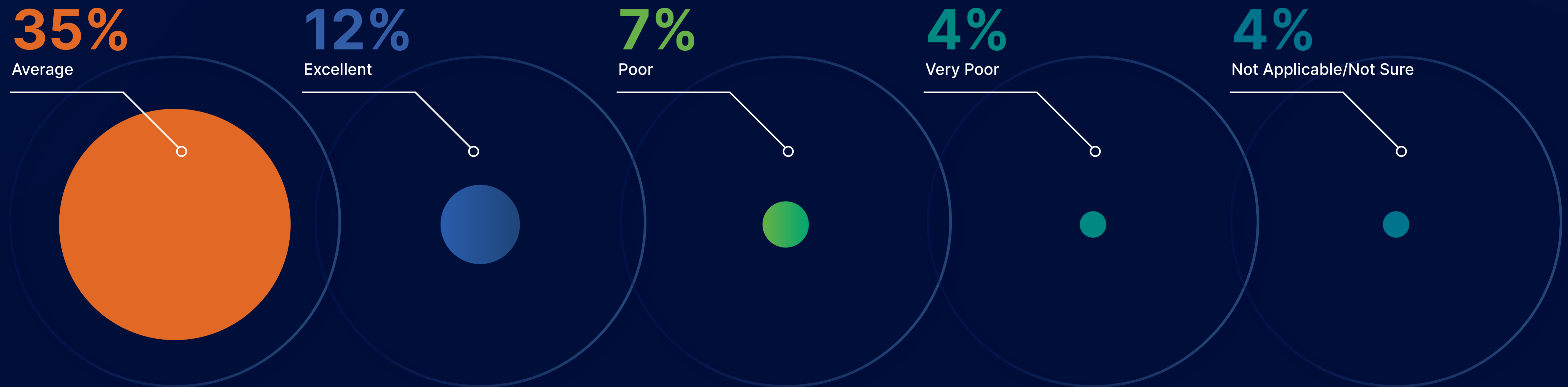
MEA

1. KYC/CDD
2. Internal policies, procedures, and controls
3. Employee training
4. Customer Risk Rating
5. SAR filing

NORAM

1. KYC/CDD
2. Investigations
3. Employee training
4. Automation/technology
5. Customer Risk Rating

How would you rate your company's **ability to share intelligence** and collectively **maintain customer and counterparty data** across your organization?



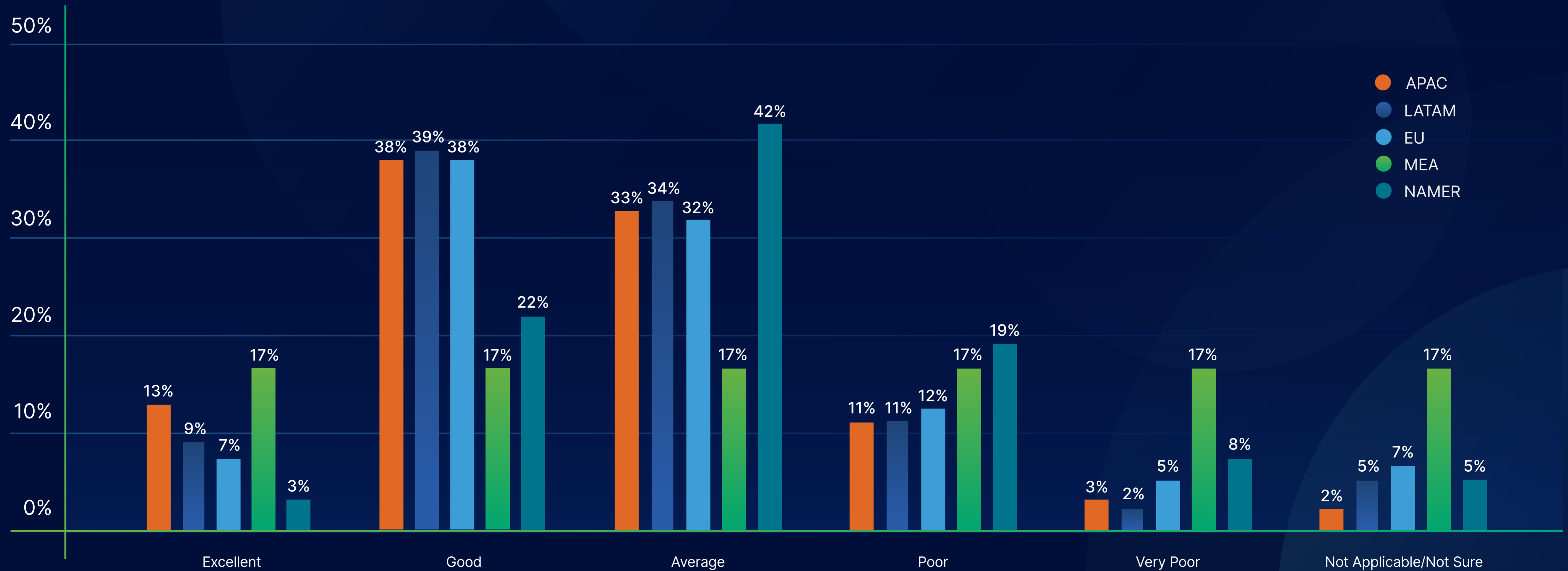
Data sharing is fundamental to effective risk ratings, CDD, and transaction monitoring. All three contribute to AML compliance costs. Responses indicate that while many organizations have been working to improve their internal data sharing,

they still face challenges due to legacy systems, data quality issues, and fragmented data repositories.

Regional View Intelligence Sharing

Respondents from the NORAM and MEA regions ranked themselves the lowest in terms of their firm’s abilities to share intelligence – combining poor and very poor rankings. Interestingly, they also ranked the highest for “excellent.” There are likely misconceptions regarding intelligence sharing and much work to be done.

Meanwhile, the EU region ranked high with a 77% rating combining excellent, good, and average ratings.



What will the future of AML/KYC data look like over the next five years?

Investing in AI and ML is the top priority for AML programs in the next five years, followed by enhancing data-sharing and customer risk profiling.

AI and ML are set to revolutionize AML processes by efficiently detecting suspicious activities within extensive datasets. These technologies also decrease the number of false positives, a traditional AML challenge.

Increased collaboration, as reflected by 20% of respondents, points to the multifaceted and cross-jurisdictional nature of money laundering. Regulatory support, cooperation, and advanced technology are crucial for effective information sharing, which can help track money trails and preempt illegal activities.

AI and ML investments are prominent globally, with the LATAM, MEA, and NORAM regions showing a higher inclination than the EU and APAC regions.

1%
Other

4%
Widespread adoption of blockchain technology

6%
Greater use of biometric technology

6%
More focus on ethical AI and privacy concerns

11%
Greater emphasis on customer risk profiling and pKYC

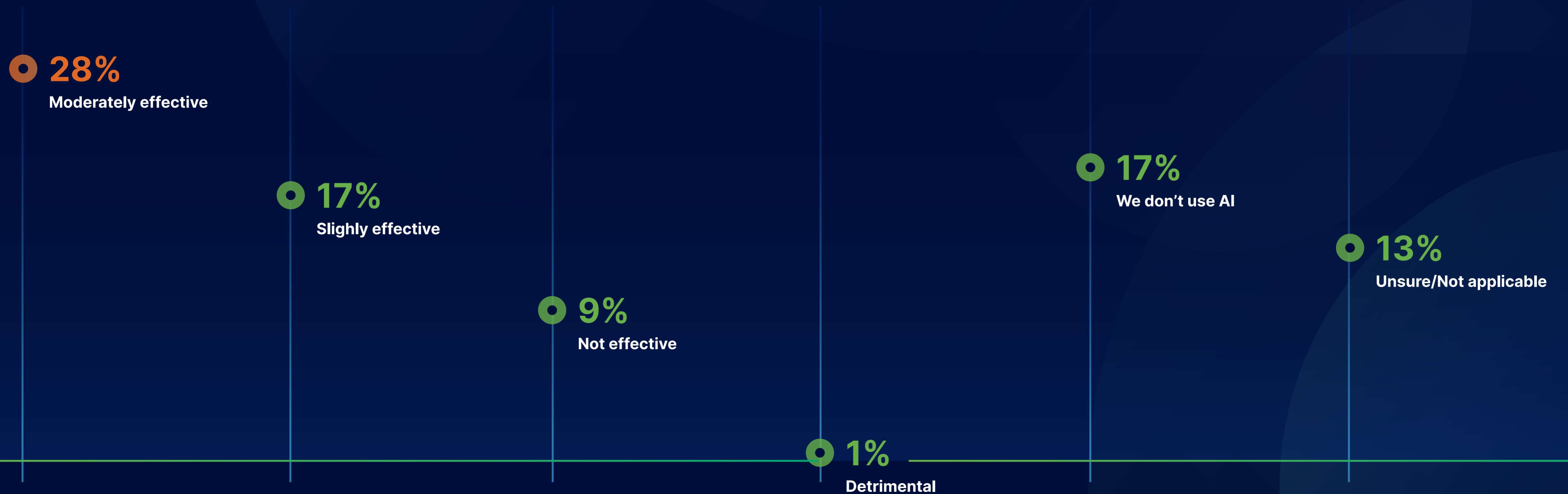
20%
More collaboration and data-sharing between FIs and law enforcement



How do you perceive the use of AI in driving efficiencies in your organization's AML processes?

Despite acknowledging AI's potential in AML programs, many respondents have yet to incorporate it into their operations.

This gap is likely due to inconsistent perceptions of AI and ML within AML contexts, causing a disparity between acknowledging AI's potential and its actual adoption.



Regional View AI Efficiencies

Perceptions of AI's effectiveness in AML vary regionally. The MEA and LATAM express high confidence, while NORAM remains skeptical. However, a shared reluctance to integrate AI into AML programs exists due to regulatory ambiguity and a lack of in-house AI expertise. The situation

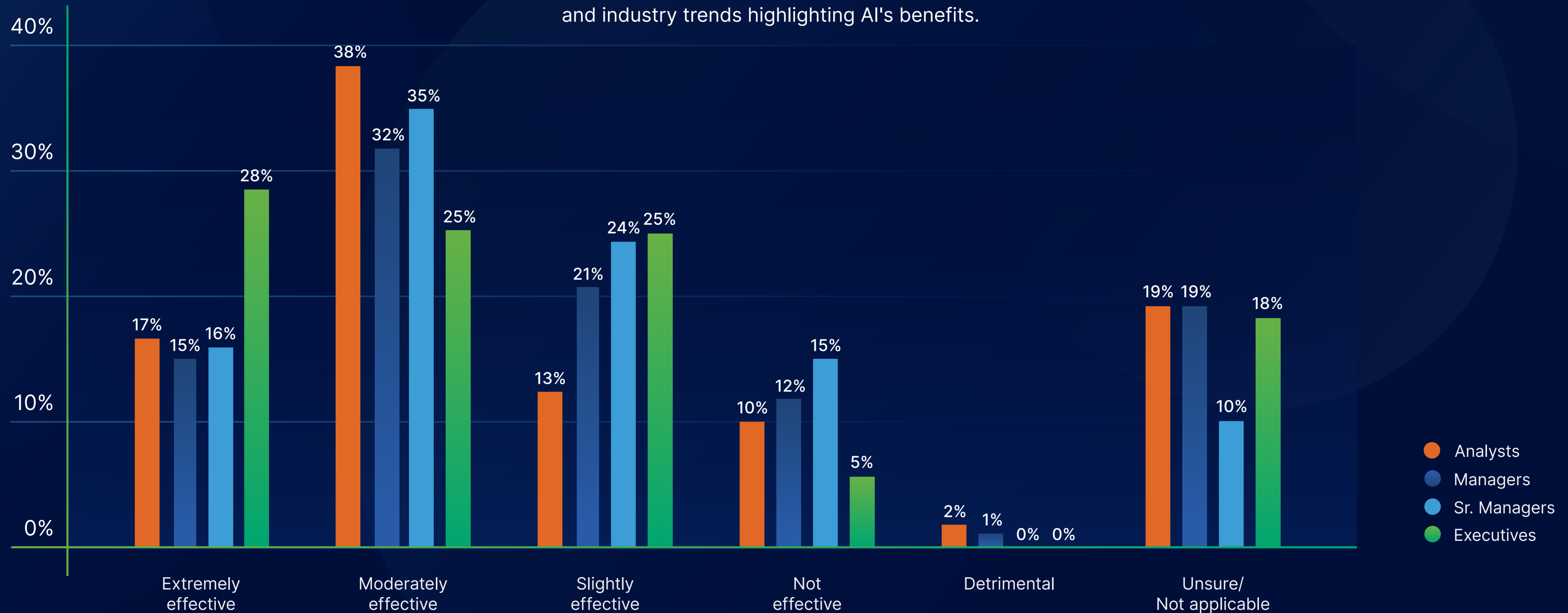
resembles a "chicken and egg" problem: firms await clearer regulations to adopt AI, but limited AI use hinders clear regulatory guidance. To address this, AI solution providers must articulate their product's benefits and workings, particularly around model risk governance, helping both firms and regulators appreciate AI's value in AML processes.



Reported by Role AI Efficiencies

Of all roles surveyed, C-Suite respondents were bullish on AI's potential to enhance AML programs. This attitude could be due to Executives having a broader view of organizational strategy and the potential of AI in driving efficiencies and innovation. They might also be more exposed to success stories and industry trends highlighting AI's benefits.

The relatively higher percentage of Senior Managers considering AI ineffective (15%) could indicate challenges they face in implementing AI effectively, possibly due to resource constraints, data quality issues, or the gap between expectations and actual outcomes.

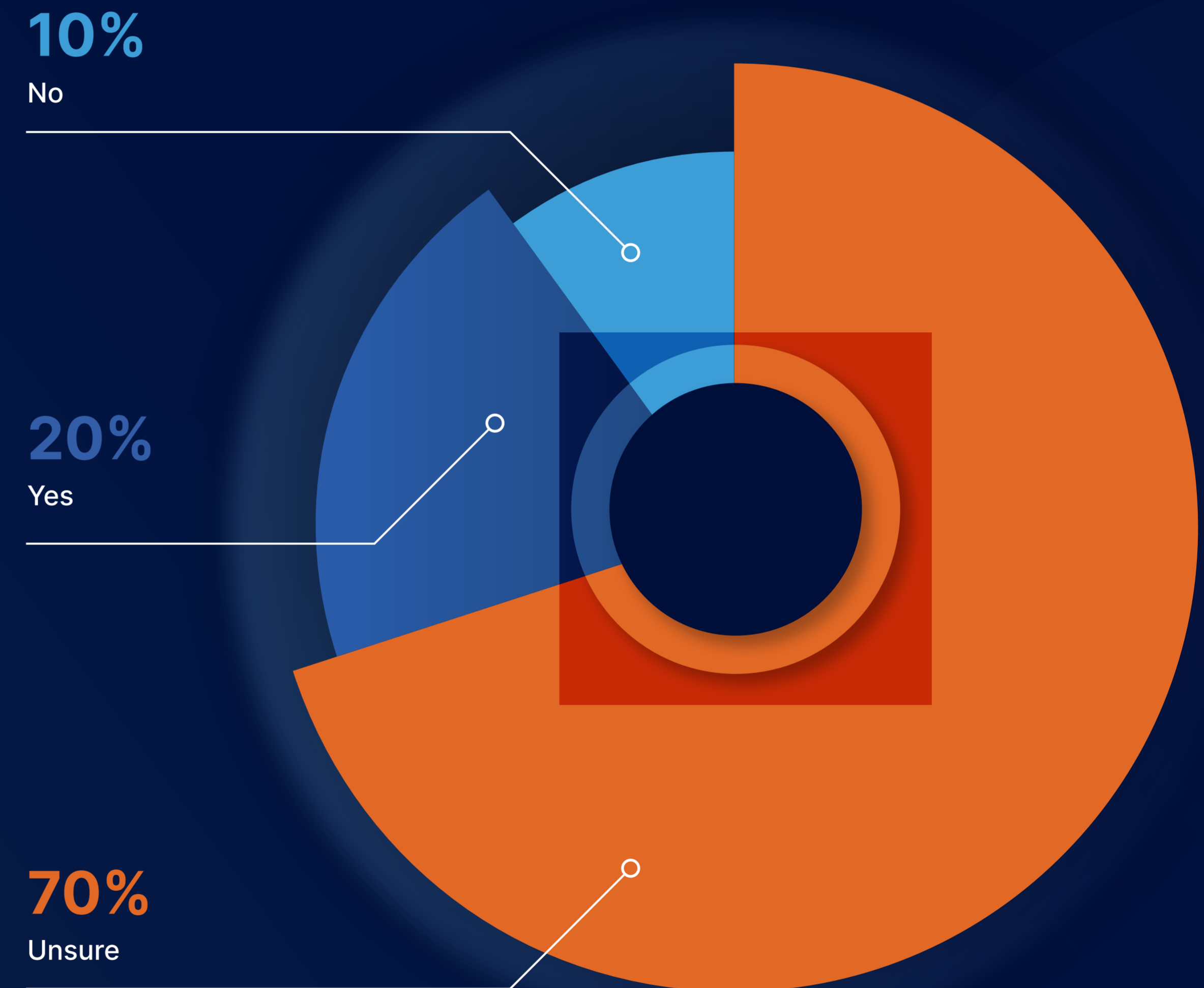


Will **Generative AI**, such as ChatGPT or Dall-E, change how organizations operate their AML divisions?

While respondents are uncertain about GenAI's impact on AML, it still tops their market challenges.

GenAI, an emerging technology, requires further understanding regarding its applications and limitations, especially in regulated industries where compliance errors can bring severe consequences. Integrating GenAI into such areas is complex but crucial.

GenAI could potentially expedite report generation, insights, and analysis, enhancing decision-making and responsiveness to threats. Models like ChatGPT could be utilized for analyzing large text data in AML probes. Despite uncertainty, the survey reflects some optimism toward GenAI.



Conclusion

The AML landscape is at a significant juncture. The insights garnered present both challenges and opportunities for financial institutions and regulators. There is collective recognition that traditional AML methods, while still foundational, need to be augmented with innovative technology to address the evolving sophistication of money laundering techniques.

Shell companies remain a dominant method for money laundering, but the rising prominence of cryptocurrencies and advanced technologies necessitates an adaptive approach. In this regard, AI and ML emerge as pivotal capabilities. With their ability to process vast volumes of data and identify patterns that would be imperceptible to human analysts, these technologies can significantly enhance the effectiveness and efficiency of AML programs. However, AI and ML must be viewed not as a panacea but as tools to augment human expertise. There remains significant industry concerns over how to effectively apply these technologies in a manner that is aligned to internal and external regulatory expectations.

Furthermore, the cross-border nature of money laundering, with countries such as Russia, China, and Nigeria presenting significant risks, calls for an international collaborative effort. Effective AML strategies require not only internal collaboration among various departments within financial institutions but also external collaboration with other financial institutions, regulatory bodies, and law enforcement agencies. Additionally, the role of continuous education and training cannot be understated. As new methodologies emerge and regulations evolve,

ensuring that employees have current knowledge and skills is essential for the success of any AML program.

We're navigating unprecedented times, marked by increasing conflicts within and between Western nations, an exponential surge in fraud and cybercrime risks, ever-sophisticated money laundering typologies, and the escalating cost of compliance. Such circumstances intensify the need for innovative, adaptive strategies in combating financial crime.

As we look to the future, the integration of technology such as AI and ML will undoubtedly continue to gain momentum. Nonetheless, human insight remains indispensable. The way forward lies in leveraging the strengths of both to create a dynamic and responsive AML framework.

In conclusion, financial institutions stand at the crossroads of traditional and technologically-enhanced AML strategies. The path chosen now will define not only the future of individual institutions but the global fight against money laundering and financial crime as a whole. Embracing innovation, fostering collaboration, and investing in human capital are the essential ingredients in navigating these crossroads effectively.

Thank you for joining us in this comprehensive exploration of the AML landscape. We hope this report provides the insights and guidance necessary to forge ahead in this ever-evolving field with confidence and resolve.



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