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The Global State of Anti-Money Laundering

What consumers think and why that matters



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Money laundering is a problem shrouded in opacity. Despite the recent FinCEN file news, we know neither its true scale nor its impact on society.



An introduction from
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Financial Crimes Product Director


BAE SYSTEMS

Money laundering is a challenge that goes way beyond financial risk and corporate reputation. From harrowing scenes of trafficked children washed ashore on Mediterranean beaches,¹ to victims fleeing from home-grown terror attacks,² it's hard to escape the human tragedy at the heart of many of the predicate offences associated with money laundering.

Yet money laundering is also a problem shrouded in opacity. Despite the recent FinCEN file news, we know neither its true scale nor its impact on society. The UN estimates that annual money laundering globally amounts to 2 – 5% of GDP.³ That could be anywhere between \$2.8 trillion and \$7.1 trillion, according to 2019 figures.⁴ In 2012, it estimated that less than 1% of “global illicit financial flows are currently seized and frozen”.⁵

Annual money
laundering amounts to
2–5%
global GDP

98.9%
of criminal profits
not confiscated



In Europe it is roughly the same: Europol estimated in 2016 that “98.9% of estimated criminal profits are not confiscated and remain at the disposal of criminals”.⁶ It is somewhat disheartening that just 10% of suspicious transaction reports received by financial intelligence units in EU member countries are further investigated after collection, as Europol also said in 2017.⁷ Even worse, that figure has remained largely unchanged since 2006.

So what does this tell us?

Certainly, that money laundering is a global problem. But also that there’s no single accepted way to measure the problem and how effective our response has been. The Financial Action Task Force (FATF) defines effectiveness by how well its recommendations are implemented. But are these the right recommendations? This is an emerging debate that the industry as a whole will need to work on going forward.

In the meantime, compliance professionals in financial institutions (FIs) need to tackle an increasingly complex regulatory environment. In 2019, for example, over 220 global regulatory changes occurred every single day, amounting to 80,000 updates for the year.⁸ For those operating in Europe, the EU’s Sixth Anti-Money Laundering Directive (6AMLD) will introduce yet more important changes in the coming months, including listing the 22 predicate offences which we have used in this report.

200+

global regulatory
changes each day

22

predicate offences to
money laundering

Introducing the report

At BAE Systems, we are a global leader in fraud and financial crime management solutions, protecting over 200 FIs – including a third of the global top 100 banks – from risk. While the industry doesn't know the precise scale of the money laundering challenge, we do know that it is vast, and growing. But what drives FI compliance professionals to do the work they do? What are the specific hurdles they experience in regulatory compliance? And how can these be balanced against conflicting demands from consumers and the markets and shareholders they serve?

To shed some light on these and other questions, we commissioned this in-depth research project, which we hope will help FI professionals gain an improved understanding of the challenges facing their peers. It offers a unique perspective distilled from interviews with financial institutions, banks, insurers and consumers, as well as BAE Systems own expertise in helping organisations solve their anti-money laundering (AML) technology challenges.

Here's what we found....

Protecting
200+
financial
institutions



Methodology

To ensure an holistic view of the anti-money laundering landscape, two surveys were conducted to inform this research report.

The research was conducted with two groups of respondents:

Financial services professionals



452 respondents in key roles:

Working in compliance or risk management across the financial services sector, including banking and insurance

6 countries:



102



102



82



62



62



42

Consumers



6,035 consumer respondents aged 18 – 65+:

18-24	992	45-54	835
25-34	1,401	55-64	695
35-44	1,256	65+	856

6 countries:



1,008



1,005



1,009



1,005



1,005



1,003

Methodology (continued)

The research refers to 22 predicate money laundering offences as outlined by the Directive of the European Parliament and of the Council as of 23 October 2018. These are:

	Fraud		Illicit trafficking in stolen goods and other goods
	Corruption		Robbery or theft
	Participation in an organised criminal group and racketeering		Extortion
	Cybercrime		Illicit arms trafficking
	Terrorism		Sexual exploitation
	Illicit trafficking in narcotic drugs and psychotropic substances		Counterfeiting of currency
	Tax crimes relating to direct and indirect taxes, as laid down in national law		Kidnapping, illegal restraint and hostage-taking
	Trafficking in human beings and migrant smuggling		Counterfeiting and piracy of products
	Insider trading and market manipulation		Smuggling
	Piracy		Murder, grievous bodily injury
	Forgery		Environmental crime

Key findings

As financial crime continues to evolve, so too does the compliance landscape. Financial services institutions must keep up, while also staying in tune with customer expectations surrounding the issue of anti-money laundering (AML).

Financial services professionals want to make a difference



89%

are concerned about money laundering



61%

admit it's hard to uncover evidence of human trafficking through financial transactions



1 in 3

complain that too few suspicious activity reports result in justice



Over half

want to help protect society from financial crime

Consumers care about the issue of money laundering



Over half

are aware of and concerned about money laundering



3 in 4

want FIs to be more transparent about money laundering



85%

agree FIs should demonstrate conscience through good ethical practices



3 in 4

would leave for another provider if they suffered a series of illegal transactions

Institutional and technological challenges get in the way of progress



30%

of FI respondents say digital identification is a challenge



28%

of compliance teams can't keep up with the alerts from AML tech systems



29%

believe metrics specified by regulators are misaligned with the practicalities of catching criminals



1 in 3

agree it's hard to measure ROI from AML spend

Current strategies for the next five years



1 in 5

say they don't have a strategy



43%

agree they need better technology to help



44%

intend to invest in more people



72%

have had their AML approach impacted by COVID-19



Chapter 1

The global state of anti-money laundering in 2020

Few can doubt the scale of the money laundering challenge facing FIs and insurers. Often repeated statistics from the UN claim the global ecosystem could be worth as much as 5% of GDP, while in the EU, only an estimated circa 1% of illegal proceeds are seized by authorities.⁹ The problem is exacerbated by the fact that as yet there's no globally agreed method of even measuring the size of the underground money laundering ecosystem.

The findings from this study, conducted across six key regions, support the argument that money laundering is truly an enormous industry challenge. Some 89% of FI specialists said they are concerned that this illegal activity is happening covertly among customer transactions, with 41% extremely concerned.

89%

of FI professionals concerned about money laundering























22 predicate offences: a ranking of significance

There are 22 underlying or “predicate” offences that together generate vast sums of illicit proceeds that can then be laundered through the global financial system. The list we questioned respondents about in our study is taken from the European Commission's Sixth Anti-Money Laundering Directive (6AMDL).¹⁰ It contains crimes ranging from fraud, terrorism, trafficking, piracy and corruption — to murder, environmental offences and kidnapping. Cybercrime is crucially listed for the first time under this new directive.

Our study questioned FI professionals about the 22 offences across a number of different measurements to establish which are most concerning, result in the highest financial losses, are hardest to identify, and which are reported the most. Aggregating the survey findings across these four areas we have been able to rank the offences in terms of ‘significance’ to the sector.

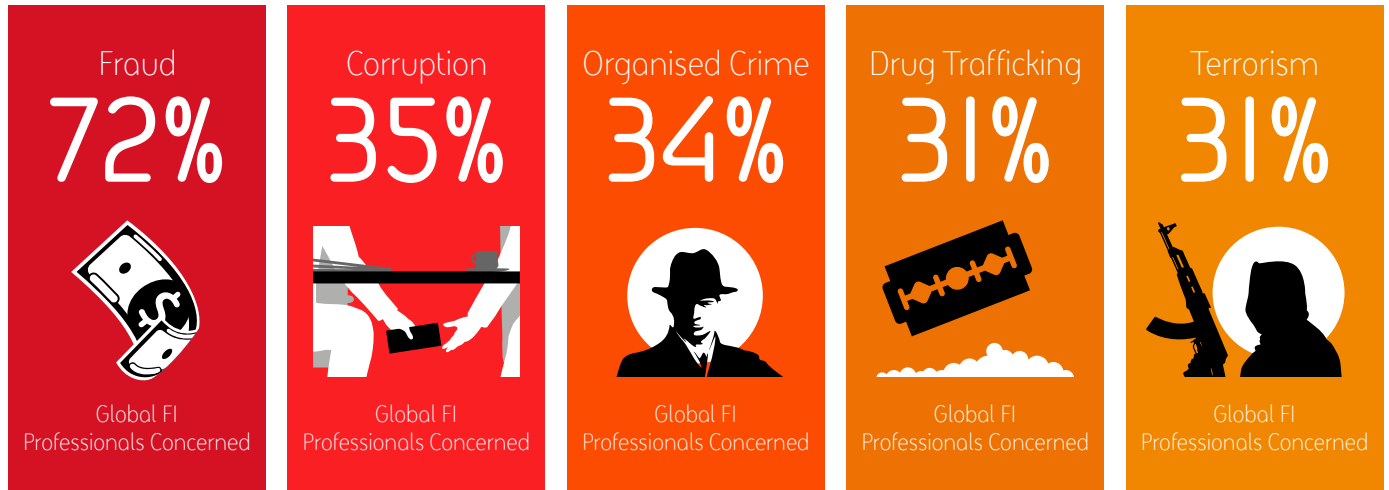
The results are shown on the following page.

Fig I: 22 predicate offences to money laundering ranked in significance

Predicate Offence	Most Concerning	Financial Loss	Hard to Identify	Tend to Report Most	Score	Rank
 Fraud	1	1	1	1	4	1
 Corruption	2	2	3	3	10	2
 Participation in an organised criminal group and racketeering	3	5	4	4	16	3
 Illicit trafficking in narcotic drugs and psychotropic substances	6	6	2	2	16	4
 Terrorism	5	4	5	6	20	5
 Trafficking in human beings and migrant smuggling	8	3	6	5	22	6
 Illicit trafficking in stolen goods and other goods	12	7	9	7	35	7
 Cybercrime	4	12	10	11	37	8
 Forgery	11	14	7	8	40	9
 Piracy	10	9	13	9	41	10
 Tax crimes relating to direct and indirect taxes, as laid down in national law	7	11	14	10	42	11
 Sexual exploitation	16	8	8	15	47	12
 Illicit arms trafficking	15	13	11	12	51	13
 Insider trading and market manipulation	9	17	15	13	54	14
 Counterfeiting of currency	17	10	17	14	58	15
 Extortion	14	19	12	17	62	16
 Robbery or theft	13	18	18	16	65	17
 Kidnapping, illegal restraint and hostage-taking	18	20	19	18	75	18
 Counterfeiting and piracy of products	19	15	21	20	75	19
 Smuggling	20	21	16	19	76	20
 Environmental crime	22	16	20	22	80	21
 Murder, grievous bodily injury	21	22	22	21	86	22

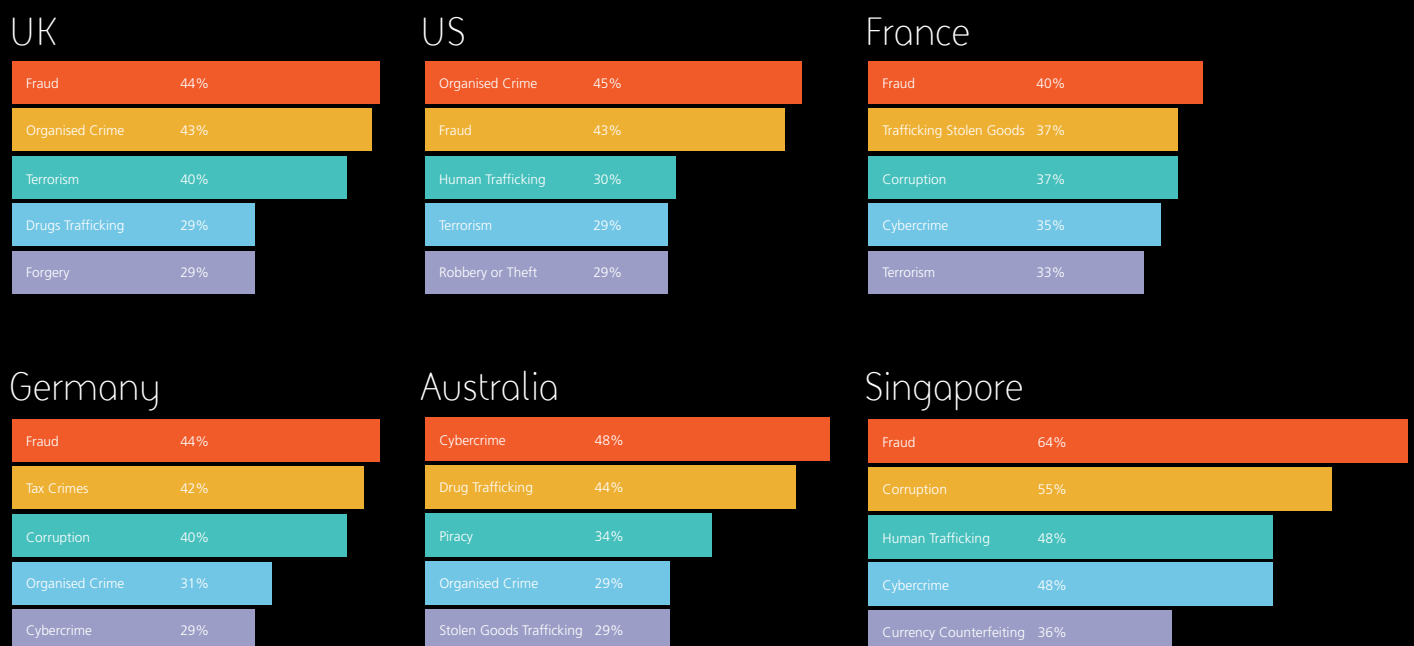
Keeping FI professionals awake at night

Fraud, corruption and participation in organised crime/racketeering consistently score highly in all four areas, including when looking specifically at the crimes causing the most concern across the industry. Across the globe, concerns about illegal drug trafficking and terrorism are not far behind.



Looking in closer detail at the crimes causing FI professionals concern, the pattern is not uniform across the globe, although fraud makes it into the top two in all countries except Australia. Here's a breakdown of the top five concerns by country.

Fig 2: The top money laundering concerns for financial services professionals:



Reputation, customers and cost

So why are fraud and corruption most likely to be a concern? One estimate from accounting network Crowe claimed in 2019 that fraud costs the global economy over \$5.1 trillion each year.¹¹ Another report, this time from the World Economic Forum, put the annual cost of international corruption at \$3.6 trillion.¹² In fact, the UN claims that corruption is one of the biggest barriers to achieving its 2030 Sustainable Development Goals, which include the elimination of poverty and hunger, and improvements to education, well-being and infrastructure.

Each of these insights closely points to our recent research which demonstrates concern about reputation, the impact on customers and the overall cost to business. In fact, the most cited answers were "damage to personal/professional reputation" and "negative impact on the industry" (both 37%). Next came "financial cost to the company" and "impact on corporate reputation" (all 35%).

Given the plethora of concerns, and the clear impact on personal, corporate and industry reputation, it is unsurprising that this has a knock-on effect on how confident FI professionals are in spotting and stopping these crimes.

No confidence

The challenge going forward is that, although an overwhelming majority (90%) of respondents said they are confident in being able to spot money laundering, less than a fifth of FI professionals (19% on average across all 22 offences) said the same about being able to stop any of the underlying money laundering-related crimes.

The first step to preventing such activity is to identify it by uncovering key evidence. Yet this is clearly a challenge for fraud and AML experts. For example, when asked how hard it is for them to uncover evidence of human trafficking through financial transactions, over three-fifths (61%) said it was difficult, rising to 71% in the US and more than a quarter (26%) globally claiming it was "extremely" challenging. Although the sheer scale of the money laundering problem continues to provide an enormous challenge to FI professionals, never has an industry been more motivated to tackle it.



90%

confident in being able to spot money laundering
BUT **fewer than 1/5** are confident in being able to
stop money laundering

Chapter 2

What's motivating the industry to tackle money laundering?



We've established that banking, financial services and insurance organisations are concerned about the continuing prevalence of global money laundering and predicated offences. These concerns are driving new ways to tackle the problem, which we will discuss in more detail later in this report; however, at the same time, FI professionals are struggling to navigate an increasingly complex regulatory landscape, whilst organised crime groups (OGCs) and money laundering schemes become more sophisticated.

As detailed in chapter one, many of these trends are keeping FI specialists awake at night. So, what's motivating them to do something about it?

Thirty years of compliance

There's no doubt that regulatory compliance plays a crucial role in the fight against money laundering, even as question marks are being raised about the efficacy of the current model. According to RUSI: "Despite substantial levels of private sector investment, doubts remain among practitioners and academics about whether the model is effective, not only in terms of how well it is implemented, but in its impact on money-laundering metrics and wider costs and benefits."¹³

Industry standard-setting body FATF celebrated its 30th anniversary last year, and its landmark 40 Recommendations document also turned 30 in 2020. Since then, the regulatory landscape has become significantly more complex, especially for FIs operating across multiple jurisdictions, as more do today. In 1991, only one US bank exceeded more than 1,000 subsidiaries, but 11 years later, two had more than 3,000 and the top four operated in over 40 countries, according to the Federal Reserve.¹⁴

In the EU, the European Commission introduced in May 2020 a six-pillar action plan for tackling money laundering and terrorism financing (TF) and to address deficiencies in the bloc's current AML rules.¹⁵ The Sixth Anti-Money Laundering Directive (6AMLD) will seek to harmonise AML rules across the region and set-up an EU-level supervisor to tackle the issue of gaps emerging in how member states police the rules. However, over half (53%) of respondents to our poll said they are either still working on compliance plans or have yet to implement them. This seems to highlight the increasingly complex and resource-intensive nature of compliance, even with laws that are ostensibly designed to make the landscape easier to navigate.

Whatever the challenges of complying, the penalties for failing to do so are all too clear for FI professionals. In fact, over a third (37%) of respondents argued that it's important for them to spot money laundering activity in order to avoid unnecessary fines. US and UK regulators handed out a combined \$8.1 billion in AML penalties in 2019, nearly a third (30%) of the global total for the year.¹⁶ An estimated \$36 billion in fines has been doled out since the financial crisis of 2008.¹⁷ What's more, when 6AMLD takes effect in December 2020, it will bring with it harsher penalties including criminal liability for companies failing to tackle AML and TF.

When asked,

53%

of respondents to our poll said they are either still working on compliance plans or have yet to implement them

“ Although it is likely that the total amount of money laundering in the UK would be higher without any AML controls, there is no way of knowing by how much. Either way, it cannot be said with certainty that a framework which still results in the laundering of hundreds of billions of pounds annually is optimally effective. ”

RUSI

Ethics come top

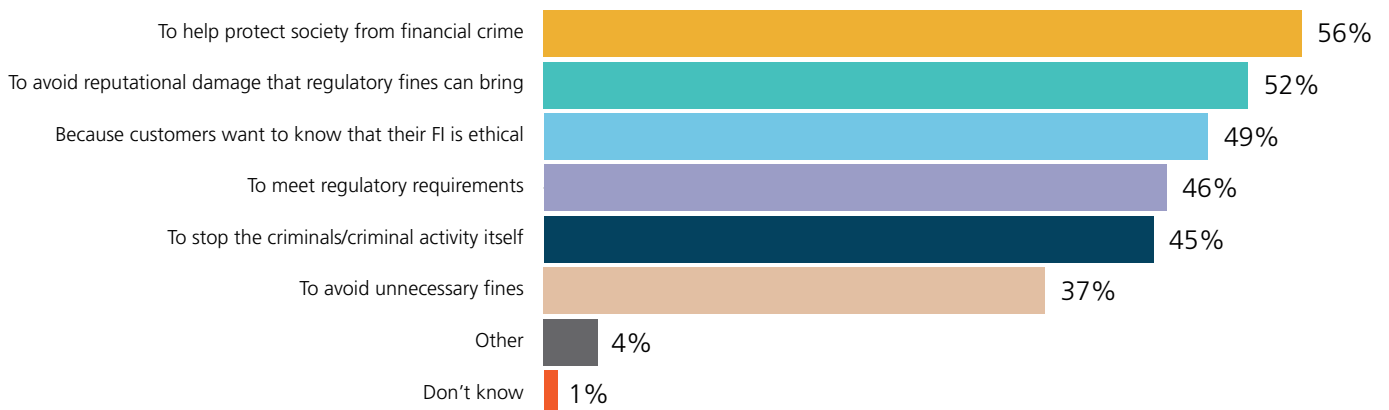


Figure 3
Why FI professionals feel it's important to spot money laundering

Big banks care more about avoiding fines, reputational damage and stopping criminal activity

Mid-sized banks want to help protect society from financial crime and meet regulatory requirements

Small banks care about protecting society and ensuring their customers know that they are ethical



Figure 4: Why FI professionals feel it's so important to spot money laundering – by FI size (according to number of employees)

	Total	1-249	250-1000	1001-5000	5001+
Total	N=452	N=106	N=140	N=117	N=89
To avoid unnecessary fines	37%	39%	34%	32%	45%
To meet regulatory requirements	46%	42%	51%	44%	43%
To avoid the reputational damage that regulatory fines can bring	52%	48%	45%	56%	63%
To help protect society from financial crime	56%	55%	60%	59%	46%
To stop the criminals/criminal activity itself	45%	40%	43%	44%	56%
Because customers want to know that their FI is ethical	49%	50%	49%	56%	42%
Other	4%	2%	1%	9%	2%
Don't know	1%	2%	0%	0%	2%

Despite the significant and growing regulatory burden for FI professionals, when asked why it is important that they're able to spot money laundering, the number one answer we were given was related to societal impact. Over half (56%) of respondents said that it was most important to protect society from financial crime, highlighting that ethical considerations are still prioritised by industry practitioners. On the same theme, 45% claimed it was to prevent criminal activity. These answers chime with some of the reasons respondents gave for why they felt concerned about money laundering-related crimes, as outlined in the last chapter. The second top answer there was that innocent customers are being defrauded (35%).

However, despite these ethical concerns, compliance and financial considerations are undoubtedly also front-of-mind for FI professionals. Fifty-two percent said detecting money laundering was most important to avoid the reputational damage that regulatory fines can bring, while 49% said it was because their customers demanded an ethical approach. This echoes other answers provided in the last chapter on why respondents felt concerned about money laundering crimes, with financial cost (35%), and impact on the industry (37%) and corporate reputation (35%) coming near the top.

It should be added that not all countries conform to the global narrative here. In France, 60% cited regulatory requirements as the most important reason for spotting money laundering, much higher than the global average of 46%. In Australia it was more important to demonstrate to customers that they followed ethical practices – 61% compared to overall average of 49%.

A focus on human trafficking

We can also get a clear sense of the importance of ethical priorities to AML professionals by analysing their attitudes to human trafficking and migrant smuggling. The UN estimates that today there are 30 million people living in conditions of human trafficking, many of whom are "often sold into sexual exploitation, forced labour, forced begging, forced marriage and organ removal, among other activities."¹⁹ It's hard to understate the human tragedy at the heart of these money laundering-predicated offences.

Yet here we also see the challenges facing FI specialists as they try to act on their concerns and stop such practices. Over three-fifths (61%) admitted that discovering human trafficking through financial transactions is either somewhat (35%) or extremely difficult (26%).

There's no denying the fact that, at its heart, money laundering is a very human problem.

2.4M
human trafficking victims
today with 79% of these
being exploited sexually¹⁸

50%
of respondents
highlighted either
human trafficking or
sexual exploitation
as the money
laundering-related
crimes that concern
them most



Chapter 3

Customers that care



We've already seen the scale of the money laundering challenge facing insurers, banks and financial services firms and how, accordingly, FI professionals are extremely concerned about its impact. This is especially true of fraud and corruption, the two predicate offences which are also the hardest to prevent and among the most expensive. Yet preventing money laundering crimes is not all about toeing the regulatory line and preventing financial loss. In fact, more FI professionals are concerned about its impact on society.

Our study reveals that consumers care too. They expect high ethical standards and transparency from their FIs, and could even sever ties if they felt their provider wasn't able to mitigate attacks targeting their own accounts.

Prioritising ethics

On a global level, although only one-in-five (18%) said they know a lot about the topic, the majority (58%) are aware of and concerned about money laundering happening through their banks, and potentially even via their own accounts.

Globally, the types of criminal activity consumers associate most commonly with money laundering are financial fraud (46%), corruption (42%) and currency counterfeiting (41%).

Consumers also have very particular views about the role their FIs should be taking to combat the scourge of money laundering.



Over Half

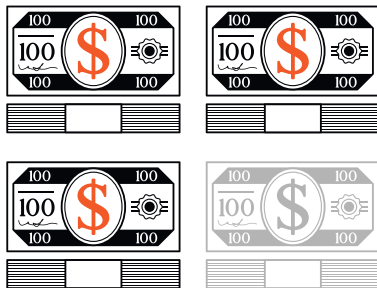
of global consumers are aware of and concerned about money laundering



agree FIs should demonstrate conscience through good ethical practices

Three Quarters

want FIs to be more transparent about money laundering



Three Quarters

would leave for another provider if they suffered a series of illegal transactions



76%

of US consumers would be likely to leave their bank if they failed to protect them from illegal transactions



3/4

of UK respondents mentioned they would report ML crimes if it happened through their bank or credit card



46%

of Germans - almost half - were concerned about fraudulent transactions leading to ML crimes



72%

of Singapore respondents were aware of criminals using FIs to conduct ML activities

Over three-quarters (76%) claimed their FIs should be more transparent about money laundering activity and 83% said it was the responsibility of the FIs to inform them of money laundering activity within their systems. More than half (58%) said they were concerned that fraudulent transactions could be supporting heinous money laundering crimes.

Turning up the pressure

It's also likely that awareness of money laundering and related crimes will continue to grow as news reporting of the subject does. Campaigns to inform the public about the danger of money mule activity have warned of an increase in both middle-aged dupes²⁰ and teenagers²¹ over 2018-19. The more publicity such initiatives get, the more consumers will feel informed about the extent of money laundering and the underlying crimes it facilitates.

Expectations about FIs' ability to respond are already high: over half (51%) of consumers said they thought banks were able to identify human trafficking and sexual exploitation victims through analysis of financial transactions.

Likely to leave

Consumers are also worried that their own bank accounts could be hijacked as part of money laundering schemes. Nearly three-quarters (71%) expressed concern about this, primarily out of a belief that their details may be cloned/used by others (50%) or sold on (49%), and that they won't be reimbursed for any losses (45%).

FIs would bear the brunt of customer anger if this did indeed occur. Over a third (35%) said they'd be angry at the organisation for not spotting any illegal activity and a similar number (36%) said they'd lose trust in the FI.

In the new era of open banking, strong industry competition and customer-centricity, moving FIs has never been easier for consumers. At the time of writing there were over 200 regulated providers in the UK alone and adoption had hit the one million customer mark.²² This turns the heat up on providers to find a more effective way to root out illegal activity and preserve not only their corporate reputation but also hard won customer trust.

Greater awareness will create greater pressure on the industry to enhance detection efforts.



46%

of respondents claimed to be aware of the link between human trafficking and money laundering, for example.

But once informed of the relationship between money laundering and such serious crimes, respondents said they felt...



Worried
28%



Shocked
21%



Angry
23%



Appalled
20%



Troubled
22%

Chapter 4

The challenges of detecting money laundering



FI professionals are deeply concerned about the threat of money laundering. They understand that it has a major impact on society as well as corporate reputation and the bottom line, and they are not alone. Customers also believe that banks, insurers and other financial institutions must act with a “conscience” in their AML activities; however, although most (91%) FI professionals claim they are confident in their ability to spot money laundering, the reality is there are major challenges impacting their ability to do so effectively.

According to our global respondents, these challenges fit into two broad areas: the first relating to **technology and operational matters**, and the second to issues involving the **regulatory model** itself, and the wider industry response, including international collaboration and law enforcement.



Organised crime groups are more sophisticated

The fact that there are major challenges associated with AML should come as no surprise. Organised crime is getting both bolder and better at hiding its activities.

At the same time, global compliance requirements continue to evolve and grow in complexity, even as their efficacy is beginning to be questioned. Abiding by such rules is non-negotiable for FIs: penalties for non-compliance can be high. Yet this approach may fail to get the desired outcomes. As RUSI argues, it actually results in a situation where the focus “is not therefore on the reduction of money laundering, but on protecting the institution and the bottom line.”²³

According to the UK's National Crime Agency (NCA): "Specialist networks, known as International Controller Networks, launder money for criminals, predominantly dealing in cash but also using more complex methods – such as trade-based money laundering – to disguise international money movements and to meet their customers' needs." Property purchases continue to be a popular way to launder money, whilst "complex company structures make the true owner(s) behind corporate purchasers difficult to identify," says the agency.²⁴

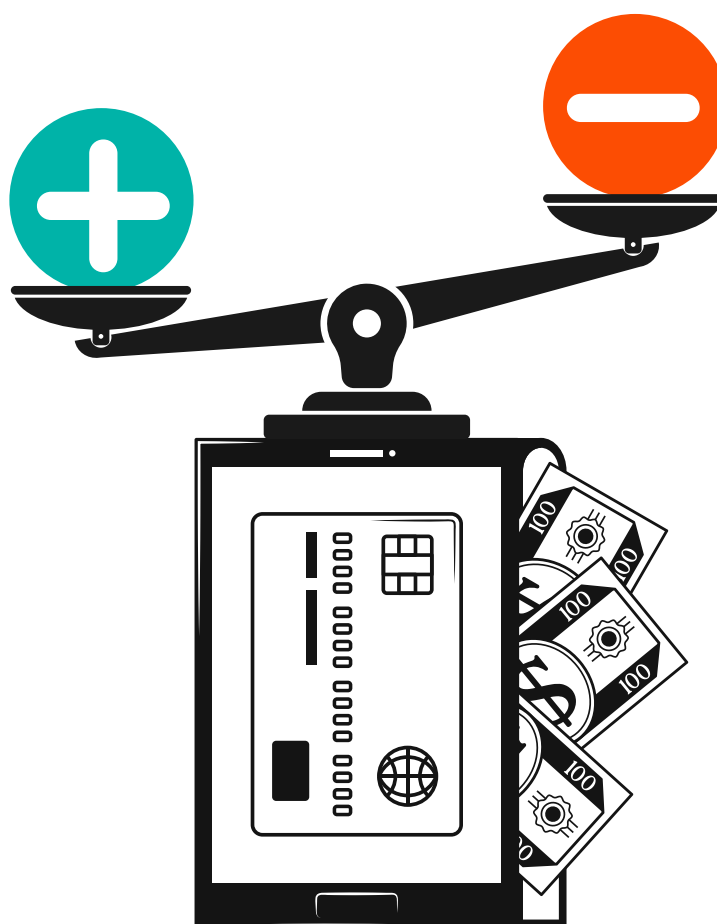


Technology pros and cons

FI professionals continue to ramp up efforts to get one step ahead of the criminals. Global spending on AML/KYC (Know Your Customer) solutions was projected to grow 17.5% in 2019 to reach \$905 million.²⁵ Although new technology can be useful in the fight against money laundering, it was also highlighted by a plurality of respondents (32%) as a number one challenge.

IT and "new processes" can cause friction in the customer journey, especially given that many FI professionals today are under pressure from the business to onboard new customers quickly (26%). It's particularly true of more agile, digital-first banks that seek to differentiate in the market via seamless user-friendly processes. These respondents were more likely to cite customer friction as a challenge than their larger counterparts. With some estimates claiming retail banking customers could cost as much as \$2,000 to acquire, this is an understandable concern.²⁶

Similarly, KYC and digital identification challenges were cited by 30% of respondents as an AML challenge, especially those hailing from larger FIs. This stems from the fact that some current regulations were designed before the growth of digital onboarding, creating problems for FIs when they try to scan and verify documents in a seamless way. In other cases, compliance teams simply can't keep up with the volume of alerts being generated by AML technology systems (28%), perhaps due to the fact that many organisations (28%) don't have access to the most effective tech monitoring solutions on the market.



Institutional issues

There are wider institutional challenges at play here beyond the technological. FI professionals complain that too few suspicious activity reports (SARs) result in justice (30%) and bemoan a lack of international cooperation (28%). The two are certainly connected, given the transnational nature of money laundering and organised crime today. It's vital that perpetrators are brought to justice, not only to put a dent in a potentially multitrillion-pound industry but also to let stakeholders know that what they are doing can make a difference.

FI specialists are also increasingly exasperated by the rules within which they must operate. Some 35% said they find money laundering typologies hard to distinguish from each other, especially those from smaller (250-1000 employee) organisations. A sizeable number (29%) also claimed that the metrics specified by regulators are misaligned with the practicalities of catching criminals. This aligns with the findings of the previously cited RUSI report, which points out that FATF defines the effectiveness of its recommendations as how well they are implemented, not whether the recommendations themselves are fit-for-purpose in stopping financial and predicate crimes.

"It seems logical to think that they will have some impact, but the degree is open to debate. Estimates from academics range from a 'little' to 'not very much'. These assumptions need to be tested with ongoing consistent evidence-based research," the report concludes.²⁷

Another major challenge associated with spotting money laundering is ROI. Senior decision makers find it hard to measure the money they've spent versus benefit to the business. A quarter (26%) claimed that they have no real idea whether the millions spent on AML work even does any good.

30%

of respondents find digital identification is a challenge

28%

of compliance teams can't keep up with the alerts from AML tech systems

28%

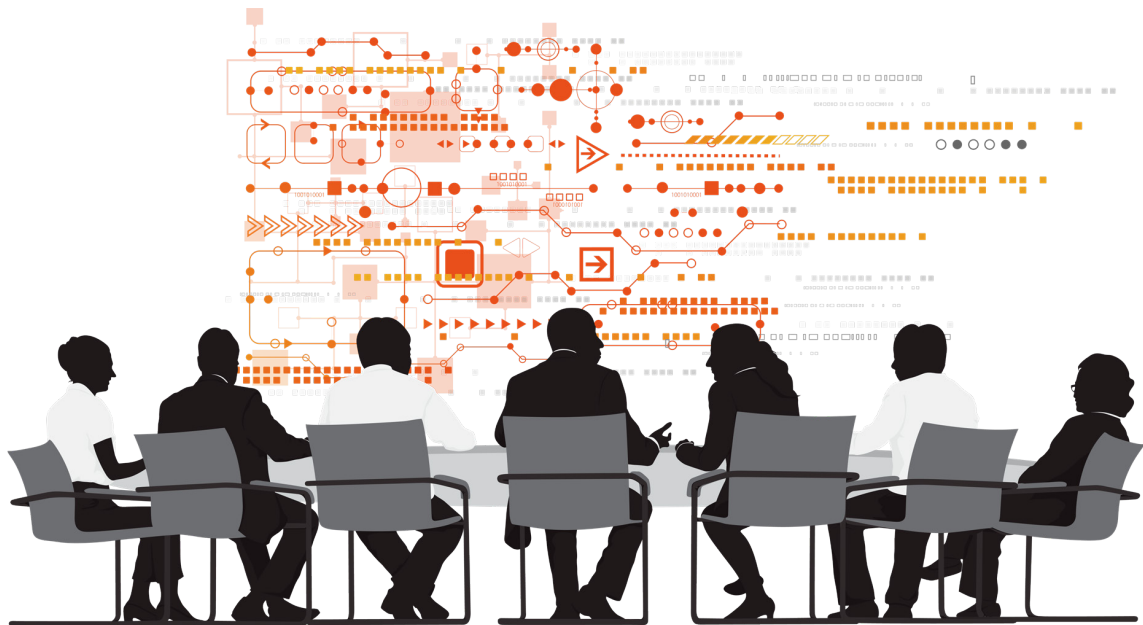
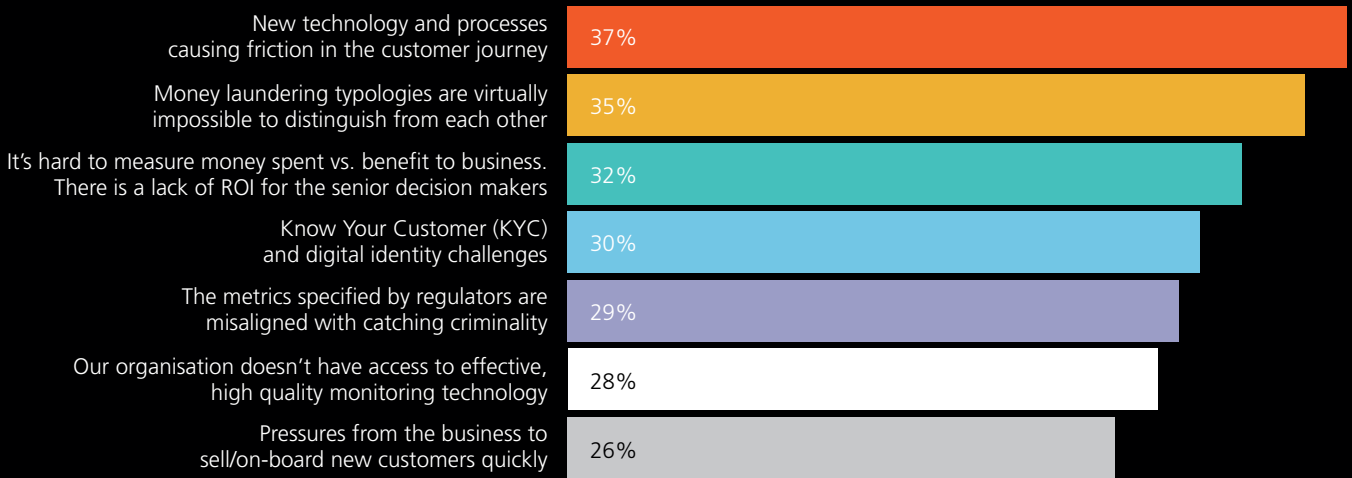
don't have access to the most effective solutions on the market

29%

of our global respondents believe that the metrics specified by regulators are misaligned with the practicalities of catching criminals



Figure 5: The main challenges in spotting money laundering



The way forward?

There is a great deal of work to do in order to improve the response to money laundering and predicate crimes, not just for individual FIs but also the industry as a whole. High quality, effective technology with a clear ROI is certainly needed. But so too is more global cooperation to root out criminality and act on the SARs that are generated by FIs. In the longer term, there may also be a need to revisit some of the underlying assumptions on which current regulatory approaches are based.

Chapter 5

What should an effective AML strategy look like?

The silver lining in this report is that a large proportion of FI professionals say their organisation does have a strategy in place to tackle money laundering and its associated predicate offences. However, given the previously cited challenges associated with managing these platforms, different investment strategies will naturally reap different results. Going forward, FI specialists are placing a major focus on people, technology and more research to improve their understanding of the money laundering space. However, they must continue to make progress, even as the COVID-19 pandemic threatens to derail efforts.



The technology challenge

Although a significant minority (19%) still don't have an AML strategy in place, most respondents claim that they do. The most popular focus for the next five years is on investing in more data scientists, compliance specialists, investigators and other experts (44%), and in more effective technology (43%). There's also an acknowledgement that more research needs to be done to better understand the evolving complexity of the money laundering challenge (37%).

Technology plays a critical role in any effective AML strategy. Most (74%) global organisations are already putting applications and solutions in place to help identify money laundering. Of these, cloud-based platforms are the most popular (50%) although many (42%) organisations are still using on-premises technology, which can have a higher Total Cost of Ownership (TCO) and require a greater investment of in-house skills to manage.

19%

of professionals say their organisation doesn't have an AML strategy in place



As previously mentioned, there appears to be a disconnect between the perceived effectiveness of these technologies and the strategies they underpin, and the reality on the ground. Ninety-one percent of respondents state they are extremely (42%) or quite (49%) confident in their ability to spot money laundering. Further, when asked what percentage of money laundering in general they believe their company uncovers in a typical year, the average is 55%, rising to over 60% in large banks.

This would seem to contradict the reality that global AML initiatives are estimated to stop just a tiny fraction of illicit funds and associated crimes. Respondents are perhaps more honest when they report the challenges associated with their technology investments, as revealed in the last chapter. In fact, when asked about the main challenges their department is facing as a result of global money laundering, many (32%) point to outdated tech which can't keep up, and related issues such as a lack of resources (37%), difficulties in measuring how often money laundering is happening (34%), and users being overwhelmed by alerts (34%).



50%

have a fully cloud-based platform in place

43%

use a hybrid cloud/ on premise model

42%

are using on-premise technology

Best tech forward

So which technology investments should FIs be looking at? While no two organisations are the same, there are some common observations we can make that may help. Cloud is increasingly the preferred model, with 93% of respondents stating they have either a hybrid or entirely cloud-based solution, as it can reduce in-house IT hardware demands and is a better fit for those that want a completely managed service. It would also make sense to source as many capabilities as possible from a single supplier (AML, KYC and Customer Due Diligence, Politically Exposed Person (PEP) screening, regulatory reporting, etc.). By doing so, organisations can reduce the management burden on internal teams as well as integration effort, whilst minimising any gaps in coverage that could leave them exposed to compliance risk.

Machine learning and automation are emerging technologies already proven to enhance results in this space. Robotic Process Automation (RPA) can take the strain off staff to leave them to focus on higher value tasks, for example. Meanwhile, machine learning modelling also optimises in-house teams by learning normal customer behaviour and spotting/flagging suspicious patterns that human eyes might miss, with a low probability of false positives. With this, organisations can build a 360-degree view of each customer, providing them with a real-time risk score. Machine learning algorithms can also be trained to optimise existing rules in order to provide the most accurate results possible. Regulators prefer a “white box” approach that delivers maximum “explainability” in terms of how results are calculated.

COVID-19 and beyond

Unfortunately, the ability of FIs to achieve their strategic goals has been dealt something of a blow with the advent of COVID-19. The tremendous business uncertainty it has ushered in threatens the profitability of banks,²⁸ and could create liquidity strains for insurers.²⁹ It's already having an impact on FIs' AML strategies, according to our research. Nearly three-quarters (72%) of respondents said it had impacted their approach to tracking and stopping money laundering, and 69% said the same about their ability to invest in new technology to improve AML efforts.

It's absolutely vital that insurers, banks and financial organisations rise to this challenge by prioritising and preserving AML investments. As we've discussed at length in this report, the challenges facing the industry are acute and wide-ranging. By continuing to invest in new technologies, people and processes, and improving international collaboration, there's still a fantastic opportunity for the industry to make a meaningful impact on what is a huge global challenge. In so doing, FIs can not only help to manage reputational risk and reduce costs but also tackle the underlying crimes themselves for the benefit of all society.

43%

need to invest in better/more effective technology, but...



72%

said COVID-19 has impacted their approach



Figure 6
Anti-money laundering investment strategies for the next five years

Conclusion

Towards a three-step plan of action



FI professionals are overwhelmingly driven by a desire to do the right thing: to protect society from criminal activity. They're also backed in this by consumers, who increasingly expect their financial institutions to act ethically and decisively, and are prepared to take their business elsewhere if their own data or accounts are accessed illegally.

However, FI professionals admit to numerous challenges impacting their ability to detect money laundering — indicating that their overwhelming confidence in being able to spot criminal activity is not aligned with reality. They bemoan a lack of international cooperation and that too few cases are brought to justice, and also complain of problems with metrics and typologies.

One of the biggest challenges to everyone involved is technological. Outdated technology, customer friction, and a lack of resources and solutions, which overwhelm users with alerts, were all cited as major problems.

So where can the industry go from here?

One

Apply technology intelligently

In an industry where criminal innovation is rife and constantly evolving, FIs need to champion the same approaches. When it comes to technology, many of the FI professionals surveyed are investing in new technology solutions for AML, but not all tools are created equal.

Dynamic customer segmentation can drive effective AML transaction monitoring, while automated triage can enable investigators to prioritise tasks for enhanced productivity. Network analysis empowers teams to work more proactively by understanding the relationship between various data points or entities, while machine learning algorithms can help to deliver a 360-degree view of each customer.

However, in a market of growing 'regtech' options, investing in the right technology for your institution's needs, and applying that intelligently (without simply adding layers of complexity for your team to deal with), is key to future-proofing any AML strategy.



“ At BAE Systems we deliver industry-leading capabilities to all tiers of FI via our holistic NetReveal platform. Our focus is on providing flexible, scalable and intelligent solutions featuring a high degree of automation and machine learning-powered analytics, freeing up stretched compliance teams to work on higher value tasks. ”

Peter Fisher
Financial Crimes Product Director

BAE SYSTEMS

Two Push boundaries

With anti-money laundering ROI and effectiveness a challenge to measure, our research has demonstrated a desire among FI professionals to get to grips better with the problem at hand. Indeed, more than a third (35%) have expressed frustrations that money laundering typologies are virtually impossible to distinguish from each other, and two-in-five (37%) intend to undertake more research to understand the problem areas in the next five years.

Against a background where the FI professionals themselves are concerned about money laundering and aware that their customers are concerned too, research alone is arguably not enough – innovation is key.

At BAE Systems we are continuing to push the envelope with new, highly adaptable platforms, and game-changing pilot projects.

Our new FinCrime Testing Service concept uses machine learning to simulate suspicious behaviours that might be indicative of crimes associated with money laundering. It has the potential to independently test the effectiveness of financial crime detection systems by, for example, running a set of synthetic data that indicates human trafficking activity and seeing if a financial institution is able to detect and identify this behaviour correctly.

Due to its potential to measure the effectiveness of AML strategies, as well as provide professionals with greater insight into the criminal typologies they are dealing with, the FinCrime Testing Service is currently being piloted by top banks in Europe that want to put their AML detection capabilities to the test. This is just one example of the industry continuing to push boundaries to tackle to money laundering issue.



“ The effectiveness of anti-money laundering detection needs to be re-defined as ‘how much crime is being detected’ and we need metrics to measure this.

To better detect the financial flows associated with criminal behaviours, we need to understand these behaviours in a more nuanced way, and make that knowledge actionable by financial institutions.

Simulation can plug that gap and will allow us to quantify how good detection systems are at catching criminal activity. ”

Harriet Shaw
Venture Lead for
FinCrime Testing Service

BAE SYSTEMS

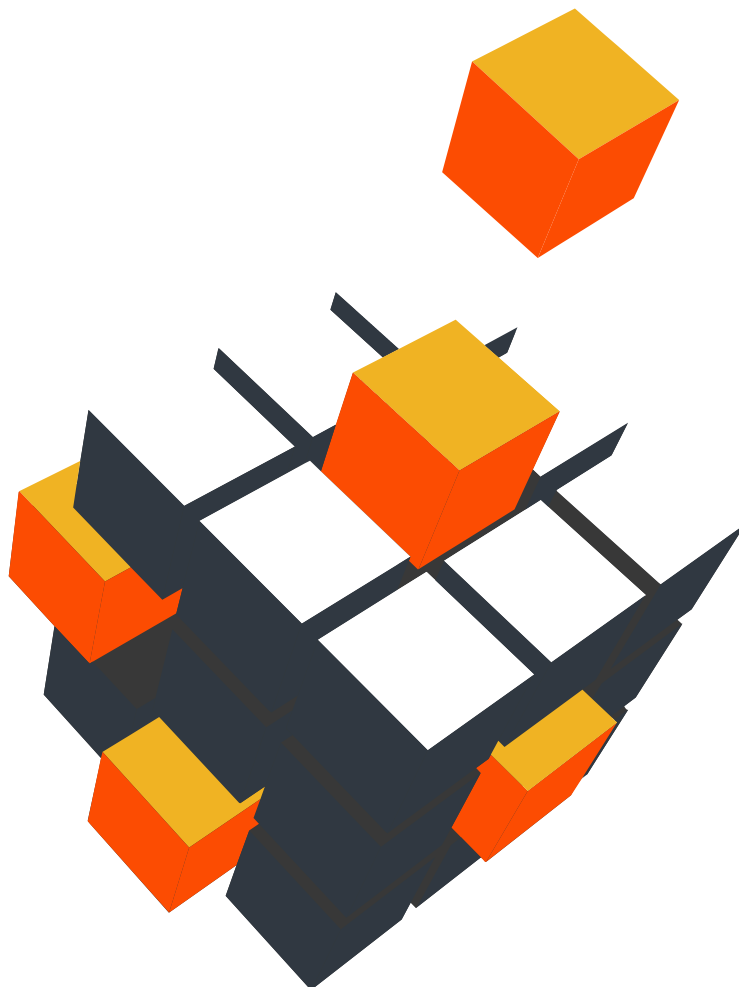
Three

Seize the advantage

At this moment, criminals are rushing to take advantage of every opportunity to exploit gaps in the global financial system. They look for vulnerabilities in the industry's defences – whether that's environmental, jurisdictional, or technological – and it is the role of the FI compliance professional to close these gaps as much as possible.

The COVID-19 pandemic has, of course, thrown the sector a myriad of challenges in terms of operations and growth expectations this year. Unfortunately, it has also provided criminals with new opportunities to exploit. As our research has shown, many (37%) are seeing AML resources redirected to new areas of priority, and an alarming three-quarters (72%) admit that their AML strategies have been impacted by COVID-19.

It's important that as an industry we don't let the criminals out-strip us. While we have new technologies in development, an evident desire to make a difference, and an acknowledgment from customers that money laundering should be tackled, now is an important moment for the industry to seize the advantage.



“ With the right technology and the right collaborative approach, we can start making a serious impact on the global challenge of money laundering. We urge the industry to continue building momentum over the coming months and years. After all, letting environmental factors get in the way of developing effective and impactful anti-money laundering strategies will play into the criminals' hands for the long-term. ”

Peter Fisher
Financial Crimes Product Director

BAE SYSTEMS

Recommended reading



A business case for solving compliance conundrums in the cloud



Why KYC CDD is your bulwark against a thriving underground economy



Compliance professionals: mission impossible or tech-savvy super heroes?



Learn about NetReveal – the financial crime fighting platform from BAE Systems



Explore the FinCrime Testing Service

Transform your
anti-money laundering approach with

BAE SYSTEMS

20 years

providing compliance solutions

Trusted

by 50% of Europe's largest banks

360° view

of alerts to identify activity

NetReveal® AML Transaction Monitoring is an end-to-end solution that manages all aspects of anti-money laundering detection, investigation and reporting.

Our investigator-centric solution combines human intelligence with machine learning and advanced analytics to drive efficiency and help you prevent more financial crime.

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Find out more

Appendix

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