

AML Compliance Solutions KYC / PEP / Sanctions

Scaling human expertise in high volume /
high consequence decisions



Despite sophisticated technology infrastructures, AML-related fines levied against organizations continue to skyrocket. In 2019 fines totaling **£6.2 billion** were issued, an average of **\$145.33 million** per fine. Reportedly two-thirds of these fines were for sanctions breaches

(Source Finextra)

In this article we discuss some of the **practical challenges** facing financial institutions in complying with AML regulation, and how these may be addressed via Merlynn's Alert Decision Engine - ADE.



KYC REGULATORY COMPLIANCE

Customer screening is a regulatory obligation imposed on all organizations within the financial services sector. Screening requirements, processes and reporting are informed by international anti-money laundering (AML) regulations, various directives and recommended standards set by the Financial Action Task Force (FATF)

Fines are typically issued for findings of regulatory non-compliance and inadequate controls even the absence of an actual breach. The consequences of a breach extend beyond fines to, potential loss of license, personal liability, and even imprisonment.

To comply with regulation **Customer Screening** often referred to as **know your customer (KYC)** is performed prior to **onboarding customers** (individuals or entities) and as part of **ongoing regulatory due diligence** requirements with existing customers, to proactively identify potential involvement or association with any money laundering, terrorist financing or other illicit activities.



ALERTS

Institutions make use of screening tools which utilize fuzzy logic to identify potential matches between customers and selected watch lists (sanctions lists, PIP & PEP lists, AML list, internal lists etc.). The outcome of the screening is a prediction which identifies that there is a potential match and therefore risk. This is commonly referred to as an **alert**.

System generated alerts are sent to human analysts to review. **Decisions in this space are high risk**, an incorrect assessment may lead to such dire consequences that, depending on the type of alert, regulation dictates four or six eye reviews on alerts, i.e. level one analysts' decisions are reviewed by level two analysts, as well as quality assurance before the final decision is processed. While this level of scrutiny is necessary it is also massively **costly, and inefficient** as up to 99% of alerts are cleared as "false positives".

Alert volumes are **highly volatile, spikes occur** for various reasons, the timing of spikes is unpredictable and adequate resource management to cater for this is problematic. Backlogs and **inadequate management of spike volumes** are a major contributing factor to fines.

challenge
No.1

challenge
No.2

challenge
No.3



EXPERTISE REQUIRED

challenge
No.4

Screening decision accuracy requires a high degree of contextual precision and domain expertise. Customer screening analysts rely on a combination of **skill, experience, instinct and judgement** to identify true matches versus false positives, in a constantly evolving risk and regulatory universe.

challenge
No.5

Human experts are limited and therefore their capacity to process alerts is also limited.

ALERT DECISION ENGINE

// **Alert Decision Engine (ADE)** is successfully screening our customer alerts providing the decision of a level one analyst in real time.

Customer screening team leader,
FirstRand Bank Ltd

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Alert Decision Engine (ADE) enables the organization to digitally replicate the decision - making capabilities of their human experts.

Utilizing ADE we are delivering automated customer screening decisions equivalent to those provided by the organization's best experts in real-time. ADE is able to process 20,000 alerts per second, exponentially scaling the capabilities of the human analysts

ADE has been successfully integrated into existing systems at major banks using the TOM™ API to provide decisioning in real-time.

The organization's top analysts are modeled to create the Alert Decision Engine.

	CHALLENGE	ADE SOLUTION
1.	High risk decisions	Replicates best human expert decision making ability
2.	Cost and inefficiencies	Enables decision automation
3.	Alert volumes & volatility	Able to process up to 20,000 alerts per second
4.	Decisions require human expertise	Replicates human expertise including judgement & instinct
5.	Limited human expertise	Digitally scales human expertise



ADDITIONAL BENEFITS:

Reduced Risk:

- All alerts regardless of size / frequency or severity analyzed by virtual best expert
- analysts spend time focused on true risk
- greater decision consistency & greater accuracy - top analyst decision replicated transparent decision audit trail
- real-time risk identification

Operational efficiency:

- reduced time wasted on false positives
- scaled capacity to readily manage alert volatility
- reduced time to on-board new customers



TOM TECHNOLOGY

Alert Decision Engine (ADE) is powered by Merlynn's Proprietary technology - Tacit Object Modeler - TOM™

What Makes TOM™ Unique ?

- Ability to model human expertise and decisions requiring judgment and instinct (tacit knowledge)
- Requires no historical data for model creation.
- User-friendly interface enables non-technical domain experts - in this case AML experts to create and update their models with all AI complexity accommodated in the backend.
- Rapid learning accommodates model updates (within hours) to cater for an evolving risk and regulatory landscape.