Acuris Risk Intelligence

Published by Financier Worldwide Ltd

TALKINGPOINT June 2019

Tackling financial crime in the APAC market

FW moderates a discussion on tackling financial crime in the APAC market between Nick Parfitt and Christophe Barel at Acuris Risk Intelligence.

THE PANELLISTS

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Nick Parfitt is responsible for determining Acuris Risk Intelligence's approach to the market and building subject-matter expertise. He has 18 years' experience in project and programme management, business process change and in implementing technology and business solutions at financial services, telecoms and public sector organisations. His experience in the financial crime sector spans seven years, helping tier one financial institutions assess and improve AML, KYC and sanctions operations. Mr Parfitt has worked for several tier one banks in the UK and holds an MBA (Distinction) from Cardiff University, and a BA (Hons) in Biochemistry from Imperial College.

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Christophe Barel is responsible for Acuris Risk Intelligence's overall strategy in the Asia-Pacific region. Prior to joining Acuris Risk Intelligence, he was APAC sales director at Acuris for five years, focusing on the group's legal and compliance products, including policy and regulatory report (PaRR), capital profile and the law report group (LRG). Before joining Acuris, he held positions at Capgemini, Arkadin and Altran, in Asia and Europe. He is also a part-time lecturer at London School of Business and Finance in Singapore. Mr Barel graduated from Grenoble Graduate School of Business with a MSc in Finance.

FW: Could you provide a general overview of financial crime activity in the APAC region? How would you describe broad trends in fraud, money laundering, terrorist financing, bribery and corruption?

Parfitt: The APAC region represents a high risk for financial crime activity, given its location, labour composition and variable adoption of anti-money laundering (AML) and counter-terrorist financing (CTF) regulations, and standards such as Financial Action Task Force (FATF) guidelines. There is, however, a trend toward adoption and enforcement of these guidelines across all countries, with jurisdictions such as Singapore and Hong Kong leading the way. Areas of higher concern for the region include human trafficking and modern slavery, trade-based money laundering, the increasing complexity of sanctions legislation, and the use of money service businesses for payments. It is also worth highlighting the importance in APAC of weapons proliferation and finance, an often forgotten third element of the FATF standards. North Korea carries out a range of activities in this region to support its nuclear ambitions. Ships transporting oil and components, and other aspects of trade for North Korea, are often owned by companies registered in APAC countries.

FW: How would you characterise general attitudes toward financial crime in the region compared to other jurisdictions? Generally speaking, are companies aware of the risks they face?

Barel: Attitudes to AML/CTF are highly positive and supportive, and this sentiment is increasing each year. Regulations are being adopted for the right reasons, not just as a 'tick-box' exercise, and in a way that is broadly in line with global trends. However, significant effort is needed to implement effective AML/CTF programmes across organisations and stay on top of ever-evolving typologies and risks. AML/CTF compliance is extremely broad and deep, and finding compliance and business champions with the right experience and expertise is an ongoing issue. Without the right skillsets, organisation risk having 'unknown unknowns'. The Royal United Services Institute's (RUSI's) commentary on proliferation finance was a good example, highlighting the wide variance in the degree to which financial institutions understand this risk. Approaches to issues like this need more than just tweaks to current Know Your Customer (KYC) approaches.

FW: What legal and regulatory developments have you seen, which are set to impact efforts to tackle financial crime across the APAC region?

Parfitt: Australia's recent enforcement landscape is driving a review of almost all AML/CTF programme components: risk assessment, transaction monitoring, filing requirements, training and governance, which includes increasing executive accountability. Sanctions effectiveness must also be highlighted as regulation becomes ever more complex. There were a number of observations made at the recent Association of Certified Anti-Money Laundering Specialists (ACAMS) APAC event. First, weakness of programme design is being evidenced through recent enforcement actions. Second, there is a more robust focus on sector-specific sanctions. Third, there is a need for increased due diligence when higher risks are identified. Fourth, limited public domain information creates challenges for obtaining beneficial ownership data. Finally, there is a need for intelligence sharing through regulatory partnerships. A robust regulatory change management process is also essential to ensuring that an organisation keeps abreast of all new regulatory requirements and their impact on current AML processes.

FW: What solutions are being deployed by companies in the APAC region to tackle financial crime? To what extent is technology being used to enhance processes, warnings systems and controls?

Barel: Data analytics, advanced algorithms, broader datasets and improved data quality are some of the tools being used, with the goal of improving the effectiveness of the intelligence while minimising organisational costs. Technology is constantly being assessed to see where it can add value throughout the AML/CTF landscape, but its effectiveness can be contingent on underlying data quality and the complexity of the legacy IT estate. Transaction monitoring and screening remain key areas for investment, as they both play pivotal roles for businesses in understanding, defining and effectively managing their ongoing inherent and residual risks. There is a potential gap in the APAC community around algorithms that better manage the language risks inherent in the region, particularly in relation to China and the Middle East. This is also a primary risk for monitoring cross-border payment transactions that may depend entirely on the romanisation of a name from a non-Latin script.

FW: What are the main challenges facing companies in terms of monitoring transactions and other business dealings to uncover potential financial crime?

Parfitt: There are several key challenges, some of which are also opportunities. These include high false positive rates, managing complex risk environments, the ability of technology to keep pace with evolving regulations, operational cost pressures, disparate systems, a complex legacy environment, and the 'proofing' of new technologies such as artificial intelligence (AI) and machine learning (ML). Regardless of the technology being applied, it is the 'proofing' of the outcome and 'decisioning' that is fundamental for the business and its regulators. Organisations need to consider the detection scenarios they are trying to solve for, and the underlying strategies they apply, as well as the testing environments and data being used.

FW: Do you believe companies need to enhance the due diligence and background checks they carry out on their business partners and customers? To what extent can data analytics assist with this process?

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> CHRISTOPHE BAREL
> Acuris Risk Intelligence

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Barel: Truly knowing who you are doing business with simply makes good business sense, irrespective of the risk-based approach, and should be part of any business's DNA. It is an opportunity to better understand your customers' needs, practices and reach, ultimately helping to drive sales and reduce risks. For higher-risk customers it makes sense to cover the business's actual regulatory risk and exposure, particularly as the trend is moving toward personal accountability. With high sanctions risk in the APAC region, the question is: why would you not protect yourself? Data analytics can be particularly useful when it comes to identifying 'red flags' for hidden relationships with an organisation's data and discovering who ultimately owns or controls the entity or has associations with other entities. While this approach is generally limited to the data held by an organisation, the inclusion of third-party data can enhance capabilities for link analysis and alerting.

FW: What advice would you offer to companies looking to establish or augment systems and processes that analyse activity and identify potential red flags?

Parfitt: You need to be able to stand by the results produced. If the regulator were asking you to justify decisions made due to new information received, could you? It is paramount that the rationale or methodology is well understood and tested in an appropriate environment and that you can be confident in the output. Companies should look at less 'risky' processes first. Do not, for example, start with an overhaul of sanctions. Make sure you have sufficient expertise in the new technology, the business process and the compliance implications, and then test and re-test the inputs and outputs. Document assumptions and be aware of limitations so that the scope is well articulated and bounded. Regulatory guidance is broadly supportive of innovation, but it must be done with rigour.

FW: How do you envisage the fight against financial crime in the APAC region developing in the months and years ahead? Are you optimistic about the prospects for improved systems that lead to a drop in financial crime?

Barel: There will always be a 'cat and mouse' game between regulators, financial institutions, criminals and law enforcement. New products and services also offer alternative or unknown opportunities for criminals to use banking infrastructure: the explosion in cryptocurrencies is a good example of this. It is encouraging to see that as each year passes, the community at large is taking financial crime ever more seriously and genuinely wants to make a difference. Over time, the combination of public-private partnerships (PPPs), leading-edge technology and culture will win, but it is a huge, complex and highly nuanced set of issues. So it is difficult to speculate whether we will see real, tangible results in three, five, 10 or 20 years. Hopefully we can stamp out the worst crime typologies first, such as modern slavery. ■

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