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Episode title: Financial services firms need to digitize anti-money-laundering process, survey finds

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Gina Jurva: Thank you for joining us for our Thomson Reuters Market Insights Podcast. My name is Gina Jurva, Attorney and Manager of Market insights and Thought Leadership for our Corporate and Government businesses. Today we will be discussing a new report published by Thomson Reuters titled *Thomson Reuters 2022 Anti-Money Laundering Insight Survey*. It is the 4th edition of the report, and it shows that keeping up with a rapidly changing regulatory and threat landscape continues to be challenging. Well, this is probably no surprise to many of you listening to this podcast, especially if you are involved in AML and customer due diligence or CDD activities, you are aware of this challenge. You know, you must navigate through a complex web of regulations. You understand that technologies involved are rapidly changing, and you likely recognize that the laws with which you must comply, particularly on a global basis are continuously in flux, but there's much more to the report, which we'll be talking about here today. A little bit about the report itself, and just some of the methodology. Every year since 2018, with the exception of 2020, we have published an in-depth survey report detailing these AML and CDD efforts across the financial services industry. The purpose is really to provide a sounding board for financial service organizations, helping them to compare and contrast to their peers and evaluate their own AML and CDD efforts. Now, this year's version reveals a number of consistencies from the past, but flags some changes in trends. We had also 261 decision makers related to the AML and CD compliance activities that responded to this survey which we created into a report. There were banks that were large somewhere over 500 billion in asset management to the smaller banks, 1 billion and 1 billion under, and then there was everything in between the mid-size banks and it was a wide range of organizations. Commercial banks, retail, private banking, wealth management, MSBs - money service businesses and more. So, joining me today is actually one of my favorite guests to have on a show on a webinar in person. She's a public records guru, Amanda DuPont. Amanda is an attorney and as I said, Public Records Specialist here at Thomson Reuters. Amanda works closely with both corporate commercial customers as well as with our own new product development team to help develop innovative solutions in the public records space. She's authored numerous articles and for this survey she was a consultant on the questions and the survey itself. So, Amanda, it is a pleasure as always to have you with me.

Amanda DuPont: Great as always to talk with you, Gina.

Gina Jurva: Well, I want to just dive right into this and tell me... I know you've like I said you've consulted on the questions you helped formulate them, you've read the final report, tell me what just your overall impressions of the data we collected? Like, what were one to two things that just stood out for you with this 4th edition of the report?

Amanda DuPont: You know, I always look at things at a really high level or macro level and try to see what the trends looked like from the perspective of our, not even our Thomson Reuters customers. This goes to a wide variety of those in the financial services space. And I'm not even using the word bank or credit union. It's financial services at this point, but what stood out to me in the big was two pain points. I saw everyone kind of describing in some capacity, right? This is a way to kind of share what you're

seeing set up maybe how your peers are doing things, but obviously the digitization of banking it comes out wide and clear and like the automation frustrations, how they're doing, other kind of onboarding aspects so you just know there's a whole kind of digitization happening in the banking space. And the other really big trend is, there is a need for transparency, how is that playing out? You know, it comes into the data quality, it comes into how they're going to do beneficial ownership, but you just feel the struggle in kind of these two pain points. I saw those as big trends. They need to become more digital. They need to have solutions and tools and data that's transparent and I could feel those kinds of pains and some of the answers we saw.

Gina Jurva: Absolutely, and I think that, you know, we did a webinar on this same topic, this report not too long ago and the audience members were very concerned about those issues, right? Whether we're talking about the implementation of the Corporate Transparency Act, which is part of AMLE 2020, which is not happening this year, the implementation anyway, but it's preparing for it, the transparency. So, one thing I really want to talk about here and this is this was a part of the report around processes and procedures used by the financial services industry to really collect that information, perform risk rating. As you said, more organizations are seeking help from technology and this year's report noted those changes in various processes used to perform digital identity verification. And I get, I think this is of no surprise to people listening to this podcast is that we are all on our phones on a regular basis. We do lots of things on our phones. From banking to social media to anything else really, but the percentage of organizations in our survey that performed mobile phone authentication increased from 23% in 2019 and you jumped to that one took the survey, which was 2021 for this, for the 2022 report, it was 39%. So, you know, almost 40%, that is a jump. Let me ask you this, Amanda, since you're talking to the customers and clients really throughout the United States, does this align with the customers - with the conversations you're having on a daily basis?

Amanda DuPont: Yeah, it aligns. If you just think of, I mean, just think how much everything changed due to COVID for starters. And I know a big bank released in its Q1 earnings, you know, that 80% of its account openings are digital or online, right? That means there's no face to face happening. You watch TV today and I was laughing 'cause I was thinking of how everything is digital, but just local car dealerships saying do it from your home, you don't have to come in, we'll bring it to you. The world has changed rapidly and so the digital identity component and the survey, which we obviously knew, you know, we knew there was going to be a big uptick in it, it just makes a ton of sense because that's where, to your point, that's where people are doing their experience. They expect, I hate using buzzwords, but customers expect a pretty frictionless, you know, phone experience to do whatever they want today, whether it's open a bank account, open a crypto account, open a mutual fund, get a car, I mean, you could go on and on, get tele-services for health. There is just a consumer expectation that you're going to provide services where they're at and that's where they're at right now.

Gina Jurva: Yeah, and that's, like you said, people want and again, it is that buzzword "frictionless experience", but they want it on so many levels and I think we're conditioned for that. And when that doesn't happen, there's a frustration, but with that comes, you know, there's also the need to have security protocols in place and so that's what I really want to pick your brain about how can financial service firms better utilize technology to vet customers when so many people are turning to mobile banking and I think one thing I'll add, there is the stakes are higher than, let's say, you know, you are going to a Starbucks and you're reloading your Starbucks card, and then, you know, it does face recognition and everything is fine and you get your coffee, right? The stakes are a bit higher here when

we're talking about opening accounts, mortgages, etc. So, what do you think in terms of technology, how to better utilize it?

Amanda DuPont: Well, you know if I'm thinking of our audience who's listening to this, two things jump out at me as everything changes. You really do want to be talking to vendors to your peers, and we've shared this thought, Gina, about like what is a best practice in 2022? It's not a best practice from 2012. It's not a best practice from 2015. It evolves and you have to evolve with it. Top of mind for a lot of the C-Suite is data breaches and security. You can see it in the news around us, right? The IRS just decided it's not going to go with facial recognition around trying to get people to do returns. You have to address the overarching thought process here is - Is it secure? Is it working? But more importantly, you know, I would say, although I know a lot of us are comfortable doing digital. There's an audience that digital isn't right for - elderly audiences. You have to really have an experience for every customer interaction. That's critical and you and then so my other thought is, besides, you know, just knowing you have the toolkit to actually address your particular audience and you know not everyone is Gen Z on a phone, you might have an elderly population, but at the same time do you know what I hear over and over from all my customers who have regulators from the biggest regulators to the smallest state regulators, what have you? No regulator or frankly, auditor wants to hear you have black box technology. You better be able in plain English and your vendor is not doing their job if they cannot help you do this. You have to explain how that security works, how that software works. And there's no reason in 2022 for super complicated answers to those questions, if you ask me. So, you have to be able to answer the Security question and how the software works.

Gina Jurva: Such a great point, and especially what you're saying about mobile banking, is not for every population, and I think that's so true. I also, I think of my own mother, would never have known how to prevent both.

Amanda DuPont: Ask my dad, you know, I mean, I just was watching him like struggle through that and, you know, you could see like this- there has to be an avenue. Yes, 80% of accounts might have opened digitally, but 20% didn't. So, you just have to have the right toolkit to supply to your customer base.

Gina Jurva: Absolutely, let's talk about... so the top three issues that financial firms indicated in the survey, that they're really tracking and monitoring like really just trying to pay attention to, the top three issues for 2021 for financial service organizations were, and this is probably no surprise to you or to anyone listening, virtual currency, cryptocurrency, blockchain. Closely followed by regulatory changes. Huge, huge conversation around regulatory changes and then to get more granular, just anti-money laundering in general. Processes and procedures, staying abreast of that and that, you know, at and this is this really where I want to again pick your brain on this is that the survey found this increasing number of organizations are deploying new processes to make AML and CDD programs more effective, more efficient. You talked about it a bit when we were discussing mobile banking, but how can they really, the utilization of new software and the integration of automation changed the landscape for financial services and the financial services industry that's really trying to wrap their head around things like blockchain, virtual currency, regulatory changes, AML.

Amanda DuPont: Yeah, it's such a good question and, you know, I have thoughts on why are those their top pain points. I mean, really, they're under that whole umbrella frankly, of AMLaw 2020. The new law that, you know, is massively changing how work is going to be done in AML and BSA. If you think about it, I mean I have I've shared this with you, Gina, I mean the law is focusing on using innovation, making

sure regulators and the overseeing, you know, government agencies as well as Congress and Senate committees, they all get abreast of technology and where the data is going. So, we can intelligently talk to how to regulate this space so, you know, why do I think virtual currencies crypto, and block are at the top? Well, suddenly they're very much encompassed. As you know, being within the financial institution umbrella you have laws and regulations and under AML and BSA that apply to them. And so, you know, these top three just fall right within the massive AmLaw 2020 umbrella of kind of everyone getting ready to address, I mean, let's just be honest. Another high pain point was beneficial ownership, and we know FinCEN's getting ready to build a directory. So, you feel for all of our BSA-AML decision makers, our executives here. Everyone who's kind of in this space they have a lot of change hitting them, so my takeaway from technology knowing there's all this change happening is think about this. When I talk to customers let's say in sanctions clearing, I hear over and over 99% of the alerts I get, Gina, are false positives. What does that tell you? I mean, when you hear customers saying I do mundane tasks day in day out that seem ridiculous to me in 2022, from a check, the box component of just this is what has to be done. You know it's a broken system and has to have some technology come in to solve some of this just- to me, and you know it's kind of antic- you know, I'm thinking of like an old-fashioned process that I really could rethink today. Sanctions screening being one of them. Another pain point I heard a lot in the last few months from my large financial service customers is regulators asking specifically how are you finding adverse media, how are you monitoring adverse media? We know FinCEN gave guidance to say, "hey start looking at this," and you know, there's no manual way to do these processes. You have to have automation and smart technology, and they're helping you do this. Last thought, this was just a conversation I had. I felt so much pain for this large bank customer who told me she and her research team helped onboard nonpublic companies so they're private, and she has the job, her research team of just kind of doing the KYC and she told me four softwares she went to, just listen to what she told me, she went- she did a sanction check in one software. She went to a different software and did an adverse media check. Did they have anything negative that they needed to be aware of? They went to another tool to build what was essentially a public records look. Fourth tool was to dig deeply about court cases. They really, really cared about court matters and dockets. I listened to how long it took her, how many products she was using and, Gina, I mean for some time there's been one solution to do things like that, but you know, you just feel like customers are struggling here and this is where they probably just want to hear more from their peers or other vendors that might be out there to help solve some of this stuff, because who could keep up with that workload? That just seems hard.

Gina Jurva: Yeah, and I think as you're talking about know your customer, KYC, and what you just described, it's just that I'm lost and having been going to all these different, you know, software technologies, going to different systems. Things get lost and the other thing you had said about sanctions a moment ago too it's like, well, there are check the box things that you really shouldn't be spending your time on and you there are high value things in the sanctions space specifically that you could be working on, and instead if you're doing the more rote tasks that automation could help you with your wasting... there's some time lost their rights in productivity.

Amanda DuPont: Yeah, I just think everybody, I always put my own challenge, if we're building a product here at Thomson Reuters, do CLEAR, I'm always saying you know, could it be done smarter and easier, right? I don't want a more cumbersome process. I don't want a harder process. I really look at everything through that lens. And truthfully, I think our phones have, you know, indoctrinated us to this and just in time shopping, right? I want this now. So, there's just a consumer expectation that it should

be smarter and easier. So, if you're building something and bringing something in-house you need to make sure it's going to address all the regulatory issues you have to face, but you shouldn't be thinking "I have to do highly manual, tedious tasks at this point," that's just an overarching theme I think everybody's seeing. The last thing that really comes up and it plays out in the news every day, FinTech I've said since 2010 and I've said for some time- I remember when I give presentations on any event, I show like a phone, I used to show like my Apple iPhone and say, "Look at all the apps on my phone," banking has fully bifurcated everything is an app and as we saw FinTech just explode, right? As banking became decoupled and all these aspects became apps or FinTechs we now see regulators with, you know, their eyes on FinTech. It was very interesting to hear the OCC controller recently say FinTechs were essentially synthetic banks. They have essentially unbundled what we're banking services and brought them to the market and very much overlooking them with regulator eyes, and so I see FinTechs being more nimble in everything than my traditional banks, but they also recognize there's a lot of regulatory scrutiny on them as is the crypto market, everyone needs to have pretty smart KYC, and just hearing somebody call you a synthetic bank, you know, that should make your ears perk up a little bit to think maybe I need to really make sure I do smart KYC, smart everything that is regulatorily, you know, required of them. So, it is interesting just to see banking in general merge. The funny thing I'd share is, you know, SoFi, who was like essentially a FinTech doing personal lending, they just got their bank charter through the OCC so, you know, it's like I call the banking space an octopus financial services look like banks. Payments look like banks. Banks are partnering with FinTechs. So, everything is changing pretty rapidly here, but at its core you probably want a strong automation process in place because, you know, to not keep up at this point is probably to perish.

Gina Jurva: That's so true. That's so... you're so right on, on that and I like your - I like the image of the octopus. Let me ask you about data quality because this is a point of the report, the survey that actually we, I guess, I don't know if it shocked me, but it certainly raised my attention. So, we know data drives decisions and the quality of an organization's decision-making process is inextricably linked to the quality of its data, right? Good data in, you know, you get better outcomes. This year, survey respondents were asked how satisfied and confident they were with the accuracy of data acquired from their primary data providers. The answer was unfortunately not very satisfied. So, Amanda, as a public record specialist, what's happening here?

Amanda DuPont: You know, like I shared, this goes to industry wide accounts. It's certainly not like my CLEAR customer base necessarily answering this, so I can look at it from what I hear, right? I talked to customers I talked to someone just talking to us to see if we have solutions. So, really, I talked to everybody and the theme I've noticed is when I said, remember I said regulators are making sure you don't have black box, you need transparency. You remember my theme around transparency? I have found CLEAR is pretty unique in the data space, in the public record space, you know. And you've heard me say, Gina, like I always say, buying CLEAR data is like getting your, you know, freshness date on your eggs. You know who gave it to us, it's time-date stamped it truly is transparent, but a lot of the data that is being used in the industry, in general, isn't. It's kind of black box data that you have no real insight on. So, if you're hearing a regulator, say, you know, I need to know where you're getting your data and is this black box, and you can't source it, I mean, that's a problem for you, and that is a repeating theme in the last six months that I've heard. So, I'm not, like, I'm not surprised by that question and that response, because you know, it's a pain point I'm hearing from the audience. And then the other thing I think we have to just recognize is a lot of our financial service customers use in-house data, they know

it's stale, you know. I mean, data is kind of a generic term, and you have to have high quality data. There's a whole concept giga garbage in, garbage out, and there's just a lot of garbage out there at this point, I'd say.

Gina Jurva: Yeah. What other area I'd like to get into with you, and it's about the challenges, not necessarily the issues that financial service firms are following, but more of the challenges that they're actually reporting that they face. And so, the survey respondents had two big issues, and they both were just about, they rated about the same. And again, to no surprise cryptocurrency and automation, sort of the theme we've been kind of discussing here. And so, about the you know, these being big issues or challenging issues or somewhat challenging issues. How do you suggest and again, we've been talking about this, but how is automation best implemented in the AML space? And really, what advice do you offer, whether it's around crypto or around just automation in general. We talked about automating processes that are more rote tasks, anything further in that?

Amanda DuPont: Yeah, one really nice thing today that's made everybody's life easier is, you know, knowing what APIs are. I always want to remind everybody what do we mean when we use the word "API" and the best way to think about it, you know, let's say you go to a travel app like Bookings.com or KAYAK or Travelocity, I mean, name it, right? When you go into that app, whether you're on your computer, your phone, however you're interacting with it, the website even, when you go and ask it to create a trip for you, it's going behind the scenes and grabbing say, flights from Delta flights from United what have you, hotels, Hilton, Marriott, you know, whatever you're looking at, but all that's invisibly happening as they connect into their websites and push it back to you. APIs are just like that. APIs are, let's say you're sitting in Salesforce you need clear data to drop into Salesforce. It can invisibly happen today, so there are plugin place APIs where customers can turn those on and that's I think, a really big thing for customers to be aware of they might feel like it's too much work for me to do automation, but if there's a takeaway, I tell everybody is there might be plug and play tools already available to you. Like, I think of CLEAR sitting in Salesforce, it's a turn on button for my, you know, generally, commercial lending is using a lot of that, Gina, but you know they're doing their customer due diligence through that kind of tool in Salesforce. So, think about asking is there plug and play pre-built integrations I could turn on, but even when I just gave that API discussion today, there's such a market to build like even if you outsource it and use a third party to do it, somebody can drop, you know, if you need the data, that's a CLEAR or KYC you're gathering they can, you know, make it land where you living, and that's just a big trend. It's not nearly as complicated as people think. We see that as just a huge part of who's using our CLEAR product today. They want it to kind of be where they're doing their work in kind of a click of a button or just auto-feed it in. Those are really good conversations to have with anyone you're buying services from. Can they offer you that kind of flexibility today?

Gina Jurva: Well, that's excellent advice. Any final thoughts on really the future of the anti-money laundering landscape? Specifically, anything you can leave us with 'cause again, I know you talked to so many different customers really on a daily basis or in the financial services space.

Amanda DuPont: You know, it's an exciting space to sit in because everybody knows we have to stay ahead of financial crime. And if you think about it, we're the ultimate white hat, so we're trying to stop criminal activity in the financial market. It's a really noble cause. And everybody should be proud of their efforts. It makes me happy every day to work in this space, and so I think, you know, as we start really exploring, how does crypto get regulated and why is there a lot of concern around crypto in general, I

think it's that lack of transparency on who's on each side of it. Are they doing real KYC to get you know, know the parties even in blockchain you know simply having things on a ledger doesn't mean you don't know a bad actor is the other counterparty? So, it's really keeping up with if we're going to solve financial crime, we need a transparent system and I want everyone to kind of keep that lens and what am I looking at? Is it transparent? Is it giving me insight? And the last thing I'd share is do you remember when beneficial ownership rules came out, Gina? Everyone was kind of afraid to tell their customer oh my gosh, you have to tell me who's running the company, right? It was scary in 2018 to many customers of ours to start going to their bank US customers tell me who's the C-level? Tell me who has you know 25% ownership etc. We've come so far. Now we know we want to know who's in companies it makes sense to stop criminal activity. You really want to know who's running your companies, who's behind it? I think we're just going to see that trend continue. There's just no way we're going to go to world of we're not going to be interested in knowing who's behind a transaction on a digital, you know, who's a counterparty? Who's on the other side of a wire? So, that excites me because I think there's a lot we can do with technology to help give kind of more instant insight into those. So, as we see technology morphing and going into new directions, we're still always going to want to have real understanding from a transparency perspective.

Gina Jurva: Yeah, and that's a great point to end on, especially with the Pandora Papers last year. I mean, there's more and more, as we hear more is revealed about beneficial owners who's behind shell companies, and I think we're going to see more as it relates to AmLaw 2020 as it relates to the Corporate Transparency Act, so I'm excited to kind of watch this space. And as you said, I think it's a very noble space to be in, and it's one that's very purpose driven. So, Amanda, again, I appreciate you taking the time out of your very busy schedule to talk about this report and its findings. And so, I really appreciate your time amendment. Thank you so much.

Amanda DuPont: Thank you Gina. Great chatting.

Gina Jurva: And thanks everyone for joining me. For everyone listening, please do download a copy of the report by following a link from our website on the Thomson Reuters Institute that is [thomsonreuters.com/institute](https://www.thomsonreuters.com/institute). Thanks for joining the show.

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