

# International Trade Finance Problems & Solutions Part 2





# Why Anti-Money Laundering is So Important & 2 Practices To Deal With It

With Trade based Money laundering and credit-based Money laundering in trade finance increasing exponentially, a need for enhanced financial transparency has emerged. Know your customer (KYC), monitoring Trade Documentary Credit Transactions, Anti-Money Laundering (AML) practices executed all around the globe, keeping an audit trail, matters related to cyber security and their possible solutions by bringing Blockchain into picture are some steps that can be enacted in order to control money laundering practices. Various government agencies are engaging in financial transparency and companies are trying their best to come up with programs to come up with Legal/Risk compliance, safeguarding reputation and building competitive advantage for all present in the business.

## Topics to Be Covered:

**1** Improving Existing Transaction Monitoring Systems

**2** Understanding Different Types of Digital Technology

## 1. Improving Existing Transaction Monitoring Systems

### A. Challenges Associated With Improving Existing Transaction Monitoring Systems

There are various AML related risks such as operational risk that emerge due to heavy reliance on paper documentation and manual processing that often leads to incomplete or fraudulent documentation. Also, there is a very limited exchange of information between the countries and banks. Moreover, different types of complexity and variety of trade products and myriad trade financing arrangements is also a challenge. Furthermore, if such instances continue for a long time, then it may ultimately lead to less business opportunities.

### B. Solution To The Above Listed Problems

Money laundering activities and online frauds have tremendously increased since online transactions have skyrocketed. An estimated 1.6 trillion USD has gone as criminal proceeds as per United Nations Office on Drugs and Crime (UNODC) which amounts to 3.6% of Global GDP. Transaction monitoring is very crucial both to let the regulators grow and to prevent the criminals from earning money through illicit means. In transaction monitoring, the first step is to set a guideline of automated rules and regulations to find any suspicious activity. If by chance a suspicious activity is noticed, the respective team must be alerted about it. Then comes the stage of case management in which a case is created to administer the investigation of

suspicious activity. Further, escalations are raised based upon the set rules and the respective alert generated for critical examination. After a closer examination, a lot of compliance and business reports are created so as to capture the activity and the results. Finally, after everything has been done, the company must communicate and inform the government about the suspicious activity that has been encountered. There are two types of transaction monitoring systems; manual and automated. Manual transaction monitoring systems have a lot of issues such as low throughput as humans can review only a limited number of transactions and there is also a higher possibility of errors. Also, there is a problem of inconsistency as different analysts are trained in different ways leading to detection of suspicious activity only by a few analysts. On the other hand in automated transaction monitoring system, no additional expense is required to increase the headcount with increase in the number of transactions to be reviewed. Thus, it saves manpower and provides economies of scale. Also, it has better consistency as it follows a set of rules written into the system and it doesn't depend upon when and where the transaction takes place. Moreover, whenever rules are changed, analysts require training leading to reduction in speed of execution but a switch to new rules in case of automated transaction monitoring system does not slow down the process.

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## 2. Understanding Different Types of Digital Technology

### A. Problems Associated With Understanding Different Types of Digital Technology

Banks require to put multiplicity of processes and technology solutions for AML compliance that ultimately amalgamates various systems and KYC data in one depository. Also for centralized critical analysis of a financial crime or fraud, it is mandatory for them to build infrastructure for cross-channel detection of suspicious ventures and pursuits of cyber-criminals. Also, according to the transactions undertaken by the customer, the risk level assigned during on-boarding varies due to which the banks need to analyse the risks associated with each and every customer dynamically.

### B. Solution to The Above Listed Problems

AML programs need a heavy implementation of risk based management practices such as independent testing, tailored internal controls and nomination of a dedicated AML officer with authority over the required amount of resources. AML programs must depend more upon digital tools and processes to ensure top-notch data quality, effective draw out, analysis of huge amounts of unstructured and structured data to arrive at meaningful conclusions. The first of the many innovative digital technology is Cognitive Computing. This acts as a digital assistant that helps computers to analyse more of what user wants. It can reconcile ambiguous as well as self-contradictory data. It helps in auto-replying to emails with context specific messages. The second technology that helps in exploring relationships between individuals is Graph Analytics. It not only helps to discern the relationship pattern between various kinds of data types but also helps to minutely observe the shared customer attributes that ultimately helps to know whether two supposedly different persons are one and the same. Machine learning (ML) is the third technology that helps to determine different patterns. It is different from traditional computing as it does not work according to pre-specified rules but according to its own rules that it acquires based on data and patterns found. It has found importance as far as conducting suspicious activity and transaction monitoring is concerned. Machine Learning teaches computers to classify alerts as of low, medium or high risk, thereby taking on the duty of the operations team to triage alerts and allowing them to work on other complex problems. Scientists are also working on advanced ML systems that will be able to differentiate between legal financing and terrorist financing. Apart from the above mentioned technologies, we also have Natural Language processing (NLP) technology that not only improves customer experience but also ensures round the clock access to data. It can analyse high volumes of regulatory text and pattern match with a cluster of keywords to identify the changes relevant to the organization. According to the Banking Technology Vision 2017 by Accenture, 80 percent of bankers expect AI and NLP to boost technology adoption throughout their organizations, and 78 percent are looking forward to a simplified user interface that will ensure a more human-like user experience.

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## Conclusion

In the above sections we saw the problems associated with countering money laundering activities across the globe and the ways to mitigate them. There is a dire need to improve the existing transaction monitoring systems that will reduce the possibilities of error and review higher number of transactions as compared to humans. This will not only bring transparency into the system but will also reduce the illegal trading practices. Moreover, different types of digital technology ranging from Machine learning to Cognitive Computing will take on rudimentary tasks and give more time to humans to deal with complex assignments. Simon Enticknap has over 40 years of Trade Finance experience. He is devoted to initiatives in order to make trade finance more accessible for banks and corporates and has presented at International conferences across Europe on topics such as implications of de-risking as an approach to compliance strategies, working capital management in a Supplier Finance led world. He will handhold you along the course and help you gain deep insights about the functioning of Trade Finance across the globe and provide you a toolkit to implement the same in your organization.