

AML: key success factors

1. Regulatory, supervisory and coordination conditions to be met for AMLA to address the EU Money Laundering and Terrorism Financing objectives

The Chair stated that the 2021 anti money laundering (AML) package entered into force in the summer and will create a new AML universe with a single AML rulebook for all obliged entities and with the European Authority for Anti Money Laundering and Countering the Financing of Terrorism (AMLA). AMLA will be a standard setter and will coordinate national competent authorities (NCAs). It will directly supervise selected obliged entities and will be an exchange platform for financial intelligence units (FIUs). It will not become fully operational before 2028.

1.1 The Commission is focused on the operational set up of AMLA

The Commission has set up a task force and is working on the operational setup of AMLA by recruiting staff and preparing an IT infrastructure, but there is a great deal of work to be done on the substance before AMLA becomes operational. Around 70 regulatory technical standards (RTS) need to be drafted in the next three years. AMLA needs an effective launch and close cooperation with national supervisors and FIUs. AMLA also needs to work closely with law enforcement agencies like the European Public Prosecutor's Office (EPPO) and Eurojust and needs close cooperation with prudential supervisors at an EU level.

New AML regulation also allows information sharing partnerships among obliged entities, supervisors and FIUs. AI will help increase efficiency and prevention of money laundering but must not come at the expense of data protection and privacy. AI has also the potential to improve transaction monitoring systems and enable financial institutions to identify suspicious activities more accurately.

A regulator noted that the Commission has also requested the European Banking Authority (EBA) and the NCAs to do some preparatory work on the regulatory side. 70 products need to be delivered in a short time, which is the core of AML regulation supervision. Risk analysis and customer due diligence (CDD) requirements need to be put in place and specified as a foundation for the future system. The objective is to build something high quality, based on broad participation of stakeholders, and to evolve as it progresses.

1.2 Providing the AMLA with the agility to define and adapt its strategic approach

A regulator highlighted that AMLA is going to be a new authority so there needs to be strategic thinking about

how to proceed with anti-money laundering and counter-terrorist financing (AML CFT) regulation and supervision. Thought is also needed about having more of a principles-based approach rather than a rules-based approach, combined with more effective supervision and more regular supervisory engagement. It is about having supervisory engagement that is not only risk-based, but also based on compliance outcomes and having a measure of effectiveness of supervision. AMLA is a new authority and needs to build its reputation. AMLA needs to build its relations with the European authorities and the NCAs, but also with international standard setters and third country agencies that have similar roles.

1.3 State-of-the-art technological equipment is also required

A regulator stated that technology is very important. As a starting point a report should be commissioned on how technology can be used for the purpose of meeting AMLA's objectives, including how AI can be better applied for the role that AMLA needs to fulfil. Stakeholder management is also vital.

2. Operationalising AMLA raises high managerial and human challenges across the board

A regulator stated that AMLA needs to employ approximately 430 people within a period of three years who need to have a proper skillset in the field of AML, financial supervision, enforcement, rulemaking and policymaking. Those types of professionals are not widely available, so a setup is needed that allows continuous professional development and the ability to recruit people of a certain standard. AMLA needs to set up its own financial crime compliance academy in order to ensure that it recruits and can also keep its staff up to date with trends such as AML and financial crime. AMLA could also support NCAs in building or retaining their own capacity in the field of AML.

Thought is needed about how to create a common AML CFT supervisory culture, which has already started through the EBA. The European authorities currently all have their own committees that bring supervisors together. The European Securities and Markets Authority (ESMA) has its own Senior Supervisors Forum (SSF), which brings senior supervisors together from all the European authorities. Those structures could be well placed in AMLA in order to ensure that supervisors meet, exchange best practices and ideas, and build a relationship, which is very important for cooperation.

The Chair agreed that an academy is needed. It is important to look at coordination, IT and getting the right staff, but there are 27 different cultures and

mindsets to deal with. A new common mindset is needed.

A Central Bank official stated that work needs to be done on the 70 RTSs and Implementing Technical Standards (ITSs) so that the articulation of the framework is made in a complete way. The day to day implementation of that will happen at national level. The key ingredient in AMLA and at the NCAs will be risk culture. It is about progressing in a converged way to deliver the outcomes that are needed, directly delivered in the AMLA construct through direct supervision, but also in the board of supervisors and through the structures that AMLA will adopt.

2.1 The transformation of NCAs will be deep; their involvement and buy-in are vital

A regulator highlighted that there is much work to do but resources are currently limited, particularly on AMLA's side. Cooperation is needed, and there is a need to prepare at the NCA side. It is different compared to the Single Supervisory Mechanism (SSM) or the EBA, because it combines regulatory and supervisory work. The work is much more at the national level but in a more integrated way, as currently the SSM and the ECB oversee around 75% of the balance sheet of European banks. The bulk of AML will be at national level. Integration and cooperation will be key.

Work is needed around internal organisation, as well as looking externally to what other authorities are doing. It is about governance, processes and systems. A forum has been created at the EBA level for supervisors in order to exchange, define common priorities and see where everyone is challenged. Data has been exchanged. The AMLA General Board is composed of supervisors across the EU from both the financial and the non-financial sectors, which forces AMLA to organise itself domestically in a national context to speak with one voice. Data is key, as if the information is not being interlinked then the whole purpose of AMLA being the main host of an EU-wide database will fail.

A Central Bank official stated that the NCAs must be at the centre of the approach in standard setting and the regulatory approach. The entire AML framework was predicated on the fact that the EU27 have to adopt a more holistic and collective approach in order to be more effective at fighting financial crime. That can only be done if the EU collective delivers a coordinated approach. The vast majority of the resources will reside at national level, and once AMLA is incepted the vast majority of the responsibility for supervision of the obliged entities will remain at national level. In the SSM most of the systemic risk sits in its direct oversight; although there will be around 40 entities selected for direct supervision by AMLA, the vast majority of the entities will still be supervised at national level.

The EBA has a small team that is doing an excellent job on the Standing Committee on Anti-Money Laundering and Countering Terrorist Financing (AMLSC). Adding NCA experience will drive high standards for everyone, as it will harness the AML risk culture that needs to be seen in a pan-European way. The hope is for the General Board to incept it at the end of 2024.

Two of the key four first pieces of work that are being done on the package are about risk methodologies, both in selecting the directly supervised entities and how risk assessments are conducted for all of entities. That is supervisory work, meaning that even if it could be resourced differently it should not be.

The Chair agreed that it is not only about a new authority but also a new system of cooperation between AMLA and the national competent authorities. The motto is 'five Cs': convergence, common culture, cooperation and coordination.

2.2 Work is ongoing to make national FIUs vital contributors in the new EU AML network

A Central Bank official outlined that FIUs are doing a significant amount of work to prepare for AMLA. The EU FIUs Platform is a working group and committee chaired by the European Commission, which will come up with ideas and preliminary work on the numerous mandates that AMLA will have to fulfil in the initial years of its activities. The platform has set up an ambitious work plan, with more than 25 projects in five thematic areas, and work has commenced on a number of those projects. The platform is working intensively in uncharted territory, which is the information content and template for suspicious transaction reporting (STR). The EU has 27 different approaches to STR contents and formats, with significant differences across the FIUs. Convergence is needed. A one-size-fits-all approach to STRs would not be appropriate, but basic commonality is necessary.

Work is ongoing on common information formats for STRs, but also for transactional information that accompanies STRs when they are reported and when the FIU reverts to the reporting entities to acquire additional information. The work will impact reporting entities and has an overlap with the work that the EBA is currently conducting in the Supervisors' Forum on the information that must be collected for CDD purposes. CDD information and STR information must link to each other to simplify working procedures and information flows within reporting entities and FIUs.

Work has also been completed on common formats for FIU-to-FIU exchanges. Templates can be used to cover the whole cycle of FIU-to-FIU cooperation, which is a complicated framework and ranges from initial requests to responses to feedback, to follow-ups. Intensive work is ongoing on the common approach to joint analysis. Joint analysis will be crucial for AMLA as the FIU's mechanism. The work will complement what FIUs can do at the national level, which has not been enough in the past. The joint analysis teams will have to set up a common approach and a common culture to analysis. Analysis is an open question at the EU level, which is being answered by setting up a common methodology that AMLA should be prepared to endorse in the future. AMLA will not have a deadline to begin joint analysis, meaning that it will be effective as of 2025 when the FIU's mechanism becomes operational.

Another challenge is to set up an IT infrastructure for AMLA and for FIUs working with AMLA. FIU.net is already available, which is a very effective network that

serves the purpose of assisting FIU-to-FIU exchanges. Building on FIU.net, AMLA will have to be able to set up its own IT system in support of joint analysis and all internal procedures in support of the FIU's mechanism. Costs are involved and the complexities are relevant, but it is an additional more reason for FIUs to collectively work with the Commission to come up with a proposal for the new system.

2.3 Financial institutions and their clients are also preparing on data, culture and organisation

An industry representative stated that clients need to be ready and need to get the basics right. Clients need a good governance organisation and clear reporting lines. Management needs to lead by example in having a good compliance and AML culture, and regular staff training also needs to be provided to ensure that the culture is widespread among the organisations. A clear and exhaustive set of data is vital to allow for audit trails. Companies also need an in-depth and exhaustive knowledge of their client base, including good client segmentation, appropriate due diligence, and regular reviews of that due diligence.

A regulator noted that broad industry participation is vital. It will be important to engage early on with the industry to see their pain points when it comes to setting up the regulatory and the supervisory framework. The result should be much more regulation with more effective supervision. Once policy and methodologies are conceived it is also very important to think about the actual implementation. A risk assessment methodology cannot be created without thinking about the data points.

3. The high number of transactions means that AI, machine learning and data science are needed to detect suspicious transactions, meaning the industry needs to create a complete data ecosystem

A regulator highlighted that the competition is not on AI software anymore it is the chip making. AI depends on the quality of the hardware and those who are not involved in AI. AI, machine learning, robotics and reading can help to detect money laundering and suspicious transactions. The amount and size of transactions is so large that nothing else can help to detect what is going on aside from AI, machine learning and data science. It is also important that financial institutions implement AI and machine learning as much as possible to detect and prevent transactions. Banks and other financial institutions are spending billions of euros on investing in machine learning and new technologies for their everyday business, but they need to be forced to implement algorithms and models that will detect money laundering and suspicious transactions.

Data is important for AI, as the model is only as good as the data it receives. The entire ecosystem is created on

the way that the data can be used. Without implementing machine learning and AI it will be very hard to prevent money laundering and the financing of terrorism.

The Chair agreed that it is advisable for supervisors to encourage its industry to implement AI and digital technology for making their systems more effective as long as this is in line with the law.

An industry representative stated that there is a significant opportunity around AML and financial crime. The annual Forrester survey estimates that financial institutions spend \$200 billion a year on financial crime, compliance and monitoring. \$85 billion of that is in Europe and 70% of it is people cost. Every financial crime decision needs to go to a human for review, so compliance teams do a very large amount of manual work. There are a huge amount of false positives, and those false positives have a cost. The application of AI has great potential in helping address those problems.

3.1 In many cases AI can outperform the usual approaches that are taken

The Chair commented that a money laundering case could be compared to a puzzle with a thousand pieces; a team that only has few pieces will hardly be able to find the whole picture, but an AI might be capable of doing so.

An industry representative added that AI can identify links much quicker than a team can, and it can also look across borders.

An industry representative noted that AI will bring considerable productivity gains through the holistic consolidation of internal information and the use of external database and unstructured information. AI can improve the knowledge of clients at a low cost. An intelligent chatbot could enhance physical networks to complete "Know Your Customer" (KYC) processes and analyse the links between people and legal entities. Fraudulent documents could be unmasked by cross-referencing external or internal data. Companies can also enrich their customer knowledge with external data collected in an unstructured information on the internet.

3.2 AI is cost effective and analyses unstructured data and generates reports, enabling a focus on understanding the telling outcomes

An industry representative stated that AI is a huge opportunity and will help banks to have much better and more efficient risk assessment. The priorities are speed, accuracy, scalability and being proactive; the main characteristic of AI is its capacity to analyse a huge amount of data in a very short time, which is vital for AML prevention. A clean dataset is very important, but AI can also analyse unstructured data. Natural language processing means that AI can examine news articles and link to another dataset, enabling identification of suspicious patterns and abnormal behaviours. Machine learning can be used to do more proactive analysis.

AI can also generate reports, which leaves time for teams to look at the outcomes and to have a proper analysis of what comes out of it. In the last years banks

have spent a significant amount of money to build teams to be able to spot suspicious transactions. There is always a problem, because 100% of all transactions cannot be checked and specific patterns need to be relied on. AI will help to go through the transactions and information in a quick and efficient way, which will help the team to use their time to better analyse transactions.

An industry representative highlighted that AI can extract relevant information from unstructured texts to assess matches and maximise the effectiveness of investigations and can also identify false positives more quickly. AI can also automatically generate reports and can improve the accuracy of STR through a dynamic approach between large amount of internal and external data, which can also capture the evolving patterns of money laundering.

3.3. Mature data processes, good data governance and responsible AI approaches are needed for AI

The Chair agreed that AI cannot work in a lawless space and highlighted the ethical concerns about biases and fairness.

An industry representative noted that in 2023 their company conducted a survey of around 500 compliance professionals around the world that looked at where they were in the adoption of AI. Only 10% of respondents were using any AI in production, but the two things they had in common were mature data processes and good data governance. The role of data cannot be underplayed, as any bias is largely the fault of the data that is used for training and processing. The company has also externally published its position on responsible AI and its principles around transparency, accountability and fairness.

4. Key success factors for the launch of AMLA

Panelists were asked to give their 'must do' and 'must not do' for the next three years, particularly with the launch of AMLA.

A regulator commented that the 'must do' is cooperation and the 'must not do' is to forget about implementation.

A regulator stated that the 'must do' is capacity building and the 'must not do' is to create another single rulebook which becomes unmanageable.

A Central Bank official highlighted that the first task is for AMLA to set itself up as quickly as possible. Clear indications are needed on the FIU's delegates, what the FIU standing committee is and what its role should be. FIUs also must receive indications on relations with external stakeholders such as EPPO, the European Anti-Fraud Office (OLAF) and Europol, and how information would flow from AMLA and FIUs to and from those bodies. The priority for FIUs is to not be complacent with AMLA, and to engage AMLA and fill it with information and working procedures capable of integrating joint analysis.

A regulator explained that the 'must do' is to force banks and financial institutions to implement machine learning as much as possible, which will implement rules and procedures for AML. The 'must not do' is to forget about the data flow and data quality.

An industry representative highlighted that the 'must do' is to keep up with what is happening in technology, and the 'must not do' is to ignore the data.

An industry representative stated that the 'must do' is to keep open-minded, because AI will also bring new criminality. The 'must not do' is to forget current in house IT systems that need to evolve to support future AI solutions.

A Central Bank official commented that the 'must do' is to focus on outcomes and to continue to focus on fighting financial crime. The 'must not do' is to fall into the trap of a race to the bottom in terms of the lowest common denominator because of a need for speed to implement.

An industry representative observed that the 'must do' is for companies and organisations to anticipate, clean their data and clean their system. The 'must not do' is to wait for the regulatory request.