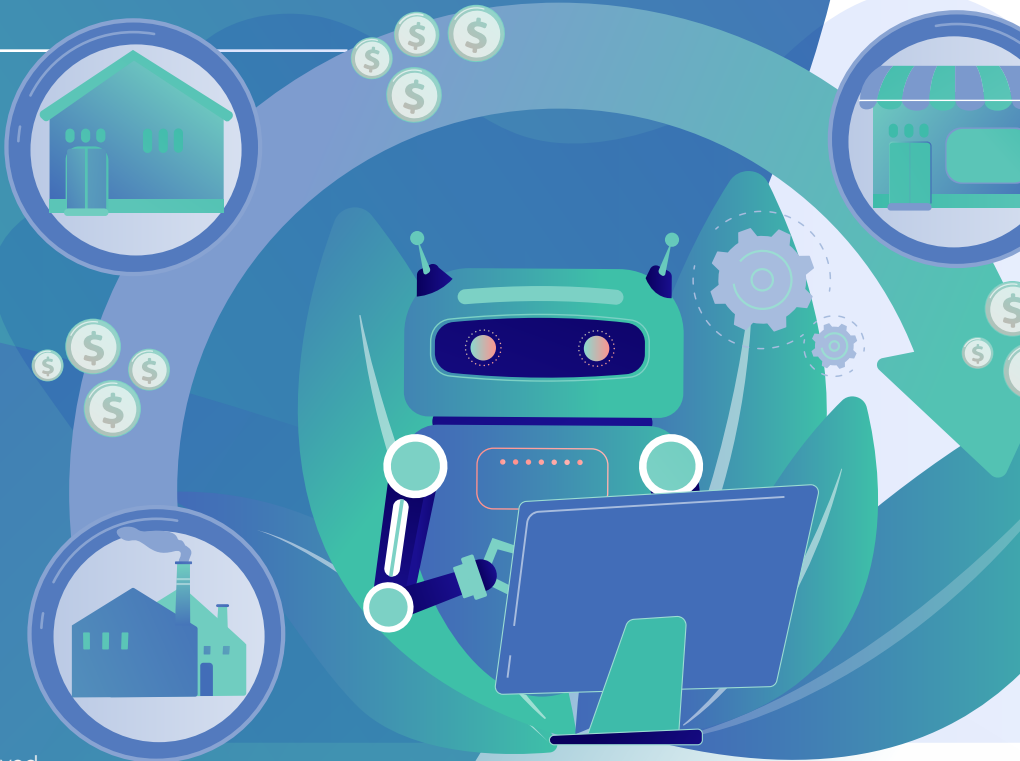# Real-Time Ai Solutions for BSA/AML Compliance

by TOOLCASE

Maintaining compliance with the Bank Secrecy Act and Anti Money Laundering laws are more difficult than ever. Criminal organizations are implementing technologies and techniques that allow for frauds and money laundering activities to go unnoticed. These activities are costing institutions hundreds of millions in losses and massive fines for non-compliance; even though many believe they are operating under compliance.

However, new artificial intelligence solutions promise to not only help institutions maintain compliance, but Ai technology is far more advanced than anything criminal elements utilize to perpetrate frauds. Ai now allows for almost instant detection and prevention of fraud, money laundering and other financial crimes. Institutions that incorporate Ai into their BSA/AML programs will not only save on fraud costs but can assure compliance requirements are met and exceeded without the need for additional staffing.

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The Law

It was in 1970 that the US Congress passed the BSA (Bank Secrecy Act). This is also known as the Currency and Foreign Transactions Reporting Act, ensuring that financial institutions can't be utilized by criminals to manipulate, hide, and launder their illegally transacted funds.

The BSA essentially requires financial institutions to implement anti-money laundering measures in order to not only protect stakeholders but also their own institutions.

This bill, which was signed by President Nixon into law, did not get implemented without opposition. As a matter of fact, it had quite a lot of it throughout the next decade or so. Some groups stated that it was unconstitutional and that it violated the Fourth and Fifth Amendment rights, and inaction from financial institutions soon followed.

It was not until the 1980s where a series of cases proved that the law did not violate any constitutional rights, and soon after in 1986 that the Money Laundering Control Act made money laundering a federal crime.

The BSA and AML went into full swing and the requirements and pillars of the implementation of the varying laws were established.

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The Conflict

Implementation is only as good as the tools utilized by regulators, and the 1970s were a long time ago, especially if you take into consideration the advancements in technology over the past 50 years.

It's almost certain that the system utilized then has become quite obsolete and can't keep up with the schemes criminals and perpetrators use nowadays. That's why it's imperative for financial institutions to upgrade their tools promptly to better protect themselves, their stakeholders, and the public.

The Requirements

The Bank Secrecy Act has three anti-money laundering requirements that as financial institutions, you should implement to operate within the boundaries of the law.

These cover:

+ Reporting any suspicious transactions initiated by your clients of over $10,000, and while no documentation is required for every transaction, businesses must still file an IRS form 8300 if they are a recipient of a $10,000 transaction in cash from a client/buyer. The amount can be a result of one or more related transactions from a single buyer may it be an individual, corporation, partnership, company, association, estate, or trust.

+ Identifying all the parties involved in the transaction.

+ Keeping an accurate paper trail of all the transactions involved.

The Five Pillars of the BSA AML

Furthermore, the BSA also requires financial institutions to implement the following measures for a robust defense against money laundering.

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Pillar #1: Internal Controls

When it comes to combating money laundering, detection and identification of said illegal activities are crucial to the success of your financial institution's campaign.

That's why you need to set internal controls that are codified with policies and procedures so you may help your employees' awareness and knowledge about money laundering activities and how it aligns with the Bank Secrecy Act.

Your internal controls should be commensurate with your institution's nature and size, which should also help in identifying specific risks for your organization. No matter how large or small your institution is, your internal controls should at least cover:

+ Risk assessment processes to identify which products, customers, services, locations, and third parties are vulnerable to money laundering schemes.

+ Identify transactions that can be reported aligned with anti-money laundering requirements.

+ Report as well as maintain documentation as required.

With everyone in your organization, especially your front liners, aware of their duties and responsibilities and at the same time, knowledgeable about anti-money laundering measures, your institution should have a solid foundation against the constant battle against fraud.

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Pillar #2: BSA AML Compliance Officer

At the center of your operations, you're going to need a point person or principal in your firm to oversee your entire anti-money laundering program.

It's also the BSA AML Compliance Officer's job to initiate and arrange independent audits and make sure that the firm is 100% compliant. Your assigned officer is also responsible for keeping the Board Members and senior management up to date on the measures and updates regarding the campaign against money laundering and fraudulent activities.

Whenever appropriate, you or your compliance officer may also segregate tasks or provide dual control over the program. As mentioned, you always have the flexibility to organize your personnel depending on the nature and size of your institution.

Pillar #3: BSA AML Training Program

Your employees from top to bottom of your command chain should always be kept trained and updated on the matters regarding the BSA AML acts.

That's why your financial institution must regularly provide BSA AML training programs to strengthen your defense against these fraudulent activities. The higher level of responsibility, the more rigid the training required. Everyone in the institution must always be aware and compliant with AML.

Pillar #4: Independent Audits and Testing

The Board of Directors, as well as your institution's senior management team, are the foremost initiator of creating a culture of compliance within the chain of command.

There's no better way to promote and support this culture than by regular independent audits and testing. These audits and testing will lead to AML compliance performance evaluations.

External audits are necessary so that there's objectivity in the evaluation of the internal control programs set. Evaluators will run tests to find out how responsive your regulations are to money laundering threats as well as other fraudulent activities.

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Pillar #5: Customer Due Diligence

Lastly, as a financial institution, you are expected to do your due diligence on identifying who your clients are and understand what type of transactions they are expected to perform.

Implementing risk-based CDDs or Customer Due Diligence policies will tremendously help your employees and management to identify vulnerable accounts.

Just affirming your client's identities goes a long way in protecting your financial institution and stakeholders. There are three levels to CDD policies, standard, simplified, and enhanced.

Enhanced CDD is required when a client or potential client is considered high risk such as a politically exposed person. Enhanced CDD includes:

+ Additional identification information.
+ Proper documentation on the source of funds.
+ The nature of your business relationship.
+ Transaction purposes.
+ The client undergoing constant additional monitoring procedures.

A suspicious activity report or what is known as SAR is then expected to be submitted by financial intuitions if they suspect that a transaction is illegal.

These are the five pillars of the Bank Secrecy Act and Anti-Money Laundering. Every financial institution's compliance with them and said requirements is crucial to battling the many implications of illegal transactions globally.

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How Money Launderers and Fraudsters Circumvent the Laws

As robust as the Bank Secrecy and Anti-Money Laundering Acts can be, fraudsters and money launderers use far more ingenious schemes to circumvent the system. Compliance and implementation of the requirements and five pillars of AML are commendable but unfortunately, they too have loopholes and limitations.

Congress passed the Anti-Money Laundering Act of 2020 for the first amendment and modernization of the BSA since 2001, but will this be enough to combat the threats? Probably not.

The reality of the situation is that criminals know how to work the Bank Secrecy Act. They utilize phony companies or shell companies with a fake business structure worldwide to sidestep the BSA. These shell companies help in hiding the individuals or organizations behind such money laundering schemes. Money laundering is a threat to our national security. Perhaps it's no secret that these channels are used for funding terrorist activities globally and that is one of the biggest concerns of our government and leaders worldwide. The BSA and AML help tremendously in the efforts to curb these illegal financial transactions.

As technology advances and the schemes of perpetrators constantly get more and more intricate, your line of defense against attempts to launder money should also get an upgrade.

Fight technology with technology, and what better way to do so than with artificial intelligence.

How Real-Time AI Solutions Can Help Fight Money Laundering

Artificial intelligence and its ability for machine learning are now being utilized to fight sophisticated money laundering schemes of fraudsters.

As a financial institution, you are expected to deal with a lot of complex client data, and integrating AI with ML into your AML programs will be a huge boost to your operations.

How Does It Work?

The artificial intelligence programs for AML operate with a set of algorithms that puts and manages all digital measures in place for detecting potential money laundering or other fraudulent activities.

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These AI algorithms may analyze a large chunk of customer data faster, including CDD, transaction monitoring inputs, and sanctions screening to enable the detection of suspicious activities and automatically perform required tasks.

Machine learning fits right into the AML program because it's more reliable and robust, especially when it comes to analyzing patterns from customer transactions and eventually identifying potential risks. AI will enable financial institutions and businesses to:

+ **Collect data efficiently** from a wide range of external sources which may include watch lists as well as sanction lists, so your firm may form more accurate risk profiles.

+ **Eliminate duplication of customer data** across your internal systems as well as errors.

+ **Have more consistent AML measures** between your customers.

+ **Suspicious activity reports or SARs** are immediately backed by relevant and enhanced data both from your customer risk profile and external sources.

AI is also an invaluable mechanism to help analyze unstructured data given that you're going to have to know your customers, especially if they are considered high-risk profiles.

Your AML compliance should include PEP screenings, transaction monitoring, adverse media monitoring, and sanctions screenings. These customer data are essential for understanding customers' social, political, and professional lives and examining a wide range of external sources such as social media, public archives, and relevant datasets.

+ **Ultimately, AI in AML programs will help you process SARs easier. From the pre-population of reports to the presentation of the data required, AI will prove to be an invaluable part of your process.**

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ToolCASE's Real-Time AI Solutions

As part of our campaign to help the financial service industry, our very own AI solutions are designed to help financial institutions combat the threat of money laundering.

Rest assured that our technologies are far more advanced than what fraudsters are utilizing. Take our RembrandtX Data Aggregation tool for example. This AI solution will efficiently combine data from a wide range of sources, from legacy software to online channels.

The inefficiency stems from the fact that most financial organizations are not interconnected and through AI with machine learning solutions, all these data sources are tapped and quickly become available.

Combining and processing inconsistent data structures are the key strength of our algorithms. It's also one of the most intuitive systems in the industry and with the shortest learning curves. You'll be assured of ROI within months and not within years.

It's high time that we do away with the obsolete and ineffective and integrate into our system a newer more robust approach in curbing financial crime and discouraging its propagation.

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Save Your Institution's Bottom Line

With a massive global threat such as money laundering, you shall need war-room-like tools to keep up with the battle and effectively protect your institution. With AI solutions and coveted machine learning capabilities, you won't only be compliant but also reduce your fraud costs and risks for money laundering.

What's more, the ToolCASE solutions give direct access to expedited SAR and CTR E-Filings to FinCEN, saving money, time and importantly, offering a near immediate alert of potential financial crimes against your institution.

Protect your business and protect your institution the right way. As CEOs, CTOs, CITOs, or fraud analysts of your company, it's your utmost responsibility to be one step ahead of perpetrators and fraudsters

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