



**NICE**  
**Actimize**

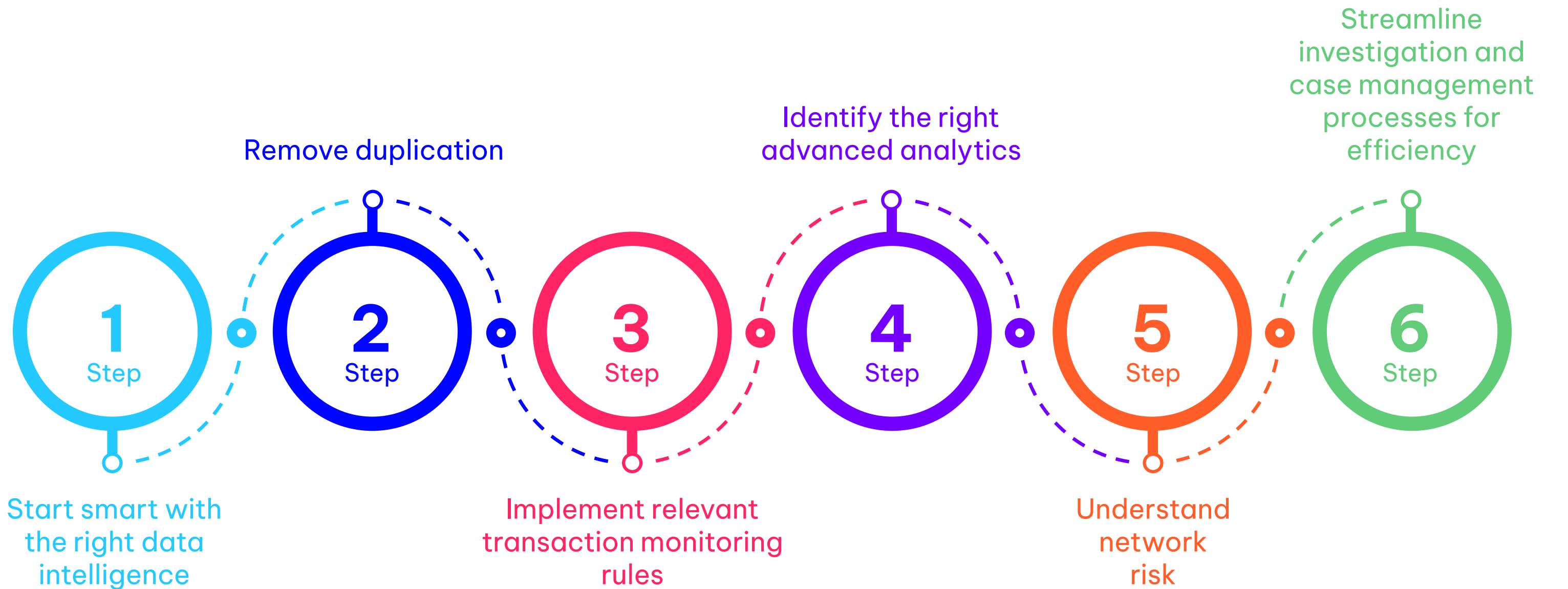
eBook

# Six Transformative Steps to Evolve Your Transaction Monitoring Program

# An evolution is needed

Transaction monitoring innovation is overdue. To detect suspicious activity more accurately and truly reduce false positives, an evolution is required.

**Take these six steps to drastically improve the effectiveness of your transaction monitoring program:**



- Step 1 – Start smart
- Step 2 – Remove duplication
- Step 3 – Implement relevant rules
- Step 4 – Identify advanced analytics
- Step 5 – Understand network risk
- Step 6 – Streamline investigations
- Six Steps to Success





Step 2 – Remove duplication

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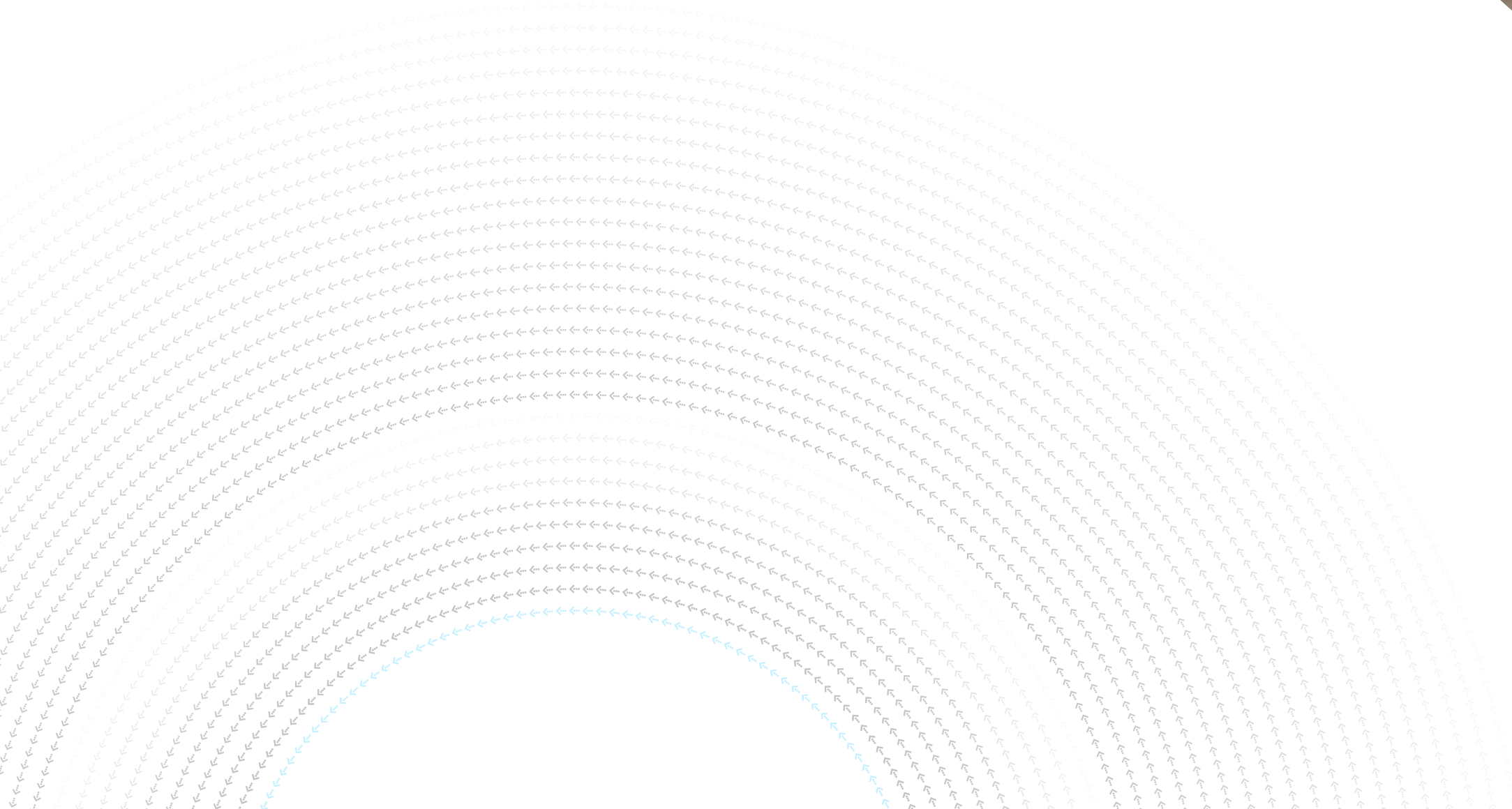


# Step 1 – Start smart with the right data intelligence

## The importance of data

Data is the lifeblood of any compliance system. It's required to maximize an understanding of your customers and their counterparties.

Without accurate data, it's almost impossible to monitor customers for the right risks. **Incomplete and inaccurate data has an adverse effect on the accuracy of your system—one that even AI and machine learning can't overcome.**





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### Assessing your data ecosystem

To strengthen your data layer, evaluate the current state of your data intelligence. Questions to ask:

What data do you have, and is it the right data?

Is your data complete?

How accurate is your data?

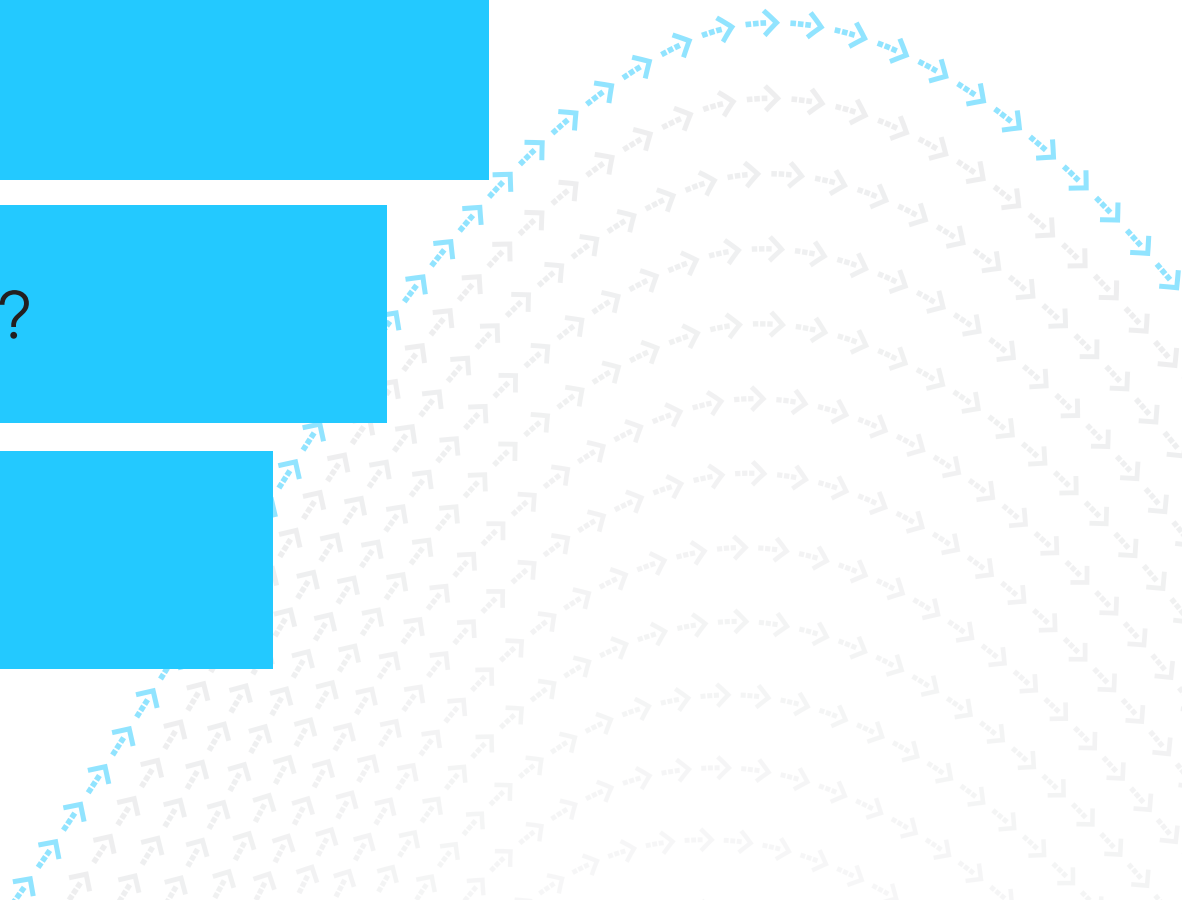
How has your data been validated and verified?

What type of data does the system need to be effective?

What format does the system need the data in?

What data do you need to understand your entities better?

Where do you get the data from?





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## Address data opportunities with technology

Data, and access to data, is continually increasing in this digital-first world. By capturing that data and making sense of it, organizations can realize valuable risk insights.

This is where data intelligence tools can significantly help. Data intelligence tools connect your program with extensive internal and external data sources, both structured and unstructured, and capture intelligence on customers and counterparties. These tools can aid in data validation and verification, enrich entity profiles with previously unknown information, and ultimately ensure organizations know as much as they can about their customers.

Good data drives compliance by providing:

- Context for exact risk profiling
- Accurate segmentation
- Precise monitoring
- Faster, truer identification of suspicious activity

**With the right data in place, you can accelerate client onboarding and AML investigations by**

**up to 40%**





# Step 2 – Remove duplication

## Duplication benefits the criminals

Data availability and validity are only parts of the data puzzle. Good data can still cause problems for ongoing risk assessments and monitoring if it has not been deduplicated.

Duplicate data affects organizations more than they might realize, especially larger, multinational organizations. It causes an incomplete picture of customers, meaning they could be:

- ✗ Segmented into the wrong grouping
- ✗ Monitored against irrelevant risks, with the outcome being too many false positives
- ✗ Missed even though they appear to engage in suspicious activity





### Evaluating your organization’s data quality

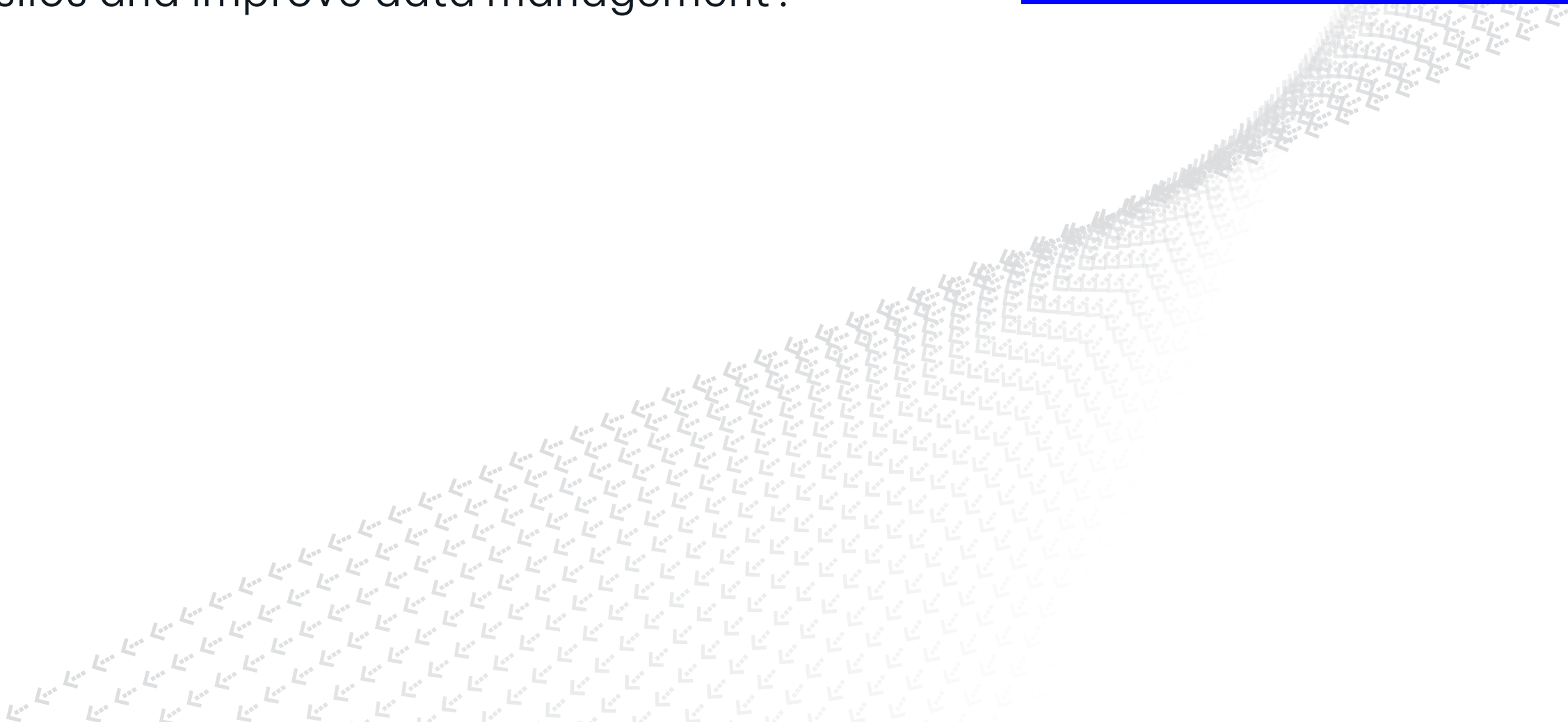
The amount of intelligence that can be extracted from data varies significantly with data quality. To maximize the impact of your data, consider these questions:

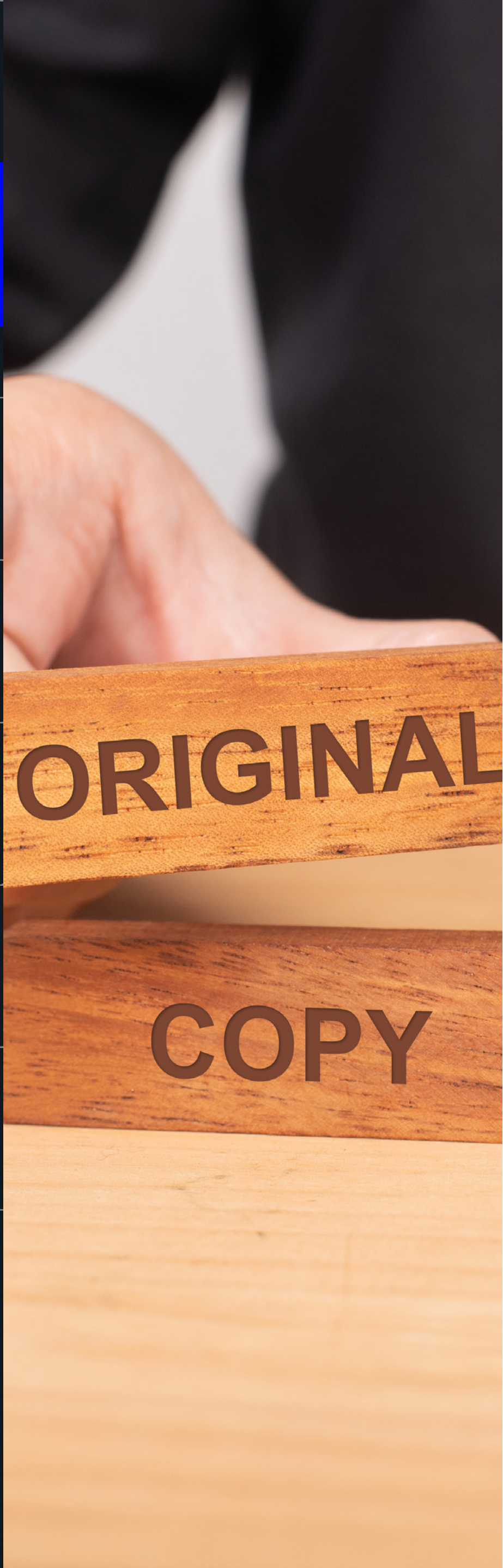
- ➡ How connected are your internal systems between lines of business?
- ➡ Do you know the true extent of duplicate records within your organization?
- ➡ How does your organization check for and identify duplicate records? How often?
- ➡ What can your organization do to break down data silos and improve data management?

**On average, financial institutions find that**

# 15%

**of their entity records are duplicates**





### Identity Resolution is the answer

Identity Resolution tools eliminate the problem of duplication.

They assess internal, external, and changing enrichment data to understand which entities are associated with each piece of data.

You can use identity resolution to find the same unique attributes across multiple entity records and assess whether the respective entities are duplicated or related.

Resolving entities also uncovers previously unknown relationships hidden across multiple disconnected entities.

Using identity resolution technologies ensures data intelligence technologies don't go to waste. They instead augment the data intelligence by providing consolidated, rich entity profiles.

**\$1.2 million**

**– The extra cost financial institutions incur annually without an identity resolution solution per one million accounts held**

Fearnley, B., & Marden, M. (2017, August). The Business Value of Entity Resolution Solutions for Financial Crimes and Compliance Operations. Framingham, MA; International Data Corporation (IDC).



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## Step 3 – Implement relevant transaction monitoring rules

### Are rules still important?

Organizations constantly struggle with transaction monitoring effectiveness.

In recent years, rules have borne the brunt of the blame for ineffective transaction monitoring. But rules are part of the solution, not the problem. They are the lynchpin of a modern and effective transaction monitoring system.

### Challenges related to rules:

- Static thresholds drive high false positive levels
- Lengthy tuning cycles with imprecise segments lead to broad, stale monitoring
- Rules don't adapt quickly to changing threats without human intervention

**Rules are critical for a modern AML system and will be present for the foreseeable future.**

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### Are you using rules effectively?

Rules still have a place in a modern transaction monitoring system if the right governance and controls are in place to ensure accurate outcomes.

#### Questions to ask to improve rule efficacy:

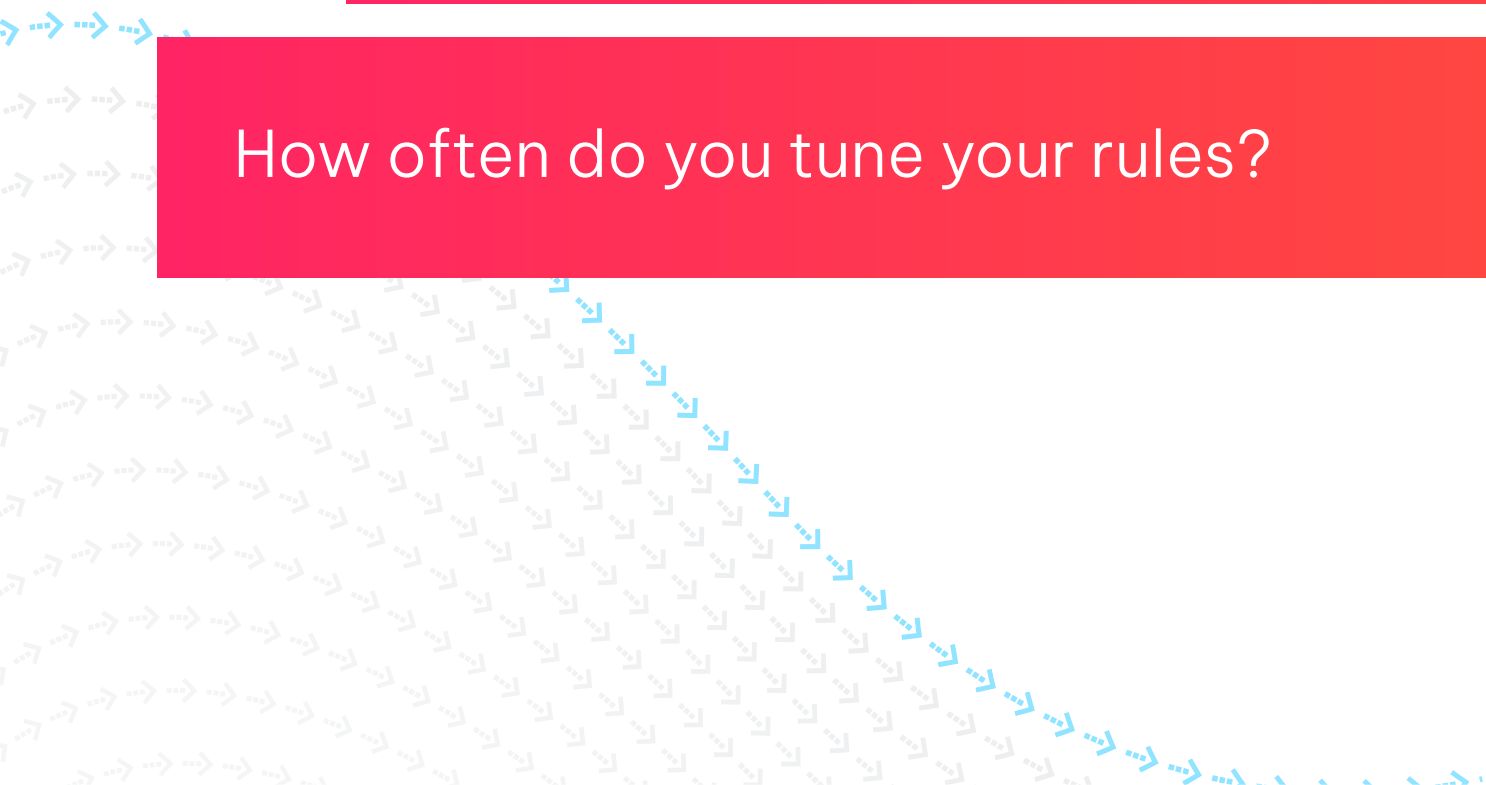
When was the last time you assessed the residual risks for your organization? What are you doing to mitigate those risks?

How do you assess whether your rules are getting the right data to be effective?

Do you have the right detection coverage? How do you assess coverage gaps and when was the last time you assessed coverage?

How do you measure the performance of your rules?

How often do you tune your rules?



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### What is the value of rules?

**Rules will continue to serve tangible value in transaction monitoring because:**



Rules are a safety net to ensure known financial crime threats are not missed



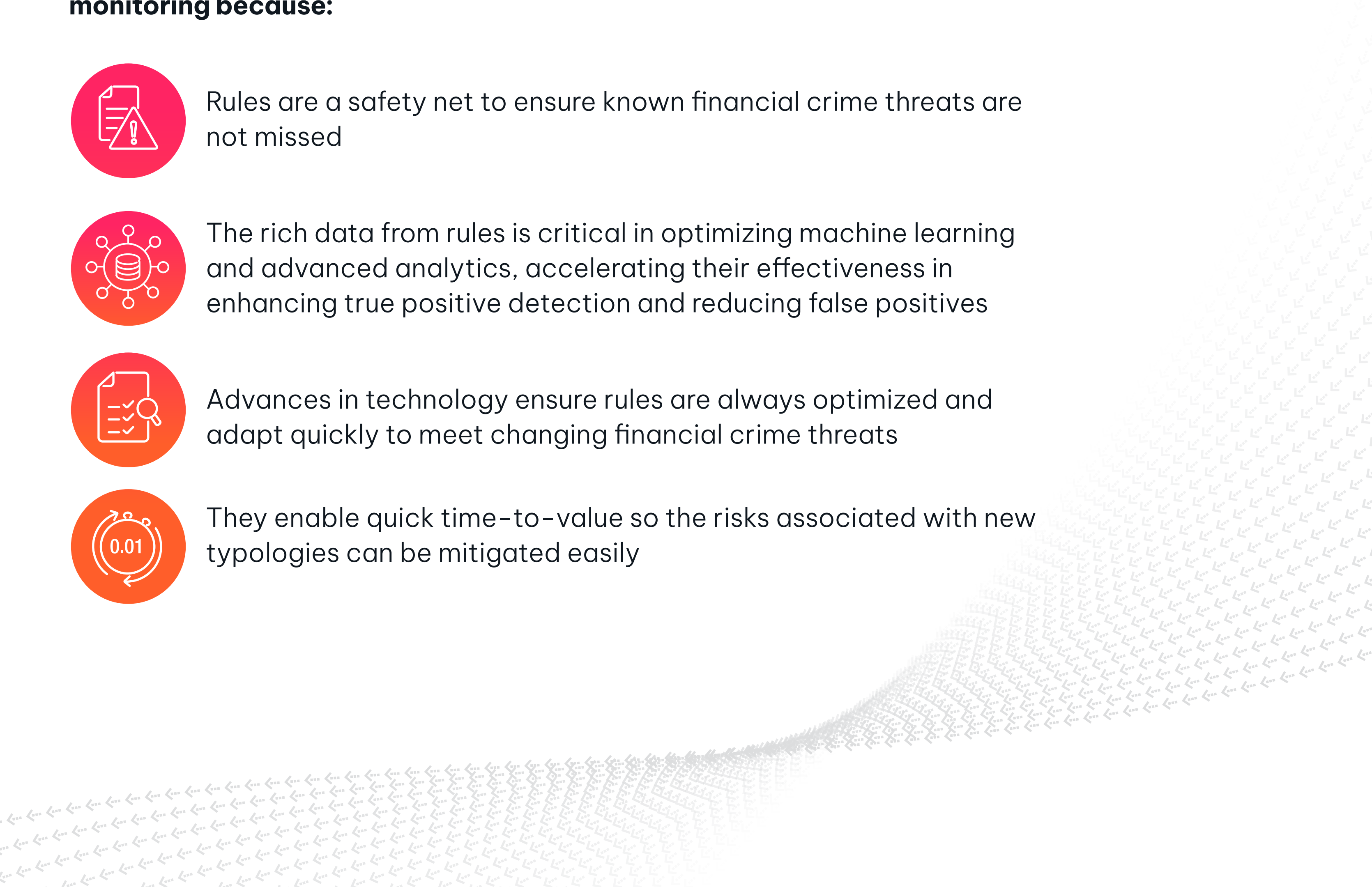
The rich data from rules is critical in optimizing machine learning and advanced analytics, accelerating their effectiveness in enhancing true positive detection and reducing false positives



Advances in technology ensure rules are always optimized and adapt quickly to meet changing financial crime threats



They enable quick time-to-value so the risks associated with new typologies can be mitigated easily



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# Step 4 – Identify the right advanced analytics

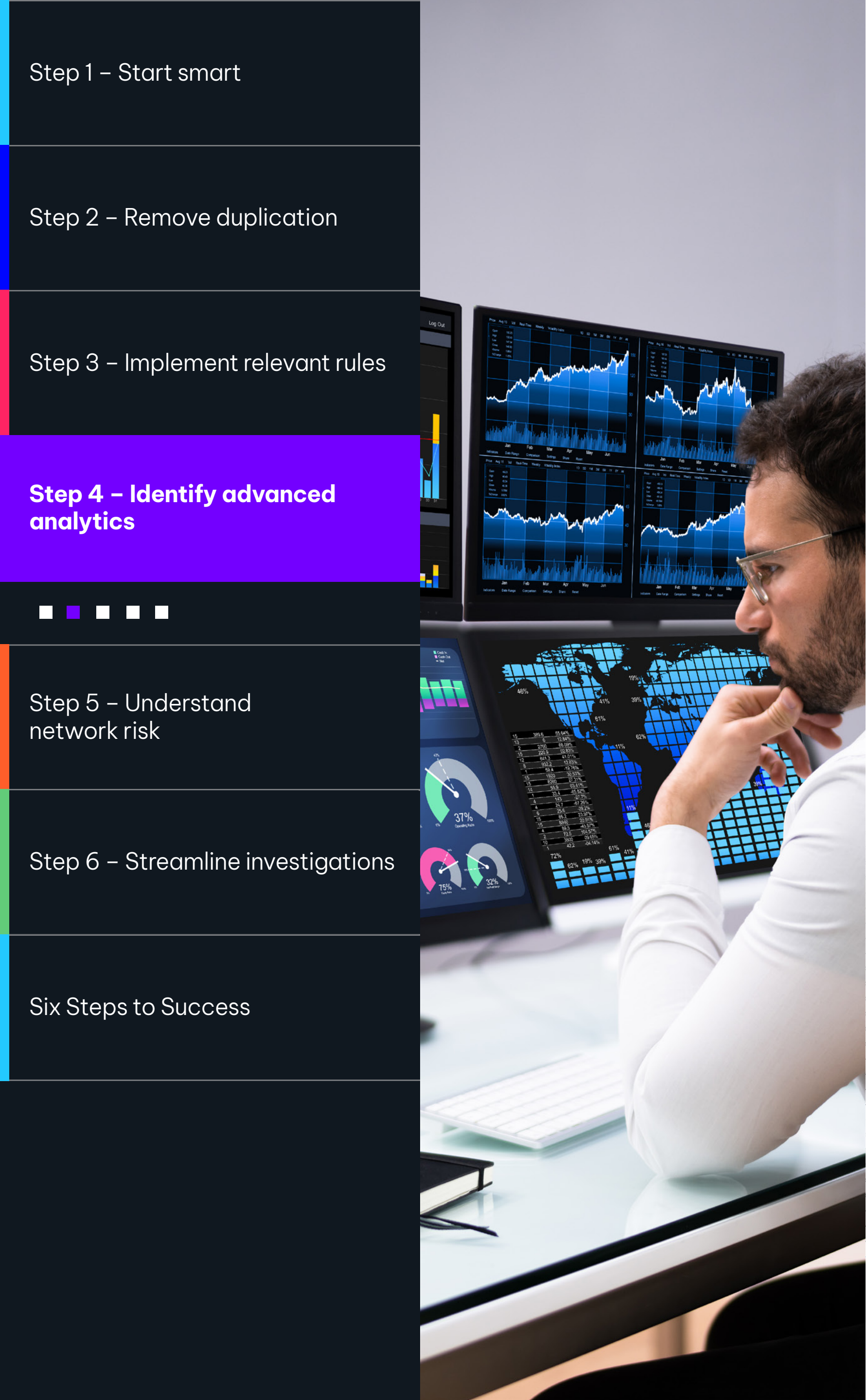
## What can advanced analytics do?

AI and machine learning can take transaction monitoring effectiveness to the next level.

But it can't improve poor data, a poorly implemented system, or weak controls and processes. Self-learning technologies need continuous monitoring and governance to prevent machine bias and deviations that could result in missed activity.

There are a number of tools available for financial crime professionals to use. Many claim to solve all financial crime problems. But which advanced tools actually improve transaction monitoring effectiveness?





Step 4 – Identify advanced analytics

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### Setting up your analytics strategy

It's worth assessing your current challenges and putting in place a clear strategy before jumping into AI.

#### Questions to consider:

What problem are you looking to solve with advanced analytics and what is your intended outcome?

What actions have you taken to clean and verify your data?

What data science resources will you have to manage your advanced analytics?

Would you be better off building analytics yourself or using a managed analytics service?

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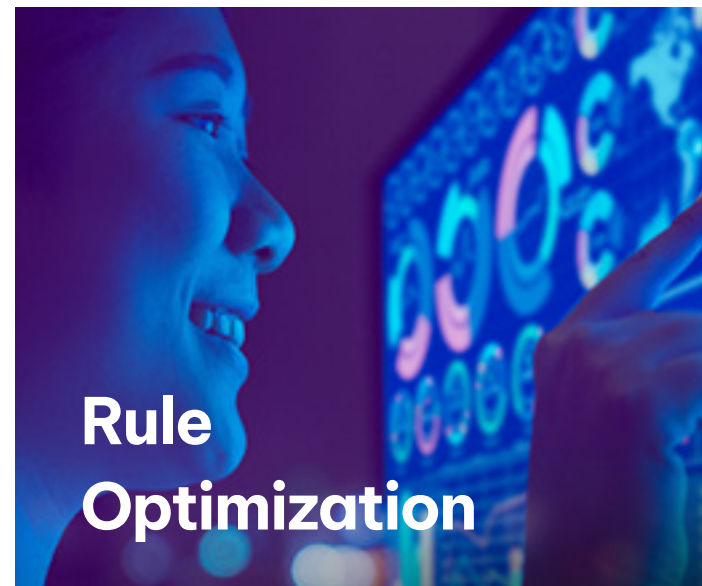


## Machine learning tools and benefits



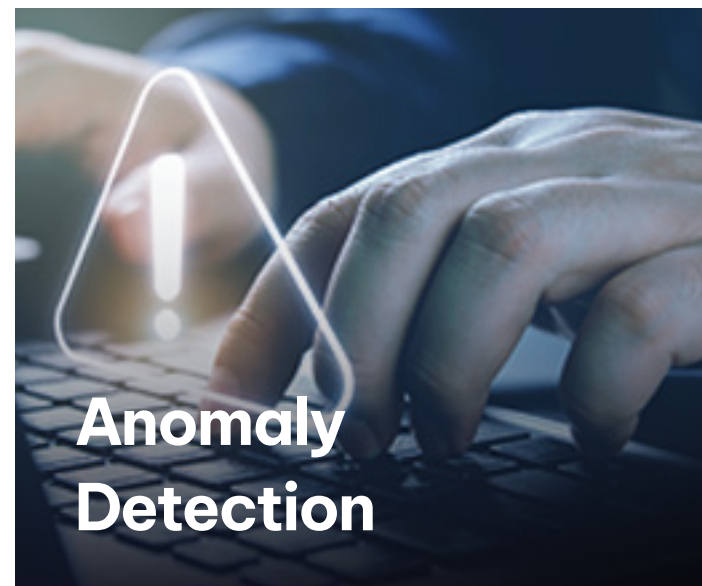
**Advanced Segmentation**

Use machine learning to create granular customer segments and improve the precision of dedicated monitoring of each segment.



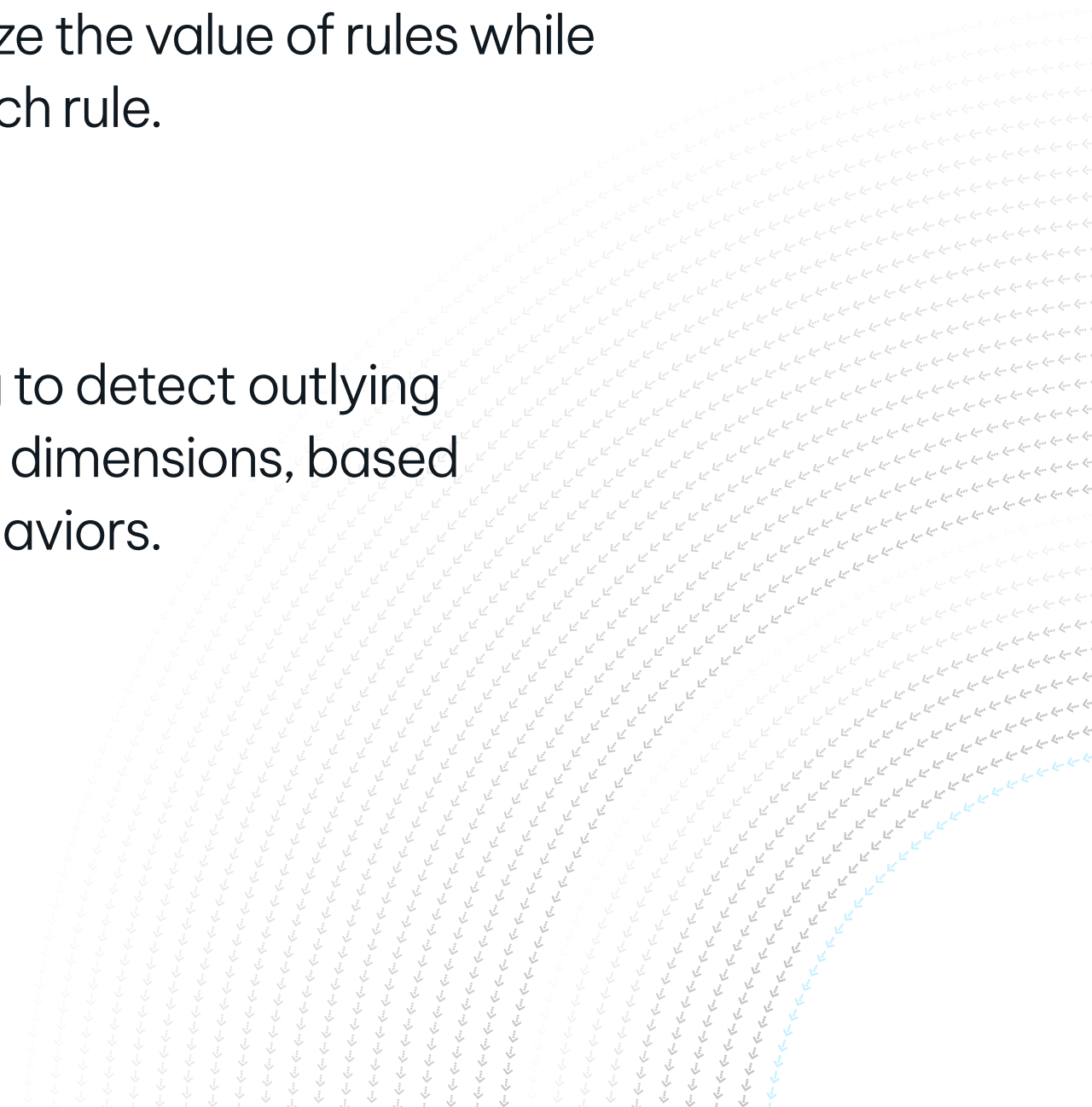
**Rule Optimization**

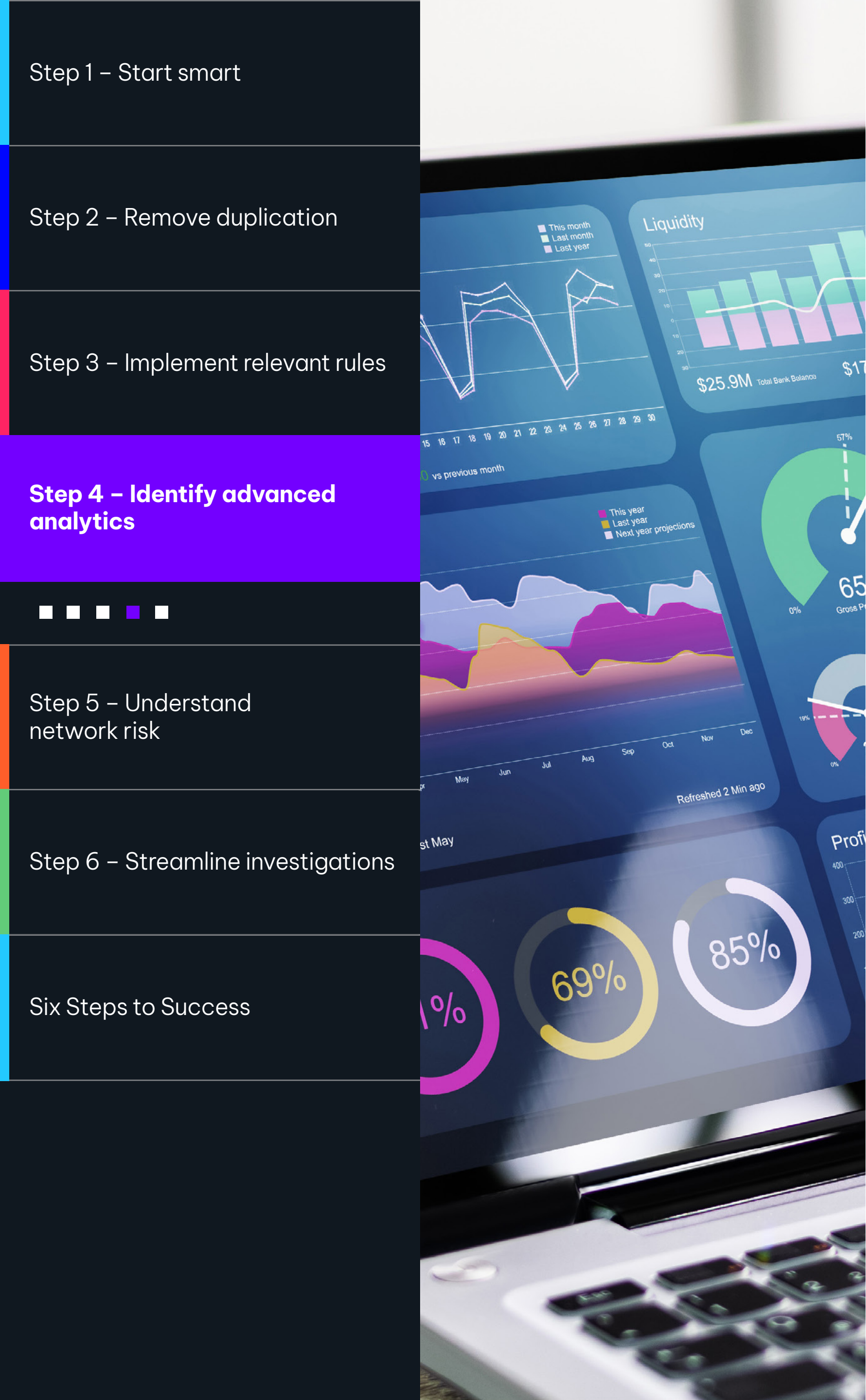
Leverage machine learning to drive rule optimization. Using historical information and rule performance, optimize rule thresholds and detection of suspicious activity while suppressing false positives. Maximize the value of rules while reducing time and effort to tune each rule.



**Anomaly Detection**

Use unsupervised machine learning to detect outlying activity or behavior across multiple dimensions, based on historical behavior and peer behaviors.





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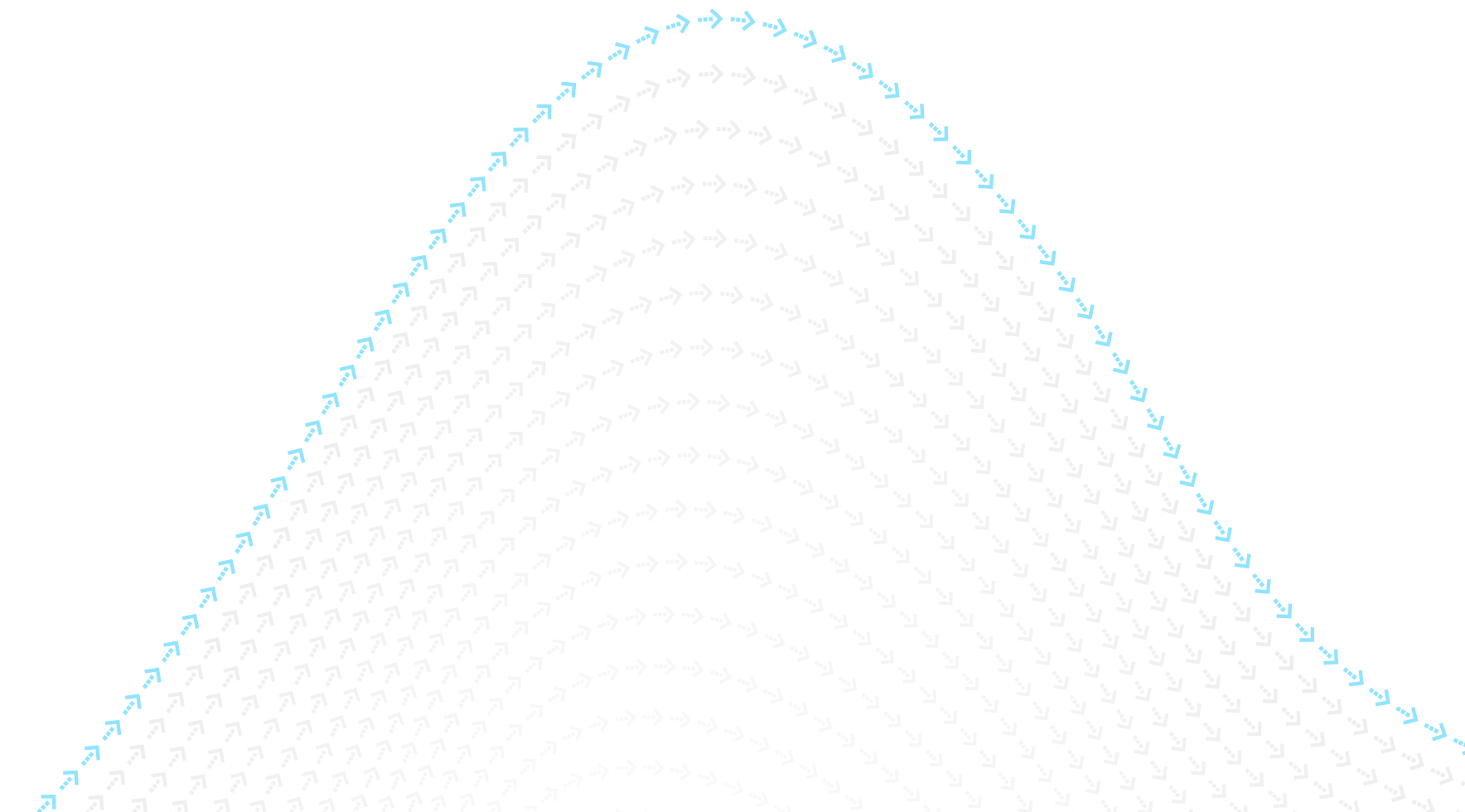
## Machine learning tools and benefits



Focus on high-risk activity first. Using historical investigation and disposition history, predictive analytics can predict the likelihood of an alert resulting in a suspicious activity filing. Using this information, organizations can hibernate low-risk alerts until additional activity heightens risk and send high-risk activity directly to a complex case team.



Use optimized thresholds trained and tested by peer organizations. Collective intelligence enables organizations to share proven rules or machine learning models with peer organizations for faster monitoring of new or evolving threats. Federated learning helps deliver optimal suspicious activity monitoring and detection from Day One.



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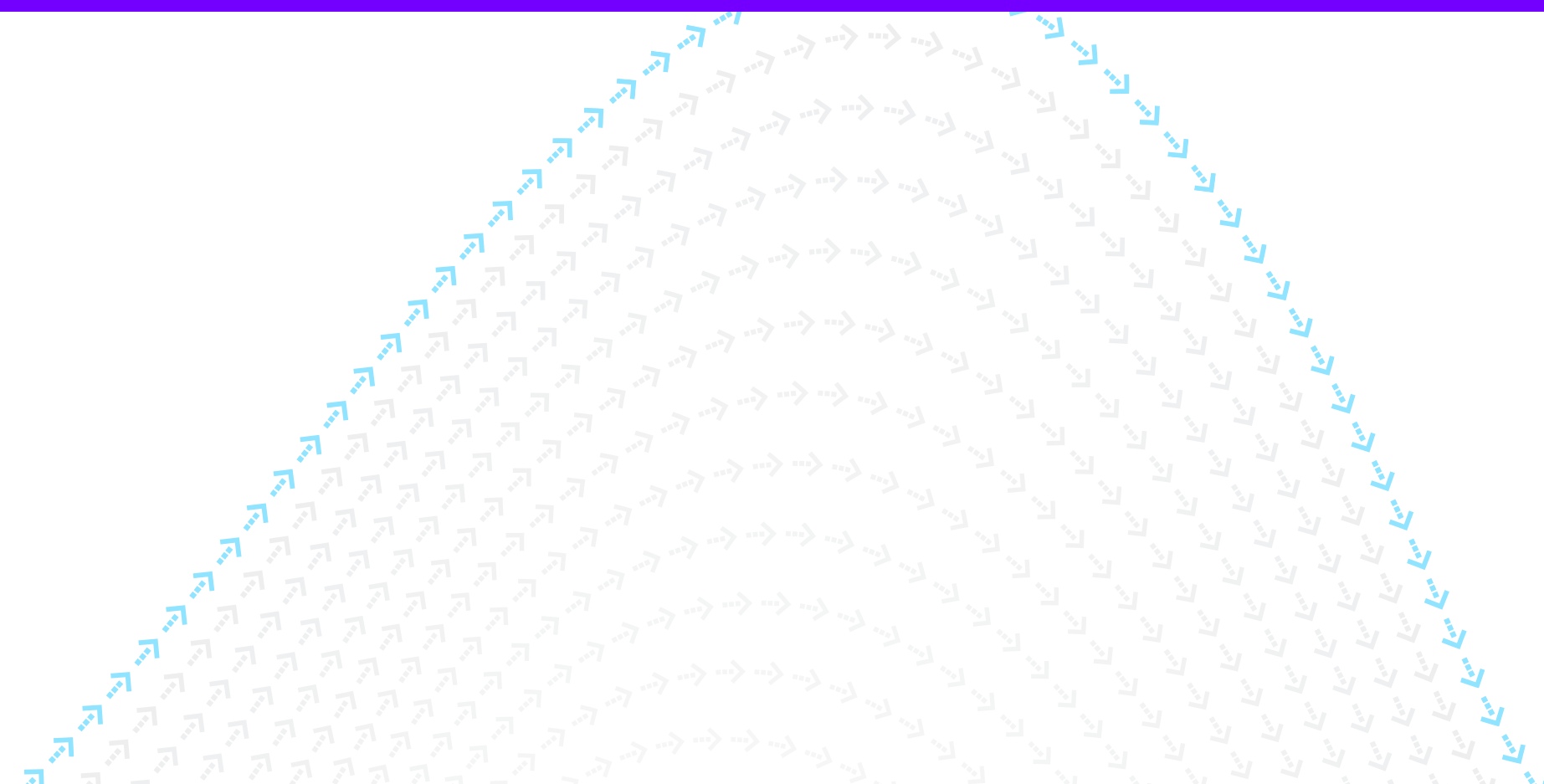


Advanced analytics don't need to be implemented at the same time. It's up to you to determine your biggest gaps and where advanced analytics will deliver the most value.

Regardless of which path you choose, make sure any technologies have full model governance documentation for robust regulatory compliance.

**Advanced analytics can help you:**

- ➡ Maximize your detection coverage
- ➡ Reduce alert volumes by at least 30% with 100% true positive recall
- ➡ Auto-triage at least 40% of your alerts





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# Step 5 – Understand network risk

## Why do we need to understand customer networks?

One of the biggest challenges in effective transaction monitoring is understanding customer transactions and each customer's connection with the transaction counterparty. That becomes even more complicated when the counterparty is a corporate with an unknown ultimate beneficial owner (UBO).



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## Where network risk analytics can help you understand network risk

Understanding relationships is a challenge across most business verticals but it's especially prevalent in these areas:

### Challenges to Understanding Relationships

### Benefit of Network Risk Analytics

#### ➤ Corporate Banking

Criminals hide behind complex corporate structures. They continually change ownership and corporate relationships to make it more difficult for FIs to understand who controls the company.

- Build corporate structures quickly using internal and external corporate information
- Identify risky connections, whether they be direct or indirect
- See the reason for risky corporate structures clearly and take appropriate action

#### ➤ Correspondent Banking

Given the originators and beneficiaries of correspondent transactions are not direct customers of your organization, it's difficult to understand the legitimacy of transactions between counterparties.

- Enrich known transaction and counterparty information with additional third-party data
- Increase relationship clarity by linking parties through historical information
- Find suspicion by identifying unusual links between seemingly disparate parties
- Provide suspicion clarity to investigators for filing decisions

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## Where network risk analytics can help you understand network risk

Understanding relationships is a challenge across most business verticals but it's especially prevalent in these areas:

### Challenges to Understanding Relationships

#### ➡ Capital Markets

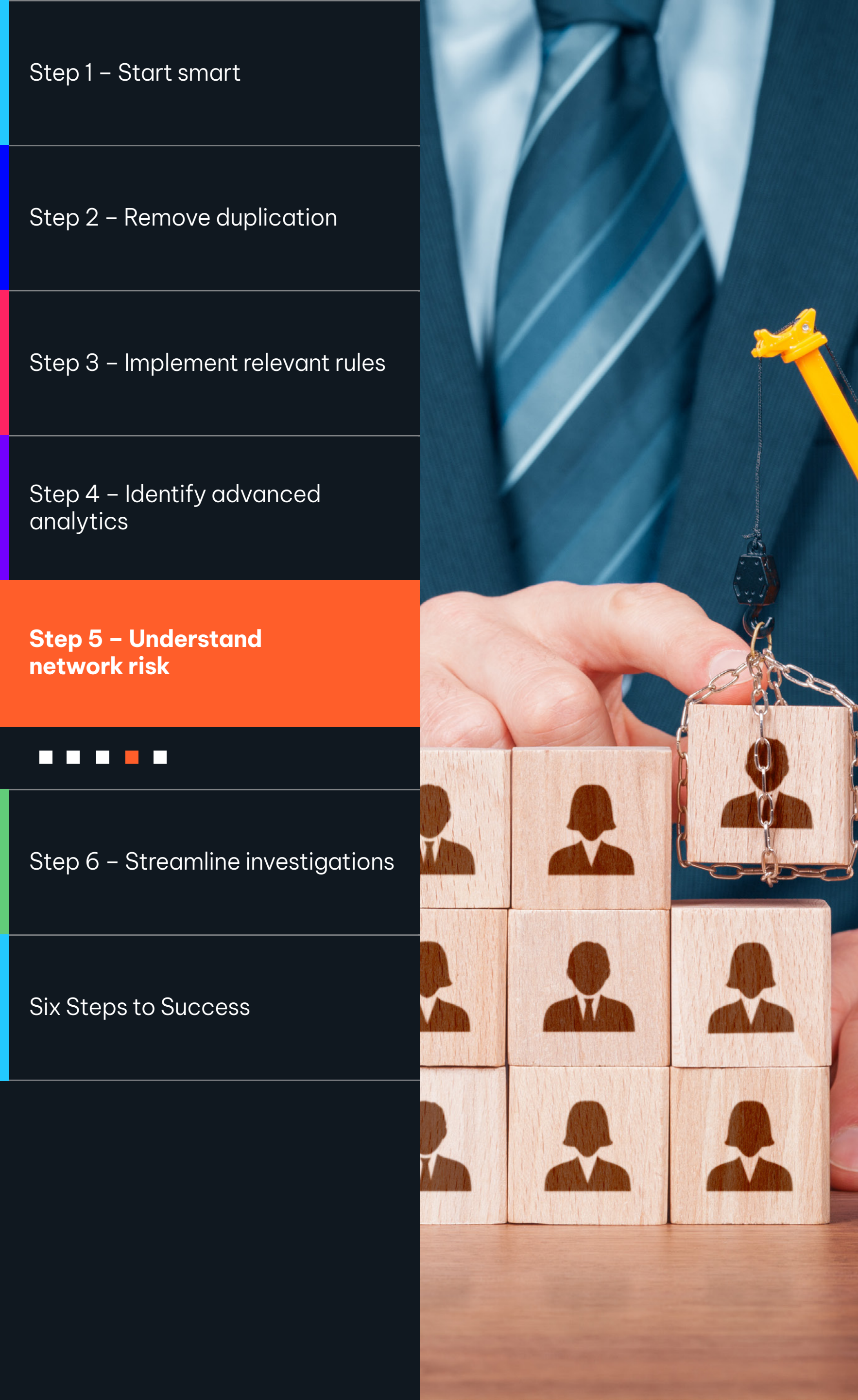
Capital markets are disconnected. With multiple legs and organizations involved in a single trade, it's extremely challenging to connect the dots between entities.

#### ➡ International Trade (Trade Finance)

Trade involves many different parties from buyers, to sellers, intermediaries, shippers, and agents. With extensive disparate data across paper and digital channels, it's difficult to join the dots to identify suspicious relationships.

### Benefit of Network Risk Analytics

- Assess relationships, both direct and indirect, between trading parties
- Identify uneconomical or atypical trading activity, which could be money laundering
- Quickly and accurately assess suspicious connections between parties who you would expect to be unrelated
- Build a comprehensive picture of trade networks by connecting parties through attribution data, corporate structures, details in trade documentation and shipping routes
- Identify with accuracy suspected money laundering through international trade



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## Build your networks

When looking at network risk, here are some important questions to reflect on:

How do you currently uncover relationships between parties?

What data do you use to investigate relationships?

How do you incorporate network information into your detection engine?

How are suspicious relationship networks exposed to your investigation teams?

How do you ensure your investigators correctly uncover high-risk relationship networks?

Where are your gaps in exploring an entity's relationships and suspicious connections?



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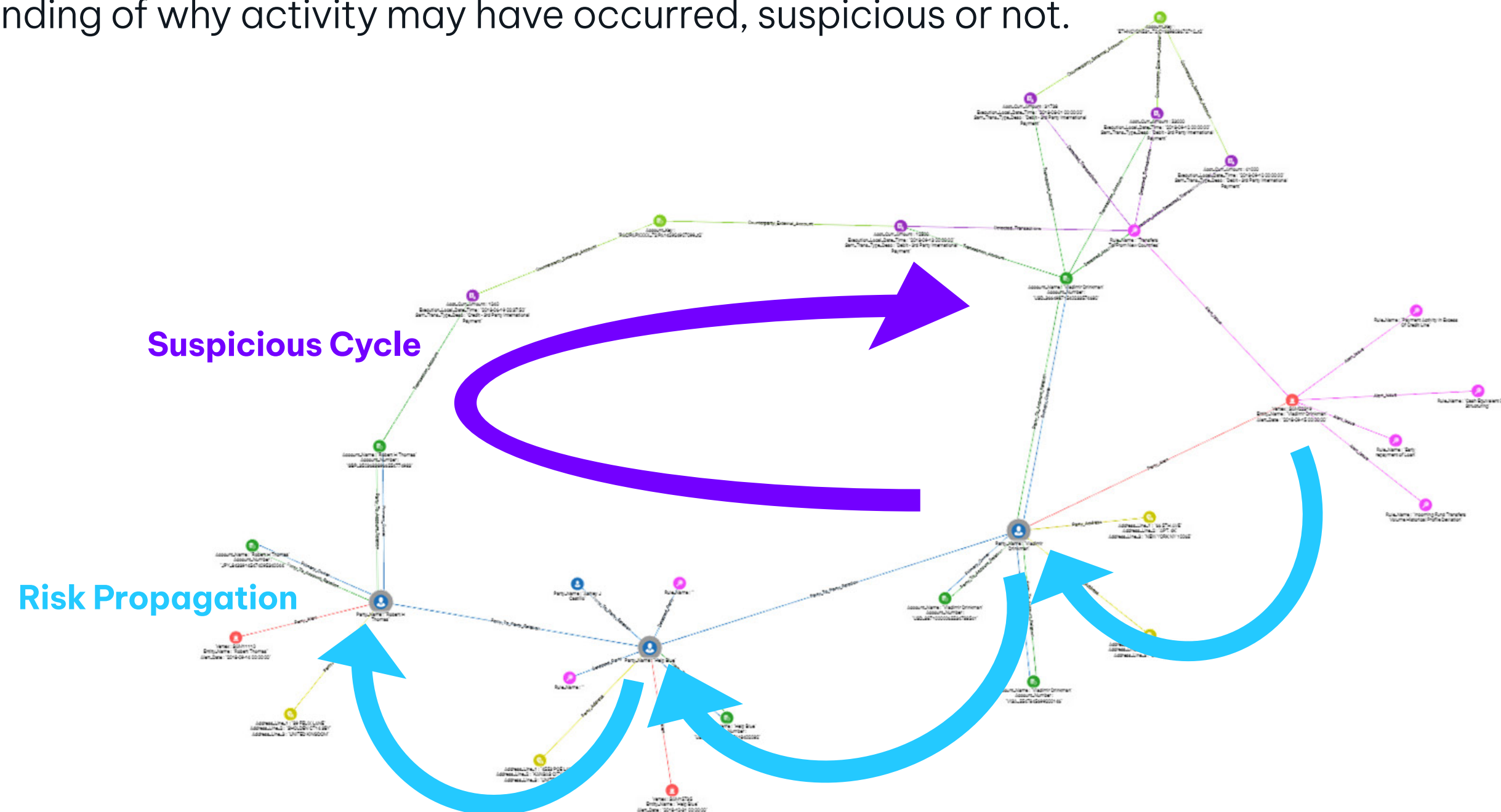
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### The power of network risk analytics

Network risk analytics combines the power of identity resolution and graph analytics to uncover customer relationship networks and their associated risks. It uses customer account information, transactional data, and third-party data intelligence to identify these direct and indirect links. Ultimately, it detects suspicious network activity.

Network analytics also plays a key role during investigations. It enables investigators to explore connections and identify suspicious links, providing more clarity. Investigators can develop an understanding of why activity may have occurred, suspicious or not.



With network risk analytics, your organization can expose previously hidden relationships and identify additional suspicious activity.

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## Step 6 – Streamline investigation and case management processes for efficiency

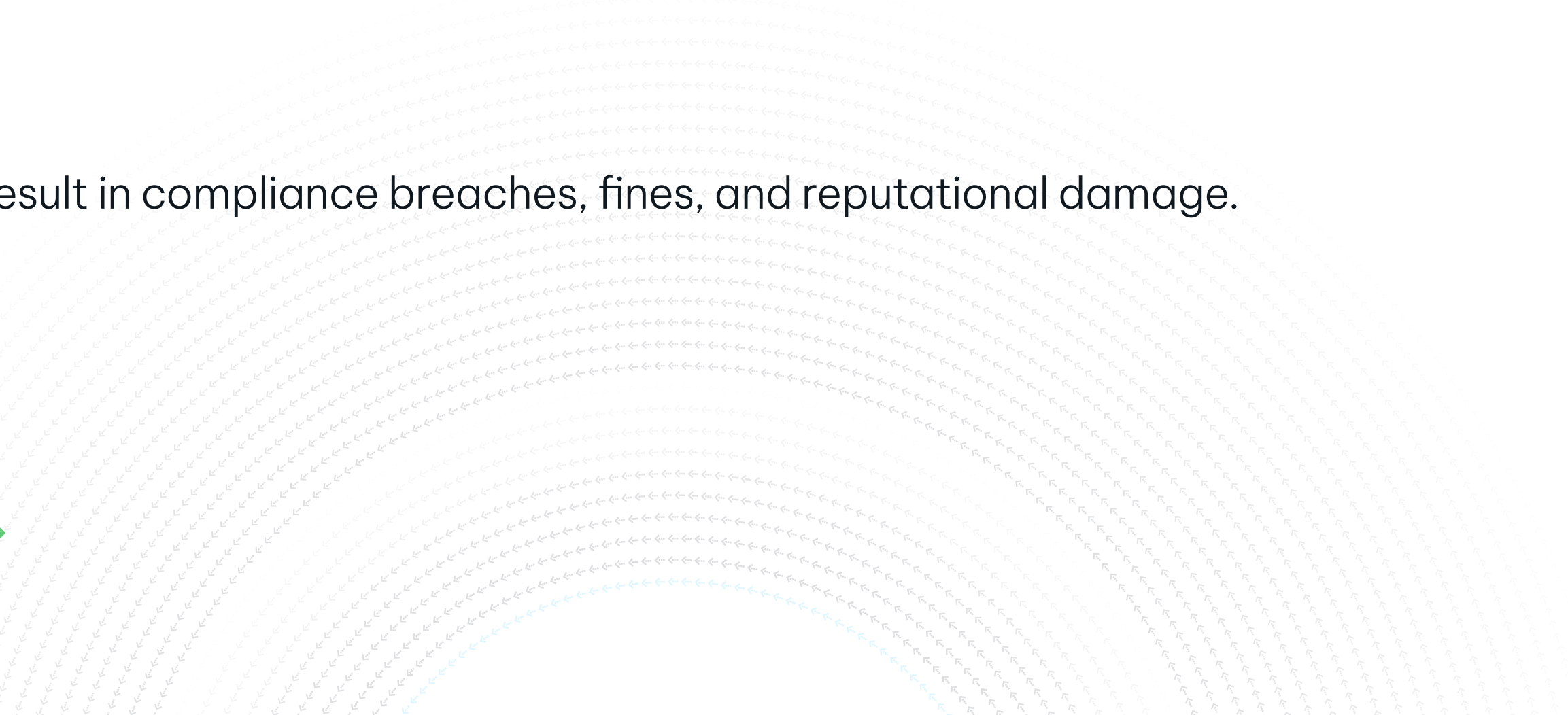
### What good is an alert without the ability to investigate it quickly and accurately?

A core pillar of any good alerting system is a comprehensive, scalable and compliant case management solution.

Investigations can't function without skilled human investigators, and humans make mistakes:

- Repetitive tasks can result in human error and missing information
- Forgotten steps can cause cases to be closed incorrectly
- Investigators have different skill levels that can lead to inconsistent results

Mistakes like this can result in compliance breaches, fines, and reputational damage.





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## Are your investigations effective?

Questions to ask to improve investigation effectiveness:

What process exists to ensure the right investigation goes to the right team or investigator?

Who or what prioritizes the alert queue? Are high-risk alerts dealt with in a timely manner?

How is relevant information provided to investigation teams at the right time?

How integrated are compliance systems and do they provide a single view of risk?

What additional steps do investigators carry out and how is this managed?

How is investigation quality maintained?

How are Suspicious Activity Reports (SARs) and Suspicious Transaction Reports (STRs) currently filed with Financial Intelligence Units (FIUs)?

Step 1 – Start smart

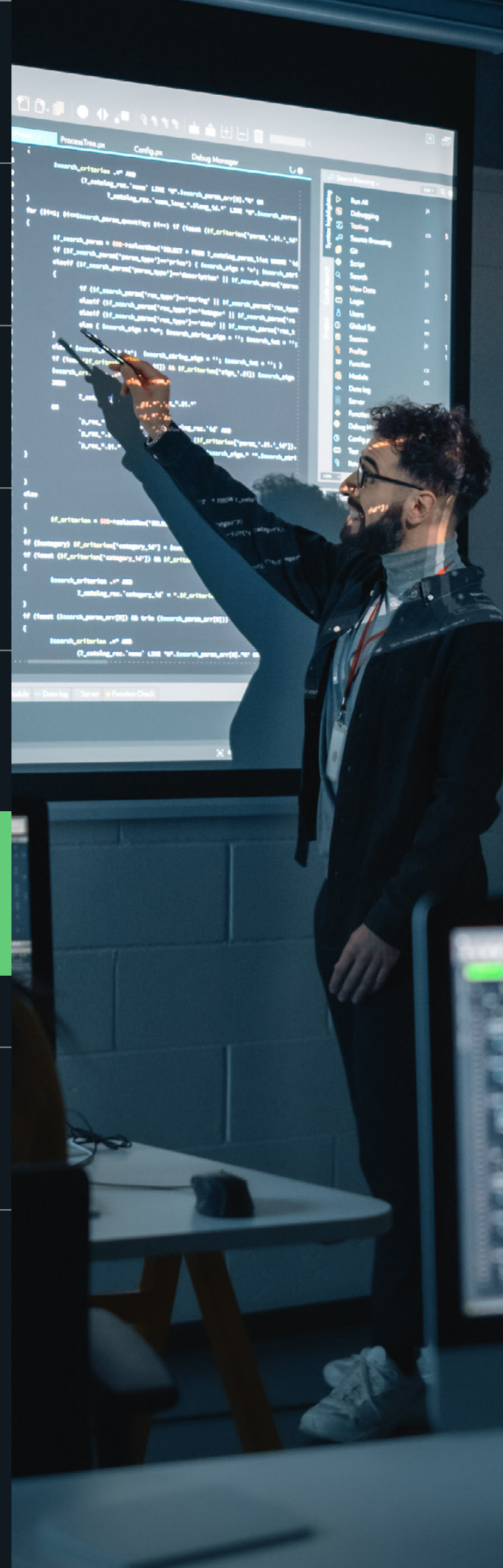
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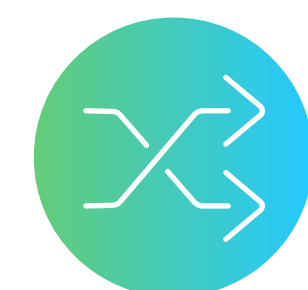
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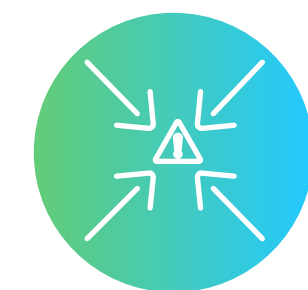
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## Technology can provide the right controls for fast, accurate investigations

A number of tools can be deployed in a case management solution to help investigators make disposition decisions.



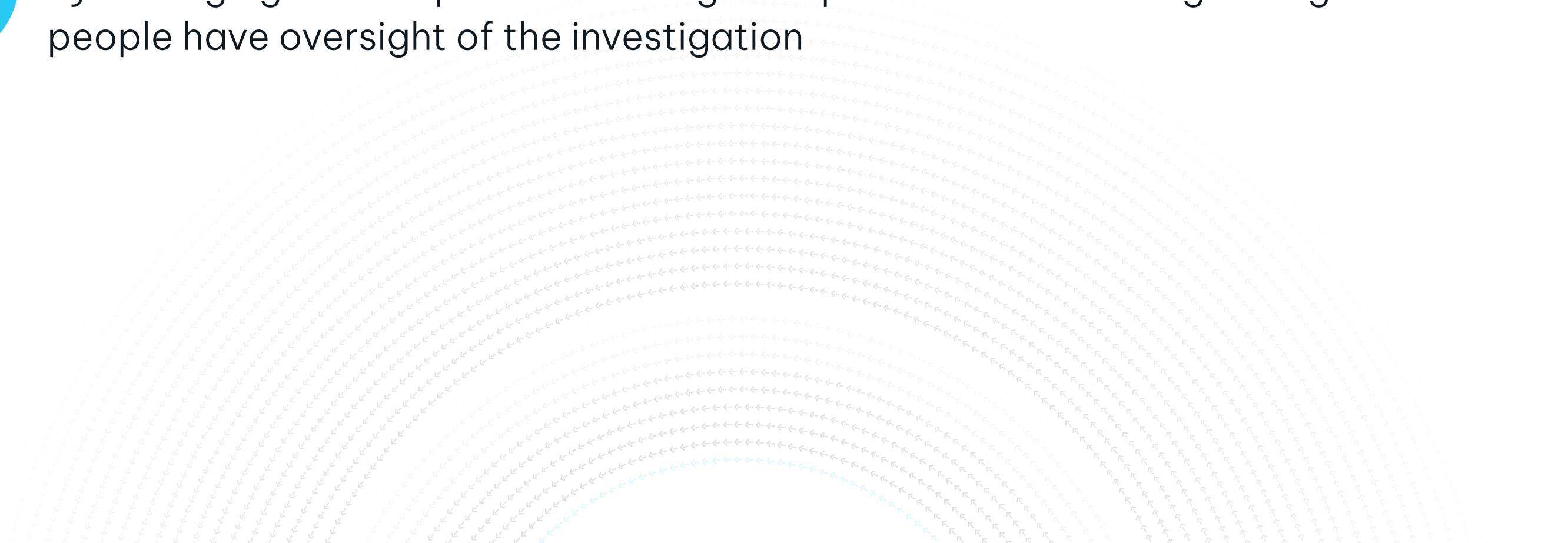
**Dynamic workflows** – Route alerts to the right investigator or team at the right time. Make sure the right expertise is allocated to the right investigations to maximize effective outcomes



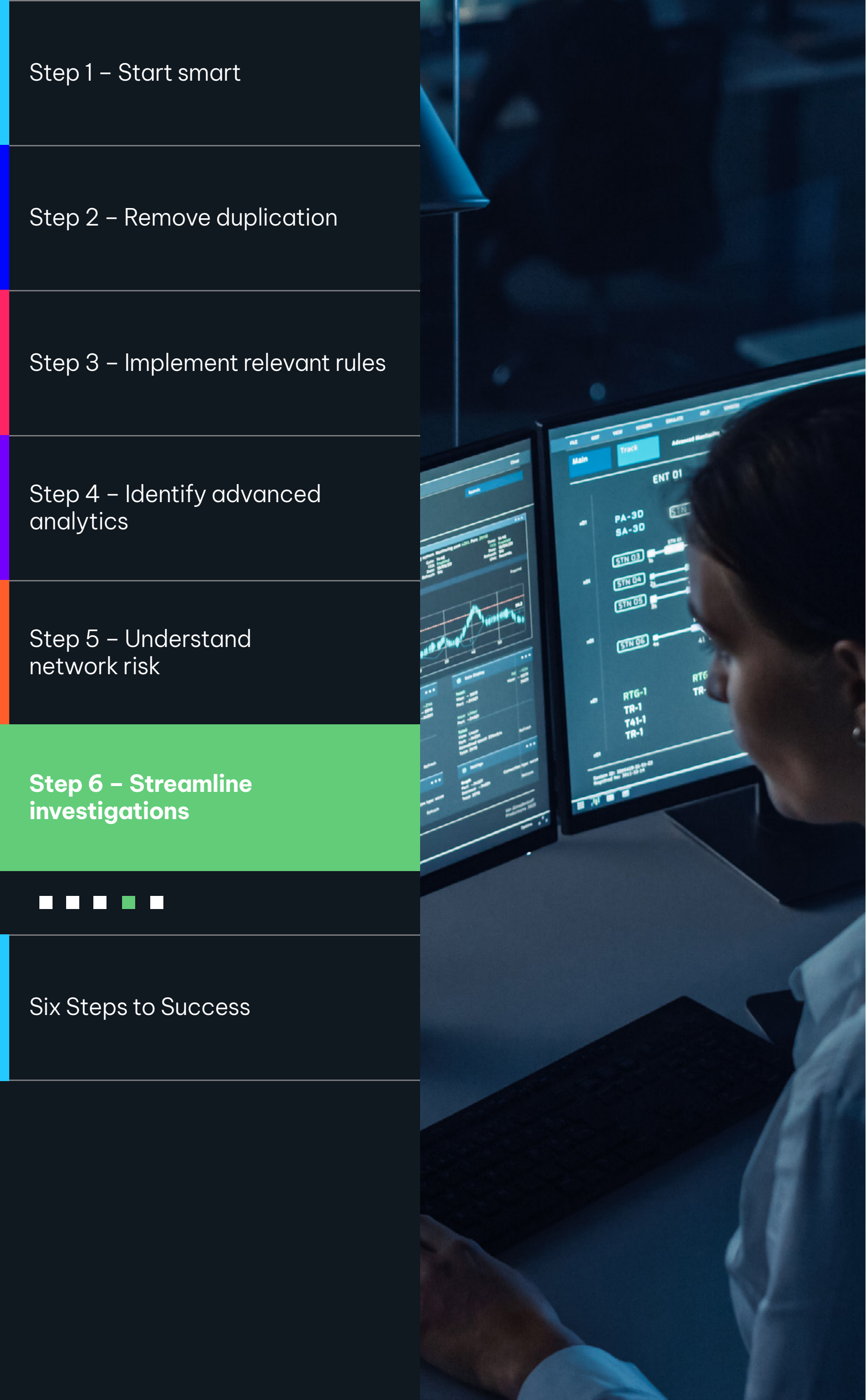
**Smart data** – Consolidate relevant internal and external data associated with the entity under investigation and related counterparties. Create consistency in investigations by providing investigators with all the data to make informed decisions



**Managed investigation steps** – Take the guesswork out of investigation flows by managing next steps in an investigation process and ensuring the right people have oversight of the investigation







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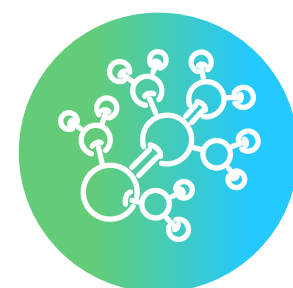
**Step 6 – Streamline investigations**



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## Technology can provide the right controls for fast, accurate investigations

A number of tools can be deployed in a case management solution to help investigators make disposition decisions.



**Visual network exploration** – Provide investigators with insights into the subject’s relationships and related risks



**Auto SAR/ STR filing** – Reduce human error when filing SARs/STRs by auto populating the form with information required by law enforcement



**Management oversight** – Assure management that processes are being followed and the right decisions are being made. Oversight tools should include governance reports and visual performance graphs for both model and investigator performance



**Feedback** – Use disposition information to inform detection and other systems, such as Know Your Customer (KYC), so customer risk can be reassessed



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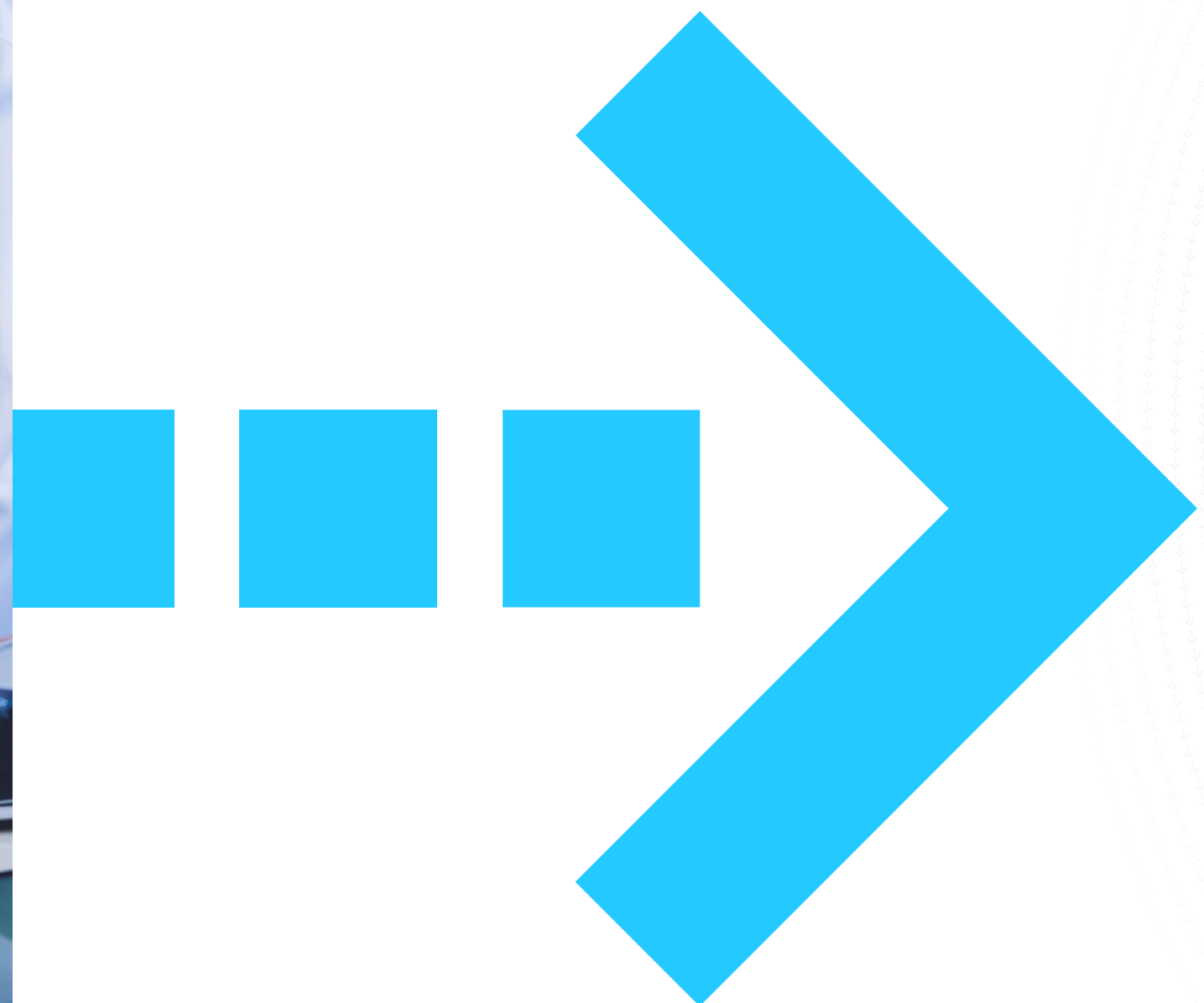
Step 6 – Streamline investigations



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### Investigate faster and with precision

With the right automated case management solution, alerts and subsequent investigations can be appropriately managed by the investigators. Accurate decisions can also be made.



**With the right case management processes in place, organizations can achieve up to**

# 23%

**faster investigations**

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## Six steps to success

By following these six steps and adopting the right technology for each step, you can see significant improvements in the effectiveness of your transaction monitoring:

- ➡ Start with the right data intelligence
- ➡ Remove duplication
- ➡ Implement relevant transaction monitoring rules
- ➡ Identify the right advanced analytics
- ➡ Understand network risk
- ➡ Streamline investigation and case management processes

Central to all of this is a multidimensional approach to transaction monitoring detection.

No one stage of detection is infallible. By combining rules, advanced analytics and network risk analytics, no suspicion will be missed.

**Contact us to start in your transaction monitoring evolution.**



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# NICE Actimize

## See the latest technology in action

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### About NICE Actimize

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers and investors assets by identifying financial crime, preventing fraud and providing regulatory compliance. The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.

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