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WHITE PAPER

Why a hybrid approach to AML is **building a digital advantage** in private banking

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Foreword from Charmian Simmons, financial crime and compliance expert at SymphonyAI Sensa-NetReveal

For private banks, there are perhaps more nuances, more detailed relationships, more high net worth individuals, and more complex workflows than in almost any other banking sector. And, of course, the high value of transactions means this sector has varied and intricate risks which set it apart from many broader money laundering trends.

As part of our ongoing commitment to the industry, we recently conducted global research amongst compliance officials, including those working in the private banking sector. With the goal of better understanding the specific issues facing the sector, we were able to assess how private banks are answering their anti-money laundering (AML) challenges with technology today and what they are doing now to prepare for the future.

Our research suggests that many private banks are at a crossroads when it comes to AML. Although the majority have some form of AML technology in place, current solutions are often not enough to alleviate money laundering concerns. As a result, our data suggests that many are engaging with AML technology vendors to try a new approach.

So, from investigating sector-specific technology to building fresh, hybrid ways of working, is now a turning point for private banks in their fight against money laundering?
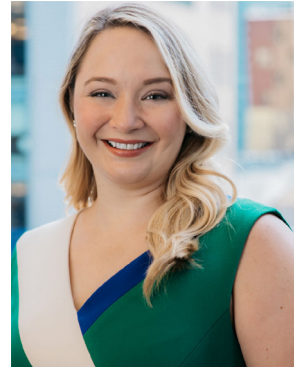
Charmian Simmons
Financial crime and compliance expert at SymphonyAI

The story in **numbers**

The research in this report follows an independent global survey of approximately 500 financial compliance professionals by Atomik Research. 56 respondents worked in the private banking space (asset management, wealth management, and private banking) and included directors/heads of compliance, risk management professionals, analysts, and money laundering risk officers. The research took place across the UK, USA, France, Germany, Australia, and Singapore in 2021.

77%
Using automated tech
Over three-quarters of private banking institutions have some form of automated AML technology in place, but traditional AML is not enough

1/3
Fraud, corruption and racketeering concerns
Concerns about fraud, corruption, and racketeering, as well as organised crime, top the list of money laundering concerns among private banks

63%
Crime is getting harder to spot
Most also agree that money laundering techniques have become harder to spot in the last 12 months

1 in 5
Seeking change
Many private banks are looking for more engagement with their technology vendor on how they stand up AML regulations

Introduction: private banking as a target for money laundering

The total value of assets under management across the globe is expected to soar from $110 trillion in 2020 to $145 trillion in 2025.[1] The sheer size and scale of the private banking market therefore makes it an attractive target for money launderers. Although the financial risk to private banks continues to have a major impact, there is also the added challenge of increased regulatory scrutiny that requires additional time and focus and often also has a knock-on impact to reputation.
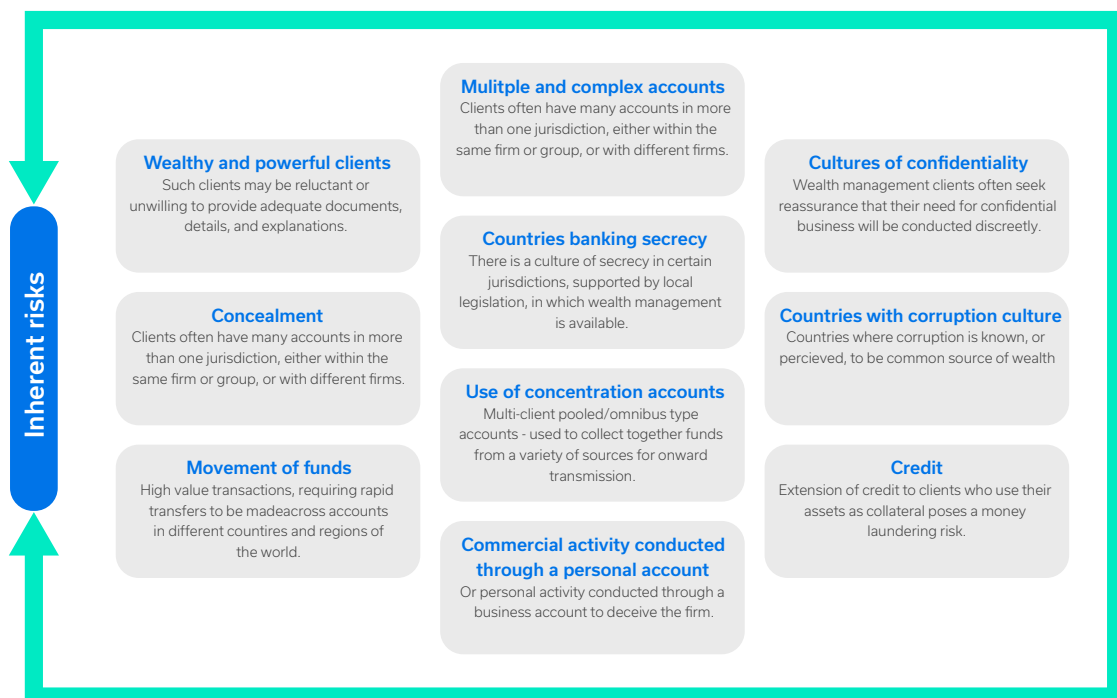
The private banking industry is certainly responding to these challenges. It knows that its sector is of ever-growing value to criminals looking to move money from one location to another, evade tax, or liquidate assets. The gaze of governments, legislators, media, and policy makers is also intensifying. And, in the current climate, banks sense that AML and sanctions violations will be met with increasingly harsh regulatory action – from penalties and non-compliance fines, to deferred prosecution agreements and actions designed to make management more accountable.

The spotlight on private banks is only going to continue to grow more intense. The European Banking Authority (EBA) warned in guidelines released in March 2021 that "wealth management firms' services may be particularly vulnerable to abuse by clients who wish to conceal the origins of their funds or, for example, evade tax in their home jurisdiction."[2]

This report examines the private banking community's anti-money laundering concerns and compliance technology challenges in more detail. With hybrid approaches to AML emerging on the solution landscape, along with advanced sector specific technology capabilities, we ask whether now marks a turning point for driving a step change in the sector.
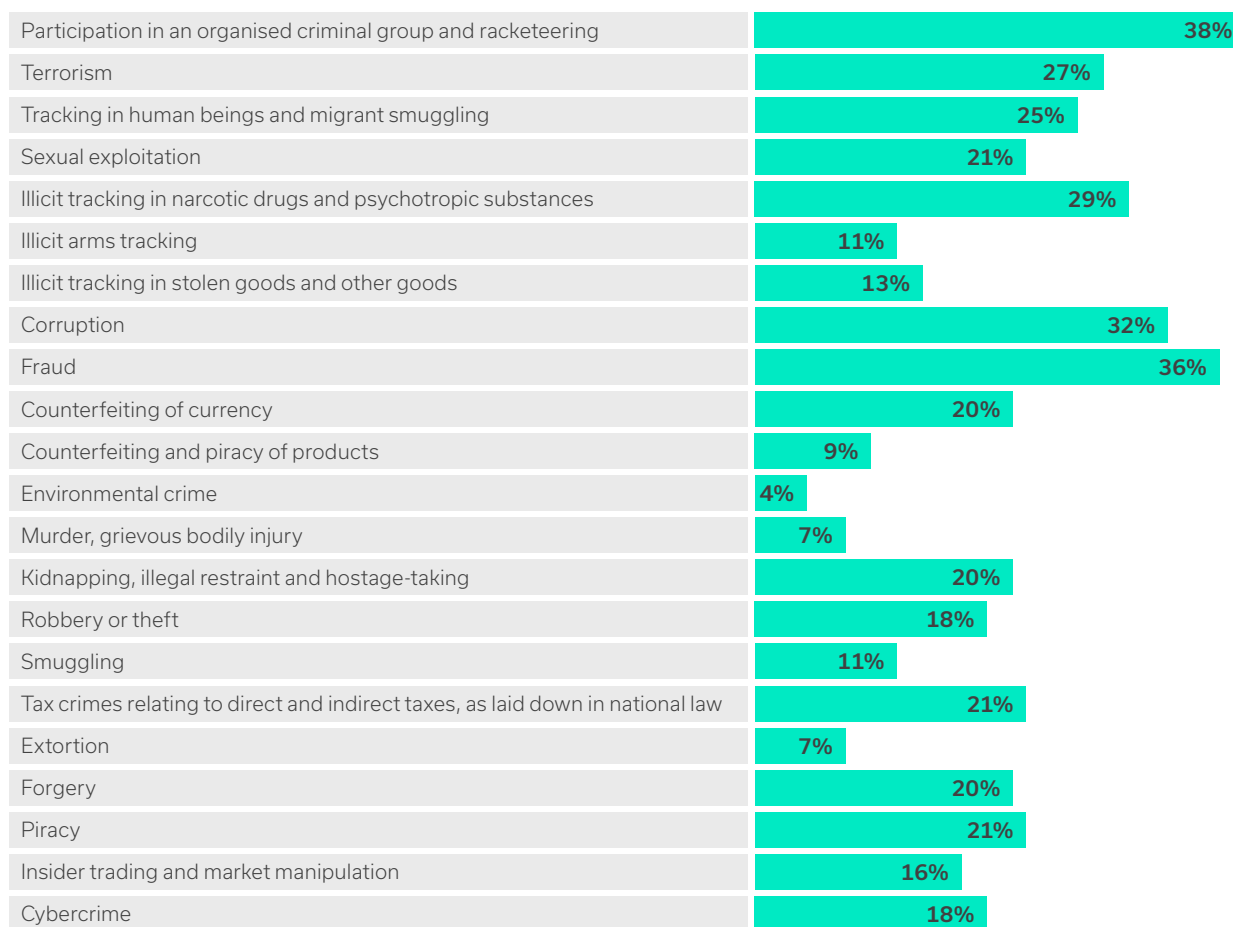
Chapter one: the top AML concerns for private bankers

Private banking offers a range of complex products and services that operate internationally, within a reputable and secure wealth management environment where high value transactions are commonplace. That makes it an attractive proposition for money launderers, as does the culture of secrecy and confidentiality that permeates much of the industry. The following graphic shows a breakdown of the top money laundering risks facing private banks.

Inherent risks

Wealthy and powerful clients
Such clients may be reluctant or unwilling to provide adequate documents, details, and explanations.

Concealment
Clients often have many accounts in more than one jurisdiction, either within the same firm or group, or with different firms.

Movement of funds
High value transactions, requiring rapid transfers to be madeacross accounts in different countires and regions of the world.

Mulitple and complex accounts
Clients often have many accounts in more than one jurisdiction, either within the same firm or group, or with different firms.

Countries banking secrecy
There is a culture of secrecy in certain jurisdictions, supported by local legislation, in which wealth management is available.

Use of concentration accounts
Multi-client pooled/omnibus type accounts - used to collect together funds from a variety of sources for onward transmission.

Commercial activity conducted through a personal account
Or personal activity conducted through a business account to deceive the firm.

Cultures of confidentiality
Wealth management clients often seek reassurance that their need for confidential business will be conducted discreetly.

Countries with corruption culture
Countries where corruption is known, or percieved, to be common source of wealth

Credit
Extension of credit to clients who use their assets as collateral poses a money laundering risk.

Source: JMLSG Guidance

JMLSG

Given these challenges, it's perhaps not surprising that many survey respondents working in private banking cited significant money laundering concerns. Despite its reputation in some quarters as a victimless financial crime, money laundering is actually an enabler and/or by-product of some of the most heinous crimes, including murder, human trafficking, and sexual exploitation. These have been broken down into 22 "predicate" offences, in the European commission's sixth anti-money laundering directive (6AMDL).[3]

Taking this as our framework, we asked respondents in the private banking sector about their top money laundering concerns.

Offence	%
Participation in an organised criminal group and racketeering	38%
Terrorism	27%
Tracking in human beings and migrant smuggling	25%
Sexual exploitation	21%
Illicit tracking in narcotic drugs and psychotropic substances	29%
Illicit arms tracking	11%
Illicit tracking in stolen goods and other goods	13%
Corruption	32%
Fraud	36%
Counterfeiting of currency	20%
Counterfeiting and piracy of products	9%
Environmental crime	4%
Murder, grievous bodily injury	7%
Kidnapping, illegal restraint and hostage-taking	20%
Robbery or theft	18%
Smuggling	11%
Tax crimes relating to direct and indirect taxes, as laid down in national law	21%
Extortion	7%
Forgery	20%
Piracy	21%
Insider trading and market manipulation	16%
Cybercrime	18%

Our research indicates that private banks are concerned about the societal impact of crimes associated with money laundering. Also notable is their desire to avoid reputational damage and unnecessary fines (38 per cent agree), and to meet regulatory requirements (28 per cent agree). In terms of financial risk, respondents cited fraud (52 per cent), participation in organised crime (29 per cent) and corruption (29 per cent) as the predicate offences that result in the biggest losses to their organisations.

38%
Of private banks want to avoid reputational damage and unnecessary fines

52%
Half (52%) say that fraud is the offense that creates the biggest financial losses for their bank

29%
Followed by organised crime (29%) and corruption (29%)

Chapter two: the people and technology on the AML front line

The people

How are private banks managing these risks? Relationship managers play an important role here. They develop strong personal relationships with clients in order to better understand their business, sources of wealth, and the network of personal asset managers, accountants, friends, and business associates who usually surround them.

However, these Know Your Customer (KYC) efforts are often complicated by the lifestyles and business dealings of private banking clients. These can make it challenging to establish a baseline of "normal" behaviour which can then be used to flag suspicious activity. It's why customer due diligence (CDD) checks can be particularly rigorous in the sector – including visits to client premises, reference and reputational searches, and an in-depth review of a client's personal information prior to on-boarding. Relationship managers are also involved in monitoring incoming and outgoing transfers and conducting detailed reviews of account activity in the event activity is flagged as suspicious.

The technology

Given the estimated scale of global money laundering[4] and the serious concerns private banking respondents have about its impact on their organisation, many have invested in AML technology solutions to support their efforts. In fact, our study shows that 77 per cent of private banks have automated products in place to help detect and prevent money laundering.

> " *Relationship managers are the front line of AML detection in this space, so they need support from solutions that recognise their workflows and enable them to work effectively with compliance teams, without interrupting business or hindering regulatory compliance obligations."*
>
> **Charmian Simmons, SymphonyAI Sensa-NetReveal**

77%

of private banks have automated products in place to help detect and prevent money laundering. Yet, often these are solutions originally developed for retail banking

Yet, these solutions have often been designed for other banking sectors, such as retail banking, so despite implementing these solutions, and despite the important role played by relationship managers in understanding their customers, many private banks are still struggling to combat money laundering.

When asked about their biggest technological challenges, 38 per cent said it's extremely hard to measure how often money laundering is happening, and 63 per cent claimed money laundering techniques have become harder to spot in the past 12 months. Reduced budgets, under-performing tools, and more sophisticated criminals appear to be making life more difficult for AML compliance teams. Overall, private banks estimate that their technology only uncovers around 38 per cent of money laundering activity.

38%
Money laundering uncovered
Private banks estimate that they only uncover around 38 per cent of money laundering activity

63%
Crime is getting harder to spot
Most also agree that money laundering techniques have become harder to spot in the last 12 months

34%
It's hard to stay ahead
A third agreed that staying ahead of the criminals is their biggest AML challenge

20%
1 in 5 working with outdated tech
A fifth said their technology is outdated and can't keep up with AML requirements

> *Money laundering prevention is a challenge across the industry, and one which is instigating continuous innovation. However, with only just over a third of money laundering being uncovered in the private banking sector, we're seeing a strong desire and impetus to do more in this space. It's possible that much of the technology used here is outdated or not specifically designed for private banking workflows, where there are particular customer nuances and money laundering challenges."*
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> **Charmian Simmons, SymphonyAI Sensa-NetReveal**

Chapter three: specialised approaches and an era for change
Technology to make a difference

Although our study has shown that the majority of private banks do have some form of automated AML technology solution in place, it's also clear that there are still difficulties in the sector when it comes to AML efforts.

A fifth of respondents said that their technology is outdated and can't keep up with current AML requirements. One such area where difficulties may arise is the use of traditional customer segmentation models. This is a method that combines groups of customers based on their AML risk to provide meaningful insight into expected customer behaviours and highlights unusual activities for possible investigation. Although commonly used in AML solutions in across the banking sector, customer segmentation approaches may need to be more nuanced for them to work effectively for private banks, as customers here may display fewer commonalities. Moving forward, a specialised approach to AML may help to overcome difficulties like this, and others.

> *Approaches to customer segmentation may require fine-tuning in the private banking sector because each customer might exhibit idiosyncratic behaviours. It's still common to group customers into segments according to wealth, investment strategy, and/or specific demographic variables, and then adjust AML rules on these accordingly. But a more effective, risk-based approach might be to cluster customers according to natural behaviour patterns. These could be discovered through unsupervised machine learning models which can be applied to unstructured as well as structured data."*

**David Nicholson, analytics product manager, SymphonyAI Sensa-NetReveal**

Private banking and wealth management
Take control of regulatory compliance risks with explainable outcomes.

Preconfigured and packaged to suit the specific needs of private banking sector and wealth management, SymphonyAI Sensa-NetReveal is designed to understand the AML and financial crime challenges posed by high net worth individuals through one platform, which is easy to maintain and integrate with existing platforms, lowering the total cost of ownership. Our solution enables you to manage anti-money laundering (AML) and financial crime risks covering transaction monitoring, sanctions screening, and customer risk scoring from a single integrated platform, and enforce a risk-based approach.

Tailored needs for high-value transactions environments

With high stakes and in-turn rewards, your firm will have tailored needs to manage compliance and AML risks and reporting. Although you may have smaller portfolios to manage compared to retail banks, the stakes are arguably higher. Therefore, in this environment, AML solutions must be tailored to your specific needs and risks.

AML and transaction monitoring

Customer due diligence

Watch list management
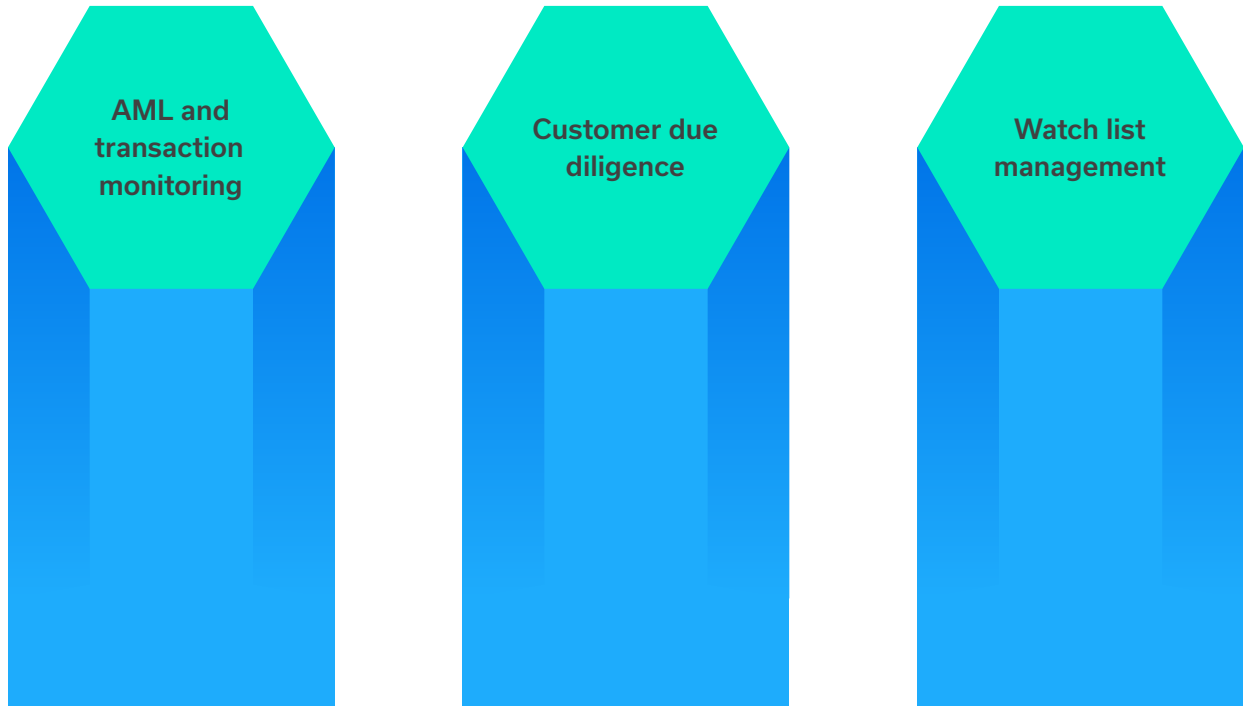
Hybrid thinking as an era for change

Aware of the challenges and opportunities, private banks are getting more vocal with their providers. Indeed, a fifth (20 per cent) said they want closer engagement with tech vendors on money laundering issues.

Charmian Simmons, SymphonyAI Sensa-NetReveal: "Although it's a relatively small number at present, this 20 per cent arguably represents the beginning of a new era of closer engagement and a more proactive approach to managing reputational risk."

Perhaps most importantly, the next generation of AML solutions for private banking should be intuitive enough to be guided by non-tech specialists who really understand the sector and their clients, and so are able to add their own layer of knowledge to the technology, forming a comprehensive hybrid approach to AML."

David Nicholson, SymphonyAI Sensa-NetReveal explained, "Whilst a hybrid approach to AML is a new concept, it could mark a turning point for compliance activities in the private banking sector. It enables organisations to maximise the role of the relationship manager, using their knowledge of each customer, but supporting them with technology that is intuitive, relevant to their sector, and allows for close cooperation with compliance teams."

> A hybrid approach to AML provides an organisation with a solution that combines the expertise of humans – in this instance the relationship managers who know their customers, their risks and their behaviours – **with innovative technology that is specifically tailored to its sector's vulnerabilities.**

Conclusion

Our research shows that private banks are increasingly asked to do more on AML compliance with less. Nearly two-thirds (62 per cent) of respondents said their budgets had been cut by up to a quarter over the previous 12 months. Less than half (45 per cent) have a dedicated AML division.

Yet despite this, the sector is waking up to the financial and reputational risk that money laundering can generate. And it's keen to do something about it.

With concerns mounting over relatively low detection rates, the race is on for private banks to embrace a new approach to AML. Technology will play a key role in this, but care must be taken when shortlisting solutions – many have not been designed with the specific requirements of the sector in mind. By combining a hybrid approach that blends different segmentation and machine learning approaches with human knowledge, private banks may soon be able to face the future with confidence.

About SymphonyAI Sensa-NetReveal

SymphonyAI Sensa-NetReveal, a division of SymphonyAI, provides leading AI-based financial crime detection software.

[1] https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2020/trends/asset-wealth-management.html
[2] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2021/963637/Final%20Report%20on%20Guidelines%20on%20revised%20ML%20TF%20Risk%20Factors.pdf
[3] Questions and Answers – Commission steps up fight against money laundering and terrorist financing, European Commission (7 May 2020)
[4] https://www.europol.europa.eu/crime-areas-and-statistics/crime-areas/economic-crime/money-laundering

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