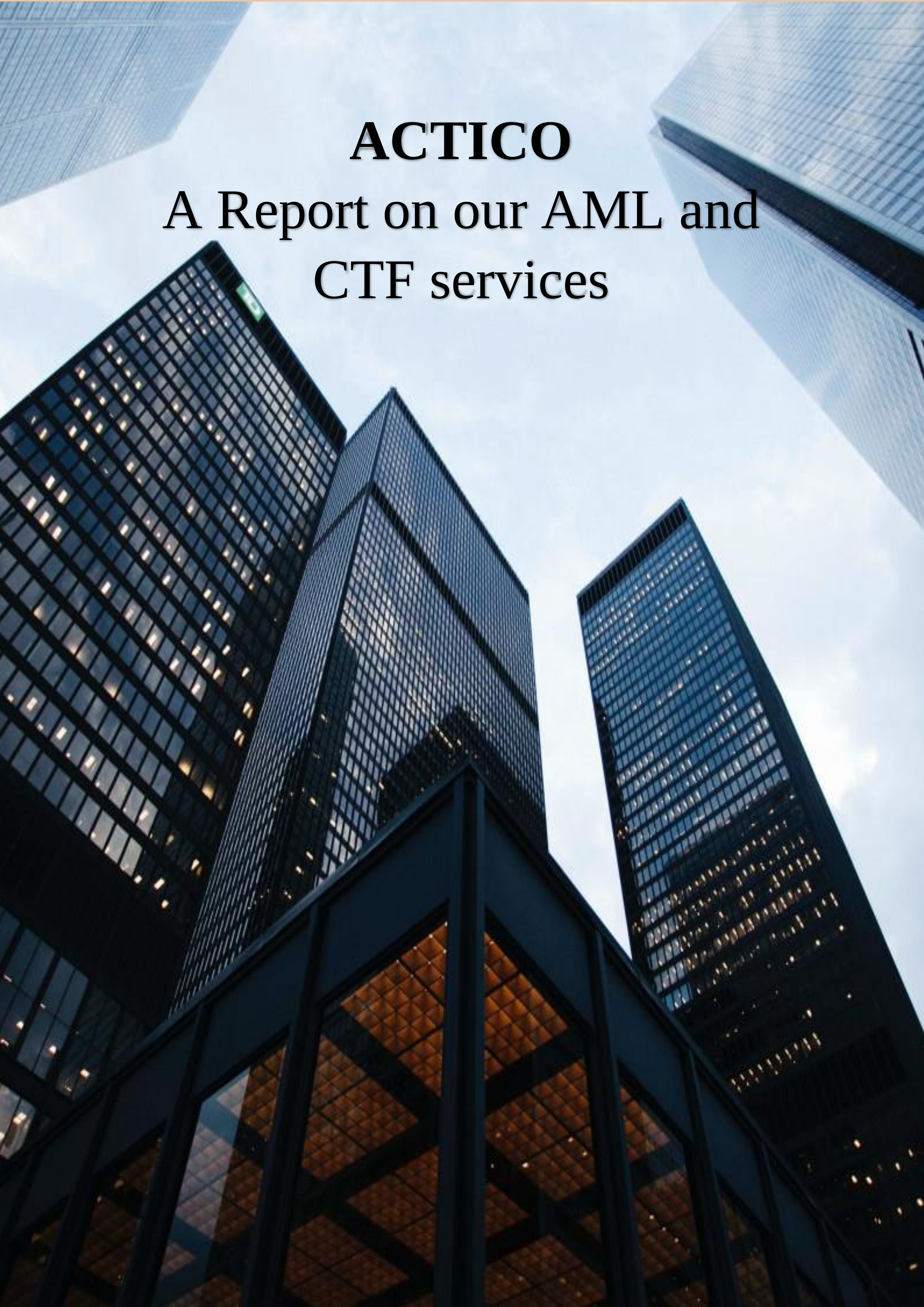
ACTICO

A Report on our AML and CTF services



ASSIGNMENT COVER SHEET

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Introduction

Christine Moosherr (COO and Co-founder) and Thomas Knopfler (CSO and Co-founder) created ACTICO in Germany in 2015 a RegTech firm functions on a global scale.

To prevent financial crime, the 'ACTICO Compliance Suite' combines AML/CTF, KYC, sanctions & PEP screening, payment tracking, and market abuse prevention. The programme explains hits, keeps information, and creates quarterly reports for internal and external auditors. The firm can customise fundamental compliance scenarios. Technology lets businesses change and add rules.

Banks, financial service providers, and insurers can quickly adapt to regulatory changes, reduce compliance risks with proven procedures, use a single system for compliance and anti-financial fraud management, digitalize and automate testing of millions of daily transactions, and reduce compliance staff workload with modern procedures.

Background and Aims of the Regulation/Directive

Financial regulation and oversight were highlighted by the 2008 financial crisis. This is why the European Commission proposed roughly 30 laws to control and supervise all financial aspects, products, and markets. These laws govern all 28 EU Member States and support a functional financial services single market.

Following are the Key Regulations and Directives in EU:

- Anti-Money Laundering (AML)
- Transparency Directives
- Prospectus Regulations
- Markets in Financial directive and instrument regulations (MIFID 2)
- General Data Protection Regulation
- MAD AND MAR
- Payment Services Directive (2 PSD)

RegTech companies are facing more and tighter regulations. Automating risk management recruitment and retention solves all our concerns. AI and machine learning help organisations automate this way. It also benefits from combining human and data knowledge. Thus, it improves decision-making and allows organisations to use humans for complex risk assessments that machines cannot manage.

This solution helps banks, financial service providers, and insurance companies adapt quickly to regulatory changes, reduce compliance risks with proven procedures, manage compliance and anti-financial fraud in a single system, digitalize and automate testing of millions of transactions daily, and more.

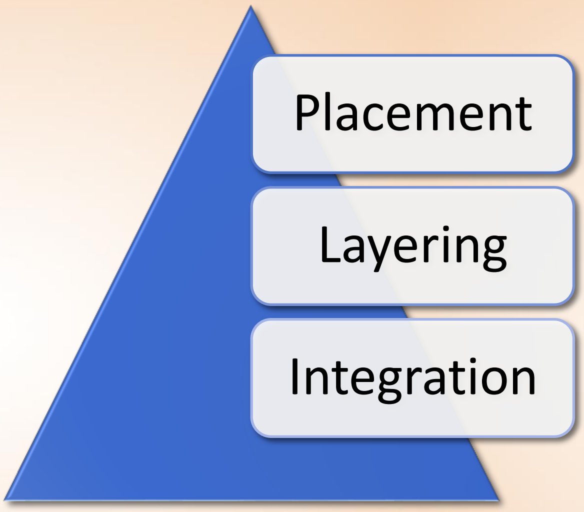
AML and the Directives

The Central Bank of Ireland defines Money Laundering as 'The process by which the proceeds of crime are processed ('washed') through the financial system in an effort to disguise their illegal origin'.

Three crucial characteristics

An underlying, profit-making crime (e.g. tax evasion, fraud, theft, organised crime, drug trafficking, embezzlement)	Conceal, transfer, or convert criminal gains	The individual involved knows or ought to have known the property is the proceeds of crime

The 3 stages of money laundering are:



The Criminal Justice Act 2010 (as amended 2018/19) applies to all designated persons.

Designated person includes credit institution, financial institution and a broad range of other entities.

The rules contained in each Directive are as follows:

First AML Directive:

The First Directive listed entities required to follow the AML Directive to combat money laundering. It required obligated organisations to:

- Conduct Customer Due Diligence and Know Your Customer practises when onboarding new clients and frequently during the engagement.
- Keep customer relationship records for five years following termination.
- Report suspicious client activity to member state authorities. Ireland's CBI is capable.

Second AML Directive:

Organized crime groups laundered money in the EU Financial Market notwithstanding the first AML Directive. December 2001 saw the EU's Second AML Directive. Replaced First Directive. Changes included:

- Expanded money laundering definition.
- Non-banking financial institutions are now obligated.
- Each member state must establish a FIU.
- Report all suspicious activity to the FIU.

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Third AML Directive:

Financial markets fuelled multiple terrorist acts, including 9/11, in December 2001. The EU believed the Second AML failed to uncover suspicious behaviour. In 2005, the third Directive made these changes:

- Risk-based AML processes introduced.
- Added terrorist risk to client due diligence and KYC procedures.
- Established risky client due diligence procedures.
- First-time inclusion of casinos in the obliged list.

Fourth AML Directive:

The Fourth AML Directive, which was introduced in 2015, brought in key changes, a few of which are:

- More entities are now AML/CTF-compliant.
- Defined Publicly Exposed Persons (PEPs)—EU and non-EU public figures—and mandated heightened due diligence on them.
- Increased prosecution and punishment for money launderers.

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Fifth AML Directive:

2018 saw the Fifth AML Directive. The money-laundering-funded Brussels and Paris attacks prompted this new Directive. So, what did it do?

Required public beneficial ownership registers for firms and trusts.

Increased member state Financial Intelligence Unit authority.

Added Crypto/Virtual Currency Exchanges, Wallet Providers, and Art Dealers to the list of obliged entities.

And other increased transaction monitoring and reporting.

Sixth AML Directive:

December 2020 saw the EU's Sixth AML Directive. This standardised money laundering definitions.

Each member state had to implement the AML Directive. Member states define money laundering differently, providing legal loopholes.

The Sixth Directive added 22 crimes, including cybercrime and environmental criminality, and money laundering.

FAFT and the EU found financial system money laundering by cybercriminals and environmental criminals. New laws expressly highlighted these offences to close legal gaps. Increased member state-other jurisdiction cooperation was another key change.

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Banks and Operations

- The biggest financial entities in the past have been banks. When we consider that even a single local bank mediates thousands of financial transactions every day, we can estimate that millions of financial transactions occur through banks every day around the globe.
  As a result, criminal organizations and individuals find banks to be appealing as sources of funding.

- Financial institutions launder 97% of criminal money. They split the money into modest quantities in numerous banks to avoid suspicion. They can withdraw or send "bad money" legally. Banks handle millions of financial transactions every day, making them exposed to financial crimes.

  Therefore, banks must comply with AML and limit risks.

- Financial institutions, insurers, and banks are regulated. Laws, directives, and regulations address money laundering, terrorist financing, market abuse, fraud, and other crimes. Rules for recognising high-risk business contacts and transactions are expanding and being updated.

Risks

Why should banks avoid money laundering?

The risk level of each consumer varies, according to the risk-based concept. Additionally, the level of risk varies per nation. Businesses must assess the risks to their customers and implement specialized control procedures as a result.

Banks are required to evaluate AML, KYC, and screening procedures using a risk-based methodology when an account is opened. Then, using the control mechanisms created by their respective risk levels, banks must regulate the transactions of their customers.

Transaction Screening

A Bank has many customers. It also mediates transactions from non-customers. An average bank handles hundreds of customer-to-customer transactions daily. In these money transfer transactions, banks must have control over both the sender and the buyer.

Banks risk hefty penalties if they assist payment to sanctioned individuals. Uncontrolled receipts incur administrative and financial penalties. Technology eliminates manual controls. AML regulations require banks to examine customer transactions automatically.

Tracking

Only people in the Sanction, PEP, and Adverse Media database never conduct financial crimes. Lists may miss other abnormalities because banks risk financial crime from every customer. Technology facilitates money laundering. Today's transaction monitoring tools can monitor thousands of transactions in real time, something banks cannot accomplish manually.

Products

PEP SCREENING

PEP and Penalty Screening is used by banks, fintech, and large companies to identify and verify Politically Exposed Persons (PEP) and sanctioned individuals.

Banks risk-assess customers via PEP screening. PEPs must be thoroughly monitored for financial crimes since they influence government contracts. To assess risk, FIs and firms should know if customers are on Sanctions or PEP lists.

Money laundering and terrorism are becoming more frequent and complex as technology progresses, harming organisations. Companies must combat financial crimes. Regulators should follow some standards to prevent financial crimes. Financial transactions are hampered by trade and economic sanctions.

TRANSACTION SCREENING

Transaction screening and monitoring verify clients' identity and screen their transactions. Transaction screening, like KYC, prevents financial fraud. Before it escalates, transactions are monitored to verify they are not being completed on behalf of a prohibited party, either the sender or recipient or other components of a transaction.

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KYC

Banks must know their partners. Due diligence involves KYC profiling client background information. Legally, only institutions with complete, relevant, and up-to-date client data can find relationships or transactions with customers that might be risky.

ACTICO KYC automates onboarding. IT helps ACTICO KYC evaluate consumer risk. KYC profiles connect customers, beneficial owners, and businesses to finances.

• Following the Know Your Customer premise for due diligence

• KYC profile and risk monitoring for customer due diligence

TRADE SURVEILLANCE

Compliance is toughest in securities trade surveillance. Trade surveillance, or market surveillance, monitors the firm and its personnel for illegal and unethical trading behaviours include market manipulation, fraud, money laundering, insider trading, speculation, and unsuitable investments.

End-of-day restrictions on exchange-traded equities and debt executions, allocations, orders, and holdings begin trade surveillance. Instrument types, exchanges, and jurisdictions increase complexity. Effective monitoring helps companies uncover and prevent misbehaviour and defend their interests.

An automated "trade surveillance system" usually performs trade surveillance. Trade surveillance systems are web apps or software that automatically examine a firm's trade data for market abuse.

AVALOQ CORE BANKING SYSTEM

Today's banks offer more than just savings and loans. This is core banking.

Core banking allows customers transact across branches. It reduces geo-specific transaction barriers.

Core banking solutions benefit banks:

- Improved operations to meet consumer needs and industry consolidation
- Elimination of repeated entry errors
- Easy introduction of new financial products and management of product changes
- Seamless blending of back-office data and self-service operations
- Transactions
- Payment processing (cash, cheques, mandates, NEFT, RTGS).
- Designing new banking products.

Core banking benefits customers because:

- All banking products including savings and deposit accounts are available from anywhere
- Accessibility via mobile banking and web
- Accurate and actionable customer relations information
- Single view between bank and consumers

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Case Study On Compliance And Credit Risk

COMPLIANCE

About Bajaj Finance

Indian NBFC Bajaj Finance Limited is a subsidiary of Bajaj Finserv (NBFC). Consumer Finance, SME, Commercial Lending, and Wealth Management are its specialties.

Make Credit Decisions

Replacing the Rule Engine Embedded Inside the Loan Origination System. The loan origination system at Bajaj Finance enforced all business regulations and credit decision standards. It moved to the flexible and agile ACTICO Rules environment.

A. Challenge

Inconvenience Due to Hard Coded Business Logic

The rule engine's hard-coded business rules and decisioning procedures made maintenance difficult. The goal was to separate business rule maintenance from the loan origination system and let business users modify rule models.

B. Objectives

Replacement of inbuilt rule engine

Decoupling of the business rules maintenance from the loan origination system

Empower business users to take ownership of credit decisioning parameters

C. Solution

Quick Deployment of New Business Rules

ACTICO Rules accelerates business rule deployment and simplifies maintenance. The graphical modelling environment accelerates development and empowers business users, improving organisational harmony. The loan origination system and data warehouse are also integrated.

D. Impact

More Agility, Faster Time to Market

Since business users control decisioning and pricing factors, Bajaj can make business decisions faster. Since ACTICO models rules, business teams can simulate them in the rule engine before going live, reducing regression testing.

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CREDIT RISK

About VP Bank Group

Liechtenstein's largest private bank, VP Bank Group, operates globally.

Modern Payment Screening in Private Banking:

VP Bank Group chooses ACTICO Machine Learning-based payment screening. Due to increased financial institution compliance, it revised its sanctions list screening. Fuzzy matching failed its payment screening system.

The Liechtenstein bank installed a new payment screening system to accurately identify threats without adding labour or cost. ACTICO Machine Learning enhances fuzzy matching. AI has halved compliance and payments tasks at VP Bank.

Effectiveness and Efficiency in Fuzzy Screening:

Intelligent monitoring optimises cost and risk. Fuzzy matching identifies risky transactions even if the name does not match the sanctions list. Fuzzy searches always yield more. Non-risky false positives slow payment screening and increase payment and compliance team duties.

VP Bank Group resolved this aim conflict with ACTICO's sophisticated monitoring technology. The technology has reduced hit volume and enhanced hit quality since implementation. Benchmarking confirmed the ACTICO Machine Learning model's above-average efficiency.

Conclusions

Due to its direct financial activity and potential money, banking is one of the most audited industries. They need a robust AML compliance programme, a capable AML officer, or a team. Some processes assure continuity, as described above. Compliance follows risk assessment, KYC, and CDD.

Fortunately, technology gives various possibilities and speedier ways to apply duties. Every bank should choose solutions with the proper components. Sanction Scanner supports their fight against financial crime with technologies powered by machine learning, AI, and APIs.

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