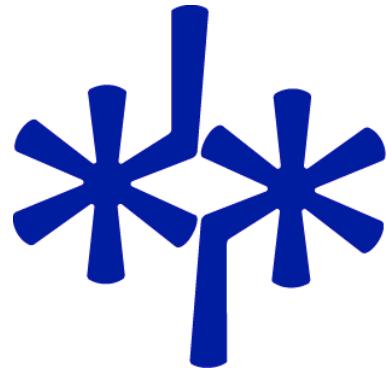


# Understanding DigiPli's AML Managed Utility Solution

What We Do | Why We Do It | Why It Benefits You

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WHITE PAPER



# Introduction

DigiPli (*rhymes with multi·ply*) is developing a cloud-based, managed utility platform (the ‘Managed Utility’) to help U.S. regulated financial institutions (‘FI’) comply with their Know-Your-Customer (‘KYC’), Sanctions Screening and Bank Secrecy Act / Anti-Money Laundering obligations (all referred to collectively as ‘AML’). The Managed Utility achieves this goal by integrating multiple ‘best-of-breed’ vendor systems and data providers, with process output analyzed and refined by DigiPli’s US-based AML specialists. The result – delivery of high-quality, sustainable and reliable AML services at a fraction of the cost than if an FI performed the work itself.

This paper sets forth DigiPli’s perspective on the AML-related regulatory and operational challenges facing FIs, and how FIs’ traditional approaches to addressing these challenges is unsuited to today’s complex, digital environment. The paper continues with a discussion of DigiPli’s underlying platform and technology, the way its AML specialists will augment the results delivered by its technology solutions, and how taken together DigiPli can transform an FI’s AML program.

## The Philosophy

DigiPli strongly believes that the proliferation of the AML laws, rules and regulations with which FIs must comply, coupled with intense regulatory scrutiny and the \$30 billion in fines in the last decade, requires FIs to reexamine how they’ve historically been approaching many of their AML obligations.

From an economic perspective, it’s highly inefficient for each FI to custom-design,

implement and manage their own AML infrastructure, when they’re all subject to the same set of prescriptive laws, rules and regulations. However, by collectively leveraging new technologies running in a cloud environment, FIs can achieve synergies and economies of scale that both deliver superior results, and that significantly reduce duplication of effort and resource spend across the industry. In a rapidly evolving environment characterized by technological innovation and new, disruptive market entrants, FIs that more efficiently use and deploy their limited resources have a major advantage over their competition.

## Achieving Economies of Scale

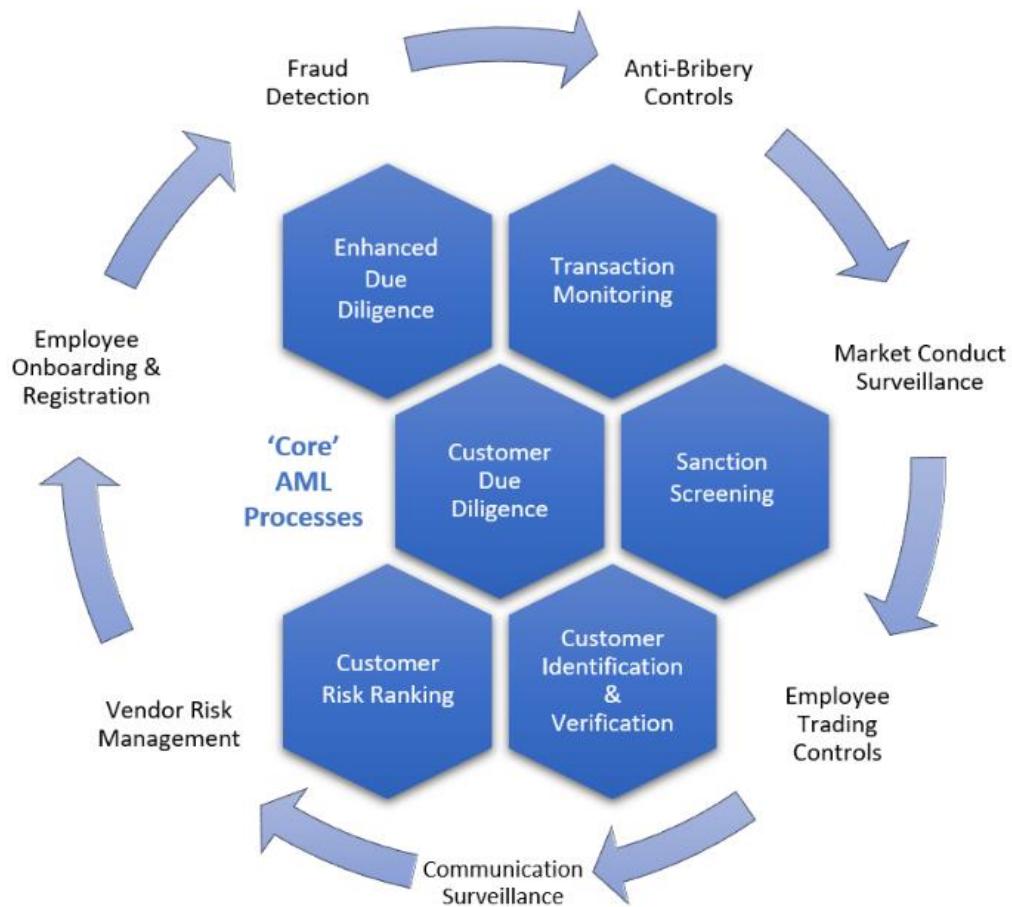
Regulators have universally articulated a risk-based, institution-specific approach to compliance with AML requirements. This principle, coupled with the fact that a firm’s existing AML program would have been strongly influenced by its historic business profile, operational needs, IT systems and data architecture, has resulted in many FIs taking a less-than-strategic (if not largely reactive) approach to solving their AML challenges.

Accordingly, FIs with very similar business models and AML risk profiles can differ widely in the types of systems, processes, workflows and data they use to meet their AML obligations. However, many of the underlying AML laws and rules leave little room for flexibility of interpretation. Moreover, looked at from an exam and enforcement context, an FI’s legal and regulatory risk profile increases if its AML program differs significantly from its peers.

Therefore, while an FI’s AML program should be configured to address its specific profile, there

exists a common, underlying set of standards, processes and workflows that varies little from firm to firm. By identifying these standardized processes – and implementing them using a shared platform with similar workflows – FIs can

achieve synergies and economies of scale without sacrificing quality or reliability. DigiPli has found the below ‘core’ AML processes to be well-suited to this type of coordinated approach.



In addition to the efficiencies gained when multiple FIs share a common IT infrastructure, further benefits can be achieved if that infrastructure is leveraged to avoid duplication of work among participating FIs. For example, subject to applicable privacy laws, if a sanctions-related alert is triggered when Customer X attempts to open an account at Bank ABC, but the alert is satisfactorily resolved and the account opened, the results of that due diligence can ‘fast-track’ the account opening process if Customer X seeks to open an unrelated account at participating Broker-Dealer DEF.

Another example involves the identification of suspicious activity. Under Section 314(b) of the USA PATRIOT ACT, with the appropriate legal mechanisms in place FIs are permitted to share information with one another to help identify and report money laundering and other criminal or fraudulent activity. Accordingly, if Bank ABC later identifies and reports suspicious criminal or fraudulent activity by Customer X, that information can be automatically shared with other participating FIs who maintain a



relationship with Customer X. This information enables those FIs to pro-actively identify and manage a potential risk in a manner that would not otherwise have been possible.

Lastly, while this White Paper focuses on AML processes, the Managed Utility platform can over time be extended to incorporate other compliance processes. The above graphic depicts related or 'surrounding' compliance and anti-fraud controls that have similar processes, data requirements and workflows. By integrating additional vendor systems and data sources into the platform that are designed to address these related controls, participating FIs could further accelerate the efficiencies and effectiveness of their risk management programs.

## The Technological Solution

From a technological perspective, DigiPli's cloud-based platform is divided into three elements:

- A secure, RESTful-API that posts/retrieves data between each FI's systems/databases and an isolated database on DigiPli's cloud environment, using a VPN connection;
- The hosted vendor applications that perform AML processing tasks on behalf of all participating FIs, with enhanced analytical and machine learning capabilities to reduce the need for human interaction; and
- The data integration (ETL) tools and other data processing and storage applications that support the cloud platform, along with the messaging tools designed to facilitate collaboration between DigiPli and FI staff.

In addition, underlying these functional elements is a robust cybersecurity infrastructure designed to meet ISO 27001 standards.

## The Human Element

DigiPli's data analysts and technologists will monitor and reconfigure the integrated vendor applications to increase the percentage of tasks and events that can be auto-processed and resolved by the platform. However, given current technology levels there will always be some percentage of tasks or events that fall outside of normal parameters. The vendor applications will flag anomalies detected during a customer onboarding process, or during transaction monitoring or sanctions screening processes (an 'Alert'). Each Alert will automatically trigger creation of a new Case Manager entry in a partitioned queue unique to each FI. DigiPli's US-based AML specialists will monitor the queues and seek to independently resolve the Alert as per the protocols and timelines agreed with the FI, documenting the results of their analysis in the Case Manager.

Alerts that DigiPli's specialists can't independently resolve, or that present elevated risk levels, will be escalated using the Case Manager to the designated Compliance or AML Officers at the FI. Those individuals will access the Case Manager via a web portal, and either address and resolve the Alert on their own (recording the outcome in the Case Manager), or direct DigiPli's specialists how to resolve and close the Alert.



## The Benefits Over A Traditional Model

By leveraging economies of scale, state-of-the art technology and a modular design approach, a Managed Utility can deliver significant cost and efficiency benefits compared to how FIs historically (and individually) developed and implemented their AML program. These benefits include:

- ✓ FIs pay a variable fee based on the number of customers onboarded and transactions screened/monitored each month, as opposed to high, fixed system licensing costs;
- ✓ FIs have limited system implementation costs, as they simply connect their systems and databases through an API to DigiPli's platform;
- ✓ FIs can maintain more limited, stable staffing numbers, as DigiPli's AML specialists will augment FIs' internal resources;
- ✓ FIs can leverage the results of the customer onboarding, transaction screening and

transaction monitoring work performed by other participating and consenting FIs; and

- ✓ FIs only engage with and oversee DigiPli (as opposed to multiple system vendors and data providers), and can therefore benefit from the volume discounts made available by DigiPli's greater purchasing power

## Final Comments

DigiPli strongly believes that the manner FIs currently meet their KYC, Sanctions and AML requirements is inefficient, ineffective and duplicative when viewed across the financial services industry as a whole.

By leveraging the economies of scale made possible by a Managed Utility that supports multiple FIs, and by executing AML processes using best-in-breed vendor applications and curated data sources, participating FIs can achieve superior results at a fraction of the cost than if they independently performed those processes. Today, that can mean the difference between success and failure for an FI.



## About DigiPli

DigiPli is a professional services firm that assists financial institutions in leveraging new technologies and approaches to optimize their compliance and anti-money laundering programs. It currently offers consulting services focusing on designing and optimizing compliance and AML programs, streamlining or automating manual or labor-intensive compliance and AML tasks and processes, and identifying and helping deploy best-in-class technology solutions. The Managed Utility discussed in this White Paper is currently under development. DigiPli expects to launch a prototype of the platform in 2019 and move to full production in early 2020.

DigiPli was founded by Jeff Horvath, a regulatory lawyer and compliance executive with 20+ years' experience at law firms and large, international financial institutions. Jeffrey Ruiz, a compliance executive with 17+ years of 'core' compliance experience at a major international bank, is a co-founder. DigiPli is actively seeking experienced Compliance, AML, Technical and Sales & Marketing experts to join the core team.

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