

Understanding DigiPli's AML Managed Utility Solution

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

WHITE PAPER



Introduction

DigiPli (*rhymes with multi-*ply**) is developing a SaaS-based, cloud hosted managed services utility platform (the 'Managed Utility') to help U.S. regulated financial institutions ('FIs') 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 'best-of-breed' vendor systems and data providers, with process output analyzed and refined by DigiPli's US-based AML specialists. Taken together, DigiPli will be able to provide a complete *AML-as-a-Service* solution that delivers a large percentage of the systems, staffing and other AML-related infrastructure FIs need to meet their AML obligations.

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 resulting 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 FIs are 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

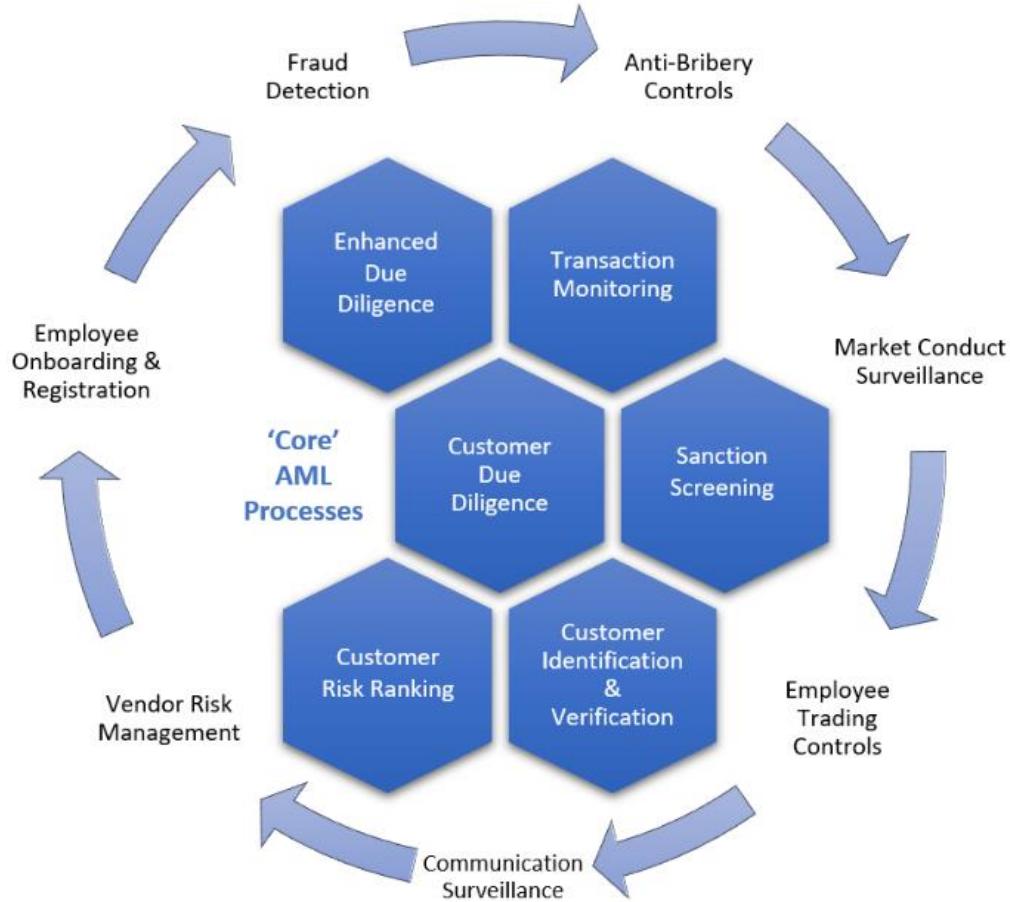
Regulators have historically promoted a risk-based, institution-specific approach to compliance with AML requirements. Given that risks evolve over time, this principle, coupled with the fact that an FI firm's initial AML program would have been strongly influenced by its historic business profile, operational framework, 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.

Therefore, while many of the underlying AML laws and rules leave little room for flexibility of interpretation, 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.



Accordingly, 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 FI to FI. 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 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 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 can over time be extended to incorporate other complimentary 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 main 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 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 without need for human input.

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 a transaction monitoring or sanctions screening process (an 'Alert'). Each Alert will be automatically delivered to a work queue monitored by DigiPli's US-based AML specialists, who will seek to independently resolve the Alert as per the protocols agreed with the FI.

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

The Benefits of a Managed Utility

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.



Here's why DigiPli's *AML-as-a-Service* solution is a unique opportunity for FIs:

- ✓ 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 minimal system implementation costs, as they just connect their systems and databases to DigiPli's platform via an API as opposed to installing a suite of applications;
- ✓ FIs maintain fewer, more stable staffing numbers, as DigiPli's AML specialists eliminate false positives and manage lower-risk items;
- ✓ Automation within the KYC process streamlines and accelerates an FI's onboarding process, leading to an enhanced customer experience;
- ✓ DigiPli's AML specialists handle customer onboarding and transaction monitoring Alerts in an environment free from potential (or perceived) conflicts of interest;
- ✓ FIs can leverage the results of the customer onboarding, transaction screening and

transaction monitoring work performed by other participating FIs¹;

- ✓ FIs only engage with and oversee DigiPli, as opposed to multiple system vendors and data providers; and
- ✓ By aggregating the data needs of multiple FIs, DigiPli can more effectively achieve volume discounts from the main data providers.

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.

¹ This information sharing generally requires consent from both customers and participating FIs.



About DigiPli

DigiPli is a RegTech firm focused on assisting financial institutions in leveraging new technologies and approaches to optimize their compliance and anti-money laundering programs. The Managed Utility discussed in this White Paper is in its final development and testing stage. DigiPli will work with select financial institutions to pilot and refine the platform throughout the first half of 2020, and will move to full production later in the year.

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. Joseph Chan, a Senior IT leader with 25+ years of IT architecture, data modeling and data warehousing experience, is DigiPli's Technical Advisor.

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