

# BROOKINGS

Report

## **How new technologies can enhance anti-money laundering efforts and provide financial access**

Michael Barr, Karen Gifford, and Aaron Klein Tuesday, April 17, 2018

### **Editor's Note:**

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**T**he current system for global funds transfers is based on old and outdated technology, employed primarily by a shrinking network of correspondent banks. Payments moving through the correspondent banking system are handled by multiple intermediaries, most of which are unaware of the identity of the others. The path a cross-border payment will take as it moves around the globe is usually unknown to any of the participants in advance.

As such, cross-border payments stands out as one of the areas where the biggest inroads can be made in combating launderers and terrorists. Advances in both private-sector financial technology (FinTech) and technology supporting public sector regulatory compliance (RegTech) offer tremendous promise for broadening and strengthening the global financial system.

By vastly reducing the cost of providing financial services, FinTech makes greatly expanded and sustainable financial inclusion a realistic goal. At the same time, greater automation, simplified operational processes, and more detailed and less costly analytics create the potential to enable enhanced transparency while maintaining or improving personal privacy and security of financial activity.

In “Enhancing anti-money laundering and financial access: Can new technology achieve both?” (PDF), Michael Barr, Karen Gifford, and Aaron Klein outline the current state of cross-border payments and the challenges it poses for financial access and effective anti-

money laundering efforts. The authors then suggest a number of ways to update global financial standards to support innovation as a means to enhance financial inclusion, improve transparency, and financial deepening in support of economic growth.

1. **Require settlement for cross-border payments in a specified, short timeframe (same day or faster).** A number of technologies currently enable same-day settlement domestically or regionally. Expanding the requirement for same day settlement to the cross-border context would represent a substantial advance for inclusion and anti-money laundering goals.
2. **Require pre-confirmation of the recipient account.** This requirement was put into place in the United States in the Dodd-Frank Act and can and should be incorporated into global standards. Pre-confirmation would vastly reduce the opportunity for operational failures and fraud and would support other regulatory compliance measures such as pre-disclosure of transaction fees.
3. **Require interoperability of payment systems.** Making payment systems interoperable between countries would greatly further the goal of lowering the cost and improving the speed of global payments, two essential pre-requisites for meaningful and sustainable financial inclusion efforts.
4. **Require portability of identity.** Enabling individuals to own their identity details in digitized form offers the possibility of enhancing personal privacy and information security. Portable digital identity supports financial inclusion efforts by reducing or eliminating expensive and repetitive data collection efforts associated with customer on-boarding.

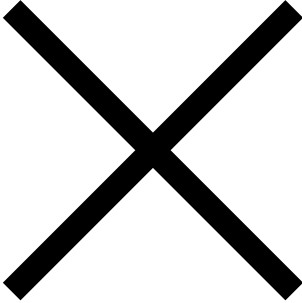
Now at a time when both established players and new entrants to the financial system are beginning to adopt new FinTech solutions, guidance that encourage greater transparency and inclusion can have a powerful opportunity to shape and speed up adoption processes. The authors conclude that failure to act poses significant dangers.

Read the [full working paper here](#)

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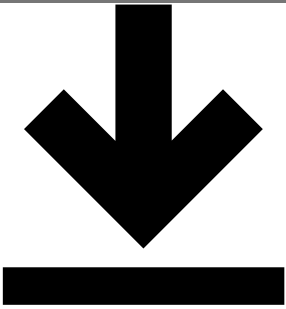
*Michael Barr was an advisor to Ripple Labs until 2017 and is a current advisor to NYCA Parnters—a venture capital and advisory firm focused on applying innovation in financial services into the global financial system. Karen Gifford is a current advisor to Ripple Labs. Both Gifford and Barr also advise the Global ID Fund. Outside of these affiliations, the authors did not receive financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.*

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