AI-Powered Solutions Help Close the Risk-Confidence Gap for AML/KYC Investigations

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Among the vast amounts of data created every day — from government reports to news articles, from social media posts to the insight generated by the Internet of Things — is an unimaginable array of information relevant to financial institutions' anti-money laundering efforts.

Data that underpins the identity intelligence needed for optimal anti-money laundering (AML) and know your customer (KYC) processes runs the gamut from government-issued IDs to banks' internal transaction histories. The availability of this digital information is a double-edged sword for FIs. The data points needed for improved insight are all there, but they're buried in mountains of irrelevant information that FIs must spend time and money to analyze.

Examining data for customer screening at onboarding and periodically thereafter is therefore a high-stakes, high-velocity process that too often overwhelms financial institutions. But it's not the sheer volume of data to be examined that proves problematic — it's the complexity of that data. Intricate data sets with hard-to classify fields, multilingual data, and data blind spots (areas within a dataset where information is missing or inaccessible) all confound FIs.

Escalating data volumes and increasing complexity merge to form the Risk-Confidence Gap, or the widening divide between the amounts and types of data FIs must examine to comply with AML/KYC mandates, and the resource they have available to confidently analyze and act on that information. Exacerbating the Gap is FIs' over-reliance on outdated screening technologies and rules-based processes that require significant manual, human intervention.

To close the Risk-Confidence Gap, FIs must modernize AML/KYC processes. Key AML/KYC components such as name matching, entity resolution, and identity intelligence must all be improved. AI-powered technology can help.

The rest of this paper will explore the current state of AML/KYC, examine the potential value of implementing AI-powered identity intelligence technologies to assist in AML/KYC investigations, and discuss what to look for when investing in identity intelligence solutions.

Survey spotlights AML/KYC challenges

In late 2023, Babel Street conducted a survey of 100 AML/KYC analysts working in large United States banks. The value of assets managed by these banks ranges from $100 billion to $1 trillion. The survey indicates that these banks face significant challenges in running AML/KYC processes quickly, efficiently, and confidently.

A closer look at the data

What kind of information is currently used for AML/KYC processes? Data types typically include:

- Corporate beneficial ownership information
- Demographic data
- Geographic data
- Government-issued IDs
- Media coverage
- Sources of funds
- Transaction histories

What is identity intelligence?

Identity intelligence is insight about individuals or entities (such as corporations) valuable to FIs and other institutions. It can include personal information (names, addresses, dates of birth), credit histories, transaction histories, biometric data, and information on entity affiliations. Identity intelligence is vital to AML/KYC processes.

The study, which examined AML/KYC processes for individual, corporate, and high-risk customers (both domestic and international) found that more than half of clients in every category required between three days and a week to be cleared for onboarding. Processes undertaken at this stage included ID verification, development of customer risk assessments, initial sanctions screening, initial AML screening, and adverse media screening — all of which compel FIs to match names and resolve entities.

Suboptimal processes for name-matching and entity resolution cause the delay — returning a glut of false positives requiring significant amounts of human remediation to clear. Exacerbating the lag are existing processes for adverse media screening (AMS) — or screening of reputable news sources for adverse mention of a client or prospect. Banks surveyed reported that, in 45% of cases, AMS alone takes up to two hours per prospect. In 22% of cases, it takes between one-half of a workday and one full workday.

Why so long? Survey respondents report that false positives account for more than 43% of all articles returned during AMS investigations. (A "false positive" in these instances means the risks uncovered in these analyses are irrelevant to the financial institution, or that the AMS system matches to an entity that is not the subject of the investigation.)

Disjointed tool sets and databases further stall AML/KYC processes. For sanctions and watchlist screenings, banks reported using risk intelligence databases including World-Check by LSEG, Dow Jones Risk & Compliance, Moody's, and Accuity. For AMS, banks use everything from common search engines (Google, Bing, Yahoo), to LexisNexis, Factiva by Dow Jones, Media Check by LSEG, and custom-built tools. No wonder, then, that survey respondents reported uncertainty in both merging and distinguishing between different identity sources, and enduring time-consuming "swivel-chair processes" — or workflows that require data to be manually entered into multiple systems.

What can we extrapolate from the responses to the Babel Street study? At onboarding, AML/KYC determinations take too long, are based on incomplete or disconnected data, and leave investigators lacking confidence in the decisions made about customers. This situation causes several problems for FIs.

The first is cost. As noted above, suboptimal matching processes cause overwhelming numbers of false positives requiring human investigation. Compliance teams already operate with limited budgets. (It is fair to say that in some cases, limited resources leave FIs unable to conduct proper due diligence on all clients.) They incur additional costs investigating an avalanche of false positives. Similar problems recur at rescreening, when unwieldy, time-consuming processes again merge with limited resources — inhibiting re-screening and further weakening compliance efforts.

The second is missed matches that leave money launderers and other criminals unnoticed among a sea of false positives, affording them access to financial systems and leaving FIs vulnerable to fines, other penalties, and loss of reputation. Lost business is a third concern. In an era where customers expect instant satisfaction, taking a week to clear a client for onboarding may lead him or her to simply choose a different, speedier bank.

A better way

FIs can close the Risk-Confidence Gap by implementing better AML/KYC methodologies. One such methodology is "Collect/Enrich/Match/Analyze/Score."

Let's take a closer look at each step in the methodology.

Collect

FIs must harness publicly available information (including reputable news content, government information and other data found on top-level web sites and the dark web), and information from commercially available datasets — then merge this data with internal information as appropriate.

Enrich

Consider tagging data, categorizing it, and augmenting collected information with metadata for improved context and intelligence. FIs should also cleanse and normalize data for ease of use and ease of interpretation.

Match

Determine ways to more accurately identify and match businesses and individuals across high-volume, high-velocity environments, regardless of language used. Work to reveal relationships among entities.

Analyze

Uncover behavior patterns that might otherwise remain obscured, thereby gleaning a holistic understanding of each entity examined.

Score

Engender confidence in matches made or discarded with a clear name-match scoring system that can be tailored to risk tolerance by use case with configurable match parameters.

What to look for in identity intelligence technology

FIs cannot implement new methodologies using manual processes and siloed, legacy systems. Rather, they require nimble, AI-powered identity intelligence solutions to deliver a comprehensive picture of each entity. These platforms must help FIs more quickly screen applicants, monitor individuals who pose risk, and efficiently process multilingual data. These capabilities provide financial institutions with the identity intelligence they need to spot the potential risks associated with each customer — and act accordingly.

FIs find significant value in identity intelligence platforms. According to Babel Street's analysis of the AML/KYC processes used in banks surveyed, the right identity intelligence capabilities can dramatically reduce the time spent per initial entity discovery and resolution, concurrently reducing the cost of these investigations. In addition to costing less, these analyses are much deeper than those currently conducted. While human investigators might search 100 sources per entity, the study notes that identity intelligence platforms search between 20,000 and 50,000.

A number of identity intelligence solutions now on the market can help in this effort. So how can FIs decide which technology to deploy?

For optimal identity intelligence, consider solutions that offer:

Multilingual capabilities for name matching and insight

Whether for name matching or obtaining identity intelligence, FIs need platforms capable of handling a broad variety of languages.

Name matching capabilities should deploy solutions that include varied technologies and algorithms to understand transliterations and different naming conventions across languages and scripts. These capabilities should match individual names, corporate names, nicknames, addresses, and dates.

The ability to handle multiple languages and scripts is equally important for identity intelligence. The best platforms scour publicly available and commercially available data sources from around the globe. Therefore, they must accommodate a wide variety of languages. Searches of the reputable news sources required for adverse media screening should also be included.

Clear name-match scores

The purpose of name matching technology is to give FIs a clear idea of whether one "John Andrew Smith" matches another. When investing in name-matching technology, therefore, FIs should find a product that offers a clear scoring mechanism. Since match thresholds will vary by use case, the technology should also include easy-to-adjust match parameters.

Persistent search

Identity intelligence platforms should keep finding new information, and keep appending that information to entity records, regardless of whether someone is actively searching a particular entity. They should also alert investigators when new information is found.

Easy-to-visualize data

To provide the deepest possible insight, identity intelligence solutions should present their findings in cogent, cohesive ways. Charts and graphs should be used to make it easier for FIs to visualize data points, and the connections among them.

Proactive and real-time risk identification

Using advanced AI, identity intelligence technologies should spot and alert to potential risks as they emerge. Consider unusual and potentially unlawful transactions as an example. A client in New York may be trying to send money to Syria, a country sanctioned by the United States. Identity intelligence platforms should automatically alert to this activity — empowering FIs to foresee and manage risk.

Explainable AI

Explainable AI is a set of methods and processes that enables users to better understand what AI is doing, and on what data it's basing its decisions. It illustrates how changing different parameters (such as increasing or decreasing the penalty for a missing name component) affects match scores. This type of explainability helps regulators and others trust the choices made by AI systems.

Professional services

FIs need specialized expertise when selecting, implementing, and operating an identity intelligence solution. Financial institutions should choose a technology partner that offers professional services tailored to helping it optimize the new platform, minimizing time to insight and maximizing return on investment.

Why Babel Street?

By automating and streamlining AML/KYC processes, the Babel Street Ecosystem helps FIs close the Risk Confidence Gap. Using our identity intelligence solution, clients get better insights faster and less expensively.

Babel Street's AI-powered Name Match solution is tailored to financial institutions' need for fast, accurate, multilingual name matching. Our solution works across 25 languages and a variety of different scripts — including Arabic, Chinese ideographs, and Japanese Kanji — to compare, match, and score the names of individuals and organizations. In doing so, it dramatically reduces false positives and the concurrent need for manual investigation.

Our scoring capabilities engender confidence. Babel Street scores potential name matches using more than 120 parameters. FIs can configure many of these to match their risk tolerance for each use case. Scores are clearly presented on a scale ranging from 0.0 to 1.0. The higher the score, the stronger the match.

The Babel Street Ecosystem further provides deeper identity intelligence through automated, AI-enabled persistent searches of thousands of sources of publicly available information and commercially available information. Our technology scours data sources published in more than 200 languages and translates results into your language of choice. Information sources include more than a billion top-level domains; commercially available sources; and publicly available sources. Searches of the dark web enable investigators to quickly and efficiently find information they wouldn't otherwise be able to access. In many cases, FIs find they can curtail or eliminate their need for outside risk intelligence databases or news search subscriptions — reducing the need for swivel-chair processes.

Working with Babel Street, customers can close the Risk-Confidence Gap by examining three times the data used during typical AML/KYC processes, while concurrently slashing investigative and analysis time. That's why 84% of United States national security agencies have partnered with us, why our technology is used for some of the world's most advanced identity intelligence operations, and why organizations turn to us for more than 700 million watchlist and sanctions checks each day.

Start improving AML/KYC at your bank today. Visit babelstreet.com to learn more.

Disclaimer: All names, companies, and incidents portrayed in this document are fictitious. No identification with actual persons (living or deceased), places, companies, and products are intended or should be inferred.

Babel Street is the trusted technology partner for the world's most advanced identity intelligence and risk operations. The Babel Street Insights platform delivers advanced AI and data analytics solutions to close the Risk-Confidence Gap.

Babel Street provides unmatched, analysis-ready data regardless of language, proactive risk identification, 360-degree insights, high-speed automation, and seamless integration into existing systems. We empower government and commercial organizations to transform high-stakes identity and risk operations into a strategic advantage.

Learn more at **babelstreet.com**.

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