

## A case for Enterprise-wide Solutions for AML and Anti-Fraud

The financial services industry is dynamic and it is imperative for institutions to navigate this ever-changing market to grow revenue while controlling costs. Banks are looking to better understand customer needs, provide transparent processes, and strengthen their risk management practices while combating financial crime. This has led to the widespread adoption of an enterprise wide approach to compliance and risk management.

Financial crime is constantly evolving and the need of the hour is a solution that evolves by learning and recognizing patterns.

This paper discusses the important technological features that an enterprise wide solution must offer and provides guidance on picking the right one.

## About the Authors

### **Omkar Nisal,**

Global Product Head – TCS B@NCS Universal Platform

As Global Product Head for the Universal Banking Platform, Omkar drives innovation in the areas of Channels, Retail Banking, Compliance and Wealth Management, through a well orchestrated roadmap.

### **Vidya Ram**

Product Manager – TCS B@NCS Compliance

Vidya who is currently the Product Manager, Compliance, TCS B@NCS, has been working with TCS for past three years. She comes from a banking background with a total working experience of nine years. She is also an Indian Institute of Banking & Finance certified AML & KYC expert.

## Table of Contents

1. Introduction	3
2. Financial crime high on banks' agenda	3
3. Curbing opportunity loss – Moving AML programs from the sidelines to the forefront	4
4. Integrating AML and Anti-fraud platforms for the Enterprise	4
5. Choice of an AML platform	5
6. Flexibility more than functionality	6
7. Experience Certainty through a Holistic Approach	6

## Introduction

Navigating the ever-changing/dynamic financial services industry successfully for most institutions translates into growing revenue while simultaneously controlling costs. From revisiting business models to evaluating how best they can improve analytics and risk management strategies, banks today are metamorphosing into institutions encompassing a variety of businesses such as insurance, securities, investment banking, among others. Even as they consolidate and transform, the underpinning theme for banking transformation over the past year has been on redefining the value experience delivered to customers. With the increasing consolidation we are now witnessing in the banking industry, the approach is to reduce spending and free up investment capacity for a few vital technology projects. This in turn is seeing a surge in technological innovation in the form of client facing, collaborative, analytical and risk management applications. Many banks are moving towards operationally efficient, low TCO 'bank in a box' solutions that offer comprehensive process-driven functionality in a ready to deploy state.

## Financial crime high on banks' agenda

Even as banks set out with renewed focus—and some caution—they understand that customer insights into services and processes are what will propel them into gaining a sustainable advantage, while providing transparency and offering value. As regulators are tightening their hold, banks are looking at opportunities to strengthen their risk management practices. Until now, banks viewed risk at a product, portfolio or business unit level without having a firm-wide picture of risk. In today's context, it is imperative to align business goals with risk profiles to provide an integrated, consistent view of risk across an enterprise. And, this includes financial crime. Fraud and money laundering are the two most common crimes seen in the financial sector, resulting in financial institutions placing financial crime and associated compliance requirements, including combating money laundering and fraud high on their agenda.

The scope of financial crime is expanding to retail banking, online brokerage, private banking, cards, insurance, corporate banking, and institutional securities, among others, aided with sophisticated technology. The rapid growth in the number and complexity of electronic payment transactions across the globe, while creating new business opportunities, has also ushered in new fraud challenges. Fraudsters have stepped up their use of electronic network attacks and innovated to develop new patterns of fraud across new electronic payment channels. As payments systems evolve into real-time settlements and money transfers, payments-related fraud throws up a posse of challenges.

## Curbing opportunity loss – Moving AML programs from the sidelines to the forefront

How can a new-age financial institution address financial crime? As we said earlier, an enterprise-wide approach to risk and compliance is fast beginning to gain a firm foothold in most organizations. From a traditionally siloed focus of monitoring fraudulent behavior, many organizationally diverse firms are now creating global AML and anti-fraud programs across all affiliates in a group.

Multiple AML solutions in an organization can inhibit its ability to create the links and intelligence required to combat the most sophisticated criminals. Most companies today are consolidating their AML efforts into a single department to adopt technology enterprise-wide, while also managing global efforts at compliance centrally. Particularly in Europe, firms are creating a 'Group Integrity' department combining AML, fraud, and, in some cases, security into one unit.

More importantly, the sharp realization that financial crime has moved from being a post-process activity to an in-process requirement for early detection has set in.

## Integrating AML and Anti-fraud platforms for the Enterprise

The need of the hour is the establishment of an integrated financial crime platform utilizing common technology components and data models catering to all types of financial crimes. Such a system would allocate capabilities for both real-time as well as static data analysis and act as a subset of an enterprise-wide risk management platform. An added benefit being consolidated reporting for regulatory compliance.

An enterprise-wide system adopts a holistic approach while analyzing the risk involved in a transaction, by gathering and using information available from other business units. Through 'adaptive profiling', enterprise-wide systems can identify both known and emerging money-laundering/fraud schemes and discover any type of behavior that appears suspicious and unusual. Such systems look for any form of unusual behavior across all applications (such as trade management application, loans application, cards application, payments application etc) in the organization, as opposed to looking for specific or known forms of money laundering/fraud by sifting through selected transactions. This allows financial institutions to detect even highly sophisticated schemes that elude detection. Enterprise-wide, intelligent systems also provide a cost effective approach that greatly reduces the overall workload, helping compliance staff focus on high-risk transactions.

## We believe that an enterprise-wide AML solution will carry the following important advanced technological functions:

- **Interfaces** that integrate with the international network of financial and regulatory bodies and enhance the capability for information processing
- **Visualization tools to depict relationships** - advanced link detection technology coupled with visual depiction
- An **enterprise-wide architecture** that integrates internal core financial applications and facilitates information flow and traceability across multiple applications
- **Intelligent transaction monitoring** to detect and alert suspicious activities across business units
- **Behavioral and self-learning capability** through intelligent pattern recognition techniques for emerging anomalous patterns - AML technologies have emerged with the ability to monitor every single transaction, discover various types of unusual behavior and alert compliance users with the activities that represent prospective risk to the organization. These intelligent systems are capable of learning and adapting themselves to emerging money laundering patterns.
- Inclusion of **predictive analytics technologies** to limit false positives
- Ability to process both structured and unstructured data/ information
- **Enterprise-wide customer risk assessment model** to restrict entry of unwanted entities into the financial system
- Efficient reporting system for both regulatory and internal controls
- **Enterprise-wide customer dashboard**, presenting a single-screen view of a customer's activities and exposure across the enterprise.
- Multiple group control and reporting capability based on management policies
- **Enhanced case management and workflow systems** to streamline organizational processes proactively, making investigation processes more efficient. This includes automated workflow management, links to information and data relevant for carrying out investigations, and data analytics such as trends, behavior charts and transaction tracing, robust reporting capabilities and advanced security features.
- A **watchlist filtering module** for maintaining various watch lists and scanning customer and transaction records for entities present in these lists. The module would perform the string search functionality of a bank's customer's information against the various lists provided by the regulatory bodies and other third parties. Many robust solutions deploy advanced search algorithms for screening entity names, addresses, country, and other details. This would include integrated account opening and KYC modules for consolidation and management of KYC information available across databases for the smooth functioning of the AML program.
- **Integration with payment networks such as SWIFT**

## Choice of an AML platform

Finally, to facilitate the successful deployment of such a solution, it is imperative for organizations to work with solution partners who have a broad array of technical capabilities and impressive support services.

An advanced enterprise-wide technology solution should be capable of handling all of these functions, while serving the enterprise in a comprehensive manner, from the technical staff to the business user to senior management.

## Flexibility more than functionality

A component-based solution covering case management, risk analytics and reporting will make for a seamless enterprise-wide AML solution. More than the functionality, ease of integration, flexible technology architecture, domain expertise and a culture of ongoing innovation are what will make an AML solution robust and the organization agile.

Investing in an enterprise-wide AML and anti-fraud product can be leveraged to improve service levels just as two banks in an emerging market recently did. A tier-one bank adopted enterprise-wide AML and anti-fraud software to cover its branches across corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. It implemented a unique single-vendor approach across all branches and business units. Special care was taken to ensure strict regulatory compliance with respect to Anti-Money Laundering as well as data security laws.

Again, a large consumer banking organization with operations spanning across Consumer, Investment and Islamic banking, and with a customer base of more than 5 million, implemented an enterprise-wide AML solution. Focusing on the suspicious transactions while not affecting the efficiency of bank's daily operations, and with the limited resources available at the central AML department, the AML solution integrates with core banking, treasury, trade finance and other modules. Its comprehensive workflow model facilitates two tier investigation supporting both centralized and decentralized investigation processes.

## Experience Certainty through a Holistic Approach

Financial crime continuously adapts itself to elude detection. As new schemes and money laundering/fraud techniques become known, the need for a solution that can create new rules or establishes methods to discover new patterns, while also learning and deciphering new patterns automatically through self-learning capabilities, is critical.

The holistic reach of enterprise-wide solutions can blend information accumulated from different units in the organization and scrutinize disparate data to create a new class of business and customer intelligence. Integrated solutions at the enterprise level also have the capability to address regulatory compliance and reporting needs while reducing cost.

They also lead to the re-designing of business and operational processes which, in turn, improve the quality of customer service, which can go a long way in increasing profitability and achieving credibility for an organization in today's uncertain world.

## About TCS Financial Solutions

TCS Financial Solutions is a strategic business unit of Tata Consultancy Services. Dedicated to providing business application solutions to financial institutions globally, TCS Financial Solutions has compiled a comprehensive product portfolio under the brand name of TCS BANCS with a global customer base in excess of 240 institutions operating in over 80 countries.

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A part of the Tata Group, India's largest industrial conglomerate, TCS has over 143,000 of the world's best trained IT consultants in 42 countries. The company generated consolidated revenues of US \$6 billion for fiscal year ended 31 March 2009 and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

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## Contact us at

[tcs.bancs@tcs.com](mailto:tcs.bancs@tcs.com)

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