

# Adopting an Integrated Approach to AML Compliance

Rethinking financial crime management amidst evolving threats  
2020



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# Executive Summary

FICO commissioned The Asian Banker to conduct a survey across 256 bank respondents in 11 key Asia-Pacific markets including Australia, Hong Kong, Indonesia, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam to gain better insights into how they are managing financial crime, regulatory and anti-money laundering (AML) compliance. The aim of this study is to understand the key drivers for managing financial crime, its mitigation as well as assess existing gaps in compliance technology.

## Banks rethink strategy to financial crime management

- Forty-three percent of banks identify impact on customer experience resulting from financial crime management as top consideration influencing their strategy
- Forty-nine percent of respondents consider speed in responding to new financial crime threats and thirty three percent believe achieving high detection rates limits banks' ability in realising their financial crime risk mitigation objectives
- Forty percent of respondents concur that complete data integration supports bank capability in combatting financial crime as 16% percent marked business processes and investigation systems that reveal relative fragmentation
- The importance of data quality in the compliance solution is top ranked by 52% of bank respondents

## Satisfaction and efficacy of compliance systems firm with scope for integration

- Seventy percent of APAC banks have an inhouse system while 45% of South Korea and 43% of Australia based institutions lead among those using external solutions to meet compliance needs
- Sixty-one percent of respondents consider their existing solution to be very effective although opportunity in Hong Kong and Thailand and scope for improvement in South Korea, Malaysia and Taiwan exists

- One-third of banks call in to question integrated compliance capacity and 31% the ability of existing compliance solutions to meet new types of compliance risks
- Forty-two percent of APAC institutions are satisfied with their existing compliance solution with banks in Indonesia and Thailand registering high approval ratings

## Bank AML compliance regime validates rules-based and AI approach

- Eighty-four percent of banks have reaffirmed their belief in rules-based technology 27% of respondents in Vietnam and 18% in South Korea are not convinced and some doubts on its efficacy exists in New Zealand
- Existing number or rules/scenarios still play a critical role but the ability to apply or add new rules/scenarios is equally pivotal for respondents
- Risk based approach to transaction monitoring is picked as an essential technique for finetuning scenarios by 59% of respondents
- South East Asian markets find application of Artificial Intelligence (AI) in improving AML processes to be promising but 70% Taiwanese respondents unsure

## Compliance technology spend likely to increase significantly in 2021

- Investment in compliance technology likely to persist across the APAC region although 36% of Singapore banks and 30% of Hong Kong banks indicate otherwise
- Banks are expecting to significantly increase their allocated budgets for compliance technology in 2021
- Foreign banks will lead spend on new compliance technology with 38% having indicated a significant increase in 2021
- Indonesia leads the pack for significant increases in investment technology earmarked for 2021

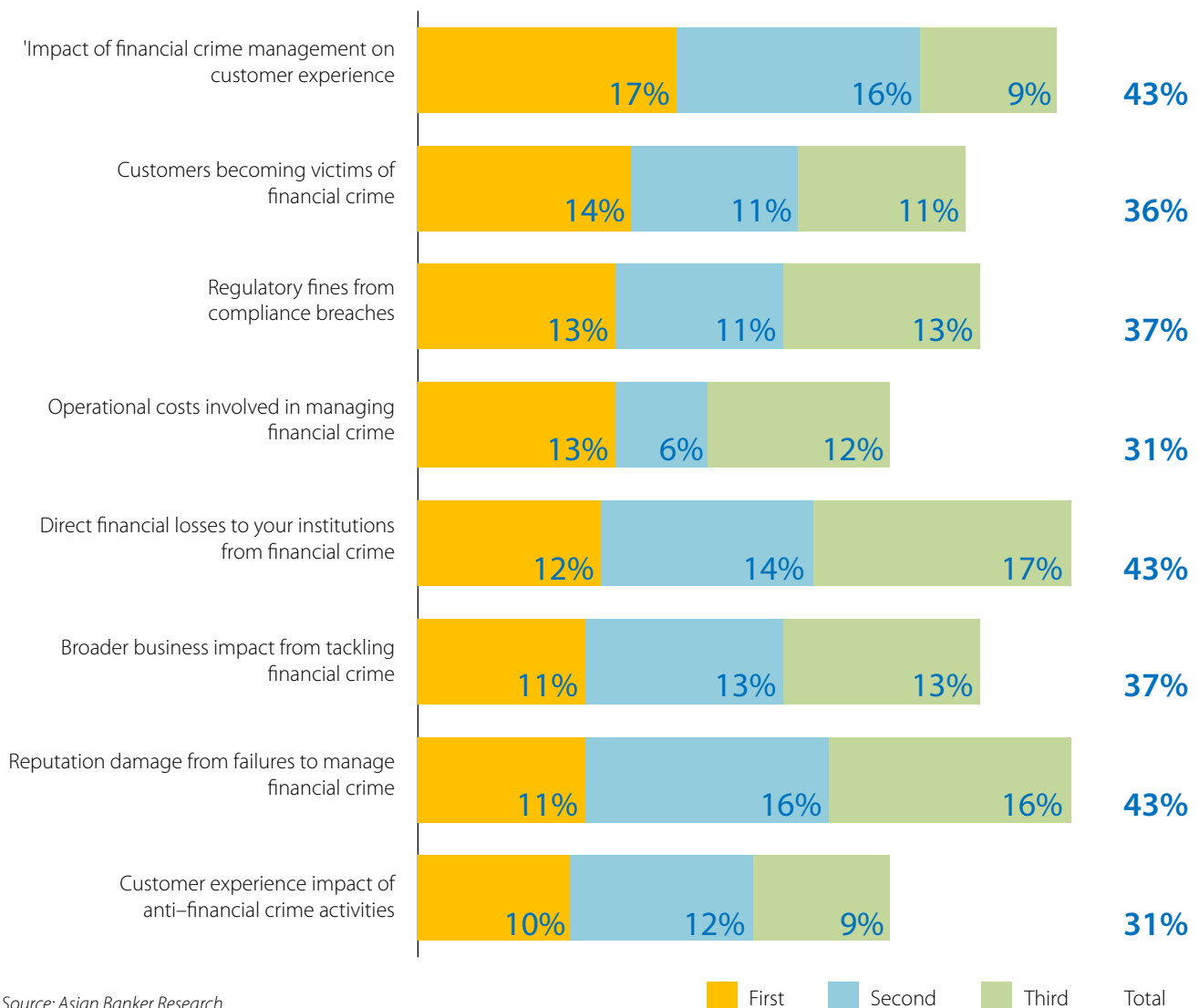
# 1. Financial crime strategy

## 1.1. Key drivers of financial crime strategy

Financial crime management continues to play an integral role within the broader enterprise-wide risk mitigation efforts of banks. More than 2 in 5 respondents have indicated its impact on customer experience as a top ranked consideration with 17% of banks in the APAC region citing it as a primary factor that may potentially affect the overall customer journey. Additional considerations ranked 2nd and 3rd by banks include reputation damage and direct financial losses. Addressing competing needs between financial transaction security and customer satisfaction with quality of service remains a balancing act for most institutions.

Forty-three percent of banks identify impact on customer experience resulting from financial crime management as top consideration influencing their strategy

Figure 1: Key drivers of financial crime strategy for banks



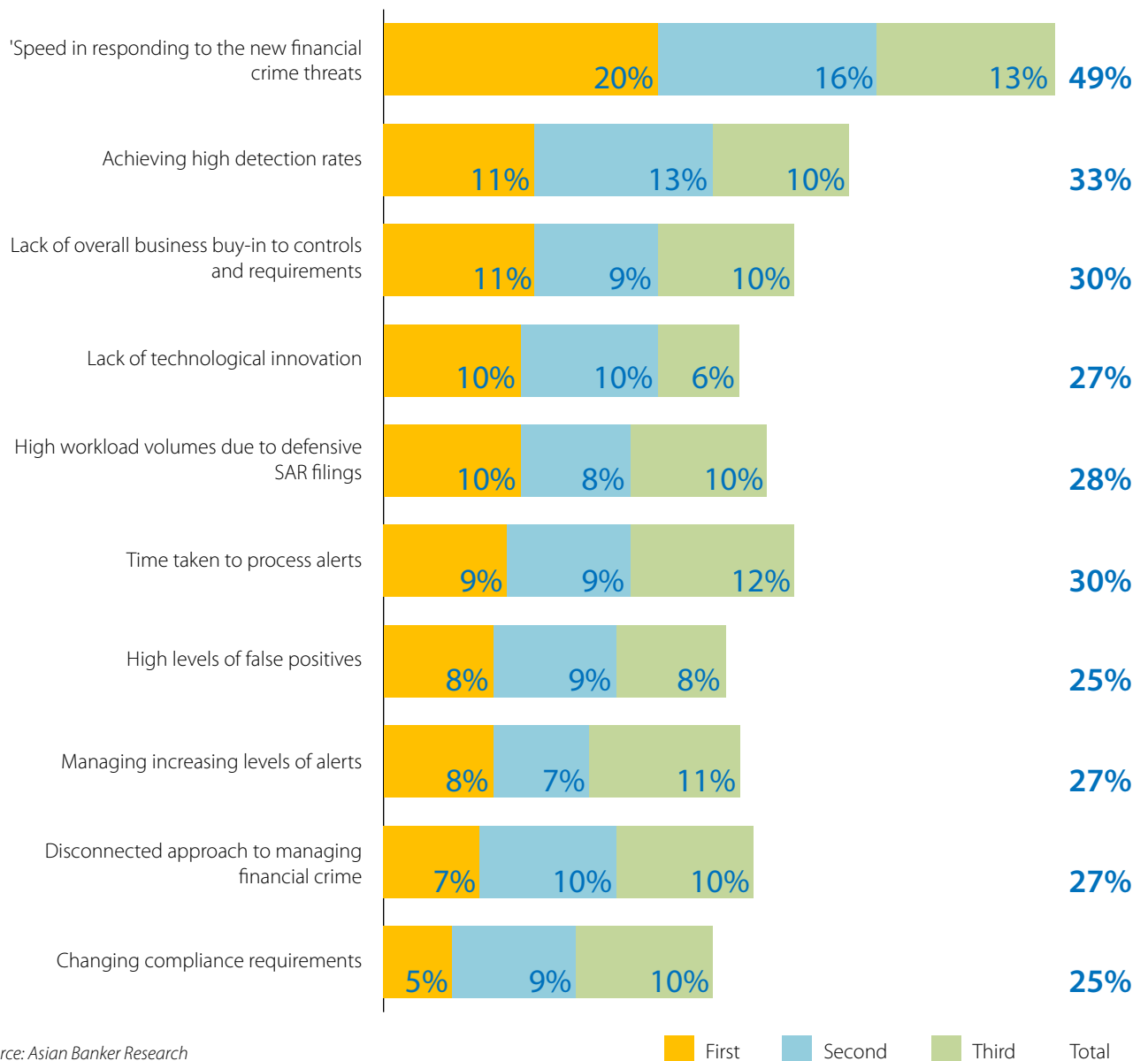
Source: Asian Banker Research

## 1.2. Key challenges in financial crime

The emergence of new threats and digitally led fraud continues to test the capability and response efforts of banks. Digital transformation in the banking industry has brought a new set of challenges for risk decision makers as they attempt to minimise financial crime exposure. The ability of banks to quickly respond to new financial crime threats is essential in scaling their fraud detection capability; twenty percent of respondents have picked this as their principal obstacle in meeting financial crime risk mitigation targets.

Forty-nine percent of respondents consider speed in responding to new financial crime threats and thirty three percent believe achieving high detection rates limits banks' ability in realising their financial crime risk mitigation objectives

Figure 2: Key challenges in achieving financial crime objectives

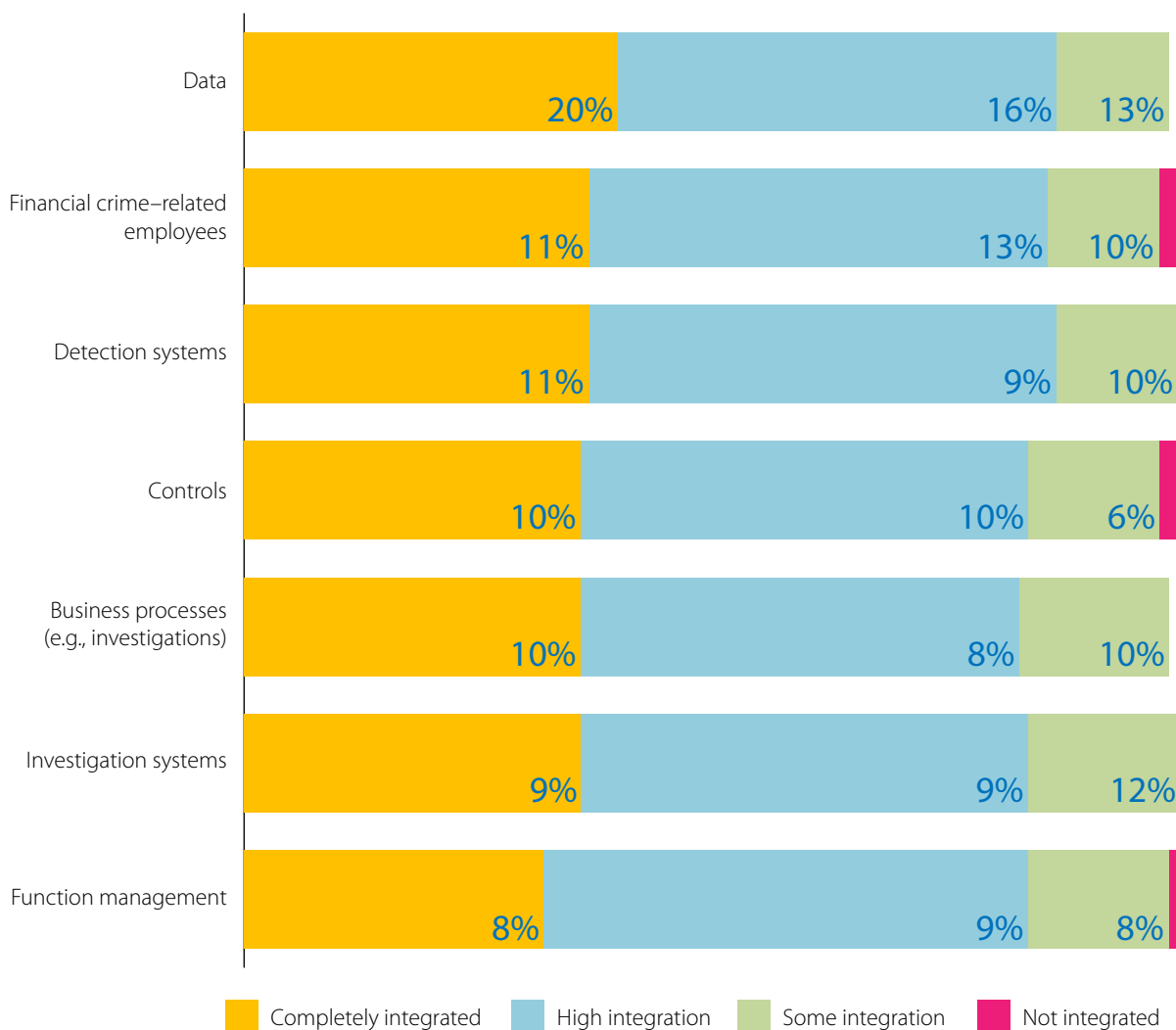


### 1.3. Level of integration in achieving financial crime management

Mitigating financial crime requires a holistic, structured and proactive approach across the organisation with multi-pronged initiatives and integrated enterprise risk management powered by technology. A core impediment that prevents banks from realising their financial crime objectives is centred on existing organisational frameworks that limit the ability of the institution to respond to emerging threats. Key areas such as function management, detection systems and financial crime-related employees shows a high level of integration but there is opportunity and scope for improvement in functional areas such as business processes and investigation systems.

Forty percent of respondents concur that complete data integration supports bank capability in combatting financial crime as 16% percent marked business processes and investigation systems that reveal relative fragmentation

Figure 3: Level of integration in managing financial crime



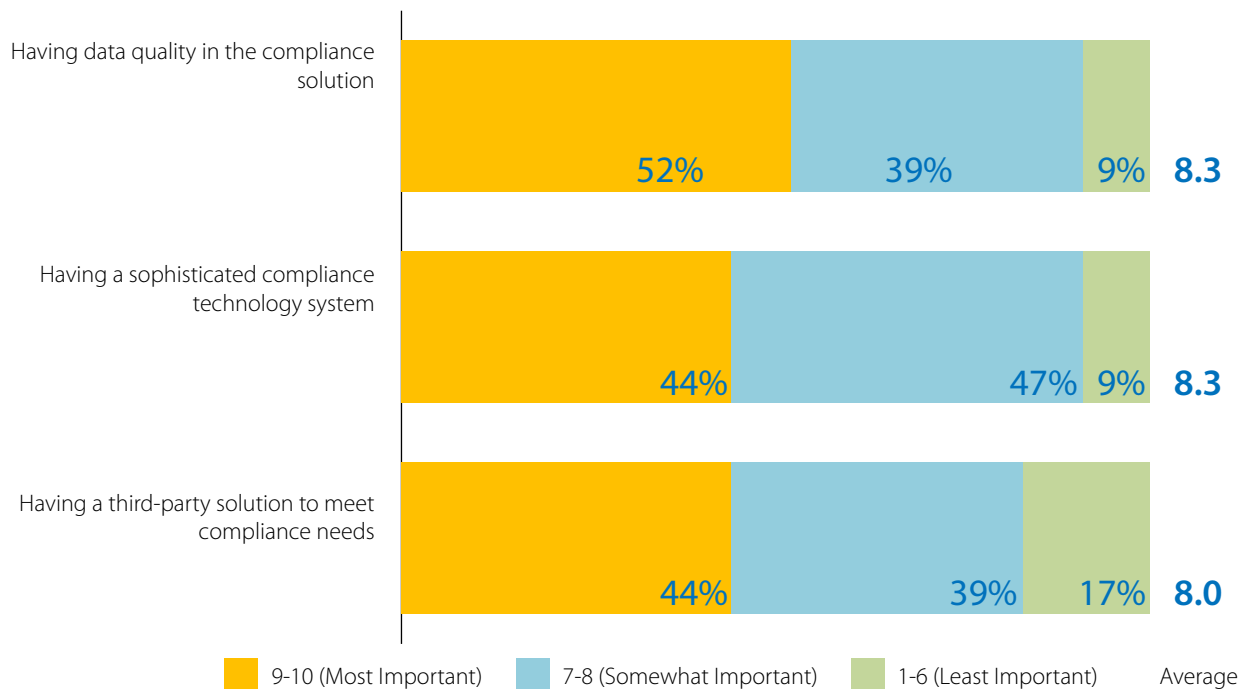
Source: Asian Banker Research

## 1.4. The importance of third party and sophisticated compliance solution

Quality of data is essential for the effective application of any compliance solution and this has been appropriately reflected by a majority of respondents identifying it as a critical component in ensuring appropriate financial crime management. The need for a sophisticated compliance technology system that has relevant financial crime detection, prevention and investigation capabilities remains imperative; a relatively small minority of bank respondents have expressed doubts on the efficacy of using a third-party platform for their risk mitigation capabilities. Perhaps, this can be overcome with targeted communication and information sharing.

The importance of data quality in the compliance solution is top ranked by 52% of bank respondents

Figure 4: Key challenges in achieving financial crime objectives



Source: Asian Banker Research



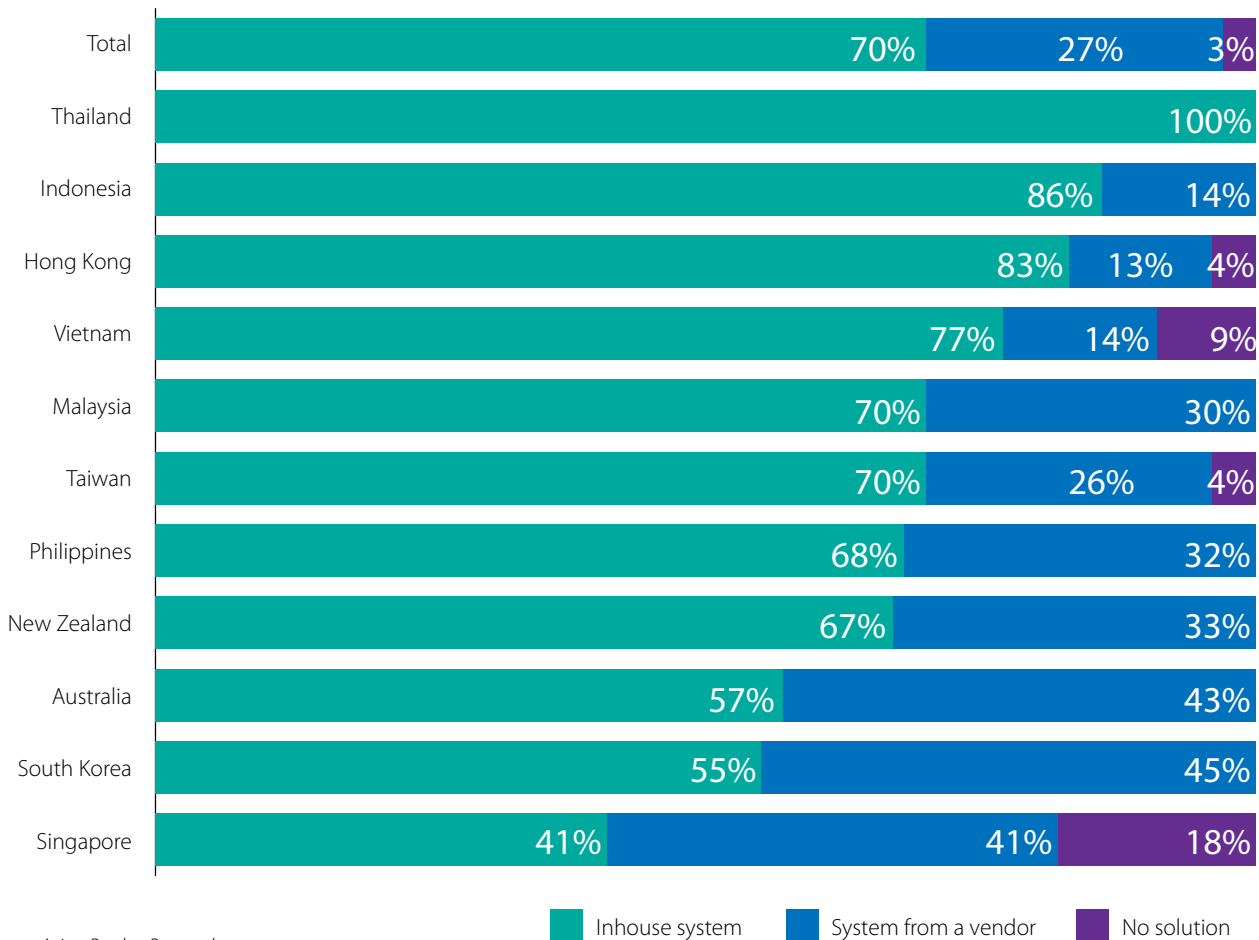
## 2. Existing compliance system - features and challenges

### 2.1. Effectiveness of existing solutions

Emerging technologies are rapidly evolving to offer new solutions although banks are often straddled with myriad challenges in existing organisation structures and legacy technologies that they need to overcome. Seventy percent of banks in the APAC region have deployed their own inhouse system to meet their compliance needs. Banks in more mature markets such as South Korea, Australia, New Zealand and Singapore have opted for vendor-based solutions. From an institution perspective this is more pronounced with 60% of foreign banks.

Seventy percent of APAC banks have an inhouse system while 45% of South Korea and 43% of Australia based institutions lead among those using external solutions to meet compliance needs

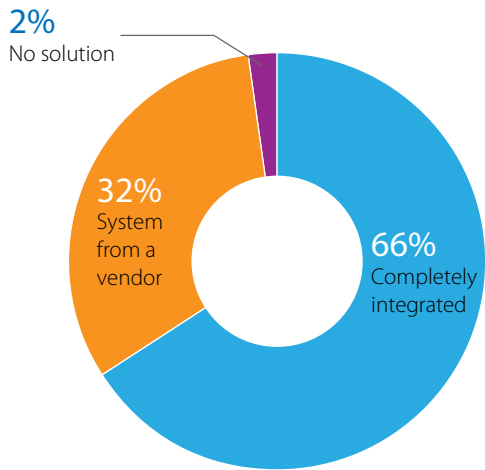
Figure 5: Existing compliance solution deployed by country



Source: Asian Banker Research

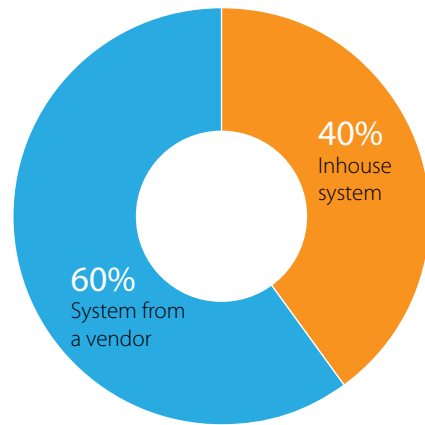
Domestic banks more likely to use an inhouse system compared with foreign banks that opt for a vendor solution

Figure 6: Compliance solution by domestic banks



Source: Asian Banker Research

Figure 7: Compliance solution by foreign banks

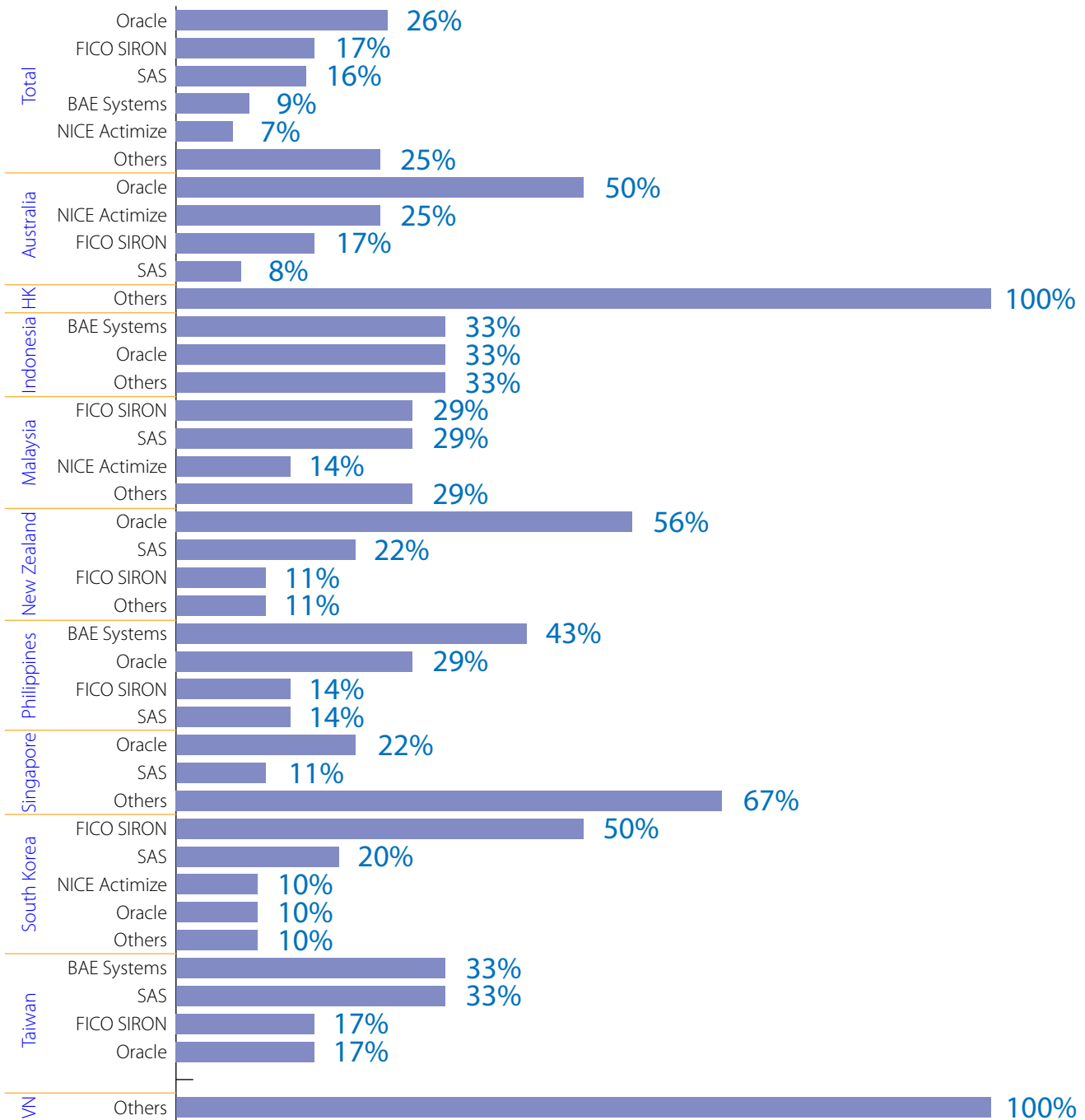


Source: Asian Banker Research

Among external systems deployed by banks various vendor solutions are being currently used within the broader APAC region. FICO SIRON is well positioned in key markets like South Korea and Malaysia while gaining traction in Australia and Taiwan.

APAC banks are using various 3rd party compliance solution providers as FICO SIRON tracks well in South Korea and Malaysia

Figure 8: Vendor system deployment

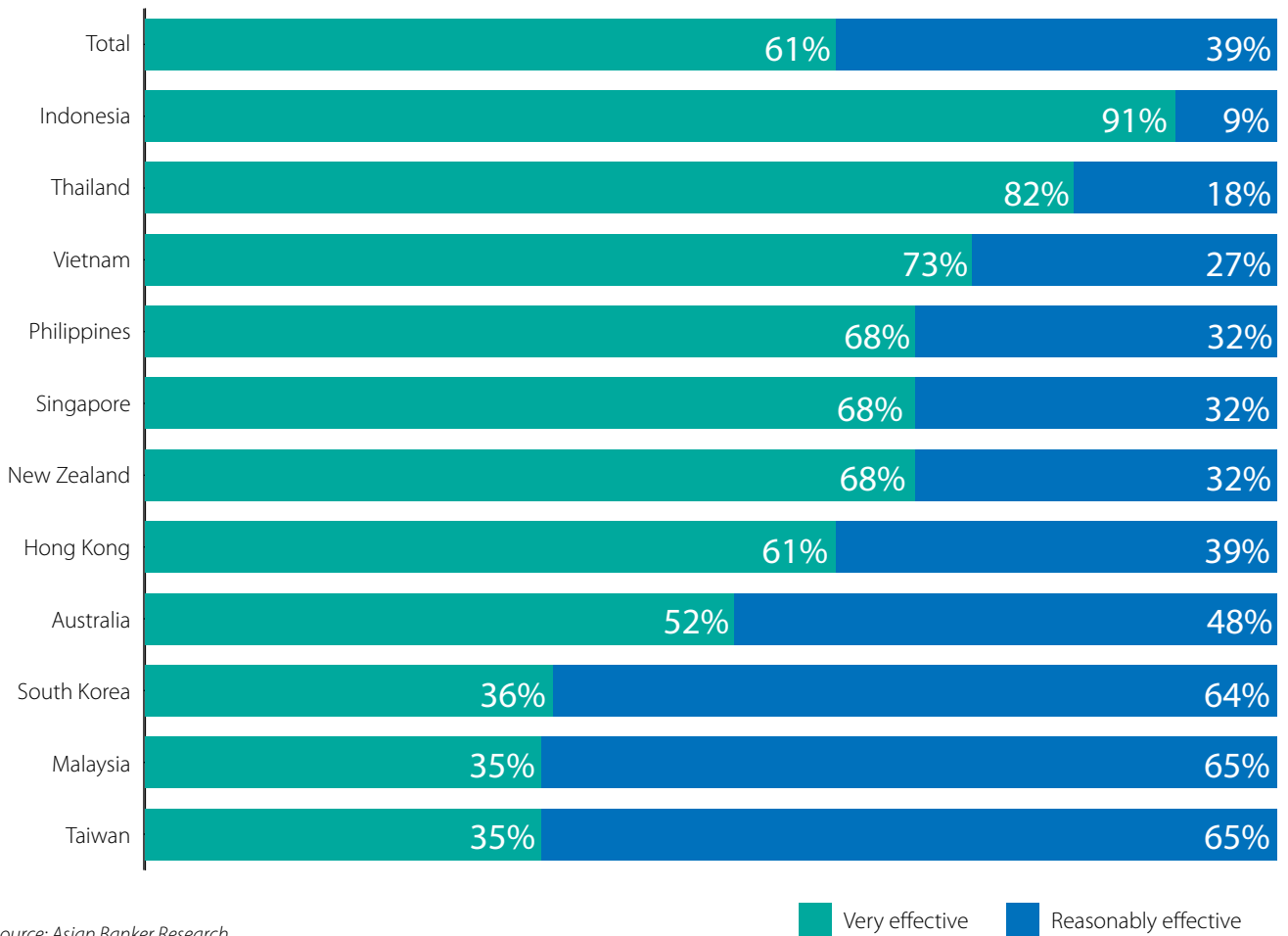


Note: HK = Hong Kong, VN = Vietnam  
Source: Asian Banker Research

In terms of overall efficacy bank respondents have reposed confidence in their existing compliance systems considering that the existing solutions deployed to be robust, responsive and preventative. Thirty-nine percent of respondents in Hong Kong and eighteen percent in Thailand are pre-disposed towards using inhouse systems although they did rate their solution as reasonably effective suggesting potential gaps within their existing compliance systems.

Sixty-one percent of respondents consider their existing solution to be very effective although opportunity in Hong Kong and Thailand and scope for improvement in South Korea, Malaysia and Taiwan exists

Figure 9: Effectiveness of existing solutions in managing compliance and financial crime risks

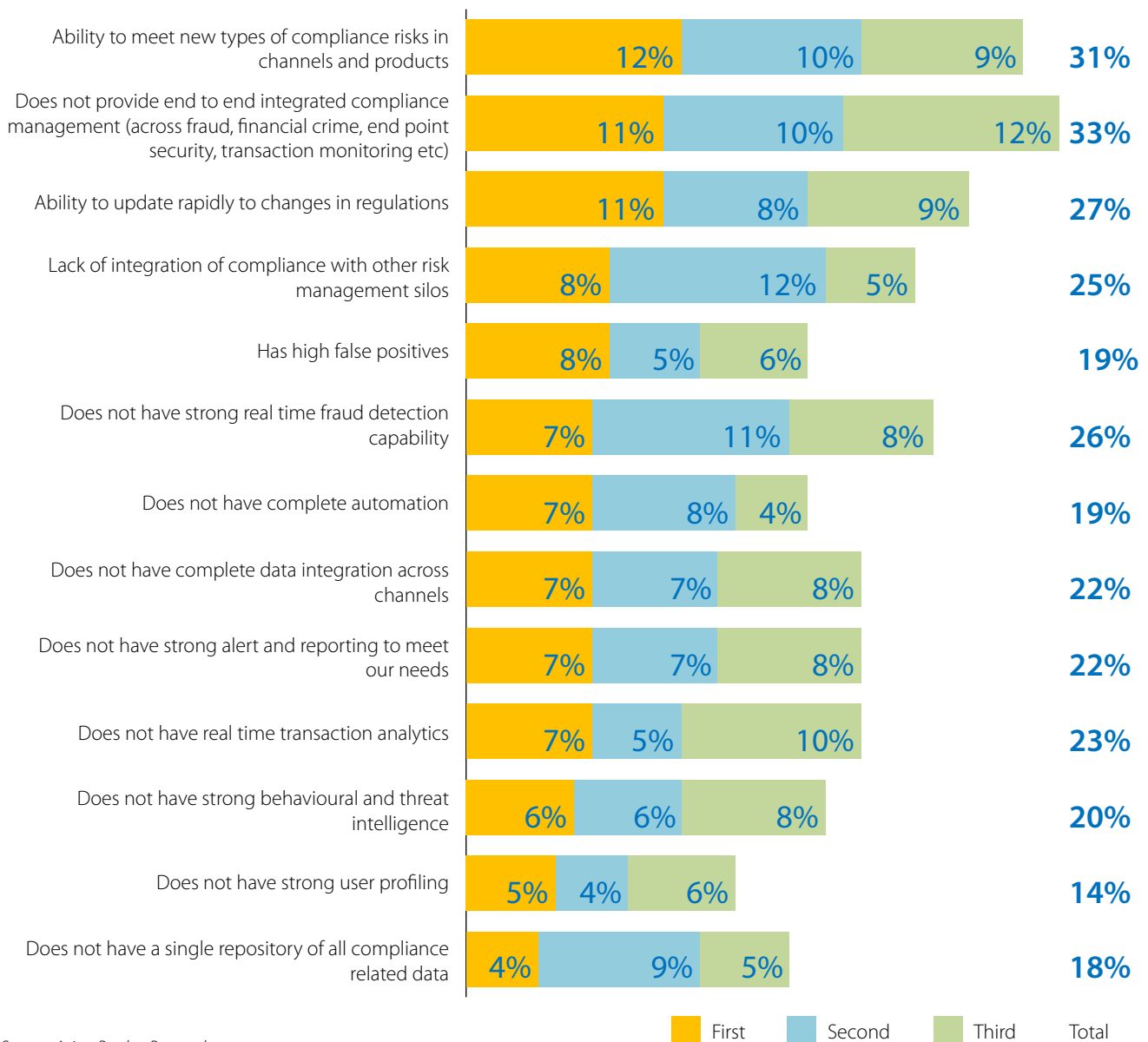


## 2.2. Key challenges in your existing compliance solution

Leading banks are increasingly focused on utilising a customised financial crime management framework, with effective ‘prevention, detection, response and recovery’ capabilities. Key areas of focus for improvement remain centred on new channels and products that present as banks undertake their respective digital transformation journeys. In particular, the spectre of financial crime via online/mobile channels and/or Apps remains an ongoing area of concern. 1/3rd of respondents believe that their existing solutions do not have the level of integration that provides end to end financial crime management.

One-third of banks call in to question integrated compliance capacity and 31% the ability of existing compliance solutions to meet new types of compliance risks

Figure 10: Key challenges of existing compliance solution

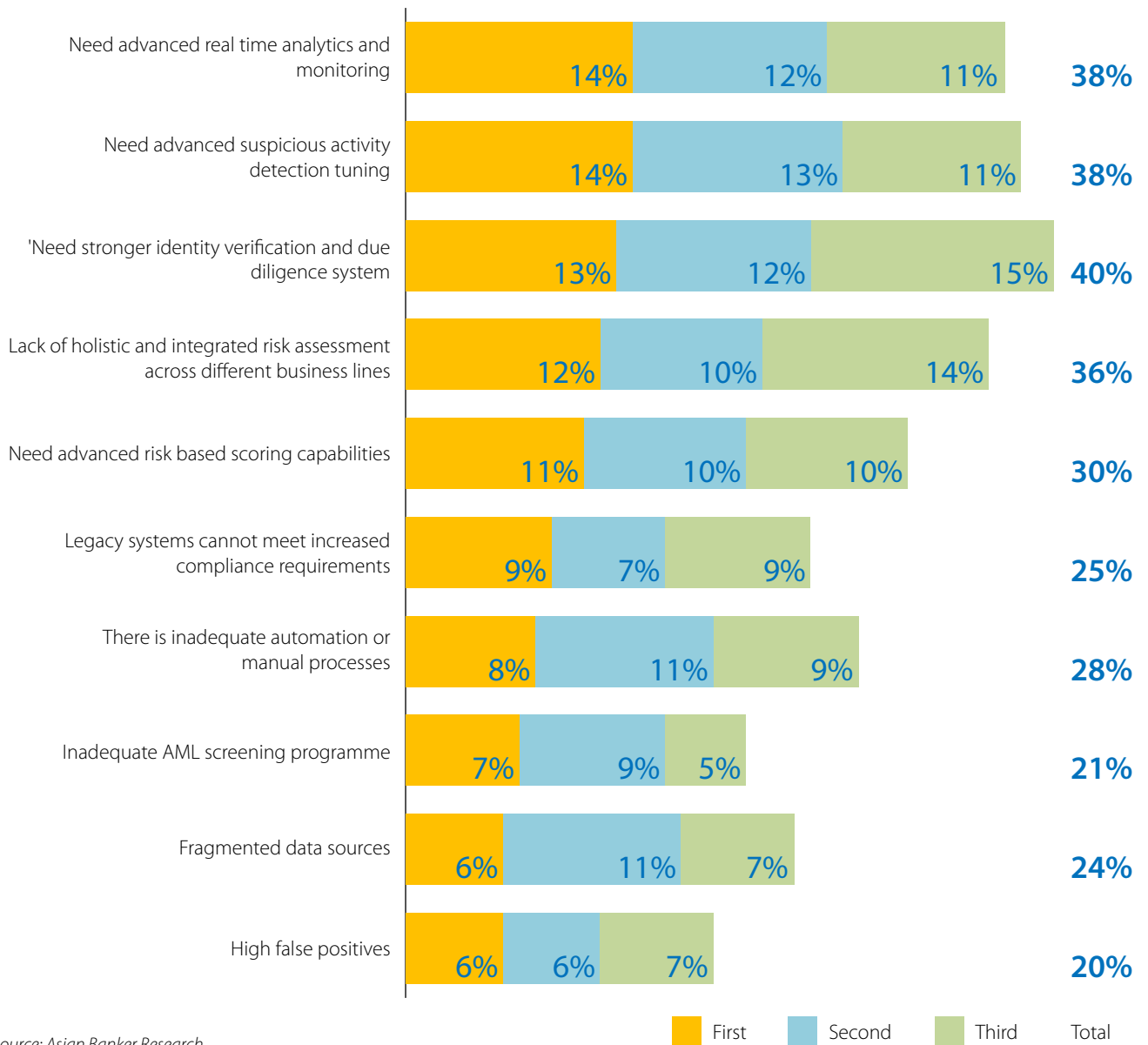


Source: Asian Banker Research

Money laundering and fraud have gone mainstream, and the United Nations Office on Drugs and Crime estimates that the amount of money laundered globally in one year is 2–5% of global GDP, or between \$1.7 trillion and \$4.6 trillion of the estimated \$86.60 trillion global GDP in 2019. Banks have been equally focussed on ensuring that their Anti-Money Laundering (AML) efforts and 14% of respondents have identified the need for advanced real time analytics and monitoring and suspicious activity detection tuning, while 13% have marked stronger identity verification as top ranked considerations.

Thirty-eight percent of respondents prioritise requirement for real time analytics and monitoring as stronger identity verification remains an ongoing concern in AML efforts

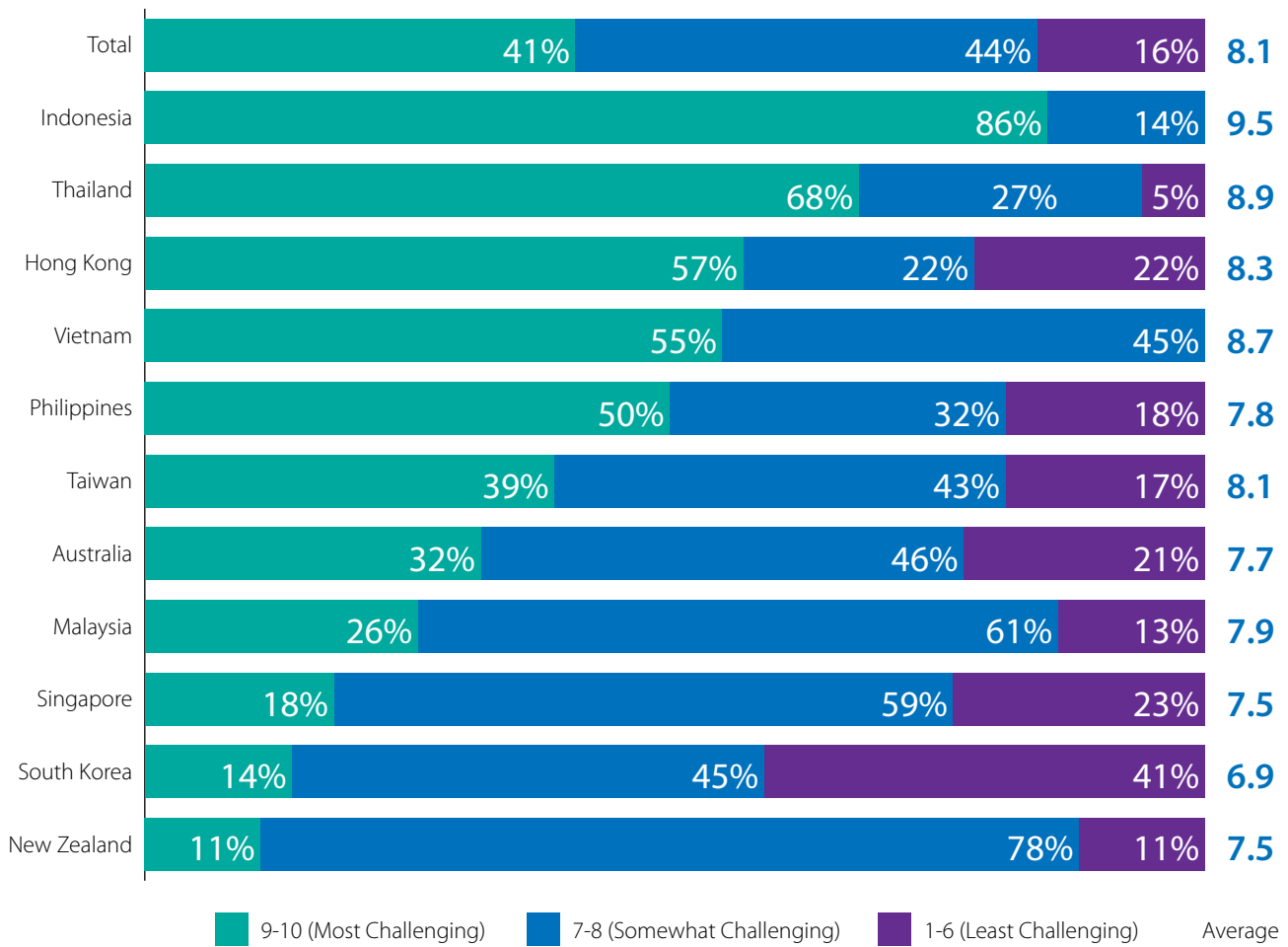
Figure 11: Key challenges in Anti-Money Laundering (AML)



Similarly, developing an appropriate compliance plan or modifying an existing one continues to grapple banks in the region especially in Indonesia and Thailand compared with their counterparts in other mature markets such as South Korea, Singapore and Australia. Interestingly 48% of domestic banks have described it as a cumbersome process that requires planning, testing, monitoring and review.

Developing a robust and effective compliance plan remains an ongoing issue for most banks in the APAC region

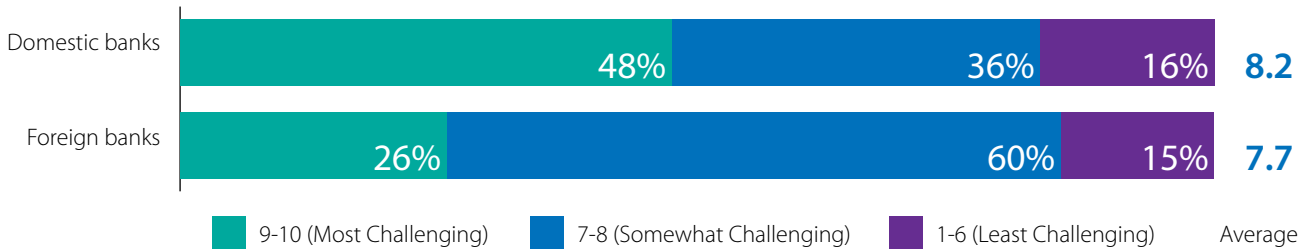
Figure 12: Challenges in building a compliance plan by country



Source: Asian Banker Research

Forty-eight percent of domestic banks indicate that they are more likely to struggle with developing a compliance plan while for foreign banks this is less of an issue

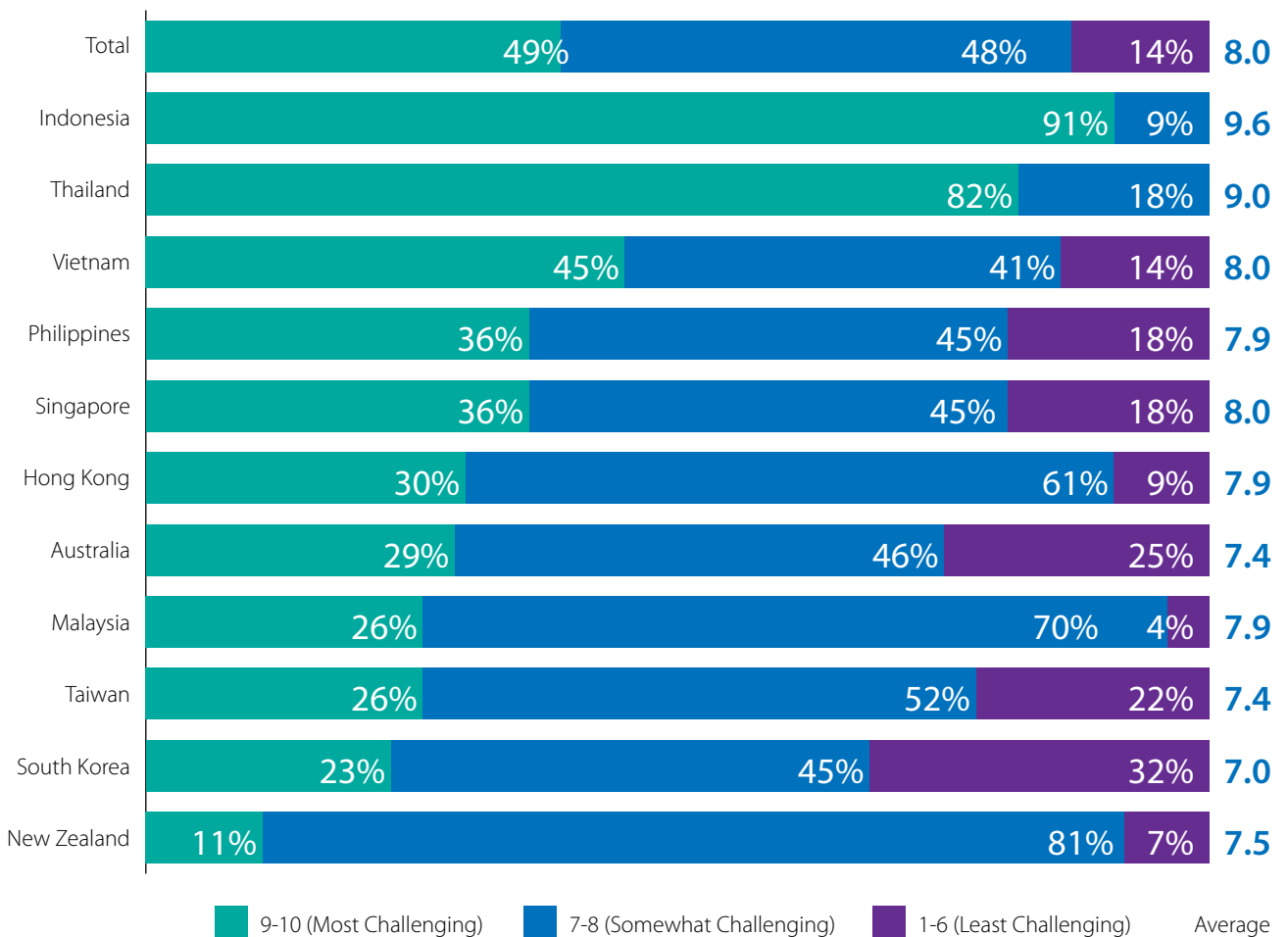
Figure 13: Challenges in building a compliance plan by type of institution



Source: Asian Banker Research

Indonesian banks consider changes to existing compliance frameworks as most pressing

Figure 14: Challenges in modifying existing compliance system by country



Source: Asian Banker Research

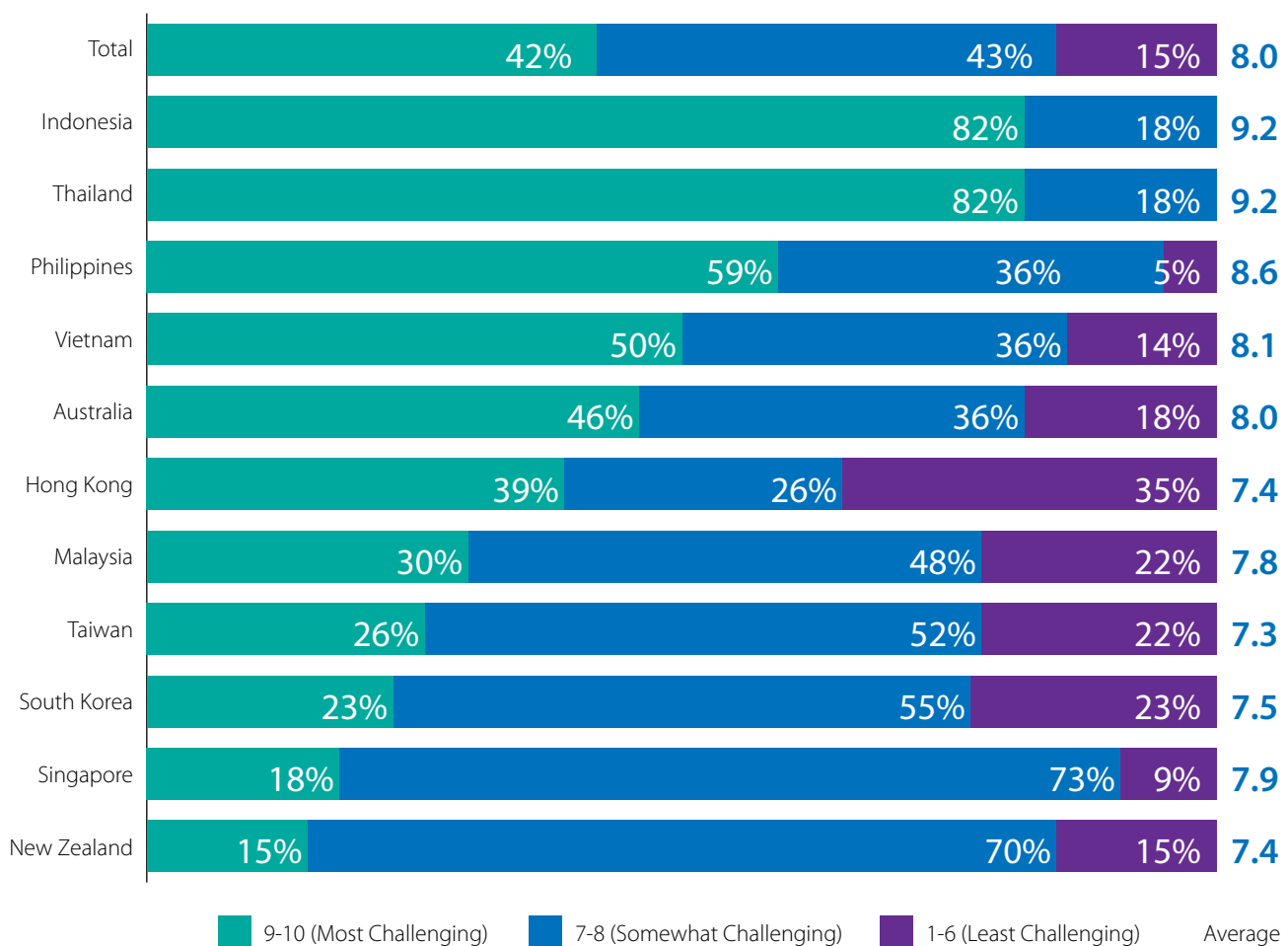


## 2.3. Satisfaction with the existing solution

From a satisfaction standpoint a sizable proportion of banks in the APAC region have registered moderate to high levels of satisfaction with their compliance systems. This is particularly acute in Indonesia and Thailand that has recorded a 9.2 average satisfaction score and an 8.9/8.8 average effectiveness score respectively. Interestingly, this is mirrored by type of institution as well given that just under half of domestic banks respondents were either highly satisfied and/or found their compliance system to be effective. Despite the current high satisfaction level among banks in Indonesia enhancements to the existing compliance solutions deployed is in the offing given that the Indonesian Financial Transaction Reports and Analysis Centre (PPATK) has passed instructions to banks to use goAML reporting of suspicious financial transactions with a commitment date commencing February 2021.

Forty-two percent of APAC institutions are satisfied with their existing compliance solution with banks in Indonesia and Thailand registering high approval ratings

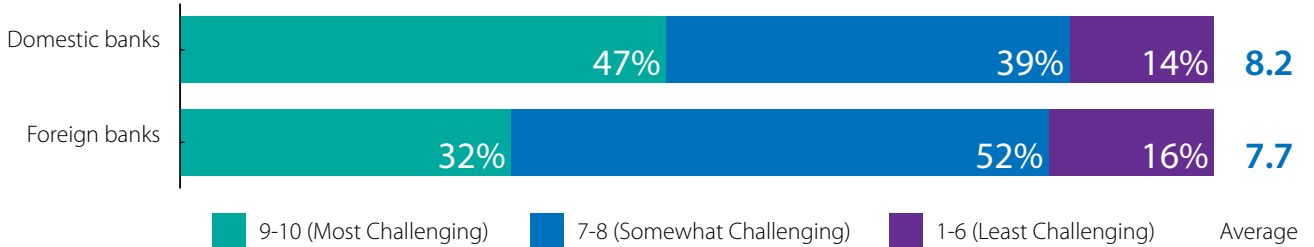
Figure 15: Satisfaction with existing compliance system



Source: Asian Banker Research

Domestic banks tend to register higher satisfaction levels with their existing compliance solution

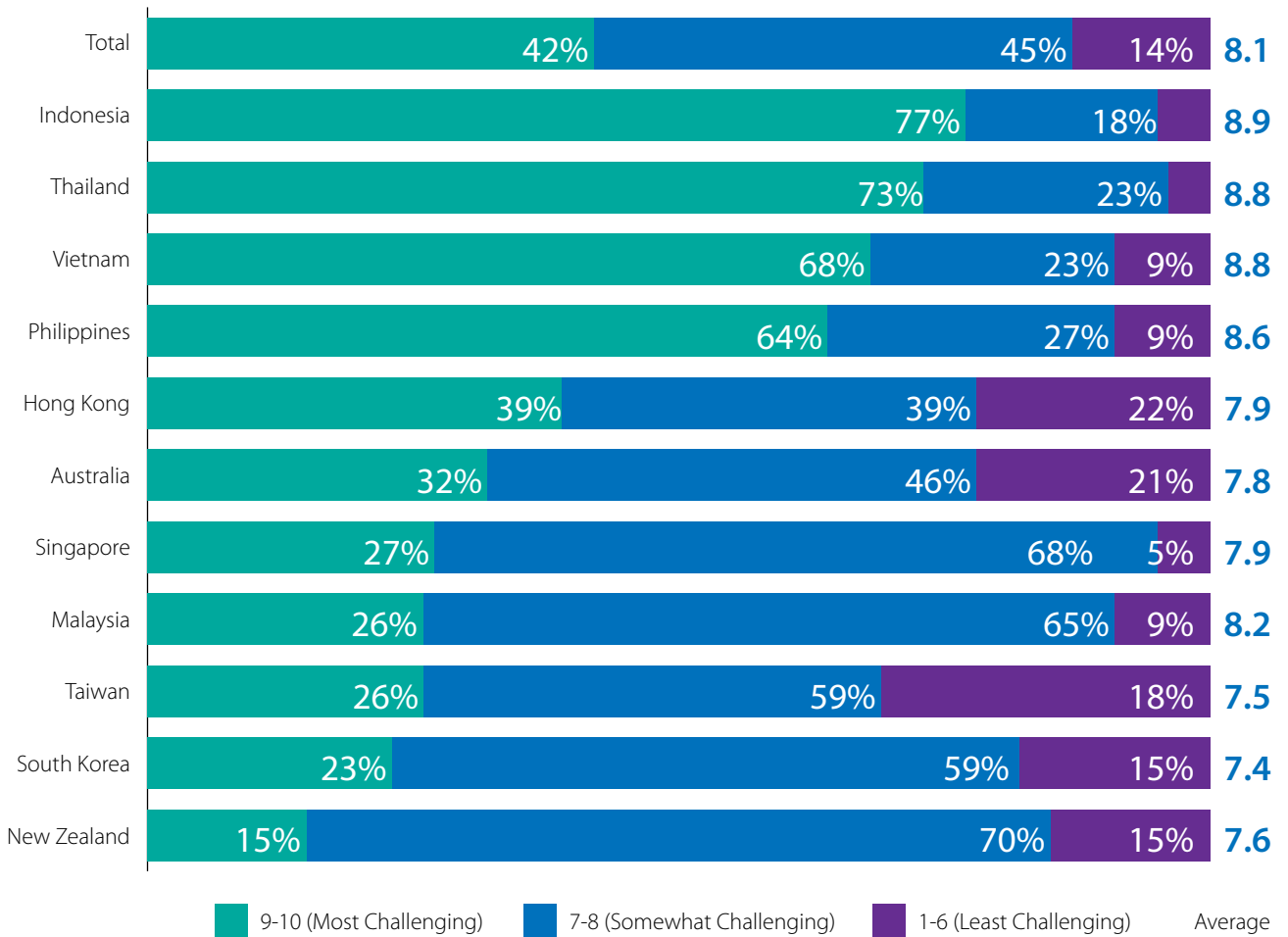
Figure 16: Satisfaction with existing compliance system by type of institution



Source: Asian Banker Research

Select South-East Asian markets consider their existing compliance system as being robust

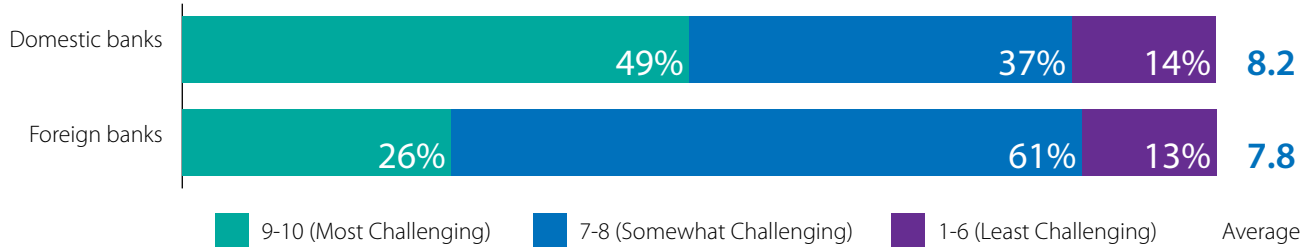
Figure 17: Effectiveness of the institution's compliance system



Source: Asian Banker Research

Domestic banks perceive their compliance systems to be far more efficient than foreign banks

Figure 18: **Effectiveness of the institution's compliance**



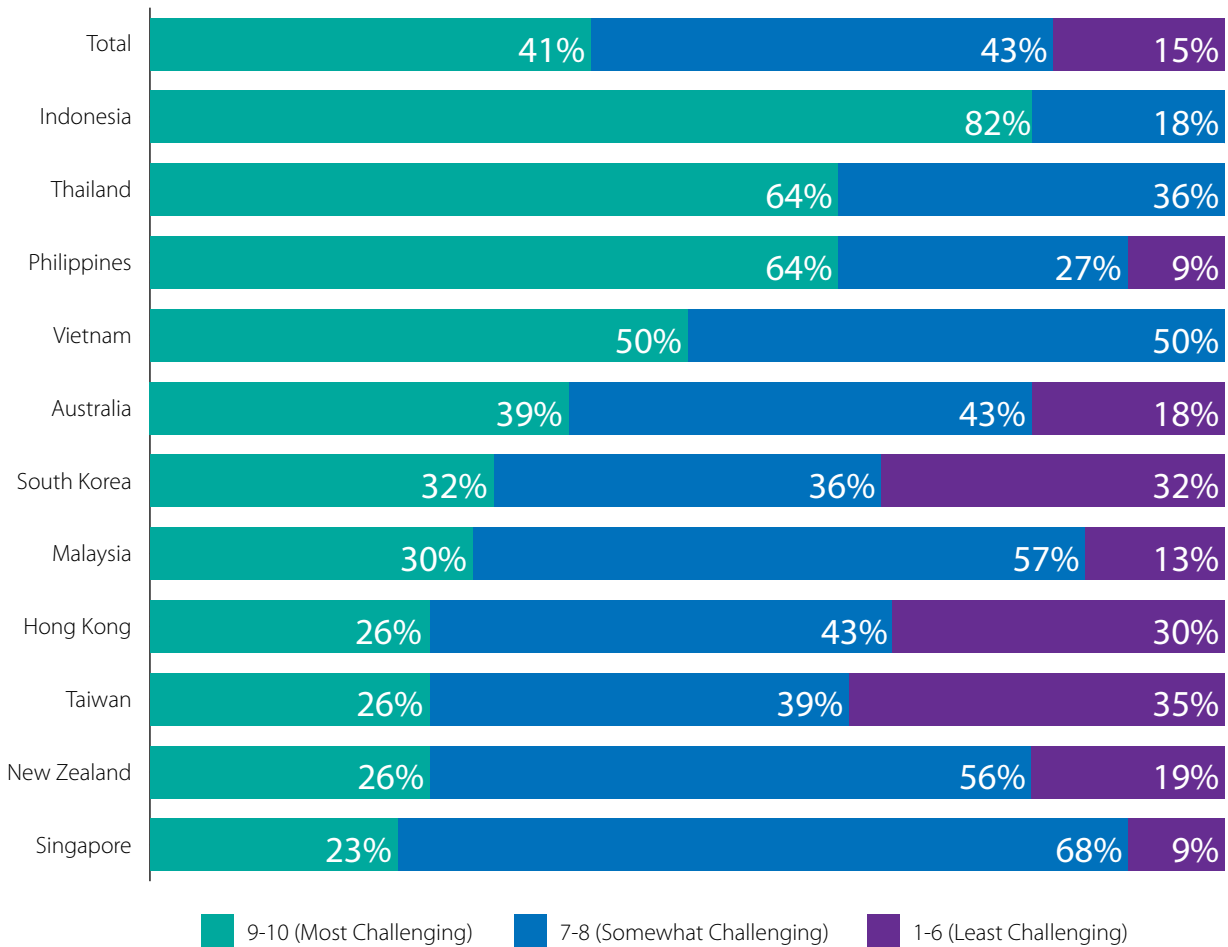
Source: Asian Banker Research

## 2.4. Effectiveness of rules to manage the dynamic change

Forty-three percent of APAC banks believe that their existing compliance system has included an updated set of rules to manage the evolving threat scenario. This is more pronounced in Indonesia where 82% concurred that their platform fully incorporates the latest rulebook to guide and inform compliance decision-making.

Indonesian banks consider their current compliance system to have updated rules to manage sophisticated emerging threats and innovative criminals

Figure 19: Updated rules in current compliance system and effectiveness in managing evolving threats



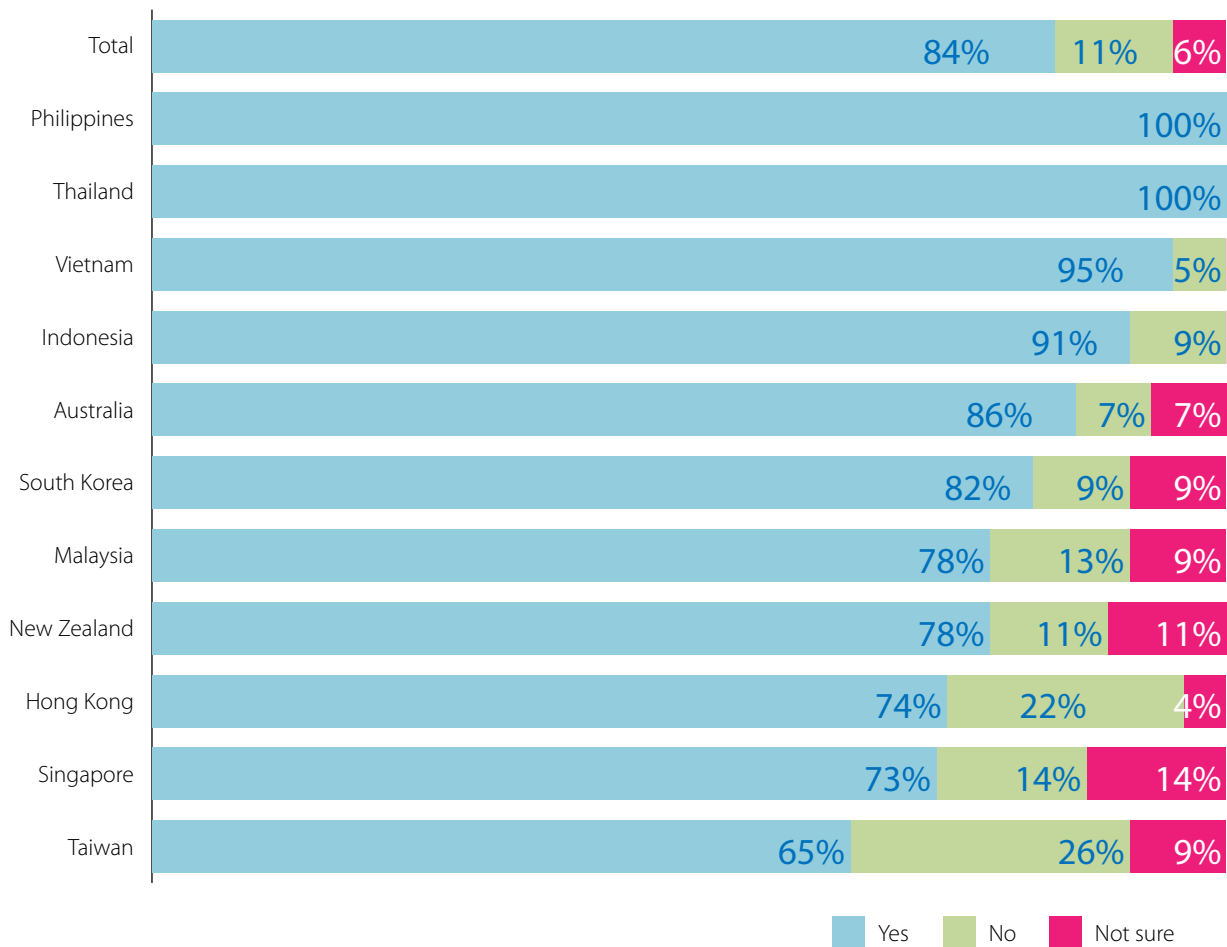
Source: Asian Banker Research

## 2.5. Update of beneficial owner

When queried on the inclusion of “beneficial owner” a significant majority of bank respondents confirmed that their existing compliance systems included this critical update enabling improved transparency and enhancing banks’ ability to assess the money laundering risk posed.

An overwhelming 84% of APAC banks have indicated that their existing compliance systems come with an update of “beneficial owner”

Figure 20: Latest update of “Beneficial Owners”



Source: Asian Banker Research

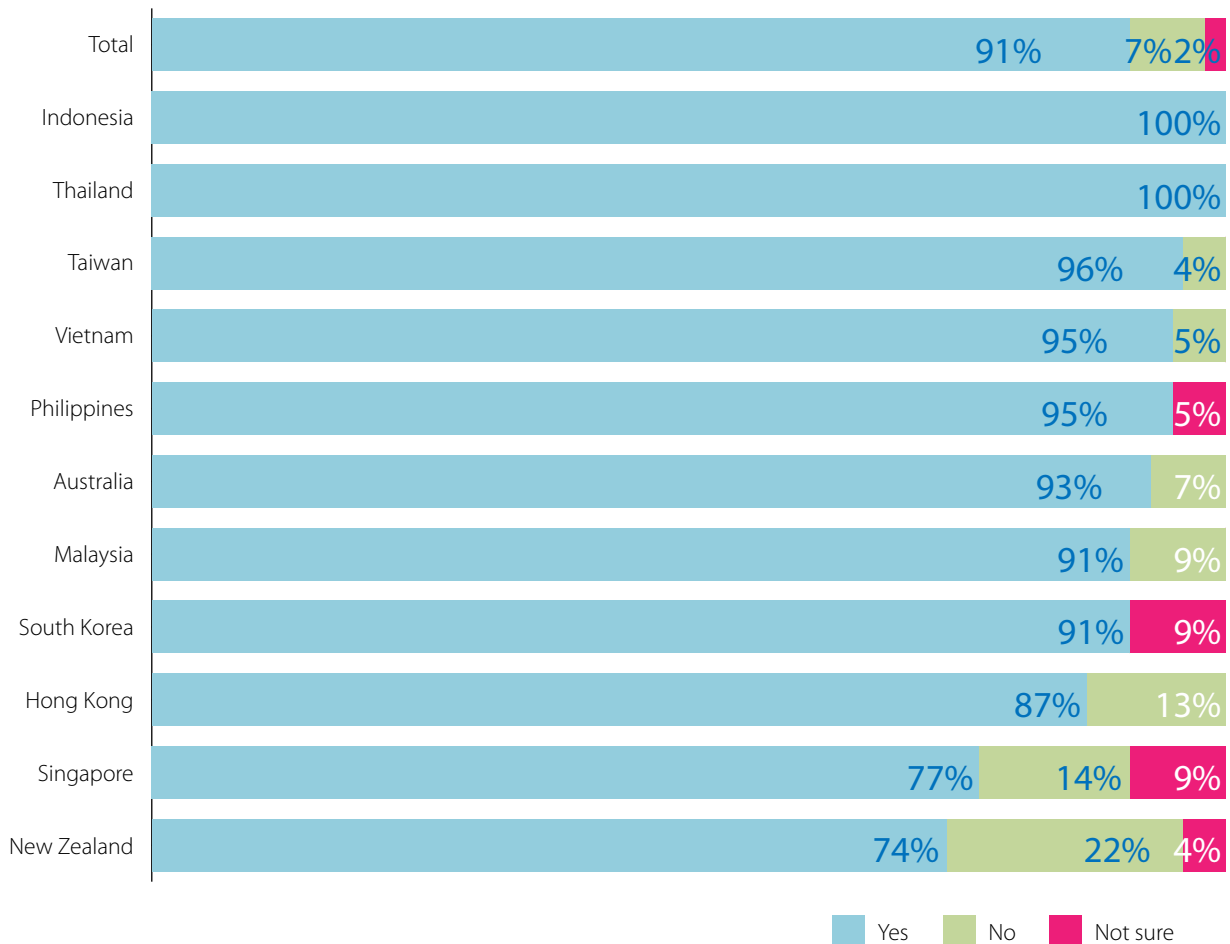
# 3. AML Compliance

## 3.1. Policy and procedure for auditing

A vast majority of banks in the APAC region have affirmatively responded to the application of an independent audit of AML compliance within their institutions. These policies and procedures are aligned within the bank's broader internal and external system of risk controls necessary to ensure proactive financial crime management. Interestingly, 22% of New Zealand, 14% of Singapore and 13% of Hong Kong respondents have registered in the negative.

A significant majority of respondents have indicated that their institution has the requisite policy and procedures in place for an independent audit of the AML compliance system although New Zealand and Singapore banks show otherwise

Figure 21: Independent audit of AML compliance



Source: Asian Banker Research

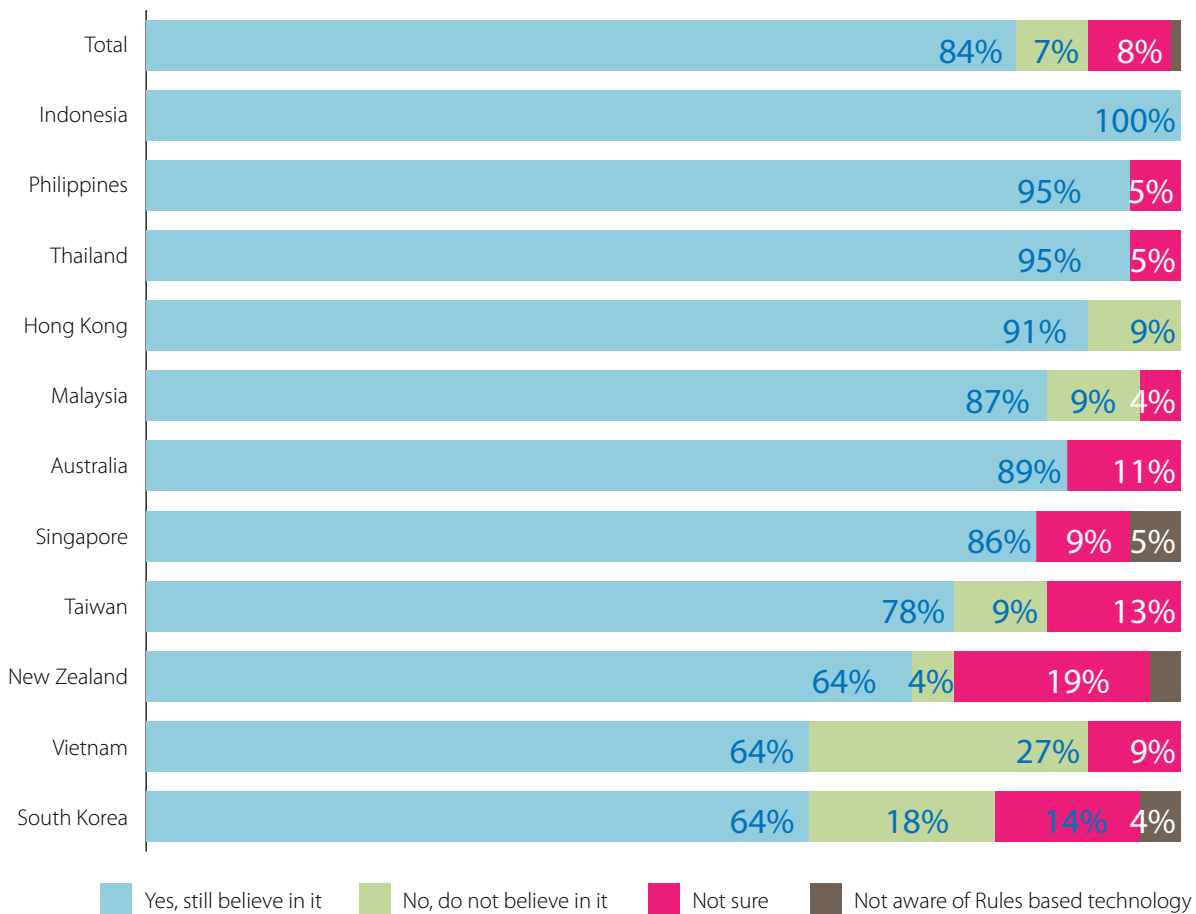
### 3.2. Perception of rules-based technology

Rule-based technology still resonates with respondents across the APAC region with an overwhelming 84% reposing their trust and confidence in this system to support their wider financial crime management objectives. A marked number of respondents in Vietnam and South Korea are unconvinced with almost 1 in 5 in New Zealand questioning its efficacy.

Opportunities exist on communicating the benefits of Artificial Intelligence (AI) on top of rules-based technology to those questioning its efficacy. AI powered systems provide identification, qualification and prioritisation of alerts that enables accelerated decision-making when managing financial crimes thereby improving productivity. Furthermore, the automation of manual tasks, refinement of existing customer profiles and business rules as well as risk prognosis based on models backed by historical data result in added efficiencies and utilisation for banks. In addition, the risk prediction and quantification through continuous and predictive analytics risk monitoring based on Machine Learning (ML) and AI provides enhanced risk management capabilities.

Eighty-four percent of banks have reaffirmed their belief in rules-based technology 27% of respondents in Vietnam and 18% in South Korea are not convinced and some doubts on its efficacy exists in New Zealand

Figure 22: Perception of rules-based technology



Source: Asian Banker Research

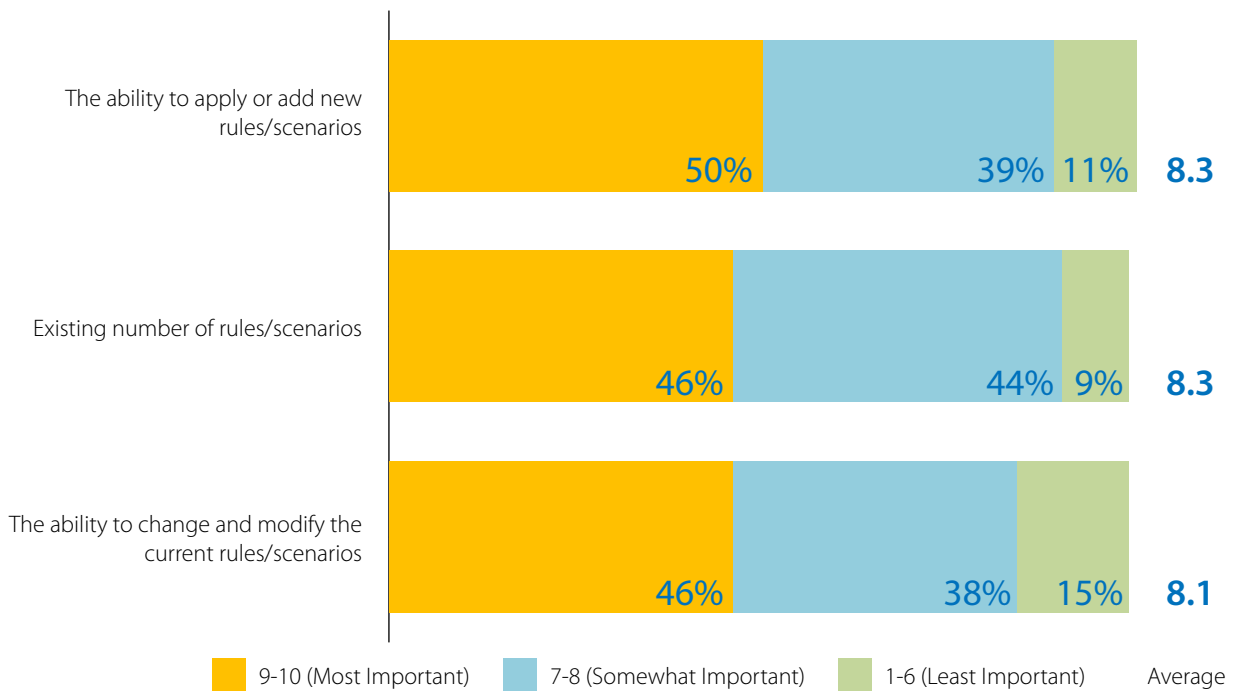
While most APAC respondents have reaffirmed their belief in the decade-old rules-based systems, some early adopters of AI are starting to question the wisdom of retaining the traditional rules-based system. The general consensus is that machine-learning algorithms powering AML processes are the next logical step in developing robust financial crime management due to the inherent speed, accuracy and capacity of such systems.

### 3.3. Importance of features of rules-based technology

About half of respondents surveyed indicated that the ability to apply or add new rules or scenarios is a very important feature to the AML compliance platform. This is understandable given the need for solutions to be scaled or customised depending on the risk needs of the respective financial institution.

Existing number or rules/scenarios still play a critical role but the ability to apply or add new rules/scenarios is equally pivotal for respondents

Figure 23: Importance of rules/scenario features



Source: Asian Banker Research

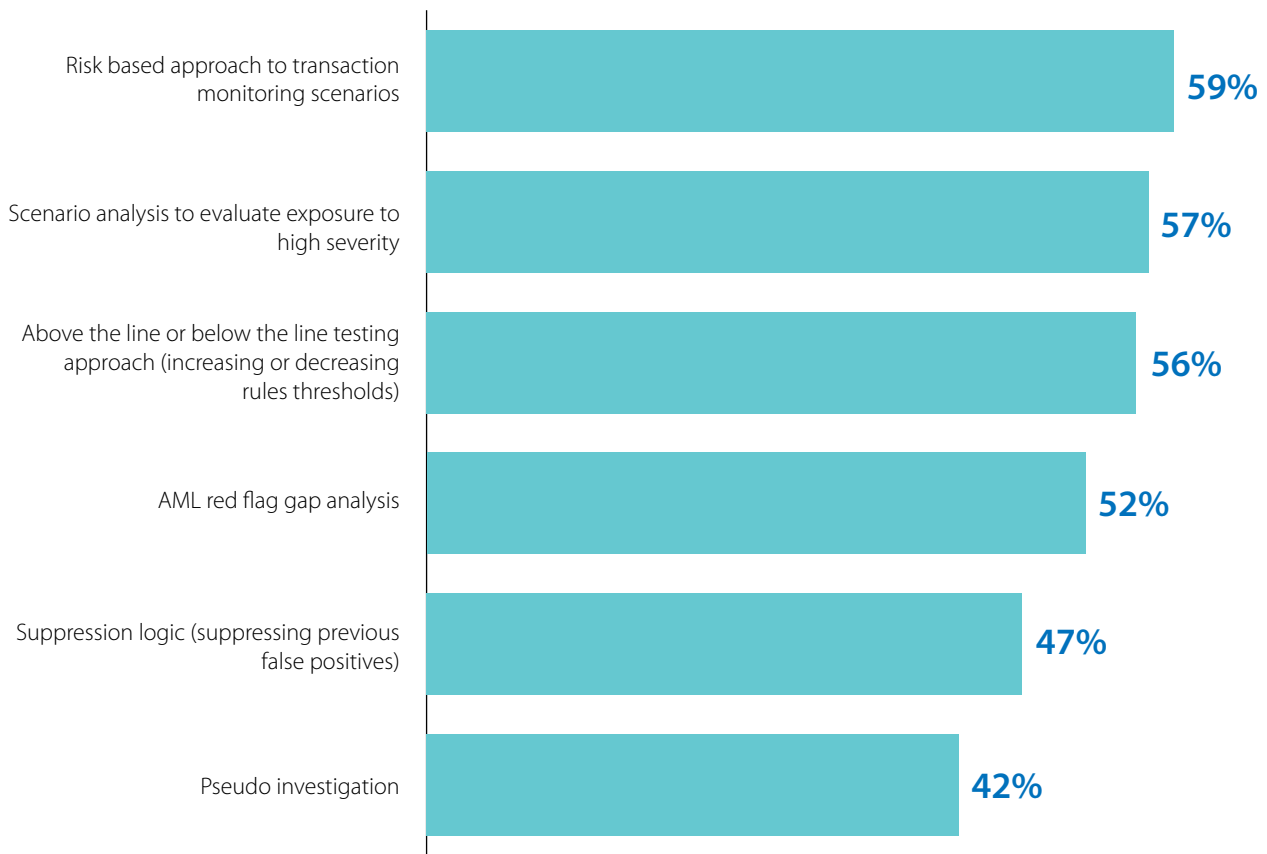


### 3.4. Type of technology used to fine-tune rules/scenario

Considering the various features within AML compliance systems, banks primarily look for a risk-based approach to transaction monitoring scenarios. This is further bolstered by the ability to conduct scenario analysis to evaluate severity of various exposure levels. Interestingly, in key markets such as Indonesia, New Zealand, Malaysia, Vietnam and South Korea above the line or below the line testing approach is paramount. Overall, 60% of foreign banks cited AML red flag gap analysis as fundamental.

Risk based approach to transaction monitoring is picked as an essential technique for finetuning scenarios by 59% of respondents

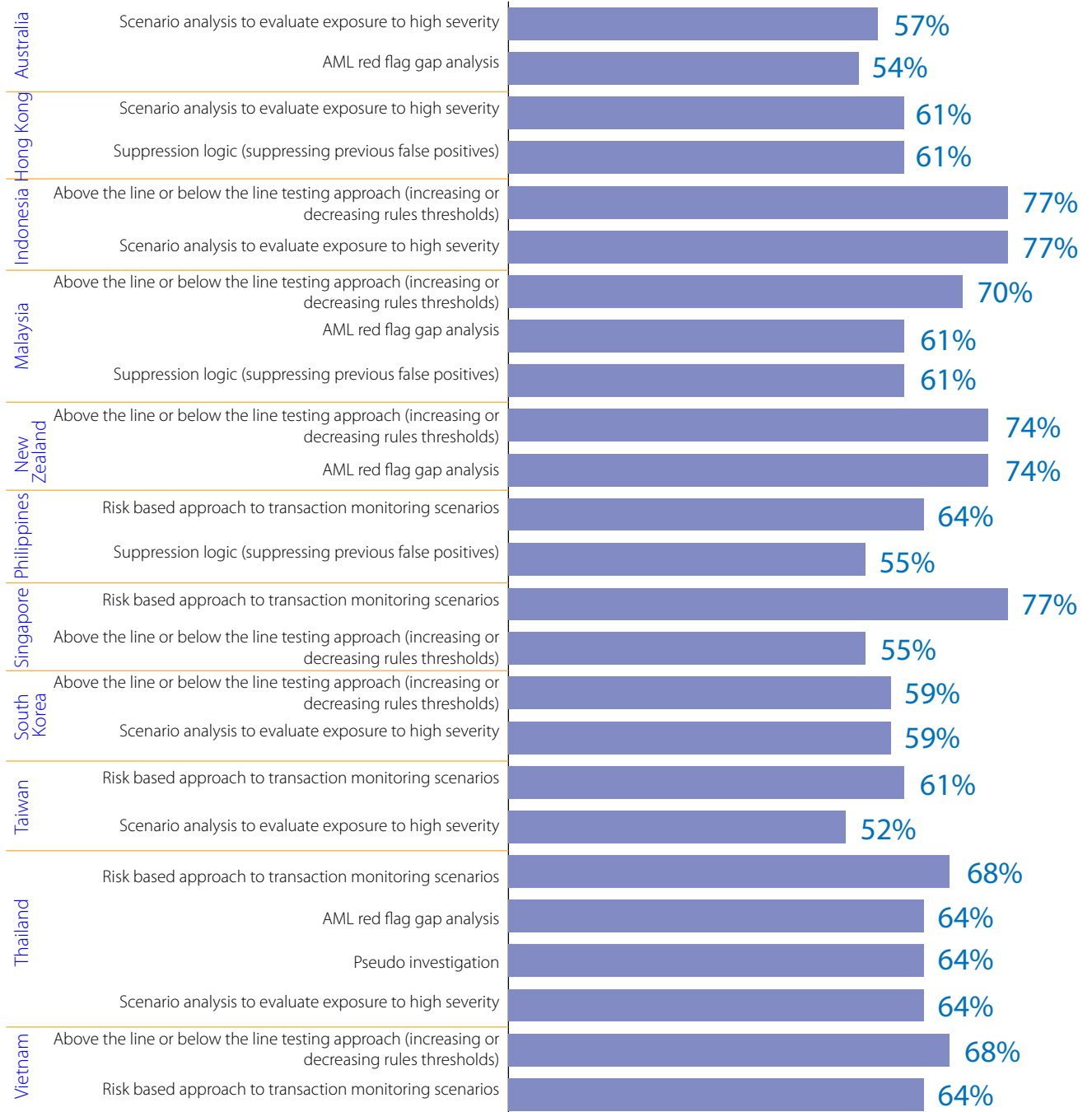
Figure 24: **Techniques to fine-tune rules/scenarios**



Source: Asian Banker Research

A range of techniques/systems considered vital but above/below the line testing approach dominating in select markets

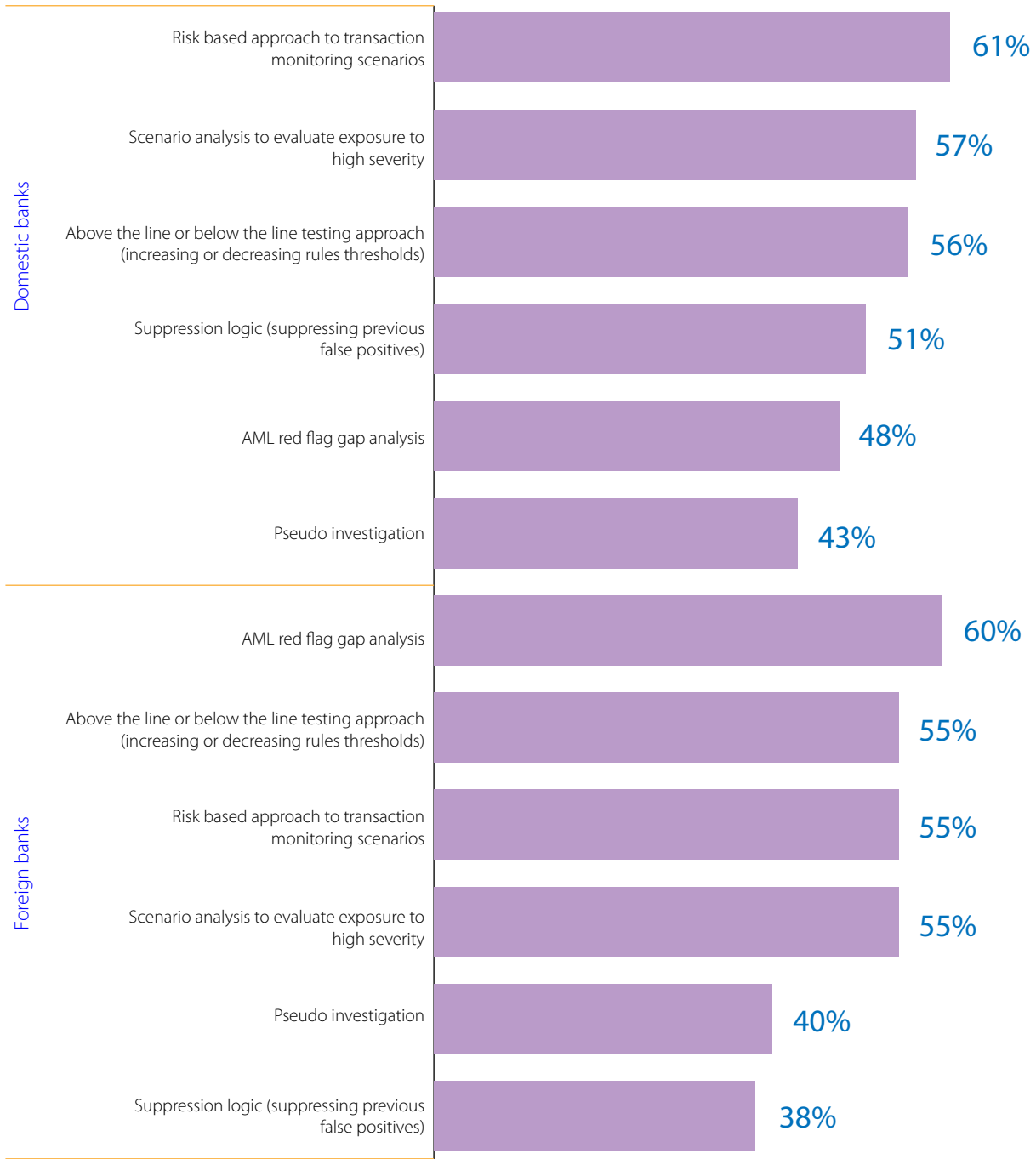
Figure 25: Techniques to fine-tune rules/scenarios by country



Source: Asian Banker Research

AML red flag gap analysis identified as essential for 60% of foreign banks

Figure 26: Techniques to fine-tune rules/scenarios by type



Source: Asian Banker Research

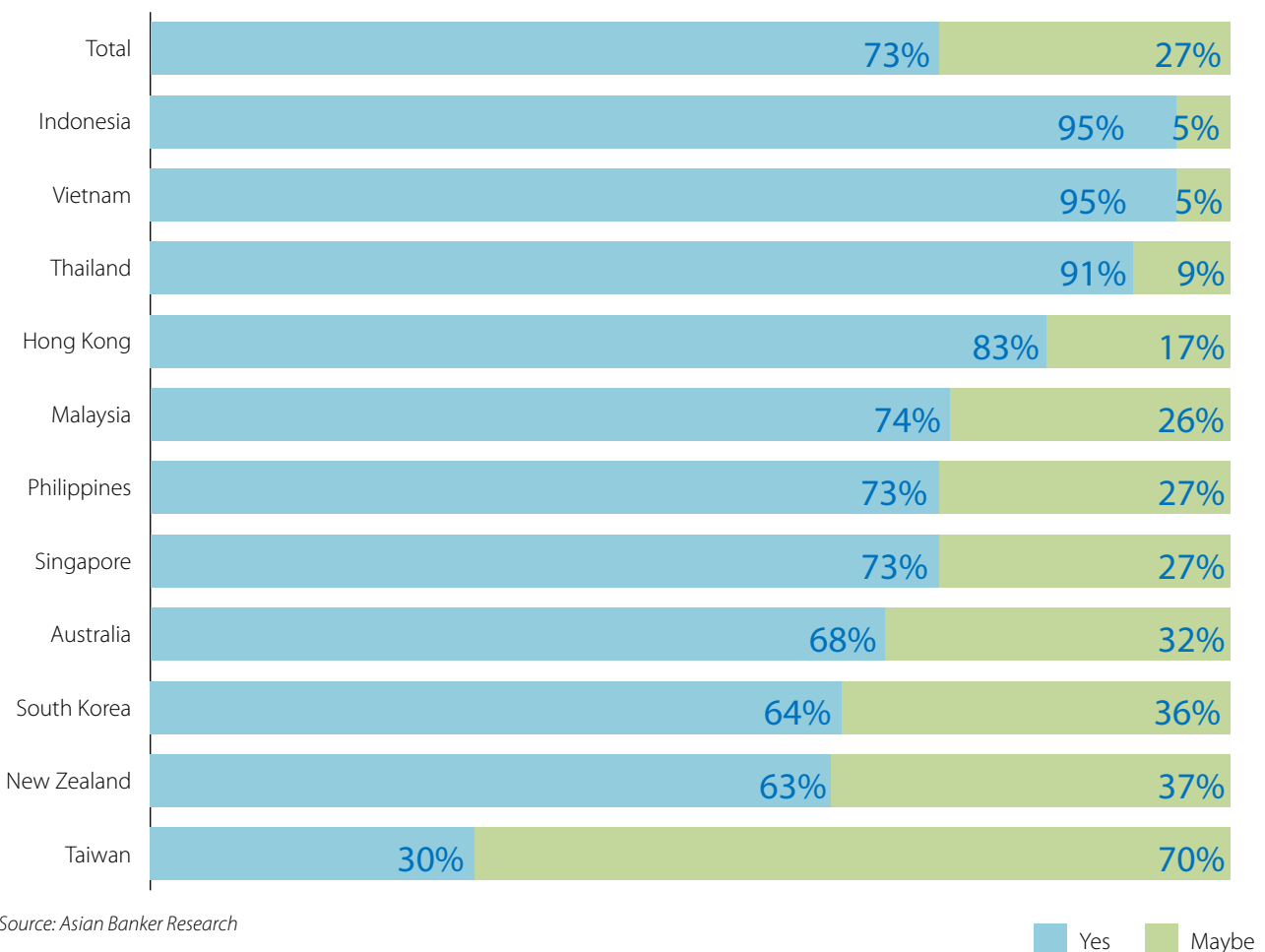
### 3.5. Use of AI in AML compliance

In terms of using advanced technology such as Artificial Intelligence (AI) to strengthening their AML capabilities more than 3/4th of banks in the region have responded favourably with banks in the ASEAN region more inclined towards AI. A major holdout is Taiwan where 70% of respondents still have doubts on the potential application of AI in mitigating AML risk.

The benefits and value of utilising AI needs to be continually reinforced as AI based compliance systems have identification, qualification and prioritisation of alert mechanisms that enables banks to conduct Suspicious Activity Reporting (SAR) while minimising any false positives. Through automation of AML processes, refinement of existing bank client profiles and business rules as well as risk forecasting based on models backed by historical data results in additional efficiencies. AI and ML powered continuous risk monitoring analytics provides superior and predictive risk management capabilities complementing the bank's wider AML efforts.

South East Asian markets find application of Artificial Intelligence (AI) in improving AML processes to be promising but 70% Taiwanese respondents unsure

Figure 27: Use of AI to improve AML



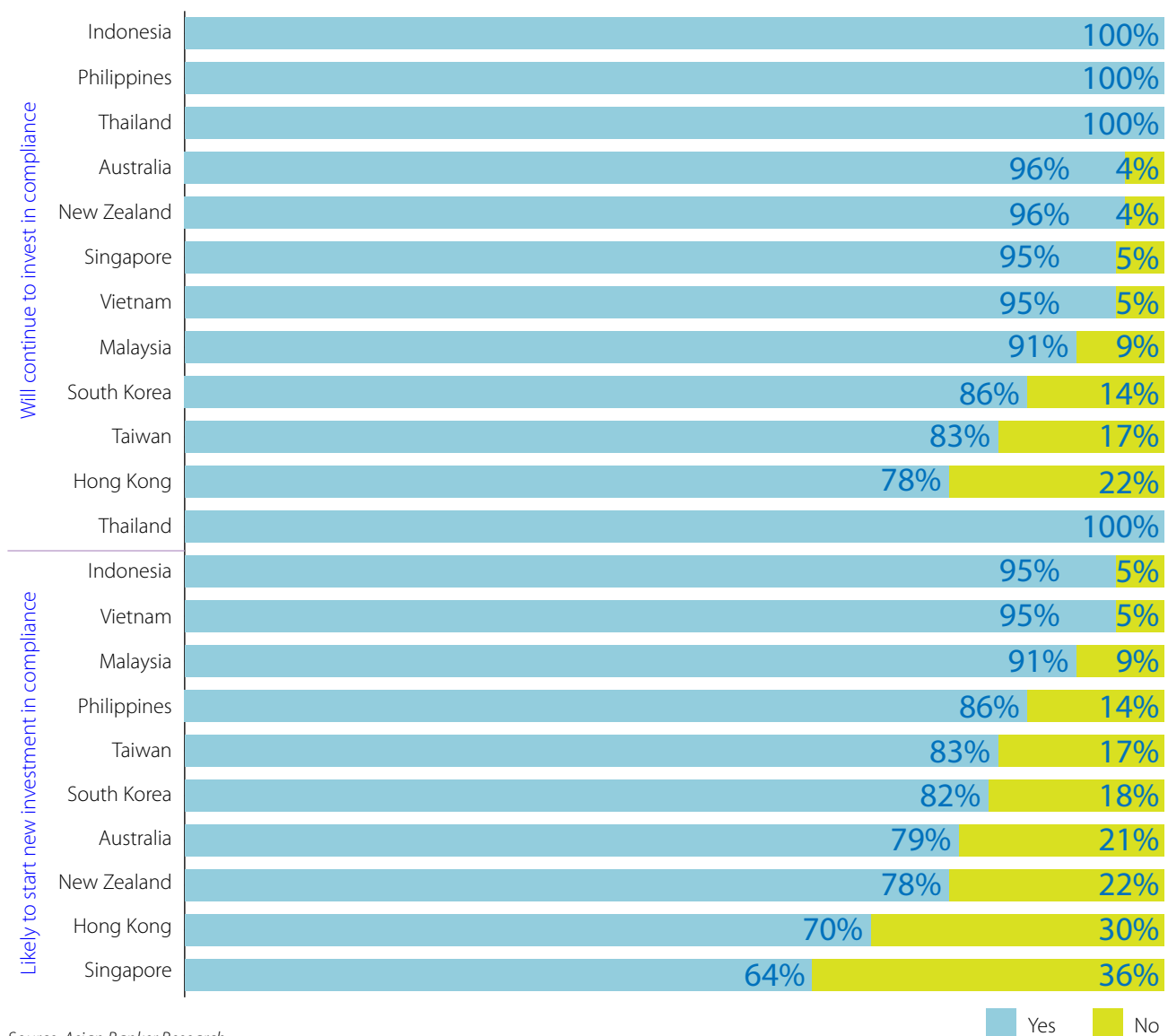
# 4. Investment in compliance technology

## 4.1. Percentage of banks that continue to increase investment

A significant majority of banks across the APAC region are likely to continue their technology spend on either upgrading or enhancing their compliance systems. Roughly a 1/3rd of respondents in the key regional financial centres of Singapore and Hong Kong have indicated that their banks are unlikely to start any new investments in compliance technology.

Investment in compliance technology likely to persist across the APAC region although 36% of Singapore banks and 30% of Hong Kong banks indicate otherwise

Figure 28: Appetite for investing in compliance technology



Source: Asian Banker Research

## 4.2. Expectation of change in budget in 2020 and 2021

Significant increases in bank budgets for compliance technology in 2021 is expected by respondents coupled with a general increase. This presents an opportunity as banks remain vigilant to manage any potential compliance risk exposures. Interestingly, foreign banks are more inclined towards new spend compared with domestic counterparts. Indonesia, Australia, Thailand and the Philippines are all key markets that will see significant investments in new compliance technology and/or enhancements.

Banks are expecting to significantly increase their allocated budgets for compliance technology in 2021

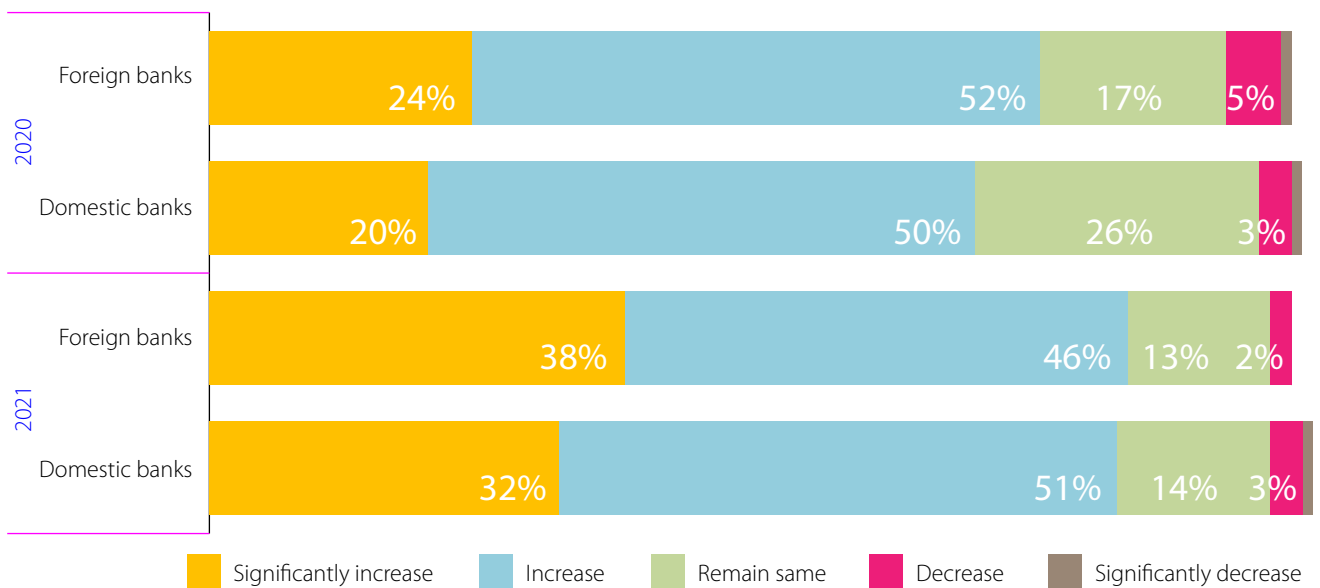
Figure 29: **Planned investment in compliance technology 2020-21**



Source: Asian Banker Research

Foreign banks will lead spend on new compliance technology with 38% having indicated a significant increase in 2021

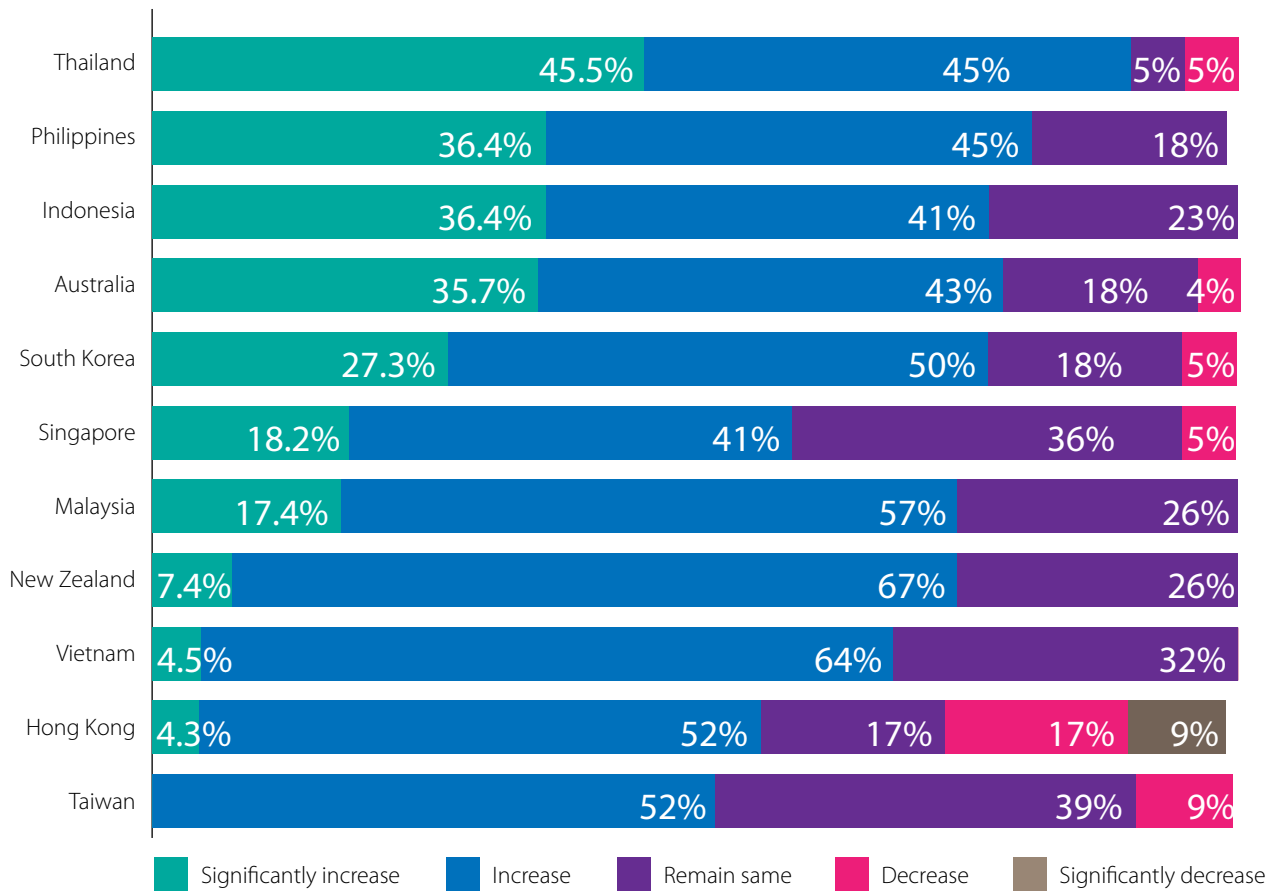
Figure 30: **Planned investment in compliance technology by type of institution 2020-21**



Source: Asian Banker Research

Thailand over-indexes compared to its APAC peers for budgeted spend on compliance technology in 2020

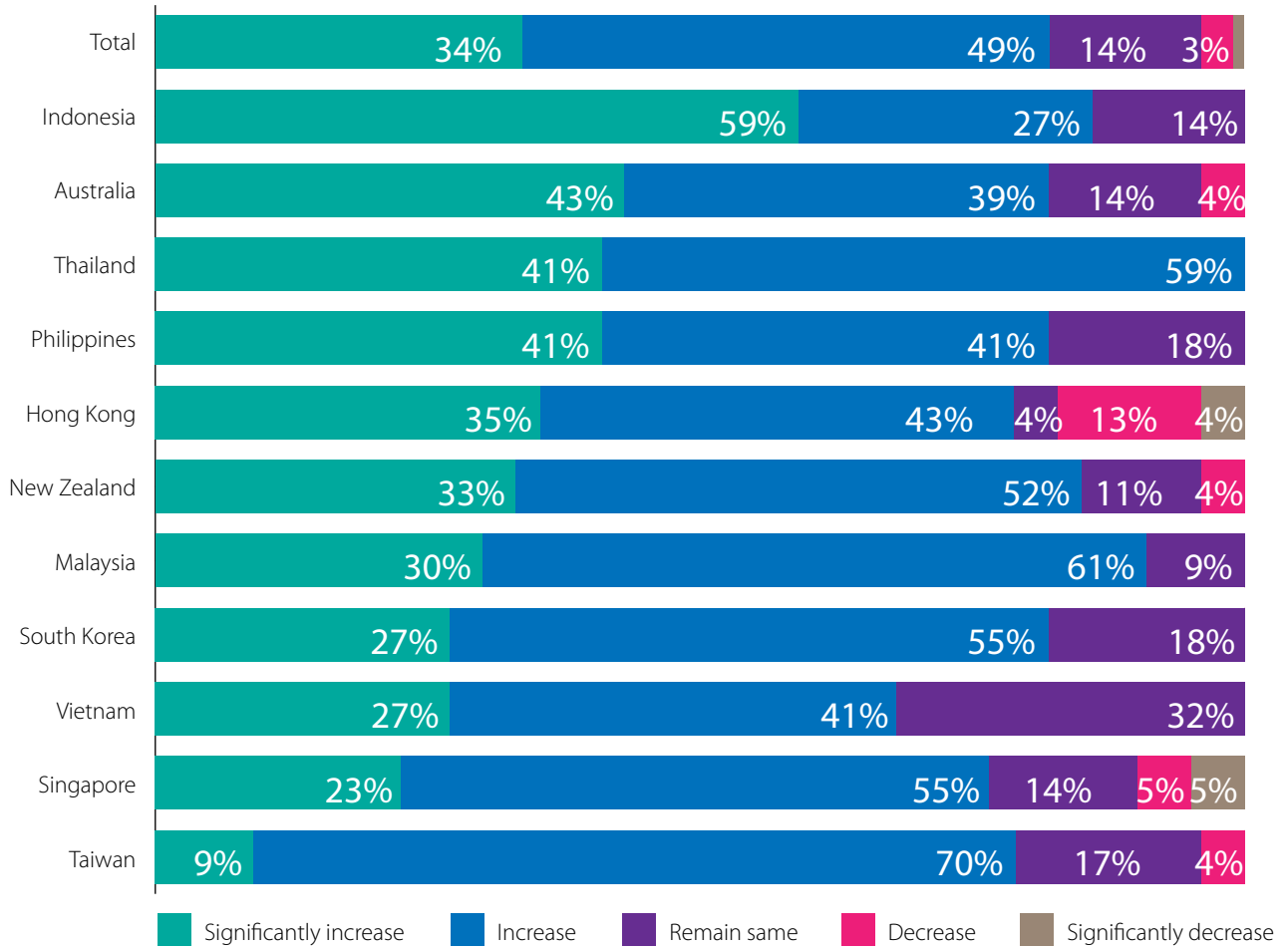
Figure 31: **Planned investment in compliance technology in 2020**



Source: Asian Banker Research

- Indonesia leads the pack for significant increases in investment technology earmarked for 2021

Figure 32: **Planned investment in compliance technology in 2021**



Source: Asian Banker Research



## 5. AML in financial crime management

Banks have begun to rethink their approach to financial crime management as evolving money laundering threats require an integrated, holistic and structured mitigation strategy and compliance plan. It remains to be seen how effective and prepared banks are in meeting the sophisticated challenges posed by money laundering as a fast-escalating source of risk but it is clear that those organisations, which lack the ability to respond quickly will fail in countering these rising threats. Banks powered by technologies that are proactive, predictive and agile will succeed especially within the AML domain while their broader compliance needs are met.

### About FICO Compliance Solution:

Financial institutions, banks, insurance companies, and industrial corporations need to fulfil their compliance obligations, avoid reputational damages, and live up to their own ethical standards. Smart compliance solutions connect risk analysis, monitoring and management systems to increase transparency and efficiency of the compliance process throughout the company.

With the 2015 acquisition of TONBELLER, FICO® now offers a comprehensive modular set of solutions to fight money-laundering, fraud, terrorist financing, and to fulfil custom requirements for Governance, Risk and Compliance in the best possible way.



## 6. Appendix - survey respondents' profile

The comprehensive survey conducted in May 2020 covered 256 respondents from Australia, Hong Kong, Indonesia, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. The survey respondents were senior executives at banks including heads of department, managers and executives involved in the risk management, financial crime, fraud, AML and compliance functions.

Figure 33: Profile of respondents by country

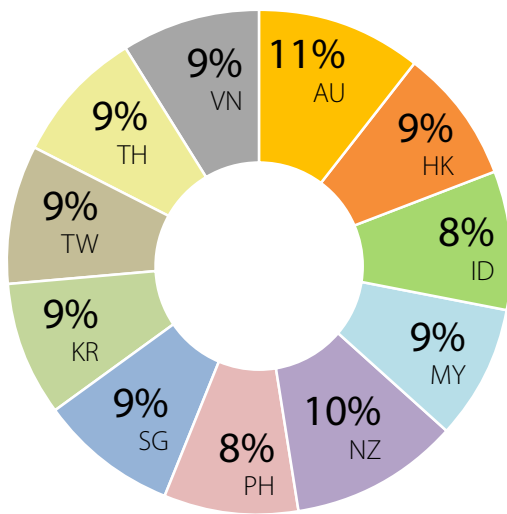
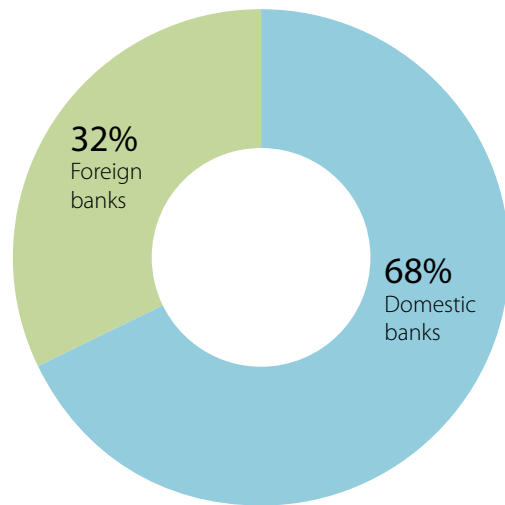
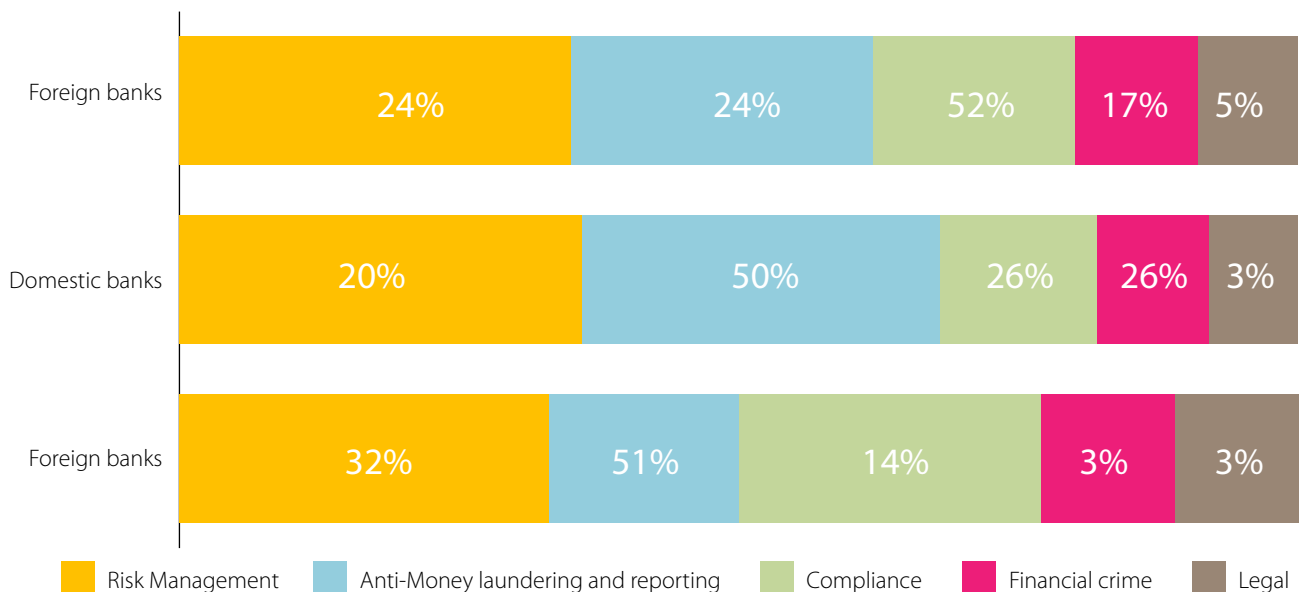


Figure 34: Profile of respondents by type of institution



Note: AU = Australia, HK = Hong Kong, ID = Indonesia, MY = Malaysia, NZ = New Zealand, PH = Philippines, SG = Singapore, KR = South Korea, TW = Taiwan, TH = Thailand, VN = Vietnam  
Source: Asian Banker Research

Figure 35: Profile of respondents by department



Source: Asian Banker Research





## >> About Us

Asian Banker Research  
150 Cecil Street, # 08-01  
Singapore 069543

Mobasher Zein Kazmi  
Head of Research  
Tel: (65) 6236 6528  
Fax: (65) 6236 6530  
Email: [mkazmi@theasianbanker.com](mailto:mkazmi@theasianbanker.com)

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