ACAMS ENTERPRISE

Best Practice Guide: Transaction Monitoring - Effectiveness Matters

An Executive Summary

The Transaction Monitoring (TM) Ecosystem

For years, practitioners and industry leaders have questioned the effectiveness of TM controls in achieving its aim: fighting financial crime. Innovation in the regulatory technology industry, such as “perpetual know your customer (PKYC),” artificial intelligence (AI), and machine learning (ML) helped organizations to enhance controls. While the use of AI/ML has reduced false positives, it has also enabled organizations to identify risks that legacy systems were previously not able to.

Effectiveness of Transaction Monitoring

High-quality data, streamlined processes, well-trained staff, and robust governance all contribute to an effective TM ecosystem. Industry leaders expect that rules-based systems will likely continue in tandem with AI systems until financial institutions (FIs) and regulators become more comfortable with the effectiveness and efficiency of AI and “explainable AI” is the norm. Regardless of the system or technology used, FIs must ensure their TM ecosystem satisfactorily addresses risk.

Rules-Based System vs. Artificial Intelligence

The fundamental issue that organizations grapple with when it comes to AI is “explainability.” In strong contrast, rules-based systems are more easily understood. In addition to facilitating better risk-based resource management, scenarios can be more sophisticated with machine learning. AI-based network analysis tools can trace risks that are only noticeable through customers’ relationships with other parties.

Challenges and Opportunities Offered by TM Enhancements

Financial Institutions identified key challenges to enhancing TM systems. The key to success on the TM transformation journey is to transform these challenges into opportunities.

1. Data migration and validation
2. Regulatory engagement
3. Adopting a true risk-based approach
4. Vendor selection

Measuring Effectiveness and Efficiency

Measuring effectiveness and efficiency differs by industry segment and organizational maturity. Key measures of effectiveness include assessing product risk and coverage, fine-tuning systems, and incorporating feedback mechanisms. Alert conversion rates are commonly used to measure efficiency, but analyzing what human resources investigate would optimize measurement. Holistic risk detection ecosystems are often found in mature organizations. Ultimately, measuring effectiveness and efficiency requires tailoring metrics to the unique needs and goals of an organization.

Achieving the Optimal Results

For TM controls to be most effective, public-private partnership, joint ventures, and potentially a public-sector-led TM utility would be necessary. While efforts of public-private partnerships continue to develop, organizations need to continually evolve, and sometimes transform, their TM ecosystems to optimize resources and meet obligations. While the adoption of “explainable” AI is increasing, an organization’s ability to embrace AI ultimately depends on its appetite, budget, and maturity.

Find Out More

Our full Best Practice Guide: Transaction Monitoring - Effectiveness Matters is available to ACAMS Enterprise members. Download your copy **here**.

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