

AML: progress and priorities

1. Building AMLA: Moving towards an effective and unified EU framework for anti money laundering (AML) and countering the financing of terrorism (CFT)

1.1 Defining and equipping AMLA will require swift organisational, technological and human investment

The Chair described how the short term objectives of the new Anti Money Laundering Authority (AMLA) can be classified into three categories. First, AMLA needs to address its operational needs. In practice, this means it will need to define its organisational structure and build up its governance framework and internal processes and procedures. In this context, AMLA's two priorities are to recruit staff and develop its IT systems, which are key success factors for any firm or institution. AMLA's second objective is to develop its capacity as a financial intelligence unit (FIU) coordinator and supervisor. AMLA will need to develop the right tools to achieve this objective. The European Banking Authority (EBA), the European Commission and national FIUs are currently developing key tools that AMLA will be able to adopt and implement. Many new tools will have to be developed. AMLA is attempting to deal with many different issues on a very tight schedule. Its work will require extensive collaboration with national authorities, EU partners and the private sector. AMLA's third and final objective is to build a European AML community. AMLA cannot operate alone. It is not simply an institution; it is the cornerstone of the European AML system. Fostering a culture of cooperation will be key to its success.

A regulator/supervisor agreed on the importance of recruitment and staff training. In the age of artificial intelligence (AI), it is particularly important to have competent people to make good use of such evolving tools. AMLA is seeking to recruit talented and dedicated people to staff its functions, but the system as a whole will only work if there are enough talented and dedicated people working in national authorities and in the private sector too. Dealing with quite a number of "known unknowns" at the intersection of regulation and implementation, particularly in the area of IT, poses another challenge and opportunity. Just take the example of regulating and setting up a centralized AML database to exchange relevant information efficiently and on a timely basis. Again, that challenge and opportunity is shared by supervisors and supervised entities alike as both sides need to start adjusting their systems without knowing at this stage how exactly. As a result, we need to get going soon and build in flexibility – so the system can adapt and improve over time thanks to feedback loops.

An industry speaker commented that the new AML requirements will require private sector entities to

conduct widespread staff training. The entire salesforce will need to understand the new rules and processes fully. When working on AML, it is important to apply the exact rules and processes. The practical details are what matter, not the principles.

An official added that national FIU staff need to be trained to use new technologies properly and to support AMLA's operational work.

1.2 Bi directional mobility and institutional cooperation

A regulator/supervisor explained that AMLA is providing many different learning opportunities for junior and senior staff. It is important to ensure that the overall AML ecosystem enables people to evolve and change. In banking regulation and supervision, there is now mobility in both directions between the European institutions and national supervisors, but there is also still some room for more mobility too. In the AML world, talent is now moving to Frankfurt because AMLA is attracting people. The development of the new AML system is also attracting people to work in national supervisory authorities. Once AMLA is fully operational, it will be beneficial for staff to be able to return to national authorities and contribute to the AML work at member state level. Facilitating mobility in both directions is the only way to foster a common supervisory culture across the Union. The staff working in national supervisory authorities are bringing national expertise to the European level. Ideally, this European expertise will be fed back at some point to national authorities. This is both a huge challenge and a huge opportunity. Creating this kind of bi directional mobility is key to reap benefits for the entire system.

1.3 Aligning AMLA with FIUs will require information exchange, robust tools and skilled people

An official emphasised that the main task for national FIUs is to gather information from reporting entities and other FIUs or international bodies, analyse it and then share the outcome of this analysis with the wider ecosystem. The FIUs will need to support and collaborate with AMLA. In both AMLA and national FIUs, there must be specialist staff focused on operational analysis who can collaborate with AMLA and other FIUs. The transition to the new AML/CFT system creates challenges around system integration, data management and training. With the increasing level of cyberthreats to data protection and systems infrastructure, IT security has become a particularly important priority. FIUs deal with highly sensitive financial information, which means their systems need to be able to analyse information securely. The new AML/CFT system will need to ensure that FIUs can securely exchange information with AMLA and counterpart bodies across the Union. The other key challenge is the application of the joint system for the next generation of FIUs. This system was implemented

at the beginning of this year and will be moved to AMLA in 2027. It will be a challenge for FIUs to adapt to the new system, the information that will be provided through it and the new technologies that will be implemented within it.

2. Turning complexity into opportunity: simplification and harmonisation as strategic levers

2.1 The benefits of harmonisation

An industry speaker highlighted the importance of understanding the exact division of responsibilities between the new central function and the national competent authorities (NCAs). Currently, French banks only deal with the Autorité de contrôle prudentiel et de résolution (ACPR). In the future, they will have to deal with the ACPR and AMLA. AMLA's ability to coordinate with NCAs will determine whether banks experience an additional layer of supervision. There must be fluid discussions and functioning between the centre and the periphery. If there is an increase in regulatory complexity, this will generate an additional regulatory burden for banks. Even though the outcome of the development of the new AML system is not clear in some areas of policy, it is vital to start to make progress and to be prepared to adapt. Without an effective feedback loop between the industry and supervisors, the different stakeholders will end up creating many different systems. The only way to foster efficiency and effectiveness is to create a single system.

An industry representative added that the establishment of AMLA is a real opportunity to bring both harmonisation and simplification to banks and other financial institutions with cross-border business models.

2.2 Simplification, not deregulation

An official stressed that reconciling the development of an effective and robust AML/CFT system and the urgent need for competitiveness and market efficiency is a significant challenge for NCAs and regulatory authorities, which will be required to adopt around 70 regulatory technical standards (RTSs). However, simplification is not an obstacle; it is the formula for success. 'Simplification' means simplified rules. It does not mean deregulation, as John Berrigan recently pointed out. The objective of simplification is to make the regime simpler but not less effective. To achieve this, the AML package will need to apply a risk based approach. The requirements must be proportional to the risk. To ensure there are no rules that are not justified by risk, there will need to be a focus on outcome rather than process. There should be no duplicative or overlapping reporting requirements. The private sector needs to be able to create streamlined AML processes. Indeed, banks and other financial institutions should be incentivised to use a risk based approach in their processes and to leverage new technologies.

It is important to ensure that the new AML/CFT framework is ambitious. By its very nature, the AML

package aims to support competitiveness while facilitating compliance. The aim is the system is to provide a safe environment for investment. There will be a 'one stop shop' for entities under direct supervision and the single rulebook should ensure consistent application of the rules. Effective AML and increased competitiveness are not mutually exclusive.

2.3 AMLA's new rulebook must be proportional and coordinated

A regulator noted that the current rulebook is based on the de Larosière report, which clearly made the case for much greater EU regulatory harmonisation. Over the last 15 years, the rulebook has been significantly expanded. In January 2022, it had reached 660 documents, 25,000 articles and 15,000 pages of text. Last year, Mario Draghi's report set out the need to rethink the regulatory framework. This triggered a process at the European Commission and European supervisory authorities (ESAs). In the Proportionality and Coordination Committee of the European Securities and Markets Authority (ESMA), work is underway to map the areas where simplification is possible and to change the EU's drafting culture to ensure that only truly necessary rules and technical standards are proposed. In this context, the development of AMLA is a golden opportunity. AMLA is currently drafting its rules. From a governance point of view, AMLA needs to have proportionality champions and a committee to ensure that proportionality is achieved through the drafting process. In addition, its working groups should seek to achieve simplification, burden reduction and proportionality. This is extremely important for AMLA because it will have to prepare more than 70 technical standards, which will be in addition to the already quite extensive single rulebook.

3. Leveraging technology and AI

3.1 Harnessing AI requires data standardisation, investment in skills and respect for data protection

A regulator stated that data fragmentation is a key obstacle to harnessing new technologies effectively. The data that needs to be analysed is held in many different institutions, such as banks, other financial institutions and government agencies. Gathering this data and assembling it in a single format will be a huge challenge. Each institution creates its own models and structures for its data. The standardisation of these models will give the data that exists much more value.

The other key challenge is around the need to keep pace with technological change. It is extremely difficult and expensive to develop technology on a continuous basis. As soon as one technology is operating, a new technology is on the market. It is worth remembering that the perpetrators of money laundering also use these new technologies. The requirement to keep pace with changes in technological development obliges banks and other financial institutions to ensure that their staff maintain a commensurately high level of skill. Both human resources and IT are crucial to any organisation's ability to reap the benefits of a new technology.

An industry speaker emphasised that the AML rules provide a legal basis for processing personal data without obtaining explicit consent, but the General Data Protection Regulation (GDPR) makes it clear that data usage must be minimised. Many new technologies, AI in particular, need to use a large amount of historical data. There is a clear conflict between these two sets of regulation.

3.2 AI can strengthen AML detection and efficiency but must be governed and explained

An industry speaker explained the potential efficiency benefits of AI models. AI can be used to classify or prioritise suspicious transaction reports (STRs) and suspicious activity reports (SARs) for analysis and can even be enabled to pre fill STRs and SARs with the relevant information. One of the key questions for supervisors will be around the extent to which a human being needs to intervene in the AML process. This debate will grow over the coming years as the use of AI tools increases. AI has been used in AML for over five years, but now an increasing number of use cases are being developed. The question around the need for human involvement in the process will grow in importance over the next few years. Ultimately, the use of AI will only be able to make AML activity more efficient if there is proper control and good governance.

An industry representative commented that AI can be used offensively and defensively to fight bad actors who are trying to infiltrate the system. The proactive deployment of AI can enable firms to make substantial improvements to customer ID verification and onboarding processes. As AML risks evolve, AI can be used to suggest new recommendations for rules and procedures to respond to changing demands. Because the criminal element is very good at using AI and digital technology, the use of AI will need to be a critical component of the approach employed by policymakers, regulators and industry players.

An industry speaker noted that the use of AI can make AML models more efficient and automation can speed up the analysis process. Ideally, this should both reduce staff cost and drive efficiency. In this regard, the public authorities need to understand that the private sector's main objective is not to reduce cost but to drive efficiency. These cost benefits are secondary to the gains in effectiveness.

A regulator/supervisor considered that the use of AI can enable firms to increase their detection rates and reduce the number of false positives, which acts as a reduction in cost. For supervisors, AI tools can improve anomaly and threat detection across entities, ideally across sectors and jurisdictions. The implementation of the EU's AML package is a time of significant policy change and innovation in detecting financial crime through private-to-private as well as private-to-public collaboration.

An official agreed that AI can enable all financial institutions to analyse data more effectively. FIUs receive an extremely large and increasing amount of data from reporting entities. The banking sector started using AI tools several years ago, which has contributed

to the growing number of STRs. This huge amount of data means it is even more necessary to create good systems for data analysis. IT tools can automate the processing and analysis of incoming STRs and SARs, allowing analysts to focus on complex and high priority cases. By analysing the high volume of STRs with AI, FIUs can identify emerging trends and typologies, which can then be shared with the reporting entities. The use of digital platforms should streamline the process for providing feedback to reporting entities. The development of generative AI also offers some new possibilities for FIUs. Fewer technical IT staff will be needed, if natural language interfaces can be used to interact with AI tools. These interfaces can enable staff to prepare useful prompts without needing an extensive knowledge of programming languages.

3.3 Public-private cooperation on AI needs clear rules and political support

An industry speaker added that firms need vocal support from the public authorities and clear guidance from AMLA in their implementation of AI technologies for AML purposes.

4. Information sharing as game-changer: making PFISs work

4.1 PFISs will break down silos and enhance STR quality

An official reflected that the European banking scandals of the past were not only caused by regulatory fragmentation but a lack of data exchange between the relevant stakeholders. The proposed new Partnerships for Information Sharing (PFISs) could be a game changer. They will increase the quality of STRs and enable law enforcement and FIUs to fight money laundering and terrorist financing more effectively.

A regulator/supervisor emphasised that the common theme of the AML package is collaboration, which in this context means collaborative analytics. On the data side, PFISs should enable a much greater level of data exchange between stakeholders. It is important to start working on operationalising the PFIS model immediately. The benefits are clear, but it will take time to reap them. In this regard, AMLA is a fantastic opportunity to join up the overall framework. Once there is a pilot model for PFISs, it can be expanded to the European level and made to work for all EU stakeholders.

4.2 Legal clarity and privacy guardrails

A regulator/supervisor added that the challenges in the development of the PFIS model mostly relate to business needs and GDPR issues. Privacy is an important topic in most member states. At both the national and European levels, the public sector needs to provide clear privacy guardrails to ensure that firms understand what they are permitted to do.

A regulator agreed that there are challenges around GDPR, data privacy and data protection. Data protection

can be a difficult obstacle to overcome. It is often the case that a reporting entity cannot provide data that is needed for AML purposes because it is protected. It is important to remember that there is a social dimension to this issue. Europeans do not want to feel like they are under surveillance. It is important to communicate the message that citizens have nothing to fear if they are not breaking the law.

4.3 TMNL: a blueprint for EU wide transaction monitoring

A regulator highlighted the example of a successful AML system from the Netherlands. The Dutch FIU and

the five biggest Dutch banks have created Transaction Monitoring Netherlands (TMNL). This system is a joint cooperation which anonymously monitors transaction data from all the participating institutions. An individual bank cannot understand the full picture. With the participation of all five banks and the FIU collating the data, TMNL provides a much more complete picture of bank transactions in the Netherlands. This example could be instructive in thinking about how to overcome the remaining barriers to effective transaction monitoring in Europe.