ARTIFICIAL INTELLIGENCE ON ANTI MONEY LAUNDERING SECTOR

Vision

To uphold the values and principles of the Indian Chartered Accountancy profession in North America as a trusted finance professional with competencies in managing business risks, corporate governance, assurance and audit and business competitiveness in the fast changing business world.

Mission

To provide Indian Chartered Accountants settled in British Columbia with career development opportunities in a changing global and Canadian economic and business environment. Organize professional development activities for members with a focus on changing business environments, developments in information technology and telecommunication, new global partnerships, collaboration, government specific policies and competitive pressures from global outsourcing. Organize networking events to develop opportunities for members in emerging areas of audit and assurance needs, tax planning services, performance measurement and control services, business risk related services, change management services, strategy management and servicing global organizations. Provide a mentoring forum to Indian Chartered Accountants who are new to Canada.

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For feedback write at info@icaivancouver.com

MESSAGE FROM THE EDITOR

Dear professional colleagues,

I would like to begin with congratulating all the successful CFE writers from September 2021 and May 2022 attempt. Very well done! Your hard work has paid off. With September 2022 CFE past us, I hope it went well for all the members who attempted.

I am delighted to present the first newsletter for FY 2022 to you from our chapter. I would like to thank Sangeeta Basu for the article she contributed for this newsletter. If any member is interested in sharing any article/knowledge with others, please do not hesitate to contact me or any other board members.

Your chapter organizes virtual professional development events, by itself as well as in association with Toronto Chapter on interesting topics. We have senior speakers from diverse backgrounds in different parts of the world presenting in the PD events on current topics that are relevant to the continuously evolving profession. As the chapter continues to work hard to organize these events, I request all the members to take advantage of it and attend as many events as you can.

This year Annual Gala is to be held on October 10, 2022. Please save the date and I look forward to meeting each one of you at the event. Registration details to follow soon. If any member would like to volunteer, please reach out to any Board of Directors or send us an email at info@icaivancouver.com.

Lastly, at our chapter it is our constant endeavor to come up with initiatives to support our members. We invite more members to provide your valuable inputs and contribute further to enhance the chapter activities.

With best wishes,

CA Poonam Mandhana
Editor, British Columbia Chapter of ICAI

MESSAGE FROM THE CHAIRMAN

My dear professional colleagues,

As we celebrate 75 years of Independence, it is a matter of pride that globally India has grown to become 5th largest economy. Accounting profession has a significant role to play in transition of an economy and we are indeed very honoured to be a part of the second largest accounting body of the world. With 44 chapters and 32 representative offices globally, our alma mater institute continues to grow globally and serve businesses across.

Our chapter continues to add to its network CA members from across India. As part of our mandate, we will continue to provide the much-needed support to the newcomers to settle down and contribute positively to the growth of the Canadian economy. We will continue to offer regular online professional development events in various areas of business to our members from our end as well as in collaboration with other ICAI chapters in the geography. We invite all our members to take the maximum advantage of these events and strengthen their local connections.

The chapter organized an in-person networking event after two long years of pandemic on July 15, 2022 at KPMG downtown office. It was wonderful to meet so many of the new members first time. I look forward to continue meeting members at the future networking events. This brings me to the upcoming Annual Gala to be held on October 10, 2022. I would like to request all members to save this date and attend the gala. More details to follow soon.

Stay safe, stay healthy.

Best wishes,

CA Deepak Arora
Chairman - ICAI BC Chapter

CAN ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING BE EFFECTIVE IN COMABTING MONEY LAUNDERING/TERRORIST FINANCING?

By Sangeeta Basu, CIMA, CIA

Introduction

Combating money laundering is one of the most tedious tasks for banks and financial institutions (FIs) and it comes with significant costs and associated risks primarily regulatory, financial crime, and reputational risks. In the digital world, financial fraud is the most common crime. Criminals funnel their illicit funds through banks and legitimate financial institutions. Unfortunately, many such institutions typically lack the right tools to respond appropriately. The cost of anti-money laundering compliance in the USA is estimated at USD 23.5 billion per year. Next comes European banks with approximately USD 20 billion per year. Despite this high level of spending, 90% of European banks have been fined for AML-related non-compliances over the past few years. Moreover, Covid-19 and the disruption it brought to the global economy has triggered a sudden increase in financial crime, with money laundering a threat to society.

Artificial Intelligence (AI) has grown considerably in recent years. Robotics, virtual assistants, and other forms of AI have become an everyday reality reducing costs and helping businesses manage risk efficiently and effectively.

The stringent regulatory environment makes Anti-Money Laundering (AML) a complex, persistent and expensive challenge for FIs. In the European Union, the Fifth Anti-Money Laundering Directive focuses on several issues, including the emergence and use of AI.

How Artificial Intelligence detects money laundering?

AI tools can detect suspicious transactions/money laundering in several different ways by using specialized algorithms which can analyze an enormous pool of customer data both structured and unstructured and raise red flags when transactions or account activity is found to be unusual or suspicious. Automated processes like customer due diligence (CDD), transaction monitoring inputs or sanctions screening help detect potentially dangerous activities. Machine learning can be helpful as well.

The potential usage of AI and machine learning in AML

The potential usage is:

1. Understanding customer's behavioural changes:

In FIs the customer's transaction data gets entered into an AML program. The machine learning models check their behaviour.

It then makes future predictions and judgments about them. Even small changes in customer behaviour can be captured by the AML system backed by AI. The traditional AML checks usually overlook these small changes. Also, AI can assist FIs in gaining a deeper understanding of the risks posed by their customers. For example, there can be a statistical analysis of high-risk customers and transactions. Hence high-risk customers get more attention during the transaction monitoring process.

2.   Streamline customer due diligence processes:

AI can also enhance the customer due diligence and know your customer processes, allowing both to be carried out faster and in more detail. AI can manipulate a greater range of customer data for AML purposes which can be used in risk assessments, suspicious activity reporting, and regulatory investigation. The capability of AI can also be leveraged by financial institutions to manage the monitoring of their vast amounts of unstructured data.

3.   Analysis of unstructured customer data:

AML compliance requires the examination of unstructured customer data. It is part of transaction monitoring, screening of transactions with Politically Exposed Persons (PEP), sanctions screening, and other processes. FIs must examine a variety of external sources. These include media and public archives, social networks, and other relevant statistics.

4.   Reporting Suspicious Activity:

AI assists with suspicious activity reporting (SAR) to the Financial Intelligence Units or other regulatory agencies. AI creates and files reports with appropriate data. SARs go through an internal reporting procedure of FIs. These include contributions from the employees before submission to the regulatory authorities. The internal process may need data submissions from all over the world and in a variety of languages. Artificial intelligence streamlines the SAR process. AI can pre-populate automated reports with important data. It then presents the data in a comprehensible format. This reduces administrative friction and ensures data consistency for all contributors. AI improves the speed and efficiency of AML reporting.

5. <u>Reduction of False positives:</u>

Automation in an AML system supported by AI enhances speed and efficiency to difficult and time-consuming compliance procedures. One of the greatest roadblocks to compliance efficiency is the level of false positives. Inadequate data and over-sensitivity of AML procedures cause this false positive. Due to false positives, very few AML red flags become full SARs. This results in a significant amount of time, money, and resources. AI and machine learning systems have the potential to reduce the number of false positives in the AML process.

The drawbacks of AI and machine learning

The introduction and use of AI and machine learning for AML compliance carry several risks that need to be judiciously managed. A study conducted in 2019 by the Bank of England and Finance Conduct Authority (FCA) amongst 300 respondent financial institutions showed that respondents recognize a range of risks that may arise from the use of AI and machine learning. The survey highlights the following key risks:

i.   Machine learning models are increasingly large and complex; hence it requires appropriate risk management and control processes;

ii. Machine performance may be affected in situations where it has not previously acquired intelligence or where human knowledge, experience, and judgment plays an important role;

iii. Employees may not be adequately trained to use the technology and address risks associated with it;

iv. Issues with data quality and algorithms, including biased data, can produce unintended results, erroneous predictions, and poor decision.

The current AML approach is struggling to keep pace with modern money laundering activity. There is a real opportunity for AI by aiding with fraud identification, transaction monitoring, sanctions screening, and know your customer checks, but more importantly to identify new and innovative ways to tackle money laundering and financing of terrorism.

Source:

1 www.napier.ai

2. www.2.deloitte.com

3. www.sanctionsscanners.com

4. www.finextra.com

5. FATF Guidelines

Oct 2021 – August 2022 in review: Webinars

October 16, 2021: *2021 Annual Gala*

January 22, 2022: *Republic Day Celebrations*

February 02, 2022: *Federal Budget 2022*

March 26, 2022: *Anti Money Laundering*

May 03, 2022: *ICAI MOU Pathway: Becoming a CPA in Canada*

May 21, 2022: *Presentation & Communication skills: Unlearn and Relearn with CA Kala Subramanian*

June 11, 2022: *Cryptocurrency*

June 18, 2022: *International Yoga Day Event*

July 15, 2022: *In person networking event at KPMG, Vancouver*

August 24, 2022: *Challenges ahead of a Forensic Accountant and Art to deal with it*

Upcoming events:

September 21, 2022: *Canadian and Indian Taxation implications of setting up a business in Canada and India*

October 10, 2022: *Annual Gala*

November 18-21, 2022: *World Congress Conference, to be held at Mumbai, India*

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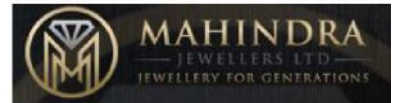
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