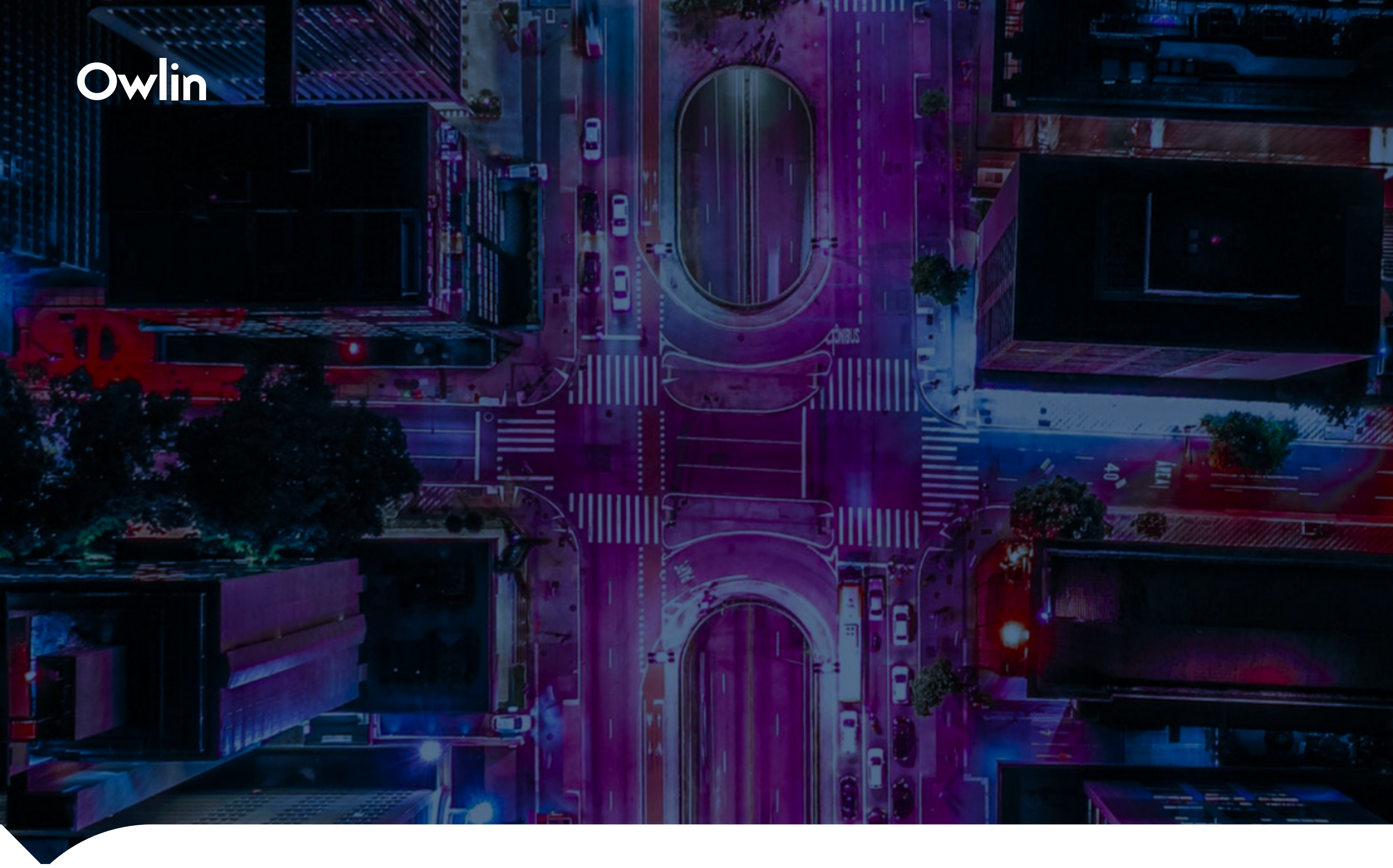

How Adverse News Monitoring Benefits Companies With Large Client Portfolios

The 11.5m documents leaked in the Panama Papers case are glaring proof of how borderline or completely illegal financial activities can pass standard KYC and AML checks. The fight against modern financial crime started in the 1970s, while the first KYC legislation was introduced in different jurisdictions 20 to 30 years ago. This is enough time to master counterparty monitoring and financial crime prevention.

Yet, today, the annual total for money laundered globally is between $800b and $2tn, with just 1% other amount being intercepted. To address the problem, regulators and financial institutions are now looking towards adverse news screening as the latest and highly promising methodology to effectively manage financial crime risk.

Furthermore, it has also proven to be a valuable addition to the set of tools organizations like consultancies and payment service providers use to effectively address entity monitoring, counterparty reviews, chargeback risk, reputational damage, and compliance issues. That way, companies can timely react to arising threats in their early stage, rather than post-factum.

The 3 Aspects Proving Adverse News Monitoring Is Invaluable

On a macro level, in 2020, institutions have been hit with $10.6b in fines and penalties related to AML, KYC, and data privacy, a 141% jump since 2019. On a micro level, in the last couple of years, we witnessed several notable scandals. Due to a pattern of suspicious transactions dating back to 2007, in 2018 ING was fined a total of €775m while executives are being prosecuted personally.

The same year in Estonia, allegations that Danske Bank had processed €200bn in suspicious transactions between 2007 and 2015 launched a criminal investigation. The case affected DeutscheBank, which was convicted in helping process €181bn of the corrupt funds. More recently, Goldman Sachs was fined $6.8b from multiple regulators for its involvement in the 1MBD scandal. In 2020, the London branch of Commerzbank was fined £38m by the UK's FCA for inadequate AML checks. Currently, ABN Amro is being investigated for not taking action against possible criminal acts by customers.

You probably wonder how money laundering on this scale goes undetected? The short answer is lax transaction monitoring and client oversight failures - issues that might have been adequately prevented with the right technology.

But investigations don't loom only over banks. The definition of an organization subject to money laundering regulations has expanded to include insurers, payment service providers, consultancies, and more.

Fortunately, organizations can capitalize on adverse news screening and its ability to protect against penalties, negative press, loss of consumer confidence, and other potential threats to their financial stability, compliance, and reputation.

- Mitigating compliance risk

Cases like the ones mentioned above have shown that knocking a zero or two of a bank's yearly profit can't solve the structural problem or repetitive behavior.

That is why regulators are looking to further tighten the oversight. By June 3rd, 2021, all EU member states' companies dealing with financial transactions will have to comply with the Sixth MoneyLaundering Directive (6AMLD). It will cover predicate offenses (crimes that generate money and originate prior to money laundering or terrorism financing), and tolerate a more proactive and technologically-enhanced approach. Going forward, businesses should screen for suspicious links both when onboarding and monitoring customers. Although the 6MLD doesn't address negative media screening directly, it does provide sufficient incentive for financial institutions to enhance their AML procedures with it.

Categorization of adverse media is also an essential part of FATF compliance. It obliges financial institutions to understand clients' reputations and any previous involvement in criminal activities. From now on, regulators will not only tolerate, but may also request from organizations to enhance the scope of their adverse media screening process to timely identify breaking news stories.

- Preventing financial damage

Regulatory fines aside, the inability or hesitation in tracking negative news can result in hefty financial losses. If an organization isn't aware of the looming risks, it can't react.

"Bankruptcy risk has by far the most direct impact. In the case of travel agencies, this can have an immediate snowballing effect. If a client goes bust, you will start receiving the chargebacks. While they will be piling up as a result of the losses, the deposit funds will quickly be depleted," shares Erik Stelwagen, Senior Investigation Manager at Worldline, Europe's leading payment service provider. "Thanks to Owlin, we have a good control of these processes and the ability to intervene in time," he adds. Even if adverse news monitoring helps companies with large-scale clients avoid just a single loss per year, it will prove invaluable.

“While in the final stages with a leading client, Owlin alerted us about news of financial difficulties that would have likely resulted in chargebacks. It is difficult to estimate how many losses we would have potentially incurred,” points out Mr. Stelwagen.

And why should they? Nobody would want to experience the potential damages just to prove that point. Instead, we can learn from Thomas Cook’s bankruptcy and the consequences that rippled through its supply chain. Many payment service providers weren’t able to mitigate their financial exposure timely and suffered millions of losses due to chargebacks.

The pandemic’s devastating effect on the tourism industry continues to date, with the latest example being the bankruptcy of D-Reizen. Its director projects the default of the company to affect the whole Dutch travel industry chain. Although not from a similar scale to Thomas Cook, D-Reizen’s bankruptcy might lead to significant potential losses for all related parties. Examples like these further prove the accuracy of PwC’s estimation that a dollar invested today in fraud prevention is worth twice as much when a fraud hits.

- Avoiding reputational risk

Financial crimes happen in the shadows, but their effect is public and often devastating. Companies that act proactively and adopt mechanisms to monitor adverse news are better positioned to safeguard their reputation.

“In critical situations, the problem is that if your partners in the industry pick the news up, but you don’t, it becomes a question of whether you have the right type of controls in place. You might be viewed differently, and it becomes some form of reputational risk,” explains Erik Stelwagen.

Markets have a long memory, and any step in the wrong direction that gets public exposure can negatively affect long-term growth opportunities and client retention.

Current Challenges in Adverse News Monitoring

Millions of news articles are published daily in official and unofficial sources. And it can take just a single one to destabilize your organization. So, how do you get to it on time?

So far, financial institutions employed a manual process where research teams looked for negative news through routine Google searches. Considering that adequate due diligence should be ensured not only when onboarding new clients but also on an ongoing basis, with companies with big client portfolios, the process becomes exceptionally exhausting.

Furthermore, the manual process is prone to missing critical pieces of information. And with the 22 additional offenses introduced by the 6AMLD and all the permutations between them, the task becomes nearly impossible if not automated.

"With Owlin, our monitoring procedures take no more than an hour. If we had to do this manually, we would need a whole day and still not be able to cover the entire portfolio."

- Erik Stelwagen, Senior Investigation Manager at Worldline

Yet, according to Dow Jones, just under two-thirds of the respondents in its survey already rely on automated news screening, highlighting its increasing importance. However, McKinsey points out that 85% of all AML activities in most banks remain administrative or non-analytical.

Unsurprisingly, this approach presents more challenges and potential threats rather than opportunities for identifying and intercepting financial crime. To avoid losing sight of a client and get caught out by breaking news, firms should complement their adverse news screening procedures with proper automation tools.

But gathering information is just the first step - evaluating the data is equally critical. Organizations should be able to distinguish signals from noise. The most efficient way to do that is by embracing machine learning and natural language processing technologies.

As a result, financial institutions can reduce the high-risk situations they have to face, thus minimize their exposure to non-compliance, financial, and reputational risks.

How Owlin Streamlines Adverse News Screening and Reduces KYC/AML Bottlenecks

McKinsey advises financial institutions looking to introduce or enhance their adverse news screening procedures to choose a solution with extensive coverage that relies on NLP to gather information from diverse sources. Furthermore, it highlights the importance of systemizing data by country, language, and customer, and timely alerting teams.

Owlin's platform ticks all boxes. By analyzing millions of sources across 12 languages simultaneously and near real-time, it leaves no stone unturned, granting organizations complete coverage of their global portfolios.

The powerful data configuration and visualization capabilities provide Owlin users with actionable intelligence for their counterparties, clients, or merchants, ensuring they are in total control all the time. Performing in-depth analysis with Owlin means signals are delivered straight into the dashboard, cutting research teams' need for manual browsing through endless streams of news articles or alerts. The real time ranking and prioritization capabilities help risk managers, fraud analysts, and investigative departments to filter the signals from the noise and see 'where the action is happening'.

That way, abnormal activity monitoring becomes a straightforward and resourceful procedure, allowing financial institutions, payment service providers, and consultancies to timely identify the outliers or bad actors within their portfolios. Thanks to the proactive view of the latest micro- and macro-level developments, global counterparty portfolios, and large client landscapes are better protected against financial and non-financial risks.

"We had a risk exposure on a merchant, but due to Owlin, we found out there were tons of user complaints ongoing. We took immediate action and recovered a part of the loss which we would have otherwise faced."

- Barry Landegent, Head of Merchant Potential Liability Risk at Adyen

The New Frontiers

The clock for the current model has run out. Organizations should stop trying to optimize the status quo. Although the journey from filling out forms to identifying real-time negative news might seem challenging, its benefits are beyond doubt. Financial organizations should be prepared once regulators start asking questions about the controls they have in place to cover for financial crime risks. It is in their best interest to also future-proof the in-house compliance functions and ensure protection against reputational and financial risks. And the best way to do that is through technology.

Get in touch with us to learn how

About Owlin: Owlin is a news and text- analytics company, which helps finance professionals around the globe monitor large portfolios and detect early warning signals posing potential risk or creating opportunities that foster their investment decisions. Owlin serves a global client base which consists of Asset Managers, Banks, Pension Funds, Payments Service Providers, and Corporates. Owlin taps into more than 3M global internet sources across 12 languages and creates actionable insights in near real-time. For more information visit our website or reach out to us via sales@owlin.com.