



FIGHT FINANCIAL CRIME AS A MERCHANT

DO IT WITH THE LATEST INSIGHTS AND TECH

PREPARED BY
iSPIRAL, 2020

Overview

Introduction

Over the past 30 years financial crime troubles the global economy and regulations and laws in fighting it emerge in multi-jurisdictional level. According to the Association of Certified Fraud Examiners, a typical organisation is estimated to lose 5% of its revenue to fraud per annum.

Money laundering and Globalisation

As we run through the era of digitalisation, characterised by innovation in financial information, communication and technology enable a faster and global scale move of money. This situation strengthens financial crime as the task of combating it becomes more difficult. Investigation and identification of fraud and its origins is becoming more complicated due to the fact that “dirty money” can better hide into the international banking system.

Banks – The eye of the cyclone

The financial sector is traditionally the hardest hit due to its nature. Even the biggest corporations find it hard to meet the requirements of regulatory bodies resulting in huge financial penalties. The issue peaked after the 2008 crisis which left banks devastated and regulators started getting stricter. The outcome was \$321 billion fined to the world's biggest money lenders like Deutsche Bank until 2016. Fines in the sector are continuously increasing with one of the news cases being Swedebank which was issued a record \$386 million fine in March, 2020.

▮ The United Nations Office on Drugs and Crime (UNODC) estimates that between 2% and 5% of global GDP is laundered each year, which translates to US \$800 billion – US \$2 trillion. ▮



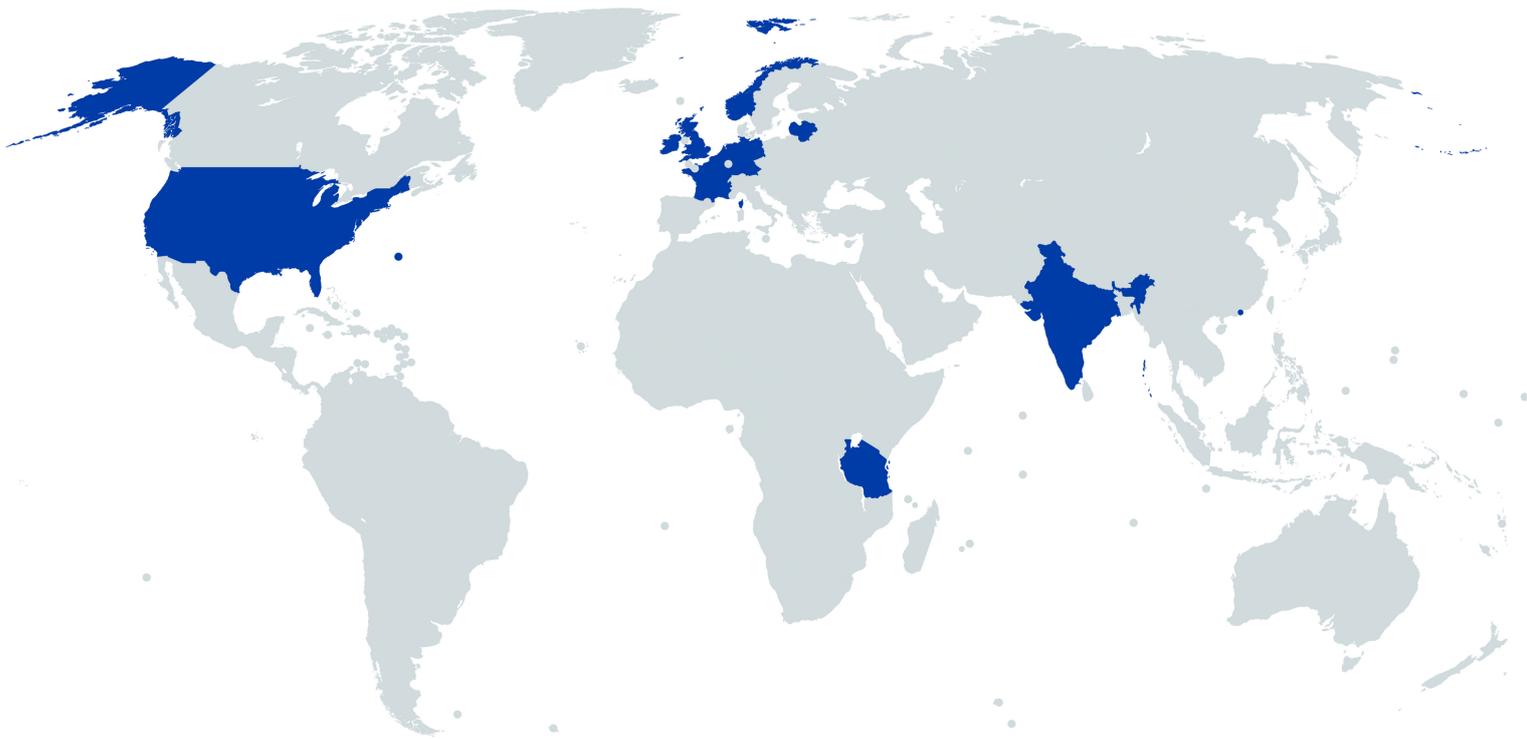
The Current Situation

Financial Crime – a Global Issue

Despite the fact that the United Kingdom and USA are leading the anti-money laundering penalties race as both of them were issued 37 out of 58 penalties, the total number of countries included in 2019 was 14. This statistic shows that jurisdictions across the world started taking fraud more seriously due to the fact that exactly a decade ago only firms from three countries were issued AML fines.

Penalties Skyrocketed

Last year, anti-money laundering penalties peaked, setting much higher numbers than 2018 (29 issued) as they reached 58. The result was a record £6.2 billion in anti-money laundering penalties charged in 2019 globally.



Countries Issued AML Penalties in 2019

Country	No. of Penalties	Country	No. of Penalties
United States of America	25	Germany	1
United Kingdom	12	Hong Kong	1
India	5	Lithuania	1
Belgium	3	Bermuda	1
Latvia	3	Tanzania	1
Norway	2	Ireland	1
France	1	Netherlands	1

Fraud Evolves and Expands

Fraud Diversification

Banks were the leading firms that issued anti-money laundering fines historically. In 2019 however, statistics suggested that money laundering has broadened its reach to other industries like Gambling/Gaming and this places it as a general business threat.



The Case of Real Estate Industry

The sector has long been described as a haven for money laundering activities. Real estate is of high popularity among criminals because they can launder large amounts of money and the properties/land purchased displays a stability in price and a long term increase in value. It is a global phenomenon with clear examples in major economies like North America, European Union, Middle East, Asia and Africa.

As of lately, Fraudsters started using this market more creatively and a great example is the suspicious activity of investors from Russia, China and Hong Kong who purchased France's most renowned wineries. The complexity of this specific case comes from the fact that the investment transactions incorporated a strategy of structured layers of corporations, many of which are operating in foreign jurisdictions, described as some of the so called tax havens.

Digital Consumerism

Consumer Purchasing Behaviour comes to add to the challenges of Merchants on keeping up with Regulatory Agencies, and online shopping is increasing in popularity year by year, reshaping demographics.



2.05 billion

consumers worldwide choose to purchase products and services online (Statista, 2020)



50%

of people prefer shopping via their mobile device than a brick and mortar store (Ibotta, 2018)



36%

of consumers pay with eWallet online making it the most preferred method (Paymentscardsandmobile, 2018)



\$4.206 trillion

in retail Ecommerce sales is estimated to be recorded in 2020 making up 16.1% of global retail sales (emarketer, 2019)

How Can Merchants Adapt?

Education and Development

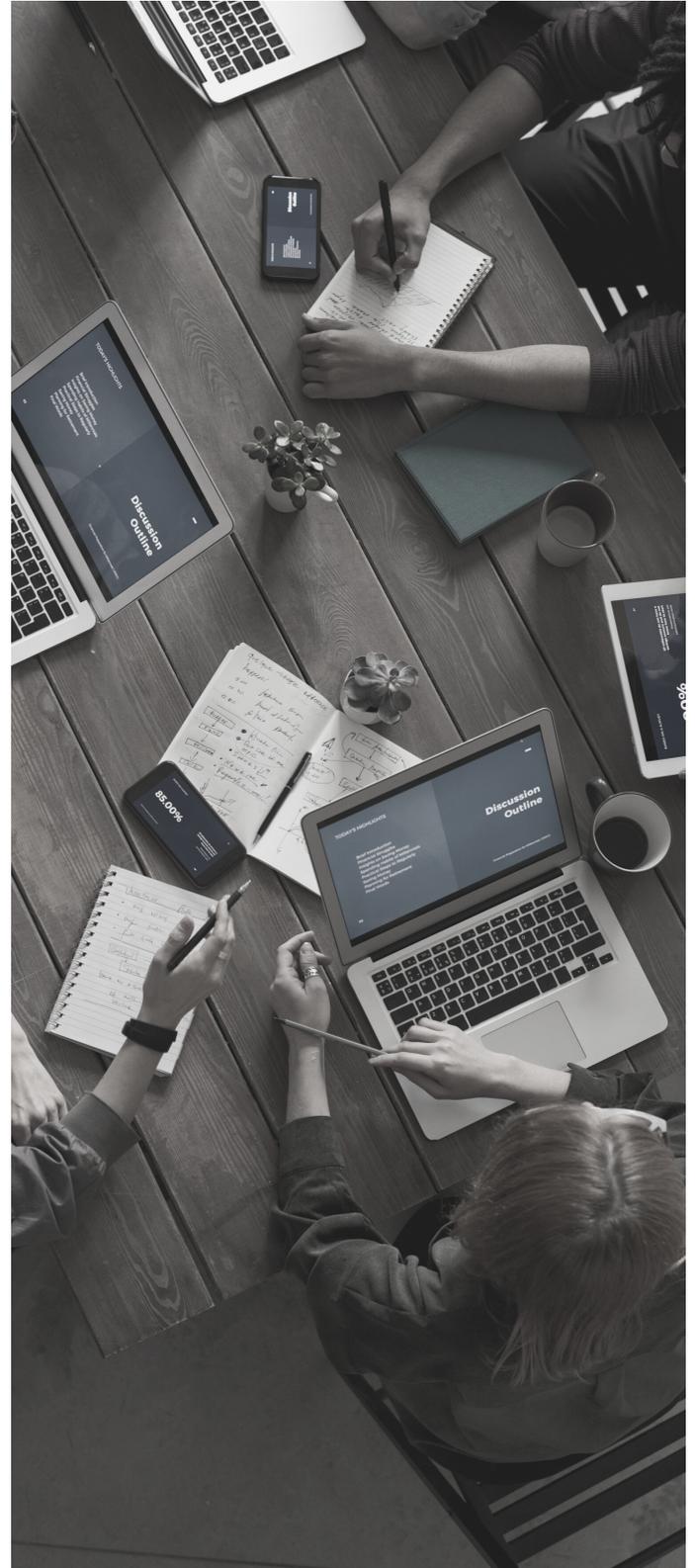
The key for businesses is to understand Fraudsters and the fact that they are constantly seeking new ways to enforce their activity. Financial crime becomes more sophisticated and the right strategy for firms is to educate their personnel on the subject and equip them with the proper tools to detect, investigate and manage the risks occurring.

Operational Updates

The way firms operate compliance and risk wise plays a vital role in how effectively they can detect fraud and avoid fines. The truth is that the majority of companies are employing legacy methods in fighting acts like money laundering. Investment in new technologies like cloud computing, business intelligence analytics and machine learning is required to counter fraud technologies like deep-fake, manage risks more effectively, reduce operational cost and accurately detect and report suspicious activity.

Act Fast

By investing in machine learning and other technologies in an aim to enrich their operations, organisations need to think “fast” too. They need to take into consideration how fast their compliance tasks are being finalised, and what is the percentage of false positive alerts being generated. Another challenge is to find a reliable and trustworthy vendor that can ensure quick setup and assistance.



RegTech Technologies



What is RegTech?

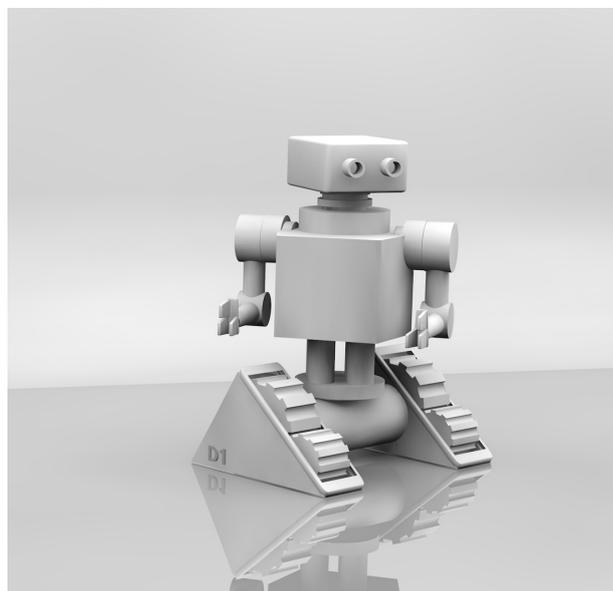
The Regulatory Technology sector emerged in mid 2010s and it is the marriage between new technologies and compliance laws and regulations. RegTech solutions incorporate impeccable tools to help compliance officers manage risks more effectively and corporations reduce cost and boost operational efficiency.

RegTech Solutions and How they can Help Merchants

RegTech solutions consist of breakthrough technologies enabling merchants to automate risk monitoring and management, offering seamless onboarding, and reduce the time and cost of compliance operations. Those cutting-edge tools already helped numerous firms in achieving operational excellence.

2020s will be a decade that will bring drastic changes to the sector. Vendors started shifting their solutions from being “know your customer” centric to “know your data” focused. A Grand View Research, Inc. research suggests that the global RegTech market is expected to grow at a CAGR of 52.8%, reaching \$55.28 billion by 2025.

By incorporating state-of-the-art technologies like machine learning, cloud computing and business intelligence data analytics, RegTech is evolving to the ultimate financial crime fighting tool, a software that in its core detects fraud, money laundering and, human and drugs trafficking accurately and in near real time trend.





Machine Learning enables Compliance Departments to achieve operational excellence even with the most extreme tasks.

“Artificial intelligence is defined as the branch of science and technology that is concerned with the study of software and hardware to provide machines the ability to learn insights from data and the environment, and the ability to adapt in changing situations with high precision, accuracy and speed.”

– Amit Ray

Conclusions and Sources

Conclusions

Due to the continuously evolving digital business world, financial crime like money laundering, drg and human trafficking and fraud has become increasingly difficult to detect. Regulatory Technology Solutions started a compliance revolution and merchants who want to fight financial crime should be part of it.

At iSPIRAL we created RegTek, a sophisticated solution in fighting financial crime. The unique software supplies corporations with the finest modules such as AML Risk Assessment, Transaction Monitoring & Screening, Digital Identity Verification & Screening (iKYC) to create the ideal onboarding, KYC & AML experience. Our cutting-edge software comes with machine learning implementation to its various modules, supported by BI analytics and global multi-jurisdiction databases, ensuring the ultimate technological processing of compliance tasks. Lastly, RegTek is both on-premise and cloud-based to meet all your expectations and its features can be fully tailored to respond to your specific demands.

Sources

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