

U.S. bank regulators encourage innovation, artificial intelligence, in AML compliance

Dec 04 2018 Brett Wolf, Regulatory Intelligence

The U.S. Treasury Department's anti-money laundering unit and the federal banking regulators on Monday issued a joint statement to encourage banks and credit unions to consider "innovative approaches," including new technology such as artificial intelligence, to enhance their AML compliance programs. The protection provided by the document may not be enough to convince financial institutions to invest, however, sources say.



Pilot programs launched by banks, in conjunction with existing processes aimed at compliance with the Bank Secrecy Act (BSA), the primary U.S. AML law, "are an important means of testing and validating the effectiveness of innovative approaches," the joint statement says.

"While (the regulators) may provide feedback, pilot programs in and of themselves should not subject banks to supervisory criticism even if the pilot programs ultimately prove unsuccessful. Likewise, pilot programs that expose gaps in a BSA/AML compliance program will not necessarily result in supervisory action with respect to that program," the document states.

The document stops well short of providing any kind of safe harbor for innovative banks, however.

As money launderers and other illicit actors "constantly evolve their tactics," Treasury wants the compliance community "to likewise adapt their efforts to counter these threats," Sigal Mandelker, Treasury under secretary for terrorism and financial intelligence, said in a written statement.

"We are highly encouraged by innovative steps that financial institutions have taken recently to identify and report illicit financial activity related to North Korea, Iran, and other key national security and law enforcement priorities," Mandelker said. "The joint statement issued today with our fellow regulators is a central part of our ongoing commitment to foster innovation that helps protect our financial system and makes our country safer."

In addition to new technology, the statement also encouraged "innovative internal financial intelligence units."

The joint statement was issued by Treasury's Financial Crimes Enforcement Network (FinCEN), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of the Comptroller of the Currency.

In the past, regulators have suggested that banks need to continue to operate existing AML processes while they try out new technology. The joint statement seemed to reiterate that expectation but recognize that current processes face eventual

replacement.

"Bank management should prudently evaluate whether, and at what point, innovative approaches may be considered sufficiently developed to replace or augment existing BSA/AML processes," the document states.

The regulators' cooperative statement and their acknowledgement that they are not going to target banks because of their innovation are positive developments, but the adoption of new technology is "incremental work," [Jim Richards](#), the former BSA officer at Wells Fargo, who now runs RegTech Consulting LLC, told Regulatory Intelligence.

The high costs of adopting new technology while simultaneously running existing systems – both in terms of money and qualified AML professionals – may continue to prevent some banks from innovating, [Richards](#) said.

Each of the regulators has established, or will establish, projects or offices "to support the implementation of responsible innovation and new technology in the financial system," the joint statement said.

The document provides "clear guidance" on how U.S. banks can use new technologies to bring effectiveness and efficiency to their AML programs, said James Heinzman, executive vice president for financial services solutions with big data analytics firm ThetaRay, a provider of AI technology. Institutions have hesitated to adopt AI for their AML programs "because of concern for how regulators would view this new technology," Heinzman said.

"They wondered if they would be subject to regulatory action if AI found money laundering events that their existing systems were unable to detect and they were also concerned about the implications of results obtained by testing new technology or running pilots," he said. "Today's announcement was clearly designed to set aside those concerns and set forth clear guidance on how banks can proceed."

(By Brett Wolf, Regulatory Intelligence)

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