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**Anti-Money Laundering and Tax
Compliance: Adapting to the
changing landscape**

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Deloitte's Financial Services Seminar 2017

Agenda

1. Regulatory environment
2. Key challenges
3. Trends and innovation in financial crime compliance

Regulatory environment

Products and services

Ascertain range of products and services to ensure tailored response to clients' needs whilst meeting the AML/CFT product risk assessment requirements

AML/CFT prevention

Identifying illicit assets from the regular economic cash flow in an environment where regulatory bar keep rising higher

Tax compliance

Determine client's tax liabilities and ensure legitimacy of assets

Commercial

Foresee compliance cost to client revenue

Sanctions compliance

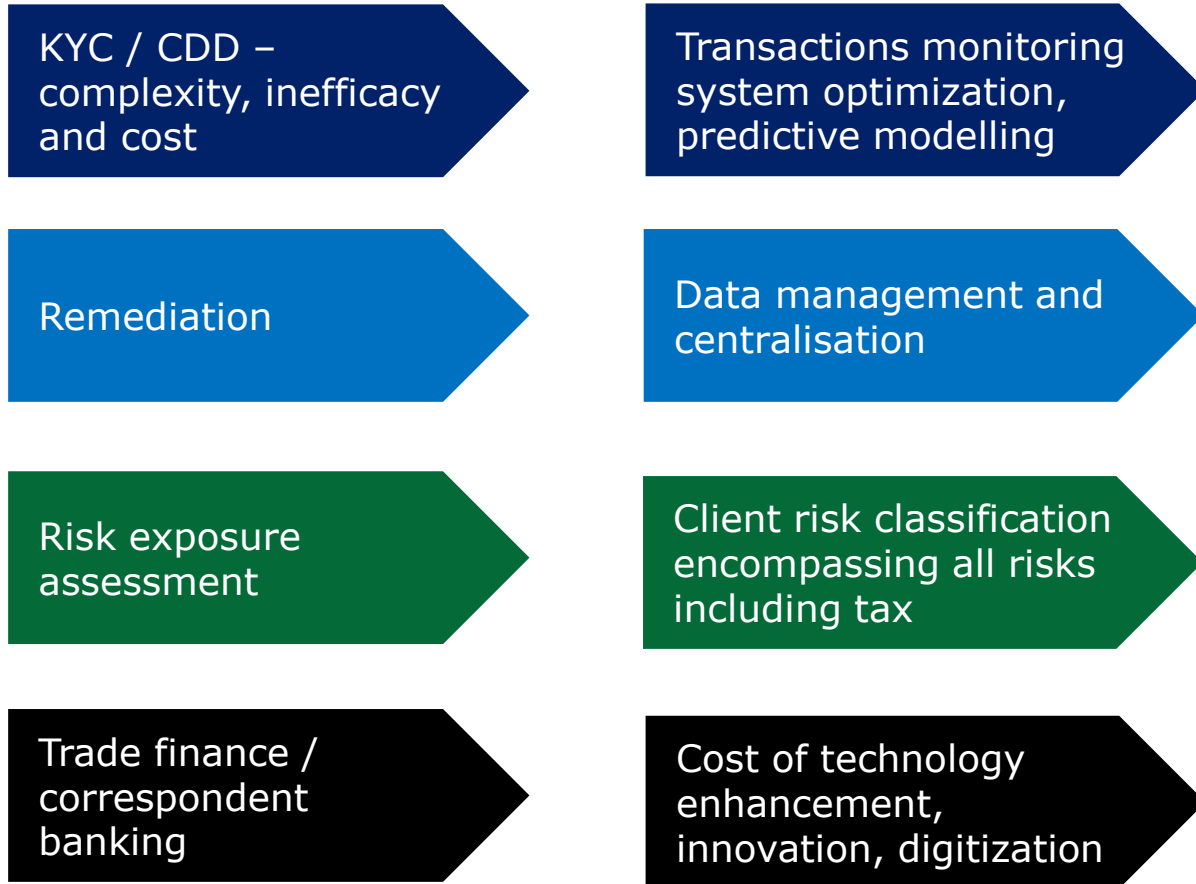
Comply with international standards to prevent provision of financial services to persons, entities or bodies subject to sanctions

Reputation

Establish portfolio of wanted clients and ensure alignment and de-risking



Key challenges



Our current work and current client challenges

Lessons learned

01

Data

- Limited availability and accessibility
- Quality and consistency issues
- Static character (snapshots)

02

Workflow

- Overlapping roles
- Unassigned responsibilities
- Lack of engagement

03

Isolation

- Isolated risk views (clients and markets)
- Lack of cross-functional communication
- Lack of global alignment

04

Data privacy

- Cross-border name matching limitations
- Uncertainty with regard to applicable rules and regulations

05

Authorities

- Immediate execution requests
- Timely responses
- Response quality and alignment

06

Technology and innovation

- Investments
- POCs need time, testing and customisation
- Many “plug and play” solutions do not solve the issue

Other challenges in compliance space

Thematic view of challenges faced by financial institutions in compliance



Lapses in the manner in which risk is measured/maintained

- Non-data driven risk weightings
- Failure to maintain and test risk weightings over time
- Inconsistent monitoring of new risk typologies
- Gaps in documentary evidence of how risk is measured



Poor maintenance of due diligence documentation

- Electronic maintenance of files is inconsistent due to lack of maturity of systems
- Over reliance on physical documentation
- Due diligence materials are uploaded and housed on different systems



Challenges in independent governance

- Lapses in creating / maintaining an effective independent person or governing body
- Unclear ownership of compliance with internal policy / procedures and / or regulatory requirements and industry guidance



Decentralised KYC procedures

- Banks with global coverage often have different procedures for KYC in different jurisdictions
- The use of judgment may differ for individuals
- Lack of standardised approach creates audit issues

Other challenges in compliance space

Thematic view of challenges faced by financial institutions in compliance



Evolving regulations and regulatory expectations

- Regulations and expectations are consistently evolving
- Stringent regulatory inspections indicate the need to be in line with regulator's expectations
- Ability to view client risk from AML and tax compliance in a holistic fashion



Link analysis of transactions

- Disconnect between monitoring of transactional behaviour and KYC & tax profile information
- Limited awareness of risks associated with an account or inconsistencies between transactions and source of wealth



Gaps in staff experience and knowledge

- Insufficient execution of responsibilities
- Inability to recognise indicators that suggest financial crime
- Limited awareness of the sophisticated methods used by criminals



Outdated, missing or redundant tools

- Outdated, missing or redundant tools force staff to create "side" processes along the main process
- Difficulty in maintaining, user unfriendly tools force staff to revert back to MS Excel, Word and E-mail messages

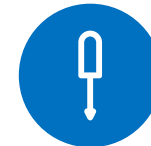
Trends and innovation in financial crime compliance

Tools, existing solutions, and offerings

Predictive modelling in transactions, fraud and conduct monitoring



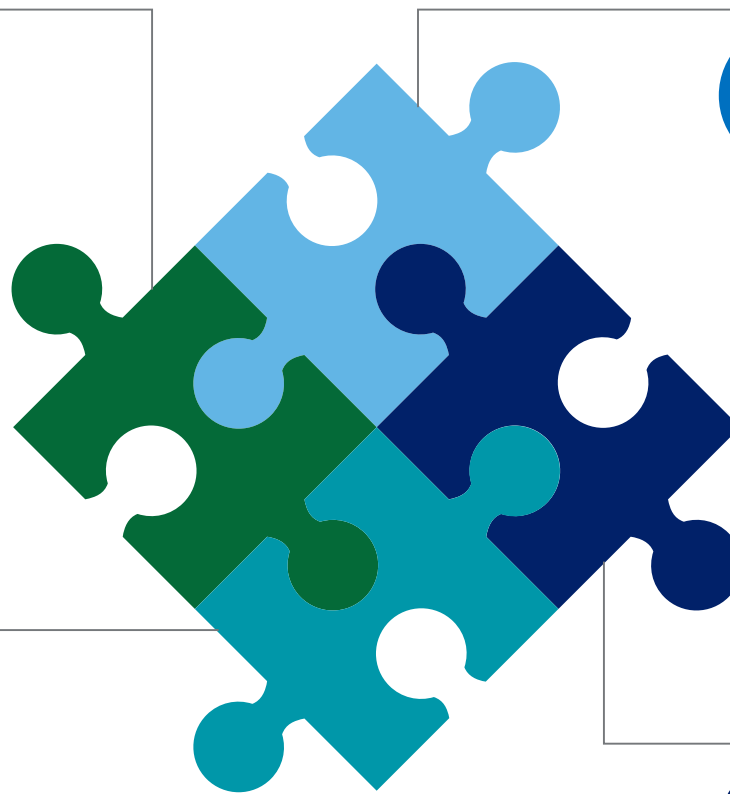
Use of robotics in KYC and STR related searches and information gathering



Name & TMS screening optimisation



Blockchain and digitisation of KYC and Trade Finance



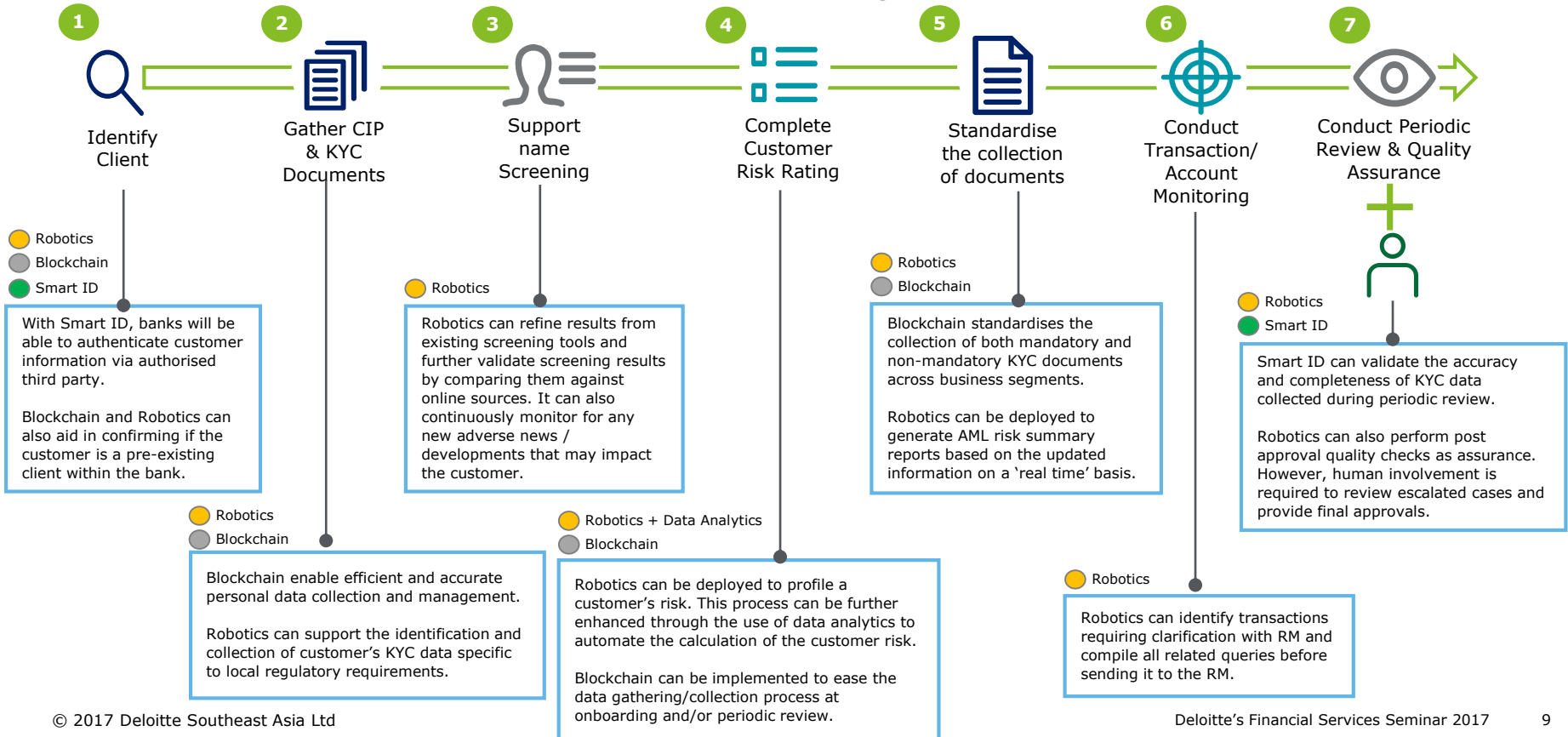
Re-thinking the KYC Process

Leveraging on technological solutions to drive cost savings, greater efficiencies and transparency - which will complement a remodelled traditional KYC process to carefully remove overlaps, inefficiencies / redundancies, create clarity on standardisation of required information and due process. The remodelled process can be augmented with new technology solutions. This is a journey and has to be deployed in stages with planned milestones and testing

Traditional KYC Value Chain



KYC Value Chain: Reimagined



Consideration: Robotic Process Automation (RPA)

RPA is changing the way that banks, insurers and capital markets firms execute basic processes

What RPA can do

01 Robotic Process Automation



Software used to capture and interpret existing applications for the purpose of automating transaction processing, data manipulation, and communication across multiple IT systems

- Deloitte, "The Robots are Coming"

- Screen scraping data collection
- Rules based business process management
- Tactical toolset to automate repetitive tasks
- Cheaper and faster step towards process efficiency

02 Intelligent Automation



Automate non routine tasks involving intuition, judgment, creativity, persuasion, or problem solving

- Deloitte, "Automate This"

- Data input and output in any format
- Pattern recognition within unstructured data
- Replication of judgment based tasks
- Basic learning capabilities for continuous improvement to quality and speed

03 Artificial Intelligence



The theory and development of computer systems able to perform tasks that normally require human intelligence

- Deloitte, DU Press "Cognitive Technologies"

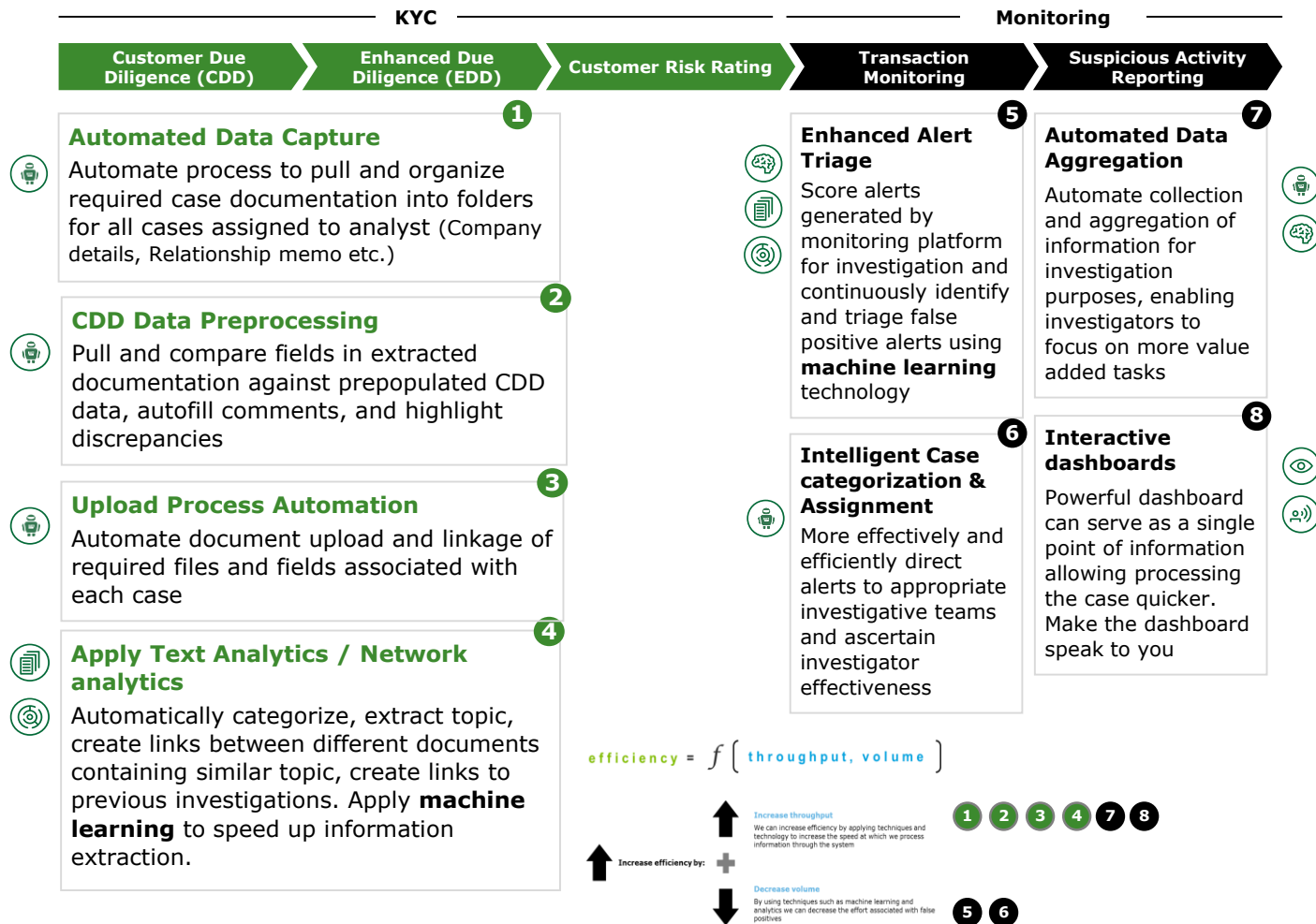
- Natural language recognition and processing
- Dealing with unstructured super data sets
- Hypothesis based predictive analysis
- Self-learning rules continuously rewritten to improve performance

Possible areas of implementation:

- RPA can be implemented in almost every stage of the KYC where there is possibility of deploying computer-coded software
- RPA can be applied to tasks that are repetitive and time-consuming (e.g. pooling of KYC information from different sources, comparing current client KYC record with FI's policies, etc.) as well as assisting in quality checks on both data input and output

Enhancing Transaction Monitoring System

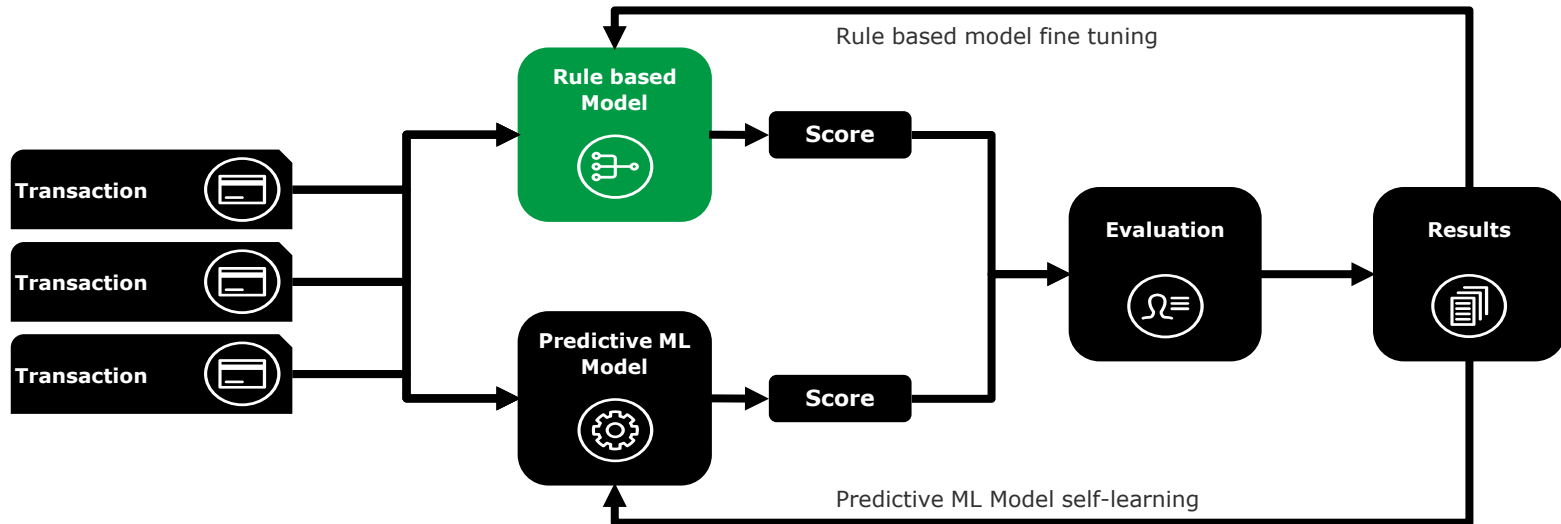
Improving TMS efficiency – It starts before TMS



Machine learning

Implementing Machine learning in TMS

- Self-learning model can work the best complementing current rule based TMS implementations
- Combining the score from Rule based and Predictive ML Model can form the final score and trigger an alert
- Contradicting scores from both models can be investigated



Speaker profiles



Radish Singh
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Radish has 20 years of experience in the field of financial services regulations and compliance as well as financial crime compliance (anti-bribery and corruption, conduct of business and AML/Sanctions). She currently leads Deloitte Southeast Asia's Financial Crime Compliance practice. She has made Board-level presentations on AML/CFT issues as well as presented to the IOSCO Gems Committee on key impacts brought about by the regulatory reform agenda. She has been undertaking and leading numerous projects on financial crime ranging from remediation, risk assessments, financial crime technology and investigations for numerous global and regional banks (both investment and private banks) based in Singapore and Southeast Asia.



Michael Velten
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Michael is a financial services tax partner with Deloitte Singapore and is the firm's Asia Pacific Financial Services Tax Leader. Michael has over 30 years of tax experience; 25 years of which have been spent working in Asia having been based in Kuala Lumpur, Hong Kong and Singapore. Prior to joining Deloitte, Michael had held senior tax roles with leading financial institutions and professional firms in Asia and had held academic appointments at the University of Melbourne and National University of Singapore. Michael advises on all areas of Singapore financial services tax (including indirect tax, information reporting and transfer pricing); and is a recognised industry tax expert. Michael is qualified as both a Solicitor (Supreme Court of Victoria and High Court of Australia) and a CPA (Australia). Michael is an Accredited Tax Advisor: Income tax and GST (Singapore), a Certified Tax Adviser (Hong Kong) and an Associate of the Chartered Tax Institute of Malaysia. Michael holds a Master of Laws from the National University of Singapore.



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