

Transaction Monitoring and Surveillance Processes

1. Regulation

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 sets out the following standard to be achieved by the UK Financial Industry

Regulation 28 (11) states –

‘The relevant person must conduct ongoing monitoring of a business relationship, including -

- (a) Scrutiny of transactions undertaken throughout the course of the relationship (including, where necessary, the source of funds) to ensure that the transactions are consistent with the relevant person’s knowledge of the customer, the customer’s business and risk profile;
- (b) Undertaking reviews of existing records and keeping the documents or information obtained for the purpose of applying customer due diligence measures up-to-date’.

2. Considerations

The decision faced by the industry is the scope of this scrutiny and the method to achieve these required outcomes all of which will be reliant on the following factors

- Customer Due Diligence Records
- Nature of Client
- Client Type Risk
- Geographical Risk
- Distribution channels
- Product Risk
- Size of Client Population
- Volumes and Values of Transactions
- Trigger Events/Ongoing or Periodic Reviews
- Manual or Automated Methods of Transaction Delivery

The common theme running through all of the above factors is risk which is the foundation of all aspects of the Money Laundering Regulations.

The most common ratings used in the industry are High, Medium or Low all of which are the rule of thumb when assessing factors such as Clients, Jurisdictions, Products, Services, and Value. Once you have identified the risk factors involved you are able to establish your individual Companies risk appetite which will allow standards to be set which are required in the following areas

- Know Your Customer requirements
- Transaction Monitoring
- Ongoing Monitoring and Surveillance
- Sanction, Pep Screening and Adverse Media Screening

3. Scope

The purpose of this review is to explore the options available in regards to Transaction Monitoring and Surveillance.

Monitoring client transactions helps identify unusual activity. If unusual activities cannot be rationally explained, they may involve money laundering, terrorist financing and/or fraudulent activity. Monitoring client activity and transactions that take place throughout the lifetime of the relationship helps each company understand their clients and allows them to continually reassess risk providing greater assurance that their company is not being used for the purposes of financial crime.

Every company will have their individual approach to transaction monitoring based on their client types, jurisdictions they operate in, and product and services offered. Examples of the characteristics to be considered are documented within industry guidance provided by JMLSG Part 1 Chapter 5 (5.7.10) and aligns directly with MLR 2017 regulation 28(11):

- Unusual nature of a transaction e.g. abnormal size or frequency for that customer or peer group;
- Early repurchase/redemption of an investment or product
- Nature of a series of transactions: for example, a number of sequential purchases
- Geographic destination or origin of a payment: for example, to or from a high-risk country or a country where the client is not a resident or national
- Parties concerned: for example, a request to make a payment to or from a person on a sanctions list or recognised internal DNDBW list

Internal business, industry or local market intelligence will also play a factor in the monitoring of transactions or the methods used during an attempt to perform fraudulent transactions on a Client's account. This is not an exhaustive list and every company will have a suite of parameters in place that reflects their business requirements.

The industry does not dictate the methods to be used by companies when fulfilling their transaction monitoring and surveillance obligations but does provide guidance on the essentials to consider such as:

- Business systems flag up transactions and/or activities for further examination;
- The reports are reviewed promptly and by the appropriately skilled person(s);
- Appropriate action is taken on the findings of any further examination
- Frequency, size and volume of transactions monitored should be relevant to the size of the Company/Individual
- Monitoring can be completed either 1) in real time, in that transactions and/or activities can be reviewed as they take place or as they are about to take place, or 2) subsequent to the event, through an independent review of the transactions and/or activities that a customer has already undertaken
- Processes are documented, initial on-boarding and ongoing staff training is provided, and regular testing of the processes and procedures is performed to ensure a current and robust level of monitoring is being performed that still fits the Company's business profile



Companies can opt for either a manual or automated monitoring process based on the size of their business and the volume of transactions being processed the key factor of either methods is;

- The quality of scenarios and parameters being used to detect and derive the alerts or exceptions to be reviewed, or interrogated
- The competency of staff to assess and act appropriately when performing these duties.

The use of artificial intelligence is growing within the financial industry and there are currently a number of tech companies offering automated monitoring solutions that use analytics to draw forward alerts or exceptions that match the designated parameters set by businesses. Thus enabling companies to assess large volumes of client static and transactional data in a timely manner. The exceptions or outcomes are ranked against likelihood of being unusual or suspicious however there is still a requirement for staff member's involvement to make a determination based around the facts presented.

Surveillance of accounts also includes the restricting of client accounts that stops the free placement of transactions thus forcing the operational teams to place the client requests in front of AML & FC experts prior to commencing the processing of such transactions.

These markers are effective in the following circumstances

- if suspicious activity or financial crime has been detected
- when the client remains Non AML Compliant
- to review transactions prior to processing for high risk investors

The restriction of accounts provides a level of control in what can be a fast paced, time dependant and high volume trading environment.

4. Conclusion

Companies in conjunction with their Board or governance frameworks must consider all of the factors highlighted in this paper and build their monitoring processes around their individual company strategy, the regulatory requirements, and where appropriate industry best practice utilising, if appropriate and cost effective, the technology options currently available. Companies must view this as an ongoing responsibility ensuring that their processes and procedures are reassessed and tested for their robustness rather treated as a one-off decision.

The role performed by all of us covers a broad spectrum of tasks derived from the Money Laundering Regulations under which, as Financial Institutions, we are accountable for our actions so it is imperative that the choices we make are the right ones.

Transaction Monitoring and Surveillance processes cannot be implemented in isolation and all companies must have a solid foundation on which to build their process such as;



- Know Your Customer, build a profile and keep their records up to date
- Understand the products, Services and the Jurisdictions you operate in
- What does normal look like for your firm/industry/jurisdiction
- Document Your Processes and Practices – build in a review period
- Initial and Ongoing Training of Key Personnel
- Adequate staffing levels
- Keep up to date with regulatory and technology changes
- Assess, Reassess and Test on a continuous basis utilising the independent expertise of 2nd and 3rd Lines of Defence

By implementing all of the above you will identify the transactions or scenarios that are above and below the line for your firm thus enabling you to establish a suite of rules and parameters that you build your ongoing Transaction Monitoring analysis around.