# VBIN annual event - recap

On November 11, 2020, Joost van Houten (Managing Director of Sentinels, Slimmer AI's financial risk and compliance business) was invited by Maurice Jongmans (CEO of Online Payment Platform) to present at VBIN's annual compliance update. Well known within the Dutch payments industry, VBIN (United Payment Institutions Netherlands) is the leading trade association for payment service providers and electronic money institutions. Their members are a 'who's who' of the innovative Dutch fintech community, including Worldline, Backaroo, IbanXS and Bitsafe and more.

As the Netherlands has one of the strictest compliance environments, the VBIN association serves several essential goals, including:

- The dissemination of recent developments in legislation and regulations at both the Dutch and EU level.
- Providing representation of interests at the DNB (Dutch Central Bank), the Ministry of Finance and other key regulatory authorities.
- Knowledge building and knowledge sharing through several yearly events on topics such as developments and trends in the market, rules & regulations, and trainings on compliance to support legal obligations at all levels.

For the November 11th VBIN event, approximately 20 members of the association joined, a mix of risk and compliance experts and payments executives. The agenda focused on how financial institutions should respond to changes in the compliance landscape against the background of changing criminal behaviour, growing payment traffic and ever-increasing pressure from the regulator. The dynamic discussion and presentations ranged from regulations and industry trends, to human capital and technology.

## Introduction to AI in TM - key compliance questions

The most fundamental task for financial institutions is to be compliant with the regulations, both today and well into the future. To achieve this, there are three

questions that PSPs should ask themselves in order to be able to tackle this challenge:

1. Are our processes and controls compliant at the moment, or should we do more?
2. How do we stay up to date and future-proof (evolving criminal behaviour, new regulations, supervisory pressure, technological developments)?
3. Are our processes scalable; will they be sufficient to keep up with the planned growth?

For his presentation on **AI in transaction monitoring**, Joost van Houten explained how constant innovation and pragmatic use of the right technology can prepare compliance for in the future.

## The need for constant innovation in compliance

Joost outlined some of the key reasons why challenging the status quo in compliance is essential:

### 1. Crafty criminals

The need to constantly innovate arises from the fact that criminals innovate themselves. Criminals learn on existing AML processes and develop even more sophisticated methods. In their September 2020 report, the Council of Europe MONEYVAL group has found that the covid-19 global pandemic made a surge in electronic transnational crime. As many are aware, more than $ 2 trillion is laundered worldwide every year and only 1% of it is detected. As criminals become increasingly innovative, so must financial institutions in order to combat them.

### 2. Regulatory demands

In many regions, particularly in the Netherlands, the regulator both expects and stimulates innovation. In 2017, DNB included in its Maturity Model (required to reach level 4 compliance in the Netherlands) requirements including automated pattern recognition and the use of network analysis to be part of the compliance set-up of institutions. At the EU level, the European legislator is also busy. New regulations in the form of 6AMLD are planned for 2021, which also include specific asks around innovation and technological advancements.

### 3.Achieving growth goals

For many innovative payment institutions, fast growth of their traffic has led to increased operational pressure. While it is a "good" problem to have, institutions are often forced to scale their transaction monitoring capabilities as they grow, and the tension in tech and compliance teams at smaller PSPs can become immense. In addition to the need for more suspicious transactions be properly detected and investigated, there is also the fear of ending up with a large compliance costs and high fines.

While on the surface, traditional solutions like "business-rules-only approach" have seemed compliant, this combined with the growing transaction volumes, have not only led to an explosive increase in false positives but also a low success rate in detecting money laundering cases.

### Unlocking silos with smart technology

Joost then presented the path Sentinels has taken in order to address the AML compliance challenges. With more than 10 years in applied-AI project and product development, Slimmer AI had a strong foundation in the technical capabilities required to build pragmatic AI solutions for this industry. Over the past 18 months, collaborations with Dutch leading PSPs, such as VBIN member - OPP, have further refined this approach in the AML and transaction monitoring solution - Sentinels.

Sentinels approaches the demands of transaction monitoring with the following four steps:

**1. Data ingestion** - integration of internal and external data sources.

**2. Hybrid detection engine** - a combination of business rules & machine learning.

**3. Customer profiles** - profiles of the modus operandi of customers based on peer groups.

**4. User application** - focusing on optimal usability and low or no need for training. Investigative alert handling and FIU reporting functions are optimised to be simple and seamless.

It is by looking at compliance and transaction monitoring holistically that AI can be applied safely and wisely.

**Building confidence through pragmatic AI**

During the VBIN event, members expressed interest in the use of AI in transaction monitoring and supporting their compliance efforts. But implementing this technology in such heavily regulated space can feel daunting. With their primary objective to be compliant to the regulations, PSPs that do not have significant expertise in artificial intelligence and machine learning are not sure where to begin with its safe and effective use. Senior leaders and risk and compliance experts also want to be able to fully understand and explain the decisions and recommendations reached.

Over the course of developing Sentinels, Joost expressed he'd heard similar concerns and how other payments leaders at other financial institutions are building personal and organisational confidence in applying new technologies and techniques. Software built with pragmatic AI supports and augments human abilities, with no intention to replace them. Pragmatic AI is only implemented for practical applications, which need human help to learn and adapt to business changes.

**Closing thoughts**

It is clear that constant innovation is required to help payment institutions stay compliant, become future-proof, and scale for accelerated growth. It is also clear that AI will be an important part of the future of risk and compliance. Increased knowledge and trusted partnerships seem essential for financial institutions to become more confident in applying AI and benefiting from the possibilities it can unlock. Putting humans at the centre of these important decisions will lead to better outcomes, including leveraging expert professionals effectively.

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