



FS Club



FS Club

News **E**vents **P**artnerships

FSG Anti-Money Laundering (AML) Task Force: The Systemic Long-Term Effects Of AML Technologies

Webinar

11:00am (UK) on Wednesday, 09 December 2020





FS Club



FS Club

News Events Partnerships

A Word From Today's Chairman



**Professor Michael
Mainelli**

Executive Chairman

Z/Yen Group



FS Club

Platinum Sponsors



Gold Sponsors



Silver Sponsors



Bronze Sponsors



Personal Sponsors





FS Club



Agenda

- | | |
|---------------|--|
| 11:00 – 11:05 | Chairman's Introduction |
| 11:05 – 11:30 | Keynote Address - Dr Dionysios Demetis & Prof Ian Angell |
| 11:30 – 11:45 | Questions & Answers |



FS Club

News Events Partnerships



FS Club

News Events Partnerships

The Systemic Long-Term Effects Of AML Technologies



Dr Dionysios Demetis

Senior Lecturer

University of Hull

The systemic effects of AML technologies

Dr Dionysios Demetis, PhD, SFHEA

Senior Lecturer

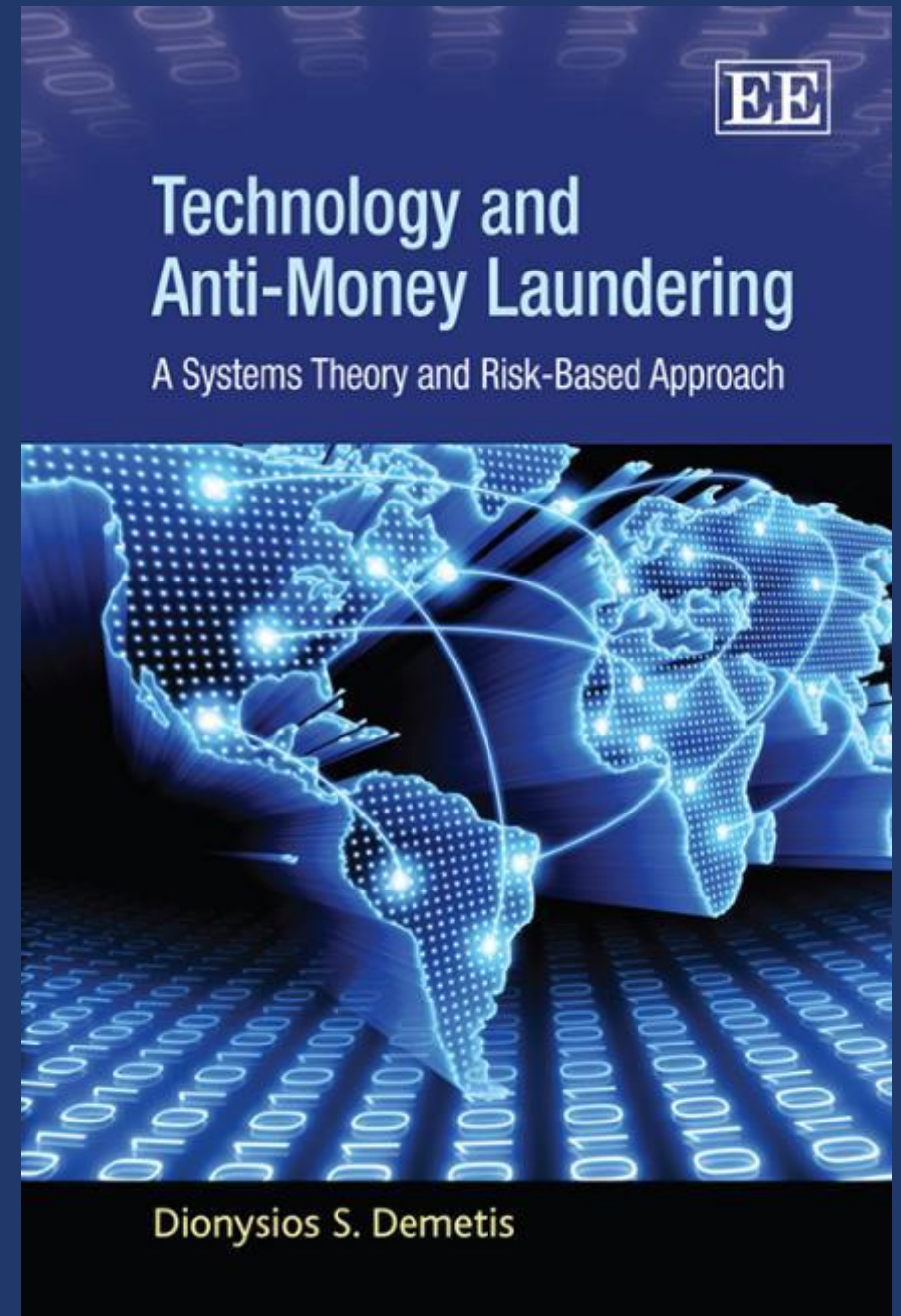
Hull University Business School

Centre for Systems Studies

d.demetis@hull.ac.uk



The character of
technology in AML
is *systemic*



Phenomenon 1

The systemic character of technology





Phenomenon 2


‘Information’ sharing in AML is
not *information* sharing



data/noise sharing
“archived” cases

MLRO Class 101

Lecture on “Defensive Reporting”

A man with dark hair and glasses, wearing a white blazer over a green t-shirt and light blue trousers, stands in a lecture hall. He is holding a white tablet in his left hand and pointing with his right hand towards a blue box on the right side of the frame. The box contains white text. In the foreground, the backs of several audience members' heads are visible, out of focus.

“Send as many
SARs to the FIU as
possible”

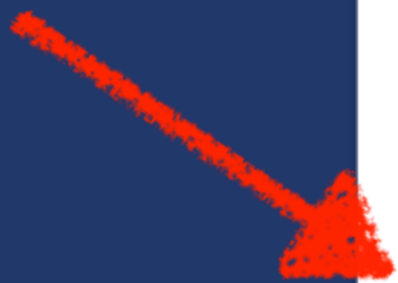


“Technology allows
us to send almost
everything to the FIU. It’s
wonderful”

— *MLRO*



“...prosecutors instigated criminal proceedings against unknown FIU officers...”



Germany raids its own financial intelligence authority over backlog of suspicious activity reports

Freshfields Bruckhaus Deringer LLP



Freshfields Bruckhaus Deringer

Germany, OECD | July 17 2020

It is not every day that one criminal law enforcement authority raids another. However, that is just what happened when, on 14 July 2020, state prosecutors entered the German Financial Intelligence Unit (FIU) armed with a search warrant.

The FIU is Germany’s central federal authority for receiving, collecting and evaluating suspicious activity reports (SARs). Banks and many other corporations must file these reports under the German Anti Money Laundering Act when they suspect funds to stem from an illegal source. If the FIU confirms and further substantiates the suspicion of money laundering, it must forward the gathered intelligence to state prosecutors for them to take up criminal proceedings.

'Too little, too late,' the Osnabrück prosecution apparently found after the FIU had failed to (timely) forward eight SARs German banks had filed on suspicious transactions to Africa. The prosecutors instigated criminal proceedings against unknown FIU officers for obstruction of justice in public office – a serious crime that carries a six-month minimum prison term – and raided the FIU’s Cologne offices with the help of state police.

Backlog of 46,000 SARs

Phenomenon 3

From “Bureaucracy”

to

“Electreaucracy”

Data growth, the new order of information manipulation and consequences for the AML/ATF domains

Data growth

353

Dionysios S. Demetis

*Information Systems and Innovation Group, Department of Management,
London School of Economics and Political Science, London, UK*

Abstract

Purpose – The purpose of this paper is to deconstruct the problem of data growth as a complex contemporary phenomenon and discuss its implications for the domains of anti-money laundering (AML) and anti-terrorist financing (ATF).

Design/methodology/approach – The theoretical approach of the paper is based upon an examination of the fundamental ideas around information growth, along with the tradition of systems theory and is based upon many of the theoretical concepts discussed by Niklas Luhmann. The concept of distinction is used throughout the paper to discuss technological consequences.

Findings – The volume of data for manipulation and its implications on profiling AML and ATF are discussed while the issue data growth are presented as an elemental and core issue within the paper.

Practical implications – The practical implications of this paper relate to how technology should be appropriated within financial and other institutions and how the decision-making processes of traditional bureaucracies surrounding AML/ATF should reflect on their utilisation of technology.

Originality/value – The originality of this paper lies in its unique dealing of the problem of data growth through its implications and a new theoretical concept is introduced, the concept of electreaucracy to denote the systemic technological interference in bureaucratic conditions and how these influence AML/ATF.

Keywords Money laundering, Terrorism, Systems theory, Information strategy

Paper type Conceptual paper

Introduction

Imagine yourself, struggling to survive inside a small vessel within a vast archipelago of waves but even then this scene could not possibly describe the feeling of being overwhelmed by information in our era. With the total annual production of data estimated to be in the region of five exabytes (Lyman and Varian, 2003), if one was to lay this down as bits in standard text format, on a line starting from the surface of our planet and stretching out to outer space, it would take approximately ten years to cover the distance created if one was travelling with the speed of light. Every year, we produce data equivalent to about 37,000 libraries of the size of the US Library of Congress. As a growing percentage of such information generation activities are supported by computer-based systems and are digitally recorded, it is not difficult to make the point that we have surpassed our own expectations in the realm of digitally producing information. But how about processing it?

This paper deals with the issue of data growth as a complex contemporary phenomenon. The arguments put forward in this paper create several connections



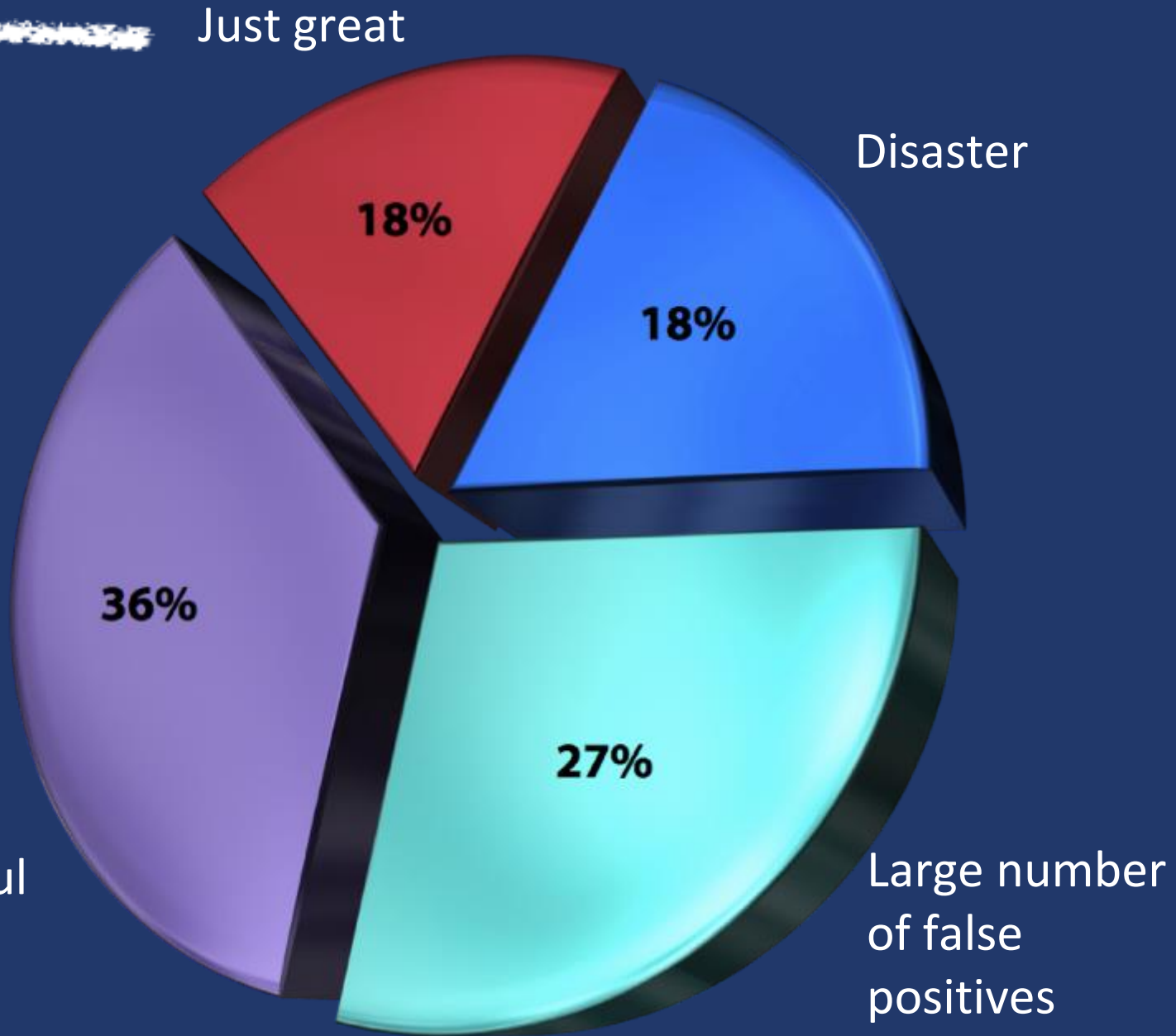
Journal of Money Laundering Control
Vol. 12 No. 4 2009
pp. 353-370
© Emerald Group Publishing Limited
1368-3201
DOI 10.1108/JMLC-03-2009-000056

“Electreaucracy”

“Technology comes to impact the traditional organisational order that depends upon human activity systems, and in doing so creates intricate dependencies between organisations and the technologies they utilise...”

The algorithmic interferences of technology onto the distinction between *suspicious/non-suspicious* form a complex AML electreaucracy

"Gaming" Algorithmic Suspiciousness



Rather successful

Just great

Disaster

Large number of false positives

A few significant byproducts of technology-implementations

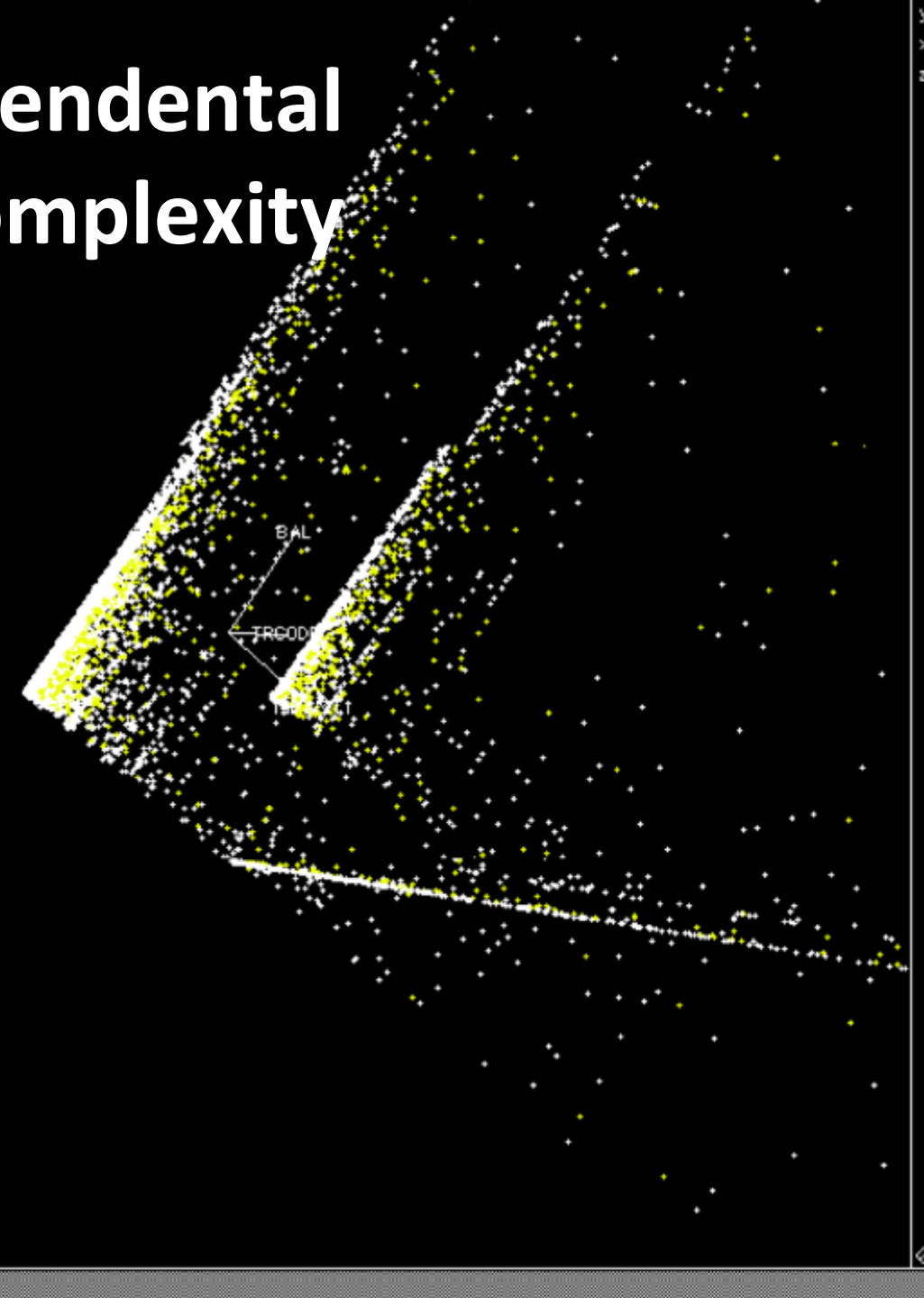
- * £/year for looking into false positives
- * Demoralised staff whose appetite for applying CDD/EDD becomes compromised by the failure of technology
- * The 'grey' area of how AML technology audits are being conducted?

P000000000131102346	96554.45
P000000000131102416	80975.93
P000000000131102620	150563.54
P000000000131103015	132556.75
P000000000131103263	70396.85
P000000000131103332	458765.04
P000000000131103443	104601.96
P000000000131103590	78702.39
P000000000131103590	130259.62

Phenomenon 4

P000000000131105287	55383.67
P000000000131105450	123952.79
P000000000131106004	63021.15
P000000000131106208	258904.08
P000000000131107140	189798.92
P000000000131107510	50412.83
P000000000131107747	50032.65
P000000000131108171	79153.60
P000000000131108195	60730.40
P000000000131108204	130259.62
P000000000131109783	74078.04
P000000000131111003	85879.95
P000000000131111324	85866.74
P000000000131111914	112962.16
P000000000131112056	62572.90
P000000000131112705	50268.57
P000000000131114690	52107.95
P000000000131117166	94012.95
P000000000131118875	121220.76
P000000000131120612	50323.89
P000000000131121062	146000.00
P000000000131121166	262718.82
P000000000131121568	178073.73
P000000000131121882	72709.94
P000000000131122579	137169.27
P000000000131123245	71687.02
P000000000131124654	93098.59
P000000000131125072	77600.57

Transcendental complexity

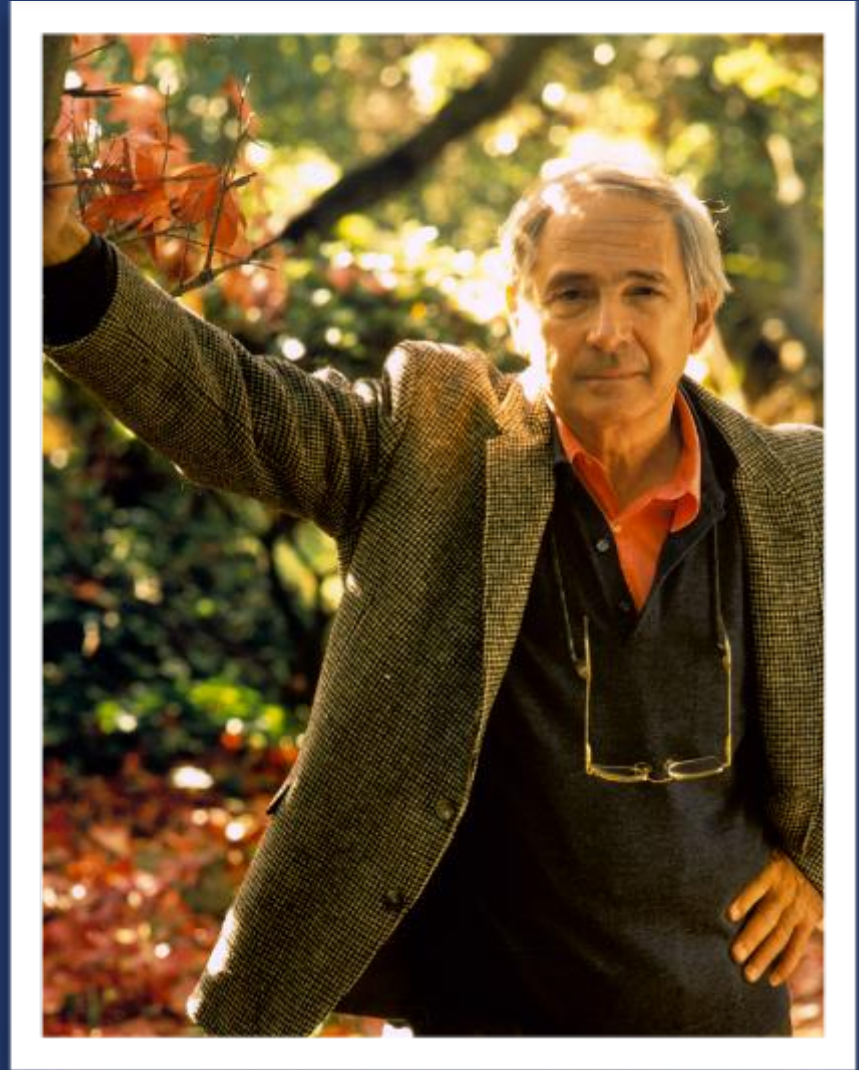


Phenomenon 5

**Tech-constructed
*suspicion***

No, AI is not
going to give
meaning to
suspicion

*“The syntax is not
sufficient for the
semantics”*



Prof. John Searle

Phenomenon 6

The datafication of ML

A very complex and diverse phenomenon is being 'datafied' so that it can collapse into numbers/symbols upon which algorithms can operate.

What is lost?

Phenomenon 7

Algorithmic Bias

a quantum state of profiling

Racial, gender, and other profiling indicators are embedded in algorithmic representations for monitoring the probability of ML/TF. AI trained on datasets with biases would replicate these across different categories.

Phenomenon 8

Cyber-ML

Face-to-face transacting is going to become, eventually, obsolete. Cryptocurrencies designed for (and by) cyber-ML will rise.
Deep fakes will ruin remote KYC.

From *Bitcoin* — to — *CrimiCoin*

*Online crowd/crime-sourcing of cyber-ML with criminal
smart contracts and*

Phenomenon 9

*The (subtle) technological construction of ML-criminality

Some systems operate as 'black-boxes' in an AI-context.
If they come up with 'suspects' under *emergent computational conditions*, are we going to accept them as such?

Ethics of ML-technology monitoring?
(*technology is constructing suspects*)

Phenomenon 10

Any non-linear combination of the former 9

The systemic effects of AML technologies

Dr Dionysios Demetis, PhD, SFHEA

Senior Lecturer

Hull University Business School

Centre for Systems Studies

d.demetis@hull.ac.uk





FS Club



FS Club

News Events Partnerships

The Systemic Long-Term Effects Of AML Technologies



Prof Ian Angell

Emeritus Professor of
Information Systems

London School of
Economics

Measure of AML Success or Failure

Failure

number of successful prosecutions

Success

Total fines levied

Sums spent on AML

Number employed in AML

Number of STRs

“One death is a tragedy,
a million deaths is a statistic”
Joseph Stalin

Reputational Risk?

One non-compliance fine is a tragedy,
a thousand fines
is the price of doing business.

Thoughts of a Bureaucracy

1: pass as much of the work (and costs) as possible onto those being regulated.

2: levy fines on those being regulated to offset your own costs

FATF: Risk-based Approach

“A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk”.

Risk is subjective;
each side sees it differently.

from the bank's perspective
their biggest risk is not
being caught facilitating laundering,
but being fined

What I mean by Risk:

<https://youtu.be/jlOnu9BUQ5g>

All communication is asymmetric –
sender and receiver will understand
each message differently!

The trick is ensuring
the sender/receiver pair
don't fall into the chaos of
a positive feedback loop of
compounded misunderstanding.

Needs a continuous feedback stream

the Bureaucrat's golden rule:
“Ignorance of our rules is no excuse”.

Regulators add:
“and we won't tell you our rules,
because then it's so much easier
to fine you for non-compliance”.

'the fallacy of the fictional individual'

Each bank is
an agglomeration of
people and procedures.
Thinking of it as an individual
is absurd.

What exactly does
AML technology do?

Profile:
Look for patterns!

The Three Musketeer strategy.

“All for one, and one for all”

All banks must:
use the same procedures
and AML compliance software.

Then the regulators
can't fine one bank
without fining them all.

AML technology

will become

Judge, Jury and Executioner

QUESTIONS & DISCUSSION, ANSWERS?





FS Club

Platinum Sponsors



Gold Sponsors



Silver Sponsors



Bronze Sponsors



Personal Sponsors





THANK YOU FOR WATCHING

Forthcoming Webinars

- Thursday 10 Dec (16:00) [Apocalypse Never: Why Environmental Alarmism Hurts Us All](#)
- Friday 11 Dec (11:00) [How To Panic Properly In A Pandemic](#)
- Tuesday 15 Dec (10:00) [Financing A Sustainable Future While Bridging The \\$2tn Annual Infrastructure Investment Funding Gap](#)
- Wednesday 16 Dec (12:00) [Looking Ahead To 2021: Moving Beyond Brexit In Financial Services Regulation](#)
- Thursday 17 Dec (08:30) [Healthcare Investment And Collaboration Between China & Europe](#)

Visit <https://fsclub.zyen.com/events/webinars/>