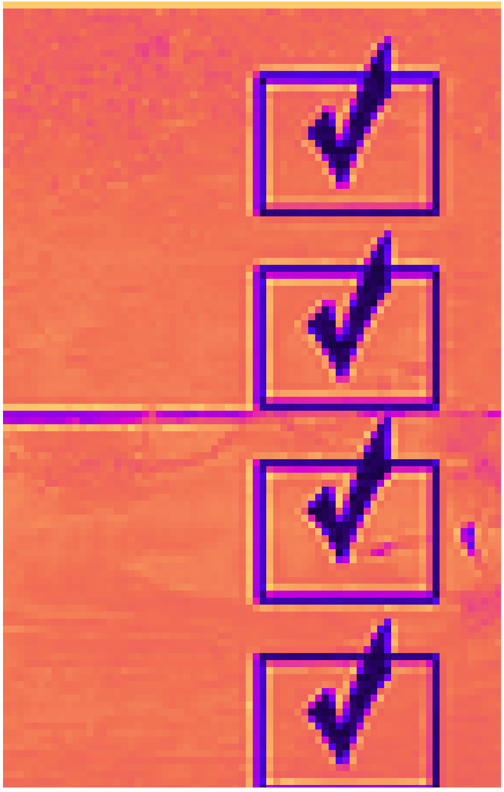
2. TRANSITION TO A PROACTIVE APPROACH

For the Risk-Based Approach (RBA) to be effective, regulators must incorporate it into their supervisory tasks. However, many regulators are reluctant to move away from the rule-based approach, causing uncertainty in regulated sectors. Banks, in particular, fear the possibility of regulatory fines if they make risk-based decisions that differ from the regulators' perspectives on what their money laundering risks are.



Consider the differing perceptions of money laundering risk in trade finance products. Regulators frequently regard trade finance as high risk for money laundering, while banks point to their strong risk controls that effectively combat the crime. This mis-alignment leads to infrequent occurrences of money laundering and a low volume of suspicious activity reports (SARs).

Another example of the discrepancy in understanding money laundering risk is seen in the regulatory red flags that regulated sectors must adhere to under the rule-based system. Banks point out that many of these flags alert on legitimate customers, resulting in substantial costs to investigate, as well as ending relationships with innocent customers to avoid regulatory penalties. In contrast, criminals often evade suspicion by hiding in plain sight.

Although the rule-based framework provides more legal confidence regarding what the regulators and banks should identify as suspicious behaviours, it is based on outdated money laundering understanding and ignores the fact that criminals themselves apply risk-based decisions to evade detection. **This allows criminals to "hide in plain sight," not only undermining the effectiveness of AML efforts but also posing a direct threat to innocent businesses and people that may unknowingly transact with these criminals, exposing themselves to the risk of abetting criminality.**

Vortex Risk facilitates the shift to RBA by empowering individuals and regulated institutions with understanding of how criminals can launder money through their organisations. Such evidence based knowledge can subsequently be used to make informed risk based decisions rather than simply reacting to the threat of fines.

Vortex Risks unique Risk Analysis Merging Platform (RAMP) methodology helps banks proactively spot money laundering vulnerabilities and enablers beyond those contained in the regulatory guidelines. RAMP, in the simplest terms, can be compared to a constantly expanding roadmap of money laundering choices that criminals make to distance themselves from the dirty money. The map highlights steps, actions, tools, services, and parties that criminals might utilise depending on their money laundering needs. It also explains the criminal reasoning behind their choices, the risks to those involved, and the warning signs beyond what ‘red flags’ are ever likely to capture.

Vortex Risk we facilitates trust in bank’s ability to make sound risk-based decisions that align with the FATFs RBA guidelines **and proactively disrupt the criminality from infiltrating the legitimate economy.**

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