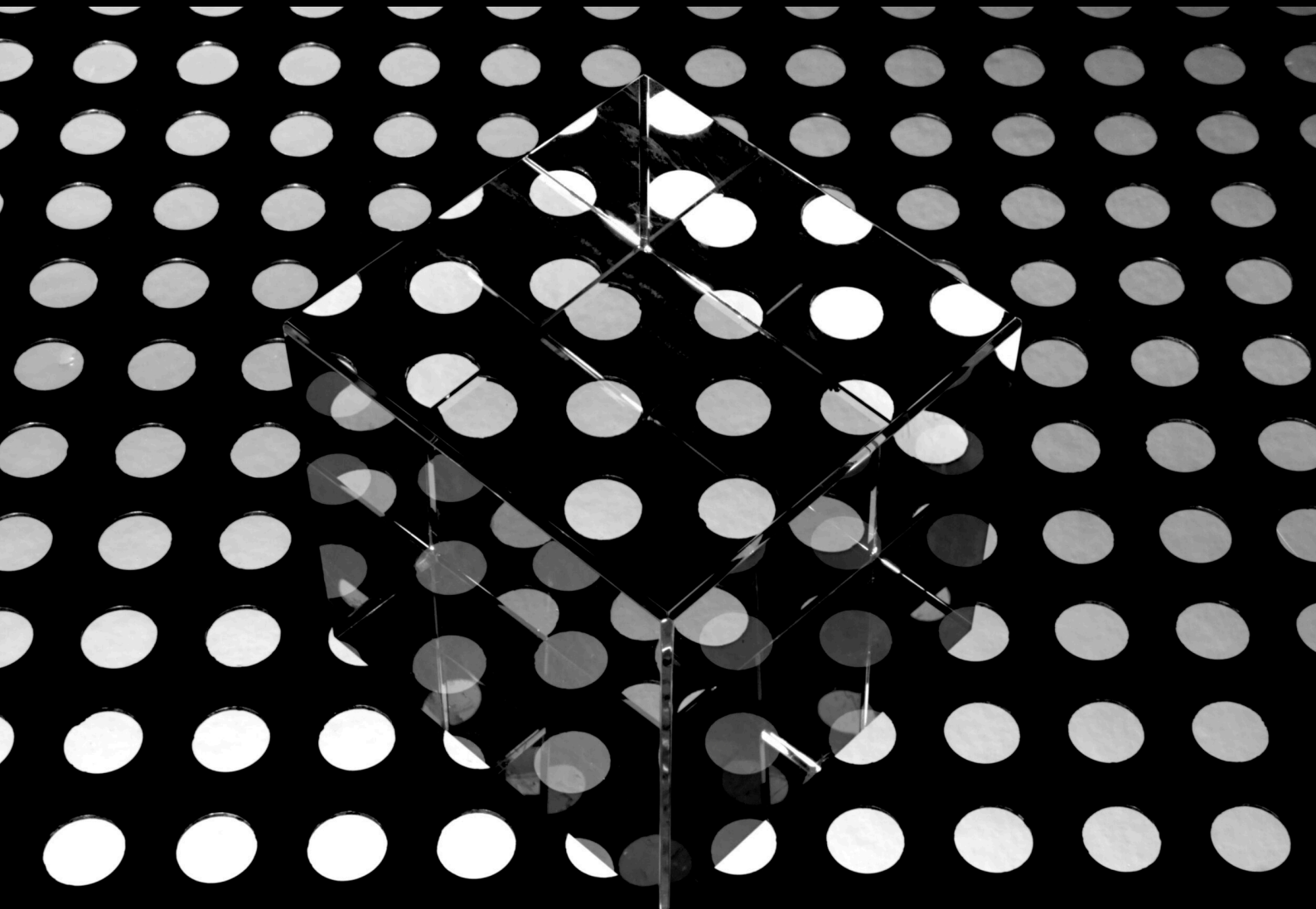




VORTEX
RISK

THE ANTI-MONEY LAUNDERING BLAME GAME

WHERE THE ECONOMY
IS **THE LOSER**



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Executive Summary

Despite concerted efforts by public and private policing bodies to safeguard our economies from the negative consequences of dirty money, the opposite is happening. Criminal *modus operandi* remains undisturbed while Small and Medium Enterprises (SMEs) suffer de-banking as they regularly trigger regulatory anti-money laundering (AML) controls. Although many industry professionals have been highlighting the issue for decades, no change in the AML regulatory approach is likely.

Change requires persistence and is disruptive, while a 'head down, keep quiet' culture is conducive to career growth and financial stability. With the AML regime proving to be grossly ineffective, public and private policing actors have engaged in a blame game, where they pass accountability around like a hot potato.

The biggest loser in the AML blame game is the economy. Since banks are the wealthiest actors in the game, they bear the burden of financing it by paying hefty fines for non-compliance. They can control costs by de-risking customers vaguely suspected of money laundering, mostly SMEs, who, if left unbanked, cannot engage in trade - the very core of their business.

The biggest winners appear to be the Big 4 consulting companies. Regulators frequently enlist them to conduct follow-up assessments, such as 'Dear CEO' letters, while banks procure their services to prepare for regulatory visits. Although Big 4 reviews are intended to be independent, there are complaints that their recommendations align more closely with the Big 4's agendas than with the UK society's objective of effectively mitigating money laundering.



“We sit around as financial crime specialists talking about the impact of everything, but it can't move quickly enough, because we all have a day job. And sometimes people don't want to rock the boat in the industry.”

Financial crimes do not *“bang, bleed, or shout”*^[1] thus policymakers do not perceive them as urgent, and without their commitment meaningful change across public and private policing bodies will remain elusive.

Compliance Conundrum

UK banks rigorously comply with Anti Money Laundering regulations despite harbouring a profound sense of dismay regarding the effectiveness of the regime. **They argue that the regulatory approach is based on a superficial understanding of money laundering**, which in turn misguides their risk mitigation controls.

Despite the tireless efforts of the banks' AML experts to rectify money laundering misunderstandings, **their endeavours frequently meet with minimal positive response**. They explain that challenging the prevailing status quo is highly disruptive and time-consuming, prompting many to reluctantly embrace compliance for fear of jeopardizing their careers. A head down, keep quiet culture.

This predicament is further exacerbated during **engagements with regulators, who demonstrate stern resistance to novel insights**. Contributing factors include shifting governmental priorities, budgetary limitations, and a persistent lack of vision on how to effectively tackle economic crimes. Moreover, frequent staff turnover within regulatory bodies, where personnel rotations occur every two to three years, introduces fresh agendas and viewpoints often focused on the hottest topics of the moment.





“You’re going to get people [at regulatory bodies] that are new that have no experience with what happened before and they’re going to be asking all the same questions all over again and you’re going to have to explain everything all over again”

“One thing that I have seen is that if you've come from purely a legal or compliance background, then you have very much a focus on, am I adhering to the letter of the law, yes or no? Very black and white.”

The Comforting Black and White Risk Frameworks

The 'black and white' approach to AML typifies the rule-based system, which often favors individuals with limited practical knowledge of money laundering. These individuals struggle *"to adopt a more flexible set of measures to target resources effectively and apply preventive measures that match the nature of risks, focusing efforts in the most effective way"* [2].

One primary reason for this deficiency is the lack of diversity in professional backgrounds tasked with policing economic crimes. For example, many senior AML professionals across public and private institutions come predominantly from legal, accounting, and audit backgrounds. This has led to a myopic focus on strict adherence to legal statutes, demonstrated by risk-averse tick-boxing, without considering the practical implications of their policies and procedures. **This approach often overlooks unintended socio-economic consequences,** such as disrupting legitimate trade transactions, and fails to acknowledge that criminals are adept at risk-based critical thinking.

While some banks have begun to hire individuals from law enforcement or intelligence backgrounds to assist Money Laundering Reporting Officers (MLROs) in balancing legal requirements with AML effectiveness, cost, and business growth, **those of conservative thinking resist change lest it disrupt their comforting compliance frameworks.**



New perspectives might introduce new risks, threaten MLROs' positions, increase costs, and pool their resources away from processing alerts. They would prefer the *“comforting framework wrapped around them to say, I’m not introducing new risk, I’m going to find things, and the cost is not going to be prohibitive”*.



The High Cost of Compliance

Risk-averse compliance frameworks, while shielding financial institutions from regulatory fines, **impose significant economic costs on banks and their customers.**

Nowhere is this more evident than in **the unjust treatment of Small and Medium Enterprises**, the backbone of every economy. Over 140,000 UK SMEs experienced 'de-banking' last year [2] due to concerns stemming from banks' risk-averse approach to financial crime. For instance, **a staggering 97 percent of NatWest SME account closures were attributed to the bank's inability to differentiate between legitimate customers and those tainted by crime** [2]. What exacerbates the issue is that decisions to terminate client relationships seem rarely reversible, unless a client can escalate the matter to a bank's CEO through their Member of Parliament to challenge the legitimacy of the decision [3].

Regulators, whose fines for non-compliance strongly contributed to this debacle, often distance themselves from the problem, placing blame squarely on the banks for their perceived inadequate decision-making. Financial Intelligence Units (FIUs), grappling with an overwhelming number of defensive Suspicious Activity Reports (SARs), also point fingers at banks for providing poor intelligence that law enforcement agencies are unable to action effectively. This shortfall is exacerbated by a shortage of skilled AML personnel within law enforcement agencies, resulting in additional policing responsibilities being placed on banks, which can only identify suspicious activities but lack the authority to arrest wrongdoers and confiscate their ill-gotten gains.



[2] O'Dwyer, M., Quinio, A. (February 24, 2024). *More than 140,000 UK SMEs suffered 'debanking' last year*. Financial Times. <https://www.ft.com/content/700264b0-2a02-4727-9c2b-c94998b1d684>

[3] Appg. (2024). *De-Banking Report*. Appg Fair Business Banking. <https://www.appgbanking.org.uk/wp-content/uploads/2024/02/De-Banking-Report-2024-240216.pdf>



“The only way forward would be if you kind of took the SARs regime, and threw it away and started again, and created a thing which incentivised industry, by regulation, to share, to collaboratively build an intelligence picture, which the agencies then actually used to go and trigger investigations, and go and investigate criminals, which is clearly not what the SARs regime is at the moment”

AML Blame Game

The prospects for meaningful change appear dim as **the primary AML policing actors are deeply entrenched in the blame game.** Law enforcement blames banks for poor quality reporting, banks blame regulators for restrictive covenants in detecting crimes, and regulators blame FATF for their narrow regulatory guidelines influencing international AML laws. The game is designed to ensure that everyone has somebody else to blame, with the sentiment being, *“I cannot change because they cannot change.”* [4]

Large financial institutions, being the wealthiest actors in this game, bear the burden of financing it. They pay hefty fines for non-compliance and serve as the public scapegoats for the systemic failure to curb money laundering. However, they share this negative spotlight with regulatory technology providers, whose **misguided solutions first flag legitimate customers and then automate the process of rectifying false alarms.** Despite substantial investments in improving these tools, they continue to yield minimal results in crime detection.

Amidst this blame game, there is **a shared belief among stakeholders that collaboration will eventually lead to a solution.** They convene at conferences, working groups, workshops, and international partnerships, discussing strategic and tactical approaches. Evidence of their collaborative efforts can be seen in media stories reminiscent of Netflix dramas, showcasing successful confiscations of illicit assets ranging from drugs and cash to luxury items like jewelry, sports cars, yachts, and real estate properties.



“It’s as true in the UK just as it is in the US, that law enforcement is statistics-driven.

So if you’re a manager and you have limited resources and limited personnel, you are going to investigate things that have a pretty good chance of success. You want those quick arrests. You want those quick seizures. You want those quick buy busts. In cases like trade-based money laundering, complex, big problems, might take two or three years to investigate and at the end, you might strike out, might have nothing to show for it”



Big 4's Agendas

Media stories celebrating the successful confiscation of criminal wealth are, in fact, very rare. On the other hand, **stories about banks being fined for AML failures are plentiful**. This is because government regulators, such as the FCA, primarily take action against regulated institutions lacking adequate AML controls, namely banks, rather than targeting the criminals generating illicit proceeds [4]. For example, many large European and US banks such as ING, HSBC, Goldman Sachs, Standard Chartered, Deutsche Bank, Wells Fargo, Danske Bank, and BNP Paribas have **paid billions to resolve their compliance failures**.

The FCA possesses a range of supervision tools that could prompt punitive actions against a bank. These tools encompass senior manager attestations, requests for documents and information, skilled person reviews, on-site inspections, transaction monitoring, and more. **'Dear CEO' cautionary letters have recently become increasingly utilized** to remind senior banking managers of their responsibility to combat the risk of their firm being used for financial crime.

While organizations are not obligated to respond to these letters, they must conduct a gap analysis against outlined weaknesses to demonstrate proactive measures or face potential regulatory intervention. **Big 4 consulting companies, secondary actors in the blame game, often thrive on the issuance of these cautionary letters**. Regulators frequently enlist them to conduct follow-up assessments, while banks procure their services to prepare for regulatory visits.

Although Big 4 reviews are intended to be independent, complaints have been raised that their **recommendations align more closely with the Big 4's agendas** than with the industry's objective of effectively mitigating money laundering.



[4] Button, M. (2011). Fraud investigation and the flawed architecture of counter fraud entities in the United Kingdom. *International Journal of Law Crime and Justice*, 39(4), 249–265.
Doi:10.1016/j.ijlcj.2011.06.001

“That's the problem you've got with consultancies, they go in with this template of how to be a consultant, how to charge, how to manage the client and get progressive pieces of work... They'll never achieve anything but they'll keep invoicing and at the end of the day, they've robbed them [banks] blind”

"Banks are more willing to pay big money to Big4s for a consulting work in order to get their stamp of approval for the regulator"

“There was so much wrong in the recommendations that they gave us, it was hilarious.”



There is a better approach!

Are you the one to give it a go?

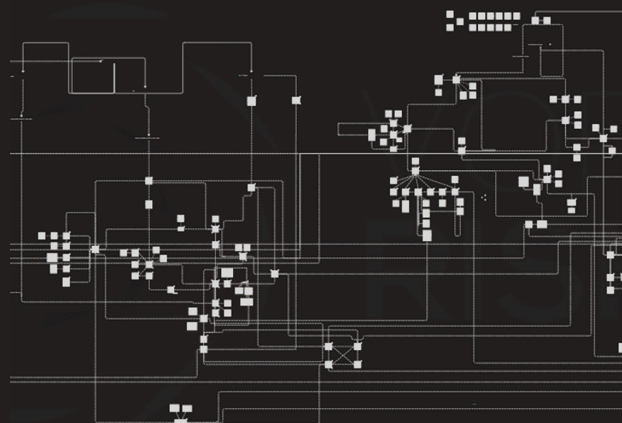
At **Vortex Risk** we have taken the time to understand TBML to a depth never attempted before.

Why TBML? Because it is the most pervasive way of laundering money.

But.... TBML is a Trade Finance Problem. Well, if that's what you believe TBML to be, then you can continue playing the blame game.

Our unique money laundering knowledge powers **Vortex Risk RAMP** to help banks proactively spot TBML vulnerabilities and enablers beyond those contained in the regulatory guidelines.

RAMP, in the simplest terms, can be compared to a **constantly expanding roadmap of TBML 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 the red flags are ever likely to capture.



The **human intelligence behind Vortex Risk** can enable banks to:

- Uncover TBML offenders and **reduce reactive compliance spending** on assessing false positive alerts generated by legitimate customers.
- Feel empowered to **innovate with new banking offerings** tailored to banks' current and prospective customers.
- **Evidence the robust RBA** that puts banks in a leading position to refocus regulatory attention on criminal enterprises and away from banks whose doors are closed to dirty money.

Keen to know more?

This is an opportunity for you to 'stand on the shoulders of giants' and be the world's leading bank at delivering a true Risk Based Approach to Trade-Based Money Laundering.



Dr. Nicholas Gilmour
Vortex Risk Co-Founder



Dr. Mariola Marzouk
Vortex Risk Co-Founder

If you are keen to understand the benefits of **the Vortex Risk RAMP solution** and become our trusted partners in transforming how we approach mitigating TBML, get in touch by emailing us at **info@vortexrisk.com**



Further Reading on Vortex Risk Website

Defeating Trade Based
Money Laundering Rules
Using Human Intelligence



The Unintended
Risk-Averse
Compliance Approach to
Trade-Based Money Laundering



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