Case Study:

# Large regional U.S. bank improves customer profiling to fight financial crimes

## Overview

One of the biggest challenges for financial institutions in the modern era is to cost-effectively comply with anti-money laundering (AML), Know Your Customer (KYC) and similar regulations. Efficient compliance is a daunting goal, given the speed of transactions, the complexity of data and systems, and the ingenuity of those seeking to break the law without getting caught.

## Business challenge

A large regional U.S. bank was under regulatory scrutiny, both for insufficient management of KYC requirements and for failing to report some suspicious activities that it should have caught but didn't. Both problems hearkened back to the bank's inability to accurately gauge the risk of an individual customer across accounts.

The bank was taking an account-centric, rather than customer-centric, view of transaction risk. This perspective made its transaction monitoring system overly alarmist. For example, suppose that all transactions over $10,000 triggered an alert. One customer who regularly engaged in that size of transactions might actually present a low risk to the bank if viewed across all her different accounts. But an account-centric approach might prevent the bank from seeing that.

The regional bank did make a cursory effort to look at transactions at a customer level, as well as to determine customer risk based on watch-list screening. However, some customers held accounts under multiple names, whether due to data-entry errors, nicknames or intentional obfuscation. Lacking a consolidated view of each individual, the bank could not identify which transactions actually posed the most risk.

Investigators were overwhelmed by the volume of alerts, most of which turned out not to be worth their time, while the real lawbreakers eluded them.

## Client profile

- Large regional U.S. bank serving consumers and businesses inmore than a dozen states
- Acquisitive approach to growth throughout its entire 100-plus-year history
- Recognized for top-tier customer service

## Solution

The large regional bank sought a solution that would consolidate customer data across all the accounts associated with a particular individual, then feed that consolidated data into the bank's screening and transaction monitoring systems. After reviewing solutions from several financial crime and compliance software vendors, the bank saw the greatest value in Precisely Spectrum Entity Resolution and decided to deploy the software to support its watch-list screening and transaction monitoring.

The bank liked the fact that Entity Resolution wouldn't require it to rip out and replace the systems it was already using. It also appreciated that Precisely focuses not just on providing technology to banks, but on partnering with banks in their efforts to detect financial crimes.

Now, Entity Resolution pulls customer information out of all the bank's CRM systems and other customer databases across its lines of business. The system consolidates all the data associated with a particular name, then compares it against Precisely data on common name variants. The resulting holistic view of each customer notes relationships across accounts, including ultimate beneficial ownership of accounts and association with shell companies.

The bank feeds data from this comprehensive customer view into its screening and transaction monitoring systems. This gives the bank a more complete risk profile for each individual and enables it to better segment customers by risk.

## Results and benefits

The bank's screening and transaction monitoring systems now do a better job of isolating high-risk customers and providing alerts based on the risk profile of the customer, not just the account or transaction. The solution was implemented recently, but the regional bank projects that Entity Resolution will simultaneously help it mitigate its compliance challenges and reduce the costs of compliance.

The bank's legacy software environment was not an anomaly. Transaction monitoring systems typically generate a significant number of false positives. Some estimates the proportion of false positives at 95 percent to 98 percent of all alerts coming out of a transaction monitoring system. This would mean that only 2 percent to 5 percent of all alerts are worth an investigator's time to pursue. Dialing in investigative resources to focus on the customers and accounts that pose the highest risk will ensure more efficient use of those resources, which will result in cost savings for the regional bank.

At the same time, the improved customer risk profiling and segmentation give bank managers increased confidence that they are identifying and reporting all financial crimes that touch their systems. And that's a win-win-win: for the bank, for government regulators and for the general public, whom financial-crimes rules are designed to protect.

## Technology used

- Spectrum Entity Resolution

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