



# Evolution of Transaction Monitoring: Updates and Insights since the Issuance of the Transaction Monitoring Guidance Paper

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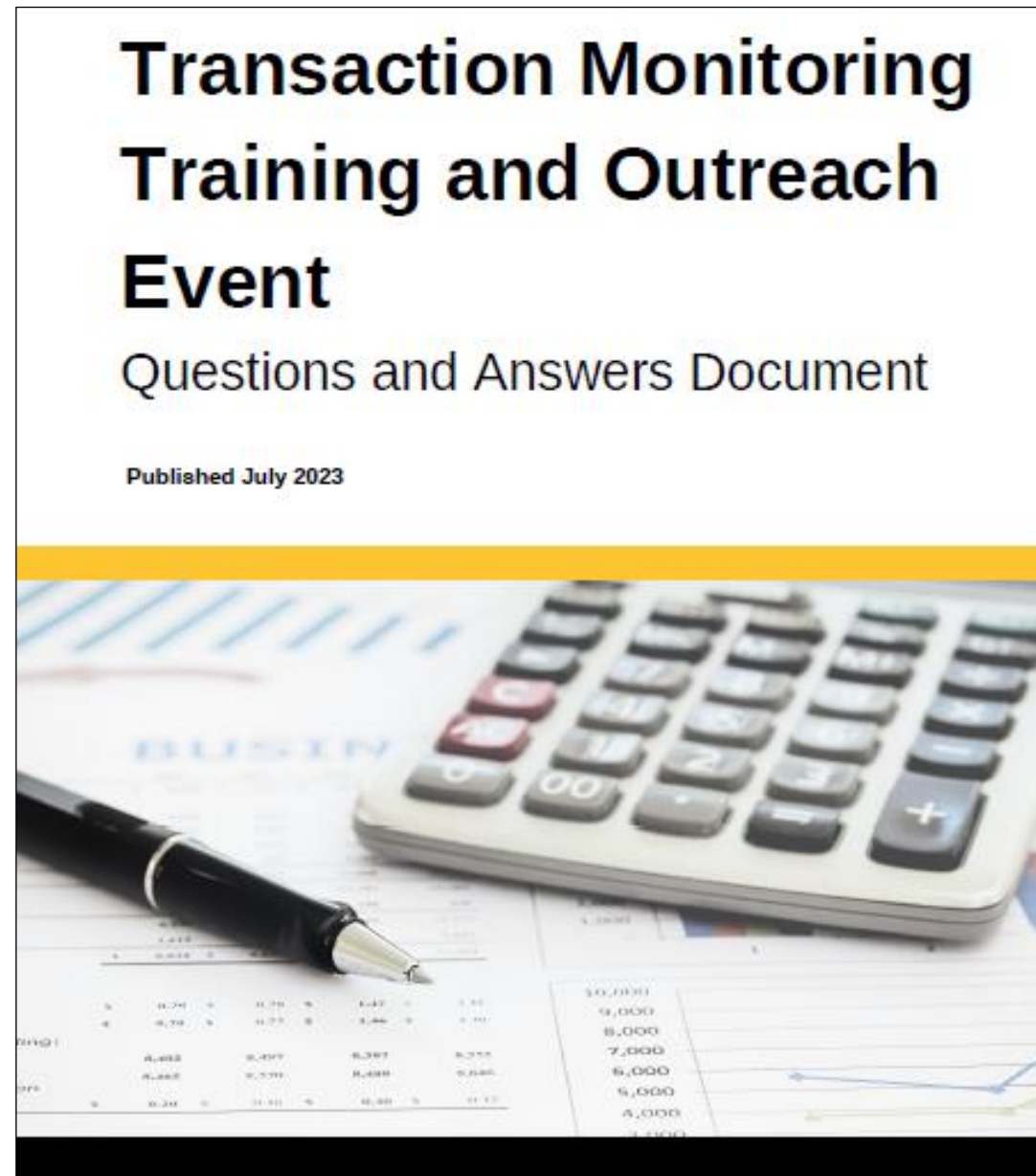


# Agenda

- Key Takeaways from the Questions and Answers Document
- Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons



# Key Takeaways from the Questions and Answers Document







### a.) Implementing Robust Detection Rules and Preventing Customers from Circumventing the Thresholds Set

- Detection rules comprise of applied risk scenarios, thresholds, and other parameters against which customers' transactions are analysed.
- Prior to establishing these rules, it is recommended that Subject Persons develop customer segments, each consisting of a cluster of customer profiles that are similar in nature in terms of characteristics, risk rating and transactional activity.
- It is recommended that customer segments are further broken down into related target sub-groups to reflect the specific risks associated with different subsets of the Subject Person's customer base. Customers belonging to a particular customer segment will then be subject to the risk scenarios, thresholds, and parameters defined for that segment.
- Periodic fine-tuning of the detection rules set minimises the risk of customers attempting to exploit or circumvent the thresholds and parameters in place by manipulating their transactions to evade detection.



### b.) The Impact of the Introduction of Instant Payments Regulations on the Obligation of Transaction Monitoring

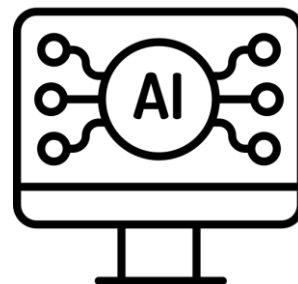
- Instant payments are credit transfers that make funds available in a payee's account within ten seconds of a payment order being made.
- The EU Commission acknowledges the need for pre-transaction monitoring, even in the context of instant payments. Indeed, the introduction of these payments does not exempt Subject Persons from carry out real time transaction monitoring and is without prejudice to any risk-based measures implemented in terms of AML/CFT.
- The instantaneity of such payments will not impact the obligation to conduct the required AML/CFT checks and, if necessary, file STRs with the competent authorities. There may be circumstances where these checks will need to be performed in real time as opposed to post-transaction; however, this should be determined on a risk sensitive basis.





### c.) The FIAU's Views on the role of AI and Machine Learning in Transaction Monitoring

- The FIAU acknowledges the potential benefits that can be derived from incorporating AI and machine learning technologies in transaction monitoring systems, recognising that they can enhance operational efficiency and optimise resource allocation.
- However, Subject persons should exercise caution due to the evolving nature of these technologies and avoid relying solely on them.
- Subject persons are also expected to be actively involved in the system implementation, have a comprehensive understanding of the underlying considerations and parameters adopted, and maintain an audit trail of any changes made.
- While AI and machine learning can assist in detecting unusual and suspicious transactions, human intervention and oversight will always remain an essential component of the transaction monitoring process.





# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons





# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons

## Characteristics of Effective Transaction Monitoring Systems

- Leveraging AI and machine learning technologies to enhance the system's capability of identifying unusual, suspicious and anomalous transactions.
- Customer segmentation which takes into consideration the specific attributes, behaviour and risks associated with different customer target sub-groups.
- Comparing customer activity against previously exited customers.
- Predicting the financial crime risk associated with a particular customer.
- Utilising network analysis to examine related accounts.
- Monitoring customers across various business lines and jurisdictions.
- Alert prioritisation according to the perceived risk level.
- Basing detection rules on established financial crime typologies.
- Continuous testing and fine tuning of detection rules.





# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons

## Examples of Detection Rules Implemented by Subject Persons

Customer



The customer operates within a high risk industry or sector.

Change in the customer's risk classification, particularly to high risk.

Significant activity by a new customer within a short period of time.

Stringent thresholds set for national and foreign PEPs.

Specific limits for Individual Investor Programme (IIP) customers.

Inordinate number of accounts held by a specific customer.

Pre-transaction monitoring measure – markers on higher risk customers.



# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons

## Examples of Detection Rules Implemented by Subject Persons (cont.)

### Jurisdiction



Manual thresholds for transactions to/from high risk jurisdictions.

Anonymously high transaction amount to a foreign jurisdiction.

Unusual cross-border activity.

Transactions to/from jurisdictions within no prior association or nexus.

Suspicious ATM deposit or withdrawal patterns in a foreign jurisdiction.

Prohibition of transactions to/from sanctioned countries.

Scrutiny of payments directed to countries known for human trafficking.



# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons

## Examples of Detection Rules Implemented by Subject Persons (cont.)

Product/  
Service



Anomalous activity involving bank cards, cheques or banker's drafts.

Mismatch between product/service type and customer profile.

Stringent thresholds for cash intensive products.

Multiple deposits made by the same customer in different branches.

Payment made by a third party for a product/service.

Early cancellation of insurance policy or liquidation of long-term securities.

Focus on the customer's products – over-pricing or under-pricing.



# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons

## Examples of Detection Rules Implemented by Subject Persons (cont.)

### Transaction



Incoming transactions exceed the customer's expected or known income.

Customer expenditure surpasses initially declared anticipated spend.

Unusual account turnover.

Suspicious or unusually large cash deposits or withdrawals.

Pattern of incoming and outgoing transactions among connected accounts.

Payment made to a high risk Merchant Category Code (MCC).

Dormant account receives a significant incoming payment.





# Characteristics of Effective Transaction Monitoring Systems and Examples of Detection Rules Implemented by Subject Persons

## Examples of Detection Rules Implemented by Subject Persons (cont.)

### Gaming Specific



Amount and frequency of deposits, withdrawals or losses.

Exceeding lifetime thresholds for deposits or losses.

Multiple deposit methods and non-closed loop payments.

Third party deposits.

Transactions not in line with the customer's profile or anticipated income.

Country or geolocation mismatch.

KYC documentation not provided within deadline or is inadequate.