

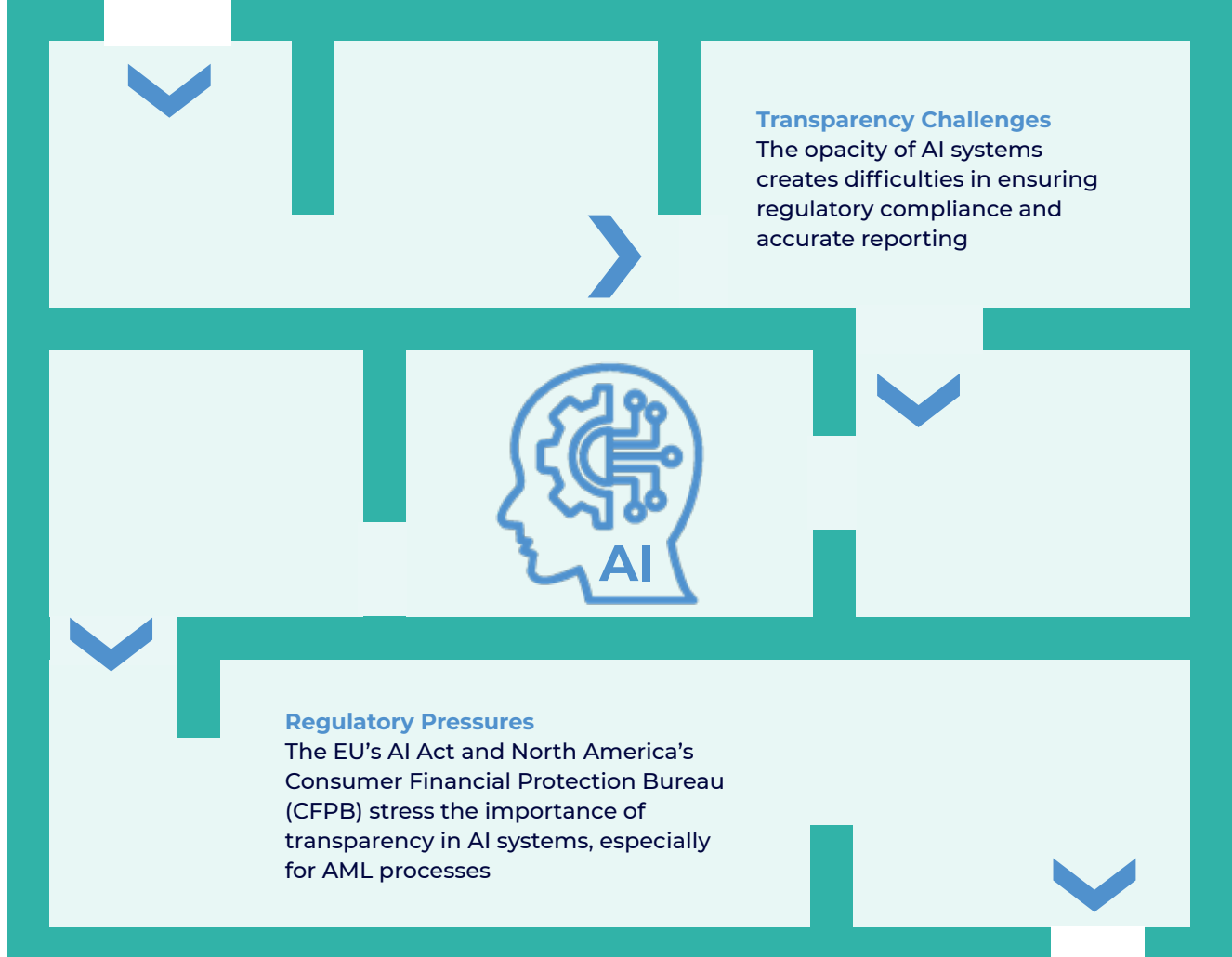
Infographic

Explainable AI as the Future of AML Compliance

Blind trust in AI isn't enough for fighting financial crime. Explainable AI is transforming AML compliance by making systems transparent and decisions clearer.

01 Navigating the AML Maze with AI

As AML programs advance, AI becomes essential in detecting complex patterns and networks that humans might miss. However, traditional AI models are often criticized for their "black box" nature, lacking transparency and making it hard to understand how insights are triggered.



A notable case

Canada's Financial Intelligence Unit (FINTRAC) fined the Royal Bank of Canada (RBC) \$5.3 million for failing to submit and manage suspicious transaction reports and update procedures. Explainable AI could have clarified how RBC's system flagged transactions, improving transparency, and potentially avoiding the regulatory violations.

The Takeaway

Without understanding how AI systems reach their conclusions, trusting their outputs in flagging transactions becomes problematic. Explainable AI bridges this gap by providing clarity on decision-making processes, crucial for effective AML compliance.

02 Trust, But Verify: Why Explainability Matters in AML



Need for Explainability in Finance

The financial industry operates under stringent regulatory oversight, making transparency in AI essential.

A recent survey found that 65%¹ of financial institutions express concern over the lack of explainability in AI models used for compliance.

This opacity can lead to compliance failures and regulatory penalties. Without a clear understanding of how AI models work, institutions struggle to update their risk policies and manage risks effectively, often relying on opaque or "black-box" models.



Role of Explainable AI

Explainable AI addresses the transparency issue by making AI decisions understandable and traceable.

For example, when an Explainable AI solutions flags a transaction, it shows users the reasons behind the alert, highlighting the specific patterns or anomalies that triggered it. This transparency helps compliance officers make informed decisions and offers a strong defense during regulatory reviews.



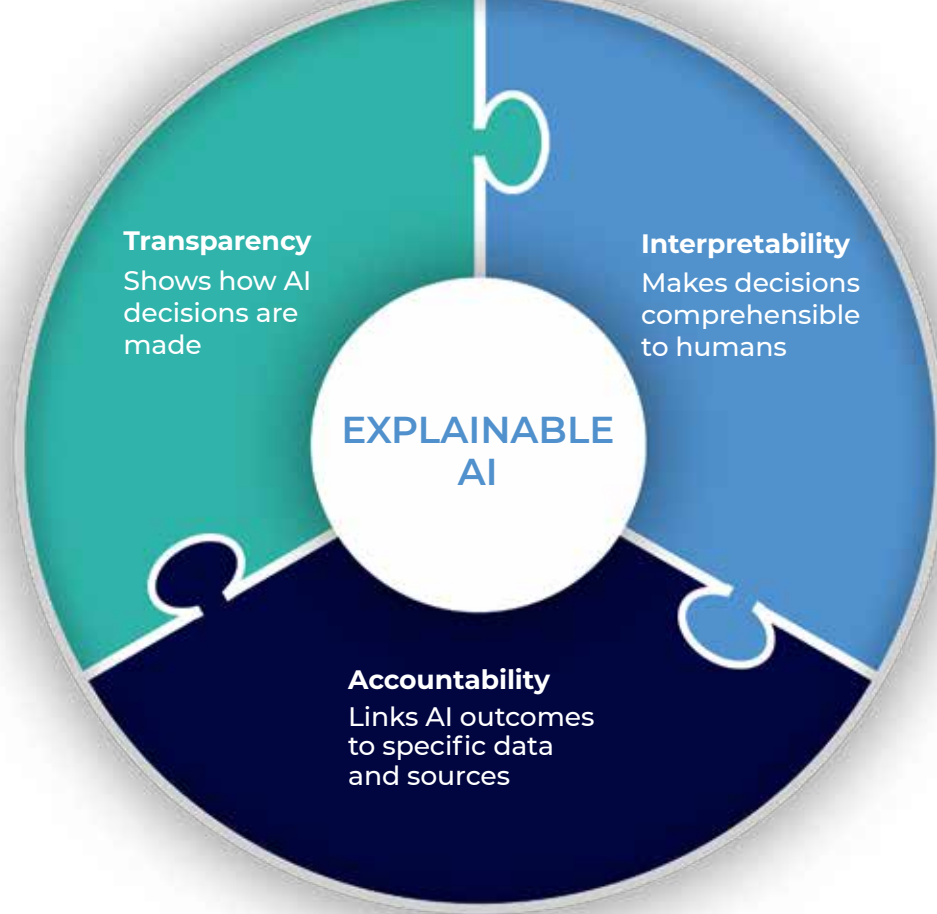
Trust and Verify with Explainable AI

In high-stakes environments, the ability to "trust but verify" is crucial. Explainable AI allows financial institutions to trust the decisions made by their AI systems while providing transparency for further investigation and verification.

This dual capability enhances AI's effectiveness and reliability in AML compliance, making Explainable AI essential for modern financial operations.

03 Decoding the Mystery of Explainable AI

Explainable AI stands apart from traditional AI Models by emphasizing transparency and understandability in decision making. Key aspects include:



Explainable AI is vital for:

Regulatory Compliance

Explains decision rationale for meeting requirements

Timely Reporting

Aids in accurate and prompt reporting to authorities.

Internal Auditing

Provides clear decision making processes

By transforming AI from "black box" into "glass box", explainable AI ensures clarity and confidence in AML operations, protecting institutions from penalties and reputational damage.

04 How Explainable AI is Shaping AML Operations

Operational Benefits

Financial Institutions leveraging Explainable AI can benefit from improved efficiency in their AML operations:

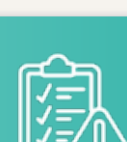
- ✓ Accuracy of Suspicious Activity Reports (SARs)
- ✓ Better compliance with regulatory demands
- ✓ Reduction in false positives
- ✓ Streamlined AML processes



Transaction Monitoring

Explainable AI enhances accuracy of true positives (detection-worthy alerts) by providing context for flagged transactions, accelerating assessment and investigation processes.

Explainable AI assists investigators by offering detailed insights, helping them make informed decisions and spot trends across wider customer segments.



Customer Risk Assessment

Explainable AI provides detailed insights into high-risk factors like transaction behavior and connections, improving onboarding and compliance.

Explainable AI enables financial institutions to improve their understanding of risk exposure associated with customers.



Watchlist Screening

Explainable AI enables easier and faster detection of red flags.

By understanding the criteria used for flagging transactions, teams can fine-tune their screening processes, leading to a reduction in false positives. This not only saves time but also improves the accuracy of the screening process.

Case study: Explainable AI Exposes Hidden Laundering in Major UK Bank

A leading UK bank, facing scrutiny for handling laundered money through its correspondent banking arm, engaged ThetaRay to enhance its transaction monitoring. ThetaRay's Explainable AI analyzed over 200 million transactions in just two weeks, revealing 8,400 transaction anomalies previously undetected by the bank's existing AML systems.²

Explainable AI's clarity in elucidating the detected patterns and behaviors enabled the bank to understand and address the issue effectively, improving transparency and compliance in its operations.

05 Looking Ahead at the the Future of AML in an Explainable AI World

As regulatory scrutiny continues to intensify, the role of Explainable AI in AML is set to grow. The future will likely see further advancements in AI technology that enhance explainability without compromising on accuracy.



Future Advancements

New AI techniques will boost transparency and trust in AML, like reinforcement learning and causal inference.



Market Growth

Explainable AI market is growing at over 15% annually, from \$6.55B in 2023, driven by increasing regulatory and ethical demands for AI transparency and accountability.³



Collaborative Future

AML's future will blend human expertise with AI's power, with Explainable AI enhancing compliance and transparency.



Rising Importance

The increasing need for Explainable AI highlights its role in modern AML strategies and compliance innovation.

Explainable AI is a strategic asset in AML, transforming AI from a "black box" into a "glass box" that offers transparency and builds trust. It ensures regulatory compliance and strengthens confidence among clients and stakeholders. Explainable AI is essential for the future of AML.

Explore how explainable AI can transform your AML strategy. Contact us to learn more.

1 The Impact of AI in Financial Services, UK Finance, 2023
2 ThetaRay Steps in to Support Tier 1 Banks in Money Laundering Fight, Correspondent Banking Case Study 2024.
3 Explainable AI Market Size Report 2024, Global Market Insights.