

Infographic: Multilayered Approach to Transaction Monitoring

Advancing Compliance and Risk Management in Banking and Fintech

01 Current Approach to Transaction Monitoring

Many fintechs and banks approach transaction monitoring with a single-layer, heuristic rule-based detection methodology. While known and established, this method relies heavily on human models that cannot account for all known and unknown risk factors, often introducing bias.

Traditional rule-based systems are typically reactive, requiring substantial time for calibration and tuning, and are resource-intensive due to manual reviews and periodic updates that lag behind evolving threats. This approach demands significant front-end and back-end resources, and often lacks the flexibility and depth needed to effectively identify complex financial crimes, leaving organizations open to regulatory fines and reputational damage.

- Traditional single-layer approach relying on rule-based systems.
- Heavy dependence on human made rule based models.
- Heavy dependence on manual reviews and resource management.
- Periodic updates, often reactive rather than proactive.

Challenges of the Current Approach

Rule-based approaches face significant challenges in combating financial crime, including excessive and often false positives, limited adaptability to new threats, and difficulty detecting complex criminal networks. These issues undermine the effectiveness of outdated systems in addressing evolving financial crimes. These challenges not only strain resources but also leave organizations vulnerable to increasing sophisticated criminal activities.



Inefficient alert management:
Inefficient processes generating too many alerts.



Limited adaptability:
Static rules cannot adapt to evolving threats.



Missed criminal patterns:
Complex or subtle criminal activities missed.



Manual Investigation Burden:
Heavy reliance on manual investigation and review processes.



Manual recalibration challenges:
Heavy reliance on manual recalibration and tuning for updates and scaling.



Risk management balance:
Struggle balancing efficient due diligence while mitigating against operational, compliance and reputational risk.

02 Why Shift to a Multilayered Approach?

Definition: A multilayered approach focuses on a risk-based methodology, combining layers of: real-time deterministic rules, AI & machine learning and customer behavioral analysis.

Real-time deterministic rules:

Help financial institutions meet ever-evolving regulatory requirements and stop illicit transactions from entering or leaving their organization.

AI & machine learning:

Identify unknown threats through pattern recognition, continuously learning from the data to provide increasingly accurate alerts.

Behavioral analysis:

Detects anomalies based on behavioral trends. Accurately segments customers to avoid wrong risk levels being assigned and generating false positives.

A risk-based approach concentrates on identifying unusual behaviors that rules-based systems might overlook due to their rigidly defined parameters and thresholds, providing a more effective detection method. Unlike a rule-based system, unbiased machine learning can establish a baseline of normal behavior by analyzing data patterns directly and dynamically without relying on predefined scenarios or models.

This data-driven approach effectively enhances the detection of both known and unknown threats and detects anomalies more accurately, offering greater risk coverage.

03 Benefits of a Transaction Monitoring Multilayered Approach

A multilayered approach to transaction monitoring creates a robust defense against financial crime. It ensures an effective response to potential threats by monitoring all users and transactions, considering all the risks they pose to the business and then detecting unwanted behavior that could indicate potential money laundering activity.

By leveraging AI and machine learning, this approach offers a scalable and continuously adaptive solution to the evolving challenges of financial crime.

Key Benefits:



Response speed:

Real-time transaction monitoring enables immediate blocking or stopping of transactions.



Investigation Speed:

Faster detection of unwanted behavior for further investigation (and timely reporting).



Transparency:

Meet regulatory & internal risk requirements with full explainability.



Enhance insights:

Complete visibility of data to minimize risk to you & your customers.



Capacity:

Analyze huge volumes of complex data in minutes & be able to provide insight to stakeholders.



Adaptability:

Adjusts quickly to new and emerging threats.



Accuracy:

Significantly reduces false positives.



Minimal Calibration:

Minimal tuning & calibration required due to self-learning and adaptation.



Simplified analysis:

Simplifies complex data analysis for operational reports.

04 KPIs: Measuring Efficiency and Effectiveness

By establishing adhering to KPIs, organizations can assess the efficiency and impact of their transaction monitoring efforts. This ensures ongoing enhancement and compliance, while also providing clearer explainability and transparency for stakeholders and regulators.

To gauge the effectiveness of a multilayered approach, key performance indicators play a critical role. Metrics such as:



Improved operational efficiency:

Measure overall productivity improvements and resource optimization within the transaction monitoring processes.



Reduction in manual due diligence:

Track the decrease in the time and effort spent on manual reviews and investigations, indicating improved accuracy.



Time to detection:

Measure the duration from when a suspicious activity occurs to when it is identified by the system.



Ability to identify complex threats:

Evaluate the system's effectiveness in detecting and analyzing sophisticated or multi-layered threats.



Calibration time:

Track the time required for tuning and calibrating the system.



High-quality SARs (Suspicious Activity Reports):

Monitor the quality of SARs and feedback from authorities.



Customer friction reduction:

Track the time spent on review stages and customer onboarding.



Reduction in false positives:

Track percentage of accurate alerts.

05 Strengthen Your Risk Detection — Why Multilayered Monitoring Matters Now

Embracing a multilayered approach to transaction monitoring is game changing for fintechs and banks looking to strengthen their defenses against financial crime. This methodology not only enhances compliance but also future-proofs your organization against evolving threats.

Explore how this approach can transform your compliance strategy.