



Faster payments: what does it mean for compliance?

Henry Balani, Global Head of Strategic Affairs at Accuity, examines how the adoption of instant payments will be impacted by anti-money laundering and KYC compliance requirements

Much of the evolution in the payments industry is based on the need for speed.

Faster payments in its various iterations – real-time payments, instant payments, immediate payments or anything similar – has become the norm in most of mature markets, and customer expectations are fuelling increased demand.

Faster payments is here to stay, fuelled by a powerful collection of trends – a more mobile world, new and innovative banking models, changing demographics as the tech-immersed generations grow up, and booming demand from rapidly growing emerging economies. Faster payments bring clear benefits for everyone involved: businesses can offer better services to their customers; suppliers can better manage their liquidity and cashflow, and banks can offer value-added mobile services.

Faster payments is efficient, attractive and in demand; it is no surprise that the industry is putting a huge amount of effort and investment into developing the technology. However, while adoption gathers pace, there is one clear risk that is in danger of holding us back.

We have got to the stage where almost all transactions are screened under anti-money laundering (AML) and know-your-customer (KYC) requirements; when it comes to international transactions, there are typically multiple screening points along the chain. Faster payments call for faster compliance procedures – and so far, compliance is challenged to keep up.

There are two main areas where traditional AML compliance operations cause problems for faster payments. The

first is that AML screening is usually designed to operate in a batch mode, holding and reviewing potential suspicious transactions before releasing them. This approach is fine under a normal payments system, but when it comes to faster payments, effectively negates all the benefits that faster payments are designed to bring. Payments are delayed, customer relationships potentially damaged, and no-one wins.

The second is that traditional AML screening approaches tend to throw up a lot of false-positive results (anything between 2% and 15% of total transaction volume). The most common name in the world – Muhammed – can trigger a review. And as a BuzzFeed reporter chronicled when he went to his local deli and tried to pay for a Cuban sandwich using Venmo, so can perfectly innocent references to sanctioned countries.

So what can be done? It is essential that AML compliance processes for faster payments are both successful at the screening against illicit transactions while not causing bottlenecks in the speed of the payment. Given the proliferation of illegal financial activities and complexity of the regulatory landscape, performing faster compliance checks will require increased creativity, flexibility and sophistication. This needs to be solved in a systematic way – looking in detail at the compliance screening processes itself, along with the people involved and technology that will help.

Processes

AML compliance reviews today tend to prioritise legal requirements over

customer satisfaction. Both become equally important in a world of faster payments as the impact of potential reviews on the customer experience needs to be fully considered. Turnaround times, particularly for vital customers, need to be established and respected, and transaction limits should be set.

People

Payment transactions will need to be processed much more quickly, and that will affect the staff levels required and the training they will need. Staff will need to have the knowledge and authority to review transactions quickly. Furthermore, payments providers have to consider how to manage a team that needs to review payments around the clock and every day.

Technology

Fortunately, technology is available to help institutions with compliance in a faster payments world, particularly those dealing with high volumes of transactions. Matching engines, screening algorithms, and data intelligence grow more sophisticated each day. A simple example would be excluding 'Cuba' from any field other than the address field to reduce false-positive results significantly.

It is essential that compliance continues to evolve with the pace of payments speeds. To have truly faster payments, we need faster compliance – and we can only get there if both sides of the equation work together and innovate their processes. ■