

NJORD Estonia: Reducing the human factor to help combat money laundering

Danske Bank has been in the spotlight of the media, law enforcement bodies and financial supervisors within the last couple of years in relation to its money laundering scandal via the Estonian branch.

One of the reasons for the large-scale money laundering was the human factor. According to the information in the Guardian[1], several dozens of Danske Bank's employees may have colluded with customers to get around the necessary background and security checks. Danske Bank said it had reported some of its employees and former employees to the Estonian Police.

There is almost always a human factor involved in money laundering. Employees, CEOs, CFOs become part of the scheme to launder money as these schemes involve human decisions. Therefore, financial institutions should seek measures to prevent or minimize the involvement of its own employees in financial crimes.

One of the solutions could be a deployment of new technologies such as blockchain, robotics and artificial intelligence (AI). Blockchain can be used for tracking all the measures performed by compliance staff, so the process will be more transparent and easier to audit. AI and robotics can be used for KYC (KYC = Know Your Client, information gathered to understand your client better) check, reporting of suspicious transactions and doing analysis on the risk level and the need of additional investigation.

For instance, robotics can be helpful in process automation on the collection of information about a customer and transactions alerted. Once the KYC check and collection of information is done by the software, AI would step in. The role of the AI will be to perform an analysis based on the collected information and decide whether the suspicion is reasonable and needs to be reported to the compliance officer. This type of work is undertaken by humans currently.

Apart from eliminating the human factor in money laundering, the second reason in favor of the technologies is that it reduces time and cost. The legal burden for financial institutions is becoming only higher and that fact makes AML (AML = Anti-Money Laundering) compliance costlier and more time-consuming. But customers are not enjoying the process either, the process of opening an account can sometimes take up to 1-2 months. Therefore, new technologies can bring a win-win situation for the financial institutions, as the process will be cheaper and faster.

However, not even technologies are perfect. The biggest threat of the usage of new technologies is that these can be hacked, corrupted or they do not operate properly due to bugs in the system. Thus, it leaves a criminal with a chance to fool the technologies.

[1] Borgen, T. (2018). Danske Bank chief resigns over €200bn money-laundering scandal.

<https://www.theguardian.com/business/2018/sep/19/danske-bank-chief-resigns-over-money-laundering-scandal>



KAROLINA ULLMAN
ATTORNEY AT LAW,
PARTNER

(+372) 66 76 444

KAROLINA.ULLMAN@NJORDLAW.EE