

Aligning Forces: The Interplay of Fraud & Money Laundering in AFC Compliance

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Financial institutions **fiercely compete for consumers who demand convenience**, in a harsh business climate in which fraud, risk and compliance professionals are being asked to do more with less.

75%

of compliance professionals **anticipate workloads increasing** this year

60%

of compliance professionals **expect staff costs to rise** this year

Introduction

The role of fraud, risk and compliance leaders has never been more critical or challenging. Keeping pace with today's bad actors and their evolving tactics and technologies requires vigilance and adaptation to stay ahead of the curve. A recent Europol report on 'Decoding the EU's Most Threatening Criminal Networks'¹ found that the most dangerous threats are strategic and responsive to new opportunities and challenges, employing "**expert-level digital or technological tools, such as programming malware, ransomware and hosting botnets.**" The rise of increasingly sophisticated activities – at unprecedented volume and velocities – underscores the need for proactive instead of reactive measures to safeguard against potential threats.

On the good actors' side, financial institutions fiercely compete for consumers who demand convenience, near-instant access to goods and services and a seamless experience. A McKinsey study² showed that **40% of customer onboarding time is taken up with KYC and onboarding checks**, highlighting the need for the right balance of dynamic friction across the security mechanisms that underpin the customer journey. In addition, compliance leaders must adhere to stringent regulatory requirements and contend with government scrutiny of fraud prevention and anti-money laundering (AML) strategies when operating within today's complex geo-political environment.

These tasks are set in a harsh business climate in which fraud, risk and compliance professionals are being asked to do more with less. A 2023 Thomson Reuters³ study noted that over **60% of compliance professionals expect staff costs to rise this year⁴**, and nearly three-quarters anticipate workloads increasing. This poses the question: how can finite resources be deployed more effectively across budget-strapped teams to fight fraud and financial crime efficiently?

¹ [Europol: Decoding the EU's most threatening criminal networks](#)

² [McKinsey Study: Winning corporate clients with great onboarding](#)

³ [Thomson Reuters: 2023 Cost of Compliance Report](#)

At the Nexus of Fraud & Money Laundering

Fraud alone is estimated to cost the global economy **\$3.7 trillion a year**⁴. It **accounts for 40% of all crime in the UK, even though it is estimated that 86% of cases go unreported**⁵. Members of Cifas, the largest UK-based cross-sector fraud-sharing database, report an incident of fraud every two minutes⁶. The picture is similar worldwide; the Federal Trade Commission (FTC)⁷ reports that **US consumers lost \$10 billion to fraud in 2023**.

As firms focus on effectively tackling illicit finance, the nexus between fraud and money laundering is becoming more pronounced. Money laundering is nearly always an ancillary crime to fraud. Adopting a strategy that enables compliance teams to trace laundered money to its fraudulent origins and link the two activities together is imperative.

As a paramount concern for financial institutions operating within the global landscape, it is clear that technology will play a major part in addressing the challenges at hand. Leaders across departments must assess how to deploy technology that enhances cross-team efficiencies and provides collaborative tools to prevent fraudulent acts that fuel money laundering operations. Whether the laundering occurs through money mule accounts, burner companies or by commingling with legitimate business activities, firms must look at the interconnected role of fraud and money laundering and adopt an integrated approach.

⁴ [Fintech Global: Ancient scams to modern threats: How financial fraud costs us \\$3.7tn annually](#)

⁵ [UK Parliament](#)

⁶ [Cifas: Fraudscape 2024](#)

⁷ [FTC: As Nationwide Fraud Losses Top \\$10 Billion in 2023, FTC Steps Up Efforts to Protect the Public](#)

↓ **\$3.7 trillion**
of the global economy is lost to financial fraud annually

↓ **\$10 billion**
was lost to financial fraud by US consumers in 2023

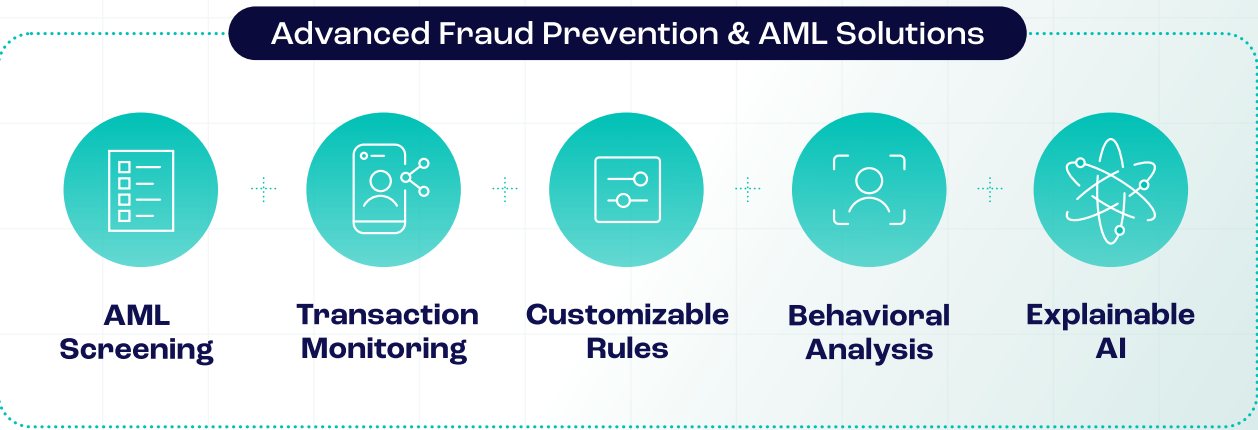
○ **40%**
of all crime in the UK is related to fraud

a fraud incident is reported in the UK every

⌚ **2 mins**

A Holistic Approach Can Drive Synergies

Traditionally, fraud and AML have been managed in silos, with individual controls implemented in isolation. This fragmented approach fails to address the inextricable nature of fraud and AML risks and can limit the effectiveness of preventive measures. **Instead, firms should assess where working together from real-time information and patterning, in a comprehensive view,** can drive measures that target specific risks. Combining controls, data and insights through a joint fraud and AML solution can impart a clearer view of risk and drive greater impact in understanding the correlation of fraud and money laundering.



One report suggests **a third of financial institutions have already implemented a joint approach across fraud and AML functions, with another 50% looking at the integration of these functions over the coming year⁸.** This collaborative approach facilitates swifter detection of suspicious trends indicative of potential fraud or money laundering activities. By bringing together the expertise of these different teams, investigation procedures can be streamlined for optimal effectiveness, detecting and preventing illicit activity earlier.

⁸ [Global Banking and Finance Review](#)

32%

of financial institutions **have already integrated a collaborative approach** to fraud and money laundering prevention

50.3%

of financial services organisations **are planning to implement a joint approach across fraud and AML functions** over the coming year

Data, Intelligence and People

With increasing regulatory changes, such as mandatory authorised push payment fraud reimbursement in the UK and PSD3 revisions in Europe, financial crime teams must become more effective in tackling this systemic issue. Compliance leaders must balance detecting and deterring bad actor activity and delivering the right customer outcomes. In this context, leveraging technology is pivotal to deploying sustainable controls and mitigating risks.

Tackling these challenges is no longer a distinct fraud OR AML problem; it requires a collective approach. This doesn't mean creating one team to do it all. Instead, exchanging fraud signals, direct-to-source intelligence and powerful AI-backed insights support **quicker, more accurate and comprehensive capabilities to identify suspicious trends and yield more efficient anti-financial crime (AFC) investigations** that lean on the combined expertise of both functions to escalate or resolve cases accurately.

The Benefits of Bringing It Together

Central to this integrated approach is the adoption of a holistic fraud and AML solution that includes access to fraud insights and serves as a centralized platform for managing and tracking alerts and investigations, granting a comprehensive view of each customer across the AFC lifecycle.

Enhanced Risk Detection

A combined fraud and AML solution consolidates vast amounts of data and information on customer activity and behaviors. This allows firms to **quickly identify patterns, trends and anomalies that may indicate potential threats and to take action accordingly**. By continuously monitoring customer data and transactional activities, firms can identify deviations from established patterns and flag potential risks for escalation, staying ahead of evolving threats.

Benefits of a Holistic Fraud and AML Solution



Enhanced Risk Detection

Identifying patterns, trends and anomalies that may indicate potential threats



Optimizing Compliance Costs

Minimizing manual intervention and costs to optimize compliance budgets



Supporting Sustainability

Transparency & accountability by providing comprehensive audit trails and documentation



Harnessing Data and AI

Driving efficiency & improving accuracy by rapidly processing large amounts of data

Optimizing Compliance Costs

By automating routine tasks and standardizing processes, **firms can minimize manual intervention and associated overhead costs to optimize compliance budgets**. By redirecting resources to deal with the complex issues that actually require analyst scrutiny, such as review outputs and risk-based decisions, firms can free valuable time for mission-critical work.

Supporting Sustainability

Adopting a holistic technology-driven fraud and AML approach offers benefits beyond the immediate concerns and contributes to long-term sustainability and resilience. This ensures transparency and accountability by providing **comprehensive audit trails and documentation, mitigating regulatory risks and potential fines while preserving firms' financial viability and competitiveness.** Proactively identifying and addressing risks protects customers, maintains trust among investors and safeguards a firm's reputation in the market.

Harnessing Data and AI

Artificial intelligence (AI) and machine learning (ML) can add additional power to AFC strategies by driving efficiency and improving accuracy. Traditional manual methods often struggle to keep pace with transactions' sheer volume and complexity, meaning suspicious activity can be missed. **AI and ML algorithms rapidly process large amounts of data from diverse sources**, including transaction records, customer profiles and external data feeds, to identify and root out suspicious behavior.

Additionally, AI and ML algorithms continuously learn and adapt from new data, refining their detection capabilities to enable the spotting of evolving money laundering techniques. By leveraging historical data and real-time information, **this system can also identify subtle indicators of suspicious behavior that may elude traditional rule-based systems.** Moreover, by highlighting emerging risks, these technologies can pinpoint potential vulnerabilities before they become full-fledged threats, allowing firms to implement targeted interventions and preventive measures.

One potent tool is whitebox ML, distinguished by its transparent and human-centric approach. Unlike prevalent blackbox models, whitebox ML provides valuable insights into its decision-making process, often represented as decision trees. The benefits of whitebox ML include enabling users to understand precisely how a decision was reached and allowing for the verification and adjustment of results. This model provides flexibility with the customization and optimization of decision processes to better align with an institution's specific needs and circumstances, ensuring high accuracy and positioning analysts to apply human judgment to only pertinent cases.

The Power of Integration

As the financial crime landscape continues to become more complex, a technology-led approach is essential to enhance the effectiveness and agility of **anti-financial crime efforts. Integrating AFC controls across fraud and AML through a holistic framework can foster collaboration** through sharing information and data across teams to enhance detection capabilities and mitigate compliance costs. While individual fraud and AML teams bring unique expertise, skills, and perspectives, organizations can develop a more comprehensive and effective strategy by leveraging both teams' strengths.

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About FINTRAIL

FINTRAIL is a global financial crime consultancy. We've worked with over 100 leading global banks, FinTechs, other regulated financial institutions, RegTechs, venture capital firms and governments to implement industry-leading approaches to combatting money laundering, fraud, and other financial crimes. With significant hands-on experience, we can help you build, strengthen and assure your anti-financial programme to meet evolving regulatory requirements, use technology effectively, and stay competitive. Visit fintrail.com to learn more.

About SEON

SEON is the leading fraud and money laundering prevention platform transforming how top-tier risk teams fight fraud. By combining real-time digital footprinting, device intelligence and a customizable AI-driven rules engine, SEON empowers businesses across industries to detect and prevent potential threats before they happen. Trusted by over 5,000 global companies across gaming, fintechs, financial services and ecommerce companies, SEON's stopped \$200 billion in fraud costs to date, earning trust and recognition with over 300 reviews across G2, Capterra and the AWS Marketplace as the leader in fraud detection software. The company is the recipient of Deloitte's Technology Fast 50 and G2's Fastest Growing Software award, and operates globally from its Austin, London and Budapest offices. Learn more at seon.io.