Can AI strengthen transaction monitoring against money laundering in the UK?

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Contents

What is money laundering?

- Money laundering is the illegal process or act by which individuals or groups attempt to disguise, hide or distance themselves from their illegal activities.
- Transparency International described money laundering as ‘the process of concealing the origin, ownership or destination of illegally or dishonestly-obtained money by hiding it within legitimate economic activities in order to make it appear legal’ (2016, 4)
- The process can be complicated, hard to detect and involves numerous financial transactions, often in different countries.

What is the extent of money laundering?

- The traditional and contentious money laundering process involves three stages – placement, layering and integration.
- Impossible to determine the extent of money laundering and estimates vary widely:
  - United Nations Office on Drugs and Crime, suggest that the annual amount of money laundered is between USD$800billion and USD$2trillion (2011)
  - The International Monetary Fund estimated that the consensus range of laundered money could be between two and five percent of the world's gross domestic product (1998)

Defence Against Money Laundering Suspicious Activity Reports

- The most used mechanism to combat money laundering are the customer due diligence (CDD) obligations, the use of defence against money laundering SARs (DAML SARs) and sharing of data.
- These mechanisms aim to provide the National Crime Agency (UKFIU) and with financial intelligence which might not otherwise be visible.
- One of the Financial Action Task Forces (FATF) key findings in the 2018 Mutual Evaluation Report (MER) was that ‘co-operation and co-ordination between agencies on AML issues is a strength of the UK system’ (2025)
- The UK was rated ‘Compliant’ with Recommendations 2, 30 and 31, which require national coordination and cooperation, including the exchange of information, between LEAs.

Defence Against Money Laundering Suspicious Activity Reports

- Drug Trafficking Offences Act 1986 (s. 24(3))
- Criminal Justice Act 1993 (s. 18)
- Terrorism Act 2000
- Proceeds of Crime Act 2002
- Money Laundering Regulations 2017 (S.I. 2017/692)

- Defensive Reporting:
  - Inefficiency
  - Lack of clarity
  - Overwhelmed UKFIU
  - Low-quality or overly cautious submissions
  - Fear factor
  - Increased compliance costs
  - Interpretation of suspicion

Case Study 1 – HSBC Bank plc

- HSBC Bank plc was fined £63.9 million for inadequate transaction monitoring controls and for failings in its AML procedures.
- HSBC Bank plc used an automated transaction process as **part of monitoring transactions to detect financial crime, which the FCA concluded was flawed**.
- The FCA concluded that the bank failed to consider whether the scenarios used to identify indicators of money laundering or terrorist financing adequately covered all relevant risks.
- HSBC did not appropriately test or update the parameters within its transaction-monitoring systems, nor did it verify the accuracy and completeness of the data being fed into and held within those monitoring systems.

Case Study 2 – Deutsche Bank

- Fined £163m failing to maintain an adequate AML control system.
- FCA highlighted a series of shortcomings including **no automatic AML system** for detecting suspicious activity.
- Deutsche Bank did not obtain sufficient information about is customers to enhance its risk assessment processes and underpin its transaction monitoring.
- The FCA concluded that Deutsche Bank has failed to adequately manage the creation of new customer relationships was used by 'unidentified customers to transfer approximately $10 billion, of unknown origin, from Russia to offshore bank accounts in a manner that is highly suggestive of financial crime'.

Case Study 3 – Monzo Bank Ltd

- Fined £21million for inadequate anti-financial crime systems and controls and for persistently breaching a requirement preventing it from opening accounts for high-risk customers
- Due to its customer base increasing from 600,000 to 5.5million, the banks financial crime controls did not keep pace
- **Monzo failed to design, implement and maintain an adequate transaction monitoring systems to mitigate the risk of financial crime**
- These systemic failings resulted in the FCA requiring a comprehensive, independent review of the banks financial crime framework in 2020.

Case Study 4 – National Westminster Bank Plc

- Convicted of failing to comply with the Money Laundering Regulations
- Fined £264.7m
- Failed to adequately monitor the financial activities of Fowler Oldfield, who deposited approximately £365m, around £265m was in cash
- Employees reported their suspicions or ‘red flags’ to colleagues
- **The problems were exacerbated the banks transaction monitoring system mistakenly designating some cash deposits as cheque deposits**
- ‘significant gap in the bank’s monitoring’

Case Study 5 - Barclays Bank UK PLC and Barclays Bank PLC

- Bank fined £42m
- Bank failed to ascertain it had obtained enough information to understand the money laundering risks before open a client account for WealthTek
- Failed to adequately manage money laundering risks associated with providing banking services to Stunt & Co
- Stunt & Co received £46.8m from Fowler Oldfield (see case study 4)
- Barclays did not consider the money laundering risks associated with the firm
- Even after receiving information from LEA about suspected money laundering through Fowler Oldfield

Transaction Monitoring in AML Compliance

- Continuous, risk-based review of customer transactions against expected behavior
- Automated system applies predefined rules, scenarios and analytics
- Flags anomalies and threshold breaches as alerts for investigation
- Key capabilities: real-time & batch analysis; configurable rules; risk scoring; audit trails
- Outcome: timely detection of suspicious activity and support for SAR filing

How AI Transforms Transaction Monitoring to Combat Money Laundering in the UK

- Smarter Anomaly Detection with Machine Learning
- Reduction in False Positives
- Real-Time Risk Scoring and Perpetual Know Your Customer
- Network and Graph Analytics for Complex Schemes
- Explainability and Regulatory Compliance
- Faster Investigations and Cost Efficiency

Conclusions

- Case studies expose gaps in traditional rule-based approaches
- AI has the potential to uncover subtle laundering schemes
- Success hinges on robust data governance, transparent model decisioning and alignment with UK legal framework
- AI must be used with a human financial investigator
- Thoughtful AI adoption, with ongoing oversight and cross-institution collaboration, could detect money laundering earlier and reinforce financial system integrity