

BLOCKCHAIN FOR AML

Harnessing Blockchain technology to detect and prevent money laundering



Blockchain-based system using smart contracts (with in-built algorithms)



Distributed ledger for regulatory oversight & inter-institution collaboration



Tamper-Proof records for current assessment and future analysis

The global impact of money laundering is staggering; with related transactions estimated at 2 to 5% of global GDP

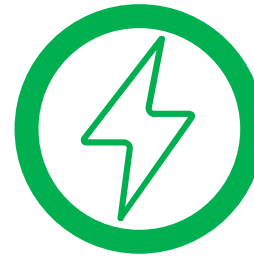
Every year money laundering channels around \$2 trillion worth of proceeds from various illicit activities. Less than 1% of global illicit financial flows are currently seized by authorities



36% of organisations report being victimised by economic crime



Fraudulent misinvoicing of trade transactions is a key component of illicit fin. flows



Compliance-related expenditures have risen by more than 50% over the last three years



Rising visibility linking money laundering to global terrorism financing, trafficking, etc

Every year, roughly \$1 trillion flows illegally out of developing and emerging economies due to crime, corruption, and tax evasion—more than these countries receive in foreign direct investment and foreign aid combined

Source: UNODC, IMF, Global Financial Integrity, Accenture, KPMG

Aging AML solutions are inadequate to meet today's business challenges and unprepared for tomorrow's needs

Existing transaction monitoring systems, based on traditional technology, are unable to keep pace with growing data sources, volume and complexity of transactions



Growing wave of new digital financial services and cryptocurrencies



Silo'd programs with very limited inter-institution collaboration



Lack of smart automation, analytical capability and visualization



Absence of integrated planning and data management

Despite spending billions of dollars on AML solutions, financial institutions and regulators continue to face an uphill battle in the fight against money laundering

Blockchain technology, by its very nature, lends itself to integrated decentralized monitoring efforts of financial transactions

The blockchain, a cryptographic ledger comprising of a digital log of transactions shared across a public or private network, can address many of the pitfalls of existing transaction monitoring systems

The first electronic value transfer protocol



Open source
value transfer
protocol

+



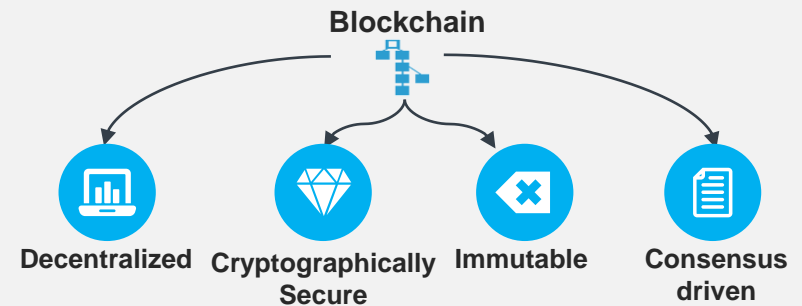
Distributed
P2P network

+

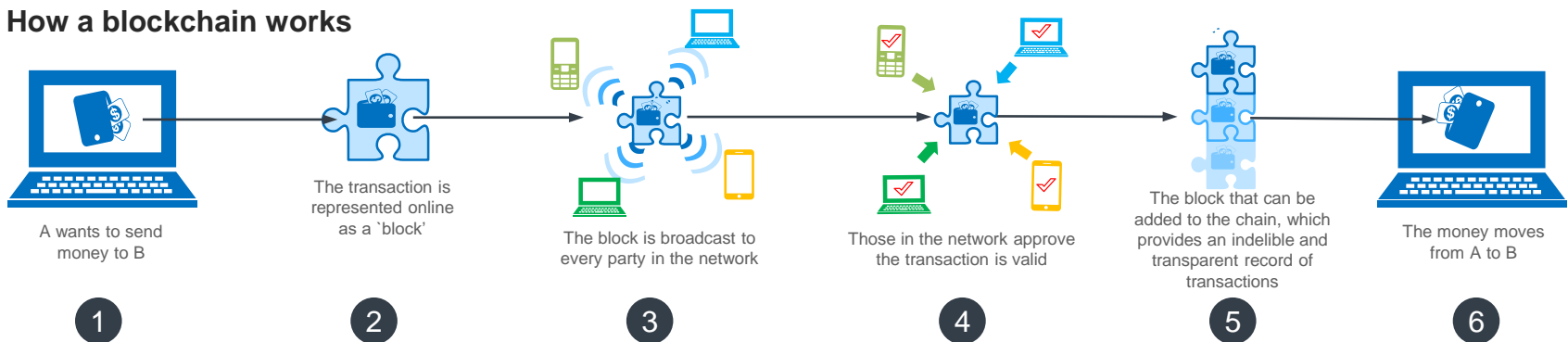


Secure
math-based
system

Key features of Blockchain technology



How a blockchain works

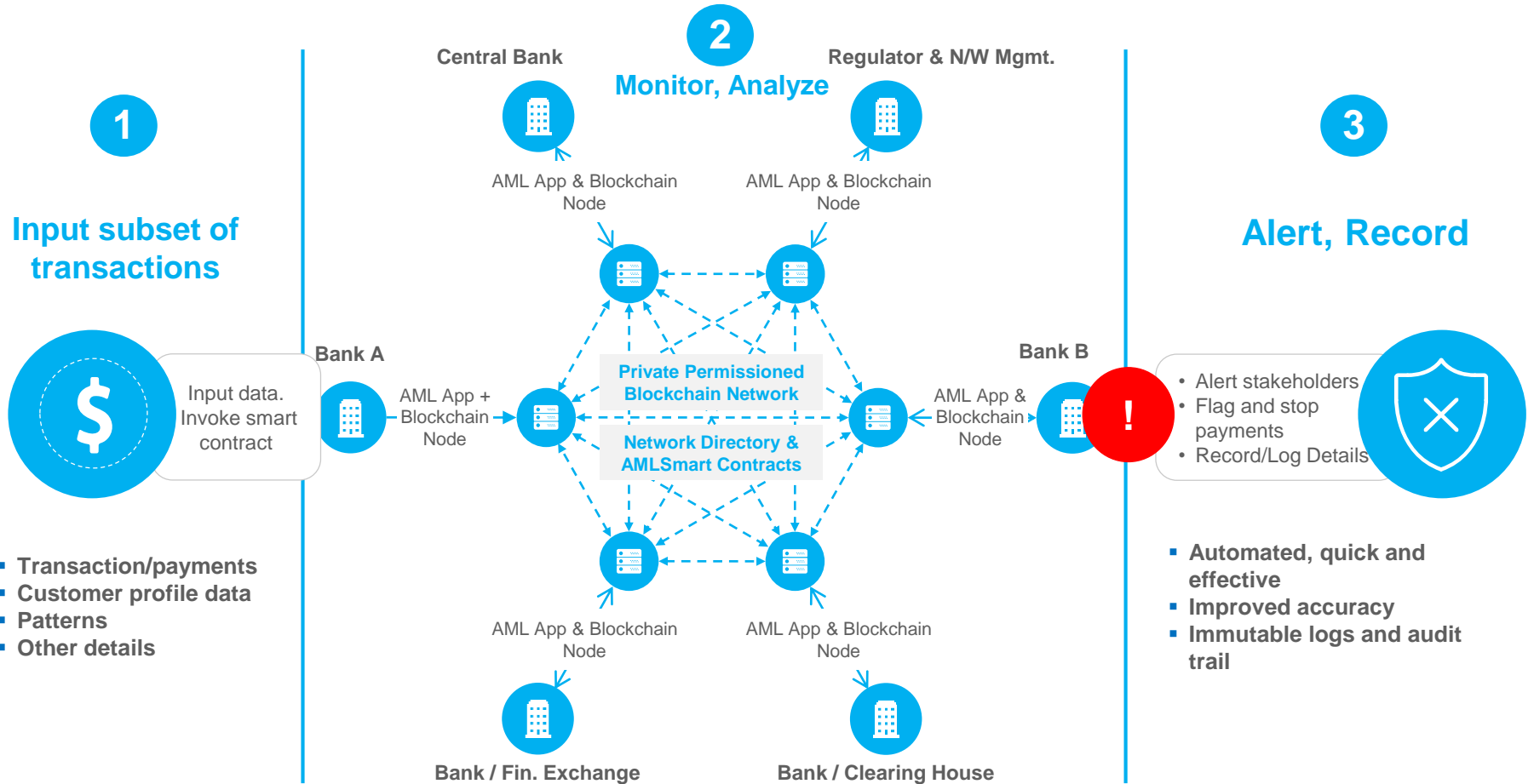


While blockchain technology is today predominantly being used within the 'fintech' context, organizations - both public and private- are starting to look at use cases beyond financial services

5

A Blockchain-based system with smart contracts (using in-built algorithms) can help identify and stop suspicious transactions

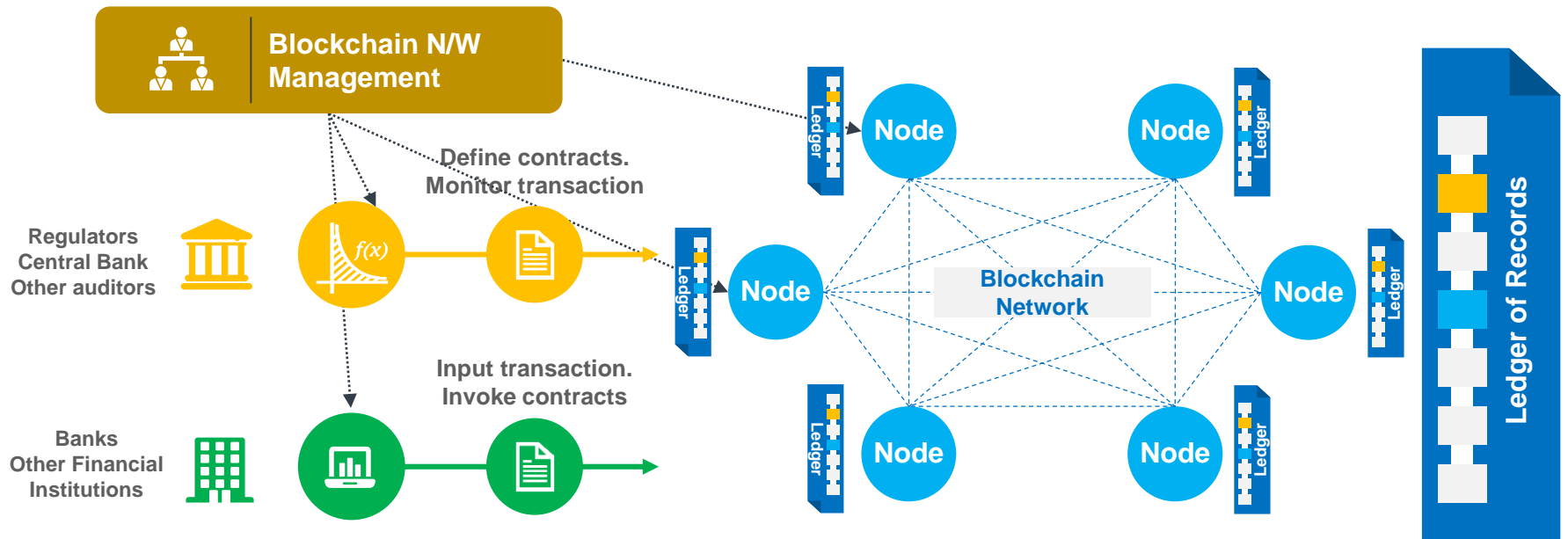
The distributed system will allow financial institutions to securely parse data through an AML/TFML engine on the blockchain; with the automation providing high efficiency and ensuring minimum friction



A Blockchain-based platform will give regulators, auditors and other stakeholders an effective and powerful set of tools to monitor complex transactions and immutably record the audit trail of suspicious transaction across the system

The decentralized system will compliment existing AML applications adding an extra ring of scrutiny & visibility

The distributed ledger based platform will allow one institutional system to alert another of transactions that could potentially be fraudulent and require further scrutiny



Key Features *

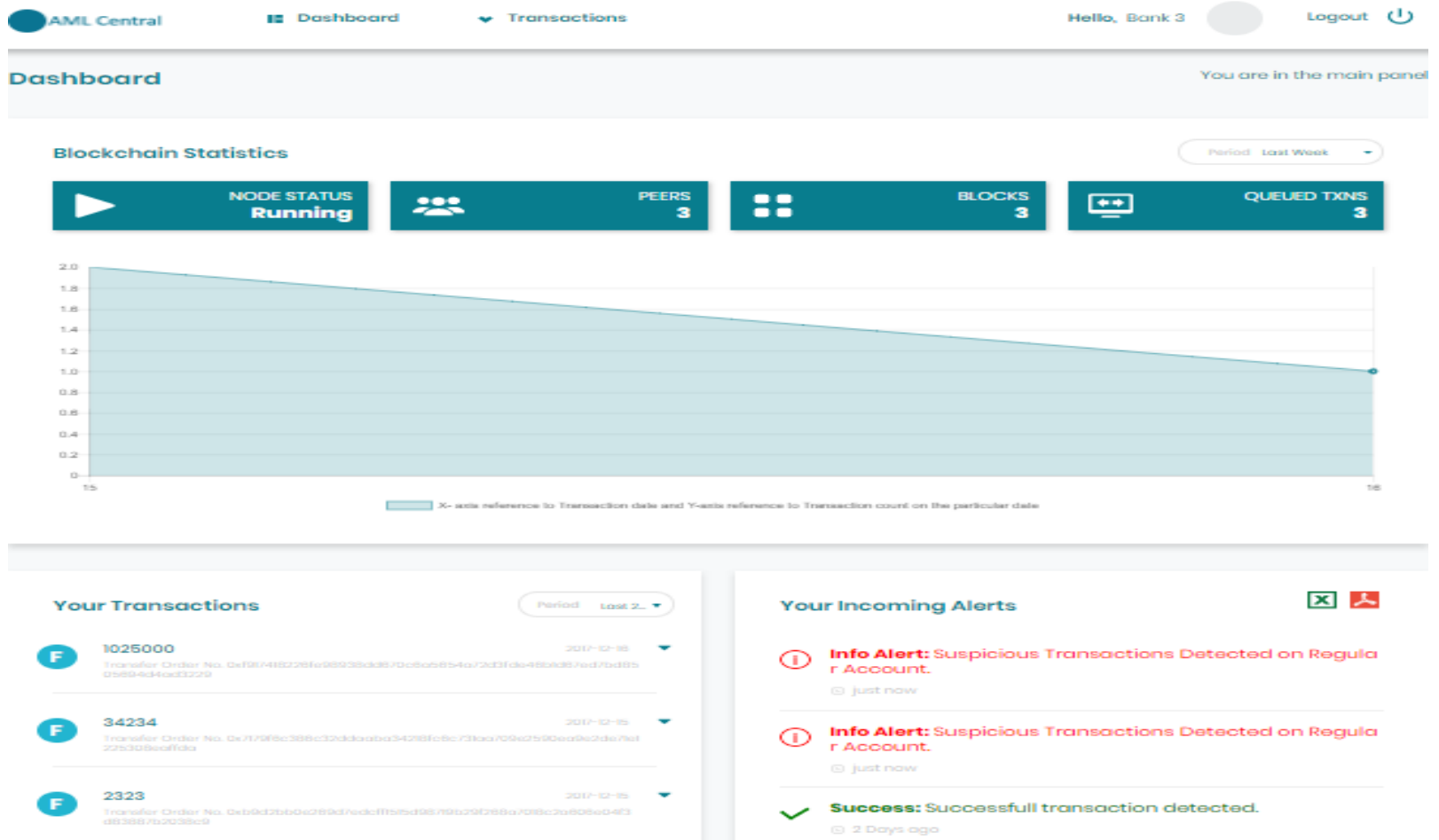
1. **Private Permissioned** Blockchain network
2. **Distinct roles** for **banks, regulators, exchanges** and other users
3. **Distributed system** for confidentiality, resiliency, and scalability

4. **Cryptographically secure** – encryption/decryption for visibility to only entities **linked** to a transaction and **authorized** auditors/regulators
5. **Auditing** at multiple levels.
6. **Logs immutably** recorded, providing a single version of the truth with a complete audit trail of (suspicious) transaction across the system

* Adapted. Based on the Hyperledger Fabric Blockchain

Being cryptographic-ally secure will ensure credibility while the immutability feature of Blockchains will maintain tamper-proof records for current assessment as well as future analysis

We've deployed a copy of the solution & are working with partners to empower regulators, banks and other stakeholders globally



The limited release version of the solution powered by a Quorum (Ethereum-based) Blockchain is available at www.amlcentral.com

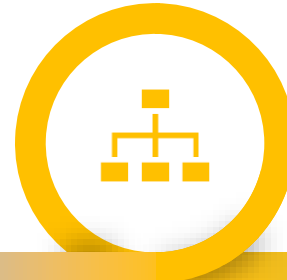
The Result: A next-gen AML solution ready for today's complex financial environment and tomorrow's evolving needs



Highly effective monitoring of suspicious transactions - reducing the large number of false positives with minimum friction



Integrated - allowing one institution's system to alert another of suspicious transactions



Distributed for scalability and resilience - to keep pace with the growing data sources, volume and complexity of transactions



Immutable & Tamper-Proof logs - stored securely on the Blockchain for current assessment and future analysis

Additionally, the blockchain-based system will also provide an ultra-secure platform for information sharing among the participating institutions

Institutions have the potential to leap-frog peers and lead the way in smartly detecting and preventing money laundering

A 5-Step Methodology to explore the potential of Blockchain technology for AML/TFML

1

- Understand application of Blockchain tech. for AML
- Secure exec sponsorship.

2

- Setup a working group
- Validate hypothesis
- Design PoC engagement

3

- Select and on-board PoC participants
- Kick-off project

4

- Develop prototype application
- Test use cases.

5

- Review PoC
- Evaluate options
- Move to mainstream deployment (in a phased approach)

Guiding principles:

- Set up a lab-like environment. Start small. Begin with a few select processes that can be showcased to a wider audience to highlight benefits and prime adoption.
- Secure alignment. Press for cross-industry participation - Central Bank, Regulator, Banks, Intermediaries like clearing houses, etc
- A consortia-based approach can accelerate the integration with key existing systems as well as the rollout across participants

A structured approach will help organizations to swiftly explore possibilities, experiment with the technology and develop innovative blockchain-based solutions, in a cost effective way

Learn how you can harness Blockchain technology to detect and prevent money laundering

Drop us a line or reach us via any of the channels below:

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