Information-Sharing Networks Identify Financial Crimes Faster

cyber security industry update AML

Summary: As the amount of online fraud continues to rise, there is mounting evidence that information-sharing initiatives around the world could provide a glimpse into the future of how financial institutions can most effectively identify and combat cybersecurity attacks.

There are more than 1.9K escape room facilities in the US, and they all require the same skills for players to be successful — time management, critical thinking, and teamwork. The clock ticks as team members frantically search the room for clues to solve the puzzle and be released before time is up. If your team doesn't communicate well, you won't get the right answers before the clock runs out, and then there's usually some sort of repercussion within the game — your ship sinks or the boogeyman gets you. Boogeymen aside, it's actually a very similar case with online fraud, and the key to protecting yourself and your customers is much the same — sharing what you know with others.

Cybercriminals are becoming ever more sophisticated and online fraud numbers have soared since the COVID-19 pandemic forced an increase in ecommerce and mobile banking. Comply Advantage's "The State of Financial Crime 2022" report states that cybercrime increased by 238% during the pandemic and 80% of organizations filed more suspicious activity reports in 2021 than in 2020. Long, complex money laundering trails are making it nearly impossible for financial institutions (FIs) to identify fraudulent or illegal transactions until it is too late, if they ever do. In an effort to provide banks a more comprehensive picture of such transactions, FIs and service providers in several countries have banded together through information-sharing and pooled-message initiatives to help improve their odds of identifying fraud and money laundering.

Worldwide Information-Sharing Initiatives

According to the Wall Street Journal, there are currently 15 information-sharing initiatives worldwide. These efforts presently exist in the US, the UK, Estonia, and the Netherlands, among other locations, though their capabilities vary between regions, given each country's unique rules regarding customer data usage. The sharing efforts range from information pooling to help banks detect suspicious patterns to more targeted efforts for identifying money mules. Though most banks have their own security systems in place that monitor questionable transactions, pooling data gives banks a more comprehensive look at banking activities that they can glean on their own, increasing the odds of spotting crime.

One example is Transactie Monitoring Nederland (TMNL), a partnership between five major Dutch banks. Participants share customer transactions, which are run through models designed to identify suspicious transaction patterns that could signal terrorist activities or money laundering. To date, TMNL's efforts have triggered roughly 2K alerts for participating FIs to investigate. Most importantly, TMNL has reduced the time it takes to trace money-laundering transactions from three weeks to two days. However, the initiative is limited to business accounts, given the more stringent privacy rules surrounding individual accounts in the Netherlands.

Domestic Efforts

Data sharing efforts in the US are voluntary, enabled by the USA Patriot Act that was put into place following the 9/11 terrorist attacks, but these efforts have yet to gain any real traction. One of the biggest factors holding things back on this front is the fear among banks that sharing proprietary customer information will enable competitors to poach customers.

Nonetheless, here are a few **information-sharing efforts that have been launched by US FIs** and service providers:

- Oracle has partnered with Duality Technologies on an automated tool that would enable FIs to anonymously request information about transactions.
- Software provider Verafin Inc. has created a messaging portal that enables roughly 2.5K banks to request information from one another.
- A group of five major banks has also been working together since 2015 by sharing information from their individual investigations with each other.

With 81% of the security professionals charged with safeguarding financial institutions' transactions believing that banks need to do more to combat fraud, this is an area where the banking industry will no doubt see further developments soon. One likelihood is that regulators will eventually enact mandatory data-sharing rules, but it is still unclear when that could happen.

In the meantime, community financial institutions may want to consider joining existing information-sharing initiatives, and should keep an eye out for additional information-sharing efforts.

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ECONOMY & RATES

Rates As Of: 10/03/2022 04:37AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	3.33	0.37	3.27
6M	3.92	0.60	3.73
1Y	4.00	-0.01	3.61
2Y	4.13	-0.15	3.40
5Y	3.94	-0.15	2.67
10Y	3.69	-0.14	2.18
30Y	3.68	-0.10	1.78
FF Market	**FF Disc**		**IORB**
3.08	3.25		3.15
SOFR	**Prime**		**OBFR**
2.98	6.25		3.07