

Case Study - Managing Trade-Based Money Laundering Risk at a Bank with Trade Intelligence Data

Introduction

Regulatory pressures continue to increase for financial institutions involved in the facilitation of international trade. A series of maritime advisories issued by the Office of Foreign Assets Control (OFAC) in relation to suspicious shipping activity¹, enhancements to existing U.S. Bureau of Industry and Security export control regulations², new trade controls covered in China's Export Control Law concerning dual-use and military goods trading³ and the U.S. Government Accountability Office's (GAO) recommendations on the identification of price discrepancies⁴, all offer significant challenges to financial institutions when seeking to manage and subsequently capture instances of fraud and sanctions evasion.

As the level of regulation grows, the number of enforcement actions also continues to increase. A series of civil actions by the Australian Transaction Reports and Analysis Centre (AUSTRAC) into AML/CTF breaches in 2019 witnessed fines over \$1bn AUD.⁵ Equally, OFAC's penalty fine for letter of credit discrepancies concerning sanctioned vessel ownership structures in 2019 again underlined the importance of a robust and well-defined sanctions compliance programme⁶.

The trade operations team at this major international bank are responsible for the first line of defence, managing documentation and customer information right from the start, ensuring that any risk found within an individual transaction can be captured accurately and efficiently. Identified red flags are escalated to the sanctions investigation team for deeper analysis and subsequent reporting.

Client – Major International Bank

Users – All Global Branches of the Banks Trade Finance Operations and Sanctions Investigation Team.

Pain-Points – Current screening solutions were provided by multiple vendors and open source tools leading to a disjointed and inefficient compliance programme across many individual applications. Additionally, significant gaps existed in certain screening checks for cargo compliance and economic sense, together with a high false positive rate delaying transaction decisions unnecessarily.

Solution – Enhancements to compliance oversight in the areas of maritime sanctions and activity, export controls and price misrepresentation, along with expansive post-sales support for users to optimise their adoption of these tools.

¹ https://home.treasury.gov/system/files/126/05142020_global_advisory_v1.pdf

² <https://www.federalregister.gov/documents/2020/12/23/2020-28052/addition-of-military-end-use-er-meu-list-to-the-export-administration-regulations-and-addition-of>

³ <http://www.mofcom.gov.cn/article/b/c/202104/20210403056267.shtml>

⁴ <https://www.gao.gov/assets/gao-20-333.pdf>

⁵ <https://www.austrac.gov.au/lists-enforcement-actions-taken>

⁶ https://home.treasury.gov/system/files/126/20190415_uni_webpost.pdf



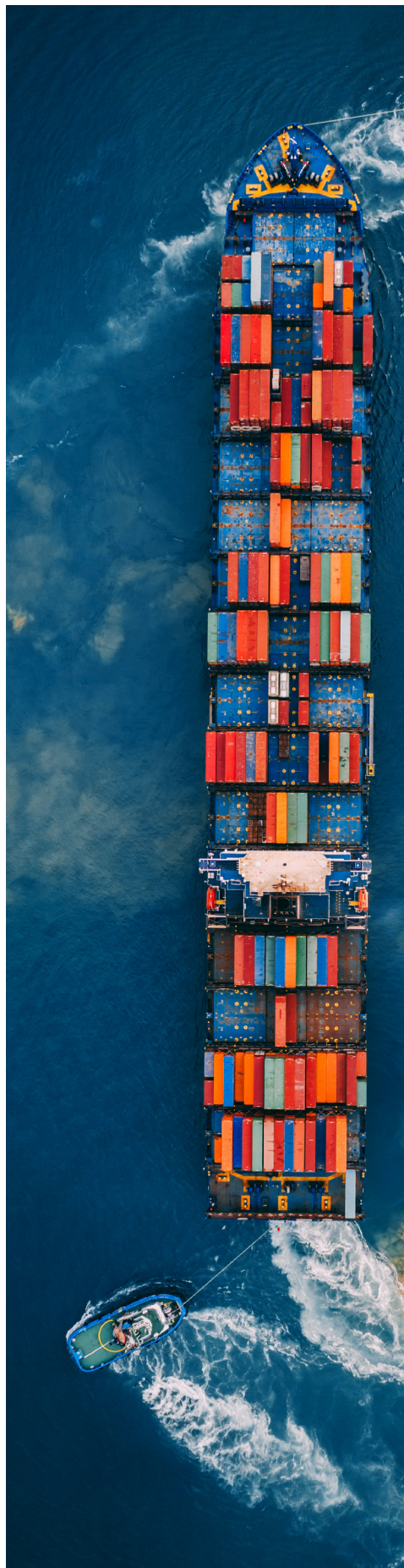
Pain Points

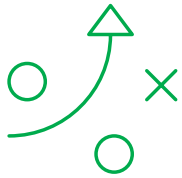
The core task of the trade operations team is to screen names, companies, vessels, goods descriptions, ports, goods values, and volumes on trade documents in order to capture any sanctionable or money laundering activity.

The trade operations team's key requirements and needs covered the following:

- A single application that could allow them to screen and document multiple risk entities across maritime and trade – forgoing the need to access numerous sources
- An ability to identify cargo compliance risk through searching on the full 'goods description' from a bill of lading
- To minimise false positives on dual-use and military goods screening
- In-depth vessel tracking and activity management system that conforms to the latest OFAC shipping advisories
- Detailed price reporting system from official trade statistic sources that covers the full HS code schema – going beyond basic raw commodities such as crude oil and coal
- Extensive port information service detailing commodity and vessel capacity characteristics down to the individual berth and terminal
- Provision of a full auditing tool that captures all screened elements to support regulatory responsibilities
- Use of a risk and compliance tool configurable to trade operations and also to the global sanctions investigation team

An overall product solution combining the above features would remove the need for the banks internal teams to search websites and maintain spreadsheets for relevant risk management information.





Solutions

IHS Markit provides a trade-based money laundering (TBML) risk management solution using customs pricing and volume data, vessel activity and movements tracking and dual-use goods identification.

The utilisation of artificial intelligence and machine learning within these datasets allow the trade operations team at the bank to perform the following:

- **Understand Shipping Risk** – Extensive coverage on sanctioned vessels and owners, including 230,000+ vessels and 340,000+ registered vessel owners, fully complimented with a deep understanding of AIS outages, ship-to-ship transfers in high risk areas and vessel identification spoofing
- **Validate Port Loading and Discharge Activity** – Comprehensive global ports database of 6,370 ports, 16,169 terminals and 42,464 berths to reflect vessel loading and discharge activity, port capacity limits by commodity type and vessel accommodation capacities to quickly validate whether reported activity was completed or possible
- **Identify Dual-Use and Military Goods** – Powerful database of 500,000+ items covering brand and product names, refined with real-life bill of lading goods descriptions for greater accuracy
- **Evaluate Over-and-Under Price Invoicing** – Ability to view timely unit price information, derived from official government statistic sources, on goods across the full HS Code schema, from t-shirts to washing machines
- **View Import and Export Data** – 102 reporters representing 97% of global coverage for merchandise trade organised by HS Code, helping users zoom into monthly data for country-focused trade volumes, values, and unit prices
- **Generate Alerts** – Alerts are provided for shipment routes and port calls alongside a traffic light system identifying the real risk in a trade transaction
- **Retain Audit Trails** – In-product transaction management allowing for historical trades to be captured and audit documents to be generated
- **Customised Results** – Users can override IHS Markit's overall compliance status and dual-use goods scores with justification notes and captured change history





Benefits

The trade operations and sanctions investigation team benefit from the many features of the IHS Markit TBML solution. The ability to identify and minimise risk, plug gaps in the current screening process and adhere to new regulatory guidelines, offers the bank certainty and assurance when handling customer transactions.

- Single vendor solution for compliance screening across the bank's trade finance workflow, eliminating the time spent on multiple applications
- Tailored and specific platform that works across the Operations and Sanctions Investigation teams, allowing for first line of defence filtering and deep-dive research
- Highly accurate and unique datasets that reduce the time spent investigating false positives
- Ease-of-use dashboards to screen fields and data from trade transaction documents
- Reduced the need for search engine tools to manage dual-use goods and price evaluation checks

The bank has deployed IHS Markit's user-interface dashboards across all global branches of the organisation with the option of integrating content directly into the bank's back office platform via API feed in the near future.

For more information ihsmarkit.com/tcs

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