

## Intelligence-led financial crime risk management

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[Question]: What is intelligence-led financial crime risk management?

[Colin Bell]: At its heart, intelligence-led financial crime risk management is a move away from a rules-based compliance approach to financial crime risk management to an approach that really tries to leverage the data through advanced analytics and technology.

What we mean by that is making sure that we can bring all the information that we have available to us – and of course our size and scale is a real advantage with respect to the amount of data in our possession – use the advanced analytics and technology to see patterns that hitherto we've been unable to see.

[Question]: Why do we need to change how we manage financial crime risk?

[Colin Bell]: The case for change with respect to managing financial crime risk is really built around the limitations on the overall effectiveness of the current system. So we need to be simpler, we need to be faster and we need to be smarter, and of course, if we can achieve that, we can then hand more quality information across to law enforcement, which will assist them in their activities with regard to investigating and prosecuting crime.

If I look across the industry – and this really is an industry-wide challenge – at the most effective transaction monitoring systems, measured in terms of how many alerts they convert to suspicious reports versus the total number that are generated, would be about 10 per cent.

That means 90 per cent of the time it's a false alert. But we have to document that, we have to look at that, and of course, that's not an issue just in terms of manpower and operational effort, but it also detracts us from really investigating the true alerts and making sure that we really can see the wood for the trees.

With intelligence-led financial crime risk management, and the use of all the data that's available to us, we'll get to that suspicious activity faster. We'll make sure that we can see things that previously haven't been seen, because we can bring together networks and identify much more sophisticated patterns of behaviour, and that means the quality of the information that we can hand to law enforcement will be so much better.

Of course, that has benefits to them, benefits to society at large, benefits to the bank, and ultimately, benefits to our customers.

[Question]: Where are we on our journey to intelligence-led financial crime risk management?

[Colin Bell]: Our current thinking really looks at three major components. Firstly, data. So we need to bring all our data together – and of course that will help us with the analytical process. But we also need to understand within that data what data is static – so updated relatively infrequently – and what data needs to be dynamic – and where do we source that data from, and how can we use it in that close to real-time way?

The second major element, of course, is the analytics, and we need to develop new analytical techniques, we need to ensure that we have the technology that will facilitate and support those analytical techniques, and of course that will require us to think about the way that we operate and the way that we introduce new capabilities. So we're going to have to innovate, but do that in a very structured and disciplined way. That will require us to fail fast, but also

ensure that the capabilities that we are confident in, we can bring into service as quickly as possible.

The third component, which of course is equally as important, is delivery. So if we have analytical techniques that are giving us a deeper, richer and faster insights, we need to be able to deliver that information to the people that need it, at the right time, so they can take action. And that can be internally - so the lines of business, for example, but also externally, so law enforcement and other authorities.

Now, of course, that's a multi-year journey I've just described, but the early signs are very promising, and I think people will start to see the benefits of this work come online relatively quickly.

[Question]: What will the role of humans be?

[Colin Bell]: What I've described in terms of analytics, the use of machine learning and artificial intelligence, is about providing additional insight, so of course there's always a role for people, because our analytical capabilities will be able to get us to potential suspicious activity faster, and in a much smarter way, but of course, we'll need human judgement.

We'll need to be able to look at that, investigate it, form a view in terms of what it's really telling us, and then provide that communication, both to law enforcement and other authorities, but also internally, and those judgements and that interaction will require people.

What the analytics should help us with, of course, is removing the more labour-intensive parts of the current process, and I think we'd all recognise that will make us more effective and more efficient.

Ultimately what this means is us making a step change in our capability to fight financial crime. It's about really increasing our effectiveness. It's about being smarter. It's about being faster. It's about providing more insight. And of course, if we can do that as HSBC, we can help set the standard for the industry, because it's really important that the industry comes with us, because ultimately, this is about improving the integrity of the financial system.