A REALISTIC BLUEPRINT TO GET YOUR PROACTIVE AML STRATEGY MOVING

Detect mules earlier and faster,
without the operational overwhelm.

PREFACE

Money muling isn't new, so why is it garnering so much attention?

The answer lies in our financial system, which in evolving has triggered a major change in how money laundering, especially muling, is performed.

It's a change that has challenged our perspectives. We're being shown that, although high value money muling still happens, the crime is no longer dominated by outrageously complex, covert operations handling enormous sums of money.

Instead, it's mostly performed by a large number of players, including an ever-changing roster of recruits. Recruits who may not be sophisticated or handling big money but are certainly unpredictable and fast-moving.

This shift in muling tactics– along with genuine banking behaviours also being less predictable has ushered in a new era of KYC.

One where checks are run on a perpetual and automated basis, replacing periodic – and often manual – AML screening programmes.

From Perpetual from Periodic: A Blueprint

Transitioning from periodic to continuous screening has been a straightforward decision for most teams.

After all, without a perpetual view of customer risk, it's virtually impossible to be compliant with the Money Laundering Regulations Act and the FCA's KYC guidelines. And crucially, match AML strategy with how mules and their herders are behaving.

However, gaining the desired strategic momentum has proven more difficult.

Whether it's the boardroom budget pitch, deciding how to deal with an influx or referrals, or preparing for a back-book screen of millions of accounts.

Synectics is hearing from many organisations who say that practical challenges are preventing their money muling strategy from reaching the next level.

We've created this blueprint to help you work through those challenges and make solid progress with your ideal money mule strategy.

THE GROWING CHALLENGE OF MONEY MULES

The New Mule Modus Operandi

Recently, muling activity has surged - among “traditional” student-aged recruits and the over 40s, too. Money muling has also become harder to predict and detect, with activity increasingly scattered and sporadic.

Think small value transactions – and lots of them – happening very quickly, and often from boarded accounts deemed low risk.

So, the way money muling is performed has changed drastically. But why? Unfortunately, the shift to widely dispersed, highly deceptive muling is a permanent one.

This is for several reasons, which include:

— **Easy mule recruitment:**
By exploiting social media and WhatsApp, herders can easily profile, contact and recruit a theoretically endless supply of mules.

— **The cost-of-living crisis:**
It’s true that fraud and other financial crimes increase during times of economic hardship. Mule herders know that targets may be more vulnerable to the lure of cash.

— **Smaller, less “serious” transactions:**
When transactions are lower in value (let’s say £50 vs £1,000), mules may experience cognitive dissonance, where in their mind, laundering money doesn’t make them a criminal.

— **Social engineering skills:**
Today’s organised criminal has studied their psychology. Mule herders may subject unwitting mules to social engineering tactics and have them launder money unintentionally.

— **Low-friction processes:**
An imperative for genuine customers and cornerstone of Consumer Duty. But shorter timelines for everything from onboarding to sending money doesn’t leave much time to reflect. Whether that’s debating a conscience or “breaking the spell” of social engineering, muling is often a tap-and-done job.

Of course, mules (and the organised crime gangs who control them) will switch up tactics in response to proactive AML strategies and regulations.

However, the preference for wide-spread, scattered activity – using an endless supply of consumers as human shields – is going nowhere. The risk to reward ratio is simply too good to pass up on.

PERPETUAL SCREENING: THE COST OF INACTION

For AML and counter-fraud leaders, the recent volatility and volume of money muling is concerning reading.

More so because standard onboarding and periodic account checks are likely to miss a large proportion of risk. Which, Synectics recently put a number to: our on-book fraud research found that up to 75% of mule accounts evade the typical screening schedule.

Failing to capture such a sizeable amount of potential mule activity – especially from safely boarded customers - jeopardises compliance with the Money Laundering Regulations Act, KYC and now, the PSR's APP scam rules.

Compliance being the unshakeable foundation of AML makes such risk wholly unpalatable. As such, fraud and financial crime leaders are exploring pKYC strategies as a means of detecting mules while protecting good customers.

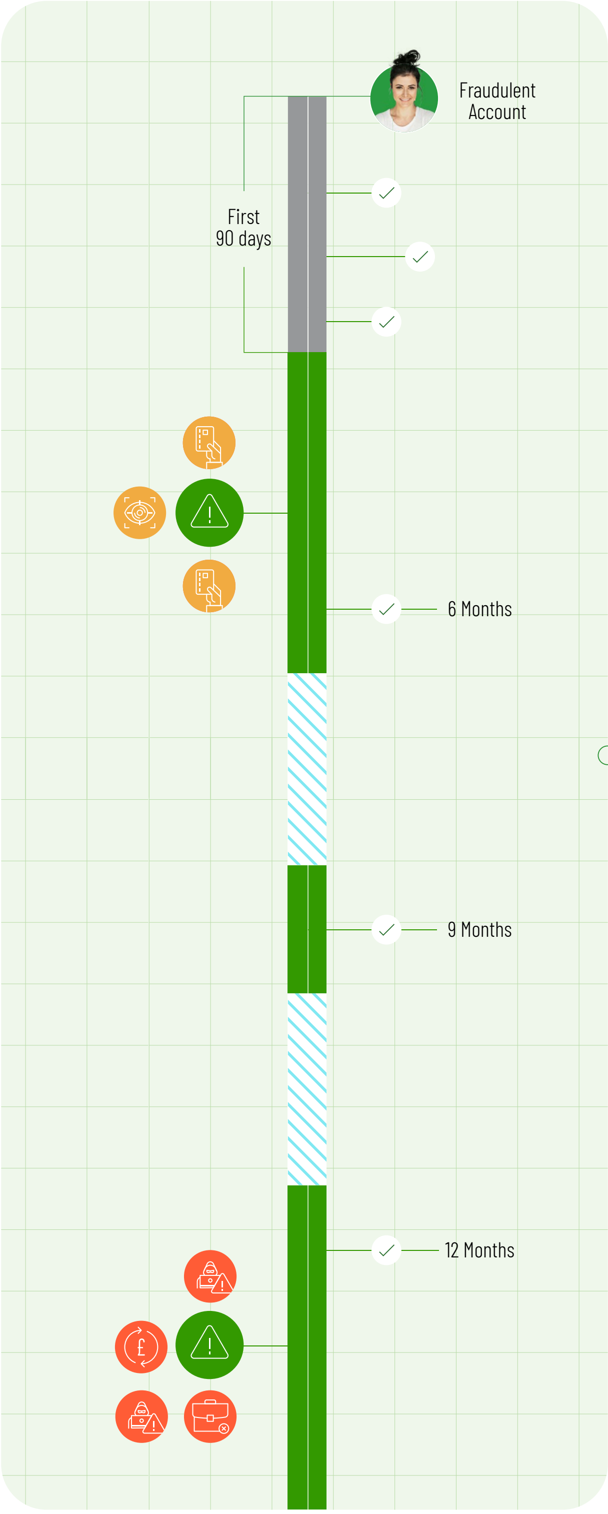
In most cases, this includes ongoing, automated checks whereby risk events are continuously screened for, recorded and dealt with before more laundering can take place.

The median time for an account to engage in **mule activity is 8 months.** During this period, would-be mule accounts maintain a façade of normality.

Mules offend on average across **3.6 banking organisations.** Once they begin offending, the time frame between incidents is approximately 2 weeks.

Due to a long dormant period, **75% of mule accounts would be missed** by standard point of application screening retro strategies.

Mules are associated with fraudulent and innocent accounts – helping to cover their tracks and blend into the crowd.



THE BLUEPRINT FOR GETTING YOUR IDEAL AML STRATEGY MOVING

The following guidance is designed with practicality in mind. It focuses on specific, interim actions almost every PSP can take to make headway with an ideal-world mule strategy, while maintaining strong evidence of compliance.

1 SCREENING YOUR BACK-BOOK

We'll address it head-on.

To be continue being compliant, you will need to screen your entire back-book at some stage.

Does that mean adding potentially millions of referrals to your system at once, with tens of thousands of actions? Happily, no, it does not.

What many organisations don't realise is that a complete ongoing screening strategy, including back-book checks, is not necessarily required from day one.

If approached in a certain manner, screening can be staggered – easing your team into a new way of working, while providing credible evidence of compliance and making steady progress with your ideal mule strategy.

Every strategy will be different. But here's a theoretical example:

– **Synectics Bank has 10 million customers to screen.** To get started, they pass a batch of their highest risk customers (as per their internal metrics) to an ongoing screening provider.

– **The high-risk batch data is "washed" against the latest reference data.** Agreed analytics are applied and outputs are categorised as follows:

1. **The percentage of data which had no risk rule hit**. Synectics Bank feels confident moving this cohort straight into an ongoing screening platform. They decide to schedule a check in 180 days.
2. **The percentage of data which hit some rules, but they're considered moderate risk.** This cohort still goes into ongoing screening, but with a more frequent review schedule. And when this data is next screened, it'll be checked against a fuller rule set, should risk have shifted.
3. **The percentage of data which hit several high risk rules.** These accounts need addressing right now. So, they go into the ongoing screening platform and are ranked by risk severity.

Working with the resource available, Synectics Bank starts at the top of the risk list and works down, referring and reporting accordingly. This is step one of a larger plan to screen their entire back-book.

In the meantime, the highest known AML compliance risk has been addressed, and Synectics Bank can begin training its ongoing screening strategy on the confirmed outcomes of its initial data wash.

2 CRAFTING YOUR MULE RULES

While a powerful mechanism to combat bad actors, compliance regulations ultimately exist to protect the consumer. Their best interests are always front-of-mind for AML and fraud teams, who work hard to balance low friction with risk.

But many PSPs are finding it harder to strike that balance in their "mule rules", versus other fraud typology strategies.

This is due to changes in how consumers use banking services.

We set up bank accounts more frequently and have more of them. We're less likely to use one bank for all transactions and split our spending across several different providers. Some of us treat banks like apps, which sit forgotten on our phones until a specific event triggers us to log back in.

All this transient, patchy behaviour – the type we'd typically associate with muling – means that good customers can easily look like bad ones. As a result, many organisations are anxious to roll out a full set of mule rules.

Follow these three practical steps, and you can confidently implement balanced, effective and compliant mule rules.

Check-in with your risk appetite:

Some events **will always be red flags.**

Known fraud connections, smurfing, roundtrip transactions, geographical anomalies and wildly mismatched KYC information to name a few. But others, such as peaks and troughs in account activity – not so much.

Before designing new mule rules, you may wish to review your risk appetite for unconscious biases, which a specialist consultant can support with.

You'll want to focus on:

- The proportional influence of certain rule hits in your risk scoring
- What's considered a deviation for an individual account (vs the typical profile)
- Ideally, a small data wash of accounts with moderate risk rule hits

Equally prioritise detection and prediction:

With your risk appetite reviewed, it's time to align your strategy with current mule behaviours. **A practical, impactful starting point** is to enrich your successful AML rule sets with specific "mule rules" offered by some ongoing screening providers.

These rules have been built using confirmed data from PSPs. They factor in the many clues that mount up before the "complete payment" button is clicked. So, you can:

- **Control risk:** Better understand which accounts are likely to become mules in the future, apply transaction friction fairly and prove proactive AML and pKYC efforts.
- **Protect good customers:** Pick up on the nuances that separate the modern behaviours of genuine customers from bad actors.

Roll-out in a manageable fashion:

The first two steps will form a solid strategy foundation but rolling out in a way that doesn't overwhelm resources is another matter.

To make things manageable for the interim – while still evidencing a strong commitment to ongoing compliance – **head back to the beginning of this blueprint. Your back-book screening data wash.**

Using the results of your data wash, you can decide which accounts have the full, enriched "mule set" applied to them immediately.

A credible ongoing screening platform will allow you to run multiple rule strategies to different timeframes.

So, you can prioritise screening, referring and reporting on higher risk accounts, while lighter rules are applied to lower risk accounts for the interim.

3 GETTING BUDGET BUY-IN

Securing your ideal budget is easier when the problem you wish to solve is directly and repeatedly losing your organisation money. It's a fact. One that those modernising money mule strategies know well.

Although non-compliance fines are a huge and potentially devasting threat, the broadness of regulatory advice is open to interpretation. What might qualify as a proactive ongoing screening effort to one board, may fall short for another.

Add that ongoing screening programmes will inevitably result in more referrals, reporting and resource, and the budget pitch becomes more challenging still.

That said, the case for switching from periodic checks to perpetual screening is a compelling one. The scattered nature of muling, the huge increase in illicit transactions and the unpredictability of even good customer transactions means that achieving even a minimal level of AML and KYC compliance requires continuous checks.

You must make your budget case about efficiency.

- **Explain your plan for resource management:**

  Map out a plan using steps 1 and 2 of this blueprint and adapt to the board you're working with.

  Running high-risk data washes, enriching rules with mules-specific insights and introducing low-risk data to an ongoing screening platform in stages ensures the inevitable surge in risk events doesn't cause new problems for c-suite leadership.

- **Propose a platform with extended automation:**

  To keep on top of scattered, constant mule risk, automation is a must. Not just for screening and collating data but automating case management tasks and some outcomes.

  Demonstrate that you can make efficient work of an enormously complex, compliance-critical task – and you're more likely to secure a budget more in line with your ambition.

SUMMARY

Proactive anti-money mule strategies – defined by perpetual screening rather than period checks - will have unparalleled AML impact.

As such strategies reach maturity, we'll see a defining moment emerge. One where the balance of power significantly shifts in favour of AML teams, and organised financial crime gangs find staying hidden and making a profit increasingly difficult.

The long-term prospects are undeniably encouraging. But, with money mule tactics at risk of out-pacing periodic screening programmes today, quick-turn change matters too.

This blueprint set out to explain how although transitioning from periodic to perpetual screening is challenging, it is certainly not unsurmountable.

Even if you're a PSP with millions of back-book customers, few existing mule-specific risk rules, or a budget that you intend to grow.

The practical, interim steps offered are accessible to almost every AML or counter-fraud team and are designed to help you achieve progress if not perfection right away.

They're remarkably effective at reducing mule risk and protecting compliance while you work towards your ideal "full" money mule strategy.

For help implementing what you've read in this blueprint, get in touch for a free advice session with a Synectics Fraud Strategy Consultant".

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