

How Innovative Technologies Can Help Prepare New Wave of Tightening on Beneficial Ownership

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Collecting beneficiary owner details as part of client profile during onboarding has been “recommended” as of customer due diligence (CDD)/enhance due diligence (EDD) regulations. As per Financial Action Task Force (FATF) “Beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement”, (source – [link](#)).

In 2016, 11.5 million documents leaked that detail financial, attorney and client information for more than 214,488 offshore entities, known as the Panama Papers. The Panama Papers brought attention on how influential personalities, criminals around the globe used shell companies exploited “no taxation policies” in Panama for tax evasion & money laundering. After one year in 2017, like the Panama Papers, the Paradise Papers leaks hit which are a set of 13.4 million confidential electronic documents relating to offshore investments.

Aftermath of Offshore Leaks

As a response to such massive scale of tax evasion & money laundering, regulatory agencies enhanced CDD/EDD regulation. In the US, determining beneficial ownership disclosures were made mandatory a part of the [FinCEN](#) Customer Due Diligence Final Rule effective from May 11, 2018.

Similarly, gathering beneficiary owners is in the 4th AML Directive in Europe and different jurisdictions are passing enabling laws to enforce reporting requirements.

The Canadian federal Department of Finance—Finance Canada (FC)—February 2018 discussion paper, "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime", was prepared in preparation for the FC's legislative Parliamentary Review of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA), which is the federal legal framework for regulating AML/ATF. The February paper called for "stakeholders' views on how to improve the Canadian Anti-Money Laundering (AML) and Anti-Terrorist Financing regime. FC requested input on "corporate ownership transparency and mechanisms" that would "improve timely access to beneficial ownership information by authorities while maintaining the ease of doing business in Canada.

In 2018, the Indian Ministry of Corporate Affairs amended the country's Companies (Significant Beneficial Owners) Rules 2018 to impose stricter regulation. As per the legislation, a 'significant beneficial owner' (SBO) is defined as someone who has at least 10% of the company ownership. In the legislation's remit are both resident and foreign owners who are required to declare the nature of their interest to that company. Going forward, every person who becomes an SBO or changes their SBO status must communicate it within 30 days and the companies have the duty to report the changes to the official registrar. Failure to disclose such changes will result in fines or, in the worst-case scenario, imprisonment for the SBO.

In Brazil, replacing regulations from 2009, the Central Bank of Brazil enhances the regulation further to increase obligations covering various compliance aspects in January 2020. Greater strength for Know Your Customer (KYC) related to the identification and qualification of the legal entities & all Ultimate

Beneficiary Owners (UBO) of minimum reference value of the equity interest 25%, including irregularities in the documentation, false or difficult to identify information, and those that have the difficulty of identifying the UBO were subject to the possibility of reporting. The representative, including the attorney-in-fact and the representative, who exercises de facto command over the activities of the legal entity is also considered the ultimate beneficial owner.

World Evolution on Beneficiary Ownership Registries & Challenges

For enhanced transparency & information sharing states progressed to create a public beneficiary ownership registry which would include names of all corporate interest holders, beneficial owners, or partners. In the United States, the House recently passed a defense spending bill that could be used to clear a path for a legislation that would authorize FinCEN to share registry data with local, state, tribal and federal law enforcement agencies, as well as with foreign authorities. And financial institutions would be able to access it for Bank Secrecy Act compliance purposes, provided they obtain the customer's consent (source – [link](#)).

In Canada, resulting November 2018 Standing Committee on Finance report, recommended the creation of a "pan-Canadian beneficial ownership registry for all legal persons and entities, including trusts, who have significant control which is defined as those having at least 25% of total share ownership or voting rights" that would "include details such as names, addresses, dates of birth and nationalities of individuals with significant control". While the registry "should not be publicly accessible", it could be "accessed by certain law enforcement authorities", the [Canada Revenue Agency, Canadian Border Services Agency, FINTRAC](#), "authorized reporting entities and other public authorities.

In Europe, 17 of 27 Member States (63%) do not yet have a centralized register of the beneficial owners of companies which is available to the public. 5 of 27 Member States (18.5%) have a centralized register of the beneficial owners of companies which is available to the public but with significant restrictions that hinder its usefulness in combatting money laundering. And only 5 of 27 Member States (18.5%) have implemented a public register which is free to access (source – [link](#)).

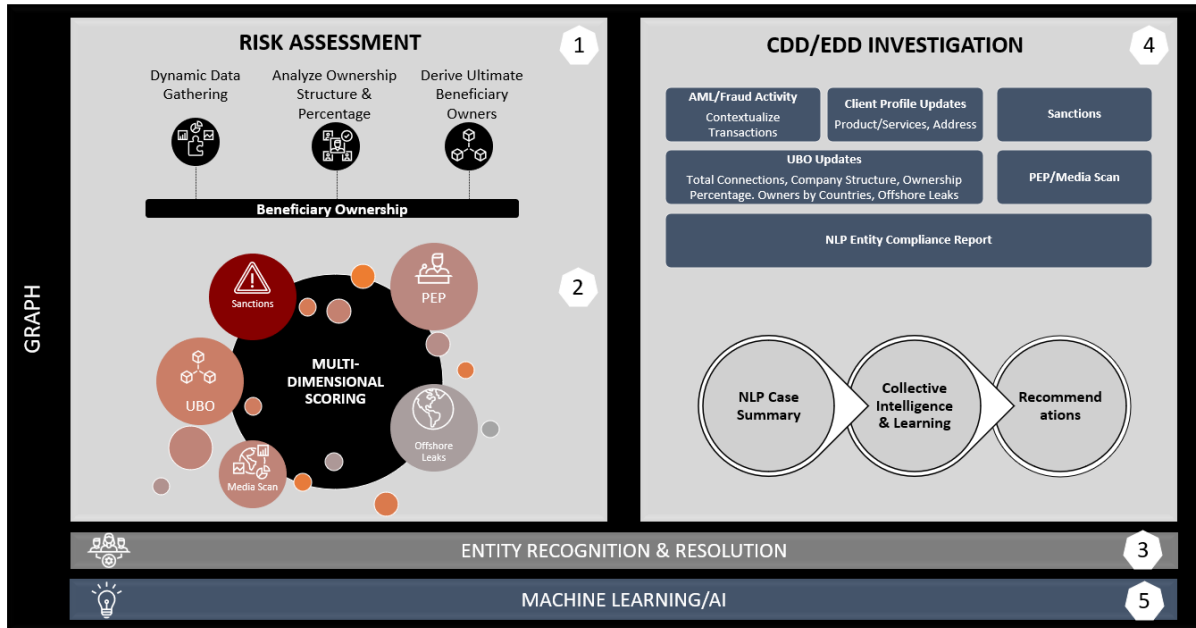
In lack of a centralized beneficiary owner registry:

- Agencies rely on banks only for beneficiary owner information.
- Ownership information may be fragmented stored in different locations.
- Different jurisdiction often has different data gathering requirements.
- Which can be exploited by criminals to create layers of opacity.
- Lastly, EDD of an entity involves not just UBO information but also, sanctions, PEP, adverse media and other demographic information. These are maintained in siloed systems therefore, unable to provide holistic entity view.

Solution: Platform Powered by Graph, Machine Learning & AI

Graph, combined with other technologies like machine learning and artificial intelligence (AI), represents a new path forward in understanding the complex world of offshore companies, beneficiary owners and multi-jurisdiction "money-flow" regarding financial transactions with electoral campaigns, donations and connection to PEP. These technologies can offer transformation on several fronts of financial crime & compliance program:

REVOLUTIONIZE BENEFICIARY OWNERSHIP USING MACHINE LEARNING, AI & GRAPH



1. **Data Gathering & Validation:** During client onboarding, instead of siloed & manual systems, institutions should leverage flexible data gathering capability which dynamically provides required information based on client type, product/services & jurisdiction. It is fundamental to keep data gathering policies up-to date as per various jurisdictions regulatory requirements. Once, gathered platform should analyze, derive and maintain company structure with ultimate beneficiary owners (UBO).
2. **Multi-Dimensional Risk Scoring:** Typically, various risk areas such as Adverse Media, Sanctions, PEPs, UBO & demographic risks are calculated in silo (one dimensional) for overall entity risk scoring. Mostly, external data (e.g. Adverse Media) is included as “check-the-box”. Overall traditional “one-dimensional” risk assessment approach drives downstream inefficiencies. The solution is multi-dimensional scoring which is considering all available data, at once. Innovative Graph technology allows “linking” of all the existing data sources such as information from CIP (Client Identification Program), Adverse Media, Consortium, Social media, company data & public data. Below are they benefits of this approach: -
 - a) **Better Onboarding/Insights**
 - Automatically identify and feature external risk
 - How similar is their profile to good/bad customers?
 - What is their risk per the product being offered?
 - Are they a candidate for another product?
 - b) **Better Detection**
 - Rules become one of many signals
 - Risk is analyzed across pillars for normalization and awareness
 - Catch criminals faster
 - c) **Better Investigations**
 - Real-time risk of transaction filtering
 - Prepared and prioritize cases

- Reduce and standardize OSINT
3. **Entity Recognition & Resolution:** Graph matching can provide a holistic view of all the matched entities by various attributes, such as name, address, or email. This unifies data in real time to create a single entity view across the enterprise. Entity resolution can be applied to resolve different entities to determine on registration of the same e-mail address or beneficiary owners by different legal entities or organizations, without reasonable justification for such occurrence. In many cases criminal use alias or new names, typically provided in tax havens to conduct illicit business which can be resolved by bringing internal & external data together for consistent entity definition. Specifically, useful when criminals are using different product/services to “layer” within one institution.
 4. **CDD/EDD Investigation:** The biggest challenge in investigating an entity with multi-country footprint, an influential individual (PEPs, royals) and financial transactions in/out of a shell company is being able to understand the holistic relationship view of various involved parties such as UBOs, company relationship, political footprint, registered country profile (such as tax haven, high drug-risk) and the actual purpose of money flow between those.
 - a) **Contextual investigation:** Financial institutions can leverage powerful graph analytics to connect the dots between internal and external data, providing a holistic representation of networks that uncovers hidden patterns. Investigators can click through entities and their connections—represented as nodes on the graph model—to analyze networks and suspicious activities. For example, once detected by ML model, investigators can expand the graph by bringing external data such as business registry information to analyze legal entities structure to ensure none of the ultimate beneficiary owners are designated drug traffickers or have negative news on them. Graph analytics can be a game-changer within the public-private relationship, to analyze transactions with electoral campaigns, receipt of donations in the accounts of candidates, political parties and even the incompatible use of the electoral party's cash fund. Which will not be possible without an ability to “mush-up” data from various sources together.
 - b) **Collective intelligence learning:** AI can be leveraged to enhance human expertise through recommendations and next-best actions while also helping analysts to gain situational awareness and learn institutional best practices. Once detected by ML model & concluded by investigator as true positive, previously detected organized money laundering cases can be leveraged to make recommendations for new cases (a graph). This way, institutions can be ensuring collective learning. Can automate and ensure institutions are able to meet reporting deadlines for every phase of monitoring.
 - c) **Natural language processing (NLP) narrative:** Leveraging investigation outcomes, NLP can generate automatic case narratives, eliminating the manual component, reducing investigation times, and avoiding human errors. Case narrative are vital for the prosecution of suspect entities—and can help financial institutions improve investigation quality and reduce drug crime. NLP can be very helpful in ensuring the concluded drug-trafficking case has been well summarized (case narrative) to assist law enforcements to prosecute these highly sophisticated criminal rings. Which can be missed without a well-documented case. Generation of case narrative can be automated to ensure case can be

concluded within designated number of days, including the reporting to regulatory bodies.

- d) **Sentiment analysis:** Sentiment analysis can help identify and extract opinions from suspicious activity reports, leveraging text across blogs, social media, media scans, and more. Sentiment analysis findings should feed back into the system to uncover unknown behaviors and provide case recommendations for quick decisioning.
5. **Machine learning:** Supervised ML using graph analytics can be a game-changer in increasing monitoring effectiveness. Detailed information gathering during onboarding is essential to identifying entities behaving outside “normal” activity. ML can be leveraged to uncover new patterns and schemes, identify instances of known criminal patterns, and to score customer behaviors and non-behavioral attributes. For example, financial activity with any type of unusual PEP and not justified by economic events should be considered in the list of situations, including in cases of cash deposits, reinforcing the need to identify this type of person since the beginning of the relationship with KYC. Unsupervised machine learning should be applied to detect previously unmarked, unknown corruption & bribing schemes.

More is Expected from the Future

In response to various money laundering scandals such as Russian Laundromat, Luanda Leak, Panama Paper, Paradise Paper, Azerbaijan Leaks etc where, shell companies were primary method to launder & tax evasion, governments around the globe are enhancing company registry information sharing framework.

In the US, the Treasury Department’s Financial Crimes Enforcement Network (FinCEN) and other banking regulators – specifically the Federal Reserve, the FDIC, the National Credit Union Administration, and the OCC – recently issued a joint statement that provides additional guidance in applying Bank Secrecy Act (“BSA”) due diligence requirements to customers who may be “politically exposed persons” (“PEPs”) emphasized the need to derive overall risk based on various related information, a “multi-dimensional” scoring approach. Source – [link](#)

In UK, UK Prime Minister David Cameron will pledge to make public a registry that names the true owners of British companies, marking a significant crackdown on the use of shell companies to evade taxes and maintain financial secrecy (source – [link](#)). In Bermuda’s company’s beneficial ownership register is to go public soon.

India may prescribe a low threshold for beneficial ownership under the foreign direct investment (FDI) policy, which was amended to require prior government approval for investments originating from China and other neighboring countries.