WorkFusion

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MAKING FALSE IRRELEVANT POSITIVES

How **AI Agents** are Transforming FinCrime Compliance

Introduction: An Outdated Focus

AML officers and financial crime compliance operations teams have long focused on resolving false positives as the primary means to mitigate risk and prove program effectiveness. As such, institutions have invested hundreds of millions of dollars over several decades to address the ever-growing volumes of false-positive alerts that emanate from their AML screening tools. Whether their strategies involved purchasing software, engaging consultants and contractors, or outsourcing parts of their operations, the problem persisted. Addressing the false positives issue remained a never-ending challenge.

Today, the false positive problem remains a top concern for banks and other financial institutions (FIs), according to a recent survey from the Association of Certified Anti-Money Laundering Specialists (ACAMS). Nearly 40 percent of FinCrime compliance operations leaders cited false positives (and false negatives) as a top concern.

The fact is, traditional strategies put into use 20 years ago no longer prove effective or efficient in the face of increasing transaction volumes. The continuous pattern of throwing additional resources at the problem needs to stop. More importantly, it can stop, thanks to a new approach that is supported by modern technology in the form of AI Agents. AI Agents are ushering in a new mindset toward false-positive alerts and how compliance teams manage this aspect of their AML operations.

False positives cause many AML problems

Any FinCrime compliance leader can attest to the multiple problems which false-positive alerts have caused their teams over the years. The four most prominent include:

- Overwhelming teams with low-value work.
- Diverting attention and resources from high-priority tasks.
- Draining the time and morale of AML management and staff.
- Creating backlogs that have cascading effects of:
    - Poor investigatory outcomes due to rushed reviews
    - Extra expense resulting from the need to hire outside help
    - Additional regulatory scrutiny
    - Regulation-based fines and penalties related to sub-standard practices

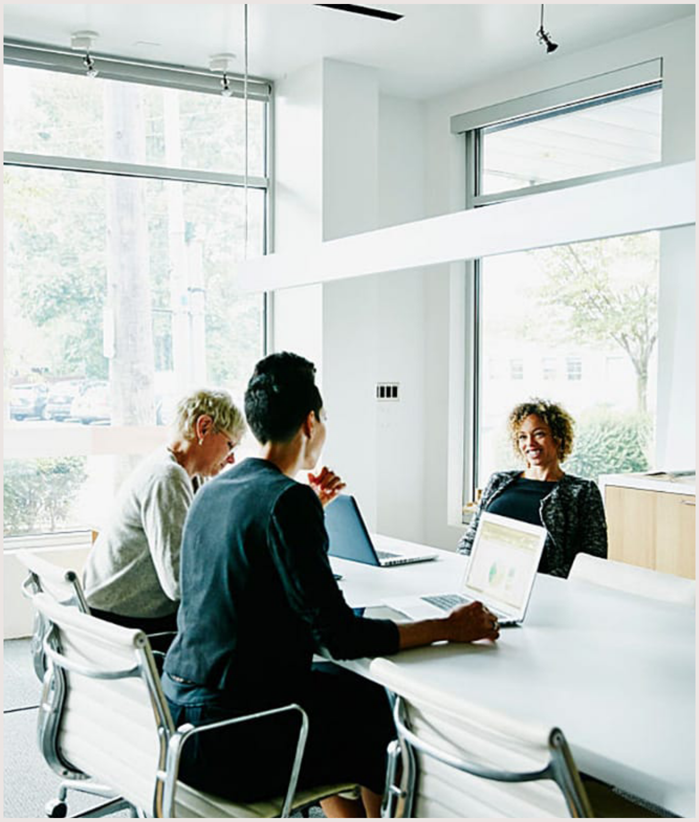
Here's an example. Consider the adverse media monitoring process in KYC (know your customer) compliance operations. Standard screening tools do not make in-depth determinations of risk for the information they discover. Rather, they merely alert compliance teams that potential risk exists. The resulting alerts leave the decision-making steps to people, typically performed by a Level 1 compliance analyst. The analyst must review the provided news sources for 5-20 minutes per entity, often reading through articles from search pages full of results—only to find that 95% are irrelevant, false positives. But even then, their work is not finished for these false positives. They must then manually capture the media for supporting documentation and author a report that details the investigation.

Not only is that tedious work, but it does nothing to uncover financial crime. Demoralized and drained of their energy after reviewing endless volumes of false positives, L1 analysts tend to lose focus. So, in the rare event of a truly high-risk entity becoming the subject of an alert, the L1 analyst reviewing it may fail to spot its importance and accidentally miss the threat.

This type of situation is common, despite FIs spending heavily to "tune" their systems to reduce false positives in sanctions screening, watchlist filtering, PEP detection, and adverse media monitoring. While some of this work was valuable, such tuning has reached the point of diminishing returns. This is because banks and other FIs strive to capture any and all possibilities of financial crime. As such, with an ever-broader array of tactics used by criminals to circumvent detection, compliance teams are forced to cast a wider net to ensure that they do not miss any true positives. After all, missing a true positive can cause major problems.

The result of all this is that compliance processes ensure that detection sensitivity takes precedence over specificity—*catch everything that could plausibly indicate the need for human review.* In screening, a person or business name is, and will always be, a poor and non-specific unique identifier. Thus, endless alerts are produced, no matter how fine-tuned the screening tool. In the end, the effort to marginally reduce alerts no longer justifies the cost.

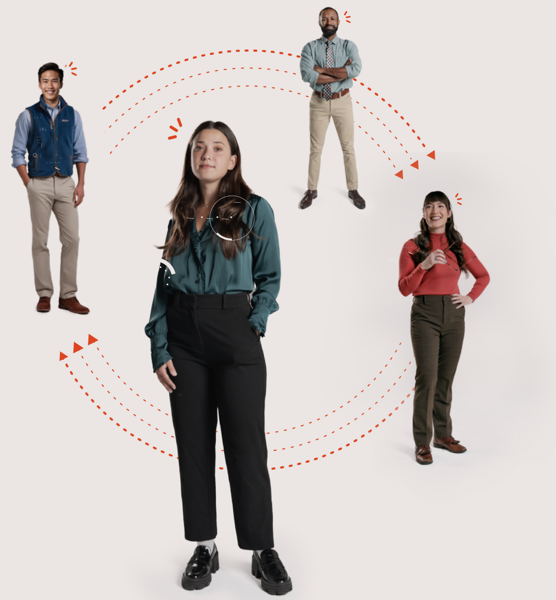
Adjusting the mindset around false positives



AML leaders must consider their false positives issue in a transformative way in order to eliminate all the problems it presents. Rather than planning to reduce false positives by staffing up to review more and more alerts, they should allow intelligent technology—specifically AI-driven decisioning—to resolve them before they ever reach their team of L1 analysts. Imagine a new paradigm in which alert volumes have no consequence because the overwhelming majority (80% or more) are handled without human touch. Keeping in place the same screening tools and systems, a compliance team can avoid alert backlogs and the pressure that comes from handling too many alerts. Finally, people (L1 and L2 analysts) can perform higher-quality work, the outcome of focusing only on what matters—the rare true positives.

Accepting this new reality of AI-based alert decisioning was slow to take hold across the financial services sector. But as 10 of the top 20 US banks and a slew of small-to-midsized banks globally embrace AI-based decisioning in FinCrime operations, the collective mindset around handling false positives is shifting.

Making false positives irrelevant isn't a dream— it's happening now.



AI Agents – the key to false positive irrelevance

AI Agents continue to gain momentum and widespread acceptance in AML compliance. One reason is they automate the mundane work of reviewing false positive alerts—essentially making false positives irrelevant. They review every alert, employ the same procedures and reasoning as top Level 1 analysts, and decide whether an alert requires further investigation or should be closed. Equally important—they do all this in seconds, so high volumes do not matter.

AML leaders no longer need to worry about whether their screening systems are so finely tuned that they miss true positives, nor do they need to expend energy reducing alerts or worry about missing anything.

The breakthrough lies in how AI Agents replicate human reasoning. They analyze context, cross-reference data, and document decisions in the same manner as a compliance team's best L1 analysts. Yet, AI Agents do it all at a scale and speed which humans cannot match.

As a result, they entirely remove the need to reduce false positives and make them a non-issue by:

1. Automating alert resolution
2. Prioritizing high-value alerts
3. Freeing compliance teams to focus on strategic work

Automating resolution

AI Agents are practical and deliver high-volume, automated, necessary functionality targeted to specific tasks in FinCrime compliance. They perform the repetitive and mundane tasks that compliance team members (A) detest doing all day long, (B) find to be mind-numbing with very little value add, and (C) are error-prone and lack consistency.

When a compliance team's leadership decides that it is time to gain more operational efficiency by using an AI Agent, they typically already know that the technology can intelligently automate a targeted end-to-end process, such as transaction monitoring alert review in AML or adverse media search and review for KYC.

> “AI Agents review every alert, employ the same procedures and reasoning as top analysts, and decide whether an alert requires further investigation or should be closed—all in seconds.”

Prioritizing high-value alerts

AI Agents are ‘smart’ from the outset because they are pre-trained on high volumes of alert decisions in the FinCrime arena. So, right out of the box, an AI Agent has all the intelligence of an employee with up to five years of experience.

Because AI Agents are prebuilt with deep industry and alert review knowledge, they can do such things as fully investigate an entity with as little information as just a name.

Freeing teams to focus on strategic work

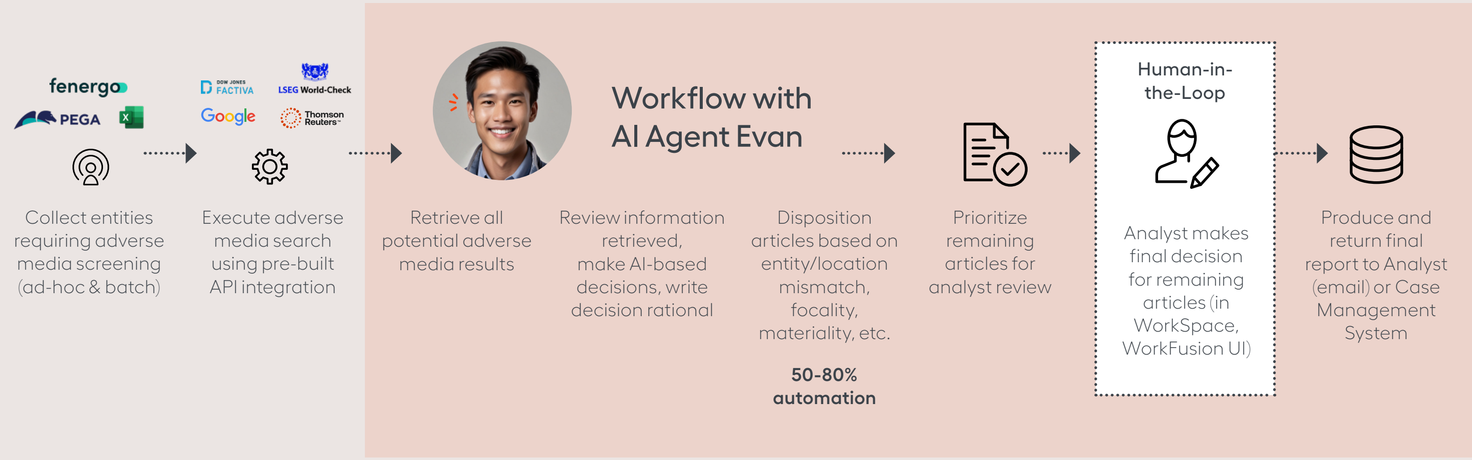
Beyond their ability to relieve human counterparts of repetitive work, AI Agents help each individual compliance team to focus on its most critical area(s) of operational risk. Since AI Agents resolve 80 percent of alerts generated by screening tools, people only need to make the final decision a small percentage of the time. Moreover, when they do, the AI Agent has already packaged all the relevant information for them, allowing the people to focus on making a decision, not gathering data. Below is an example. The AI Agent in use is called Evan, WorkFusion’s AI Agent for adverse media monitoring.

Evan can auto-decision up to 95% of articles for KYC purposes, act immediately on incoming requests, and resolve false positives within seconds. Below is a typical Evan workflow for adverse media monitoring.

Per the image, Evan takes information from an adverse media screening tool to review media information about customers and potential customers. Evan prioritizes news articles and other information based on relevance, demographic data, level of material significance, and other attributes.

After highlighting articles/information that indicate risk, Evan passes those cases to a human analyst to review. He also gives the analyst detailed justification in written, auditable form for the majority of articles which he has deemed irrelevant.

AI Agent Evan orchestrating the end-to-end AMM process

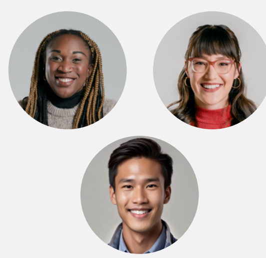


AI Agents unlock new opportunities

The use of AI to vastly improve compliance operations has shifted from a promise to reality. The promise of AI is finally real for AML. This shift compels compliance leaders to change how they think about and discuss decades-old issues. By reorienting how they think about false positives, many compliance leaders in AML/FinCrime are putting old struggles aside and have freed themselves to focus on more strategic aspects of their function.

New Opportunities Unleashed by AI Agents

WorkFusion AI Agents



KYC, AML, Payment Screening, Sanctions Screening

Reducing Managed Services or contractor costs.

Shifting resources to case investigations.

The ability to scale operations without adding more staff.

Glass box AI for transparency

WorkFusion employs "glass box AI" to enhance transparency and trust in its automation solutions. Unlike "black box" models, where the decision-making process is opaque, glass box AI provides clear insights into how decisions are made.

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WorkFusion's AI Agents automate many of the manual and repetitive tasks that Financial Crime Compliance operations teams have suffered through for decades. AI Agents substantially reduce the work time needed to resolve the endless flow of low-value KYC screening and transaction monitoring alerts. With open models that are easy for financial crime executives and regulators to understand, this digital workforce reduces errors, ensures consistency, eliminates backlogs and frees up millions of hours a year for investigators to focus on actual risky activity and enables financial crime compliance executives to better allocate people and budgets.

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