

ARTIFICIAL INTELLIGENCE POWERS NEW BREED OF TRADE FINANCE SPECIALIST

AI helps a 10-person bank provide a viable alternative for due diligence for enterprises struggling with the increased complexity, fraud, and competition for business in the trade finance market.

CLIENT	Euro Exim Bank, a trade finance specialist that facilitates import and export business around the globe
INDUSTRY	Financial services
BUSINESS NEED ADDRESSED	Provide comprehensive, cost-effective due diligence in a sector that's vulnerable to crime without hiring hundreds of compliance officers
SOLUTION	Implementation of DDIQ, the most advanced due diligence tool to date for compliance
BUSINESS IMPACT	Business impact: Immediate and measurable ROI

CHALLENGE: CONCERNS ABOUT COMPLIANCE AND CRIME LEAD TO TRADE FINANCE SHORTAGE

Confronted by expanding regulations, hundreds of billions of dollars of illicit trade activity by criminals, and costs for breaking sanctions estimated at \$12 billion worldwide, banks have struggled to facilitate trade profitably with a business model that has resisted digitization. The result: a worsening global trade finance shortage with the potential to affect the up-to-80 percent of global trade that is supported by some sort of financing or credit insurance.

A new breed of financial institution is tackling the problem through specialization, automation and, now, artificial intelligence. Euro Exim Bank (Representative Office) a trade finance specialist that operates out of London with 10 employees and an extensive network of contacts covering territories around the world, uses its own automated trade finance platform as a cost-effective way to provide the issuance and relay of traditional trade finance instruments with greater convenience and lower fees than major banks. This streamlined approach stands in stark contrast to what's typical at big banks, according to Graham Bright, Euro Exim's Head of Compliance and Operations. "Traditional companies working in this area are held back by a reluctance to automate and sometimes an inability even to know which applications they have licensed." With more than 35 years' experience in financial services, Bright believes it's

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not unusual for a large financial institution to have well over 100 different systems, dozens of operating systems and licenses on hardware and software applications, some of which may not have been used in recent memory. The key is standardization, rationalization and re-usability.

One of a few smaller institutions that focus on trade finance, Euro Exim takes a specialist approach to offering traditional instruments such as letters of credit, which ensure that payment is made, and bank guarantees, (issued from The Gambia) which protect from loss due to non-performance. “We’re small enough to know who’s doing what, and our home-built trade finance application, linked with SWIFT enables us to handle volume, value and variety,” says Bright. “We use innovative workflow processes to cut costs, save time and improve efficiency.”

Here’s the catch. Euro Exim assumes the same risks that big banks carry without the army of compliance officers that major banks employ. And in global trade much can go wrong. To start, international trade documents can be highly complex, typically requiring 30 to 35 different types of information (often with numerous sub-clauses), such as descriptions of goods, expiry dates, delivery dates, destination, charges, and information on insurance, manifests and transport mechanisms.

To complicate matters, trade restrictions are increasing in places such as the United Arab Emirates, Singapore, Hong Kong and India, where certain banks are prohibited from trading and requirements can lengthen a typical Know Your Customer (KYC) document to 500 to 700 pages. Worse, international trade has given criminals cover for staggering levels of fraud and money laundering: trade misinvoicing alone costs more than \$800 billion per year, according to the nonprofit research organization Global Financial Integrity.

Bright has seen it all – the faked document requesting a €5.5 billion transaction from what appeared to be a prominent South American Central Bank, the \$20 million transaction request from a party whose Malaysian bank account held the equivalent of about \$3, a €2.5 billion bond request that originated from the first floor of a tenement thousands of miles from the customer’s headquarters, and the \$2.5 billion bond including a photocopied metallic strip. “Every time a new request comes in, you think ‘what else do I have to do to make sure that we’re all protected?’” he says, noting that documents under review typically include but aren’t limited to passports, financial background, legal background, adverse press, utility bills and information on anyone who might be considered a politically exposed person, or someone whose public prominence might result in involvement with bribery or corruption. “Echoing the saying that if something looks too good to be true, it probably is, like companies many times our size, we need to check provenance and be fully aware of who the buyer and seller are, and validity of documents. If you haven’t looked at everything possible, you are partly complicit in fraud.”

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SOLUTION: ARTIFICIAL INTELLIGENCE ACTS LIKE HUNDREDS OF HUMAN RESEARCHERS

Artificial intelligence provided the due diligence answer. In June 2016 Euro Exim became the first European financial institution to implement DDIQ for trade finance.

DDIQ goes beyond simply aggregating data to act like a financial crime expert and help solve the key challenge facing trade finance compliance teams: out of millions of available pages, how do you extract the right information, interpret it correctly and process it quickly? With a system developed by data scientists, big data professionals, and software engineers, and trained by authorities on regulatory compliance and financial crime, DDIQ examines thousands of sources. It goes through publicly available, open web content such as social media sites and blogs. It goes through deep web content, such as regulatory sites. And it goes through premium content, such as watch list providers and PEP (politically-exposed-person) list providers in addition to checking subjects against the 200,000+ offshore entities and individuals associated with the 11 million documents connected to the “Panama Papers” scandal.

With an understanding of different human languages, DDIQ extracts and evaluates thousands of facts about a subject and assigns each a “trust” score based on 50 proprietary metrics. It follows every lead, and as facts are added, it continues to learn. An auditable report shows company information, adverse news and events, regulatory actions, legal cases and noteworthy events. The entire process takes five minutes.

At Euro Exim, DDIQ has replaced due diligence practices that, as in most banks, focused largely on Google searches. “In the past, compliance teams relied on documents from institutions and examined the legitimacy of the notary,” says Bright. “Then we used Google and other tools.” But those searches have multiple drawbacks. They take many hours. They return a high percentage of “false positives” that require further investigation because Google searches simply pair a subject’s name with a few words that potentially can signal red flags. And they can be manipulated by bad actors that pile in online content to drive down content they want to bury or who take advantage of “Right to Be Forgotten” legislation that in some jurisdictions allows people and companies to have Google “wiped clean.” With DDIQ, Euro Exim’s compliance team now receives a thorough picture that shows where they need to delve deeper.

Euro Exim has integrated DDIQ into its automated processes so that due diligence is handled seamlessly. “DDIQ is extremely easy to implement,” says Bright. “The simplicity of running the application means that my colleagues can take the data and run the same queries that I would run, and the automation and efficiency support our business model.”

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IMPACT: A SMALL SPECIALIST BANK CAN GUARD AGAINST BAD GUYS

In its first search for Euro Exim, DDIQ uncovered an adverse situation that no other search had identified and that the bank had not previously considered, says Bright. “DDIQ paid for itself within its first search, within five minutes.” The time savings have freed Bright to focus on other duties including building the business. Even more important, DDIQ has enabled Euro Exim to integrate speed and thoroughness into its due diligence. “Since we implemented DDIQ, we’ve been able to get a better view and quickly assure that we’re talking to the right company with the right people involved,” says Bright. “DDIQ has proven to be a cost-effective enabler not only to get the information we need but to ensure that we are working with bona fide corporations and their directors.

These capabilities are compulsory for Euro Exim’s growth, says Bright, citing the bank’s upcoming change of registration from The Gambia to Saint Lucia as well as its planned acquisition of an e-money license as steps that enhanced due diligence will facilitate.

By taking advantage of technology as a forward thinking disruptor in trade finance, Euro Exim now has a real chance to make an impact on the industry as volumes increase without the need to hire excessive numbers of compliance people. With an automated trade finance platform, a strategic business plan and the most advanced due diligence available, Euro Exim can credibly call itself a solution of choice for enterprises that want to do business overseas easier, safer and faster. As Bright puts it, “For a small specialist institution, we are ahead of the game.”

ABOUT OUTSIDEIQ

OutsidelQ is the leader in investigative cognitive computing. OutsidelQ brings together some of the world’s foremost experts on search with the best data scientists, big data professionals and software engineers to solve the complex problems of search for due diligence. Leveraging a proprietary approach to research that combine automated data discovery with the data interpretation abilities that emulate a human researcher, OutsidelQ is changing the way that financial services industries vet their customers and handle their complex compliance requirements. OutsidelQ is based out of Toronto (Canada) with offices in New York (US) and London (UK).

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