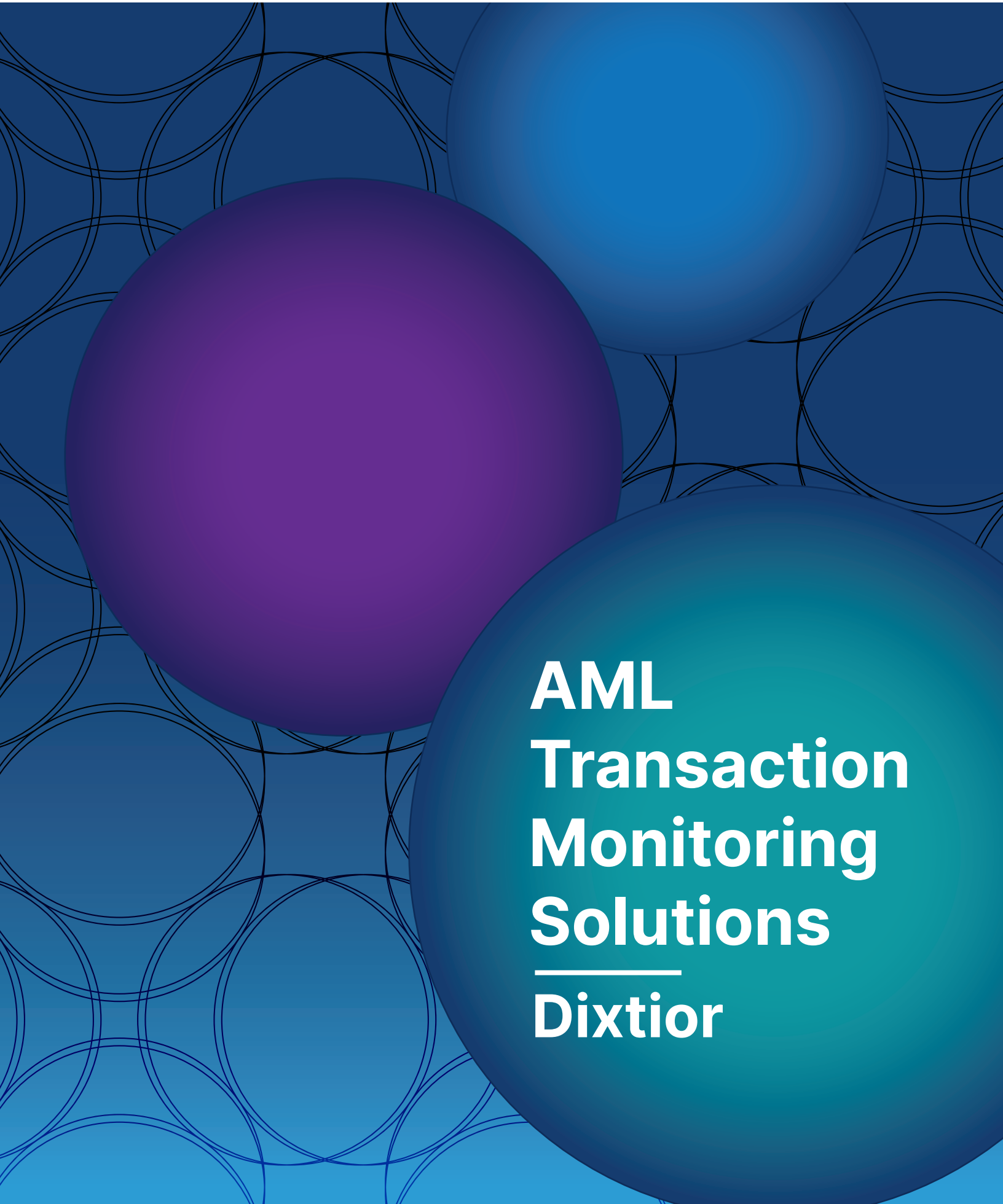
Chartis

VENDOR SPOTLIGHT



AML Transaction Monitoring Solutions

Dixtior

Executive summary

Typically, the AML software space supported compliance-focused financial crime strategies; recently, however, tackling FinCrime has been shifting to a key operational concern. Banks are increasingly treating anti-FinCrime strategies as crucial initiatives within their operational risk programs, to tackle several challenges, including counterparty, reputational and emerging environmental, social and governance (ESG) investment risk.

Recent innovations in advanced analytics are enabling banks and other firms to reimagine how they identify anti-money laundering (AML) risks in their customers' activity. Core systems and component solutions are converging, changing the dynamics of the tech stack.

Increasingly, Chartis is seeing core system vendors build or buy analytics component solutions and shift their approach from linear software products to a more modular and open-platform architecture. Many organizations, however, are still concentrating on augmenting analytics. While this is operationally effective, it can miss certain tail risks that can lead to program failure and regulatory penalties. And regulators have been slow to respond to the changes, handing out minimal penalties in recent years.

Chartis Research's report AML Transaction Monitoring Solutions, 2023: Market and Vendor Landscape considers how, by working together, financial institutions, vendors and regulators can create a more effective AML system. The report uses Chartis' RiskTech Quadrant to explain the structure of the market.

Dixtior placed as a 'category leader' in AML transaction monitoring due to the completeness of its offering and its market potential (see Figure 1).

Figure 1: Dixtior's positioning; AML transaction monitoring solutions, 2023

> **Dixtior's category leader placing in Chartis' 2023 AML transaction monitoring report reflects its combination of high customization (via a low/no code user interface) with a platform that integrates multiple risk typologies and models. The company supports this with strong, out-of-the-box reporting that provides scalability and adaptability – attributes that have enabled Dixtior to expand in some of the most challenging, and critical, global markets.**
>
> **— Nick Vitchev, Charis Research**

Market Context

Despite a continued increase in criminality, including fraud, scams and other white-collar crimes, AML enforcement is currently in a relative lull. Global transaction flows are increasing, making it more difficult to detect money laundering. In addition, the ongoing concentration of global wealth into family offices and high-net-worth individuals (HNWIs) makes it easier for criminals to disguise their activities. Complex asset classes, such as trade finance and alternatives, are also being used to launder money.

The best approach to transaction monitoring (see Table 1) for a particular institution depends on its specific needs. The options for transaction monitoring systems include fundamental and quantitative transaction monitoring.

Institutions with limited resources may find fundamental transaction monitoring a good option, while institutions that are processing large volumes of transactional data or that are concerned with new and emerging types of fraud may want to consider a quantitative approach. In reality, most institutions are combining elements of both models.

Some of the most important transaction monitoring policies at present include the Bank Secrecy Act (BSA) in the US and the Financial Action Task Force (FATF) Recommendations now adopted by numerous countries. The BSA specifically relates to transaction monitoring by mandating currency transaction reports (CTRs) and suspicious activity reports (SARs). The FATF Recommendations are a set of international standards for combating money laundering and terrorist financing.

In Chartis' analysis, category leaders combine depth and breadth of functionality, technology and content with the required organizational characteristics to capture a significant share in their market.

A mix of industry-leading and best-in-class capabilities drives Dixtior's category leadership (see the 'Dixtior: category leadership' section and Figure 2).

Table 1: Market landscape factors

Analytical progress in the following areas

- Customer engagement for behavioral detection.
- SAR generation.
- Agent-based modeling.
- Integration of fraud signals in AML anomaly detection.

Key opportunities in the AML transaction monitoring space

- Machine/deep learning (ML)/(DL) anomaly detection.
- Transaction clustering.
- Entity resolution.
- Behavioral analytics.
- Case management.

Challenges affecting the adoption of ML innovations

- Training and validating models requires huge amounts of data.
- ML/DL models can be complex and difficult to interpret.
- A lack of clear regulatory guidance.

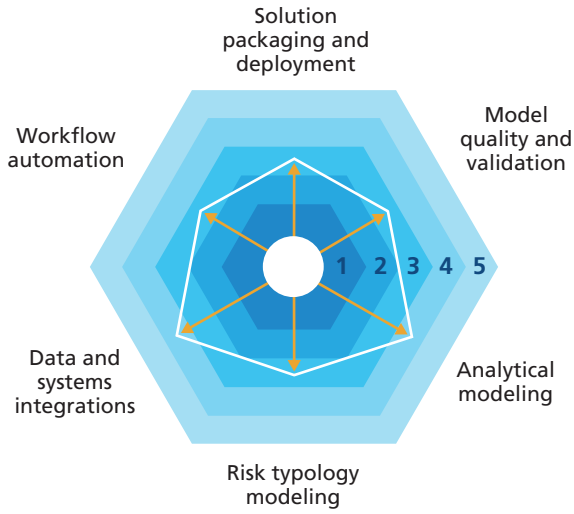
Dixtior: category leadership

Portuguese firm Dixtior offers business consulting, FinTech solutions (such as AML systems) and custom software development across various sectors. The Dixtior Compliance Solution (DCS) analyzes customer transactions in real time and across different channels, identifying suspicious activities that might indicate money laundering or other illicit activities (see Figure 3).

DCS caters to retail and commercial banks, investment banks, payment service providers and FinTech companies that are seeking to strengthen their AML compliance. Key capabilities and features include an advanced rules-based engine, ML and AI tools, risk scoring and prioritization, case management, regulatory reporting, data visualization, customization and integrations.

DCS positions itself in the AML transaction monitoring universe with several key differentiators, including a focus on automation, combined expertise, integrated compliance and AI-powered detection.

Figure 2: Dixtior's category-leading capabilities

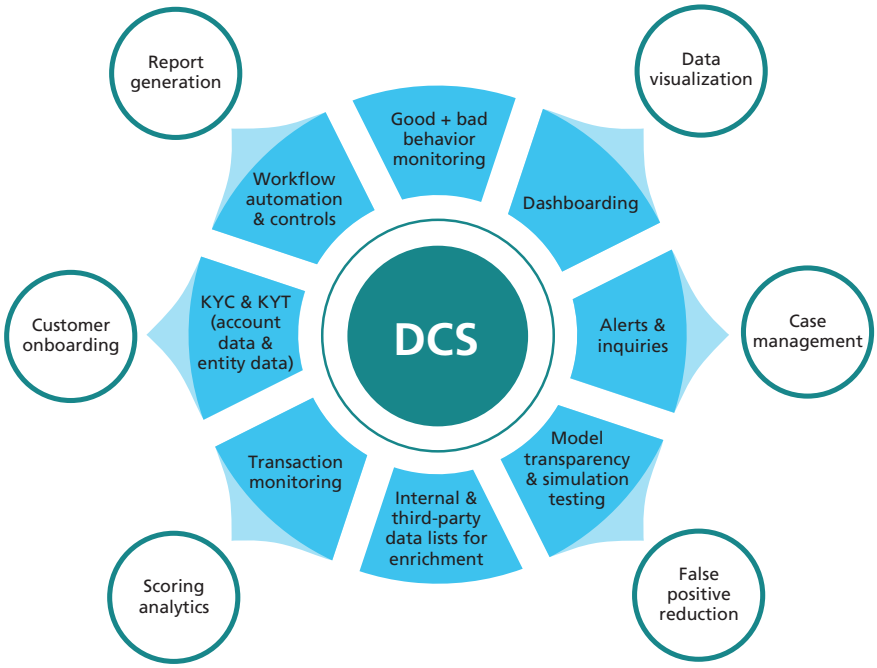


Notably, its AI tools and techniques include:

- **Supervised learning**. DCS uses supervised learning algorithms trained on historical data to identify patterns that may indicate suspicious activity.
- **Unsupervised learning**. Unsupervised algorithms detect anomalies and deviations from normal transaction behavior, uncovering hidden risks.
- **Adaptive learning**. DCS continuously learns and adapts its models based on new data and feedback from analysts, improving the accuracy of detection over time.

Overall, DCS offers a feature-rich AML transaction monitoring solution within Dixtior's broader compliance suite. While it caters to various financial institutions, its customization options and AI-powered detection make it attractive for organizations seeking a tailored and adaptable solution.

Figure 3: DCS – multiple tools



Methodology

Chartis Research ('Chartis') is a research and advisory firm that provides technology and business advice to the global risk management industry. Chartis assesses risk technology vendors using consistent, objective methodology, regardless of business relationships.

The Chartis RiskTech Quadrant® evaluates vendors on both current and future dimensions: completeness of offering and market potential.

- **Completeness of offering** criteria include depth/breadth of functionality, data and infrastructure, analytics, reporting and more specialized capabilities (such as risk/performance linkage).
- **Market potential** considers business model, market penetration, financials, customer satisfaction and growth strategy.

Chartis uses detailed evaluation forms, customer surveys, expert interviews, vendor briefings and other research sources to assess solutions. This rigorous methodology provides an independent view of solutions and vendors.

