THE ARC-SERV COMPLIANCE CHRONICLES

Volume 1: Why Data Integrity Matters | January 2025

TOP 8 REASONS WHY YOU NEED A DATA VALIDATION

1. Ensures Accuracy and Completeness of Data
AML systems rely on accurate and complete data to detect suspicious activities. Data validation ensures that customer information, transaction details, and other critical inputs are correct and comprehensive, reducing the risk of false positives or negatives.

2. Enhances Compliance with Regulations
Stringent regulations, such as the USA PATRIOT Act, EU Anti-Money Laundering Directives, and FATF recommendations govern AML compliance. Validating data ensures that financial institutions meet legal requirements and avoid fines, penalties, or reputational damage.

3. Improves Detection of Suspicious Activity
Validated data improves the quality of outputs from transaction monitoring systems, making it easier to detect patterns, anomalies, and potential money laundering activities.

4. Reduces Operational Risks
Poor-quality data can lead to system inefficiencies, such as unnecessary alerts or missed threats. Data validation minimizes these risks by ensuring that data inputs meet defined standards.

> **?** Did you know examiners have recently been issuing consent orders due to *Inadequate Data Governance*?

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As we started off the year, we took a look back at a few of the BSA/AML consent orders issued by various regulatory agencies in 2024 and noticed that a constant theme appeared—Issues with **Data Governance**.

Remind me—What is Data Governance?

Data governance for AML systems refers to a set of policies, processes, and controls designed to ensure the accuracy, consistency, and quality of data used in Anti-Money Laundering (AML) systems. By maintaining high data integrity, data governance ultimately supports effective compliance with regulatory requirements and enables better detection of suspicious activity.

But… How important is Data Integrity?

Data integrity influences the effectiveness of customer risk ratings, transaction monitoring and risk assessments. If your job involves protecting your financial institution from compliance risks, data integrity is where that job starts.

If your institution periodically conducts data integrity validations, you are on the right path—it is recommended that you continue to do them **regularly**. On the flip side, if you have never conducted a data validation on your AML monitoring system—you are almost guaranteed to have data issues and could be setting yourself up for regulatory failure.

Ok, we get it… it's important! So how often should we validate our data?

The answer to this question depends largely on the risk appetite of your institution and the type of validation being performed. However, there are several instances where data validation becomes essential to maintain a properly functioning AML/CFT model. Below are some situations where a Data Validation should be performed:

TOP 8 REASONS WHY YOU NEED A DATA VALIDATION

5. Supports Robust Customer Due Diligence (CDD)
Accurate data is essential for effective CDD and Know Your Customer (KYC) processes. Validated data helps verify customer identities, assess risks, and maintain up-to-date profiles.

6. Enhances Audit and Reporting Capabilities
AML systems often generate reports for regulators or internal audits. Data validation ensures these reports are based on reliable data, supporting transparency and accountability.

7. Facilitates System Integration and Consistency
AML systems often integrate with other financial systems. Data validation ensures consistency across systems, reducing errors during data transfer and analysis.

8. Builds Institutional and Customer Trust
Reliable AML systems that use validated data foster trust among regulators, financial institutions, and customers, enhancing the institution's reputation.

WHEN TO VALIDATE

➢ **Mergers and Acquisitions** Integrated systems and data may not map appropriately into the automated AML monitoring system

➢ **Core System Updates or Conversions** where data mapping is critical for system integration

➢ **New Products & Services** are introduced with new product and transaction codes that may not be adequately mapped

➢ **It's been a while…** If it has been a few years since your institution has had a data validation and you have experienced any significant growth or changes in that timeframe, it is highly likely that you have data issues

➢ **Never had one.** Chances are you are a smaller institution, but this does not make you immune to regulatory scrutiny. It might be time to stop rolling the dice!

Is it worth taking a chance? Recently, regulators issued consent orders where data gaps were specifically mentioned and whose action plans included proper data mapping review as well as independent validation. Read about those here:

Link→ OCC Cease and Desist Order
Link→ FDIC Enforcement Decisions and Orders (see item #8)

Other key considerations with Data Validation:

❖ **Automated vs. Manual Validation**: Automated validation processes improve efficiency, but manual oversight is necessary for complex cases.

❖ **Real-Time vs. Batch Validation**: Real-time validation is essential for time-sensitive transactions, while batch validation helps process large volumes of data.

❖ **Regular Updates to Validation Rules**: Validation protocols must evolve to address emerging threats and regulatory changes.

DON'T WAIT, VALIDATE!
Visit Arc-Serv.com to learn more about our **Independent Data Validation**, or shoot us an email at *info@arc-serv.com* to schedule a no-strings consultation to see how we can serve your financial institution.

By maintaining data integrity through validation, institutions can significantly enhance the effectiveness of their AML/CFT efforts.

Stay tuned… In Volume 2, we will talk about **common critical data issues** we've discovered