KNOW YOUR TRANSACTION (KYT) 2021

The Key to Combat Transaction Laundering

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Know Your Transaction (KYT)

Know Your Transaction (KYT) is a process employed by financial institutions to monitor merchants' businesses through analysis of transaction data. Examining transaction data allow accurate and data-driven conclusions to be made, as it produces the essential evidence required upon suspicions over any fraudulent merchant activity.

As one can tell by the words itself, transaction laundering can be easily associated with money laundering, the main difference being – transaction laundering is conducted online. Terms such as credit card laundering or e-Money laundering are often used interchangeably with transaction laundering.

The mechanism of transaction laundering is ingenious: disguised by a shell website, transaction laundering is executed simply by setting up a website that appears "normal" (the shell website) i.e. advertising legal goods or services, whilst operating a "fraudulent" site unknown to banks and card networks that conduct prohibited business activities. The transactions and sales made from the "fraudulent" site are then routed through the "normal" site to disguise the transaction as legitimate – deceiving banks, payment service providers and card networks that these are all valid transactions and profits acquired from the "normal" website.
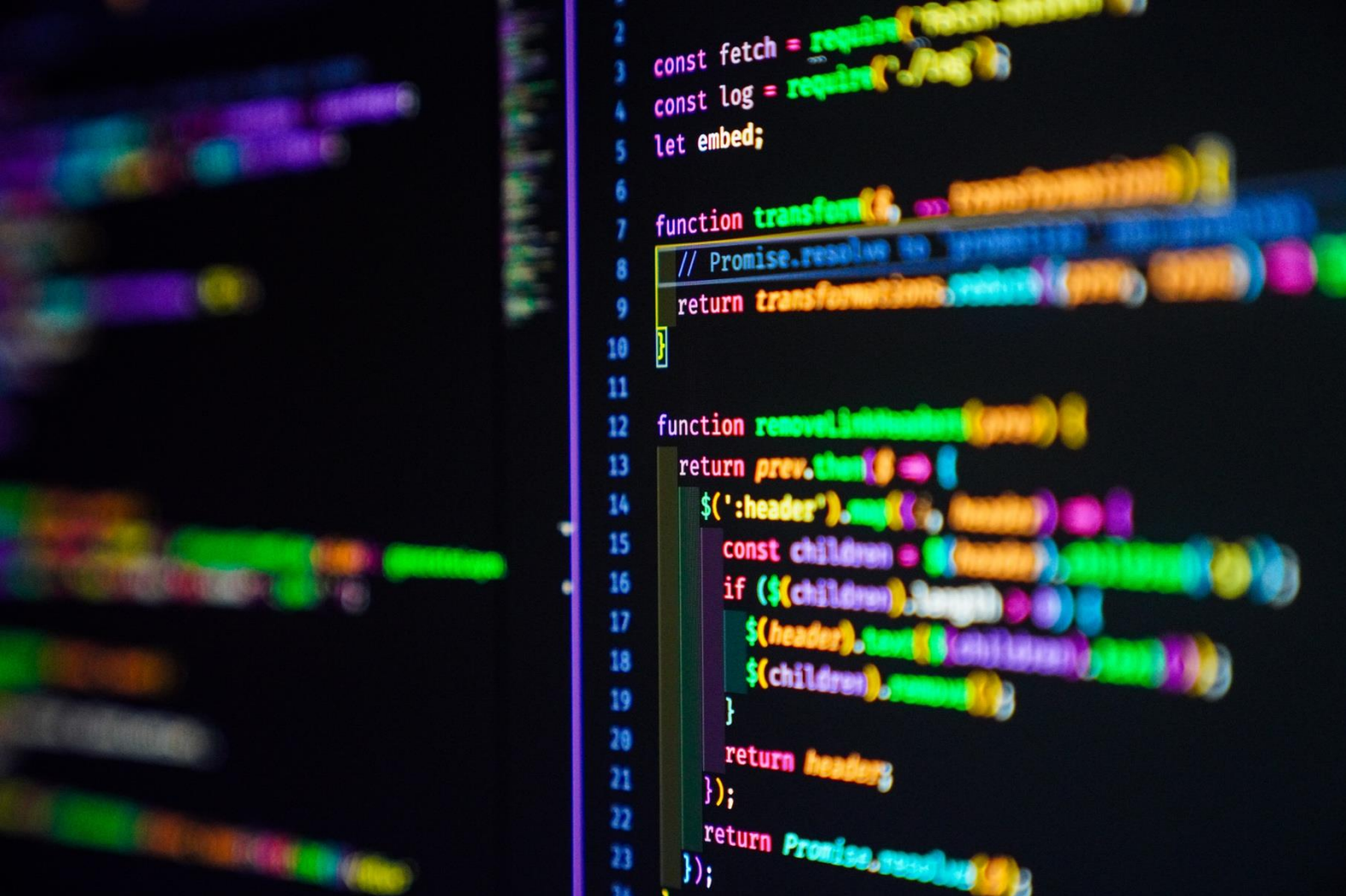
Why is Transaction Laundering Used?

Transaction Laundering

Unknown Site
Selling restricted/illegal goods or services

Shell Site
Displays ordinary goods or services

Bank

Similar to money laundering, criminals need a way to disguise incomes from restricted or illegal business activities (that is acquired via the internet) e.g. illegal online gambling, child pornography or online fraud, and integrate it into the legitimate financial system. Because these activities violate card network rules, not only are applicants rejected upon applying for merchant accounts, their accounts can be terminated and reported if their associated (or known) website noticeably displays restricted or illegal business activities. Outsmarting the system, merchants began to exploit shell websites to continue their fraudulent e-commerce activities undetected, facilitating the birth of transaction laundering.

The Weakness of a Reliance on KYC and Web Crawling

There are many limitations when utilizing Know Your Customer (KYC) and web crawling in the process of risk management, merchant monitoring and identifying any transaction laundering activities. KYC checks and web crawling rely heavily on open data and/or information provided by the individual or business. This raises several issues in itself – public or readily available data may be outdated, and information provided by the applicant may be manipulated or fabricated. KYC is crucial for due diligence and onboarding new customers, as it delivers fundamental Generally, KYC checks gather submitted information from applicants surrounding their

profiling on applicants and their corresponding business and its nature, but often is not efficient nor effective for continual monitoring and risk management.

Over two-thirds (70%) of large financial institutions found that inefficient and inaccurate KYC processes resulted in lost customers or customer abandonment, due to delays and extensive requests for information, or rejection of potential customers inaccurately flagged as a financial crime risk[1].

business nature, industry, UBOs, previous processing history and etc. Likewise, web

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[1] *KYT Statistic from: https://www.biia.com/inefficient-kyc-processes-and-their-negative-consequences*

crawling of merchant sites is worthwhile when onboarding new customers as it provides insight into their general ecommerce nature – mainly drawing upon site content, domain name, owner, IP information, inbound and outbound links, and etc.

While both procedures are essential and can be sufficient to onboard new customers in the early stages, it is ineffective for long-term monitoring and lacks the delivery of concrete evidence required for uncovering any illegal or transaction laundering activities. Relying purely on KYC and web crawling methods for risk management can lead to several challenges: false positives – inaccurately flagging potential customers as a financial risk, and when needed, little evidence can be established to support suspected illegal activities.

Effectiveness of KYT

The advantage of KYT is that it targets transaction data – evidence that is available in real time, and is hard to be manipulated or changed. Paying attention to transaction data drastically improves the effectiveness of merchant monitoring and risk management. Though often overlooked, examining transaction data can produce both quantitative and qualitative analyses to determine the true business activities of merchants. With concrete supporting evidence in hand, Know Your Transaction can help to generate highly accurate insights and allow data driven conclusions to be made.

What Insights can be Derived from KYT?

In simple words, because KYT can connect transaction data to specific sites, it exposes concealed websites (used to conduct illegal activity) – allowing opportunity for further investigation and detection of additional information based on data extracted from the no-longer-concealed website. Through this technique, hidden businesses and business activities (a.k.a. transaction laundering), and identities of other associated stakeholders can be discovered which would otherwise have been disregarded, reinforcing the effectiveness of KYT. Analyzing raw transaction data can reveal transaction patterns and trends (e.g. transaction velocity, frequency, time, location,

redirections), and whether there are any irregular changes worth noting or investigating. For example, take location – if transactions for a site selling women's clothes are limited to, or mainly coming from buyers in a high-risk location or country, these are red flags to be aware of, in order to mitigate financial risks. When looking at the time and velocity of transactions, "normal" sites should accumulate transactions conducted over any time of the day, while suspicious sites might have little to no transactions for the majority of the day, and suddenly a burst of a thousand transactions over two specific hours.

Even examining the transaction amount itself, can draw insights into e-commerce activities. For example, a site that sells small fashion accessories – a transaction amount of $10,000 would appear suspicious, as the items in the store should have a low price range. This would raise alarms of possible transaction laundering activities. While the list of intelligence and detection that KYT can accomplish goes on, ultimately the importance lies within identifying potential risks as early as possible, and taking action in a timely manner.

The Bottom Line

Know Your Transaction can tell you many things. However, the right tools, resources and technology are essential to implementing KYT effectively. In order to effectively extract data and trace transaction details to its roots, advanced technology and professional data analytic experience is vital. Utilizing third party vendors – especially MMSP approved service providers, is a great way to begin your KYT journey.

This guide was first published on [The Paypers](#).

About Austreme

Austreme is an industry leader in forensic fintech, helping brand owners, acquiring banks and payment service providers monitor and detect online merchants' illegal and brand-damaging transactions under international card associations' global brand protection program. We provide a wide range of financial risk management services for customers globally, specializing in big data analytics, anti-transaction laundering, online store illegal content monitoring and merchant onboarding. For more information about Austreme, please visit https://www.austreme.com.

Information of Transaction Laundering Detection service can be referred to:
https://www.austreme.com/en/transaction-laundering-detection/

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