INSTITUTE OF BANKING AND FINANCE OF TRINIDAD AND TOBAGO

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AI in AML Transaction Monitoring: From Rules to Risk-Based Intelligence

(Part 2 of our 2 Part Series)

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AI in AML Transaction Monitoring: From Rules to Risk-Based Intelligence

A look at Global adoption and Caribbean based case studies

by: Candice Huggins, Compliance and AML Consultant

Leading institutions worldwide have already begun to demonstrate that AI can coexist with conservative risk culture and stringent regulatory expectations:

- Bank A reportedly achieved a reduction in AML alert review time of around 20% and a 30% increase in efficiency by deploying AI across its monitoring processes.
- Bank B uses ML models to prioritise alerts, resulting in a reported 40% reduction in false positives.
- Bank C through a partnership with cloud-based AI, experienced a 60% increase in the number of SARs filed and a 50% reduction in false positives.

These examples provide comfort to boards and regulators that, when implemented responsibly, AI can strengthen—not weaken—the AML control environment.

Regulatory Expectations and Guardrails

Regulators globally, including the Financial Action Task Force (FATF), have signaled a supportive stance toward responsible technological innovation, provided it strengthens effective implementation of AML/CFT measures.

Key themes from a regulatory perspective include:

- **Encouragement of Innovation**
  Supervisors in several jurisdictions are actively encouraging banks to explore innovative approaches, often via regulatory sandboxes and innovation hubs.
- **Model Explainability**
  AI models must be explainable. Institutions must be able to articulate why an alert was generated, how the model functions at a conceptual level, and how key variables influence outcomes. "Black box" models that cannot be explained are likely to attract supervisory concern.
- **Data Privacy and Security**
  AML initiatives must align with applicable data-protection frameworks. Secure and ethical handling of customer data, particularly where cross-border transfers are involved, remains non-negotiable.

Regulators are not asking institutions to abandon prudence; they are asking them to modernise prudently.

Ethical Considerations: Beyond Compliance

From a governance standpoint, AI in AML is not purely a technical matter; it raises a number of ethical issues:

- **Algorithmic Bias** – Models trained on biased data can inadvertently disadvantage certain customer segments or geographies, with conduct and fairness implications.
- **Data Privacy** – Combining and analysing large volumes of personal data heightens the need for proportionate, lawful, and transparent data-processing practices.
- **Model Governance** – Boards & senior management must ensure appropriate oversight, clear accountability, and independent validation of AI systems involved in decision-making.

These themes reinforce the principle that AI must be deployed in a manner consistent with longstanding expectations of safety, soundness, and fair treatment.

The Caribbean Context

For Caribbean financial institutions, the AI journey takes place within a distinct operating environment. Common and emerging themes relevant to AI-driven transaction monitoring include:

- **Technological Inequity** – Smaller institutions may lack the budgets and infrastructure enjoyed by large global banks, creating a risk of falling further behind in both efficiency and effectiveness.
- **Regulatory Readiness and Conservatism** – Supervisory bodies are still building internal expertise on AI and advanced analytics. As a result, there may be cautious or uneven adoption, with institutions seeking clearer guidance and collaborative frameworks.

- **Privacy and Cross-Border Data Sharing** – Many Caribbean jurisdictions are strengthening data-protection regimes. Cross-border data flows required for cloud-based AI solutions must be carefully governed.
- **Resource Constraints** – Limited pools of specialized talent and budgetary constraints can slow progress, even where there is strong strategic intent.

Focus on Trinidad and Tobago

Trinidad and Tobago provides a particularly instructive case study. Several characteristics create hurdles for data collection and AI integration:

1. **Perception as Higher-Risk Jurisdiction** – Heightened external scrutiny can make institutions understandably cautious, even as the need for robust monitoring increases.
2. **Significant Informal Economy** – Large volumes of economic activity occur outside formal channels, complicating the construction of reliable baseline behaviors.
3. **Crime and Trade-Based Money Laundering** – Elevated crime levels and the prominence of trade-based schemes add complexity to typology coverage.
4. **Limited Visible AI Expertise and Infrastructure** – Vendors and specialist firms are often external; local data quality, interoperability, and digital infrastructure can be inconsistent.

Against this backdrop, adopting AI in AML is not optional "innovation theatre"; it is a strategic necessity that must be managed carefully and collaboratively.

Strategic Development: Building for the Future

For institutions contemplating or already embarking on the AI journey in transaction monitoring, several strategic principles should guide implementation:

1. **Align Stakeholders on Vision and Design**
   Boards, senior management, risk, compliance, IT, and internal audit must have a shared understanding of what AI is expected to deliver—and over what timeframe.
2. **Develop a Safe Technology Transition Plan**
   Migration from legacy rules-based systems to AI-enabled platforms must be carefully staged, with adequate parallel-run periods, performance benchmarking, and contingency arrangements.
3. **Enhance Model-Risk-Management Frameworks**
   Institutions should adapt their existing model-risk policies to cover AI and ML, including clear standards for validation, documentation, monitoring, and change management.
4. **Invest in People and Data**
   AI is only as good as the data and expertise behind it. Building a talent pipeline, improving data quality, and leveraging the experience of subject-matter experts are all fundamental.

Historically, financial institutions have tended to lag one step behind sophisticated criminal actors. Properly deployed, advanced analytics and AI offer the opportunity to narrow that gap and, in certain areas, regain the initiative.

What's next?

AI in AML transaction monitoring is not about abandoning the discipline, controls, and prudence that have underpinned compliance for decades. It is about applying new tools to long-standing objectives: protecting the integrity of the financial system, safeguarding customers, and meeting regulatory expectations.

For Caribbean institutions—particularly those operating in complex environments such as Trinidad and Tobago—the question is no longer whether AI should be part of the AML toolkit, but how to implement it in a manner that is responsible, explainable, and aligned with traditional risk-management principles.

Those who take a structured, well-governed approach will be better positioned to manage evolving threats, satisfy regulators, and operate efficiently in an increasingly demanding landscape.

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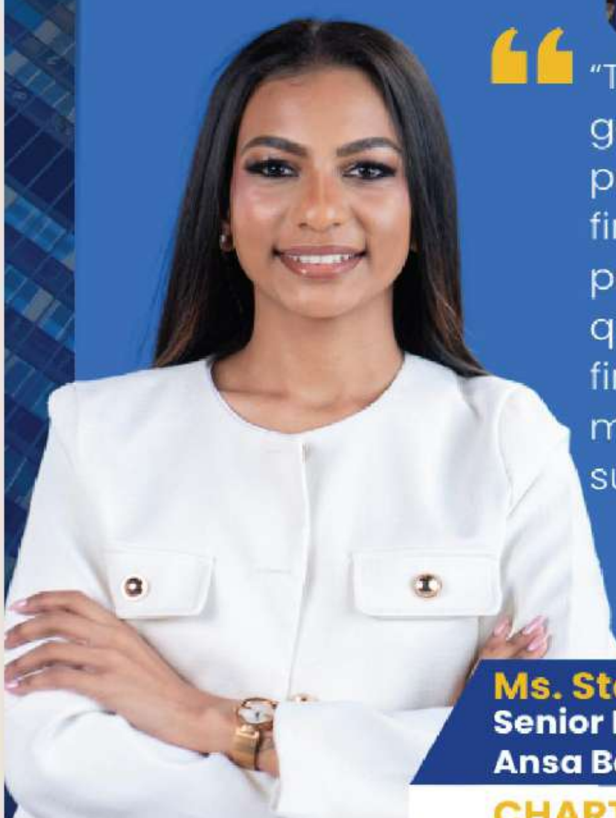

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Risk Management in Trinidad & Tobago: Navigating Basel Standards in a Small-State Economy

By: Mr. Keith Checkley, Programme Director, KCA and Associates U.K.

Risk Management in any type of organisation is a complex topic; and it was in 2004 that we all encountered a very comprehensive set of guidelines prepared by the Basel Committee on Banking Supervision; which became known as Basel II.

These where intended as "global guidelines for the best recommended international risk management practices" that could be introduced under the local Central Banks instructions.

It's worth making a summary recap of some of Basel II guidelines which continue today: with further enhancements from Basel III.

International Convergence of Capital Measurement and Capital Standards: A Revised Framework
An extract from press statement – 26 June 2004

"Central bank governors and the heads of bank supervisory authorities in the Group of Ten (G10) countries issued a press release and endorsed the publication of International Convergence of Capital Measurement and Capital Standards: a Revised Framework, the new capital adequacy framework commonly known as Basel II.

The governors and supervisors met at the Bank for International Settlements in Basel, Switzerland, to review the text prepared by the Basel Committee on Banking Supervision."

The paper is a statement of the Committee agreed by all its members. It sets out the details of the agreed framework for measuring capital adequacy and the minimum standard to be achieved which the national supervisory authorities represented on the Committee will propose for adoption in their respective framework countries.

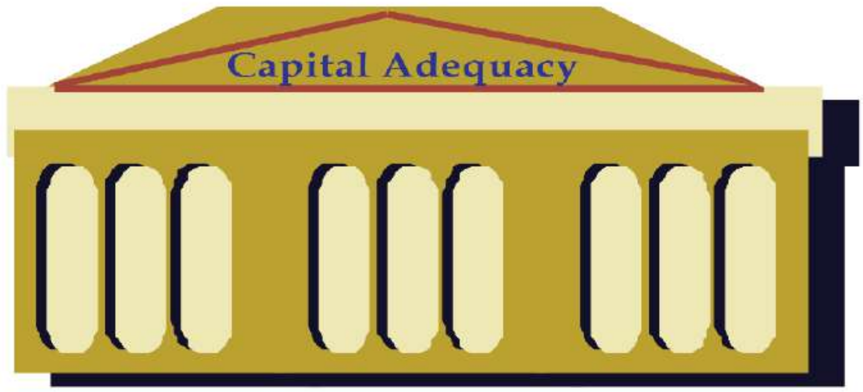
This framework, and the standard it contains, have been endorsed by the Central Bank Governors and the Heads of Banking Supervision of the Group of Ten Countries.
(ref: www.bis.org/publ/bcbsca.htm)

The document was circulated to supervisory authorities worldwide, with a view to encouraging them to consider adopting the revised framework at such time as they believed it to be consistent with their broader supervisory priorities. Each national supervisor was to consider carefully the benefits of the revised framework in the context of its domestic banking system when developing a timetable and approach to implementation. A significant innovation of the revised framework is the greater use of the assessments of risk provided by the banks' internal systems as inputs to capital calculations. In taking this step, the Committee was also putting forward a detailed set of minimum requirements designed to ensure the integrity of these internal risk assessments.

It was not the Committee's intention to dictate the form or operational detail of a bank's risk management policies and practices. Each supervisor was to develop a set of review procedures for ensuring that the bank's systems and controls are adequate to serve as the basis for the capital calculations. Supervisors will need to exercise sound judgements when determining a bank's state of readiness, particularly during the implementation process.

The Committee expects national supervisors will focus on compliance with the minimum requirements as a means of ensuring the overall integrity of a bank's ability to provide prudential inputs to the capital calculations and not as an end itself.

Basel II Summary - The Three Pillars



Pillar 1	Pillar 2	Pillar 3
Capital Requirements	**Regulatory Review Process**	**Disclosure and Market Discipline**

Implications on, and requirements for, systems, processes and people

Calculated based on credit, market and operational risk	**Operational control and compliance with Pillar 1 requirements**	**Capital adequacy and risk control will be disclosed**
Many options on approach to calculation	**Only varies on Pillar 1 approach, otherwise must comply with all**	**Requirements are common to all regulated firms**

Increased capital should not be viewed as the only option for addressing increased risks confronting the bank. Other means for addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate control or risk management processes.

Particular focus can be directed towards risks that are not fully captured by the Pillar 1 process (such as credit concentration risk), those factors not taken into account by the Pillar 1 process (such as interest rate risk in the banking book, business and strategic risk) and factors external to the bank (such as business cycle effects).

The assessment of compliance is also vital, with the minimum standards and disclosure requirements of the more advanced methods in Pillar 1, in particular the IRB framework for credit risk and the Advanced Measurement Approaches for operational risk.

IBF's List of Training Topics 2026

CREDIT ANALYSIS AND LOAN ASSESSMENT FOR MICROFINANCE LENDING
Dates: March 11th & 12th, 2026; **Time:** 8:30 am - 4:00 pm; **Delivery:** Hybrid; **Cost:** $2625. plus VAT; **CPD Hours:** 12

ANTI-MONEY LAUNDERING & FINANCIAL CRIME: OPPORTUNITIES, RISKS & CHALLENGES
Date: March 18th, 2026; **Time:** 9:00 am - 4:00 pm; **Delivery:** Online; **Cost:** $2000. plus VAT; **CPD Hours:** 5.5

UNMASKING FRAUD – UNDERSTANDING THE MOTIVES, RISKS AND CYBER THREATS
Date: March 23rd, 2026; **Time:** 9:00 am – 12 noon; **Delivery:** Hybrid; **Cost:** $900.00 plus VAT; **CPD Hours:** 3

DEBT RECOVERY AND DELINQUENCY MANAGEMENT
Dates: March 26th & 27th, 2026; **Time:** 8:30 am - 4:00 pm; **Delivery:** Hybrid; **Cost:** $2625. plus VAT; **CPD Hours:** 12

FROM INVISIBLE TO INVALUABLE – OWNING YOUR WORTH & SETTING BOUNDARIES THAT WORK
Date: April 16th, 2026; **Time:** 8:30 am - 3:00 pm; **Delivery:** In person; **Cost:** $2000. plus VAT; **CPD Hours:** 5.25

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