



Unfulfilled Potential: How to scale up the impact of Public Private Partnership

Introduction

Public Private Partnerships (PPP) - by which we mean a collaboration between financial institutions (FI), law enforcement, policy makers and the regulatory community to share information and intelligence to tackle financial crime – have become an increasingly important component of an effective national financial crime framework. Since the inception of the UK Joint Money Laundering Intelligence Taskforce (JMLIT) in 2014, their presence and reach has continued to grow, with PPPs being established across Asia Pacific, the Americas and Europe.

While PPP models have evolved in different ways, with the priorities, types of information and intelligence shared, ways of working, and governance and leadership all reflecting the particular circumstances and characteristics of the country in which the PPP has been established, there is broad consensus that they have demonstrated their value.

PPPs have shown that by developing frameworks that better enable more intelligence and insight to flow between parties, it is possible to disrupt malign actors more effectively and better prevent criminal misuse of the financial system. They have built trust and collaboration across stakeholder communities and improved the focus and quality of SAR reporting. They have provided stakeholders with access to new intelligence and better insights to empower the risk-based approach and helped to deliver positive outcomes efficiently and effectively for all sides. Critically, PPPs have begun to change the relationship between stakeholders, building frameworks that encourage and enable parties to share as much as possible, rather than as little as is required.

However, while excellent progress has been made, PPPs still represent a tiny fraction of the collective response in the fight against financial crime and, while global developments in PPP are a fundamentally positive story, there remain opportunities to do more.

This paper identifies a number of factors - set out as four ambition statements which should be addressed domestically and internationally to ensure PPPs are able to reach their full potential as enablers of effectiveness in the global anti-financial crime regime.

Ambition statement 1: PPPs will not scale up as long as they are voluntary and additive. PPP should be an expectation, not an aspiration.

Although PPPs have demonstrated their value, they still operate in quasi-pilot form: small scale, voluntary, without regulatory incentivisation or recognition, and delivered in addition to wider financial crime obligations.

While national regulators in some countries have encouraged PPP, and the FATF has recognised their value in policy statements and through elements of the Mutual Evaluation process, it remains the case that the development and growth of PPP is not explicitly included as part of the FATF recommendations or recognised within national regulatory frameworks.

The absence of regulatory recognition can constrain the amount of time and resources that institutions are able to invest in PPP, when balanced against meeting wider regulatory obligations. This undermines PPP growth, restricts investment in new ways of working (such as the development of data utilities), and inhibits the ability of PPP to deliver on its full potential.

PPP should no longer be thought of as a policy experiment and should instead be recognised and incentivised as a key component of any healthy financial crime framework.

What do we need to do to get there?

At supranational level, the FATF should provide clearer endorsement of PPP within the global framework.

PPP is a key enabler of success in the context of the FATF measures of effectiveness (the 11 Immediate Outcomes). It has for example, an important role to play in helping to evaluate threat materiality in relation to national risk assessments, by ensuring more comprehensive access to insight about threats and risks across the stakeholder community.

Formal recognition of the development of PPP by the FATF, for example by factoring in the existence of a well-functioning PPP within the mutual evaluation assessment process, would strongly encourage senior political engagement in their development, release associated funding and help to ensure wider engagement from key stakeholders in the national AML ecosystem. Increased engagement would also help PPPs modernise for example through increased digitisation, and could help PPPs scale, so that they become a central pillar of both public and private sectors' response to tackling illicit finance.

At national level, policy makers could accelerate the reforms, some of which are already in train, to enable effort to be dialled-up on agreed 'high value activities' (those activities that lead clearly to outcomes against criminals) and dialled-down against those activities that do not.

Recognising that participation in a PPP is a 'high value' activity (with commensurate supervisory expectation that focus is moved from areas of low value to areas of high value), could enable regulated institutions to direct increasing amounts of effort and energy toward supporting PPPs in all forms, from development of policy and typologies to operational support and investment in innovation such as the development of bulk data-sharing utilities.

Ambition statement 2: Sharing strategic typologies is good – but it is only a start. PPPs must aspire to operate at policy, strategic and tactical levels

PPP models have evolved differently in different jurisdictions, with the priorities, types of information and intelligence shared, ways of working, and governance and leadership all reflecting the particular circumstances and characteristics of the country in which the PPP has been established.

In many places however, PPP is still limited to the sharing of typologies. This is extremely valuable – it can help build trust and can improve the number, quality and distribution of strategic intelligence products and typologies to help inform the effective application of the risk-based approach and to drive consequential improvements in prevention, detection, and reporting. But typological sharing is a start-point and not a destination.

Over time PPP frameworks should seek to enable both public-private collaboration on the development of effective policy, legislation and regulation and the sharing of tactical, case specific intelligence (including personal data), to expedite investigations and drive outcomes such as increased asset recovery.

What do we need to do to get there?

Tactical PPP:

At the tactical level, PPPs should find ways to share operational intelligence between stakeholders. Tactical information-sharing demands robust governance frameworks and clear legal gateways; where these do not exist, it is important that they are created to ensure PPPs are able to provide law enforcement with an efficient and comprehensive means by which to access financial and contextual intelligence they need.

And tactical information sharing plays an important secondary role – it creates a pipeline for new typologies enabling stakeholders to work together to distil collective operational learning into tightly-focussed typologies based on the freshest intelligence. These can then be used to strengthen all parts of the financial crime risk management framework, including training, KYC/Customer Due Diligence (CDD), transaction monitoring and the resultant quality of SARs, improving the overall effectiveness of efforts to detect and prevent further financial crime, while allowing resources to be deployed and technology to be focussed more efficiently on where the risk is highest and greatest impact likely.

Policy PPP:

It is important that public and private sector stakeholders work collaboratively to shape policy, legislation and regulation that enables all stakeholders in the ecosystem to be as effective as they can be in fighting financial crime and delivering outcomes against criminals.

PPP should be embedded within the financial crime policy architecture at the national level to ensure that insight and input from across the stakeholder community, including challenges and opportunities identified by the strategic and tactical parts of the PPP are captured, and used to drive development of effective legislation and regulation.

Ambition statement 3: Trying to engage all institutions across all sectors is challenging. A clear focus on deeper engagement with the most material stakeholders would accelerate outcomes

As PPPs have grown they have understandably elicited significant interest from a wide range of institutions and sectors and in some instances increasing membership and sectoral coverage has been considered an indicator of 'success'.

However, growth also brings challenges. A wider membership can increase governance and administration overheads. It can also make obtaining a consensus difficult, which can inhibit innovation, and it can divert focus from core priorities through pressure to ensure a steady flow of cases or typologies that are sufficiently relevant to all. Most fundamentally, growth for growth's sake can impede the development of trust. For example, in the context of tactical information-sharing partnerships, law enforcement may be less willing to share sensitive case data as membership expands.

What do we need to do to get there?

The principal test for membership should be that institution's ability to make a material contribution in terms of information and insight against prioritised threats. An effective PPP model could include tiered membership, blending light-touch engagement across a broad range of institutions and sectors, with a smaller set of deeper relationships with a number of core members. Membership of the core would need to reflect agreed priorities and could be cross-sector where required (e.g., where scams are a priority threat, engagement with online platform providers would be key to knitting the online and financial networks together). The core would also need to be sufficiently flexible to respond to changes in the market (such as the emergence of virtual assets) but would almost certainly include the relatively small subset of financial institutions that in most jurisdictions are systemically important and sit across the vast majority of financial information and intelligence in the ecosystem.

Due to their scale, these organisations would likely have a touchpoint with most cases, the capability to conduct high-quality analysis and investigation at pace in support of the partnership, and the capacity to back the development of new and more effective ways of working, such as physical co-location and the development of innovative approaches to bulk data-sharing and collective intelligence-led analytics. By keeping the core at a manageable size, the group would be more agile in its response to threats and development of innovation. It would be imperative in such a model that insights obtained by a core group working closely together were routinely captured and shared with the wider regulated sector. This would help to manage perceptions of unfairness and inform the effective application of the risk-based approach more widely and enable collective prevention at scale.

Ambition statement 4: PPP needs to industrialise, moving from analogue to digital to amplify its effectiveness

PPPs have been in operation for nearly 10 years, yet none have scaled to the extent that they represent a truly substantive component in a nation's financial crime framework. And while there are some notable and encouraging innovations such as Singapore's proposed 'COSMIC' model and the Netherlands' Transaction Monitoring Netherlands (TMNL), very few PPPs have fully embraced technology to enable partnerships to industrialise and amplify their impact further. Given the effectiveness of PPP it is important that innovation and momentum is maintained.

Data and information-sharing utilities are important in this context and represent the next frontier for PPP. Despite the inherent challenges encountered in developing utilities, they have the potential to transform the effectiveness of the anti-financial crime framework, especially when public and private sector insight is brought together to enable utilities to be truly intelligence-led and aligned with the prioritization of threats.

As such it is vital that both public and private sector stakeholders continue to invest in technologies and innovation that allows the huge volumes of data generated by modern banking to be analysed and interpreted such that 'big data' becomes a weapon in the fight against crime.

What do we need to do to get there?

To accelerate and support data utility innovation, it is important that policymakers and regulators provide a degree of certainty about the long-term value of investing in new ways of working. Take, for example, a transaction monitoring utility in which four banks participate. In this case, the long-term value to the system of the utility is an enhanced ability to prevent and detect crime by analysing transaction data from multiple institutions. The long-term value to financial institutions is both social (a greater ability to protect their communities and clients) and commercial (the possibility, for example, that in the future if a set of agreed thresholds around detection of suspicion are met, participants could rationalize their four transaction-monitoring capabilities into one).

Both the public and private sectors benefit if the utility is successful; but development risk currently lies only with the private sector, which generally bears the costs of development and delivery as well as – for example – legal risk, without any long-term certainty on how successful delivery might impact future regulatory expectations. Regulators and policymakers should be prepared to consider sharing a degree of risk (for instance by committing to changes in certain legal obligations if the utility meets an agreed-upon set of criteria), thus helping encourage private sector investment in utility models and accelerating the delivery of a more effective financial crime framework overall.

Regulatory sandboxes are also important in this context. These are not a new concept; however, when considering information-sharing utilities, it will often be the case that participants will come up against issues that are relevant to both information and financial crime regulators (and potentially issues relating to the handling of FIU data as well). As such, it is important that - at a minimum - information and financial crime regulators, supervisors, and examiners work closely together to help create the conditions in which innovation can flourish. They could also consider working together on the development of experimental collaborative sandboxes, through which all potential legal and regulatory challenges relating to information-sharing utilities could be considered and addressed comprehensively to help accelerate innovation.

Finally, many of the challenges around utilities relate to the need to bring together siloed data. However, there are points in the ecosystem where data is already aggregated to various degrees including, for example, the national payments architecture, national settlement systems, and the correspondent payments networks. Stakeholders in the financial crime ecosystem should collaborate to explore ways to test how centralized financial crime analytics could be run across existing points of data aggregation (e.g., a national payments architecture) to identify and disrupt suspicious patterns of activity efficiently and effectively – including patterns that could not be identified by analysing data within organizational silos.

Conclusion

The growth of PPP is one of the good news stories in the fight against financial crime. The power they have to help deliver a more effective financial crime framework has been clearly demonstrated. But we should not rest on our laurels. After nearly 10 years, PPP remains a cottage industry lacking recognition and incentivisation, and yet to fully embrace the digitisation needed to enable it to scale. This paper aims to challenge the status quo through a set of ambitions that if adopted would help PPP to realise its potential in the coming years.

For further detail on both PPP and wider AML reform issues please also reference the following white papers:



2019

The global framework for fighting financial crime | Deloitte | Financial Services



2021

The effectiveness of financial crime risk management reform and next steps on a global basis

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