# The crucial role of AI in enhancing banking and supply chain security



The ongoing challenge faced by banks and supply chains in the digital era is evident during the onboarding process, which marks the initiation of relations with enterprises, particularly small businesses. This critical juncture is where vulnerabilities such as fake merchants, counterfeit storefronts, and money laundering can disrupt financial operations and erode trust within B2B ecosystems. Businesses rely heavily on verifying the documentation that establishes the business identities of merchants and suppliers, making assurance processes integral to the onboarding framework.

Artificial intelligence has emerged as a pivotal tool in combating fraud in an age where fraudulent actors increasingly utilise advanced technologies to create seemingly authentic online presences. The prevalence of AI-enabled fraud has made fraudulent setups difficult to detect, catching even the most vigilant consumers and enterprises by surprise. As per a report by "60 Minutes," this situation has escalated to a point where fake images of real individuals are being exploited on various online platforms.

According to the PYMNTS Intelligence report titled “Reframing Anti-Fraud Strategy: Developing a Proactive Approach to Fraud Risk Management,” an overwhelming 98% of B2B firms have reported experiences with fraud attacks, leading to an average loss of 3.5% in their annual sales revenues attributable to scams involving fake merchants. The impact on small businesses is even more pronounced, with losses potentially reaching as high as 5% from fraud-related incidents. These scams often involve fraudsters establishing fake storefronts or merchant accounts to sell stolen goods or mislead consumers into paying for products that are never delivered.

The United Nations Office on Drugs and Crime has estimated that the amount of money laundered globally each year could range from 2% to 5% of the global GDP, equating to approximately $2 trillion. Such staggering figures underscore the urgent need for robust verification procedures, particularly regarding beneficial ownership, which is crucial for understanding who controls and owns a business.

Verifying ultimate beneficial ownership (UBO) remains complex, especially for firms operating on an international scale. This verification is significant, not only for business transparency but also for compliance with anti-money laundering (AML) regulations. Recent deadlines for reporting beneficial ownership information have highlighted the difficulties faced by small businesses in navigating these requirements. With the Corporate Transparency Act (CTA) enacted last year, businesses are obliged to submit beneficial ownership details to the Financial Crimes Enforcement Network (FinCEN), a move that has sparked legal actions, including a lawsuit from the National Small Business United, which claims the regulations indiscriminately affect millions of lawful business set-ups while allowing bad actors to evade scrutiny.

To improve the vetting process during onboarding, firms like Markaaz are developing extensive global business identity networks. Concurrently, the compliance platform Palm introduced a beneficial ownership filing assistant tool in November to assist small businesses in meeting their reporting deadlines.

Highlighting the benefits of automation, the PYMNTS Intelligence report “Instant Impact: AI’s Role in Advancing Real-Time Payments” revealed that approximately 75% of financial institutions continue to depend on outdated manual AML checks. By automating identity verification and fraud detection processes, AI has the potential to significantly streamline operations. The report predicts that through enhanced data collection and analysis, onboarding times could be reduced from more than 11 minutes currently to less than 8 minutes by 2028, signalling a tangible shift towards efficiency in combating fraud-related issues.

The implementation of AI in these multifaceted processes reflects a broader trend of technological adoption across industries, enhancing not only security measures but also operational efficiencies within business frameworks.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.i-exceed.com/blog/digital-supply-chain-management/> - This article discusses the challenges and opportunities for banks in integrating with digital supply chain management, including the need for robust verification and security measures to combat fraud and cybersecurity risks.
* <https://www.golivefaster.com/insights/the-digital-onboarding-challenge-for-banks-today> - This article highlights the challenges in digital onboarding for banks, including the verification of business identities and the impact of fraud on B2B ecosystems, as well as the benefits of digital KYC and automation in reducing operational costs and enhancing security.
* <https://softjourn.com/insights/how-digital-onboarding-can-help-fis-survive-the-coronavirus> - This article discusses the importance of streamlined digital onboarding for banks, emphasizing the need for secure and efficient processes, including biometric authentication and electronic signatures, to combat fraud and ensure compliance with regulatory requirements.
* <https://www.unodc.org/unodc/en/money-laundering/global-programme-against-money-laundering.html> - This link from the United Nations Office on Drugs and Crime provides context on the global estimates of money laundering, which is relevant to the discussion on the need for robust verification procedures and compliance with anti-money laundering regulations.
* <https://www.fincen.gov/news/news-releases/fincen-issues-final-rule-corporate-transparency> - This link from the Financial Crimes Enforcement Network (FinCEN) explains the Corporate Transparency Act (CTA) and the requirements for reporting beneficial ownership information, highlighting the regulatory challenges faced by small businesses.
* <https://www.pymnts.com/reports/reframing-anti-fraud-strategy-developing-proactive-approach-fraud-risk-management/> - This report from PYMNTS Intelligence provides data on the prevalence of fraud attacks on B2B firms, including the financial impact and the need for proactive fraud risk management strategies, which aligns with the discussion on fraud and verification processes.
* <https://www.pymnts.com/reports/instant-impact-ais-role-advancing-real-time-payments/> - This report from PYMNTS Intelligence discusses the role of AI in advancing real-time payments and streamlining AML checks, which supports the argument for automating identity verification and fraud detection processes to enhance efficiency.
* <https://www.markaaz.com/> - Markaaz is mentioned as a firm developing global business identity networks to improve the vetting process during onboarding, highlighting the use of technology in enhancing verification and compliance.
* <https://www.palm.co/blog/beneficial-ownership-filing-assistant-tool> - This link from Palm introduces a beneficial ownership filing assistant tool, which helps small businesses meet their reporting deadlines, illustrating the technological solutions being developed to aid in compliance and verification.