

Technology and the Effects of AI on Credit Unions

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Today's presenter



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Profile

Jillian is a Financial Crimes Manager serving the banking and financial services industries. She specializes in the Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) and Office of Foreign Assets Control (OFAC) screening areas, with key competency areas of compliance audits, model validations, and risk technology and analytics. Jillian is the leader of Crowe's BSA/AML and OFAC Internal Audit offering.

Professional & Industry Experience

Jillian leverages her industry knowledge to help clients improve their compliance programs and align with peers and regulatory expectations. She has executed and managed BSA/AML Compliance Audits and Model Validations for clients ranging from domestic community banks, Money Service Businesses, FinTech's and global financial institutions. Her audit and validation testing includes assessment of each institution's policies, processes, and procedures surrounding their BSA/AML compliance programs and systems, as well as evaluation of data management and efficacy. Jillian also has experience with many different BSA/AML and OFAC systems, including NICE Actimize, Prime, BAM, BAM+, FCRM, Verafin, Yellow Hammer, ECS, and GVS Patriot Officer.



Today's discussion

1

Introduction to Al

2

Al internal audit testing program and governance expectations

3

Al agent for AML compliance internal audit



Introduction to Al





How familiar are you with AI?

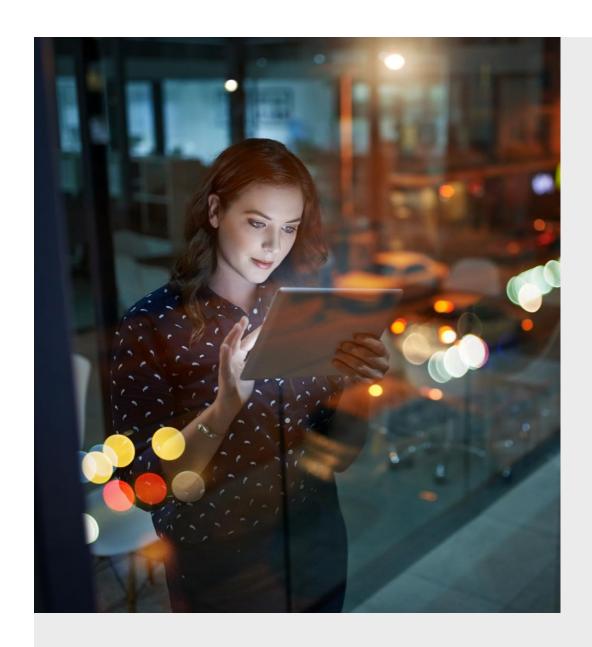
A I use it at work and in my personal life every day

B I've played around with it, but never applied it to my job

C I've never tried it, but I am interested

D I'm staying away – it freaks me out!





What is artificial intelligence?



Artificial intelligence refers to the capability of computational systems to perform tasks typically associated with human intelligence, such as learning, reasoning, problem-solving, perception, and decision-making.



Human intelligence is composed of countless experiences and sensory inputs.



Al can imitate intelligent human behavior when computers are exposed to millions of pieces of data.



Categories and capabilities of Al

Machine learning

- Learns and improves from experience
- Analyzes data, identifies patterns, and makes predictions

Natural language processing

• Enables computers to understand, interpret, and generate human language





Al and anti-money laundering



Al can leverage machine learning algorithms to continuously adapt to **evolving money laundering techniques**, improving the accuracy and efficiency of transaction monitoring.



Al algorithms can analyze **historical transaction data** and **member behavior** to detect deviations and raise alerts for further investigation. Such analysis can help identify potential money laundering activities that might go unnoticed through traditional rule-based systems.



Al can assist in thorough and efficient **member due diligence** by automating analysis of member data such as
identification documents, transaction history, and risk profiles.



Al can assist in **automating regulatory compliance** and **reporting processes** by extracting relevant information from various sources, boosting adherence to AML regulations, and generating accurate and timely reports.



Al and internal audit



Al can automate data extraction, cleansing, and analysis, providing auditors with insights and improving the efficiency of internal audit procedures.



Al can assist **risk assessments** by analyzing historical data, identifying risk factors, and predicting potential areas of concern. Leveraging predictive analytics can provide insights into emerging risks, enabling auditors to prioritize their efforts and effectively allocate resources.



Al algorithms can analyze **real-time data** for deviations, exceptions, and potential control weaknesses, allowing auditors to promptly address issues and mitigate risks.



Al can apply **natural language processing** to review documents, contracts, and policies to improve adherence to regulatory requirements, improving the accuracy and efficiency of compliance monitoring.



2

Al internal audit testing program and governance expectations



Compliance and governance

Here are three ways financial services organizations can prepare to meet expectations:



Conduct thorough risk assessments to identify and mitigate potential risks



Establish robust governance frameworks to oversee the development, deployment, and monitoring of Al models



Improve transparency and accountability in Al-driven decision-making processes



Governance considerations

1 Ethics

2 Data quality and testing

3 Independent testing

4 Policies and procedures

5 Staffing and training

6 Vendor management



Considerations for your AI testing program

Strategy and purpose

- What is the purpose of the Al model?
- Is the AI strategy aligned with your organization's risk culture and values?
- What is the established strategy and vision for Al?

Risk assessment

- Does your organization's Al risk assessment align with industry guidelines and procedures?
- What are the overall risks associated with AI?

Monitoring and controls

- How does your organization monitor AI?
- Is board reporting in place?

Governance

 Are there established procedures documenting governance, management, and oversight controls related to the use of the AI tool?

Model validation

- What procedures are in place to validate the AI model in terms including frequency and timeliness?
- How does your organization ensure the completeness and integrity of the model?

Al program

- Who oversees the AI program?
- What is the training program for AI?
- What are the contents of the training?
 Are there any exclusions?

Third-party vendors

 What are the procedures for obtaining and reviewing third-party vendor reports?



3

Use case

Al agent for AML compliance internal audit



Al in Independent Testing



Why We Developed the Tool: The Financial Crimes Testing AI tool is poised to accelerate internal audit design assessment of internal audit policies and procedures (P&P) with automation using Gen AI.



How the Tool Works: The solution leverages the document interrogation capability of CroweMind and is designed to facilitate the upload of the policy and procedure documents through a MS Power app that pulls in optimized control testing questions as prompts. The document interrogation capability returns the responses (i.e., testing results) to each of the controls/prompts.



Key Benefits: The tool accelerates the testing process, improves consistency across engagements, and focuses our human capital on delivering SME experience to our clients.





Executing the Al Agent for Optimal Performance

1 Prompt Engineering and Testing

Al Tool Engineering and Prompt Upload

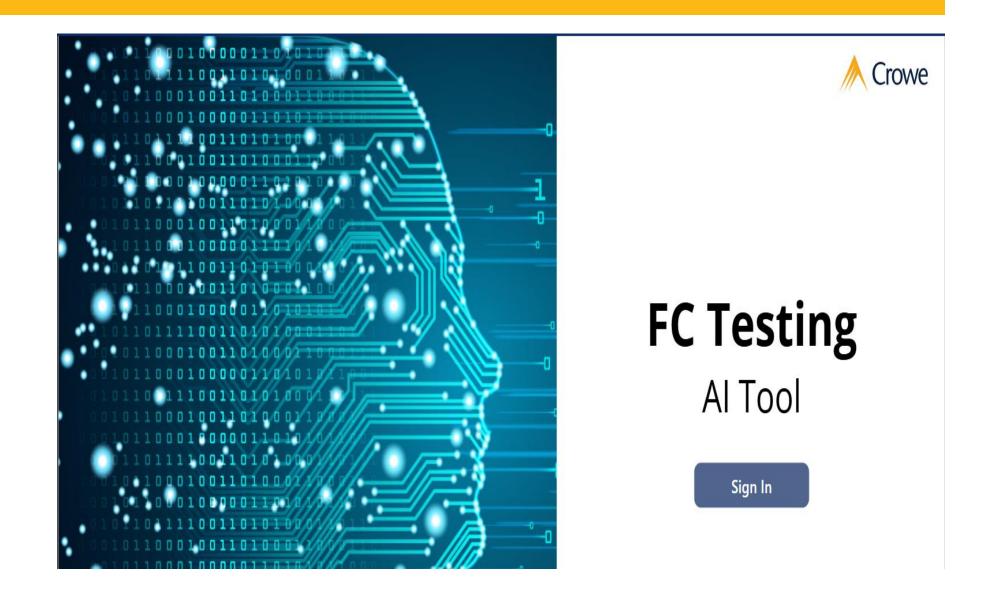
Al-Generated Output & Review

4 Prompt Validation

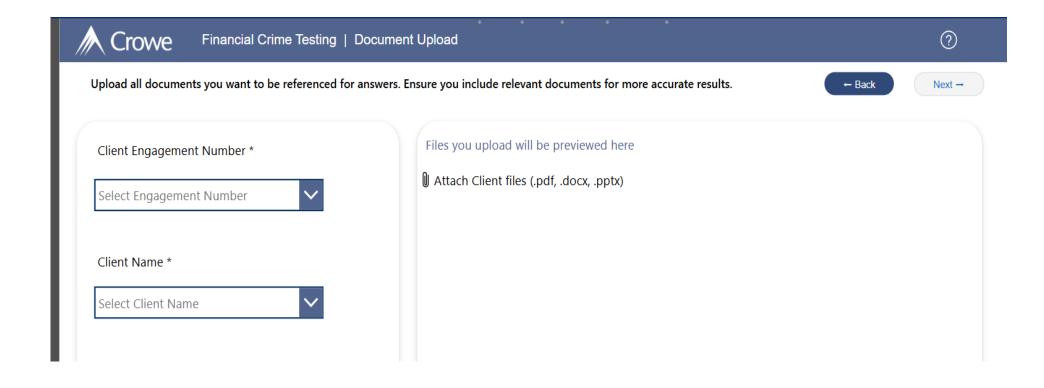
Finalizing & Documenting Results

6 Continuous Improvement & Optimization

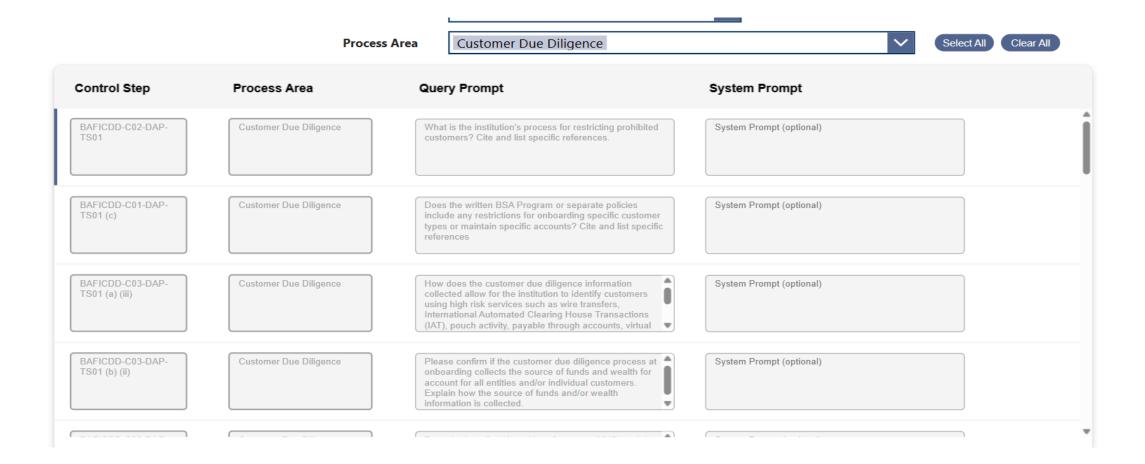








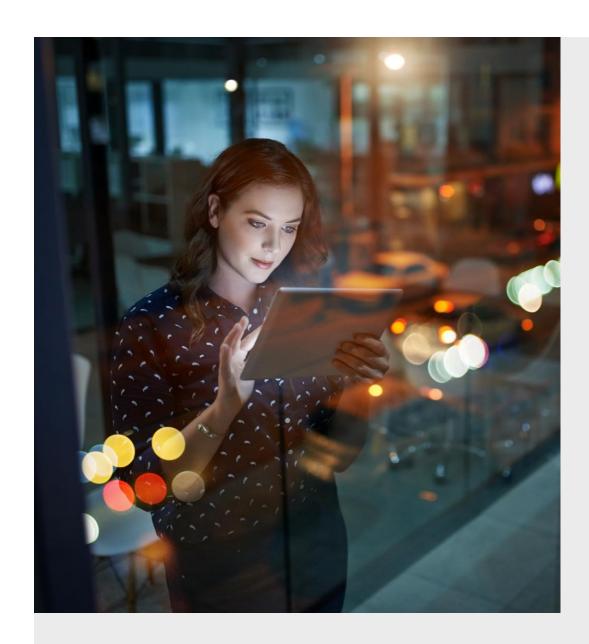






Please confirm if the written Bank Secrecy Act (BSA) Program outlines any restrictions or prohibitions related to onboarding of certain customer types. State which section the customer onboarding, prohibitions, or restrictions are stated.	Based on the provided context, here is a summary of the institution's processes and procedures related to customer onboarding, beneficial ownership, and restrictions: 1. **Processes for Collecting New Customer Information:** - The institution has a Customer Identification Program (CIP) that requires
	identifying and verifying the identity of beneficial owners of all legal entity customers at the time a new account is opened. This includes maintaining written policies and procedures to identify and verify beneficial owners (Context: "Under this rule, we must identify and verify the identity of beneficial owners of all legal entity customers at the time a new account is opened.").
	 The onboarding process involves completing customer due diligence (CDD) and account due diligence (ADD), which includes questions about the customer's occupation, nature of business, purpose of the account, sources of funds and wealth, ownership control, domicile, and anticipated account activity (Context: "At the time of account opening, staff completes customer due diligence (CDD) and account due diligence (ADD).").
	2. **System Reports for Missing or Incomplete Information:** - The BSA Department monitors due diligence answers for completion to mitigate risks associated with missing information. This ensures that the bank can determine transactions that are potentially suspicious by knowing the types of transactions a customer is likely to engage in (Context: "The BSA Department monitors the due diligence answers for completion.").
	3. **Definition of Beneficial Owners:** - The institution defines beneficial owners to include individuals with 25% or more equity interest in a legal entity and a single individual with significant responsibility to
	control, manage, or direct a legal entity customer (Control Prong). This includes executive officers or senior managers such as a CEO, CFO, COO, Managing Member, General Partner, President, Vice President, or Treasurer (Context: "Control Prong: An individual with significant responsibility to control, manage, or direct a legal entity customer").
	4. **Definition of a "New Account":** - A "new account" is defined as an account opened by a person (individual, corporation, partnership, trust, estate, or any other entity recognized as a legal person) who opens a new account, an individual who opens a new account for another individual who lacks legal capacity, or an individual who opens a new account for any entity that is not a legal person (Context: "A customer is a personwho opens a new account").
	5. **Restrictions or Prohibitions in the BSA Program:** - The written Bank Secrecy Act (BSA) Program outlines restrictions or prohibitions related to the onboarding of certain customer types. It specifies that the bank should not open accounts for certain high-risk customers or entities, and places limitations on the use of an account while the bank attempts to verify the customer's identity (Context: "Specifies how the Bank determines when an account should not be opened. Places limitations on the use of an account while the Bank attempts to verify the customer's identity.").





Key Takeaways and Future Improvements

Lessons Learned

- Ensuring high-quality data governance, maintaining human oversight
- Addressing concerns around Al transparency
- Continuously refining the tool through feedback

What's Next?

- Enhancing AI capabilities, expanding its effectiveness across broader testing areas
- Strengthening collaboration between compliance and data science teams will drive future improvements
- Output quality improvement



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Questions



Thank you



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