

MORE THAN A FEELING

Today AML/BSA officers need an even wider-angle lens

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The world of AML continues to expand to fraud and other areas—proof is statistical, thematic, and visceral.

Yes, this week's blog's title comes from the title of a '70s song from a popular, but rather lame group, Boston. Since I just returned from that great city, attending an event on economic crimes, it made sense on several levels.

There have been several activities and reports in the past several weeks that continue to confirm the concept of recognizing that the AML professional needs more than basic BSA to get by.

First, FinCEN has just released its SAR by the Numbers and some statistics are worth mentioning:

- Reports indicating Terrorist Financing increased 8% in 2009, the first increase since 2004.

- Only 3 of the 22 listed categories of suspicious activity showed double-digit increases from the previous 12 months of reporting: "Computer Intrusion" (52%), "Counterfeit Check" (12%), and "Other" (20%).

- Of the many wide-ranging types of items entered in the Other descriptive text section, the two topics "Bust Out Scheme" and "Tax Evasion" constituted over 11% of entries made for 2009.

- Depository institution SARs characterizing Computer Intrusion as the type of suspicious activity increased 52% in 2009, compared to those filed in 2008.

- There was also an overall decrease in BSA/structuring filings.

All of this tells me that the SAR filings are changing their primary focus, to some degree, on non-BSA issues as they are capturing financial and cyber fraud. Even if that is a temporary trend, with the terrorist financing numbers increasing and the fact that those transactions typically look a lot like fraud, it is clear that the days of relying solely on BSA knowledge

are over.

ABA's Regulatory Compliance Conference and AML/Fraud

I was fortunate to have moderated a panel at ABA's recent Regulatory Compliance Conference on "AML, Data Security, and Fraud: Blurred Lines and New Challenges." I was joined by two compliance experts, Pete Janczak (M&I) and Mike Kelsey (Capital One).

Mike and Pete covered the reasons why some support the convergence of AML and Fraud, as well as the challenges to merging the two areas.

Regardless of whether you support a formal merger in your company or some incremental movement away from silos, the session established the importance of the AML and Fraud professionals working together and understanding the issues in both areas.

The speakers concluded that there needs to be coordination and communication between the areas and cross-training of those required to oversee and comply with SAR decision-making within an institution.

In addition, any merger or incremental change must be undertaken only after staff recognizes that AML is anchored in regulatory compliance and Fraud has roots in operations. This becomes important when reviewing staff skills to determine how to integrate personnel of various backgrounds.

One banker in our audience pointed out that, because of the need to address both money laundering and fraud, staff must have broader levels of expertise than they do today.

Note: My organization, ACAMS, will be surveying the membership on these challenges and I'll share those results this Fall.

Transaction Monitoring-Where do we stand?

ACAMS and our partner in our "Global AML Insights Series" Ernst and Young, just released our first survey looking at the effectiveness of transaction monitoring. We asked 50 of the largest global financial institutions from 20 countries a series of questions on issues such as the effectiveness and productivity of alerts and overall satisfaction with current systems. Get a free copy of the report.

The top three "rules" or scenarios that were seen as the most effective in the monitoring systems were:

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- • Cash or cash equivalent scenarios.
- • Rapid movement of funds.

- • Activity in high-risk jurisdictions.

When asked what drove a financial institution's decision to choose either a vendor or in-house monitoring system, 70% pointed to credibility with regulators as the reason to go with a vendor solution.

However, only 46% of the responders felt that the vendor-provided systems were adequate for AML oversight.

And more than half of the responders concluded that only 10% of the alerts generated by their transaction monitoring systems are productive!

It is obvious that financial institutions cannot simply rely on automated systems to provide SARs or other reports of potentially illegal activity but must tap their internal expertise.

At the Boston event I attended, the Assistant U.S. Attorney in the Department of Justice Economic Crimes Division told the audience that automated SARs lose the sense of judgment that is so important to quality SARs—whether on money-laundering or the vast array of financial crimes that we now have to understand and send to the government.

It's more than a feeling.

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About John Byrne, CAMS
Byrne is Executive Vice-President of the Association of Certified Anti-Money Laundering Specialists (ACAMS). He has written extensively on AML issues for 25 years and has appeared on television and testified before many congressional committees on AML-related policy issues. Prior to joining ACAMS, John was the Global Regulatory Relations Executive at Bank of America. Previous to that, he worked for the American Bankers Association for 22 years and was responsible for ABA's lobbying, regulatory, and educational efforts on money laundering, and other compliance issues. He received the ABA's Distinguished Services Award and was also the first private sector recipient of the "Director's Medal for Exceptional Service" from the Treasury Department's Financial Crimes Enforcement Network (FinCEN). Byrne can be e-mailed at jbyrne@acams.org.

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- HELPFUL LINKS: 2010 American Bankers Association/American Bar Association Money Laundering Enforcement Conference: This longtime favorite of the compliance fraternity returns in 2010 with a new, up-to-the-minute program, live, in the nation's capital. The conference is set for Oct. 17-19 at the Washington Marriot Wardman Park Hotel, Washington, D.C. For further information, [click here](#).