

15th Annual International Anti-Money Laundering Conference

March 15-17, 2010 | The Westin Diplomat | Hollywood, Florida

Protecting Your Institution through Effective Suspicious Activity Detection and Reporting

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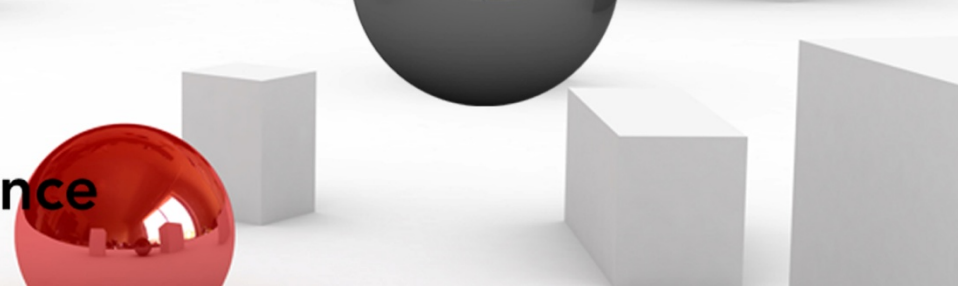
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Agenda

- Introduction
- Overview of SAR requirements
- Best Practices at Citizens and Wal-Mart
- Regulatory and HIFCA viewpoints
 - Common issues and deficiencies
- Case studies
- Questions and Answers

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Introduction & Overview of SAR Requirements

Lynne Federman

Fedkor, Inc.

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Introduction

- Importance of SAR reporting and AML program requirements.
- Need for a complete SAR program including surveillance systems, training, manual detection, other sources of investigations.
- Program steps, including assessment, analysis and action.

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Best Practices

- Take a risk based approach to each step of the program
- Make clear how you address low risk matters and escalate high risk cases
- Identify a population of customers as high risk for money laundering, and implement extra manual investigations for that population

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Include all sources of investigation in the program

- Press reports
- System generated alerts and cases
- Subpoenas
- 314 (a) matters
- Re-review of already filed SARs
- Internal referrals

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Detailed Best Practices

Deborah King, RBS Citizens

Benjamin J. Floyd, Walmart

Best Practices

Know Your Audience

- Provide actionable intelligence to law enforcement
- Ensure that your institution meets regulatory expectations
- Protect your institution's assets and customers from those individuals looking to exploit its products and services
- Demonstrate to the Board and Senior Management that your Program meets all requirements

Best Practices

Know Your Environment

- Keep current on emerging trends and regulatory initiatives
- Review media reports
- Review subpoenas received by your institution
- Make it easy for business lines to refer suspicious activity to the FIU
- Understand and actively participate in the rollout of new products and services
- Understand the impact of your institution's expanding market (e.g. new geographies, products, and customers as a result of mergers and acquisitions and expansion)

Best Practices

Know Your Systems

- Leverage your institution's best available client and transaction data sources
- Monitor the performance of your system
 - Analyze the conversion rates of alerts to case to SAR
 - Make adjustments to rules, scenarios, and parameters as needed
- Strive for the perfect balance between high yield detection and false positive containment
- Eliminate unnecessary
- Automate routine, reallocate to substantial
- Avoid duplication, connect observations

Best Practices

Know Your Data

- Identify and correct any data challenges that affect the integrity of transactions, such as the ability to identify only “true” cash
- Obtain data sufficient to stratify your customer base by type, so that you can create and leverage accurate expected activity profiles
- Integrate product lines, data sources; aggregate

Best Practices

Know Your Customers

- Analyze activity at the customer level, rather than the individual account level
- Utilize Peer Group analysis
- Ensure that business lines understand the importance of obtaining accurate customer information
- Perform link analysis
- Bring focus with fuzzy logic
- Pattern analysis

Best Practices

Know Your Investigators

- Hire Investigators with the required skill set
 - Critical thinking
 - Writing proficiency
 - Ability to see the big picture
 - Background in Law and/or Law enforcement
- Centralize your process so that all AML investigations are performed within the FIU
 - Referrals (both automated and manual) based on high risk activity
 - Referrals of newly identified High Risk Customers requiring a closer look

Best Practices

Know Your Investigators (cont.)

- Implement a seamless investigations process, with no separation between the Investigators working referrals (automated or manual) and the Investigators working cases/SARs. Rotate the Investigators between each of the roles.
- Provide meaningful training to keep the Investigators engaged
 - Live group meetings with law enforcement
 - Webinars/Seminars on topics of interest
 - Regular department meetings
- Focus field execution & training on value added

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Regulatory Perspectives

Kimberly G. Hebb

Office of the Comptroller of the Currency

Merging Monitoring Systems

Information Technology Integration

- Ensure data feeds
- Conversion of data (account types or designations)

Update Alert Scenarios

- Conduct gap analysis based on updated BSA/AML risk assessment
 - Electronic Payments Products
 - Bulk Cash
- Alert validation/Parameter testing

Merging Monitoring Systems

Alert Management

- Access to customer account information for investigations
- Reconciliation of alert management policy, procedures and processes
- SAR filing on continuing activity

Common Deficiencies/Issues

Common Deficiencies/Issues

- Misuse of alert suppression function
- Alert scenarios/parameters are too broad for bank customer profile
- Inadequate CDD for SAR determination
- Lack of periodic CDD updates to customer files

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Case Studies

Citizen's and Walmart

Case Study 1

Corruption/Domestic PEP

- Investigators assisted the FBI on a case related to possible corruption and ethics violations by an elected official. A SAR had been filed to report the apparent funneling of money through a series of accounts to the elected official.
- The scheme involved 3 banks, 4 bank accounts, 2 movie production house businesses, and 4 individuals (elected official and spouse, land developer and spouse).
- One of the business accounts, the signer for which was the spouse of the elected official, alerted for potential structuring activity.

Case Study 1 (cont.)

- The account was funded exclusively by checks from a second production house business (at another bank), one of the signers of which was the spouse of a prominent land developer, and checks drawn on the personal account of the land developer.
 - Aside from the potentially structured cash withdrawal event, outgoing activity consisted solely of the issuance of a series of checks over an extended period of time to the elected official's spouse. The checks were deposited to the personal account of the elected official's wife at a third bank.
 - There was an absence of any activity which indicated legitimate business operations in either movie production house account, nor did there appear to be any logical reason for the funds to have moved through this bank.
- Subsequently, we learned that the land developer was in the process of selling a large amount of land that was to be used for a controversial project, which was close to being blocked by state legislation. The elected official was instrumental in blocking the bill, ensuring that the land developer's deal would go through, at significant profit to the developer.

Case Study 2

Internet Purchase Fraud

- Store associate tip
- Broad sweep identified commonalities between occupation, city of permanent address, geographic region of pickup;
- Video feed review confirmed links
- 896 wire transfers for \$2.7 million
- 787 different names
- 130 stores
- Open case and ongoing collaboration with law enforcement

Case Study 3

Human Trafficking

- A customer was making atypically large (over \$10K) cash deposits to her personal checking account. The funds subsequently were being depleted via cashed checks made payable to a third person.
- At account opening, the customer reported that she worked for a national fast food chain, making the large cash deposits suspicious.
- As a result of the detailed information that we provided on both our customer and the non-customer individual cashing the checks at our branches, ICE was able to identify and track down a subject in an extensive alien smuggling ring.
- The non-customer was one of approximately 50 people for which ICE had been searching. He was arrested by ICE at the airport as he was attempting to flee the country and return to Brazil.

Case Study 4

Drug Proceeds and Prepaid Cards

- SAR-MSB filed on structured bill payments
- Contacted by FBI for supporting documentation
- Further investigation assisted in linking multiple suspects in drug money laundering ring
- Individuals suspected of loading drug proceeds to prepaid cards through bill payment services

Case Study 5

High Risk Customer/ATM Owner

- The FIU Investigator traced cash deposited to customer's ATM accounts through the accounts of 67 different but related companies.
 - Widely varying business types, including adult entertainment, real estate management, and elderly housing.
 - None were linked within the bank's customer information system because of unique tax ID numbers.
 - No typically expected business activity.
 - ATM owner had a criminal record that included receiving stolen goods, attempted larceny, giving false documents to a public official, and conspiracy for fraudulently obtaining Medicaid funds, and had suspected ties to organized crime.
- Speculation is that the actual source of funds churning through the accounts was proceeds of illegal activities such as prostitution, drug trafficking, and gambling.

Case Study 6

Tax Fraud

- SAR-MSB filed on structured domestic remittances by individual
- IRS-CI requested supporting documentation
- Filing of fraudulent tax returns
- Corrupt letter carrier
- Subsequent remittance of proceeds
- SAR linked additional suspect in case