

# Fighting Money Laundering, Part 2

Money laundering generally involves a series of multiple transactions used to disguise the source of financial assets. This enables those assets to be used without compromising the criminals who are seeking to use the funds. Through money laundering, the criminal tries to transform the monetary proceeds derived from illicit activities into funds with an apparently legal source. Worldwide value of laundered funds in a year ranges between \$500 billion to \$1 trillion, according to the United Nations Office on Drugs and Crime. Weak financial regulatory systems, lax enforcement, gaps in the information systems of financial institutions and corruption are key factors that make certain jurisdictions particularly attractive for laundering illicit proceeds.

## The Key AML Challenges

Though the AML systems of today are becoming cleverer with application of newer technology and techniques, the criminals always seem to be one step ahead. They come up with new strategies which only the human brain and trained eyes can detect. Hence, an effective AML program should have a synergy between the technology-driven integrated systems and human investigative skills.

## The Human Factor

Many financial crimes can be recognized right at the initiation point by careful observation and interpretation of the clues. Alerting front-end personnel (like the customer service executives), supported by a properly geared-up investigative workflow can do wonders. The challenges to the financial institution are:

**Continuous employee training:** The money laundering trends and the respective regulations are changing so frequently that it has become a big challenge for the institutions to keep their employees up to date. An efficient AML system requires early identification of crime, prompt notification and timely follow-up. Hence continuous employee training (at all levels) is a key success factor for any AML system.

**Efficient AML case workflow:** An effective AML system needs an efficient and flexible workflow system with a high level of coordination between different groups of actors. An alert (generated by human or system) needs to go through a series of phases before a crime can be confirmed. These phases (as illustrated in Figure) require a lot of analysis and sometimes only the human worker can identify the missing links. The processes are strictly driven by service level agreements (SLAs) and compliance rules. The challenge lies in streamlining the operational processes, which will ensure compliance (noncompliance leads to heavy penalties).





related artifacts need to be tracked and should be easily traceable. Considering the huge volume of activities, the challenge lies in developing an efficient content management engine, where all the case-related artifacts and audit trail can be maintained and archived.

**Customer risk model:** The focus of any financial institution is on the growth of its customer base. On the other hand, getting unwanted customers into the system leads to heavy financial loss. The challenge is to balance between these two aspects and to define the customer acceptance criteria, which can act as a primary filter and reduce risk for the institution.

**Enterprise-wide integration:** Any global bank will have hundreds of disparate applications to serve its business functions. This causes serious impediment in the information flow within the institution and leads to different versions of similar data. AML systems demand a single view of the customers, which can only be achieved by creating an integrated enterprise-wide architecture.

### Traditional Approach to Money Laundering Detection and its Limitations

It should be noted that each of the individual phases (placement, layering and integration) will be composed of a variety of individual activities that may vary across institutions and countries. Additionally, the number of channels through which the monetary transactions are enabled are multifarious. This duo combination greatly complicates the approach to detect money laundering.

Traditional approaches to the detection of money laundering activities followed a labor-intensive, manual approach. Traditional investigative approaches could be classified into identification of money laundering incidences, detection avoidance and surveillance of money laundering activities. These approaches relied to a great extent on field activities such as surveillance/discreet enquiries, interviews, search warrants, subject interviews and the like.

Data sources for following up on important leads are likely to be fragmented. Such an investigative approach consumes substantial time and resources. Law enforcement officials may work on a particular case for many years before they can piece together sufficient evidence to persecute a criminal. Given that the volumes of financial data and transactions have increased in a variety of ways, such techniques need to be supported by automated efforts for money laundering pattern detection.

The complexity of banking and financial services operations have also made it difficult to keep track of the various patterns of money laundering. Launderers are willing to shift their patterns of activities from physical cash to conversion to monetary instruments, reliance on wire transfers and use of non-bank money transmitters. Wire transfer transactions may be made using a variety of mechanisms, such as shell companies and front corporations, false invoicing, etc. The similarity between legitimate and illicit businesses in terms of cash turnover has also been used by launderers to obscure the trail of funds. This calls for automated methods to monitor financial transactions and to detect instances of money laundering.



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