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Practicing the ART of AML 10

Going for GOLD? 16



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SPECIAL ADVERTISING FEATURE

FRAML

COMBINING FRAUD AND AML FOR A BETTER PROCESS

A VERAFIN WHITE PAPER

In today's economic climate, financial institutions must address financial crime and compliance in a coordinated fashion. Those that don't can suffer losses, regulatory censure and fines, and, perhaps equally as important, increased reputational risk. In an age where customer trust and loyalty are at a premium, having already been jeopardized by the recent sub-prime mortgage crisis and global credit crunch (to which, incidentally, fraud was a major cause and component), banks cannot afford to gamble with such high stakes. Yet, the business case driving many consolidation initiatives is, in some way or another, artificially constrained, either by socio-political factors or by the limitations of the underlying technology used by the systems that support the banks response to these threats.

The reality is many banks are not combining their fraud and anti-money laundering (AML) processes. They continue to maintain separate efforts. Consider the following scenario:

Lisa Stack and Mary Hunter work at the same bank and rarely have time to chat.

One Monday morning, Lisa, a compliance officer, grabs her coffee and digs into the latest pile of reports on her desk. A customer, Fred Kiter, had a busy weekend. His activity broke rules for Lisa's excessive cash report. She begins to investigate and notices that Fred made several large ATM deposits. She needs to determine if they are check or cash. She makes a note to dig a little deeper and then moves on to the next case.

Meanwhile down the hall, Mary settles in for another day of fraud investigations. As she reviews the check kiting report, Fred Kiter jumps to the front of the pile. His multiple ATM deposits, combined with several check withdrawals, seem suspicious and she delves into an investigation.

This scenario is not uncommon in the real world. Two talented and busy investigators working on the exact same case because their processes do not allow for an easy synchronization of compliance and fraud investigations.

Banks should consider consolidating their AML and other compliance efforts with

their anti-fraud measures, rather than relying on separate alerts and reports. Increased efficiencies, reduced costs and improved enterprise risk management are all recognized by industry analysts, government regulatory and enforcement agencies as the end result of a well executed consolidation strategy.

Institutions interested in a consolidated approach need to be prepared for two primary obstacles:

- Overcoming the legacy of the different approaches used to achieve separate AML and anti-fraud goals,
- Removing the constraints imposed by the adoption of solutions that rely on first-generation (rules-based) technology.

These obstacles present a formidable challenge to banks that wish to (a) maximize the return on their investment in the people, processes and technology associated with their AML and anti-fraud efforts, and to (b) leverage the synergies between these programs to gain the upper hand on financial crime and compliance risks and costs across the institution.

Overcoming these challenges will require banks to move away from maintaining separate autonomous programs and unite their fraud and AML strategies at the organizational level. Fortunately, banks can now look to consolidated solutions built on second-generation (behavior-based) technology to address these challenges.

Second-generation technology allows for far more than just the automation of core banking system-type reports delivered by first-generation technology. It helps banks move beyond a decentralized, siloed approach to AML and fraud, and consolidate efforts by leveraging investments across fraud, AML and other related compliance functions.

Second-generation, fraud and AML (FRAML) technology can consolidate large volumes of information about people, accounts and transactions from a variety of disparate data sources – making it easier to spot bad guys by increasing the transparency between customer behavior and the risk exposure to financial crime schemes that fall outside of the gray areas that plague first-generation rules-based systems.

On a daily basis, using FRAML technology to achieve their consolidation goals, banks can ensure that their limited resources are used to investigate suspicious activity that is truly suspicious (true positives), while reducing investigation of activity later determined to be legitimate (false positives).

Focusing resources to investigate truly suspicious activity reduces the potential costs associated with non-compliance and fraud losses, and helps ensure that the bank's resources are used to greatest effect.

In the scenario described earlier, a consolidated FRAML approach would work like this:

Mary and Lisa have changed their process. They've combined all alerts into a single system, which Mary reviews. She'll work fraud alerts on her own, but when something looks like it might be money laundering she calls on Lisa for help. This process allows Lisa to focus more on BSA training and customer due diligence. The end result is no more duplicate investigations, less time wasted and more money saved.

The early successes experienced by some banks, coupled with the availability of solutions that use behavior-based technology, confirm that it is time for FRAML. Banks must be willing to re-examine their strategic approach to risk-based financial crime and compliance management. While it should not be viewed as a panacea, a consolidated approach to compliance and anti-fraud initiatives can enable banks to respond with equal agility to these threats, while at the same time realizing significant benefits across the organization.

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ACAMS TODAY

ON THE COVER



Practicing the
ART of AML

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While I was living in France in the late 90s, one of my favorite things was to go to the Musée d'Orsay or the Louvre. These two grand museums are inspiring in many ways. Each visit brought a new experience and a feeling of wonder at the talent and ability of so many different artists from so many different time periods.

I am clearly not the only one who visited these two grand edifices often. Always among the many visitors were to be found young painters honing their artistic skills by painting reproductions of some of the world's most famous paintings. As I looked at the original paintings that had inspired these artists and the artists' reproductions, I realized that some were advanced and others were just beginners, but they all had one thing in common: they were all practicing their art skills in two of the most renowned museums in the world.

Just as these artists were practicing mastering their art skills, the four recipients of the ACAMS' awards have been practicing the art of AML and gradually becoming experts in their respective fields. The lead article, *Practicing the Art of AML* pays homage to four of the great members that make up our wonderful association.

The second headline article *Going for Gold?* gives insight on how ATM gold machines could prove to be a playground for money launderers if proper AML controls are not implemented.

Communications 101? This sounds like a class many of us might have taken in college. Learn how you can communicate effectively as an AML compliance professional in this concise, but informative article.

Financial elder abuse is on the rise. Fraud is prevalent and as compliance professionals we must be vigilant. The article *Financial Elder Abuse* outlines important steps on what we can do to identify and prevent fraud from happening to the elder population.

Also, ACAMS has reached the 10,000th member milestone this year. Congratulations to our 10,000th member Richard Curran from HSBC! Find out more about Richard in the Member Spotlight section of the *ACAMS Today*.

I have had the privilege of working with ACAMS and with many of you for the past four years. In those past four years the *ACAMS Today* newsletter became the *ACAMS Today* magazine. Our goal at ACAMS is to consistently improve the magazine and as such we have given the *ACAMS Today* a fresh new look. We hope you will continue to enjoy the *ACAMS Today* and that it will continue to be an informative resource. As always do not forget to send your comments, ideas for articles and submissions directly to me at editor@acams.org.

I wish you all a Happy and Safe New Year's and may you create an AML masterpiece in 2011. 🎉

Karla Monterrosa-Yancey, CAMS
editor/communications manager
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August–October CAMS Graduates

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Congratulations to our 10,000th member Richard Curran!

Richard Curran was born in London and graduated from the University of Portsmouth in BA Hons Geography. After six years in an operational role at Deutsche Bank, his first taste of the anti-money laundering (AML) environment was while managing a retrospective Know Your Customer (KYC) review project for Morgan Stanley. This then resulted in a move to ABN Amro where he was again involved in the management of the UK KYC/CIP remediation, resulting from the regulatory fine imposed because of AML failings. Curran swiftly moved into an AML compliance role, responsible for the global monitoring of quality assurance across KYC, Transaction Monitoring and Transaction Filtering teams. He then accepted an exciting opportunity within HSBC as global business manager for the COBAM (client on-boarding and account maintenance) KYC team, ultimately responsible for the roll-out of a global strategic KYC solution across five core sites (London, HK, NY, Paris & Dubai).

ACAMS Today: How did you first become involved in the anti-money laundering field?

Richard Curran: I took the opportunity to switch roles to manage a KYC retrospective review project at Morgan Stanley. Initially this

focused on my project management skills, but I soon developed a strong learning and interest in the AML field.

AT: What is your most memorable compliance moment?

RC: Being at ABN Amro and seeing the impact of a regulatory fine. The significant resources and funds set aside to resolve the issues were incredible. Seeing the impact filter throughout the whole business highlighted the significance of the issue.

AT: What do you see as the biggest challenge facing AML professionals and how can ACAMS help?

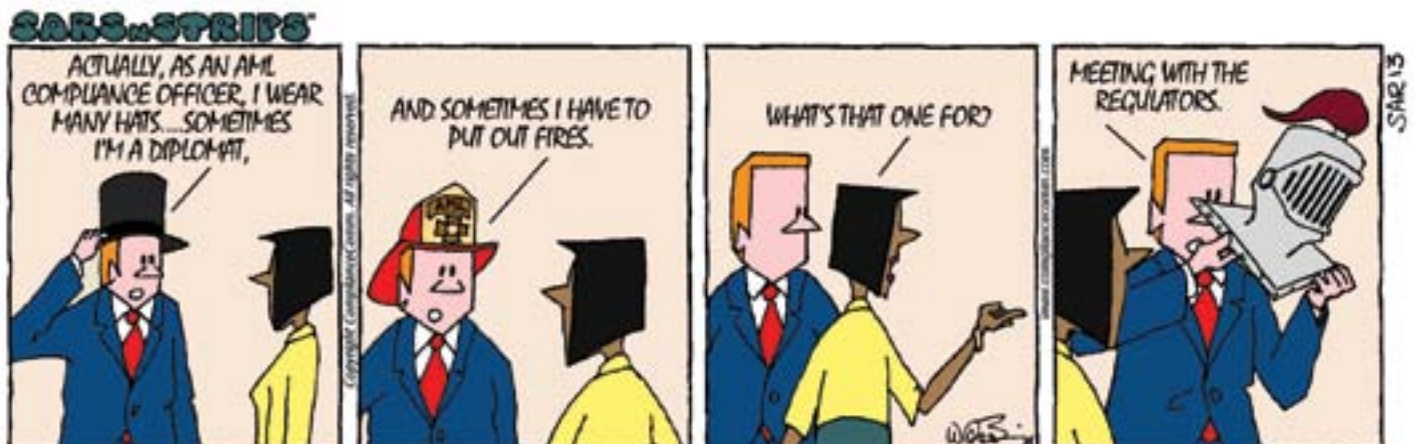
RC: The constant changing requirements and regulatory scrutiny on large financial institutions. Working for such a global organization has specific challenges when trying to align global requirements where regulations permit and translate this into a global KYC system. One change in one location can impact us from a global perspective.

ACAMS can continue to help propose and share solutions to these issues. Identifying solutions used by peer banks can go a long way in assisting with local issues. The various ACAMS' forums are great for information sharing.



AT: In your six years in the compliance field what is the best advice you have received?

RC: To try to apply a pragmatic approach to compliance. Having worked in both the compliance and business side of AML, compliance is often seen as an inhibiting business. A compliance officer that can find the balance to meet both regulatory requirements and support the business is a valuable asset to any company. **TA**



Produced by ComplianceComm



Michael Fogelman
Virginia Beach, Virginia, USA

Michael Fogelman is co-founder of International Analysis Group, a company that provides training and support services for Countering Terrorist Financing (CTF). IAG clients include international financial institutions, federal and local law enforcement and other government agencies.

Prior to launching this new business, Fogelman served in the military for 22 years as a U.S. Navy SEAL. Fifteen of those years, he specialized in counter terrorist operations. During his military career, he saw firsthand the need for disrupting terrorist financing.

Fogelman has planned and led some of the nation's most sensitive and strategically important operations. Fogelman has been involved in low visibility counter terrorist operations well before 9/11 and up until his recent retirement from government service. Fogelman brings the same level of dedication to IAG and the detection and disruption of terrorist financing, implementation of prevention strategies, enhancement of the flow of intelligence between the USG and the private sector as he did to his distinguished military career.



Perla Ortiz, CAMS
Oakland, California, USA

Perla Ortiz serves as chief compliance officer at Commonwealth Foreign Exchange, a market-leading foreign exchange services firm focused on facilitating currency exchange on behalf of domestic and international corporations. She manages the BSA/AML and OFAC programs and institutes internal controls to ensure compliance with the National Futures Association. Ortiz is responsible for the development and implementation of the proprietary compliance risk and transaction monitoring software.

Previously, she served as vice president and BSA officer for Merchants Bank of California, N.A., where she managed the BSA/AML program for the multi-national retail bank and its Unigram money transmitter service that provides transfers to Mexico and Central and South America. Prior to joining Merchants Bank, Ortiz was an education and training specialist for ACAMS. She was responsible for the development and planning of anti-money laundering conferences and seminars and conducted marketing studies to promote the growth of ACAMS.

Ortiz received her Bachelor of Science in Chemical Engineering and a Minor in International Relations from the Georgia Institute of Technology. She is a Certified Anti-Money Laundering Specialist and a member of the ACAMS Annual Conference Task Force. Ortiz is an executive board member of the ACAMS Northern California Chapter and also serves on the Northern California HIFCA Banking Roundtable.




Carolyn Vick, CAMS
Aalsmeer, Netherlands

With experience in international banking in the U.S. and Europe, Vick is a partner in international KYC. Until February 2010, she was the global risk officer for AML operations within ABN Amro, focusing on: AML and customer due diligence; stakeholder management (audit, compliance, global transaction services); business continuity planning; operational risk management (key man risk, e.g.); and transaction filtering and monitoring. She also developed and created an informal AML benchmarking study involving input and cooperation with a number of other global banks on their approach to AML and customer due diligence (CDD). Prior to this role, she led a team of 10 professionals responsible for all phases of CDD in 10 countries in Europe. This role included liaising with compliance and business heads in each country, as well as coordinating with Group Compliance and Global Business Units.

She was responsible for a project to expand the European Due Diligence group by 60 staff in Poland. The project required facilities, recruitment of initial staff with appropriate language skills, gaining support and buy-in from local Polish services group, training to be completed within two months. Project was successfully accomplished, and the next phases were begun to complete staff hiring.

Prior to her tenure with ABN Amro, Vick worked for JPMorgan Chase for more than 14 years in various roles within the transaction banking business, including regional sales manager for Germany, Austria and Switzerland for both corporate and FI clients, with teams in Frankfurt and Zurich.

Vick is a graduate of SUNY Albany. She is a Certified Anti Money Laundering Specialist (CAMS) and a Certified Cash Manager (CCM), based in New York and Amsterdam. 

Practicing the ART of AML

We are quite proud of our ACAMS' members and the many contributions that they provide within the AML/CTF industry. Each year ACAMS honors several outstanding members who have contributed immensely to the AML/CTF community. In 2010, ACAMS honored four exceptional members: Amy Wotapka, Meryl Lutsky, Daniel Wager and Dennis Lormel. These four members have been practicing the art of AML for several years and each award recipient has contributed significantly in their respective fields. We, at ACAMS, truly believe that the Association is only as strong as its members and that real value is added by each participating member. ACAMS would like to publicly thank and congratulate Amy, Meryl, Daniel and Dennis.

Amy Wotapka,
recipient of the *ACAMS Today*
Article of the Year Award



Amy Wotapka is the AML compliance manager for Capital One Financial Corporation. In her role, she leads a team that is responsible for Suspicious Activity Report Quality Assurance, as well as National Lending and Financial Services Account Closing, List Screening Quality Assurance support. She is also responsible for the Monthly AML Training program. Prior to joining Capital One, Wotapka worked for PNC Bank, where she managed an AML Surveillance team and provided general compliance and Office of Foreign Assets Control support to PNC's Treasury Management line of business. She holds several industry certifications, including the Certified Anti-Money Laundering Specialist (CAMS) designation Certified Fraud Examiner (CFE), Certified Regulatory Compliance Manager (CRCM), Certified Information Privacy Professional (CIPP), Fair Credit Reporting Act (FCRA) and American Society for Quality's Certified Quality Improvement Associate designation. Her article discussed identifying gaps in an AML program and how to bridge those gaps by exploiting hidden cost-effective opportunities.

Meryl Lutsky,
recipient of the ACAMS AML
Professional of the Year



Meryl Lutsky has been the chief of the New York State Attorney General's Money Laundering Investigations Unit and the New York State Crime Proceeds Strike Force since 2004. These units investigate and prosecute money laundering crimes, as well as violations of banking and tax laws. One of her recent investigations focused on a fraud ring whose crimes included identity theft, money laundering, bank fraud and wire fraud. Twenty members of the ring have been indicted and losses from the ring's criminal activities currently total more than \$25 million. To more effectively and creatively investigate these emerging and complex crimes, Lutsky has created a task force consisting of federal and state prosecutors, law enforcement, and regulators. Lutsky is also actively involved in educating and training financial institutions in how to better protect their institutions from financial fraud.


Daniel Wager,
recipient of the ACAMS AML
Professional of the Year



Daniel Wager is a supervisory special agent with the Department of Homeland Security, Immigration and Customs Enforcement (ICE), and currently serves as the director of the New York High Intensity Financial Crime Area (HIFCA). The NY HIFCA is a multi-agency financial intelligence unit that was identified in the 2006 FATF United States Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism as "a model for the rest of the country." As director of the HIFCA, Wager supervises analysts, investigators and support personnel from seven law enforcement agencies in the proactive review of suspicious activity reports, money laundering investigative case support and financial institution outreach. Wager also currently oversees financial intelligence development and case support activities on behalf of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and the Term Asset-Backed Securities Loan Facility (TALF) Task Force.

Dennis M. Lormel,
recipient of the ACAMS
Volunteer of the Year



Dennis M. Lormel is the founder and president of DML Associates, LLC, a full service investigative consultancy. Lormel provides consulting services and training related to terrorist financing, money laundering, fraud, financial crimes and due diligence. For 28 years, he served as a special agent in the FBI and served as chief of the FBI Financial Crimes Program. There he formulated, established and directed the FBI's terrorist financing initiative following the terrorist attacks of September 11, 2001. For his visionary contributions, Lormel received numerous commendations and awards to include the Department of Justice, Criminal Division's Award for Investigative Initiative and the Central Intelligence Agency's George H. W. Bush Award for Excellence in Counterterrorism. 



Moving toward 2011 —What is on your radar?

The end of the year is an artificial time-frame for revising strategies or goals, but we all do it anyway. An anti-money laundering (AML) challenge in December will be with us in January, and an emerging trend does not occur within a convenient schedule. However, as we approach 2011, I will follow what many have done before, and outline an ACAMS strategy for next year. First, let us revisit 2010.

Enforcement Actions — Not a major surge but clearly more dramatic

There has certainly been a surplus of stories on AML enforcement actions in 2010 in the United States, so rather than repeat the obvious themes, I would urge the AML community to recognize where the regulatory agencies found deficiencies and work together to determine how to avoid similar problems. The actions in 2010 resulted in extremely high penalties, which is cause for concern. Many of the 2010 actions can be easily found on agency web sites and, of course, on www.acams.org. The key to understanding enforcement actions, as a training tool, is to recognize that these actions are fact-based, negotiated and often do not include all areas that caused the action. Instead, simply look at the areas called out in the order by the agency and attempt to assess how your institutions or client's processes or policies compare to the institution in question.

AML/Sanctions proposals — Do not forget to comment

There were several key proposals and law changes of note in 2010. First, in the United Kingdom, we witnessed the passage of the 2010 bribery act and a clear need for financial institutions in the UK and those that work with UK institutions to revise their compliance programs to address the requirements under this new law. In the United States, the introduction of a proposal by Treasury's Financial Crimes Enforcement Network (FinCEN) to have certain financial institutions report

so-called "cross-border wire transfers" generated such concern with our membership that we had over 1,000 subscribers for a "Live Chat" that described the parameters of the proposal. As with any regulatory proposals, make sure you comment!

Finally, the "Iranian Sanctions" legislation passed earlier this year in the United States. Subsequent to its passing, we held a phone briefing on November 30th with the American Bankers Association, confirming ACAMS overall mission to offer AML-related training to the community. Expect more partnerships in 2011 as we look for other trade groups to work with and provide you with relevant AML related training.

What to look for in 2011 — Some of the same and more

It may come as a surprise to the dedicated men and women in the American (and I know many other jurisdictions throughout the world) banking system that some government officials have severely criticized the compliance response in 2010.

Specifically, the assistant attorney general of the U.S. Department of Justice (DOJ) told an AML audience:

It is not surprising, then, that the use by criminals of our banking system to launder money poses a significant criminal threat. All you have to do is look at the cartel-driven bloodshed in Mexico, the damage that organized crime syndicates can inflict on our communities, and the millions of dollars that Americans lose each year to fraud, to see why the Justice Department is so committed to prosecuting and punishing money launderers.

What may be troubling to compliance officers is that they know the importance of a strong AML program and these prosecutions, while few and far between, get more attention than the vast majority of financial institutions that follow the rules and report thousands of suspi-

cious activities each year. In any event, based on warnings from DOJ in the United States, 2011 will see more prosecutions against institutions AND individuals.

The emerging issues for 2011 will continue to be the abuse of new banking products and delivery channels such as mobile banking, prepaid access and online activity. These areas demand peer information exchanges and ACAMS plans to assist in this effort.

Human Trafficking — A problem we can address together

I have mentioned before, the reaction of ACAMS to issues such as Internet gambling, sanctions and recently, cross border wires. It is also clear from our members that the horrific crime of human trafficking must be addressed head-on with private-public partnerships. After seeing the response to an event at our NY Chapter, the Annual Conference and the recent ABA/ABA Money Laundering Enforcement Seminar, our advisory board chair, Rick Small, directed us to create a task force and an effort to both raise awareness and offer resources for solutions.

By the time you read this, ACAMS will have met with the U.S. Department of Homeland Security (DHS) to develop a plan and direction for the task force to determine how the private sector can work with law enforcement on this major challenge.

We will be reaching out to the membership for help and I know you will respond.

With all of these yearly challenges, I remain optimistic that we will work together and have some immediate progress.

Have a Safe and Restful New Year — we will be calling on you soon! 🇺🇸

John J. Byrne, CAMS
ACAMS executive vice president



Nancy Saur, CAMS: AML is a 24/7 job

A *CAMS Today* had the opportunity to chat with Nancy Saur, CAMS, FICA, ACAMS advisory board member and regional head of compliance and risk management (Caribbean) for ATC Group N.V.

Nancy is currently responsible for compliance and risk management for the Caribbean and Asian offices of the ATC Group. In 2004, she co-founded a successful compliance consulting company headquartered in the Cayman Islands. She founded the Cayman Islands Compliance Association, managed the development of computer-based training for its members and created a Cayman Islands module for an international compliance training program.

ACAMS Today: What were some of the AML/CTF lessons learned by compliance professionals in 2010? What AML challenges are unique to the Caribbean region?

Nancy Saur: It may sound trite, but as good as we are, we need to be better. Daily reading of news articles confirm that greed, fraud, money laundering and terrorism are not going away anytime soon, and no matter how good we may think we are, there is always room for improvement. Sometimes this room for improvement is major, as we have also seen increases in sanctions during 2010. In order to assist our institutions, and by extension, our jurisdictions, we need to understand the motivations and the techniques and schemes being used now and those expected to be used in the future. For many practitioners, thinking like the criminals is not easy, which makes it more difficult for us to implement programs which effectively thwart criminal activity. That is why we need to have strong relationships with law enforcement and our regulators. We also need to expand our overall knowledge of what can go wrong ... because as we know, what can go wrong often does.

What makes us unique in the Caribbean is the size of some of our jurisdictions. Because a number of jurisdictions in the Caribbean are the size of a large U.S. town or U.S. city, we have such an advantage over larger jurisdictions such as the U.S. Those of us who work in jurisdictions the size of a U.S. town say we know everyone. If we truly do, then we should have strong relationships with individuals within our regulatory, financial investiga-

tive, police service, and customs units along with the legal community. Imagine working in the U.S. and being able to say ... hmmm, I am not sure of that aspect of the regulation, I am going to call the head of the Fed, or even the head of the Fed in my region of the U.S.? Does not happen, but in our jurisdictions, most of us should be able to say, I am going to call the MD of the Regulator, or the head of the Department of the Regulator who is responsible for my industry. And this is a great strength within the Caribbean which I hope all of us are using effectively.

At the same time, for those of us in the Caribbean, we must ensure that our feeling of comfort and our knowledge of what goes on in our jurisdiction does not turn to complacency; just because we do not know or have not heard of a new scheme does not mean it is not happening or about to happen.

In addition to understanding what is happening in our home jurisdictions, the fact that we live in a global community requires us to stay abreast of what happens around us. That is where we have an opportunity to learn about best (or worst) practices which we can assimilate and incorporate into our institution's policies, procedures and operations.

AT: What recommendations would you give on how the Caribbean region can meet these challenges head on?

NS: From a regional perspective, our jurisdictions need to be engaged with the larger players around the world. AML professionals need to be engaged in working together, sharing information and best practices to ensure we are the best we can be and that our institutions' AML controls are operating effectively. Recently, I said to someone that AML is a 24/7 job — this is not to mean that we never sleep, but sometimes it feels like we do not sleep.

AT: What will be some of the emerging issues facing AML professionals in 2011?


NS: Oh, I do wish I had a crystal ball! Meeting the challenges posed by financial crime in all its forms and providing assistance to our institutions as they prepare to meet the challenges of compliance with FATCA (since some of the basic information required to facilitate identification of reportable activities lies within

the AML department, it may be that much of the identification work will fall to AML professionals, although the actual reports may be produced by operations departments). And, of course, there are the challenges of ensuring our programs are consistent with the challenges of the regulatory regimes in which we operate and with which we operate — sometimes we may need to do more than our own regulatory framework requires in order to improve the effectiveness of our inter-institutional relationships.

AT: How can a compliance professional stay abreast of new trends, scams and schemes?

NS: Picking up and reading any newspaper is a start, understanding the typologies issued by various organizations or the sanctions issued against various institutions is even better for keeping current. Because I am a visual person, when I review typologies or sanctions orders, I often draw a picture of what is being discussed, so I understand it better and can evaluate whether our policies and procedures are effective against such schemes, and if not, analyze the modifications necessary to protect my institution (and then, of course enrich our training programs). I also learn by listening to others speak about the issues they face, so for me, another great way to learn is by listening to and speaking with people who have "been there," those who are on the front lines and have seen some of the newer trends. That is what I get out of networking with compliance professionals — we speak about challenges and how to overcome them.

AT: As a program advisor of the Caribbean AML/CTF/Financial Crime Conference what do you hope will be the most important lesson learned by attendees?

NS: My expectation is that no matter what industries are represented by the panelists that attendees will take away from each session, practical, implementable suggestions for strengthening their AML, compliance and financial crime units in their own institution. My hope for each attendee is a wider network attained through meeting professionals in other jurisdictions and industries, which attendees will use effectively to make all our lives easier in 2011 and beyond. 

Prevention of illegal activities.

We help you look into and identify financial fraud and other illegal actions, as well as minimizing the consequences of such unlawful acts and developing administrative and control systems directed to preventing and mitigating many of their related risks. Our research team can assist you in most situations, regardless of the complexity of the situation.

We invite you to learn and find out how we can provide you with added value services to prevent money laundering activities.





Tarek M. Zahran:

THE EGMONT GROUP AND FATF-STYLE REGIONAL BODIES

At the ACAMS 9th Annual International Anti-Money Laundering conference, *ACAMS Today* sat down with Tarek M. Zahran, the compliance director of the Special Investigation Commission (Lebanon's Financial Intelligence Unit) to discuss the Egmont Group and FATF-Style Regional Bodies (FSRBs).

For the last nine years, Tarek's work evolved around recommending AML/CTF policies and procedures that target financial institutions and other reporting entities, as well as overseeing on-site examinations that ensure their compliance. He also provides follow up guidance by working with them to develop strategies for corrective measures and for implementing adequate internal controls including revised customer due diligence standards, monitoring techniques and risk-based analysis. He is an expert on financial intelligence units' operations including suspicious transaction reports (STRs) analysis and handling international requests of assistance. He also has extensive knowledge of the work of Middle East & North Africa Financial Action Task Force (MENAFATF) FSRB. He is heavily involved in the Special Investigation Commission work within the Egmont Group and has developed technical assistance programs for a number of regional FIUs while working closely with them to join the Egmont Group. Tarek also has participated in technical assistance missions organized by international bodies for FIUs within the MENA region.

ACAMS Today: How did the Egmont Group evolve and what is its main goal?

Tarek M. Zahran: In 1995, 13 Financial Intelligence Units from the U.S, UK, Australia, Austria, Spain, Belgium, Luxembourg, Netherlands, Norway, Monaco, Slovenia, Sweden and France along with representatives from 11 other jurisdictions, who at the time had no FIUs, met at the Egmont-Arenberg palace in Belgium. On the agenda was the future of organizations known back then as "disclosure receiving agencies" and known today as FIUs. FIUs are the national agencies responsible for receiving, analyzing and disseminating disclosures or suspicious transaction reports in connection with money laundering and terrorist financing. This meeting came after serious international efforts exerted in the late 1980s to fight money laundering, such as the UN Vienna convention on illegal narcotics that also called for a mechanism to facilitate international cooperation in money laundering investigations, and the formation in 1989 of FATF that later went on to issue in 1990 the 40 recommendations, two of which referred to a "disclosure receiving agency."

Over a period of 15 years the Egmont Group of FIUs grew from 13 members to 120 members. One main goal of the EG is to provide a forum for FIUs around the world to improve cooperation in the fight against money laundering and terrorist financing. Typically, FIUs contact each other requesting assistance or information on certain individuals, companies

or transactions over the Egmont Secure Web, a secure connection used among FIUs. The request-receiving FIU will search its database and other databases available to it from other government and law enforcement agencies, and in certain instances will ask for financial information from the financial sector and will forward the gathered information to the counterpart FIU for intelligence purposes. In hopes that such information will assist in solving certain money laundering or terrorist financing cases. The EG has its own Secretariat and five working groups (legal, IT, outreach, operational and training) that report to the heads of FIUs and work on matters such as expanding the network of FIUs, enhancing information exchange, not to mention training and technical assistance.

AT: Are all FIUs the same and are they all members of the Egmont Group?

Zahran: Generally speaking, all FIUs should be their jurisdiction's national agency responsible for receiving, analyzing and disseminating disclosures or STRs in connection with money laundering and terrorist financing; however some have other responsibilities such as supervision, compliance and transaction freezing. Several types or models of FIUs are under the umbrella of the EG. The judicial model and the law enforcement model are within judicial or law enforcement branches of government. The administrative model serves as a buffer between the finan-

cial and law enforcement communities, while the hybrid model combines characteristics of two or more models.

Today, the largest model within the EG is the administrative model (80), followed by the law enforcement model (24). Not all FIUs are members of the EG since establishing an FIU that meets the EG definition — which after the tragic events of September 11th was revisited to include terrorism financing — is the first step in becoming an EG member. In other words, to become an EG member the candidate FIU should meet the EG definition of an FIU: “A central, national agency responsible for receiving (and, as permitted, requesting), analyzing and disseminating to the competent authorities, disclosures of financial information: (i) Concerning suspected proceeds of crime and potential financing of terrorism, or (ii) Required by national legislation or regulation, in order to counter-money laundering and terrorism financing,” and be fully operational. Assessing the relevant legislation to ensure compliance with this definition and the operational status of an FIU is the work of both the legal and outreach working groups that ultimately issue a recommendation to the heads of FIUs on whether or not a FIU candidate is ready to join the EG.

AT: What are FSRBs and what is their essential role?

Zahran: Eight FSRBs cover the globe, and are all associate members of FATF. APG covers the U.S., Canada, Australia and a number of other countries in Asia. CFATF and GAFISUD cover certain Caribbean and Latin American countries. ESAAMLG & GIABA cover certain countries in Africa, while EURASIA and MONEYVAL cover parts of Europe and ASIA. MENAFATF, on the other hand, covers a number of countries in the Middle East and North Africa. Their work is primarily to help adopt the FATF 40 + 9 recommendations within their jurisdictions and carry out mutual evaluation missions to assess AML/CTF regimes of member countries based on the 2004 assessment methodology.

AT: How can the AML professional benefit from the work of FSRBs?

Zahran: AML professionals, particularly compliance officers of financial institutions,

can make good use of the work of FSRBs. The mutual evaluation missions carried out by FSRBs to assess the AML/CTF regimes of countries and the finding of those missions are published in Mutual Evaluation Reports and posted on FSRB web sites. Some financial institutions perceive themselves as immune for operating in a relatively safer environment, but whether directly or indirectly, they are exposed and thus have to assess and manage risk. The findings in those reports can be used to better assess operational risk and can be included in the risk scoring process. For instance, the compliance officer can look at the MER ratings given on certain FATF recommendations (i.e., Rec. 26 on the FIU of a certain country or at Rec. 5) to get a better understanding of CDD measures applied in a certain jurisdiction, not to mention Rec. 23 on supervision in place, which gives an idea on how financial institutions are supervised and whether or not it is sufficient.

FSRBs also issue papers on important topics specific to their region. I know that MENA-FATF has issued papers on charities, PEPs, Hawalas and is currently working on ML/TF trends specific to the region, all of which can be extremely helpful to AML professionals.


AT: We know that the NCCT list no longer exists, what process has replaced this list?

Zahran: FATF now has the International Cooperation Review Group (ICRG) process in place. Of course countries' compliance will still be measured against the FATF 40+9 recommendations, but with a special emphasis given to 16 core (Rec. 1, 5, 10, 13, SR II and IV) and key (Rec. 3, 4, 23, 26, 35, 36, 40, SR I, III, and V) recommendations. Jurisdictions that score a rating of 10 or more non-compliant or partially-compliant for those 16 recommendations on their MER will be automatically referred to the ICRG for a prima facie review conducted by one of the four regional review groups. The Africa/Middle East RRG, Americas RRG, Asia/Pacific RRG, Europe/Eurasia RRG findings will be forwarded to the ICRG and then to the FATF Plenary for possible action, such as issuing a public statement on jurisdictions that fail to meet international stan-

I would like to add that one of the successes as FIUs is the quality of information we have in our databases and the fact that we are able to share this information with other EG members

dards, similar to the most recent statement issued in February 2010.

AT: Any AML lessons learned from the recent financial crisis?

Zahran: It is common knowledge that subprime mortgages were the driving force behind the latest financial crisis. What was interesting to me was the spike in STRs reported by financial institutions in connection with financial market and real-estate fraud, not to mention insider trading. So we always need to look at the big picture and tighten controls accordingly. I would like to add that one of the successes as FIUs is the quality of information we have in our databases and the fact that we are able to share this information with other EG members. A significant part of this is in the form of STRs reported by compliance officers and MLROs. The information they provide can travel much further than the boundaries of their home country and help in the fight against money laundering and in safeguarding other communities. 

Going for GOLD?

When I studied for my CAMS certification in 2008, I noted a section in the Study Guide on “Dealers in High-Value Items (Precious Metals, Jewelry, Art, etc.)” It says, in part:

Gold is attractive to money launderers. It has high intrinsic value in a relatively compact form, which is easy to transport. It can be bought and sold easily for currency in most areas of the world... It holds its value regardless of the form it takes — whether as bullion or as a finished piece of jewelry — and is thus often sought after as a way of facilitating the transfer of wealth...

The FATF, in its 2002-2003 typologies, lists gold's advantages to money launderers as its high intrinsic value, convertibility and potential anonymity in transfers. It is used both as a source of illegal funds to be laundered (through smuggling or illegal trade in gold) and as a laundering vehicle (through the outright purchase of gold with illegal funds).¹

To put these statements into a CTF context, with gold currently in excess of USD \$1,300 per ounce, a little less than 8 ounces of bullion, coins or jewelry would have funded the 2004 Madrid train bombings.²

So, do we have anything to be concerned about now that you can buy small gold bars and coins from an ATM in the Emirates Palace Hotel in Abu Dhabi, the Westin Palace Hotel in Madrid, an airport near Bergamo, Italy, and banks, jewelers and high-end clothing stores in Germany?

Gold inside and out

Ex Oriente Lux AG, the producer of the innovative Gold to go[®] device, alternately calls it an ATM and a gold vending machine. It is a thing of beauty, sheathed in gold leaf. Under the hood, a PC runs the software that handles the transactions, and a secure VPN connection connects the ATM to the network that provides updated gold prices every 10 minutes, among other functions. An uninterruptible power supply ensures that the golden goods are always available for purchase.

A good deal of effort has gone into making the Gold to go[®] machine secure. On the physical end of the spectrum, there are both electronic and manual locking systems to prevent physical tampering with the machine. The cash boxes and product shafts are CIT (cash-in-transit) compliant, which prevents access to those assets from unauthorized parties. There is on-demand video surveillance, as well.

On the anti-money laundering side, there are a number of controls in place to minimize those risks. On closer inspection, however, there appear to be serious gaps in Gold to go[®]'s ability to prevent financial crime.

All that glitters

The Gold to go[®] ATM, first and foremost, imposes transaction size restrictions on purchases. If using a credit card without a PIN number, customers are limited to purchasing a 5 gram gold bar valued at approximately 140 EUR (USD 195). Use of a charge card limits the purchaser to a 200 EUR transaction (USD 279).

Credit card and Electronic Cash (EC) purchases with a PIN, however, do not impose any limit, as long as the card issuer authorizes the transaction. There is also no limit on the size of a cash transaction. It would seem that the limits act more as a credit-exposure control than an AML one.

There is an additional control for the PIN and cash-based transactions. If the purchase is for 1,000 EUR or greater, a personal identification card must be scanned in. This information is used to impose a limit on the number of these transactions that a customer can conduct during a given time period.

Customers may only perform three transactions in a 24-hour period. When the third purchase is made, the ATM locks the customer out for the next 48 hours.

Again, unfortunately, these controls appear to be less than effective. There is the obvious observation that if cash transactions can be as large as one's bankroll, then one only needs to make one purchase on any given day. Additionally, if the web site's English content (translated from German) is accurate, the

lockout after three purchases is only valid for that particular ATM, leaving the money launderer free to make purchases at any of the other machines.

Perhaps more curiously, Gold to go[®] only stores the personal identification card's id number, not the name or address of the individual. Additionally, the web site states that even this information will be deleted after 72 hours (e.g., after the 24 hour period for the first three purchases, plus the 48 hour exclusion period). One has to wonder, why would the vendor advertise these features, if not to promote itself to those who wish anonymity and lack of traceability?

The other side of the (gold) coin

Even if the AML controls of the ATM were less porous, would such machines, all across the world, still be a good idea? Consider that the operational costs of the attacks on the U.S.S. Cole and on the Madrid trains were approximately USD \$10,000. That is equivalent to a mere eight ounces of gold — or a chunky necklace or bangle bracelet. Even the 9/11 attacks could have been funded with 25 pounds or less of bullion, based on common estimates of \$500,000.³ It is sometimes easy to forget about combating terrorism financing, especially when trying to cater to high net worth clients.

The start of something big

Ex Oriente Lux has big plans for Gold to go[®] machines. Including the 10 machines already in place, it expects to roll out 200 machines across Germany, Switzerland and Austria:

Locations of preference are airports, hotels, shopping centers, casinos, cruise liners as well as banks and jeweler shops — locations with large attendance, an attractive environment and high security standards.³

As the prevalence and popularity of these machines grow, the controls will need to evolve with them. Otherwise, the temptation to use them as conduits for schemes both large and small will prove too great. **A**

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³ Ex Oriente Lux AG, http://webcache.googleusercontent.com/search?q=cache:91TewL-QQ_MJ:www.gold-to-go.com/en/company/atm-locations/+%22locations+of+preference+are+airports%22&cd=2&hl=en&ct=clnk&gl=us&client=safari



MORTGAGE LOAN FRAUD:

Analysis of loan modification advance fee scams

The Federal Bureau of Investigation (FBI) defines mortgage fraud as the intentional misstatement, misrepresentation — or omission by an applicant or other interested parties, relied on by a lender or underwriter to provide funding for, to purchase — or to insure a mortgage loan. According to the Financial Crimes Enforcement Network (FinCEN), the states most affected by mortgage fraud include California, Florida, New York, Illinois, Arizona, Georgia and Texas.

Mortgage loan fraud is divided into two categories:

1. Property fraud involves misrepresentations by the applicant solely for the purpose of purchasing a property for a primary residence under false pretenses. Typically, the misrepresentations perpetrated by the borrower include altered income or employment history to qualify for a loan. Property fraud may also include the assistance of real estate professionals.
2. Fraud for profit uses a scheme to remove equity, falsely inflate the value of the property or issue loans relating to fictitious properties. The FBI identifies that many of the fraud for profit schemes require “industry insiders,” who override lender controls, such as appraisers, accountants, attorneys, real estate brokers, mortgage underwriters and processors, settlement/title company employees, mortgage brokers, loan originators and other mortgage professionals engaged in the mortgage industry.

In the current environment, schemes may include loan origination, foreclosure rescue, short sale, loan modification, illegal property flipping and debt elimination, among others. To perpetrate these schemes, persons may use straw buyers, identity theft, quit claims, shell companies, inflated appraisals, as well as fraudulent loan documents. According to the FBI, when the market is down and lending is tight, like today, perpetrators gravitate to loan origination schemes involving fraudulent/manufactured documents. The likelihood of collusion among insiders rises significantly because each person in the fraud has something to gain when desperation is prevalent. Typically, the proceeds of mortgage fraud are laundered for the benefit of the fraudsters or their criminal enterprises.

Loan modification advance fee scams

A fraud for profit scheme that has increased exponentially since the decline of the housing market is the loan modification advance fee scheme. FinCEN identified loan modification companies making promises to homeowners that they would save their homes, but instead simply raked in profits by requiring homeowners to pay an advance fee for services which were never provided. The perpetrators contacted financially strapped homeowners with promises to negotiate a loan modification to prevent foreclosure, insisted upon payment of an advance fee, sometimes totaling thousands of dollars, and cautioned the unsuspecting homeowner against telling anybody about the arrangement, particularly the lender, to “avoid jeopardizing the negotiations.” However, the perpetrators failed

to contact the lender to modify the loan and the homeowner’s loan continued toward foreclosure. Finally, the perpetrator may seek to extend the fee payment by filing a bankruptcy petition in an attempt to stall the foreclosure process and cure the delinquency notices.

Another tactic of the loan modification scheme includes the payment of an advance fee by the homeowner, wherein the perpetrator advised the homeowners that their debts could be eliminated because they were illegal. The homeowners were provided bogus documents, or were instructed to contact their lenders with assertions that the original mortgage debt was illegal under various laws. Generally, similar bogus documents can be found on the Internet. Often times, the homeowner may submit these documents directly to the lender or servicer of the loan without engaging or paying a third party. Typically, this latter behavior does not fall under the purview of the scheme.

The two types of debt elimination schemes are:

1. The *Redemptionist Theory* scam is when the homeowner is informed that his mortgage or other debt can be renounced based on the argument that the Federal Government assumes responsibility. A scammer provides the homeowner with numerous, complicated or confusing forms, as well as with legal declarations to send to the lender.
2. The *Freeman in Nature* scam is based on the argument that a loan was illegally made and the borrower has no duty to repay it. This argument relies on unreasonable interpretations of federal law, the Uniform

Commercial Code, or real estate law, and often involves jeopardizing a lender's loan security by the filing of fraudulent lien releases among county land records.

The advance fee and debt elimination scams are a major concern of law enforcement because they are difficult to combat, as persons engaging in such scams can start up or shut down their activities quickly and can do so across state lines. A majority of these loan modification businesses typically involve unlicensed persons, which, if licensed as a legitimate enterprise, would inhibit the ability to rapidly open, close or relocate.

Distressed borrowers pay a hefty price for alleged modification services

According to the Lawyers' Committee for Civil Rights under Law, as of May 7, 2010, the average amount paid by homeowners for services they reported that they did not receive was about \$3,000. Moreover, the National Community Reinvestment Coalition (NCRC) found that the loan modification schemes were also marketed and perpetrated by claims that may make misrepresentations to consumers regarding their ability to obtain a loan modification, such as claiming high success rates or special relationships with mortgage lenders. Based on the current economic climate, it is apparent how these services are attractive to homeowners in distress, but on the other hand, are also attractive to businesses and those looking to perpetuate fraud and launder the proceeds. The payments for loan modification services can include cash, checks, money orders and certified checks.

The NCRC has identified a responsible loss mitigation program to assist a distressed borrower. Information should include proof of income (W2's, pay stubs, or bank statements), reason for default, monthly expenses (heating, phone, gas and electric utility bills, and food costs), unsecured debt (credit cards, personal loans, car payment, additional mortgages), medical expenses, and insurance. Accordingly, this information presented to persons engaged in a loan modification scam has subjected the borrower to a significant risk for identity theft. The identity can be used later to perpetuate another fraud. For example, a recent mortgage fraud and money laundering scheme in Minnesota involved stealing the identity of a California man, creating a false paper trail to make him appear to be a legitimate buyer, and using that identity to obtain \$1.8 million in loans on three properties.

Legislation seeks to curtail advance fees

To combat the increase in advance fee loan modification services, numerous states have enacted laws to prohibit persons from charging such fees. For example, in California, on October 11, 2009, Senate Bill 94 was signed into law. The law mandated that no person, including California licensed lawyers and real estate professionals, can receive any pre-performance compensation from a borrower for residential loan modifications or other forms of mortgage loan forbearance. Moreover, the State Bar of California prohibits lawyers from engaging in loan modification services where the service is not part of the lawyers' practice. To further protect borrowers, SB 94 extended protection to forbid any person who or which operates from outside of California from seeking or obtaining any advance or upfront fees from a California borrower for residential loan modifications and mortgage loan forbearance services.

To highlight the need for some oversight, in 2009, the State Bar of California established a Loan Modification Task Force to address increased complaints against its members with regard to loan modification services. Since its inception, the Bar has obtained six disbarments and 12 resignations of attorneys involved in loan modification misconduct. Currently, the Bar has six trials pending and more than 1,800 active investigations related to loan modification services. State Bars nationwide have instituted similar task forces and misconduct actions.

Many loan modification companies fall under debt relief services. In response to many consumer complaints against debt relief servicers, especially those engaged in telemarketing, on October 20, 2010, the Federal Trade Commission issued the Final Rule on Telemarketing Sales Rule: Amendments Addressing the Telemarketing of Debt Relief Services, which went into effect on October 27. As a result, the new rule prohibits companies that sell debt relief services over the telephone from charging fees before settling or reducing a customer's credit card or other unsecured debt.

The law coincides with a loan modification action in Indiana. On October 21, 2010, the Indiana Attorney General filed 10 criminal complaints across nine counties against for-profit foreclosure consultants whose advertisements often promised that any home can be saved from foreclosure and that their services were 100 percent guaranteed. The complaints allege the claims made by the consultants were false and illegal.

Indicia of possible illicit loan modification companies

In addition to tactics such as success rates, guarantees and misrepresentations by illicit loan modification companies to solicit desperate borrowers, these companies have intentionally created confusion in the marketplace with regard to the performance of legal services. Loan modification services are frequently marketed as provided by licensed attorneys yet the actual service is provided by unlicensed attorneys or non-legal professionals illegally providing legal services.

Desperate borrowers may be drawn to loan modification businesses strategically using key terms such as "Law Group," "Credit Services," "Credit Solutions," "Credit Law," "Funding," "Fair Lending," "Forensic Audit," among others. Numerous lawyers in various states have been found to engage in misconduct by offering legal services through firms or organizations with names that included such terms as "Advocate," "Housing Law," "Loan Negotiators," "Mortgage Relief," "Housing Assistance," "Foreclosure Relief," and "Loan Modification." Generic business names also have included "Law Center," "Law Group," "Financial Services." In addition, attorneys have been disbarred and found to have been unlicensed in the state where the borrower is located.

The current economic climate of distressed borrowers, homes with negative equity and high unemployment is ripe for fraudulent perpetrators to prey on the fears of borrowers losing their homes. Certain foreclosure rescue and loan modification scams include advanced fee payments, but result in no service rendered for the homeowners. As a result, borrowers are no further along in attempting to improve their situations, while the fraudsters launder the proceeds of the fraud. As these scams have rapidly evolved, legislation has been enacted to curtail the use of advance fee payments charged by licensed and unlicensed specialists in loan modifications. Furthermore, task forces with enforcement powers have been formed to combat these predatory practices. Finally, lenders, servicers and financial institutions should maintain robust controls and monitoring to mitigate the fraud and laundering inherent in loan modification advance fee schemes. **FA**

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Financial elder abuse:

A growing concern with beneficial ownership

When I started working as a fraud investigator, the cases were all business related — then I worked my first financial elder abuse case. What I learned is that these cases are as unique as the victims.

Financial elder and dependant adult abuse is commonly referred to as “elder abuse” or “elder fraud.” The problem of elder abuse was brought to national attention in 1977 by a United States Senate Special Committee on Aging.

Elder abuse is not only morally wrong; it is a crime. If caught, the perpetrator may face civil and criminal charges. Financial institutions are not immune when it comes to culpability or restitution. In fact, if your financial institution innocently removes or transfers assets that are associated with a fraudulent transaction such as elder abuse, your institution may be held liable for the missing assets.

Con artists are not the only abusers. In most cases, the abuse comes from a trusted friend, caregiver, professional advisor, an institution or a family member — especially children or grandchildren. Even a bad economy can make good people do bad things. Many times, the humiliation the victim feels is so immense that the abuse is never reported.

As this type of abuse continues to increase, we need to be mindful and alert when we perform our duties. We need to look for warning signs of abuse, watch for vulnerable situations, learn about financial elder abuse and what you can do to prevent it.

Unwitting participant turns into victim

Case 1: “Angela” was a 60-year-old woman who suffered from multiple sclerosis. When she became too ill to take care of herself and her financial affairs, she was conserved. The conservator hired a bookkeeper to assist with Angela’s financial affairs, and hired a live-in caregiver for her daily needs. After Angela’s death, the conservator discovered that the caregiver had possession of Angela’s checkbook and ATM card. There were monthly cash withdrawals using an ATM card despite the conservator providing a petty cash fund. The withdrawals were made soon after Angela’s Social Security benefit checks were direct deposited.

The conservator found checks that appeared signed by the caregiver using Angela’s name. Even more suspicious, some checks were prepared by the caregiver and were signed by Angela. The caregiver was aware that Angela was conserved and that neither she nor Angela had the authority to withdraw funds from Angela’s account. All of the bank accounts were managed and reconciled by the bookkeeper, who was, co-incidentally, the caregiver’s friend. The bookkeeper knew about the conservatorship and did not disclose any of these transactions to the conservator.

The bank did not notice that a conserved person was signing the checks regardless of whether the signatures were authentic or not. They also overlooked the routine ATM withdrawals.

Case 2: “Mary” is a 75-year-old widow. She was a war bride who married an American sailor and moved to the U.S. with little more than the clothes on her back. She and her husband worked hard to amass a multi-million dollar estate. When her husband passed away, she gave a Power of Attorney to her son, “Pete,” in order to handle her affairs.

Pete lived large. After his father’s death, he purchased an airplane and began “networking” at a casino in order to grow his construction business. He told his business associates that he was a wealthy man: he did not disclose to them that the money he was spending really belonged to his mother. Combined with his reputation of being a playboy, his gambling habit, his insistence on buying only the very best, and the failing economy, it did not take long for Pete to “borrow” heavily from his mother’s estate. In fact, very little was left of her estate for her care.

Pete routinely moved his loans and his mother’s assets from one financial institution to another. The institution that opened his new loans and accounts was happy to get his business and did not question Pete’s banking history. In the end, it became impossible for the financial institution to determine the beneficial owner.

Case 3: “Kate” was a 90-year-old woman. She met “Bonnie” 10 years prior at an art gallery, which Kate liked to visit. As Kate began to deteriorate both physically and mentally, Bonnie convinced Kate to hire her as a live-in caregiver.



Kate's family lived in Georgia. When they became aware of Kate's situation, they petitioned the courts to conserve Kate and to act as her Conservator. What they learned astounded them.

They learned that Bonnie used a Power of Attorney to cash out most of Kate's revenue earning stocks in order to purchase a large home for the two of them to live in. Bonnie then remodeled the house with Kate's money to suit her own needs but disregarded Kate's needs.

They also discovered that once Bonnie had control of Kate's checkbook and other accounts, the activity in those accounts increased and changed dramatically. Bonnie purchased fast food, jewelry, art, furniture and even "psychic" readings. These purchases were not typical for Kate but the bank did not see the change in pattern or activity from Kate's accounts.

Identifying the problem is not easy

From an AML perspective, we are primarily concerned with financial elder abuse. In most cases, the victim's assets come from legitimate sources. When the assets are removed or transferred improperly, that is when a crime can occur. Placement, layering and integration can be accomplished simultaneously due to the low risk of detection. The financial institution receiving these assets could be receiving the proceeds of a crime. The institution where the assets came from may be held liable for the missing assets.

The problem stems from a change in beneficial ownership of the bank accounts. In some cases, the parent simply adds the child or trusted friend as a signer on the account or joint owner of the property. Assets can be re-titled in the name of a trust or conservatorship. Control of the assets can change when managed by professional trustees, power of attorney holders, successor trustees, or conservators. At a point, it can be very difficult to determine who originally owned the assets; especially if there have been changes in institutions, bank accounts, brokerage accounts, and trustees, etc.

Perpetrators of elder abuse do not look like hardened criminals. They look like us. They may be our family, friends, caregivers or professional advisors. The results of elder abuse can be emotionally and financially devastating to the victims and their families. It is often not reported because of the guilt or shame the victims feel.

The California Attorney General's Office had the following to say about the perpetrators of financial elder abuse in their booklet, *The Financial Abuse of Seniors: Face It. It's a Crime*.

"Sadly, the majority of financial crimes against seniors are committed by people they know: friends, family, or caregivers. Regardless of whether a senior is living in his or her own home or in a long-term care facility, financial abuse can occur. Unlike strangers, family, friends, or caregivers rely on the nature of their relationship and position of trust with a senior to commit financial abuse."

The California Attorney General's Office offers this definition:

"Financial abuse' of seniors occurs when a person or entity takes, appropriates, or retains real or personal property belonging to an individual 65 years of age or older, for wrongful use or with the intent to defraud...There are four general categories of elder abuse: physical abuse, psychological abuse, neglect and financial abuse. It is important to note that financial abuse often accompanies one of these other forms of abuse."

Toshio Tataru and Lisa Kuzmeskus of the National Center on Elder Abuse described "domestic abuse as elder abuse in a person's own home, apartment, or non-institutional living arrangement." (*Types of Elder Abuse in Domestic Settings*)

The Shouse Law Group provides the following definition in their blog, *Elder Abuse on the Rise*, dated January 18, 2010:

"Broadly defined in California's Welfare and Institution Code and in Penal Code 368 PC, 'elder abuse' is any abuse, whether it's physical, emotional, financial ... and whether it's inflicted by a family member, a private caregiver, or an institution such as a nursing home or other residential treatment center ... directed at an individual who is 65 or older."

Elder abuse is on the rise

According to the California Attorney General's Office,

"The financial abuse of seniors is a rapidly growing problem, often called the 'Crime of the 21st Century.' ...Individuals who commit these crimes target our older population because they know seniors have spent a lifetime earning their savings,

Perpetrators of
elder abuse
do not look like
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They look like us

and the majority of wealth in our nation today is held by individuals over the age of 65."

The incidence of financial elder abuse is increasing because of three factors. The first factor is the increase in the elderly population. National demographic statistics for the 2010 Census is planned for release in May 2011. The most recent demographic statistics available from the U.S. Census Bureau were released in 2008 (based on Census 2000.) Census 2000 projects a population increase of 120 percent for adults over the age of 65 between 2010 and 2050.

The second factor is that a high percentage of seniors live alone. Lisa Nerenberg in *Forgotten Victims of Elder Financial Crime and Abuse, a Report and Recommendation 4*, at the National Center on Elder Abuse 1999, writes, "Living alone makes it easier for an elderly person to be abused. Abusers are not as easily scrutinized and the elderly person has less opportunities to get help."

In *Consumer Fraud and the Elderly: The Need for a Uniform System of Enforcement and Increased Civil and Criminal Penalties*, Richard Starnes states:

"Elderly people living alone are easier targets because they have no one to discuss a transaction with to determine whether it is questionable and they have a need for social contact and use the exploiter to satisfy that need."

The third factor is that the United States has the greatest transfer of wealth in U.S. history. The National Committee for the Prevention of Elder Abuse states that persons over the age of 50 control more than 70 percent of the nation's wealth. Many people who have felt

the pressure of these tough economic times feel that seniors are worth exploiting.

An article from AdvisorOne.com dated January 1, 2009 titled *Passing It Along: Wealth Transfers Continue Despite Decline in Portfolio Values*, supports these numbers:

“According to a recent Cerulli Associates Report, *Wealth Transfer: Sizing, Trends and Opportunities*, \$38.2 trillion will be passed on from the so-called Silent Generation and first-wave baby boomers to heirs and charity between 2011 and 2035...As the oldest baby boomers entered the 55 to 64 age group in 2004, the households aged 55 and above reached 36 percent of the total U.S. population and controlled 59 percent of the total net worth, according to the report.”

Warning signs of possible financial elder abuse

To help our family, friends and customers avoid becoming a victim of financial abuse, all of us should be alert to the following seven signs identified in the California Attorney General's Office booklet, *The Financial Abuse of Seniors: Face It. It's a Crime*.

- Family, friends or caregivers express an unusual interest in a senior's financial affairs.
- The sudden appearance of expensive purchases made by a relative or caregiver who has no visible means of financial support.
- Sudden change in bank account activity or banking practices, including unexplained withdrawals of large sums of money without the consent of the senior.
- Recent addition of authorized signatures on bank signature card.
- Unexplained disappearance of valuable possessions or funds (including safety deposit boxes).
- Appearance of a stranger who begins a new, close relationship and offers to handle the senior's finances and assets.
- Abrupt changes in a will or other financial documents.

Keep your eyes open to vulnerable situations

When your institution processes a bank transaction, consider the following situations that many make a senior customer vulnerable to exploitation:

- Lives alone and/or unable to drive.
- Restricted mobility, diminished eyesight, and memory loss or dementia.
- Reliance on friends, family, or caregivers.

- Increase in, or overly attentive friends, family, or caregivers.
- There is only one, possibly dominating, caregiver or companion.
- The caregiver or companion is fawning or overly helpful.

Find a solution

To help combat elder fraud, a combination of AML and anti-fraud techniques may be required. As these two functions continue to merge it should be easier to monitor accounts for elder fraud. Since 2009, ACAMS executive vice president, John Byrne, has stressed the need to merge AML with fraud. According to Charles Grice of CRI Compliance, who specializes in fraud, due diligence and money laundering for financial institutions, stated that this push for merging arose after prominent securities firm, the Lehman Brothers, filed for bankruptcy protection in 2008. Mr. Grice reinforced Mr. Byrne's statement by saying that fraud needs to be updated and incorporated with AML.


The following suggestions may help detect and prevent elder fraud in your institution:

- Schedule periodic reviews of senior citizen, trust or conservatorship accounts to clearly identify beneficial ownership.
- You may need to re-evaluate and modify your enhanced due diligence procedures. Be alert for changes to the address or telephone number on an account after a long period of stability. When a telephone number becomes unlisted, take the time to get a new number.
- Take note of transfers from trust and conservatorship accounts to other accounts controlled by the conservator or trustee. If you see transfers from these types of accounts into joint or business accounts, make an inquiry. Check signatures on conservatorship accounts.

- If an account comes to your attention, select transactions for review and check the signatures for consistency and validity.
- Have the conservator or trustee expressly request ATM or debit cards for a trust or conservatorship account. Most expenses will be routine and should be paid by check. If ATM and debit cards are requested, monitor those accounts for recurring withdrawals of money in large sums.
- Make sure account changes reflect the elder's wishes. Interview the account owner separately from the caregivers or companions. Find out if the account owner signs blank checks or has a signature stamp. If a caregiver requests a replacement stamp, make sure an original stamp exists.
- Be skeptical and trust your instincts. Just because the person in front of you is an attorney, a doctor, or a law enforcement officer does not make them immune from the pressures to commit elder fraud. On September 29, 2010, a 19-year veteran police sergeant in Salinas, California, was ordered to stand trial on charges that he embezzled more than \$40,000 from his 70-year-old mother. See *Officer Heads to Trial in Embezzlement Case*, ksbw.com.

Why should you care?

In today's litigious society, the risk and liability caused by elder fraud can be directed at financial institutions. To minimize your financial institution's risk, you should develop and implement a practical approach to help prevent and deter elder fraud. By lowering the risk of elder fraud in your institution, you could help avoid bad publicity and prevent or minimize your financial institution's liability.

As we live longer, the world's elderly population continues to increase and so does the opportunity for elder fraud. Elder fraud is a problem now and will continue to be a problem in the future — problem that hits very close to home. Terri Lewis stated it eloquently in 2002 for her William Mitchell College of Law paper, *Fifty Ways to Exploit your Grandmother: The Status of Financial Abuse of the Elderly in Minnesota*, “These are our mothers, our fathers, our grandmothers and grandfathers, our aunts and our uncles, and someday, it will be us.” 

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To help combat elder fraud, a combination of AML and anti-fraud techniques may be required

The RETALIATION factor



S*ilkwood* is a 1983 American movie based on the true story of a young woman, Karen Silkwood, who raised safety concerns at an Oklahoma (an American state) nuclear plant where she worked. As the storyline unfolds, Ms. Silkwood alleges that safety records have been falsified and corners cut, as the plant wages the never-ending corporate battle to maximize profits. During this time she becomes contaminated with radiation, believing it was orchestrated as part of a conspiracy to harass her over those same allegations.

Shortly after her contamination, Ms. Silkwood makes it known that she is about to become a whistle blower. The movie reaches its climax with her fatal one-car accident on a dark, desolate road, leaving the viewer to wonder if she may have been intentionally silenced. Approximately 13 years after her death, the nuclear plant settled out of court with her estate for \$1.38 million, after a series of trials and appeals that even reached the Supreme Court of the United States.

Philosophical evolution

There was a time in America when whistle blowing and whistle blowers were shunned by society. Waves of immigrants that populated the American landscape at the beginning of the twentieth century all came with old world values which included minding one's own business. Most were comfortable ignoring their neighbor's criminal activity, but a major difference exists between then and now. Most people living in the first half of the twentieth century were poor and financially unsophisticated; thus limiting the potential for major financial crime. Those resorting to economic crimes, or what the public viewed as harmless vice, were usually just struggling to put food on the table.

As America evolved over the last half-century, putting food on the table was replaced with expensive vacations, luxury homes and yachts. A prosperous society with disposable income to invest ushered in new investment vehicles and the accompanying strategies to maximize income and minimize taxes. Our new prosperity also brought a sharp rise in economic schemes, causing millions of Americans to lose their life savings, investments and homes, least of all faith in the system. Public indignation regarding the malfeasance of CEO's, directors and public officials has now given way to a low tolerance for financial misbehavior. The public not only salutes a whistle blower, but takes an even a dimmer view of those who are willfully blind. But hold on a minute — what about the whistle blower?

Fact versus fiction

Many American movies would have you believe that a whistle blower is the ultimate triumph

A BSA officer could be forced into a position of acting in a clandestine manner, authority or not

of good over evil. Good of course prevails and the hero lives happily ever after. What's lost in fiction is the frightening range of emotions and subsequent problems one may experience when discovering potential wrongdoing by co-workers, superiors, and especially, directors (influential customers/shareholders can cause the same issues). There have been enough cases of Bank Secrecy Act (BSA) officers being ignored, pressured, harassed, intimidated, reprimanded and even dismissed over the last several years for simply doing what they perceive to be the right thing.

Uncharted territory

Those involved in BSA and anti-money laundering (AML) may go their entire career never coming close to checking the "yes box" in the section on the suspicious activity report labeled insider relationship. Insider is a term that directly applies to anyone in an employee or director capacity at an institution. Reconciling the often-subjective nature of suspicious activity and the dilemma of "tipping off" with the decision to question the insider can present a daunting and disconcerting balancing act at best.

Now there is a clear distinction to be made between whistle blowing, where the facts indicate that the actions of an insider may be threatening the financial soundness and reputation of the institution — or life and limb of society in general — as opposed to those that

are the normal subjective opinion of the BSA officer or SAR committee. The SAR, in effect, is a de facto version of whistle blowing.

Class warfare

Now in every institution there are two classes of insiders, those at the highest rungs of the institution (directors and executive management) and those who make up the majority of the workforce. The difference between the two groups and the repercussions of filing a SAR can be strikingly opposite. Investigating an employee in a lower ranking position will generally have all the support of upper management and the board, who will not be above "throwing the employee under the bus" for regulatory expediency — no matter what explanation the employee gives or subsequent facts bear out. Those same managers and directors, however, will use the subjective nature of the SAR for selective manipulation when questioned about transactions on their own accounts, along with expecting any explanation to suffice. The litmus test for the BSA/AML professional is one simple question — would you file a SAR if the executive manager or director was just a regular customer?

A matter of trust

One of the inherent problems with investigating superiors is to whom, exactly, do you go to, and how, exactly, do you present your case. In a perfect world, when presented with a situation of this nature, the BSA officer would file a SAR against, for example, the chairman of the board, with the chairman having no idea that a SAR by one of his own employees eventually landed him/her in prison. We hardly live in a perfect world. While the chain of command at your institution should provide a clear roadmap on how you are supposed to proceed, what if you perceive a weak link in the chain, notwithstanding someone in the chain being the link under suspicion? What if you don't trust anyone in management or your board, period?

Larger institutions generally provide a BSA officer with a buffer against the likelihood of improper behavior being stonewalled or swept under the rug because of multiple layers of management and a generally more

diverse and independent board. The chain of command at the smaller institution may include one executive manager, the president, and maybe even a board member whom you are required to discuss your findings with, a situation that can be precarious. Boards of directors, particularly at community banks and smaller credit unions, often operate as either a boys club, or where six degrees of separation allow small cabals of directors to exercise control over the company; hand-picking their unqualified friends to serve as minions for a monthly stipend, usually out of proportion for the size of the institution and what they contribute.

Going it alone

If the BSA officer has authority to act unilaterally, or the composition of the SAR committee allows, a strange scenario can unfold whereby the board, and a director in question, may be reading a SAR report at their monthly meeting not remotely aware that the filing is against one of them. That is because reports to the board should not include the suspect's name or have any other identifying details. Conceivably, a SAR can be filed, the activity either discontinued or subsequently found to be normal, and the whole matter closed with no one the wiser. Of course, your regulator will probably be contacting you about the filing and may insert themselves into the situation. FinCEN guidance does promulgate that it is acceptable not to follow established policy when the suspicious activity relates to senior management or a director as long as it is documented. They do recommend that an appropriate uninvolved senior manager be advised. That is all fine, provided you can find one. The gravity of the activity, the risk of reputation and financial harm must ultimately carry the day. A BSA officer could be forced into a position of acting in a clandestine manner, authority or not.

Another concern with reporting an insider to the board is the sometimes overzealous and misguided behavior of some directors, leading to the possibility of a leak, accidentally or otherwise. The smaller the bank or credit union, the more difficult it is to keep the SAR a secret. One of the many difficulties with being a BSA/AML professional is that every time you come calling the term SAR automatically rolls off the tongue of those questioned. Despite your best possible efforts, people on the reporting ladder or in a position to know may not be as diligent. Do not be surprised

if a director learns first hand from another director that a SAR is either being contemplated against him/her or has already been filed. People, who are willing participants in economic crime or condoning it, certainly are not worried about the loss of the safe harbor provision. As a BSA officer, it is important to remember that there is no defense if someone gleans or hypothesizes that a SAR may have been filed against them.

Domino effect

If your SAR report to the board includes the reason the SAR was filed, another problem may present itself that you need to consider. Board members are conditioned to seeing standard filing reasons, such as structuring, check kiting and check fraud, reasons that hardly raise an eyebrow. If the reason shifts to mortgage fraud, self-dealing, defalcation or embezzlement, it may prompt a director to quickly realize that an insider may be involved leading to further questioning. Once again, FinCEN guidance on deviating from standard policy comes into play, with secrecy trumping tipping-off. How you determine to handle the situation is up to you.

Retaliation

As of the time of this publication (to the best of my knowledge), there have not been any reports of any BSA officers who have been subject to physical violence or who are in the witness protection program. However, we all know that SAR filings can lead to major criminal prosecution and someone faced with that prospect may act in an unconscionable manner.

Retaliation can occur for many reasons other than people who are flat out involved in criminal behavior. Some in power have such hubris that the mere thought of an underling questioning them is infuriating. Others may have convinced themselves that the BSA officer is out to get them or make a name for him or herself.

Board members and executive management are generally well off, may be politically connected and may often be so blindly loyal to each other that they are willfully blind. To be completely frank, some board members just do not understand what their responsibility to the BSA is and will not buy into any litmus test theory. Understanding the ramifications of terrorist financing and drug dealing is one thing, but for many there still remains a disconnect when it comes to tax

evasion and other assorted financial fraud. This is further augmented by the additional subjective argument of how much effort an institution should expend toward investigating. Reporting to your board that the spouse of a fellow director may be collecting unemployment benefits while operating a consulting business under a different LLC name may not be greeted with the appreciation and backing you anticipated. Ask yourself, if you did not file a SAR for one year, would anyone on your board question you?

Whatever the case, the word officer following BSA does not afford the same protection it does when used in the context of law enforcement. BSA officers can end up in the dubious position of weighing the ramifications of doing the right thing against being driven from their job by mental anguish. We all know the type of psychological warfare the powerful can wage. A man or woman with a family to support and health insurance concerns may come to the conclusion that being willfully blind — or buying into something they do not really believe in — is the better alternative. Can you really blame someone if they fear for their safety — whether that fear is real or imagined?

Future vision

The BSA officer occupies a unique position in a financial institution. Unlike a security officer or internal auditor, they have the burden of being charged with willful blindness regarding subjective and often inconclusive facts. A weakness in the BSA is that the above-described situations can cause a BSA officer to struggle in their own mind with the instinct of self-preservation. Perhaps, the time has come to reconsider and reshape some aspects of the BSA.

Maybe, each financial institution should have a government-appointed liaison that the BSA officer can correspond with directly. Perhaps an investigation should be conducted by the regulatory body that the financial institution falls under whenever a BSA officer is dismissed or resigns. Perhaps, and maybe most importantly, directors, senior officers and their immediate family should be excluded from banking at the institution they work for. And speaking of those directors, maybe it is time for a hard evaluation of who can serve on a bank or credit union board. Term limits would not hurt either. **TA**

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COMMUNICATIONS 101 for the AML compliance professional

Is there a single challenge that you face in an AML compliance function that does not involve the need for effective communications? In short, no. Being able to effectively communicate the why, how and when of compliance policies, procedures and justifications is a key component of organizational AML success. Without good communication procedures break down, policies are misunderstood or misinterpreted, management support weakens and organizations find themselves at regulatory risk. No matter how knowledgeable an AML professional is in the application of relevant laws and regulations, no matter how adept at back office technologies, no matter how skilled at financial forensics, not being able to successfully communicate the key messages can put the entire function at risk.

The thing about communications is that most people will steadfastly insist that they have the necessary skills. Very few will admit to a business associate that they are weak in any aspect of communicating. In fact, they are more likely to admit to not being knowledgeable about a technical or subject matter aspect of their job. This is because communication is very personal. Question a person's ability to communicate effectively and you will likely touch a nerve.

Taking that into account, what follows is a brief review for all the AML professionals out there who have exceptional communications skills and really do not need to be reading this at all. If necessary, read this behind closed office doors and put a paper clip on a technical article so you can quickly flip to it if someone comes in. This communications primer — I mean, refresher course — is for the AML professional that needs to make

problem solving easier through the use of effective communications.

The AML function requires a wide array of communication skills because of the varied audiences involved. You need to train, educate and motivate the frontline employees who have the most customer/client contact. You need to educate, motivate and inspire the managers, executives and board members upon whose support — and money — you rely to achieve your compliance goals. Also, you need to interact with the various regulators, not only to demonstrate your AML program's effectiveness, but also to seek clarification and guidance on the more arcane aspects of laws and regulations. This is why the mantra of communications should be "it's all about the audience." Your audience drives the creation and delivery of your message.

KYA — Know Your Audience

In the AML field, knowing your customer is a key component of any effective program. It is at the core of every message from the brief email to the most comprehensive executive presentation. It is also the cornerstone of an effective training program.

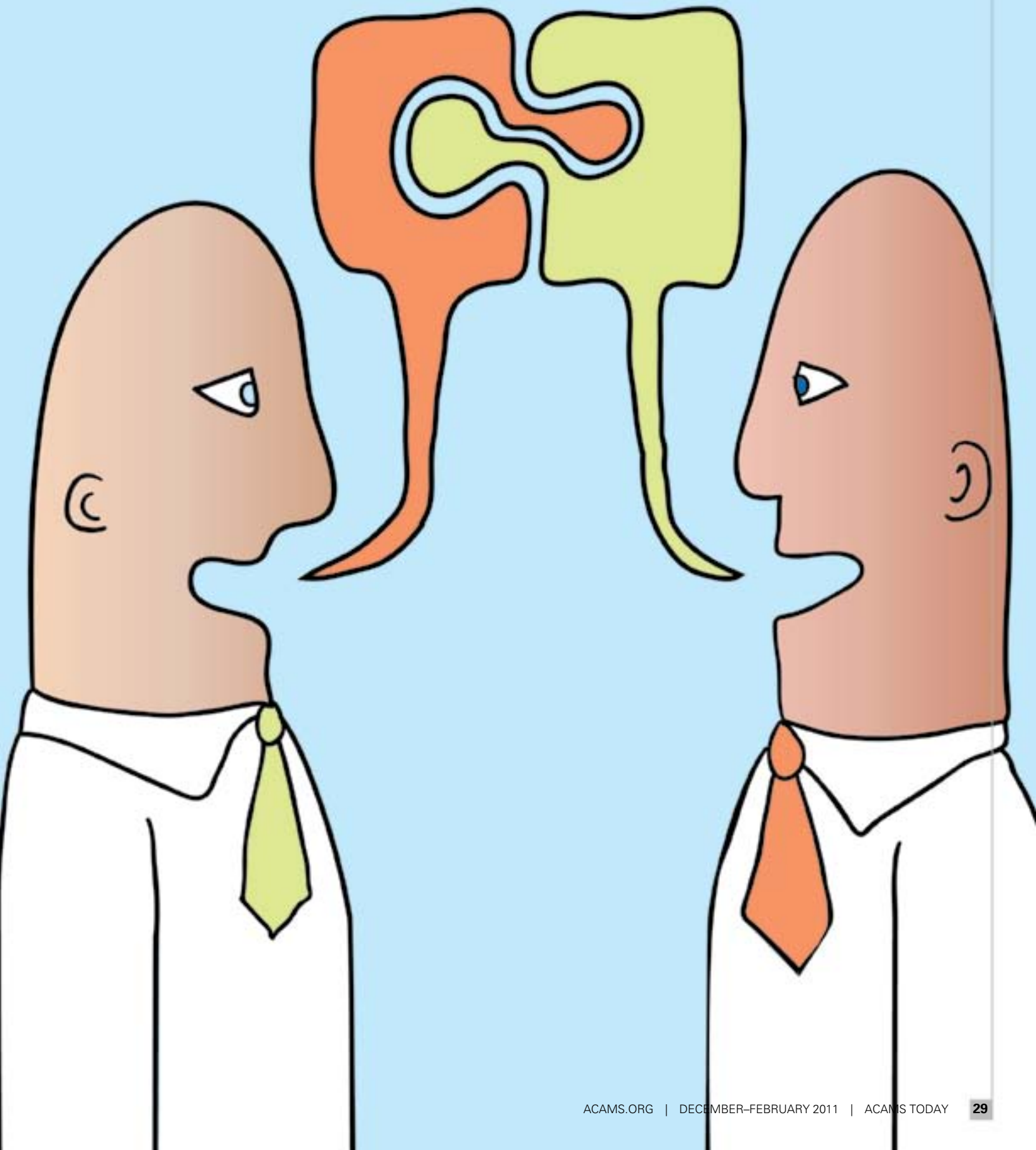
The first goal is to identify the correct audience for your message. Your executive board does not need to know about the minutiae of customer research procedures or account reviews. Your frontline employees do not need to know about the strategic risks your organization may be facing and your recommendations on how to deal with them. Match your message to your audience.

Once you have identified your audience, put yourself in their position. The first consideration is the level of detail. An executive needs to have the applicable information to make

a strategic decision. Too much detail might cloud the core message and result in confusion. On the other hand, a technical support person will likely need as much detail as possible to fully understand what your needs or problems are. That is why the duration of a meeting with the CFO is generally very short and one with technical personnel tends to go on a bit. There is a reason for that.

Often the most overlooked or misunderstood audience is the one that is primarily responsible for the day-to-day functions of your AML program. They are the ones making the first round of decisions on the risk involved with an account or transaction. They do not need the grand vision of the program nor do they need to get bogged down in tangential details. They need the information and level of detail required to do their job. A common mistake with this audience is flooding them with useless information that may result in an important message being lost or ignored in the noise. They will always need and want information on how to do their job faster, easier and more effectively. Generally, they want to get it right and keep the organization — and themselves — out of trouble. If that is not the case, then an entirely new aspect of communication is required. That is a topic for another time.

Another key aspect to knowing your audience is to understand their language. Sometimes there is a native language barrier that requires special attention. Your job is to ensure AML compliance, not insist that an employee improve his or her language skills. Discounting barriers like this, as well as cultural ones, is the proverbial recipe for disaster. In a global economy and in an increasingly diverse workforce, the cultural



makeup of your audience is a key factor in effective communications.

The other language consideration is the language of the job. The jargon is an important aspect of audience identification. It is a communications staple to avoid jargon, especially in written work. In messages to a wide audience, that is absolutely true. However, a message to a targeted audience can be more effective if you correctly use the words, acronyms and phrases that make up their daily work lives. Be warned, there is a risk here. Communicate something incorrectly and your message is lost in confusion or emotion. However, if you get it right then you are communicating with them in their work language and your message will resonate better.

The last important aspect of a target audience is how they best receive information. Is it a classic audience who still looks for the printed memo? Is it an audience raised on digital communications? Is it a diverse audience that requires a multi-faceted approach? Knowing how a particular audience is receptive to important information is a key aspect in selecting the best vehicle with which to reach them.

Craft your message

If you know your audience, creating your message is infinitely easier. Yet there are still message-specific elements to keep in mind. First and foremost is the objective of your message. Is it meant to inform, question, motivate or negotiate? Understanding what you want out of a message is critical to creating it. If you know the result you want to achieve you can measure the effectiveness of your message and use that knowledge in future communications. Make sure that the message has a point. Without a point, it is just noise.

Brevity and clarity are critical elements as well, but you know that. Everybody knows that. AML is a critical function of a financial service business or institution that is mandated by law with severe legal consequences for those who ignore it. Everyone knows that too. Yet, people are still wading through confusing messages and regulators are still very busy. The day will come when all business communications are crisp, clear and mercifully brief. That will be the day the regulators are out of a job. As AML professionals, it is our duty to hasten the arrival of that day. I suggest we all start with shorter and clearer communications.

That said, brevity does not mean leaving important things out. There was a reason that journalists, before bloggers that is, were raised on who, what, when, where, why and how. Overlooking a critical bit of information in a message can cause confusion and results in a misapplied policy or procedures. When reviewing a message, ask yourself if it contains all the information necessary to complete the action called for or to understand a particular AML concept. If information is not at hand, acknowledge that in the message and provide, if possible, when and how that information will be available. Leaving a gap in communications not only can result in ineffective AML actions, but also in creating the impression that the sender is not up to speed. Neither is a desired result.

Lastly, mistakes happen. Typos spring up from nowhere. Dates and times mysteriously invert their own numbers out of spite. Legal references point to non-existent regulations due to passing comets. Most frustrating of all, step seven in a ten-step procedure always goes missing at the most inopportune time. The correctness of a message in the AML function is obviously critical to successful compliance operations. Check, recheck and check again. Taking the time to ensure that a message is correct is time very well spent.

All of these message challenges have multiplied in recent years because we have lost the greatest business commodity of all — time. We must fire off an email or make a quick call. Everybody expects instant communications in this digital age. This is the modern-day nightmare of anyone who has to communicate — and that would be everybody. There is one time intensive element to communications that should never be sacrificed and that is the time to review something before it goes out. I know this is a fantasy, but imagine a business environment where messages are clear, concise, complete and correct. This can often be accomplished by having someone who is not the author of a message review it for content and typos. The least effective person to review a communications piece is the one who created it because the author will read what he or she meant to say and not what was actually said.

A great relationship to build in your office is a mutual review buddy. Strike up a relationship with someone whose editing skills you trust and exchange critical communication pieces for review and comment before you send them out. It is worth the time and effort because ineffective or incorrect

communications do you and your organization a disservice. In the AML realm that disservice could have consequences. Also, errant communications have a way of ending up on the Internet, even in the most secure of environments.

Getting the message out at just the right time is a key element of communication success

After discussing the lack of time in the modern business environment, it is important to note that the timeliness of a message is yet another critical element. Send it out too early or too late and it is lost in the noise because it is not relevant. Now there is the added element of frustration of your audience. Getting the message out at just the right time is a key element of communication success. Fortunately, we now have methods of instantaneously transmitting messages. Whether this is good or bad is still open for discussion, but it brings us to the subject of message vehicles.

Choose your vehicle

As you research your audience and craft your message, the way you send your message should always be an underlying consideration. By knowing your audience you have determined the best way to reach them in the most timely and effective fashion. The purpose, content and complexity of your message have also focused your options for delivery. We live in a digital communications age. Again, you knew that. But this means that our messaging must often be Internet friendly. Training videos that used to be copied onto countless VHS tapes and sent out are now posted on the Internet. Podcasts of subject matter experts can be posted and sent via email. Brief messages can be instantly Tweeted to specific audiences. The variety of methods for getting your message out has never been greater. So let us review some message vehicle concepts that will never change.


Make sure the vehicle matches the audience. If the board of directors still likes bound reports and onscreen presentations then don't send them flash videos. In knowing your audience, you can eliminate the methods of delivering your messages that will be least effective.

Make sure your vehicle supports your message and your message supports your vehicle. For example, a 20 megabyte video sent by email may never reach the audience. An email that prepares the audience for what they are about to see and provides a *working* link would be the way to go.

And finally, make sure your vehicle reaches everyone in your target audience in a timely manner. The frustration of technology is that it is fantastic. That is, when it works. Vehicle redundancy is often the best way to eliminate this issue, especially with a mixed audience with delivery preferences. Sending hard copies of critical policies and procedures, plus posting them on an appropriate, secure internal Web site, plus sending an email with the critical elements highlighted is one way to make sure that you have done your best to reach everyone in your audience. If the message is received a number of times by the same individual then you have successfully fulfilled another communications maxim. That is, tell them what you are going to tell them, tell it to them, and then tell them what you told them.

The bottom line is the perfect message for the perfect audience poorly delivered is a lost opportunity. Choose your delivery systems wisely.

There is never a last word

Effective communications, like effective AML, is a never-ending journey. It is a constant demand of the business environment, especially for someone in the AML compliance field. The key to communication success is to never stop trying to make it more effective and more efficient. If you know your audience, take care in creating your message and choose the right way and right time to deliver it, you will find that many of your other work challenges will be reduced or disappear completely. But you know that. That is fine. Just remember to use what you know. 

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Are You a Good AML Compliance Communicator?

How fluent are you in the languages you need to do your job as an AML compliance officer? Being multi-lingual in compliance is about knowing the culture and key interests of your audience and communicating with them in a manner that is most efficient and effective. Here are some of the roles in the compliance function. Can you answer all of the questions below with a Yes?

TECHIE Can you effectively communicate to your technical support staff what your backroom systems need to do, how reliable they need to be and how flexible they need to be in order to manage the dynamic requirements of financial compliance? Then can you motivate and inspire them to do it?

DIPLOMAT Can you successfully explain to a board member or executive officer the necessities of AML compliance in a profit-making organization and make that person think that staying in compliance is his or her idea?

COUNSELOR Can you offer advice in an effective manner to a mid-level manager who has been caught between the need to make money and the need to stay in compliance?

ENFORCER As compliance issues are backed up by laws and legal consequences, can you effectively enforce your compliance mandate without ruffling feathers?

OPINION LEADER Do you have the communication skills to lead an organization's approach to compliance via reasoned thinking and persuasive arguments?

TRAINING DIRECTOR Can you develop training and training support materials that not only train, but also educate, motivate and inspire as well?

EXECUTIVE DECISION MAKER Are you able to clearly communicate what you want, why you want it and how it needs to be done?

CREATIVE DIRECTOR Can you find ways to reinforce the same AML messages time after time and still hold your audience's attention?

SUBJECT MATTER EXPERT Are you able to effectively explain the complexities of negotiating the compliance maze to an audience with no AML or compliance background?

POLICY WONK Can you explain the key points of the Bank Secrecy Act, PATRIOT ACT and OFAC legislation to someone without putting them to sleep?

INTERPRETER Are you able to move smoothly from management-speak to compliance-speak to employee-speak as you engage different audiences in a short period of time or in a wide audience presentation?



Connecting AML concerns with NEW PRODUCT DEVELOPMENT

Throughout the financial crisis, much has been made of financial innovation and the need to allow it to continue unstifled by new regulations. While new regulations may cramp some of this innovation, financial institutions will likely continue to develop new products to stay relevant in today's dynamic and highly competitive financial industry.

Compliance professionals have a difficult enough time trying to get a compliance program fully implemented throughout an institution. New products make it harder for them to stay on top, as they continue to expand the reach of the institution and what needs to be covered by the program. While it is often difficult to determine what new products an institution is developing, how many times have we all heard stories about compliance finding out about a new product as it is entering the final week before launch — for the first time? This generally sets off all

sorts of crisis management within the compliance organization and may lead to some of the charges from the sales side of being deal killers. Well it does not have to be this way.

What are new products?

There are several ways of thinking about new products. One is to think very narrowly, which likely means that there have been few new products since the introduction of the credit card that allowed one to carry a balance from month to month (which seriously predates the money laundering laws). Another is that every single pricing change on a checking account, or every different co-branded credit card is a unique product. For the AML professional, the best operating definition falls somewhere between these two extremes.

A good way to view new products for AML purposes is to consider those new products, business initiatives, joint ventures and acqui-

sitions that are new to the institution or the business unit offering the product. Thus, if a bank were to expand into a new market, such as one that is considered higher risk, or a brokerage firm were to start offering online services, this would trigger the new product process. One additional consideration is a product that may previously have been offered, then discontinued, but is proposed to be re-offered. These types of products should be considered “new” if sufficient time has lapsed since the last time it was evaluated. The regulatory environment — not just the AML environment — is very dynamic and it is always good to perform an assessment to be sure that the previous assumptions still hold true.

A better way to get into new products early

The first step is to determine whether or not the institution has a new products policy. Certainly, with all of the regulations the finan-

cial industry currently faces, as well as all the changes that are coming as a result of regulatory reform spreading around the globe, compliance needs a seat at the new product table when decisions are made. This is a much larger issue than just AML — but AML professionals can certainly leverage this kind of work. All policies should have an owner, so it would be a good idea to contact the owner to see about getting AML involved in the new product review process.

If an institution does not have a new product policy, it should have some process — perhaps less formal — that will have the same result. The compliance or risk management staff should be aware of these processes. As mentioned before, there are too many laws and regulations for the creative staff in the new products development areas to have mastered. This is where the compliance professional's involvement is vital.

Often, the decisions on new products are made within the lines of business. After all, they are the ones charged with making the money and bringing in the customers, so they should have a say in what ultimately gets provided to the customers to make the money. These decisions are generally made by a committee that may already include representation from product development, finance, senior management and legal. If compliance is not part of this committee, that needs to change. As stated above, it is critical that compliance be involved early in the process to be sure that compliance considerations are brought into the product development process appropriately. This can be done by either getting direct participation on the new product committee or by relying on the committee to come to AML when it sees the need to do so.

There is a downside to getting direct participation, as not all new products need AML review. As mentioned previously, many new products are simply new pricing structures on existing products. These are not generally of great interest to AML professionals. Thus, such meetings may not be overly productive. However, relying on the committee to know when AML involvement is necessary also presents problems.

This is where developing a checklist of key considerations that need AML involvement is very helpful. Some of the items that could be on the checklist include whether the new product will change the way customer due diligence information is obtained, collected

or stored; whether it will enable the movement of customer funds across accounts or if it will change the way customers are able to move funds (e.g., new technology, such as via Internet or mobile banking). Will it change how customer accounts are set up? Will it enable outside vendors to have access to customer information? Will new platforms or technology be used, does it represent a significant change in the clientele (such as targeting higher risk customers or geographies)? These will impact some key AML controls, such as monitoring for unusual activity, as well as screening for potential sanctions violations. Involving outside vendors may trigger training requirements for the vendors. These are complicated AML considerations that the new product folks are not likely to consider — but where you can provide them with the tips as to when it is appropriate to get you involved.

Documentation of risks and key decisions

It is always best to document key decisions — particularly when it comes to those that deal with risk. But what exactly should be documented? Generally, there are four key items to document to put the decision in the proper context in which it was made. This documentation is useful not only for posterity, but also for discussing the new product with the business. If any of the information documented is not correct or complete, the business will have the opportunity to correct the errors or provide more information where additional clarity is needed or additional details are missing. This way, the decision is very transparent to all parties and there should be much less chance for second guessing the decision if both parties agree to the documentation.


The first is a summary of the new product. In essence, what is the business opportunity, including the size and scope of the new product, the environment or competitive landscape? This clearly documents what exactly the new product was when the decision was made. Thus, if the size and scope of the product vastly outperform the initial expectations, you can go back and see that the initial decisions were made on a much lower forecast.

The second would be a determination of the inherent risks; what is it about the new product that makes it an AML concern? Is it that the business proposes marketing payable through accounts to foreign correspondents when this has not been done before? Is it that

regulators have recently criticized a peer institution for engaging in the same new product being proposed? The business generally does not have the same in-depth AML knowledge as the AML compliance staff, so it is helpful to clearly articulate the risks.

The third step is an assessment of the business' capability to handle the risks associated with the new product opportunity. What kinds of controls are in place and what additional controls should be considered? For example, if a web-based bill payment platform is set up, using a third-party vendor, what is the system for checking potential payees against economic sanctions lists? If there are none, this is certainly a control that compliance staff should point out to the business. If the product targets higher risk clientele, are there additional up-front due diligence steps, such as asking more information at account opening, or are there additional behind the scenes controls, such as additional suspicious activity monitoring, that should be taken?

The fourth and most important step is to assess the overall risk of the new product, considering the inherent risk, the controls and the opportunity. If the cost of building the controls will exceed the revenue opportunities (assuming both of these estimates are available), the compliance officer should clearly indicate this in the assessment. While not all the decisions will be this easy, the documentation of the underlying facts, as determined by the AML compliance officer, will help shape the discussion, as well as any further escalation that may occur.

New products will continue to expand the scope of AML compliance programs and will require new and innovative ways to mitigate AML risk. However, while it is a daunting task to stay on top of all this change, as well as managing the regular day-to-day issues that arise, with a little creativity and influence, the process can be managed effectively. By developing a formal process to document the assessment of the AML risks and partnering with the new products committees, the AML compliance officer can develop a sense of comfort in knowing that there should be fewer last minute crises dealing with new products that are rolling out the door. 

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Closing accounts requires the same scrutiny as opening them

The number of news stories reporting mortgage fraud, Ponzi schemes and other financial crimes are on the rise. These crimes are not just happening in large, international banks — they are affecting institutions of all sizes. What does a financial institution do when it realizes a customer's account is associated with a financial crime? What does the head of its compliance department do when a customer engages in suspicious activity and his team continues to write Suspicious Activity Reports over and over again? As the risk from financial crimes becomes more prevalent, financial institutions may benefit from implementing a formal, documented *account closing process* designed to protect the organization from financial, reputational and compliance risk.

There are four key things a firm should consider when implementing such a process:

- The internal stakeholders who should be involved in the process;
- The types of accounts that should be referred;
- Process documentation through written policies and procedures; and
- A centralized unit responsible for communicating account closure decisions to other lines of business

Internal stakeholders

Careful consideration should be given when deciding who should be involved with the process and if a committee should be created to be responsible for and have ownership of

the process. Depending on the size of the institution, the account closing committee may be comprised of one or more of the following stakeholders (keep in mind this is not an exhaustive list):

- In all cases, the Bank Secrecy Act /Anti-Money Laundering (BSA)/(AML) department is the most important stakeholder in the process since they are well trained to recognize suspicious activity;
- The legal department should be consulted when legal questions arise; and
- The business line should also be represented due to their product knowledge. For instance, if a credit card is being reviewed for closure, then use a compliance advisor assigned to the credit card line of business. Unusual activity on an account could be explained by a rewards program the line of business representative would have insight to and might not be obvious to an AML investigator.

In most cases, a smaller institution will involve fewer stakeholders.

When considering terminating an account relationship, checks and balances, inherent in a committee-type process should be developed. Affected stakeholders should be incorporated in any checks and balances system.

The Office of the Comptroller of the Currency's (OCC) recent actions against Whitney Bank¹ serve as a great example of why a company should start involving its BSA/AML department in account closing decisions. According to the OCC, final decisions

on account closing in regards to illegal or potentially illegal activity uncovered by fraud or AML, should lie with the BSA/AML department. The Consent Order (AA-EC-09-114) issued by the OCC on February 19, 2010 requires "well-defined policies and procedures for investigating and resolving transactions that have been identified as posing greater than normal risk for compliance with the Bank Secrecy Act, including the designation of responsibility for account closing decisions to the BSA business; however, the ultimate decision should rely with the BSA department."

What type of cases should be referred to the account closing department?

A company should start with accounts on which it has filed numerous Suspicious Activity Reports and those that could be riskier in regard to loss or exposure to money laundering. Some examples are cash structuring, confirmed illegal gambling activity and money laundering.

Negative news cases are other account types that should be referred. If a financial institution is monitoring the news and then reviewing the account profile for these accounts already, educate the screening/investigations department on the types of cases that should be referred for account closing consideration. It can narrow the scope of negative news cases by limiting the referrals to financial crimes. Research the news stories, as well as the outcome, such as if an arrest was made. Then ask, "Is there the possi-

¹Consent Order issued by the Office of the Comptroller of Currency AA-EC-09-114, February 19, 2010



bility that ill-gotten funds went through the account?" A thorough account review should be done on these accounts for potential suspicious activity. Also, make sure to review the account history and determine if any Suspicious Activity Reports have been filed.

Documenting the process

Thoroughly document the decision in a comprehensible format, and store it where it can be easily produced if required by internal auditors or external examiners. Some important factors to consider when writing procedures are:

- Who is responsible for each function?
- Who will sit on the committee?
- Who does the committee report to?

Procedures should document who is accountable for each function by clearly stating the decision makers, who documents the decisions and who is responsible for reporting and presenting at committee meetings. It is highly recommended the committee report to the BSA/AML department which should be responsible for the ultimate decision. The consent order mentioned above reminds us of the importance of that responsibility.

The company should determine if it wants to prevent the account holder(s) from applying for products in the future or opening new deposit accounts (some institutions call this a "hot list" or "watch list"). In some cases the company may decide not to prevent re-application, and let its suspicious activity indicators do their job if that customer applies or opens an account again. If "hot listing" is warranted, bring the department responsible for account origination into the process. They need to be notified of this decision so they may decline these customers before initiating a new account.

Use a centralized process for closing and tracking

Let us say a compliance department has made the decision to close an account and decided it does not want to see the return of this customer. What should it do now? A centralized process is a key factor in identifying other accounts belonging to that person or company within the institution and providing notification throughout the company of the decision. This process should be able to provide a holistic view of the entire organization and customer relationships. Having a "view" of

the entire relationship can be very important to the investigation. Other departments may decide to leave the person or company's other accounts open because the activity it is seeing does not impact the customer's ability to pay off a loan or make a credit transaction. However, for riskier accounts with increased potential for suspicious activity, increased due diligence should be ongoing.

Flagging the accounts because of negative news will increase scrutiny on these accounts by the AML or fraud department. Surveillance software may not have picked up on activity that could be suspicious for someone accused of a crime but has remained under the automated "threshold" or "radar." For example, a news article indicating a local money services business was cited for being unlicensed could prompt a company to investigate an account that exhibited no unusual activity. If a commercial customer's business was indicted for taking bribes and their account has received payments from that indicted business account, or if the customer deposits cash in structured amounts, the institution may have received some illegal funds. The results of due diligence completed as a result of a negative news hit should factor heavily in the decision of whether to continue banking the client or cease doing business with them.

Occasionally, law enforcement agencies may ask an institution to keep a particular account open. They may be working an existing case or tracking a fugitive. According to FinCEN's guidance, "Requests by Law Enforcement for Financial Institutions to Maintain Accounts"² dated June 13, 2007, the agency should issue a written request from a supervisory agent or attorney within the U.S. government. This request should indicate the length of time the account should be left open. The guidance also states that if an institution is aware of an account being under investigation that they should notify the agency about the account status. The guidance goes on to state that "ultimately, the decision to maintain or close an account should be made by a bank in accordance with its own standards and guidelines." If maintaining the account is going to put the bank at risk for loss, the account should be closed.

If the decision is to close, notify the customer. Ensure the company is in compliance with applicable regulations (such as the adverse action requirements in Regulation B which may be triggered) when providing customer

Flagging the accounts because of negative news will increase scrutiny on these accounts by the AML or fraud department

notification. Regulation B prohibits a company from discriminating on the basis of race, color, religion, sex, marital status or age. It should be clearly documented that the closure decision was based on behavior and not one of these factors. Consult the legal department to certify whether any interpretations of law are required for the specific situation. Provide precise customer service training and escalation procedures for responding to customer inquiries related to the closing of the account.

The decision to close an account is not cut and dry. The size of the institution and variety of the portfolio can be drivers of the program. Whether the company holds committee meetings or implements rules that classify certain customer activity as unacceptable to the financial institution, the process should assess risk. The account closing decision must consider the identified risks, as well as ensure that the documented processes and procedures consider all account relationships, and decide whether the company would allow this customer to re-initiate their banking relationship in the future. Following these simple steps will ensure that the company has a process that complies with BSA guidance and considers the risk of maintaining these accounts. **▲**

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²Financial Institutions Outreach Initiative, Report to the Outreach to Large Depository Institutions; October 2009; Financial Crimes Enforcement Network (FINCEN).

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Developing key risk indicators

In the first article of this series we noted how the practice of AML is gradually evolving from similarity-heuristic based approach to a structured operational risk management discipline. The article further correlated the facets of AML monitoring processes with the principles and practices of ORM. At present, AML risks are by and large evaluated qualitatively. For instance a given customer may be deemed as “high risk” or a product type is “higher risk” than another, and so on. In this article we will attempt to put a quantitative frame around these AML risks.

One of the key characteristics of operational risk management is the criticality of quantitative measures in its practices. Looking at AML risks from a quantitative perspective is a necessary first step for AML ORM. Key Risk Indicator (KRI) risk needs to be measured or quantified before it can be managed. KRI is a quantitative measure of risk derived from one or more risk factors and have a numeric value. Another way to look at KRI is by what they do.

KRI can be a:

- measure of changing levels of risk — proxy for measuring intangible risks — measure of acceptable levels of risk
- component of an early warning system

They can be classified on what they measure. Some of the categories can be people, audit/exam, procedural and technical. Or KRIs can be classified by their timeliness: leading, concurrent or lagging indicator of risk. But in all cases they are a quantitative measure of some risk factor.

KRIs are measured and tracked to see if their underlying risk factors have changed. In a steady state system, KRIs vary over time but are typically range bound. However, if one or more of the underlying risk factors were to change significantly, the related KRIs will reflect it by exceeding some predefined limit. Mitigating actions can then be taken to bring the risk back to an acceptable level.

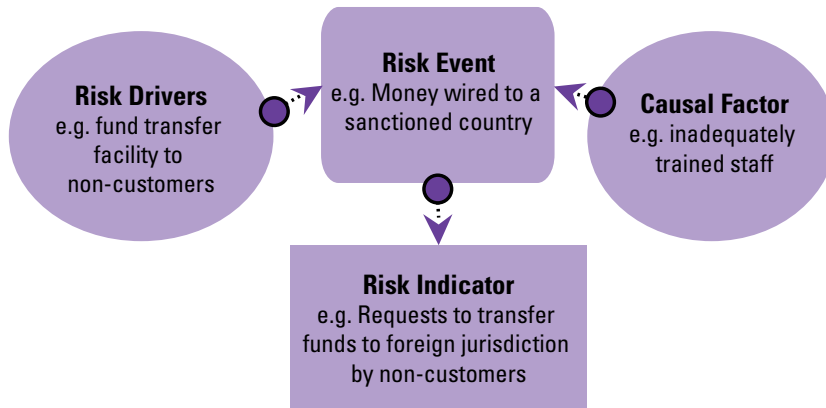
KRI development considerations

The concept of KRI is straightforward but the process of developing them is rarely so. It is an outcome of a structured and methodical risk assessment. The complexity of deriving an AML KRI is further compounded by the nature of AML controls. Many AML controls are based on statistical measures. For instance, a given transaction is compared to past transactions for variance or it may be compared to aggregated behavior of peers and so on. Thus the corresponding KRIs would need to be derived from similar statistical measures too.

In developing KRIs for AML, the intuitive first iteration is to look at numbers of alerts generated or the case backlog. While these attributes are readily measured and are good proxies of inherent risk events — are they the ideal KRIs? One issue with such generic indicators is that they are often too broad. They are aggregates of a number of risk

factors and isolating individual risk factors is not always possible. And while they may provide a platform for post-mortem, they are often lagging in nature. These generic factors are nonetheless used as KRIs because of their ubiquity which compensates some of the shortcomings.

To develop KRIs for AML three factors need to be considered: risk drivers, risk causal factors and risk events:



If the AML Risk Indicators are developed without taking into consideration the three components in the right proportion, it is likely that the results will be skewed toward measuring the lagging indicators. This happens because the risk event is more obvious and visible than the components that contribute to it. A KRI based primarily on a risk event may not provide the predictiveness necessary to stop the risk event from occurring in the first place.

It is often possible for one financial institution to use the best practices followed by another. However, KRI does not travel well across institutional boundaries. Risk drivers, and to a certain extent the causal factors, are both functions of type, location and size of the bank and are thus context sensitive. For instance, dealing with a non-customer may be a norm at a money services business while it may not be permitted in a larger bank. Similarly, a rural bank may not have the staff with experience in international money transfer which may be a common activity at a similarly sized bank in a metropolitan area. So while it is instructive to find out what others are doing, each bank has to develop its own set of AML KRIs.

KRI development process

The development of AML KRI involves a comprehensive risk assessment process.

The first step can be to start from known risk events, such as the SARs filed by the bank. While a sound approach, generally the banks will not have a large enough database of known risk events to cover all of its risks. Optionally, the bank can rely on published AML risks from regulators, law enforcement or its peers. But since each bank is unique in many ways — products, processes, locations and customer base — it will in all likelihood lead to a set of KRIs that are not very relevant or useful.

In order to identify a set of KRI, the bank should conduct an AML risk event analysis. The purpose of this analysis is to identify the real and significant events from a set of all possible ones. The analysis should yield the probability of the occurrence of risk events and the cost associated with it. Once the relevant AML risk events are identified, the next step is to determine the risk factors and the causal factors associated with it. Evaluating these three factors together for all the possible and probable risk events would yield a starter set of risk indicators.

After identifying the KRIs, the next step is to determine their relevance and thresholds. There is not much point in tracking an indicator that does not yield useful information or measures an obscure risk. It is necessary to be clear on the objective and the nature of indicator. The question to be answered is — what are we measuring and why? Once we are sure about the efficacy and relevance of a KRI, its thresholds have to be determined. In some cases the relationship between the KRI and risk event is linear. An example of a linear relationship could be that the KRI is the number of analysts reviewing the OFAC alerts and the risk event is the backlog of alerts. It is possible to extrapolate that a 10 percent reduction in staff would result in 10 percent increase in alert backlog. But in general,

KRIs do not have a linear relationship with associated risk events. For instance, the number of adverse findings in an audit of AML processes (a commonly used KRI) is not linearly related to instances of money laundering.

In such cases practitioners have to resort to an “educated guess” more often than not. There are many analytical tools available for conducting a formal analysis — a critical success factor for selecting the right KRIs. While I have not come across one specially designed for AML, using one of the many ORM tools from ITIL or the COSO/COBIT framework arsenal would serve quite well.

In the next article we will conduct an analysis of KRIs using one such analytical tool. Some examples of AML KRI —include the following:

- Number of SARs or CTRs or STRs filed in a given period of time
- Number of alerts generated
- Number of cases generated
- Number of case/alert backlog
- Increase in number of high risk activities (e.g., significant increase in number of international fund transfer)
- Number of adverse findings in internal audit, such as staff turnover, average risk rating of customers and products, number of technical anomalies and number of third party relationships.

Summary

KRIs are quantitative representations of risks. They can serve as a measure of acceptable risk levels or as early warning signals or even as a measure of the cause of risk. KRI could be a leading, concurrent or lagging indicator of risk. One important characteristics of KRI is that they can always be measured. While it is a very intuitive concept, implementing a KRI program requires considerable analysis of various risks and its relative impact on the AML program.

The following articles in this series will demonstrate the process of evaluating risk events to identify AML Key Risk Indicators using MS Excel and a suitable open source/public domain software.

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An overview on crime and terrorism in CENTRAL ASIA

Editor's note: This is part one of a two series article. Part one provides an overview of crime and terrorism in Central Asia. Part two will discuss the position of the AML/CTF regimes in each country in the Central Asia region.

Central Asia's relevance in geopolitical terms is increasing due to the abundance of natural resources in the region. The following article aims to provide a snapshot of the Central Asian region, which includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The article will set out some general background information, and then elaborate on the threats facing the region as a result of criminal activity, such as those resulting from money laundering, political corruption and terrorism.

Central Asia: the transition process and the region's geopolitical political role

Following the collapse of the former Soviet Union, Central Asia emerged as an ethnic hotbed, prone to instability and conflict. For the five former Soviet Union states, the tran-

sition process has proved to be both difficult and protracted. Since independence, progress toward democracy and a market economy has been patchy and the final outcome of the journey remains uncertain. Freedom House¹, which provides a yearly comparative assessment of global political rights and civil liberties worldwide listed all Central Asian states as "not free." According to Transparency International's *Corruptions Perception Index 2009*² out of the 180 countries ranked, the Central Asian states rank as some of the most corrupt countries in the world. Kazakhstan is listed at 105, Tajikistan at 154, Kyrgyzstan at 164, Turkmenistan at 172 and Uzbekistan being at 172.

These figures are however an improvement on those published in the same index for the year 2009. In particular Kazakhstan registered a distinct improvement from being listed at 120 in 2009. Central Asian states have been weakened through the ongoing crises in the institutions of criminal justice. In particular, the aggregation of power in the hands of an executive has led to a judiciary that lacks de facto independence and a legislative branch that is ineffective in exer-

cising oversight functions. The problems in the Central Asian criminal justice systems extend to the law enforcement agencies.

Despite some improvements in the region's overall transition process, country and regional experts see ethnic enclaves in the border regions in Central Asia and beyond as being particularly prone to future conflicts, in particular given that Tajikistan, Turkmenistan and Uzbekistan border with Afghanistan.

In addition, being rich in energy resources and minerals has given the region an important geostrategic positioning and Central Asia has emerged as an international playground into which not only Russia project influence, but also Turkey, Iran, China, Pakistan, India, the United States and the European Union.

Crime in Central Asia and the resulting security threat

As highlighted in the report, *An Assessment of Transnational Organised Crime in Central Asia*³, published by United Nations Office on Drugs and Crime (UNODC) in 2007, the difficult transition process in Central Asia has provided a highly favorable envi-

¹<http://www.freedomhouse.org/template.cfm?page=363&year=2010>

²http://www.transparency.org/policy_research/surveys_indices/cpi/2009



ronment for organized crime to flourish and expand. The favorable factors included the breakdown of governance, the combination of large-scale economic dislocation and a tradition of corruption and criminality. Long before the Soviet Union collapsed, the Central Asian states had a well-established history of corrupt and criminal behavior.

In Uzbekistan for example, a virtual parallel economy existed alongside the formally Soviet one. The slow transition toward a market economy provided opportunities for both government and criminals to gain control over key sectors and key industries. The lack of transparency as a consequence of continued authoritarianism facilitated the activities of rent seeking political elites and of organized criminal groups, who often worked together in mutually beneficial ways. One of the major concerns, which has also been identified as a key security threat internationally,

is noted in the Millennium Project's *State of the Future Report 2010*⁴, whereby Central Asia is presented as exemplifying the kind of disturbed area where transnational organized crime, terrorism and governmental corruption work hand in hand.

The UNODC report identified drug trafficking to be the most serious problem within the region. With three of the Central Asian states, Tajikistan, Turkmenistan and Uzbekistan, sharing borders with Afghanistan, the largest producer of illicit opiates in the world, Central Asia is an important transit zone for illegal drugs. Other significant crimes include human trafficking, firearms, fraud and corruption. In 2010 the UNODC published a *Transnational Organized Crime Threat Assessment report*⁵, which noted that the heroin trade is controlled by well-established trafficking networks of various sizes located in Central Asia, which cooperate with corrupt officials

with a range of international connections. Some of the larger traffickers and corrupt officials may launder their money internationally, particularly in the financial hub of Dubai.

In October 2010, James Jones, then national security adviser under President Barack Obama, was reported to have said that nations need to work together better to combat money laundering and other crimes that facilitate the movement of arms, drugs and other weapons across international borders. Jones and other U.S. officials warned that international crime syndicates are expanding and acquiring more powerful weapons, and that there is a growing connection between organized crime, government and intelligence figures in Russian and Eurasian states. The major concern was that this trend risked undermining competition in gas, oil, aluminium and precious metals markets.

³<http://www.unodc.org/unodc/en/organized-crime/assessments.html?ref=menuaside>

⁴<http://www.millennium-project.org/millennium/2010SOF.html>

⁵<http://www.unodc.org/unodc/en/data-and-analysis/tocta-2010.html>

The threat of Terrorism in Central Asia

In September 2010 Miroslav Jenca, UN Secretary-General Ban Ki-moon's Special Representative and head of the UN Regional Centre for Preventive Diplomacy for Central Asia (UNRCCA)⁶, stated that to date, the region's five countries had been spared large-scale terrorist attacks but added that it cannot be denied that there is a growing concern about the possibility of intensifying activities of various extremist, terrorist, and criminal groups and networks operating in Central Asia. All of this is fuelled by instability in the wider region and porous borders through which extremism and criminal networks penetrate the region, Mr. Jenca emphasized. It is also a matter of global concern given that the wider region is fast becoming the main front on the global war against terror.

The UNODC *Transnational Organized Crime Threat Assessment* report published in 2010 noted that insurgent-led insecurity is no longer confined to southern and western Afghanistan, as even the once relatively calm northern areas bordering Tajikistan have seen anti-government elements resurfacing. This is particularly true in the Kunduz province where the Taliban have steadily staged a resurgence and now appear to threaten a vital NATO supply line. Violence spilled over the border into Tajikistan in 2009, with a number of clashes reported between Tajik security forces and Al-Qaida linked groups. A number of related incidents have also been reported in Kyrgyzstan and Uzbekistan, perhaps indicating a regional destabilization strategy on the part of militants.

According to political scientist Patrick Frost⁷, US officials have stated that Al-Qaida and Taliban militants in the Afghanistan Pakistan border region have systematically created an underground network into Central Asia. Tajikistan and Uzbekistan have been called 'feeder channels' for the terrorist groups. He noted that the foreign militants who have come to enlist in Jihad in today's Afghanistan and Pakistan got their start in Islamic extremist groups in their home countries and have roots stemming back from the turbulent Soviet invasion of Afghanistan and subsequent civil wars.

A report published by STRATFOR⁸ in September 2010, underlines the risk attached to the Afghan war with the United States. It also mentions that NATO is set to begin withdrawing troops from Afghanistan in less than a year, as well as the problems that the Central Asian countries will face with a much less restrained Taliban in Afghanistan.

In its report, STRATFOR presented an overview of the fragmented militant landscape in Central Asia, which has been active in the region since the end of the Soviet Union. The report underlines that many have split or joined up with one another and that there is often a tendency to brush all activities under the name of the Islamic Movement of Uzbekistan (IMU) when they are really not as consolidated or organized today as they once were.


- *Islamic Renaissance Party (IRP)*. Founded in 1990, it was the first Islamist political party to gain Soviet recognition. After it was banned throughout Central Asia in 1992, many of its members resorted to violence.
- *Islamic Revival Party of Tajikistan (IRPT)*. The Tajik branch of the IRP, the IRPT was active during the Tajik civil war of 1992-97 but has since turned to the political sphere.
- *United Tajik Opposition (UTO)*. UTO was an umbrella organization for the groups that fought against the Moscow-backed Tajik government during the Tajik civil war, but most of its members turned to politics at the end of the war. UTO derived much of its strength from constituent Islamist groups like the IRP, but it also encompassed the Democratic Party of Tajikistan and the ethnic Gharni group.
- *Hizb ut-Tahrir (HT)*. Founded in East Jerusalem in 1953, HT seeks to establish a worldwide caliphate. The group is present in more than 40 countries; its Central Asian base is Uzbekistan. The group promotes ideological extremism, though it does not directly engage in violence. Even so, the region's security forces have targeted it.
- *Islamic Movement of Uzbekistan (IMU)*. A militant Islamic group aligned with Al-Qaida and the Afghan Taliban, IMU was formed in 1998 after the UTO turned to politics. Its ultimate aim was to transform Uzbekistan into an Islamic state. IMU leaders since have

spread to Tajikistan, Kyrgyzstan, Kazakhstan, Iran, Afghanistan and Pakistan.

- *Islamic Jihad Union/Group (IJU)*. The IJU split off from IMU; it has a small presence in Europe.
- *Movement for the Islamic Revival of Uzbekistan (MIRU)*. MIRU was formed in 1994 and was incorporated into the IMU in 1998.
- *East Turkistan Islamic Movement (ETIM)*. A group primarily focused on independence for the northwestern Chinese region of Xinjiang, ETIM is thought to have ties with the IMU.
- *Islamic Movement of Turkistan (IMT)*. Like ETIM, IMT is thought to have ties with the IMU.

Recognizing the emerging threat, in September 2010, the UN unveiled a new scheme which brings together the UNRCCA the UN Counter-Terrorism Implementation Task Force (CTITF), Central Asian governments, civil society and others, to boost Central Asia's fight against terrorism. The new scheme aims to help Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan establish a regional counter-terrorism plan in line with the UN Global Counter-Terrorism Strategy.

From a geopolitical perspective, in particular given Central Asia's proximity to Afghanistan, and the activities of local terrorist groups, the region as a whole, remains high risk as it embarks on the slow process of combating crime. Furthermore, the 'Great Game' being played out in Central Asia by the world's largest powers leave the region fraught with a very insecure and volatile future. Like its neighboring country Afghanistan, Central Asia is culturally, ethnically and politically complex making the region a difficult and sensitive construct with which to operate.

Moreover, the issues of human rights protection in relation to the declared aim of the international community to combat terrorism in the region need careful handling. 

Jennifer Hanley-Giersch, CAMS, managing director, Business Risk Research Limited, Berlin, jennifer.hanley-business-risk-research.com

⁶<http://unrcca.unmissions.org/Default.aspx?tabid=1980>

⁷http://www.fpa.org/topics_info2414/topics_info_show.htm?doc_id=785930

⁸[The Tajikistan Attacks and Islamist Militancy in Central Asia is republished with permission](http://localhost/<a href=)

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The melting of AML and fraud functions —A conference attendee's view



The dominant emerging theme at this year's 9th annual conference was that fraud/AML organizational silos are overlapping resulting in fraud/AML functions melting together. The merging of functions is occurring regardless of industry segment, our geographic location or what position we have in our organizations. One point at the conference was made very clear: The "bad guys" get it! They are moving forward using technology to perpetuate financial crime and are cascading their illegal practices across all segments of the industry. Victimization of institutions and individuals is universal.

The conference had an increased number of sessions and an increase in involvement from our law enforcement colleagues. Special sessions were held specifically geared for law enforcement. Conference attendees were able to hear law enforcement's insights from FBI Terrorist Financing Operations Section Chief Scott Broshears and Douglas Leff, Chief of the FBI's Asset Forfeiture and Money Laundering Unit.

Additionally, representatives from law enforcement were recognized as ACAMS award winners. Congratulations to Meryl Lutsky of New York State Attorney General's Office and Dan Wager of New York HIFCA for winning the 2010 Professional of the Year Award. Retired Special FBI agent Dennis Lormel won the ACAMS Volunteer of the year award.

The conference message was clear — vendors, institution members and law enforcement must all work together to meet our common goals. Even though he did not win the Professional of the Year award, special mention was made of award nominee Darin Jarrett, Vice President and BSA/AML Compliance Office from Zions Bank.

The pre-conference workshops had record breaking attendance. Jani Gode and Tim White facilitated the workshop, Emerging Technologies: Protecting Your Organization from Criminal Schemes. The discussion centered on pre-paid cards, remote deposit and capture, mobile banking, virtual worlds and e-commerce subjects such as E-Money and E-Gold. After the session ended, attendees surrounded Gode and White like rock stars to continue the discussions that originated during the session.

James Candelmo, Senior Compliance Director Ally Bank, William Ward SVP Union Bank and I facilitated the other pre-conference workshop "An A-Z Guide to Conducting AML Investigation." The session covered investigations infrastructure, enterprise-wide BSA policy, as well as investigative issues, investigative due diligence for MSBs and investigation case studies. There was lively discussion and diverse audience participation during the session, so much so that an additional hour and a half session was added the next day to cover all the subject material that could not be covered in the original three hour session.

With more than 1,000 in attendance at the conference, most workshops and discussion groups were well attended. The Foreign Corrupt Practice Act (FCPA) was reviewed in the session Preparing for the Impact of Bribery and Corruption Regulations on Your Organization. The session concentrated on FCPA risks, FCPA definition and its impact, as well as anti-corruption "touch points" and enforcement action trends.

A forum geared solely to regulators concentrated on a discussion of regulatory best practices. The regulators who attended discussed how to work on resolving disagreements with financial institutions, coordinating with other regulators, internal audit issues and understanding the relationship between risk and response to weakness.

As in past years, Money Services Business sessions were well attended with passionate discussions taking place. The discussion sessions were facilitated by MSB industry guru's Jeff Sklar, Kiren Schulte, Mike McDonald and ACAMS advisory board member Anthony Rodriguez. MSB sessions covered the topics of Creating an AML program that fits the business model, MSB legislation update and defining the expectations and best practices for bank and MSB relationships.


As I mentioned in the beginning of this article, the subject of fraud took center stage at the conference. A session pertaining to mortgage fraud and how to protect the financial organization focused on points specific to mortgage fraud. Discussion topics included loan origination, foreclosure rescue, builder bailout, short sales, identity theft and fake title and/or escrow company schemes. Another fraud session centered on identifying fraud red

flags and suspicious activity. That session, led by Dennis Lormel and S. Marshall Martin, focused on fraud events that our community had historically examined from a compliance perspective. Topics in this session included regional risks, check fraud, ML and terror financing, BSA information, facilitating fraud investigations, non static KYC information and the importance of SARs in fraud investigations.

While many of the sessions provided information that had important subject matter regardless of region, financial institution size or industry, several sessions had a regional focus. The regional sessions included: Asia Pacific, Latin America, Europe and the Caribbean. I encourage all ACAMS members to consider joining their respective regional ACAMS chapters for continued region-specific information, networking and updates.

A special acknowledgement must go out to the ACAMS staff. The problems of overcrowding and exclusion at roundtable sessions was solved. The staff efficiently managed and guided all the sessions without a hitch. No small feat for a conference of this size. Great job Altair Gonzalez!

John Byrne was everywhere. Throughout the conference John spent time not only with ACAMS staff and presenters, but appeared to have met just about every one of 1,000 ACAMS members that attended the conference.

The conference once again provided an international forum for information exchange and development of relationships that updated and added tools for AML and compliance officers to accomplish their goals. As a community we must remain vigilant to the risks posed by terrorists from across the globe. The daily threat of terror attacks cause uneasiness in our global and regional economies hampering efforts to climb out of the complex economic recession. The ability of criminals and terrorists to victimize individuals and financial institutions with various fraudulent financial crimes schemes compels all of us in the AML/Compliance community to enhance our cooperation, communication and coordination of efforts. See you all next year in Las Vegas. 

Rob Goldfinger, CAMS, director client solutions, SightSpan Inc., North Carolina, USA, rgoldfinger@sightspan.com

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ACAMS Sales Department



A *CAMS Today* had the opportunity to speak with Jose Victor Lewis, the ACAMS regional manager for Africa, Central Asia, the Middle East and select corporate accounts in the United States right before his trip to South Africa.

Jose has been with ACAMS for over three years and has played an instrumental role in establishing partnerships with Fudan University, the Bahrain Institute of Banking and Finance (BIBF) and the Egyptian Banking Institute. He has also been instrumental in the launching of the Nigeria and South Africa Chapters.

Prior to joining ACAMS, Jose was the director of Latin America for *Tiempos del Mundo*, an international weekly publication that was distributed to select cities in the United States and Latin America. He also served as regional manager for Mexico, Central America and the Andean for *Latin Finance*, a pan-regional publication covering Latin American financial and capital markets.

Jose has also served as the executive director of the Colombian American Chamber of Commerce, where he organized high profile events featuring Alvaro Uribe Velez, former President of Colombia and Cesar Gaviria Trujillo, former President of Colombia and Secretary General of the Organization of American States. In addition Jose developed a successful support network for the unprecedented migration of Colombian business leaders, professionals and entrepreneurs to South Florida and conducted a speaking tour

to mainland China to promote trade between China and Colombia.

Jose is currently studying to earn his CAMS certification and holds a Master of Arts in Political Science along with a Certificate in Latin American and Caribbean Studies and Bachelor of Arts in International Relations from Florida International University.

ACAMS Today: In the last three years what major changes have you seen in Africa, Central Asia and the Middle East in regards to membership and AML growth?

Jose Lewis: Financial institutions and regulatory bodies throughout these regions have not let their collective guard down with regards to AML/CTF compliance, despite the recent economic turmoil. As a result, ACAMS membership has continued to grow at a steady pace overall and in certain jurisdictions such as Bahrain, Nigeria, Qatar and Saudi Arabia — where implementation of AML/CTF regulations have accelerated — ACAMS membership has grown significantly.

AT: You have had the opportunity to travel and meet a number of our esteemed ACAMS members. What would you say was your most memorable trip?

Jose Lewis: They have all been memorable, to be honest. However, participating in the ACAMS MENA Conferences in Dubai and the ACAMS Annual Conference this past September in Las Vegas and having the chance to meet so many ACAMS members

face-to-face after so many emails and phone calls was definitely a treat. A byproduct of the MENA Conferences also led to another memorable trip which took place last year to witness the launch of the ACAMS Nigeria Chapter in Lagos and a byproduct of this year's Annual Conference in Las Vegas was to confirm the launch date for this upcoming trip to participate in the launch of the South Africa Chapter in Johannesburg.

AT: What impact do you envision ACAMS' having in Africa, Central Asia and the Middle East in the next five years?

Jose Lewis: ACAMS will continue to facilitate a true AML/CTF global dialogue on a number of platforms among professionals in the field. As more ACAMS members in the region join task forces, take part in the ACAMS.org forums, participate in ACAMS conferences, seminars and webinars and take an active role in developing and running ACAMS local chapters, the development of a true AML/CTF community is taking shape around the globe.

Dedicated ACAMS members are spearheading efforts in their local jurisdictions to better educate their peers and colleagues on AML/CTF best practices, share ideas and experiences and better protect the institutions and jurisdictions they collectively represent. In five years time, I envision ACAMS with local chapters in all the major cities throughout Africa, Central Asia and the Middle East and members in all the major financial institutions doing business in these dynamic regions. **AT**

Southern California Chapter



The ACAMS Southern California Chapter marked its one year anniversary on September 16, 2010 following the West Coast AML Forum's HIFCA BSA Conference with its Second Annual Networking Reception in Torrance, California. Jerry LiVigni, senior compliance officer, Office of Foreign Assets Control, was the guest speaker and shared a passionate story on his experience in New York City on that fateful 11th day of September 2001. His story served as a chilling reminder of the importance of our roles as AML/BSA/CTF professionals.


The chapter's executive board celebrated a year of successful learning events that included topics on terrorist financing, money services businesses, electronic payments and currency, banking along the U.S. Mexico border, bulk cash smuggling and regulatory updates. The reception was well-attended by local Bank Secrecy Act (BSA) and fraud professionals from financial institutions, money services businesses (MSBs), consul-

tants, vendors, law enforcement, among others. The reception was exclusively sponsored by Norkom Technologies, a market-leading provider of innovative financial crime and compliance solutions to the global financial services industry.

To close out 2010, the chapter will host its final learning event in San Gabriel, California, on December 2, 2010, which will consist of representatives from the U.S. Attorney's Office, Federal Bureau of Investigation, U.S. Drug Enforcement Administration, and U.S. Customs and Immigration Enforcement. The event will focus on terrorist financing cases that have a Southern California nexus and the representatives will be available for an open discussion on terrorist financing, money laundering and fraud. Moreover, the event will be followed by a holiday networking reception. All attendees will receive two CAMS credits.

For 2011, the chapter has scheduled an aggressive and progressive series of learning

events. The events will include an attorney panel webinar discussion on off-shore tax havens, a presentation from a global MSB on an understanding of Islamic financing, U.S. Customs and Immigration Enforcement will present on Southern California trade-based money laundering, and the U.S. Drug Enforcement Administration will discuss the ongoing impact of the Mexican drug wars on Southern California. The Third Annual Networking Reception is on the schedule as well. In addition, one unique event remains in the planning stages. Stay tuned for further details. The chapter expects the 2011 learning event schedule to earn attendees the possibility of earning a minimum of eight CAMS credits with attendance at all events.

If you are interested in becoming a chapter member, please contact us at ACAMS.SoCal@gmail.com. Also, connect with us and stay informed on local news, job opportunities, and events via LinkedIn Groups at ACAMS Southern California Chapter. 

Australasian Chapter



It proved to be a relatively quiet winter for the Australasian Chapter with members awaiting updated rules and guidance from Australian and New Zealand regulators.

However, several Australian developments on the legislative and regulatory sides included the government's somewhat controversial proposal to allow AUSTRAC to "recover costs" for regulating the AML laws. The legislature also moved to increase regulatory requirements for the remittance sector.

In New Zealand, the long awaited AML/CTF Regulations are yet to be published with the expectation being that the Ministry of Justice will have the regulations gazetted in December. This will allow New Zealand's regulated population to make more detailed AML program implementation plans.

Several members' events were held during the winter. More than 40 AML professionals gathered in Sydney at the offices of UBS Australia on 19 August for a discussion on the 'Evolution of the Risk-Based Approach.' Chris McNeil of UBS and Karen Nitschke from AUSTRAC made presentations. Despite three years of engaging with the regulator, there is still a great deal of conjecture on exactly what a risk-based approach entails and the

challenges faced by industry in designing and implementing a risk-based AML/CTF program. The presentations focused on the genesis of the risk-based approach, international perspectives on how to implement it and how it can evolve in the Australian regulatory environment. Chris provided an overview of the risk-based approach with a particular focus on Europe and the guidance provided by FATF. Drawing on his time in London as head of anti-money laundering compliance at international law firm Freshfields Bruckhaus Deringer, Chris provided insights into the negotiation process around the requirements for the legal profession.

A key message from the presentation was the need for industry to focus 90 percent of its time on 10 percent of its clients. Karen, senior manager in the Major Reporters team within frontline Supervision at AUSTRAC, brought the regulator's view with practical observations and insights from recent on-site assessments. Karen was interested in hearing whether lobbying for a risk-based approach provided the outcome that the industry may have initially thought it would or if in hindsight it may have chosen more prescription. The group was, of course, also very interested to hear about AUSTRAC's priorities for

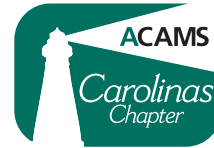
the coming year. After an engaging question and answer session, all participants enjoyed networking drinks. A members' lunchtime workshop will be held in Melbourne on 10th of November on the topics of global sanctions and AML training.

On the education side of AML and financial crime an exciting development is the deepening relationship between ACAMS and the University of New South Wales. The UNSW AML course will be offered in 2011 as a part of the post graduate degree in criminology. ACAMS has endorsed the course with the benefit that those who complete the course will pre-qualify to sit for the CAMS examination.

Formal ACAMS Chapter matters conclude with the first ACAMS Australian Chapter AGM held on 23rd of November.

The Australasian webpage may be accessed via the ACAMS web site. The chapter's webpage is a dedicated resource for both Australian and New Zealand practitioners. You are invited to access the resources from our links to regulators' and legislative web sites. The web site also provides details about our board members, future members events in different locations, as well as our Australasian webinars. [A](#)

Carolinas Chapter



The Carolinas Chapter hit the road for its 2010 fall meeting. On September 8, leaving the friendly confines of Charlotte and traveling up the road to Raleigh, the Carolinas Chapter's inaugural "road trip" did not disappoint. Held in conjunction with the 6th Annual Terrorist Financing and Money Laundering Conference at SAS World Headquarters, the membership was treated to ACAMS executive vice president John Byrne as the featured speaker. Mr. Byrne discussed the strategic importance of ACAMS and its goals of promoting the standards of detection and prevention of money laundering, as well as educating AML professionals. Of particular importance was the need for ACAMS to meet its individual members' needs and the role that chapter growth plays in that strategy. The 10,000th member milestone, future educational opportunities and examination changes were also of keen interest to the members. Jim Candelmo, chapter communi-


cations co-chair stated, "Tonight is a significant step in this chapter's goal of providing quality AML programming to ACAMS members throughout the Carolinas."

John's comments served as the unofficial kickoff for the 6th Annual Terrorist Financing and Money Laundering Conference. Co-sponsored by Bank of America, RBC-Centura, SAS, the United States Department of Justice and Ally Financial, the conference sought to increase public/private partnerships between federal, state, local law enforcement and financial institutions in its efforts to combat terrorist financing and money laundering.

The Carolinas Chapter was well represented among the 400 individuals in attendance and in the distinguished group of speakers and panelists. Carolinas Chapter board member Dave Stewart served as the Master of Ceremony and featured speakers included Carolinas Chapter board members,

Lisa Grigg, Megan Davis Hodge, Dan Soto and Jim Candelmo. United States Senator Richard Burr welcomed the audience and James Dinkins, executive associate director, Immigration Customs Enforcement provided the keynote on Terrorist Financing and AML trends. Other ACAMS featured speakers included, David Chenkin, Dennis Lormel, David Caruso and John Byrne. By all accounts the conference was a success as it fulfills its vital mission of education and partnership.

For more information on the ACAMS Carolinas Chapter please contact Rob Goldfinger at RGoldfinger@sightspan.com. Or, to find out how to get involved with this or any other chapter please contact Kata Martinez, ACAMS' chapter development manager, at cmartinez@acams.org.

Please visit the Carolina Chapter's webpage at <http://www.acams.org/Chapters/Carolinas.aspx>. 

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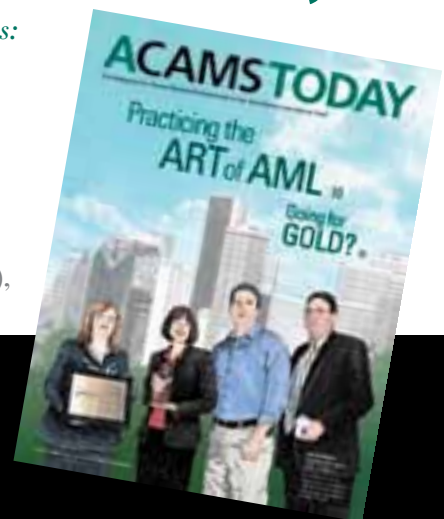
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Chicago Chapter



The ACAMS Chicago Chapter has continued to maintain an active learning program schedule, having held two AML workshop events this summer. On September 16, 2010, the ACAMS Chicago Chapter sponsored a workshop event which addressed customer due diligence concerns, titled “How to Build an Effective Due Diligence Program — Exposing the Limits of Fall-back Industry Crutches.” The workshop featured guest speaker Joshua Feingold-Studnik, CAMS, of World-Check, a global provider of risk intelligence products and services. The event was held at the Rosemont, Illinois offices of Popular, Inc., N.A. with full attendance by both chapter members and guests.

The September workshop was developed to provide attendees with the most up-to-date approach to best-practice solutions regarding customer due diligence (CDD). Mr. Studnik’s presentation strongly outlined the complications and misconceptions of standard approaches to due diligence, enhanced due diligence (EDD), Know Your Customer (KYC) and OFAC screening processes. He placed particular emphasis on the need for a more vigorous overall industry approach to customer screening and greater vigilance toward moving from current generally accepted industry due diligence standards to more robust and comprehensive practices. Key topics included: the shortcomings of relying on government watch lists (e.g., OFAC, EU, UN); Politically Exposed Persons (PEP) and related challenges in performing due diligence upon them; country risk-ranking challenges; and the need for effective screening of company and corporate relationships. The event concluded with a brief question and answer segment where attendees exchanged their observations and received additional insight from the host.

Several workshop attendees offered the following comments:

- “The Chicago ACAMS workshops consistently present useful and informative information and allow for networking with peers and the exchange of ideas.” — Agnes Garcia, CAMS, Metropolitan Bank Group, Sr. compliance officer and ACAMS Chicago Chapter member




Pictured L to R: Agnes Garcia and Paulina Prebe

- “It is always great to see new faces, as well as familiar ones, at the chapter events. Since the chapter’s inception on September 11, 2008, membership has grown significantly. This [demonstrates] the need and importance of this type of organization [for the professional banking community] in Chicago.” — Paulina Prebe, CAMS, Harris Bank N.A., BSA/AML quality assurance officer and ACAMS Chicago Chapter co-membership director
- “The Chicago Chapter has provided a wide array of speakers with different areas of expertise this year. Today’s event has shed light on potential internal conversations, new ideas and different investigative approaches to enhanced due diligence matters and the importance of process controls and automated solutions.” — Nicole Vasold, CAMS, Harris N.A., AML/BSA risk analyst and ACAMS Chicago Chapter member

The September workshop took place within days of the second year anniversary of the establishment of the ACAMS Chicago Chapter. Jack Oskvarek, Chicago Chapter chair, stated, “As we complete our second

year, the Chicago Chapter has provided workshops for the Chicago community with a variety of topics and quality speakers covering a wide spectrum of important AML matters. The local presence of the events provides attendees direct one-on-one access to the speakers before and after each event, allowing guests to expand on issues that may well impact their AML programs. Such direct access to speakers that are industry leaders is not always possible at large conferences. Furthermore, the events help keep us in regular contact with colleagues, affording chapter members and attendees a vital source of information sharing. We hope to continue to build upon this success in the years ahead.”

The ACAMS Chicago Chapter looks to end 2010 with at least one additional AML workshop series. Planning for projects through 2011 are currently under development, as the chapter will continue to serve its members with quality educational and networking opportunities. For details on past and future events refer to the Chicago Chapter web site at: <http://www.acams.org/ACAMS/ACAMS/Communities/Chapters/Chicago/Default.aspx> 



Greater Boston Chapter


On September 28, 2010, the Greater Boston ACAMS Chapter held its second learning event, “The Effectiveness of Suspicious Activity Reports (SAR): A Law Enforcement Perspective” featuring Neil Power, supervisory special agent, Federal Bureau of Investigation. The result was another spectacular event with more than 100 attendees from the Greater Boston area gathered for a breakfast presentation at the downtown Boston office of our generous host, Goodwin Proctor LLP. Neil provided case studies on the effective use of SAR information during the course of law enforcement investigations and offered tips on what information is most useful to include in the reports. The presentation also covered emerging fraud trends and areas where the FBI is currently focusing its efforts. The information on mortgage fraud presented by Kristefe Grahame, intelligence analyst, Federal Bureau of Investigation, was of particular interest, as he discussed the proprietary mapping software utilized by the FBI to detect fraudulent activity.

On September 30, 2010, Jen Hollingsworth, the co-programming director for the ACAMS Greater Boston Chapter, hosted financial crimes training entitled, “Public and

Private Partnership,” on behalf of the New England Fraud Investigators Alliance with the South Shore Law Enforcement. Kathleen McDevitt Carr, communications director for the ACAMS Greater Boston Chapter, was invited to speak at the event about ACAMS and the local chapter. Kathleen described opportunities of being part of the international ACAMS organization and gaining insight from around the world. She highlighted the conferences, webinars, forums and publications as a great resource for information regarding trends in the anti-money laundering field. Additionally, she spoke to the creation of the Greater Boston Chapter. The attendees enthusiastically reacted to having an ACAMS chapter created locally and seemed eager to join the growing network of anti-money laundering professionals.

Also in September, individuals from the Greater Boston Chapter’s executive board attended the 9th Annual International Anti-Money Laundering Conference in Las Vegas. In addition to participating in the many learning and networking opportunities, the Greater Boston Chapter executive board members were able to connect face-to-face with executive board members from the

other ACAMS Chapters. At the All Chapter Committee Meeting on September 22, executive board members exchanged ideas about learning opportunities and chapter activities both in-person and by phone. Suggestions from that meeting included panel discussions, holiday networking events, email messages and other opportunities for chapters to consider. As a new chapter, we certainly benefitted from hearing what has worked best for other chapters and will bring some of those ideas to the Greater Boston Chapter.

The ACAMS Greater Boston Chapter looks forward to providing great events in 2011 and is working diligently to enhance our networking abilities throughout Greater Boston by increased awareness and membership. We are committed to providing members learning events that are of local and national interest, and forums for open dialogue of any issues and concerns. If you are interested in contacting us about topics of interest or any general comments please email us at acamsboston@gmail.com. If you are interested in joining the chapter or attending an event please visit our webpage at <http://www.acams.org/ACAMS/ACAMS/Communities/Chapters/GreaterBoston/Default.aspx>. 



New York Chapter



The ACAMS New York Chapter successfully convened three learning events to wrap up the 2010 Learning Event Series. If you have not yet attended one of our events, make sure to keep an eye out for the exciting speakers we have lined up for 2011.

On September 27, 2010, Morgan Stanley hosted the New York Chapter at its midtown headquarters for “The Foreign Corrupt Practices Act: New Developments and Compliance Challenges.” Co-moderated by ACAMS New York membership director Denise Wright of RBC Capital Markets and ACAMS New York co-chair Barry Koch of JPMorgan Chase, the panel featured speakers Gregory Meredith of JP Morgan Chase and Scott Moritz of Navigant Consulting. Meredith is a senior vice president and associate general counsel in JPMorgan Chase’s Regulatory Group, with many years of experience in complex FCPA and OFAC cases. Moritz serves as a managing director at Navigant Consulting and is an expert in investigating international corruption. Prior to joining Navigant, Moritz served as a special agent with the FBI where he focused on international organized crime, narcotics and money laundering violations.

The panel discussed existing FCPA challenges, as well as new enforcement actions and the proposed UK Bribery Act of 2010.

Presenting several case studies, they also illustrated many of the red flags that companies should be looking for when conducting due diligence on third parties and business development agents in countries with high corruption risks. Both speakers provided several practical examples of some of the due diligence challenges, and both speakers described some of the transaction monitoring issues relating to corruption and bribery that might relate to an institution’s AML compliance program and the requirement to file Suspicious Activity Reports.

Several weeks later, on November 3, 2010, the chapter held its second annual insurance industry workshop entitled “AML/OFAC Compliance: Why is the Insurance Industry Different?” The event was hosted at the corporate offices of Ernst & Young. Moderator Martin Feuer, who is the co-communications director of the chapter and who is the chief compliance officer of Zurich Insurance North America, welcomed panelists Noreen Fierro of Prudential Financial and Robert Walsh of AXA Financial. The panel described the compliance challenges facing the insurance industry under the USA PATRIOT Act and OFAC sanctions regulations.

On November 16, 2010, the law firm of White & Case LLP hosted the New York Chapter’s final learning event for 2010. The event,

titled “Suspicious Activity Reporting: The Prosecutor’s Perspective” was sponsored by Safe Banking Systems. Barry Koch moderated the panel, which was comprised of Evan Weitz, an assistant United States attorney in the Eastern District of New York and Sharon Levin, an assistant United States attorney in the Southern District of New York. Weitz, who has considerable experience with money laundering cases, and Levin, who is the chief of her office’s Asset Forfeiture Section, shared their perspectives on how they use SARs to initiate investigations and to build existing cases. They both provided many practical tips for AML compliance officers in the effective preparation of SARs.

Once again the ACAMS New York Chapter is eagerly awaiting its annual holiday party, which will bring a joyful closure to a successful and productive year. The party will again be held at The Penn Club of New York. If you are interested in attending the party, please visit the New York Chapter’s web site at <http://www.acams.org/ACAMS/ACAMS/Communities/Chapters/NewYork/>. If you are interested in joining the New York Chapter for 2011 please email us at acamsnewyorkchapter@gmail.com.

Happy New Year from the ACAMS New York Chapter! We hope to see you in 2011! 🎉



South Florida Chapter

Even during the slow summer months, the executive board of the ACAMS South Florida Chapter did not stop providing its members with diverse educational events, as well as fun networking opportunities! On August 17th, the chapter held a workshop titled “Navigating the Job Market.” This event featured speakers from noted staffing agencies who provided insight on navigating the job market in these unprecedented times. It was an interactive, informative workshop designed to give members an overview of the state of our current job market and how to make their job search more successful. Among other things, our speakers discussed how to:

- Utilize search engines and social media to maximize results
- Network in person and online to increase visibility
- Select a recruiter and what to expect when working with a recruiter
- Write a winning resume and cover letter
- Conduct yourself in an interview


On September 14th, the chapter hosted a morning roundtable at the ACAMS Headquarters in Miami titled “AML Training Programs: Learning Styles, Training Approaches and Technology.”

The roundtable focused on how employees of a financial institution must stay informed and current with industry trends in order to adequately perform their jobs and contribute to the success of their organization. The purpose of the roundtable was to provide general guidance on the basic elements of a good training plan according to the type of business and job functions. The presentation by Catalina Rey, a member of our executive board, focused on employee consciousness and understanding of AML requirements and the potential consequences of an employee’s failure to comply that may cause potential civil, criminal liability and penalties for both the institution and the employee.

The ACAMS Conference in Las Vegas has always been an unbeatable opportunity to network and meet new people from our very diverse AML community. This year, not only did the conference fully achieve its goal by offering participating South Florida Chapter members several opportunities to meet and exchange ideas in roundtables, receptions and other learning events, but in addition, it allowed them to bring back from Las Vegas a new executive board member! Marshall Martin, co-general counsel and CCO of City National Bank of Florida, graciously agreed to join the board as co-chair, a position he

shares with fellow co-chair, Karen Benson of Jordan Burt LLP. Marshall has more than 15 years of substantial bank regulatory compliance/risk management, finance, accounting and legal experience. Marshall joined the board at its October meeting immediately bringing his energy and experience to the service of the chapter. We are all excited to have him aboard!

Finally, the chapter held its monthly social event on October 21st, at Tarpon Bend Restaurant, in Coral Gables. Like every month, the scope of the event was to meet with members of the chapter in an after-work, stress-free and casual setting. It was a great opportunity for everyone to discuss relevant industry issues and have a good time. The event was open to everyone, colleagues and friends, and saw the unexpected participation of visiting New York Chapter members.

As always, South Florida ACAMS members are invited to join the chapter and its members during their various learning and networking activities. Stay tuned for details on the chapter’s annual holiday party in December. We hope to see you soon! 



U.S. Capital Chapter

With the start of the New Year, it is time to set goals and prepare for new anti-money laundering (AML) challenges. The U.S. Capital Chapter helped members prepare for these challenges with a series of learning and networking events this fall.

The role of emerging technologies is on members' minds and was the topic of the


chapter's October learning event. Criminals are always looking for new ways to launder money and when a new technology emerges, criminals will find ways to use it, according to Douglas A. Leff, Chief, Asset Forfeiture and Money Laundering Unit, FBI Headquarters, featured speaker at the U.S. Capital Chapter's October event. During a luncheon on the latest money laundering issues, Leff

highlighted the growing use of stored value cards as a money laundering tool.

"Doug provided an excellent overview of the risks associated with these financial instruments," said John Byrne, U.S. Capital Chapter co-chair. "The discussion at the luncheon event and the on-going discussion on the ACAMS forums underscore the importance of this topic. We are pleased to be able to bring subject-matter experts like Doug to our learning events. It is a definite benefit for our members. Additionally, I would like to express our thanks to KPMG for hosting this event."

In addition to learning from other subject-matter experts, chapter members were able to share their expertise at the ACAMS 9th Annual International Anti-Money Laundering Conference in September. "We are pleased that chapter members contributed to the conference by sharing their knowledge and experience in a variety of ways," said Joe Soniat, U.S. Capital Chapter co-chair. Board members John Byrne, Dennis Lormel, Edward Rodriguez, Ed Beemer and Debbie Hitzeroth participated as presenters, session leaders and discussion group facilitators.

The chapter continued its efforts to share knowledge between anti-money laundering specialists and groups that touch the AML field. The chapter has participated in networking events with the Association of Certified Fraud Examiners and the American Bar Association. "These groups face many of the same issues that we face in the AML area," Soniat said. "The contacts made and the ideas and best practices shared at these events are a benefit to our chapter, as well as to the other associations. In 2011, we are going to pursue the possibility of joint learning events with associations like these."

The U.S. Capital Chapter is committed to meeting its membership's needs and actively seeks input from members and potential members. Surveys and suggestion forms will be distributed at future meetings to help the chapter develop future events. 



Web Seminars

Complimentary - FRAML: Consolidating fraud detection and anti-money laundering

December 8, 2010

Sponsored by Verafin

Cyber Terrorism and its Impact on your AML Compliance Program

December 14, 2010

Complimentary - Recommended Know Your Customer and Enhanced Due Diligence Practices for Securities Broker/Dealers

December 17, 2010

Complying with OFAC and Economic Sanctions Requirements – Is your Organization Following the Rules?

January 20, 2010

Live Seminars

Enhanced AML/CTF Tools & Techniques - Asia

January 21, 2011

Taiwan

Conferences

Caribbean AML/CTF/Financial Crime Conference: A Practical Approach

February 3-4, 2011

San Juan, Puerto Rico

7th Annual Anti-Money Laundering Conference, Europe

June 12-14, 2011

Hotel Okura

Amsterdam, The Netherlands

ACAMS 10th Annual International Anti-Money Laundering Conference

September 19-21, 2011

ARIA Hotel

Las Vegas, NV

Onsite CAMS Examination Preparation Seminars

San Juan, Puerto Rico

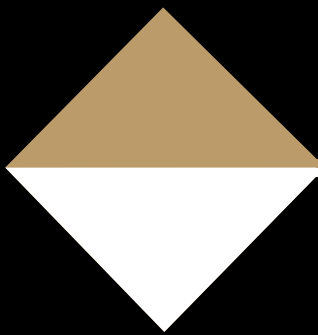
February 2, 2011

Sheraton Puerto Rico Convention Center Hotel & Casino

Hollywood, Florida

March 20, 2011

For more information or to register for an upcoming ACAMS event, visit www.acams.org or contact the Member Services Department by telephone: + 1.866.459. CAMS (2267) or +1.305.373.0020 or by email at info@acams.org.



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