

## TRUTH IN TECHNOLOGY

### *The Next-Generation Technologies for Anti-Money Laundering*

Many different types of technologies have been used to prevent financial crimes over the last twenty five years. The majority of products on the market are leveraging outdated technologies that simply cannot keep up with today's regulatory standards. Make sure you are not using outdated technologies. For example, an old technology from over twenty years ago known as a "behavior- based system" was disclosed by Krishna M. Gopinathan, etc. on September 8, 1992. The detailed information is available through a Google search.

Behavior-based systems intend to detect a change in behavior and can be used to detect a stolen financial instrument because a fraudster and a victim are two different persons and their behaviors are different. The major drawback of behavior-based systems is the tremendous amount of "missing" alerts when they are used for Anti-Money Laundering (AML) purposes because money laundering is frequently committed without any behavior change. Furthermore, **a behavior-based system cannot detect money laundering conducted by a group of customers, e.g., a drug dealer's family. Worst of all, a behavior-based system cannot detect major financial crimes, e.g., Ponzi schemes, Unlawful Internet Gambling activities, etc., exposing financial institutions to huge liabilities.** For example, the regulatory penalty for failure to detect and report Bernard Madoff's Ponzi scheme was over \$1 billion dollars. To hide its weakness, a behavior-based system is usually a black box and users cannot customize its detection mechanisms. Because the black box lacks transparency, its model cannot be examined by auditors or examiners. Financial institutions that are serious about meeting regulatory requirements do not use behavior-based systems to identify money launderers.

Another technology known as a "rules-based system" is effective when precise criteria are given. For example, if a person frequently deposits \$9,900 cash, the financial institution is expected to report this person to Financial Crimes Enforcement Network (FinCEN) as a "structuring" case, even if the person's behavior has not changed. Because rules-based systems produce precise results based on the rules which can be easily understood and explained by professionals, auditors, and examiners, they were often used by financial institutions to pass strict regulatory examinations. The challenge is that the efficiency of a rules-based system highly depends on the capability of the rules engine and the person who designs the rules. **If the rules engine cannot produce a precise set of rules or if the rules are poorly designed, there will be many false alerts.** This is the reason why "tuning of rules" is required to achieve the maximum efficiency of the system.

Although behavior-based systems and rules-based systems have been used historically, the technological trend has been tremendously changed by the BSA/AML Examination Manual (the "Manual") published by the Federal Financial Institutions Examination Council (FFIEC). It is meaningless to debate whether a behavior-based system or a rules-based system is more suitable for Anti-Money Laundering purposes because **the truth is that neither rules-based detection nor behavior-based detection is sufficient to meet the requirements stated in the BSA/AML**

**Examination Manual.** On page 57 of the Manual published in February 2015, it states that “...*Higher-risk customers and their transactions should be reviewed more closely at account opening and more frequently throughout the term of their relationship with the bank.*” For example, any products that cannot distinguish higher-risk customers from other customers at account opening do not comply with the Manual. Any products that treat all new customers as higher-risk customers do not comply with the Manual. In fact, a financial institution will waste time conducting Enhanced Due Diligence (EDD) on all new customers if it treats all new customers as higher-risk customers.

The best approach to comply with the BSA/AML Examination Manual is to conduct **Risk Scoring** at account opening just as PATRIOT OFFICER does for financial institutions. Once a risk score of a customer is obtained through the **Risk Scoring** process at account opening, a financial institution will conduct EDD on the customer if the risk score is higher than a certain value determined by the policy of the financial institution. Furthermore, the **Risk Scoring** process of the customer will be conducted periodically throughout the term of the customer’s relationship with the financial institution. If a lower-risk customer changes its behavior and the risk score of the customer has increased substantially, this customer will be automatically identified as a higher-risk customer through the periodic **Risk Scoring** process and EDD will be performed.

In addition to the “Risk-Based” technologies, as the most comprehensive solution on the market for many years, PATRIOT OFFICER also uses rules-based detection, behavior-based detection and data mining to identify different types of financial crimes. Because PATRIOT OFFICER uses a comprehensive scope of detection methods, PATRIOT OFFICER is far superior to any behavior-based system or rules-based system. Many financial institutions have upgraded to PATRIOT OFFICER after their outdated behavior-based systems or rules-based systems failed regulatory examinations.

Moreover, PATRIOT OFFICER uses the risk score of each customer to select a set of algorithms to monitor the customer. **Higher-risk** customers will be automatically monitored more closely than customers with moderate risk; and customers with moderate risk will be automatically monitored more closely than customers with lower risk. Additionally, by comparing the total risk scores among a particular type of higher-risk customers, a truly suspicious higher-risk customer can be easily identified by PATRIOT OFFICER. These advanced “Risk-Based” technologies used by PATRIOT OFFICER are the true **Next-Generation Technologies** that empower a financial institution to fully comply with the BSA/AML Examination Manual published by FFIEC.

#### Publisher Background

GlobalVision Systems, Inc. is the largest independent provider of regulatory compliance, risk management and fraud prevention solutions in the U.S.A. It has produced the renowned PATRIOT OFFICER<sup>®</sup>, GUARDIAN OFFICER<sup>®</sup>, and ENQUIRER OFFICER<sup>®</sup> and has established the de facto standards for BSA/AML compliance in the USA. For more information, please contact [sales@gv-systems.com](mailto:sales@gv-systems.com) or (888) 227-7967.