MULTIDIMENSIONAL PEER GROUP ANALYSIS
Can You Identify True Money Launderers Among Higher-Risk Customers?

In the field of Anti-Money Laundering, a higher-risk customer may not be a money launderer. For example, money services businesses (MSBs), pawn shops, ATM vendors, used car dealers, cash-intensive merchants, flight attendants, truck drivers, taxi drivers, cash-based small business owners, etc. are often classified as higher-risk customers by financial institutions in their Anti-Money Laundering programs. However, these customers may not be money launderers.

The reality is that only a small percentage of higher-risk customers actually conduct money laundering activities. **It is very difficult to identify the true money launderers among the higher-risk customers.** For example, if an MSB helps a criminal launder money, such money laundering transactions may not be identified because they are hidden within many legitimate money services transactions. It is very difficult to distinguish this MSB from other MSBs, which do not help criminals launder money. MSBs are just one of many categories of higher-risk customers that are difficult to monitor. It is a fact that managing higher-risk customers is the biggest challenge to financial institutions. A more effective solution is required to mitigate the strains, expenses, and burdens financial institutions have historically endured in order to manage and monitor higher-risk customers.

The well-known 2010 case "State of Arizona v. Western Union Financial Services, Inc." exemplifies the difficulties of monitoring higher-risk customers. Western Union Financial Services, Inc. ("Western Union") had conducted a significant due diligence process on all its MSB agents and spent millions of dollars in its Anti-Money Laundering program. However, Western Union still failed to detect some unlawful MSB agents, which used Western Union to launder money for criminals. As a result, Western Union paid tens of millions of dollars in its settlement with the State of Arizona.

Some financial institutions conduct Anti-Money Laundering monitoring by using behavior-based systems, which detect customers' behavioral changes as signs of money laundering. Such monitoring creates many false positives because behavior changes also occur when customers' financial instruments or financial accounts are stolen by third-party fraudsters. These customers are actually victims of fraud, not money launderers. Worst of all, monitoring behavioral changes will miss many true money laundering cases because money launderers often conduct money laundering without any behavior change. Although data mining is one effective solution, many financial institutions are not equipped with data mining capabilities. In addition to providing a comprehensive set of detection mechanisms including data mining, etc., **PATRIOT OFFICER also uses "Multidimensional Peer Group Analysis" (U.S. patent pending) to identify true money launderers among higher-risk customers** even after they have already passed Enhanced Due Diligence.

The fundamental requirement for effective Anti-Money Laundering monitoring is to slice and dice the customer and transactional information into many risk dimensions, each representing a unique money laundering risk exposure. For example, a customer conducting an ATM transaction in Iran

1

will have different implications from a customer conducting an ATM transaction in France even though both are ATM transactions conducted in foreign countries. Therefore, it is essential to identifying the money laundering risk exposure associated with these two transactions through their respective risk dimensions.

The effect of risk dimensions in Anti-Money Laundering monitoring is similar to the effect of a computer screen's resolution. A high-resolution screen will produce a much clearer picture than a low-resolution screen. Similarly, the more risk dimensions used for Anti-Money Laundering monitoring, the more accurate results will be obtained. People who only use low-resolution screens will not realize what they are missing until they see a picture on a high-resolution screen. Similarly, **professionals who are responsible for Anti-Money Laundering monitoring may not know what money laundering cases they have missed until they use an advanced Anti-Money Laundering monitoring system, which slices and dices the information into many relevant risk dimensions.** More importantly, after assigning a risk value to each of the risk dimensions, PATRIOT OFFICER automatically derives a total risk score for each customer. Consequently, PATRIOT OFFICER automatically identifies higher-risk customers based on their total risk scores.

Furthermore, the probability for a higher-risk customer to have a total risk score which is larger than the mean of the same particular type of higher-risk customers plus three (3) standard deviations is less than 0.15%. In other words, even among this particular group of higher-risk customers, this customer has a much higher total risk score which is "out-of-norm" among its own type of higher-risk customers. After further investigation, a financial institution will discover why this customer has an abnormally high total risk score and will determine whether this customer has conducted any suspicious money laundering activity. **PATRIOT OFFICER has applied this "Multidimensional Peer Group Analysis" to all types of higher-risk customers.**

In summary, PATRIOT OFFICER has the most advanced risk management capabilities. By comparing the total risk scores among a particular group of higher-risk customers, PATRIOT OFFICER can easily identify a truly suspicious higher-risk customer among the group of higher risk customers. PATRIOT OFFICER's "Multidimensional Peer Group Analysis" saves time and resources, eliminates frustration, and produces accurate results. PATRIOT OFFICER helps financial institutions effectively manage and monitor higher-risk customers to identify true money launderers even after they have already passed Enhanced Due Diligence.

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®, GUARDIAN OFFICER®, and ENQUIRER OFFICER® and has established the de facto standards for BSA/AML compliance in the USA. For more information, please contact sales@gv-systems.com or (888) 227-7967.

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