REPLACING FAULTY PRODUCT

A Behavior-Based System Is Ineffective for Anti-Money Laundering Monitoring

The Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) have been the most important compliance matters in the financial industry since 9/11. After investing large amounts of capital in BSA/AML software products, many financial institutions still miss true money laundering and terrorist financing cases. The primary cause for these BSA compliance problems is that many BSA/AML products do not even detect the most basic money laundering cases as promoted, and senior managers of financial institutions have difficulties distinguishing the critical differences between Anti-Money Laundering products and Anti-Fraud products.

Some vendors utilize fraud detection principles to detect money laundering activities and some even try to detect fraud cases and money laundering cases at the same time. However, in reality, money laundering is very different from fraud. A fraud detection product can easily compare an account holder's current activities with the account holder's historical activities and detect possible fraud when the current activities deviate from the expected activities. For example, if a fraudster steals a credit card from a victim, the fraudster will conduct purchase activities that are different from the victim's historical activities. It is just a matter of time before the credit card company will detect the suspicious activities and stop payment on that credit card. Because the goal of a fraud detection product is to stop losses as soon as possible, financial institutions typically need to run the fraud detection or risk-scoring in real time, or at least once daily.

In comparison, **real-time detection and daily detection methods that are effective for fraud detection cannot detect many basic money laundering activities**. The following case is a simple example of how BSA Officers can waste a significant amount of time reviewing their real-time alerts or daily alerts, and still miss true money laundering cases:

1. Client A sends less than $3,000 to XYZ around the 5th day of each month.
2. Client B sends less than $3,000 to XYZ around the 8th day of each month.
3. Client C sends less than $3,000 to XYZ around the 12th day of each month.
4. Client D sends less than $3,000 to XYZ around the 17th day of each month.
5. Client E sends less than $3,000 to XYZ around the 24th day of each month.
6. Client F sends less than $3,000 to XYZ around the 29th day of each month.
7. A, B, C, D, E and F are individuals and are not related at all.
8. XYZ is a drug dealer in Los Angeles with no prior criminal record.

In the above example, there was no change of behavior and the BSA Officer would not detect anything suspicious based on a behavior-based system. Since these clients conduct their transactions on different days throughout the month, a BSA Officer would not be able to detect any risk on any

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given day of the month. Furthermore, because these clients are not related, the BSA Officer would not notice their combined activities. In addition, because each transaction only involves a small dollar amount occurring once a month and the recipient of the funds resides in a U.S. city with a large population and heavy commercial activities, none of these clients would be viewed as suspicious based on each transaction. As a result, **a fraud detection product used under the guise of BSA/AML compliance will miss these basic money laundering cases despite the fact that the BSA Officer is working diligently with the faulty product every day.**

The correct approach to detecting these money laundering cases is to conduct data mining across all the transactions of all clients over a long period of time. The previous example illustrates that using real-time detection or daily detection to detect clients' money laundering activities is a serious red flag for BSA compliance problems. The following are some common red flags that a faulty product is incapable of actually detecting money laundering activities:

1. A product that promotes "money laundering cases and fraud cases being the same cases"
2. A product that is promoted as a "behavior-based system"
3. A product that does not conduct data mining across all transactions over a long period of time
4. A product that does not monitor joint activities of related clients
5. A product that does not monitor joint activities of unrelated clients

Because the above red flags can easily identify a faulty BSA product, BSA Officers and Anti-Money Laundering professionals can successfully replace their ineffective products with the correct solutions. As a result, we will be able to achieve the level of national security we all strive for when financial institutions can truly conduct effective Anti-Money Laundering and Counter Terrorists Financing with the effective solutions.

Being the #1 BSA/AML/Anti-Fraud solution, PATRIOT OFFICER uses data mining to effectively detect money laundering and terrorist financing activities. Furthermore, PATRIOT OFFICER empowers a financial institution to easily identify higher-risk customers based on their risk scores and automatically monitor higher-risk customers more closely, exactly as the regulations mandate. Moreover, by comparing the total risk scores among a group of higher-risk customers, PATRIOT OFFICER can effectively identify a truly suspicious higher-risk customer among the group of higher risk customers. **PATRIOT OFFICER is your best choice to replace the faulty product.**

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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