

# Banks step up fight against money launderers

Banks are turning to technology more in their efforts to counteract financial crime. Financial institutions have recognized the need for more sophisticated and alternative measures such as software and databases that review banks' clients and allow advanced analysis of the movement of funds. Financial institutions are increasingly interested in using these against money laundering and terrorist funding, for example. Such products are being used in attempts to strengthen existing internal systems but they are not all-encompassing.

Paul Doxey of consultancy Andersen, says: "There has been speculation around the world as to what banks should do to protect themselves against money laundering and other financial crimes. There's all sorts of new technology being promoted for helping with this. It's very much a new and growing market."

In the current, inflated anti-terrorism environment "know your customer" is the catch phrase, whereby banks are encouraged to have more in-depth knowledge about their customers and an understanding of their dealings.

"What some companies are now doing is providing extended procedures that go beyond what many banks were originally doing," says Doxey. Such procedures include the use of such products as filtering

software and databases.

Factiva, a Dow Jones and Reuters joint venture, is aiming to help banks root out potentially high-risk clients with a still-to-be launched publicly sourced web-based product that will review banks' clients. It is rumoured that the company was

originally planned for December 2001, has not been completed: "It is not real, yet."

In a private presentation obtained by *Euromoney*, Factiva states: "Factiva will proceed with the database once it has collected Letters of Intent from a minimum number of interested



**Leppan: over 50 banks using his database**

initially approached by UBS to develop a global database of public figures in February.

Factiva's CEO, Clare Hart, is reluctant even to discuss the existence of the project, let alone the details, saying she refrains from discussing any product before its launch. When pressed, Hart does however admit that the creation of a full database, as

parties." Therefore, it can be presumed that the banks have not shown as much interest as Factiva would like.

All this secrecy surrounds Factiva's project to create a Public Figures and Associates Database (PFA) that will consist of public figure profiles of politically influential professional groups, including relatives and close

associates. This sort of database could be helpful in identifying potentially high-risk clients, but banks must be prudent about their use of such information. It would be a mistake to rely upon it exclusively.

The PFA Database will also provide summaries on individual countries. These will include key indicators that Factiva feels can provide an insight into a country's predisposition to corruption. Again, this sort of information can only provide guidance and banks should be cautious about unfair scepticism regarding clients from certain countries.

World-Check, another publicly sourced web-based information provider, is already live, having signed its first client in April. David Leppan, founder of World-Check, says that more than 50 banks are now using the database. World-Check compiles information into an archive of profiles, primarily on high-risk and potentially high-risk individuals and companies, allowing an institution to run checks on new and existing clients against public information. That is, it works as a search engine accessing collated information obtained by World-Check from public sources such as news, company and government websites. In addition to providing what World-Check defines as profiles of high-risk and potentially high-risk

individuals, the company also includes the source of its data. This allows the user to view the information in its original form and location to ensure its authenticity.

This database can be downloaded by institutions and integrated into existing internal systems. Integrating the database allows banks to automate the filtering procedure. Leppan says: "We were the only people on September 11 who were able to provide a list of 80 people who were linked to Bin Laden." He also says his editors noted that, of the 22 terrorists involved in the attack, 15 were already on the World-Check database.

Another strategy being promoted in the current environment is sophisticated transaction monitoring. There are a number of different packages that can help with this. For example, a company called Americas Software has a product called Assist//customer knowledge, software that studies account transactions. It allows banks to define unusual patterns and identify whether an account is following these patterns.

John Daly, president of Americas Software, says of compliance officers: "It makes their jobs possible and they can actually find the suspicious activity with high levels of accuracy." However, these

patterns would have to be defined with a close understanding of the expected activity of accounts, which requires a high level of understanding about customers' business, and cannot be expected to be 100% effective in identifying or preventing criminal activity.

### Definite need

However, the automation of filtering and monitoring procedures by using more sophisticated software and database systems will increase the banks' efficiency in discovering and preventing financial crime. Andersen's Doxey says: "There is definitely a need for a lot of banks to think about automating their processes." A compliance officer at a European-based bank adds: "In the past we were obliged to detect unusual activity but it was not very efficient to do it manually."

Such systems can, however, require quite an investment. Therefore, the type of approach taken requires careful thought, taking into consideration the particular customer base, existing processes and products used. Factiva's PFA Database is currently priced at around \$125,000 per client per annum with a minimum contract period of three years. World-Check charges \$7,000 for five users for

one year for its search engine version and the download version starts at \$25,000 and goes up to six figures. Americas Software's Daly refuses to reveal prices for his products, saying: "I don't want to benefit my competitors on that. It depends on the institution and it depends on the size of the institution."

Unfortunately, the likelihood of such products actually identifying criminals is small. They can however, point to suspicious dealings, or a higher risk that individuals might be involved in suspicious activity. Andersen's Doxey says: "It's certainly worth considering because it can add to your ability to understand your customer risks, but it's no more than a tool. You've got to understand what it's telling you and then act in an appropriate way."

Once high-risk clients and/or unusual account activity have been identified, the bank can perform more detailed investigations. One way of doing this is to outsource the investigation. NobleStreet is a recently launched company that provides this kind of service. In a joint venture with information company LexisNexis, NobleStreet has developed a web-based platform that allows subscribers to enter information the institution would like to have verified. This may include, for

example, name, address, date of birth and passport number. This verification can cost between \$150 and \$350 depending on where the company will need to conduct the search.

NobleStreet also offers a service to obtain details about such things as ownership of companies, corporate affiliations, criminal records and banking relationships. This can cost around \$300 for a search for US or European details, up to \$5,000 for searches requiring the recovery of information from less developed countries.

A checking or monitoring system will not alone suffice. Even using both kinds of systems together to identify suspicious clients, followed by a thorough investigation of these clients, would fail to identify false primary documentation such as counterfeit passports. Outsourcing the investigation of every potential and existing client would be impracticable. As much as it is desired, there is no foolproof way to stamp out financial crime.

Those with enough money and motivation will always be able to find a way around precautionary measures, however many and varied the systems financial institutions implement. The best the banks can aim for is to make it as difficult as possible.

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