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War on Terror

Banking on Software Solutions

Financial institutions are using sophisticated software to cut off funding to terrorists


Reuters

Since the September 11 attacks, more than $115 million in funds tied to terrorists have been frozen worldwide

By Jennifer Barrett
NEWSWEEK WEB EXCLUSIVE

June 12 — One of the latest weapons in the war on terrorism is not being deployed by the military, but by banks.

THE NATION'S LARGEST institutions are installing sophisticated new software that can not only screen new and current clients for potential terrorist ties but can examine millions of daily transactions for indications of money laundering, terrorist funding and other suspicious patterns of behavior.

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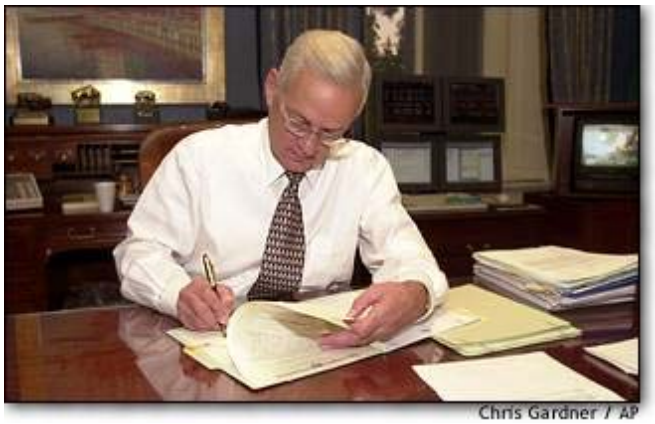
Banks had been reporting suspicious account activity to the government long before evidence emerged that the terrorists involved in the September 11 attacks may have used U.S. accounts to help fund their activities. But the attacks and the ensuing passage of the Patriot Act last fall have greatly increased the level of scrutiny all financial institutions are now giving to clients' backgrounds and behavior.

Under the Patriot Act, financial institutions—including not just banks but mutual funds, securities firms and other companies that provide financial services—had to put programs to detect money laundering in place by April. The act also requires financial institutions to more closely screen their clients and potential clients, to shut down accounts found to be associated with foreign "shell" banks (those that have no physical presence) and to share additional information on suspicious activity and individuals with regulators and even with each other. "It's a big difference in the depth and breadth of the regulations," says Breffni McGuire, an analyst at the Massachusetts-based research firm Tower Group, which tracks the financial-services industry. "Add in the antiterrorist aspect and it has a huge impact."



Treasury Secretary Paul O'Neill signs an order to seize assets of suspected terrorists and their supporters

The range and complexity of some of the new monitoring and reporting requirements have made manual compliance nearly impossible for many financial institutions. Already, technology spending has surged among major firms. McGuire projects banks will spend $60 million this year on compliance software and the financial industry as a whole will shell out $120 million—triple what it spent last year. “Institutions have hundreds of sources of data they’re trying to draw together, and they just can’t do it alone,” says Don Temple, a money-laundering specialist at Mantas, a Virginia-based maker of security software, who spent 26 years as a special agent at the Internal Revenue Service.

That’s good news for Mantas and other companies like Sybase, based in Dublin, Calif., which launched its PATRIOTcompliance Solution software late last month. Sybase claims its program offers real-time transaction visibility and reporting and gives firms the ability to scan customer demographics and transaction histories and maintain consolidated reports on customer history. Mantas offers what it says is sophisticated behavior-detection software with a range of capabilities, from fighting fraud and money laundering to monitoring trading compliance and brokers’ behavior. The pattern-detection software can screen all of a firm’s daily transactions for unusual activity in and among its accounts. It then sends a report to the firm’s compliance officer that includes detailed logs of suspicious activities among accounts, employees or clients. “This allows the company to look at literally every single transaction that goes through that day,” says Jim Hayden, product management leader at Mantas.

For screening potential clients, Citigroup, Merrill Lynch and other financial institutions have taken matters into their own hands. Led by Goldman Sachs, about 20 of the world’s largest financial institutions have set up a private database company, Regulatory DataCorp International. Sources involved in the effort say the company’s global regulatory information database, which will be launched officially later this month, has more than 3 million files on individuals, organizations and other entities with known ties to terrorism or other criminal activity. The data, culled from public sources over two years, will be updated regularly as new information is released. The software and related products will eventually be marketed to other business clients and even consumers.

Other firms are working with the British-based World-Check Inc., which sells a compliance database containing about 65,000 names of "high-risk" financial customers including known money launders, organized crime members and individuals with ties to terrorism or other criminal activities. As with the Regulatory DataCorp clearinghouse, the names are pulled from public sources. World-Check's database includes half a million hyperlinks to its information sources. Brendan Cohen, an money laundering consultant at World-Check, said the company is adding about 5,000 names a month to its files. "We are focused on a minority of individuals doing the majority of damage," he added.

World-Check claims to have about 100 clients worldwide, though it won't divulge their names. The company was formed two years ago, but Cohen said the number of inquiries has climbed sharply since September 11.

At the end of May, the U.S. government got into the act when the Treasury Department's Financial Crimes Enforcement Network (FinCEN) began operating a secure online network that financial companies can use to file reports electronically on suspicious account activity or customer behavior.

Many say it's too early to tell how much of an effect the new technology is having on regulators' and financial institutions' abilities to crack down on money laundering and other potential sources of funds to terrorist. But the number of Suspicious Activity Reports filed by banks to FinCEN jumped by 25 percent last year to 203,538 reports and the agency said it is expecting even more reports this year. And by the end of last week, more than $115 million in suspected terrorists' assets had been frozen worldwide, according to the Treasury Department. "We know that Al Qaeda is having some financial difficulty. We know that some potential donors to terrorists are reluctant to give money for fear of the consequences," said Kenneth W. Dam, deputy secretary of the Treasury, in a speech Saturday. "We know that we are having an impact."