

Edits & Columns

Keeping the dirt out of banks

The KYC route to tracking crime and money laundering

Sucheta Dalal

In line with the global concern over misuse of the financial system for money laundering, drug trafficking and funding of terrorist activity, the Reserve Bank of India (RBI) has ordered Indian banks to put in place a strict Know Your Customer (KYC) policy and build a database of customer profiles. Banks were to complete this by December 2004, at least in case of accounts operated through a power of attorney, or when they spot unusual activity.

This concern will be heightened with the Union revenue department's discovery of 900 bank accounts, with a combined deposit of nearly Rs 1,000 crore, being operated with fictitious names of companies and persons in two dozen banks of Delhi alone. This indicates KYC norms are not in place, or are ineffective. Revenue authorities reportedly found these accounts were being used to create false entries, evading various taxes and penalties.

KYC guidelines are meant to prevent banks from being used, intentionally or otherwise, for money laundering. Finance minister P Chidambaram has already declared that large cash transactions running into crores of rupees at several banks are a clear indicator of misuse. But KYC profiles, even if based on risk categorisation and containing information on the customer's identity, social and financial status, will help track dubious activity only if they are dynamic and continuously updated.

Indian banks planning an international presence cannot afford to risk involvement (knowingly or unknowingly) with dirty money, for fear of falling foul of stringent American and OECD norms. Blacklisting by these countries can lead to serious loss of reputation and business. Banks, regulators and enforcement agencies around the world are increasingly using the services of World-Check, a British company that has built a wide-ranging computer database, or watch list. It allows investigators to match financial transactions against a list of some 250,000 people and firms with suspected ties to terrorist financing, drug trafficking, money laundering and other financial crimes.

David Leppan, founder and chief executive officer of World-Check (Global Objectives Ltd), who is on his first visit to India (to speak at a seminar on fraud/ financial crime), talked to me about how World-Check works. Privacy policies bar it from using anything but published data. But it culls from nearly 140,000 data sources, using a combination of technologies to profile people, automatically identify, review and pull together information (from government and police websites, regulatory and enforcement agencies, academic and research groups and the media). This includes analysis of voice and text data, with a real-time monitoring engine to alert users to suspicious activities as these occur. This throws up an interesting mosaic of transactions and linkages that often provide a clear trail of dirty money.

- **RBI has joined a worldwide move to see banks aren't used to launder money**
- **World-Check, the pioneer here, says the aim is to act before damage is done**

World-Check's information, says Leppan, has helped regulators freeze several dubious accounts around the world. What was the starting point for building his four-year-old database and identifying people and companies that represent a "high

risk” of being involved in financial crime? Leppan’s answer is illuminating. He simply started by profiling all politicians and their relatives based on public records and data. These are what are known as ‘Politically Exposed Persons,’ or PEPs, high-risk individuals who may be conduits for looted funds. The Financial Action Task Force on money laundering (FATF) require banks and regulators to pay particular attention to PEPs. But other than the high-profile links that have led to actual arrests and frozen bank accounts in many countries, Mr Leppan says, World-Check is “specifically designed for account opening due diligence” and aims to keep out fraudsters even before any damage is done. He is also clear that the system cannot hope to catch every single wrongdoing, “the aim is to catch the big fish.”

According to its website, the service is now “relied upon by more than 1,200 client institutions, including over 190 regulatory and government agencies in 120 countries.” It claims 17 of the top 20 banks in the world use World-Check to reduce KYC and PEP risk, making its database the industry standard for highly structured KYC intelligence. Although it started out catering to specific KYC requirements of some Swiss banking institutions, the passing of the Patriot Act after the World Trade bombing has given it a global reach.