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PROFILING PART 2

The Psychology of Anti Money Launderers

by David Thomas

Statement of intent

This paper follows my previous entitled *'The Psychology of Money Launderers'* and is inspired by the collection of Chinese war strategies *'The Art of War'* attributed to Sun Tzu. Of particular note is the idea that *'if you do not know your enemies nor yourself, you will be imperiled in every single battle'* hence the first paper to know your enemy; *'if you know your enemies and know yourself, you will not be imperiled in a hundred battles'* – the happy outcome of both papers.

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1. Definitions

This paper uses my definitions that may or may not coincide with more formally adopted terms.

'Psychology' – this is not a scientific paper, and I am not a qualified psychologist. I use this term to capture my observations of the minds and behaviours of those that prevent and detect money laundering.

Anti Money Launderers, the intended readers, are diverse and include those from:

a. Legislators, policy writers, and standard setters
b. Compliance (including service providers such as World-Check)
c. Regulators/supervisors
d. Financial Intelligence Units (FIUs)
e. Law enforcement
f. General public

2. What and how many?

We, as Anti Money Launderers, have created and sustain a regime based on data: the number of suspicious transaction reports, the number of customers identified as Politically Exposed Persons (PEPs), the number of individuals investigated through Enhanced Due Diligence, the number of criminal prosecutions, the number and value of assets confiscated, the number of international requests, etc.

Our love of statistics is understandable and long established. Galileo Galilei, the great philosopher and scientist, was famously obsessed with measuring everything that could possibly be measured. Modern science is based on his counting and measuring ethos. Today all professions are driven to demonstrate their knowledge, their performance, and their effectiveness (these three aspects are rarely interlinked) by the collection of data.

Unfortunately, we have not yet developed our counting behaviour to use that data towards a greater wisdom. There is a recognition of the dangers in the simplified data-led approach: reputedly hanging on the New York office wall of Albert Einstein was a sign that read *"Not everything that counts can be counted, and not everything that can be counted counts".* In one simple sentence, this reminds us of what René Descartes described as those *'most important truths'* that cannot be evaluated by data and, at the same time, warns us that trying to squeeze knowledge from data that happens to exist is a folly.

Anti Money Launderers should pause to consider Russel Ackoff's *'Wisdom Hierarchy'* - a model to recognise the distinct differences between Data, Information, Knowledge, and Wisdom. Briefly, **Data** are the statistics already mentioned that can be seen in Financial Action Task Force (FATF) country mutual evaluations,

FIU Annual reports, MLRO reports to the Board and so on. The data sets become **Information** when used to show a relational connection or pattern, for example, one year's data contrasted to the previous year's, or data from one country's or company's data compared to another's. Such Information can be found regularly in graphs, pie and bar charts in all of the above anti money laundering reports.

The next stage in the hierarchy is to achieve **Knowledge** by drawing conclusions using the above information and adding human judgments drawn from qualitative skills and experience. Unfortunately, most accompanying texts simply comment on the information and do not venture in to the contentious space of statistic-free, human judgment. Anti Money Launderers are not required by our international standards, legislations, nor regulations to behave to this elevated state of Knowledge.

The most elusive but desirable state is **Wisdom**. At this stage we must leave behind the constrictions of information, much loved by the left-side of our brains, and have confidence in the other cranial hemisphere using our combined ethereal minds, hearts, and souls to reach an almost philosophical view of our endeavours and the impact on the world. If the combined global AML bodies are not ready for this enormous leap from the current state, then I remind the reader that each of us individually can take control of our own mind and behaviour and become free to wander into this greater space. You may be surprised what you find.

3. The latest trends

Just as the tendency to count is common behaviour amongst Anti Money Launderers, so too is the need for new trends and typologies. They are much sought after by those that feel the need to read them (generally in the compliance world), by those that feel under pressure to write them (generally in the FIU and law enforcement world), and by those who want to count them (generally those in the standard setting and governance world). The resulting publications are often unsatisfactory to all precisely because they tend to be based on information that is drawn from incomplete data, none of which demonstrates any causality with the other and is always originally collected for purposes other than analytical trend analysis. At this point, assumptions are then made, based on partially formed patterns, without the enhancements of either *Knowledge* or *Wisdom*. We should take comfort that this behaviour is not peculiar to Anti Money Launderers, but consistent with the Gestalt psychologists' *Principles of Perception*. Max Wertheimer and others demonstrated that humans like patterns, we prefer order to disorder, and will see order even when it does not exist. This is captured in the *Law of Pragnanz* for those that wish to study further.

This need for new trends is made all the more futile when considered in the context of the Money Launderers whose behaviour is neither driven nor influenced by the supposed latest trends. Firstly, newly reported trends are most often what is newly noticed by Anti Money Launderers, not what Money Launderers are *'newly'* doing. Money Launderers tend to use and stay with methods that work and only change when that method stops working, or becomes too risky; they are not fashion victims who feel compelled to follow the latest trends to avoid looking terribly out of date. Secondly, criminals are citizens too and engage in the latest technology and products on the market. I recall reading a criminal trend assessment in the late 1980s that revealed that criminals were increasingly buying fuel-injected cars (information from comparative data) and then made assertions (with neither knowledge nor wisdom) about the newly acquired criminal preference for improved acceleration and speed. The statistics were correct but

only mirrored the open market patterns. More recently, I read money laundering trends in the use of internet banking, on-line gambling etc. Criminals are bemused by this because usage is not driven by a crime-derived decision, but simply because the facility is marketed to the public and they are members of the public.

4. Due diligence

The readers of this paper will understand well the duties and responsibilities placed upon Money Laundering Reporting Officers (MLRO). They are, after all, the gatekeepers to the financial system. In this capacity, they face the additional pressure of potential penalties from their employers, regulators, and law enforcement agencies, all of whom expect the MLROs to be technical experts, should they underestimate or miss a potential risk. And yet, in parallel, they are expected to have the knowledge and wisdom to apply objective judgments to cases and scenarios. Perhaps less acknowledged is the equally valid opposing pressures placed on MLROs from sales-driven colleagues and from clients themselves. And finally, what is very rarely taken into consideration, is that MLROs are like the rest of us, only human. As humans, MLROs will tend to behave in certain ways and when those tendencies conflict with duties then stress develops. This paper simply raises the awareness and does not venture into solutions. We have seen that Gestalt psychologists have demonstrated that humans complete incomplete pictures – for example when we see a cake with a slice removed, we see it as a circle with a small piece missing. But in truth, it is not an actual circle.

This same tendency also leads us to identify core characteristics of a client and make assumptions about the whole. A common example is the snapshot of a new client whose available details, and adequate details for compliance purposes, are assessed to be of *'good'* character – that assessment is then projected upon the client as a whole. Should later, unfavourable information come to light, then it will have less influence than it would have had, had it been available at the initial assessment.

Edith Hirsch Luchins explored this behaviour as the significance of first impressions. The greater the length of time between favourable first impressions and new information to challenge that view, presents the MLRO with an intellectual and emotional challenge, even though it may not be recognised as such. The human response is to resist the new information – this is one of many sources of stress for the MLRO who is balancing established human emotions and behaviours with externally imposed laws and regulations.

Additionally, Elliot Aronson's writings can warn us about the evident but frequently overlooked phenomenon that we all tend to like those people who like us. MLROs who are client-facing will undoubtedly be influenced by Money Launderers who deliberately develop friendly relationships – once again inducing an internal struggle between human tendencies and imposed duty when unusual activity is identified.

5. Conclusion

If, despite all of this extra self-knowledge and understanding, an Anti Money Launderer is found lacking in his or her duties, then it is always possible to rely on the science of **bio-psychology**. This states that all human behaviour is dictated by nerves and chemicals in the brain. Therefore, we can always plead – *'It wasn't me, it was my neurons!'*

About the author

David Thomas was Head of the UK FIU from 2006 to 2010, having earlier been appointed by Sir Stephen Lander (Chair of the UK's Serious Organised Crime Agency and former Director-General of MI5) to be the financial crime expert to review and to improve the UK Suspicious Activity Reporting (SAR) Regime.

During his time as Head of UK FIU David received a commendation from the UK Home Secretary for *'vision, leadership and technical expertise'.* He is internationally recognised as an expert in developing aligned Anti money laundering strategies with a deep understanding of suspicious activity reporting (SAR), money laundering threats, terrorist financing and wider financial crime.

David was Project Leader and Chair for the FATF's project to design, research, and author the first Money Laundering and Terrorist Financing Global Threat Assessment published in July 2010.

From 2006 to 2007 David served on the Egmont Group Committee and subsequently to 2010 he participated in each annual Plenary, and the Operational and Training Working Groups, frequently presenting the UK experience.

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