Anti-money laundering compliance

The need for “outside-the-box” investigations
Maintaining an effective anti-money laundering (AML) compliance program can be a bewildering task because of the constant amount of change within the field. AML compliance departments find themselves struggling to stay ahead of this constant change resulting from new government regulations, internal procedural adjustments and ever-evolving laundering techniques.

Therefore, maintaining compliance, especially during specific AML investigations, cannot be viewed as a straightforward task. The use of audit-based procedures, such as compliance checklists, creates an “inside-the-box” dependence that promotes a level of uniformity and repetition. However, due to the intricacies of evolving laundering techniques, those procedures are not always fully beneficial, especially within an AML investigation scenario.

A new model
Fraud detection and Anti-Money Laundering (FRAML) is a recently developed model that aims to increase the parity and transparency of data sources and information through the consolidation of fraud and AML resources. FRAML attests that, in addition to the compliance procedures, investigations must include a team of knowledgeable experts from the compliance, legal and fraud departments, who not only have experience within their respective fields but also have the capability to adapt their investigative techniques to the AML environment, thereby providing a more effective assessment.

AML meets fraud
Reporting thresholds established by the Financial Crimes Enforcement Network (FinCEN) and the Bank Secrecy Act (BSA) are important in identifying suspicious activity when an analyst is investigating possible money-laundering alerts. While some sets of transactions are easy to review and suspicious activity is evident, other instances are not always a black-and-white scenario.

Checklists capture situations where Joe M. Launderer writes three checks for $8,000 to Jane Cash. Knowing that this is a relatively straightforward example, and that money launderers have evolved from this simplicity, how will “check the box” lists keep up? Modern money laundering now incorporates fraud in already elaborate schemes. Joe has to think outside the box to evade regulations. What happens when each of his checks is to a different beneficiary, like Jane Cash, JC Inc., and George Money? Can an analyst using a checklist know to examine the endorsements, handwriting, references or account numbers? How are these considerations included while maintaining uniformity and procedural compliance?

While it is easy to identify whether the transaction activity aggregates to more than US$10,000, research and investigation into whether a business or apparent lawful purpose exists for transactions should be conducted. Combining the efforts of the compliance, legal and fraud departments will provide the required investigative insight. These departments already combine efforts when a violation of the Foreign Corrupt Practices Act (FCPA) or a financial statement misrepresentation investigation occurs.

Bringing together the fraud and AML departments using the FRAML model helps lead to success in anti-money laundering compliance.

Individuals who work regularly in fraud have experience in dealing with all types of transactional data and are responsible for identifying how fraudulent funds were funneled and where they ended up. As such, an “outside-the-box” investigator’s skill set becomes attuned to recognizing suspicious activity among transactional data in all types of engagements.

Use of judgment
Well-written and detailed procedures are a vital part of conducting an AML compliance investigation. Throughout the investigation, it is important for the analyst to follow the procedures as closely as possible. However, if a FRAML mindset is applied, the investigation would not be limited to just the procedures.
An investigative mindset can be crucial in determining the nature of the transactions reviewed, the direction in which the research should be taken, and the transactions and parties that require additional review.

Consider the three checks written by Joe M. Launderer to three different beneficiaries: these transactions may appear to be normal and may adhere to the reporting threshold requirements listed in the procedures. But when looking at each individual transaction by itself, or this isolated set as a whole, procedures state that this transaction may not require further review. What can be easily overlooked is that in this specific incident, a beneficiary from this transaction may appear in numerous other transactions that triggered the filing of Suspicious Activity Reports (SARs). If SARs were filed by other departments or organizations, an internal AML SAR database would not hold this information. However, implementing FRAML would lead to combining knowledge, databases and skills from other departments. The information sharing would tie Jane Cash to other transactions, thus providing the analyst with more information to use in an evaluation of the alert.

Compliance-only investigators can too often get caught adhering to the AML procedures, possibly missing a crucial part of the investigation. The concept of FRAML allows investigators to use their experiential judgment to think outside the box when analyzing the transactions. There are instances in an investigation where judgment calls have to be made, and additional research is needed to supplement the research that is already required by the procedures. Even though this may stray from the “set” procedures, it is important that investigators use their judgment and perform additional research on the party at hand.

From sampling to recommending a SAR report, experienced investigators must use risk-based judgment throughout the investigation to analyze the problem and to develop a thorough assessment of the situation. Trained investigators, especially those with forensic and fraud training, tend to rely on these outside-the-box judgments when compared to untrained investigators using compliance checklists. An untrained eye will be less likely to deviate from provided procedures, or will just check the box. Without a more thorough investigation into AML alerts, suspicious activity may be overlooked.

An investigative mindset

Reviewing the transactions, investigating the associated parties and developing an assessment of alerted transactions are only the beginning of an AML compliance investigation. The level of judgment required throughout the process becomes much more significant as only in a few circumstances does the investigation follow clear-cut lines of set procedures. An investigative mindset can be crucial in determining the nature of the transactions reviewed, the direction in which the research should be taken, and the transactions and parties that require additional review.

Information identified in the investigation of various alerts is then pulled together to incorporate into SAR recommendations. Oftentimes, the investigation process requires compiling information from numerous alerts and transactions. A set of alerted transactions or a particular individual found in an alert may not be worthy of filing a SAR recommendation on its own, but the presence of a certain type of transaction or a group of individuals across several alerts can result in the filing of a SAR. The AML compliance investigation often involves the search of patterns, as money laundering is a complex endeavor, and the ability to identify patterns among the patterns can be critical to combat and prevent money laundering.

Filing a SAR recommendation is often seen as the end result of an AML compliance investigation. While often effective, the form can also be limited in the information and detail provided. Looking at the SAR recommendation form, it is easy to see how the boxes can be checked and the blanks can be filled without providing a comprehensive picture of the investigation finding. A SAR recommendation filed with the boxes and blanks filled arbitrarily does little to combat money laundering. Without an investigation performed with an open, investigative mindset and considerable attention to detail, it is impossible to fill a SAR recommendation with the necessary information to identify instances of
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money laundering. The FRAML process highlights how combining compliance, legal and fraud investigators can allow an AML compliance investigation to be performed with judgment, attention to detail and an awareness of nuances that provides the greatest possible assistance to authorities to combat money laundering.

Conclusion
The use of FRAML is a crucial addition to the quality of an institution’s AML compliance assessment program. Trained investigators provide an outside-the-box approach in identifying, analyzing and solving key issues. Investigators are champions of analysis and understanding of AML terminology, including key reporting thresholds.

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