

ACAMS[®] TODAY

The Magazine for Career-Minded Professionals in the Anti-Money Laundering Field

What's in a name?

The PEP challenges of Hispanic names

Numerous articles and white papers have been published on Politically Exposed Persons (PEPs) and the countless challenges that institutions face when screening for PEPs. One of the most frequently reported issues is that PEPs and high-risk entities with common names generate an unmanageable number of false positives. In the September/October 2008 issue of *ACAMS Today* we discussed the benefits of applying a risk-based approach as “the best offense for winning the PEPs challenge.” However, institutions that wish to remain ahead of the compliance curve must keep informed about more than the fundamentals of name matching. This is particularly so when working with Hispanic names.

Hispanic (e.g., Spanish and Latin American) and Portuguese (e.g., Brazil and Portugal) names pose a unique set of challenges. The particular challenges of dealing with Hispanic and Portuguese names in the context of PEP screening can be broken down into three issues:

- The broad definition of a PEP by countries such as Mexico and Brazil
- The commonness of Hispanic and Portuguese names
- Diverse cultural naming conventions.

Who is a PEP?

The Financial Action Task Force (FATF) on money laundering has developed a series of recommendations regarding anti-money laundering regulations which to varying degrees are implemented in the regulations drafted by its 34 member countries. Among these recommendations is a generally accepted definition of a PEP — defined as people who are or have been

entrusted with prominent functions. In addition to specifying some examples of senior political figures, the FATF definition of a PEP also includes family members and close associates. Mexico and Brazil, two large and very populous nations, have contradicted the internationally accepted FATF definition of Politically Exposed Person, which explicitly excludes middle and low-level officials, by including in their own definitions of PEPs their lowest level local officials.

Institutions operating locally in Mexico and Brazil will want to follow each country's respective definition of PEPs. However, global institutions will want to separate in their screening processes those PEPs that meet the definition of PEPs from regulatory guidelines such as those issued by Canada's OSFI and those contained in the 3rd EU Directive on AML that are compatible with the FATF PEP definition. Using a risk-based approach, due diligence and transaction and account monitoring will differ for lower level figures such as alderman and small-town mayor versus more senior officials.

To meet regulatory requirements, institutions must effectively screen their clients, transactions and employees for potential risk related to money laundering, terrorism and other crimes. Commercially available databases of known heightened-risk individuals and entities are frequently used for PEPs and other types of customer or transaction screening. These databases contain tens of thousands of Mexican and Brazilian PEPs of whom a significant percentage are low level officials with titles such as alderman, deputy alderman and (municipal) councilors. Scanning against

a proportionately high number of lower ranked officials impacts both the quantity and quality, or relevance, of your alerts.

A risk ranking methodology that takes into account the degree of exposure of the potential PEP matches is an effective solution for identifying those hits that are most likely to pose a risk to an institution. This type of methodology looks at the information sources and linkages or relationships among the PEPs for corroborating evidence to distinguish, for example, between local officials with little to no negative news and those who may have once been in a senior position and/or have significant links and negative news stories pertaining to their involvement in suspicious activities.

Such an approach to risk ranking PEPs immediately reveals the heightened-risk individuals and entities among potential matches. It offers a logical approach for compliance staff to work through an often unmanageable number of alerts, many of which may prove to be false positives. Most importantly, it reduces the exposure to the reputational and compliance risk that high-risk PEPs pose to organizations.

Too many Garcias and Silvas

Spanish derived surnames date back to the 12th century and can be found in 21 Spanish-speaking countries where there is a high frequency of common names. Surnames are derived from four sources:

- Patronymic and Matronymic Surnames (Leon Alvarez — son of Alvaro)
- Occupational Surnames (Roderick Guerrero — Roderick the warrior or soldier)
- Descriptive Surnames (Juan Delgado — Juan the thin)

Lopez
Martinez
RODRIGUEZ
Silva
Dereira

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• Geographical Surnames (Ricardo de Lugo — Ricardo from the town of Lugo)¹
The most common Mexican names include Garcia, Martinez, Rodriguez, Lopez and Hernandez. The most common Brazilian names include Silva, Santos, Oliveira, Souza and Pereira.²

Statistically, one hundred Mexican surnames account for approximately fifty-five percent of the population. Comparatively speaking, one hundred U.S. surnames account for less than twenty percent of the population in the United States.³ Common names complicate the filtering process by increasing the rate of false positive matches and by making it more difficult and time consuming to identify the true matches. To highlight this difference, if for example the Russian or Thai governments were to take a similar broad view of the PEP definition as do Mexico and Brazil, despite the large population sizes and political classes in all these countries, the impact would not be as detrimental to the PEPs compliance process as the actions taken by the Mexican and Brazilian governments. This is due to the relatively higher variance in names in Russia and Thailand, which exhibit a much lower concentration of surnames and relatively fewer very common ones.

Name order adds another layer of complexity

In addition to the broad definition of PEPs and the commonness of Hispanic and Portuguese surnames, the diversity of naming conventions in the Hispanic world further exacerbates the problem. Naming customs in Spanish speaking countries typically include two surnames and one or two given names. The first surname is paternal, inherited from the father's first surname, and the second is maternal, from the mother's first surname. For example, Ana Maria Lopez Garcia, where Ana and Maria are given names, and Lopez is the paternal surname, with Garcia the maternal one.

While it is a common practice to use one or two given names with the first surname, this is not a rule that is rigidly applied,

and the second surname is frequently used when signing legal documents. Recent laws of gender equality allow the surnames to be transposed provided that all children in the family use the same order.⁴

The nuances of naming conventions across Latin America can be confounding. In Argentina, for example, births are registered with only a paternal surname. On the other hand, Honduras requires two surnames to be registered. In some, but not all Latin American countries, a woman may drop her maternal surname and adopt her husband's paternal surname with "de" ("of") inserted between. On official documents, however, she will still be identified by her two maiden surnames. Ana Maria Lopez de Diaz might go by her maiden name on a daily basis (Maria Lopez Garcia), but for formal documentation she would identify herself with her married name (Ana Maria Lopez de Diaz). Confused yet?

Now let's introduce the difference between Mexican and Brazilian first/last surname order. Spanish names place the paternal surname first and the maternal surname last. Brazil, a Portuguese speaking country, also uses two family names, but for Brazilian names the mother's surname comes first. In the Brazilian name José Eduardo Tavares Silva, Tavares is maternal and Silva is paternal.

Solving the cultural problem

To counteract the numerous challenges posed by such diverse cultural naming conventions, the name syntax must be fully exploited. Syntax refers to the order, role and value of the name segments or tokens. The differences of Hispanic name order, name role and name value significantly impact not only name matching quality and the subsequent number of false positive matches in the result set, but also the risk of missing a true match.

Institutions should look to implement an effective methodology that will:

- Match appropriate name elements
- Consider cultural differences in name structure

- Recognize variations within the conventions of other cultures
- Anticipate cross-cultural inconsistencies

A recent and very compelling validation of this methodology can be seen in the Operation Alcatraz illustration.⁵ Using publicly available databases such as the FAA Certified Airmen Registry and applying knowledge of cultural variations and syntax, it was determined that these convicted drug traffickers held valid FAA licenses! Noting the different name structures, family relationships, sources and other links for these individuals highlights the inability, in this case, of law enforcement and government agencies to "connect the dots" and share critical intelligence. While the FAA confirmed the accuracy of these findings by rescinding the licenses of these criminals, it's worth considering the damage to the FAA's reputation from such an occurrence. And, of course there is the very real danger that individuals and entities known to be criminals by one government agency may fail to be identified by another critical agency due to the problems discussed in this article.

The inherent challenges of name matching are further complicated in cultures where there is a wide variation in naming conventions. Intelligent filtering requires not only a deep understanding of working with large data sets, but also an understanding of the cultural factors that impact name matching and the process of ferreting out links and relationships within the data. The goal is to mitigate risk by exposing the most prominent and notorious entities in a PEP database. Compliance staff trained in cross-cultural variations — such as those outlined here between Mexican and Brazilian names — stand a better chance of quickly finding a true match within the large volume of false positives returned by filtering tools. **A**

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¹ About.com: Genealogy; Spanish Surname Meanings and Origins by Kimberly Powell

² Wikipedia.com: List of most common surnames

³ Mateos, Pablo; Tucker, Ken; Names: A Journal of Onomastics, Volume 56, Number 3, September 2008, pp. 165-184

⁴ Tarver-genealogy.net: Naming Conventions of Spanish-Speaking Cultures

⁵ Matthew L. Wald; New York Times, National, pp. A11, A15

OPERATION ALCATRAZ

FAA CERTIFIED AIRMEN REGISTRY

| AIRMAN# | AIRMAN | CERTIFICATE(S) | | | |
|---|---|--|-----------|----------|-------------|
| | | Type | Issued On | Medical | Valid As Of |
| A3886137 | MARIN GABRIEL EDUARDO AFANADOR Calle 137 A #58-71 Casa 57 Santa Fe De Bogot, COLOMBIA DOB: 22-Nov-1974 | Commercial Pilot | Oct-1995 | Jan-1999 | Jun-2009 |
| | | Commercial Pilot (Foreign Based)* | Aug-1995 | Jan-1999 | Jun-2009 |
| *The Foreign Based certificate indicates COLUMBIA | | | | | |
| A2757602 | GABRIEL AFANADOR SOLANO Address Not Available DOB: 23-Nov-1949 | Flight Engineer* | Mar-1992 | N/A | Mar-1994 |
| | | *Special Purpose-Lessee: "Valid For U.S. Registered Civil Aircraft B-727. Leased To Sam Airlines.... Expires: 31 Mar 1994. | | | |

FEDERAL BUREAU OF PRISONS INMATE LOCATOR²

| INMATE# | INMATE | AGE-RACE-SEX | LOCATION | RELEASE |
|-----------|---------------------------------|--------------|------------------------------|----------|
| 63993-004 | GABRIEL EDUARDO AFANADOR-MARIN | 34=WHITE=M | Miami Federal Detention Cntr | Unknown |
| 63992-004 | GABRIEL EDUARDO AFANADOR-SOLANO | 59-White-M | Coleman Federal Correction | Mar-2018 |

US DISTRICT COURT — SOUTHERN DISTRICT OF FLORIDA

| ACTION | DATE | DESCRIPTION |
|--------------|----------|---|
| INDICTED | Sep-2003 | Five counts related to drug trafficking with maximum penalty life imprisonment for each. "There was a large quantity of cocaine seized in connection with case by U.S. authorities, approximately 380 kilograms [838 lbs]... In addition, there was a seizure of approximately 480 kilograms [1058 lbs] of cocaine conducted by the Colombian authorities." |
| EXTRADITED | Nov-2004 | From Colombia into US custody. Date of Births given: Solano, 23-Nov-1949; Marin, 22-Nov-1974. |
| PLEAD GUILTY | Mar-2006 | Solano / Marin sentenced to 197 / 100 months imprisonment, respectively, followed by deportation. |

Note: Afanador-Solano and his son, Afanador-Marin were, reportedly, captured in 2003 as part of the Operation Alcatraz.

"Operation Alcatraz is a... multi-national, multi-jurisdictional... operation targeting North Coast of Colombia-based drug transportation organizations... The Colombian organizations have been linked to the Autodefensas Unidas De Colombia (AUC) and are responsible for transporting multi-ton quantities of cocaine via go-fast vessels from the North Coast of Colombia to the Caribbean for subsequent transshipment to the United States... As of December 31, 2004, this operation has resulted in the arrests of 59 defendants... and the seizure of 10,710 kilograms of cocaine.



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