

## Regulation/Compliance

# Renaissance of Fraud Spurs New Approaches to Anti-Money Laundering

By Carol Stabile, Safe Banking Systems LLC

**Adopting a comprehensive approach to financial crime prevention, with greater reliance on analytics tools and collaboration among banks, regulators and law enforcement entities, was the theme of ACAMS' recent AML & Financial Crime conference.**

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Today's digital age has exploded the global opportunities for fraud, money laundering and criminal activities. The complexity and intelligence behind some schemes and the ability of perpetrators to quickly change direction make it difficult for law enforcement and financial institutions to keep up. This was the key message sounded at the recent Association of Certified Anti-Money Laundering Specialists (ACAMS) 11th Annual AML & Financial Crime Conference in Las Vegas, which had a theme of "Adopting a Comprehensive Approach to Financial Crime Prevention."

The "renaissance of fraud," as Richard Weber, Chief, Criminal Investigation, Internal Revenue Service, called it in his keynote address, can only be curtailed with "collaboration from the IRS, law enforcement, banks and financial institutions," he emphasized. Weber cited the Joint Terrorism Task Force (JTTF) as one example of this kind of collaboration. The JTTF represents a multidisciplinary effort that brings together numerous groups such as the Department of Homeland Security, the FBI, law enforcement, investigators and others to combat terrorist financing and related crimes which include money laundering, wire fraud and identity theft.

The need for all kinds of groups to work together has never been more critical. In 2011 banks and financial institutions generated more than one million SARS (Suspicious Activity Reports), of which the IRS reviewed 775,000. Thus far in 2012, the IRS has reviewed 500,000 SARS with case size in the hundreds of millions of dollars.

Among the growing and most troubling trends is the double income tax return refund fraud. The IRS has seen a disturbing number of cases of identity theft where social security numbers and other personal information are stolen -- usually by well-organized Eastern European crime networks -- and used to submit a duplicate tax return and claim a refund. Last year 200 cases of income tax refund fraud were prosecuted. This year there have already been 500 cases prosecuted, reflecting both a disturbing uptick in this fraudulent activity and a more vigilant effort on the part of the IRS to identify and capture perpetrators.

## **Analytics and Risk Modeling**

While reaching out and working together to combat financial crime has proven effective, the financial community is also discovering the benefits of looking inward at its own risk management practices. Adopting a holistic approach to anti-money laundering that includes analytics and predictive modeling was another recurring theme in the conference's educational sessions.

As banks and financial institutions expand globally, introduce more complex products and reach a broader range of customers, they also expose themselves to greater risk. Conference sessions on risk modeling were of particular interest since risk analytics and modeling have proven to be an effective approach to anti-money laundering and one that withstands the intensified scrutiny of regulators. AML products with sophisticated risk models capable of analyzing reams of data to identify non-obvious relationships have been instrumental in pre-empting risk and helping financial institutions meet Know Your Customer (KYC) and other regulatory requirements.

Best practices for risk modeling include:

- Understanding regulatory expectations with regard to your institution's AML program and being able to articulate the methodology to regulators.
- Evaluating modeling for AML compliance utilizing prescriptive and quantitative approaches.
- Discovering the latest available technology for data analysis and establishing a uniform approach to reporting metrics.

## **A Growing AML Constituency**

Given the increase in the types of financial criminal activity and ways to commit financial crime, it was not surprising that this was ACAMS' best-attended conference. John J. Byrne, Esq., CAMS, Executive Vice President, ACAMS, said the "unprecedented turnout also reflects, in large part, the commitment on behalf of the three parts of the AML community -- law enforcement, regulators and the financial sector -- to work more closely together in combating financial crime."

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