

Follow the money.

New technologies aid in the fight against money laundering,
improve bank compliance.



Al Capone didn't invent money laundering — bandits have been concealing the origins of illegally obtained cash for thousands of years — but his actions may have birthed the term. Folklore has it that Capone, operating more than nine decades ago, legitimized his money through a commercial laundry.

The passage of time has lent Capone a little bad-boy glamour. Today, he's often viewed as less of a monster, more of a rogue. So he ran a little booze, banked a few games, bought a couple of politicians. These things happen. Chicago tourists now flock to ersatz speakeasies and take Untouchable Tours highlighting the city's gangster past.

No one will ever frame today's money launderers in such nostalgic terms. They're drug traffickers, human traffickers, arms dealers and terrorists. Sometimes, money laundering encourages crime by legitimizing its proceeds: it's fair to say that the child sex trade would stop if the cash it generates could not be used without swift and near-certain prosecution. Other crimes are actually enabled by money laundering. Al-Qaeda laundered money through the European banking system to fund the 9/11 attacks in the United States; drug trafficking proceeds now subsidize ISIS.

These activities are almost unimaginably broad in scope. The Financial Action Task Force, an international body that helps banks combat financial misdeeds, estimates that crimes giving rise to money laundering constitute between two and five percent of the gross world product, or between US\$1.38 and US\$3.45 *trillion* annually. This white paper will examine the current money laundering climate, anti-money-laundering (AML) regulations and new technologies that can help banks comply with them.

New criminal activity spurs increased regulation

Governments worldwide began ramping up AML regulations in the years following the September 11th terrorist attacks. "The number of AML regulations really ballooned, and continues to increase," said Richard Stocks, Pitney Bowes solution director for financial crimes and compliance. "Once upon a time, banks worked with a certain set of known rules and regulations. Things moved more slowly. You had time to learn how to accommodate the next regulatory change, the next risk. No more."

The barrage of new AML regulations ranges from Know Your Customer laws in about 80 countries to Financial Transactions and Reports Analysis Center guidelines in Canada, and from Anti-Money Laundering and Solvency II directives in the European Union to the Patriot Act and Foreign Account Tax Compliance Act in the United States. Additional regulations arose from bank self-policing organizations.

These regulations attempt to keep ahead of an evolving criminal marketplace. At a time when international crime is growing more vicious, new technologies offer innovative ways to engage in illegal activity. The Dark Web — a huge collection of web sites that hide the IP addresses of the servers running them, and that cannot be found via search engines — provides fruitful grounds for the purchase of armaments, explosives, drugs and even human beings. The rise of global financial markets, web-based bank-to-bank transfers — including transfers to "offshore banks" in countries with no AML laws — wire transfers, prepaid credit cards and hard-to-track Bitcoins and other virtual currency make layering easier.

That's why regulatory bodies not only pass new AML regulations, but also strictly enforce compliance. In a host of nations, regulators now scrutinize AML more than any other banking task. Failure to comply puts banks at risk of fines that can run into the billions of dollars, pounds, Euros or yen. Compliance failure also puts bank executives at risk of prosecution in some countries.

But despite banks' significant investments in AML manpower, platforms and processes, compliance isn't easy. Opaque and incomplete views of both internal and external customers stymie AML efforts.

The compliance challenge

Money laundering depends on anonymity: on the obfuscation of entities and transactions. Entity resolution and transaction monitoring systems can do much to hinder money laundering attempts. But like the analytic risk-scoring and re-scoring processes that gauge a client's propensity to launder money or commit other financial crimes, they work only as well as the data behind them.

Most banks today can only claim opaque and disjointed customer views. Customer information is often siloed, housed in databases on dispersed systems that have no way of communicating with each other. These include everything from customer information management systems to employee spreadsheets. And separate customer profiles may appear in different arms of the bank: in retail banking and mortgage departments, for example, or in commercial banking and credit card divisions.

The result of all this? Individual customers often have multiple profiles containing inaccurate, incomplete or conflicting information.

One entity, many names

Name variations are just one example. A married woman named Mary Anne Jones may have signed her name, on different accounts in the same bank, as Mary Anne Jones, Maryanne Jones, Mary A. Jones, or M.A. Jones. Another set of accounts may use these same variations attached to her maiden name, Brown. A third group of accounts may use these variations plus a hyphenated last name, Brown-Jones. Most banks cannot effectively coalesce all the information contained in these various accounts into one profile for this single entity. Therefore, banks are unable to examine this entity's transactions, networks, and the locations in which she does banking business.

"The way things are now, I may have a retail banking perspective of Mary Anne Jones," said Robert Smith, Pitney Bowes financial crimes managing director. "I can see that she has a healthy checking account, that she pays the same bills every month. But I can't connect her with the Mary Anne Jones working in the institutional arena. I can't see that she works for a large corporation that manufactures bomb parts, and that's trying to do business in Syria. So the bank has an extremely low risk score for the first Mary Anne Jones, and an extremely high risk score for the second. Banks need more clarity into whom they're doing business with in order to have more confidence in their risk profiles."

Unresolved identities also bedevil transaction monitoring systems (TMSs), which screen for and alert to 26 money laundering scenarios based, in part, on the entity's risk scores. To work effectively, transaction monitoring systems (including programs from NICE, Oracle and Norkom, along with home-grown systems) and bank customer information management systems need a clear and complete view of each entity doing business with the institution.

A deluge of false alerts

Inefficient entity resolution and transaction monitoring put banks at risk for non-compliance. False negatives occur when the TMS doesn't alert as it should and criminal actions go undetected. Far more often, up to 95 percent of the time, by some estimates, the system will return a false positive. Current inefficient, manual investigative practices leave bank investigators needlessly wading through 95 percent of the entire alert pool simply to reach the five percent of all alerts that truly need scrutiny.

How can this inefficiency play out? Let's reconsider bank customer Mary Anne Jones. The bank is concerned that Jones may be trying to structure money through its system, regularly making individual deposits of \$3,000, \$3,000 and \$4,000. The bank believes these deposits may represent an attempt to skirt United States AML laws, which mandate that any single transaction of \$10,000 or more be investigated. But because the bank was never able to fully resolve the identity of the Mary Anne Jones with the possibly-structured deposits, its TMS now alerts to every deposit initiated by a host of bank customers named Mary Anne Jones. Since investigators are required by law to resolve every alert, the bank's financial intelligence unit suffers from efficiency bleed.

Technology can help resolve entities

To more effectively and cost-efficiently comply with AML mandates, banks can deploy software systems that improve entity resolution by **finding** and **linking** data and by improving investigators' ability to **visualize** relationships.

These systems help organizations **find** customer information wherever it lives in disparate, siloed systems and departments within the bank. They scour retail banking, credit card, mortgage, business and investment accounts, among others, to automate the process of compiling a comprehensive profile of each customer, and on the external parties with whom bank customers do business, in accordance with Know Your Customer and Know Your Customer's Customer requirements.

Software systems can then **link** data from multiple sources to a specific entity and its customers. Insight into the method of money transfers used, including bank transfers, wire transfers, counter withdrawals, checks and credit cards, should be included. This linkage eliminates the need for investigators to follow or manually reassemble long digital or paper trails to uncover information about a specific bank customer and the entities in the customer's network.

Information should be digitally presented in such a way that bank investigators can easily **visualize** the client's history with his or her networks and the institution itself. Additional capabilities should enable modeling of relationships across roles, processes and interactions.

The Pitney Bowes solution

Pitney Bowes Entity Resolution for Financial Crimes and Compliance is a software solution that helps banks worldwide more efficiently and cost-effectively detect and investigate financial crimes. It builds on Pitney Bowes Spectrum® technology and advanced algorithms to provide the find-link-visualize capabilities previously discussed.

Pitney Bowes software first **finds** customer records from across the myriad systems in which they reside. It then leverages Pitney Bowes' database of millions of addresses, names and name variations — covering 143 cultures and 240 geographies — to **link** records to unique parties and to determine inter-party relationships.

These capabilities, coupled with the ability to transliterate non-Latin alphabets into the Latin alphabet and vice versa, enable banks to take into account name and address variations when resolving entities globally. The solution helps banks see, for example, that a customer going by the first name "Michael" in the United States may use the first name "Mikhail" in Russia or "Muhammad" in Egypt. Or that addresses recorded alternately as 42 Oakdale Street and 42 Oak Dale Rd. coalesce into 42 Oak Dale St. (See Figure 1).

Linking continues as the Pitney Bowes solution normalizes and standardizes names and addresses, so that each entity doing business with the bank can be provided its own unique identification number for use throughout the institution. Data from multiple sources can then be appended to this specific entity, improving insight during investigations. Records can be compiled on an individual, household, or organizational basis.

Pitney Bowes' **visualization** capabilities allow investigators to access this information via a single link in a Pitney Bowes knowledge hub. There, they find all the information the bank has compiled on a given customer appended to that customer's unique identification number. This process eliminates the need to follow long, confusing paper trails.

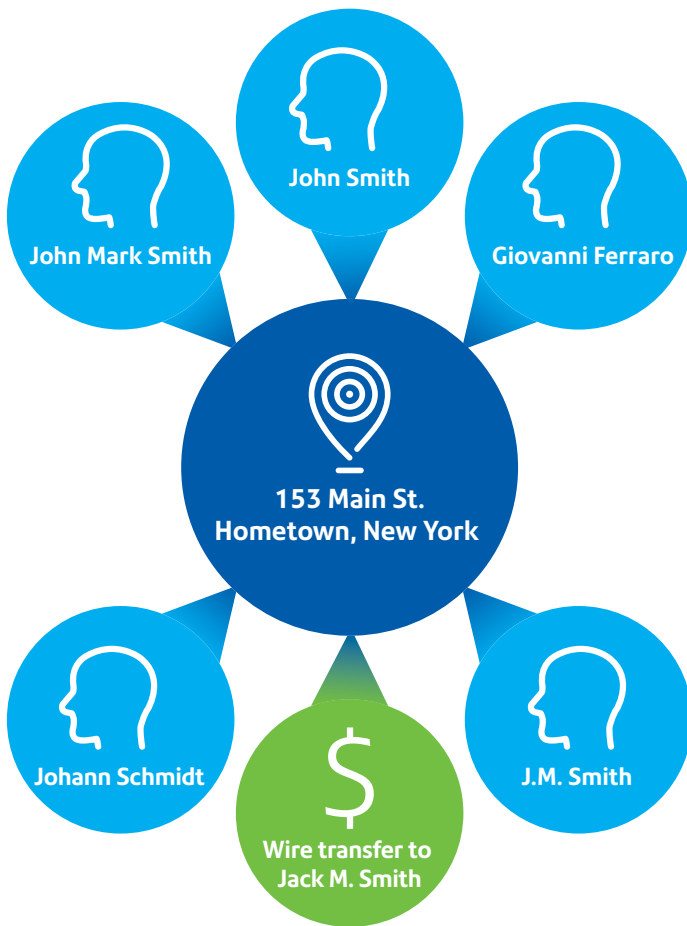


Figure 1: Pitney Bowes Entity Resolution for Financial Crimes and Compliance can help coalesce many names into a single entity. As illustrated here, the solution is helping the bank coalesce six name variations into a single entity by linking all those names to the same home address.

Benefits

By improving entity resolution, the Pitney Bowes solution can help banks avoid the fines and prosecution that accompany non-compliance. Since the solution improves investigative efficiency, it can save banks from the need to hire new personnel. Additional benefits include the solution's ability to unlock value from existing AML investments and to improve marketing efforts. .

Pitney Bowes Entity Resolution for Financial Crimes and Compliance is not a TMS or customer information management system. Rather, the solution improves the accuracy and precision of data flowing through existing platforms while comprehensively orchestrating that flow to support existing systems and processes. This saves organizations from the burden and expense of replacing TMS and customer information management systems in order to improve entity resolution.

In addition, banks often find that, while the Pitney Bowes solution has been designed to help with the mandates of Know Your Customer and other AML regulations, it can also aid in achieving the 360° customer views needed to optimize marketing efforts. With a complete view of each entity doing business with the bank, the financial institution can better tailor marketing to meet the needs and circumstances of each customer.

Improve entity resolution at your bank

Money launderers are always looking for new ways to integrate the proceeds of their crimes into the legitimate financial stream. Today, money launderers in the United States hire broad networks of "smurfs." These are low-level criminals who will deposit amounts of just under \$10,000 into launderers' accounts, circumventing AML laws.

Criminals are also increasingly laundering money through smaller regional banks, believing that these institutions do not have the millions to invest in the processes and technology needed to effectively resolve entities.

To curb this scourge and comply with the ongoing barrage of AML regulations, banks need to improve entity resolution. Cutting-edge technology can help in this effort. Pitney Bowes has been in the business of data structuring and linkage for more than 95 years. Our solution calls upon our proven technologies in data intelligence to help in the fight.

For more information, visit us online:
pitneybowes.com/us/aml

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