Money laundering risks in international wires

by Bend_Weekly_News_Sources

Complex Criminal Transactions Pose Challenges for Banks

"No transaction is too complicated for a criminal seeking to launder money," warns Michael Recce, Chief Scientist at Fortent, a provider of information and technology to the risk and compliance market. In a new white paper, "Following the Money: Key Risk Factors in International Wire Transfers," Dr. Recce identifies a favorite instrument of financial criminals -- cross-border wire transfers. These complex, often multi-layered transactions enable money launderers to leverage their very complexity, says Dr. Recce, creating problems for investigators trying to track down the origin of funds.

The expanded provisions of the Bank Secrecy Act, as well as a recent report by the Financial Crimes Enforcement Network on the feasibility of requiring more data from banks on cross-border wire transfers, have spurred banks to intensify their focus on international wire transfers to minimize regulatory risk. In his white paper, Dr. Recce identifies the key challenges for banks in this area:

Know Your Customer's Customer -- With the passage of the US Patriot Act in 2001, originating banks are required to know the details on all parties in a correspondent banking transaction, even if the parties are not direct customers of the bank. In this increasingly granular level of Know Your Customer known as Know Your Customer's Customer, "originating banks are also required to monitor the intended use of the funds, the unusualness of the wire, and the people, entities, and countries involved."

Transactional complexity -- In international correspondent banking, a single transaction often involves numerous banks in many countries, including originator banks, multiple intermediary banks, and beneficiary banks. Money launderers can use this complexity to obscure the true origin of funds and the identities of the parties involved. In a practice called "nesting," a foreign bank can use the U.S. correspondent account of another foreign bank, gaining correspondent status without the U.S. bank's even knowing it.

Tracking difficulty -- With numerous parties involved in a transaction and each bank deducting a fee, the amount of the transaction changes as it moves from bank to bank. Complicated by the sheer volume of transactions handled by each bank and the lack of standardized transaction data among financial institutions, tracking the data to uncover money laundering activity can be enormously complicated for a bank's anti-money laundering efforts.

International regulatory pressure -- FinCEN in the U.S., the Joint Money Laundering Steering Group in the UK, the European Union, and international policy-making bodies such as the Financial Action Task Force are all expanding their AML efforts in the area of cross-border wire transfers, enacting regulations and policies that increase banks' reporting requirements in this area.

AML system requirements -- To counter the risks in international wire transfers, institutions must implement a sophisticated, comprehensive AML system that can link all parties to each transaction. In addition, risk ranking of countries and banks is a critical part of the process. "By concentrating energies on the areas most likely to cause problems," emphasizes Dr. Recce, "compliance managers can create efficiencies in their AML systems that avoid unnecessary costs and ineffective information-gathering."

"Because of the lucrative business that correspondent banking brings in an increasingly 'flat' world of global trade," says Dr. Recce, "banks cannot simply avoid the risks of this type of banking by refusing to participate. Instead, banks must simply have a heightened awareness of the vulnerabilities within the context of their entire AML system and the organization's risk management."

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