

The Cost of Technology; The Cost of Non-Compliance

By: Jay Goodwin, Prime Associates, Inc.

Many of us in the regulatory compliance solutions business often find ourselves challenged to provide rationale as to why a bank should spend large amounts of money for compliance technology. Many bankers look at this type of expenditure as nothing more than a cost center negatively affecting their bottom line. Some banks look at the breadth and scope of many current regulatory compliance solutions as overkill when compared to their assessment of their bank's risk.

A positive return on investment is a hard argument to make at a single customer level in this business. As a compliance technology vendor, we can make the point that the technology cost can be measured against future potential losses through fraud and malfeasance. We can portray the value of the technology as being an insurance policy to protect you against damage to your reputation and fines should violations be discovered. However, the technology is ultimately not cheap, the people who administer it are not cheap, and all this cost gets reflected in the earnings report.

On the other hand, if we step back a little and take a wider view of the macroeconomic environment and how it is affected by more stringent anti-money laundering (AML) efforts, we see a different picture coming into focus.

- According to the World Bank, a conservative estimate of income derived from illicit transactions is five percent of total global output. Bribes and graft make up at least half of that amount.
- Given a gross world product of \$33 trillion, a low figure for the dollar amount paid out each year in corrupt transactions is nearly \$1 trillion.
- Drug trafficking proceeds compose 30-50 percent of these funds.

Source: UN Convention
Against Corruption, Merida,
Mexico Press Release,
December 11, 2003

Given the sheer size, complexity, and reach of the U.S. economy and the economic influence we hold over global trade and finance, the policies and methodologies we adopt will impact the world's economy for years to come. As evidence of how U.S. policy, working in conjunction with foreign regulatory bodies, is having an effect, consider Operation Capstone. This operation uncovered a scheme targeting life insurance companies in the U.S. that involved the laundering of \$80 million of Columbian drug money. This resulted in two years' worth of investigation where it was found that Colombian drug trafficking organizations were purchasing investment-grade life insurance policies in the U.S., the Isle of Man, and other locations, with cartel associates as beneficiaries.

It is no secret that money gained from illicit activities is a drain on the general economy, as well as having a very real effect at the local level. Police departments cost real money, the penal and criminal justice systems cost real money, and in many if not most cases, money circulating in the black economy is never taxed.

By institutionalizing financial transparency across all financial transactions in all environments, we make it difficult for these criminal enterprises to conduct business as usual. As the regulatory complexion of the U.S. economy becomes more normalized and uniform, we are likely to see decreases in crimes such as drug trafficking and fraud. As risk modeling becomes more standardized and accepted, it will become onerous for criminals to make use of financial institutions. As information is shared between banks and through regulators, it will be hard to obscure financial misdeeds. In short, the real benefit of a strong regulatory environment can be compared to putting the bright lights on a room full of rats: they have nowhere to hide.

Part of what facilitates a strong, dynamic, and transparent economy is a consistent and balanced approach to regulation – regulation that is not designed to be punitive or unevenly enforced, but rather instructive and focused on mitigating risk. What this depends on is intelligent, stable, and well-managed technology being in place at every financial institution. Technology evens the playing field from a risk perspective. It is not subjective and it views risk with absolute clarity. A properly deployed and managed AML system puts the bright lights on customers and transactions, giving banks and others a clear view of where risks exist within their business. This transparency has a communal value for us all. Ultimately, the cost of this technology is a small price to pay in the big scheme of things.

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LATEST COMPLIANCE NEWS

Agencies Release Bank Secrecy Act/Anti-Money Laundering Examination Manual

(June 30, 2005)

The Federal Financial Institutions Examination Council (FFIEC) has released the Bank Secrecy Act/Anti-Money Laundering Examination Manual (FFIEC BSA/AML Examination Manual). The manual's release marks an important step forward in the effort to ensure the consistent application of the BSA to all banking organizations, including commercial banks, savings associations, and credit unions.

To read the manual, visit

<http://www.fincen.gov/bsaamlmanualnr.pdf>.

Frequently Asked Questions Concerning Completion of Part II of FinCEN Form 104, Currency Transaction Report

(August 12, 2005)

FinCEN has recently published a list of Frequently Asked Questions (FAQs) concerning completion of FinCEN Form 104, Currency Transaction Report. The FAQs address questions concerning foreign exchange rates, foreign currency data, and the format requested by law enforcement.

To read these FAQs, visit

<http://www.fincen.gov/faq08122005.pdf>.

Agencies Encourage Insured Depository Institutions to Assist Displaced Customers

(September 2, 2005)

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Conference of State Bank Supervisors are asking insured depository institutions to consider all reasonable and prudent steps to assist financial institution customers and credit union members in areas affected by Hurricane Katrina.

For more information about how to help meet the critical financial needs of these people and their communities, visit

<http://www.fincen.gov/katrinanr.pdf>.

Frequently Asked Questions Regarding the Bank Secrecy Act and Hurricane Katrina Victims

(September 9, 2005)

FinCEN has recently published a list of Frequently Asked Questions (FAQs) regarding the Bank Secrecy Act and Hurricane Katrina.

To read these FAQs, visit

<http://www.fincen.gov/faqkatrina.pdf>.

Prime Associates, Inc., a Metavante Company, is a leading provider of critical regulatory compliance solutions that detect money laundering activities, as well as OFAC and global sanctions monitoring and data services.



LATEST PRIME NEWS

Kirchman and Prime Associates Sign Great Florida Bank

Kirchman Corporation and Prime Associates, both Metavante companies, have announced that Great Florida Bank has selected Kirchman Bankway® as its core banking solution and Prime's Compliance Manager™ for regulatory compliance. With assets over \$500 million, Great Florida Bank, headquartered in Miami Lakes, Fla., plans to operate Kirchman Bankway in-house. In addition, Great Florida Bank will implement Prime Associates' BSA Reporter™, EDD Reporter™, and OFAC Reporter™ as part of the safeguards needed to adhere to more demanding compliance mandates.

For more information, contact Sam Kim, Metavante Corporation, at 678-533-4861 or sam.kim@metavante.com.

To read the complete press release, visit www.primeassociates.com/data/documentations/070705_1.pdf.

Prime Announces: Compliance Manager, Version 7.0

Prime Associates has released its latest version of Compliance Manager™, Version 7.0, which contains significant changes and improvements to the preceding version of the product. Version 7.0 is completely browser-based, eliminates client installations, and reduces deployment time, cost, and complexity.

Compliance Manager 7.0 contains significant enhancements, such as:

- Incremental Customer Information File (CIF) filtering that allows for automated detection and filtering of only those customer and sanction records that have changed.
- Enhanced events that provide greater detail about changes made to data.
- Support for multi-tenancy, which is the ability to support multiple financial institutions on a single server (allowing for the delivery of Compliance Manager as an ASP service and eliminating the need to maintain multiple servers for separate organizations).

For more information, contact David DeMartino at ddemartino@primeassociates.com.

Additional Data: Prime Associates Announces Availability of the Interpol List

In order to keep in compliance with sanction name filtering responsibilities, financial institutions must maintain updated lists of sanctioned parties, fraudsters, and political officials as government agencies issue updates and world events unfold. These lists are essential tools to effectively comply with the USA PATRIOT Act and other international regulatory compliance requirements. With this in mind, Prime Associates is pleased to announce the availability of a new data list: the Interpol List.

The Interpol List contains individuals who are wanted by Interpol, the international police organization. All of the individuals on this list are the subject of an Interpol "Red Notice," signifying

that they are wanted by national jurisdictions or international criminal tribunals, with the goal of identifying and locating those persons so that they can be arrested and extradited. This list contains information from those Red Notices approved for public dissemination, which is a fraction of the total number of Red Notices that have been issued. Keep in mind that those listed are wanted for serious crimes, but they are considered innocent until proven guilty.

If you are interested in obtaining more information about this or any other list that Prime offers within the Prime Compliance Databank™, please contact David DeMartino at ddemartino@primeassociates.com.

LATEST PRIME NEWS *continued*

PrimeIQ

Today's financial institutions are required to protect themselves from financial criminals, money launderers, and terrorist funding groups. An additional responsibility of these organizations is to ensure they are aware of the risks associated with regulatory non-compliance.

Technology, such as PrimeIQ™ from Prime Associates, can help you address the issues associated with these risks by providing an Internet-based, sanctioned party lookup tool that lets you perform individual name searches against an extensive set of global sanctions, fraud, politically exposed persons, and financially exposed persons databases. It's a service that complements your overall compliance program, is easy to use, and is becoming a necessity when dealing with regulators.

PrimeIQ allows you to check any name against a full array of databases, such as OFAC, SDN and Blocked Persons, Financial Fraud, Politically Exposed Persons, Financially Exposed Persons, and other global sanctions lists, such as OSFI, EU, and UN.

[Click here](#) to sign up today for your free trial of PrimeIQ. Enter 73204 as your discount code and you'll be entitled to a free 30-day trial subscription.

For more information, contact David DeMartino at ddemartino@primeassociates.com or visit www.primeiq.com.

Call Today for a Demonstration of Prime's Regulatory Compliance Solutions

For a demonstration of any of the following regulatory compliance solutions from Prime Associates, contact David DeMartino at ddemartino@primeassociates.com.

- BSA Reporter™ provides Bank Secrecy Act compliant anti-money laundering (AML) functions such as: suspicious activity detection, customer and peer group profiling, rules-based analytics, case management, powerful querying capabilities, and reporting functions. In addition, BSA Reporter also captures and evaluates all transactions against profiles through a centralized data warehouse, and it ensures your organization is in compliance with regulatory requirements.
- EDD Reporter™ provides enhanced due diligence for "Know Your Customer" and Customer Identification Program compliance functions, including: Customer Acceptance and Maintenance, Customer Risk Modeling and Assessment, and Documentary and Electronic Identity Verification. With EDD Reporter, organizations can manage their risk environment and set up the infrastructure necessary to prevent suspicious activity from occurring.
- OFAC Reporter™ provides a centralized OFAC and global sanctions hub for intra-day, realtime interdiction interfaces and customer filtering functions, as well as heightened awareness of politically exposed persons and financial fraudsters on a global basis. It also helps your financial institution meet mandates set by global sanctioning bodies, such as the U.S. Treasury Office of Foreign Assets Control.
- Legal Reporter™ provides automated subpoena and FinCEN 314a management, including research and reporting.
- Training Reporter™ provides management of training and education requirements for your compliance organization and other lines of business.
- The Prime Compliance Databank™ provides critical regulatory, legal, and reputational due diligence data for the Compliance Manager™ software suite. It provides global sanctioned party data as well as non-sanctioned party data from multiple countries around the world. Prime's data lists are designed to greatly enhance sanctions filtering efforts and integrate seamlessly with Prime's applications, and they can be used with other products as well.



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About Prime Associates, Inc.

Prime Associates, Inc., a Metavante company, is a leading international provider of software, data, and services that address the regulatory and compliance mandate of financial institutions. Prime provides a complete suite of state-of-the-art solutions for compliance with the USA PATRIOT Act, AML, SAR and CTR reporting, Know Your Customer and Customer Identification Programs, Politically and Financially Exposed Persons, OFAC, FinCEN 314a reporting, and other regulations to the financial community. Prime's four areas of expertise – software; database subscriptions; consulting services, which include implementation, risk-based analysis, and regulatory consulting; and hosted solutions in an ASP environment – have been implemented in some of the largest financial institutions

around the world. Prime's continuous growth is a result of our broad range of regulatory compliance solutions to the financial services industry, which includes banks, broker-dealers, and insurance companies. Our goal is to supply those companies with all of the necessary tools to meet regulatory requirements and implement effective AML programs. For more information, see www.primeassociates.com and www.primeiq.com. Metavante Corporation www.metavante.com delivers banking and payment technologies to financial services firms and businesses worldwide and is the financial technology subsidiary of Marshall & Ilsley Corporation (NYSE:MI).

For regular updates, please sign up at www.primeassociates.com.