

Anti-Money Laundering Diligence A financial institution's never-ending challenge

By: David DeMartino, Vice President, Prime Associates, Inc.

The number of banks that are penalized due to lack of compliance, such as Riggs Bank and AmSouth, is increasing. A lax approach to compliance can turn a conservative, reputable firm into a "poster child" for poor compliance practices. What may start out as a minor violation could easily turn into a catastrophic nightmare – or worse, a public relations disaster that results in clients losing faith in their institution.

Still, many financial institutions (FIs) believe they simply need to implement anti-money laundering (AML) policies to safeguard their organization from threats of fraud, money laundering, and terrorist financing. The reality is that protecting a firm against the perils of criminal activity requires constant vigilance and regular monitoring.

FIs are working to streamline due diligence. While the task is doable, the process requires both an understanding of technology and the exercise of caution. Compliance officers must recognize that AML technology is in its infancy, regulators' compliance expectations are increasing, criminals are pushing the envelope, and shareholders and clients no longer tolerate an FI with a poor reputation.

Beginning Stages

AML technology has only been around as a mainstream technology since the mid '90s. Some argue that today, a decade later, the technology should be highly advanced. Yet early generation AML solutions focused solely on Bank Secrecy Act requirements, which limited their function and results. Back then, FIs that procured AML technology were thought to be ahead of the compliance game. They made the investment in order to please regulators who, in turn, purportedly gave them a thumbs-up.

The climate has changed. The USA PATRIOT Act has raised the stakes in the AML field, including requiring FIs to incorporate systems that reduce their risk of fraud, money laundering, and related financial crimes.

AML technology has evolved from simple techniques, such as profiling, to rules-based engines, which are designed to uncover specific transactions or patterns that are often associated with criminal financial activity. Peer modeling techniques look for activities that would not be considered "normal" or "usual" for a given entity. And predictive modeling uses historical information on known suspicious and unsuspecting activities to build models that score new activities as to their likelihood of being suspicious.

The challenge for compliance professionals is to keep up with the ever-changing advances in technology. They need to work closely with their information technology departments to coordinate upgrades and install the latest

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software features. And they need to combine their efforts with the compliance staff. Budgeting for these items is of paramount importance, as a compliance organization must be involved in planning for the ongoing costs of continuous diligence.

Planning must also involve hiring professionals to ensure that all AML applications are functioning properly. Just “spinning” a CD and installing the latest version is no longer enough – a firm must apply the technology’s features. Therefore, compliance departments should consider contracting vendor professional services groups (PSGs). PSG organizations are well equipped to understand new software solutions. Based on the AML industry’s best practices, PSGs upgrade and install new applications and implement them in a client’s environment.

Demanding Authorities

Regulators are witnessing the improvements that are taking place in technology, and, as a result, are becoming more demanding. For example, regulators have their eye on correspondent banking wire transfers, as they understand that such a high-risk area needs specialized attention. Regulators acknowledge that the AML industry’s best practice rules specifically target wire transfers and require the use of such rules when dealing with international money transfers. Organizations that use all the features of AML solutions are setting the standard for the AML industry. FIs that do not reap the full benefits of new technologies may experience an unwelcome tap on the shoulder by well-versed regulators.

Corrupt Activities

Criminals are not suddenly waving a “white flag” because detection technology is now available in the marketplace. They are constantly probing new systems and looking for vulnerabilities and loopholes.

FIs must stay ahead of the criminals. One way to do so is to make sure that existing AML systems are being used to their full capacity. Then FIs must constantly upgrade and test their systems and ensure optional functionality to

prevent criminals who have detected a weakness in their defenses from taking advantage.

High Standards

When clients lose faith in an FI due to lack of compliance or incurred penalties, shareholders quickly follow. Once that trust has been broken, it is extremely difficult to reestablish the relationship. Shareholders who see their investments diminishing are quick to blame both the executive team and the board of directors.

One way to help guard against incursions from inside and outside an institution is to have a PSG perform an independent analysis of your AML program. Their expert opinion will assess whether you are truly compliant and are using technology to its fullest potential. Think of a PSG’s thorough study of your system as a “vulnerability assessment” – determining how susceptible your organization is to fraud and crime. PSG experts have the capacity to assess a firm’s technology as well as its overall regulatory capabilities and preparedness. Paying attention to such basics can help FIs streamline due diligence, please regulators, and protect themselves from criminals.

Contact David at ddemartino@primeassociates.com

LATEST COMPLIANCE NEWS

Insurance Companies Required to Establish Anti-Money Laundering Programs and File Suspicious Activity Reports

October 31, 2005

Under two final rules announced by the Financial Crimes Enforcement Network (FinCEN), certain U.S. insurance companies are required to both establish anti-money laundering programs and file Suspicious Activity Reports. Insurance companies subject to these rules must establish

an anti-money laundering program, and start filing Suspicious Activity Reports 180 days after the date of the publication of final rules in the Federal Register.

Click on the links below to access the following articles:

[Final Rule: Anti-Money Laundering Programs](#)

[Final Rule: Requirement to Report Suspicious Transactions](#)

[Frequently Asked Questions](#)

For more information related to these requirements, visit www.fincen.gov/newsrelease10312005.pdf.

American Bankers Association/American Bar Association Money Laundering Enforcement Conference

October 31, 2005

The link below will direct you to comments made by William J. Fox, director of the Financial Crimes Enforcement Network (FinCEN), at the American Bankers Association/American Bar Association Money Laundering Enforcement Conference. His comments outline specific goals of the Bank Secrecy Act, which is to “protect the U.S. financial system from money laundering and other financial crime through a system of regulatory controls and reporting aimed to increase transparency in the U.S. financial system. This increase in transparency ensures that money laundering, terrorist financing, and other economic crime can be detected, investigated, and ultimately disrupted or prosecuted.”

Three members of the Prime Associates team, Tom Gerardi, Jay Goodwin, and Steven Katz, represented the company as exhibitors at this conference. 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.

For more information and to read this article in its entirety, visit www.fincen.gov/aba_aba_seminar.pdf.

LATEST PRIME NEWS

Peapack-Gladstone Bank Selects Prime's Compliance Manager to Adhere to Higher Demands for Regulatory Compliance Mandates

November 2, 2005

Prime Associates, Inc., a Metavante company and a leading provider of regulatory compliance solutions for financial institutions, has announced that Peapack-Gladstone Bank (AMEX: PGC) has selected two components of Prime's Compliance Manager™ as preferred software solutions for their global sanctions and regulatory compliance initiatives. Peapack-Gladstone Bank, a subsidiary of Peapack-Gladstone Financial Corporation, is a wholly owned community bank headquartered in Gladstone, N.J.

“After conducting extensive due diligence, Peapack-Gladstone has chosen BSA Reporter™ and EDD Reporter™ to help us efficiently manage our anti-money laundering compliance program,” said Finn Caspersen, Jr., senior vice president, Risk Management, Peapack-Gladstone Bank. “Getting it right the first time is important to us, and with Prime, we believe we have done just that.”

“Banks are being inundated with rapidly changing regulatory mandates requiring higher demands, more scrutiny, and increased time in order to comply,” states Salvatore Cangialosi, president, Prime Associates, Inc. “Prime's comprehensive technology and industry expertise will help Peapack-Gladstone Bank and our nearly 200 clients stay ahead of the curve by deploying our leading suspicious activity detection and enhanced due diligence solutions as key components in their organization.”

To read the complete press release and learn more about Prime’s products and services, visit www.primeassociates.com.

For More Information Contact: Sam Baumgarten, Metavante Corporation 678-533-4861, sam.baumgarten@metavante.com

Eurohypo AG Selects the Metavante Prime Compliance Manager to Automate Regulatory Methodologies

December 28, 2005

Prime Associates, Inc., a Metavante company, today announced that Eurohypo AG, New York branch, has selected Prime’s Compliance Manager™ solution to automate its regulatory requirements. Headquartered in Germany, Eurohypo AG is Europe’s leading specialist bank for real estate and public finance.

“We are confident that our partnership with Prime Associates will enhance Eurohypo AG’s compliance program, particularly with regard to the regulations, laws, and rules that apply to anti-money laundering (AML) and the USA PATRIOT Act of 2001 in the United States and abroad,” said Richard N. Pagnotta, compliance officer, North America, Eurohypo AG. “Prime Associates’ unique software solutions to combat money laundering will empower Eurohypo AG to both meet its regulatory obligations and protect the interests of its clients.”

Prime will provide Eurohypo AG with several components of its Compliance Manager solution, which includes BSA Reporter™, EDD Reporter™, OFAC Reporter™, Legal Reporter™, and the Prime Compliance Databank™. These are essential tools to help Eurohypo AG effectively comply with U.S. and international regulatory compliance requirements.

“From an information technology perspective, Eurohypo AG has found assurance in Prime’s approach,” said Daniel Cataldo, head of information technology, North America, Eurohypo AG. “Prime installs, configures, and maintains effective regulatory software with the ability to provide additional services around their product. This avoids the need to deal with multiple vendors to accomplish the same task, which not only simplifies and centralizes the process, but also saves on IT costs.”

“We examine the compliance needs of our clients differently than other providers by offering a truly comprehensive set of products and services to deal with the current complexities in the regulatory environment,” said Salvatore Cangialosi, president, Prime Associates, Inc. “Our advanced approach to solving risk management needs will help Eurohypo AG experience efficiency gains and reduce their exposure to risk, while helping them stay on course for their future growth objectives.”

To read the complete press release and learn more about Prime’s products and services, visit www.primeassociates.com.

For more information, contact Sam Baumgarten, Metavante Corporation 678-533-4861, sam.baumgarten@metavante.com

Additional Data: Prime Associates Announces Availability of the Singapore and Hong Kong Lists

In order to keep in compliance with sanction name filtering responsibilities, your institution 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. Two additional data lists have recently been made

available as integrated components of the Prime Compliance Databank™: the Monetary Authority of Singapore List and the Hong Kong Monetary Authority List.

Monetary Authority of Singapore List

The Monetary Authority of Singapore (MAS) administers various statutes pertaining to money, banking, insurance, securities, and the financial sector in general for the country of Singapore. As part of its function, it issues a list of those individuals and organizations that have been sanctioned by the government of Singapore. Dealing with any of those cited on the MAS List can lead to fines, criminal penalties, and increased regulatory scrutiny for financial institutions operating in that country.

Hong Kong Monetary Authority List

The Hong Kong Monetary Authority (HKMA) is the government authority in Hong Kong responsible for maintaining monetary and banking stability. In its supervisory capacity, the HKMA ensures that its banks have adequate policies, procedures, and controls in place to combat money laundering and terrorist financing. Institutions that find that they have done business with individuals or entities on the HKMA List are required to report such activity to the HKMA and Hong Kong's Joint Financial Intelligence Unit, which is operated by the police and the Customs and Excise Department.

If you are interested in obtaining more information about these or any other lists that Prime offers within the [Prime Compliance Databank](#), please contact David DeMartino at ddemartino@primeassociates.com.

Sign Up for a Free Trial of PrimeIQ

Today's financial institutions are required to protect themselves from financial criminals, money launderers, and terrorist funding. 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

- 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 capability, 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 (EDD) 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. OFAC Reporter 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.

For a product demonstration, contact David DeMartino at ddemartino@primeassociates.com.

C O N T A C T I N F O R M A T I O N

Please note that Prime’s address and phone number have changed as follows:

Prime Associates, Inc.
 120 Wood Avenue South, Suite 401
 Iselin, New Jersey 08830
 Tel: 732-549-1400
 Fax: 732-549-4300

For sales inquiries please contact:

David DeMartino
 Prime Associates, Inc.
 120 Wood Avenue South, Suite 401
 Iselin, New Jersey 08830
 Tel: 732-549-1400, Ext. 217
 Fax: 732-549-4300
 E-mail: ddemartino@primeassociates.com

For consulting inquiries please contact:

Kanwal Sandhu
 Prime Associates, Inc.
 120 Wood Avenue South, Suite 401
 Iselin, New Jersey 08830
 Tel: 732-549-1400, Ext. 214
 Fax: 732-549-4300
 E-mail: ksandhu@primeassociates.com

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.