

The Use of Technology in an Effective Anti-Money Laundering Program for Life Insurance Providers

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

The long-awaited clarification of anti-money laundering (AML) procedures for the insurance community has arrived, and now the process begins to dissect and analyze exactly what has to be done to adhere to these critical requirements.

When state examiners arrive later this year, life insurance and annuity providers can expect to be asked about the steps they are taking to implement an AML program that's in compliance with the Bank Secrecy and USA PATRIOT Acts. This article discusses the use of AML technology as an important component of your overall AML program.

Automation is critical in meeting the key requirement of monitoring for suspicious activity. Simply put, it is not plausible that manual or semi-automated processes will accurately detect suspicious activity. Not only do you run the risk of missing suspicious activity, leading to potential regulatory action, but you also forego operational efficiency by managing a cumbersome, costly, manual process that is not likely to scale well to meet future business needs.

Recognizing that anything less than automated detection capabilities is not enough, regulators in the banking and brokerage industries are mandating the

implementation of automated detection capabilities. Regulators in the insurance industry will quickly obtain enough understanding of the advantages of automated detection and suggest the use of AML technology in their evaluations.

Why AML software?

Risk assessment is paramount when it comes to a sound AML program. This begins with defining risk models and risk rating clients, which is a prerequisite for the implementation of AML technology. Key elements of your risk model may include:

- Source of funds
- Politically exposed persons
- Geographic location
- Product utilization

Regulators are demanding that risk assessment be well thought out and applied to the client base, as well as modeling methodologies and best practices that are established and have stood up to regulatory review. AML and enhanced due diligence (EDD) technology enables an organization to model risk using clear, scientific assessment tools. It is not necessary to start from scratch when the technology exists and has been proven in the industry.

Once risk rating is performed, the process of transaction review can begin.

In this issue:

The Use of Technology in an Effective Anti-Money Laundering Program p. 1

Latest Compliance News p. 3

Latest Prime News p. 4

Contact Information p. 6

Filtering all transactions and using multiple detection methods

All at-risk transactions must be evaluated for suspicious activity. Detection methods can be broken down into several techniques. The more traditional method is **profiling**, in which a client's normal and expected activity is assessed against current daily activity to detect abnormalities. The second technique is the use of a **rules-based** evaluation engine. This process allows each individual transaction to be evaluated against best practice rules for a specific industry to determine if money laundering, fraud, or terrorist financing is occurring. Some examples of rules-based suspicious activity might include:

- Early termination of a policy without any regard for penalties
- Extensive use of the free-look period in which funds are brought into the U.S. financial sector
- Transitioning of beneficiary information to that of international beneficiaries, as well as premiums being paid from sources of funds outside of the U.S.

Peering is also utilized in many instances. Peering is the ability to bring similar customers together; this technique is used to evaluate patterns of deviation against the norm. Another important aspect of peering is determining if agents are acting in a manner that would be considered outside of the norm of their peer group.

Essentially, the need is to determine if unscrupulous agents are aiding in the creation of fraud and money laundering within the firm. Key factors to review include:

- Numerous policies in which “free-look” actions are taken
- Unusually high numbers of policies being terminated with substantial penalties
- How premiums are being paid by the agent's clients

Bank Secrecy Act compliance is the responsibility of the life insurance company (not the agents in the field), so these are among the many red flags that need to be monitored in respect to how agents compare within a peer group and region.

Case management and audit trails

Technology can facilitate methods such as profiling, peering, and rules to detect suspicious activity. But how does a firm deal with these trigger points?

An effective case management tool with audit trail capabilities will enable firms to identify suspicious activity and score the activity so that the more pressing cases are handled quickly and routed to the best investigators. The tools within the case management system allow for a thorough investigation, where the investigator can tap into historical activity, trending analysis, peer group assessment, client documentation, and correspondence in order to make a decision.

The actions are identified in an audit trail so that regulators are satisfied with the results, and an automated Suspicious Activity Report can be created, reviewed, and filed.

In the final analysis

The industry must now react to the long-awaited AML rule clarifications that were published in the Federal Register on November 3, 2005, by the Treasury Department's Financial Crimes Enforcement. Your planning and preparation today will affect your ability to grow your business tomorrow. AML technology has been proven to meet regulatory scrutiny and is an invaluable component of a sound and well-documented AML program.

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

Creating a Program to Manage Operational Risk

As the complexity and cost of managing operational risk and compliance continues to escalate, many financial institutions are adopting an enterprise-wide risk management philosophy to eliminate redundancies and drive efficiencies across their organizations. An effective organizational structure that includes a risk oversight committee and a sustainable risk assessment process helps maximize existing risk and compliance data, technology, and personnel.

Metavante recommends taking a phased approach, which provides a roadmap and structure for a bank's unique risk program, including:

- Forming a consolidated risk and compliance function
- Preparing a risk program implementation plan
- Deploying a risk management system
- Updating the bank-wide risk assessment
- Remediating risk gaps and strengthening controls
- Transforming your business processes

The members of the Metavante Risk and Compliance consulting practice combine extensive risk and compliance experience with financial services operational and technology expertise to assist financial institutions with all of the above steps toward building a solid operational risk management program.

A more detailed discussion on each of these phases is included in the Metavante "Operational Risk Roadmap." Click here for a copy.

Risk and Compliance Thought Leadership

Please visit www.metavante.com to view several Risk and Compliance white papers, including the thought leadership piece, "Evaluating AML Technology to Achieve Compliance Efficiency" by David DeMartino, vice president, Prime Associates, and Tony Kaus, Metavante Risk Management Consulting. You can access this directly by clicking the link below.

<http://www.metavante.com/mvnt/get?m=22011>

LATEST COMPLIANCE NEWS

FinCEN Seeks Industry Input on Feasibility of Collection of Cross-Border Wire Transfer Data

March 10, 2006

The Financial Crimes Enforcement Network has announced that it is issuing a survey to banking and financial services industry trade groups seeking information about the feasibility and impact of implementing a cross-border wire transfer reporting requirement under the Bank Secrecy Act. The survey, which is required by the Intelligence Reform and Prevention Act of 2004, is part of an ongoing study into the feasibility of imposing a requirement that financial institutions report to FinCEN records that they currently maintain concerning international wire transfers.

For more information, visit

<http://www.fincen.gov/fincennewsrelease03102006.pdf>

FinCEN Issues Final Rule Requiring Mutual Funds to Report Suspicious Activity

May 3, 2006

Under a final rule announced by the Financial Crimes Enforcement Network (FinCEN), mutual funds are now required to file Suspicious Activity Reports (SARs) on suspicious transactions. Mutual funds will be required to file SARs 180 days after the date of the publication of the final rule in the Federal Register, which was published in the Federal Register on May 4, 2006.

For more information, visit

http://www.fincen.gov/nr_mutual_fund_sar.pdf

FinCEN Extends Comment Period of Advanced Notice of Proposed Rulemaking for MSBs

May 9, 2006

The Financial Crimes Enforcement Network (FinCEN) has announced that it is extending the comment period of its Advance Notice of Proposed Rulemaking that seeks input from both the money services business industry and the banking industry on the issue of money services businesses obtaining access to banking services. The comment period, which would have expired on May 9, 2006, has been extended for an additional 60 days and will close July 10, 2006.

For more information, visit

http://www.fincen.gov/msb_anpr_extension.pdf

FinCEN Extends Assessment of BSA Direct Project for 30 More Days

May 30, 2006

Robert W. Werner, Director of the Financial Crimes Enforcement Network (FinCEN), has announced an extension to the temporary “stop work” order on the Retrieval and Sharing Component of the BSA Direct project for an additional 30 days. It is a result of a request of the team working on an assessment of the project, which began after March 15, 2006, when Director Werner notified Congress that he was issuing a 90-day “stop work” order on the project because it had failed repeatedly to meet its performance milestones.

Werner states, in a May 30 letter notifying Congress of the extension, “My staff and our independent consultants have advised me that in order to ensure a thoroughly documented and complete assessment, it is necessary to extend the assessment period for an additional 30 days. Extending the current ‘stop work’ period for 30 days allows our assessment

team to complete this task on a realistic timeframe, thereby ensuring that the right decision can be made as we move forward in determining the best course of action.”

For more information, visit

http://www.fincen.gov/bsa_direct_extension.pdf

LATEST PRIME NEWS

Metavante Signs New York Community Bank for Risk and Compliance Solutions

MILWAUKEE, May 30, 2006

Metavante Corporation, the financial technology subsidiary of Marshall & Ilsley Corporation (NYSE:MI), today announced that New York Community Bank, the primary subsidiary of New York Community Bancorp, Inc., has selected Metavante Risk and Compliance Solutions to automate its regulatory methodologies.

Metavante will provide New York Community Bank with several components of compliance software from its Prime Associates unit, which include: BSA Reporter, EDD Reporter, OFAC Reporter, Legal Reporter, and the Prime Compliance Databank. New York Community Bank will use these tools in its ongoing efforts to comply with U.S. and international regulatory compliance requirements.

Metavante Risk and Compliance Solutions provide an integrated suite of Bank Secrecy Act, USA PATRIOT Act, and OFAC compliance software products that enable financial services institutions to filter and review their customers’ transactions for sanctioned party violations. It facilitates suspicious activity detection and automatically files the necessary regulatory reports with the appropriate regulatory agencies (such as FinCEN). In addition, it helps financial institutions comply with the USA PATRIOT Act through customer identity verification and record keeping, a review

module that compares customer records with known or suspected terrorist lists, and risk-based modeling of customers.

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

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. Please enter 73204 as your discount code.

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 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 Prime's compliance 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, integrate seamlessly with Prime's applications, and can be used with other products as well.

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

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Please note that Prime's address and phone number has changed as follows:

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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 regulatory compliance with 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 for the financial community. Prime's consulting services include implementation, risk-based analysis, and regulatory consulting. Prime's solutions and services have been implemented in some of the largest financial institutions around the world. 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