

FRAML: Combining fraud and AML for a better process

By Jamie King, president and CEO, Verafin

Today, banks are facing more and more regulations and complex financial crime schemes. Recent industry events and high-profile cases, like the Bernie Madoff scandal, revealed the nexus between fraud, money laundering and other financial crimes.

The increasing volume and complexity of the financial crime schemes further challenges the ability of banks to detect, investigate and report suspicious activity. The resulting threat this poses is reason enough for banks to pause and re-examine their approach to managing these risks. The failure to address these evolving risks puts the assets, reputation and livelihood of banks in jeopardy.

In today's economic climate, banks must address financial crime and compliance in a coordinated fashion. Yet, the business case driving many consolidation initiatives is artificially constrained, either by socio-political factors, or by the limitations of the underlying technology used by the systems that support the banks response to these threats.

The reality is many banks still maintain separate efforts for Bank Secrecy Act (BSA)/anti-money laundering (AML) and fraud detection. Consider the following scenario:

Lisa Stack and Mary Hunter work at the same bank and rarely have time to chat.

One Monday morning, Lisa, a compliance officer, grabs her coffee and digs into the latest pile of reports on her desk. A customer, Fred Kiter, had a busy weekend. His activity broke rules for Lisa's excessive cash report. She begins to investigate and notices that Fred made several large ATM deposits. She needs to determine if they are checks or cash. She makes a note to dig a little deeper and then moves on to the next case.

Meanwhile, down the hall, Mary settles in for another day of fraud investigations. As she reviews the check kiting report, Fred Kiter jumps to the front of the pile. His multiple ATM deposits, combined with several check withdrawals, seem suspicious and she delves into an investigation.

This scenario is not uncommon in the real world. Two talented and busy investigators working on the same case because their processes do not allow for an easy synchronization of compliance and fraud investigations.

The convergence of fraud and AML, or FRAML, gives banks a more holistic view of their customer activity. Increased efficiencies, reduced costs and improved enterprise risk management are all recognized by industry analysts, government regulatory and enforcement agencies as the end result of a well executed consolidation strategy.

Fortunately, banks can now look to consolidated solutions built on second-generation (behavior-based) technology to address these challenges. Second-generation FRAML technology allows for far more than just the automation of core banking system-type reports delivered by first-generation technology. It helps banks move beyond a decentralized, siloed approach to AML and fraud, and consolidate efforts by leveraging investments across fraud, AML and other related compliance functions. Second-generation technology can consolidate large volumes of information about people, accounts and transactions from a variety of disparate data sources –

making it easier to spot the bad guys by increasing the transparency between customer behavior and the risk exposure to financial crime schemes that fall outside of the gray areas that plague first-generation rules-based systems.

On a daily basis, using second-generation FRAML technology to achieve their consolidation goals, banks can ensure that their limited resources are used to investigate suspicious activity that is truly suspicious (true positives), while reducing the investigation of activity later determined to be legitimate (false positives). Focusing resources to investigate truly suspicious activity reduces the potential costs associated with non-compliance and fraud losses, and helps ensure that the bank's resources are used to greatest effect.

In the scenario described earlier, a consolidated FRAML approach would work like this:

Mary and Lisa have changed their process. They've combined all alerts into a single system, which Mary reviews. She'll work fraud alerts on her own, but when something looks like it might be money laundering she calls on Lisa for help. This process allows Lisa to focus more on BSA training and customer due diligence. The end result is no more duplicate investigations, less time wasted and more money saved.

The early successes experienced by some banks, coupled with the availability of solutions that use behavior-based technology, confirm that it is time for FRAML. Banks must be willing to re-examine their strategic approach to risk-based financial crime and compliance management. While it should not be viewed as a panacea, a consolidated approach to compliance and anti-crime initiatives can enable banks to respond with equal agility to these threats, while at the same time realizing significant benefits across the organization.

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