



## Perspectives, Partnerships and Innovation

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I have been blessed throughout my 38-year professional career to be associated with truly outstanding professionals. I spent 31 years in government service, 28 with the Federal Bureau of Investigation. The integrity and dedication I encountered among my law enforcement peers was noteworthy. I was extremely proud of my friendships and associations. Over the last seven years as a consultant working with compliance and fraud specialists, I have had the privilege of observing the same levels of integrity and dedication. I have likewise been proud of the friendships and associations I've developed in the private sector.

The primary difference between my law enforcement and private sector colleagues is perspective. Not many people recognize this important fact. Both my law enforcement and private sector contemporaries understand the importance of partnering with each other. Unfortunately, successful partnerships have been on a one-off basis and not systemic and sustainable. One reason for this is the difference in perspectives.

Many of the individuals I have had the honor to associate with in law enforcement and the private sector are innovative thinkers. However, in most instances, they have been unable to affect institutional innovation. Law enforcement and private sector institutions tend to operate in their safety zones, and frequently, innovation falls outside the institutional safety zone. As a result, there is little incentive to develop innovative techniques to fight fraud and money laundering.

This brings me to the point of this article: perspectives, partnerships and innovation.

### Introduction

When it comes to fraud and money laundering, the bad guys are not constrained by boundaries. This affords them the opportunity to be proactive and imaginative in furtherance of their illicit activities. In fact, the more proactive and innovative the bad guys become, the more incentive they derive. Conversely, law enforcement and the financial services sector are frequently constrained by red tape and reluctance to implement change. Regulations, privacy considerations, policies, procedures, budgetary constraints and a myriad of other factors often serve as impediments to proactive measures and forward thinking. Regulations are such that reactive transaction monitoring and fraud detection in the financial services sector is the accepted norm. There is little incentive for innovation. Consequently, the bad guys have a considerable advantage.

As we've witnessed in the last few years, corporate frauds, investment frauds and mortgage frauds have devastated our economy. Add to that the continuous stream of check fraud, loan fraud and credit card fraud, not to mention health care fraud, and other crimes, and our economic problems are significantly compounded. The one constant in the various fraud schemes we have experienced is the ongoing need to launder these criminal proceeds. The intersection of fraud and money laundering should be the focal point for prevention and deterrence.

The time has come to take the advantage away from the bad guys in a sustainable and meaningful way. To achieve this, law enforcement and the financial services sector must first truly understand, embrace and act upon three words: perspectives, partnerships and innovation.

## **Perspectives**

In many of the training presentations I have given since I retired from the FBI, I have commented that when I retired and became a consultant, I thought I knew everything I needed to know about bank anti-money laundering (AML) and fraud compliance and investigations. What I came to realize in a heartbeat was how little I actually understood about the AML compliance and investigative function. It was not a matter of not knowing, it was a matter of not understanding the financial institution compliance and fraud perspective. That was a humbling and educational experience. Over the last seven years, I have worked hard to understand and appreciate the financial institution perspective. For the benefit of my law enforcement friends, if I knew then (when I was in law enforcement) what I know now, I would have been dangerous. I encourage my law enforcement colleagues to learn from my experience and look beyond your perspectives when dealing with the private sector.

The reality is that many law enforcement officers do not understand the perspective of the bank compliance or fraud specialist. Likewise, many bank compliance and fraud specialists do not understand the perspective of the law enforcement officer. The first step in progressing to sustainable and meaningful partnerships is for the two sides to understand and respect the differences in perspectives.

The fundamental difference in perspectives is that law enforcement is driven by criminal investigations. They must focus on developing evidence to support criminal prosecutions. Bank investigators focus on identifying and reporting suspicious activity. These two focuses would appear compatible; however, in between law enforcement and the banks sit the regulators. Without assessing blame to anyone, the regulatory system is such that the banks have to satisfy the regulators before supporting law enforcement. This is where the greatest strain on understanding perspective exists. Law enforcement is focused on their criminal case. They generally do not understand the banks' dilemma in having to satisfy regulators when there are bad guys to put in jail. In the meantime, banks are not necessarily concerned about whether the bad guys go to jail. They are concerned about getting the bad guys out of their banks and how the regulators will respond. Exacerbating the problem is the fact that although regulations and laws are written in black and white, their implementation and interpretation are gray and subjective.

Law enforcement and financial institutions need to address the conflict in their respective perspectives and understand that each possesses information that would greatly benefit the other. Law enforcement



has investigative and intelligence information regarding schemes and trends. I frequently hear complaints and frustrations expressed by bank compliance and investigative specialists that law enforcement does not share such information. Conversely, banks contain an incredible repository of financial information and intelligence that would greatly enhance criminal investigations if law enforcement was aware of its existence or where to obtain it.

Law enforcement and financial institutions must come to terms with perspectives. Once that is achieved, the foundation will be set for more productive partnerships. Such partnerships will be better positioned to be sustainable and meaningful.

## **Partnerships**

There have been a number of public and private partnerships that have achieved success. Most of these have been at the local or grass roots level. We need to develop more robust partnerships at both the grass roots and, more specifically, at the national level. The starting point should be with the realization that both law enforcement and financial institutions share the mutual responsibility to safeguard our financial system and their customers from fraud and money laundering.

One way to accomplish this is to develop crime problem specific partnerships. In doing so, law enforcement should develop case typologies specific to the crime problem and how the finances of the criminal activity flow through financial institutions. By sharing these case typologies and trend analysis information with the private sector, law enforcement will enable the private sector to more effectively and efficiently identify and report suspicious activity. By doing so, both sides benefit. Law enforcement develops evidence to support criminal prosecutions and/or, asset forfeiture and recovery. Financial institutions in turn will reduce institutional risk.

There is a great example of a public-private partnership that is crime problem specific and typologies driven. It was initiated by JPMorgan Chase (JPMC) under the leadership of William Langford. In 2009, JPMC Corporate AML founded a team dedicated to identifying and assessing immediate and strategic risks to JPMC. This outstanding team enthusiastically developed an issue-based approach by which they identified specific crime problems that presented them with significant risk. In 2010, JPMC identified human trafficking as a significant crime problem and a vehicle for institutional risk. Overall, the project developed typology based surveillance models and investigator training to better enable the identification of potential human trafficking. JPMC's team of dedicated compliance and investigative professionals meticulously developed typologies which enabled them to identify transactional activity associated with human trafficking.

The next step was to develop active channels for coordination with relevant law enforcement agencies, especially those specifically focused on human trafficking. William and his team formed an outstanding working partnership with Immigration and Customs Enforcement (ICE), who have a dedicated group of agents assigned to investigate human trafficking. Through two way information sharing, JPMC was able to identify additional typologies while ICE was able to develop evidence to sustain criminal prosecutions.



Human trafficking is a heinous crime problem. The meaningful partnership formed by JPMC and ICE has begun to grow. In September 2010, during the annual ACAMS Conference, ACAMS executive vice president John Byrne hosted an informal, off the record meeting between law enforcement and members of the ACAMS Advisory Board to discuss how ACAMS could facilitate partnerships between law enforcement and the financial services sector. Among some promising takeaways from that meeting came a subsequent meeting in Washington, D.C., between Byrne, advisory board chairman Rick Small, board member William Langford and senior executives at ICE. One of the topics was human trafficking.

Because of the devastating impact of this crime problem on its victims, ACAMS has formed a Human Trafficking Task Force, which Langford will chair. This initiative will provide a platform for the public-private partnership started by JPMC with ICE to grow and become more sustainable. In furtherance of this effort, on January 13, 2011, ACAMS hosted a free webinar training session on human trafficking. Byrne served as moderator along with ICE agent Angie Salazar, who provided a compelling training session. Education and training promote awareness, which frequently leads to action.

In establishing the issues based approach, JPMC did not settle for a traditional or reactive transaction monitoring framework. Langford and his team took an innovative and proactive approach to dealing with challenging crime problems. It should be noted that JPMC is not alone in developing innovative approaches to identifying and reporting suspicious activity. JPMC represents but one example of how certain financial institutions are gravitating toward the use of more proactive mechanisms.

## **Innovation**

Langford's team conducted extensive research to develop typologies. They relied on data mining and proactive targeted model development. By being proactive and focused, JPMC more effectively and efficiently identified suspicious activity consistent with human trafficking. The methodology developed by JPMC should serve as a model for future transaction monitoring models.

The industry needs to be less predictable in transactional monitoring and more targeted and proactive. There needs to be a balance between traditional reactive transaction monitoring and crime problem specific proactive targeted monitoring. A balanced approach between reactive and proactive monitoring would keep the bad guys off balance in their efforts to exploit areas of risk vulnerability.

A challenge going forward with this approach is incentive. The incentive for JPMC was doing the right thing. In terms of tangible incentives for financial institutions to implement similar typologies and methodologies, there is little. This is where the regulators could be a factor. If there was a regulatory incentive to develop crime problem specific monitoring typologies and proactive techniques, the more financial institutions would be inclined to develop programs similar to JPMC's. This would significantly increase the generation of more consequential suspicious activity reports.

JPMC has applied the issues based approach to other significant crime problems. Hopefully, as they reach out to the relevant law enforcement agencies to form partnerships, those agencies will respond as



well as ICE did to human trafficking. Building meaningful and sustainable public-private partnerships is the best way to take the advantage away from the bad guys.

### **Conclusion**

Since the bad guys are not constrained by boundaries when it comes to fraud and money laundering, it is incumbent that law enforcement and the financial services sector share the responsibility to contain and disrupt their criminal activity. The more proactive and coordinated law enforcement and industry are the more likely they are to deter the bad guys. The combination of perspectives, partnerships and innovation will provide the framework needed to stem the tide of fraud and money laundering.

