Consolidating Fraud Detection & Anti-Money Laundering:
Improving Financial Crime Detection with FRAML Technology

A Verafin White Paper
Introduction

In a recent paper entitled, *Fraud and Money Laundering: Birds of a Feather*, retired Assistant Director of the FBI’s Criminal Investigative Division, Chris Swecker, wrote that, “Ironically most financial institutions treat the criminal activities as if they were separate from money laundering. The separation of these functions has the effect of creating a severe drag on the effectiveness of both AML and fraud related programs and even serves to enable organized fraud schemes to inflict staggering losses over long periods of time.”

Separate fraud detection and BSA/AML departments grew out of reactions to particular crises. As the departments grew, separate technologies were adopted. This created departmental silos, which cause FIs to miss out on the benefits achieved through shared intelligence, open communication, and collective knowledge.

Financial institutions (FI), organizations and analysts are increasingly looking to consolidation of fraud detection and anti-money laundering (AML) processes as the most efficient and effective means of combating criminal activity. This approach, otherwise known as FRAML (FRaud detection + AML), is about the breaking down of silos that damage an FI’s ability to reduce fraud losses and weed out money laundering activity.

FRAML is, in part, about financial institutions widening their analysis of customer activity. It is about breaking out of departmental silos, where payment channel activity is treated in isolation from anti-money laundering processes. Criminals do not stand still; their activity evolves and, over the past five years, they have reached unprecedented levels of organization and sophistication.

This paper illustrates why Verafin’s software solution is a powerful FRAML tool, helping financial institutions gain a more complete view of customer behavior across a wide range of activity. In one centralized location, FIs can see a

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- Chris Swecker
Retired Assistant Director, FBI
customer’s activity across multiple channels. It is a view of the puzzle with all the pieces in place.

The power of the FRAML approach

FRAML is the bringing together of fraud detection, anti-money laundering, and customer profile data for a clear, consolidated picture of a customer’s activity to more effectively isolate the out-of-the-ordinary.

With institutions coming under increasingly complex threats from criminals across the globe, particularly as debit cards and online banking reach unprecedented heights of customer popularity, siloed operations are, quite simply, out of date.

The benefits

FRAML brings a number of benefits to an FI:

- A better understanding of customer risk and the impact of financial crime affecting the entire organization.
- An increase in loss recoveries and a reduction in losses through better detection of suspicious activities.
- A greater understanding of customers, their needs, and their (suspicious) behaviors.
- Improved communication across departments. This translates to an improvement in operational efficiencies. For example, the reduction of duplicated investigative efforts and duplicated Suspicious Activity Report (SAR) filings.
- Improved BSA compliance examinations. During audits, bank examiners are now looking at how fraud and money laundering areas function and communicate with each other.
What makes Verafin a powerful FRAML tool

Verafin’s FRAML software solution gives FIs a single, centralized location where BSA compliance and fraud detection professionals can analyze customer risk profiles, review suspicious activity alerts, and document subsequent investigations of potential financial crime.

Equally important to the FRAML approach, Verafin helps an FI focus on the customer and their behavior. While other products tend to focus on one area of financial crime (for example, check fraud or online banking fraud) or take a modular approach where an FI must purchase separate software “pieces” that do not truly integrate or share data, Verafin analyzes the behavior of each customer account across payment channels. With Verafin, investigators see the full picture of activity.

Multiple data sources

Verafin integrates with multiple data sources to bring together the richest available data for cross-channel analysis.

Verafin’s behavior-based analysis considers:

- **Transactional data sources**: ACH, Wire, Check, Cash, ATM, and more are fully integrated and analyzed to create suspicious activity alerts that show a wide picture of customer activity.

- **Customer profile data**: Verafin considers more than just transactional activity. A customer’s profile information, including address, age, age of their account, and more are taken into consideration when determining level of risk.

- **Customer history**: Verafin maintains a history of alerts and regulatory reports, such as CTRs and SARs filed on the customer, which help during the investigation of potentially suspicious activity.

“I want to emphasize that financial institutions can benefit by leveraging their fraud resources with their AML efforts and start taking advantage of the significant efficiencies that I see being available through this leverage.”

- James Freis
  Former Director of FinCEN
FRAML workflow

Verafin presents cross-channel suspicious activity alerts in a visual, navigation-style FRAML workflow, which enables users to easily see the status of alerts in the suspicious activity monitoring lifecycle. In one location, a user can see newly generated alerts, those being actively investigated in open cases, and closed alerts. All are accessible to the user based on the viewing permissions the FI defines in Verafin.

From the workflow dashboard, a user can click to see all available new alerts, rated by the risk they pose to the institution. From here, an alert can be assigned to a specific user. This is particularly beneficial in a FRAML context. For example, if a BSA compliance officer logs in to the FRAML workflow dashboard and notices a highly risk-rated Debit Card Fraud alert, he/she can immediately notify a card fraud investigator at the institution, or assign the alert to that person, at which time they will receive an email notification from the software.

- Online banking activity: As outlined in the FFIEC’s supplementary guidance on Internet Banking, Verafin helps an FI carefully monitor customers’ online banking activity, from login through to navigation and transactional activity.
Case management

Tying the full suspicious activity monitoring life cycle together, from analysis to alert through to investigation, is Verafin’s case management functionality.

With Verafin’s case management, FIs can:

- Link related cases, entities, or activity. This helps highlight complex activity patterns.
- Create a complete documentation trail. By attaching relevant files to the case and creating notes detailing decisions taken throughout the investigation, investigations become more robust and communication improves across departments.
- Improve operational efficiency. Investigations are centralized and viewable by investigators throughout the FI.
- Enhance regulatory reporting. Verafin provides FIs the ability to create a completed Suspicious Activity Report (SAR) and e-file it with FinCEN, directly from a case.
Automated BSA compliance reporting

Verafin automates the Suspicious Activity Reporting (SAR) process. A SAR can be created at the press of a button from an alert or a case. All fields (with the exception of the Narrative) are auto-populated and the report is electronically submitted directly to FinCEN. All reports are stored within the software for a minimum of seven years.

This functionality allows fraud investigators the ability to create SARs, when necessary, from cases they are investigating, as well as access SARs associated with suspicious accounts during the course of their investigations. This greatly improves reporting and investigative efficiencies.

Behavior-based monitoring

Behavior-based activity analysis is truly customer-centric. Verafin applies a combination of behavior-based analytics and known fraud scenarios to a customer’s activity to detect even the most well-hidden criminal schemes.

More specifically, Verafin factors in a range of data including customer age, occupation/industry, history, and expected activity when it examines transactions. Rather than creating a rule and pointing out any transactions breaking that rule, Verafin examines customer behavior to determine if the transaction is truly suspicious or if it’s normal and legitimate for that particular customer.

With behavior-based monitoring, an FI builds a picture of its customers and their activity patterns. In Verafin, this is further enhanced because it goes beyond a single channel to help FIs gather a complete picture.
Continuous delivery cycle

As Cloud-based enterprise software, Verafin is able to deliver frequent updates to its fraud detection analytics. This is important to an FI. As criminals evolve, the analytics and scenarios needed to detect their crimes must be regularly enhanced.

A Real World Example

The following example illustrates the advantages of Verafin as a true FRAML software solution.

Susan is VP of Compliance at ABC Bank. Mark and Jane are BSA Officers, reporting to Susan.

On Wednesday afternoon, Mark logs in to Verafin to review any new Watch List (Verafin scans the OFAC, FinCEN 314(a), and two internally created watch lists) and money laundering alerts.

He navigates to the Money Laundering Alerts workflow page and clicks on the New Alerts icon. In the list of alerts, Mark immediately sees one with a high risk score (94). He clicks the alert and reviews the evidence section, which indicates to him that the account, opened only four months ago, attempted an abnormally large wire transfer to a suspicious location.

Mark quickly checks the Statistics section of the alert to get a sense of the account’s regular transactional activity. His concern is growing. Checking the ‘History’ section of the alert, he sees the account had a New Account Fraud alert. Checking the alert, it warned of an excessive check deposit but was acknowledged as non-suspicious a day ago by Maria, an investigator in the bank’s fraud detection department. Mark checks the note Maria made when closing the alert to see why she felt it was not a concern. The note indicates...
that Maria felt the amount was not suspicious enough to warrant a follow-up.

Concerned by the combination of the large check deposit followed by money laundering activity, Mark feels he needs to move quickly. He navigates back to the money laundering alert and clicks the ‘Investigate Now’ button to create a new case.

With the case created and aware of the related case open in Verafin, Mark contacts Maria to ensure she is aware of his findings and can follow-up on the deposited check. He then uses the Notes feature of the case to record his concerns and document his reasons for opening the case.

Finally, he clicks the Create SAR button in the case. The data fields of the report are automatically completed, meaning he completes the Narrative section and then queues the report for Susan’s review. Once she finishes her review, the SAR is electronically filed, directly from the Verafin software, with FinCEN.

“Banks asleep at the switch need to wake up. Federal law requires banks to implement a robust and proactive anti-money laundering program to detect fraud and protect the public from harm. This bank’s failure to detect and report a Ponzi scheme cost it 16 percent of its value. Other financial institutions should heed this warning: the Bank Secrecy Act applies to more than just drug and terrorist financing.”

- Anne Tompkins
  U.S. Attorney, Western North Carolina District
Conclusion

With evolving criminal sophistication and growing regulatory pressure, it is clear that a siloed approach to detecting financial crime is increasingly inefficient and ineffective. As centralized, SaaS-based FRAML software, Verafin helps FIs leverage customer data to see a more complete picture of activity across multiple channels.

By taking a FRAML approach, FIs can achieve a host of benefits, including:

- A reduction in false positive alerts and duplication of cases.
- A better prioritization of suspicious activity alerts and more effective decision-making.
- An improvement in data quality and more effective data management.
- Improved communication between all parties involved in the detection of financial crime.
- A reduction in technology costs associated with hardware, software, maintenance, support, training, and administration.

These benefits greatly improve an FI’s ability to detect financial crime. Swecker concludes in his paper, “To begin to effectively address the scourge of fraud and money laundering, financial institutions must first develop programs that recognize that financial crimes and money laundering are inseparable. Failure to do so will sideline perhaps the single most powerful tool in the government’s arsenal much to the delight of a wide range of criminal elements.”
Get Chris Swecker’s white paper: 
**Fraud and Money Laundering: Birds of a Feather**

In his most recent white paper, Chris Swecker, retired Assistant Director, FBI and former Global Security Director, Bank of America, presents real-life financial crime cases to support his argument that separating fraud detection from anti-money laundering negatively impacts efforts to prevent financial crime.

**Click here** to download your copy of *Fraud and Money Laundering: Birds of a Feather*.

**Want more info about FRAML?**

**Call 1-866-781-8433** to talk to one of Verafin’s FRAML product experts and learn more about how Verafin’s fraud detection and BSA/AML compliance solution can help your financial institution achieve FRAML.

You can also **visit www.verafin.com** for in-depth information on the world of fraud detection and BSA/AML compliance, including webinars, white papers, Verafin success stories, and more.

**About Verafin**

Verafin is a leader in enterprise fraud detection and anti-money laundering solutions (FRAML) for financial institutions across North America. Its software utilizes advanced behavior-based analytics that allows banks and credit unions to stay a step ahead of cutting-edge fraud trends and the BSA, USA PATRIOT Act, and FACTA compliance landscape.

Verafin is the exclusive provider of fraud detection and BSA/AML software for the California Bankers Association, Florida Bankers Association, Massachusetts Bankers Association, CUNA Strategic Services and has industry endorsements covering 44 states across the U.S. For more information, visit www.verafin.com, email FRAML@verafin.com or call 1-866-781-8433.