

FinCEN 314(a) Operational Challenges

2007-2008

1. Situation

FinCEN 314(a) requires financial institutions to locate accounts and transactions of persons or entities ("subjects") that may be involved in terrorism or money laundering. This includes performing the following:

1. Searching accounts maintained by the named subject during the preceding 12 months;
2. Searching transactions conducted within the last 6 months; and
3. Responding to the request within 2 weeks when confirmed match is found

Financial institutions often struggle to adapt their technology systems and internal processes – some of which evolved over decades – to these requirements. Obstacles often include the following:

- The scope of accounts can include opened, closed, inactive, dormant accounts
- The scope of transactions can include counterparty on wires, other text fields on wires, and payees on checks
- Account and transactions span multiple systems and lines of business
- Payee information on checks are in an imaging system and not in transaction record
- Matching software that
 - Is poorly configured (e.g. exact matches only)
 - Is slow to process batch data or only allows one search term at a time
 - Can only match on name and not other categories such as government issued id or address
 - Has weak text matching (e.g. exact and soundex matching only) and scoring (e.g. all matches require review) capabilities leading to large number of false positive matches that require review
- Transaction information often only has name and not other attributes such as SSN and address that could reduce the number of false positives
- Most transaction monitoring systems do not have case management modules that can manage the review and evaluation of the names subject matches to determine if they are true matches.

These obstacles have forced many financial institutions to implement quick fixes. Some of these short-term, quick-fix solutions include:

- Email request distribution to line of businesses with spreadsheet templates
- Workflow, recordkeeping, and tracking that is nonexistent and/or manual
- Inconsistent processes for searching database (e.g. some lines of business use matching software, others manually query, etc)
- Spreadsheets that are used for reviewing and evaluating matches

- Responses that are returned in spreadsheet and via email
- Response consolidation that is manual

These quick fixes were not intended to be long-term solutions, yet we still see them in existence at many financial institutions years after their implementation. They may continue to function, but their sustainability develops into an issue when operating costs become disproportionately high compared to the risks the requirements were intended to address. Additionally, the sensitivity of the information transferred via email in spreadsheets exposes the financial institution to increased security risks.

2. Perspective

The FinCEN 314(a) process will differ from organization to organization based on the geographies, systems, and processes of the organization. However we have seen some techniques that are consistently adopted at our clients and those techniques have been highly effective.

1. Centralize Customer Information Profiles (CIP) database, to the extent possible, and improve data
 - a. Standardize names (e.g. "Inc" to "Incorporated ") and addresses (e.g. Rd to Road)
 - b. Remove suffixes, honorific's, middle names from first and last name fields and put in separate fields
 - c. Classify individuals from non-individuals (e.g. businesses, banks, etc) using segmentation methods such frequency analysis
2. Leverage transaction surveillance technology (e.g. transaction repository) and people (e.g. analysts) to scan transactions for names
3. Centralize subject distribution list (e.g. via secure web) to business line compliance officer and analysts
4. Automate with common case management technology (e.g. workflow, decisioning information, documentation, etc) and common matching software
5. Review and improve matching and scoring methodology
 - a. Use all categories available for matching (e.g. government issued ID, names, addresses, alias, etc)
 - b. Reduce fuzzy matching false positive matching (e.g. exclude single word names such as Tom)
 - c. Exclude noise data (e.g. where SSN = "N/A" or "000-00-000") from matching process to improve processing time
 - d. Matching should include sophisticated name matching algorithms (e.g. cultural name variations where "Manny" = "Emanuel") and address matching algorithms (e.g. tokenization where "125 Main St Brazil" = " Brasil,125 Main St)
 - e. Scoring methodology should use the most restrictive match test (e.g. exact matches) to the least restricted (e.g. first 10 characters) until no match is made
 - f. Scoring methodology should use weights where more restricted matches are weighted higher than the least restricted matches.
 - g. Use an overall confidence level across categories per record, excluding low confidence matches from review

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Jeff Lavine, PwC Risk and Regulatory Partner
jeff.lavine@us.pwc.com

Thomas Messina, PwC AML Subject Matter Specialist
thomas.messina@us.pwc.com