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Co-create. Innovate. Win.

Ramco MDM

A foundation for Anti Money Laundering (AML)

A Ramco White Paper

Contents

Introduction

The tragic events that occurred in the United States on 11 September 2001 and other terrorist attacks and criminal activities that are being perpetrated with alarming regularity across the world are a grim reminder of the power of organized crime. In the wake of these terrorist and criminal activities, a number of governments have called for a rapid and co-coordinated effort to detect and prevent the misuse of the world financial system by terrorists, criminals. One such mechanism to misuse the world financial system is **Money Laundering**. As per an estimate of the International Monetary Fund, the aggregate size of money laundering in the world could be somewhere between two and five percent of the worlds gross domestic product.

What is Money Laundering?

Money Laundering refers to the conversion or "Laundering" of money which is illegally obtained, so as to make it appear to originate from a legitimate source. Money Laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drug / arms trafficking, terrorism and extortion.

There are three independent steps or stages in Money Laundering as shown below:

1. **Placement:** "Placement" refers to the physical disposal of bulk cash proceeds derived from illegal activity.
2. **Layering:** "Layering" refers to the separation of illicit proceeds from their source by creating complex layers of financial transactions. Layering conceals the audit trail and provides anonymity.
3. **Integration:** "Integration" refers to the reinjection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds.

Money Laundering can be traced back to the Hawala Mechanism, which facilitated the conversion of money from black into white. "Hawala" is an Arabic word meaning the transfer of money or information between two persons using a third person. The system dates to the Arabic traders as a means of avoiding robbery. It predates western banking by several centuries.

The Hawala Mechanism left virtually no paper trail, which would attract investigations. The profits generated from Hawala were surreptitiously invested in real estate, gilt edged securities etc., to launder them.

Implications of Money Laundering for Banks

Across the world, banks have become a major target of Money Laundering operations and financial crime because they provide a variety of services and instruments that can be used to conceal the source of money.

Money Laundering has a close nexus with organized crime. Money Launderers amass enormous profits through drug trafficking, international frauds, arms dealing etc. Cash transactions are predominantly used for Money Laundering as they facilitate the concealment of the true ownership and origin of money. Criminal activities such as drug trafficking acquire an air of anonymity through cash transactions.

With their polished, articulate and disarming behavior, Money Launderers attempt to make bankers lower their guard so as to achieve their objective. The dilemma of the bankers in the context of Money Laundering is to differentiate between the transactions representing legitimate business and banking activity from the irregular / suspicious transactions.

Responsibility of the Bank

With banks being the major target of such illegitimate activities, the question then arises is that "What is it that the banks should and can do to prevent them from falling into such traps?"

According to the Wolfsberg Group*, "*The Bank policy should be to prevent the use of its worldwide operations for criminal purposes. The bank should endeavor to accept only those clients whose source of wealth and funds can be reasonably established to be legitimate. The primary responsibility for this lies with the banker who sponsors the client for acceptance. Mere fulfillment of internal review procedures does not relieve the banker of this basic responsibility.*"

What is it that banks need to do?

The Wolfsberg Group* as well as major central banks across the world recommend policies and procedures which banks can adopt in order to identify suspicious, irregular and anonymous clients as well as transactions. These recommendations are now acting as guiding AML principles to banks across the world.

These guidelines suggest that there need to exist policies and procedures which will enable the banks to:-

**The Wolfsberg Group is an association of twelve global banks, which aims to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies.*

1. **Identify Clients** -Individuals, corporations, trusts etc., there references, and the beneficial owners of the accounts. This is often referred to as the Know Your Customer (KYC) rule.
2. **Accept Clients**- Due Diligence process needs to be incorporated to collect and record information covering the following categories:

- Purpose and reasons for opening the account
- Anticipated account activity
- Source of wealth (description of the economic activity which has generated the net worth)
- Estimated net worth
- Source of funds (description of the origin and the means of transfer for monies that are accepted for the account opening)
- References or other sources to corroborate reputation information where available.

3. **Update client files and related data**
4. **Monitor and Identify suspicious activities**

Ramco Master Data Management and AML Guidelines

Ramco Master Data Management (Ramco MDM) is the collection of practices and technologies for providing Business and IT the capacity to define enterprise-wide master data. Ramco MDM provides organizations with the ability to create, store, maintain, exchange and synchronize consistent, correct and complete master data elements.

Regardless of the number of data sources that you have, Ramco MDM assures a 'single source of truth'. Ramco has identified that its MDM Solution can enable bankers to follow the above stated AML Guidelines. Ramco MDM can be effectively used for creating Master Data Structure for the Bank's Clietele. This Master Data Structure will incorporate the ability to:-

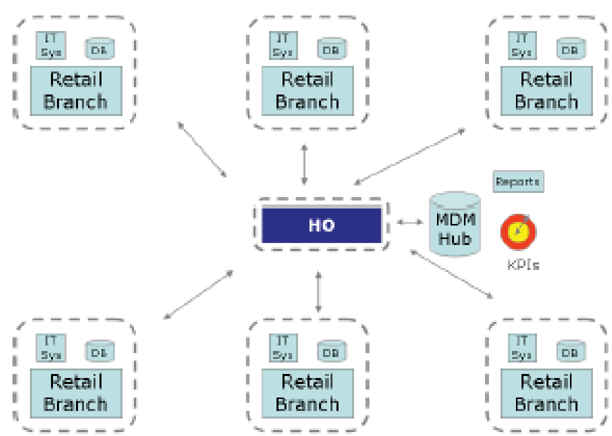
1. Capture entire Client Information.
2. Capture the relationships of an account holder such as references, guarantors etc.
3. Generate and update a unique set of Client Master across all the branches, agencies and SBUs that a Bank might have.
4. Identify and monitor suspicious transactions and throw alerts.
5. Incorporate Business rules at the transaction level

A few scenarios exhibited below explain how Ramco Master Data Management can enable bankers identify suspicious Money Laundering activity.

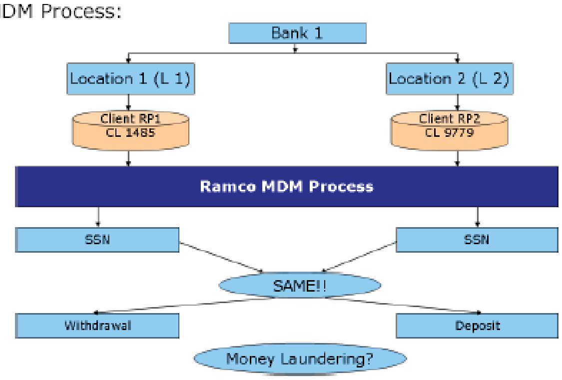
Scenario 1

- A Bank has various retail branches such that each of these branches runs on independent IT system with no interaction with the other branches.
- A client tries to open an account at two different branches with different names.

The Bank IT Landscape:-



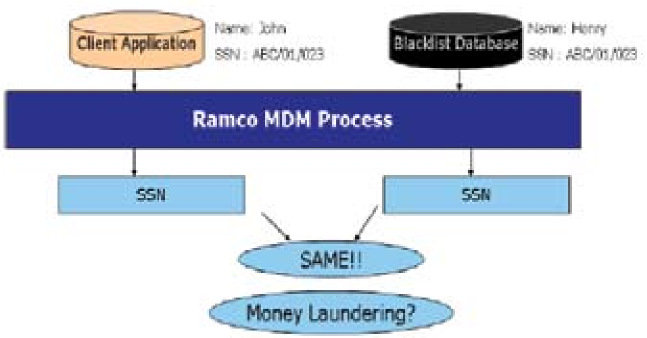
Ramco MDM Process:



As shown, Ramco MDM Process has the ability to identify this activity as a suspicious Money Laundering activity and can throw alert or reject the application based on the preconfigured business rules.

Scenario 2

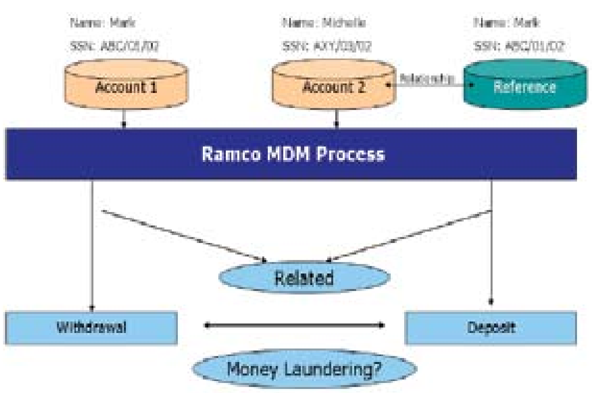
- A Black listed Client tries to open an account in some other name. Ramco MDM maintains an updated list of black listed customers.



As shown, Ramco MDM Process has the ability to identify this activity as a suspicious Money Laundering activity and can throw alert or reject the application based on the preconfigured business rules.

Scenario 3

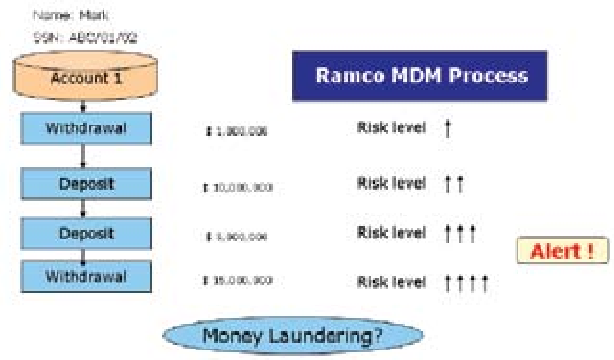
- An Existing Client opens another account in the name of his wife. Hence the actual beneficial owner is the same of the two accounts. Ramco MDM maintains the relationship and monitors the two accounts for a potential money laundering activity.



As shown, Ramco MDM Process has the ability to identify this activity as a suspicious Money Laundering activity and can throw alert and monitor based on the preconfigured business rules.

Scenario 4

An Existing Client deposits /withdraws a very large amount from his/her account. Ramco MDM can actually monitor this client's account for further such transactions and increase the risk levels in case of subsequent such transactions.



As shown, Ramco MDM Process has the ability to identify this activity as a suspicious Money Laundering activity and can throw alert and monitor based on the preconfigured business rules.

Ramco MDM – Other Business Benefits (BFSI)

- **Adherence to Legislative and Regulatory requirements: -** Apart from AML Guidelines, Ramco MDM can be preconfigured to address other legislative and regulatory guidelines.
- **Risk Management: -** Total Credit Risk exposure towards a particular client (and related clients such as guarantors) via different products such as housing loan, credit card, vehicle loan etc. can be calculated and alerts can be configured based on predefined business rules.
- **CRM: -** Extremely helpful in performing CRM initiatives as all relationships with the client can be easily extracted.
- **Segmentation and Cross Selling: -** Extremely helpful in segmentation of clients based on their total assets / liabilities with the bank thus enabling cross selling initiatives such as insurance, housing loan etc.

The output of the Ramco Master Data Management methodology is enterprise application data, which is consistent, correct and complete.