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## Cleaning up after terror funds



Deceptively leafy for a hotbed of investigative talent...

**By Jeremy Scott-Joynt**

BBC News Online business reporter



**This is the second piece in a series of four investigative reports into global efforts to choke off the flow of money to terror groups.**

Simon Moss has to be careful about what he says.

For one thing, the client list at the software company he runs is expanding rapidly, and not all the big-hitter financial institutions he deals with are ready to go public about the relationship just yet.

But as we sit in Mantas's office in leafy Fairfax, just outside Washington DC - an office which, incidentally, is being rebuilt and extended around us to cope with extra demand - it's obvious that there's another reason: that a spot of circumspection is simply the only decent way to proceed.

Mantas's job is to write and install the complex software packages which banks and other financial institutions use to help them spot signs of money laundering or terrorist finance within their accounts. And the boost to business came a year ago, in the wake of the outrage that hit the US on 11 September.

### Catching up

It's not a matter of capitalising on tragedy. It's simply that the financial world has finally woken up to the reality of dirty money, and is desperately seeking experts to help it cope with a flood of new rules, regulations and practices.

Banks which hitherto paid little more than lip service to the need to "know your customer" - a mantra in the anti-funny money business - suddenly find they need to prove just how much they care.

Some of the pressure, at least in the US, comes from new legal obligations laid down in the the wide-ranging USA PATRIOT Act of October 2001, which set timetables for a range of financial institutions to shape up.

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**They want your Rolodex**  
**Former FBI man Ted Fraumann on why banks hire his ex-colleagues**

And so, in the rush to demonstrate their keenness to comply, it makes sense to drop a bundle of dollars on software from Mantas or its UK-based competitor SearchSpace - between them the 800-pound gorillas of the business.

Mr Moss won't put numbers on the increase in business since 9/11, but new clients include huge banking conglomerates like Citigroup.

Thanks to USA PATRIOT it's not just banks who need the help. Online broker Charles Schwab is also on the list of those who have recently jumped aboard.

### **Long haul**

Unsurprisingly, Simon Moss is at pains to stress the business benefits beyond complying with the law.

The software, he says, gets a business more in touch with its clients, more aware of their needs - as well as snooping on their potential for illicit dealings.

But he cautions that simply buying in expertise is no magic bullet.

It can take months or even years to see the true benefits, to train the software - which scans every single transaction a bank makes, and - using thousands of "rules" - looks for patterns, unusual links between names and accounts, and behaviour which diverges from past experience.

"We're in the slightly dubious business of managing expectations," he says.

"We're a linchpin component (in an overall strategy) but we're no panacea."

### **Seek and ye shall find**

Then again, managing expectations is pretty much all that many organisations are after.

As well as Mantas, there are an army of companies offering rapid searches of databases both public and private, to reassure an institution that its customers are indeed who they say they are.



Moss: Not offering a panacea

This is not a cheap business, of course. An annual spend of more than \$1m is the norm, according to Ted Fraumann, a 27-year veteran of the FBI and now a partner at New York-based Business Integrity International, a firm involved in business intelligence, investigations and security matters.

That cost is one reason why a group of 15 international banks, including such luminaries as Goldman Sachs and UBS Warburg, have set up their own company to perform the searches for them.

Regulatory Data Corp, as it is called, has former FBI and CIA directors on its board, and is intended to turn the cost of "knowing your customer" into an opportunity to sell on the service elsewhere.

The real benefit of these services, though, is that they allow the institutions to assure themselves that they're in compliance with the strict rules and timetable the USA Patriot Act laid down.

"It's a huge industry," Mr Fraumann says. "But we question whether it's enough."

In other words, he fears that the complacency which predominated before 11 September has now turned to a "check-box" approach.

### **Out one door, in the other**

Ex-agents like himself - not to mention ex-spies and ex-customs officers, to name only a few - have been snapped up at an ever-increasing rate to serve as Chief Security Officers.

The title is not a new one, and has traditionally gone to the boardmember responsible for background checks on sensitive staff, securing computer and phone networks, and keeping an eye on financial crime.

Now, though, it means that an institution can tell the government they have a person in place to watch over their compliance with the new rules - a key requirement of USA Patriot.

And a CSO sufficiently senior in his - and it usually is a "his" - old job will bring added benefits.

"They want your Rolodex," says Mr Fraumann.

But not for your underworld contacts, your line into the terrorists' organisations, but for your ability to get a heads-up from ex-colleagues about upcoming issues.

And that allows the institutions to make sure they don't have to go any farther, spend any more money, than they need to.

After all, it took years for anyone to take money laundering seriously.

It may well take years more for the new emphasis on terrorism to become part of the furniture too.

### **Regulatory Data Corp founders**

**Goldman Sachs**  
**Allianz**  
**American Express**  
**Bank of America**  
**Bank of New York**  
**Bear Stearns**  
**Citigroup**  
**Credit Suisse First Boston**  
**JPMorgan Chase**  
**Deutsche Bank**  
**GE Capital**  
**Lehman Brothers**  
**Merrill Lynch**  
**Morgan Stanley**  
**New York City Investment Fund**  
**Prudential Financial**  
**UBS**  
**Wachovia**  
**Wells Fargo**



Hardware aside, security is still a people business

