

David B. Caruso
Chief Executive Officer
Dominion Advisory Group
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Good afternoon Chairman Moore, Ranking member Biggert, and members of the subcommittee. Thank you for the opportunity to appear before you today to discuss the vulnerabilities of our financial system to terrorists and money launderers.

Financial institutions, particularly depository institutions, play a crucial role in identifying and reporting potential terrorist financing and money laundering. Over the last 10 years banks have spent considerable amounts of money to hire staff and implement software systems to detect suspicious activity. As a result, most financial institutions comply with the Bank Secrecy Act or BSA. However compliance with regulations and identifying potential terrorist financing and money laundering are not necessarily synonymous.

Suspicious Activity Reports or SARs reporting activity related to BSA violations account for nearly half of all SAR filings. The majority of these SARs are made up of those reporting attempts to evade the Currency Transaction Reporting threshold - a practice known as "structuring."

The burden of detecting, investigating and reporting cash structuring using today's version of the SAR, hampers a financial institution's ability to identify transactions associated with more serious crimes, and makes our financial system more vulnerable to terrorist financing and money laundering.

Consideration should be given to creating a new SAR designed to report only cash structuring. Such a SAR would still provide the government with needed information and would reduce the time and effort needed by institutions to complete the form, thus enabling more energy to be directed at uncovering terrorist financing and significant money laundering.

Now when institutions detect structuring they must adhere to the requirements of the Federal Financial Institutions Examination Council and FinCEN that mandate SARs include a thorough and complete narrative, or written depiction of the events that lead to the conclusion a SAR must be filed. In addition, institutions are expected to compile supporting case information into a comprehensive file. This information is used by auditors and examiners as a way to test a bank's compliance with the BSA. Over the past five years the expectations of regulators and industry practice has expanded. Writing the SAR narrative is as time consuming as ever.

A modified SAR to report structuring will still convey the relevant facts of an investigation – who, what, where, when and how much – but can be compiled into a much more concise format such as a table or spreadsheet that will inform law enforcement of what it needs to know, provide regulators with evidence of an institution's compliance with the BSA and then free up the resources of a bank to focus on detecting terrorist financing and more sophisticated money laundering schemes.

Financial institutions struggle with how to effectively detect terrorist financing. Retrospective analysis of terrorist funding does not provide clear enough

direction to bank investigators on what specific transactions may indicate funds are being sent to support terrorists. Sophisticated money launderers are as well schooled as most compliance officers in the BSA and AML regulatory requirements and they know how to skirt typical controls. Policy makers, regulators and the industry know that detecting and thwarting these types of activities is the primary objective of the BSA.

Depository institutions and other financial institutions including money service business have implemented automated software systems designed to more effectively and quickly identify suspicious activity. However, these software systems produce large numbers of alerts, mostly related to structuring, because structuring is the easiest type of activity for these systems to identify.

Satisfying the regulatory requirements around investigating, documenting, and reporting structuring takes a typical bank investigator between three (3) to eight (8) hours.

Our experience working with small, mid-sized and large banks show us that structuring accounts for between 60 – 70% of all BSA related SARs. We also see that over half of the customers that structure have neither structured before nor subsequently to the incident in question. These “one time structurers” however eat away at the time a bank’s staff can then spend uncovering and investigating activity whose impact to the financial system and national security could be more serious.

Structuring SARs provide the government with important information, including information that may lead to the discovery of serious criminal activity. The importance of this information should not be minimized. What should be minimized however is the time and effort needed to report that activity. By creating a SAR tailored to report only structuring, the government would relieve financial institutions of their largest BSA/AML compliance burden and then enable institutions to use that available time and those resources to identify and report more serious crime.

Thank you again for the opportunity to testify here today.