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04/12/19

Banking Risks, Red Flags, and A.I.

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Seven Trends in Offshore Banki...



There was a time when banks gave out premiums for opening an account such as a coin bank, stuffed toys, or a small appliance like a toaster. The account opening took a few minutes. Now when you go to open an account, it can take 20 minutes of answering questions in a dark room, and I swear the last time I heard the snap of rubber gloves.

The banks do not like the process anymore than you do, but the banks have no choice. It is time-consuming and costly. The banks also are required to monitor your account for suspicious activity. This too takes time and is costly. So when a business process becomes time-consuming, repetitive, and expensive, the business processes are ripe for automation. Banks and most other financial institutions are embracing the automation of Customer Onboarding, KYC, and Account Monitoring. The banks are developing their own processes or subscribing to "Enterprise Compliance Solutions" purchased from various "software as service" providers. This technology is ok at best, but it is not yet ready for the near-infinite varieties of businesses that exist or that have yet to be invented.

Three short cases:

A charity that provides 30 scholarships per year for students to travel overseas has 12 fundraisers per year. Ten dinners at about US\$75 per person with 150 attendees; a small trinket store; and an annual festival, in its 35th year, with an average of over 100,000 attendees. Twenty minutes into the Friday - Sunday festival, the credit card processing and bank accounts were frozen. The freeze occurred despite both the bank and processor being alerted in advance to the volume of transactions. They were alerted both in person and in writing. The software red-flagged the account and locked

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everything down. So the festival went to cash only. There was a 30 per cent drop in that year's festival fundraising. The fun part was dropping US\$320,000 in cash in their lobby on Monday morning and making them count it right there and then.

A small company was conducting a private placement. The principal of the company, which had banked with the bank for 12 years, told the bank manager that several cheques totaling US\$750,000 would be coming in and shared with the bank manager the offering documents. The first two cheques hit, one for US\$40,000 and one for US\$25,000 – and bingo, the account was frozen. No notice was given, and the company's cheques were bouncing all over town. That took a week to undo.

A consultancy helping to write AML laws under a contract with the Asian Development bank had its account frozen. Money was coming from the Philippines and sent to Uzbekistan, Pakistan, Kirgizstan, UK, and Australia, "suspicious countries". The bank had a copy of the contract, but the bank manager could not find a commercial bank called Asian Development Bank – or World Bank. The funds remained frozen for three months until they were sued and made to look like the asses they were.

These errors show the problems of innocence, ignorance, and idiocy at full gallop. There are many other examples I have seen and sadly continue to see. The banks are relying on computers, and they are hiring compliance clerks by the pound who cannot or are not allowed to think. Mind you, some of the senior-level compliance people are brilliant and see this, but their hands are tied. When the computer's red flag goes up, your account goes down.

These algorithmic acts of account freezing are a significant business risk. The years of your relationship with a bank mean nothing. If the algorithm deems to issue you a red flag, it can take days to months to sort out. Meanwhile, you are out of business. No business from a small plumber to a multinational corporation can afford the concentration of risk of all accounts with one bank.

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I have split my banking between three different banks. It is a pain in the backside, but it just paid dividends. I used my debit card in London to withdraw £200. The ATM was attached to a big name bank near Paddington, and its ATM had been compromised. In hours, several attempts were made to withdraw more money from my account. The fraud alert system caught it and blocked the transactions. The bank back in the US froze all of my accounts, a precaution until I could physically come in and see them. Thankfully, I had cards with two other banks. If I had not had back-up, that £200 would have been it for two weeks.

Lastly, beware if you have an account that is of not great value but requires, for whatever reason, greater supervision – such as you travel a great deal, live in another country, or have a business model they do not wish to understand. They will just close your account as the account is not profitable for the bank. It is nothing personal – it is about derisking and profit.

A single bank is a single point of risk. Everything is fine until it is not, and then you are out of business. All persons and enterprises should have multiple banking relationships. The concentration of risk with only one bank is too great. A.I. is supposed to stand for Artificial Intelligence; it seems more like Almost Intelligent or Automatically Insolvent.

ABOUT THE AUTHOR



L. Burke Files DDP CACM, President, Financial Examinations & Evaluations, Inc

Mr. Files is President of Financial Examinations & Evaluations, Inc. He is an international financial investigator and due diligence expert who has run cases in over 130 countries and has visited over 100 countries. Mr. Files has tackled investigations running from a few hundred thousands dollars to over 20 billion. Along the way he became familiar with the knowledge of what people need to do, for due diligence, preventing corruption, and to avoid helping criminals launder money. He brings this experience of hands on investigating and problem solving experience to his lectures on Due Diligence, AML, and Anti-Corruption. Prior to founding FE&E, Inc. he served as the Director of Corporate Finance for American National an investment bank focused on development stage venture capital. He was also employed

by Oppenheimer/Rouse as a commodities specialist trading customer accounts in Agri-Business and 24-hour gold, silver, and foreign currency trading. Mr. Files has authored six books, and many white papers and articles. He has been quoted in major publications including The Guardian, The Financial Times, Forbes, US Newsweek and more. He is the author of the award winning book Due Diligence For The Financial Professional 2nd Edition. Mr. Files serves on the board of directors for several private companies, funds, and non-profits. Mr. Files is active in several civic organizations. In the past Mr. Files has served as a member of the Arizona Governor's Board on Solid Waste Management, as an advisor to the Governor's Board on Economic Planning and Development. Mr. Files has also received a Commission and a Medal of Merit from the President of the United States.



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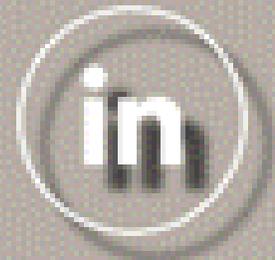
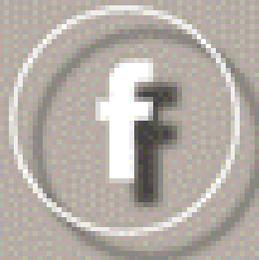
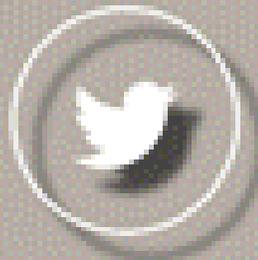
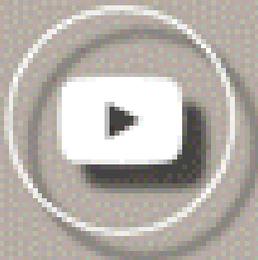
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