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Financial fraud, terrorist financing, and money laundering: Trials and trends

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Organizations in the financial services industry, such as banks and credit card companies, have a responsibility to protect their customers and organizations through fraud prevention, counter terrorist financing (CTF), and anti-money laundering (AML) compliance. Financial institutions are increasingly addressing risks associated with sophisticated financial fraud, terrorist financing, and money laundering due to the many digital products and automated services available to customers and new criminal opportunities for individuals and organizations. Banks are most vulnerable to crimes such as fraud and money laundering, and the solutions to their challenges, including implementing measures necessary for meeting regulatory compliance requirements, can be costly.

A holistic approach to the prevention of fraud, terrorist financing, and money laundering, complete with integration of other related functions, automation of controls, information and data sharing, and the consistent use of AML/CTF tools, will ensure greater efficiency and effectiveness of compliance programs focused on mitigating risks associated with financial crimes. This article focuses on the challenges and trends affecting financial institutions and their efforts to prevent financial fraud, terrorist financing, and money laundering.

Background, regulation, and enforcement

In general, AML addresses the detection and prevention of money laundering activities, as well as an organization's compliance with AML laws and regulations. As background, the role of the U.S. national banking system in helping the AML effort began in 1970 with the Bank Secrecy Act (BSA), the primary anti-laundering law in the US; the Office of the Comptroller of the Currency (OCC) was established soon thereafter.^[1] The OCC conducts regular examinations of national banks and has supervisory, regulatory, and enforcement authority.^[2]

Congress passed the USA Patriot Act (Patriot Act) after the attacks of September 11, 2001, which deters and punishes terrorist acts and strengthens US measures to prevent, detect, and prosecute international money laundering and financing of terrorism.^[3] The Patriot Act requires every bank to adopt a customer identification program as part of its BSA compliance program. One of the most important requirements of the BSA is to submit a suspicious activity report (SAR). The purpose of filing a SAR is to identify violations or potential violations of law to the appropriate law enforcement authorities for criminal investigation.

In addition to being the subject of an enforcement action and sanctions, noncompliance with AML laws may result in reputational harm to financial institutions. In fact, a financial institution's image can be eroded if it becomes associated with criminals or criminal enterprises. Therefore, it is important to comply with all AML laws and regulatory requirements.

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