

Banker's Academy

BRIEFINGS

Using the U.S. Suspicious Activity Report (SAR) to Improve Reporting in the Middle East

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The United States and the Middle East are vastly different regions of the world – from the miles that separate them to the languages spoken by their inhabitants. In my own personal experiences, it has become obvious to me that the compliance cultures in these two areas of the world are also distinct from one another. Although the Middle East has diverse compliance officers who contribute immensely to the richness of the compliance culture, I believe there is still a lot to be learned from the compliance processes used in the U.S.

The process of reporting suspicious transactions, for example, is handled very differently in the U.S. in comparison to the Middle East. It is crucial for all banks, whether in the U.S. or the UAE, to file Suspicious Activity Reports (SARs) that are complete, sufficient and timely. SARs are very important instruments that enable law enforcement agencies across the globe to initiate money laundering or terrorist financing investigations. The information provided in a SAR also allows the Financial Intelligence Unit (FIU) to identify emerging trends and patterns associated with financial crimes.

To protect against money laundering and other related crimes from occurring in the Middle East, its banking industry needs to improve upon their process of reporting such crimes. In the sections following, I have provided an analysis of the SAR process in the U.S. and have also offered my own personal suggestions of how the Middle East can improve upon their process of reporting. By looking at the form used by U.S., financial institutions, the Middle East will gain a more comprehensive understanding of how to properly report suspicious crimes, and in turn, better protect and prevent such activities from occurring.

Reporting Financial Institution Information

In the U.S., the compliance department at a bank is required to record the address of the branch where the suspicious activity occurred, as well as any other bank branches that will later be included in the narrative. The department must also indicate which account numbers, if any, were affected by the suspicious activity and if these accounts were closed as a result. In the Middle East, however, the reporting form lacks necessary information about the reporting institution. For example, forms in the Middle East neglect to include the name of the financial institution and the Employee Identification Number (EIN).

Suspect Information

When information about the suspect of a financial crime is not available, a U.S. bank has the option to record that information as “unavailable.” If information is available, the bank is permitted to fill out information about the suspect, including full name, address, date of birth and much more. However, the reports used in the Middle East omit this important information, including the suspect’s occupation or type of business.

The reporting forms used by financial institutions in the Middle East should also indicate the type of relationship that the suspect had with the Bank. It is very important for the bank to know whether the violation was committed by customers or by inside employees. In these cases, the suspected insider would be considered a higher risk and the bank would initiate a thorough internal investigation to identify if the suspected insider was acting alone or with assistance from other bank staff.

If the suspect was a member of the bank, the U.S. requires the compliance department to specify if the insider still works for the bank, what disciplinary and corrective actions the bank may have taken against the insider and when these actions occurred. Whether the suspect is opening an account or performing general banking activity, it is important that a Middle Eastern bank’s Compliance Officer verifies the correctness of the phone number and address provided.

Suspicious Activity Information

In the Middle East, one of the major deficiencies and weaknesses of the SAR is that it does not characterize the suspicious activity. In the U.S., however, a bank can specify in the report what type of the activity occurred such as: Bank Secrecy Act (BSA) /Structuring/Money Laundering; Bribery Gratuity; Check Fraud; Check Kitting; Commercial Loan Fraud; Computer Intrusion; Consumer Loan Fraud; Counterfeit Check; Counterfeit Credit/ debit Card; Credit Card Fraud; Debit Card Fraud; Defalcation / Embezzlement; False Statement; Misuse of Position or Self Dealing; Mortgage Loan Fraud; Mysterious Disappearance; Wire Transfer Fraud; Terrorist financing; Identity Theft, or other.

On the reporting forms used in the U.S., banks are also required to specify the bonding company or any other law enforcement agency involved. The bank has to identify if the suspicious activity had a material impact on, or otherwise affected, the soundness of the bank.

Contact for Assistance

Unlike financial institutions in the Middle East, banks in the U.S. are prompted to include the full name, title, occupation and the direct phone number of the person who filed the SAR. Law enforcement agents will use this information to reach out to the Compliance Officer when needed. It is also essential to indicate if a third-party was responsible for preparing the SAR.

Suspicious Activity Information Explanation/Description

The fifth and final part of the U.S. SAR is one of the most crucial steps in the reporting process. This part of the SAR is referred to as the “narrative,” and provides banks with an opportunity to describe the violation or suspicious activity in detail.

This section should be written with great care, as it could make the difference in whether or not the described conduct and its possible criminal nature are clearly understood.

In the Middle East, on the other hand, there is no space provided on the SAR for the bank to provide a narrative of the incident or suspicious activity. This deprives the Financial Intelligent Units of basic information they need to understand why the suspect performed a suspicious or unsealed transaction.

Therefore, Middle Eastern banks should follow the process used by the U.S., which consists of providing a chronological and complete account of the possible violation of law, including what is unusual, irregular or suspicious about the transaction on the SAR. Important things that a bank should indicate in the narrative include: where the possible violation took place; whether the possible violation was an isolated incident or if it related to other transactions; whether there is any related litigation and who benefited, financially or otherwise, from the transaction. The narrative can also be used to indicate whether currency and/or monetary instruments were involved, and if so, provide the amount and/or description of the instrument.

Final Word

The process of reporting suspicious transactions is important for tasks that financial institutions in the U.S. and the Middle East need to complete, sufficiently and timely. I encourage Middle Eastern banks to look at the U.S. SAR as a guide to how to properly report an incident or any suspicious activity. By incorporating the steps that U.S. financial institutions take in this process, the Middle East can better position itself to detect and prevent money laundering and other financial crimes throughout the country.



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