SARs trends, SAR Review teams, and fraud

May 26, 2009

A February 2009 report from the U.S. Government Accountability Office (GAO) found that between 2000 and 2007, suspicious activity report (SAR) filings by depository institutions nearly quadrupled, from 163,000 to 649,000 per year, with 2008 promising even further growth. The GAO report posited two key forces driving the overall increase in filings: a) the deployment of automated monitoring systems that can assess suspicious activities using customer profile information and b) heightened diligence in light of several high-profile cases involving poor account monitoring by some institutions, which may have led to institutions filing more SARs "defensively" to avoid criticism.

SARs were initially associated with money laundering and terrorist financing concerns, but now, some experts note, SARs are increasingly filed for other potential suspicious activities such as identity theft and consumer fraud. Possibly this trend is a further reflection of the sophistication of integrated and automated systems deployed by some financial institutions which can detect suspicious activity of all types, or possibly this development is a manifestation of the "defensive filing" phenomenon. FinCEN Director James Freis was recently quoted in the American Banker: "I think that more bankers are realizing that the same due diligence required for AML (Anti-Money Laundering) compliance is also a powerful weapon against fraud."

Another contributing factor not mentioned by the GAO report is growth in the overall volume of banking transactions such as mortgage activity. However this factor is not likely to fully explain the very rapid growth in SAR filings in these years. Moreover, there is the question of whether the increase in SAR filings is reflective of an increase in criminal activity itself.

The 2001 National Money Laundering Strategy called for the establishment of "SAR review teams" in every federal judicial district, drawing together federal law enforcement (U.S. attorneys offices, Internal Revenue Service, U.S. Immigration and Customs Enforcement, Federal Bureau of Investigation, Secret Service, U.S. Postal Inspection Service, etc.), federal banking regulators, and state and local law enforcement. While SARs have typically been used as supporting documents for existing cases, these SAR review teams look to SARs also for the purpose of initiating new investigations. SAR reviews by these teams may uncover links among superficially distinct SARs that can lead to criminal prosecutions, civil forfeiture actions, federal or state regulatory actions, warning letters, and/or referrals to other agencies or districts. Further, these teams help to coordinate efforts and more efficiently allocate scarce resources.

Will the confluence of increased reporting, improved data monitoring by many institutions, and proactive monitoring of SARs by SAR review teams have a measurable impact on abuse of payments systems and associated fraud?

By Clifford S. Stanford, assistant vice president and director of the Retail Payments Risk Forum at the Atlanta Fed

- May 26, 2009 in
  - identity theft
  - payments risk
  - supervision and regulation
- Permalink
- Comments