




ABA Professional Development

ABA/ABA Money Laundering Enforcement Conference




November 13-15, 2011
Washington, DC

JPMC Footprint

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of \$2.0 trillion, employs approximately 225,000 and maintains operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management, and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients.

• Branches	5,231 (27 states)
• ATMs	14,225
• Personal Checking Accounts	25.5 million
• Active On-line Bank Users	13.8 million
• Correspondent Banking Relationships	3,000
• Credit Cards Issued	123 million
• Average Daily Wire Volume	\$3.3 trillion

JPMC Monitoring and Investigations Vision (Identification of Risk)

Our **Vision** is to continue to enhance our ability to identify transactional attributes associated with illicit activity with greater efficiency, developing and utilizing more sophisticated tools and methods.

Our **Approach** consists of:

Typology Development: At JPMorgan Chase we incorporate Money Laundering/Terrorist Financing typologies identified from previous investigations into our investigative approach, and create risk profiles encompassing, product, geography, and customer type. The profiles help to provide a detailed road map for investigators to conduct their investigations. This approach also allows more precision in building sustainable monitoring tools to identify suspicious activity.

Tool Enhancements: We built an in-house tool to enable investigators to be more precise when identifying higher risk potential money laundering or terrorist financing activity flowing through JPMC. This concept goes beyond the value/volume ML detection method that is prevalent in the first generation ML detection software products.

Our **Challenge** as an industry is elimination of noise and the identification of true money laundering and terrorist financing risk.



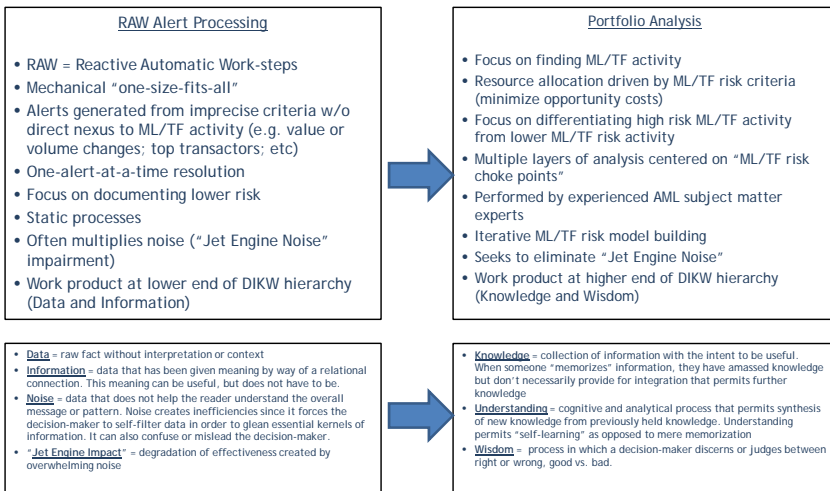
Evolution of a Monitoring and Investigations Program

How do we monitor and identify meaningful suspicious information?

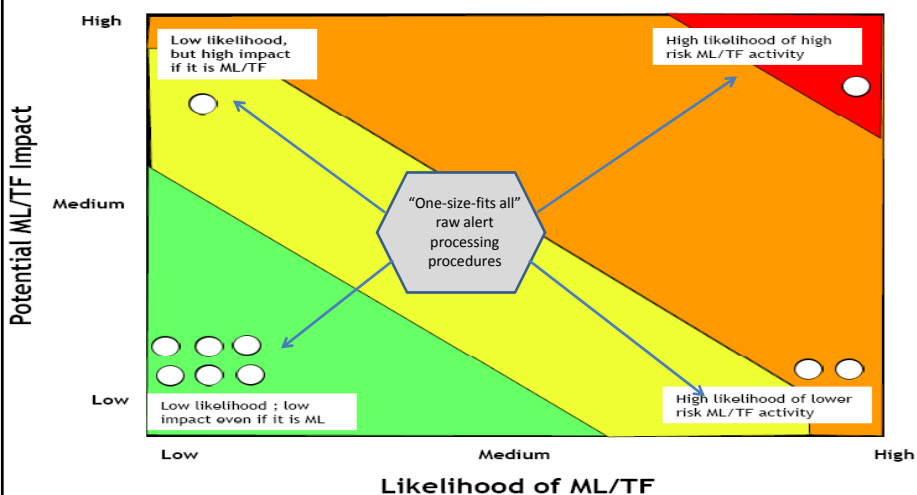
- First Generation: R.A.W. Alert processing
- Second Generation “Needles in a World of Haystacks”
- Third Generation: Portfolio Analysis
 - **“Portfolio Analysis”** is the risk framework that primarily focuses resources on higher ML/TF matters. The Portfolio Analysis approach seeks to: (a) reduce the “jet engine impact” from noise that impairs detection of potential ML/TF activity; and (b) avoid opportunity cost from mechanical raw alert-specific “deep-dives”, or “data dump documentation”, on matters that do not appear to have potential significant ML/TF risk.



Migrating from a "Raw Alert Processing" Framework to a "Portfolio Analysis" Framework




First Generation Monitoring




Second Generation Monitoring – Needle in a World of Haystacks

AML/ATF = Finding needles in a world of haystacks






“Data” approach focuses on the ‘Hay”




“Wisdom” approach focuses on the “Needle”

Define the “Needle”	Build risk models based on specific ML/TF typology
Choosing the “Haystack”	Locate the “choke point” that best highlights ML/TF typology
Looking for the Needle	Look for specific electronic ML/TF transaction characteristics
Finding the Needle	Investigate and SAR
Needle finding machines	Automate ML/TF risk model for specific typology








Third Generation Monitoring Portfolio Analysis (Patent Pending)

- Continually focus on higher ML/TF risk at all stages of monitoring and investigations within any given population (Portfolio)



- Phase I Portfolio = Existing referral sources for detecting unusual activity
- “AID” the investigator in making effective and efficient ML/TF risk decisions:
Automated data gathering Information enrichment Display ML/TF risk
- Assessment of the likelihood of finding potential suspicious activity:
Typologies consistent with ML/TF activity, Traits inconsistent with ML/TF activity, Materiality
- Deploy resources at higher ML/TF risk/reduce “Jet Engine Noise” impairment
- Investigation and SAR filings
- ML/TF risk decisions by LOBs
- Feedback loop (including iterative changes to ML/TF risk models)
- Phase II Portfolio - Typology-based detection of potential ML/TF activity

Typology Development

Literature Review:

Assemble and review publicly-available information on human trafficking and forced labor, including known trafficking methods and employment of trafficked labor, high-risk geographies and transactional attributes

- Reviews of available public sources
- Reviews of historical criminal prosecutions and available case studies
- Interviews with victims, NGO's and academia

- Per literature review:
 - Adult services providers that advertise using internet classified as services present high trafficking risk
 - Internet classified advertising services require payment for ad placement (collectively- sex advertisers)



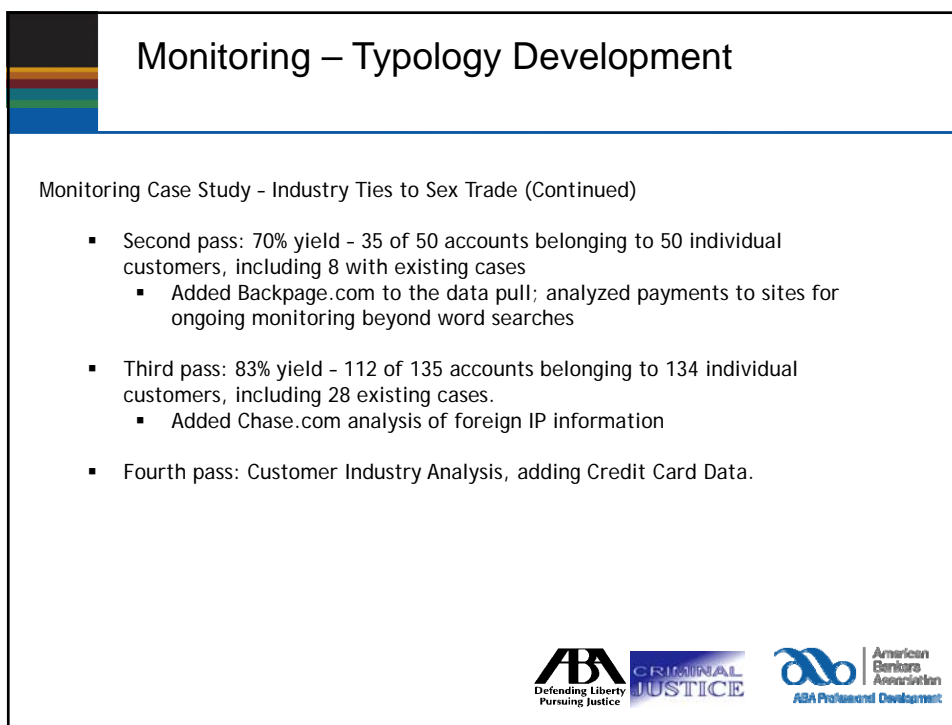
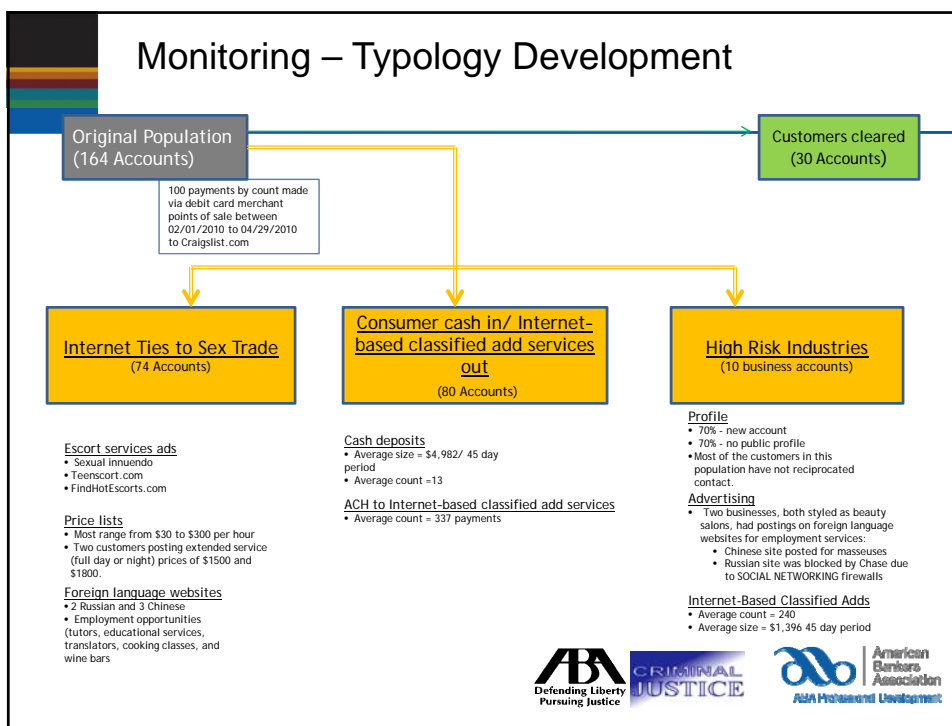
Typology Development

Develop Typologies/ Monitoring:

Perform data mining and business-type analysis on customers within targeted populations to attempt to develop customer- and transaction-specific typologies and monitoring models to identify potential instances of human trafficking or forced labor

- Peer group analysis of businesses more likely exploitable by trafficking and labor intermediaries, including labor and service industries
- Internet classified sites that cater to the sex industry
- Interstate cash activity (smuggling)
- Mining customers in industries with higher risk for HT activities with afterhours payment processing
- Leveraging Card Service data to identify payment processors





Red Flags Customer Profile and Transaction Indicators

Customer Profile

- Customers with an excessive number of individual accounts
- Business industries that are easily exploitable by traffickers, including immigration attorneys/ labor intermediaries that handle visa paperwork
- Accounts reported for identity theft
- Primarily new accounts (60 days to 1 year)
- Consumer customers with nominal occupation information or discrepancies between account funding and known customer profile

Transaction Traits

Sources

- High volume of round dollar deposits via wires, ACH, or cash in the range of \$2,000-\$3,500
- Excessive interstate or intrastate cash deposits less than < \$1,000 (round dollar) each at multiple branches a day
- Excessive interstate or intrastate round dollar cash deposits
- Cash deposits just below the CTR threshold but deposited at several branches
- Numerous incoming wire transfers or personal checks deposited into business accounts with no apparent legitimate purpose
- Payments from State and/or Federal welfare agencies in conjunction with alternate funding



Red Flags Customer Profile and Transaction Indicators

Uses

- High volume of debit card/credit card transactions leveraging specific merchants codes
- Airline, rental car, bus, or taxi charges in multiple cities or states
- Excessive hotel charges and other high percentage of purchases made at high-end merchants, casinos, etc
- Extensive payments to web advertisers that cater to the sex industry
- Payments to various property management companies or multiple utility companies referencing different properties or units
- Payments to multiple cell phone companies or to the same company referencing an excessive number of cell phones
- Extensive purchase of money orders to pay bills

Other Transactional Traits

- Sudden change in customer's normal business practices (e.g. dramatic increase in deposits, withdrawals, or wealth)
- Wire transfer activity inconsistent with customer's business
- Wires to/from origin or staging countries that are inconsistent with the customer's known profile



Benefits

Law Enforcement Partnership: Develop active channels for coordination with relevant law enforcement agencies, especially those focused on human trafficking initiatives, to help inform the analysis

- Direct engagement on key issues
- Federal and local investigators
- Case, typology, or project specific

Staff Development: Provide investigator training to better enable the identification of transactions related to possible trafficking

- Engaged ICE to conduct training on current methods of smuggling and human trafficking

Industry Partnership: Present findings to members of the financial community to further raise awareness of this issue

Sustainable Monitoring: Apply scoring models to typology development results to attempt to replicate results on an ongoing basis



Questions?

