



Testimony of  
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Terrorism and Illicit Finance

*“Managing Terrorism Financing Risk in Remittances and Money Transfers”*

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## **Introduction and Background**

Good afternoon Chairman Pearce, Ranking Member Perlmutter, and members of the Subcommittee. My name is Duncan DeVile, and I am Global Head of Financial Crimes Compliance and US Bank Secrecy Act Officer for Western Union, based in our Colorado headquarters. Prior to joining Western Union in 2013, I headed the Office of Compliance and Enforcement at the Financial Crimes Enforcement Network (FinCEN) in the US Department of Treasury; before this I was with the consulting firm Booz Allen Hamilton, and prior to this an Assistant US Attorney in Los Angeles. In each position I worked on Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) matters. I am also an adjunct professor at Georgetown Law School. Thank you for the opportunity to be here today to discuss Western Union's efforts to detect and combat the use of money services businesses (MSBs) by terrorist organizations.

The Western Union Company is a global leader in innovative, cross-border and cross-currency money transmission services. Western Union moves money for better, enabling individuals and families to transfer money safely around the world in increasingly easier, faster ways. Western Union's worldwide network includes more than a half-million agent locations in over 200 countries and territories, as well as more than 100,000 ATMs and kiosks, with the ability to send money to billions of accounts. In addition to person-to-person money transfers and other primary services such as money orders and bill payment options, the company offers a full suite of payment solutions and cash management strategies for global companies, small businesses, charities, non-governmental organizations, and universities through Western Union Business Solutions. We also own two international banks. In 2016, across all products and platforms, Western Union averaged 31 transactions per second, and over 900 per second at peak times.

At Western Union, we strive to provide ease of transaction and convenience to our customers. As our customers move to digital platforms, we continue to connect with them through online applications and mobile services. This is a critical area of focus for the company. Over 50% of Western Union's digital transactions originate from a smart phone.

### **Commitment to Compliance, Critical Component of Western Union's Identity and Organizational Structure**

For Western Union, a critical part of serving our customers is complying with regulatory requirements. Even though regulatory compliance costs money and inhibits our ability to drive down transaction costs for our customers, we do not view the two goals as conflicting, but as complementary. This is because we value our customers' confidence and trust, and we think that they in turn value dealing with a reputable company that conducts business in accordance with the spirit and letter of the law.

As a money transmitter, Western Union is subject to regulation and examination by 48 states, the District of Columbia, and multiple territories, as well as by the federal government and numerous financial regulators overseas. We are subject to the Bank

Secrecy Act (BSA), the USA PATRIOT Act, and sanctions laws administered by Treasury's Office of Foreign Assets Control (OFAC). We register with FinCEN and are subject to examination by the Consumer Financial Protection Bureau (CFPB). In addition to regulator examinations, each year Western Union's compliance program is reviewed by banking partners, audited internally and externally, and provides detailed license and registration information.

I am here today to talk about Western Union's anti-money laundering and counter-terrorist financing efforts, and how various programs under our compliance umbrella have changed over time. This evolution can be attributed to many factors including the changing nature of the threats posed by bad actors, the introduction of new products and delivery platforms, increased regulator expectations, and other key events that have presented opportunities for Western Union to grow as a company.

Earlier this year, Western Union entered into settlement agreements with the Department of Justice (DOJ), Federal Trade Commission, FinCEN and 51 state attorneys general to resolve previously disclosed investigations focused primarily on oversight of certain agents and whether our employees' actions in connection with the maintenance of our anti-fraud program and anti-money laundering controls failed to prevent misconduct by those agents and third parties. The conduct at issue mainly occurred from 2004 to 2012. As detailed in the deferred prosecution agreement, "Since at least September 2012, Western Union took remedial measures and implemented compliance enhancements to improve its anti-fraud and anti-money laundering programs." These remedial measures and compliance enhancements, many of which will be outlined in my testimony today and as acknowledged in the deferred prosecution agreement, reflect Western Union's "...ongoing commitment to enhance compliance policies and procedures." These efforts will be reviewed by an independent compliance auditor for three years.

Western Union's business model depends upon trust. We cannot build and maintain our business unless we create a safe global environment for the people, families, and businesses who use our services. To that end, Western Union has increased its overall compliance funding by more than 200 percent over the past five years, and now spends more than 200 million dollars annually on compliance. Approximately 2,400 full-time employees, over 20 percent of our workforce, are exclusively dedicated to compliance functions. We have added more employees with law enforcement, national security and regulatory expertise, strengthened consumer education and agent training, and bolstered technology-driven controls. I am proud to have been one of the people recruited with a specific background in this area, and we have added many other experts with similar experience. The cumulative impact of these changes has been enormous in terms of strengthening compliance safeguard capabilities at the company and ensuring that our workforce understands the top-down commitment Western Union is making to regulatory compliance.

In fact, Western Union today is a recognized leader in the fight against many types of illicit activity including fraud, human smuggling, sex trafficking, child

exploitation, transnational criminal organizations, gang activity, counterfeit goods, and narcotics. While Western Union has a global scope and our Compliance Department targets latent and emerging threats in a wide variety of areas, my testimony today will focus on terrorist finance and Western Union's work with US law enforcement to provide actionable, forward-looking intelligence analysis.

As a global company, in addition to following US laws and regulations including FinCEN guidance, Western Union has adopted AML/CFT standards established by the Financial Action Task Force (FATF) and the Wolfsberg Group of international financial institutions. In many cases we apply global standards and targeted risk mitigation that are more restrictive than FATF recommendations or those required by the countries in which we operate.

We have established an AML Risk Assessment Framework to detect, deter, prevent, and report illicit transactions with dedicated teams of employees who are responsible for risk assessment, risk modeling, and ongoing analysis. This framework requires a multifaceted approach to assessing and managing risk including but not limited to analysis such as:

- Consumer-level monitoring, investigation, and assessment
- Agent-level due diligence, monitoring, investigation, and assessment
- Product risk assessment
- Country and regional level risk assessments
- Emerging risk and strategic intelligence analysis
- Control testing, audit, and assessments

This framework establishes a process for Western Union to address its risk and implement appropriate controls.

Primary compliance risks for terrorist finance generally derive from two sources: our agent network and our customers. Accordingly, as a company we are particularly focused on these areas. In addition, our compliance program has specific components dedicated to identifying geographic and emerging risks in order to proactively identify and respond to latent threats before they become widespread.

In designing our compliance program, we have been cognizant that Western Union's retail money service business operates through company partnerships with our network of agent locations around the world. Agent relationships with Western Union are defined by how the agent operates its retail locations. Some agents act as program managers that oversee many sub-agents. Others are independent or have multiple retail locations within the same company. In addition to regional store chains, convenience stores, small businesses, and other retailers, in many cases banks and post offices act as Western Union agents. For the small businesses, revenue generated through offering Western Union products is very significant and we are proud to help spur job growth and contribute to the larger economy.

We have established a dedicated team specifically to conduct research on our agents prior to entering a relationship with them, upon renewal of contracts, and at other triggering events such as a change of ownership. Agent due diligence includes criminal background checks, screens against the US Treasury's Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons lists and other appropriate government sanctions lists. Agents are trained through initial and ongoing AML/CFT and consumer fraud modules that cover applicable laws and regulations as well as Western Union's own policies, and common criminal typologies that we want our agents to monitor. Western Union has also built and patented the Comprehensive Model to Prioritize Strategy (CMPS), a statistical-indexing model that combines and enhances various risk indices and is used to measure agent risk across many categories. Risk scores are determined by factors such as transaction volume, transaction corridors, fraud data, and suspicious activity reports (SAR) data. The CMPS model helps guide agent compliance visits and program reviews for AML/CFT and consumer fraud purposes.

To assess and manage risk posed by our customers, Western Union has developed patented systematic and automated controls to detect and prevent suspicious and illicit payments, including transaction thresholds at which additional information, identification or supporting documentation is required from the consumer. In some cases, telephone interviews are prompted so that the purpose of the transaction, nature of the relationship between sender and receiver, and source of funds for the transaction can be determined. Examples of transaction limit controls include single and aggregate transaction limits, corridor specific limits, and currency or foreign exchange limits. As a company, we have the proven ability to use data analytics in many areas and have leveraged this to track and/or stop transactions and ensure that those initiated outside of established parameters receive heightened due diligence. In addition to CMPS described above, Western Union holds 26 patents related to categorizing and identifying data patterns that allow us to make more informed decisions about agent and consumer oversight.

In addition to the traditional back-end automated transaction monitoring rules/algorithms that banks have which look for patterns on a weekly or monthly basis *post-transaction*, we have something unique: up-front monitoring (Real Time Risk Assessment [RTRA]) rules/algorithms that can be designed to stop transactions with indicia of crime before they go through.

While it is not the primary focus of today's hearing, I want to bring to the subcommittee's attention another key program Western Union has established to help detect scam-related fraud and protect consumers at the point-of-sale. Our Courtesy Callback Program places some high-risk transfers on hold pending an interview with the sender, and resulted in \$300 million in customer refunds in 2016. This program has grown exponentially since its inception in 2006 and today covers over 300 transaction corridors and has a staff of nearly 200 people. I have listened to the recordings of some of these calls and customers can be quite irate, insisting that they are not fraud victims and demanding that their transactions go through. Nonetheless, if the evidence shows that they are in fact victims of fraud, we will not process the transactions.

Western Union also has a program specific to sanctions compliance where OFAC and other applicable government lists are uploaded daily so that a person whose name appears on these lists will be blocked from conducting transactions anywhere around the world.

### **Working with Law Enforcement to Combat Terror Finance, Western Union's Financial Intelligence Unit**

Identification, reporting and mitigation of terrorist finance risk is a top priority for Western Union's Financial Intelligence Unit (FIU). Modeled after intelligence programs in the government and law enforcement community, our FIU is another part of our Compliance Department and helps inform strategic decision making. The FIU develops and maintains collaborative, trust-based relationships with key law enforcement and other government partners to ensure that intelligence and information necessary to combat terrorism and terrorist finance can flow to the right people at the right time. For example, within hours of recent European terrorist attacks our FIU's Rapid Response team provided actionable intelligence to law enforcement via confidential reports – both Suspicious Activity Reports (SARs) and Suspicious Transaction Reports (STRs). Providing this type of immediate insight into active investigations has in at least once case helped identify additional terrorists before they carried out more attacks.

Western Union recognizes and supports the bipartisan work of Subcommittee Vice Chairman Robert Pittenger (R-NC) and full Committee Ranking Member Maxine Waters (D-CA) and others to enhance safe harbor provisions for the sharing of SAR information. Of particular interest to Western Union is one day having the legal authority to share these reports with our own overseas subsidiaries. As the largest SAR/STR filer in the world, with nearly 200,000 filed in the US and an additional 200,000 filed abroad last year alone, Western Union is committed to maximizing the potential impact of these important reports. In fact, we have established a structured system that allows us to formally identify SARs that may be related to terrorism. We immediately share these reports with law enforcement so they can prioritize them at their discretion. The ultimate goal of our FIU is to “see around the corner”, i.e., to proactively identify bad actors not otherwise visible from internal detection systems and external referrals, and to provide advance warning and risk mitigation options for potential threats.

Despite Western Union's cooperation with law enforcement and commitment of resources to combatting terror finance, the fact remains that identifying terrorists and facilitators is extremely difficult. There is no distinctive profile for a terrorist based solely on an individual's consumer activity, and we are not aware that any financial institution has yet been able to develop effective predictive analytical capacity to identify terrorists through their transactional activity. On the contrary, it is most often the case that the volume, frequency and other characteristics associated with terrorists' transactions are consistent with routine patterns the company sees for legitimate purposes such as humanitarian aid, charitable giving, and sending money to family and friends. This underscores the importance of identifying terrorist finance activity through collaborative public-private partnerships where information flows back and forth in real time. It also

underscores the importance of both the public and private sector looking beyond raw transaction data and combing other sources such as social media to paint a more complete picture of subjects that may be moving money for illicit purposes.

Key current areas of focus for Western Union's Financial Intelligence Unit include:

- Analysis of Turkey and Lebanon as transit areas for people and funds ultimately intended to support ISIS.
- Focus on potential ISIS "provinces" and/or affiliated groups such as those in Libya, Egypt, Tunisia, Philippines, Bangladesh and elsewhere.
- Continued analysis and adjustments to transactions controls and other risk mitigation measures in Iraq, Syria, Turkey, Libya, and Lebanon to ensure that we are appropriately managing risk while still serving the great humanitarian need in these challenging areas.

The deep, ongoing relationships Western Union has with law enforcement are a critical part of what we do. Terrorists and global criminal organizations threaten the individuals, families and businesses we serve. They also threaten our own agents and the foundation of our business. It is in our interest to keep our services out of the hands of those who would use them to do harm, and we remain committed to that effort. Western Union has proved to be a valuable and trusted government partner in protecting US national security, and we consider this to be a paramount responsibility and core aspect of our mission. We believe that we are helping, as evidenced by the recognition that we have received from law enforcement, in the form of dozens of thank you letters for our work; as well as formal, written recognition by regulators for SARs that have helped with critical cases. Our best strategy to successfully combat an evolving and increasing complex threat landscape is to do so together.

In conclusion, I want to recognize *The Money Remittances Improvement Act of 2014* signed into law during the 113<sup>th</sup> Congress with the help of many of the members here today. This legislation provided much-needed streamlining of the examination process for Western Union and other money transmitters, and freed up resources for the Treasury Department to focus on anti-money laundering and counter-terrorist financing efforts. I would also like to acknowledge the work of the Conference of State Bank Supervisors in aiding many of these streamlining efforts including joint examinations where appropriate. We will continue to work with members of the subcommittee on legislative efforts to combat the financing of terrorism and other illicit activities – and to help stop the many bad actors who operate today.

On behalf of Western Union, I thank the members of this subcommittee for having me today and for your work in this area. I would be happy to answer any questions you may have.