

# Money Laundering Detection System Risk Classification

Bosch Software Innovations



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## The Fundamental Principle of Risk Orientation: Looking in the Right Places...

To ensure thorough detection of high-risk transactions, it is important to look in the right place. Risk classification is the core element of business logic in MLDS. Different rules are applied to different segments in order to track unusual transactions that require clarification. Customer risk classification has direct influence on the analysis.

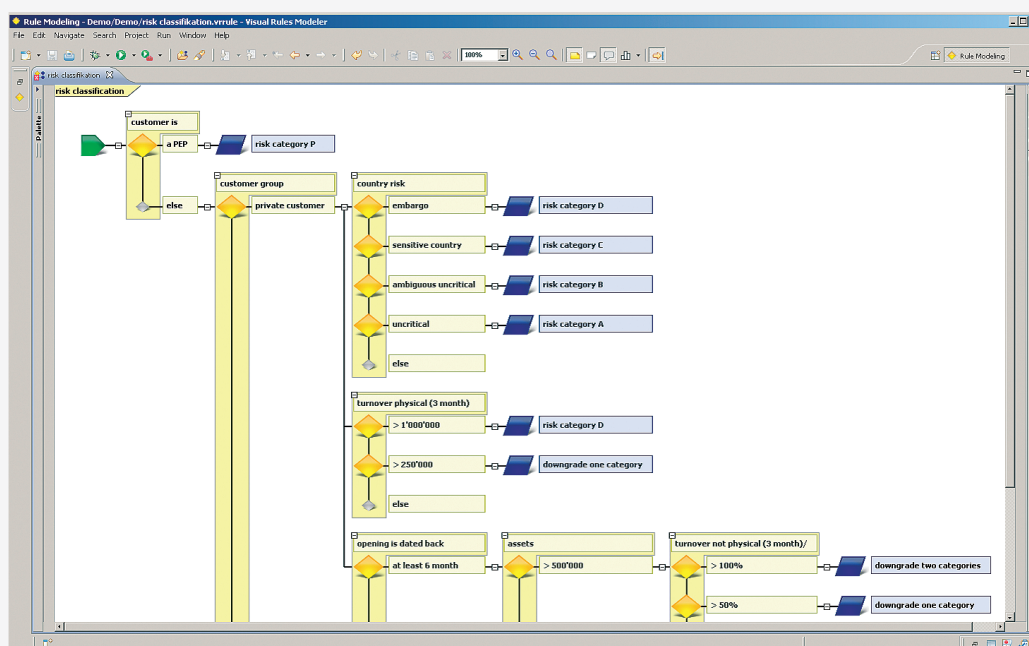
The classification logic employed differentiates among various types of customer relationships, for instance: private or retail banking, corporate customers, institutional investors or brokerages will exhibit different behavior patterns. While corporate customers may regularly

move large amounts in and out of their accounts, these sorts of transactions would tend to be unusual for a private account and therefore require clarification.

## Bodies of Rules Tailored to Specific Types of Business

It is particularly important at financial institutions with large volumes of transactions to weigh risks and concentrate on truly relevant cases. MLDS classifies customer and business relationships according to their particular behavior patterns and specific countries involved. This method of classification increases the precision of the bodies of rules and allows for highly refined limits that are dependent upon the particular type of business.

## MLDS - Risk Classification



The standard MLDS installation works with a 5-level classification system, with categories A (no identifiable risk) through D (increased risk) and P (politically exposed persons).

This classification logic also distinguishes among various types of business relationships: private or retail banking, corporate customers and institutional investors.

## MLDS - Risk Classification

The screenshot displays the MLDS interface for a business relationship. The left sidebar shows navigation options like Profile, Documents, Journal, Anti-money laundering, Clarification, and Specification. The main area shows the 'Risk classifications' section with a table of history.

Value	Start	Type	Additional information	Reason
B	11/30/10 2:58 PM	Valid	by manual risk classification, Valid until 10/16/2011	Detailed analysis of customer records.
D	11/30/10 2:55 PM	Valid	by automatic risk classification, Acquired on 11/30/2010	Base evaluation: The partner P100018 is a natural person or a non-active organization (domiciliary company). The evaluation of cash turnover in regard of the total assets is A. The evaluation of turnover in regard of the total assets is D. The outcome of this is the base evaluation: D. Country evaluation: A domicile address of partner P100031 is in country Svalbard and Jan Mayen. The outcome of this is the country evaluation: critical. The overall evaluation results in the risk classification D.

Risk classification automatically generates a rating, which must include the reasoning used to obtain it. This resulting baseline evaluation may be improved or downgraded when the countries involved are factored into the logic.

This automatic rating can be overwritten by a manual rating, also requiring plausible reasoning, and must include evidence, when possible. The manual rating takes effect once it is approved by Compliance.

## Customer Due Diligence

Risk classification in MLDS offers dual utility; it can be deployed for a single review, for instance in the account opening process, or for regular monitoring and updating of the ratings for all customers.

## Consistently Maintain Ratings

Ratings become obsolete over time and must be updated regularly. With MLDS, this occurs at set intervals or when customer data changes. All customer ratings are regenerated and adjusted during nightly processing, possibly resulting in the reclassification of the customer. This daily updated customer rating directly impacts the evaluation and clarification of customer transactions and business events.

## Risk Classification in MLDS ...

- ▶ MLDS is completely risk-oriented in its approach. This integrated risk classification system allows for the immediate deployment of extremely differentiated bodies of rules
- ▶ The highly effective system also allows for both different test logics and different processing of transactions. For example, the booking of particularly critical transactions can be blocked until clarification (ex ante) occurs
- ▶ PEPs, or politically exposed persons and prominent figures, require particular attention from the compliance perspective, since they attract such a high level of public interest. As a result, they are assigned to their own risk class in the MLDS system

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