CEO CFO

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As a specialist provider of Anti-Money Laundering and Compliance Solutions to the Financial Services and Other Industries, Safe Banking Systems, LLC is helping Clients Satisfy Regulatory Requirements for Know Your Customer and Customer Due Diligence identifying Politically Exposed Persons and High-Risk Entities

David Schiffer
President

BIO:
David Schiffer is the founder, CEO and president of Safe Banking Systems (SBS), a provider of anti-money laundering (AML) and compliance solutions with headquarters in Mineola, NY. For over a decade, Mr. Schiffer has directed his company's efforts to combat money laundering, terrorist financing, fraud and other criminal activity by providing banks, non-bank financial institutions and corporations with the latest technology to fight financial crime and find the "bad guys."

David Schiffer believes that the role of SBS is not only to provide innovative solutions to clients but also to share practical knowledge and experience. He has met with the Chief Counsels, and their investigative teams at both the U.S. Senate Commerce Committee, and U.S. House Committee on Homeland Security; and has been interviewed by several radio stations.

Prior to founding SBS, Mr. Schiffer ran other technology companies and also taught in the New York City school system. A native New Yorker, Mr. Schiffer received his M.S. in Computer Science from SUNY Stony Brook, his M.A. in Mathematics from Hunter College, NY and his undergraduate degree, a B.S. in Mathematics, also from SUNY Stony Brook, NY. In August 2010, Mr. Schiffer was honored by the American Kidney Fund for his charitable support of their organization.

About Safe Banking Systems, LLC:
For more than a decade, Safe Banking Systems (SBS) has been thinking ahead of the risks to combat financial crime and find the "bad guys." SBS is a specialist provider of anti-money laundering and compliance solutions to the financial services and other industries. Our mission is to help clients identify and monitor risk across the enterprise to protect their financial assets and reputations while ensuring full compliance with regulatory requirements such as the USA PATRIOT Act, OFAC and the Bank Secrecy Act.

Interview conducted by:
Lynn Fosse, Senior Editor

Business Services
Risk Management

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CEOCFO: Mr. Schiffer, how would you describe Safe Banking Systems?
Mr. Schiffer: SBS is a software solutions company that helps banks, brokerage firms, insurance companies and other non-financial institutions to identify risk. We are in the risk management business specializing in anti-money laundering and fraud. SBS' clients must satisfy regulatory requirements for Know Your Customer (KYC) and Customer Due Diligence (CDD) so our main focus is to identify sanctions, Politically Exposed Persons (PEPs) and other high-risk entities. Drug kingpins and terrorist organizations that pose a national security risk are examples of sanctioned entities while PEPs include senior foreign entities, their close associates and family members. We also help to identify high-risk financial criminals, which are individuals or entities involved in fraud, money laundering and other types of financial crime.

CEOCFO: How are you able to identify the different groups?
Mr. Schiffer: SBS identifies the sanctioned entities by comparing our clients' database of customers against

sanctions lists, which are compiled and issued by government agencies. Most of the governments of the world issue sanctions lists. In the US, the Office of Foreign Asset Control (OFAC), which is part of the US Treasury, provides such a list.

PEPs and high-risk entities pose a very different problem. Government regulations require monitoring for PEPs but no list of names is provided to match against, so organizations must find a way to gather this information. Since 2001, several independent companies have been collecting and aggregating lists from government web sites and other news sites on the Internet, which they provide and license.

Although there is a government agency identifying the terrorists and drug kingpins, it is still difficult to match these individuals with customers in our clients' database, because of limited information about the sanctioned entities and the complexities of name matching.

For example, the OFAC list has approximately 5000 entities. If a bank has ten million customer accounts, they have to compare these ten million names against 5000 entities looking for terrorists, drug kingpins and other criminals. In actuality, there may be more than 5000 names because many of the individuals on the lists have multiple aliases, multiple dates of birth and multiple addresses. In addition, there are cultural naming issues that come into play particularly with Arabic and Spanish names. When we include PEPs and high-risk entities, the numbers get exponentially larger.

SBS works with two independent third-party reference list providers. One of these providers has close to two million names on their list, which is a combination of sanctions, PEPs and high-risk entities. If there are ten million names from a bank's customer database, SBS has to compare those names to two million names from the reference data provider. There may be some very common names and then some unique names. The biggest challenge that institutions face is how to reduce the false positives generated from name matching.

CEOCFO: Is this done on an ongoing basis or does an organization ask SBS to run a check once a week, for example? How is it implemented?
Mr. Schiffer: Last year SBS introduced hosted delivery of our solution, which offers a daily surveillance model. The way it works is that an institution transmits their entire customer database to SBS' secure, hosted environment. The database is then screened against various lists containing government sanctions and PEPs to determine if there are any matches. SBS identifies matches and provides a scoring of the severity of the match and the probability that the match is a true hit --meaning that the bank's customer is in fact the same person that is named on the sanctions or PEPs list. Since all information is dynamic – from customer databases to information on the Internet, to sanctions and PEPs lists – SBS applies its daily surveillance model to capture the changing information.

"Our solution is two to three orders of magnitude better than what other companies offer, because we solve the problems institutions have in a different way."- David Schiffer

Many companies choose to do PEP screening less frequently because it generates so many hits that they do not have the resources to keep up and manually review each of the false positive matches. SBS' hosted solution provides daily surveillance and improves the accuracy of matches, which minimizes false positives.

CEOCFO: Would you tell us more about the false positives?
Mr. Schiffer: False positives mean that although there is a name in a client's database that is similar to or matches a name in the reference list database, further investigation will reveal that they are not the same person. For example, a common name 'John A. Smith' might match a 'John Smith' in the terrorist group list. What really needs to be understood is if that record in the customer database represents the same person who is on a sanctioned or PEPs list. I used the common name John Smith because it illustrates the problem. Imagine how many John Smiths are in the world. What information do you need about John Smith and John A. Smith to determine if these two records represent the same person?

SBS' solutions focus on finding the bad guys. In other words, reliably identifying the matches that pose the greatest risk and have the greatest probability of being true not just reducing false positives.

CEOCFO: How do you find the bad guys?
Mr. Schiffer: SBS' chief scientist, my son Mark Schiffer, designed a model that challenged the more traditional rules-based approach to matching adopted by our competitors. Instead, he used a principles-based approach with two different orthogonal measures, severity and probability. He began to look at these lists of PEPs and other high-risk entities not as discreet records, but as a social graph -- the exposure or the severity of each person was dependent upon how many links there were to them and other factors such as what sources they were linked to. From this, Mark developed SAFE Exposure Index®, which is a risk ranking of large databases. We were very proud to receive a U.S. patent for SAFE Exposure Index® last year.

Individuals and entities on a PEPs list do not pose the identical level of risk and, as a result, are not equally ranked. However, just by definition, everyone on a sanction list is at the highest level. Countries like Mexico and Brazil, which have always identified senior federal PEPs, have started to include lower level PEPs such as state officials and councilmen in an effort to fight local corruption. These entities have different exposure of a different severity. Institutions should understand the severity of the person or company that they are matching against. Severity is one of the two measures of our model.

The other thing to understand is that record matching -- looking only at the similarity of the two strings between John A. Smith and John Smith and their address – is not sufficient. Just matching the text does not provide enough information. As a result, Mark developed SAFE Strength Index, a probabilistic scoring method that looks at various attributes of records such as name frequency, middle initial matching, geographic information, date of birth, etc. We developed a complete methodology based on the log odds of our scoring. When comparing the customer database against a third-party list, these two measures enable us to provide a ranking of alerts by both their severity and their probabilistic score.

CEOCFO: Are most banks and financial institutions using some form of outside service similar to yours or are many doing it in-house?
Mr. Schiffer: Institutions are purchasing list management services and licensing software for customer screening, which they run in house. However, recent trends point to increased interest in outsourced, Software as a Service (SaaS) solutions including those that support AML and compliance functions.

CEOCFO: How do you reach potential customers and how do you encourage them to understand the depth of your offering compared to others?
Mr. Schiffer: SBS' marketing program includes several different initiatives. We attend trade shows organized by the two main industry groups, the Association of Certified Anti-Money Laundering Specialists (ACAMS) and the American Bankers Association (ABA). We also sponsor industry events such as knowledge breakfasts and gain exposure by writing articles, which are published regularly in industry publications like ACAMS Today. Case studies are another effective marketing tool that we use to cultivate client relationships and promote our solutions.

For the last several years, we have been sharing our knowledge by delivering presentations about real-life cases of money laundering and other financial crime. Some of the more notable cases that we have presented include Al-Megrahi, the Lockerbie bomber, Viktor Bout, the notorious arms dealer and "Merchant of Death," and Zevallos, the drug kingpin. These are national security risks that we identified in 2009 by matching against the Federal Aviation Administration list. After exposing these risks SBS went from being the world's best kept secret to being featured in articles in the New York Times, ABC News and other publications.

For ten years, SBS did not employ sales executives and business was gained just by word of mouth. We now have a full sales team engaged in direct sales. With our patent, our proven model and our hosted solution, we have major institutions as clients.

CEOCFO: How do you impress upon people that you are different?
Mr. Schiffer: We offer prospective clients what we call a Proof of Vulnerability (POV), which is sometimes known as a proof of concept. It enables us to demonstrate their vulnerabilities in identifying risk. Nearly every customer we have signed in the last several years has been as a result of the Proof of Vulnerability we conducted for them. We use a subset of actual customer data – maybe ten per cent of their database or a million records -- and put it through our screening process. After seeing the results, customers have said to us, "it is not that we are silent, we are just picking our jaws up off the table."

CEOCFO: Do you anticipate new regulations that will be helpful for you?
Mr. Schiffer: The current regulations are sufficient for our business and I believe our solution helps institutions in this great challenge. In a way, it is a sad state of affairs that we have to do that but obviously we have terrorists, drug kingpins, national security risks, fraudsters, criminals and money launderers in our midst.

CEOCFO: You were recently ranked in the Risk 100 Report. Would you tell us about that recognition?
Mr. Schiffer: I just mentioned that in 2009 we were called the world's best kept secret. Now, three years later, it was absolutely gratifying and a thrill for us to be recognized on an international ranking. Although SBS is in a small niche area of risk management, we are competing with major companies -- IBM, Oracle, SAP and SAS – who were also ranked. We have had some very nice comments from our clients that say this is well deserved, and shows the strength of our offering. We finished our twelfth year in business and that was reaching new heights for us.

CEOCFO: Why should the business and investment community pay attention to Safe Banking Systems?
Mr. Schiffer: Our solution is two to three orders of magnitude better than what other companies offer, because we solve the problems institutions have in a different way. We are not just another me-too company. Our new hosted offering has resulted in multi-year, multi-million dollar contracts from major institutions. We hope to announce an alliance with one of the major four accounting firms soon. I believe we are building a solid, strong company for the next millennium, although I know I am not going to be around to see it. Hopefully, one of my grandchildren will be leading the company at that time.

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