



Survey of Effective AML Risk Strategies

ACAMS – CT Chapter

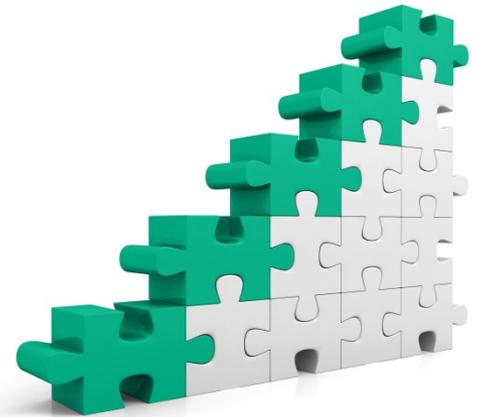
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Agenda

- AML Risk Assessment & Risk Management from the top, down.
 - Incorporating AML risk into your Enterprise Risk Management Program
 - AML Risk Appetite
 - KRIs
 - AML Thematic Risk Assessments.
 - Customer Risk Assessments.
 - New Product/Service Risk Assessments.
- Deep Dive into New Product/Service Risk Assessments
 - Online Peer-to-Peer Lending Relationship
- Assessing Human Trafficking risk



**Incorporating AML
Risk into
Enterprise Risk
Management
(ERM)**



AML Risk into ERM Program – Risk Appetite

AML Risk Appetite Statement:

- **What level of risk is management willing to accept? What is the acceptable variation relative to the achievement of the institution's objectives? For AML, this translates into:**
 - What level of staffing is management willing to have?
 - What tools is management willing to purchase?
 - However, with AML there is some level of risk that the institution might not be willing to take on, regardless of how many staff there are or what tools are used. I hear: “We simply don't want to deal with these.”

Why has this become so important recently?

- **AML rising in level of importance at every institution**
- **De-risking**
- **Systems purchases**
- **Prescribed responses to situations where risk has been exceeded**

AML Risk into ERM Program – Risk Appetite

- **Having a written AML Risk Appetite statement helps with the decisioning and support needed to address de-risking.**
 - Otherwise, decisions could appear to be random....
 - ... or inconsistent with where the institution wishes to go.....
 - ... and the resultant risk could catch everyone by surprise.
- **Example:** Asking yourself *“Is this new customer (or new product/service endeavor) consistent with our institution’s AML risk appetite?”* certainly helps to frame the decision.
- **Having a written AML Risk Appetite statement helps with other strategic decisions as well, such as systems purchases and with prescribed actions when risk is exceeded.**



AML Risk into ERM Program – Risk Appetite

- **Institutions with lower risk appetites might be comfortable working with the most vanilla customers from local low risk geographies and business types, such as domestic corporations with no international offices. Their need for a robust negative news engine will be much lower than the institution that banks multi-location complex business relationships. I hear: “Given our increasing AML risk, and our low tolerance for inadvertently bringing on _____ types of customers, what systems purchases should we be looking at?”**

AML Risk into ERM Program – Risk Appetite

- **Examiners are looking for:**

- Understanding among AML staff regarding the institution's AML Risk Appetite. Even if it's not in an approved written statement, most AML Officers can probably articulate this. Hopefully, when the examiner meets with the Board, they can articulate it, too.
- Consistency between that AML Risk Appetite and how the institution behaves:
 - Staffing
 - Systems
 - Other controls

AML Risk into ERM Program – KRIs

- **Establish KRIs, use them in AML Risk Dashboards.**

- Typical metrics

- Increase in number of High Risk Customers
- Number of accounts closed for AML reasons
- Number of accounts declined

- Operations metrics pertaining to how ‘current’ or ‘backlogged’ the AML department is on key tasks, such as:

- Clearing Alerts
- 3 or 6 month New Account Reviews
- EDDs



Annual AML Risk Assessment



Annual AML Risk Assessment (Thematic)

- Vast improvements in these over the past two years at all institutions.
- I hear: *“The examiner cited this finding ‘The risk assessment hasn’t been updated to address current or emerging issues.’ What do they mean by that, and where do we get the information to keep our risk assessment current? The bank hasn’t changed, and the R/A hasn’t been criticized before.”*
- The bank hasn’t changed but the **world** and the issues around it has. (think cybersecurity)



Annual AML Risk Assessment (Thematic)

- **Stay current! Sources of information can be:**
 - National AML Risk Assessment
 - FinCEN Advisories, such as 2014-A008
 - SAR statistics
 - ACAMS monthly polls
 - ACAMS Conference breakout session topics / Chapter meeting topics
 - Publications such as the *“The Risk of Human Trafficking in the Supply Chain”*
 - A quick visit to the FATF website shows me they’re thinking about:
 - Financial inclusion; Corruption (front page major topics)
 - Virtual Currencies (guidance paper, 6/2015)
 - The Abuse of Non-Profit Organization (best practices paper, 6/2015)

Direction of Risk – “So where Ya Headed?”

- **Using Strategic Business Plans**

- Identify prospective geographies, product lines, services, ways of doing business, and customers.
- *“AML risk is expected to increase over the next 12 months due to the strategic partnership with ABC online peer-to-peer lender and the Know Your Customer challenges that presents. The institution plans to address this increased risk by purchasing the XYZ negative news engine....”*

Respond to Residual Risk Based on Risk Appetite

- Residual Risk is the risk that remains after the mitigating controls are applied to inherent risks of an institution.
- **Institutions must determine if residual risk is acceptable or if *changes* are necessary**
 - Additional controls
 - Upgrade in automation
 - Increased staffing
 - Hiring subject matter expertise
 - Dispensing with certain product types or services
 - Ceasing business activity with certain jurisdictions
 - Ceasing onboarding or servicing of certain customer types
- **What does this remind us of from the beginning part of the presentation?**

Customer Risk Assessment Issues



Customer Risk Assessment



- Observations noted over the past 2 years:
 - Although collecting CIP on new personal/consumer accounts, no other CDD is collected, meaning there's no personal/consumer profile form.
 - Even for new accounts for which CDD is collected, no subsequent risk-rating performed at on-boarding. (“We rely 100% on the system to perform the risk-rating in 3 to 6 months or so.”)
 - Forgetting about CML loan accounts for which there is no accompanying deposit relationship. Meaning, CDD is only done on deposit accounts.
 - Not risk-rating Trust customers.
 - Not performing site reviews on any new customers other than *known* MSBs.

Customer Risk Assessment



- Observations noted over the past 2 years:
 - Not fully understanding the customer's business and inadvertently onboarding a customer-type that is prohibited at your bank, or a customer that is *very* high risk. Since staff didn't realize it, appropriate EDD isn't taking place. Root cause either:
 - Caused by not enough effort in customer screening.
 - Lack of knowledge among BSA staff.
 - Over-reliance on system-generated risk ratings. No periodic process in place to sample a few customers, perform manual risk assessments on them, and compare to system-generated risk. (Recent exam report.)

Customer Risk Assessment

- Observations noted over the past 2 years:
 - CDD Profile Forms and EDD Profile Forms not updated in the past five years for new risks, or for emerging risks.
 - Checkbox style site visit forms that don't support the "IF/Then" approach. OR site visits being performed by staff who don't understand the risks.
 - Failure to understand the customer's customer.

Best On-Boarding Practices



- **Knowledge:**

- Nothing beats having full knowledge in the AML department about business types, geographies in which they operate, and current “issues” in AML.
- Having full knowledge in the LOBs is the icing on the cake.

- **Communication:** Discussions with retail and other LOBs about customer types, geographies, and the current risk appetite. Discussions should include the AML department’s ability to perform initial risk-ratings, and ongoing EDD. Discussions should also include: “If we do onboard this customer, this is how the accounts should be set up.” AML needs a seat at that table, too.

**New
Product/Service
Risk Assessment**



New Product/Service Risk Assessment

- AML Officer has to have a seat at this table, but this is a ‘pick your battles’ topic:
 - For smaller endeavors, AML Officer might simply add comments to a New Product/Service Risk Assessment narrative and sign off. This shouldn’t be done by the compliance officer on behalf of the AML Officer. This should be done by the AML Officer.
 - For larger endeavors, AML Officer should have veto power on endeavors that will cause the institution to exceed the risk appetite.
 - Let’s review a larger endeavor.



New Product/Service Risk Assessment

- Partnering with a Peer-to-Peer Online Lender
 - You, the AML Officer, are informed that the bank is considering signing an agreement with a national online peer-to-peer lender to purchase a large number (high volume) of commercial loans throughout the year. You begin your risk assessment of this new major endeavor. You're unfamiliar with commercial lending and this new online peer-to-peer lending craze, so you engage a consultant to assist collaboratively.
 - You and the consultant first meet with the bank's finance and lending SVPs to gain a complete understanding of how this agreement will work between the bank and the online peer-to-peer lending vendor such that you can identify where risk could reside, or if certain exemptions apply.

New Product/Service Risk Assessment

- You realize that you will need to add some controls in your AML department to manage whatever new risks emerge from this endeavor. There are AML risks that are simply inherent to the peer-to-peer online lending practice as a whole, and then there are AML risks based on this particular lender's AML Program (CIP exclusion withstanding.)
- You formulate your risk assessment strategy:
 - You ask the online peer-to-peer lender for their BSA Policy, their Procedures, and the training materials they use to train their staff.
 - You do internet research and perform a negative news search on the online peer-to-peer lender.

New Product/Service Risk Assessment

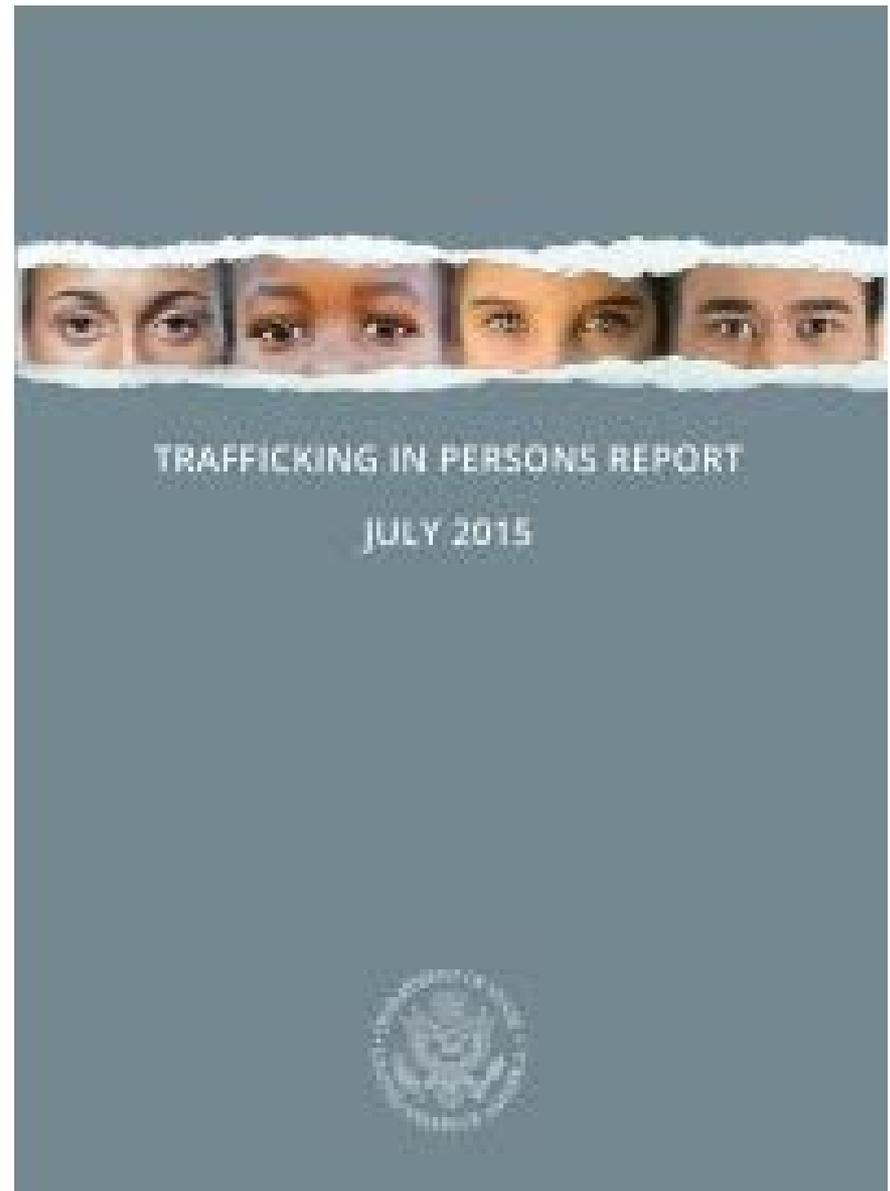
- Your review of the peer-to-peer online lender's materials reveals some disappointing information, so you schedule a conference call with them to discuss.
- You then realize you need to implement the following controls in your AML department, to manage risk based on your risk appetite:
 - Perform negative news on the parties to the loans you purchase.
 - Review their BSA Program and Risk Assessment annually.
 - Review the BSA training they provide to staff annually.
 - Ensure that the institution doesn't inadvertently purchase loans to customers deemed "prohibited" by the institution.

Human Trafficking – How to Assess the Risk?



- <http://www.state.gov/j/tip/rls/tiprpt/2015/index.htm>
- <http://www.state.gov/documents/organization/245365.pdf>

“Although human trafficking is found in many trades, the risk is more pronounced in industries that rely upon low-skilled or unskilled labor. This includes jobs that are dirty, dangerous, and difficult—those that are typically low-paying and undervalued by society and are often filled by socially marginalized groups including migrants, people with disabilities, or minorities.”



Human Trafficking

- **Where are we with assessing the risk of Human Trafficking in our thematic AML risk assessments?**
 - I seldom see it, regardless of asset size of the institution.
 - Suggest two approaches:
 - 1) Add human trafficking into existing elements in the risk assessment grid. Example, add human trafficking to “geographies,” and to “customers.” But I’m not convinced that’ll get us to where we need to be.
 - 2) Add a whole new element for human trafficking into the risk assessment grid.

Low	Moderate	High	Rating	Comment
<p>No major sporting events are planned in the bank's footprint. No major (known) trafficking hot spots in the bank's footprint. Customer base includes very few businesses known to attract human trafficking. Little or no exposure to high-risk geographies.</p>	<p>Some level of one or more of the following exists: Major sporting events are planned in the bank's footprint; (known) trafficking hot spots in the bank's footprint; customer base includes businesses known to attract human trafficking; exposure to high-risk geographies.</p>	<p>Some level of many of the following exists, or a high level of at least one: Major sporting events are planned in the bank's footprint; Major (known) trafficking hot spots in the bank's footprint; Customer base includes businesses known to attract human trafficking; exposure to high-risk geographies.</p>	<p>3</p>	<p>NCAA March Madness tourney is held every year in Hartford, in the bank's footprint. Additionally, we have a branch on the Berlin Turnpike - a known trafficking area. Customer base has xx nail salons, xx janitorial companies, xx Chinese food restaurants.... Large immigrant population from a high-risk geography.</p>

Human Trafficking

- How to populate the criteria?
 - FinCEN Advisory 2014-A008, red flags
- Gain knowledge. Example, one of the red flags is: *Frequent outbound wire transfers, with no business or apparent lawful purpose, directed to **countries at higher risk for human trafficking** or to countries that are inconsistent with the customer's expected activity.*
 - You have to know which **countries** these are.
- Be sure to address the risk of human trafficking being conducted in the institution's customer accounts in the risk assessment **report**. This is your opportunity to showcase your knowledge of human trafficking and what impact it is having on AML risk at your institution. The AML risk assessment grid is only half the story.

Human Trafficking

- Other ideas – monitoring:
 - Understand how your automated monitoring model considers Human Trafficking.
 - Just like we did with Elder Abuse, be sure to add Human Trafficking to the list of what you'll look for when activity simply doesn't make sense, but nothing else explains it. Example, in SAR committee when you ponder “what **could** this be?” be mindful of Human Trafficking.

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Human Trafficking

Modern Day Slavery

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Human Trafficking

- Illegal trade of human beings
- After drug dealing, tied with the illegal sale of arms as the 2nd largest criminal enterprise in the world
- Highly profitable, relatively low risk

“People become completely disposable tools for making money”
Kevin Bales in Disposable People



As Defined by the Federal Law

“Severe forms of trafficking in persons”

- sex trafficking in which a commercial sex act is **induced by force, fraud, or coercion**, or in which the person induced to perform such act has not attained 18 years of age; or
- the recruitment, harboring, transportation, provision, or obtaining of a person for labor or services, **through the use of force, fraud or coercion for the purpose of subjection to involuntary servitude, peonage, debt bondage, or slavery**

Forms of Human Trafficking

Sexual Exploitation

- Brothels
- Massage Parlors
- Pornography
Production
- Pimp controlled
prostitution
- Online/escort services
- **Servile Marriage**

Labor Exploitation

- Agricultural/Farmwork
- Construction
- Cleaning Services
- Domestic Servitude
- Exotic Dancing
- Factory/Manufacturing
- Restaurant work

Smuggling vs. Trafficking

Smuggling is:

- An offense against the integrity of the U.S. borders
- Requires illegal crossing of the U.S. border

Trafficking is:

- An offense **against a person**
 - A border does **NOT** need to be crossed
 - Must involve compelled/forced labor or service
- HOWEVER, UAC and others at the border are vulnerable to being trafficked by smugglers and others, as we will look at later.

Domestic Minor Sex Trafficker: Corey Davis

- 35 years old
- 12 year old and 17 year old- US born girls
- 12 hours of sex acts
- Bridgeport area
- Beatings and rape
- Intimidation and humiliation
- Visibly wealthy



Labor Trafficker: Griffin Land & Nurseries, Imperial Nurseries & Pro Tree Forestry Services



- Granby
- 12 Guatemalan men
- Valid visas
- Passports confiscated
- Threats
- 80 hour work weeks
- Little pay
- No medical care

Services for Survivors (both foreign and domestic) at ICONN

Trauma focused, culturally and linguistically competent, survivor led services.

- Holistic services are tailored to meet of each individual survivor and his or her family
- Services include comprehensive case management and assistance with housing, medical, dental, mental health needs, substance abuse counseling, childcare, legal immigration services, family reunification, repatriation (when appropriate) and job training

DCF's Role

- Children involved with child protective services at higher risk for Commercial Sexual Exploitation and human trafficking. (Roe-Sepowitz et al, 2014)
- DCF responsible for identification of, access to and provision of services for minor children that are victims of trafficking, and any other services the department deems necessary to carry out the provisions of this section and section 17a-106 of the general statutes
- If you **suspect** that a minor is a victim of human trafficking call the **DCF Careline** number at **800.842.2288** and **inform the screener that you suspect a child is a victim of human trafficking.**

Who Can Help Victims?

National Anti-Trafficking
Resource Hotline

1-888-3737-888

CT State Police Organized
Crime Task Force

1-203-238-6550

International Institute of
Connecticut, Project Rescue

1-203-336-0141

projrescue@iiconn.org

DCF Careline 1-800-842-2288

U.S. Department of Justice- The
Trafficking in Persons & Worker
Exploitation Task Force
Complaint Line 1-888-428-
7581

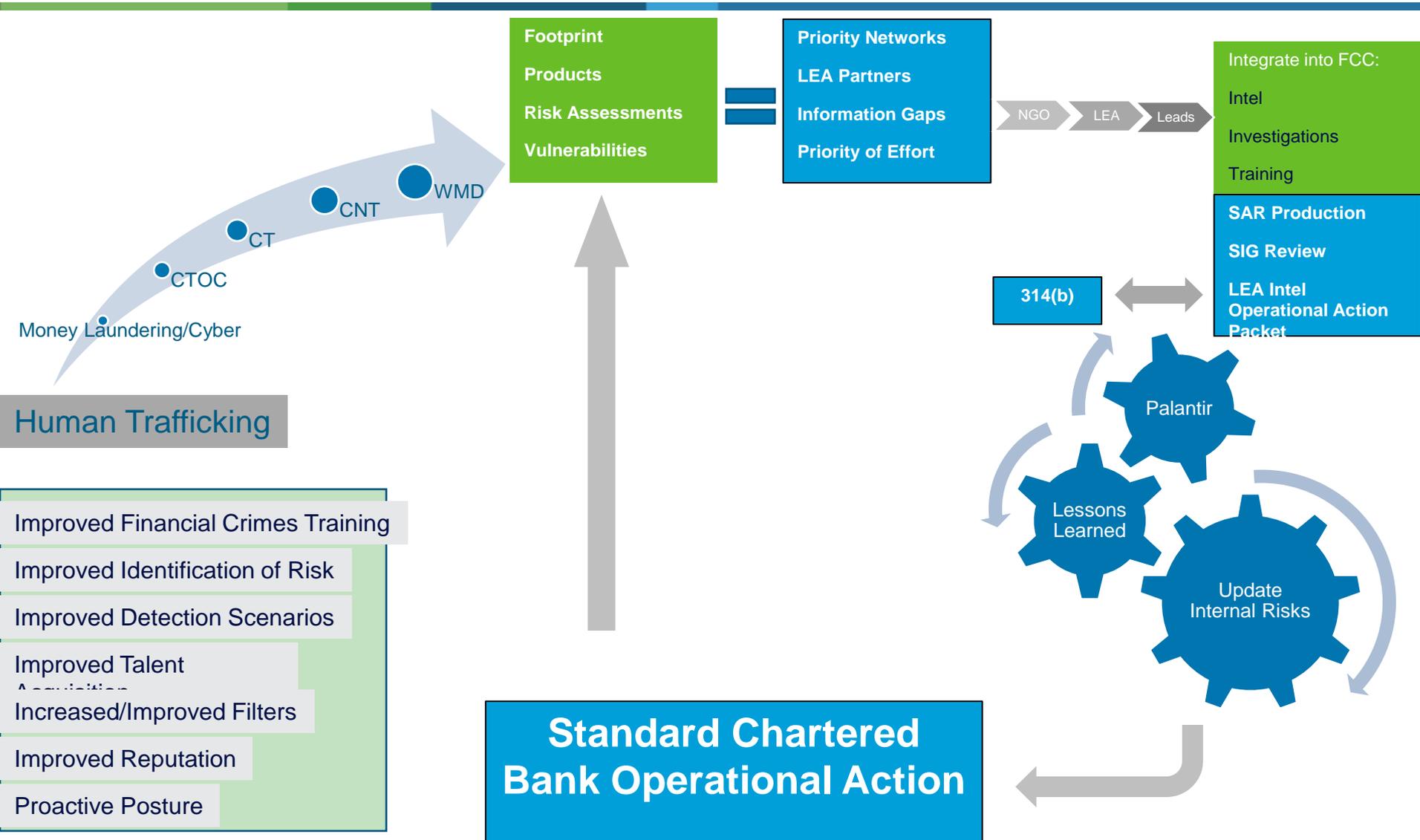
ICE tip line 866-347-2423

Campaign to Rescue & Restore
Free Materials for Distribution
www.acf.hhs.gov/trafficking

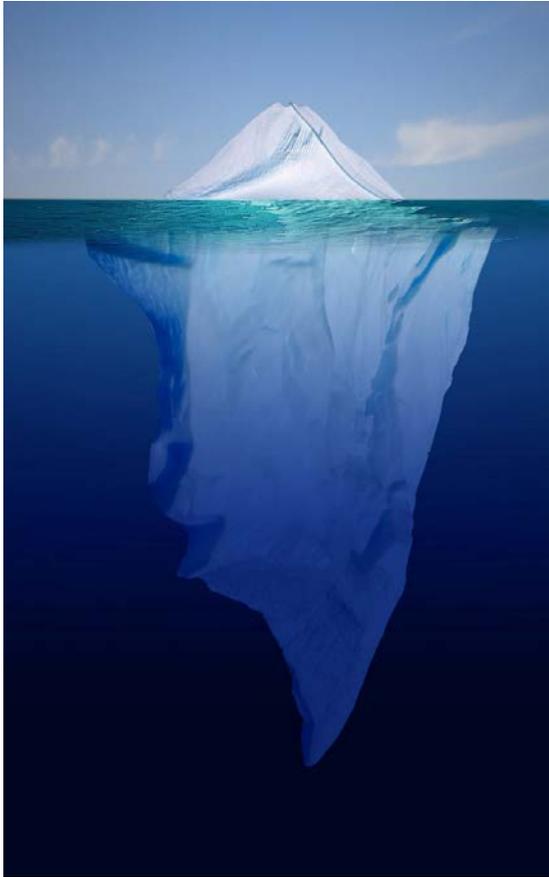


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Low Intensity Sustained Engagement



Broader Programmatic Vision – Beyond AHT



“...Banks are uniquely positioned to play a more meaningful role in combating financial crime...”

-Anonymous

Our Three Operating Principles

1. Tear down investigative silos between financial institutions
2. Leverage technology to create a common platform for information sharing and mass-data aggregation
3. Collaboration with NGO's and law enforcement agencies in their effort to prevent human trafficking
 - Academy of Learning



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