Assessing Controls to Mitigate the Risk of Elder Financial Exploitation as a Vehicle for Money Laundering and Terrorist Financing

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The views expressed in this white paper represent the views of the author, and do not necessarily represent the views of any third party.
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INTRODUCTION

The risk of the potential for elder financial exploitation to become a vehicle for money laundering and terrorist financing has increased as evolving technologies create more opportunity for financial exploitation of the elderly through social engineering and cybersecurity threats. It is therefore necessary for financial institutions to strengthen controls to monitor and mitigate this risk in their BSA/AML compliance programs. In fulfilling the independent testing pillar of these programs, Internal Audit must also enhance testing approaches and procedures to ensure the institution has adequately assessed and responded to this emerging risk. This whitepaper seeks to set the context for these enhancements and to propose practical changes to internal audit work programs and test procedures.

While there are unfortunately multiple forms of physical and mental abuse that may contribute to the vulnerability of elderly adults to financial exploitation, this paper focuses on opportunities for the financial services industry to strengthen controls to mitigate the risk of financial exploitation. Therefore, for the purpose of enhancing readability, this paper may hereafter use the term “elder abuse” to denote financial exploitation of senior citizens.

BACKGROUND

In a March 2016 advisory, the Consumer Financial Protection Bureau noted that elder financial exploitation—the illegal or improper use of an older person’s funds, property or assets—has been called “the crime of the 21st century.”1 Societal and cultural changes have contributed to increasing the vulnerability of elderly citizens to financial abuse by those engaged in activities either directly or indirectly related to money laundering and terrorist financing.

The baby boomer generation has grown up. The US Census Bureau reports that America’s 65-and-over population is projected to nearly double over the next three decades, increasing from 48 million to 88 million by 2050. In 2015, 14.9 percent of the U.S. population was 65 or over. By 2050 the older share of the U.S. population will increase to 22.1 percent. The population age 80 and over has been growing faster than the population of people between ages 65 and 79 because of increasing life expectancy at older ages.2 The CFPB advisory points out that some of the factors that contribute to the vulnerability of older people to financial exploitation include that many have accumulated assets and steady income over a lifetime that has now reached a stage marked by the challenges of isolation, cognitive decline, physical disability, health problems, and/or bereavement from the loss of lifelong partners, family members, and friends.

1 Consumer Financial Protection Bureau. Advisory for financial institutions on preventing and responding to elder financial exploitation. March 2016
Older adults can become victims of financial exploitation by family members, paid caregivers and financial advisors, and scam artists who prey on their physical, mental, and emotional vulnerabilities. As scam artists and money launderers become more sophisticated in using technology for their illicit activities, older adults become a target as they may be less educated on or proficient in the use of technology and social media. Elderly adults may be particularly exposed to phishing, social engineering, and hacking of weak passwords.

Even earnest attempts to care for our elderly adults are not always enough to protect them from financial exploitation. Unpaid caregiving by family members and friends remains the main source of long-term care for older people worldwide. Yet many of these well-meaning caregivers may be limited in the amount of time and attention they can afford to maintaining oversight of an elderly person’s financial affairs. In the Senior Living Blog, Dana Carlson explains the concept of the “sandwich” generation as a generation of people who care for their aging parents while supporting their own children. Merriam-Webster and Oxford English officially added the term to their dictionaries in 2006, since the role has become even more commonplace and recognized across mainstream culture. The capacity of sandwich caretakers may be further complicated by the trend of young adults to “boomerang” back to living at home with their parents.³

LEGISLATIVE ACTIVITY

Per FinCEN Advisory 2011-A003: Abuse and exploitation of the elderly is statutorily defined at the state level. The National Center on Elder Abuse offers the following definition of exploitation as a type of elder abuse: "the illegal taking, misuse, or concealment of funds, property, or assets of a vulnerable elder."

On July 20, 2016, the author interviewed Karen K. Cornell, Vice President of Risk Management for Bank of New Hampshire, who was honored as the 2015 Association of Certified Anti-Money Laundering Specialists (ACAMS) AML Professional of the Year for her dedicated efforts to make elder exploitation a crime in New Hampshire and her ongoing commitment to educating people who can make a difference in preventing this deplorable crime. Ms. Cornell lamented that while the federal government has generally yielded to the states to enact legislation on elder abuse, states have been slow to do so. The limited number of states with recently enacted laws includes those listed below:

- New Hampshire Title LXII Chapter 631 Section 631.8 Effective February 2015

  "....a person knowingly or recklessly, for his or her own profit or advantage:
  (1) Fails to use the real or personal property or other financial resources of the elderly, disabled, or impaired adult when under a duty to do so; or 2) Unless authorized by the instrument establishing fiduciary obligation, deprivates, uses, manages, or takes either temporarily or permanently the real or

personal property or other financial resources of the elderly, disabled, or impaired adult for the benefit of someone other than the elderly, disabled, or impaired adult; or (b) In the absence of legal authority a person knowingly or recklessly through the use of undue influence, harassment, duress, force, compulsion, or coercion; (1) Acquires possession or control of an interest in real or personal property or other financial resources of an elderly, disabled, or impaired adult; (2) Induces an elderly, disabled, or impaired adult against the elderly, disabled, or impaired adult's will to perform services for the profit or advantage of another; or (3) Establishes a relationship with a fiduciary obligation to an elderly, disabled, or impaired adult that gives the person control of an interest in real or personal property or other financial resources of an elderly, disabled, or impaired adult.

(2) "Undue influence" means the intentional use, by a person in a position of trust and confidence with an elderly, disabled, or impaired adult, of that position to obtain an unfair advantage over the elderly, disabled, or impaired adult, through actions or tactics, including, but not limited to, emotional, psychological, and legal manipulation.

- West Virginia House Bill 4309 Effective June 1, 2016
- Alabama State Bill 220 Effective September 1, 2016
- Nebraska Revised Statute 28-386 Effective Date: April 19, 2016
- Indiana Code, Title 12, Article 10, Chapter 3 Adult Protective Services
- Florida Statute 825.103 Effective Date: October 1, 2014
- Missouri Senate Bill 689 Effective 2012 Section 570.145:
  “A person commits the crime of financial exploitation of an elderly or disabled person if such person knowingly by deception, intimidation, undue influence, or force obtains control over the elderly or disabled person's property with the intent to permanently deprive the elderly or disabled person of the use, benefit or possession of his or her property thereby benefitting such person or detrimentally affecting the elderly or disabled person.”
Examples of Elder Financial Exploitation Cases

The National Adult Protective Services Association provides examples of the types of exploitation and use of undue influence as defined in the some of the state laws referenced above:

- A 90-year-old widower who lived alone was approached by a couple in his neighborhood who offered to help with chores and minor repairs. The couple began supervising his health care, controlling his finances, and restricting his access to his out-of-state family when they called to check on him. The couple had written checks to themselves for tens of thousands of dollars from the widower's bank account to pay for “maintenance work” that had never been done.

- A 78-year-old man who lived alone had been repeatedly wiring large sums of money to international offshore accounts supposedly to pay a “legal processing fee” to collect what he had been told were lottery winnings of $8 million. Initially he was told that only $5,000 was needed to release his winnings, but over time he was continually advised of additional complications requiring more fees, resulting in his wiring over $80,000, part of which he obtained by taking out a $25,000 loan.

- A 65-year-old woman was too emotionally overwhelmed from personal misfortunes to manage her financial matters. Her brother offered to help relieve her stress, so she gratefully gave him access to her life savings of over $300,000, all of which he stole. He opened loans and credit cards in her name and failed to pay her bills, leaving her foreclosed on her home.

These examples illustrate how elders can be abused by a stranger, by someone they think is their friend, and sadly, by a member of their own family whom they love and trust. Cases like these provide a heart-wrenching underscore of the importance of enhancing the efforts to protect our elderly citizens from such experiences.

When asked why more states have not enacted elder abuse laws, Ms. Cornell surmised that states may struggle with how to clearly define the various type of abuse, and that communication with state agencies needed to support enforcement of the laws is not always well established. As momentum in state legislation struggles, Ms. Cornell suggests that federal agencies can support state efforts by enhancing awareness and communication of this very important topic, and by encouraging banks to share information.

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4 National Adult Protective Services Association
The author of this paper further suggests that legislative momentum in this area can be accelerated by more financial industry professionals following the example of Ms. Cornell by committing the time and resources needed to collaborate with community organizations, state attorneys general, state corporation commissions, state councils on aging, and peer financial institutions to compel state legislatures to do the right thing.

REGULATORY GUIDANCE

Elder financial exploitation is a worldwide concern, and thus has been a topic of discussion among international associations, as well as federal regulatory agencies. The sections below summarize some recent guidance provided within these forums.

International Standards

FATF Recommendation 8 on Non-Profit Organizations
Recommendation 8 discusses the potential to use funds solicited from elderly citizens by non-profit organization organizations (NPO’s) that are concealed terrorist organizations, or that are legitimate NPO’s exploited for money laundering or terrorist financing.

In Recommendation 8, FATF advises that countries should review the adequacy of laws and regulations that relate to non-profit organization organizations (NPOs) which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organization organizations to protect them from terrorist financing abuse, including:

- a) by terrorist organization organizations posing as legitimate entities;
- b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and
- c) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organization organizations

In the Interpretive Guidance from Recommendation 8, FATF clarifies its definition of an NPO as referring to a legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works.” FATF further clarifies that Recommendation 8 only applies to those NPOs which fall within the FATF definition, and not to the entire universe of NPOs. FATF’s functional definition is based on those features of an NPO which make it vulnerable to terrorist financing abuse, not just the fact that it operates on a non-profit basis.

It is these same characteristics that make NPOs a vehicle for financial abuse of elderly adults. NPOs provide essential services, comfort, and hope to those in need around the
world. Elderly adults include grandparents and great-aunts and -uncles who have compassion for under-privileged children and are generally caring individuals who have an inherent nature to help those less fortunate. Terrorists may create sham charities or engage in fraudulent fundraising for legitimate charities, which target the hard-earned savings of good-hearted people.

The Interpretive Guidance from FATF Recommendation 8 (section C/Measures, Item 6(a)(ii) suggests that “Countries should encourage and undertake outreach and educational programmes to raise and deepen awareness among NPOs as well as the donor community about the potential vulnerabilities of NPOs to terrorist financing abuse and terrorist financing risks…”

In the Interpretive Guidance (section C /Measures, Item 5) from Recommendation 8, FATF further advises that “countries should review the adequacy of measures, including laws and regulations, that relate to the subset of the NPO sector that may be abused for terrorism financing support in order to be able to take proportionate and effective actions to address the risk identified.”

FATF Recommendation 15 on New Technologies
Countries and financial institutions should identify and assess the money laundering or terrorist financing risks that may arise in relation to (a) the development of new products and new business practices, including new delivery mechanisms, and (b) the use of new or developing technologies for both new and pre-existing products. In the case of financial institutions, such a risk assessment should take place prior to the launch of the new products, business practices or the use of new or developing technologies. They should take appropriate measures to manage and mitigate those risks.

Wolfsberg Guidance on Prepaid and Stored Value Cards, October 14, 2011
Building upon its 2006 and 2010 reports on New Payment Methods, in 2011 the Wolfsberg Group issued guidance to create awareness of money laundering risks associated with prepaid and stored value cards, a vehicle that could be used by organizations established or exploited for money laundering or terrorist financing. The Wolfsberg guidance notes the following typologies that should be monitored:

- Unusual level and frequency of ATM usage
- unusual high value/volume card activity
- unusually high velocity card activity
- card usage in unexpected or high risk countries
- identifying patterns related to typologies

The guidance advises that limiting the number of prepaid cards per unique customer identifier (SSN, TIN) may constrain money launderers. The guidance emphasizes that agents are often the only persons having actual face to face contact to the customer, with the opportunity to see suspicious customer behavior, so it is critical that the bank maintains a culture in which customer-facing personnel are obliged to report suspicious activity.
Federal Regulatory Guidance:

While the federal government has deferred to the states to take responsibility for establishing laws to criminalize elder abuse, there are opportunities for federal agencies to promote awareness of this ever increasing risk and to encourage investment in enhanced controls in the financial services industry. Federal agencies have begun to embrace these opportunities through guidance such as those listed below:

- CFPB: March 2016 CFPB "Advisory for financial institutions on preventing and responding to elder financial exploitation" and accompanying "Recommendations and Report to Financial Institutions on Preventing and Responding to Elder Financial Exploitation"
- FinCEN FIN-2011-A003 Advisory on Elder Financial Exploitation
- 2013 FDIC National Survey of Unbanked and Underbanked Households
- OCC Bulletin 2013-21 Interagency Guidance on Privacy Laws and Reporting Financial Abuse of Older Adults discusses relevant exceptions to Gramm-Leach-Bliley. Section 502(e) of the Graham-Leach-Bliley Act allows an exception to the prohibition against disclosing non-public personal information with non-affiliated third parties when it relates to reporting elder financial exploitation.
- Electronic Funds Transfer Act/Regulation E. The CFPB advisory cautions that banks should allow appropriate flexibility in areas such as adherence to claims dispute timeframes when servicing older adults.

As the focus on elder financial exploitation as an emerging risk is supported by both international standards and regulatory guidance, banks are charged with the responsibility of responding to this guidance with deliberate adjustments to their risk management control frameworks. These refinements must be comprehensive, and thus must include the third line of defense. The remainder of this paper will consider enhancements to the AML audit program and supporting test procedures that are needed to appropriately respond to this emerging risk.
PROPOSED ENHANCEMENTS TO THE BSA/AML AUDIT PROGRAM

As the independent testing pillar of the bank’s BSA/AML Program, audit programs and procedures are well positioned to facilitate an assessment of the financial institution’s AML Program in demonstrating awareness of this emerging risk area and in establishing appropriate sustainable controls needed to monitor, mitigate, identify, and report activity indicative of the abuse of elders as a vehicle for enabling money laundering and terrorist financing.

- **Internal Controls**
  - Risk Assessments that consider the appropriate factors in calculating customer risk ratings for elderly adults, and which aggregate those risks across the enterprise
  - Suspicious activity monitoring models to include typologies characteristic of potential elder abuse (e.g., sporadic activity on otherwise dormant accounts, sudden change in transaction types to include merchants not aligned with lifestyle)
  - Customer Risk Rating models which include profiles such as “snowbird” adults who may reside in different geographies on a seasonal basis
  - Appropriate use of the “elder financial exploitation” category on SAR forms
  - Monitoring and reporting analytics on transactions and account profile changes for elderly customers
  - Change Management for modifying processes and control frameworks to comply with new elder abuse laws
  - Assessing the need for elder abuse controls in new products and services

- **Independent Testing**
  - Audit procedures should include assessment of tone-at-the-top focus on this emerging risk
  - Consider targeted audit or initial controls review of this emerging risk area

- **BSA Compliance Officer**
  - Assess BSA Officer’s awareness of elder financial exploitation as an emerging risk and appropriate investment in resources to assess risk within lines of business and promote control development across the enterprise

- **Training**
  - Assess adequacy of training program in educating associates across the enterprise, with specialized training as needed in customer-facing and analytical groups

- **Customer Due Diligence/Beneficial Ownership**
  - CDD models to include geographical factors to identify areas with high population of retirees
  - Attention to CDD and monitoring of legal entity accounts with beneficial owners that are elderly, but for which the account may be controlled by a third party to whom a well-meaning family member may have entrusted their loved one’s business management
Below are some questions to consider when developing test procedures in a targeted audit of AML controls pertaining to elder financial exploitation, followed by additional discussion on elements of the framework.

## CONSIDERATIONS FOR AUDITING AML CONTROL FRAMEWORK ELEMENTS

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<tr>
<td><strong>1. Risk Assessment</strong></td>
<td>Does the risk assessment incorporate both quantitative data elements (age, geography, high risk products/transactions) and qualitative information necessary to adequately assess the risk of financial exploitation of elders?</td>
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<tr>
<td><strong>2. Policies and Procedures</strong></td>
<td>Have policies and procedures been revised appropriately to ensure adherence to recent legislation and regulatory guidance related to elder financial exploitation?</td>
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<td><strong>3. Customer Due Diligence/Enhanced Due Diligence</strong></td>
<td>Does the bank’s KYC data collection include CDD/EDD information needed to assess risk of elder abuse in Customer Risk Rating and SAM models? Is this information refreshed as needed?</td>
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<td><strong>4. Transaction Monitoring</strong></td>
<td>Does transaction monitoring include activity that is unique to behavior that could indicate elder financial exploitation for money laundering or terrorist financing?</td>
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<td><strong>5. Models</strong></td>
<td>Is model rule coverage appropriately assessed and rules tuned to incorporate typologies in areas unique to elderly customers’ profiles and behavior patterns?</td>
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<td><strong>6. Data Analytics</strong></td>
<td>Does the bank effectively use data analytics to assess the quantity of risk of elder abuse by establishing the existing profile across the enterprise to include filtering of such data as customer age and geographies with high concentration of retirees?</td>
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<td><strong>7. Compliance Assurance Testing</strong></td>
<td>Do QA/QC methodologies and sampling strategies include targeted testing of alert investigations for accounts of elderly customers? Is independent transaction testing designed to include high intensity transactions or reactivated dormant accounts of elders?</td>
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<td><strong>8. Training and Communication</strong></td>
<td>Does the bank have targeted modules for customer facing personnel who may recognize the physical signs of elder abuse? Does the bank maintain ongoing interaction and cooperation with local agencies and community organizations such as FAST and CALLA?</td>
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<td><strong>9. Regulatory Change Management</strong></td>
<td>Do the bank’s legal and compliance advisors monitor, interpret, and communicate legislative activity at the local, state, and federal levels as to ensure the bank takes appropriate action for timely adherence to applicable laws and regulations related to elder abuse?</td>
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<td><strong>10. New Product Governance</strong></td>
<td>Are AML compliance advisors actively engaged in NPG risk assessments and are they considering the unique risks associated with elder abuse?</td>
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<td><strong>11. Information Sharing</strong></td>
<td>Does the bank make proactive efforts to cooperate with local agencies, community support groups, and law enforcement in monitoring, identifying, reporting, and investigating suspected elder abuse?</td>
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1. Risk Assessment
Establishing an effective control framework starts with a risk assessment. The bank must take an inventory of the composition of their customer base, and the products, services, channels/technologies, and geographies. Controls should be commensurate to the risks identified through a well-executed risk assessment that includes elder exploitation factors in the design of its methodology. For example, in considering high-risk geographies, the assessment might consider how it scores geographies with high retiree populations in combination with customers who own businesses in high-risk industries.

2. Policies and Procedures
The auditor should be able to establish an evolution of the policy from the consideration of applicable laws and regulations, which in this case should include all applicable state legislation as well as regulatory guidance. In reviewing procedures created to comply with state laws, the auditors should ensure that monitoring is established in the business lines to determine adherence to requirements such as state laws that include mandatory reporting of suspected elder abuse. The procedures should include a process for escalating issues of non-adherence.

3. Customer Due Diligence/Enhanced Due Diligence
In order to establish controls to mitigate the risk of elder abuse, the bank must go beyond gathering demographic information. They must gather information that will provide a baseline of expected behavior that is unique to the elderly population. For example, a customer who asks for an address change every September may maintain a “snowbird”5 residence in a warmer climate during the winter. That information is pertinent to the monitoring of transaction behavior. An elderly customer who establishes an unrelated party as an authorized user of his account may warrant a higher risk rating for enhanced due diligence. While careful attention should be paid to balancing Know Your Customer objectives with adherence to fair lending and privacy laws, customer-facing interactions provide valuable opportunities to identify factors that could make a customer vulnerable to elder abuse.

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5 July 20, 2016 interview with Karen K. Cornell Vice President of Risk Management, Bank of New Hampshire, and 2015 ACAMS AML Professional of the Year
4. Transaction Monitoring: Fraud vs. AML
There may be an assumption that financial institutions already have this risk covered through fraud monitoring. However, banks should consider what gaps exist between current fraud monitoring and that needed to detect potential money laundering and terrorist financing activity related to elder abuse. Consider these examples below:

<table>
<thead>
<tr>
<th>Fraud</th>
<th>AML/TF</th>
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<tr>
<td>Unauthorized credit card purchases</td>
<td>Online transactions to gaming merchants or other merchants that could be involved in virtual currency</td>
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<td>Sudden urgency to requests for credit line increases</td>
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<tr>
<td>Unauthorized debit card/ACH transactions</td>
<td>Increased intensity or velocity of debit card or ACH transactions to charitable or non-governmental organizations</td>
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<tr>
<td></td>
<td>Increased purchases or reloading of prepaid/stored value cards</td>
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<tr>
<td>Identify theft/account takeover</td>
<td>Misuse of deposit accounts by authorized users</td>
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<td>Synthetic identities using elder adult’s info</td>
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<tr>
<td>Excessive returned payments</td>
<td>Uncharacteristic non-payment for account with on-time payment history, which may indicate a loss of funds or access to funds</td>
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<tr>
<td>Overdrawn accounts</td>
<td>Frequent large withdrawals</td>
</tr>
<tr>
<td>Unauthorized ATM transactions</td>
<td>Increased velocity of ATM withdrawals near the daily limit</td>
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5. Models
Model Risk Management OCC Guidance Bulletin 2011-12 advises that the quality of model outputs depends on the quality of input data and assumptions, and errors in inputs or incorrect assumptions will lead to inaccurate outputs. Limitations of a model may be a consequence of assumptions underlying a model that may restrict the scope to a limited set of specific circumstances and situations, and that does not account for changes in such factors as product features and customer behavior.

Coding of model rules should be refined to incorporate typologies associated with the lifestyle of elderly adults, such as customers who maintain seasonal residences in “snowbird” states. For example, if a customer from Minnesota spends every fall and winter at their home in Florida, suspicious activity monitoring should identify a high velocity of transactions originating in Minnesota in January and February.
As models approach renewal cycles in adherence to Model Risk Guidance, the bank should consider adding or tuning rules to be more effective in detecting elder abuse. Audit should include assessment of these model rules in auditing the internal controls pillar in AML Program audits. When conducting rule coverage assessments, banks might look more closely at below-the-line activity that does not hit the model triggers, but when aggregated or when monitored over time show a pattern potentially indicative of ML/TF activity on accounts owned by elder customers.

6. Data Analytics
In the 2014 OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, the OCC established expectations that big banks need to make better use of their big data and reporting software to monitor, report, and escalate changes in the risk landscape and to facilitate continuous improvement in the control framework.

The guidance advised that the bank’s internal controls should include a set of policies, supported by appropriate procedures and processes, designed so that the bank’s risk data aggregation and reporting capabilities are appropriate for its size, complexity, and risk profile and should collectively provide for the design, implementation, and maintenance of data architecture and information technology infrastructure that support the bank’s risk aggregation and reporting needs in time of normalcy and stress.

In order to keep up with the competitive landscape, big banks are investing in enhanced technology such as Application Program Interfaces (APIs) and Cloud technology for data storage. Banks must engage these enhanced capabilities to clean up their CIP and Customer Due Diligence/Enhanced Due Diligence data to ensure they can identify elderly customers in order to accurately assess the bank’s risk profile. Data analytics can include such tools as a periodic report which reflects the population of customers who recently attained retirement age so that data can be consumed by Customer Due Diligence and Suspicious Activity Monitoring models to refine monitoring for behavior that could point to elder abuse. Of course the data is only useful if it is reliable. Banks need to implement strong data quality controls to ensure data is consistently formatted across multiple platforms such that the data is readily accessible for use in AML monitoring processes.

Considering the heightened standards that regulators have set for large banks, we can all agree there is an expectation that internal audit knows where vital data is stored, that we verify that data is reliable, and that we effectively use that data to assess the safety and

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6 Model Risk Management OCC Guidance Bulletin 2011-12

soundness of critical business processes and ongoing compliance with applicable laws and regulations.

As a part of the third line of defense charged with providing independent assurance of the effectiveness of risk management control frameworks, internal audit must keep pace with the first- and second-line entities who are embracing data analytics in their business processes. To do so, auditors should be familiar with tools beyond Excel spreadsheets by utilizing vehicles such as data mining and visual analytics applications in testing methods so that they may intelligently interpret data to assess the quantity of risk of elder financial abuse and the effectiveness of the bank’s controls. These tools should also be used to assess the adequacy of reporting of risks and issues in a format that is easily understood by senior management and the board such that emerging risks such as elder abuse are appropriately escalated. An example might be a report which uses a graphic of a US map reflecting concentrations of elderly customers in high risk zip codes. Presenting the data in this easily digestible format facilitates actionable reporting.

Additionally, the auditor gains resource management efficiencies by using data analytics to inform risk-based testing, allowing the potential for testing lower-risk controls through analytics while focusing manual testing on higher risk areas.

7. Compliance Assurance Testing
The Federal Reserve’s Supervisory Letter SR 08-8/CA 08-11 on Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles states that “Periodic testing of compliance controls by compliance staff is strongly encouraged, as this practice tends to result in an enhanced level of compliance testing.” Compliance assurance testing might take such forms as conducting QA on targeted samples of customer contact calls to assess the agent’s ability to recognize behaviors indicative of potential elder financial exploitation (e.g., the customer appears anxious, confused, and seems to be directed by prompts from a third party). The bank must be attentive to employing effective sampling methodologies that are consistent with FFIEC guidance, and that are appropriate to the characteristics of the underlying population.

8. Training and Communication
The importance of enhancing the AML Program to address this emerging risk should be communicated to the board as a part of their required AML training. Conducting the board training also provides an opportunity to gain its support for the bank’s taking an active role in partnering with community organizations, local support services, and local law enforcement to educate the public on how to recognize and report suspected elder abuse.

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8 Board of Governors of the Federal Reserve System Supervisory Letter SR 08-8/CA 08-11 on Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles
Banks are generally expansive in their support of the communities in which they operate. Significant resources are regularly allocated to community outreach and support of education. The organizations listed below are examples of resources with whom financial institutions might collaborate to educate the communities they serve on the importance of enhancing controls to prevent elder abuse.

**Community Organizations:**

- Local agencies for Adult Protective Services
- National Center on Elder Abuse
- National Adult Protective Services Association
- Coalition against Later Life Abuse (CALLA)
- Finance Abuse Specialty Team (FAST)

9. **Regulatory Change Management**
   As most of the legislation on elder abuse resides at the state level, in determining applicability of state laws, legal and compliance advisors should consider not only where their customers reside, but where the customers transact business. In today’s high technology, mobile environment, banks need to consider all legislative activity, including at the local level. As the age threshold, abuse definitions, and other stipulations such as mandatory reporting may vary by state, the audit department should refer to the bank’s legal experts to provide clarity in interpreting applicability.

10. **New Product Governance**
    As online banking promotes advanced technologies and new payment methods, approvals of new products should be contingent upon controls such as training and monitoring designed to incorporate the risk profile for that product as it pertains to elderly customers. For example, key risk indicators might be established in the first line to trigger escalations for review of unexpected velocity or intensity of use of certain products by elderly customers, such as remote deposit or mobile payment activity to third party accounts or from locations inconsistent with the customer’s demographics. For commercial banking businesses, new product onboarding procedures should include training for Third Party Senders on how to monitor, detect, and report patterns of activity that could indicate elder abuse among their customers.

11. **Information Sharing**
    The amount of data collectively available among financial institutions is perhaps the strongest tool for stemming the tide of elder financial exploitation. Banks have an opportunity to perhaps use anonymized data to work with industry consortiums and local, state, and federal agencies to define and share best practices for identifying elder financial exploitation. Additionally, cooperating with peer institutions in investigations and sharing of hotlists can help prevent traveling offenders.
CONCLUSION

Financial institutions must not stand by and watch our most valued citizens, who built the prosperous nation in which we live, to be robbed of the opportunity to retire in peace, dignity, and comfort, justly enjoying the fruits of a lifetime of hard work. Banks have the means to prevent the fraying of the fabric of our financial system by limiting the potential to enable this shameful crime. As states are slow to pass laws to criminalize elder abuse, financial institutions can fill the gap by enhancing the AML control framework and the audit programs which assure its effectiveness.

AML audit programs need to be enhanced to include an assessment of controls to mitigate the emerging risk of elder financial exploitation as a vehicle for money laundering and terrorist financing. Regulatory agencies can provide support and encouragement through partnering with banks and community organizations on educational efforts, and by holding financial institutions accountable for doing their part through regulatory examinations and by incorporating enhanced guidance pertaining to elder abuse controls in the next revision of the FFIEC BSA/AML Examination Manual.

Alignment of efforts to combat this emerging risk provides a rich opportunity for demonstrating how cooperation among community organizations, local support services, law enforcement, regulatory agencies and financial institutions can help sustain the integrity of the financial system while at the same time making an invaluable contribution to the public good.
Assessing Controls to Mitigate the Risk of Elder Financial Exploitation as a Vehicle for Money Laundering and Terrorist Financing
Karen R. Motley, CRCM, CAMS 10/05/2016

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