Welcome to Banker’s Toolbox
BSA/AML Workshop Series:
Mitigating Customer Risk

Salt Lake City, Utah
Friday, October 26, 2018
Who We Are

125 Employees

25% Percentage of BKTB Dedicated to Customer Support

1000+ “Family” of Customers

Anti-Money Laundering
Fraud Detection
CDD/EDD/BO
OFAC Scanning
Wire Automation
Business Intelligence
Professional Services

“Success, not just Software”
Agenda

9:00 – 9:15 AM: Welcome and Introductions

9:15 – 10:30 AM: Beneficial Ownership Round Tables

10:30 AM – 11:30 PM: Identifying Higher Risk Customers

11:30 – 12:15 PM: Ongoing Monitoring and Due Diligence

12:15- 12:45 PM Lunch

12:45 – 1:45 PM: Law Enforcement

1:45 – 2:00 PM: Wrap Up and Q&A
How excited are you about today's workshop?

I was forced to come

It's better than going to work

I can't wait to learn new things that I can implement at work
How confident did you feel in your program on May 11, 2018?
Have you had an exam since May 11, 2018?

No.

Yes, but we weren't asked about beneficial ownership.

Yes, they touched briefly on beneficial ownership.

Yes, beneficial ownership was all they focused on.
How are you collecting beneficial ownership information?

Due Diligence Manager from Banker's Toolbox

- On a paper form
- Core solution
- Other 3rd party solution
What topics of beneficial ownership are you still struggling with?

- When to collect BO info (percent threshold)
- Triggering events
- How far to drill down (frontline)
- Covered and exempted entities
- Clarifying signers vs. beneficial owners for frontline
Beneficial Ownership Round Table Discussions

Presented By: Terri Luttrell, CAMS-Audit
Triggering Events

• What triggering events have you implemented other than “new account” for obtaining a form from an existing customers?

• Are you taking a risk based approach?

• How are you implementing this?

• What road blocks are you encountering when attempting to gather this information from existing customers?
Risk Based Threshold

- Are you requesting information at a lower threshold for higher risk entities?

- How is that defined in policy or procedures?

- How is this being socialized to the front line?
Incorrect or Incomplete Certification Form

• What follow up procedures are in place to ensure that the customer properly completes the form?

• What training mechanisms or feedback systems are in place for the front line to prevent this from becoming a systemic occurrence?
Exemptions

• Do you have a form for the customer to self certify that they qualify for an exemption or a partial exemption – i.e., non-profit?

• How is this being tracked and documented throughout the organization?
Questions?
Identifying Higher Risk Customers

Presented By: Terri Luttrell, CAMS-Audit
## Agenda

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The overarching goal: understand the nature and purpose of the customer relationship
Who are you doing business with?

Baseline
Customer Risk Profiles

- Scoring Methodology:
  - Risk based
  - No specific requirements for titling or number of risk categories
  - Not driven by any one factor alone

- Consider:
  - Products & Services
  - Customers & Entities
  - Geographic Locations
Information Integrity

Your decisions are only as good as the information that feeds them!
What makes someone higher risk?
Which of the following higher-risk customers do you bank?

- MSBs
- MRBs
- PEPs
- NGOs
- NRAs
- TPPPs
Inherently Higher Risk Customers and Entities

- Foreign Financial Institutions
- Nonbank Financial Institutions
- Politically Exposed Persons
- Nonresident Alien
- Foreign corporations and domestic business entities, particularly offshore corporations located in higher-risk geographic locations
- Deposit brokers, particularly foreign deposit brokers
- Cash-intensive businesses
  - MRBs
- Nongovernmental organizations and charities
- Professional service providers
Marijuana Related Businesses (MRB)

• Direct vs. Indirect
  – Tiered approach
  – Product/Service restrictions

• Due Diligence for Risk Assessment:
  – Verification of license and registration
  – Review of application
  – Request information for state licensing authority
  – Expected activity
  – Negative news
  – Financial transparency
  – Policies around identification and age verification
Nonbank Financial Institutions (NBFI)

- Anticipated account activity
- Purpose of the account
- Types of products and services offered by the NBFI
- Locations and markets served by the NBFI
Politically Exposed Persons (PEP)

- Geographic location
- Industry or sector
- Position
- Level or nature of influence or authority
- Foreign or domestic
- Product/Service mix
- Expected transactions
Nonresident Aliens and Foreign Individuals

- Accountholder’s home country
- Types of products and services used
- Forms of identification
- Source of wealth and funds
- Unusual account activity
Cash Intensive Businesses

- Business operations
- Intended use of account
- Volume, frequency, and nature of currency transactions
- Products and services used
- Primary business activity – products/services offered
- Geographic location(s)
Third Party Payment Processors

• Authenticate business operations
  – Review corporate documentation
  – Review applicable state licenses and/or registrations
  – Background check of the processor via FTC, BBB, NMLS, etc.
  – Review customers
  – Onsite visit

• Average dollar volume and number of transactions
• Geographies of transactions
• Merchant activities
Geographic Risks
Factoring in your Beneficial Ownership Information
Now, you analyze the information you collected and put it all together.
Connecting the Dots

- No black and white, one size fits all answer
- Subjective judgement required
Impact on Overall Risk Assessment
How do we make this all work?
How much support did you have from upper management in implementing these changes?

None...they don't know what BSA is.

Some, but it depended on the day.

A good amount, which was enough to make the changes needed.

Full support, they even helped!
Culture of Compliance

- Top-down approach
- Job specific training
- Ongoing monitoring
- Enterprise wide information sharing
- Adequate resources
- Automation
Examiner Focus
Examiner Focus Points

- CDD policies, procedures and processes:
  - Commensurate with overall risk profile
  - Effectively develop customer risk profiles
  - Include separation of duties, responsibility and clear lines of authority
  - Require risk based formal ongoing documented reviews
- Adequate information to enable educated decisions throughout all processes
- Accurate information to enable educated decisions throughout all processes
- Overall adherence to policies, procedures and processes
Questions?
Ongoing Monitoring and Due Diligence

Presented By: Terri Luttrell, CAMS-Audit
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<td>Risk Score Changes</td>
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<td>Quality Control</td>
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The overarching goal: identify and report suspicious transactions and maintain up-to-date customer information.
<table>
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<th>Where are you storing your EDD reviews?</th>
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<tr>
<td>Shared drive on network</td>
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<tr>
<td>Filing cabinet</td>
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<tr>
<td>Due Diligence Manager from Banker’s Toolbox</td>
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<tr>
<td>Other 3rd party solution</td>
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Information Refresh

On a risk basis, maintain and update information, including beneficial ownership information, to ensure information is up to date and accurate.

- No categorical requirement
- Establish policies, procedures and process for determining “whether and when” an update is appropriate
<table>
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<tr>
<th>Frequency</th>
<th>Description</th>
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<tr>
<td>Monthly</td>
<td></td>
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<tr>
<td>Quarterly</td>
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<tr>
<td>Semi-annually</td>
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<td>What's a high-risk review?</td>
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Ongoing Review Cadence

• Policy prescribed formal periodic review cycle

AND, ALSO:
• Significant and unexplained changes in account activity
• Changes in employment or business operations
• Changes in ownership
• Identified red flags

• Receipt of law enforcement request
• Results of negative media search programs
• Age based (lower risk)
Comprehensive Relationship Review

- Tailored, risk based scope
- Documented
- Independent
Comprehensive Relationship Review

• Analysis Includes:
  – Transactional activity: expected vs. actual
  – Changes in business operations
  – Changes in product/service mix
  – Activity detected by monitoring system
  – CTR and SAR filings
  – Review financials
  – Onsite visit
  – Negative media
  – Scan against keyword lists
Special Considerations for MRBs

• Actual vs. expected
• Ongoing negative news monitoring
• Ongoing suspicious activity reviews for FinCEN red flags
• Ongoing information refresh activities
• Considerations around law violations
• SARs
Final Decision
Risk Score Change Control
Risk Score Changes

- Documented approval process
- Limited authority
- Formal documentation of analysis
- Historical view of risk scores
<table>
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<th>Increasing the Customer’s Risk Score</th>
<th>Downgrading the Customer’s Risk Score</th>
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<tr>
<td>• Expected vs. actual deviation</td>
<td>• Actual activity realignment</td>
</tr>
<tr>
<td>• Valid alerts generated in system</td>
<td>• Historical history of alert or case activity nonexistent</td>
</tr>
<tr>
<td>• Case investigations ongoing</td>
<td>• No filings</td>
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<td>• Filings: SARs or CTRs</td>
<td>• No material business changes</td>
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<tr>
<td>• Ownership structure changes</td>
<td>• Business changes into an environment with less risk</td>
</tr>
<tr>
<td>• Business operations changes</td>
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<tr>
<td>• Customer base changes</td>
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**NOTE**: Changes should only be made after a comprehensive analysis of accurate historical and current data. A solo occurrence of one of the above examples does not alone warrant a risk score adjustment at time of review.
Quality Control
Quality Control

- Template
- Escalation path
- Second review process
- Sampling

[Approved Stamp]
How confident do you feel in your program after today?
THANK YOU

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