

# Using Negative Media & Other Insights to Strengthen CDD/EDD

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# State of Negative Media

What are regulators saying about Negative Media Search Programs?

- In accordance with FinCEN's final rules on the criteria for Customer Due Diligence,

“Covered financial institutions should also develop risk-based procedures to determine whether and/or when additional screening of these names through, for example, negative media search programs, would be appropriate.”

Reference: Customer Due Diligence Requirements for Financial Institutions a Rule by the [Financial Crimes Enforcement Network](#) on [05/11/2016](#)

# The Why and What of Negative Media

## Why consider screening parties for Negative Media?

- Bad guys do not tell the truth
- Enables proactive risk management
- Permits risk-based approach- different levels of screening based on risk level of customer
- Is a component of ongoing due diligence
- Generates cases for investigations
- Creates efficiencies with experience

## What is the scope of Negative Media, considerations include?

- Does the adverse media program include non-financial crime news, and if it does, is it addressed differently?
- Does the adverse media program have connections between AML and Fraud?

# The Who and When of Negative Media

## Considerations of when to screen?

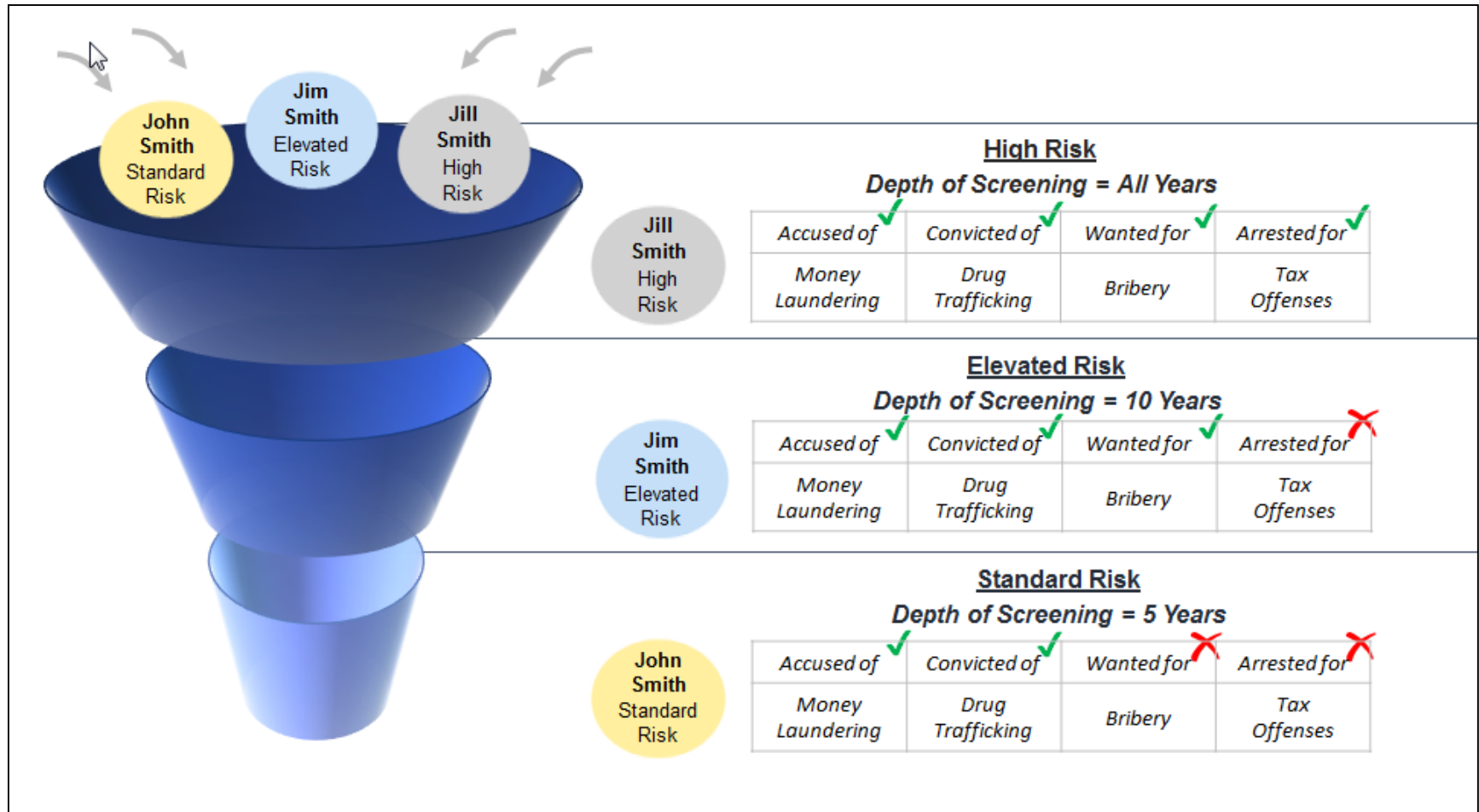
- At onboarding new clients
- KYC refresh
- Enhanced Due Diligence (initial and ongoing for higher risk clients)
- Government request (314(a), grand jury subpoena's, etc.)
- AML Investigations (including 314b request from other FI)

## Considerations of who to screen ?

- Customers
- Co-Signors
- C-Suite/Senior Management of business clients
- Beneficial Owners
- Vendors/3<sup>rd</sup> Party Service Providers
- Counterparties

# An Approach to Negative Media Screening

- The manner (depth & breadth) of negative media screening conducted could be based on the customer's calculated risk rating as shown



# Negative Media program & CDD/EDD

- Negative media screening can expand an institution's CDD/EDD Program ability to identify potential risk related to financial crimes and/or reputational risk at onboarding and ongoing.
- Negative media screening "is not a one size fits all". Consider your institutional risk for who you will apply negative media screening to and frequency.
  - Customer types that may pose a higher risk (i.e., commercial customers)
  - Foreign entities, businesses with foreign ownership, international activity
  - Products and services with higher AML risk exposure
- Determine when you will screen and frequency:
  - All new customers at onboarding or only those considered as a higher risk exposure?  
Ongoing?

## **Take Away:**

Financial institutions are expected to know their customers. Negative media is a "proactive" method to know when customers are subjects of serious financial crime allegations when it occurs, not months later when conducting periodic reviews.

# Negative News & Customer Risk Scoring

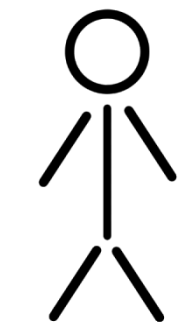
## Some considerations for automating Negative News into a Customer Risk Scoring (CRS) model:

- Determine the types of negative news events to include in your grid for screening
- Evaluate the criticality of the negative news events for weighting purposes—dollar threshold of concern, timeframe of concern, stage in the cycle of the event [arrest, prosecuted, convicted, time served, etc]
- Should you use a take a risk-based approach (higher risk customers against broader coverage)?
- Should you look back or just go forward?
- How will you disposition negative news alerts for positive matches and criticality (code indicators)
- How to operationalize—risk level prompts negative news search, negative news influences risk level, or both?
- Capacity Analysis for Resources when expanding your screening program

# Other Considerations

## Other Sources of Intelligence

- Additional CDD/EDD information such as subpoena's, 314a, 314b plus negative media may provide for better insights.



CDD/EDD  
Information



Negative News



Additional Insights

## What other connections does Negative News have with an AML Program

- How does negative news work with the investigative and SAR filing process
- How does the negative news process work with others outside of Financial Crimes, example reputational risk



# Impacts to the AML Program

## **Additional knowledge of a customer may impact other aspects of the AML Program:**

- An item of negative news on a client or beneficial owner – such as a local media article identifying arrest, prosecutions, convictions of financial crimes can result in:
  - Increasing a client's risk-rating
  - Potential SAR filing (Negative news can make seemingly normal transactions appear unusual or suspicious)
  - Exiting a relationship by exceeding risk tolerance
- Adverse media can drive further actions taken against a client or counterparty, even without suspicious transactions by increasing EDD requirements and more frequent periodic reviews.
- Negative news does not always have to pertain specifically to an accusation or conviction related to financial crime. Reputational risk can be enough.

# Governance Considerations

Create appropriate Governance to ensure firm foundation:

- Risk Appetite
- Consistency of decisions
- Define involvement with business line
- Connectivity with other risk areas (fraud, reputational risk, etc)