

BSA/AML Excellence and the Role of Governance

NEW JERSEY BANKERS ASSOCIATION ANNUAL CONFERENCE

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Your Presenters

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Agenda

- Board Oversight
- Board Reporting
- BSA/AML/OFAC Risk Assessment
- Beneficial Ownership



Board Oversight



Main Responsibilities

- Review and approve the BSA/AML/OFAC Bank-wide Risk Assessment
- Review and approve the Bank's BSA/AML/OFAC Policies, which should be established in line with the Risk Assessment
- Conduct BSA/AML Program Audit to determine if the Bank is operating in accordance with the established program

Risk Assessment & Policy Updates

- Regular updates may be required throughout the year due to:
 - Changes in regulation and/or new guidance (Beneficial Ownership)
 - Implementation of new products and services
 - Branching into new areas designated
 - HIDTA: High Intensity Drug Trafficking Area and/or
 - HIFCA: High Intensity Financial Crime Area

BSA Officer & Training

- Designate a qualified individual to serve as BSA Officer, responsible for coordinating and monitoring day-to-day BSA/AML compliance
- Periodic BSA training to highlight:
 - Importance of BSA/AML regulatory requirements
 - Ramifications of noncompliance
 - Risks posed to the Bank



Board Reporting

CLASSIFIED

TOP SECRET

Board & Senior Management Reporting

- Oversight of the BSA program requires good “information” to be reported up the line to Senior Management and the Board
 - Don’t expect your BSA Officer to know what information you need
 - A lot of metric data that can be given to those with “need-to-know” clearance
 - CTRs
 - SARs
 - High Risk Customers
 - OFAC Hits
 - Wire Volumes
 - Cash Volumes
 - Ask for the information you want
 - Averages
 - Ratios
 - Other Metrics

Board & Senior Management Reporting

- The information that allows us to make informed decisions regarding the resources used by the Bank in the BSA area
 - Risk Assessment
 - Tells us where we should be targeting our resources
 - What products, services, geographies and customers expose us to the most risk?
 - Transaction monitoring metrics: alerts, cases, alerts-to-cases ratio (ATC)
 - Tells us the effectiveness of the monitoring process
 - ATC ratios will vary by institution, but too low may signal inefficiency in the process
 - Overtime hours or hours worked (as available)
 - Tells us the efficiency of the BSA process
 - Abundance of overtime or total hours worked may indicate resource deficiency

Board & Senior Management Reporting

- How often should the information be provided
 - Perfect World – Every meeting should have the BSA data provided with the BSA Officer there to present the data
 - Risk Assessments should be provided as needed (annually at least)
 - Real World – At least quarterly with the BSA Officer there to present the data
- Questions that we should ask the BSA Officer
 - Do you feel that you are being prevented from doing your job by anyone or any department in particular?
 - Do you feel that you are adequately staffed and properly resourced?
 - Not a requirement to provide more resources... but it should be analyzed
 - Have there been any noticeable risk changes for the institution?

Risk Assessment



Risk Assessment Overview

- Understand your **Risk Assessment Methodology**
 - Standardized across all areas of the Bank
 - Specific to BSA/AML/OFAC Risk Assessment
- **Inherent Risk Factor** taking into account controls results in the Residual Risk – High, Moderate, Low
- **Control Ratings** – Strong, Adequate, Weak
- **Overall Bank Scoring** – High, Moderate, Low
- Risk Assessment should include enough statistical data on each factor so the Board can quantify the risk

BSA/AML Risk Factors

- ✓ **Customers** – size, stability and locations of the customer base
- ✓ **Government Inquiries**
- ✓ **Products & Services**
- ✓ **Transactional Activity** – type, number, amount
- ✓ **Geography** – branch locations and transactions
- ✓ **Other** – e.g., personnel turnover, regulatory actions, SAR and CTR reporting, etc.

OFAC Risk Factors

- ✓ **Customers** – size, stability and locations of the customer base
- ✓ **Products & Services**
- ✓ **Transactional Activity** – type, number, amount
- ✓ **Geography** – branch locations and transactions
- ✓ **Other** – e.g., history of OFAC actions

Higher Risk Products & Services

- Correspondent Banking
- International Wire Transfers
- Wire Remittance Program for Non-Accountholders
- ACH Originators of International ACH Transactions
- Prepaid Cards
- Third Party Payment Processors
- Trade Finance
- Private Banking
- Trust and Asset Management Services

Higher Risk Customer Types

- Nonresident Aliens
- Politically Exposed Persons
- Foreign-Based Businesses
- Non-Bank Financial Institutions, including Money Service Businesses
- Non-Government Organizations and Charities
- Cash Intensive Businesses
- Privately-Owned ATM Operators



Beneficial Ownership



Beneficial Ownership

- Welcome to the end of “easy” account opening for business customers
 - Bank is required to identify a natural person that owns (directly or indirectly) 25% or more of the business opening an account and at least 1 person who “controls” the business
 - Includes silent partners and passive investors
 - Bank will be identifying a minimum of 1 person up to a maximum of 5 people
 - Bank is required to obtain basic identification (CIP) information about the natural person owners and/or controlling person
 - Name, address, date of birth, social security number
 - All of this must take place **at** account opening as defined by the Bank
 - Certification Form for obtaining the names of beneficial owners
- Customer due diligence is now a 5th Pillar
 - Weak pillar = exam failure

Beneficial Ownership

- Functional implementation of the rule is straightforward
 - Explain to business customer what a Beneficial Owner is
 - Especially the Directly vs. Indirectly concept
 - Get person in front of you to complete the certification
 - Obtain copies of Beneficial Owner IDs within policy limits regarding timeliness of account opening

Beneficial Ownership

- Practical implementation is going to be a challenge
 - 80% or more of your customers are likely to be easy to open accounts
 - Person opening account is sole owner with simple business structures and no indirect ownership
 - The challenge is the 20% or so of your customers that have
 - Silent partners
 - Private backers
 - Multi-level ownership
 - Indirect ownership
- What happens if a \$1.5 million community development qualifying commercial loan with impeccable financials and strong underwriting is about to close, but the borrower has a silent partner in London who is unable or unwilling to provide copies of their ID to the Bank?
 - Do you not close the loan?
 - Do you make an exception to your BSA policy?
 - Do we feel that the customer risk is different?

Questions?



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