

Higher-Risk Relationships

Operational and Regulatory Expectations



What is a higher-risk relationship?

Each relationship should be assessed using a risk-based approach:

- No specific customer type is automatically considered higher risk
- Banks are neither prohibited nor discouraged from providing service to any specific class or type of customer (no de-risking)



Examiner Expectations

Higher Risk Relationships

- **Risk-based** BSA/AML program **reasonably** designed and customized to Bank (Risk appetite, prod/services, etc...)
- Risk Assessment provides (detailed) analysis of information in identifying each specific risk category's existence & threat to Bank
- Inherent risk and situational risk

What types of higher-risk relationships do you bank?

Potentially Higher-Risk Relationships

- Cash-intensive businesses
- MSBs
- PEPs
- MRBs
- Crypto Exchanges or VASPs
- NGOs
- PSPs
- FinTechs



Examiner Expectations

Higher Risk Relationships

- Bank understands unique characteristics of HR entity and the inherent risks, threats they pose universally and specifically to the Bank based on products, services, geographies in relation to Bank's risk appetite
- Bank has the expertise talent required to evaluate, service and monitor each individual high risk sector

What is included in your onboarding & customer due diligence procedures?

Onboarding & CDD



Collect CIP and beneficial ownership information at onboarding – include in procedures resolution for CIP discrepancies



Ensure potential customer does not appear on any sanctions list



Understand the nature and purpose of the customer relationship and location (proximity to the bank)



Provide initial risk rating of customer relationship to determine next steps for enhanced due diligence



Onboarding Enhanced Due Diligence

- Financial statements for business customers (and/or tax returns)
- Description of the business customer's primary trade area, whether transactions are expected to be domestic or international, and the expected volumes of such transactions
- Description of the business operations, such as total sales, the volume of currency transactions, and information about major customers and suppliers
- Expected activity; source of funds/wealth
- Open-source searches (negative news)




Examiner Expectations


Onboarding and CDD Higher Risk Relationships


- Accurate definitions of “customer”, “account”, “services”
- Customer Risk Profile is holistic understanding of entire relationship across all business lines
- Processes = practices with analysis to support
- Controls customized to customer risks and risk appetite


**How do you perform ongoing
transaction monitoring?**

Transaction Monitoring

 Ongoing monitoring - must have “adequate” transaction monitoring for all relationships. Automated systems should be optimized and tested periodically.

 Does the activity make sense for this customer? Understand the source and use of funds.

 Compare expected activity to actual activity – explain deviations.

 Risk rating should be ongoing along with suspicious activity monitoring.



Examiner Expectations

Transaction Monitoring

- Document, document, document
- Monitoring processes commensurate to risks (stratified)
- Established profiles unique for each customer
- Detailed analysis and explanation of deviations
(do not rely on “general business activity”)

**What about ongoing
enhanced due diligence?**

EDD- Periodic Higher Risk Reviews

- Significant and unexplained changes in account activity
- Changes in employment or business operation
- Changes in ownership of a business entity
- Red flags identified through suspicious activity monitoring
- Receipt of law enforcement inquiries and requests (criminal subpoenas, National Security Letters (NSL), section 314(a) requests)
- Results of negative media search programs



Examiner Expectations

Enhanced Due Diligence

- Establish standards for conducting and documenting analysis associated with the due diligence process
- Verification of customer profile facts
- Comprehensive analysis of all customer information (LOS)
- Evaluate micro, then apply macro (transaction=>business)
- Trend Analysis over different periods

What are your SAR best practices?

SAR Best Practices



Adequate policies and procedures must be in place. Processes should align with these policies and procedures. Internal controls should be in place for quality assurance and quality control.



Determine if you have a single approval method or SAR committee. The BSA Officer should have the final authority. Thoroughly document all decisioning.



Implement appropriate training programs for leadership and investigators, including industry-based knowledge.



Use keywords in the narrative to fulfill FinCEN requests and assist with LE data mining.



Examiner Expectations

Program = 5 Key Suspicious Activity Monitoring Components

SAR Best Practices

- Tell the SAR story (Who, What, Where, When, Why)
- Thorough analysis to determine true scope
- Determine if SAR topic applies to other areas (ie IDRF)
- Evaluate processes & controls post event

Let's discuss your exit strategies

Exit Strategies



Do you use a “three strikes” or similar policy? Be sure to leave “wiggle” room for exceptions if there is a possibility this may occur.



Communicate for cross-functional support and engage those department leaders to facilitate the account closure process.



What is your timeline for the relationship to be closed? Be sure to stick to it.



Engage legal counsel to draft account closing letters and incorporate into procedures.



Examiner Expectations

Exit Strategies

- Are Exit Strategies embodied in Policy or written Procedure?
- Established thresholds for escalation => exit aligned to Bank objectives, risk appetite and customer risk
- Documentation of decision process to support exit (or non-exit)
- Evaluation of impact of exiting customer
 - Impact to customer – transition of relationship
 - Impact to Bank – Liquidity, Credit, Reputation, Strategic
 - Impact to Community – CRA? Law Enforcement

Tabletop Discussion



Questions



Thank you!

