



BSA & THIRD-PARTY RISK

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Presenter



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Session Description

The BSA landscape is a mixture of opportunities and risks.

The stated focus of federal examination expectations appears to be lessening in light of recent repeals of current and proposed rules. However, the governance and oversight demands of Bank third party programs have increased in the same regulatory environment.

This session will discuss the Bank's general BSA responsibilities regarding third party relationships, change management as well as evolving products and services. We will discuss new and emerging risks in these areas, oversight and examination concerns.

Discussion Agenda

- Third Party Risk Management
 - Third Party Relationship Life Cycle
 - Third Party Risk Management
 - Change Management
 - Evolving Risks
- Recent Third Party BSA Enforcement Actions
- Elevating Risk Analysis & Reporting
- Practical Considerations & Best Practices
- Appendix: Resources



Third Party Risk Topics

Third Party Risk Management

Types of Third-Party Relationships

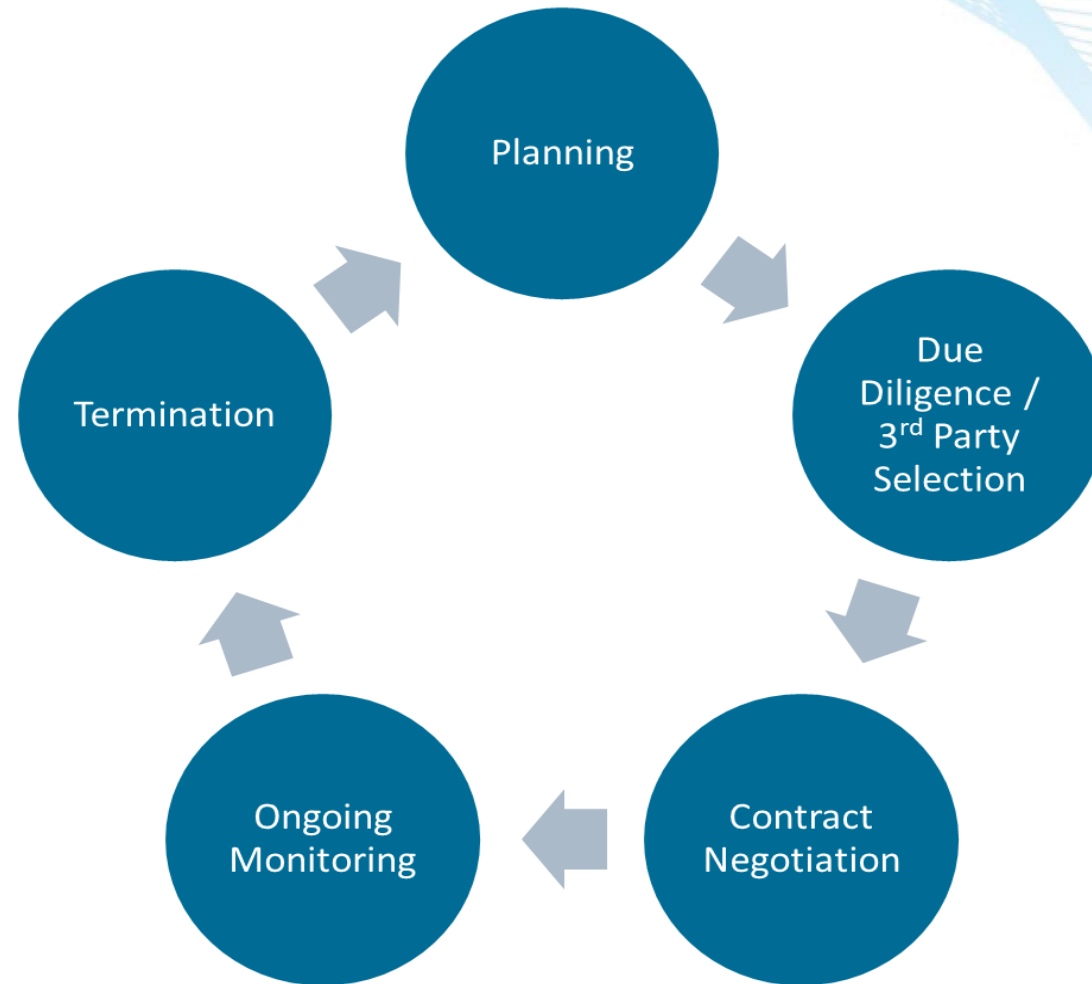
- Outsourced Services
- Fintechs: SaaS vs BaaS vs LaaS
- Brokered Deposits

Quasi Relationships with Heightened Risk

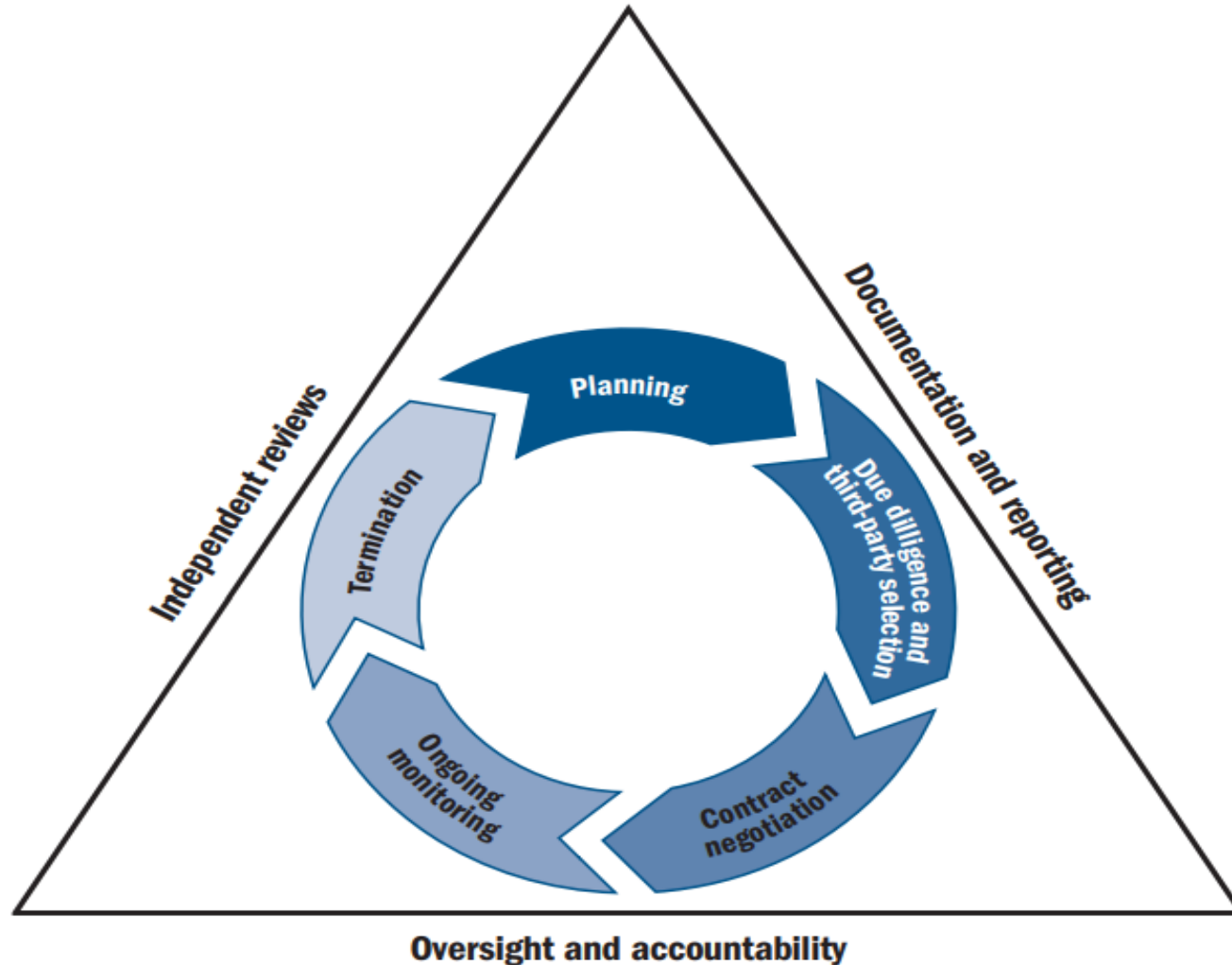
- Merchant Services
- Third Party Payment Processors



Third Party Relationship Life Cycle



Third Party Relationship Life Cycle —



Third Party Risk Management

- Strategic Plan/Objective(s)
- Risk Appetite
- Activities Performed
- Legal/Compliance Requirements
- Risk Assessment (Cost/Risks vs Benefits)
- Bank Expertise
- Assignment of Responsibilities
- Contract Negotiations



Third Party Risk Management

GOVERNANCE FACTORS

- Financial Impact (Originate & Maintain)
- Performance Cost/Risks vs Benefits
- Benchmarks for Measuring Performance
- Integration vs Augmentation (Physical & IT)
- Customer Interaction
- Management & Oversight Resources
- Exit Strategy



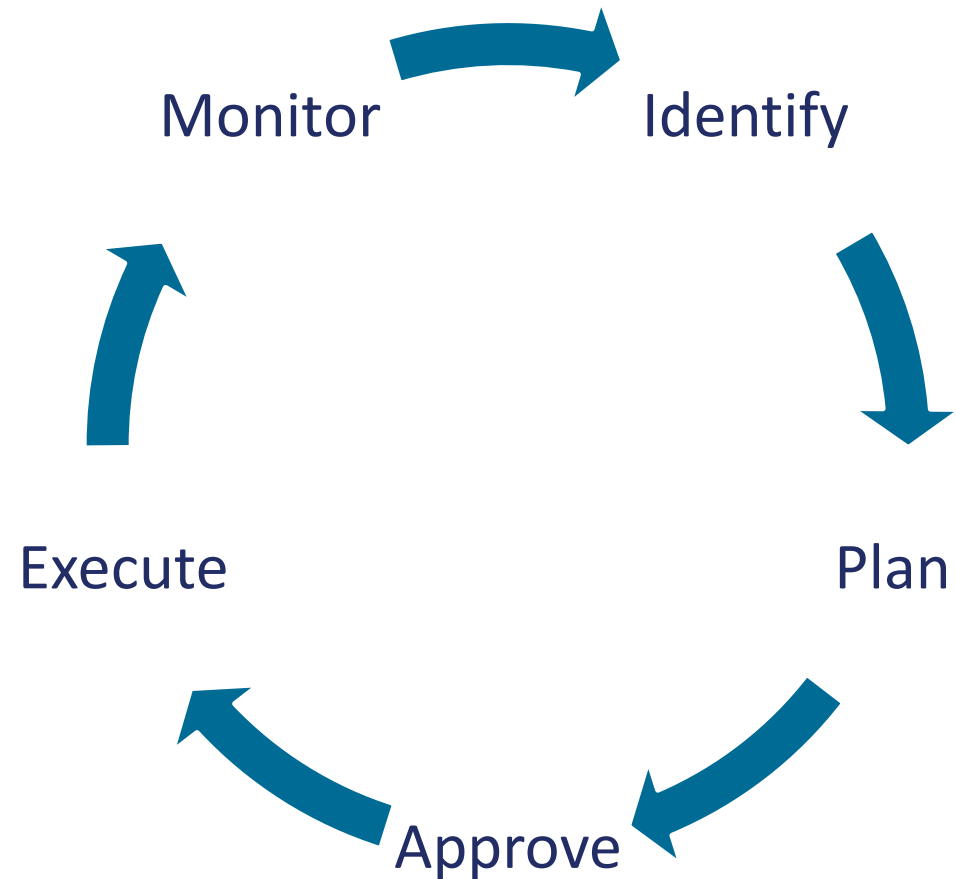
Third Party Risk Management

Ongoing Monitoring

- Confirm Control Quality and Performance
- Review Performance and Testing
- Identify Material Changes
- Reassess Relationship Against Current Environment
- Integration into Bank Processes
- Establish Acceptable Measurements of Success, Risk, Termination



Change Management



Change Management

- Identification of Material Changes
- Assess Impact on Bank
- Coordination of Bank Functions
- Revision of Bank Processes and Controls
- Establishment of Measurements
- Reporting Metrics



Evolving Risks

- Increased Examiner Scrutiny
- Economic Uncertainty
- Cybersecurity Risk
- Compliance Risk / Legal Risk
- Talent Management



Recent Third Party BSA Enforcement Actions



2023 – Cross River Bank (FDIC)

- Create and Maintain full inventory and risk assessment of all third parties, products & services
- Determination and evaluation of all applicable regulatory risks (P&P, processes and controls)
- Analysis of TP role & responsibilities integrated into Bank process (RESOURCES)
- Identification of oversight functions and determination of mitigation /remediation / escalation
- Perform Monitoring activities
 - “appropriate oversight and monitoring of **all** TP decisions to ensure compliance and identify [issues]..”
 - “adequacy of TP compliance program, processes and controls, **remediation**”
- Develop statistical analysis & reporting metrics (Order = Semi-annual)

2024 – Blue Ridge Bank (OCC)

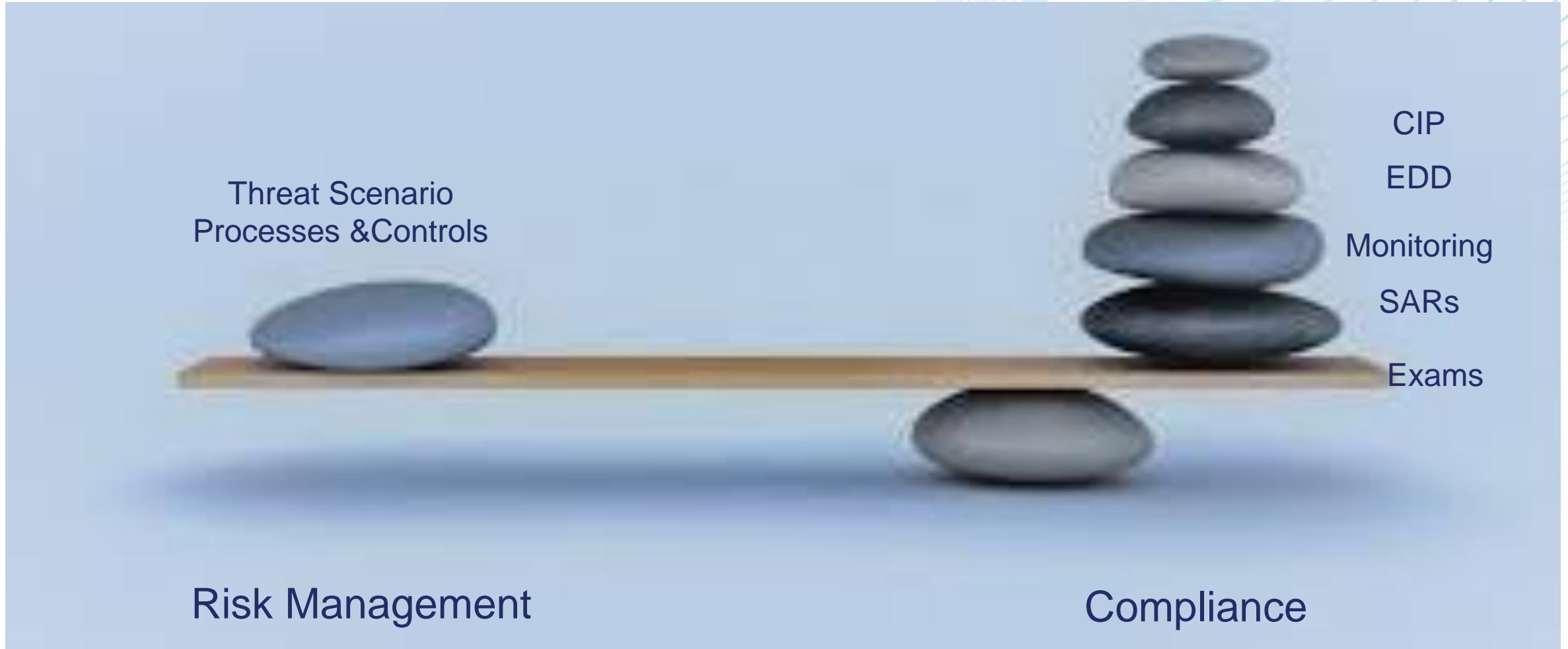
- TP Risk Management Program commensurate with “level of risk and complexity of TP Rel
- Identify and assess inherent risks of products, services, activities, **specifically BSA risk**
- Strategic Plan for providing resources, infrastructure, IT and governance
- Ongoing Compliance and Monitoring of activities, performance, remediation
- Independent Audit of Bank TP Risk Management Program (“**third parties and subpartners**”)
- Evaluation/Implementation of adequate (BSA) staffing to oversee TP activities/relationship
 “assess capabilities and qualifications of BSAO and BSA Dept to perform present and anticipated duties...”

2025 – FFB Bank (FDIC & DFPI)

- Board Oversight over Merchant Services Program and ISOs includes **monthly reports**
- Sufficient resources and training for BSAO and BSA Staff “**with a specific concentration** in Merchant Services Program and ISO”
- **Independent audit of AML/CFT assessment specific to Merchant Services Prgm, ISOs and sub-ISOs**
- Monitor transactions and activities in Merchant Services accounts for suspicious activity/SARs
- Risk-focused customer Assessment to determine:
 - Appropriate documentation to confirm customer identity and business activities
 - Understand normal and expected customer transactions
 - Identity and timely report suspicious activities

Elevating Risk Analysis & Reporting

RISK vs. COMPLIANCE



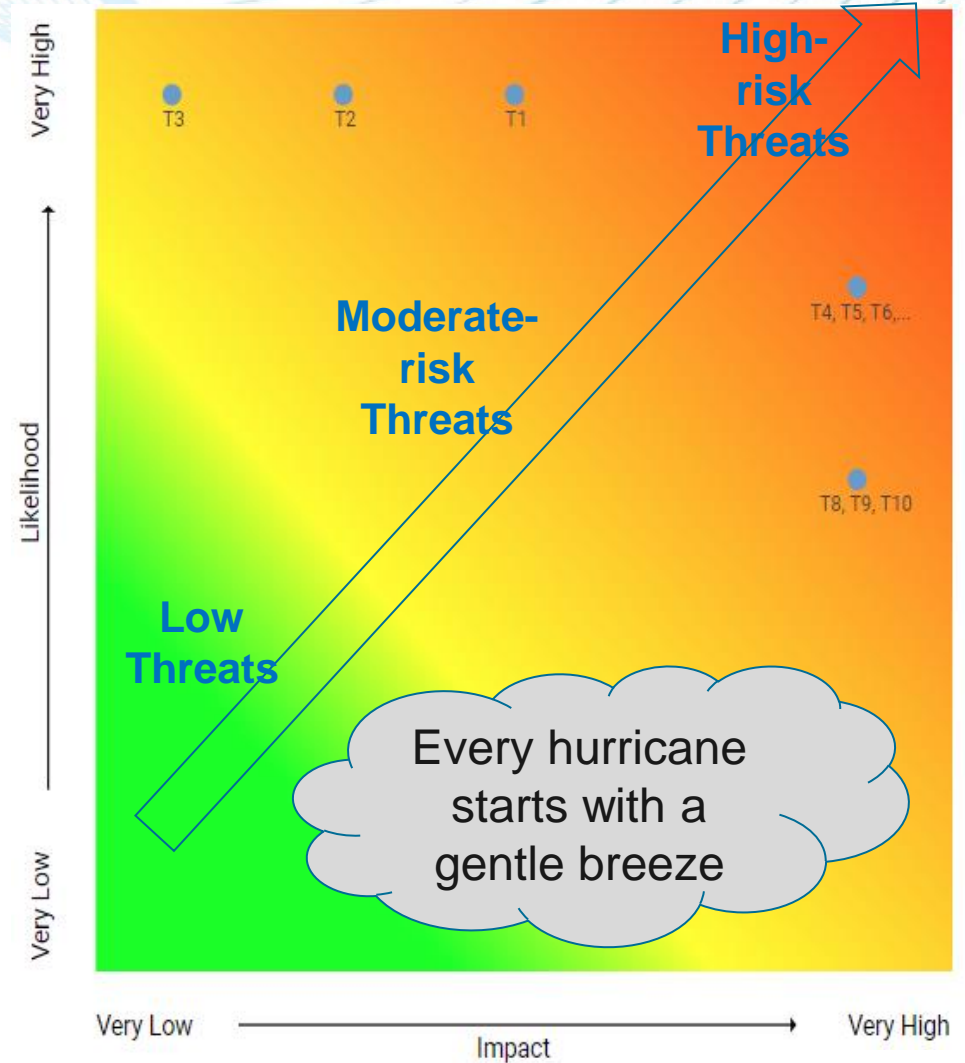
Risk Management – Laying the Foundation

1. Sample Threat Topology for Scenarios



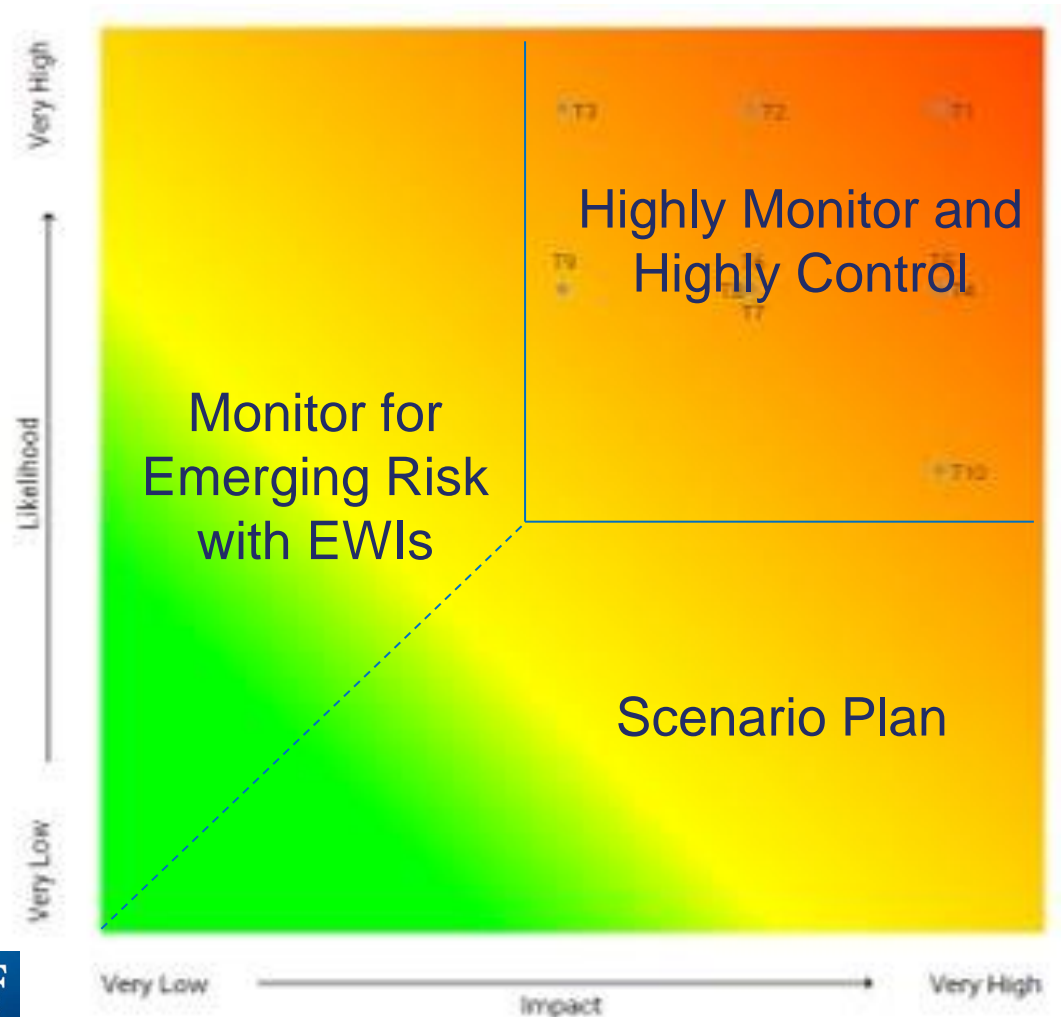
Product/Service: Functional Risk Area:

Threat ID	Threat Name	Product/Service	Risk Area
T1	Reputation / Material changes in customer relations and perceptions	Audit Services	Liquidity
T2	Reputation / Material changes in customer relations and perceptions	IT Assurance (RMS)	Liquidity
T3	Reputation / Material changes in customer relations and perceptions	Internal Audit (RMS), WolfPAC (RMS), Compliance ... Read More >>	Liquidity
T4	Risk to strategic objectives	IT Assurance (RMS), Audit Services, Internal Audit ... Read More >>	Strategic
T5	Economic environment (Strategic)	Audit Services	Strategic



Add Board Risk Scenario Discussions

Results From: a) High Impact Low Likelihood Threats, and
b) Emerging Risks



Scenario Planning Techniques

- Can utilize models and table-top exercises
- Keep it simple (at first)
- Assemble the right people
- Work with the right data
- Develop comprehensive strategies
- Refresh scenarios frequently

Emerging Risk Monitoring Techniques

- Top down, By Line of Service, and By Department (engage other people)
- Report over time, and monitor direction of risk
- Develop indicators to alert for small changes

RISK MANAGEMENT – LAYING THE FOUNDATION

KNOW WHERE YOU ARE, AND WHERE YOU ASPIRE TO BE

☑ Compliance Risk Management (“Check-the-box”)

“I will do what I am required to keep the regulators happy.”

☑ Integrated Risk Management

“I wish to break down silos and see threats across the organization.”

☑ Strategic Risk Management

“SRM is a strategic initiative and should provide us a competitive advantage.”



Practical Considerations and Best Practices

Practical Considerations

- Ensure that BSA concerns are addressed during the Third Party risk assessment and onboarding phases (i.e. right to audit within contract)
- Identify who is directly responsible for TP actions
- Ascertain knowledge/ expertise of TP BSA counterparts
- Maintain inventory of all TPs, respective functions
- Determine level of Bank resources needed to oversee TP program (staff, expertise, training)



Best Practices

- Obtain and Review Third Party's Policies/Procedures, Compliance processes and controls
- Create CDD/EDD standards commensurate to higher risk third parties
- Ensure 2-way communication and verification related to BSA issues, changes, etc...
- Obtain, Review and Validate independent testing of TP functions
- Establish and measure metrics for TP performance and program success





Appendix

RESOURCES

FFIEC BSA/AML Manual

<https://bsaaml.ffiec.gov/manual/RisksAssociatedWithMoneyLaunderingAndTerroristFinancing/16>

Third Party Risk Management: A Guide for Community Banks

<https://www.occ.gov/news-issuances/news-releases/2024/pub-third-party-risk-management-guide-for-community-banks.pdf>

Interagency Guidance on Third-Party Relationships: Risk Management

<https://www.federalregister.gov/documents/2023/06/09/2023-12340/interagency-guidance-on-third-party-relationships-risk-management>

Joint Statement on Banks' Arrangements with Third parties to Deliver Bank Deposit Products and Services

<https://www.occ.treas.gov/news-issuances/news-releases/2024/nr-ia-2024-85a.pdf>

RESOURCES

March 2023 FDIC Enforcement Decisions and Orders (#7 Cross River)

<https://orders.fdic.gov/s/press-release-orders?prYear=2023&prDate=28&prMonth=4>

February 2024 OCC Enforcement Actions

<https://occ.gov/static/enforcement-actions/eaAA-ENF-2023-68.pdf>

January 2025 DFPI Actions and Orders

https://dfpi.ca.gov/enforcement_action/ffb-bank/

Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks

<https://www.fdic.gov/sites/default/files/2024-03/pr21075a.pdf>