



Webinar series – December 15 2015



The Four Pillars of an Effective AML Compliance Program

A Webinar series
Brought to you by BSA News Now

**‘on the road to a successful
compliance program’**



Presenters



Mr. Dominic Suszek
Founder and CEO of Global RADAR



Mr. Gaston Durand
Founder and CIO of Global RADAR



Agenda

Introduction

- *Review of the origins AML requirements*
- *Officer, Program, Training, Testing*

4 Pillars of an effective AML Compliance program

- 1. Client On-boarding & Know your Customer
- 2. Documentation Management
- 3. Watch List Screening
- 4. Transaction Surveillance



Agenda (Part II)

Obtaining a Return on Your Investment and Benefits:

- Streamline Operations
- Reduce Cost
- Enhance Compliance
- Reduce Risks and Fines

Summary review of topics

Questions

or send email to info@globalradar.com for personalized responses



AML requirements

- *The origin of Anti-Money Laundering (AML) Requirements*
 - *Designation of a Compliance Officer*
 - *The Program - Policies, Procedures and Control*
 - *Training*
 - *Testing (Independent Review)*



PILLAR 1 – Client onboarding & Know your Customer



Streamline operations, reduce costs & enhance compliance

- Better data management
- Simplified processes for onboarding new clients
- Managing existing clients
- Remediate existing profiles to new standards



Client onboarding & Know your Customer



CIP: **A+**



Client onboarding
& Know your Customer



KYC: *Need
Improvement*



Client onboarding & Know your Customer



Transaction Activity

Onboarding is the most critical step in AML efforts

Knowing Your Customer –

- Expected activity
- Source of Wealth
- Source of Income
- Geography



Client onboarding & Know your Customer



Understanding the volume of transactions and the types of transactions

1. Is it a jewelry store that only sells wholesale? If so, do they deposit a lot of cash? (if wholesale, they should not)
2. Is it a perfume retailer whose store front is located in the same strip mall as your bank and has evidence of little to no retail traffic?
3. Is it a gas station that only accepts cash? If so, does that make sense for the geographic location of the station?



Client onboarding & Know your Customer



4. Does the gas station have two or ten gas pumps?
5. Is it a restaurant in a business district that does large lunch volume and no evening dinner volume? Does the restaurant have 10 tables or 50 tables?
7. Is it a flower shop with a kiosk in a mall or do they have a large storefront and sell wholesale?
8. Is it a farmers market that sells to local grocery stores?



Client onboarding & Know your Customer



Financial Statements – To ask or not to ask ?

Statement of cash flow		Statement of cash flow	
		For ended December 31	
		2012	2011
Balance sheet			
Cash flows from operating activities			
Net income			
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	\$ 145	\$ 139	\$ 138
Goodwill impairment	\$ -	\$ -	\$ -
Gain on sale of property, plant, and equipment	\$ (15)	\$ 28	\$ 31
Gain on sale of investment	\$ (1)	\$ 30	\$ 30
Gain on sale of land	\$ (1)	\$ (1)	\$ (1)
Change in accounts receivable	\$ (103)	\$ (103)	\$ (103)
Change in accounts payable	\$ 103	\$ 103	\$ 103
Change in other current assets	\$ (1)	\$ (1)	\$ (1)
Change in other current liabilities	\$ (1)	\$ (1)	\$ (1)
Net cash provided by operating activities	\$ 117	\$ 105	\$ 105
Cash and cash equivalents at the beginning of the period	\$ 1,100	\$ 1,000	\$ 1,000
Cash and cash equivalents at the end of the period	\$ 1,217	\$ 1,105	\$ 1,105
Income statement			
For ended December 31			
2012			
2011			
2010			
Statement of income			
2012			
2011			
2010			
Operating revenues	\$ 110,000	\$ 100,000	\$ 100,000
Cost and expenses:			
Cost of sales	\$ 100,000	\$ 100,000	\$ 100,000
Plant operating expenses	\$ 5,000	\$ 5,000	\$ 5,000
Selling expenses	\$ 500	\$ 500	\$ 500
General and administrative expense	\$ 650	\$ 650	\$ 650
Depreciation and amortization	\$ 1,200	\$ 1,200	\$ 1,200
Total costs and expenses	\$ 107,450	\$ 107,450	\$ 107,450
Operating income	\$ 2,550	\$ 2,550	\$ 2,550
Interest and debt expense	\$ 420	\$ 420	\$ 420
Income from operations	\$ 2,130	\$ 2,130	\$ 2,130
Income tax expense	\$ 600	\$ 600	\$ 600
Net income	\$ 1,530	\$ 1,530	\$ 1,530



Client onboarding & Know your Customer



Identification of Beneficial Ownership



Client onboarding & Know your Customer



Domestic Vs Foreign Beneficial Owners -

Tolerance and forgiveness generally go out the window when it comes to foreign individuals and entities as well.

Having documentation on ultimate beneficial owners is one thing, but putting it into a system that can be used to perform list check for PEP or OFAC is a critical component that many institutions fall short of.



Client onboarding & Know your Customer



NOTE:

The identification of ownership goes much deeper than a single level.

This also plays an important role in the documentation requirements.



Client onboarding & Know your Customer



Client Risk Rating – Know Your Customer Know Your Risk

Many institutions are still risk rating using a manual system. Some use an excel spreadsheet to tabulate the risk scores. Many institutions will risk rate on as few as three or five components.

Consider this when risk rating. Does your system (either technical or manual process) use any or all of the components that follow?



Client onboarding & Know your Customer



Risk Rating Component Considerations:

1. Account Type (DDA vs Savings)
2. Associated Products and Services (Lockbox, debit cards)
3. Length of client relationship
4. Business (physical) address vs mailing address
5. Hold Mail Status
6. Cash Activity (tiered by volume)
7. Wire Activity (tiered by volume)
8. Internal Transfer Activity
9. Check Activity
10. Trading Activity



Client onboarding & Know your Customer



11. Number of related accounts
12. Internet Gambling
13. ATM
14. Referred by
15. Publicly traded (on a domestic or foreign exchange)
16. Countries where business is conducted
17. Entity type (LLC vs Partnership)
18. Industry participation (pawnshop vs law firm)
19. Occupational Code (nurse vs teacher)
20. Country of Residence of all principals



Client onboarding & Know your Customer



21. Foreign Political Affiliations (PEPs)
22. Adverse Media (Criminal Background records)
23. Core system status (watch list, dormant)
24. Source of Funds
25. Source of Wealth



Client onboarding & Know your Customer



Risk Rating at the Account Level vs Client Level -



Client onboarding & Know your Customer



Annual High Risk Reviews –

As required under FFIEC guidelines, all clients identified as high risk need to be reviewed on an annual basis. Annual high risk reviews can be cumbersome and very complex, especially if the quality of client information is poor.



Client onboarding & Know your Customer



Understanding who your clients are and who they do business with and how this information is stored.



Client onboarding & Know your Customer



How do regulators select which clients to ask about?

The selection process that goes into why regulators ask for certain clients and not others is a closely guarded secret.



Client onboarding & Know your Customer



How are Savings Realized –

Having an automated system to capture information during the onboarding process and throughout the life of the client relationship is crucial.

Ensure information is properly documented into a system that can be easily accessed and more importantly “Updated” on an ongoing basis.



Client onboarding & Know your Customer



If alerts are generated and information to address the alert is not readily accessible, the costs include time and effort required by the institutions personnel to obtain the information, validate the information, provide the information to the transaction monitoring unit..

Reaching out to clients repetitively for either the same or new information is a recipe for client attrition.



Client onboarding & Know your Customer



Added cost benefits for having effective processes in place include eliminating the need to perform look backs or client reviews.

If regulators have the comfort level that you are properly documenting clients and their transactions, they won't see a need for you to go back and re-profile all your clients, or at least those that are high risk.



Client onboarding & Know your Customer



Added cost benefits include reducing the amount of time and effort that goes into completing annual high risk reviews.

With everything at your fingertips, you should be able to eliminate the amount of time and work that goes into completing high risk reviews.



Client onboarding & Know your Customer



Added cost benefits of having automated systems:

No need to hire contractors to get you through tough times with special projects like lookbacks or re-profiles or added staff to manage your ongoing program.



Client onboarding & Know your Customer



NOTE: There is a proposed regulations that will require all compliance officers to certify their AML program



Client onboarding & Know your Customer



Failure to have an effective process in place can result in:

1. Examinations or audits
2. Impact to front line personnel
3. Impact to Clients
4. Impact to Compliance



Client onboarding & Know your Customer



5. Increased reputation risk
6. The possibility of a consent order
7. Requirements to enhance or deploy systems
8. Staffing
9. Fines and penalties



Documentation Management



Key Issues –

The key issue is making sure you have the ability to identify what documents are required for which account holder whether they are personal or commercial relationships.

The true documentation management process includes the identification of documentation requirements, whether they are related to ID's or corporate documents.



PILLAR 2 – Documentation Management



Know which documents are needed to establish a client relationship, even those with complex structures.

Document management is an important aspect of Know Your Customer.

While most institutions have to deal with document management related to W8's, the process is more complex, especially as it relates to complex client relationships



Documentation Management



SUMMARY:

Having a system that allows you to identify what documentation is required, when documentation expires and what are the available documents to request depending of geographic location can play a large role in ensuring you have properly completed documentation and know your customer requirements.



Documentation Management



Failure to do so may result in the following in the failures:

1. Examinations or audits
2. Front line personnel
3. Impact to Clients
4. Impact to Compliance Department



PILLAR 3 - Watch List Screening



Watch list screening is the 3rd of four pillars. This also plays an important role, not just during the onboarding process but also throughout the life of the client relationship.

The Watch List.



Watch List Screening



OFAC / PEP / 314a and others....



Watch List Screening



It's not just about PEP's

Searching on a name like Sam Smith will result 22,900,000 possible matches on the internet, but only 3 if associated with the word money laundering.



Watch List Screening



What's in a name?

Soundex VS Fuzzy Logic Vs Distance Match

The most important part of the name matching process is ensuring that the tool you are using is properly configured.



Watch List Screening



What's in a name?

1. Cemil Bayik is on the SDN. Multiple variations could be:

- 1.1 Semil Bayik
- 1.2 Zemil Bayik
- 1.3 Cemil Bayic

2. Selahattin Erdem is on the SDN (this is an AKA from Duran Kalkan). Multiple variations could be:

- 2.1 Celahattin Erdem
- 2.2 Celahatin Erdem
- 2.3 Selahattin Urdem
- 2.4 Selahattin Erdum



Watch List Screening



3. Duran Kalkan is on the SDN. Multiple variations could be:

- 3.1 Duran Kalcan
- 3.2 Duran Calkan
- 3.3 Duran Calcan

4. Remzi Kartal is on the SDN. Multiple variations could be:

- 4.1 Remsi Kartal
- 4.2 Remzi Cartal

5. Bank of East Land's aka is Dongbang Bank. Multiple variations could be:

- 5.1 Dungbang Bank.
- 5.2 Dongbeng Bank.
- 5.3 Bank of Dungbang.
- 5.4 Bank of Dongbeng.



Watch List Screening



SUMMARY:

Having a system that effectively identifies individuals or companies that are on government watch lists is one step in the success of your list check program.



Watch List Screening



Failures may result in:

1. Examinations or audits
2. Front line personnel issues
3. Consent Order (look-backs)



Watch List Screening



4. Reputation risk
5. System Enhancement Requirements
6. Staffing Changes
7. Fines in the Millions



PILLAR 4 - Transaction Surveillance



Identify Unusual or Suspicious Activity -

AML requirements in the most basic term can be summed up in five word “Identify unusual or suspicious activity”. This can be accomplished in part by a transaction monitoring / surveillance system.



Transaction Surveillance



Case Management -

The identification of unusual and suspicious activity begins with an alert or a referral. The process of clearing the alert, addressing the concern that has been identified all rely on a case management system to ensure what has been identified is worked and not forgotten.



Transaction Surveillance



NOTE:

Proposed regulations require Compliance Officers to certify their AML program.

The concern that has existed for some time has been that some Compliance Officers have established system specifications to generate the volume of alerts based on their staffing levels rather than having staffing levels equal to the volume of alerts generated.



Transaction Surveillance



SUMMARY:

“An effective onboarding and KYC system can make your monitoring system a success. A monitoring system will not make your KYC process a success.”



Watch List Screening



Failures may result in:

1. Examinations or audits
2. Front line personnel issues
3. Consent Order (look-backs)



Watch List Screening



4. Reputation risk
5. System Enhancement Requirements
6. Staffing Changes
7. Fines in the Millions



Summary

The Four Pillars of an Effective AML Compliance Program

Client Onboarding and Know Your customer



Document Management



List Check



Transaction Monitoring / Surveillance



Obtaining a ROI and Benefits:

- Efficiency and integration based on API (connectivity to existing all Systems Data)
- Streamline Operations
- Reduce Cost
- Enhance Compliance, Reduce Risks and Fines



Review of Topics Covered

- **The Four Pillars of an Effective AML Compliance Program**

‘on the road to a successful compliance program’



Questions

Webinar Questions from our moderator Loren Blando.

Survey will be sent separately.

Additional questions – For personalized responses to any questions, send requests to:

info@globalradar.com



Questions

For more information, you may visit www.GlobalRADAR.com



G L O B A L

RADAR®

A S S U R I N G I N T E G R I T Y



Thank you.

*BSA News Now and Global RADAR wish to thank you
for your participation in today's webinar.*



Upcoming Webinars

*Proposed AML Requirement –
Chief Compliance Officer Certification*

January 12th 2016 11:00 AM (EST)



Proposed AML Requirement Chief Compliance Officer certification

Register now for our next webinar scheduled for

January 12th 2016



Join Global RADAR and Baker Tilly for a discussion on the proposed regulation 504 – requiring Chief Compliance Officer certification. Baker Tilly is the 12 largest accounting and advisory firm in the US, Baker Tilly's team will include Ann Petterson, Senior Manager.



Thank you

