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New York – New Jersey Chapter of FMS

The Modern World of BSA

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Reliability - Service - Knowledge



Modern BSA

- Data, Data, Data, Data, Data, Data, Data, Data, Data, Data, and more Data
- It's the customer, stupid
- The unknowable and how to solve for X

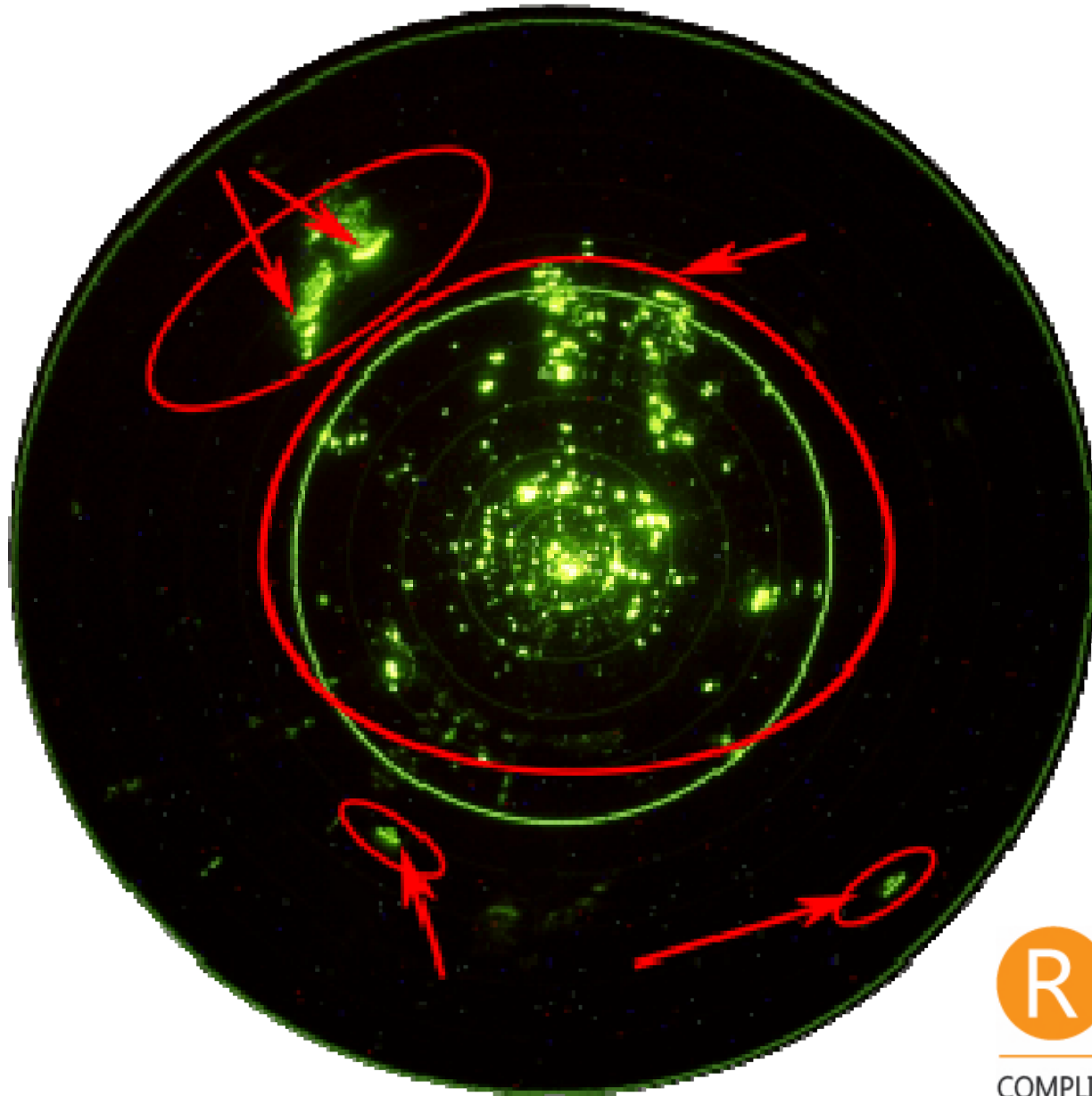


Welcome to Automation

- Most institutions (nearly all that we work with) have deployed an automated monitoring system
 - Sophisticated system that act as 24/7/365 watchdogs for financial crimes
 - Your old “manual” BSA process was also 24/7/365
 - See a lot more data and able to detect issues faster
 - Most of those issues are not really issues

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Automated Monitoring Solutions



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Assuring a Proportional Response

- Ensure a proper system set up
 - Data Validation
 - Is it getting clean data?
 - Model Validation
 - Is it working as it should?
 - System Calibration
 - Is it working the way I need (want) it to?
- Ensure proper controls are in place for handling automated results



Monitoring Data

- Alert activity varies by institution
 - As does alert handling (response)
- Alert activity and handling varies by detection scenario
 - Was it the \$500 credit card payment? Or the \$9,999 cash deposit?
- Alert clearing can take a whole army
 - Or just a few really dedicated and efficient people
- Don't forget the Bank must be monitoring data outside the system as well



Get to Know Your Customer



- Provided you agree that customers are the source of all BSA risk
 - You can mitigate a lot of your bank's risk by knowing exactly who your customers are





Get to Know Your Customer

- You already have to know your customer
 - Customer Identification Program (CIP)
 - Required by the USA Patriot Act
 - Customer Due Diligence (CDD)
 - Industry best practice
 - Enhanced Due Diligence (EDD)
 - Examiner best practice
- Your Bank however likely only knows the minimum amount that it can know about its customers to pass an audit or exam
 - Nothing more
 - Nothing less



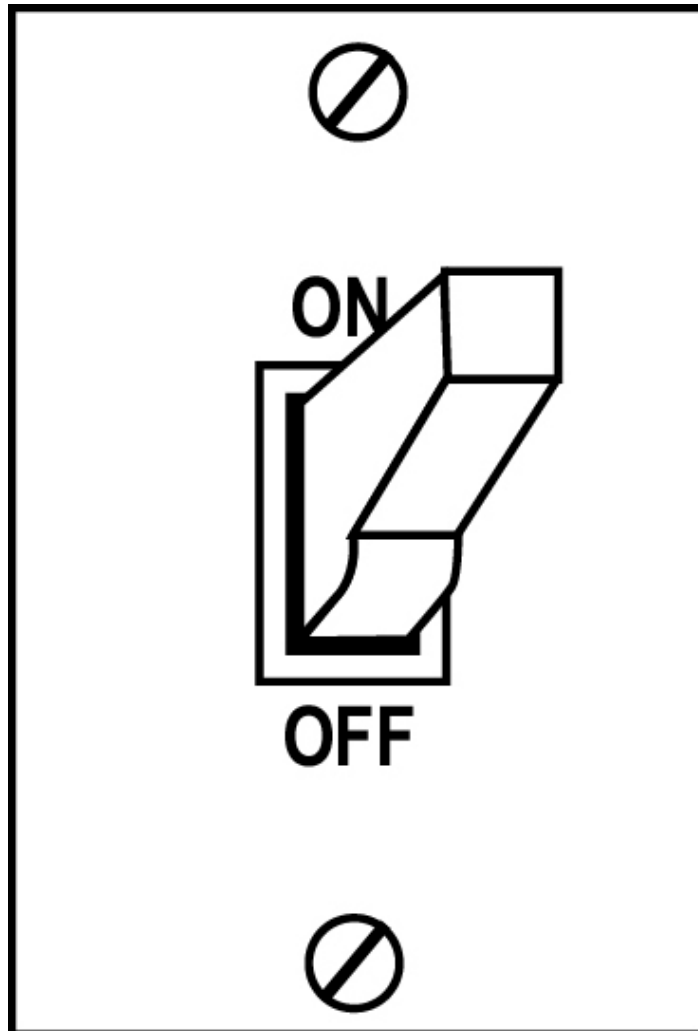
Get to Know Your Customer



- Why do we know so little about our customers?
 - Misunderstanding what CIP actually tells us about a customer
 - Customer due diligence/Enhanced due diligence procedures developed exclusively by BSA compliance officer
 - Bank staff afraid to invade “privacy” of customers, even though we aren’t invading their privacy at all
 - Just don’t want to know that much about our customers because it may impact our profitability



Normal Customer Risk Profile



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Preferred Customer Risk Profile



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The Totality of Customer Risk



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The known unknown





Program Problems

- The message is that **there are no "knowns."** **There are things we know that we know. There are known unknowns. That is to say there are things that we now know we don't know. But there are also unknown unknowns. There are things we do not know we don't know.** So when we do the best we can and we pull all this information together, and we then say well that's basically what we see as the situation, that is really only the known knowns and the known unknowns. And each year, we discover a few more of those unknown unknowns.





Program Problems

- No BSA/AML system is perfect
- Gaps, holes, tunnels, ladders, blind spots and other such weaknesses are the bane of a BSA/AML Programs
 - No such thing as turning a blind eye
 - In fact this gets you into more trouble than simply acknowledging the program weakness
 - We don't know what we don't know...
 - Until we know that we don't know



End-to-End Solutions

- What is the gap that has been identified?
 - A customer withdrew \$25,000 in cash in a week “undetected”
- Why is this a problem?
 - \$25,000 in cash in 5 days is probably SAR worthy as a deliberate attempt to circumvent a CTR or other BSA reporting requirement





End-to-End Solutions

- How will we solve this problem?
 - Have all cash transactions of \$X logged by the teller
 - Train the tellers on why this is an issue and the solution
 - Create a report (or other method) to verify that tellers are logging the transactions
 - Create a discipline process for tellers that aren't complying with the logging
 - Design a process to incorporate this “new” data into the larger BSA program
 - How will you use this information?
- Completely close **THAT** particular gap



End-to-End Solutions

- The automation complication
 - Why didn't the automated system cover this weakness?
 - Why didn't you know the automated system had this weakness?
 - How did you document your solution to improve this weakness?
 - How are you going to ensure that your solution didn't create another weakness?
- Short term fix vs. long term solution



Conclusion

- If you aren't already into data, you need to get into data already
- The customer is the root of all risk
- Get to know your customer, no more excuses
- Embrace the known knowns and the known unknowns
- When an unknown becomes known, ensure the solution is TRULY comprehensive



Questions?

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