

Financial Services Regulatory Update



March 2019

This communication is designed to provide you with quick snapshots and timely perspectives on recent regulatory developments.

Regulatory Hot Topics - Anti-Money Laundering/Bank Secrecy Act (AML/BSA)

Background

Regulators are indicating a move to a more risk-focused exam of financial institutions with transactional testing based on risk. At recent regulatory workshops representatives from the prudential regulatory agencies discussed detailed document requests, which they plan to provide in an effort to perform more off-site work prior to on-site exams. Compliance areas with lower risk might not be tested as often, and possibly only once in three exam cycles, whereas higher risk areas will most likely continue to be tested during each exam. With this change it is anticipated other regulations will be included during exams that may not have been looked at in a while. So what are the hot topics and findings noted in the past year by the federal regulators?

Examination Hot Topics

Hot topics and areas of exam findings by regulator:

- Office of the Comptroller of Currency (OCC)
 - The OCC is focusing on cybersecurity and operational resiliency, emphasizing information technology system maintenance and effectively remediating concerns identified in exams and audits. For BSA/AML functions, this means ensuring transaction monitoring systems are functioning reliably, system settings are appropriate for the organization and its customer base, products, services, and customer information is retained securely.
 - Model validations of transaction monitoring systems continue to be a focus. The OCC has noted institutions have failed to fully implement these systems and the systems have not grown with the institution as new products and markets are added or mergers/acquisitions have occurred. BSA/AML systems and processes must keep pace with changing risk environments and regulatory developments.
 - The final rule related to Customer Due Diligence (CDD) and Beneficial Ownership (BO) will be a focus of exams and will be included in the evaluation of compliance risk management effectiveness for all program pillar areas.
 - Recent exam findings have noted weak internal controls, inadequate customer risk rating methodologies, inadequate information and monitoring on customers with privately owned ATMs, and model validation documentation including documentation to support model changes.

- Federal Deposit Insurance Corporation (FDIC)
 - In monitoring and tracking exam and audit findings, most financial institutions generally address findings on a go-forward basis, which might indicate institutions are missing important back-testing to verify issue remediation efforts have been effective. The agency expects to see retroactive analysis or an explanation as to why a look-back is not necessary for some issues.

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- Exam findings have noted a failure to monitor system changes and the impact of the changes to ensure systems are operating correctly.
 - When using e-sign for new accounts, institutions sometimes fail to provide all the proper disclosures. This is especially true for deposit accounts, where standard document packages might not include forms or disclosures that require customer signatures.
 - Federal Reserve Bank (FRB)
 - The FRB noted fewer technical violations with regulations in examinations as a result of banks getting better with BSA/AML compliance and a change in exam focus. However, more exams have noted problems with program oversight. Just as with the OCC, the FRB expects programs to keep pace with business and regulatory changes.
 - Policies and procedures need to align with bank practices even as the institution continues to grow. Compliance (and all operational programs) should be scalable with the growth of the institution due to mergers and acquisitions.

Compliance and Risk Management Strategies

Some questions and strategies to consider for enhancing your compliance program to ensure examination success include:

- Periodic compliance monitoring program - Have you established a documented second line of defense to verify compliance throughout the year? Be sure to track and document findings from compliance monitoring as well as audits and exams to resolution. This aids in identifying errors, omissions and potential training needs faster.
- Policy and procedures refresh – Have your written policies and procedures been updated to reflect your practices, new products and markets? Have you surveyed other departments to ensure what they are doing agrees with written policies and procedures? Are policies and procedures easy to understand, and do they provide guidance for job performance? Board approved policies generally do not include procedures because procedures need to change with practices more often.
- Customer risk profile – Does your customer risk rating methodology truly identify customers posing a higher risk to the institution? Has the methodology been updated as customer behavior has changed or new markets added? Have you considered peer grouping to provide a better picture of specific business types or occupations? Have you tested a sample of risk levels to verify they are appropriate? Do enhanced due diligence procedures include a review of the customer’s risk level and documented approval of any changes to the risk level? Customer risk profiles are included as a requirement of the 2018 final rule for Customer Due Diligence and Beneficial Ownership.
- Inventory of monitoring performed throughout your institution - Are you maintaining a record of operational reviews that complement the AML/BSA program? For example, Deposit Operations reviews of kiting and other operational reports for suspicious activity and Credit Department reviews including site visits to evaluate credit risk through analysis of business levels, expected assets on site, etc. can be leveraged for AML/BSA monitoring. Are you receiving and reviewing the results of these secondary reviews to identify potentially suspicious activity? A written inventory will help identify gaps in the monitoring program and provide evidence the institution as a whole is meeting regulatory expectations for monitoring.



- Independent model validation of your transaction and OFAC monitoring systems - Have you fully implemented your automated monitoring? Do you understand system capabilities and how to set up rules and parameters for a more effective and efficient system? Do you have support for changes to your monitoring systems including statistical data based on your customer patterns and testing to evidence the changes are working as intended? Are you performing a balancing reconciliation to ensure the imports into your monitoring system are complete and accurate? If you have recently merged or acquired another institution, have you performed a validation to ensure the data is complete and accurate? An independent model validation supports data integrity and can aid in establishing or adjusting system parameters for more effective alerts.

Supporting documentation is the key to taking credit for all you do to ensure compliance.

How Experis Finance can help

The Experis Financial Crimes Mitigation team can evaluate your program, provide comprehensive recommendations for improvement and remediation, including, but not limited to:

- Performing objective AML/BSA/OFAC Risk Assessments
- Assessing the adequacy of your organization's compliance control environment through performance of independent compliance audits
- Conducting independent validation of transaction and OFAC monitoring systems to determine systems are operating as designed
- Performing data analytics based on actual customer data to support parameter settings for monitoring systems
- Assisting with issue validation and remediation efforts
- Developing internal compliance monitoring to address unique risks
- Developing and maintaining first, second and third line controls and testing related to AML/BSA and OFAC

Our team of professionals has extensive experience working with clients to address these issues to help them avoid costly fines and penalties. If you have any questions about or concerns around your implementation of these steps, contact an Experis representative at financialservicesindustry@experis.com or visit our website [Experis Finance](https://www.experis.com).