

## **BSA/Anti-Money Laundering: Be Vigilant or Be Gone**

*By: The CAMELSolutions Compliance Team*

Bank regulators have closed 106 banks to date this year. Credit quality continues to suffer and loan losses continue to mount. But regulators have not forgotten about Bank Secrecy/Anti-Money Laundering compliance. In the past twelve months, regulators have issued fourteen Cease and Desist Orders related to Bank Secrecy Act compliance. Four civil money penalties have been assessed. The directors of a Maryland thrift were each assessed a personal civil money penalty ranging from \$1,000 to \$2,000 because of their institution's continuing problems with BSA compliance.

This trend illustrates that BSA/AML compliance is still a priority for the regulators. That makes it a priority for you and your Board of Directors. Will your BSA/AML program stand up to scrutiny? When was the last time you did a complete review of your program?

**Types of Suspicious Activity.** Remember that suspicious activity is more than just money-laundering. Potential fraud against the bank also must be reported.

**Customer Risk Assessments.** Each customer of your bank should be evaluated for his/her potential involvement in money laundering or other suspicious activity. This includes not just deposit customers, but loan, trust, and other types of customers as well. High-risk customers should be identified and flagged.

In risk-rating your customers, you should consider a number of factors. :

- Individuals vs. business customers;
- How long the relationship has existed;

- Citizenship status;
- Nature of the client's business. Some businesses, such as jewelers, vehicle dealers (planes, cars, boats, etc.), professional services providers (physicians, accountants and lawyers, for example), transportation charter companies (ships, planes, buses), and some others may not be exempted and should be considered to have higher risk. Others, such as governmental entities, publicly-traded companies and their subsidiaries, and banks or thrifts, are automatically exempt from currency reporting and are lower risk.
- How the customer opened his/her account. If you open deposit accounts or take loan applications on-line, these customers might be considered higher risk, since you may not ever have the opportunity to meet them in person.
- Anticipated transaction activity. Customers who plan to perform numerous international wire transfers or ACH transactions might be higher risk.

**Product Risk Assessments.** In addition to risk-rating clients, banks should also risk-rate their products. Some products may be favorites of money launderers and fraudsters. These products and activities should be identified.

**Enhanced Due Diligence.** Customers that present higher risk may be subject to enhanced due diligence or further Customer Identification Program (CIP) procedures at the time of

account opening. For example, high-risk businesses might be subject to in-person visits or specific documentation regarding the company may be required.

**Monitoring for Suspicious Activity.** Banks are required to have procedures in place to identify and report suspicious activity. Procedures should be appropriate to the size and complexity of the organization, and should span all the transactions of the company. While an automated monitoring system is not required, from a practical perspective the regulators are pushing more and more for automated systems. This push is predicated on the need to review transactions across all lines of business. This is difficult to accomplish in a manual environment.

**Monitoring for High-Risk Activity and High-Risk Customers.** Additional monitoring is required for customers and products that are considered high-risk. These procedures should be in addition to the normal monitoring applied to all accounts and activities. This additional monitoring can take the form of reduced transaction limits for high-risk customers, increased review of transactions, transaction limitations, or other appropriate review.

**Money-Service Businesses.** Money service businesses (or MSBs) include check-cashers, money transmitters, issuers of cashier's checks and money orders, sellers of stored value cards, and currency dealers or exchangers. If a bank has MSBs in its customer base, the bank is required to have additional procedures in place to ensure that those businesses have appropriate anti-money laundering and suspicious activity programs in place. MSBs should automatically be considered high-risk businesses. Recent publications by the Financial Crimes Enforcement Network for Money-Service Businesses indicate that banks should do separate risk ratings for its MSBs.

The level of enhanced due diligence and suspicious activity monitoring for those clients should be based on the nature of the MSB and the volume of its transaction activity. Local grocers and taverns often cash checks for customers. If they cash checks for more than \$1,000, they are an MSB and need to be monitored accordingly.

**Independent Review.** A review by someone independent of the BSA/AML function is required on an annual basis. This review should incorporate all the areas reviewed by the regulators in a BSA/AML regulatory examination. The regulators will be looking to see whether the scope of the testing performed rises to the level of their review. If not, a bank could be headed straight to a formal agreement or Cease and Desist.

CAMELSolutions can help you evaluate your BSA/AML processes to ensure that the bank is well positioned for its next exam. We can also help you implement automated monitoring solutions and perform your annual independent review to help your bank maintain its BSA/AML compliance position. Our solutions can let your Board rest easy that your BSA/AML program will not have them reaching for their checkbooks.

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*The CAMELSolutions Compliance Team has decades of compliance management experience. To discuss how CAMELSolutions can assist you in ensuring you comply with Flood Insurance and other regulatory requirements, contact us via e-mail at [info@camelsolutions.com](mailto:info@camelsolutions.com) or via phone at (312)-351-4355.*