



Rising to the Challenge — Staying Ahead of the AML Curve

BSA/AML, Fraud and Loans

What Should you be doing to Make the Connection?

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Panel Objectives:

- **Importance of communication**
- **Understanding the risk of the entire customer relationship**
- **BSA officers should reach out to key business lines**
- **Best practices to fill gaps among the functions**



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Understanding Risk from Loans to BSA/AML

- How does a lending relationship affect the customer's overall risk profile?
- Does the customer have a significant loan exposure to the bank?
 - Consider implementing a category that assesses the risk of customers that only have a lending relationship
 - Consider multiple loan accounts (i.e. greater than three)



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The ENTIRE Relationship.....

Concept of understanding and monitoring the entire customer relationship:

- Can you put the story together from deposit to loan accounts?
- BSA personnel should understand and monitor activity for certain risk factors such as:
 - Early loan payoffs (Source of funds)
 - Third-party loan payments



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Beneficial Ownership and Loans

- Customer identification and verification
- Beneficial ownership identification and verification
 - Ownership prong – 25%
 - Control prong
- Understanding the nature and purpose of customer relationships to develop a customer risk profile, and
- Ongoing monitoring for reporting suspicious transactions and, on a risk-basis, maintaining and updating customer information



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Red Flags: A Lender's Perspective

- New prospect is anxious to leave their current lender/banker for “administrative” frustrations (questions about their business practices)
- A customer's explanations for missing or inconsistent documentation do not make sense for their industry or business
- Excessive losses or profits are not only a credit risk, but may present a fraud/AML risk too
- Continued/repetitive requests for exceptions either to credit thresholds, deposit holds, or fee refunds



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What Lenders want the BSA/AML Officer to Know:

- We want to understand the red flags and what the risk is
- Approach the loan function as a partnership. Understand what we do, and help us understand how BSA/AML fits into our daily roles
- KYC & CDD is an opportunity for lenders to learn more about their customers and ultimately provide a better customer service experience
- Have a risk conversation vs. a firm “no”



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What BSA/AML Officers want the Lenders to Know:

- We are not the bad guy!!!!
- We don't want to be a hindrance to you in making loans
- We want to understand your business so that we can effectively and seamlessly build BSA, as needed, into the lending business line
- We want to have a mutually beneficial partnership with you that includes open lines of communication



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Best Practices – Filling the Gaps between Loans and BSA

- Communication
- Training
- Monitoring



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Communication

KLAP:

- **K**now Your Audience: Incentive = Focus
- **L**earn the language: Credit Risk Terminology
- **A**sk Questions: The 5 W's (plus H)
- be **P**liable: Give Preferences, Honor Options



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Training Tips

- Targeted Training
- Multi-Channel Approach
- Creative Solutions
- Give Loan Officers a Win

BSA Function:	CDD/EDD	AML / CFT / Suspicious Activity	Fraud Prevention
Description	Customer Due Diligence and Enhanced Due Diligence of higher risk customers underscore the BSA monitoring program.	Knowledge of red flags for suspicious activity, how and when to report activity, and understanding of advanced and emerging risks.	Understanding and mitigation based on common fraud typologies, knowing when and how to report fraud
Residual Risk Assessment Rating			
Control Environment Rating			
New Product Offerings			
Product Delivery			
Changes			
Regulatory Changes			
Internal Changes			
Reputation Risk			
Strategic Plans			



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Monitoring

- Automated Systems:
 - Trash in = Trash Out
 - Mind the Gaps
 - Get past Cash
 - Data Mining
- Leverage Unstructured Data:
 - Loan Officer's Knowledge
 - Credit Files
 - Committee Minutes
 - Open Source Media



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Takeaways:

- **Communication: Engage in dialogue and speak to loan officers using their language**
- **Enterprise Risk: Consider risk items across business lines**
- **Approach: Be proactive and consider a multi-channel approach**



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QUESTIONS????