[Carla Mabry:]Hello every one. Welcome to this edition of the BSA Coalition webcast series. Today's session is entitled "How to Risk Focus" your BSA/AML Risk Assessment. Before we begin, I need to remind you The views and opinions expressed are those of the speakers. They do not represent legal advice, an official position of any regulatory agency, financial institution, or the BSA Coalition Board of Directors. If you'd like to know more information about the BSA Coalition, or if you'd like to become a member please visit our website at BSA Coalition dot ORG. And now, as they say, On With The Show!

[George Self:] In this webcast, we're talking about why you need to risk focus your BSA, AML risk assessment. Risk focusing as a way to maximize your resources by prioritizing your compliance efforts. So, what are your priorities? What should they be? And how do you determine what's a priority and what's not? Well, those are the exact questions we're going to answer in the webcast. As you listen to our experts, two things I believe will stand out. To me, these are the main takeaways of the webcast. One, what are the regulatory expectations with respect to risk focusing your risk assessment. And second, just how do you do risk focus? What are the steps and what are the benefits? So, let's get started by meeting our risk assessment experts. First, we'll meet Suzanne Reynolds. Suzanne is a veteran regulator with the federal reserve bank in Richmond. Suzanne, tell us about BSA and you.

[Suzanne Reynolds:] It's really good to be here. My name is Suzanne Reynolds and I've been an examiner at the federal reserve bank of Richmond since 1994. I came in as an examiner and went through the commissioning program within the community bank area, worked in several different areas, including regionals and large banks, our quality management area. I currently am the manager over our BSA specialists that examine institutions.

[George Self:]Let's put the same question to Deborah, D 'Arrigo another BSA, AML veteran Debra, tell us about your history with BSA.

[Debra D'Arrigo:]My experience includes work with several large banks, several large financial institutions. It also includes consulting and assurance work with several professional services institutions. And I'm also a former federal reserve bank examiner. It's great to be here today.

[George Self:]Okay. So, we're all acquainted, Suzanne, we'll start with you. Let's get down to it. Give us the regulatory expectation about risk focusing the risk assessment. Where did it start? And where is it now? Give us some context please.

[Suzanne Reynolds:]Yes, George. It was interesting because starting back in 1994, the guidance came out in 1995. And the focus was on risk focusing and risk management, and particularly within SR letter 9551 issued by the federal reserve bank. This SR letter is critical and outlined the core risk management principles--that an institution as well as examiners should look at their risk focusing in looking at programs. The key part of this guidance focused on that risk management programs can and should vary considerably depending upon the specific size complexity and level of risk. Taking the key emphasis again is not one size fits all. And to only assess the risks that are applicable to you, don't spend the resources and time and areas you don't have risks. These risk focused principles are still alive today and even more important with how many more risks and products and that our precious time that we have, and you can see them in recent joint policy statements related to BSA, including politically exposed persons charities and nonprofits, and the updated BSA AML exam manual that emphasized the long standing examiner focus on risk focused exams. The resounding message starting back in 1995 and continuing today is, do not spend the time in areas where you don't have elevated risk.

[George Self:]Let me run this by you. I know there are a number ^CEof financial institutions whose risk assessment, pretty much exclusively consists of filling out the APP J form in the FFIC exam manual. It doesn't sound like that's what you're talking about. So, what's your response?

[Suzanne Reynolds:]Appendix J as a checklist. It can be a good reference point, but again, that is not what we're looking for as examiners when we come into an institution. We hope not to see just a standard template or a standard template from the industry or checklist, but actually where the institution has looked at their specific products or services and the specific types of customer base they have in their activity. Completing a checklist or a template is not going to hit the mark and it's not an efficient or effective use of your own resources or an institution's resources. An institution should only focus on the risks that apply to them and their customer base.

[George Self:]You know, Suzanne, I think you're implying that you might have two types of customers for the same account. Let's say for example, a convenience store, some of those might be vanilla customers who use just basic services and low levels of activity. On the other hand, you might have another group of convenience stores who have high cash transactions, high ACH activity, remote deposit, maybe foreign wires, and throw in a private ATM. I think you're saying that that latter group is, should get a lot more attention than the former group.

[Suzanne Reynolds:]Definitely. You don't want to ignore your entire customer base, but you do need to look at the differences in that customer base. For instance. lumping all convenience stores together and risk rating them the same and monitoring the same, really probably isn't the best thing to do. On one hand you may have a mom and pop convenience store that only has traditional services and a few ACH and wires. On the other hand, you may have another mom and pop type of store that uses a lot of ACH and wires, even doing them internationally and also has a private ATM. The second Mom and pop convenience store definitely has much more risk and much more activity and going into more risky areas. And this is where you want to look more frequently and closer at the transactions where a typical mom and pop store that is plain vanilla would be limited transactions. You can decrease your amount of monitoring on them, so you can better balance your resources and time and effort.

[George Self:]Okay, I get that. That makes sense. And it seems like it would save some time, which would say resources. Debbie. Now we want to turn to you. If we accept the fact that some customers get more intense monitoring than others, how do we decide which groups get special attention? In other words, these principles in the SR 9551 letter, how do they help with risk focusing? How do you decide who has the highest risk.

[Debra D'Arrigo:]So as a refresher, the fundamental principles within the SR letter, 9551 include active board and senior management oversight, good policies, procedures, and limits, adequate risk measurement monitoring and management information systems and a comprehensive system of internal controls. So, if we think about how we can practically apply those principles to our AML risk assessment you would first want to think about all of the inherent risks categories that you need to assess within your risk assessment of these categories probably include things like your customer risk, your products and services risk. Transaction risk, geography risk, and there may be some others that are important based on the size and scope of your institution. When you think about those categories of risk and begin to assess the risk associated with them, the first thing that you're going to want to do is to quantify each of those categories of risk. So back to your question, George, around, how do you apply these principles to something like a customer population? You would want to really understand the full composition and makeup of your customer portfolio. Understand which customers are high risk. And then began applying those fundamental principles to understand whether or not you have those effective controls against that portfolio.

[George Self:]Okay. Now follow up to that. How's the institution take those broad principles and narrow down the broad categories into smaller categories. What are the steps or the actual one, two, three steps that you do to focus on the real risks?

[Debra D'Arrigo:]That's a great question, George. So, when you're developing a risk assessment, understanding those broad categories is step number one, then step number two is really to pull data. So, understand from a volume and value perspective. How many customers you have in each category? How many transaction types from a volume and value that you have, and then you can begin to analyze those categories of risk. So from that analysis, what you can derive is how many of your customers, for instance, have high-risk characteristics associated with it, for instance, how many foreign PEPs do you have in the portfolio or perhaps how many third-party payment providers do have, or even how many customers in other high risk industries. From there, you can determine what percentage of your total customer portfolio is high risk. And that is where the true benefit of a risk focused approach comes into play because the next step would be to evaluate your control environment. Obviously, those higher risk customers that you have you likely want more controls around that population so that you can effectively mitigate the risk of high risk customers for your specific institution.

[George Self:]You know, Debra, it sounds like once you had segregated customers by risk an institution has a great opportunity to get productivity gain that is save some time because you have to concentrate on a much smaller group of people.

[Debra D'Arrigo:]That's right, George. This is the benefit of taking a risk focused approach and applying the principles that we've been talking about throughout this session. So, I'll give you a perfect example. When we think about transaction risk. And you're taking a look at what types of transaction, your specific institution permits their customers to conduct. You probably quantifying those transaction types and then parsing out the high risk activity. So, for instance foreign wires to higher risk jurisdictions. So, from then you can apply those principles that we've been talking about under the SR letter and understand, do you have the right level of oversight over those types of, of transactions as necessary? Perhaps there's a committee that reviews transactions on a periodic basis. Do you have effective policies and procedures that govern the controls associated with certain high-risk transactions. And then you can even think about your transaction monitoring system. So, you're probably not going to spend a lot of time or money constructing rules around $40 grocery purchase debits in your customer accounts. But if somebody on the other hand is transacting multiple millions of dollars and foreign wires to, and from Kyrgyzstan that would be another story. You're probably investing in your transaction monitoring system and building rule sets. So that that type of activity can then alert. So that's another example of how you can apply those principles and evaluate your controls to make sure you have coverage over those high risks. Areas such as transaction risk.

[George Self:]This has been some really good stuff, very practical, but now let's think about takeaways and Suzanne, we'll start with you. What would you say are the most important takeaways from this webcast?

[Suzanne Reynolds:]Yes, George, there are, I actually have four principles and you can, or takeaways from the webcast today. Again, avoid a checklist, one size doesn't fit at all. Approach. Review the guidance SR 9551 and keep those principles close to you. As you're doing your risk assessment. Figure out what your institution is, as opposed to the higher risk and concentrate there. That's where you're going to get the real bang for your buck, with your resources. And those lower risk areas, don't spend as much time monitoring them.

[George Self:]Ah, got that, good stuff. Thank you, Suzanne. Debra, let's go to you. Thinking about this webcast and all that's been said, what are your takeaways?

[Debra D'Arrigo:]The most important takeaway is derive value from your risk assessment. Use it as a tool, it will help you stay risk focused. And the beauty of the SR letter 9551 principles is you can apply them to your risk assessment to help you evaluate the control environment, particularly around those high risk areas. It does help keep your program risk focused. It helps you focus your precious resources where you need them the most, rather than worrying about low-risk events that don't cause concern for an institution.

[George Self:]Oh, hold on guys. I have one more. It's an off script question. Many institutions view the risk assessment as just another task. Once it's done well, it's time to move on. Not many institutions take the risk assessment and keep it close to heart. What's your take on that? [

Debra D'Arrigo:]My personal opinion is you can really derive a lot of value out of your risk assessment, if done, right. If you're really understanding the risks that face your institution, if you really customize it for the size and scope of your institution, make it applicable to the products and services and the customers that your bank actually serves. And then it gives you that opportunity to really understand. All of the controls that are required of a program and those fundamental risk management principles, if you have a really good risk assessment, you'll be able to self-identify issues prior to your auditors and examiners every single time. And you can really use it as an effective planning tool to improve and enhance your program over time.

[George Self:] Suzanne we'll move back to you. From a regulator's point of view, how important should the risk assessment be to an institution? And I'm talking now on a day to day basis.

[Suzanne Reynolds:]Yeah, we really hope it's not just a task and that this is something that is meaningful to the institution and really helping them. And helps them when they do put in new products or services to evaluate those. And where do they really need to put those controls and monitoring in place. And we hope that that risk assessment again, is very meaningful to them and is not just something you put on the shelf and let it get dusty.

[George Self:]And there you have it. I hope this webcast has motivated you to become risk focused with your BSA AML risk assessment. If you do, it will make you more efficient, doing more with less, and it will also make you more effective focusing on your real risks. If you keep these two benefits in mind, your risk assessment will be much closer to regulatory expectations. And you'll have a very good tool. Your institution can use to navigate the challenges all institutions face every day. I'd like to thank our experts, Suzanne Reynolds, at the federal reserve bank of Richmond and Deborah D'Arrigo from Tri-State capital bank in Pittsburgh. You guys did a marvelous job. We thank you very much. Very informative, super well presented. I'd also like to thank the BSA coalition board of directors for their support making this webcast possible. And I'd like to thank you, our viewers, we very much appreciate your time and interest in the BSA coalition.

[George Self:]If you like this webcast, we'd be grateful if you'd spread the word on your favorite social media. And this one last reminder, before I go, this webcast will be available on our website. BSA coalition.org. Co-located with the webcast will be a download of a slide deck, which contains the key webcast information along with links to documents that we featured in the webcast. Also close to the website link, you'll find a contact us page that's associated directly with this webcast. Please fill that webcast form out. Tell us what you liked and tell us what you didn't like. If you have ideas for future webcasts, we'd love to hear that. And if you've seen other speakers that you thought did a really good job on industry topics, how about letting us know about them? Perhaps they'd like to work with us during one of our webinars or webcasts. I encourage you to stay close to our website for announcements of upcoming webcasts webinars and other information. And if you'd like to join the BSA coalition, you'll find a join us page on our website.

[George Self:]Thank you for watching. See you next time. ^E00:17:04:05