

CAPCOO

MANAGING A REMOTE BSA/AML COMPLIANCE PROGRAM

COVID-19 RESPONSE AND BUSINESS CONTINUITY
PLANNING

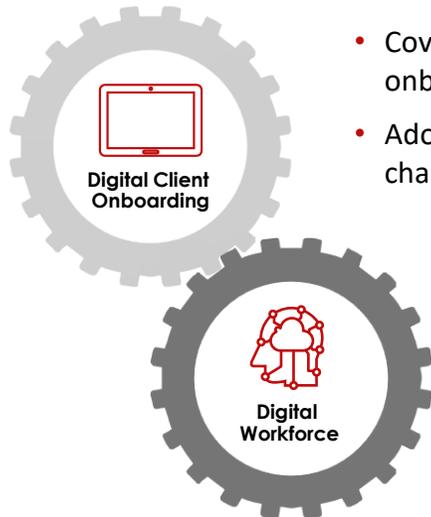
OVERVIEW

COVID-19 has disrupted the structure of traditional BSA/AML Programs. Institutions must quickly adapt to the fluctuating environment to ensure continued regulatory compliance.

PANDEMIC PREPAREDNESS: CONTINUOUSLY EVOLVING BSA/AML PROGRAM

- Compliance with the Bank Secrecy Act (BSA), USA Patriot Act, and other regulatory requirements remains crucial to **protect national security, maintain the trust and confidence of customers, and defend** the against **financial crime**
- Even considering COVID-19, Financial Crimes Enforcement Network (FinCEN) expects financial institutions to continue following a **risk-based approach**, and to diligently adhere to their BSA obligations¹

Recent impacts of COVID-19 have accelerated a digital movement and remote working model for certain elements of BSA/AML and Sanctions compliance programs including customer due diligence (CDD) and downstream compliance activities conducted throughout the account lifecycle.



- Covid-19 has provided the opportunity for financial institutions to develop a digital approach to certain key processes, including customer onboarding, due diligence, and related beneficial ownership information
 - Adopting a digital mindset over the Know Your Customer (KYC) process allows financial institutions to more efficiently meet regulatory challenges while avoiding reputational risk, reducing human error, and increasing data security
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- An increasingly remote workforce may impact critical filing deadlines for BSA reports (e.g., SAR and CTR) resulting in alert/case backlog and ineffective flow of information between financial institutions and law enforcement
 - Significant challenges regarding traditional onboarding and related due diligence processes have emerged: hard copy documents are inaccessible, in-person meetings have moved online, onsite visits may be impossible, and key information must be obtained from third-parties who are also navigating the pandemic

TRADITIONAL VS. ONLINE BSA/AML PROGRAM

Comparing traditional and online program structures

Though regulatory requirements remain the unchanged, moving BSA/AML compliance programs online may cause structural changes to numerous areas including hardware, software, and working best practices

| | Traditional | Online |
|-------------------------|---|---|
| Infrastructure | <ul style="list-style-type: none"> Utilize secure network to access Personally Identifiable Information | <ul style="list-style-type: none"> Utilize VPN to access and verify sensitive information |
| Work Model | <ul style="list-style-type: none"> Direct human involvement and interaction Review physical documents for compliance decisions Onsite customer due diligence process | <ul style="list-style-type: none"> Virtual meeting and customer interaction Digital site visits Digital versions of key documents |
| Staff Management | <ul style="list-style-type: none"> Centralized workforce in physical institution Localized onboarding and client lifecycle management | <ul style="list-style-type: none"> Decentralized workforce across multiple locations Centralized onboarding and client lifecycle management across multiple jurisdictions and lines of business |
| Process | <ul style="list-style-type: none"> Relationship Manager-oriented engagement model Manual intervention and labor intensive Paper-based processes | <ul style="list-style-type: none"> Application (GUI) and virtual oriented engagement model Automated and integrated processes |

Banks that currently do not offer online account opening processes should adapt their processes to account for changing customer behaviour (e.g., not opening accounts in physical branches) without sacrificing customer experience or falling short on regulatory obligations

DIGITAL DISRUPTION

The account opening and customer due diligence lifecycle is ripe for digital disruption



Customer ID and Verification

Capco has identified **critical components of the Customer Identification Process (CIP) and CDD** processes suitable for digital disruption¹

- Facilitate customer **identification and verification** financial transactions.
- Loan participants made with respect to the CARES Act (PPP) will need to be vetted in a swifter manner, but without sacrificing regulatory compliance.



Customer Risk Rating

- Determine customer risk factors and **form understanding of the nature and purpose of customer relationship(s)** during account opening



Beneficial Ownership

- **Identify and verify beneficial owner(s)** of legal entity customers (including ownership structure)



Transaction Monitoring

- Evaluate throughout course transactions of business relationship **to ensure customer risk profile aligns to expected activity**

Institutions should view online account opening/CDD with both the customer (user experience) and regulator in mind.

- Optimal architecture enables customer to submit required information via online information portal (or mobile app)
- Data is ingested and compared with external third-party data

- Rules engine automatically categorizes clients into tiers (e.g., low, medium, high) to define risk from an organizational, financial, and reputational perspective (e.g., straight through process)
- Automated periodic refresh of customer data during client lifecycle

- Utilize screening and third-party reporting tools to determine ownership structure
- Leverage artificial intelligence to navigate a vast array of data sources

- Automatically screen Know Your Customer data for all transactions and manage risk through ongoing monitoring and continued due diligence

An effective **transaction monitoring** program is more crucial than ever. **Potential financial crime activity may increase** with the assumption that compliance functions are strained during this time

REMOTE TRANSACTION MONITORING PROGRAMS*

COVID-19 has affected Transaction Monitoring resources, particularly in certain geographic regions. To remain effective, these programs must make risk-based adjustments while operating remotely.

A bank's BCP should allow flexibility to BSA/AML programs during times of crisis, so leadership can make risk-based decisions with respect to alert generation. Document all temporary deviations from normal TM procedures and senior leadership's acceptance of the risks.

Periodic check-ins with prudential regulators are critical during this remote period. Updates on remediation work (including the possibility for pausing efforts) should be discussed. Prepare for the possibility of remote regulatory exams.

Continue to evaluate customer behavior and impact to customer information ("KYC"), expected vs. actual activity). Information obtained during TM review should influence alert rules.



Existing Transaction Monitoring (TM) scenarios may no longer be relevant given changes presented by COVID-19. Consider temporary suppression of non-productive alerts and creation of custom alerts.

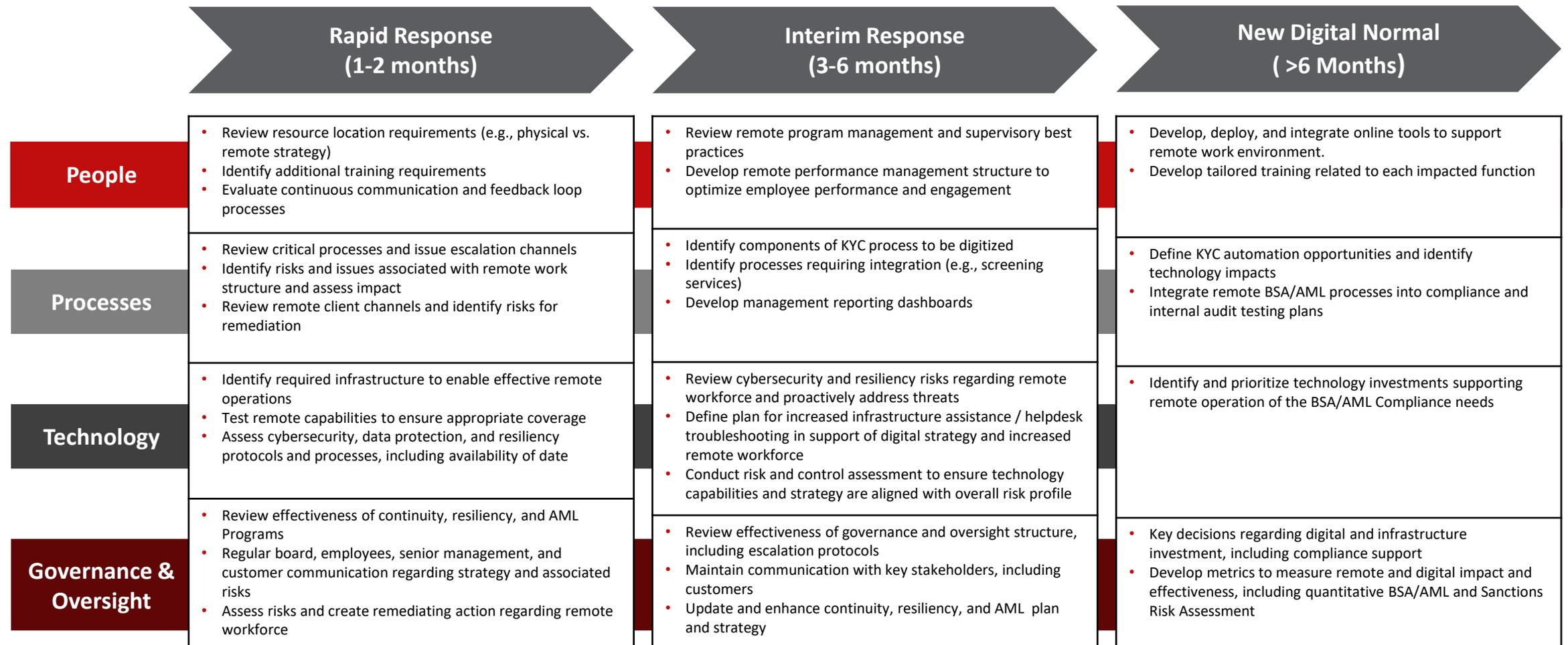
Transaction Monitoring programs may move to an alert triage process to prioritize those alerts which are producing viable financial intelligence

To prevent future confusion, financial institutions should clearly document any changes made to AML and Sanctions programs taken in response to COVID-19, including clear sign-off from senior leadership that the institution has evaluated and accepted the temporary risks presented by any deviation from previous rules.

*Sanctions compliance efforts have been similarly affected by remote operations and could also follow the principles listed above in designing a risk-based approach.

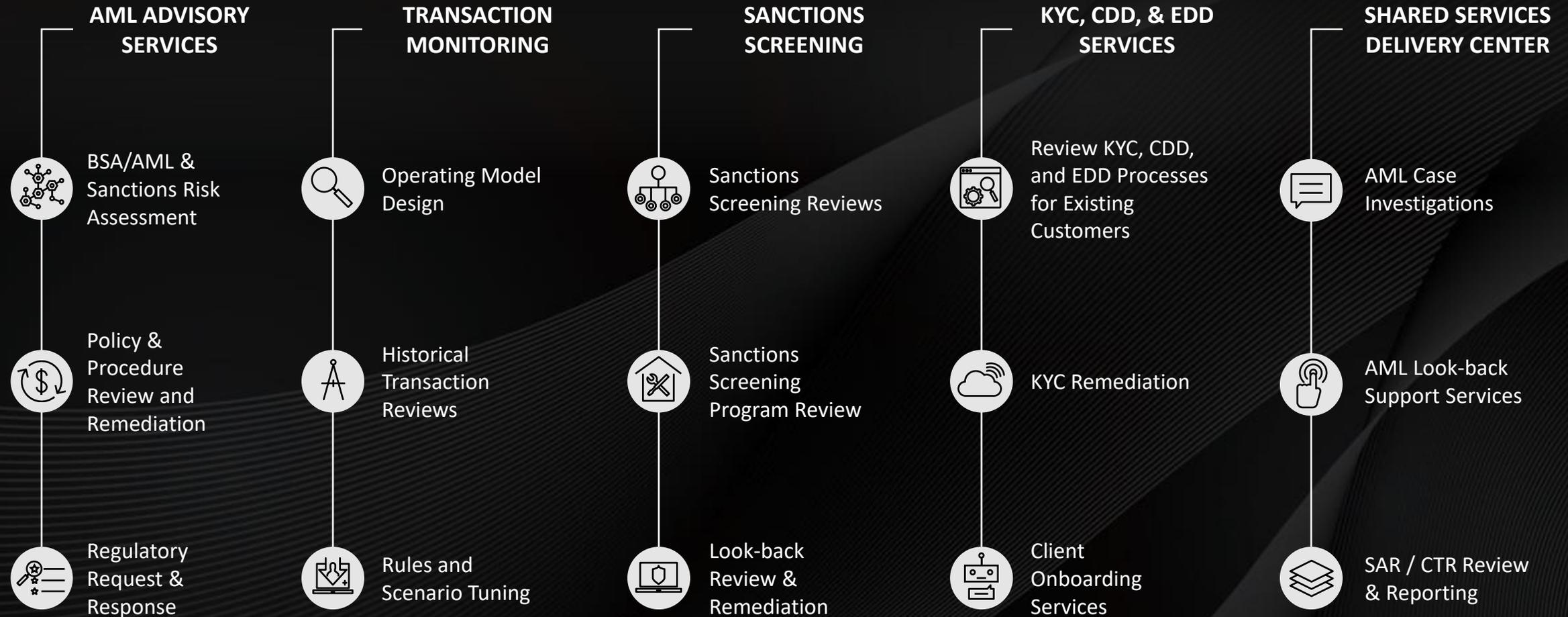
ONGOING PLANNING AND RESPONSE

Planning for the 'New Normal'



CAPCO'S CONTINUITY AND RESILIENCY OFFERINGS

We assist clients design and maintain best in class BSA/AML Compliance Programs while ensuring adherence with current supervisory guidance



SOLUTION AREAS & THOUGHT LEADERSHIP

Capco's deep domain experience, thought leadership and dynamic culture provides clients with specialized consulting services across defined market offerings



BUSINESS CONTINUITY AND RESILIENCY

Capco has developed a suite of offerings and thought leadership addressing business continuity planning, operational resiliency, cybersecurity and resolution/recovery planning.



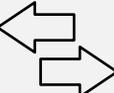
CAPCO DIGITAL

At Capco, we believe digital is driving a new way of doing business. Therefore, a holistic digital strategy should be integrated into all organizational activities. To be successful, organizations need a clear digital vision, a redefined operating model and an agile approach to delivering innovative solutions.



DATA AND TECHNOLOGY SOLUTIONS

Capco helps firms enable data-driven decision-making through the areas of machine learning, predictive models, text analytics and classification, image recognition, language translation, and process automation. With deep knowledge of the latest modeling and big data processes and technology trends, Capco delivers best-in-class solutions to complex data and analytics endeavors.



FINANCE, RISK AND COMPLIANCE

For banks, new regulations increase complexity and cost. Through guiding and implementing FRC strategies operationally and harnessing new and emerging technologies for RegTech, Capco has built a reputation of empowering clients to turn compliance into a competitive advantage.



TECHNOLOGY DELIVERY

In today's ever-changing environment, your technology journey must be state-of-the-art and future-looking. Our focus and deep expertise in financial services helps us create, build and deploy front-to-back offerings, allowing us to provide end-to-end support to financial institutions seeking to rapidly integrate innovation.



ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and investment management, finance, risk & compliance and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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