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



- 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	Utilize secure network to access Personally Identifiable Information	Utilize VPN to access and verify sensitive information
Work Model	 Direct human involvement and interaction Review physical documents for compliance decisions Onsite customer due diligence process 	 Virtual meeting and customer interaction Digital site visits Digital versions of key documents
Staff Management	 Centralized workforce in physical institution Localized onboarding and client lifecycle management 	 Decentralized workforce across multiple locations Centralized onboarding and client lifecycle management across multiple jurisdictions and lines of business
Process	 Relationship Manager-oriented engagement model Manual intervention and labor intensive Paper-based processes 	 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		

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DIGITAL DISRUPTION

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



Customer ID and Verification

- 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.

Capco has identified

the Customer

(CIP) and CDD

digital disruption¹

critical components of

Identification Process

processes suitable for

- 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 thirdparty 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 mange 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 are critical. 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 signoff from senior leadership that the institution has evaluated and accepted the temporary risks presented by any deviation from previous rules.

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^{*}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

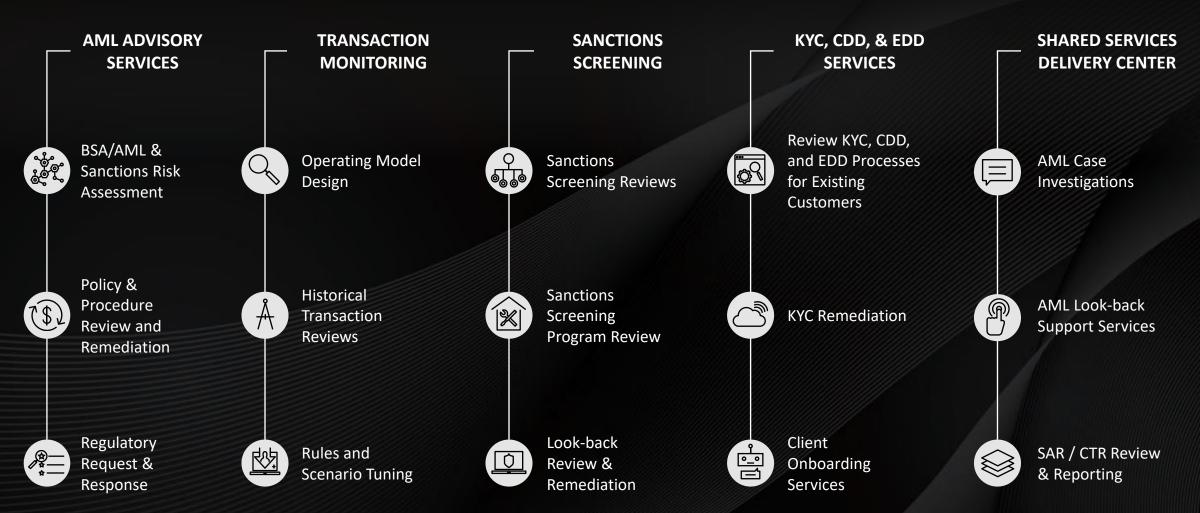
Planning for the 'New Normal'

New Digital Normal Rapid Response Interim Response (>6 Months) (1-2 months) (3-6 months) Develop, deploy, and integrate online tools to support Review resource location requirements (e.g., physical vs. Review remote program management and supervisory best remote work environment. remote strategy) Develop remote performance management structure to Develop tailored training related to each impacted function Identify additional training requirements **People** Evaluate continuous communication and feedback loop optimize employee performance and engagement processes Identify components of KYC process to be digitized Review critical processes and issue escalation channels Define KYC automation opportunities and identify Identify processes requiring integration (e.g., screening Identify risks and issues associated with remote work technology impacts services) structure and assess impact Integrate remote BSA/AML processes into compliance and **Processes** Develop management reporting dashboards Review remote client channels and identify risks for internal audit testing plans remediation Identify required infrastructure to enable effective remote Review cybersecurity and resiliency risks regarding remote Identify and prioritize technology investments supporting workforce and proactively address threats operations remote operation of the BSA/AML Compliance needs Define plan for increased infrastructure assistance / helpdesk Test remote capabilities to ensure appropriate coverage troubleshooting in support of digital strategy and increased **Technology** Assess cybersecurity, data protection, and resiliency protocols and processes, including availability of date remote workforce Conduct risk and control assessment to ensure technology capabilities and strategy are aligned with overall risk profile Review effectiveness of continuity, resiliency, and AML Review effectiveness of governance and oversight structure, Key decisions regarding digital and infrastructure including escalation protocols Regular board, employees, senior management, and investment, including compliance support Governance & Maintain communication with key stakeholders, including customer communication regarding strategy and associated Develop metrics to measure remote and digital impact and customers effectiveness, including quantitative BSA/AML and Sanctions **Oversight** Update and enhance continuity, resiliency, and AML plan Assess risks and create remediating action regarding remote Risk Assessment and strategy workforce

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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.



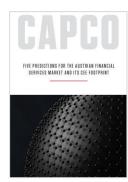
FINANCE, RISK AND COMPLIANCE

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.



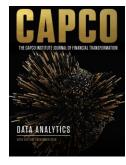














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