



Money Laundering, KYC & CDD

by [Steve Brown](#)

If you thought scientists were stodgy types who don't know how to have fun, you were wrong. We laughed when we heard a group of Belgian scientists that discovered a planetary system recently named it after their favorite beer. This group of dedicated researchers were probably toiling away late at night, and when they made the discovery they named it TRAPPIST-1 after beers that have been brewed for centuries by monks in monasteries. We wonder if they celebrated so heartily after finding the planetary system that the janitors found them passed out on the floor the next morning. Who knows, but it is a fun story.

Speaking of fun (sic), all banks these days have been having "fun" with the Bank Secrecy Act (BSA) and regulation around Anti-Money Laundering (AML) as of late.

All banks know about the dangers of money laundering, but with a highly connected financial economy (and the de-risking by big banks), community banks may be more at risk these days than before. Criminals have become smarter, as they break into accounts and quickly move money. They may even try to seem legitimate by varying the amounts of money wired and sending small amounts as they try to fall under the radar of BSA. They may even try to create a legitimate looking profile as a new customer so make sure to be aware of the signs and have a solid Know-Your-Customer (KYC) process.

There are definitely things to look out for if you receive money from another bank or notice unusual transfer activity. Of course, the first sign is having wire transfers to countries that you know are "secrecy havens" where there is little to no regulatory oversight. Other obvious signs include seeing a high volume transfer with a low account balance or experiencing repetitive low value wire amounts (especially noticing the same amount going in as going out). International transfers that include multiple monetary tools such as bank checks, traveler's checks and personal checks could also be an indication of trouble. Wire transfers that seem unrelated or inconsistent with your customer's business are also red flags, as are funds transferred to and from the same person.

Being perceptive of the red flags is one thing but being proactively aware of any potentially high risk customers is another. The good news is that as a community banker, this will most likely be a more straightforward task than for the big banks with their voluminous databases. Given ongoing regulatory updates, it is easy to get bogged down in scrutinizing data, instead of prioritizing and managing the highest risk areas. So, make sure your teams are properly focused.

For its part, FinCEN issued final rules in July of last year for Customer Due Diligence (CDD). The goal was to help banks clearly identify all their customers. These rules, covering identification, verification and purpose for each customer (as well as continuous monitoring), should be integrated into your AML program. If you review client profile data along with transaction activity on a regular basis, you can address anomalies and redirect data to a different risk level as may be appropriate. Over time, these regular assessments should make the process more streamlined and efficient.

Having strong KYC and CDD processes and being cognizant of the signs of money laundering will help keep your bank out of unintentional illegal activity. Being vigilant about internal enforcement of AML, staying on top of trends and issues, regularly reviewing and risk ranking customer data and ensuring employees know what to do when suspicions arise is critical.

BANK NEWS

M&A Activity

1) Pacific Western Bank (\$21.9B, CA) will acquire California United Bank (\$3.0B, CA) for about \$705mm in cash (30%) and stock (70%) or roughly 2.84x tangible book. 2) The Fountain Trust Co (\$295mm, IN) will acquire The Farmers State Bank (\$72mm, IN) for about \$9.43mm in cash (100%) or about 1.73x tangible book adjusted for certain transaction costs or about 1.56x tangible using 12/31/2016 financials.

Retail Risk

Payless ShoeSource filed for bankruptcy protection and will close 400 of its 4,000 stores. Community bank lending teams should review portfolios for direct or indirect risk.

Apple Pay

Technology research firm Loup Ventures reports that after launching 2Ys ago, Apple Pay has been used by about 13% of iPhone users. The lower than expected adoption rate is reportedly due to ongoing security concerns, user unfamiliarity with how to use contactless payments, softer retailer acceptance rates (accepted by about 33% of US retailers) and other factors.

Electronic Sig

Forrester research projects about 700mm transactions will be settled w/electronic signatures in 2017.

Digital Biz

Accenture research finds 54% of business leaders surveyed say they are prepared to be a fast follower or have adopted a wait and see attitude to becoming a digital business.

Multitasking

Deloitte research finds 75% of millennials multitask on another device or activity while watching TV. On average they do 4 additional activities.

Earnings Strength

Research by FactSet projects earnings for S&P 500 companies will jump 9.1% in Q1 vs. the same period last year. If true, it would be the strongest growth in 6Ys.

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