Melting Ice Sheets Around The FinCen CDD Rule

regulatory BSA-AML

Summary: New Customer Due Diligence requirements go into effect in May of 2018. Learn the four core elements to help your bank stay compliant

We were interested by work completed by scientists at NASA's Jet Propulsion Laboratory. It forecasts which cities will be impacted if and when various ice sheets melt around the world. Suffice it to say that if the top tip of Greenland melts, it would get redistributed into London, while if the top half melts, water would find its way into New York. Finally, if the top part of the Antarctic ice sheet melts, it would be redistributed into Sydney. Strange but true, so now you know these frozen tundra areas really matter when it comes to the rest of us keeping dry over the long term.

Many community bankers tell us this really isn't an issue right now, so a better area to monitor that seems to be all wet these days is around new Customer Due Diligence (CDD) requirements that trigger in May of 2018. The new rule has four core elements that need to be addressed.

First and foremost, banks will need to collect and verify information on customers within a designated timeframe after account opening. This is where you likely have the most work done, as it is already required by the Customer Identification Program (CIP) rule. Reviewing this process and tightening up any gaps or loose ends may be all you need to satisfy this area.

Next, banks will need to collect and verify the identity of the owners of each entity customer. This one isn't nearly as easy, as there are two types of ownership.

The first type focuses on equity interest in an entity down to 25% ownership and the second piece relates to the person who controls the entity. Basically, this is the person with significant responsibility for managing the entity (e.g. CEO, CFO, Managing Partner, etc.).

This one will be a doozy for community banks and more work will be needed. For instance, there could be cases where there are no owners who have more than 25% equity interest and in some cases ownership is much higher than that. In the case of low equity interest, you need to collect and verify the information on the control person.

The third element is that the nature and purpose of the account must be clearly understood and documented. What type of business the customer is engaged in and what type of activity they expect to occur in the account are key questions that will need to be answered. This is also an area where you may have a good deal of the information already.

The last requirement is to have ongoing monitoring of customer information. In order to determine the frequency of monitoring, you will need to create a risk profile for your customers. Once you have a risk profile, you should have the level of risk indicated to prioritize more frequent monitoring of higher risk customers.

There should also be a periodic review and re-validation of those customers who have higher risk profiles. Above and beyond this, transaction monitoring should of course be ongoing with more scrutiny in place on higher risk customers.

We thought it was important to pass on the four core elements of the rule to you as you prepare to roll the calendar on 2017. Of course, discussing the rule with your compliance team is probably already happening as you seek to find the best way to satisfy all requirements of this rule change.

As for those readers still worried about flooding, we checked and you can get rain boots as cheap as 20 bucks or as hipster cool as $120 or more.

DEPOSIT OPPORTUNITIES

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 1.35%, subject to availability. Contact operations@pcbb.com.