



## GAO Guidance On High-Risk-Transfers For Humanitarian Funding

regulatory business customers BSA-AML

**Summary:** Despite an unprecedented need to help victims of natural disasters and wars around the world, humanitarian aid nonprofits and other organizations — along with their financial institutions — often face challenges transferring funds for aid to certain countries. This is primarily due to the risk of money laundering or terrorist financing. We review the government's findings on how to improve this situation and what this could mean for community financial institutions.

According to Guinness World Records, the first driver to receive a speeding ticket was traveling at just eight mph. In 1896, Walter Arnold was spotted driving his vehicle at four times the speed limit — which was then just two mph — in Kent, England.

While the pace of life is now generally much faster, getting humanitarian aid funds to impacted countries can be a slow and frustrating process for nonprofits and other aid organizations. Yet, the demand for humanitarian aid has reached new heights. Last year, [the United Nations requested \\$35B to help 235MM people across 56 countries](#) — a 40% YoY increase.

### GAO highlights 6 proposals to improve international fund transfers

Against this backdrop, the Government Accountability Office (GAO) has released a report on the banking access challenges faced by organizations transferring funds to high-risk countries. The GAO report found that banks often limit or deny services to nonprofits involved in international aid largely due to compliance with Bank Secrecy Act/Anti-Money Laundering (BSA/AML). Institutions face “high costs” for due diligence checks and “heightened” scrutiny from regulators when dealing with high-risk countries.

Given the pressing need for humanitarian aid, the report spotlights six proposals to better facilitate overseas humanitarian aid funding, while protecting against the risk of money laundering or terrorist financing. All of these have advantages and disadvantages to weigh in determining the best approach.

- 1. Know-your-customer (KYC) utilities.** Financial institutions' (FIs) compliance costs for BSA/AML due diligence procedures could be lowered through access to centralized repositories of information about nonprofits and other organizations. However, such repositories would be unlikely to solve the due diligence challenges associated with the lack of transparency in some high-risk countries. Therefore, to further enhance KYC practices, community financial institutions (CFIs) should evaluate their customer's transactional activity to determine which customers routinely send humanitarian aid internationally, and conduct enhanced due diligence on that customer base. Creating specific, targeted profiles for customers who send humanitarian aid internationally will not only enhance the overall BSA/AML compliance programs, but it will also help in preventing the potential misuse of funds.
- 2. An enhanced federal role.** A US agency with a physical presence in a high-risk country could facilitate fund transfers by acting as an intermediary and taking responsibility for distributing the funds to the intended beneficiaries. But an unintended consequence could be that those countries are disincentivized to introduce reforms to lower their risk levels, if they receive funds, regardless of their risk.

3. **A code of conduct or best practices.** Although some institutions have been calling for a code of conduct, the report suggests that there is no guarantee nonprofits and other organizations would stick to one. A code also wouldn't address the fundamental issue of weak BSA/AML controls in high-risk countries. To further combat this issue, CFIs may also conduct due diligence on the nonprofits who are the recipients of the humanitarian aid. For example, conducting negative news searches on nonprofit organizations, can either add additional comfort to the overall risk profile of the underlying customer or can lead to additional questions that the CFI may need to inquire of their customer. Also, when conducting media searches in foreign jurisdictions, utilizing Google of the specific country can lead to additional information. For instance, if researching a nonprofit in Mexico, opt to also use "Google Mexico - [www.google.com.mx](http://www.google.com.mx)."
4. **Educational initiatives.** Education on methods to minimize the risk of money laundering or terrorist financing could be helpful for smaller or newer organizations. However, this would not lower FIs' BSA/AML compliance costs or address their concerns about what happens to funds in high-risk destinations. Therefore, CFIs may opt to sign up for free newsletters and webinars by law firms and other organizations.
5. **Incentives for FIs.** Tax credits could offset some of an institution's compliance costs, but could also create market distortions and reduce high-risk countries' motivation to introduce reforms.
6. **Communication.** "Ongoing communication" between CFIs and their nonprofit customers is key to improving the process of facilitating humanitarian aid fund transfers. Clear feedback from FIs about the reasons for denied or delayed transactions could help nonprofits and other organizations tailor their risk management activities appropriately. At the same time, FIs benefit from understanding customers' operating procedures and the levels of risk they may present.

### Challenges, advantages, and opportunities for CFIs

This is clearly a complex area. While national and global banks can have hundreds of people devoted to BSA/AML compliance, CFIs often have to deal with the same risks with limited compliance resources. On the other hand, CFIs have the benefit of generally knowing their customers better. This is a crucial advantage in the battle to prevent money laundering and terrorist financing.

Finally, many national and global banks leverage advanced data science and artificial intelligence solutions in the fight against money laundering and terrorist financing. These tools could likewise assist CFIs in addressing these risks efficiently, without increasing their compliance budgets.

There are still challenges in supporting nonprofits and humanitarian aid organizations. While not easy, finding the right balance of data and compliance is the key. For more detail on the ways to do that, [check out the full GAO report](#).

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### ECONOMY & RATES

Rates As Of: 02/22/2022 04:32PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.37	0.15	0.31
6M	0.73	0.24	0.54
1Y	1.08	0.30	0.69

2Y	1.56	0.38	0.83
5Y	1.87	0.26	0.60
10Y	1.94	0.16	0.43
30Y	2.24	0.13	0.33
<b>FF Market</b>	<b>FF Disc</b>	<b>LOBB</b>	
0.08	0.25	0.15	
<b>SOFR</b>	<b>Prime</b>	<b>QBFR</b>	
0.05	3.25	0.07	

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