

## RISK SCORING

### *The Essential Element of BSA/AML Compliance*

A question often raised by BSA/AML professionals is whether a financial institution should conduct Enhanced Due Diligence (“EDD”) on all of its customers when its branches and customers are in higher risk areas.

The best way to answer this question is to look directly to the BSA/AML Examination Manual published by the Federal Financial Institutions Examination Council (“FFIEC”). When the BSA/AML Examination Manual was revised in April 2010, FFIEC replaced the phrase “**high-risk customer**” with “**higher-risk customer**” throughout the manual to avoid this type of confusion. On page 57 of the BSA/AML Examination Manual published in February 2015, the title of the section is “Enhanced Due Diligence for Higher-Risk Customer.” The manual further states that “...*Higher-risk customers and their transactions should be reviewed more closely at account opening and more frequently throughout the term of their relationship with the bank.*”

In order to fully comply with the BSA/AML Examination Manual, **a financial institution must (1) identify the higher-risk customers, (2) conduct EDD on these higher-risk customers, and (3) monitor these higher-risk customers and their transactions more closely as long as their accounts are open.** Even if all customers of a financial institution are in High Intensity Drug Trafficking Areas (“HIDTA”) and High Intensity Financial Crimes Areas (“HIFCA”) areas, the financial institution can still identify higher-risk customers.

Nevertheless, determining whether one customer has higher risk than another is not possible if the financial institution does not consider all risk factors. For example, sending a \$6,000 wire transfer to a foreign country may have a higher risk than spending \$6,000 by credit card, even though the same amount of money is involved. Sending a wire transfer to India may have a lower risk than sending a wire transfer to the Cayman Islands, even though both are foreign countries. Sending over \$200,000 per year to India may have a higher risk than sending less than \$10,000 per year to India, even though these wire transfers are sent to the same foreign country. From these simple examples, one can tell that identifying higher-risk customers is a complicated process that requires careful consideration and evaluation of many different risk factors. Therefore, another common question is “how many risk factors does a financial institution need to consider in order to identify higher-risk customers?”

The answer to this question is also in the BSA/AML Examination Manual. On page 18 of the manual, it is stated “...*the examiner should determine whether management has considered all products, services, customers, entities, transactions, and geographic locations, and whether management's detailed analysis within these specific risk categories was adequate.*” In practice, there are quite a number of products and services offered by a financial institution; many types of businesses associated with different customers and entities; many different amounts and locations associated

with transactions; over 200 countries in the world; over 10,000 zip codes in the government-designated HIDTA and HIFCA areas, etc. In short, **a financial institution is expected to analyze millions of possible combinations of risk factors in order to identify higher-risk customers.** Because a person cannot memorize these millions of combinations of risk factors and their associated risk magnitudes, a financial institution is doomed to fail an examination if it depends on just human effort to determine who the higher-risk customers are. This is the reason why financial institutions use PATRIOT OFFICER to overcome these challenges. The key to effectively complying with the BSA/AML regulatory requirements is none other than the most essential element to BSA/AML Compliance – Risk Scoring.

By conducting Risk Scoring at account opening and more frequently throughout the term of a customer's relationship with the financial institution, PATRIOT OFFICER can automatically calculate a risk score for each customer based on millions of combinations of risk factors, including products, services, customers, entities, transactions, and geographic locations, etc. as required by the BSA/AML Examination Manual. **Once a risk score of a customer is obtained through the Risk Scoring process, a financial institution should conduct EDD on the customer if the risk score is higher than a certain value** determined by the policy of the financial institution.

Additionally, PATRIOT OFFICER uses the risk score of each customer to select a set of algorithms to monitor the customer. As a result, **higher-risk customers will be monitored more closely than customers with moderate risk; and customers with moderate risk will be monitored more closely than customers with lower risk.** Without having to memorize and analyze millions of combinations of risk factors and their respective risk impacts, a financial institution can confidently demonstrate to examiners that they have performed their BSA/AML monitoring duties using the most advanced and scientific approach that fully complies with the BSA/AML Examination Manual.

In summary, it is essential to use PATRIOT OFFICER's most advanced Risk Scoring technology. PATRIOT OFFICER empowers a financial institution to comply with the risk-based principles of the BSA/AML Examination Manual. Furthermore, PATRIOT OFFICER enables a financial institution to immediately identify higher-risk customers based on millions of risk factors. Most importantly, PATRIOT OFFICER empowers a financial institution to automatically monitor higher-risk customers more closely, exactly as the regulations mandate.

### Publisher Background

GlobalVision Systems, Inc. is the largest independent provider of regulatory compliance, risk management and fraud prevention solutions in the U.S.A. It has produced the renowned PATRIOT OFFICER<sup>®</sup>, GUARDIAN OFFICER<sup>®</sup>, and ENQUIRER OFFICER<sup>®</sup> and has established the de facto standards for BSA/AML compliance in the USA. For more information, please contact [sales@gv-systems.com](mailto:sales@gv-systems.com) or (888) 227-7967.