



UNFORESEEN REWARDS: Turning Compliance into a Profit Center

The Patriot Act has added a new dimension to Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance, imposing new obligations to ferret out suspicious activities and deter money laundering activities. The cost of BSA/AML compliance is steep, but smart bankers look at their responsibilities not as unwelcome burdens and costs, but as unforeseen opportunities to generate new revenue, improve efficiency, strengthen customer satisfaction and further manage risk, which includes reputation risk.

Know Your Customers and Your True Risk

A key strategy in the government's enforcement focus on terrorist organizations is to place more responsibility on banks to know their customers and their activities. Banks must develop comprehensive Customer Identification Programs (CIPs), maintain detailed customer information records — including the methods used to verify identities — and compare customers' names to those on terrorist watch lists.

Banks that collect this information strictly for compliance purposes are missing a golden opportunity to leverage it for targeted marketing, cross-selling products and services, and improving the customer experience. Also, not interpreting the information properly may unknowingly

increase a bank's exposure to certain types of transactions, products and customers.

To optimize use of the information, integrate your CIP systems into your customer relationship management (CRM) systems to provide powerful data to identify trends and help manage entity-wide risk.

Know the Changing Needs of Your Customers

Today's successful banks recognize it is no longer enough to offer customers a menu of products and services. Rather, the focus is on developing customer relationships by assessing their needs and offering customized solutions based on new trends and an evolving marketplace. An integrated CIP/CRM system that extends across all departments and functions within the

bank can provide the customer intelligence you need to achieve these strategic objectives.

For example, learning about a commercial customer's business may reveal a need for cash management services, fraud prevention services or insurance products. And reviewing a customer's transaction history may indicate that lockbox or other services would be appropriate. On the consumer side, a mortgage customer might be an ideal candidate for homeowner's insurance, and a high-net-worth customer might benefit from financial planning or trust services.

All of these cross-selling opportunities may seem like no-brainers, but without a single source of customer data that cuts across departmental and functional lines,

it's difficult to get a complete picture of a customer's needs. BSA/AML requires you to collect information about customers' backgrounds and circumstances and the types of banking products and services they use. By taking the extra step of making this information readily available throughout the bank, costly compliance resources can be converted into a profit center.

Using cross-selling to provide customers with solutions that meet their unique and ever changing needs builds customer loyalty and puts you on the forefront of future product offerings. In short, you build reputation equity by being an innovative institution and market leader while reducing your costs. It's far more expensive to sell products or services to new customers than to existing customers.

Integrating your compliance and CRM systems also enhances the customer ex-

perience by ensuring he or she isn't asked to provide the same information over and over again.

Knowing Your Risks Allows You to be Proactive

Before you develop or modify your CIP/CRM system, conduct a risk assessment of your institution. Federal regulators emphasize a "risk-based" approach to compliance. In other words, the extent – and, therefore, the cost – of your compliance efforts should be tailored to your bank's particular risk profile.

Knowing your risks provides valuable information that allows you options to make decisions. It's much more cost effective to put proactive measures in place rather than deal with the consequences of expensive system patches and paying regulatory penalties.

Where's the Carrot?

Compliance for banks is more critical than ever before. Using the information you are already required to generate for BSA/AML compliance provides valuable data that can be used to identify the needs of your customers. By properly assessing the bank's compliance risks and by adapting the right technology to achieve marketing and customer service objectives, as well as compliance objectives, you can turn compliance into a profit center. As with any technology, of course, simply having a system in place is not enough: effective communication and training of risks and objectives is essential to a healthy return on your compliance investment.

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A Risk-Based Approach to a Healthy Compliance Program

Federal banking regulators emphasize the importance of a risk-based approach to compliance that takes into account an institution's risk level as well as its resources.

It is important for your bank to design a compliance program based on its risk level. This depends on a variety of factors, including the institution's size, location, customer profiles and product/service offerings.

For example, a small bank in the Midwest is less likely to attract foreign customers than a large East Coast institution with overseas branches. It may be reasonable, therefore, for the Midwest

bank to exercise a lower level of due diligence in verifying customer identities and monitoring their activities.

Similarly, a retired person opening a CD does not require the same level of due diligence as a nonresident alien who wants to take advantage of international wire transfer services.

The Federal Financial Institutions Examination Council's Bank Secrecy Act/Anti-Money Laundering Examination Manual identifies several high-risk areas:

- Nonbank financial institutions, including money service businesses
- Foreign correspondent banking relationships

- Payable-through accounts
- Private banking activities
- Numbered accounts
- Pouch activities
- Special use accounts
- Wire transfer activities
- Electronic banking

By conducting a comprehensive risk assessment, you can limit your compliance procedures to those your institution reasonably needs, avoid unnecessary expense and minimize your customers' burden.