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10 Ways to Avoid an Enforcement Action

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There are certainly critical areas that should be focused on when trying to protect your organization from being involved in an enforcement action. Here are 10 areas that you should focus on.

1- Always address the recommendations of the regulators from the previous audit

Too many times firms listen but do not react to the recommendations of the regulators.

If a regulator tells you that it would be advisable to modify a policy or procedure or enhance staffing or deal with technology issues or makes any sound recommendation. These recommendations should be taken very seriously. Not taking action is a recipe for future problems.

2- Always upgrade your AML technology

AML technology vendors create major releases usually once a year. These releases are generally full of new methodologies to detect suspicious activities and in most cases should be acted upon.

These changes are based upon both peer best practices but also regulator recommendations in many cases. Not upgrading your system on a consistent basis is like not upgrading your PC anti-virus software. If that were to happen after several cycles your anti-virus software would become irrelevant.

Also, keep in mind that you may have an examiner that has just performed an exam for a bank that fits your operational blueprint and they use the same AML technology as you and are using the latest vendor version. In that instance your organization would be at a disadvantage.

3- Maximize the technology you have

Today's AML technology has tremendous reach and capabilities. All too many times I find that FI's are only scratching the surface as it relates to the utilization of vendor capabilities that exist as standard capabilities within the application.

Underutilization is a red flag for regulators!

4- Honing of BSA and OFAC algorithms

Over time ALL OFAC and BSA detection algorithms will drift. This is due to changes in the client mix and customer activity as well as shifts in technology algorithms.

Therefore it is essential that periodically a re- honing of your technology take place.

Consider it a tune up for your AML system. Regulators expect that AML technology will maximize the find potentials while minimizing the false positives. This is an investment that will save you time and money in the long run.

5- AML Gap assessments

As the regulations change or get tweaked, and examiners expectations also change, it is essential that a full annual AML Gap assessment be performed that addresses any potential gaps, or risks.

Qualified AML consultants will be able to determine critical gaps vs. industry best practices. This is especially true when it comes to AML technology review.

6- Address all understaffing issues

Compliance management must insist that their respective departments are fully staffed. I have seen time and time again instances where organizations know that they are understaffed yet seem not to make the needed investment.

Understaffing leads to overwhelming workloads and therefore human error. Regulators easily pick up on this, which is not a good position to be in.

7- Risk Assessments

All business lines need to be looked at from a risk assessment perspective. Poor EDD/KYC/CDD methodology will certainly lead to criticisms by the regulators, it is essential that fair risk based assessment be performed across all business lines. It makes sense to use outside consultants, who will give you a different viewpoint and business perspective.

8- Training

This is a must! It has to be up to date, performed annually, taken by everyone including executive management and graded. I would steer away from self-training. Compliance managers who have to juggle day-to-day issues simply may not be up to date on all changes and issues. Additionally, outside training professionals tend to have a higher value proposition with staff.

9- Educate yourself and understand what your peers are doing

Go to every critical conference. Become a member of a local compliance group. Read all the trade publications. By doing this you will become expert. You will see what your peers are doing or not doing.

This education is invaluable and lends to credibility with the examiners.

10- Error on the side of being conservative

When in doubt, go the extra mile; add the extra work and scrutiny to a process. It will pay dividends in the end.

Remember “STOP PLAYING REGULATORY ROULETTE”. Taking chances is not a recipe for success but one for potential disaster.