



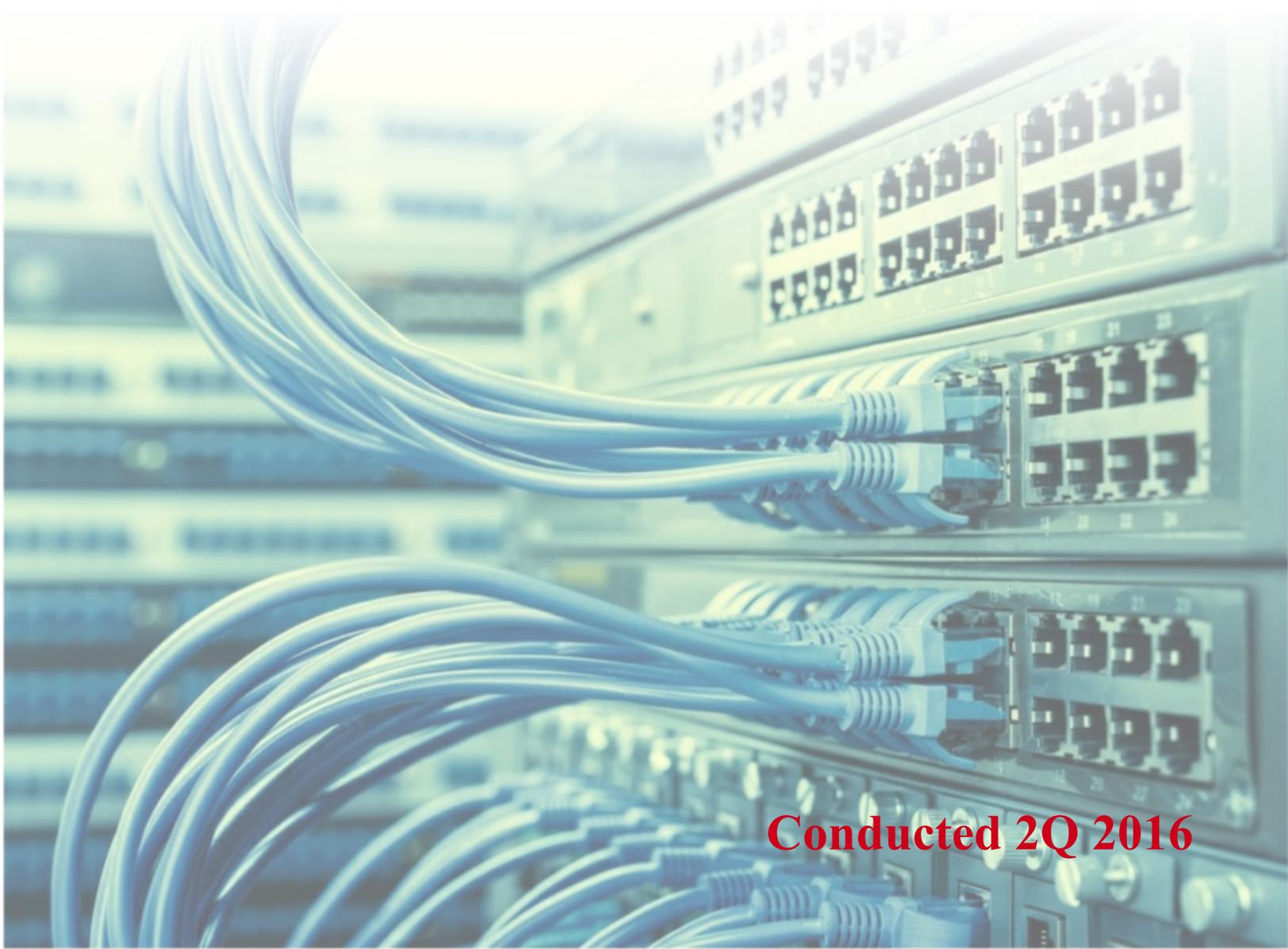
# AML-ology

*The study of AML trends and solutions*

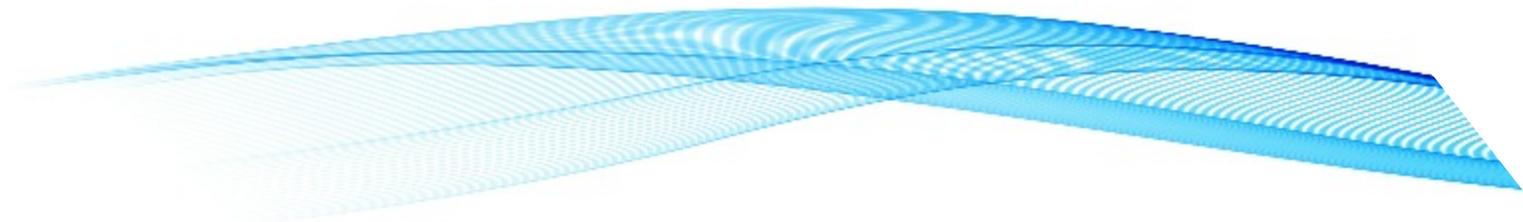
ARC  
Risk and Compliance

## Which BSA Software Solution Is Right For Your Institution?

**BSA Software Survey Results Summary**

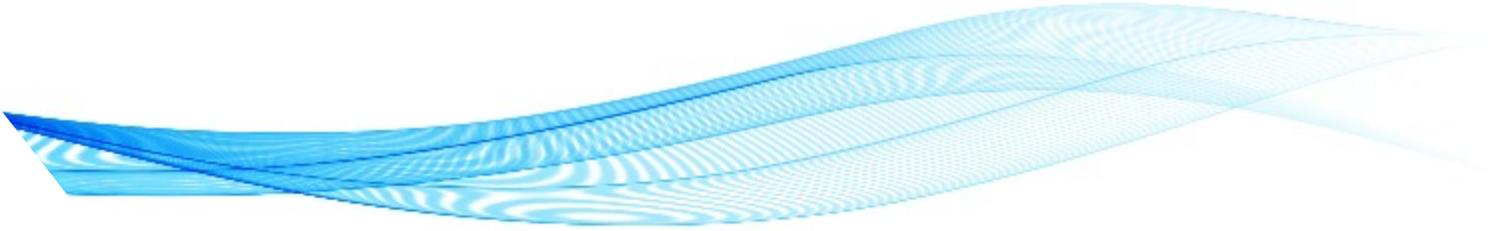


**Conducted 2Q 2016**



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## Purpose of the Survey:

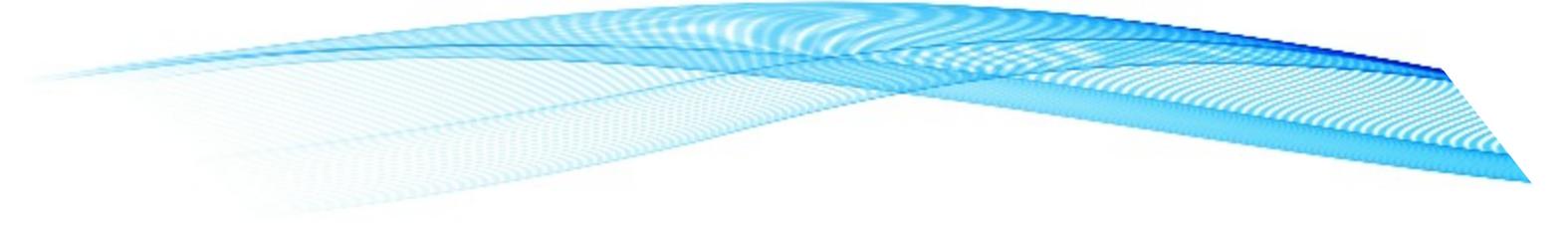
A piece of a financial institution's (FI's) compliance program is the software they're using to monitor transactions for Bank Secrecy Act (BSA) compliance. Since BSA Compliance can take up so much of an FI's time, money and resources, we wanted to get an idea of what commonalities and differences might exist among FI's regarding their BSA/transaction monitoring software, and why.

In this survey, we asked questions like if they're using BSA/transaction monitoring software at all; if not, how are they managing their risk around this compliance topic; if they are, what features does it offer; how much does it cost annually; how satisfied they are with their software; is it hosted or licensed; how customizable is it; what pre-implementation, implementation, and post-implementation tasks they completed; what common rules/scenarios they use; and more.

## Purpose of this Report:

The purpose of this report is to summarize and demonstrate the overall findings of this survey. A detailed version of this report showing how retail and commercial banks are addressing this issue in their institutions is available. To receive a copy, please send us an [email](#) requesting a detailed copy of the survey results.

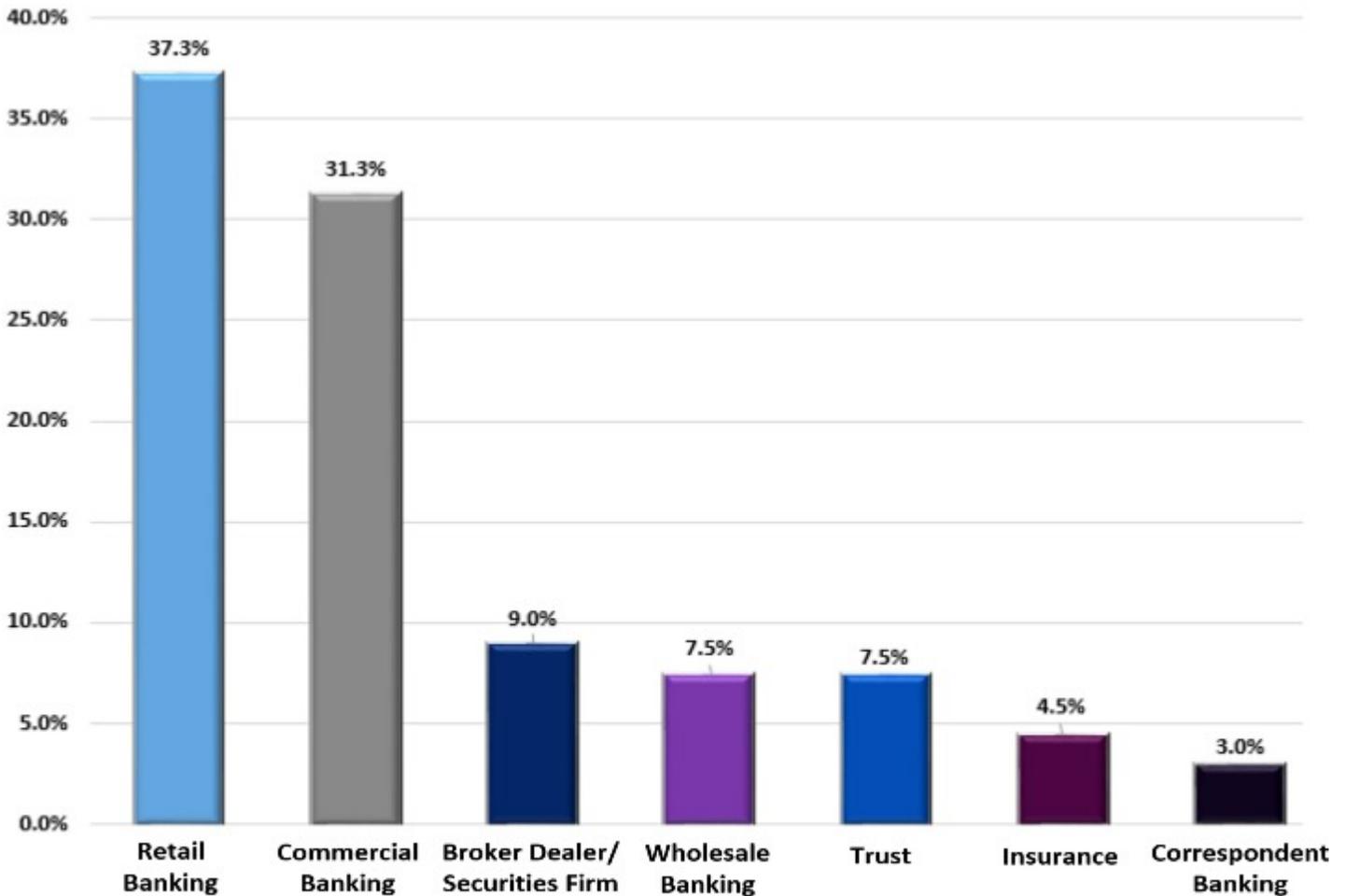




## Demographic Results:

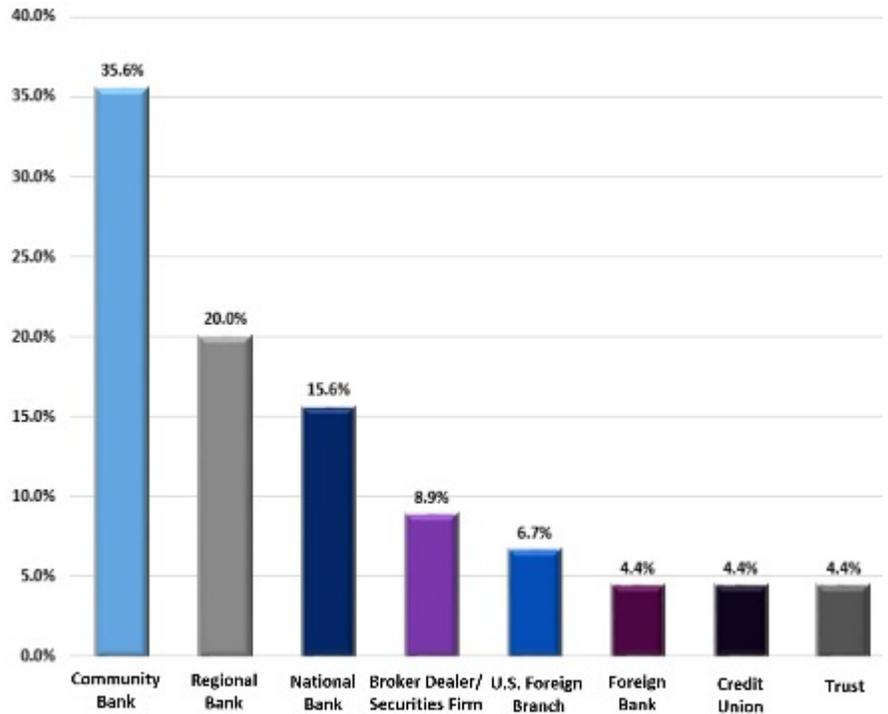
### *Business Type:*

The largest group of respondents represented a retail bank (37.3%) followed by a commercial bank (31.3%). There was a steep drop following the top two responses; however, the next largest group of responses were broker dealer/securities firms (9%).



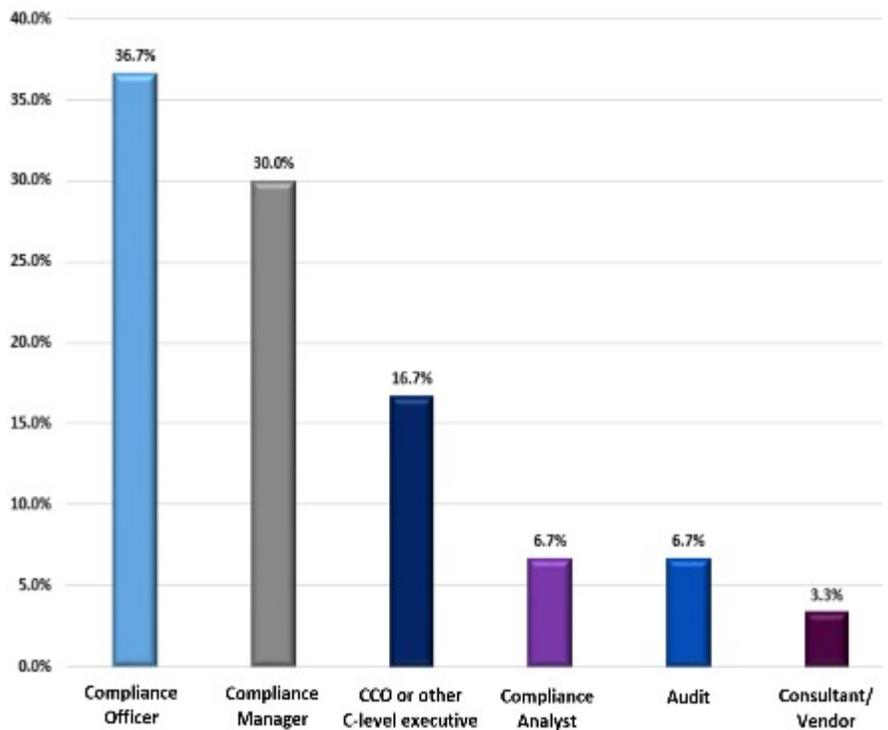
### *Institution Type:*

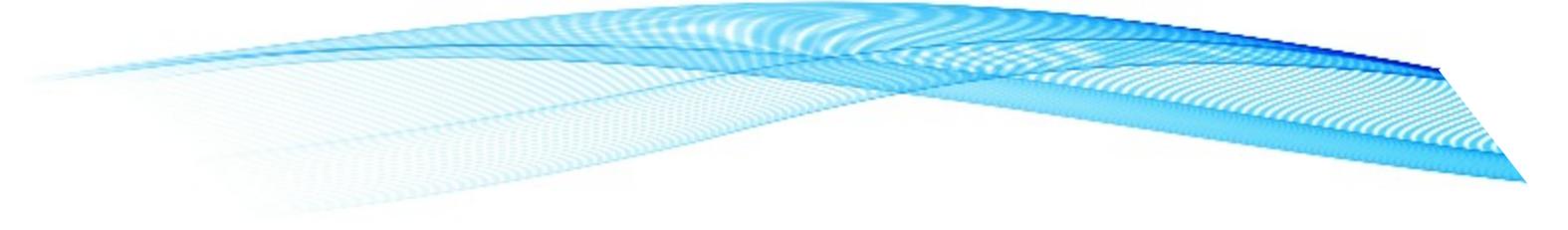
The top three respondents represented community banks (35.6%), regional banks (20%), and national banks (15.6%).



### *Current Position:*

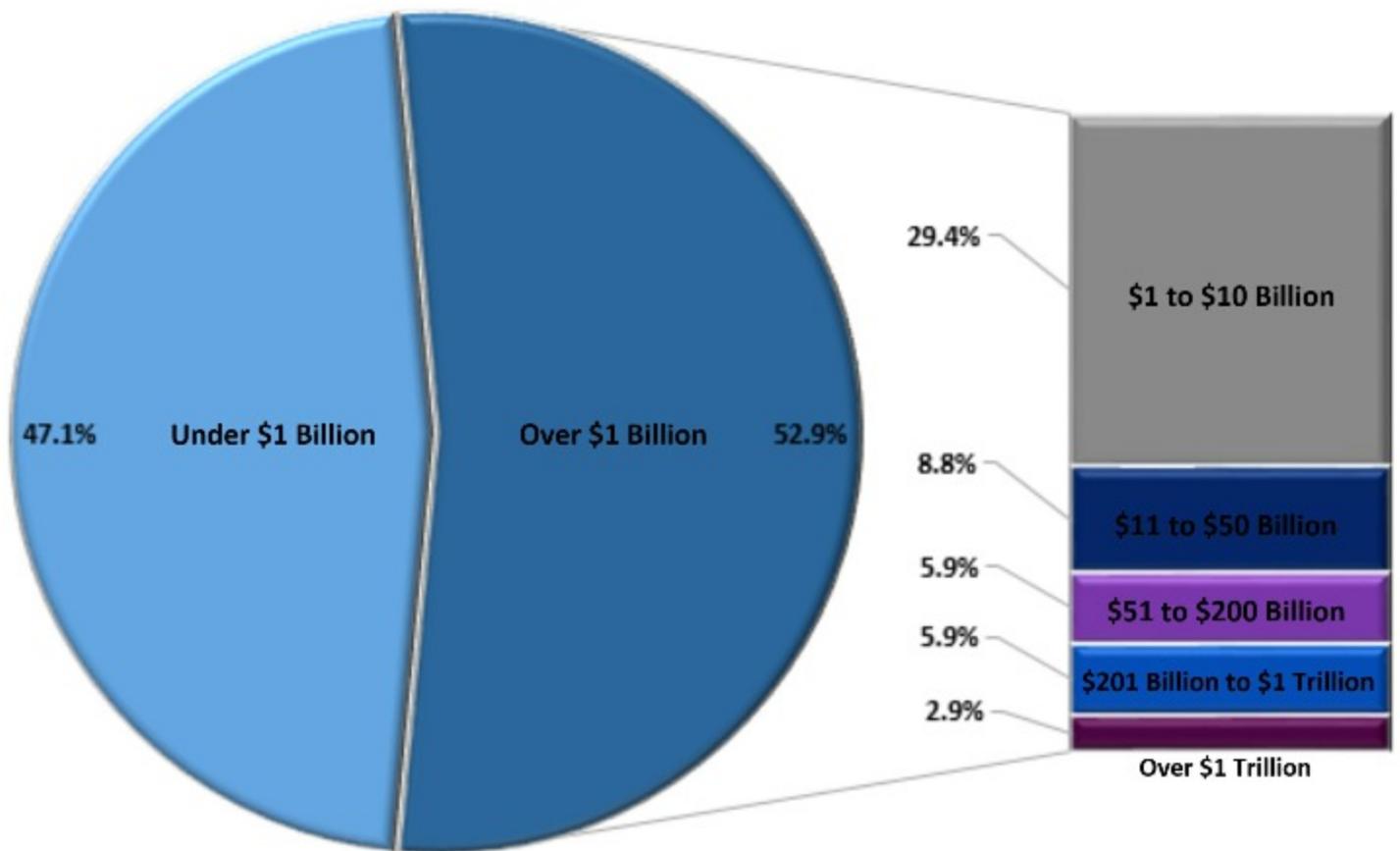
Compliance Officer (36.7%) was the most common job title for this survey, followed closely by a Compliance Manager (30%) and then CCO/other C-level executive (16.7%).





## Asset Size:

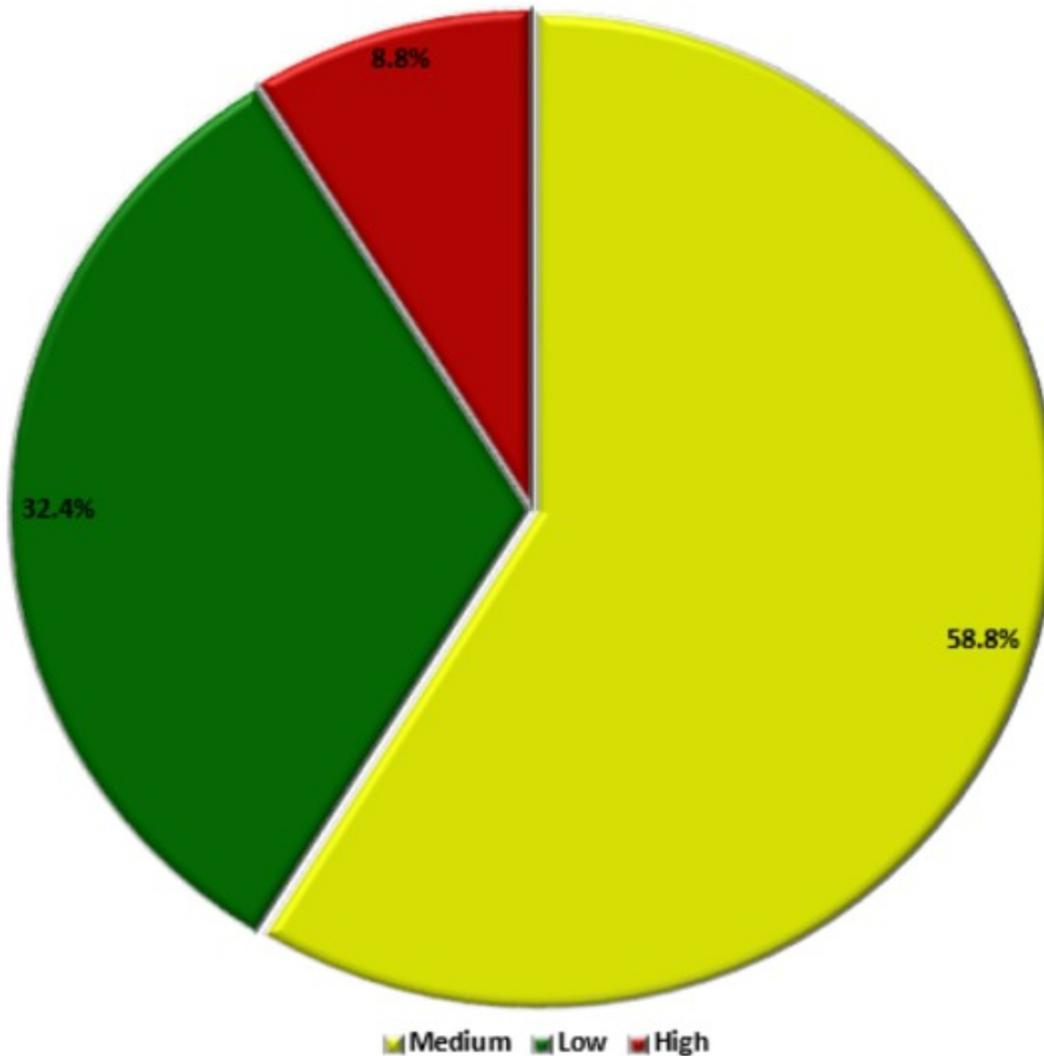
When our respondents were asked about their institutions asset size. We found that there was an almost 50/50 split between institutions with an asset size over or under \$1 billion. For the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (29.4%).

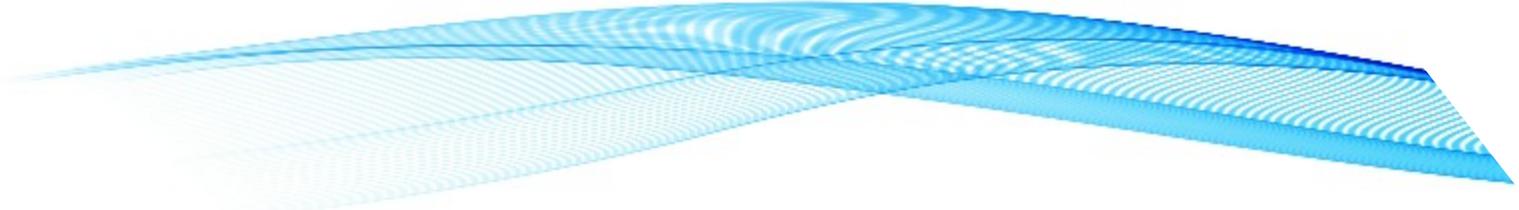




### *Risk Rating:*

The final demographic question we asked our respondents was to describe their institution's overall risk rating. The majority stated that they have a medium risk rating (58.8%) with the next most frequent answer was having a low risk rating (32.4%), and finally a high risk rating (8.8%).

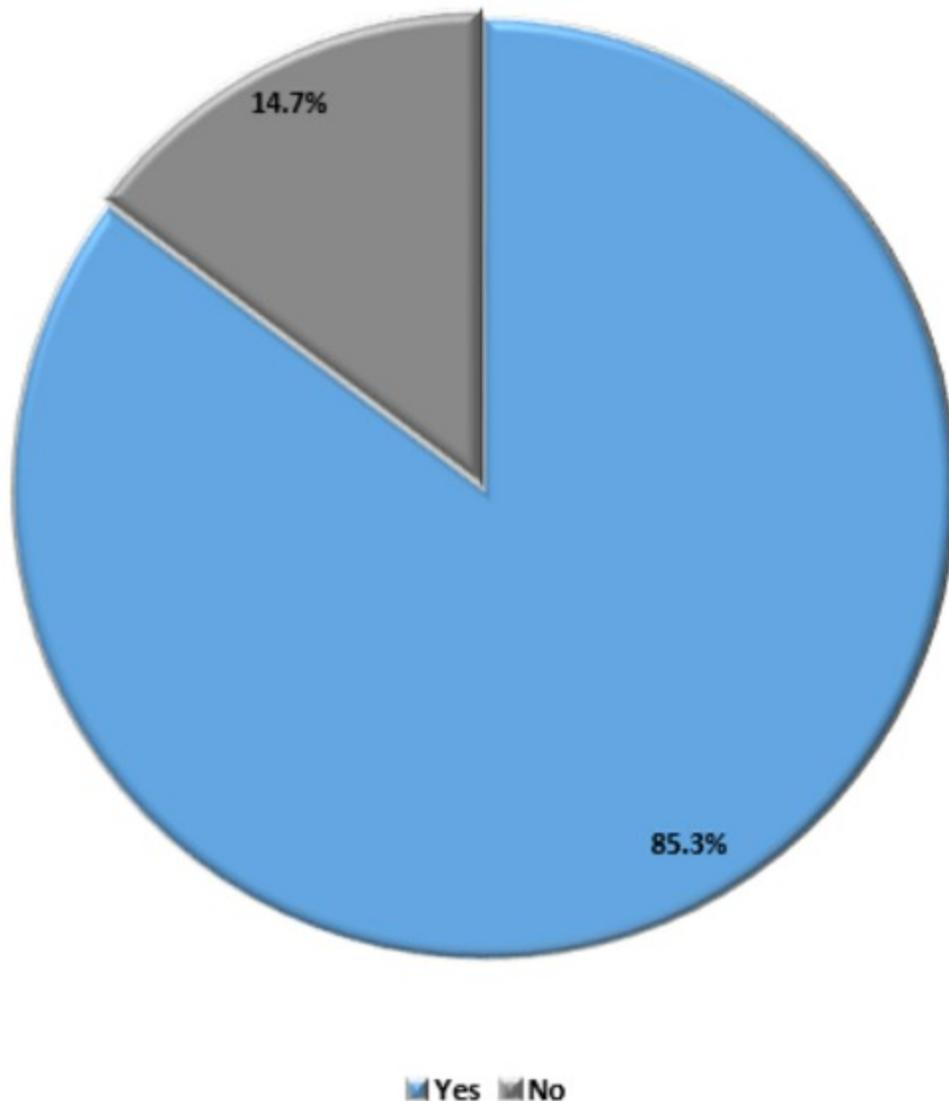


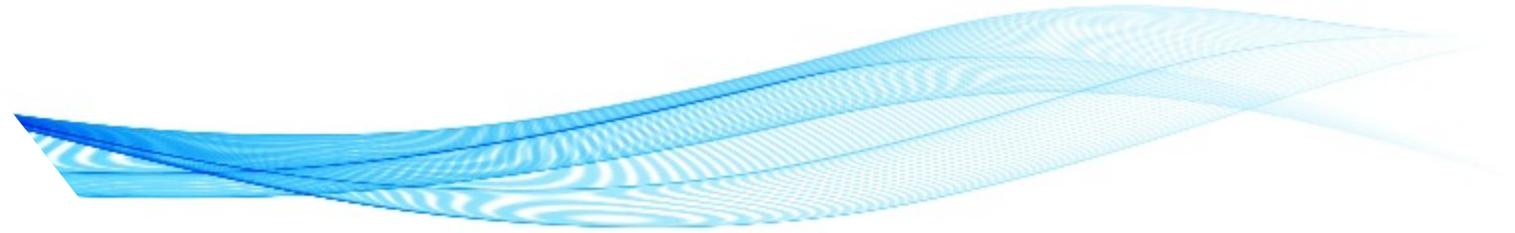


## General BSA Software Questions:

### *Transaction Monitoring Software Utilization:*

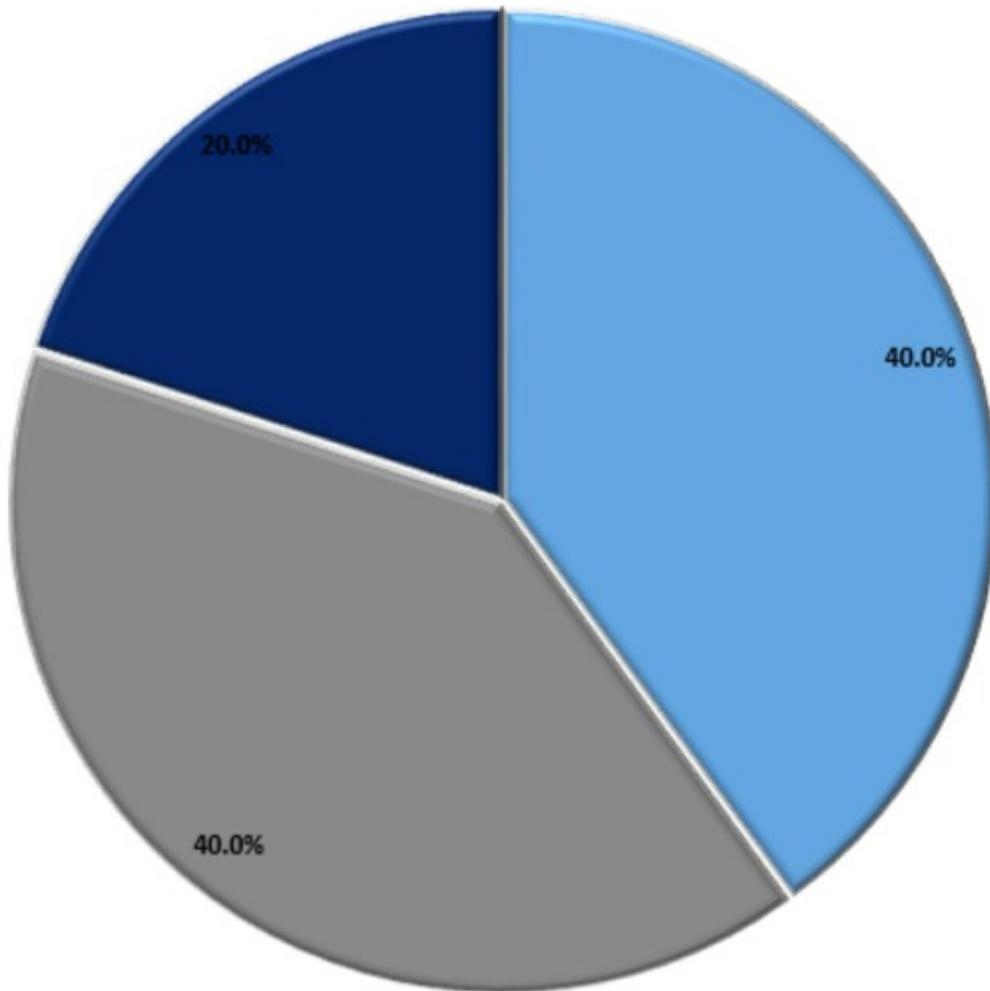
Naturally, the first question to start with was whether or not our participants are currently utilizing a BSA/transaction monitoring software. The majority (85.3%) of our respondents said 'yes' that they are using a BSA/transaction monitoring software while 14.7% said 'no'.





### Software Alternatives:

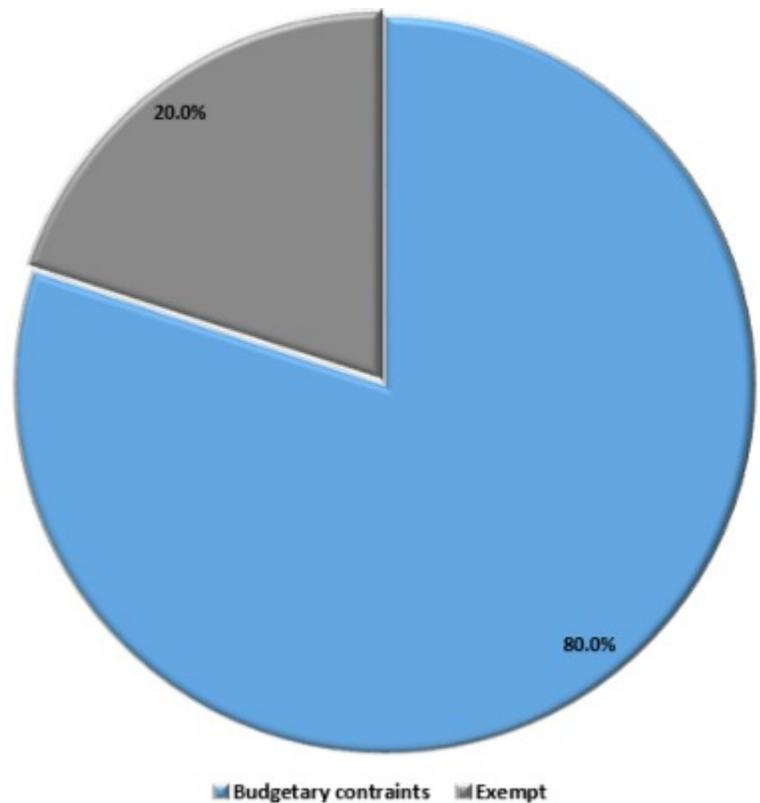
For the respondents that said that they are not using a BSA/transaction monitoring software, we asked them how they were monitoring transactions in their institution. Although offered, no one said ‘we didn’t know it was required’, but the split was fairly even from there with 40% utilizing only spreadsheets, 40% using spreadsheets and reviewing reports manually, and 20% only reviewing reports manually.



■ Spreadsheets   ■ Spreadsheets and reviewing reports manually   ■ Reviewing reports manually

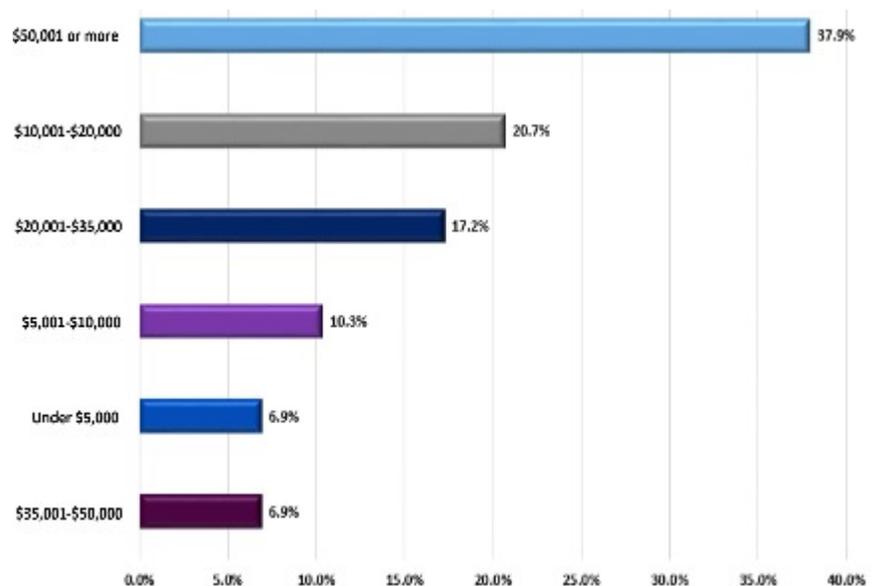
## Reasons they're not using Transaction Monitoring Software:

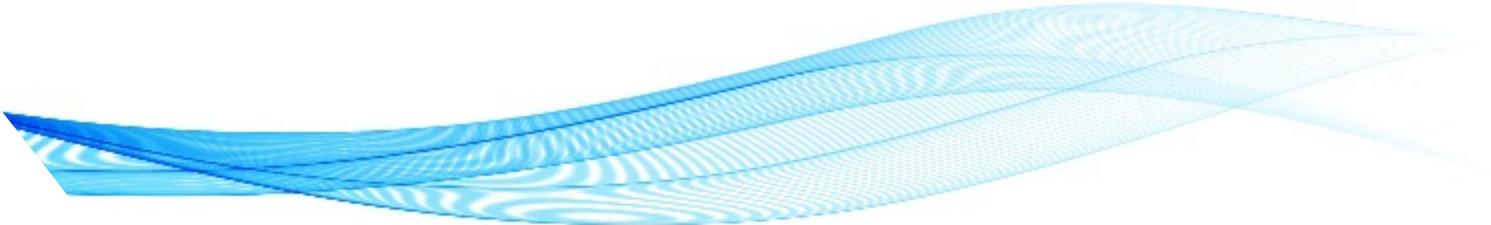
When we asked those institutions that aren't using a BSA/transaction monitoring software why, the majority said that it was because of budgetary constraints (80%) while the rest (20%) said they were exempt, likely because they didn't have enough transactions to warrant a third party software solution.



## Software Costs:

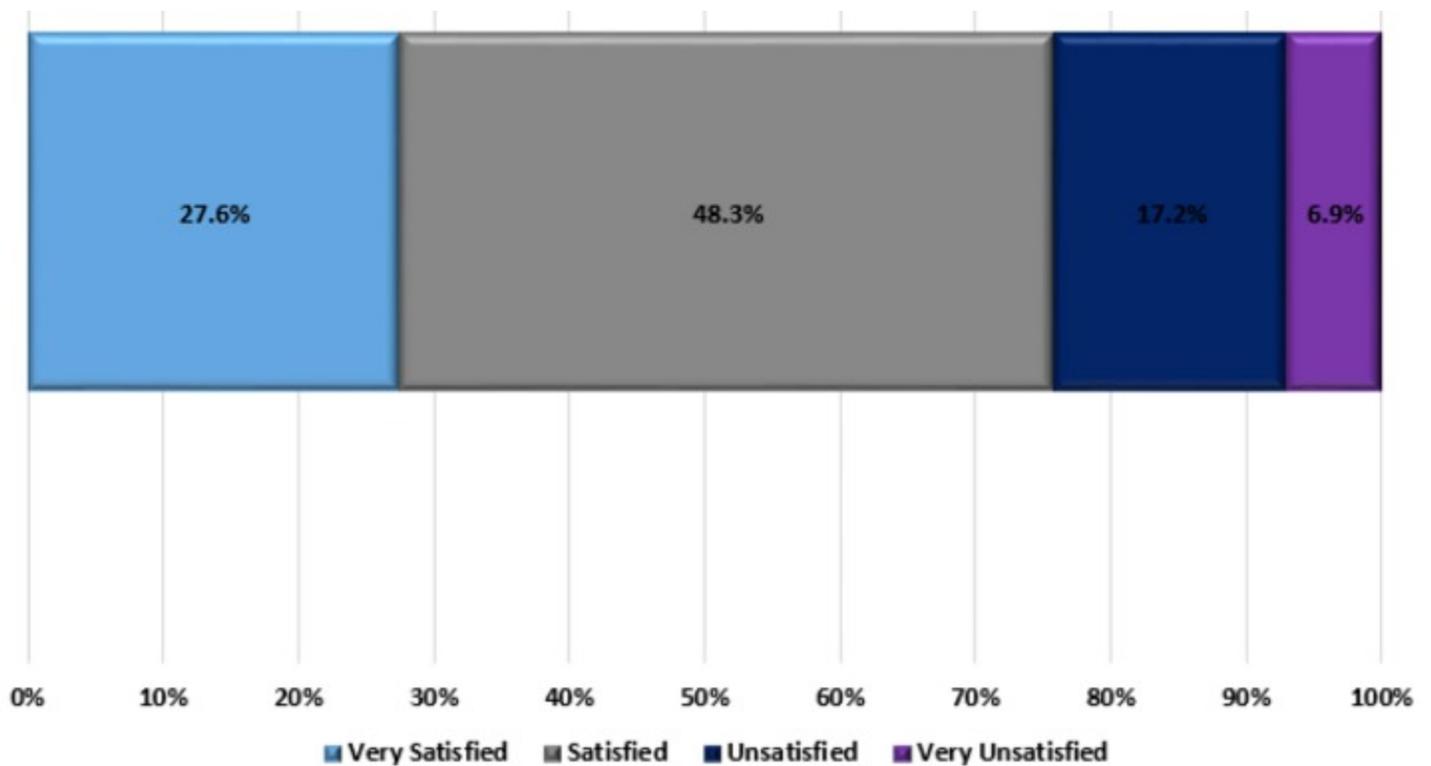
The majority of our respondents who do use BSA/transaction monitoring software say they spend more than \$50,000 annually on their software (37.9%), which translates to more than \$4,000 a month. Meanwhile, the next most common range spent annually on BSA/transaction monitoring software is between \$10,001 and \$20,000 at 20.7%, roughly \$850-\$1,650 per month.





## Software Satisfaction:

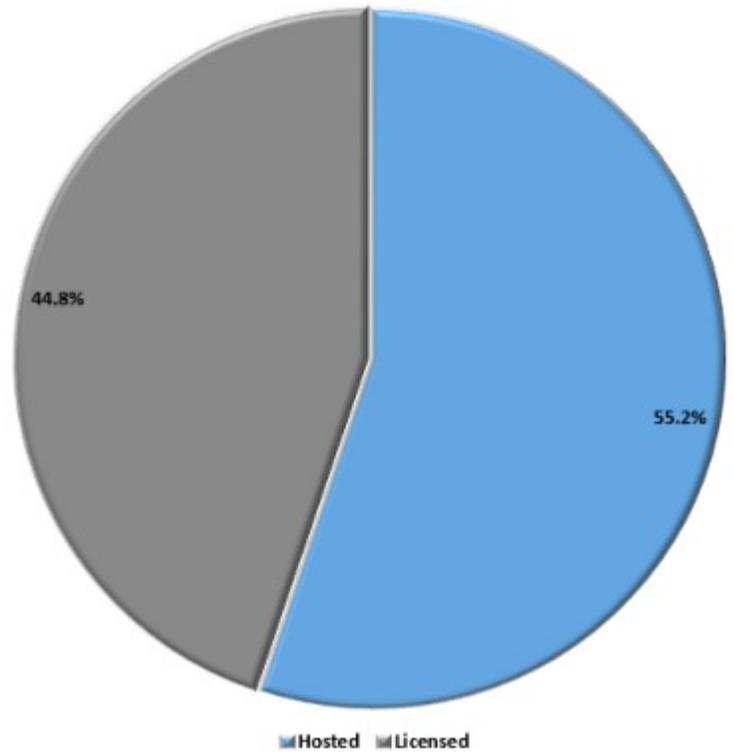
Just under half (48.3%) of our respondents say that they're satisfied with their BSA/transaction monitoring software, and just over a quarter (27.6%) are very satisfied. It was interesting to note that a combined 75.9% are satisfied or very satisfied with their software. Meanwhile, 24.1% are unsatisfied or very unsatisfied.



# BSA Software Technical Questions

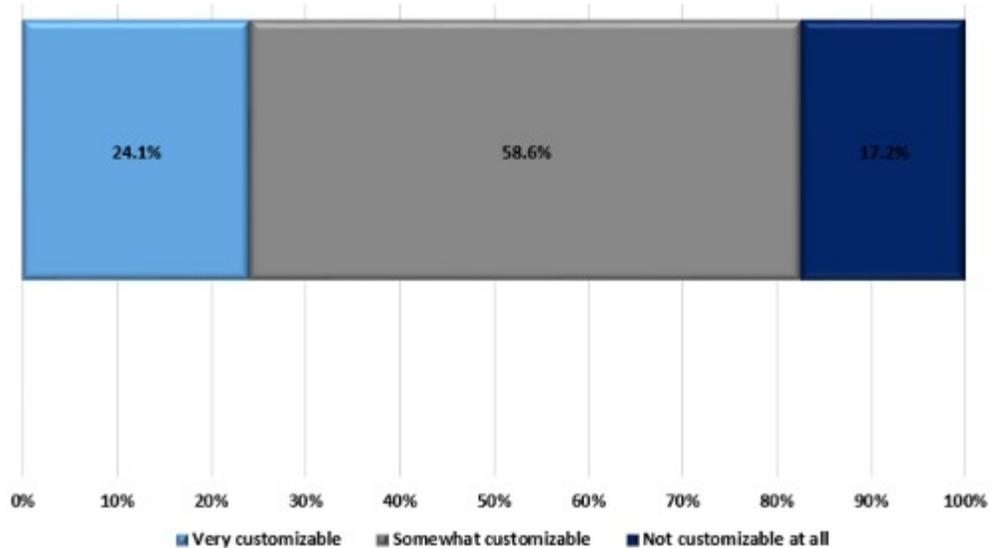
## Hosted or Licensed:

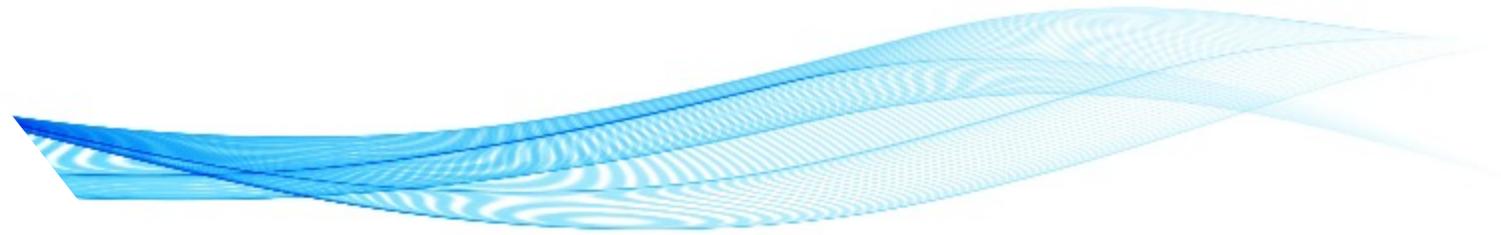
The split was close, but the majority of our respondents (55.2%) said their BSA/transaction monitoring software is hosted while the remainder (44.8%) said that their software was licensed and maintained on a server their internal IT has access to.



## Software Customization:

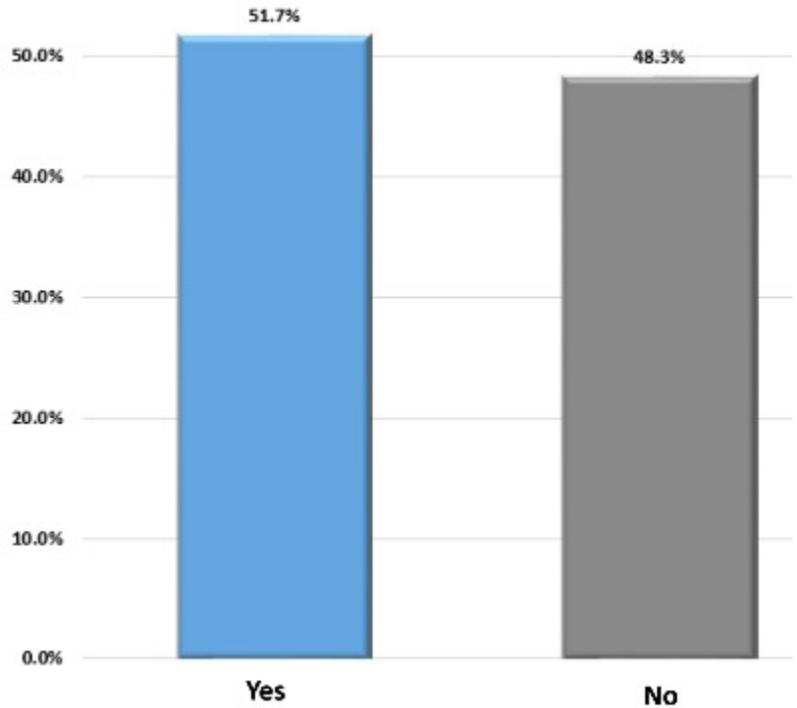
The majority of our respondents said their BSA/transaction monitoring software is somewhat customizable (58.6%), while 24.1% said that their software is very customizable, and just 17.2% said that their software was not customizable at all.





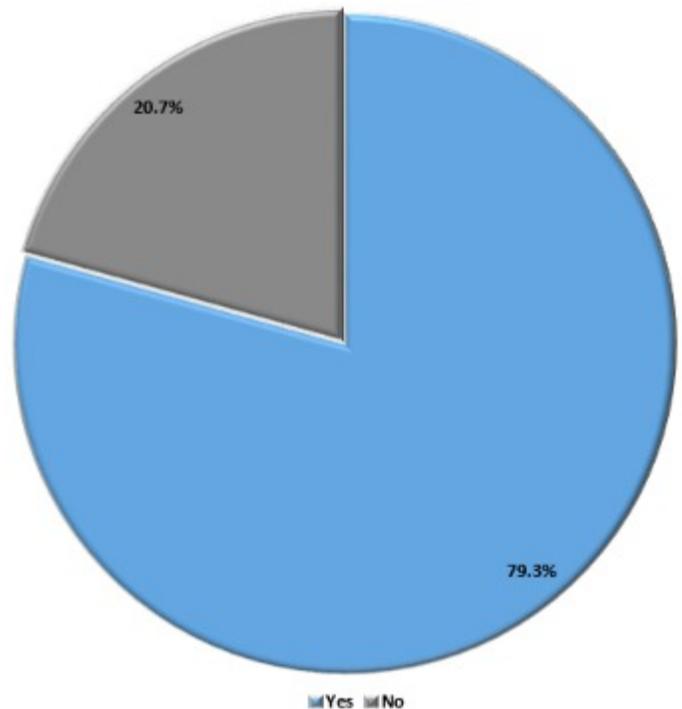
### Test Server Access:

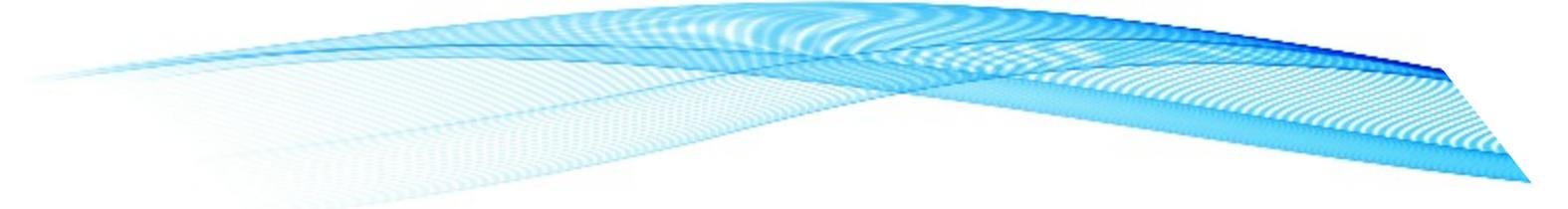
It was surprising to see that our group of respondents was split nearly 50/50 for this question. By a slim margin, 51.7% said that they have access to a test server with a complete and current replica of production, while 48.3% did not. A test server is *critical* to an ongoing healthy AML program.



### Profiling:

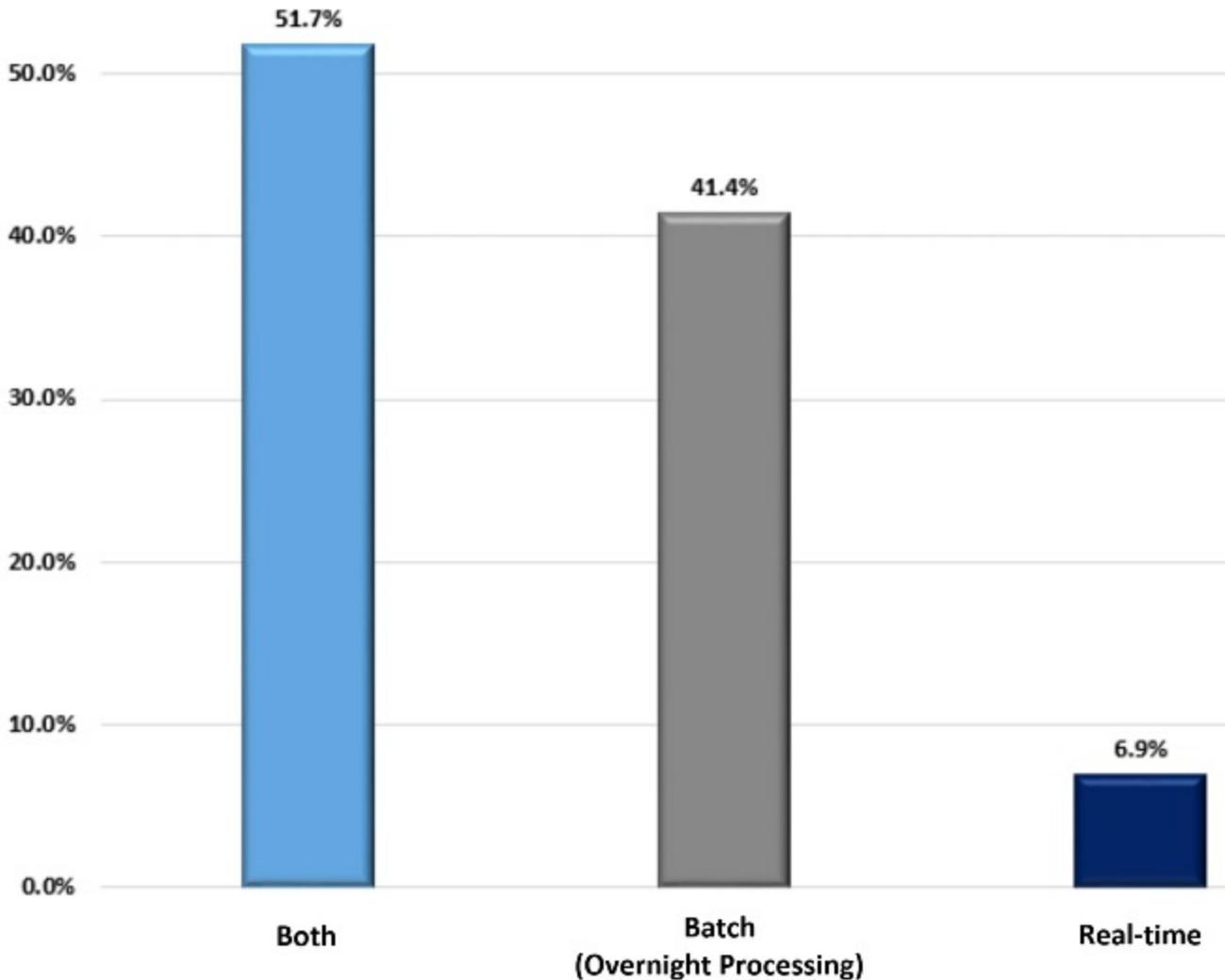
An obvious majority (79.3%) of our respondents said that their BSA/transaction monitoring software uses profiling, as defined by comparing previous behavior to current behavior and alerting you of abnormal activity.

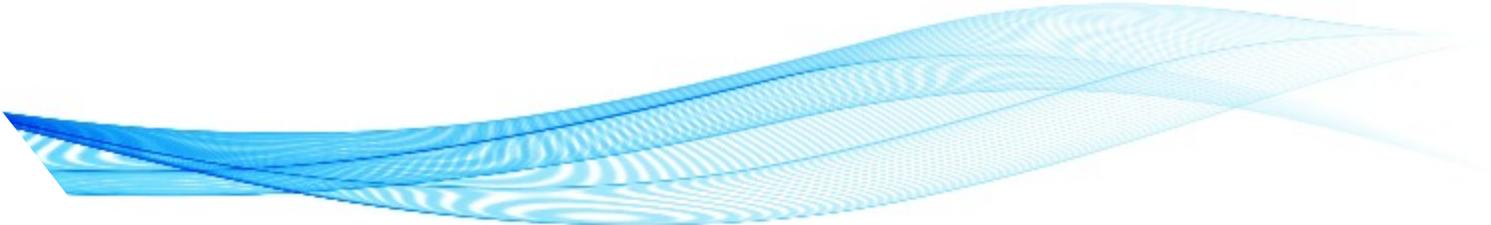




### *Real-Time, Batch, or Both?:*

Not surprisingly the bulk of our respondents (51.7%) said that their BSA/transaction monitoring software operates in real-time and batch/overnight processing, with 41.4% of those saying it only operates in batch/overnight processing, and just 6.9% only operating in real-time. It's likely the group that only operates in real-time is an example of a highly customizable software solution.

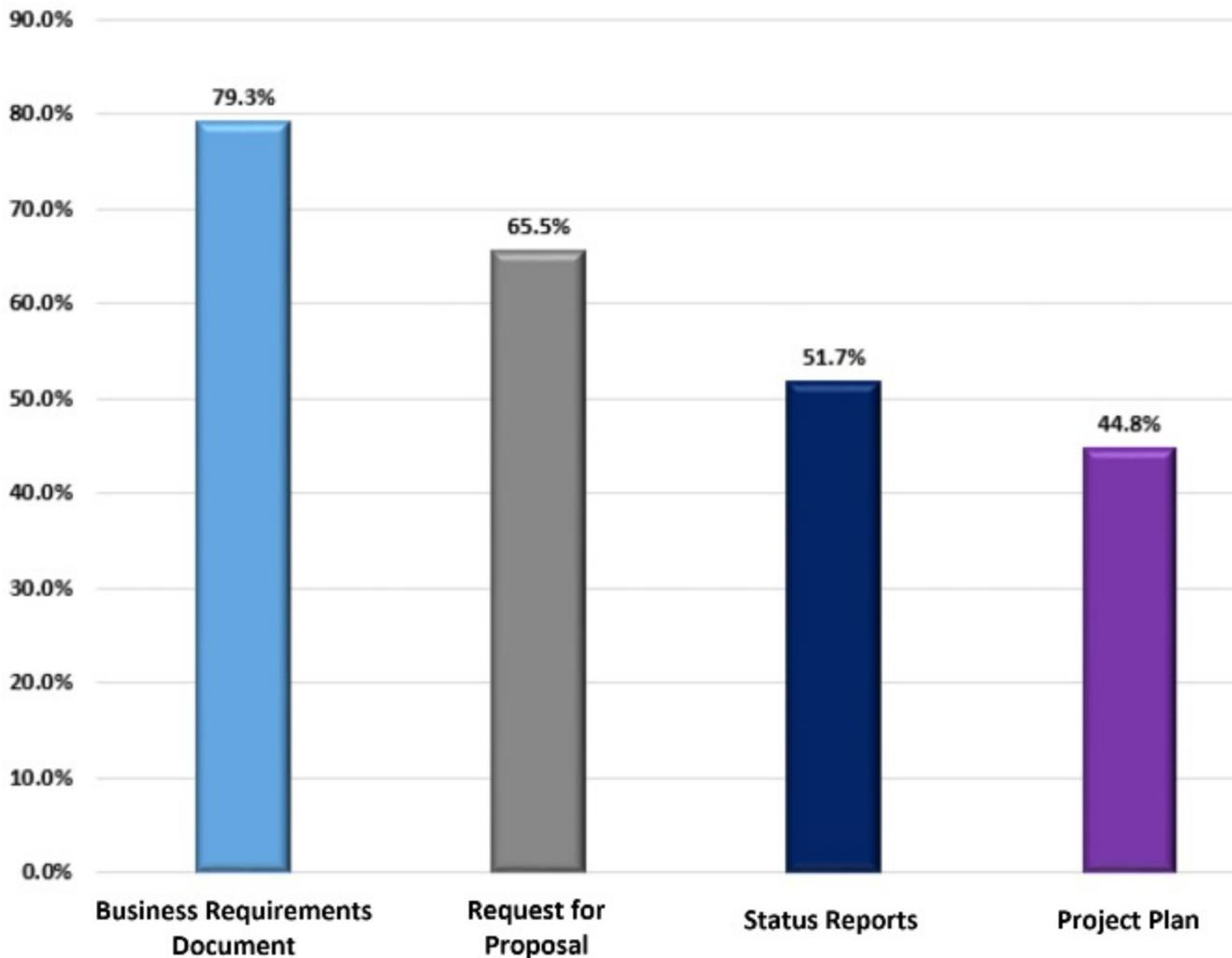


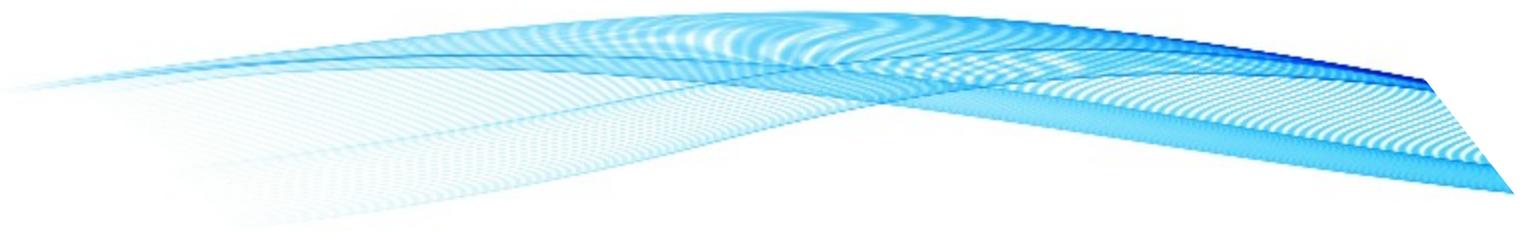


## BSA Software Pre-Implementation Questions

### *Pre-Implementation Tasks:*

Interestingly enough, 80% of our respondents completed a business requirements document which outlines exactly what the business needs in terms of technical solution; 65% completed a request for proposal (RFP) from more than one software vendor; 53% created status reports throughout the project; and 41% created a project plan of the implementation of their BSA/transaction monitoring software.

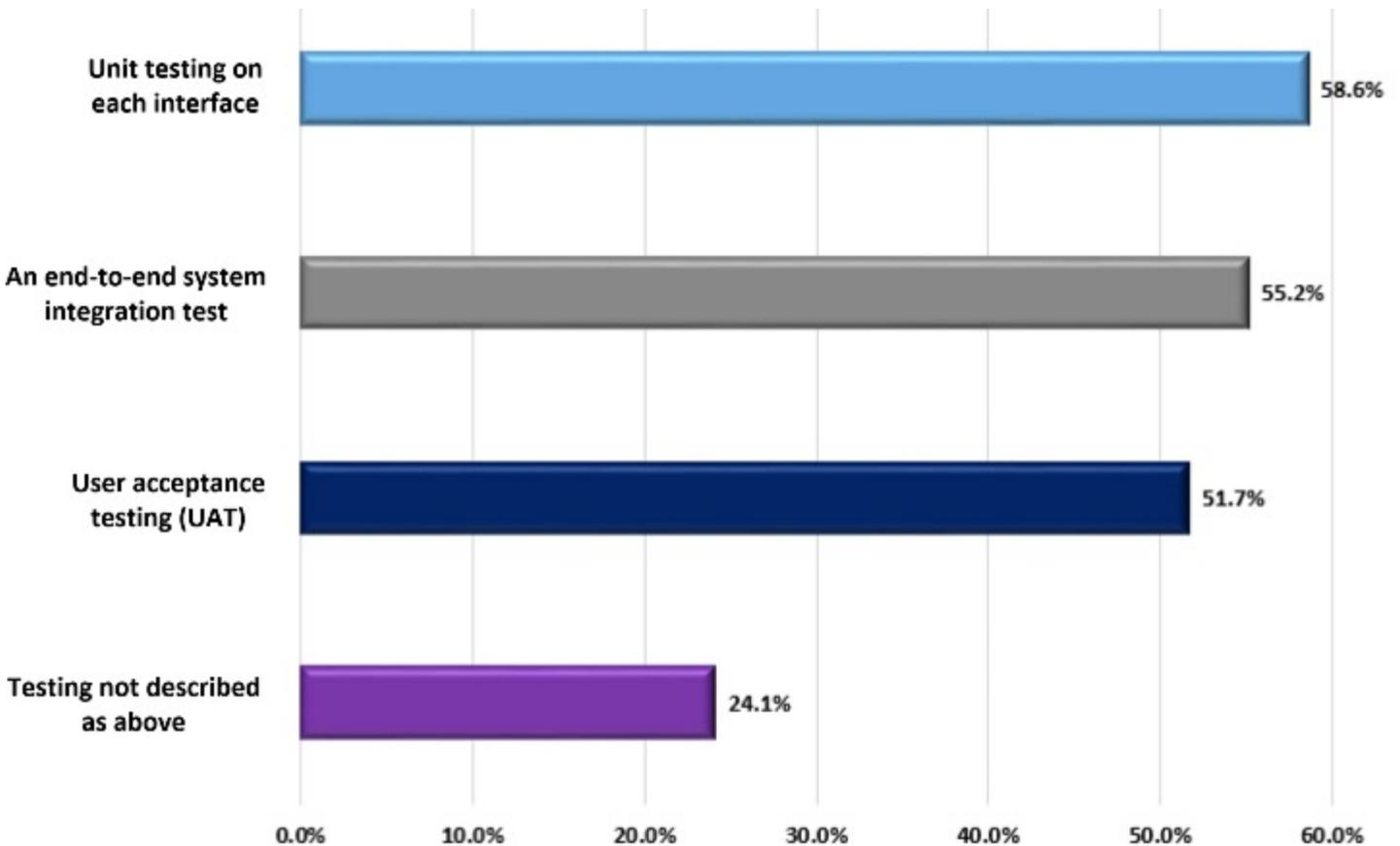


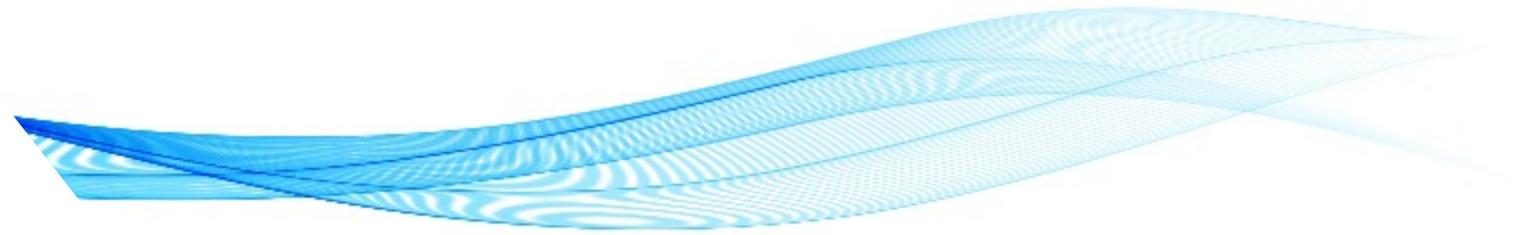


## BSA Software Implementation Questions

### *Implementation Tests:*

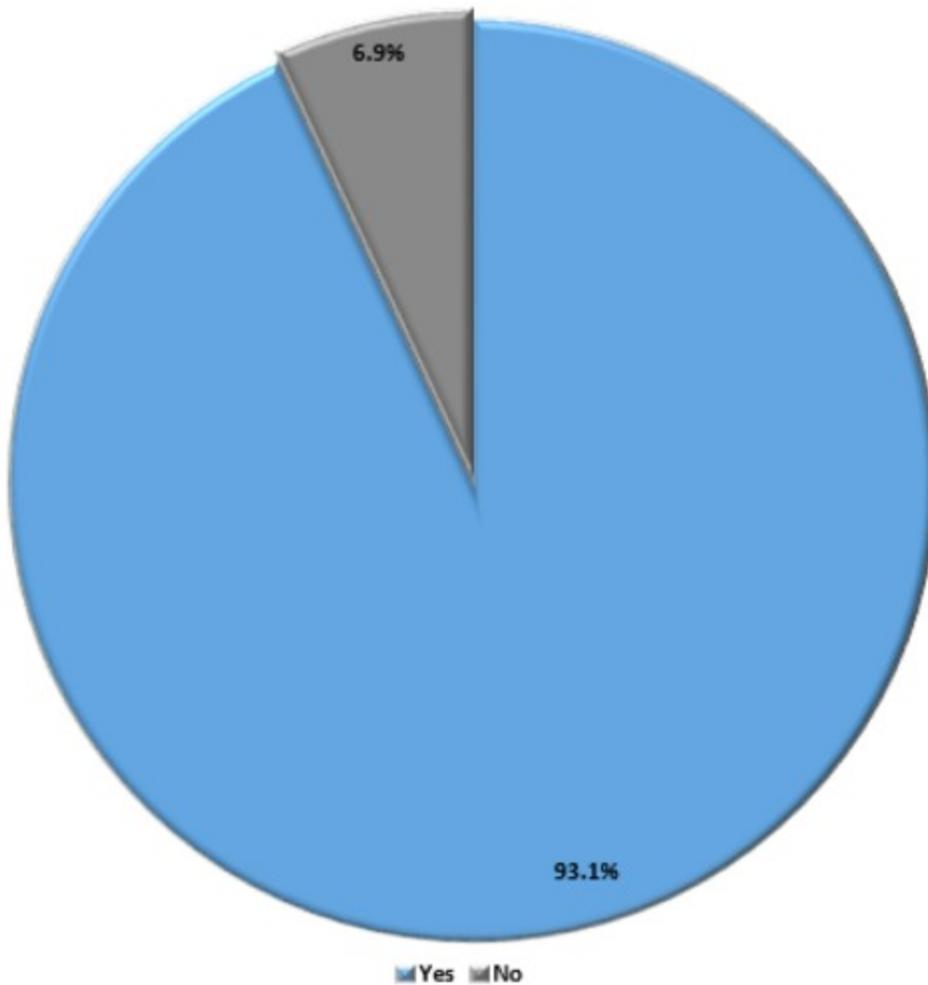
Before their BSA/transaction monitoring software went into production/live, we asked our participants what type of testing they conducted on the software. Just over half (58%) said they at least conducted unit testing on each interface; 55% said they conducted an end-to-end system integration test; 52% conducted user acceptance testing (UAT); and finally, 23% conducted some other kind of testing not previously mentioned.





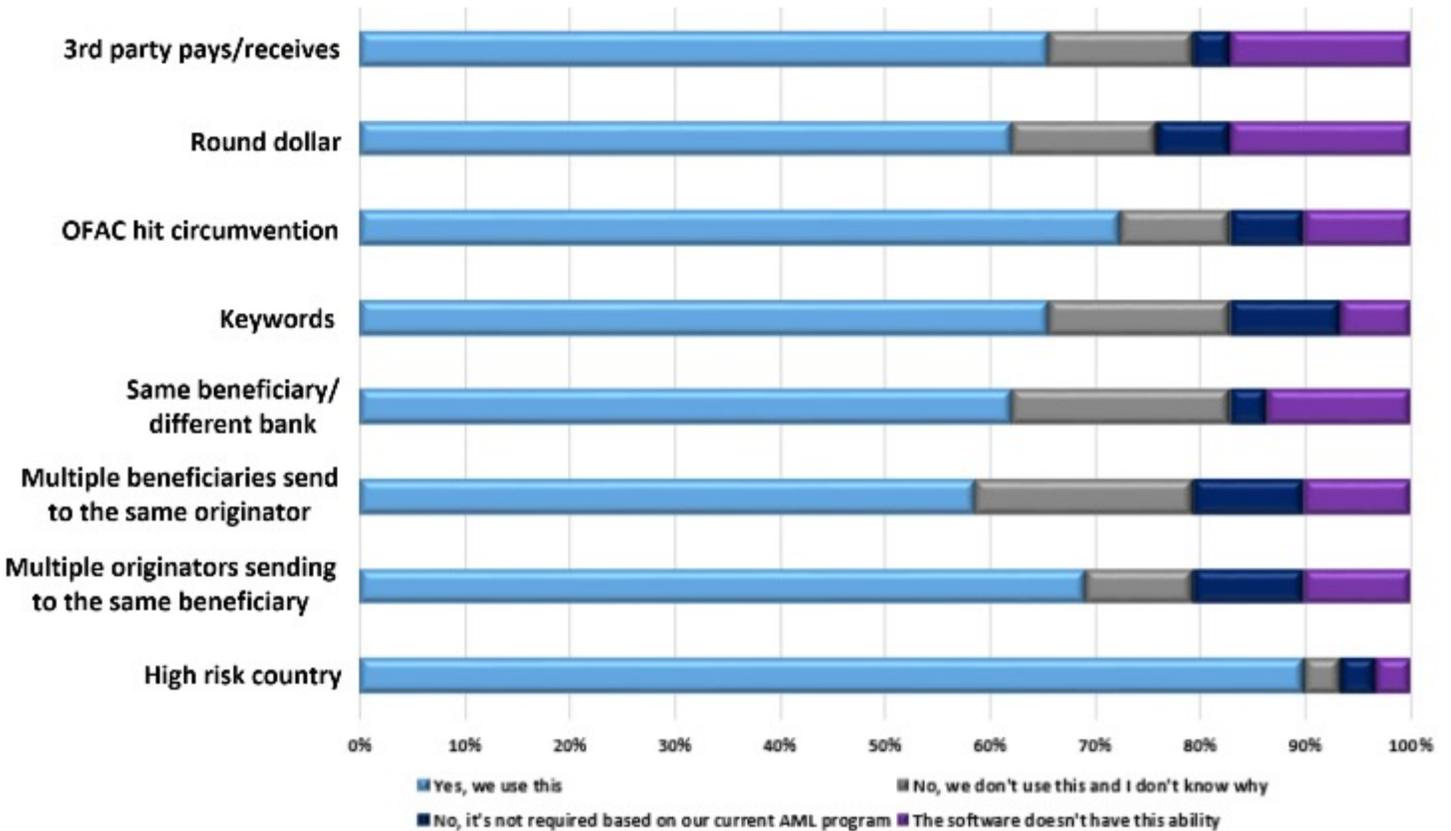
### Software Training:

An overwhelming majority (93.1%) of our respondents who use the BSA/transaction monitoring software participated in training provided by the vendor. Surprisingly, less than 7% didn't at all.



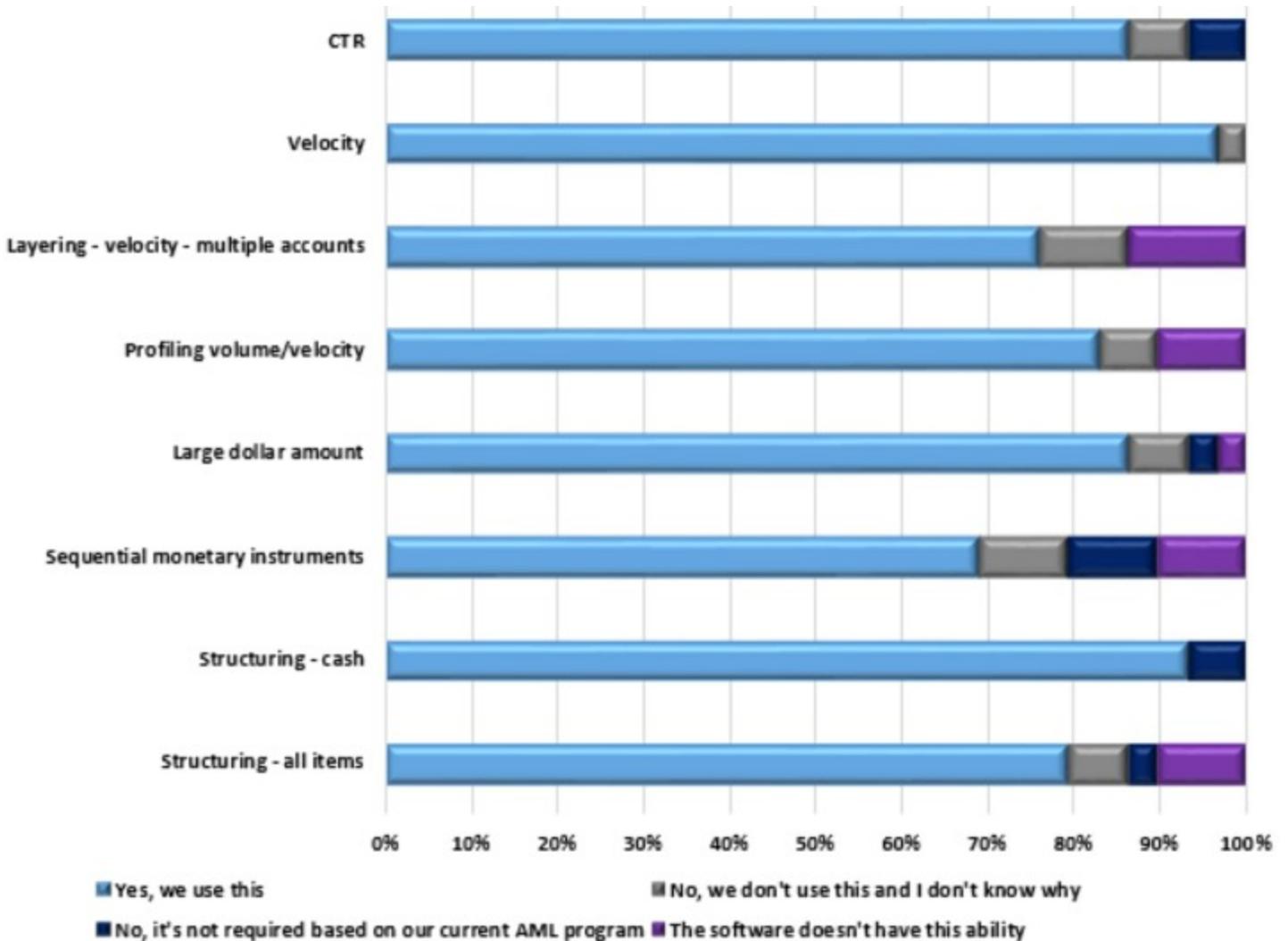
## Rules - Wires:

When it comes to what common wire rules our participants are using 90% of our respondents are utilizing a 'high risk country' rule. This was an interesting detail because most of our respondents are domestic community banks who rarely deal outside of the country. Of the same respondents, only 61% use 'the same beneficiary/different bank' rule or the 'multiple beneficiaries send to the same originator' rule.



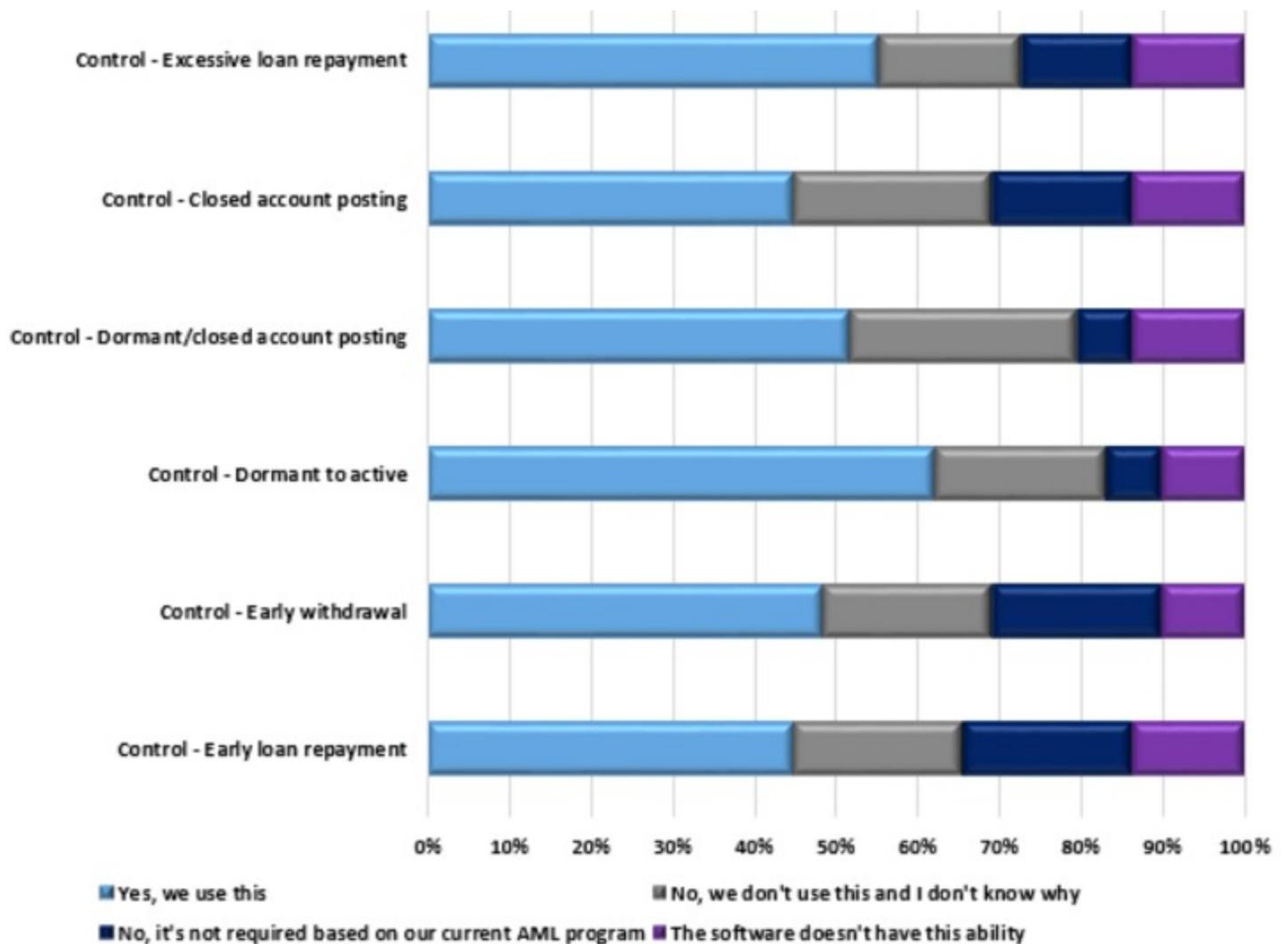
## Rules - Structuring:

When it comes to other rules, over 90% of our respondents use the 'velocity' rule and 'structuring - cash' rule with no one claiming their software can't monitor for either of those; however, under 10% said that they don't have to monitor cash structuring in accordance to their AML program. We also wondered whether our respondents utilized a true velocity rule, or a profiling rule.



## Rules - Control:

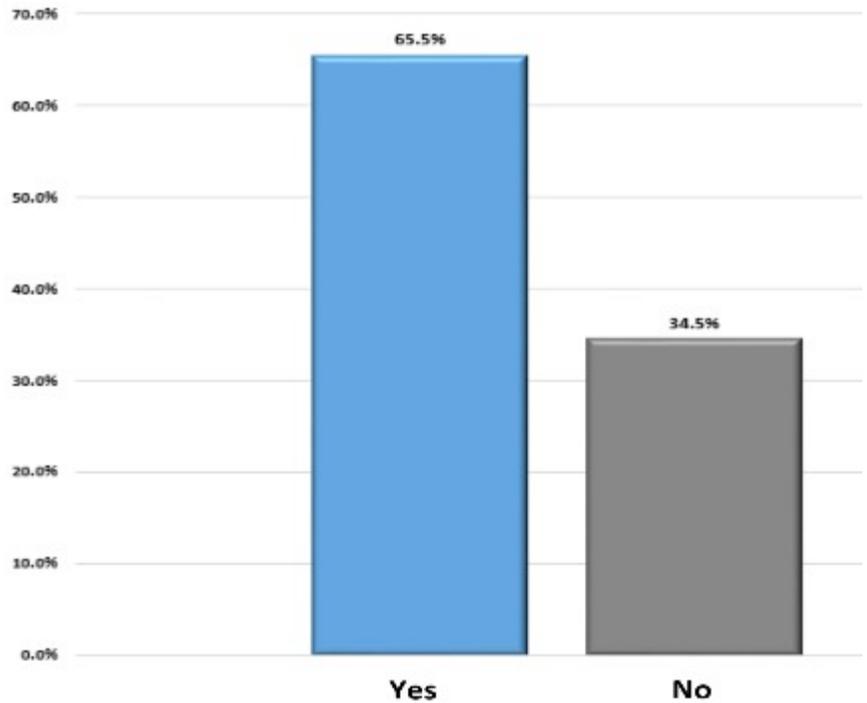
In comparison to the other common rules, control rules have a lot more variance as far as who does and doesn't use them. This group of rules has the most respondents saying that they don't use the rule and don't know why, or that it isn't required as part of their AML program. We've noticed that many community banks don't have a firm grasp on controls, so these findings were expected.



## BSA Software Post-Implementation Questions

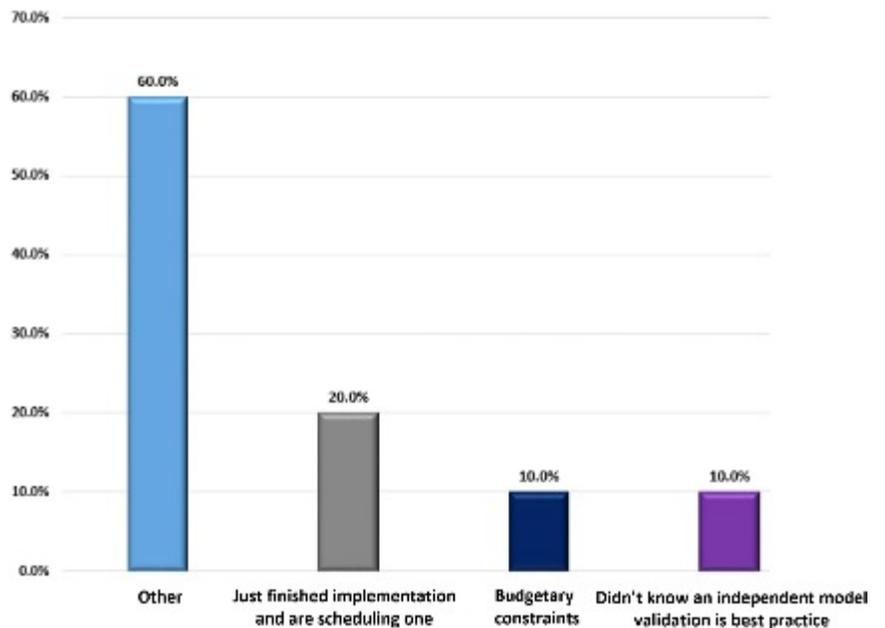
### *Conduct Independent Model Validation:*

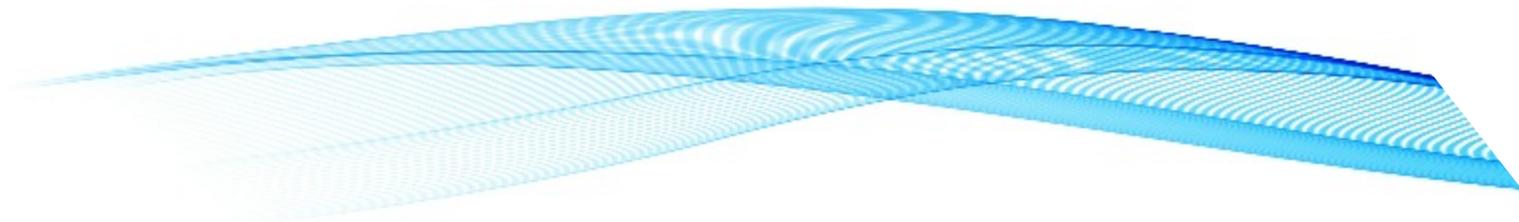
Most (65.5%) of our respondents said they completed a model validation after implementing their BSA/transaction monitoring software, however, 34.5% said they did not.



### *Did not Conduct:*

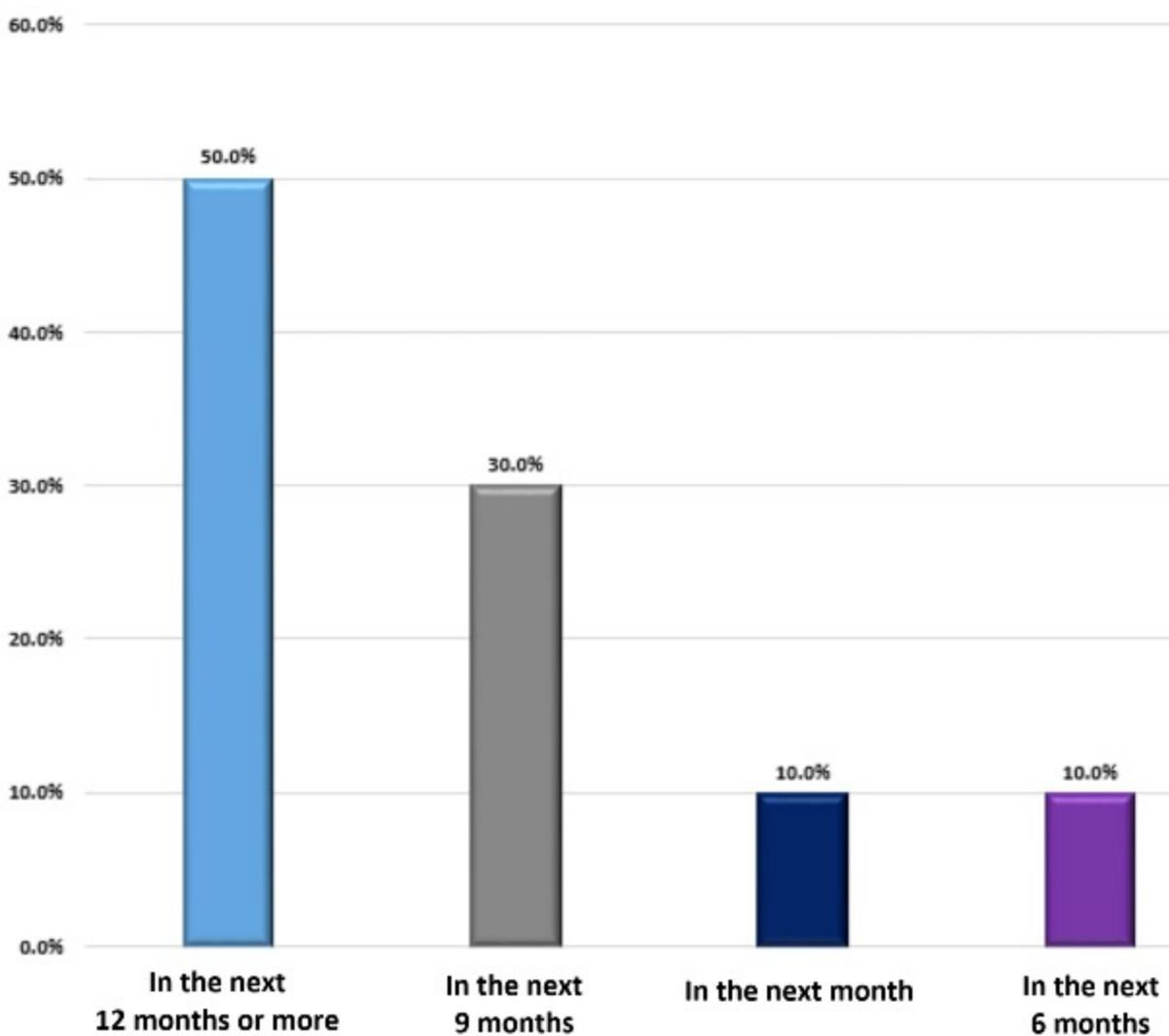
When we asked the group that didn't conduct a model validation why they didn't, most of them said "other" (60%), which didn't include reasons like they are scheduling one but it hasn't been conducted yet (20%), budgetary constraints (10%), and not knowing it was a best practice (10%).





### *Model Validation Timeframe:*

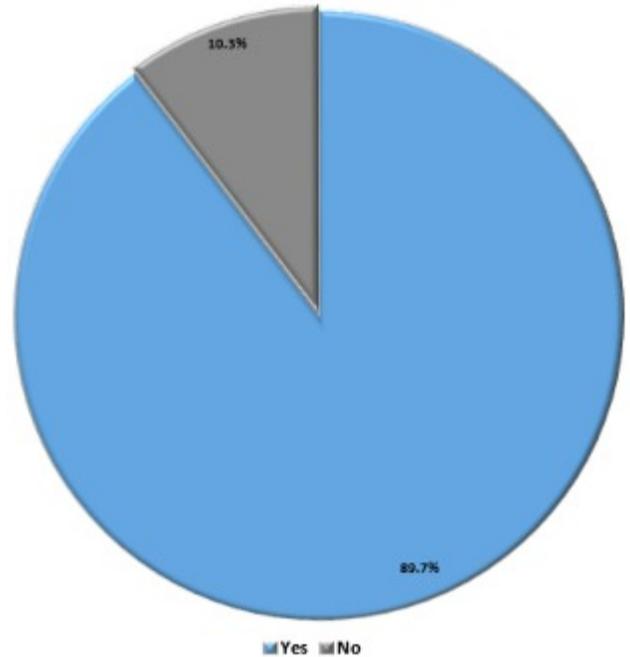
For the folks who will be conducting an independent model validation, 50% of them will start within the next 12 months or more. The remaining 50% will complete one in the next nine months.



## Features of BSA Software

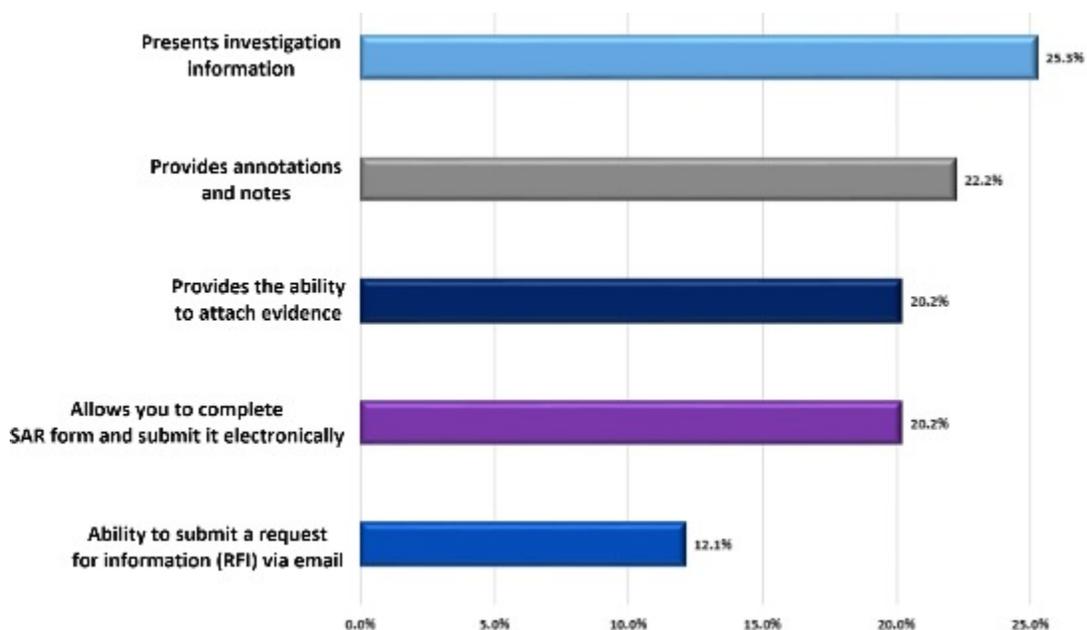
### *Alert/Case Management:*

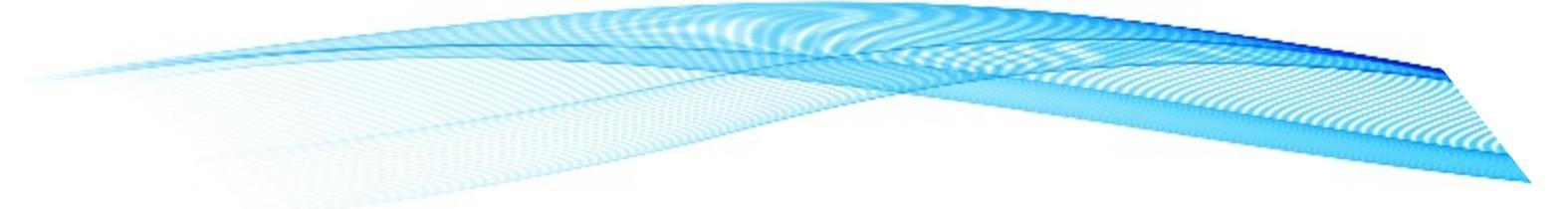
An overwhelming majority of our respondents said that their BSA/transaction monitoring software has alert/case management; however, we're surprised for the 10% or so that doesn't offer this feature.



### *Additional Features:*

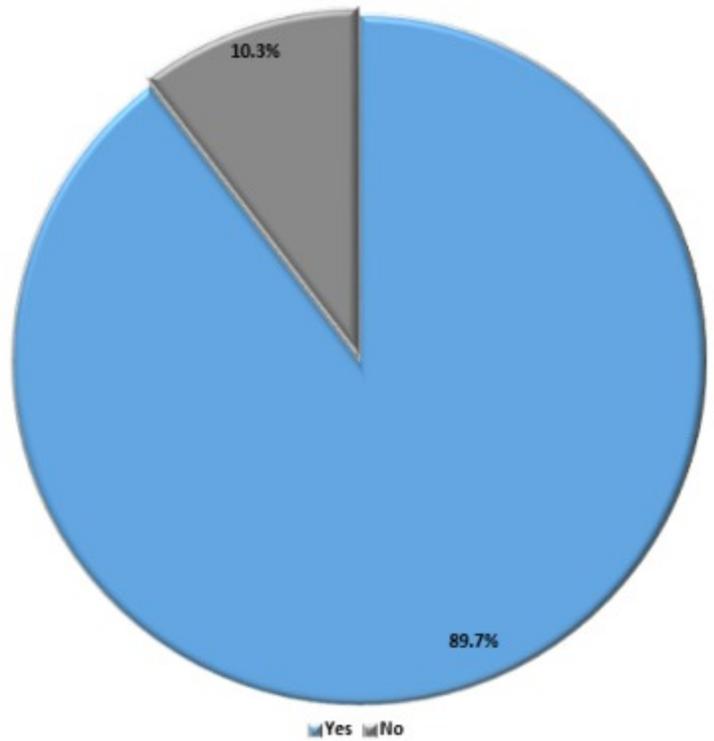
We presented a couple of different options of what BSA/transaction monitoring software could do, nearly all of our respondents said that their software presents at least what triggered the case and any historical information it has; meanwhile less than 50% said their software allows them to submit an RFI (request for information) to the appropriate banking staff within the system.





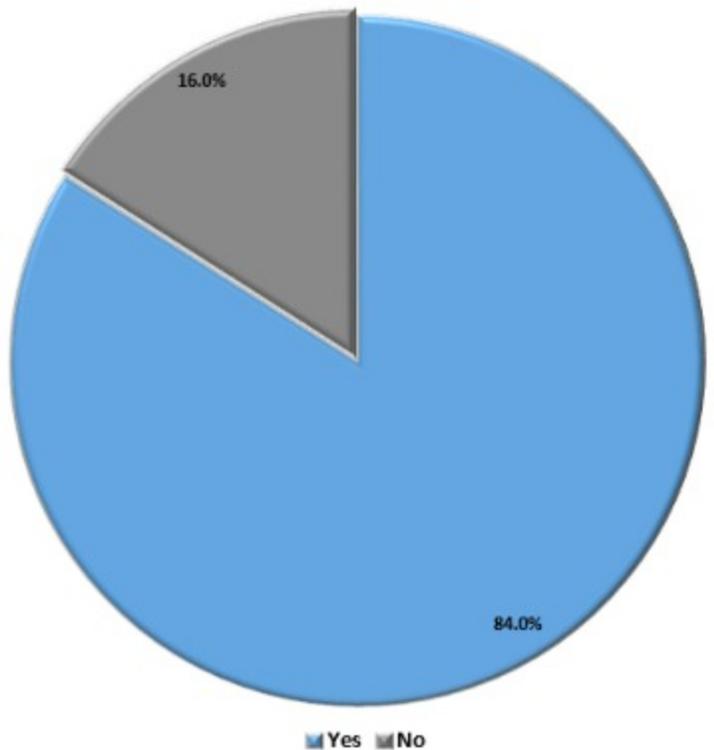
### *Dashboard:*

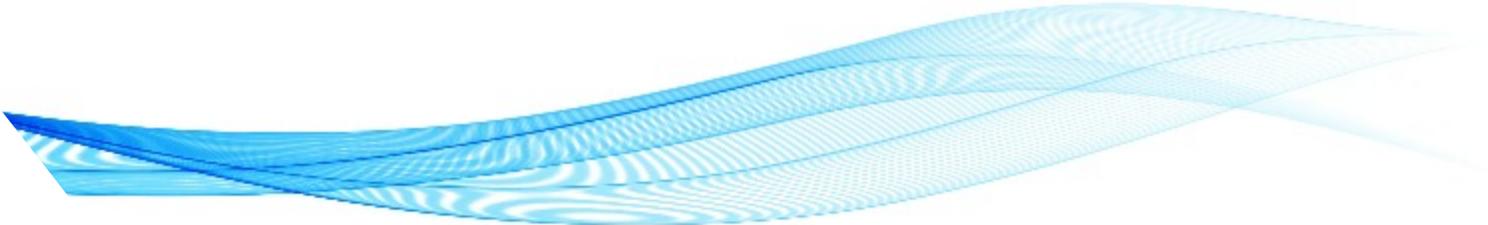
The majority of respondents (89.7%) said that their BSA/transaction monitoring software has a dashboard feature, which presents the data at a glance.



### *Dashboard - Link Select*

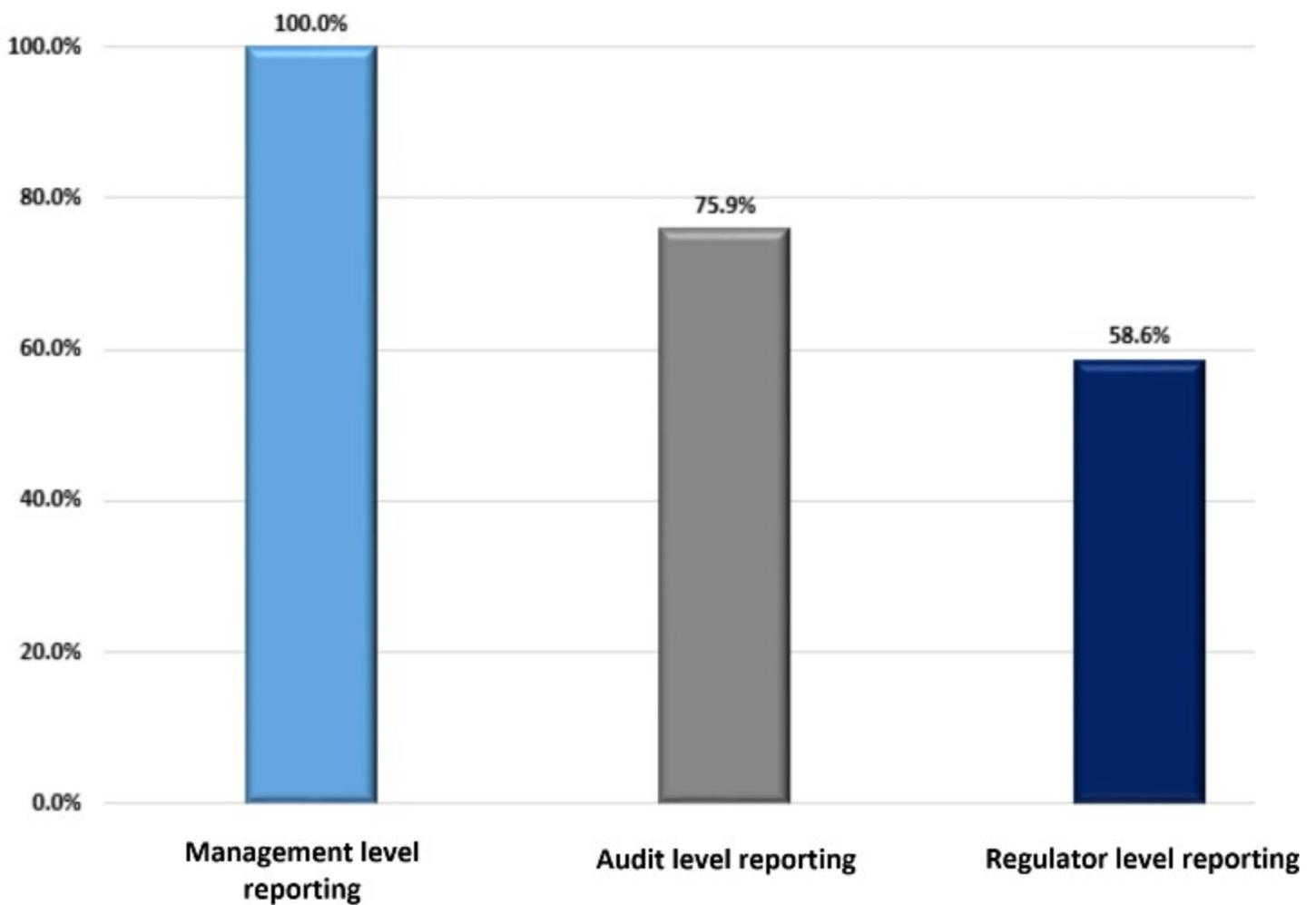
Further, 84% of those respondents said that the dashboard feature allows them the ability to drill down further into the data.

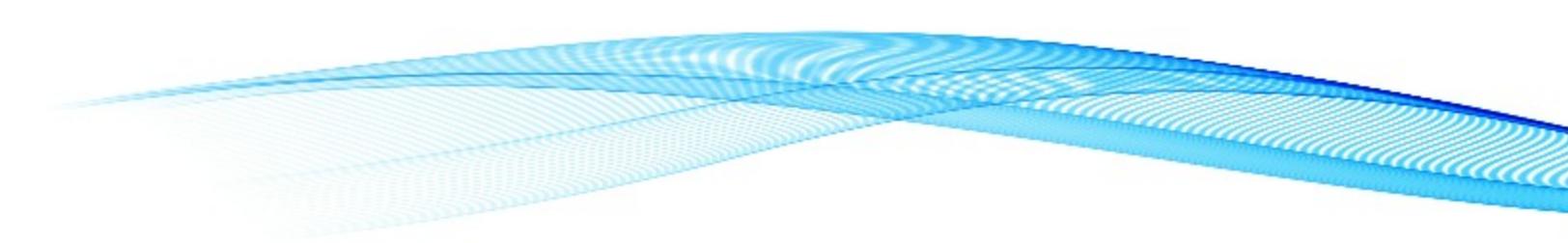




## Reporting:

Finally, every respondent said that their BSA/transaction monitoring software provides them a minimum of management level reporting (100%), 75% of respondents said that it provides audit level reporting, and about 50% of respondents said that it provides regulator level reporting.





## Conclusion:

A robust AML program is strengthened by the technology that supports it, whether it be a more manual process through excel spreadsheets, or something automated through BSA/transaction monitoring software. For this survey, we wanted to find out how our readership is monitoring transactions, and if they use software; what its capable of doing.

The majority of our respondents represented compliance officers offering retail or commercial services at a community bank. With nearly a 50/50 split regarding asset size, the majority of represented banks over \$1 billion, and of those, the most comment response was \$1 to \$10 billion. When it came to their bank's overall risk rating, the majority rated themselves with a medium risk rating.

From the demographics, the first part of our survey was to find out if our participants were utilizing BSA/transaction monitoring software, which the majority are and less than 15% are not. To gain greater insight in to the group who are not, the majority are split between using 'spreadsheets' and 'spreadsheets and reviewing reports manually'. Finally, as expected, the majority of respondents are not using software for budgetary constraints.

For the majority of respondents that use a BSA/transaction monitoring software, most of them are spending more than \$50,000 a year or \$4,000 a month on that software and they're satisfied or very satisfied with their software's performance.

Next we moved in to more technical questions surrounding the BSA/transaction monitoring software our respondents are using. The majority said that their software is hosted and that they have access to a test server with a complete and current replica of production. It's not surprising for a community bank to have a hosted system; however, it is surprising if the bank has assets up to \$10 billion. For example if an FI has an asset size of \$9 billion and their BSA/transaction monitoring software is hosted, they likely have the transaction volume to warrant a licensed system with access to a test server and testing environment so that they can make changes to their system, test them and then implement them once



they know they're working appropriately. The majority of our participants also said that their software is somewhat customizable, and operates in both real-time and batch processing. Finally, the majority said that their software uses profiling as defined by comparing previous behavior to current behavior and alert you of abnormal activity.

When it comes to pre-implementation requirements, the majority have put together business requirement documents, conducted an RFP (request for proposal), on-going and updating status reports and put together a project plan. The majority also conducted testing as part of the implementation phase requirements including unit testing on each interface, an end-to-end system integration test and user acceptance testing (UAT). Not surprisingly nearly all respondents participated in software training provided by the vendor. We also asked our participants about the common rules they have implemented in their software - the most common rule is 'velocity' and the least common is 'early loan repayment'.

For post-implementation requirements the majority of our respondents have conducted a model validation on their BSA/transaction monitoring software as part of their overall BSA program. However, for those who haven't conducted a validation, the majority simply listed 'other' as to why they haven't.

The majority of our respondents said that their software has an alert/case management feature, provides a dashboard where the data can be drilled down into, and provides at minimum management level reporting. It also presents the investigation information, allows you to annotate and keep notes, attach evidence, complete the SAR (suspicious activity report) and submit it electronically and submit an RFI (request for information) via email, if necessary.

Overall, it's good to see that the majority of our respondents are satisfied with their software since it does help to strengthen and support their BSA program, and gives the industry an idea of what institutions have technically speaking and what they spend to achieve that. Our detailed results for retail and commercial banks would provide more specific details for those institution types. To receive a copy of the detailed results, visit <http://arcriskandcompliance.com/surveys.html>.

## About AML-ology

AML-ology is the study of AML (anti-money laundering) trends and solutions by providing newsletters and survey reports to AML dedicated professionals. A monthly newsletter is sent with a scientific or academic approach to an AML hot topic. A survey is conducted each quarter based on the hot topics being discussed in by the AML community. To sign up to receive the AML-ology newsletter or survey, please visit [here](#).

We provide this report as a value-add to the compliance community to better the anti-money laundering community as a whole. Thank you to everyone who participated. We hope you will participate in future surveys as well.

## About ARC Risk and Compliance

ARC Risk and Compliance ([www.arcriskandcompliance.com](http://www.arcriskandcompliance.com)) is a solution provider for anti-money laundering (AML) technology and compliance. We found our start within the anti-money laundering (AML) technology consulting space, but we quickly found that wasn't enough. After visiting a number of organizations, the largest piece of the puzzle that was missing was the bridge between compliance and technology. We knew we wanted to grow and we discovered what was missing.

We needed to find a way to help the compliance department and the IT department within an organization find a common space to discuss their challenges. We're able to speak compliance with the compliance officers and technology with the IT team. That gives us a unique skill set that gives you the best experience in one place.

Many of ARC Risk and Compliance employees and consultants were leaders in designing, developing and deploying the leading software vendors of today: Actimize, eGIFTs, Global Vision, Norkom, Prime Compliance Suite, and so on. Our SME team has a strong compliance background that can assist Banks with regulatory citations and other types of compliance matters.

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*"The AML Specialists"*