



AML-ology

The study of AML trends and solutions

When is The Right Time For a Customer Refresh?

CDD Refresh Rates Survey Detailed Report

Conducted 3Q 2016

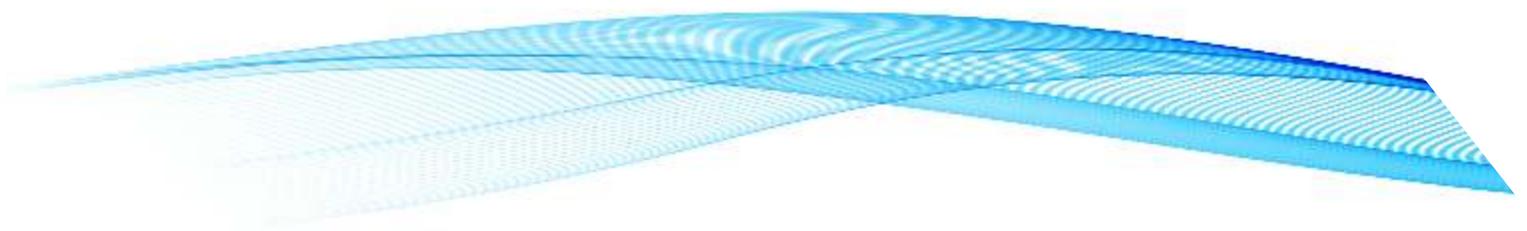


Table of Contents:

Purpose of the survey.....	Page 3
Purpose of this report.....	Page 3
Retail Banks:	
Demographic Results.....	Page 4
General CDD Questions.....	Page 8
CDD Refresh Rate Questions.....	Page 17
CDD Regulator Scrutiny Questions.....	Page 24
Commercial Banks:	
Demographic Results.....	Page 26
General CDD Questions.....	Page 30
CDD Refresh Rate Questions.....	Page 39
CDD Regulator Scrutiny Questions.....	Page 46
Conclusion.....	Page 48
Comparison.....	Page 50



Purpose of the Survey:

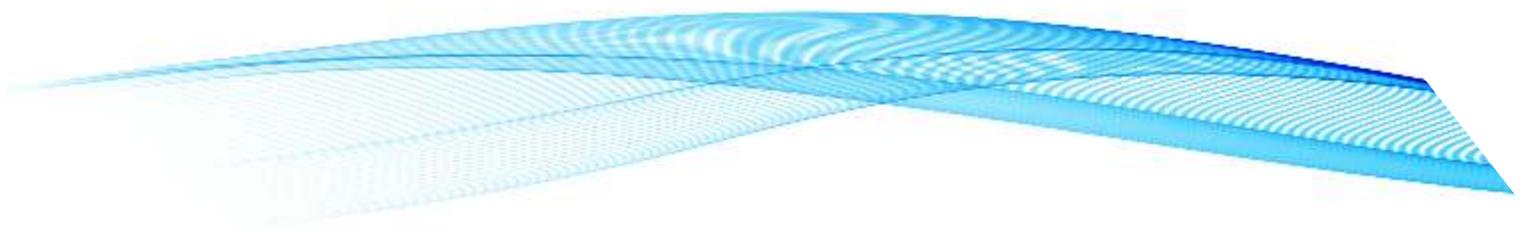
In May 2016, FinCEN finalized the Beneficial Ownership [rule](#), which got us thinking about how institutions are monitoring and reviewing customer information as part of their CDD program. There are some “industry standards”, and one ex-regulator’s take on refresh rates, which you can read about [here](#), but we thought it best to hear directly from institutions on how they’re handling this.

In this survey, we asked our participants how many customers your institution is on-boarding each month; the percentage of customers that are retail vs. commercial; if you're utilizing a CDD software; your current refresh rates; how and where you are refreshing the information; the customer classification system you’re using; any criticism you may have received from your regulator on your CDD program; and more.

Purpose of this Report:

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

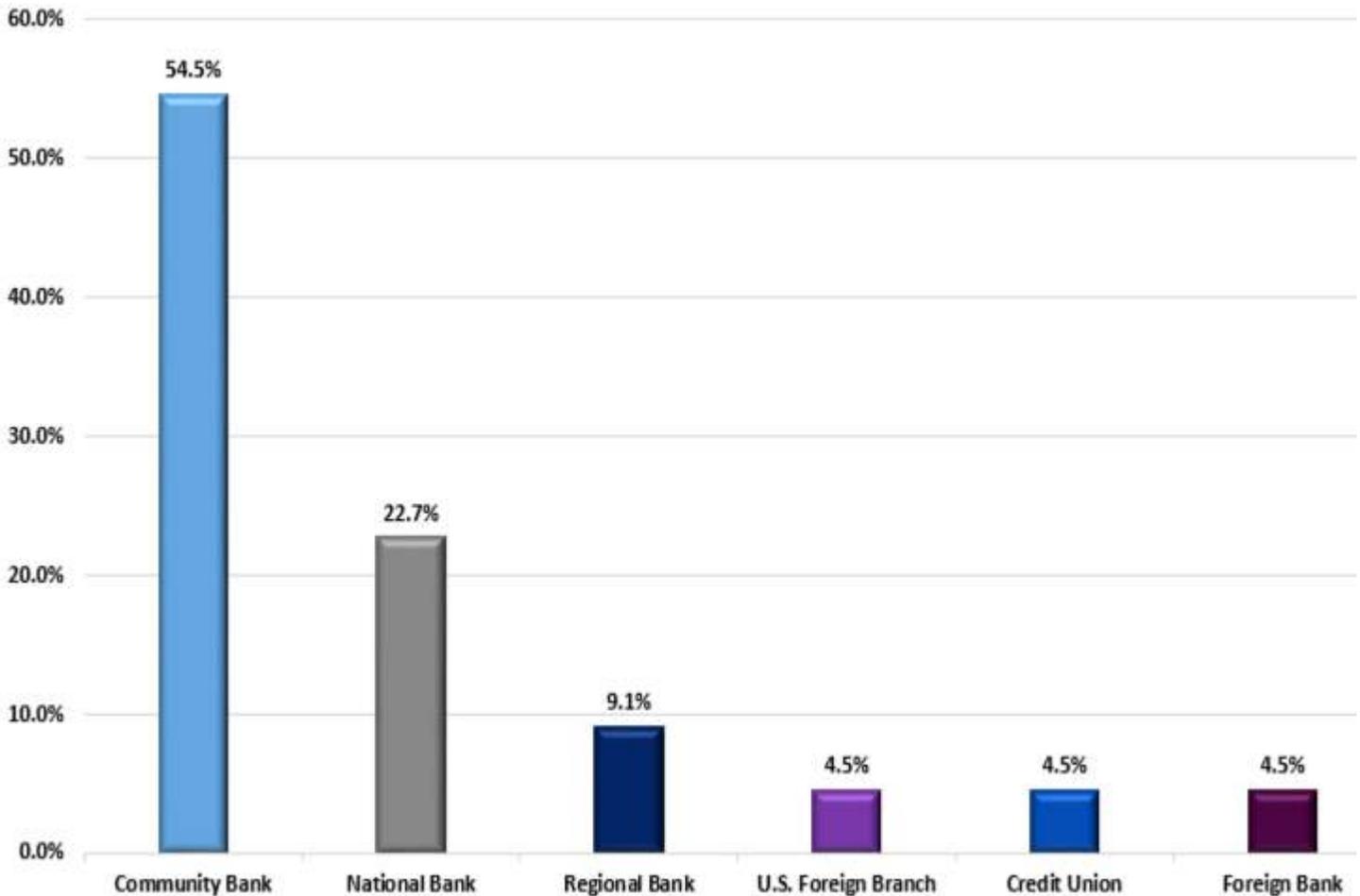


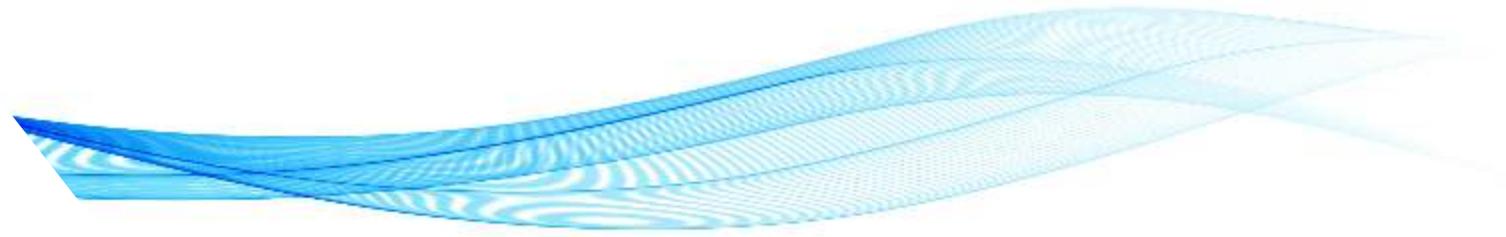


Retail Banks Demographic Results:

Institution Type:

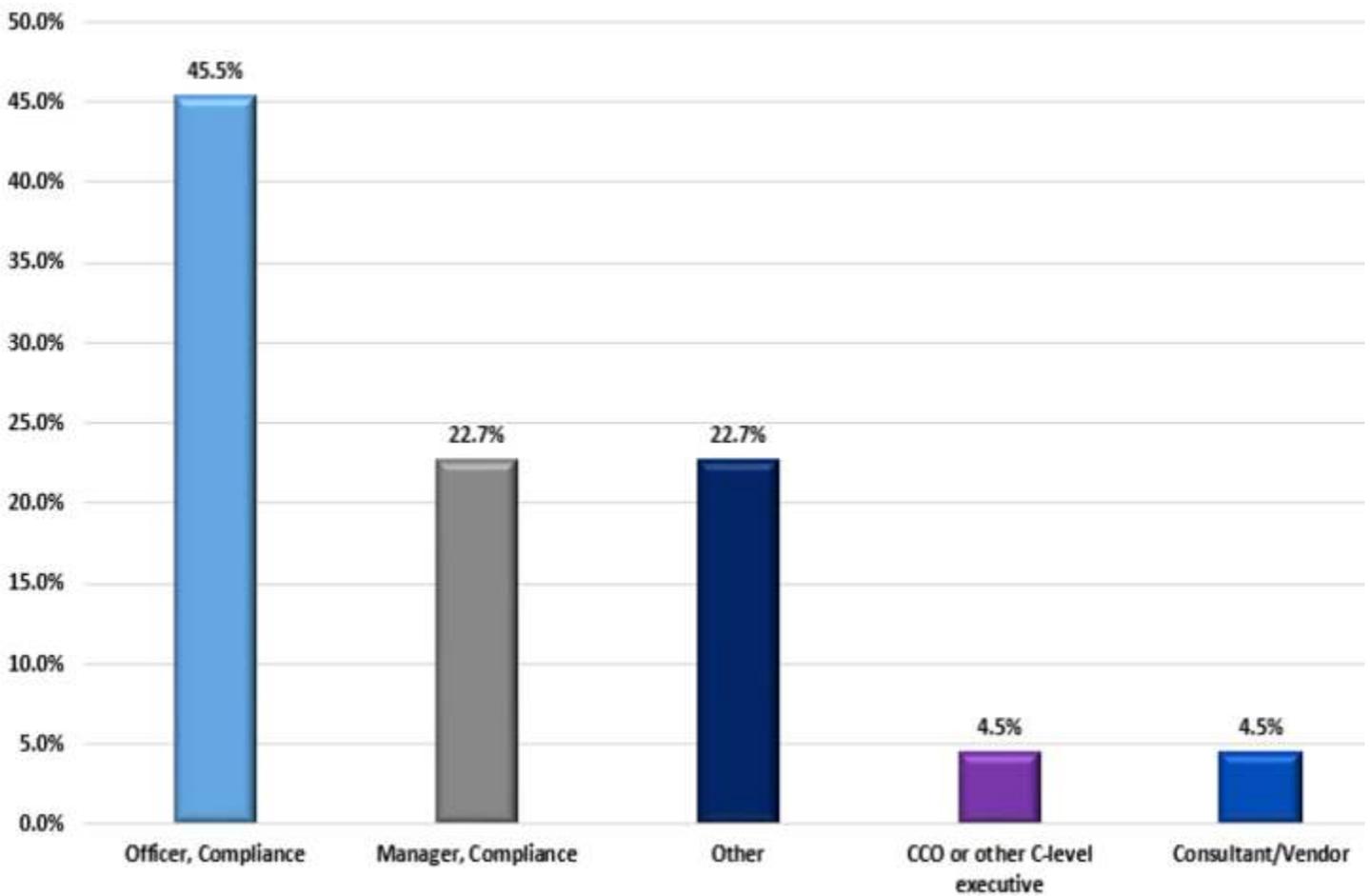
The largest group of respondents represented a commercial bank (54.5%) then a steep drop off with national banks (22.7%) being the second most common institution.

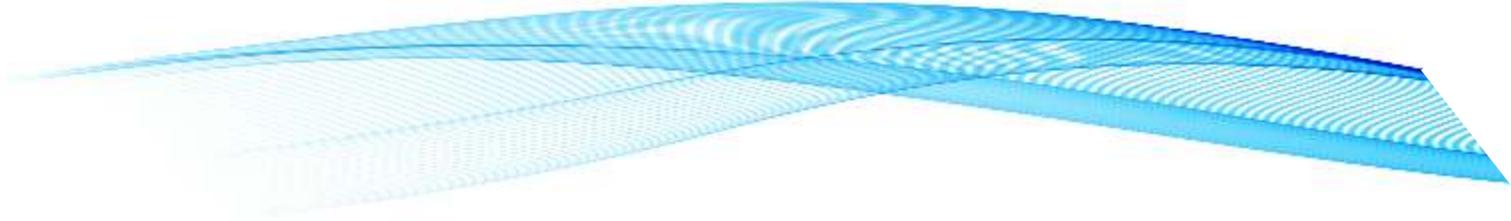




Current Position

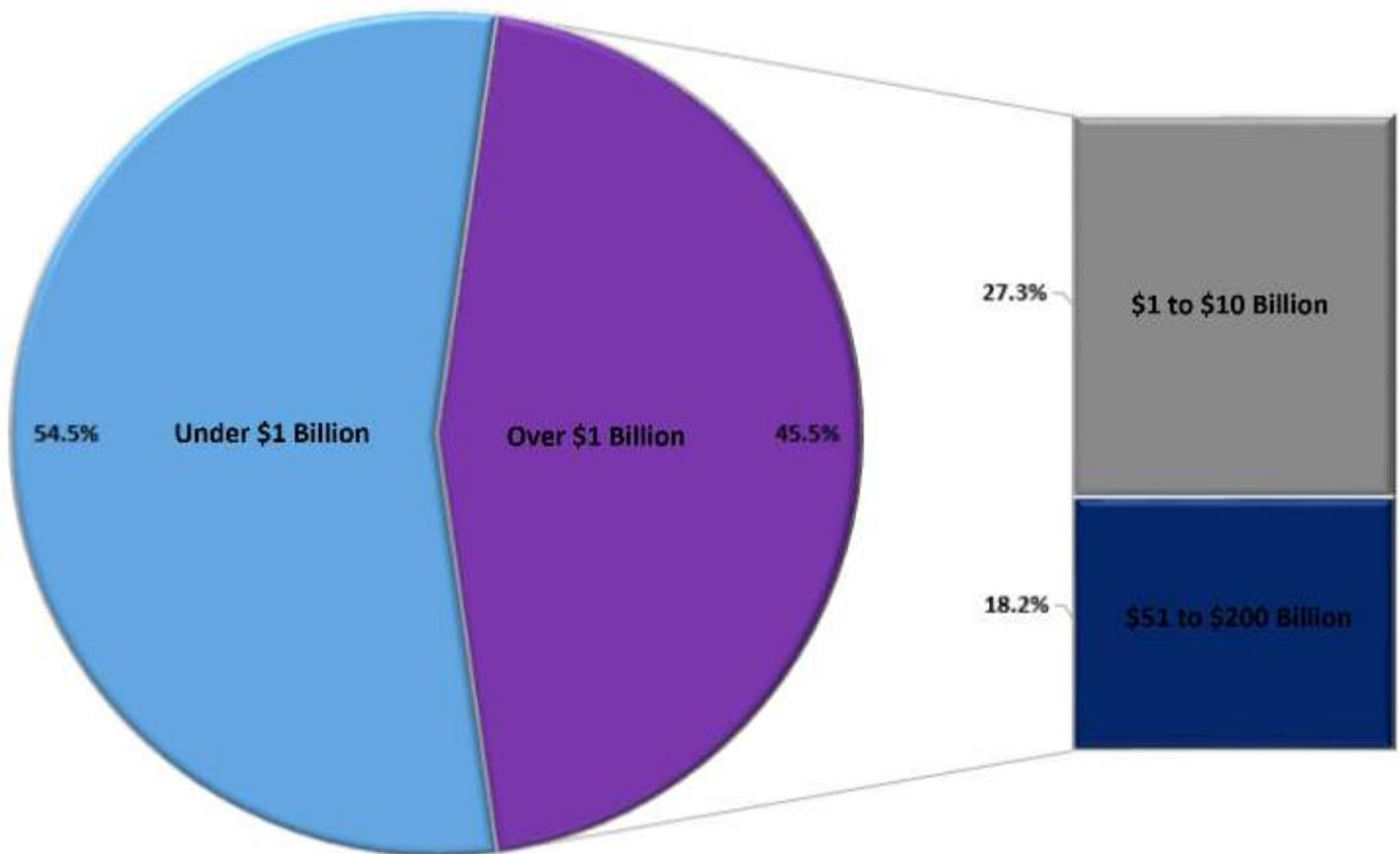
The most common job title for retail banks was a compliance officer (45.5%), followed then by compliance manager and 'other'; both 22.7%.





Asset Size:

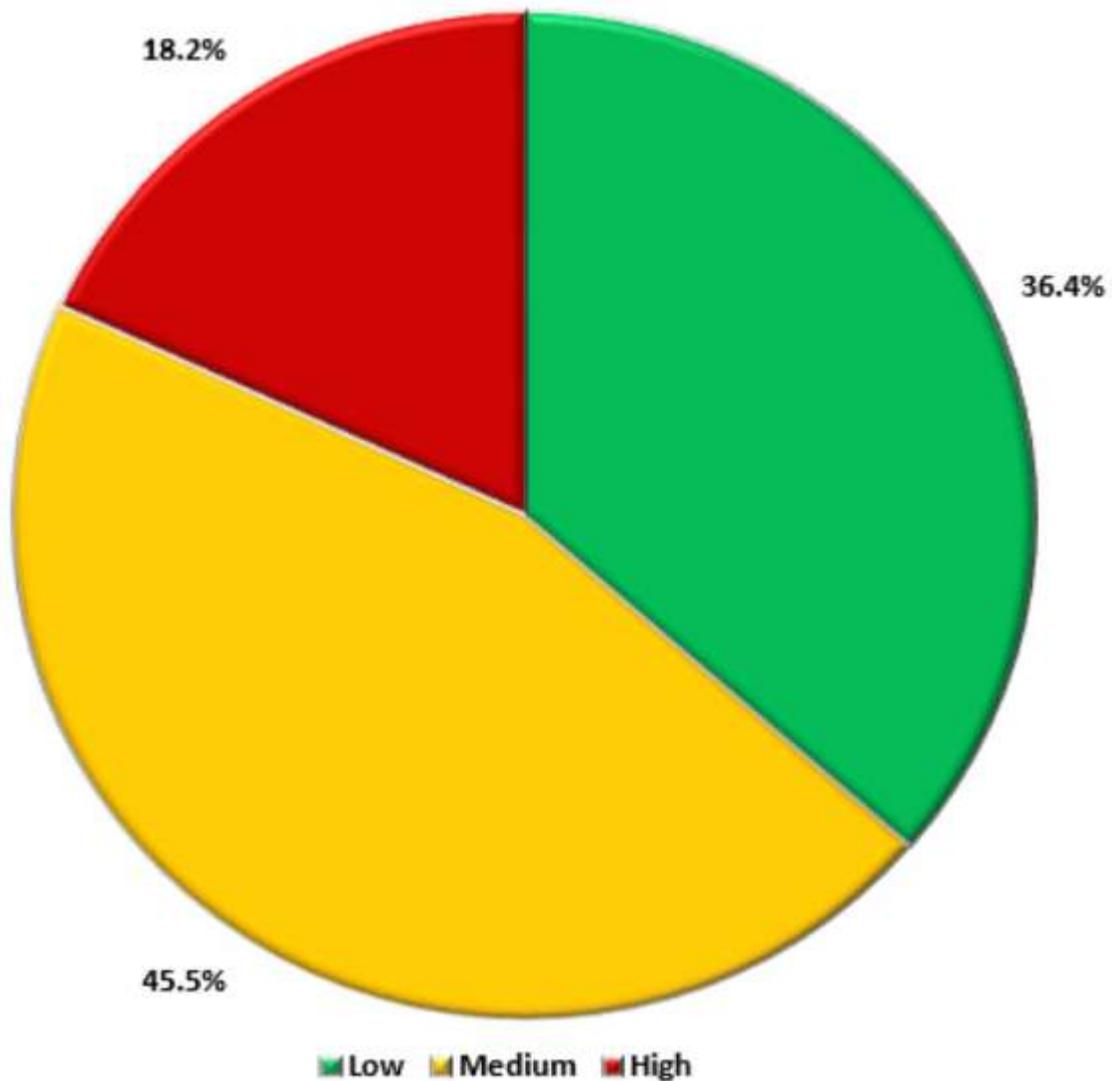
When our respondents were asked about their institutions asset size, the majority (54.5%) of our respondents said they were under \$1 billion in assets compared to those over \$1 billion (45.5%). For the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (27.3%) followed by \$51 to \$200 billion (18.2%).

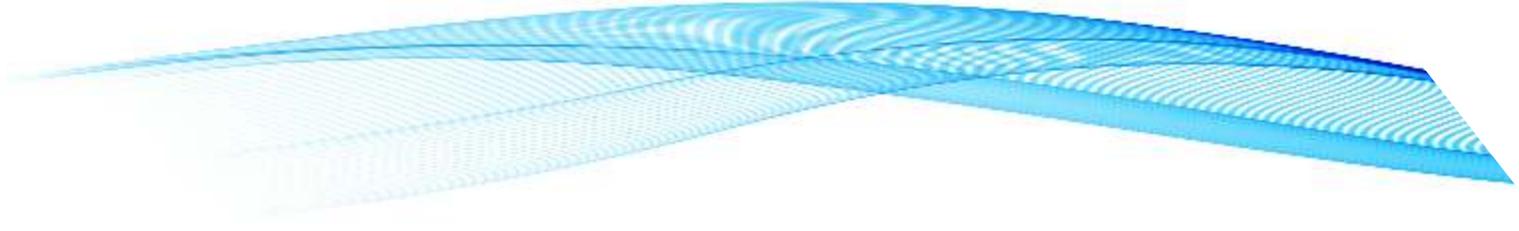




Risk Rating:

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 (45.5%) with the next most frequent answer was having a low risk rating (36.4%), and finally a high risk rating (18.2%).

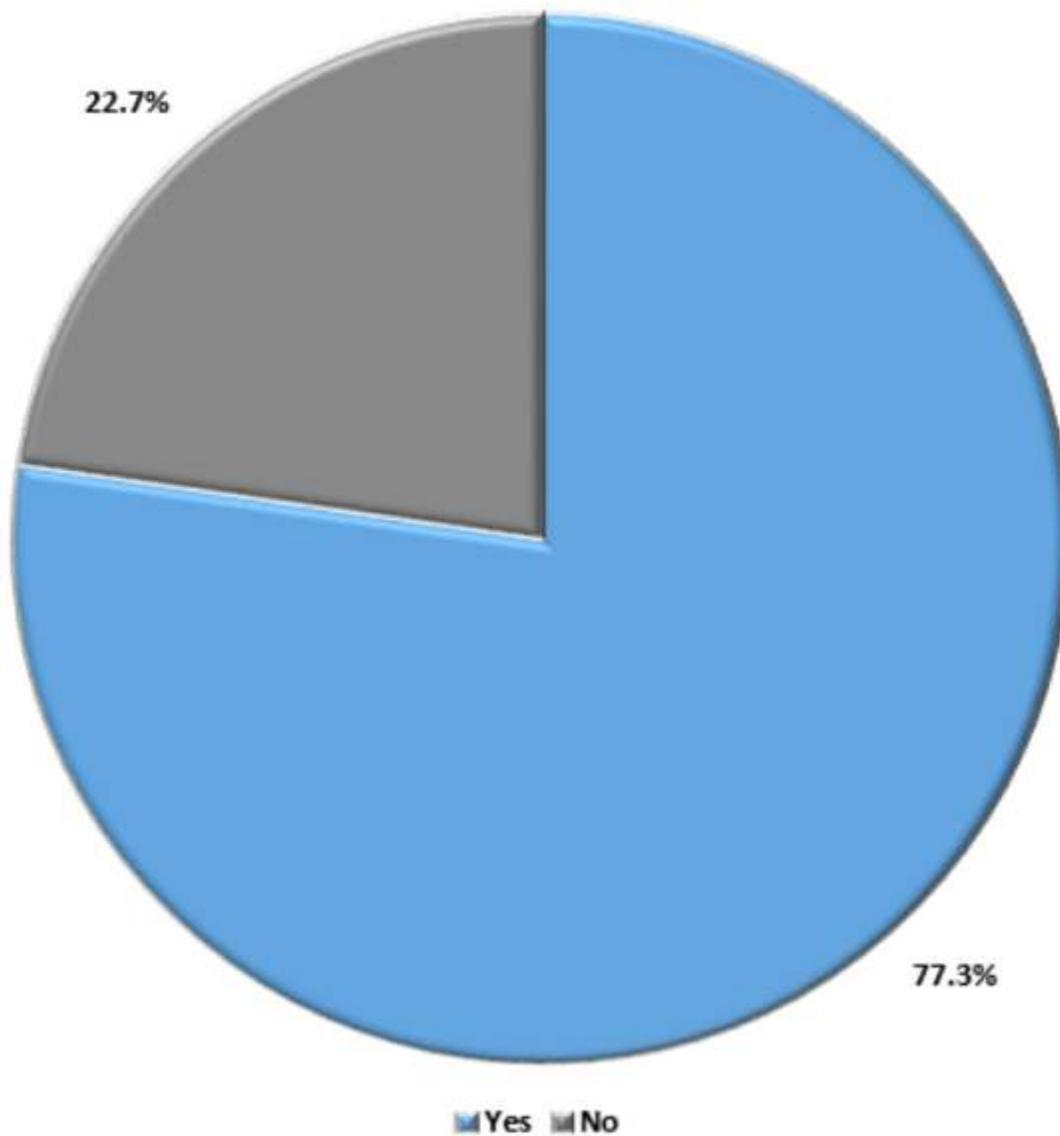




Retail Banks General CDD Questions:

Maintaining a CDD/KYC dedicated system:

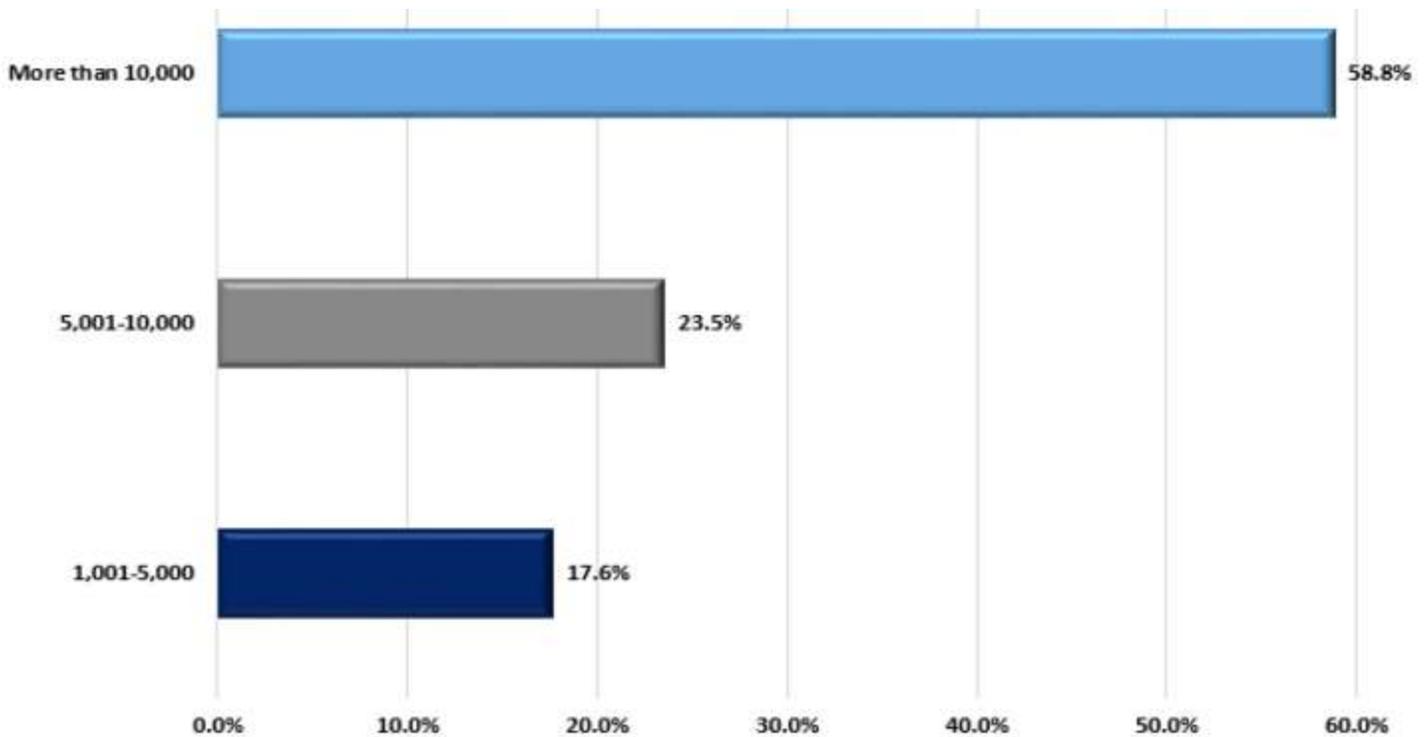
We asked our participants if they utilize a dedicated CDD/KYC system for their CDD program, and the majority indicated that they do (77.3%).

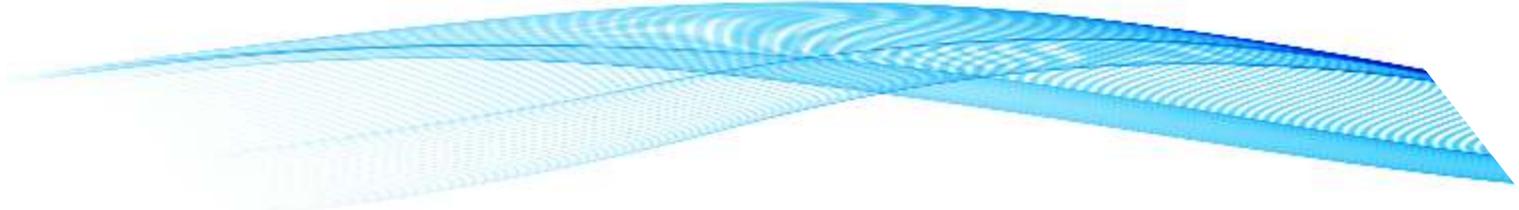




Total number of customers:

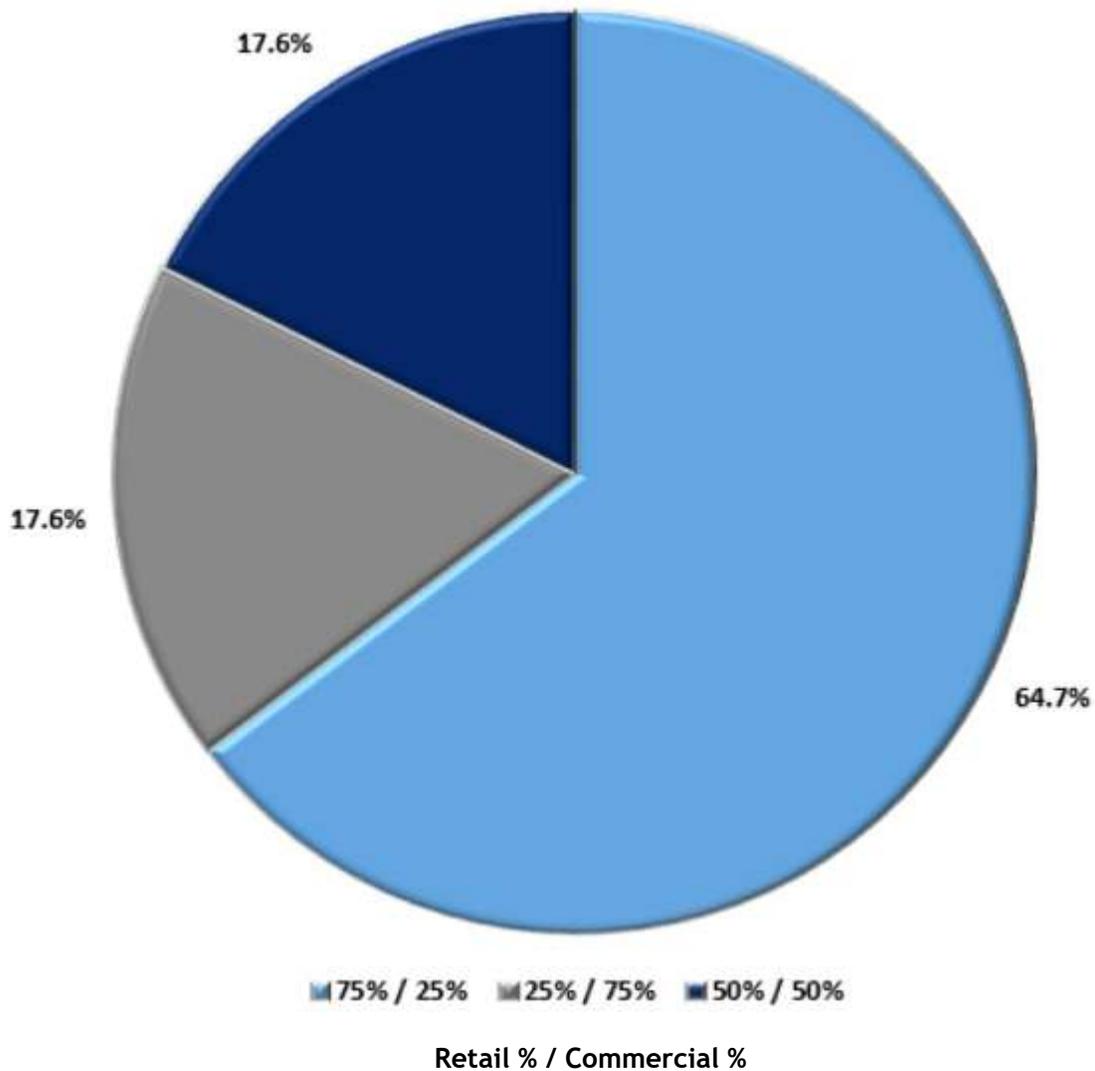
The majority of retail respondents (58.8%) make up banks who have more than 10,000 customers, meanwhile 41.2% have less than 10,000 customers. For those respondents who have less than 10,000 customers, the majority (23.5%) make up institutions with between 5,001 and 10,000 customers.





Percent of retail versus commercial customers:

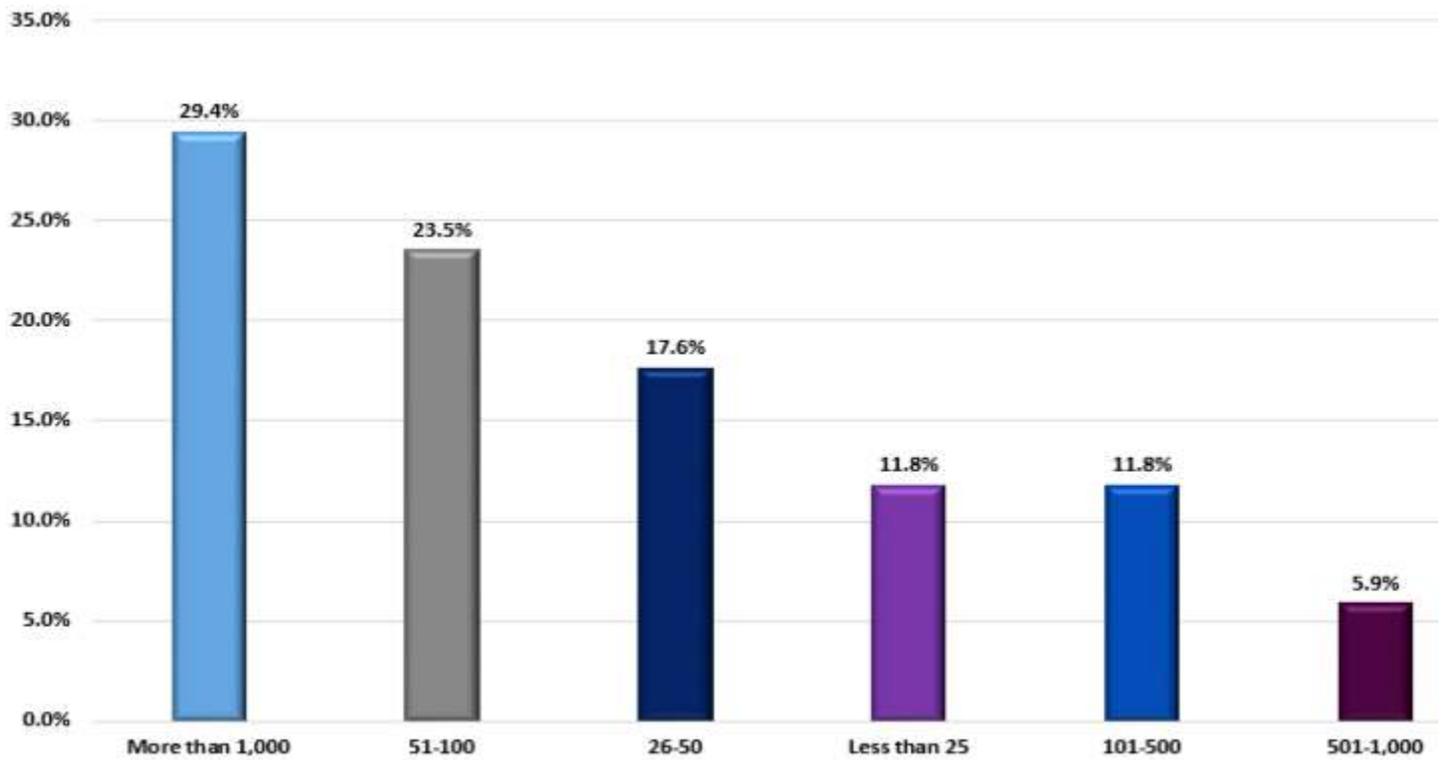
To get a better understanding of our respondents CDD program we asked what their customer base was. The majority said that 75% of their customers are retail vs. 25% commercial customers (64.7%).

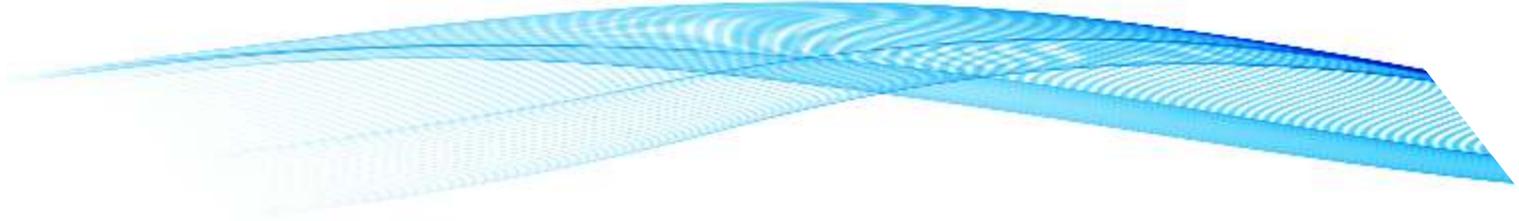




Number of new customers on-boarded each month:

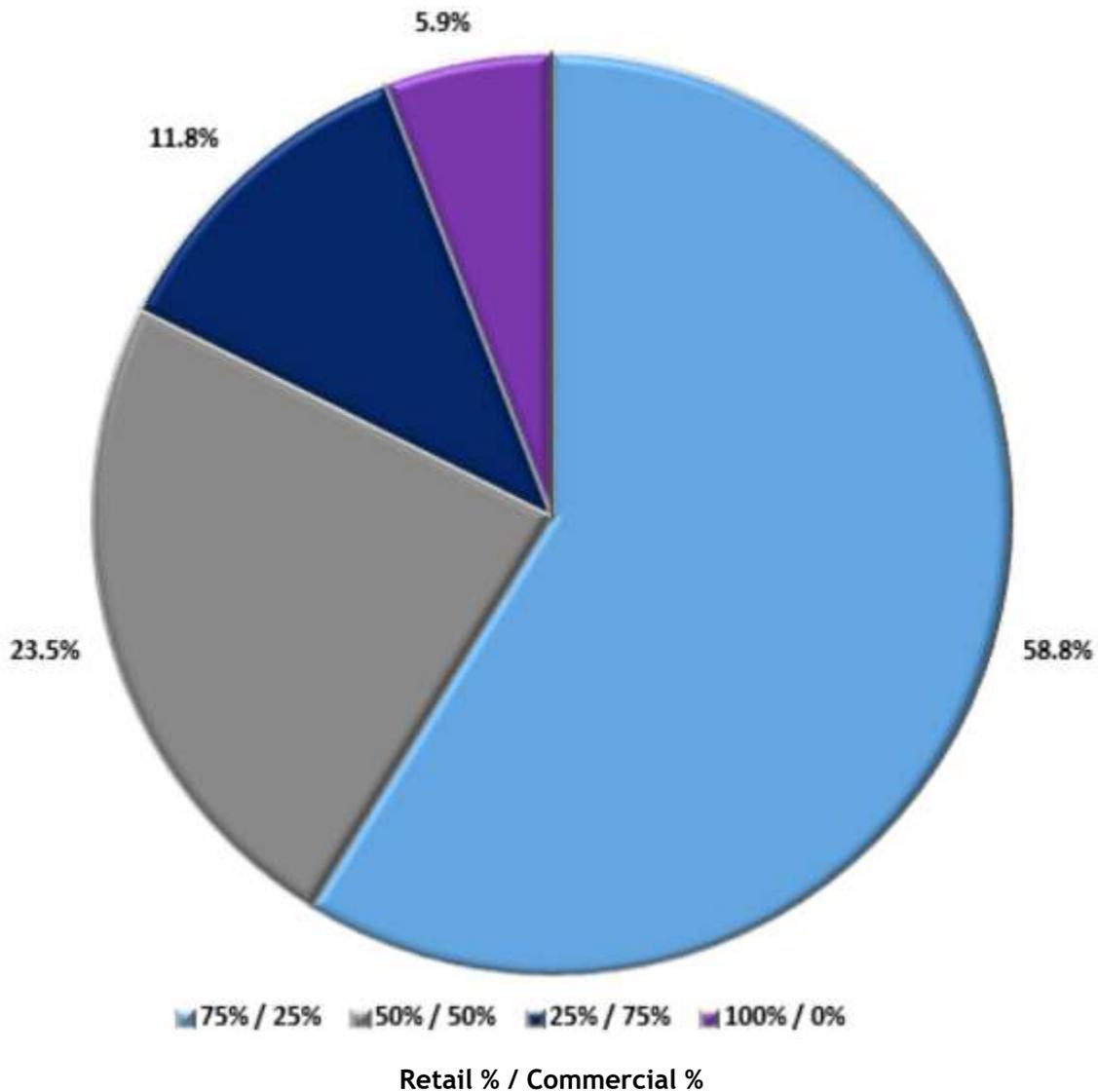
There was an interesting spread of responses for this question. 29.4% on-board over 1,000 new customers a month. The next most common response was onboarding 51-100 new customers (23.5%), followed by 26-50 customers (17.6%).

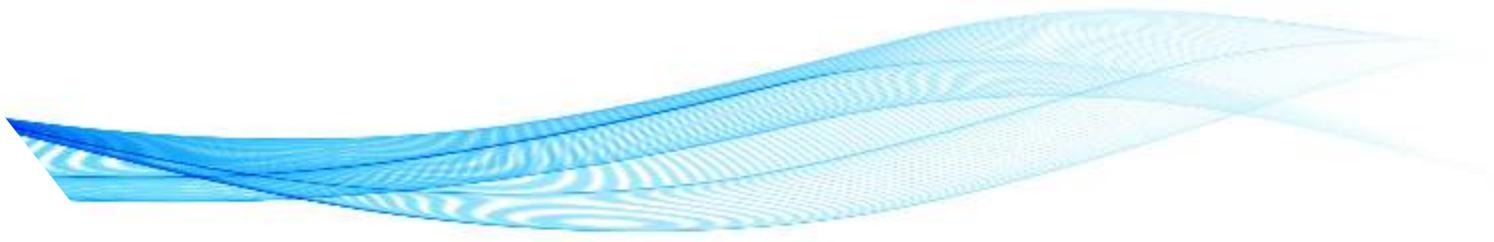




Percent of new customers on-boarded each month:

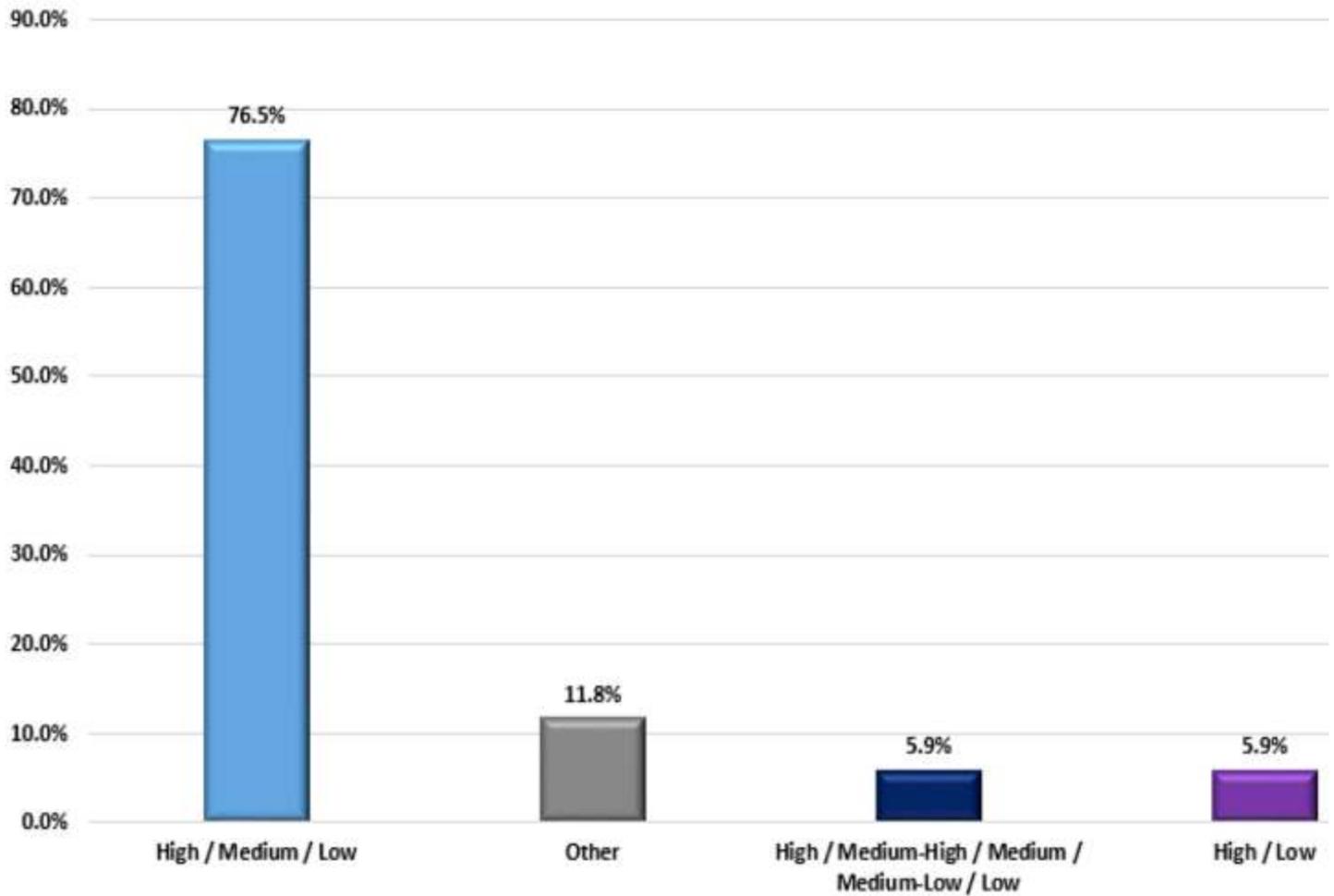
The majority of retail respondents on-board more retail customers than commercial customers each month (58.8%).

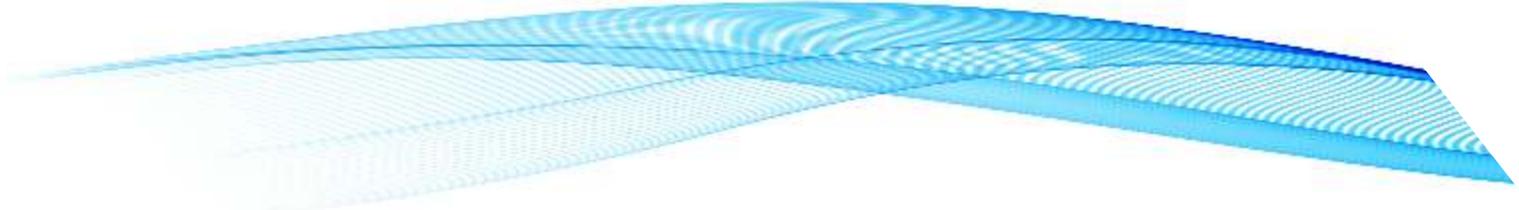




Customer Risk Classification:

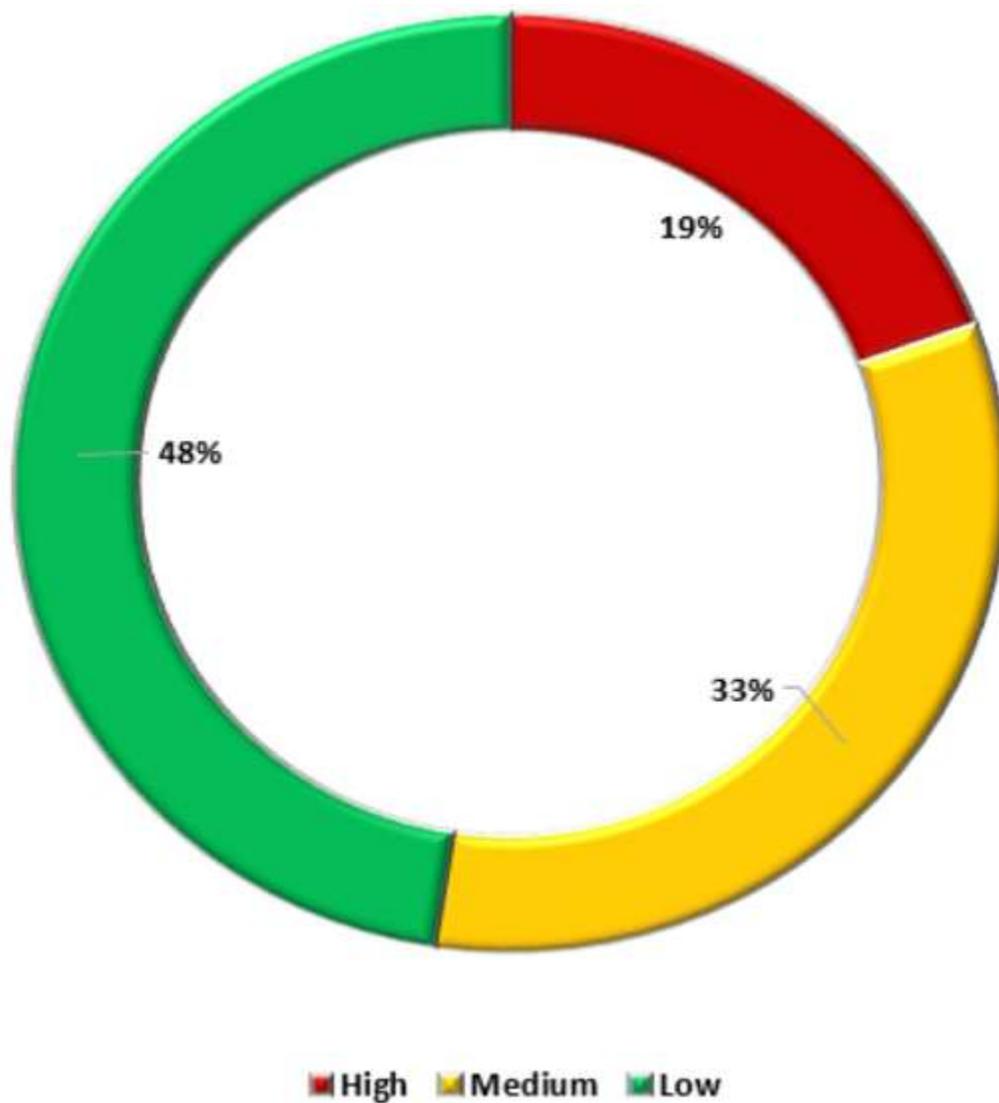
The majority of retail respondents use a “high/medium/low” classification for their customer risk rating (76.5%). While a small number of respondents (11.8%) who selected ‘other’ said they use a “Prohibited/High/Med-High/Moderate/Low” rating or there are too “many factors [that] determined this”.





Percent of high/medium/low risk for retail customers:

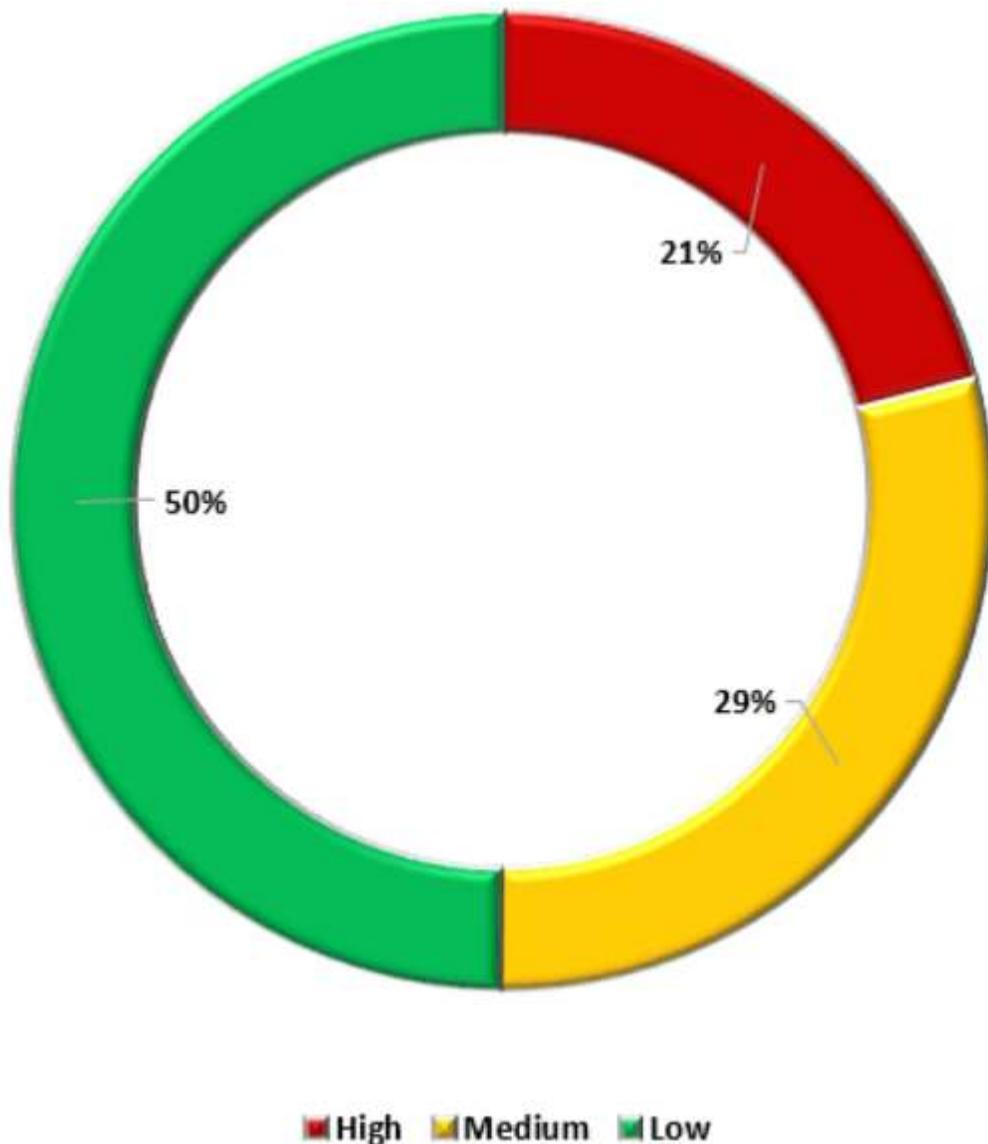
The majority of retail respondents said that most of their retail customers are low-risk (48%).

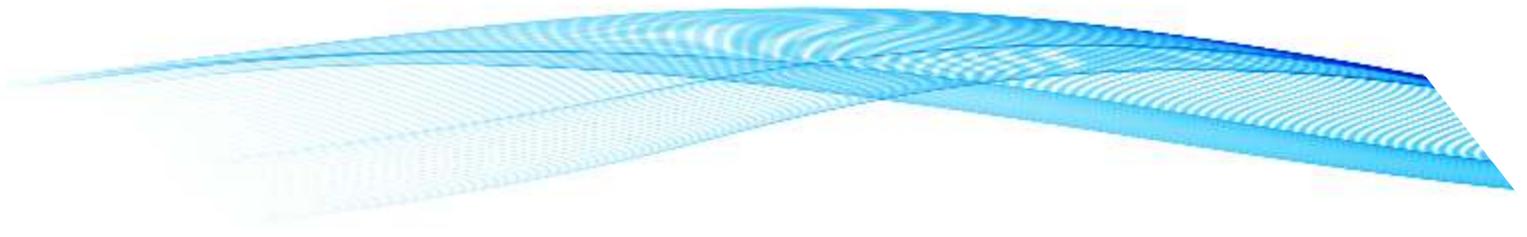




Percent of high/medium/low risk for commercial customers:

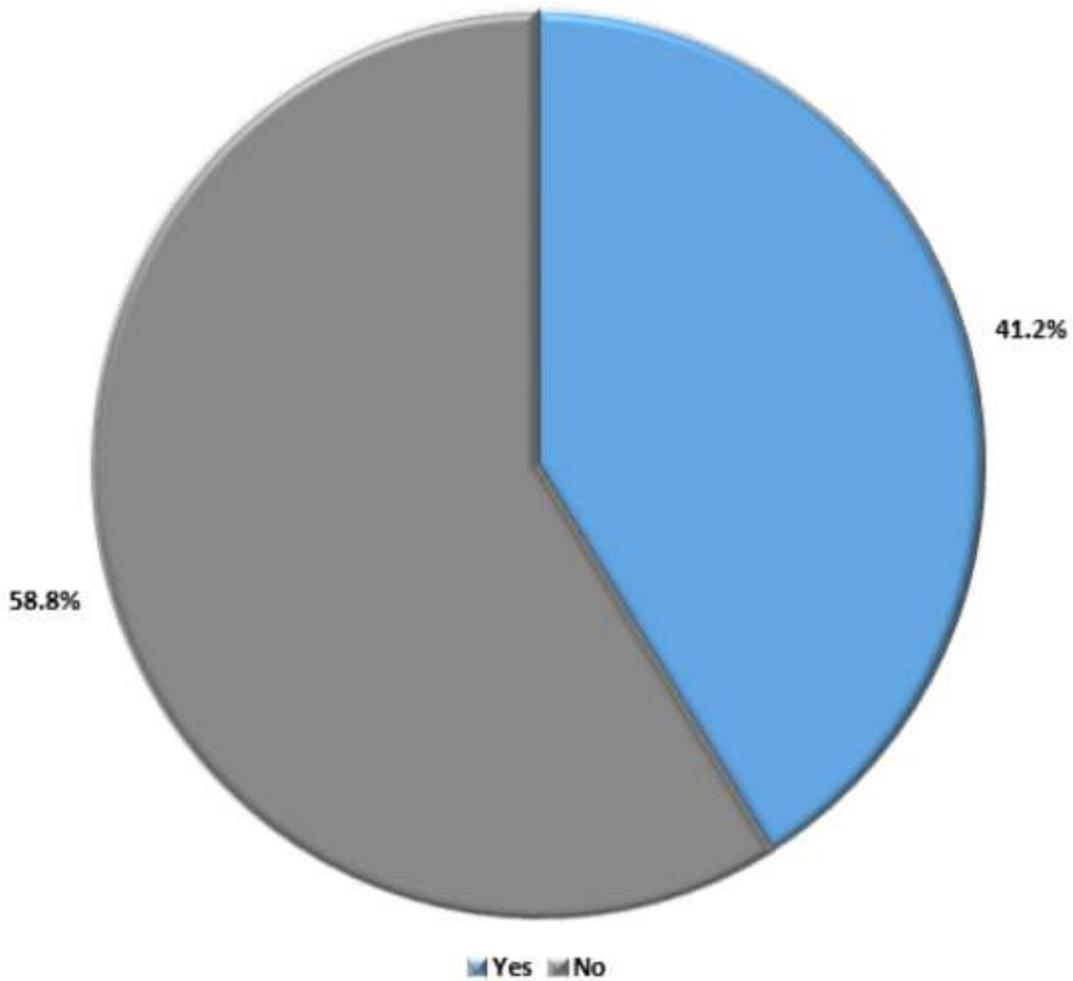
While most of our participants also indicated that the majority of their commercial customers are low-risk (50%); commercial customers were slightly high risk than their retail customer peers.





Reviewing customer classifications for trigger rates:

When asked if our participants have ever analyzed their customer classifications (high/medium/low) for trigger rates, the majority of our respondents said that they have not (58.8%).

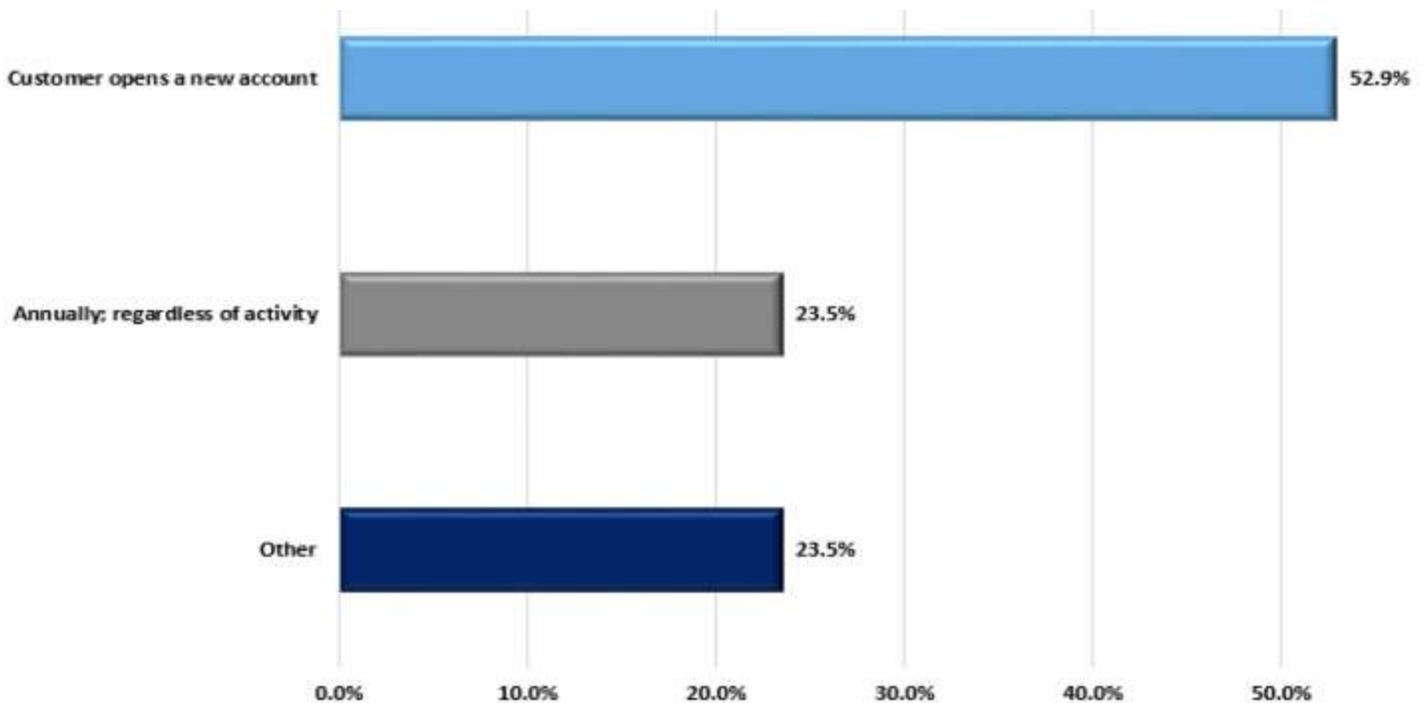


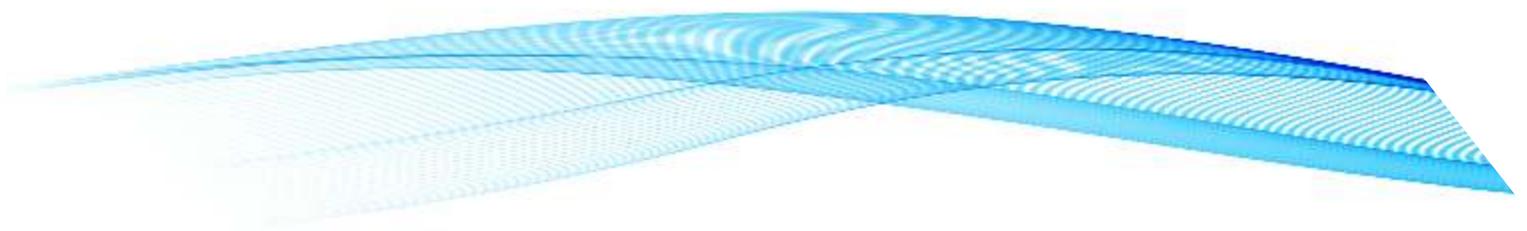


Retail Banks CDD Refresh Rate Questions

What conditions trigger customer activity:

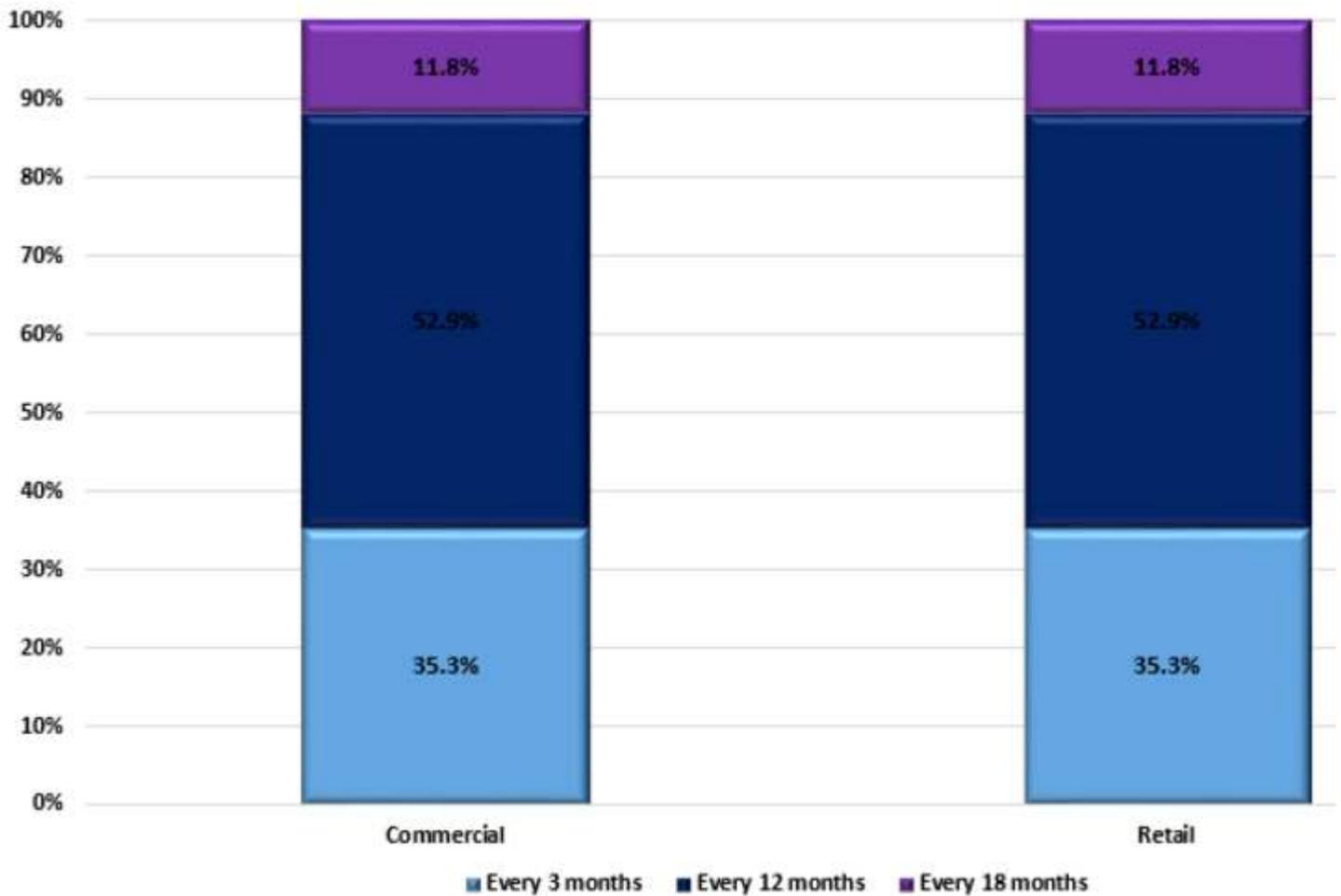
Most respondents refresh their customer's CDD documentation when a customer opens a new account (52.9%), both 'annually, regardless of activity' and 'other' received 23.5% of responses. The 'other' category included such answers as "monthly", "if an event triggers a review", "risk ratings are refreshed monthly...", and "changes in customer info or an alert trigger in automated TMS".





Frequency of refreshing high-risk commercial and retail customers:

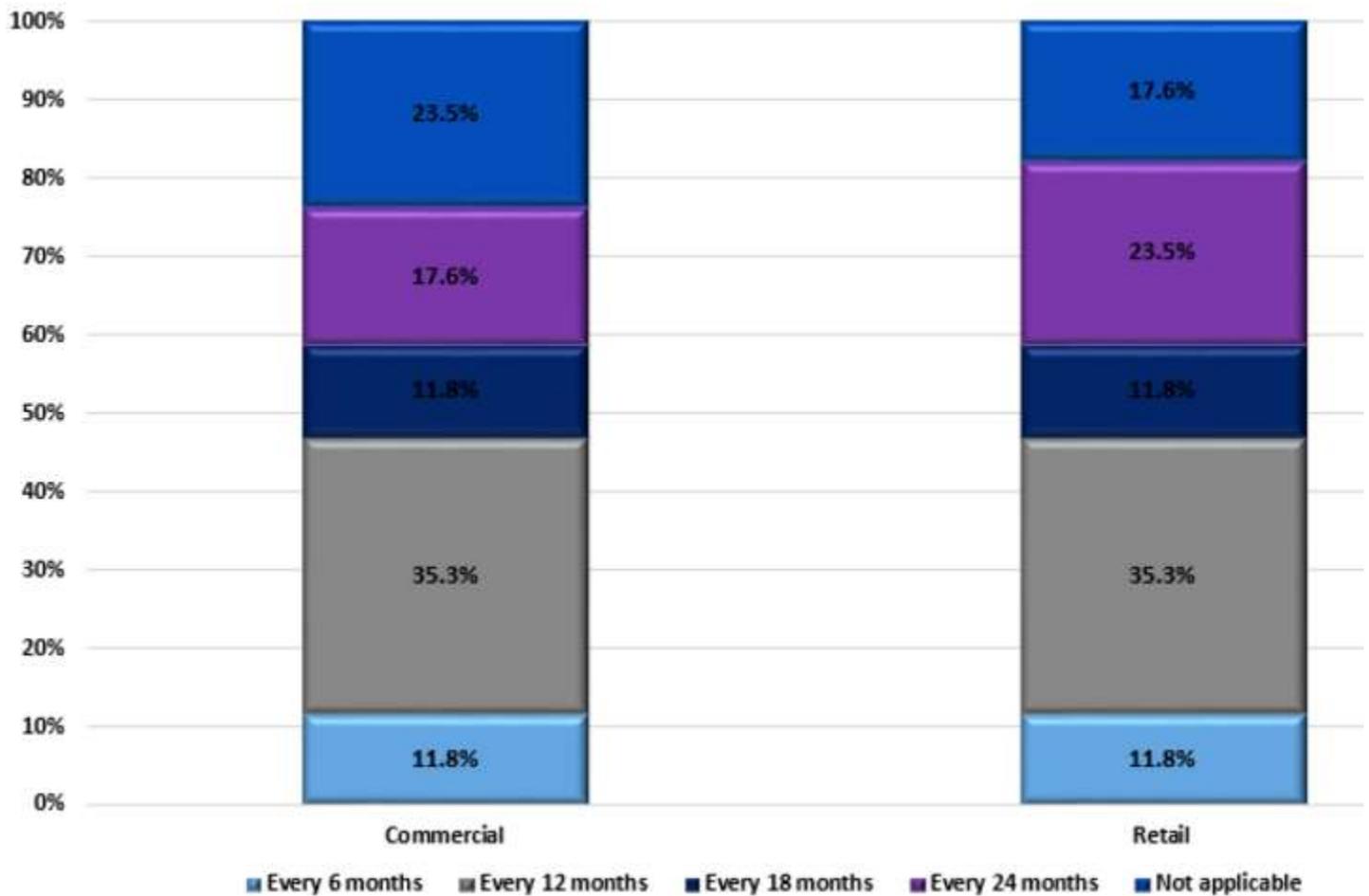
There was an equal split between customers of retail and commercial with a high-risk rating being reviewed every 3, 12, or 18 months.

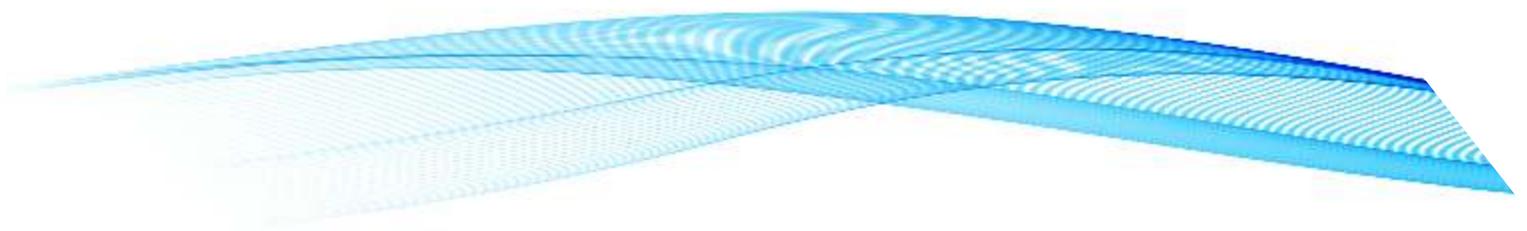




Frequency of refreshing medium-risk commercial and retail customers:

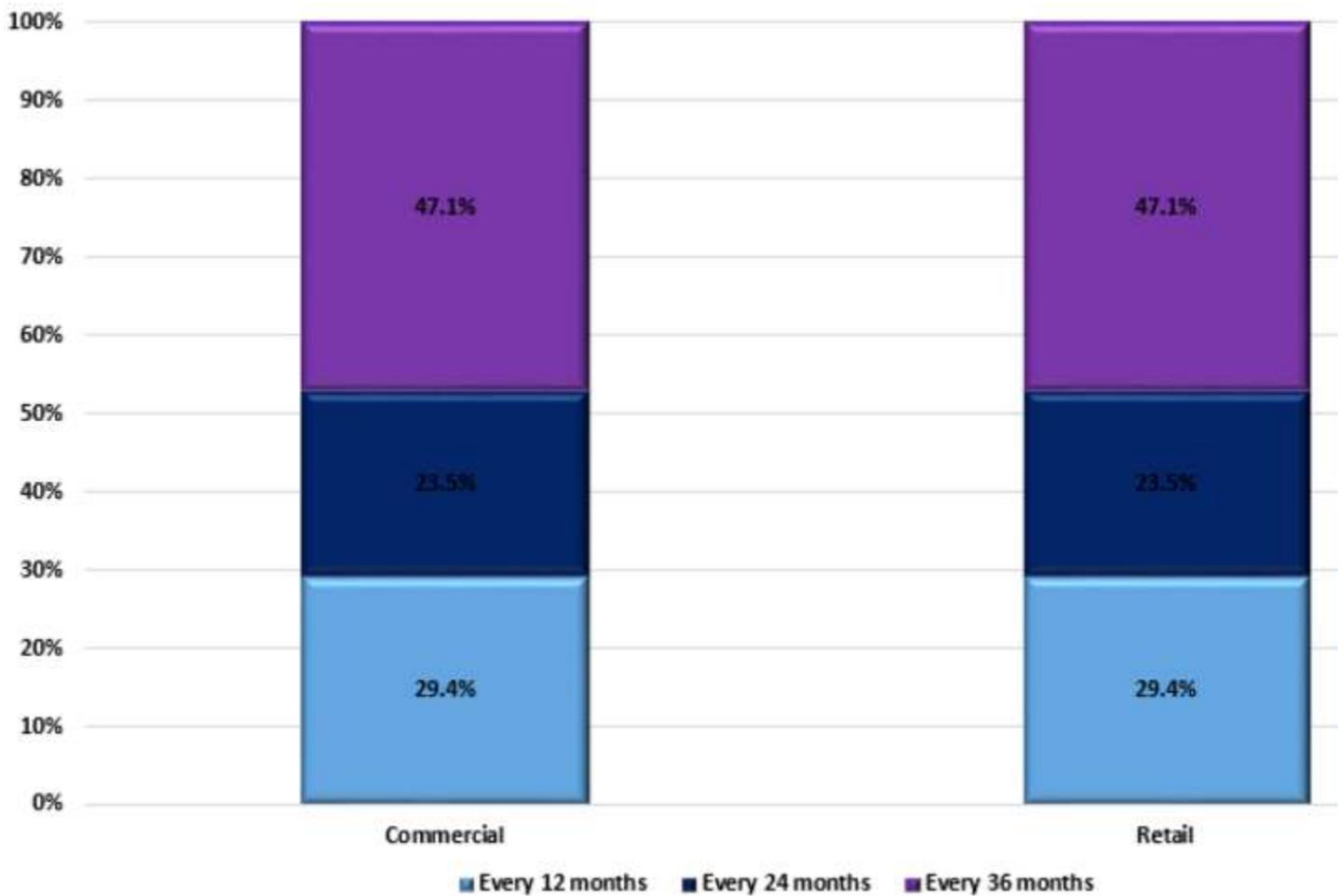
The results were similar for medium risk customers. The only difference is that more retail banks review their CDD information every 24 months, and commercial banks had more 'Not applicable' responses.





Frequency of refreshing low-risk commercial and retail customers:

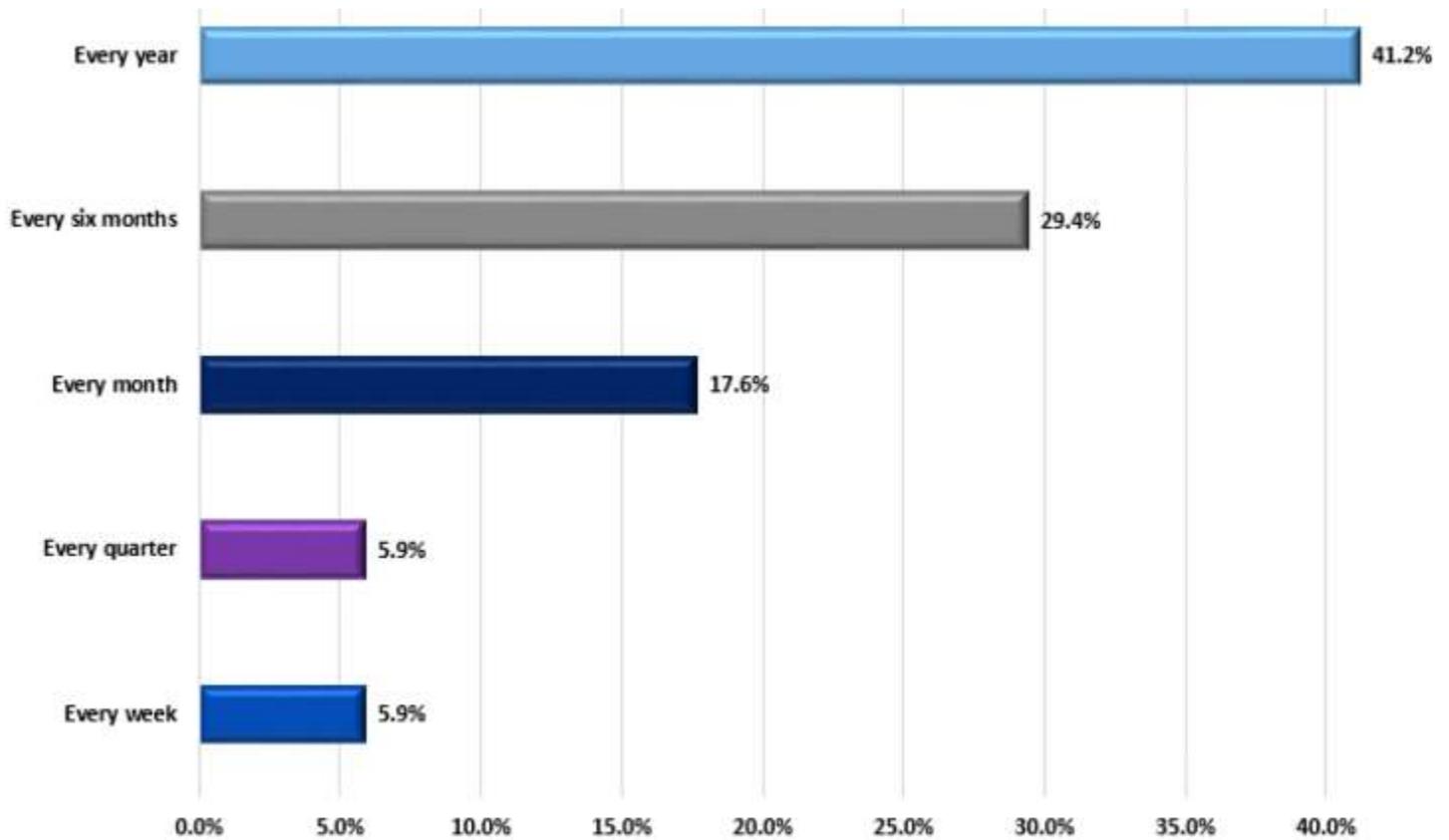
Both commercial and retail low risk customers had equal responses in regard to being reviewed every 12 months, 24 months or 36 months.

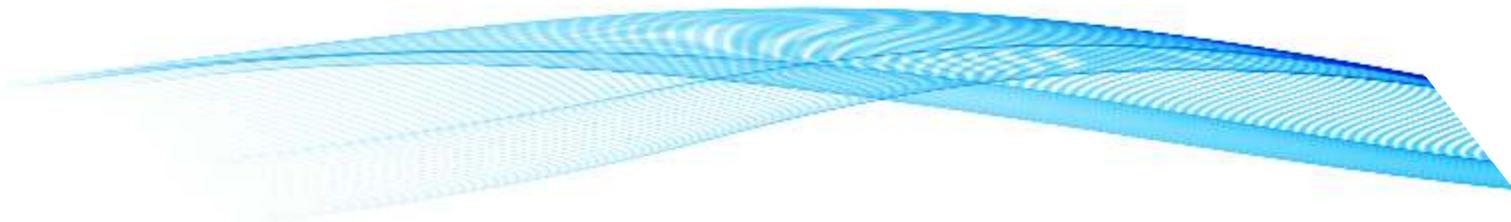




Frequency of changing one risk rating to another:

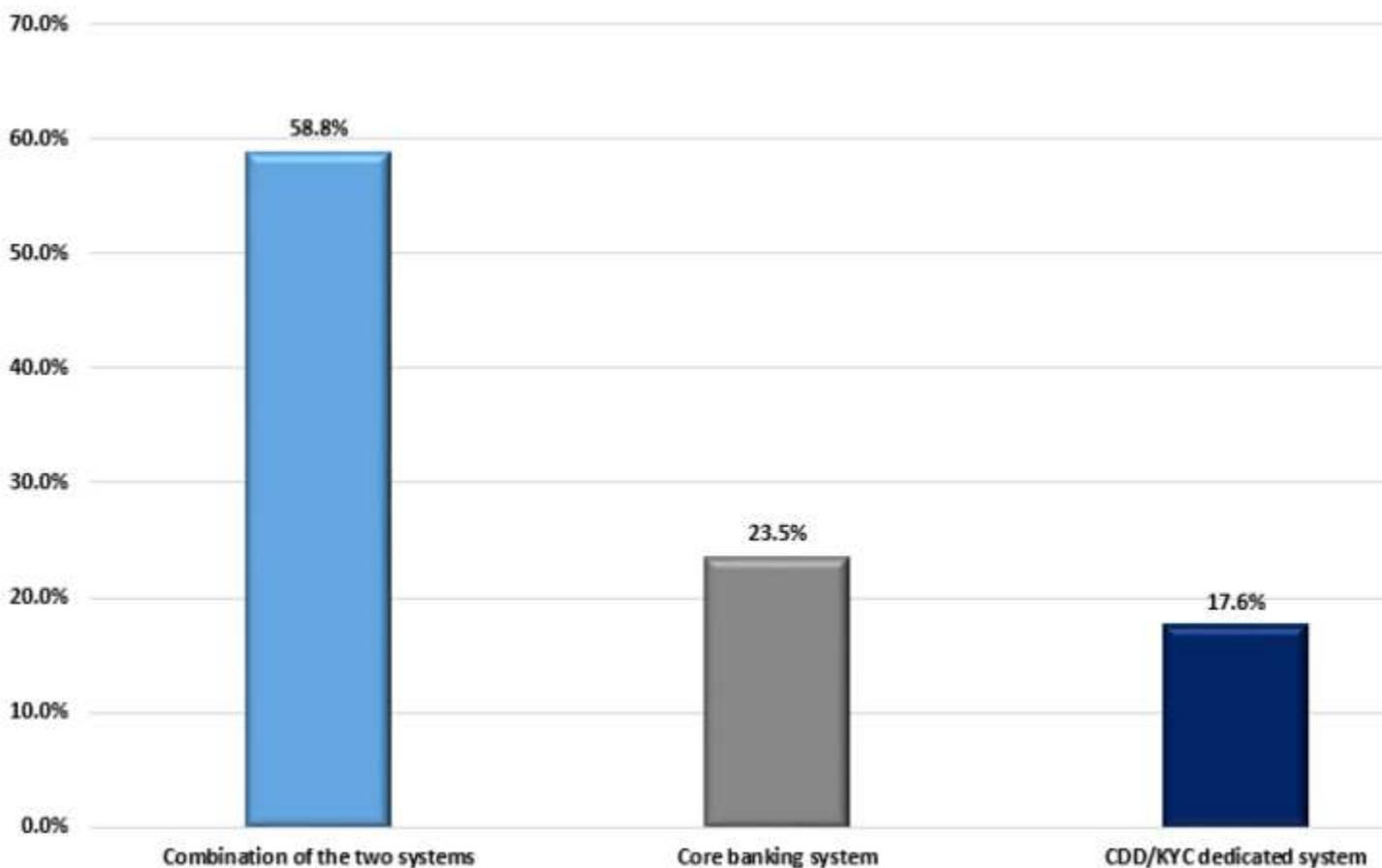
Most (41.2%) of our respondents said that they are changing risk ratings on customers who move from one risk rating to the other, such as medium to low risk, each year. The next largest group of respondents say they are making this change every six months (29.4%) followed by every month (17.6%).





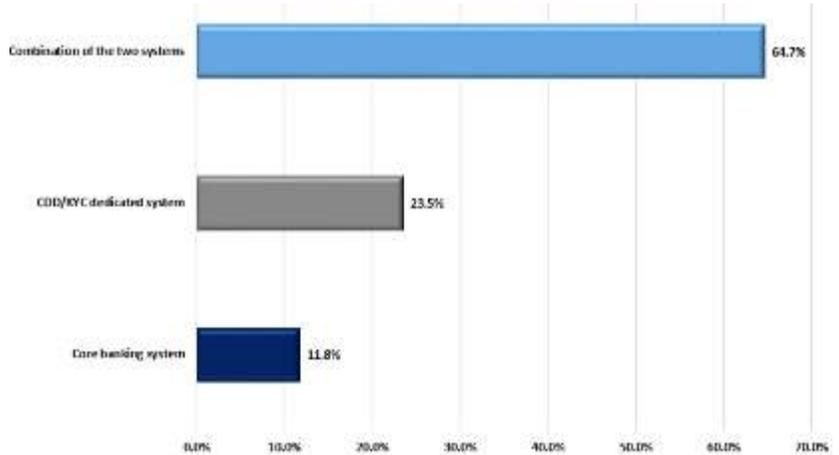
Which system is CDD entered:

Over half of our respondents (58.8%) say that they enter their CDD documentation into a combination of their core banking system and their CDD/KYC dedicated system.



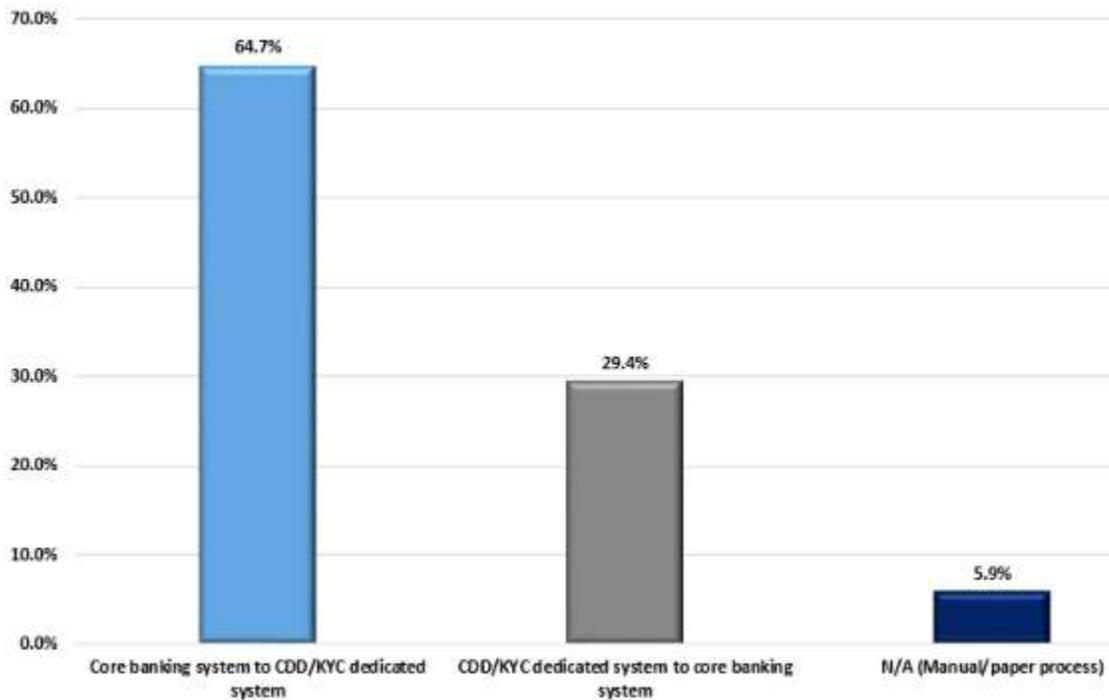
Which system is CDD refreshed:

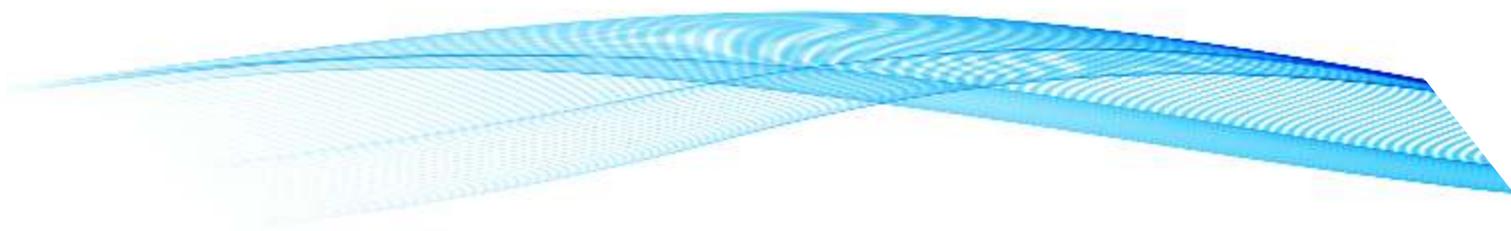
The majority of our respondents said that their CDD information is refreshed in a combination of their core banking system and their CDD/KYC dedicated system (64.7%).



How the information is fed from one system to the other:

The majority of our retail respondents say that their CDD information is fed from the core banking system to the CDD/KYC dedicated system (64.7%).

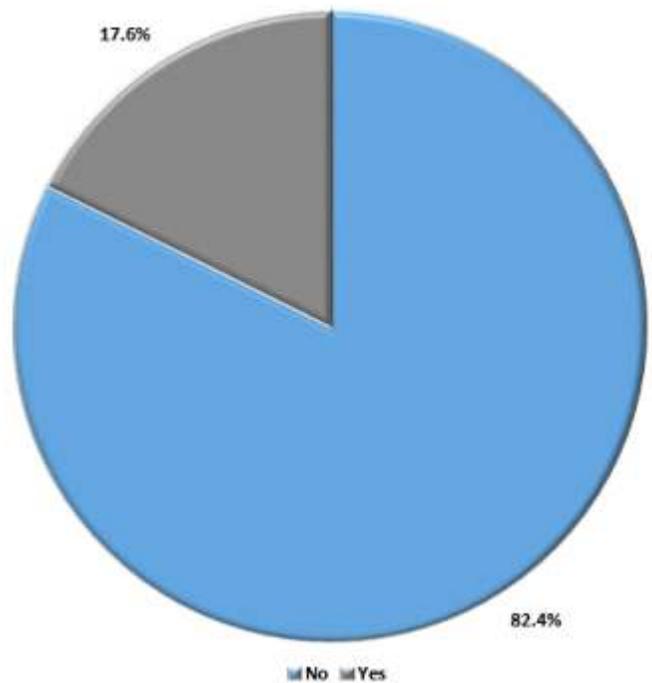




Retail Banks Regulator Scrutiny Questions

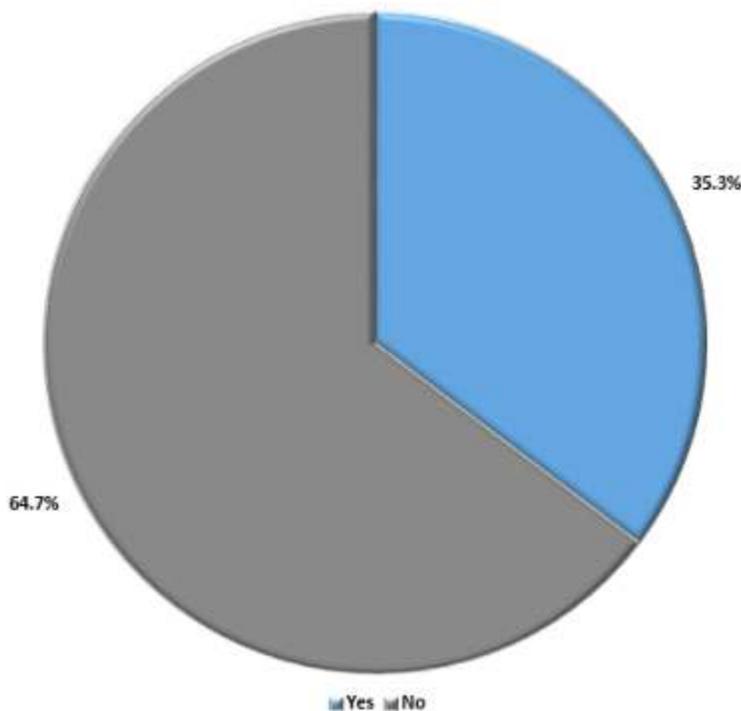
Receiving regulator scrutiny:

The majority of respondents (82.4%) said that they have not received scrutiny from their regulator. Only 17.6% of our respondents said they received some level of scrutiny regarding their CDD refresh rates.



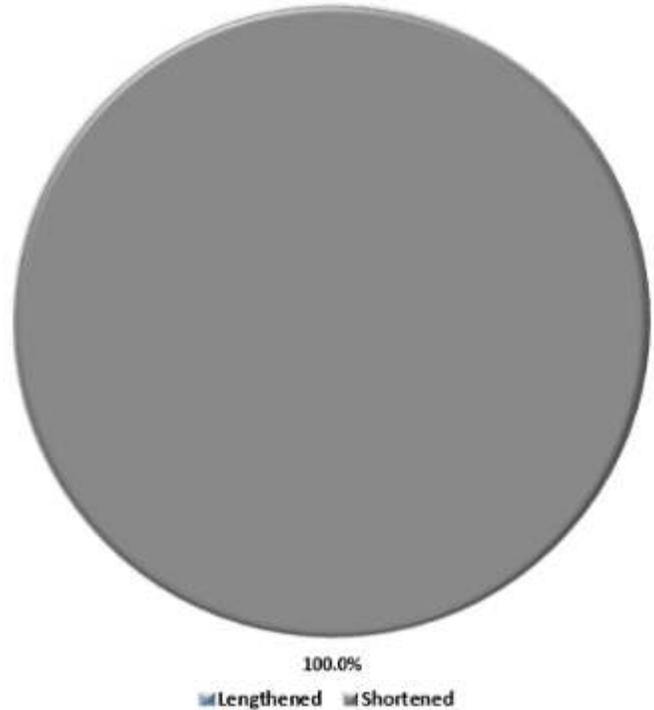
Changes to CDD refresh rates in the last two years:

The majority of our respondents have not changed their CDD refresh rates in the last two years (64.7%), which is not surprising if a majority of our participants have not received any regulator scrutiny regarding their rates.



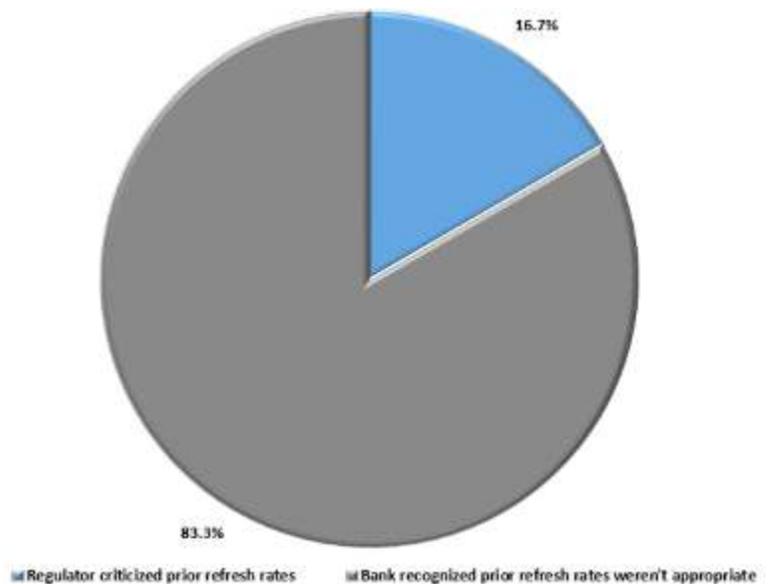
For those who did change their CDD refresh rates in the last two years; Lengthening vs. shortening their CDD refresh rates:

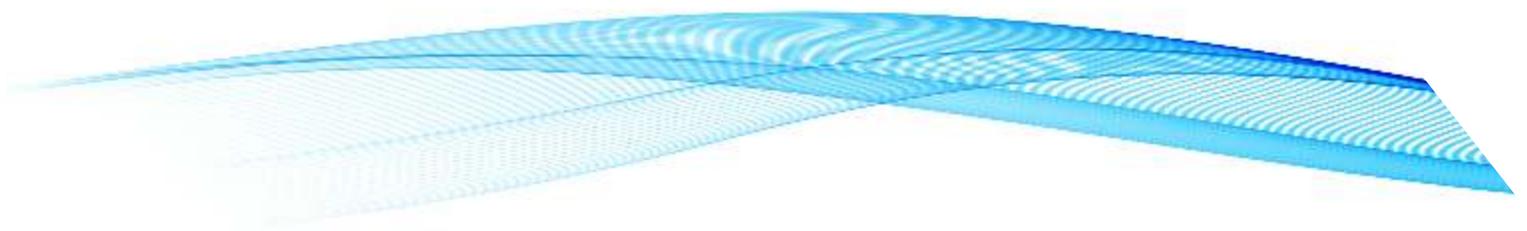
It was interesting to see that 100% of retail respondents had shortened their refresh rates in the past two years.



For those who did change their CDD refresh rates in the last two years; What was the reason for changing the refresh rates:

Finally, an overwhelming majority said that they changed their refresh rates in the last two years because the 'bank recognized the prior refresh rates weren't appropriate' (83.3%).

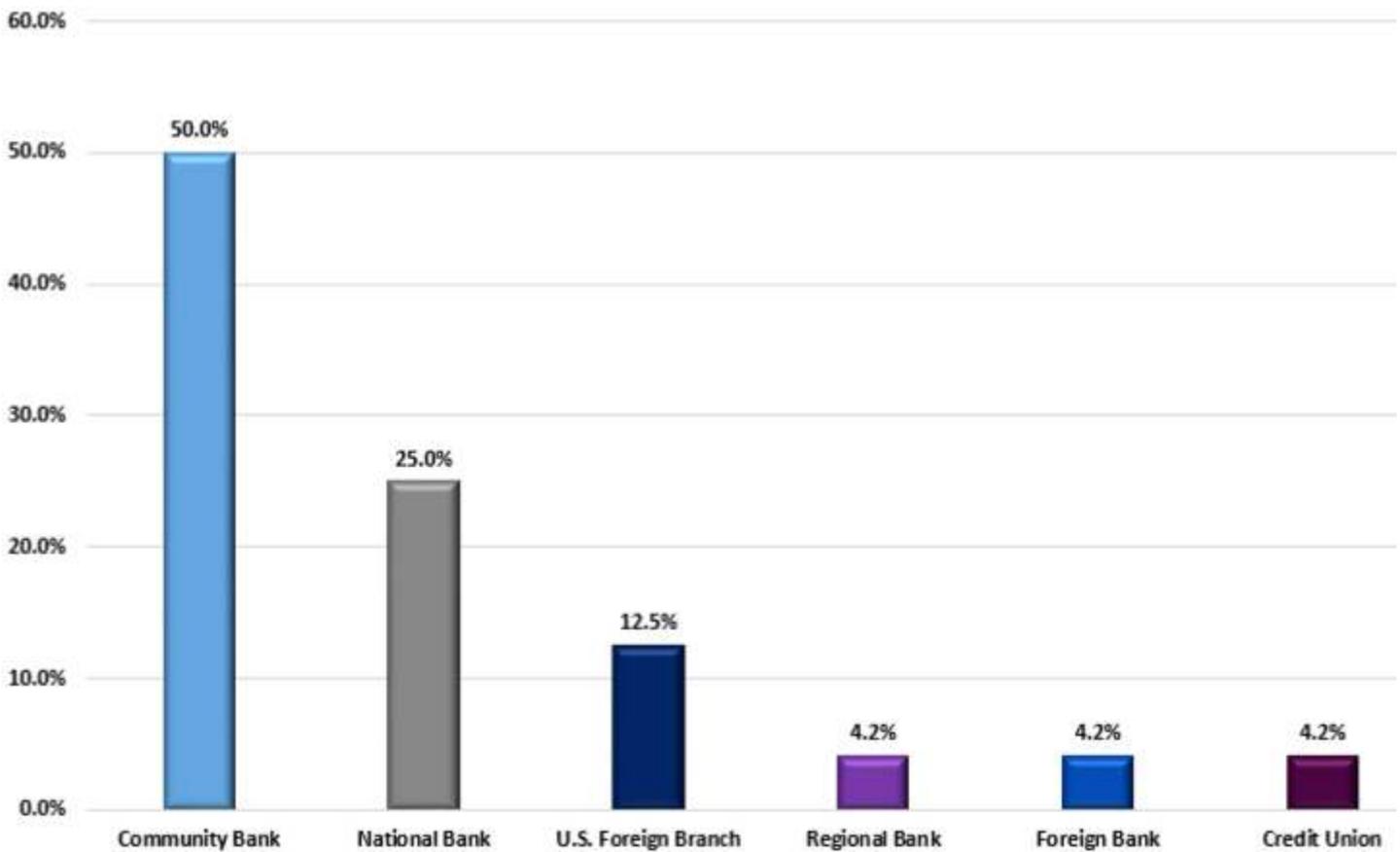


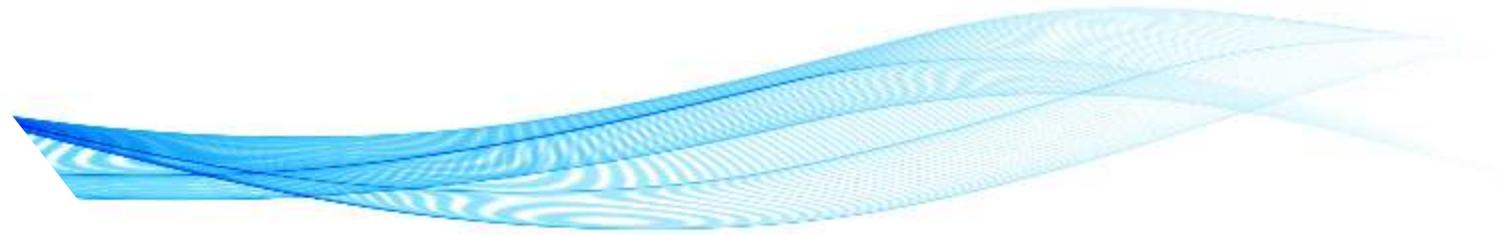


Commercial Banks Demographic Results:

Institution Type:

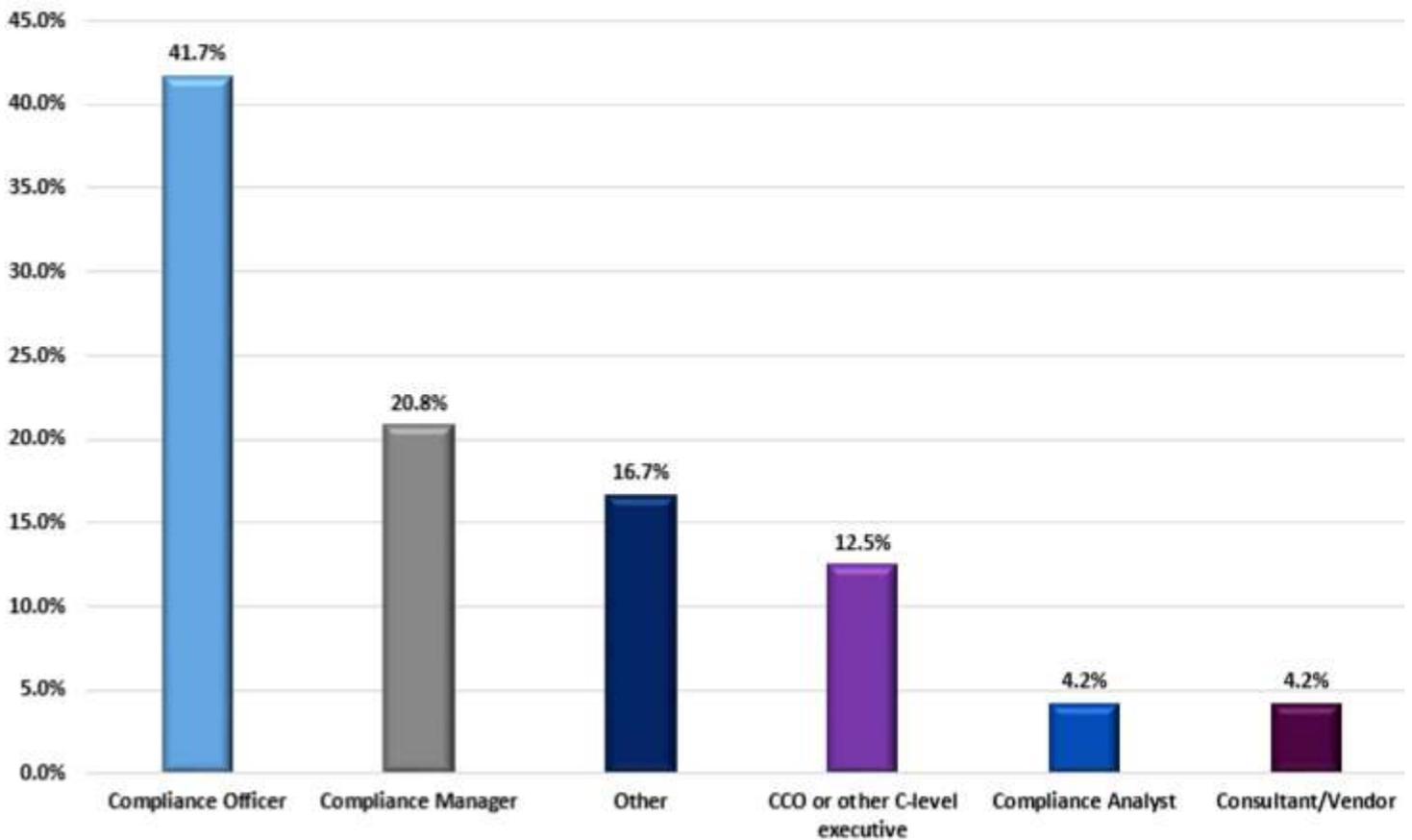
Most of our commercial banks represented a community bank (50%), followed by a national bank (25%).

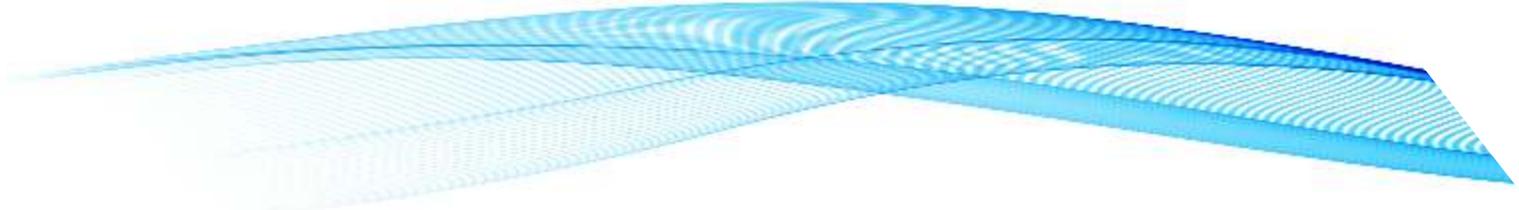




Current Position

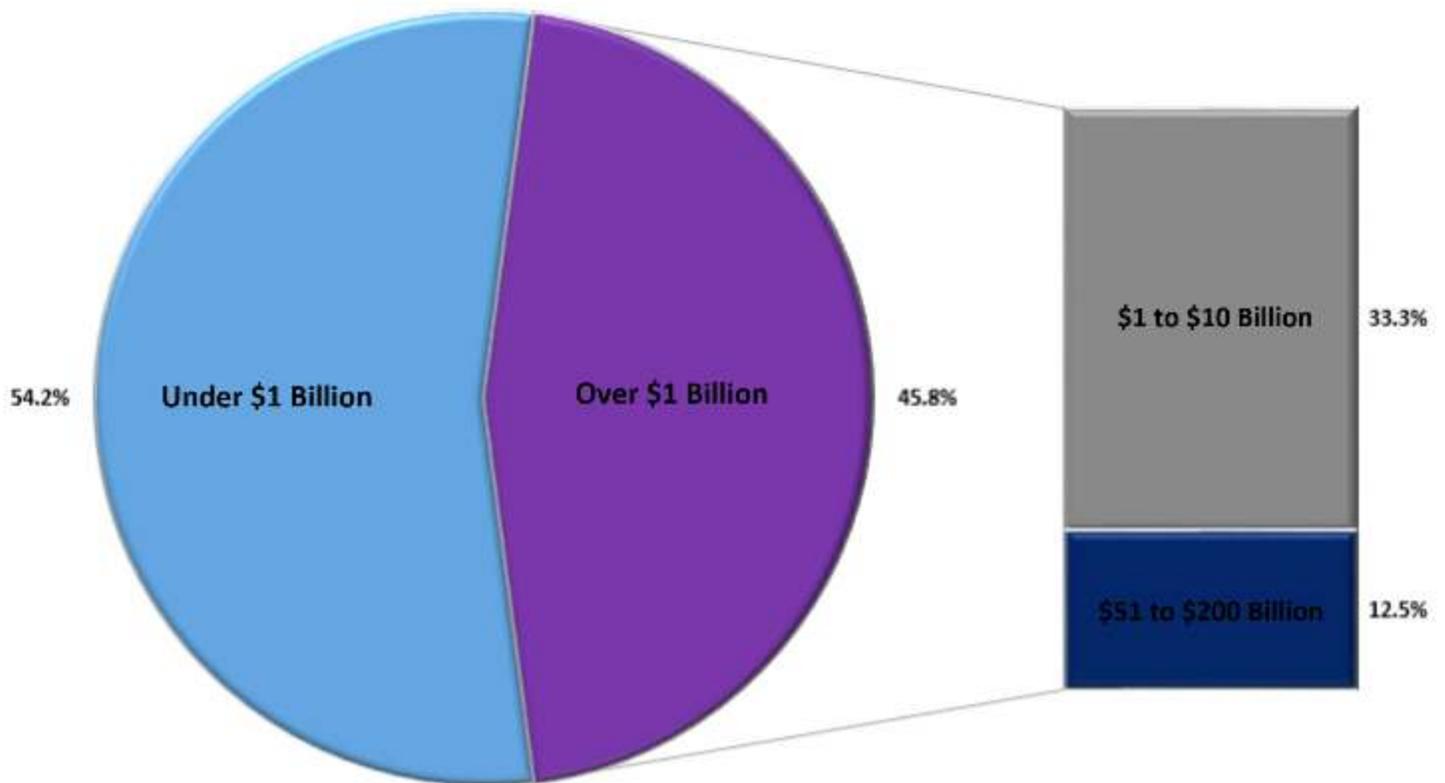
The most common job title for commercial banks was a compliance officer (41.7%), followed by a compliance manager (22.9%) and then 'other' (16.7%).

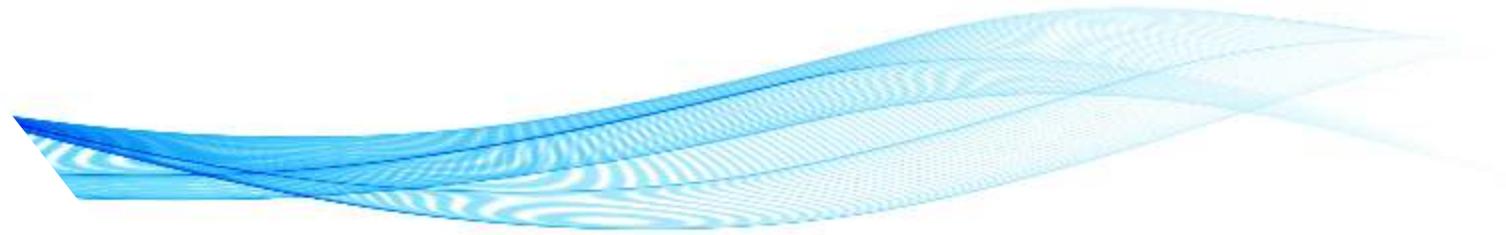




Asset Size:

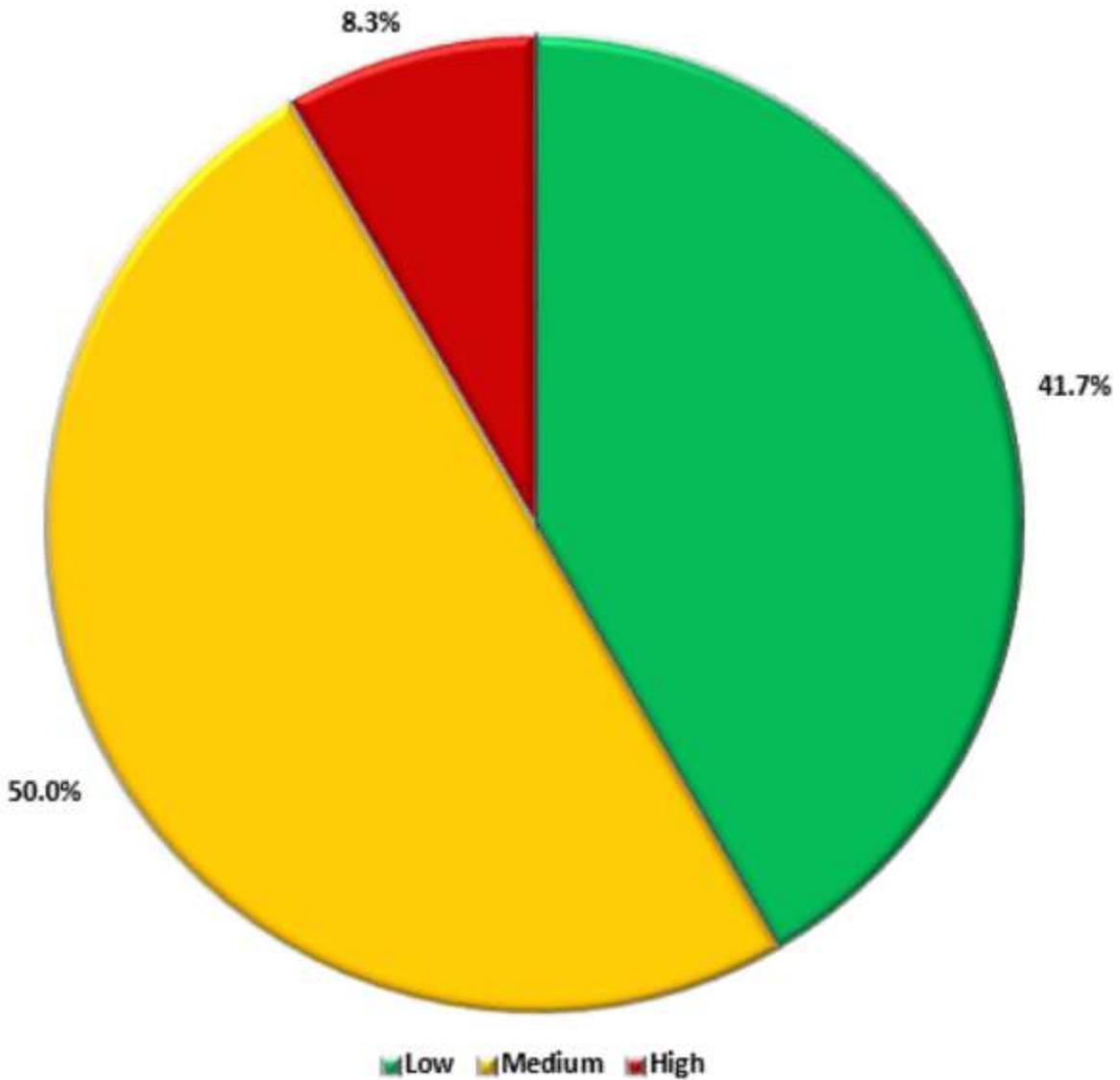
The majority (54.2%) of our commercial bank respondents said they were under \$1 billion in assets versus those over \$1 billion (45.8%). For the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (33.3%) followed by \$51 to \$200 billion (12.5%).

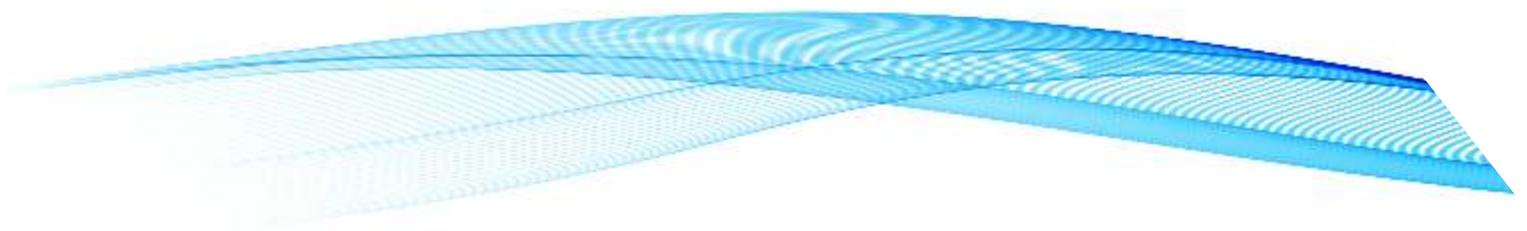




Risk Rating:

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 (50%) with the next most frequent answer was having a low risk rating (41.7%), and finally a high risk rating (8.3%).

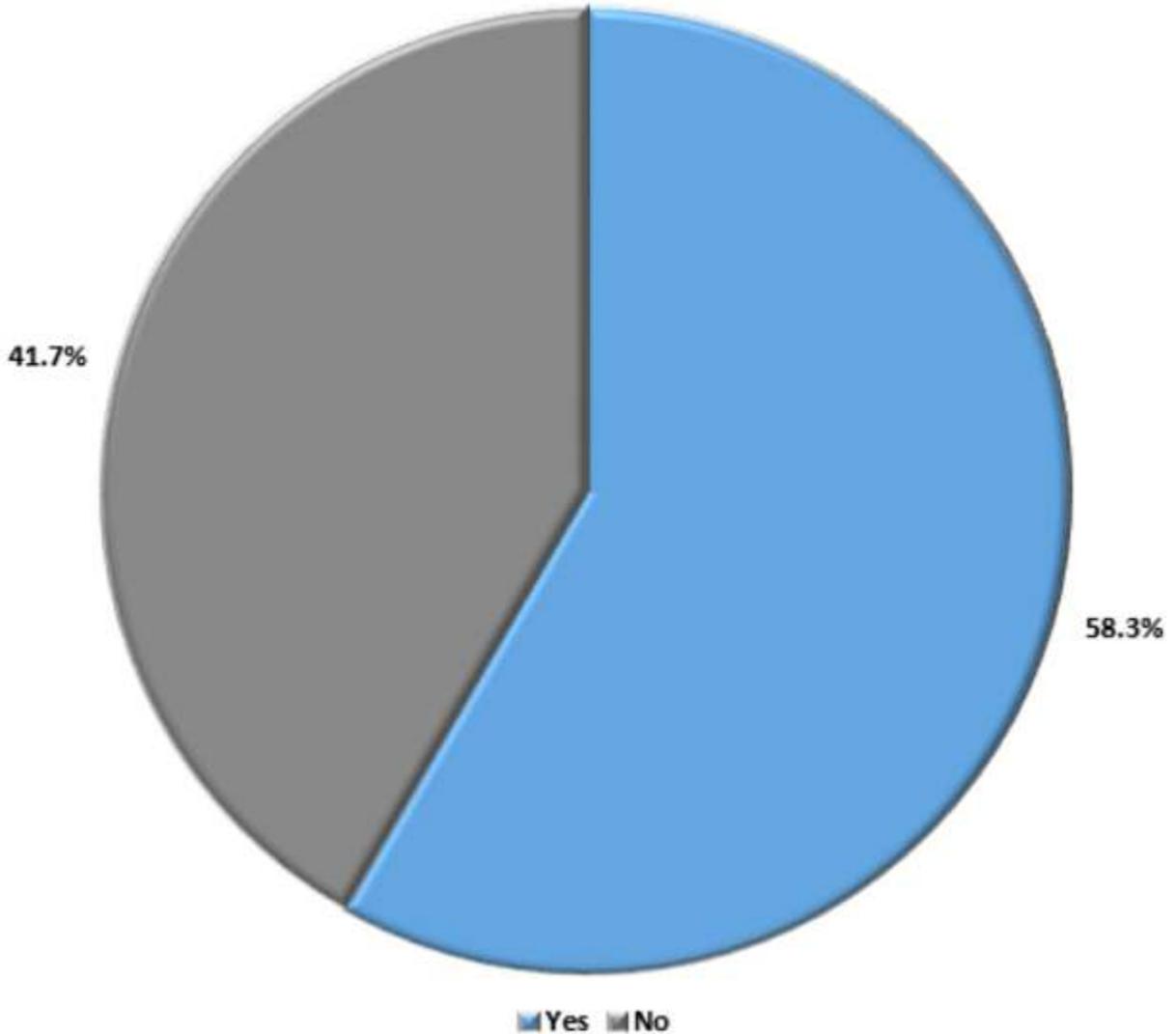


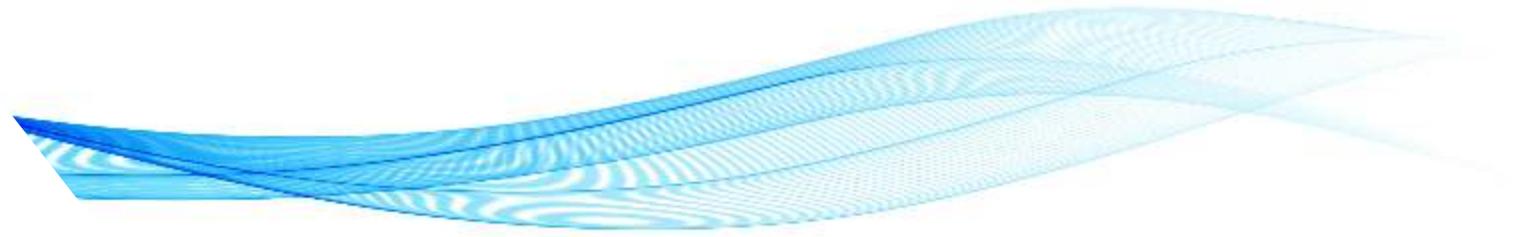


Commercial Banks General CDD Questions:

Maintaining a CDD/KYC dedicated system:

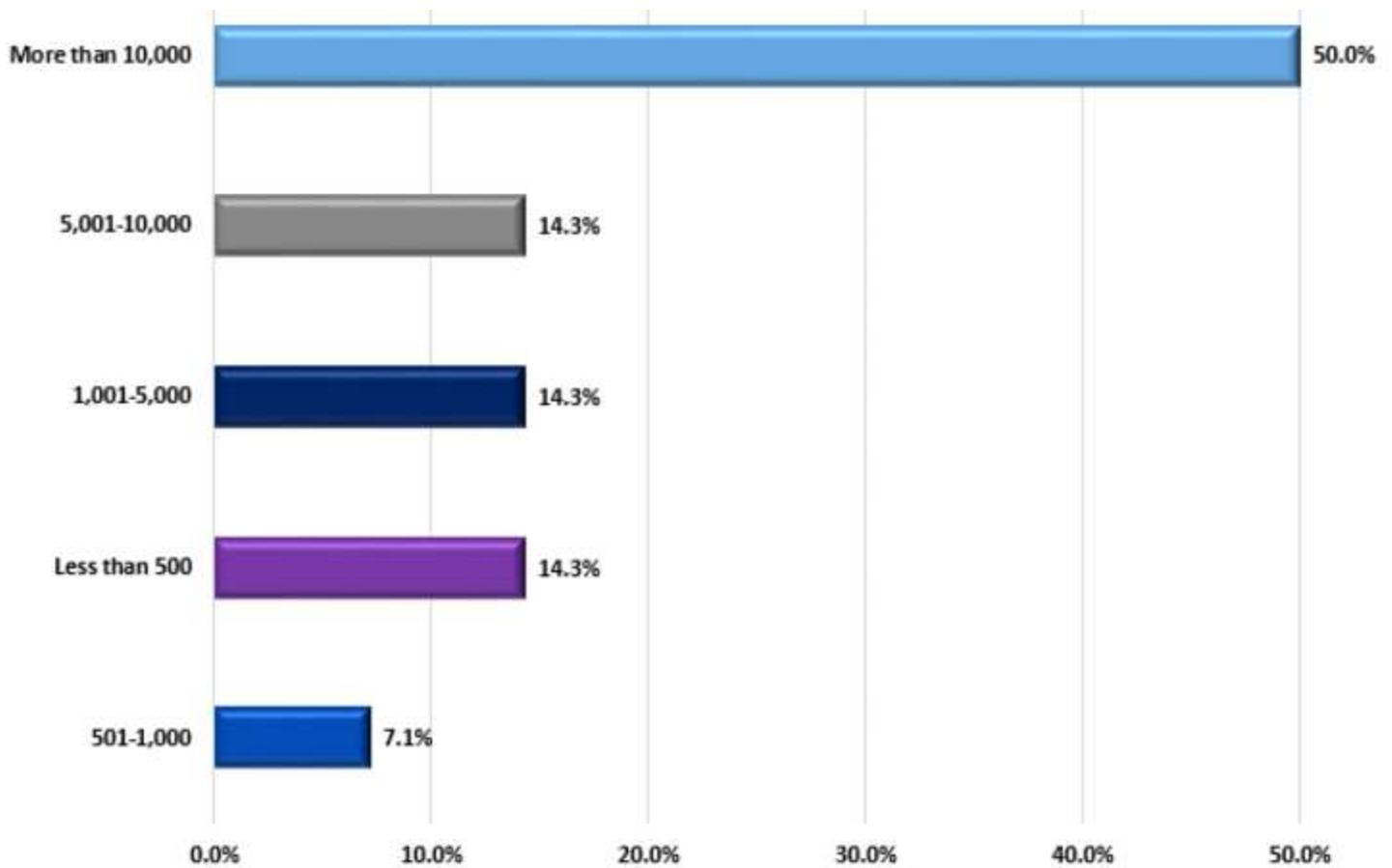
We asked our participants if they utilize a dedicated CDD/KYC system for their CDD program, and the majority indicated that they do (58.3%).

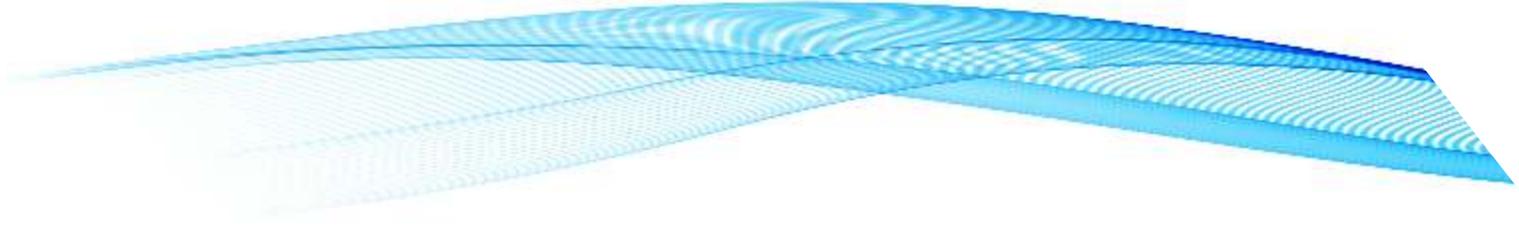




Total number of customers:

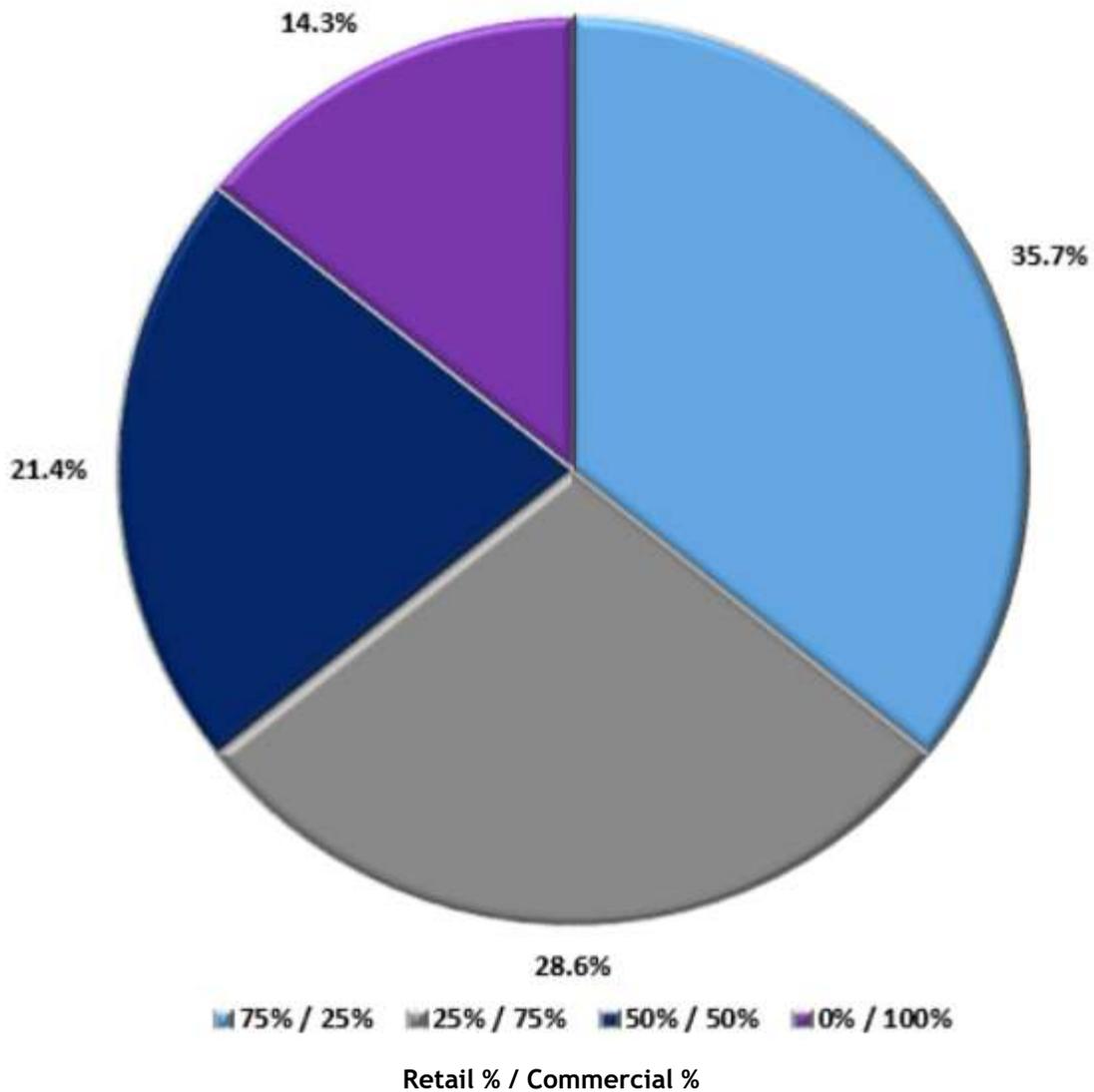
Exactly half of our respondents (50%) make up banks who have more than 10,000 customers, the other 50% have less than 10,000 customers. For those respondents who have less than 10,000 customers, the majority (28.6%) make up institutions with between 1,001 and 10,000 customers. 21.4% have less than 1,000.

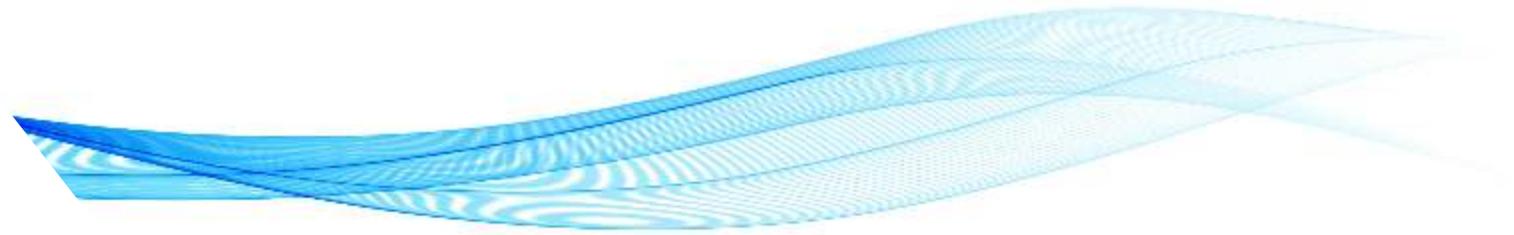




Percent of retail versus commercial customers:

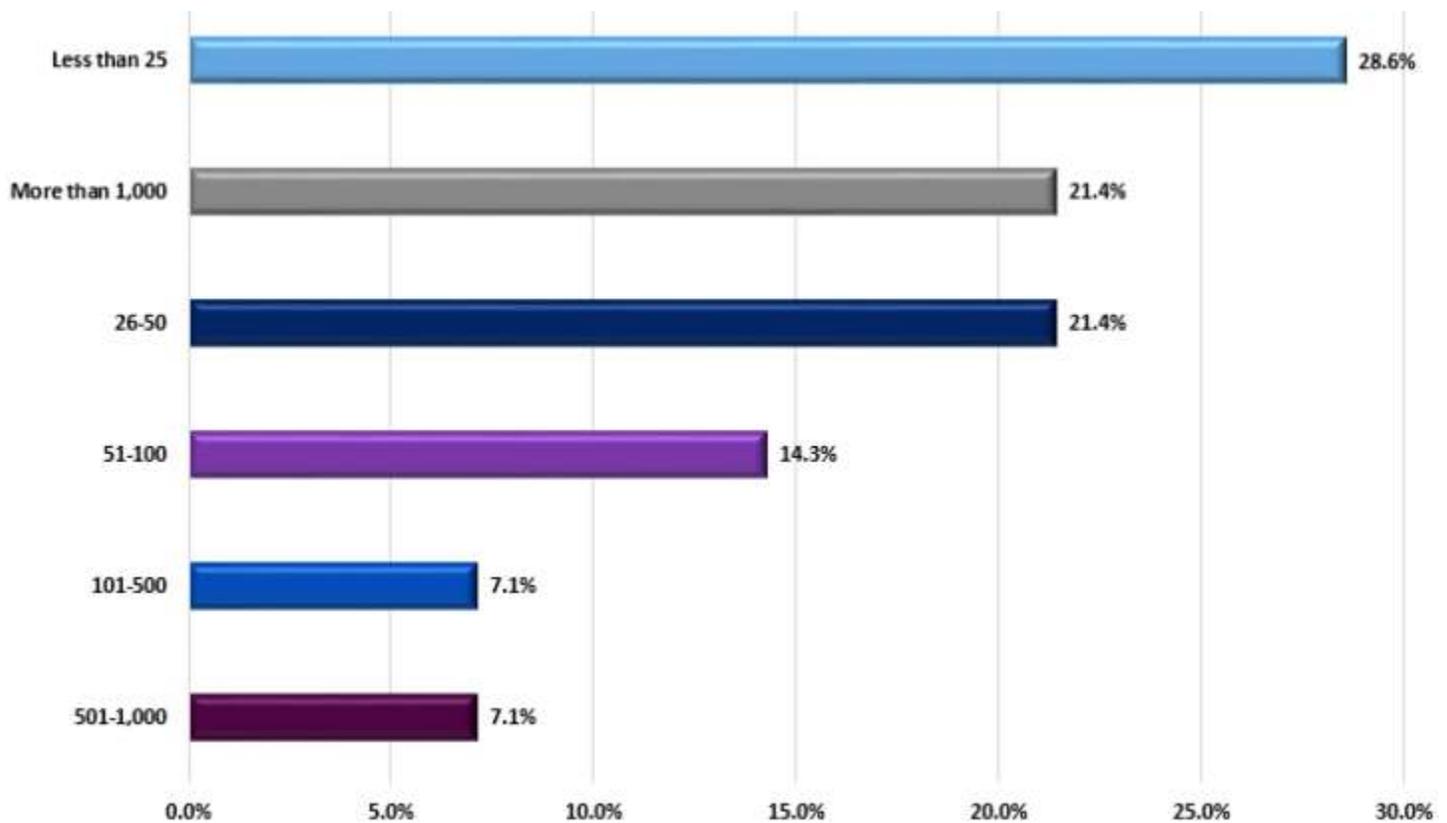
The majority of commercial bank respondents said that 75% of their customer base are retail customers vs. 25% commercial customers (35.7%).

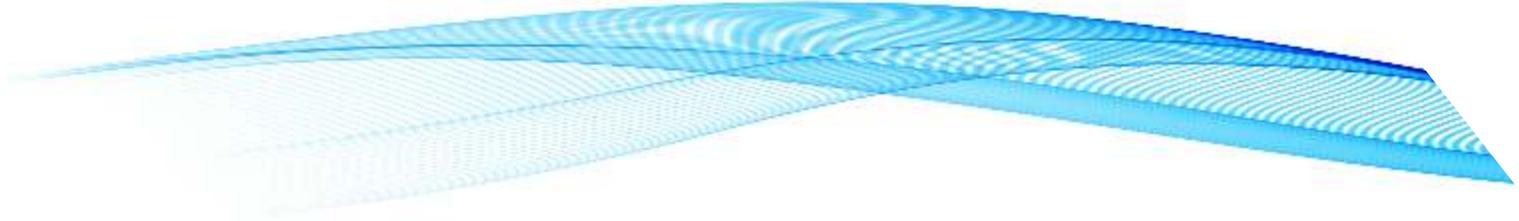




Number of new customers on-boarded each month:

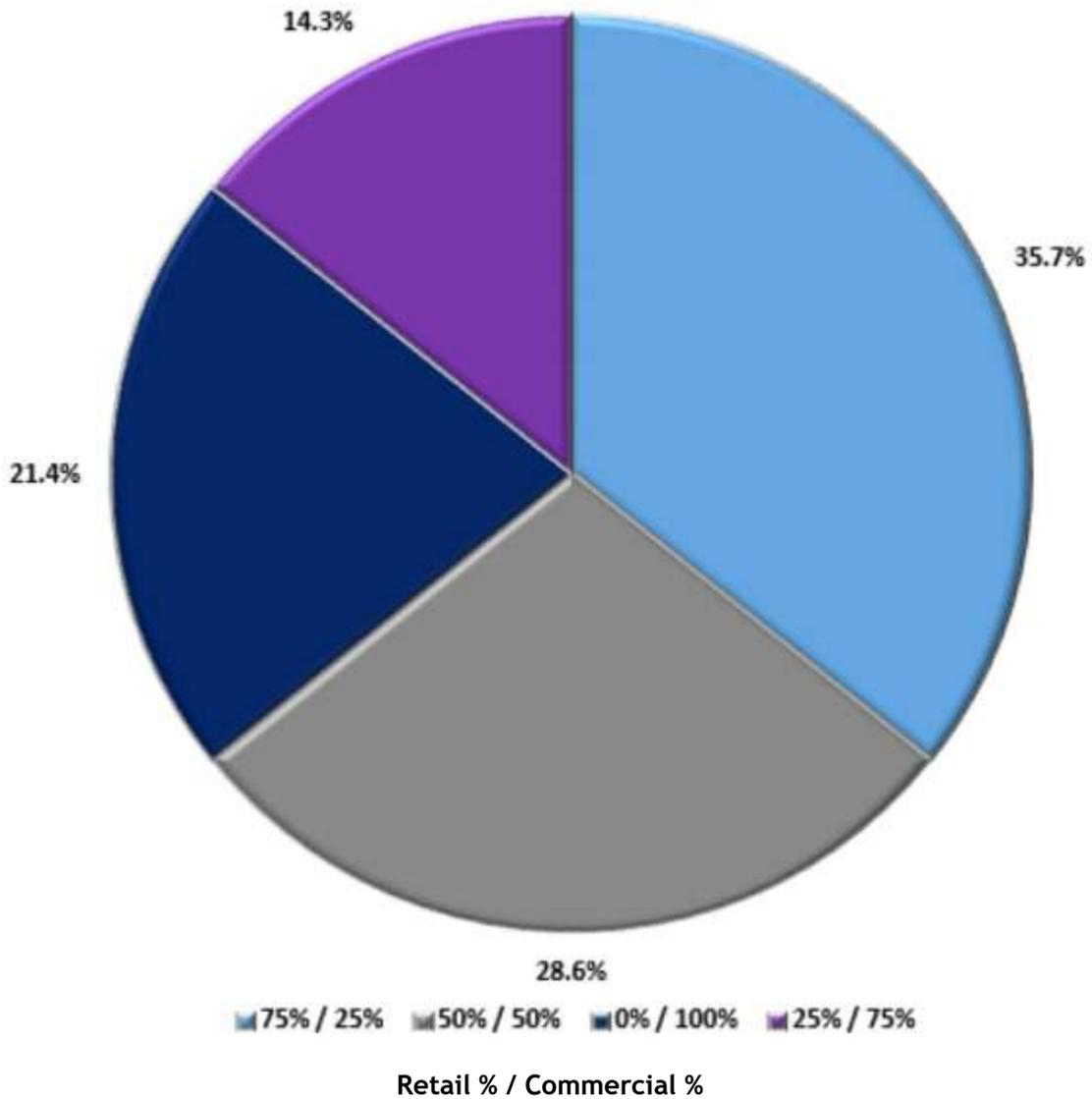
It was interesting to see a diverse set of responses for this question. The most frequent response was that they were on-boarding less than 25 new customers a month (28.6%). This was followed by an even split between 'more than 1,000' and '26-50' (21.4% each).





Percent of new customers on-boarded each month:

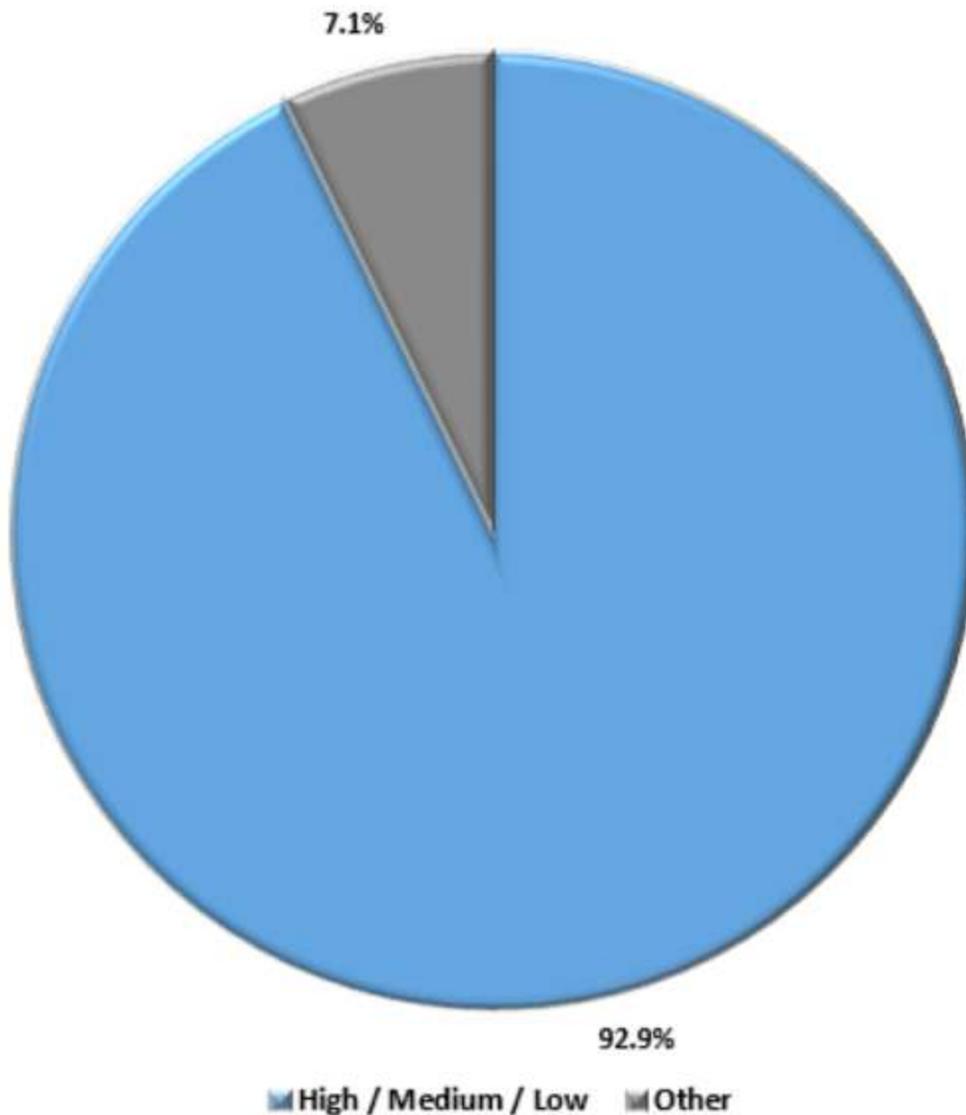
The majority of commercial respondents are on-boarding more retail customers than commercial customers each month (35.7%), which is interesting given they are commercial bank respondents.

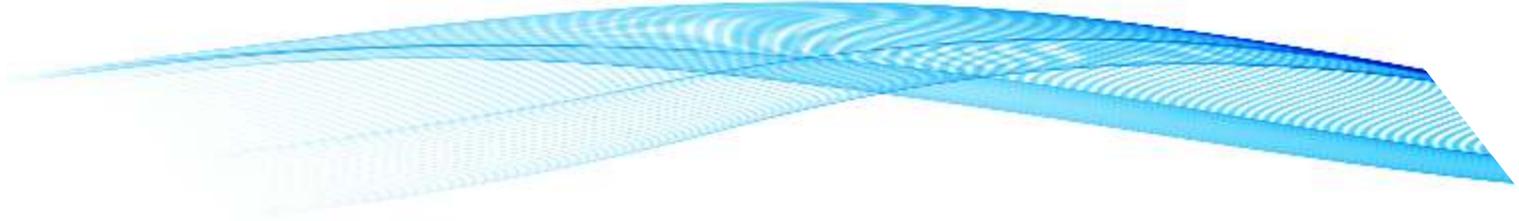




Customer Risk Classification:

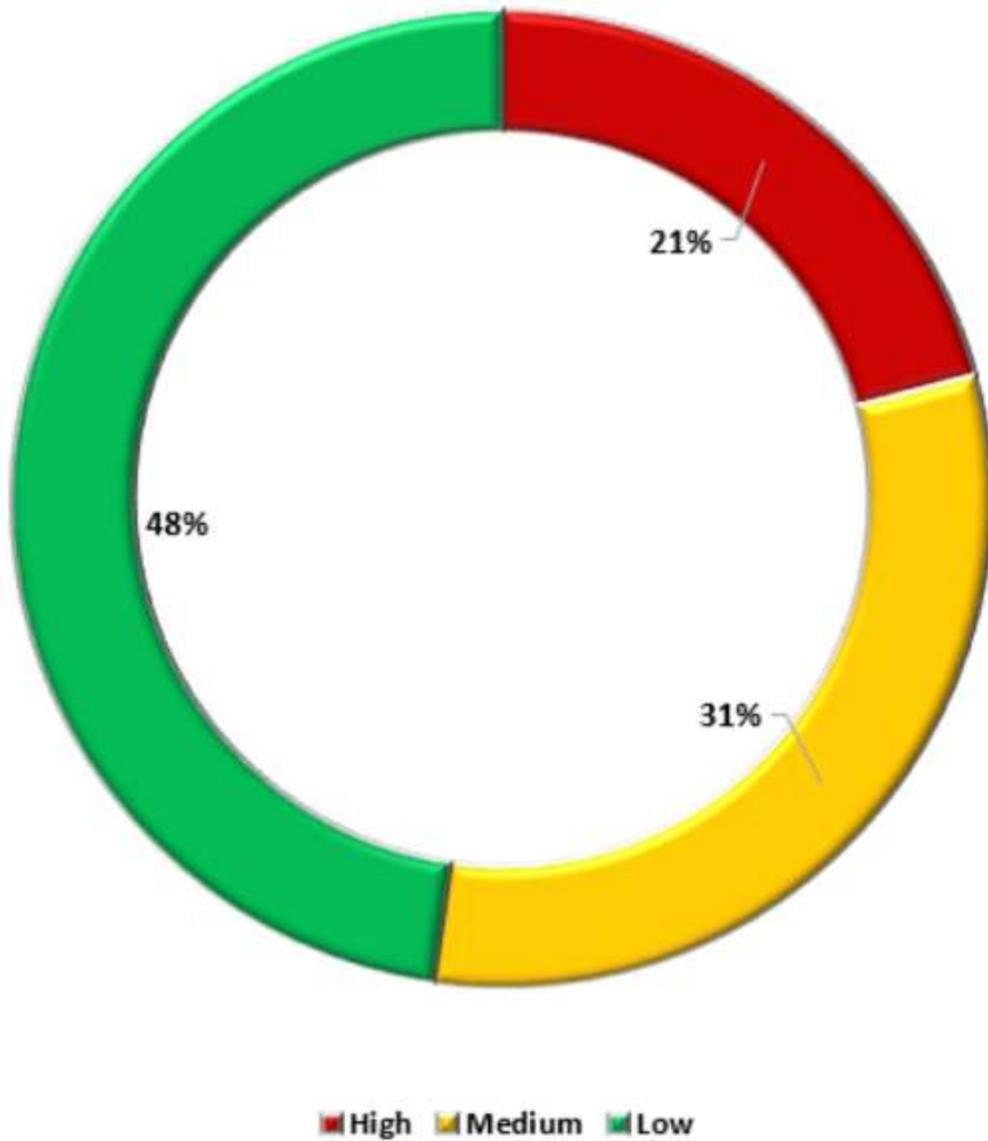
The majority of commercial respondents use a “high/medium/low” classification for their customer risk rating (92.9%). While a small number of respondents (7.1%) who selected ‘other’ said they use a “Prohibited/High/Med-High/Moderate/Low” rating or there are too “many factors [that] determined this”.





Percent of high/medium/low risk for retail customers:

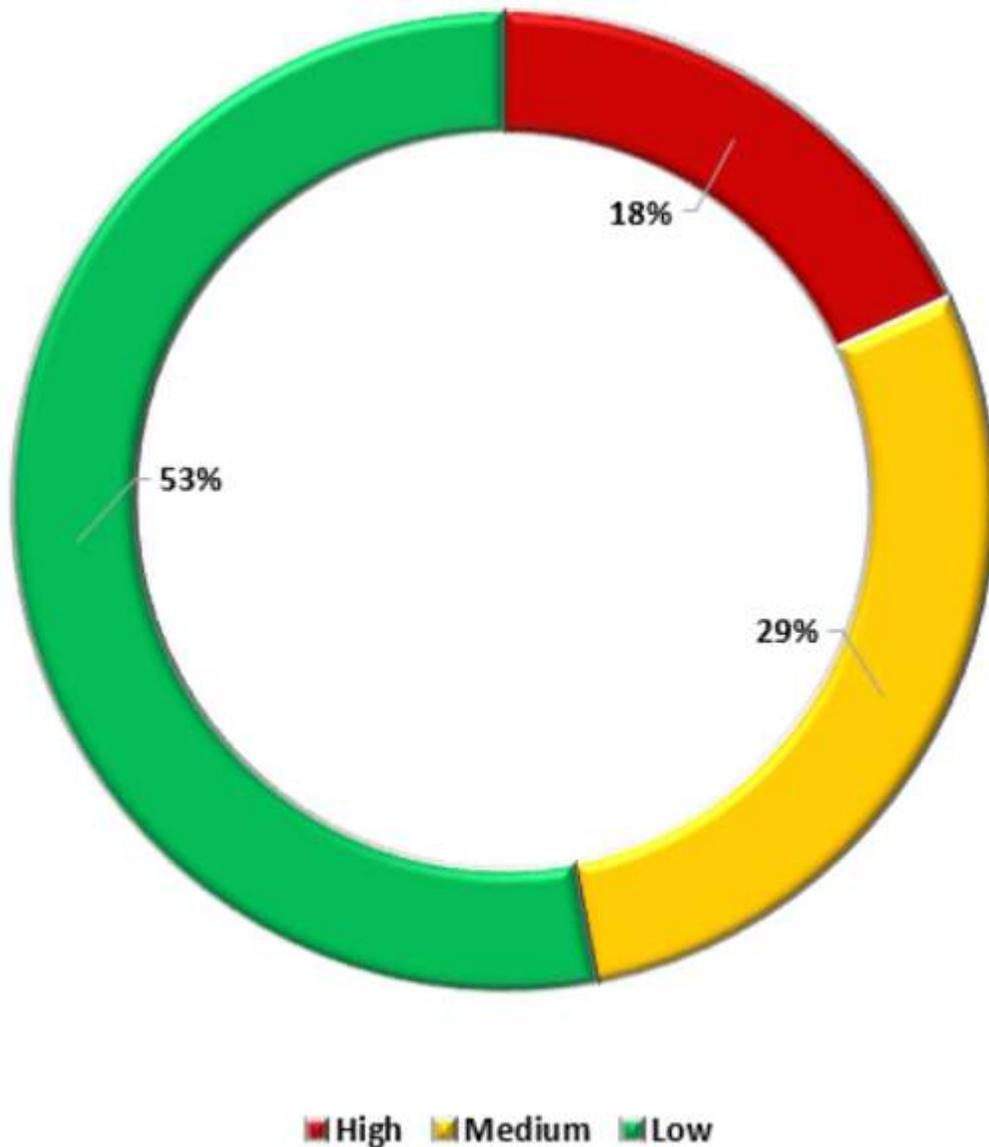
The majority of our respondents said that most of their retail customers are low-risk.

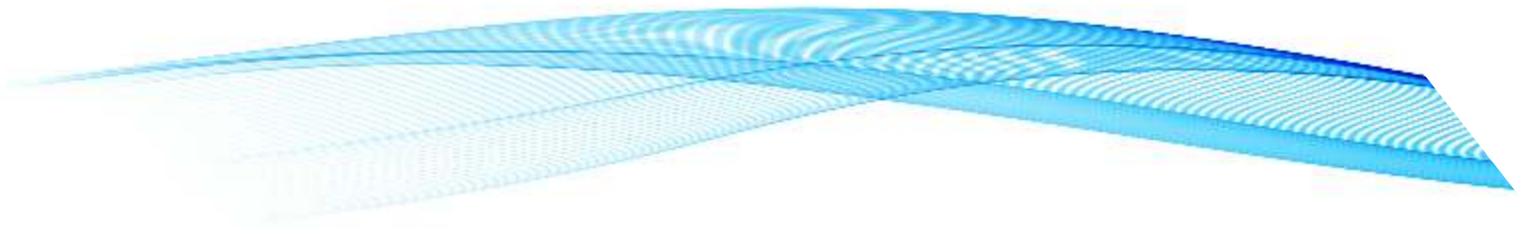




Percent of high/medium/low risk for commercial customers:

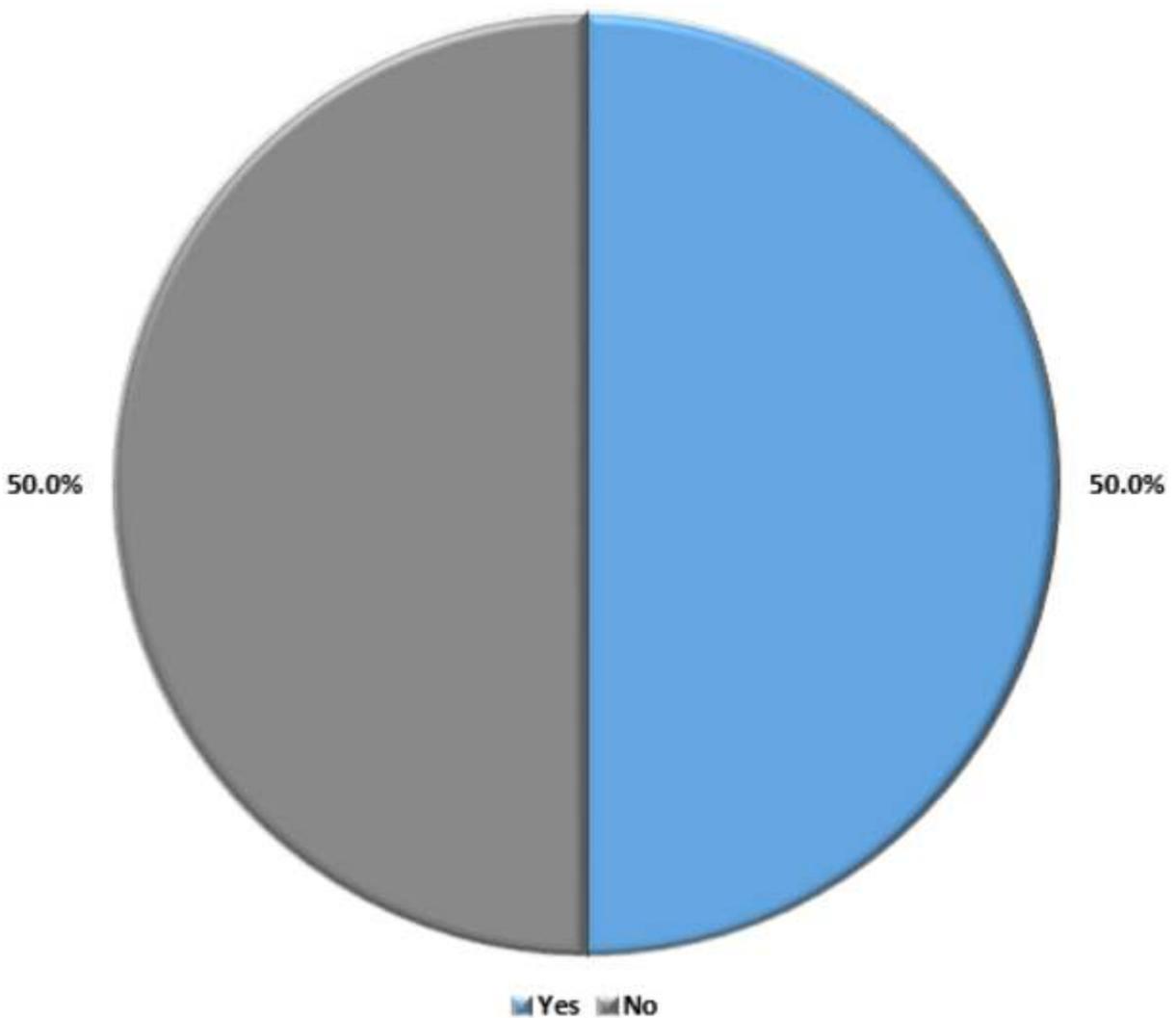
The majority of our respondents also indicated they had a large percentage of low risk commercial customers (53%).





Reviewing customer classifications for trigger rates:

When asked if our participants have ever analyzed their customer classifications (high/medium/low) for trigger rates, there was an even 50/50 split.

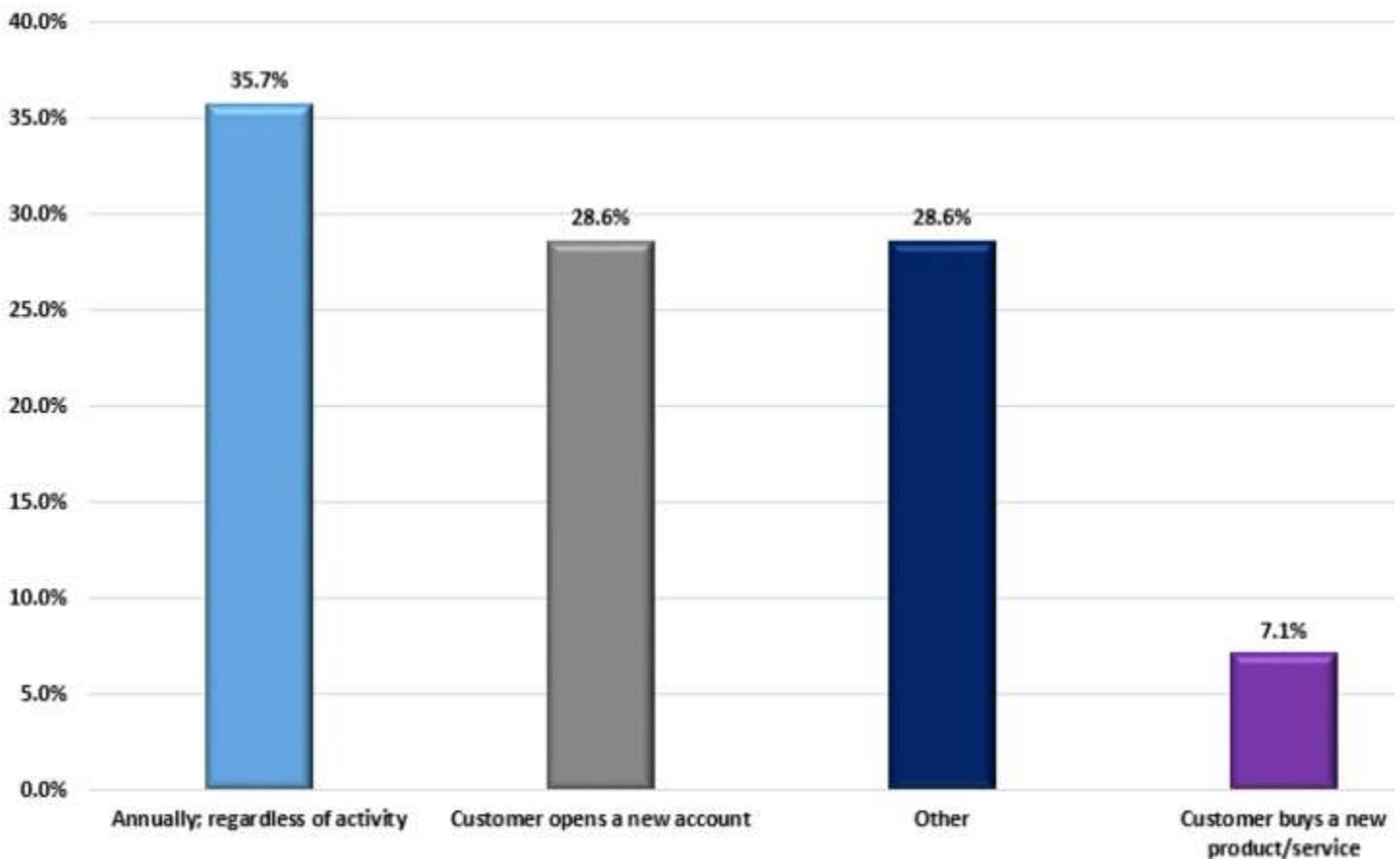


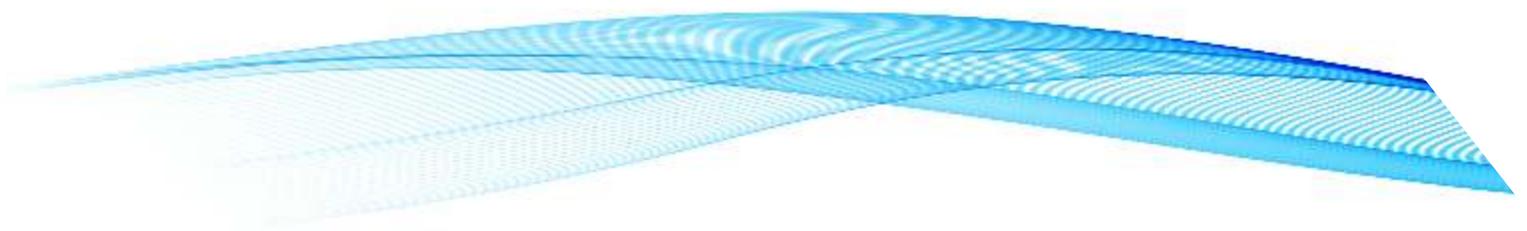


Commercial Banks CDD Refresh Rate Questions

What conditions trigger customer activity:

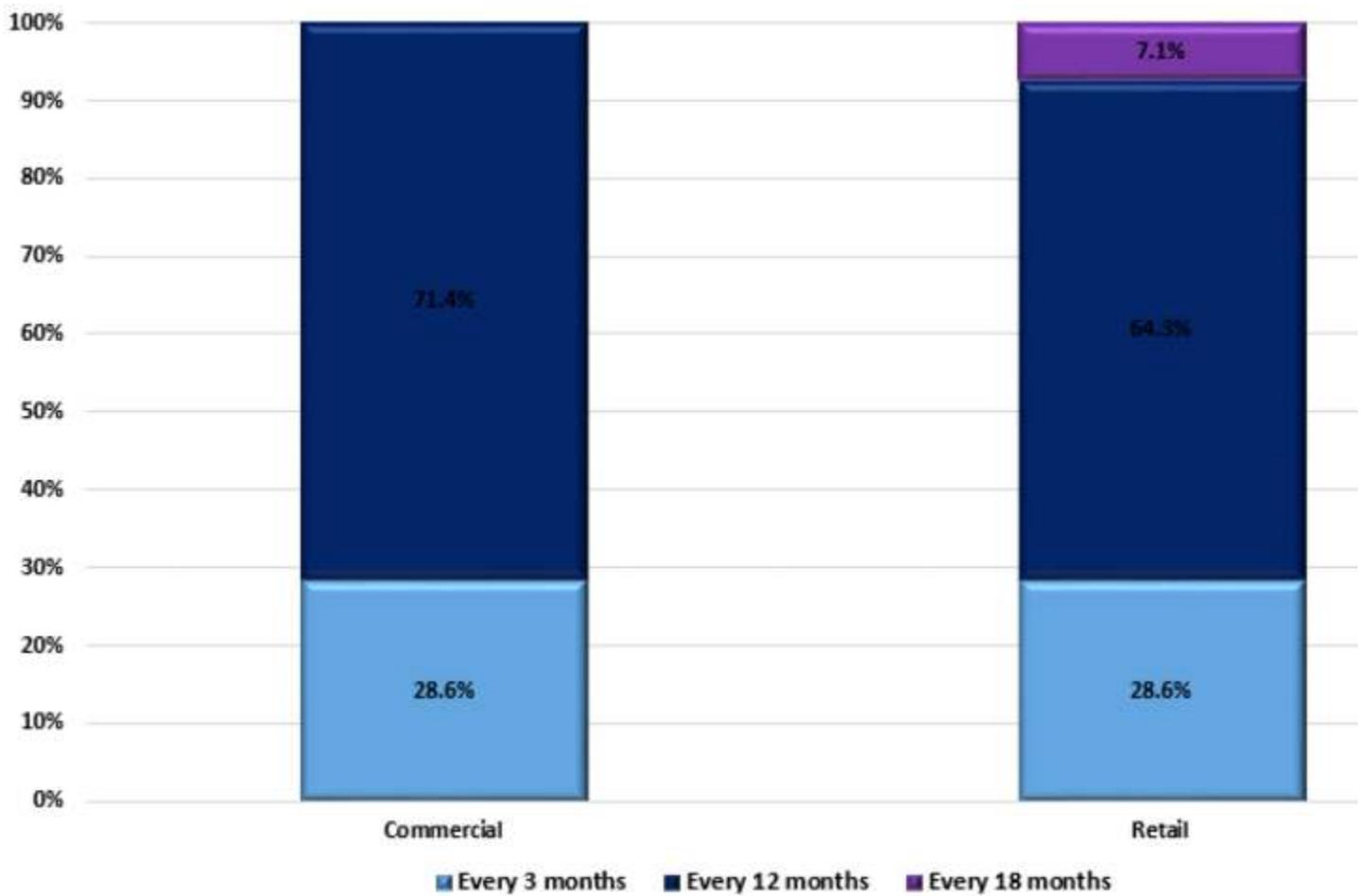
Most commercial respondents refresh their customer's CDD documentation annually, regardless of activity (35.7%).





Frequency of refreshing high-risk commercial and retail customers:

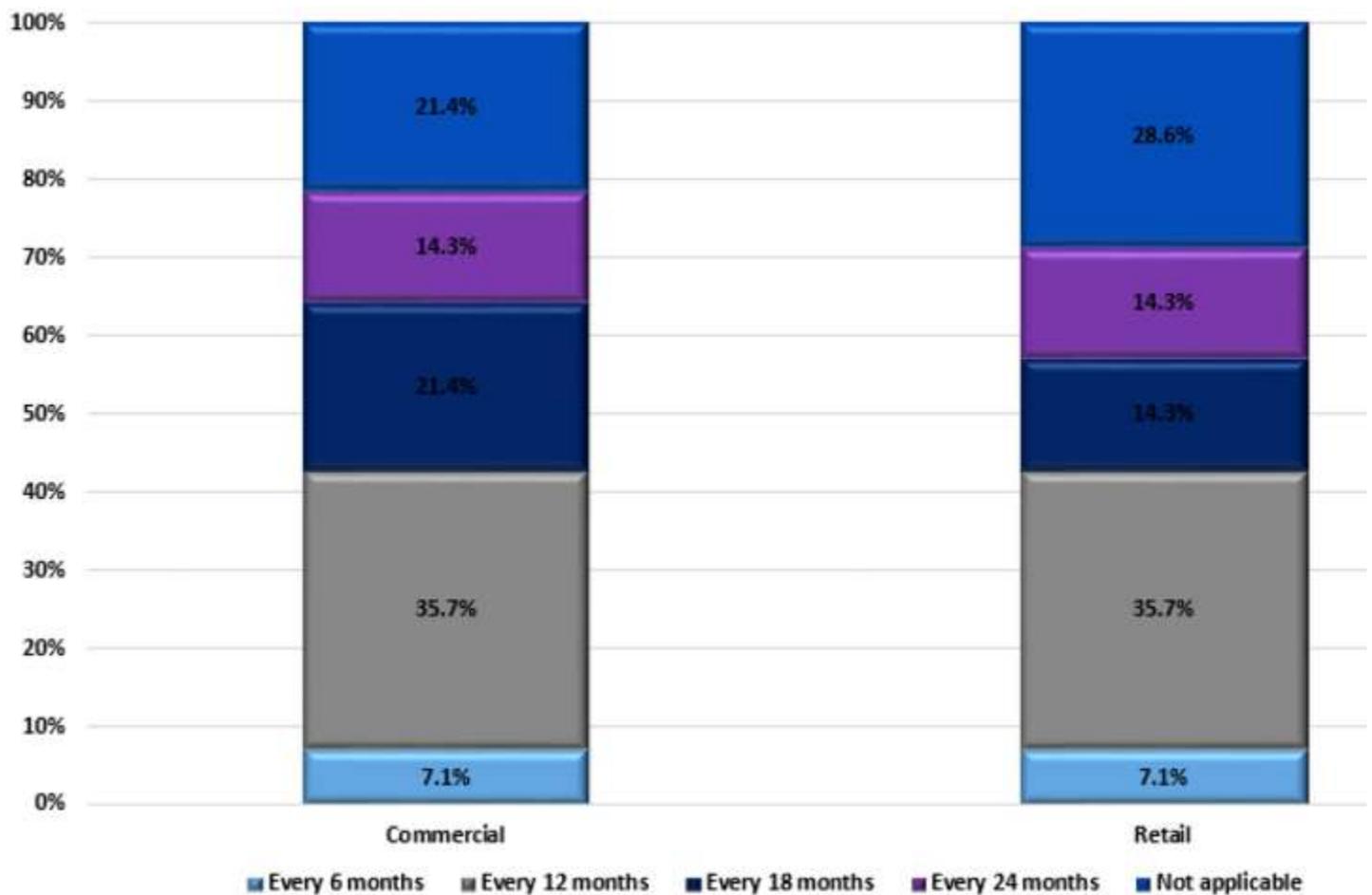
According to commercial banks, there was a fairly even split regarding refresh rates of high risk commercial and retail customers. The only difference was a small percentage (7.1%) of retail customers that get refreshed every 18 months

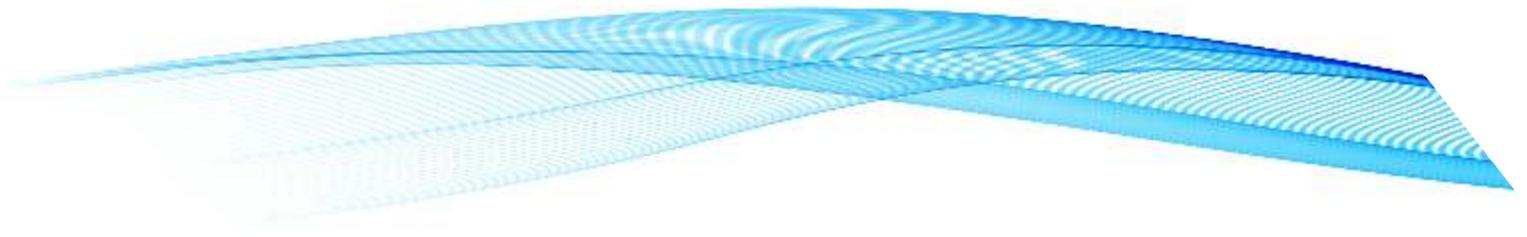




Frequency of refreshing medium-risk commercial and retail customers:

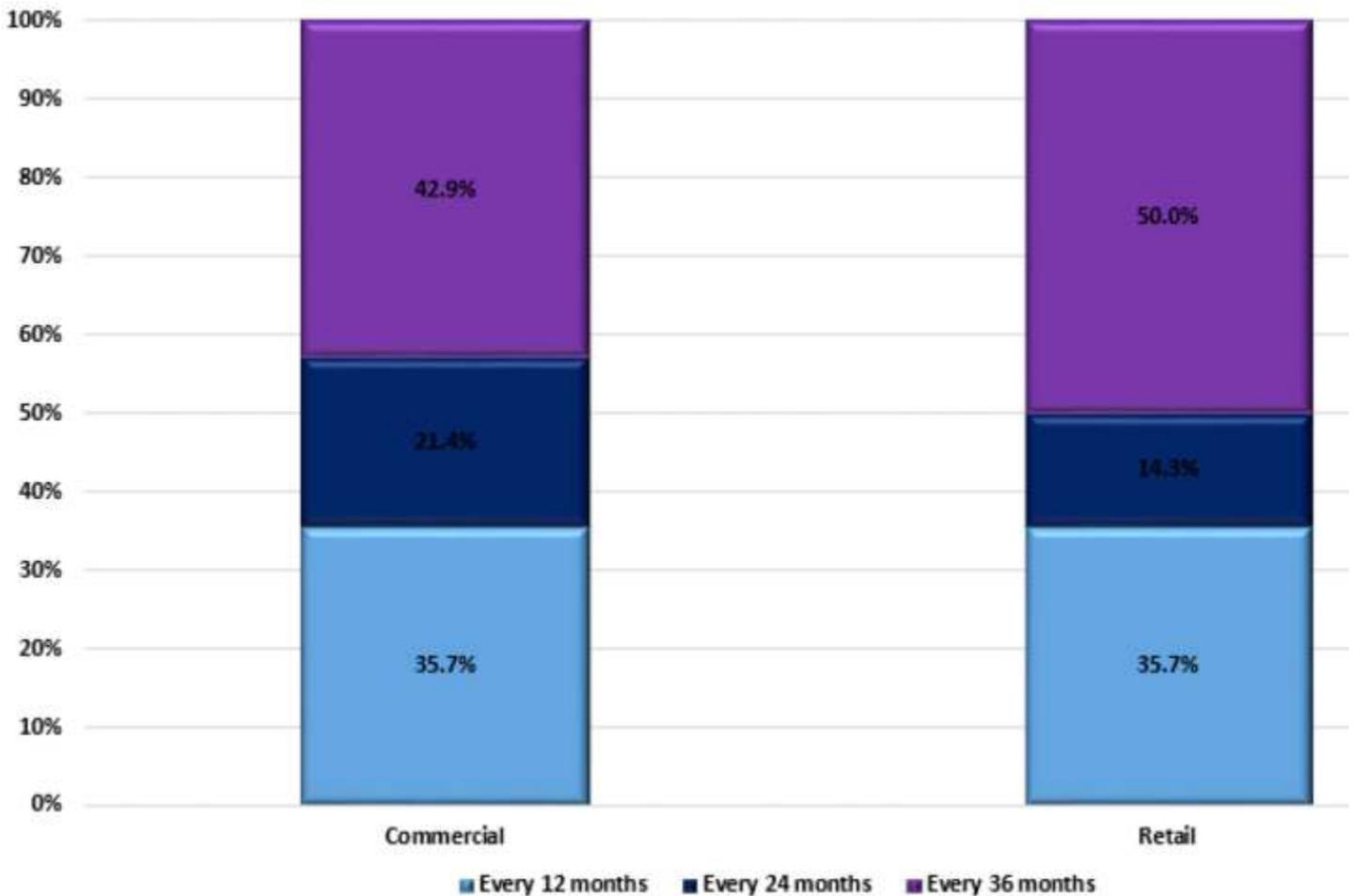
The majority of both retail and commercial customers seem to review their CDD information every 12 months (35.7% each), with a lot of variance on frequency from there for both customer types.

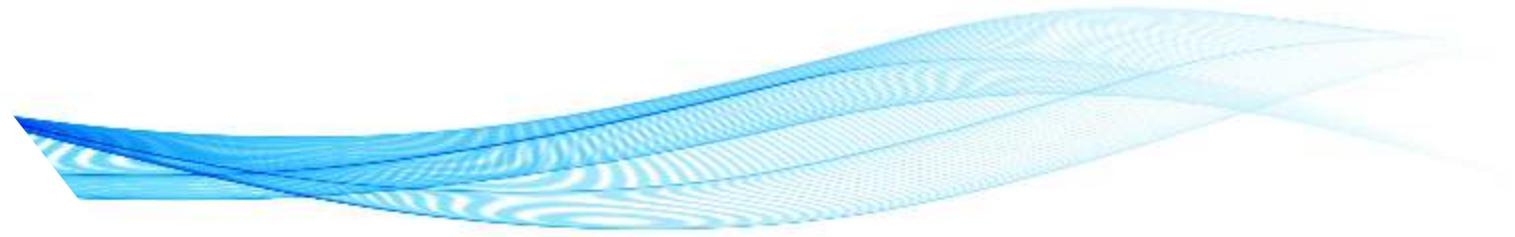




Frequency of refreshing low-risk commercial and retail customers:

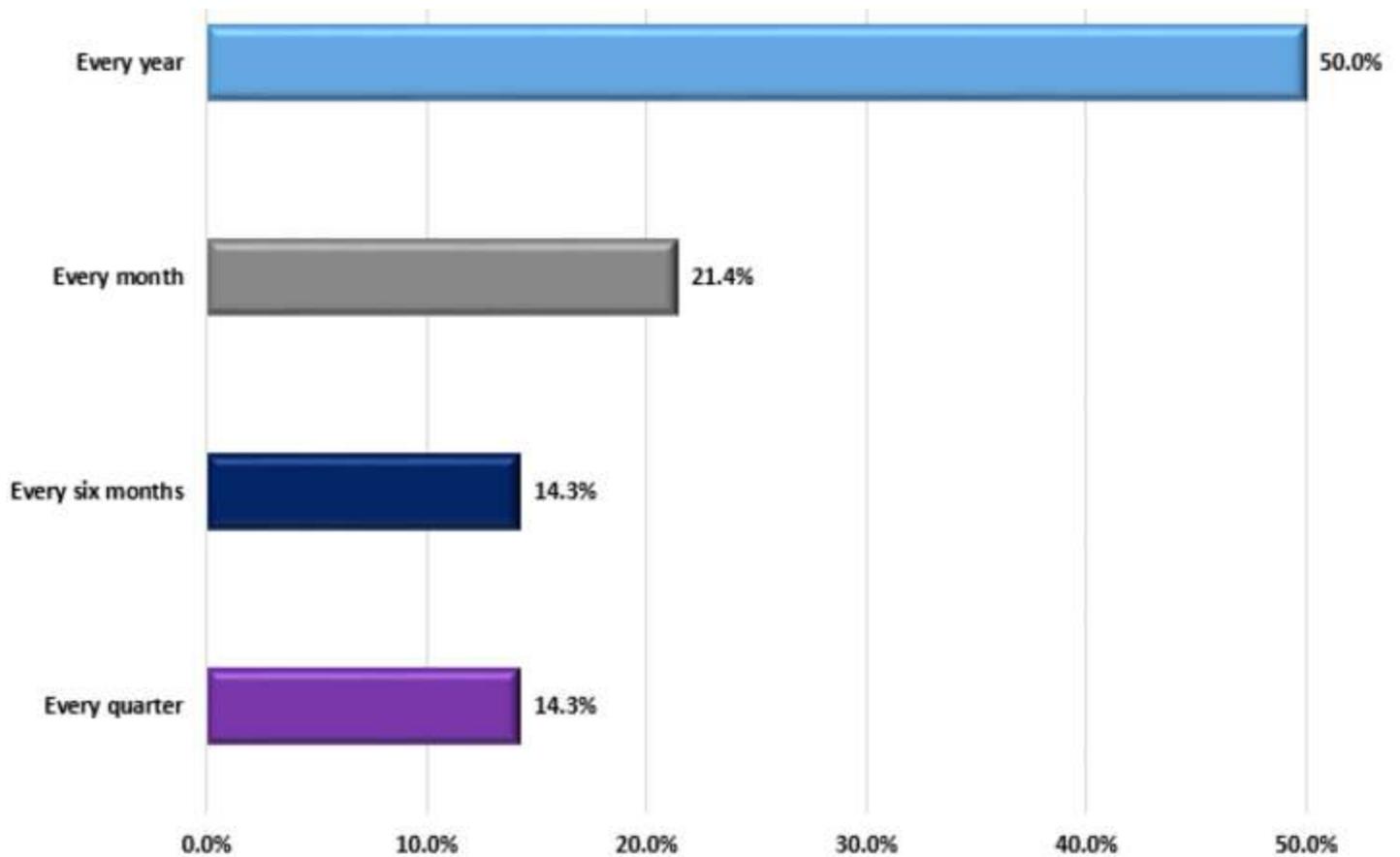
Again, similar responses in regards to low risk commercial and retail customers. The only difference was that commercial banks wait longer to refresh low risk retail customers.

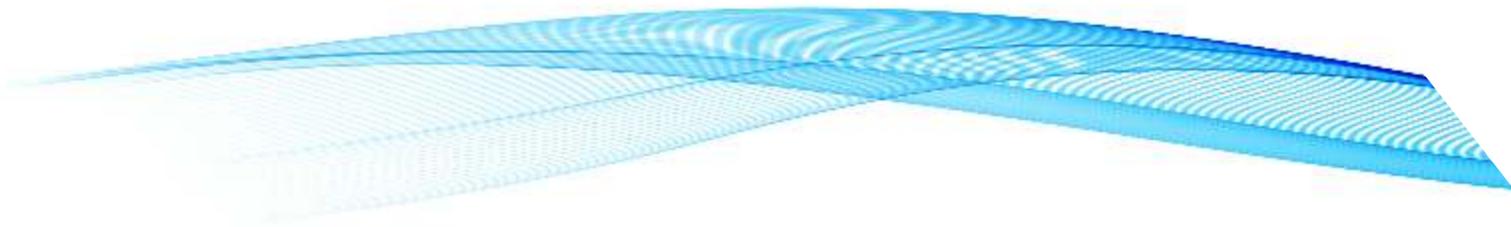




Frequency of changing one risk rating to another:

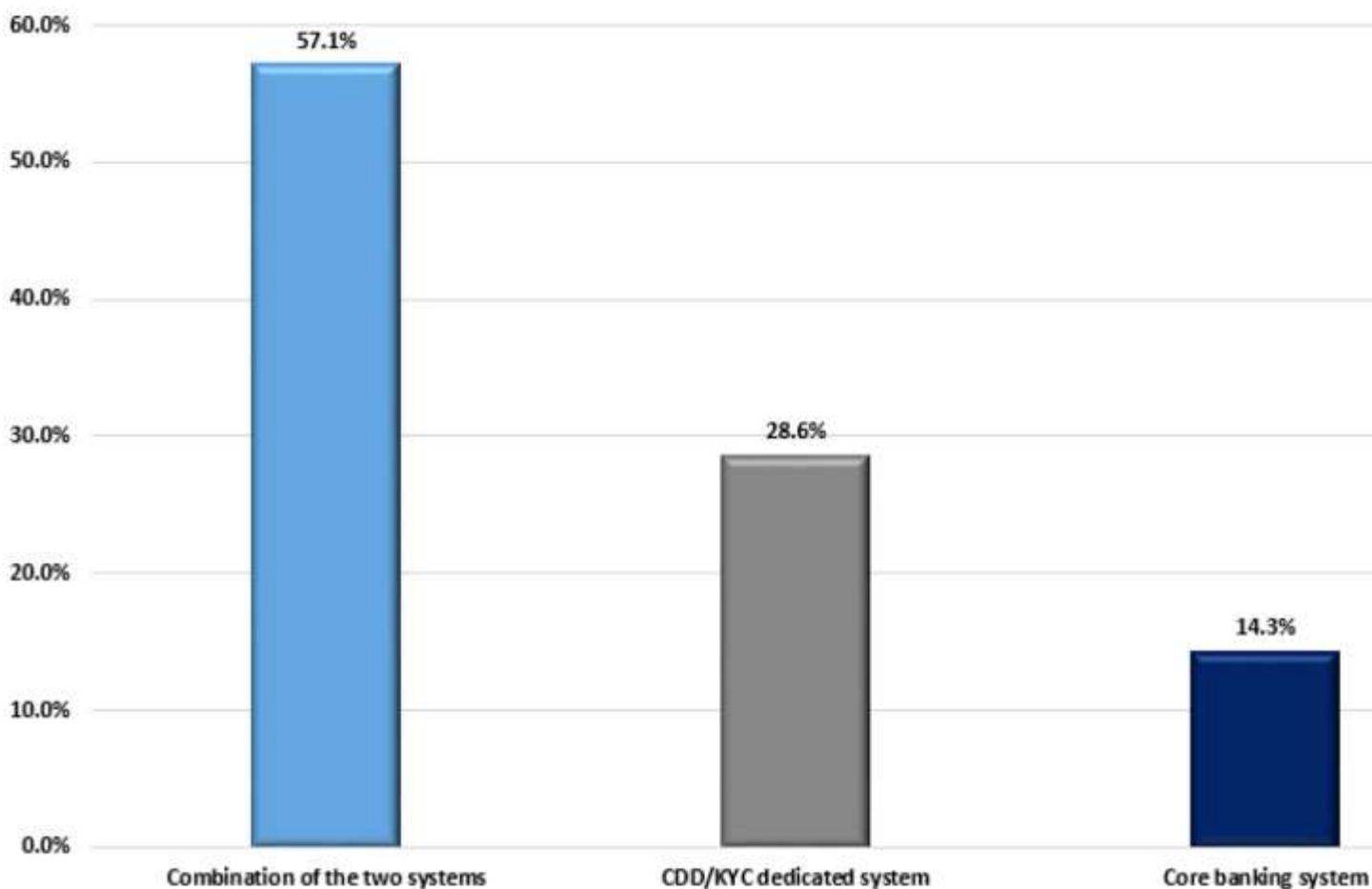
Most (50%) of our respondents said that they are changing risk ratings on customers who move from one risk rating to the other, such as medium to low risk, every year. The next largest group of respondents say they are making this change every month (21.4%).





Which system is CDD entered:

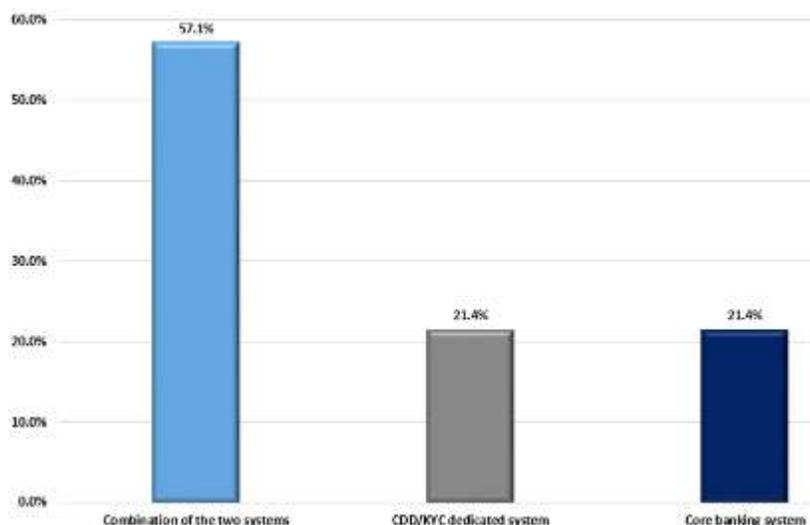
Over half of our respondents (57.1%) say that they enter their CDD documentation into a combination of their core banking system and their CDD/KYC dedicated system.





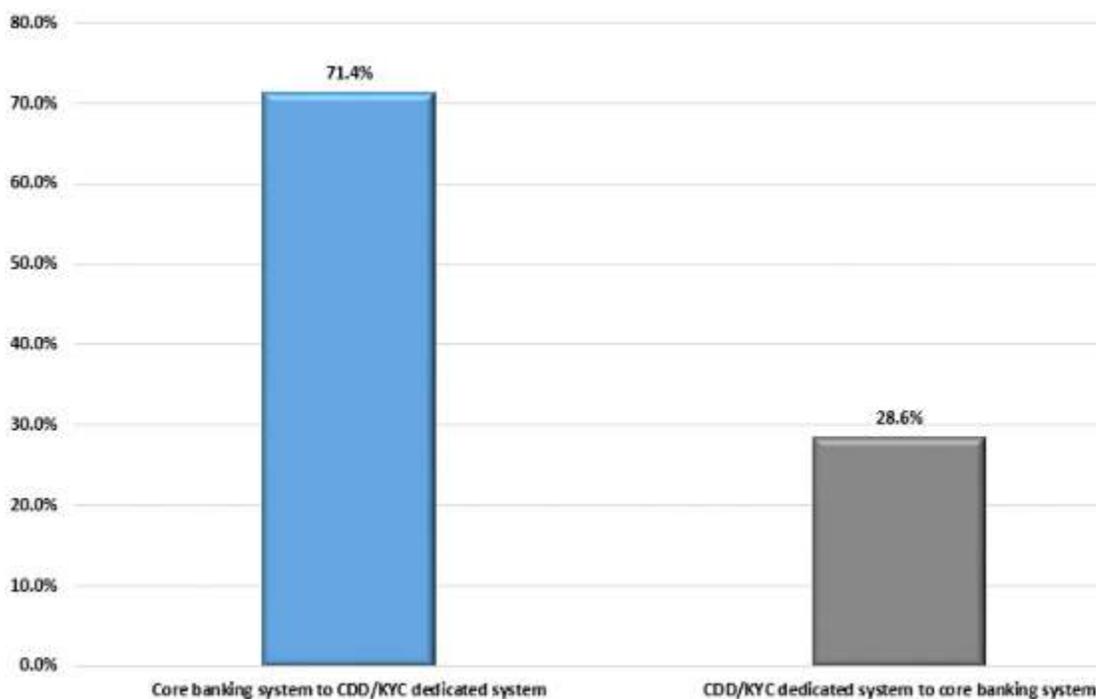
Which system is CDD refreshed:

The majority of our respondents said that their CDD information is refreshed into a combination of their core banking system and their CDD/KYC dedicated system. 57.1%.



How the information is fed from one system to the other:

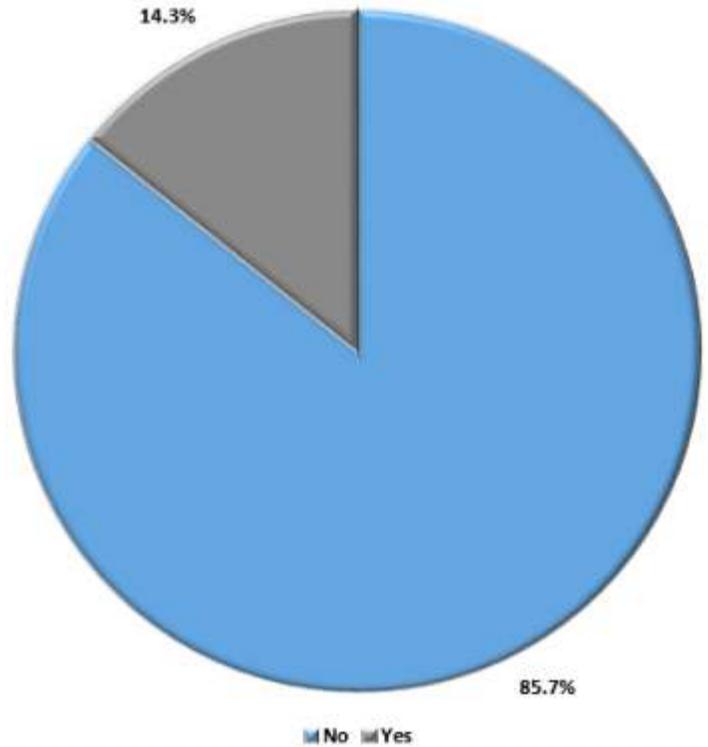
The majority of our survey respondents say that their CDD information is fed from the core banking system to the CDD/KYC dedicated system (71.4%).



Commercial Banks Regulator Scrutiny Questions:

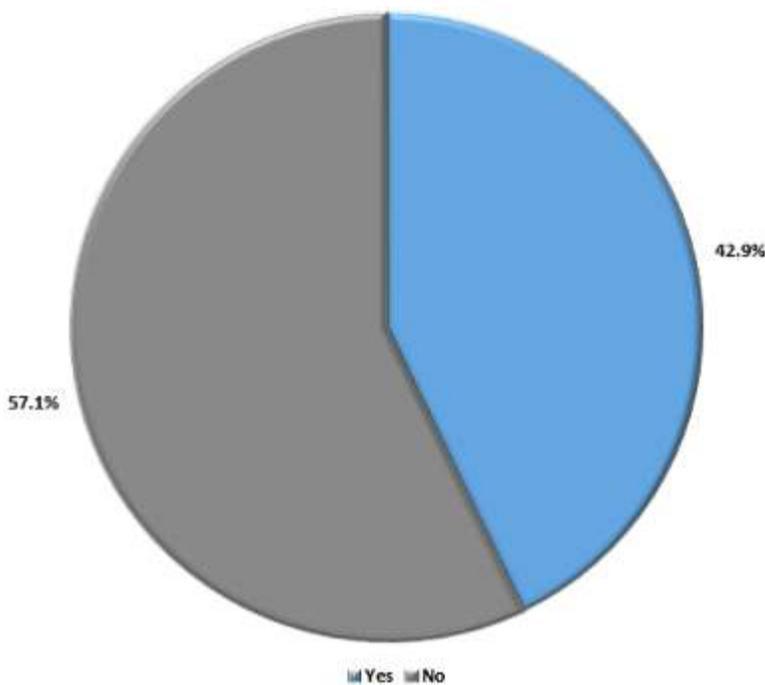
Receiving regulator scrutiny:

The majority of respondents (85.7%) said that they have not received scrutiny from their regulator. Only 14.3% of our respondents had they received some level of scrutiny regarding their CDD refresh rates.



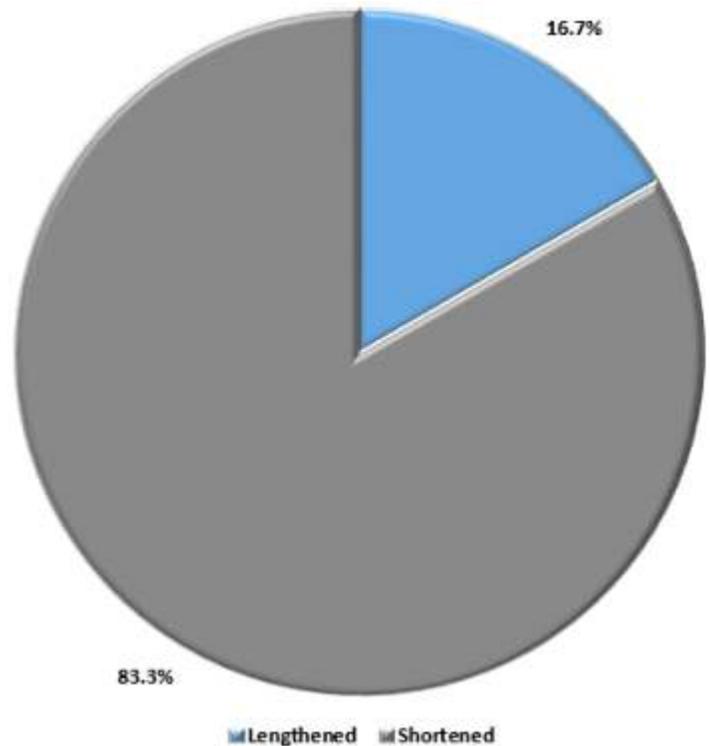
Changes to CDD refresh rates in the last two years:

The majority of our respondents have not changed their CDD refresh rates in the last two years (57.1%), which is not surprising if a majority of our participants have not received any regulator scrutiny regarding their rates.



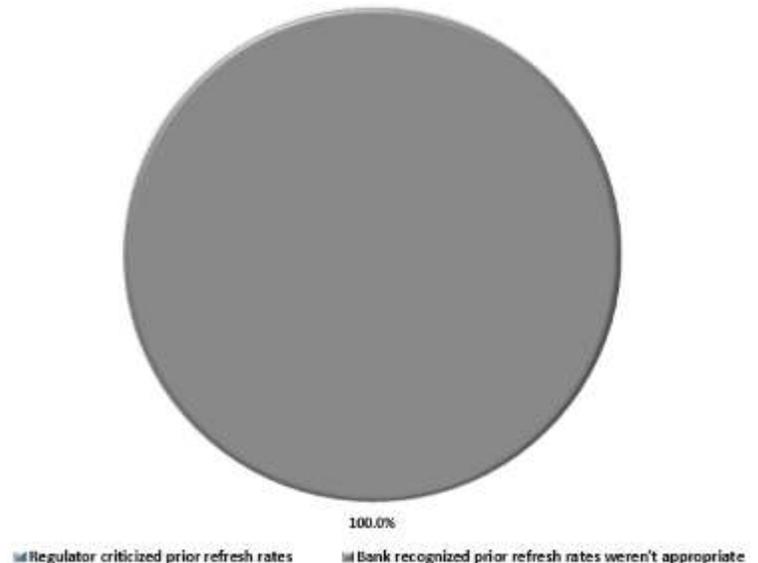
For those who did change their CDD refresh rates in the last two years; Lengthening vs. shortening their CDD refresh rates:

The largest group of participants said that they have shortened their CDD refresh rates in the last two years (83.3%), as opposed to lengthened them.



For those who did change their CDD refresh rates in the last two years; What was the reason for changing the refresh rates:

Finally, it was interesting to see 100% of commercial bank respondents said that they changed their refresh rates in the last two years because the 'bank recognized the prior refresh rates weren't appropriate'



Conclusion:



A very basic function of a well-rounded AML compliance program is knowing your customer (KYC) or maintaining a customer due diligence (CDD) program. Given the addition of the fifth AML pillar, we thought it might be helpful to our readership to take on just a piece of that puzzle regarding CDD refresh rates. Just how often are you updating your customer's information? That is what this survey is meant to explore and give us an idea of an industry standard on CDD refresh rates.

Overall, our survey participants represent a compliance officer at a commercial or retail community bank under \$1 billion with a medium risk rating. The majority of our respondents are using a dedicated CDD/KYC system for more than 10,000 customers. Just under 50% of our respondents say their customer make up consists of 75% retail and 25% commercial. The majority of our respondents are either on-boarding less than 25 customers a month or more than a 1,000 customers, and roughly 75% of those are retail customers.

The overwhelming majority of our survey participants use a simple 'high/medium/low' risk rating. Of our respondents, they indicated that the risk profile of their commercial and retail customers are similar. Similarly, our respondents primarily had low-risk retail and commercial customers. Over half of our participants said that they have reviewed their customer risk classifications for trigger rates.

When it gets to the heart of the survey, we wanted to know what triggered a CDD refresh. The most common scenario was a customer opening an account followed by reviewing all customers annually regardless of activity. It appeared that on average, high risk customers are reviewed annually; however, 'every 3 months' and 'every 18 months' were the next two likely possibilities. The largest variance for our respondents was how frequently they review medium risk customers, anywhere from 'every 6 months' to 'every 24 months'. As expected, low risk customers are reviewed the most infrequently, such as 'every



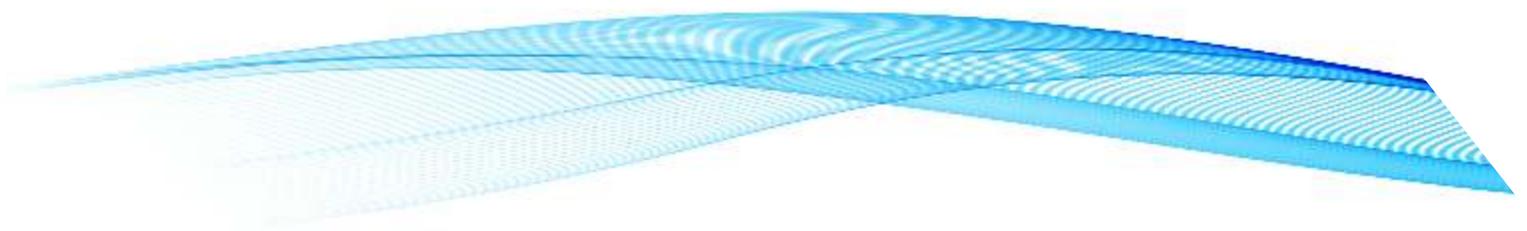
12 months', 24, or 36 months. However, consistently our respondents are adjusting risk ratings every year - moving a customer up or down on the scale.

Finally, over half of our respondents are entering and refreshing their CDD updates in both their CDD/KYC dedicated system and their core banking system. The majority of them have it set up so they update the information in the core banking system and the data is fed into their CDD/KYC dedicated system. Since the majority of our respondents have not received any regulator scrutiny regarding their CDD refresh rates so it is no surprise they haven't changed them in the last two years. However, for the nearly 40% that did said that they shortened the time between refreshing CDD information because 'the bank had recognized that the prior rates weren't appropriate'.

In summary, our survey participants appear to review their customers on a similar schedule, except for medium risk customers, and they're doing so because they've preemptively reviewed their program and made the necessary adjustments. That's a good sign to the regulators that these banks are trying to stay ahead of the game. Kudos, banks! A more detailed report for retail and commercial banks would provide more specific details for those institution types, and is available if you visit

<http://arcriskandcompliance.com/surveys.html>.





Comparisons:

- Retail banks represented community banks just slightly more than commercial banks (54.5% and 50.0% respectively).
- Compliance Officers were more likely to be from a commercial bank than a retail bank (45.5% and 41.7% respectively).
- When it came to the asset size of the institutions, retail banks were more likely to have \$51 to 200 billion in assets (18.2%) vs. commercial banks that were more often \$1 to 10 billion (33%).
- Both retail banks and commercial banks said that their overall risk rating was of medium risk (45.5% and 50% respectively.)
- More retail banks than commercial banks said they utilize a dedicated CDD/KYC system for their CDD program, (77.3% and 58.3% respectively).
- For the institutions that do have a dedicated CDD/KYC system, most retail banks and commercial banks said they had more than 10,000 customers (58.8% and 50% respectively).
- Both retail and commercial banks considered their customer base a 75%/25% split of retail vs. commercial customer base (64.7% and 35.7% respectively).
- 29.4% of retail banks responded that they on-board more than 1,000 customers a month, while 28.6% of commercial banks said they on-board less than 25 customers a month.
- Both retail and commercial are on-boarding more retail customers than commercial customers, with an approximate 75%/25% split (58.8% and 35.7% respectively).
- The vast majority of both retail and commercial banks use a traditional 'high/medium/low' risk classification system (76.5% and 92.9% respectively).
- The majority of both retail and community bank respondents said their retail customer base was low risk (Both 48%).



- The majority of both retail and community bank respondents said their commercial customer base was low risk (50% and 53% respectively).
- The majority of retail banks have not analyzed their customer classifications (high/medium/low) for trigger rates (58.8%), however commercial banks were split 50/50 on whether or not they analyzed their customer classifications.
- Both retail and commercial banks said that typically their customers risk rating changes annually, such as from medium risk to low risk (41.2% and 50% respectively).
- Both retail and commercial banks said they enter and refresh CDD information through a combination of their core banking system and their CDD/KYC dedicated system. The data is typically fed from the core banking system to the CDD/KYC dedicated system.
- The majority of both retail and commercial banks said they have not received scrutiny from their regulator regarding their CDD refresh rates (82.4% and 85.7% respectively); therefore they have also not made any changes in their CDD refresh rates in the past two years (64.7% and 57.1% respectively).

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) 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.

Contact Information:

(P) 609-730-4123 • (E) sales@arcriskandcompliance.com



"The AML Specialists"