



AML-ology

The study of AML trends and solutions

When is The Right Time For a Customer Refresh?

CDD Refresh Rates Survey Results Summary

Conducted 3Q 2016

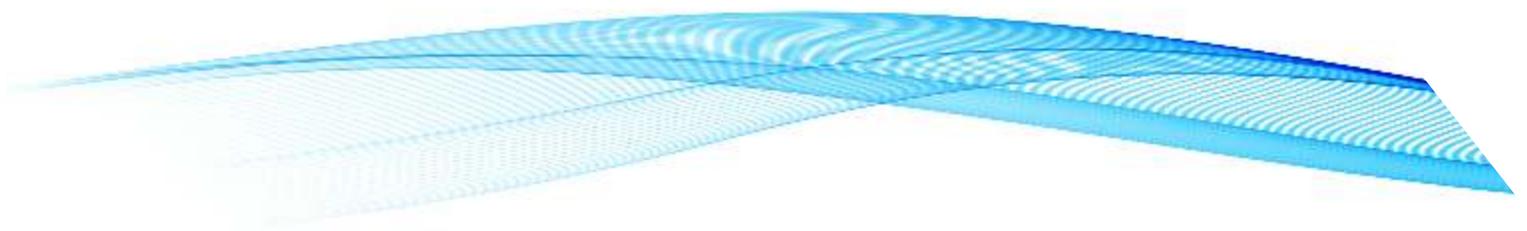


Table of Contents:

| | |
|---------------------------------------|---------|
| Purpose of the survey..... | Page 3 |
| Purpose of this report..... | Page 3 |
| Demographic Results..... | Page 4 |
| General CDD Questions..... | Page 8 |
| CDD Refresh Rate Questions..... | Page 17 |
| CDD Regulator Scrutiny Questions..... | Page 24 |
| Conclusion..... | Page 26 |



Purpose of the Survey:

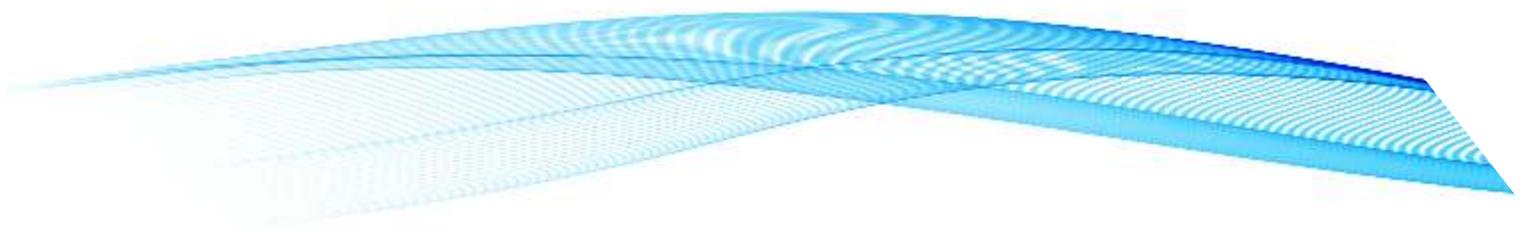
In May 2016, FinCEN finalized the Beneficial Ownership [rule](#), which got us thinking about how institutions are monitoring and reviewing customer information as part of their CDD program. There are some “industry standards”, and one ex-regulator’s take on refresh rates, which you can read about [here](#),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

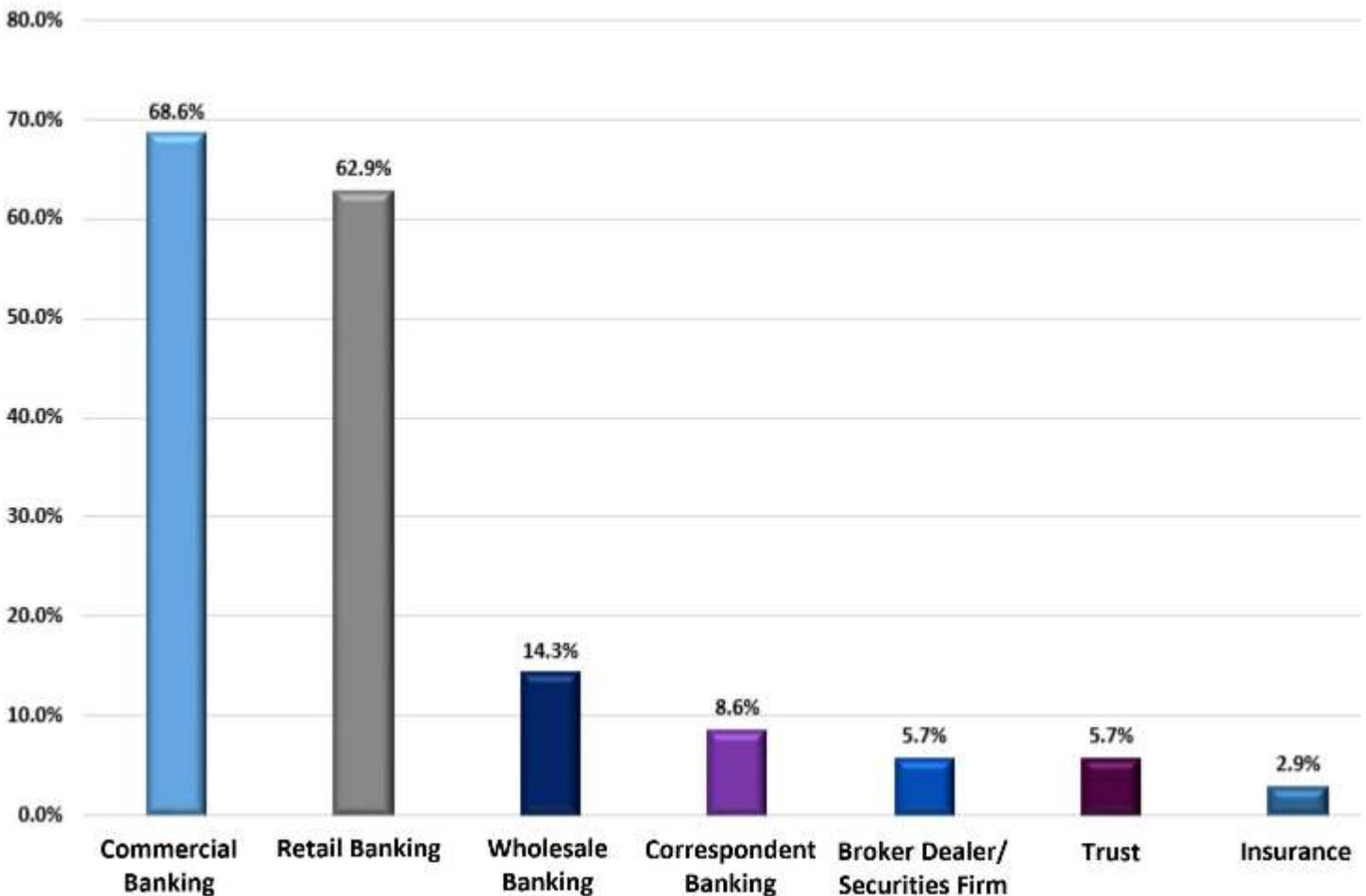




Demographic Results:

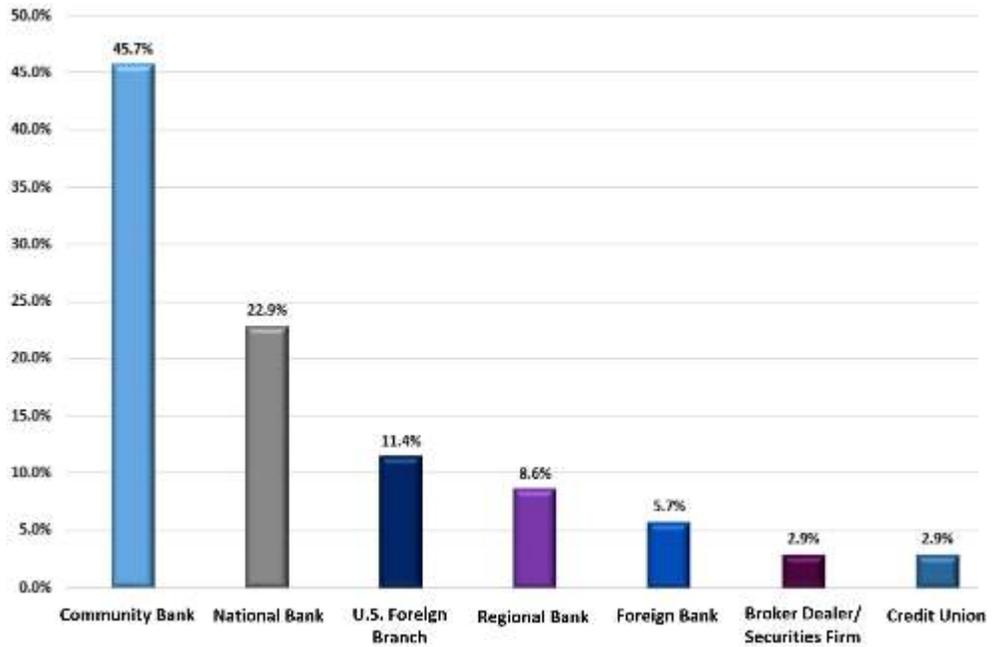
Business Type:

The two largest group of respondents represented a commercial bank (68.6%) followed by a retail bank (62.9%), and there was a steep decline of participation from there.



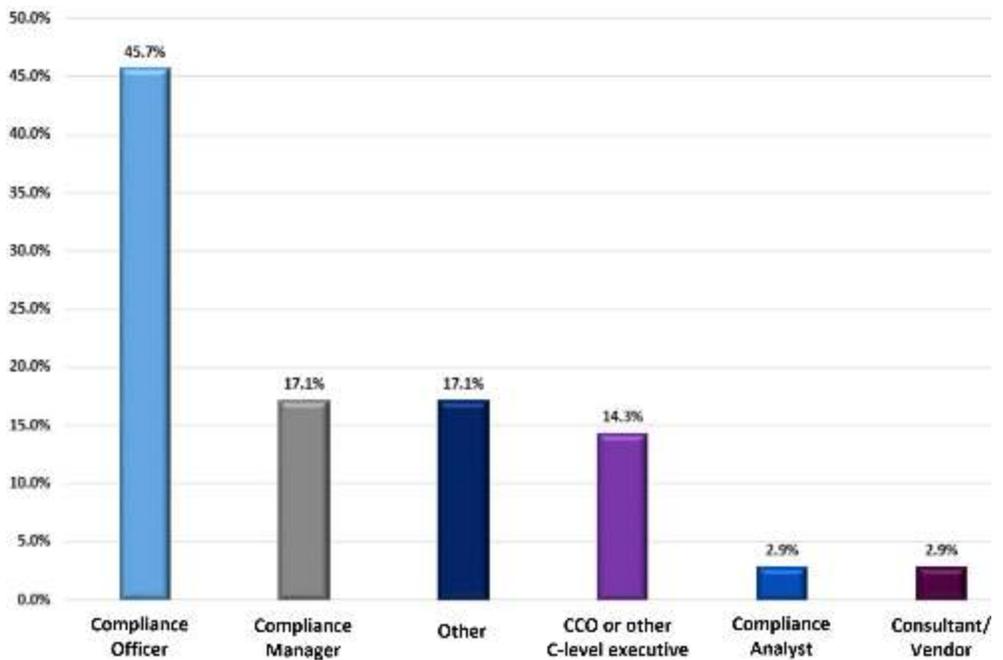
Institution Type:

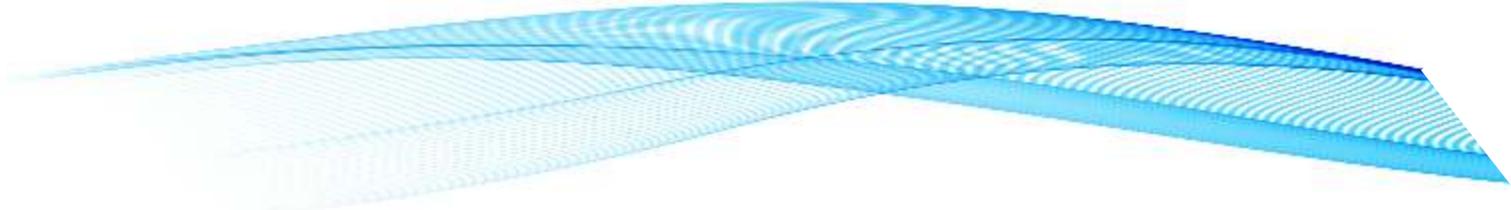
The largest group represented in this survey was a community bank (45.7%), followed then by a national bank (22.9%) and a U.S. Foreign branch (11.4%).



Current Position:

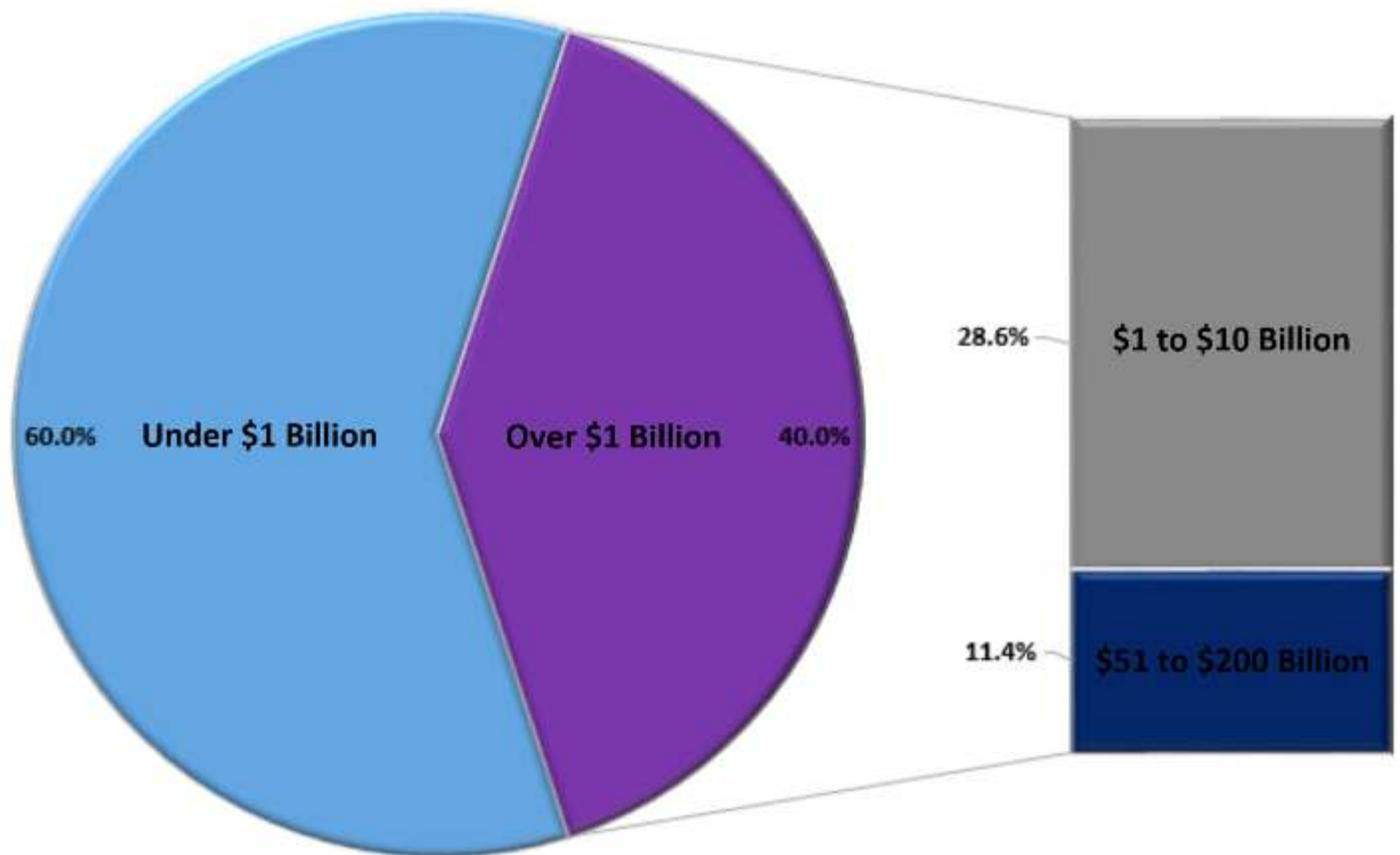
Compliance Officer (45.7%) was the most common job title for this survey, followed by a Compliance Manager (17.1%) and then 'other' (17.1%).





Asset Size:

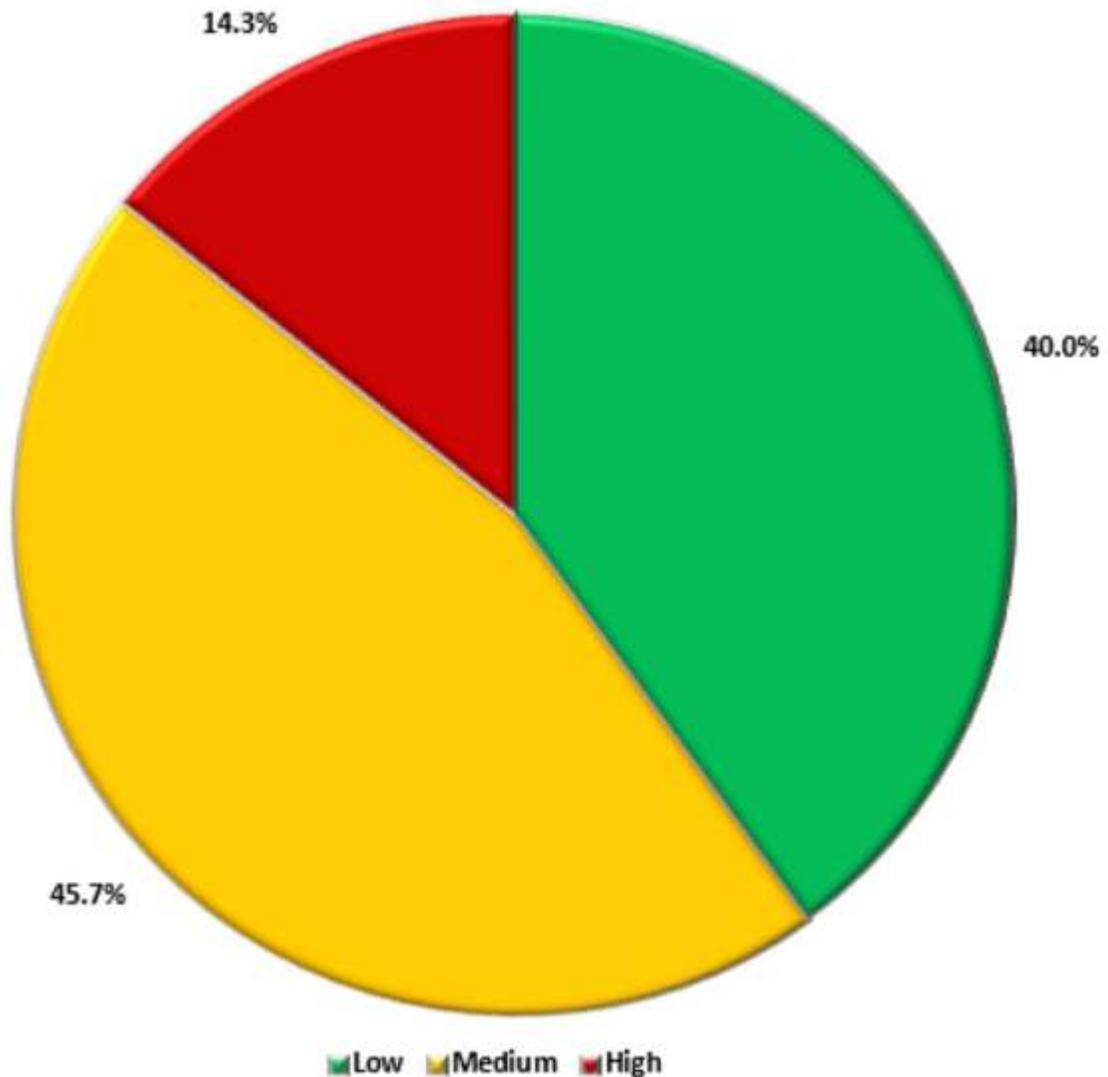
When our respondents were asked about their institutions asset size. The majority (60%) of our respondents said they were under \$1 billion in assets versus those over \$1 billion (40%). However, for the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (28.6%) followed by \$51 to \$200 billion (11.4%).

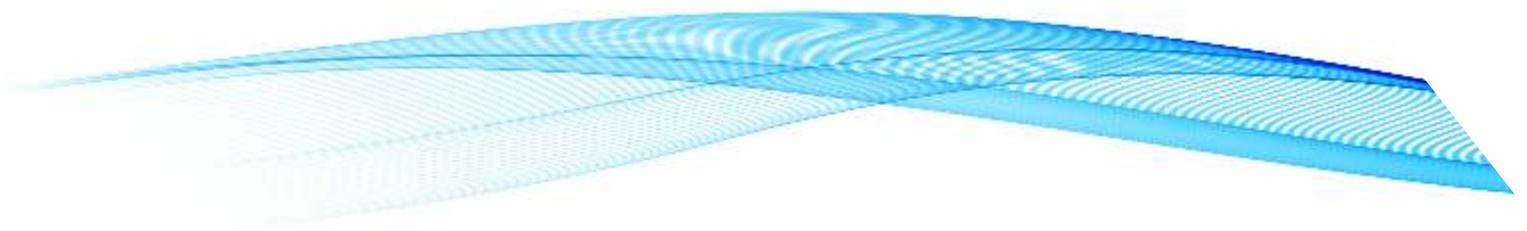




Risk Rating:

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 (45.7%) with the next most frequent answer was having a low risk rating (40%), and finally a high risk rating (14.3%).

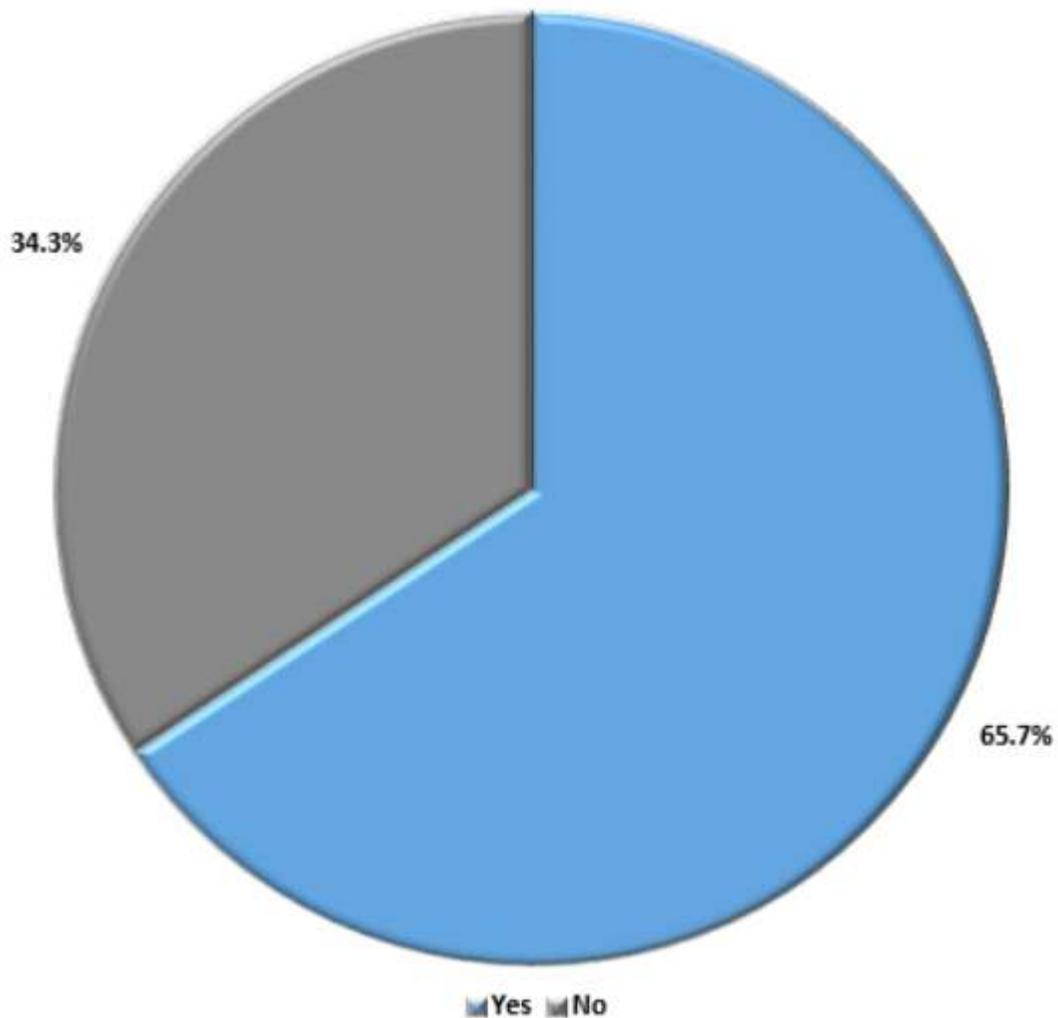


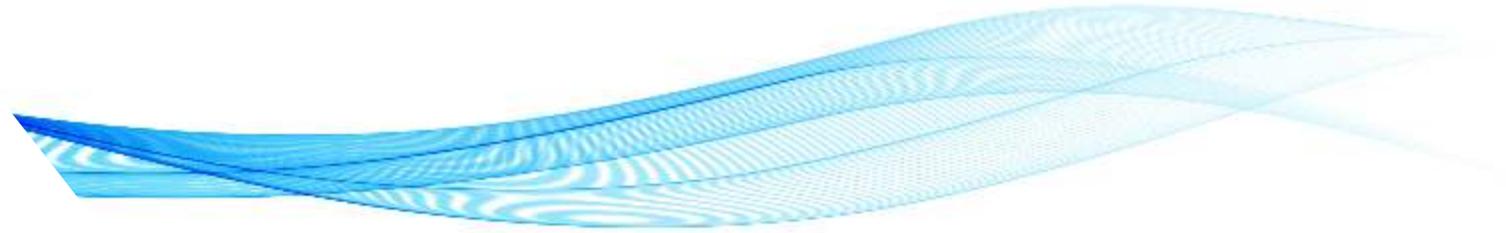


General CDD Questions:

Maintaining a CDD/KYC dedicated system:

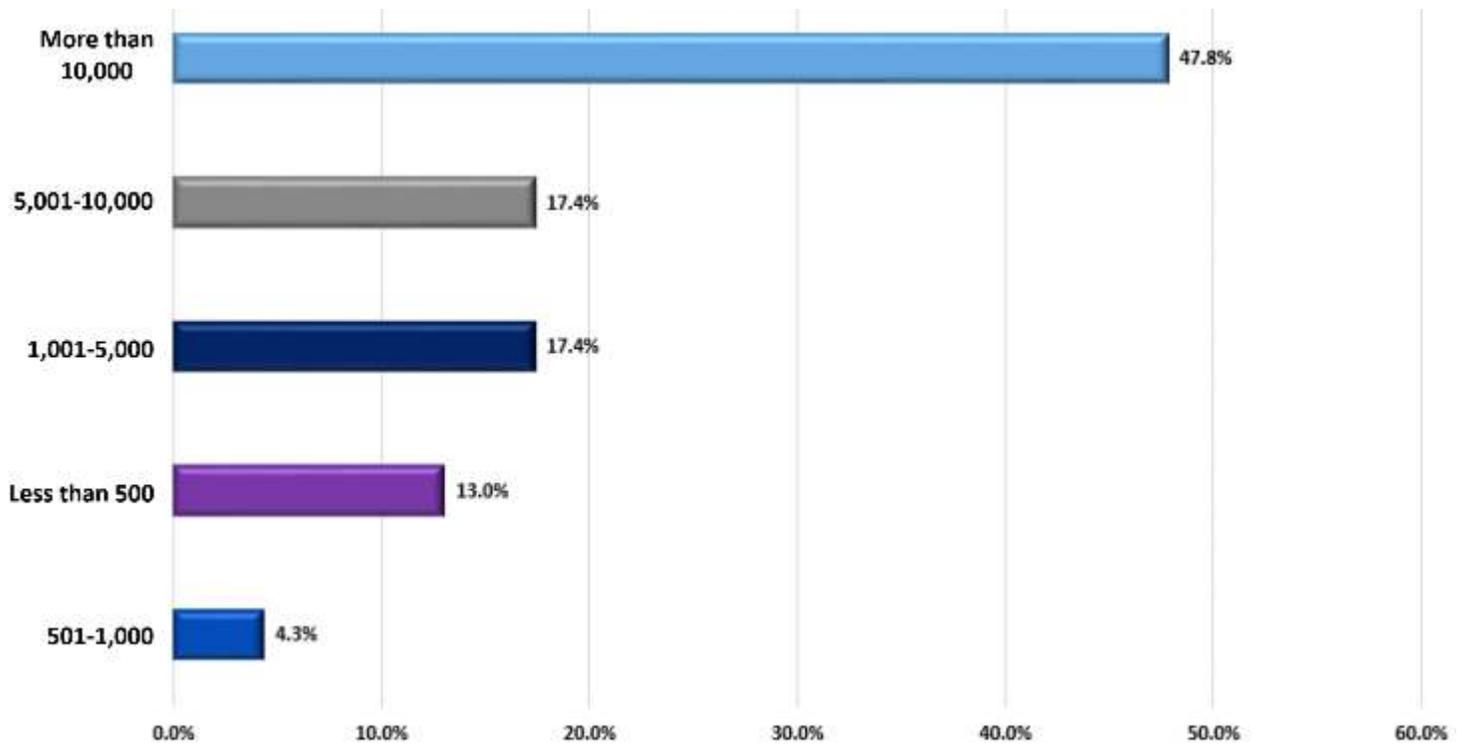
We asked our participants if they utilize a dedicated CDD/KYC system for their CDD program, and the majority indicated that they do (65.7%).

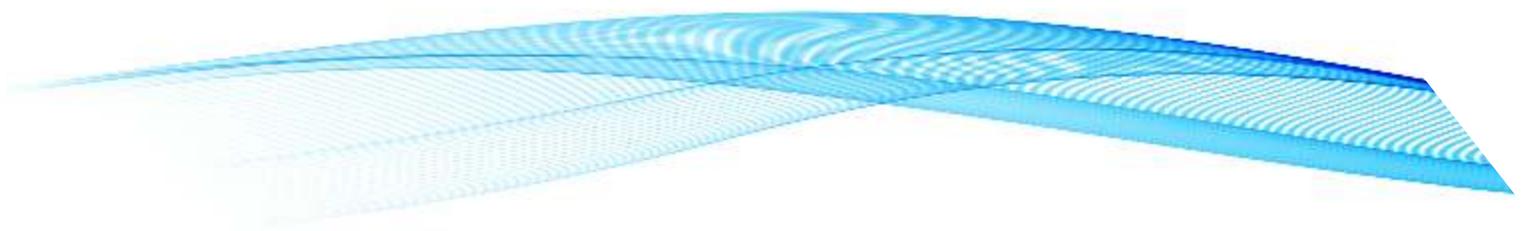




Total number of customers:

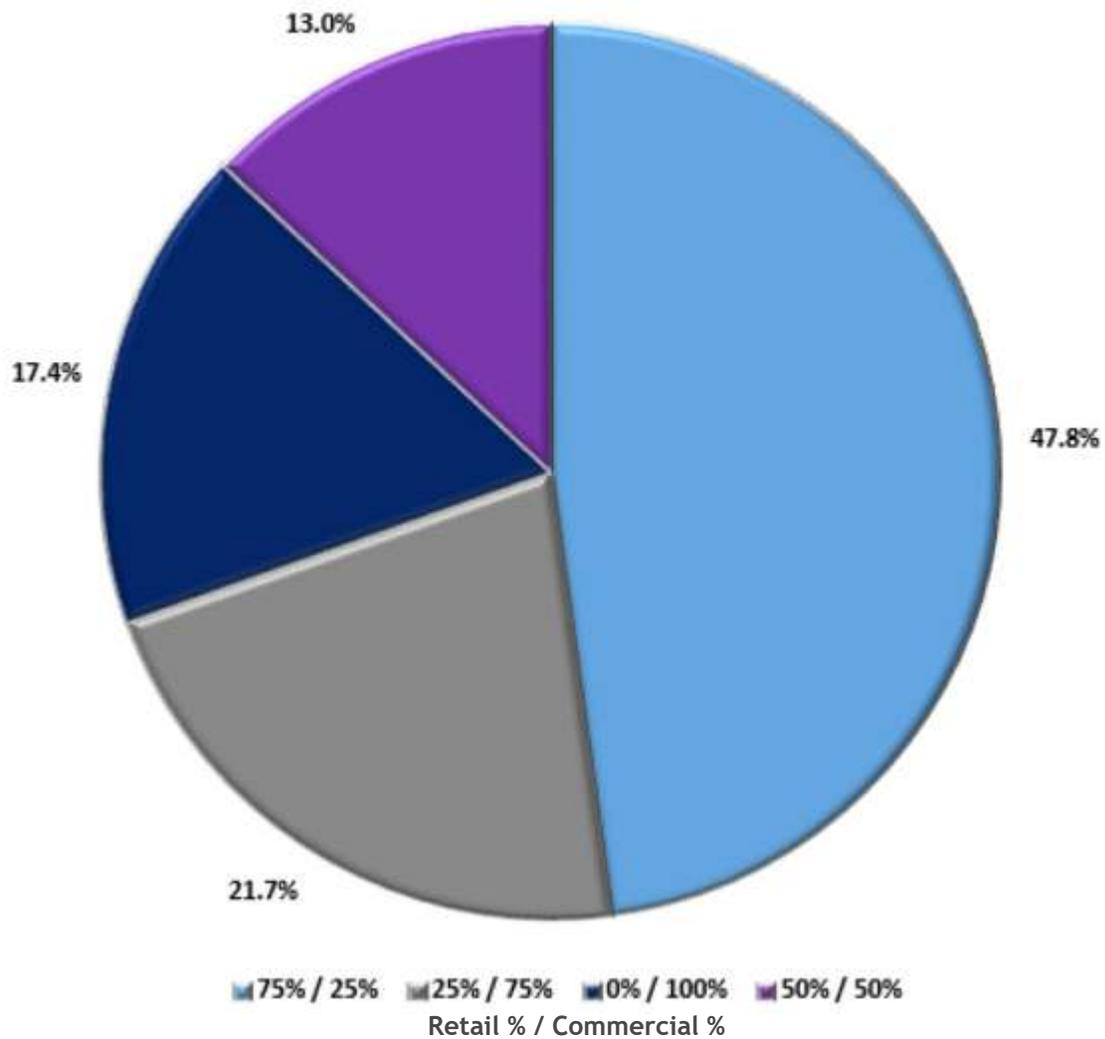
The majority of our respondents (52.1%) have less than 10,000 customers; meanwhile 47.8% have more than 10,000 customers, which is not surprising for community banks. For those respondents who have less than 10,000 customers, the majority (34.8%) are institutions with between 1,001 and 10,000 customers





Percent of retail versus commercial customers:

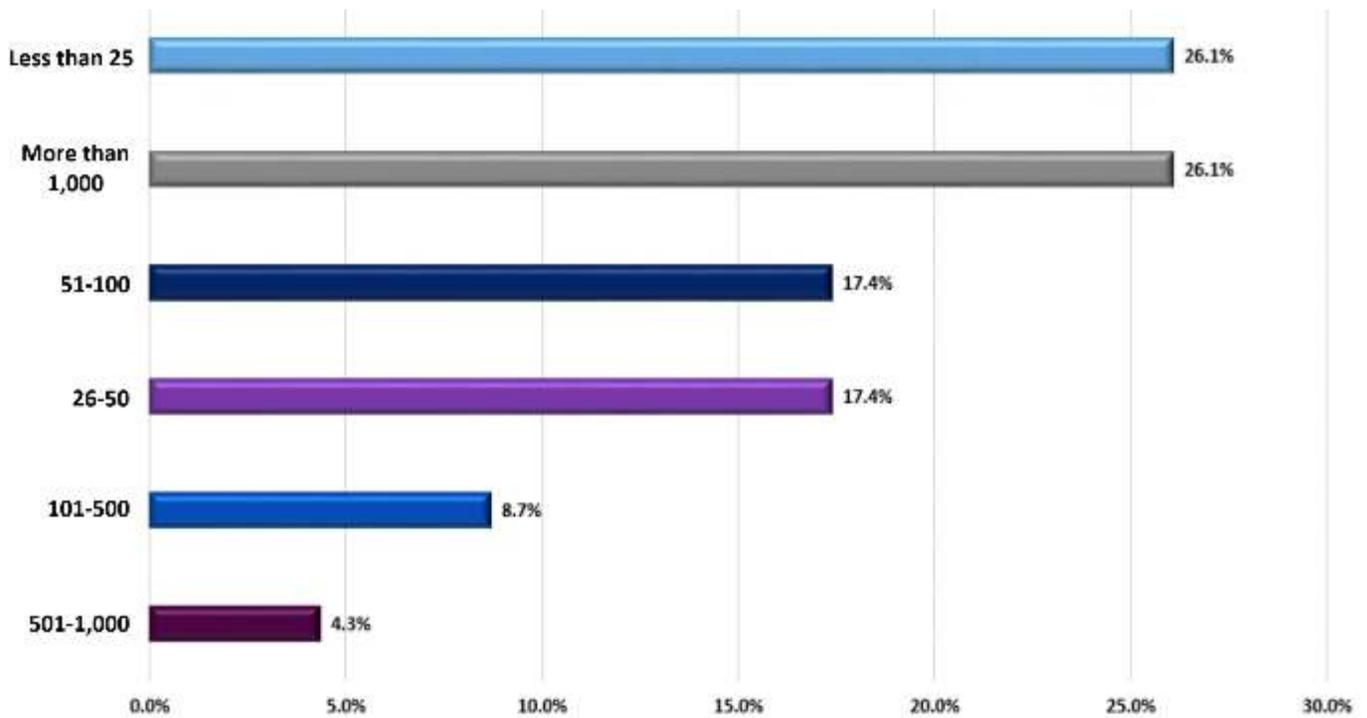
To get a better understanding of our respondents CDD program, the majority said that 75% of their customers are retail customers vs. 25% commercial customers (47.8%).

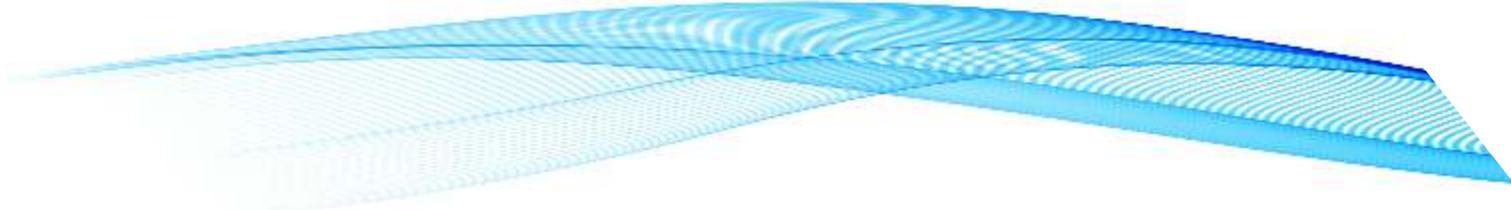




Number of new customers on-boarded each month:

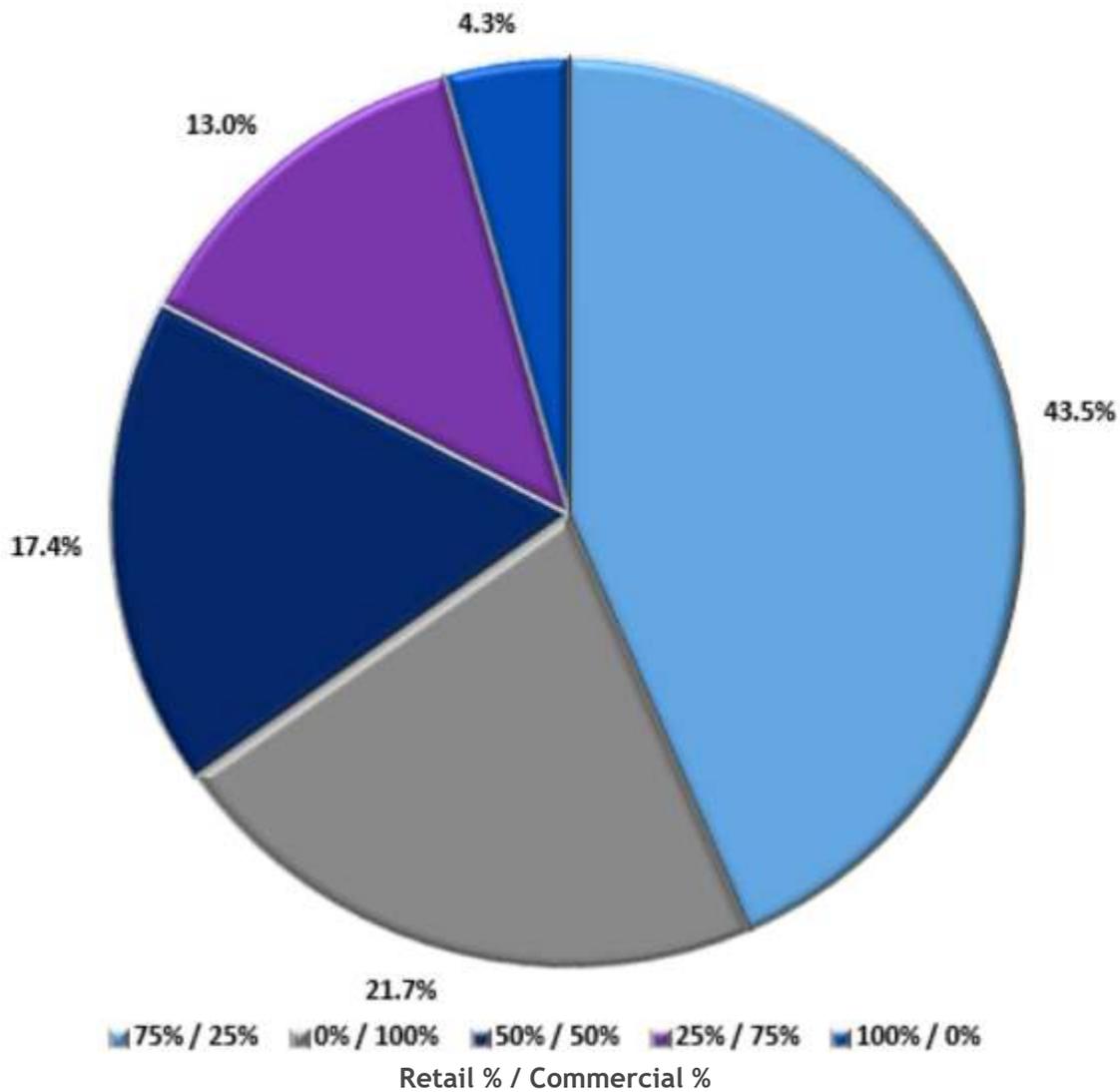
Interestingly enough, the majority (52.2%) were split between 'less than 25' and 'more than 1,000' regarding the number of customers they're on-boarding each month.





Percent of new customers on-boarded each month:

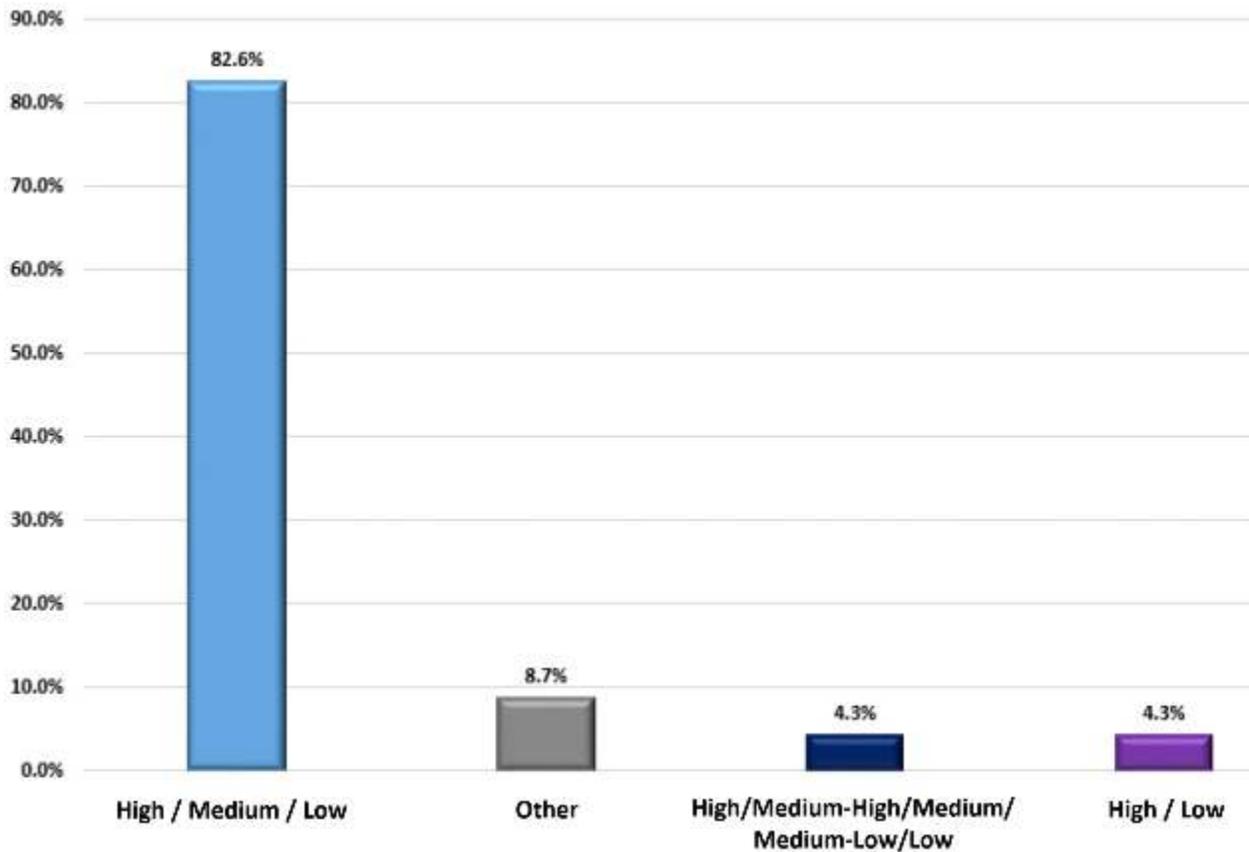
The majority of our respondents are on-boarding more retail customers than commercial customers each month (43.5%).

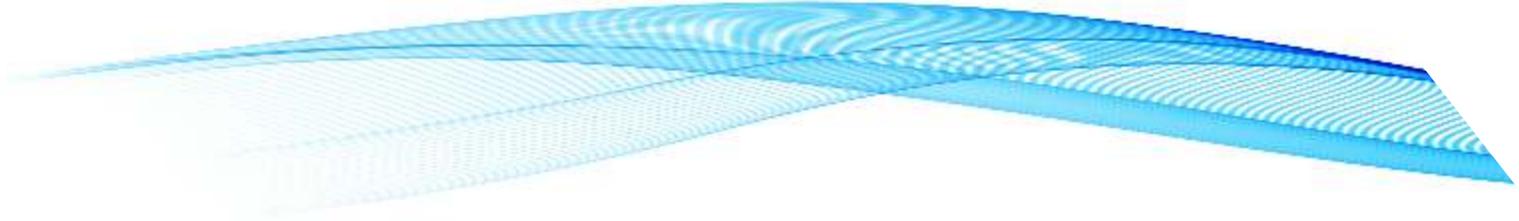




Customer Risk Classification:

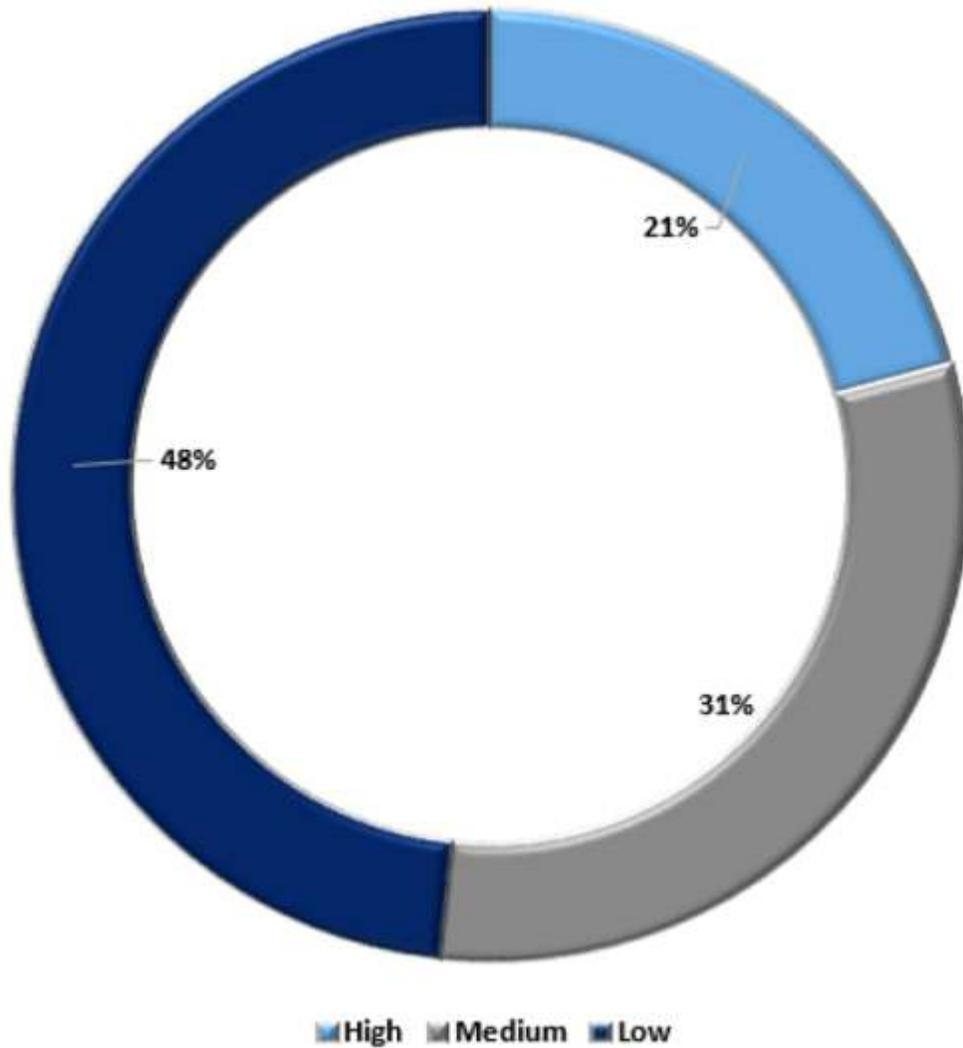
The majority of our respondents use a “high/medium/low” classification for their customer risk rating (82.6%). While a small number of respondents (8.7%) who selected ‘other’ said they use a “Prohibited/High/Med-High/Moderate/Low” rating or there are too “many factors [that] determined this”.





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

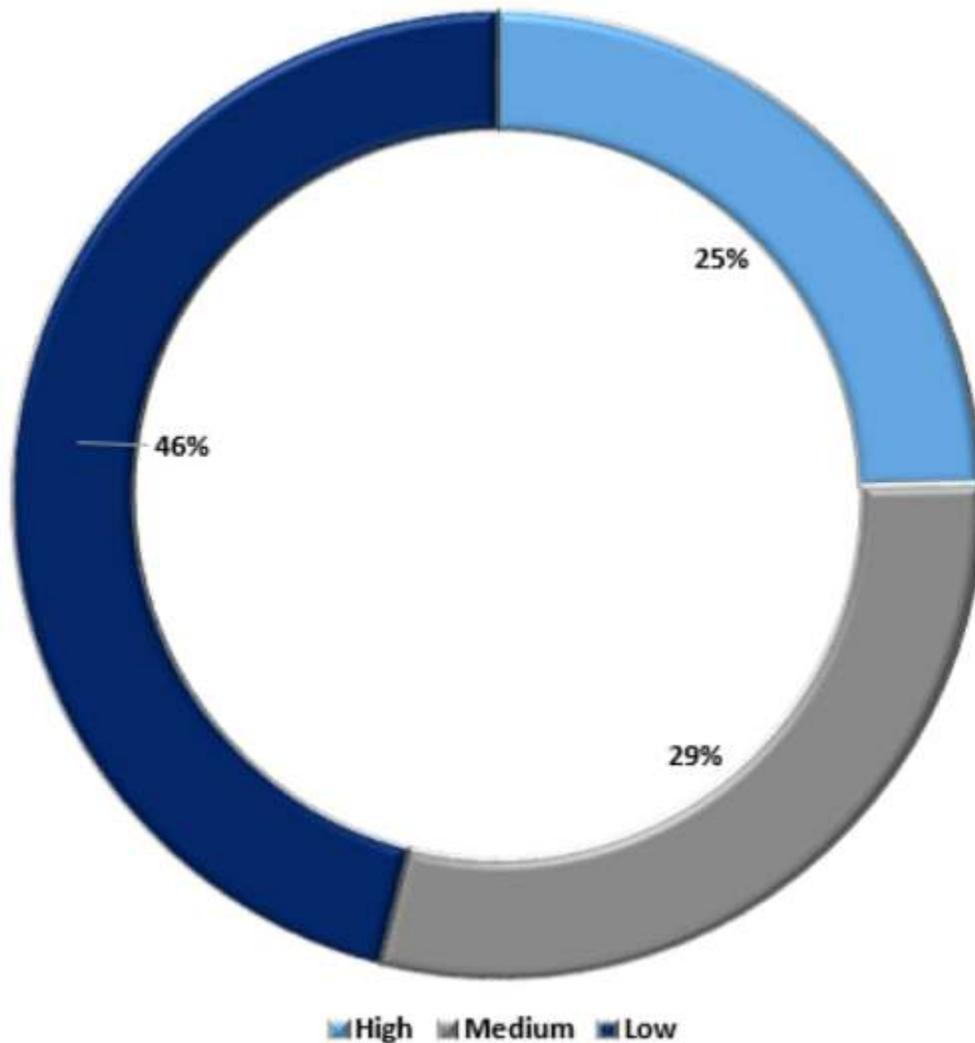
The majority of our respondents said that most of their retail customers are low-risk.

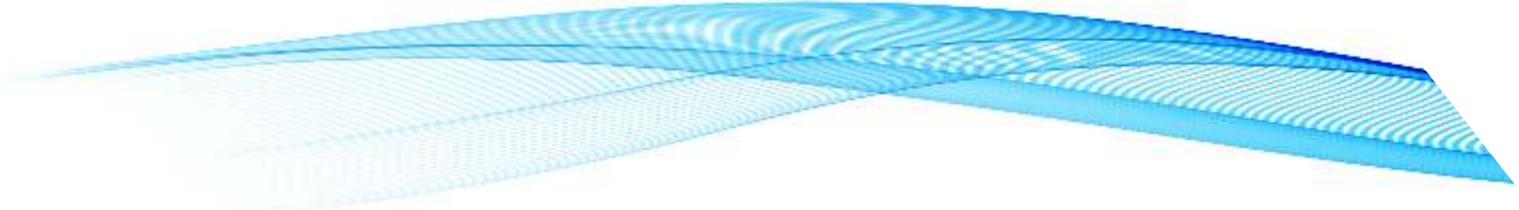




Percent of high/medium/low risk for commercial customers:

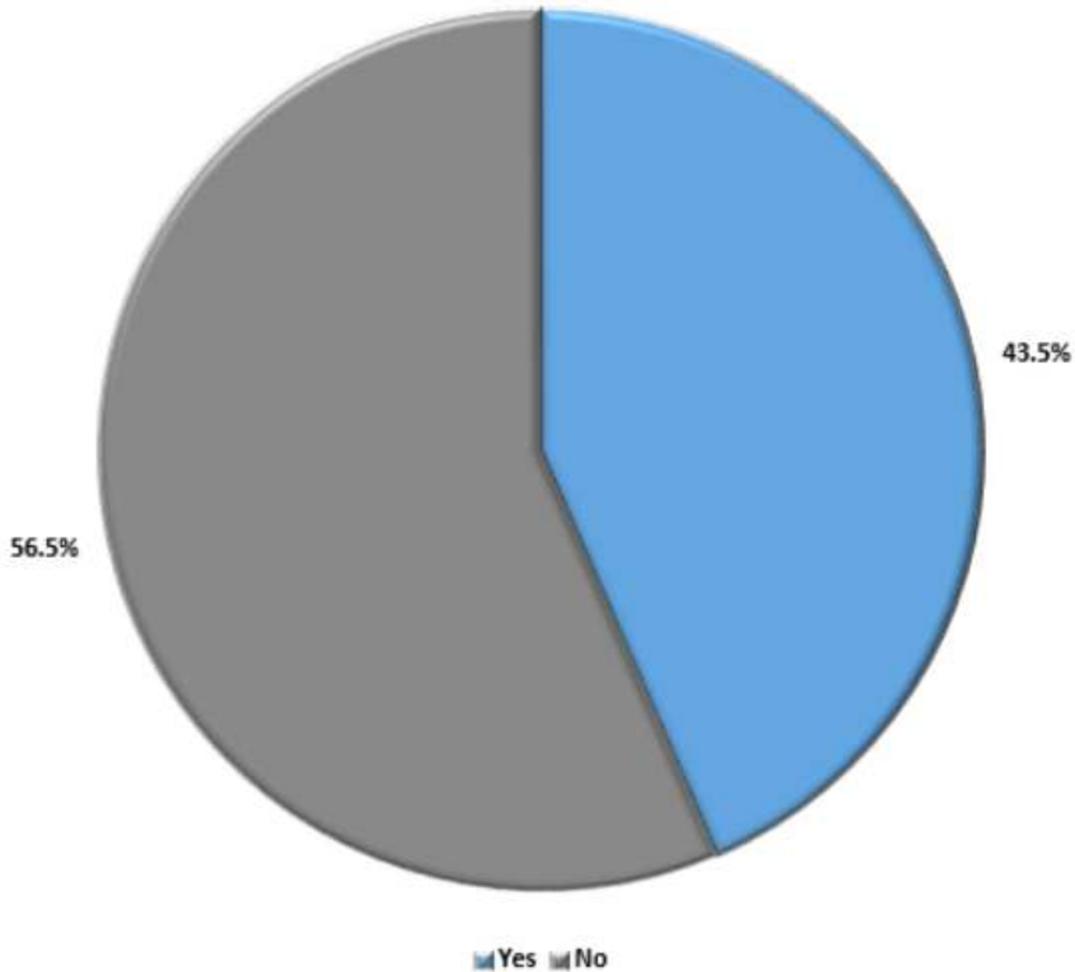
While most of our participants also indicated that the majority of their commercial customers are low-risk; commercial customers were slightly higher risk than their retail customer peers.





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 (56.5%).

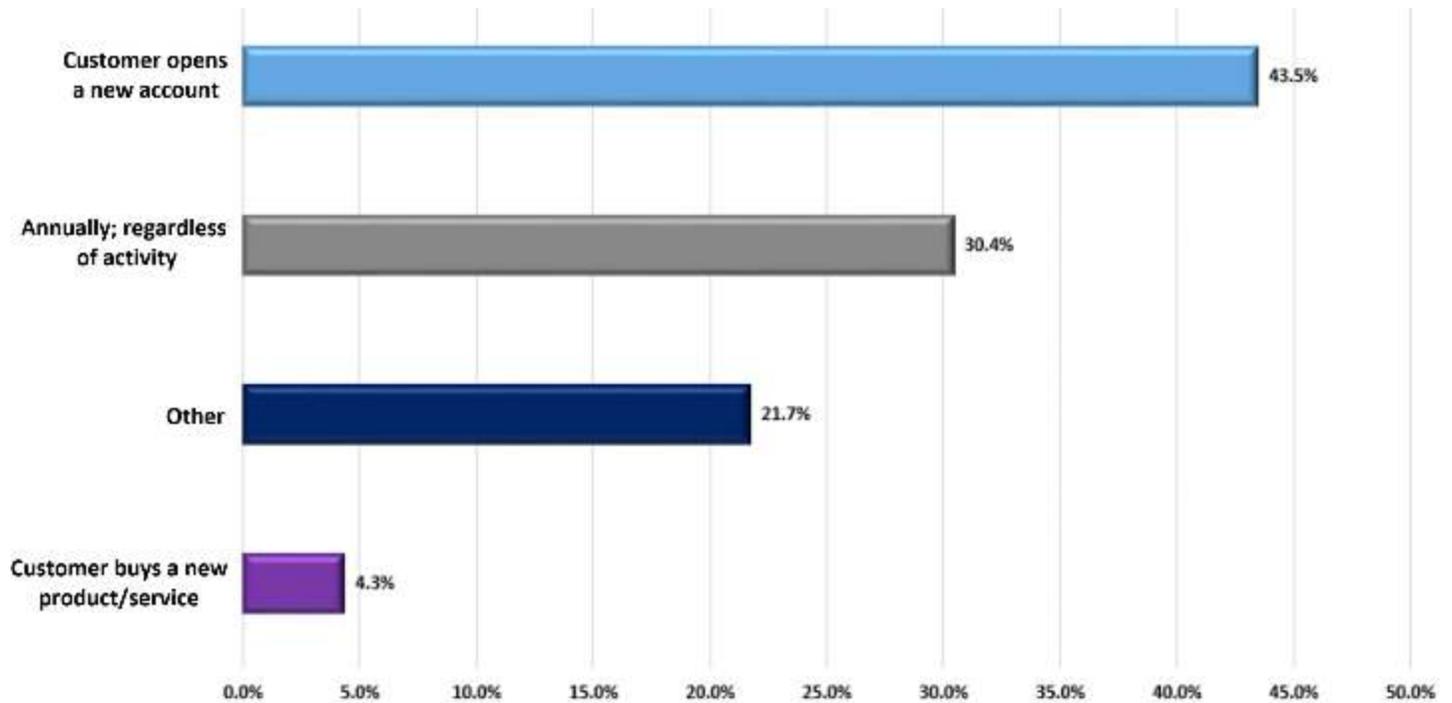


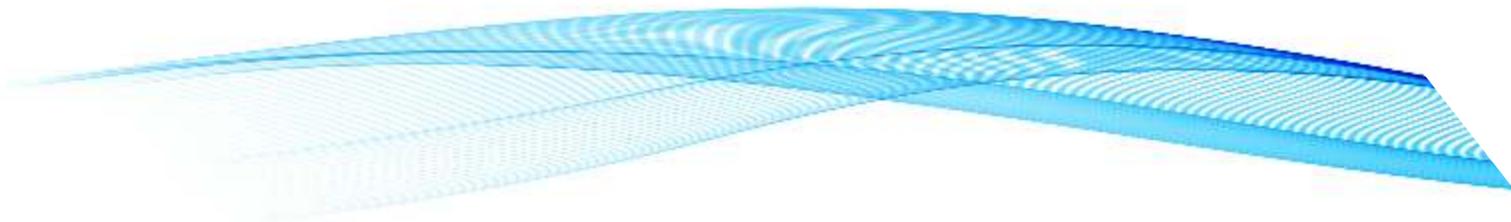


CDD Refresh Rate Questions

What conditions trigger customer activity:

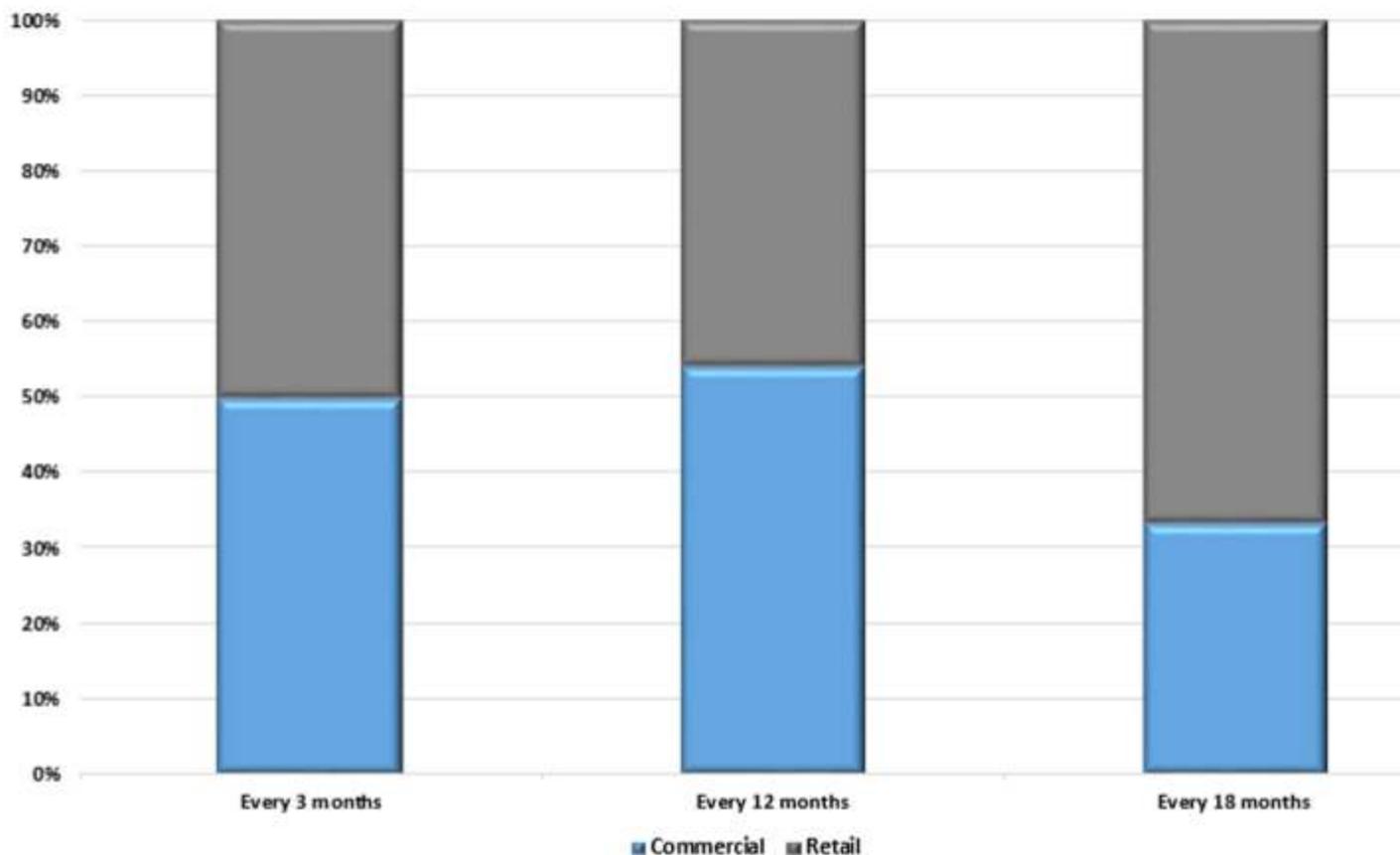
Most respondents refresh their customer’s CDD documentation when a customer opens a new account (43.5%), secondly, annually, regardless of activity (30.4%), followed by ‘other’ reasons (21.7%) such as “monthly”, “if an event triggers a review”, “risk ratings are refreshed monthly...”, “changes in customer info or an alert trigger in automated TMS” and more.





Frequency of refreshing high-risk commercial and retail customers:

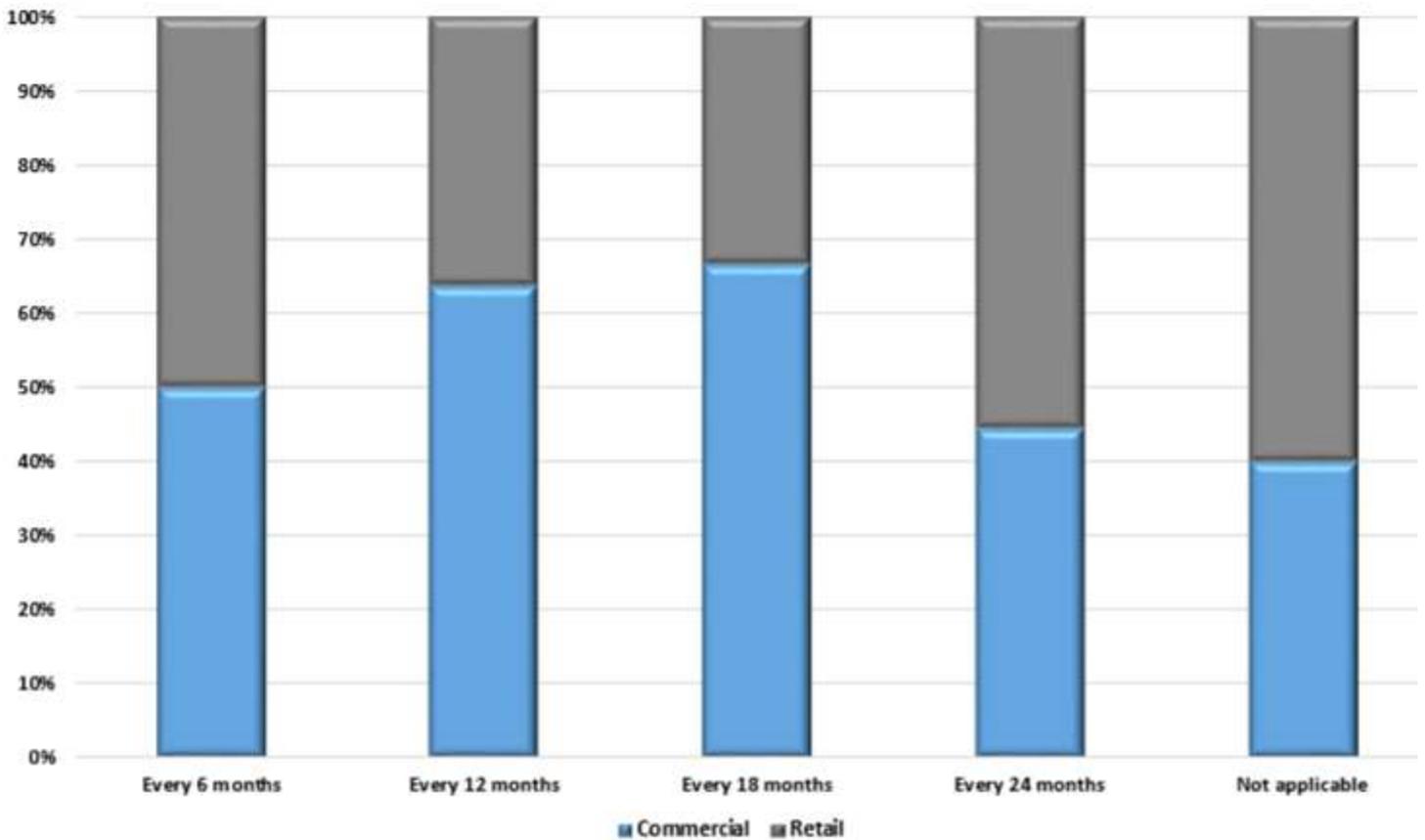
There was a relatively equal split between customers with a high-risk rating being reviewed every 3 months or every 12 months, unlike the 68% retail customers vs 34% commercial customers split completed every 18 months.

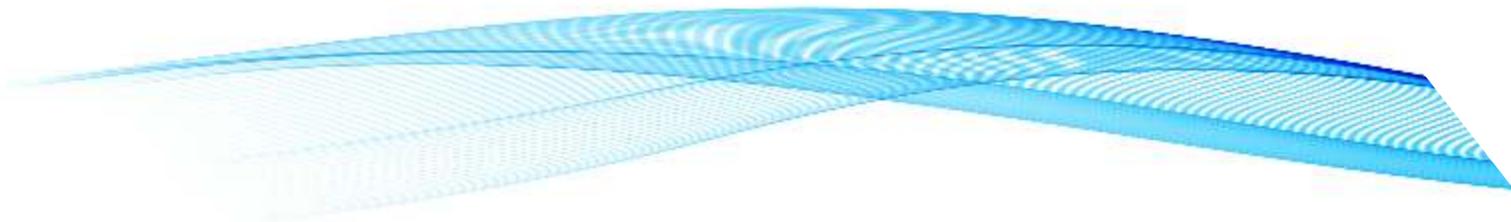




Frequency of refreshing medium-risk commercial and retail customers:

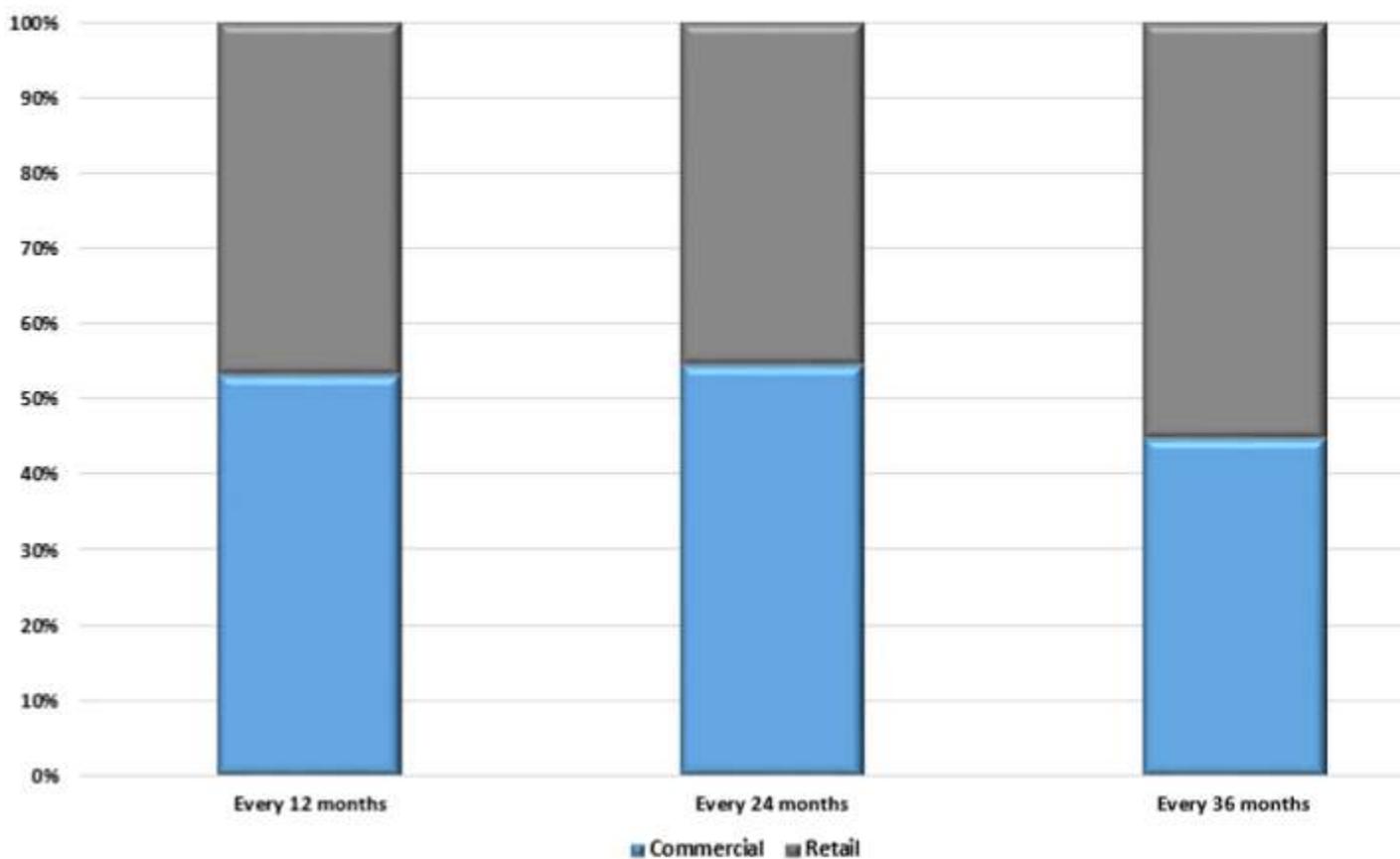
Thee greatest variance in the frequency of refreshing commercial and retail customers was for medium-risk customers. For this group, their responses varied from as frequent as every 6 months through reviewing it every 24 months; however, it seemed that for at least medium-risk commercial customers, they were reviewed every 12 to 18 months.





Frequency of refreshing low-risk commercial and retail customers:

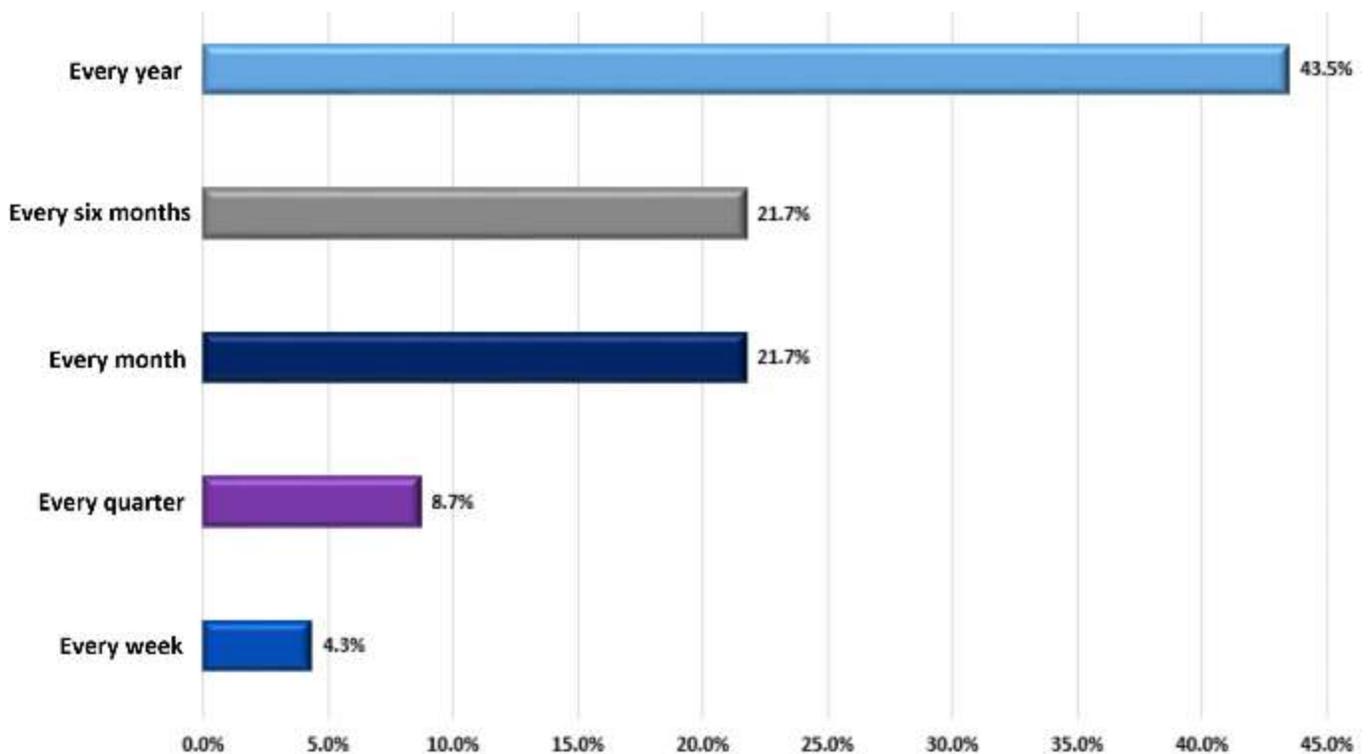
The majority of low-risk commercial and retail customers are reviewed every 12 months, 24 months or 36 months.

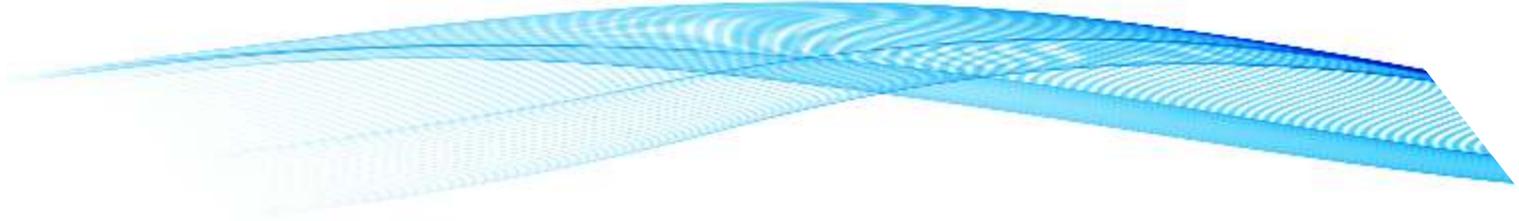




Frequency of changing one risk rating to another:

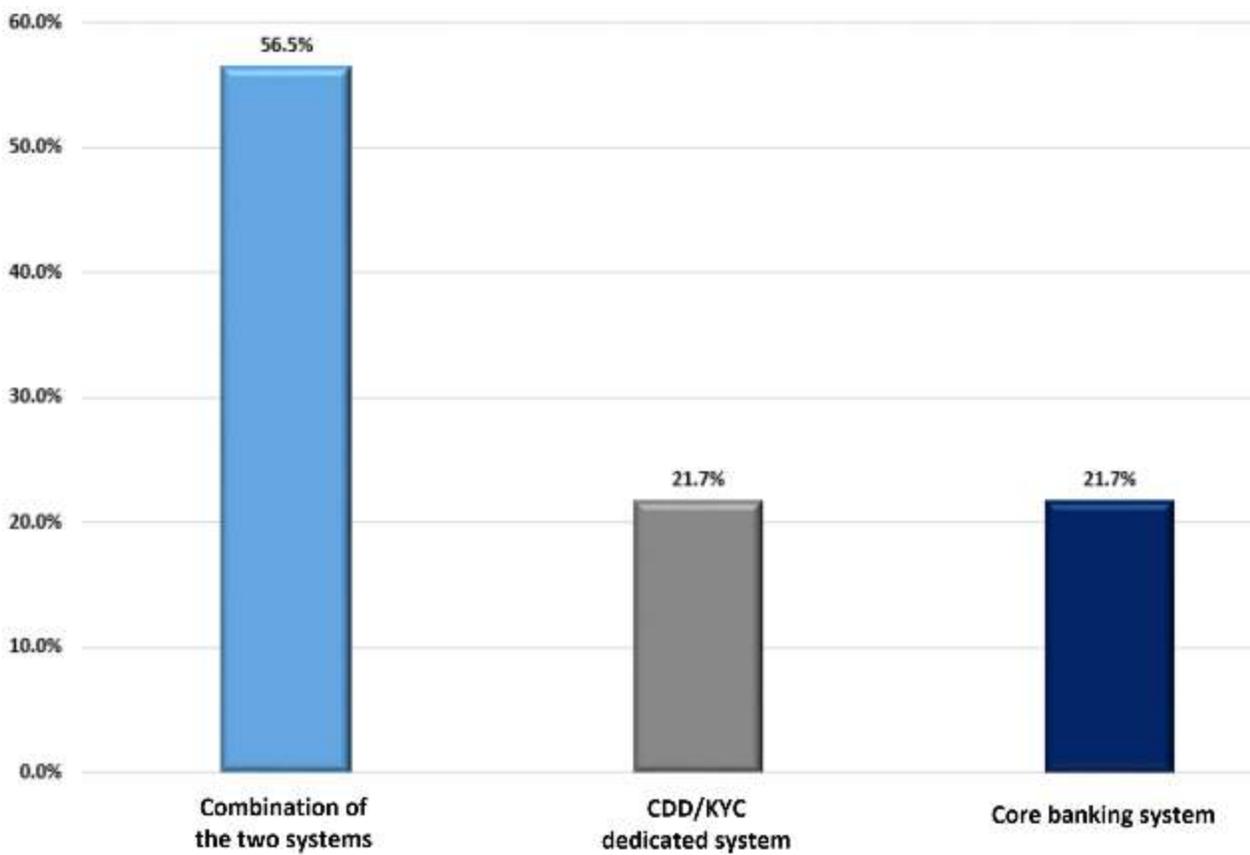
Most (43.5%) of our respondents said that they are changing risk ratings on customers every year, e.g. high to medium, medium to high, low to medium, etc. The next largest group of respondents say they are making this change every six months (21.7%) followed by every month (21.7%).





Where is CDD information entered:

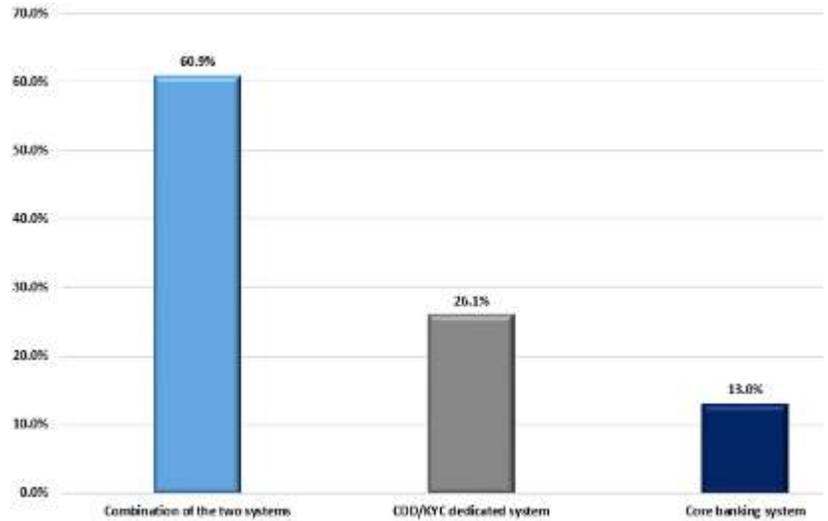
Over half of our respondents (56.5%) say that they enter their CDD documentation into a combination of their core system and their CDD/KYC dedicated system.





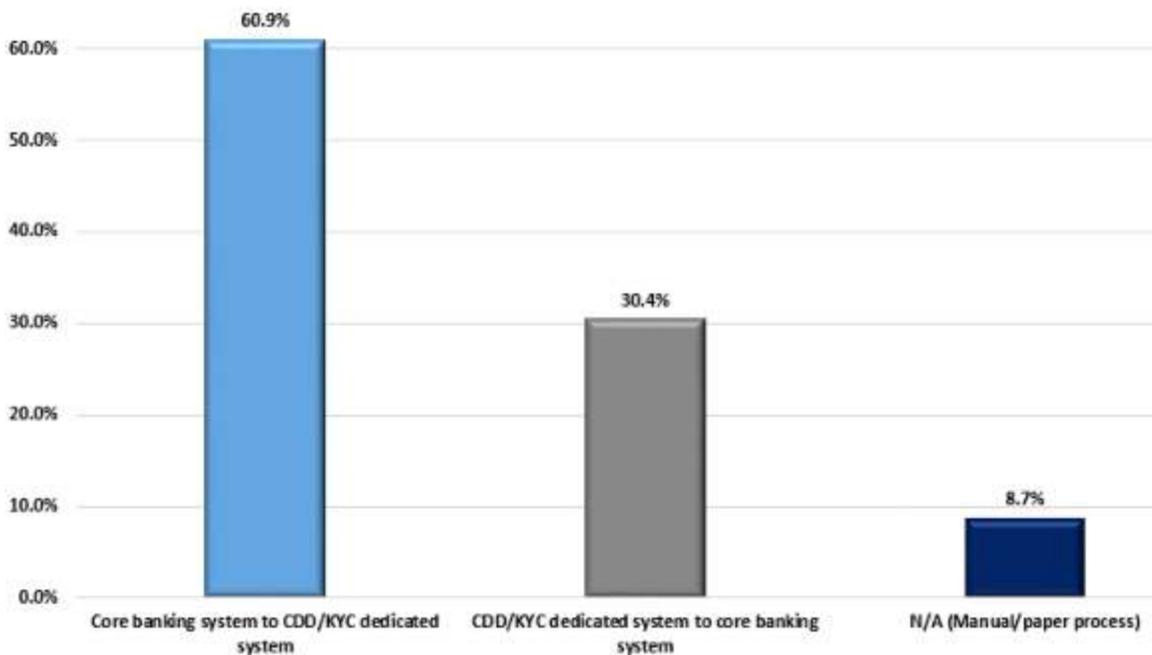
Where CDD information is refreshed:

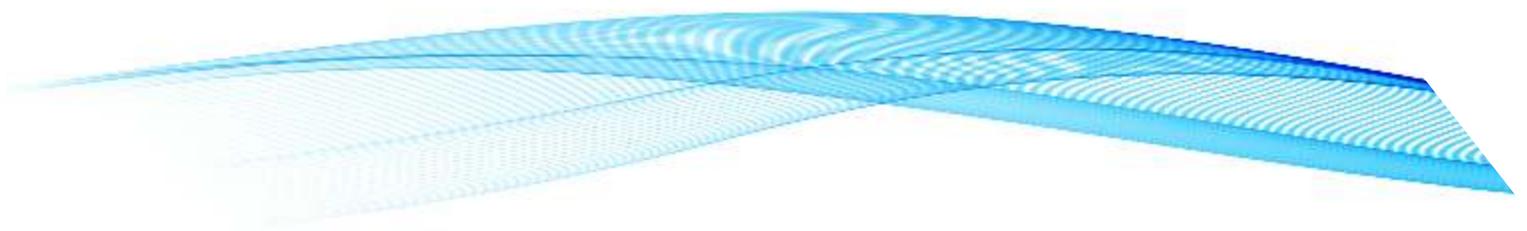
The majority of our respondents said that their CDD information is refreshed in a combination of both systems (core and dedicated CDD/KYC system, 60.9%).



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 (60.9%).

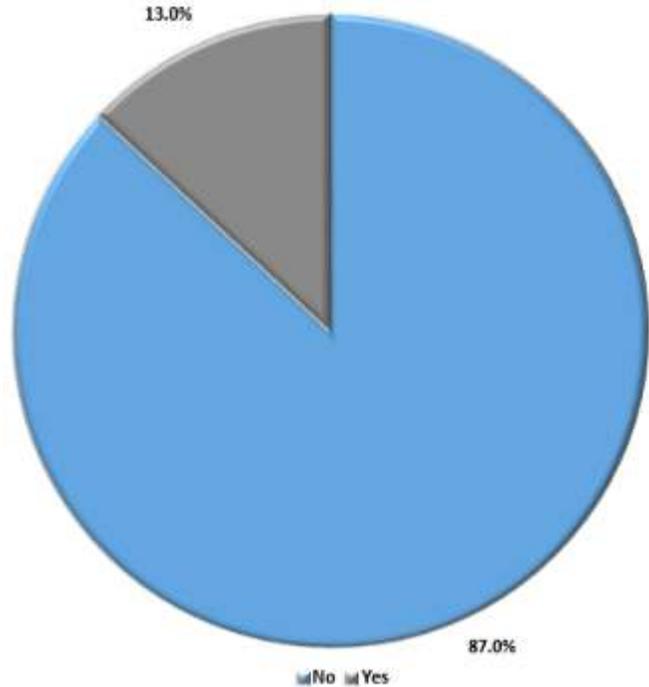




Regulator Scrutiny Questions

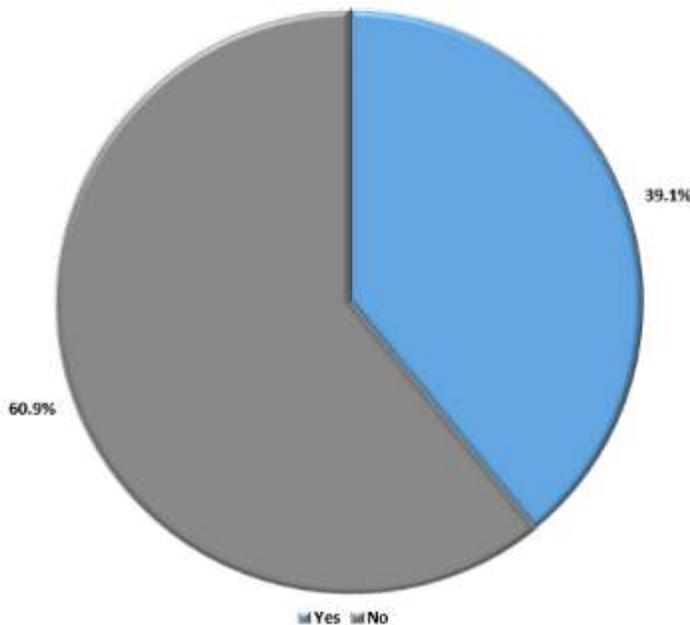
Receiving regulator scrutiny:

The majority of respondents (87.0%) said that they have not received scrutiny from their regulator regarding their CDD refresh rates. Only in 13% of our respondents had they received some level of scrutiny in this area.



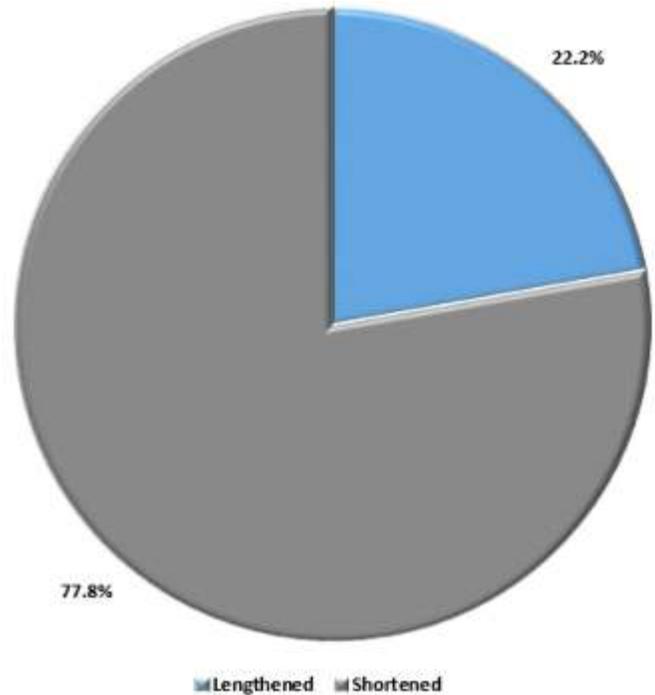
Changes to CDD refresh rates in the last two years:

The majority of our respondents have not changed their CDD refresh rates in the last two years (60.9%), which is not surprising if a majority of our participants have not received any regulator scrutiny regarding their rates.



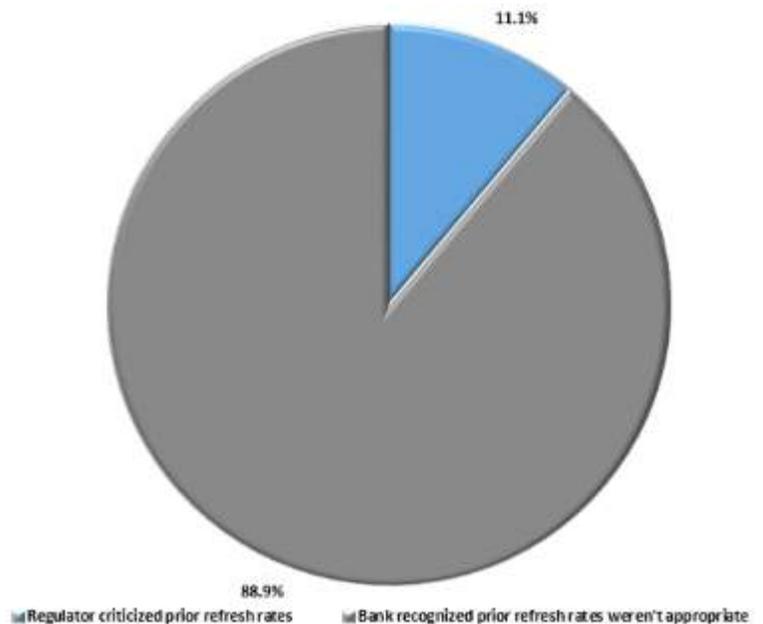
For those who did change their CDD refresh rates in the last two years; Lengthening vs. shortening their CDD refresh rates:

The largest group of participants said that they have shortened their CDD refresh rates in the last two years (77.8%), 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, 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' (88.9%).



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, it is no surprise they haven't changed them in the last two years. However, for the nearly 40% that did said that they adjusted their CDD refresh rates in the last two years, the majority of them 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 and are taking a conservative approach. 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>.



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.

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“The AML Specialists”