CONFERENCE OF STATE BANK SUPERVISORS

BSA/AML Self-Assessment Tool

Overview and Instructions

January 2017

1129 20th Street, N.W. • Ninth Floor • Washington, DC • 20036
www.csbs.org • 202-296-2840 • FAX 202-296-1928

Introduction and Overview

The Bank Secrecy Act and related federal and state law requirements ("BSA/AML") are a crucial component of bank operations. As the first line of defense for financial crimes, banks play an important role in minimizing fraud, money laundering, terrorist financing, and other financial crimes. BSA/AML compliance has become increasingly complex, leading state regulators to develop an optional BSA/AML Self-Assessment Tool ("Tool") to provide risk transparency at all levels of an institutions.

The Bank Secrecy Act and its promulgating regulations require banks to identify risks, assess the risks, and create a compliance program based on the risk assessment. The Self-Assessment Tool is designed to support banks communicate the results of this risk assessment process. If an institution uses the Tool, compliance staff, management, and the board of directors will be able to view all identified risks and corresponding risk assessments in one document.

Importantly:

- The BSA/AML Self-Assessment Tool is **not a requirement** – institutions should not feel obligated to performing the Self-Assessment.
- The BSA/AML Self-Assessment Tool is **not a substitute for a risk assessment** – institutions that choose to use this Self-Assessment Tool should use it in addition to the FFIEC BSA/AML Examination Manual[1] and corresponding laws and regulations, not as a replacement.

BSA/AML risk continuously changes. Accordingly, the BSA/AML Self-Assessment Tool is designed to be flexible. Institutions are free to adjust the formulas, rating values, and other variables to more appropriately reflect risks and the assessments thereof. The following instructions explain how the Tool was designed for use, but institutions should not hesitate to customize the Tool.

[1] *Available at* https://www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm.

Instructions

1. Identify Risks

Pre-Populated Risks

The Self-Assessment Tool identifies risk in three categories consistent with the BSA/AML Examination Manual:

- Products & Services
- Customers & Entities
- Geographic Locations

These categories are pre-populated with common risks outlined in the BSA/AML Examination Manual, but should be customized to the risks facing each institution.[2] More detail on each pre-populated risk can be found in the expanded sections of the BSA/AML Examination Manual.

Additional Risks

The pre-populated risk does not include all possible risks. Banks should add risks identified during the identification process. Each category has five additional rows for banks to insert identified risks that were not pre-populated.

If a bank identifies more than five risks that were not pre-populated, take the following steps to add a row and update formulas:

i) Add a row to the corresponding category

ii) To quickly fill in the template's formatting, select pre-populated cells and drag the fill handle down the new cells

Additional Products or Services						
Additional Products or Services						
New Product						
Category: **Customers and Entities**	**Incomplete**	0.00	0	**Low**	**Moderate**	**High**

[2] *See* BSA/AML Risk Assessment—Overview, "The first step of the risk assessment process is to identify the specific products, services, customers, entities, and geographic locations unique to the bank. Although attempts to launder money, finance terrorism, or conduct other illegal activities through a bank can emanate from many different sources, certain products, services, customers, entities, and geographic locations may be more vulnerable or have been historically abused by money launderers and criminals. Depending on the specific characteristics of the particular product, service, or customer, the risks are not always the same. Various factors, such as the number and volume of transactions, geographic locations, and nature of the customer relationships, should be considered when the bank prepares its risk assessment. The differences in the way a bank interacts with the customer (face-to-face contact versus electronic banking) also should be considered. Because of these factors, risks will vary from one bank to another." *Available at* https://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_005.htm.

iii) Update the Count and Sum ranges to reflect the expanded range for the corresponding Category Inherent Risk, Select Risk Level, and Rating Cells. This can be done by clicking into the cell, which will reveal the formula. For example, if the Products and Services Category expands to include Row 31, update as follows:

a. Cell B2: =IF(COUNTA(C3:C31)<3,"Incomplete",IF(C2<1.67,"Low",IF(C2<2.34,"Moderate",IF(C2>2.33,"High"))))
b. Cell C2: =IFERROR((D2/(COUNT(D3:D31))),0)
c. Cell D2: =SUM(D3:D31)

Eliminating Inapplicable Risks

Banks are unlikely to engage in all risks identified in the template. Accordingly, inapplicable risks can be omitted from the Self-Assessment by simply selecting the blank designation in the "Select Risk Level" pull down menu. If a Risk Level is not selected, the risk will not count towards the inherent risk level. It is not recommended that a risk's row be deleted because the risk may emerge in the future.

Expand each section to answer each identified risk [i.e. activity, service or product]	***Category Inherent Risk***	**Select Risk Level**	**Rating**	**Low**	**Moderate**	**High**	**New or Existing**
Bulk shipments of currency							
Concentration accounts							
Correspondent Accounts (Domestic)							
Correspondent Accounts (Foreign)		Risk Level Selection List					
Electronic banking		Low					
Foreign exchange		Moderate					
Funds transfers		High					
Insurance							

2. Defining Risk Level Criteria

Depending on the size and scope of the institution, risk level will differ for each product and service. For example, a bank that offers Automated Clearing House transactions and Brokered deposits should determine the characteristics of Low, Moderate and High risk for their institution. In this example, the Brokered Deposit product is considered low risk if the institution does not offer brokered deposit accounts, moderate if the institution offers a few domestic brokered deposit accounts, and high if there is a large number of domestic and/or international brokered deposit accounts.

Expand each section to answer each identified risk [i.e. activity, service or product]	***Category Inherent Risk***	**Select Risk Level**	**Rating**	**Low**	**Moderate**	**High**	**New or Existing**
Category: **Products and Services**	Low	0.00	24	**Low**	**Moderate**	**High**	
Automated Clearing House transactions				None Offered or Domestic Only	High Domestic Activity and Some International Activity	High Domestic and/or International Activity	
Brokered deposits		**Low**	**1**	**Brokered deposit accounts**	Few brokered deposit accounts, domestic only	Large number of domestic and/or international brokered deposit accounts	

The New or Existing column should be used to help gauge risk definitions. If a product or service, customer or entity, or geography is new to the bank, the risk is likely elevated compared to an existing product that the bank has experience implementing and monitoring. Accordingly, if a risk is new, the institution is urged to consider how risk is elevated in the corresponding risk definitions.

3. <u>Selecting Risk Level for Risk Criteria</u>

After defining the levels of risk for each product, the institution should choose the Risk Level most appropriate for the institution's current operations. The Risk Level represents the vulnerability of each risk area is to money laundering or terrorist financing. In order to do this, click on the drop down under "Select Risk Level for Risk Criteria" and choose from Low, Moderate, and High.

Category: Customers and Entities	Incomplete	0.00	0	Low	Moderate	High
Cash-intensive businesses				0 to 5 Exempt Customers	Commercial customers with minimal cash activity or foreign wires or customers	Commercial customers with high cash activity Commercial customers with international business including foreign wires
Customer Base Growth		Risk Level Selection List Low Moderate High		Existing, stable, known, long time customers with little change	Customer base increasding due to branching	Large number of new customers
Employee Turnover						

Once selected, the corresponding Risk Level will automatically highlight.

Category: Customers and Entities	Incomplete	2.00	2	Low	Moderate	High
Cash-intensive businesses		Moderate	2	0 to 5 Exempt Customers	**Commercial customers with minimal cash activity or foreign wires or customers**	Commercial customers with high cash activity Commercial customers with international business including foreign wires

4. <u>Use Comments Column for Tracking and Continuity</u>

As a tool that is designed to be used on a regular basis, the comments column should be used to track reasoning and facilitate continuity. Relevant information on the risk level definitions and the reasoning for selecting a particular risk level should be tracked in the relevant Comments cell. This will improve communication between compliance professionals, management, and board members. Further, a record of the institution's reasoning is important if compliance professionals leave the institution.

It is also recommended that the comments column be used to store or reference supporting documentation.

5. How Inherent Risk is Calculated

1. Risk Levels have an assigned Rating. The default rating is as follows:
    a. Low Risk: 1
    b. Moderate Risk: 2
    c. High Risk: 3

2. After each Category (Products and Services, Customers and Entities, etc.) is completed, the Assessment Tool will calculate an average for each category.

Expand each section to answer each identified risk [i.e. activity, service or product]	***Category Inherent Risk***	**Select Risk Level**	**Rating**	**Low**	**Moderate**	**High**
Category: **Products and Services**	Low	0.06	39	Low	Moderate	High
Automated Clearing House transactions		**Low**	**1**	**None Offered or Domestic O**	High Domestic Activity and Some International Activity	High Domestic and/or International Activity
Brokered deposits		**Moderate**	**2**	Brokered deposit accounts not offered	**Few brokered deposit accounts, d**	Large number of domestic and/or international brokered deposit accounts
Bulk shipments of currency		**High**	**3**			
Concentration accounts		**High**	**3**			
Correspondent Accounts (Domestic)		**High**	**3**			
Correspondent Accounts (Foreign)		**Moderate**	**2**			
Electronic banking		**Moderate**	**2**			
Foreign exchange		**Low**	**1**			
Funds transfers						
Insurance		**Low**	**1**			
Lending activities		**High**	**3**			
Nondeposit investment products		**High**	**3**			
Payable through accounts						
Pouch activities		**High**	**3**			
Prepaid access						
Private banking		**Moderate**	**2**			
Privately owned automated teller machines		**Moderate**	**2**			
Purchase and sale of monetary instruments		**High**	**3**			
Third-party payment processors		**High**	**3**			
Trade finance activities						
Trust and asset management services						
U.S. dollar drafts		**Moderate**	**2**			
Additional Products or Services						
Additional Products or Services						
Additional Products or Services						
Additional Products or Services						
Additional Products or Services						

Average and Inherent Risk for Products and Services in red.

This average is calculated by determining the average Risk Level rating for all risks. Each category has its own average. The corresponding description – "Category Inherent Risk" – is based on the following assigned range:

a. Low Risk: 1.66 and lower
b. Moderate Risk: 1.67 to 2.33
c. High Risk: 2.34 and higher

A category's Inherent Risk defaults to "Incomplete" if fewer than 3 risk levels are selected.

A "Combined Inherent Risk" figure is calculated at the end of the spreadsheet. The calculation is performed by taking a combined average of the average risk of:

- Products & Services;
- Customers & Entities; and

- Geographic Locations.

The corresponding description "Combined Inherent Risk" – is based on the same scale outlined above.

Additional Geographies						
Combined Inherent Risk	Moderate	1.92	48			

6. Risk Mitigation

1. To calculate the risk level after mitigating controls have been applied, input the risk mitigation action taken under Column I, "Risk Mitigation/Controls."

	A	B	C	D	E	F	G	H	I
1	*Expand each section to answer each identified risk [i.e. activity, service or product]*	*Category Inherent Risk*	Select Risk Level	Rating	Low	Moderate	High	New or Existing	Risk Mitigation/Controls
2	Category: Products and Services	Moderate	2.33	7	Low	Moderate	High		
3	Automated Clearing House transactions		Moderate	2					
4	Brokered deposits		High	3					
5	Bulk shipments of currency		Moderate	2					
6	Concentration accounts								
7	Correspondent Accounts (Domestic)								

2. After typing in the action taken by the institution in Column I, the user can input the strength of the mitigation/controls under Column K. The dropdown gives five options: N/A, Weak, Satisfactory, or Strong.

	A	B	C	D	E	F	G	H	I	J
1	*Expand each section to answer each identified risk [i.e. activity, service or product]*	*Category Inherent Risk*	Select Risk Level	Rating	Low	Moderate	High	New or Existing	Risk Mitigation/Controls	Strength of Mitigation/Controls
2	Category: Products and Services	Moderate	2.33	7	Low	Moderate	High			
3	Automated Clearing House transactions		Moderate	2						Weak
4	Brokered deposits		High	3						Satisfactory
5	Bulk shipments of currency		Moderate	2						Satisfactory
6	Concentration accounts									
7	Correspondent Accounts (Domestic)									
8	Correspondent Accounts (Foreign)									
9	Electronic banking									
10	Foreign exchange									
11	Funds transfers									
12	Insurance									
13	Lending Activities									
14	Nondeposit investment products									
15	Payable through accounts									
16	Pouch activities									
17	Prepaid access									
18	Private banking									
19	Privately owned automated teller machines									
20	Purchase and sale of monetary instruments									
21	Third-party payment processors									
22	Trade finance activities									
23	Trust and asset management services									
24	U.S. dollar drafts									
25	*Additional Products or Services*									
26	*Additional Products or Services*									
27	*Additional Products or Services*									
28	*Additional Products or Services*									
29	*Additional Products or Services*									

3. The user can also specify the "Risk Level after Mitigation," which will trigger a "Rating After Mitigation." The dropdown gives four options: N/A, Weak, Satisfactory or Strong.

Expand each section to answer each identified risk [i.e. activity, service or product]	Category Inherent Risk	Select Risk Level	Rating	Low	Moderate	High	New or Existing	Risk Mitigation/Controls	Strength of Mitigation/Controls	Risk Level After Mitigation
Category: Products and Services	Moderate	2.33	7	Low	Moderate	High				2.00
Automated Clearing House transactions		Moderate	2						Weak	Moderate
Brokered deposits		High	3						Satisfactory	Moderate
Bulk shipments of currency		Moderate	2						Satisfactory	
Concentration accounts										
Correspondent Accounts (Domestic)										
Correspondent Accounts (Foreign)										
Electronic banking										
Foreign exchange										
Funds transfers										
Insurance										
Lending Activities										
Nondeposit investment products										
Payable through accounts										
Pouch activities										
Prepaid access										
Private banking										
Privately owned automated teller machines										
Purchase and sale of monetary instruments										
Third-party payment processors										
Trade finance activities										
Trust and asset management services										
U.S. dollar drafts										
Additional Products or Services										
Additional Products or Services										
Additional Products or Services										
Additional Products or Services										
Additional Products or Services										

4. The choice of "Risk Level After Mitigation" triggers a numerical response in Column L, "Rating After Mitigation," and is scaled as follows:

- N/A – No fill
- Low – 1
- Moderate – 2
- High – 3

Rating after Mitigation is below in red.

Expand each section to answer each identified risk [i.e. activity, service or product]	Category Inherent Risk	Select Risk Level	Rating	Low	Moderate	High	New or Existing	Risk Mitigation/Controls	Strength of Mitigation/Controls	Risk Level After Mitigation	Rating After Mitigation
Category: Products and Services	Moderate	2.33	7	Low	Moderate	High				1.75	7
Automated Clearing House transactions		Moderate	2						Weak	Moderate	2
Brokered deposits		High	3						Satisfactory	Moderate	2
Bulk shipments of currency		Moderate	2						Satisfactory	Moderate	2
Concentration accounts										Low	1

5. Each category (Products & Services, Customers & Entities, Geography) has its own "Category Mitigated Risk," which is an average of the "Risk Level After Mitigation" per product.

6. There is also a "Combined Risk Level After Mitigation," which is an average of each categorical mitigated risk level. The Combined Risk Level is seen below in red.

Combined Risk Level After Mitigation	Moderate	1.70	17		

Customization & Logical Override

Banks can customize the risk areas, designations, and scoring to improve the risk analysis for their institution. There are several ways a bank may customize this spreadsheet, including:

- Add risk definitions, e.g. “Higher Risk”
- Adjust assigned values to give higher weight to higher risks
- Adjust the scale for Inherent Risk descriptors.
- Adjust conditional formatting to color code risk selections

These changes can all be made by adjusting the formulae in the corresponding cells.

Banks are also urged to use logic when analyzing the results. The Self-Assessment Tool makes conclusions based on averages. For example, if a category has a majority of its risk designated as High Risk, but nonetheless has a Category Inherent Risk of Moderate, the bank may want to consider more advanced policies and procedures given the number of high risks. Further, if a bank is expanding into new areas, a series of low risk products, customers, or geographies does not mean there is not staffing and other growth risks.