# Anti-Money Laundering Compliance

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# Agenda

- > FinTech
- > Blackbaud, Inc.
- ➤ Regulatory Environment
- ➤ AML Compliance Program
- Risk based approach
- Closing
- Appendix:
  - Anti-Money Laundering and Counter Terrorist Financing training example
  - Risk rating model example

#### FinTech

- > Relatively new financial industry that applies technology to improve financial services
- Presents challenges to financial regulators
  - Rapid growth of revolutionary products and services that don't fit today's compliance regulations
- Increased competition for banks
  - Banks are subject to traditional compliance regulations
- Creates unfair regulatory environment
- ➤ Navigating that environment is challenging for FinTech companies
  - Regulations and laws changing

### Blackbaud, Inc

- Blackbaud, Inc. [NASDAQ: BLKB]
- ➤ Blackbaud is the world's leading cloud software company powering social good.
  - Serving the entire social good community—nonprofits, foundations, corporations, education institutions, healthcare institutions and individual change agents
  - Blackbaud connects and empowers organizations to increase their impact through software, services, expertise, and data intelligence.
  - The Blackbaud portfolio is tailored to the unique needs of vertical markets, with solutions for fundraising and CRM, marketing, advocacy, peer-to-peer fundraising, corporate social responsibility, school management, ticketing, grantmaking, financial management, payment processing, and analytics.
- ➤ Over 35,000 customers worldwide with over 12,000 subscribed to Blackbaud Payment Services

# Blackbaud Payment Services

	BBMS	Smart Tuition	EDH	JustGiving
Bus Model	Third Party Payment Processor (TPPP) / Payment Facilitator (PayFac)	TPPP / PayFac Billing, Collections, Surcharges Smart AID, Smart Shield	Charitable Crowdfunding P2P	Charitable Crowfunding Personal Crowdfunding
Processor(s)	American Express First Data U.S. First Data Can. Beanstream	American Express Vantiv MB Financial	Braintree	Worldpay Braintree PayPal American Express
Regulatory Environment	Money Transmitter / AML  MSB license  KYC  PII and Cross border Privacy laws  1099K reporting  FDIC pass through insurance	Additional regulatory requirements:	<ul> <li>Money Transmitter / AML</li> <li>MSB license</li> <li>KYC</li> <li>PII and Cross border Privacy laws</li> <li>1099K reporting</li> <li>FDIC pass through insurance</li> </ul>	Effective January 13, 2018 Payment Services Directive 2 in the EU requires that we be an Authorized Payment Institution regulated by the Financial Conduct authority in the UK.
Regulatory Strategy	Federal licensing requirements exclude charitable TPPP. We are exempt from State licensing requirements as we are an "Agent of the Payee".		All funds flow from donors to Braintree to the payee directly.	Become an API in the EU

# Regulatory Environment

- > Ever increasing scrutiny of the trade finance
  - USA PATRIOT Act
    - Adopted into law in 2001
    - In response to the 9/11/01 terrorist attacks
    - Purpose is to obstruct and prevent terrorist attacks
  - US Treasury
    - Sanction lists
    - FINCEN Financial Crimes Enforcement
  - FATF Financial Action Task Force
    - Group of some 36+ countries forming and intergovernmental organization to combat money laundering and terrorism

# **AML Compliance Approach**

- > Engaged a consultant
  - Qualified independent compliance auditor with 7+ years at FINCEN as an investigator
- > Findings:
  - Incumbent upon us to not violate the federal money-laundering law
  - We do not have to be regulated to be liable
  - This not limited to Payment Services covers the entire business worldwide
  - We cannot knowingly or blindly participate in a money laundering scheme
- ➤ Recommended a formal BSA /AML compliance program built on the 4 Pillars:
  - 1. Designated Compliance Officer with sufficient knowledge, resources, responsibility and authority
  - 2. Risk based policies, procedures, and controls
  - 3. Periodic relevant training
  - 4. Independent compliance testing and review

# AML Compliance Program

**Pillar 1 –** Designated Compliance Officer with sufficient knowledge, resources, responsibility and authority

- ➤ The company staffed a Director of AML Compliance
  - More than 30 years experience in Global Credit and Customer Due Diligence
  - Empowered with appropriate authority and support reports directly to the BOD Audit Committee annually
- Obtained the necessary resources and tools required
  - Staffed appropriate AML and Credit Analysts
    - 4 AML Analysts, 3 ACAMS Certified, 1 NACHA Certified
    - Built necessary system infrastructure
      - NPC Customer Master / KYC system of record
      - Risk scoring models (initial and monitoring)
      - FCRM Financial Crimes Risk Manager to monitor organization and transactional activity

# AML Compliance Program

**Pillar 2** – Risk based policies, procedures, and controls

- ➤ Published policies supporting the AML Program:
  - Corporate Compliance Policy
  - Anti-Money Laundering Policy
  - Customer on-boarding / Know Your Customer Policy
  - OFAC Policy
  - Transaction Monitoring Policy
  - Credit Policy
- > Risk variables include:
  - Organization mission, ideology, location, activities, beneficiaries, donors
  - Credit score/rating
  - Transaction activity

# AML Compliance Program

#### Pillar 3 – Periodic relevant training

- Conducted an AML awareness training:
  - Sales, finance, and customer facing organizations Software and Payments
  - Included in all New Employee Orientation
- ➤ All Payments Services employees completed specific AML training administered via PolicyTech
  - Includes an interactive training, quiz, certificate, and records to validate and maintain training history

#### Pillar 4 – Independent compliance testing and review

- ➤ Internal Audit testing and review of the AML program and controls every 12 to 18 months
- External audits by Processors and Card Brands

# Risk Based Approach

- Understand the inherent risks in your business
  - Your products, services, uses, and value
  - Fraud risk
  - Geographic risk High risk countries for fraud, money laundering, terrorist activity
  - Business risk business disruption with federal intervention
  - Reputational risk lost and business disruption we do not have name or cannot locate fraudster.
  - Identity Theft Customer submits someone else's (victim) information on the application.
- Establish your risk appetite
  - Weight variables in manner of importance, likelihood of occurrence, and potential loss
- ➤ Build a Risk model scoring your inherent risks
  - Define you High, Medium, Low parameters based on your risk appetite
  - Establish appropriate Customer Due Diligence (CDD) based on your scoring

# In Closing - Our Obligation

- ➤ As a US company:
  - Know Your Customer
  - Validate your customer is who they say they are
- ➤ As a payment processor:
  - Research and understand the regulatory environment
  - Implement a formal risk rating policy
  - Adhere to financial regulations and guidelines
- ➤ These requirements stem from:
  - U.S Department of Treasury
  - Office of Foreign Assets Control
  - U.S. Patriot Act

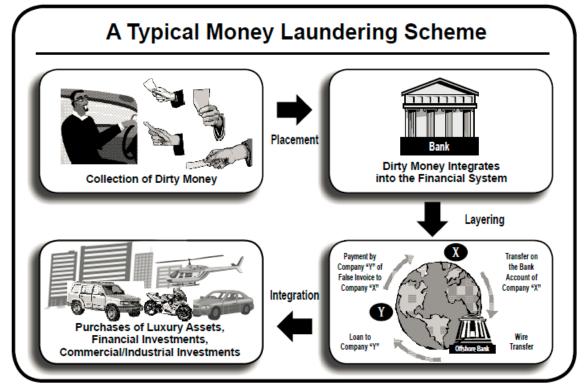
# Thank you



# Appendix

# **Anti-Money Laundering**

- Money Laundering
  - The criminal practice of processing money obtained through illegal activities (i.e. dirty money) through a series of transactions to make the money appear to be from legal sources.
- Stages of Money Laundering
  - Placement Introducing dirty money into a financial system (bank)
  - Layering Obscuring the source of the money by creating a complex web of transactions
  - Integration After the money has been cleaned,
     the money is then used to purchase
     legitimate items



Source: United Nations Office on Drugs and Crime

# Terrorist Financing

- Terrorist Financing
  - A financial infrastructure designed to feed a terrorist organization.
  - Motivation is ideological rather than profit seeking.
  - Activities can be financed through unlawful and legitimate sources.

	Money Laundering	Terrorist Financing	
Motivation	■ Profit	■ Ideological	
Source of Funds	<ul> <li>Internally from within criminal organizations</li> </ul>	<ul> <li>Internally from self-funding cells (increasingly centered on criminal activity)</li> <li>Externally from benefactors and fundraisers</li> </ul>	
Conduits	<ul> <li>Favors formal financial system</li> </ul>	<ul> <li>Favors cash couriers or informal financial systems such as hawala and currency exchange firms</li> </ul>	
Detection Focus	<ul> <li>Suspicious transactions, such as deposits uncharacteristic of customer's wealth or the expected activity</li> </ul>	<ul> <li>Suspicious relationships, such as wire transfers between seemingly unrelated parties</li> </ul>	
Transaction Amounts	<ul> <li>Large amounts often structured to avoid reporting requirements</li> </ul>	<ul> <li>Small amounts usually below reporting thresholds</li> </ul>	
Financial Activity	<ul> <li>Complex web of transactions often involving shell or front companies, bearer shares, and offshore secrecy havens</li> </ul>	<ul> <li>No workable financial profile of operational terrorists exists, according to U.S. 9/11 Commission</li> </ul>	
Money Trail	<ul> <li>Circular — money eventually ends up with person who generated it</li> </ul>	<ul> <li>Linear — money generated is used to propagate terrorist group and activities</li> </ul>	

Source: James R. Richards

# Risk Model Example

				Assigned	
Risk Factor	Value	Parameters	Weights	Score	
Years as a customer	##	> 2 years	0	1	
		1 to 2 years	0.5		
		< 1 year	1		
Years in business	##	> 2 years	0	2	
		1 to 2 years	1		
		< 1 year	2		
	\$\$\$	< 1,000,000	0	1	
Size - Revenue		1,000,000 to 10,000,000	0.5		
		> 10,000,000	1		
		Low risk country	0	4	
<b>Geographic Location</b>	"txt"	Medium risk country	1.5		
		High risk country	4		
	2 Inputs:	Low Risk	0		
Credit Score	## = actual score	Medium Risk	1	2	
	Txt = L, M, H	High Risk	2		
Total Assigned Weight					