

Unit21

Risk & AML Compliance for Credit Unions

Ebook



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AML Challenges in Credit Unions

Credit Unions, the cornerstones of community-centric banking, face distinctive AML compliance challenges rooted in their cooperative structure and close-knit relationships with members. Understanding and mitigating these challenges is pivotal for safeguarding financial integrity.



1 Member - Centric Nature

Credit Unions thrive on personalized member services. However, this very strength introduces challenges in scrutinizing a vast array of transactions. AML procedures must strike a delicate balance between member-centricity and robust due diligence.

2 Limited Resources

As not-for-profit entities, Credit Unions focus on optimizing their available resources to serve their members effectively. Navigating AML compliance for credit unions requires strategic resource allocation, making efficiency a critical factor — especially since failure to comply can result in significant penalties. For example, in [2022 alone, fines amounted to nearly \\$5 billion](#). Non-compliance not only incurs financial costs but also exacerbates the strain on already limited resources





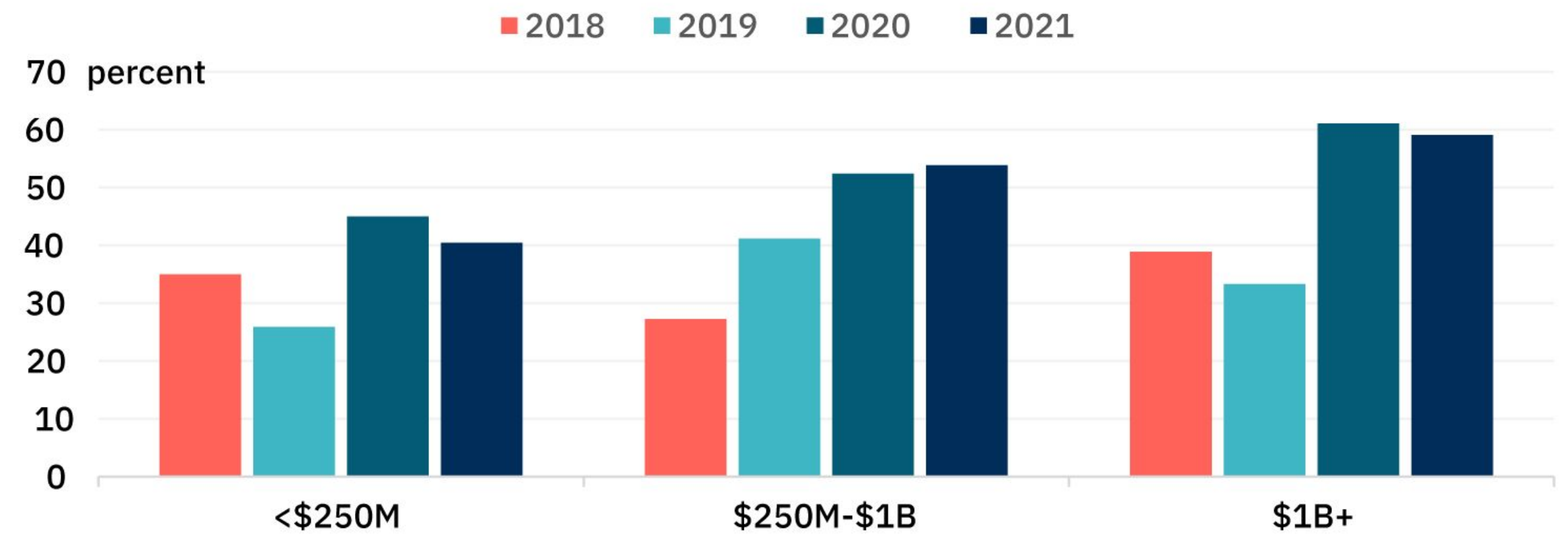
3 Community Focus

The tight-knit communities Credit Unions serve foster deep connections. While this is a strength, it also presents challenges in identifying potential risks within closely interconnected transactions.

4 Technological Evolution

Credit Unions are preparing for regulatory shifts, as captured by NAFCU's 2021 Federal Reserve Meeting Survey. With over 79 percent of respondents bracing for increased regulatory costs, Credit Unions, particularly those with assets over \$250 million, anticipate a rise in FTEs for BSA/AML compliance. To preempt the ballooning costs of expanded teams, Credit Unions are pressed to embrace cutting-edge AML solutions that can integrate seamlessly into existing systems, thereby streamlining operations and mitigating the impact of these anticipated increases.

Share of Respondents over next Three Years, by Asset Class Anticipating Increases in BSA Compliance Personnel



Source: NAFCU Federal Reserve Meeting Surveys



5 Regulatory Dynamics

Regulatory frameworks for AML are not one-size-fits-all. Credit Unions must grapple with understanding and adhering to evolving regulations tailored to their specific size and operational scope.

BSA/AML Compliance Requirements for Credit Unions

In response to evolving financial landscapes, Credit Unions, including non-federally insured entities, are now subject to extended Bank Secrecy Act (BSA) and AML requirements. The mandates, effective since March 15, 2021, aim to fortify AML practices within these institutions. Here's a simplified breakdown:

Utilizing Existing Resources

Entities under the new rule can use existing policies, procedures, and controls for compliance in credit unions, and those already following BSA policies should ensure alignment.



Program Mandates

Non-federally insured credit unions must establish a BSA/AML program approved by their board. This program should encompass the key pillars stated in the [BSA/AML Manual](#):

- 1 A system of internal controls to assure ongoing compliance;**
- 2 Independent testing for compliance to be conducted by bank personnel or by an outside party;**
- 3 Designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance (BSA compliance officer); and**
- 4 Training for appropriate personnel.**



Who Oversees AML Rules and Regulations for Credit Unions?

The National Credit Union Administration (NCUA) makes sure credit unions have programs in place to prevent money laundering and terrorist financing. They do this by making sure credit unions follow the Bank Secrecy Act (BSA). The following agencies also play a role:



Financial Crimes Enforcement Network (FinCEN)

This agency, part of the US Treasury, enforces the BSA. Credit unions must follow FinCEN's rules and guidance.



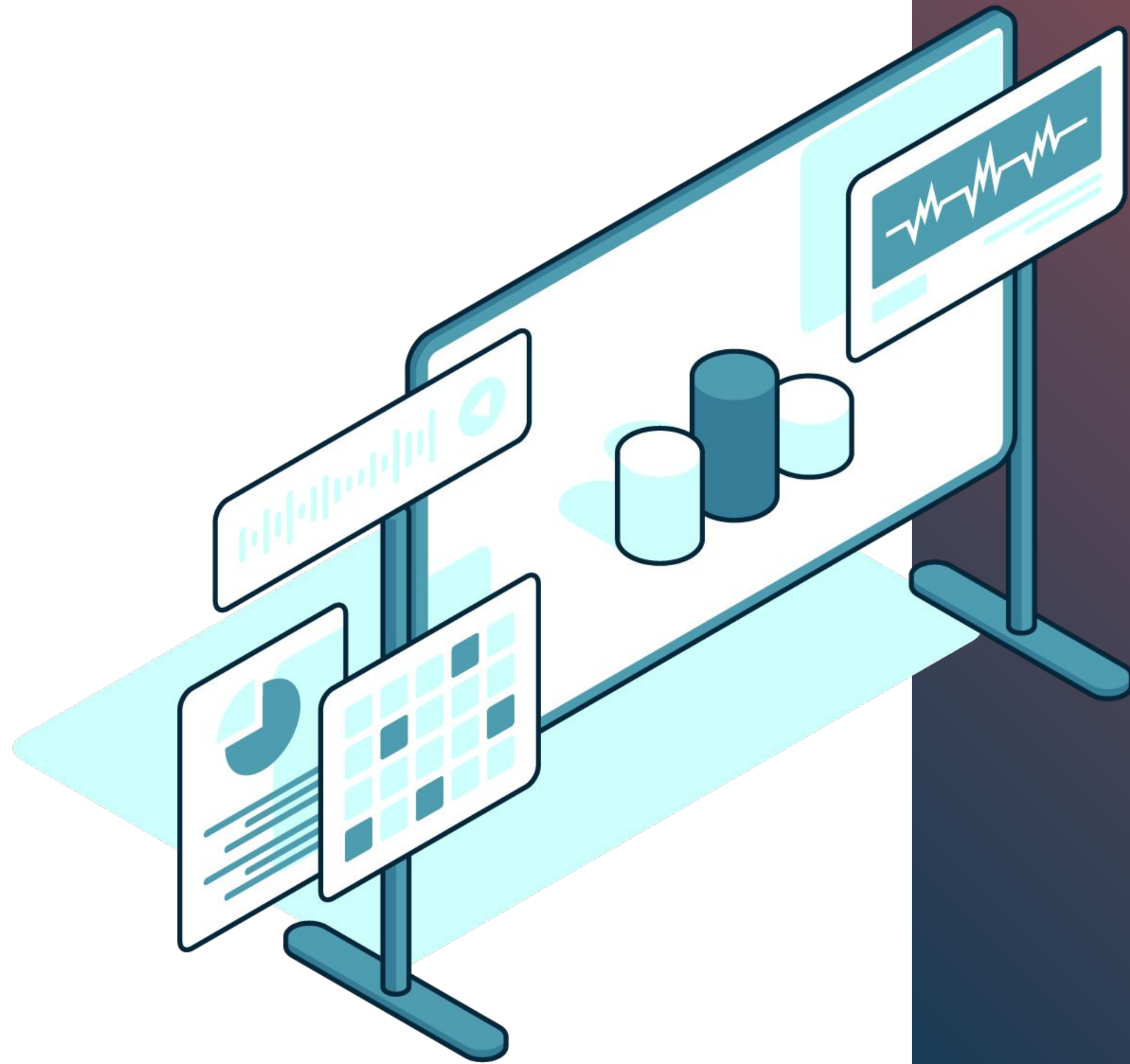
Federal Financial Institutions Examination Council (FFIEC)

This group issues joint statements on AML/CFT requirements. These statements apply to both banks and credit unions.



Securities and Exchange Commission (SEC)

The SEC regulates AML reporting requirements, which credit unions must follow.



Member Due Diligence

Understanding member relationships and potential transactions is crucial for developing a member risk profile, aiding in the identification of suspicious transactions.

Information for Risk Assessment

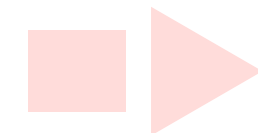
Establishing a baseline using member information helps credit unions identify and report suspicious transactions, including account types and transaction patterns.

Risk Assessment Link to the BSA/AML Compliance Program

Risk Assessment

Identify & Measure Risk:

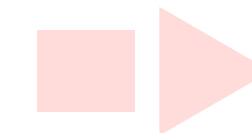
- Products
- Service
- Customer
- Geographic locations



Internal Controls

Develop Applicable:

- Policies
- Procedures
- Systems
- Controls



Result

Risk-Based BSA Compliance Program:

- Internal controls
- Audit
- BSA compliance officer
- Training

Source: Bank Secrecy Act/Anti-Money Laundering InfoBase BSA/AML Manual. [FFIEC](#)

Updating Information and Ongoing Monitoring

Ongoing monitoring and selective updates of member information are triggered by event-driven indicators, enhancing credit unions' efficiency.



Integration into Monitoring Systems

Ideally, member information and transaction activity should integrate into automated monitoring systems.



Importance of AML Compliance for Credit Unions

Despite assertions of familiarity with customers, credit unions, like larger counterparts, must adhere to proper Customer Due Diligence (CDD) and periodic reviews to mitigate AML risks.



Adapting to Expectations

Smaller financial institutions, including credit unions, are adapting to meet the standards set for larger counterparts, emphasizing the need for effective policies, procedures, and internal controls to ensure regulatory compliance and minimize AML risks.

Risks & Money Laundering in Credit Unions

Credit unions are not immune to money laundering or terrorist financing risks. Compliance with ML Regulations, the Proceeds of Crime Act (POCA), and the Terrorism Act is paramount. Establishing robust monitoring procedures is essential, with particular attention to activities carrying higher inherent risks, including:

Money transfers to third parties

Large one-off transactions

Unusual loan or savings transactions

Reluctance to provide identity documentation during account opening, considering financial exclusion issues.



In navigating these risks, credit unions must remain vigilant and continually refine their procedures to align with evolving regulatory expectations and emerging threats.

Compliance in Credit Unions

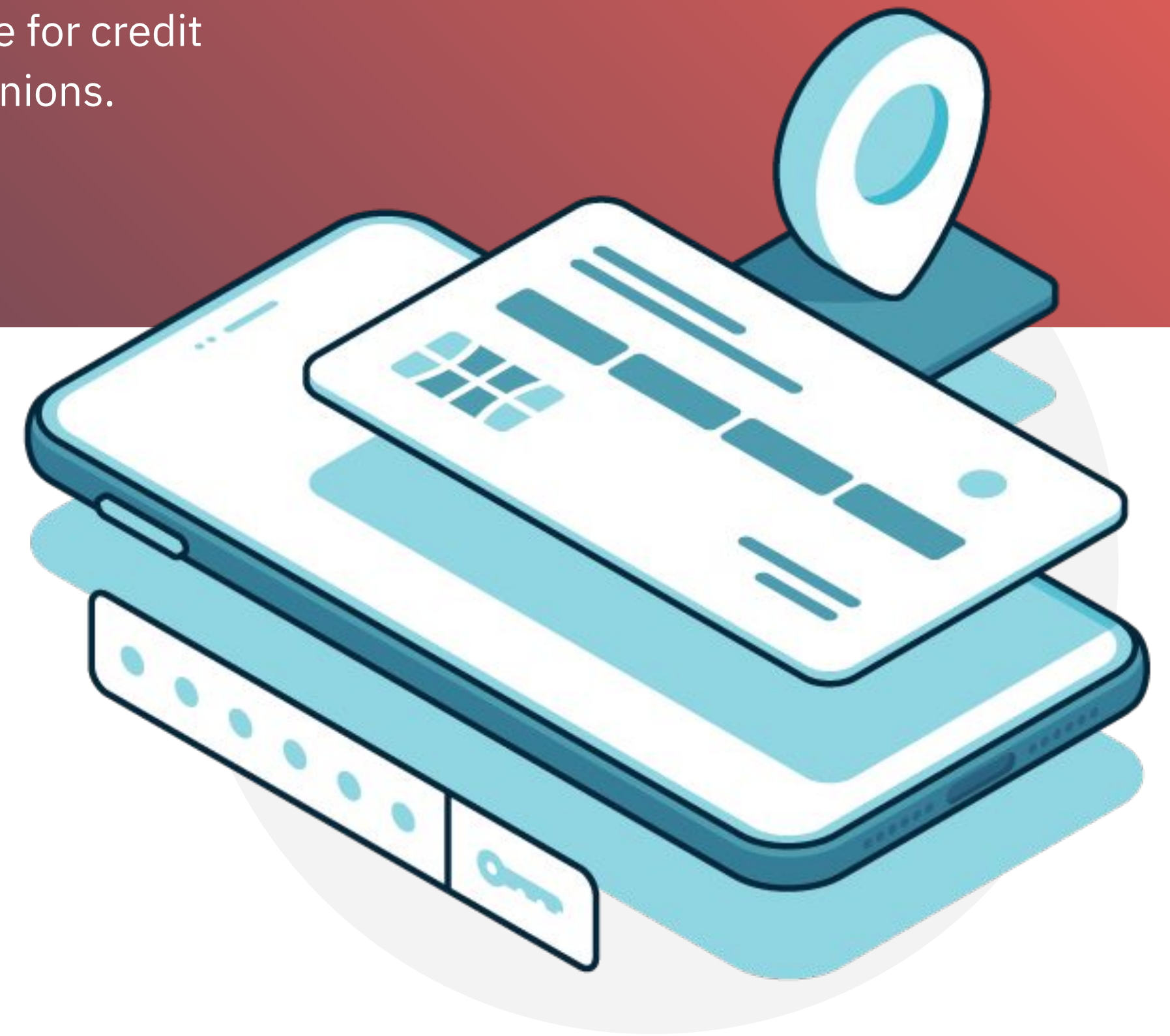
As credit unions navigate the ever-evolving financial landscape, compliance stands as a cornerstone in maintaining regulatory adherence and fostering trust. Understanding the types of compliance for credit unions, the consequences of non-compliance, and the associated costs is pivotal for credit unions.

Types of Compliance in Credit Unions

Credit unions engage in various compliance types to ensure their operations align with regulatory standards. These include:

Risk Assessment and Management

Identifying and evaluating inherent risks, implementing effective controls, and evaluating residual risks are crucial. Credit unions actively manage risks to prevent issues similar to those highlighted by the 2008 financial crisis. This ultimately led to the failure of Nineteen consumer-owned credit unions and a loss of \$232 million to the National Credit Union Share Insurance Fund.





Types of Compliance in Credit Unions continued...

Tax Evasion Prevention

AML compliance teams develop KYC and KYB policies to verify the legitimacy of clients, preventing unethical accounting practices related to tax evasion.

Anti-Money Laundering

Credit unions monitor and analyze transactions to detect and prevent fraudulent money moves, ensuring that funds come from legitimate sources.

Data Security

Protection of sensitive information is paramount. Credit unions safeguard data to prevent unauthorized access and protect members from identity theft or other forms of manipulation.

Consumer Protection Compliance

Compliance with consumer protection laws ensures fair and transparent treatment of members. Clear disclosures, fair terms, and prompt resolution of complaints build trust with members.

Internal Controls

Beyond legal and regulatory obligations, compliance teams enforce ethical codes, train employees on internal controls, and establish systems to report potential ethics breaches, fostering a culture of compliance within the credit union.

Consequences of Non-Compliance for Credit Union

Understanding the repercussions of not adhering to regulations is vital for credit unions. Failure to follow required rules and laws can lead to specific consequences for credit unions:

1

Compromised Operations

Without proper controls, credit unions are more susceptible to theft of money or sensitive information, disrupting their operations. This vulnerability may arise from external attacks or internal abuse by employees within the credit union.

2

Regulatory Fines

Governments and regulatory bodies can impose fines on non-compliant credit unions to discourage such behavior and set an example for others.

3

Civil Liability

Non-compliance exposes credit unions to civil litigation, particularly for inadequate protection of consumers' assets.

6

Loss of Consumer Confidence

Non-compliance damages the trust that members have in a credit union's ability to manage their finances. This erosion of confidence may lead members to switch to other credit unions or, in extreme cases, trigger a run on the credit union.

5

Sanctioning

Credit unions involved in dangerous activities due to non-compliance may face sanctions or even complete shutdowns. Rebuilding customer bases becomes challenging, especially if they cater to an international clientele.

4

Criminal Liability

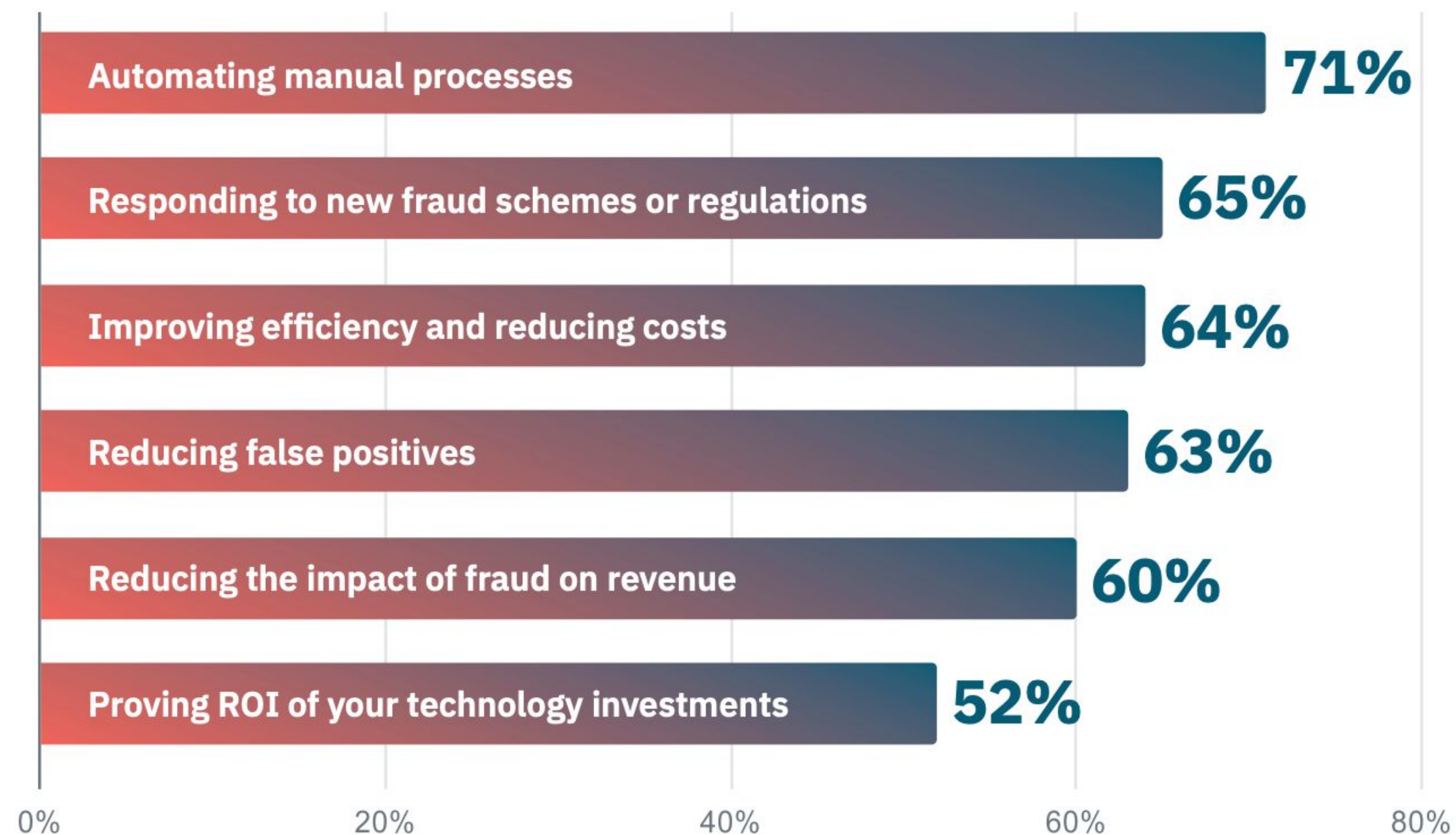
Complicity in financial crime due to non-compliance can lead to criminal liability for the leadership group of a credit union. Stricter regulatory monitoring or potential loss of industry-required licensing may follow.

The Costs of Compliance in Credit Unions

For credit unions, meeting regulatory requirements demands a commitment of resources to establish and sustain the necessary infrastructure. This includes investments in technology, personnel, training programs, and regular audits. The aftermath of financial crises has led to more stringent and intricate regulations.

Reflecting the importance of cost-effectiveness, our recent [State of Fraud and AML report](#) found that 64% of respondents prioritized enhancing efficiency and reducing the costs associated with fraud and compliance programs.

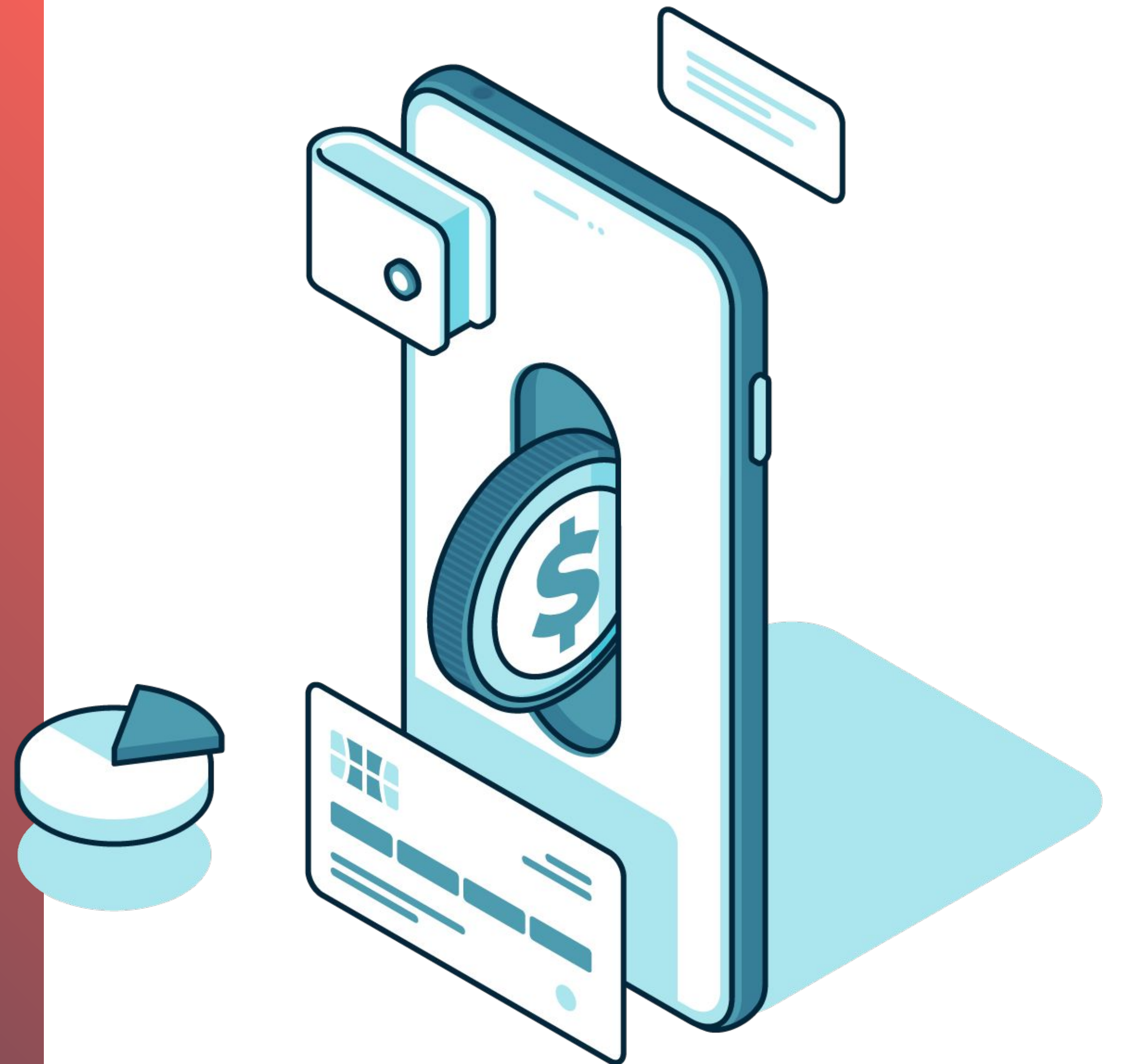
Important Objectives for Risk & Compliance Teams in the Next 12 Months



Source: State of Fraud and AML Report. [Unit21](#)

Despite the financial strains, some credit unions may have attempted to take shortcuts in compliance, hoping to avoid significant costs. However, regulatory authorities impose substantial financial penalties for non-compliance.

A report from [Fenergo](#) reveals that fines related to non-compliance with financial services regulations reached **\$4.17 billion in 2022**. Globally, enforcement actions for AML-related compliance breaches surged by **52%** compared to the previous year. This emphasizes the financial impact of neglecting compliance for credit unions, making it clear that the cost of non-compliance often far outweighs the initial investment in robust compliance programs.



Unit21's Tailored Solutions for Credit Unions

Unit21 provides FIs with a comprehensive and customizable solution for fraud prevention and AML compliance. We offer a range of features and capabilities to address the unique requirements of the credit union industry.

API Innovation

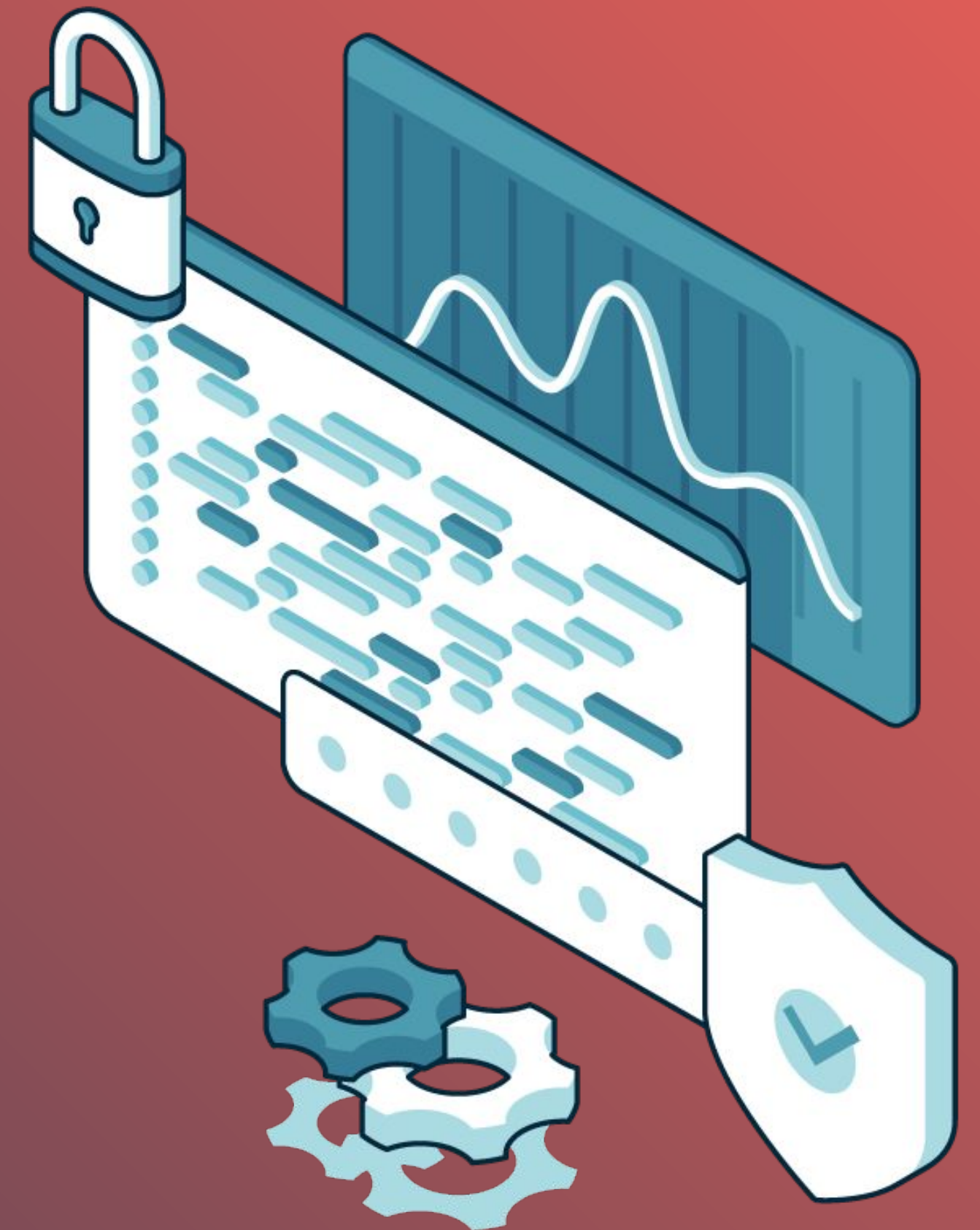
Unlike conventional systems, Unit21's APIs enable real-time communication, providing credit unions with dynamic alerts based on specific time frames. This flexibility enhances user control and moves away from rigid daily schedules, empowering credit unions in risk and compliance management.

Seamless Data Integration

Unit21 seamlessly integrates with core banking systems like Jack Henry, Fiserv, and Correlation. This ensures a unified view of critical information, minimizing data silos. Its adaptable file ingestion capabilities eliminate the need for extensive coding efforts, accommodating various data formats used by credit unions.

Omnichannel Monitoring

Unit21 goes beyond traditional monitoring by assessing risk factors across all credit union touchpoints, including mobile banking, in-branch interactions, and ATM transactions. This comprehensive approach enables credit unions to proactively address potential risks throughout the customer journey, enhancing risk management strategies.



Best Practices for Credit Union Risk & Compliance

Embracing robust risk management, regulatory adherence, and proactive fraud prevention are vital for credit unions. Solutions like Unit21 offer a tailored infrastructure, ensuring real-time monitoring, customization, cost-effectiveness, and user-friendly interfaces.

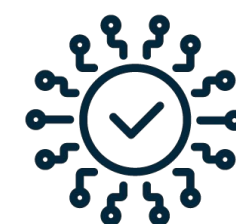
A tech-led, proactive approach to Risk & AML Compliance safeguards customer trust and organizational integrity.

Unit21's flexible no-code system



\$2.7 trillion

transactions processed annually



\$4.3 billion

prevented fraud attempts



35 million

users monitored Fraud DAO consortium



<250ms

of latencies

Unified against financial crime, Unit21 empowers teams with expert data analysis and adaptive risk engines. In 2023, we monitored 4 billion transactions, handled 28,000 suspicious reports, and prevented \$4.3 billion in fraud. Join Unit21 for a tailored demo and let's combat financial crime together.