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Banks can manage anti-laundering risk from charities, 'de-risking' of sector must stop, experts say

Jun 26 2019 Brett Wolf, Regulatory Intelligence

Banks should assess the money laundering and terror-finance risks posed by charities on an individual basis and not simply "de-risk" by refusing to serve any nonprofits that need to move funds to other countries, experts said on Tuesday in describing a new report that outlines compliance best practices for serving nonprofit organizations (NPOs).

Likewise, charitable organizations should be as transparent as possible with their banks regarding the people they serve around the world, and keep their bankers aware of any anticipated changes in transaction patterns, the experts said in a webcast.

The issue is one of financial inclusion, and lives hang in the balance, they said. It comes as U.S. regulators prepare to update guidelines for examining bankers for anti-money laundering compliance.

"That point cannot be stated enough -- communication and understanding. If (the bank) knows what the patterns are, they're not going to be considered suspicious," John Byrne, vice chairman of the consultancy AML RightSource, said during the webcast.

A nonprofit organization, or NPO, should have a continuing dialogue with a bank relationship manager, which can prevent a financial institution from mistaking regular transactions for something suspicious and potentially linked to illicit activity.

"When (a nonprofit) organization has a big fundraiser, the next day, or the next week, they're needing to make a huge amount of cash deposits. The onus is really on the nonprofit in these instances to let the financial institution know ahead of time that an uptick or different pattern (of transactions) is coming," said Andrea Hall, policy counsel at the Charity & Security Network (C&SN), a lobby group for non-profit organizations.

"There may be a board meeting coming up where the board will approve all the projects for the coming year, and after that you will see an uptick in wire transfers to various countries. The nonprofit needs to let the financial institution know ahead of time what the anticipated projects are, which countries will be involved and how much money will need to be transferred," she said.

The webcast was held to announce the release of a document titled Banking NPOs – The Way Forward.

The document was developed by the so-called Consortium for Financial Access, a partnership of charities, financial institutions and others who came together several years ago to address a growing inability of charities to obtain banking services.

After the attacks of September 11, 2001, U.S. bank regulators stepped-up pressure on financial institutions to combat risks

associated with charities of funds being funneled to people and organizations with ties to terrorism. Many banks responded by severing ties to charities, in some cases by refusing to serve the sector altogether as part of a process that has come to be known as "de-risking."

"Unfortunately, in many cases, financial institutions may decide to simply stay out of a certain line of business… because they don't know that they have the ability to manage risk successfully in terms of the regulator's view," Byrne said.

The Consortium for Financial Access, whose report has not been officially endorsed by U.S. regulators, is seeking to alleviate a perception that nonprofit entities cannot be good bank customers.

"We're trying to give practical advice to both sides – to the NPOs and to the financial sector – so that they better understand each other and the financial sector stays away from blanket de-risking," Byrne said. "We want you to read the document, utilize it, and give us your thoughts throughout the process."

For instance, the report suggests that the due diligence that a bank performs on a nonprofit should be similar what it conducts on any customer, and adds that only "trusted and reliable" sources should be used.

"Should (a financial institution) encounter negative information on an NPO that seems contrary to the (institution's) understanding of the NPO, the (institution) should engage with the NPO to discuss the contrary information and assess its accuracy," it states.

Both Byrne and Hall said the stakes are too high for banks to simply refuse to move money for nonprofit groups.

It is important to remember that when nonprofits are unable to send funds to people in need around the world, "lives are lost," Hall said.

U.S. regulators this year are expected to issue an updated Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act/Anti-Money Laundering Manual, the template examiners with all the U.S. federal banking agencies use to supervise for AML compliance.

Byrne said he hopes that the updated manual will include additional guidance regarding the management of risk associated with nonprofit entities.

(By Brett Wolf, Regulatory Intelligence, St. Louis)