

# Bank Secrecy Act (BSA) & Anti-Money Laundering (AML)

Distributor Training



# Legal Disclaimer: Netspend BSA/AML Training

- This training is designed to provide a general education to agents and distributors about detecting and preventing money laundering, terrorist financing, and other financial crimes related to Netspend card programs and services.
- This training is intended for general education purposes and nothing in this training should be considered to be legal, accounting, or tax advice.
- If you have specific questions of a legal, accounting, or tax nature that are related to this training, please consult your institution's attorney, accountant, or tax professional.

# What We Will Cover Today

After completing this training, you will be better prepared to:

- Understand your requirement to take this training
- Explain the background and purpose of the Bank Secrecy Act (BSA)
- Understand Customer Identity Program (CIP) requirements and when to obtain or verify customer identity
- Understand the purpose of the Office of Foreign Assets Control (OFAC) and penalties for noncompliance
- Understand basic money laundering and terrorist financing activity
- Recognize common “red flags” for money laundering
- Recognize common “red flags” for elder abuse
- Know when to report suspicious activity
- Understand the purpose of Currency Transaction Reports (CTRs)
- Comply with state posting requirements
- Provide guidance on what to do during examiner visits to your store

# Bank Secrecy & Anti-Money Laundering Training

**Objective:** To ensure agents and distributors of Netspend card programs and services comply with the Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) requirements and prevent Netspend products, programs, and services from being used to conduct or support illegal activities

## Annual BSA/AML Training Requirement

As an agent and/or distributor of Netspend products and services, you are required to complete this ongoing training on BSA/AML requirements and must ensure your employees are trained on these requirements on a regular basis. You must maintain training documents and records confirming the completion of this training for at least 5 years from the original date of training.

## Distributor Risk and Compliance Guidelines

As part of its AML Program, Netspend provides its agents and distributors Risk and Compliance Guidelines to implement at each location where Netspend products are distributed. The Risk and Compliance Guidelines and Netspend BSA/AML training materials are always available for review at the following website:

<https://www.netspend.com/compliance-guidelines>

**Important:** As an agent and distributor of Netspend products, you are required to implement and maintain a current copy of the Risk and Compliance Guidelines at each location where Netspend products are distributed.

# Non-Bank Financial Institution (NBFI)

Non-Bank Financial Institutions are entities other than banks that offer financial services. Examples include:

- Money service businesses (MSBs), such as check cashing stores and money transmitters like Western Union or MoneyGram
- Casinos
- Insurance companies
- Pawnbrokers
- Loan or finance companies

Netspend is non-bank financial institution, and you are a non-bank financial institution.

Some NBFIs, such as MSBs, are subject to the full range of BSA requirements as a bank institution to include:

- Customer Identification Program (CIP)
- Suspicious Activity Reporting (SAR)
- Currency Transaction Reporting (CTR)
- Recordkeeping requirements

You may work for an NBFI that **may or may not be** subject to these requirements; however, as an agent or distributor of Netspend products and services, you have a responsibility to help detect and deter money laundering and terrorist financing activities for compliance with the Bank Secrecy Act (BSA).

- Failure to comply with BSA/AML regulations may lead to civil and criminal penalties, including jail time.

# Bank Secrecy Act



The Bank Secrecy Act (BSA) assists law enforcement in investigating and prosecuting cases of money laundering, terrorist financing, and other financial crimes.

It mandates recordkeeping and reporting to help identify the source, volume, and movement of currency and other monetary instruments in or out of the United States and deposited into financial institutions.

To accomplish its objective, the BSA requires financial institutions and some non-bank financial institutions (NBFIs), such as money service businesses (MSBs), to:

- Formally establish and implement an anti-money laundering (AML) program
- Properly identify persons conducting transactions
- File Suspicious Activity Reports (SARs)
  - For transactions totaling \$2000.00 or more within 30 days from the date the suspicious transaction is detected
- File Currency Transaction Reports (CTRs)
  - For cash transactions totaling more than \$10,000.00, conducted by a person in one day, within 15 calendar days from the date of the transaction
- Maintain appropriate records of financial transactions for 5 years

# Netspend's Anti-Money Laundering (AML) Program

As part of the BSA requirement, Netspend's AML program is in writing and includes:

- Designated Compliance Officer
- Established internal controls
- Risk-based procedures to conduct ongoing customer due diligence
- Ongoing training of Netspend employees, distributors, and agents
- Independent review to test the program controls

# BSA & Government Agencies

## Government Agencies Responsible for Enforcement of BSA Regulations

### The US Department of Treasury

The administrator of the BSA is the US Department of Treasury.

### Federal Agencies

The federal agencies responsible for oversight of financial entities operating in the US with the authority to enforce BSA compliance include:

- Internal Revenue Service (IRS)
- Financial Crimes Enforcement Network (FinCEN)
- Consumer Financial Protection Bureau (CFPB)
- Federal Reserve Board (FRB)
- Office of the Comptroller of the Currency (OCC)
- National Credit Union Administration (NCUA)
- Federal Deposit Insurance Corporation (FDIC)

### Financial Crimes Enforcement Network (FinCEN)

FinCEN issues regulations and interpretive guidance, supports the federal financial agency examination functions, and pursues enforcement actions.





# BSA Statutes & Requirements

## **The Money Laundering Control Act 1980**

Imposes criminal liabilities on financial institution that knowingly assist in money laundering activities

## **The Suspicious Activity Report (SAR) 1996**

Requires financial institutions to report known or suspected criminal violations of federal law or suspicious transactions related to money laundering or BSA violations

## **The Annunzio-Wylie Anti-Money Laundering Act 1992**

Strengthens the sanctions for BSA violations and the role of the US Treasury in combating money laundering

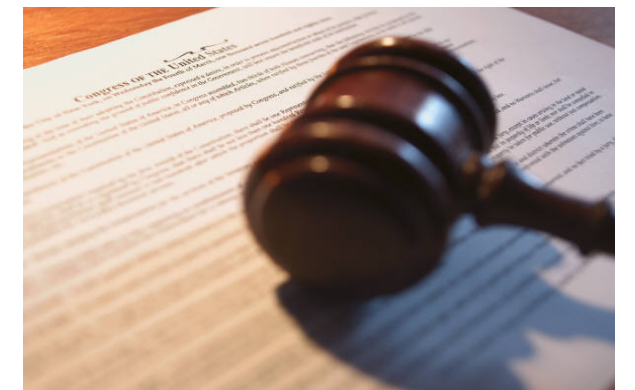
## **The USA PATRIOT Act 2001**

### **Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001**

Criminalizes the financing of terrorism and strengthens customer identification requirements

## **BSA: Customer Due Diligence (CDD) Requirements Final Rule 2016**

Requires financial institutions to identify and verify the identity of beneficial owners of legal entity customers, subject to certain exclusions and exemptions; effective July 11, 2016 for compliance by May 11, 2018



# Customer Identification Program (CIP), Know Your Customer (KYC)

Under the USA PATRIOT Act, the US implemented the Customer Identification Program (CIP) requiring financial institutions to verify the identity of individuals using their services to conduct financial transactions. In addition, financial institutions must conduct a risk assessment of their customers and service offerings.

## To Open An Account:

Netspend agents and distributors who operate in a non-retail environment, such as a check cashing store, must collect the following information from the customer:

- Legal name
- Date of birth
- Residential street address (P.O. Box is not allowed)
- Identification Number

## Identification Number

For US citizens:

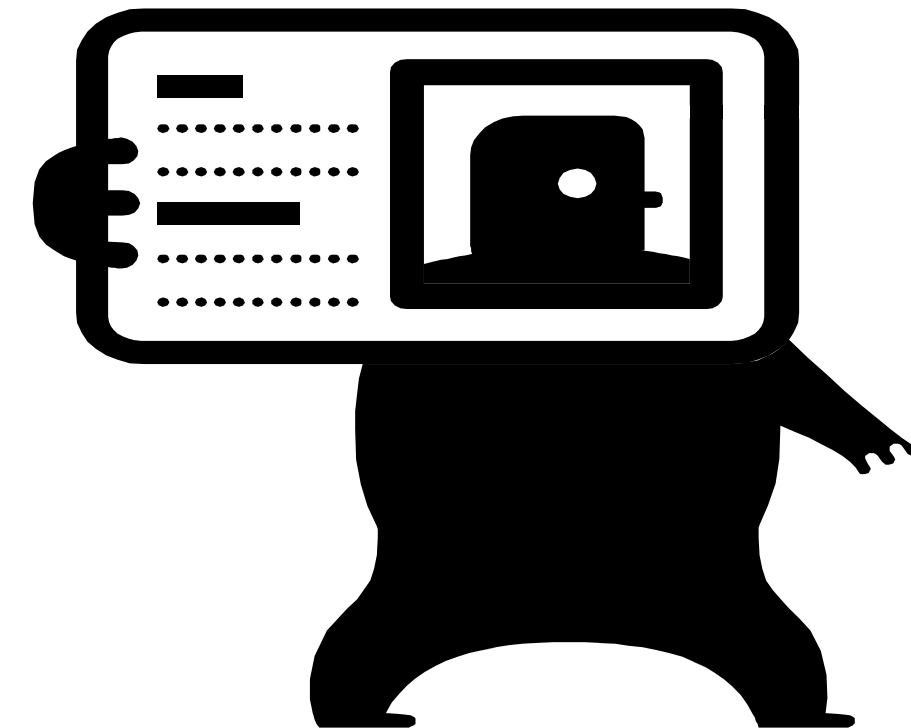
- Taxpayer identification number (TIN), such as a Social Security Number (SSN)

For non-US citizens, any of the following will suffice:

- Taxpayer identification number (TIN), such as a Social Security Number (SSN)
- Passport number and country of issuance
- Number and country of issuance of any government-issued photo ID

**Note: If the customer has a foreign ID, you (or the customer) will need to send copies of the ID to Netspend.**

Netspend will complete the CIP verification process and screen customers against high-risk databases and government sanctions lists.



# Customer Identification Program (CIP) Recordkeeping

## CIP Recordkeeping Requirements

Financial institutions must keep and maintain accurate and detailed records of the information collected and used to verify the individual's identity for a period of up to 5 years.

## Penalties for Noncompliance

Financial institutions that do not follow these rules are subject to criminal and civil penalties.

## Recordkeeping Requirements for Various States

Arizona, Oklahoma, and New Mexico have additional CIP recordkeeping requirements; these states require additional information for transactions of \$1000.00 or more.

Required Identifying Information		
Arizona	Oklahoma	New Mexico
<ul style="list-style-type: none"><li>• The Legal Name of the Customer</li><li>• Customer's Social Security Number or Taxpayer Identification Number, if any</li><li>• Customer's ID Type and ID Number</li><li>• Customer's current Occupation</li><li>• Customer's current Residential Address</li><li>• Customer's Signature</li></ul>	<ul style="list-style-type: none"><li>• The Legal Name of the Customer</li><li>• Customer's Date of Birth</li><li>• Customer's current Residential Address</li><li>• Customer's ID Type and ID Number</li></ul>	<ul style="list-style-type: none"><li>• The Legal Name of the Customer</li><li>• Customer's Social Security Number or Taxpayer Identification Number, if any</li><li>• Customer's ID Type and ID Number</li><li>• Customer's current Occupation</li><li>• Customer's current Residential Address</li><li>• Customer's Signature</li></ul>

# Customer Due Diligence (CDD)

## FinCEN's Final Rule on Beneficial Ownership and Customer Due Diligence

The CCD Final Rule stipulates that *covered financial institutions* must implement due diligence procedures that identify and verify a *legal entity customer's* beneficial owner(s) at the time a new account is opened.

Covered financial institutions include:

- Banking institutions
- Securities-broker dealers
- Futures commission merchants
- Introducing brokers in commodities and mutual funds

A legal entity customer is defined as any corporation, limited liability company, general partnership, or any other entity that is required to file a public document with a Secretary of State or similar office.

The following legal entity customers are excluded from the CDD Final Rule:

- Banking organizations
- Entities that have common stock listed in the New York, American, or NASDAQ stock exchanges
- SEC-registered investment companies and advisers
- CFTC-registered entities
- State-regulated insurance companies
- Legal entities with private banking accounts subject to FinCEN rules

# Customer Due Diligence (CDD)

## FinCEN's Final Rule on Beneficial Ownership and Customer Due Diligence, continued

### **Beneficial Owner**

Under the CDD Final Rule, there are two types of beneficial owners:

- Ownership prong - any natural person who owns, directly or indirectly, 25% or more of the equity interests of the legal entity customer
- Control prong- any individual with significant responsibilities that include controlling, managing, or directing the legal entity customer (typically the CEO, Vice President, CFO, Treasurer, etc.)

### **Netspend's Responsibilities Under the CDD Final Rule**

Netspend's Compliance Department has implemented procedures to identify and verify the identity of beneficial owners of each legal entity who is opening a new account or maintaining a business relationship with Netspend.

During the course of your relationship with Netspend, your business may be asked for beneficial owner information in order for Netspend to conduct ongoing customer due diligence.

# Office of Foreign Assets Control (OFAC)

The Office of Foreign Assets Control (OFAC):

- Enforces economic and trade sanctions against individuals, entities, and foreign governments with interests hostile to the United States
- Publishes a list that identifies those parties with whom transactions are prohibited

The Department of the Treasury updates the OFAC list as necessary, and it includes those suspected of:

- Terrorist financing
- Money laundering
- Narcotics trafficking
- Other crimes
- Governments or organizations with interests hostile to the US

OFAC rules require institutions and their employees to:

- Identify any property or transaction subject to economic sanctions
- Block or reject the transaction
- Freeze an account
- Advise OFAC of the blocked asset or rejected transaction
- Take actions as directed by OFAC
- Release the blocked transaction or property only with OFAC's authorization

# OFAC Noncompliance

Failure to comply with OFAC regulations can lead to severe civil and criminal penalties, including jail time. Additional risks include:

- Charter forfeiture or loss of insured status
- Monetary losses resulting from asset forfeiture actions and fines
- Substantial legal fees
- Reputational damage and negative publicity

# Financial Crimes & Money Laundering

The BSA/AML rules are intended to protect the U.S. financial system and the financial institutions that make up that system from the abuses of financial crimes, such as money laundering, terrorist financing, and other illicit transactions.

Both money laundering and terrorist financing involve criminals exploiting loopholes and weaknesses in the legitimate financial system to launder criminal proceeds, finance terrorism, or conduct other illegal activities, and ultimately hide the actual purpose of their activity.

## Money Laundering

Money laundering is the criminal practice of filtering money obtained from illegal activities through a series of transactions so the funds are 'cleaned' to appear as though they came from legitimate activities. It involves three independent steps that may occur simultaneously:

- Placement
- Layering
- Integration





# Money Laundering Cycle

## The 3 Stages

### Stage 1: Placement

The money launderer *introduces* the illegal proceeds into the financial system.

Example: The funds are placed into circulation through financial institutions, casinos, and shops.

### Stage 2: Layering

The money launderer *converts* the proceeds of crime into another form and creates layers of financial transactions to disguise the audit trail, source, and ownership of the funds.

Example: Wire transfers are sent from one account to another.

### Stage 3: Integration

The money launderer *uses* proceeds in normal transactions to create the perception of legitimacy. This stage provides the launderer the opportunity to increase his wealth with the proceeds of crime.

Example: Funds are invested in real estate, financial ventures, or luxury assets.

# Terrorist Financing

## Financial Crimes

Terrorist financing provides funds for terrorist activity.

It may involve funds raised from legitimate sources, such as:

- Charitable donations
- Foreign government sponsors
- Business ownership
- Personal employment

Or, it may involve funds raised from criminal sources, such as:

- Extortion and/or kidnapping
- Narcotics
- Trafficking and/or smuggling
- Fraud
- Robbery and/or theft
- Use of conflict diamonds
- Improper use of charitable or relief funds



# Detecting Suspicious Activity

## Examples of Suspicious Customer Behavior

You must remain on the lookout for potential suspicious behaviors or 'red flags' and follow your store's procedures on how to handle.

### Potential Red Flags/Suspicious Customer Behavior

- Customer tries to provide an ID that is not theirs
- Customer attempts to conduct transactions on multiple accounts
- Customer declines to produce original documents for verification, when required
- Customer asks questions about how to avoid reporting requirements
- Customer threatens an employee to avoid reporting requirements
- Customer abruptly withdraws a transaction
- Customer refuses to proceed with a transaction, when additional information is requested
- Customer requests to load funds when they are not present\*

Remain alert and report to Netspend any requests to load Netspend cards that are made by phone or email.

- All loads to Netspend cards must be performed in person, in exchange for cash/debit ONLY.
- Do not load any Netspend card over the phone, without the funds present.
- Netspend will never call you to load funds to a card as a 'test'.

**IMPORTANT:** The presence of a single 'red flag' is not, by itself, evidence of criminal activity; however, closer review of any red flag will help determine whether it is suspicious or not.

# Suspicious Activity Reporting (SAR)

## Definitions & Legal Requirements

### Suspicious Activity Report (SAR)

Suspicious activity reports must be electronically filed with the Financial Crimes Enforcement Network (FinCEN) following a suspected incident of money laundering or fraud.

- Required under the Bank Secrecy Act (BSA) of 1970
- Must be kept confidential; do not disclose to anyone that a SAR has been filed

### SAR Goals

- Report known or suspected violations of law or suspicious activity observed subject to the regulations of the Bank Secrecy Act
- Help the federal government identify individuals, groups, and organizations involved in fraud, terrorist financing, money laundering, and other financial crimes

### MSB Filing Requirements

If your institution is a money service business, then you are responsible for filing your own SARs.

- Refer suspicious activity to Netspend without indicating whether your institution filed a SAR

### SAR Filing Deadlines

- Must be reported and filed within 30 days of the initial detection of the suspected violation of law or suspicious activity
- 30-day extension may be granted, if the identity of the person conducting the suspicious activity is unknown

### SAR Recordkeeping

- Must keep a copy of the SAR and original or business record of supporting documentation used to file the SAR for 5 years

# Report Suspicious Activity & Suspected Fraud

## Duty to Report

It is the responsibility of the agent, or distributor, to monitor financial transactions at their stores for any suspicious activity. If a customer demonstrates suspicious activity, you must:

### Write Down the Details About the Activity

- Who was suspicious? Was it a new customer, returning customer, etc.?
- What was unusual about the transaction or the customer's behavior?
- How was the card purchased or load made?
- When and at what location did the activity occur?

### Report the Activity to the Netspend Compliance Department

- Complete the Unusual/Suspicious Activity Referral form: [https://www.netspend.com/account/pdf/DRF\\_Form.pdf](https://www.netspend.com/account/pdf/DRF_Form.pdf) OR
- Contact the Netspend Compliance Department at 1.866.914.7224 (p); 512.539.5839 (f); [compliance@netspend.com](mailto:compliance@netspend.com)

Do not inform the customer involved that any suspicious activity has been or will be reported to Netspend, or to FinCEN via a SAR report.

# Netspend Actions for Suspicious Activity & Suspected Fraud

## Duty to Investigate

Once the unusual or suspicious activity is reported to Netspend, we will:

- Review the cardholder's account to determine whether the activity is truly suspicious and requires additional reporting
- Provide your business with feedback on the results of the investigation, as applicable

**Remember:** SAR filings are confidential. Netspend will not tell you whether a SAR has been filed.

# Elder Abuse

## Exploitation of Older Adults

The National Center on Elder Abuse (NCEA) defines elder abuse as the illegal or improper use of an older adult's funds, property or assets (i.e. financial exploitation). Financial exploitation is the most common form of elder abuse and only a small fraction on incidents are reported.

### **Detecting Elder Abuse**

You may become aware of individuals conducting illicit activity or scams against the elderly through direct interactions with elderly customers who are being exploited. Branch or store personnel familiarity with specific victim customers may lead to the identification of unusual activity that initiates a review of the customer transactions. In addition, monitoring transaction activity that is inconsistent with the expected behavior may help you detect potential elder abuse.

### **FinCEN Guidelines on Elder Abuse**

FinCEN provides a list of potential red flags that may be indicative of illicit activity against elders; these should be evaluated with other red flags and expected transaction activity conducted by or on behalf of the elder. Additional investigation and analysis may be necessary to determine whether the activity is suspicious.

You play a key role in preventing elder financial abuse and have a duty to report suspected elder financial exploitation.

# Potential Red Flags for Elder Abuse

## Examples of Suspicious Customer Behavior Indicative of Potential Elder Abuse

### **Erratic or Unusual Purchases/Transactions or Changes in Account Patterns**

- Frequent large withdrawals, including daily maximum currency withdrawals from an ATM
- Sudden non-sufficient funds activity
- Uncharacteristic nonpayment for services, which may indicate a loss of funds or access to funds
- Debit transactions that are inconsistent for the elder
- Uncharacteristic attempts to wire large sums of money
- Closing accounts without regard to penalties

### **Interactions with Customers or Caregivers:**

- Caregiver or other individual shows excessive interest in the elder's finances or assets, does not allow the elder to speak for himself, or is reluctant to leave the elder's side during conversations
- Elder shows an unusual degree of fear or submissiveness toward the caregiver or expresses fear of eviction or nursing home placement, if the money is not given to a caretaker
- Financial institution is unable to speak directly with the elder, despite repeated attempts to contact him or her
- New caretaker, relative, or friend suddenly begins conducting financial transactions on behalf of the elder without proper documentation
- Elder moves away from existing relationships and toward new associations with other friends or strangers
- Elder's financial management changes suddenly, such as through a change of power of attorney or a different family member or individual
- Elder lacks knowledge about his or her financial status or shows a sudden reluctance to discuss financial matters



# Report Elder Abuse

## Duty to Report

If you suspect elder financial exploitation, REPORT IT IMMEDIATELY, to the following agencies:

- Local law enforcement
- Local Adult Protective Services (APS) [www.eldercare.gov](http://www.eldercare.gov)
- FinCEN, via your internal SAR process, as applicable

**Note:** Your state may have additional reporting requirements.

### Report the Activity to the Netspend Compliance Department

- Complete the Unusual/Suspicious Activity Referral form: [https://www.netspend.com/account/pdf/DRF\\_Form.pdf](https://www.netspend.com/account/pdf/DRF_Form.pdf) OR
- Contact the Netspend Compliance Department at 1.866.914.7224 (p); 512.539.5839 (f); [compliance@netspend.com](mailto:compliance@netspend.com)

Do not inform the customer involved that any suspicious activity has been or will be reported to Netspend, or to FinCEN via a SAR report.

# Currency Transaction Report (CTR)

## Currency Transaction Report (CTR)

A currency transaction report (CTR) is a form required to be completed by financial institutions under the Bank Secrecy ACT (BSA) to combat money laundering and other crimes.

## CTR Filing Requirements

A CTR must be completed for each deposit, withdrawal, exchange of currency, or a physical transfer of currency of more than \$10,000.00 conducted by, or on behalf of, one person, in a single day.

- **Currency** is coin and paper money of the United State, or any other country, which is circulated and customarily accepted as money.
- **Physical transfer of currency** does not include a transfer of funds by means of a bank check, bank draft, traveler's check, or wire transfer.

## CTR Filing Deadlines

- Must be filed electronically with FinCEN within 15 calendar days from the date of the transaction

## CTR Recordkeeping

- Must keep a copy of the CTR for 5 years from the date filed

**Note:** Money Service Businesses (MSBs) are required to complete CTRs.

## Currency Transaction Reporting & Suspicious Activity (SAR)

If the CTR involves a currency transaction that is also suspicious, a SAR should be filed separately.

# Currency Transaction Report (CTR) Noncompliance

Failure to complete and file a CTR properly, or failure to file a CTR in a timely manner is:

- A violation of the Bank Secrecy Act (BSA)
- A violation of the US Treasury Department regulations
- Subject to severe civil and criminal penalties, including jail time

Additional Penalties May Include:

- Charter forfeiture or loss of insured status
- Monetary losses resulting from asset forfeiture actions and fines
- Substantial legal fees
- Reputational damage and negative publicity

# State Posting and Signage Requirements

## Money Transmitter Signage At Retail Locations

Netspend has appointed you as its authorized agent to sell and reload Netspend products and services in those jurisdictions (subject states) where Netspend is licensed as a money transmitter. As an authorized agent of Netspend in the subject states, you may be engaged in the provision of money transmission services in connection with the sale and reload of Netspend products. Therefore, you are required to post such signs and/or other notifications by Netspend at all of your retail locations, as applicable.

The signage provided to you by Netspend must be conspicuously displayed so a customer with 20/20 vision is able to read it from the place where he or she would typically conduct business with you, or on a bulletin board, in plain view, on which you post notices to the general public.

It is your responsibility to ensure the signage is conspicuously posted in a timely manner at each of your retail locations. You may obtain a copy of your specific state signage here: <https://www.netspend.com/compliance-guidelines>

If you have any questions regarding the state posting requirements, please contact your account manager or Netspend Partner Services at 1.866.397.5643 or [partnersupport@netspend.com](mailto:partnersupport@netspend.com).

# State and Federal Examinations

## Examiner Visits

As an agent of Netspend, you are subject to state and federal examinations to verify if your business is compliant with BSA/AML requirements, including implementing Netspend's AML Program requirements.

Periodically, store locations may be visited by a state or federal examiner. It is important to be courteous and to fully cooperate with the examiners. Netspend recommends the following during an examiner visit:

- Be courteous
- Know who your designated compliance officer or compliance contact is
- Direct any questions to your designated compliance officer or compliance contact
- Have immediate access to your AML Program and Netspend's Risk & Compliance Guidelines – this is usually the first item requested at all visits
  - <https://www.netspend.com/compliance-guidelines>
- Be able to provide current BSA/AML training records
- Be able to facilitate or respond to requests for your AML independent review
- Know where your state posting requirements are located to direct the examiners to view, when applicable

If you are unable to provide the requested information, immediately direct the examiner to your manager and/or designated compliance officer or compliance contact.

# Key Points to Remember

- Your agent and distributor responsibilities
- Basic understanding of the Bank Secrecy Act (BSA)
- Importance of the Customer Identity Program (CIP) and OFAC
- Basic understanding of financial crimes, money laundering, and terrorist financing
- Examples of suspicious customer behavior
- Your duty to monitor and report suspicious customer behavior
- Follow your SAR and CTR filing procedures, if you are an MSB
- All loads to Netspend cards must be performed in person, in exchange for cash

Netspend will NEVER contact you to ask you to:

- Load funds onto Netspend cards over the phone, without the funds present
- Load funds to 'test' a card
- Download software or updates to your computer
- Provide or ask for username and/or passwords to your systems



# Important Contact Information

## Netspend Support



### For use by your staff ONLY

#### **Netspend Partner Services:**

1.866.397.5643

Hours of Operation:

8AM to 10PM CST, Monday – Friday

8AM to 6PM CST, Saturday

9AM to 5:30PM CST, Sunday

Email: [partnersupport@netspend.com](mailto:partnersupport@netspend.com)

#### **Netspend Compliance Department:**

1.866.914.7224 (p); 512.539.5839 (f);

Email: [Compliance@netspend.com](mailto:Compliance@netspend.com)

### For customer use:

#### **Netspend Customer Service:**

1.86.Netspend (1.866.387.7363)

I.V.R hours: 24/7

Live Agent Hours of Operation:

8AM to 10PM CST, Monday – Friday

8AM to 8PM CST, Saturday & Sunday

Email: [customerservice@netspend.com](mailto:customerservice@netspend.com)

Thank you!