GAO Highlights

Highlights of GAO-18-263, a report to congressional requesters

February 2018

BANK SECRECY ACT

Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews

Why GAO Did This Study

Some Southwest border residents and businesses have reported difficulties accessing banking services in the region. GAO was asked to review if Southwest border residents and businesses were losing access to banking services because of derisking and branch closures.

This report (1) describes the types of heightened BSA/AML compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience; (2) determines the extent to which banks have terminated accounts and closed branches in the region and the reasons for any terminations and closures; and (3) evaluates how regulators have assessed and responded to concerns about derisking in the region and elsewhere, and how effective their efforts have been; among other objectives. GAO surveyed a nationally representative sample of 406 banks, which included the 115 banks that operate in the Southwest border region; analyzed Suspicious Activity Report filings; developed an econometric model on the drivers of branch closures; and interviewed banks that operate in the region.

What GAO Recommends

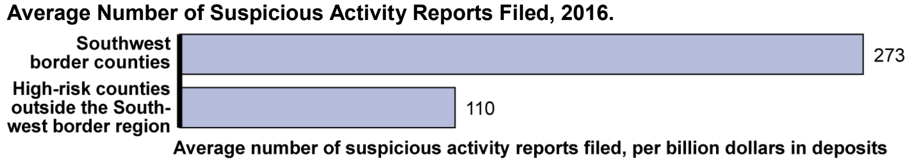
GAO recommends that FinCEN and the federal banking regulators conduct a retrospective review of BSA regulations and their implementation for banks. The review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. The federal banking regulators agreed to the recommendation. FinCEN did not provide written comments.

View GAO-18-263. For more information, contact Lawrance Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

What GAO Found

"Derisking" is the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. The Southwest border region is a high-risk area for money laundering activity, in part, because of a high volume of cash and cross-border transactions, according to bank representatives and others. These types of transactions may create challenges for Southwest border banks in complying with Bank Secrecy Act/anti-money laundering (BSA/AML) requirements because they can lead to more intensive account monitoring and investigation of suspicious activity. GAO found that, in 2016, bank branches in the Southwest border region filed 2-1/2 times as many reports identifying potential money laundering or other suspicious activity (Suspicious Activity Reports), on average, as bank branches in other high-risk counties outside the region (see figure).

Average Number of Suspicious Activity Reports Filed, 2016.



Source: GAO analysis of Federal Deposit Insurance Corporation and Financial Crimes Enforcement Network data. | GAO-18-263

According to GAO's survey, an estimated 80 percent (+/- 11 percent margin of error) of Southwest border banks terminated accounts for BSA/AML risk reasons. Further, according to the survey, an estimated 80 percent (+/- 11) limited or did not offer accounts to customers that are considered high risk for money laundering because the customers drew heightened regulatory oversight—behavior that could indicate derisking. Counties in the Southwest border region have been losing bank branches since 2012, similar to national and regional trends. Nationally, GAO's econometric analysis generally found that counties that were urban, younger, had higher income or had higher money laundering-related risk were more likely to lose branches. Money laundering-related risks were likely to have been relatively more important drivers of branch closures in the Southwest border region.

Regulators have not fully assessed the BSA/AML factors influencing banks to derisk. Executive orders and legislation task the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators with reviewing existing regulations through retrospective reviews to determine whether they should be retained or amended, among other things. FinCEN and federal banking regulators have conducted retrospective reviews of parts of BSA/AML regulations. The reviews, however, have not evaluated how banks' BSA/AML regulatory concerns may influence them to derisk or close branches. GAO's findings indicate that banks do consider BSA/AML regulatory concerns in providing services. Without assessing the full range of BSA/AML factors that may be influencing banks to derisk or close branches, FinCEN, the federal banking regulators, and Congress do not have the information needed to determine if BSA/AML regulations and their implementation can be made more effective or less burdensome.