

Testimony of
Daniel H. Bley,
Executive Vice President and Chief Risk Officer of
Webster Financial Corporation and Webster Bank, National Association
On behalf of the
Mid-Size Bank Coalition of America
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Committee on Financial Institutions and Consumer Credit
and
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Chairmen Luetkemeyer and Pearce and Ranking Members Clay and Perlmutter and members of the Subcommittees, thank you for the opportunity to present testimony on the need for modernization and improvement of the Bank Secrecy Act and Anti-Money Laundering Laws and Regulations. I am Daniel Bley, Chief Risk Officer of Webster Financial Corporation, the holding company of Webster Bank National Association. Webster was founded in 1935 and is headquartered in Waterbury, Connecticut, serving communities throughout New York and New England. Webster has \$26 billion in assets and our primary regulator is the OCC.

I am here today representing the Mid-Size Bank Coalition of America, the voice of 83 Mid-size banks in the United States with headquarters in 34 states. MBCA member banks are primarily between \$10 billion and \$50 billion in asset size, averaging less than \$20 billion, and serving customers through more than 10,000 branches in all 50 states, the District of Columbia and three U.S. territories. When combined, the MBCA members maintain in excess of \$1.2 trillion in deposits. Mid-size banks most often are the largest local bank serving the basic banking needs of communities, many for more than a century.

Compliance with the Bank Secrecy Act and implementing its regulations is among the most complicated and costly requirements with which a bank must comply and one of the highest

priorities for mid-size banks. MBCA bank members have a deep appreciation for the importance of this regulation and the role of banks in helping the government and law enforcement identify and shut down illicit financial activity in the US and globally. We are committed to ensuring a successful program that effectively reduces financial crime, catches criminals, and protects our customers and our banks. To this end, MBCA banks have collectively invested well over half a billion dollars in technology to manage this effort and are on average estimated to each spend upwards of \$8 million per year on staff and support to ensure comprehensive and continuous controls. As mid-sized banks grow, they are investing in more sophisticated technology to ensure continued compliance. In fact, as of today, nearly all of the larger MBCA banks are using or moving to increasingly sophisticated and expensive technology that can detect suspicious activity well beyond the tools of the past. The very high cost of these programs is particularly concerning for mid-size banks, as we have significantly less scale than the large banks against which to spread the costs.

MBCA applauds the ideas introduced with this Bill and believe that its key elements will support improved effectiveness of the programs, benefiting businesses and consumers, law enforcement, and banks. All of the ideas in the Bill have merit. I would like to share MBCA perspectives about three key components of the Bill: the new reporting thresholds, the proposed review of changes aimed at reducing reporting burdens and maximizing information usefulness, and the changes to the Beneficial Ownership data collection.

First, the proposed change in reporting thresholds would be the most immediately and positively impactful in terms of increasing information usefulness and reducing burden. We estimate based on a sample of MBCA banks that the changes would reduce Currency Transaction Report filings at mid-size banks in the range of 50-80% and Suspicious Activity filings by 8-10%. This translates to on average 2-4 full time staff or approximately 10% of BSA staffing, per mid-sized bank, that are working solely on small dollar investigations. In terms of volume submitted to law enforcement, we estimate mid-sized banks file in aggregate upwards of a half a million small dollar reports per year. The proposed threshold levels are still modest if we accounted for inflation since the initial thresholds were established.

Second, I would like to comment on sections 3 and 7 of the Bill, which emphasizes the importance of improving the process and technical innovation. Several good ideas are included, all of which we believe would achieve the objectives: consolidating reporting, providing additional time for filing, tying the thresholds to inflation, analyzing fields for criticality, increasing the use of exemptions, and the application of technological innovations. MBCA members would be happy to share specific ideas from the practitioner's perspective. One such idea is to reduce or eliminate free text format from the reports and move to a more structured and/or automated template. This would reduce preparation time and complexity and normalize reporting. It could lower preparation time by potentially half or more while still ensuring the information provided met the needed requirements. Another idea would be to create a shorter form automated filing approach for the smaller dollar reports. One concerning fact that should be taken into consideration with this efficiency review is that mid-sized bank's false positive alert rate (as generated from transaction monitoring systems) is estimated at over 90%. In other words, we are performing detailed reviews of an excessively high number of transactions that turn out to be unimportant.

To solve for these inefficiencies, we would support the incorporation of an alternative reporting format via an independent, collaborative analytics utility that would allow participating institutions to efficiently expand intelligence and learn from shared data sets about emerging threats and changes in risk profiles. The utility approach can apply advanced machine learning techniques to identify unusual behavior, support more effective use of bank resources, and provide valuable intelligence to the end-users in the law enforcement community. Such a utility is already being deployed on a bank specific basis.

Third, we believe that the proposed change to the Beneficial Ownership data gathering model is very much the right thing to do and it solves multiple issues at several levels. The existing regulation, which goes into effect in May 2018, with financial institutions gathering the Beneficial Ownership data from business customers, is suboptimal in many ways. It allows for uneven application of the standards, creates data integrity risk, puts unnecessary burden on businesses to supply data to multiple institutions, slows the account opening process, and is more costly to maintain. The proposed solution included in this Bill would appropriately address all of those challenges. We appreciate the need for the partnership between public sector and private

sector for addressing illegal financial activities and recognize that there are times when the specific challenge is best solved at the private sector level. We believe strongly that this particular data gathering process will best achieve its intended objective if supported by the proposed centralized public sector led approach.

MBCA banks appreciate the introduction of an expanded role of Treasury in steering the supervision of the Bank Secrecy Act and the support for innovation. The expanded role could support a more transparent and consistent approach to supervision. This is critically needed to ensure common application across the industry. We would hope that this could help reintroduce the risk based approach to supervision that has been missing in recent years, even though it is in the existing Act. With regards to innovation, we believe that banks can build better solutions if there was more coordination between, Treasury, law enforcement agencies, regulators, and financial institutions. Such a forum does not exist today, leaving bankers unaware or uncertain as to what solutions would be acceptable and leaving each regulator to form different approaches. Many MBCA banks have been working constructively with the OCC in recent years to generate thoughtful risk-based, ideas and solutions. Those efforts would be greatly enhanced with a forum that included all key stakeholders. The MBCA supports the use of a collaborative utility that leverages advancements in technology that facilitates productive interaction between banks and regulators to support a unique public-private sector partnership.

In summary, the members of the MBCA appreciate and support the thoughtful Bill and believe that it successfully addresses many of the most important challenges in the current Act. We believe it will benefit individuals and businesses throughout the country, will strengthen law enforcements efforts with higher quality information, and will reduce burden for banks so we can better serve our customers.

Thank you again for this opportunity to testify on behalf of the mid-size banks. I would be happy to address any questions or concerns of the Committees' interest.