Pouch Activities — Overview

Objective. *Assess the adequacy of the bank's systems to manage the risks associated with pouch activities, and management's ability to implement effective monitoring and reporting systems.*

Pouch activity entails the use of a carrier, courier (either independent or common), or a referral agent employed by the courier,[194] to transport currency, monetary instruments, and other documents from outside the United States to a bank in the United States.[195] Pouches can be sent by another bank or individuals. Pouch services are commonly offered in conjunction with foreign correspondent banking services. Pouches can contain loan payments, transactions for demand deposit accounts, or other types of transactions. Increasingly, some banks are using Remote Deposit Capture (RDC) (a deposit transaction delivery system) to replace pouch activities. For additional information on RDC, refer to the expanded overview section on Electronic Banking on page 202.

Risk Factors

Banks should be aware that bulk amounts of monetary instruments purchased in the United States that appear to have been structured to avoid the BSA-reporting requirements often have been found in pouches or cash letters received from foreign financial institutions. This is especially true in the case of pouches and cash letters received from jurisdictions with lax or deficient AML structures. The monetary instruments involved are frequently money orders, traveler's checks, and bank checks that usually have one or more of the following characteristics in common:

- The instruments were purchased on the same or consecutive days at different locations.
- They are numbered consecutively in amounts just under $3,000 or $10,000.
- The payee lines are left blank or made out to the same person (or to only a few people).
- They contain little or no purchaser information.
- They bear the same stamp, symbol, or initials.
- They are purchased in round denominations or repetitive amounts.
- The depositing of the instruments is followed soon after by a funds transfer out in the same dollar amount.

Risk Mitigation

Banks should have policies, procedures, and processes related to pouch activity that should:

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[194] Referral agents are foreign individuals or corporations, contractually obligated to the U.S. bank. They provide representative-type services to the bank's clients abroad for a fee. Services can range from referring new customers to the bank, to special mail handling, obtaining and pouching documents, distributing the bank's brochures and applications or forms, notarizing documents for customers, and mailing customers' funds to the bank in the United States for deposit.

[195] For additional guidance, refer to the core overview section, "International Transportation of Currency or Monetary Instruments Reporting," on page 139.

- Outline criteria for opening a pouch relationship with an individual or a foreign financial institution (e.g., customer due diligence requirements, type of institution or person, acceptable purpose of the relationship).
- Detail acceptable and unacceptable transactions (e.g., monetary instruments with blank payees, unsigned monetary instruments, and a large number of consecutively numbered monetary instruments).
- Detail procedures for processing the pouch, including employee responsibilities, dual control, reconciliation and documentation requirements, and employee sign off.
- Detail procedures for reviewing for unusual or suspicious activity, including elevating concerns to management. (Contents of pouches may be subject to CTR, Report of International Transportation of Currency or Monetary Instruments (CMIR), and SAR reporting requirements.)
- Discuss criteria for closing pouch relationships.

The above factors should be included within an agreement or contract between the bank and the courier that details the services to be provided and the responsibilities of both parties.