

AML Breakfast Briefing

Tuesday 14 January 2014



Building a better
working world

Agenda

- ▶ Challenges in the Irish Market – Brian Binchy
- ▶ AML Technology Trends – Patrick Craig

Challenges in the Irish Market



EY Global AML framework

1. Establish governance

1.1 Adopt formal AML policies and procedures

AML policy

Sanctions policy

Wire transfer policy

CDD process

PEPs policy

Record-keeping policy

1.2 Define governance structure

1.2 Define AML roles and responsibilities

1.4 Define clear approval escalation process

1.5 Define AML training and awareness strategy

2. Adopt risk based approach

2.1 Identify risks faced by firm

2.4 Conduct ongoing customer monitoring

2.2 Establish risk-rating methodology

2.5 Conduct transaction monitoring

2.3 Complete customer due diligence (CDD)

2.6 Conduct risk-based periodic customer review

2.7 Create AML intelligence

3. Investigate/escalate suspicious activity and sanctions hits

3.1 Report suspicious activity

3.2 Report sanctions hits

4. Report management information

4.1 Report AML MI

4.2 Produce annual MLRO

4.3 Keep records

5. Manage people and training

5.1 Screen staff

5.2 Implement training and awareness strategy

5.3 Manage staff performance

6. Monitor and improve effectiveness of controls

6.1 Conduct ongoing monitoring of AML processes

6.2 Analyse internal AML process trends

6.3 Review new regulation and guidance

6.4 Support internal audits

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- ▶ Appropriate defined governance structure, committees and three lines of defence
- ▶ Policy implementation via comprehensive procedures
- ▶ Oversight of outsourcers/third parties (SLAs)
- ▶ Board ownership of risks

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3. Investigate

3.1 Reassess risk activity

- ▶ Implementing an objective and replicable methodology
- ▶ Keeping the assessment up to date
- ▶ Using output to inform actions

4. Information

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5. Manage AML risk

5.1 Set AML risk appetite

5.2 Monitor AML performance

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- ▶ Customer Due Diligence documentation - specifically measures relating to legal persons and beneficial ownership
- ▶ Inability to provide documents used for CDD purposes in a timely manner
- ▶ Periodic review of low/medium risk customers in back book

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- ▶ Investigations into suspicious activity are hindered due to delays while communicating with third parties
- ▶ Making reports as soon as practicable

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- ▶ Sanctions risk assessment
- ▶ List management (including use of good guy lists)
- ▶ Implementing bespoke training for staff with Sanctions responsibilities
- ▶ Undertaking regular IT assurance system testing of screening solutions

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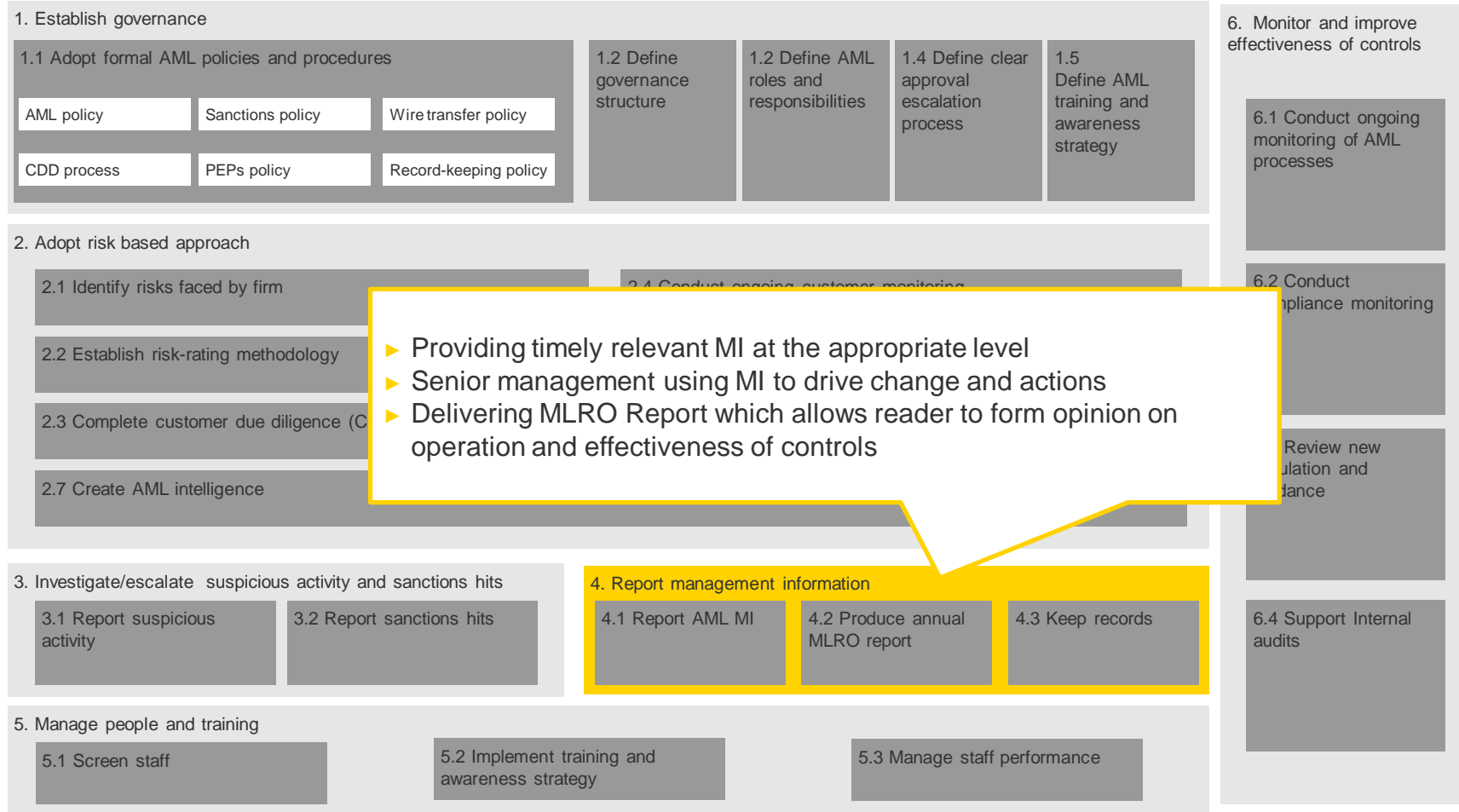
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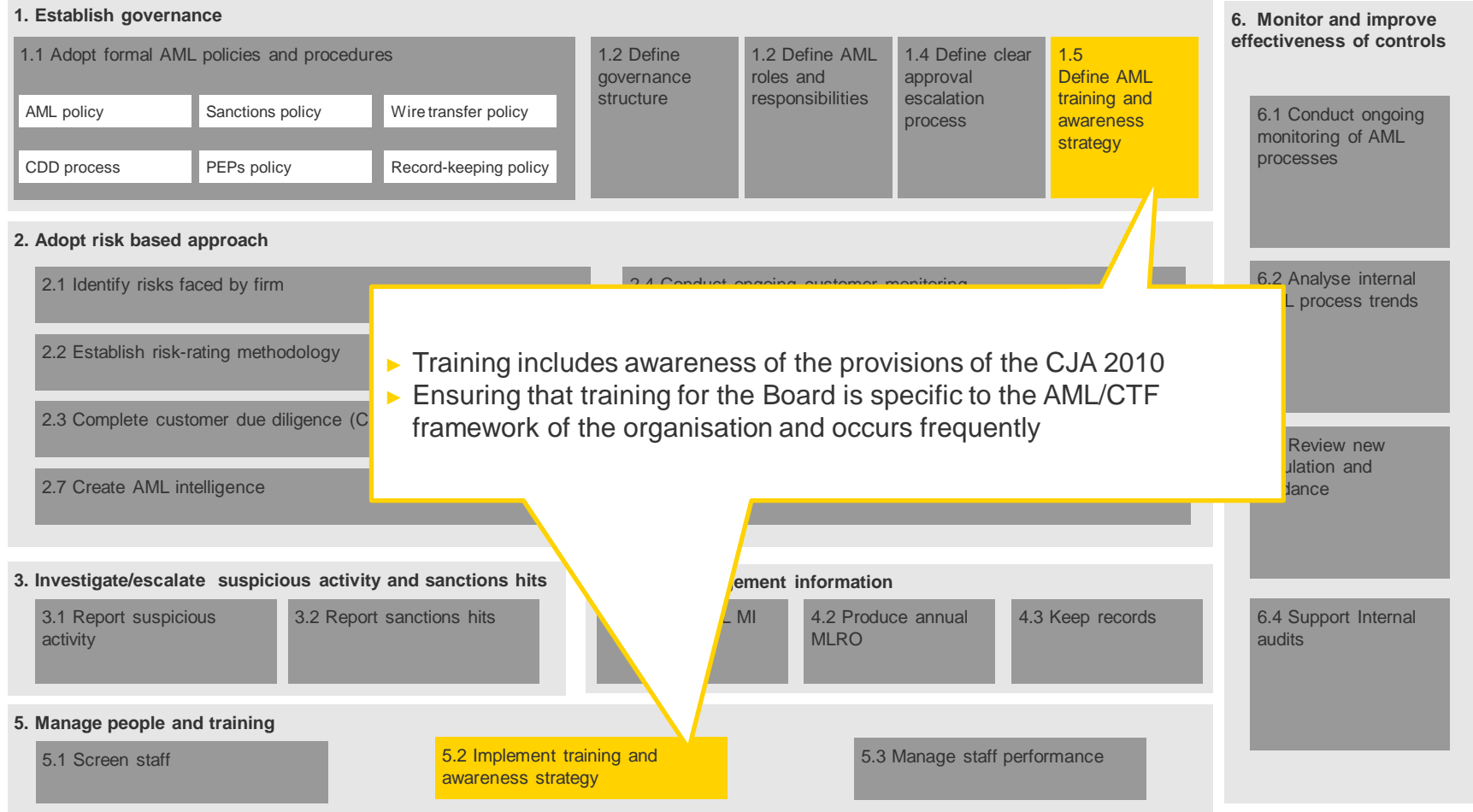
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2.1 Identify risks

2.4 Conduct risk-based customer due diligence

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▶ Ensuring plans include thematic reviews and assurance testing
▶ Ensuring that issues are captured and closed on a timely basis

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- FATCA - Reducing duplication
- ▶ Customer on-boarding
 - ▶ Review of existing customers
 - ▶ FATCA & AML dependencies

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4th Money Laundering Directive

- ▶ Increased emphasis on risk based approach
- ▶ Movement away from third country equivalence
- ▶ Treatment of domestic PEPs
- ▶ National Risk Assessment
- ▶ Inclusion of tax evasion as predicate offence

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Addressing challenges

- ▶ Business risk assessment
- ▶ Effective AML framework

Role of technology in addressing challenges

- ▶ Financial institutions are making greater use of technology to control financial crime risk and monitoring transactions.
- ▶ A greater focus on the use of data analytics to identify risks and to develop more effective intelligence capabilities.
- ▶ Automation of trigger events.
- ▶ Standardised and simplified metrics and reporting is becoming increasingly important to provide the necessary awareness and comfort to the board and senior management.

AML trends in technology



AML transaction monitoring trends

Theme of embedding a process of continuous improvement into AML transaction monitoring

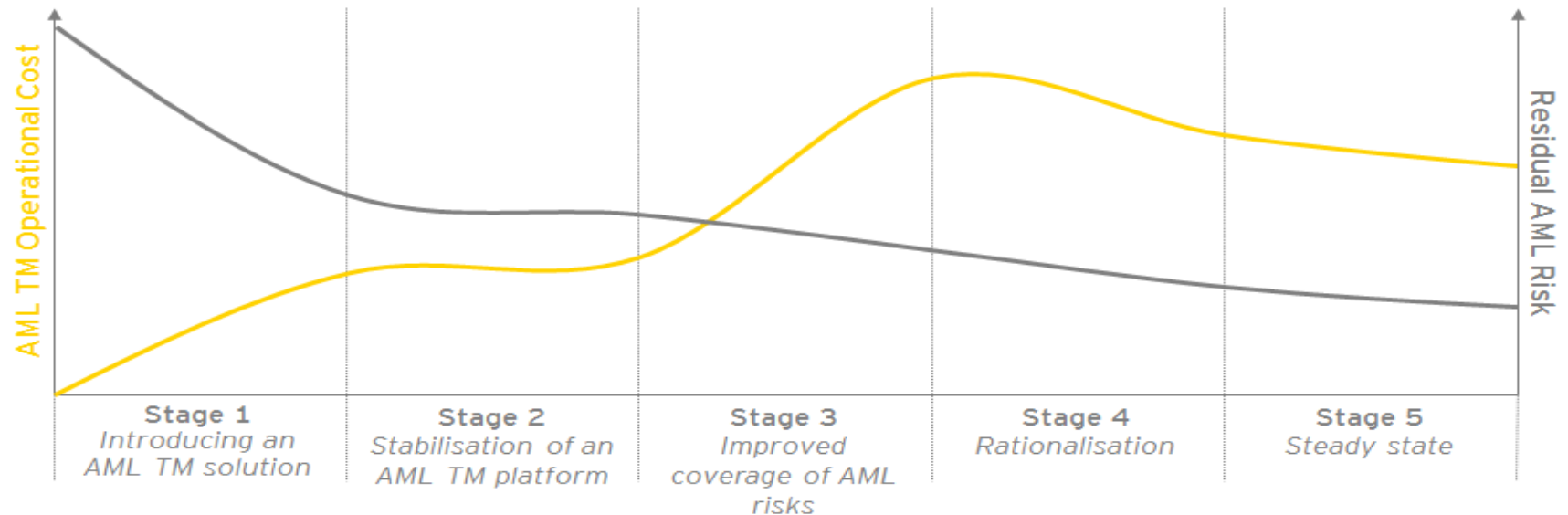
Regulatory challenges

- ▶ Inadequate coverage of AML risks
- ▶ Poor alert quality, high false positives
- ▶ No method of continuous improvement

Industry response

- ▶ Establishing business ownership of the solution
- ▶ Segmenting customers, managing the AML risks
- ▶ Driving operational efficiencies

Balancing risks and costs



Advanced analytical techniques

Advanced analytics allow management to balance risk management with spiralling costs

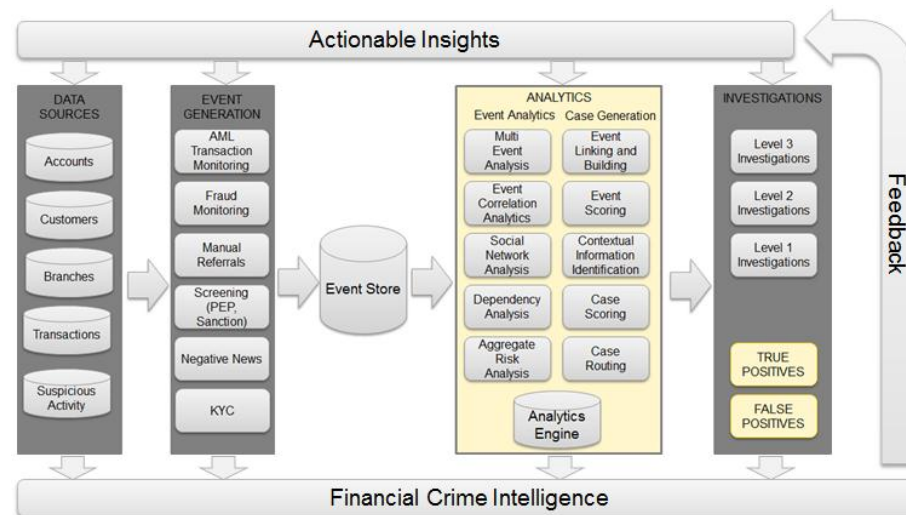
Trends

- ▶ Information driven decision making and management
- ▶ Web based technologies being applied to financial services business problems
- ▶ Converging views of customer risk; AML, fraud, information security

Challenges

- ▶ Data availability
- ▶ Data quality
- ▶ Restrictions on data movement and sharing
- ▶ Change fatigue, IT delivery capacity

Establishing feedback



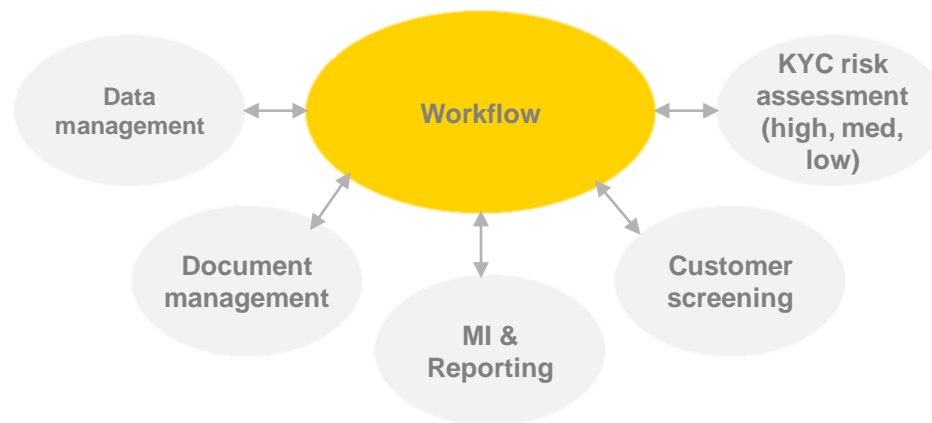
KYC technology trends and utilities

Disparate technology components centred around a single workflow engine

Technology trends

- ▶ Financial institutions search for innovation to reduce the operational cost of maintaining KYC information
- ▶ Table below lists innovations with each of the six listed components
- ▶ Four significant KYC utilities launched in the market in the past six months including
 - ▶ DTCC
 - ▶ Genpact & Markit
 - ▶ Thomson Reuters
 - ▶ SWIFT

KYC process components



Process component	Technology trends
Workflow	<ul style="list-style-type: none"> ▶ Integrated end to end workflow ▶ Business process synergies with credit, legal, and tax
Data management	<ul style="list-style-type: none"> ▶ Single view of customer, data governance , client ownership ▶ Cross border and business line information sharing ▶ Data enrichment services
Document management	<ul style="list-style-type: none"> ▶ Customer maintained document portals ▶ Standardization of documents, leverage basic OCR techniques
MI & Reporting	<ul style="list-style-type: none"> ▶ Visual analytics and dash-boarding, capacity planning and forecasting ▶ Real time reporting of KPIs and KRIs
Customer screening	<ul style="list-style-type: none"> ▶ Integrated sanction, PEP, and negative news screening ▶ Data analytics to reduce false positive screens
KYC risk assessment	<ul style="list-style-type: none"> ▶ Flexibility to apply global standard with local business and country overlays ▶ Model validation capabilities – model sensitivity and standard testing

Sanctions technology trends

Over \$4 billion of OFAC and Sanctions related fines in the past four years

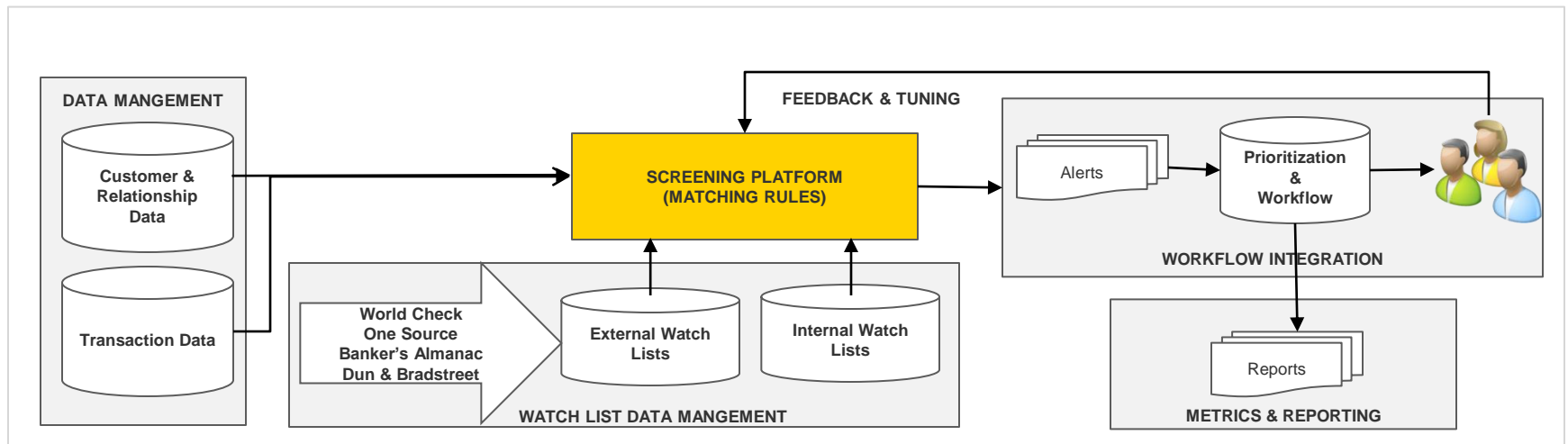
Trends

- ▶ Establishing periodic quality assurance from a second line perspective to test the matching engines and filters
- ▶ Independent testing of list management functions
- ▶ Risk based approach to applying rules and lists into different regional and business line settings

Challenges

- ▶ Data availability – having a minimum data standard
- ▶ List provider data quality
- ▶ False positive management
- ▶ Availability of skilled resources

Calibrating screening platforms



Data management and quality

Data quality is the single biggest driver of compliance inefficiency

Benefits

- ▶ Ability to quantify compliance risks and monitor changes in risk profile
- ▶ Reduce operational costs related to poor data quality - fix issues at the source of the problem
- ▶ Clarity in reporting to auditors and regulators
- ▶ Early warning of potential regulatory breaches

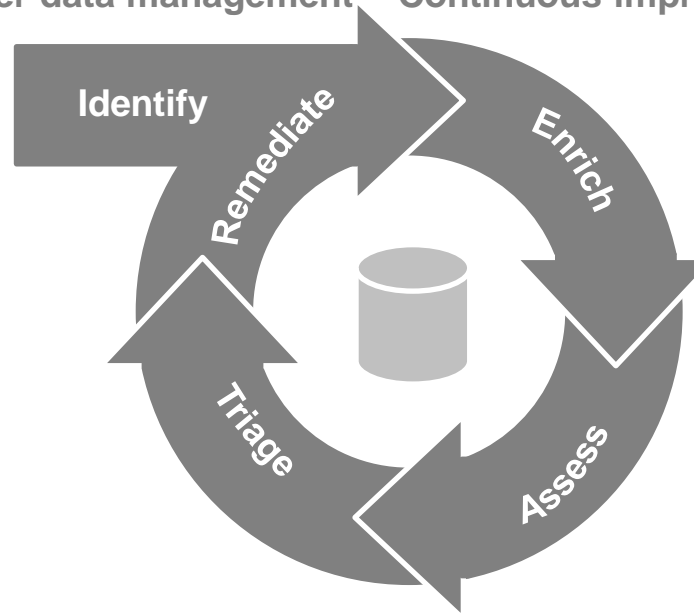
Challenges

- ▶ Establishing data ownership and stewardship
- ▶ General availability of electronic information to satisfy compliance requirements
- ▶ Varying standards of data quality across lines of business and jurisdictions
- ▶ Sustaining and embedding data quality improvement

Master data management – Continuous improvement

Approach

- ▶ Assess minimum data standards
- ▶ Communicate data standards to business owners and CDO
- ▶ Assess business data against compliance standards
- ▶ Identify gaps and triage based on risk
- ▶ Remediate once and sustain the change
- ▶ Commit to continuous improvement of data quality



Example information

- ▶ Organizational
 - ▶ Lines of Business
 - ▶ Legal Entities
 - ▶ Products
 - ▶ Branches, Desks
- ▶ Customer
 - ▶ Type
 - ▶ Individuals
 - ▶ Legal Entities
- ▶ Accounts
- ▶ Transactions, Orders, Trades

Visual analytics and dashboards

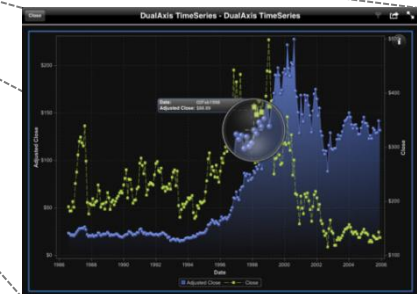
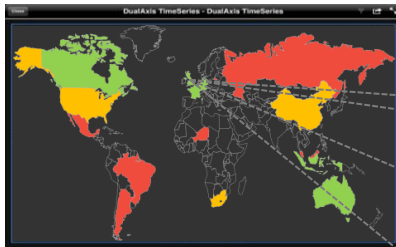
Dashboards empowering compliance users to get actionable insights out of their data

Benefits

- ▶ Senior management overview of compliance performance and issues via usage of an operational performance index
- ▶ Common data reporting language for compliance to provide transparency throughout the organisation of compliance risks and performance – consistent ways of naming hierarchies and references

Challenges

- ▶ Definition of risk and control framework to determine monitoring requirements
- ▶ Instilling within the organisation an environment of continuous intelligence improvement
- ▶ Choosing the right techniques and tool set for an individual organisation



Thank you



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ED None.

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