ACOI Briefing

Addressing Common Issues with AML Control Frameworks

23 April 2014

Building a better working world

The Association of Compliance Officers in Ireland

Agenda

- Welcome
- The AML Control Framework and benchmarking against peers
- Addressing common challenges in the Irish market
- What next? 4th Money Laundering Directive and other developments
- Demonstrating the risk based approach and the AML business risk assessment
- Q&A

EY AML Control Framework

Control Framework

- Establish Governance
- Adopt Risk Based Approach
- Investigate/Escalate Suspicious Activity and Sanctions Hits
- Report Management Information
- Manage People and Training
- Monitor and Improve Effectiveness and Controls

EY Global AML Framework

The global framework which EY have developed to assess AML/CTF/Sanctions processes within global and domestic entities is set out below. This framework is underpinned by a library of tools, methodologies, interview questionnaires, and testing arrangements.

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
- 2.2 Establish risk-rating methodology
- 2.3 Complete customer due diligence (CDD)
- 2.4 Conduct ongoing customer monitoring
- 2.5 Conduct transaction monitoring
- 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

Peer benchmarking/effectiveness

The EY compliance effectiveness model has been complied based on our global experience working with industry players of all sizes and regulatory bodies in a number of jurisdictions. The model can be used to assess AML controls maturity for several areas across the AML/CTF Framework, including:

Maturity model	Theme	Score for theme
Governance	Policies and procedures	#
	Senior management involvement	#
	Business risk assessment	#
	Compliance monitoring	#
	Management Information	#
People	Roles and responsibilities	#
	Training and awareness	#
Process	Client risk assessment methodology	#
	Client Due Diligence	#
	Ongoing customer monitoring	#
	Transaction monitoring	#
	Payment screening	#
	Suspicious activity reporting	#
	Record keeping	#
Technology	Client risk assessment and client due diligence	#
	Transaction monitoring and detection tools	#
	Payment screening tools	#
	Watchlist screening tools	#

Example - *Ongoing customer/client monitoring*

	Level 1 - Basic	Level 2 - Evolving	Level 3 - Established	Level 4 - Comprehensive	Level 5 - Optimised
Ongoing customer/client monitoring - customers acquired before Criminal Justice Act 2010	‣ Client review is in place but infrequent. ‣ The review is lacking in its coverage of clients and has little existing recognition of risk levels. ‣ The process is not effectively documented or implemented consistently. ‣ There is little or no governance around when it takes place. ‣ High risk clients are reviewed at least annually.	‣ Monitoring procedures are defined and use a range of trigger events. ‣ A customer review is in place at consistent intervals. ‣ The review covers the whole client base but historical intelligence is limited. ‣ The process is defined. ‣ Limited governance exists around the process.	‣ Trigger events are defined centrally and understood by the relevant staff and regularly updated. ‣ CDD information and risk rating is updated where monitoring indicates changes to customer's profile. ‣ Reviews occur on a regular and consistent basis. ‣ The process is well defined and understood by key staff. ‣ The firm takes advantage of customer contact as an opportunity to update due diligence information.	‣ Comprehensive triggers are well defined, including specific business level triggers. ‣ Trigger events and periodic reviews are automated based on system alerts. ‣ A process exists to act on and mitigate risks identified including relevant updates to CDD information. ‣ Periodic review occurs in line with risk rating. ‣ The approach to the review is well documented and recognised, with an effective escalation process in place.	‣ Comprehensive triggers and procedures are defined in line with risk appetite. ‣ Manual and automated techniques are applied to identify and scrutinise changes. ‣ Escalation and ongoing review procedures against best practice are in place. ‣ The approach to the review is well documented and recognised. ‣ Proactively take advantage of customer contact to update due diligence. ‣ An independent review and audit of the process are in place.

Challenges in the Irish Market

Challenges in the current market

- Limited investment in AML/CTF framework systems, controls and people since 2007 as result of squeezed balance sheets
- Compliance with Sanctions requirements does not get equal prominence in many organisations as AML requirements
- Developing a risk assessment framework and the application of risk based approach is still providing challenge
- System integration across business units and groups remains a challenge. Control functions oversight of systems varies significantly.
- New payment institutions and constantly evolving payment methods and channels mean that the task of identifying and managing AML risks is never finished
- Economic climate means that there is a strong black market and individuals can be seeking ways to disguise or transfer assets abroad sometime evading court orders

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

3. Investi

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…performance

- 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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- 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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- Providing timely relevant MI at the appropriate level
- Senior management using MI to drive change and actions
- Delivering MLRO Report which allows reader to form opinion on operation and effectiveness of controls

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- Training includes awareness of the provisions of the CJA 2010
- Ensuring that training for the Board is specific to the AML/CTF framework of the organisation and occurs frequently

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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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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

- Enhance your business risk assessment
- Test and challenge effectiveness of AML control framework
- Assess impact of 4AMLD on your control framework

Role of technology in addressing challenges

- Greater use of technology to control financial crime risk and monitoring transactions.
- 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.

The AML Business Risk Assessment

Agenda

- What is an AML business risk assessment?
- Why perform an AML business risk assessment?
- Approach overview
- The Inherent Business Risk Assessment
- The Controls Assessment
- Residual risk
- Delivery Methods
- Discussion points and challenges

What is an AML business risk assessment?

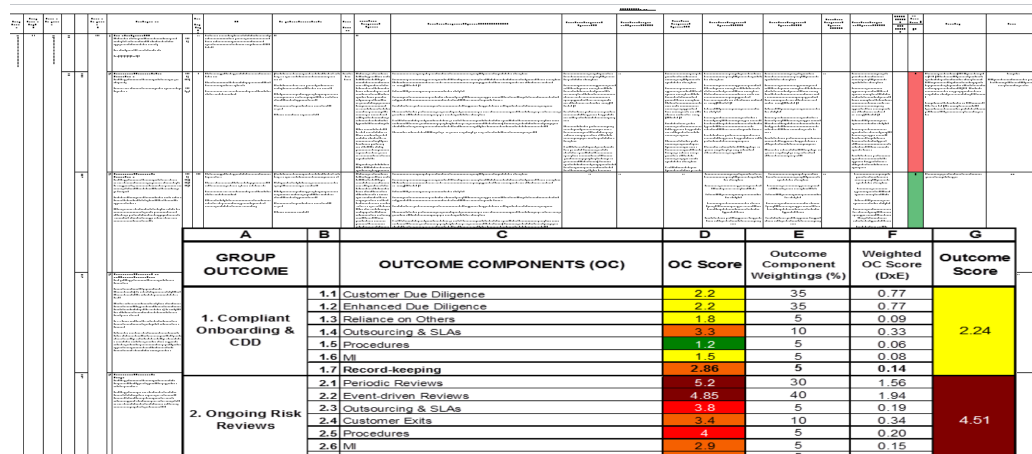
While the Customer risk assessment (CRA), determines the level of risk posed by a potential customer, the AML business risk assessment is an exercise that identifies and documents the inherent and controls risks faced by a financial services firm.

The AML business risk assessment examines the firm's:

- ► customer base,
- ► business model, including distribution channels and product mix
- ► and controls framework.

The objective of the risk assessment is to provide a rating for the firm as low, medium or high in inherent, controls and residual risk. The AML business risk assessment demonstrates and documents the firm's application of the risk-based approach.

After the MLRO Report, the AML business risk assessment is arguably the document that receives the most attention from regulators, given that its purpose is to demonstrate that senior management have identified, understood and sought to mitigate the money laundering and terrorist financing risks faced by the firm.



A	B	C	D	E	F	G
GROUP OUTCOME		OUTCOME COMPONENTS (OC)	OC Score	Outcome Component Weightings (%)	Weighted OC Score (DxE)	Outcome Score
1. Compliant Onboarding & CDD	1.1	Customer Due Diligence	2.2	35	0.77	2.24
	1.2	Enhanced Due Diligence	2.2	35	0.77	
	1.3	Reliance on Others	1.8	5	0.09	
	1.4	Outsourcing & SLAs	3.3	10	0.33	
	1.5	Procedures	1.2	5	0.06	
	1.6	MI	1.5	5	0.08	
	1.7	**Record-keeping**	**2.86**	**5**	**0.14**	
2. Ongoing Risk Reviews	2.1	Periodic Reviews	5.2	30	1.56	4.51
	2.2	Event-driven Reviews	4.85	40	1.94	
	2.3	Outsourcing & SLAs	3.8	5	0.19	
	2.4	Customer Exits	3.4	10	0.34	
	2.5	Procedures	4	5	0.20	
	2.6	MI	2.9	5	0.15	
	2.7	Record-keeping	2.7	5	0.14	
3. Educating Our People	3.1	Defined AML training & awareness strategy	1.65	20	0.33	1.85
	3.2	Implemented AML training & awareness strategy	1.95	55	1.07	
	3.3	Communications	2.6	10	0.26	
	3.4	Outsourcing & SLAs	1.2	5	0.06	
	3.5	MI	1.1	5	0.06	
	3.6	Record-keeping	1.45	5	0.07	
4. High Performing AML Function	4.1	Dissemination of Group AML & Sanctions Policies	4.2	15	0.63	2.42
	4.2	Leadership & governance	1.2	30	0.36	
	4.3	Information and intelligence-sharing	1.85	5	0.09	
	4.4	Assurance	1.9	30	0.57	
	4.5	Liaison with law enforcement	4.12	10	0.41	

		OVERALL CONTROLS ASSESSMENT RATING				
		UNACCEPTABLE	WEAK	NEEDS IMPROVEMENT	ACCEPTABLE	STRONG
INHERENT RISK ASSESSMENT RATING	HIGH	Immediate Priority	Immediate Priority	Immediate Priority	Enhanced Monitoring	Enhanced Monitoring
	MEDIUM HIGH	Immediate Priority	Immediate Priority	Medium Term Priority	Enhanced Monitoring	Enhanced Monitoring
	MEDIUM LOW	Immediate Priority	Medium Term Priority	Medium Term Priority	Enhanced Monitoring	Ongoing Monitoring
	LOW	Immediate Priority	Medium Term Priority	Medium Term Priority	Ongoing Monitoring	Ongoing Monitoring

Why perform an AML business risk assessment?

Regulators are increasingly focusing on the use of AML business risk assessments in order to ensure that regulated firms assess their inherent risks and evaluate the strength of their control framework.

Key regulatory expectations include …

- Regulatory authorities expect firms to assess risk across all business lines and countries.
- Firms should have a clear understanding of where risks lie, the controls in place and enhancement activity required.
- Leading global firms have defined methodologies and carry out an annual assessment of risks and controls, with continuous improvement programmes.
- Institutions must take an approach which is appropriate to their business model and their risk appetite.
- There should be documented evidence of the risk assessment process, the overall assessment and the risk mitigation outcomes achieved.

The purpose of the business risk assessment is to facilitate and enable a risk-based approach to AML compliance. Specifically this includes:

- Identify inherent money laundering, sanctions and counter terrorist financing risks in all business areas and country units.
- Evaluate the systems and controls framework in place, measured according to the firm's risk assessment methodology.
- Calculate the consequent level of residual money laundering risks in business areas.
- Focus AML programmes on the most relevant areas of risk within the business, through driving appropriate corrective actions where risk is identified as being outside of appetite.

Key benefits

A robust and reliable AML business risk assessment that is right-sized allows a firm to:

- identify and measure concentrations of risk which highlight where risk assessment challenges and control gaps exist. It enables an organisation to proactively address risk outside its appetite and implement improvements needed to enhance its control environment.
- Verify the appropriate application of the risk-based approach to AML across the organisation and the allocation and prioritisation of mitigating resources therein.
- Fulfil a regulatory expectation for the firm to understand and manage the AML risks faced by the firm.
- Strengthen the AML Compliance Programme through identifying gaps and weaknesses in the controls framework that require enhancement.
- Inform AML Compliance Assurance Annual Plans.
- Develop the annual MLRO report based on a comprehensive understanding of AML risks faced by the firm.
- Create a positive link between the firm's risk appetite and customer risk assessment methodology as the business risk assessment can provide a more informed and objective basis upon which to set and challenge the firm's risk-based approach.

Approach overview — Scope and scale

Risk assessment scope

The primary objective of a Financial Crime business risk assessment is to enable an organisation to assess its exposure to inherent risks and mitigating controls across the organisation. The scope of a risk assessment can include but is not limited to;

- Anti-Money Laundering (AML)
- Sanctions
- Counter-Terrorist Financing (CTF)

In principle, the approach can be applied to:

- Anti-Bribery and Corruption (ABC)
- Fraud
- Market Abuse
- Insider Dealing

Risk assessment scale

The scale of a business risk assessment is dependent on the following factors fundamental to an organisation;

- Size (exposure to various jurisdictions at a local, regional or global level)
- Complexity (organisational structure)
- Risk Profile (the type and scale of business undertaken)
- Operating environment and regulatory expectations

These factors can help define the organisation's structure in terms of inherent and controls risks. They form criteria for distinguishing assessment units which are businesses or operations which pose specific inherent or controls risks due to their intrinsic features.

Approach overview — Methodology design

Risk assessment methodologies that are scalable, comprehensive and reliable and incorporate regulatory guidance, industry peer practice and subject matter knowledge can facilitate identification of concentrations of risk across a business and reveal control gaps requiring attention. Regardless of business size or complexity, the inherent and control factors listed below are assessed in order to deliver a successful risk assessment.

The business risk assessment can be divided into …

Firstly, an evaluation of the inherent AML risks faced by the business arising from its customer base environment and business and operating model

Secondly, an assessment of the presence and effectiveness of the controls framework in mitigating those inherent risks that is consistent and measurable

The AML business risk assessment can then be used to determine the firm's residual risk for AML and whether it is within appetite

Inherent risk assessment

- Geography
- Customer
- Products & Services
- Distribution Channels
- Industry/trading activities
- **People**
- **Regulatory**
- **Business Strategy**
- **Structural Change**

+

Control assessment

- Governance
- Customer Due Diligence (CDD)
- Transaction Monitoring
- Customer & Transaction Screening
- Organisation, Resourcing & Training
- Ongoing Monitoring
- Assurance
- MI & Record-keeping

Residual risk assessment

AML Residual Risk

The inherent business risk assessment

The inherent business risk assessment

The Inherent Business Risk Assessment (IBRA) seeks to determine and document the **inherent** risks for posed by each distinct business area within the organisation.

The organisation must firstly determine its organisational structure according to its inherent risk.

Each business area is required to evaluate the inherent risks (high, medium or low) faced by their business according to the five risk factors of:

1. Geography
2. Customer-type
3. Industry/trading activities
4. Products and services
5. Distribution channels

Weightings

Since some risk factors are more important than others (e.g., customer jurisdiction over channel), the risk factors should be weighted. Ideally the weightings should be kept consistent but may require differentiation to account for different types of business, e.g., Personal and Non-Personal weightings.

Risk Indicators

Risk indicators underpin the high, medium or low risk ratings for each of the risk factors and having common indicators enables consistent interpretation and application of the risk assessment methodology across the firm.

Risk Factor	Considerations for Risk Indicators
Geography	Firms own geographic location/operation Customer location: ▸ Residency/nationality ▸ incorporation/registration ▸ Operations/trading relationships ▸ Key Principals, Beneficial Owners
Customer type	Personal PLCs Private limited companies Sole Traders Unregistered charities
Industry/ trading activities	High risk industries: ▸ Shipping ▸ Oil and gas exploration ▸ Diamond and precious metal extractions
Products & Services	Product risk assessment Capability to transfer funds cross-border Receipt of third party funds
Distribution channels	Face to face or non-face to face Remote opening of new products on existing accounts
People	Knowledge and skills gaps across the firm Retention risk for key control staff
Regulatory	The regulatory vigilance and probability of censure for controls gaps or weaknesses
Strategy	The strategy of the business or changes to the business model that will alter the firm's risk profile
Structural change	Divestments, acquisitions and mergers that will alter the firm's risk profile

The inherent business risk assessment

The risk indicators should reflect the firms risk appetite and can be aligned to the Customer Risk Assessment. The risk indicators can be different for Sanctions and Bribery & Corruption. The sample risk indicators below are client-driven.

	High	Medium	Low
Country Risk	▸ China ▸ Indonesia ▸ Pakistan ▸ Russian Federation	▸ South Africa ▸ Kuwait	▸ Australia ▸ USA ▸ United Kingdom
Industry Risk/ trading activities	▸ Oil & Gas ▸ Previous gemstone extraction ▸ Cash intensive business ▸ Arms distribution	▸ Chemicals ▸ Construction ▸ Land transport & logistics ▸ Textiles	
Customer Type/ Entity Risk	▸ Unregistered charities	▸ Partnerships & unincorporated business ▸ Registered companies	▸ Domestic public authorities ▸ Public limited companies listed on an approved exchange
Product Risk	▸ Global trade finance ▸ Foreign currency accounts	▸ Domestic trade finance ▸ Loans ▸ Current accounts ▸ Cross-border transactions	▸ Mortgage finance ▸ Retail term savings
Distribution channels	▸ Correspondent banking relationships	▸ Relationship managed	

The inherent business risk assessment

The Inherent Business Risk Assessment determines the level of AML risks in each business unit, before systems and controls are taken into account.

Risk Categories	Country	Entity	Industry	Product	Channel
Weighting (%)	35	15	25	15	10
Assessment *Low Risk = 1* *Medium Risk = 2* *High Risk = 3*	1	2	2	3	2
Risk Score *Calculation = (Weighting X Assessment*	0.35	0.30	0.50	0.45	0.20
Total Score	1.8				
Inherent Risk Rating Range: Low = 1.00-1.50 Medium Low = 1.51-2.00 Medium High = 2.01-2.50 High = 2.51-3.00	**Medium Low**				

These weightings are based on client-driven weightings.

The business unit assesses its inherent risk and provides a score of 1, 2 or 3

The assessment score Is multiplied by the weighting to provide a weighted risk score

The weighted risk scores are summed and heatmap provides an inherent risk rating for the business unit

This is carried out by **gathering information** on the customer base of the business unit according to the **five risk factors** detailed in the diagram (left):

1. Geography
2. Customer-type
3. Industry/trading activities
4. Products and services
5. Distribution channels

As some risk inherent factors are **more pertinent and influential** to the overall inherent risk profile of a business the risk factors are **weighted** so that their scores have proportionate on the overall inherent risk RAP rating.

These weightings are set by a firm and should only by deviated from on an approved exception basis.

For each risk factor, **a high, medium or low score is determined**, these are based on thresholds based on the firm's risk profile.

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The controls assessment

The controls assessment

Overview

Having determined the level of inherent risk, the next step requires the identification and evaluation of AML systems and controls in place. Through a consistent approach to evaluating the adequacy and effectiveness of the controls environment and determining a score for this, the residual AML risk faced by the business can then be calculated.

The components within the controls environment are identified and evaluated against regulatory/policy requirements or identified risk indicators and assessed for gaps/weaknesses. While the control areas will be generic, the level of granularity for assessing control processes is up to the firm, e.g., risk-based question set or more detailed analysis against firm policy or regulatory requirements.

Like the inherent business risk assessment, an organisational structure will need to be built for the controls assessment. It is worth noting that a firm's inherent risk organisational structure may not map exactly to its controls risk organisational structure as different business units may sit within the same controls framework.

Weightings

Similar to the inherent business risk assessment, the methodology should provide a weighting for each control component based on its relative importance.

This is with the view to providing an in-depth and proportionate view of the effectiveness of the controls framework, i.e., to prevent a severe weakness in a relatively minor control skewing the evaluation of the overall outcome.

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The controls assessment

Scoring

The Controls Assessment provides an evaluation of the strength of the control framework. The scoring of individual controls should reflect both adequacy (presence) of the control and also effectiveness. Useful sources for validating the adequacy and effectiveness of controls are assurance reports and testing, and risk issues information. Validation would not include any new testing of controls.

The scoring methodology should look to include objective metrics such as the performance of assurance on the control in the preceding cycle and whether there are risk issues logged against the control.

For accurate scoring, comprehensive and reliable control descriptions are required, preferably from multiple sources.

Adequacy & Effectiveness	Score
Effective	1
Adequate	2
Ineffective	3
Inadequate	4

Aggregation

Using the weightings, the control component scores roll up to give a proportionate and risk-based view of the strength of the control framework. Overrides can be applied where the assumptions of risk are higher than the outcome of the controls assessment.

Tracking remediating activity

The controls assessment provides a valuable mechanism to track and evaluate the progress of AML Change Programmes in terms of measuring their impact over time on strengthening the control framework.

The controls assessment

Presentation of Outcomes

Calculating weighted control scores in a consolidated format, gives senior management a comprehensive and holistic view of the strength of the controls framework, which can be converted into a dashboard view.

Control Area	Weighting (%)	Control Calculation	Weighted control calculation
Client due diligence	12.5	2.1	0.26
Name screening	7.5	1.7	0.13
Transaction screening	7.5	2	0.15
Ongoing monitoring	10	0.6	0.06
Compliance data & analytics	7.5	1.[illegible]5	0.09
Assurance	7.5	1.7	0.13
Governance	7.5	1.1	0.08
Regulatory change & continuous improvement	5	2.1	0.11
MI & records	7.5	1.7	0.13
Risk Assessment	7.5	1.8	0.14
SAR reporting & legal orders	10	1.3	0.13
Organisation, resourcing & training	10	1.4	0.14

Consolidated Control Score	1.55
Control Risk Rating	Needs Improvement

Rating	From	To
Deficient	0	0.99
Needs improvement	1	1.99
Satisfactory	2	3

Control Area	Weighting (%) (A)	Control Process	Weighting (%) (B)	Effectiveness of control (C)	Process Calculation (BXC) = D	Control Calculation ΣD	Weighted control calculation ΣDXxA
Organisation, resourcing & training	10	Staffing	20	2	0.4	1.4	0.14
		Roles & responsibilities	15	0	0.0		
		Basic & targeted training & awareness	30	1	0.3		
		Staff performance management & reward	10	2	0.2		
		Communications	25	2	0.5		

Residual risk

Once overall inherent risk assessment ratings and controls assessment ratings are obtained for the business unit or firm, the level of residual risk can be determined.

For example, using the residual risk heatmap on the right, combining a **medium low** inherent risk rating with a **needs improvement** controls rating provides a **medium priority** residual risk rating.

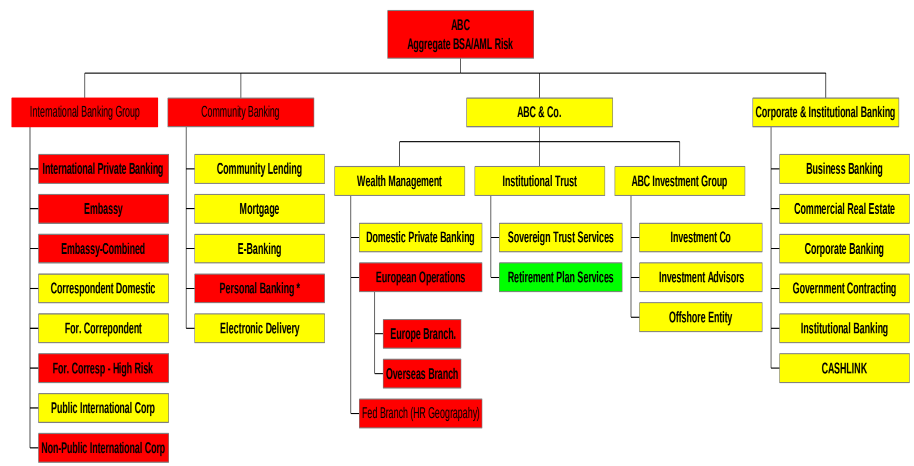
Definitions can be set on what the different residual risk ratings mean and require, e.g., is an immediate priority risk rating considered outside of appetite?

Finally, the organisation can then be illustrated by its levels of inherent, controls and residual risk as needed to give senior management a simple but effective illustration of where risks lie in the organisation.

Using these tools, financial services firms can validate or adjust their allocation of mitigating controls according to the risk-based approach across the organisation. This provides the benefit of perspective over the whole organisation whilst retaining focus on specific areas of concern.

Overall controls assessment rating

Inherent risk assessment rating	Unacceptable	Weak	Needs improvement	Acceptable	Strong
High	Immediate Priority	Immediate Priority	Immediate Priority	Enhanced Monitoring	Enhanced Monitoring
Medium high	Immediate Priority	Immediate Priority	Medium Term Priority	Enhanced Monitoring	Enhanced Monitoring
Medium low	Immediate Priority	Medium Term Priority	Medium Term Priority	Enhanced Monitoring	Ongoing Monitoring
Low	Immediate Priority	Medium Term Priority	Medium Term Priority	Ongoing Monitoring	Ongoing Monitoring



Delivery methods

The delivery approach should cover three elements:

1

The **collection** of information with an emphasis on objective reliable data.

Examples for inherent risks: customer data, product risk assessment, operational risk event data.

Examples for control risks: questionnaires, operational risk assessments, assurance reports.

Information on particular risks should be sought from each business unit to identify concentration of specific risks, e.g.:

- High volumes of SARs;
- High proportion of high risk customers
- High volumes of legal orders/frozen accounts;
- High proportion of PEPs in total customer population

2

The **validation** of the collected information using a combination of methods, e.g., onsite visits or remote discussion with local compliance teams to facilitate a better understanding of the local risk and control issues and challenge the accuracy of the responses.

3

The **review and analysis** of the data to understand the risk exposure and identify actionable compliance enhancements feeding those activities into compliance programmes and assurance plans

Right-sizing

The delivery method should reflect the nature and scale of the Financial Services firm:

- For a small entity, interviews or workshops with key stakeholders supported by data and reports
- For large homogenous financial services firms an online database tool to store and update information in real-time
- For a large, diverse Global financial services firm a questionnaire-based model

Discussion points and challenges from our experience

Through the design and enhancement of an enterprise-wide AML risk assessments, the following observations regarding the challenges faced by firms have been identified…

Operational challenges:

- Achieving firm wide buy-in and consistent understanding of the risk assessment methodology by business and Compliance staff;
- Access to source systems and data extraction to support quantitative analysis;
- Data completeness and quality
- Varying levels of understanding of terminology, inherent risk and controls data

Methodology challenges:

- Gaining internal agreement on risk categories and factors, defining assessment units with alignment to existing risk assessment activity;
- Complexity of the risk scoring methodology (quantitative vs. qualitative, management overlay, residual risk, overrides, etc.);
- Ensuring risk assessment approach and methodology is flexible enough to incorporate non-standard business lines;
- Avoiding clustering on specific ratings or scores.

Questions?

Thank you

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