

The 2011 MLROs & AML Professionals Summit

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Disclaimer

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- A third of banks happy to keep very profitable business where “unacceptable” risks arise;
- Over half of banks perform inadequate EDD & with no adverse data on customer;
- Over a third of banks have ineffective procedures to identify PEPs;
- Three quarters of banks fail to verify legitimate source of wealth and funds;
- Some banks had inadequate risk assessment frameworks: higher risk customers not identified;
- Some banks did not mitigate RM conflicts’ ;
- A third of banks had inadequate CDD records ;
- Almost a half of banks failed to regularly review high risk relationships;
- A few banks questioned the need for AML controls or the need to identify PEPs.

Good Practice

- Up to date AML policies & procedures;
- A clear definition of a PEP which is well understood by staff;
- Good quality training on high risk customers to relevant staff;
- Case by case review of risks posed by former & domestic PEPs;

Poor Practice

- Lack of commitment by senior management;
- Informal, undocumented procedures for identifying & classifying PEPs;
- Giving waivers from AML policies without good reason;
- Considering reputational risk rather than AML risk posed by customer;
- Using group policies that do not fully meet UK law and regulations;
- No Internal Audit review of policies & procedures;

Good Practice

- Robust risk assessment relevant to nature, scale and complexity of bank;
- Considers corporate structure, political links, country risk, client reputation, source of wealth/funds, expected account activity;
- Clear understanding & awareness by relevant staff;
- Clear audit trail as to why clients are rated as low, medium or high;

Poor Practice

- AML function under resourced;
- Low risk scores given to high risk countries to avoid EDD
- RMs permitted to override high risk scores with inadequate justification;
- Risk assessment tools generate very few high risk customers

Good Practice

- Comprehensive file inc. risk assessment, documents, verification, expected activity & ultimate beneficial ownership;
- Clear escalation procedures for approvals;
- Good AML compliance a factor in RM remuneration;
- Independent intelligence reports on very high risk clients;
- Documenting & understanding complex ownership structures & reasons for use;
- Judgement based on AML risk not profitability.

Poor Practice

- Reliance on Group introductions where UK standards not applied or CDD unavailable;
- Inadequate analysis and challenge of information in CDD documents;
- Inadequate recording of face to face meetings that form part of CDD;
- Over reliance on “undocumented” staff knowledge;
- Allowing “cultural difficulties” to prevent obtaining required CDD records;
- Charging business units for intelligence reports;
- Failure to consider credible allegations of criminal activity from reliable sources;

Enhanced Monitoring of High Risk Relationships

Good Practice

- Transaction monitoring “joined up” with current CDD, expected activity, source of wealth & funds;
- Regular senior management review of PEPs based on a full & balanced assessment;
- Monitoring new clients to confirm expected account activity;
- Global consistency on keeping or exiting high risk relationship.

Poor Practice

- No independent assessment by AML staff of RM reviews;
- Failure to make SARs to SOCA;
- Not applying enhanced ongoing monitoring to high risk customers;
- RMs not taking seriously queries on unusual transactions & providing standardised answers;
- Junior/inexperienced staff performing key monitoring roles.

- What evidence is there that Senior Management “ get “AML risk & takes it seriously?
- Do they allocate adequate resources (headcount, budget, IT) to AML?
- How many repeat findings are in the latest formal MLRO report?

- When did you last review your risk assessment?
- Is the current risk assigned to a particular customer properly evidenced?

- Are your AML policies & procedures up to date?
- Do they take account of both internal and external events?
- Are you confident that the policies are applied consistently throughout your Group?
- Do your overseas Group policies meet UK standards. e.g. take on, CDD, monitoring, - Are you able to access the CDD?
- Do “cultural issues” hinder you in discharging your UK responsibilities?

- Have you understood & documented the reasons why a customer uses a complex structure?
- Are you able to properly assess the reasons why complex structures are used – e.g. tax?
- Are your client KYC files properly structured, up to date, comprehensive and complete ?

- Will your monitoring procedures pick up potentially suspicious transactions?
- Do you understand the “rules” employed by your monitoring tools?
- When were the rules last revised?
- What is the ratio of SARS generated by staff v routine monitoring?

- Do you have a current list of high risk & PEP clients?
- Do you commission independent intelligence reports for very high risk clients?
- Do you regularly screen your existing clients against a PEPs database ?

- How do you monitor high risk clients compared to standard risk clients?
- Do you challenge RM responses to queries?
- Are there regular independent reviews of high risk clients?

- Do you employ high quality, experienced staff in the Take On & monitoring functions?
- Do you regularly provide focussed training to relevant staff?
- How do you monitor that they have understood the training?
- Do you have records of the training you have conducted?

- Do you rely on other parties to execute any policies or procedures?
- What evidence exists that they perform their tasks to UK standards?
- Are you able to obtain CDD from other Group companies?



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