

# Anti-Money Laundering

a global financial services issue\*







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## a global financial services issue



Money laundering is big business and, as far as many CEOs are concerned, it can mean only one thing – big problems. The prospect of opening the business pages to find that their organisation has been linked to allegations of international financial crime ranks among the worst nightmares of financial institution CEOs. Few need to be reminded that as well as costly litigation, large fines and long prison sentences, successful penetration by money launderers may also cause incalculable damage to corporate and professional reputations and careers.

With this in mind, the immediate response of many companies is to bridge any obvious gaps in their processes while struggling to ensure compliance with an ever-growing mountain of international anti-money laundering (AML) legislation and regulations. However, the time has come to slow down, take a deep breath, and be assured that there is a better way. Financial services companies worldwide have started to discover the compelling competitive advantages that can be achieved by developing a comprehensive, strategic response to the threat of money laundering. Increasingly, their boards and senior management are asking us to work with them to build an AML regime that is fully integrated into all their business processes and controls.

As a result, businesses may have greater assurance that their AML compliance programmes are sufficiently robust

to face the continuously evolving regulatory environment. Our clients are already starting to reap the tangible and competitive rewards of their strategic approach.

### The Challenge

Fundamentally, a number of core principles are widely recognised as being critical to any AML programme:

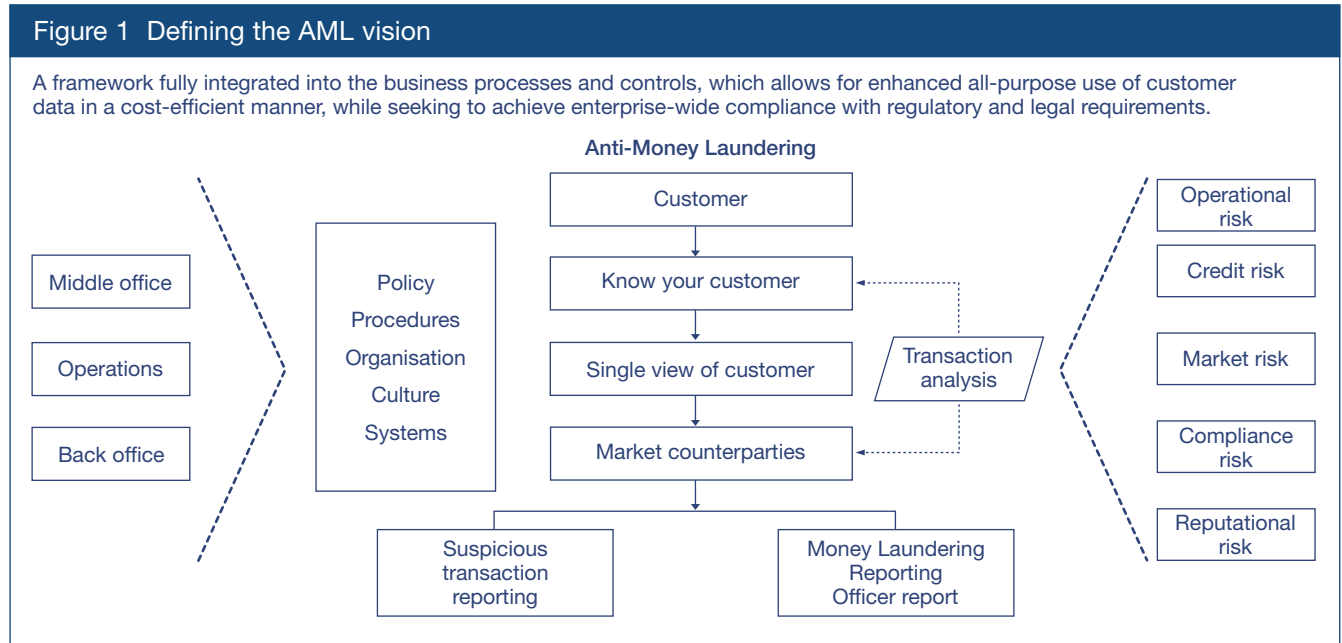
- Compliance with the relevant AML laws of the appropriate jurisdiction;
- Knowing your customer (KYC), including the source of their wealth;
- Co-operating with various law enforcement and supervisory agencies;
- Communicating the firm's AML programme through policies, procedures and staff training; and
- Continuous and sustainable money laundering risk-assessment across the enterprise.

Even at this fundamental level, it falls to the CEO to set out the organisation's stance with regard to AML and to formulate an appropriate response to the regulatory requirements in all jurisdictions in which it operates, which is frequently a complex undertaking. The Financial Action Task Force (FATF) is an inter-governmental body whose

purpose is the development and promotion of policies to combat money laundering and terrorist financing. In 1990 the FATF published 40 Recommendations which constitute global best practice for combating money laundering. In the US, compliance with the USA PATRIOT Act and the Bank Secrecy Act is of prime importance. The UK extended regulations under the Proceeds of Crime Act 2002 and, within Europe, the Third EU Directive on Money Laundering will consolidate and update previous Directives to take account of revised international standards, including the FATF's 40 Recommendations, which were updated in June 2003. Additionally, countries as diverse as Argentina, China and Pakistan are making changes to their AML regimes and this presents challenges for companies operating in these locations.

While it will inevitably add costs to the business, fostering and policing compliance alone is unlikely to secure any business advantage. Experience has shown us that an AML strategy that is integrated into the entire value chain is essential, to monitor and enforce regulatory compliance, to be operationally effective, and to become, and remain, 'in control'. Such a strategy needs to establish a watertight organisational structure and facilitate the required operational improvements while also accommodating any training and cultural development required.

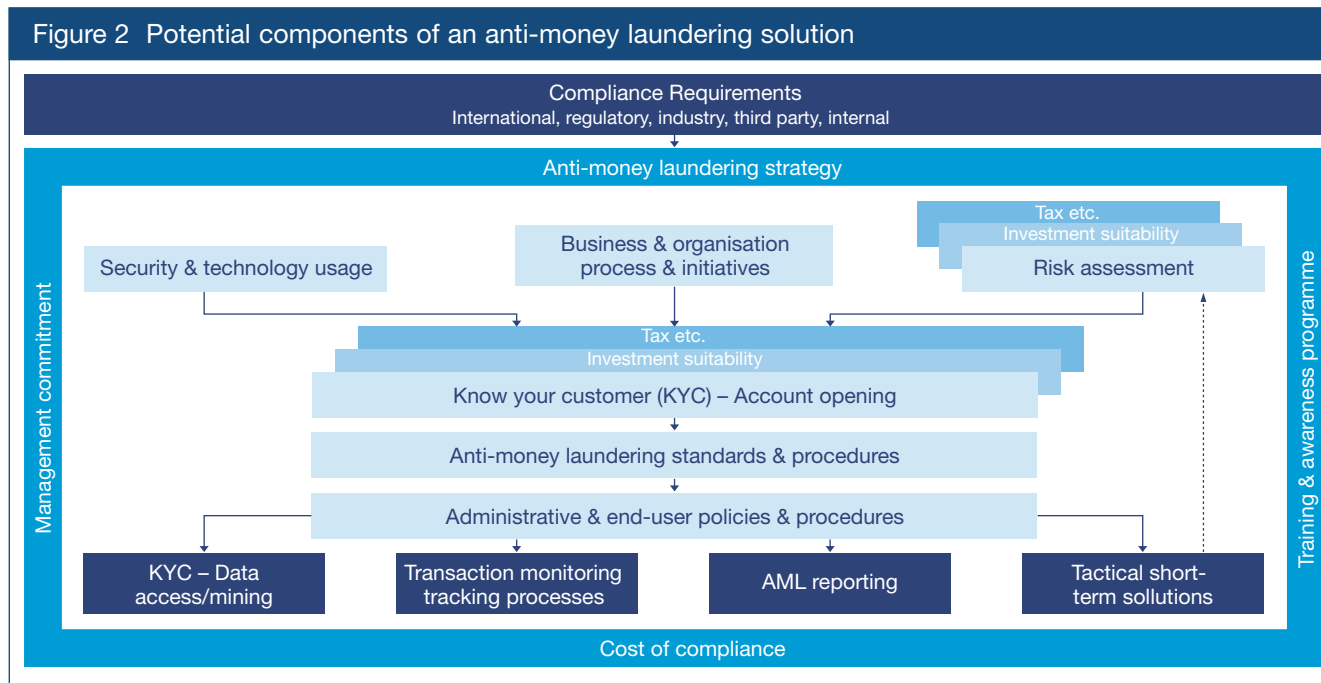
Clearly the most basic and crucial element of a financial services AML strategy is to know the customer, coupled



with the ability to identify any unusual activity that may be indicative of money laundering. The integration of KYC principles is paramount, as is the implementation of necessary data management solutions. The ability to mine KYC data to respond to regulatory requests is of prime importance and the implementation of automated tools to identify higher-risk customers and to enable transactions to be monitored is recommended. KYC is not just about AML compliance – it is fundamentally good for business.

**Your Response**

Adopting a long-term vision in formulating a response to AML can enable financial services companies to leverage the AML business model to achieve a real competitive advantage. CEOs who adopt a strategic approach find that AML can be a powerful force that drives out organisational obstacles and enables all aspects of the organisation to work together for the common good. We believe that



forward-thinking CEOs should strive to build a fully integrated AML framework that allows for enhanced all-purpose use of customer data in a cost-efficient manner, while achieving enterprise-wide compliance with regulatory and legal requirements as illustrated in Figure 1.

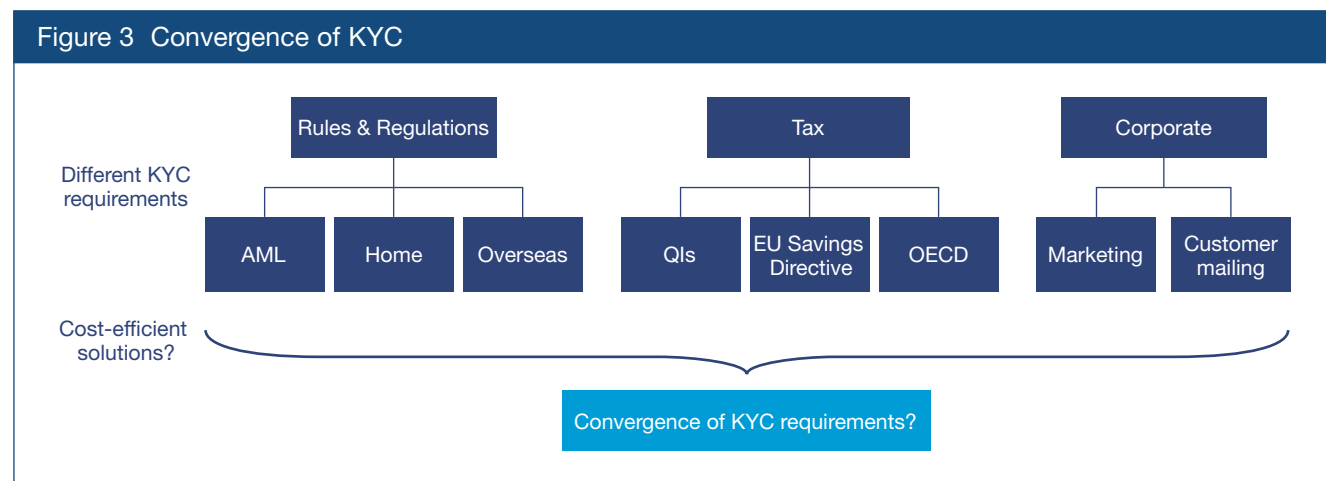
Organisations also find that significant cost savings can be achieved. Data collection and aggregation costs can be

substantially reduced if a common data model is used for all purposes. Similarly, the KYC data required for AML efforts originates at the account opening point. The business case for a dramatic process improvement by consolidating duplicate account opening processes is compelling when the cost of implementation is relatively low.

Although clearly important, costs are not the only factor to consider. Data quality for all applications is improved if it originates from a single source, maintaining integration between source systems. Analytical solutions can also be substantially streamlined where there are fewer interfaces. In addition, if customer relationship management (CRM) data is considered when designing the common data layer, CRM solutions that provide effective cross-selling amongst channels and products become more economic. Customer suitability processes also become more robust when all customer data is available to the sales staff and overall customer profitability is enhanced through more complete customer data.

### How we can help

Responding to the needs of financial services organisations, we have developed a global AML programme to help you deal with critical compliance and strategic issues associated with AML. Drawing upon our broad range of expertise, including specialists in AML compliance, financial crime, transaction monitoring tools, data management, CRM, systems, culture and change management, we are able to ensure that our clients are both protected from immediate risks and positioned to leverage the considerable strategic benefits and business value of a long-term integrated vision.



For example customer management systems need to capture relevant and up-to-date KYC information for reasons ranging from mailing a bank statement to targeting specific products based on a customer's profile. Successful targeting can only be achieved by understanding the customer's needs and objectives, as well as their transaction history much of which, if handled correctly, can be data collected for regulatory purposes. As well as re-thinking customer profiles and minimum information requirements, we are able to integrate the multiple KYC requirements and ensure that any conflicts with privacy regulations or local practices are addressed whilst maximising a firm's efficiency and effectiveness.

Our specialists work closely with companies to achieve a tailor-made solution to meet the requirements of each individual organisation. From the very beginning of the process of formulating an AML strategy, we help financial services clients by assessing the legal and regulatory requirements in the countries and jurisdictions in which they operate, segmenting business lines and developing policies and baseline standards. At the very early stages, we identify businesses that are at greater risk and require priority, as well as areas where operational improvements are achievable. We also carry out reviews of the overall corporate governance model, reporting lines and accountability. Figure 2 (see page three) provides a broad indication of the potential components of an AML solution,

although clearly our precise approach differs according to the individual needs of each organisation.

A number of facets of regulated financial business incorporate different KYC requirements and we have found that our financial services clients particularly value our contribution in achieving convergence of KYC data. This is an area that presents businesses with both opportunities and threats: a threat in that data management issues, such as data protection legislation, need to be handled carefully, but equally an opportunity in that in the long run, compliance or client identification can be transformed from a cost absorbing issue to a value enhancing element of the business (see Figure 3).

In terms of data access, we have considerable expertise in developing strategies for obtaining missing or incomplete information, as well as improving the ability to mine KYC data to respond to regulatory requests.

Banks are increasingly reliant on technology to assist them in establishing and maintaining compliance with AML regulations. The systems play a key role in:

- Providing access to reliable transaction and customer data;
- Ensuring this data is consistent, up-to-date and available when it is required;
- Monitoring suspicious activity in an accurate, timely and effective manner;



- Assisting in the management and reporting of cases flagged for investigation; and
- Providing management with key AML management information on a daily and monthly basis.

Selecting a system and preferred supplier that will support your AML requirements will set the scene for the coming months of systems implementation and required configuration. Amongst other things careful consideration should be given to systems functionality and integration, the level of configuration required and after sales support and training. Key differentiators may include; the approach to the flagging of suspicious activity, level of detection rates, the ability to provide meaningful management information and of course, the overall cost. Through vigorous short listing procedures, clear definition of core business, commercial and IT requirements, supplier workshops and the stringent evaluation of tender responses, we have worked closely with many organisations to assist them in successfully selecting leading industry AML software.

Before best of breed systems are implemented, data quality is a vital consideration. Deficiencies or inconsistencies in existing financial and KYC data can have large implications for the effectiveness and reliability of the information supplied by even the most advanced transaction monitoring systems. Having previously worked with several organisations in this area our data management experts

have first hand experience in helping to prepare and cleanse data to ensure optimum data quality for the seamless construction of data feeds and correct manipulation of data during data model implementation.

Although AML technology forms one of a number of components in an overall AML solution, good technology will equip organisations with an improved level of defence in the fight against financial crime risk, by providing:

- **Transaction monitoring** – scanning and analysing data for potential money laundering activity;
- **Watch list filtering** – screening new accounts, existing customers, beneficiaries and transaction counterparties against terrorist, criminal and other blocked-persons watch lists;
- **Automation** of regulatory reporting, filing of suspicious activity reports (SARs), currency transaction reports (CTRs), or other regulatory reports with the government; and
- A detailed **audit trail** to demonstrate compliance efforts to regulators, as well as respond to subpoenas and other requests.

We have worked closely with a range of companies implementing the systems of many leading vendors. During implementation the customisation and configuration of risk views is completed and management information requirements are finalised.

The provision of regular, meaningful, management reporting closes the loop by providing vital feedback to management, the board, stakeholders and regulators to give them a level of comfort that AML measures are effectively in place and business unit service levels are being adequately met. Organisations should place a high priority on deriving quality management information measures.

A core skill in transaction monitoring is pattern recognition. There are a range of data mining techniques that are relevant to money laundering prevention that can be implemented, including:

- **Statistical Model Building:** building profiles or 'fingerprints';
- **Clustering:** producing groups with significant differences; and
- **Link Analysis and Visualisation:** exploring associations between people, bank accounts, businesses and transactions.

All these can provide your organisation with improved success levels in the detection of suspicious activity.

Regardless of the AML technology that an organisation chooses to implement they will need to ensure a fit with existing technology infrastructure or consider the procurement and/or implementation of new infrastructure to support the applications wider data needs. Future capacity and processing requirements will also need to be forecast adequately.

Reporting and record-keeping are also important. At PricewaterhouseCoopers we have considerable experience of working with clients to review internal escalation processes, and develop ongoing reporting for compliance and ad-hoc purposes. We can also carry out a review of data retention, audit trails and book-keeping requirements.

While most of our financial services clients choose to work with us as part of a complete AML solution, our considerable experience in this area means we are also able to offer individual services to financial institutions worldwide. Among those that our clients have found to be of particular benefit are:

## Regulatory/KYC

- Advice concerning the implications of new AML regulations;
- Regulatory requirements relating to KYC (AML, QI, EUSD);
- AML risk/vulnerability assessments; and
- Remediation services.

## AML Technology

- AML software implementation, systems integration and data warehousing services;
- Integrated data management solutions;
- Risk management assessment, processes and technology, including compliance enabling technology; and
- Analytical engines.



### Other

- AML training;
- Process improvement services;
- Transition, change management and cultural change;
- Investigative and forensic accounting services;
- Due diligence and crisis management for existing problems; and
- KYC tools relating to QI and EUSD.

### Our Credentials

Our experience is drawn from more than a decade of providing risk-assessment, compliance programme design, development, training, implementation, monitoring and independent testing for AML programmes within financial services organisations worldwide. Additionally, several of our specialists have served in the AML regimes of a number of countries including the United States, the United Kingdom, Australia and South Africa, enabling PricewaterhouseCoopers clients to benefit from unparalleled first-hand understanding of AML legal frameworks and enforcement initiatives.

PricewaterhouseCoopers specialists are currently working with, or have recently worked with, leading European, South American, North American and Asian financial institutions, commercial banks, securities firms, investment companies and foreign exchange businesses on money laundering risk control. We have directed money laundering vulnerability assessments for banking and securities industry clients on every continent and made recommendations for reducing risk and establishing 'best practices' in money laundering deterrence and compliance, including implementing KYC profiling and monitoring solutions.

If you would like to discuss how PricewaterhouseCoopers AML solutions could benefit your organisation please contact one of the individuals listed on the following pages.

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