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# Building sustainable efficiencies: leveraging anti-money laundering investments\*





Level of complexity

With an estimated \$1.5 trillion to \$2 trillion<sup>1</sup> in tainted money laundered annually worldwide and due to increased scrutiny by regulators, many financial institutions have implemented quick-fix solutions to enhance their anti-money laundering (AML) programs.

These initiatives, whether driven by quick-fix enhancements, internal findings or regulatory mandates, may result in crucial, yet costly, stop-gap AML solutions. These expenditures are unavoidable, and the risks and implications of noncompliance are myriad. What can be avoided, however, are missed knowledge-sharing opportunities. When financial services organizations treat AML corrective actions or initiatives as long-term investments, they can capitalize on these opportunities.

Financial institutions are discovering that AML solutions should be broadly leveraged and positioned as an integral part of the institutional business control culture. Financial services providers can succeed in this integration and achieve greater economy and efficiency by viewing their AML solutions not as one-time expenditures, but as first steps in developing an ongoing response to money laundering.

This article discusses how banks and other financial institutions can reframe AML by championing the effective transfer of knowledge through energized approaches to their people, processes and philosophies. By shifting the perception of AML programs from reactive, problem-solving cases to proactive, enterprisewide solutions, financial institutions can reposition AML strategies as universal models for efficiency, consistency and responsibility.

Transfer of knowledge: extending the value of an AML experience through people and processes

The greatest losses for financial institutions relating to AML exposures result from inadequacies in the transfer of knowledge. Developing strategies to capture and reapply that knowledge is a key step toward realizing long-term gains from an AML program.

Knowledge transfer can be lost when the people—third-party advisors or internal designates—performing AML

functions move away from their AML roles and into new assignments and engagements.

Internally, banks and other financial institutions can spend millions of dollars recruiting and training staff to implement AML solutions, yet valuable knowledge is lost when people with AML experience are reassigned. It’s tantamount to reading a book without using a bookmark and starting over from page one each time one revisits the same book.

Technology systems and the people who developed and implemented them in initial AML efforts can provide significant insights to jump-start subsequent AML processes. Substantive findings regarding technology, such as user requirements, coding, data collection and storage, in addition to staff allocation and roles, are hard-won and valuable resources that can be leveraged for the long-term benefit of the institution. Realizing such savings of time and money are key to the drive toward sustainability.

So crucial is sustainability that PricewaterhouseCoopers is focusing its efforts for AML clients on finding and implementing ways to share and disseminate resources accrued over the life of AML engagements. At the firm’s urging, our financial services clients that receive AML services are beginning to train and recruit personnel to work side by side with PwC professionals. In this model, PwC teams work in concert with clients, in contrast to the historic approach of practitioners applying remedies as isolated entities. This critical step also avoids the potential perception by regulators that the financial institution has abdicated its AML control to outsiders.

Similarly, PwC provides clients with appropriate documentation and learning derived from the completed AML process. This enables clients to capture, internalize and reapply the wealth of knowledge the engagement yielded.

The firm’s emphasis on AML programs as long-term investments is an outgrowth of its technical experience combined with its commitment to perform as a trusted advisor to its clients. The goal of empowering clients to take ownership of the AML lifespan requires an internal realignment in the way banks and financial institutions think about and approach their AML responses and resources.

Philosophy and operations: AML is part and parcel of the banking business

Regardless of whether the AML process is driven primarily by an outside firm or internal resources, management can make significant strides to build and sustain long-term benefits by investing the time to listen to the “boots on the ground” before they march out the door. Further, management can progress more efficiently if personnel are in place to receive and act on accrued knowledge for future implementations.

Optimally, AML will not reside or remain solely within the compliance function at the enterprise level. In our view, AML is woven into the bank’s risk management. In an effort that runs parallel to current AML procedures, processes should exist or be developed to facilitate the export of AML expertise and related systems to business units across functions and locations throughout the institution. Otherwise, future AML needs will likely necessitate costly replication of successful work.

Sustainability: the AML investment imperative moves to the boardroom

Such systemic shifts mean that AML sustainability now generates significant attention and institutional support throughout an organization, from the CEO and chairman through the executive ranks and beyond.

The need to elevate AML as an issue and as a methodology is evident on numerous fronts. The nature of money laundering demands constant vigilance. At the same time, financial institutions functioning internationally would benefit from coordinating domestic and global AML initiatives.

In the US, the Bank Secrecy Act of 1970 and the USA PATRIOT Act of 2001 sandwich six other legislative initiatives motivated, at least in part, by the drive to fight money laundering. Still, criminal abuse of financial institutions is a \$1.5 trillion to \$2 trillion shadow industry, comprising some two to five percent of global gross domestic product (GDP) annually, according to the Inter-American Development Bank (IDB) in a 2006 report by the US Department of State.

The threat can be even more dramatic abroad. In Latin America and the Caribbean, the IDB estimates that money-laundering transactions could comprise as much as 6.3 percent of the GDP.

AML programs vary in intensity and reliability by country and require ongoing monitoring around the world. In recent years, many financial entities that do business with foreign financial institutions and non-US high-net-worth individuals have spent significant sums to meet new regulatory requirements from the US Treasury Department’s Financial Crimes Enforcement Network (FinCEN), according to a 2007 American Banker report.

Experience indicates that financial services institutions will continue to face robust challenges posed by money-laundering schemes in the US and around the world. Today’s solutions can contribute significantly to surmounting tomorrow’s challenges, whether they arise within the core compliance area or at the business unit level, through an internal or external audit, or from other outside factors, such as legislation, regulations or continuously morphing global realities.

The goal of countering the money-laundering agenda cannot be achieved by merely resolving compliance issues the first time they arise—the “band-aid” effect. Rather, these early indicators provide the opportunity to view the future needs horizon and lay the groundwork for developing thorough, internalized, long-term AML operations and the knowledge-transfer dexterity to support them.

<sup>1</sup> 2006 U.S. Department of State report