

## Customer Risk Rating (CRR) model optimisation

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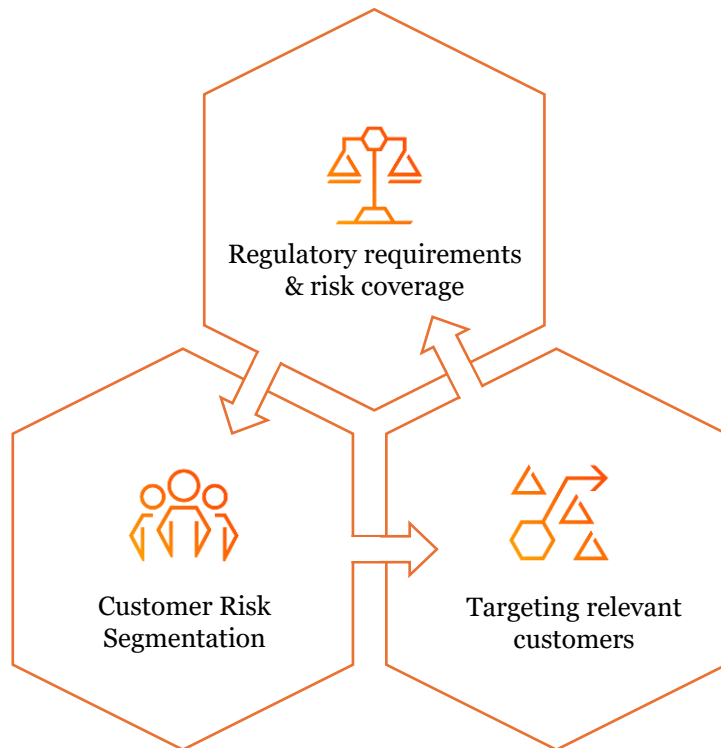


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To effectively protect themselves from money-laundering risks, financial institutions implement a range of financial crime prevention measures. A critical part of this effort is knowing where to focus their attention, which is achieved through a risk-based approach. Within this framework, a customer risk-rating model plays a central role, helping institutions assess and manage AML risks more efficiently and accurately.

### Need to align CRR model with requirements



### Regulatory requirements and risk coverage

Our clients need to enhance their AML/CTF monitoring effectiveness, taking into consideration the existing obligations deriving from the AML/CTF regulatory framework, international best practices, as well as those deriving from the European Banking Authority's Guidelines as their CRR models have been in operation for many years without any thorough review and complex gap assessment against the current expectations.

### Inadequate Customer Risk Segmentation

Based on our experience in the Mongolian market, some CRR models especially for retail customers provide limited differentiation across customer risk profiles, usually resulting in a large proportion of customers being classified as low risk. This may, in turn, reduce the effectiveness of a genuinely risk-based approach.

### Targeting relevant customers

CRR models often over depend on a few regulatory risk indicators with a strictly bipolar scoring. A customer is directly assigned with either medium/high risk, or low risk based on their political exposure, geographical links, business activity, etc. But there is nothing much in between. The other aspects, especially behavioural indicators, are usually underrepresented, or absent.

See the typically observed aspects on the next page.



## Frequent suboptimal aspects, we can help you address

- A** **Unexpectedly high percentage of non-retail customer in medium-risk level:** It is necessary to analyse the major contributors, apply more granular scoring.
- B** **Only a couple of risk indicators contribute to risk profile of retail customers:** The parameters of the understated contributor need to be tuned to reflect statistical distribution of customer data.
- C** **Behavioural risk indicators are missing or having only a negligible contribution:** (New) indicators can be configured to score customers based on the size of deviation from usual behaviour
- D** **Gaps between requirements and CRR model:** It is necessary to validate if all external and internal requirements are accurately translated into the CRR model business definition.
- E** **Scoring lists do not sufficiently diversify the risk associated with individual categories:** Applying more granular weights and/or more detailed categories is essential for efficient scoring.
- F** **Deviations between model business specification and actual implementation:** Program code and parametrization review, or back-testing validation, can reveal any typos or incorrect parameters.
- G** **Static risk indicators with an exaggerated impact:** The indicator's rules need to be customized to correspond with the statistical distribution of customers' data, providing more detailed categorization.

**Are you unsure how your CRR model work?**  
Please feel free to contact us for more details.



**Our Financial Crime Technology and Analytics capabilities in the domains of CRR, Transactions Monitoring, Sanctions Screening and Fraud cover the whole range of your AML technology related needs:**



**Vendor Selection**



**Implementation**



**Assessment**



**Optimisation**



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