Navigating the Demands of Regulators while Controlling the Costs of Anti-Money Laundering Compliance

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Are regulators taking a closer look at your AML compliance programs?

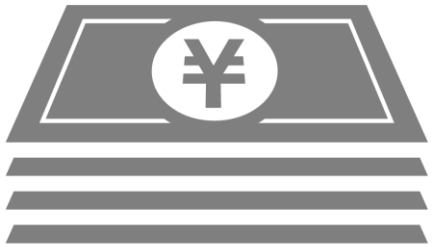
Since 2012, billions of dollars in fines have been levied in high-profile cases involving money laundering activities.

The U.S. Department of Treasure has stepped up enforcement of anti-money laundering (AML) surveillance requirements. Regulators are taking a closer look at firms AML compliance programs. In addition to monitoring timeliness in reporting suspicious activity, they are increasingly focused on the structure and governance of compliance initiatives as well as the technology that supports these programs.

Financial institutions, working to ensure compliance while reducing costs, are taking a fresh look at their AML systems with an eye toward expanding automation, improving performance, standardizing processes, and improving transparency. Firms that invest wisely can create a compliance environment that meets immediate and future AML requirements and serves as a platform for improving overall governance and risk management.

Stemming the rising tide of money laundering activity

This requires constant vigilance and investment – an increasingly expensive and time-consuming proposition for financial institutions. Today, financial firms are focused on navigating an increasingly complex and demanding regulatory environment with the goal of ensuring compliance, reducing risk, and controlling costs.



AML requirements are not new

Bank Secrecy Act

With its passage in 1970, the BSA enlists U.S. financial institutions in efforts to identify and prevent money laundering to support criminal activity.

Most notably, the act mandated that financial institutions keep records of cash purchases of financial instruments, file reports of cash transactions of more than $10,000, and report suspicious activity.

Following the September 11, 2001 terrorist attacks, AML requirements were updated and strengthened significantly in the far-reaching USA PATRIOT Act. For example, the act criminalized financing of terrorism and expanded the BSA framework by strengthening customer identification procedures. It also expanded due diligence procedures; subjected all financial institutions to AML requirements; and mandated that financial services organizations respond to regulator requests within 120 hours.

A few years later, the Intelligence Reform & Terrorism Prevention Act of 2004 amended the BSA further to expand reporting requirements for certain cross-border electronic funds transmissions.[1]

[1] History of Anti-Money Laundering Laws, U.S. Financial Crime Enforcement Network, U.S. Department of the Treasury

Monitoring and Compliance are Maturing

Aggressive Regulators

It's been more than a decade since the passage of the USA PATRIOT Act; expectations are changing and regulators are becoming more aggressive in efforts to stop money laundering.

In doing so, they are asking more of financial institutions. For example, regulators are now looking more closely at the processes and systems institutions use in AML monitoring and compliance efforts, and how they are updated and maintained to reflect new requirements and changing modes of financial crime.

As recently as May 2016, FinCEN has issued a ruling on beneficial ownership with respect to customer due diligence requirements. The final rule requires covered financial institutions to adopt due diligence procedures to identify and verify a legal entity customer's beneficial owner(s) at the time a new account is opened.

The message is clear

Higher compliance and governance thresholds are here to stay; financial institutions must respond or risk costly sanctions.

It is important to consider that, looking beyond the mandate, there are new opportunities for forward-thinking financial institutions. By rethinking their approach to AML governance, financial institutions stand to reduce direct and indirect financial and reputational risk significantly and strengthen overall compliance and risk management initiatives.

A financial institution's willingness to work with regulators and take strides to meet the stringent demands of the BSA to root out money laundering illustrates a higher level of corporate responsibility.

Financial institutions must understand the optics of embracing efforts to stop money laundering. The practice impact of AML monitoring and compliance is clear. The secondary effect – building goodwill – arguably has an even greater impact on an organization's reputation in the industry and community.

AML monitoring and compliance grows more complicated

Within a few years of the USA PATRIOT Act's enactment, virtually ever tier 1 and 2 financial institution had an AML system in place, whether a custom-built application or a commercial off-the-shelf solution.

These first-generation solutions largely met organizations' immediate compliance needs, but circumstances have changed significantly.

- Financial crime schemes grow ever more sophisticated
- AML solutions cannot scale as organizations and transaction loads grow
- Cost of technology, as well as IT management and analyst expenses, are ballooning compliance budgets

While the pressure to do more to stop money laundering increases, the job of AML monitoring and compliance grows more complicated. Today's large banks process hundreds of millions of transactions each day and growth continues unchecked.

Transaction monitoring is not enough

The siloed approach precludes the enterprise-wide visibility that has become essential as financial crime becomes more sophisticated.

Financial institutions need an enterprise-wide management information system that provides reports and feedback that enables management to more effectively identify, monitor, and manage the organization's BSA risk on a timely basis.

Further, organizations are finding that transaction monitoring is no longer enough. They are looking to automate analysis of alerts in a way that can reduce false positives, and ultimately, cut analyst costs.

In addition, financial services organizations find that they must now defend the models and methodologies used in automating analysis, as well as across their broader AML compliance programs. Many legacy systems do little to support these emerging requirements.

Lastly, regulators are requiring faster responses to their inquiries – a challenge that grows as data expands.

To accommodate growing transaction volumes, today's tier 1 financial institutions have thousands of analysts looking at and investigating alerts – a very labor intensive and expensive process.

As such, organizations seek to optimize performance of their analytical environments just as they look to expand automation.

Meet changing requirements

Financial institutions that invest wisely have the opportunity to gain a new level of insight, transparency, and automation, which can significantly reduce risk and compliance costs.

Considerations to keep in mind when planning for a next-generation AML environment include:

- Focus on data quality
- Ensure flexibility and scalability
- Make the most of automated analytics
- Performance is critical
- Consider portability
- Ensure a closed-loop process
- Evaluate investment optimization potential

Conclusion

Growing challenges, evolving technology

The landscape has changed quickly. Financial crime has grown dramatically, and regulators have tried to keep pace with an increasing number of threats by imposing significant mandates on the industry. Financial institutions truly are fighting a battle on two fronts.

As challenges on both sides have grown, organizations' technology requirements are evolving. Today's financial firms seek AML solutions that deliver a unified view, enable new levels of analytical automation and process standardization, ensure scalability, and support a closed-loop compliance program.

thank you

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