



The Common Minimum Program on AML – Are you ready?

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The FATF membership is expanding. There is more coordination amongst the Asia Pacific Group (APG) on Money Laundering. The US Fed and UK's FSA have set up a joint working group to move towards a more robust financial monitoring and regulatory environment, currently mauled by the sub-prime crisis.

Globally, there are signs of significant collaborations amongst regulators to explore common or similar rules and guidelines operating in their financial markets, especially so to tackle money laundering and terrorist financing.

There are clearer guidelines requiring financial institutions to upgrade their policies, processes and program management. The comprehensive lists of requirements set by matured regulators is forcing countries to make an assessment of their AML regulations and for financial institutions operating in multiple jurisdictions to assess their systems and processes vis-à-vis the common requirements.

Technology is at the core of this compliance with global requirements, whether in customer profiling for a risk-based approach, simple record keeping, transaction monitoring or KYC needs.

Establishing systems and processes for collecting and retaining both identification and transaction related records in a manner from where the details can be easily retrieved as and when required would be important. This would help comply with all global sanctions lists that need to be monitored. Some of the banks, a few of the larger ones, have the systems, but they are often fragmented. They are not

integrated and do not allow the access of all customer related data on a system. This becomes even more relevant from a transaction monitoring system perspective.

The anti-money laundering laws require banks to capture suspicious transactions and report these. One of the functions of the central reporting/monitoring cell of the regulator (referred to as the *Financial Intelligence Unit* – FIU in many markets) is to review suspicious transactions reported by the banks. However, this is not systemized and these reports are mostly a few months old when they are up for review within the bank. With the globalization of AML laws the banks in these countries will have to establish systems and processes that are more dynamic, real-time and automated on the transaction monitoring front. Complex threshold parameters will need to be operated on an ongoing basis.

The technology requirement is not limited to the identification of suspicious transactions, but also extends to reporting these suspicious activities to the relevant authorities. Processes will have to be built and documented around these systems as filters will be applied at each level of screening (alert monitor, AML officer, compliance, business, MLRO, etc...) before these are finally reported to the FIU.

Adoption of a Risk-based approach on AML and its application to the existing customer base (consumer and corporates) will need to be demonstrated to the regulator within a given timeframe. This customer database of the bank will need to be run past the AML risk based model and high-risk customers highlighted and addressed appropriately. This in turn would mean a significant amount of data cleansing, analytics and mining, in addition to training and communication for the banking staff to ensure adherence and awareness of compliance needs, “suspicious matter reporting obligation” and on not breaching the tipping-off rules. Also, all banks providing correspondent banking services to their counterparts in several countries will be required to provide a certification that the correspondent bank does not do business with shell banks. This declaration is one of the key requirements of the US Patriot Act. The challenge however, is in identifying the relevant customers across the bank in an efficient manner.

Additionally, financial institutions would be required to implement processes to undertake certain additional measures against a jurisdiction or an entity wherein, it

is determined that any of these are high risk and thereby are of 'prime money laundering concern'. The Financial Institutions will have to strengthen their record keeping procedures to ascertain the identity and addresses of the participants to a transaction, specifically the beneficial owner of the funds by obtaining information on his or her accounts operating in the country by a person who is a non-citizen.

There is clearly a significant amount of work to be done to achieve the desired levels of compliance. However, the greater challenge is not as much as what is to be done, it lies in the how to achieve this mammoth task in an efficient manner without disrupting the focus of the business operations. Inaction in this environment, wherein the regulator is ready to make an example, is not an alternative.

About the Author

Mr. Sarabjeet Singh is a Partner in the Risk & Advisory Services practice at BMR, where he leads the firm's Anti-Money Laundering solutions.

Sarabjeet has led several global AML / KYC implementations for large financial institutions. He has developed and deployed operational models to improve the effectiveness and efficiency of KYC programs; provided strategic guidance on risk based frameworks and transaction monitoring; and advised clients on their preparation for regulatory reviews.

Prior to joining BMR, Sarabjeet worked for Arthur Andersen and Ernst & Young. He has over 15 years' professional experience; delivering a wide range of services in internal audit, process solutions and data analytics. In addition to his Financial Services expertise, he has worked extensively in the Retail, Energy, Chemicals & Utilities sectors.

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