

Demystifying Risk Assessment October 6, 2014

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Risk Assessment as a Tool

- Evolution of the AML Risk Assessment
 - “Risk-based” AML Program
- Understanding AML Risk – *KEEP IT SIMPLE*
 - What do we offer and who is our customer?
 - What is the risk?
 - How do we reduce the risk?

Assessing the Risk

- Serves as the foundation of an effective AML/CFT compliance program
- Requires a consistent approach, tailored to the financial institution
- Describes the methodology and rationale for the assessment
- Determines the adequate risk responses
- Translates outcomes into actions
- Decision making is relevant and informed

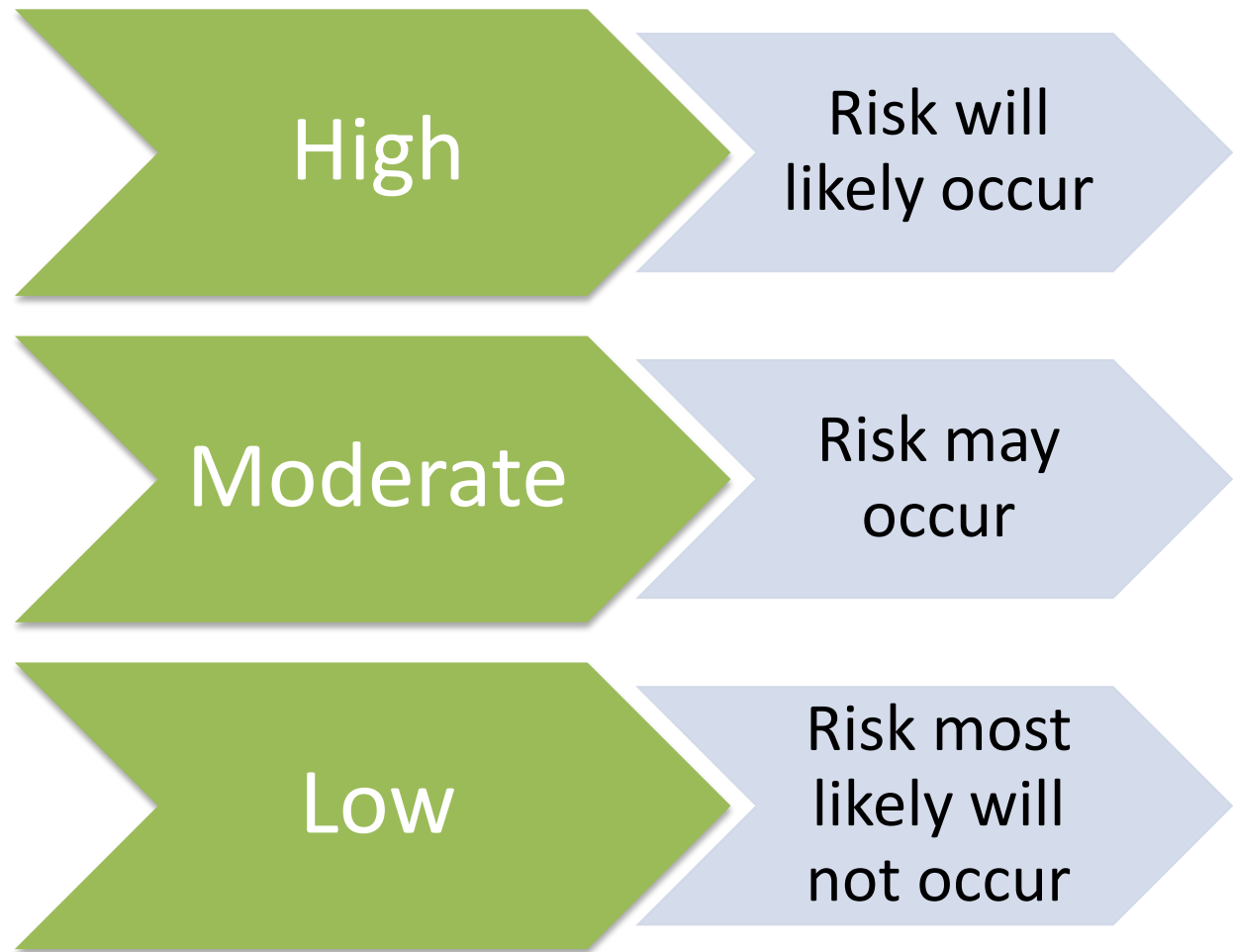
Designing the Risk Assessment



Inherent Risk = Two Components

- Magnitude (extent to which factor would cause potential damage)
- Likelihood (probability that damage will take place)

Example: Rating Inherent Risk



Completing the Risk Assessment

CORPORATE AML RISK ASSESSMENT

OPERATIONAL RISK					
RISK FACTOR	SAMPLE LOW RISK	SAMPLE MEDIUM RISK	SAMPLE HIGH RISK	MITIGATION CONTROLS (reduces risk)	OVERALL RISK L-M-H
AML Compliance Program	AML Compliance Program is documented, implemented and aligns to the AML Risk Assessment.	AML Compliance Program is documented, but does not align to the AML Risk Assessment.	No documented AML Compliance Program or implemented AML Compliance Program		
Designated AML Compliance Officer	AML Compliance Officer is designated and his/her roles and responsibilities are defined.	AML Compliance Officer is designated without defined roles and responsibilities.	AML Compliance Officer is not designated and the roles and responsibilities are undefined.		
Independent AML Program Review	Independent review is performed by an independent and competent party at a frequency aligned to the overall AML risk for the company.	Independent review is performed infrequently by the Compliance Officer, or is performed by someone reporting to the Compliance Officer.	Independent review is performed by the Compliance Officer or is not performed.		
AML System Data Integrity	Error recognition software is in place to prevent invalid data for customer transactions.	Employees can override error recognition software and still complete the transaction.	There is no error recognition software in place.		
AML Data Security	Data is secured and there is a Business Continuity Plan in place for backup of key records.	Data is secured, but there is not a strong Business Continuity Plan in place.	Data is not secured and there is no Business Continuity Plan in place.		
Employee Turnover	Low turnover of key or frontline personnel.	Low turnover of key personnel, but frontline personnel may have moderate turnover.	High turnover, especially in key personnel.		
Employee AML Training	There are standardized and frequent AML trainings for all employees, including new hire training prior to the processing of a transaction.	There are some periodic AML trainings for employees and new hire training.	There is limited or no employee AML training.		

Completing the Risk Assessment

Operational Risk, Continued

Transaction Limitations	Transaction system automatically prevents transactions over the designated dollar amount.	There is manual Monitoring of transaction dollar amounts to prevent the processing of transactions over the designated limits.	There is no system or manual monitoring in place to limit transactions over a certain dollar amount.		
AML Transaction Monitoring	Transactions system allows for ongoing automated transaction monitoring alerts for suspicious activity.	There is periodic manual transaction monitoring performed for suspicious activity.	There is no transaction monitoring performed for suspicious activity.		
Recordkeeping	All key AML records have been identified along with the required maintenance period, and there is monitoring to ensure the recordkeeping occurs appropriately.	Most key records are identified along with the required maintenance periods. There is no monitoring for compliance with the requirements.	There is no designation of key AML records to maintain or the required maintenance periods.		

Completing the Risk Assessment

CUSTOMER RISK					
Customer Base	Customers are all well known.	Customers vary and are not all well known.	There is a large and growing customer base with very few known customers.		
Customer Identification	Customer identification is entered into and maintained within a system that can be used for transaction monitoring.	Customer identification is maintained on hard copy paperwork and not in a system.	Customer identification is not consistently obtained and maintained.		
Customer Identification Based on Transaction Amount	Transaction system requires additional customer identification for transactions above a certain amount.	There is manual monitoring in place to ensure additional customer identification is obtained for transactions above a certain amount.	There is no process in place to obtain additional customer identification for transactions above a certain amount.		
Politically Exposed Persons (PEP)	No customers are known to be a PEP.	Some customers are known to be a PEP.	Numerous customers are known to be a PEP or are connected to international political figure.		
Customer with Previous SAR-MSBs Filings	No customers with previous SAR-MSB filings.	Some customers with previous SAR-MSB filings.	Numerous customers with SR-MSB filings.		

Completing the Risk Assessment

PRODUCT RISK					
Money Transfers	Limited number of money transfers that are mostly domestic to low-risk jurisdictions.	Moderate number of money transfers, with some international transfers to typically low-risk countries.	Large number of money transfers; frequent transfers to or from, high-risk jurisdictions.		
Mobile Money Transfers	Very few, if any, mobile money transfers.	Some mobile money transfers by known customers.	Many mobile money transfer transactions.		
Monetary Instrument Purchase	No monetary instruments are purchased or instruments do not typically total \$3,000.	Some monetary instruments purchased, with some instruments exceeding \$3,000.	Monetary instruments exceeding \$3,000 are purchased on a daily basis.		
Domestic Bill Pay	No domestic bill pay transactions performed.	Moderate number of domestic bill pay transactions performed.	Large number of domestic bill pay transactions performed.		
Prepaid Cards	Very few prepaid cards purchased/reloaded. The limited transactions occur in person and not online.	Some prepaid cards purchased/reloaded both online and in person.	Cards can be purchased and reloaded online (i.e., no face-to-face interaction with the customer); large number of these types of transactions.		
Frequency of Structured Transactions	Few, or no, large currency or structured transactions.	Moderate number of structured transactions.	Large number of structured transactions.		

Completing the Risk Assessment

GEO RISK					
U.S. Southwest Border (includes Arizona & 200 miles north of U.S. and Mexico border in the states of CA, NM & TX).	No transactions to this high risk area. Company is not located within this area.	Some transactions are conducted to this high-risk area.	Company is located in this area and/or many transactions are conducted to this area.		
HIDTA (High Intensity Drug Trafficking Area)	Company is not located in a HIDTA. There are few, if any, transactions involving a HIDTA.	Company is not located in a HIDTA; there are some transactions involving a HIDTA.	Company is located in a HIDTA; there are a large number of transactions involving HIDTAs.		
HIFCA (High Intensity Financial Crime Area)	Company is not located in a HIFCA; there are few, if any, transactions involving a HIFCA.	Company is not located in a HIFCA; there are some transactions involving a HIFCA.	Company is located in a HIFCA; there are a large number of transactions involving HIFCAs.		
Areas Identified as Non-Cooperative with FATF (www.fatf-gafi.org)	No transactions to these high-risk areas.	Some transactions are conducted to these high-risk areas.	Many transactions are conducted to these high-risk areas.		
Countries Identified as Supporting Terrorism by Secretary of State (www.state.gov/s/ct/)	No transactions to these high-risk areas.	Some transactions are conducted to these high-risk areas.	Many transactions are conducted to these high-risk areas.		
Areas Identified as High Risk by International Narcotics Control Strategy Report (www.state.gov/j/inl/rls/nrcrpt/)	No transactions to these high risk areas.	Some transactions are conducted to these high-risk areas.	Many transactions are conducted to these high-risk areas.		

Tracking Changed in the Risk Assessment

TRACKING LOG			
DATE	DESCRIPTION OF ITEM	PROCEDURE IMPLEMENTED	DATE OF CHANGE

Organizing the Information

Rlskk Matrix

Agent Information		GEO Level	Products & Services				BSA/AML Requirements						Agent Risk Profile
Agent or Store #	Agent or Store Name	Geographic Areas Served	Check Cashing	Money Orders	Money Transfers	Prepaid Cards	AML Training	SAM	Money Order Violations	SARs	CTRs	Subpoena Requests	Risk Level
1	Joe's Store	M	X				1	1	1				1 = Low
2	Jack's Store	H	X	X	X	X	2	2	2				4 = Mod to High
3	Mary's Store	L			X		1	1	N/A				1 = Low
4	Ellen's Store	H	X	X	X	X	2	3	3				5 = High
5	Mary's Store	M	X	X	X		1	2	1				3 = Mod

Next Steps in the Process

- Sort your risk rated agents/stores
- Design agent/store oversight process around risk matrix
- Conduct back-office monitoring based on risk matrix
- Schedule training based on risk matrix
- Update the risk matrix based on store reviews

Pitfalls: Assessing the Risk

- Insufficient mitigating controls
- Inadequate coverage of risk factors
- Inadequate coverage of high risk customers
- Inability to assess and monitor on a program-wide basis
- Systemic risk may not be apparent in a risk assessment approach

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