



Reducing the Cost of Compliance through AML Operational Optimization

October 2015

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Regulatory Updates



Key AML Compliance Cost Areas



KYC Operation Optimization



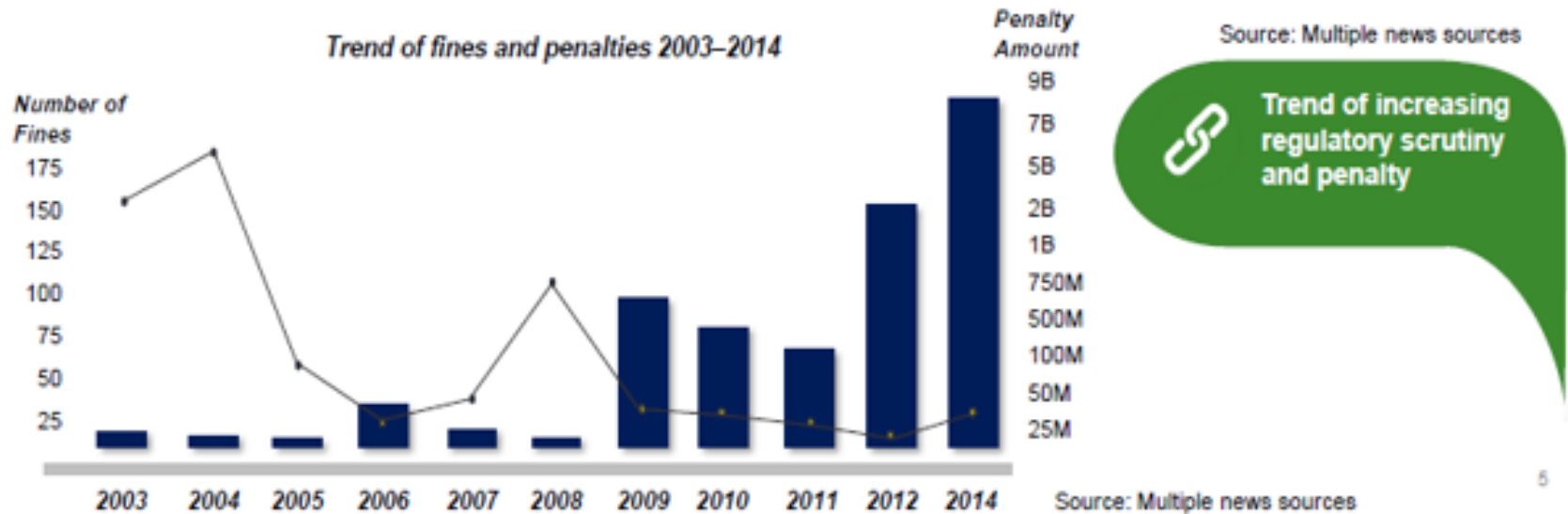
Transaction Monitoring Cost-Effectiveness



Looking Ahead

AML Tops the agenda of regulators globally

Record-breaking Monetary Fines and focus on senior management



Other Enforcement Actions:

- HK SFC bans a former CEO of a Chinese bank for 12 months over internal control failures for AML compliance.
- The Federal Reserve told a Chinese bank to ramp up its AML framework, the first enforcement action by the U.S. central bank against one of China's four largest state-owned banks.

Key Events Re-define Industry Standards

In addition to looking into policies, procedures and systems, regulators also get into the overall effectiveness of the AML operations and controls

FINRA, FSA (now FCA) – focus on individuals (AML Os) for AML weaknesses

Regulatory audit / inspection now focus on the operations and effectiveness of the AML / FCC operations

Regulators test skills and knowledge of staff – qualitative assessment is done by interviewing staff, amongst others

Inspecting minutes of meetings and files to ensure that AML risks are escalated and have senior management input and oversight

New developments from FATF perspective – TBML, new technology (mobile banking etc.), tax evasion

January 2014 – BCBS issued guidelines on how banks should include management of risks related AML / CFT within their overall risk management framework

July 2014 – the FinCEN proposed amendments to existing BSA regulations that would impose explicit customer due diligence requirements, including a new beneficial ownership requirement.

FATFC generally requires a financial institution to know whether a 10% owner of certain entities is a US person or not based on a self-certification provided by the entity. For most of the AML/KYC reviews, the threshold is normally 25% (for low risk customers).

January 2015 – the FDIC released a statement encouraging institutions to take a risk-based approach in assessing all individual customer relationship rather than “de-risking”, or declining to provide services to entire categories of customers

Global Push for Combating Financial Crimes



Asia

- The AML regime globally and in Asia continues to be under much regulatory scrutiny
- Key events are the mutual evaluation in Australia, Singapore, Hong Kong, India and others

Europe

- EU is focusing on ML/TF risk since Feb 2013 and is updating the AML Directive
- FSA (now FCA) – has fined individuals (AML Os) for AML weaknesses

US

- Huge fines being imposed by US regulators for sanctions framework failures
- New CDD requirements issued by FinCEN

General

- Tax evasion, trade finance, new technologies, risk assessments, virtual currencies

FATF guidance to consider:

1. FATF's draft Guidance on Transparency and Beneficial Ownership (October 2014): The FATF has set international standards which require countries to implement measures to ensure that accurate information on the beneficial ownership of legal persons and legal arrangement is available to competent authorities in a timely fashion.
2. The FATF adopted the risk-based approach guidance for the banking sector which gives clear guidance on how to properly implement the risk-based approach, and is explicitly meant to be read in conjunction with the FATF Guidance on AML/CFT and financial inclusion.

AML/CTF & Basel III

AML risk tolerance, effectiveness of AML risk management framework and single client view are critical to enhance compliance standards

Risk management guidelines related to anti-money laundering and terrorist financing issued by the Basel Committee (15 January 2014):

- Assessment and understanding of risk
- Board responsibility and governance
- Effectiveness of three lines of defense
- Transactions / ongoing monitoring
- Due diligence and customer acceptance policy
- Verification of beneficial owners and risk profiling
- MIS – record keeping, updating and reporting to supervisors
- Reporting suspicious activity and freezing of assets
- Group wide / cross border management of customer risk, management of risk, consistent policies and procedures and information sharing

Regional Regulatory Updates



Hong Kong

- May 2015 – Hong Kong Securities and Futures Commission (“SFC”) published a new circular concerning know-your-client (“KYC”) and account opening procedures through intermediaries. If an affiliate of an intermediary is appointed to conduct the Certification Process, it is the responsibility of the intermediary to ensure that the affiliate has maintained and implemented the equivalent policies and procedures that are applicable to intermediaries in performing the Certification Process. Intermediaries are strongly discouraged from appointing any affiliate which is not a regulated financial institution to conduct the Certification Process
- March 2015 – HKMA issued guidance paper regarding AML controls over tax evasion, which posted requirements regarding CDD, STR reporting, Independent testing and training for tax-risk. A list of “red flags” has also been provided by the regulator.



Singapore

- June 2015 – The MAS (Amendment) Act has come into force on 26 June 2015, implementing provisions with new requirements of conduct customer due diligence and maintain records on transactions and information.
- April 2015 – The MAS released the updated MAS Notice 626. The changes aim to ensure that the AML/CFT regime is effective and in line with international best practices and FATF’s latest recommendations.



China

- China has enacted various legislations to enhance its criminalization of money laundering and terrorist financing
- Anti-graft and anti-corruption Campaign has been in the center of President Xi and current government’s agenda
- Regulators are formatting new regulations regarding internet finance, such as digital banking, P2P lending, and virtual currencies.

Key Financial Crimes Themes/Trends

- Robust risk-management framework (Basel III)
- Importance of maintaining a “culture” of compliance and risk management
- Regulators placed the responsibility squarely on the shoulders of management
- “de-risking” vs. Risk-based Approach
- New beneficial ownership requirement
- U.S. sanctions developments: Russian, Ukraine-related, Iran, and Cuba
- Annual risk assessment
- Anti-Bribery & Corruption
- Tax Evasion
- Money services businesses (“MSBs”) and third-party payment processors (“TPPPs”)
- New technologies, such as digital money, blockchain technology

Impacts for Financial Institutions

- AML is the top priority for senior management
- Costs of compliance continue to rise for financial institutions
- Regulatory approach was ranked as the top AML concern, with the key challenges of increasing regulatory expectations, and managing regulatory requirement differences in various countries.
- A global approach has to be adopted for financial institutions operate in multiple jurisdictions
- Politically exposed persons (PEPs) & Correspondent Banking Relationship remain an area of focus, gaining increased attention from senior management
- KYC continues to be an area of concern because of the challenges on operational cost, staffing and overflow management
- Transaction monitoring systems continue to represent the greatest area of AML spending, while questions of effectiveness are raised by both banks and regulators
- Sanctions compliance remains a challenge as new issues emerge

Key Compliance Cost Areas



Updating and Maintaining Know Your Customer (KYC):

Institutions continue to execute KYC remediation and look-back efforts while maintain BAU KYC needs. In addition, as financial institutions move to a “360 degree” view of the customer, they can expect to face higher costs to define and implement global KYC standards, policies and processes due to the complexity of working in multiple regions and operating with siloed teams.



Enhancing Transaction Monitoring (TM) Systems:

Pressure from regulators on institutions to take a “zero failure” approach to financial crime, is encouraging continued investment to improve and enhance current systems. Monitoring across multiple systems is also leading to higher operating costs. It represents the biggest spending, while satisfaction for these systems has declined with regards to efficiency and effectiveness.



Retaining AML Staff and Building AML Talent Management Programs:

Attracting and retaining skilled employees at all levels to meet the needs of organic and inorganic growth remains in our view a challenge for most financial institutions due to the highly competitive market for talent

Emerging practices in KYC/Client On-boarding



Consistent Implementation of global standards

- Design of **global governance structures** to ensure consistency across all entities
- Development of **global standards and policies** which are implemented in all locations
- Setup of **compliance monitoring testing teams** and **fraud and financial crime control teams** to ensure local carry out of global standards



Comprehensive view of customers

- **Implementation of KYC systems integrated with other banks systems** (CRM, Core, Transactions) to create a single view of customers and simplify processes
- **Increased use of risk-based analytics enabled by SaaS KYC technologies** to enhance speed and accuracy in determining the risk profiles (peer group analytics, virtual link analytics, enterprise risk dashboard)
- **Increased reliance on various external sources to collect data on customers:** Watch lists (ex. Acuity), Media Information (ex. LexisNexis, Factiva), Business Information (ex. Experian, Dun & Bradstreet), Social Media sources



Cost-effective KYC Operation Model

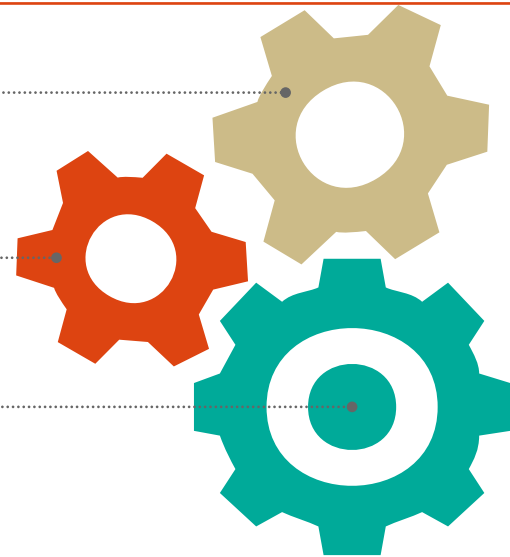
- **Evaluating the other KYC operation model to avoid duplication and increase efficiency.**
- Market players are increasingly looking at **Shared/Managed service solutions** due to their:
- Run **costs reduction**
- Regulatory **compliance expertise**
- Enhanced **customer experience** (“real-time onboarding”, “active syncing” between participants)
- **Scalability and flexibility**

Global Standards

Global Governance Framework •

Compliance Monitoring & Testing •

Global Standards & Polices •



A global approach has been adopted in the majority of cases, however implementing a globally consistent AML framework is very challenging.

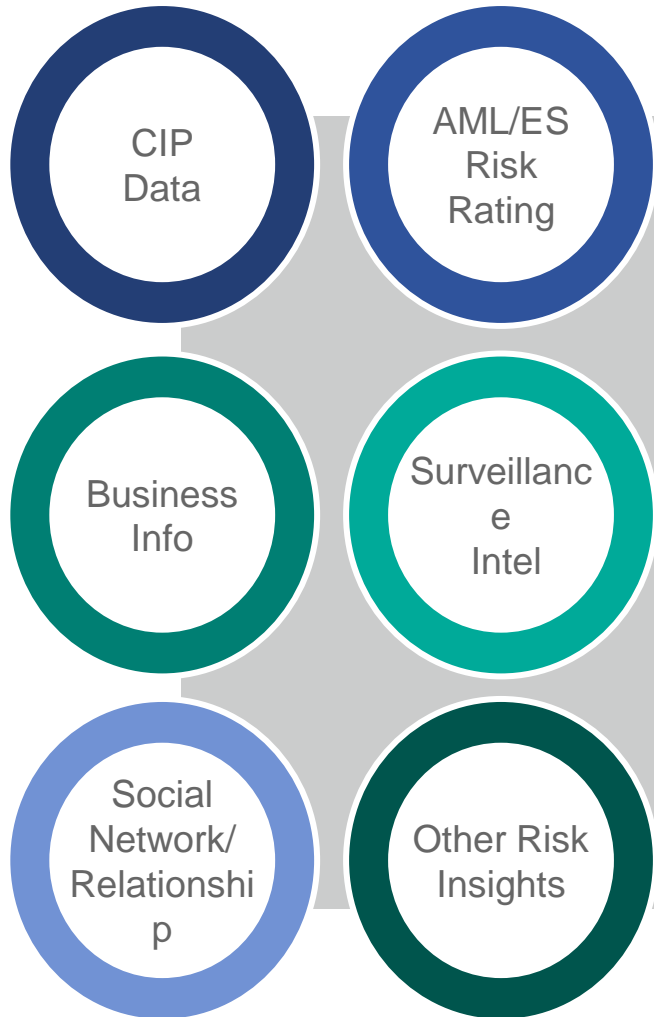
Benefits of Global Standards:

- Sets the baseline requirements cross the franchises
- Meets the growing expectation from regulator
- Drives the consistence cross the geographic locations
- Demonstrates the oversight and governance

Best practices for cost-effective Global Standards Rollouts:

- Practical, descriptive guidelines, manual or procedure documents
- Clear communications to intended audiences
- Hands-on trainings to your compliance officers, KYC analysts, Ops, and bankers/RMs
- Compliance monitoring & testing activities to ensure the effectiveness of implementation

Comprehensive Customer View







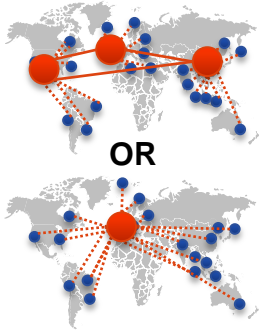

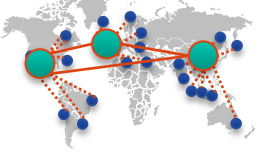


AML+ Concept/Total Risk Management

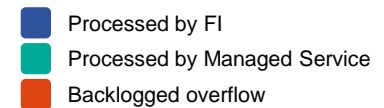
- Internal Data vs. External Data
- Traditional Data vs. Alternative Data
- Information vs. Insight
- Link CDD information to Monitoring Result

Different maturity stages and approaches for KYC Operation Model

The financial service industry is moving to more centralized operating models for cost-effectiveness, consistent implementation of Global Standards, and comprehensive understanding of clients & associated risks

	Decentralized 	Decentralized Interconnected 	Centralized/ Regional Hubs 	Offshored model 
Tools	<ul style="list-style-type: none"> Country level tool and Systems 	<ul style="list-style-type: none"> Enterprise + Country level tools and systems 	<ul style="list-style-type: none"> Centralized tools and systems 	<ul style="list-style-type: none"> Centralized tools and systems
Data	<ul style="list-style-type: none"> Housed in countries, not shared with group 	<ul style="list-style-type: none"> Housed in countries and shared with group as need to know basis 	<ul style="list-style-type: none"> Housed in regional hubs and shared with group 	<ul style="list-style-type: none"> Housed in group centralized data warehouse
Process and policies	<ul style="list-style-type: none"> Stand alone country level program and process 	<ul style="list-style-type: none"> Country program + global standards 	<ul style="list-style-type: none"> Global standards with country variations 	<ul style="list-style-type: none"> Global standards with country variations
Organisation	<p>Scattered independent organisations</p> 	<p>Scattered organisations with common practices / tools</p> 	<p>Regional Hubs and local variations</p>  <p>OR</p>  <p>Global hub and local variations</p>	<p>Regional hubs with offshored centres of excellence</p> 

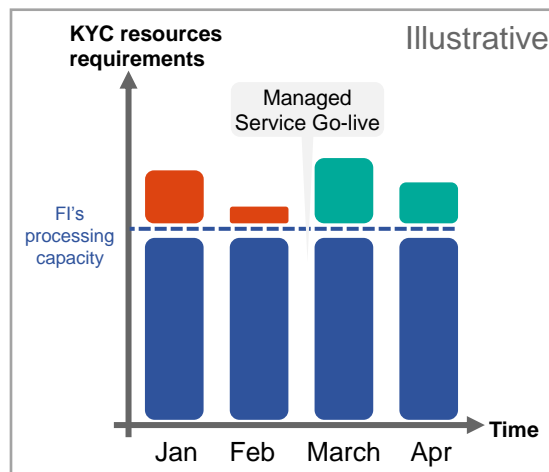
Ways of Engaging 3rd Party Managed Service



Depending on your organization's strategy, Managed Service can be set up differently to help with supporting ongoing overflow, with increasing internal capacities or can handle the KYC processes.

1 Ongoing Overflow Managed Service

In a nutshell: KYC Managed service provide ongoing support with overflow requirements

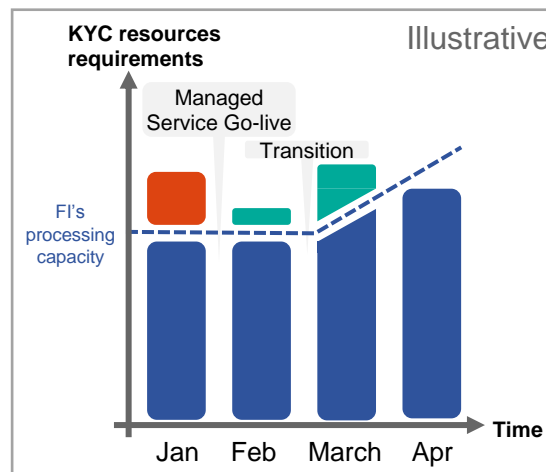


Location: Offsite

Processes and Tools: customisable according to client's policies and standards

2 Overflow Managed Service with Transition

In a nutshell: KYC MS support the overflow and transition methodologies to improve financial institution's internal capacities

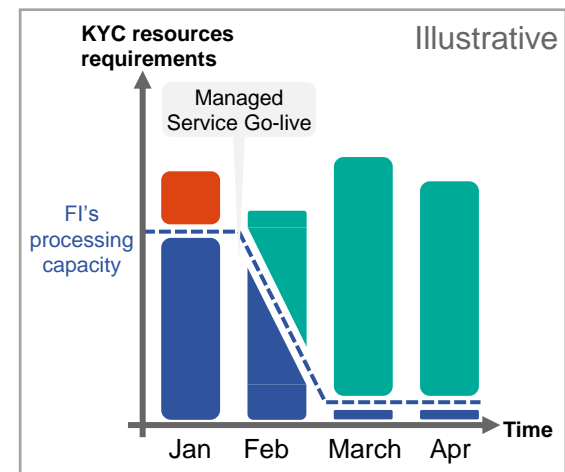


Location: offsite or onsite

Processes and Tools: use of 3rd party KYC workflow solution according to client's policy and standards

3 Co-build strategic Onsite solution

In a nutshell: financial institution and the third party company build a joint KYC processing factory to handle the major part of the BAU and seasonal/remediation flows



Location: onsite

Processes and Tools: customisable according to client's policies and standards

Speaker Profile



accenture

Maggie Qiu
Director
Accenture
APAC Fraud & Financial Crimes
Hong Kong 85F@ICC
maggie.x.qiu@accenture.com
Mobile: +852 98253313

- Maggie is the Lead for Fraud & Financial Crimes Practice within Accenture Finance & Risk Services.
- She is a subject matter expert with multinational compliance expertise (China, Asia & the United States). She is specialized in Anti-Money Laundering advisory, KYC/Customer Due Diligence, Transaction Monitoring and STR investigation.
- Prior to Accenture, Maggie led numerous compliance and risk management programs for some of the largest US commercial & Investment Banks.
- She has been actively presenting on financial crimes compliance and risk management topics to banking industry in APAC in various conferences and media.

Accenture Finance & Risk Services Overview

Accenture Finance & Risk Services provides clients with end-to-end offerings to improve management of internal complexity, regulatory requirements and capital decisions to enable long term profitability.

Accenture Finance & Risk Services

What's the burning platform?

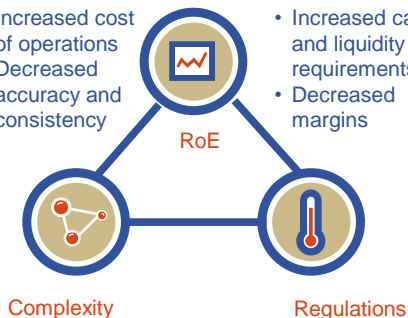
CFOs and CROs in the financial services industry are facing a unique set of circumstances:

- Volatility in the economy and in financial markets
- Increasing regulatory demands
- Intensifying pressures on business profitability

To remain competitive, firms must re-evaluate their business strategies and re-define their business and operating models.

ROE Optimization Triangle

- Increased cost of operations
- Decreased accuracy and consistency
- Increased capital and liquidity requirements
- Decreased margins



Focus has to be on reducing complexity to solve for Regulation and RoE pressures

What do we do?

We bring together Accenture's...



Our focus: To develop solutions which can help our clients restore profitability and also improve their competitive position for the marketplace of the future.



We help banks, insurers and capital markets organizations **streamline** their operating models, integrate risk and finance functions, **align** and integrate disparate sources of data, and **deliver** the technology solutions required to enable insight through analytics.

Industry focus



Did you know...

We have resources in **40+** countries

We provide Finance BPO to 70+ clients with operations in **150+** countries

Key Offerings and Services

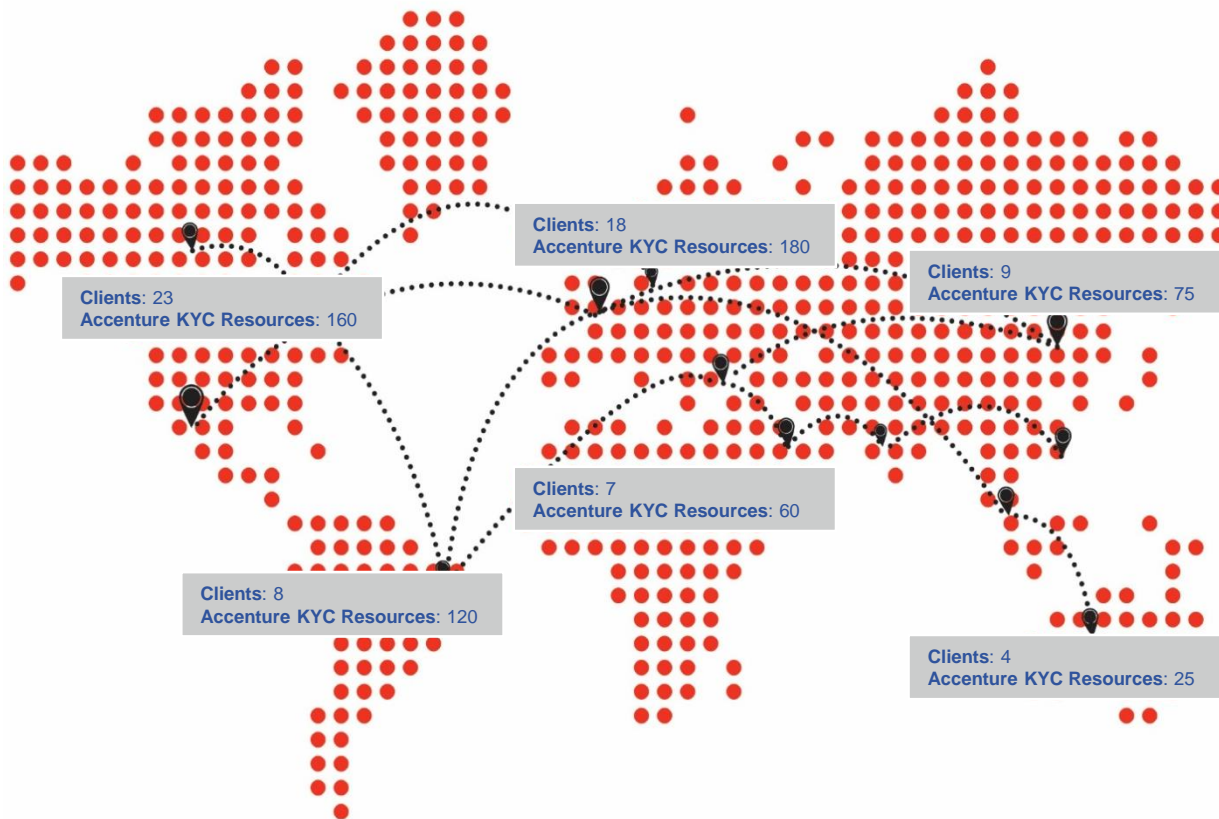
- Finance & Risk Strategy
- Capital & Performance Management
- Finance & Accounting
- Treasury
- Financial Risk Management
- Conduct of Business
- Regulatory Remediation
- Compliance Transformation
- Fraud & Financial Crime
- Data & Analytics Insight

For more information, visit www.accenture.com/financeandrisk

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Our Global Financial Crime Presence

We have a strong and growing Financial Crime Practice around the globe that can support our clients' service needs



Our Financial Crime Practice

Key Highlights

- Over 600 people globally with AML / KYC skills
- Specialists with extensive knowledge on AML / Economic Sanctions Compliance Programs and Operating Models
- Deep capabilities and skills across:
 - Know Your Customer
 - CDD/Client On-boarding
 - Governance
 - Policy & Procedures
 - Compliance Monitoring & Testing
 - Talent Management
 - Sanctions / List Screening
 - Surveillance
 - Transaction Monitoring
 - Investigations
- Strong banking knowledge and experience working with Global Standards

Related Thought Leadership and Publications

-Confronting Consumer Fraud in Banking

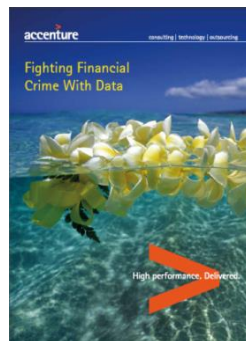
Rapid technological and social changes combined with evolving consumer demands are creating numerous new opportunities for the perpetrators of fraud. Consumers want products that are quicker, faster and easier to use, delivered through the platforms of their own choosing.



October 2012

-Fighting Financial Crime with Data

The digital revolution has provided consumers greater choice and convenience, as well as lower prices, but it has also created challenges for banks to combat fraud and financial crime.



March 2013

-Know Your Client Managed Services

Accenture can help manage clients' resource capacity, case throughput and know your client (KYC) regulatory obligations. The materials shed light on how we offer clients the flexibility to access and benefit from Accenture's KYC Managed Services in a combination of ways.



January 2015

-Reducing the Cost of Anti-Money Laundering Compliance

Regulatory expectations have become extra-territorial, requiring financial institutions to adopt and enforce global and consistent standards and further driving AML compliance program-related Expenditure.



August 2015

-Building a Sustainable BSA/AML Program

Many financial institutions have conducted large scale look-back and remediation projects in order to satisfy increasing regulatory scrutiny, and it is important to demonstrate clear program sustainability,



September 2015