Research provided by:
LexisNexis® Risk Solutions
Association of Certified Anti-Money Laundering Specialists® (ACAMS)

Methodology
From February 25 - March 12, 2013, LexisNexis and ACAMS conducted a joint research study to examine how the Anti-Money Laundering community is managing their Customer Enhanced Due Diligence and AML Risk Assessment processes. The online survey was emailed to the entire ACAMS database. Nearly 500 respondents completed the survey—with 75% representing a global footprint.
EXECUTIVE SUMMARY

In February, 2013, LexisNexis® and the Association of Certified Anti-Money Laundering Specialists® (ACAMS®) administered a cooperative research project. The study was designed to reveal the major challenges that AML departments and employees are facing regarding the successful prevention of money laundering and satisfying AML Risk Assessment and Customer Due Diligence regulatory compliance requirements.

Approximately 500 respondents from financial institutions of varying sizes and geographic footprints from across the globe participated in the 10-minute survey. Survey respondents consisted of:

- AML senior level executives (22%)
- AML managers and supervisors (54%)
- AML employees (24%)

Challenges Identified

The survey results indicate that AML departments are facing a variety of obstacles and challenges, most of which fall into one of the following categories:

Lack of Standardization

Respondents indicate there is not an industry standard form or template to meet regulator expectations for AML Risk Assessment or Customer Due Diligence. Without standardization, financial institutions must create a unique AML Risk Assessment and Customer Due Diligence process. Therefore, financial institutions vary greatly in their processes for the collection, maintenance, updating and systems used during Customer Due Diligence and Risk Assessing.

The majority of respondents expressed a need for industry-wide standardization.

Lack of Readily Accessible Customer Data

The single most difficult, industry-wide challenge in the Customer Enhanced Due Diligence process identified by respondents was lack of readily accessible data. Due to the lack of available data, the majority of respondents (63%) rely on a dialogue between the customer and a bank employee as the primary method of collecting Customer Enhanced Due Diligence data. Study findings suggest this method is problematic for the following reasons:

1. Bank employees are hesitant to ask customers for this type of information for fear of offending the customer and lowering customer satisfaction levels.
2. Customers are often unwilling to share the information needed for thorough Customer Due Diligence evaluations.
3. Keeping data updated also requires the customer to repeatedly provide refreshed information.

Respondents indicate that financial institutions with a global footprint encounter further complications obtaining and maintaining data from multiple jurisdictions.

(Continued)
Difficult to Update

Half of respondents indicate the primary method for updating Customer Due Diligence requires them to re-contact the customer (31%) or perform independent research (19%). As mentioned in the previous section, this study highlights the fact that gathering due diligence information directly from customers is problematic. Additionally, lack of readily accessible data makes performing independent research for updated Customer Due Diligence difficult.

Time-Consuming and Manual Process

Performing an AML Risk Assessment and gathering Customer Due Diligence is currently a cumbersome, complex and time-consuming, manual operation. According to the survey:

1. Only 5% of financial institutions have fully automated AML Risk Assessment or Customer Due Diligence systems,
2. Nearly two-thirds (62%) use manual spreadsheets or documents to conduct and track internal AML Risk Assessment, and
3. 18% spend a quarter of the year or longer to complete their AML Risk Assessment process.

Lack of Systems Integration

Research indicates that for many financial institutions (40%) there is not one central database to consolidate Customer Due Diligence data. In addition, multiple departments own and manage their financial institution’s systems and the data on those systems. Therefore, compliance and AML departments frequently have to access multiple systems to compile the customer information needed for AML compliance.

Lack of Regulatory Consistency and Management Support

There are multiple regulatory agencies, examiners and auditors that review financial institutions’ AML policies and procedures. Respondents indicate there is a lack of consistency between the methods and requirements of the various regulating entities and in some cases, there are even inconsistencies from one review to another within the same regulating entity. Research findings suggest financial institutions with a global footprint are subject to even greater levels of inconsistency due to country-specific variables.

Survey results suggest that even if AML departments had the data, systems and resources necessary to develop an effective, efficient and comprehensive AML program, they generally do not have the internal support and backing of management necessary to implement the program.

Implications

There are some major challenges for AML departments. While the requirements for AML Risk Assessment and Customer Due Diligence compliance are growing more complex, and the potential negative impact of non-compliance is increasing, financial institutions are not currently investing in the data, systems and other technologies necessary to establish an effective AML program.
Which of the following BEST describes your financial institution’s asset size? (479 responders)

- Over $500 billion: 9.4%
- $101 to $500 billion: 8.6%
- $51 to $100 billion: 5.2%
- $11 to $50 billion: 12.9%
- $1 to $10 billion: 27.6%
- Under $1 billion: 36.3%

Which of the following BEST describes the geographic footprint of your customer base? (479 responders)

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONLY in the U.S.</td>
<td>25.1%</td>
</tr>
<tr>
<td>Primarily within the U.S. with minimum exposure to other countries</td>
<td>23.8%</td>
</tr>
<tr>
<td>Primarily outside of the U.S. with minimum exposure to the U.S.</td>
<td>21.5%</td>
</tr>
<tr>
<td>Split fairly equally between the U.S. and other countries</td>
<td>17.1%</td>
</tr>
<tr>
<td>ONLY outside the U.S.</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

Survey respondents represent all sizes of financial institutions from across the globe:
- 75% of the financial institutions have a global footprint
- 25% operate only within the United States
- 21% have minimum United States exposure
Which of the following BEST represents your primary work department? (479 responders)

- Compliance: 75.6%
- Other: 10.4%
- Line of Business: 3.3%
- Technology: 2.1%
- Marketing: 0.8%
- Operations: 7.7%

The majority of survey respondents work in Compliance with 75% in manager or executive positions.

Which of the following BEST represents your title? (479 responders)

- Manager/Supervisor: 53.7%
- Senior Executive: 22.1%
- Exempt Employee (non-manager): 20.3%
- Hourly Employee (non-manager): 4%

(479 responders)
Which of the following BEST describes your decision-making authority/responsibilities for BSA/AML processes and procedures? (479 responders)

<table>
<thead>
<tr>
<th>Decision-Making Authority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are the sole decision-maker</td>
<td>10.9%</td>
</tr>
<tr>
<td>You make the final decision with others</td>
<td>47.2%</td>
</tr>
<tr>
<td>Your input is sought but you are not directly involved in the final decision</td>
<td>35.5%</td>
</tr>
<tr>
<td>You are not involved in the process at all</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Which of the following BEST describes your decision-making authority/responsibilities for systems/software purchases? (479 responders)

<table>
<thead>
<tr>
<th>Decision-Making Authority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are the sole decision-maker</td>
<td>2.3%</td>
</tr>
<tr>
<td>You make the final decision with others</td>
<td>40.3%</td>
</tr>
<tr>
<td>Your input is sought but you are not directly involved in the final decision</td>
<td>44.9%</td>
</tr>
<tr>
<td>You are not involved in the process at all</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

How important are each of the following to you for networking and/or sharing and discussing ideas with colleagues? (461 responders)

<table>
<thead>
<tr>
<th>Venue Type</th>
<th>Very Important</th>
<th>Somewhat Important</th>
<th>Not too Important</th>
<th>Not at all Important</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Free</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer banks</td>
<td>54.7%</td>
<td>35.1%</td>
<td>5.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>BSA/AML specific web sites</td>
<td>55.3%</td>
<td>36.4%</td>
<td>6.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Banking associations</td>
<td>45.1%</td>
<td>44.0%</td>
<td>6.7%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Trade or membership associations</td>
<td>37.7%</td>
<td>46.0%</td>
<td>14.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Webinars</td>
<td>39.5%</td>
<td>44.7%</td>
<td>14.1%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Conferences</td>
<td>46.2%</td>
<td>43.6%</td>
<td>9.1%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

If 75% of respondents are in management, why do only 57% get to make decisions?

While the least expensive venues were listed by respondents as most important for networking and info sharing, the strong response for webinar and conference participation suggests respondents are equally willing to pay for the more robust venues as well.
CUSTOMER ENHANCED DUE DILIGENCE

When to Perform Customer EDD

How frequently, if at all, do the following impact your financial institution’s decision to perform EDD on a customer? (595 responders)

<table>
<thead>
<tr>
<th></th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer KYC information (i.e. high-risk behavior)</td>
<td>77.1%</td>
</tr>
<tr>
<td>FFIEC Bank Secrecy Act / Anti-Money Laundering Examination Manual defined high-risk individual or entity (i.e. cash intensive business or accountant for international charitable organization)</td>
<td>69.4%</td>
</tr>
<tr>
<td>Location of customer or customer’s geographic footprint</td>
<td>69.2%</td>
</tr>
<tr>
<td>Type of service being offered (i.e. foreign wire)</td>
<td>57.6%</td>
</tr>
<tr>
<td>Type of product or account being opened</td>
<td>54.8%</td>
</tr>
</tbody>
</table>

What percent of the following types of customers typically require EDD? (595 responders)

- An individual (consumer): 25.5%
- A business (commercial): 38.8%

We would like to better understand the complexity surrounding the need for EDD based on the method of account opening. Compared to in-person account opening, is online account opening: (595 responders)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>More challenging</td>
<td>48.6%</td>
</tr>
<tr>
<td>About the same</td>
<td>16.8%</td>
</tr>
<tr>
<td>Less challenging</td>
<td>1.5%</td>
</tr>
<tr>
<td>Do not allow online account openings</td>
<td>33.1%</td>
</tr>
</tbody>
</table>
How often are low-risk customers who did not require EDD at onboarding reviewed to determine whether EDD might be warranted due to circumstances changing? (471 responders)

- Never: 10.8%
- Quarterly: 10.2%
- At least monthly: 10.2%
- Annually: 25.3%
- Randomly: 43.5%

The highest percent of respondents (43.5%) look at low-risk customers randomly which aligns with the triggers listed for reviewing a low-risk customer.

Which of the following activities would trigger the need for EDD to be performed on a low-, medium- or high-risk customer? (More than one response allowed.) (543 responders)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Low-Risk Customer</th>
<th>Medium-Risk Customer</th>
<th>High-Risk Customer</th>
<th>Is Not a Trigger</th>
</tr>
</thead>
<tbody>
<tr>
<td>An increased volume of cash transactions</td>
<td>40.0%</td>
<td>57.1%</td>
<td>75.5%</td>
<td>8.3%</td>
</tr>
<tr>
<td>A significant change in transaction patterns</td>
<td>43.3%</td>
<td>60.8%</td>
<td>75.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>A foreign wire to a higher-risk jurisdiction</td>
<td>46.0%</td>
<td>53.4%</td>
<td>79.9%</td>
<td>7.0%</td>
</tr>
<tr>
<td>A change in account ownership to include a non-resident alien</td>
<td>34.6%</td>
<td>48.8%</td>
<td>65.6%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

For most respondents, as the customer’s risk rating increases, so does the need for performing Customer EDD. Worth noting, 5-17% of respondents don’t view the riskiness of the customer as a trigger to perform Customer EDD.
How Customer EDD is Performed

How does your financial institution gather EDD?
(More than one response allowed.) (471 responders)

- By a dialogue between a customer and a bank employee: 91.1%
- Through non-customer facing financial institution research: 74.1%
- By contacting another financial institution: 39.5%
- Through a 3rd party provider: 63.7%

What is the PRIMARY method used to collect EDD at your financial institution? (471 responders)

- By a dialogue between a customer and a bank employee: 62.6%
- Through non-customer research or contacting another financial institution or 3rd party provider: 37.4%

Respondents indicate the single most difficult issue in the Customer EDD process is the lack of available data which would presumably drive the primary method of gathering EDD to a customer interaction.

In this age (2013) of technology, it is amazing that the main method of collecting information from the customer still relies on face-to-face interaction. Because of the demographics of the respondents, this appears to be true regardless of the size of the institution. One would question whether this is the result of policy or lack of systems.
At your financial institution, can a customer requiring EDD open an account before EDD processes are complete? (543 responders)

- Yes: 60.2%
- No: 39.8%

Which of the following BEST describes the time frame required by your financial institution for gathering initial EDD? (543 responders)

- Longer than 90 days: 2.6%
- Between 30 and 90 days: 7.9%
- Within the first 30 days: 27.6%
- Within the first 3 days: 16.8%
- At account opening: 45.1%

A self perpetuating problem... the primary method of collecting information is face-to-face; the biggest challenge is lack of data; AND the institutions allow accounts to be opened prior to gathering all required information.

Nearly 40% of respondents allow 30 days or longer to complete INITIAL Customer EDD.

- Is the accuracy of initial EDD improved by waiting to view actual account activity?
- Are there any negative impacts to gathering initial EDD information after 30 days?
- Is this a topic worthy of further debate?
Information Gathered During Customer EDD

Which of the following BEST describes the process used to collect EDD information? (471 responders)

- Manual: 25.1%
- Automated: 4.5%
- Combination of manual and automated: 70.5%

Are your EDD policies the same for all account types? (543 responders)

- Yes: 42.7%
- No: 57.3%

Which of the following statements best describes the EDD information gathered for the customers at your financial institution? (495 responders)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a core set of questions and all of the questions are asked to each customer regardless of the reason EDD is conducted</td>
<td>44.4%</td>
</tr>
<tr>
<td>There is a core set of questions, however, the exact questions asked are dependent on the reason EDD is being conducted</td>
<td>42.4%</td>
</tr>
<tr>
<td>There is no set list of EDD questions</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

Study findings suggest that across the globe there are not clearly established guidelines for gathering Customer Due Diligence information.

With over 40% of the respondents indicating that EDD policies are the same for all account types, is this indicative of:

- A high level of vigilance for all account types?
- A lack of definition of the specific risk for different products, services or customers within the organization?
- A deficiency in training regarding specific risk associated with different types of products, services or customers?
How important are each of the following types of information when conducting EDD on a customer? (More than one response allowed.) (495 responders)

- **Criminal history**: 83% Extremely Important, 1.8% Not at all Important
- **Geographic**: 64% Extremely Important, 3.6% Not at all Important
- **Derogatory news**: 55.5% Extremely Important, 4.2% Not at all Important
- **Citizenship**: 54.5% Extremely Important, 6.4% Not at all Important
- **Asset ownership**: 53.9% Extremely Important, 5.2% Not at all Important
- **Associates/relationships**: 52.3% Extremely Important, 2.6% Not at all Important
- **Address stability**: 48% Extremely Important, 8.7% Not at all Important

How helpful are each of the following sources of information when conducting EDD on a customer? (More than one response allowed.) (495 responders)

- **Sanction lists**: 72.1% Extremely Helpful, 5.6% Not at all Helpful
- **Public record data**: 70.3% Extremely Helpful, 1.0% Not at all Helpful
- **News/negative news information**: 67.2% Extremely Helpful, 3.2% Not at all Helpful
- **PEP data**: 66.4% Extremely Helpful, 5.0% Not at all Helpful
- **Proprietary financial institution information**: 55.6% Extremely Helpful, 3.8% Not at all Helpful

Responses show that all Customer EDD information types are very important, the sources for that information are extremely helpful, AND YET obtaining the information has been noted as the single most difficult challenge in the Customer EDD process.
Where Customer EDD Information is Stored, Accessed and Managed

Which of the following BEST describes the system or platform your financial institution uses to store EDD information? (449 responders)

- Fully Integrated 59%
- Not Integrated 40%
- Outsourced 1%

Which of the following departments, if any, own and manage your financial institution’s EDD system, data and process? (More than one response allowed.) (428 responders)

- Compliance 80%
- Technology 20%
- Operations
- Line of Business
- Marketing
- Other

Four out of 10 respondents indicate their financial institution systems are not integrated.

In reviewing the Customer EDD process there are obvious challenges:

- Lack of available data
- Accounts opened before data is collected even though face-to-face interaction is the primary gathering method
- Disparate systems with lack of integration

The good news is that Compliance appears to own and manage EDD systems, data and processes approximately 80% of the time. However, the remaining 20% can create issues when...

- Systems are owned by various groups,
- Data on the systems are owned by multiple groups, and
- Processes are owned by disparate groups.
Which of the following BEST describes the collection and storage of EDD information for your institution? (471 responders)

- **Outsourced**: 14.8%
- **In-house**: 85.1%

Which of the following BEST describes where EDD information is typically stored? (449 responders)

<table>
<thead>
<tr>
<th>Storage Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the core banking system</td>
<td>23.8%</td>
</tr>
<tr>
<td>In the transaction monitoring system</td>
<td>21.4%</td>
</tr>
<tr>
<td>In a home grown system or database</td>
<td>19.2%</td>
</tr>
<tr>
<td>In the case management system</td>
<td>18.0%</td>
</tr>
<tr>
<td>Across the institution in a variety of systems</td>
<td>15.8%</td>
</tr>
<tr>
<td>Off-site with a 3rd party vendor</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Many different departments have access to Customer EDD information. Does access to the information mean it can be changed or updated by that group? Does this affect accuracy of the information?

Access to EDD information is granted to which of the following? (More than one response allowed.) (449 responders)

- **Compliance employees**: 82.2%
- **Management**: 37.4%
- **Customer contact employees**: 33.9%
- **Technology teams**: 10.5%
- **Other**: 10.5%
- **All employees**: 9.6%
- **Not applicable/information is not stored**: 0.7%
How Customer EDD Information is Maintained and Updated

How is EDD information updated? (More than one response allowed.) (471 responders)

<table>
<thead>
<tr>
<th>Method</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>By reviewing a customer's transaction behavior</td>
<td>91.9%</td>
</tr>
<tr>
<td>By contacting the customer directly and asking questions</td>
<td>75.8%</td>
</tr>
<tr>
<td>Through non-customer facing financial institution research</td>
<td>70.9%</td>
</tr>
</tbody>
</table>

What is the PRIMARY method used to update EDD information at your financial institution? (471 responders)

<table>
<thead>
<tr>
<th>Method</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>By reviewing a customer's transaction behavior</td>
<td>43.3%</td>
</tr>
<tr>
<td>By contacting the customer directly and asking questions</td>
<td>31.4%</td>
</tr>
<tr>
<td>Through non-customer facing financial institution research</td>
<td>19.3%</td>
</tr>
<tr>
<td>EDD information is not typically updated or changed once it is gathered initially</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

How frequently, if at all, is EDD information updated/refreshed? (471 responders)

- **Annually**: 45.9%
- **At least monthly**: 5.9%
- **Quarterly**: 12.7%
- **No set schedule**: 34.2%
- **Never**: 1.3%

The primary method of updating Customer EDD information is reviewing transaction behavior which leads us to ask:

- How does transaction information relate to Customer EDD?
- Is transaction information used solely because it is the most readily available information?

Over 30% of respondents use face-to-face information gathering as the primary Customer EDD method. So how reasonable is it to contact the customer for updated information considering that almost 50% of financial institutions update their Customer EDD information at least annually?
Greatest Challenges Identified: Customer Enhanced Due Diligence

When asked to describe the main challenges in the area of Customer Enhanced Due Diligence, the survey audience stated the following:

1. A reluctance by customer-facing bank employees to consistently ask for customer information; and a reluctance by customers to share their personal information.
   
   “Maintaining a balance between the Financial Institution’s responsibility to protect the bank and customer’s expectation for financial privacy”
   
   “Getting the line of business to ask/gather information on the customer”
   
   “The customer is reluctant to provide detailed information and the front-line employee has difficulty with asking the EDD questions”

2. A general lack of availability to the customer data necessary to meet due diligence requirements, including lack of general information, information across foreign jurisdictions and beneficial ownership information.

   “Getting clear answers and detail when [data is] unavailable”
   
   “Information is scarce... [and] may be in a foreign language”
   
   “Obtaining negative news from all foreign countries on a continuous basis”
   
   “The lack of transparency in the various jurisdictions in terms of corporate ownership”
   
   “Determining the beneficial ownership when companies use Corporate Vehicles that distort [information]...”

3. A lack of integration of internal systems and databases resulting in the need to search for and piece together information manually.

   “Few vendors offer CDD/EDD software solutions that can be integrated into BSA/AML systems”
   
   “The real pain is to collect the right information, to store it in the same place and to have updating processes”
   
   “There are too many manual processes in place to manage the EDD process”
   
   “[lack of]...information and mapping the relationship together to identify the risks associated with the relationship”
AML RISK ASSESSMENT
AML Risk Assessment Level of Effort

How long is your assessment process from start to finish? (461 respondents)

- 4+ months: 17.8%
- 1-3 months: 46.9%
- Less than 1 month: 35.4%

4-6 months: 11.7%
7-9 months: 2.2%
9+ months: 3.9%

Nearly half of respondents spend up to a quarter of a year working on their risk assessments and over 5% spend more than a half year on the assessment. This level of effort is so dramatic that perhaps it is time for the AML community to work together to address the disparity in the level of effort.

Approximately how much time (collectively) is spent annually on your risk assessment for each of the following? (461 responders)

- Research
- Compiling data
- Analysis of data
- Creation of report for Management and Board of Directors

Less than 1 week: 25%
2 to 4 weeks: 30%
1 to 3 months: 20%
4 to 6 months: 10%
More than 6 months: 5%
N/A - Outsourced: 5%
AML Risk Assessment Format

Is your BSA/AML risk assessment? (461 responders)

<table>
<thead>
<tr>
<th>Format</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A separate stand-alone risk assessment</td>
<td>35.1%</td>
</tr>
<tr>
<td>Combined with an OFAC risk assessment</td>
<td>33.8%</td>
</tr>
<tr>
<td>Part of an enterprise-wide risk assessment</td>
<td>21.9%</td>
</tr>
<tr>
<td>Combined with a Financial Crime risk assessment</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

Which of the following formats BEST describes your Risk Assessment Report to the Board? (461 responders)

**LEAST EFFORT**

<table>
<thead>
<tr>
<th>Format</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No formal report to the Board</td>
<td>9.3%</td>
</tr>
<tr>
<td>High level report containing status and strategic changes only</td>
<td>30.8%</td>
</tr>
<tr>
<td>Status report containing some detailed issues and recommendations as well as some high level charts or visual aids</td>
<td>43.8%</td>
</tr>
<tr>
<td>Detail level report consisting of lengthy status description and detailed recommendations including more complex charts, graphs and visual aids</td>
<td>16.1%</td>
</tr>
</tbody>
</table>

**MOST EFFORT**

Given the relatively equal response to this question, the issue for the AML community appears to be whether the time has come to address the lack of industry standards.

With the increased regulatory focus on broader Board awareness, is it time to increase the level of effort on the Risk Assessment Report to the Board?
What type of software or system do you use to conduct your institution’s BSA/AML risk assessment? (461 responders)

- Manual spreadsheet or document: 62.3%
- Proprietary software/system: 27.3%
- Off the shelf software/system: 7.4%
- N/A - Outsourced: 3.0%

How often is your financial institution’s risk assessment updated? (461 responders)

- Monthly: 5.6%
- Quarterly: 8.5%
- Bi-Annually: 6.1%
- Annually: 59.4%
- When events warrant (e.g., new products): 20.4%

Is the level of effort required to produce a risk assessment directly attributable to the fact that over 60% of respondents use a manual process?

Given the level of effort to produce a risk assessment, it is no surprise that almost 60% update it only annually vs. when new events warrant review.

With ever increasing and recent regulatory enforcement actions citing incomplete risk assessment as a weakness, should all institutions update their risk assessment every time events warrant a review?
AML Risk Assessment Standardization

There have been some comments in the BSA/AML community that regulators are asking financial institutions to assess individual customer risk instead of product and delivery channel risk. Has this occurred during your recent AML exam? (461 responders)

![Pie chart showing 55.3% No and 44.7% Yes]

Do you see a need for an industry-wide standard risk assessment? (461 responders)

![Pie chart showing 70.1% Yes and 29.9% No]

An almost 50/50 split in respondents raises the questions:
- What is the regulatory standard?
- And, can it be achieved?

Does this increase in regulator demand for individual customer risk assessment equate to a need for more integrated, enterprise-wide solutions?

Nearly 75% of respondents indicate a need for an industry-wide standard risk assessment. The questions that remain are:
- Are systems and enhancements also needed?
- Would additional types of data and easier access to that data be helpful?
Greatest Challenges Identified: AML Risk Assessment

When asked to describe the main challenges in the area of AML Risk Assessment, the survey audience stated the following:

1. The current AML Risk Assessment process is overly time-consuming and is becoming increasingly complex.
   
   “The risk assessment is a very large task and each year gets larger. The time involved to complete the assessment is often overlooked…”

   “BSA is no longer genuinely risk-based. There are so many things that MUST be done regardless of the risk assessment, it is exhausting.”

   “[The most complex issue is] combining expectations from different regulators/countries”

2. There is an obvious lack of industry and process standardization.
   
   “…there are unclear expectations as to the preferred format, frequency and purpose of the risk assessments”

   “There is no standard; the entire assessment is subjective… and once the process is complete, it is time for a NEW auditor to review it”

   “Lack of standardizing along with lack of time and staff internally to properly attend to these requirements”

3. There are major inconsistencies in the expectations of various regulatory agencies.
   
   “One of the largest concerns is that this assessment will be reviewed in hindsight by regulators…”

   “[Lack of] consistency of standards applied by examiners/.regulators”

4. There is a clear lack of support from management to implement the solutions that are available to overcome these challenges.
   
   “[Lack of] management understanding of the risks that the compliance staff see and their buy-in to the importance of the risk assessment”

   “The Risk Assessment Exercise often does not elicit support [from management]”
For more information:
Call 866.858.7246 or visit lexisnexis.com/risk/solutions/anti-money-laundering.aspx

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