



AML trends, new developments and what we might expect in 2019

Anti-money laundering (AML) regulation continues to be both a high-profile risk and continually changing area. Regulators across the world are consistently taking decisive, public action against firms and individuals for AML failures, in an effort to combat financial crime. When we look globally at enforcement fine amounts over the past five years, financial crime is the second highest category behind conduct of business obligations.

At the recent Association of Certified Anti-Money Laundering Specialists (ACAMS) 10th Annual Taiwan Conference I framed the topic of regional AML trends, new developments and what we might expect in 2019. Highlights from the conference are summarised below.



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Continued/increase in or a slowdown in new regulation?

It is expected that governments and regulators across the region will continue to issue new financial crime regulations. For example, Taiwan's Financial Supervisory Commission (FSC) plans to amend rules on Beneficiary Disclosure, given that there have been insufficient disclosures of corporate clients' beneficiaries by financial institutions, cited as one of Taiwan's short comings in the Asia Pacific Group's latest report in 2018.

Additionally, there will be a relentless focus by regulators on effective compliance with existing requirements. Patience is running out with delays in implementing strong Anti-Financial Crime (AFC) controls and a greater emphasis on personal accountability is being used to help focus efforts. It is suspected that some emerging market territories in APAC will continue to be playing catch up.

Regulatory action/enforcement

AML enforcement actions resulting in multi-million-dollar fines and some high-profile cases continues – a total of USD\$14.87 billion of fines have been levied against financial institutions globally since 2013 for anti-money laundering/sanctions related violations. The regulatory actions/financial penalties imposed by regulators and the subsequent remediation programs that are required continue to place a huge burden and cost to effected organisations.

Banks have continued to face regulatory action, financial penalties and even secondary monetary fines, for not remediating their AML programs fast enough or to the degree of depth governments and regulators expected to see. These can result in aftershocks nearly as damaging as the original action. Such high-profile enforcement actions show that financial crime compliance has been and will continue to be a core priority for regulators and law enforcement agencies in 2019 and therefore must remain a priority to banks and non-bank financial institutions.

Increased personal liabilities for compliance failures

While the rates of major AML breaches seen on an annual basis have declined, its clear more can and must be done. This continued need to do more has driven a greater emphasis on personal liability of financial services executives, including AML compliance leaders for their on the job failures. This trend was to a degree inevitable and driven by political pressure to have much greater personal accountability. Regulators have fined or otherwise punished a number of corporate employees including compliance professionals which threatens to undermine the attractiveness of compliance roles. Analysts believe that the fear of facing civil penalties and potential jailtime for failures occurring under their watch, has led to both first-time candidates and seasoned veterans in the profession being more cautious about taking and keeping these roles, making it difficult for companies to fill open positions or find capable replacements for those leaving their posts.



Time will tell, but the need for financial institutions to focus on sanctions compliance remains critical as this is where all the major enforcement action is taking place.



Expect to see more financial institutions joining the trend to re-engineer their anti-financial crime compliance and associated functions to help achieve greater operational effectiveness and cost savings.



Risk outcomes and effectiveness of AML risk management programs

Regulators will continue to focus on, and shift efforts to, ensuring the required risk management outcomes of AML/Terrorist Financing risk management programs are being achieved beyond simply testing compliance with defined written regulatory requirements. It is vital and a growing expectation that companies periodically test their program to ensure it is yielding the desired or expected risk management outcomes.

A sound risk management program requires the following:

1. the identification and analysis of money laundering/terrorist financing risks;
2. the design and effective implementation of policies and procedures that mitigate the identified risks; and
3. confirmation that the application of the controls implemented are yielding the correct risk management outcomes.

Regulatory focus on those outside the banking sector

Due to various factors including reliance placed by some Non-Financial Business and Professions (DNFBS) on controls carried out by banks, it expected that there will be a renewed focus by regulators on the effectiveness of anti-financial crime controls in these sectors including casinos, real estate agents, dealers of precious metals, lawyers, notaries and trust and company service providers. This is in addition to heightened scrutiny on the insurance, asset management, and Money Service Operator (MSO's) markets. As an example, the Financial Action Task Force (FATF) evaluation of Hong Kong is expected to highlight MSO's as a weak point.

Capabilities of regulators – tools and techniques

Not only are regulatory teams better resourced, trained and are true subject matter experts, they continue to make strides in incorporating data analytics into supervisory work. It is expected that this will be applied more consistently by regulators when they are conducting an inspection.

Data analytics is helping regulators better identify problem areas, such as higher-risk accounts or transactions, for targeted reviews. This has and will make inspections more effective and has yielded findings and identified risk issues that banks themselves did not uncover.

Greater collaboration between and within financial institutions, regulators and law enforcement

With the potential to make AML efforts more effective and efficient, collaboration (between public and private sector – financial institutions, regulators and law enforcement) has great potential to help face up to the financial crime challenges of the future. However, whilst we are seeing progress with forums such as the Fraud and Money Laundering Intelligence Taskforce (FMLIT) and AML/CFT Industry Partnership (ACIP) there are still many barriers – perceived and real – which are inhibiting effective cross the board collaboration.

The cost problem

Anti-financial crime costs continue at an all-time high. Many are looking to new operating models and the use of technology enabled managed service solutions as well as automation, robotics and artificial intelligence (AI). Combined with the potential of multi-institution data sharing, these managed services, utility solutions and the introduction of new technologies have the potential to both reduce cost and improve quality and efficiencies.

Expect to see more financial institutions joining the trend to re-engineer their anti-financial crime compliance and associated functions to help achieve greater operational effectiveness and cost savings. Typical drivers include a desire to break down functional silos and have much clearer and more robust definitions of the respective roles and responsibilities of the first, second and third lines of defense.

Governments and regulators are also advocating change. For example, the Secretary of the Treasury for Terrorism and Financial Intelligence, Sigal Mandelker, spoke at the American Bankers and the American Bar Association's Financial Crimes Enforcement Conference and reiterated the Treasury's commitment to encouraging innovative approaches by banks to better protect the U.S. financial system from illicit financial activity. Likewise, HKMA in Hong Kong in its 2018 National Risk Assessment indicated that it will be strongly encourage Authorized Institution to adopt a 'risk based' approach and utilise technology to further enhance and strengthen efficiency and effectiveness of their programs.

2019 will see an acceleration in the development and use of more advanced technology solutions, particularly for transaction monitoring and data analytics. With skilled staff in short supply and with AML program expenses at an all-time high, this is a business imperative. Many Fintech organisations supporting this drive will either fall by the wayside or clarify what they can really offer as part of the solution.

Data, data, data

Data quality and data integrity is a continuing concern and undermines the effectiveness of any risk management program. Firm's must continue to focus on data sourcing analysis and data quality analysis, assessing completeness, conformity, consistency, accuracy and duplication. The establishment and use of data lakes and the further transformational changes in the speed and sophistication of analytical and other tools used with this data to enhance the prevention and detection of financial crime will continue.

Big data analytics can help organisations find the illicit transactions/activities. For example, enterprise analytics software tools can identify hidden relationships in data between trade partners and ports and between other participants in the trade lifecycle. They can also identify potential shell companies or outlier activity. For the more advanced, AI and machine learning solutions will further enhance what can be done.

The role of sanctions

Sanctions will continue to be used as a political tool, however, with the U.S. and other administration changes, where and how will they will be used is perhaps more uncertain. Although we have seen the results already of the Trump administration, U.S. actions, in particular, are more difficult to predict. Time will tell, but the need for financial institutions to focus on sanctions compliance remains critical as this is where all the major enforcement action is taking place.

Emerging/emerged risks

The pace of change in terms of technology, product innovation and criminal methodologies including virtual currencies/block chain, emergence of payment intermediaries/peer-to-peer financial solutions, mobile payments and new digital offerings – all present challenges for compliance, opportunities for criminals and longer term perhaps even existential questions for banks if they cannot find ways to respond and manage the risks. Changing criminal methodologies, including the move to digital technologies is by far the single biggest worry among compliance professionals.

We are here to help

As financial crimes get increasingly complex and sophisticated, it is critical for financial institutions to take charge – from reviewing emerging threat areas, ensuring compliance with stricter regulatory requirements to identifying breakthrough technologies – in order to win in the war against financial crimes.

At FTI Consulting we offer an 'end-to-end' Financial Crime Compliance service to our clients. Whether your AML needs are self-identified, driven by changing standards, or the result of regulatory inquiry or investigation, FTI Consulting has the tools and resources to address them in a timely, efficient and high-quality manner.

In the coming weeks, we will take a deeper dive approach to the topics which have been covered giving further insight into the latest developments and outlook for AML compliance in the region.

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