

# Integrated Risk & Compliance – Yesterday's Vision, Today's Imperative

Expanded Risk-Based Approach

e.g. 4th EU Anti-Money Laundering Directive

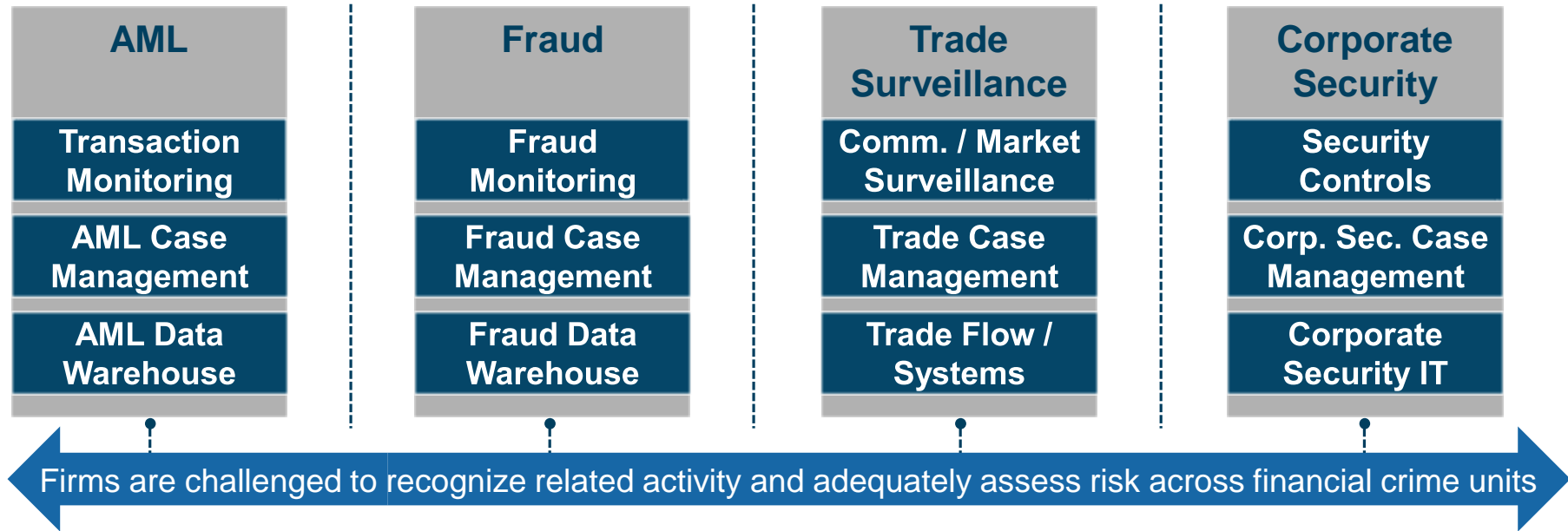
Thomas Selmer-Olsen, Bateleur Software  
Lead Consultant, Implementation and Presales

# Agenda

- ▶ Current Situation at Many Banks
- ▶ Requirements of 4th EU Anti-ML Directive
- ▶ Siron<sup>®</sup> Anti-Financial Crime Solutions
  - ▶ Why it's necessary to consider true full KYC lifecycle
- ▶ Summary

# Current Situation at Many Banks: Silos Are Impeding Responses to Complexity

Silo control functions and geographical regions limit the ability to manage increasing complexity of risks and can slow the investigation process.



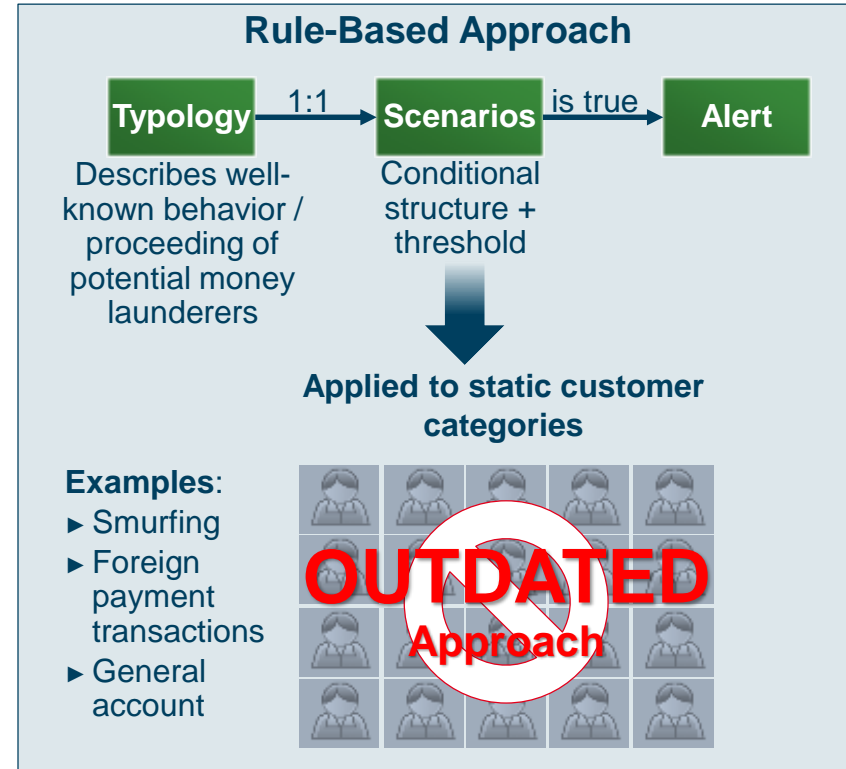
(Source: PwC, ACAMS Las Vegas Sept 2015)

# Current Situation at Many Banks: Integration

- ▶ Transaction Monitoring in place
- ▶ Connected to various sources including
  - ▶ Payment systems
  - ▶ CRM systems
- ▶ Integrated risk assessment → partially
- ▶ Ongoing risk classification: many do, but not all → partially
- ▶ Integration into KYC-client-onboarding-information → partially
- ▶ Integrated view on ML risks and Fraud risks → partially
- ▶ Management views (dashboards): → partially

# Current Situation at Many Banks: Detection

- ▶ Definition of scenarios
  - ▶ absolute
  - ▶ already based on historic behavior
  - ▶ relative comparison of values
- ▶ Adoption to static customer categories
- ▶ Partially risk-based categorization



# Requirements of 4th EU Anti-ML Directive



## 2015: Directive (EU) 2015/849

“Revised FATF Recommendations” and International Standards of Combating AML and CTF



## 2005: Directive 2005/60/EC

Changes to reflect the 2003 FATF revision of recommendations



## 2001: Directive 2001/97/EC

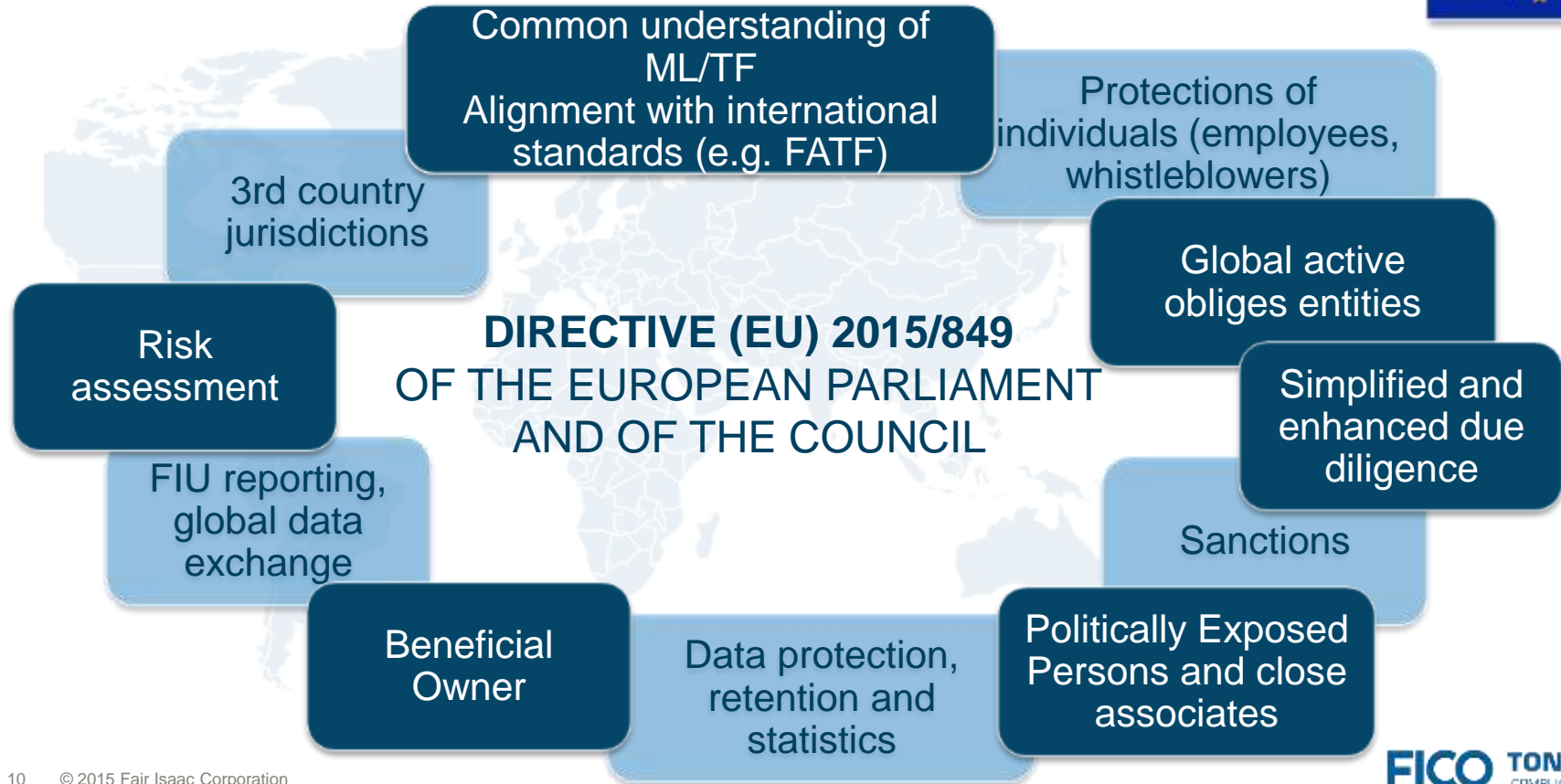
Extending the scope both in terms of the crimes covered and in terms of the range of professions and activities covered



## 1991: Council Directive 91/308/EEC

Definition of money laundering in terms of drugs offences and imposed obligations solely on the financial sector

# Main Aspects of the 4th EU Anti-ML Directive





# Main Aspects of the Directive (1/3)



## ▶ **Common understanding**

- ▶ About AML/CTF; terminology
- ▶ Obligated entities
- ▶ Risk-based approach

## ▶ **Risk assessment:**

- ▶ Identifying,
- ▶ analyzing (categorizing and documenting) and
- ▶ evaluating risks

... at Union level, national level and break down to obliged entities

# Main Aspects of the Directive (2/3)



## ▶ Customer due diligence

- ▶ **Simplified customer due diligence:** low-risk aspects → guide lines (ESA) in 2017
- ▶ **Enhanced customer due diligence:** high-risk aspects (e.g. cross-border correspondent relationships, shell banks)
  - ▶ **Politically Exposed Persons (PEP),**
    - ▶ PEP and life insurances (etc.)
    - ▶ Handling former PEP
    - ▶ Risk inheritance for close associates of PEP
  - ▶ General definitions: No anonymous accounts and misuse of bearer shares/bearer share warrants, conditions for due diligence, exceptions for electronic money, beneficial owner
- ▶ **Beneficial Ownership information**
  - ▶ Definition
  - ▶ Clarification: adequate, accurate and up-to-date information

# Main Aspects of the Directive (3/3)



## ▶ Reporting obligations

- ▶ Establishing a **FIU**,
- ▶ Cooperation between obliged entities and FIU
- ▶ Cooperation between legal authorities and FIU
- ▶ Obligated entities to refrain from carrying out suspicious transactions
- ▶ Disclosure of information and protection of individuals
- ▶ Prohibition and exceptions of information disclosure

# Summary: 4th EU Anti-ML Directive

## What Does that Mean for Us?



### 4th EU Anti-ML Directive active since 20th June 2015:

- ▶ Emphasis regarding the application of the risk-based approach
- ▶ Extension of the scope of the Directive (e.g. thresholds)
- ▶ Politically Exposed Persons (revised definition)
- ▶ Beneficial Ownership (transparency: adequate, accurate and up-to-date)
- ▶ FIU, ESA: reinforced cooperation between home + host state supervisors
- ▶ Creation of central point of contact → compliance with national AML rules
- ▶ Explicit inclusion of tax evasion as predicate offence (FATCA – CRS)
- ▶ ... Single integrated holistic risk-based approach is required.

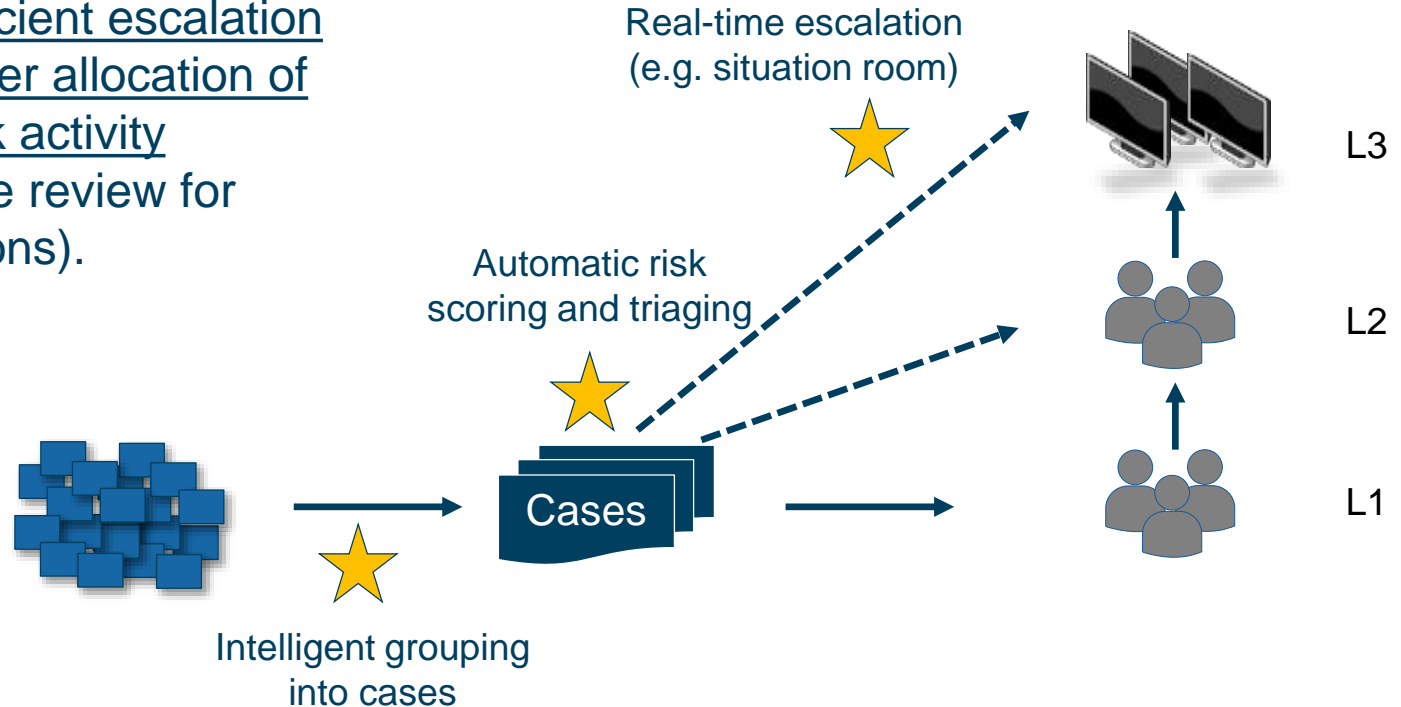


# **Siron<sup>®</sup> Anti-Financial Crime Solutions**

Why it's necessary to consider true full KYC lifecycle

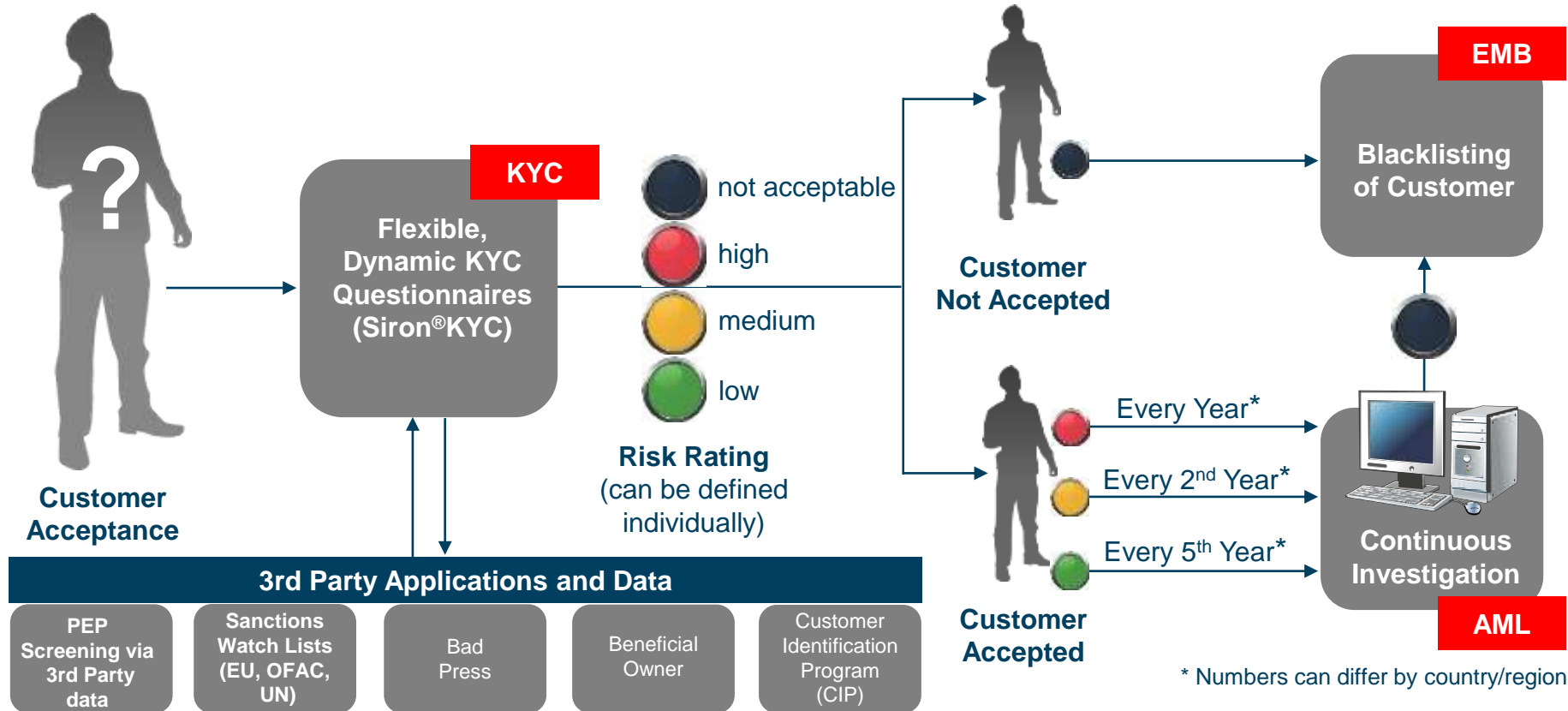
# Use Case: Risk-Driven Workflows

Data integration and analytics enable a more efficient escalation of activity and better allocation of effort to higher risk activity (including real-time review for mature organizations).

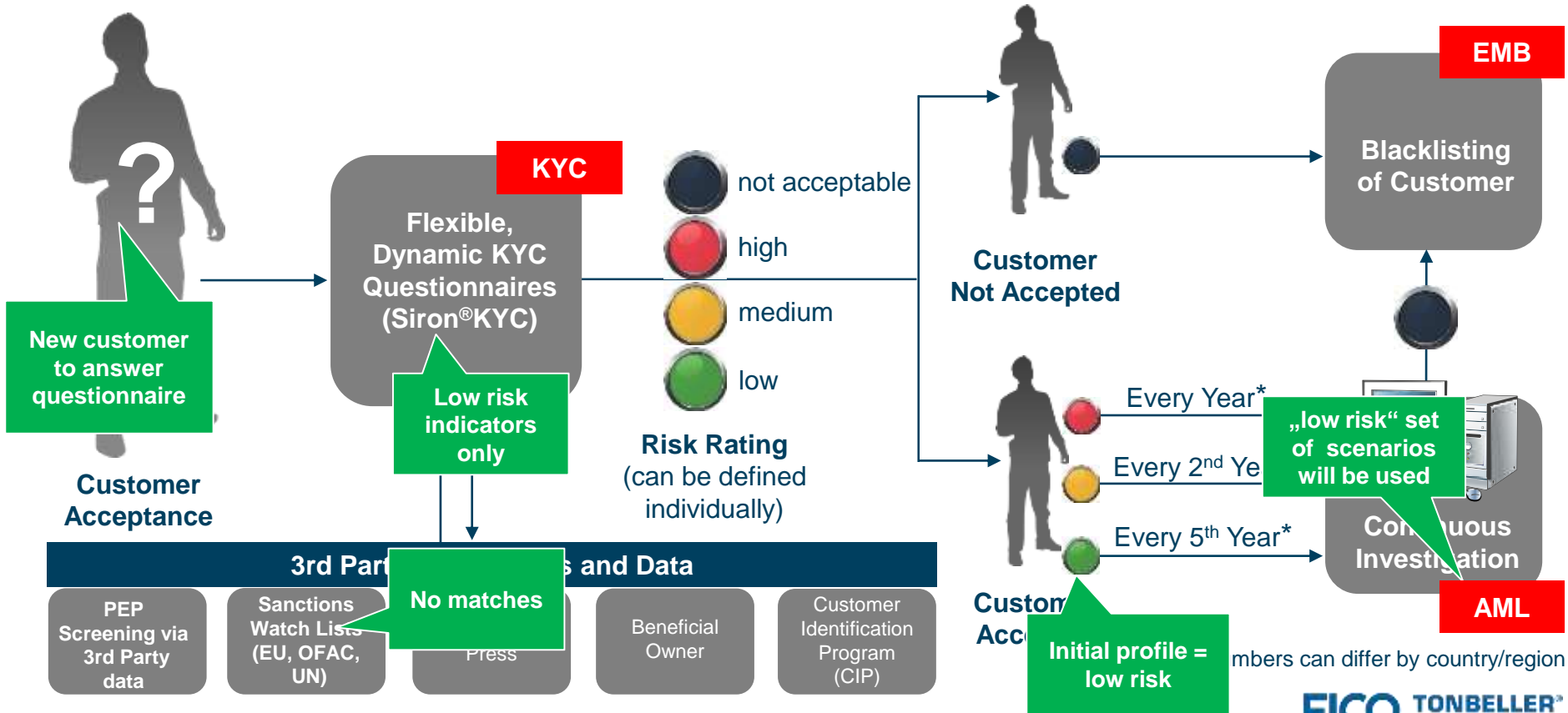


(Source: PwC, ACAMS Las Vegas Sept 2015)

# Siron®KYC – Overview

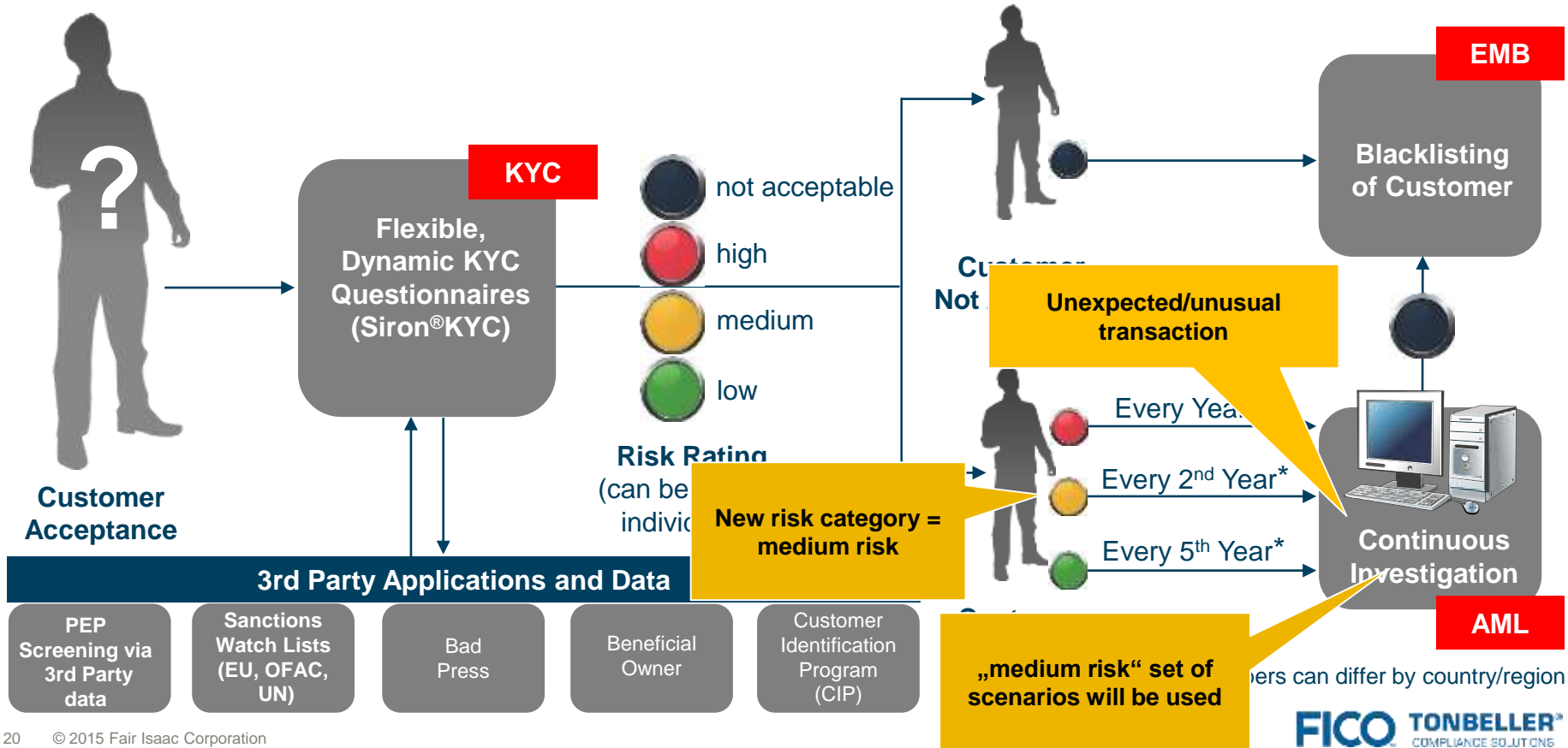


# Siron®KYC – 1<sup>st</sup> Step: Initial Risk Rating

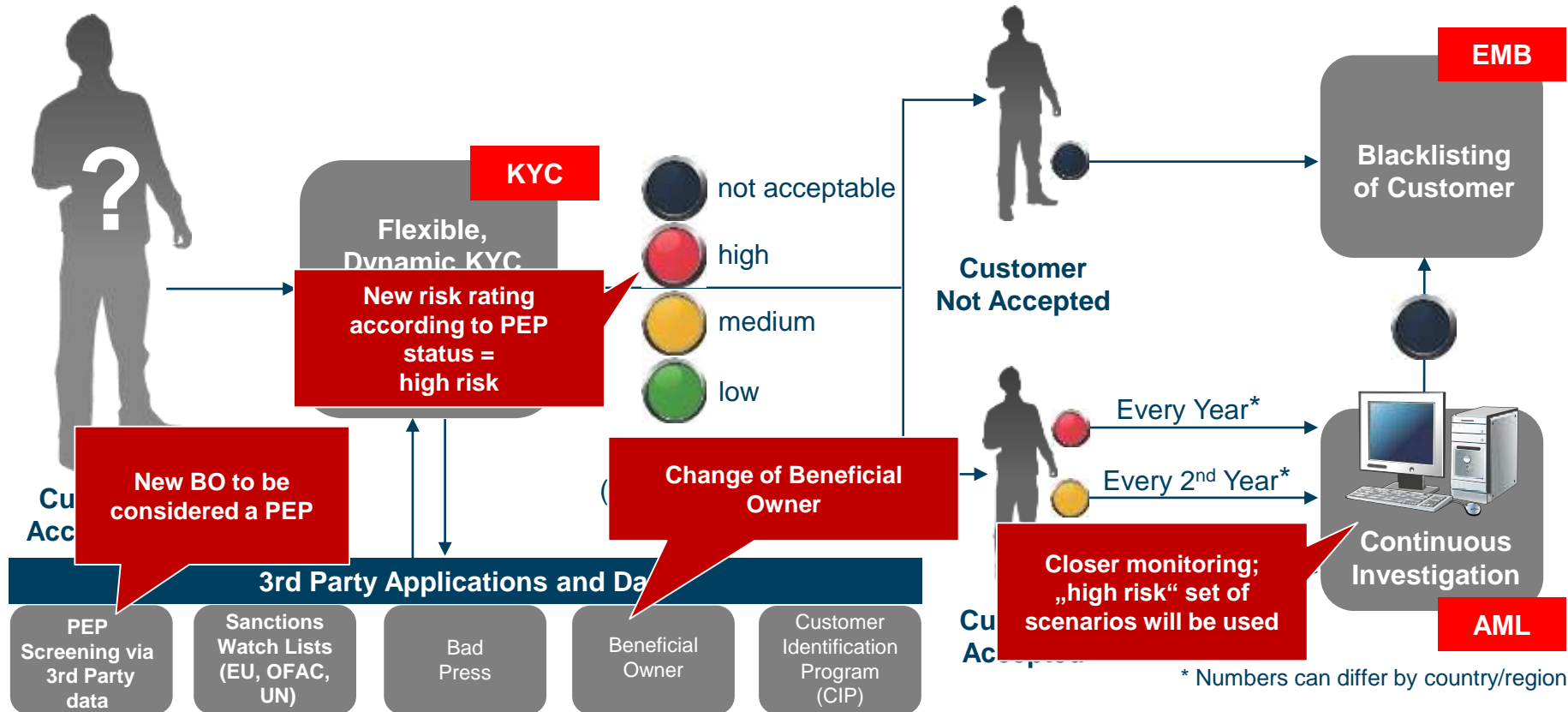




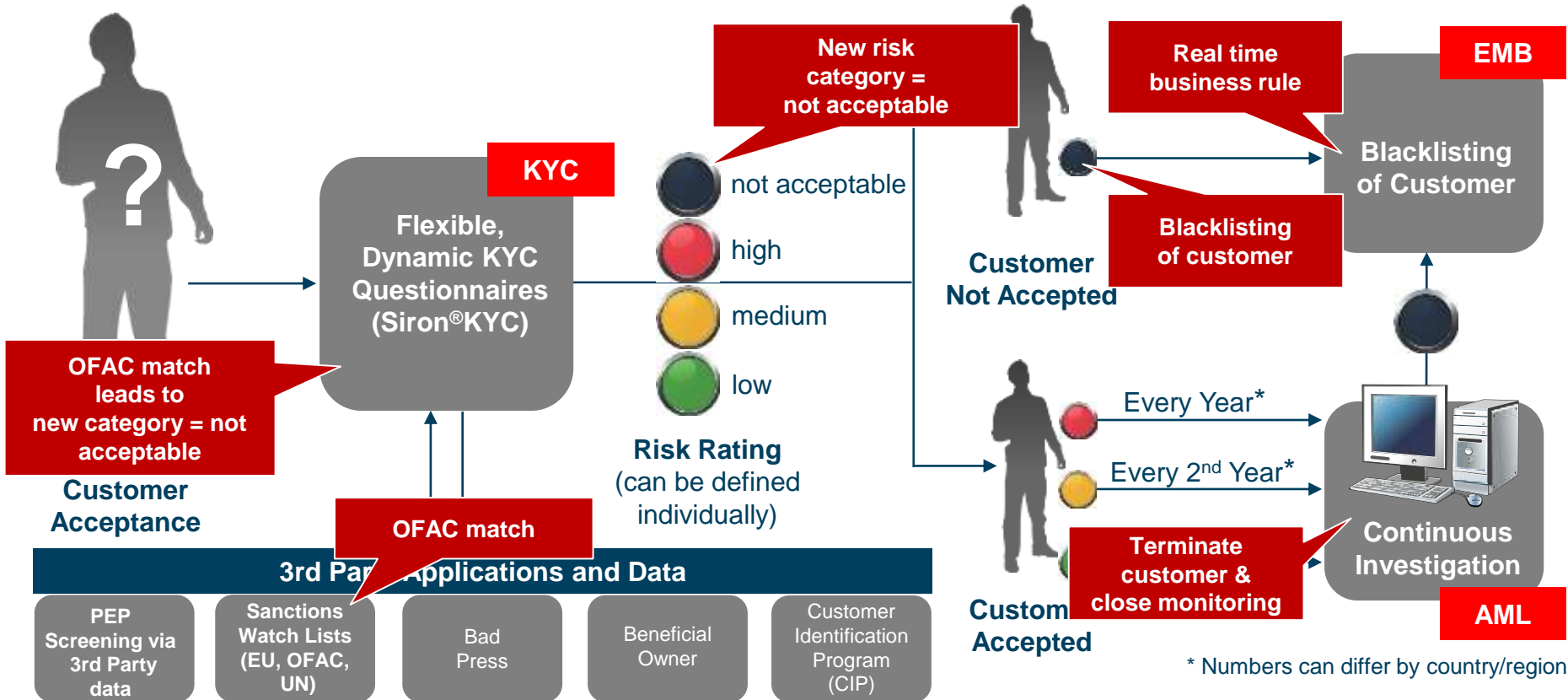
# Siron®KYC – 2<sup>nd</sup> Step: Ongoing Behavior



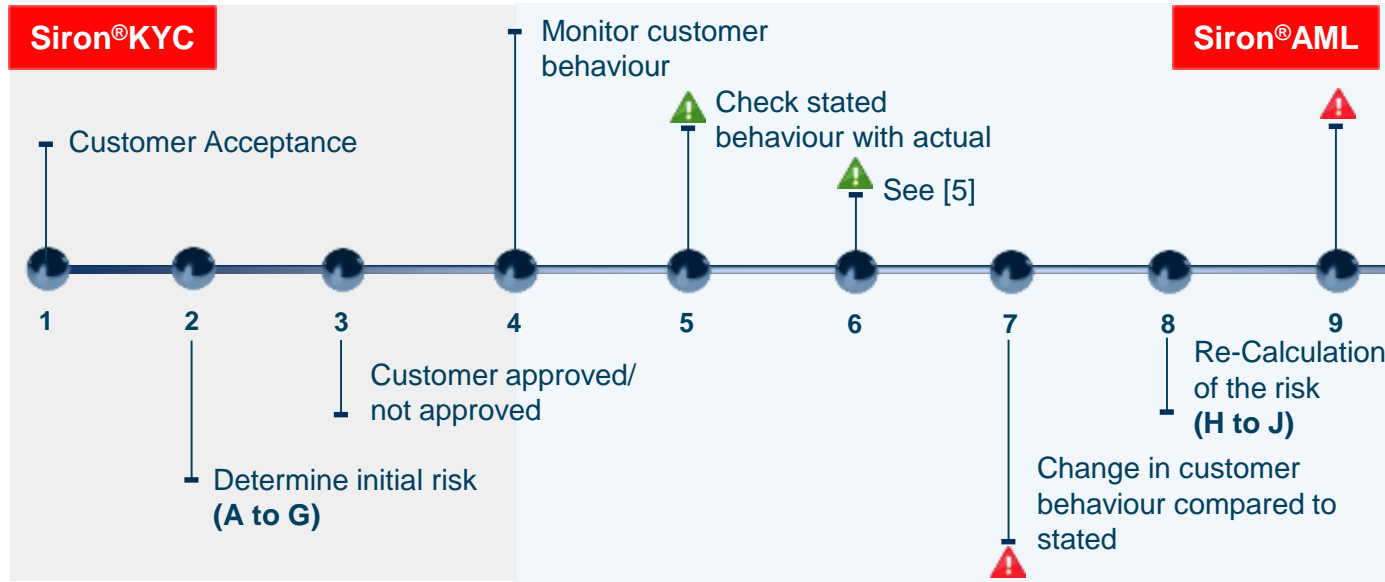
# Siron®KYC – 3<sup>rd</sup> Step: New Information From 3<sup>rd</sup> Party



# Siron®KYC – 3<sup>rd</sup> Step: Behavior Monitoring



# Timing Diagram for „Know Your Customers“



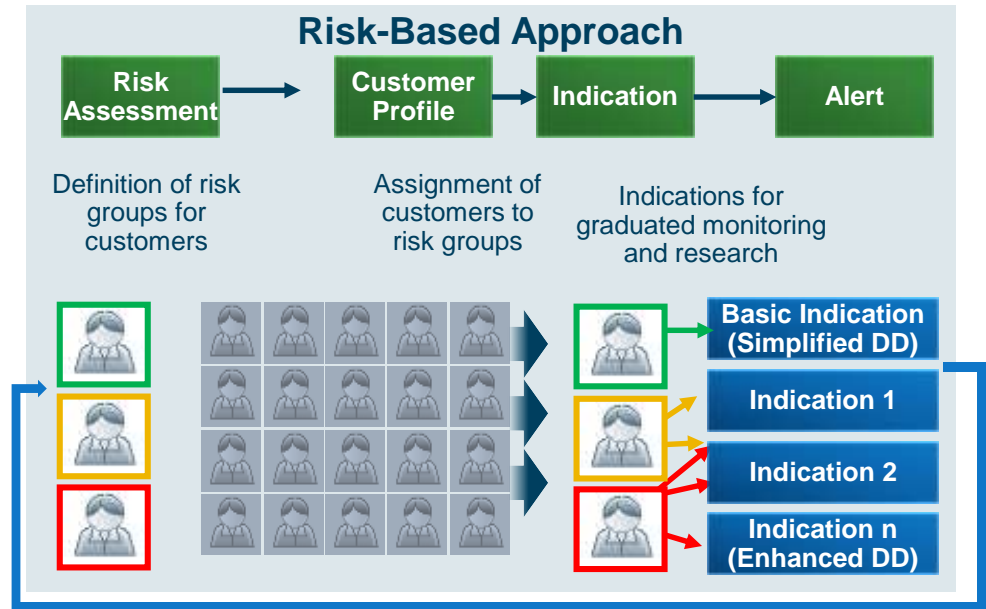
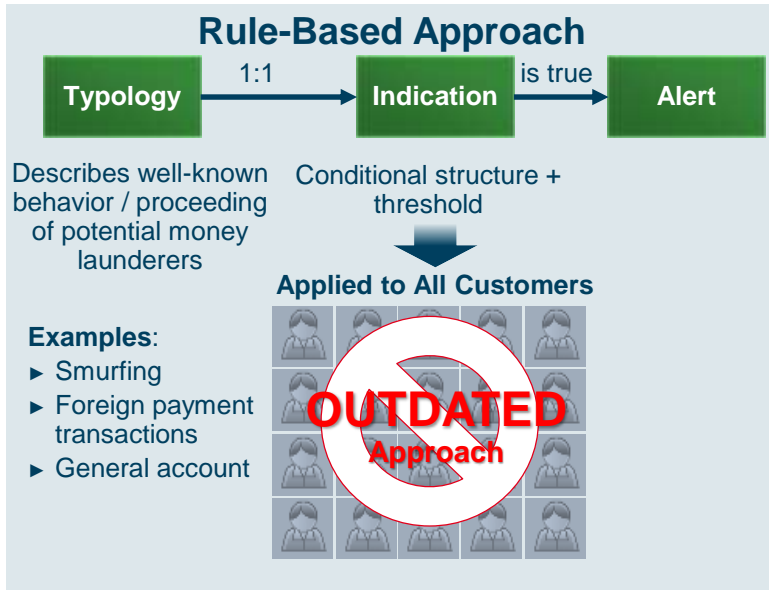
## Customer Acceptance (Siron®KYC)

- A. Dynamic KYC questionnaire
- B. Check against watch lists
- C. Collect documents
- D. Enter expiration date ID documentation
- E. Use of 3rd party applications
- F. Ultimate beneficial owner
- G. Escalation; EDD, 4-eyes principle

## Ongoing customer due diligence (Siron®AML)

- H. Deviation actual transaction behaviors with stated
- I. Change of non-financial elements, country, etc
- J. Calculate new risk level, if increased generate alert
- K. Create alert for Compliance/Account manager
- L. Assign to employee
- M. Perform EDD, 4-eyes principle

# Single Integrated Holistic Risk-Based Approach: What Does this Mean?



- ▶ Dynamic categorization helps ensure efforts are spent on high-risk cases
- ▶ Significantly lower false positive rates
- ▶ Preferred approach for auditors and regulators to ensure transparency and consistency

# Consolidated View on the Overall Risk Situation at a Glance (Risk & Compliance Dashboard)



# Integrated Financial Crimes Investigation Units

Firms are solving for challenge by developing integrated financial crime investigation units (e.g. “fusion center”) across functional and geographical silos.

★ A key focus is integrated investigation through centralized enterprise case management.



(Source: PwC, ACAMS Las Vegas Sept 2015)

# Summary



# Summary: Benefits for Your Auditor

- ▶ Audit security
- ▶ Certified by KPMG
- ▶ Battle proven in multiple jurisdictions
- ▶ Audit reports (designed in cooperation with clients)
- ▶ Consolidated view on the overall risk situation at a glance (risk & compliance dashboard)
- ▶ UI allows to quickly line up with regulatory changes
- ▶ Integrated Case Management and eSAR filing
- ▶ Compliant with risk-based approach “out-of-the-shelf”
  - ▶ Risk classification due to risk-based approach
  - ▶ End-to-end-solution
  - ▶ Integration of risk assessment



# Summary: Benefits for Our Clients

## Comprehensive product offering:

- ▶ Integrated solution
- ▶ Ex-post & real-time
- ▶ Flexibility
- ▶ Scalability
- ▶ Transparency
- ▶ PEP, Sanctions, Beneficial Owner
- ▶ AML, Anti-Bribe, Anti-Fraud, Anti-Corruption
- ▶ Professional Services

## FICO as a resource:

- ▶ Global insights on financial crime trends and analysis
- ▶ Accomplished subject matter experts
- ▶ FICO family member with deep expertise in enterprise fraud and cybersecurity



Questions?

# Thank You

Further Information:

[Thomas@bateleur.co.za](mailto:Thomas@bateleur.co.za) or  
[Lizette@bateleur.co.za](mailto:Lizette@bateleur.co.za)