Executive Summary

Current Industry Perspectives into Anti-Money Laundering Risk Management and Due Diligence

December 2015
Research provided by:

LexisNexis® Risk Solutions and Association of Certified Anti-Money Laundering Specialists® (ACAMS).

Methodology:

From August 31 – September 14, 2015, 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. Online surveys were emailed to ACAMS’ full subscriber base and both LexisNexis Risk Solutions and ACAMS were identified as the sponsors of this research. No tangible incentive was offered for completion of the survey. In total, over 800 financial services compliance professionals responded.
Executive Summary

According to the UN Office on Drugs and Crimes, 2 to 5 percent of global GDP is laundered annually. Considering 2014 global GDP at US$74 trillion, that means as much as US$3.7 trillion is laundered globally. A disturbing assertion is that half of that figure is laundered in the U.S. and £24 billion is laundered annually in the U.K. CEB Tower Group provides a ballpark figure that between US$210 billion and $367 billion is laundered in the LATAM region, composed of countries such as Brazil, Colombia and Mexico, driven by the regional history of drug cartels and corruption.

These numbers are of course approximations. The actual figures are unknowable since money laundering in its various forms is hard to identify, detect and prevent.

Financial institutions around the world have been handed a “proxy policy force” role to stop the bad actors who fund terrorism, steal identities and traffic illicit drugs. Strategic financial intelligence plays a significant role in enabling financial institutions to fully know their customers so that institutions can successfully fight financial crimes and, ultimately, protect society from the worst type of criminals.

By reading and engaging with this bi-annual study, which was jointly constructed, issued globally and then analyzed by LexisNexis® Risk Solutions and ACAMS, you’ll be able to benchmark your efforts to combat money laundering and gain meaningful insights into the challenges compliance professionals grapple with daily in the areas of Customer Due Diligence, Beneficial Ownership and Enhanced Due Diligence.

The results of this year’s report couldn’t be timelier. U.S. financial institutions await the Financial Crimes Enforcement Network (FinCEN) final rule on Customer Due Diligence (CDD). The rule is important because it amplifies the steps financial institutions have to take to onboard a business or legal entity, like a trust or company, as a customer by requiring a better understanding of beneficial owners. This means that financial institutions are going to have to do more identity verification of business customers. Are financial institutions ready? What steps are financial institutions already taking to comply? And if a financial institution isn’t updating and maintaining current customer information, it can be cited for program deficiencies. Jurisdictions around the world are watching the methods that US and European Union regulators put in place requiring financial institutions to know the owners who have economic benefit of a company.

This study delves deeply into how front-line compliance professionals are tackling CDD, especially around Beneficial Ownership. When asked about the different information types gathered to conduct CDD, 59 percent of financial institutions with total assets between US$1 billion and $10 billion said they collect Beneficial Ownership identification information compared to 88 percent of financial institutions with over US $500 billion in total assets.

Perhaps the wide gap exists because smaller financial institutions believe that they have deeper one-on-one and perhaps even daily interactions with their customers and so therefore know them better than a larger financial institution could or would be able to. Small financial institutions may feel that this “finger on the pulse” approach means that the same type and same amount of financial intelligence collected on a business or nonprofit entity that a large financial institution would collect isn’t necessary. This common theme appears in each section of the study findings.

Recently Bloomberg Radio interviewed two LexisNexis Risk Solutions anti-money laundering compliance experts. During the live broadcast, the host asked: How exactly does a bank really know its customers? The question surfaces a very complex answer.

Many small financial institutions, especially in small markets, consider being relationship-focused a primary differentiator that enables them to compete effectively against larger financial institutions. Not only does the community bank loan officer see his business customers’ banking activities but may see the customer in the grocery store or at the movies or in the community, to catch up.
For a financial institution with hundreds of millions of customers, though, the approach is different. Consider that a global financial institution has a presence in literally every corner of the world, from the Wells Fargo ATM in Antarctica to the Standard Chartered branch in Zimbabwe. Knowing customers and being able to risk rate that customer appropriately is extremely complex for massive institutions and that reality ushers in different types of risk.

The information financial institutions collect in-house and supplement with additional third-party data about their customers is a way to mitigate the risk of a shell company tied to a terrorist financier slipping through the system and being onboarded as a customer. The study results show clearly that large financial institutions supplement their in-house data with third-party information like adverse media, sources of wealth and new parties being added to the account far more effectively than smaller financial institutions. An opportunity therefore exists for smaller institutions, especially institutions in metropolitan centers, to improve CDD through the use of third-party data.

Customer data comes from many places, including from bank customers themselves. This year’s study shows that in knowing beneficial owners, 100 percent of survey respondents use documents provided by the business owner to verify ownership. The question then becomes, can that information be trusted?

The fact is a financial institution cannot fully know its customers if the information and data, that critical financial intelligence, they rely on isn’t accurate, easily accessible and distilled into insights that can be acted upon.

The purpose of this study is to garner a first-hand look from AML Compliance professionals around the world to understand their perspective and appreciate ongoing compliance challenges through their eyes. More than 800 compliance professionals responded to our questionnaire with 52 percent of respondents having customers in the US. This study is a much-anticipated second edition to a study originally published in 2013.

Please contact us if you have questions or need additional information about any of the data points and insights gleaned and articulated in this report.

**Definitions**

For the purposes of this report, small financial institutions are defined as having total assets of less than US $50 billion, mid-tier financial institutions are defined as having total assets of between US $51 and $100 billion and the large financial institution category is composed of institutions with total assets of US $101 billion or more.

The figure below expresses the percentage breakdown of respondents in each category.

Which of the following BEST describes your financial institution’s asset size? Answered only by “Bank” respondents. (402 respondents)
Hot Topics

The survey results indicate that compliance professionals are dealing with myriad challenges that fall under the following main categories:

Bad Data Undermines Compliance
Bad data diminishes the value of the money that financial institutions spend on compliance. Respondents stated they face many challenges in collecting the data they need to conduct thorough due diligence processes and maintain compliance with regulations. This data deficit is further compounded by a lack of confidence in the quality of the data collected from or provided by the end customer during onboarding. A scarcity in accurate and timely public domain information to help confirm and verify the customer-provided data adds another layer of complexity to the CDD process, which in turn increases the amount of research time and manpower that must be dedicated to customer due diligence.

Customer Reluctance to Share Information
Many respondents found their due diligence efforts hindered on the front end by a growing number of customers who are unwilling to share personally identifying details that are needed to complete due diligence. In the wake of major data breaches, customers have a heightened awareness of the value of their personally identifiable information (PII) and are reluctant to share critical details that support comprehensive due diligence efforts. In addition, our survey respondents have a lack of confidence in the information customers do willingly share, with just 34 percent of respondents stating they find customer-provided statements of expected activity to be accurate. In an industry where risk decisions and compliance mandates hinge on data precision, these developments are equally challenging and troubling.

Need to Verify Beneficial Ownership Information
As the regulatory climate around Beneficial Ownership continues to evolve, over 85 percent of respondents have begun collecting Beneficial Ownership information. The absence of clearly defined regulatory guidelines and the need to verify the accuracy of this information when it is collected has created numerous challenges. Currently 100 percent of respondents use customer-provided business formation documents to verify Beneficial Ownership information while 95 percent also utilize government filings and/or public records. The lack of clarity around the final regulation and continued ambiguity around who will own the lion’s share of the burden of collecting and maintaining Beneficial Ownership data has left many financial institutions dedicating large amounts of resources to staying ahead of what currently are vaguely defined parameters.

Time and Effort Required to Complete Key Processes
Survey respondents indicated the time needed to perform a risk assessment has increased to 10 weeks since our 2013 survey. Couple that increase with the fact that 51 percent of respondents still use a manual spreadsheet or document in the risk assessment process and the demand on resources and manpower created by risk assessment becomes evident.

Lack of Standardization
The absence of industry standards around the risk assessment process combined with varied and sometimes overlapping expectations stemming from specific business units and different countries creates a great deal of confusion and inefficiencies across most respondents’ risk assessment processes. The absence of global standards and a reliable level of industry specification places extra demands on manpower and resources by creating redundancies that can erode attention from true due diligence risks.
Changing and Unclear Regulatory Expectations
Managing innumerable regulatory requirements and keeping pace with an evolving regulatory environment creates a great deal of pressure for our respondents. Sixty-five percent say greater regulatory requirements pose a significant challenge while 53 percent cite the complexity of the regulations as a main pain point. Maintaining processes and systems that are rigid enough to meet regulatory requirements but agile enough to quickly adapt to a very fluid regulatory environment is costly and time consuming for our respondents.

Implications
AML Departments continue to grapple with increased demands on their resources and personnel bandwidth in an effort to maintain an effective compliance program while managing increased expectations and resistance from their end customers. Regulatory pressures are showing no signs of abatement and regulatory uncertainty has added another layer of confusion as AML teams attempt to meet requirements that have not been fully defined. The combination of these factors places a great deal of strain on AML manpower, budgets and resources. The demands of the current AML and risk management environment can erode focus on core business goals and negatively impact risk prevention. It also diminishes an AML department’s ability to plan and execute more long-term strategies.

Customer Enhanced Due Diligence
How familiar are you with the information, systems and resources used for performing CDD as it relates to your financial institution? (826 respondents)

74% of respondents are very familiar with the Customer Due Diligence process.
Which of the following types of information does your organization currently gather as part of its CDD process? (More than one response allowed - 689 respondents)

While the figure below focuses on the aggregated data from all respondents, it is equally interesting to delve into the responses by asset segment. We found that financial institutions with total assets of US$51 billion to $100 billion (mid-tier) collected more information than those of any other asset sizes, except the institutions with US$500 billion and more in total assets.

This finding stands out. While one interpretation of the results suggests that mid-tier financial institutions could be over-collecting customer information, a more probable interpretation is that as a bank reaches US $51 billion in assets, regulatory pressures change and institutions tend to start behaving more like the large global institutions.

As discussed earlier, a major challenge that compliance professionals experience is that customers don’t want to share information. The large financial institutions have overcome this challenge because they leverage third-party data providers. The study results support this statement because information like source of wealth, adverse media, source of funds and public records are secured from data providers instead of institutions having to ask customers for this information.

For a small financial institution that isn’t in a metropolitan area this finding doesn’t mean that there is more inherent risk or greater residual risk in their portfolio, but for a smaller financial institution in a metropolitan area where a true community environment doesn’t exist, if they are not leveraging the same CDD information accessible through third-party data providers as the large institutions do, they could be at greater risk.
Does your organization store CDD information as paper files/images or in an electronic format? (More than one response allowed - 756 respondents)

- Electronic format: 85%
- Paper files/images: 53%

Does your organization require the same CDD information from all customers or do different products/lines of business have different requirements? (757 respondents)

This question delves into the risk-based approach. The results show an interesting inverse relationship occurring. We know that CDD information is generally the same across products for smaller institutions as it is for the large institutions. If a smaller institution only has a few products, their use of CDD will be more uniform, which is an expected finding.

Money launderers are actively moving downstream to target smaller financial institutions. To combat this evolving threat, smaller financial institutions operating in metropolitan areas need to consider and further investigate the type of financial intelligence they are using to stay compliant and protect the financial system.
The most common ownership threshold triggering beneficial owner due diligence is 11% or more greater ownership interest.

Most organizations also gather business formation documents, purpose of account, source of funds, expected activity and identification of beneficial owners.

**Beneficial Ownership**

The small business banking landscape is often described as fragmented and banks are looking to take advantage of that market dynamic by upping their offerings to attract the very profitable small business customer segment.

As banks ramp up efforts to attract small businesses, they’ll have to navigate new regulations that are changing the process to onboard these new customers. Specifically the changes focus on knowing who the owners are that receive economic benefits from a business. These steps are being taken to root out small businesses that have been set up solely to launder money.

Beneficial Ownership is perhaps the hottest topic in the banking industry because of changing regulations, like FinCEN’s soon-to-be announced final regulation and the recently enacted Fourth EU AML Directive.

FinCEN’s proposed rule specifically asks for the identity of the natural persons who are the business owners. Regulators are asking for at least one owner and as many as five owners to be identified. Today, the challenge that all banks have is that it isn’t mandatory in every jurisdiction to disclose who owns a business. In some jurisdictions it is mandatory, and in others it isn’t.

Currently in the U.S., there is no regulation setting the threshold for the percentage of ownership which would require the identification of the beneficial owners. In the EU, banks are required to identify individuals with 25 percent or more equity interest in a legal entity. Our study found that on average, financial institutions establish an ownership threshold less than or equal to 25 percent interest in the legal entity.

The study results show that most organizations currently verify the identity of beneficial owners, and about half currently verify Beneficial Ownership status.

According to your internal policies, what level of ownership subjects a customer to identification of Beneficial Ownership requirements? (657 respondents)
Most organizations currently verify the identity of beneficial owners, and about half currently verify Beneficial Ownership status.

Which of the following does your organization currently do relative to Beneficial Ownership? (More than one response allowed - 688 respondents)

![Chart showing percentages of organizations verifying Beneficial Ownership status]

- 53% currently verify the status of Beneficial Ownership
- 79% currently verify the identity of individuals named as Beneficial Owners
- 36% currently seek to identify non-disclosed Beneficial Owners

What sources does your organization use to verify the status of Beneficial Ownership? Answered only by respondents who verify the status of Beneficial Ownership. (More than one response allowed - 308 respondents)

- Business formation documents provided by the customer: 100%
- Government filings and/or public records (such as Secretary of State or Business Registry filings): 99%
- Tax returns: 38%
- Credit reports: 37%
- Other: 16%
Updating CDD Information

Is your organization’s CDD information updated on a regular basis or only when there is a triggering event? (More than one response allowed - 747 respondents)

- Updated when there is a triggering event: 61%
- Updated on a regular basis: 60%

Which of the following best represents how frequently your organization updates its customer profiles? Answered only by respondents who update customer profiles on a regular basis. (433 respondents)

- Daily: 7%
- Weekly: 2%
- Monthly: 3%
- Quarterly: 9%
- Semiannually: 5%
- Annually: 30%
- Every 2-3 years: 13%
- Every 4-5 years: 1%
- Less often than 5 years: 2%
- Other: 28%

Smaller institutions are more trigger event driven as a percentage of total respondents, meaning they only review customers when an event like a transaction monitoring alert occurs or upon receipt of new KYC information. Larger institutions consistently rely on both trigger events and periodic reviews to drive updating KYC information.

Smaller institutions appear to be relying heavily on triggering events as a way to manage the operational burden of CDD. This means that if small financial institutions are relying primarily on trigger events to determine workload and which customer is going to have a CDD review/KYC review, the trigger events are limited to new information that small financial institutions have collected on the customer and it isn’t information external to the institution. It is passive new information, data that small institutions are getting in the normal course of business instead of actively going out and getting from third-party data. This reactive position combined with their lower reliance on third-party data, may put smaller financial institutions at greater risk.

Financial institutions relying on both periodic annual profile reviews compared and trigger events are accelerating higher risk reviews to proactively manage their risk, while giving them the catchall on the annual or other periodic review cycle.
Adverse Media

Are Adverse Media searches performed as part of your organization’s CDD? (731 respondents)

Adverse media reliance is two to three times higher in financial institutions with total assets of US $100 billion and above.

Considering the aggregate answer to high-risk customers, the reverse trend exists. The large financial institutions use adverse media 33 percent on high-risk customers while smaller financial institutions are using it 54 percent of the time.

From a risk profile perspective, large institutions have little face-to-face contact, so large financial institutions rely on the data flow to help manage portfolio risk that is otherwise difficult to pinpoint.

Smaller financial institutions can get better risk coverage and have a cost effective alert clearing process and adverse media program.

Most organizations perform Adverse Media searches as part of their CDD process. However, there is a fairly even split between those who search on all customers (41%) vs. just high-risk customers (44%).
When Adverse Media searches are performed as part of KYC, they are usually performed on an ongoing basis, not just at onboarding. Typically when Adverse Media searches are performed on an ongoing basis, the most common frequency is daily.

Smaller financial institutions perform ongoing Adverse Media searches on high-risk customers while larger financial institutions perform on-going searches on all customers.

Which of the following best represents how frequently your organization performs its ongoing Adverse Media searches? Answered only by respondents whose Adverse Media searches are performed on an ongoing basis. (203 respondents)

Our study indicates 25 percent of the respondents perform Adverse Media searches daily. Financial institutions with more than US $100 billion in total assets perform daily searches the most (38 percent). Performing daily adverse media searches appears to be a consistent practice across the larger financial institutions.

Within your organization, are Adverse Media searches performed to identify accounts that may need to be reviewed for unusual transaction activity or to identify reputational risk? (More than one response allowed - 663 respondents)

Larger financial institutions tend to use Adverse Media as a way to protect their reputation more so than smaller institutions.
Risk Rating

Which of the following does your organization use as part of Customer Risk Rating? *(More than one response allowed - 740 respondents)*

As part of customer risk rating in general, large institutions rely less on customer statements of activity. Instead large institutions rely substantially more on actual activity combined with public source information. Study results show that small institutions don’t use public information, like court records. This finding represents a major opportunity for financial institutions with less than US $50 billion in total assets to use public source data to reduce their risks.

By a margin of 30 percent, more large financial institutions are leveraging data to understand the risks of associated persons or businesses. The lack of reliance on public records data could place small institutions behind in identifying “community pillars” that may happen have a business relationship with a bad actor in another state.

In general, how accurate do you find customer-provided statements of expected activity compared to actual transaction activity? Answered only by respondents who currently use customer statements of expected activity. *(361 respondents)*
Does your organization use the Risk Rating based on CDD information in its transaction monitoring process? (715 respondents)

- **Yes**: 86%
- **No**: 14%

**Enhanced Due Diligence**

How frequently, if at all, do the following impact your financial institution’s decision to perform EDD on a customer? (765 respondents)

- **KYC information**: 81% **Always**, 17% **Sometimes**, 2% **Rarely**, 0% **Never**
- **Location of customer’s geographic footprint**: 63% **Always**, 28% **Sometimes**, 8% **Rarely**, 0% **Never**
- **Type of service being offered**: 60% **Always**, 31% **Sometimes**, 5% **Rarely**, 4% **Never**
- **Supervisory guidance**: 52% **Always**, 36% **Sometimes**, 9% **Rarely**, 3% **Never**
- **Type of product or account being opened**: 51% **Always**, 33% **Sometimes**, 12% **Rarely**, 4% **Never**

**What percent of the following types of customers typically require EDD?**

(Please note: Percentages <5% are not displayed to enhance readability)

- **An individual (consumer) (n=594)**
  - 34% **1% to 2%**, 26% **3% to 5%**, 18% **6% to 10%**, 22% **More than 10%**

- **Other legal entity (trust, foundation, etc.) (n=562)**
  - 24% **1% to 2%**, 14% **3% to 5%**, 16% **6% to 10%**, 47% **More than 10%**

- **A business (commercial) (n=610)**
  - 14% **1% to 2%**, 20% **3% to 5%**, 24% **6% to 10%**, 42% **More than 10%**

- **Other (n=62)**
  - 19% **1% to 2%**, 8% **3% to 5%**, 13% **6% to 10%**, 60% **More than 10%**

KYC information is by far the most common trigger for performing Enhanced Due Diligence (EDD) on a customer. Common EDD triggers include geography and type of service being offered.
Which of the following activities would trigger the need for EDD to be performed on a low, medium or high risk customer?

How important are each of the following types of information when conducting EDD on a customer?

Major EDD triggers include a significant change in transaction patterns and an increased volume of cash transactions.
How does your financial institution gather EDD? *(More than one response allowed - 690 respondents)*

- By a dialogue between a customer and a bank employee: 84%
- Through non-customer-facing financial institution research: 65%
- Through a third-party provider: 57%
- By contacting another financial institution: 23%
- Other: 8%

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? *(679 respondents)*

- At least monthly: 11%
- Quarterly: 11%
- Annually: 18%
- Every 2-3 years: 26%
- Randomly: 24%
- Never: 10%

Which of the following BEST describes the collection of EDD information for your institution? *(748 respondents)*

- Handled completely within your institution: 79%
- Some is handled within your institution and some is outsourced: 20%
- Completely outsourced: 1%

While about a third of organizations gather EDD information at account opening, the majority of the remainder do so within 30 days.
Most organizations gather EDD information via a dialogue between a customer and an employee. Other common information collection methods include non-customer-facing institutional research and through third parties.

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 shared the following:

1. **Deficiency in Data Availability and Data Accuracy**: Respondents’ efforts to complete timely and accurate due diligence processes are often thwarted by a lack of data on two sides of the equation: first, a limited amount of data and a minimal level of transparency in data provided by the customer during onboarding and second, a scarcity in updated and current public domain information to verify or confirm the customer data.

   “Availability of current and accurate info”
   “Collecting accurate data and determining the risk level of the data”
   “Accuracy of information provided by clients/intermediaries”
   “Availability of accurate public domain information”
   “Collecting data ... and making sure how accurate the data is”

2. **Customer Reluctance to Share Information**: Respondents continue to manage the delicate balance between preserving the customer experience and protecting their interests by collecting adequate and accurate information to complete due diligence processes.

   “It is becoming increasingly difficult to gather specific information from customers because they feel their privacy is being invaded and do not wish to divulge personal information that does not seem necessary for the account opening process”
   “Getting the customers to give you accurate information voluntarily”
   “Gathering specific information directly from the client”
   “Getting the customer to respond to questions to update their information”
3. Need to Verify Beneficial Ownership Information: Respondents are facing the burden of collecting Beneficial Ownership information while working around the uncertainty created by a shifting regulatory environment around this issue.

“Until the Beneficial Ownership regulation is finalized, we are constantly challenged on the legal requirement for obtaining this information from both customer and technology perspectives”

“It is difficult to manage the EDD program due to lack of staff and resources to verify customer information (such as undisclosed beneficial owners)”

“Accurate information—especially in regard to Beneficial Ownership/ control validation”

AML Risk Assessment

How familiar are you with the information, systems, and resources are used to create a financial institution AML risk assessment program? (827 respondents)

Regulatory Agencies

Which of the following is your institution’s regulatory agency? (More than one response allowed - 652 respondents)
AML Risk Assessment

Is your institution’s AML risk assessment stand-alone or combined with other assessments? (Select all that apply - 688 respondents)

- Combined with an OFAC risk assessment: 47%
- A separate stand-alone risk assessment: 45%
- Part of an enterprise-wide risk assessment: 40%
- Combined with a fraud risk assessment: 21%
- Other: 3%

Roughly equal numbers of organizations’ AML risk assessments are stand-alone vs. combined with another type of risk assessment.

How often does your institution hire external advisory support or consultancy firms to assist in the completion of annual AML risk assessments? (664 respondents)

- Always: 16%
- Sometimes: 42%
- Never: 42%

Do you see a need for this type of AML risk-assessment external advisory or consultancy support? Answered only by respondents who never hire external advisory support. (216 respondents)

- Yes: 29%
- No: 71%
The majority of AML risk assessments are updated on an annual basis.

100% of respondents say high-risk customer types carry significant weight when fulfilling their AML risk-assessment requirements. Other heavily weighted factors include geographic locations and transaction volumes.

How often is your financial institution’s risk assessment updated? (646 respondents)

An interesting curve exists in terms of enterprise risk assessment update frequency. The smaller financial institutions and the larger financial institutions are more aligned in timing, updating their risk assessment annually, while the mid-tier financial institutions (total assets between US$51 to $100 billion) do so at a much slower pace.

Forty-one percent of mid-tier institutions indicate that they conduct risk assessment updates annually, while 60 percent of the larger financial institutions (total assets US$101 billion or more) and 69 percent of the smaller financial institutions (total assets US$50 billion and under) update risk assessment annually.

That finding is interesting because the mid-tier financial institutions conduct risk assessment mainly when events warrant, which could be at any time. We believe that this inverted curve exists because mid-tier institutions are more likely to buy portfolios, and when a financial institution buys a new portfolio they tend to do risk assessment around a new line of business. In addition, this size institution may be entering new markets and introducing new products that would trigger an update. It also is likely that periodic risk assessment update is a default behavior by mid-tier financial institutions that is supplemented by a trigger.

The smaller institutions tend to have static businesses where growth is focused on organic growth, and the larger financial institutions are already saturated in their geographic markets, always doing acquisitions and constantly introducing new products.
At your institution, which of the following factors would you say carry significant weight when fulfilling AML risk-assessment requirements? *(More than one response allowed - 625 respondents)*

- High-risk customer types: 100%
- Geographic locations: 81%
- Transaction volumes: 82%
- Length of account relationships: 40%
- Other: 11%
The most common AML risk assessment process duration is 1 to 3 months, with an average of approximately 10 weeks. The vast majority (81%) of risk assessments take less than 3 months.

AML risk assessment is becoming more time consuming with most risk assessment tasks showing increases in time to complete when compared to our 2013 survey. Research, compiling data and analyzing data are the most time-consuming steps in the AML risk assessment process.
Investment in AML Risk Assessment

How have your internal AML structure and staffing changed over the past 3 years? *(More than one response allowed - 605 respondents)*

- Increased staff: 70%
- Centralized all functions within headquarters: 24%
- No change: 15%
- Reduced staff: 9%

Over the past three years, 70% of organizations have increased their AML staffing.

How has your organization’s total investment in AML activity increased compared to 3 years ago? *(534 respondents)*

This question ultimately tests financial institutions’ AML activity spend patterns.

In response to this question, the anomaly that we’ve noticed throughout this study occurring in the mid-tier financial institutions surfaces again. An inverted curve exists with the US $51 to $100 billion. They have a mature program, they have invested historically, they have relatively stable risk profile and therefore there is no need to change and make additional investments. Or these institutions, because of their size, just don’t get the same attention from regulators that the other financial institutions do.

More than 50 percent of large financial institutions think they are going to have an increase in spend on AML activity between 25 percent and over 100 percent. Comparatively, 20 percent of financial institutions with total assets under US $10 billion think that they expect to increase spend less than 10 percent. Thirty-nine percent of the over US $500 billion said they were increasing 10 to 24.

Thirty-six percent of the US $100 billion to over US $500 billion financial institutions indicate that they expect their spend on AML activity to increase more than 100 percent. This finding is interesting because the aggregate 13 percent is representative of the rest of the market sans the very large institutions.
Most organizations have increased their AML investment over the past three years – most by 10%-24%.

Increase in investment in AML Activity over the past three years, classified by asset size.

How much do you anticipate your organization’s total investment in AML activity to increase over the next 3 years? (520 respondents)

For the last three years, the small financial institutions have invested little in their AML spend nor do they anticipate spending on AML activity in the coming three years, indicating that small institutions feel their compliance programs are able to meet the challenges of new regulatory expectations with minimal investment.

The US $51 billion to $100 billion institutions plan heavier investments than all other financial institution categories. For example, this category expects an increase of 10 and 50 percent increase in the next three years. In aggregate, they’ve had the most increase in the last three years and they are also expecting the largest amount of increase over the next three years.

It is clear from the findings that the larger institutions expect the most increase spend in AML activity in the coming three years. The challenge that the larger institutions will face is balancing operational efficiencies against...
Additionally, most organizations anticipate increasing their AML investment over the next three years – most by 10%-24%.

Anticipated investment in AML Activity over the next three years, classified by asset size. (628 respondents)

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</tbody>
</table>

How have your organization’s compensation packages for AML personnel changed compared to 3 years ago? (487 respondents)

<table>
<thead>
<tr>
<th>Compensation Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of 100% or more</td>
<td>1%</td>
</tr>
<tr>
<td>Increase of 50%-99%</td>
<td>3%</td>
</tr>
<tr>
<td>Increase of 25%-49%</td>
<td>10%</td>
</tr>
<tr>
<td>Increase of 10%-24%</td>
<td>19%</td>
</tr>
<tr>
<td>Increase of less than 10%</td>
<td>22%</td>
</tr>
<tr>
<td>Total AML compensation has not changed</td>
<td>40%</td>
</tr>
<tr>
<td>Total AML compensation has decreased</td>
<td>5%</td>
</tr>
</tbody>
</table>
Greatest Challenges Identified: AML Risk Assessment

On a scale of 1 to 5 where 1 means “not a challenge at all” and 5 means “an extreme challenge,” how would you rate each of the following in terms of being an operational challenge faced by your organization in complying with AML regulations? (636 respondents - Please note: Percentages <5 percent are not displayed to enhance readability)

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

1. **Time and effort required to complete risk assessment:** The time needed to perform a risk assessment has increased to 10 weeks in three years’ time which means dedicating even greater amounts of manpower and resources to the risk assessment process.
   
   “Getting all the information in one location or through one software and the time and effort to complete the assessments”
   
   “The manual process, such as having to pull multiple reports manually from the back-of-the-house system and compare them, takes a lot of time”
   
   “The time and manpower required to complete these annually”

2. **Lack of Standardization:** Respondents are managing delays and challenges that result from the lack of both industry specifications and global standards around the risk assessment process.

   “Lack of standards across regulators of what is minimal acceptable level of data”
   
   “Standardizing the process across business lines and countries. High level of proficiency and testable justification”
   
   “A risk assessment is typically subjective by nature; quantifying the process and results in an objective, standardized way would help make the process simpler (and probably easier) for examiners”
   
   “Lengthy and exhaustive process—no standardization—from industry itself”
   
   “There should be a standardized template for which organizations may customize to suit its own business”
3. Changing and unclear regulatory expectations: Respondents are navigating an ever-evolving regulatory environment and the increased demands that environment places on their assessment processes and resources.

“Keeping up with the changes in regulations which result in changing policies and procedures”
“Lack of consistency in education and enforcement of regulations”
“Regulations are vague but regulators appear to be expecting more than identified in FFIEC”

Methodology

From August 31 – September 14, 2015, LexisNexis and the Association of Certified Anti-Money Laundering Specialists 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. Online surveys were emailed to ACAMS’ full subscriber base and both LexisNexis Risk Solutions and ACAMS were identified as the sponsors of this research. No tangible incentive was offered for completion of the survey. In total, over 800 financial services compliance professionals responded.

The study was designed to garner a deeper perspective into the leading obstacles AML departments and employees are facing as they work to successfully prevent money laundering and satisfy AML Risk Assessment and Customer Due Diligence regulatory compliance requirements.

Nearly 900 respondents from financial institutions of varying sizes and geographic footprints from across the globe participated in the 20-minute survey. Survey respondents consisted of:

- AML senior level executives (20 percent)
- AML managers and supervisors (51 percent)
- AML employees (29 percent)

Which of the following BEST describes your decision-making authority/ responsibilities for AML processes and procedures? (680 respondents)
Demographics of Survey Participants

Which of the following categories best describes your organization? (624 respondents)

- Commercial banking: 50%
- Retail banking: 50%
- Private bank/wealth management: 26%
- Investment banking: 21%
- Brokerage: 17%
- Money service, transfer and foreign exchange company: 13%
- Non-bank financial institution: 11%
- Global payments and risk management provider: 10%
- Insurance company: 7%
- Credit union: 4%
- Legal firm: 2%

A slight majority of responding “non-bank” organizations have annual global revenue of $100 million or more.

What was your organization’s total annual global revenue for last year? Answered only by “non-Bank” respondents. (165 respondents)

- Less than $5 Million (USD): 7%
- $5 to $49 Million (USD): 8%
- $50 to $99 Million (USD): 16%
- $100 to $249 Million (USD): 24%
- $250 to $499 Million (USD): 7%
- $500 Million (USD) or more: 38%

Where are the majority of your organization’s customers located? (625 respondents)

- North America: 52%
- Europe: 17%
- Asia: 12%
- Australia: 6%
- Africa: 8%
- South America: 5%
Roughly half of responding organizations’ customers are located in North America.

Which of the following best represents your primary work department? (626 respondents)

Which of the following best represents your title? (683 respondents)

Which of the following BEST describes your decision-making authority/responsibilities for AML-related purchases? (626 respondents)
For More Information
Call 866.858.7246 or visit lexisnexis.com/risk/financial-services

About LexisNexis® Risk Solutions
LexisNexis® Risk Solutions (www.lexisnexis.com/risk/) is a leader in providing essential information that helps customers across all industries and government predict, assess and manage risk. Combining cutting-edge technology, unique data and advanced scoring analytics, Risk Solutions provides products and services that address evolving client needs in the risk sector while upholding the highest standards of security and privacy. LexisNexis Risk Solutions is part of RELX Group, a leading publisher and information provider that serves customers in more than 100 countries with more than 30,000 employees worldwide.