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RISK CONSULTING

Global Anti-Money Laundering Survey
2014

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KPMG named Global AML firm of the year 2014

Outstanding AML advice is about understanding the risks and devising a proportionate response.

Our member firms' AML teams pride themselves on their practical experience of implementing AML programs at major institutions, both as employees and as advisors. We have also undertaken some of the largest international remediation and look-back exercises in recent years. The lessons we've learned, coupled with our track record working at and with regulators, allow us to understand what meets compliance standards whilst also making commercial sense for you.

That way, you can keep your AML risks safely locked away.

Contact us to find out more:

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FINANCE MONTHLY GLOBAL AWARDS 2014 WINNER

According to an annual survey of the readers of *Operational Risk and Regulation* magazine on financial sector consultants conducted in 2008, 2009 and 2010.

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Foreword

Jeremy Anderson
Chairman, Global Financial Services

Brian Dilley
Global Head of Anti-Money Laundering Services

It is 10 years since we released our first Global Anti-Money Laundering (AML) survey. During those 10 years, financial institutions have ridden the highs, and plunged to the lows, of the economic cycle. Despite these dramatic changes in the business environment, AML has remained a key focus area throughout. In fact, AML has never been higher on senior management's agenda, with regulatory fines now running into billions of dollars, regulatory action becoming genuinely license threatening, and threats of criminal prosecution against banks and individuals.

Financial Institutions are making significant changes in response to regulatory action and increasingly far-reaching global AML regulations; with numerous new regulations across Asia, the U.S. Foreign Account Tax Compliance Act (FATCA) having an impact, and the Fourth European Money Laundering Directive (4MLD) still to come. These initiatives have quickly changed the AML scene from a standalone function under compliance, to an increasingly complex and overarching function cutting across legal, risk, operations and tax. Strong AML processes and controls are at the heart of inter-dependencies and linkages within a global organization, offering invaluable client knowledge that is only recently starting to be leveraged by other departments as well as senior management.

But questions are now being asked as to whether it is possible for a global institution to run a fully compliant AML program. Despite annual expenditure that is likely to exceed US$10bn in the next couple of years, institutions continue to fall foul of regulatory expectations, which seem to change more regularly than in the past. Minimum compliance with regulatory obligations is no longer enough to stay out of trouble, when you strive to meet a higher standard, but fail.

This survey not only compares firms' AML programs over the period covered by previous KPMG survey's but also looks at emerging areas of risk, such as Trade Finance and Tax Evasion, as well as looking at AML trends within the Insurance and Asset Management sectors. The latter sectors have received relatively less focus from regulators, but that is now changing as regulators broaden their purview.

We would like to thank the 317 survey respondents who took the time to participate in this year's Global Anti-Money Laundering survey. We are delighted to share the results, accompanied with our own global and regional insight from KPMG member firm professionals.

Introduction and Methodology

KPMG launched its online survey in November 2013. The survey was distributed to AML and compliance professionals in the top 1,000 global banks, according to the 2013 edition of The Banker Magazine, as well as to KPMG's AML contacts in over 40 countries.

The overarching aims of this year's global AML survey include:

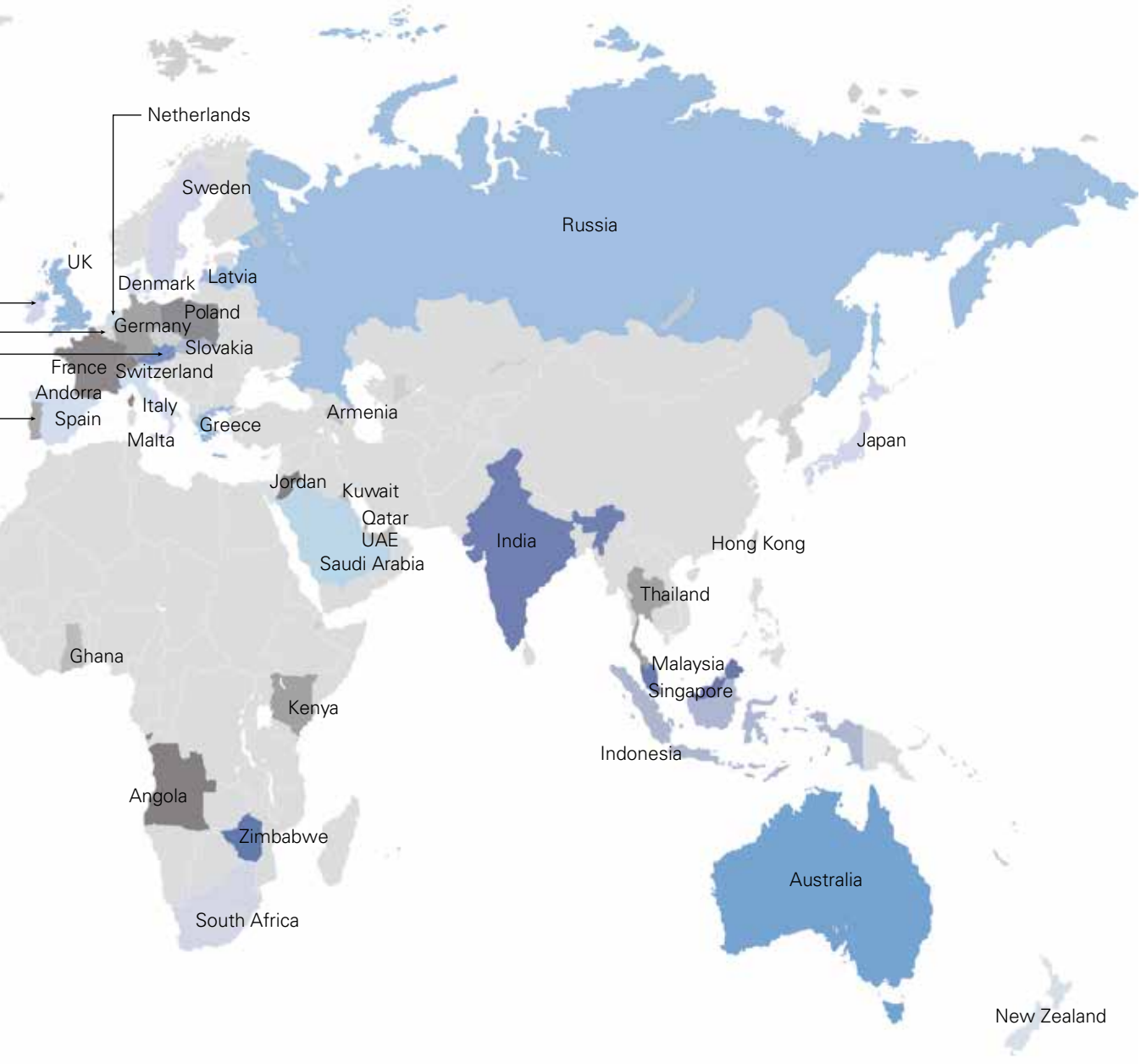
- Identifying emerging trends, opportunities and threats;
- Capturing industry perceptions on regulation, cost, and effectiveness; and
- Benchmarking AML efforts in the financial services industry.

In addition to the topics covered in our previous surveys, the 2014 survey also asked respondents to consider money laundering in relation to the following:

- Trade Finance
- FATCA and Tax Evasion
- Insurance Sector
- Asset Management Sector

Respondents came from the following countries:

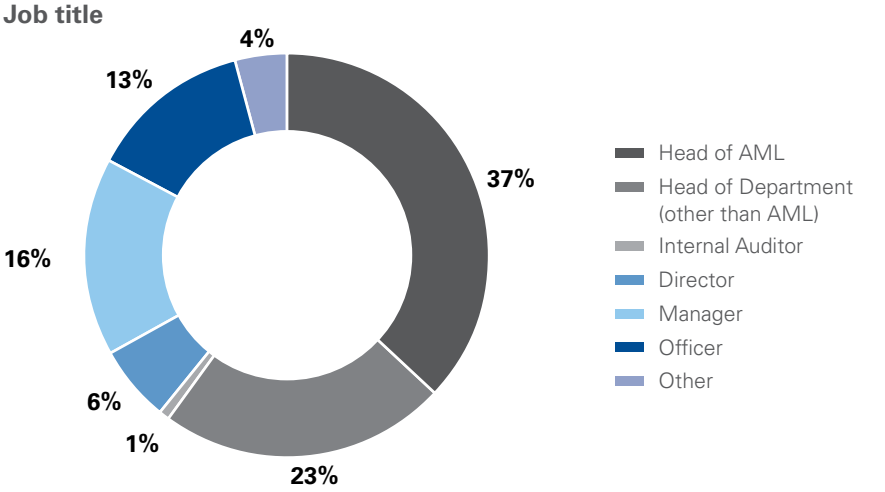
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.



Respondent profile

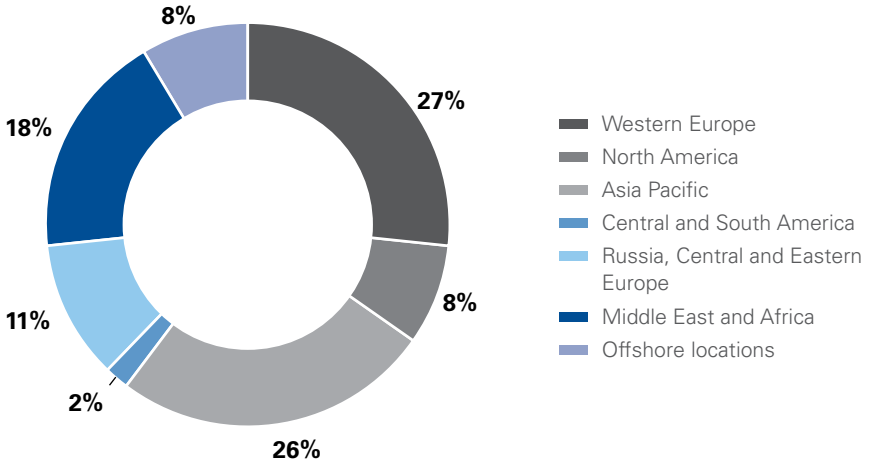
317 respondents participated in this year's survey representing 48 countries. Respondents came from a wide range of AML-related professional backgrounds across the financial services industry. A further breakdown of respondent profile by region, sector, and job title is provided below:

Job title



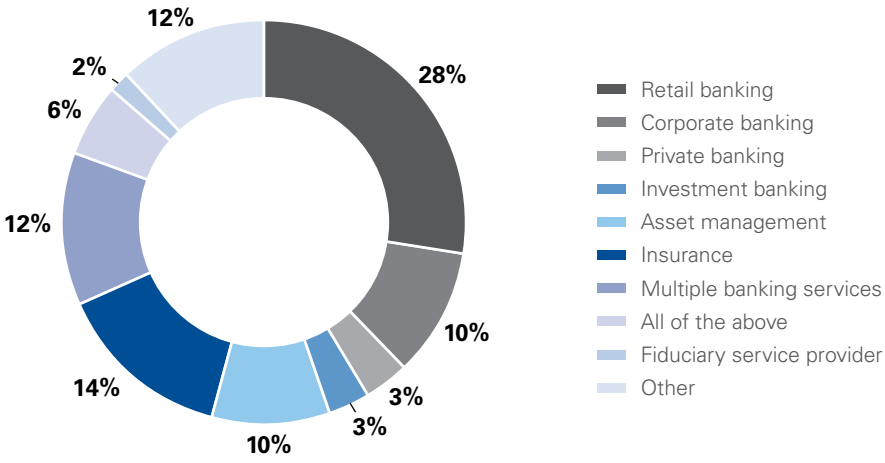
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Geographical area of responsibility:



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Type of business:



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Key headlines

	2004	2007	2011	2014
Priority for senior management	**AML was a relatively high priority within banks.** Sixty-one percent of respondent believed AML was a high profile issue for their senior management.	**Stronger senior management engagement in AML efforts.** Seventy-one percent of respondents stated that their board took an active interest in AML.	**Senior management interest declined** but remained quite high, with 62 percent of respondents citing AML as a high profile issue.	**AML issues are moving back up the agenda for senior management** with 88 percent of respondents saying AML is a priority for senior management.
Cost of compliance	**The cost of AML compliance increased sharply.** The average increase over the previous three years was 61 percent, with no respondents reporting a decrease in investment.	**AML costs grew beyond expectation.** Average costs grew 58 percent in the previous three years, compared to a prediction of 43 percent growth in 2004.	**Costs continued to rise,** at an average rate of 45 percent, against a prediction of 'over 40 percent' in 2007. The extent of cost rises appeared underestimated by many.	**Costs continue to rise** at an average rate of 53 percent for banking institutions, exceeding previous predictions of over 40 percent in 2011.
Taking a global approach	**Establishing a global policy was a major challenge.** Nearly two-thirds of respondents had a global AML policy in place; however half of these undertook implementation at a local level.	**Banks took a more global approach** to managing AML risk. 85 percent of internationally active banks had a global AML policy in place.	**There was much variation in approach.** Two-thirds of banks had a global policy in place, however almost three quarters implemented their procedures locally	**A global approach has been adopted in the majority of cases, but there is room for improvement.** Only 32 percent of the 95 percent of respondents who have a global policy are able to maintain global consistency across subsidiaries and branches.
Politically exposed persons	**PEPs were not a key area of focus,** with only 45 percent respondents performing enhanced due diligence on PEPs at account opening stage.	**There was more focus on PEPs.** Eighty-one percent of respondents performed enhanced due diligence on PEPs at account opening stage.	**PEPs were an area of focus for almost all respondents,** with 96 percent using PEP status as a risk factor and 88 percent monitoring PEPs on an ongoing basis.	**PEPs remain an area of focus, gaining increased attention from senior management.** 82 percent of respondents said that senior management is involved in the sign off process.
Know Your Customer	**Banks increasingly understood the importance of AML compliance for existing and new customers.** Seventy-four percent of respondents remediated information gaps for existing customers, even if taken on before new KYC rules or guidance.	**Banks continue to use remediation programs to 'backfill' customer data.** There was a slight but not significant increase in the number of banks engaged in a remediation program, with 77 percent of banks having a remedial plan in place.	**KYC information was refreshed by almost all institutions, but not consistently across regions.** Ninety-three percent of respondents had a program in place to remediate information gaps, but the approach varied greatly. FATCA was the greatest immediate KYC challenge.	**KYC continues to be an area of concern,** with 70 percent of respondents stating that they had been subject to a regulatory visit focusing on this area.
Sanctions compliance	Not covered in survey.	**Sanctions compliance is now a major challenge and source of AML investment** due to increased regulatory focus. However, 20 percent of banks did not have any procedures in place to update principal information for the purposes of sanctions compliance.	**Sanctions compliance remained a challenge,** with client screening seen as the most difficult area. Seventy-four percent of respondents identified all directors and controllers. Worryingly, only 50 percent used the new MT202COV SWIFT message.	**Sanctions compliance remains a challenge as new issues emerge.** 75 percent of respondents now use MT202COV SWIFT, but only 52 percent of respondents indicated that in every instance where a MT202COV lacked required information, it would be rejected.
Transaction monitoring	**Enhanced transaction monitoring systems was the main area of increased AML spending, but not universally.** Sixty-one percent of banks use internally developed systems, with 45 percent using those developed externally. However, 22 percent used neither.	**People are still the first line of defence in the fight against money laundering,** despite it being the greatest area of AML investment. 97 percent of respondents still relied primarily on their people to spot suspicious activity. Satisfaction with systems is 'neutral', at an average of 3.7 out of 5.	**Questions were starting to be raised about transaction monitoring.** Overall, respondents' satisfaction with transaction monitoring remained neutral, at an average score of 3.6 out of 5, but many regions were less satisfied than in 2007. It was still the greatest area of AML spending.	**Transaction monitoring systems continue to represent the greatest area of AML spending,** while satisfaction for these systems has declined with an average score of 3.42 out of 5 with regards to efficiency and effectiveness.
Regulatory approach	**The regulatory AML burden was acceptable but the requirements could be more effective.** Eighty-four percent of respondents believed the burden to be acceptable, but 54 percent felt that it could be more effective.	**There was broad support for regulatory AML efforts, but also more to do.** Ninety-three percent of respondents thought the regulatory burden was either acceptable or should be increased, however 51 percent said it could be better focused.	**Regulators were active, but banks wanted more collaboration and information.** Eighty-five percent of banks feel that the overall level of regulatory burden is acceptable, but many wanted more guidance and a collaborative approach.	**Regulatory approach was ranked as the top AML concern,** with 84 percent of respondents stating the pace and impact of regulatory changes as significant challenges to their operations.

Detailed survey findings

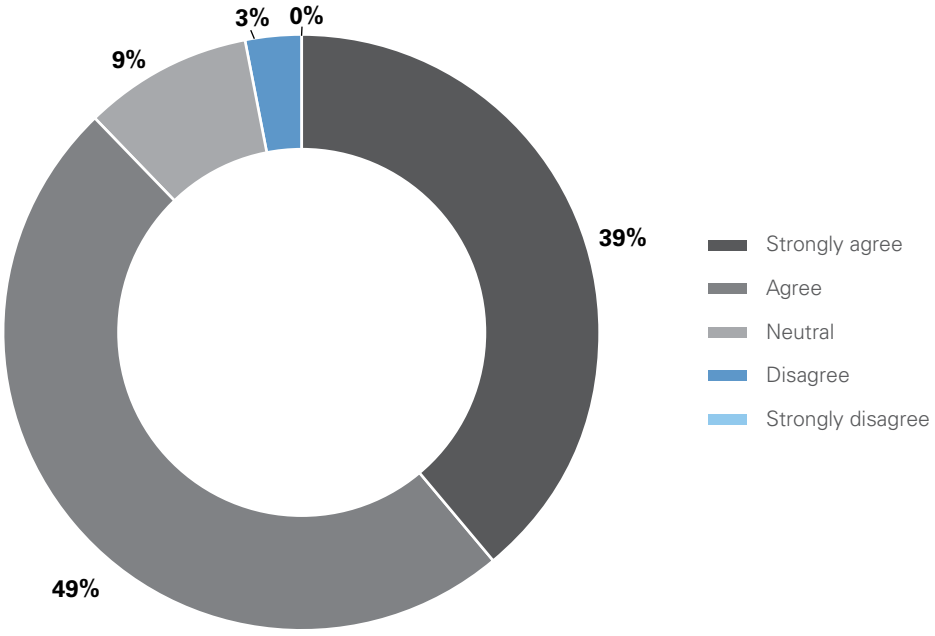
Senior management focus is on the rise again

Senior management interest in AML compliance has increased again since the decline during the financial crisis, with money laundering risks given regular and formal attention at Board meetings. Regulators have certainly done their part in raising the profile of AML with no shortage of fines being issued for failures to maintain adequate AML controls and, placing pressure on senior management to prevent further failings.

Eighty-eight percent of respondents stated that the Board of Directors takes an active interest in AML issues; this is an increase of 26 percent from our 2011 result. Given the impact that AML compliance can have on the reputation, share price, and economic viability of a financial institution, this is no surprise. In a period of heightened regulatory scrutiny and continuing globalization of AML regulation, organizations are faced with greater challenges to achieving and maintaining AML compliance. Although in a number of regions the number of fines has declined, the amount of each fine has increased significantly, highlighting the regulator's continued determination to prevent illicit activity and placing real pressure on compliance executives to prevent further failings.

Significantly, 98 percent of respondents confirmed that AML issues are discussed formally at the Board, with the majority stating that this was done on a quarterly or as required basis. The greater involvement of the Board of Directors is in no small part due to increasing and evolving regulatory pressures and the expectations that a Board member should have responsibility for maintaining effective AML controls. In some jurisdictions, the prospect of individuals being criminally prosecuted has become a reality. Over the period of this edition of the survey the introduction of the FATCA and the proposals for key regulatory changes such as 4MLD suggesting that senior management's attention continue to increase implementation.

The Board of Directors take an active interest in AML issues:

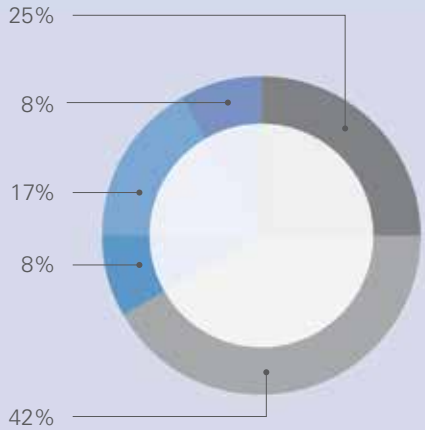


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

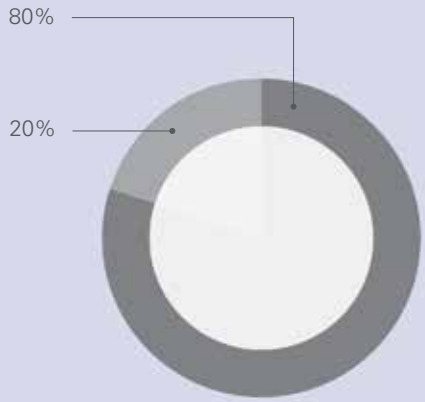
Eighty-four percent respondents stated that money laundering is considered a high risk area within their business risk assessment, further emphasizing how seriously senior management deems failures to meet the regulatory requirements. Regions with more developing countries such as the Middle East and Africa, Asia Pacific and Central and South America have needed to take a more proactive approach to reduce their vulnerability to financial crime, and create an infrastructure which will facilitate the effective enforcement of their ever evolving AML standards. This is evidenced in our survey results with 100 percent of respondents in Central and South America stating that AML is high risk, and 92 percent in Asia Pacific, Middle East, and Africa.

Exposure to money laundering is considered a high risk area in your business risk assessment:

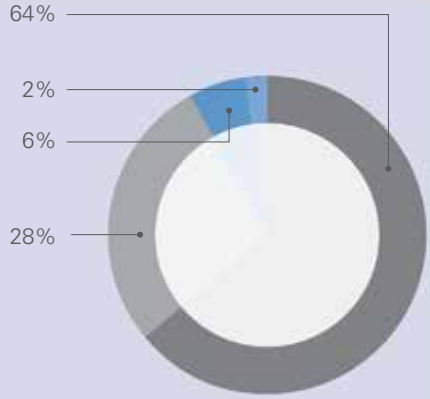
North America



Central and South America

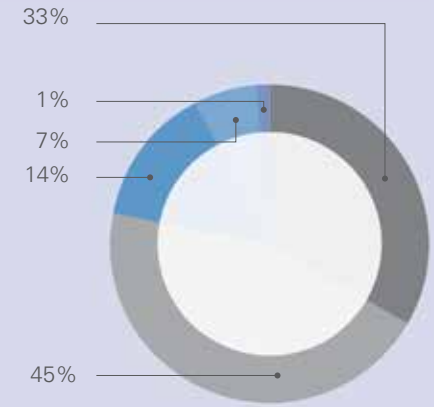


Middle East and Africa

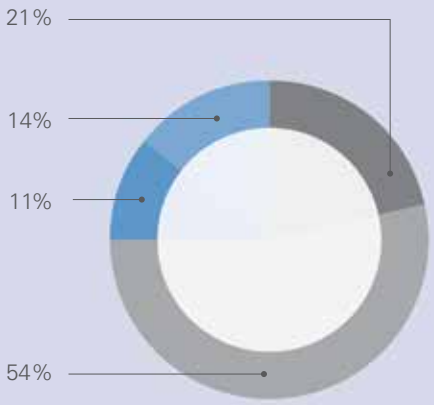


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

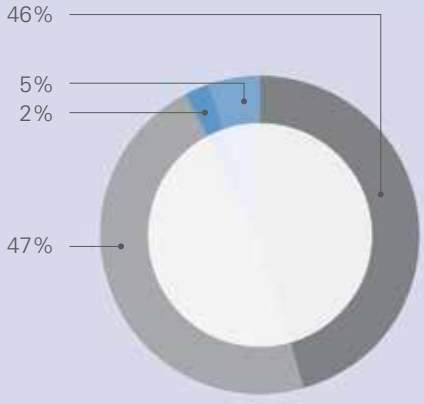
Western Europe



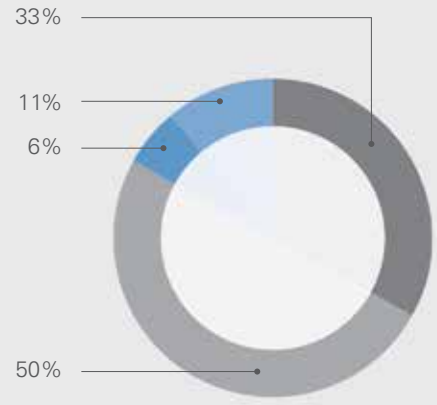
Russia, Central and Eastern Europe



Asia Pacific

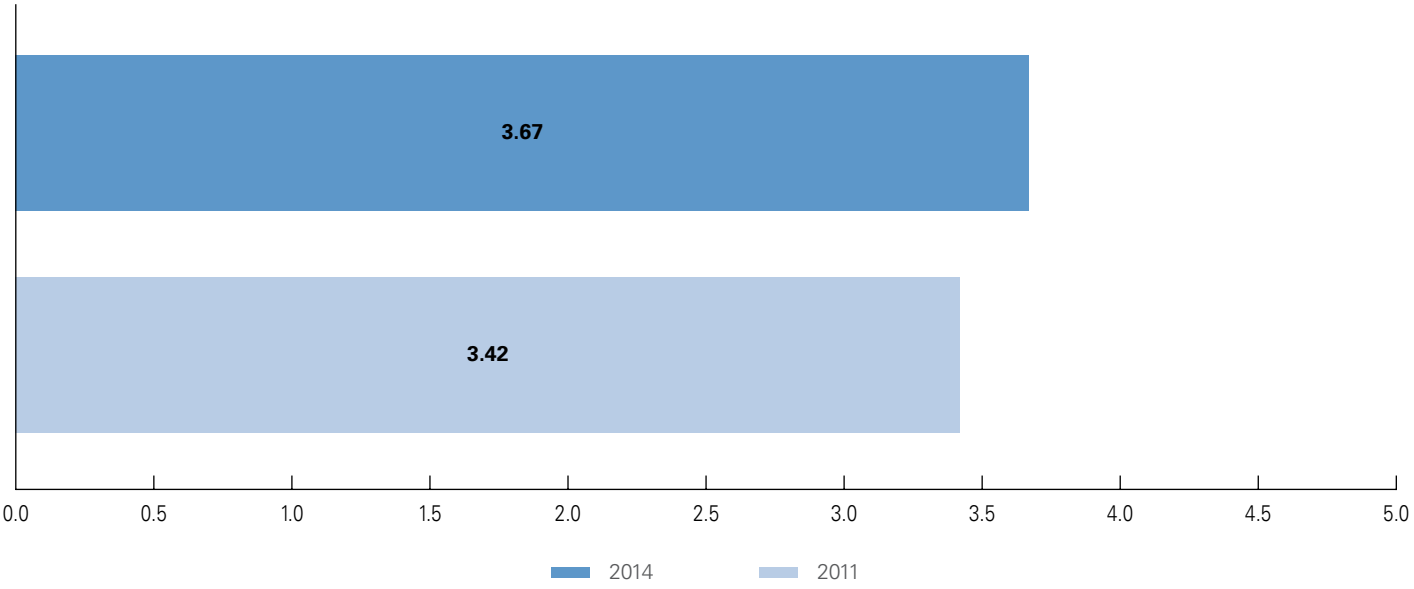


Offshore locations



Seventy-five percent of respondents stated that the same AML policies and procedures are applied to all branches and subsidiaries, demonstrating that senior management is taking a more global approach to AML compliance. Respondents also stated that implementing a globally consistent AML framework is very challenging scoring it 3.67 out of 5 as key differences in national legislation and data privacy standards make it challenging to implement globally consistent standards. Regulators have criticized organizations for a failure to consistently implement and apply their policies and procedures. Senior management cannot underestimate the importance of establishing an effective and consistently applied AML compliance framework. The average rate of increase globally was 53 percent compared to a prediction of 40 percent in 2011.

How challenging respondents consider implementing a globally consistent AML framework, with 1 representing least challenging and 5 as most challenging.



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

KPMG Insight

As management attention continues to be pulled in multiple directions there are many who feel that it is no longer possible to meet all regulatory expectations. The AML burden placed on senior management time will continue to increase, making it more challenging than ever to meet the regulatory requirements. Board members will need to consider how they will manage the additional pressures on their time while still fulfilling their duties of care, skill and diligence. Appointing a Board member with responsibility for AML is no longer a "nice to have". Senior management need to concentrate on establishing strong AML assurance mechanisms and globally consistent procedures, to avoid censure, and possible prosecution.

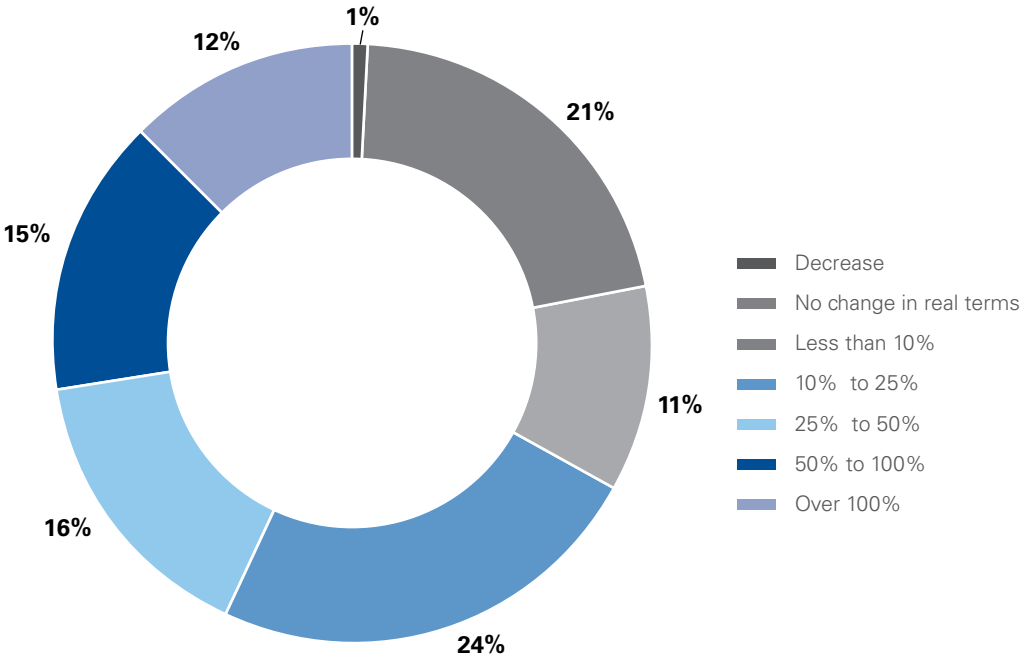
Cost of compliance continues to be underestimated

The cost of AML compliance has increased since our last survey and shows no signs of slowing down in the near future. Accurate cost forecasting is vital for members of senior management to make informed decisions, but it remains a key area of weakness.

In 2011, 8 percent of respondents predicted an over 50 percent increase in expenditure. In reality 22 percent of respondents increased expenditure by over 50 percent during the three year period from 2011. It is not uncommon for survey respondents to underestimate the increase in AML expenditure; it has been a consistent theme over all four of our surveys. Although the reasons behind this remain unclear, it may be related to the fact that AML practitioners as well as senior management do not anticipate the announcements of regulatory changes, nor the speed in which new regulations are expected to be implemented.

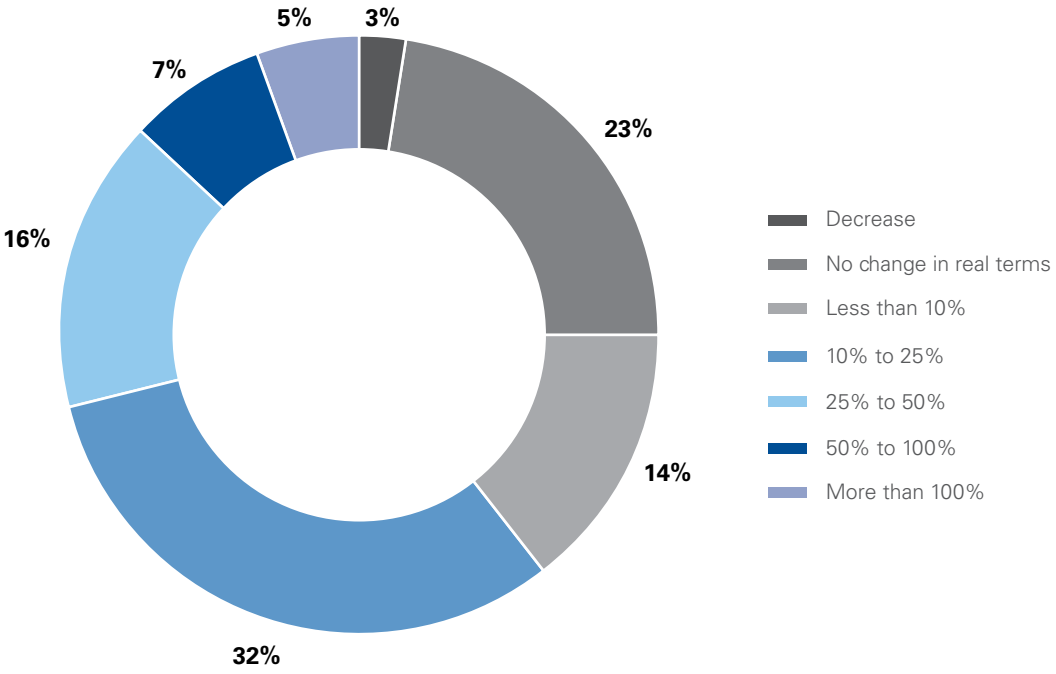
Seventy-eight percent of survey respondents reported increases in their total investment in AML activity, with 74 percent also predicting further increases in AML investment over the next three years. The most significant increase in investment occurred in the APAC region where 39 percent of respondents reported over 50 percent increase in AML investment. The average rate of increase globally was 53 percent compared to a prediction of 40 percent in 2011.

How much has total investment in AML activity increased compared to three years ago?



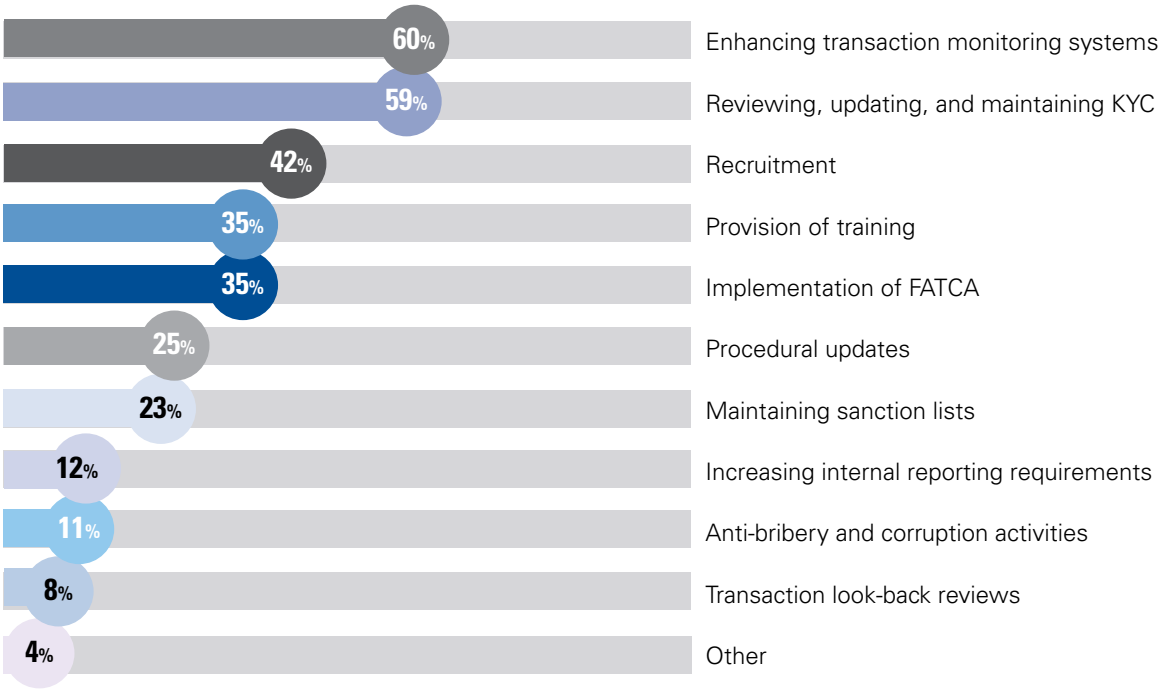
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Anticipated increase in AML investment over the next three years.

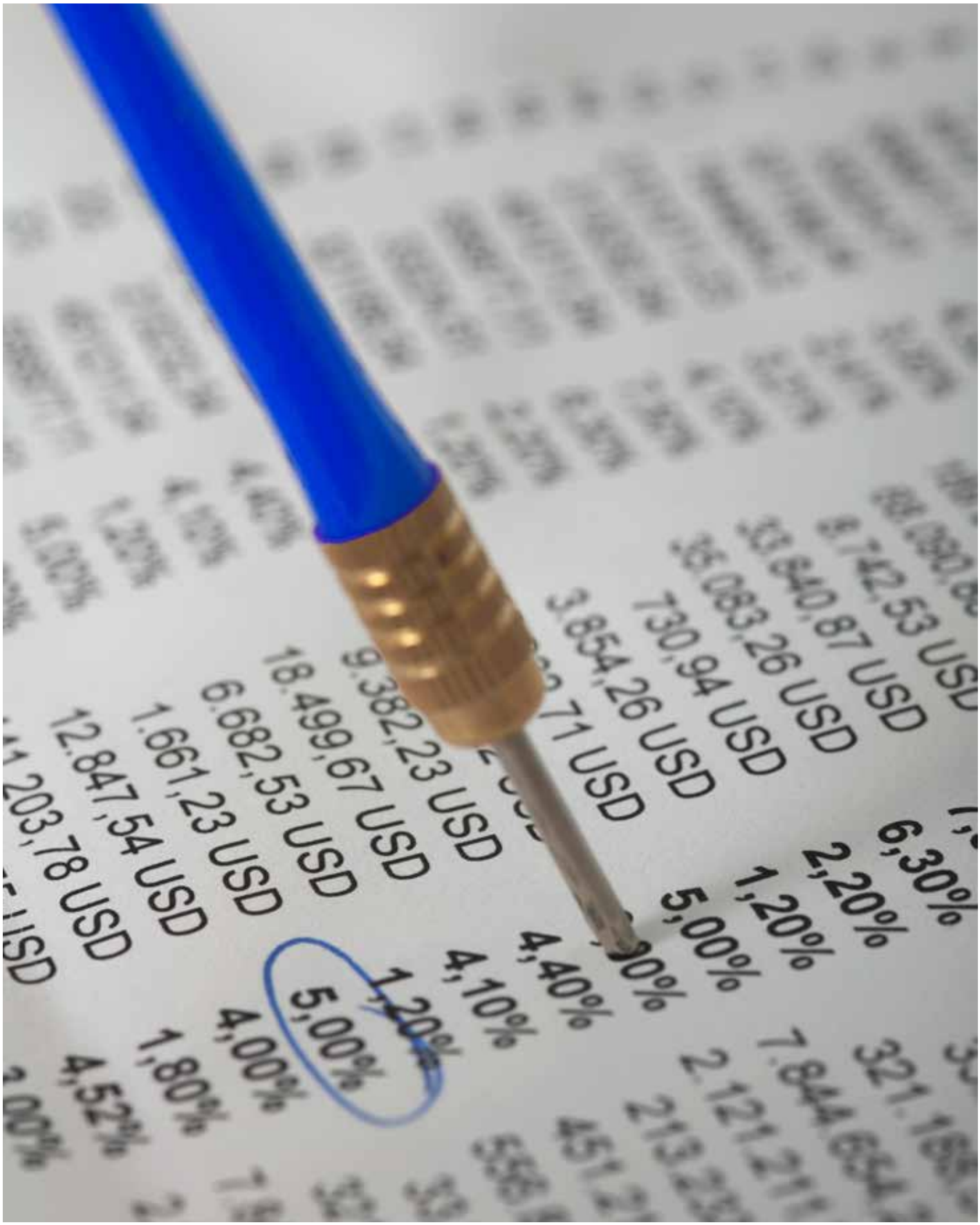


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Areas of AML budget investment



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.



The top 3 areas where AML budget has been invested are:

1. Transaction monitoring systems
2. Know Your Customer ("KYC") reviews, updates and maintenance
3. Recruitment

Sixty percent of survey respondents indicated that transaction monitoring systems represented the largest AML investment. Financial institutions are spending significant amounts of their resources on automated transaction monitoring systems and member firms experience suggests that clients are becoming increasingly unhappy with their current automated monitoring efforts, looking for software that can reduce the burden on the compliance department. Some of these systems are implemented quickly "out of the box" to satisfy regulators, and only later are they calibrated to detect relevant suspicious activity.

Fifty-nine percent of survey respondents listed KYC reviews, updates, and maintenance as accounting for the second largest AML investment. Ongoing changes in KYC standards have also led to heavy investment in this area, predominantly in Central and South America where 100 percent of respondents listed KYC as the largest AML investment. Recent regulatory findings suggest there is still a struggle in determining what constitutes adequate customer due diligence and when to apply enhanced due diligence, leading to investment in large scale remediation projects and notification of regulatory visits for further inspection. For those that have solved the problem of initial KYC, the challenge is now how to keep it up to date.

Forty-two percent of survey respondents listed recruitment as the third largest investment in AML compliance. The results of our survey indicate that recruiting adequately skilled resources remains a challenge. However, this problem may be exacerbated by the fact that not only is there a shortage in the market for AML professionals, but retention of skilled staff is also a challenge, particularly as large global players launch major change programs, while regulators also grow their inspection teams. It can be expected that in addition to recruitment costs, financial services firms will need to reassess costs associated with successfully retaining staff, including additional investment in their well-being, development, and training.

KPMG Insight

In an environment that has continued to be impacted by the financial crisis senior management need to be asking some pressing questions when it comes to AML investment. Large sums of money continue to be spent on improving transaction monitoring but is this yielding the expected return? Why is there a continued need to fund large scale KYC remediation exercises? Is this purely the result of regulatory change or is the periodic review process not picking up key gaps in KYC? We believe that senior management will continue to underestimate AML expenditure unless lessons are learnt from past mistakes.

Training and recruitment initiatives need a globally consistent approach

Effective training is vital for developing and retaining AML professionals as well as ensuring the successful implementation of an AML framework. There appears to be an inconsistent approach to training of non-AML staff, including the Boards of Directors, which is further exacerbated by regional discrepancies.

Only 62 percent of survey respondents indicated that the Board of Directors receives AML training, which is not as high as we would have anticipated, particularly when Boards are more involved in AML than, ever before. All Boards of Directors should receive AML training as a knowledgeable Board of Directors is an essential component in the successful execution of an AML compliance framework. Additionally, AML training provides leadership with the ability to better understand and quantify the risks of being exposed to financial crime at both the business and client level.

Eighty-six percent of survey respondents indicated that front office staff receive AML training, reinforcing that the greatest exposure to money laundering rests with the front office. However, the variation between Asia Pacific and the Americas was fairly marked for this question. Seventy percent of survey respondents from Asia Pacific specified that AML training was provided to middle office functions, compared to 90 percent of respondents in North America. A further 58 percent of respondents from Asia Pacific stated that the internal audit team receives AML training compared to 100 percent of respondents in Central and South America. The regional differences in the provision of AML training reflect the high level nature of regulatory training provisions. The closest example to a globally applicable set of regulatory requirements in this area may be in the Financial Action Task Force (FATF) principles, which specify that firms should provide AML training in line with their national government requirements, but do not specify which functions require such training. As a result, there is a large potential of divergence in approach, which is reflected in the survey results.

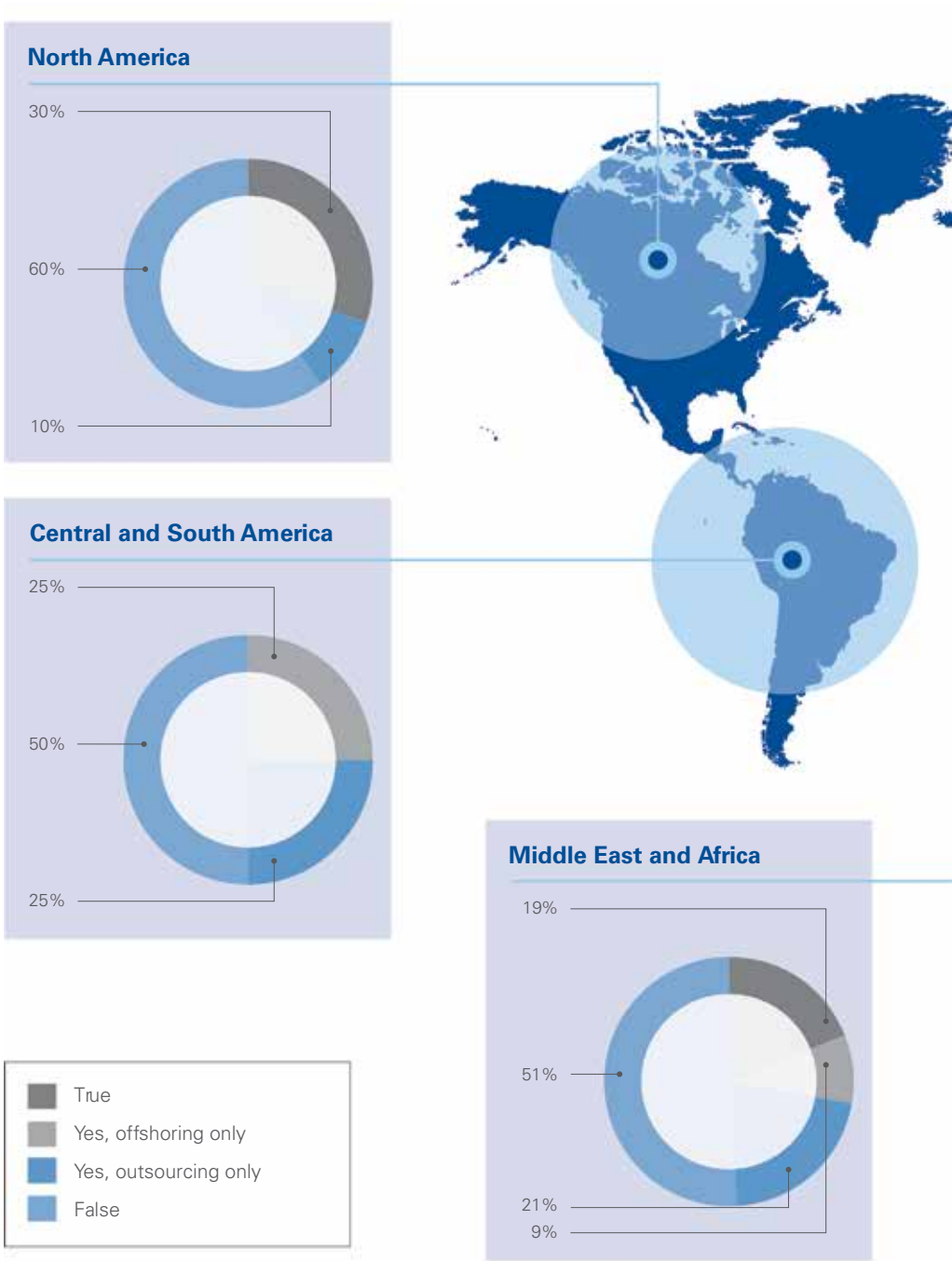
KPMG Insight

Senior management are responsible for setting the risk appetite of the organization and regulators expect management to set the 'tone from the top' when it comes to AML compliance. In KPMG member firms' experience training is key when it comes to making informed compliance decisions and embedding AML awareness into an organization's risk culture, and we would therefore question the wisdom behind not providing AML training to all relevant staff members and in particular the Board members. In an increasingly globalized world, firms should also be questioning the efficiency and effectiveness of their current training methods. Increasingly, clients are using computer based training tools to maximize the impact and cost effectiveness of training, paired with role-specific classroom training for higher risk roles.

Outsourcing and off-shoring are growing trends, despite senior management concerns

Outsourcing and off-shoring of AML functions are growing trends, but respondents still appear to have reservations about adopting such practices due to a perceived lack of control and oversight. This suggests that in some cases, fears of regulatory fines may outweigh the cost and resource benefits of outsourcing and off-shoring.

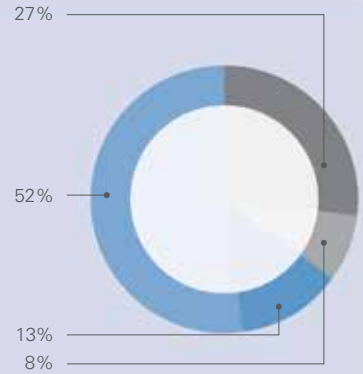
The outsourcing and off-shoring of AML functions is a growing trend:



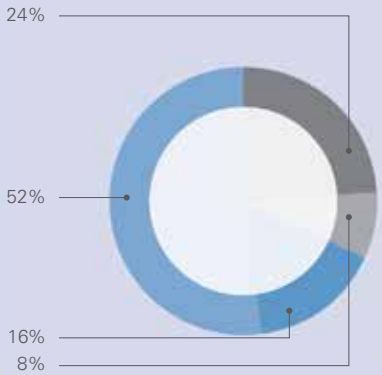
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Fifty percent of respondents do not expect outsourcing and off-shoring to rise in the future. Nevertheless, these figures represent a significant decrease from our previous findings in 2011 where 80 percent of respondents did not believe either of these would be growing trends.

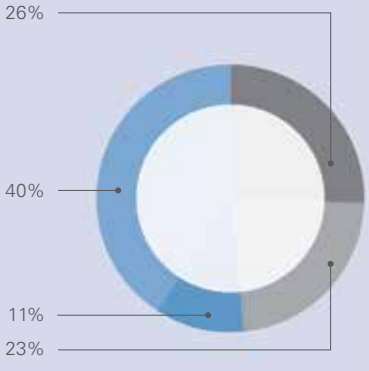
Western Europe



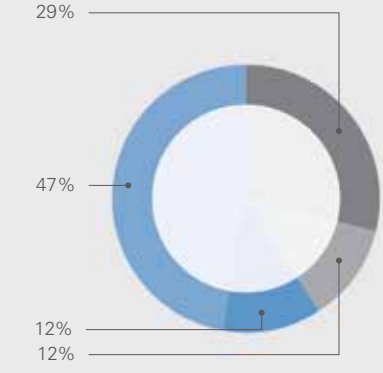
Russia, Central and Eastern Europe



Asia Pacific



Offshore locations



Ten percent of respondents in 2011 stated that they outsourced and/or off-shored some of their AML functions. However, by 2014, 31 percent of respondents have outsourced some of their AML functions; the most common function to be outsourced is account opening. This is not surprising as this function is process driven and can be fairly labor intensive.

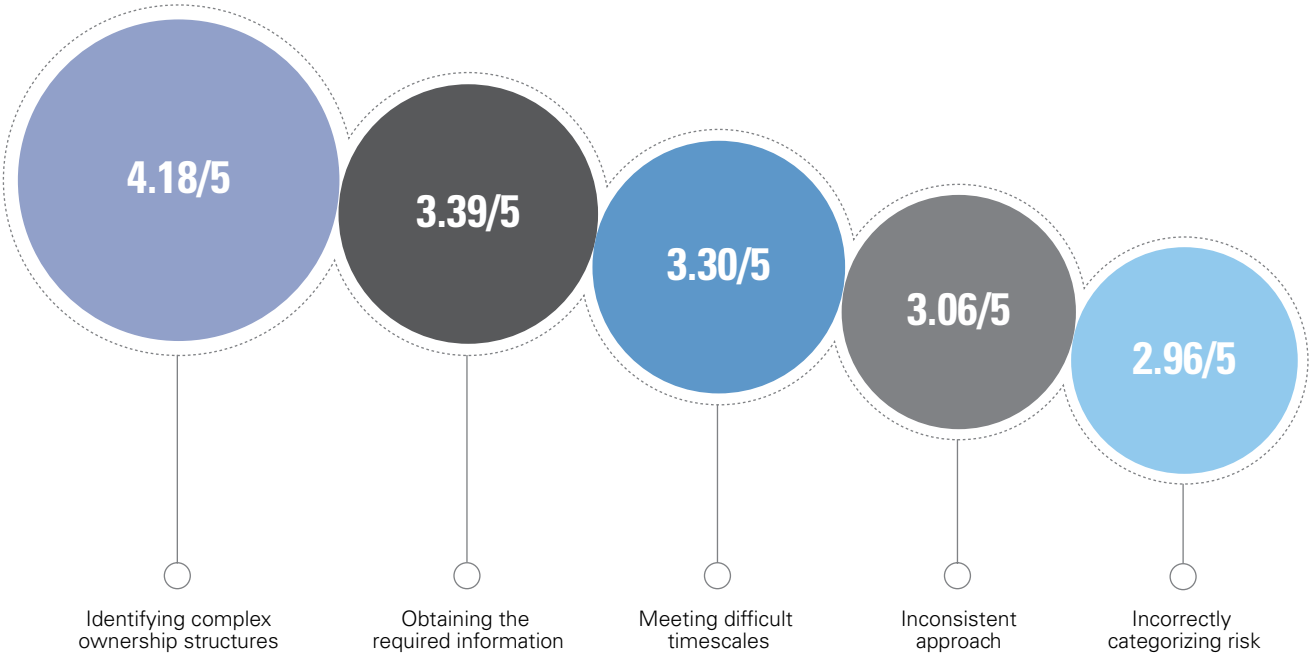
Fourty-six percent of respondents have off-shored parts of their AML function; with payment and sanctions screening topping the list. From KPMG member firms' experience, we know that resourcing and cost constraints are key drivers in the decision to outsource or off-shore these functions.

Respondents indicated that loss of control or oversight is the principal reason for rejecting outsourcing of AML functions. It appears from our results that the potential cost and resource saving benefits that arise from outsourcing and off-shoring are weighed against the costs imposed by regulators if an organization fails to get it right. Specifically, regulators impose strict guidelines on these practices and make clear that full responsibility remains with the outsourcing organization. As regulators hold members of senior management responsible for ensuring adequate controls are in place, it is unsurprising that they have reservations about loss of oversight despite the benefits.

KPMG Insight

In an environment of cost cutting and resource shortages it was intriguing to see that a significant number of respondents do not outsource and/or off-shore any AML functions. We cannot help but wonder whether stringent regulations have made organizations sacrifice good business practice for compliance concerns. Senior management should not let the fear of a loss of control prevent its organization from reaping the potential benefits that outsourcing and off-shoring can bring. A robust risk management and control framework can be developed to better manage these risks and alleviate the pressure placed on the current compliance personnel. We expect both off-shoring and outsourcing to likely continue to increase as global trends, because cost and resources are paramount considerations for the long-term sustainability of global AML programs.

Please rank each area in terms of how challenging the implementation of a risk based approach is to CDD collection.



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Transaction monitoring costs continue to soar as satisfaction declines

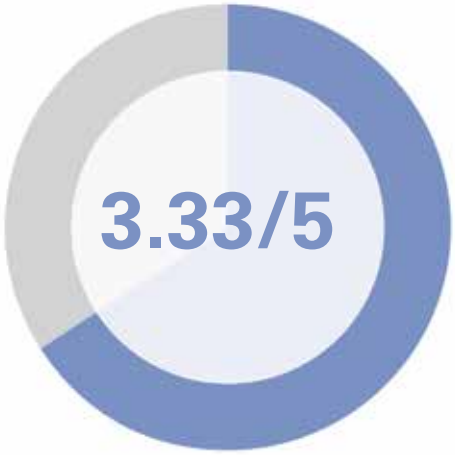
Despite increased investment in transaction monitoring systems, satisfaction has declined. Although transaction monitoring systems continue to represent the greatest area of AML spending, it appears that regulatory requirements are still outpacing system improvements.

Sixty percent of respondents reported transaction monitoring as the largest investment in anti-money laundering controls. Notably, since KPMG's first global AML survey in 2004, transaction monitoring has consistently been ranked the largest AML compliance cost driver. The continued investment in such systems may represent the continual changes in requirements and expectations as well as the advances in technological capabilities over this period of time.

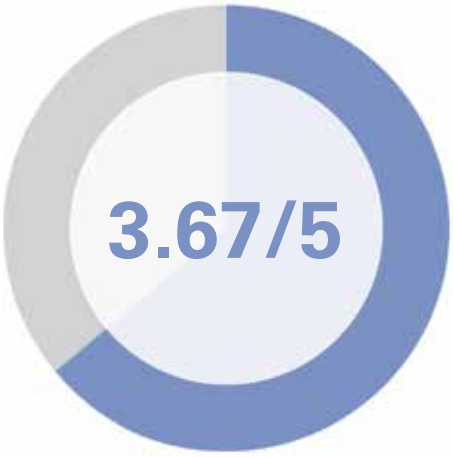
Satisfaction with transaction monitoring systems has declined with survey respondents ranking satisfaction an average of 3.42 out of 5, compared to 3.6 in 2011. The reason for the decline in satisfaction seems linked to the increased demands on these systems as the costs have continued to increase, but so too have the requirements and expectations of these systems and the number of staff that use them.

Respondents were asked to rank their satisfaction with their transaction monitoring system, with 1 as least satisfied and 5 as highly satisfied. The regional breakdown of results is provided below.

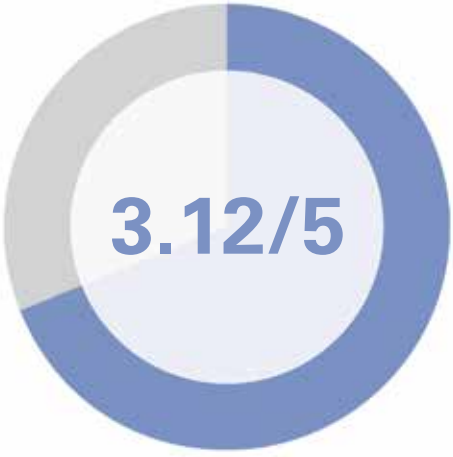
North America



Central and South America

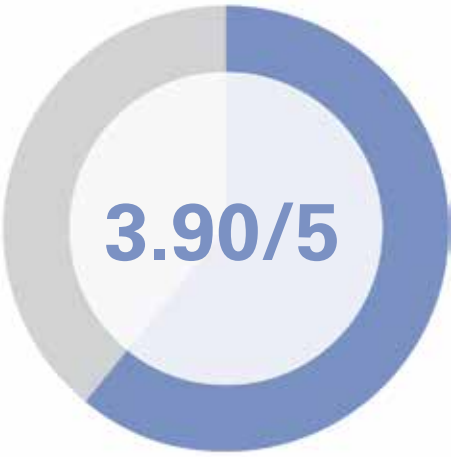


Middle East and Africa

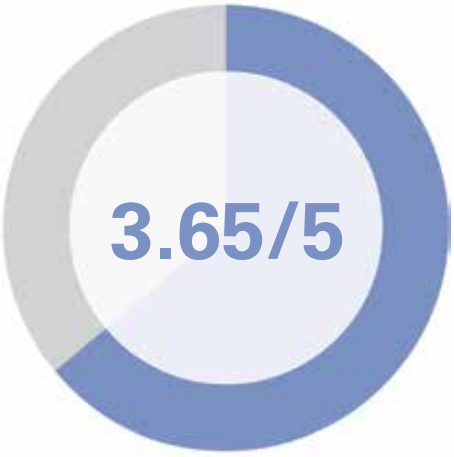


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

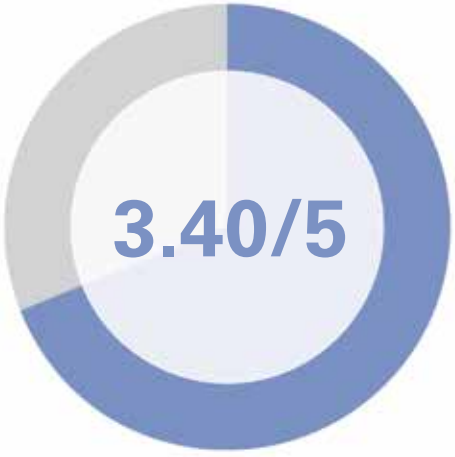
Western Europe



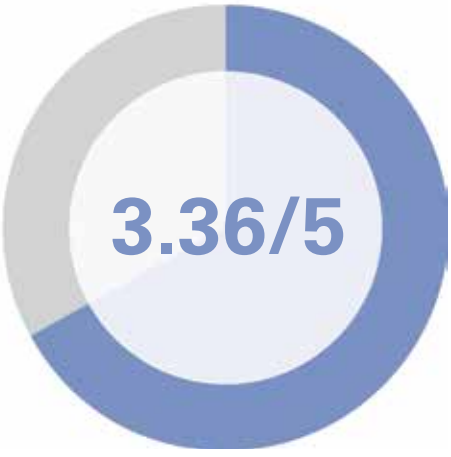
Russia, Central and Eastern Europe



Asia Pacific



Offshore locations



Only 58 percent of respondents stated that their organization's transaction monitoring system is able to monitor transactions across different businesses and 53 percent of respondents said they are able to monitor across multiple jurisdictions. This represents a significant improvement since our 2011 survey in which less than one-third of respondents were able to monitor across jurisdictions and also up from one-fifth since the 2007 survey. However, we expect this increase to continue as part of complying with growing regulatory expectations.

Only 49 percent of respondents stated that they were able to share transaction information across different businesses and only 45 percent of respondents said that they are able to share across different jurisdictions. Although monitoring across jurisdictions and businesses remains an area for improvement, an area of even greater weakness has been identified with respect to the ability to share information from transaction monitoring across businesses and jurisdictions. Given that these may be crystallized risks, there is a need for a greater sharing than is the case today.

KPMG Insight

Moving to a position in which an organization can see the full picture by monitoring and sharing its customers' transactions across businesses and jurisdictions will help facilitate the identification of any unusual transactions and behaviors. While many financial institutions continue to throw money at these systems in an effort to update and validate them, additional scrutiny should be applied towards what will be sustainable for the long term, instead of aiming to meet today's set of minimum regulatory standards. As senior management considers the concerning outlook on return on investment, it may find comfort in considering the cost benefit of investing in a firm's AML systems versus being sanctioned or fined, damaging the firm's reputation and facing regulatory, shareholder and public scorn.

Know Your Customer
continues to be the focus of regulators

Regulatory visits continue to focus on KYC, which has directly impacted investment decisions as respondents ranked KYC the second largest AML investment. However, despite the increased regulatory attention and investment, key obstacles remain.

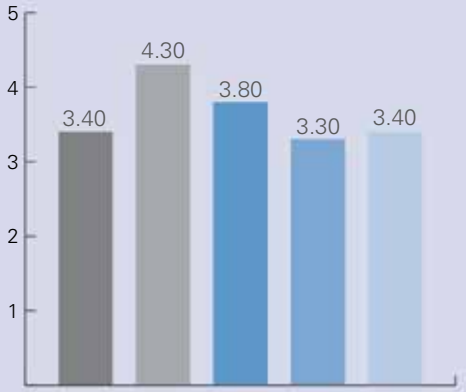
Seventy percent of respondents stated that they had received a regulatory visit which focused on KYC, suggesting KYC is still under the spotlight. Regulatory investigations have frequently drawn attention to significant gaps in the KYC information maintained by financial institutions.

Sixty-eight percent of respondents stated that full identification is obtained for intermediate owners and entities. Regulators expect financial institutions to identify their clients' ownership structures and the rationale behind them. In the current environment of increasing regulation and risk it is important to obtain information on who owns and controls your clients' structures. Unpeeling the layers of ownership can be complex and time-consuming, but it is necessary to identify the ultimate beneficial owner, so we anticipate an increase in this practice over the next three years.

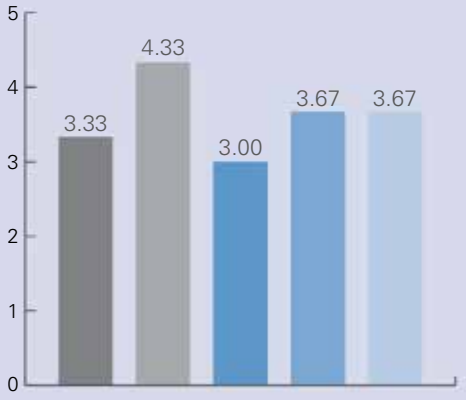
Respondents stated that identifying complex ownership structures was the most challenging area in the implementation of a risk based approach to KYC collection. Respondents in Russia, Central and Eastern Europe and Central and South America found this area particularly challenging. KPMG member firms' experience working with financial institutions in these regions suggests that identifying ownership structures is particularly challenging where an intermediate entity resides in a jurisdiction where AML requirements are not as stringent or data privacy provisions are particularly strong.

We asked respondents to rank each area in terms of how challenging the implementation of a risk based approach is to collecting customer due diligence. Respondents ranked these areas from 1-5 with 5 representing the most challenging, and 1 as the least challenging.

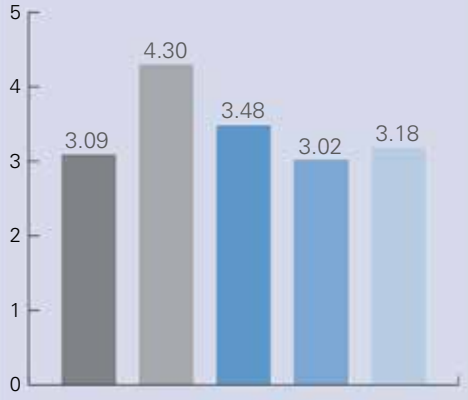
North America

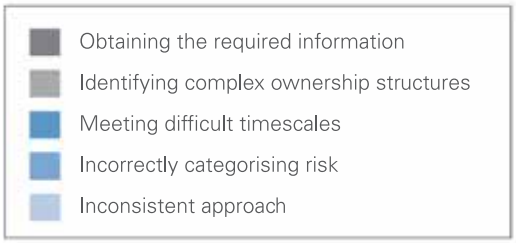


Central and South America



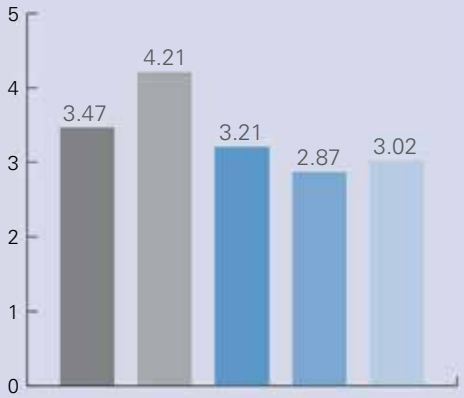
Middle East and Africa



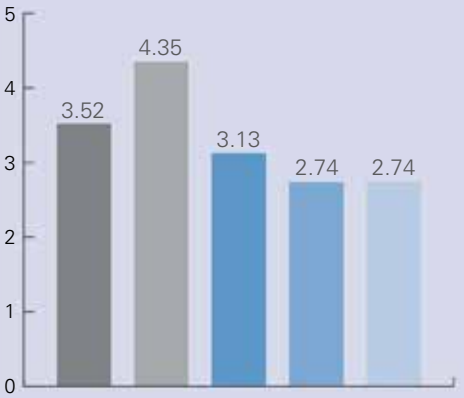


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

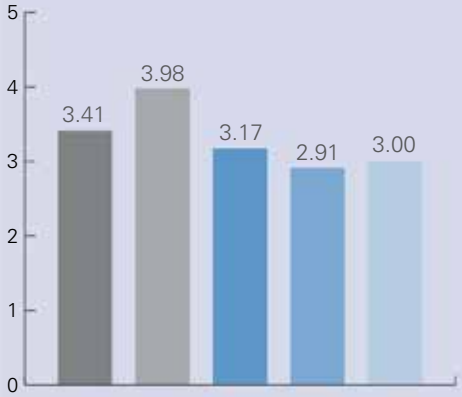
Western Europe



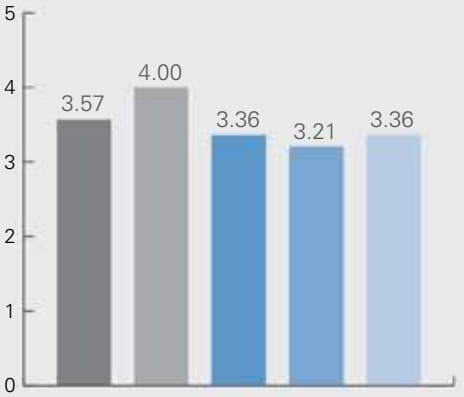
Russia, Central and Eastern Europe



Asia Pacific



Offshore locations



Sixty-six percent of respondents are leveraging their current KYC programs to meet FATCA requirements. Our 2011 report had identified FATCA as presenting one of the greater immediate challenges, and since then, many financial institutions have undertaken enhancements to their KYC arrangements in order to capture US indicia to comply with FATCA. There has also been a noticeable impact on systems and controls used to consolidate relevant KYC information. A significant number of AML professionals have become responsible for delivering FATCA enhancements and remediation exercises, despite the legislation's relation to tax.

Just over 49 percent of respondents think that electronic verification checks leave organizations further exposed to cybercrime. It appears that cybercrime concerns are reducing the use of automated online verification, which can have a significant long-term impact on financial institutions and their customer relationships. Specifically, by not embracing the automated technology in this area, financial institutions will forever be asking clients to produce passports or other forms of identification causing inconvenience to the customer and turning their backs on potentially large cost and time savings. While it is important to consider the risks posed by newer technologies, we believe that financial institutions should face these head on by assessing and mitigating the risks in order to take advantage of time and cost savings.

KPMG Insight

Although the focus still remains on remediating KYC files to address and identify any deficiencies, we strongly encourage global organizations to examine their data governance arrangements and determine whether they are likely to have future gaps in data. KPMG firms' client work tells us that there is often an assumption that client data is owned by the AML team and not by the front office; as different departments increasingly seek to leverage this data, it is becoming increasingly critical for businesses to enhance clarity surrounding data responsibility, ownership, and accountability. Financial institutions need to have an action plan in place to prepare themselves for the inevitable adjustment from large scale remediation programs to efficient and effective periodic reviews. Senior management should consider whether existing KYC documentation enables the financial institution to develop a global profile of its clients.

Politically Exposed Persons (PEPs) continue to leave organizations exposed

Growing regulatory pressure on financial institutions and the aftermath of political instability in certain regions have raised the profile of political risk for banks. Financial institutions are more focused than ever on the need to exercise more scrutiny over PEP transactions.

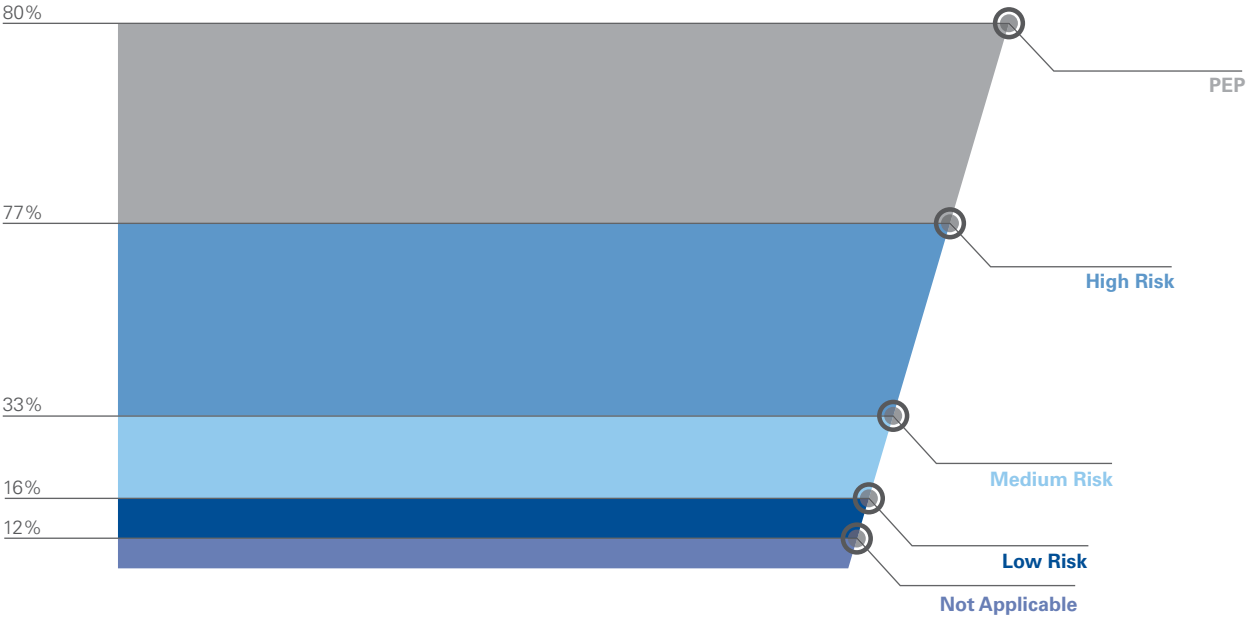
Eighty percent of respondents stated that PEP customers are required to provide documents to evidence their source of wealth and/or income. Seventy-seven percent stated that this is required for all high risk clients. As we stated in the 2011 survey report, senior management should be more actively involved in the decision-processes with respect to the highest risk relationships. We are encouraged to see that senior management are engaging with compliance in these areas and not solely in relation to PEPs.

According to our survey respondents, the top 3 methods of identifying PEPs:

1. 70 percent of respondents use commercial lists
2. 68 percent use information provided by the customer
3. 60 percent consider information in news searches.

Eighty-four percent of respondents stated that high risk relationships are signed off by senior management. Regulators have issued a number of fines against organizations that have failed to undertake effective enhanced due diligence on relationships with PEPs. A particular area of concern has been the failure to evidence the PEP's source of wealth/income. There are significant regional differences perhaps reflecting different regulatory expectations.

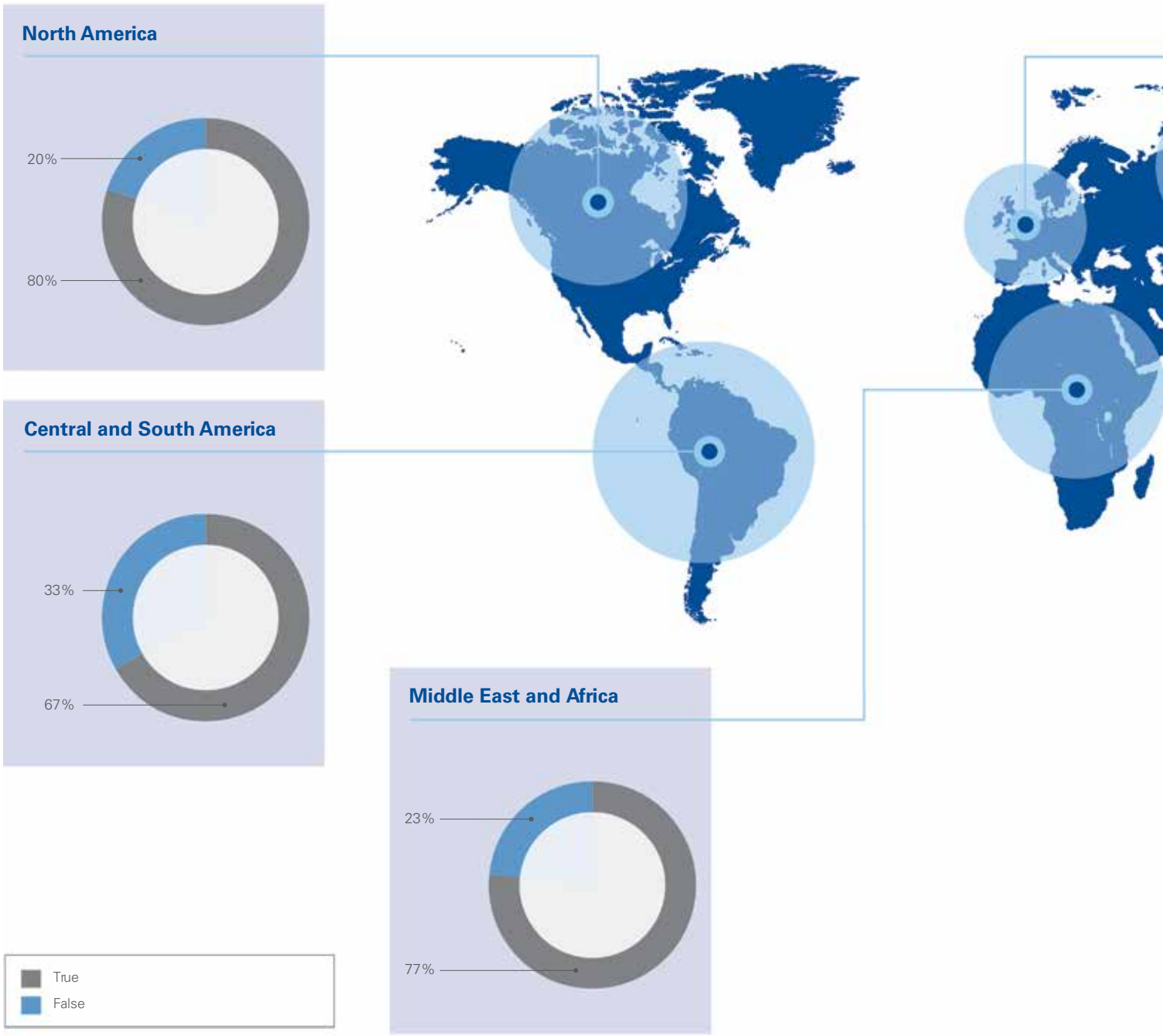
Risk categories where organizations require customers to provide documents to evidence their source of wealth and/or source of income.



Note: Percentages may not add up to 100% as respondents were instructed to select all that apply.
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

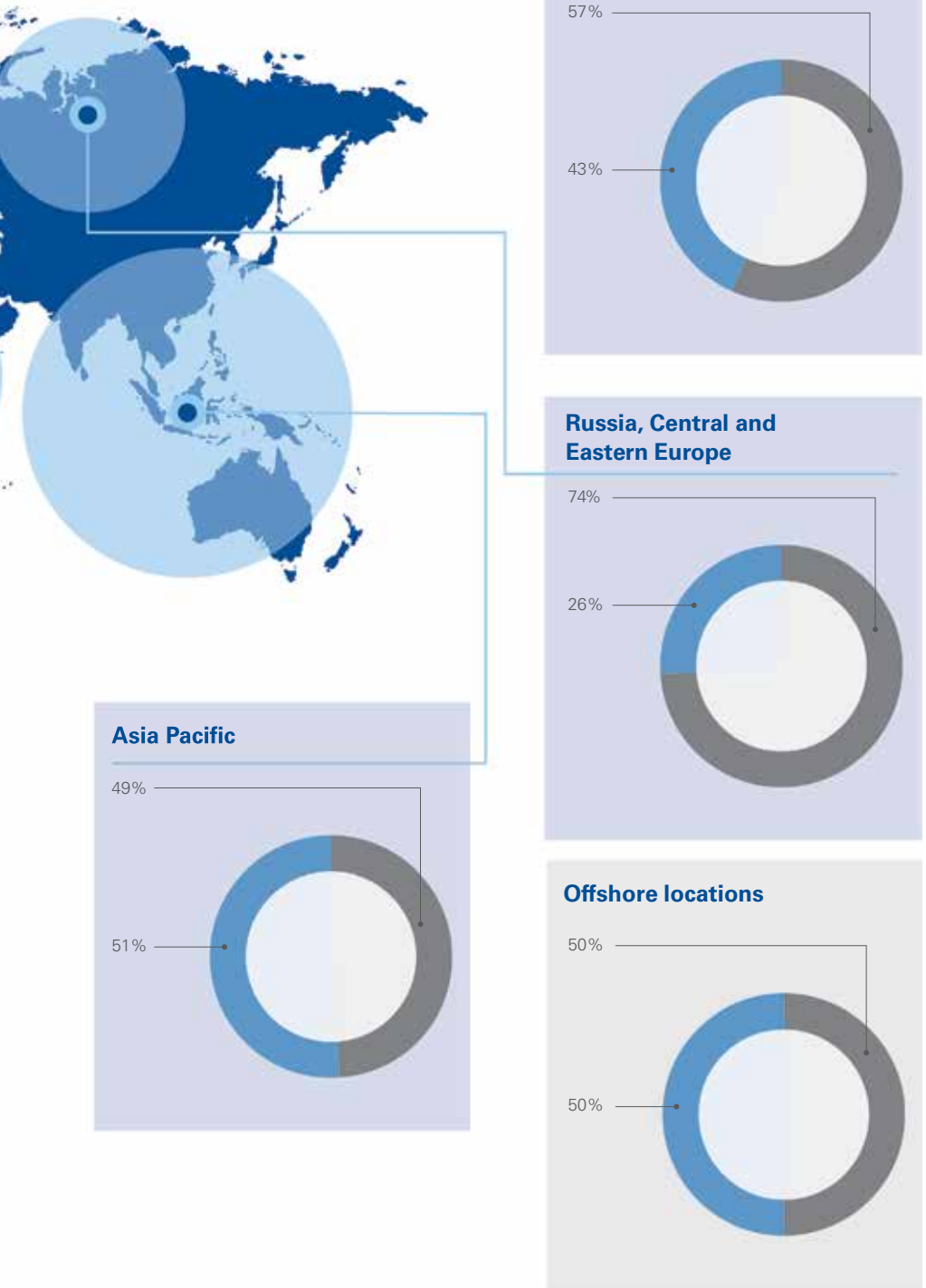
Sixty-five percent of respondents stated that their organization currently captures and distinguishes between domestic and foreign PEPs. The proposed 4MLD introduces new requirements for domestic PEPs which facilitates a risk-based approach with regard to the level of due diligence performed on domestic PEPs compared to foreign PEPs. The Directive is expected to clarify that enhanced due diligence will be appropriate in all instances where the business relationship is deemed high risk, which may affect financial

Organizations that currently capture and distinguish between domestic and foreign PEPs



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

institutions that do not currently carry out enhanced due diligence for high risk domestic PEP relationships. However, member firms's work with clients suggests that many banks have already adopted a policy position which includes domestic PEP considerations.



KPMG Insight

Despite increasing regulatory scrutiny in this area it appears that many financial institutions are struggling when it comes to enhanced due diligence on PEP relationships. The importance of obtaining robust source of wealth/ income information should not be underestimated. Much of this information is often available in the public domain, but firms struggle to turn the information into a coherent story and hence identify gaps and red flags. The approach to domestic PEP relationships will need to change with the implementation of 4MLD in some organizations. The risks posed by PEPs, and regulator's attention on them, show no sign of subsiding.

Sanctions compliance shows signs of improvement, but still a sore spot

While there has been a noticeable compliance push to meet the sanctions requirements, there is still room for improvement, particularly when it comes to validating screening systems and rejecting funds.

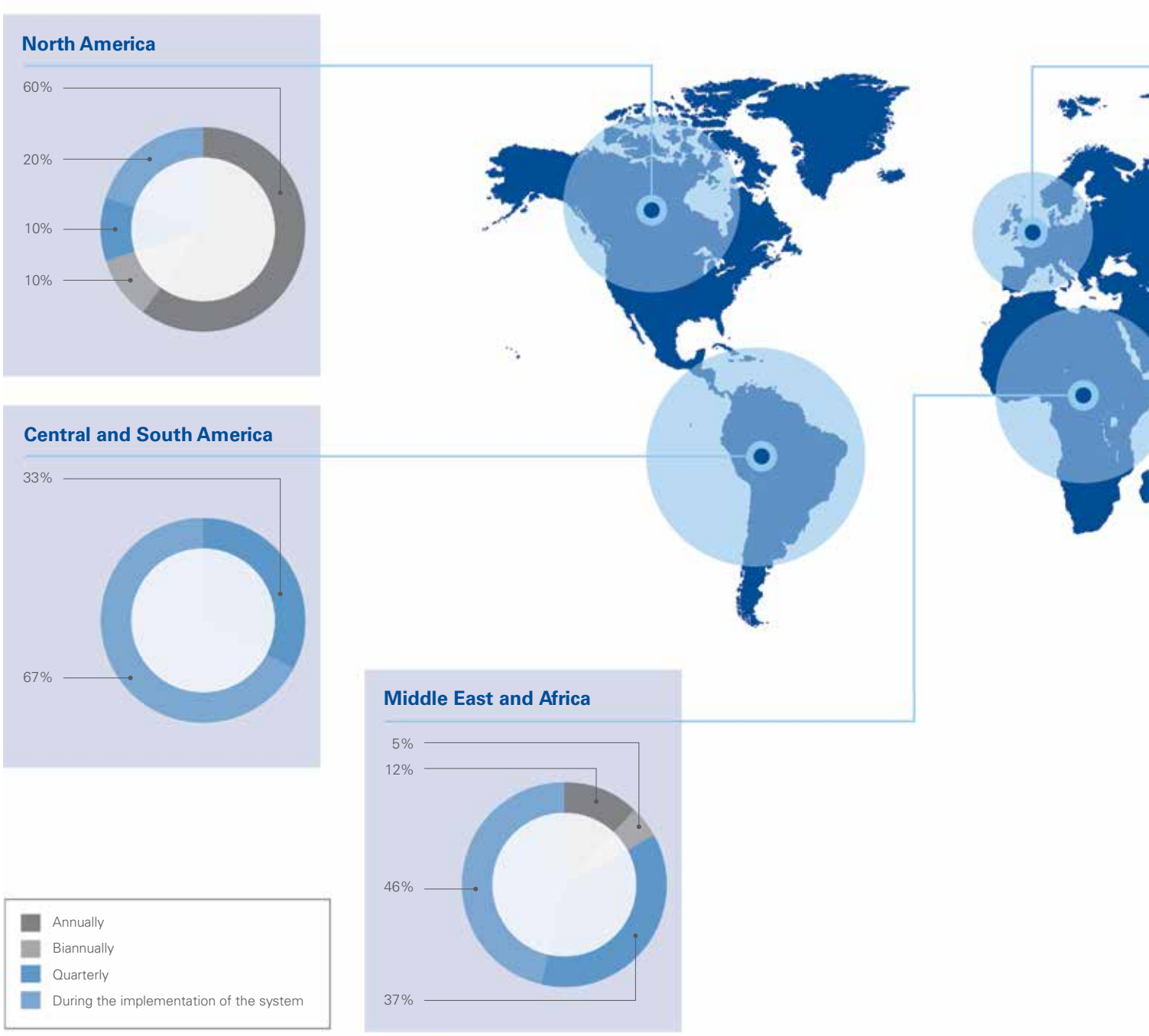
As with our 2011 survey, sanctions compliance remains difficult as respondents rank customer screening the most difficult challenge. Respondents have identified the poor quality and lack of customer information as the most challenging aspects of customer screening. This is consistent with what member firms see when working with clients on their corrective actions to address data quality and completeness issues of customer information.

More than 70 percent of respondents find sanction screening systems effective in their organizations; however, only 42 percent of respondents test their screening systems for effectiveness at the implementation stage.

The financial institutions in North America and Western Europe report the highest levels of satisfaction with regards to their screening systems, perhaps reflecting more developed sanctions screening systems and the further matured nature of sanctions compliance in the regions. Further, in North America, almost 60 percent of respondents indicated testing the effectiveness of their screening at least on an annual basis. In the long-term, regulators are not likely to accept one-off effectiveness checks and expect ongoing assurance programs on all aspects of a firm's program. System effectiveness is one of the harder areas to test, with firms increasingly using dummy data to check the end result is as expected.

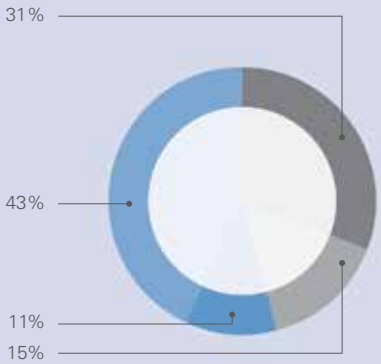
Almost 75 percent of respondents reported using the MT202COV SWIFT message for cross border wire transfers, a significant increase from 50 percent respondents since our last survey in 2011.

Regularity of sanctions screening software testing



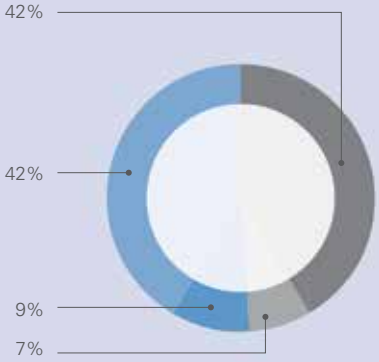
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Western Europe

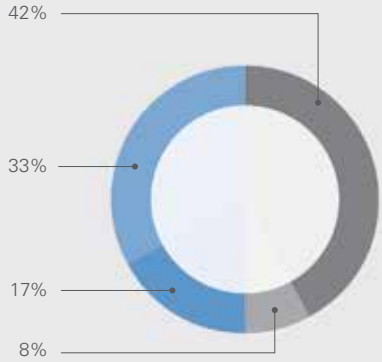


Russia, Central and Eastern Europe

Asia Pacific



Offshore locations



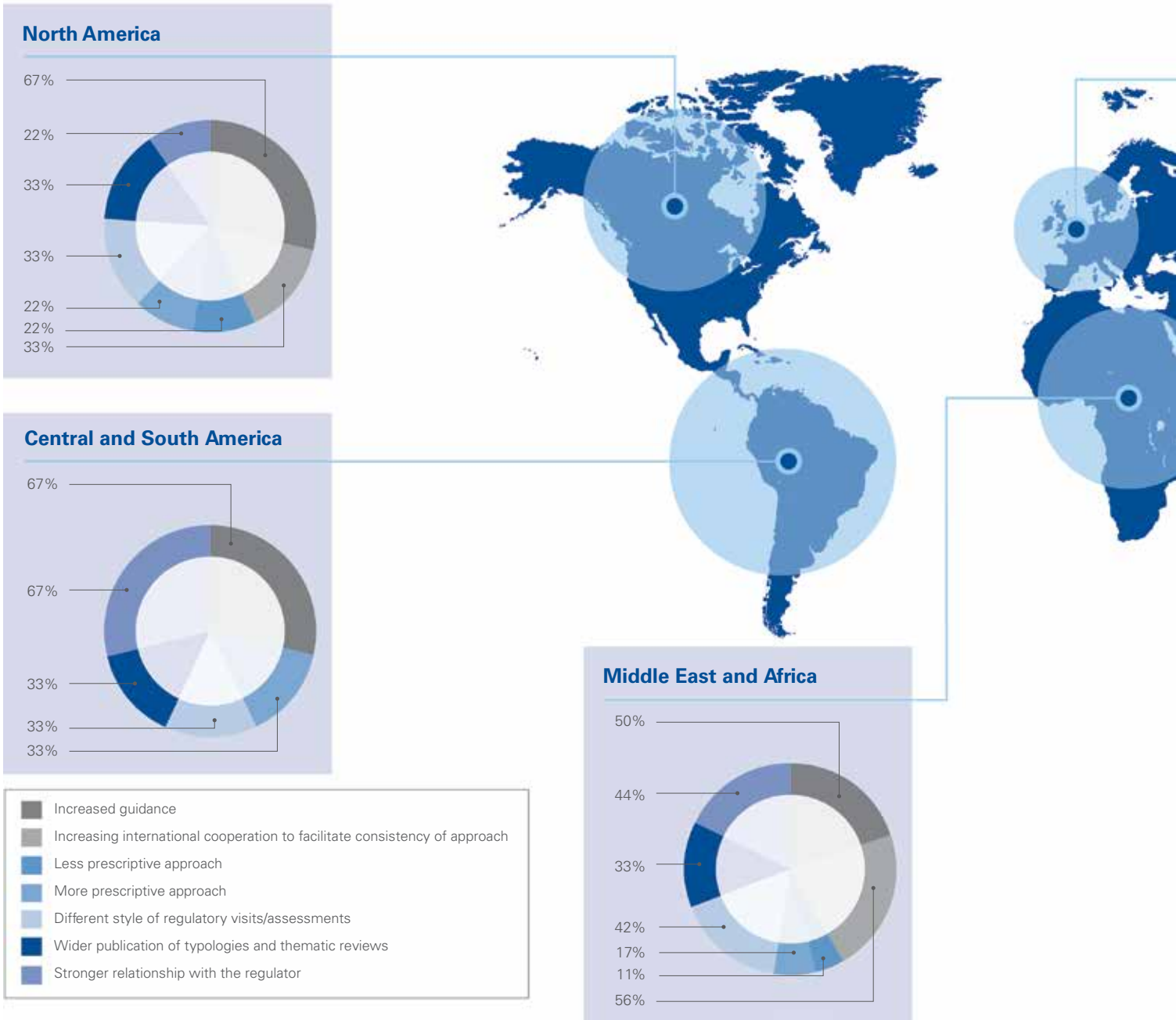
KPMG Insight

World events and increased regulation continue to impact on the ability of financial institutions to meet their sanctions obligations. The political and civil unrest in the Middle East and North Africa continue to pose challenges for financial institutions' sanctions screening systems in terms of responding to rapid changes to sanctions lists and increased volumes. Foreign language screening remains challenging, particularity for banks operating in Asia. Multiple systems are often needed to cope with the different spelling and characters. Financial institutions are allocating increased funds and resources to increasing transparency of customer and payment information in order to comply with new regulation and legislation, such as the 4MLD and the EU Funds Transfer Regulation 2013. However, more needs to be done to implement assurance programs that give ongoing comfort that systems and processes are working effectively.

Regulatory approach is fragmented and inconsistent

Although most respondents agreed that regulatory considerations were the largest driver behind AML investment decisions, opinions on regulatory approach are marked by vast regional differences. This further emphasizes the challenges that financial institutions face in establishing a globally consistent approach.

Which of the following changes would you recommend making to the AML requirements imposed on your business?

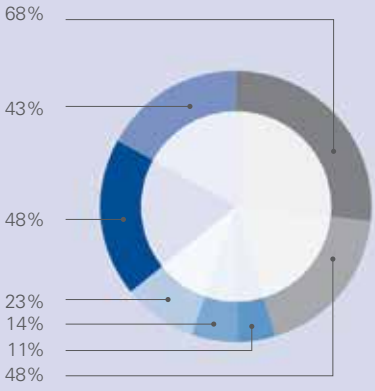


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

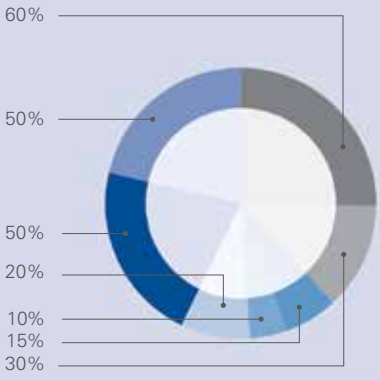
Sixty-three percent of respondents said that regulators should provide additional guidance and 43 percent of respondents indicated that a stronger relationship with regulators would be a welcomed change in approach.

Respondents in Western Europe and the Americas were the most interested in receiving regulatory guidance. In the 2011 survey only 14 percent of respondents wanted to receive more guidance, further emphasizing the acceleration of regulatory change and need for expectations to be clarified since the publication of the last survey.

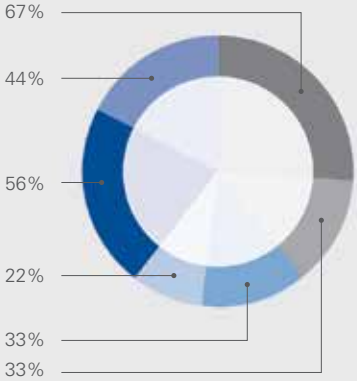
Western Europe



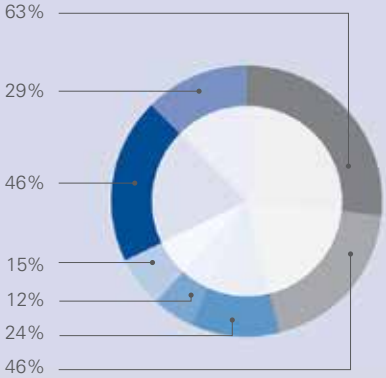
Russia, Central and Eastern Europe



Offshore locations



Asia Pacific



Fifty-six percent of respondents in Middle East and Africa stated that they would like to see increasing international cooperation to facilitate consistency of approach. The responses to our survey indicate that financial institutions operating in this region would like their regulatory authorities to become more involved in the globalization of AML standards, learning from their counterparts in other countries to improve the regulatory approach in this region.

Sixty-five percent of respondents stated that regulatory visits are AML personnel's primary concern and 80 percent of respondents stated reaction to regulator demands is a primary reason for investment in a particular area of AML. It should be expected that regulator inspections will continue to focus on the key issues described above and that the number of respondents who have experienced a regulatory visit will continue to increase. The latest set of Financial Action Task Force (FATF) recommendations require member governments to complete a National Risk Assessment to identify, assess and mitigate their money laundering and terrorist financing risks. These assessments, once completed, are likely to influence the areas which each of the national regulators will focus on over the coming period. Regulators also continue to be cognizant of technological risks with alternative banking platforms, digital currencies and cybercrime highlighted as high risk areas.

KPMG Insight

Regulatory visits are still striking fear into the hearts of AML professionals across the globe, however the reasons remain unclear. Is this the result of overly strict regulations that organizations cannot realistically comply with or are institutions failing to learn from past mistakes? Financial institutions need to adopt a more pro active approach to avoid being subject to regulatory fines and sanctions. Senior management should be looking for future regulatory trends in order to anticipate future areas of regulatory scrutiny. Regulators have little sympathy when firms fall short in an area where they have warned the industry of the risks. Close scrutiny of regulatory fines and speeches, and benchmarking against those findings, is a must for any responsible firm.

New Focus Areas

The compliance industry and anti-money laundering efforts have evolved at a dramatic pace since we launched our first global AML survey 10 years ago. In recognition of this fact, and based on discussions with clients, we have added an additional section in our survey to explore some of the key areas impacted by emerging changes in AML regulations.

Trade finance should make better use of AML resources

Trade finance has emerged as an area of concern for some regulators. Our survey results identified key areas in need of improvement include leveraging internal KYC information, using third party providers for verification purposes, and tailoring AML training to trade finance staff.

Trade finance has recently entered the spotlight as thematic reviews and recent regulatory studies have pointed to concern across the industry to properly identify and manage money laundering risk in trade finance transactions.

Nearly 30 percent of respondents stated that tailored training on AML risks is not provided to their trade processing teams. A core requirement for any firm to properly manage AML risk in trade finance, and an area of weakness identified by some regulators, is the provision of specific and tailored training to relevant staff. While it is positive to note that almost 73 percent of our respondents provide AML training, function-specific training should be provided to enable identification of specific risks associated with trade finance transactions. Therefore, despite the number of respondents that have indicated training is provided, it remains a concern that so few are providing tailored training to trade finance. This approach is not sustainable and firms will need to address this shortcoming in the next few years or risk regulatory censure.

Seventy-five percent of respondents stated that they had undertaken risk assessments of their trade finance business in the last twelve months and that their trade finance operating procedures require the assessment of money laundering risk at a transactional level. It is encouraging to see a relatively high rate of trade finance risk assessments as it is critical that firms have a framework in place which allows them to properly assess and document the risk of money laundering in trade finance transactions. As regulators hone in on these practices, documenting the approach taken and retaining evidence of decisions that are made at a transactional level is also critical, and will serve as crucial evidence to regulators that firms are appropriately managing risk.

Seventy-eight percent of respondents from North America leverage existing customer information in their trade finance operation, whereas only 51 percent of respondents from Western Europe and 54 percent from Asia Pacific indicated engaging in a similar practice. The extent to which the trade processing team leverages existing customer information acquired by a relationship manager and customer due diligence teams to assess money laundering risks differs significantly between North America and the rest of the world. It should be expected that these figures to rise, particularly outside of the United States, as customer information becomes increasingly shared between departments to meet regulatory obligations.

Fifty-six percent of respondents from North America indicated that their organization uses a third party provider to verify the authenticity of trade finance documentation, compared to 22–33 percent in the rest of the regions. Third party verification providers provide additional reassurance to many financial institutions and are often able to use their industry experience and expertise to spot new criminal methods, trends, and threats. Given recently identified industry-wide weakness in identifying money laundering and terrorist financing risks through national findings such as the UK's Financial Conduct Authority (FCA), the region can be expected to follow North America's lead.

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Our findings suggest that North America is ahead of the curve when it comes to leveraging existing customer information collected through anti-money laundering controls as well as engaging third party providers for verification purposes. An emerging trend for the rest of the regions may be increased usage of third party due diligence, whether internally or externally provided. In addition to implementing these practices, senior management should consider risks associated with trade finance separately from other forms of money laundering risk and promote awareness of risk appetite through tailored training of trade finance staff.

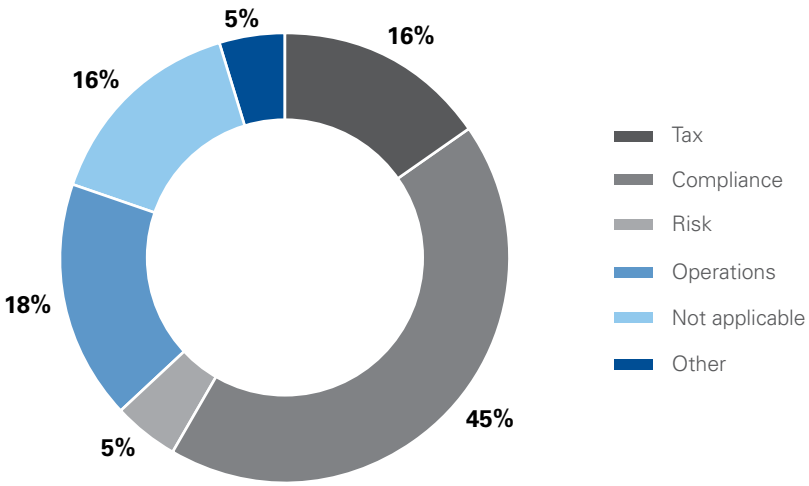
Tax evasion and FATCA compliance remain taxing

Tax evasion has received increased attention from regulators through the enactment of FATCA, but also through other pieces of regional legislation which establishes tax crimes as a predicate offence. AML professionals appear to have their work cut out for them.

Only 46 percent of respondents expect their organizations to be FATCA compliant by the IRS deadline of July 2014, a lower than expected figure, but not surprising. The current deadline is the result of a six month extension, and it appears that many financial institutions may be counting on a further extension. The highest rate of regional compliance was from Western Europe where 61 percent of respondents expected to be fully compliant by the July 2014 deadline. The higher expected compliance rate in Western Europe may be attributed to the fact that the region appears to be leading the way in Intergovernmental Agreements (IGAs) as the United Kingdom, France, Germany, and Spain were amongst the first countries to sign up. The IGAs enable financial institutions to report directly to their national tax authorities, who will then report directly to the US Internal Revenue Service (IRS) to satisfy FATCA requirements.

Forty-seven percent of respondents stated that the compliance department would be sponsoring FATCA, only 23 percent stated that it would be the tax department. Compliance sponsorship is not surprising given 66 percent of respondents confirmed that their organizations are leveraging existing AML/KYC programs to meet FATCA requirements. The tax and compliance departments, however, will need to communicate and coordinate during the implementation and update phases as input from the tax department is essential to ensure correct interpretation of legislative requirements. The compliance department is crucial to redesigning the onboarding forms, policies, and procedures to capture the necessary data and implementing the associated certification requirements.

Departments sponsoring FATCA



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Sixty-eight percent of respondents consider the risk of tax evasion when performing risk assessments on their customers; however this figure is expected to rise in upcoming years in light of the recent regulatory focus on fiscal crimes through 4MLD, FATCA, and other potentially similar regulations in the future. Additionally, while these pieces of legislation are still in the implementation phase, we expect regulatory fines in the coming years to reinforce tax evasion considerations.

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Updating KYC systems and identifying and capturing US indicia are only the first of many steps in complying with FATCA. Specifically, not only are some national tax authorities, such as those in the United Kingdom, amending their legal systems to capture tax residency at onboarding of new customers, but some are also considering the enactment of reciprocal tax legislation to enable cross-jurisdiction tax cooperation. For example, automatic exchange of information may be the next wave of legislation as there are currently ongoing efforts by the G8, G20, and the Organisation for Economic Co-operation and Development (OECD) to develop a global standard in this area. As a result, financial institutions should consider future changes in tax regimes and information sharing proposals that may affect their operations and plan accordingly. In a regulatory environment that continuously challenges financial institutions to sink or swim, a sure fire way to sink would be to implement change programs aimed at only meeting the requirements of one piece of legislation instead of keeping an eye out for similar acts from other countries.

Asset management sector results reflect changing attitudes

Money laundering risk is coming into sharper focus in the sector as senior management engagement and investment levels rise.

The asset management sector is a significant and growing aspect of the global financial services industry. Worldwide assets under management stood at over $35,000bn USD as at June 2013 with 45 percent of these funds managed in the US and 36 percent managed across Europe.[1] During 2013 (up to and including October 2013), sales of investment funds across Europe amounted to EUR 341.4bn.[2] While the precise prevalence of criminal proceeds within these sums is unknown, it is a risk to which firms and regulators are devoting greater attention and resources.

Seventy-three percent of asset management respondents reported that money laundering was considered a high risk area within their organization's business risk assessment. Our survey results indicate that the perception of the sector as low risk may be shifting. AML professionals operating in asset management understand their sector is not immune from abuse by persons seeking to obfuscate the origins of criminal assets or fund terrorist activities.

However, 23 percent of asset management respondents still disagree with the assertion that money laundering is considered a high risk in the firm's business risk assessment, representing the sector that had the greatest proportion of disagreement and pointing to a divergence of views across the sector.

Eighty-six percent of respondents reported that investment in AML activity had increased. Investment in AML across the asset management sector is growing rapidly. The average increase in investment over the last three years was approximately 46 percent (compared to approximately 20 percent for the insurance sector).

Fourteen percent of asset management respondents expect investment in AML to increase by at least 50 percent over the next three years and the average reported rate of expected growth in investment in AML in the sector over the coming three years was 24 percent. Our surveys show that financial institutions tend to underestimate the extent of investment in AML – asset managers may be running this risk and should actively consider whether their investment levels will sufficiently equip them to manage their money laundering risk exposure.

Ninety-one percent of respondents agreed or strongly agreed that the Board of Directors takes an active interest in AML issues with 59 percent of respondents stating that their organization's Board of Director discusses AML quarterly. These figures accord with our experience in the sector – AML is generally moving up the risk management agenda.

Only 28 percent of asset management respondents regularly tune the thresholds incorporated into transaction monitoring systems, ranking poorly compared to 72 percent in the retail banking sector and 52 percent in the insurance sector. This aspect of current practice is unlikely to be sustainable – this figure is therefore expected to increase significantly over the next three years.

1. EFAMA Investment Fund Industry Fact Sheet October 2013 – http://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/131218_EFAMA%20Monthly%20Fact%20Sheet%20(October%202013).pdf
2. EFAMA Investment Fund Industry Fact Sheet October 2013 – http://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/131218_EFAMA%20Monthly%20Fact%20Sheet%20(October%202013).pdf

KPMG Insight

The vast majority of asset management firms understand that their organizations are not immune to abuse by persons seeking to obfuscate the origins of criminal assets or indeed fund terrorist activities and recognize that greater efforts are required to understand and manage these risks. However, are all asset managers up to the challenge? Asset management respondents most commonly noted the pace and impact of regulatory change as a concern for their AML personnel whilst identifying, more frequently than other sectors, the limited availability of appropriate resources as a barrier to achieving compliance.

Asset managers face particular challenges in: managing the risks arising from the use of or reliance upon third parties; obtaining appropriate data to enable meaningful transaction monitoring; and implementing appropriate customer risk assessment models. Our respondents expect regulatory interest in AML in the asset management sector to continue so such organizations should be prepared for greater enquiry and challenge. There are notable areas for improvement which, if not addressed, may result in abuse by criminals and regulatory exposure.

Insurance sector aligns well to overall findings

While insurers are generally aware of the importance of AML and sanctions compliance, regulatory compliance comes with several challenges.

Regulators, particularly the Office of Foreign Asset Control (OFAC) in the US, have recently begun to focus more closely on how insurance companies manage sanction risks, and recent fines and investigations involving insurers is evidence of the fact that compliance with international sanctions regimes and counter terrorist financing (CTF) regulations has become extremely important for the insurance industry. While general insurers and general insurance brokers (non-life) are not subject to international money laundering regulations, they are still required to comply with sanction legislation. Insurance firms that are subject to money laundering regulations (such as life insurers) have a regulatory obligation to put in place and maintain policies and procedures to mitigate their money laundering risk and must have systems and controls in place to prevent and detect money laundering.

Sixty-two percent of respondents from the insurance sector confirmed that money laundering is considered a high risk area in their business risk assessments, compared to 92 percent of retail banks and 90 percent of asset managers surveyed. The results are expected given the lower risk products offered by the sector, but we still anticipate an increase over the next three years due to the recent regulator attention the sector appears to be attracting.

Ninety-six percent of insurance respondents said that their compliance procedures referenced CTF which was similar to other sectors such as retail banking (97 percent) and to asset management (100 percent). This was very positive to see as it is very much in line with other sectors, despite perceptions of insurance being less susceptible to terrorist financing abuse.

Eighty-one percent of insurers said that their Board of Directors took an active interest in AML issues compared to 91 percent of retail banks and 90 percent of asset managers. We are encouraged to see that senior management is engaged in AML issues and we anticipate that this will only continue to increase.

Seventy-five percent of insurers cited the pace and impact of regulatory change as their biggest AML concern. This demonstrates that insurers are also feeling the pressure that banking institutions are experiencing with regards to recent regulatory changes.

Over 84 percent of insurance respondents confirmed that they had established a program for testing and monitoring the effectiveness of AML systems and controls. However only 47 percent of insurers surveyed felt that their software was effective. In our view, the dissatisfaction that insurers are experiencing with their transaction monitoring systems may be associated with the rapid changes in expectations of such systems and the very different types of transactions conducted in the insurance industry.

Over 76 percent of insurers said that reputation protection was a key factor when considering investment in AML and sanctions procedures. Other key factors identified were gaining operational efficiencies and reacting to regulatory requirements.

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It is evident from the results of the survey that insurers are generally aware of the importance of AML, sanctions and CTF compliance but that regulatory compliance comes with several challenges. Insurers need to have robust AML, sanctions and CTF risk management processes in place and, while regulators allow a risk based approach to this process, they usually take a zero-tolerance approach to enforcement. Sanctions apply to all insurers regardless of AML regulatory compliance. The question here is: if an insurer decides not to collect KYC, how is it able to effectively screen its clients? Given the recent increased focus by regulators on the insurance sector, particularly on sanctions, KYC will become even more important going forward and it is safe to assume that in the next three to five years regulators will adopt an approach towards insurers that will be similar and more aligned to the approach adopted with regard to banking, particularly for high risk products such as marine and aviation insurance and in regard to those insurers who write in higher risk jurisdictions.

Concluding remarks

Our report highlights that AML initiatives are becoming increasingly interconnected across operations and jurisdictions as a result of a demanding and continuously evolving regulatory landscape. Information collected by AML teams is now being leveraged across organizations in an industry wide effort to meet regulatory requirements and keep up with industry expectations.

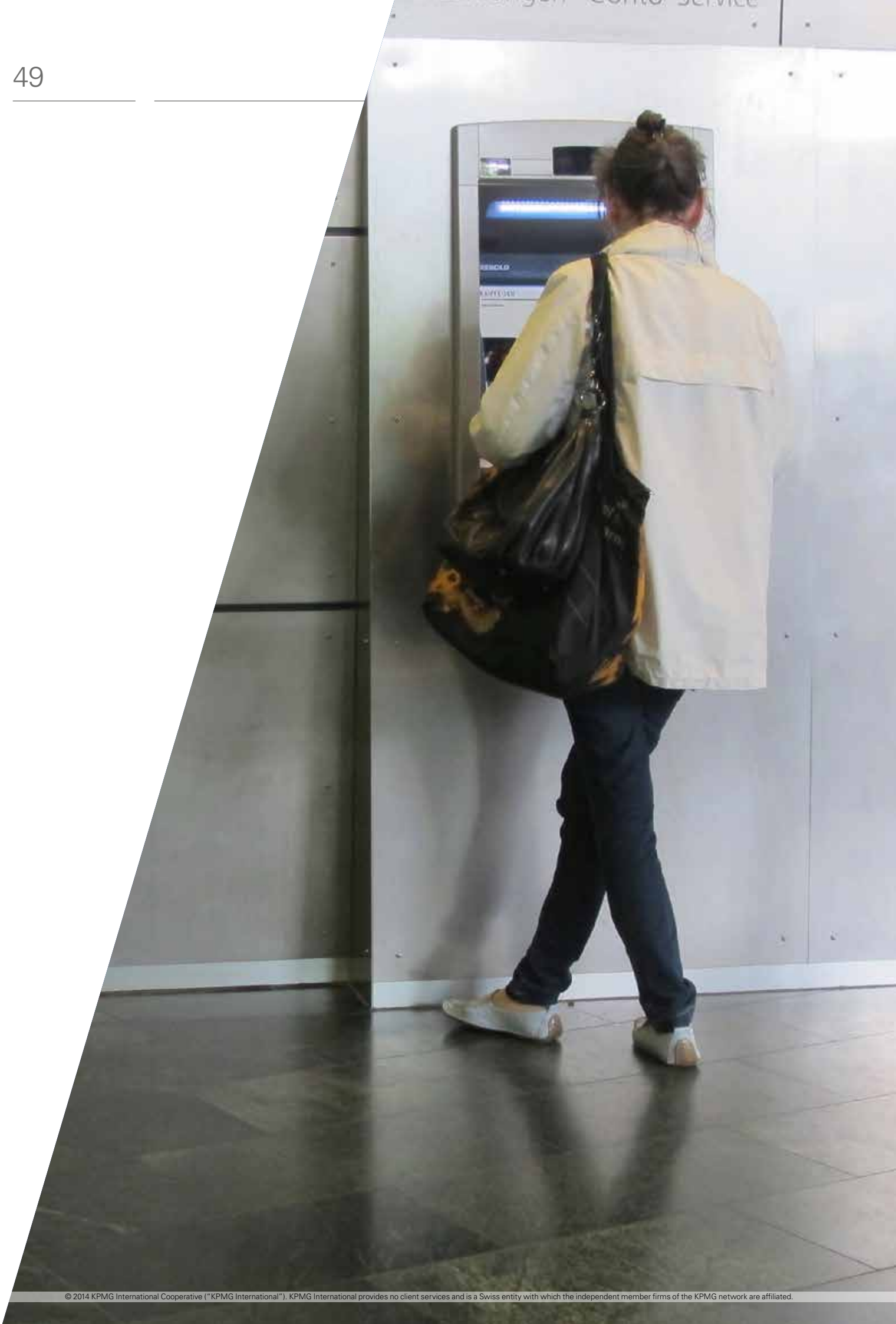
Many global financial organizations have continued to invest significantly in AML controls and secure senior management engagement. However, considerable challenges remain. In particular, since 2004, transaction monitoring has been the greatest investment, but remains an area of weakness. Maintaining up to date customer records as well as obtaining and retaining trained staff also proves to be a challenge.

Although the financial services industry is increasingly moving towards a globally standardized approach, there is still notable inconsistency with regard to implementation of AML controls at regional and local levels. This is not too dissimilar from the fragmented approach regulators continue to display in their global efforts to manage financial crime. Despite some positive steps and evident strides in coming to grips with the 21st century challenges posed by money laundering threats, regulators and the financial services industry continue to lag behind today's globally connected money launderers. Inconsistent regulations have left gaps in which money launderers thrive, and as such, it will become essential that regulators implement a consistent regulatory approach, but also foster a closer working relationship with industry professionals in order to leverage each other's resources, align mutual interests, and effectively tackle financial crime.

The way in which financial institutions respond to AML challenges will continue to remain subject to public scrutiny as regulators, investors, and members of the public continue to stress the importance of managing these risks effectively.

KPMG's 3 recommendations for Boards:

1. Nominate a member of the Board with responsibility for maintaining effective AML controls.
2. Ensure a broad-ranging assurance program is in place which tests systems, processes and procedures.
3. Prepare effectively for regulator visits, and ensure that the Board can demonstrate awareness and oversight.



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