



cutting through complexity

AFRICA AML SURVEY 2012

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FOREWORD

The estimated amount of money laundered globally in one year equates between two and five percent of global GDP, or \$800 billion to \$2 trillion in current US dollars¹. More than 10 years after 9/11, regulators themselves have increasing expectations, becoming stricter on the banking industry, specifically as the expectations apply to combating money laundering and terrorist financing. This has resulted in the cost of running Anti-Money Laundering (AML) programmes continuously rising. Banks are looking at ways to ensure greater efficiencies in order to curtail the increasing cost of compliance.

Against this backdrop, KPMG conducted an AML survey in 11 African countries, namely South Africa, Angola, Botswana, Mauritius, Zambia, Kenya, Tanzania, Uganda, Rwanda, Ghana and Nigeria. A total of 59 banks responded to the survey.

Ensuring that the banking system cannot be used for money laundering and terrorist financing purposes is a key imperative for policymakers and lawmakers across the globe. Achieving this goal will not be possible without the active assistance of the banking industry, and it can only work if the banks play their full part. Encouragingly, KPMG's Africa AML Survey 2012 shows that the vast majority of respondents believe that the current AML burden is acceptable, and they want to work with regulators and law enforcement to make the system work more effectively. It is also apparent, however, that this burden has increased over the past number of years, and is set to increase even more. The cost of meeting these requirements has increased significantly, and will continue to do so.

Of the 59 banks that responded to the survey, 35.6 percent were local banks with international operations and 25.4 percent were foreign owned banks. A total of 59.3 percent of banks had a turnover, asset size or deposit base in excess of US\$100 million.

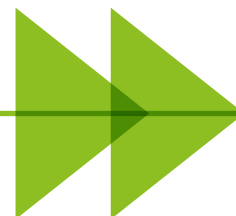
We would like to thank the 59 banks who participated in our survey sincerely for their contribution and perspectives.



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¹unodc



AFRICA REGION ANTI-MONEY LAUNDERING SURVEY 2012 – KEY HEADLINES

AML IS A HIGH PRIORITY WITHIN BANKS

AML has developed significantly over the past 20 years, and recent regulatory scrutiny has seen unprecedented fines being handed down. As a result, AML has become a key issue for senior management, both locally and internationally. Respondents in the Africa Region reported that senior management are taking an active interest in AML issues, specifically in the Southern Africa Region. There is, however, room for improvement in the East and West Africa sub-regions.

COST OF AML COMPLIANCE

The biggest spend over the past two years in the Africa Region was in Know Your Customer policy and processes, enhanced transaction monitoring, and training. Southern, East and West Africa all mirrored this finding.

USING A RISK BASED APPROACH

85 percent of respondents in the Africa Region indicated that they follow a risk-based approach when assessing customer relationships.

POLITICALLY EXPOSED PERSONS (PEPS)

PEPs are now an area of focus for most respondents in the Africa Region, with 90 percent indicating that they have specific procedures for identifying PEPs.

SANCTIONS COMPLIANCE

Sanctions compliance remains a challenge, with 80 percent of respondents in the Africa Region finding Trade Finance screening and the handling of payment filter hits to be either challenging or moderately challenging.

TRANSACTION MONITORING

Overall, respondents' satisfaction with their transaction monitoring is neutral with an average score of 3.3 out of 5, compared to a global score of 3.6. The West Africa sub-region is the least satisfied with their transaction monitoring, reporting a score of 3.1.

TRAINING

Face-to-face training continues to be the most common method of training used by banks, with computer-based training enjoying increasing support.

AML – THE FUTURE OUTLOOK

AML Compliance in the future will continue to enjoy prominence within the banking environment. 90 percent of respondents indicated that investment in AML will increase over the next three years, with 32 percent indicating that expenditure will increase between 21 and 50 percent.

DETAILED SURVEY FINDINGS

INTRODUCTION

The AML survey was conducted in the latter half of 2012 in 11 African countries, namely:

- Angola
- Botswana
- Ghana
- Kenya
- Mauritius
- Nigeria
- Rwanda
- South Africa
- Tanzania
- Uganda
- Zambia

For the purposes of analysing the results, the countries were grouped into sub-regions as follows:

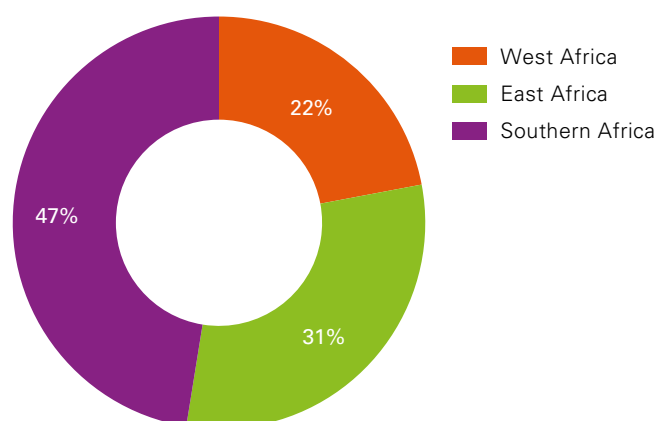
- Southern Africa
 - South Africa
 - Angola
 - Botswana
 - Mauritius
 - Zambia
- East Africa
 - Kenya
 - Tanzania
 - Uganda
 - Rwanda
- West Africa
 - Ghana
 - Nigeria

The AML survey was conducted amongst banks only.



The respondents per sub-region were as follows:

Figure 1: Africa sub-region split



The survey covered the following topics:

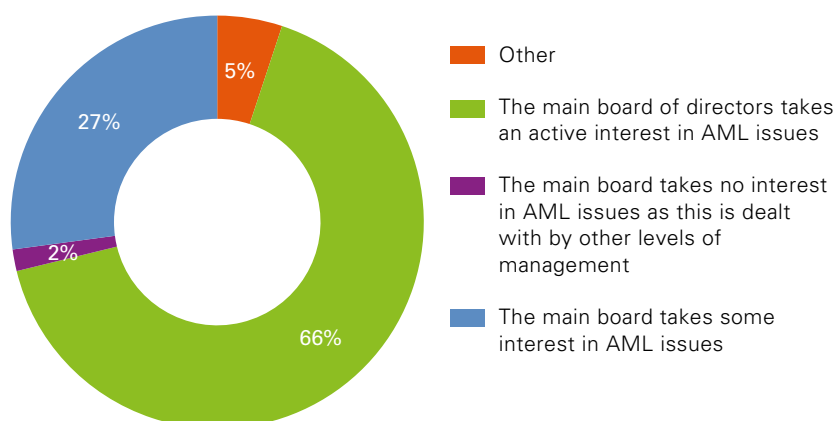
- The role of senior management in AML
- The cost of AML compliance
- Policies and procedures
- Know Your Customer
- Politically Exposed Persons (PEPs)
- Transaction Monitoring
- Sanctions
- Training

1. THE ROLE OF SENIOR MANAGEMENT

Boards play an important role in setting the tone at the top and ensuring accountability throughout the bank within the Africa Region. Globally, regulators have been emphasising the critical role of senior management for many years.

AML is a high profile issue for banks' senior management within the Africa Region. Our survey revealed that 66 percent of the main board of directors take an active interest in AML issues. While this response is not as high as we would like it to be, it is slightly higher than the global response of 62 percent indicated in our Global AML survey 2011². It is heartening that only 2 percent of banks reported that boards took no interest in AML issues.

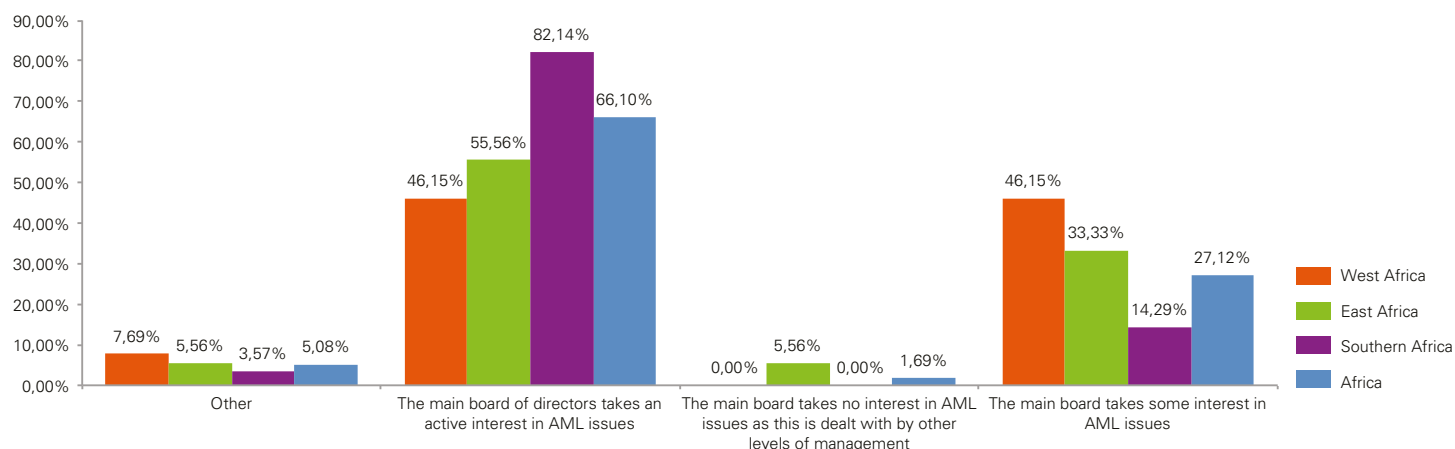
Figure 2: The role of senior management - Africa Region



²KPMG Global AML Survey 2011

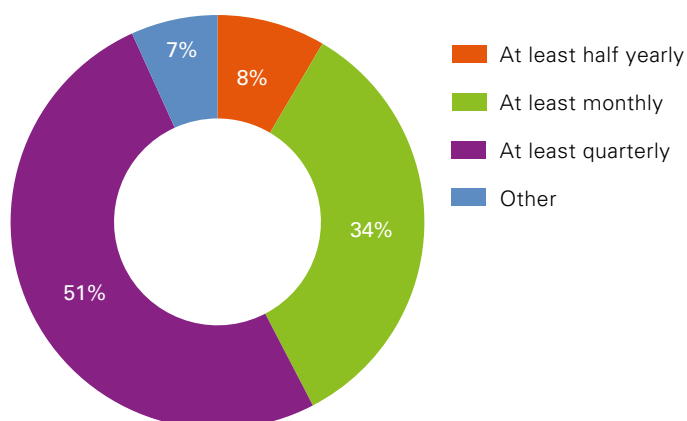
It is interesting to note that 82 percent of respondents in the Southern Africa sub-region cited their boards of directors taking an active interest in AML, compared to 56 percent in East Africa and 46 percent in West Africa.

Figure 3: The role of senior management – sub-regions



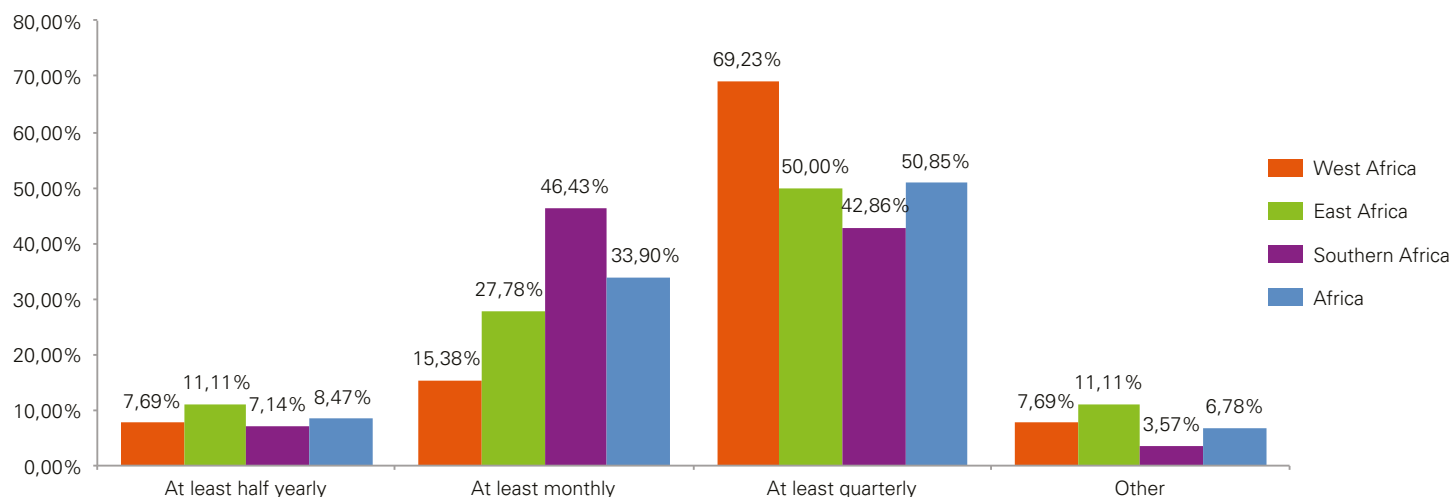
51 percent of respondents in the Africa Region indicated that their boards discussed AML issues at least quarterly, with an additional 34 percent saying that they did so at least monthly. This is in contrast to our Global AML Survey 2011, which indicates the percentages at 47 percent and 27 percent respectively³.

Figure 4: Frequency of AML issue discussions by the board or Senior Management – Africa Region



46 percent of the respondents in the Southern Africa sub-region indicated that AML issues were discussed at least monthly by senior management, while 69 percent of the West Africa sub-region indicated that senior management discussed AML issues at least quarterly.

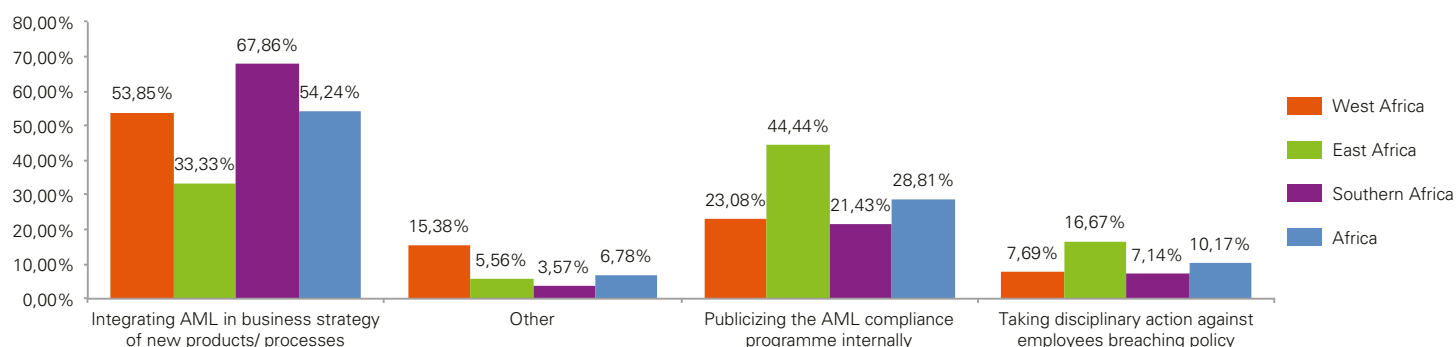
Figure 5: Frequency of AML issue discussions by the board or Senior Management – sub-regions



³KPMG Global AML Survey 2011

Senior Management is setting an example by integrating AML compliance within the business strategy and publicising the AML compliance programme internally.

Figure 6: How management has set an example for AML compliance in your bank



Senior management has a critical role to play in managing the AML risk of the bank. Regulators are increasingly focussing on the strong impact that senior management can have on a bank's culture of compliance. What level of management must be involved in each of the processes that underpin an AML compliance programme to the level of management that should be engaging with regulators poses a challenge. Terms such as "senior management" within regulations are not always clearly defined. This raises particular risks where deficiencies in AML controls have been identified.

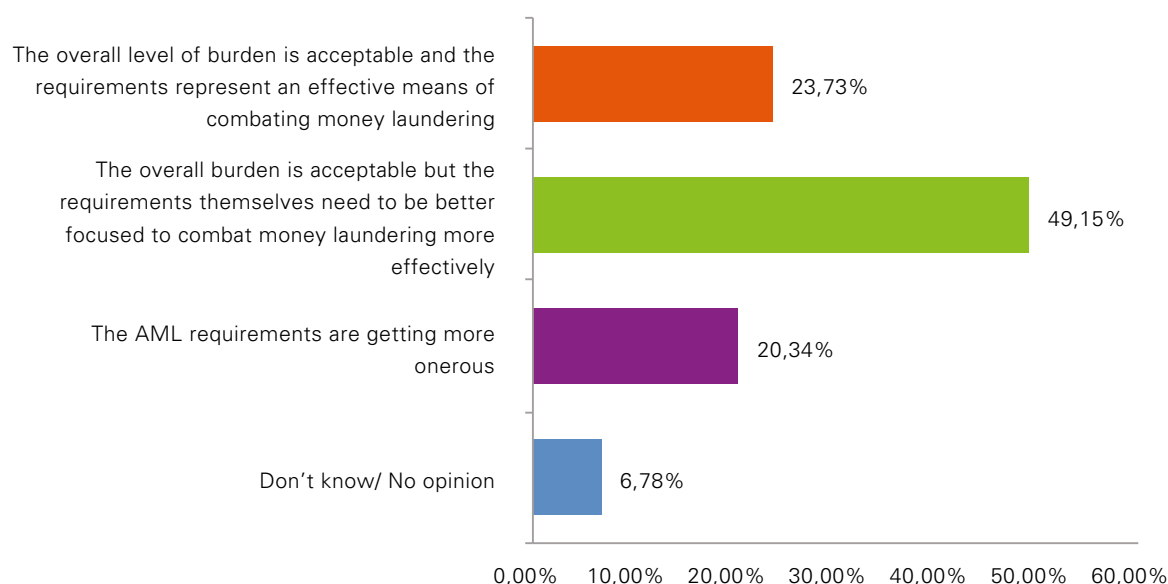
While the survey indicates that from an Africa Region perspective, senior management interest in AML is not as high as we would like it to be, it still ranks relatively high on the agenda. Indeed, in the Southern African sub-region, senior management does take active interest in AML matters. Boards are well advised to consider their approach to AML matters given regulators' increasing focus on AML matters.

2. THE COST OF AML COMPLIANCE

AML compliance is usually viewed as a cost centre resulting from legislative obligations. However, it has to do with more than just legislative obligations. The bank's reputation is at risk and the consequences of major financial penalties being borne by the bank should be kept in mind. Effective compliance will go a long way in addressing these issues as well as investor confidence. For example, in South Africa the banking law states clearly that non-compliance to the local AML legislation may result in the suspension of a bank's license.

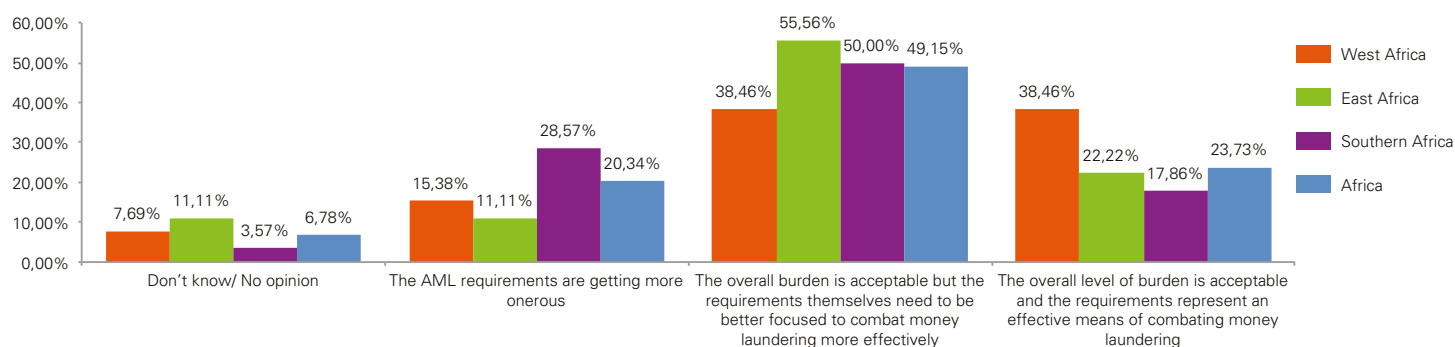
A total of 49 percent of respondents in the Africa Region indicated that the AML regulatory burden is acceptable, with 83 percent indicating that AML regulation has become more stringent over the past two years. AML regulation is set to become more onerous than it currently is, and it will be interesting to note how banks view this burden in a few years' time. Recent financial penalties incurred by banks in both the US and UK indicate that regulators are becoming stricter in their enforcement actions, with the largest fines in history being levied in 2012. How are regulators on the African continent going to view AML regulation and its enforcement?

Figure 7: View of AML Compliance – Africa Region



East Africa, as compared to the other sub-regions, finds the burden to be the most acceptable (56 percent).

Figure 8: View of AML Compliance – sub-regions

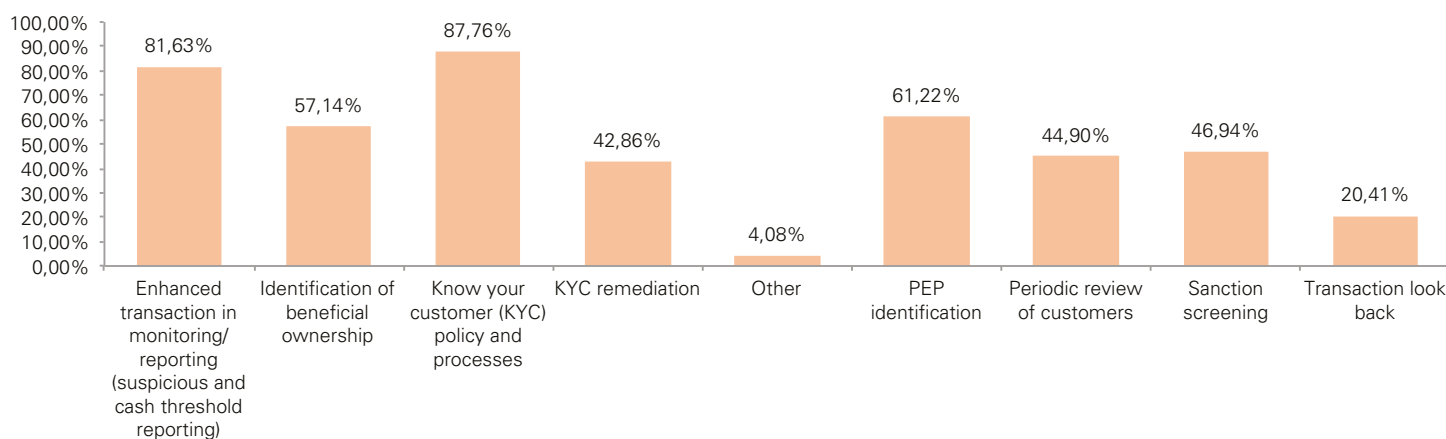


The three primary areas of responsibility with the highest level of regulatory scrutiny for the Africa region are:

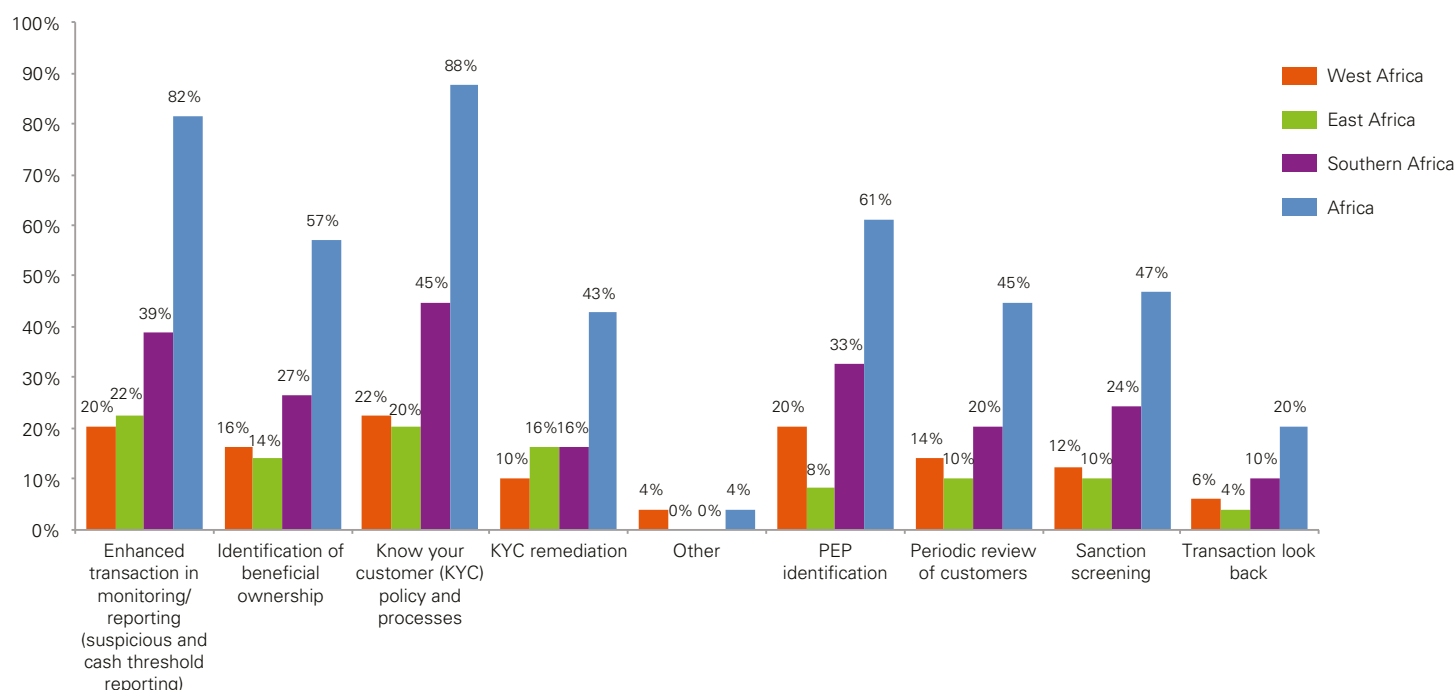
- Know Your Customer (KYC) Policy and Processes – 87,7 percent
- Enhanced transaction monitoring/reporting (suspicious and cash threshold reporting) – 81,6 percent
- Identification of Politically Exposed Persons (PEP's) – 61,2 percent.

Below is a breakdown of relevant areas identified in the AML Survey:

Figure 9: Areas with the most regulatory scrutiny – Africa Region



The three primary areas of AML responsibilities mentioned above were also identified as the three main areas for both the Southern and West Africa sub-regions. Two of the primary areas of AML responsibilities are for the East Africa region, with the addition of the identification of beneficial ownership.

Figure 10: Areas with the most regulatory scrutiny – sub-regions

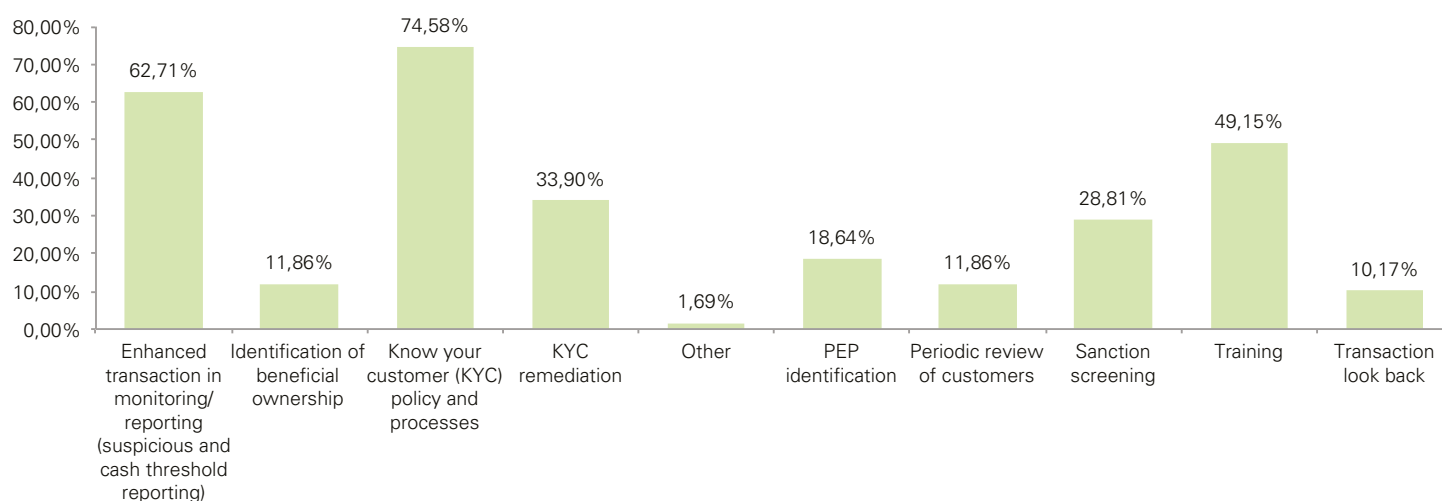
From a global perspective, our Global AML Survey of 2011 indicated the three highest areas as areas of regulatory scrutiny:

- KYC – 88 percent
- Due diligence for high risk customers – 86 percent
- Transaction monitoring – 83 percent

Given the increase in the AML regulatory burden, the cost of AML compliance is growing steadily. The increase in regulatory requirements demands strong and experienced compliance/risk professionals. Such skills are scarce on the African continent.

Banks within the Africa region indicated that their biggest spend over the past two years was in KYC policy and processes (74,6 percent), enhanced transaction monitoring (62,7 percent), and training (49 percent). This is not surprising given the nature of work that KPMG has been performing for banks over the same period.

We have also noticed a drive, specifically amongst the large international banks, to standardise processes and technology on a global basis. These banks are in the process of refining processes, investing in new technology and off-shoring certain processes such as the investigation of AML and sanctions alerts.

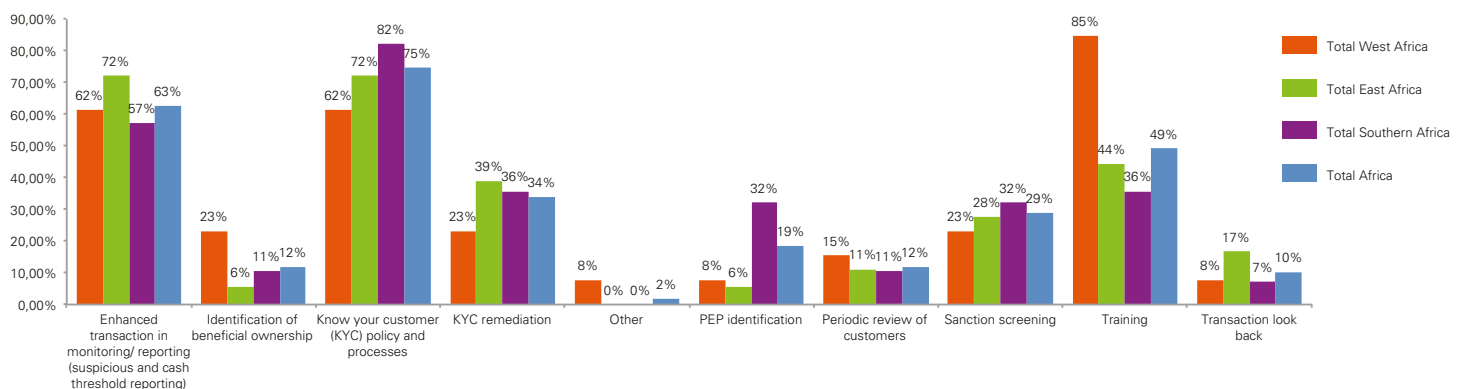
Figure 11: Areas of AML spend – Africa Region

International regulators remain active in the areas of AML and sanctions, as has been evidenced by the recent fines handed down to banks from both the US and UK regulators. The question arises if we will see the same type of action being taken by regulators in the Africa Region. While we do see an increase in regulatory scrutiny within certain countries within the Africa Region (such as South Africa), we are yet to see any substantial fines for AML and sanctions non-compliance.

All three sub-regions mirror the result of the Africa region. Our global survey of 2011 indicated that globally, AML spend over the last three years occurred mainly in the following three areas⁴:

- Transaction monitoring
- External reporting requirements
- Anti-bribery and corruption efforts

Figure 12: Areas of AML spend – sub-regions



AML software vendors provide solutions in the following areas:

- Sanctions screening
- Customer due diligence/KYC
- Transaction monitoring
- Case management (for the investigation of sanctions and AML alerts)
- Reporting/management information

As AML compliance requirements develop in complexity and nature, so we see vendors aligning their product offering to include all or most of the above to provide end-to-end solutions. Solutions are becoming more user-friendly, easily configurable, scale-able, and able to provide pattern analysis and use advanced analytics. Vendors are also supporting the combination of both AML and anti-fraud systems into one platform, as the requirements are very similar.

⁴KPMG Global AML Survey 2011

3. AML POLICY AND PROCEDURES

The challenge of managing the regulatory requirements of a number of jurisdictions has resulted in banks benchmarking their policies and procedures with global best practices, taking into account local regulatory requirements. A total of 95 percent of banks in the Africa Region indicated that they develop their AML policies and procedures based on local regulations and benchmarked against global best practices, and implemented as consistently as possible across all locations.

Moreover, 56 percent of respondents within the Africa Region indicated that they review their AML policy yearly, with 22 percent indicating that they review it once every two years. 10 percent of respondents indicated that they have not reviewed their AML policy since its incorporation.

Figure 13: How often is your AML policy reviewed – Africa Region?

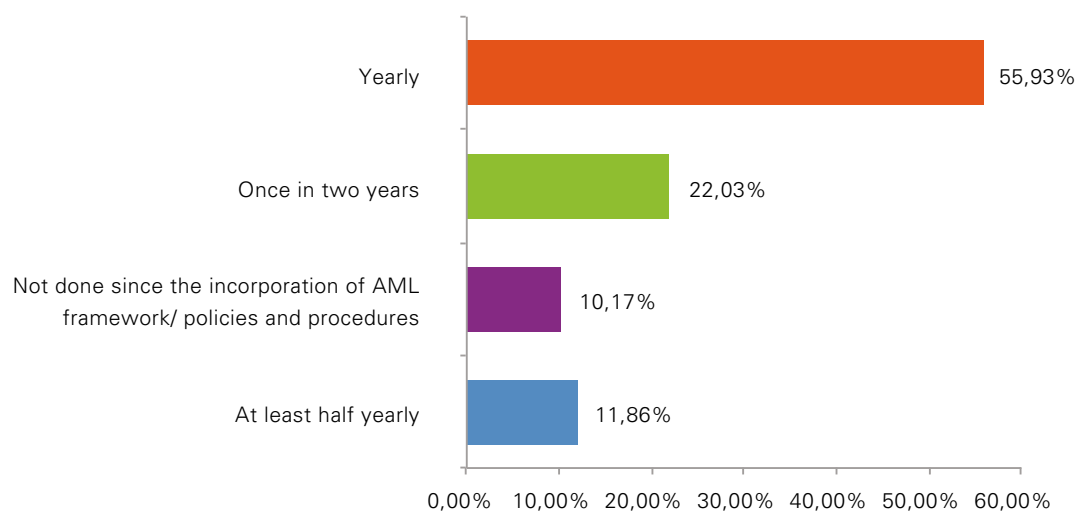
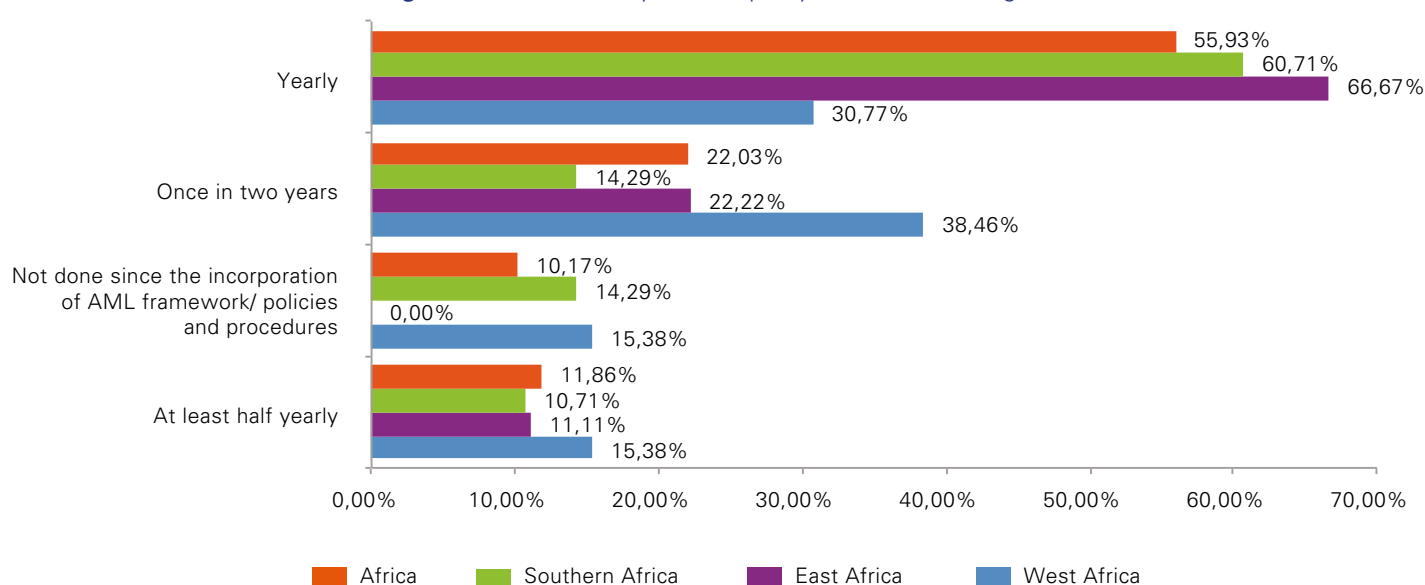


Figure 14: How often is your AML policy reviewed – sub-regions?



4. KNOW YOUR CUSTOMER (KYC)

The requirement to know your customer forms the basis of efforts to counter money laundering and terrorist financing and could be seen as the first line of defence in combating both of these. In most jurisdictions, KYC is a legal requirement demanding that banks conduct due diligence procedures when on-boarding a new customer or reviewing relationships with existing customers. On-boarding a new customer will provide that customer with an opportunity to enter into the financial system both from a local perspective as well as an international perspective. It is therefore of vital importance that banks know who their customers are, understand where the source of funds to be transacted originate, and how they wish to conduct their business with the bank. Banks that do not conduct robust due diligence procedures expose themselves to reputational risk as well as the risk of possible legal, financial or regulatory sanction.

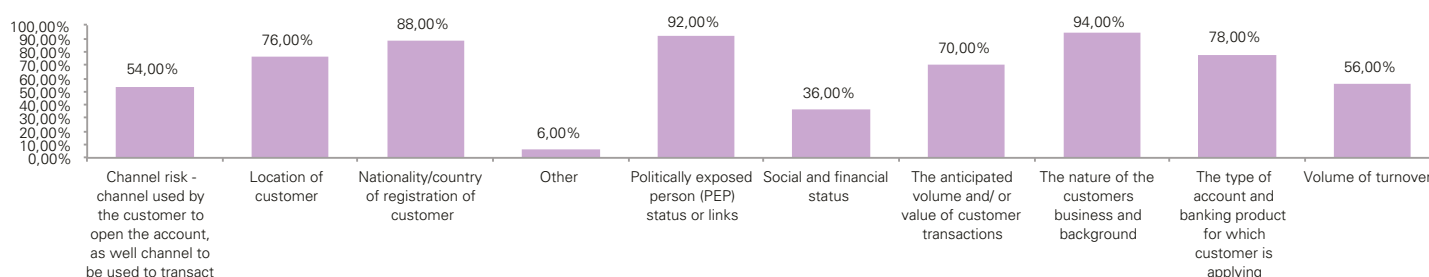
4.1 Risk-based approach

A risk-based approach allows banks to deploy resources in those areas posing the highest risk for the bank. Commonly understood as the process of applying resources where resources are due, it requires banks to understand what their inherent money laundering risks are. This can be done by, amongst others, understanding the money laundering risks in their products, delivery and service channels, jurisdictions with whom they will transact and the type of customers they serve. Banks need to document their thought processes they have followed in articulating their risk-based approach. The effective implementation of a risk-based approach is key and often poses significant challenges in developing and operationalising it.

A total of 85 percent of respondents in the Africa Region indicated that they follow a risk-based approach. In terms of risk assessing customer relationships, the four factors rated the highest are below, with Global AML Survey 2011 percentages indicated in brackets:

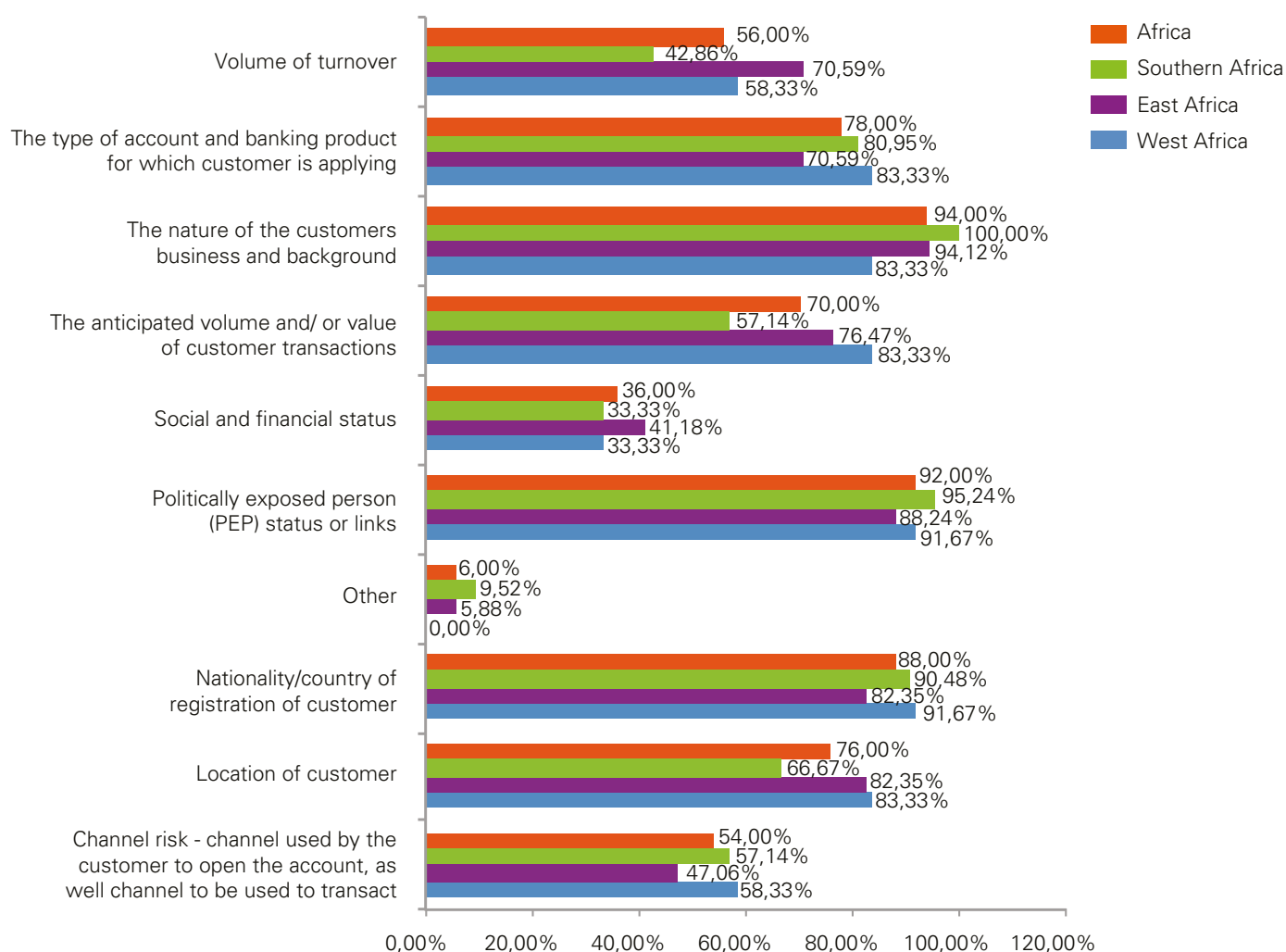
- The nature of the customer's business and background – 94 percent (Global - 98 percent)
- Politically Exposed Persons (PEP) status or links – 92 percent (Global – 96 percent)
- Nationality/country of registration of customer – 88 percent (Global – 96 percent)
- The type of account and banking product for which customer is applying – 78 percent (Global – 87 percent)

Figure 15: Factors considered during risk assessment of customer relationships – Africa Region

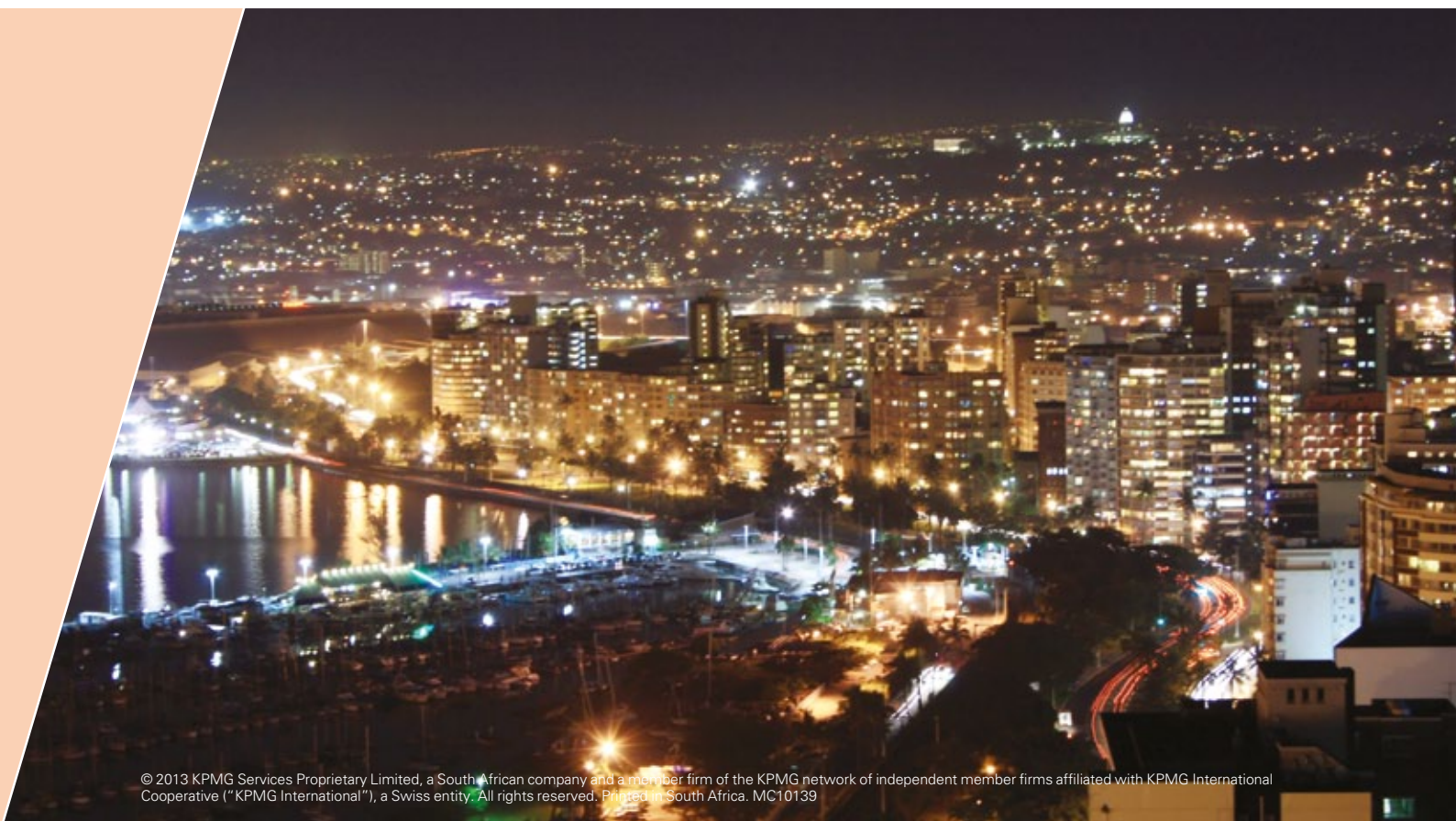


From a sub-regional perspective, the four factors that were rated the highest in each sub-region are:

West Africa	East Africa	Southern Africa
Politically exposed person (PEP) status or links	The nature of the customers business and background	The nature of the customers business and background
Nationality/Country of Registration	Politically exposed person (PEP) status or links	Politically exposed person (PEP) status or links
The anticipated volume and/or value of customer transactions; The nature of the customers business and background; The type of account and banking product for which customer is applying; Location of customer	Nationality/country of registration of customer; Location of customer	Nationality/country of registration of customer
		The type of account and banking product for which customer is applying

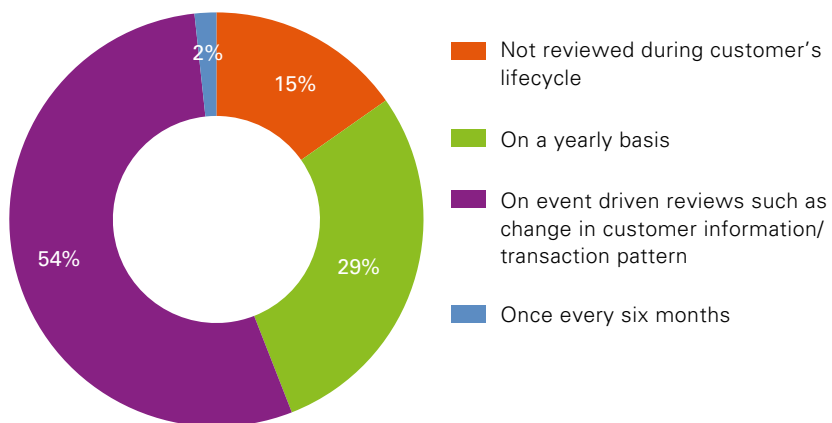
Figure 16: Factors considered during risk assessment of customer relationships – sub-region

A total of 54 percent of respondents indicated that they review the risk categorisation of their customers when specific events occur, such as a change in customer detail or transaction patterns. 29 percent of respondents indicated that they conduct reviews on an annual basis.



There is no one-size-fits-all risk assessment framework and banks should steer away from attempting to implement anything of this nature. Banks are advised to determine the factors they wish to consider during the assessment of customer relationships, and ensure that their procedures and systems are aligned to give effect to the risk assessment framework.

Figure 17: How often is the risk categorisation of customers reviewed?



4.2 Updating customer information

A key element of any AML programme is the requirement to keep relevant KYC information up-to-date. Many banks conduct such maintenance exercises using a risk-based approach.

On enquiring as to what best describes their approach to updating KYC information, 71 percent of banks in the Africa Region responded that they update information in accordance with the customer risk review timelines. 10 percent of banks responded that updating of KYC information is not done.

Figure 18: Approach to periodic updating of existing KYC information and documentation – Africa Region

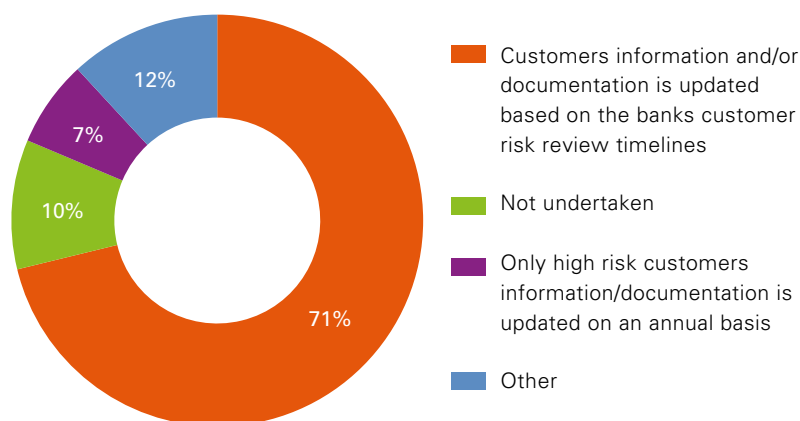
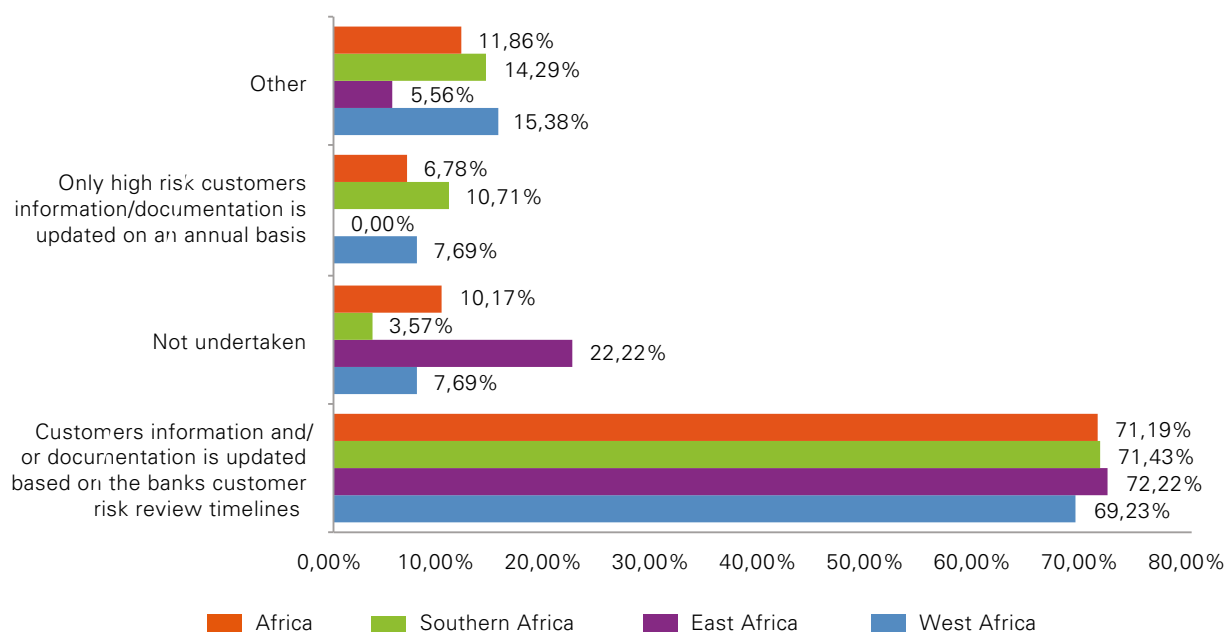
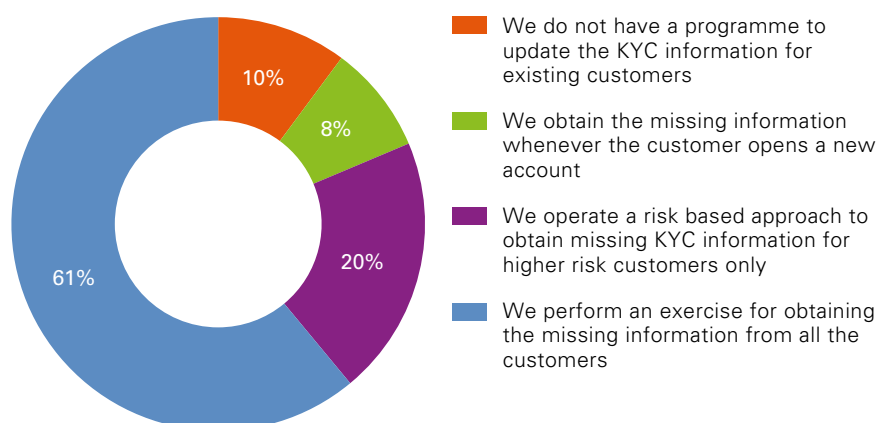
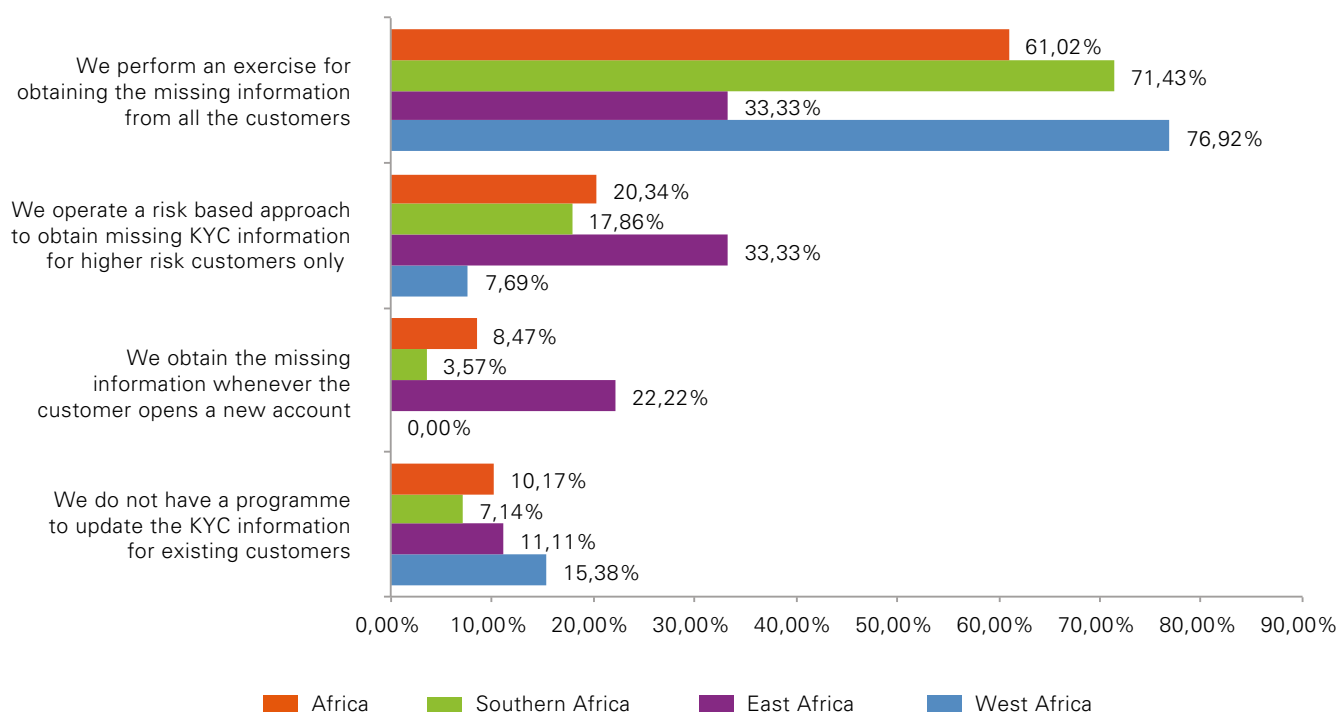


Figure 19: Approach to periodic updating of existing KYC information and documentation – sub-region



In respect of missing KYC information, 61 percent of respondents in the Africa Region indicated that they obtain missing information from customers, with 20 percent of respondents indicating that they apply a risk-based approach to obtain missing information from higher risk customers only. In contrast to this, our Global AML Survey 2011 indicated that 34 percent of respondents obtained missing KYC information from customers, with 29 percent of respondents indicating that they operate a risk-based approach for obtaining missing KYC information for higher risk customers only.

A clear differentiation in effort and process should be noted when banks initiate actions to update customer information to ensure that the current information on their customer data bases are correct, as opposed to efforts to obtain customer information and documentation that has been earmarked as missing in terms of their KYC requirements. The latter process attempts to fix a pre-identified gap in the KYC information and documentation stored for the customer where the process to maintain and update information ensures that the customer's information is in fact correct and valid on the day the remediation is performed. Regulators can, and often do, differentiate between the two processes when conducting KYC related inspections.

Figure 20: Approach for updating the missing KYC information of existing customers – Africa Region**Figure 21:** Approach for updating the missing KYC information of existing customers – sub-regions

It is interesting to note that only 33 percent of respondents in the East Africa sub-region perform an exercise to obtain missing information of existing customers, as opposed to 71 percent in the Southern Africa sub-region and 77 percent in the West Africa sub-region.

Customer information and the quality thereof are central to the success for any transaction monitoring technology and sanctions screening. Having correct information on the hard-copy customer file is not sufficient. Customer data contained on the banking system needs to be accurate and complete. Any remediation effort in respect of KYC information should also include the updating of customer data on the bank's systems. KYC is not only a compliance issue, but is a business imperative. The controls around the quality and completeness of data should be robust and sustainable.



5. POLITICALLY EXPOSED PERSONS

The Financial Action Task Force (FATF) defines politically exposed persons (PEPs) as follows:

“Foreign PEPs are individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, and important political party officials.

“Domestic PEPs are individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, and important political party officials.

“Persons who are or have been entrusted with a prominent function by an international organisation refers to members of senior management, i.e. directors, deputy directors and members of the board or equivalent functions.”

The definition of PEPs is not intended to cover middle ranking or more junior individuals in the foregoing categories.

Many jurisdictions have similar definitions of a PEP, which typically cover the following five layers:

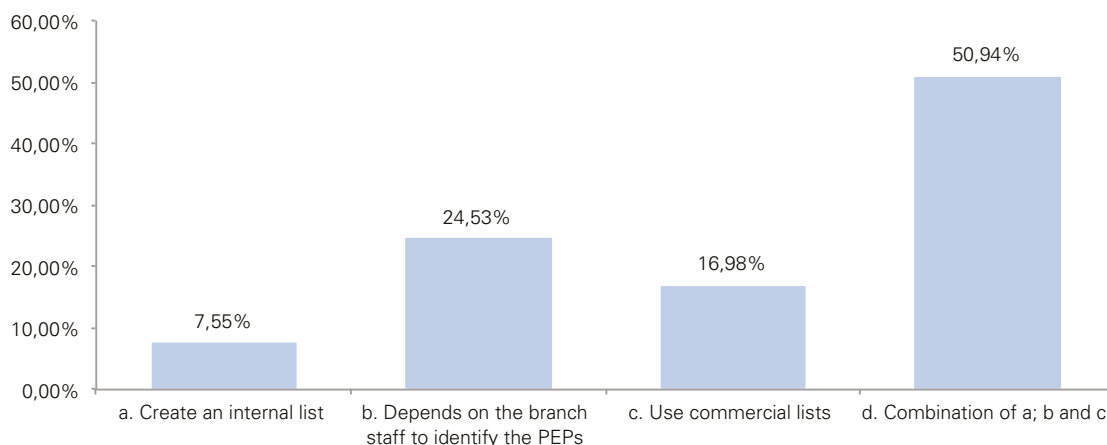
1. Current or former senior official in the executive, legislative, administrative, military, or judicial branch of a foreign government (elected or not)
2. A senior official of a major foreign political party
3. A senior executive of a foreign government-owned commercial enterprise, and/or being a corporation, business or other entity formed by or for the benefit of any such individual
4. An immediate family member of such individual, meaning spouse, parents, siblings, children, and spouse's parents or siblings
5. Any individual publicly known (or actually known by the relevant financial institution) to be a close personal or professional associate.

The recent uprisings in the Middle East and North Africa dubbed “the Arab Spring” have resulted in attention being focussed on the actions of ruling parties and persons within these ruling parties in the affected countries. This has led to increased focus on PEPs residing in these countries or those operational in neighbouring countries affecting the cause of the party across borders. This has resulted in a number of PEPs also being classified as sanctioned individuals due to their relationship and association with the respective regimes.

Effective PEP management is important in order to defend any allegations of doing business with possible corrupt politicians. There is still much to do in the field of PEP identification and management, especially on the African continent.

90 percent of respondents in the Africa Region indicated that they have specific procedures for identifying PEPs. Of those respondents who have specific procedures for identifying PEPs, 24.5 percent depend on branch staff for identification, while 17 percent rely on commercial lists only. 51 percent indicate that they use a combination of internal and commercial lists, and depend on branch staff, to identify PEPs. This compares favourably against our global finding in 2011 of 46 percent⁵.

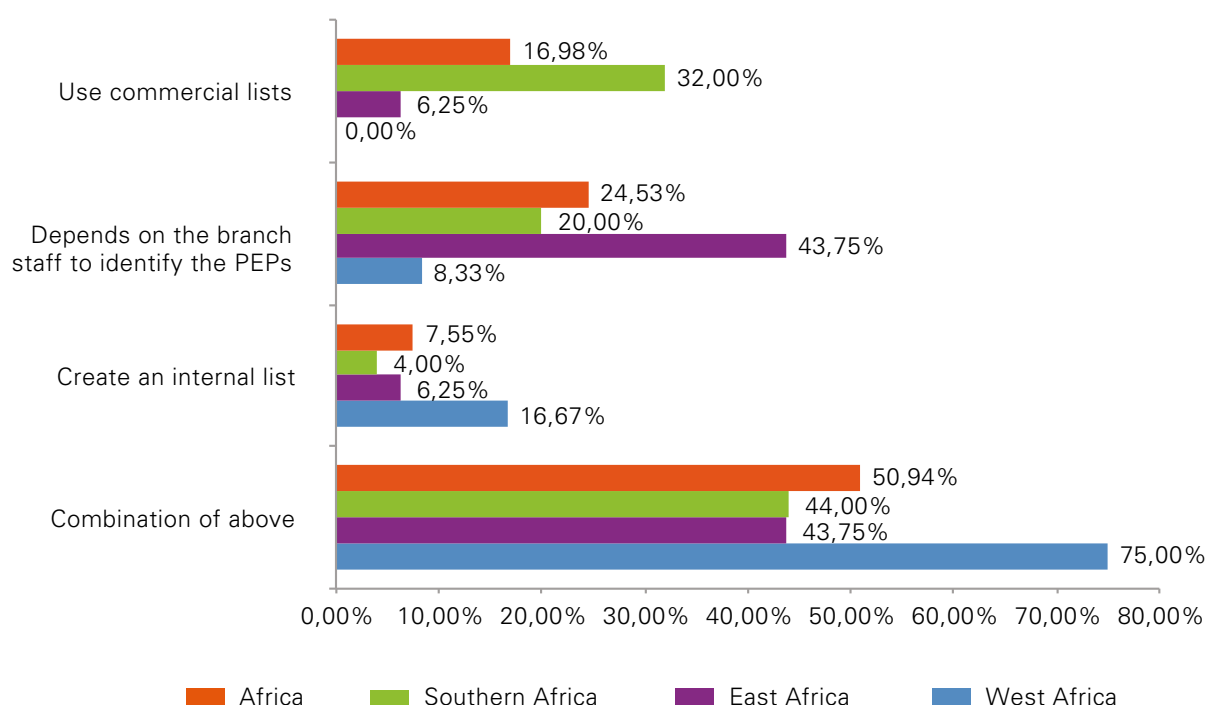
Figure 22: How do you identify PEPs – Africa Region



⁵KPMG Global AML Survey 2011

In the East Africa sub-region, 44 percent of respondents indicated that they rely on front office staff to identify PEPs, which is quite high when compared to the other sub-regions.

Figure 23: How do you identify PEPs – sub-regions



Banks need to clearly formulate their policy relating to PEPs, agree their approach at a senior level, and then implement the policy through robust procedures, using a range of methods to identify higher-risk PEP clients. Classification as a PEP increases the risk profile of a customer, but not necessarily to such an extent that the risk is not manageable. It is a good practice to help ensure that higher-risk accounts such as PEPs are accepted at an appropriate level within the organisation. A formal PEP register should then be maintained to allow specific monitoring. Periodic reviews of known PEP customers are good practice – political exposure can change over time and an acceptable risk at the time of account opening may not be so at a future date.

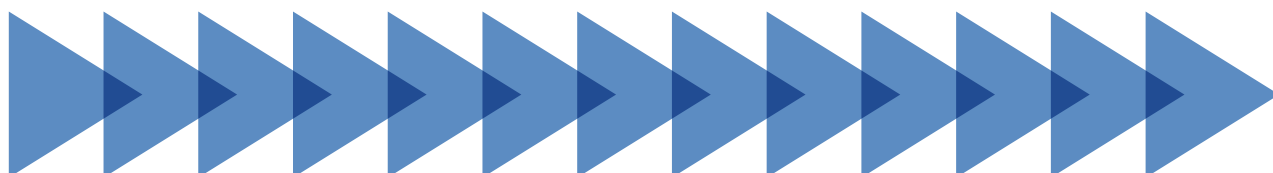
The practical implementation of a PEP programme will include challenges such as:

- The identification of family members or close associates of PEPs where such information is not readily available
- Identification of situations where existing customers may have become a PEP due to change in their status
- Application of PEP standards in countries with uncertain, unstable or non-transparent political structures.

The use of commercial lists to identify PEPs is common practice among banks. It may be appropriate for banks to use a number of commercial lists instead of just one to ensure the best coverage. Monitoring the local situation in a country and compiling an internal list to be added to the commercial list would be considered good practice.

Screening for and identifying PEPs is not a static event. Banks need to ensure that they obtain updated PEP lists and internal lists against which all new and current customers should be screened.

Banks must also have processes in place to monitor the account activity of PEPs to determine whether or not they transact in line with the profile of the customer.



6. SANCTIONS COMPLIANCE

Sanctions compliance is developing into a high profile issue. Last year saw unprecedented fines being handed down to banks for, amongst other things, sanctions violations. The US Department's Office of Foreign Assets and Control (OFAC) has been particularly active in this area.

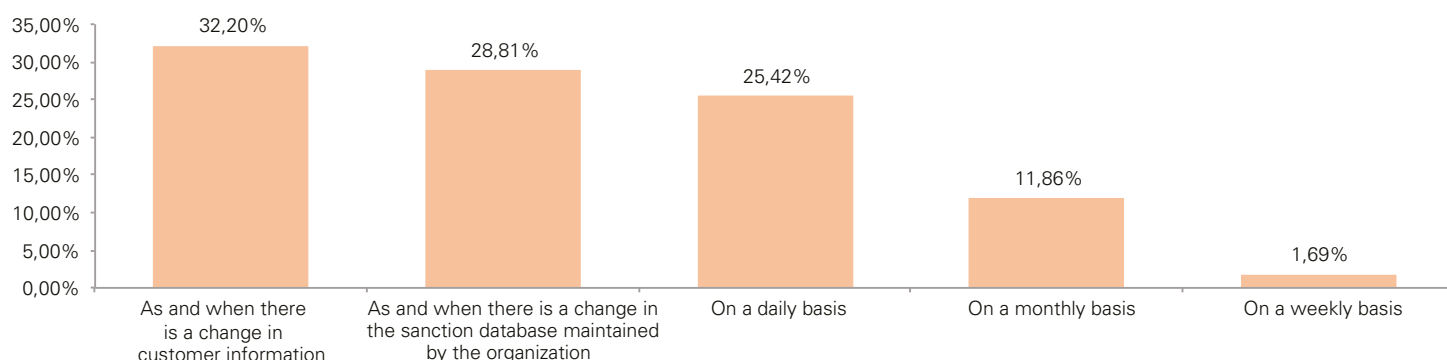
86 percent of respondents in the Africa Region indicated that they conduct sanctions screening prior to account opening. The success of any sanctions screening programme lies with the accuracy and quality of customer data maintained by the bank. In order to minimise the number of "false positive" matches and to increase the speed at which sanctions alerts are investigated, banks should ensure that the quality and completeness of their customer data is of a high standard.

While the sanction screening of a primary customer is important, the sanction screening of beneficial owners and controllers (referred to as related parties) is just as important. Our survey indicated that 73 percent of respondents in the Africa Region screen beneficial owners and related parties prior to entering into a relationship. 13 percent of respondents indicated that they do not perform any sanction screening. The sub-regions all reflected this finding.

Customers, as well as their related parties (beneficial owners and/or controllers) should be screened against applicable sanctions lists before an account is opened. This can be challenging where customer data is held either in manual form or across different databases. In addition, banks also have an obligation to screen payments to identify any sanctioned individuals and/or entities.

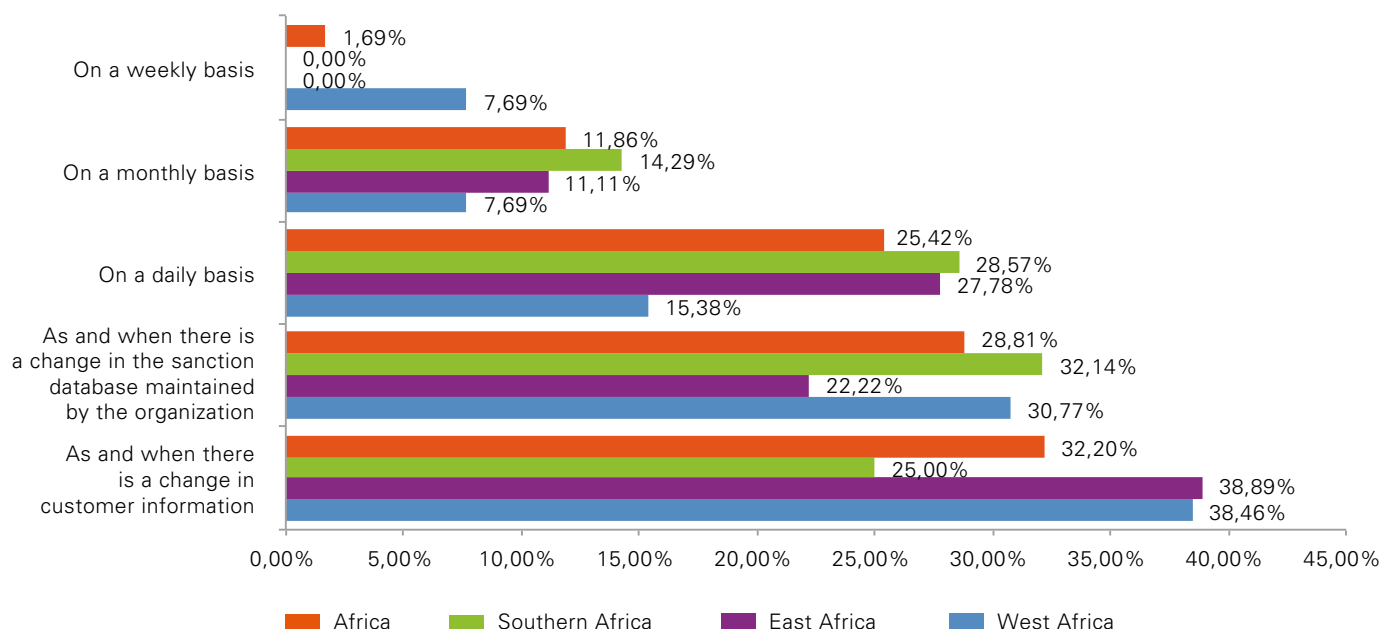
On enquiring how often customer data is screened against sanctions lists, 32 percent in the Africa Region responded that they only screen customer data when there is a change to the customer information, while 29 percent of respondents indicated that they screen when there is a change in the sanction database.

Figure 24: How often is customer data reviewed against sanctions lists? – Africa Region



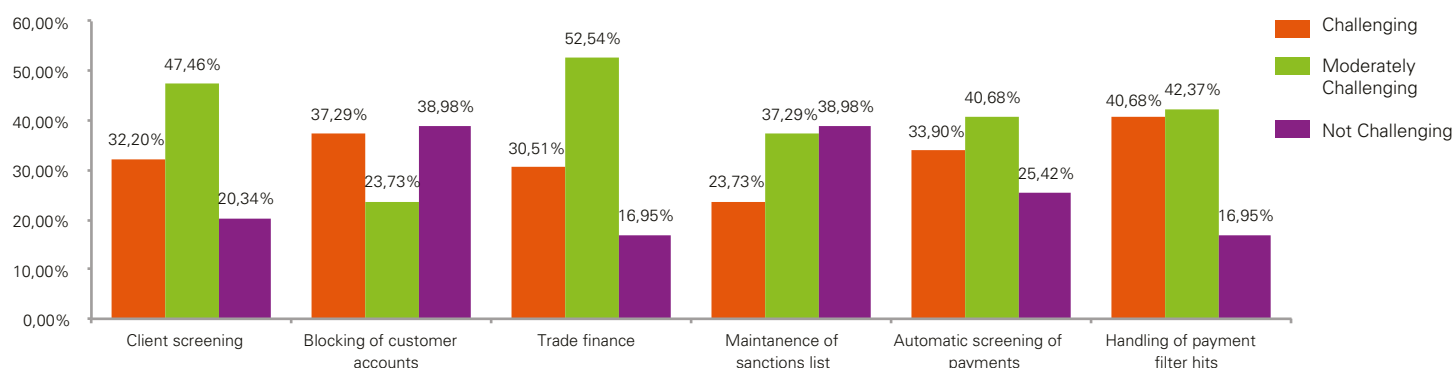
It is interesting to note that only 25 percent of respondents in the Southern Africa sub-region screened their customer when there was a change in customer information, in comparison to 39 percent reported in East Africa and 38 percent in West Africa.

Figure 25: How often is customer data reviewed against sanctions lists? – sub-regions



More than 80 percent of respondents in the Africa Region found Trade Finance screening and the handling of payment filter hits to be either challenging or moderately challenging. This is consistent with our global finding and with the type of work we have undertaken over the last year. In respect of the handling of payment filter hits, banks are required to investigate potential hits in a short period of time in order to release any payments held back due to the potential hit. The completeness and quality of customer data as well as beneficiary data are critical to the speedy investigation of potential hits. Poor or incomplete data may also result in a higher number of potential hits requiring investigation. Further affecting this will be on which system customer data is held.

Figure 26: Difficulties faced in the area of sanctions compliance – Africa Region



In respect of sanctions screening on payments, 54 percent of respondents in the Africa Region indicated that they have an automated system in place, while 22 percent indicated that they use a manual system. The responses for the various sub-regions are indicated in the table below:

	COUNTRY PERCENTAGE			
	West Africa	East Africa	Southern Africa	Africa
Not available at present - We are planning to introduce automated system for payment screening	30,77%	22,22%	17,86%	22,03%
Other	0,00%	5,56%	0,00%	1,69%
Yes - a manual system is in place for undertaking payment screening	30,77%	11,11%	25,00%	22,03%
Yes - an automated system is in place for undertaking payment screening	38,46%	61,11%	57,14%	54,24%

Our experience has indicated that banks often employ more than one vendor in the sanction screening area i.e. the software used to screen customers at the time of on-boarding is often different to the screening software used to screen payments. The question always arises whether both solutions provide the same level of confidence in their screening results.

Since December 2011, KPMG and AML Analytics⁷ have tested banks' systems for screening transactions and customers against Sanctions and PEP's, at a number of leading financial institutions across Europe, America, Africa and Asia Pacific. We are now able to compare the results, benchmark the banks against each other, and summarise the main trends identified from our analysis.

The following levels of testing were included in our benchmarking:

- Level 1 benchmark where the test file consisted of names on sanctions lists with no changes to any data fields
- Level 3 benchmark, where algorithmic changes were made to the names, addresses and other fields to replicate data errors expected within the normal course of business.

All stress levels were applied consistently. The benchmark results were as follows:

System instance tested	Level 1 benchmark average	Level 3 benchmark average
Client screening	88,41%	78,24%
Transaction filtering	92,45%	86,40%

⁷A company with whom KPMG has an agreement in terms of working together on benchmarking sanctions screening solutions

The benchmarks provide a percentage for the number of names on the above lists that generated alerts in the institutions' systems. Tests on transaction filtering systems consistently scored higher than tests performed on client screening systems, due to transaction systems being considered higher risk by financial institutions.

The amount of money being spent globally on both customer and payment screening solutions is astronomical. In respect of payment screening, banks are duplicating efforts with both the sending and receiving banks screening payments without relying on each other. This is possibly an area for future thought. Establishing a central clearing house that banks can subscribe to will ensure standardisation and cost optimisation. The mechanics and viability of such a solution would have to be well researched.

With all the screening solutions that have been developed and implemented, attempts at circumvention continue. The implementation of controls to identify circumvention is not straight-forward and requires much thought and intuition. Controls need to identify re-submitted payments and payments without complete information.

7. TRANSACTION MONITORING

On-going transaction monitoring of business relationships is a key aspect in addressing money laundering and terrorist financing. The investigation of alerts generated by monitoring systems is of importance as such investigations will determine whether or not a suspicious transaction report (STR) (also known as a suspicious activity report) will need to be lodged with the authorities. Poor KYC information and documentation, together with insufficient or ineffective investigation procedures, will put the bank at risk.

On a scale of 1 to 5 (1 being very unsatisfactory and 5 being very satisfactory) respondents were requested to rate their satisfaction with their transaction monitoring systems. 51 percent of respondents in the Africa Region rated their transaction monitoring systems as being at a score of 3 and below, with 10 percent rating their systems as very satisfactory.

Figure 27: Respondent's satisfaction with their transaction monitoring systems – Africa Region

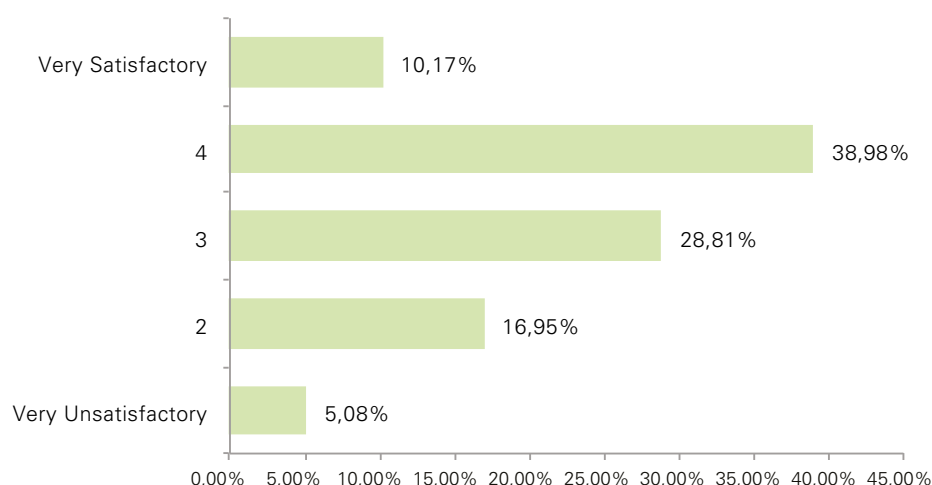
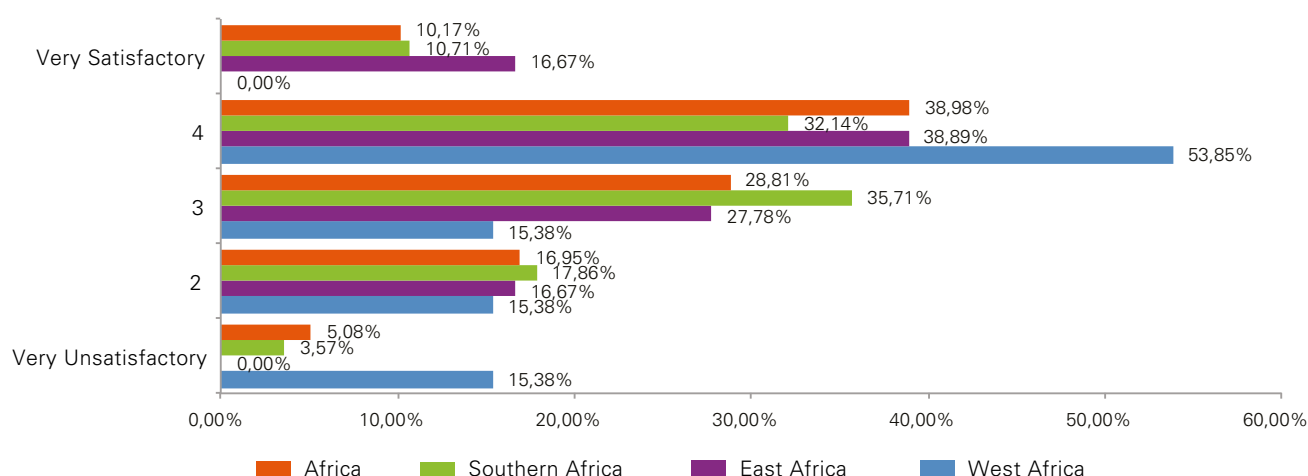
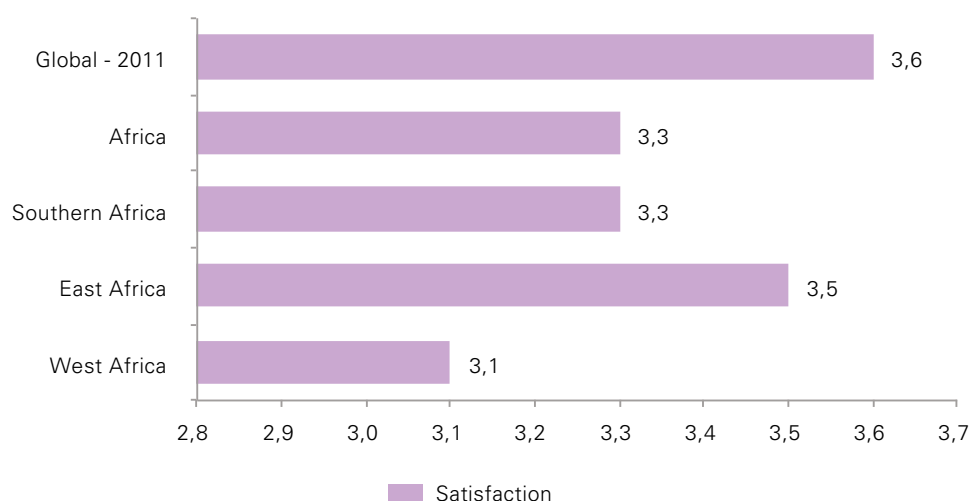


Figure 28: Respondent's satisfaction with their transaction monitoring systems – sub-regions



In our Global Survey of 2011, the global satisfaction index was indicated at 3,6, compared to the Africa Region index of 3,3, with Southern Africa at 3,3, East Africa at 3,5 and West Africa at 3,1

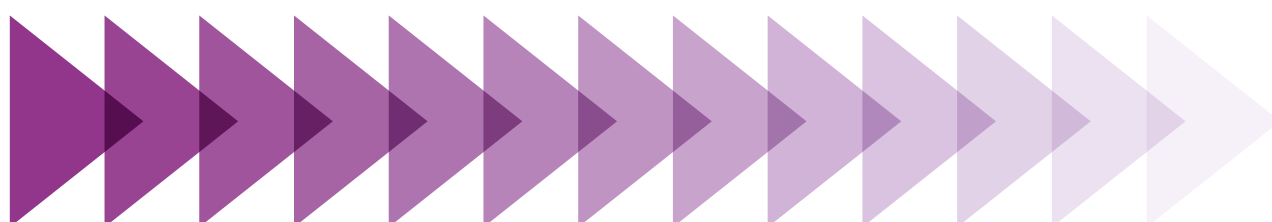
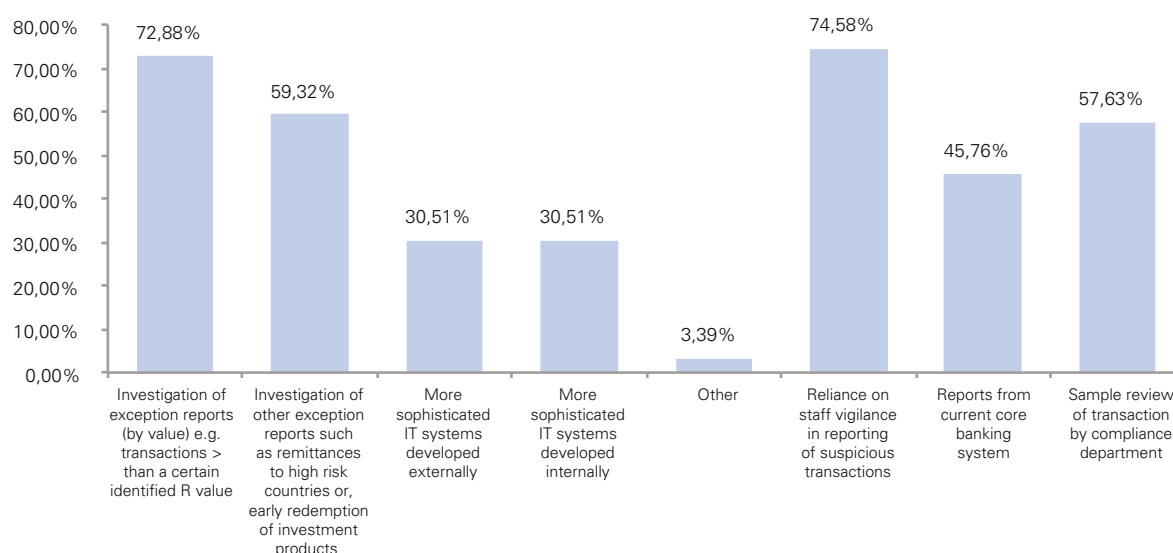
Figure 29: Satisfaction index (1 = very unsatisfactory - 5 = very satisfactory)



The satisfaction with a transaction monitoring system may be affected by the level of investment in the system. Transaction monitoring systems range from those that may employ simple rules to those employing complex and complicated algorithms.

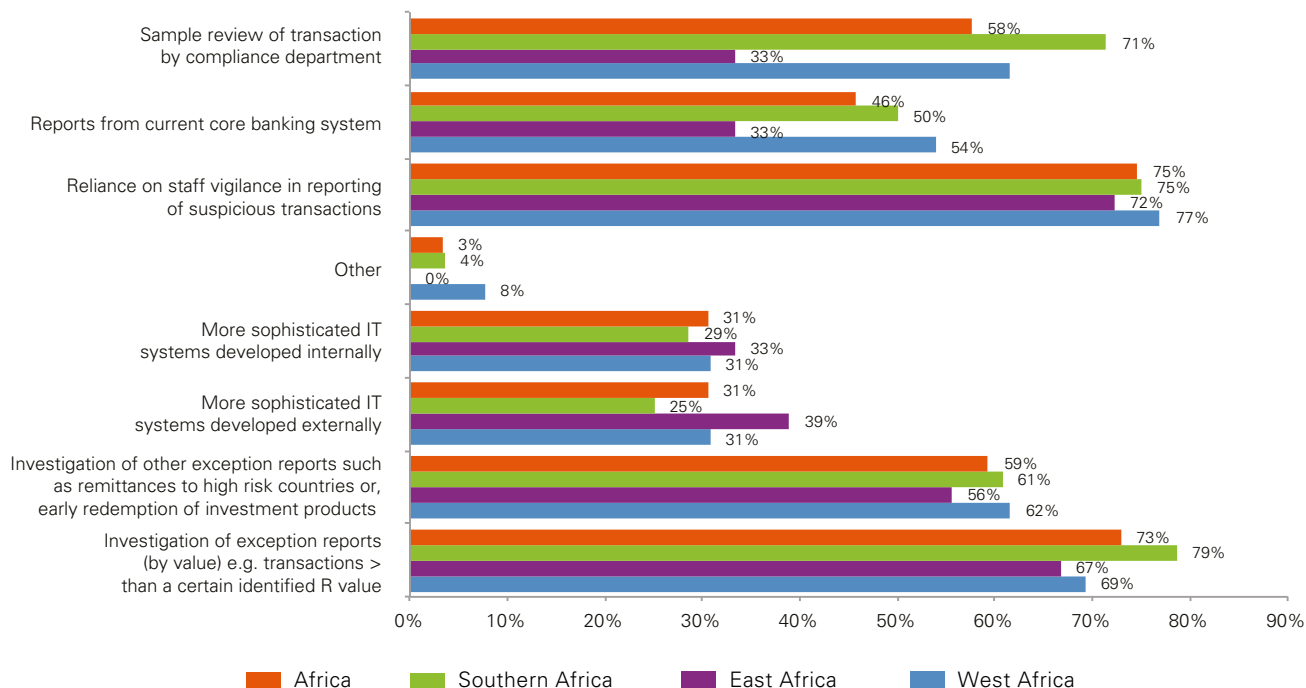
Our survey indicated that despite using transaction monitoring systems, 74 percent of respondents in the Africa Region still relied on the vigilance of their staff to report suspicious transactions. The training of such staff is thus vital. 73 percent of respondents in the Africa Region also indicated that the investigation of exception reports was one of the important ways they identified possible money laundering.

Figure 30: Methods used to monitor transactions in order to identify potential money laundering – Africa Region



The sub-regions reflected generally the same finding as the Africa Region. Respondents in the Southern Africa sub-region, however, also appear to rely quite heavily on sample reviews being performed by the compliance department (71 percent), while in East Africa, this percentage is at 33 percent.

Figure 31: Methods used to monitor transactions in order to identify potential money laundering – sub-regions

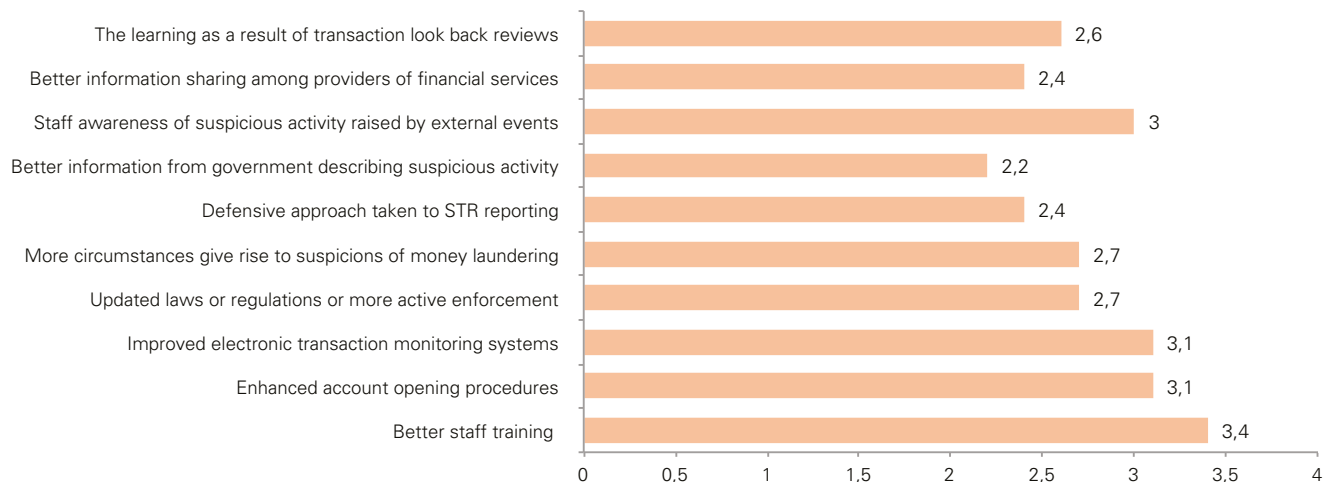


An overwhelming number of respondents in the Africa Region (85 percent) indicated that increased levels of human and financial resources were required to address factors such as on-going maintenance and review of generated alerts.

A total of 39 percent of respondents indicated that customer risk categorisation and profiles reside outside the transaction monitoring system, with a further 18 percent indicating that the transaction monitoring system does not have scenarios/rules defined that include customer risk categorisation and profiles, even though it has the capability. For purposes of transaction monitoring, it is important that a holistic view of the customer is obtained. Not having this will result in reduced effectiveness of transaction monitoring.

37 percent of respondents in the Africa Region indicated that there had been an increase in STR's filed with the authorities, while 56 percent indicated that there was no change. In respect of those indicating an increase in STR filing, better staff training, enhanced account opening procedures and improved electronic transaction monitoring systems were the three major factors accounting for this increase.

Figure 32: In respect of the increase in STR filing, define the impact on this in respect of the following: (1 = no impact; 5 = very strong impact)

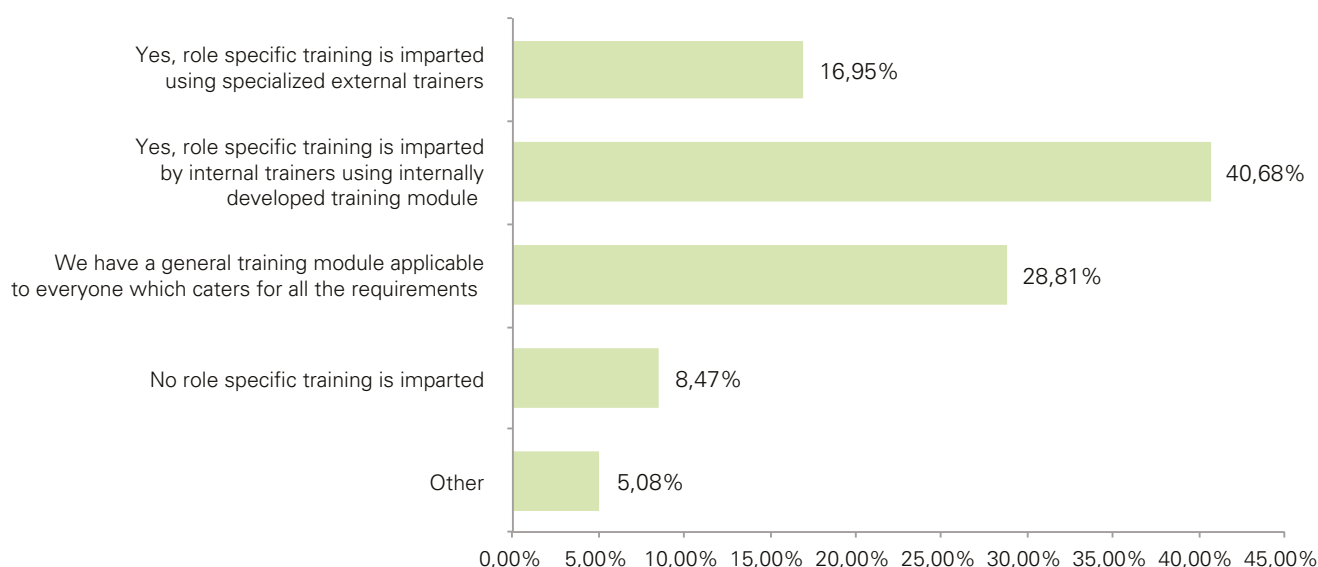


8. TRAINING

In many jurisdictions, AML training is mandatory under local law and regulations. AML training is key to the bank's ability to identify and combat money laundering and is an important line of defence. As previously indicated, 74 percent of banks rely on staff vigilance which indicates that banks should continue to invest in training programmes. Such training, however, needs to be effective, role specific and risk-based.

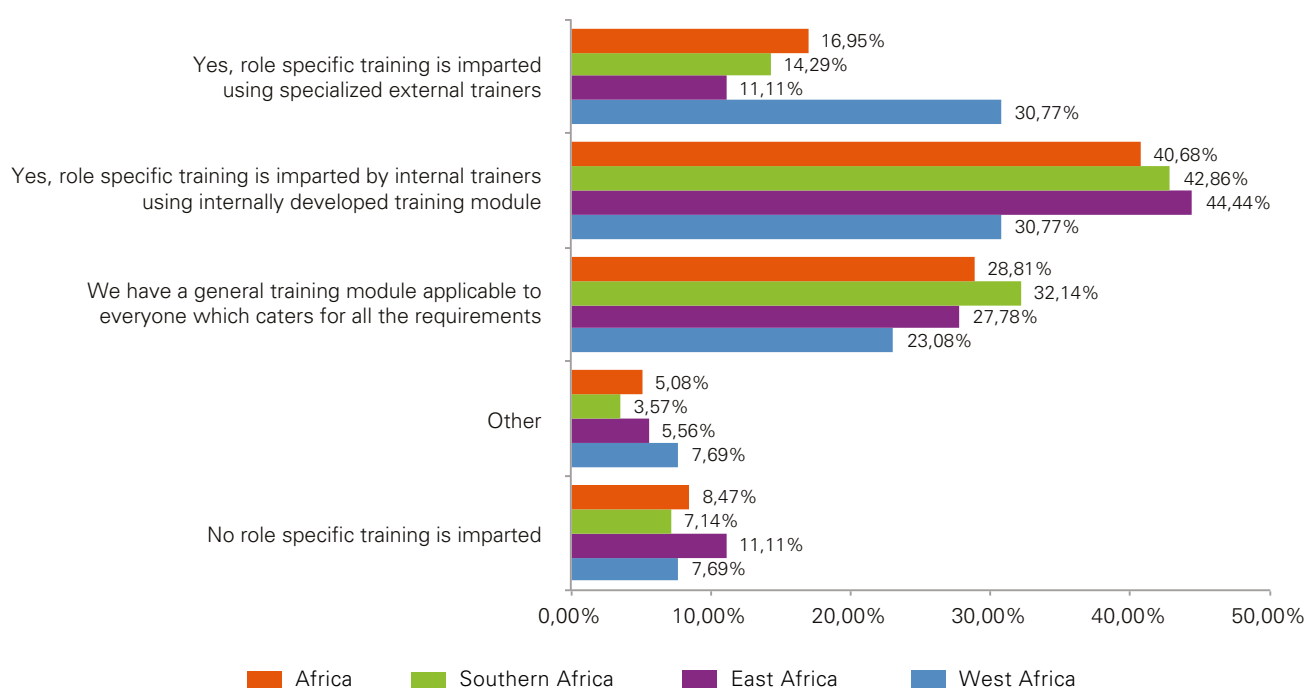
40 percent of respondents in the Africa Region indicated that they provide role-specific training imparted by internal trainers using internally developed training material, with 68 percent of respondents stating that they provide staff with AML training on an annual basis.

Figure 33: Do you conduct role specific training for compliance and operations teams? – Africa Region



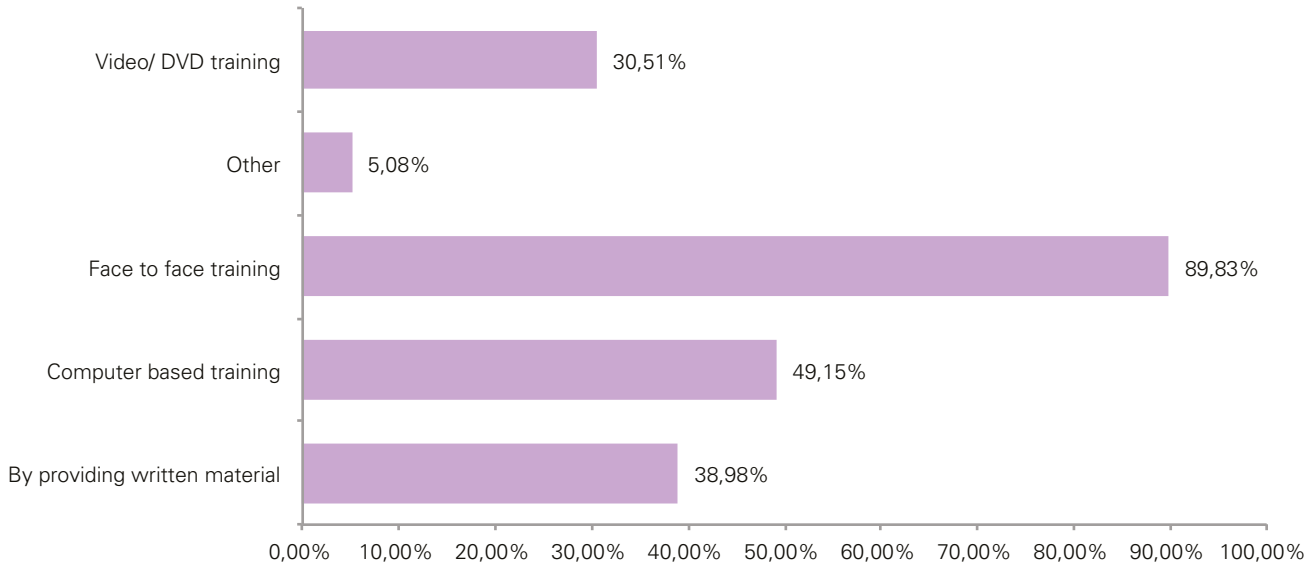
Respondents from the West Africa sub region indicated that they use both internal and external trainers equally to conduct training (31 percent).

Figure 34: Do you conduct role specific training for compliance and operations teams? – sub-regions



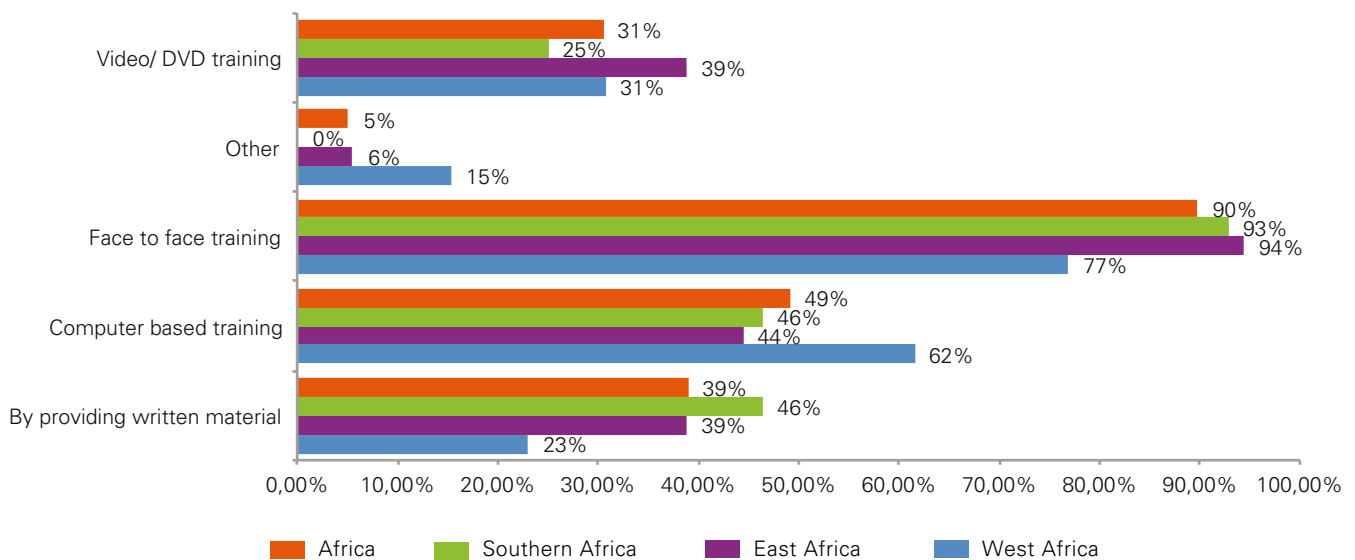
Face-to-face training continues to be the most common method used by Africa region banks (90 percent), with computer-based training (CBT) enjoying good support (49 percent). The use of CBT is an easy way of demonstrating compliance with training requirements, but such training needs to incorporate real case studies. CBT, however, does not allow for discussion and debate, which often leads to better learning occurring. The high level of staff turnover in branches affects the effectiveness of AML training and as such, more regular intervals of refresher training should be conducted.

Figure 35: What methods are used to deliver AML training – Africa Region?



It is noticeable that West Africa places high emphasis on computer-based training.

Figure 36: What methods are used to deliver AML training – sub region?



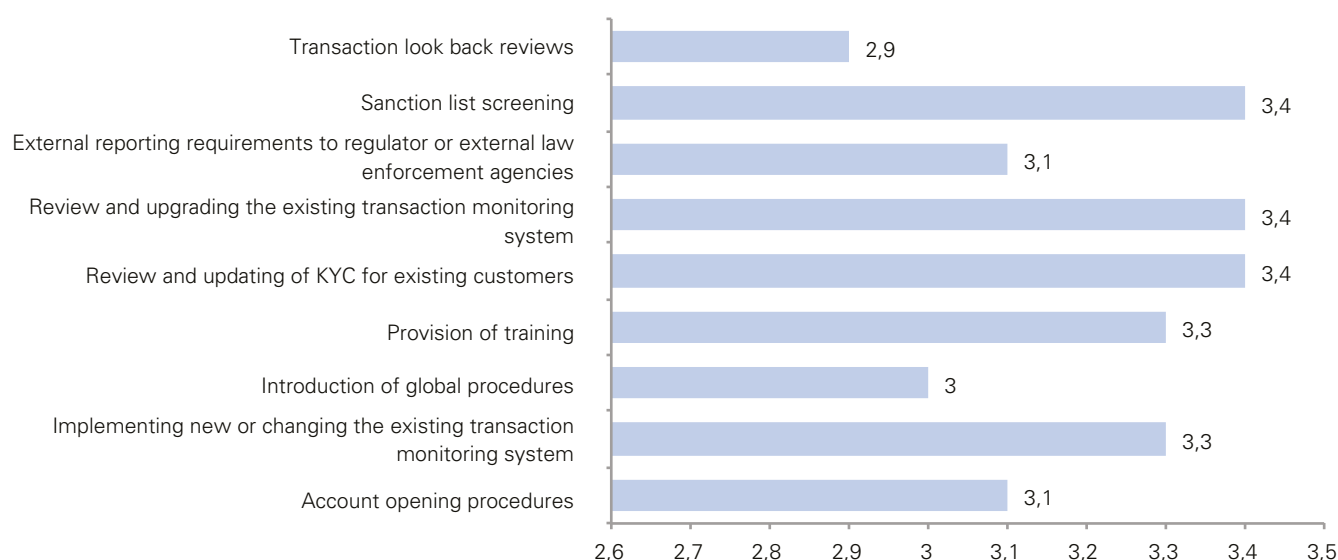
9. AML – THE FUTURE OUTLOOK

AML Compliance in the future will continue to enjoy prominence within the banking environment. 90 percent of respondents indicated that investment in AML will increase over the next three years, with 32 percent indicating that expenditure will increase between 21 percent and 50 percent. Most respondents (44 percent) indicated that expenditure would increase between 10 percent and 20 percent.

The regulatory environment will continue to develop, requiring banks to invest substantially in order to stay abreast with such developments. It is a moving target, which will require banks to constantly re-visit and review their business processes and technology.

Respondents indicated that areas such as Sanctions List screening, review and upgrading of the existing transaction monitoring systems, and review and updating of KYC for existing customers are where the major AML spend will occur in the next three years. This is already consistent with what we see happening within the industry today.

Figure 37: Indicate the level of investment in each of the mentioned areas over the next 3 years (1 = no investment and 5 = great level of investment)



CONCLUDING REMARKS

AML continues to evolve, presenting a number of challenges to banks. These challenges are even more acute than those previously encountered. The tone and profile set by senior management must continue and operational processes need to be aligned across the business, especially complex ones.

Costs associated with AML compliance will continue to increase and banks will need to ensure efficiencies in the operational and technological fields without sacrificing the effectiveness of their AML programmes.

There is a need for greater consultation and communication between banks and their regulators in respect of good practice. The objective of all, at the end of the day, is to ensure a safe and secure financial system for the country.

The challenge for the next few years is to ensure that the systems and controls in place are effective and achieving the objective of frustrating those who attempt to misuse the financial system for their own illicit gain.



PROFILE OF RESPONDENTS

Figure 38: Bank's operations

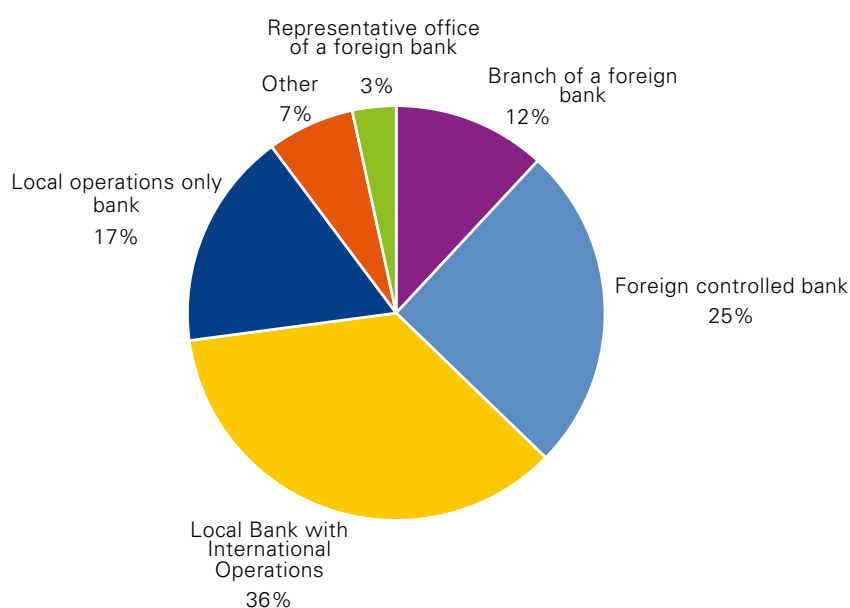


Figure 39: Annual Turnover - number of banks

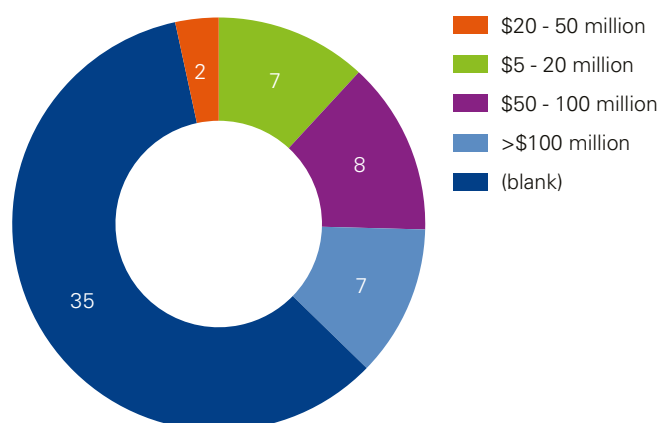
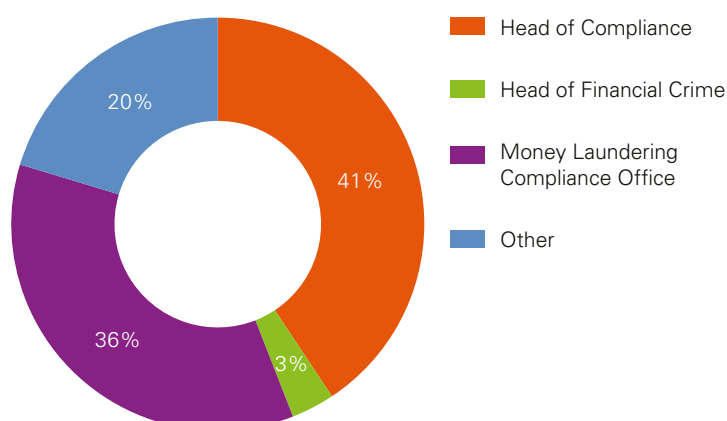


Figure 40: Designation of respondents



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