



Building a strong AML culture

**Seven building blocks to
help you measure and
improve your AML culture.**



April 2016

—

kpmg.com/nz

Building a strong AML culture

As highlighted by recent global enforcement actions, an organisation's Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) controls can be easily undermined by a poor culture of compliance. By contrast, a strong AML culture can help to prevent shortcomings, identify issues before they become a concern, and lead to more efficient compliance solutions.

But what does it mean to have a strong AML culture? In this article, we highlight its importance and identify seven building blocks for a strong AML culture that can be measured and improved.

We consider a strong AML culture to be one with commitment from the top to both the managing of ML/TF risks, and implementing integrated controls to meet compliance objectives.

What is an AML culture?

Although 'AML culture' is not a defined term, the concept is gaining increasing attention from AML/CFT regulators globally. A poor culture of compliance has been identified in enforcement actions as a key cause of shortcomings in AML/CFT frameworks.

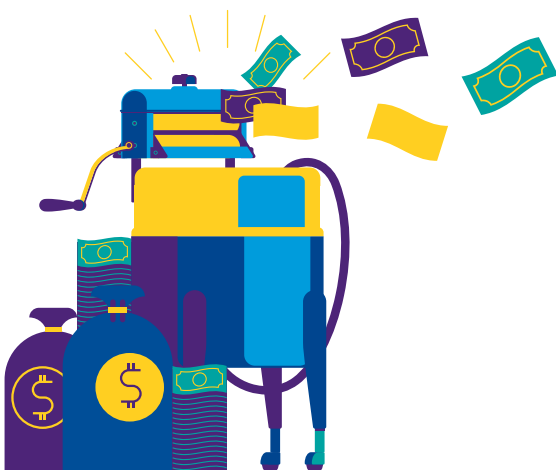
An organisation's culture refers generally to the beliefs and behaviours of a company that determine how its employees and management interact, and do business day-to-day. The importance of a positive corporate culture is highlighted by the growing number of corporate scandals relating to issues such as sanctions violations, financial misconduct, libor rigging, and bribery and corruption.

For the purposes of this article, we consider a strong AML culture to be one with a strong commitment from the top to both the managing of ML/TF risks, and implementing integrated controls to meet compliance objectives. Developing an AML culture should not be done in isolation; rather AML/CFT controls should align with the organisation's broader risk appetite.

Poor versus positive culture

Even where systems and controls are in place to comply with AML/CFT requirements, they can be undermined. Controls may be circumvented, or minimum effort may be taken to 'tick a compliance box' rather than actually mitigating risk. This can lead to AML/CFT shortcomings, as staff seek to address the 'letter' of the policies but not the 'spirit'.

On the other hand, a strong AML culture can ensure that the intent of the regulatory obligation is met. Not only can this reduce the risk of failings, but this can lead to more efficient processes. This is because staff are in a position to better identify new ways to meet the same objectives.



Why is it important?

While poor AML culture has been identified as a common cause of AML/CFT failings; a strong AML culture can help to reduce the risk of shortcomings, identify compliance issues early and lead to more efficient compliance solutions.

In our work with financial institutions in New Zealand, we have found that a strong AML culture leads to successful compliance outcomes. Where AML/CFT efforts are integrated – and there is a sound understanding across the business – compliance teams are more effective at identifying and mitigating risks, and the business is more efficient in carrying out AML/CFT efforts. Overseas experience also demonstrates the importance of maintaining an effective AML culture. The importance of a positive culture of compliance is supported by recent statements from AML/CFT regulators, including:

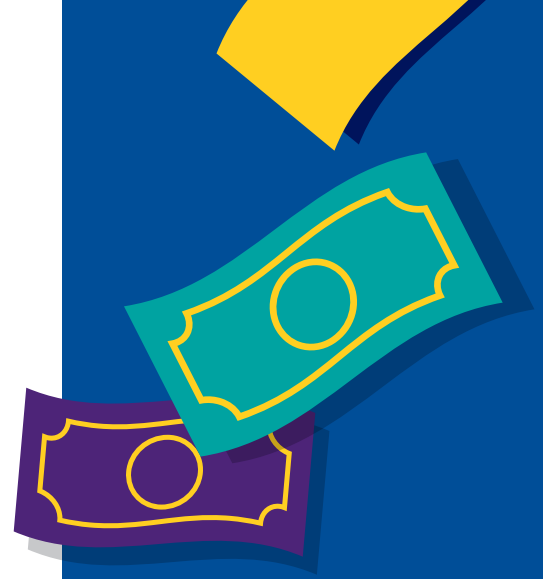
- In the US, FinCEN published the *Advisory to Financial Institutions on Promoting an AML Culture*¹, highlighting the culture of an organisation as critical to compliance.
- In the UK, the Financial Conduct Authority undertook a thematic AML review of small banks². They found that in some banks there was a failure to embed a culture where financial crime is not acceptable, ML risks could not be articulated, there were insufficient AML resources, and senior management held limited understanding.
- In Australia, AUSTRAC has noted that compliance systems alone are not sufficient to lead to successful outcomes in the absence of a strong culture of compliance, and that regulatory risk can be reduced by the existence of a compliance culture³.

A review of significant enforcement action for violations of sanctions and AML laws in the US and UK has identified common issues with the culture of compliance and senior management oversight. In some cases, this led to concerns from the regulators that some entities demonstrated wilful blindness or contempt for regulators; or at worst, attempts to mislead regulators.

When combined with poor oversight from senior management, significant compliance issues have festered.

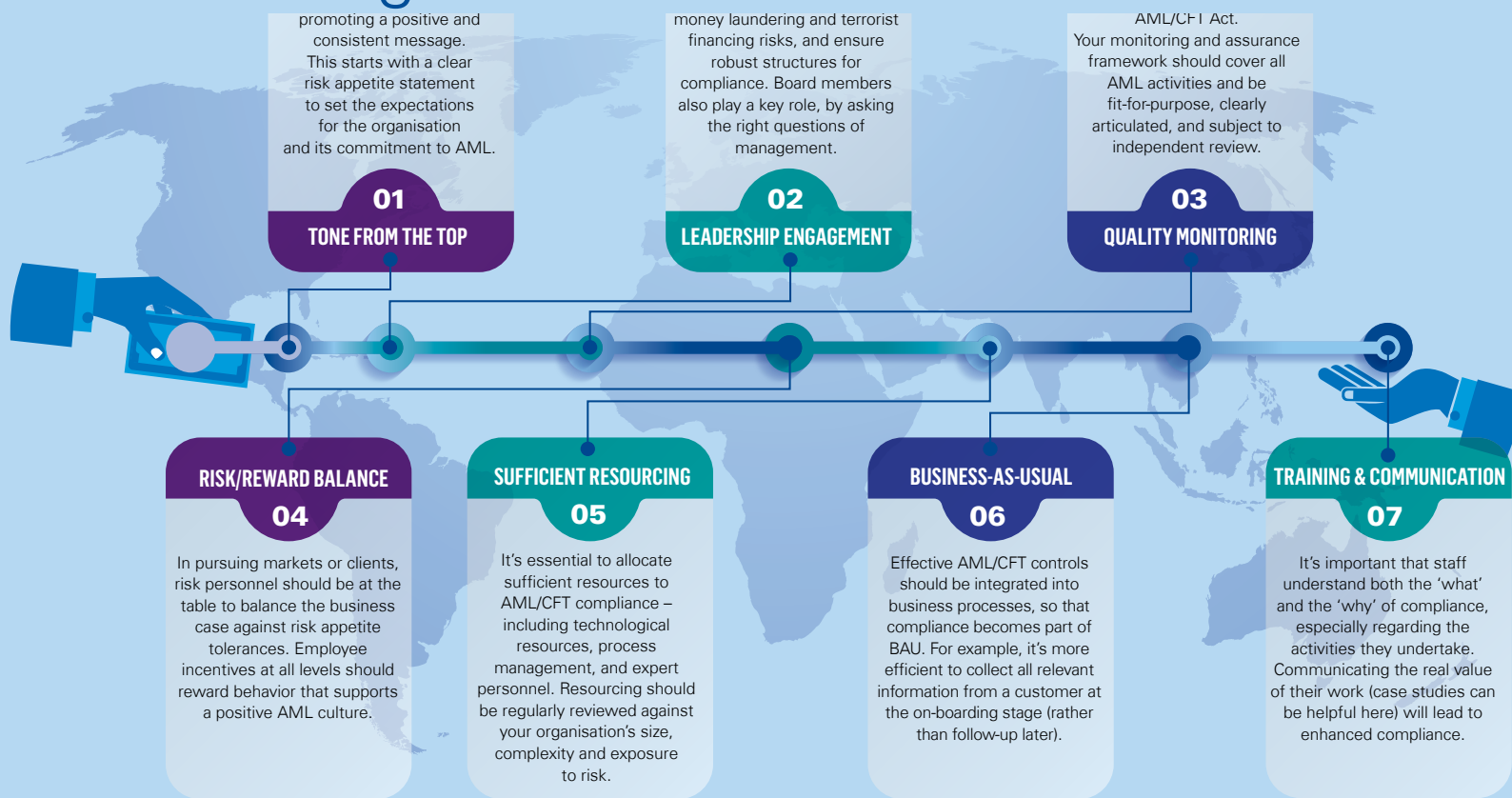
In our role as advisor and auditor to New Zealand reporting entities, we are privy to supervisory AML/CFT inspection letters. Our thematic analysis has identified the importance of management oversight and responsibility to our supervisors. Issues around section 57(l) 'managing compliance with policies and procedures' run second in volume of findings only to client due diligence.

In the inspection findings, it is clear that our supervisors – like their counterparts in the UK and US – expect management to 'own' the risk and ensure policies and procedures are effective to prevent and detect ML/TF.



Where AML/CFT efforts are integrated - and there is a sound understanding across the business - businesses are more efficient at identifying and managing risks and more efficient in carrying out AML/CFT effort

Building a strong anti-money laundering culture



© 2016 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. 01589

Seven building blocks of a strong AML culture

So how can a financial institution review and improve their AML culture?

We have identified the following seven building blocks essential for a strong AML culture.

01

TONE FROM THE TOP

Developing a strong AML culture in a financial institution starts with its senior management.

The Chief Executive and other C-suite executives should be visible in communicating their commitment to comply with AML/CFT requirements. AML culture cannot be changed if it is driven by the risk management function alone, and leadership must be the driving force.

Setting the tone starts with setting an institution's risk appetite. In the AML/CFT context, the risk appetite sets the parameters and boundary conditions with respect to the activities the business can engage in.

An AML culture is expressed through a combination of policy, tolerances and behaviours. A positive and consistent message from senior management ensures that AML/CFT compliance is not simply a box-ticking exercise, but an effort to protect the market and institution against regulatory and criminal risks.

02

LEADERSHIP ENGAGEMENT

The senior management of a financial institution is ultimately responsible for compliance with AML/CFT obligations. The leadership team, including senior executives and members of the board, should understand their responsibilities to make informed decisions that include consideration of ML/TF risk and compliance.

Senior management are responsible for establishing appropriate governance structures to maintain visibility of the state of compliance. This includes not only the outputs of compliance testing but also the inputs (to be confident that the nature, scale and scope of the activities are adequate).

Board members play an important role, by asking the right questions of senior management and giving their view on what is or is not working.

Leadership engagement helps an organisation understand their real-world risks, and continually challenge their view and approach. This is critical given that ML/TF risks are not static, and organised crime groups adapt their methods to circumvent existing controls.

03

MONITORING AND ASSURANCE FRAMEWORK

Monitoring and managing AML/CFT compliance is a requirement in the AML/CFT Act and is essential to building a strong AML culture.

As the Act has been in place for almost three years, financial institutions continue to refine their policies and procedures. This increases the focus on monitoring and assurance frameworks to ensure its effective operation and to avoid complacency.

While the nature of the monitoring and assurance framework will depend on the size and nature of the financial institution, there are some common fundamentals. It should be clearly articulated and given sufficient priority to allow for regular monitoring of all AML/CFT controls; not just customer due diligence.

All parts of the programme should be subject to independent review by parties with an appropriate level of AML/CFT expertise. Consistent reporting is also important to allow senior management to identify trends in compliance.

04

ENSURE THAT COMPLIANCE IS NOT COMPROMISED BY REVENUE INTERESTS

Those involved in overseas regulatory sanctions are often businesses pursuing particularly 'lucrative' markets or clients.

For market pursuits, risk personnel should be at the table to balance the business case in line with risk appetite tolerances, and providing challenge where appropriate. An effective organisational governance structure takes AML/CFT considerations into account in all decision-making processes.

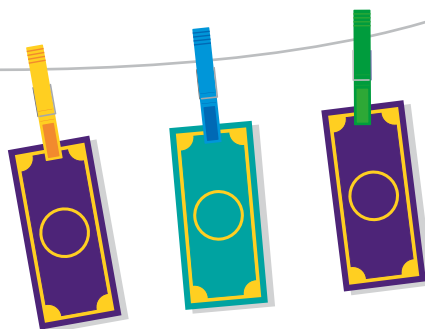
Financial institutions should consider whether incentives reward unacceptable risk-taking or compliance breaches – and if they do, remove them. Compliance teams should have sufficient authority and autonomy to implement the AML/CFT controls and procedures.

05

SUFFICIENT RESOURCING FOR THE AML FRAMEWORK

Allocating sufficient resources to AML/CFT compliance is essential. This can include technological resources to improve processes in areas such as transaction monitoring. It may also include sufficient subject matter experts, in both the business or in a compliance team.

Decisions on resourcing should consider long-term objectives to address future state where possible. Resourcing should be regularly reviewed to ensure it is right-sized for the organisations scale, complexity and risk.



06

AML IS BUSINESS AS USUAL (BAU)

Effective AML/CFT controls should be integrated into business processes so that compliance becomes part of BAU, and not an 'add on' to other parts of the business. Compliance policies and procedures should be viewed as integral to business practices and not as a burden or blockage.

As AML is built into business processes, this can also lead to more efficient outcomes. For example, at the client on-boarding stage, the organisation would collect sufficient information up front, rather than incurring the costs of later follow-up with customers.

07

TRAINING AND COMMUNICATION

Financial institutions should ensure that staff understand not only the 'what' for compliance, but the 'why'. This can lead to enhanced compliance, as people understand the real value of their work and the objective of a particular control activity.

Real case studies can assist in this regard. For example, staff undertaking Enhanced Due Diligence (EDD) will collect documents to support source of wealth or funds to satisfy a compliance requirement. Without understanding the intent, this may lead to the collection of documentation that on the face of it meets the EDD policy, but does not provide a sufficient understanding of the customer's source of wealth to give the institution comfort.

Finally, staff across the organisation should also understand how Suspicious Transaction Reports (STRs) are used by law enforcement. Financial intelligence is essential to 'follow the money' in criminal investigations and the work of financial institutions' staff should be recognised. This feedback can also increase the quality of STRs.

Despite being a significant factor in recent enforcement actions for AML and sanctions violations, the culture of compliance often receives limited attention when implementing AML/CFT systems.

Conclusion

This article demonstrates that building a strong AML culture will enhance compliance, reduce regulatory risk and improve efficiency in AML/CFT systems. While the idea of an AML culture may appear to be an abstract concept, these seven criteria provide a starting point to assess where your institution currently stands. They also provide a framework to identify potential risks, improve the efficiency of your controls, and measure improvements.

If you would like further advice on building a strong AML culture, please get in touch with KPMG's Forensic team.

Contact us:



Stephen Bell
Partner

T: +64 9 367 5834

E: stephencbell@kpmg.co.nz

Stephen is the national lead partner for forensic services, and has built and led the AML practice in New Zealand since 2009. Stephen started his career with KPMG in New York and has over 20 years of experience providing auditing, accounting, investigative, dispute resolution, arbitration, expert testimony and financial advisory services to clients in a number of industries.

Since the implementation of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, Stephen has led numerous engagements involving banks, brokers, asset managers and casinos providing both advice on implementation of the Act, and review of risk assessments and compliance programmes required by the New Zealand AML regime.

Stephen is a Certified Public Accountant (CPA) and is Member of the board of NZ Council for CPA (Australia). He is also certified in Financial Forensics (AICPA).



Gareth Pindred
Director

T: +64 9 363 3633

E: garethpindred@kpmg.co.nz

Gareth has an LLB and is a chartered accountant. Gareth spent seven years in the New Zealand Police before joining KPMG London in 2005 where he helped reporting entities comply with their AML/CFT obligations.

He has particular specialism in delivering remediation engagements having led client due diligence projects in New Zealand, United Kingdom and offshore jurisdictions. Gareth joined the New Zealand firm in 2013 where he has leveraged his remediation experience to help clients bring a focused, proportionate approach to compliance.



Tim Goodrick
Senior Manager

T: +64 9 363 3620

E: tgoodrick@kpmg.co.nz

Tim Goodrick joined KPMG in March 2015 from the Financial Action Task Force (FATF) in Paris, France. Tim spent three years at the FATF working with industry and governments to develop international AML/CFT policies and assessments. Prior to the FATF, Tim was the Director of Financial Crime in the Australian Attorney-General's Department.

He has represented the FATF and Australia at international meetings of the United Nations, G20, Basel Committee and OECD. Tim also worked for AUSTRAC in compliance.

Tim has a Master of Laws and is a Certified Anti-Money Laundering Specialist (CAMS).

¹FinCEN is the United States' financial intelligence unit (FIU) and AML/CFT regulator. The 2014 advisory is available at: https://www.fincen.gov/statutes_regs/guidance/pdf/FIN-2014-A007.pdf

²The Financial Conduct Authority is the AML/CFT regulator of the financial industry in the UK. The 2014 thematic review of small banks is available at: <https://www.fca.org.uk/static/fca/documents/thematic-reviews/tr14-16.pdf>

³AUSTRAC is Australia's financial intelligence unit (FIU) and AML/CFT regulator. The guidance is available at: http://www.austrac.gov.au/elearning_amlcft_program/course/mod1/module_1_fundamentals_8.html

kpmg.com/nz

This document is made by KPMG, a New Zealand Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity, and is in all respects subject to the negotiation, agreement, and signing of a specific engagement letter or contract. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

© 2016 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in New Zealand. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity. 01589

