



FORENSIC

Managing the risks of money laundering to your Organization

09 March 2010

ADVISORY

Disclaimer

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Outline

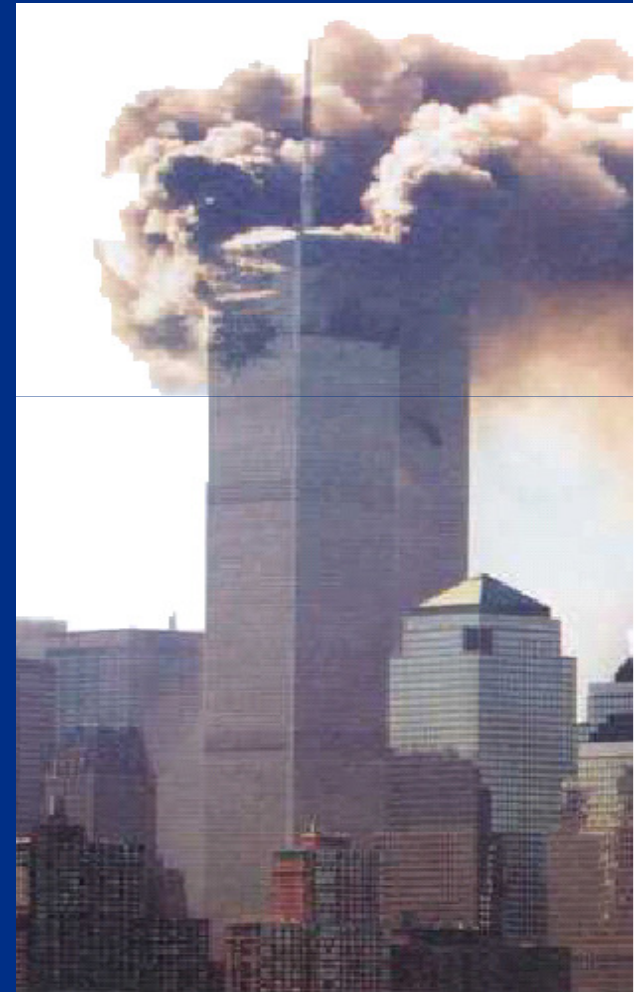
- Why manage money laundering risks?
- Concerns of Stakeholders
- Elements of anti money-laundering (AML) program
- Test of effectiveness of AML program
- Consequences of failed AML program
- Way forward for businesses
- Conclusions

Importance of September 11, 2001

The US has:

“...put the world’s financial institutions on notice; if you do business with terrorists, if you support them or sponsor them, you will not do business in the United States of America.”

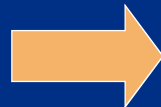
- George W. Bush



Global AML context

Rapid change in financial services

- Emerging markets
- Alternative assets
- Private wealth accumulation
- Additional complexity for all banks and other accountable bodies



Growing regulatory expectations / pressure

- New legislation in many countries, and guidance from industry and supranational bodies (FATF, Wolfsberg)
- High profile enforcement actions globally
- More emphasis on senior management accountability



Heightened AML risks

- Lack of transparency in some emerging markets
- Lack of familiarity with local markets for new entrants
- Managers of alternative assets not been subject to AML requirements as well as banks

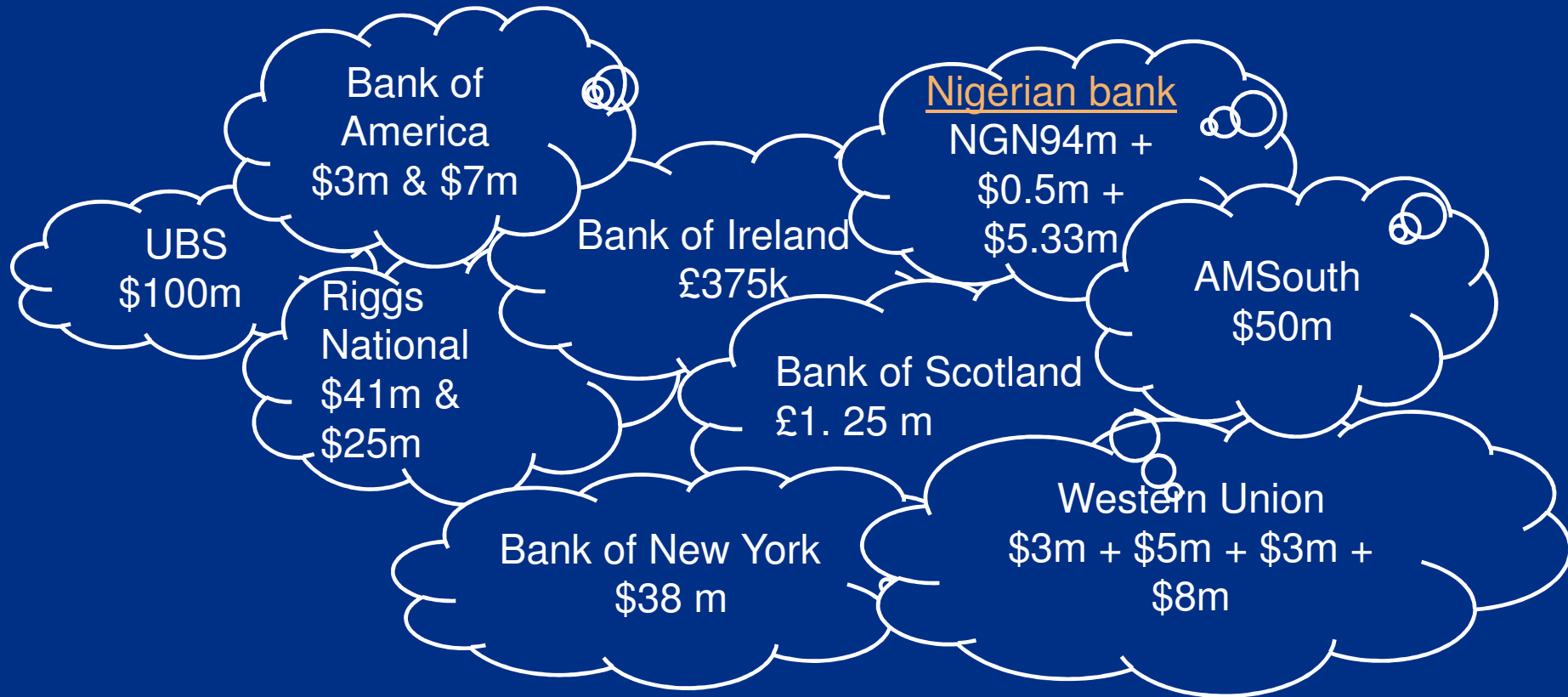
Impact of Money Laundering on Nations

- Damages the financial system
- Undermines socio-economic development
- Negatively impacts tax collections
- Creates unfair advantage against genuine businesses
- Corrupts markets and the political system
- Non-compliant countries are blacklisted by FATF with attendant repercussions

Why manage money laundering risks?

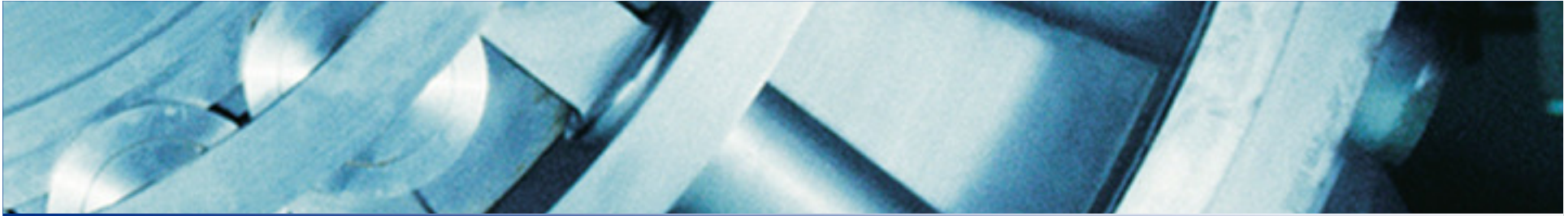
- No business is immune from money laundering (ML) risks.
- Governments, regulators and other discerning stakeholders are taking ML seriously
- Anti-Money Laundering (AML) compliance is everybody's business
- One man's mistake is everybody's problem
- Investment in compliance is cheaper than the costs of an accident
- Consequences of non-compliance can be significant

Why all the fuss?



Concerns of stakeholders

- How is the identity of new account holders verified?
- Are wire transfer activities being adequately scrutinised?
- Can you effectively analyse currency transaction activity over a period of time?
- Are periodic identity verification update procedures in place? (remediation)
- Is there adverse information about you regarding ML?
- Are you under investigation for ML related activities?
- Have you ever been sanctioned by regulators for AML violations?
- Have you ever undertaken an independent review of your AML programme?
- What are you doing about identified AML deficiencies?



BIG QUESTION

How do we manage the risks of ML to which are businesses are exposed?

Answer is “Simple”

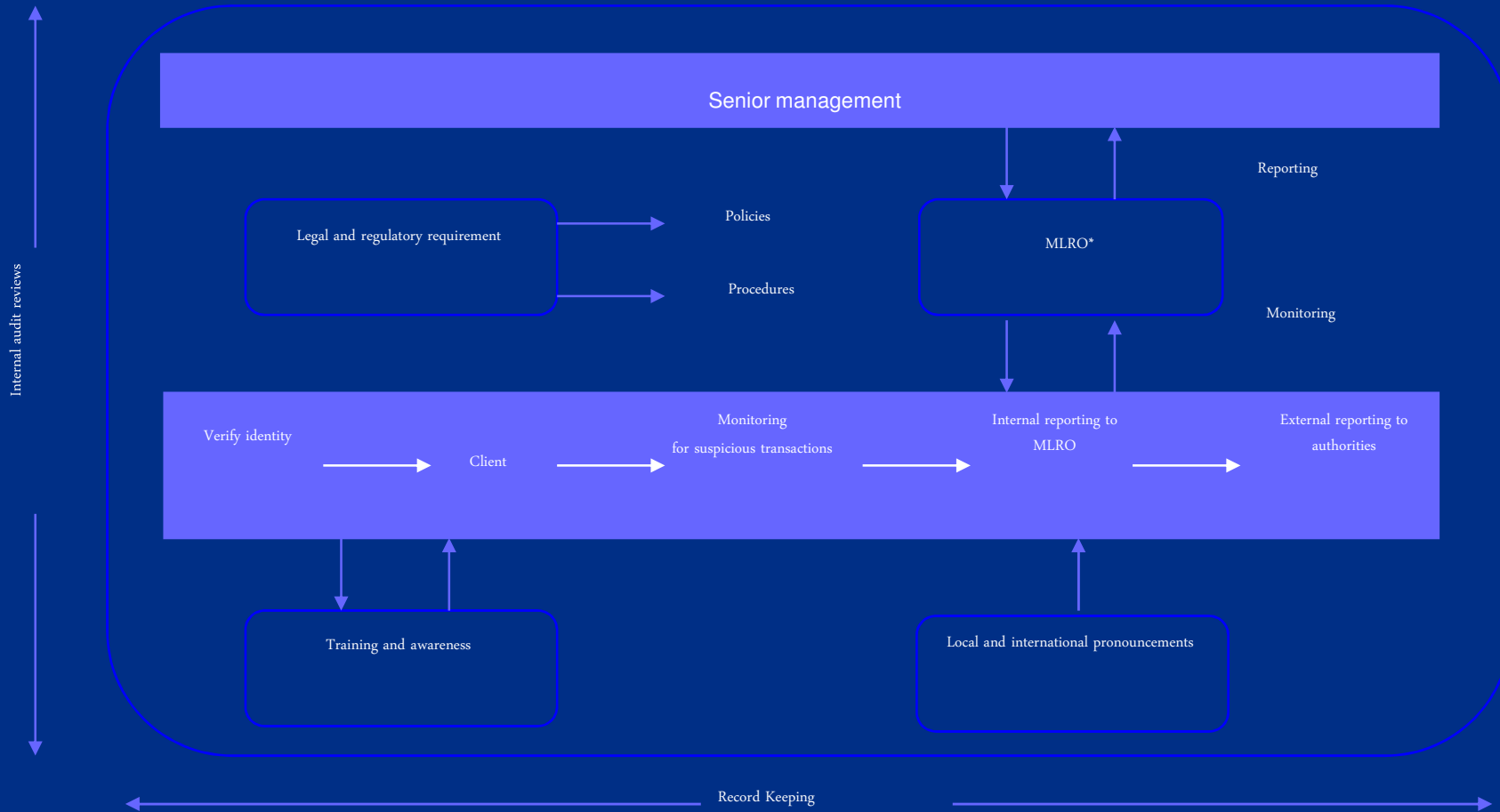
Develop and Implement an effective AML programme !!!

Elements of AML program

- **An effective AML Program:**
 - **reduces risk to your business**
 - **Is good risk management practise**
 - **Is a legal requirement**
 - **Is expected of your business by discerning stakeholders**
 - **Shows your business and your officers are not negligent or accomplices in the event of ML investigations**
 - **Affects the ML risk rating of your business**
 - **Is a business tool for profitability**

Elements of AML program

A model AML framework



*Money Laundering Reporting Officer

Elements of AML program – AML policies, procedures and controls

- **AML Compliance manual should:**
 - contain the institution's AML policy, which has been defined and approved by the board
 - Set out the AML compliance structure within the institution
 - Be regularly updated to reflect changes in legislation, regulations and practises
- **Procedures should give effect to the AML policy**
 - Procedures on client acceptance/account opening
 - Procedures on account/transaction monitoring and reporting
 - Procedures on remediation of deficiencies
 - Set out the AML controls within the institution
 - Provide guidance on record keeping

Elements of AML program – AML policies, procedures and controls (contd)

- **Procedures should give effect to the AML policy (cont'd)**
 - Indicate the type of AML training to be provided and the frequency of training
 - Provide clear guidance to employees on AML matters
 - Adopt a risk-based approach
- **Roles need to be clearly identified and defined**
 - Board
 - Senior Management
 - Compliance
 - Internal Audit
 - Employees

Elements of AML programme – Appropriate employee screening procedures

- Know your employee - satisfy yourselves that your staff are who they claim to be
 - Conduct background checks
 - Verify representations on CVs
 - Consult CBN database
- Adopt risk-based approach
- If using contract staff, satisfy yourselves regarding adequacy of the screening procedures of the service provider

Elements of AML programme – Employee awareness programme (cont'd)

What staff need to understand:

- What ML is and how the bank can be used to launder funds
- The philosophy behind the bank's AML policies and procedures - understanding of domestic legislative requirements
- Their responsibilities and personal liabilities in preventing ML
- How, when and to whom to make reports of suspicion
 - Their primary loyalty is to the bank, not the customer
 - Mere reporting of suspicion does not mean that the customer is a money launderer
 - If in doubt, report

Elements of AML Programme (cont'd)

KYC as a business tool for profitability

Some myths about KYC programme:

- KYC compliance hinders business
- KYC compliance is additional cost to business
- It is enough if we just have KYC documents on file
- Customers are agitated/suspicious when asked to submit documents
- Other banks will accept the customer if we reject him
- Our bank will pay the fine if sanctioned by the regulator
- Other banks are not complying

Elements of AML programme

KYC as a business tool for profitability (cont'd)

Some elements of KYC and the profit angle:

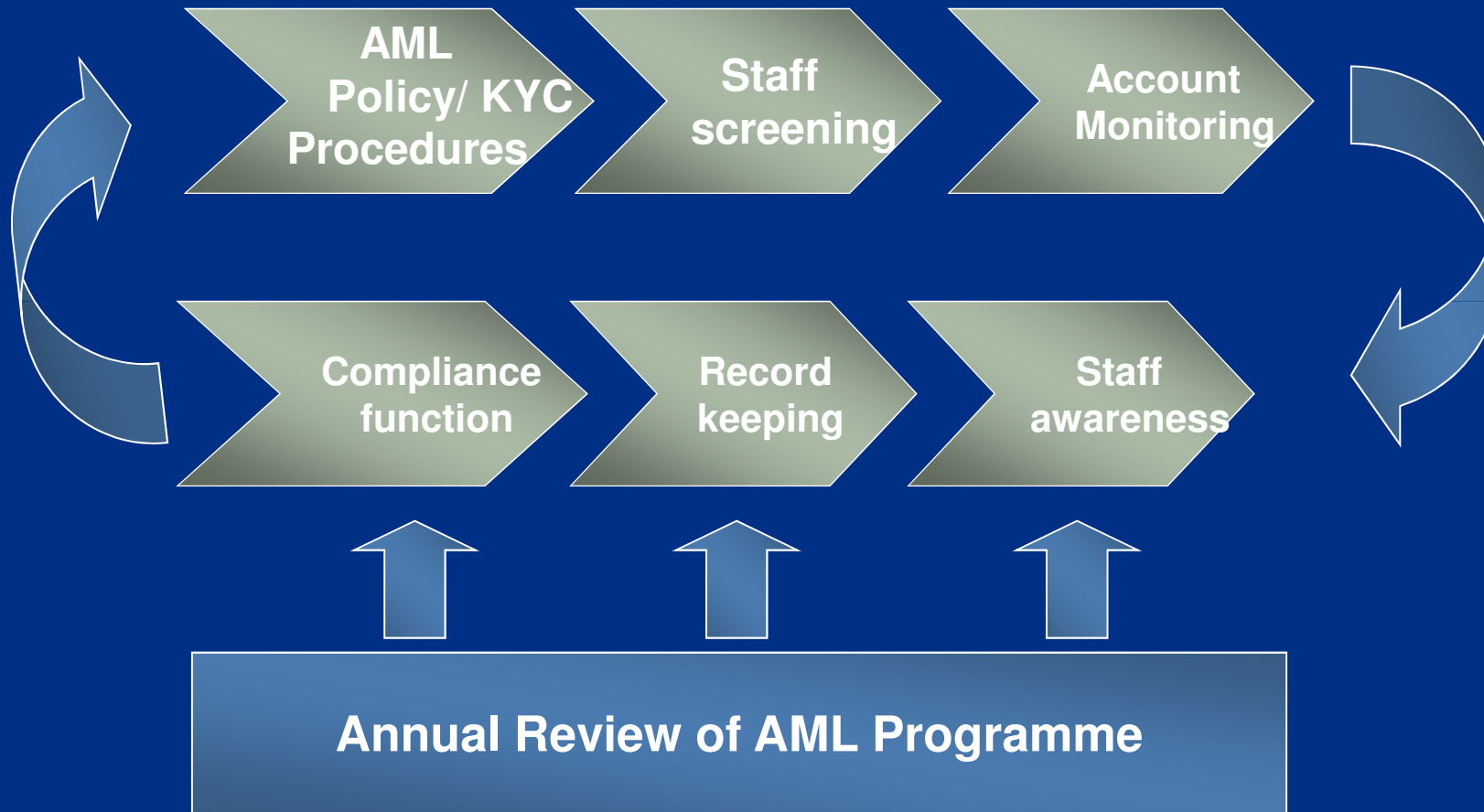
- Name of customer
- Address of customer
- Associates of customer – family, friends, business, etc
- Customer's business interests
- Sources of fund and wealth

Elements of AML programme – Record keeping

- Preserve for at least six years as required by law:
 - Records of customer's identification, after closure of account or severance of relationship with customer
 - Records and other related information of transaction, after conclusion of the transaction
 - STR submitted to regulator, after submission of the STR
- Records should be enough to provide audit trail or permit reconstruction of transactions
- Preserved records are to be transferred to the Public Records & Archives Administration Department, after six years

AML compliance framework

*MLCO –Money Laundering Compliance Officer



Tests of effectiveness of AML programme

- Compliance tick-box vs. compliance culture
- Level of commitment by Board and senior management – active vs. mere rubber stamp
- Robustness of AML audit – focus on KYC procedures vs. entire AML programme
- Nature of follow-up action regarding identified deficiencies
- Robustness of AML awareness programme
- Enforcement of sanction for breach
- Appropriateness of sanctions

Tests of effectiveness of AML programme (cont'd)

- As banks gear towards becoming global players, the effectiveness of AML programmes will be one of the key distinguishing factors
- AML compliance should be seen as a tool for profitability, and not a burden
- The effectiveness of your AML programme will depend on the level of commitment of the various stakeholders, especially the directors and senior management who are responsible for setting the tone at the top

Consequences of failed AML program

- Adverse publicity
- Reputational Damage
- Investigation Costs
- Management time and resources consumed in the conduct or management of the investigation and regulatory enforcement actions
- Loss of revenue
- Disgorgement of funds lost by customer
- Loss of customers
- Loss of Business Opportunities
- Loss of jobs

Consequences of failed AML program

- Criminal prosecution resulting in jail term and/or fine
- Civil sanctions by regulators and law enforcement agencies
- Reduction of scope of operations
- Remediation costs
- High risk rating with attendant repercussions
- Loss of operating license

**Always
Remember**

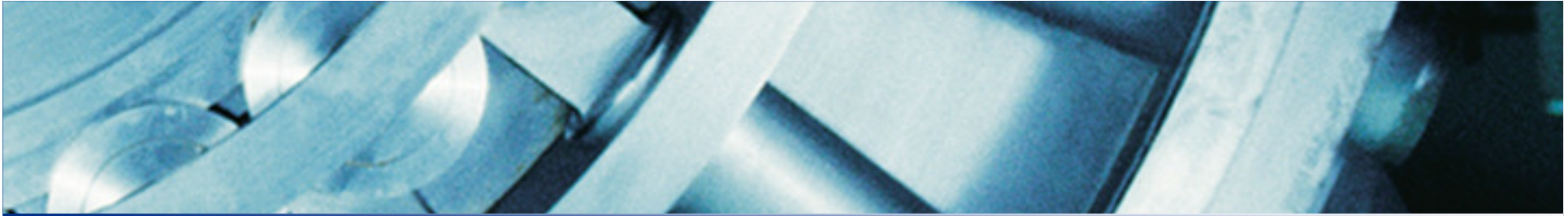
**Any money lost as a
result of failed AML
Program affects your
bottom line**

Way forward for businesses

- Evaluate the level of ML risk acceptable to your business
- Develop program and ensure effective compliance
- Develop an AML Culture
- Test and evaluate the AML culture

Way forward for businesses (cont'd)

- Be proactive in reviewing your AML program
- Identify and remedy deficiencies before regulatory visits
- Celebrate your success
- Engage Regulators in a proactive manner
- Cooperate with authorities during inspections and investigations



THANK YOU

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