



“Risk Management, The Cornerstone of Your Compliance Program”

Writer Bio:

Ms. Michelle Martin is Chairman & CEO, ComplianceAid, AMLFC Institute & theList.pro. She possesses over twenty-five years of experience in gaming, financial services, banking, insurance, regulatory compliance, public and private accounting. She is a Certified Anti-Money Laundering & Financial Crimes Prevention Professional (CAMLFC) and Certified Anti-Money Laundering Specialists (CAMS). Ms. Martin is founder of the Anti-Money Laundering and Financial Crimes Institute (AMLFC Institute). During the last few years; Ms. Martin was an invited speaker at 45 Conferences in 39 countries where 10,000+ Financial Industry executives were educated on Anti-Money Laundering (AML), Counter Financing of Terrorism (CFT) & Financial Crimes Prevention (FCP) topics. Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) laws require compliance programs to be designed on a risk-based approach. Still many managers and board members are challenged to fully understand the scope of this obligation.

Customer Risk Rating

Institutions should have a customer risk rating matrix in place to ensure that customers posing elevated

levels of AML/CFT risk are properly identified and monitored. It is important to exercise judgment that neither defines nor treats all customers of similar activities (profile) as posing the same level of risk. Using new account/policy data and Know Your Customer (KYC) information, Institutions should assign the customer an objective risk score.

The risk rating process should be transparent, and the outcome be predictable as well. Any type of account/policy or business relationship is potentially vulnerable to money laundering or terrorist financing. The sum of a customer profile such as nature of their business, occupation, or anticipated activity will indicate the level of risk it represents for Institutions.

At account/policy opening the business Customer’s Risk Rating Designation should be determine, based on information contained in the Customer Profile and Account Documentation.

Annual AML/CFT Business Risk Assessment

The central element of the AML/CFT Compliance Program, is the Risk Analysis conducted by the AML Compliance Officer which is designed to identify: the adequacy of policies and procedures; instances of non-compliance; high-risk issues; and other areas of concern.



The AML/CFT Business Risk Assessment should be conducted on an annual basis by the Compliance Officer. The results of the annual AML/CFT Business Risk Assessment, should be reported to the Board of Directors/Senior Management. The Compliance Officer should adjust the AML/CFT Compliance Program, as necessary, to ensure the Institutions policies, procedures and internal controls are adequate with respect to AML/CFT laws and regulations.

During the risk identification process the Institution's risk assessment should consider factors like customers, products, services, transactions, delivery channels and geographic locations.

The risk assessment should be periodically reviewed and updated, particularly when new products, services, customers and geographic locations are added. The risk assessment process should determine the Institution's inherent risk (quantity of risk), how internal controls mitigate (reduce) risk exposure, and whether the remaining level of risk exposure is appropriate for the Institution.

It's important that compliance considers the possibilities of a particular risk occurring within the Institution and the probabilities of that risk coming to past. Risk assessments are an essential management and regulatory tool. It should be considered the foundation of a risk management program. A risk assessment is the evaluation of specific lines of business, products, and customers that may present unique challenges and exposures for which management may need to institute appropriate policies, procedures, and processes to mitigate the identified risk.

There are three main benefits to the Risk-Based Approach. First, it assists in identifying early stages of those customers who may pose a money laundering and terrorist financing risk to the Institution. This stage can help in quickly identify unwanted customers. Second it enables to prioritize the review of the customers' base on their risk profile and third the risk-based approach can be used by the compliance officer as an effective argument to justify allocating additional resources.

It's vital to remember that the RA should be a living document as changes occur in the Institution. A compliance program controls risks that may be associated with the business products, services, customers, and geographic locations; therefore, an effective risk assessment should be an ongoing process.

As new products and services are introduced, existing products and services change, high-risk customers open and cancel accounts/ policies, or the business expands through mergers and acquisitions, management should update its risk assessment process to re-evaluate the risks associated with money laundering and terrorist financing.

Even in the absence of such changes, it is a sound practice for business to periodically reassess their AML/CFT risks at least once a year.

There are four main objectives of the RA. First is to identify risk. The Compliance Officer needs to recognize and understand existing risks or risks that may arise from new business initiatives. Second, measure the level of regulatory risk, associated with a specific regulation or product/service and measure the quality of the controls in place, to mitigate the risk. Third, monitor the risk to ensure timely identification of elevated risk levels and inform appropriate individuals to ensure action, when needed. Fourth, control the risk to allow for the establishment and communication of policies, standards and procedures, which are appropriate to the level of identified risk. Once the compliance officer has met these four objectives the next step is to report the risk to the Board of Directors.

Institutions must be careful not to recycle any template or model they may gain access as Risk rating is a methodical process that requires a case by case approach. ComplianceAid.pro has assisted both regulators and businesses on this topic.