

# Reducing the Cost of Anti-Money Laundering Compliance

A large, thick, orange arrow pointing to the right, positioned behind the text.

High performance. Delivered.

In today's regulatory environment, financial institutions face increasingly stringent requirements that are driving up the cost of Anti-Money Laundering (AML) compliance. Based on Accenture's experience and industry analysis, we estimate that AML compliance-related expenditures have increased by more than 50% over the last three years.

Due to the speed at which we expect these new regulatory changes to be implemented, and the ongoing evolution of financial crime threats and tactics, we see no signs of AML compliance costs reducing in the near future. Regulatory expectations have become extra-territorial, requiring financial institutions to adopt and enforce global and consistent standards and further driving AML compliance program-related expenditure.

## DATA ANALYTICS



## VISUAL DASHBOARD



## TRANSACTION MONITORING



# The Causes of High AML Compliance Costs

In response to regulatory enforcement actions, we are seeing financial institutions make significant changes by treating AML, not as a standalone function within compliance, but as a new model with AML compliance in an overarching role, working with the legal, risk management, operations, technology and tax functions.

Despite these organizational changes, which are designed to help increase AML compliance efficiency and encourage cost effectiveness, AML compliance budgets continue to increase. This makes it all the more important, in our view, for institutions to understand, control and streamline their AML investments.

We believe that the continued escalation in AML compliance expenditure is driven in great part by ongoing requirements in the following areas:

## 1. Enhancing Transaction Monitoring (TM) Systems

Pressure from regulators on institutions to take a "zero failure" approach to financial crime, is encouraging continued investment to improve and enhance current systems.

As a result, we have seen a significant increase in the number of transaction monitoring alerts. Despite a low conversion rate from alerts to Suspicious Activity Reports (SARs), this is driving an exponential increase in the number of SARs filed to the Financial Crimes Enforcement Network (FinCEN) and significant staff overhead growth (see Figure 1).

Monitoring across multiple systems is also leading to higher operating costs. As financial institutions seek to implement global solutions, they may find it difficult to monitor transactions across multiple businesses and across multiple jurisdictions as data sharing capabilities pose a number of obstacles.

## 2. Updating and Maintaining Know Your Customer (KYC)

Institutions continue to execute KYC remediation and look-back efforts as the result of multiple factors, including ongoing changes in Customer Due Diligence (CDD) requirements; significant gaps in the KYC information currently maintained; and difficulty addressing customer data quality issues across complex and global operations.

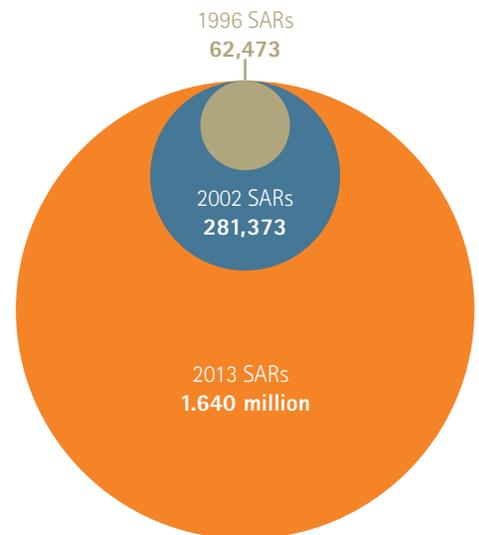
In addition, as financial institutions move to a "360 degree" view of the customer, they can expect to face higher costs to define and implement global KYC standards, policies and processes due to the complexity of working in multiple regions and operating with siloed teams.

## 3. Retaining AML Staff and Building AML Talent Management Programs

Attracting and retaining skilled employees at all levels to meet the needs of organic and inorganic growth remains in our view a challenge for most financial institutions due to the highly competitive market for talent.

Similarly, inefficient and decentralized talent management programs that are not extended to the entire organization could act as barriers to creating a unique and standardized AML compliance culture. A capability we believe could greatly benefit each institution. An inconsistent and generic approach to AML training across functional roles can often lead to execution inefficiency, human mistakes and reputation risk.

Figure 1. FinCEN Suspicious Activity Trends



Source United States Department of the Treasury, Financial Crime Enforcement Network, Suspicious Activity Report.

Access at [http://www.fincen.gov/news\\_room/rp/sar\\_tti.html](http://www.fincen.gov/news_room/rp/sar_tti.html)

# Practices to Help Reduce AML Compliance Costs

When developing a strategy designed to increase the effectiveness of an AML compliance function, it is useful to take a broad view of the financial crime function, including dependencies with other functions of the institution. This can help facilitate the deployment of organizational resources in a more holistic and efficient manner.

To help deliver the desired cost reductions and organizational sustainability, financial institutions should focus their improvement efforts on three areas: 1: Transaction Monitoring; 2: Know Your Customer and Customer Due Diligence; and 3: Talent Management.

## 1. Transaction Monitoring

Financial institutions are spending significant resources and budget on automated transaction monitoring systems to fine tune and strengthen their scenarios and thresholds, to improve the quality of the alerts generated and to help reduce operational costs. A number of solutions can help deliver these benefits, including using data analytics; a real-time AML compliance visual dashboard; and a standardized shared services model.

### Employing data analytics.

The challenge to identifying "suspicious" activity is that it often requires reviewing a number of data streams in order to accurately flag a potential issue. Bringing together the right data, from the right systems, at the right time, poses a significant challenge, especially in financial environments.

Financial institutions can increase their focus on model validation and quantitative analysis, and gain additional control over enterprise-wide data, by using data analytics solutions, including data sourcing analysis, which reviews data feeds for potential gaps and issues; data quality analysis, which reviews data for completeness, quality and integrity; mapping and transformation logic analysis from source systems to monitoring solutions; and threshold analysis and scenario testing, to evaluate the productivity of, as well as the rationale for, existing and potential scenarios.

We see enhanced analytics and statistical techniques as necessary to effectively analyze, calibrate and strengthen AML models. These techniques can allow institutions to be more proactive, instead of reactive, and improve the conversion rate from alerts to SARS, which should, in turn, result in long-term cost savings.

### Using a real-time AML compliance visual dashboard.

This can help reduce the institution's investigation and management reporting effort. Visual reporting and analysis bring strategic insights to financial institutions by turning vast quantities of raw data into useful business insights; it can facilitate the robust monitoring of AML key performance indicators and key risk indicators throughout the client lifecycle, and across multiple dimensions such as channel, geography, customers and products. Dashboards can also help identify patterns, anomalies, customer relationships and transaction trends.

Effective data visualization and dashboards can help improve investigation efficiency and reduce service level agreement (SLA) costs by moving away from spreadsheet-driven analysis. This provides valuable insights into marketing, customer relationship management, product segmentation, pricing, and revenue enhancement opportunities.

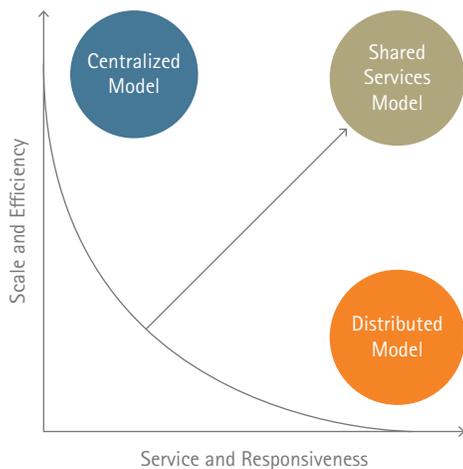
Data visualization and dashboards can also provide management with enhanced visibility supporting better management decisions. AML compliance officers, AML operations investigators and the senior management team could all benefit from access to easy-to-use dashboards.

## Adopting a standardized shared services model across multiple lines of business and geographies.

As a first step, financial institutions should prepare a responsibilities matrix outlining and describing roles and responsibilities across departments and locations. Consideration should be given to migrating accountability to global functions such as strategy, policy and risk assessment, and to move lower-complexity, standardized processes to regional operations centers. Higher cost resources should be allocated to more complex activities such as quality assurance, control, continuous improvement and analytics, which could be migrated to centers of excellence.

As seen in Figure 2 below, moving from a fragmented and single use data source to a standardized and global shared services model across multiple lines of business and geographies can encourage greater global consistency and continuous improvement in the execution and oversight of each core function.

Figure 2. AML Compliance – Operating Model Trends



Source Shared Services 101, Accenture 2012

## 2. Know Your Customer and Customer Due Diligence

As financial institutions turn their focus to better understand and monitor their customers, seeking a single, comprehensive view has become more important than ever. A non-holistic customer view could result in greater risk exposure and issues affecting client relationship management, risk management, marketing, and sales and servicing. In order to control the KYC budget, institutions are encouraged to identify key areas of KYC spending. These include:

### Proactively preparing AML functions by staying informed of proposed regulations.

Institutions should monitor and analyze proposed rules or Notices of Proposed Rulemaking (NPR) to stay ahead of upcoming regulatory requirements. Such proactivity can also help financial institutions reduce the number of updates required to their policies and standards.

### Swiftly identifying and addressing deficiencies in the periodic review process.

Institutions should respond to deficiencies in the periodic review process by identifying, prioritizing and quickly resolving missing KYC information in order to avoid higher remediation costs.

They should conduct proactive and systemic assessment of key common deficiencies; assess their AML capabilities against those of the industry as a whole; identify the strengths and weaknesses of their current AML solution; and develop a roadmap for addressing identified gaps in required KYC information.

### Using a long-term strategy to support business goals.

While defining the strategic AML roadmap, institutions should be able to identify the difference between quick wins (immediate

and essential benefits supporting the overall strategic initiative) and interim solutions which could result in re-work and wasted efforts. They should focus on the overall roadmap and on implementing strategic solutions that will support the business objectives using global KYC standards and policies.

### Implementing a global KYC and CDD governance program across the organization.

A global KYC and CDD governance program can help enforce organizational best practices, define global and regional requirements and obtain a view of the customer's total relationship with the bank. Program elements include automation of customer-facing processes to help eliminate issues affecting the quality of customer information; making high-quality customer information available across the enterprise; and adopting a standardized client risk scoring model. Implementing a global and regional standard level for AML key performance and risk indicator reporting can also help accomplish this objective. Institutions should also create a global customer data governance model to increase transparency of data responsibility, ownership and accountability.

As regulatory KYC requirements are mandatory, financial institutions can leverage the investment made in this area to address broader customer information management demands. This facilitates the transformation of existing legacy assets into an integrated solution in which customer data is reconciled across all data sources leveraging a common process. The future KYC solution can help reduce the total cost of owning and managing customer data, while keeping that data updated and offering a single view of the customer.

Finally, with overlapping regulatory data, reports and implemented processes should be shared across all compliance solutions. This helps increase the reusability of customer information, reduce process duplication and redundancy, and decrease the time it takes to open an account.

### 3. Talent Management

The demand for AML compliance experience has significantly expanded over the past decade and is currently putting tremendous strain on organizations to attract, hire and retain resources with the required knowledge and skills. Financial institutions can explore a number of options for dealing with talent issues, including:

#### Implementing a structured human capital strategy to effectively compete for resources in a highly dynamic and transient talent market.

Such a strategy includes defining and developing AML career paths to attract, develop and retain talent; reassessing costs associated with retaining staff, and with adding staff for development and training initiatives; and aligning performance management and reward programs to organizational objectives to help increase productivity, motivation and engagement.

#### Using a role-based approach to AML compliance learning across the organization.

An effective AML learning program delivers different types of information, to different groups, for different purposes. But it also needs to promote consistency across the entire organization. Key elements of such a program include:

- Addressing discrepancies in AML learning programs available at global, regional and local levels;
- Providing AML compliance training to all employees; and
- Using an effective and comprehensive onboarding program to build a smarter workforce faster, helping to reduce time to competency.

Financial institutions should have in place appropriate role-based training strategies, such as providing additional training targeting key business units and risk profile tiers. For example, specialized training could be provided to front office staff, as these employees have the greatest exposure to money laundering, or to legal or security staff (explaining the types of information owned by those departments and what is relevant to the Bank Secrecy Act and AML compliance). It is also important for the Board of Directors to understand AML requirements in order to set the tone from the top.

#### Reviewing the effectiveness of existing training methods.

For AML operations teams, role-specific classroom training should be favored over computer-based training. Areas for consideration might include a proficiency assessment framework to leverage both quantitative and qualitative measures of each employee's advancement.

In addition to reviewing training methods, the institution should conduct an ongoing assessment of recruitment, performance management, training and compensation as it pertains to these areas. Increasing technology enablement (through innovations such as telepresence, webcams, and virtual learning) helps promote flexibility and cost savings. Implementing an effective and consistent approach to AML compliance training across all functional roles should reduce the risk of human errors and instill a strong AML compliance culture throughout the entire organization.

# Conclusion

In the current environment of expanding regulations and increasing AML compliance budgets, financial institutions can target specific areas within their organizations to reduce costs and seek an effective, sustainable AML compliance function. To help capture AML-related cost efficiency, financial institutions should:

- Look at AML compliance and its associated costs from a global perspective, and be mindful of the enterprise-wide implications of AML requirements, particularly for non-AML functions such as legal, risk, operations, technology and tax;
- Give AML staff and senior management access to the right data and metrics to make informed decisions; and
- Adopt a formalized talent management strategy focused on providing effective hiring, recruitment, performance management, talent development and retention processes across the enterprise.

A strategic AML compliance roadmap, developed before building and implementing tactical and interim solutions, can guide these efforts and help align solutions across the organization with a focus on reducing costs, increasing efficiency and ultimately demonstrating progress towards AML sustainability.



## About the Authors

### Mark Boyer

Mark Boyer is a Managing Director – Finance & Risk Services, based in New York. Mark leads the North America Fraud and Financial Crime Group, specializing in complex, large-scale finance and risk programs. He has over 24 years of financial services consulting experience guiding global clients and delivering process, organization and technology change programs and projects.

### Philippe Guiral

Philippe is a Senior Manager – Finance & Risk Services, based in New York. He leads Accenture's North America Financial Crime practice, and has over 12 years of experience, defining capabilities and strategies to support clients in their financial crime prevention programs in both the UK and the US. Philippe specializes in delivering large-scale complex business and technology financial crime change programs to drive high performance.

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