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ONE THIRD OF BANK EXECS SEE POOR MONEY LAUNDERING CONTROLS

Conclusions:

One in three senior bank executives believes their institution has poor anti-money laundering controls at a time when the threat of vast regulatory fines and criminal prosecutions is increasing, according to a KPMG survey.

The annual survey, which quizzed 317 anti-money laundering and compliance professionals in banks and financial institutions across 48 countries, said only around one half thought their systems were able to provide a complete picture by monitoring transactions across businesses and jurisdictions.

Attention being paid by senior management to money laundering challenges is at an all time high according to findings from a new KPMG International report. Nine in ten of respondents (88 percent) said that AML issues are back at the top of the agenda for senior management rather than being squeezed by competing priorities as has been the case in similar studies over the past ten years (up from 62 percent in 2011).

A majority of respondents (84 percent) stated that money laundering is considered a high risk area within their business risk assessment, further emphasizing how seriously management deems failures to meet the regulatory requirements.

"Anti-money laundering has never been higher on senior management's agenda, with regulatory fines now running into billions, regulatory action becoming genuinely license threatening, and criminal prosecutions of firms and individuals becoming a reality," said Brian Dilley, KPMG's global head of the Anti-Money Laundering Practice.

While the pace of regulatory changes is a big challenge for financial services firms, most organizations are planning to invest more. In fact, costs continue to rise at an average rate of 53 percent for banking institutions. This exceeds the previous prediction of a rise of 40 percent in 2011.

The top three areas where AML budget has been invested are: transaction monitoring systems; Know Your Customer (KYC) reviews, updates and maintenance; and recruitment. However, satisfaction for transaction monitoring systems is poor with 35 percent saying their system is not efficient or effective. Just over half of respondents said their system is able to provide the complete picture by monitoring transactions across businesses and jurisdictions.

Accurate cost forecasting is vital for informed decision making, but remains a key area of weakness due in part to the number of regulatory change announcements and the speed in which new regulations are expected to be implemented. Senior management is likely to continue to underestimate AML expenditure unless lessons are learnt from past mistakes.

Regulatory Approach is Fragmented and Inconsistent

With the volume of regulatory changes, questions are now being asked as to whether it is possible for a global institution to run a fully compliant AML program. Four in ten respondents (43 percent) indicated that a stronger relationship with regulators would be a welcomed change in approach, as compared to only 14 percent saying the same in 2011.

A consistent regulatory approach was cited as the top AML concern, with 84 percent of respondents indicating that the pace and impact of regulatory changes are significant challenges to their operations. "Despite annual expenditure that is likely to exceed $10 billion in the next couple of years, institutions continue to fall foul of regulatory expectations, which seem to change more regularly than in the past. Minimum compliance with regulatory obligations is no longer enough to stay out of trouble, when you strive to meet a higher standard, but fail."

Additional Highlights

- Financial organizations are crunched for time. Nearly one in five (16%) of respondents say they won't be FATCA-compliant by the IRS deadline of July 2014.

- Outsourcing and off-shoring are growing trends. To date, 31 percent of respondents had outsourced and 46 percent had off-shored some of their AML functions. This is despite senior management concerns regarding a perceived lack of control and oversight, data confidentiality concerns or a lack of cost savings. Half of respondents expect this practice to increase in the future, as compared with only 20 percent of respondents who said the same in 2011.

- Politically Exposed persons (PEPs) continue to leave organizations exposed. Financial institutions are more focused than ever on the need to exercise more scrutiny over PEP transactions as evidenced by the degree of senior management involvement in the sign off process for high risk relationships (82 percent respondents said this was the practice at their organization).

- Sanctions compliance is still a sore spot. More than 70 percent of respondents find sanction screening systems effective in their organization; however, only 42 percent said they test the system for effectiveness at the implementation stage.

- There is room for improvement in the adoption of a global approach. Only 32 percent of the respondents who have a global policy are able to maintain global consistency across subsidiaries and branches.

Dilley concludes, "Despite some positive steps and evident strides in coming to grips with the 21st century challenges posed by money laundering threats, regulators and the financial services industry continue to lag behind today's globally connected money launderers. It is essential that regulators implement a consistent regulatory approach, but also foster a closer working relationship with industry professionals in order to leverage each other's resources, aligning mutual interests in order to ensure that money laundering doesn't pay off."