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# THE IMPORTANCE OF AN EFFICIENT AML/ CFT (RISK) MODEL

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**About projective**

We deliver innovation and change in the financial services industry, driving complex business transformation and sustainable change, measurable value, and cost reduction. With deep industry expertise across banking, payments, capital markets, wealth management, exchanges, and insurance we move organisations forward in regulatory maturity, digital innovation, change transformation and operational excellence. Our projective is a unique combination of seasoned industry practitioners, management consultants and delivery and technology experts. As part of an established business and technology change ecosystem, we provide financial institutions access to leading-edge innovative expertise and execution via partners including Exellys, The Glue, Scale-ups Europe and Smartfin. We serve our client with office locations in major European financial centres including: Brussels, Amsterdam, London, Frankfurt and Paris.

projective is a consultancy company that focuses exclusively on the financial industry. With offices in Frankfurt, Brussels, London, Amsterdam and Paris, they help to transform the financial industry and deliver the necessary changes throughout Europe. projective is part of a larger ecosystem that can support companies in their investments, development and delivery of their projects and programmes.

**About BDO**

With over 1,900 employees across 27 different locations, BDO is one of the leading companies for auditing and audit-related services, tax and business law consulting, and advisory services in Germany. We are a founding member of BDO International (established in 1963). With almost 88,000 employees across 167 countries, it is currently the only globally active auditing and consulting organisation with European roots. Our Financial Services specialists provide services to all relevant business areas and central functions of financial institutions. Our Financial Services expertise and experiences cover strategic and regulatory topics, accounting, risk management, AML, compliance, IT, regulatory reporting and internal audit. We deliver tailored audit and advisory approaches considering various business models of our clients.

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EU legislators and regulators are storming ahead with the fight against money laundering (ML) and terrorist financing (TF) via several actions on EU level. As per January, 1st 2020, the European Banking Authority (EBA) received a strong supervisory mandate and is now solely responsible for leading, coordinating and monitoring the AML/CFT activities across the entire EU financial sector. The pressure on supervisory authorities and financial institutions was further increased by European Commission’s adoption of a six-pillar action plan for a comprehensive Union policy on preventing money laundering and terrorism financing on May, 7th 2020.

**The next challenge to master**

Since January 2020 EBA acts as the end-to-end AML/CFT guardian and has initiated the enhancement of the Risk Factor Guidelines to be implemented by all EU supervisory authorities and financial institutions. The consultation draft of revised EBA Risk Factor Guidelines was published on February, 5th 2020. The consultation phase closed on July, 6th 2020. Our SMEs estimate that the final Guidelines will be translated into the EU member states languages and published until October 2020. Hence the Guidelines have to be implemented by the financial industry until January 2021. Most national legislations make EU guidelines legally binding e.g. German regulator BaFin via Guidelines and Q&As issued by the European Supervisory Authorities or Austrian regulator FMA via Circular FMA 3/2019, so that their implementation becomes a must have.

The Risk Factor Guidelines define EBA’s expectation on how financial institutions should identify and assess their ML and TF risks at client individual level as well as at business-wide level. Each obliged market participant has to assess 146 general and 228 sector-specific guidelines against its business model & strategy in order to identify the guidelines applicable to its business. The risk mitigating measures for identified risks then have to be defined and implemented until January 2021.

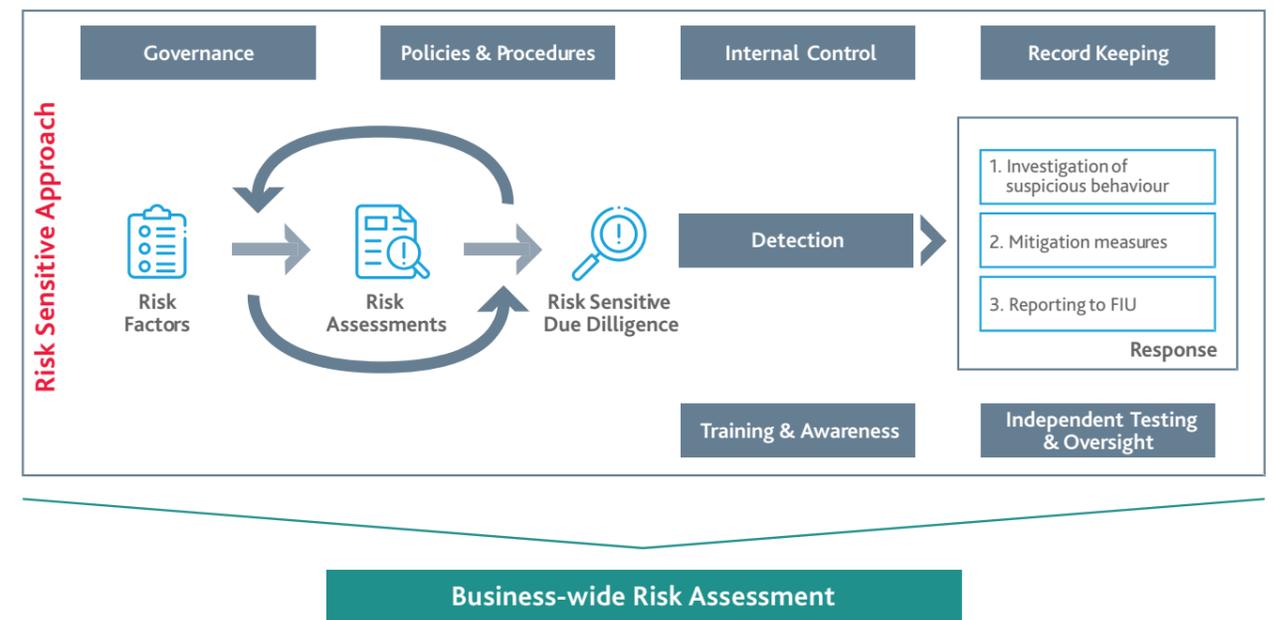


Exhibit 1 Risk Sensitive Approach in the context of a Financial Crime Risk Management Framework

## Impact & Opportunities

In the light of increasing pressure and stronger focus by supervisory authorities an adequate and timely implementation of the revised Risk Factor Guidelines is essential to comply with current AML/CFT legislation. Timely and thoroughly implemented, financial institutions avoid findings during internal or external audits as well as sanctions by supervisory authorities. Missing implementation of the Guidelines is very likely to result in incomplete assessments of ML/TF risks. This may lead to potentially undetected ML/TF activities preventing from initiating the respective measures (e.g. comprehensive review of anomalies and if applicable filing of suspicious activity report). In 2019, AML/CFT related fines have reached a record high of US\$8.1bn and supervisors become more and more rigorous. Covid-19 is expected to increase money laundering activities in 2020.

Financial institutions, which have not yet fully implemented the initial Risk Factor Guidelines published in January 2018, are very likely to be significantly impacted by the revised Guidelines, hence are strongly recommended to start action as soon as possible. Our subject matter experts have developed a thorough solution, which enables financial service providers not only becoming/staying compliant but also for operating an efficient and effective AML/CFT model, which appropriately reflects their business strategy & model and decreases Compliance costs.

Furthermore data management is key for a successful AML/CFT framework (e.g. data driven business-wide risk assessment, follow-up on customer data, enhanced record keeping requirements). Further digitalisation and new data techniques should be envisaged to streamline AML/CFT processes.

## Our solution

BDO and Projective have formed a partnership to provide you with a best of breed solution for AML/CFT. Our solution combines long lasting in-depth audit experience with senior consulting & implementation skills. Together we cover the Guidelines implementation end-to-end from a single source to add real value to your business. We have designed dedicated modules, e.g. for risk factor identification, client individual risk assessment or business-wide risk assessment, incrementally building on each other, to allow for leveraging your AML/CFT expertise.

Our SMEs have conducted a comprehensive and thorough analysis from a regulatory, economic and implementation perspective. As a result, we have identified the main aspects as depicted in Exhibit 2 and composed a Reference AML/CFT Model, which covers the Guidelines end-to-end. Providing you with a solution customisable to your specific business needs is at the heart of our solution.

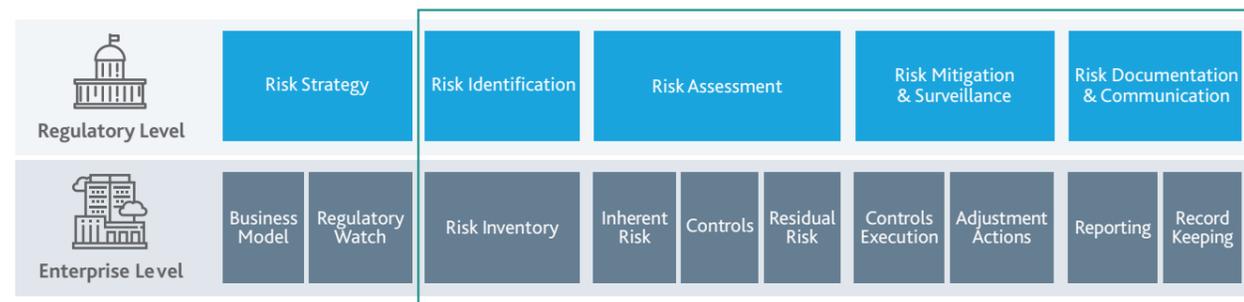


Exhibit 2 Revised Risk Factor Guidelines at regulatory and enterprise level

A successful AML/CFT Model requires a sound and concise understanding of each component and its underlying elements. All framework components, like policies, procedures or controls, should be risk sensitive and take necessary granularity at firm level into account. For risk assessment and risk sensitive due diligence measures our solution provides the following modules:

### Business-wide ML/TF risk assessment

The EU legislation requires the financial industry to implement and operate a risk sensitive approach, which bases upon a clear, consistent and documented view on ML/TF risks. Our business-wide risk assessment module assesses your inherent ML/TF risk and internal controls per business line/ segment to determine the residual ML/TF risk as shown in Exhibit 3. The outcome of the business-wide risk assessment may lead to an action or remediation plan to bring the residual risk in line with your risk appetite.

Risk Area	Retail Client Banking	Corporate Banking	Private Banking & Wealth Mgmt	Business-Wide	Controls			
					Design	Operational Effectiveness	Result	
Customer	Medium	High	Medium	High	Financial Crime Governance	Adequate	Partially effective	Partially effective
Products & Services	Low	Medium	Medium	Medium	Training	Adequate	Largely ineffective	Largely ineffective
Retail Banking Products	Low	Medium		Medium	Independent Testing & Oversight	Inadequate	Ineffective	Ineffective
Private Banking/Wealth Mgmt Products			Low	Low	Resourcing & Skills	Adequate	Fully effective	Fully effective
Trade Finance Products		Medium		Medium	Internal Controls	Adequate	Largely effective	Largely effective
Capital Markets Products			Medium	Medium	Other risk mitigating measures			
Corporate Finance Products		Medium		Medium	Aggregated Controls Effectiveness	Adequate	Partially effective	Partially effective
Transactions	Low	High	Low	Medium	Subjective Change / Override			
Channels	Medium	Medium	Low	Medium	FINAL Controls Effectiveness	Adequate	Partially effective	Partially effective
Geographies	Low	High	Medium	Medium				
Potential external high risk	Low	Medium	Medium	Medium				
Qualitative Risks	Medium	High	Medium	High				
Emerging Risks	Low	Medium	Low	Low				
Aggregated Inherent ML/TF Risk	Low	High	Medium	Medium				
Subjective Change / Override								
FINAL Inherent ML/TF Risk	Low	High	Medium	Medium				

Controls Assessment

Inherent ML/TF Risk

Inherent Risk	Low	Medium	High
Effective	● Retail Banking		
Largely effective			
Partially effective		● Business-wide	● Corporate Banking
Largely ineffective		● Private Banking	
Ineffective			

Residual Risk

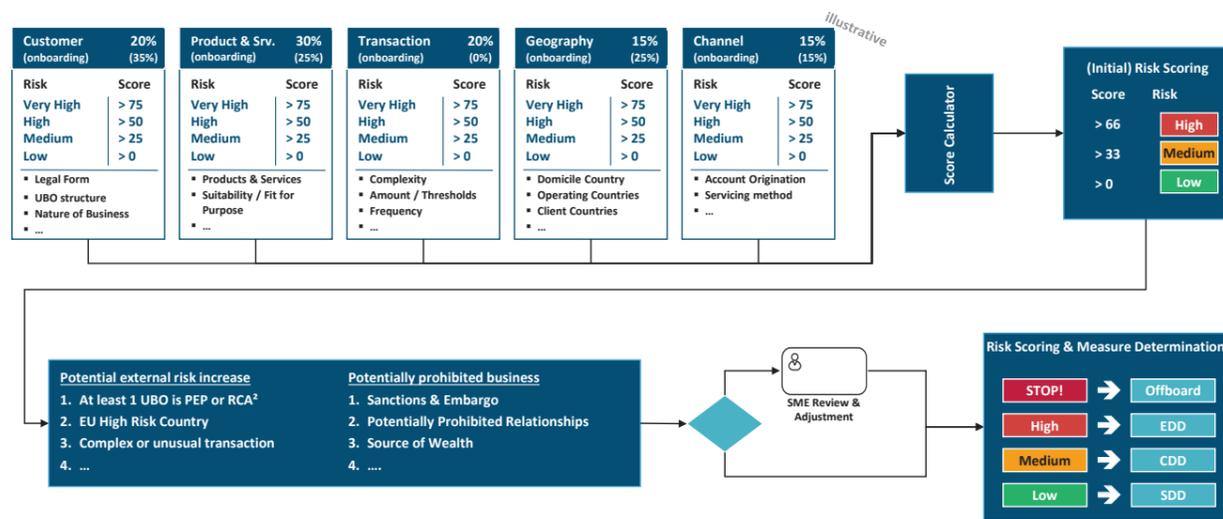
ID	Days to complete	Status	Affected/ Required Artifacts	Process	Name/ Synopsis	Description
130	4	In progress	Client Universe	KYC Regular Review/ Remediation preparation	Review High Risk client population	Preparation of the High Risk client population overview for sign-off by the Board Members
200	4	In progress	Training Deck	KYC Regular Review/ Remediation preparation	Provider Training Prep	Prepare training deck describing what needs to be done for client communication
201	16	Open	1. Training Deck 2. Helpline Support Tracker	KYC Questionnaire population by the customer via Banking Portal or via Mail	Create Helpline Support Tracker	In order to learn from customer enquiries a Helpline Support Tracker, allowing provider to record certain elements, is required
202	31	Open	1. Training Deck 2. Helpline Support Tracker	KYC Regular Review/ Remediation preparation	Provider Training	Conduction of provider training
300	9	In progress	Questionnaires for KYC Regular Review	KYC Regular Review/ Remediation preparation	PDF Document generation	Take PDF document and pre-populate it with Core Banking System data (either via Access database or via Excel)
301	13	Open	Cover email/ letter templates	KYC Regular Review/ Remediation preparation	Cover email generation	Generate a cover email for each client and store it in a Word document. Text and ideally the formatting is used to copy/paste it into the Bank Portal Message and/ or email for the customer

Action/Remediation Plan

Exhibit 3 Business-wide risk assessment

▪ **Client individual risk assessment**

Our module for the client individual risk assessment, shown in Exhibit 4, uses a three-stage, mostly automated, approach to determine the most suitable due diligence level a client needs to walk through. Based upon the risk factors, identified as being relevant for your business model during risk identification, the first stage applies a comprehensive set of score cards to determine an indicative risk. This indicative risk, including its underlying risk factor attribute scores, is then passed through a score calculator, which enriches the indicative risk by empirical data. The data you may have collected individually or received from third parties. In the third stage the risk is aligned with potential risk increasing or even business prohibiting aspects, which can be assessed, and adjusted if needed, by your AML/CFT personnel. At the end of the risk assessment you will know about the due diligence level the client needs to go through and which proof documents are required.



Onboarding client individual risk assessment for Corporate ABC				
Risk Attribute	Risk Attribute Value	Score	Score Weight	Weighted Score
Customer		63	35%	22
Geography		30	25%	8
Product & Service		27	25%	7
Transaction		0	0%	0
Channel		39	15%	6
Score before Score Calculation			0%	43
		Score Calculator		
Score after Score Calculation				43
				Medium
Potential High Risk		0		0
Client individual risk assessment score				48
				Medium

Exhibit 4 Client individual risk assessment (illustrative)

▪ **Risk sensitive due diligence measures**

Applying the due diligence measures on a client is a business crucial process, as this process directly impacts your client on its journey to either become a new client or adapt current services the client receives. For the due diligence measures module, our experts have designed a standardised KYC process flow as well as a customer journey. The KYC process flow, shown in Exhibit 5, seamlessly links to the customer journey. This link allows for both an increased customer satisfaction and alignment with regulatory requirements. Furthermore, it allows for optimising operational efficiency, which can be leveraged by your Compliance cost model.

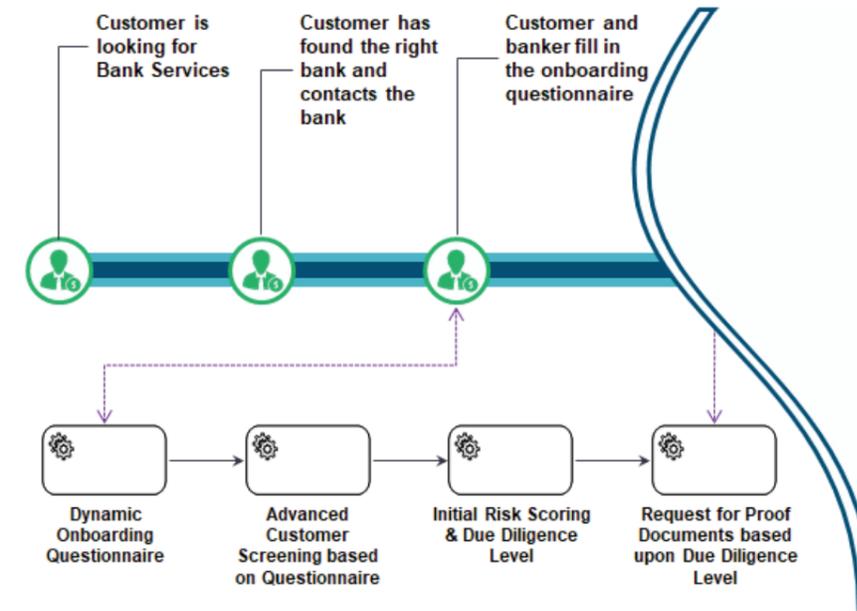


Exhibit 5 Risk sensitive due diligence measures

**Conclusion**

The solution our subject matter experts have designed for you will help you to

- Timely and adequately transpose the (revised) Risk Factor Guidelines
- Implement an efficient and effective AML/CFT risk model
- Increase customer satisfaction, operational efficiency and AML/CFT effectiveness
- Reduce your Compliance costs
- Improve data centricity in the AML/CFT discipline

## Contact

Contact us. We are happy to inform you about our comprehensive experiences and solution modules in detail. Furthermore, we look forward to presenting you detailed information about our services and analyse how we can provide you with best possible support.

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