



## A meticulous approach towards improving AML/CFT Processes: Discussing challenges and suggesting recommended ways

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### Abstract

In Today's world, where banks and financial institutions have undergone a rapid change and has seen a huge increase not just in the volumes but also in the number of the transactions, the rapid upsurge in the remittance and currency - exchange sector has benefited many people by allowing smooth flow of money across borders. Contrariwise, the increase in the volumes and number of transactions has also imposed several challenges on carrying out the monitoring and reporting activities correlated with the transactions. Knowing that the failure in efficiently following and fighting against money laundering and terrorism financing is a threat which is not limited to a society, but also to the nation and the World overall (in a bigger picture). So, there is a need to address this issue efficiently and form ways to improve the Anti - Money Laundering (AML) and Combating Financing of Terrorism (CFT) methods considering the different possible ways which can be used by money launderers in committing the financial crimes and thereby crippling the nation.

**Keywords:** banks & financial institutions, Compliance, AML/CFT, challenges, recommendations.

### 1. Introduction

To detect and fight against the money laundering and terrorism financing activities, the regulatory authorities have introduced regulations requiring an effective compliance system built on skilled staff and cutting-edge technologies. There have been many penalties on the financial institutions for weekly or inefficiently following AML/CFT policies and procedures. The penalties not only include the small banks and financial institutions but also few of the big names as well. To name a few recent ones; Raiffeisen Bank International AG also known as RBI has been charged \$3.39 million (2.75 million Euros) for breaching due diligence requirements in preventing money laundering and financing of terrorism, the fine on RBI was imposed by Austria's FMA (Financial Market Authority) and it is stated that the bank was under investigation by FMA since 2016 <sup>[1]</sup>. However, in a response for this penalty RBI spokeswoman stated that it had met all the obligations to avert money laundering and would look forward to appeal against the penalty <sup>[2]</sup>. To address another big penalty and name, US Bancorp and its subsidiary, the US Bank (The US Bank National Association) known to be the fifth largest bank in the United States will be paying US \$613 million to judicial authorities and American regulators over failure in operating the effective AML systems <sup>[3]</sup>. In a recent financial punishment which imposed a fine of US\$369m on RNA (Rabobank National Association) pleaded guilty on the 7<sup>th</sup> of February 2018 for hiding the deficiencies in its AML program and trying to thwart examination by the regulator <sup>[4]</sup>.

The above penalties imposed on the above-mentioned banks are graphically shown in the below figure 1. The above-mentioned penalties and threats of money laundering and

terrorism financing triggers the need to form efficient ways to eradicate the severe effects and risks associated with weakly following or failure in following efficient AML/CFT policies and procedures always.

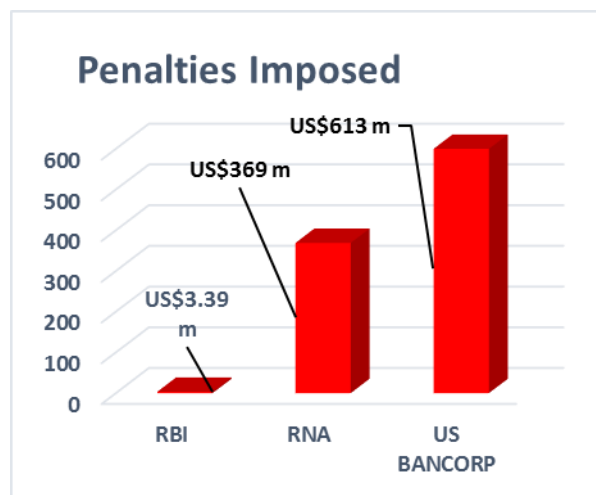


Figure 1. Penalties on Banks

The paper focuses on the above highlighted issues and suggests ways to improve the AML/CFT policies and procedures; thereby strengthening the banks and financial institutions to fight against the money laundering and terrorism financing.

### 2. Methodology

The work presented in this article is mainly based on the following two paradigms:

- Describing the challenges faced by the banks and financial institutions in implementing AML and CFT;
- Recommending ways to improve the AML and CFT procedures.

### 3. Challenges Faced by the Banks and Financial Institutions

The rapid increase in the banking technology supporting huge customer database, transaction numbers & volumes, cross border transactions, number of banks, number of remittance service providers, products & services etc., have no doubt provided an ease of transferring money across borders to the loved ones for the customers but has also added challenges on the banks and financial institutions in monitoring the transactions spectra and thereby fighting against the evil effects of money laundering and terrorism financing.

Few of the major challenges (but not limited to) faced by the banks and financial institutions are:

- a. Balancing Between Monitoring Methods and Customer Satisfaction:** Balancing between implementation of efficient AML/CFT measures and assessing satisfaction of customer often comes as a big challenge for the banks and financial institutions as blocking a large number of transactions can leave a number of customers dissatisfied and simply releasing the transactions with positive approach can compromise with the preventive measures and hence, can result in implementing poor AML/CFT processes which increases financial, legal, operational and reputational risks.
- b. Limited Monitoring and Reporting Procedures (Dependence on Traditional Methods):** The dependence on the traditional AML/CFT methods such as considering money laundering only when activities like multiple senders remitting to one beneficiary, one sender sending to multiple beneficiaries, detecting clearly - seen - fake - invoices, customer exceeding some threshold limit on a monthly or yearly basis, behavior of the customer, multiple transactions in a small period of time, transaction map of the customer etc., are detected. The cases when the money launderer produces perfectly – looking – documents, does not use the above stated methods etc., the launderer can easily go unnoticed.
- c. Dependence on Customer Provided Information:** Many of the day to day monitoring activities, in carrying out customer due diligence, the banks and financial institutions relies on the information provided by the customers which may not stand true in all the cases. Absence of information from other sources, forces the banks and financial institutions to count on the customer provided information as all the cases (transactions) cannot be reported to the regulatory authorities for further investigations.
- d. Reliance on Prescriptive Controls:** Difficulties in setting efficient internal policies and improving decision - making processes and relying heavily on the prescriptive controls set by the regulatory authorities in monitoring the transactions is among the major challenges faced by the banks and financial institutions in implementing efficient AML/CFT methods.
- e. Lack of Skilled Staff:** One more challenge for the

financial institutions and banks can be hiring the skilled personnel who has in depth knowledge of the AML/CFT processes and who can dynamically address the issues; not merely judging based on the traditional money laundering cases like one sender remitting to multiple beneficiaries, multiple senders remitting to single beneficiary etc.

- f. Reactive Nature of Compliance Department:** Rather than being proactive, in many cases the banks and financial institutions are reactive i.e., dependent on the customer to come up with a fraud idea, do the money laundering and then catch him/her on a later stage and set policies and procedures to avoid such specific cases in the future. This process of detecting the financial crime sometimes takes a bit longer duration allowing the money launderers to freely carry out the money laundering activities; moreover, some of the money launderers does not stick to the same way all the time but rather changes their money laundering ways time to time.
- g. Work Overload – Increased Number of Products and Services:** The increase in the number of products and services provided by the banks and financial institutions specially the money remitting agents to their customers adds constraints on following the specific policies set by different products and services which causes increase in the workload on the staff and thus can result in compromising the higher priority task viz., AML/CFT.

### 4. Recommended Ways to Improve AML/CFT Processes

Few ways are recommended here in this paper which can greatly improve the existing AML/CFT processes and reduce the financial crimes:

- A log should be maintained about the reported and suspicious cases and monitored closely as money launderers often changes the remittance/exchange pattern on a timely/frequent basis. This will enhance the skills of the staff and hence result in efficient reporting with clear ground picture.
- New and efficient policies should be created frequently based on the spectrum of customers options to detect possible money laundering before it happens.
- A highly confidential and dedicated channel should be established between countries to facilitate fast and easy verification of identification, existence, work profile, conduct and other details/documents of both individual and corporate customers.
- All the monitoring staff should be well trained and frequently updated with most of the money laundering ways and AML/CFT policies (External and Internal both) to tackle the money laundering and terrorism financing issues.
- An efficient monitoring software fulfilling all the requirements (product/service wise) should be made use of in carrying out customer due diligence activities.
- The monitoring software should be periodically (or as and when thought of) updated with the new set policies and procedures (including internal policies and procedures as well).
- Dividing the monitoring work based on product/service among the staff after assessing staff's skills in various

products/services rather than dividing the complete work on an hourly/daily/monthly/yearly basis.

- Hiring skilled staff and rewarding/paying according to their work skills to keep them motivated at work and thereby avoiding the huge financial losses due to inefficiently or weakly following of AML/CFT methods.

## 5. Results

The outcome of the work presented in this paper indicates the key challenges faced by the financial institutions and banks in meeting the higher levels of Compliance to fight against the evil effects of money laundering and terrorism financing. Moreover, the proposed work sets up recommendations based on the challenges faced by the banks and financial institutions which will have a great impact on improving the AML/CFT procedures when followed intelligently without tipping off.

## 6. Conclusion

The methodology being implemented in accomplishing the proposed work i.e., analyzing the challenges faced by the financial institutions and banks in implementing efficient AML/CFT processes and suggesting recommendations to tackle and plummet the number of non – compliance issues will be a great help for the banks and financial institutions to revise and improve the existing traditional AML/CFT methods. The suggested recommendations will reduce the risks associated with non – compliance or weak compliance viz., reputational, operational, financial and legal.

## 7. References

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