

Anti-Money Laundering Attestation

Imperative Investment towards Regulatory Compliance

By Prakhar D Sagne
AML Practitioner

Abstract

Navigating through the ever-changing compliance world, money launderers find loopholes to emerge undetected. This leads to a rising tide of Regulatory scrutiny, forcing banks and financial institutions to broaden and deepen enhancements to their compliance and Anti-Money Laundering (AML) systems - systems that can effectively track every money-laundering or terrorist financing act. These constant changes made to the AML systems often result in disconnect between the achieved and the expected in the AML systems. Failure to meet Regulatory guidelines poses many challenges to Financial Institutions in terms of hefty financial penalties and reputational losses.

Today, there are many protective frameworks. Further Financial Institutions have a deeper understanding of compliance systems. But in spite of all of this, Universal Financial Institutions are losing billions to Regulatory fines. Financial Conduct Authority (FCA) has now brought out a new supervisory tool which would help the AML systems to be more compliant.

Attestation of AML Systems

Attestation of AML system is all about checking whether the involved AML systems perform as expected. As illustrated by FCA, the aim of an Attestation is to ensure there is clear accountability and focus from senior management on specific issues they would like to see change within firms, oftentimes without ongoing Regulatory involvement. In the United Kingdom, the use of Attestation is likely to continue to increase, as the FCA and Prudential Regulation Authority (PRA) seek to establish clear accountability for decision-making at the top level.

The latest European AML Directive (MLD4), has more targeted and focused risk-based approach. With several changes made in the directive on aspects like customer due diligence, politically exposed people, gambling, and so on; Financial Institutions would need to make sure that the changes are implemented well before the deadline of June 2017. Attestation not only would help the FCA ensure clear accountability and a focus from senior management, but also would prove to be a vital next-step for the latest added features of European Fourth AML Directive (MLD4).

Performing in-depth checks and audits of a Financial Institution's AML systems is a cumbersome process, which requires intensive deep-dive and would take long time. The Attestation process may have been introduced to have the ownership of the deep-dive shifted from the Regulatory

bodies to the Financial Institution; which would be followed by the latter checking the results of the Attestation, rather than following the entire audit life-cycle.

Challenges

Possible gap in Regulatory expectation - IT implementation

One of the biggest challenges which a Financial Institution may face is implementing the Regulatory changes and/or updates as policies within their AML systems, to match the exact expectations of Regulators. With constant Regulatory modifications (viz: sanctions impositions, economic crisis across different geographies), the AML systems undergo a lot of changes. The Financial Institutions need to make sure that the implemented changes not only meet the criteria of the need, but also does not change the AML system in such a way that it alters into a different aspect/functionality.

Operational difficulty with Attestation

AML anyways is considered as a non-revenue generating area within Financial Institutions. Due to the high operational cost, the recurring activity of Attestation builds a stronger pressure on the Financial Institutions who may need to exercise Attestation at regular intervals (quarterly, half-yearly and yearly).

Add to this, Attestation involves large volumes of manual work, numerous teams and large amounts of input-output data. This can lead to a long tenured activity, which furthermore has a huge risk of human errors. Costs, time, effort and the complexity involved are quite literally, spiraling out of control.

Example

An incorrect processed data or the correct data tested in an incorrect way can fetch irrelevant and non-cohesive results. The whole motive of Attestation goes haywire when the met and the expected results are nowhere close. This can lead to the team investing time in unplanned post-mortem and thus, affecting the dreaded timelines.



The objective of Attestation is to ensure there is clear accountability and focus from senior management on specific issues they would like to see changed within firms without on-going Regulatory involvement.

Approach

Within the ambit of key elements such as crucial assessment deadlines, high cost, etc., it is essential to identify how Financial Institutions can minimize cost and effort for recurring activities without affecting the quality of Attestation and with better transparency. In spite of a thorough process management, the correlation between the AML policies and the AML systems can get disrupted.

The FCA has also stated that it intends to name and shame persons under investigation. For these reasons, it may be appropriate to use Internal Attestations to reduce the risk and perhaps share the burden of signing the final Attestation with the Regulator.

The most usual scenarios of AML systems' Attestations are:

1. Self-certification

This starts with establishing the purpose and scope of Attestation leading to the risks to be identified.

The assessors need to be well versed with the nature and the extent of the money laundering and terrorist financing prominence in the country of operation. The optimum way to start, is with a list of major known or suspected threats and vulnerabilities. This of course should be in-line with the purpose and scope of the assessment.

One of the approaches can have the Test Managers, AML systems' Product Managers, Business Analysts, Technical Team (can be collectively called as **Assessors**) team-up and analyze to what degree the AML systems meet the Regulatory requirement.

This approach would majorly have the Financial Institution run the Attestation program proactively. It can also be related to a historic finding/issue/risk, wherein the Financial Institution using this Attestation makes sure that the same finding doesn't come up again.



Example 1

Post Ukraine geopolitical crisis, many European countries imposed sanctions. Sanctioned individuals from Crimea were added to the watch list, so that during CDD, all the entries related to addition in the watch list raises hits.

Attestation involves Defining Scope, Planning, Execution and Validation of Result.

Self-certification/Self Attestation is important and cannot be ignored because firms need to be mindful of their duty under Principle 11 of the Principles for Businesses. This principle provides that a firm must deal with its Regulators in an open and cooperative way, and disclose anything relating to the firm of which that Regulator would reasonably expect notice.

In addition, Part XI of the Financial Services and Markets Act 2000 adds a further layer in that it gives the FCA extensive information gathering powers including the power to require information (section 165) and reports by skilled persons (section 166).¹

2. Verification

Where the expectation from the Financial Institution is to resolve issues or mitigate risks, the Regulatory bodies may ask for a proof/verification stating that the remedial action(s) has been completed. Internal audit or end-to-end testing (e.g. - sanctions testing) is a typical example of this approach.



The approach may largely involve a technology component in which on a plan, the assessors would have an end-to-end testing performed on AML system(s). This will further verify that the system's results are as expected without deviation.

The objective of this step is to analyze the identified risks in order to understand their nature, sources, likelihood and consequences, in order to assign some sort of relative value or importance to each of the risks.

Scenario 1

Some medium-sized firms were screening clients against HMT (Her Majesty Treasury), retrospectively, between a few days and several weeks rather than at the time of on-boarding.

This is a serious issue, and the Financial Institution need to understand the seriousness and importance of the screening during on-boarding, rather than delaying it. In such a situation, the Financial Institution needs to verify and prove that their AML systems are screening the clients against HMT list and that too during on-boarding.

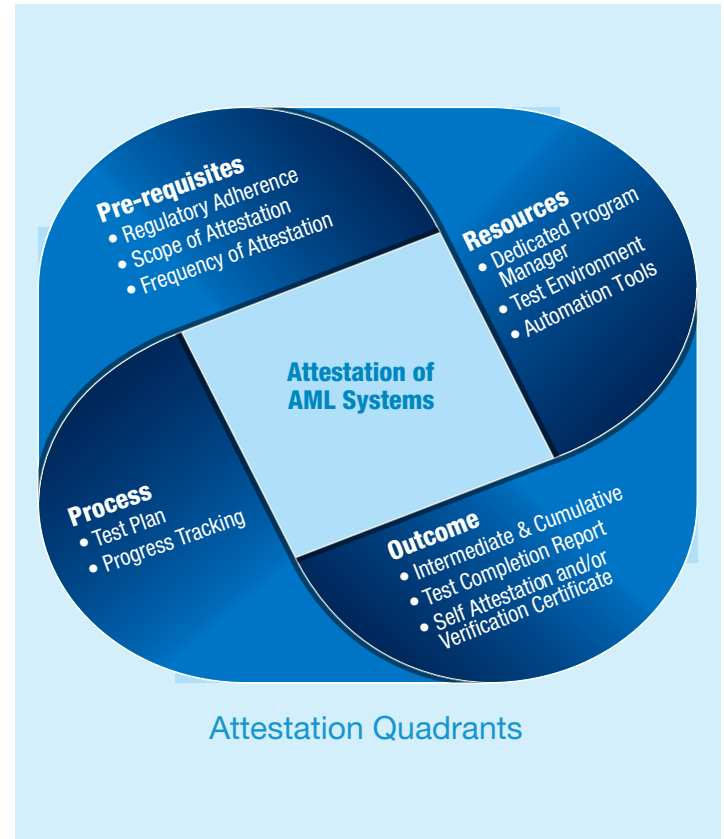
This is a serious issue, and the Financial Institution needs to understand the seriousness and importance of the screening during on-boarding, rather than delaying it. In such situations, the Financial Institution organization needs to verify and prove that their AML systems are screening the clients against the HMT list, particularly, during on-boarding.

Ideally, such analysis takes into account the relevant 'environmental' factors. These includes the general metrics of the country (could be political, economic, geographical and social), as well as other specific circumstantial factors which could influence the way AML/CFT measures are implemented.

Considering the influence of these risks, the verification stage can move up to determining the size or seriousness of these risks. One of the methods of distinguishing the risks is to categorize them in terms of their degree of importance.

The verification and mitigation of each risk should be tracked thoroughly using a recognized risk-tracking tool. This should track (evidence of closure of all) risk issues rated Important/Major and above.

One of the practical ways of performing verification is to thoroughly test the AML systems covering all business lines and functional units. It is also important for the Assessors to make sure that the suspected threats/vulnerability/short-comings are compared with the previously performed Attestation (if previously carried out) as well. This should help them evaluate the entire process of Attestation carried out by them and set bench-marks.



Real-life Attestation Overview

Let's take an example when a bank needs to perform the self-certification of its client screening system.

Step 1

Defining Scope

It is very important to **'Assess before one Attests'**

- In general, the scope should align with systems and processes that must adhere to the Regulatory requirements.
- The team needs to discuss and decide the key factors which the client screening system would be tested against.

Some factors could be:

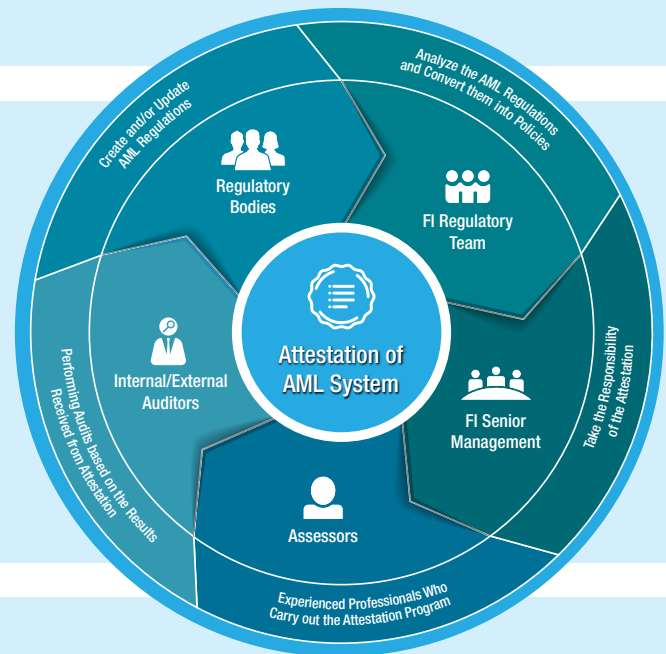
- I. All customers (applicable related parties. e.g. key parties, guarantors, introducers) are screened against PEP and sanctions list.
 - II. Up-to-date sanctions and PEP lists are maintained within the screening system.
 - III. Potential matches are appropriately investigated and actioned.
 - IV. Historic alert management.
- The senior management would have to decide whether the testing could be performed by internal resources such as internal auditors; or by third party/independent support.

Step 2 Planning

- This step defines a road-map of how the Attestation program would be carried out. A clear methodology and detailed work plan should be agreed upon prior to the program, which should specify the review, challenge and approval process, before arriving at a final position.
- Would also involve the senior management, creating a team of experienced professionals comprising Financial Institution's Regulation team, Business Analysts, AML Product Owners/Managers, Test Managers, Technical & Functional SMEs, and so on with defined sets of roles and responsibilities.
- The Business Analysts and Financial Institution Regulatory team can then work along with the other teams to understand and find the degree of difference between the expected Regulatory requirement and its fitment within the AML systems.
- The team needs to come-up with clear & defined test-scenarios which upon implementation are expected to yield expected results. Some of the test-scenarios can be:
 - I. Extracting the production data for a testing purpose with the help of a valid process.
 - II. Screening the customer data against various iterations of sanctions, PEP list files, threshold, severity.
 - III. Testing of fuzzy logic.
 - IV. Threshold and/or severity testing; and so on.

Step 3 Execution

- This step would be largely operational, involving the technical teams to implement and execute the test-cases which have been created by the Test Managers, post receiving inputs from the Financial Institution's Regulation team, Business Analyst and Product Owners/Managers.
- The technical team post the execution, can share the results with the test teams, which would analyze the same.
- It is very important that the execution/operations team makes a copy of Test Readiness report prior to performing the testing and share it with the required stake-holders. This ensures an ideal environment for the testing.



Step 4 Result Validation

- This step involves the testing team to validate the results received and track the same.
- This is where the test managers would have to match the received results along with the expected ones.
- A detailed description of work undertaken and evidence relied upon to support the Attestation should form part of any Attestation.

The Financial Institution should be able to demonstrate the process used to investigate relevant internal systems and controls in a controlled environment, so it is essential to keep good records of what has been performed.

The end result of an Attestation program should have a detailed report which should ideally comprise of the Test Review Report, Test Completion Report, Open Risks, and so on. Along with this, the Assessors can come up with an excel-based summary which would give a high-level overview of all the aspects covered during the Attestation program.

This should make things much easier and quicker to understand for the senior management within the Financial Institution, as it would give them a better and summarized clarity of what the Attestation was carried out for, what the outcome is, and what the planning would be. The Financial Institutions can track and analyze the results of Attestations on factors like:

- Cost of Attestation Vs. Duration of Entire Attestation program.
- Cost of Attestation Vs. Success rate of Attestation test cases.
- Number of Iteration of failed test cases Vs. Positive results obtained post re-execution, and so on.

Benefits

An effective Attestation program would act as a median to bridge the gap between changes in the Regulatory policies and their implementation in the AML system (IT systems).

It is almost impossible for any Financial Institution to be 100% compliant with all the regulations, all the time; however the Financial Institutions still need to prove and demonstrate to the Regulators how compliant they are, and the steps they're taking to inch towards Regulatory compliance. The output/results from the Attestation program can then be used to rate the Regulatory adherence of AML systems. The Financial Institutions can use the benchmark set by **FATF** and rate them as:

1. Compliant - C
2. Largely Compliant - LC
3. Partially Compliant - PC
4. Non-compliant - NC

In an ideal scenario when the Financial Institution's Attestation results lead to a 'Compliant' status, the next step can be to look forward to define a road-map for the upcoming regulations. An optimized AML system frees up time for staff members to focus on heightened areas of risk. The Financial Institutions can do the needful planning to make sure that their AML systems can meet the criteria of an upcoming Regulatory act.

The Financial Institutions need to "Expect the Unexpected". The Attestation program may well move in a negative

direction, not yielding the expected output and resulting in more operational time. In such a scenario, it is very important for the Financial Institution to go-back to the Regulators and explain why the Financial Institution needs more time. The Financial Institution would then need to come up with a firm and time adhering remediation plan, making sure that the timeline is realistic both for the Regulators to agree upon and the Financial Institution to re-perform the Attestation.

Frequency of AML System Attestation

A key aspect during this program is to determine how often the Financial Institution needs to perform a risk assessment of its AML systems. This would largely depend on size of the Financial Institution, AML systems involved, local regulations of the country, and the number of risks found in each Attestation. Several Financial Institutions find/would find Attestation as an overhead mainly because it is overly time-consuming, increasingly complex and due to frequent occurrence incurs high cost. The key to managing the frequency is to divide the work in meaningful phases, with the more critical systems getting priority over the lesser one, and the significant risks getting priority over the less significant.

The best practice can be the Financial Institution mandating to perform self-certification of all the AML systems every quarterly, half-yearly and yearly based on all the involved factors.



Mphasis Offerings

GRC competency group from Mphasis has been able to find a solution to address this challenge for the Financial Institutions. Mphasis has extensive experience of working as long-term AML service provider for major European banks. Having worked on several Attestation projects for client screening, Swift Alliance, Transaction monitoring AML systems; the team has developed a deep understanding of why Attestation is required, how it is managed, common obstacles faced during the entire program, and most importantly how to overcome these obstacles which are mainly due to human error by building an automated testing suite which can be used on a need-to basis.

Evaluarc (Evaluation for AML Risk and Compliance) has especially been designed to carry out Attestation work which can be customized depending on the requirement of each Financial Institution with minimal human intervention. It consists of a set of test cases which have been designed, developed and validated by experienced technical and compliance professionals. Once customized, the test suit can be used for Attesting over and over again, thus would help the Financial Institution in effective planning and the execution of program. Due to its re-usable functionality, Evaluarc would not just help validate the AML systems functioning efficiently, but also help save money and time and thus would act as pivotal tool in helping the Financial Institution stay compliant.

Sources:
¹ http://www.regulationtomorrow.com/eu/fca-self-Attestation-why-should-you-sign/
http://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf
https://www.gov.uk/money-laundering-regulations-risk-assessments
http://www.fca.org.uk/about/what/regulating/how-we-supervise-firms/Attestations

This article is not intended to offer professional advice and you should not act upon the matters referred to in it without seeking specific advice.



Prakhar D Sagne

AML Practitioner

Prakhar is an experienced techno-functional analyst who has worked on a wide range of projects within the Anti-Money Laundering (AML) portfolio for nearly 5 years.

He has extensive experience of working on multiple large & medium sized projects for a tier-1 European bank as a key participant in projects involving Enhancements, Attestation, Testing of Client Screening, On-boarding, Transaction Monitoring AML Applications.

About Mphasis

Mphasis an HP Company is a USD 1 billion global service provider, delivering technology based solutions across industries, including Banking & Capital Markets, Insurance, Manufacturing, Media & Entertainment, Telecom, Healthcare, Life Sciences, Travel & Transportation, Hospitality, Retail & Consumer Goods, Energy & Utilities, and Governments around the world. Mphasis' integrated service offerings in Applications, Infrastructure Services, and Business Process Outsourcing help organizations adapt to changing market conditions and derive maximum value from IT investments. Contact us on www.mphasis.com

For more information, contact: marketinginfo@mphasis.com

USA

460 Park Avenue South
Suite #1101
New York, NY 10016, USA
Tel.: +1 212 686 6655
Fax: +1 212 683 1690

UK

88 Wood Street
London EC2V 7RS, UK
Tel.: +44 20 8528 1000
Fax: +44 20 8528 1001

INDIA

Bagmane World Technology Center
Marathahalli Ring Road
Doddanakundhi Village
Mahadevapura
Bangalore 560 048, India
Tel.: +91 80 3352 5000
Fax: +91 80 6695 9942



www.mphasis.com