AML Risk ...and Reward
Defining, Balancing, Growing

William Burmeister, Head of AML Risk
Agenda

• Citi’s AML Risk Function
  – The Role of AML Risk
  – Where Does Compliance Fit
• Current Issues in AML
• Compliance vs. Growth
  1. Compliance as Good Business
  2. Focused Target Market
  3. Efficient Implementation
Citi's AML Risk Function
The Role of AML Risk

1. Participate in Business Governance Committees
2. Be the regulatory interface for the business
3. Centralized in-business exam and regulatory management
4. Work with the business to resolve MRAs
5. Ensure consistent implementation of controls
6. Identify risk, work through improvements, review policy, provide guidance and counsel
7. Provide Audit support
8. Complete AML Risk assessments / provide guidance through the process
Mandate:
• Oversee centralized business coordination for execution of our end-to-end AML program
• Partner with our product and AML / Compliance colleagues
• Formed in 2011
Polling Question #1

What does your AML/Compliance Function look like?

A. Sits as a separate function
B. Sits as part of the business
C. Have both a functional and business arm of AML/Compliance/Risk
D. Still To be Determined
Current Issues in AML
Case Study: Personal Liability for Compliance Officers

FinCEN Assesses $1 Million Penalty and Seeks to Bar Former MoneyGram Executive from Financial Industry - Individual Accountability Emphasized in Civil Actions

- In December 2014, the Financial Crimes Enforcement Network (FinCEN) issued a $1 million civil money penalty (CMP) against Mr. Thomas E. Haider for failing to ensure that his company abided by the anti-money laundering (AML) provisions of the Bank Secrecy Act (BSA).

- Concurrently, the U.S. Attorney’s Office for the Southern District of New York (SDNY), filed a complaint in U.S. District Court that seeks to enforce the penalty and to enjoin Mr. Haider from employment in the financial industry.

- The complaint alleges Mr. Haider violated his obligations as MoneyGram’s Chief Compliance Officer. By allegedly failing to take the actions clearly required of him under the law, it is alleged that he allowed criminals to use MoneyGram to defraud innocent consumers and then launder the proceeds of their fraudulent schemes.

- It is also alleged that Mr. Haider failed in his responsibility to ensure the filing of suspicious activity reports (SARs) on agents whom he knew or had reason to suspect were engaged in fraud, money laundering, or other criminal activity.
Case Study: Suspicious Shell Companies

High Risk Customers, Shell Companies, and Inaccurate Client Information Raise AML Flags

- 62% of the Bank’s outgoing transactions through one U.S. correspondent bank involved only four high-risk customers.
- These four customers, deemed high-risk by the U.S. correspondent bank, included a shell company, an internet business, and two non-bank financial institutions.
- Between 2007 - 2012, the Bank used its U.S. correspondents to send or receive wire transfers totaling of $50 MM + for shell companies that share directors, agents, and the same address.
- These transfers involved large, round dollar amounts and did not specify a purpose for the transactions.
- When U.S. correspondents requested additional information, the Bank either failed to respond or provided extremely limited information.
- The Bank processed millions of U.S. dollar transactions that listed the Bank’s address for the originator’s or beneficiary’s address.

High percentage of transactions not containing accurate customer address information indicates failure to conduct sufficient due diligence on a customer, failure to adequately monitor transactions, or possible complicity in money laundering by disguising the origin of funds.
Raising the Bar: Heightened Expectations for AML Risk Control

1. Business environment changes rapidly and necessary controls must continue to evolve to stay current with risks.

2. Improvements in controls are important; review of those controls for effectiveness is a continuing obligation.

3. Full and continuing execution of supporting controls is critical.
Compliance vs. Growth
Polling Question #2

*Have recent increases in regulation had a negative impact on profitability?*

A. Yes

B. No
“Michael Bloomberg on Monday told a room full of bankers, traders, and investors that financial regulation was hurting their profitability and the US economy.”
### Compliance vs. Growth: (Opportunity) Cost of Compliance

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>The regulatory AML burden was acceptable but the requirements could be more effective. Eighty-four percent of respondents believed the burden to be acceptable, but 54 percent felt that it could be more effective.</td>
</tr>
<tr>
<td>2007</td>
<td>There was broad support for regulatory AML efforts, but also more to do. Ninety-three percent of respondents thought the regulatory burden was either acceptable or should be increased, however 51 percent said it could be better focused.</td>
</tr>
<tr>
<td>2011</td>
<td>Regulators were active, but banks wanted more collaboration and information. Eighty-five percent of banks feel that the overall level of regulatory burden is acceptable, but many wanted more guidance and a collaborative approach.</td>
</tr>
<tr>
<td>2014</td>
<td>Regulatory approach was ranked as the top AML concern, with 84 percent of respondents stating the pace and impact of regulatory changes as significant challenges to their operations.</td>
</tr>
</tbody>
</table>

---

**Cost of compliance continues to be underestimated**

The cost of AML compliance has increased since our last survey and shows no signs of slowing down in the near future.

![Pie chart showing the percentage increase in AML activity investment](chart.png)

The cumulative workload arising from a regulatory reform program that is unfortunately increasingly fragmented, often extraterritorial, still evolving and still adding definition is hugely consumptive of resources that would otherwise be customer facing.

Douglas Flint, HSBC Chairman, August 2014; as quoted in the Financial Times
“Michael Bloomberg on Monday told a room full of bankers, traders, and investors that financial regulation was hurting their profitability and the US economy. It was crowd pleasing but wrong.”

profitable as it once was. You may be even more irritated when you consider that banks achieved these profits despite paying more than $60 billion in settlements and penalties since the 2008, which suggests they ought to have been asked to pay even more for their contribution to the crisis. And that Wall Street pay has bounced back almost as quickly as profits.
“The rebound comes even as bank executives say rising costs of regulation are hurting their business”

1. Compliance as Good Business

Know Your Customer
- Use KYC to be aware of expansion plans, changing markets, new client base
- Support clients with strategy, new products, local knowledge
- *Compliance requirements can = more substantive interaction with clients!*

Know Your Market
- Identifying gaps in the market that work to your strengths
- Understand where you have a concentration of risk
- *Portfolio analyses demonstrate where you carry most market share and where you’ve lost & why*

Sell Yourself
- Strong compliance programs are selling points!
- Less changes to target market, de-risking, reputational damage
- *AML teams attend client meetings prior to onboarding*

Don’t Get Fined
- If you think compliance is expensive… ask those that have been fined
Good compliance is good business. A robust compliance, risk and governance framework has the potential to boost an organization’s bottom line.

Greg Medcraft, chairman of the Australian Securities and Investments Commission (ASIC), “ASIC in 2014: Areas of focus and expected changes to the regulatory landscape”, October 2013
2. Focused Target Market

**Geography**

Can we reach the clients?
Do we have the right people? In the right places?
Do we need to expand our reach? (Branches / alliances)

**Client Types**

Particular client groups the bank will not service?
- By Industry
- By Size (assets, sales, income, liquidity, volumes)
- By organizational type

**Products**

Do we have the right products for the chosen segments?
Do we have sustainable competitive advantages, etc.

**Revenue**

Can we make money from this client segment?
Are there cross-sell opportunities?
What are the costs of doing business?

**Risk Appetite:** Credit, Regulatory, Reputational, Operational, Liquidity, Capital
3. Efficient Implementation of AML Risk Program

- Centralized Organization
- Region Expertise
- Consistency
- Appropriate Costing
- Governance
- Training
Efficiency is doing things right; effectiveness is doing the right things

Peter Drucker, American Businessman, 1909-2005