





**ABA Professional Development**

## How to Upgrade Your BSA / AML / OFAC Risk Assessments




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## Possible Pitfalls in the Risk Assessment Process

- Failing to make the risk assessment an ongoing process
- Not updating the assessment for a new product
- Not updating the assessment when expanding into a new geography



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## Possible Pitfalls in the Risk Assessment Process


- Not updating the assessment when significant growth has occurred in a core line of business
- Not assessing the potential impact of the loss of a key associate
- Not updating the assessment following a significant change in a key process or software platform



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## Taking the assessment process to the next level


- For large or complex institutions – moving the process to near real-time
- Build a BSA component into the new product risk assessment
- Feed the output of the BSA risk assessment to the enterprise risk assessment



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## Taking the assessment process to the next level


- Distill Key Risk Indicators from the assessment and establish parameters to monitor their impact through time
- When looking at products include those provided by third parties



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## Creating a Dynamic RA Process

- Do consider how changes impact the risk profile of a business line/service:
  - Expansion into new markets/geographies
  - Introduction of new operating processes
  - Composition of staff resources
  - Introduction of new regulations
  - Positive/negative regulatory or internal feedback



## Creating a Dynamic RA Process

- Don't delay updating your risk assessment when changes occur
  - Introduction of a new product/service
  - Expansion of your business through acquisition/partnering arrangements
  - Loss of key personnel
  - Absorption of new personnel
  - Centralization of key control processes



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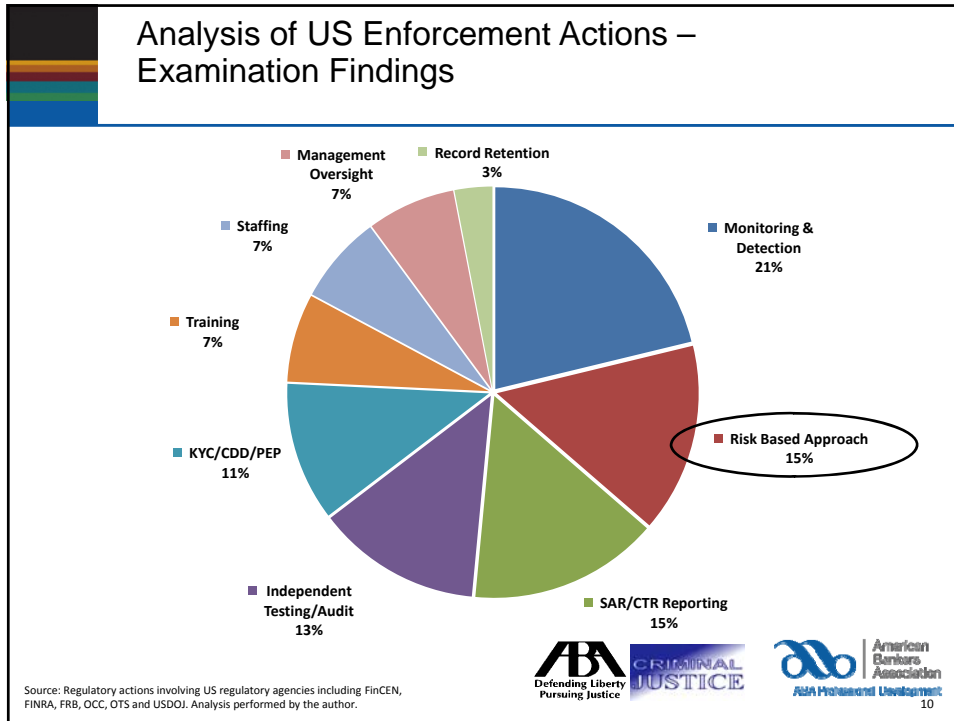
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- ### Analysis of US Enforcement Actions – Examples of Findings
- Examples of common issues recently highlighted by FinCEN, OCC and OSFI with respect to Risk Based Approach:**
- ❑ **AML controls not commensurate with the risk**
    - High risk customer base, products & services, and/or geographical operations require elevated measures to mitigate the inherent high risk
  - ❑ **Lack of enterprise-wide approach to risk**
    - Individual businesses have developed their own risk assessment models
    - The individual pieces of risk assessment (customers, products & services, geographies) remain disconnected
    - Risk assessment understood as a “one-way-street”
    - No thought has been given to aggregating/prioritizing AML risk vs. Sanctions/OFAC risk vs. FCPA risk assessment etc.
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## Practical Tips (1/3)

Focus area	Key activities
<b>Structuring the risk assessment</b>	<ul style="list-style-type: none"> <li>• Define a consistent approach to determining an assessment “unit”</li> <li>• Allow modifications to the organizational structure (e.g., merging units for the purpose of a risk assessment)</li> <li>• Consider utilizing a pre-assessment questionnaire to identify units that are out of scope</li> <li>• Enforce a consistent approach across enterprise to allow for comparability</li> </ul>
<b>Assessing inherent risk</b>	<ul style="list-style-type: none"> <li>• Define the main areas of risk based on regulatory guidelines and industry practices</li> <li>• Consider results of your customer risk rating, product/services risk rating, country risk rating and transaction monitoring when selecting the underlying risk factors</li> <li>• Design a flexible scoring method that places the greatest weight on the risk factors with the highest risk level</li> <li>• Plan sufficient time to collect data</li> <li>• Consider using proxies when data is not available</li> <li>• Avoid overcomplicating the model with calculations that produce arbitrary numeric values versus intuitive risk levels</li> </ul>




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## Practical Tips (2/3)

Focus area	Key activities
<b>Evaluating internal controls</b>	<ul style="list-style-type: none"> <li>• Identify the appropriate resource(s) to assess internal controls (self-assessment vs. independent assessment) to ensure consistency across enterprise</li> <li>• Ensure that you are assessing not just the presence of controls, but their effectiveness as well</li> <li>• Differentiate between “design effectiveness” of each control vs. “operating effectiveness”</li> </ul>
<b>Consolidating results</b>	<ul style="list-style-type: none"> <li>• Calibrate the risk assessment model to capture the relativity of risk (i.e., there is no value in a risk assessment if everything comes out “Moderate”)</li> <li>• Utilize dashboards and heat maps to communicate results</li> </ul>
<b>Updating the risk assessment</b>	<ul style="list-style-type: none"> <li>• Implement red flags to generate an alert when an update is necessary outside of your periodic update cycle</li> <li>• Design a risk assessment process that is sustainable within your organization (i.e., establish automated processes to minimize the cost of human resource needs)</li> </ul>



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## Practical Tips (3/3)

Focus area	Key activities
<b>Concluding the risk assessment</b>	<ul style="list-style-type: none"><li>• Document all steps of the risk assessment process</li><li>• Obtain independent review against regulatory expectations AND industry practices</li><li>• Develop an Action Plan to address the revealed gaps in controls</li><li>• Amend your CDD, customer risk rating, transaction monitoring, training etc. to align with the results of the risk assessment</li><li>• Compare results of the AML risk assessment against your Sanctions/OFAC risk assessment, FCPA risk assessment etc.</li></ul>

