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cutting through complexity

RISK CONSULTING

Global Anti-Money Laundering Survey
2014

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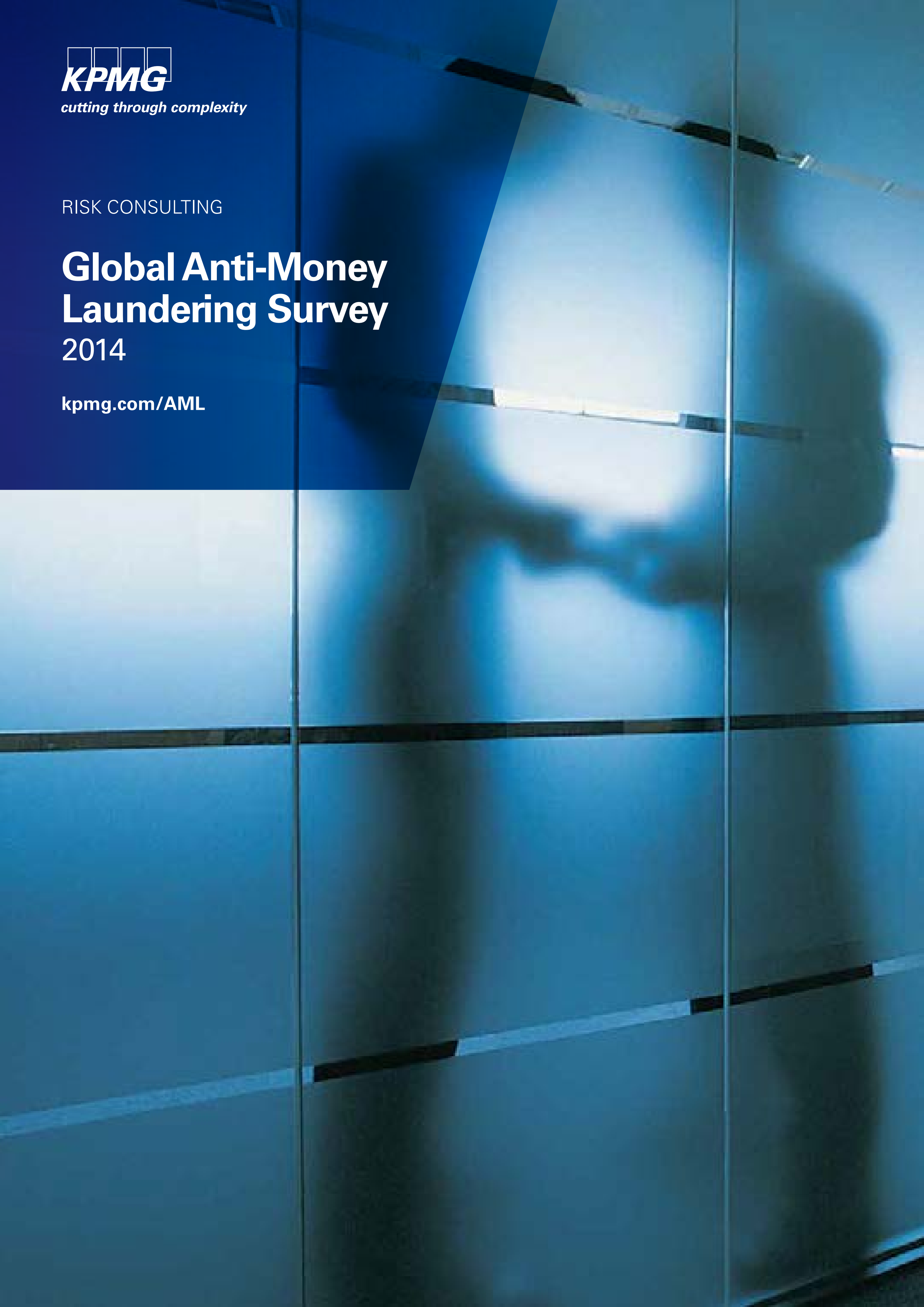

KPMG

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KPMG named Global AML firm of the year 2014

Outstanding AML advice is about understanding the risks and devising a proportionate response.

Our member firms' AML teams pride themselves on their practical experience of implementing AML programs at major institutions, both as employees and as advisors. We have also undertaken some of the largest international remediation and look-back exercises in recent years. The lessons we've learned, coupled with our track record working at and with regulators, allow us to understand what meets compliance standards whilst also making commercial sense for you.

That way, you can keep your AML risks safely locked away.

Contact us to find out more:

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Foreword

Jeremy Anderson
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Teresa Pesce
Global Head of Anti-Money Laundering Services

It is 10 years since we released our first Global Anti-Money Laundering (AML) survey. During those 10 years, financial institutions have ridden the highs, and plunged to the lows, of the economic cycle. Despite these dramatic changes in the business environment, AML has remained a key focus area throughout. In fact, AML has never been higher on senior management's agenda, with regulatory fines now running into billions of dollars, regulatory action becoming genuinely license threatening, and threats of criminal prosecution against banks and individuals.

Financial Institutions are making significant changes in response to regulatory action and increasingly far-reaching global AML regulations; with numerous new regulations across Asia, the U.S. Foreign Account Tax Compliance Act (FATCA) having an impact, and the Fourth European Money Laundering Directive (4MLD) still to come. These initiatives have quickly changed the AML scene from a standalone function under compliance, to an increasingly complex and overarching function cutting across legal, risk, operations and tax. Strong AML processes and controls are at the heart of inter-dependencies and linkages within a global organization, offering invaluable client knowledge that is only recently starting to be leveraged by other departments as well as senior management.

But questions are now being asked as to whether it is possible for a global institution to run a fully compliant AML program. Despite annual expenditure that is likely to exceed US$10bn in the next couple of years, institutions continue to fall foul of regulatory expectations, which seem to change more regularly than in the past. Minimum compliance with regulatory obligations is no longer enough to stay out of trouble, when you strive to meet a higher standard, but fail.

This survey not only compares firms' AML programs over the period covered by previous KPMG survey's but also looks at emerging areas of risk, such as Trade Finance and Tax Evasion, as well as looking at AML trends within the Insurance and Asset Management sectors. The latter sectors have received relatively less focus from regulators, but that is now changing as regulators broaden their purview.

We would like to thank the 317 survey respondents who took the time to participate in this year's Global Anti-Money Laundering survey. We are delighted to share the results, accompanied with our own global and regional insight from KPMG member firm professionals.

Introduction and Methodology

KPMG launched its online survey in November 2013. The survey was distributed to AML and compliance professionals in the top 1,000 global banks, according to the 2013 edition of The Banker Magazine, as well as to KPMG's AML contacts in over 40 countries.

The overarching aims of this year's global AML survey include:

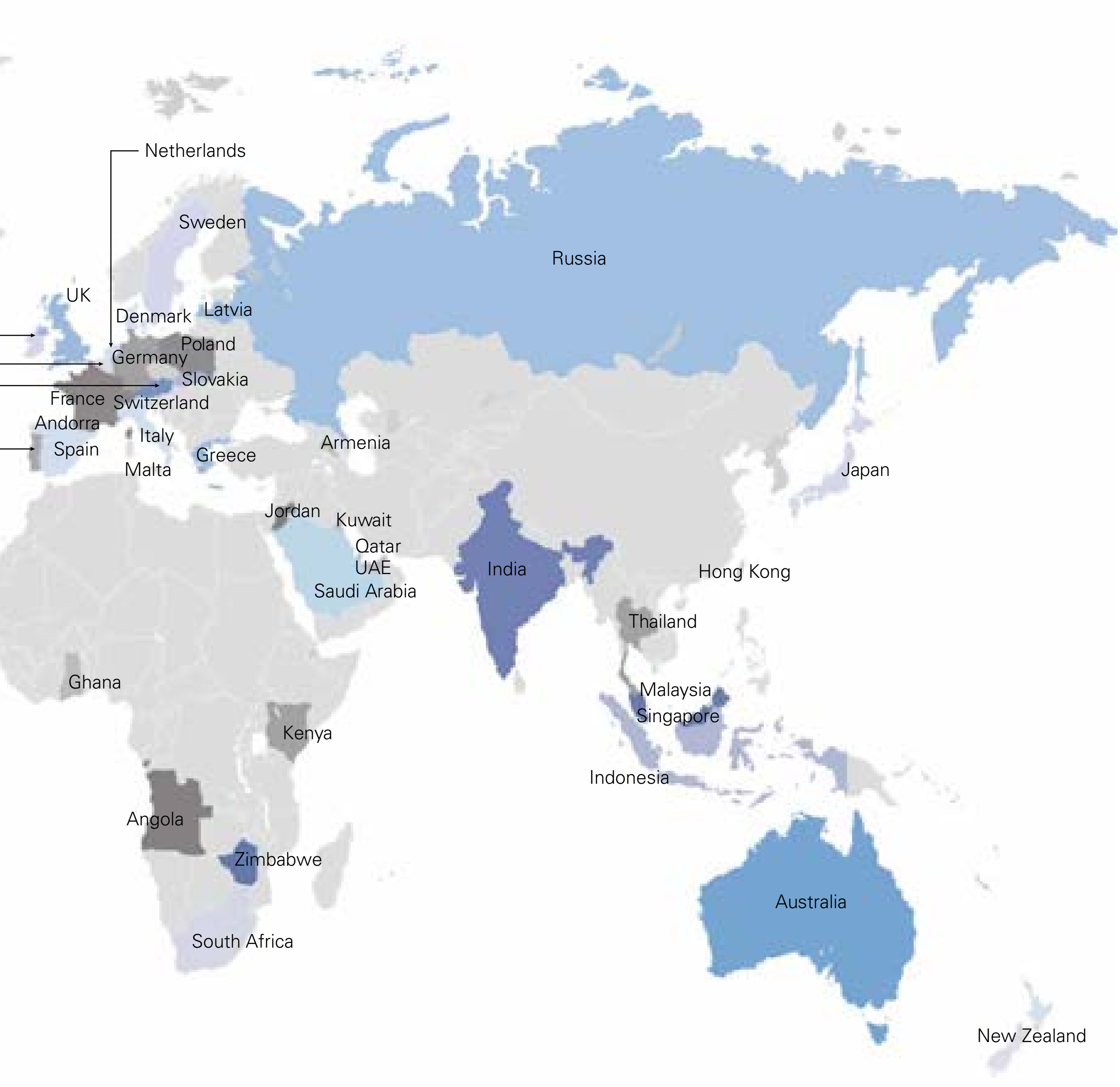
- Identifying emerging trends, opportunities and threats;
- Capturing industry perceptions on regulation, cost, and effectiveness; and
- Benchmarking AML efforts in the financial services industry.

In addition to the topics covered in our previous surveys, the 2014 survey also asked respondents to consider money laundering in relation to the following:

- Trade Finance
- FATCA and Tax Evasion
- Insurance Sector
- Asset Management Sector

Respondents came from the following countries:

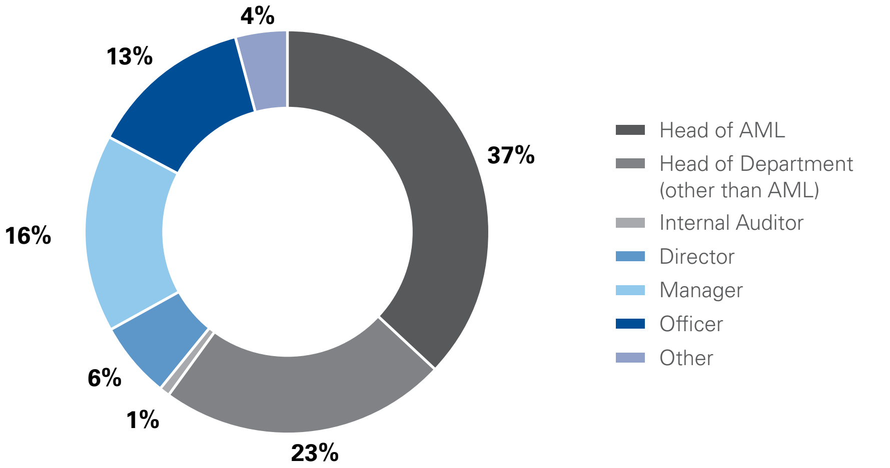
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.


Netherlands
Sweden
Russia
UK
Denmark
Latvia
Poland
Germany
Slovakia
France
Switzerland
Andorra
Italy
Spain
Greece
Armenia
Malta
Japan
Jordan
Kuwait
Qatar
UAE
India
Hong Kong
Saudi Arabia
Thailand
Ghana
Malaysia
Singapore
Kenya
Indonesia
Angola
Zimbabwe
Australia
South Africa
New Zealand

Respondent profile

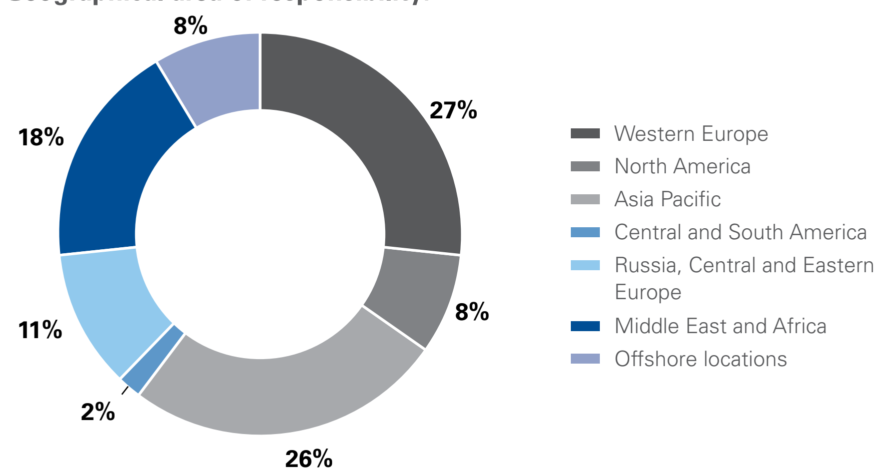
317 respondents participated in this year's survey representing 48 countries. Respondents came from a wide range of AML-related professional backgrounds across the financial services industry. A further breakdown of respondent profile by region, sector, and job title is provided below:

Job title



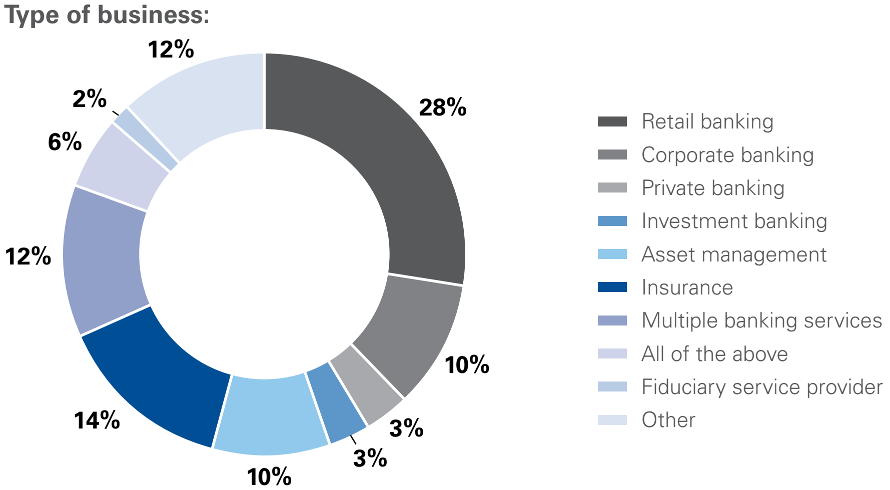
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Geographical area of responsibility:



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Type of business:



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Key headlines

	2004	2007	2011	2014
Priority for senior management	**AML was a relatively high priority within banks.** Sixty-one percent of respondent believed AML was a high profile issue for their senior management.	**Stronger senior management engagement in AML efforts.** Seventy-one percent of respondents stated that their board took an active interest in AML.	**Senior management interest declined** but remained quite high, with 62 percent of respondents citing AML as a high profile issue.	**AML issues are moving back up the agenda for senior management** with 88 percent of respondents saying AML is a priority for senior management.
Cost of compliance	**The cost of AML compliance increased sharply.** The average increase over the previous three years was 61 percent, with no respondents reporting a decrease in investment.	**AML costs grew beyond expectation.** Average costs grew 58 percent in the previous three years, compared to a prediction of 43 percent growth in 2004.	**Costs continued to rise,** at an average rate of 45 percent, against a prediction of 'over 40 percent' in 2007. The extent of cost rises appeared underestimated by many.	**Costs continue to rise** at an average rate of 53 percent for banking institutions, exceeding previous predictions of over 40 percent in 2011.
Taking a global approach	**Establishing a global policy was a major challenge.** Nearly two-thirds of respondents had a global AML policy in place; however half of these undertook implementation at a local level.	**Banks took a more global approach** to managing AML risk. Eighty-five percent of internationally active banks had a global AML policy in place.	**There was much variation in approach.** Two-thirds of banks had a global policy in place, however almost three quarters implemented their procedures locally	**A global approach has been adopted in the majority of cases, but there is room for improvement.** Only 32 percent of the 95 percent of respondents who have a global policy are able to maintain global consistency across subsidiaries and branches.
Politically exposed persons	**PEPs were not a key area of focus,** with only 45 percent respondents performing enhanced due diligence on PEPs at account opening stage.	**There was more focus on PEPs.** Eighty-one percent of respondents performed enhanced due diligence on PEPs at account opening stage.	**PEPs were an area of focus for almost all respondents,** with 96 percent using PEP status as a risk factor and 88 percent monitoring PEPs on an ongoing basis.	**PEPs remain an area of focus, gaining increased attention from senior management.** Eighty-two percent of respondents said that senior management is involved in the sign off process.
Know Your Customer	**Banks increasingly understood the importance of AML compliance for existing and new customers.** Seventy-four percent of respondents remediated information gaps for existing customers, even if taken on before new KYC rules or guidance.	**Banks continue to use remediation programs to 'backfill' customer data.** There was a slight but not significant increase in the number of banks engaged in a remediation program, with 77 percent of banks having a remedial plan in place.	**KYC information was refreshed by almost all institutions, but not consistently across regions.** Ninety-three percent of respondents had a program in place to remediate information gaps, but the approach varied greatly. FATCA was the greatest immediate KYC challenge.	**KYC continues to be an area of concern,** with 70 percent of respondents stating that they had been subject to a regulatory visit focusing on this area.
Sanctions compliance	Not covered in survey.	**Sanctions compliance is now a major challenge and source of AML investment** due to increased regulatory focus. However, 20 percent of banks did not have any procedures in place to update principal information for the purposes of sanctions compliance.	**Sanctions compliance remained a challenge,** with client screening seen as the most difficult area. Seventy-four percent of respondents identified all directors and controllers. Worryingly, only 50 percent used the new MT202COV SWIFT message.	**Sanctions compliance remains a challenge as new issues emerge.** Seventy-five percent of respondents now use MT202COV SWIFT, but only 52 percent of respondents indicated that in every instance where a MT202COV lacked required information, it would be rejected.
Transaction monitoring	**Enhanced transaction monitoring systems was the main area of increased AML spending, but not universally.** Sixty-one percent of banks use internally developed systems, with 45 percent using those developed externally. However, 22 percent used neither.	**People are still the first line of defence in the fight against money laundering,** despite it being the greatest area of AML investment. Ninety-seven percent of respondents still relied primarily on their people to spot suspicious activity. Satisfaction with systems is 'neutral', at an average of 3.7 out of 5.	**Questions were starting to be raised about transaction monitoring.** Overall, respondents' satisfaction with transaction monitoring remained neutral, at an average score of 3.6 out of 5, but many regions were less satisfied than in 2007. It was still the greatest area of AML spending.	**Transaction monitoring systems continue to represent the greatest area of AML spending,** while satisfaction for these systems has declined with an average score of 3.42 out of 5 with regards to efficiency and effectiveness.
Regulatory approach	**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.	**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.	**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.	**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.

Detailed survey findings

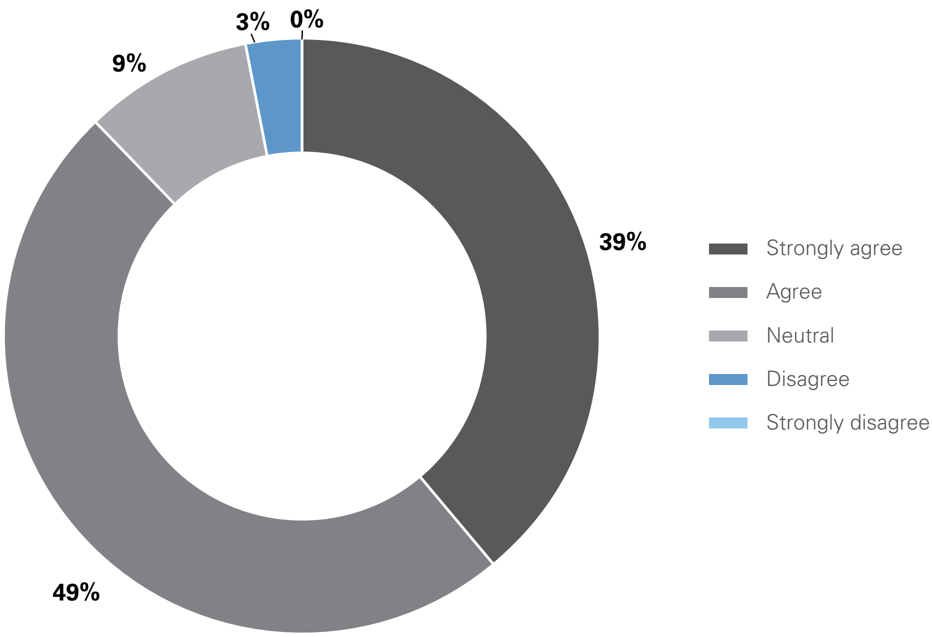
Senior management focus is on the rise again

Senior management interest in AML compliance has increased again since the decline during the financial crisis, with money laundering risks given regular and formal attention at Board meetings. Regulators have certainly done their part in raising the profile of AML with no shortage of fines being issued for failures to maintain adequate AML controls and, placing pressure on senior management to prevent further failings.

Eighty-eight percent of respondents stated that the Board of Directors takes an active interest in AML issues; this is an increase of 26 percent from our 2011 result. Given the impact that AML compliance can have on the reputation, share price, and economic viability of a financial institution, this is no surprise. In a period of heightened regulatory scrutiny and continuing globalization of AML regulation, organizations are faced with greater challenges to achieving and maintaining AML compliance. Although in a number of regions the number of fines has declined, the amount of each fine has increased significantly, highlighting the regulator's continued determination to prevent illicit activity and placing real pressure on compliance executives to prevent further failings.

Significantly, 98 percent of respondents confirmed that AML issues are discussed formally at the Board, with the majority stating that this was done on a quarterly or as required basis. The greater involvement of the Board of Directors is in no small part due to increasing and evolving regulatory pressures and the expectations that a Board member should have responsibility for maintaining effective AML controls. In some jurisdictions, the prospect of individuals being criminally prosecuted has become a reality. Over the period of this edition of the survey the introduction of the FATCA and the proposals for key regulatory changes such as 4MLD suggesting that senior management's attention continue to increase implementation.

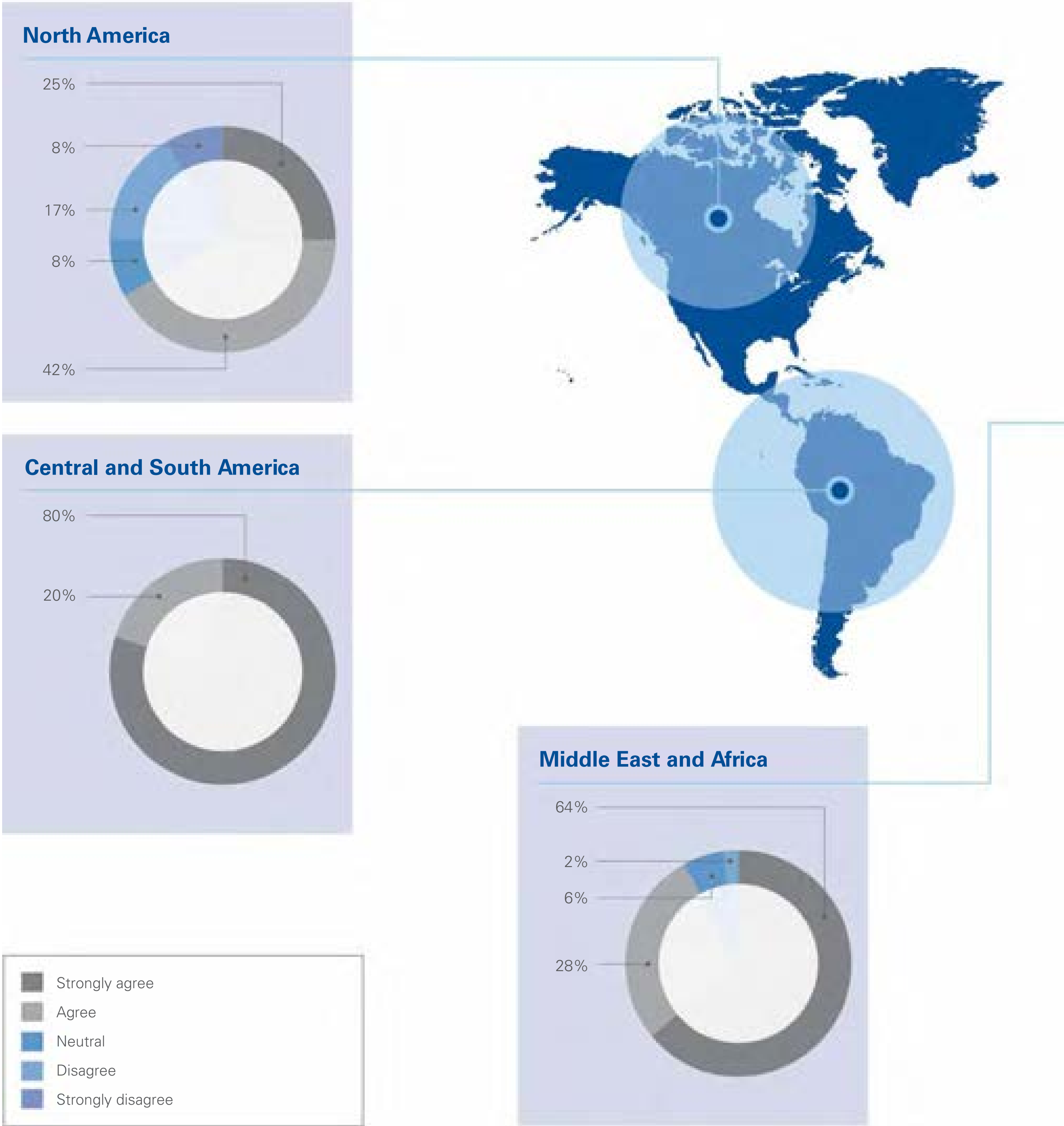
The Board of Directors take an active interest in AML issues:



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

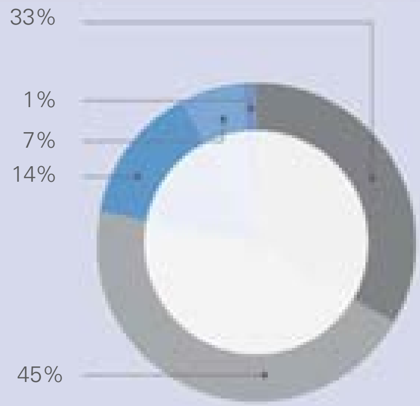
Eighty-four percent respondents stated that money laundering is considered a high risk area within their business risk assessment, further emphasizing how seriously senior management deems failures to meet the regulatory requirements. Regions with more developing countries such as the Middle East and Africa, Asia Pacific and Central and South America have needed to take a more proactive approach to reduce their vulnerability to financial crime, and create an infrastructure which will facilitate the effective enforcement of their ever evolving AML standards. This is evidenced in our survey results with 100 percent of respondents in Central and South America stating that AML is high risk, and 92 percent in Asia Pacific, Middle East, and Africa.

Exposure to money laundering is considered a high risk area in your business risk assessment:

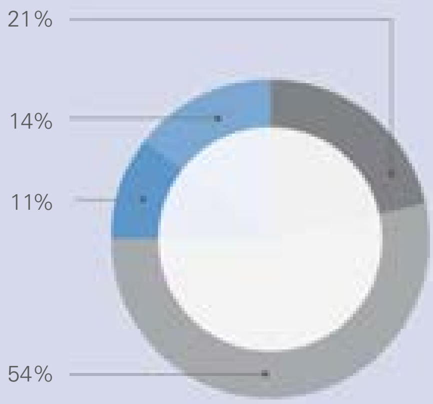


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

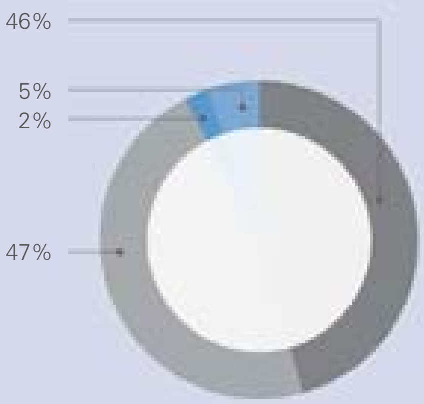
Western Europe



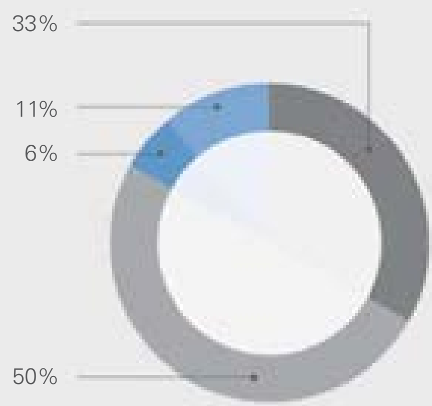
Russia, Central and Eastern Europe



Asia Pacific

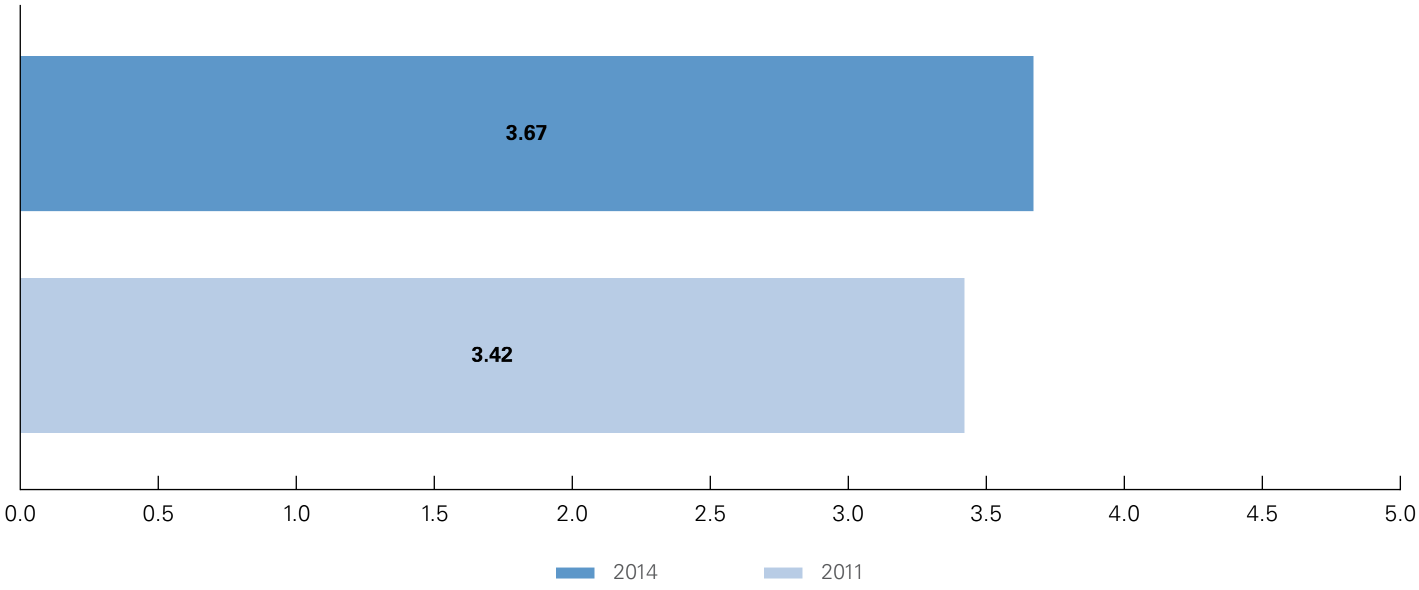


Offshore locations



Seventy-five percent of respondents stated that the same AML policies and procedures are applied to all branches and subsidiaries, demonstrating that senior management is taking a more global approach to AML compliance. Respondents also stated that implementing a globally consistent AML framework is very challenging scoring it 3.67 out of 5 as key differences in national legislation and data privacy standards make it challenging to implement globally consistent standards. Regulators have criticized organizations for a failure to consistently implement and apply their policies and procedures. Senior management cannot underestimate the importance of establishing an effective and consistently applied AML compliance framework. The average rate of increase globally was 53 percent compared to a prediction of 40 percent in 2011.

How challenging respondents consider implementing a globally consistent AML framework, with 1 representing least challenging and 5 as most challenging.



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

KPMG Insight

As management attention continues to be pulled in multiple directions there are many who feel that it is no longer possible to meet all regulatory expectations. The AML burden placed on senior management time will continue to increase, making it more challenging than ever to meet the regulatory requirements. Board members will need to consider how they will manage the additional pressures on their time while still fulfilling their duties of care, skill and diligence. Appointing a Board member with responsibility for AML is no longer a "nice to have". Senior management need to concentrate on establishing strong AML assurance mechanisms and globally consistent procedures, to avoid censure, and possible prosecution.

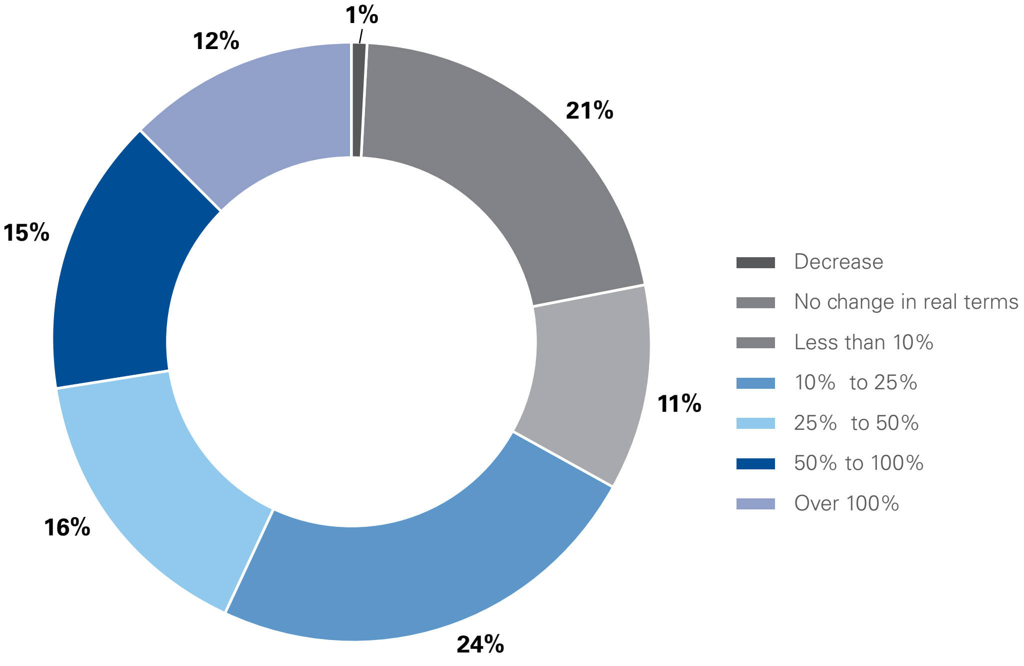
Cost of compliance continues to be underestimated

The cost of AML compliance has increased since our last survey and shows no signs of slowing down in the near future. Accurate cost forecasting is vital for members of senior management to make informed decisions, but it remains a key area of weakness.

In 2011, 8 percent of respondents predicted an over 50 percent increase in expenditure. In reality 22 percent of respondents increased expenditure by over 50 percent during the three year period from 2011. It is not uncommon for survey respondents to underestimate the increase in AML expenditure; it has been a consistent theme over all four of our surveys. Although the reasons behind this remain unclear, it may be related to the fact that AML practitioners as well as senior management do not anticipate the announcements of regulatory changes, nor the speed in which new regulations are expected to be implemented.

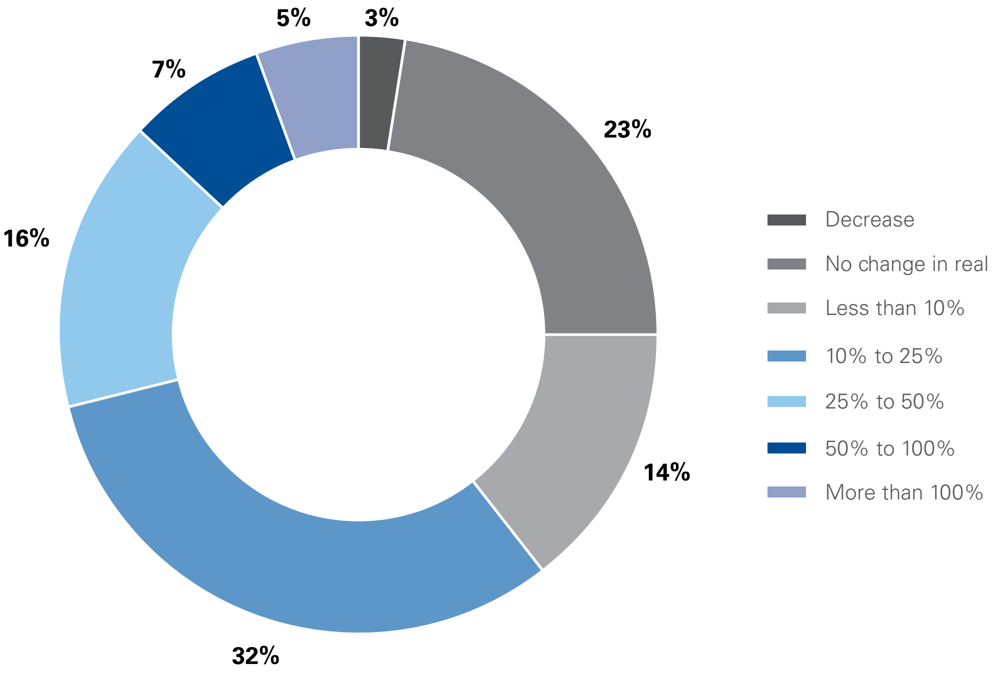
Seventy-eight percent of survey respondents reported increases in their total investment in AML activity, with 74 percent also predicting further increases in AML investment over the next three years. The most significant increase in investment occurred in the APAC region where 39 percent of respondents reported over 50 percent increase in AML investment. The average rate of increase globally was 53 percent compared to a prediction of 40 percent in 2011.

How much has total investment in AML activity increased compared to three years ago?



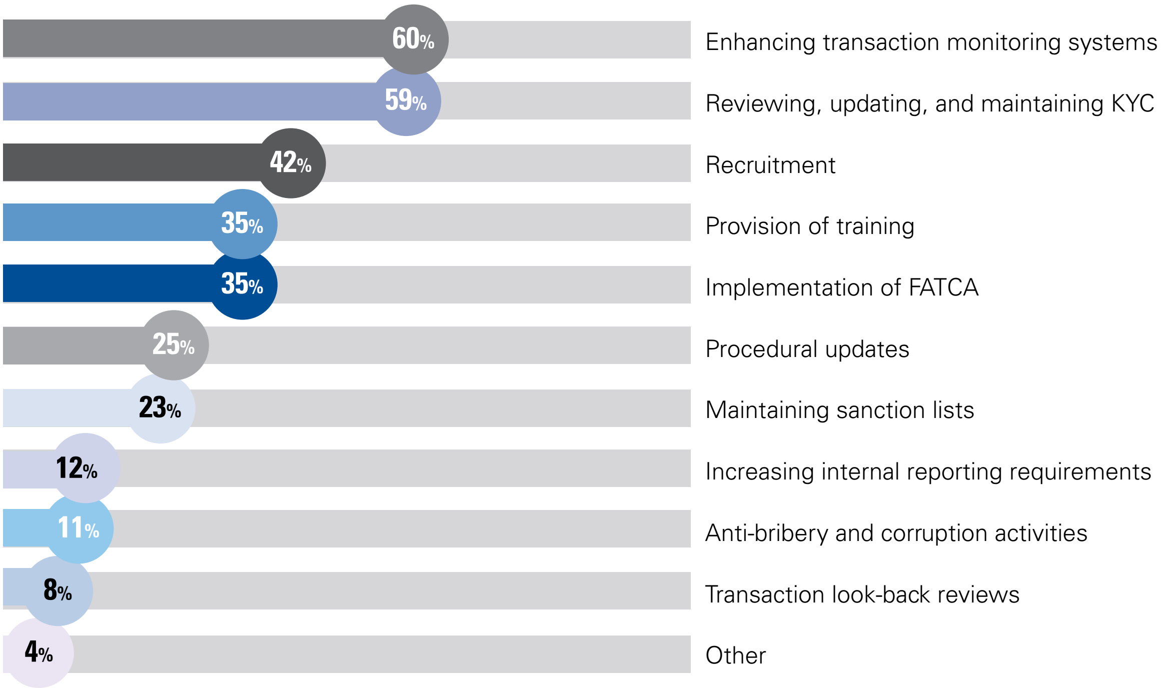
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Anticipated increase in AML investment over the next three years.



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Areas of AML budget investment



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

The top 3 areas where AML budget has been invested are:

1 Transaction monitoring systems

2 Know Your Customer ("KYC") reviews, updates and maintenance

3 Recruitment

Sixty percent of survey respondents indicated that transaction monitoring systems represented the largest AML investment. Financial institutions are spending significant amounts of their resources on automated transaction monitoring systems and member firms experience suggests that clients are becoming increasingly unhappy with their current automated monitoring efforts, looking for software that can reduce the burden on the compliance department. Some of these systems are implemented quickly "out of the box" to satisfy regulators, and only later are they calibrated to detect relevant suspicious activity.

Fifty-nine percent of survey respondents listed KYC reviews, updates, and maintenance as accounting for the second largest AML investment. Ongoing changes in KYC standards have also led to heavy investment in this area, predominantly in Central and South America where 100 percent of respondents listed KYC as the largest AML investment. Recent regulatory findings suggest there is still a struggle in determining what constitutes adequate customer due diligence and when to apply enhanced due diligence, leading to investment in large scale remediation projects and notification of regulatory visits for further inspection. For those that have solved the problem of initial KYC, the challenge is now how to keep it up to date.

Forty-two percent of survey respondents listed recruitment as the third largest investment in AML compliance. The results of our survey indicate that recruiting adequately skilled resources remains a challenge. However, this problem may be exacerbated by the fact that not only is there a shortage in the market for AML professionals, but retention of skilled staff is also a challenge, particularly as large global players launch major change programs, while regulators also grow their inspection teams. It can be expected that in addition to recruitment costs, financial services firms will need to reassess costs associated with successfully retaining staff, including additional investment in their well-being, development, and training.

KPMG Insight

In an environment that has continued to be impacted by the financial crisis senior management need to be asking some pressing questions when it comes to AML investment. Large sums of money continue to be spent on improving transaction monitoring but is this yielding the expected return? Why is there a continued need to fund large scale KYC remediation exercises? Is this purely the result of regulatory change or is the periodic review process not picking up key gaps in KYC? We believe that senior management will continue to underestimate AML expenditure unless lessons are learnt from past mistakes.

Training and recruitment initiatives need a globally consistent approach

Effective training is vital for developing and retaining AML professionals as well as ensuring the successful implementation of an AML framework. There appears to be an inconsistent approach to training of non-AML staff, including the Boards of Directors, which is further exacerbated by regional discrepancies.

Only 62 percent of survey respondents indicated that the Board of Directors receives AML training, which is not as high as we would have anticipated, particularly when Boards are more involved in AML than, ever before. All Boards of Directors should receive AML training as a knowledgeable Board of Directors is an essential component in the successful execution of an AML compliance framework. Additionally, AML training provides leadership with the ability to better understand and quantify the risks of being exposed to financial crime at both the business and client level.

Eighty-six percent of survey respondents indicated that front office staff receive AML training, reinforcing that the greatest exposure to money laundering rests with the front office. However, the variation between Asia Pacific and the Americas was fairly marked for this question. Seventy percent of survey respondents from Asia Pacific specified that AML training was provided to middle office functions, compared to 90 percent of respondents in North America. A further 58 percent of respondents from Asia Pacific stated that the internal audit team receives AML training compared to 100 percent of respondents in Central and South America. The regional differences in the provision of AML training reflect the high level nature of regulatory training provisions. The closest example to a globally applicable set of regulatory requirements in this area may be in the Financial Action Task Force (FATF) principles, which specify that firms should provide AML training in line with their national government requirements, but do not specify which functions require such training. As a result, there is a large potential of divergence in approach, which is reflected in the survey results.

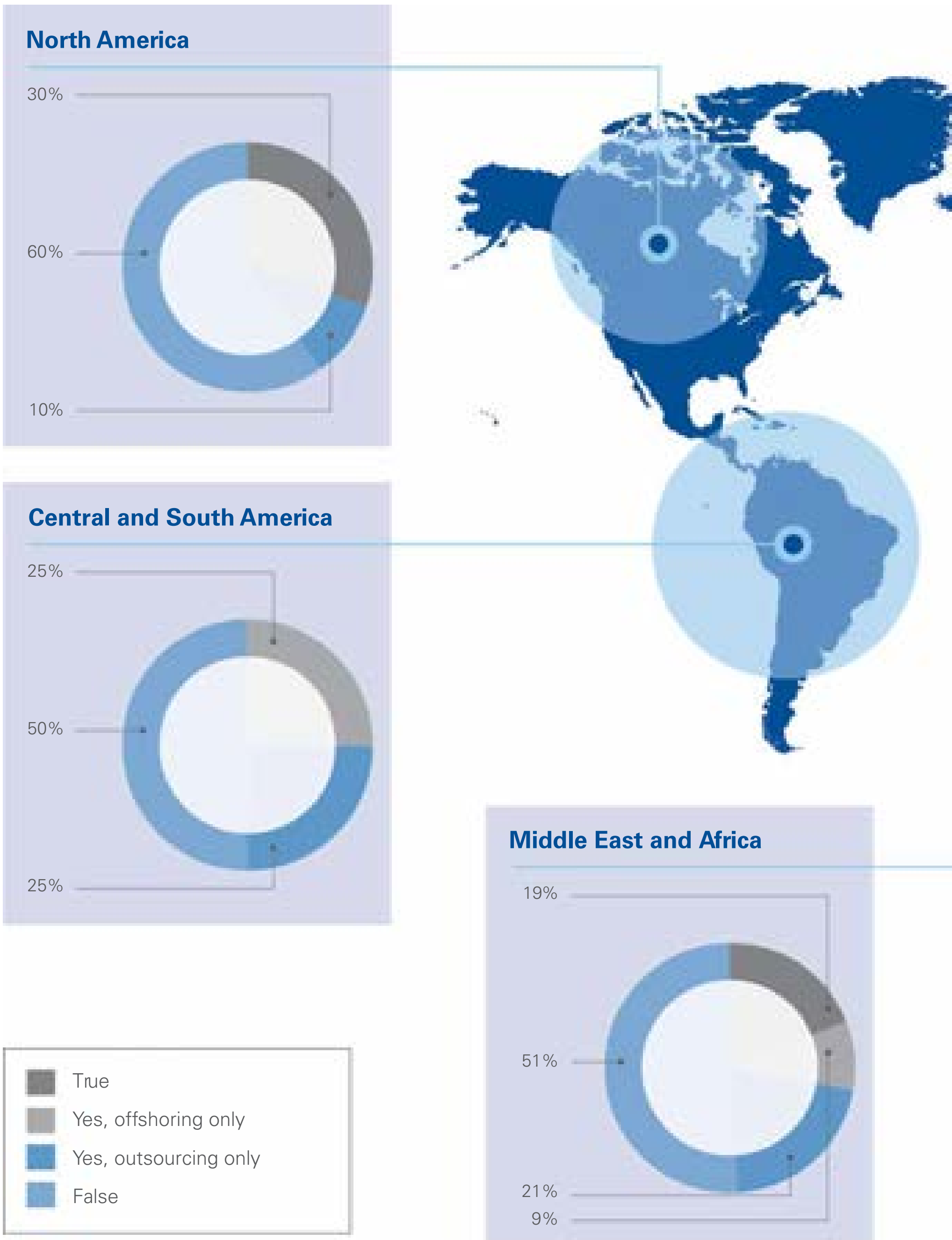
KPMG Insight

Senior management are responsible for setting the risk appetite of the organization and regulators expect management to set the 'tone from the top' when it comes to AML compliance. In KPMG member firms' experience training is key when it comes to making informed compliance decisions and embedding AML awareness into an organization's risk culture, and we would therefore question the wisdom behind not providing AML training to all relevant staff members and in particular the Board members. In an increasingly globalized world, firms should also be questioning the efficiency and effectiveness of their current training methods. Increasingly, clients are using computer based training tools to maximize the impact and cost effectiveness of training, paired with role-specific classroom training for higher risk roles.

Outsourcing and off-shoring are growing trends, despite senior management concerns

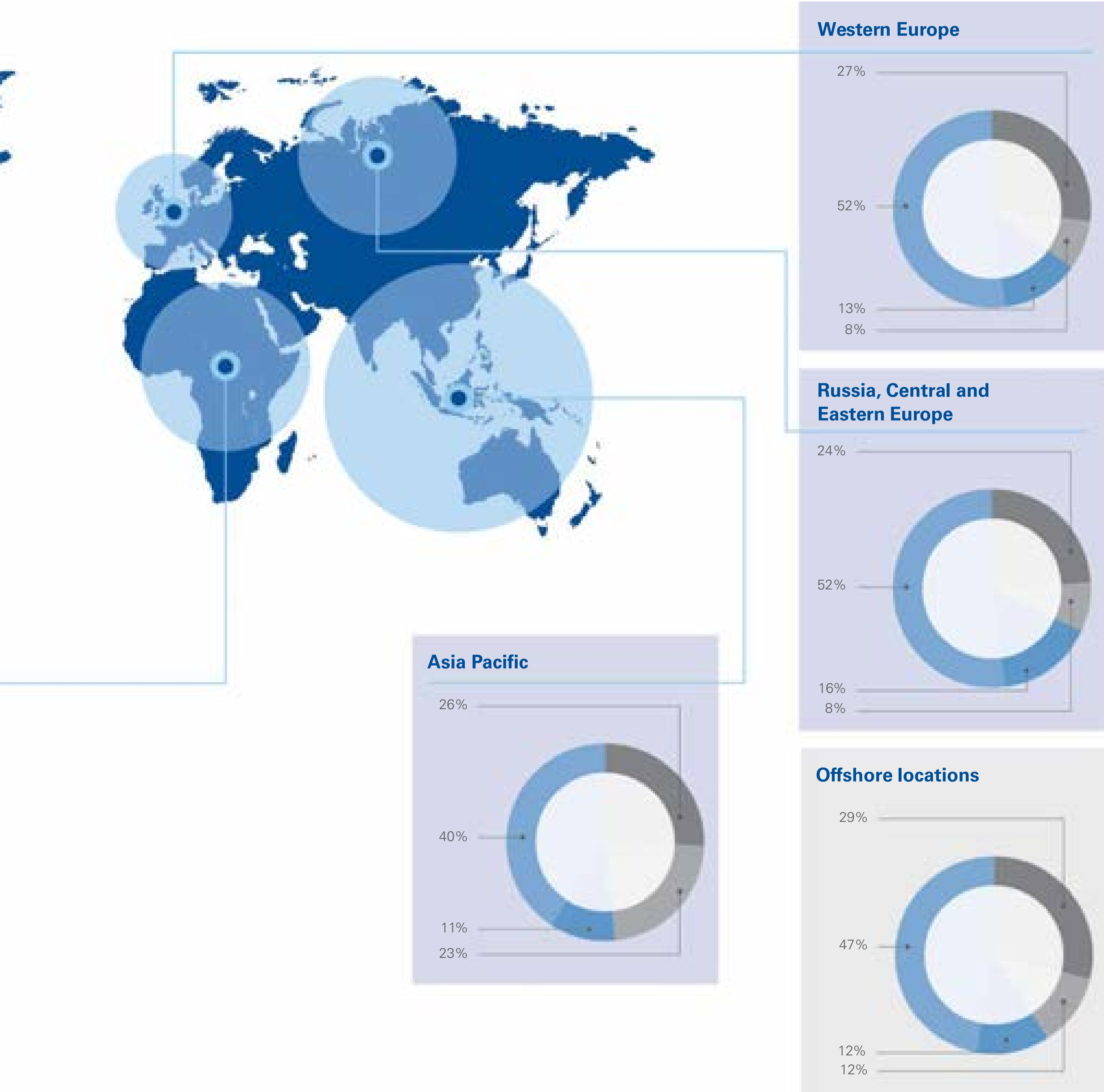
Outsourcing and off-shoring of AML functions are growing trends, but respondents still appear to have reservations about adopting such practices due to a perceived lack of control and oversight. This suggests that in some cases, fears of regulatory fines may outweigh the cost and resource benefits of outsourcing and off-shoring.

The outsourcing and off-shoring of AML functions is a growing trend:



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Fifty percent of respondents do not expect outsourcing and off-shoring to rise in the future. Nevertheless, these figures represent a significant decrease from our previous findings in 2011 where 80 percent of respondents did not believe either of these would be growing trends.



Ten percent of respondents in 2011 stated that they outsourced and/or off-shored some of their AML functions. However, by 2014, 31 percent of respondents have outsourced some of their AML functions; the most common function to be outsourced is account opening. This is not surprising as this function is process driven and can be fairly labor intensive.

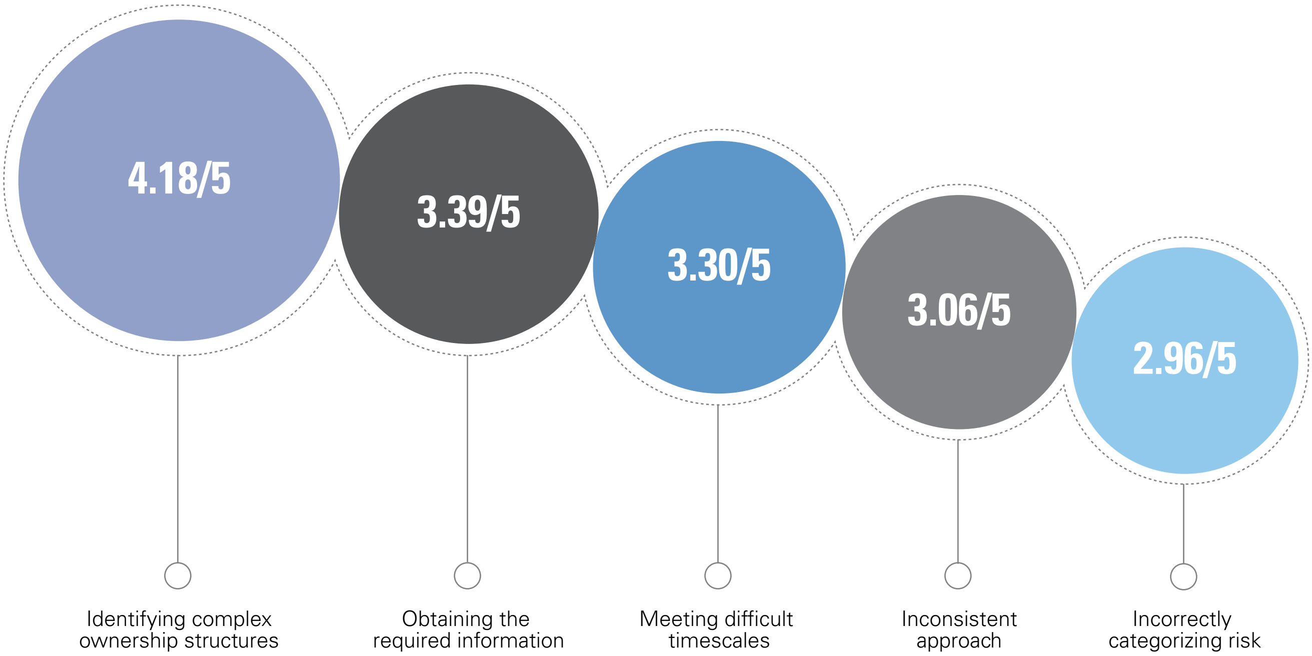
Fourty-six percent of respondents have off-shored parts of their AML function; with payment and sanctions screening topping the list. From KPMG member firms' experience, we know that resourcing and cost constraints are key drivers in the decision to outsource or off-shore these functions.

Respondents indicated that loss of control or oversight is the principal reason for rejecting outsourcing of AML functions. It appears from our results that the potential cost and resource saving benefits that arise from outsourcing and off-shoring are weighed against the costs imposed by regulators if an organization fails to get it right. Specifically, regulators impose strict guidelines on these practices and make clear that full responsibility remains with the outsourcing organization. As regulators hold members of senior management responsible for ensuring adequate controls are in place, it is unsurprising that they have reservations about loss of oversight despite the benefits.

KPMG Insight

In an environment of cost cutting and resource shortages it was intriguing to see that a significant number of respondents do not outsource and/or off-shore any AML functions. We cannot help but wonder whether stringent regulations have made organizations sacrifice good business practice for compliance concerns. Senior management should not let the fear of a loss of control prevent its organization from reaping the potential benefits that outsourcing and off-shoring can bring. A robust risk management and control framework can be developed to better manage these risks and alleviate the pressure placed on the current compliance personnel. We expect both off-shoring and outsourcing to likely continue to increase as global trends, because cost and resources are paramount considerations for the long-term sustainability of global AML programs.

Please rank each area in terms of how challenging the implementation of a risk based approach is to CDD collection.



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Transaction monitoring costs continue to soar as satisfaction declines

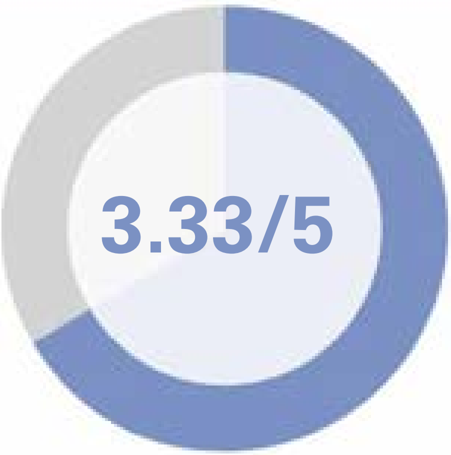
Despite increased investment in transaction monitoring systems, satisfaction has declined. Although transaction monitoring systems continue to represent the greatest area of AML spending, it appears that regulatory requirements are still outpacing system improvements.

Sixty percent of respondents reported transaction monitoring as the largest investment in anti-money laundering controls. Notably, since KPMG's first global AML survey in 2004, transaction monitoring has consistently been ranked the largest AML compliance cost driver. The continued investment in such systems may represent the continual changes in requirements and expectations as well as the advances in technological capabilities over this period of time.

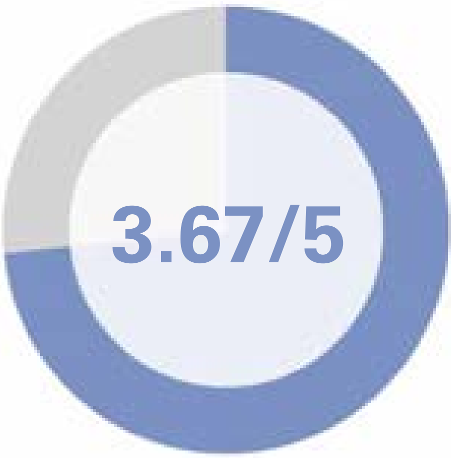
Satisfaction with transaction monitoring systems has declined with survey respondents ranking satisfaction an average of 3.42 out of 5, compared to 3.6 in 2011. The reason for the decline in satisfaction seems linked to the increased demands on these systems as the costs have continued to increase, but so too have the requirements and expectations of these systems and the number of staff that use them.

Respondents were asked to rank their satisfaction with their transaction monitoring system, with 1 as least satisfied and 5 as highly satisfied. The regional breakdown of results is provided below.

North America



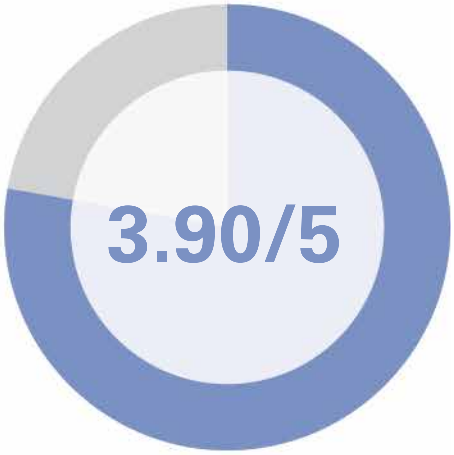
Central and South America



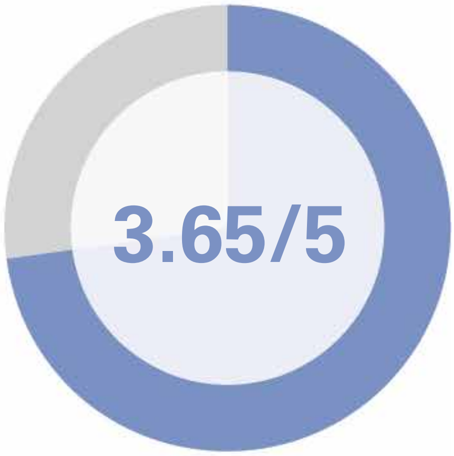
Middle East and Africa

Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

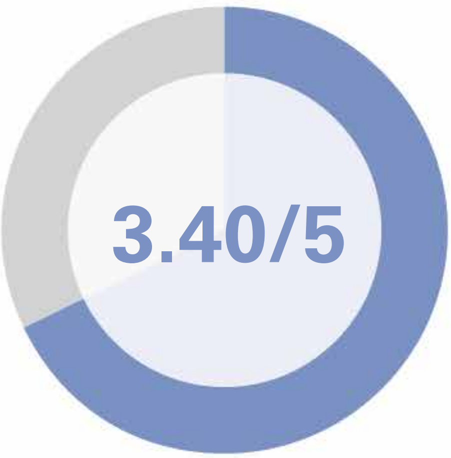
Western Europe



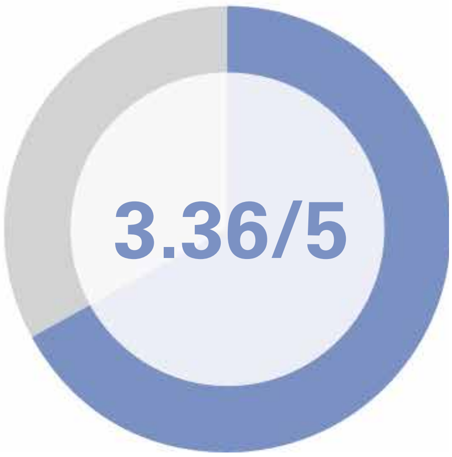
Russia, Central and Eastern Europe



Asia Pacific



Offshore locations



Only 58 percent of respondents stated that their organization's transaction monitoring system is able to monitor transactions across different businesses and 53 percent of respondents said they are able to monitor across multiple jurisdictions. This represents a significant improvement since our 2011 survey in which less than one-third of respondents were able to monitor across jurisdictions and also up from one-fifth since the 2007 survey. However, we expect this increase to continue as part of complying with growing regulatory expectations.

Only 49 percent of respondents stated that they were able to share transaction information across different businesses and only 45 percent of respondents said that they are able to share across different jurisdictions. Although monitoring across jurisdictions and businesses remains an area for improvement, an area of even greater weakness has been identified with respect to the ability to share information from transaction monitoring across businesses and jurisdictions. Given that these may be crystallized risks, there is a need for a greater sharing than is the case today.

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Moving to a position in which an organization can see the full picture by monitoring and sharing its customers' transactions across businesses and jurisdictions will help facilitate the identification of any unusual transactions and behaviors. While many financial institutions continue to throw money at these systems in an effort to update and validate them, additional scrutiny should be applied towards what will be sustainable for the long term, instead of aiming to meet today's set of minimum regulatory standards. As senior management considers the concerning outlook on return on investment, it may find comfort in considering the cost benefit of investing in a firm's AML systems versus being sanctioned or fined, damaging the firm's reputation and facing regulatory, shareholder and public scorn.

Know Your Customer continues to be the focus of regulators

Regulatory visits continue to focus on KYC, which has directly impacted investment decisions as respondents ranked KYC the second largest AML investment. However, despite the increased regulatory attention and investment, key obstacles remain.

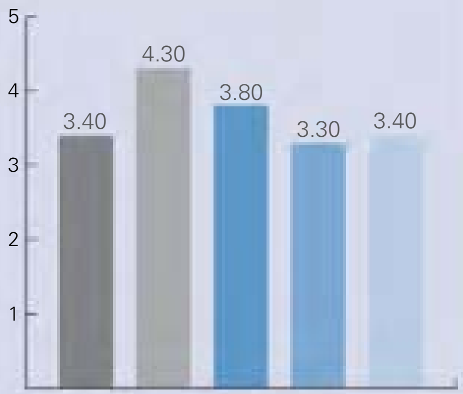
Seventy percent of respondents stated that they had received a regulatory visit which focused on KYC, suggesting KYC is still under the spotlight. Regulatory investigations have frequently drawn attention to significant gaps in the KYC information maintained by financial institutions.

Sixty-eight percent of respondents stated that full identification is obtained for intermediate owners and entities. Regulators expect financial institutions to identify their clients' ownership structures and the rationale behind them. In the current environment of increasing regulation and risk it is important to obtain information on who owns and controls your clients' structures. Unpeeling the layers of ownership can be complex and time-consuming, but it is necessary to identify the ultimate beneficial owner, so we anticipate an increase in this practice over the next three years.

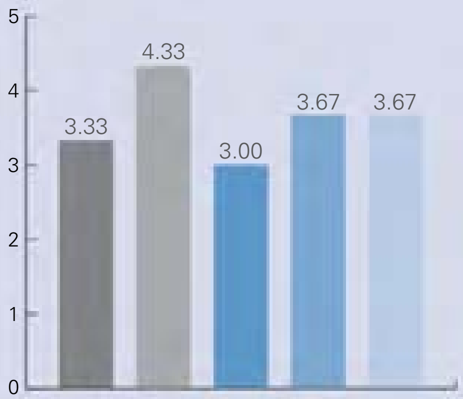
Respondents stated that identifying complex ownership structures was the most challenging area in the implementation of a risk based approach to KYC collection. Respondents in Russia, Central and Eastern Europe and Central and South America found this area particularly challenging. KPMG member firms' experience working with financial institutions in these regions suggests that identifying ownership structures is particularly challenging where an intermediate entity resides in a jurisdiction where AML requirements are not as stringent or data privacy provisions are particularly strong.

We asked respondents to rank each area in terms of how challenging the implementation of a risk based approach is to collecting customer due diligence. Respondents ranked these areas from 1-5 with 5 representing the most challenging, and 1 as the least challenging.

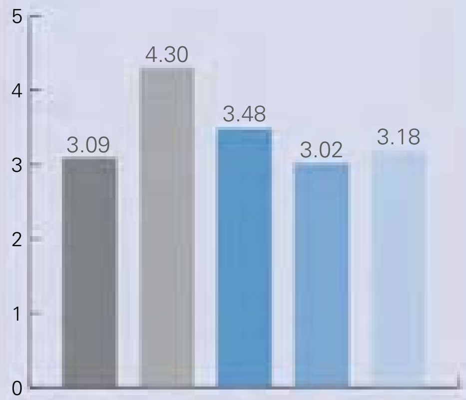
North America



Central and South America



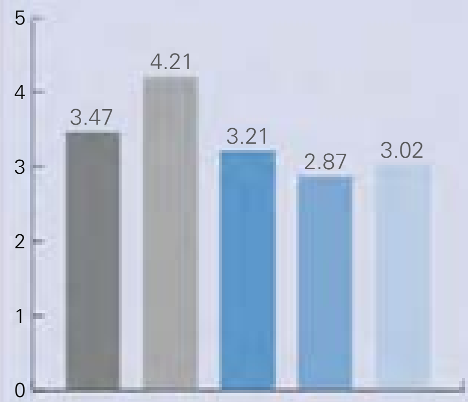
Middle East and Africa



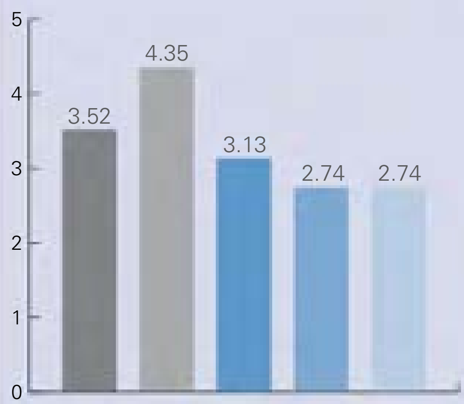
- Obtaining the required information
- Identifying complex ownership structures
- Meeting difficult timescales
- Incorrectly categorising risk
- Inconsistent approach

Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

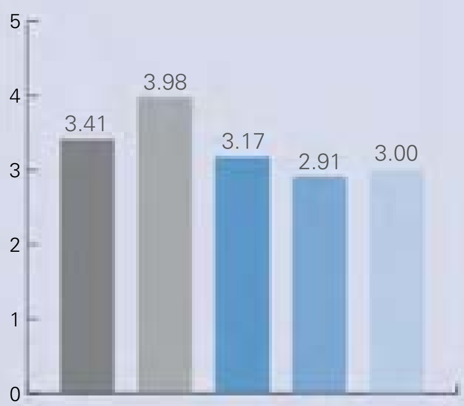
Western Europe



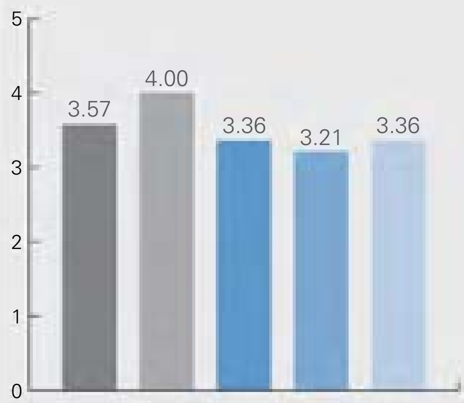
Russia, Central and Eastern Europe



Asia Pacific



Offshore locations



Sixty-six percent of respondents are leveraging their current KYC programs to meet FATCA requirements. Our 2011 report had identified FATCA as presenting one of the greater immediate challenges, and since then, many financial institutions have undertaken enhancements to their KYC arrangements in order to capture US indicia to comply with FATCA. There has also been a noticeable impact on systems and controls used to consolidate relevant KYC information. A significant number of AML professionals have become responsible for delivering FATCA enhancements and remediation exercises, despite the legislation's relation to tax.

Just over 49 percent of respondents think that electronic verification checks leave organizations further exposed to cybercrime. It appears that cybercrime concerns are reducing the use of automated online verification, which can have a significant long-term impact on financial institutions and their customer relationships. Specifically, by not embracing the automated technology in this area, financial institutions will forever be asking clients to produce passports or other forms of identification causing inconvenience to the customer and turning their backs on potentially large cost and time savings. While it is important to consider the risks posed by newer technologies, we believe that financial institutions should face these head on by assessing and mitigating the risks in order to take advantage of time and cost savings.

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Although the focus still remains on remediating KYC files to address and identify any deficiencies, we strongly encourage global organizations to examine their data governance arrangements and determine whether they are likely to have future gaps in data. KPMG firms' client work tells us that there is often an assumption that client data is owned by the AML team and not by the front office; as different departments increasingly seek to leverage this data, it is becoming increasingly critical for businesses to enhance clarity surrounding data responsibility, ownership, and accountability. Financial institutions need to have an action plan in place to prepare themselves for the inevitable adjustment from large scale remediation programs to efficient and effective periodic reviews. Senior management should consider whether existing KYC documentation enables the financial institution to develop a global profile of its clients.

Politically Exposed Persons (PEPs) continue to leave organizations exposed

Growing regulatory pressure on financial institutions and the aftermath of political instability in certain regions have raised the profile of political risk for banks. Financial institutions are more focused than ever on the need to exercise more scrutiny over PEP transactions.

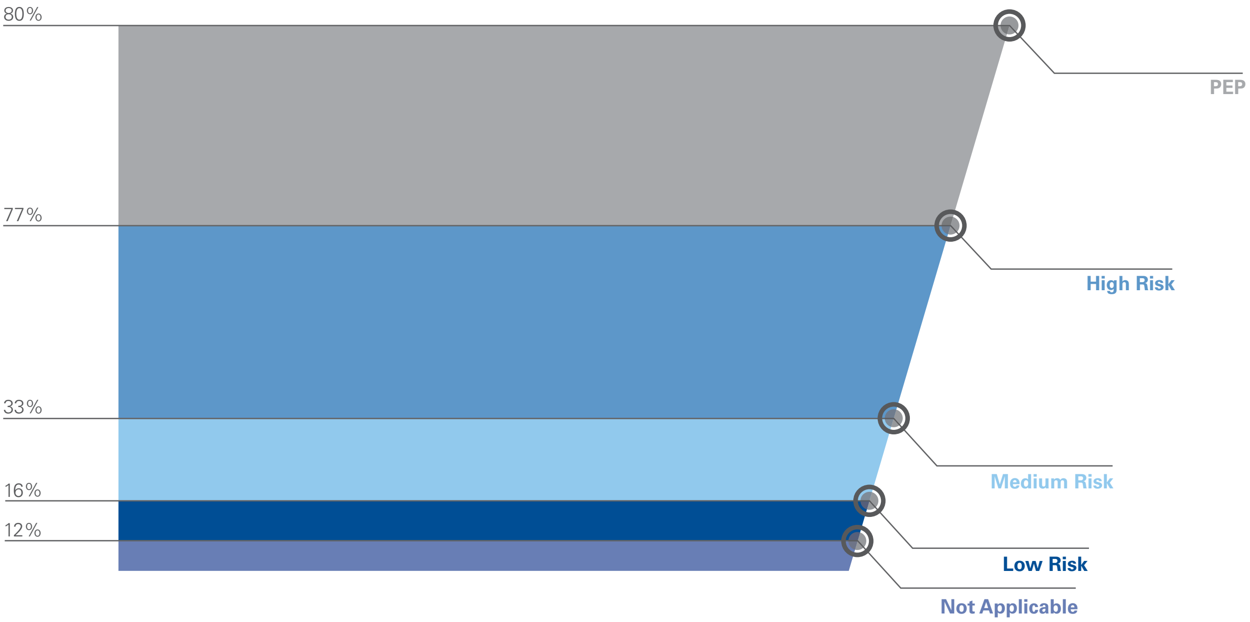
Eighty percent of respondents stated that PEP customers are required to provide documents to evidence their source of wealth and/or income. Seventy-seven percent stated that this is required for all high risk clients. As we stated in the 2011 survey report, senior management should be more actively involved in the decision-processes with respect to the highest risk relationships. We are encouraged to see that senior management are engaging with compliance in these areas and not solely in relation to PEPs.

According to our survey respondents, the top 3 methods of identifying PEPs:

1. 70 percent of respondents use commercial lists
2. 68 percent use information provided by the customer
3. 60 percent consider information in news searches.

Eighty-four percent of respondents stated that high risk relationships are signed off by senior management. Regulators have issued a number of fines against organizations that have failed to undertake effective enhanced due diligence on relationships with PEPs. A particular area of concern has been the failure to evidence the PEP's source of wealth/income. There are significant regional differences perhaps reflecting different regulatory expectations.

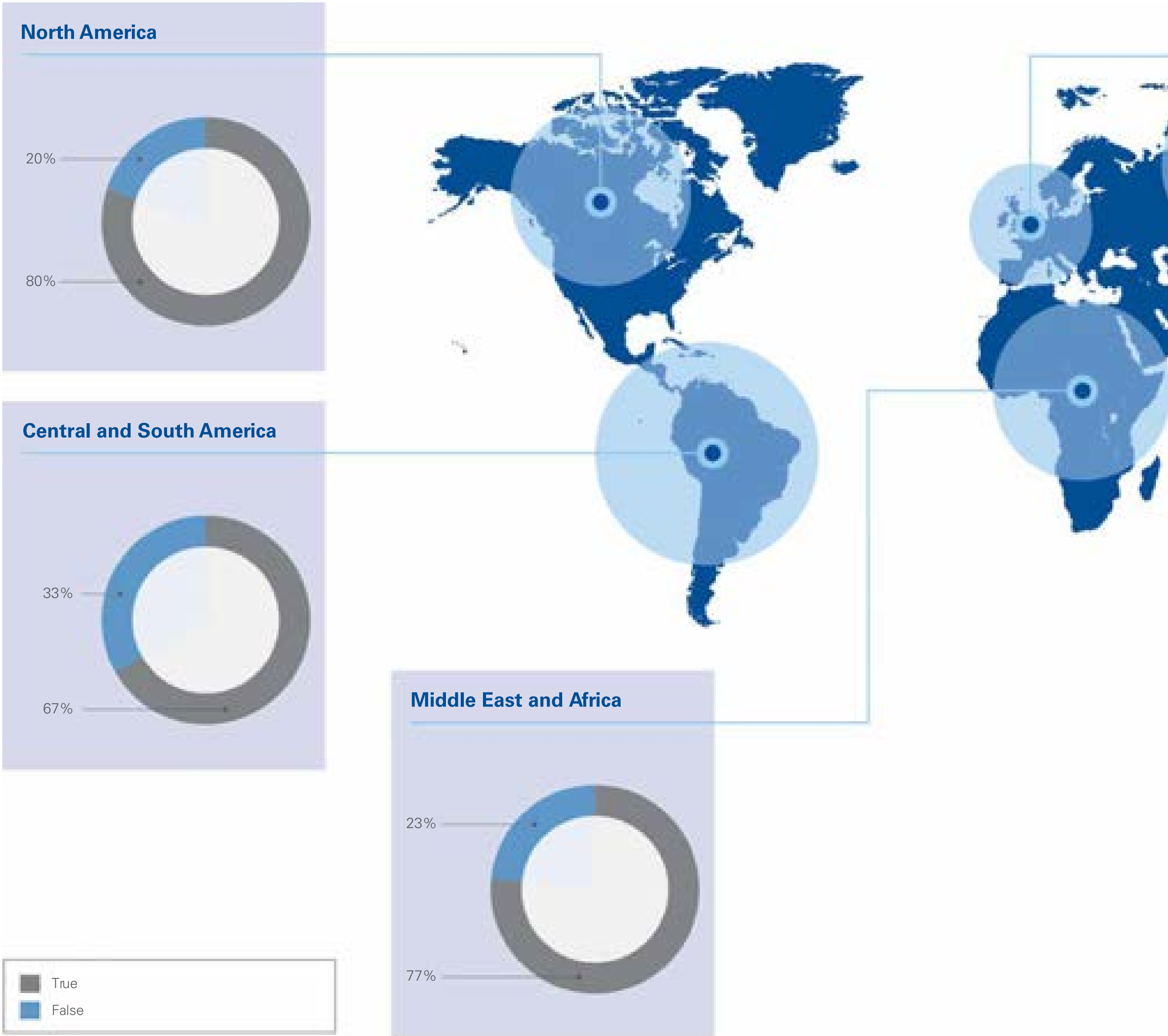
Risk categories where organizations require customers to provide documents to evidence their source of wealth and/or source of income.



Note: Percentages may not add up to 100% as respondents were instructed to select all that apply.
Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

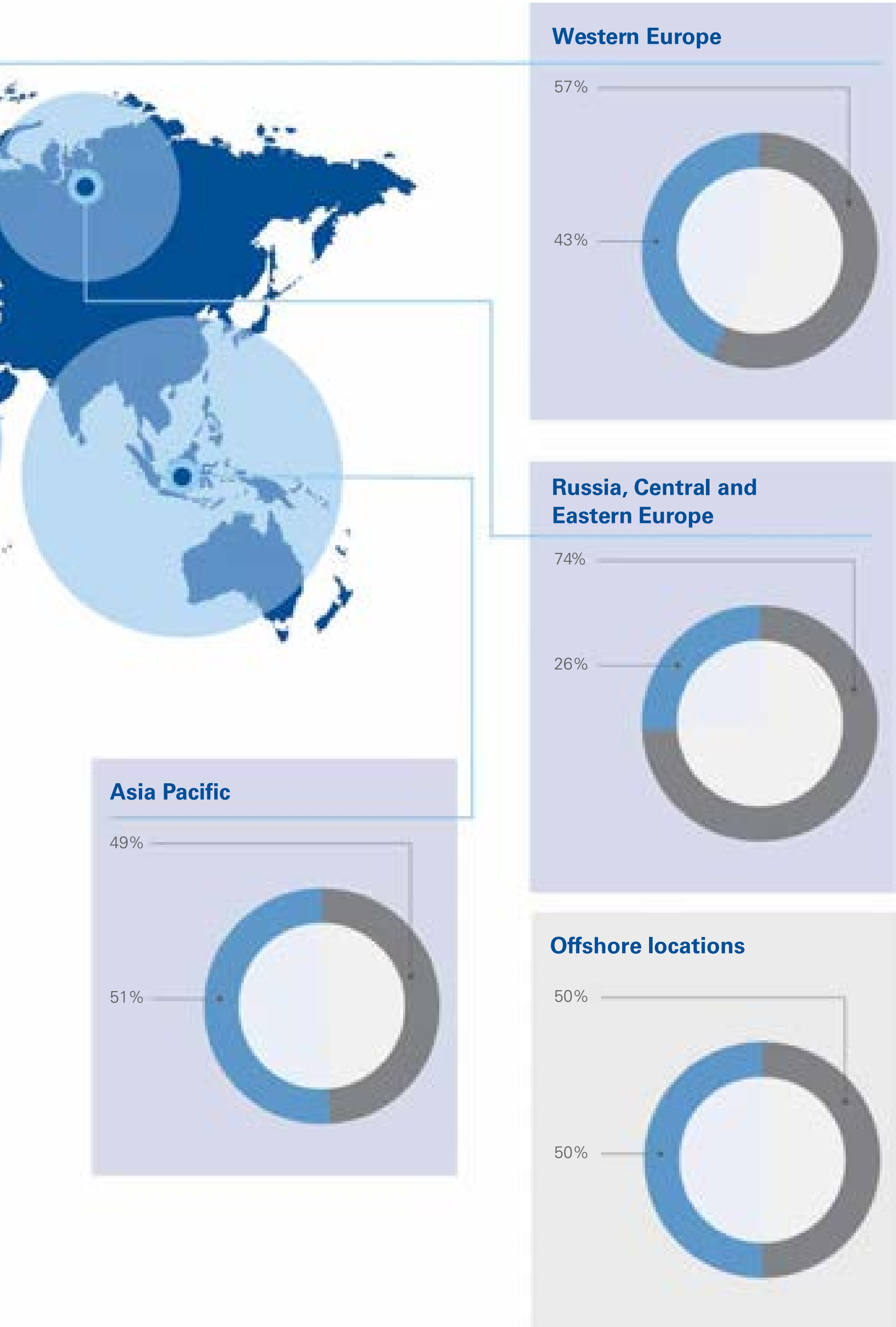
Sixty-five percent of respondents stated that their organization currently captures and distinguishes between domestic and foreign PEPs. The proposed 4MLD introduces new requirements for domestic PEPs which facilitates a risk-based approach with regard to the level of due diligence performed on domestic PEPs compared to foreign PEPs. The Directive is expected to clarify that enhanced due diligence will be appropriate in all instances where the business relationship is deemed high risk, which may affect financial

Organizations that currently capture and distinguish between domestic and foreign PEPs



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

institutions that do not currently carry out enhanced due diligence for high risk domestic PEP relationships. However, member firms's work with clients suggests that many banks have already adopted a policy position which includes domestic PEP considerations.



KPMG Insight

Despite increasing regulatory scrutiny in this area it appears that many financial institutions are struggling when it comes to enhanced due diligence on PEP relationships. The importance of obtaining robust source of wealth/income information should not be underestimated. Much of this information is often available in the public domain, but firms struggle to turn the information into a coherent story and hence identify gaps and red flags. The approach to domestic PEP relationships will need to change with the implementation of 4MLD in some organizations. The risks posed by PEPs, and regulator's attention on them, show no sign of subsiding.

Sanctions compliance shows signs of improvement, but still a sore spot

While there has been a noticeable compliance push to meet the sanctions requirements, there is still room for improvement, particularly when it comes to validating screening systems and rejecting funds.

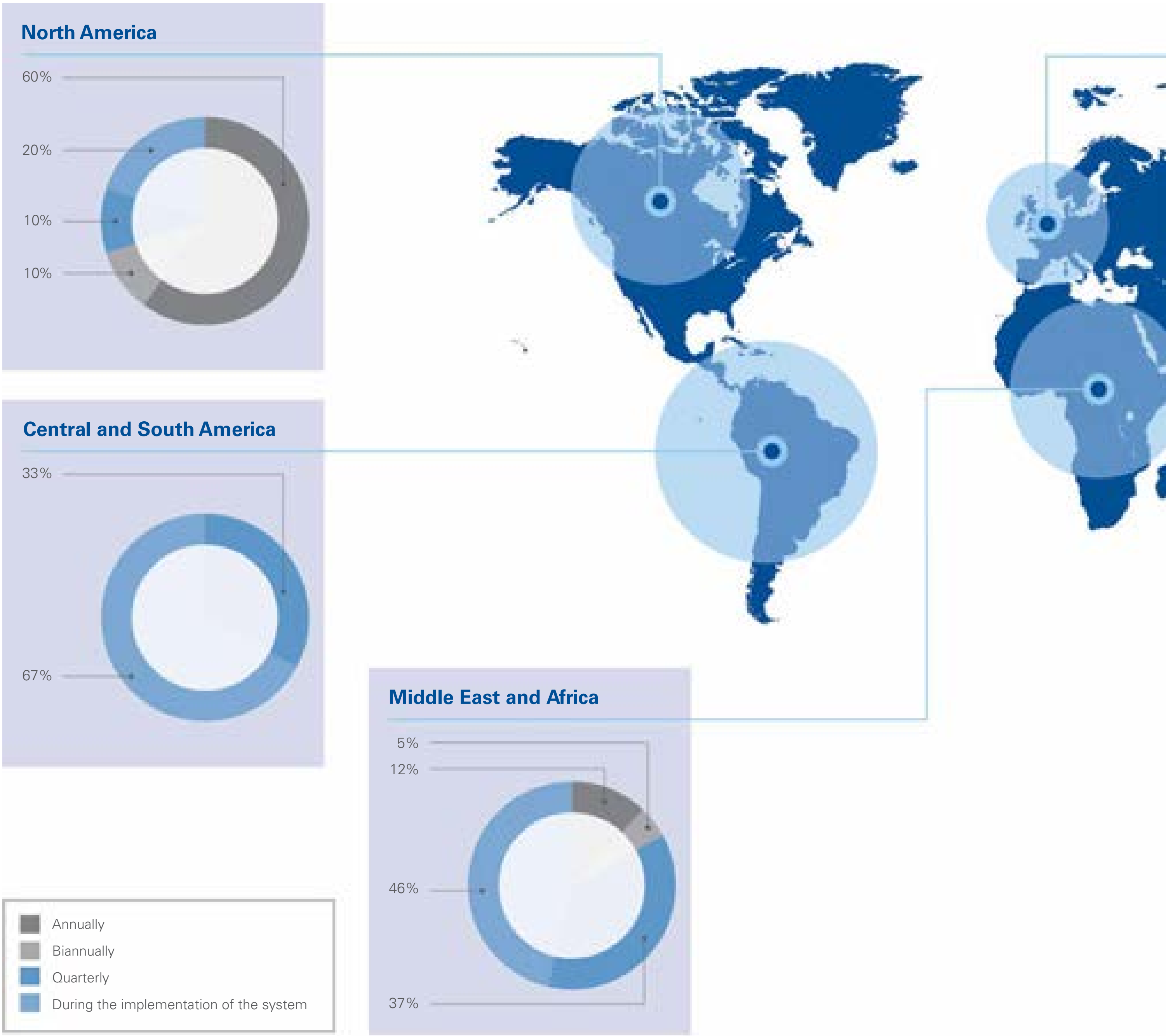
As with our 2011 survey, sanctions compliance remains difficult as respondents rank customer screening the most difficult challenge. Respondents have identified the poor quality and lack of customer information as the most challenging aspects of customer screening. This is consistent with what member firms see when working with clients on their corrective actions to address data quality and completeness issues of customer information.

More than 70 percent of respondents find sanction screening systems effective in their organizations; however, only 42 percent of respondents test their screening systems for effectiveness at the implementation stage.

The financial institutions in North America and Western Europe report the highest levels of satisfaction with regards to their screening systems, perhaps reflecting more developed sanctions screening systems and the further matured nature of sanctions compliance in the regions. Further, in North America, almost 60 percent of respondents indicated testing the effectiveness of their screening at least on an annual basis. In the long-term, regulators are not likely to accept one-off effectiveness checks and expect ongoing assurance programs on all aspects of a firm's program. System effectiveness is one of the harder areas to test, with firms increasingly using dummy data to check the end result is as expected.

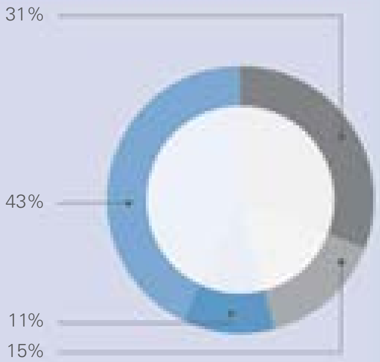
Almost 75 percent of respondents reported using the MT202COV SWIFT message for cross border wire transfers, a significant increase from 50 percent respondents since our last survey in 2011.

Regularity of sanctions screening software testing

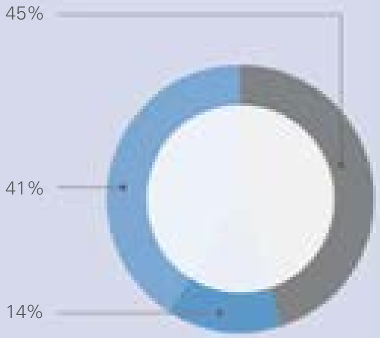


Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

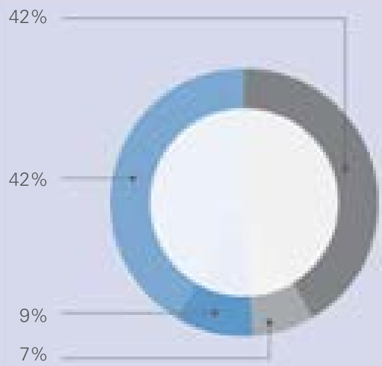
Western Europe



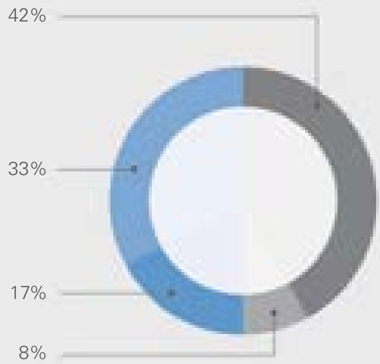
Russia, Central and Eastern Europe



Asia Pacific



Offshore locations



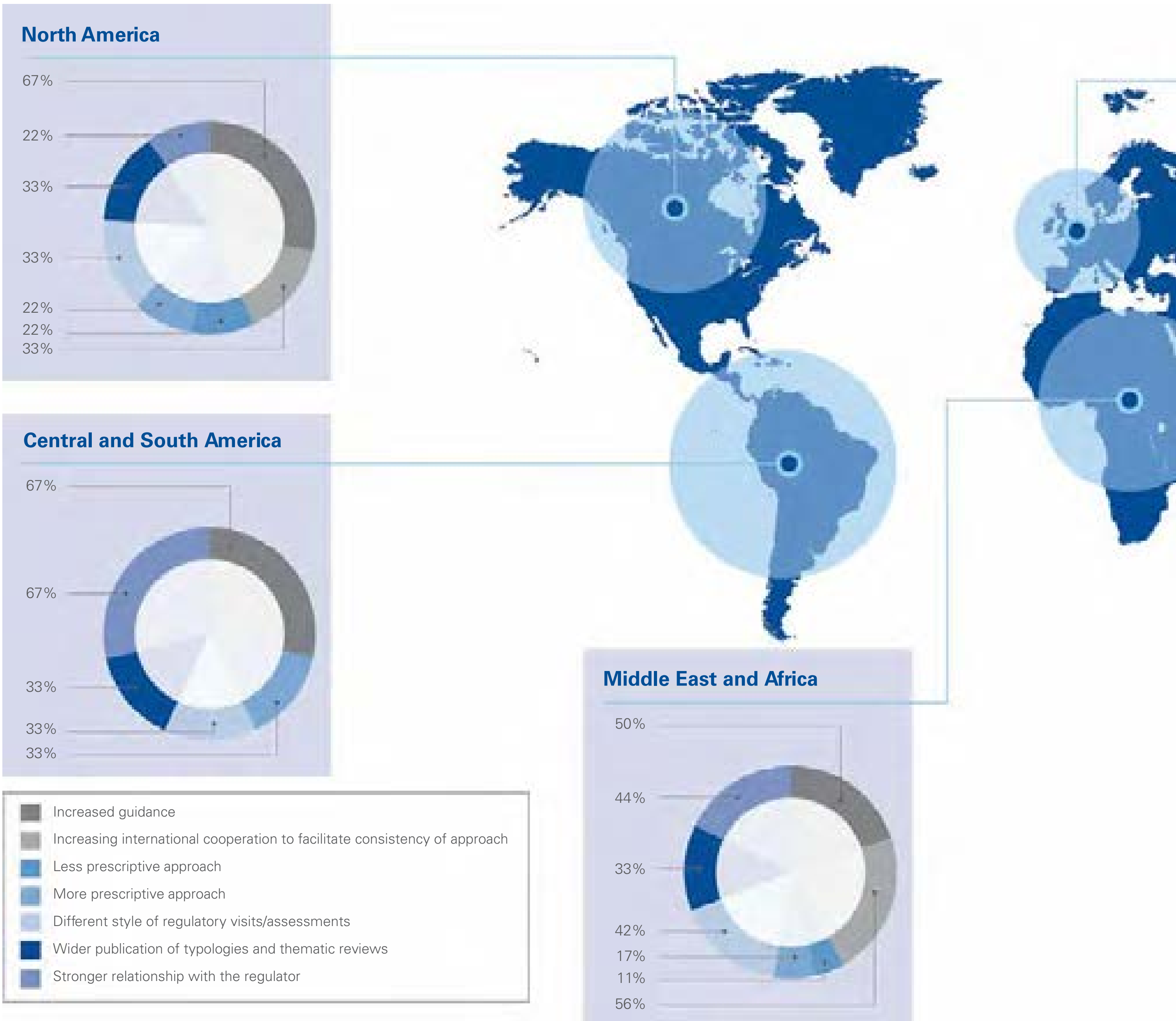
KPMG Insight

World events and increased regulation continue to impact on the ability of financial institutions to meet their sanctions obligations. The political and civil unrest in the Middle East and North Africa continue to pose challenges for financial institutions' sanctions screening systems in terms of responding to rapid changes to sanctions lists and increased volumes. Foreign language screening remains challenging, particularity for banks operating in Asia. Multiple systems are often needed to cope with the different spelling and characters. Financial institutions are allocating increased funds and resources to increasing transparency of customer and payment information in order to comply with new regulation and legislation, such as the 4MLD and the EU Funds Transfer Regulation 2013. However, more needs to be done to implement assurance programs that give ongoing comfort that systems and processes are working effectively.

Regulatory approach is fragmented and inconsistent

Although most respondents agreed that regulatory considerations were the largest driver behind AML investment decisions, opinions on regulatory approach are marked by vast regional differences. This further emphasizes the challenges that financial institutions face in establishing a globally consistent approach.

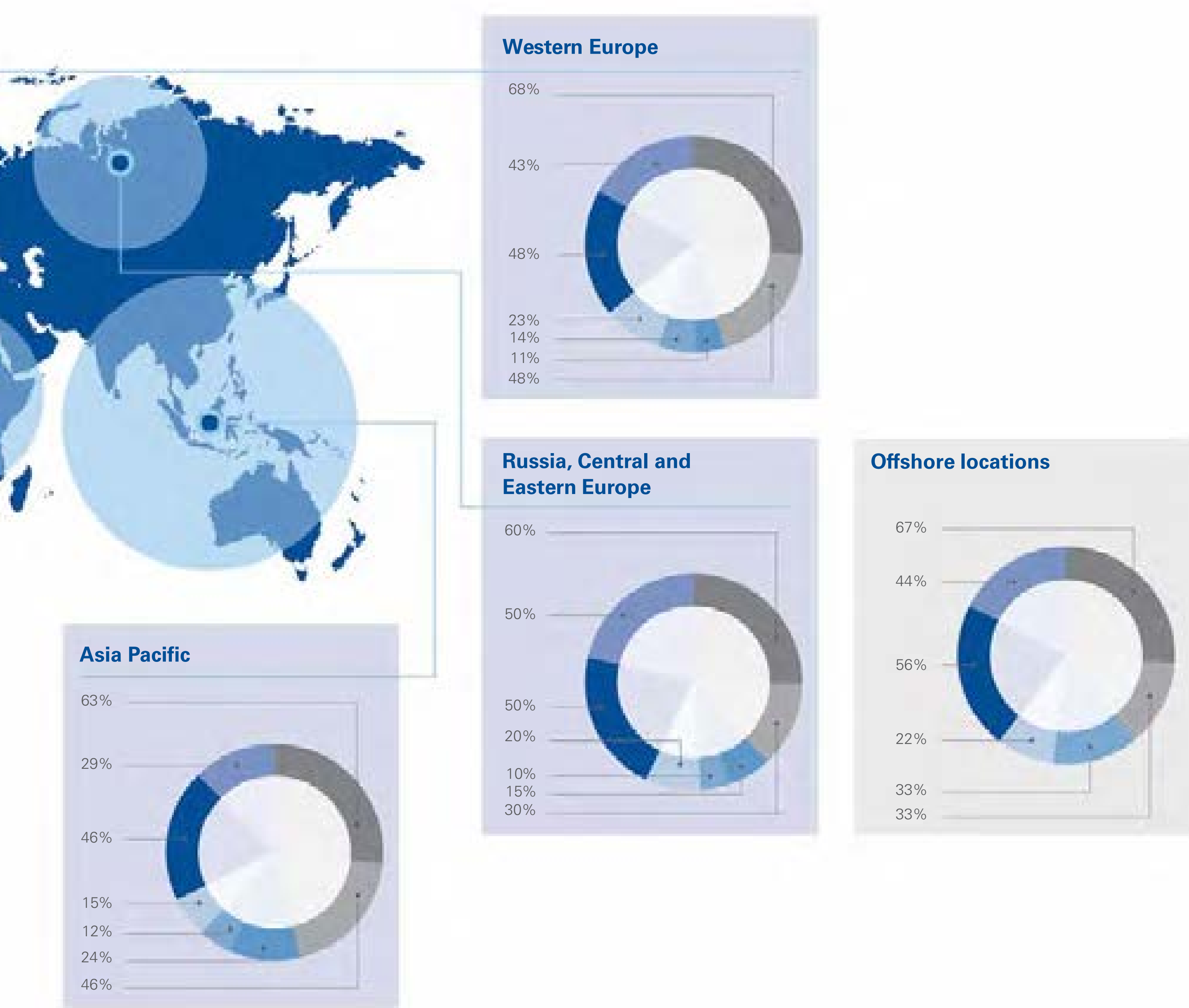
Which of the following changes would you recommend making to the AML requirements imposed on your business?



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Sixty-three percent of respondents said that regulators should provide additional guidance and 43 percent of respondents indicated that a stronger relationship with regulators would be a welcomed change in approach.

Respondents in Western Europe and the Americas were the most interested in receiving regulatory guidance. In the 2011 survey only 14 percent of respondents wanted to receive more guidance, further emphasizing the acceleration of regulatory change and need for expectations to be clarified since the publication of the last survey.



Fifty-six percent of respondents in Middle East and Africa stated that they would like to see increasing international cooperation to facilitate consistency of approach. The responses to our survey indicate that financial institutions operating in this region would like their regulatory authorities to become more involved in the globalization of AML standards, learning from their counterparts in other countries to improve the regulatory approach in this region.

Sixty-five percent of respondents stated that regulatory visits are AML personnel's primary concern and 80 percent of respondents stated reaction to regulator demands is a primary reason for investment in a particular area of AML. It should be expected that regulator inspections will continue to focus on the key issues described above and that the number of respondents who have experienced a regulatory visit will continue to increase. The latest set of Financial Action Task Force (FATF) recommendations require member governments to complete a National Risk Assessment to identify, assess and mitigate their money laundering and terrorist financing risks. These assessments, once completed, are likely to influence the areas which each of the national regulators will focus on over the coming period. Regulators also continue to be cognizant of technological risks with alternative banking platforms, digital currencies and cybercrime highlighted as high risk areas.

KPMG Insight

Regulatory visits are still striking fear into the hearts of AML professionals across the globe, however the reasons remain unclear. Is this the result of overly strict regulations that organizations cannot realistically comply with or are institutions failing to learn from past mistakes? Financial institutions need to adopt a more pro active approach to avoid being subject to regulatory fines and sanctions. Senior management should be looking for future regulatory trends in order to anticipate future areas of regulatory scrutiny. Regulators have little sympathy when firms fall short in an area where they have warned the industry of the risks. Close scrutiny of regulatory fines and speeches, and benchmarking against those findings, is a must for any responsible firm.

New Focus Areas

The compliance industry and anti-money laundering efforts have evolved at a dramatic pace since we launched our first global AML survey 10 years ago. In recognition of this fact, and based on discussions with clients, we have added an additional section in our survey to explore some of the key areas impacted by emerging changes in AML regulations.

Trade finance should make better use of AML resources

Trade finance has emerged as an area of concern for some regulators. Our survey results identified key areas in need of improvement include leveraging internal KYC information, using third party providers for verification purposes, and tailoring AML training to trade finance staff.

Trade finance has recently entered the spotlight as thematic reviews and recent regulatory studies have pointed to concern across the industry to properly identify and manage money laundering risk in trade finance transactions.

Nearly 30 percent of respondents stated that tailored training on AML risks is not provided to their trade processing teams. A core requirement for any firm to properly manage AML risk in trade finance, and an area of weakness identified by some regulators, is the provision of specific and tailored training to relevant staff. While it is positive to note that almost 73 percent of our respondents provide AML training, function-specific training should be provided to enable identification of specific risks associated with trade finance transactions. Therefore, despite the number of respondents that have indicated training is provided, it remains a concern that so few are providing tailored training to trade finance. This approach is not sustainable and firms will need to address this shortcoming in the next few years or risk regulatory censure.

Seventy-five percent of respondents stated that they had undertaken risk assessments of their trade finance business in the last twelve months and that their trade finance operating procedures require the assessment of money laundering risk at a transactional level. It is encouraging to see a relatively high rate of trade finance risk assessments as it is critical that firms have a framework in place which allows them to properly assess and document the risk of money laundering in trade finance transactions. As regulators hone in on these practices, documenting the approach taken and retaining evidence of decisions that are made at a transactional level is also critical, and will serve as crucial evidence to regulators that firms are appropriately managing risk.

Seventy-eight percent of respondents from North America leverage existing customer information in their trade finance operation, whereas only 51 percent of respondents from Western Europe and 54 percent from Asia Pacific indicated engaging in a similar practice. The extent to which the trade processing team leverages existing customer information acquired by a relationship manager and customer due diligence teams to assess money laundering risks differs significantly between North America and the rest of the world. It should be expected that these figures to rise, particularly outside of the United States, as customer information becomes increasingly shared between departments to meet regulatory obligations.

Fifty-six percent of respondents from North America indicated that their organization uses a third party provider to verify the authenticity of trade finance documentation, compared to 22–33 percent in the rest of the regions. Third party verification providers provide additional reassurance to many financial institutions and are often able to use their industry experience and expertise to spot new criminal methods, trends, and threats. Given recently identified industry-wide weakness in identifying money laundering and terrorist financing risks through national findings such as the UK's Financial Conduct Authority (FCA), the region can be expected to follow North America's lead.

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Our findings suggest that North America is ahead of the curve when it comes to leveraging existing customer information collected through anti-money laundering controls as well as engaging third party providers for verification purposes. An emerging trend for the rest of the regions may be increased usage of third party due diligence, whether internally or externally provided. In addition to implementing these practices, senior management should consider risks associated with trade finance separately from other forms of money laundering risk and promote awareness of risk appetite through tailored training of trade finance staff.

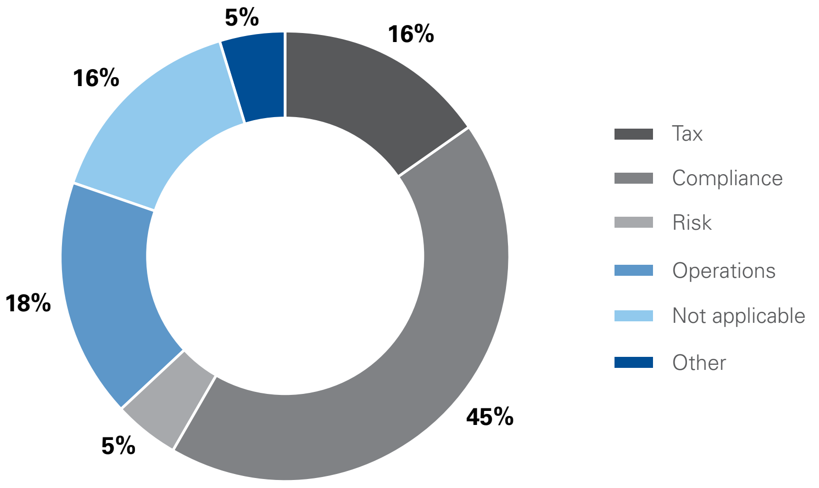
Tax evasion and FATCA compliance remain taxing

Tax evasion has received increased attention from regulators through the enactment of FATCA, but also through other pieces of regional legislation which establishes tax crimes as a predicate offence. AML professionals appear to have their work cut out for them.

Only 46 percent of respondents expect their organizations to be FATCA compliant by the IRS deadline of July 2014, a lower than expected figure, but not surprising. The current deadline is the result of a six month extension, and it appears that many financial institutions may be counting on a further extension. The highest rate of regional compliance was from Western Europe where 61 percent of respondents expected to be fully compliant by the July 2014 deadline. The higher expected compliance rate in Western Europe may be attributed to the fact that the region appears to be leading the way in Intergovernmental Agreements (IGAs) as the United Kingdom, France, Germany, and Spain were amongst the first countries to sign up. The IGAs enable financial institutions to report directly to their national tax authorities, who will then report directly to the US Internal Revenue Service (IRS) to satisfy FATCA requirements.

Forty-five percent of respondents stated that the compliance department would be sponsoring FATCA, only 16 percent stated that it would be the tax department. Compliance sponsorship is not surprising given 66 percent of respondents confirmed that their organizations are leveraging existing AML/KYC programs to meet FATCA requirements. The tax and compliance departments, however, will need to communicate and coordinate during the implementation and update phases as input from the tax department is essential to ensure correct interpretation of legislative requirements. The compliance department is crucial to redesigning the onboarding forms, policies, and procedures to capture the necessary data and implementing the associated certification requirements.

Departments sponsoring FATCA



Source: Global Anti-Money Laundering Survey, KPMG International, 2014.

Sixty-eight percent of respondents consider the risk of tax evasion when performing risk assessments on their customers; however this figure is expected to rise in upcoming years in light of the recent regulatory focus on fiscal crimes through 4MLD, FATCA, and other potentially similar regulations in the future. Additionally, while these pieces of legislation are still in the implementation phase, we expect regulatory fines in the coming years to reinforce tax evasion considerations.

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Updating KYC systems and identifying and capturing US indicia are only the first of many steps in complying with FATCA. Specifically, not only are some national tax authorities, such as those in the United Kingdom, amending their legal systems to capture tax residency at onboarding of new customers, but some are also considering the enactment of reciprocal tax legislation to enable cross-jurisdiction tax cooperation. For example, automatic exchange of information may be the next wave of legislation as there are currently ongoing efforts by the G8, G20, and the Organisation for Economic Co-operation and Development (OECD) to develop a global standard in this area. As a result, financial institutions should consider future changes in tax regimes and information sharing proposals that may affect their operations and plan accordingly. In a regulatory environment that continuously challenges financial institutions to sink or swim, a sure fire way to sink would be to implement change programs aimed at only meeting the requirements of one piece of legislation instead of keeping an eye out for similar acts from other countries.

Asset management sector results reflect changing attitudes

Money laundering risk is coming into sharper focus in the sector as senior management engagement and investment levels rise.

The asset management sector is a significant and growing aspect of the global financial services industry. Worldwide assets under management stood at over $35,000bn USD as at June 2013 with 45 percent of these funds managed in the US and 36 percent managed across Europe.[1] During 2013 (up to and including October 2013), sales of investment funds across Europe amounted to EUR 341.4bn.[2] While the precise prevalence of criminal proceeds within these sums is unknown, it is a risk to which firms and regulators are devoting greater attention and resources.

Seventy-three percent of asset management respondents reported that money laundering was considered a high risk area within their organization's business risk assessment. Our survey results indicate that the perception of the sector as low risk may be shifting. AML professionals operating in asset management understand their sector is not immune from abuse by persons seeking to obfuscate the origins of criminal assets or fund terrorist activities.

However, 23 percent of asset management respondents still disagree with the assertion that money laundering is considered a high risk in the firm's business risk assessment, representing the sector that had the greatest proportion of disagreement and pointing to a divergence of views across the sector.

Eighty-six percent of respondents reported that investment in AML activity had increased. Investment in AML across the asset management sector is growing rapidly. The average increase in investment over the last three years was approximately 46 percent (compared to approximately 20 percent for the insurance sector).

Fourteen percent of asset management respondents expect investment in AML to increase by at least 50 percent over the next three years and the average reported rate of expected growth in investment in AML in the sector over the coming three years was 24 percent. Our surveys show that financial institutions tend to underestimate the extent of investment in AML – asset managers may be running this risk and should actively consider whether their investment levels will sufficiently equip them to manage their money laundering risk exposure.

Ninety-one percent of respondents agreed or strongly agreed that the Board of Directors takes an active interest in AML issues with 59 percent of respondents stating that their organization's Board of Director discusses AML quarterly. These figures accord with our experience in the sector – AML is generally moving up the risk management agenda.

Only 28 percent of asset management respondents regularly tune the thresholds incorporated into transaction monitoring systems, ranking poorly compared to 72 percent in the retail banking sector and 52 percent in the insurance sector. This aspect of current practice is unlikely to be sustainable – this figure is therefore expected to increase significantly over the next three years.

1. EFAMA Investment Fund Industry Fact Sheet October 2013 – http://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/131218_EFAMA%20Monthly%20Fact%20Sheet%20(October%202013).pdf
2. EFAMA Investment Fund Industry Fact Sheet October 2013 – http://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/131218_EFAMA%20Monthly%20Fact%20Sheet%20(October%202013).pdf

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The vast majority of asset management firms understand that their organizations are not immune to abuse by persons seeking to obfuscate the origins of criminal assets or indeed fund terrorist activities and recognize that greater efforts are required to understand and manage these risks. However, are all asset managers up to the challenge? Asset management respondents most commonly noted the pace and impact of regulatory change as a concern for their AML personnel whilst identifying, more frequently than other sectors, the limited availability of appropriate resources as a barrier to achieving compliance.

Asset managers face particular challenges in: managing the risks arising from the use of or reliance upon third parties; obtaining appropriate data to enable meaningful transaction monitoring; and implementing appropriate customer risk assessment models. Our respondents expect regulatory interest in AML in the asset management sector to continue so such organizations should be prepared for greater enquiry and challenge. There are notable areas for improvement which, if not addressed, may result in abuse by criminals and regulatory exposure.

Insurance sector aligns well to overall findings

While insurers are generally aware of the importance of AML and sanctions compliance, regulatory compliance comes with several challenges.

Regulators, particularly the Office of Foreign Asset Control (OFAC) in the US, have recently begun to focus more closely on how insurance companies manage sanction risks, and recent fines and investigations involving insurers is evidence of the fact that compliance with international sanctions regimes and counter terrorist financing (CTF) regulations has become extremely important for the insurance industry. While general insurers and general insurance brokers (non-life) are not subject to international money laundering regulations, they are still required to comply with sanction legislation. Insurance firms that are subject to money laundering regulations (such as life insurers) have a regulatory obligation to put in place and maintain policies and procedures to mitigate their money laundering risk and must have systems and controls in place to prevent and detect money laundering.

Sixty-two percent of respondents from the insurance sector confirmed that money laundering is considered a high risk area in their business risk assessments, compared to 92 percent of retail banks and 90 percent of asset managers surveyed. The results are expected given the lower risk products offered by the sector, but we still anticipate an increase over the next three years due to the recent regulator attention the sector appears to be attracting.

Ninety-six percent of insurance respondents said that their compliance procedures referenced CTF which was similar to other sectors such as retail banking (97 percent) and to asset management (100 percent). This was very positive to see as it is very much in line with other sectors, despite perceptions of insurance being less susceptible to terrorist financing abuse.

Eighty-one percent of insurers said that their Board of Directors took an active interest in AML issues compared to 91 percent of retail banks and 90 percent of asset managers. We are encouraged to see that senior management is engaged in AML issues and we anticipate that this will only continue to increase.

Seventy-five percent of insurers cited the pace and impact of regulatory change as their biggest AML concern. This demonstrates that insurers are also feeling the pressure that banking institutions are experiencing with regards to recent regulatory changes.

Over 84 percent of insurance respondents confirmed that they had established a program for testing and monitoring the effectiveness of AML systems and controls. However only 47 percent of insurers surveyed felt that their software was effective. In our view, the dissatisfaction that insurers are experiencing with their transaction monitoring systems may be associated with the rapid changes in expectations of such systems and the very different types of transactions conducted in the insurance industry.

Over 76 percent of insurers said that reputation protection was a key factor when considering investment in AML and sanctions procedures. Other key factors identified were gaining operational efficiencies and reacting to regulatory requirements.

KPMG Insight

It is evident from the results of the survey that insurers are generally aware of the importance of AML, sanctions and CTF compliance but that regulatory compliance comes with several challenges. Insurers need to have robust AML, sanctions and CTF risk management processes in place and, while regulators allow a risk based approach to this process, they usually take a zero-tolerance approach to enforcement. Sanctions apply to all insurers regardless of AML regulatory compliance. The question here is: if an insurer decides not to collect KYC, how is it able to effectively screen its clients? Given the recent increased focus by regulators on the insurance sector, particularly on sanctions, KYC will become even more important going forward and it is safe to assume that in the next three to five years regulators will adopt an approach towards insurers that will be similar and more aligned to the approach adopted with regard to banking, particularly for high risk products such as marine and aviation insurance and in regard to those insurers who write in higher risk jurisdictions.

Concluding remarks

Our report highlights that AML initiatives are becoming increasingly interconnected across operations and jurisdictions as a result of a demanding and continuously evolving regulatory landscape. Information collected by AML teams is now being leveraged across organizations in an industry wide effort to meet regulatory requirements and keep up with industry expectations.

Many global financial organizations have continued to invest significantly in AML controls and secure senior management engagement. However, considerable challenges remain. In particular, since 2004, transaction monitoring has been the greatest investment, but remains an area of weakness. Maintaining up to date customer records as well as obtaining and retaining trained staff also proves to be a challenge.

Although the financial services industry is increasingly moving towards a globally standardized approach, there is still notable inconsistency with regard to implementation of AML controls at regional and local levels. This is not too dissimilar from the fragmented approach regulators continue to display in their global efforts to manage financial crime. Despite some positive steps and evident strides in coming to grips with the 21st century challenges posed by money laundering threats, regulators and the financial services industry continue to lag behind today's globally connected money launderers. Inconsistent regulations have left gaps in which money launderers thrive, and as such, it will become essential that regulators implement a consistent regulatory approach, but also foster a closer working relationship with industry professionals in order to leverage each other's resources, align mutual interests, and effectively tackle financial crime.

The way in which financial institutions respond to AML challenges will continue to remain subject to public scrutiny as regulators, investors, and members of the public continue to stress the importance of managing these risks effectively.

KPMG's 3 recommendations for Boards:

1. Nominate a member of the Board with responsibility for maintaining effective AML controls.
2. Ensure a broad-ranging assurance program is in place which tests systems, processes and procedures.
3. Prepare effectively for regulator visits, and ensure that the Board can demonstrate awareness and oversight.

Regional
commentary

Asia Pacific

AML regimes across the AsPAC region remain diverse. Many jurisdictions with large financial markets have implemented legislation in line with the evolving global standards; however some jurisdictions remain on the learning curve and are gradually introducing enhanced AML controls. The AsPAC survey respondents mainly operate within these larger financial markets such as Hong Kong, Singapore and Australia.

Survey Results

Board governance has improved, but is still behind the global average. Over 80 percent of respondents indicated that the Board of Directors takes an active interest in AML; while this is a significant increase from our 2011 survey, it is still short of the global average of nearly 90 percent. Moreover, while the percentage of financial institutions surveyed which regularly discuss AML issues at the board level has jumped from 27 percent to 51 percent, this remains below the global average of 66 percent. AsPAC financial institutions offering AML training to their board members is also substantially lower than global findings (47 percent against a global average of 62 percent). This is significant because regulators in AsPAC are becoming much more vocal in their expectations with respect to the role of the Board of Directors in the management and oversight of their AML compliance programs.

Technology effectiveness still can be improved. The enhancement of transaction monitoring systems is one of the largest areas of investment. More than 50 percent of respondents indicated that of all the alerts generated, less than 1 percent actually resulted in the filing of a Suspicious Activity Report (SAR). This is despite more than 70 percent responding that their organisation regularly tunes the thresholds of their transaction monitoring systems.

Many are still not ready for FATCA. Less than 50 percent of respondents believe they will be FATCA-compliant by July 2014, despite the six month extension that was granted to give respondents additional time to at least get their FATCA projects underway. Looking forward, FATCA has the potential to become a significant driver of improvements in the KYC process. More than 40 percent responded that incomplete CDD records are their greatest FATCA compliance concern, followed by process changes. Interestingly, while many of the respondents recognized the need and the urgency for process change, only 14.6 percent of financial institutions firms in Asia Pacific include procedural change among its top 3 investment areas, significantly lower than the global average of 26.3 percent.

Regulators are more engaged, but further guidance is still needed. Across AsPAC, our respondents said that the top three areas that regulators focus on during site visits were Customer Due Diligence (70 percent), Ongoing monitoring (56 percent), and Enterprise-wide AML risk assessments (54 percent). A significant number also mentioned PEPs and Sanctions Compliance as areas of interest to the regulators. Regulatory change is the key driver of AML initiatives, with many AsPAC regulators introducing and enhancing AML requirements over the last few years. This has resulted in 82 percent of AsPAC respondents mentioning the pace and impact of regulatory change as their top concern. Since our last survey in 2011, a number of local regulators have taken steps to significantly increase the size of their supervisory teams, and they appear to be taking a more hands-on approach with thematic reviews, site visits and other methods to encourage compliance. Across the region, there are also more frequent reports of regulatory enforcement action, although the scale of penalties remains less than seen in other regions – and tends to be less publicly reported than in Western Europe or North America. Survey respondents are also looking to regulators for more guidance, such as wider publications of typologies and thematic reviews, and more international collaboration to ensure consistency.

Lack of qualified resources. Similar to other regions, the AsPAC financial institutions surveyed have rated the lack of qualified resources as one of their top concerns: with only 67 percent of the respondents in AsPAC having more than 3 years of experience in AML as compared to 82 percent in Western Europe and 85 percent in North America. This challenge is also reflected in the respondents' AML budget allocation, where 46 percent ranked recruitment as one of the top three AML budget spending areas.

Regulators in Asia are becoming much more vocal in their expectations with respect to the role of the Board of Directors in the management and oversight of their AML compliance programs. In particular, many regulators are asking the Board of Directors to demonstrate active management of money laundering and terrorist financing risks, to develop a robust risk culture throughout their organisations, and to ensure that their AML compliance programs are sufficiently resourced. As a result, it is expected that Board-level interest in AML will continue to increase.

– Kyran McCarthy
KPMG's Head of AML
for Asia Pacific region

Outlook

The pace of AML regulatory change and implementation of reforms has accelerated, with regulators keen to ensure the competitiveness of their markets in the global sphere; this trend does not appear to be stopping any time soon. Many regulators in the developed countries are becoming much more collaborative in their approach. Regulators are also starting to conduct more in-depth thematic reviews, and publishing the results to facilitate compliance and effectiveness.

Overall the AsPAC region faces similar challenges to the rest of world, including lack of qualified resources, the quest for more effective transaction monitoring and readiness for FATCA. However AsPAC does have its own unique challenges such as the large discrepancy in different jurisdictional laws and regulations that require additional local effort to manage. AsPAC regulators and financial institutions also need to further improve awareness and education at the Board level and address global topical issues such as tax evasion.

At the same time, we believe regulators are likely to continue with their reviews and increase the level of scrutiny over the next three years. In addition, it is likely their focus will broaden beyond the banking sector to include other institutions. As the regulatory requirements increase we anticipate that non-bank financial institutions such as securities, insurance, and remittance and money changers will be required to tighten their internal controls.

Across the region, KPMG member firms have seen more frequent reports of regulatory enforcement actions, although the scale of penalties remains less than that seen in other regions. Regulators will continue to increase the level of scrutiny paid to financial institutions over the next three years, although it remains to be seen whether the enforcement actions and penalties will increase, and be reported more publicly, to a level comparable to that seen in Western Europe and North America today. Lastly, regulators and financial institutions will need to adapt to face new challenges in managing the money laundering risks associated with emerging industries or payment channels such as virtual currencies in the coming years.

The Middle East and Africa

The profile of AML within the Middle East and Africa region has risen over the last three years, but still faces significant challenges in respect of compliance, especially with regard to customer due diligence, transaction monitoring, and PEP identification.

Survey Results

Perhaps the greatest concern for Middle Eastern and African banks in the AML and Customer Due Diligence (CDD) technology space is the lack of data consistency. This is already consistent with what is happening within the industry today. The regulatory environment continues to develop and compliance becomes a moving target that will require banks to constantly re-visit, review and re-invest in their business processes and technology to improve efficiencies and curtail some of the increasing cost of compliance.

The banks surveyed also indicated that the 3 main concerns on their AML agenda are the lack of qualified resources (76.6 percent), the pace and impact of regulatory change (72.3 percent) as well as the lack of overall training (72.3 percent). Encouragingly, the survey shows that the vast majority of respondents perform full identification and verification of customers, which includes maintaining a record of the customers' intermediate owners and entities. Of great concern, however, is the finding that only 24.4 percent of the respondents in the Middle East and African region utilise an automated customer risk assessment process, mainly due to their inability to record all relevant information in their customer data systems.

There has been heightened focus on Politically Exposed Persons in Africa. The recent uprisings in North Africa and the Middle East dubbed "the Arab Spring" have resulted in heighted attention being paid to the actions of ruling parties and persons within the affected countries. This has also led to an increased focal point on potential PEP's residing in these countries, resulting in a number of PEP's being classified as 'sanctioned individuals' due to their association with the respective regimes. The global AML survey found that a surprisingly low percentage (77.3 percent) of the respondents indicated that they require customers classified as Politically Exposed Persons (PEP's) to evidence source of wealth and/or source of income. A high number of respondents confirmed that they find it challenging to monitor these PEP relationships and a large number of banks in the Eastern African region still rely exclusively on front office staff to identify PEPs.

Effective PEP management remains important in the defence against any allegations of doing business with possible corrupt persons. There is still so much that needs to be done in the field of PEP identification and management, especially on the African continent.

– Tersia Rossouw
Head of AML, KPMG in South Africa

Outlook

KPMG member firms expect regulatory attention to continue focusing on KYC and PEP identification, particularly in Africa and the Middle East where banks are still struggling to keep up with regulatory requirements.

The main focus of regulatory attention in terms of AML/CFT supervision and inspections across the African continent has been primarily targeting banks and there has not been a significant increase in attention on other financial services industries such as insurance and stand-alone asset management entities. However it seems to be a likely trend that should be expected in the near future.

Specific fines relating to financial crime compliance have been handed down; however such fines have been minimal to date. The level of regulatory scrutiny has, however, increased substantially and therefore a major increase in fines may be likely in the near future. For example, the South African Reserve Bank recently suggested that there is currently consideration of imposing an industry-wide fine across all banks for failure to comply with AML regulations, undoubtedly creating a ripple effect across the South African financial industry.

Western Europe

In recent years steps have been taken throughout the EU to create a consistent approach to the prevention and detection of money laundering and terrorist financing. The EU Fourth Money Laundering Directive will be approved during 2014 to align the regulatory regime within the European Economic Area with the latest FATF Recommendations issued in February 2012. The implementation of this new Directive, together with compliance with FATCA requirements, will be a challenge for the countries in the Western European region.

Survey Results

AML remains a significant risk and cost, and senior management interest has increased compared to other regions and previous surveys. The importance of AML to European senior management has increased noticeably. Where only 55 percent of respondents indicated that senior management took an active interest in AML issues in 2011, 2014 results show that nearly 90 percent of respondents stated that AML was a high profile issue in which the main Board of Directors took an active interest. This may in part be due to the increasing concern about the pace and impact of regulatory changes, such as the implementation of FATCA requirements, with policy and procedural changes having to be implemented.

This higher interest is reflected by an increase in the percentage of respondents who stated that AML was discussed formally by the Board of Directors on a quarterly basis (41 percent, up from 35 percent in 2011) or as often as required (37 percent).

Within Europe, 77 percent of respondents stated that the cost of AML compliance had increased over the last three years, and a further 70 percent anticipate additional increases in the coming years. The top three investments were listed as enhancing transaction monitoring systems (52 percent), KYC reviews, updates and maintenance (52 percent), and policies and procedural changes for the implementation of FATCA (44 percent).

While AML costs have continued to rise, there has been a significant increase in the percentage of respondents that had considered off-shoring or outsourcing some of their AML functions (48 percent, up from only 18 percent in 2011).

There has also been a significant increase within Western Europe in respondents adopting a more global approach, with more policies and procedures being developed and implemented globally. Still there is room for improvement as only 33 percent of those that have a global policy are able to maintain global consistency across subsidiaries and branches.

The percentage of European financial institutions that formally test their AML systems and controls has risen from 76 percent in 2011 to 84 percent, which is comparable to the average across all regions (nearly 85 percent).

Politically Exposed Persons continue to be an area of focus, with a noticeable change in senior management involvement. In our latest research, 88 percent of European respondents said that they had in place a separate procedure for the identification and monitoring of PEP relationships, with nearly 90 percent respondents revealing that senior management was involved in the sign off process for taking on high risk relationships, such as PEPs. However, only 57 percent of European financial institutions currently capture and distinguish between domestic and foreign PEPs, while this is the case in 80 percent of North American financial institutions. This will need to change when the 4MLD is implemented.

A further 93 percent of European respondents indicated that staff are provided specific training and awareness on bribery and corruption risks associated with PEPs.

Sanctions compliance remains a challenge. There has been a significant increase in the percentage of European financial institutions that monitor incoming SWIFT messages for incomplete originator information (91 percent, up from 66 percent in 2011), and 52 percent of them would stop a transaction when details of the originating party are missing (with an additional 31 percent rejecting the transaction when a bank repeatedly provides incomplete SWIFT information). Again, this is an improvement from survey results in 2011, when only 45 percent of European financial institutions stopped transactions missing this information. The great majority of European financial institutions (72 percent) stated that they always use the MT202COV message, which is a significant increase from the results in the 2011 survey (25 percent). However, only 50 percent of European respondents indicated that in every instance where a MT202COV lacked required information it would be rejected.

Despite increased investment in transaction monitoring systems since 2011, satisfaction for these systems has moderately declined, with an average score of 3.3 out of 5 in the Western European region. Transaction monitoring continues to be the largest AML compliance cost driver for European financial institutions, so it is worrying that satisfaction continues to decline. Further, only 58 percent of European respondents indicated regular tuning of thresholds for their transaction monitoring systems.

Regulatory approach was ranked as the top AML concern. Meeting new regulatory requirements was ranked with an average score of 4 out of 5 as the most challenging area to the business of European financial institutions, with respondents citing the pace of regulatory change (68 percent) and resource constraints (66 percent) as their greatest challenge to regulatory compliance. A further 68 percent of European respondents recommended that increased guidance should be given with respect to meeting AML requirements imposed on businesses, and 48 percent also recommended increased international cooperation to facilitate consistency.

Outlook

Since the 2011 survey, the focus on AML and Sanctions compliance controls by regulatory bodies across Europe has continued to intensify. There have been an increasing number of regulatory fines in the region, and often financial institutions struggle to comply with areas such as Sanctions screening, identification of beneficial owners, blocking of customer accounts and cross-border payment screening.

An EU Fourth Money Laundering Directive will be published during 2014 to align the regulatory regime within the European Economic Area with the renewed FATF Recommendations approved in February 2012. In addition, some European Supervisors have recently developed local guidance in order to assist the financial sector in the implementation of beneficial owner and PEP policies and procedures. In this context, many European financial institutions face the challenge to implement and enhance their internal policies and procedures in areas such as Sanctions compliance, PEP screening and monitoring, and the development and implementation of global AML policies and procedures to be applied to all branches and subsidiaries.

Many financial institutions will also need to assess the AML risks presented by their trade finance business in order to amend their existing trade finance procedures and provide training to the trade processing staff on the money laundering risks in trade financing.

Finally, European financial institutions will need to be FATCA-compliant by the IRS deadlines from July 2014 onwards. In that context, financial institutions will need to leverage existing AML/KYC programs to meet FATCA requirements, and take the necessary measures to address the greatest compliance concerns caused by the FATCA requirements in areas such as customer identification processes, maintenance and completeness of CDD records, as well as reporting capabilities.

Considering the new EU Fourth Money Laundering Directive will be approved during 2014, we expect member firms' clients will be focusing on enhancing their sanctions policies and procedures, adapting the policies to the new regulation regarding local PEPs, and applying global policy at Group level to all branches and subsidiaries.

– Enric Olcina
KPMG's Head of AML for Europe Middle East, and Africa region

Russia and Central and Eastern Europe

The region varied significantly from global findings with respect to key drivers behind AML investment and was the only region to rank FATCA and procedural updates in the top 3 AML expenditures. Training of AML and non-AML staff also appeared to vary from global findings.

Survey Results

The main reason in the region to invest in AML is protection of reputation, ranked approximately 15 percent higher than the global findings. It would seem that when it comes to investing in AML, concerns over reputation are stronger motivators than regulatory actions such as fines and inspections, although these are clearly linked.

The top three areas of AML investment for the region were transaction monitoring systems, procedural updates, and FATCA initiatives. While the results for increased investment in transaction monitoring are in line with global findings, it is interesting to note that despite the top three global investments also including KYC look-back reviews and recruitment, these additional areas were not areas of heavy investment in the region. The region's investment in FATCA was among the highest, further reinforced by the fact that 86 percent of participants from Russia, Central and Eastern Europe considered the risk of tax evasion when conducting money laundering risk assessments, higher than the reported global average.

Staff training for Russia, Central and Eastern Europe varied significantly compared to the global findings. Training to AML staff was provided less frequently in this region when compared to the global survey findings; however a greater than average number of the front office and directors were provided with AML training. Although AML members of staff receive less training, the results found that training to other departments on AML concerns was high. A reason for this may be that the level of automation of the customer ML risk assessment process is significantly higher than many of the other regions; the AML staff may therefore have more time to focus on other areas, including training of other non-AML staff members.

Outlook

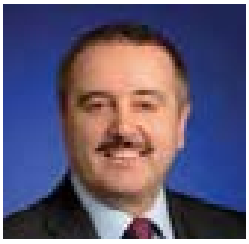
The majority of amendments that have occurred to legislation or are still expected to occur encompass some fine tuning of national legislation incorporating FATF recommendations and findings. The amended laws are set to widen the scope of AML covered organisations to include micro-finance/micro-credit organisations, mutual insurance societies, mobile operators, private pension funds, payment services; individual entrepreneurs involved in mentioned activity among other organizations.

An increase in regulatory action should be anticipated, including on-site visits, fines, and revoking of licenses. The Central Bank of Russia, for example, has recently intensified its inspections in 2013 having revoked banking licences of more than 40 banks for breaches in AML legislation (among other reasons), almost twice the amount in 2012, in which 22 banking licences were revoked.

Similarly, in the Czech Republic there has been a noticeable increase in criminal complaints filed by the Financial-Analytical Department of the Ministry of Finance as the number of criminal complaints in 2012 rose by approx. 70 percent compared to the previous year. This seems set to continue throughout the next few years as regulatory attention paid to AML failures continues to intensify. Moreover, a significant increase in the value of fines imposed by the regulator should be expected. This is already happening in countries like the Czech Republic where the regulator has seized funds in excess of 1bn CZK, representing a historic maximum for the country.

Over the next three years, member firms' AML clients are expected to continue to focus efforts on further integrating and reconciling FATCA requirements with KYC systems and other existing AML infrastructure. Identification of beneficial owners and treatment of PEPs is also expected to remain a central focus for both our clients in banking as well as the regulators, particularly in line with regional anti-bribery and corruption legislation.

There is fine tuning of AML legislation in the region, particularly in Russia, although implementation remains a challenge. Central and Eastern European countries are still implementing the requirements of the 3rd EU AML Directive, but now have to anticipate additional changes brought about by the 4th Directive.



– Dmitry Chistov
Head of AML and Compliance Systems for KPMG in Russia, Central, and Eastern Europe

North America

With fines hitting record highs, and some of the most prominent of global financial institutions facing enforcement activity in the US, it is no wonder that AML is top of mind for North American financial institutions. Senior law enforcement and regulatory officials alike have made plain in public addresses that, in their view, many financial institutions still often miss the mark when it comes to the deployment of consistently effective AML programs. Very public scrutiny has been directed at banks not only from enforcement authorities, but from politicians as well, with the US Congress undertaking investigations and proposing enhanced legislation. Officials talk of not only holding firms responsible for program failures, but of holding individuals accountable.

Survey Results

Active interest in AML at the senior levels is at an all time high. One hundred percent of North American respondents reported that their Boards of Directors took an active interest in AML. This is almost double the number reporting interest in our last survey (58 percent). While only 50 percent report that AML is formally discussed by the Board quarterly (down from 64 percent), this may be because another 17 percent discuss AML as needed – which may be more frequently. Boards of Directors are also learning what they need to know to make informed decisions; 70 percent of respondents reported that their Boards receive AML training.

Spending Continues to Increase. Investment in AML has also increased, with no sign of slowing. In our last survey, 64 percent of respondents reported an increase in investment in the preceding three years. Now, 88 percent report that costs have increased in the last three years, with 33 percent reporting that increase as being between 50 and 100 percent. Seventy-eight percent expect costs to continue to increase over the next three years, with 11 percent expecting those costs to increase by over 100 percent. Not a single firm surveyed expects to spend less on AML compliance in the coming years.

This begs the question, what are firms spending resources on? The biggest responses came in the areas of transaction monitoring and recruiting – with 78 percent of respondents reporting spending in both these areas.

Transaction monitoring remains a challenge. Despite the increased spend on transaction monitoring, respondents give their systems low satisfaction scores. On a five-point scale, North American respondents rate their systems 3.33 – lower than Western Europe; Central and South America; Russia, Central and Eastern Europe; and Offshore Locations. Perhaps this is a reflection of the low conversion rate from alert to SAR, as 78 percent of respondents report that 5 percent or fewer alerts result in SARs, with 22 percent reporting a conversion rate under 1 percent. This is not as a result of lack of attention to systems in place: 89 percent report that they test and validate their transaction monitoring scenarios and thresholds, and 66 percent report regularly tuning systems. Much of this may be in response to recent regulatory requirements that transaction monitoring systems be subject to model validation and regularly tested to ensure the models are working effectively. Perhaps the increase in costs explains the change in response to survey questions about outsourcing and off-shoring. In our last survey in 2011, 97 percent of North American respondents reported no appetite to outsource or offshore functions. Now 30 percent acknowledge the growing trend to outsource or offshore AML functions.

Customer Due Diligence of Heightened Focus. Customer Due Diligence (CDD) remains a significant focus for respondents. Indeed more respondents reported CDD as an area of regulatory focus than any other area, with 78 percent of respondents selecting this as one of the areas of concern. Other areas regulators have focused on are Internal Audit (67 percent), and sanctions compliance, wire transfers, and transaction monitoring (each 56 percent). It is not surprising that CDD is a focus, in particular in the US, with pending regulation expected to be released in the near future mandating that firms better understand ownership and control of their clients. Perhaps in anticipation of this, 70 percent of survey respondents report obtaining ultimate beneficial owner (UBO) information on their High Risk customers and on those who are Politically Exposed Persons (PEPs), 40 percent report obtaining such information on Medium Risk customers, and 30 percent report obtaining UBO information even on their Low Risk customers. Fifty percent of respondents obtain identification on significant controllers, while 30 percent obtain full identification on intermediate owners.

While many respondents appear to apply more scrutiny to their riskier clients, it was surprising to learn that enhanced focus is not applied more widely. For example, **only 60 percent of respondents reported requiring management sign-off when taking on a High Risk Customer.** This is particularly interesting given recent statements by regulators and law enforcement officials noting an appetite to hold individual bankers accountable for their firms' failures. Similarly, only 60 percent of firms report collecting information on source of wealth for their High Risk and PEP clients. Given the pending regulation, this should be expected to change in the near future.

Respondents do appear to apply scrutiny in cases where negative news has been identified pertaining to a client of theirs. **Ninety percent of respondents monitor High Risk clients where negative news has been identified, and 80 percent require documentation on why a client with negative news is being on-boarded.** Seventy percent of respondents report that they subscribe to services that provide on-going negative news monitoring, thus keeping up to date on changes reported on their clients.

Sanctions compliance remains an area of concern. Sanctions remain an area of concern for many member firms' clients. This is not surprising given the continued enforcement activity in this area over the years since our last survey, with fines still in the hundreds of millions of dollars. Firms continue to be challenged with compliance with the regulations imposed by the US Department of the Treasury's Office of Foreign Assets Control (OFAC). Actions for OFAC breaches continue to come at firms from multiple regulators and law enforcement agencies, including the US Department of Justice, and state and local law enforcement and regulators.

Prior to the release of our last survey, the MT202COV message type was released in an effort to drive more transparency in wire transfers and reduce the opportunity for circumventing sanctions filter detection. While in that survey just over half of respondents reported using that message type, now 80 percent report using it, and 60 percent will reject incoming MT202COVs where there is missing information. Seventy percent of North American respondents report monitoring all payments for missing information.

The majority of North American respondents appear satisfied with their interdiction systems: 80 percent report that their systems are effective, although only 60 percent report testing their systems annually.

Ninety percent of respondents reported that 0.5 percent or less of system stops or "hits" are true sanctions matches, with 40 percent reporting that less than 0.1 percent of hits are true matches. This explains why respondents view keeping up with, and processing, the volume of hits as the biggest challenge in sanctions compliance.

Increased regulatory focus is key driver. When asked what was most challenging about AML compliance, highest scores went to meeting new regulatory requirements. On a scale of one to five, this was the only response scoring over four. Respondents, permitted to select all that applied, reported that the pace of regulatory change and associated costs were the biggest challenges to meeting expectations at 78 percent and 89 percent respectively. Other challenges were finding qualified resources at 44 percent, and a lack of regulatory guidance at 33 percent. When the question was posed as "what do you think are your AML personnel's top three greatest concerns," there was a three way tie for first place between the pace and impact of regulatory change; regulatory visits, and lack of qualified personnel. Eighty percent of respondents named all three areas. A majority, 67 percent, want more guidance from their regulators, signalling a need for enhanced communication in advance, before firms are facing potential enforcement activity.

Outlook

At the time of our last survey, it was noted that increased fines and regulation signalled that the US in particular would continue to take a "hard-lined" approach to enforcement, and we predicted that there would be no substantial or practical easing of the regulatory burdens faced by financial institutions in the region. The past three years have proven that and more. With Congressional and public scrutiny not only focused on the banks but on the banking regulators themselves, the chances of any easing of the burden appears to be nil. This is further reinforced by statements made by senior US law enforcement officials and regulators to the industry that many institutions do not appear to have done enough to combat money laundering and terrorist financing. Firms continue to grow their departments and increase spend in an effort to do more, often reacting to the enforcement environment. While there is not expected to be any let up in the years ahead, we question whether the increased focus on testing and model validation may cause firms to take a step back to consider how they are approaching difficult issues, as opposed to how many resources they apply or how big their programs will grow.

> "Many firms are continuing to grow their departments and increase spend in an effort to do more, often reacting to the enforcement environment. While it is unlikely there will be any easing up of regulatory scrutiny in the years ahead, we question whether the increased focus on testing and model validation can help firms take a step back to consider how they are approaching difficult issues, as opposed to how many resources they apply or how big their programs will grow. While it is critical for a program to be right sized and adequately resourced to combat money laundering in a complex business environment, it is equally critical that programs be targeted to address the specific risks at hand."

– Teresa Pesce
KPMG's Head of AML for the Americas region

Central and South America

Interest in AML at the senior levels, consistency of treatment of high risk customers, and sanction screening could be improved, particularly as the region struggles to keep up with the pace of regulatory change.

Survey Results

AML still of interest but somewhat decreased. Whereas in our last survey, 96 percent of respondents from the Central and South American region reported that AML was a high priority for their Boards of Directors, considering AML at least quarterly, in this survey, 80 percent of respondents reported that their Boards were actively interested in AML issues. Forty percent reported that their Boards consider AML issues quarterly, while another 40 percent discuss AML as needed. This is interesting considering that 100 percent of respondents reported that they consider money laundering a high risk for their institutions.

KYC for PEPs appears strong, but further progress to be made. Central and South American respondents reported strong procedures around PEPs. One hundred percent have procedures to identify PEPs; similarly 100 percent have procedures to obtain source of wealth information for PEPs. And all respondents reported teaching the business about the bribery and corruption risks associated with PEPs. However, the response is not uniform for other categories of customers. Two-thirds of respondents report obtaining ultimate beneficial owner (UBO) information on High Risk Customers, although none report obtaining such information for Medium or Low risk customers. Two-thirds also report obtaining source of wealth information for High Risk Customers. All, however, report requiring senior management approval to on-board a high risk customer.

Sanctions compliance remains a challenge. When asked what the biggest challenges are to sanctions compliance, highest marks went to the quality and completeness of data and to the blocking of customer accounts. One third of respondents don't believe that their sanctions software is effective. Two thirds of respondents report testing their systems at implementation; one third report testing quarterly. Like other respondents, Central and South American respondents report a low conversion rate from alert to true sanctions "hit": one-third say less than 0.1 percent are true matches; one-third say between 0.1 and 0.5 percent are true hits; and the remainder don't know what their hit rates are.

Keeping up with regulatory requirements represents biggest challenge to business. Respondents were asked to rate which areas were the most challenging to their businesses. In Central and South America, the highest score went to meeting new regulatory requirements, with protecting their firms' reputations and implementing a globally consistent AML framework tied for second. When asked what the greatest challenges are to regulatory compliance, all respondents reported that the pace of regulatory change was one of the greatest challenges, with the cost of compliance and resource constraints tied for second place.

Outlook

While many respondents in Central and South America expect spend on AML compliance to go down in the coming years, like others, they find it challenging to meet regulatory requirements, especially in light of regulatory change. It is not uncommon for survey respondents to underestimate the total AML expenditure, and so the regulatory pace of change should be expected to remain a key driver behind AML investment.

Central and South America are likely to experience increased legislative initiatives regarding anti-money laundering requirements, particularly as North America and FATF continue to influence the pace of change in the region. Many of the countries in this region could still be considered emerging economies where government oversight and AML regulation is still continuing to be developed. With this in mind, member firms' clients are expected to continue to focus on addressing the above concerns, but also proactively managing other areas of concern such as FATCA requirements and transaction monitoring concerns, in line with our global findings.

> Banking is a global business, and regulators worldwide are increasing scrutiny on the institutions they regulate. In addition to addressing home country requirements, banks must be mindful of law and regulation wherever they do business.

– Teresa Pesce
KPMG's Head of AML
for the Americas region

Offshore Locations

Within the offshore sector, there have been significant differences in the maturity of Anti Money Laundering ("AML") legislation and regulation. The offshore sector is very diverse in terms of AML regulatory maturity and, as such, certain responses reflect that diversity.

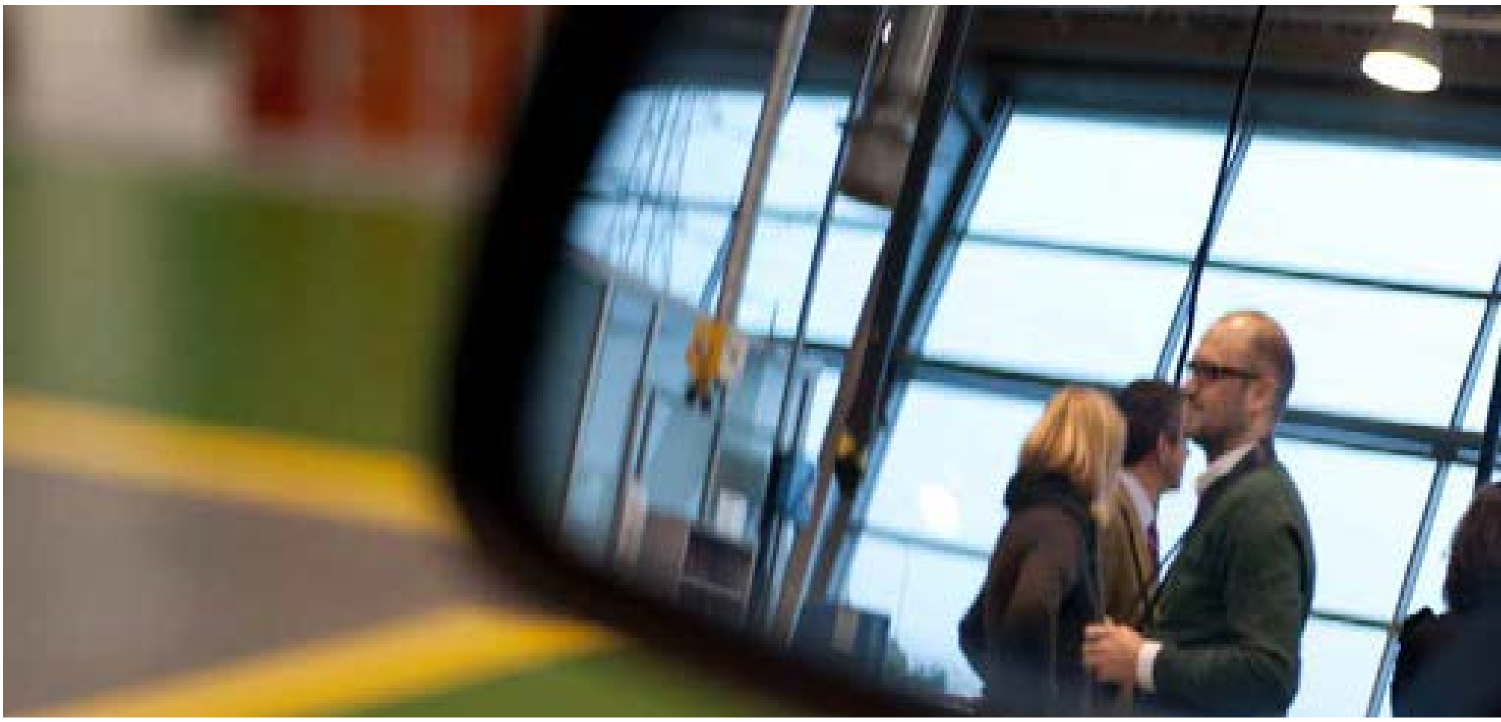
Survey Results

Regulatory focus varied across off-shore jurisdictions, likely in line with the degree of maturity differences with regard to AML regulation and legislation. Regulators in the more mature offshore jurisdictions (in AML terms) are focusing more now on granular aspects of implementation of the risk-based approach, or compliance with sanctions notice requirements. This includes providing greater levels of sector-based regulatory guidance. In contrast, regulators in the jurisdictions at earlier stages in their development of AML regulations are still focusing on basic implementation, such as generating legislation and issuance of guidance.

When conducting regulatory onsite visits, regulators in these jurisdictions are generally focused on ensuring that policies and procedures are up to standard and basic KYC documents are being collected.

During the decade prior to 2011, jurisdictions such as the Isle of Man, the Channel Islands, Malta and Bermuda enhanced their AML legislation and regulation to meet AML requirements commensurate with international standards. Some Caribbean jurisdictions have, however, only since then implemented significant changes to their AML legislation and regulation, mainly to meet the expectations of the International Monetary Fund (IMF) and the Financial Action Task Force (FATF). In many cases practical implementation of the changes is still an ongoing process.

Costs of compliance continue to increase across the board in mature and developing offshore jurisdiction. The increase in such jurisdictions appeared to be linked to increasing demands for AML resources, including experienced AML resources. These are costs that offshore businesses, in particular smaller businesses, have struggled to pass on to customers given the economic environment.



Outlook

Focus areas for offshore jurisdictions, currently, and in the next three years, will be the implementation of national risk assessments and the harmonisation of AML requirements with the requirements of automatic exchange of information.

Many banks no longer wish to place reliance on the customer due diligence undertaken by introducers and seem to be incredibly risk averse in terms of the business that they are willing to accept. This is particularly true in respect of accounts being introduced to the banks by trust companies and corporate service providers.

Regulated institutions are requiring greater levels of documentation from customers to meet AML regulatory requirements, and customer awareness and acceptance of the need to provide this information has changed. With FATCA and other tax related sharing agreements being signed, the level of documentation being requested from customers will continue to increase.

Jurisdictions which might be considered in the development stage of meeting international standards of AML regulations are expected to experience significant change over the next three years, particularly in the levels of activity from local regulators in those jurisdictions around the issuance of AML guidance notes and onsite inspections.

The IMF inspection process is an important part of global efforts to combat money laundering and terrorist financing activities. Offshore jurisdictions understand the part they play and considerable efforts have, and continue to, be made by offshore regulators to address this robust process.

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Acknowledgements

We would like to thank all of our AML teams for their contribution to the survey, in particular members of the project and editorial team:

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Steve Barkhuizen	KPMG in the UK
Manet Basson	KPMG in South Africa
Thomas Camenisch	KPMG in China
Dmitry Chistov	KPMG in Russia
Colin Darby	KPMG in the UK
Brian Dilley	KPMG in the UK
Claire Franklin	KPMG in the UK
James Grant	KPMG in the UK
David Harper	KPMG in the Bermuda
David Hsu	KPMG in China
Kyran McCarthy	KPMG in China
Nina Mehra	KPMG in China
Enric Olcina	KPMG in Spain
Michael Peer	KPMG in CZ
Teresa Pesce	KPMG in the US
Jodi Schutze	KPMG in the UK
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Designed by Evalueserve.

Publication name: Global Anti-Money Laundering Survey – 2014

Publication number: 130934

Publication date: February 2014