EY AML strategy and governance
Determining AML maturity
Developing an AML strategy to meet evolving requirements

To support the evolving needs and objectives of their anti-money laundering (AML) programs, financial institutions must develop a strong and sustainable program that can adapt to change. The financial services industry is always evolving and currently finds itself in a significant transformation period dealing with new regulatory mandates, views on risk appetite, changing customer demographics and new digital and mobile financial products. Institutions with forward looking programs are best suited to respond to these evolving changes.

Over the last few years it is clear that institutions that have taken a reactive approach to managing AML risk are at a disadvantage and are often forced to go from remediation program to remediation program. A reactive approach to dealing with changing stakeholder requirements (including board of directors, compliance committee, customers, regulators, and other governmental agencies) may not address systemic or enterprise wide issues nor will it allow a financial institution to identify minor weaknesses before they become major failures.

The progression below highlights examples of how expectations have evolved for a few key AML program capabilities. This information is for illustrative purposes only.

<table>
<thead>
<tr>
<th>AML risk assessment</th>
<th>2008</th>
<th>2014</th>
<th>Future requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative, survey-based</td>
<td>Driven by data, metrics and KPIs</td>
<td>Move from assessment to management of risk via continuous, high-confidence, data-driven KPIs and predictive analytics</td>
<td></td>
</tr>
<tr>
<td>Industry-based rules and parameters and a siloed view of customer risk</td>
<td>Model-driven with sound governance and explicit alert and case risk scoring</td>
<td>Enterprise-wide integrated monitoring that is contextual, intelligent and autocorrecting</td>
<td></td>
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<tr>
<td>Due diligence of account owner</td>
<td>Strong due diligence of beneficial ownership and enhanced due diligence where risk factors are present</td>
<td>Company-wide view of all relationships with network/link strength</td>
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Developing a clear and concise vision of an AML program can prove to be a major challenge for many financial institutions. It is equally important to fully understand and document the current capabilities of an AML program as it is to have a plan for future improvements. The EY AML Maturity Model is a tool used to assist an institution on both sides of that equation.
Financial institutions are expected to progressively enhance their AML programs as changes occur in the regulatory landscape or when business is impacted by money laundering typologies, products, channels or technologies.
The EY Maturity Model – a tool to define and support the strategy

The EY AML Maturity Model aligns to a firm’s AML program structure and defines the capabilities from limited through leading functionality. Each level of the Maturity Model is reflective of EY’s view of how comparable financial institutions perform activities within each AML program pillar. This is supplemented with additional insights such as expectations gathered through discussions with regulators and stakeholders, review of emerging practices and technology, and changing customer dynamics and financial products. The themes the maturity model is built upon evolve as frequently as the financial landscape dictates. When changes occur or new relevant information becomes available, the maturity model is updated to reflect the new functionality expected at each level of maturity.

The maturity levels pictured here represent an abbreviated version of the capabilities that fall into each maturity level of the AML program of a global financial institution. The full model drills down further and defines capabilities of individual pillars such as Know-your-customer (KYC), Transaction Monitoring (TM), Customer Due Diligence (CDD), etc.

### AML program improvements

<table>
<thead>
<tr>
<th>AML program effectiveness</th>
<th>AML program maturity spectrum</th>
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<tbody>
<tr>
<td>• A lack of definition and effectiveness of governance structure, oversight, and accountability</td>
<td>• Leading/optional automation of AML functions</td>
</tr>
<tr>
<td>• Limited and inconsistent processes in place</td>
<td>• Global risk-based approach and full integration of enterprise systems</td>
</tr>
<tr>
<td>• Disparate systems</td>
<td>• Centralized repositories</td>
</tr>
<tr>
<td>• Manual processes</td>
<td>• Global standards and procedures</td>
</tr>
<tr>
<td>• Inaccurate and conflicting data</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited functionality</td>
<td>Core functionality</td>
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<td></td>
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</tbody>
</table>

The expected level of maturity for an AML program and each of its pillars will vary among financial institutions. Some firms will aim to maintain core functionality across capabilities, demonstrating their ability meet baseline regulatory requirements while others face pressure to achieve “enhanced” or “leading” capabilities in key areas to demonstrate a strong and sustainable approach to managing current and future AML risk. An institution’s AML program capabilities cannot be simply compared across institutions as functionality needs will be tightly correlated to an institutions risk profile.

Regardless of the target maturity, reassessments must be regularly performed in order to identify and implement necessary enhancements and innovations, so that the AML program maturity doesn’t “fall back” by standing still. Financial institutions are expected to progressively enhance their AML programs as changes occur in the regulatory landscape or when business is impacted by new money laundering typologies, products, channels or technologies. Changes or advancements can shift capabilities along the AML program maturity spectrum from leading down towards core or limited. Some capabilities that were thought to be leading functionality just a few years ago have now become industry standards. Simply put, an AML program cannot be static.
## Turning the maturity model into a strategy

An assessment using the maturity model aims to identify potential gaps and make observations that will be used as a starting point for AML program improvement. Taking a holistic look at an AML program utilizing the maturity model will reveal specific strengths and weaknesses and allow compliance leaders to understand where they stand in comparison to their risk appetite, regulatory obligations and their peers. The maturity model assessment facilitates the creation of a clear and effective road map to obtain the desired goals and objectives of an AML program by following a four-step process:

<table>
<thead>
<tr>
<th>Current-state analysis</th>
<th>Future-state model</th>
<th>Gap and opportunity analysis</th>
<th>Road map development</th>
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</thead>
<tbody>
<tr>
<td>• Adapt maturity model framework to client operating model</td>
<td>• Define/evaluate future state objectives and requirements</td>
<td>• Conduct gap analysis</td>
<td>• Provide program management over implementation</td>
</tr>
<tr>
<td>• Review client AML program's people, processes and technology</td>
<td>• Identify future state options</td>
<td>• Develop prioritized opportunity portfolio</td>
<td>• Develop business requirements</td>
</tr>
<tr>
<td>• Conduct current state maturity assessment of client capabilities</td>
<td>• Define future state capabilities</td>
<td>• Develop business case</td>
<td>• Develop future-state project plan</td>
</tr>
<tr>
<td></td>
<td>• Define progress and effectiveness metrics to monitor the program</td>
<td>• Map vendor to capability where appropriate</td>
<td>• Develop road map</td>
</tr>
<tr>
<td></td>
<td>• Develop conceptual future state AML architecture</td>
<td></td>
<td>• Develop feedback loop</td>
</tr>
<tr>
<td></td>
<td>• Identify opportunities for enhancements</td>
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</tr>
</tbody>
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Taking a holistic look at an AML program utilizing the maturity model will reveal specific strengths and weaknesses and allow compliance leaders to understand where they stand in comparison to their risk appetite, regulatory obligations and their peers.
By incorporating current requirements and expected future changes, EY AML program governance and strategy initiatives have been effective in improving:

- Risk prioritization
- Investment Decisions
- Sustainability

**Risk prioritization**

Financial institutions looking to develop an effective and efficient AML program need to develop an understanding of both regulatory requirements as well as organization-wide objectives. Organization-wide objectives are shaped by the firm's risk tolerance and may push an institution's compliance program beyond what is currently required. Evaluating a program's current state against industry benchmarks is a great way to determine a firm's standing amongst their peers as well as help prioritize current and future initiatives to maximize risk coverage. The AML Maturity Model is effective as both an internal and external benchmark. Internally, it aligns to the firm's goals and objectives, and externally it provides a comparison against regulatory expectations and emerging industry trends. Observed gaps between an institution's current state and their desired level of maturity will clearly highlight initiatives that should be prioritized.

**Investment decisions**

Compliance projects tend to be costly and resource-intensive. Many institutions are undertaking a wide-range of changes both large and small to various functions in an effort to improve the efficiency of AML compliance. In doing so, institutions must keep a keen eye on current and future stakeholder expectations because there is a risk that certain changes to improve the program from an efficiency standpoint can substantively weaken the program in the eyes of the regulators. For every function, the maturity model assessment will identify targeted improvements required to methodically move from one maturity level to the next, strengthening the AML program. This helps compliance programs focus their investments to particular areas where maturity is lagging industry standards or internal objectives. Ultimately, leveraging the maturity model to develop an AML strategy will aid the institution's ability to identify the exact improvements that will create the most lasting impact.

**Sustainability**

As noted earlier, financial institutions have recently had to concentrate on making the majority of improvements to their AML programs after deficiencies were identified with those functions. Institutions react through projects that are meant to resolve problems that require immediate fixes, and this distracts from the vision of a desired end state. They are typically short term projects with high visibility to regulators which in turn consume a large quantity of resources and senior management's time. The immediate benefit of the maturity model is to help an institution exit this reactive cycle, but the long term advantage is the ability to help prevent an institution from re-entering it. Maturity model capabilities offer a view into what future requirements will be and allow institutions to invest in enhancements that will be sustainable for future regulatory exams. Institutions can exit the reactive cycle of continuously enhancing programs to satisfy current requirements and create internal initiatives that keep them ahead of expected regulatory changes. This results in a sustainable cycle of positive change.
**Objective**
Develop a future state architecture model and multiphase road map strategy to enhance the institution’s global AML program, aligning it to leadership’s vision and fitting it within the confines of a strict budget and timeline.

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**Approach**

<table>
<thead>
<tr>
<th>Current state</th>
<th>AML reference architecture</th>
<th>Target state capability model</th>
<th>Road map</th>
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</thead>
</table>

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**Success factors**
- To support the project, the client senior management team actively communicates the priority of the engagement from the start.
- The team has broad knowledge of AML program components from both policy/process and technology perspectives.
- Build early consensus around maturity model definitions
- Compile and review documentation before the team begins analysis to confirm all documents are available.
- Regular and highly interactive working sessions are held with client and AML pillar owners, confirming the team’s understanding and/or identifying additional documentation/information sources to complete the current state assessment.

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**Challenges**
- Lack of up-to-date documentation
- Lack of clear and achievable scope and plan for the client’s in-flight and future initiatives, creating ambiguity about future state
- Agreeing on first, second, and third line of defense responsibilities.
- Gaining support of business, technology and compliance for future state recommendations
- Lack of consistent processes, technology and capabilities across client lines of business, which multiplies work effort

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**Illustrative engagement case study**
The engagement case study below outlines hypothetical success factors and challenges for a project team using the maturity model as a tool for enhancing an organization’s AML program.
Why EY?

Industry and subject matter knowledge as well as an experienced team

• Our in-depth and multi-disciplinary global experience in financial crimes management provides strong subject matter resources and insights for our clients.
• Our team integrates advisory capabilities across our multidisciplinary services lines including fraud, information security, customer experience, and compliance to deliver the full range of solutions to our clients.

Consistent service delivery execution

• We leverage leading practice project management techniques to track project delivery benefits and manage organizational change.
• Our integrated service delivery approach starts with an understanding of current state and ends with developing a roadmap that outlines key activities and timeline to achieve desired target state.

Structured method and approach

• We have a mature current state assessment/future state roadmap method in place that helps in rapid and structured project execution that allows us to leverage accelerators and enablers.
• We are able to identify and address common issues quickly, and deploy improvement initiatives where appropriate that can generate real value quickly and efficiently.

Support implementation and drive sustainability

• We aim to go beyond the assessment stage by assisting clients with implementing the roadmap that is focused on addressing the improvement opportunities required to achieve the desired future state.
• We have a separate major program transformation method in place which has proven successful at many of our other engagements.

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