The Challenge of AML Leadership

A Conversation with Bates AML and Financial Crimes Practice Managing Director Edward Longridge

Introduction

Bates Research sat down for a one-on-one discussion with Edward Longridge as he began a professional transition to his position as Managing Director of Bates AML and Financial Crimes. Ed's previous role was as Chief Anti-Money Laundering ("AML") Officer for Oppenheimer & Co. Inc., where he oversaw the firm's global AML and Sanctions program. Over a twenty-year span, Ed worked at Citigroup, Deutsche Bank, Morgan Stanley and Salomon Smith Barney.

Here are some key excerpts from our extended discussion on the pressing challenges facing Chief AML Officers.

Considerations for Addressing AML/Financial Crimes Risk at a Financial Institution

EL: In reviewing a firm's AML and financial crimes risk, the most important first step is to develop a thorough understanding of the firm's current program. This process requires a deep dive in order to get an accurate read on how a firm approaches and manages AML/FC risk. This entails a look at several overlapping themes: program governance, organizational structure, management and experience levels in the department, policies and procedures, systems and technology, relationships with regulators and the firm's risk history. Familiarity with these themes is vital in order to be able to address enforcement issues, new rules or emerging themes in AML/Financial Crimes.

Providing effective solutions to the many challenges AML/FC professionals confront on a daily basis requires an understanding and an appreciation of the many pressures they face. Not to mention an ability to deliver solutions in the context of the ever changing demands in this complex regulatory environment.

Initial Steps

EL: Any initial steps require a thorough review of the current state of the AML program, including meeting with firm leadership and asking straightforward questions. The goal is to understand the state of play so that you can develop the insight necessary to inform your actions: What does the AML department look like? What is the reporting structure? What expertise and experience is there? What is your relationship with regulators? Are you in deep water? Are there pending enforcement actions, and what led to them? Truly understanding the landscape requires real due diligence.

The Written Record

EL: Key documents that should be reviewed include the most recent regulatory exam findings, the latest Audit Report, and if available, an AML/OFAC risk assessment.

AML departments should be audited annually unless they meet an exemption for a more extended period. The annual audit can be conducted internally or also by an independent consulting firm. The latest audit report and regulatory exam results will provide some understanding of where the program is and the views of the regulators as to the program.

Providing effective solutions to the challenges AML and compliance professionals confront on a daily basis requires an understanding and an appreciation of the many pressures they face.

Another important document is the AML/OFAC risk assessment. A risk assessment evaluates all of the inherent AML risks of the firm against the controls that the AML program has implemented to manage those risks. Based on the results, you can determine whether there are any residual risk areas that need to be addressed. A tailored risk assessment should evaluate the AML/OFAC risk of the firm against the program's controls. It is important that AML officers drive their program forwards using their risk assessment to cover any identified areas of concern.

A risk assessment will provide key information about the firm: it will describe client breakdown, types of clients, geographical location, the different types of channels regarding how the clients are acquired. It will describe different types of products and services that the firm offers. It will evaluate different types of transaction activity. Once the inherent risk is evaluated against the AML program's controls, any potential gaps in program coverage will become clear as the residual risk is identified. The AML department can then focus on those residual risks. Particularly in larger financial institutions there are resources dedicated to the annual risk assessment. However, consulting firms also assist financial institutions by conducting risk assessments on their behalf.

Policies and Procedures

EL: AML policies and procedures are usually the first documents regulators and auditors ask for when they assess an AML/FC program. Given the importance of these documents, a complete review of the program's policies and procedures is essential. You do not want to be criticized by auditors and regulators for having out-of-the box policies and procedures; they need to be tailored to your program. They also need to be current and robust as they define the culture for the AML program within the firm.

Relationship Building and Firm Leadership

EL: Meetings with senior management are critical to understanding the range of leadership perspectives and for developing important working relationships. "Business Head" buy-in is always a high priority and that goes both ways. Business Heads need to understand your concerns about their programs. Ultimately, the goal is to reach consensus on a shared vision.

Take, for example, meeting with the Head of Audit. What is their impression of the AML program? What concerns do they have? Have your audit points from the previous review been addressed? Are there any still open? If yes, what is their current status, and does Audit have concerns regarding their implementation? The Audit relationship should not just be limited to a once-a-year review. It is helpful to cultivate an ongoing relationship.

It is important that AML officers drive their program forward using their risk assessment to cover any identified areas of concern.

Other questions are relevant too. Have consulting firms been engaged to conduct previous AML audits? This may be something to consider early on in order to appreciate an external view of the AML/FC program and where it stands in comparison to other programs in the industry. A program gap assessment is a key service that a consulting firm can provide.

In general, meeting early on with key leaders provides much more than additional color and look-back benefits—these meetings are crucial to moving forward. It is important to understand potential pitfalls and priorities and to get the best feel for what is really happening. It would be hard to overemphasize the importance of understanding the business and management drivers for the firm, and beginning to establish relationships which will be critical to realizing future strategic objectives.

Know Your Regulator

EL: It is also important to assess the relationship between the firm and its regulators. In many ways, the most important step a firm can take is to start a process of engaging with the regulator outside of a regular annual exam period, if it has not already done so. You want to be able to say, "Look, this is what we're doing now with the new program, these are the new initiatives," whether it's bringing in new technologies or new program procedures, new people or a governance overhaul. When you build a relationship with regulators, you reveal the firm's intention to be cooperative and open. Regulators can start to see the improvements that the firm has made to date, but also the improvements, with estimates of time frames around them, that are in the works for the future.

AML officers need to effectively sell their new programs to the regulators. When the regulators come round to the next exam, you want them to say, "We know you, we already know what the vision is, the direction of your program." Building relationships takes time, but there should be a continuous effort to improve them. It is important to have an open and engaging relationship with the regulator and, obviously, to never hide anything.

Technology and Compliance

EL: Everything we do is now dependent on technology—it's critical. An AML program needs to be evaluated in terms of the technology it uses. Is it outdated? Would your systems and how they are configured meet current regulatory expectations? Is there really no significant technology at all? The larger question relates to whether the firm has the right technology programs to address the AML risks. For an AML officer, these questions often lead to some expensive, often difficult, conversations. However, from a risk perspective, everything is interconnected. Technology should be integrated throughout, and so it is critical in addressing current and future risk.

When you build a relationship with regulators, you reveal the firm's intention to be cooperative and open.

Compliance officers need to assess the technology systems across the AML program. They should continually evaluate the existing systems to check that they are functioning as designed. Systems are a key component of AML controls. Therefore, it is necessary to know that they are configured correctly and working as intended. Does your name screening system or your transaction monitoring system generate a higher level of false positives than you would normally expect? This could be an indicator that these systems need to be tuned. It is a regulatory expectation that transaction monitoring systems be tuned annually, however it is often the case that financial institutions do not have the teams in-house to conduct the tuning, so they turn to consulting firms to do it for them.

Preparing for Regulatory Change

EL: Part of the challenge for AML officers is to always keep moving forward. You should never sit still. AML programs always need to be evolving to keep up with the latest money laundering and financial crime trends. AML officers also have to update their programs for new rules and regulations.

When it comes to new rules, the regulators will likely provide appropriate lead times for implementation. For example, FinCEN's Customer Due Diligence rule, or CDD rule, had a two-year implementation timeframe. In anticipation of a new rule, it is advisable to carry out a gap assessment of your current program versus the requirements of a new rule as soon as possible.

It is important to view a proposed rule from the perspective of everyone within the firm who will be affected and everyone within the firm who will need to participate in adapting to it. So, it is important to build awareness of a new or pending rule within your firm at every step. Sharing the results of a gap assessment with senior management, for example, allows them to become familiar with the idea of change. Senior management in the Business should know the impact of a new rule and how it will affect them. The Technology department must have sufficient lead time to develop their systems to capture all of the requirements of a new rule.

The sooner policies and procedures can be updated, the sooner senior leadership can approve them. It falls on senior AML officers to ensure that the Business, Operations and other departments are fully trained in advance of the rule's implementation date. A well-coordinated marketing and training campaign within your firm is key to giving people the information they need so that everyone is aware. This should limit the amount of pushback you might experience from the Business once the rule is implemented.

An AML program needs to be evaluated in terms of the technology it uses.

Everything we do is now dependent on technology—it's critical.

Final Thoughts

EL: AML and financial crimes roles are uniquely demanding. The breadth of responsibility placed on senior leaders of AML and financial crimes programs is considerable. It is for that reason I place such a high importance on relationship building, both with regulators and with internal leadership. Always look for opportunities to help build that relationship.

As to building relationships with firm leadership: Simply put, it is impossible to deliver an AML/financial crimes program without effective buy-in from Business senior leadership. It is a challenge to deliver something that's difficult to implement, potentially restrictive to the Business, that may garner pushback from people in the field, and that is expensive - even when you have cultivated and nurtured internal relationships. However, when Business and AML leaders come together in lock step, even the most complicated program can be implemented. Making sure the Board of Directors, the CEO, and senior management of the firm are fully supportive of what needs to be achieved allows for success. Relationships and a pro-business orientation give you added credibility as an AML officer when you have to say no. In my view, though, we should work with and advise the Business on how to get to yes.

Our goal at Bates is to advise financial institutions and provide solutions necessary to address the client's needs. We provide the highest level of service and expertise to help AML professionals succeed in a challenging environment.

About Bates

Bates AML and Financial Crimes offers a valuable combination of industry and technical consulting expertise, providing the highest possible value to our clients in the areas of AML and financial crimes, fraud investigations, forensic accounting, data analysis and expert witness consulting. Our Financial Crimes team is led by recognized experts in AML, financial crimes, fraud and forensic accounting with extensive experience in the broker dealer, banks and investment advisor field. We provide tailored solutions and support that covers the following areas: AML/OFAC risk assessments, AML/FC program gap assessments and audits, KYC risk model design, AML systems reviews, transaction monitoring look-back and ongoing investigations, fraud investigations, forensic accounting, AML/FC policies and procedures reviews, advisory services for AML/FC rule implementation, regulatory response support, and white collar crime testimony support. Bates experts and consultants work with you to limit the regulatory, financial and reputational impact of money laundering, financial crimes and fraud that may have occurred and reduce the likelihood of future malfeasance.

Contact

Edward Longridge

Managing Director, Bates AML and Financial Crimes

New York, NY

ELongridge@batesgroup.com

Bates Group

5005 Meadows Road, Suite 300

Lake Oswego, OR 97035

(503) 670-7772

www.batesgroup.com

contact@batesgroup.com

Originally published November 2018.