

Financial Institution Compliance Update



July 1, 2014

This month's article is **FFIEC Guidance: How Robust Is Your Risk Assessment?** You have access to previous newsletters by visiting our website at Experis.us/Finance.

This communication is designed to provide you with quick snapshots and timely perspective on recent regulatory developments.

[FFIEC Guidance: How Robust is Your Risk Assessment?](#)

Background of Risk Assessment

The FFIEC guidance issued on April 29, 2010 outlines the risk assessment process, its importance, and the expectations surrounding what a strong risk assessment should encompass. The guidance does not dictate *how* the risk assessment should be completed; rather it states that there are "many effective methods and formats. Therefore, examiners should not advocate a particular method or format." However, Experis has recently noted enhanced scrutiny of the risk assessment process and the results it produces. Bank regulators, during examinations, are increasing expectations that organizations go beyond the minimum requirements of the Bank Secrecy Act / Anti-Money Laundering (BSA/AML) risk assessments, as defined in the Federal Financial Institutions Examination Council (FFIEC) guidance.

Contact us

If you have specific questions regarding the regulatory content and commentary of this message, please contact:

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To address this issue, we strongly believe that a comprehensive risk assessment, founded by a solid methodology can be crucial in identifying areas of the BSA/AML program for enhancement or strengthening. This expanded risk assessment provides senior management and the board of directors a roadmap of the overall program and areas needing enhancements. Also, by identifying higher risk areas (i.e. customers, transactions, etc.), internal audit can more efficiently and effectively focus on these areas for control testing.

The importance of understanding your organization's overall risk profile

Understanding the true risk profile of an organization is the cornerstone of a sound BSA/AML program as the associated laws, regulations, and guidance dictate that the program be risk based. Financial Institutions frequently utilize the FFIEC guidance as a template for completing a risk assessment while failing to take the next steps to measure risk holistically. Additionally, financial institutions should document where the various inherent risks and controls are intertwined and therefore either elevating or reducing the overall risk profile of the institution. For example, the products offered and the geographies they are offered in are typically reviewed in isolation. Understanding how those offerings and geographies, and their associated controls, interact with one another is paramount in understanding the true risk profile of the institution. One institution recently received criticism for not addressing all of their inherent risks, sticking to only those spelled out in the FFIEC guidance, with further criticism being leveled at the lack of understanding of the interplay of various risks and controls.

What you can do to enhance your risk assessment program

We recommend that you invest the time and effort to revisit these processes and document the results on a more granular level to provide a clearer picture of residual risk. As we have been working with our clients, we have noted the following areas that have been receiving criticism that should be addressed accordingly. Specifically, some measures financial institutions can take to enhance their AML/BSA risk assessment Programs include:

- Develop a methodology that describes how the various inherent risks and associated controls are computed in a quantitative manner. This methodology should include a description of how to arrive at the computations for inherent risk, control effectiveness, and ultimately residual risk;
- Risk-weight the identified inherent risk factors as all risks are not created equal;
- Include Line of Business management, as appropriate, to provide in-depth front line knowledge of processes, products, services, and markets;
- Document how the inherent risks, control effectiveness, and ultimately residual risk factors interplay and compute an overall risk level which can be balanced against the financial institutions risk appetite;

- Review risks in relation to actual filings of regulatory reports. Perform a data analysis of your Suspicious Activity Report (SARs) and Currency Transaction Report (CTRs) filings to identify areas of higher risk within the institution. For example, five out of ten SARs filed are for new customers who are structuring cash transactions. Breaking this down further by branch will also provide data as to location of the activity. For example, of the five new customers, structuring occurred at only two of the six branch locations. This information aids in identifying the type of customer, type of transactions, and branches that appear to be at higher risk. Upon reviewing this data, additional controls may be needed or training of targeted staff located at the two branches should be provided to mitigate the identified higher risk based on actual SAR filings.

How Experis can help

Experis Finance offers industry experience in all aspects of BSA/AML programs, including Risk Assessment development. Our Risk Advisory Services, specifically our Anti-Money Laundering practice, can evaluate your current risk assessment, provide comprehensive recommendations for improvement, and even help address those recommendations.

Services available include independent review of your risk assessment or development of a methodology including:

- Scoring of various risk factors in order to gain consistency year-over-year, working with management to determine how each of the inherent risk factors should be weighted in order to understand the true inherent risk profile of the institution,
- Interviewing line management to understand all of the risks associated with their products and the interplay between those products as well as the controls in place to mitigate those risks, and
- Developing the Risk Assessment documentation to provide a clear mapping from the risk appetite of the organization to the assessed residual risk.

If you have any questions or need additional support with your organization's risk assessment program, contact your local **Experis representative** or visit us at ExperisUS/Finance.com.

