



# How NOT to Perform a Risk Assessment

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# Sarah Beth Felix

- ▶ Sarah Beth Felix is the President of Palmera Consulting, a specialised AML/CTF advisory firm providing AML system validations, remediations, SME roles, product roll-out and risk assessments.
- ▶ She brings 18 years of anti-financial crime experience, 14 years CAMS certified, working with financial institutions of all types including banks, credit unions, FinTechs, trade finance institutions, MSBs, broker/dealers and mortgage companies.
- ▶ She is recognised in the compliance industry for her ability to navigate and operationalise global AML/CTF regulations.
- ▶ As a former AML Officer, she provides actionable, sustainable and effective solutions through first-hand knowledge of how systems and data impact daily compliance efforts.

# Agenda



Purpose



Indicators of Ineffectiveness



Risk Assessment Don'ts



Risk Assessment Dos



Final Thoughts

# Enterprise-Wide Risk Assessment

- ▶ Identify
- ▶ Assess
- ▶ Understand



“The best risk assessment methodology uses a combination of approaches in order to capture all that is known and as much as possible about what is not known.”

– FATF ML/TF Risk Assessment Strategies, June 2008

# Purpose of a Risk Assessment

- ▶ Identify
- ▶ Assess
- ▶ Understand

Understand HOW an institution  
is vulnerable to ML/TF

Determine the type, level,  
number of resources

RISK-BASED  
APPROACH

# Indicators of Ineffectiveness

## The Risk Assessment...

- ▶ Does not highlight gaps
- ▶ Does not provide action items
- ▶ Does not provide any areas with a moderate-high or high residual risk

# Risk Assessment Don'ts

► Do not...



Over complicate



Lose focus on the  
purpose



Make it into a model

# Risk Assessment Don'ts

Do not...

- ▶ Provide mainly qualitative information
- ▶ Be satisfied with 'hand-me-down' versions
- ▶ Let it gather dust in between updates



# Risk Assessment Don'ts

Do not...

- ▶ Ignore national risk assessments
- ▶ Ignore global, intergovernmental guidance
- ▶ Focus on only risks and ignore threats or vulnerabilities

# Risk Assessment

Risk = (Customers  
+ Products  
+ Services  
+ Geographies)  
– Controls





# Risk Assessment

Risk = (Threats  
+ Vulnerabilities)  
– Controls



# Risk Assessment Dos

Do...

- ▶ Use threats and vulnerabilities to determine risks
- ▶ Quantify when it clarifies
- ▶ Use it to request more, different, better technology, training and resources
- ▶ Use it to say “no” to expansion that exceeds capacity
- ▶ Change the inherited version

# Final Thoughts

- ▶ Risk Assessments should move the AML/CFT and Sanctions Program forward
- ▶ Risk Assessments must incorporate threats and vulnerabilities BEFORE risk conclusions are drawn
- ▶ Risk Assessments are the basis for a risk-based approach



# Guidance Highlights



Monetary Authority  
of Singapore

**Outcome 6:** Banks have structured processes to perform gap analysis against guidance papers, and incorporate lessons learnt and good industry practices in their own processes.



## ASSESSING ML/TF RISK

22. Assessing ML/TF risk means that countries, competent authorities and banks have to determine how the ML/TF threats identified will affect them. They should analyse the information obtained to understand the likelihood of these risks occurring, and the impact that these would have, on the individual banks, the banking sector and possibly on the national economy for large scale, systemic financial institutions, if they did occur<sup>19</sup>. As a result of a risk assessment, ML/TF risks are often classified as low, medium and high, with possible combinations between the different categories (medium-high; low-medium, etc.). This classification is meant to assist understanding ML/TF risks and to help prioritise them. Assessing ML/TF risk therefore goes beyond the mere collection of quantitative and qualitative information: it forms the basis for effective ML/TF risk mitigation and should be kept up-to-date to remain relevant.

FINANCIAL CRIMES



ENFORCEMENT NETWORK

Various methods and formats may be used to complete the BSA/AML risk assessment; therefore, there is no expectation for a particular method or format. Bank management designs the appropriate method or format and communicates the ML/TF and other illicit financial activity risks to all appropriate parties.



## Using AML/CFT guidance

15. You **must** consider any applicable guidance material produced by your AML/CFT supervisor or the New Zealand Financial Intelligence Unit (FIU) and any other information provided in relation to the regulations. We strongly recommend that you are familiar with the following documents before you undertake your risk assessment.
- The National Risk Assessment (NRA) and FIU guidance material (accessible to reporting entities registered with the FIU's goAML system)<sup>1</sup>
  - Sector risk assessments (SRAs) produced by the AML/CFT supervisors<sup>2</sup>
  - Industry-specific guidance – for example, DIA has produced the *Lawyers and Conveyancers Guideline*<sup>3</sup>
  - AML/CFT supervisor guidance – for example, the FMA has produced the *AML/CFT Guide for Small Financial Adviser Businesses*<sup>4</sup> and DIA has produced *Risk Assessment and Programme: Prompts and Notes for DIA Reporting Entities*<sup>5</sup>



## Examples of good practice

- The firm's risk assessment is **comprehensive**.
- Risk assessment is a **continuous** process based on the best information available from internal and external sources.
- The firm assesses where risks are greater and **concentrates its resources** accordingly.
- The firm actively considers the **impact of crime** on customers.
- The firm considers financial crime risk when **designing new products and services**.

## Examples of poor practice

- Risk assessment is a **one-off** exercise.
- Efforts to understand risk are **piecemeal** and lack coordination.
- Risk assessments are **incomplete**.
- The firm targets financial crimes that affect the bottom line (e.g. fraud against the firm) but **neglects** those where third parties suffer (e.g. fraud against customers).

# Resources

- ▶ UK's FCA – <https://www.handbook.fca.org.uk/handbook/FCG.pdf> (pgs. 15-16)
- ▶ Singapore's Monetary Authority – <https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Monographs-and-Information-Papers/Enhancing-Robustness-of-Enterprise-Wide-Risk-Assessment-on-Money-Laundering-and-Terrorism-Financing.pdf> (all pages)
- ▶ US's FinCEN – <https://www.ffiec.gov/press/PDF/FFIEC%20BSA-AML%20Exam%20Manual.pdf>
- ▶ FATF's list – <https://www.fatf-gafi.org/publications/methodsandtrends/documents/ml-tf-risks.html>
- ▶ New Zealand's FMA – <https://www.fma.govt.nz/assets/Guidance/aml-cft-risk-assessment-guideline.pdf> (pgs. 4-5)
- ▶ Japan's FSA – [https://www.fsa.go.jp/common/law/amlcft/en\\_amlcft\\_guidelines.pdf](https://www.fsa.go.jp/common/law/amlcft/en_amlcft_guidelines.pdf) (pgs. 8-9)



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