

How to Avoid Anti-Money Laundering Vulnerabilities

by Michael Heffner, Global Industry Practice Leader, Appian Corporation

New enforcement actions and fines for poor compliance with the Bank Secrecy Act (BSA) are hitting the news at a steady pace. While some of these actions are related to fraudulent behavior and active money laundering programs, the Bank Secrecy Act allows regulators to take enforcement action simply when they consider a bank to have inadequate controls that leave them *vulnerable* to money laundering programs.



Financial Services firms are racing to improve controls but hitting many barriers. The siloed nature of most large financial institutions creates natural gaps between organizations and information technology systems. These gaps end up being filled by manual processes, spreadsheets, and email—hardly effective, long-term solutions. There are fewer of these structural impediments at smaller financial organizations, but their challenges are just as great, often leading to new levels of controls that create additional layers of complexity...layers that can be challenging to manage, resulting in consistently poor customer experiences.

A new approach makes it possible for financial institutions both large and small to quickly solve their anti-money laundering (AML) challenges by managing compliance work holistically across functions, lines-of-business, and geographies without engaging in complex, expensive, and time-consuming re-architecting efforts. Contrary to what may seem possible, AML program effectiveness may be improved quickly while at the same time delivering a better overall customer experience.

THE GROWING IMPORTANCE OF GOOD AML CONTROLS

Financial Services firms are under great pressure from regulators, ratings firms, and law enforcement to improve their AML efforts. Failure to fully address AML risks are increasingly growing more expensive in terms of penalty, reputation, and even the ability to conduct business.

In the United States, the Office of the Comptroller of the Currency, which oversees the largest banks, has begun tying deficiencies in a bank's AML program to its formal rating of bank management, which can form the basis for enforcement actions and affect a bank's ability to raise capital. Similar programs are underway in other developed global markets. Globally regulators are concerned that firms are systemically failing in their AML responsibilities and lack effective enterprise-wide abilities to monitor AML across lines-of-business and geographies. Regulators are demanding rapid progress in remediation and compliance efforts, leaving financial services firms with no time to re-architect. Global rating agencies such as Standard & Poors are now actively downgrading firms based on their demonstrated ability—or lack thereof—to effectively manage the AML process. Rating downgrades can cause severely negative impact, ranging from increased cost of capital, to significantly limiting a firm's ability to do business in certain segments or geographies.

Governments are attempting to eradicate money laundering by going after the financial institutions they say enable such activity. Their investigations are uncovering serious gaps, leading to large fines and enforcement actions. Headlines include:

- [HSBC Holdings PLC paid \\$1.9 billion](#) after admitting violations of the Bank Secrecy Act and other laws that enabled drug cartels to launder billions of dollars.
- [Standard Chartered PLC](#) [*subscription required*] agreed to pay \$340 million to a New York regulator to settle allegations that the bank broke U.S. money-laundering laws in handling transactions for Iranian customers.
- [JP Morgan Chase fined \\$461 million](#) for willfully violating the Bank Secrecy Act (BSA) by failing to report suspicious transactions.
- [OCC issues cease and desist order against Citibank, N.A.](#) for violations of the Bank Secrecy Act and underlying regulations. According to the OCC, the order requires the bank to take comprehensive corrective actions to improve its BSA compliance program.

If the financial crisis taught us anything, it's that the financial services industry should expect continually evolving and changing regulations. Global financial systems are becoming more integrated, and those countries on the outside are becoming more isolated. Governments are placing increasing pressures on financial services firms to implement policy and holding firms accountable for lack of response. IT systems inside financial services firms must be designed to rapidly adapt to needs that cannot be predicted. Investing in anything that is not powerful, unified, and easily changed is a near guarantee of reputation damage and fines, as well as falling behind the competition.

[This article in the Wall Street Journal](#) [subscription required] highlights the importance of the situation.

“I think [banks] still need to do more,” said Mythili Raman, the acting assistant attorney general who heads the Justice Department’s Criminal Division. *“It’s not as if our enforcement actions are over. There’s more to come, and that suggest to me that there are still banks that haven’t gotten the message.”*

The article also notes prosecutors are increasingly bringing cases under the Bank Secrecy Act, which requires banks and other financial institutions to take specific steps to ensure customers’ money doesn’t come from illegal activity. The use of the Bank Secrecy Act leaves banks exposed to prosecution **simply for having inadequate controls that could leave them vulnerable to money laundering activity.**

This paper examines the challenges of AML compliance and lays out a path for how using modern, flexible work automation technology can enable organizations to have systems that protect them from AML risk, taking advantage of existing core systems without complicated and risky “rip and replace” efforts.

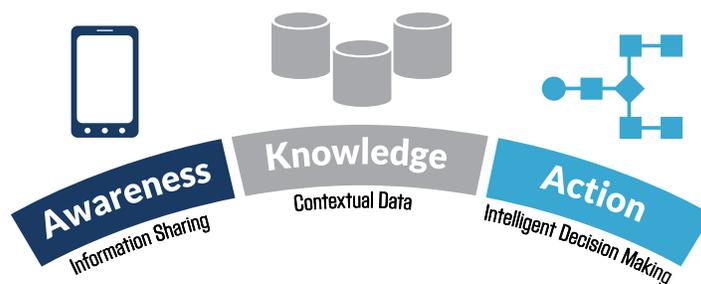
KEY ELEMENTS OF AN AML PROGRAM FOR THE FRONT LINE AND THE BOARD ROOM

It is one thing to create an IT system that supports an organization’s AML needs today. It’s another to have an application that supports AML needs for years to come. There are too many external factors (e.g., new macro regulations, unique local rules, new classifications) and internal challenges (e.g., process optimization, new products, new markets). All require continual changes to maintain AML effectiveness.

Here are the key elements an AML program must have in place to prove to regulators that proper controls are in place and fully protect an organization now and into the future:

- Holistic management of AML across functions, lines-of-business, and geographies while allowing for unique local nuances
- Ability to easily perform customer due diligence and identify high risk customers
- Automated suspicious activity monitoring, along with an easy ability for employees to submit suspicious incident reports (SIR) with tracking through resolution
- Pre-defined decision logic, paths, and actions to minimize gray areas in decision making (regulators want to understand the process, data, and oversight in every decision)
- Ability to easily escalate incidents for review
- Full reporting to provide insights for management, as well as tracking for auditors
- Full accountability of all indicators and actions (no gaps between steps with manual processes)
- Integration to streamline filings of Suspicious Activity Reports (SAR)
- Automated methods to support 120-day ongoing monitoring after suspicious activity
- A high degree of flexibility so the IT system can be changed as regulations evolve and the organization expands/contracts across products and geographies
- Easy integration with all existing legacy applications, minimizing the need to “rip and replace” technology to get to an ideal state
- A comprehensive view across all departments, breaking down silos so comprehensive views of AML history are available for a customer or affiliate across products and geographies
- The expected, native interface on desktops, smart phones, and tablets to support a workforce that’s becoming more and more mobile

This long list of challenging requirements has stopped most financial service firms in their tracks, and it explains why good AML management is such a challenge. What complicates matters is that it's never a single application that must be replaced or improved. The challenge is about how to create a holistic compliance solution that works across silos. Such a system would provide overworked and underappreciated AML and business teams the ability to improve **awareness** about potential AML issues, increase **knowledge** about the customer (e.g., past AML flags, nature of relationship across products and geographies) and an ability to take fully informed **action**. This future state would create a full lifecycle of each issue, all the way through to government reporting if needed.



The bar is clearly high...and it can be met...with the right technology approach.

WHY TRADITIONAL SOFTWARE OPTIONS HAVEN'T SOLVED THE AML CHALLENGE

When financial institutions think about only their current needs, they end up investing in technology with a limited useful life. This is never intentional, but it happens all the time.

Many financial institutions have a history of building their own specialized systems. There was a time when this was the only practical approach to meet unique needs, as pre-built software for specific processes didn't exist. It's still a common practice today, driven by the fact that pre-built software packages are designed for an "average" customer, rarely meeting the full needs of any specific customer.

Custom development, including one-off compliance solutions, allows an organization to tailor software to their needs, but usually at a significant cost. IT systems written in computer coding language are less flexible and more costly to maintain than other approaches. Hard-wired systems like these frustrate compliance leaders who can't get their systems adapted fast enough to meet ever-changing compliance requirements, including BSA/AML. Work that should be done holistically ends up fragmented across multiple silos, breaking management's control and visibility. Ability to manage AML risks across a complex organization, holistically, is challenged by difficulties in managing the work horizontally across it, including the aggregation of data that is held across many legacy applications. This hampers a company's ability to quickly and effectively respond to regulatory demands and exposes Financial Services firms to excessive financial, reputational, and regulatory risks.

The other common approach to the compliance technology challenge is to purchase a commercial-off-the-shelf (COTS) software package. The theory is adapting a pre-built system for on-boarding will allow the organization to get all the benefits of a custom developed system without the time and expense. The reality, however, is different. Companies that sell software for multiple organizations, by definition, have to create an application for the average customer. Since no customer is "average," that means the product never fully addresses all customer needs. Companies that buy COTS often engage in extensive customization to get the

software to meet their initial needs. Over time, the situation gets worse as the software vendor has to react to change requests from multiple customers with different needs. And, the COTS software increasingly becomes obsolete. Keeping up with changing regulations would be simple for a company that makes one application, but every customer wants to implement the regulatory change in a way that's most advantageous to their specific business. The other downside to relying on a common COTS application for such a critical application like compliance? A company's ability to manage its unique organizational risk profile is severely limited. *How can you be assured that your unique business situation is supported when your competitors run the same system?*

LEVERAGING MODERN TECHNOLOGY TO BEAT THE AML CHALLENGE

It's clear that the approaches of the past won't address today's AML challenges, let alone long-term compliance challenges into the future. *The answer? A modern work platform.*

A modern work platform enables vastly greater automation, communication, and collaboration than any traditional one-off solution.



Some Financial Services firms are gaining rapid, complete, and less costly AML compliance by using Appian to create their own holistic compliance application that provides broader risk awareness, deeper knowledge of potential risks, and expedited ability to take action in the moment to mitigate risks and assure compliance with BSA/AML standards, as well as other regulatory requirements, both current and evolving. Here are a few examples:

- A regional consumer and commercial bank attempted to address AML challenges through an existing portal-based solution, but, deficiencies were quickly apparent, including extensibility, scalability, and data synchronization issues. To address their challenge, the institution created a comprehensive AML solution in Appian. It captures all triggers (*including systemic alerts and SAR forms*) and unifies them through a consistent approach. Every alert is routed to the right investigator with a full history always available for management and auditors. Audit trail is preserved by recording what decisions were made when, why, and by whom (*ensuring that the mandate of investigating alerts within 30 days of an investigation starting is automatically met 100% of the time*). Comprehensive records provide complete data of customer profile and history of issues raised. Broad reporting capabilities allow for trend analysis across the full AML program, including identifying patterns of potential fraudulent behavior. And, the application easily integrates with all necessary technology, including both enterprise and government systems.
- Wealth Management division of a consumer bank is leveraging Appian to manage AML and other compliance challenges comprehensively. Taking advantage of Appian's ability to quickly deploy modern applications that unify everything—process, data, systems, collaboration, and applications, the firm has especially taken to the build-once, deploy everywhere capabilities to launch an enterprise mobility initiative concurrently with no extra resources or budget.



- A world-leading advisory firm is leveraging Appian to automate and orchestrate the process of due diligence for potential clients. The process was previously undertaken in many different ways across many different service lines, often with high levels of duplication of tasks and little in the way of overall coordination. The new centralized “Take-On” team completes all of the data gathering and process checking, leaving the highly skilled engagement teams to focus on making judgments about clients based on now complete data using the Take-On application built in Appian.

Take-On orchestrates all of the steps needed, the ultimate output of which is a final decision on whether to proceed with a client engagement or not. Tasks include AML, relationship checks (*investigating the organizations “family tree;” other subsidiaries within a group*), sign-off and approval steps, judgment questions, etc.

- A top-tier private bank is leveraging Appian’s process- and data-centric approach for managing work to integrate capture of compliance profile information as part of end-to-end on-boarding. With an initial goal of minimizing paper-processing—including eliminating duplicate data entry for a host of documents including AML compliance—this firm is using new Appian applications to manage the initial intake of new client information and hand offs between customer service groups and support teams. They have effectively unified all data systems, creating a shared records-based view of all account hierarchies, processes, and information.

All of these organizations now have highly flexible AML systems that meet their needs today and are, allow them to rapidly adapt to new customer needs, regulatory requirements (*even those outside of AML*), and opportunities in the market. They will serve as platforms for growth for many years to come.

CONCLUSION

The sea changes the financial services industry has experienced as a result of the financial crisis and subsequent regulation changed the economics of the industry and made key processes, like AML, the center of regulatory emphasis. Financial services institutions that want to gain advantage should implement compliance systems that support process excellence while unifying systems and data. The accepted technology approaches

of past years—IT systems that can’t keep pace with the needs of the business—have exposed significant weaknesses to effectively managing risk, and now can mean significant fines, loss of customer trust, or worse.



The Appian Platform has been used by financial institutions around the globe to create highly flexible compliance applications—including AML—that turn a challenging process and disparate data into a unified pillar of strength and a foundation for rapid growth into the future.

ABOUT THE AUTHOR



Michael Heffner is Appian's Financial Services Global Practice Leader. Mr. Heffner is responsible for driving Appian's growth and aligning Appian's vision to the challenges faced by today's financial services sector. This includes using IT to drive business value, increasing operational excellence and driving new levels of customer engagement. Mr. Heffner is a seasoned veteran who has helped organizations across the financial services industry achieve success through innovative approaches to problem solving. Prior to Appian, Mr. Heffner was Managing Director, Business Transformation at State Street Global Markets. He has also held management positions at Accenture's Creating Financial Markets Advantage practice and Charles Schwab & Co. Mr. Heffner earned a BSBA in Economics from the University of South Carolina and an MBA with concentration in Finance from Babson College.

Appian

Appian delivers an enterprise platform for digital transformation that is changing the financial services landscape. Powered by industry leading Business Process Management (BPM) and Case Management capabilities, Appian's low-code approach can radically accelerate the time it takes to build and deploy powerful, modern applications,

on-premises or in the cloud. The world's most innovative financial services institutions use Appian to revolutionize their customer experiences, transform their business operations, and master global risk and compliance.

For more information, visit www.appian.com