

Money Laundering bulletin

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The risk-based approach to AML: an opportunity not to be missed

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We have a real opportunity before us for significant improvements to the UK's anti-money laundering (AML) regime. The financial services sector is and always has been committed to the fight against money laundering and terrorist financing. But we have long needed a regime that strikes a better balance between costs and benefits. Firms still need to use the familiar AML tools - ID, monitoring, training, reporting and the rest - but now there is the opportunity to reshape things to deliver a better output at a more proportionate cost. We all need to learn how to create a regime that contributes more to the fight against the criminal and the terrorist, and to work together to deliver it. And with the regime now focusing increasingly on a risk-based approach we have the opportunity to get things right.

Reaching that goal won't happen if we rest on our laurels, content that the job is done because the right framework is now in place. We need to push on with delivering results. So with this in mind, in the first of two articles on the subject, I want to set out the FSA's thinking on why the risk-based approach to AML is the right road; and what we all need to do to ensure we arrive at the right destination.

What is a risk-based approach to AML?

There is no great mystique to the risk-based approach to AML. It is just a management tool and a way of developing and managing a firm's business processes for fighting money laundering. It is a tool that needs to be used both by the regulated and the regulator. Firms need to act in risk-based ways over AML, and their supervisors need to be attuned to this in terms of what they expect.

The basic principles for firms are:

- risk identification and assessment - identifying the money laundering and terrorist financing risks facing the firm, taking account of its customers, products and services, delivery channels and geographical profile, and assessing their probability and the impact if they were to crystallise;
- risk mitigation - choosing and applying measures to deal with those risks;
- risk monitoring - putting in place management information systems and keeping up to date with changes to the risk profile through changes to the business or to the threats; and

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