

Transitioning from Traditional Enterprise-Wide Risk Assessments to Meet International Standards

Financial services firms need to improve the way they assess and quantify their financial crime risk exposure to meet the requirements of the Financial Action Task Force.

“The dynamic risk profiling is invaluable to enable organisations to quickly identify and react to emerging new enterprise-wide risks, thus mitigating potential systemic breaches and reputational risks that could arise from non-compliance.”

In April 2020, the Financial Action Task Force (FATF) released the results of the UAE Mutual Evaluation. Whilst the report praised the UAE’s efforts in improving its ability to combat terrorist financing, it also highlighted significant areas of improvement required to prevent money laundering and sanctions evasion.

The need for improvements recommended in the FATF report is increased by the financial crime risks posed by the global pandemic. COVID-19 and the associated lockdown have adversely affected many financial institutions by stretching resources and altering working logistics, exposing them to heightened financial crime risk. Companies are struggling to maintain “business-as-usual” for their customers, whilst deploying effective systems and controls.

The current operational challenges combined with the heightened financial crime risks, accelerate the need for organisations to act.

How do companies address FATF’s financial crime concerns and protect themselves from heightened criminal activity in the process?

FATF and the UAE regulators stress that an enterprise-wide risk assessment (EWRA) framework is the foundation of a robust risk-based approach. The framework enables organisations to identify and quantify their vulnerability to money laundering, terrorist financing and sanctions risks.

An EWRA can detect where control enhancements are necessary and highlight where business opportunities exist.

Why do some firms that perform traditional risk assessments fall short of the FATF standards?

The EWRA is often developed and deployed as an off-the-shelf annual exercise. This is rightly viewed as a costly drain on resources that produces limited actionable intelligence to inform business decisions or prioritise mitigating actions.

The traditional approach to risk assessments can involve an 'audit style' review of documentation and risk questionnaires. The information is reviewed in collaboration with business stakeholder workshops in an attempt to map the key risks against perceived controls. Whilst this is a productive way to engage the business functions to discuss their risks, this approach is subjective and limited to identifying only the risks that the business is already aware of.

The mapping of risks to controls are typically driven by compliance teams on an annual basis, with lists regurgitated from the previous year.

Due to operational constraints, the mapping of risks to controls can be regurgitated from the previous year, which does not give a true reflection of the organisation's current risk management profile.



Lack of actionable intelligence: When the EWRA is conducted as an annual exercise, and driven by human bias, the output can often be outdated prior to the publication of findings. A lack of data-driven analysis leaves organisations blind to hidden risks, the true scale of their high-risk exposure, and the vulnerabilities in their control environment.



High cost: To conduct the task manually is a heavy burden on departmental resources, with multiple employees having to dedicate a large proportion of their time to collect and analyse large quantities of information across all business functions.



Unsustainable: The off-the-shelf solution is rarely tailored to the individual organisation and is all too often confused with a financial crime audit. Some firms choose to engage third-party consultants to perform one-off risk-assessments. This leaves them without a sustainable and effective solution to regularly assess their risk profile in response to changes in business activities. It is an expensive tick in the box for the regulator that only papers over the cracks. It is only a matter of time before those cracks expand and the company is exposed to systemic weaknesses, losses, and regulatory breaches.

Ultimately this approach is both cumbersome and costly, providing little support to senior management and compliance functions to make informed decisions.

How to achieve an effective and dynamic enterprise-wide risk assessment?

An effective EWRA should enable management to identify and quantify which risks are more critical and require further mitigation. This approach can highlight where there are potential opportunities to take on more risk or remove costs by taking out non-value adding controls.

An EWRA should be a process that uses a combination of quantitative and qualitative methods to analyse actual inherent risks based on the business activities of the organisation and its customers, as well as potential risks that an organisation may face based on its risk-appetite and long-term goals.

The quantification of residual risks should be driven by an objective evaluation of key controls against the inherent risks to help identify and measure areas of strength and material gaps where further risk mitigation is necessary. The assessment should not be considered as a one-off annual exercise that is conducted and then forgotten, but instead as a dynamic tool that supports critical business decisions around strategy, controls, products, sales activities, reputational risk management and prioritisation of resources.

To create value from dynamic risk assessments, the EWRA should be underpinned by a tool capable of generating event-driven alerts to inform compliance functions

and senior management of material changes in the organisation's inherent risks and trigger a re-evaluation of its controls.

This approach can help to mitigate potential systemic breaches and reputational damage that could arise from non-compliance.

Benefits of this approach

Cost Effective Compliance: Data-driven and digitally enabled risk-assessments substantially reduce manual efforts and reliance on third parties to perform annual assessments. Early identification of risks minimises the chance of look-back investigations and remediation.

Meeting International Standards: A dynamic EWRA creates a sustainable way to provide effective and ongoing risk-assessment capability to meet FATF and regulatory expectations. It creates a mechanism for firms to identify and quickly mitigate emerging new risks before they become systemic issues. This approach enables organisations to keep ahead of the regulatory curve and adhere to international best practice.

Dynamic Intelligence: Decision making needs to be swift to be effective. Regular reporting provides more relevant management information to decision makers, enabling them to act efficiently to minimise risks and maximise opportunities. The current pandemic is a reminder that the financial markets are wading through volatile times.

Frequent change and instability require timely responses to the ever-evolving risks faced by an organisation.

Client Portfolio Optimisation: EWRA helps the business to identify and understand where they have capacity for more risk with a certain sector, industry, client type or jurisdiction. The continuous evaluation of risks enables organisations to monitor how their risk exposure changes and make decisions to de-risk or take advantage of higher-risk opportunities. This is subject to their being effective controls to manage the increased risks.

Now is the right time to adopt dynamic risk assessments.

Risks are increasing, technology is evolving, and therefore risk assessments must adapt. The Covid 19 pandemic and the FATF findings demonstrates that in times of economic uncertainty, it is important for businesses to be aware of the financial crime exposure that they face. Organisations can no longer afford to rely on past experiences, management techniques, or methodologies. Dynamic EWRA's pave a way to thrive by minimising risk and maximising opportunities in all market conditions.

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