



Case Study: Risk Assessment & appetite refresh

You are a newly appointed MLRO at a medium-sized regulated financial services firm based in the UK. The firm predominantly operates across Eastern European countries through its branch in Estonia. The organisation's key products are trade finance products and the provision of complex investment products to high-net-worth individuals. Last year the firm acquired a separate business dealing with (non-regulated) general insurance products in the UK. Your firm just appointed a new CEO and his approach is more cautious than his predecessor and he has a lower risk appetite. As a result, your organisation has discontinued the provision of certain high-risk products and does also not accept some of the highest-risk clients that it was previously willing to onboard.

A recent FCA visit raised, amongst other findings, an inadequate internal risk assessment process with regard to the adequacy of the firm's financial crime controls.

You have been asked by the Board of Directors to develop a management action plan in response to the FCA findings and start to remediate the issues.

You review the existing documentation:

- You can find a risk assessment report from 2020 which contains a high-level risk assessment (which was shared with the FCA). But other than that, you are unable to find any further documentation/files that explain how the assessment was conducted or how the findings were arrived at. You are unclear on whether the report was drafted by the previous MLRO, or with the help of a third party.
- The report dates back to early 2020. This explains why the newly acquired entity is not covered and why the products in the report are not aligned with the current product suite. You can, however, not find any new product approval process / separate risk assessment for any new products introduced, nor for the new business that was acquired.
- Despite being titled "Enterprise-Wide Compliance Risk Assessment", you cannot find any mention of bribery and corruption risk. You wonder whether you will need to conduct a separate ABC Risk Assessment.
- You recently heard a discussion by the coffee machine about how some American customers are presenting UK passports as identification with no obvious connection to the US being on file.

You consider your options. You are clear that the current situation needs to be remediated urgently.

- You wonder how many risk assessments will need to be performed.
- Your Financial Crime/Compliance team is currently understaffed due to long-term illness and the resignation of a key team member. While your team is willing to help and support, you consider whether your team really has to do all the "heavy lifting" in the risk assessment process.
- There is currently no system/tool in place to conduct a risk assessment. You wonder whether this is a requirement and what the advantages of having a "proper" tool would be.
- You wonder what you should do once the risk assessment has been performed and the report has been produced? Would it be sufficient to just send the report to the Board of Directors or only the CEO and then file it for when the FCA comes back next year?
- In addition to fixing the situation in the short term, you want to ensure that you do not end up in a similar situation next year. Do you wonder what the 1, 3 or 5 year plan should be with regard to risk assessments?



Masterclass Challenge: Questions to the class and Further Questions

The questions that are bulleted are designed to be used by the facilitators whilst they are walking around the room to get each table to think further on issues.

Question 1

How would you structure a risk assessment when dealing with multiple countries, different business units and a mix of regulated and non-regulated businesses? What are your options? What are the advantages and disadvantages of different options?

- Has your assessment of the country risk changed in regard to Estonia since the Russian invasion of Ukraine?
- Does fraud and bribery & corruption need to be part of your enterprise-wide financial crime risk assessment?
- How do you incorporate the new financial crime & proliferation financing risks including the latest FATF expectations & the FCA notices

Question 2

What are your options with regard to the use of a “risk assessment tool”? What would you recommend and why?

- How does the quality of data affect your risk assessment and whether you use a tool?

Question 3

What should you do with the output of the updated risk assessment? Set out your next steps.

- How does the risk assessment feedback into the general control framework?
- How do you incorporate your risk assessment into the wider financial crime framework?

Question 4

Formulate a high-level 1-, 3- or 5-year plan with regard to the risk assessment process that you can present to the Board of Directors.

- How do you deal with your resource constraints? What are your options? What are the advantages and disadvantages of different options?
- How many risk assessments do you need to conduct? What are your options? What are the advantages/disadvantages of different options?
- Can we ever get to a real time risk assessment?