



# FINANCIAL SERVICES INDUSTRY

## CHALLENGING YOUR FINANCIAL CRIME CAPABILITY



### Boards Must Take Reasonable Steps to Protect The Firm and Themselves

Failure to challenge the effectiveness of the firm's financial crime capabilities can destroy value and create personal liability.

Regulators in the United Kingdom and across Europe increasingly expect firms to demonstrate that they can effectively control financial crime, such as money laundering and terrorism financing, and are imposing restrictions on new business, costly regulatory investigations and fines should they fail to do so.

From a regulatory perspective, boards are expected to take reasonable steps to confirm that their financial crime framework is operating effectively and that known issues have been escalated and addressed. Increasingly, the board and senior management are being asked by regulators to attest to the state of financial crime controls within their organisations.

### An inability to effectively challenge financial crime capabilities can result in:

#### 1. Failure to deliver commercial objectives:

- Inability to take on new business and maintain investor confidence.
- A loss of wider stakeholder confidence (e.g. potential termination of key correspondent banking relationships).
- Value destruction from significant legal and other remediation costs resulting from the delayed identification and correction of issues.

#### 2. Loss of regulatory confidence:

- Regulatory restrictions can be imposed on new business activities.
- Capital scalars can be applied to reflect weaknesses in governance and risk management.
- Potential for enforcement action against the firm.

#### 3. Personal liability for executive and non-executive directors:

- Risk of action by law enforcement agencies against executive and non-executive directors (e.g. the Jersey Financial Services Commission has the power to impose a maximum penalty of £400,000 for intentional or reckless contravention of the Money Laundering (Jersey) Order 2008).
- Regulators have fined CEOs (e.g. in 2018 the UK FCA fined the former CEO of Sonali Bank (UK) Limited for failing to establish and maintain effective anti-money laundering systems and controls).
- Executives have faced significant personal legal costs (e.g. former Rabbobank Chief Compliance Officer is reported to have incurred more than \$3.9 million in attorney's fees relating to enforcement action by the U.S. Office of the Comptroller of the Currency).



### Boards Often Lack the Capabilities to Challenge the Financial Crime Function Effectively

Effective governance and risk management starts with asking relevant questions and attempting to surface known issues:



Can we demonstrate there has been sufficient investment in financial crime resources and technology to remain within risk appetite and keep pace with business growth, corporate complexity, new regulations/legislation and best practices?



How well aligned is the annual financial crime risk assessment with the commercial strategy and operating model, including new customer acquisition in higher risk jurisdictions, industries, ownership structures and product changes or the adoption of new digital channels and apps?



## Boards Often Lack the Capabilities to Challenge the Financial Crime Function Effectively (cont.)



Does the board possess the necessary visibility into key assumptions made when onboarding high-risk customers, exiting politically exposed persons, calibrating transaction monitoring alerts and prioritising backlogs associated with periodic reviews and screening alerts?



What evidence is there from the business function, compliance and internal audit that financial crime risk is being managed effectively and that internal policies, procedures, processes and key controls — including those operated by affiliates and third parties — are designed and operating effectively?



## The Board and Executive Management Must Self-assess Their Financial Crime Capabilities

Rather than just relying on the compliance officer or the money laundering reporting officer's detailed assessment of compliance with regulations, the board must drive its own targeted, top-down self-assessment of financial crime culture, capability and capacity. This initiative must be designed to bring visibility to key

assumptions, challenge adherence to best practice and address known regulatory concerns. It should also identify potential issues early enough to minimise the risk of costly remediation programmes and personal liability in relevant jurisdictions.



## How Can Alvarez & Marsal Help?

Alvarez & Marsal's financial crime professionals can support boards and senior management with a tried and tested approach to self-assessment that can be tailored to the firm, independently challenge leadership's thinking and help to resolve any issues that are identified.

As part of this process, we can perform structured interviews with key members of the board and executive management to demonstrate top-down challenge and heatmap-divergent views as well as identify areas for further investigation.

Our team of financial crime risk management specialists and senior former regulators bring industry and subject matter expertise and regulatory insights across anti-money laundering, sanctions, fraud, anti-bribery and corruption, market abuse and cyber security matters.

### Deals, Disruption, Distress

Alvarez & Marsal's global Financial Services Industry group partners with firms and private investors to drive results, create value and unlock business opportunities at every stage of their growth strategies. Through our deals, disruption and distress solutions, we join forces with clients to catalyse growth and profitability, navigate complex industry challenges and harness rapid technological changes that drive market advantage.

We provide end-to-end portfolio and M&A services; deliver innovation, revenue growth and efficiency through business transformation; and execute rapid solutions to turn around businesses. Our team delivers bottom-line results through action-oriented leadership and success-aligned fee arrangements. Clients can rely on our deep bench of turnaround experts, industry operators, digital leaders and regulatory specialists.

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### ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 8,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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