

Benjamin Dunlap

Manager in Disputes and Investigations
Alvarez & Marsal Middle East

OPINION

Making financial crime compliance count in the Middle East

With the avalanche of shifting regulatory requirements and new criminal threats, financial institutions need to rethink current compliance frameworks and adopt a more innovative approach

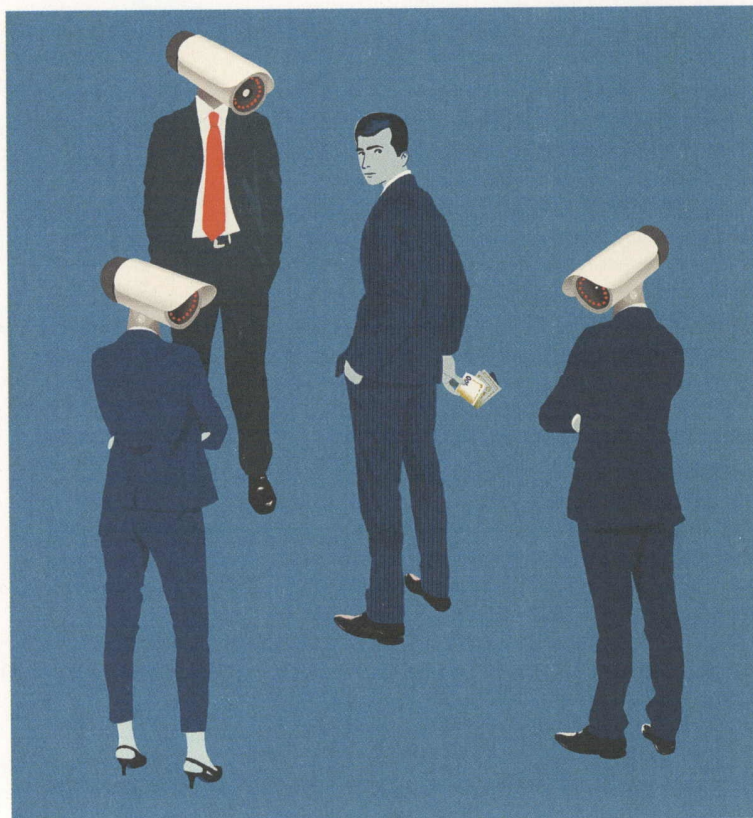
The stories in the media about big banks being hit by fines for non-compliance have not changed for over a decade. Since the global financial crisis in 2008, US and European regulators have imposed substantial penalties for money laundering and facilitating the evasion of sanctions. The global focus on compliance accelerated during this time, pushing the industry to build confidence amongst depositors, investors and governments.

Banks with major operations in the US and Europe were forced to react quickly and Financial Crime Compliance (FCC) in those banks underwent a complete overhaul. For banks in the Middle East, however, change has been much slower as Western correspondent accounts were seen as the only real US and European regulators. Motivation to follow better practices has also been less as banks here have been able to cooperate with local regulators without the fear of major fines and penalties that were levied in the US and Europe.

However, change in the region is inevitable and the signs of it coming are already clear, with the focus of Western regulators recently being trained on the regional operations of several big global banks. In 2018, fines from the US and UK on one bank totalled over \$1bn for FCC failings. New York State fined a large UAE bank \$40m for lax anti-money laundering (AML) controls. Last year, the Dubai Financial Services Authority (DFSA) also imposed its largest ever fine, \$315m, on a firm for serious wrongdoing.

On the back of recent Financial Action Task Force (FATF) reviews around the Middle East and South Asia, financial crime regulations for banks in the region will become more stringent and one can expect the new appetite for fines to continue. So, let's discuss the challenges for banks in the region and what they can do to overcome them.

Few banks show a deep enough understanding of how to integrate a "risk-based approach" to FCC across their compliance framework, effectively. The core of the issue is that banks are having difficulty



\$351m

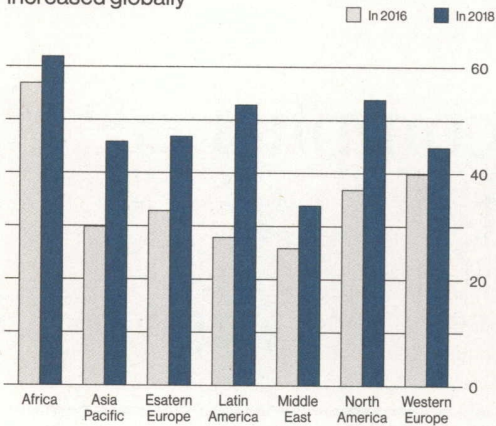
The largest ever fine Dubai Financial Services Authority (DFSA) has imposed on a firm

completing sufficiently substantive FCC risk assessments across the organisation that could mitigate regional risk and create opportunities for more business.

Regionally, there is also a lack of experience and exposure to best practice approaches to FCC at the middle management level, the first line of defence and in operations. A lack of understanding of the role in mitigating FCC risk at the first line is probably the most glaring issue. Many first line staff lack experience in detecting signs of financial crime. In some banks, operations staff do not receive appropriate training in FCC.

Felonies on the rise

The reported rate of economic crime has increased globally



SOURCE: PWC'S GLOBAL ECONOMIC CRIME AND FRAUD SURVEY 2018: MIDDLE EAST SPOTLIGHT

Unfortunately, a finite amount of resources leads to less willingness to plan proactively, especially in compliance. This is an area where the big international banks have really led the way, engaging with regulators and international standard setters to apply best practice. In our region, the attitude to regulation is to wait and see instead of adopting a proactive approach.

So how can banks improve in these areas and do so quickly?

Banks should seek multiple sources of advice as some regulators in the region are falling over themselves to increase resources and react to new laws. Advice from best practice banks, industry experts and former regulators from countries that drive regulations would be invaluable. Not only that, banks that show they are actively trying to improve their capabilities will fare better in supervisory reviews.

First line staff must take ownership of compliance risk and the whole organisation needs adequate training. A best practice FCC training plan includes appropriate training commensurate to the level of all bank employees, including operations.

Embed compliance culture in your bank. Be the innovator instead of a reactionary. The de-risking approach to managing risk is now mostly a thing of the past. Increasingly, senior management and boards of banks are expected by regulators to find innovative solutions to compliance challenges, whether through technology or through a different perspective on how to measure and mitigate risk. And ultimately, a culture of compliance could actually help the bank make more money.

The risks for banks are only increasing day by day with technology and ever-smarter criminals. And while banks are working with regional regulators, the global focus of financial crime is now here, in the Middle East. As fines continue to mount, the cost of non-compliance is also steadily growing.



ANALYSIS

Call of the 'E'-grocer

The transition from ordering cooked meals to fresh produce online may be a slow one in the region, but is that trend set to change soon, asks Zainab Mansoor?

38%

of household consumption in Saudi Arabia is attributable to food

Given the rise of e-commerce in recent years and the growing digital comfort of consumers, online food ordering has understandably taken flight. However, the journey of ordering groceries over the telephone to a smartphone (mobile app) or tablet has arguably entailed many a mile, leaving the online grocery space as the most underpenetrated sector within the larger e-commerce spectrum.

The e-groceries market is worth \$200m in the GCC and Egypt, constituting less than 1 per cent of the e-commerce industry. Only 27 per cent of consumers in the Middle East and North Africa (MENA) region are keen to order groceries online, 58 per cent still preferring to buy fresh produce off the shelves,