



**Fintelekt**

## AML Process Maturity Report 2018

### Philippines Banking Industry

#### BACKGROUND TO THE SURVEY

The Philippines is currently undergoing its third Mutual Evaluation to gauge the country's level of compliance with international anti-money laundering (AML) and combating the financing of terrorism (CFT) standards.

To aid the understanding of parameters within the banking industry such as the current state of AML compliance, compliance officers' challenges and priorities, benchmarking AML efforts in the banking industry as well as understand expected areas of support from the Anti-Money Laundering Council (AMLC) Secretariat, a comprehensive AML/CFT process maturity survey was conducted by Fintelekt in May-June 2018 within the Philippines banking industry.

The survey covered, in detail, opinion on various current issues, and questions on processes related to governance and reporting, risk identification and

assessment, technology, resources, training, and other issues.

Fintelekt would like to place on record, its gratitude for the encouragement and support received from Atty. Mel Georgie B. Racela, Executive Director, Anti-Money Laundering Council (AMLC) and all the members from his team.

We would also like to thank Dante T. Fuentes - President of the Association of Bank Compliance Officers and all the members of ABCOMP for their involvement and support on the survey.

Last but not the least, we would like to thank all the survey respondents who spent valuable time providing detailed insights, and due to whose support, this survey could be published.

#### SURVEY PARTICIPANTS

Compliance officers, typically compliance heads, from 34 leading banks and financial institutions in the Philippines responded to the detailed AML Process Maturity Survey between May and September 2018.

The survey was administered online as well as offline.

Respondent banks include public banks, private banks as well as branches of foreign banks in the Philippines and represent roughly 46 per cent of commercial banks in the country.

The results of the survey have been put together in the aggregate, leaving out names of participating institutions as well as individual respondents to protect sensitive information.

# Key Takeaways

## Tone from the top needs to be strengthened

Maintaining an optimal balance between competing priorities of compliance and business growth was identified by 65 per cent AML compliance officers who participated in the survey as the top-most organisational challenge, indicating a likely struggle around bringing in compliant business. 64 per cent compliance officers indicated that they feel the need for greater senior managerial and Board level involvement into AML compliance matters.

The tone from the top management and Board of Directors will be critical to driving the entire organisation to respect AML compliance priorities. An active, involved, and knowledgeable board of directors is essential for the successful implementation of a robust AML compliance programme in any organisation.

## Continuous investment in AML systems and technology is required

The global AML landscape is challenging and continuously evolving. Technology and systems will play a key role in ensuring that organisations are flexible and can adapt to change. The level of technology usage for AML is reasonably high. Yet, 19 per cent banks are relying on manual methods for KYC and CDD-related record keeping. 13 per cent conduct transaction monitoring manually. 26 per cent conduct screening manually.

Further, 79 per cent compliance officers indicated that procuring/ enhancing transactions monitoring systems was their top-most priority area for AML compliance spending over the next 1-2 years. This suggests that current systems are either outdated, or incapable of meeting the organisational requirements.

## KYC and ongoing CDD are important areas of focus

Understanding of sources of customers' funds was identified by 47 per cent respondents as a risk perceived as serious threat to the bank.

Most banks update high risk customer profiles often - 3 per cent compliance officers report that their banks update high risk customer profiles every six months, 85 per cent do it once in a year, another 9 per cent once in two years, with just 3 per cent refreshing high risk profiles once in three years.

Further, KYC reviews, update and maintenance has been listed as one of the priority areas for AML compliance spending by 68 per cent of compliance officers. Although banks in Philippines seem to be placing a lot of importance on updating and maintaining customer records, it is important that they identify the full range of relevant trigger events that may lead to a need to update customer records, rather than just doing it by default.

## Periodic risk assessments will help identify gaps

Organisations would benefit from periodically assessing the adequacy of their AML monitoring systems and the benefits that a reassessment or subsequent refinement could bring.

27 per cent compliance officers indicated that their organisation has never undertaken an enterprise-wide AML risk assessment and need to undertake this on an urgent basis.

The rest of the participating organisations (73 per cent) have conducted this at some time in the last 1 to 3 years. Most banks in the Philippines recognise the benefits of continuous risk assessment, as 56 per cent indicated that conducting an enterprise-wide AML risk assessment was one of the priorities for AML compliance spending for them in the next 1-2 years.

## Increase in human resource cost is anticipated

55 per cent of the organisations were seen to be operating with an average of five or fewer dedicated staff in the AML compliance team. However, 61 per cent compliance officers expect that to increase in the next year, affirming that AML compliance workloads will go up in the near future.

Consequently, spending on recruitment as well as provision of AML specific training for new team members will go up for these banks. Among the recruitment challenges - inadequate subject matter expertise and lack of practical experience were cited as among the top hiring challenges for new employees by 48 per cent compliance officers.

## Banks' expectations from the AMLC are rising

The survey results suggest that banks would welcome greater guidance (chosen by 84 per cent of compliance officers), training (68 per cent) and knowledge-sharing in the form of wider publication of typologies and thematic reviews (58 per cent) from the AMLC.

68 per cent compliance officers rated the current level of guidance or support from the AMLC with respect to clarifications or help required in the last year as 'Good'. The others felt the need for more outreach and hand-holding by the AMLC. 70 per cent compliance officers said that they do not receive feedback about STRs submitted by them to the AMLC, while 10 per cent said that the feedback that they receive is not enough.

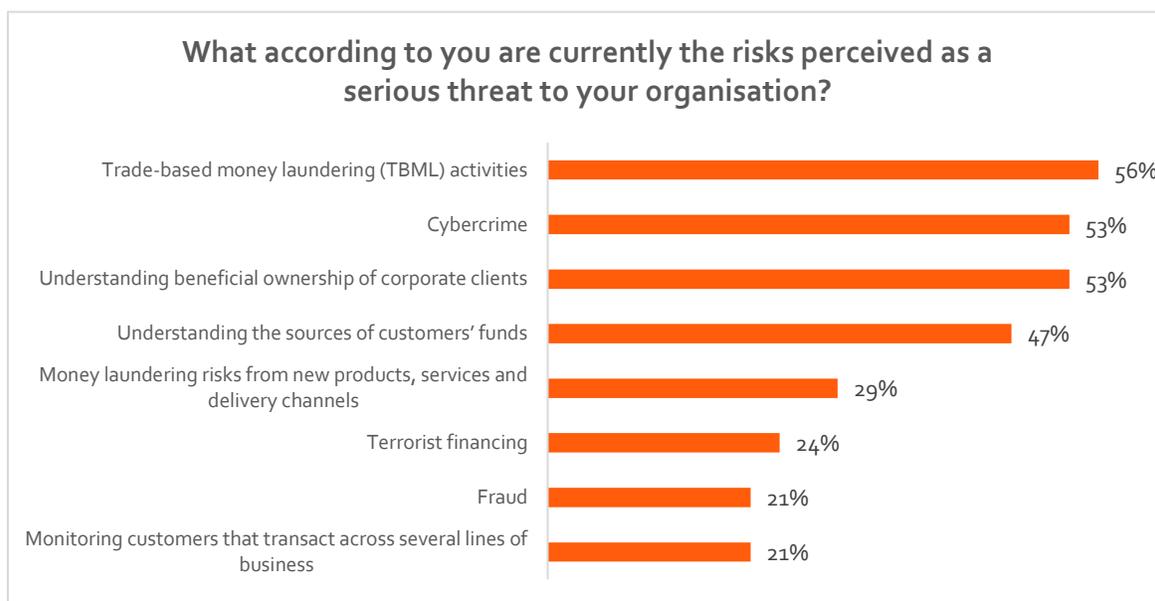
# 1. Overall Risk, Challenges and Priorities for AML Compliance Officers

Compliance officers who participated in the survey were asked to rank the perceived risks which pose a serious threat to their organisation on the AML/CFT front, as well as major AML/CFT challenges that their organisations face.

## 1.1 Perceived Threats to the Organisation

Trade-based money laundering (TBML) activities was selected by 56 per cent of AML compliance officers as the most important organisational threat. Cybercrime and understanding beneficial ownership of corporate clients were selected as the next two organisational threats, with 53 per cent compliance officers considering them as serious threats. Understanding the sources of customers' funds was at fourth place, with 47 per cent compliance officers considering it as a serious threat.

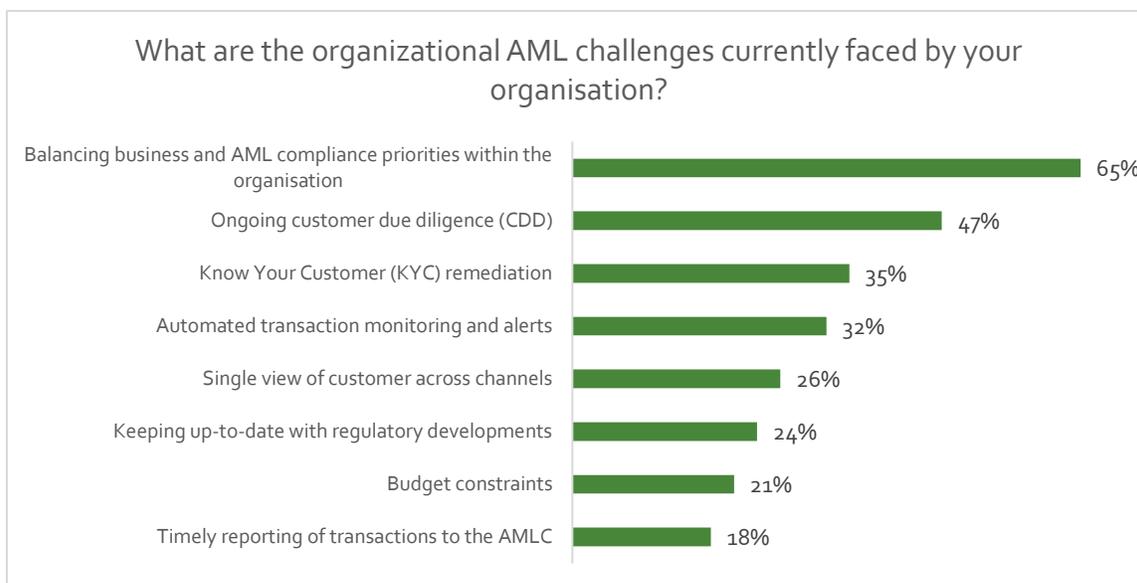
This is largely in line with the top threats identified in various surveys conducted across Asia and the Pacific by Fintelekt in 2017-18, except for the identification of cybercrime as a major AML/CFT threat, possibly due to the importance assumed by a large increase in the number of attempted cybercrimes over the last few years in the Philippines.



## 1.2 AML Challenges Faced by the Organisation

Balancing business and AML compliance priorities was identified by 65 per cent AML compliance officers who participated in the survey to be the most challenging aspect of their role.

Ongoing customer due diligence (47 per cent) was identified as the second most challenging aspect. Other challenges that emerged from the survey included Know Your Customer (KYC) remediation, automated transaction monitoring and alerts and having a single view of the customer across channels.



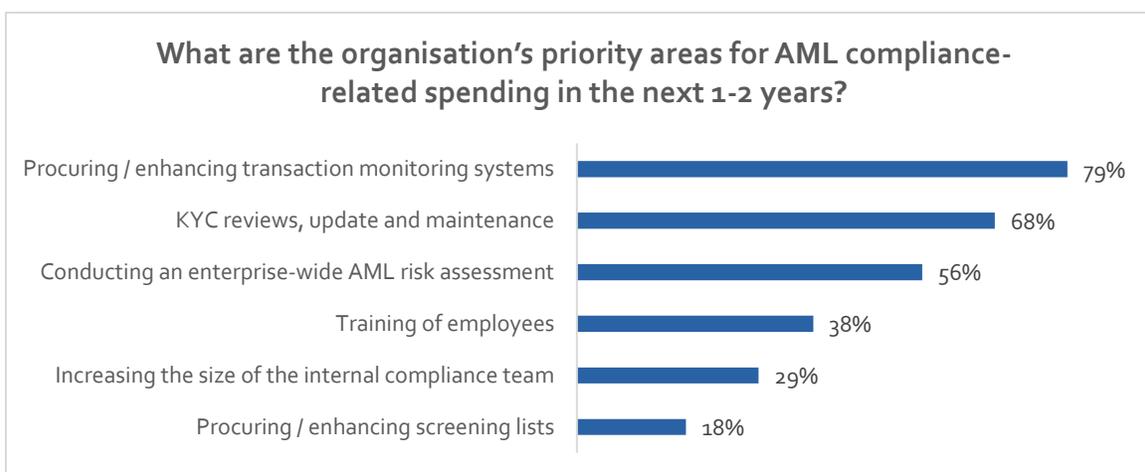
### 1.3 Priorities for AML Compliance Spending in the Next 1-2 Years

Having defined the organisational threats and the challenges faced by compliance officers, we asked them about their priority areas for AML compliance related spending in the next 1-2 years.

Procuring/ enhancing transaction monitoring systems emerged at the top, rated by 79 per cent compliance officers as their top priority. This is in line with the global trend towards greater automation within transactions monitoring, even as the volume and complexity of transactions is increasing rapidly.

KYC reviews, update and maintenance (68 per cent) was the next priority area for AML spending. Challenges indicated by compliance officers include ongoing customer due diligence and KYC remediation and hence spending on KYC would be adequately warranted. Technology systems for KYC and CDD related record-keeping will make customer information digital and create easy access for front-line staff as well as the AML compliance team.

Conducting an enterprise-wide AML risk assessment (56 per cent) was rated as the next highest priority area. 61 per cent banks have conducted an enterprise-wide risk assessment in the last one year (or it is ongoing). 27 per cent have never conducted an enterprise-wide risk assessment.

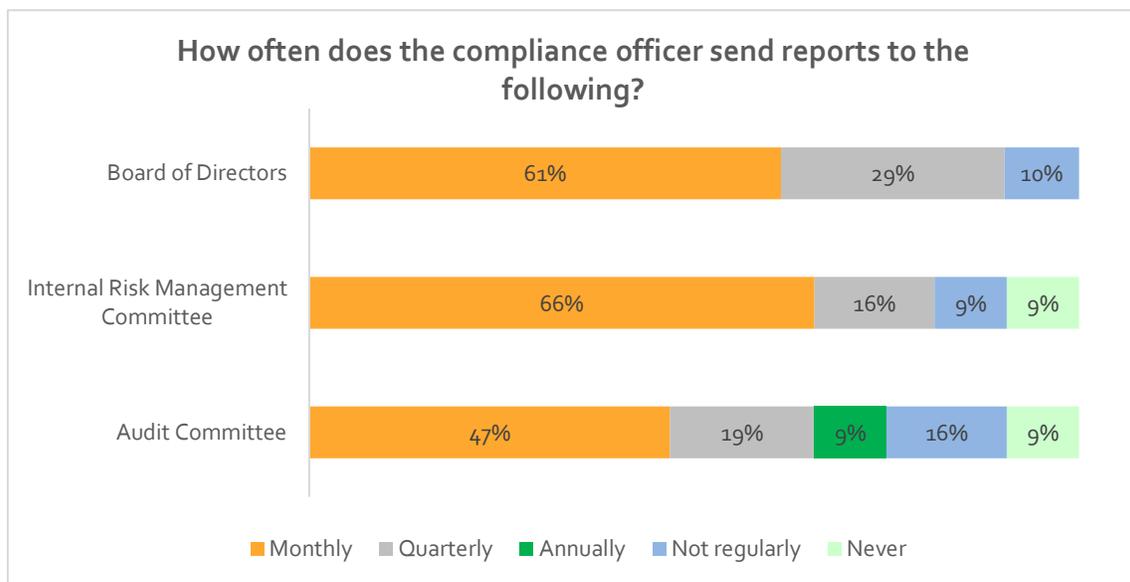


## 2. Governance

### 2.1 Reporting

Governance frameworks for reporting seem to be well established within banks in the Philippines, with a majority of compliance officers reporting on a monthly basis to the Board of Directors, Internal Risk Management Committee (IRMC) and the Audit Committee.

10 per cent compliance officers do not report regularly to the Board. For the IRMC and audit committee, the proportion of banks not reporting regularly is 9 per cent and 16 per cent respectively. Some branch offices of foreign banks do not report directly to the internal risk management or audit committees and were likely to be a part of the response 'never report'.

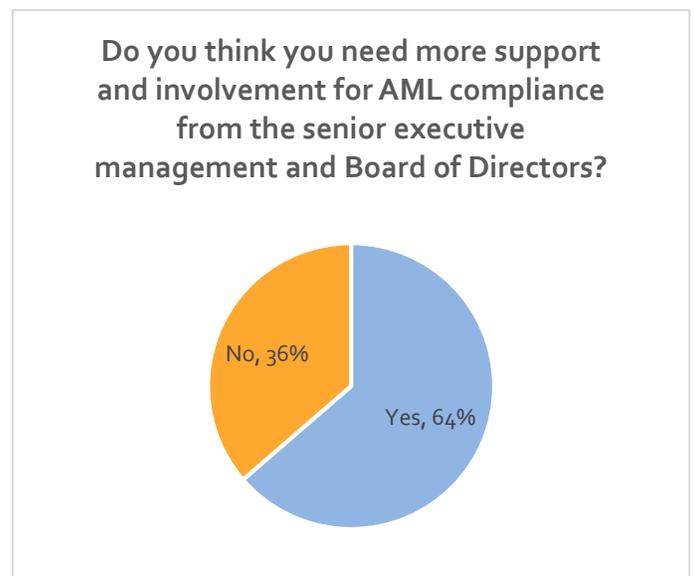


### 2.2 Support from the Top

Involvement from the top is critical for driving a compliance culture throughout the organisation and for allocation of adequate budgets for technology and resources.

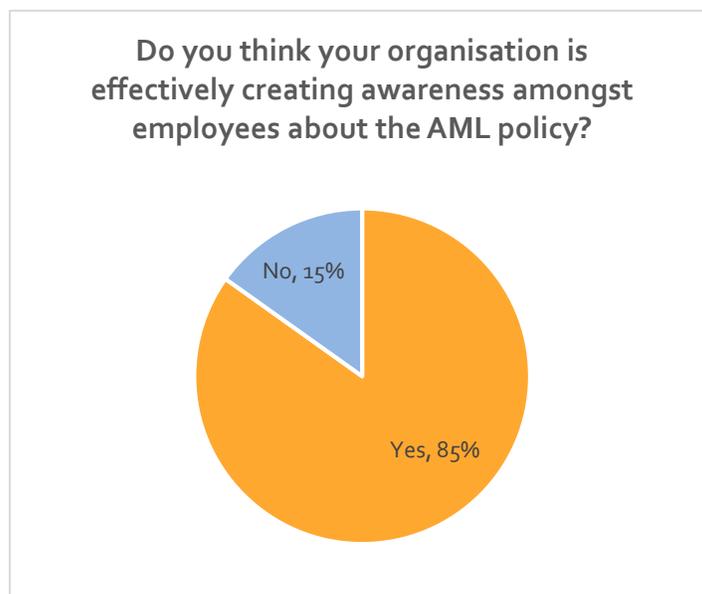
64 per cent compliance officers felt that more support is required from the senior executive management and the Board of Directors for AML priorities.

However, this conflicts somewhat with the satisfaction levels of compliance officers with allocation of budgets and dissemination of the compliance message through the organisation. It is hoped that banks have not felt the need to overstate their position with respect to these aspects, and as such the survey results are merely a reflection of compliance officers' opinions.



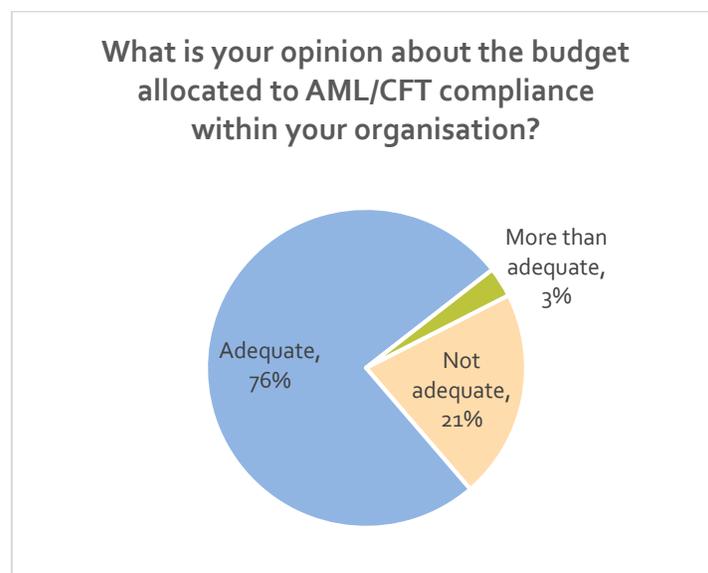
## 2.3 AML/CFT Awareness in the Organisation

A large majority (85 per cent) of compliance officers who participated in the survey are satisfied with the awareness being generated by their organisation about the AML policy.



## 2.4 Budgets

A large proportion of compliance officers (76 per cent) felt that the budgets allocated to AML/CFT compliance within the organisation were adequate for their needs, with 3 per cent indicating that they had more than adequate budgets. Only 21 per cent of the respondents felt that more budgets were required.



## 3. Risk Assessment

### 3.1 Customer Profiling

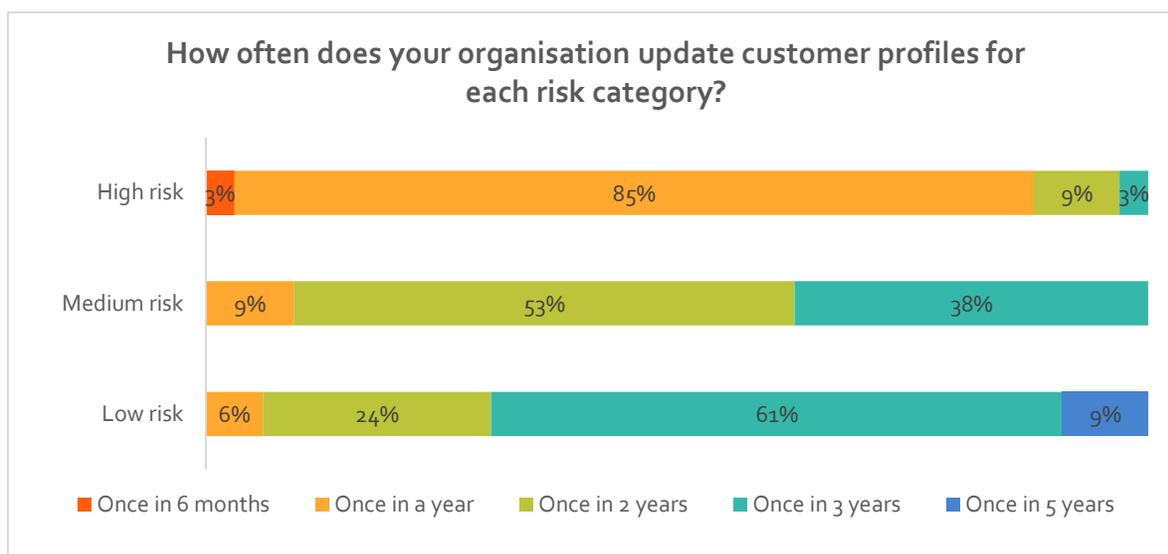
All banks that participated in the survey allocate a risk score to each customer, and categorize customers into high, medium or low risk categories.

The guidelines issued by the Bangko Sentral Ng Pilipinas via circular 950 of 2017 recommend updating of customer profiles every three years. A majority of the banks are updating customer profiles, especially high and low risk customer profiles more frequently than three years.

For high risk customer profiles, 3 per cent compliance officers report that their banks update high risk customer profiles every six months, 85 per cent do it once in a year, another 9 per cent once in two years, with just 3 per cent refreshing high risk profiles once in three years.

For medium risk customers, 9 per cent banks update once a year, 53 per cent once in two years and the remaining 38 per cent once in three years.

For low risk customers, the frequency of updates is lower, with 6 per cent updating once in a year, 24 per cent updating once in two years, 61 per cent updating once in three years and 9 per cent updating once in five years.

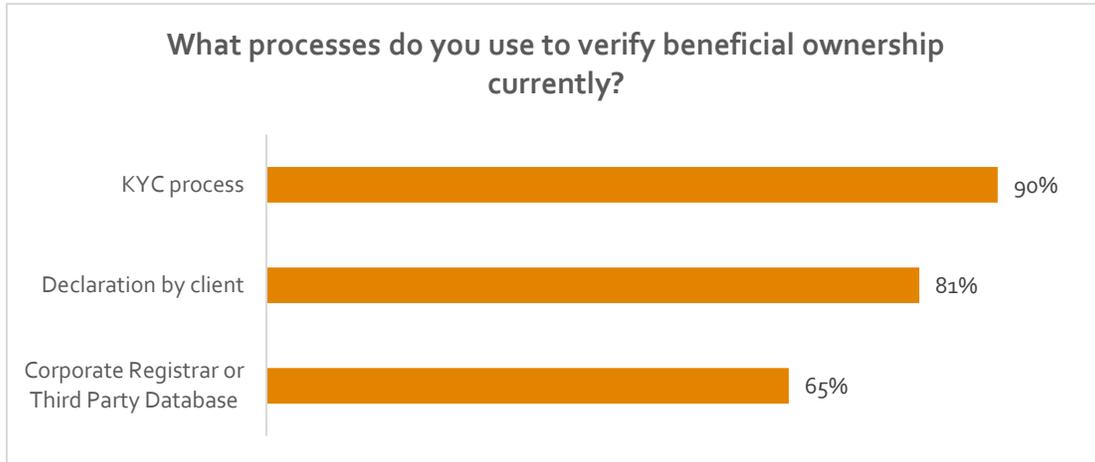


Despite the regular frequency with which banks are updating customer profiles, 'ongoing customer due diligence' has been identified as a major challenge by compliance officers.

The difference between identifying a customer and knowing the customer may translate into the need for a greater focus on due diligence processes.

### 3.2 Beneficial Ownership

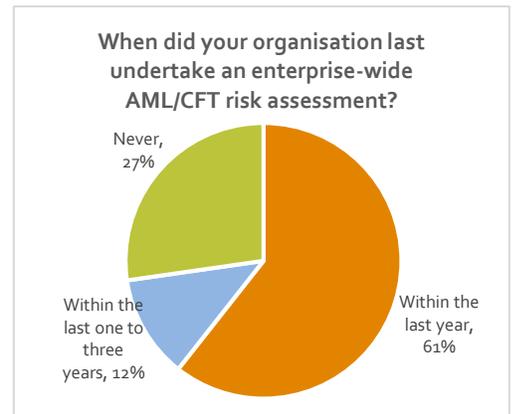
90 per cent banks use KYC process, 81 per cent use declaration by client and only 65 per cent use corporate registrar or a third-party database for verifying beneficial ownership. 35 per cent use more than one method, while only 57 per cent use all three methods.



### 3.3 Enterprise-wide Risk Assessment

Of the organisations that participated in the survey, 61 per cent have undertaken an enterprise-wide AML risk assessment in the last one year, of which 18 per cent reported that their assessment was on-going. 12 per cent banks had undertaken the risk assessment one to three years back, while another 27 per cent have never conducted an AML risk assessment, leaving these organisations exposed to potential non-compliance and risks.

Conducting an enterprise-wide risk assessment was identified among the top three priorities for AML compliance related spending by compliance officers, indicating the due importance being placed on regular assessment of ML/TF risks.



### 3.4 Money Laundering Risks at a Transactional Level

67 per cent of the banks review money laundering risks at every transaction, while 30 per cent review it only when there are concerns about a customer or a transaction. Only 3 per cent compliance officers said that they do not review money laundering risks at a transactional level.

The 33 per cent banks that are not reviewing money laundering risks for every transaction are placing their organisations under threat and need to take rapid remedial action, so as also to bring them to the level of industry standards.



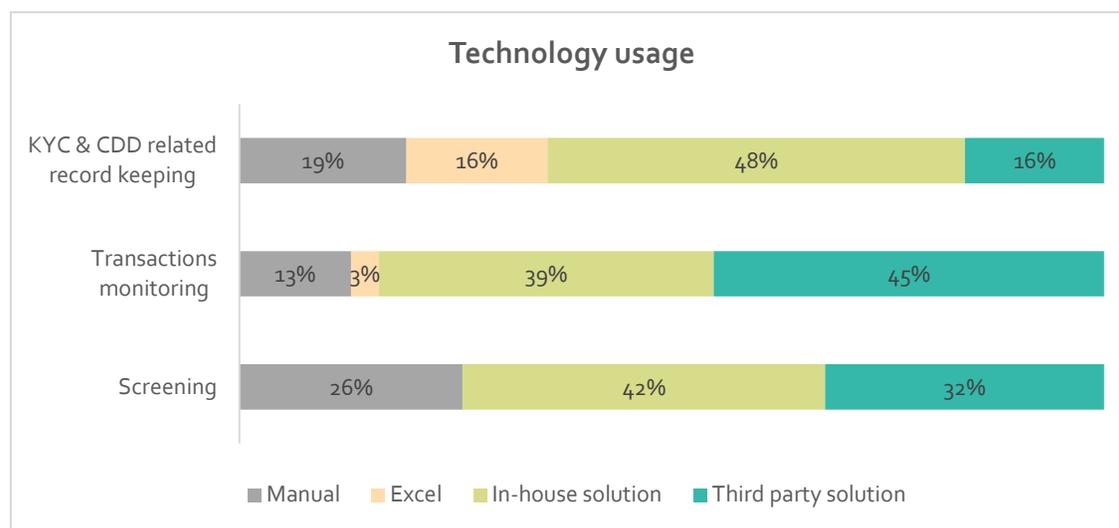
## 4. Technology Usage

### 4.1 Manual Processes

Technology systems are lacking for 19 per cent banks that are currently maintaining KYC and CDD-related records manually, 13 per cent that are conducting transactions monitoring manually while 26 per cent conduct screening manually.

A further 16 per cent banks are conducting KYC and CDD-related record keeping using excel, while 3 per cent banks use excel for transactions monitoring.

These banks should consider investing in new / enhanced technology solutions for AML functions at the earliest, as there is significant risk in relying on manual processes for transactions monitoring or screening.



### 4.2 Automated Systems

Technology systems for AML related functions at the remaining banks are either developed in-house or purchased off-the-shelf from a third-party vendor.

48 per cent banks use an in-house solution for KYC and CDD-related record-keeping, 39 per cent for transactions monitoring and another 42 per cent for screening.

The use of off-the-shelf solutions by third-party vendors is the highest for transactions monitoring (45 per cent), followed by screening (32 per cent). 16 per cent use third party vendor solutions for KYC and CDD-related record-keeping.

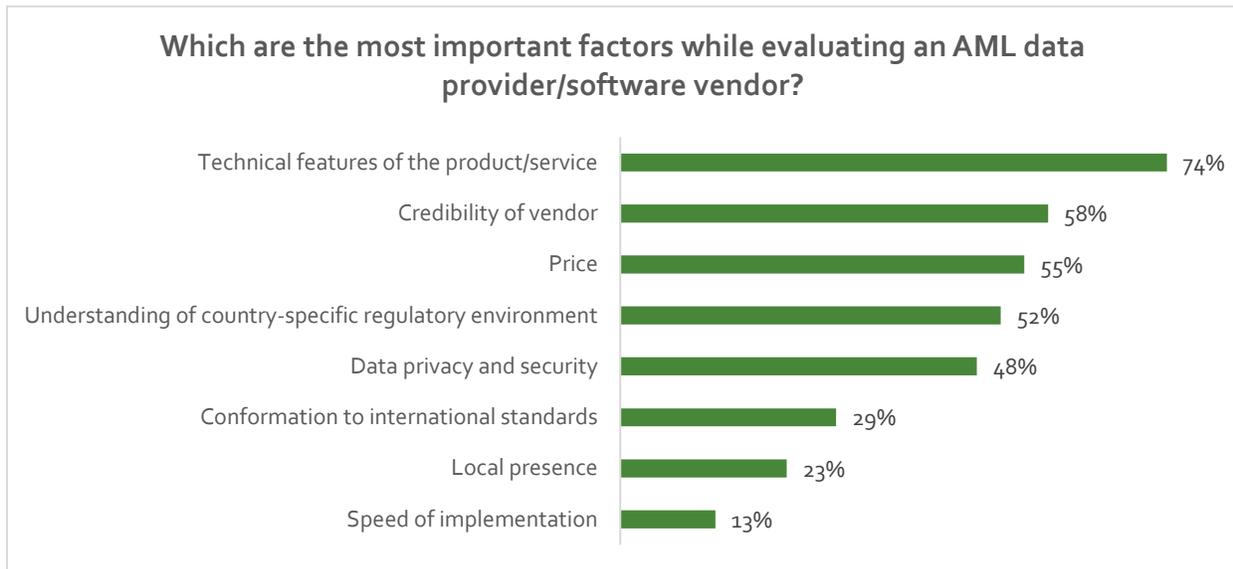
Technology usage is the highest for transactions monitoring, however, compliance officers feel the need for procuring/ enhancing their transactions monitoring systems, as indicated by 79 per cent compliance officers as a priority area of AML compliance spending in the next 1-2 years, suggesting that current systems are either outdated or are inadequate for the organisational requirements.

However, an inconsistency in technology usage across different aspects of ML/TF monitoring may restrict the organisation in taking full advantage of automation – for instance, 84 per cent banks use an automated transactions monitoring system (either in-house or third party), but only 64 per cent use an automated solution for KYC and CDD related record-keeping. Investments in technology for KYC and CDD-related records will improve data availability for better transactional insights.

### 4.3 Factors While Evaluating a Technology Vendor

79 per cent compliance officers indicated that procuring/ enhancing transactions monitoring systems was a top priority area for AML compliance spending for their banks. As new technology systems are likely to be evaluated, compliance officers were asked about what factors were important to them while selecting a third-party AML solutions vendor.

Technical features of the product/service were considered by 74 per cent compliance officers as the most important factor while evaluating an AML data provider or software vendor. 58 per cent consider credibility of the vendor, 55 per cent consider price and 52 per cent consider understanding of country-specific regulatory environment to be the among the most important factors.



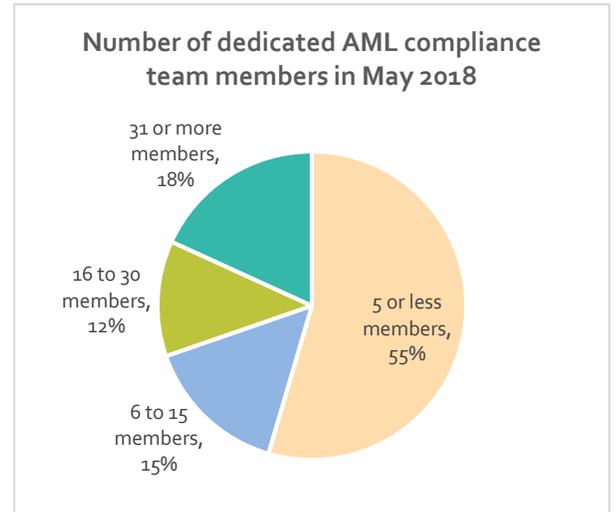
# 5. Human Resources

## 5.1 Team size

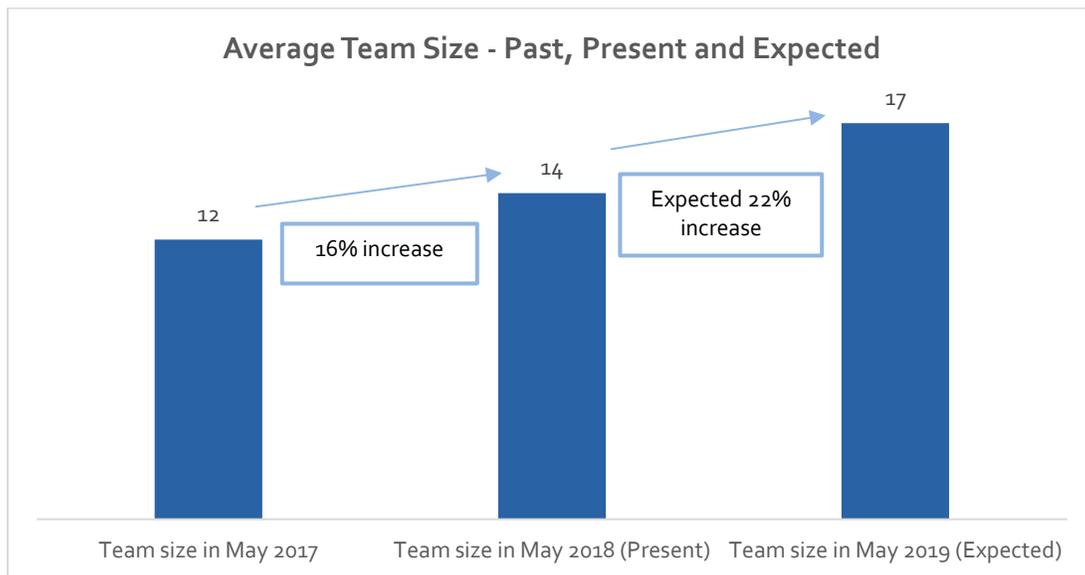
55 per cent organisations that participated in the survey are operating with only 5 or fewer dedicated employees in the AML compliance team. The largest reported team size was 70 dedicated AML staff members.

AML compliance teams had an average of 12 members last year, which increased by 16 per cent to an average of 14 staff members in May 2018.

While only 29 per cent compliance officers selected 'increasing the size of the internal compliance team' as a priority area of spending for their organisation, 61 per cent of the compliance officers expect the size of the team to go up. The remaining expect the team size to remain the same or to go down slightly.



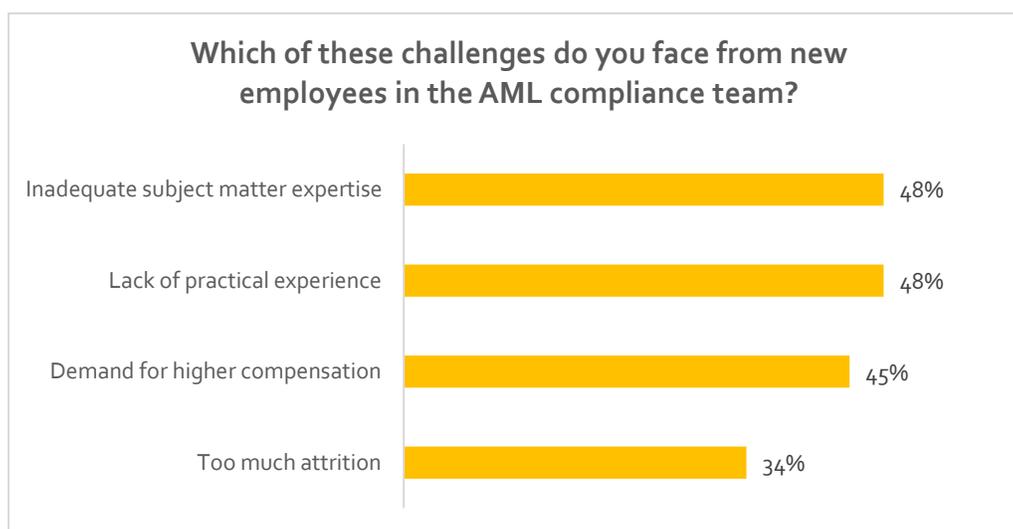
The number of staff members in the AML compliance team is expected to go up by 22 per cent next year, to an average of 17 members. This would also translate to greater spending on recruitment and AML specific training for the new joinees.



## 5.2 Hiring Employees for the AML Team

Most banks expect to increase the size of their AML teams in the next year. 27 per cent banks typically hire from within the organisation, 23 per cent from outside, while 50 per cent hire from both sources.

Challenges faced while hiring new employees were identified as inadequate subject matter expertise and lack of practical experience by 48 per cent compliance officers, demand for higher compensation (45 per cent officers) and too much attrition (34 per cent compliance officers).

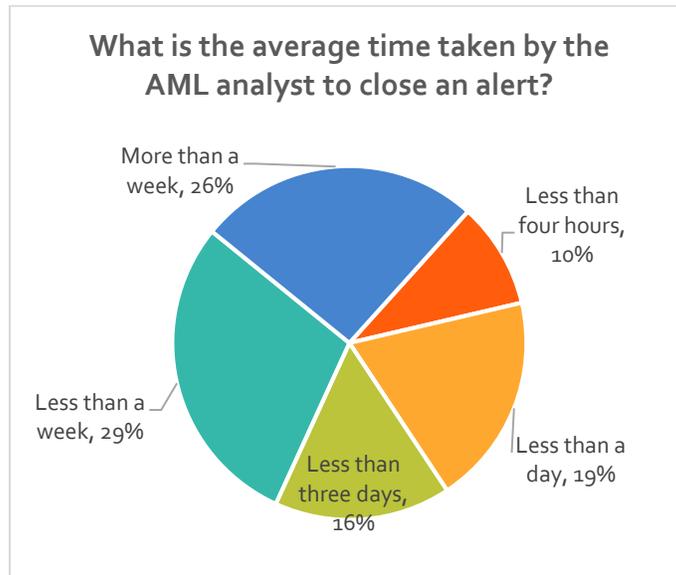


## 5.3 Analyst Time Spent on AML Alerts

61 per cent of the compliance officers expect the size of their AML teams to go up in the coming year, suggesting that they expect AML compliance workload to increase in the near future.

With a fairly small average AML compliance team size for more than half the organisations, the average time currently taken by an AML analyst to close an alert varies from less than four hours (at 10 per cent of the banks) to more than a week (at 26 per cent of the banks).

19 per cent AML analysts close alerts on an average in less than a day, 16 per cent in less than three days and 29 per cent in less than a week.

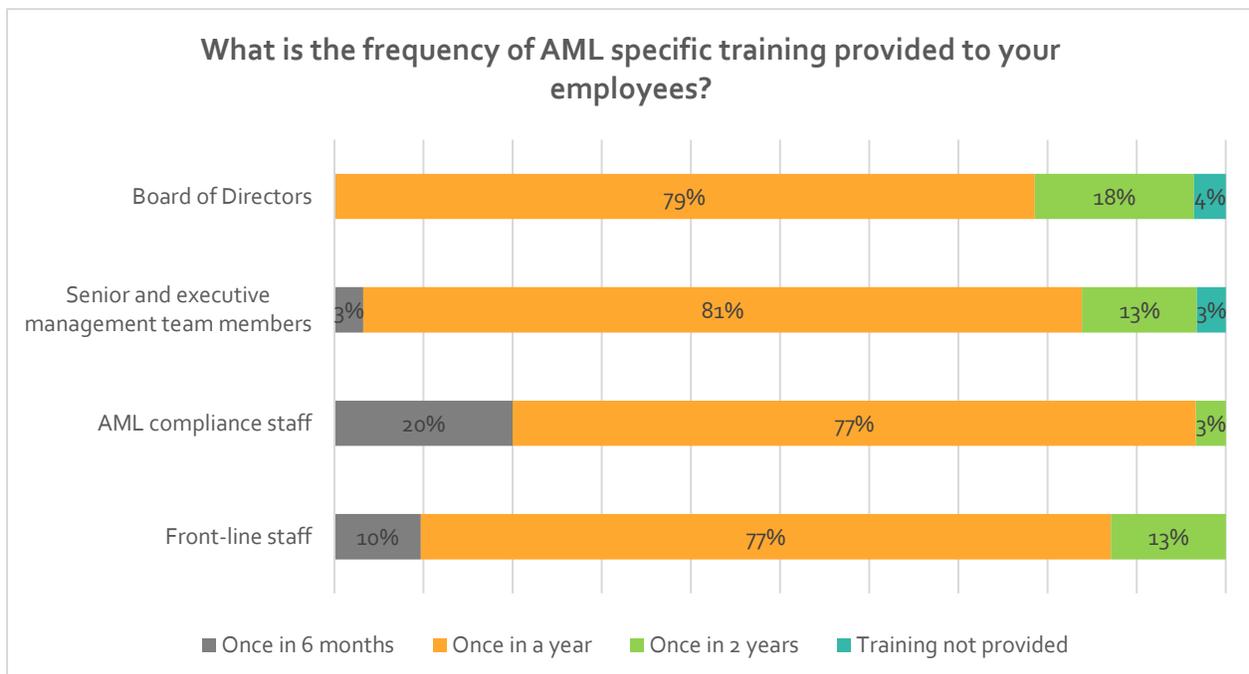


## 5.4 Training

A large majority of the banks provide AML training to their staff as well as senior managerial team once every year, with some banks providing more frequent training to their AML compliance staff and front-line staff.

Only 4 per cent banks reported that they do not provide any AML related training to their Board of Directors, while 3 per cent reported that they do not provide AML related training to their senior executive team members. Providing Board of Directors with the awareness and knowledge of AML compliance trends and typologies is critical to them discharging their responsibilities, and these 4 per cent organisations may consider including Board member training at least once every year.

77 per cent banks provide role specific AML training to their employees, while the remaining 23 per cent provide common training to all levels of employees.



## 6. Expectations from the AMLC

### 6.1 Feedback on STRs

The central function of the Financial Intelligence Unit (AMLC in the Philippines) is the receipt and analysis of Suspicious Transaction Reports (STR) and other reports/information relevant to ML/TF.

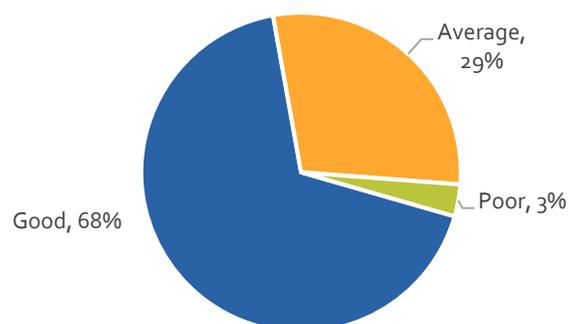
The reporting entities that participated in the survey filed an average of 734 STRs in the previous year.

In order to improve the quality of reporting, the FIU of a country may provide feedback to reporting entities on STRs submitted by them.

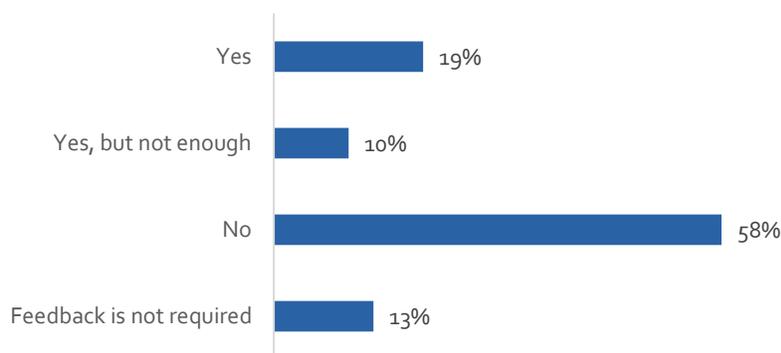
Currently among banks in the Philippines, 19 per cent compliance officers reported that they receive feedback on STRs filed from the AMLC, while 10 per cent of those said that the feedback was not enough.

71 per cent compliance officers reported that they did not receive any feedback, of which 13 per cent said that feedback was not required.

**How would you rate the guidance or support from the AMLC with respect to any clarifications or help required in the last one year?**



**Do you receive feedback about the STRs submitted by you to the AMLC?**



68 per cent compliance officers rated the guidance or support from the AMLC with respect to clarifications or help required in the last one year as 'Good', while 29 per cent rated it as 'Average'.

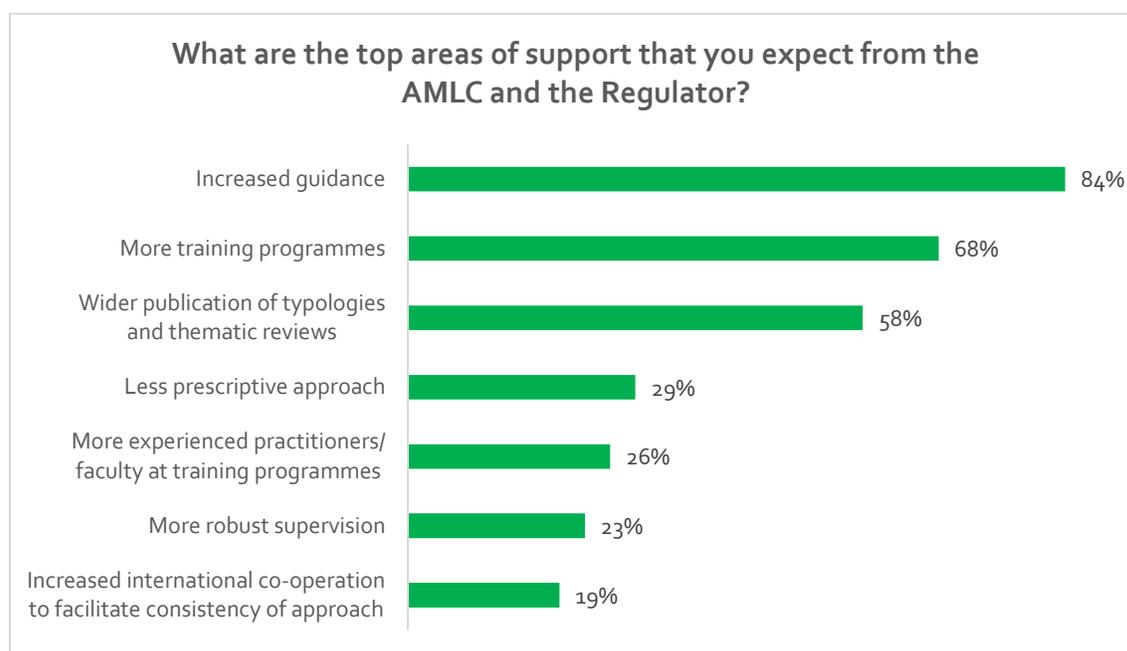
Only 3 per cent banks were dissatisfied.

## 6.2 Participation in AMLC Training Programmes

Besides gathering and sharing of financial intelligence, the AMLC also organises trainings and seminars for information dissemination and capacity building. 94 per cent of the compliance officers reported that they attended a workshop, seminar or training programme organised by the AMLC within the last one year.

## 6.3 Expected Areas of Support

Compliance officers expressed the need for increased guidance (84 per cent), more training programmes (68 per cent) and wider publication of typologies and thematic reviews (58 per cent) as the top areas of support expected by the industry from the AMLC.



The survey results demonstrate that AML compliance officers within banks in the Philippines are aware of challenges that their organisations face and are willing to prioritize concern areas. Focusing on building a compliance culture, periodically assessing AML risks and improving technology and systems may be some of the steps that organisations can take towards strengthening AML compliance and reducing vulnerabilities within the system. This can be improved further through greater hand-holding and dialogue with the AMLC.

## Disclaimer

The information contained in this report is based on responses received from survey participants for the questionnaire administered for this specific purpose. It provides only a general guidance. Fintelekt does not take any responsibility for any loss arising to any person or organization acting or refraining from acting as a result of any material contained in this report or based on opinions expressed in this report. It is recommended that professional advice be sought based on the specific facts and circumstances.

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