

# AML State of Play Denmark

- *An FCG Insights Report*



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# Contents

- Foreword..... 3**
- Preamble - Denmark ..... 4**
- About this report ..... 5**
- Executive summary ..... 7**
- Background ..... 8**
- Analysis – AML State of Play ..... 11**
  - 1. *A look in the rear-view mirror: Perspectives from the last five years..... 11*
  - 2. *Why should financial crime prevention be a top..... 14*  
*priority for financial institutions?..... 14*
  - 3. *What does it take to make FCP a senior management and board level issue? ..... 15*
  - 4. *Current challenges in risk management ..... 16*
  - 5. *AML risk management: Lessons learnt and recommendations ..... 19*
- 5. Rating individual issue areas ..... 21**
  - 5.1. *Setting KPIs for an organisation’s overall AML ..... 21*
  - 5.2. *Defining an organisation’s risk appetite for AML ..... 21*
  - 5.3. *Setting relevant KRIs ..... 22*
  - 5.4. *Implementing effective and efficient PEP/sanction-screening models ..... 22*
  - 5.5. *Measuring efficiency of transaction monitoring ..... 23*



# Foreword

Financial crime and money laundering have become major concerns in the financial industry in recent years. Financial crime not only means exposure to legal and credit risk, it is also a sustainability issue. Globally, countries are facing significant economic and social costs due to environmental crime, human rights abuse, human trafficking, corruption, tax evasion, drug trafficking and illegal weapons trading. The ability to prevent the laundering of criminal proceeds is vital to break the criminal value chain and tackle organized crime. Financial institutes are in a unique position to make a difference and must be part of the solution.

Significant investments have been made in recent years to develop anti-money laundering (AML) programs and other measures against financial crime. Regulatory requirements are developing as well, while at present, according to Europol, only 1% of money-laundering is stopped, suggesting that more and better efforts are clearly needed.

The cost of financial crime compliance has continued to rise sharply both during and after the Covid-19 period, due to labour and technology costs, increasing regulations and evolving criminal threats. The industry needs new strategies to explore how to increase the efficiency of AML compliance, considering for example offshoring, outsourcing and more data-sharing, all of which we believe are logical steps going forward. The regulatory burden versus actual results may also warrant a more philosophical discussion around the role of financial institutes, the distribution of responsibilities between this sector, the FIUs and the FSAs. No doubt, in the complex and dynamic environment in which we operate, financial crime prevention requires coordinated and collective efforts. The speed of digitalization and changing consumer behavior continue to give rise to new risks for money laundering, and financial crime at large.

FCG has gained profound experience and market-leading expertise in this field over the years. We firmly believe that there are great opportunities and potential for the financial industry to build more effective tools to identify, assess, and mitigate financial crime risks, through investing in new technologies and know-how. To be successful, the industry will have to continue developing and implementing proactive controls and risk management methods with greater efficiency. This is an ever-evolving and highly critical task. We also see a need for more data and of better quality, which in combination with increased use of machine learning, natural language processing, and artificial intelligence (AI) technologies can pave the way for a new generation of improved risk-based methods in financial crime prevention.

Earlier in 2022, FCG published the AML State of Play report for Sweden, and we are now very pleased to present the report for Denmark as well. Through this report, we want to share important insights, and contribute to the development of a sound and successful financial services industry so that financial institutions can stay one step ahead of financial crime.

I would like to express our sincere thanks to the AML experts at the ten leading financial institutions in the Nordic countries who agreed to be interviewed for this report, and so generously contributed their time and insights.

Stockholm, December 2022

Kristian Bentzer  
CEO, FCG Risk & Compliance AB

# Preamble - Denmark

AML compliance is garnering a growing interest, both within and outside of the financial services sector. It is with great pleasure, that we publish *AML State of Play Denmark*. It is a first in its kind, and I trust that it will contribute to the continuous and commendable AML/CTF work that is carried out in financial companies in Denmark.

Statistics from the Danish Financial Supervisory Authority 2018-2022 tell us that especially transaction monitoring, risk assessment and ODD remain challenges to financial institutions in Denmark. Ratings from this report confirm that measuring the efficiency in transaction monitoring is a challenge, however also that setting key performance indicators for the overall AML work is an area where much more development is needed.

At this juncture, with pending regulatory updates and an increasing focus on optimization for real impact and efficiency, away from check-box compliance, we firmly believe that financial companies are well placed to look at how they can future-proof their organizations across the different lines of defence, take a good look at what could constitute main concerns and have an impact.

The timing is right, as the market is anticipating the AML package on EU-level, and here in Denmark, we are looking forward to the adaptation of the EU supranational risk assessment to our market and how that will drive developments forward with impact.

We are tremendously grateful to the senior executives and experts at ten financial institutions in Denmark who agreed to take their time and share valuable insights, which made it possible to publish this report. With these important perspectives the state of play of AML/CTF in Denmark, we are excited about taking the next step and in near future share a Nordic comparative perspective in near future, including also Sweden and Norway.

We trust that FCG with this report, can contribute to that process and support the industry with the most relevant intelligence and expertise to stay the step ahead of financial crime.

Sincerely,

Kenneth Ullmann Eenholt  
Director, Head of FCG Denmark

# About this report

This report describes the current state of play for financial crime prevention, with a particular focus on anti-money laundering (AML) in Denmark. It aims to share new insights and offer forward-looking perspectives that can add value to the sector at large. The report is based on interviews with senior executives on the first and second lines of defence, carried out anonymously. The respondents are employed at ten leading financial institutions in Denmark, including large traditional banks and also fintechs / neobanks. We are tremendously grateful to those who participated and so generously set aside time for these interviews.

The analysis for this report is based on discussions around five open questions, and five rating questions where responses were given on a scale from one to ten.

It starts with a look in the rear-view mirror, to discuss perspectives and developments over the last five years. The report moves on to ask why financial crime prevention should be a top priority for financial institutions today, and if so, how to make it a senior management and board level issue.

Moving on from this discussion, the report analyses current challenges in risk management and what lessons that have been learned within AML, to arrive at a concise set of recommendations for the future.

The second part of the report presents the results of how advanced or challenging respondents perceive individual issue areas to be, rated on a scale of one to ten, including setting KPIs for an organisation's overall AML, defining an organisation's risk appetite, setting relevant KRI's, implementing effective and efficient PEP/sanction-screening models, and finally, measuring the efficiency of transaction monitoring.

The interviews were conducted anonymously between May and September 2022. The report does not rely on academic or statistical references but presents insights, experiences and opinions conveyed during the interviews.

**All observations and comments made should be viewed as a discussion for the industry at large to consider, and are never targeting or suggesting any individual financial institution or individual physical persons. All opinions expressed in this report are those of the respondents unless otherwise stated. All statements and citations are anonymous. "They" is used as gender-neutral pronoun and covers both he/him and she/her.**

## Abbreviations

AML	Anti-Money Laundering
CTF	Counter Terrorism Financing
ESG	Environmental, Social, and Governance
FCP	Financial Crime Prevention
FIU	Financial Intelligence Unit
FSA	Financial Supervisory Authority
KYC	Know Your Customer
KPI	Key Performance Indicator
KRI	Key Risk Indicator
PEP	Politically Exposed Person
UBO	Unique Beneficiary Owner

# Executive summary

The developments in AML in the last five years are characterised by giant strides and great concern. The Financial Intelligence Units (FIUs) and Financial Supervisory Authority (FSA) have ramped up supervisory capacity in the wake of both mismanagement and updated regulatory requirements. Financial institutions have acted with a sense of urgency and acute awareness about risks, potential consequences in the form not only of fines and sanctions but also reputational damage, and they have developed AML programs and recruited personnel at a speed never seen before.

According to the respondents, this has resulted in two things. On the one hand, a degree of overcompensation, basically overdoing things out of sheer apprehension; and on the other a lot of work characterised by tick-the-box activities which do not actually help combat money-laundering.

AML is almost exclusively driven by legal requirements rather than to achieve competitive advantage. A few respondents chose to discuss AML in the context of the social contract and corporate social responsibility, which seems to confirm that it is a challenge to embed AML compliance effectively into business processes, and to align AML risk assessments with new products, services and technological developments.

Respondents said that whilst financial crime prevention and AML has qualified as a top concern among senior management and at board level, there is only limited genuine engagement or enthusiasm given that AML is regarded only as a cost-driver. Financial crime prevention is not regarded as a competitive advantage. This view may come as a surprise, considering the escalating costs of financial crime prevention and its burden on the balance sheet.

This passive and compliance-driven interest in AML expressed by respondents might be explained by the limited understanding of AML/FCP among senior management and at board level, which impacts on the provision of resources. Yet views differ. Some respondents said that funding and resources are being generously allocated to AML, which might reflect the overcompensation demonstrated by some organisations, as mentioned earlier. Other respondents emphasised that they struggle in competition with other areas, and suggest that funding should better be discussed in relation to risk and the ability to set more measurable goals and ambitions.

The availability of qualitative data is a major concern, and most respondents cited the lack of data as a hinderance to effective and cost-efficient AML programs. A lot of work is still done manually and managing legacy systems remains a challenge. Nevertheless, respondents warned against a misplaced confidence in the potential of business intelligence and IT departments to deliver.

Closely associated with the issue of data and IT capabilities, respondents believed that data sharing and exchange between institutions and the FSA would be a game-changer. Today the industry is too restricted by legal limitations which are perceived to prevent organisations from being able to implement and operationalise effective AML.

And while discussing all these aspects, respondents revealed that there is uncertainty about roles and responsibilities within the organisation. It is not clear who should perform AML tasks, whether advisors should be involved, and even whether certain tasks "are" AML. It is also not clear which parties within the organisation have resources for KYC and ODD. This is an especially interesting observation, and suggests the forthcoming 'EBA Guidelines on the role of the AML/CFT Compliance Officers' may prove timely.

# Background

## *The old and the new?*

This report provides a view on the current state of play in anti-money laundering in Denmark. The initiative was taken by FCG to interview senior functionaries in the first and the second lines of defence at ten financial institutions so as to analyse progress and current challenges. This report also shares experiences and recommendations around what may be necessary for the continued development of AML in the future. AML State of Play Sweden was published earlier this year; Denmark is the second market that is covered.

Over the past decade, 18 out of Europe's 20 largest banks have been sanctioned for money laundering offences. The revelation a few years ago, that several Nordic banks were involved in systematic money-laundering on an unprecedented scale proved an important tipping point, since it made it clear that AML is an extremely complex challenge for all financial institutions, irrespective of size and type.

On a global scale, fraud, corruption and money-laundering in particular are among the most critical issues facing the global financial services industry. According to the United Nations, criminal proceeds worth between two and five percent of global GDP are laundered every year.

Financial institutions have built and boosted capabilities, increased headcounts and taken giant strides towards more digitalisation. Transaction volumes are growing, new products and services are launched, such as mobile money and various cryptocurrencies, which - especially in unregulated segments - present excellent opportunities for innovative criminals operating fraudulent and money-laundering schemes.

As noted by, the CEO of a major Swedish bank told the Financial Times in late 2021 that his company had spent more time on AML issues than anything else in the past five years. Meanwhile, less than 1 percent of criminal proceeds laundered via the financial systems are seized and frozen by regulatory and law enforcement agencies: a highly problematic result given the significant adverse effects on society<sup>1</sup>.

New regulatory requirements have either come into force or will do so in near future. Altogether, this means that FIUs and FSAs need to join with financial institutes in addressing a constantly evolving risk environment and critical challenges. Current debates suggest that financial institutions may want to question whether it is reasonable to invest even more in combatting money-laundering, or if it would not be more rational for society at large to invest in tackling the root causes of money-laundering.

## *AML state of play according to macro reports*

The disconnect between investments into AML and results in terms of mitigation and impact is a key concern discussed across the financial industry and confirmed by several institutes and associations.

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<sup>1</sup>Nyreröd, Theo and Spagnolo (2021) Giancarlo *Money Laundering and Whistleblowing* SNS available at <https://www.sns.se/en/articles/researchers-suggest-introducing-a-european-whistleblower-reward-program-to-combat-money-laundering/>



According to the *Wolfsberg Group*, AML/CFT risk assessment is currently carried out in response to supervisory expectations and is focused primarily on technical compliance rather than effectiveness<sup>2</sup>.

Referring to data from the *Financial Action Task Force*, the Basel Institute on Governance reports an average score for effectiveness across all assessed jurisdictions of only 30%. That is less than half the average score for technical compliance with FATF Recommendations, which stands at 64%<sup>3</sup>.

The *Basel AML Index*<sup>4</sup> cites as reasons why challenges remain poor implementation and poor effectiveness in anti-money laundering systems. In addition, various jurisdictions consistently score worse for prevention than for enforcement.

Globally, average effectiveness for prevention was 27%. The corresponding number for enforcement was 31%. The Nordic Countries rank highly in the Basel AML Index for best AML risk score, with Denmark rated 3.34, (where zero is low risk and ten high risk) whilst its Nordic neighbours reached very similar scores: Finland (3.06), Norway (3.35), and Sweden (3.36).

#### *Pro forma compliance versus impact*

Being technically compliant is one thing; taking a risk-based approach to prevent money laundering effectively is another. The question that warrants asking, perhaps repeatedly, is: “Are AML programmes leading to the creation of a solid structure (management system) that can support the prevention of money-laundering?”

The 5<sup>th</sup> and 6<sup>th</sup> Anti-Money Laundering Directives on AML/CFT reinforce the obligation to put sufficient preventive measures in place, and legislation covering additional offences such as aiding and abetting has also become more stringent. At this stage, it is however too early to assess the impact of these directives. Thus far it can be said that observers in general, including the respondents in this report, are not convinced that the AML-programs currently in operation are ‘fit for purpose’ as regards both regulatory requirements and - moreover - achieving real impact regarding AML.

The gap between formal requirement and purpose-based implementation is discussed by respondents in this report. If the rationale behind AML efforts is properly communicated, understood and incorporated into operational risk management, financial institutions would be in a better position to avoid compliance fatigue, which may result in falling back into tick-the-box and low-impact proforma procedures.

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<sup>2</sup> The Wolfsberg Group – Demonstrating Effectiveness (2021) available on [https://www.wolfsberg-principles.com/sites/default/files/wb/Wolfsberg%20Group\\_Demonstrating\\_%20Effectiveness\\_JUN21.pdf](https://www.wolfsberg-principles.com/sites/default/files/wb/Wolfsberg%20Group_Demonstrating_%20Effectiveness_JUN21.pdf)

<sup>3</sup> Basel AML Index 2021, p.25., published by the Basel Institute of Governance, available on [https://baselgovernance.org/sites/default/files/2021-09/Basel\\_AML\\_Index\\_2021\\_10th%20Edition.pdf](https://baselgovernance.org/sites/default/files/2021-09/Basel_AML_Index_2021_10th%20Edition.pdf)

<sup>4</sup> The Basel AML Index , a leading index on money-laundering risk which covers over 200 countries, confirm that money-laundering persists on a global scale and is as pervasive as ever, utilizing new and increasingly sophisticated channels and becoming more and more integrated with well-organised It provides risk scores based on data from 17 publicly available sources, covering five domains including quality of:

- (i) AML/CFT framework
- (ii) bribery and corruption
- (iii) financial transparency and standards
- (iv) public transparency and accountability, and finally,
- (v) legal and political risks.

With the forthcoming AML-package from the European Banking Authority, including the new *Guidelines on the role, tasks and responsibilities AML/CTF compliance officers*<sup>5</sup>, organisations may need to reconsider some fundamental aspects of their organisational structures, processes including reporting. It is also expected that with AML-package, local FIUs and FSAs will continue to build AML capacity and potentially step up their work which may result in more fines and sanctions.

With all these factors in play, not forgetting investor and stakeholder expectations on good governance, it should only be expected that AML will remain a prioritised topic on the board agenda. Respondents in this report confirm this conclusion. Whether this will automatically lead to more effective or efficient AML/CTF management is a different matter.

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<sup>5</sup> [Guidelines on the role of AML/CTF compliance officers | European Banking Authority \(europa.eu\)](https://www.eba.europa.eu/en/press-communications/press-communications/2018/0001)

# Analysis - AML State of Play

*Contents in the analysis that follows are based on responses given in interviews carried out for this report. Observations and opinions expressed are those of the respondents unless otherwise stated.*

## 1. A look in the rear-view mirror: Perspectives from the last five years

### *The FSA, injunctions and reputation*

During the last five years, AML operations in financial institutes have been characterised by the constant anxiety of potentially getting fined or sanctioned. The primary objective of senior management has been not to lose their license to operate. As a result, organisations have resorted to overshooting, doing too much where it has no effect, with great attention to ensuring that every detail satisfies compliance requirements.

Respondents call this “overcompensation”, saying that it has led to de-risking in some areas, where AML-risk and AML-risk assessments are invoked and conducted for various - and not always the right - reasons. It is suggested that AML-risk is used as an excuse to reject low-profit customers, or customers that are too costly for banks to work with.

The Danish FSA is described as “merciless”. But, some respondents also argue that even though banks in Denmark have received several injunctions, it is not enough and that the FSA should ideally be even tougher.

The attention around AML is driven both from inside and outside, says one respondent. The court of public opinion is tough and the last few years have unveiled not only the large-scale scandals of the Danske Bank in Estonia, but also a string of invoicing factories and opaque corporate structures deployed by organised crime. The problems do not recede.

Customers and the public at large have gained a greater understanding of money-laundering and why action is needed. Everyone has read something about it. On the back of infamous scandals, customers may not be as adverse to KYC as before, but within limits, balanced against actual needs.

Without discussing any specific measures that the FSA has taken, respondents say they would have expected stronger reactions and actions as a consequence from customers, investors and other stakeholders.

Perhaps AML injunctions simply do not gain enough attention, or they are becoming a new normal: ‘as commonplace as credit injunctions’, according to one respondent. The last five years have not offered a clear picture of how willing customers might be to accept a non-compliant bank or a bank which does not take its corporate responsibilities seriously.

Respondents expressed critique against the FSA for lacking objectivity in its execution. As an organisation the FSA is today more mature, but it is said that inspections are carried out very differently depending on the individual representative, and this has direct impact on inspection outcomes in terms of sanctions and understanding the reality of banking operations.

**“It is problematic that the inspections have become so personal.”**

Some respondents offer a more positive view, saying that the FSA is now strengthening enforcement efforts not only with regards to new regulations coming into play, but also in terms of a more sophisticated interpretation and enforcement of rules and regulations. Danish rules even exceed supranational rules says one respondent. The number of tasks for AML is growing and there is little doubt that this is now translating into ambitions towards greater collaboration.

The financial services sector now understands that the fight against financial crime is here to stay and is constant. The example of Operation Greed<sup>6</sup> demonstrates how dynamic and creative the modus operandi of criminals are, and how the integration of legal and illegal practices tactically uses companies including shell companies as conduits.

Talking about fintechs, respondents noted that AML risk in fintech companies is subject to considerable attention internationally. Fintechs have to their advantage strong tech capabilities, no legacy and the ability to adapt swiftly. However, they are also targets of money laundering via processes and procedures are frequently not as well established as in traditional banks. Respondents argued that while traditional banks are at the “fierce mercy” of the FSA, neobanks, fintech and crypto-traders are not subject to any comparable level of scrutiny. Companies in these segments are able to skip important steps in an otherwise rigorous regime and in this way to offer customers ‘something they want’, says one respondent.

#### *Ramping up, with or without competent resources*

Financial institutes have not seen and do not see financial crime prevention as a competitive advantage, and many processes are still manual. AML regulations have been around for thirty years, but it has taken until now for companies and customers to take them seriously, said one respondent. Posing the rhetorical question if investing 8 billion DKK in AML on group level is sensible, respondents said yes it is. Banks thought that their risks were being mitigated, but now people have come to realize how difficult it is to set up transaction monitoring systems without too many false positives. This is a major problem and there are few tools that work effectively. Systems are counter-productive, exemplified by cases where elderly people are caught for minor cheating of the social welfare system while serious money laundering schemes can go undetected.

**“The incidents and scandals demonstrated that banks have basically broken the social contract.”**

AML procedures used to be “not a huge thing”; they were handled centrally and customers found them annoying. Now they are “everything”, but because the understanding of AML in business operations is still limited, integration of AML across units and functions presents a certain degree of difficulty.

Developments in the last few years have caused financial institutions to recruit significant headcounts in record time. Growing from a handful of people to fifty staff in a short space of time does not guarantee you have the right people in the team.

**“Today you are a very experienced AML employee if you have six years in the field.”**

As AML programs become more mature, but not mature enough, noting how for instance the war in Ukraine has been a litmus test with regards to the ability to effectively manage sanctions, respondents emphasise the need to collaborate, communicate and exchange information. Gate-

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<sup>6</sup> Operation Greed was revealed in 2022 and involved 16 people receiving prison sentences and fined a total of 875 million kroner in relation to the largest fraud case in Danish history. [Operation Greed: Historic sentences in huge fraud case - The Post \(cphpost.dk\)](https://www.cphpost.dk/operation-greed-historic-sentences-in-huge-fraud-case)

keepers in individual banks are important, but in order to combat complex criminal structures such as fraud invoicing - and not only specific transactions - bilateral talks are needed. Respondents expressed positive hopes that this is now moving in the right direction.

#### *Taking a risk-based approach?*

Views differ. On the negative side, respondents say that a risk-based approach is conceptually understood, but that people don't feel that it works. Instead, they said, customers would be treated more equally without a risk-based approach. The alternative approach to working risk-based would be simply to have more data at hand, said one respondent. The logic would be that with digital onboarding and more data, there would be less need to focus on risk-based approach. This discussion was concluded that 'no-one shows up at a branch office anymore'.

Respondents said that the AML directive has become politicised. It is a good thing that financial institutions are now able to interpret freely what should constitute a risk-based approach and what the intended nature of a business relationship is. However, this is sometimes a dubious advantage. Respondents say their organisations don't know what is genuinely risk-based, nor what can safely be said to be 'enough'. As an example of this challenge, one respondent talked about civil organisations in Denmark which have been able to operate without a local business license (CVR/VAT#). Because they are not subject to license, they are not included in AML risk assessment. Organisations with a CVR on the other hand involve AML risks, but there is little guidance around this particular segment<sup>7</sup>.

#### **"We are lagging behind with KYC at all times."**

Transaction monitoring has become more difficult and pressurised as the market for financial services has advanced, respondents said. There are also some who believe that transaction monitoring is now a higher priority and that organisations are increasingly coming to understand that the quality and efficiency of transaction monitoring merely reflects the KYC process and associated risk scoring model. Everything, including IT, needs to be interconnected.

One respondent suggested that the starting point when discussing systems and processes today, is the ability to pass an inspection by the FSA, and not how to manage actual risk. But it is also understood that whatever the bank chooses to do within the sphere of financial crime prevention must fit the bigger picture.

It is a challenge for transaction monitoring to keep pace as products and complex services grow rapidly more diverse and complex, and customer patterns and structures are changing profoundly. Foreign card transactions is one example. A few years ago, it was an interesting business. Today, such transactions are a source of alarm and they drive up processing costs.

Traditional banks are both blessed and cursed by their large existing IT-structures and legacies. One respondent said that financial institutions have not made it a priority to ensure data quality and are only now realising that data quality is a huge problem. There is a shift towards digitalisation and automation, but the biggest impetus to improve data quality assurance would be a fine or an injunction.

Respondents feel there is a need for strategic discussions about how required systems should be developed: to decide whether to develop in-house, or to invest in third-party solutions and at the

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<sup>7</sup> Since the interviews for this report were conducted, the Danish Financial Supervisory Authority has published new guidance on the risk assessment of associations, "Vejledning til virksomheder omfattet af hvidvaskloven" as of 4<sup>th</sup> October 2022, available on [https://www.finanstilsynet.dk/Nyheder-og-Presse/Pressemeddelelser/2022/vejledning\\_risiko\\_foreninger\\_041022](https://www.finanstilsynet.dk/Nyheder-og-Presse/Pressemeddelelser/2022/vejledning_risiko_foreninger_041022)

same time consider what is scalable over time. This development needs to be standardised for the banking sector, says one respondent, driving this individually or through joint IT utilities. A collective approach could moreover contribute to better data integration and flexibility.

## 2. Why should financial crime prevention be a top priority for financial institutions?

Respondents offered different opinions as to why financial crime prevention should be a top priority. The simplest answer is that it is the law. Nobody is investing in AML because they want to, said one respondent. Funding is allocated to reporting because of regulatory requirements, and reports go to the board. From this perspective, AML is at an advantage compared to other areas which face greater difficulties to get funding.

The same respondent went on to say that “correct” answer would be that no bank should want to be used by criminals. Because the world of financial crime is never fully unveiled, AML has to be heavily regulated, requiring banks to get on top of the problem and stay there. But respondents also discussed the question of responsibility towards society. The financial services sector has a role to play in protecting the welfare state and combating crime. AML and ESG is about everybody’s values, said one respondent, and about ‘all of us getting cheated’.

**“There is no ambition to become a champion, it is enough to avoid injunctions.”**

For all financial institutions, AML is a social contract. Where a bank is in the position to help, it is the expectation of the general public that it should do so. Banks are not the police or judges, but they have a role to play given that financial crime has a subversive effect on society. AML is not about catching ‘the bad guys’. But, banks are closest to the criminals and are best positioned to detect them. Because of this, banks have a huge ethical responsibility. AML is fundamental to the maintenance of a democratic welfare society.

So far this expectation has not been met, says one respondent. If banks are not trustworthy, the consequences will be serious. Every time there is a case of financial crime, reasoned one respondent, a public trust is eroded a little further. The other reason for prioritisation is reputational risk. Reputation is even more important than fines and injunctions according to one respondent. Reputation is more the explanation than the reason.

AML does not deliver a competitive advantage, yet it is a license to operate. With Corporate Social Responsibility (CSR) and Environmental Social Governance (ESG) growing in importance, banks must behave ‘honestly and properly’. Respondents confirm that customers do choose them because of significant steps that their bank is known to have taken. They also acknowledged that some customers are deterred, whilst concluding that these are unlikely to be the kind of customers that the bank would want anyway.

**“AML is a priority and it is a cost. But it is also a value. If you don’t understand that, you will not create a good customer journey, or be able to establish the right foundation.”**

New products and new technological developments are further reasons why AML should be a priority. Different or increased money laundering risks and new risk scenarios must be factored in from any early stage of development. It is no longer a case of analysing what a product can be used or misused for. Rather, it is to ask the question how a product can be used in the context of everything else available on the market.

### 3. What does it take to make FCP a senior management and board level issue?

No one really enjoys working with AML, respondents said, and it is solely seen as a cost driver which gets in the way of business. Sales always comes first, far ahead of AML. Even though there is focus from senior management and the board to have a proper policy in place, the intentions have limited reach. Intentions and actions are diluted from one management level to the next. When it comes down to the area managers, there is passion for sales, not for AML. The tone at the top must be absolutely serious if it is to reach across all these levels and across organisations in the long haul.

Respondents suggested several reasons why AML is not regarded as a senior management or board level issue. One is that the lack of interest in AML can be explained by the limited understanding of the subject matter, AML risks, including what the potential consequences of inspections and injunctions might involve.

Respondents also said that there is uncertainty about roles and responsibilities within the organisation. It is not clear who should perform AML tasks, whether advisors should be involved, and even whether certain tasks "are" AML. It is also not clear what parties within the organisation have resources for KYC and ODD.

**"Maybe it takes a scandal before middle management really realizes that we need to be serious about AML."**

One respondent suggested it might not be such a terrible thing if the FSA would pay a visit and levy a large fine or injunction. That way, the AML functions would gain the leverage to make the necessary changes. Getting 'bashed' by the FSA is what it takes for management to understand the importance of AML. Police reports is another factor that can win the attention of senior management.

*So, what should be done?*

It is a question of competence and communication, or competent communication. This is currently a deeply challenging area. Today senior management is not very responsible because they lack in-depth understanding. One way to address this, said respondents, is for AML professionals to become more specific and better at conveying critical information about money laundering. This includes communicating the potential impact on earnings and the business that non-compliance to AML can have. That would help senior management understand, and they would then respond better.

Communication around AML is also an issue in reference to the impact it has on customer interests. Clients will not accept a non-compliant bank. When AML is made into a matter of ethics, it becomes easier, one respondent said. It was also suggested to include AML on the agenda at customer events as a permanent topic to demonstrate that the bank is taking AML seriously.

Having said that, there is always competition for senior management attention from several business domains and functions, involving different products, payments etc. It is hard to describe AML to management and various domains, addressed in the interfaces between all other areas, but it is necessary to get the full picture of why AML is important. One respondent warned against the pitfall of IT development initiatives. Focusing on IT development to address AML can generate a false sense of security: for example, if a bank does some IT work on this, AML is thought to be fixed. It is not. AML needs to be a fully integrated part of running the bank.

## 4. Current challenges in risk management

### *Regulatory developments and guidance*

Current AML practices are highly resource-consuming, in a way that they should not have to be. Respondents mentioned multiple reasons why it is difficult to drive improvement. Financial institutions lack feedback from the FIU on suspicious activity reporting, which could allow them to validate how accurate submitted reports on suspected activities really are. Having that interaction would also have a motivating effect on employees to strive for optimal risk management and enable AML to improve further.

Financial institutions want to be able to share information. This is currently very problematic and was discussed in terms of more room for interpretation of the law to address this challenge. With the new NSK unit (Nordic Committee for Co-operation), however, respondents are hopeful that the legal basis for exchange may increase.

According to respondents, the FSA and NSK seem to have different perspectives on some money laundering cases. This has a negative impact on clarity and coherence. In those cases where the FSA does not back up whatever position that the NSK communicates, financial institutes end up working from a cover-all philosophy, basically acting blindfolded. This is not a workable or appropriate practice.

Respondents further point towards the Danish parliament which they say seem to deliver mixed messages on issues that can impact AML. Danes have a legal right to obtain a basic business account. The costly and time-consuming administrative burdens on associations that this entails [when it involves high-risk customers] should be eased. One respondent said that instead of being obliged to handle this, they would prefer to spend the time and money on finding solutions for the low-risk customers who form the great majority.

The new AML package from Brussels also leaves a lot to be desired, for two particular reasons. Respondents question how it will be possible to implement at all with regards to the Nordic governance model. They also questioned the proposal to change the rules on beneficial owners from 25% to 5%.

Financial companies accept the need for good regulatory guidance to support their work. There is a lot of attention around AML and certain issues such as cryptocurrencies, but some respondents feel there are few concrete answers to help them. However, it was also noted that the industry has set up a knowledge center to meet the needs in an area where it was expected to see more help from relevant authorities.

Respondents also discussed the war in Ukraine which has put sanctions risk management to the test. Sanctions are clearly subject to change and have been increasing.

### *Risk-based approach*

The objective of any financial institution is to be risk-aware, fact-based, and seeking to find common denominators to drive a risk-based approach according to something standardized by law. At present, the constant regulatory developments and perceived lack of dialogue with relevant authorities is having a negative impact on how banks choose to use the annual risk assessment and how it might best reflect requirements specifications.

Regardless of whether the discussion concerns developing robots or third-party solutions, when AML is built based on what is convenient and the agenda is driven by existing practices and perhaps habits, it is unlikely that a risk-based approach will be achieved. According to respondents, typical



current practice is for fundamental parts of an AML program to be built without addressing known and more sophisticated needs. The inherent mindset seems to be "that's how we've always done it", which is not necessarily logical to all employees, nor conducive.

Respondents said that a risk-based approach can involve both pros and cons. It enables an organisation to focus resources on material issue areas, but it does not necessarily provide clear guidance as to when regulatory requirements are effectively met. It is not only about being legally compliant, but also living up to the expectations of the clients.

**"Banks cannot stop financial crime from happening, but they can make sure that we are not taken advantage of. The tough question is when enough is enough."**

Respondents said there are several questions to be asked when talking about a risk-based approach: Where do financial institutes get the most value for money? What do they realistically and practically see in terms of real risks versus pro forma compliance procedures? What have they built on top of mitigating solutions? And: What is in line with actual compliance level?

The risk-based approach is of limited value in the real world. It cannot be expected that one hundred advisors can all have a risk-based approach to clients. One respondent was adamant about the practical effects, saying that even if the bank has a good customer risk-scoring model, which is evaluated and elaborated, it might not work 'in the real world'. To make the model deliver real results, suitable parameters are needed that allow a customer to fit into any of the four possible risk classifications and to be calculated appropriately: Low, medium, medium-high or high. Overall, they can be challenged on some of the parameters, but not the classification. The customer risk classification is perceived 'absolute'.

According to respondents, the Danish FSA communicates that they are quite focused on scenarios in the context of transaction monitoring. But, they also said that financial institutions which work from a risk-based approach do always find that this has an impact on cooperation with FSA. This observation matches several concerns in regard to the interaction with the FSA. Banks today have to strike the right balance between a risk-based and rules-based approach. And the latter is regarded as inefficient.

Demonstrating a risk-based approach and the ability to communicate what it involves internally, is also relevant in the context of funding. Respondents said that funding needs to be discussed in relation to risk and the ability to set more measurable goals, while at the same time balancing ambitions with supervisory expectations.

#### *Silo-thinking*

Silo-thinking and operating in silos is a challenge, both within organisations and in relation to the interaction between financial institutions. According to what some respondents suggested, silo-thinking is a result of the detailed regulatory requirements of the FSA which literally drive organisations into operating in silos.

Organisations that operate in silos with disconnected or fully isolated business and product areas will have a higher exposure to money laundering risks, which can be tactically distributed by well-organised criminals and multiplied across internal structures. Without connecting the dots across transactions in different business divisions, the chance to detect money-laundering is lost. Customers that are off-boarded by one bank will immediately be picked up by another legal entity within the business or another bank. This is an unnecessary expense both for banks and society at large.

Banks cannot combat money-laundering individually, yet the ability to cooperate is constrained due to legal limitations in section 39 of the EU directive which is translated into §38 in the (Danish) AML Act. Banks are not allowed to exchange information on clients and transactions despite the fact that this could help prevent money-laundering. Consumer protection can get in the way of AML and financial crime prevention, to the detriment to all agents in the sector.

A further perspective regarding silo-thinking is that business goals need to be aligned with AML. For obvious reasons, the internal sales pitch for AML can never compare with pitching a new revenue generating product. For AML to become a natural consideration for any product or service, business needs to understand the positioning of AML, including the customer life-cycle, direct impacts (fines and excess capital requirements) and indirect impacts (customer and market reputational risks potentially driving funding costs or loss of revenues).

If companies were able to incorporate AML into business operations, it would allow them to achieve better awareness about risks and prevention. The alternative to this proactive and integrated approach, would according to respondents be an undue reliance on tipping off, which can be harmful. So beside the important risk-based approach, it is also a question about genuine pro-activity, where more co-operation and information exchange is also needed.

### *Data*

Several respondents argued that the lack of data, or the poor quality of available data, is a challenge all the way from KYC to transaction monitoring to the ability to provide proper customer advisory services. No monitoring system is better than the data it is fed with, whether it is basic transaction monitoring or more sensitive behavioural analysis systems. This causes AML to lag behind in terms of maturity and it makes organizations vulnerable.

Respondents discussed how automation can be part of the solution to secure better data, but one respondent mentioned that data quality is also negatively impacted by the casual “sloppiness” at advisor level. Not only is the quality of data poor, but it is also a challenge to know where to find what customer information does exist within the organization. To mitigate a risk, staff need to have access to all information. There is currently too much reliance on “guestimates”.

**“If you ask in four different places, you will get four different answers.”**

A concurring opinion is that financial institutions would be able to provide data if they were only allowed to do so. They have technical capabilities that exceed what is currently allowed under the law. Respondents referred to legal requirements on supranational level which every financial institution has to interpret themselves.

While there are always problems with data quality, respondents disagree on whether data as such really is the biggest challenge. Referring to smaller financial institutions, one respondent suggested that even good quality data will not solve current challenges. The real problem is the standard scenarios in transaction monitoring that are on ‘amateur level’. So long as operations remain underdeveloped, no organisation is able to deliver on either AML or other areas of financial crime prevention. This is an issue best solved through cooperation between financial institutions and the regulators.

## 5. AML risk management: Lessons learnt and recommendations



### *Competence & understanding the subject matter*

Financial institutes still have a lot to understand with regards to AML. Respondents argue that AML is not as easy as some had expected, but it is now clear that effective AML will require tools and flexible systems which can support clustering analysis rather than just looking at risk scores, and can adapt quickly to the reality of how criminals operate.

Culture clashes: Hiring a lot of new people will only help if the foundation is in place in the organization. When new capabilities are added to existing resources that continue to do the same thing they always have, it can lead to an internal culture clash. This is important to understand and to prevent. It is a long way from theory to practice and banks are still in a process of maturing.



### *Building capabilities*

Everybody wants to fast-track into the future. The first step is to acknowledge weaknesses, and then to address the weaknesses. The second is to understand that it takes time to do so. Respondents expressed frustration with senior management who decide that their bank should be best in class 'in the blink of an eye'. Expectations are unrealistic. One respondent commented that one cannot jump from a tricycle to a space rocket or from a 3rd grade paper to a PhD thesis. One has to start by moving to a more acceptable level, and then move forward progressively.



### *Better coordination and guidance by regulatory authorities*

The rapid development to boost AML capabilities that have witnessed in the last few years has been complicated by rapidly updated regulations. New regulations are, according to respondents, insufficiently developed in terms of how they are supposed to work in practice. Legislators should pay more attention and spend more time to defining and refining what can be assumed around operational implementation.

This is important especially to smaller payment institutes that have a hard time to understand and implement new legislation. Fast-tracking schemes that are not properly worked-through does not help. Respondents also said they see conflicting signals from the FSA and the NSK.

**“Even if huge sums of money have been invested, there is no evidence that we have made any progress in combatting financial crime.”**



### *Ongoing adaptation & updating*

Both risk assessment and transaction monitoring are two areas where the need to develop and to do so continuously will never end. This is a profound challenge and requires powerful support to make the entire business move in the same direction. Given that nobody really wants to deal with AML AML procedures (e.g. on-boarding) has to be made easy for customers and for advisors. This is a pre-condition for everyone. With the war in Ukraine, sanctions have at once become first priority, and more sanctions management issues are expected in future. If an organization does not have what they need in place yet, respondents noted, now is the time to have a serious look at it. It cannot be postponed.



### *A more informed approach to IT*

IT today is lagging behind the needs of AML. Investments are made piecemeal to resolve minor issues, when comprehensive steps are needed. One respondent stated that it is myth that a lot of money is spent on AML. While it is true that a lot of money is spent on compliance, and many banks like to talk about these investments, in reality a lot of the investments are allocated to credit management or liquidity management.

It is necessary to understand the dynamics of AML properly: that money laundering is a never-ending pursuit, with constant exploitation by criminals of every possible loophole in an organization, which is taking place simultaneously with evolving legislation. To master this, IT development and cross-functional collaboration including more co-operation between entities will be key. Banks need to look into specific data-modelling and build risk factors properly into their IT infrastructure. This costs a lot of money, but respondents insist it is not a question of choice.

Referring to developments in the USA and the UK, which may be considered more advanced, banks in Denmark are at present still able to manage with relatively modest investments now. However, if banks let their IT infrastructure lag behind, far greater investment will be needed in the future.

***“My advice to senior management is that the train is leaving now, and we need to make the big investments if we want better safeguards against financial crime.”***

IT should be able to support internal processes to assure delivery on compliance. The delegation of responsibilities is one example. If the responsibility for, for example, obtaining and correctly archiving credentials or customer risk classification is delegated to individual employees, the risk of error grows.

The ability to become more data-driven is also about understanding the interdependencies between different processes, objectives and incentives. If you understand those interdependencies, customer

onboarding would be much better supported. Today there are contradicting ambitions. For example, if the goal is to sign up a customer in 30 seconds, it is unlikely that all the necessary information will be included.

## 5. Rating individual issue areas

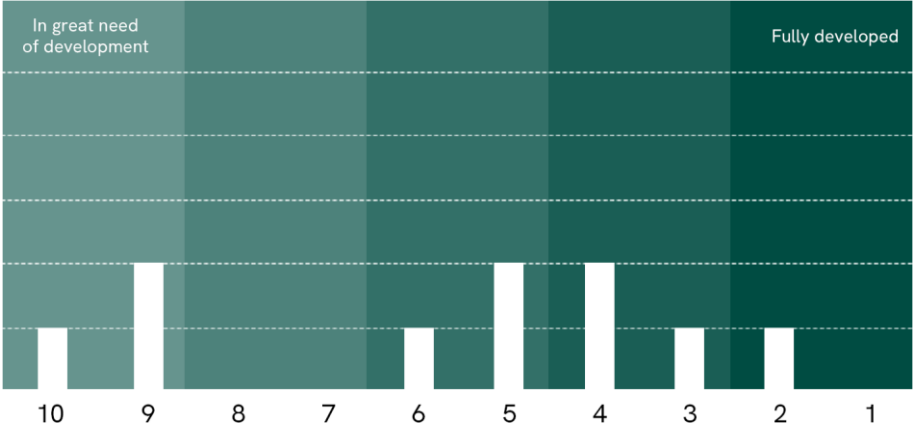
Respondents were asked to rate five individual issue areas between one and ten, where one means fully developed and highly advanced, and ten means that it is a major challenge and still in need of significant development.

### 5.1. Setting KPIs for an organisation’s overall AML

Distribution: 2 to 10

**Average score: 5,7**

1= Fully developed/excellent; 10= Poor, in great need of development

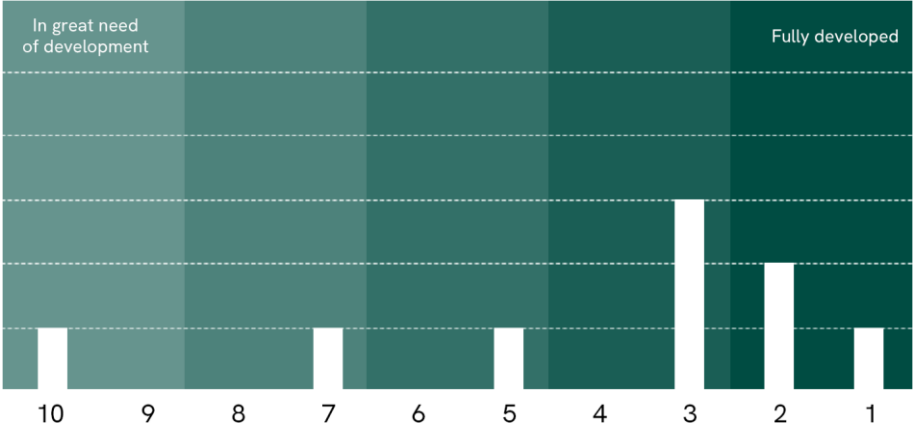


### 5.2. Defining an organisation’s risk appetite for AML

Distribution: 1 to 10

**Average score: 3,7**

1= Fully developed/excellent; 10= Poor, in great need of development

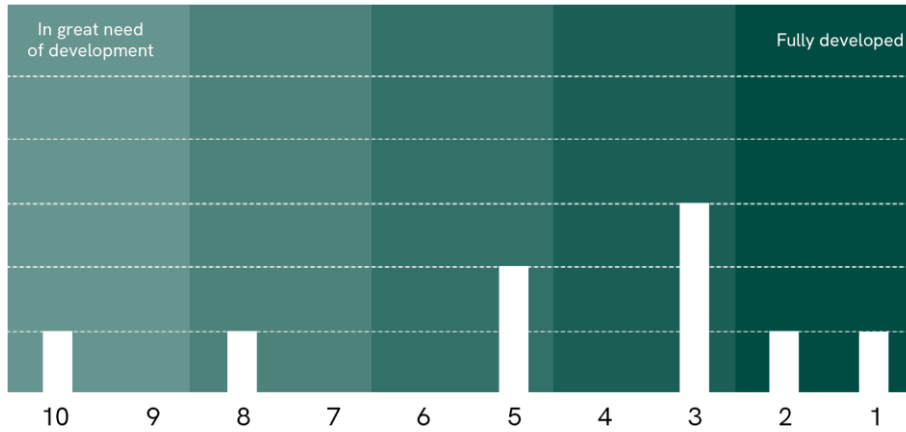


### 5.3. Setting relevant KRIs

Distribution: 1 to 10

**Average score: 4,0**, N.B. based on 9 responses.

1= Fully developed/excellent; 10= Poor, in great need of development

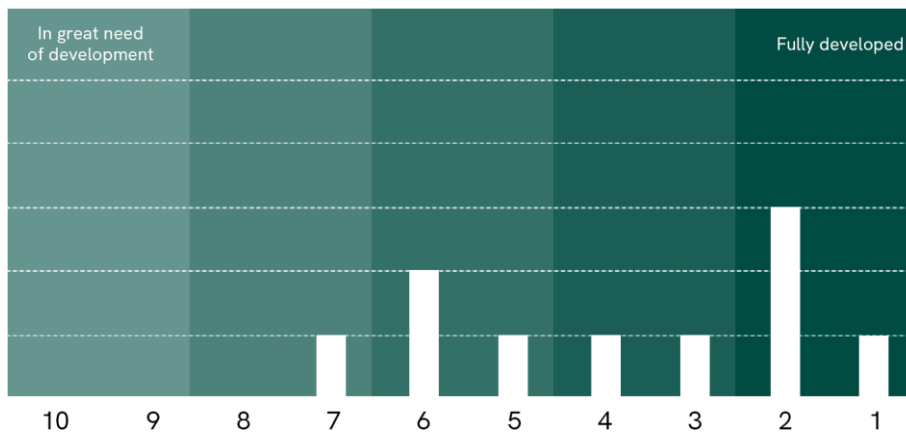


### 5.4. Implementing effective and efficient PEP/sanction-screening models

Distribution: 1 to 7

**Average score: 3,8**

1= Fully developed/excellent; 10= Poor, in great need of development

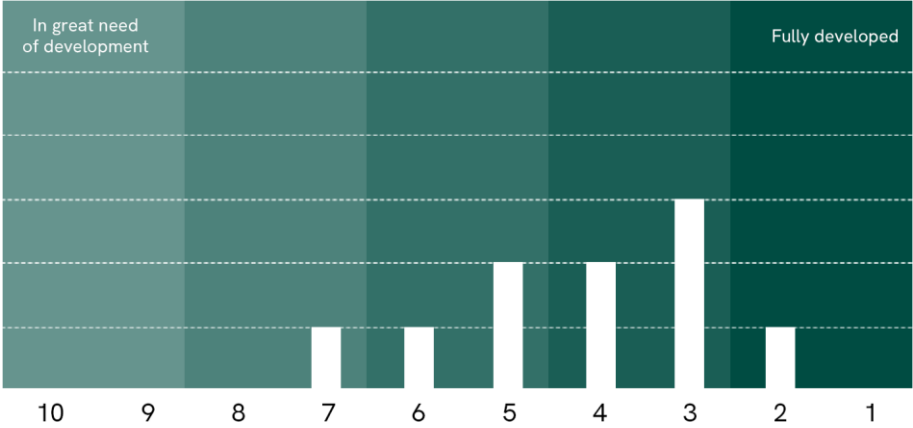


# 5.5. Measuring efficiency of transaction monitoring

Distribution: 2 to 7

**Average score: 4,2**

1= Fully developed/excellent; 10= Poor, in great need of development



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