Building a Quality AML Program
For Financial Institutions

The anti-money laundering (AML) universe basically consists of three entities that attempt to fight the good fight against the bad guys.

- Financial institutions (including designated non-financial institutions)
- Regulators
- Law enforcement

The AML unit of a financial institution is sometimes referred to as Compliance or Risk, or sometimes the AML unit falls under the auspices of the Compliance Unit. Its mission is to prevent and deter money laundering and terrorist financing. This is accomplished by creating and employing policies and procedures that implement the rules and regulations as set forth in the Bank Secrecy Act (in the United States).
In a nutshell, financial institutions take the laws developed by the lawmakers and the U.S. Treasury Department. They then follow established procedures that allow the regulators to maintain oversight, and they advise law enforcement of the required items. Sometimes the efforts of all three work smoothly and harmoniously, and money launderers are captured, criminal organizations are taken down, and everyone high-fives each other for a job well done.

Other times, there is a bit of a family feud. Financial institutions may object to what they perceive as too many regulations and contradicting oversight by their regulators. (Many financial institutions have more than one regulating body governing them).

Regulators sometimes have a different opinion and may even believe that there are not enough regulations. That would be evidenced by the fact that some financial institutions have issues maintaining a compliance program, and if it were not for the regulators, they would do little or nothing at all. One can somewhat understand their reluctance; AML is not an income-generating component of the institution. An AML unit can be quite expensive, and, in and of itself, there is no return on the investment. Hence, that alone is reason for some financial institutions to be hesitant to invest and develop a compliance unit any more than the bare minimum (if that even). Evading regulatory fines sometimes seems to be the only reason that some financial institutions will develop a compliance or AML unit. If you need evidence of that, you can look at a list of the latest regulatory actions. Don't stop after reading the name of the financial institution involved and the amount of the fine, but drill down to see what went wrong. However, that is looking at the money-laundering situation at a micro level. If you can visualize a bigger picture of where AML fits into the entire global economic system, then perhaps the view changes.

But let's get back to the nitty-gritty of some small financial institution that is only looking at the bottom-line dollar. The institution needs to be aware of a few important details that it might be overlooking. If you save a few dollars now by cutting corners on an AML program, then you may pay a hefty price later when the regulators perform an audit. Regulators might do the following:

- Fine your institution
- Force you to engage in an expensive look-back and independent review
- Impose remediation costs for repairing what the regulators say is broken
- Slap a cease-and-desist order on your institution that prevents you from doing business