

Transforming a Financial Crime Compliance Programme: What We Learned

December 2019

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Introduction

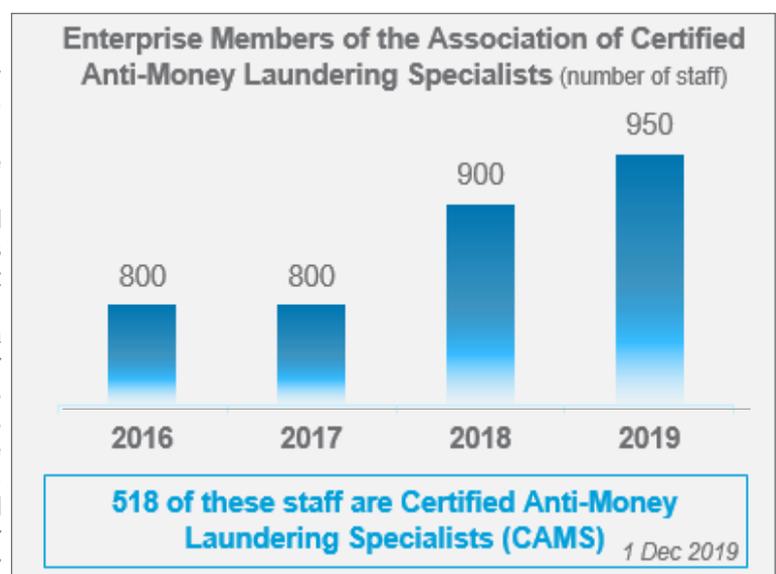
Some of today's most damaging crimes, from human trafficking to fraud, from the drug trade to corruption, are crimes pursued for profit. The financial system is vulnerable to these crimes. New research by the [Financial Crime News](#) has estimated that the criminal economy is 6.7% of global GDP, or USD 5.8 trillion, but that less than 1% of those criminal proceeds are seized by authorities.¹ The part that financial institutions play in responding to financial crime has become a defining issue for the sector, and a defining issue for the economic and social development of the countries we serve. In this extended article we share what we learned about bringing ourselves up to speed to address more effectively the challenge.

In 2012, we (Standard Chartered or the Bank) were the subject of significant enforcement action. This and subsequent enforcement action resulted in financial penalties and requirements for the Bank to appoint or extend independent firms to monitor or audit the substantial action required to transform our financial crime compliance (FCC) programme. The transformation of our programme has taken us seven years and as the world around us changes – and with it the nature of the threats we face – we will need to try new things, learn from them and continue to adapt. Seven years is a long time. It has not been a straightforward journey. We have learned many important lessons; lessons which can apply to any material risk-management change programme. We want to share these lessons so that they may help others.



1. To do great things, you need great people

Of all the changes in our transformation, investment in our colleagues has been our most important. They build the systems, design the processes, find and fix the issues, generate and sustain the culture. Back in 2013 we established the ambition to be a leader in fighting financial crime. It was an important ambition – not just to be good enough to address the immediate issues, but to contribute as a leading voice in the industry. But this is not possible without great people: you need to know what 'great' looks like if you want to get there. So, we made external appointments at a senior management level within FCC and acquired a better sense of the external environment in which we operate, as well our position comparative to the broader industry. This helped us build a more informed sense of what we should be aiming for when we embarked on our major FCC enhancement and investment programme (which we referred to as 'FCRMP'). The breadth and diversity of the FCC senior management experience also helped set the right strategy for our FCC change journey and ensure the execution of the strategy was, and remains, well supported.



¹ [Global Threat Assessment, Financial Crime News, 2019 \(summary here\)](#)

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We also learned that it is critical to have a deep bench with a broad and diverse range of skills so that the programme can be effectively executed and sustained. It is also important for succession planning purposes. The depth of expertise we have now developed will play an essential role in the sustainability of our FCC programme after a period of substantial investment winds-down and we transition into 'Business as Usual' activity. We must manage this change carefully so that the programme does not regress. Great people will help ensure this doesn't happen.

It requires training people through the organisation and giving them opportunities to take on new challenges, recognising that in a market with an in-demand skillset some are going to leave. We want FCC at Standard Chartered to be a source of talent not just for the Bank but for the industry – there will be little better testimony to success if the Money Laundering Reporting Officers of the future in our markets have learned their trade in earlier parts of their career at the Bank.

“As digital replaces cash, the digital landscape involves not only more information, but also far more fragmentation across multiple players. With more digital trails, the traditional method of fighting financial crime – ‘follow the money’ – will become ‘follow the data.’”

David Howes
Global Co-Head of Financial Crime Compliance, Standard Chartered Bank

2. Data helps you swim, but the wrong types can make you sink

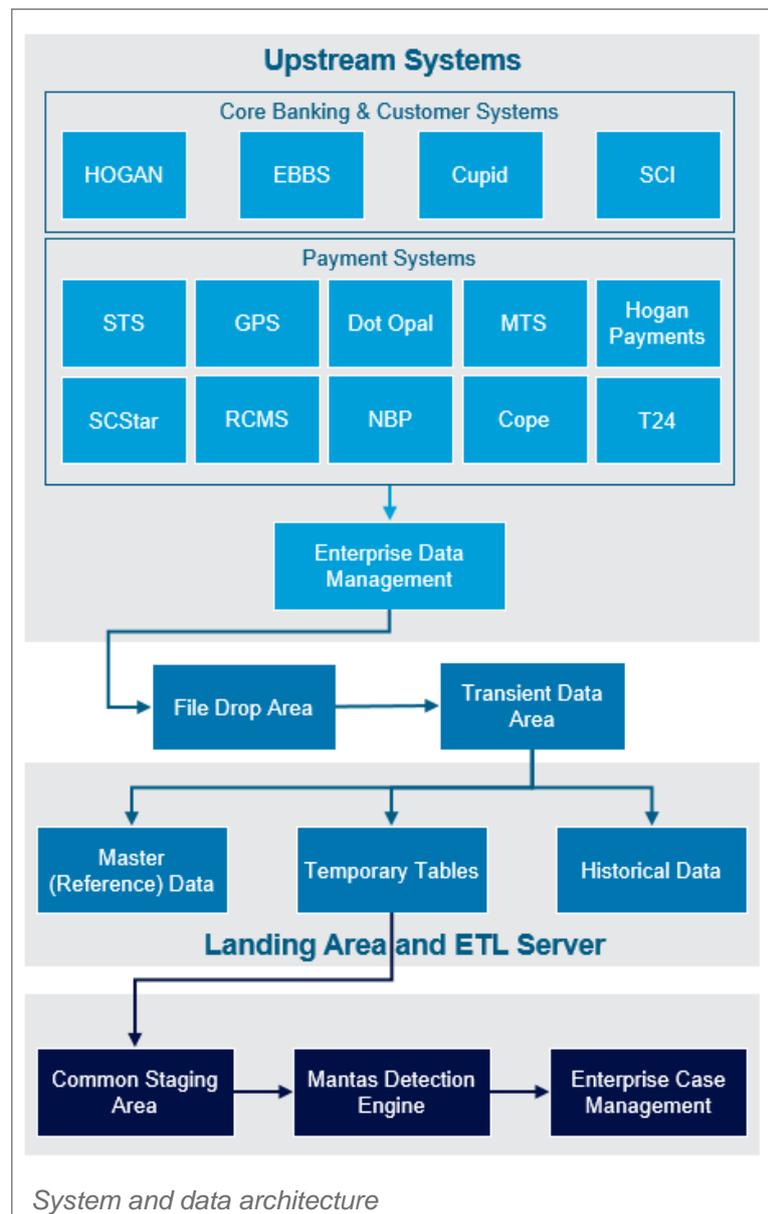
Many issues we have faced, and which we will continue to tackle going forward, relate to data. In hindsight, we should have recognised data quality sooner as a foundational element of other controls improvements. The data quality management framework we have now developed should have been a priority in 2013 as it has set parameters for owning, collecting, organising, recording and transferring data. Had we done this earlier, implementation of our change programme may have been less complicated, and we could have identified and resolved issues of control effectiveness sooner.

Data goes hand in hand with financial crime risk – its quality has a direct bearing on the effectiveness of our control systems. Our data quality management framework has helped bring real focus to embedding responsibilities for critical data across the Bank. It has also equipped us to better identify and address gaps in our data transfer and mapping processes and, in so doing, support both technical compliance with requirements such as FATF Recommendation 16 (Wire Transfers), and substantive compliance through enabling more effective surveillance of our businesses.

But you can drown in data. Across the industry, we remain challenged by excessive false positive alert rates and spend too much time documenting why something is not suspicious rather than on detecting or preventing financial crime. Data completeness and quality are essential to address this. Better quality data can help reduce the number of alerts that do not reflect real risk. Also, by capturing and analysing more data about our processes, we can start to build a better picture of

what works, learning from the millions of false alerts being processed each year. New technology can help identify and differentiate between things that are truly interesting from a risk perspective and automatically process and address alerts that are not worth presenting to an investigator, allowing investigators to focus their time and effort on higher value work.

Whilst we recognised in 2013 that data would be a significant challenge to the delivery of our FCC change programme's objectives, we underestimated the breadth of remediation required to our legacy data, and the extent of differences in data structure across markets that impeded global roll-outs of control processes. We also missed an opportunity in the early stages of our FCC change journey to capture even more data to inform the next generation of improvements. We learned that it is critical to get your data framework right at the outset. It's an old adage in the compliance industry that the business owns the risk, and much work across the industry in the last decade has been about moving compliance into business decisions. As an industry we need to get there much faster on data, not only for compliance purposes but to compete in the markets of the future. Banks are data companies.



System and data architecture

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3. Don't wait until the major projects come into operation

We have significantly invested in, and executed, many challenging projects that enhanced our control environment in the last seven years. We could not have delivered the transformation without a dedicated change management programme. However, we also needed to make progressive improvements fast and not simply wait years for major systems projects to complete. To achieve that, we established an initiative to drive action fast. This was not a change programme: there was no formal project, no dedicated funding, no project managers, and no excuses. But there was a clear imperative, CEO level commitment in every market, and some energetic and passionate people determined to make progress. It helped us to drive-up standards across the 65 countries that make up our network to improve their FCC controls to achieve a minimum 'Satisfactory' status whilst the major changes of the FCRMP were developed and rolled-out.

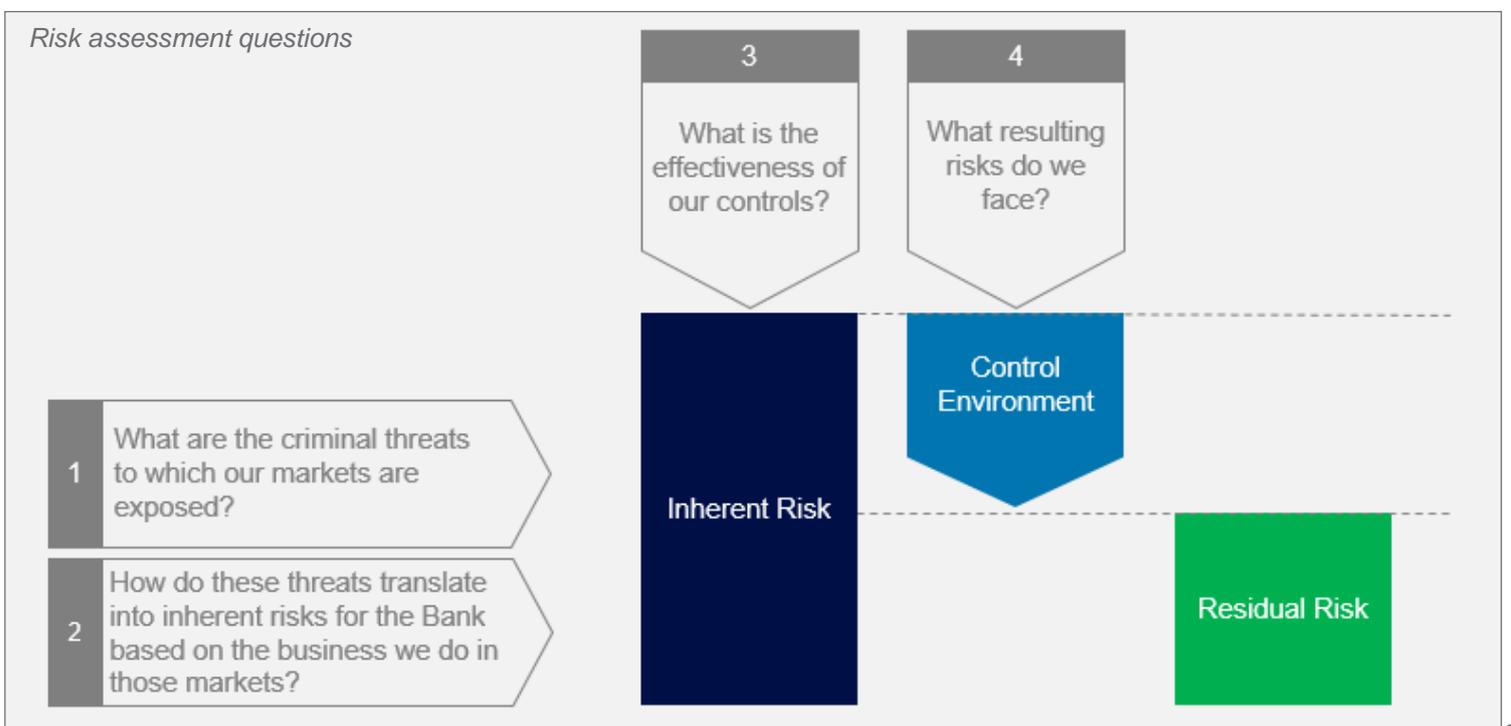
Establishing and mobilising a major change programme across an international organisation takes time and despite a host of management literature on how best to run such a programme, real-life experience is that companies seldom realise all the benefits on time and on budget. People also too often under-estimate the complexity of execution and time required to properly plan and design work, making it difficult to come up with realistic completion dates at the outset. We were no different. Having appropriate project management and change management expertise and a mechanism to ensure that lessons learned from prior projects are factored into future project planning can help alleviate these issues. However, when time is short and the consequences of failure significant, this is not enough. Establishing clear accountability and incentives to do better with what you already have available and shift priorities, as required, in individual markets is key. Our tactical initiative began at the end of 2014 and recognised the need for faster progress. Its great benefit was to mobilise organisation rather than

promising solutions would come from Group head office, giving us the space to get those solutions and empower the entire right. In hindsight, we should have started like this.

4. Figure out early how to measure if the changes you make are working

No FCC programme can benefit from unlimited investment and resources to establish and sustain it. It's essential then that resources are deployed where they are needed most, with investment prioritised based on risk. To help make informed decisions about this, it is vital to invest in risk assessment capability. Since 2014, we have made significant investments in this area. In doing so, we now apply greater analytical rigour to understand the questions in the diagram (below).

Our operations teams process billions of dollars of transactions every day with limited margin for error. We learned early that we should bring the same discipline we have established in managing these processing risks to the management of financial crime. We sought to achieve this by deploying an Operational Risk Type Framework (ORTF) to FCC processes. Importantly, we also did this early in our FCC change journey. This helped improve our ability to anticipate material risks, increase our capability to demonstrate that those risks are well mitigated, and ensure that the effectiveness of our controls are regularly tested and assessed. It has also enabled the more timely self-identification of risk and issues in a way we were not able to do previously. Subjecting these control processes to our ORTF also reinforced the need for clear ownership, accountability and independence for all processes across FCC. Significantly, the results of control testing under the ORTF now also inform our FCC Group Risk Assessment, reducing the subjectivity in our assessment of control effectiveness. This equips us to better measure whether control enhancements translate into a reduced risk profile in our businesses. Critically, it enables us to answer the question about whether the programme is operating effectively.



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“In a complex and ever changing risk and regulatory environment, it is essential to take a holistic approach to managing risk, rather than consider risk types in isolation from each other. An environment that promotes learning, inclusion and collaboration across risk types is key to better anticipating and tackling risks, recognising thematic enablers, trends and risk patterns, and eliminating potential blind spots.”

Stuart Murray
Global Head, Conduct, Financial Crime & Compliance
Advisory, Global Banking and Commercial Banking

Through this experience, we have also learned that subjecting different control processes to our ORTF can create gaps between the processes themselves – it’s the hand-offs between different teams in the organisation that open up the greatest risks of operational failure. There is a clear need to link upstream risk generated by our businesses to the controls that manage those risks. This is a key learning for us as it ensures that ownership of risk and actions to address it are clear and appropriate, and the impact of the risk is well understood.

Establishing clear measures was also crucial for the major change programme itself and provided an important baseline for executive management and the Board to review progress. The FCRMP established 92 specific milestones which could be tracked to completion. Once the change programme completed and handed over to business-as-usual, we established further criteria to enable the Board to assess our effectiveness and sustainability as key criteria for determining that all the changes made are fully embedded. Underpinning the Group’s publicly declared mission for financial crime, ‘partnering to lead in the fight against financial crime’, we identified and published eight specific objectives with 39 underpinning measures, which we expect to achieve fully by 2021. Having a tangible way to measure whether the changes you introduce are effective and sustainable such as this, and recognising that these measurements will need to be reassessed over time as your programme evolves, is a vital learning for us.

5. Look at issues and risks broadly, not narrowly – inside and out

Recognising the importance of having Group-level oversight over FCC, we established a Group Financial Crime Risk Committee (GFCRC) in 2007. However, reporting of FCC risks and issues tended to be in verticals, with the ‘pipes’ of the programme not sufficiently connected. Recognising the need to upgrade governance was an important insight after 2012, so we elevated the GFCRC, broadening and increasing the seniority of its membership. Establishing Country Financial Crime Risk Committees (CFCRCs) in our markets has also been instrumental in us increasing oversight, local ownership and accountability for FCC. In January 2015, to improve oversight and to ensure that FCC considerations are front and centre in the Bank’s ongoing strategic thinking, the Bank also established a Board Financial Crime Risk Committee.

If we look at financial crime risks in isolation of other risks though, we could potentially miss an opportunity to identify

cross-cutting risk or similar risks that are already being dealt with by other areas (e.g. approaches to data). Being able to better identify these could help us avoid duplication of effort and inconsistent risk management approaches. It will also put us in a better position to apply learnings from our FCC change journey to other areas of risk management. This is a lesson we are putting into practice through the embedding of risk oversight committees within businesses, which have broad risk agendas and diverse membership across all three lines of defence.

Perhaps most important, however, is the need to look beyond the organisational boundary of the Bank. Leading on financial crime means working with other banks, policy makers, law enforcement, and our regulators to seek to drive improvements in the effectiveness of the anti-financial crime ecosystem. It’s tempting to focus all energy internally when faced with a transformation challenge, but that would be a mistake. We shared some of our lessons externally as we went, for example, the [Top 10 Questions for an MLRO](#). We have also sought to work with partners to develop information sharing initiatives, to contribute to industry-wide work through ACAMS, the Wolfsberg Group and others, and to work with our clients on challenges such as de-risking. Active outreach and engagement is not a drain on resources, it’s a multiplier of resources through the energy it generates internally and externally.



6. Whilst you want to be safe, you will have to make choices

Strategy is about making choices and approaching a large scale transformation programme is no different. The temptation is to preserve options and seek out the ‘safest’ route through, but there will be forks in the road and even the best funded programmes do not have unlimited resources. Major questions we had to face included:

- Which systems providers to select – established providers or emerging new players?
- Where to locate our resources – hubbed in Group centres or deployed in all markets?
- How to lead the programme – from first or second line?

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There is no 'right' answer to these questions. Making these choices must reflect the assets available at the outset. For example, the Bank had the benefit of established Group operations centres, notably in Chennai, when we began. We made an early bet to invest in these as a way to raise standards across all markets, and have expanded capability across Bangalore, Kuala Lumpur, Tianjin and Warsaw. Once a year we run a full day symposium connecting all these locations by video-link and bringing in external speakers and senior management from the top of the Bank.

At the same time, the best answer for your programme may not be the best answer in perpetuity. As we look ahead, new questions are on the horizon, including how to respond to a changing environment in cross-border data, cloud computing, machine learning and artificial intelligence, and rapidly evolving fintech and regtech business models.

7. Culture will hold it all together or pull it all apart

Many of our historical FCC issues can be attributed to a lack of transparency and escalation of key risk issues, underpinned by a failure of governance and culture. It was therefore critical to establish clear and appropriate escalation mechanisms as part of our FCC change programme. We sought to achieve this, for example, through establishing a US Law Compliance Programme (USLCP) required by our 2012 order, with USLCP officers in each region we operate in; setting up CFCRCs which can escalate issues into our GFCRC; and our '**Speaking Up**' platform, which is meant for our staff to escalate any concerns.

To firmly embed conduct risk management across the Bank, we also established a Conduct Risk Framework. This recognises financial crime compliance can be negatively impacted by poor conduct and requires businesses to develop and own conduct plans to address potential outcomes of conduct risk in their businesses. Progress against these conduct plans is then measured in business scorecards, incentivising a good conduct culture and

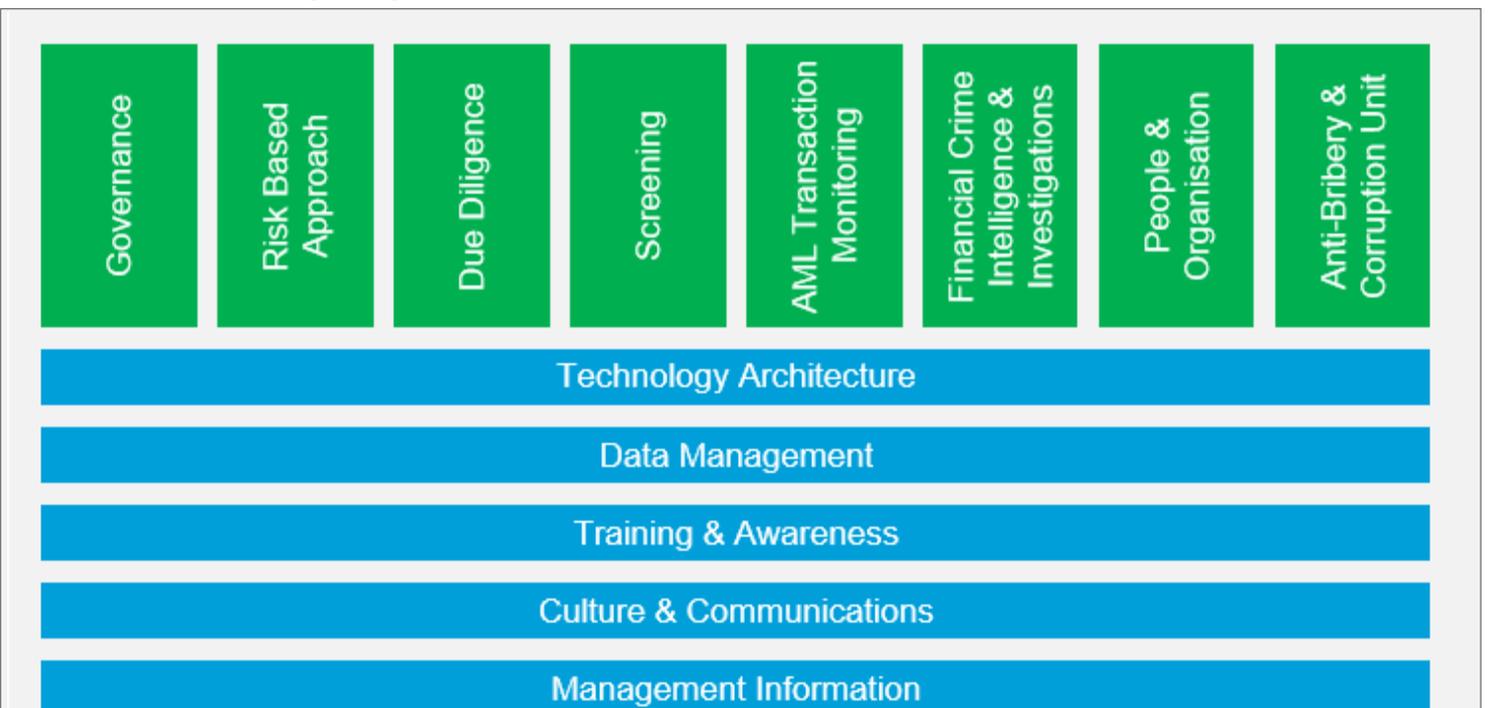
signalling its importance. Initiatives such as these help to cultivate and sustain a culture of transparency across the Bank.

Driving commerce and prosperity through our unique diversity

 <div style="background-color: #0070C0; color: white; padding: 5px; text-align: center; font-weight: bold;">Do the right thing</div>	 <div style="background-color: #0070C0; color: white; padding: 5px; text-align: center; font-weight: bold;">Never settle</div>	 <div style="background-color: #0070C0; color: white; padding: 5px; text-align: center; font-weight: bold;">Better together</div>
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Our Valued Behaviours: staff are assessed for these during appraisals

These enhancements to the hardware of the organisation only work if the software works too. Much is written of 'tone from the top'. It is fundamental for us that FCC is seen as a core element of our culture. During our transformation we ran some hard-hitting internal awareness campaigns designed to bring to life the real and often untold stories of the impact that financial crime has. These involved senior management sponsorship, powerful posters, videos, tips and other messaging tools that could be seen all over the Bank. A second phase of this campaign also showcased employees who had done good work in identifying and escalating financial crime issues. We created a 'Financial Crime Fighter' award to recognise colleagues in the first line who had made an important contribution, for example, through identifying and escalating a case. These campaigns are part of our concerted effort to increase employees' sensitivity to FCC so that they appreciate more fully the serious human costs of financial crime and the front-line role they all play in fighting it. This is consistent with our Brand Promise '**Here for good**', and a core '**Valued Behaviour**' for our staff of '**Do the Right Thing**', which all staff are assessed against as part of performance reviews.



The pillars of our multi-year transformation programme

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But a positive culture around FCC cannot be built in a silo or sustained from top management alone. It needs to permeate the entire organisation. We have sought to embed our mission for FCC in the wider purpose of the Bank, '*Driving commerce and prosperity through our unique diversity*'. Our senior leaders across our Management Team, led by our CEO, have set a clear and consistent tone that it is our responsibility to the communities in which we operate to fight financial crime, that this is a collective responsibility, and that it is fundamental to realising our purpose. We have recognised that the Bank can contribute to its purpose by helping clients and communities better tackle financial crime and so we put resources into client education, public-private partnerships, industry-wide initiatives, and [tools to help others](#), which we have published on our website. This has moved the FCC agenda from something that the Bank is required to do as a matter of regulation to something that it is compelled to do as a matter of strategy. We have found that this unlocks energy and creativity such that all our staff can contribute to the FCC mission alongside those working in the FCC function.

However, on reflection there is a deeper learning opportunity for us. Establishing a good FCC culture is also an opportunity to establish a more resilient and effective business culture that is open to challenge, learns from mistakes, and

encourages escalation. We are working more widely across the Bank to foster a culture where we emphasise learning from our successes and failures. We must not be afraid of trying to do things to improve ourselves simply because we fear failure and its consequences. The Bank's culture needs to enable safe experimentation and embrace efforts to change even when they are not successful as we often learn more from failure than success. Taking responsibility and being held accountable for actions matters, but what will make our FCC programme sustainable in the long-term is a Bank culture where staff are not afraid to highlight mistakes or issues so they can be assessed, prioritised and addressed. This requires us all to reset our thinking about 'failure', to recognise that falling is an essential part of success. In doing this, there is much to learn from other industries and their approach to learning from adverse experiences. The commercial aviation industry, for example, sets itself apart in this regard and as a result, commercial air travel is now the safest form of transport. This is the type of thinking that the Bank's most senior leaders are being encouraged to employ through our '*It's on Us*' leadership programme. By becoming more of a learning organisation, we can positively influence the culture even more. Whilst we have made progress on this, we have more to do before we are where we want to be.

Conclusion

We would certainly not be where we are now if it wasn't for the 2012 resolutions, and the subsequent monitor and auditor engagements which placed exceptional scrutiny over our FCC programme and provided constructive challenge over recent years. But the measure of transformation will be what happens next. Our commitment to *partnering to lead in the fight against financial crime* is not about just doing this work to comply with regulations. We believe we can use our FCC expertise as an advantage to help our clients, enabling us to safely continue doing business in markets that others are unequipped to operate in. More importantly, it ensures we fulfil our responsibilities not only to our regulators, but also to the communities where we do business. This is integral to our purpose of '*Driving commerce and prosperity through our unique diversity*'. The essence of our transformation in

the last seven years is this internalisation of the FCC agenda and its embedding in the purpose of the Bank, including how we present ourselves in the market. For example, our [Brand Campaign 2019](#) (below) included a theme of 'working with partners to fight the money laundering that fuels the illegal wildlife trade', demonstrating the role of FCC as a business enabler. In so doing, we recognise that our work will never truly be complete. The financial system is abused by criminals looking to launder the proceeds of crime. We will not always be successful in our attempts to identify it – but we mustn't treat that as inevitable. That is why FCC requires constant attention, self-evaluation, experimentation and partnership to meet new and emerging threats in a rapidly changing world.

