




Retail Banking AML CDD and Conduct

State Bank of Pakistan

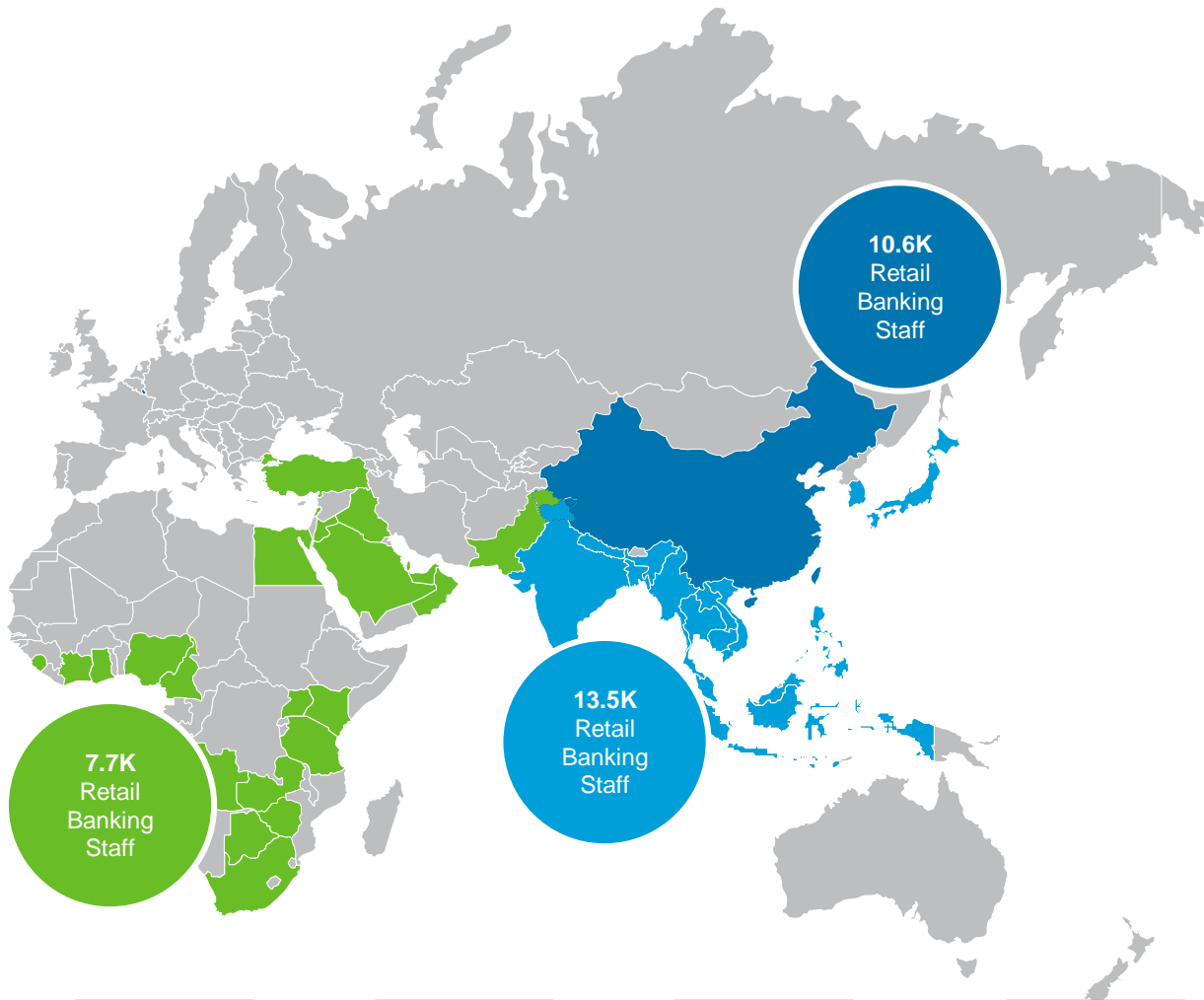
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Introduction

Who are we?

Name	Title	Responsibility
 <p>Hwong, Meng Jet</p>	<p>Group Retail Banking, Head of Financial Crime Compliance</p> <p><i>Previous: Head of FCC Client Risk Framework</i></p>	<p>Responsible for the development of standards for Financial Crime Compliance (FCC) across Anti Money Laundering (AML) and Sanctions, Anti Bribery and Corruption for Retail Banking (RB)</p>
 <p>Duncan Edwards</p>	<p>Group Retail Banking, Head AML CDD Process & Governance</p> <p><i>Previous: Head, ASEAN Business Risk Financial Services, Ernst and Young</i></p>	<p>Responsible for the development of the AML & Customer Due Diligence (CDD) processes and procedures to support the standards set by FCC for RB</p>
 <p>Shezad Arif</p>	<p>Group Retail Banking, Chief Operating Officer Distribution</p> <p><i>Previous: Head of Retail Banking, Pakistan</i></p>	<ul style="list-style-type: none"> • Responsible for the execution of the AML CDD processes and procedures across RB. • Responsible for driving the strategic agenda for the management of Conduct across RB • Lead the strategic agenda and management of Client Experience across RB • Responsible for the overall governance of the processes relating to Sales in Branches and Voice and Virtual channels

Our footprint in Asia, Africa and the Middle East



Greater China and North Asia (GCNA)	China
	Hong Kong
	South Korea
	Taiwan
ASEAN & South Asia (ASA)	Bangladesh
	Brunei
	India
	Indonesia
	Malaysia
	Nepal
	Sri Lanka
	Singapore
Africa, Middle East & Europe (AME)	Vietnam
	Bahrain *
	Botswana
	Gambia
	Ghana
	Jordan *
	Kenya
	Jersey/ Falkland Islands
	Nigeria
	Oman *
	Pakistan
	Qatar *
	Sierra Leone
	Tanzania
	UAE *
	Uganda
	Zambia
	Zimbabwe
	Cameroon
	Cote d'Ivoire *

* No Business Banking presence

Training (FCC and Conduct)

Conduct and FCC standards in Retail strategy

Unified CDD systems

Consistent CDD and conduct policies

Risk Based Approach

Governance and Oversight

Conduct

How do we define Conduct?

Maintain the integrity of the Bank's brand promise and the standards in our **Code of Conduct**, by continually proving we are “**Here for good**” through the way we conduct business.

Good Conduct is the **creation of an appropriate business strategy** aligned to our **stated risk tolerances** and the **execution of business** in accordance with both.

We are guided by both the **letter** and the **spirit** of laws and regulations. Our success in living up to these standards is measured by our ability to achieve **fair outcomes for clients, investors, our reputation** and the **markets** in which we operate.

Good Conduct helps build a sustainable business

TRUST

- Conduct is a true differentiator. We build on **repeat business** not single deals.
- Repeat business is based on **trust**

WIN - WIN

- Doing the best by the client doesn't mean losing out. We can create **mutually beneficial outcomes**

SET UP TO SUCCEED

- Support our staff by creating an **environment that promotes good conduct**
- Incentives, Training, Policies and Processes

Good culture drives good conduct, and good conduct is good for business



- Regulators link **Culture with Conduct** which reflects the underlying mindset of an organisation and affects how an organization and its staff act and make decisions
- Regulators want to see how firms have a supporting culture that **incentivises** their employees to **do the right thing**
- Regulators want to see strong and clear **tone from the top**
- Regulatory focus is increasingly on assessing Banks on the **transparency** and fair dealing with **clients**
- Regulators are placing greater emphasis on **individual accountability** for meeting conduct standards and expectations
- Firms should spare no efforts to develop and sustain the right culture that genuinely puts **customers first** if they want to be around for the long term

The global financial system is subject to emerging vulnerabilities from developments in financial technology



- Banks are becoming more digital. Rapid **technological innovation** is transforming the financial system
- There is a need to ensure new capabilities are Simple and easy to use. Appropriate communications and outreach will ensure **good client experience**
- Robust infrastructural capability, security and resources will help in keep information secure and increase **Trust**

Our Challenges

- Conduct covers everything we do - **How we do Business** and **How do we Behave**
- Cultural challenges in embedding our Conduct agenda
- Aligning our strategy at Group and across countries to our conduct agenda and ensuring it drives the right behaviours

How are we Overcoming Challenges

- Our Group Conduct Management Framework defines how we must **operate our business** and **uplift our culture** in a way that creates the **right outcome** for our **external stakeholders**.
- Some initiatives we have in place
 - Conduct is now a Principal Risk type in our Enterprise Risk Management Framework
 - Conduct is now also part of the organisation's Valued Behaviours that are expected from all employees
 - We have SPEAK UP champions in key markets to promote speaking up amongst employees when they see something that is 'not right'
 - Conduct is being embedded into all our policies, procedures, and training material
 - We are reviewing our business strategy to ensure we consider all conduct outcomes of our Conduct framework



Driving Fair Outcomes for Clients

Risk Identification

- Perform a **Business Model Analysis** (BMA) that facilitates the identification and management of a business' potential conduct related risks. It is a **proactive**, pre-event analysis of a Business.
- The BMA will ensure that the **Strategy, Process and People** aspects of the Business are assessed appropriately.

Risk Control

- A framework to identify and treat '**Vulnerable clients**' has been defined
- We are updating conduct standards for our **Sales and Product design** processes
- We are reviewing the standards for **Interest, Fees and Charges** across all our Products in the process documentation, systems, disclosures and marketing material
- We are reviewing all our operational controls against the conduct standards in the **Process universe**

Monitoring and Governance

- Development of meaningful **Management Information** that will provide committees insights and trends to make effective decisions in driving a cultural change
- Tracking of key initiatives across **country conduct plans** and considering improvements
- Constant review of **control performance**
- Establishing **Conduct risk forums** for each Region

SCB commitment to driving a cultural change

Enabling Staff to deliver value to clients

Training

- Front line staff trained on **principles** of Product Design, Clear Communications, Suitable advice, Post sales service and Complaints management, prior to serving clients.
- Training to highlight the use of **good judgement** and **personal integrity** rolled out covering more than 17,000 frontline staff

Incentives

- Front line incentive payout is now conditional upon staff demonstrating **appropriate conduct** in discharge of compliance requirements, policies and procedures.
- 20% of the quarterly pay out is **held back** till the end of year, payment is based on satisfactory values and behaviour assessment.

Communications

- We have brought Conduct and Culture under one umbrella, with a key communication campaign **'#doingtherightthing'**
- Communications on 'why is Conduct so important to the Bank' rolled out across RB globally
- Increased focus on **Speaking Up** culture via video messages rolled out across frontline staff

We adopt the Treating Clients Fairly framework

The UK's Financial Conduct Authority released guidelines for Treating Clients Fairly (TCF) in 2007.

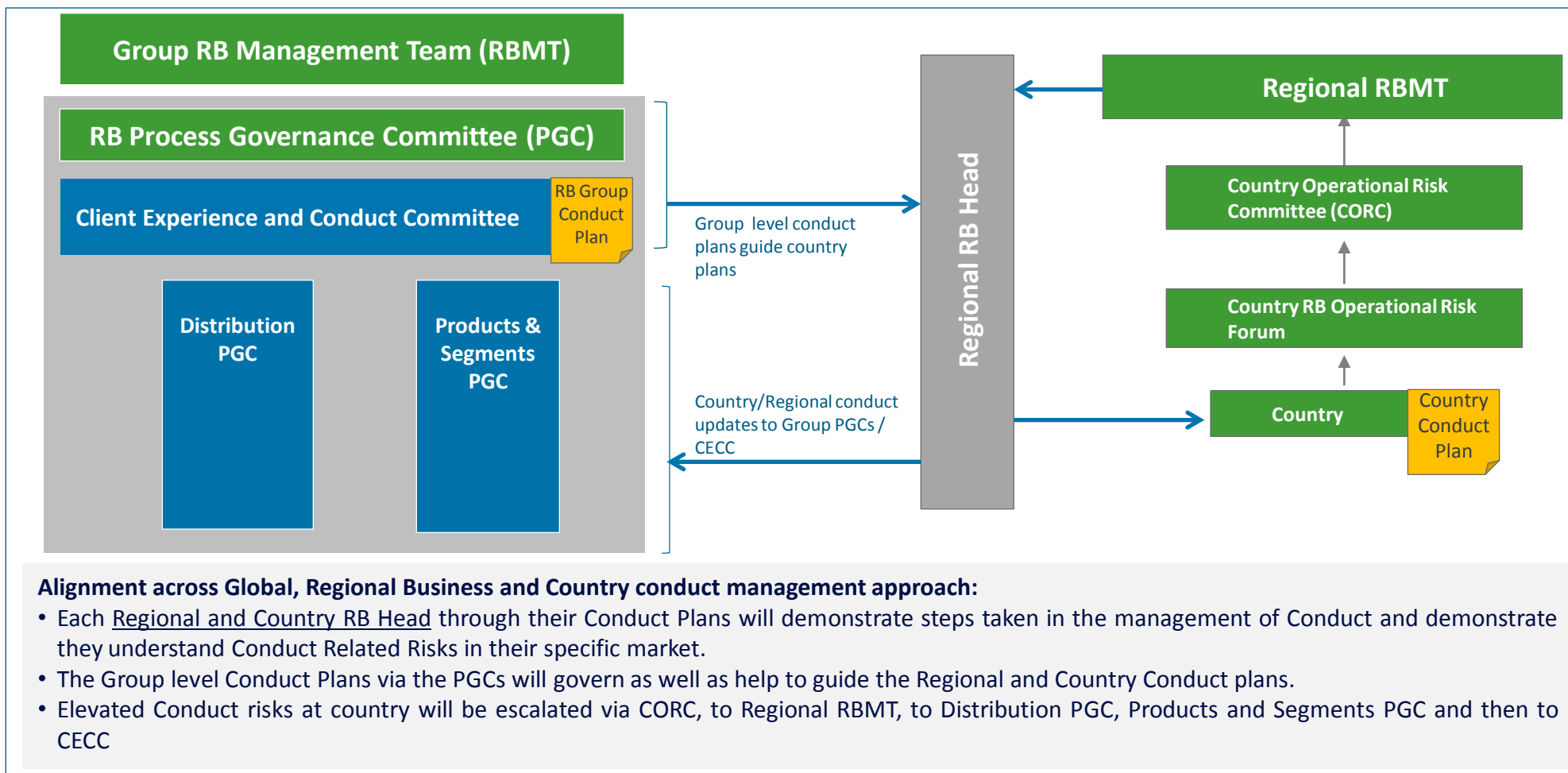
The TCF framework is closely aligned to the Bank's Conduct Management Framework and delivers on our promise to provide Fair Outcome for Clients..

The aim of TCF is to deliver improved outcomes for clients

TCF outcomes

1. Clients can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture
2. Products and services marketed and sold are designed to meet the needs of identified client groups and are targeted accordingly
3. Clients are provided with clear information and are kept appropriately informed before, during and after the point of sale
4. Where clients receive advice, the advice is suitable and takes account of their circumstances
5. Clients are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect.
6. Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

We have a robust Conduct governance framework



AML and CDD Trends and Practices

Global Challenges and Trends in AML and CDD

Challenges to comply with dynamic CDD requirements lead to business/client experience impact



- **The regulatory landscape continues to evolve and expand**
- Introduction of more stringent requirements that require more information and required controls.



- **Impact on Productivity and Client relationships:** Research on banking customers reveals that a bad KYC experience lead to clients switching banks – a hit to the bottom line.



- **Efficient AML systems**
- Bank's globally are upgrading their systems to respond to regulatory commitments enabling them with sufficient and sustainable approach to manage AML and CDD risk.



- **Significant investment in Transaction and Name screening systems:** Banks are investing in more efficient transaction and name screening systems to help them with focused and appropriate results



- **De Risking** In order to manage AML CDD risk, controls are being enhanced to meet the regulatory expectations or exiting the clients that carry increased risk. Additionally controls focussed on evaluating customers individually are being looked into



- **Elevated AML and CDD risks** in different products and services such as :
 - Correspondent Banking, Private Banking, New Payment methods such as Alipay, unregulated Insurance services
 - Casinos, Corporate vehicles, Real estate agents

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Global Regulatory developments and focus

AML CDD risks – Key requirements and management responsibilities expected by regulators



- **Management Focus:** expectation to adopt a formal risk management policy,
- Ensure appropriate resources are devoted to AML/CTF and
- Adopt a formal risk management policy
- Focus on training appropriate staff with case studies and workshops.



- **Leadership and Individual accountability** The framework must be reinforced by the proper “tone at the top”.
- Regulators have been pushing for personal liability and accountability for individuals for their actions and for compliance-related deficiencies within their areas of responsibility



- **Systems and Controls:** To establish and maintain effective AML/CTF systems and controls.
- The expectation is for the systems to be comprehensive and proportionate



- **Process Visibility:** Have a good understanding of the processes for identification, assessment mitigation, monitoring and documentation of risk
 - Thorough and timely verification and KYC (Know Your Customer)
 - Independent Quality assurance of Higher risk CDD files
 - External reviews of regulatory focus areas

Standard Chartered is committed to fight against ML/TF. We have delivered multiple initiatives under the Financial Crime Risk Management Programme



- **Governance and Assurance:** Dedicated AML and Sanctions committee to discuss and deliberate all AML and CDD related issues across Retail Banking



- **Committed operating rhythm and continuous improvement** to launch Policy , Procedure and process notes to all the markets twice every year. Any regulatory changes requiring immediate implementation are done accordingly.



- **Risk Based approach** adopted to ensure that right focus is put as per risk level of clients.
- For example, CDD requirements are more stringent for higher risk clients such Ultra-HNW clients. Adopting risk based methodology with product and AUM changes
- Transaction restrictions are put on clients who are CDD deficient post service reasonable notice.
- Clients with dormancy markers are subject to CDD reviews upon dormancy activation.



- **Risk Assessment and enhanced due diligence which emphasize on:**
 - holistic overview of the client, its profile and its products
 - assessment of Sanctions links, SOF, SOI and SOW as per risk rating of the client
 - risk assessment of whether to de risk , decline, maintain or exit client relationships
 - tax assessment for HNW clients
 - 12 factor assessment of clients risk with CRA (Client Risk Assessment) tool with the progressive implementation of ICDD system
 - prohibition on certain client/business types

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- **A focus on data quality**, data Remediation - Systematic, risk based approach in place. Progress ongoing for Individual and Business Banking to clean the static data that includes Name, country of residence, nationality and date of birth on priority that will help and reduce name screening exceptions.



- **Senior Management regime** which mandates individual approval for sensitive clients to ensure management accountability on high risk clients

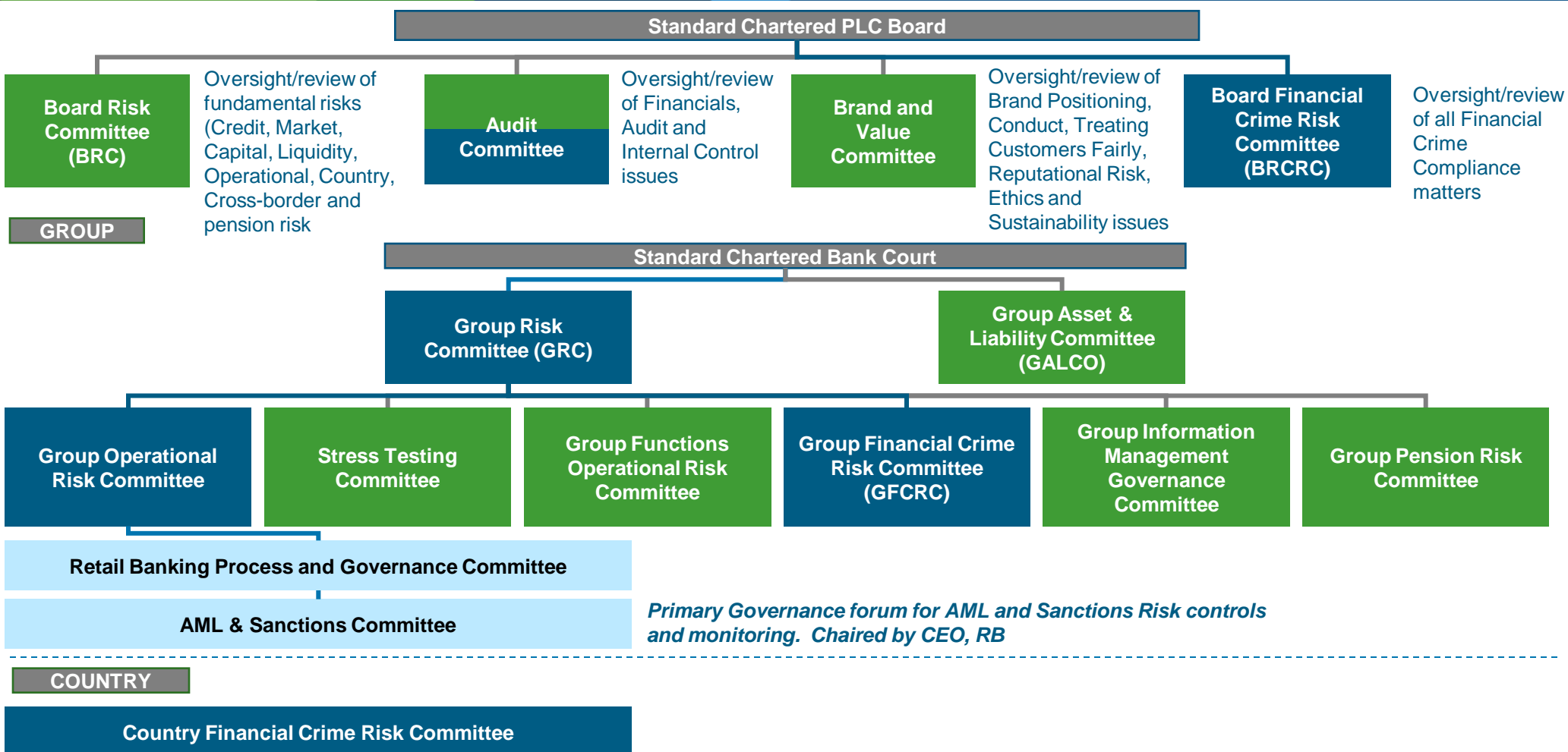


- **Focus on People and Training:** Implemented a refreshed standardised Target Operating Model to enable a strong CDD process where higher risk cases are reviewed by a highly skilled Specialised activities team within each market.
- Constantly evolving, FCC e-modules to ensure that staff is regularly trained on updated CDD procedures.
- **Uplift of existing Systems: Global systems progressively being implemented in Retail countries.**



- **Golden source of truth**, Individual Clients Master (ICM), a global system containing “Golden Source” of truth for client static information.
- **A unified platform**, Individual Clients CDD System (ICDD) and COLT delivering an automated solution for CDD for individual and Business Banking clients respectively.
- **A comprehensive system for Name/ transaction screening and monitoring**
 - MANTAS (SAIL): End to end transaction monitoring system being implemented with more detailed scenarios to capture unusual patterns and transactions of the clients.
 - GNS and TSaaS, solution being implemented for Name and Transaction screening to ensure accurate results.
 - AAA(Analyze, Assess and Act) model to ensure that right actions are taken by specialized people on specific risk events

Financial Crime Risk Governance



The Country Financial Crime Risk Committee (CFRC), as appointed by the Country Operational Risk Committee (CORG) has the authority to ensure that the residual risk exposures for operational risk related to External Rules and Regulations, Financial Crime sub-type (Financial Crime Risk) remain within risk tolerances

Appendix

AML CDD risk assessments process - APPENDIX

A review of a systems and controls against regulatory expectations typically includes the below stages

