The Enterprise-Wide Risk Assessment: A Roadmap for FinTechs in Australia

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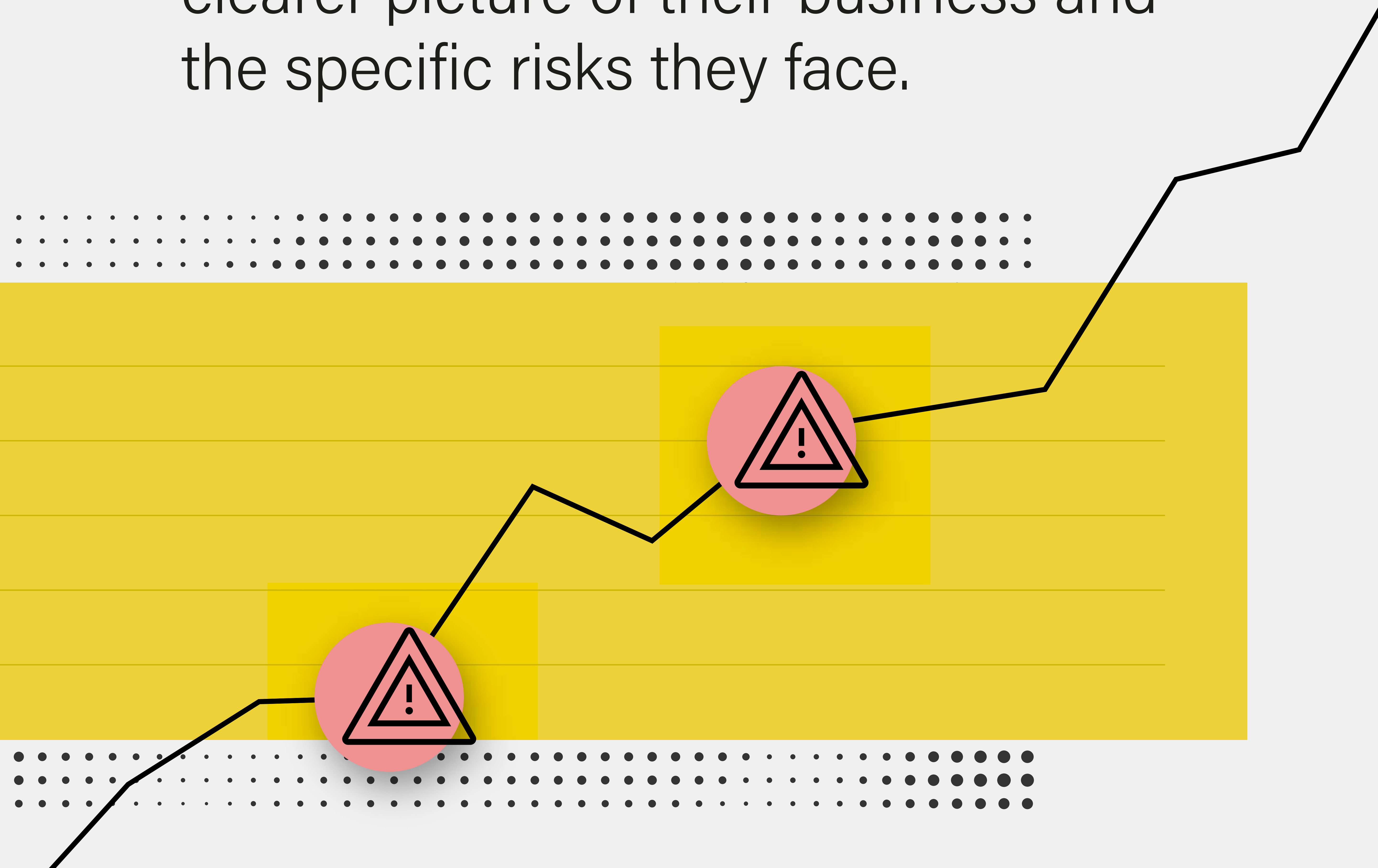
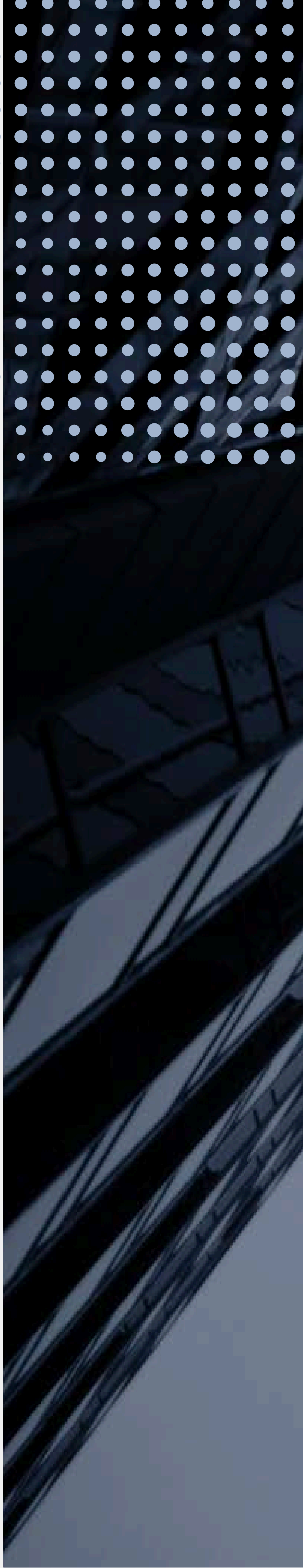
Controlling risk is critical to the overall success of a financial institution. As FinTechs grow and mature, many have sought to gain a clearer picture of their business and the specific risks they face.



To do this, many FinTechs have placed the crafting of their Money Laundering and Terrorist Financing (ML/TF) Risk Assessment within a broader framework known as an “Enterprise Wide Risk Assessment” (EWRA).



But what does an EWRA look like? And how can FinTechs conduct them consistently across their business and over time?

Conducting an EWRA

A successful EWRA methodology is consistent across jurisdictions. It is often built around a three-stage process

01. The identification of inherent risk

02. The assessment of control effectiveness (or gap analysis)

03. The calculation of residual risk

01.

Identifying inherent risk

At the first stage, an EWRA should identify inherent ML/TF risks that come with the nature of business a firm does, based on an assessment of the likely risks from the firm’s client base, products, services, geographies, channels of delivery, etc.

02.

Assessing control effectiveness

In the second stage, firms need to determine how well their current AML/CTF controls mitigate the inherent risks they have found. Typically, firms will map inherent risks to the elements of their AML/CTF control framework and assess how well those measures have performed.

03.

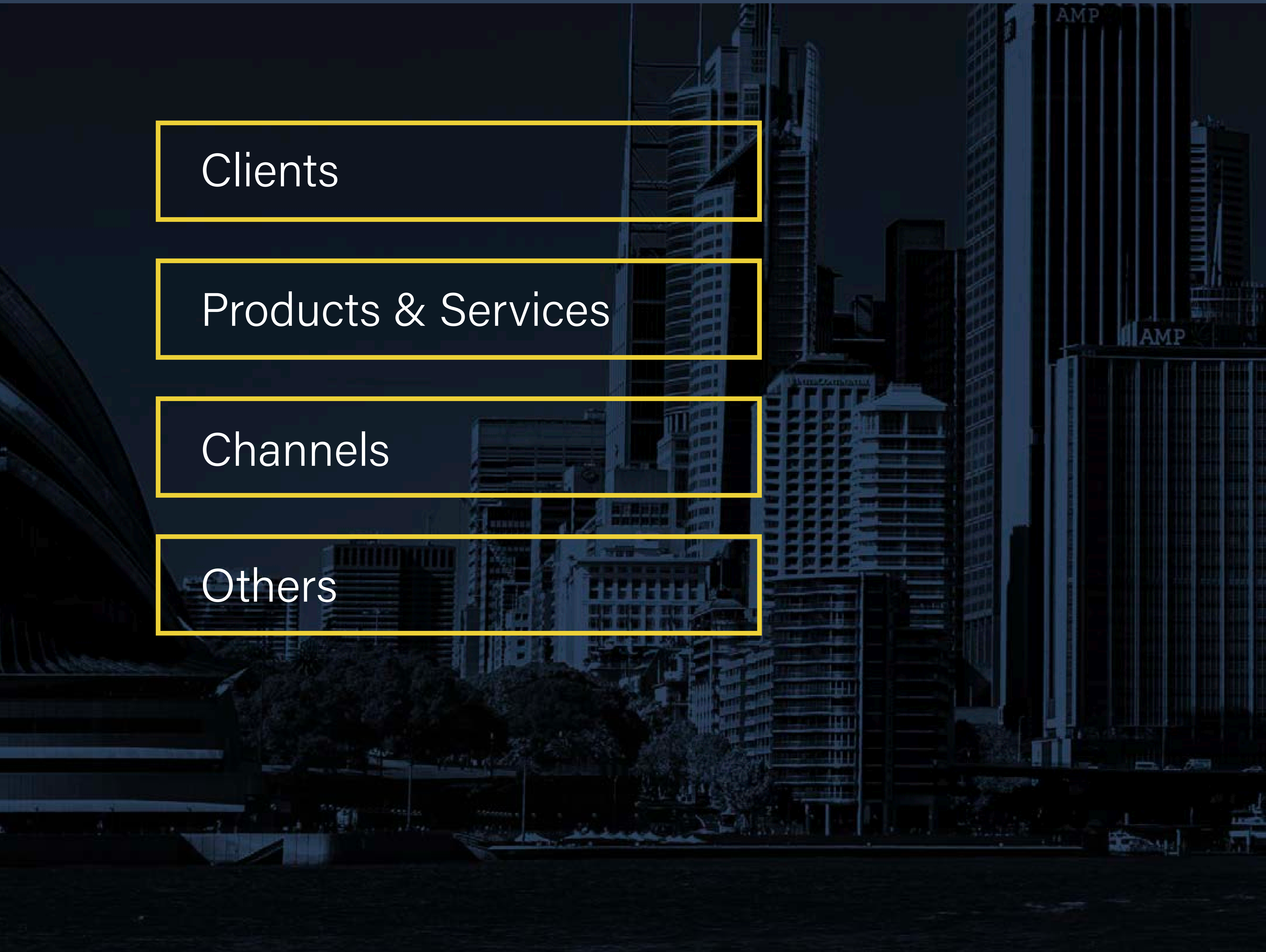
Calculating residual risk

The third and final stage of the EWRA consists of making decisions about what needs to be done to address the risk that remains after adequate controls have been implemented.

The EWRA Cycle

Inherent Risk

- Clients
- Products & Services
- Channels
- Others



Control Effectiveness

- Governance
- Policies & Procedures
- KYC & Due Dilligence
- Independent Testing
- Management information
- AML Unit
- Record Keeping & Retention
- SAR filings
- Monitoring & Controls
- Other Risk Assessments
- Testing

Residual Risk

Strategic Actions

Tactical Actions

Risk Appetite

A FinTech's first EWRA is likely to be basic, given a lack of experience and data. The real value comes when it is applied regularly.

But how often should firms refresh their EWRA?

Most mature firms that use the framework schedule a refresh once a year. However, the following events or factors should be considered by FinTechs as significant enough to prompt undertaking another EWRA:

- Market expansion
- New products
- An economic downturn
- Public health events
- Change in delivery channels
- Exceeded growth targets