Developing a Risk Assessment Guidance

Developing a risk assessment for a money services business is vital to the effectiveness of an anti-money laundering program. This guide serves as a starting point to assist our licensees in developing a risk assessment of their own, by following the steps outlined below with the assistance of the CSBS MSB BSA/AML Self-Assessment Tool ®.

1) Identify Risks

Main risk categories can fall under Products and Services, Customers, Geography, Operations, and Agents. Each main risk category has common risks that are associated with it, for example:

Products and Services:

- Currency Exchange
- Money Transmission
- Bill Payments
- Check Cashing
- Money Orders/Monetary Instruments
- Etc.

Risks should be identified for the individual MSB's business and operations. Not all risks will apply to all MSB businesses, but all applicable risks should be identified for each individual MSB.

2) Defining Risk Level Criteria

Risk differs in each category based on the size and scope of each MSB. MSBs should evaluate the risks that apply to their own operations, and evaluate whether these risks fall under "Low", "Moderate", or "High" based on those operations. Specific risks can have varying elements and varying risk levels.

Some risk factors have an inherently higher risk. For example, money transmissions to and from foreign countries are generally higher risk than domestic money transmissions, money transmissions are higher risk than cashing checks, and cash based businesses carry more risk than transactions funded solely through the banking system.

When defining risk levels, CSBS recommends MSBs review:

- Scope and Complexity of Risk Coverage
- Methodology
- Governance and Follow-Up
- Ongoing Updates for Risk

3) Selecting Risk Level for Risk Criteria

Once levels of risk are defined, MSBs should choose a risk level most appropriate for the MSB's operations. Based on the elements within a risk factor and the various risk levels those elements carry, main risk categories should be designated as "Low", "Moderate", or "High" risk.

4) Tracking and Continuity

Once risks are identified and risk levels are selected, reasons for selecting that risk level should be documented. It is important to document reasoning for a given risk and risk level to communicate to compliance professionals and regulators. Any supporting documentation should also be referenced and maintained.

5) Calculating Inherent Risk

Once risk levels have been assigned a "Low", "Moderate", or "High" rating, CSBS recommends assigning values to the ratings. For example:

- Low Risk: 1
- Moderate Risk: 2
- High Risk: 3

Once this is done, values can be calculated to show which risk areas carry the highest risk for the MSB's business, and also how inherently risky the MSB's operations are based on average risk levels identified. If the CSBS tool is used to assist you in creating your risk assessment, these calculations will be done automatically.

6) Risk Mitigation

Once risks are identified, you should document the controls taken to mitigate, or reduce, those risks to the MSB. For example, to mitigate the risk of having unidentified customers, a business could require valid photo identification to verify identity.

Mitigating controls should lower the ratings of identified risks, leading to a "Risk Level after Mitigation" and a risk level "Rating After Mitigation" that protect the MSB from bearing the full risks associated with each factor. If a risk is still rated "High" after mitigation, further mitigating controls should be developed and implemented.

7) On-going Risk Assessment

Once an MSB develops and performs a risk assessment, the anti-money laundering program should be built based on the risk factors that are relevant to its operations. As operations change and evolve, so do risks associated with those changes. Risk should be continually evaluated and mitigated.

For further assistance in developing a risk assessment, please visit the Conference of State Bank Supervisors' website at https://www.csbs.org/money-services-business-bsaaml-self-assessment-tool for a template risk assessment tool, and full instruction on how to use the tool.