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Financial Crime

LEADERS' NETWORK

FORECAST 2025

Client Risk Rating at the Crossroads: Operationalising Client Risk Ratings to Drive AML Efficiency and Effectiveness

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Key Takeaways

01

Risk Rating Models Require Greater Alignment Between Products and Client Behaviours

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Embedding Client Risk Rating (CRR) into Anti-Money Laundering (AML) Processes Improves Prioritisation but Does Not Eliminate Noise

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Regulators Demand More Dynamic and Responsive CRR Models

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Expected vs Actual Activity Monitoring Remains Problematic and Often Misunderstood

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Strong Leadership and Risk Culture Remain Essential to CRR Effectiveness



Client Risk Rating at the Crossroads: Operationalising Client Risk Ratings to Drive AML Efficiency and Effectiveness

The Financial Crime Leaders' Network as part of The Financial Crime Summit – New York explored how senior leaders in financial institutions were approaching the operationalisation of the CRR model to enhance AML effectiveness.

The discussion was framed around four key themes: how banks were defining risk parameters; the extent of CRR integration into AML operations; model review frequency; and fostering a risk-aware culture with strong leadership accountability.

The debate revealed that while banks had made significant progress in developing and embedding CRR models, they continued to grapple with legacy challenges, inconsistent regulatory expectations, and the limitations posed by data quality. Participants offered pragmatic insights into how institutions had attempted to address these complexities, alongside frank acknowledgement of areas where further improvements remain necessary.



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Defining Risk Parameters and Scoring Criteria

The discussion opened with a focus on how banks were designing their risk parameters and scoring criteria. It was evident that approaches varied considerably between institutions, largely dependent on their business model, geographical footprint, and client base. Most participants agreed that modern CRR frameworks are "multi-dimensional", blending traditional Know Your Customer (KYC) data with jurisdictional risk factors, transactional behaviour, and product or service risk.

One participant described their methodology as "three-dimensional", observing that "each bank had its own way of doing it, depending on operating model and regional requirements". However, many also admitted that despite the sophistication of their frameworks, banks were still struggling to consistently align their risk ratings to actual client behaviour and the products being used. In one case, a regulator had challenged the risk assessment applied to debit and credit card offerings. Although the institution did not offer traditional high-risk cash services, the very existence of card products was enough

for regulators to classify them as high-risk. The participant explained the implications: "If we accept that cash is high risk in the risk assessment, then we have to rate all 15 million clients as high risk, which would cripple the business."

Several participants acknowledged that product-based scoring methodologies often failed to capture the nuances of client risk, especially in wealth management and private banking contexts. One speaker argued, "You can't apply the same risk methodology for institutional clients as you do for retail or private bank customers," underscoring the challenge of balancing standardisation with bespoke client realities.

Embedding CRR into AML Operational Processes

The shift to how CRR models had been operationalised within AML frameworks was an open challenge for banks. Most participants confirmed that CRR scores were used to prioritise monitoring, trigger enhanced due diligence and escalate suspicious activity alerts. Some institutions had implemented dynamic override mechanisms that allowed investigators to bypass

rigid thresholds. "If the data point necessitates an immediate action," one participant explained, "we don't wait for the scoring to catch up."

Despite these advances, there was considerable scepticism about the extent to which embedding CRR had materially improved AML outcomes. Several attendees criticised the over-reliance on static CRR factors, arguing that they did little to reduce false positives. One participant noted that "expected versus actual activity triggers are often noise rather than meaningful indicators of risk", particularly in investment management, where natural fluctuations in assets under management often triggered unnecessary reviews. Another speaker warned that "too much focus on static attributes can obscure the actual behavioural indicators that really matter".

Some institutions had begun layering behavioural analytics on top of CRR, hoping to differentiate truly suspicious behaviour from legitimate client activity. While there was cautious optimism about these developments, many agreed that the impact had been incremental rather than transformative. As one contributor succinctly put it, "We're still not eliminating noise. We're just managing it better."

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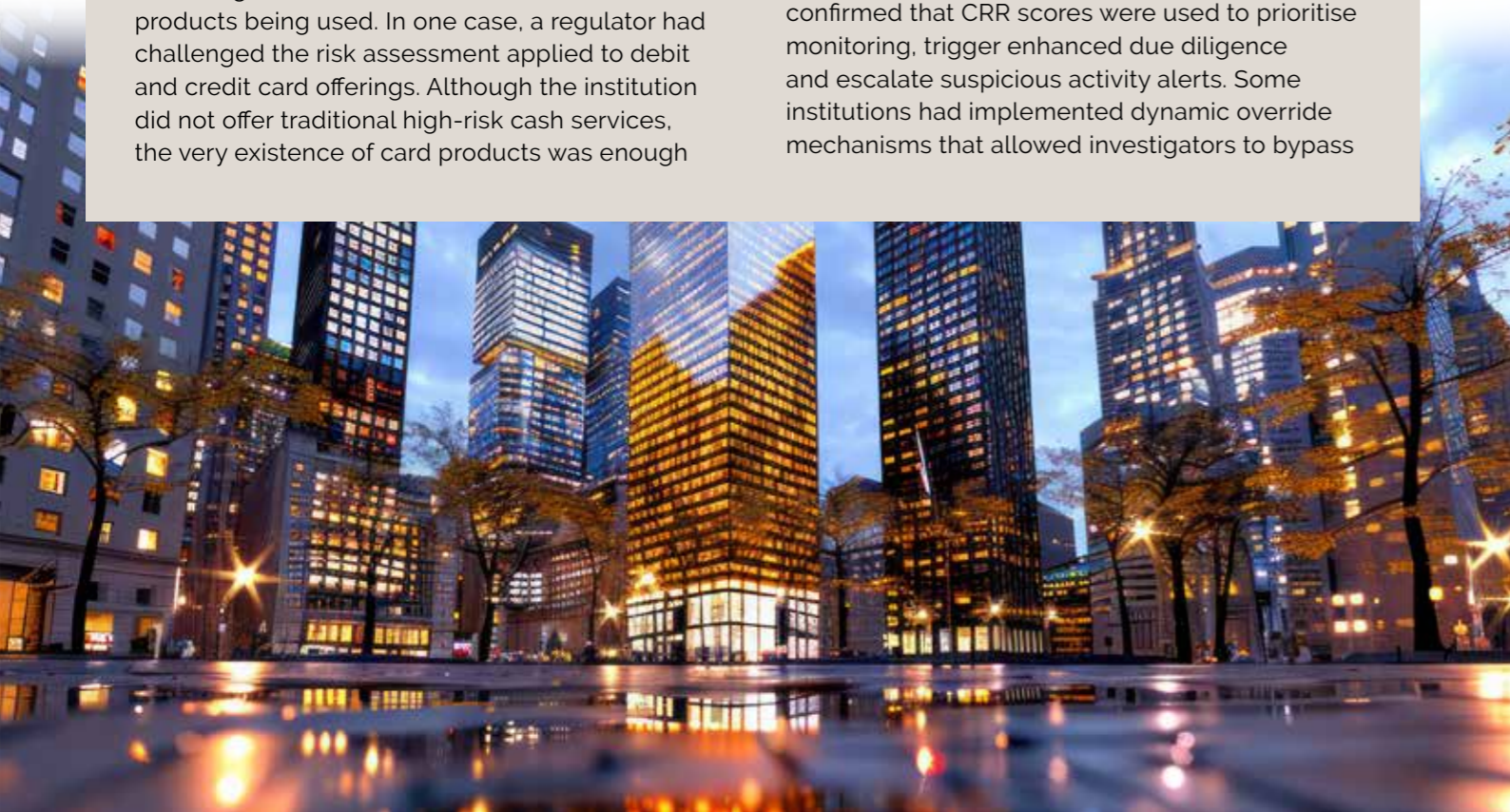
Monitoring and Enhancing CRR Models

A substantial portion of the debate was dedicated to discussing how frequently banks reviewed and enhanced their CRR models. Responses revealed a lack of consistency across the industry. Some banks had adopted quarterly model reviews, particularly those with dynamic business lines or significant exposure to high-risk sectors such as cryptoassets. Others operated on longer review cycles, with annual or even triennial assessments more common in institutions with stable, low-risk client bases.

Participants shared examples of how regulatory scrutiny had increased the pressure to refresh CRR models more frequently. One speaker described how regulators had criticised their institution for not reacting quickly enough to market developments, such as the emergence of new high-risk product offerings. "We were told we weren't doing enough to keep up with the changing client base and market risks," they explained.

Internal governance processes also came under fire. Model Risk Management (MRM) teams, intended to ensure robust validation and governance of risk models, were widely seen as bottlenecks. Several participants described how MRM reviews could delay model changes by as much as nine months. One bank reported that regulators had directly intervened to insist that MRM processes be streamlined. "They told us we needed to be more agile, but at the same time, we couldn't make changes without MRM approval," one participant remarked. "It's a catch-22."

There was consensus that regulators were applying a "one-size-fits-all" approach, with little understanding of the different dynamics between retail, corporate, and institutional banking. One speaker observed, "They're applying the same standards to BlackRock as they are to a mom-and-pop retail shop. It just doesn't make sense."





There was widespread agreement that CRR alone could not deliver an effective AML programme. Dynamic KYC, behavioural analytics, and machine learning were seen as vital complementary tools. Yet, the reality was that investment in these areas remained inconsistent.

Promoting Risk Awareness and Leadership Accountability

The final theme of the debate centred on the importance of risk awareness and leadership accountability in making CRR models effective. Participants agreed that embedding CRR into AML was not simply a technical or procedural task but required a cultural shift in how staff approached client risk. One participant stressed the need to move beyond “tick-box compliance”, arguing that “if people don’t understand why CRR matters, they won’t care about how it’s used.”

Training and education were seen as key enablers of a strong risk culture. Front-office staff, in particular, needed to understand how CRR scores influenced decisions about onboarding, monitoring, and escalation. However, the group recognised the difficulty in maintaining engagement, particularly when front-office teams perceived CRR as a back-office function with little relevance to their day-to-day work.

Senior leadership involvement was highlighted as a critical factor in driving risk awareness. Some institutions had made significant strides in this regard, particularly those that had been subject to regulatory monitorship or enforcement actions. “When you’re under a monitor, everyone’s engaged,” one participant reflected. “But once that scrutiny eases, it’s hard to keep the focus.”

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remained inconsistent. As one speaker summed up, “The future isn’t in static risk scores. It’s in understanding behaviour and context.”

Critical Reflections and Conclusion

Critically, the debate demonstrated that while CRR models were central to many banks’ AML frameworks, they were not without their flaws. Participants openly questioned whether CRR was being used as an effective risk management tool or simply as a way to satisfy regulatory expectations. There was concern that focusing too much on CRR could divert attention from more meaningful risk indicators, particularly behavioural data that could better detect evolving threats.

Moreover, regulatory inconsistency was seen as a major barrier to progress. Institutions operating across multiple jurisdictions faced conflicting guidance, making it difficult to design and implement coherent CRR strategies. “We’re trying to meet five different regulators’ expectations with one system,” one participant lamented.

In conclusion, the debate underscored the need for a more nuanced, agile, and behaviourally informed approach to client risk rating. While CRR models had evolved significantly, they remained a work in progress. Success would ultimately depend on strong leadership, cross-functional collaboration, and a willingness to challenge legacy thinking.

This information was taken from The Financial Crime Leaders’ Network event, part of The Financial Crime Summit in New York, 27th February 2025.

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