



Does the Risk based Approach Mitigate the Banks Reputational and Legal risk

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Student Name: AMJAD KHAN

Student ID: 16315

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Bahria University, Karachi Campus

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ABSTRACT

This research tends to find the risk based approach and its impact on bank's potential risk. Risk based approach can mitigate the bank's reputational or legal, customer and service risk. The implementation of risk based approach in banking institution is one of the big challenges for bank. The continuing threat of money laundering through financial institutions is most effectively managed by good understanding and addressing on right time the potential money laundering risks that are associated with customers and their transactions, therefore risk based approach have developed to address all these risks. FATF and Wolfsberg have done excellent work in this regard and have given true direction to overcome money laundering risk. SBP AML/CFT regulations and guidelines for risk based approach also covers all potential money laundering risks. MLRO of all banks are more concerned for RBA. All banks operating in Pakistan need to understand the importance of RBA and they must implement it in all branches. They need to categorize all customers as per the RBA approach and segregate all customers as per their appropriate risk.

This research is totally based on qualitative interviews being conducted with MLRO, CCO and AML/CFT Analysts, bankers working in branches, BM, OM and RM. Detailed questionnaires have also been circulated and authentic results have been enclosed.

Pakistan is a cash-based economy therefore, the chance of money laundering is very high. All bankers are not taking these issues seriously, that's why they do not focus on KYC. If they properly fill customer KYC, then money laundering risk can be reduced.

As per FATF, Pakistan is in high risk jurisdiction due to lack of implementation of anti money laundering measures and does not pass act through Parliament. Pakistan needs to pass AML ordinance through assembly. Pakistan has to work out more if Pakistan needs to enhance risk category in front of International standing.

KEY WORDS:

CCO (Chief Compliance Officer), MLRO (Money Laundering Representative Officer), AML/CFT Analyst (Anti Money Laundering Combating the financing of Terrorism), FATF (Financial Action Task Force), SBP (State Bank of Pakistan), KYC (Know your Customer)