'RBA: the goose that laid the golden egg': how a bank's failure to adopt the RBA is allowing profit to slip through their accounts.

VORTEX RISK®

Banks are simply driven by profit – correct? They borrow their customers money – only to then lend it out at a higher interest rate. Hey presto – money for the bank.

So why are banks de-risking, and all of a sudden? What has made this happen and in such a way it is becoming a real problem.

Is there someone or something to blame?

Could it be the Financial Action Task Force (FATF) – the global money laundering and terrorist financing watchdog. No, has to be the quick answer as they push for the RBA approach to be implemented. Such an approach is central to the effective implementation of the FATF Recommendations. So why then would they jeopardise this?

Is it the bank? Well perhaps – because with little guidance of real relevance, generic typology studies and a fear of regulatory action for failures in AML compliance, de-risking is one of the easiest options to manage. But is it simply a consequence of failures beyond their control?

Are we able to blame the regulators? Yes, and a lot more than the banks – that is for sure. Regulators oversee the banks knowledge, its behaviours, and its responses. Albeit not entirely, but as a strong influencer with a big stick. So if the regulator is clueless, motivated on fines and dismissive about supporting banks with correct material from which risks can be found and justified, the regulators actions can quickly become detrimental.

Or is it the customers? In some cases, most certainly. Perhaps as a criminal involved in money laundering, or maybe as a customer failing (for whatever reason) to meet the necessary tick box standards for which a bank is then handed down fines for. Perhaps think of it this way, if an egg is found to be broken in its carton when making a cake, you would throw it away rather than use it and hope it wasn't going to make you sick. This is how banks see some customers – cracked eggs need to be discarded.

The answer is: it is everywhere. But mainly its centralised in the bank because this is where the 'buck stops'. It is the bank that actually conducts the 'de-risking'.

And this is where for a bank the real issue come into play – especially since they are profit driven. Think of it as 'winners and losers' and you find:
If the bank loses, the regulator wins, and the customer loses.

But.... if the bank wins, the regulator loses and the customer wins.

So, if you were a bank, wouldn't you want to apply the Risk Based Approach? This could help to save on fines, keep customers and drive up profits.

Again, remember the FATF push banks to apply the RBA:

'A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk'.

So, should you be reading this as a commercial manager within a bank, a member of a bank's board, a banking risk expert.... take a moment to think about how a poor RBA is likely lowering your banks profit potential through a de-risking of customers because of a fear of not knowing, perhaps an ignorant regulator and of course those ill aligned risk indicators – that should, in reality all be behaving perfectly by now.

So what is the answer? Is the solution within reach?

The answer is yes. And the answer sits with Vortex Risk.

Keen to know how understanding risk – the real ones, not the horrible 'red flags' – can be taken to a whole new dimension so de-risking is limited and business growth is encouraged: see the **Vortex Risk** website.

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