

A pocket guide to: **Customer Risk Rating (CRR)**

To find out how FCR Compliance can help you with your customer risk rating needs please contact Steve@FCRcompliance.com



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Methodology

Ensure you have a clearly documented methodology which:

- outlines your technical approach
- reflects your risk appetite
- demonstrates governance and oversight



Remember:

This will be requested as part of a financial crime compliance program FCA or Skilled Person visit / review.



Risk Factors and Weightings

The UK Money Laundering Regulations state you must take into account risk factors relating to:

- customers
- countries or geographic areas
- products or services
- transactions
- delivery channels



Remember:

Each individual factor is unlikely to carry the same level of risk.

The weighting of each factor must be individually considered and justified.

For example, delivery channel may represent a lesser overall risk than transactions.



Data

Data is fundamental to a successful CRR methodology.

Ask yourself:

- Are all data points available?
- Is the data correct?
- Has there been any data issues identified elsewhere that may impact the CRR tool?
- Are all data points linked to documented risks and vice versa?



Remember:

The CRR tool will only ever be as good as its inputs.



Be bespoke

You must take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which your business may be subject.

Your CRR is a key component in demonstrating you understand your risks. Ensure your approach is:

- bespoke to your business model
- proportionate
- risk based
- reflects your risk appetite



Remember:

This is about **YOUR** business,
products services and customers.



Risk assessment

Your CRR methodology **MUST**
reflect your risk assessments
and risk appetite



Remember:

Effective financial crime controls are not about **restricting** business.

They are about managing risk to **allow more** business.



Independent testing

Regular assessments of the adequacy of systems and controls is a requirement under SYSC 3.2.6A R.

Using a third party or independent function to conduct a review is key to demonstrating the effectiveness of your CRR methodology.

At minimum the review should ask:

- is the model output as expected?
- is the output within risk appetite?
- does the methodology address current business and industry financial crime risks?



Remember:

Business models and financial crime methodologies are constantly evolving.

You **must** be able to demonstrate that your financial crime controls are also evolving to mitigate risk.



Annual refresh

The CRR methodology should be recalibrated annually. This is an opportunity to enhance and update the methodology to increase efficiency.

This refresh should:

- be defined and auditable
- ensure the methodology document has captured any process changes
- identify opportunities to enhance the methodology e.g. changing rules causing customer risk population fluctuations
- involve stakeholders including technology teams and KYC/CDD teams



Remember:

An effective methodology will have a **positive downstream impact** on operational teams.





Steve Lockwood

Steve is one of FCR Compliance's founders. He has been a financial crime specialist for over 20 years.

Steve started his career in law enforcement investigating organized crime money laundering, he moved to the UK Financial Conduct Authority (FCA) as an investigator in Enforcement and then as a specialist supervisor in the Financial Crime Supervision team. Here he conducted reviews of regulated firms' financial crime compliance programs.

Since 2017 Steve has been helping clients to assess, develop and remediate their Financial Crime compliance programs.

In 2023 Steve was appointed to the International Compliance Association (ICA) panel of external experts.



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