

ESG in Anti-Money Laundering

1 Background

- Proceeds from criminal activities such as illegal logging, illicit wildlife trade and forced labor could be in the region of hundreds of billions of dollars each year
- Highly profitable sources of revenue for criminals
- Organizations involved in ESG breaches are typically associated with broader criminality
- Criminals exploit weak political and legal systems to facilitate or cover up their crimes



2 What is ESG?

- ESG within AFC (Anti Financial Crime) can be described as the set CDD measures intended to support FIs in assessing and adequately managing risks at the customer level
- ESG is composed of three elements, outlining an approach to investing, risk mitigation, and decision-making tools



3 Components of ESG

- Environment:** human impact on the natural eco-system
- Social concerns:** focusing on human activity and civil society challenges
- Governance:** organizational frameworks to judge whether legal entities and individuals make appropriate, sustainable decisions



4 How does ESG interrelate to Financial Crime?

- Anti-financial crime regulations are progressively overlapping with broader ESG goals, particularly under the Governance pillar
- Convergence based in the shared objective of promoting transparency, accountability, and ethical business conduct
- Companies, partners and third-party providers need to provide evidence that their anti-financial crime controls are not only in place but also effective
- This requires consistent monitoring, reporting, and improvement of compliance measures



5 Benefits of integrating ESG into CDD

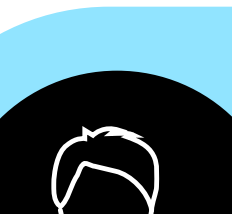
- Embedding ESG checks into the broader CDD program presents several benefits & opportunities to leverage from compliance monitoring processes:



Information gathering: existing procedures such as the desktop research and customer outreach performed by KYC analysts can be used to collect and process data on ESG



Independent verification: when assessing customers' ESG risks, FIs can rely on processes like negative news screening to identify recent adverse developments or red flags related to customers



Risk assessment: holistic view of a customer's associated risks, including the risk of exposure to ESG issues, allows FIs to assess whether the business relationship falls within its overall risk appetite and ESG strategy

6 Essential Elements in a ESG risk assessment

- Understanding the customer's approach to ESG:** how they manage social and environmental risks (e.g. is there an ESG framework in place, is a targeted risk assessment carried out in coordination with financial crime risk?)
- Including the right risk indicators,** especially those more susceptible to money laundering e.g. s cash intensive businesses, non-profit organizations
- Adopting a risk-based approach:** the review and subsequent monitoring of customers from an ESG point of view should be commensurate to the level of risk they pose
- Looking beyond the focal entity of the customer:** taking into account the business activities of subsidiaries within the supply chain and including major third-party providers in the adverse media screening process



7 How Actimize can help

- Actimize Professional Services and Consultancy teams can support financial institutions CDD teams in managing crucial aspects of identifying and managing their customers' ESG risk
 - Understand ESG requirements:** across different regulatory jurisdictions and integrate these into their solutions, processes, operations and staff training
 - ESG Risk Assessment Methodology:** Actimize can assess existing CDD and customer risk assessment methodologies to improve related process and help FIs develop suitable risk assessment frameworks



8 ESG Reference Stats

- ESG term first coined in 2004 United Nations report titled "Who Cares Wins" (after the famous British Army Special Air Service or SAS Regiment motto: "Who Dares wins")
- Environmental crime is estimated to generate USD 110-281bn each year
- 83%** of global consumers believe companies should have robust ESG frameworks in place
- ESG is considered by **89%** of investors when making decisions
- ESG-related institutional investment worldwide will reach USD 33.9Tn by 2026
- Major Australian bank fined USD c.820m in 2020 over CDD and Transaction Monitoring deficiencies, including failure to identify potential child exploitation



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