What happens when a risk rating removes two-thirds of payment volume from automated monitoring?

HSBC | United States | United Kingdom | Mexico | AML failures 2006-2010 | Resolution 2012

DOJ FORFEITURE	CIVIL PENALTIES	AUTOMATED MONITORING EXCLUSION	LATE-FILED SARS
$1.256bn	**$665m**	**Two-thirds of dollar volume**	**890 / $6.34bn activity**
S01	S01	S02	S02

DOCUMENTED EVENT

On 11 December 2012, HSBC Holdings plc and HSBC Bank USA entered a five-year deferred prosecution agreement with the US Department of Justice. HSBC agreed to forfeit $1.256 billion and pay $665 million in civil penalties. The DOJ stated that, from at least 2006 to 2009, HSBC Bank USA rated Mexico as 'standard' risk, its lowest AML risk category, and failed to monitor more than $670 billion in wire transfers and more than $9.4 billion in purchases of physical US dollars from HSBC Mexico. The OCC separately found that the bank excluded wire transfers from countries rated 'standard' or 'medium' from automated BSA/AML monitoring, representing two-thirds of dollar volume for its payments business, and that a subsequent lookback and alert backlog led to 890 late-filed suspicious activity reports addressing $6.34 billion of activity. [S01 | S02]

NFRISK SCENARIO ADAPTATION - NOT AN EXTERNAL FINDING

A group payments business uses country and affiliate risk ratings to decide which transactions enter automated monitoring. The ratings were approved years ago, and 'standard' or 'medium' categories remove most payment value from the monitoring population. Alternative manual controls exist on paper but have not been tested for coverage or effectiveness. Alert backlogs and late reports are treated as operational capacity issues rather than evidence that the risk model and monitoring perimeter are mis-specified.

STRESS-TEST QUESTIONS

01 What percentage of payment value is excluded from automated monitoring by country, customer, product or affiliate risk rating?

02 Can each material monitoring exclusion be traced to a current risk decision, tested alternative control and accountable approver?

03 At what backlog age or late-report volume does a capacity problem become a formal challenge to the risk model and monitoring design?

04 Who independently reassesses long-standing low- or medium-risk ratings when transaction value, geography or external intelligence changes?

CONNECTED RISK

Financial Crime & Control Integrity (primary)
Data & Control Integrity (contributing)
Conduct & Governance Risk (contributing)

FRAMEWORK RELEVANCE

OCC BSA/AML control lens: coverage, due diligence and independent testing
The OCC order identifies deficiencies in internal controls, customer due diligence, suspicious-activity monitoring, alert disposition and independent testing. These are direct regulatory findings about the bank's programme. [S02]

Basel event-type lens: Clients, Products & Business Practices
NFRisk maps the AML and correspondent-banking control failures to the Basel event type covering clients, products and business practices. This is an analytical mapping, not a DOJ or OCC classification. [S03]

NFRISK PRACTITIONER INTERPRETATION

A risk rating is a control decision, not a descriptive label. Its effect on monitoring coverage, due diligence and escalation should be visible in management information and periodically challenged against transaction value, external intelligence and observed exceptions. Coverage metrics should show what is excluded as clearly as what is screened. Backlogs, late reports and repeated overrides are not only workflow measures; they are evidence about whether the control architecture remains fit for the risk.

PRIMARY-SOURCE REGISTER

S01 US Department of Justice (2012)
HSBC Holdings Plc. and HSBC Bank USA N.A. Admit to Anti-M...
S02 Office of the Comptroller of the Currency (2012)
In the Matter of HSBC Bank USA, N.A. - Civil Money Penalt...
S03 Basel Committee on Banking Supervision (2003)
Sound Practices for the Management and Supervision of Ope...

EVIDENCE BOUNDARY Official findings are separated from the institutional scenario, framework interpretation and NFRisk practitioner view.