



Fortent *Inform*

## AML Departments Face Job Cuts as Mortgage Crisis Widens

January 15, 2008

By Matt Squire

As more and more financial institutions rocked by the deepening mortgage crisis announce painful job cuts, anti-money laundering compliance officers must take quick action to protect their departments, compliance consultants say.

“It’s time for compliance divisions to prove their worth and see how they can make themselves more efficient,” said Ellen Zimiles, chief executive officer of Daylight Forensic & Advisory, a compliance consultant in New York.

Surging mortgage defaults have sent the banking industry reeling in recent months forcing billions of dollars in write-downs. On Tuesday Citigroup Inc., the latest victim of the crisis, said posted a \$9.83 billion fourth-quarter loss after it wrote down its subprime mortgage investments by \$17.4 billion. The bank said it eliminated 4,200 jobs, or 1.3 percent of its workforce, and plans to cut more.

A Citigroup spokeswoman said most of the cuts were in the markets and banking divisions. She declined to comment on whether jobs would be eliminated in compliance. But, when Citigroup announced plans to cut 17,000 jobs last April, a report in *The New York Times* said that the company was considering reducing its compliance staff.

When Bear Stearns Cos., the nation’s fifth-largest investment bank, said in November that it would eliminate 4 percent of its 15,500 jobs, news organizations reported that some of the cuts would be in operations, including the legal and compliance departments.

Other large banks, including Credit Suisse, Washington Mutual, Wells Fargo, JPMorgan Chase, SunTrust, Wachovia, HSBC and Bank of America have announced staff reductions, asset write-downs and dividend cuts as a result of the credit crisis.

“Compliance is just as vulnerable as anyone else in terms of cost cutting and what we’re seeing is that it is happening everywhere,” said Alan Abel, who runs the AML practice at Crowe Chizek and Co., an accounting firm in Fort Lauderdale, Fla.

Compliance, and other departments that don’t generate revenue, are often among the first areas where banks consider job cuts, say consultants. The high costs associated with compliance make the department particularly vulnerable, says Geoff Doyle, managing director of the AML practice at IPSA International in New York.

“It’s a never-ending challenge,” Doyle said in an interview. “As the priorities in terms of earnings shift, that puts increased pressure on compliance departments. In good times they have to fight for their money and in bad times the battle is going to be much greater.”

While he hasn’t seen any direct evidence of AML divisions being scaled back, Doyle said that there has been pressure on the divisions to reduce spending on outside consultants. “I don’t know if that is a pattern [but] that could be the first wave,” he said.

### **Reminder of Risks**

To protect their resources, compliance managers need make senior management and bank directors aware of the risks involved with reducing AML compliance staff, said Abel.

“When senior management points at compliance and they say ‘cut,’ they have to think twice about that because of the risk involved,” said Abel in an interview. “In those cases you have to ask, ‘Does senior management really understand what the compliance risk is?’”

With a reduced staff and greater workload on those remaining, the risk of slipping into noncompliance with AML and Bank Secrecy Act regulations rises, said Doyle. “No matter what the earnings look like, banks still face the jeopardy of criminal prosecution, regulator sanctions, loss of reputation, fines and penalties and remediation costs,” he said. “Those are the types of things that compliance people should have been emphasizing in fighting for their resources before these lean times set in.”

To proactively cushion their function from any foreseen budget cuts, compliance managers need to document and justify their headcount to their superiors, said Zimiles. “You should be able to show why every person is in the compliance department, what their role and purpose is and what the risk is if that position goes,” she said.

A compliance division must also make sure that its staff is placed appropriately, said Carol Van Cleef, a partner with the Washington, D.C.,-based law firm Bryan Cave. “If you look at the enforcement actions written by regulators, you definitely see a trend toward criticism of institutions for not having an appropriately staffed compliance function.”

Consultants say they are also urging their clients to find and develop efficiencies within the AML function, such as sharing and coordinating compliance services across business lines, and work to show management that it can save the institution money.

Compliance managers should not count on less attention from regulators forced to focus their attention away from AML and toward lending and other issues, said consultants. Money laundering enforcement actions are still expected to remain robust in the foreseeable future, said Zimiles.

“I don’t think there is going to be much sympathy for the financial intuition if they say ‘Sorry, we’re not going to do as much on the AML side anymore because we have to deal with our subprime problems,’” said Zimiles.

What’s more, law enforcement will still be actively looking for cases of money laundering in institutions, no matter the focus of bank regulators said Van Cleef.

“As long as law enforcement is out there looking for activity going through institutions there is a significant risk factor there and it is incumbent on the institution to make sure that it has AML controls,” she said.

**Source: Fortent Inform™ (<http://inform.fortent.com>) Copyright Fortent Inc. 2008. Not to be reproduced without permission.**