



## Legal sector

### Business and customer risk assessments

In 2024, we assessed the adequacy of business and customer risk assessments in meeting legislative and regulatory requirements within the legal sector. We also reviewed the extent to which businesses had considered risk appetite and strategy, which are intrinsically linked to the business risk assessment.



#### Good practice we observed

- ▶ Business risk assessments were tailored to the entity, clear, easy to follow, and provided comprehensive details of money laundering, terrorist financing and proliferation financing risks. The effectiveness of controls in mitigating risks was based on quantitative and qualitative analysis.
- ▶ Risk assessments were periodically refreshed. They were also refreshed following trigger events, such as changes to Appendix D2 of our Handbook.
- ▶ Meeting minutes were detailed, and evidenced collaboration between senior management and compliance function. Discussions and constructive challenge were evidenced when undertaking periodic reviews of the assessment methodology.



#### Areas of improvement we identified

- ▶ Inadequate consideration of terrorist financing and proliferation financing risks within risk assessments. This increases the likelihood that these risks are not adequately identified, monitored or controlled.
- ▶ Business risk assessments were not kept up-to-date in line with review cycles, or did not comprehensively consider all the risks an entity is exposed to. A business risk assessment needs to be maintained and kept up-to-date to be effective.
- ▶ Customer risk assessments did not consider all key risks, for example customer involvement in sensitive activities or industries, links to higher risk jurisdictions, and complexity of relationships, structures or arrangements. Where risks were identified, the impact on the customer risk rating was not proportionate to the risk.



#### Key considerations

- ▶ Does your customer risk assessment process consider, and allow for, documented recording and assessment of risks presented by your customers? Does your customer risk assessment consider the risk factors set out in section 3.3 of the Handbook?
- ▶ Do your internal processes require the customer risk assessment process to be reperformed following trigger events? For example, a customer acquires politically exposed person status during the course of the business relationship.
- ▶ Check the controls in your business risk assessment assist in mitigating the risk against which they are aligned. Have you properly assessed the effectiveness of these controls? Is this effectiveness assessment and the resultant residual risk clearly documented?