



Know Your Employee (KYE): When the First Line of Defense Becomes the Weakest Fence

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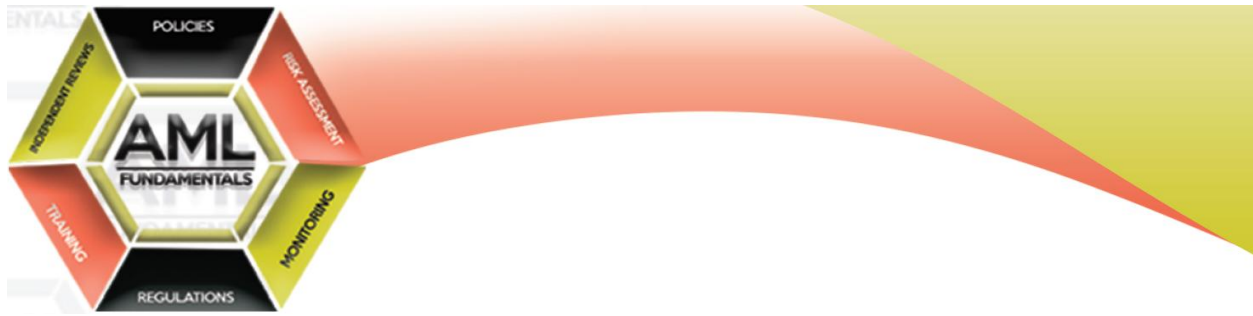
Know Your Employee (KYE) refers to the procedures and controls institutions adopt to understand the identity, role, conduct, and risk exposure of their employees. Within the anti-money laundering (AML) compliance framework, KYE is a critical component of the monitoring pillar. Employees are considered the first line of defense in preventing money laundering and fraud. When institutions fail to assess and monitor employee integrity, they risk internal breaches that can compromise the effectiveness of their AML controls.

KYE complements Know Your Customer (KYC) and Know Your Business (KYB) by recognizing that insider threats may pose equal or greater risks than external actors.

Global Standards and Guidance

The Financial Action Task Force (FATF) emphasizes the importance of internal controls, including employee screening and training, as part of Recommendation 18. Institutions are required to implement group-wide programs for AML compliance, including employee due diligence, ethics standards, and monitoring mechanisms.

The World Bank further highlights employee integrity as part of good corporate governance and risk management. In its guidance on anti-money laundering and counter financing of terrorism (AML/CFT) frameworks, it notes that employee behavior directly affects institutional resilience to financial crime. The Basel Committee also stresses that strong personnel policies contribute to a sound compliance culture.



Breakdown in KYE Controls

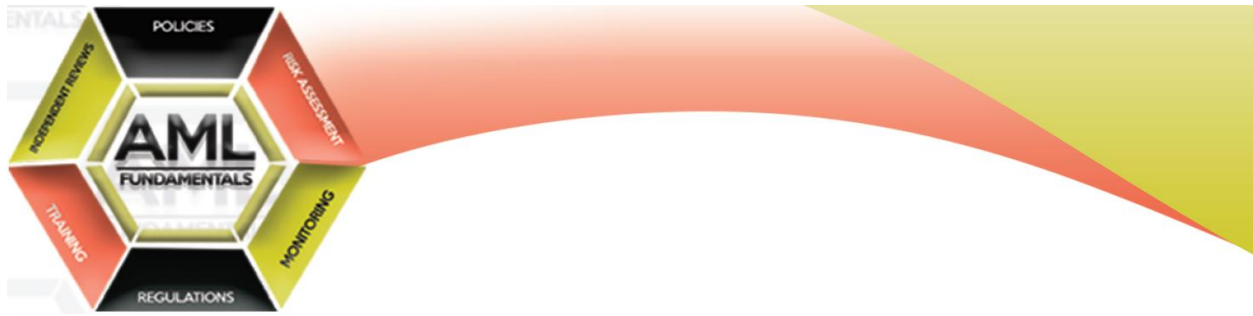
In recent times, there are two cases which help to underscore the importance of KYE processes as a key internal AML risk mitigation measure in relation to employee behaviour. These are:

TD Bank (USA): In 2024, TD Bank faced significant regulatory action due to systemic AML failures. Among other findings, U.S. authorities identified that certain employees and managers knew of internal control weaknesses and failed to address them. Some individuals allegedly facilitated or ignored unusual activity, contributing to failures in detecting money laundering schemes. Staff allegedly colluded with customers in facilitating transactions that went unreported and received kickbacks for their involvement from customers.

Equity Group (Kenya): In more recent reports, April 2025, Equity Group Holdings, Kenya, separated 1,200 due to internal fraud cases involving employees who manipulated customer accounts and facilitated unauthorized withdrawals, resulting in losses of 2 billion Kenyan shillings over 2 years. Staff members accepted bribes for expedited service, raising ethical concerns for the bank.

These breaches point to weak internal controls, including poor employee monitoring and ineffective ethical oversight. The incidents undermined customer trust and exposed the institution to reputational and regulatory risk, while undermining profitability.

These cases show how employees intended to protect the institution can instead facilitate or conceal money laundering when KYE controls are weak or absent.



Best Practices for KYE Controls

Effective KYE requires proactive, structured, and sustained internal compliance practices. Organizations should consider:

- **Tone at the Top:** Board and Senior Management must model ethical behavior and enforce zero tolerance for misconduct. Leadership must support whistleblowing, internal audits, and consequence management.
- **Disciplinary Policies:** Clear rules with meaningful consequences deter employee misconduct. Fraud, bribery, or involvement in suspicious activity should result in immediate and documented disciplinary action.
- **Ongoing Training:** Regular AML training ensures that employees understand legal obligations, red flags, and internal procedures. Reinforce the link between individual actions and institutional risk.
- **Transaction Monitoring:** Monitor staff accounts for unusual activity, including sudden inflows, rapid withdrawals, or third-party transactions inconsistent with employment role or unsubstantiated earnings based on remuneration.
- **Lifestyle Monitoring:** Be alert to signs of lifestyle changes, unexplained wealth, frequent travel, or expensive purchases that do not align with salary levels. Use discretion and data to avoid profiling.
- **Annual Disclosures:** Require employees to file annual declarations of assets and liabilities. These should be reviewed to identify discrepancies or unexplained assets.

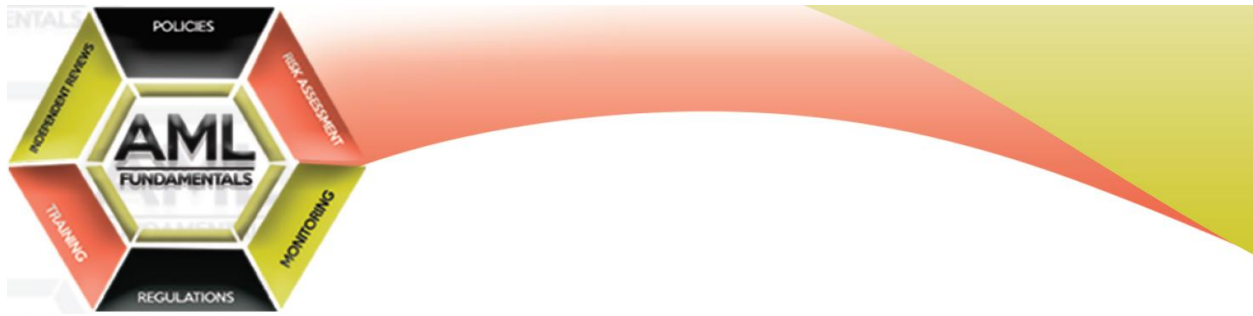


- **Employee Screening:** This must be done prior to onboarding, and at intervals when the employee's risk profile has changed.
- **De Siloed Monitoring:** Monitoring systems should facilitate collaboration between key internal stakeholders who each have a role to play in monitoring employee activities, where possible. A clear and open line of communication should be encouraged between the Human Resource, Compliance, Audit and Fraud/Ethics functions of the organization to increase the effective and timely detection of breaches to mitigate company losses, reputational and regulatory risk exposures.

The cases of TD bank and the Equity Group illustrate that employees can become the weakest links within a financial institution's defense against money laundering and fraud. Employees hold an advantageous position given their intimate knowledge of systems, electronic and procedural, and with the right motivation, such as kickbacks and bribes, can become creative to bypass these systems to the detriment of the organization and their own demise when eventually exposed. This requires the second and third lines of defense, compliance, and audit to be shrewd in their monitoring of staff activities, alongside their human resource, fraud, and ethics counterparts. A united effort ensures a stronger defense against lapses in KYE oversight which could undermine the profitability of the institution and causing reputational damage.

Key Takeaways

- KYE is essential for a strong AML compliance program.
- Employees can become internal threats if not properly screened and monitored.
- Global standards stress the role of employee oversight in AML risk management.
- Real-world cases show how employee breaches result in financial, regulatory, and reputational risk.



- Institutions must implement a layered, risk-based KYE framework.

Actionable Steps:

- Embed KYE into the broader AML compliance structure.
- Regularly update employee risk assessments.
- Promote a culture of accountability, ethics, and transparency.
- Ensure disciplinary action is fair, documented, and enforced.
- Integrate human resources, compliance, audit, and fraud/ethics functions in monitoring employee conduct.

Conclusion

An institution's first line of defense must not be its weakest fence. Employees are integral to AML success, but without proper oversight, they can become enablers of financial crime. How well does your institution know its own people? In AML compliance, internal vigilance is just as critical as external monitoring.