



The Central Bank's Supervisory Approach to AML/CFT Risk

AML/CFT Risk Management Conference

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Order of Presentation



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CFATF Mutual Evaluation



- The Bahamas underwent a Mutual Evaluation peer assessment from November 30 to December 11, 2015 by the Caribbean Financial Action Task Force.
- In July, 2017, the CFATF published The Bahamas' Mutual Evaluation Report.
- The Report analyzed The Bahamas' level of compliance with the FATF 40 Recommendations and the level of effectiveness of its' AML/CFT system.
- It also provided recommendations on how the system could be strengthened.

CFATF Mutual Evaluation



Key Findings:

- National Risk Assessment not completed
- No money laundering convictions
- No Terrorist Financing investigations, prosecutions, confiscations or convictions were made
- Deficient legislation existed in relation to Targeted Financing Sanctions and Proliferation financing
- A large number of unverified facilities remained in the domestic banking sector

CFATF Mutual Evaluation



Key Findings (cont'd):

- Insufficient awareness was demonstrated by FIs that are not a part of a large international group of their ML/TF risks; no institutional ML/TF risk assessments were performed by this group of institutions
- Limited number of STRs were filed
- No sanctions were imposed on legal persons
- Response time to International Cooperation requests could be improved

National Risk Assessment



December 2016

The National Risk Assessment (NRA) was completed.



December 6, 2017

The NRA was approved by the Cabinet of The Bahamas for dissemination to all industry stakeholders.



Dissemination via general industry briefing, regulatory briefings for sectorial constituents, publication of the NRA to government, regulatory and industry trade group websites.

National Risk Assessment



Banking & Trust Sector

Threats

- Interconnectedness to the global economy;
- Role played in cross-border transfer of funds

Vulnerabilities

- Variety of products & services offerings available inclusive of legal persons and arrangements;
- Multiple delivery channels

Risk Level

- Medium Risk – factoring in the mix of regulatory oversight by the Central Bank AML/CFT and Corporate Governance Guidelines

National Risk Assessment



Credit Unions

Assessed as medium-high ML/TF risk

Money Transmission Businesses

Assessed as medium-high ML/TF risk



LEGISLATIVE RESPONSE

New Legislation



In response to the MER and subsequent to the NRA, a compendium of legislation was passed in 2018, repealing and replacing the appropriate legislation previously passed with:-

- The Proceeds of Crime Act, 2018;
- Financial Transaction Reporting Act, 2018;
- Anti-Terrorism Act, 2018;
- Traveler's Currency Declaration (Amendment) Act, 2018;
- The Financial Transactions Reporting Regulations, 2018; and
- The Financial Transactions Reporting (Wire Transfers) Regulations, 2018



THE CENTRAL BANK'S RESPONSE

Supervisory Policy Initiatives



Amending the existing AML/CFT Guidelines

Guidelines on the Prevention of Money Laundering, Countering the Financing of Terrorism and Proliferation Financing (AML/CFT/PF Guidelines)

Issuing of **NEW** Guidance Notes

Guidance Note on the Sound Management of Risks Related to Financial Crime in The Bahamas

Guidance Note on Proliferation and Proliferation Financing

Supervisory Policy Initiatives



AML/CFT/PF Guidelines (Key Amendments)

- Guidance around conducting Risk Assessments by FIs
- Introduce streamlined requirements for account opening and Customer Due Diligence
- Inclusion of typologies of techniques used to launder money
- Framework to be consistent with the compendium of legislative changes

Supervisory Policy Initiatives



Guidance for Conducting Risk Assessments

- 1) Identify and assess inherent risks by adopting a comprehensive risk-based approach.
 - ❑ Customers, Jurisdictions, Products, Services, etc.
- 2) Establish risk tolerance levels from an entity specific, sectoral and relationship level perspective.
- 3) Establish risk mitigation measures by employing proper controls
 - ❑ Internal Controls/Policies & Procedures (scope of the identification and verification requirements or ongoing monitoring, setting transaction limits)
- 4) Evaluate residual risks by employing a three lines of defense regime.
- 5) Monitor and review risks by utilizing a proper governance regime.

Supervisory Policy Initiatives



MOST IMPORTANTLY when Conducting Risk Assessments

SFIs should also take into account variables such as the purpose of the business relationship, the level of customer assets, volume of transactions and the regularity or duration of the business relationship. This relationship-specific risk assessment should be replicable by any appropriate third party. Further, SFIs should take into account **the threats and vulnerabilities that have been identified through any national risk assessment**. SFIs should assess how these (and any other aspects of their business) make their business vulnerable to identified risks.

Source: Paragraph 13.3 of AML/CFT/PF Guidelines

Supervisory Policy Initiatives



Guidance Note on the Sound Management of Risks Related to Financial Crime in The Bahamas

- Covers risk management approaches for ML/TF and other financial crimes; and acts as a guide to Bahamian financial entities to improve industry practices, as well as support supervisors as they provide additional impetus to industry to mitigate identifiable risks

Supervisory Policy Initiatives



Guidance Note on Proliferation and Proliferation Financing

- Provides guidance to Bahamian financial entities which may be exposed to proliferation risk. The Note is intended to raise awareness among those institutions of the risks and vulnerabilities in regards to proliferation and proliferation financing.

A New Onsite Examination Methodology



As part of the enhancement to the AML/CFT examination process, the Bank Supervision Department's Onsite Examination Unit now has a designated practice leader for AML/CFT to:

- provide input to the wider body in AML/CFT onsite examinations, AML/CFT supervision and surveillance;
- evaluate and recommend AML/CFT training needs; and,
- author and/or providing input in the creation of AML/CFT Guidelines and Guidance Notes, policies, procedures and best practices.

A New Onsite Examination Methodology



- Onsite examinations are usually driven by a risk mitigation plan from the Supervisory Team. However, emerging trends or other external events such as negative news, can also trigger an AML/CFT onsite examination;
- More focused examinations of Supervised Financial Institutions (SFIs) risk management programs;
- A formal engagement letter is sent 3-4 months prior to the on-site visit;
- Pre-examination meetings are held with the SFI and the External Auditor four (4) weeks prior to visit; and

A New Onsite Examination Methodology



- The Onsite Examination is conducted on a no surprise basis;
- On the day prior to the last day of examination, a written draft of the examination's findings is submitted to senior management for review;
- On the last day of the examination, the findings are discussed for factual accuracy at a Closing Meeting; and,
- A Report of Examination is issued by the 20th business day after the Closing Meeting.

Clarity in Supervisory Communications



Reports of On-site Examinations, along with other communications to SFIs, now use a set of common terms, namely:-

- 1) Directive – to convey a mandatory action, that has legislative backing;
- 2) Requirement – to convey a statutorily backed instruction;
- 3) Expectation – to convey a preferred action;
- 4) Request – to convey a requisition (usually for documents and/or information) that has legislative backing

Non-compliance with Supervisory Communications



Non-compliance with Directives, Requirements, or Requests exposes the SFI, its officers and directors to potential enforcement actions including administrative monetary penalties.

2017 Thematic AML/CFT Issues Identified



- Lack of Enterprise Risk Assessments incorporating ML/TF risks;
- Lack of Independence in the CO/MLRO functions;
- Inadequate or ineffective AML/CFT training;
- Source of Wealth not evident for high risk relationships;
- Client Risk Rating framework that are not replicable; and,
- Backlog in completing periodic client reviews.

2018 Thematic AML/CFT Issues Identified



- Lack of Enterprise Risk Assessments incorporating ML/TF risks; and,
- Lack of Independence in the CO/MLRO functions.

The Move to Continuous AML/CFT Supervision



December 2017

The Central Bank issued a mandatory and comprehensive survey to relevant FIs on ML/TF risks



Jan. 31 – Feb. 9, 2018

There was 100% response and the results of the survey helped to inform the Bank Supervision Department's risk rating of the industry.



April 20, 2018

The Central Bank issued a Summary Report of the Findings of the Survey to its website.

Enhanced AML/CFT Oversight



General Findings of AML/CFT Survey:-

- Although the industry had room for improvement in AML/CFT risk management, most SFIs were starting from a reasonably strong base.
- Only about 1% of the domestic banking industry's accounts were high risk for ML/TF purposes.
- Consistent with their much higher average balances and more complex business arrangements, about 15% of the international banking and trust sector's accounts were rated high risk.

Enhanced AML/CFT Oversight



The Central Bank has implemented a dedicated/enhanced monitoring regime for AML/CFT by:-

- As of January 2018, moving from periodic to continuous supervision of ML/TF risks
- Introducing an Analytic Unit, with focus on ML/TF Risk Surveillance (responsible for the development of the enhanced AML/CTF supervisory framework)
- Developing a granular AML/CFT risk rating model to incorporate into its current risk based supervisory framework
- Applying risk based supervision to the Credit Union Sector
- Issuance of supervisory letters to the Boards of SFIs

Enhanced AML/CFT Oversight



- Publication of an annual “State of ML/TF Risk Management in The Bahamas”, in conjunction with the other GFSR members and Financial Intelligence Unit.
- Creation of a website concentrating on all Bahamian AML/CFT material
- Focusing on AML/CFT training of Supervisors (creating more AML/CFT Specialists)
- Allowing for more proactive and effective engagement with industry
- Participation in The Bahamas’ Taskforce to ensure coordinated efforts

AML/CFT Supervisory Framework 2.0



Version 2.0 of the AML/CFT Supervisory Framework will seek to improve upon the quality of risk analyses undertaken in Version 1.0, and to assist SFI boards, executives, and risk experts improve their understanding and management of these risks.

- 1) Clarify Expectations regarding internal and external audit engagements on ML/TF risks;
- 2) Strengthen communication with MLROs; and,
- 3) Define the regular flow of documents and data from SFIs to the Central Bank necessary for improved ML/TF risk supervision.

AML/CFT Supervisory Framework 2.0



Clarify Expectations regarding internal and external audit engagements on ML/TF risks

- Requiring that all material elements of ML/TF risk management is included in Internal Audit Plans;
- The Central Bank considers that full internal audit coverage of ML/TF risks should be maintained on at least a three-year cycle;
- Engaging External Auditors for ML/TF risk management arrangements, as needed; and,
- Continuing to receive all internal and external audit reports.

AML/CFT Supervisory Framework 2.0



Strengthen Communication with MLROs

- Annual in camera Meetings with MLROs
- Annual Report and Attestations of Compliance Matters by the MLRO
- Ensuring and encouraging effective communication between the MLRO and the Central Bank

AML/CFT Supervisory Framework 2.0



Regular flow of documents and data from SFIs to the Central Bank necessary for improved AML/CFT risk supervision

- Update to the Annual Corporate Governance Certification to require explicit attestations on the state of AML/CFT governance and ML/TF risk management within each SFI
- Requirement for annual filing of SFIs; ML/TF Risk Assessments
- Introduction of a regular AML/CFT data return

Central Bank's Expectations



- More commonality of approach on documentary and policy expectations
- Application of a risk based approach to AML/CFT by SFIs
- Proactive communication by SFIs with the Central Bank on ML/TF risk management strategies and risk issues of material significance
- Earlier and more effective identification and remediation of SFIs exhibiting negative outlier behavior on ML/TF risks

Final Points



The Central Bank will continue to engage and to collaborate with:

- Industry through seminars, round tables, consultative documents, and supervisory meetings,
- fellow regulators through the Group of Financial Service Regulator forum and also the Financial Intelligence Unit,
- other public and private sector associations and agencies, including participation in the IRF Steering Committee

to ensure the financial soundness and effective ML/TF risk management of the industry.

THANK YOU!

