RISK RATING FRAMEWORK

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AIMS OF A TYPICAL SCHEME

- To distinguish between low, medium and high risk clients
- To check that you hold the necessary information about clients
- To help subsequent reviews of clients

Main risk factors

- Geographical origin of client
- Nature of business (including geography)
- Customer type (e.g. PEP?)
- Nature of account
- Likely value and activity of the account
- Transparency (corporate structure/ powers of attorney/hold mail)

FLAGS OR SCORES

Most systems use

- FLAGS

Or

- SCORES

Geography

- Flag might be a list of nationalities.

- Score might be:
  North American/EU 1
  Latin American 2
  Other at least 3
  Ex USSR/Nigeria 5

Nature of business

- Flag might be:
  Cash business/precious metals/import-export.

- Score might be:
  Manufacturer 1
  Attorney 3

Product risk

- Flag might be:
  derivatives/exotics

- Score might be:
  time deposits 1
  loans 2
  corporate chequing accounts 4

Ownership structure/PEPs etc

- Flag might be
  PEP/complex structure

- Score might be:
  salaried employee 1
  PEP 5

Activity on account

- Flag might be:
  account activity over $1 million a month

- Score might be:
  transactions typically small *1*
  large individual transactions
  over $500k *5*

Aggregating risk

Either

- Flag certain high risk features or
- Calculate a number for each client and set ranges - e.g.
  low risk *below 10*
  medium risk *10-20*
  high risk *over 20*

Uses

- Does your KYC info permit you to provide the ratings?
- How will you treat high/medium/low risk clients differently?
- How and how frequently will you monitor whether clients' risks have changed?
- Who will monitor?