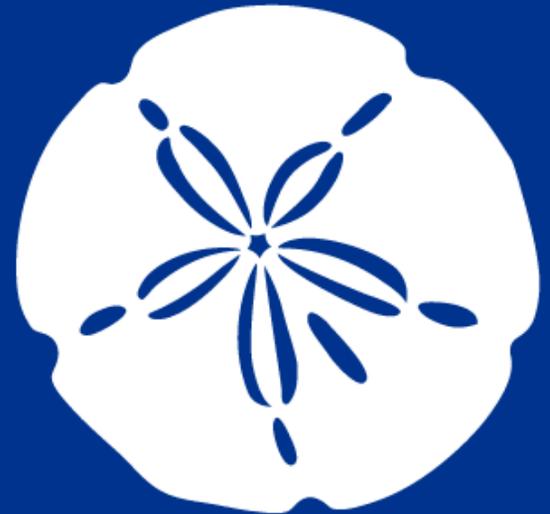




# ML/TF Risk Assessment

AML/CFT Seminar

26 JUNE 2019



# Agenda

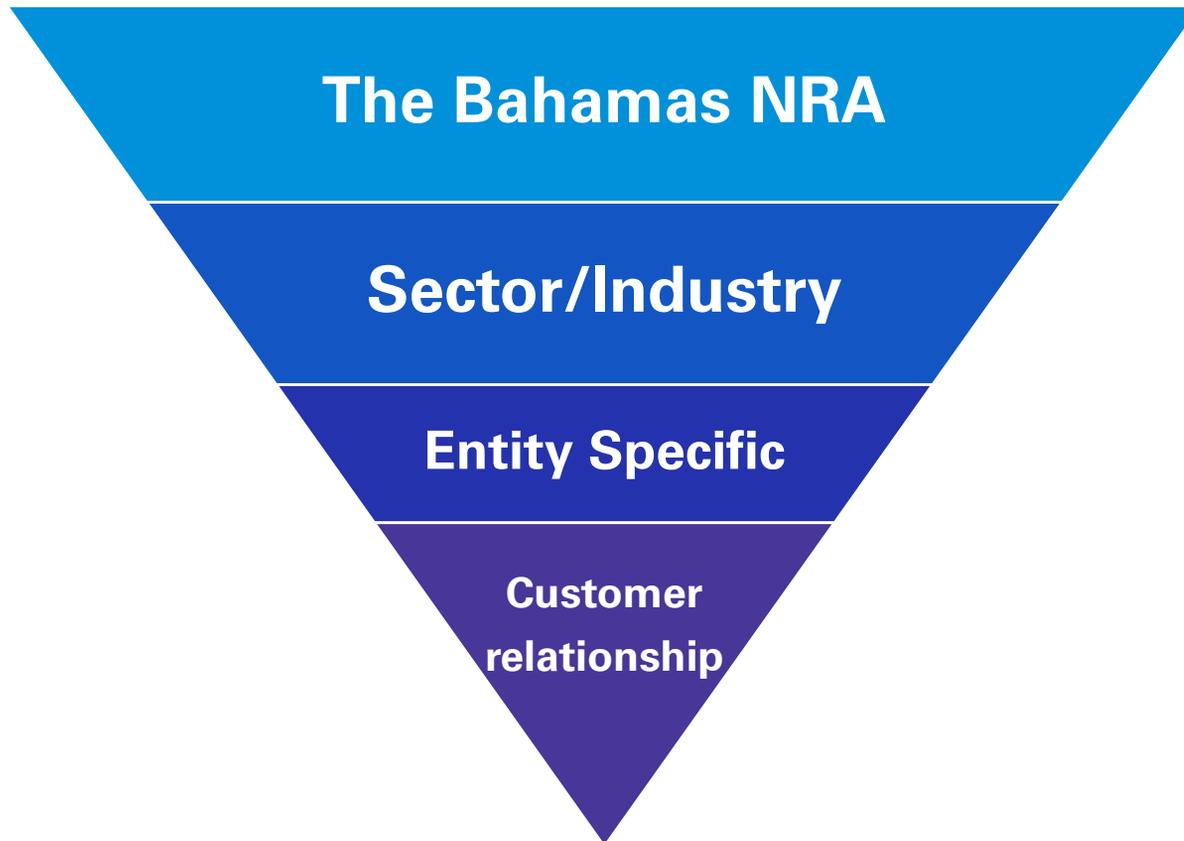
1. Risk Based Approach – the overarching principle
2. The Bahamas Risk Profile – National Risk Assessment (NRA)
3. Steps in ML/TF Risk Assessment
  - Identify
  - Assess
  - Mitigate
  - Monitor
4. ML/TF Risk Assessment Example Highlights
5. Q & A



# Risk Based Approach

# Risk Assessment Process

Getting started....first principles





# The Bahamas Risk Profile

# The Bahamas NRA

- Completed December 2016
- Approved by the Cabinet of The Government of The Bahamas, for dissemination to all industry stakeholders in December 2017
- The Bahamas overall threat rating for money laundering (ML) and terrorist financing (TF) was placed at Medium in the 2016 NRA

The Bahamas has made significant headway in moving to 'Largely Compliant' with The Financial Action Task Force (FATF) standards (Recommendation 1)



# The Bahamas NRA - Threats

Highest ML/TF Threat:

- Foreign crimes, such as:
  - **Fraud (inclusive of tax fraud)**
  - **Money laundering**
  - **Drug trafficking**
  - **Trade based schemes**
- Domestic crimes, such as:
  - **Fraud**
  - **Human, gun and drug smuggling/trafficking**
  - **Trade based schemes**



# The Bahamas NRA – Sectors

The 2016 NRA produced findings on the ML/TF risk for certain sectors of the economy.

The **inherent** money-laundering risk for these sectors is as follows:



## **Financial Sector:**

International bank & trust company licensees  
Domestic commercial banks  
Money transmission businesses

## **Financial Sector:**

Insurance sector  
Credit Unions sector

## **Financial Sector:**

Domestic securities sector

## **Designated Non-Financial businesses and professions**

Accounting profession sector

## **Designated Non-Financial businesses and professions**

Financial Corporate Service Providers  
Jewelers, pawnbrokers & other dealers in precious stones & metals  
Gambling operations  
Real estate sector  
Practitioners in the legal profession

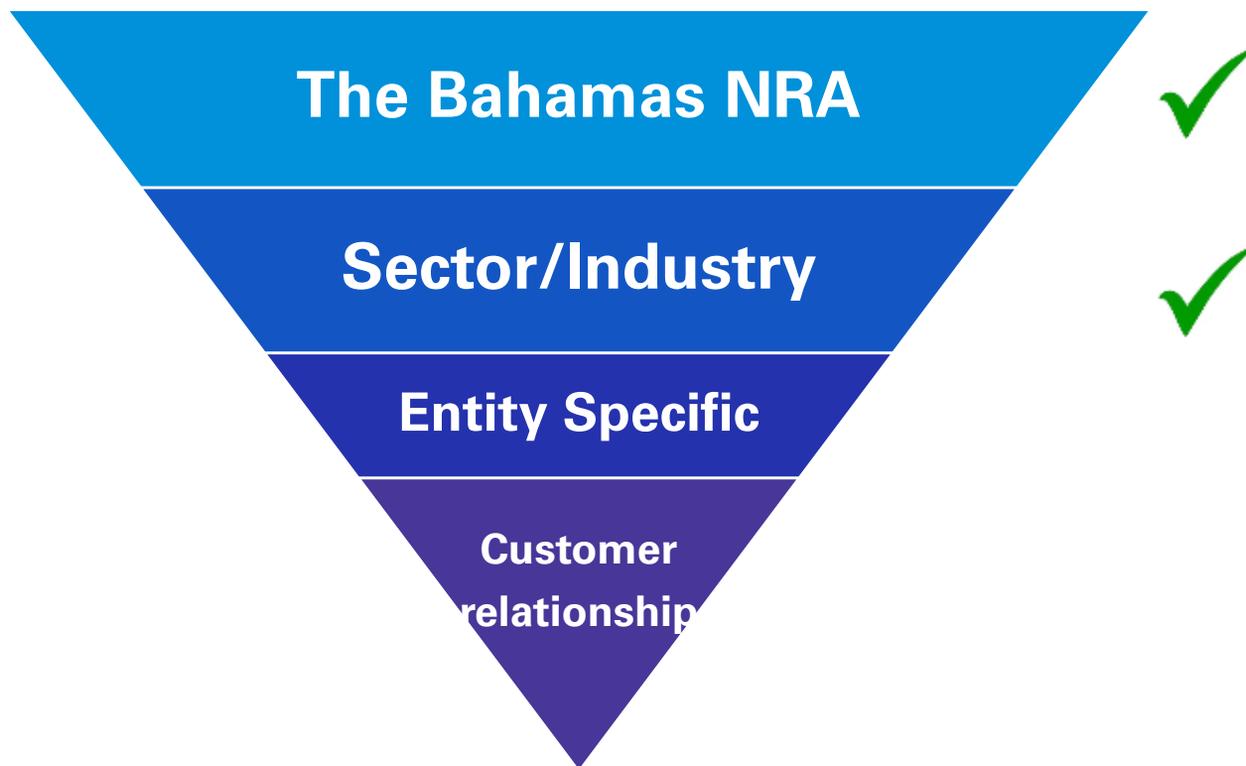


# Steps in ML/TF Risk Assessment

# Where are we now?

Risks identified through the process of:

- The NRA
- Industry sectors and intermediaries



# Risk analysis

Risk analysis is about developing an understanding of the risks an entity faces. This provides an input to risk assessment and to decisions about how risks are treated and about the most appropriate treatment strategies and methods.

- **Inherent risk:**

Inherent risk relates to the level of risk an entity faces before it is mitigated by controls. Entities should consider all relevant information when identifying and assessing inherent risk.

- **Mitigating controls:**

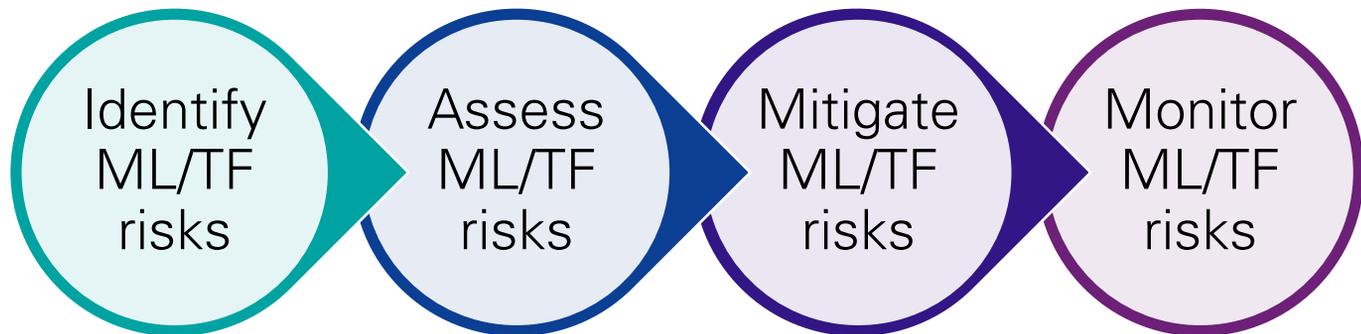
Entities should then consider the risk mitigation measures it implements in order to consider the residual ML/TF risks it faces.

Mitigation measures should be designed at the entity level to address the risks posed by customer types, products & services offered, delivery/distribution channels, and geography/jurisdiction. In addition, incorporate the following: intermediaries/ third parties utilized, transactional risks and any other aspects of the business subject to ML/TF.

- **Residual risk:**

Residual risk is the level of risk remaining after risk mitigation measures.

# Steps in ML/TF risk assessment



# Identify ML/TF risks



Identify inherent risks using the following criteria:

1. Customer types
2. Products and services
3. Delivery channel/distribution
4. Geography/jurisdiction

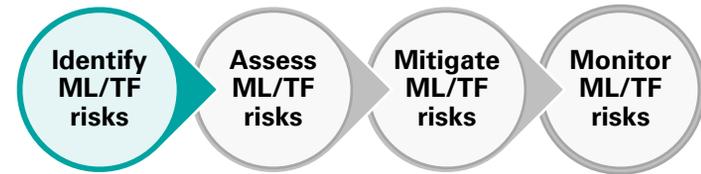
Also take into account:

- Purpose of the business relationship,
- Level of customer assets
- Transactions (Volume), and
- Regularity/duration of the business relationship

As well as:

- NRA threats and vulnerabilities
- Intermediaries, third parties, organizational risks etc.
- Any other aspects of the business affecting risks

# Customer types

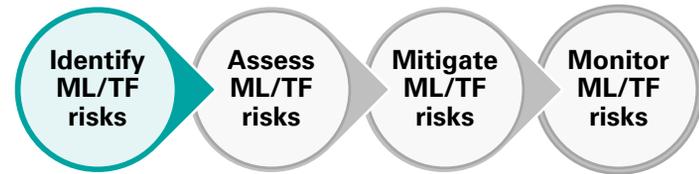


**Examples\*** of risk factors to be considered when assessing ML/TF risks:

- Transparency
- Complexity of the customer ownership structure
- Customer regulated/registered or not
- Customer operations global
- Customer is in a high risk industry
- AML/CFT controls in place
- Customer has good/poor administrative and managerial controls over operational processes

*\*These examples are for illustrative purposes only. Each entity should consider its own risk factors commensurate to the nature, size and complexity of their business.*

# Products and services



**Examples\*** of risk factors to be considered when assessing ML/TF risks:

The product/service:

- Favours cash, international customers, third parties and/or has complex features for pay-outs
- Supports anonymity of the customer or are easily transferable
- Allows payments to/from third parties
- Allows high transaction volumes/high value payments
- Supports early surrender/payment
- Supports pooling of funds without clear knowledge of the beneficial owner of the funds

*\*These examples are for illustrative purposes only. Each entity should consider its own risk factors commensurate to the nature, size and complexity of their business.*

# Delivery/distribution channels

Identify  
ML/TF  
risks

Assess  
ML/TF  
risks

Mitigate  
ML/TF  
risks

Monitor  
ML/TF  
risks

**Examples\*** of risk factors to be considered when assessing ML/TF risks:

- Face-to-face (with the entity)
- Non-face-to-face – reliance on outsourcing to third parties, and/or intermediaries which are not subject to the same level of AML/CFT regulations of an entity, or is not known to the entity
- Other non-face-to-face: Internet and email available only products which do not have adequate systems in place

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# Geography/jurisdiction

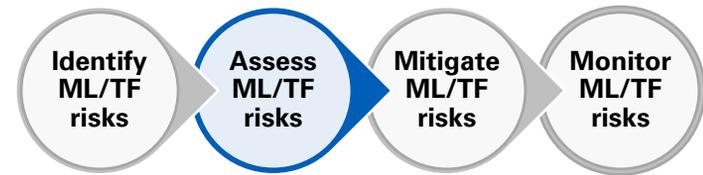


**Examples\*** of risk factors to be considered when assessing ML/TF risks:

- Applicable to customers (including beneficiaries and third parties), products and services and intermediaries.
- Customers (including beneficiaries and third parties) are based in or linked to countries with higher ML/TF risks.
- Assess the risk of your entity's transacting business in countries with any of the following characteristics:
  - Identified by FATF as High risk/"Call for action"?
  - Perceived high level of public sector corruption
  - High level of illicit drug production and/or drug trafficking

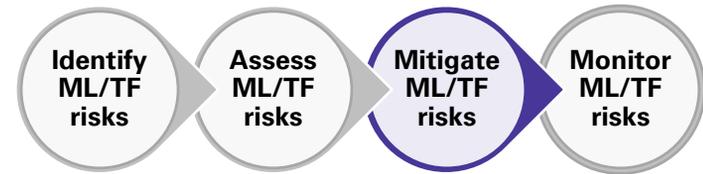
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# Risk classification



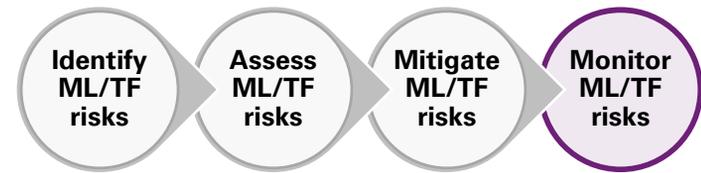
- ML/TF risks are often classified as low, medium and high (also possible combinations between the different categories e.g. Medium/High; Low/Medium, etc.).
- A risk in one jurisdiction, may be different from another jurisdiction. It depends on the specific circumstances in a jurisdiction.
- Classification assists in understanding and prioritizing ML/TF risks.
- An ML/TF risk assessment should consider quantitative and qualitative information.

# Mitigate ML/TF risks



- After identifying ML/TF risks in the areas, the steps to mitigate the risks should be identified.
- Where the risk is higher, then enhanced measures to mitigate should be considered. Similarly, when the risks are lower, simplified measures are applied.
- Entities should continually assess the controls to mitigate ML/TF risks.
- To be effective the risk mitigation for the risks, should remain relevant.

# Ongoing monitoring



Entities must ensure that proper monitoring systems are implemented and that they work effectively.

Potential Trigger events can lead an entity to becoming more exposed to risk.

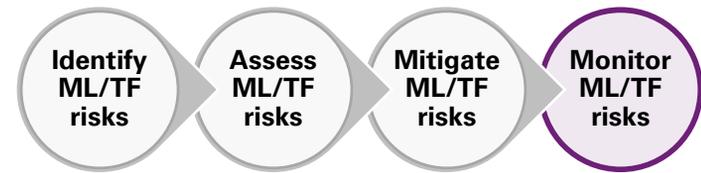
Potential Trigger Events Include:

- Change in industry/new business
- Change in address/jurisdiction
- Change in ownership, signatories
- Change in products and services
- Unusual transactional activity
- Unexpected/unusual request for payment to third parties
- Reactivation of a dormant account where no active account is maintained



Ongoing monitoring is essential and vital. Additionally, ongoing monitoring of customers may be required when there are changes to legislation and/or changes to sanctions etc.

# Ongoing monitoring



Entities should ensure their ongoing monitoring processes come from **RELIABLE** databases and sources.



**Compliance databases, e.g. World Check, Lexis Nexis**



**International sanctions lists**



**Reliable newspapers**



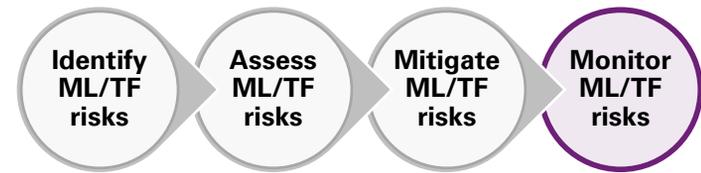
**Government registries or databases**



**Blogs, gossip columns and magazines**



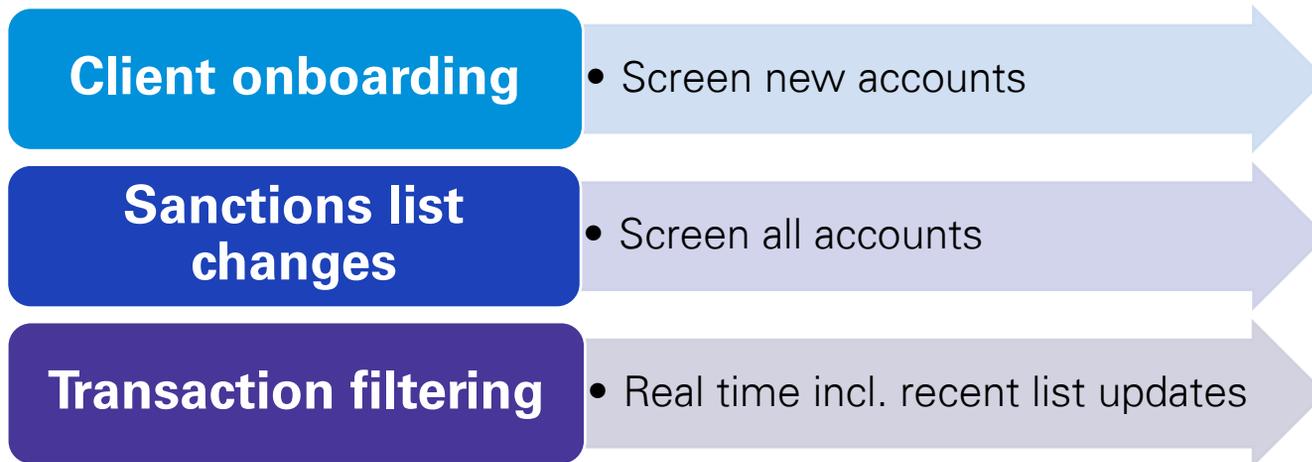
# Sanctions



Sanctions are limitations that one country or a block/coalition of countries put on another country, and occasionally, on specific citizens of that country (usually leaders).

Reasons for sanctions can range from retaliatory trade sanctions to attempting to change the behavior of a country (e.g. ending human rights violations) to attempts at regime change.

Entities should conduct sanctions checking as follows:



# Monitoring – key points



- A continuous process, carried out on a dynamic basis
- Risks identified may change or evolve due to any number of factors, including shifts in customer conduct, the development of new products/services and technologies, and changes in the marketplace, including the rise of new threats
- Involve all relevant stakeholders in the process including but not limited to:
  - AML/CFT professionals
  - Compliance and risk management professionals
  - Senior management/Business line heads
  - Information technology professionals
- The Board of Directors are required to approve an entity's ML/TF risk assessment
- Not a one-time exercise; ML/TF risk assessments must be kept up to date and made available to relevant authorities



# ML/TF Risk Assessment Examples

# ML/TF Risk Assessment – Example highlights

## Bermuda

- All life insurers are required to:
  - submit an annual return (part of annual statutory filing)
  - provide information on customer types, products/services, geographic distribution of customers and/or beneficial owners, and distribution channels (Inherent Risks)
  - provide control information details
- Regulator uses the above to get a better understanding of ML/TF risks.
  - In addition uses onsite and offsite results, independent AML/CFT audit reports, enforcement actions, and information from other local competent authorities and law enforcement
  - Also considers sector (life insurance risk) based on their NRA
  - Uses an internally developed model to determine an entity risk score (ERS)

# ML/TF Risk Assessment – Example highlights

## France

- All banking entities, life insurers and related groups are required to:
  - Complete a questionnaire which includes their own risk assessment information on customer characteristics, products, channels and transactions
  - Provide information on the control environment for AML/CFT
  - Internal control reports
- The French Supervisor uses the above to determine a risk profile for each entity, taking into account other factors (e.g. on-site inspections etc).
- An abbreviated process is used for smaller institutions



# Q&A



Thank you!



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