



**East AFRITAC**  
INTERNATIONAL MONETARY FUND  
REGIONAL TECHNICAL  
ASSISTANCE CENTER

East AFRITAC,  
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*Building macroeconomic capacity in East Africa*



<b>International Monetary Fund East AFRITAC</b>	
<b>Program Regional Workshop</b>	
<b>Risk Based Approach to AML/CFT Supervision September 5 – 9, 2016</b>	
<b>Monday September 5</b>	
<b>08:30 - 09:00</b>	<b>Registration</b>
<b>09:00 - 09:30</b>	<b>Official Opening and Administrative Briefing</b> <ul style="list-style-type: none"><li>• <i>Dirk Grolleman (East AFRITAC)</i></li></ul>
<b>09:30 - 10:00</b>	<b>Break</b>
<b>10:00 - 11:00</b>	<b>Overview of the FATF Risk Based Approach</b> <ul style="list-style-type: none"><li>• <i>Rebecca Obare (IMF AML/CFT Regional Advisor for Africa)</i></li></ul>
<b>11:00 - 12:00</b>	<b>An Overview of National ML/TF Risk Assessments</b> <ul style="list-style-type: none"><li>• <i>Tom Malikebu (ESAAMLG)</i></li></ul>
<b>12:00 - 12:30</b>	<b>Adapting Supervisory Approach to Findings of NRA</b> <ul style="list-style-type: none"><li>• <i>Ian Carrington (IMF Legal)</i></li></ul>
<b>12:30 - 13:30</b>	<b>Lunch</b>
<b>13:30 - 14:45</b>	<b>The New Assessment Methodology - Immediate Outcome 3 – Supervision</b> <ul style="list-style-type: none"><li>• <i>Tom Malikebu (ESAAMLG)</i></li></ul>
<b>14:45 - 15:15</b>	<b>Break</b>
<b>15:15 - 16:15</b>	<b>Experience of Being Assessed Under New Methodology - The Implications for Supervision</b> <ul style="list-style-type: none"><li>• <i>Uganda</i></li></ul>
<b>16:15 - 17:30</b>	<b>Exercise on Assessments – Implications for Supervisors</b>



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Tuesday September 6	
09:00 - 1015	<b>The New Assessment Methodology - Immediate Outcome 6 – Financial Intelligence</b> <ul style="list-style-type: none"><li>• <i>Rebecca Obare (IMF AML/CFT Regional Advisor for Africa)</i></li></ul>
10:15 - 10:45	<b>Break</b>
10:45 - 11:30	<b>Experience of Being Assessed Under New Methodology - The Implications for FIUs</b> <ul style="list-style-type: none"><li>• <i>Uganda</i></li></ul>
11:30 - 12:30	<b>The Relationship between the Supervisor and the Financial Intelligence Unit</b> <ul style="list-style-type: none"><li>• <i>Andrew Milford (AML/CFT Expert)</i></li></ul>
12:30 - 13:30	<b>Lunch</b>
13:30 - 14:15	<b>Understanding Inherent ML/TF Risks in the Financial Sector</b> <ul style="list-style-type: none"><li>• <i>Ian Carrington (IMF Legal)</i></li></ul>
14:15 - 15:15	<b>Tools and Resources for Assessing Customer Risk</b> <ul style="list-style-type: none"><li>• <i>Oormi Khuller (AML/CFT Expert)</i></li></ul>
15:15 - 15:45	<b>Break</b>
15:45 - 16:45	<b>Tools and Resources for Assessing Customer Risk</b> <ul style="list-style-type: none"><li>• <i>Oormi Khuller (AML/CFT Expert)</i></li></ul>



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Wednesday September 7	
09.00 - 10:15	<b>Assessing the Quality of Management</b> <ul style="list-style-type: none"><li>• <i>Ian Carrington (IMF Legal)</i></li></ul>
10:15 - 10:45	<b>Break</b>
10:45 - 12:15	<b>Off-site Supervision Tools (Obtaining Information from Institutions)</b> <ul style="list-style-type: none"><li>• <i>Andrew Milford (AML/CFT Expert)</i></li></ul>
12:15 - 13:15	<b>Lunch</b>
13:15 - 14:45	<b>Reports on Developments Since 2015 Workshop Highlighting experience in Obtaining Data on Inherent Risk and Risk Management</b> <ul style="list-style-type: none"><li>• <i>Malawi</i></li><li>• <i>Rwanda</i></li><li>• <i>Kenya</i></li></ul>
14:45 - 15:15	<b>Break</b>
15:15 - 16:15	<b>Offsite Supervision Tools – Analyzing Information</b> <ul style="list-style-type: none"><li>• <i>Andrew Milford (AML/CFT Expert)</i></li></ul>
16:15 - 17:30	<b>Exercise – The Risk Matrix</b>



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Thursday September 8	
09:00 – 9:45	<b>On-site Inspection – The Principles</b> <ul style="list-style-type: none"><li>• <i>Rebecca Obare (IMF AML/CFT Regional Advisor for Africa)</i></li></ul>
9:45- 10:25	<b>Reports on Developments Since 2015 Workshop Highlighting Onsite Inspections</b> <ul style="list-style-type: none"><li>• <i>Tanzania</i></li><li>• <i>Ethiopia</i></li></ul>
10:25 - 10:55	<i>Break</i>
10:55 – 11:25	<b>Reports Status AML/CFT Supervision</b> <ul style="list-style-type: none"><li>• <i>Eritrea</i></li><li>• <i>Burundi</i></li></ul>
11:25 - 12:15	<b>Conducting Meetings with Management of Supervised institution</b> <ul style="list-style-type: none"><li>• <i>Ian Carrington (IMF Legal)</i></li></ul>
12:15 - 13:15	<i>Lunch</i>
13:15 - 14:45	<b>Case Study – Onsite Inspection</b>
14:45 - 15:15	<i>Break</i>
15:15 - 17:15	<b>Group Presentations on Case Study – Onsite Inspection</b>

Friday September 9	
9:00 - 10:30	<b>Group Exercise – Conducting Management Meeting Based on Case Study on Onsite Inspection</b>
10:30 - 11:00	<i>Break</i>
11:00 - 12:00	<b>Regional AML/CFT Developments / Main Challenges for the Region</b> <ul style="list-style-type: none"><li>• <i>Tom Malikebu (ESAAMLG)</i></li></ul>
12:00 - 13:00	<b>Summary and Closing</b>




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# The Revised FATF Standards

## Session 2 - The Risk-Based Approach (RBA)

7-Dec-16

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# The Risk-Based Approach (RBA)

### Overview

- Rules-based approach / Risk-based approach
- AML/CFT systems tailored to the nature of the risks - enhanced measures *must* apply to higher risks and simplified measures *may* apply to lower risks
- Objectives of a RBA:
  - more effective implementation
  - more efficient allocation of resources

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## The Risk-Based Approach (RBA)

### A new approach to the RBA

- Before the revision, specific risk-based requirements were located in several areas of the Standards (CDD, internal control, supervision and definition of financial institutions)
- A new over-arching Recommendation on the RBA (R.1) applies to all relevant parts of the FATF Standards
- In addition, some specific risk-based requirements remain in some Recommendations
- Clearer and more specific requirements for countries, including supervisory authorities, financial institutions and DNFBPs

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## The Risk-Based Approach (RBA)

### Rationale for the new approach

- Why this change?
  - Develop AML/CFT regimes tailored and adapted to the specific national risk contexts
  - Enable national authorities to focus on higher risks
  - Strengthen the efficiency of the international AML/CFT system
- Objectives of the RBA:
  - Better targeted measures and more flexible framework, which can be adapted as risks evolve
  - More efficient allocation of resources and more effective implementation
  - Facilitation of financial inclusion

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## The Risk-Based Approach (RBA)

### Basic principles of the RBA

- The scope of FATF standards is risk-sensitive:
  - Possible extension to additional higher-risk activities
  - Possible exemptions for low-risk activities
- The extent of the AML/CFT measures is also risk-sensitive:
  - Enhanced measures must be applied to higher risks
  - Simplified measures may be applied to lower risks

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## The Risk-Based Approach (RBA)

### The different dimensions of the RBA

- Who determines the level of risks?
  - FATF
  - Countries
  - Countries-Financial institutions/DNFBPs
- Which measures are applicable?
  - Basic, standard measures
  - Additional, specific measures
- How intensively should the measures be applied?
  - Graduation possible depending on the level of risk
  - Enhanced measures
  - Simplified measures

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## The Risk-Based Approach (RBA)

### A two-step approach for the RBA

- To identify, assess and understand the money laundering and terrorist financing risks
- To define and apply commensurate measures

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## The Risk-Based Approach (RBA)

### Risk assessment

- Risk assessment is the basis of any effective risk-based AML/CFT regime – in particular for allocating resources or applying additional safeguards to the highest-risk areas
- Countries are required to identify, assess and understand their ML/TF risks
- Financial institutions and DNFBPs are required to identify, assess and understand their ML/TF risks
- FATF is developing guidance on national risk assessment.

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## The Risk-Based Approach (RBA)

### National risk assessment

- Based on practical, comprehensive and up-to-date understanding of the threats
- Joint effort between relevant ministerial bodies, supervisors, law enforcement authorities, FIU, regulators, financial institutions, etc.
- Up-to-date and accurate information and intelligence enabling relevant authorities to make well-informed judgments
- Indepth analysis of the national circumstances
- Dissemination of results and information sharing with all stakeholders

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## The Risk-Based Approach (RBA)

### An AML/CFT risk assessment should consider:

- Threats
  - Proceeds-generating crime in the country
  - Cross-border flows of illicit finance
  - Active terrorist groups
- Vulnerabilities
  - The nature, scale and complexity of the financial sector
  - The types of financial products and transactions normally undertaken
  - The regulatory environment and level of compliance
- Consequences
  - How much harm will be done if illicit funds are laundered successfully – by criminals? – or by terrorists?

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## The Risk-Based Approach (RBA)

### Specific obligations for FIs and DNFBPs

- Updated and documented risk assessment, in accordance with nature and scale of business
- Relevant policies and procedures to manage and mitigate risks, approved by senior management, consistent with national requirements and guidance from relevant national authorities
- Higher-risk → Enhanced measures must be applied
- Lower-risk → Simplified measures may be allowed by countries

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## The Risk-Based Approach (RBA)

### Flexible scope of application

- Countries are required to *consider* the extension of the scope to other institutions, activities, businesses or professions that are at risk of abuse
- Possible exemptions from preventive Recommendations in *low risk* cases under strict conditions:
  - proven low risk; strictly limited and justified circumstances; and it relates to a particular type of financial institution or activity or DNFBP; or
  - financial activity (other than MVTs) carried out on an occasional or very limited basis, such that there is low risk
- Exemption from some requirements only, not a full exception
- No exemption from record-keeping obligation

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## The Risk-Based Approach (RBA)

### Enhanced measures for higher risks

- Obligation for countries, and financial institutions and DNFBPs
- When they identify higher risks, countries:
  - should address those risks in their AML/CFT regime
  - should prescribe financial institutions and DNFBPs to take enhanced measures or ensure that this is incorporated into their risk-mapping
- Guidance on enhanced measures in the CDD context (R.10)
  - Ex. of higher risks factors in relation to customers; product, services, transaction or delivery channel; countries
  - Ex. of enhanced measures

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## The Risk-Based Approach (RBA)

### Simplified measures for lower risks

- Simplified measures are optional
  - Countries *may* allow simplified measures to be taken by FIs or DNFBPs in lower-risk situations identified *by countries*
  - Countries *may* allow simplified measures to be applied by FIs and DNFBPs in lower-risk situations identified *by FIs and DNFBPs themselves*
- No simplified measures possible when suspicion of money laundering or terrorist financing
- Guidance on simplified measures in the CDD context (R.10)
  - Ex. of lower risks factors in relation to customers; product, services, transaction or delivery channel; countries
  - Ex. of simplified measures

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## The Risk-Based Approach (RBA)

- The extent of the measures applied may be differentiated depending on the different type and level of each of the risk factors identified
- The RBA also applies for cases identified by the FATF as higher risk activities and in which additional measures are required: the extent of these additional measures will depend on the specific level/nature of higher risk in a situation

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## The Risk-Based Approach (RBA)

### **RBA to supervision**

- Two aspects:
  - The general process by which a supervisor or SRB, according to its understanding of risks, allocates its resources to AML/CFT supervision;
  - The specific process of supervising or monitoring FIs and DNFBPs that apply an AML/CFT risk-based approach.
- Less detailed requirements for the supervision/monitoring of DNFBPs

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## The Risk-Based Approach (RBA)

### RBA to supervision

- Risk-based allocation of supervisory resources
  - Supervisors should have a clear understanding of the risks present in the country
  - Supervisors should have on-site and off-site access to all relevant information on the specific risks associated with the financial institution, incl. the quality of compliance
  - The frequency of supervision should be based on the risks present in the country and financial institutions individual risk profiles
  - Individual risk profiles should be reviewed

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## The Risk-Based Approach (RBA)

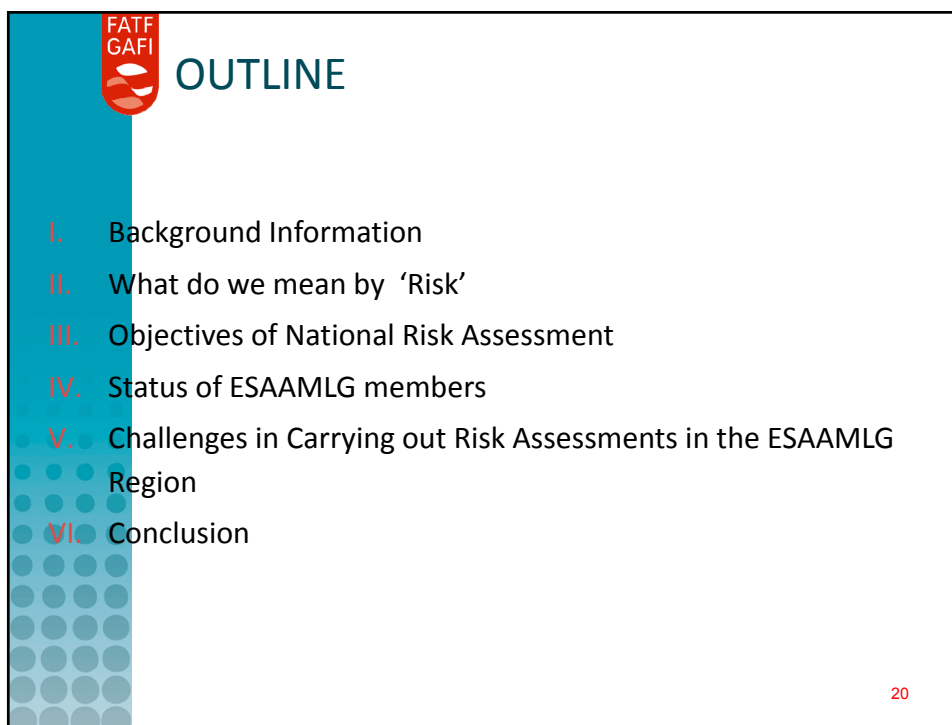
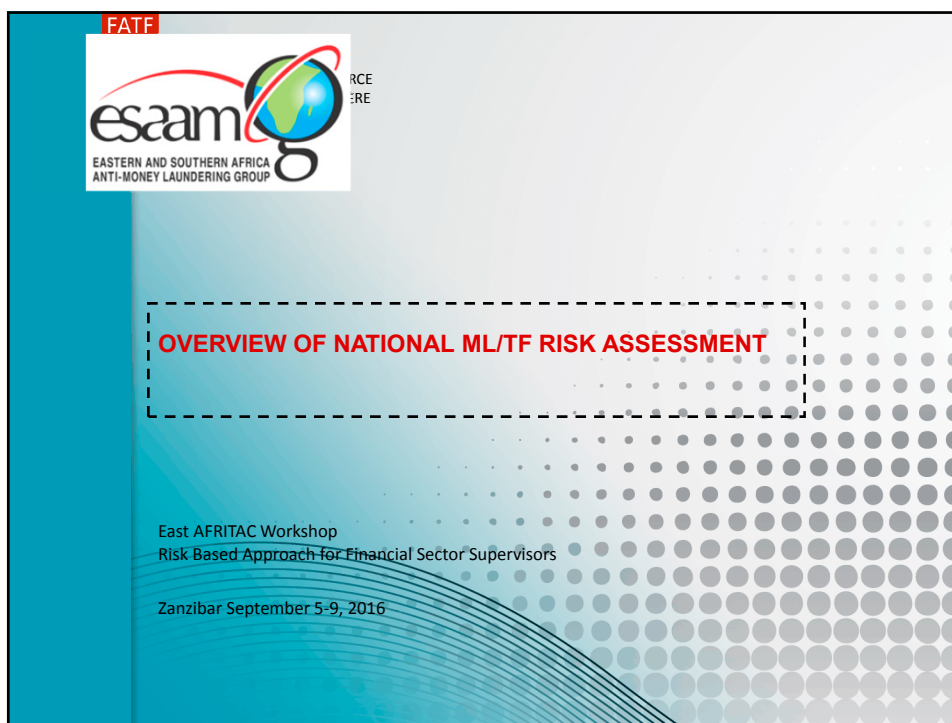
### RBA to supervision

- Specific supervisory process of institutions applying a RBA
  - Process should encompass review of the financial institutions risk assessments and the adequacy and implementation of its policies, internal controls and procedures
  - The degree of discretion allowed to the financial institution under the RBA should be taken into consideration

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## Background Information

- The Financial Action Task Force (FATF) is the global standard setter on measures for combating Money Laundering, Terrorism Financing and Proliferation.
- FATF 40 Recommendations were initially drawn up in 1990 as an initiative primarily to combat money laundering.
- In 2001, the Recommendations were expanded to include Nine Special Recommendations to combat terrorism and its financing.
- The Recommendations were further revised in 2012 to strengthen the requirements.

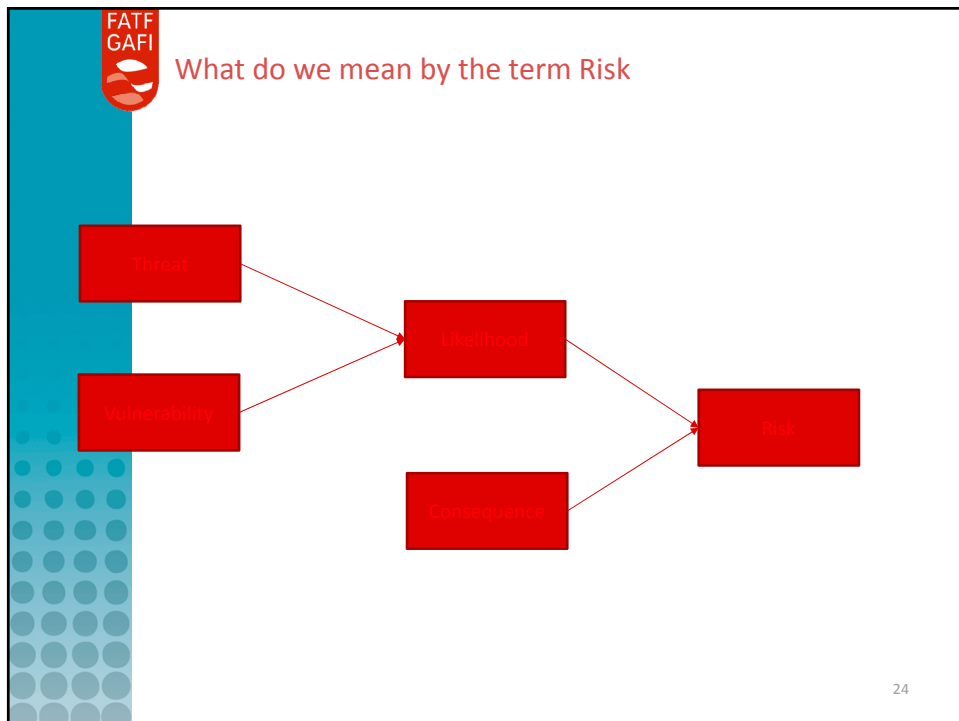
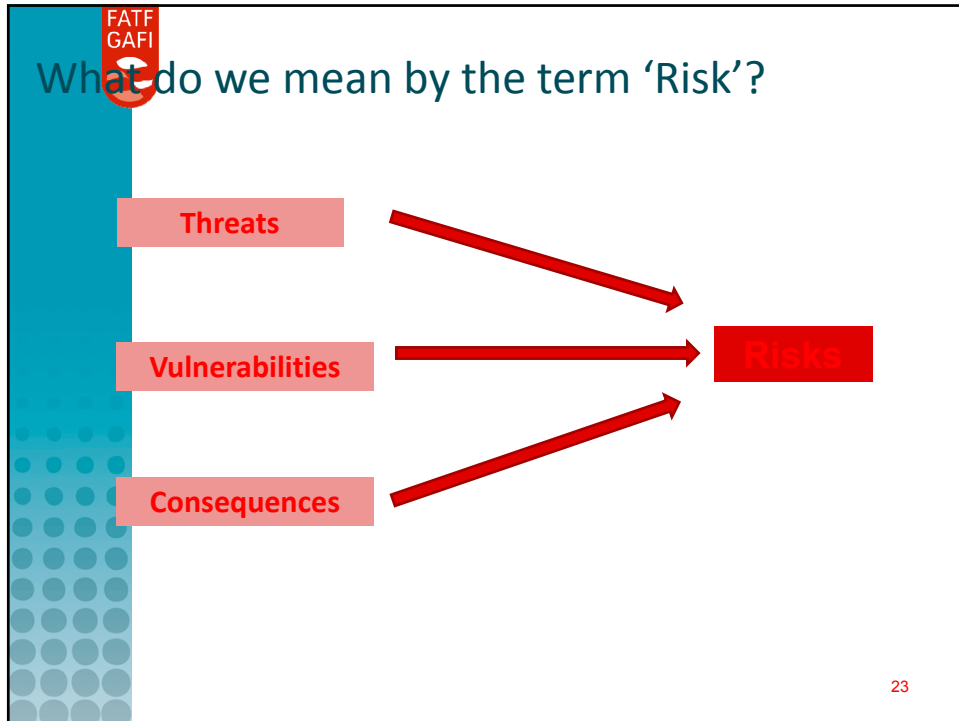
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## Background Information (cont...)

Notable changes that have been introduced include:-

- Countries are now required to:
  - identify, assess and understand ML/TF risks for the country and take action to effectively mitigate those risks (Rec 1);
  - Adopt and implement measures which are commensurate with the nature and severity of the risks (Risk-Based Approach);
  - Develop national AML/CFT policies which are informed by the risks identified (Rec 2). Policies in other areas such as financial inclusion must also take into account the findings of the risk assessment.
- ML/TF risk assessment is therefore an essential foundation for effective AML/CFT measures.





## Meaning of the term 'Risk'?

In the context of AML/CFT, risks are a function of three factors: *threat*, *vulnerability* and *consequences*:

- Threats:
  - Proceeds-generating crime in the country;
  - Cross-border flows of illicit finance;
  - Active terrorist groups.
- Vulnerabilities:
  - The nature, scale and complexity of the financial sector;
  - The types of financial products and transactions normally undertaken;
  - The regulatory environment and level of compliance;
- Consequences:
  - How much harm will be done if illicit funds are laundered successfully – by criminals? – or by terrorists?

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## Objectives of NRA

To essentially lay a foundation for (1):

A risk-based approach to implementation of the FATF Standards;

- Jurisdictions are different (geographical location, population, financial sector, economy, crime levels etc.).
- Even within a single jurisdiction, financial institutions and non-financial institutions differ from each other.

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## Objectives of NRA

To essentially lay a foundation for (2):

Risk based legal and regulatory frameworks and guidelines- outcome of NRA may justify:

- designation of some entities as reporting institutions;
- Enhanced measures for high risk customers/ products or exemptions for lower risk customers/ products.

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## Objectives of NRA

To essentially lay a foundation for (3):

Development and implementation of risk-based AML/CFT policies and efficient allocation of resources. Outcome of NRA will guide authorities:

- on AML/CFT policy direction;
- Institutional reforms commensurate with identified risks;
- Allocation of resources.

Efficient allocation of human and financial resources.

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## Objectives of NRA

To comply with FATF Recommendations

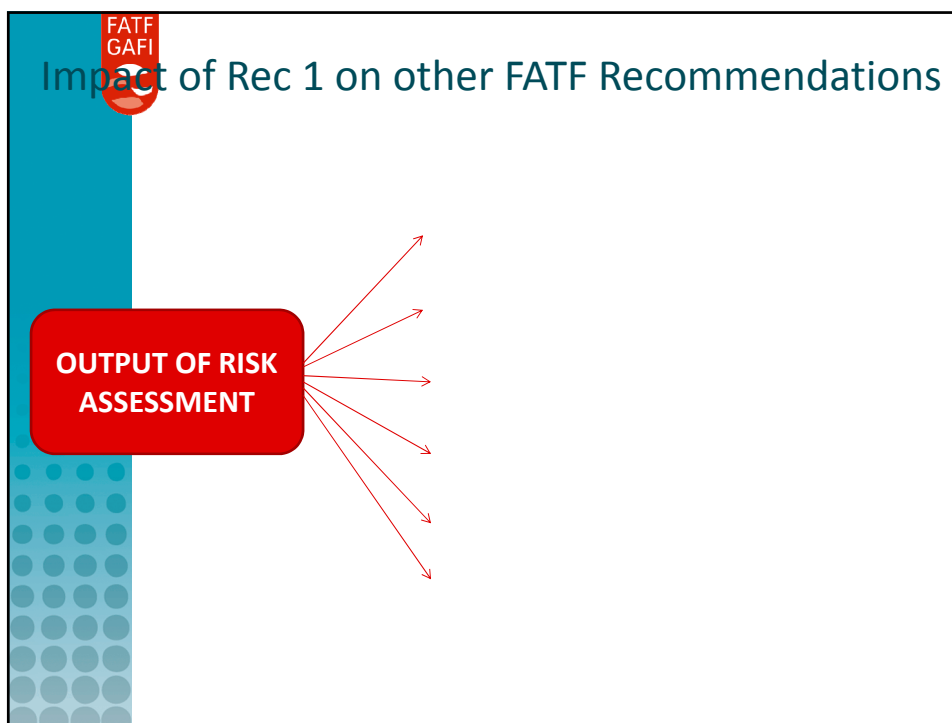
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## FATF Recommendation 1

*“ Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.”*

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## Current Status in the ESAAMLG

ESAAMLG member countries are at varying stages of the national risk assessment with only 4 countries Botswana, Namibia, Malawi, Zimbabwe having completed their NRA.

5 ESAAMLG member countries have undergone mutual evaluations under the revised FATF 2013 methodology for conducting assessments, where conducting a national risk assessment is a key requirement. (Botswana, Ethiopia, Rwanda, Uganda, and Zimbabwe).

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## Current Status in the ESAAMLG

The following countries have commenced their own NRAs with the assistance of the WB: Botswana's NRA commenced in 2015 and is ongoing; Zambia also commenced its NRA in November 2015; and Seychelles commenced the process in February 2016.

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## Challenges

At a global level, **many countries have not** succeeded in conducting ML/TF risk assessments, likewise with the ESAAMLG the following are some of the challenges:

- Lack of high level political commitment to the process;
- Lack of a champion; In some countries, there seems to be no agency to drive the NRA agenda;
- Inadequate financial and human resources to undertake the exercise;

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## Challenges (cont..)

- Inadequate (or lack of) Statistics: Producing comprehensive, comparable, actionable and policy relevant data remains a challenge in nearly all countries;
- *newness* of the issues ML/FT are relatively new forms of crime that are less well understood than old criminal offences.
- AML/CFT measures are relatively new in the world of law enforcement
- Some countries are still coming to terms with the requirements of the old FATF Standards.

## Conclusion

- ML/TF Risk assessment is a must for every country. It is not an option for every country.
- Conducting National Risk Assessment is one of key priorities of ESAAMLG member countries. The outcome of NRA forms an essential foundation and feeds into various AML/CFT activities including risk-based AML/CFT supervision.
- The Revised FATF Recommendations place greater emphasis on risk and therefore absence of risk assessment has significant impact on a country's compliance.





## Supervisors Role in NRA Process

- Ideally, supervisors should have contributed to the NRA
- While, prior to the finalization of the NRA, they will not know its findings, they should not take them entirely by surprise



THREATS





## Supervisory Response to Identified Threats (Sectoral)

- Supervisors should review types of predicate crimes identified in the NRA and determine the extent to which various financial sectors/institutions might be impacted
- Flows of illicit proceeds from different types of predicate crimes may use different channels e.g:
  - Some proceeds of domestic drugs sales may flow directly into the domestic financial institutions
  - Some proceeds of corruption may be paid directly into a foreign financial institutions and a portion may be subsequently returned to the country
  - In light of the different nature of the flows in the above examples different types of institutions may be used and this will impact differently on the supervision of FIs and DNFBPs.



## Supervisory Response to Identified Threats (Sectoral)

- The nature of the TF threat will vary and supervisors again have to understand the possible implications of the ways in which supervised entities might be used
  - Are persons in the country collecting funds and sending to other countries to financing terrorism in those jurisdictions?
  - Are funds collected being used to finance domestic terrorism?
  - Is the country primarily a transit route with respect to TF flows?
- Each of the above scenarios has different implications for the manner in which institutions are used to facilitate the flow of terrorist funds
  - Where funds are collected to support foreign terrorist groups, for example, they will flow via a channel and an institution that facilitates cross border transfers



## Supervisory Response to Identified Threats (Sectoral)

- On the basis of illicit flows associated with predicate criminal of FT activity supervisors will therefore ask themselves:
  - Which sectors have the greatest exposures to these flows?
  - Within a given sector, which institutions are likely to be exposed?
  - Does our current supervisory strategy and activity adequately address these threats



## Supervisory Response to Identified Threats (Institutional Level)

- Supervisors will also try to understand what the NRA results tell them about the relative threat levels across institutions within a specific sector
  - Do banks in a particular geographic region have higher levels of exposure?
  - Are specific products offered by some insurance companies more prone to be used in ML schemes than types of insurance products offered by companies?
  - Are some delivery channels more likely to be for under certain types of predicate crimes
- In these cases supervisors will try to ascertain the potential implications of the NRA findings for specific categories of FI within a given sector



## VULNERABILITIES



## Legal Powers

- An NRA could identify the absence of some powers necessary for effective supervision e.g the power to :
  - Supervise
  - Conduct onsite inspections
  - Request information
  - Cooperate with other competent authorities
  - Impose effective, proportionate and dissuasive sanctions
- Where such deficiencies are identified supervisors should initiate the measures necessary to correct them



## Supervisory Coverage

- AN NRA might identify gaps in supervisory arrangements such that some entities/persons that should be supervised are not subject to supervision
- This is sometimes the case for some categories of DNFBPs which may be subject to supervision with respect to their commercial activity but do not have a designated AML/CFT supervisor
  - A Ministry of Commerce, for example, may register and have general oversight responsibility for dealers in precious metals but may not be legally designated as an AML/CFT supervisor
  - While its permissible for a Bar Association to be the AML/CFT supervisor for lawyers any such arrangement will not be effective unless the appropriate legal designation is made
- NRA findings could therefore be the impetus for supervisors to initiate actions to ensure that all FIs and DNFBPs required to be supervised/monitored for AML/CFT purposes are covered.



## Supervisory Overlap/Duplication

- In examining supervisory arrangements it is possible that the NRA could identify some areas of duplication or overlap in supervisory responsibilities
- In some of the countries attending this workshop, for example, both the FIU and the financial sector supervisors have AML/CFT supervisory powers.
- An NRA might identify challenges that arise under these circumstances (e.g. on the basis of discussions held with supervised entities)
- In such a circumstance the authorities should develop effective responses to these challenges.



## NRA as Leverage

- A number of countries that have undertaken NRAs have reported that they have provided a degree of leverage necessary to introduce needed reforms
- Policy makers may be more easily persuaded for the need for reform when recommendations come from a process such as an NRA that may be regarded as independent and of high integrity



**THANK YOU**



## Objective of Immediate Outcome 3

- To assess the effectiveness of risk based approaches to the supervision of covered entities:
- These include:
  - Financial Institutions
  - DNFBPs



## Interrelationship of Effectiveness and Technical Compliance

- Important to note that while the Methodology separates Technical Compliance (TC) and Effectiveness there are ways in which TC can impact directly on effectiveness– outcome 3 relates primarily to Recommendations 14, 26-28 and 35 and also elements of Recommendations 1,

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- Rec. 27: If a supervisor does not have the legal power to conduct inspections this is likely to have a negative impact on effectiveness as assessed under IO3
- If however, notwithstanding the absence of the appropriate legal power, a supervisor undertakes a full range of onsite inspections this deficiency is primarily a TC issue



## Accounting for Risk

- Overall assessment, including ratings, will take account of country-specific and sectoral risks
- In a country in which the banking sector, for example, is considered to represent the highest risk among core-principle institutions, the assessment would focus disproportionately on the quality of supervision of that sector
- The extent of the focus on the insurance and securities sectors would vary depending on the perceived risk
- For the insurance sector, for example, assessors would take note of the ratio of life insurance to general insurance products available in the country as the latter products are considered to have a lower ML/TF risk



## Accounting for Risk

- In addition to assessing the quality of supervision of core principle institutions assessors will also focus on the quality of supervision of:
  - MVTs
  - Forex Bureaus
  - Microfinance institutions
  - SACCOs
  - Other FIs
- These will all be also assessed in the context of the relative ML/TF risks associated with the operation of these types of institutions in the country being assessed.
- In a country in which SACCOs can for example offer wire transfer services, the scrutiny of the supervisory arrangements for this sector is likely to be more intense as compared to a country in which these entities do not offer such services



## Accounting for Risk

- Assessors will also assess the quality supervision of the DNFBP sectors including e.g:
  - Lawyers/Notaries
  - Accountants
  - Real Estate Agents
  - Trust and Company Service Providers
  - Casinos
  - Dealers in Precious Metals and Stones





## Accounting for Risk

- The approach used for the DNFBP sector will also be influenced by the risk characteristics of the business undertaken in the country being assessed.
- The supervision of the real estate sector will, for example, be more closely scrutinized in a country with a high level of real estate activity than a country with modest activity in this sector
- Note that a high level of activity in a specific economic sector may have implications for more than one DNFBP sub-sector.
  - For example a high level of real estate activity may influence the assessors to examine the supervision of both real estate agents and lawyers if the latter persons are integrally involved in the settlement of real estate transactions



FINANCIAL ACTION TASK FORCE  
GROUPE D'ACTION FINANCIÈRE

## CORE ISSUES



### Preventing Criminals/Associates from Participating in Ownership, Control or Management

- Assessors will examine the measures in place to determine the fitness and propriety of the following:
  - Beneficial owners
  - Persons exercising control
  - Managers
- How robust and comprehensive are the measures adopted by supervisors?
- Assessors will examine the measures adopted at the licensing stage as well as at time when there are changes in the ownership and management of covered persons
- It is often the case that less robust fit and proper tests are applied to DNFBPs and this is likely to be considered a weakness in the supervisory arrangements for this sector.



### Supervisors Understanding of Risks

- Assessors will examine the extent to which supervisors understand risks at
  - The sectoral level
  - The Institutional level
- Supervisors will need to substantiate the views they hold on risk
- A general reference to an NRA will be useful but will not be sufficient
- Supervisors will be expected to have more granular knowledge of the risk associated with the sectors and specific institutions they supervise



## Supervising/Monitoring on Risk Sensitive Basis

- Very important for supervisors to demonstrate that their understanding of risks effectively feeds into their supervisory strategies and activities
- It is often the case that supervisors may have a reasonably good understanding of risk, but have not been successful in moving away from compliance based approaches to supervision.



## Supervising/Monitoring on Risk Sensitive Basis

- If supervisors hope to convince assessors that they have an effective RBA in place they need to demonstrate the following:
  - They receive, on a consistent basis, good quality data on the nature and quantum of inherent risk faced by institutions and the type of risk mitigants employed
  - They have effective mechanisms to determine institutions' net ML/TF risk
  - The decisions they make on the allocation of supervisory resources are based on relative levels of ML/TF risk across all institutions



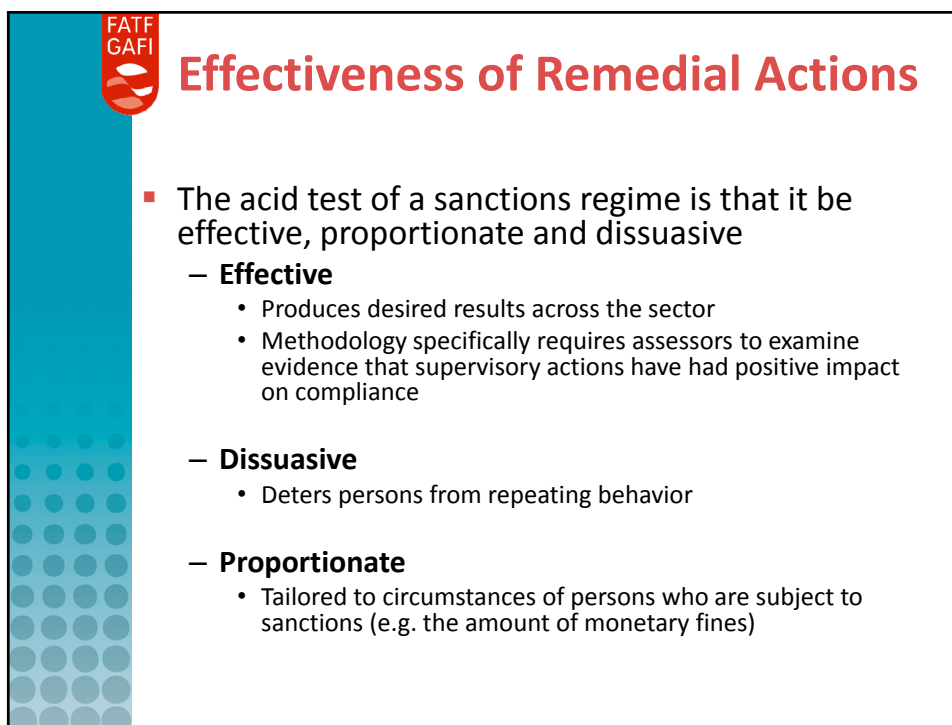
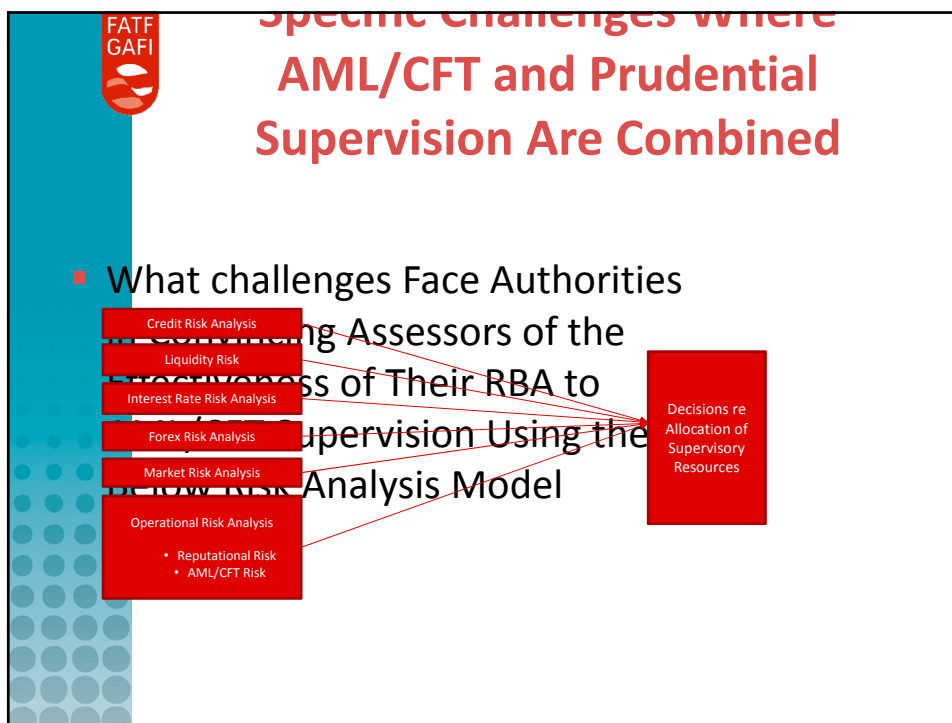
## Supervising/Monitoring on Risk Sensitive Basis

- Potential Weaknesses in Case Made By a Supervisor That it Has Effective RBA



## How Can you Argue with 200?

- In a country that has 20 banks, 10 life insurance companies, 5 capital market licensees and 5 independent forex bureaus the supervisor can demonstrate that it has undertaken AML/CFT inspections of each of these entities every year for the last five years (200 inspections)
- Is it possible for an assessor to argue that this supervisor might not be effective??





## Effectiveness of Remedial Actions

- Very important that sanctions can be applied to legal and natural persons:
  - **Legal Persons**
    - Licensed entities
    - Other supervised entities
  - **Natural Persons**
    - Shareholders
    - Members of the Board of Directors
    - Senior Management



## Promoting and Understanding of Risk and AML/CFT Obligations

- Assessors will try to establish that supervisors have actively engaged supervised entities in an effort to promote sound understanding of sectoral and institution-specific risk and AML/CFT obligations
- This can be achieved through various forms of outreach including
  - Published guidance
  - Seminars
  - Workshops
  - Supervisors' participation in events sponsored by the industry or specific institutions
- During meetings with the industry assessors will try to determine the effectiveness of supervisory initiatives in this regard



## Don't Underestimate The Impact of Supervision Of DNFBPs on Rating

- Weak supervisory arrangements for DNFBPs are likely to impact negatively on the overall rating of IO3
- The weight given to the assessment of any DNFBP sector will vary in accordance with its relative risk profile
- If the country has a significant precious metals sector, for example, weak supervision of the sector is likely to have a notable impact on the rating for IO3



**THANK YOU**

## The New Assessment Methodology- Immediate Outcome 6 on the appropriate use of Financial Intelligence

East AFRITAC Workshop  
Risk Based Approach for Financial Sector Supervisors

Zanzibar

September 5–9, 2016

## Objective of Immediate Outcome 6

- To assess the effectiveness with which a country collects and uses financial intelligence and other relevant information to facilitate money laundering, associated predicate offenses and terrorism financing investigations.



## Interrelationship of Effectiveness and Technical Compliance

- ▶ Important to note that while the Methodology separates Technical Compliance (TC) and Effectiveness there are ways in which TC can impact directly on effectiveness- *outcome 6 relates primarily to Recommendations 29-32 and also elements of Recommendations 1,2,4,8,9,34, and 40.*
  - ▶ Rec. 29: If for example an FIU does not have the legal power to request additional information from reporting entities this will almost certainly have a negative impact on effectiveness as assessed under IO6
  - ▶ Rec 32: Similarly if the customs did not put in place a declaration or disclosure system for cash couriers this will affect the quality of information received by the FIU and will have a negative impact on effectiveness of IO6

## Overarching Issues

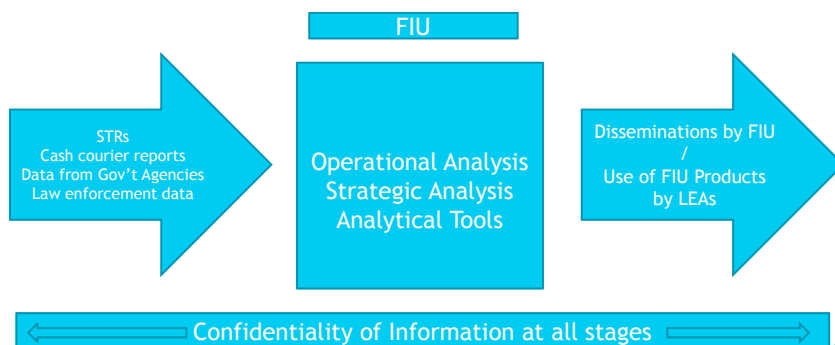
- ▶ There are some overarching issues that will be considered by assessors. These include:
  - ▶ The FIU's operational independence
  - ▶ The adequacy of its resources
- ▶ Important to note that these are essentially TC issues and may not always impact negatively on effectiveness
  - ▶ While, for example, the absence of operational independence will affect TC under Rec. 29, it should only be discussed in detail under effectiveness (IO6) where assessors have identified instances in which it has impacted negatively on the FIU's role in supporting the operational needs of competent authorities and proper use of financial intelligence

## Scope of the Immediate Outcome IO 6

Assessors will examine:

- ▶ The quality of information received and accessed by the FIU, for instance:
  - ▶ STRs received from reporting entities
  - ▶ Additional information requested from the reporting entities
  - ▶ Report on currency and bearer negotiable instruments received from customs
  - ▶ Access to data and information held by law enforcement
  - ▶ Data and information held by other agencies (e.g. administrative, financial)
- ▶ The quality of the analysis undertaken by the FIU
  - ▶ Operational analysis
  - ▶ Strategic Analysis
  - ▶ Specific analytical tools used
- ▶ The quality and usefulness of FIU disseminations to LEAs investigations to develop evidence and trace criminal proceeds
- ▶ The cooperation and exchange of information and financial intelligence between the FIU and competent authorities, and the measures in place to ensure the confidentiality of information

## Scope of the IO 6



## Assessing Quality of Information, Developing Intelligence and Evidence, and Tracing Criminal Proceeds

- ▶ What is the scope and quality of the information received by the FIU?
  - ▶ With respect to STRs issues considered by the assessors include:
    - ▶ Are all reporting entities submitting STRs? Is it of good quality?
    - ▶ Are some reporting entities not reporting STRs?
    - ▶ Are the entities most at risk of ML/TF submitting STRs?
    - ▶ What is the overall quality of the STRs submitted?
    - ▶ Is the FIU providing useful feedback and guidance to entities with respect to STRs
- ▶ The scope and quality of STRs received have a direct bearing on the quality of analysis undertaken by the FIU, and the intelligence it produces

## Assessing Quality of Information, Developing Intelligence and Evidence, and Tracing Criminal Proceeds (cont.)

- ▶ Does the FIU have access to **all relevant** sources of Information e.g.
  - ▶ Tax
  - ▶ Customs
  - ▶ Land registry
  - ▶ Fiscal data bases
  - ▶ Law enforcement
- ▶ In addition to the information obtained from STRs and other sources, data from a combination of these sources is essential for the FIU to produce high quality intelligence.

## Assessing Quality of Information, Developing Intelligence and Evidence, and Tracing Criminal Proceeds (cont.)

- ▶ Assessors will try to determine the nature of the access that the FIU has to this information
  - ▶ Direct
  - ▶ Indirect
  - ▶ Timeliness of the availability of the information
  - ▶ Quality of the information
- ▶ They will also consider the FIU's record/experience in requesting and obtaining additional information from reporting entities

## Quality of Analysis Undertaken by the FIU

- ▶ Assessors will develop a view on the quality of the analysis undertaken by the FIU
- ▶ This will include an assessment of the capability of the analytical IT tools used by the FIU and the type of outputs it produces
- ▶ They will assess
  - ▶ The data mining capability of the systems used
  - ▶ The ability of the system to
    - ▶ Prioritize the STRs
    - ▶ Classify STRs on the basis of risk
    - ▶ Cross check STRs
    - ▶ Track STRs up to dissemination stage



## FIU Analysis and Dissemination Supporting Needs of other Competent Authorities

- ▶ On the basis of discussion with other competent authorities the assessors will assess the usefulness of FIU analysis and disseminations
- ▶ To what extent do disseminations made by the FIU assist other agencies (primarily law enforcement) in doing their work
- ▶ Does it allow LE agencies to access and use financial intelligence to:
  - ▶ Identify and trace criminal proceeds
  - ▶ Undertake investigations and prosecutions, and develop evidence?

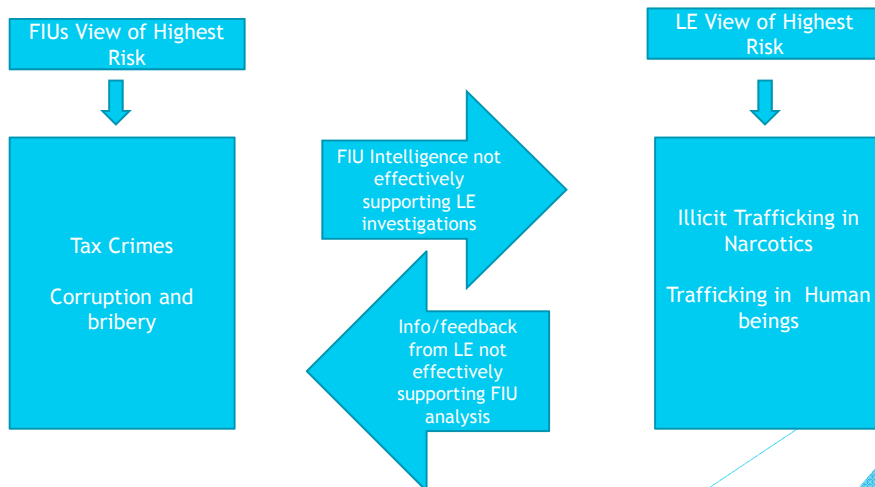
## Quality of Strategic Analysis Undertaken by the FIU

- ▶ Is the FIU also undertaking strategic analysis?
- ▶ Are there effective mechanisms in place for sharing the outputs of the strategic analysis with reporting entities and all relevant competent authorities?
- ▶ Do discussions with reporting entities and other competent authorities indicate that they consider the outputs of the strategic analysis process to be useful?

## Complementarity

- ▶ In the context of a risk based approach assessors will look to determine if there is consistency between the strategies and approaches adopted by the FIU and LE agencies:
  - ▶ Do they have similar views on most significant predicate crimes
  - ▶ Do they have similar views about related issues (e.g. the nature of the transnational element of criminal activity)
  - ▶ Are these views reflected in the approaches the FIU and LE agencies adopt in undertaking their work
- ▶ If the FIU and LE are operating on different “tracks” re their view of risks they will not complement each other’s activities and this will undermine overall national AML/CFT objectives

## Complementarity



## Cooperation

- ▶ The level of cooperation between the FIU and other competent authorities (e.g. LE, supervisors) is critical
- ▶ It is important that the FIU and other competent authorities cooperate and exchange information and financial intelligence
- ▶ FIU should be able to make disseminations to relevant competent authorities
- ▶ It is equally important that the necessary information is available in a timely manner
- ▶ FIU and competent authorities should provide feedback to each other with the objective of improving the quality and timeliness of information exchanged, for instance:
  - ▶ FIU and supervisory agencies could exchange information on the quality of STRs and the results of inspections
  - ▶ FIU and LEAs could exchange strategic analysis of risks including ML/TF methods and trends

## Confidentiality/Security

- ▶ Confidentiality of information is critical to the integrity of the operations of the FIU and other concerned agencies and the overall AML/CFT system
  - ▶ E.g. FIU should have rules in place governing the security and confidentiality of information, including procedures for handling, storage, dissemination, and protection of, and access to, information
- ▶ If reporting entities aren't confident that the information contained in STRs will be treated confidentially they will be reluctant to submit reports
- ▶ For instance, the leak of information that passes between the FIU and LE agencies could easily compromise an ongoing LE investigation
- ▶ Assessors will therefore closely examine the practices and protocols in place to secure information at all stages of the receipt, analysis and dissemination processes

THANK YOU



## The Relationship between Supervisors and the FIU

East AFRITAC Workshop  
Risk Based Approach for Financial Sector  
Supervisors

Zanzibar

September 5–9, 2016

International Monetary Fund

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## Overview of roles

- ▶ Both the supervisor and FIU play key roles in implementing an effective AML/CFT framework.
  - ▶ Supervisors are required to ensure that reporting entities are subject to adequate regulation and supervision and are effectively implementing their obligations under the Law.
  - ▶ The FIU is part of, and plays a central role in a country's AML/CFT operational framework, and provides support to the work of other competent authorities (which includes supervisory agencies)
- ▶ The ability for each agency to share information should be set out in Law.
  - ▶ An effective arrangement includes both formal and informal information sharing.

## Objectives/Benefits of Cooperation

- ▶ Both institutions are likely to be better informed about:
  - ▶ ML/TF risks nationally, by sector and by institution
  - ▶ Measures used by institutions to comply with laws and to mitigate risks.
- ▶ Synergies are likely to arise by combining resources and skill sets
- ▶ Cooperation/coordination sends message to supervised persons about the strength of national AML/CFT arrangements

## AML/CFT Supervision

- ▶ Offsite monitoring involves using a range of data and information to develop a risk profile of the institution.
- ▶ Some of information is obtained from the institution as well as from open or public sources.
- ▶ The FIU also has information that it can share with the supervisor and this information can be used to focus supervisory efforts.
  - ▶ Reporting performance
  - ▶ Views on compliance
  - ▶ Responsiveness to requests for information
- ▶ Information held by the FIU can be used by the supervisor to focus supervisory activities.

## What this means for the Supervisor

- ▶ Dialogue between supervisory staff and FIU which would consider the following areas:
  - ▶ Is the institution submitting other reports as required.
  - ▶ Does the institution respond in a timely fashion to information requests from the FIU?
  - ▶ Does the FIU have other concerns about the institution's approach to AML/CFT which may impact the supervisor's assessment of the institution's approach to compliance?

## What this means for the Supervisor

- ▶ Dialogue between supervisory staff and FIU which would consider the following areas:
  - ▶ Is the institution submitting STRs?
    - ▶ What is the quality of these? Poor STRs might suggest a lack of staff training or understanding of requirements.
    - ▶ What is the level of STR reporting relative to the institution's peers?
    - ▶ Is it submitting a very low level compared with banks operating in similar markets?

## Sharing with the FIU

- ▶ The FIU should have access to the widest possible range of financial, administrative and law enforcement information.
  - ▶ This includes relevant information collected and/or maintained by other authorities, including supervisory authorities.
- ▶ The types of information that can be shared with the FIU could include:
  - ▶ Findings from onsite examinations
  - ▶ Results from offsite supervisory activities
  - ▶ Sanctions imposed or remedial actions taken
  - ▶ Onsite examination work plan/schedule

## Sharing with the FIU

- ▶ Examples of Concerns Identified By Supervisor that Could Contribute to Poor performance re STRs
  - ▶ Inadequate information Systems
  - ▶ Weak corporate governance practices
  - ▶ Deficient policies/procedures
  - ▶ Ineffective compliance function
  - ▶ Weak internal audit function
  - ▶ Lack of systematic staff training program
  - ▶ High staff turnover

## Why share with the FIU?

- ▶ The FIU conducts strategic analysis and uses information, including data provided by competent authorities, to identify money laundering and terrorist financing related trends and patterns.
  - ▶ This information is used by state entities, in the context of for example the National Risk Assessment, to determine ML and TF related threats and vulnerabilities.
  - ▶ Strategic analysis may also help establish policies and goals for supervisors.
  - ▶ Such analysis could be used to determine the scope of examinations – for example, thematic examinations which focus on a specific area or issue.



## Not everything has to be shared

- ▶ The FIU will not share specific suspicious transaction reports or information that it has provided to law enforcement agencies.
- ▶ The supervisor may want to not share outcomes from prudential supervision activities.

## Joint examinations

- ▶ The relationship between the supervisor and FIU could extend to conducting joint onsite examinations.
  - ▶ There are benefits of this – sharing approaches and experiences.
  - ▶ In a risk based world, it could release supervisors to review other aspects of an institution's AML/CFT framework

THANK YOU



## Understanding ML/TF Risk

### East AFRITAC Workshop Risk Based Approach for Financial Sector Supervisors

Zanzibar

September 5–9, 2016

International Monetary Fund

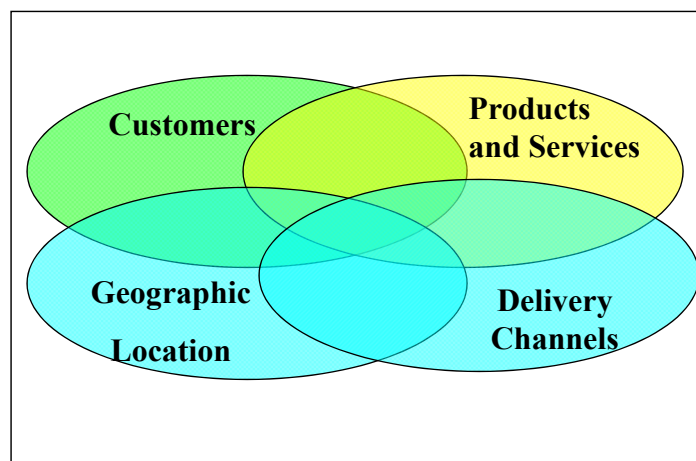
30

## Sources of ML/FT Risk

Financial institutions are exposed to ML/FT risk from a number of sources including

- ▶ Products and Services
- ▶ Customers
- ▶ Delivery Channels
- ▶ Geographic Regions

## Sources of ML/FT Risks



### Examples of Customers (Natural Persons)

- ▶ Salaried Individuals
- ▶ Self Employed Individuals
- ▶ Politically Exposed Persons
- ▶ High net worth Individuals
- ▶ Non residents

### Examples of Customers (Legal Persons)

- ▶ Local Corporations large
- ▶ Local Corporations SMEs
- ▶ Multinationals
- ▶ NGOs
- ▶ Trusts



## Examples of Customers (Legal Persons)

- ▶ Parastatal
- ▶ Government Departments
- ▶ Casinos
- ▶ Professional Service Providers

## Examples of Products/Services

- ▶ Deposit Accounts
  - ▶ Savings
  - ▶ Current
  - ▶ Fixed
- ▶ Loan Products
- ▶ Wire Transfers

## Examples of Products/Services

- ▶ Trade Financing
- ▶ Safe Deposit Boxes
- ▶ Private Banking
- ▶ Correspondent Banking

## Examples of Delivery Channels

- ▶ Banking Hall
- ▶ ATM
- ▶ Internet
- ▶ Mobile Phone
- ▶ Agent Banking

## Examples of Geographic Location

- ▶ Capital cities
- ▶ Commercial centers
- ▶ Rural communities
- ▶ Border areas
- ▶ Countries and regions to which an institution is exposed via ownership, customers etc.

## Structural Factors Affecting Risk

- ▶ Size of Institution
- ▶ Ownership Characteristics
  - ▶ Privately/Publicly held
- ▶ Organizational Characteristics
  - ▶ Branch
  - ▶ Subsidiary
  - ▶ Member of large International Group

## Applying the Risk Framework

- ▶ Risk analysis can be undertaken at a country or sector level to understand risk in the general environment
- ▶ **Question** - What are the main sources of ML/TF risks in country X or in the banking sector of country X in the context of customers, products/service, delivery channels and geographic regions
- ▶ The analysis is then applied to specific institutions to understand institution-specific risks
- ▶ **Questions:**
  - ▶ Which of these types of customers does the bank have
  - ▶ Which of these products/services does the bank offer
  - ▶ Which delivery channels does it use
  - ▶ To which geographic regions is the bank exposed

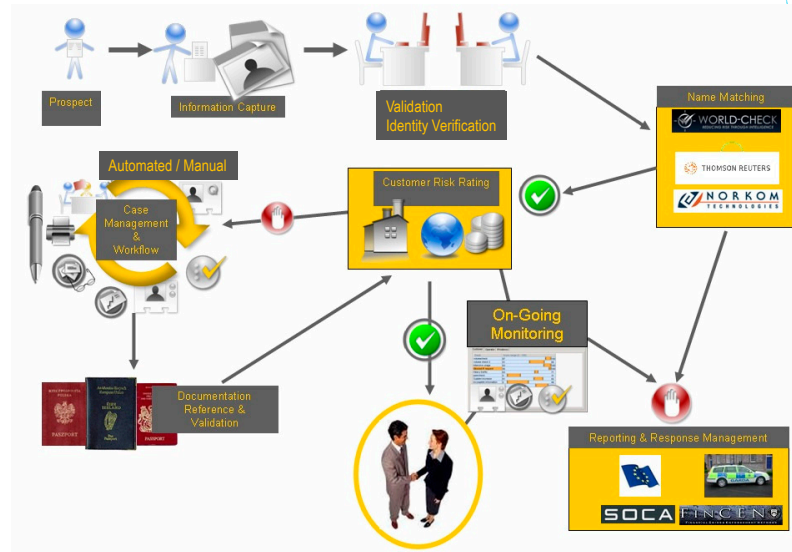
THANK YOU



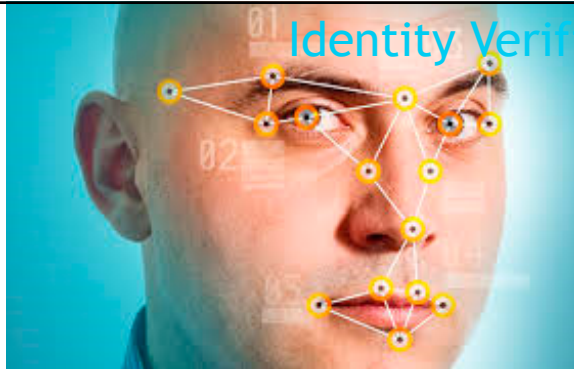
## Tools and resources for assessing Customer Risk

## Tools to Conduct Customer Due Diligence

## CDD Work Flow



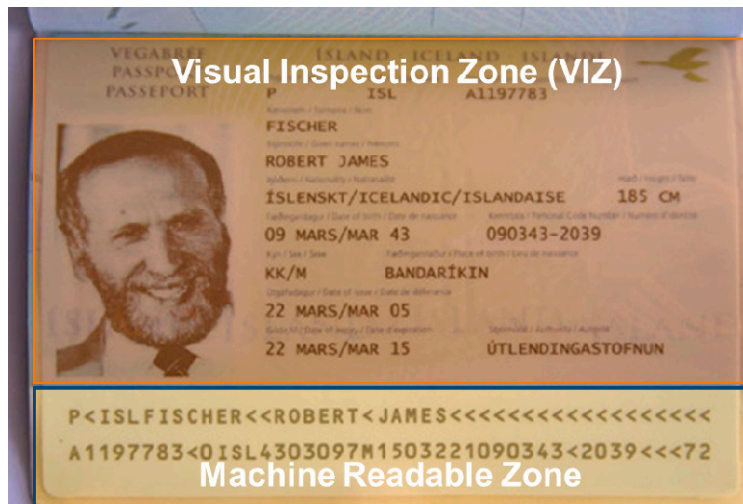
## Identity Verification



Identity Verification is at the core of any CDD program

- Lexis Nexus
  - Instant Verify International
- Experian
  - Prove ID
- Thomson Reuters
  - Passport-Check

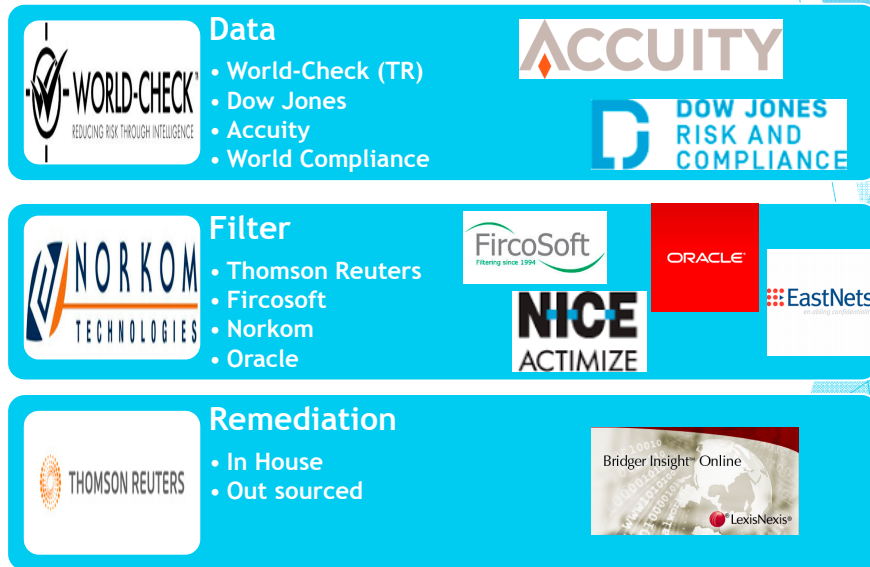
## Passport Check



## Tools for Customer Screening



## Components



## Risk Data





## Sanctioned Individuals & Entities

Over 200  
Sanctions Lists

Embargo Lists -  
Vessels / Ports  
/ Airports

Is the Data De -  
Duplicated?

Over 250 major  
regulatory Lists

Does the Data  
contain good  
quality  
Secondary  
Identifiers?

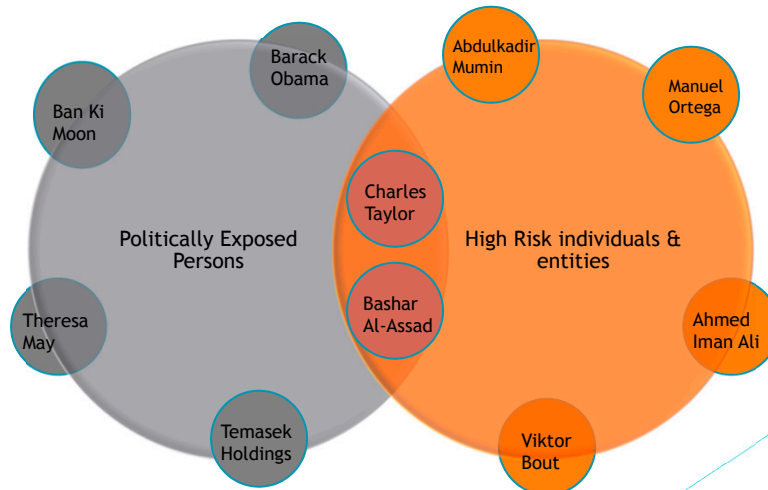
Over a 100 law  
enforcement  
releases

Is the Data  
Enhanced?

## High Risk Entities & Individuals

FATF Predicate offences			
Aircraft Hijacking and Aviation crimes	Embezzlement / Theft	Illicit trafficking in stolen and other goods	Price fixing / Illegal cartel formation / Anti trust violations
Arson (financial)	Environmental Crimes	Insider Trading & Market Manipulation	Racketeering
Arms Trafficking	Extortion	Migrant Smuggling / Slave / Child Labour	Robbery (high value)
Bribery & Corruption	Forgery	Money Laundering	Securities Fraud
Cheating	Fraud	Narcotics Trafficking	Sexual Exploitation of children (financial)
Counterfeiting and Piracy of Products	Tax evasion / Tax Fraud	Organised Crime	Smuggling
Currency counterfeiting	Hostage Taking / Kidnapping	Pharma trafficking / Illegal distribution / production	Terrorism / Terror Financing
Cybercrime / Hacking / Phishing	Human Rights Abuse / Human Trafficking	Piracy (sea)	War crimes

## PEPs & SOEs



## PEP Criteria

### World-Check

- International Organizations
- Regional organizations
- National Governments
- Sub-national governments
- Local Governments
- Non Government
- SOEs

### Accuity

- Legislative Body
- Judiciary Body
- Executive Body
- Armed Forces
- SOEs
- Central Financial Institutions
- Diplomatic Body
- International Sports Committee Members

## Filtering Solutions



Single Name Check

Web based  
Batch Screening



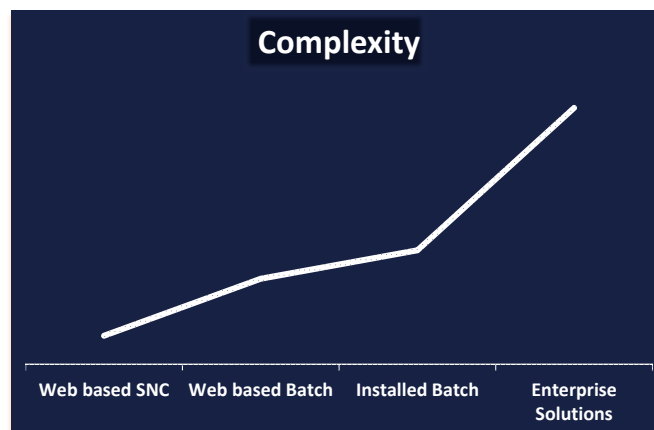
Installed Batch  
Screening



Enterprise Solutions



## Filtering Solutions



## Single Name Check

Manual

Resource intensive

Easy to use

Low volumes

Optional audit trail

## Web Based Batch Screening

Batch uploads

One time and Ongoing screening

Restrictions on number of records

Data stored offsite

Relatively easy to use

Audit trail



## Installed Batch Screening

Batch uploads

One time and Ongoing screening

Restriction on number of records

Data stored onsite

Installation & IT support

Audit Trail

## Enterprise Solutions

Screen millions of records

High degree of automation

Data stored onsite

Allows real time screening

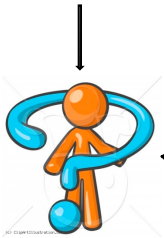
Long testing duration

Very effective

## Filtering Strategy

## Basic Risk Based Approach

CUSTOMER  
DATA



### Group 1

- Highest Risk profiles
- Lowest sensitivity settings
- Broadest false positive rules

### Group 2

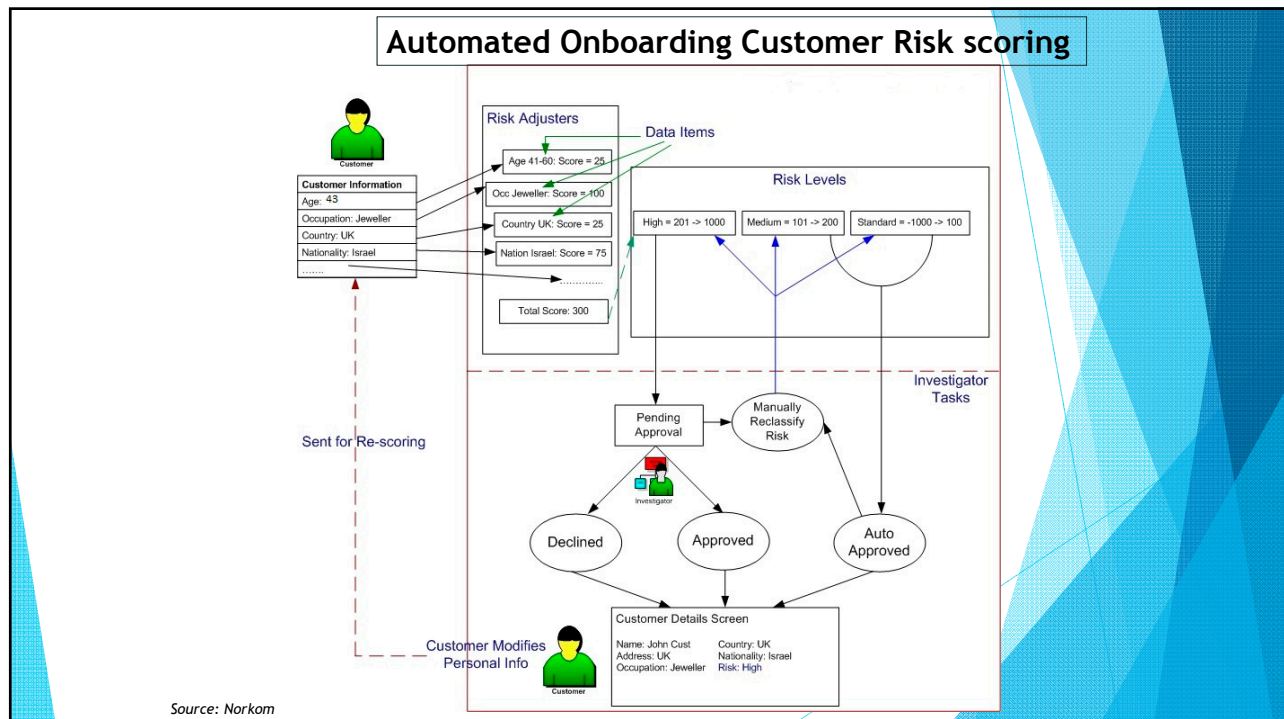
- Medium risk profiles
- Moderate sensitivity settings
- Moderate false positive rules

### Group 3

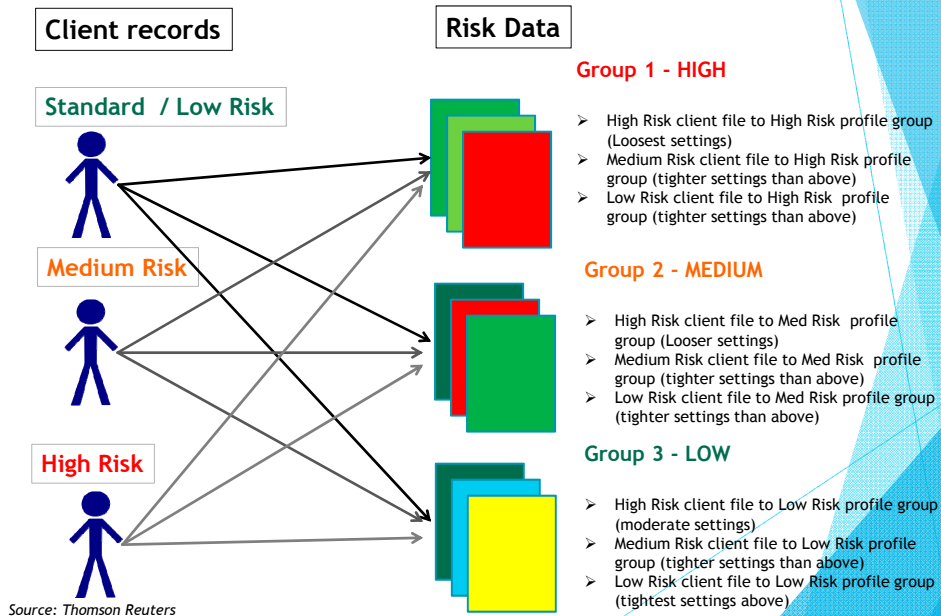
- Lowest risk profiles
- Highest sensitivity settings
- Tightest false positive rules

## Pre Screening Categorization of customers

- A more advanced filtering strategy requires a pre screening categorization of customers into 3 or more risk buckets
- Based on
  - Type of Product / Service
  - Type of Customer
  - Type of Delivery Channel
  - Jurisdictional Risk
- Risk categorization can be automated



## Advanced Risk Based Approach



## Periodic Customer Screening



## Tools to measure Jurisdictional Risk

### Sources to measure Country-Risk

- FATF
- Transparency International
- World Bank
- CIA The World fact book
- Freedom House
- Sanctions programs - OFAC, UN, EU ...
- OECD
- Polity IV.....

### Resources available

- Basel AML Index - Free resource

[https://index.baselgovernance.org/sites/index/documents/Basel\\_AML\\_Index\\_Report\\_2016.pdf](https://index.baselgovernance.org/sites/index/documents/Basel_AML_Index_Report_2016.pdf)

- Promontory - AML & Sanctions Atlas
- Country-Check



## Country-Risk Ranking

Country-Risk is a country focused risk index that ranks all 247 countries around the world according to their level of risk.

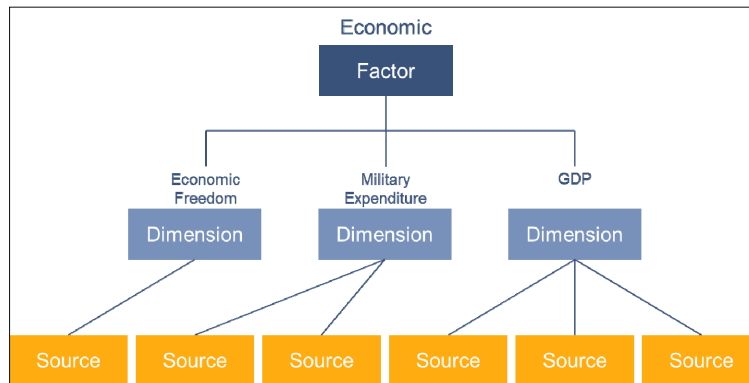
Public data from 200+ reputable online sources aggregated into 42 Dimensions (ex: poverty, AML controls, freedom of the press, fraud, etc)

Each Dimension feeds into 3 primary Risk Factors (Political, Economic, Criminal)

The 3 Risk Factors are then aggregated to obtain individual country risk scores - the Master Index number.

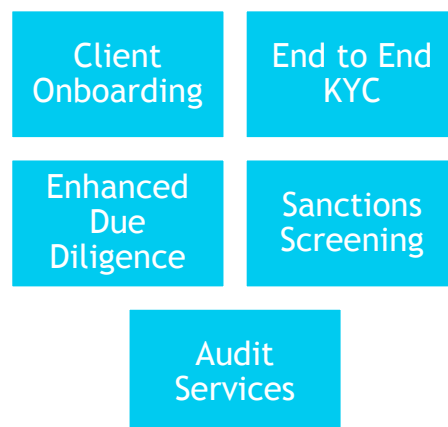
Source: Thomson Reuters

## Country-Risk Methodology



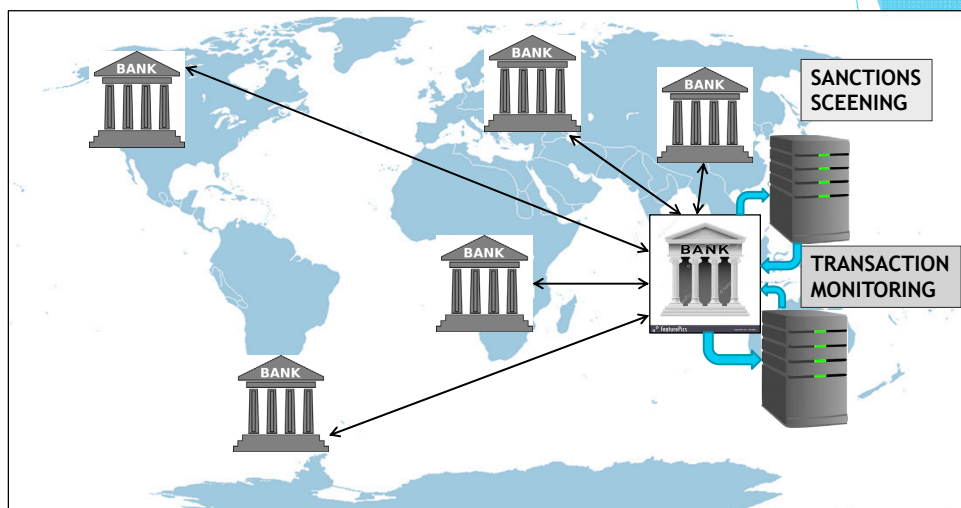
Source: Thomson Reuters

## Managed Services



## Tools for Transaction Monitoring

### Transactions





## Sanctions Filtering

- Applicable to all wire transfers
- Time critical - Done in real time
- Limited remediation time
- Limited number of watch lists
- Critical to reduce false positives
- Quality secondary identifiers important
- Automation ensures a effective, efficient, robust process

The screenshot displays a web-based interface for sanctions filtering. The top navigation bar includes links for Login, Home, Full Screen, Live Messages, History Messages, Manual Screening, Reports, Audit, Administration, and Account. Below this, there are tabs for Pass, PENDING, and Fail. The main content area is divided into several sections:

- Transaction Details:** Includes fields for Type (BUSINESS), Unit (LONDON), Copy Serv., In/Out, and Transaction ref. (18010222314001). It also shows Sender (CRLFRPPXXX), Receiver (CRESCHZ10A), Amount (133.00 GBP), Created on (2013/06/27 16:36:48), and Value date (2017/03/02).
- Origins:** A table listing origins with columns for Designation, Type, and Priority. The entry shown is "AL-QAIDA-Ba" with Type "Individual" and Priority "0".
- Watch List Filtering:** A section with a search bar and a list of watch list entries. The entries include:
 

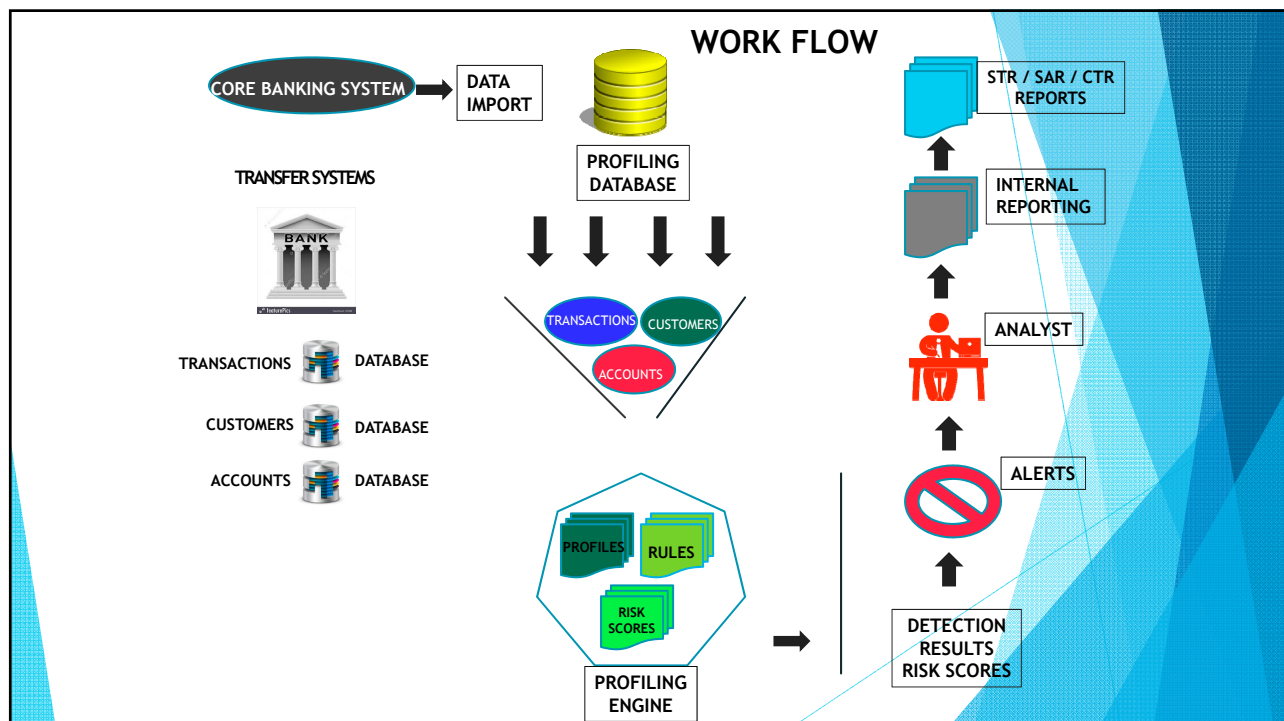
HR ID	4 bits (4/8)	Tag	Match
BOE0000005	50K	100	88
BOE200020	50K	100	
BOE000901	50K	100	
BOE000905	50K	87	
- Search Codes:** A section with fields for Passport, National ID, BIC codes, and Confidentiality.

The text "Watch list filtering" is overlaid on the bottom right of the screenshot.

Source: Fircosoft

## Transaction Monitoring

- Encompasses all transactions performed by all customers across business units
- Performed retrospectively - post partum
- Much broader than sanctions screening - PEP Lists / Terrorist Financing / Negative News
- Detection scenarios / rules built into filter for all Product Types
- Case management Customer level / Customer Risk Profile
- Regulatory reporting capability - SARs / STRs





## Filter Detection Scenario's

### - examples

Detection Scenario	Details
Transactions above limit (amount and volume)	<p>This scenario can be executed at:</p> <ul style="list-style-type: none"> <li>a) Account level to detect the aggregate amount of transactions in an account greater than a predefined amount limit</li> <li>b) Account level to detect the count of transactions in an account that is greater than a predefined volume limit</li> <li>c) Customer level to detect the aggregate amount of transactions, across all accounts belonging to a single customer, that is greater than a predefined amount limit</li> <li>d) Customer level to detect the count of transactions, across all accounts belonging to a single customer, that is greater than a predefined volume limit</li> </ul>
Wash transactions	<p>This scenario can be executed at:</p> <ul style="list-style-type: none"> <li>a) Account level to detect the amount of an inward transactions in an account equal to the amount of an outward transactions in an account</li> <li>b) Account level to detect the aggregate amount of inward transactions in an account equal to the aggregate amount of outward transactions in an Account</li> </ul>

Detection Scenario's	Details
Transaction to/from Customer on a watch list	<p>This scenario can be executed at:</p> <ul style="list-style-type: none"> <li>a) Transaction level to detect transactions to/from a customer on a watch list</li> </ul>
Transaction from Offshore Financial Centers	<p>This scenario can be executed at:</p> <ul style="list-style-type: none"> <li>a) Transaction level to detect transactions from Offshore Financial Centers</li> </ul>
Transaction to/from Customer on a PEP Watch list	<p>This scenario can be executed at:</p> <ul style="list-style-type: none"> <li>a) Transaction level to detect transactions to/from a customer on a politically exposed persons watch list</li> </ul>
Customers who deposit cash by means of numerous credit slips so that the total of each deposit is unremarkable, but the total of all the credits is significant.	<p>This scenario detects structuring, and is executed at Customer level to detect a customer who has numerous non significant deposits totaling a large amount.</p>
Multiple accounts containing transactions to a small number of foreign beneficiaries, in high risk countries.	<p>This scenario is executed Customer level to detect a customer who has multiple accounts containing transactions to a small number of foreign beneficiaries, in high-risk countries.</p>

The screenshot shows the 'Case Management - 388179705:54167' window. The 'Summary' tab on the left shows the current state as 'Possible Match', changed by 'System User' on '18/02/10 14:50'. Available actions include 'Change State', 'Change Assignment', 'Assign to Me', 'Add Comment', and 'Add Attachment'. The 'Summary' section lists details: Id (WC-521), Key (388179705:54167), Assigned To (Simon Richardson), Created On (18/02/10 14:50), Priority (High), Review Flag (match), Description (John Breidenkamp - potential PEP match), Escalation (false), and Priority Score (0). The 'Details - Investigation' tab shows 'Working Records' and 'Reference Records' for Customer Data and World-Check. The 'Relationships' table lists records R1 through R5 with their respective rule names and priority scores. The 'Audit Log - Comments' section shows two comments by Simon Richardson dated 18/02/10 15:12 and 18/02/10 15:11, with the second comment stating 'Likely PEP match. Refer to Compliance Officer'.

## Transaction Monitoring Alert Screen

Source: Oracle

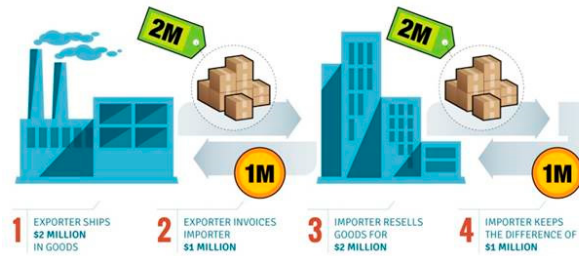
The screenshot shows the 'Case Details' screen in the Norkom system. The top navigation bar includes links for Home Page, My Menu, Administration, Screen Configuration, Workflow Configuration, Case Management, Watchlist Management, Scenario Manager, and Help. The 'Case Details' section displays various fields: Case Reference (C2000051046), Case Name (RBS Sample Case), Assigned To (Analyst, MLRO Compliance), Reporting Location (UK), Domestic (AML), Risk Weighting, Last Updated by, Alternate Case Id (Sample Case), Created By (Analyst, MLRO Compliance), Created Date (19/05/2006 14:07:26), Classification (Case Under Investigation), Status Date (19/05/2006 00:00:00), Closed Date, Number of Alerts (1), and Priority (0). Below this, the 'Alerts' section shows a table with columns for Customer Id, Alert Id, Assigned To, Last Updated Date, and Created Date. The 'Case Workflow' section includes a 'Select Workflow Action' dropdown and a 'Select Action Reason' dropdown. An 'Audit Comments' section is also present. A small inset window shows a 'SOCA' (Serious Organized Crime Agency) report.

## Regulatory Reporting Capability

Source: Norkom



## Trade Based Money Laundering



Rules build into Filter Solutions for TBML scenarios

Country Risk, Sanctions Data, SWIFT BIC Codes, Dual Use Goods data can be Leveraged



TRADE DATA COMPLIANCE LINK

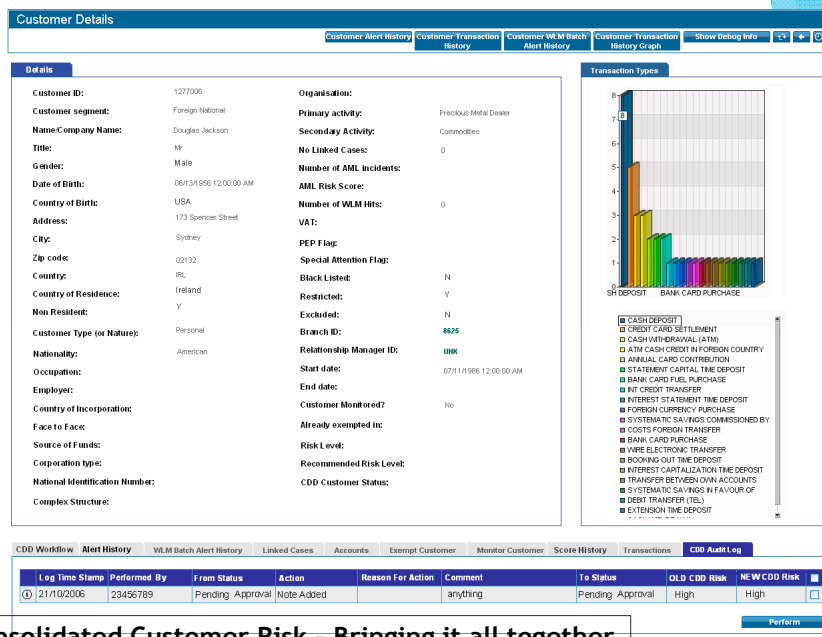
Image credit: Combating Terrorism Technical Support Office

## Key Considerations

- The quality of the data which is going into the filter - is the data complete and accurate?
- The filter itself - are names being matched appropriately?
- The quality of the output - how is this being investigated and monitored?
- Assurance testing - are the tools & resources in place working today as intended yesterday?



## Choosing a solution

- Who is the vendor?
  - Talk to peers
  - Reputation is important
  - FI responsible for compliance not vendor
- What is the scope of the product?
  - Does the database merely contain information about HRI/E or does it cross link networks.
- How sophisticated is the matching software?
  - How / Where is it hosted
  - What are the redundancy measures
- What is the methodology?
- How does the vendor compile the database?
- What sources does the database use?
- How often is the product updated?



Consolidated Customer Risk - Bringing it all together

Source: Norkom



# Assessing the Quality of Risk Management

## East AFRITAC Workshop Risk Based Approach for Financial Sector Supervisors

Zanzibar

September 5-9, 2016

International Monetary Fund

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## Key Features of a Sound Risk Management System

- The basic elements contributing to a sound risk management environment are:
  - Active board and senior management oversight;
  - Appropriate risk analysis, policies and procedures;
  - Comprehensive and timely measurement, monitoring and reporting.
  - Effective internal controls.

**BOARD OF DIRECTORS & SENIOR  
MANAGEMENT**

## Role of the Board of Directors

- Developing business model and strategic plan
- Guiding integrity risk analysis
- Determining risk appetite
- Approving policies to guide business operations
- Providing adequate resources for business operation
- Exercising ongoing oversight of management
- Ensuring compliance with laws & regulations
- Ensuring a balanced culture, leading by example

## Board and senior management: fit and proper

- Integrity Screening:
  - people involved in policymaking
  - supervisory board members
  - some shareholders
  - openness towards the supervisor
  - relevant background information
    - criminal records
    - financial soundness
    - supervision compliance
    - tax compliance
    - administrative offences
    - "other" antecedents

## Board and senior management: fit and proper

- Suitability screening
- Position-specific
- Reassessed whenever someone gets a new position
  - the appointee's curriculum vitae
  - the relevant job profile
  - an overview of the appointee's knowledge and experience in a management board or supervisory board
  - the manner in which the selection process has been carried out
  - the reasons why the appointee is considered suitable for the position.

## Assessment of Suitability

- Such examinations involve the following elements:
  - assessing the information supplied
  - examining the available supervision information, including any experiences we have with the person in other positions
  - examining data from public sources such as the internet and special databases
  - conducting telephone interviews with three persons given as references
  - conducting an assessment interview with the appointee

## Factors Affecting Effectiveness of Board of Directors

- Skills and experience of board members
- Frequency of meetings
- Quality of information provided to the board (reporting)
- Documentation of deliberations and decisions
- Oversight mechanisms including appropriate use of board committees

## Role of Senior Management

- Implementing the business model and strategies approved by the board
- Developing procedures to give effect to the policies approved by the board.
- Developing internal control systems to ensure consistent adherence to policies
- Ensuring use of effective information systems to generate data necessary to manage operations
- Implementing effective reporting systems



## Role of Senior Management

- Acquiring resources (internal and external) necessary for business operations.
- Internal Resources include staff with requisite skills, physical infrastructure and management information systems.

## Integrity risk analysis

## Some essential questions

### ▶ What is the nature of the risk exposures?

- Customer
- Products/services
- Delivery channel
- Geographic region

### ▶ How well are risks managed?

- Are the established policies, procedures and limits adequate to manage the institution's risk exposures
- Is the institution adhering to the established policies and procedures
- What is the incidence of breaches of policies and procedures
- Have there been breaches of legal requirements

## Some essential questions

### • What are the lessons going forward

- What needs to be done to address risk management failures
- What does the data tell us about how the institution's risk profile is changing
- Does the institution need to amend its policies and procedures

## Policies and Procedures

### POLICIES


- The policies establish the framework for transitioning from the risk analysis, the risk appetite and the business model and strategy to the ongoing business operations.
- They establish the framework that sets out how the entity will achieve the objectives implicit in the business model and strategy and control any risks
- They should provide for adequate and timely identification, measurement, monitoring, control and mitigation of the risks posed by its key activities at the business unit and institution-wide levels

## PROCEDURES


- Set out at an operational level the day to day measures will be used to give effect to the policies
- They should establish clear lines of authority, responsibility and accountability across the institution's various business activities

## Policies and Procedures

- Subject to review when there are changes to
  - Periodic review of integrity risk analyses
  - Changes in risk appetite
  - The business model and strategy
  - Relevant external events
  - Changes in legal requirements



## Monitoring and Reporting



## Monitoring Risk

- Institutions should at all times be able to monitor risk at an individual and aggregate level.
- Risk is not a static phenomenon and needs to be constantly monitored.
- Monitoring also provides important information on the direction of risk

### Example: High net worth individuals (HNI)

- How many HNIs do we have and are any PEPs included
- Do we have more HNIs in March 2015 than we did in September 2014
- Is their CDD information up to date; what do we know about their source of funds/wealth
- Are there any compliance issues with these HNIs
- What is the amount held on deposit for each HNI and for all HNIs
- Are the deposit balances of these customers increasing or decreasing
- What are the exposures at group level
- What is the level of HNIs cross-border transactions by country and region (especially high risk countries)
- Has there been an increase in the number and value of cross-border transactions that HNIs are undertaking with specific countries or regions

### Reporting

- Senior management must ensure that there is effective reporting to the board
- A bank's MIS should provide the board and senior management with timely, accurate, relevant and easily understood information concerning the institutions' risk profile.
- Regular reporting should be done to all persons involved in the management of risk



## INTERNAL CONTROLS

### Internal controls

- Internal Controls protect the integrity of the risk management system
- They are designed to ensure that the system works as intended
  - They also promote compliance with relevant laws, regulations
  - The separation of critical functions (e.g. risk management, accounting, audit and compliance) is an example of an internal control mechanism

## The Compliance or Risk Management Function

- Responsible for ensuring that the AML/CFT risk management framework is effectively employed
- Have a direct reporting line to the relevant compliance or risk management committee or senior management;
- Must be supported by an effective management information system
- Must have adequate resources to perform its duties.

## Internal Audit Function

- Internal audit's mandate is to provide:
  - assurance services; and
  - consultancy services.
- This is achieved by evaluating:
  - risk exposures relating to governance structures, operations & information systems; and
  - Effectiveness and efficiency of controls - reliability & integrity of financial, operational information, compliance with laws, regulations and contracts.

## Preconditions of Effective Internal Audit

### ■ Prerequisites of Effective Internal Audit:

- permanent function;
- board audit committee;
- independence;
- objectivity; and
- skills and competence.

**THANK YOU**



LEGAL  
DEPARTMENT

# Off-site Tools

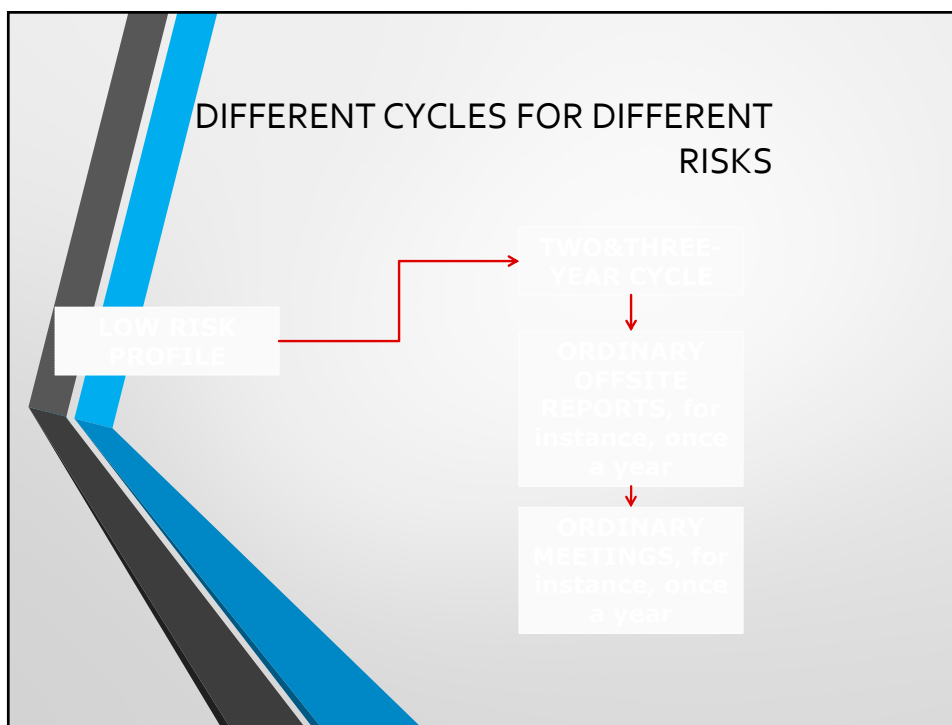
## East AFRITAC Workshop Risk Based Approach for Financial Sector Supervisors

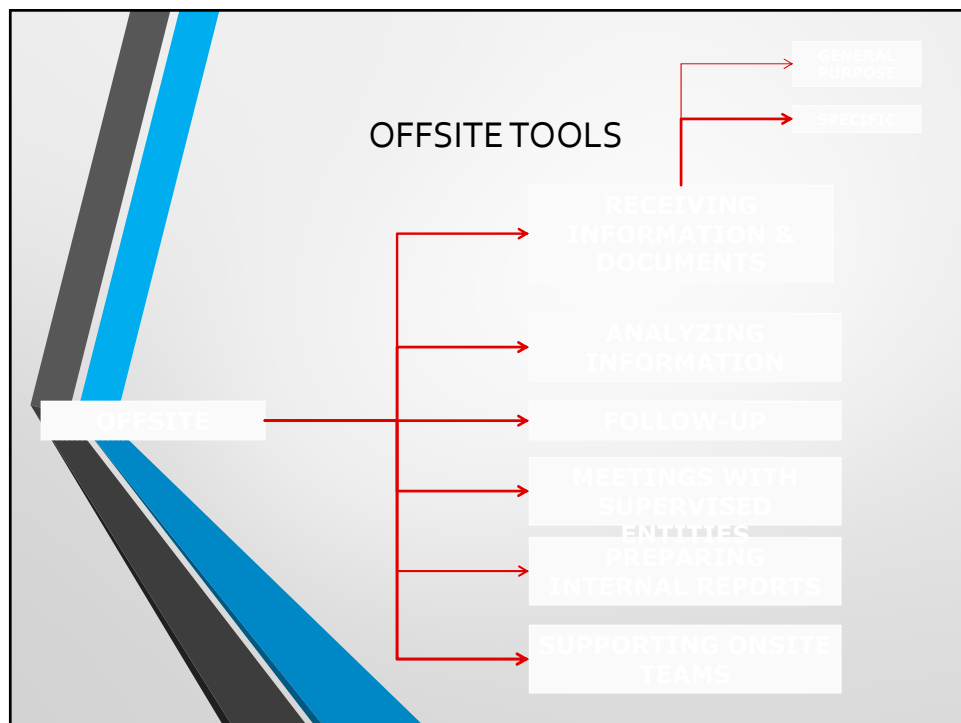
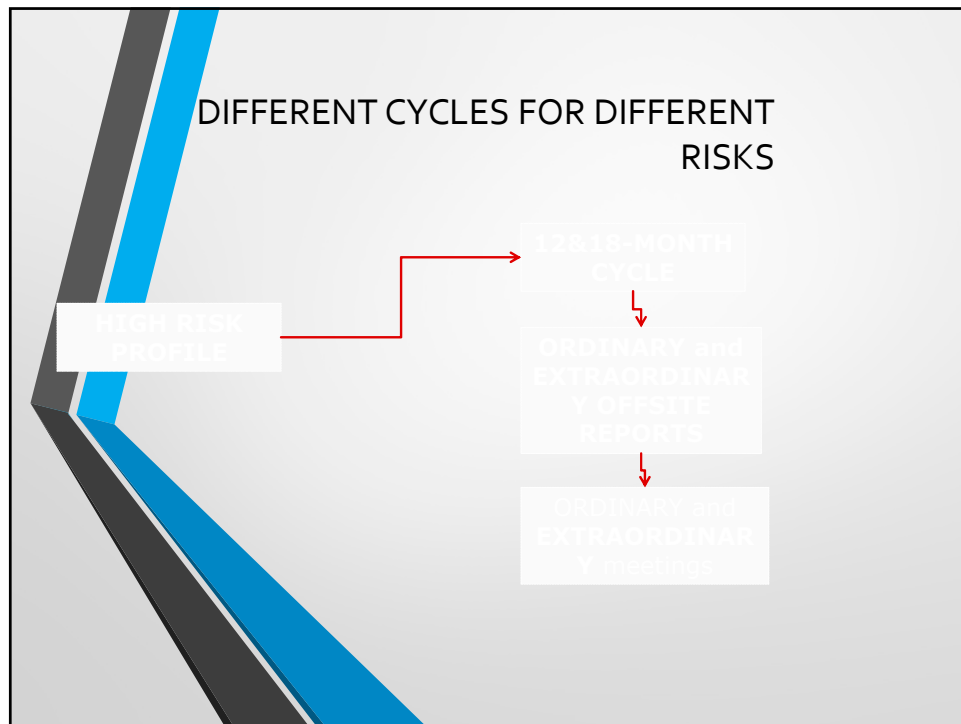
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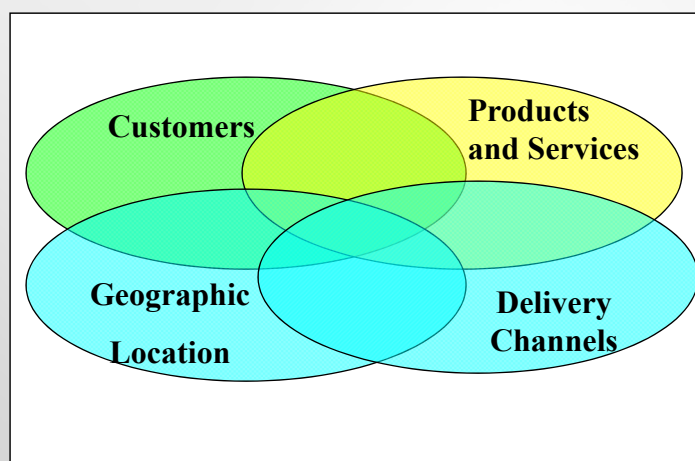




## Factors for Assessing Risks

- Identify sources of risk: Primary Responsibility of FIs. But Supervisors need to know
- Type of FI: e.g. banks vs. insurance
- Structural and ownership issues: ownership, size/volume, complexity (clients, services, transactions, etc.) organizational culture (conservative/aggressive), etc.
- Financial and policy issues: grown, liquidity, capital, etc.
- General business line issues:
  - Customers
  - Products/services
  - Markets served/geographic zones
  - Delivery channels
  - Other...
- FI specific business lines (high risk)
- Typologies: on clients, products/services, sectors, ML/FT methodologies (FIU, STRs, others)

## Common Risks within Financial Institutions





## Assessing Risks – Customers

- Customer Acceptance Policy
- Customer base - elements to be considered:
  - Natural
  - Legal
  - Legal arrangements

## Assessing Risks – Customers

- PEPS
- High net worth individuals
- Non-residents

## Assessing Risks

- Products/services:
  - Deposits: type, currency, sectors, zones
  - Wire transfers
  - Trade financing
  - Correspondent banking
  - Securities trading for clients

## Assessing Risks

- Geographic location/zone risks:
  - Of clients, branches, subsidiaries, affiliates
  - Domestic: regions, free zones
  - International: countries, regions, ICRG, UN, other official listings

## Assessing Risks – Delivery Channels

- Branch - Face-to-Face (F2F), Non Face-to-Face (NF2F)
- On-line banking (NF2F)
- Mobile banking (NF2F)
- ATM (NF2F)
- Introducers/Intermediaries (NF2F)

Offsite tools

## Role of Institutional Profile

- Institutional profile is a very central part of an RBS System.
- One of the first tools that needs to be developed.
- It is a constant point of reference.

## Role of the Institutional Profile

- IP provides all information relevant to the supervisory oversight of an institution.
- Provides relevant historic and current information.
- Key to understanding the risk faced by an institution and the extent to which such risks are well managed

## Sources of Information

- Information should be obtained from as many reliable sources as are available:
  - Institution's file
  - Onsite exam reports
  - Offsite surveillance reports
  - Audit reports
  - Annual reports and market intelligence

## Content of Institutional Profile

- **Background**
  - Licensing details
  - Shareholding and ownership structure
  - Organizational structure
  - Group relationships (local and foreign)

## Content of Institutional Profile

- **Business Model**

- Product and Services offered
- Markets served
- Distribution channels including branches and other service centers
- Business Strategies
- Discuss how current economic environment could potentially impact on institution in light of the business model and strategies

## Content of Institutional Profile

- **Board of Directors/ Senior Management**

- List members of Board of Directors
- Describe committees of the board
- List members of senior management
- Describe management committees
- Discuss management vacancies, turnover and succession plans
- Describe overall performance of Board and senior management in context of risk management



## Content of Institutional Profile

- **Financial Performance**
  - Summary of financial performance based on most recent Quarterly Performance Analysis Report
- **Relevant Outcomes of Internal and External Audits**
  - Comment on the occurrence of internal and external audits
  - Highlight significant findings

## Content of Institutional Profile

- **Supervisory Activities Performed and Related Findings**
  - Offsite Surveillance
  - Management meetings
  - On-site inspections
- **Consultations with FIU**

## Maintaining Effective IPs

- Must be produced in consistent and timely manner
- Must highlight all recent events of supervisory significance
  - Changes in ownership and management
  - Introduction of new products and services
  - Financial performance and condition
  - Supervisory concerns

## Data Gathering Tool

- The aim is to collect data that will enable supervisors to possible ML/TF risks within customers, products & services, geographic locations and delivery channels used by supervised entities.
- Some of data collected will be used for the risk assessment tool.
- All of the data, together with other offsite information, will be used in the Offsite Analysis of risks which supervisors perform on a regular basis.

## Identifying data to collect

- Supervisors should identify data to be collected based on factors such as:
  - Their knowledge of the institution's customer bases, products and services, delivery channels and geographic spread of operations.
  - Perceived ML/TF risks related with each of the above.
- A basic risk rating can be assigned to these factors and those which supervisors consider to be of higher risk or more vulnerable to ML/TF should be collected from institutions.

## Types of Data

- The following data could be collected:
  - customer base (resident/non-resident/natural person/legal person)
  - Products by type and customer
  - Information on key products and services
  - Customer risk profile
  - Relationships with high risk customers e.g. politically exposed persons (PEPs) and private banking customers
  - Information on geographic risk
  - Number of suspicious transaction reports

## Issues to consider

- Supervisors should identify which data they may already have through other data collections.
- Where possible data, should be verified against other regulatory reports.
- Data should be analysed to ensure that it is consistent.
- The frequency of collection needs to be determined.
- The data collection should be reviewed to ensure that it captures emerging ML/TF risks.

## Sample Data Capture Sheet

Types of Customer	Number of Customers	Total Deposits	Total Loans
<b>1. Natural Person</b>			
Resident			
Non Resident			
<i>Of which are residents of high risk jurisdictions</i>			
<b>2. Legal Person</b>			
Resident			
Non Resident			
<i>Of which are residents of high risk jurisdictions</i>			
<b>4. Money Remittance</b>			
<b>5. Money Changers</b>			
<b>6. NGO</b>			
<b>7. Real Estate Agents</b>			

## Sample Data Capture Sheet

	Internal Regions		External Regions	
	Region A	Region B	Region C	Region D
<b>Deposits</b>				
<i>Current Accounts</i>				
<i>Savings</i>				
<i>Time Deposits</i>				
<b>Credits</b>				
<i>Cash Secured Loans</i>				
<i>Letters of Credit</i>				
<i>Guarantees</i>				
<b>Other Products</b>				
<i>Wire Transfers</i>				
<i>Trade Finance</i>				

## ML/TF Risk Management Questionnaire

- The questionnaire seeks information from institutions on their AML/CFT risk management policies and procedures in the key risk areas.
- Analysis of the questionnaire will:
  - Assist supervisors identify institutions with a low level of compliance.
  - Be integrated into the Risk Matrix as the 'base-line' to give a complete picture of net ML/TF risk faced by institutions.
- The questionnaire will also have a secondary benefit as it also serves as a self assessment by institutions' management of their level of compliance.

## Risk Mitigants/Controls

- The questionnaire covers the following areas:
  1. Corporate Governance
  2. Risk management
  3. Policies and Procedures
  4. Internal controls
  5. Compliance
  6. Reporting
  7. Staff training
- Responses to the questionnaire should be assessed by the supervisor and included in the risk matrix.

## 1. Corporate Governance

- This assessment will be a high level overview of the management culture and systems at the organizational level. The quality of corporate governance is critical in the assessment of risk management and compliance (policy and regulatory) with respect to AML/CFT.
- In particular, supervisors should assess the following:
  - The policy and decision making process;
  - Mechanisms for the Board/senior management for entering into and monitoring the various business lines, operating units, etc;
  - Policies and processes for assuming, monitoring and controlling risks through the audit and compliance functions.
  - The quality of management information systems and decision making with respect to ML/FT risk management.



## 2. Risk Management

- The assessment of the quality of risk management systems and processes should be focused on two levels:
  1. Risk management systems and controls at the organizational level and business unit level.
  2. Whether the risk management program is focused on identification, measurement and monitoring/control of ML/FT risks assumed, particularly with respect to each of the significant activities identified.

## 3. Policies and Procedures

- The focus of this assessment should, as far as possible, emphasize policies and procedures that are directly relevant to managing ML/FT risks, and compliance with the AML/CFT legal requirements.
  - Policies and procedures should be risk-based. They support implementation of the corporate governance and risk management framework.
  - At a minimum, the supervisor should evaluate the adequacy of policies and procedures with respect to customer acceptance, customer due diligence, monitoring of customer transactions and activities, analysis and reporting of unusual and suspicious activities, recordkeeping, recruitment and training, internal audit and compliance functions.

## 4. Internal Controls

- The analysis and assessment of the adequacy of internal controls should take into account the size, complexity and degree of inherent risks implicit in the significant activities identified.
- Controls can be considered at two levels:
  - Organizational controls refer to AML/CFT systems such as internal and external audit, compliance and management information systems.
  - Business line level internal controls refer to systems designed to minimize risk in the various business activities, customers, etc. of the institution.

## 5. Compliance

- Compliance is one of the key ML/FT risk mitigants and is given prominence in the AML/CFT requirements including the requirement to appoint a Compliance Officer.
  - The assessment of adequacy of AML/CFT compliance is critical for ML/FT risk management, control and legal compliance.

## 6. Reporting

- Reporting is a key component to an effective AML/CFT regime.
- The analysis and assessment of the adequacy of the reporting requirements should allow the supervisor to determine whether the institution has developed the appropriate mechanisms to comply with the reporting requirements set out under the Law.

## 7. Training

- Training is a key component to an effective AML/CFT regime within an institution.
  - The assessment of the training program should be focused on the relevance of the training in the various significant activity areas, and degree of risk.

## Issues to consider

- Prior to providing the questionnaire to institutions, supervisors should fully understand the concepts and issues addressed in the questionnaire.
- Responses provided by institutions need to be complete, descriptive, and in line with the questions asked.
- The assessment of responses conducted by the supervisor reflects an adequate assessment of the adequacy of the responses and areas under review
- Rating assigned to responses are appropriate and consistent.


## Sample Questionnaire

Corporate Governance and Role of the Board	Ref. to Law, Regulation, Guideline	Yes/ NO	Description provided by bank	Comments	Rating
Has the Board of Directors adopted and overseen the implementation of an AML/CFT program? Briefly describe its main features and consistency with the AML/CFT legislation					
Has the Board issued specific risk management policies and procedures with respect to ML/FT risks? Are these policies and procedures					

## Sample Questionnaire

Policies and Procedures: Customer Due Diligence (CDD/KYC)	Ref. to Law, Regulation, Guideline	Yes/NO	Description provided by bank	Comments	Rating
Does the bank have written policies and procedures for CDD/KYC principles approved by the board					
Has the bank implemented AML/CFT policies and procedures CDD measures for Customer Identification and Verification with respect to: 1. Resident individuals 2. Non-resident individuals					

Thank You



# A Risk Matrix

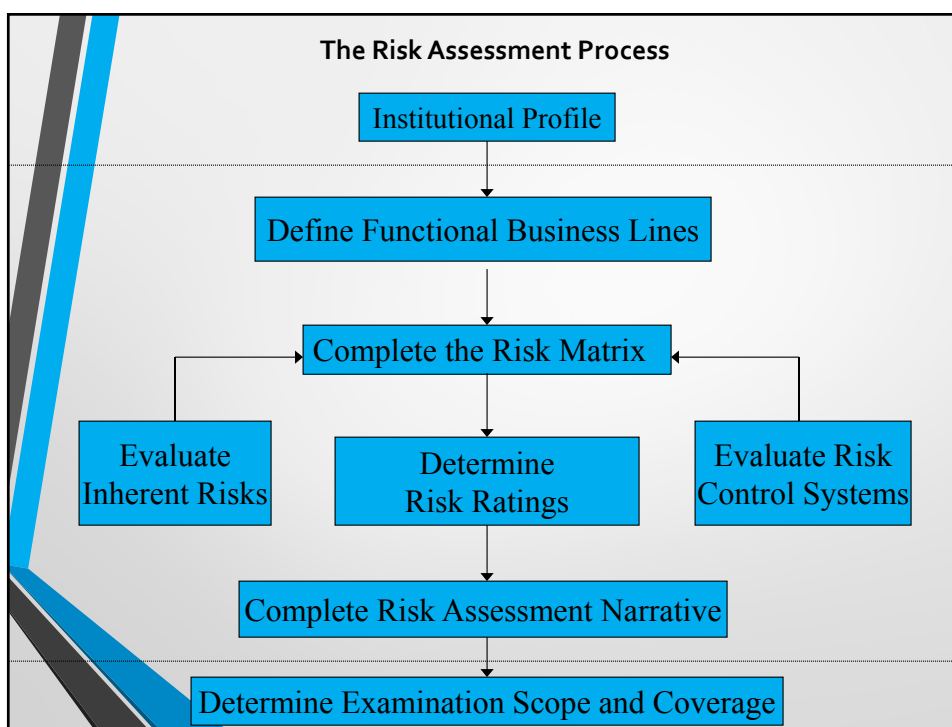
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## Assessing the Institution's Risk

- To ensure supervisory activities are always focused on the areas of greatest risk to the institution, supervisors should perform periodic risk assessments which form part of the institutional profile.
- The purpose of the risk assessment exercise is to identify the type, level, management and direction of all significant risks affecting an institution.
- The risk assessment can consists of two documents, a **Risk Matrix** and a **Risk Assessment Narrative**.
- A **Risk matrix** presented in a tabular format, the type, level, management, and direction of risk inherent in an institution. It forms the basis on which the supervisory plan is built, and on-site examinations activities are determined.
- **Risk Assessment Narrative** describes the type and level of inherent risks in an institution's activities, the adequacy of risk management controls in place, the trend of the risk, and the impact of external risk factors.

## The IMF Risk Matrix

- The matrix takes into account **inherent ML/TF risks** such as:
  - the level of risk appetite, management risk practices and corporate governance, types of activities conducted, and customers and countries with which the institution deals.
- The second aspect is the institution's mitigants and controls established to reduce and control potential ML/TF risks.
- From an assessment of these factors an overall risk profile is derived.
  - The results of the Matrix serve as a key input into AML/CFT supervision, and for planning and conducting onsite inspections, and more generally for developing supervisory strategies for each institution.

### The IMF Risk Matrix

- The Risk Matrix is populated with information from the **Data Collection and ML/TF Risk Management Questionnaire**.
  - Assessment of adequacy of risk management based on analysis of the questionnaire will overtime be replaced with observations and finding from onsite examinations.
- The Risk Matrix is only a tool!
  - It is one part of the assessment of an institution's ML/TF risk and supervisors need to consider all other information and data when developing supervisory plans.

### Identification of factors

- **Supervisors should be able to conduct a general review of a financial institution** by focusing the analysis on the most significant customers, financial products/services, etc., that are relevant or could be potentially exposed to ML/TF risks, their management, and their supervision.
- Such review should consider two key elements: (a) **qualitative factors** and (b) **quantitative analysis**.

## Assessing The Institution's Risk

- Completing the **Risk Matrix** consists of the following steps:
  1. Determine the quantity or level of inherent risk in each functional area or activity;
  2. Assess adequacy of risk management systems to manage risks per functional area;
  3. Determine the aggregate inherent risk rating for each inherent risk across the institution;
  4. Assess the adequacy of risk management systems for each inherent risk across the institution;
  5. Determine direction of overall risk per inherent risk across the institution; and
  6. Determine the overall institution risk rating for the entire institution and the respective direction.

## Qualitative factors

- Need to take into account issues such as:
  - The legal structure and geographic location of the institution;
  - The quality of management and their risk culture (conservative vs. risk-taker);
  - Target market;
  - Regulatory compliance/sanctions history;
  - Years in operation.
- This analysis should be focused on understanding the types of customers, markets, regions, products/services offered, and the organizational culture.
- Internal and external audit information, stock exchange filings, and other similar type of information would also complement this analysis.

## Quantitative analysis

- This involves measurement of the more relevant activities and characteristics of the institution that could generate more ML/TF risks e.g.;
  - Levels and trends in relation to business lines;
  - Primary sources of income;
  - Breakdown of types of customers in the various activities by nationality, geographic region, economic sector, and currency.
- This analysis is, to the extent possible, correlated with the qualitative analysis and potential ML/TF risk exposure.

## Identification of inherent ML/TF risks

- *Structural Factors*: Includes the identification of the main structural characteristic features and business of the institution.
- There are a number of structural or institutional risk factors that can be used as macro-level indicators of inherent ML/TF risks and could include:
  - Size
  - Market or geographic zone
  - Corporate structure
  - Years in operation.

## Identification of inherent ML/TF risks

- *Significant activities*: Includes the identification of the most significant activities and processes within a bank by relevance and vulnerability to potential ML/TF abuse.
  - Activities could be identified using a number of possible criteria and/or components that take into account products/services, lines of business, and specific categories of customers.
  - The components used for these broad categories of activities should be broken down in accordance with the supervisors' view of those that could be considered most vulnerable to abuse.

## Identification of inherent ML/TF risks

- *Individual weights*: Weights will be assigned to each category of significant activities in accordance to their relative significance within the business of activities.
  - This could be determined using one or more analytical approaches such as the amount and proportion of each activity, the income generated by the activity, and the number or type of clients involved. Such weights would also take into account the knowledge and judgment of the supervisor with respect to the institution, ML/FT risks, and the soundness of risk management systems and practices within the institution.

## Identification of inherent ML/TF risks

- *Inherent risk factors:* Inherent risks are those that are intrinsic to or built-in the various significant activities identified, i.e., type of customer, product/service. This takes a high-level view of risk and not to the level of analysis of individual customers.
- There are a number of approaches or factors that can be used to assess the relative level of inherent risks in the significant activities.
  - Supervisory judgment/assessment
  - Results from analysis of risk or identified in typologies
- Irrespective of the approach taken consideration needs to be given to the volume and complexity, especially with respect to the challenges it can pose for know your customer (KYC) and monitoring requirements.

## Assessment of Risk Mitigants/Controls

- Once the inherent risks in each of the significant activities, and their totals, have been rated, the supervisor assesses the adequacy of ML/FT risk management systems and controls (risk mitigants).
- The assessment should be based on the ML/TF questionnaire and supplemented by onsite examinations.
- The main objective is to:
  1. Ascertain the quality of risk management; and
  2. To provide a framework for assessing compliance with AML/CFT regulatory requirements.

## An Example of the Matrix

Structural Factors	Weight (%)	Rating	Total Structural Risk	Trend	
				Total Structural Risk (Previously)	Trend
<b>1. Size</b>					
i) Total Assets	60%	1.1	0.6	0.6	Increasing
<b>2. Corporate Structure</b>					
i) Foreign Capital or JV (5), or ii) National Capital (3)	35%	5.00	1.8	1.8	Stable
<b>3. Financial Group</b>					
i) Yes (5), or ii) No (3)	5%	3.00	0.2	0.2	Stable
<b>Total Structural Risk</b>			<b>2.5</b>	2.5	Increasing
			<b>Medium</b>		

## An example of the Matrix

SIGNIFICANT ACTIVITIES		Quantitative Data						80%	
		Inherent Risk						Risk Trend	
Products & Services	Weight (%)	Client Risk	PEP's Risk	Currency Risk	Geographic Location Risk	Other Risks	TOTAL INHERENT RISK	Inherent Risk (Previously)	Trend
<b>1. Business Risk</b>	60%	2.41	1.44	3.87	1.78		9.50	9.37	Decreasing
(i) Deposits	30%	1.79	1.68	2.89	1.73		7.09	7.14	Decreasing
(ii) Current Accounts	40%	0.98	4.00	3.25	1.36		9.59	9.33	Decreasing
(iii) Savings Accounts	20%	2.00	-	3.60	1.95		9.54	9.87	Decreasing
(iv) Time Deposits	20%	2.88	-	5.15	1.99		9.82	9.51	Increasing
(v) Savings certificates	10%	-	-	-	-	-	-	-	N/A
(vi) Others (e.g. Credit accounts)	5%	2.01	-	3.00	1.87		6.88	6.54	Increasing
<b>2. Credit</b>	18%	-	-	3.14	1.38		4.52	4.28	Decreasing
(i) Cash secured loans	45%	-	-	3.10	1.05		4.14	4.19	Decreasing
(ii) Letters of credit	40%	-	-	2.10	1.80		3.90	3.88	Decreasing
(iii) Guarantees	15%	-	-	3.00	2.00		5.00	5.08	Stable
(iv) Others	0%	-	-	-	-	-	-	-	N/A
<b>3. Other banking products &amp; services</b>	22%	-	-	1.84	8.85		10.69	10.80	Decreasing
(i) Internet banking	25%	-	-	2.00	-	-	2.00	2.00	Decreasing
(ii) Remittance of monetary institutions	45%	-	-	-	-	-	-	-	N/A
(iii) Purchase/sale of fx	15%	-	-	3.00	2.00		5.00	4.48	Stable
(iv) Wire transfer service	15%	-	-	3.00	3.85		6.85	7.42	Increasing
(v) Correspondent banking	3%	-	-	3.00	-		3.00	3.23	Increasing
(vi) Trade finance	8%	-	-	-	-	-	-	-	N/A
		Risk Profile - Inherent Risk						1.8	2.48
								<b>Medium</b>	Decreasing



## Inherent Risks – Customers

Significant Activities	Customer Risk				Total Customers	TOTAL RISK BY ACTIVITY
	Natural Person		Legal Person			
	National	Foreign	National	Foreign		
	Rating	2	3	4		
<b>I. Business Risk:</b>	<b>6,295,027,151</b>	<b>893,749,760</b>	<b>19,875,895,888</b>	<b>166,900</b>	<b>26,884,839,699</b>	<b>3.51</b>
<b>1. Deposits:</b>	<b>6,295,027,151</b>	<b>893,749,760</b>	<b>19,875,895,888</b>	<b>166,900</b>	<b>26,884,839,699</b>	<b>3.51</b>
(i) Current Accounts	104,767,442	89,617,247	16,671,750,319	166,900	16,766,301,908	3.88
(ii) Savings Accounts	1,684,977,799	157,442,849	2,373,365	-	1,844,794,013	2.99
(iii) Time Deposits	4,315,192,534	955,887,200	3,301,772,205	-	8,175,851,938	2.55
(iv) Savings certificates	-	-	-	-	-	0.00
(v) Others (e.g. Card accounts)	97,089,376	802,465	-	-	97,891,841	2.01
<b>2. Credits:</b>	-	-	-	-	-	0.00
(i) Cash secured loans	-	-	-	-	-	0.00
(ii) Letters of credit	-	-	-	-	-	0.00
(iii) Guarantees	-	-	-	-	-	0.00
(iv) Others	-	-	-	-	-	0.00
<b>II. Other banking products &amp; services</b>	-	-	-	-	-	0.00
(i) Internet banking	-	-	-	-	-	0.00
(ii) Purchase/sale of monetary instruments	-	-	-	-	-	0.00
(iii) Purchase/sale of fx	-	-	-	-	-	0.00
(iv) Wire transfers/SWIFT	-	-	-	-	-	0.00
(v) Correspondent banking	-	-	-	-	-	0.00
(vi) Trade finance	-	-	-	-	-	0.00

## Inherent Risk - PEPs

Significant Activities	PEPs Risk		Total Customers Classified as PEPs	TOTAL RISK BY ACTIVITY
	PEPs (domestic and international)	PEPs (foreign)		
	4	5		
<b>Rating</b>				
<b>I. Business Risk:</b>	2,444,619	-	2,444,619.3	4.00
<b>1. Deposits:</b>	2,444,619	-	2,444,619.3	4.00
(i) Current Accounts	-	-	-	0.00
(ii) Savings Accounts	-	-	-	0.00
(iii) Time Deposits	-	-	-	0.00
(iv) Savings certificates	-	-	-	0.00
(v) Others (e.g. Card accounts)	-	-	-	0.00
<b>2. Credits:</b>	-	-	-	0.00
(i) Cash secured loans	-	-	-	0.00
(ii) Letters of credit	-	-	-	0.00
(iii) Guarantees	-	-	-	0.00
(iv) Others	-	-	-	0.00
<b>II. Other banking products &amp; services</b>	-	-	-	0.00
(i) Internet banking	-	-	-	0.00
(ii) Purchase/sale of monetary instrument	-	-	-	0.00
(iii) Purchase/sale of fx	-	-	-	0.00
(iv) Wire transfers/SWIFT	-	-	-	0.00
(v) Correspondent banking	-	-	-	0.00
(vi) Trade finance	-	-	-	0.00

## Inherent risk - Currency

RISK BY TYPE OF CURRENCY						
SIGNIFICANT ACTIVITIES	Local Currency		Foreign Currency		TOTAL AMOUNT THE CONSOLIDATED OPERATIONS	TOTAL RISK BY ACTIVITY
	Non-cash	Cash	Non-cash	Cash		
Rating	2	3	3	4		
<b>I. Business Risk:</b>	-	69,457,103,938	-	15,909,590,568	85,366,694,506.2	3.19
<b>1. Deposits:</b>	-	20,311,471,709	-	6,573,367,991	26,884,839,699.4	3.24
(i) Current Accounts	-	12,593,833,262	-	4,172,468,548	16,766,301,809.7	3.25
(ii) Savings Accounts	-	636,483,050	-	1,208,310,962	1,844,794,012.6	3.65
(iii) Time Deposits	-	6,983,263,555	-	1,192,588,383	8,175,851,938.2	3.15
(iv) Savings certificates	-	-	-	-	-	0.00
(v) Others (e.g. Card accounts)	-	97,891,841	-	-	97,891,840.9	5.00
<b>2. Credits:</b>	-	49,145,632,229	-	9,336,222,578	58,481,854,806.8	3.16
(i) Cash secured loans	-	49,141,283,887	-	9,336,222,578	58,477,506,464.1	3.16
(ii) Letters of credit	-	-	-	-	-	0.00
(iii) Guarantees	-	4,348,343	-	-	4,348,342.7	3.00
(iv) Others	-	-	-	-	-	0.00
<b>II. Other banking products &amp; services</b>	221	72,817,841,307	292	-	72,817,841,739.9	3.00
(i) Internet banking	221	-	-	-	221.0	2.00
(ii) Purchase/sale of monetary instrument	-	-	-	-	-	0.00
(iii) Purchase sale of fx	-	72,817,841,307	-	-	72,817,841,306.9	3.00
(iv) Wire transfers/SWIFT	-	-	101	-	101.0	3.00
(v) Correspondent banking	-	-	101	-	101.0	3.00
(vi) Trade finance	-	-	-	-	-	0.00
	-	-	-	-	-	0.00

## Inherent risk – Geographic location

GEOGRAPHIC ZONE BY RISK							
SIGNIFICANT ACTIVITIES	Local Geographic Zone			Foreign Geographic Zone			TOTAL RISK BY ACTIVITY
	A	B	C	All countries	Countries designated by FATF	Countries identified by the bank as high risk	
Rating	2	1	3	3	5	6	
<b>I. Business Risk:</b>	82,415,171,042	2,951,523,464	-	-	-	-	1.97
<b>1. Deposits:</b>	24,476,591,810	2,408,337,882	-	-	-	-	1.91
(i) Current Accounts	14,485,971,915	2,277,329,993	-	-	-	-	1.68
(ii) Savings Accounts	1,820,571,866	24,222,117	-	-	-	-	1.98
(iii) Time Deposits	8,081,628,548	94,225,392	-	-	-	-	1.95
(iv) Savings certificates	-	-	-	-	-	-	0.00
(v) Others (e.g. Card accounts)	85,331,462	12,580,378	-	-	-	-	1.87
<b>2. Credits:</b>	57,938,669,224	543,185,583	-	-	-	-	1.89
(i) Cash secured loans	57,938,320,881	543,185,583	-	-	-	-	1.89
(ii) Letters of credit	-	-	-	-	-	-	0.00
(iii) Guarantees	4,348,343	-	-	-	-	-	2.00
(iv) Others	-	-	-	-	-	-	0.00
<b>II. Other banking products &amp; services</b>	72,817,841,307	-	-	12,528,418	-	-	2.00
(i) Internet banking	-	-	-	-	-	-	0.00
(ii) Purchase/sale of monetary instrument	-	-	-	-	-	-	0.00
(iii) Purchase sale of fx	72,817,841,307	-	-	-	-	-	3.00
(iv) Wire transfers/SWIFT	-	-	-	12,528,418	-	-	3.00
(v) Correspondent banking	-	-	-	-	-	-	0.00
(vi) Trade finance	-	-	-	-	-	-	0.00
	-	-	-	-	-	-	0.00

# Risk Scales

- The individual weights are assigned.

Risk Scale	Criteria for Inherent Risk	Ranking	
		From	To
1	Very Low	1.00	1.09
2	Low	1.10	1.79
3	Medium	1.80	2.74
4	High	2.75	3.49
5	Very High	3.50	5.00

## Risk Scales

Risk Scale	Risk Management Quality	Ranking	
		From	To
1	Very Good	1.00	1.09
2	Good	1.10	1.89
3	Acceptable	1.90	2.75
4	Deficient	2.75	3.49
5	Very Deficient	3.50	5.00

## Risk Scales

Risk Scale	Net Risk	Ranking	
		From	To
1	Very Low	1.00	1.09
2	Low	1.10	1.89
3	Medium	1.90	2.75
4	High	2.75	3.49
5	Very High	3.50	5.00

## Assessing the Institution's Risk

- The risk matrix provides an insight into trends in the bank's risk both overall and in terms of specific products, services and customers.
- **Direction of risk** is the probable change in the bank's risk profile over the next 12 months and is characterized as **decreasing, stable, or increasing**.
  - **Decreasing** direction indicates that the examiner anticipates, that the aggregate risk will decline over the next 12 months examination cycle. This reflects decreasing inherent risks and/or improving risk management systems.
  - **Increasing** direction denotes anticipation of higher risk over the examination cycle. This denotes that inherent risks may be increasing and/or risk management systems are getting weaker.
  - **Stable** direction indicates inherent risks are stable and/or the risk management systems are unchanged.

THANK YOU

# On-site Inspection

## East AFRITAC Workshop Risk Based Approach for Financial Sector Supervisors

Zanzibar


September 5–9, 2016

International Monetary Fund

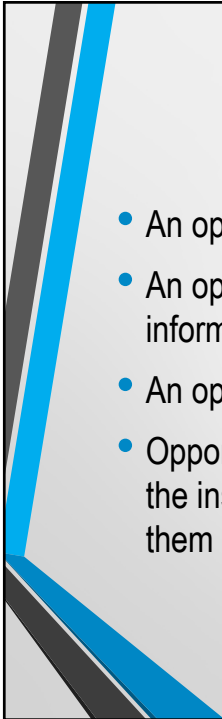
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## Presentation Overview

- Benefits of On-site Inspection
- Objectives of On-site inspection
- Types of On-site Inspection
- Preparing for the Inspection
- Conducting the Inspection



## Benefits of On-site Inspection



## Benefit of On-site Inspection


- An opportunity to verify previously obtained information
- An opportunity to probe beyond currently held information
- An opportunity to obtain new information
- Opportunity to interface with staff to better understand the institution, the risks it faces and how it manages them





## Benefits of Interaction with Staff

- Confirms the extent that risk management systems are understood by those who use them
- Can provide insight into problems that would not otherwise be identified
- Provides useful insight into effectiveness of information flow within the institution



## Objectives of On-site Inspection

## Objectives of On-site Inspection

- Confirm the risk exposures through:
  - Enhanced understanding of products, services, types of customers etc.
- Confirm the effectiveness of risk management systems and practices through:
  - Enhanced understanding of operation of risk management systems (e. g risk management committees, risk management unit, compliance officer, internal audit, etc)

## Objectives of On-site Inspection

- Determine changes since last inspection
  - Assess if institution has responded to recommendations of last inspection
  - Test the effectiveness of the solutions developed
- Identify remaining gaps/weaknesses in risk management

Determine types of corrective action required



## Types of On-site Inspection



## Types of On-site Inspections

- Full Scope
- Limited Scope
- Type of inspection will depend on specific supervisory objective at given time.

## Types of On-site Inspections

- Full Scope
  - More Traditional type inspection
  - A top-to-bottom review of institution's risk management practices
  - Includes review of all relevant compliance issues
  - More time consuming and resource intensive than limited scope
  - Due to resource intensity, typically undertaken less frequently than limited scope

## Types of On-site Inspections

- Limited Scope
  - Inspection with narrower focus
  - Used to examine area/areas of specific concern
  - Less resource intensive than full scope and therefore more flexible with regard to duration and frequency
  - Can focus on more than one institution where the focus is an issue relevant to the sector or a number of institutions
    - Following-up on concerns about the effectiveness of how the sector manages the risk associated with wire transfers

## AML/CFT Full and Limited Scope

In the context of AML/CFT full scope can refer to:

An inspection that covers all prudential risks and also ML/TF risk

- An inspection that covers all aspects of the ML/TF risk management
- A limited scope AML/CFT refers to an inspection that focuses on a specific component or components of ML/TF risk management
  - customer acceptance practices
  - risk management practices for PEPS

## Preparing for the Inspection

## Inspection Preparation

- The more tasks that can be completed before start date of inspection, the better
- Information held on risks and risk management practices should be reviewed and assessed off-site

## Inspection Preparation

- Principal sources of information for the offsite review include:
  - Institutional Profile
    - Offsite analysis
    - Significant findings of previous inspections
    - Post-inspection developments
    - Market intelligence and information in the media
    - Discussion with FIU
  - The Risk Matrix
    - Data gathering tool
    - Risk management questionnaire
- Overall supervision plan for the institution

## Inspection Preparation

On the basis of the off-site information held the supervisor will be able to:

- Understand the risk to which the institution is exposed
- Have a view on the adequacy of risk management systems
- Identify gaps in various components of RBS framework

## Planning the Inspection

- Start early – at least one month in advance
- Consult other authorities – e.g. the FIU & regulators
- Review risk assessment and information on file
- Document objectives and set priorities
- Prepare the scoping note/ pre-inspection plan
- Choose personnel
- Inform regulated institution:
  - Call for information in advance
  - Specify information to be ready on arrival
  - Specify key persons to be interviewed



## The Scope Memorandum

The focus and scope of the inspection should be determined on the basis of the pre-inspection review process and documented in a scope memorandum:

- The scope memorandum should set out
  - Main objectives of inspection
  - Scope of inspection
  - Procedures to be employed
  - Resource implications arising from inspection plans

## Scope Memorandum -Inputs

- Should be linked to concerns that emerge at various points during supervisory cycle on the basis of:
  - Last Inspection findings
  - Outcomes of off-site surveillance
  - General concerns about the sector
    - Example – increasing number of foreign domiciled trust as customers of banks

## Inspection Letter

- After finalizing the scope memorandum an inspection letter should be prepared and sent to the institution at least one week before the start of the inspection
- The letter should inform the institution of:
  - Objectives and scope of the inspection
  - Timing and duration
  - Information required from the institution

## Pre- inspection Meeting

- Useful to have a meeting with management as part of pre-inspection process.
- The meeting:
  - Helps to clarify the focus of the inspection.
  - Helps the bank to start its own planning process

## Pre-inspection Meeting

The pre-inspection meeting represents an opportunity to:

- Seek clarification of information received
- Request/ receive more relevant information
- Meet and develop a rapport with staff who will be counterparts during the inspection

## Conducting the Inspection

### Pursuing a Specific Enquiry Policies and Board Oversight

- What is the quality of the institution's assessment of its ML/TF risk exposures
- What is the quality of oversight by the board
- How is the Board structured to facilitate effective oversight of risk management
  - Use of committees
- Do policies require the use of a risk classification system

### Pursuing a Specific Enquiry Policies and Board Oversight

- Are policies appropriate given the risk implicit in the activity
- Are they consistent with broader organizational policies
- Are they in compliance with applicable laws and regulations
- Are they being followed
- Are adequate review mechanisms in places
  - Periodic review
  - Reviews when there are changes in risk profile (i.e. new products, customers, geographic regions etc.

## **Pursuing a Specific Enquiry Procedures**

- What are the procedures that have been established for the activity
  - Are these consistent with the policies
  - Are they adequate to meet the requirement of the policies
  - Are they being followed
  - Are adequate review mechanisms in place

## **Pursuing Specific Enquiry Measuring Monitoring and Reporting**

- How effective is the MIS at measuring and monitoring risk exposures
- Is the system in place adequate, given the size, nature and complexity of the institution's operations.
- What are the quality and frequency of reports sent to supervisory staff, line management, senior management and the Board

## **Pursuing a Specific Enquiry**

### Internal Controls

- What are the internal control mechanisms
- Are they appropriate
- Are they effective
- Are they being followed

## **Pursuing a Specific enquiry**

### Internal Audit

- What is the level of oversight by the internal audit function
- Are appropriate practices in place to ensure the independence of the internal audit function
- What are the type and nature of risk management weakness identified by the internal audit
- How effectively have they been corrected

## Pursuing a Specific enquiry Compliance

- How is the compliance function structured.
- How does it operate
  - Is it centralized/decentralized
  - In the case of a decentralized function what reporting mechanisms are in place to ensure that all compliance issues reach head office
- What is the role of the compliance function in day-to day activities:
  - Approval of new products/ service
  - Monitoring and reporting suspicious transactions
  - Reviewing day-to day activity
- Is it adequately resourced
- What mechanisms are in place to ensure effective reporting to senior management and the Board

## Pursuing a Specific enquiry Risk Management Function

- How is the risk management function structured.
- How does it operate:
  - Is it centralized/decentralized
  - In the case of a decentralized function what reporting mechanisms are in place to ensure that all risk management issues reach head office
- What is the role of the risk management function in:
  - Identifying, measuring, monitoring and controlling risk
  - Developing of risk management systems
  - Approval of new products/service etc.
- Is it adequately resourced
- What mechanisms are in place to ensure effective reporting to senior management and the Board



## Inspection Working Papers

- Critical component of work undertaken during inspection
- Represent the principal record of observations made during the inspection
- Apart from going back into the institution the working papers will be the farthest point to which someone can go in trying to understand issues examiners have raised or to assess the quality of their work

## Inspection Working Papers

- Should clearly set out pertinent observations and concerns about risk management practices
- Should be as concise as possible but should contain enough info to allow readers to understand underlying issues and concerns raised
- Should cover all issues investigated during Inspection

## Possible Structure of Inspection Working Paper

<b>Risk Management Component</b>	<b>Observations / Comments</b>
Board and Senior Management Oversight	
Policies and Procedures	
Measuring Monitoring and Control	
Internal Controls	

## Role of Examiner-In-Charge

- Has full responsibility for everything that takes place in preparation for and during the inspection.
- Principle responsibility for communicating to management
- Must ensure that all examiners understand the scope and objectives of inspection

## Role of Examiner-In-Charge

- Must constantly review working papers and have on-going dialogue with examiners about their findings/concerns during course of inspection.
- Must encourage on-going dialogue among examiners working on different aspects of the inspection
- Must be able to spot common/emerging themes

## Exit Meeting with Institution's Management

- Discuss your findings with management and determine corrective action and deadlines for remedying significant deficiencies.
  - Warning letter
  - Enforcement letter
- Action plan and follow-up

# Inspection Report

- General Data
- Objective & scope
- Documenting findings
  - Quality of risk management
  - Breach of AML/CFT laws and regulations
  - Other supervisory concerns

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THANK YOU

## **Meetings with Management and other staff**

### **East AFRITAC Workshop Risk Based Approach for Financial Sector Supervisors**

Zanzibar

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International Monetary Fund

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## **Overview**

- Types of Meetings
- Meetings to obtain information
- Questioning techniques
- Closing meeting



## Types of Meetings



## Types of Meetings

Two types of meetings that take place during an onsite inspection

- Meetings to seek information or clarification which typically take place during the course of the inspection
- Meetings to present findings which typically take place at the end of the inspection

## Types of meetings

- Meetings with different types and levels of staff require a different line of questioning
  - A meeting with the CEO/CFO will focus on high level issues of compliance, tone at the top, process of the inspection
  - A meeting with compliance will dig down into procedures
  - A meeting with back office operational staff will focus on specific procedures

## Meetings to Obtain Information



## Meetings to Obtain Information

- These meetings are usually held with (middle) management, compliance, audit, staff
- Take place during the course of the inspection and the main purpose is to seek information, assess awareness and implementation of procedures
- Important to frame questions in the context of information you currently hold or opinions you are developing.
- An inspector should understand the basics about the institution, its policies and procedures, its risks etc.
- Questions should not be raised on the basis of having little knowledge about the institution


## Meetings to Obtain Information

Issues raised might include:

- Understanding the specific duties regarding AML/CFT of that person
- Requesting clarification of a policy or procedure
- Requesting examples of specific measures taken when applying a procedure
- An observation which relates to an identified weakness with the intention of eliciting an explanation
  - ❖ This is very important because the conclusion reached by inspector might be based on a misunderstanding or a lack of complete information.



## Questioning Techniques



## Questioning Techniques

- Use open-ended questions when you are seeking information
- If, for example, you want to learn about a policy don't ask
  - *"Does your institution have a policy on record keeping ?"*
  - This is likely to elicit a simple response of "Yes" or "No"

# Questioning Techniques

- An open-ended question would be:
  - *"Please describe your institution's policy on record keeping."*
  - The person answering the question is forced to provide a more comprehensive response
- Other open-ended questions could start with:
  - *Please explain...*
  - *Tell me about... etc.*
- ▶ Important to ask for examples of high risk cases or unusual situations/transactions

# Questioning Techniques

- Close-ended questions should be reserved for instances in which you are seeking to confirm information you already hold:
  - *"Can you confirm that the institution filed 124 STRs during the first six months of 2014".*

## Drilling Down

- You should frame your questions in such a way that the institution's staff should be able to follow your thought process to better understand the rationale for your questions.
- To facilitate this you should move from the general to the specific

## Example of Drilling Down

- Start at the top and drill down as in following example:

### **The lead-up**

- *"Your policy on CDD requires that identification of natural persons should be undertaken on the basis of a independent, reliable documents"*
- ↓
- *"Your procedures indicate that the officer in charge of client opening new accounts should obtain and make photo copies of a national identification card or a passport"*
- ↓

## Example of Drilling Down From Top



- *“Both the policy and the procedures are silent on the measures that should be taken for persons who do not possess either a national identification card or a passport”*



### The Question

- *“Please explain the steps that are taken in these circumstances and in the absence of a policy and procedures please explain what steps are taken to ensure that this issue is addressed consistently by all staff?”*

## Sequencing Questions

- Questions should be asked in sequence. This helps everyone to follow the process
- It should be clear to everyone when you commence and end questions on a topic
- The following sequence of questions is confusing:
  - 3 questions on CDD
  - 2 questions on record keeping
  - 4 questions on monitoring transactions
  - 2 questions on CDD



## Meetings to Present Findings



### Meeting to Present Findings

- This meeting is usually conducted with senior management and/or compliance
- By the time inspectors are conducting this meeting they have reached (preliminary) conclusions which can be substantiated by the work they have undertaken.
- While new information may be obtained during this meetings this should be the exception and the main purpose of these meetings is to convey inspection findings.

## Meetings to Present Findings

- It is important to clearly state the purpose of the meeting to set the tone for the discussion
- Briefly outline the purpose and scope of the inspection
- Explain the basis on which the institution will be assessed
  - Laws, regulation and guidance
  - Institution's risk profile, policies and procedures

## Starting on Positive Note

- Supervisory activities will only be successful if institutions see them as positive experiences from which they will benefit
- Thank the institution for the time and resources it has devoted to the onsite inspection processes (this demonstrates that you are aware the institution has devoted considerable resources to the exercise)
- Highlight positive things you have observed including improvements made in response to findings of previous supervisory activity



## Discussing Shortcomings

- Highlight shortcomings and weaknesses
- Explain why they are considered to be shortcomings and weaknesses
- Important to use references to justify findings
  - Based on the institution's ML/TF risk profile
  - Laws, regulations and guidance
  - The institution's policies and procedures

## Corrective Actions

- Insofar already possible, make recommendations for corrective action to address identified weaknesses
- Establish timeline for implementing corrective measures
- Timelines should be realistic and take issues related to implementation into account.

## Closing

- Before initiating closing ensure that all issues have been covered
- Summarize the findings you outlined during the meeting
- Very important to demonstrate that you have taken note of pertinent observations made by the institutions management for example:

➤ i.e. "Thank you for updating us on the developments related to your IT infrastructure. We will take note that the new software which will be installed in the next three months is expected to address some of the concerns we have highlighted about the accuracy and timeliness of reports generated by the compliance department"

## Closing

- Explain the next steps in the process
  - *If /when a draft report will be sent*
  - *When (approximately) the report will be finalized*
  - *When the institution will receive formal communication*
  - *If the institution can comment of the (draft) report*
  - *What follow-up actions of the institution will be expected*
  - *What follow-up supervisory activities will or can be employed (if these can already be communicated)*

