

# **Thematic Review of AIs' Application of AML/CFT Controls in the SME Segment**

*Industry Sharing Session*

**28 August 2019**

# Overview of key observations

The observations of the study are grouped into four areas, focusing on the risk-based approaches taken by AIs

1



**Customer risk assessment**

2



**Customer due diligence**

3



**Implementation and training**

4



**Use of technology**

# Customer risk assessment

All reviewed CRA methodologies considered multiple factors and were consistently applied. None of them automatically classified SMEs as high risk



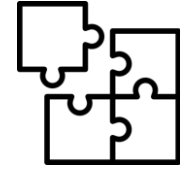
## In-scope AIs adopt a wide range of different CRA models

- Weighted-scoring
- Matrix of risk factors
- Count of risk factors



## Factors are generally in line with global practices

- Customer's legal structure
- Business background
- Geography of business
- The products or services requested by a customer



## The design is influenced by multiple elements

- Group standard for international AIs
- AIs' experience with risks and risk appetite

# Customer due diligence

The implementation of RBA to CDD, especially obtaining supplementary documents, varied widely in practice

Ineffective RBA		Effective RBA
<b>Inflexible approach</b> <ul style="list-style-type: none"><li>• Required for every customer</li><li>• Regardless of risk rating or if risk factors are identified</li></ul>	<b>Unstructured approach</b> <ul style="list-style-type: none"><li>• Criteria are not defined</li><li>• No framework or guidance</li><li>• A case-by-case decision by front-line staff without sufficient guidance</li></ul>	<b>Balanced approach</b> <ul style="list-style-type: none"><li>• Only required when specific heightened risk criteria are met</li><li>• Encouraged to apply flexibility</li><li>• Documented rationale for decision-making</li></ul>
<b>Impact</b> <ul style="list-style-type: none"><li>• Avoidable hurdles for customers</li><li>• Potentially leads to more unsuccessful applications</li><li>• Higher cost and administrative burden for AIs</li></ul>	<b>Impact</b> <ul style="list-style-type: none"><li>• Discretion without necessary support</li><li>• May cause inconsistency in approach, affecting risk mitigation</li></ul>	<b>Impact</b> <ul style="list-style-type: none"><li>• Institutionalised flexibility</li><li>• Front-line staff empowered to apply RBA during account opening</li></ul>

# Improvement initiatives and areas for improvement

A number of good practices and areas for improvement were observed in relation to the application of risk-based approach, improving customer experience and accessibility of service

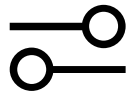


# Key takeaways

Als could continue to improve their current onboarding processes and make more substantial changes to the way customers are onboarded



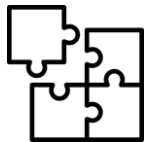
**Adoption of new technologies**



**Integrated customer solutions**



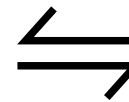
**Customer obsession**



**Empowerment of your people**



**Management oversight**



**Ongoing and open dialogue**

**Q&A**

# Thank you

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## Guiding Principles of RBA

### Implement RBA in relation to CDD:-

- Risk differentiation
- Proportionality
- Not a “Zero Failure” regime

## Interface with Customers

### Treat customers fairly in the following aspects:-

- Transparency
- Reasonableness
- Efficiency

# Understanding Source of Wealth Requirements

## Objectives

- Clarify Als' understanding of the requirement
- Assist Als to better understand, manage and mitigate risk and apply a Risk-based Approach
  - Supports other ongoing work streams
  - Means by which greater flexibility is provided to Als
- Understand barriers and share industry best practices
- Identify need for any future work
- *No objective to either tighten or relax how this requirement is implemented*
  - *consistent understanding and consideration of risk is the key takeaway*

# Understanding Source of Wealth Requirements

## SOW is part of EDD

- SOW requirement arises where AIs need to do more
  - Part of EDD requirements
  - Part of due diligence for private banking, where expectations are higher
- Risk-based concept: ‘Reasonable Measures’ = AI decides detail / granularity
- What are the considerations; how to obtain SOW?
  - How much wealth - *information*
  - How wealth was acquired - *information*
  - Extent of validation / corroboration
- May be established thro’ a combination of sources, provided by customer, documents or other
  - Evidence of title, Copies of trust deeds, Audited documents (detailing dividends)
  - Documents confirming salary, Tax returns, Bank Statements