

Thematic Review of Als' Application of AML/CFT Controls in the SME Segment

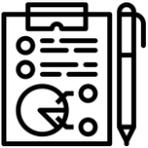
Industry Sharing Session

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



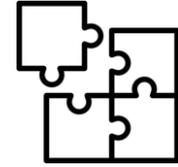
In-scope AIs adopt a wide range of different CRA models

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

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

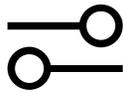


Key takeaways

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



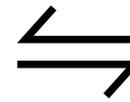
Customer obsession



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