

AML Tuesday's Session #16 on:

Customer Risk Assessment

May 28, 2024

Customer Risk Assessment

Categorizing customers based on their risk levels, considering various risk factors

Fundamental aspect of BRA

Element of Risk Based Approach

Regulatory Requirement

FATF Recommendation 10

FATF Recommendation 10 – Customer Risk

CUSTOMER RISK FACTORS

Politically Exposed Person
Non-Resident Customer
Cash-incentive Business

GEOGRAPHIC RISK

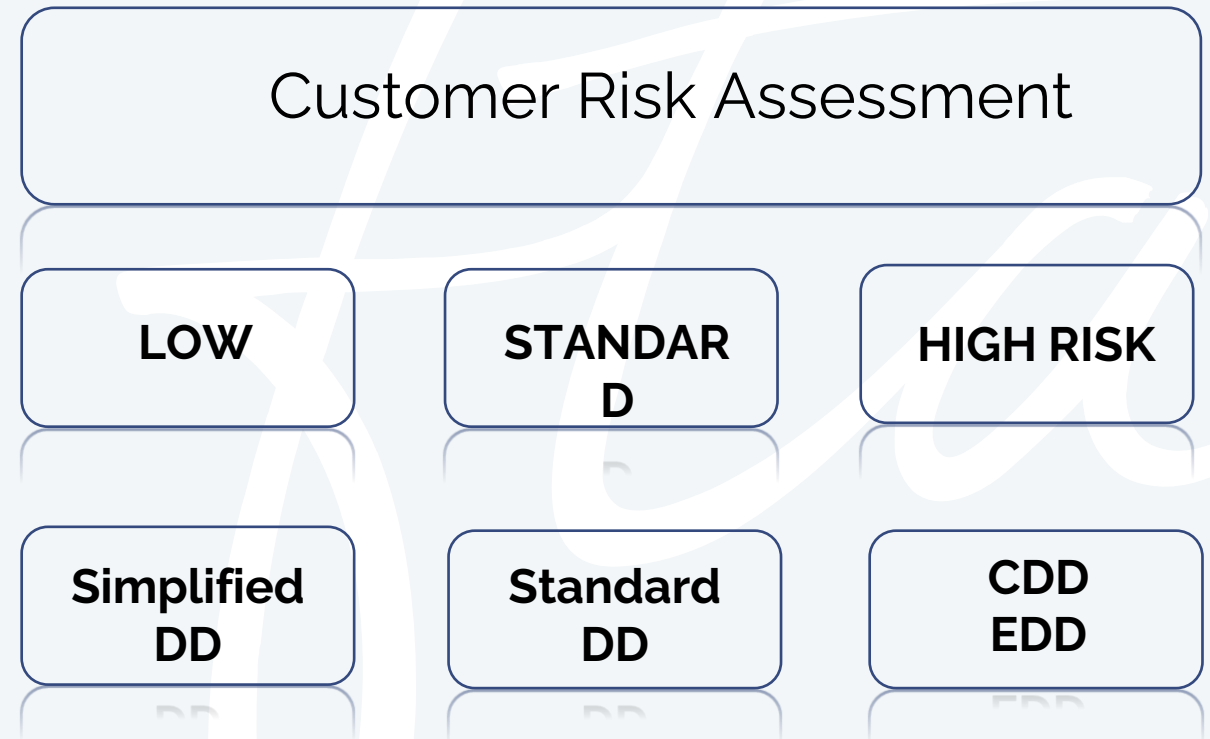
Countries Subject to Sanctions
Countries not having adequate
AML/CFT Systems

PRODUCT/SERVICE RISK

Private Banking
Anonymous transactions involving cash

DELIVERY CHANNEL RISK

Non-Face-to-face business
relationships



Importance of Customer Risk Assessment

- Making informed decisions, risk understanding and awareness
- Key component of BRA
- Ability to undertake EDD Measures
- Ability to mitigate risks
- Ability to manage reputational damage

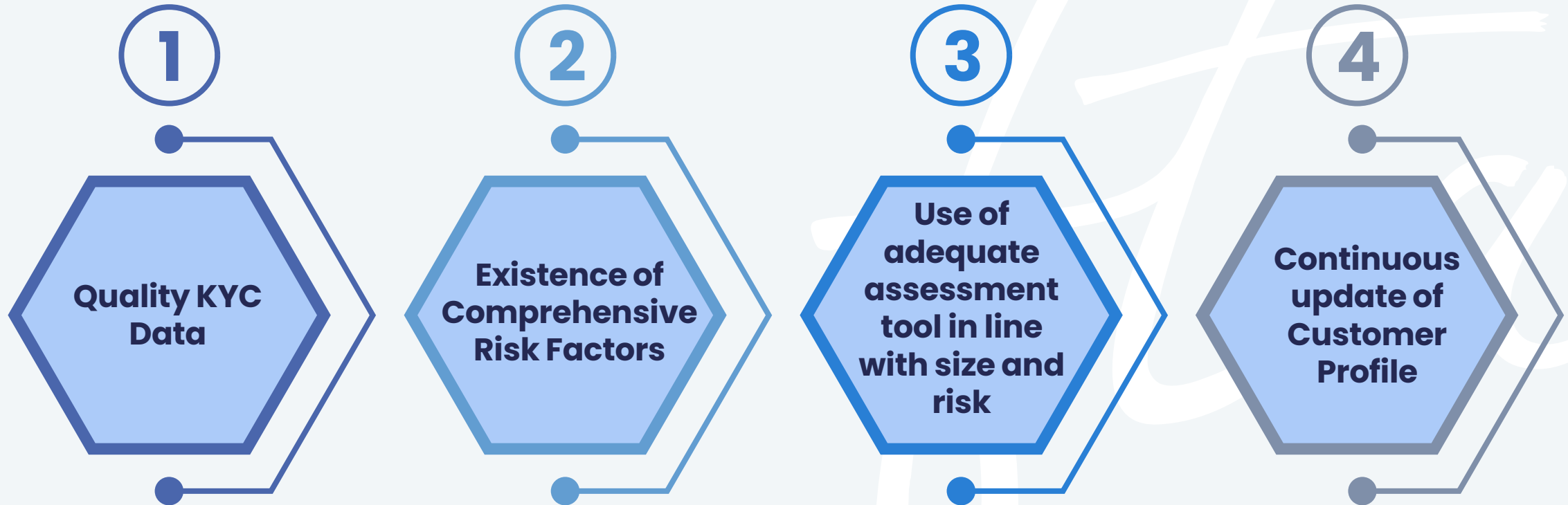
CRA Obligations – Monaco Context

Article 5 AML Law – Requirement of Risk Assessment

Article 11 AML Law – Risk Analysis

Article 13 of SO – consider risks of ML/TF and apply measures in accordance with RBA

Components of Customer Risk Assessment



Customer Risk Assessment Models

Risk Scoring Model

Algorithm-based
assessment model
Scoring and Weighting

Customer Risk Assessment

Risk Factors

Customer Risk

Type of Customer
Ownership Structure
PEP/Negative Media

1

Geographical Risk

High Risk Jurisdiction
High Risk of Corruption
Jurisdictions subject to
Sanctions EU/US

2

Product Service, Transaction Risk

Investment Related
Products
Trade Finance
Transactional Accounts

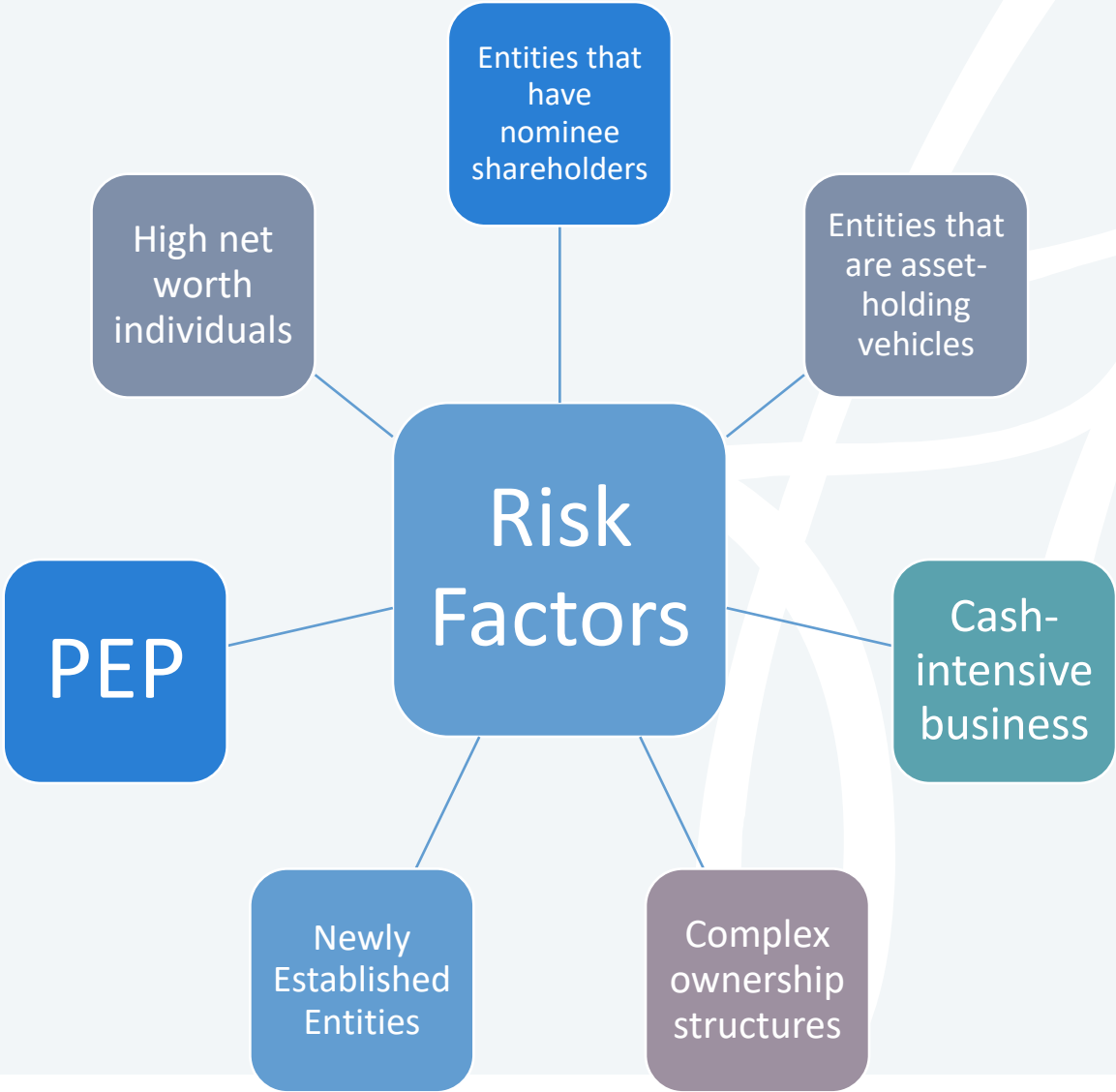
3

Delivery Channel Risk

Digital Onboarding
Distance Onboarding
Involvement of agents or
intermediaries

4

CRA – Customer Risk Factor



Customer Risk - Analysis

Data Components

Variable factors

External Factors

Statistical Data

Expert Judgment

Customer behavior

Change of address, phone number

Network analytics – customer affiliations

Internal Data Quantitative/Qualitative

External Data

Transaction speed

Frequent Change of Counterparties

High risk Jurisdiction

Close associates

Transfers

STR

FIU requests

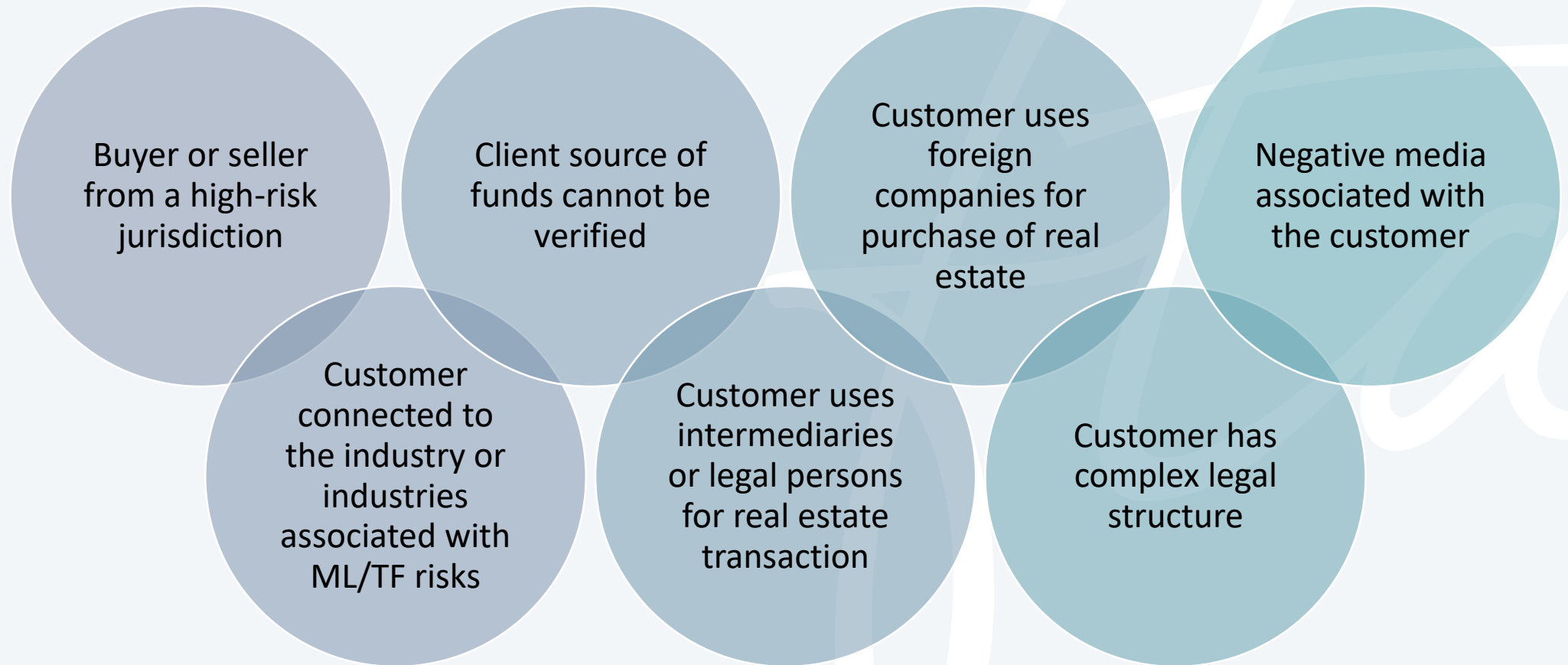
Court orders

NRA

SRA

Guidance and Typologies

Customer Risk – Real Estate Example



Transaction Risk – TCSP

Use of pooled client accounts

Transactions using unusual means of payment

Transactions using virtual assets or other means of payment which are anonymous

Transactions related to evade taxes

Service and Transaction Risk Examples

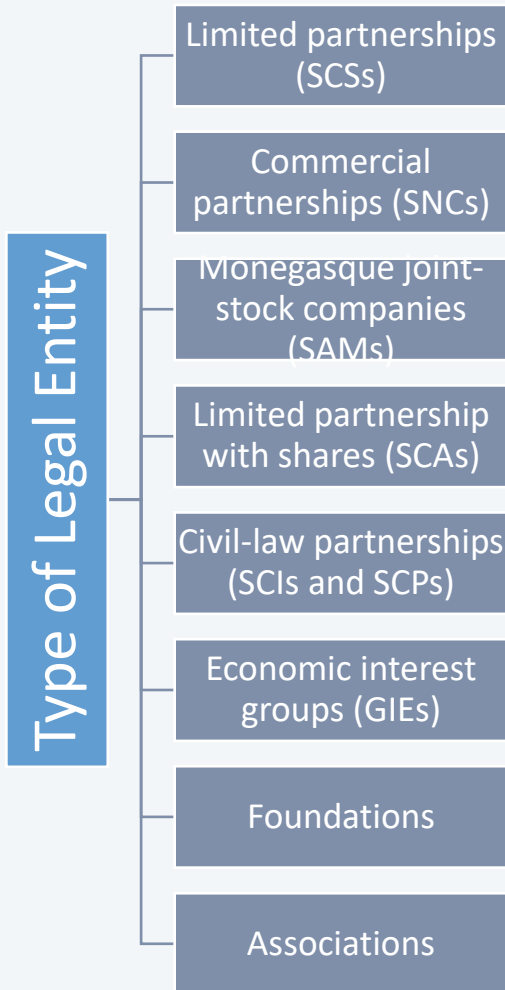
Legal Professionals

- Services that allow clients to deposit funds through the legal professional's account that are not related to a transaction
- Financial transactions outside trust account
- Services related to assuring customers standing, reputation and credibility to third parties
- Services related to conceal of beneficial ownership
- Services that rely on new technologies (ICO)
- Intercompany transaction
- The use of shell companies, companies with ownership through nominee shares or bearer shares and control through nominee and corporate directors

DPMS

- The customer attempts to buy precious metals or stones with company credit card or credit card not in their name
- Individual indiscriminately purchases merchandise without regard for value size, or color
- Use of cash, cryptocurrency
- Customer consults third party while conducting transactions
- Sudden change in the volume and value of transactions with regular customer
- Buying high value goods with small denomination bills

CRA – Legal Entity Risk Assessment



1. Monaco Legal Entity Risk Assessment – Overall residual risk rating **medium-high**
2. ML inherent risk profile of the corporate sector is **high** (concentrated in LLCs, joint stock companies and civil law partnerships).
3. The TF risk profile of Monaco in general is **low**, including for domestic legal entities.
4. Two main fact patterns stand out:
 - Foreign generated proceeds are used to invest in or purchase real estate in Monaco through Monegasque Civil Law Partnership;
 - Fake or actual commercial activities are carried out through a Monegasque LLC or joint stock company using false invoicing, forged goods, forged documentation or other falsification techniques.

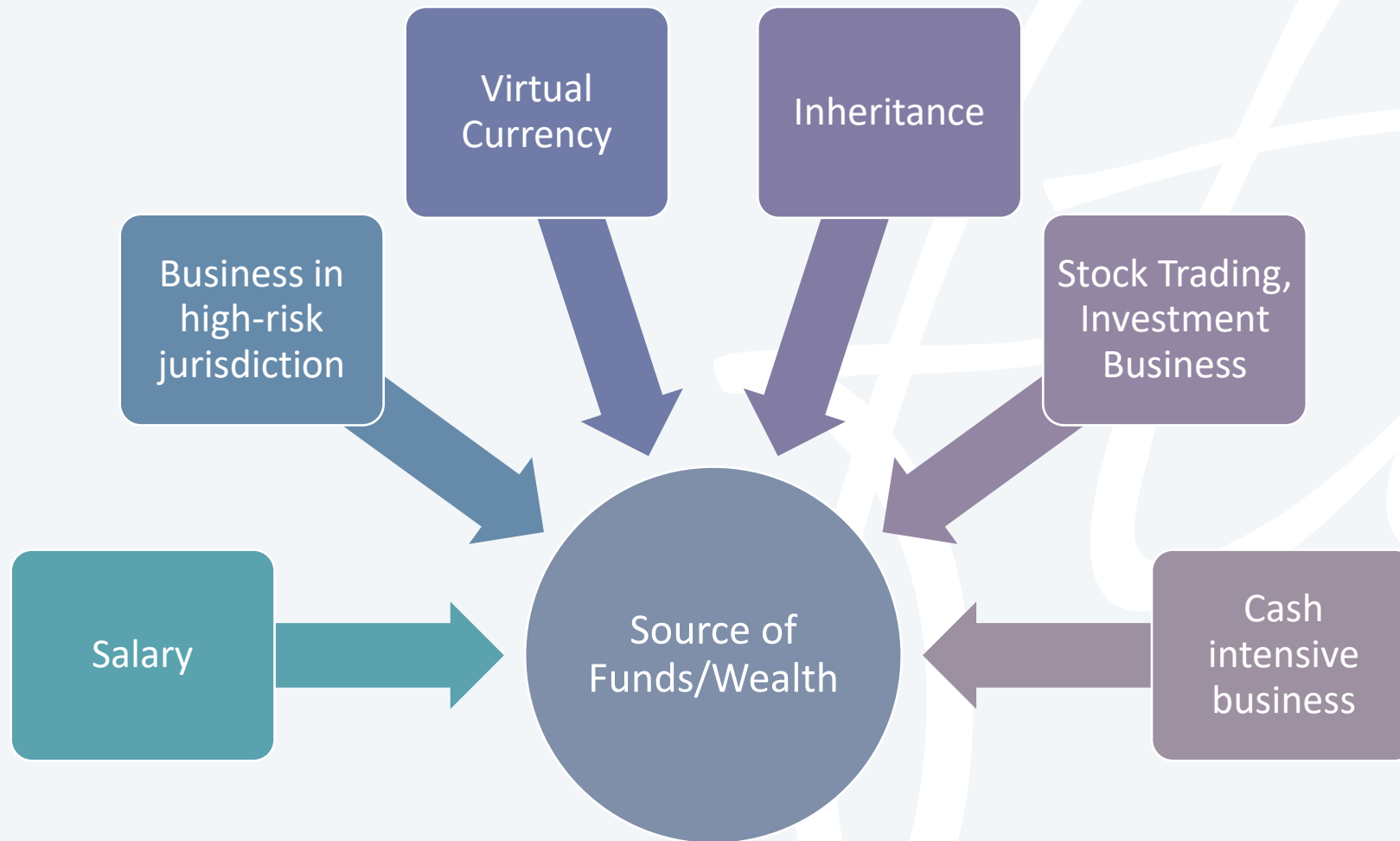
CRA – Customer Activity Legal Entities

- Top activities carried out by LLC's: business & management consulting, agents selling **machinery/industrial equipment/ships/aircraft**
- Top activities carried out by Joint Stock Companies: **juridical arrangement of movable property management, fund management**, business & management consulting
- None of the company activities listed involve high risk sectors such as the oil and gas industry, the adult industry, the online gaming, cryptocurrency trading, the precious stone or metal mining industry.
- Civil law partnerships serve **non-commercial purposes only** (i.e. they do not get any identifying codes for exact activities) for their own account.
- Civil law partnerships are known to serve as real estate holding companies.

Customer Risk – Activity NRA



CRA – Customer Risk Factor Source of Wealth



CRA – Product Risk

To what extent do products or services allow the customer or BO to remain anonymous, or facilitate hiding their identity

To what extent is it possible for a third party that is not a part of the business relationship to give instructions?

To what extent do products or services allow payments from third parties where this is not normally expected?

Is the product cash intensive?

Does the product or service facilitate high-value transactions?

Are there any thresholds on transaction values?

Customer Risk Assessment – Dynamic Process

Updating Customer Risk on a Periodic Basis

- Annually
- Update Based on Risk

Trigger Events for ad-hoc Review

- Change in Customer behavior
- Transaction Monitoring STR
- Negative Media news
- FIU/Supervisor/Court order

Customer Risk Assessment – Documented Process

Description of methodology

Description of factors subject to assessment

When the customer risk assessment is conducted

Who is authorized to make amendments to customer risk assessment system?

Who is authorized to modify or change risk?

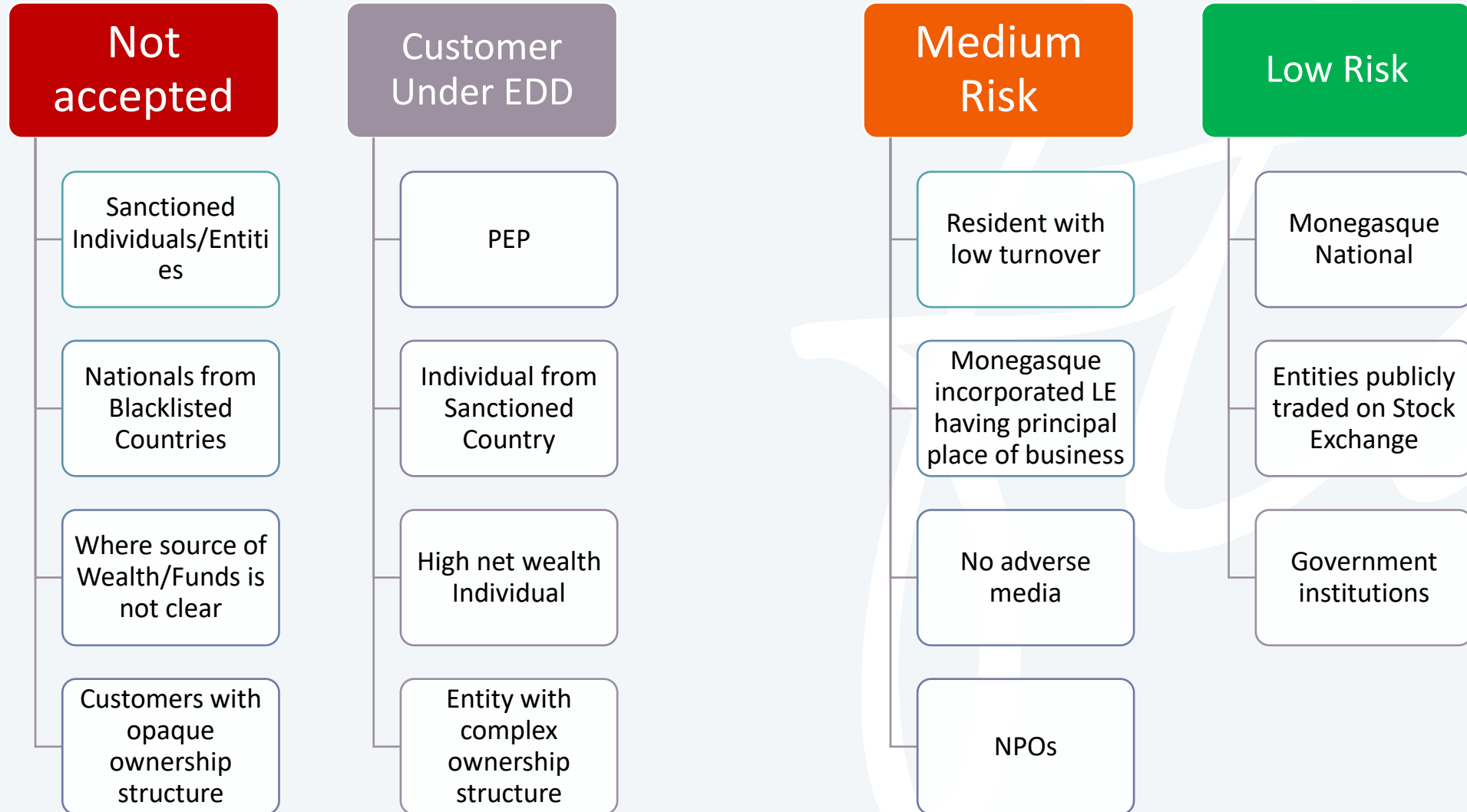
How manipulation of customer risk assessment system is managed

How the process of periodic update is undertaken

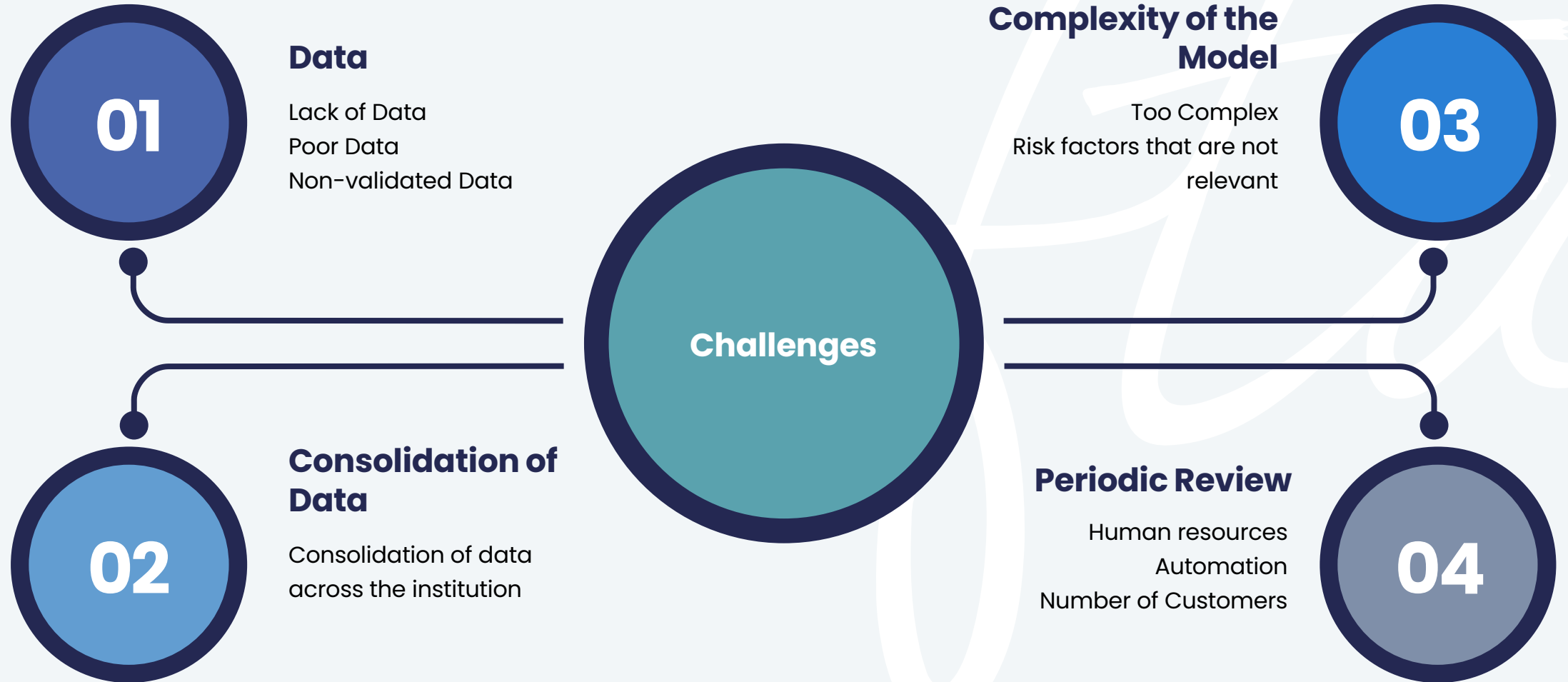
Triggers for ad-hoc review

Data Control and CDD data validation process

Customer Acceptance Policy - Example



Customer Risk Assessment





*Thank you for your
time*

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Next Session:
11 June, 2024

Topic:
Customer Relationship
risk management,
ongoing monitoring, and
Exit strategies

Today's Host: Tamar Goderdzishvili

Today's Presenter: Tamar Goderdzishvili