

AML Tuesday's Session #11 on:

Conducting a Business Risk Assessment – Casino sector

April 23, 2024

Discussion Topics

01

Purpose and relevance of the BRA

02

BRA process, sources and phases

03

Practical examples (per BRA phase)



01

Purpose and relevance of the BRA

FATF International standards on combating ML and TF

Recommendation 1 & interpretive note:

- Countries should require FIs and DNFBPs to identify, assess and take effective action to mitigate their money laundering, terrorist financing risks and proliferation financing risks.

Recommendations 10/22 & interpretive note:

- FIs and DNFBPs should determine the extent of CDD measures using a risk-based approach (RBA):
 - Where the risks are higher, they should be required to conduct enhanced CDD measures
 - Where the risks are lower, they could be allowed to conduct simplified CDD measures

The difference between BRA and CRA

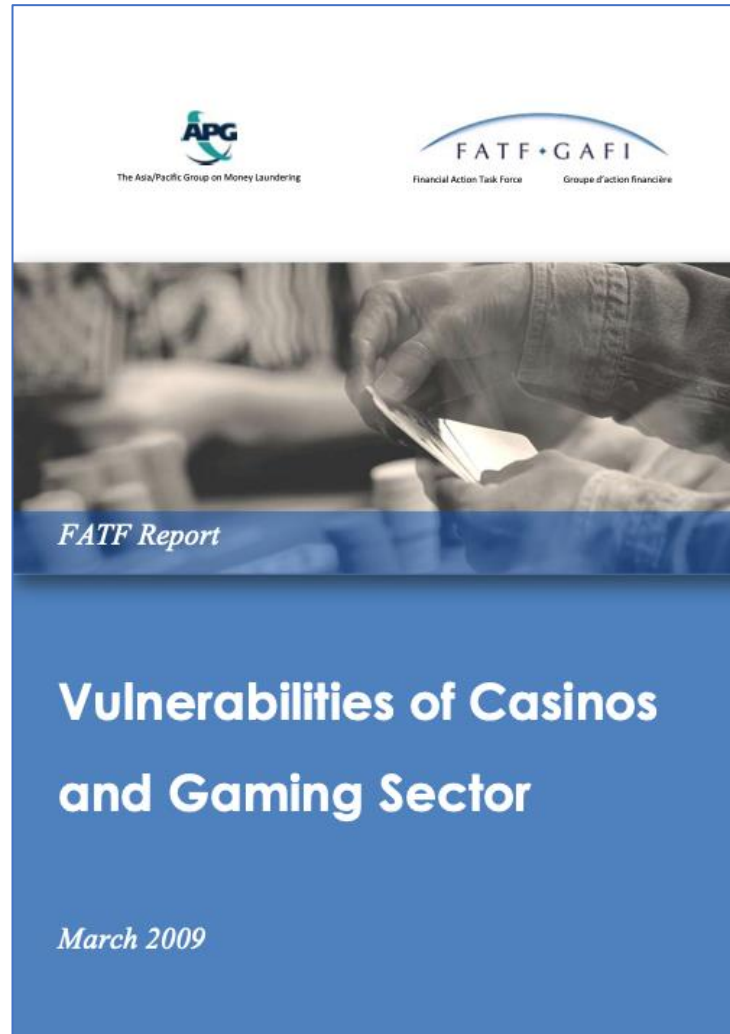
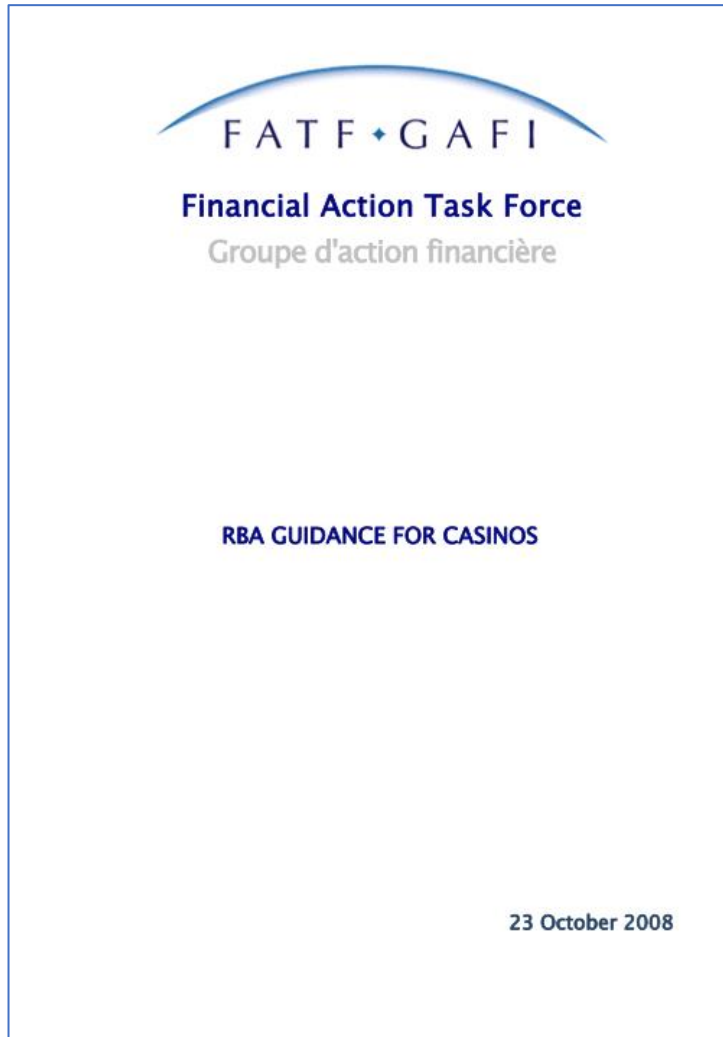
BRA

Identifies the risk of ML /FT-P-C posed to the business as a whole based on its activities

CRA

Assessment which specifically identifies the risks that each individual customer poses to the business

FATF Guidance relating to risks run by casinos



Monegasque legal framework

- **Art. 3 of Law No. 1.362**, as amended, lies down the obligation for FIs and DNFBPs to apply **appropriate vigilance measures according to their assessment of the risks presented by their activities** in terms of ML/FT-P-C.
- To this end, they shall **define and implement mechanisms for identifying, assessing and understanding the risks of ML, FT-P-C** to which they are exposed, as well as **a policy adapted to these risks**. In particular, they shall develop a risk classification and take appropriate measures to manage and mitigate their risks.
- Art. 3 further outlines the **categories of risk factors** and some main **sources** (e.g. NRA) to be taken into account in the risk identification and assessment.
- **Breaches of Art. 3 can be sanctioned** as per Art. 65 et seq. both at entity-level and at level of directors, employees, agents & persons acting on behalf of the entity based on personal involvement,

Recent AMSF Guidance on the BRA (February 2024)

LUTTE CONTRE LE BLANCHIMENT DE CAPITAUX, LE FINANCEMENT DU TERRORISME
ET DE LA PROLIFÉRATION DES ARMES DE DESTRUCTION MASSIVE ET LA CORRUPTION

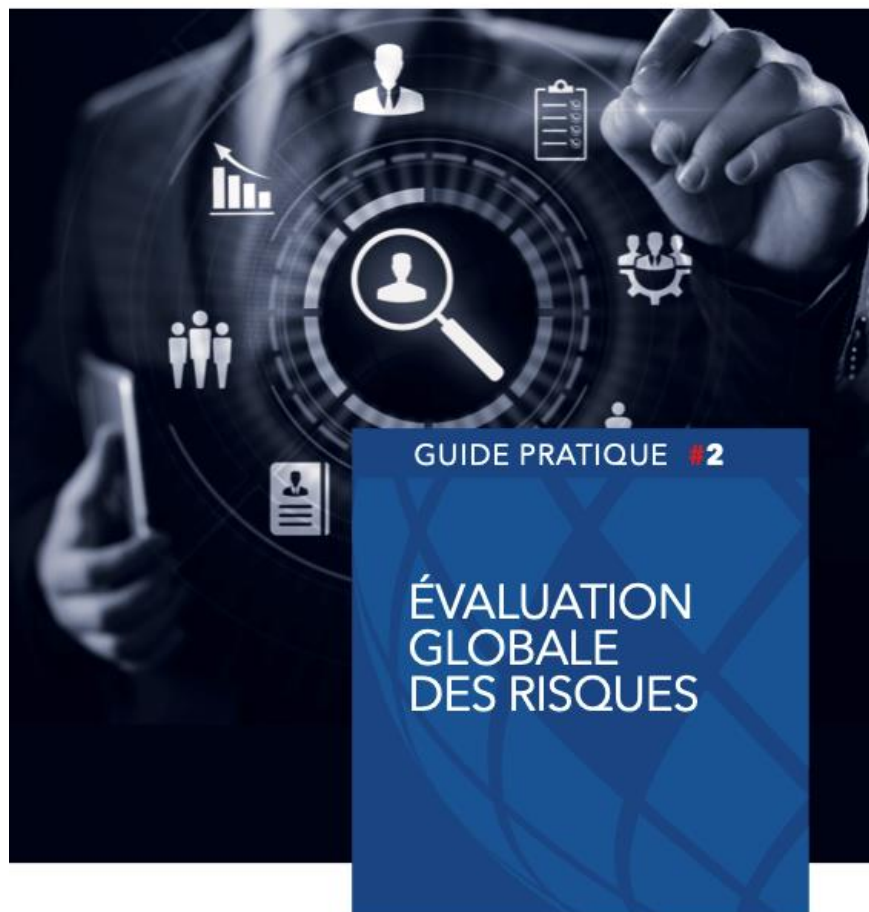


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BRA process, sources and phases

Requirements for development of BRA

Formalities

Documented

Explicit methodology

Overall conclusion on risk exposure

Transmitted to supervisor upon request

Content

Tailored & specific to the business

Distinction ML/TF

Inherent risk/controls/residual risk

Use NRA + other sources

Input from relevant persons/services

Approval & updates

High-level approval

Regular updates

Living document

High-level external sources on risks

International guidance, typologies & evaluations

(s)NRAs of other jurisdictions/
regions

Black lists, grey lists, sanctions lists

Topical risk assessments

**Monaco
National Risk
Assessment**

Sectorial risk assessments

Information from professional sectorial bodies

Communications by competent authorities

Guidance published by AMSF

BRA operational/internal sources - examples

Data on customers:
numbers,
residence, value of
activity

Data on beneficial
ownership of
customers

Results of analyses
of unusual &
suspicious
transactions

Findings of internal
or external auditors

Volume of
transactions

Proportion of cash
transactions

Product range and
characteristics

Reports from
compliance

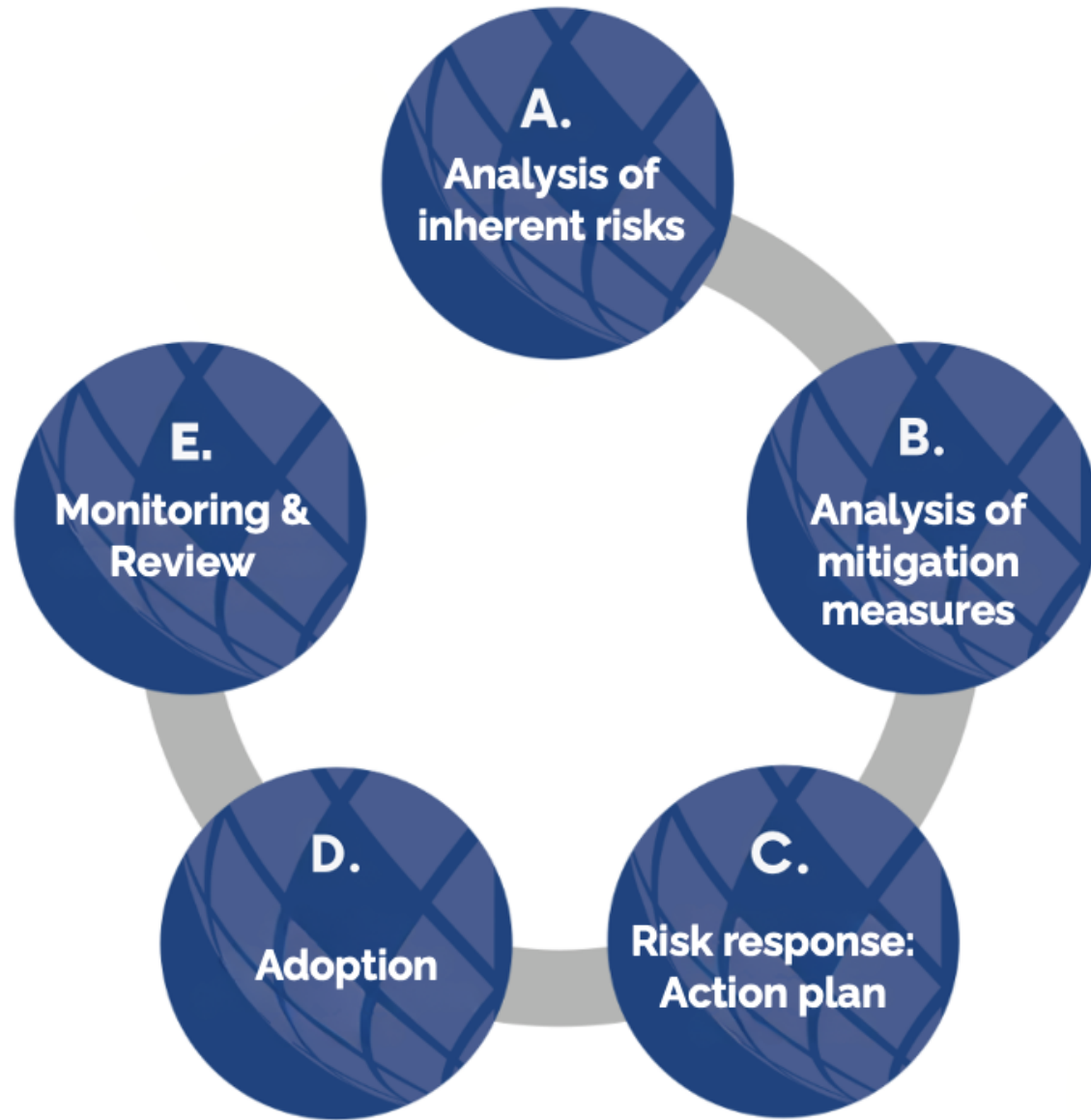
Exposure to
customers active in
higher-risk
industries/sectors

Size of the
company

Use of third parties

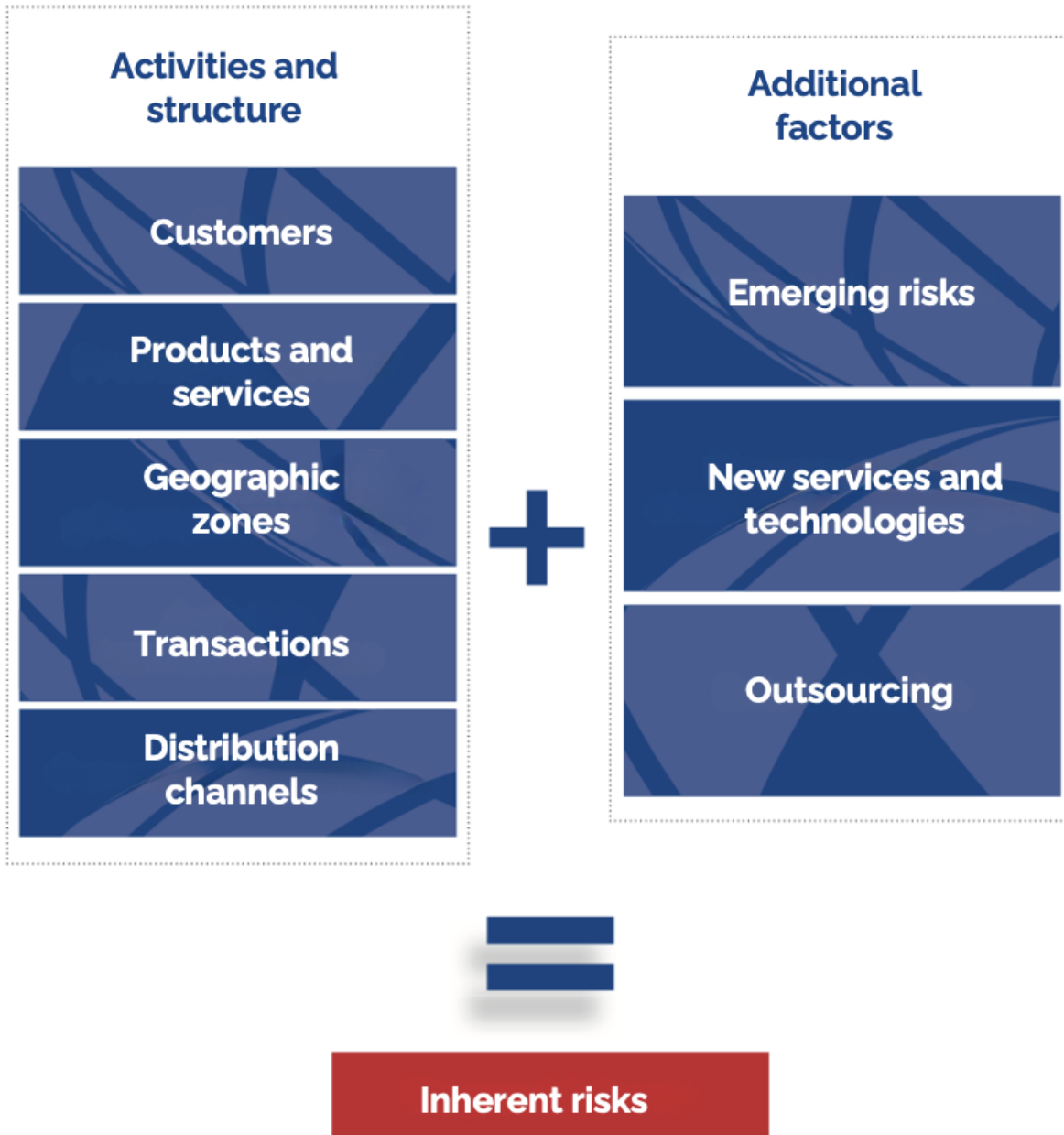
Extent of non-face-
to-face business

BRA phases



A. Analysis of inherent risks

- This phase relates to the **identification, assessment and understanding the inherent risks across the business**
- **Inherent risk** = the risk of ML/FT-P-C occurring without consideration of any controls or mitigant in place to alter the likelihood or impact of the risk
- For every risk factor, the obliged entity must identify the **risks**, evaluate the **probability** that the risks will materialise and measure their potential **impact** on the business
- A **range of risk factors grouped under different categories** should be assessed – see next slide
- Data used should include up-to-date **quantitative and qualitative information**
- Risk factors should be **weighted depending on their relative importance** for the business. There is no one-size-fits-all method for this. The AMSF guidance sets out considerations to be taken into account by obliged entities when deciding on the weightings.



International documents (FATF, MONEYVAL) & **AMSF guidance & outreach** (e.g. Practical Guide for BRA / Casino-sector guidelines / Part 1 of the Generic Guidelines / previous AML Tuesday presentations) give a range of information on the **risk factors, topics and types of data** to be considered for each risk category.

- For example, MONEYVAL's 2022 evaluation report and AMSF's 2024 Guidelines for the casino sector emphasise the need to pay special attention to risks related to *high-value players* when assessing customer risks.

Such examples are **not exhaustive** – additional factors and information may need to be taken into account according to the variety of activities and complexity of the business.

B. Analysis of mitigation measures

- This phase relates to an assessment of the **level and adequacy of the risk mitigation measures** which are in place within the business.
- Obligated entities must adopt **measures, policies, controls and procedures** that should prevent risks from materializing or mitigate their existence. The level of inherent ML/TF risk influence the type of controls and level of AML/CFT resources.
- Such controls should include **customer due diligence measures**, record-keeping & reporting measures, and measures relating to **risk management & internal controls**, such as client acceptance policies, procedures for customer risk assessment, compliance, independent testing of controls, standards for hiring and training employees, etc.
- The effects of such controls depend on their implementation in day-to-day operations. Therefore, their implementation should be **monitored on an ongoing basis**, to guarantee their effective application, determine their effectiveness and enable timely remediation of any gaps or issues.

Examples of information on controls to be considered

Since when has the control been implemented?

Dedicated resources to implement the control

Training provided to persons implementing the control

Level of oversight on the application of the control

Has the control been subject to independent testing?

Budget for EDD on (very) high-risk clients, e.g. obtaining external intelligence

Availability of reliable data on domestic & foreign BOs

Frequency of KYC reviews

Automatic versus manual controls

Periodic screening of whole customer database

Commercial databases used for sanctions & PEP screening

Responsibilities and timeframes for updating of sanctions lists

C. Residual risk response: Action plan

- Phase A & B should result in **the determination of the level of residual risk**: formed by the risks which remain after application of the controls.
- ML/TF/PF/C risk cannot be 100% eliminated regardless of how effective the control framework is.
- In this phase, the obliged entity should verify whether the residual risks to which it is exposed are aligned with its **risk appetite**: the level of risk that it is willing to accept.
- The entity should put an **Action Plan** in place following the identification and assessment of inherent risk & controls.



D. Adoption

- The BRA and the Action Plan should be formalized in a **written document** (on paper or digital format).
- The document should be **approved by senior management** and be made **available to AMSF** upon request.
- It is also important that **employees are made aware of the results** of BRA, for instance through the ongoing employee ML/TF training programme. This ensures that employees are aware of the main risks that their entity is exposed to and that they can effectively execute the policies, procedures and controls determined by senior management to mitigate the risks.

E. Risk monitoring and review

- As ML/TF/PF/C risks evolve constantly, the BRA is a **cyclical process** that should remain under regular review and updated on a periodic basis to ensure that **changing, new or emerging risks** are adequately taken into account.
- The BRA should be **updated periodically** on the basis of **(new) threats and vulnerabilities** that may be identified and take into account **any changes in the business model/clientele/activities** since the previous iteration.
- The BRA should be reviewed at least once a year. The exact scope/frequency of the updates should be **proportionate to the risks**. Reviews and updates should be **transparent and documented**.
- **Ad-hoc updates** are called for whenever there are **major developments** in management and operations (e.g. change in the business model, launch of a new product, implementation of new technologies, new geographic scope of business, change in clientele, risk exposure, etc.). FIs are recommended to develop an **internal list of trigger events** that trigger such ad hoc review.



03

Practical examples (per BRA phase)

Examples per BRA phase



Assessing inherent risks

Focus on assessing inherent risks relating to products & services



Assessing controls

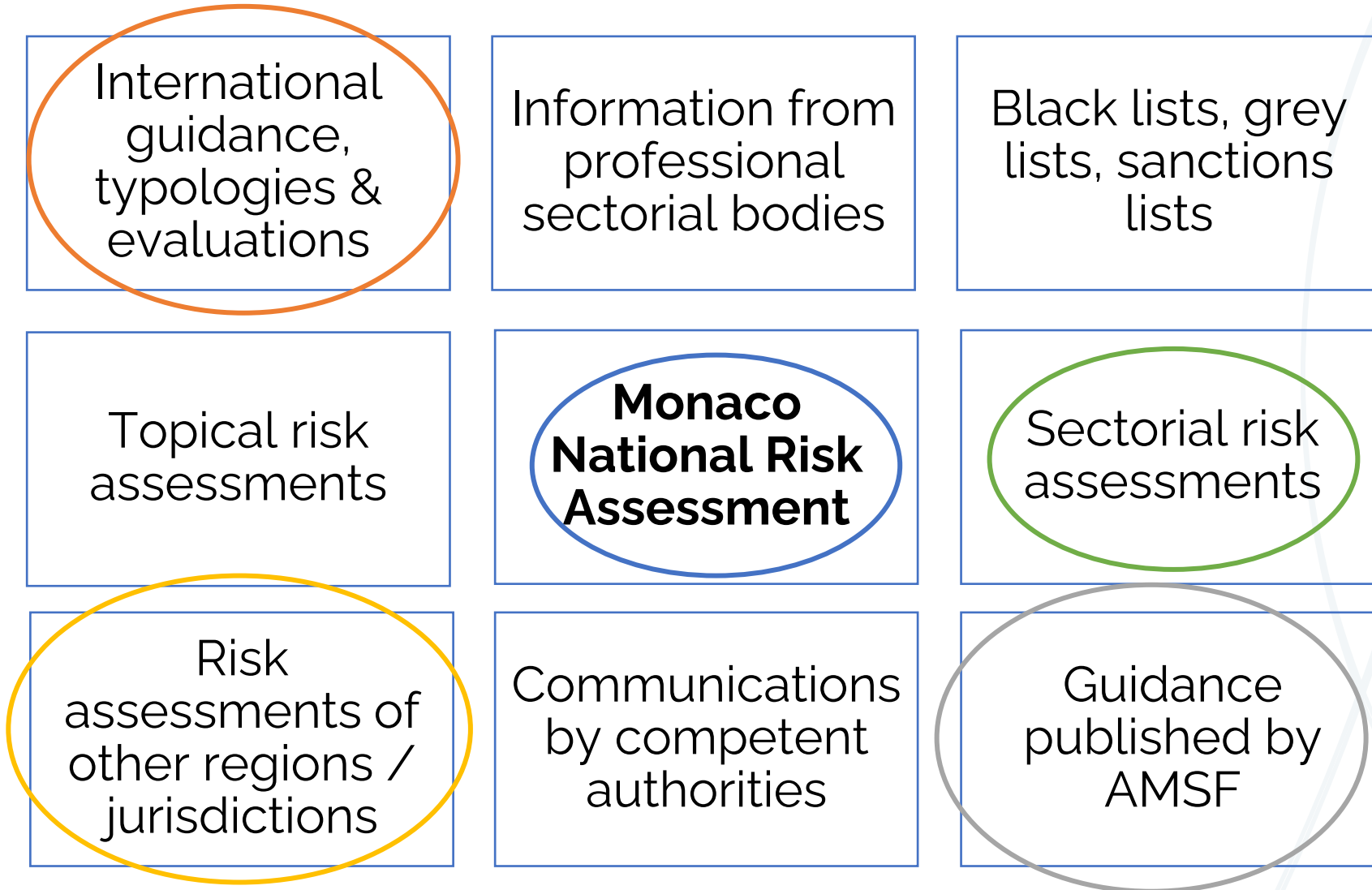
Focus on assessing controls relating to PEPs



Develop action plan

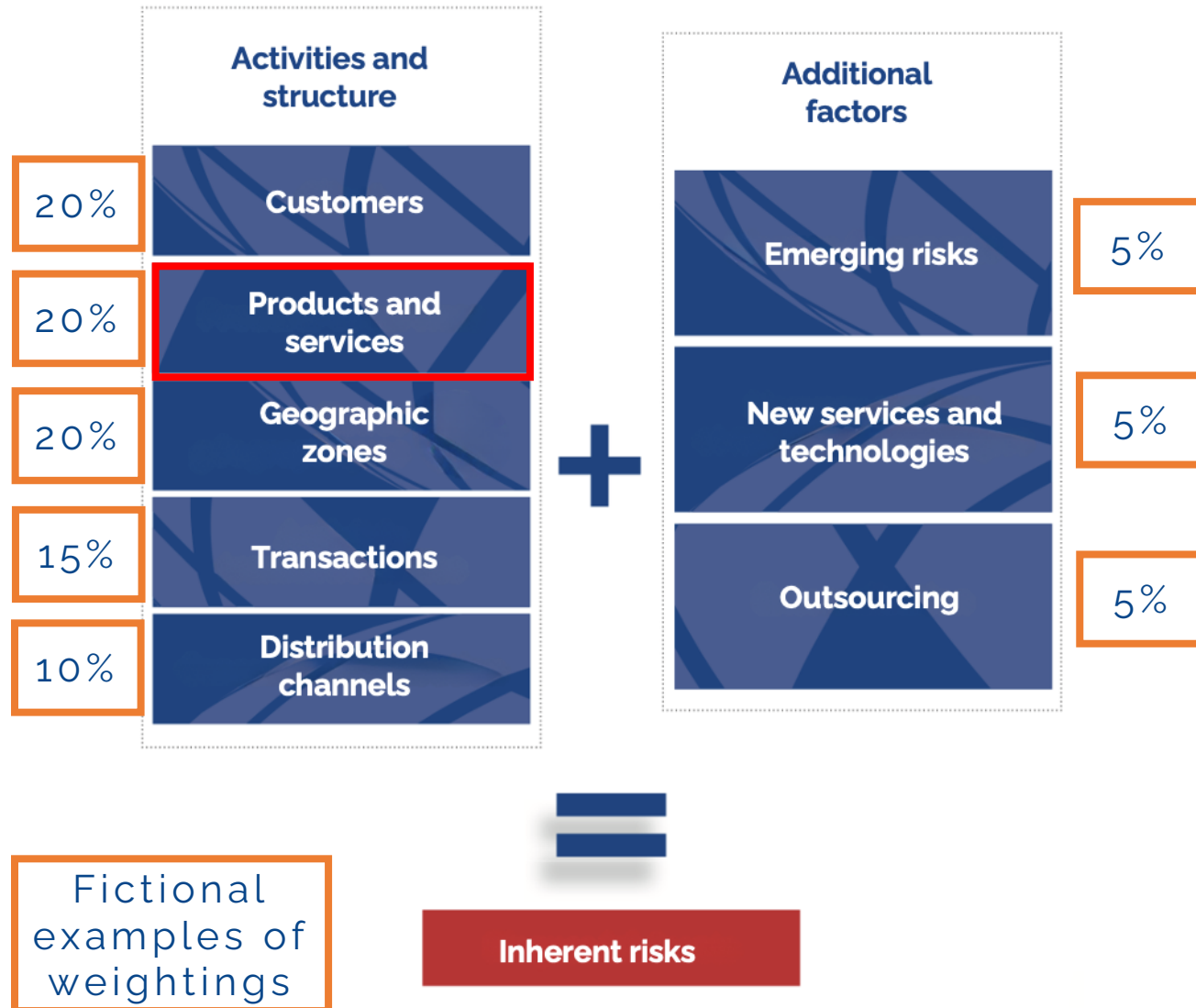
Focus on developing an Action Plan relating to high-value players

Example Phase A: Assess inherent risks



- **FATF RBA guidance for the casino sector** (p. 23-29) lists risk factors and variables affecting risks
- **EC's sNRA chapter on the casino sector** describes various risk scenarios
- **UK's Gambling Commission** publishes periodic updates on emerging ML/TF risks on their website
- **Monaco NRA 2:** medium-high risk rating for casino sector
- **AMSF 2023 SRA for the casino sector** describes main factors contributing to the sector's risk exposure, per risk category
- **AMSF guidelines** for the casino sector outline examples of risk factors for each risk category

Inherent risks: Risk categories & risk factors



To measure inherent risk exposure, obliged entities need to choose a methodology, select a risk-rating scale and set parameters for risk ratings and weightings.

Illustrative, fictional example of such a methodology:

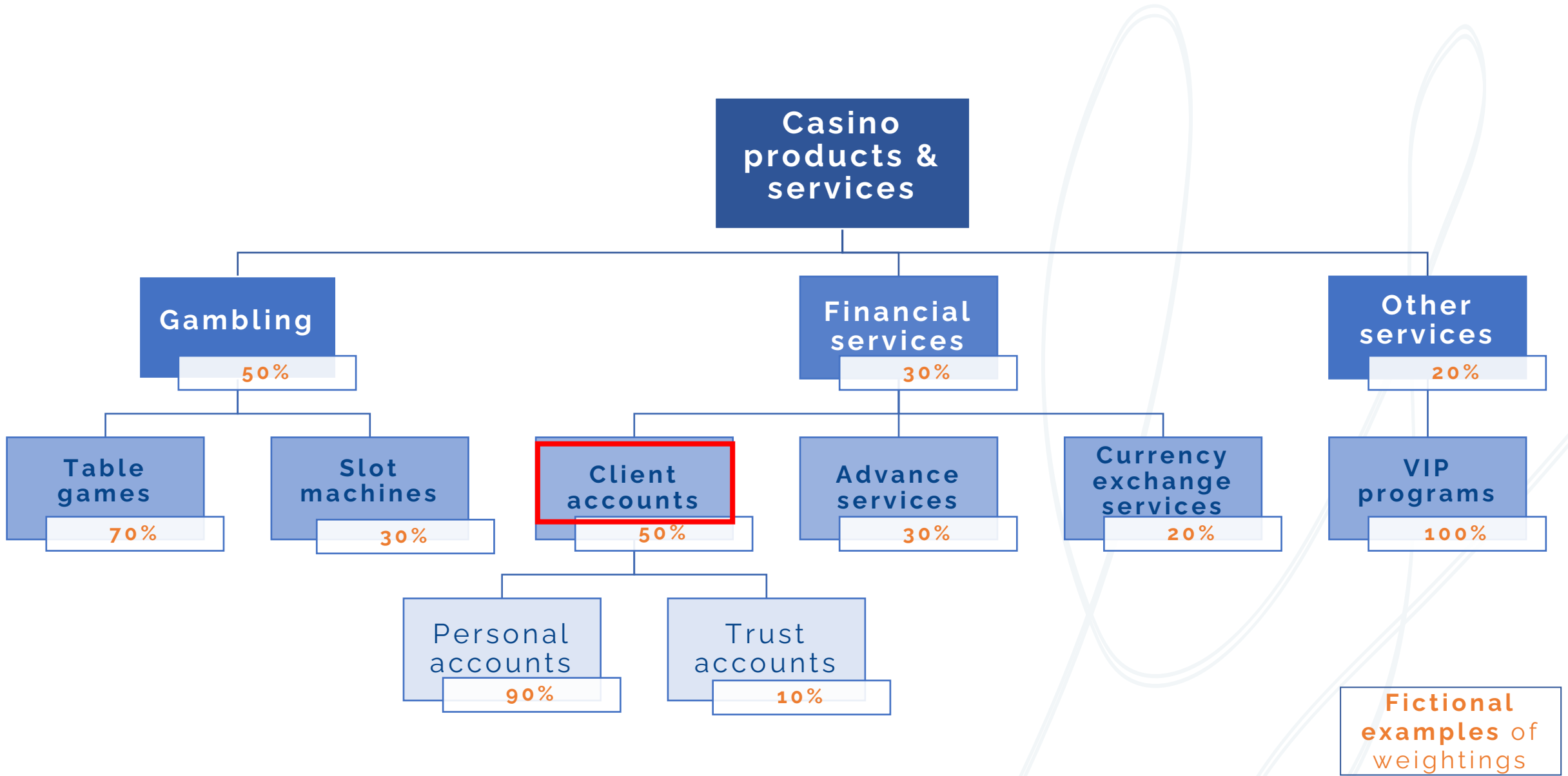
- Across all risk categories, an obliged entity assesses a total of **50 risk factors**.
- Each of the 50 risk factors can receive a **risk rating of 1 (very low risk) to 5 (very high risk)**.
- Also, the relevance of each of the 50 risk factors receives a **weighting of 1 (limited relevance), 2 (relevant) & 3 (very relevant)** for the business.
- This results in **weighted risk ratings** for each risk factor on a scale of 1 to 15, e.g. a risk factor with a risk rating of 3 and weighting of 2 has a weighted risk rating of 6 (= 3 multiplied by 2).
- Under each risk category, an **average score of the weighted risk ratings** of the risk factors can be calculated
- The average scores of each risk category are then weighted according to the relative contribution of each risk category to the overall inherent risk, resulting in an **overall average risk score**, also on a scale of 1 to 15, with the parameters for final risk assessment set by the obliged entity as follows: 1-5 Low risk; 6-10 Medium risk; 11-15 High risk.

Examples of **quantitative factors** to be taken into account when deciding on (sub-)weightings and ratings of inherent product/services risks:

- Size of client base using each service
- Number of active products
- Volume of transactions under each service
- Contribution of each service to turn-over of entity

Examples of **qualitative factors** to be taken into account when assessing inherent risks associated to each service/product:

- Characteristics of the client base making use of the service/product
- Level of transparency or opacity offered by the service/product
- Level of complexity of the service/product, incl. geographic aspects
- Level/frequency/speed of transactions under each product/service, incl. any limits/caps and liquidity.



Fictional examples of weightings

Simplified examples of risk factor analyses for client accounts (with fictional data)

Risk category	Products & services risk: Client accounts / Transactional risks: movement of terrorism related funds	Products & services risk: Client accounts / Transactional risks: incoming cash transactions	Products & services risk: Client accounts
Risk factor	Use of client accounts to move terrorism related funds	Use of cash to feed client accounts	etc.
Description	Customers may use client accounts to deposit funds with either legal or illicit origins and use returns from the accounts to fund terrorism activities abroad	Customers can use cash money to feed their client accounts and there is a risk that such cash originates from criminal activities.	etc.
Assessed risk level (1 to 5)	4 (High)	5 (Very high)	etc.
Weighting (1 to 3)	2 (Relevant)	3 (Very relevant)	etc.
Justification (using combination of qualitative & quantitative data)	As per the 2024 AMSF TF Awareness Guide, the 2023 TF NRA identified the overall risk for Monaco to be used for the movement of terrorism related funds as medium-high. The casino sector is not cited as a sector particularly exposed to known mechanisms for channelling terrorist funds (see p. 11 of the Guide). The relevant risk exposure is mostly formed by the fact that the casino attracts players from worldwide including from jurisdictions with high TF risks. As of 2023, the proportion of such clients amongst those with client accounts is around 2,5%. Also, there is a high use of cash to feed client accounts (around 40%), which is also likely to be linked to cross-border movements of cash given the fact that most customers (95%) are non-residents.	The risk of criminal proceeds being placed into client accounts is pronounced when it concerns cash deposits, given the anonymous and frequently untraceable nature of cash transactions, incl. the fact that the source of such funds has not been scrutinised by other gatekeepers such as banks. In 2023, 40% of the value of transactions feeding client accounts was deposited in cash, adding up to €200 million, therefore constituting a significant and relevant ML risk for the casino.	etc.
Weighted risk rating (1 to 15)	8 (Medium risk)	15 (High risk)	etc.

Example Phase B: Assess controls relating to PEP risks

- **Monaco NRA 2 (2021):** "A significant proportion of customers registered with the MCFC are PEPs. Conversely, the number of PEPs and high-risk customers among those not registered with the MCFC appears low, in proportion to the total number of customers. This observation shows the difficulties for S.B.M. in clearly establishing the identities of its customers where these are not registered by the MCFC."
- **AMSF SRA for casino sector (2023):** "AMSF has noted that data provided by the casino sector on exposure to PEPs and HNWI's cannot be considered reliable – considering the high-end profile of the casino, there seems to be serious underreporting of these customers, pointing at deficiencies in the casino's efforts to identify high-risk customers." & "The recent onsite inspection by AMSF has determined that the casino still has deficiencies relating to the identification and mitigation of risks posed by PEPs as flagged in NRA2."
- Such findings indicate the need to **pay special attention in the casino BRA to the strength and adequacy of the current PEP controls.**

Information on PEP controls to be considered

Since when has the control been implemented?

Dedicated resources to implement the control

Training provided to persons implementing control

Level of oversight on the application of the control

Has the control been subject to independent testing?

Budget for EDD for high-risk clients

Availability of reliable data on domestic & foreign BOs

Availability of reliable means for identification

Automatic versus manual controls

Periodic screening of whole customer database

Commercial databases used for sanctions & PEP screening

Responsibilities and timeframes for updating of sanctions lists

Simplified examples of Risk mitigation analysis for PEP controls (with fictional data/information)

Risk category	Risk factor	Weighted risk rating (1 – 15)	Risk mitigation measures in place	Estimated impact of mitigation	Residual risk (1 – 15)
Customer risk	Customer is a PEP, raising ML risks in particular in relation to laundering of proceeds of predicate offenses such as corruption, embezzlement and influence peddling	12 (High)	<p>Procedure has been updated (< 1 year) to describe more clearly the measures/process to be followed to detect PEPs</p> <p>There is a new process in place (<1 year) to screen the whole customer database against a commercial database on a periodic basis.</p> <p>These measures have improved the PEP detection rate by +10%.</p> <p>The opinion/advice of compliance officer is henceforth sought for every new PEP client.</p> <p>There is senior management approval for every PEP client.</p> <p>Enhanced monitoring, incl. more frequent KYC updates</p> <p>PEP training for frontline staff</p> <p>Pending legacy issues in relation to 20% of files for PEPs who became recurrent clients prior to new tool</p> <p>Independent test of new control planned for Q3-2024</p>	20%	9,6 (Medium-High)

Phase C: Fictional example of Action Plan for HPV controls

- The BRA identified gaps in controls relating to high-value players, resulting in inadequate mitigation of customer risks.
- The BRA Action Plan therefore outlines concrete steps for **the improvement of controls relating to high-value players**.
- Once the BRA & Action Plan are approved by senior management, the **internal procedures will need to be updated** to reflect the new approach to high-value players and to assign the related roles/responsibilities. New staff will be recruited and existing **staff will be informed** of the changes and receive training through dedicated information sessions.
- The adequacy and strength of the enhanced controls as well as the sufficiency of the additional resources dedicated to implement them should be assessed at the **next iteration of the BRA**. It can then be considered to what extent the new controls are implemented in an effective manner and whether further changes/improvements are needed.

Simplified example of Action plan item to enhance controls for High-value players (with fictional data/info)

Area of concern	Risks and controls relating to high-value players (HPVs)
BRA results	Inherent risk score 15 (high-risk); Controls rated as Weak (low impact); Residual risk score 15 (high-risk)
General course of action proposed	The high inherent risk to high-value players is a matter of fact for the casino and it is not intended to seek to lower the exposure. Therefore, in order to reduce the level of residual risk, the focus should be on improving the controls.
Concrete actions proposed to reduce the level of residual risk	<p>The following improvements of controls are proposed for consideration:</p> <ul style="list-style-type: none"> ➤ Update the internal AML/CFT procedures in order to: <ul style="list-style-type: none"> • Define what constitutes a high-value player in the context of the casino operations; • Outline the factors and thresholds to be considered when designating a player as high-value; • Outline which enhanced due diligence measures are to be applied to HPVs. ➤ Design and introduce an enhanced screening process to ensure that HPVs are screened against public records and third-party databases to determine whether they have a criminal history, are (associated to) PEPs, or are subject to negative media concerning possible criminal activity or connections. ➤ Recruit additional resources (1 fte) to support the implementation of EDD measures
Proposed timelines for actions	<ul style="list-style-type: none"> • Update of the procedures to be finalised by the end of Q2-2024 • New resources to be recruited and operational by the end of Q3-2024 • Test phase of enhanced screening process to be implemented by Q4-2024 • New controls to be assessed at next iteration of BRA foreseen in Q1-2025



*Thank you for your
time*

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Next Session:

28.05.2024

Topic:

Customer Risk
Assessment

Today's Host: Tamar Goderdzishvili

Today's Presenter: Suzanna van Es