

AML Tuesday's Session #15 on:

Customer Risk Assessment

May 21, 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

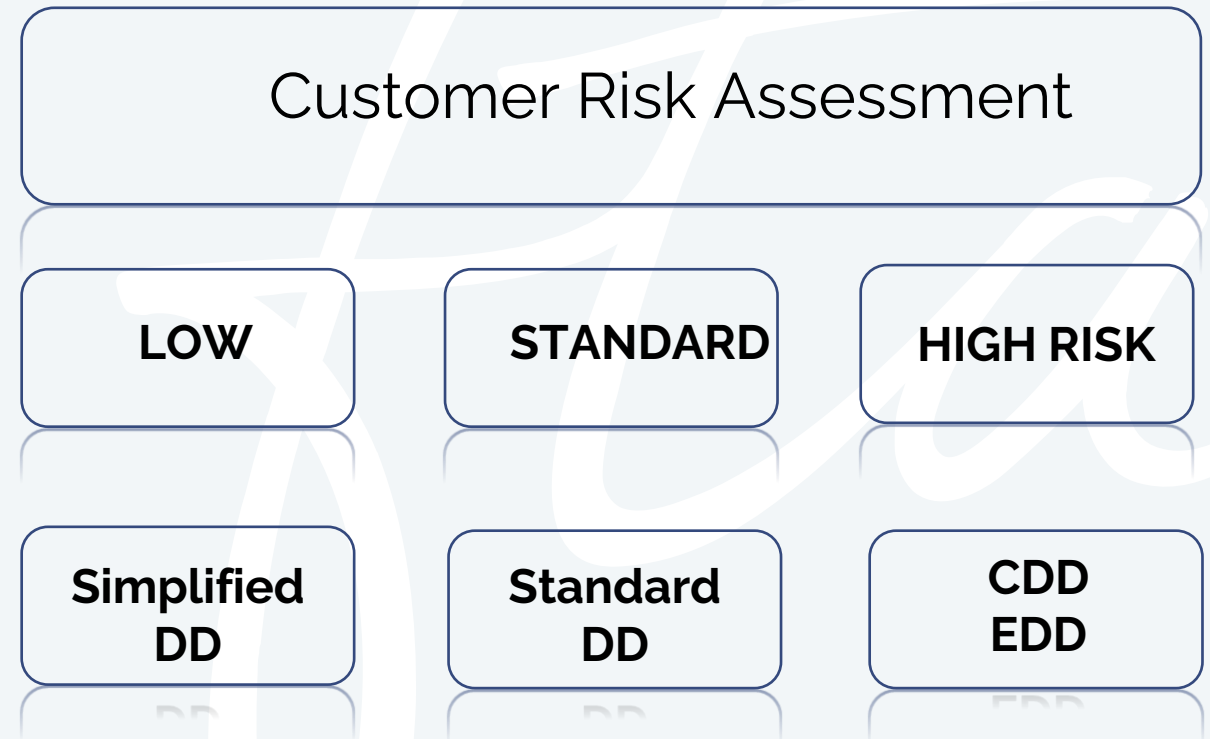
Countries Subject to Sanctions
Countries not having adequate
AML/CFT Systems

PRODUCT/SERVICE RISK

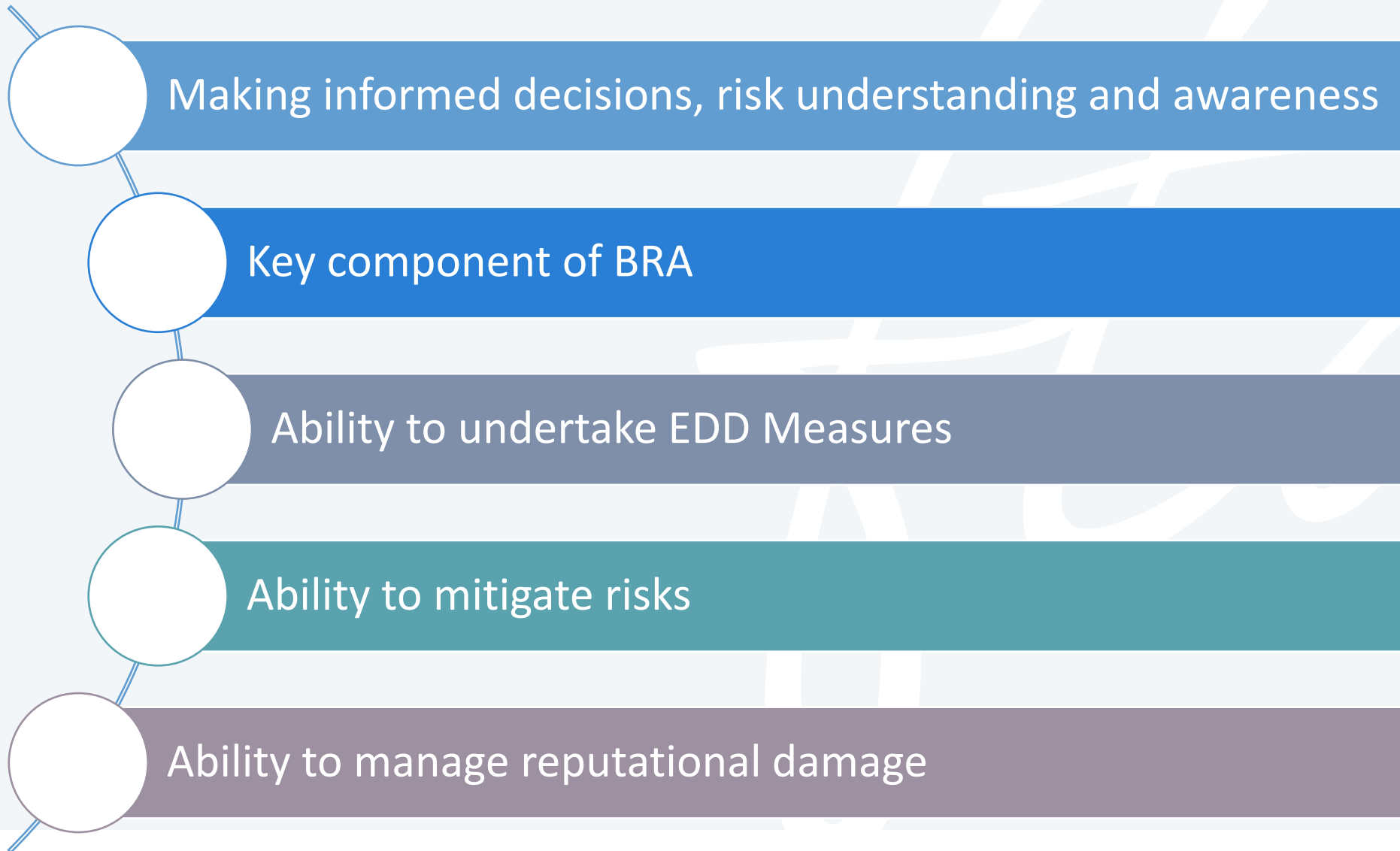
Private Banking
Anonymous transactions involving cash

DELIVERY CHANNEL RISK

Non-Face-to-face business
relationships



Importance of Customer Risk Assessment



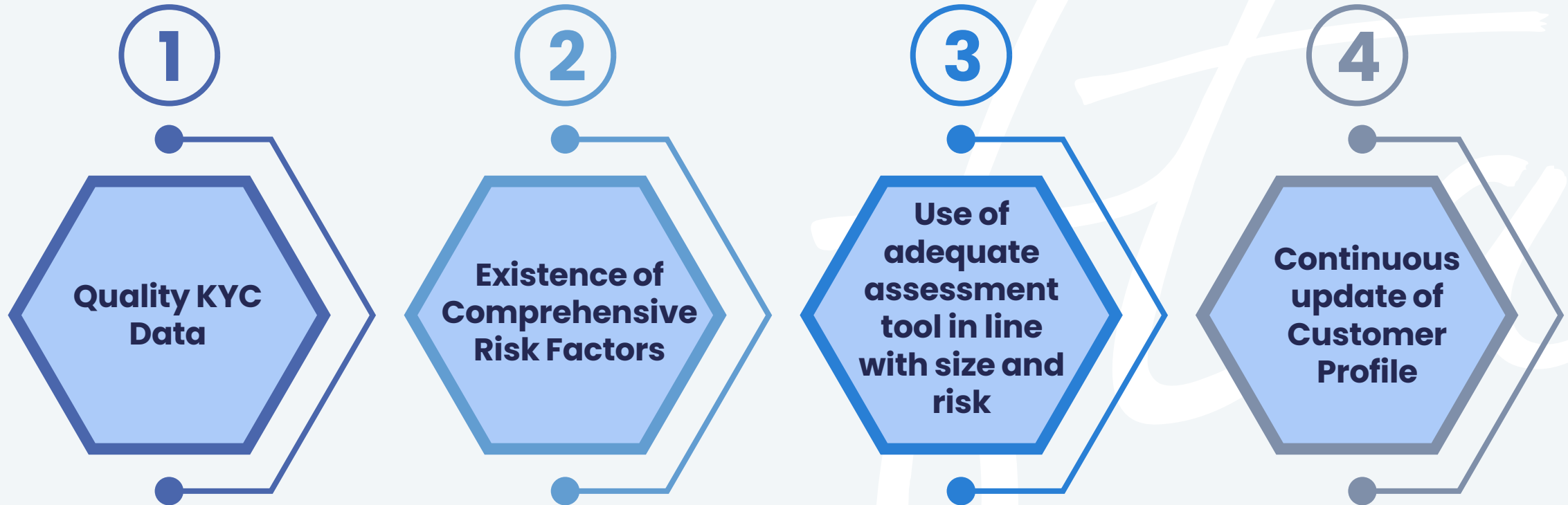
CRA Obligations – Monaco Context

Article 3 and 5 AML Law – CDD Measures in accordance with risk assessment

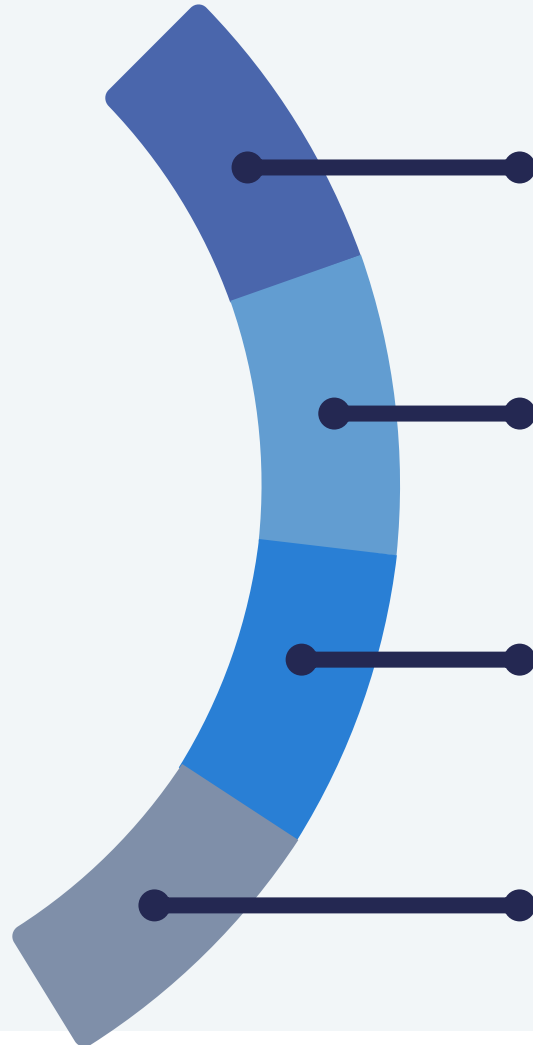
Article 4-3 AML Law – Assessment of Customer Risk

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

Components of Customer Risk Assessment



Customer Risk Assessment Process



Collection of Information on Customer

Nationality, Residential Address, Occupation, Type of legal entity etc.

Analysis of the risk based on the collected information

Depending on the type of the risk assessment model the process can be automatic or manual

Assignment of the risk

Based on the methodology used the client is assigned a risk rating

Due diligence measures

Based on the assigned risk rating the relevant due diligence measure is applied SDD/CDD/EDD

Customer Risk Assessment Models



Risk Scoring Model

Algorithm-based
assessment model
Scoring and Weighting

Customer Risk Assessment Models



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

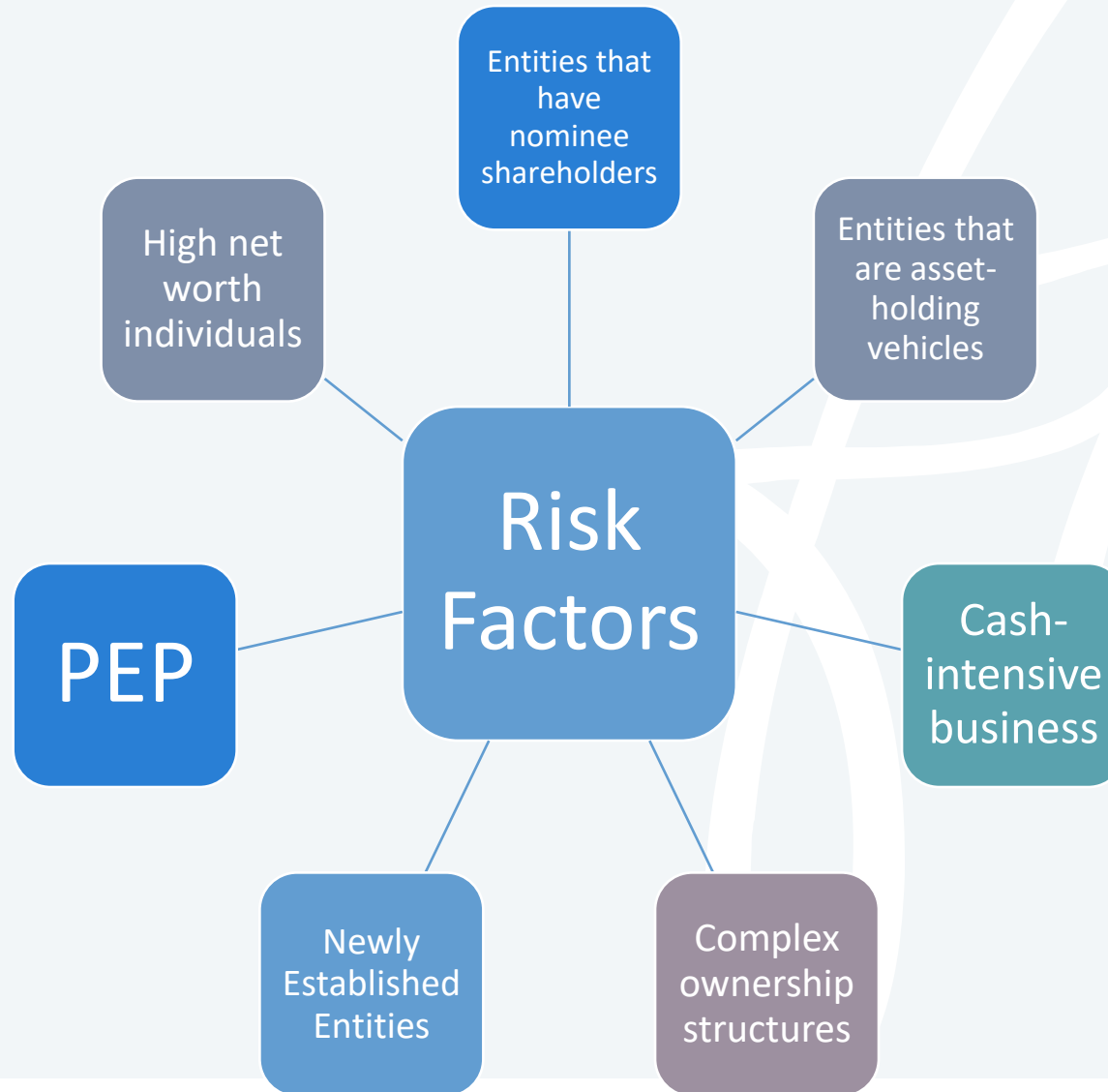
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Delivery Channel Risk

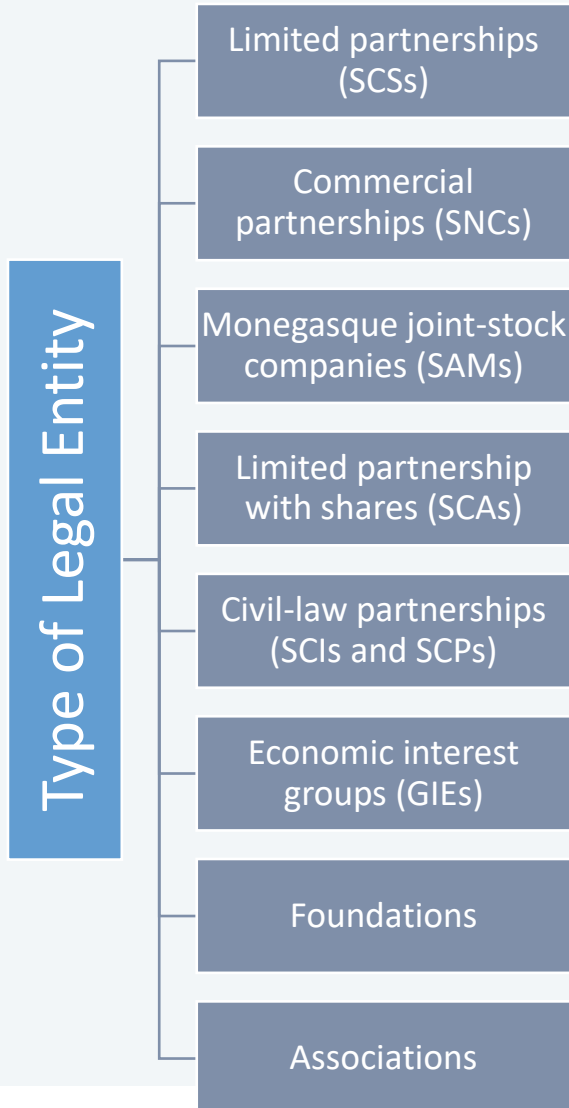
Digital Onboarding
Distance Onboarding
Involvement of agents or
intermediaries

4

CRA – Customer Risk Factor Examples



CRA – Legal Entity



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 – Legal Entities (Activity Risk Factor)

- 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

Real Estate

Sports agents

Property dealers

Yachts and
charter
companies

Gambling sector
Medium High

TCSP
Medium High

Motor-vehicle
sector
medium-high

Jewellers
medium-high

Antiques and
artworks
medium-high

Auction houses
Medium

Legal sector –
medium

Crypto assets –
Medium

Notaries –
medium

MFOs – medium-
low

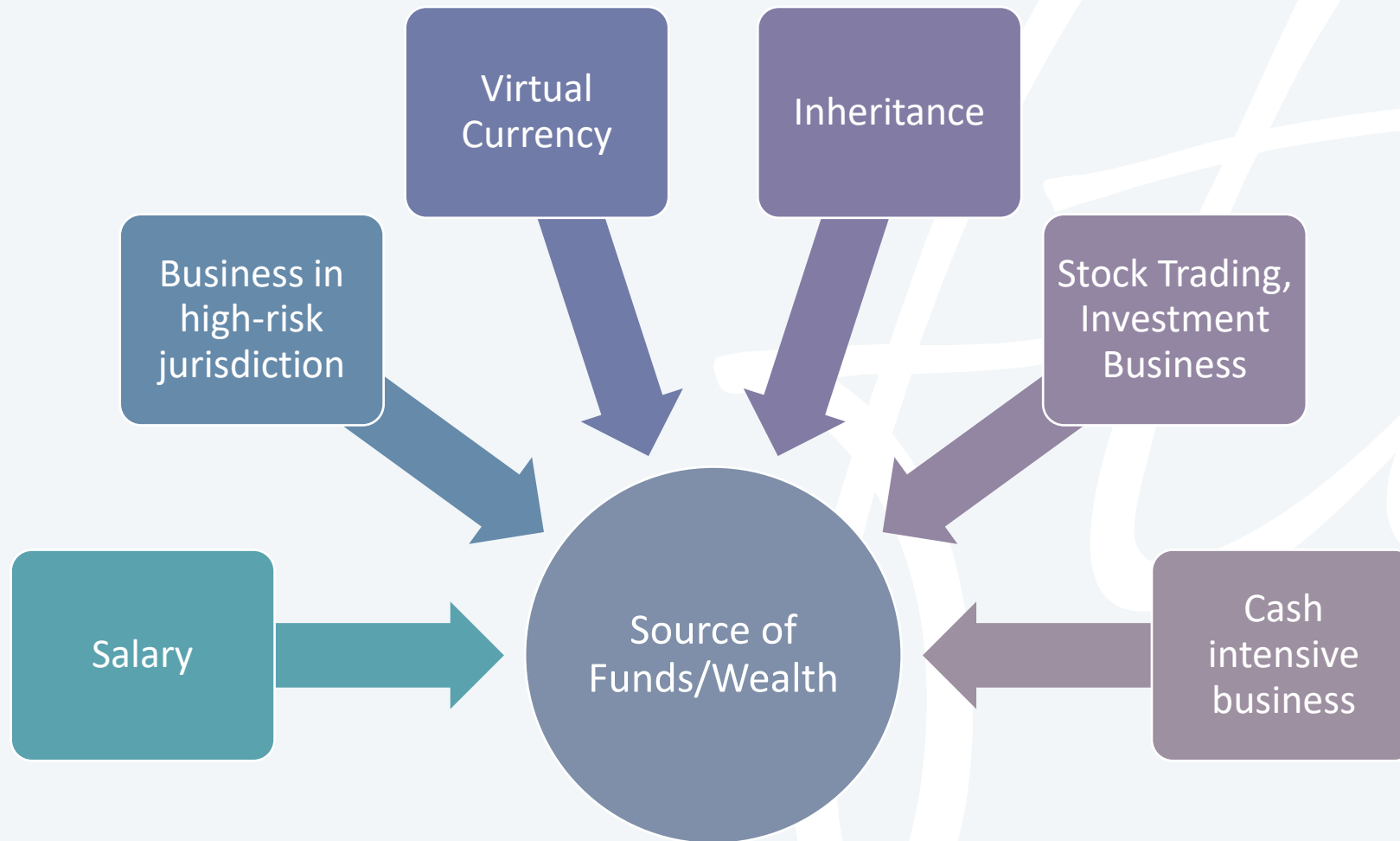
Bailiffs –
medium-low

Legal, finance
and tax advisors
– medium-low

NPOs

Accountants

CRA – Customer Risk Factor Source of Wealth



CRA – Product Risk FATF Guidance

Retail banking

- Provision of services to cash-intensive businesses, volume of transactions, high-value transactions, diversity of services.

Wealth management

- Culture of confidentiality, difficulty to identify beneficial owners, concealment (use of offshore trusts), banking secrecy, complexity of financial services and products, PEPs, high value transactions, multiple jurisdictions.

Investment banking

- Layering and integration, transfer of assets between parties in exchange for cash or other assets, global nature of markets.

Correspondent banking

- High value transactions, limited information about the remitter and source of funds especially when executing transactions with a bank located in a jurisdiction that does not comply or complies insufficiently with FATF Recommendations, the possibility that PEPs are involved regarding the ownership of a bank.

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 - 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

Negative Media

Frequent Change of Counterparties

High risk Jurisdiction

Close associates

Transfers

STR

FIU requests

Court orders

NRA

SRA

Guidance and Typologies

High Risk Examples

Sector	Example
Banking	High Transaction Volume PEPs High risk customer activity Cash incentive business MSBs Charities
Insurance	Complex Ownership Structures High-value claims Complex products with potential multiple investment accounts
Investment Activity	Offshore funds Complex investment strategies Crypto Assets Stock market investments via loans

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
- Foreign Counterparty Request

Customer Risk Assessment – Dynamic Process



Customer History

The length of the relationship, behavioral factors
Beneficiaries
Ownership Structures



Geographic Locations

Wire Transfers
Card Transactions



Previous SARs

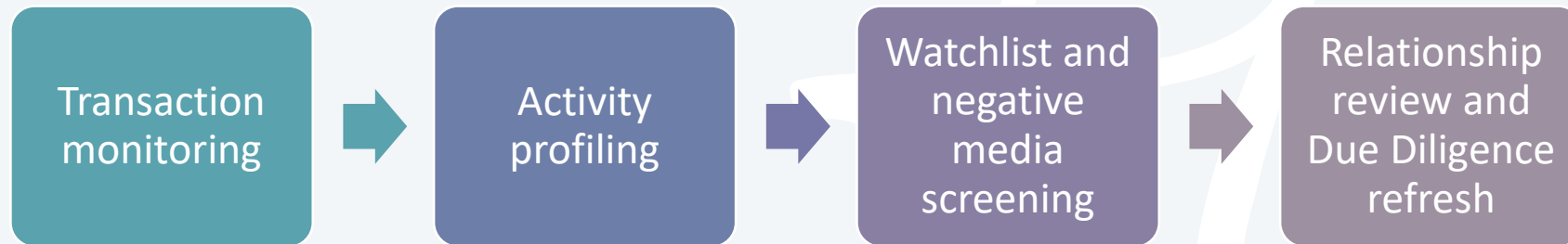
Information on previous suspicious transactions



Network Analysis

Analysis of connections based on transaction information

Customer Risk Assessment – Ongoing Due Diligence



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?

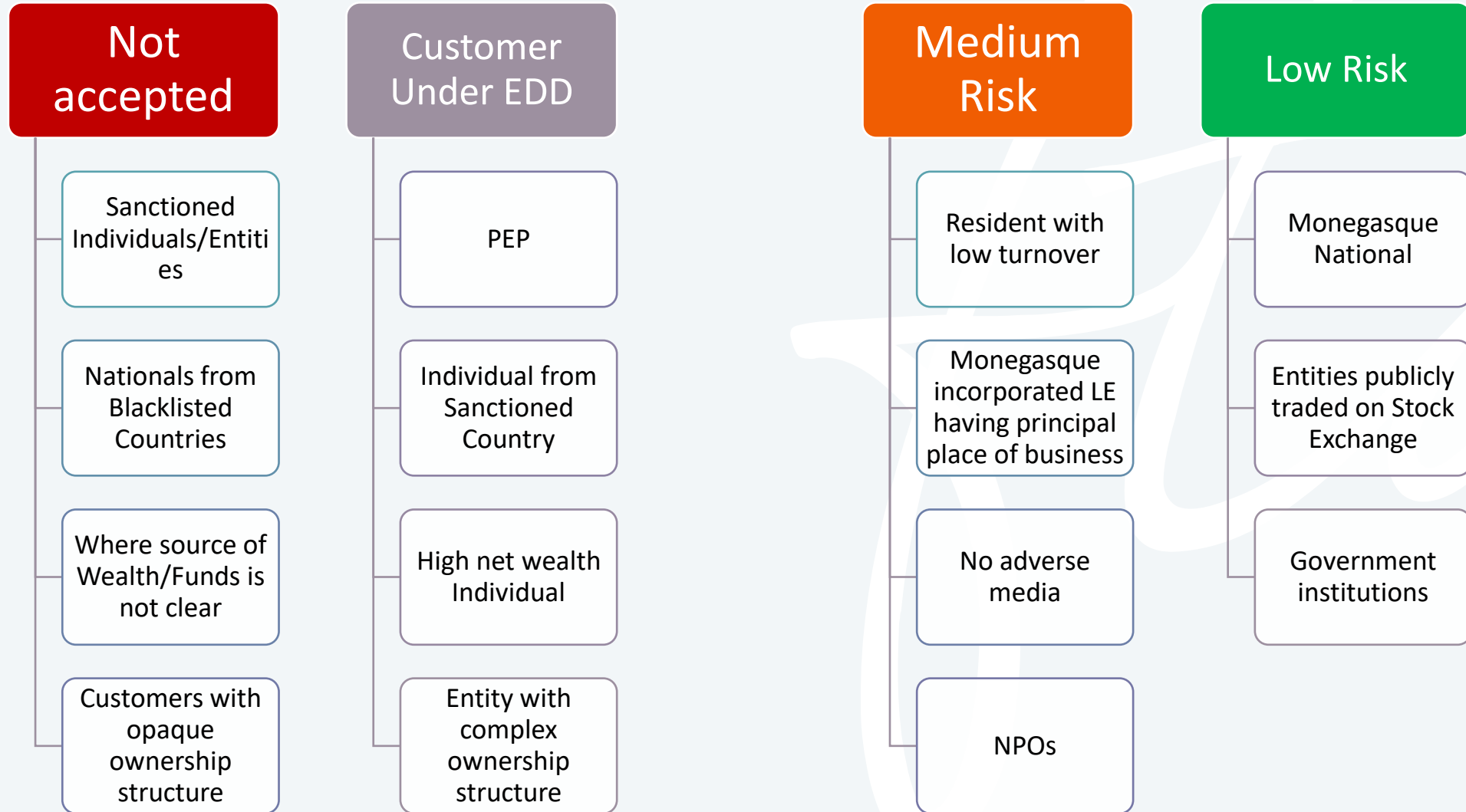
How manipulation of customer risk assessment system is managed

How the process of periodic update is undertaken

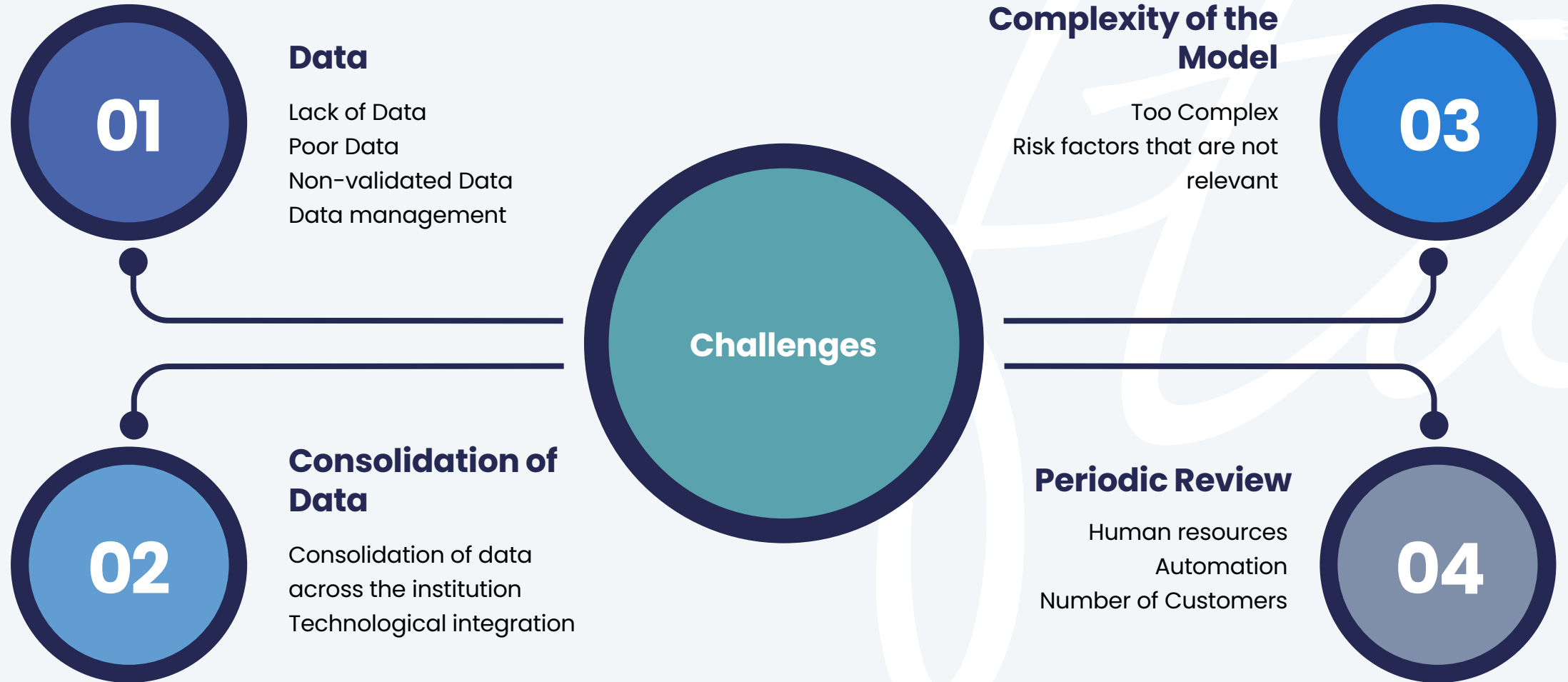
Triggers for ad-hoc review

Data Control and CDD data validation process

Customer Acceptance Policy - Example



Customer Risk Assessment





*Thank you for your
time*

Financial Transparency Advisors GmbH
Zieglergasse 38/7/1070 Vienna, Austria

Phone: +43 1 890 8717 11

www.ft-advisors.com

<http://www.ft-advisors.com>

Next Session:
04 June, 2024

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

Today's Host: Tamar Goderdzishvili

Today's Presenter: Tamar Goderdzishvili