Sanjana Kissoondharry Understanding Risk Assessment Methodologies AUGUST 30 2024



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Risk Based Approach

G _{ii} D	Countries should identify, assess and understand their ML, TF, and PF risks
9	Take commensurate actions to ensure / implement risk-based measures
~	Require Fl and DNFBPs to identify, assess and understand their ML, TF and PF risks AND take effective action to mitigate these
rħ.	Enables the FI / DNFBP make decisions on allocation of resources to mitigate risks
<u></u>	Higher risks = enhanced measures

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Technical v Effective Compliance - Why is it important?

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What is the difference?

Technical Compliance

- Focus on meeting regulatory requirements
 Adopting a checklist approach
 Inadequate / inefficient risk mitigation
 False sense of security

- FATF: compliant to 40 recommendations
 Tick the box

Effective Compliance

- extent to which the risks and threats of ML, TF and PF are

- threats of ML, TF and PF are mitigated

 True risk based approach, adapted to the actual risks

 Focus on achieving intended outcomes

 Improved understanding of risks

 Improved decision-making for risk mitigation



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What are these 11 Immediate Outcomes

- ML and TF risks are identified, assessed and understood, policies are co-operatively developed and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism.
- Supervisors appropriately approximate intervisors appropriate intervisors approximate and their property. Supervisors approximately supervisors, mortized and regulate financial institutions and VMSP and compliance with AMTCPT previsors measures, and report supervisors transactions. The actions taken by supervisors and by financial institutions and VMSP are commentatived in the miss.

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- available to competent authorities without impediments.

 Financial intelligence and air other releases information are appropriately used by competent authorities for money laundering and terrorist financing interesting in the control of the cont

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Mauritius 5 th Follow-up rep	port (ESAAMLAG)	
 Mauritius will remain in enhanced f ESAAMLG of the progress made in impro effectiveness measures. 	follow-up and will continue to inform the wing the implementation of its AML/CFT	
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What can we learn from others? Jersey – MER 2024 (Moneyval)		
Effectiveness Ratings' NA. 102. X3.2. 104. 105. 105. 105. 105. 105. 105. 105. 105	Findings: Strong understanding of its ML/TF risks Thorough and in-depth analysis of the country's specific risks All necessary public stakeholders have ben involved in the process	
18.7 - 18.6 - 33.5 - 18.6 - 18.3 - 18.6 - 18.5 - 18	Proactive engagement of the private sector for ML NRAs Extensively communicates the results of risk assessments to the private sector, and the private sector demonstrated a high level of awareness of the NRA findings	
	Recommended actions: • Further consider potential risks associated with the provision of services by TCSPs and banks that may be associated with virtual assets	
	 Enhance future risk assessments with case studies / real life scenarios and good practices distinctive for IFCs to improve the public and private sector's ability to recognise different trends and methods in laundering proceeds of foreign tax crimes 	
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In practice – Identifying risks		
BRA	Identify	
+ >	Identify, Assess,	
CRA	Understand	

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In practice - AML/CFT Business Risk Assessment

In practice — AML/CFT B
(i) the nature, scale and complexity
of the financial institution's
activities;
(ii) the products and services
provided by the financial
institutions;
(iii) the persons to whom and the
manner in which the products and
services are provided;
(iv) the nature, scale, complexity and
location of the customer's activities;
(iv) reliance on third parties for
stements of the customer due
diligence process;
(iv) technological developments; and
(ivi) NFA

1. Operational Risks 2. Legal Risks 3. Reputational Risks

Appropriate for your organisation Involve different dividsions / departments Risks identified are actual risks Hisks identified are actual risks applicable to your organisation
 Technologies used as part of the compliance controls
 Reliance on third parties

✓ Group-wide arrangements
✓ Update at trigger events
✓ Board involvement > Risk
strategy / risk appetite

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(vii) NRA

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In practice – Know your Customer

Identify & verify: focusing on collecting CDD documents ✓Identify and verify customer ✓ Identify and verify UBO ✓Business activities



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In practice - Customer Risk Assessment

Risks Factors: Nature, Scale, Complexity	Technology used: • Understand the methodology
Products and Services Clients Geography Delivery Channels	Review and test if adequate/ gaps/loopholes Heightened risks > at what cost?
Initial Risk Assessment Cycle: Processis linear or circular Senior management involved OR compliance?	Qualitative information in assessing risks clients poses Sensitive risks v Risk appetite Test and review the settings of any automated systems used within this compliance process
Continuous review cycle: Automatic updates on trigger events	
Periodic risk reviews	fit

In practice - EDD

FIAMLA /FSC-Handbook:
Jercepasting additional information on the customer and updriting on a frequent basis the customer or the beneficial owner;
Jo chaining additional information on the intended nature of the business relationship and the source of fundwaster;
Jo chaining information on the intended or performed transactions;
Jobatining the approval of senior management to commence or continue the business relationship;
Jol conducting close monitoring of the business relationship;
John yor ther measures a reporting person may undertake with relation to a high risk relationship.

How effective is a professional reference letter when dealing with a PEP?
What do you do when there is adverse media on the client / UBO?
One size fits all OR case by case
Understand the risks > apply enhanced measures adapted to the risk for effective mitigation.

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In practice - Transaction Monitoring

Live > supporting documents before transactions take place
 Focus on obtaining invoice / agreement / etc
 Post event
 Sanctions screening

 Does the transaction make sense
 Commercial rationale Unnecessarily complex
 Unusually large
 Documents make sense

Documents make sense
 Post event:
 Looking at trends
 Identify patterns
 Red flags
 Non-banking transactions

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Testing effectiveness

	Implement a programme to test and re-assess effectiveness of the Compliance controls				
Æ	Involvement from Senior Management / Board through reporting				
	Action plan & action owners				
	Monitor				
9	Repeat				
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Just theories?			
	31 of the FIAML Regulations 2018, any risk assessment		
systems used by the financial ins system is in place and actions she	titution should be reviewed regularly to ensure an effective buld be taken to remedy any identified deficiencies. This is		
further discussed in Chapter 4.	The business risk assessments are designed to assist the finance	cial institution in making such an	
	assessment and provide a method by which the financial inst which its business and its products and services are expose business risk assessments are therefore vital for ensuring that the	ed to ML and TF. Good quality	
	procedures and controls are proportionate and targeted appropriate		
and consider each customer on a	institution to avoid a tick box approach when assessing risks case by case basis or in group risk- rated buckets based on		
their profiles, looking at any risks	they pose along with any mitigating factors. The customers		
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Risk based approa	ch		
Allows organia	sations Onus will be on	the	
to adapt requir to their nature complex	rements RBA organisation to ex et/size/ ity reasonable	ptain was	
	Understand ML, TF, PF risks		
	 Improved decision making 		
Adequate and app	propriate risk mitigating controls > a efficiently	llocatingresources	
	• Test, Reassess, Update		
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RBA			
	Questions?		
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