

AML, KYC, Risk Based Approach, and Compliance

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What Is Money Laundering ?

- Money Laundering is the Process of Integrating the Proceeds of Crime into the Legitimate Stream of Financial Commerce by Masking its Origin
 - A process to make Illegitimate Funds Appear Legitimate

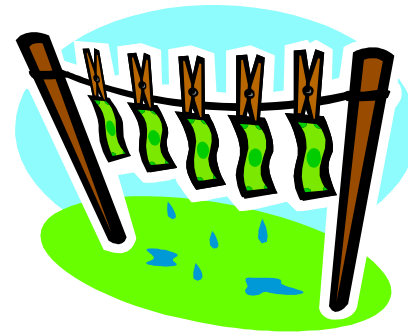


What Is Money Laundering ?

- Concealing the existence or source of income from a crime
- **Disguising income from a crime so that it appears legitimate**
- Knowingly assisting a criminal in moving money or other property that constitutes the proceeds of criminal activity

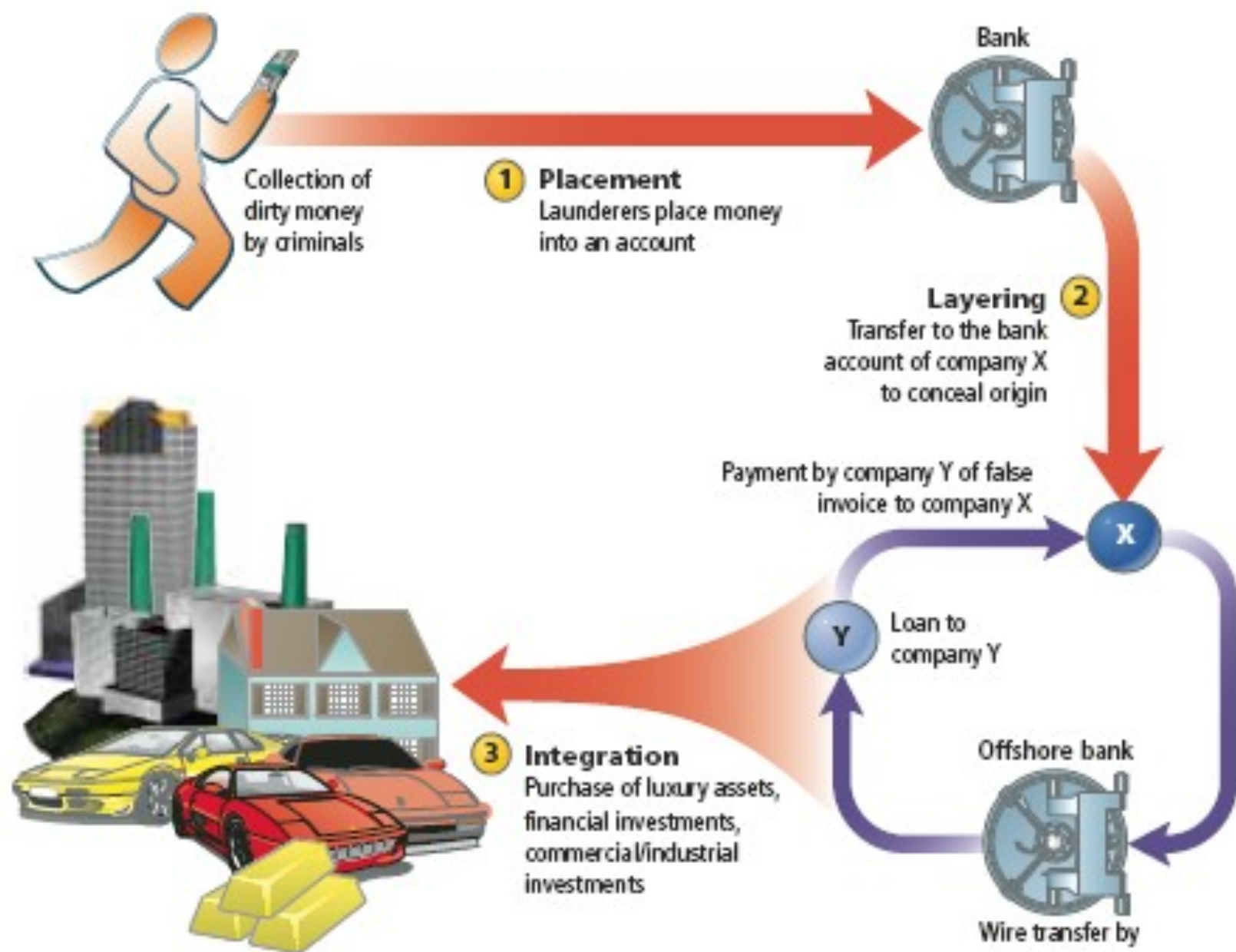
Some Examples of Proceeds of Activities Which Constitute Money Laundering in Qatar & UAE are:

- Drug Trafficking**
- Foreign Official Corruption**
- Embezzlement**
- Securities, Wire and Mail Fraud**
- Bribery**
- Terrorist Financing**
- Trafficking in Human Cargo**
- Racketeering**
- Arson**
- Foreign Smuggling & Export Control Violations**
- Money Derived From Predicate Crimes**



Money Laundering is separate from the charges of the underlying crime(s)

Money Laundering Stages & Techniques



Source: Adapted from the United Nations

Trade Based Money laundering

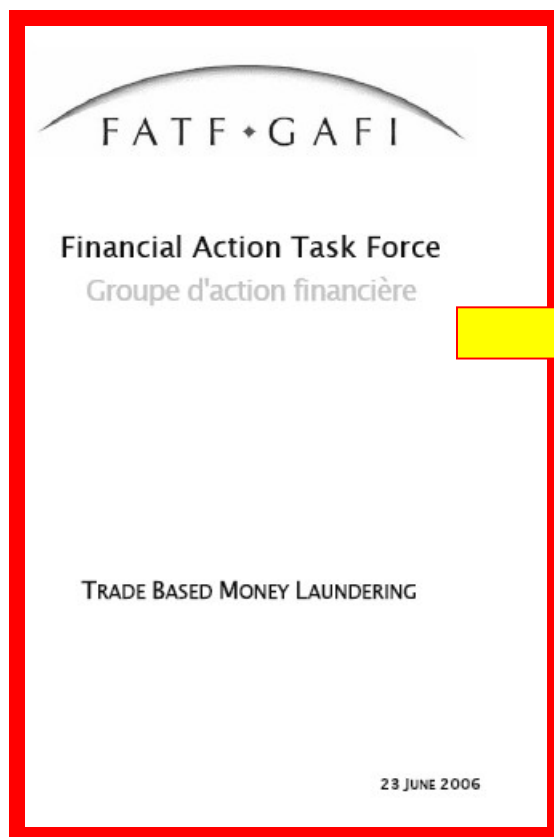


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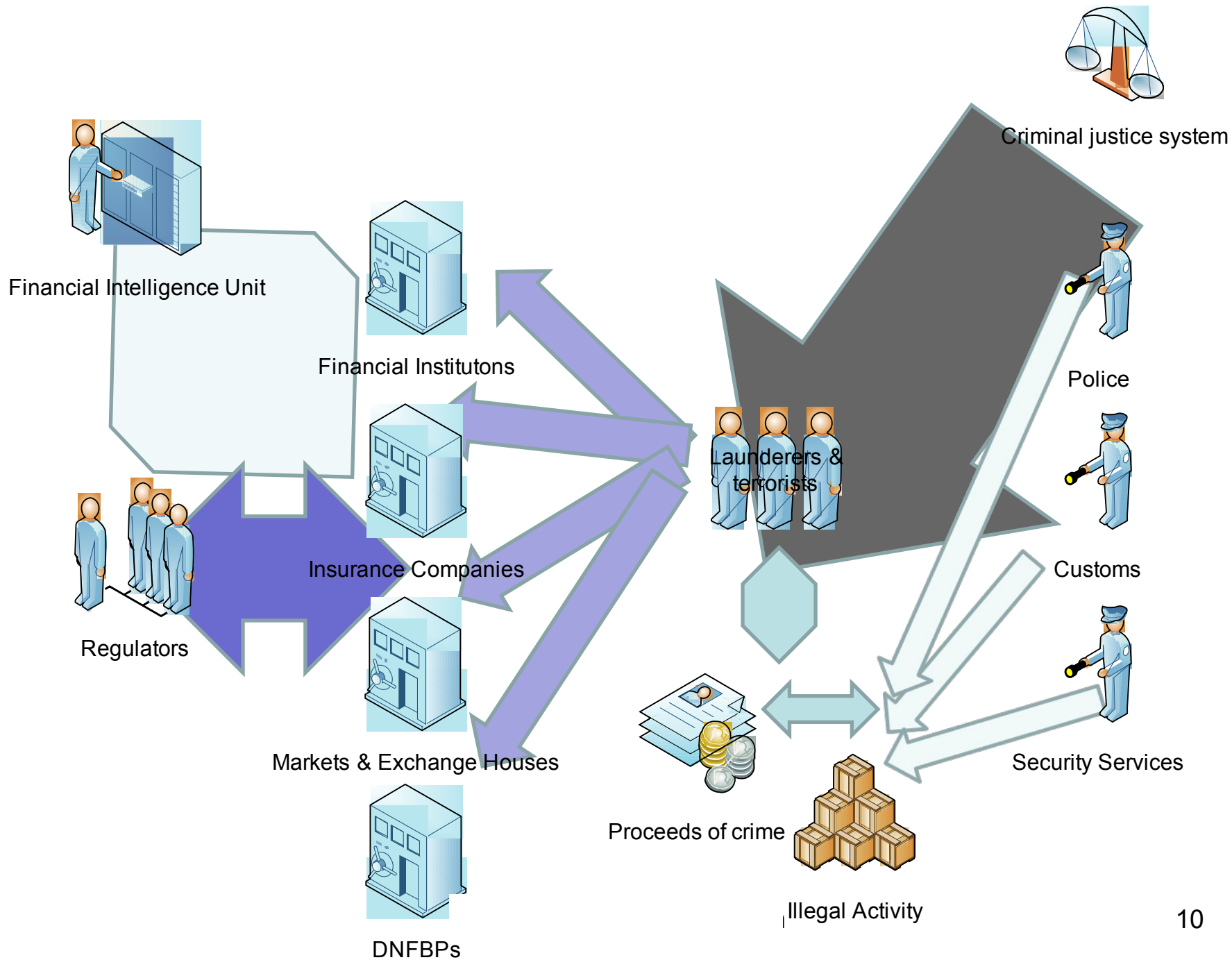
Executive Summary	
1. Introduction.....	
2. The International Trade System	
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We all share the same goals:



Objectives of presentation

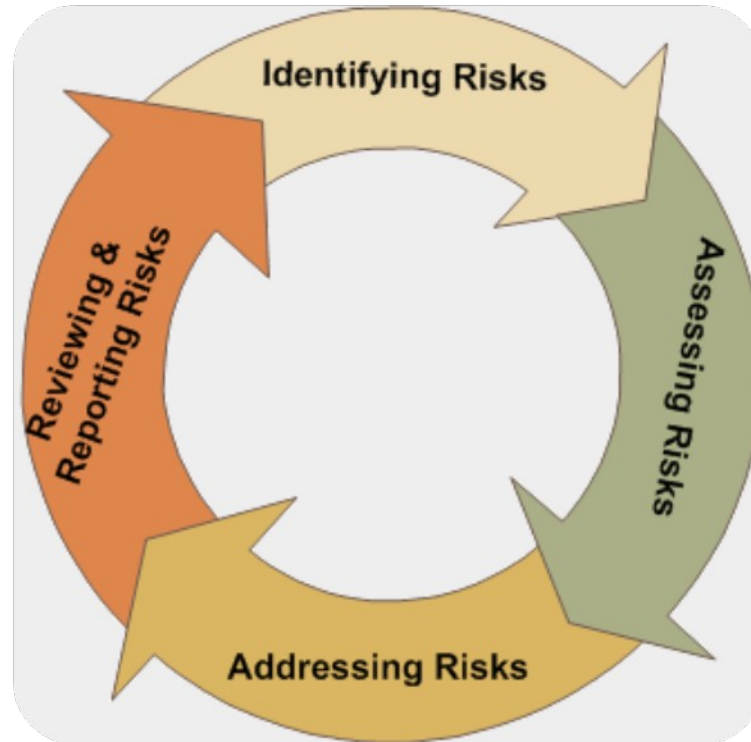
- Why the need to risk assess?
- How to risk assess?
- Objectives – V – Risk
- Input and Output
- Translating operational requirements into a National Strategy



Objectives V Risks

- Before thinking of risks we need to determine what the operational objectives of our departments are?
 - What we were set up to do?
 - What do we do well?
 - What do we need to do better?
 - What do we need to stop doing?
- Once we establish objectives then we can think of risks

The Outline of the Risk-Based Methodology



Risk Categories



Corporate / Commercial

Risks arising out of entrepreneurial or commercial activities.

Economic / Financial /
Market

Risks driven by economic activity either of a region, jurisdiction or given market.

Legal / Regulatory

Risks arising from legal or regulatory requirements or evolving international standards.

Organisational /
Management Human

Risks presented due to limitations of human or financial resourcing.

Political / Societal

Risks arising from changing political or societal expectations.

Environmental / Acts of God

Risks that can materialise without the ability to influence them.

Technical / Operational /
Infrastructure

Risks caused or exacerbated by resourcing or technical limitations.

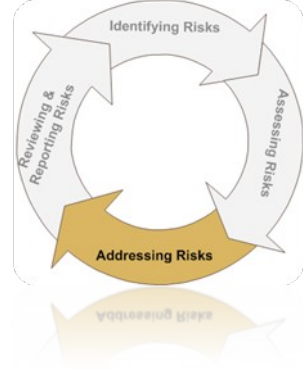
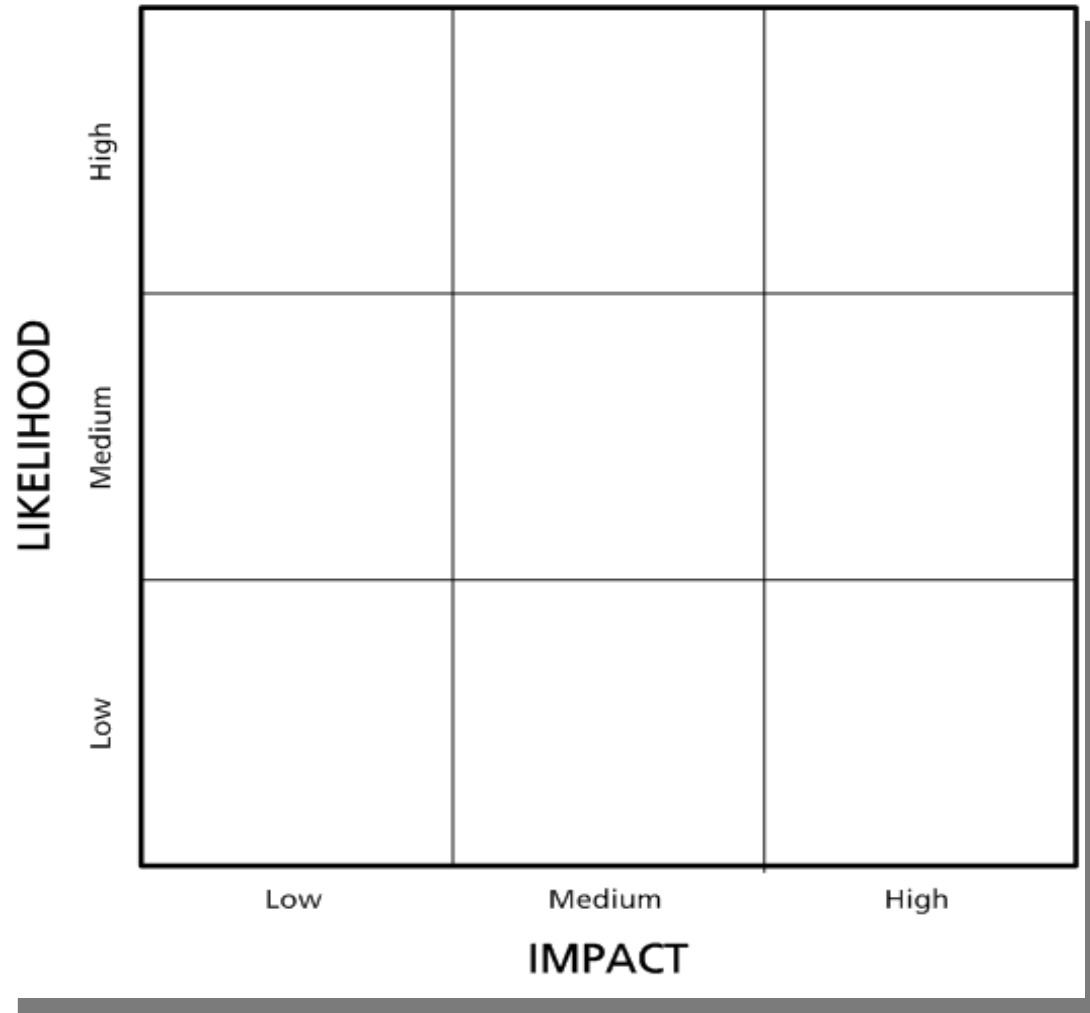


Examples of Risk Identification

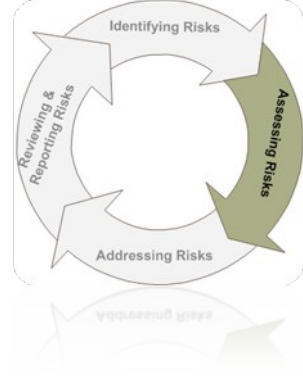
Objective: To travel from Al Rayyan to Doha for a meeting by bus for a meeting at a certain time.

Risk Description	Evaluation - Good Description?
Failure to get from Al Rayyan to Doha on time for the meeting	NO, this is simply the converse of the objective
Being late and missing the meeting	NO, This is a statement of impact of the risk, not the risk itself.
There is no food on the bus so I get hungry	NO, this does not impact on achievement of the objective.
Missing my lift to the bus stop causes me to miss the bus causing me to be late and miss the meeting	YES, This is a risk that can be controlled by making sure I allow plenty of time to get to the bus-stop.
Severe weather prevents the bus from running and me getting to the meeting	YES, although this is a risk which I cannot control, but against which I can make a contingency plan.

Addressing Risk - The Risk Matrix



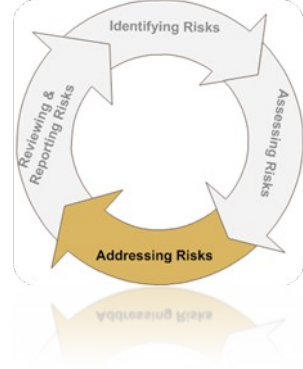
Assessing Risk- Impact & Likelihood



- All risks need to be assessed for their impact and likelihood;
 - **Impact**
 - Low – If risk materialised will not have a detrimental effect
 - Medium – Some damage will ensue
 - High – Major remediation will be required to correct
 - **Likelihood**
 - Low – The risk may occur only in exceptional circumstances
 - Medium – Reasonable chance of occurring
 - High - Most likely to occur than not

Risk Tolerance Matrix

LIKELIHOOD	High	Treat	Transfer or Treat	Terminate, Transfer or Treat
	Medium	Tolerate	Treat	Transfer or Treat
	Low	Tolerate	Tolerate	Treat
		Low	Medium	High
		IMPACT		



Risk Tolerance



- **TOLERATE**
 - The exposure may be tolerable without any further action being taken
- **TREAT**
 - The purpose of treatment is that whilst continuing within the organisation with the activity giving rise to the risk, action (control) is taken constrain the risk to an acceptable level.
- **TRANSFER**
 - For some risks the best response may be to transfer them. This option is particularly good for mitigating financial risks or risks to assets.
- **TERMINATE**
 - Some risks will only be treatable, or containable to acceptable levels, by terminating the activity.



We need to balance different demands





The problem is KYC

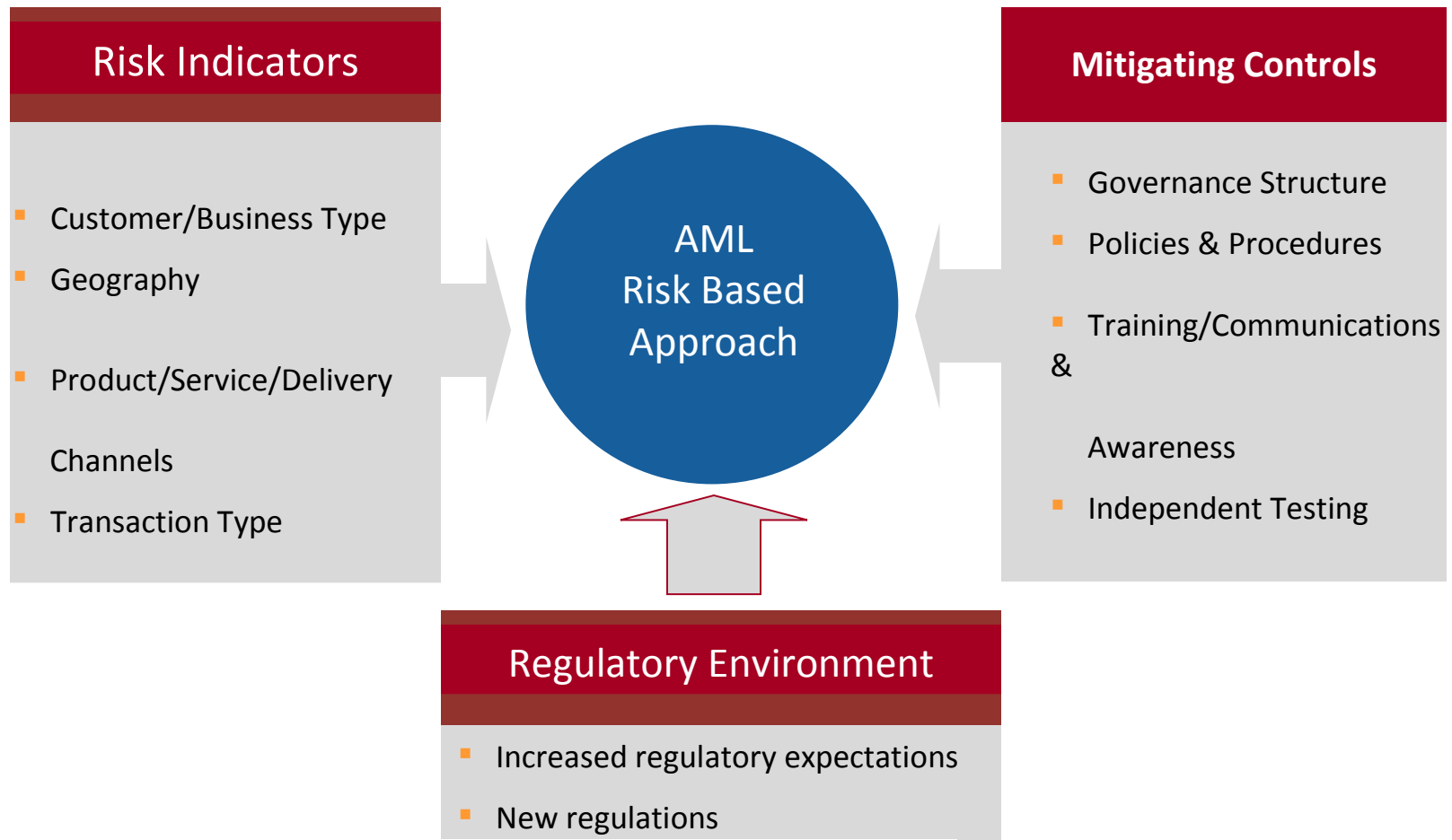
KNOW YOUR

- CUSTOMERS
- CORRESPONDENTS
- EMPLOYEES
- SHAREHOLDERS

Know your customer: why is this needed? What does it mean?

- Risk based client classification
- How to carry out customer due diligence
- Beneficial owners of funds vs introducers
- Accounts and territories a Bank will not deal with
- **Higher-risk clients**
 - **How the information will be verified and for whom, and**
 - **The extent of identification information to be sought**
 - **Politically Exposed Persons: what it means and why could they be high risk?**
 - **Entities with no transparent ownership structure – i.e. FZCs**

Components of a Risk Based Approach



Compliance Process

4 Phases

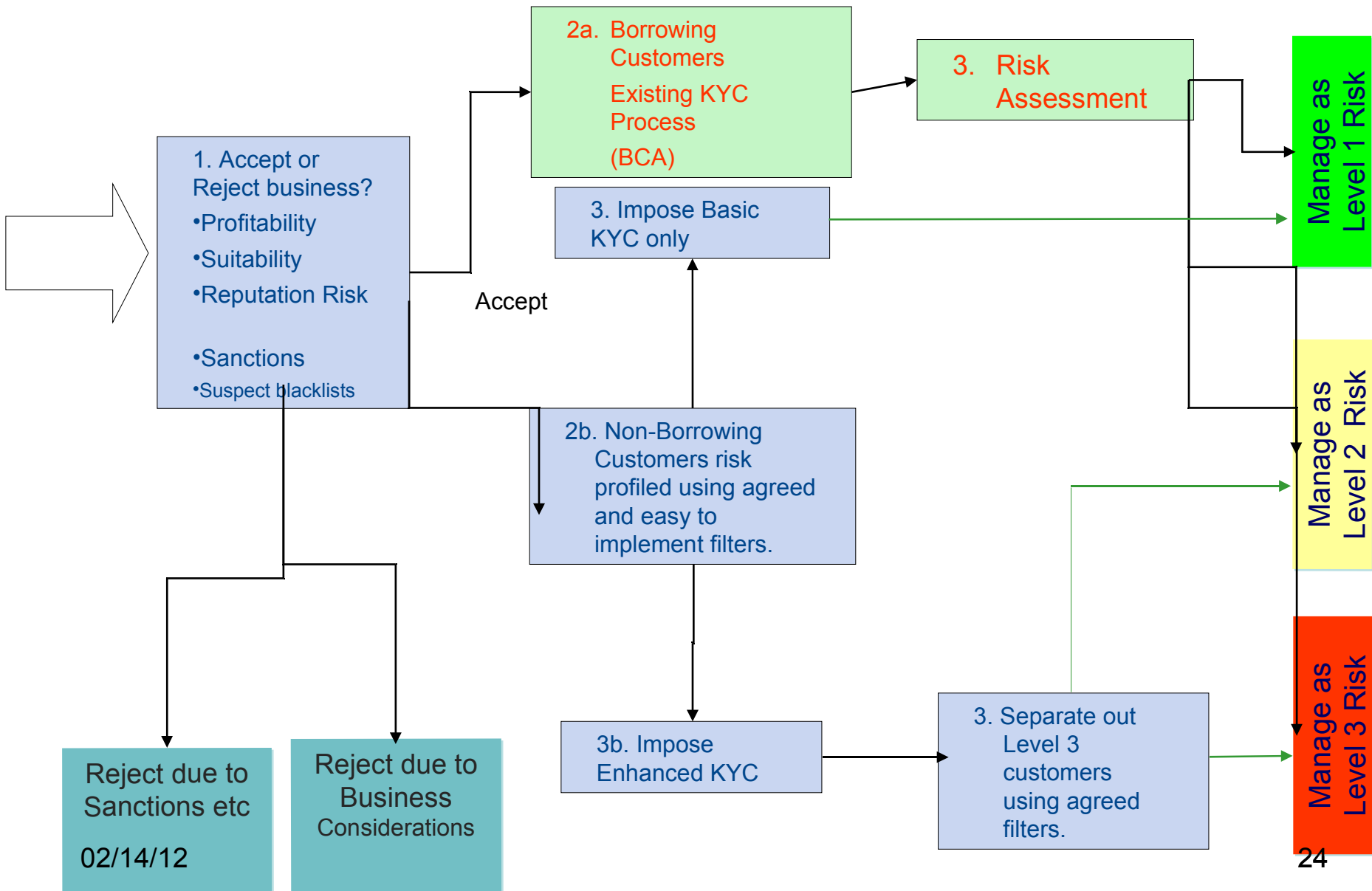
Risk identification

Risk assessment

Risk Monitoring

Risk Reporting

Risk Based Approach to KYC



Risk Based Approach to KYC

Level 3 Risk

Level 2 Risk

Level 1 Risk

Account Opening

Enhanced KYC

- Basic KYC Plus
- Nature of business
- Origin of funds
- Purpose of account
- Type & level of activity

Monitoring to identify account activity which requires account to be reclassified as Level (3)

Monitoring of transactions against customer profile on monthly basis.

Basic KYC

- Evidence of Identity
- Evidence of address
- Sanctions Filtering

Ongoing Account Management

Monthly Review

- Monitoring of transactions against customer profile
- KYC Relationship review approved by Senior management

Monitor Account Activity which requires account to be classified as Level (2) or (3)

Why should I care about these Requirements?

- **Money Launderers and Terrorists seek out vulnerable banks**
- **The Regulator will fine the bank heavily**
 - Ignorance is no defense!
- **FinCEN Listing Banks as Primary money laundering concern (LCB Case 10 Feb 2011)**
- **OFAC can and will seize customers funds**
 - Banco Delta Asia Ltd. Macau, Syria, Cuba, Iran, North Korea, Congo
- **US, European and other banks won't *Correspond* with you**
 - Strict Due Diligence
 - Correspondent Bank Certifications
 - Demand due diligence (KYCC)
- **The cost of a Fine is insignificant, compared to the internal cost and loss of business.**
 - Restructuring, new procedures, new systems, training
 - Loss of reputation
 - Loss of shareholder value

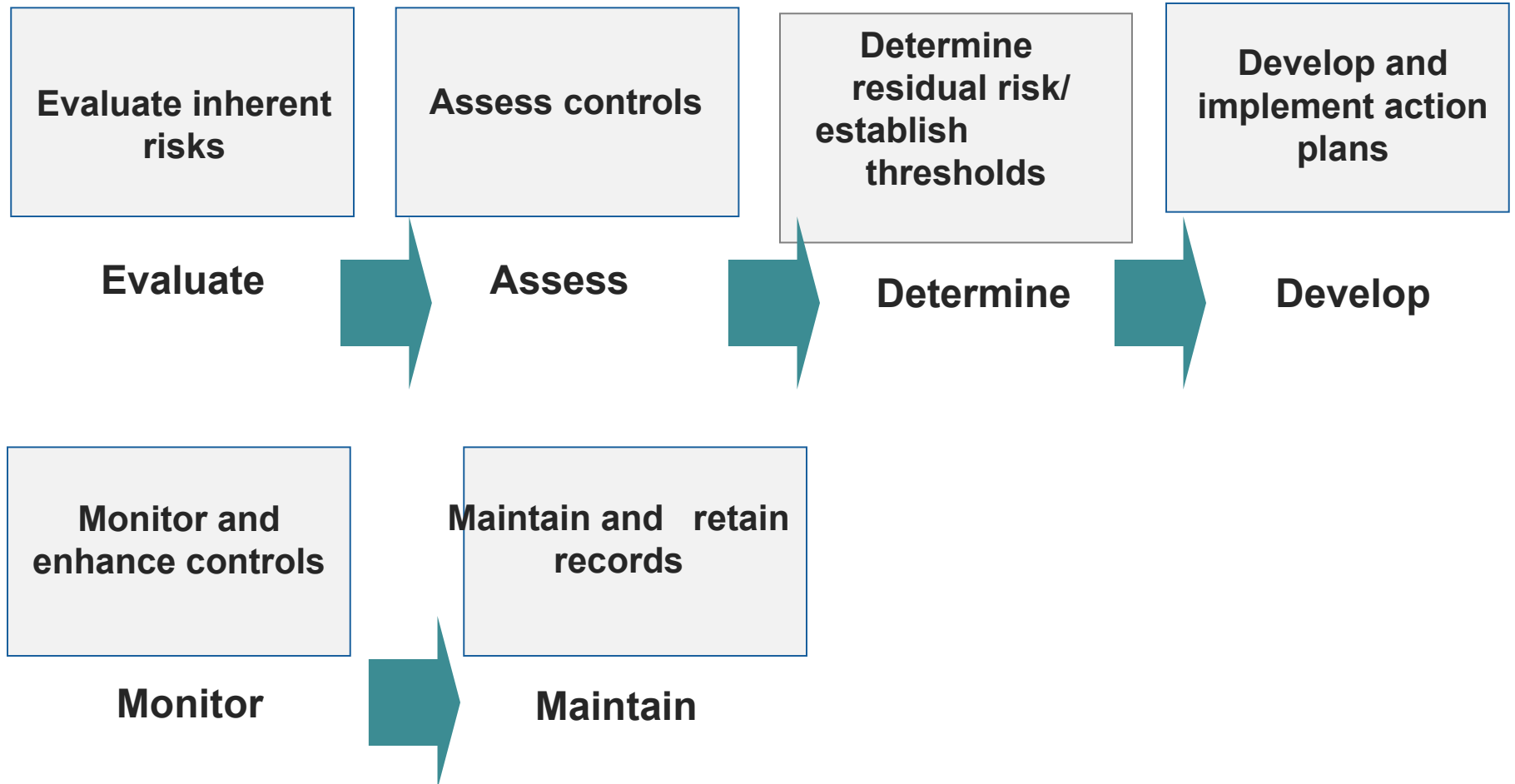
Watch list Filtering

- **Scanning of customer records & transactions against**
 - Government sanction lists – OFAC, BOE, UNO etc
 - High risk individuals- terrorists, organized crime, fraudsters etc
 - Exposed individuals – PEPs, public figures, high profile
 - 3rd party database providers – World Compliance, Thomson, Bridger, World-Check, Dow Jones-Factiva, Complanet, Lexis-Nexis, etc.,
- **Key Issues**
 - Character Variations
 - Phonetic Variations
 - Transliterations & cultural differences
- **Using intelligent name matching algorithms with :**
 - Normalization of names – capitals, abbreviations, spaces, punctuation
 - Reference libraries – common short names, cultural inputs
 - Reduction to simplified representation – phonetics, soundex
 - Indexing – decision tree
 - Similarity assessment – string equality, sub-sets, edit distance

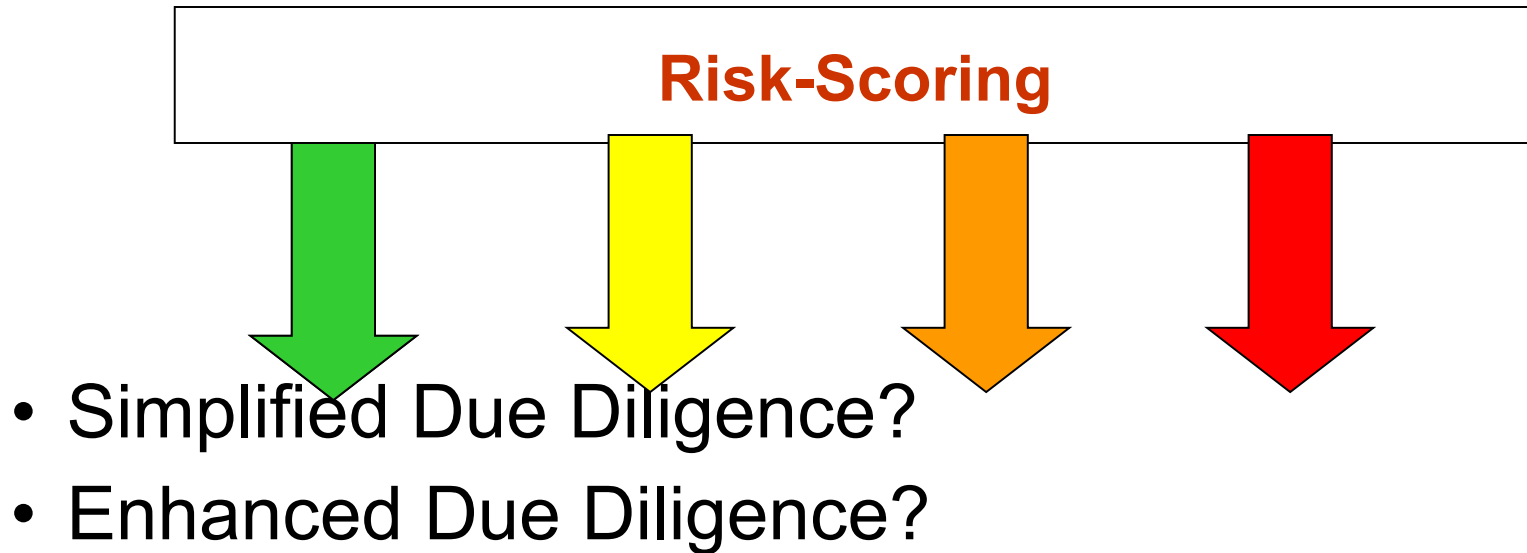
The Situation

- High risk individuals, companies and organisations are targeting financial organisations and the countries within which they operate.
- Their very existence depends on their ability to enter your organisation or country undetected. What are the risks:
 - Regulatory risk
 - Reputational risk
 - Business risk
 - Shareholder risk
 - Job risk

LOB Risk Assessment



Risk-based Approach and the KYC Process



Risk-based Approach and the KYC Process

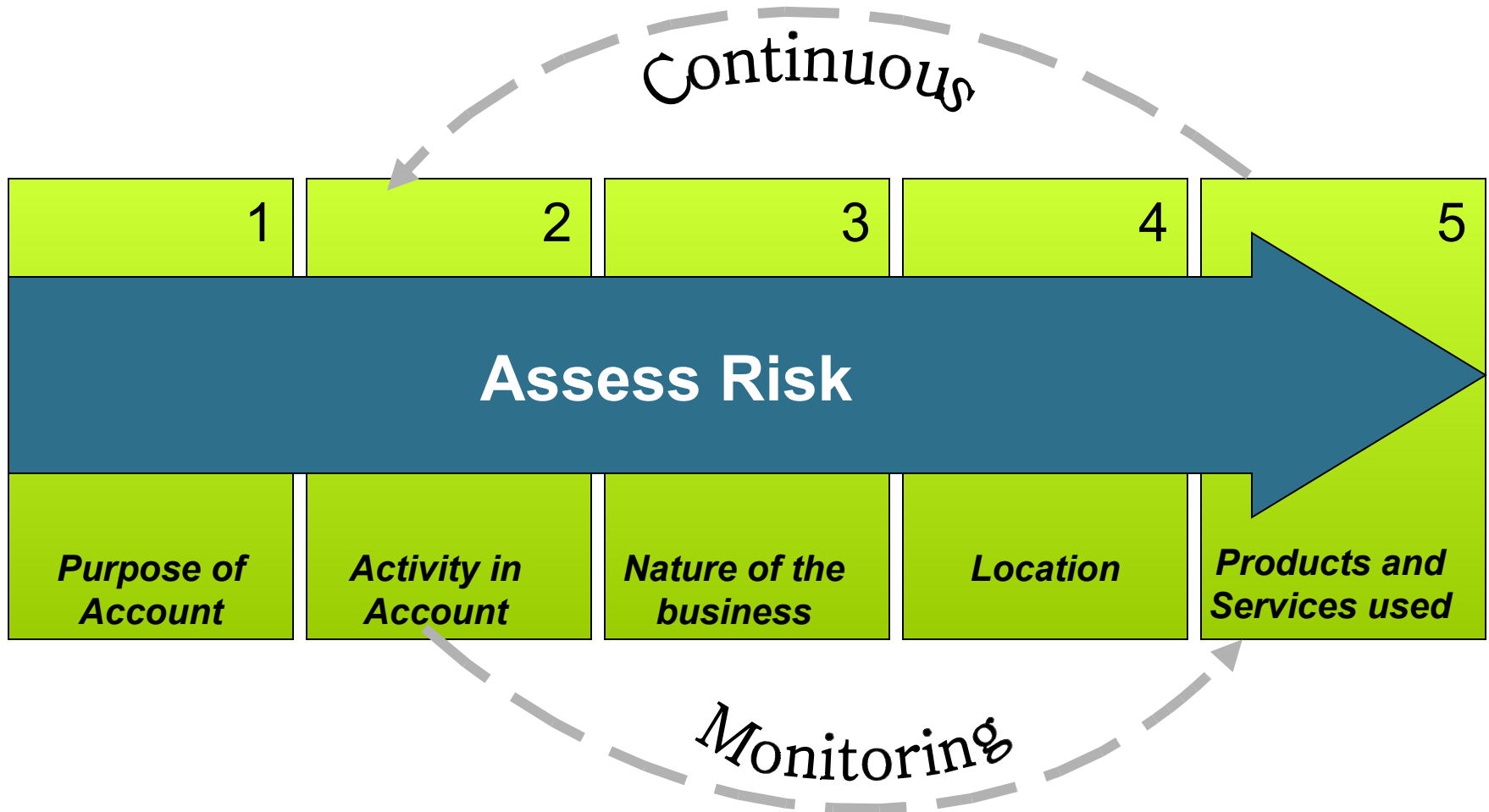
- How do we perform risk assessment?
- Do we have the right tools to do the job?
- How does the risk assessment program define and score the risks of products? Customers? And jurisdictions?
- How do we develop risk based matrices? With or without the help of outside vendors?

Know Your Customer

- ICBC is committed to know each of its customers to the extent appropriate for the customer's risk profile
- ICBC Customer Due Diligence Measures
 - Customer identification
 - Verifying the customers ID, reliable, independent source documents, data and information
 - Establishing whether customer acting on behalf of another person
 - Measures if customer acting on behalf of another person
 - Measures if customer is a legal person or legal arrangement
 - Establishing beneficial ownership
 - Obtaining the source of customer's wealth and funds
 - Obtaining information about the purpose and intended nature of the business relationship

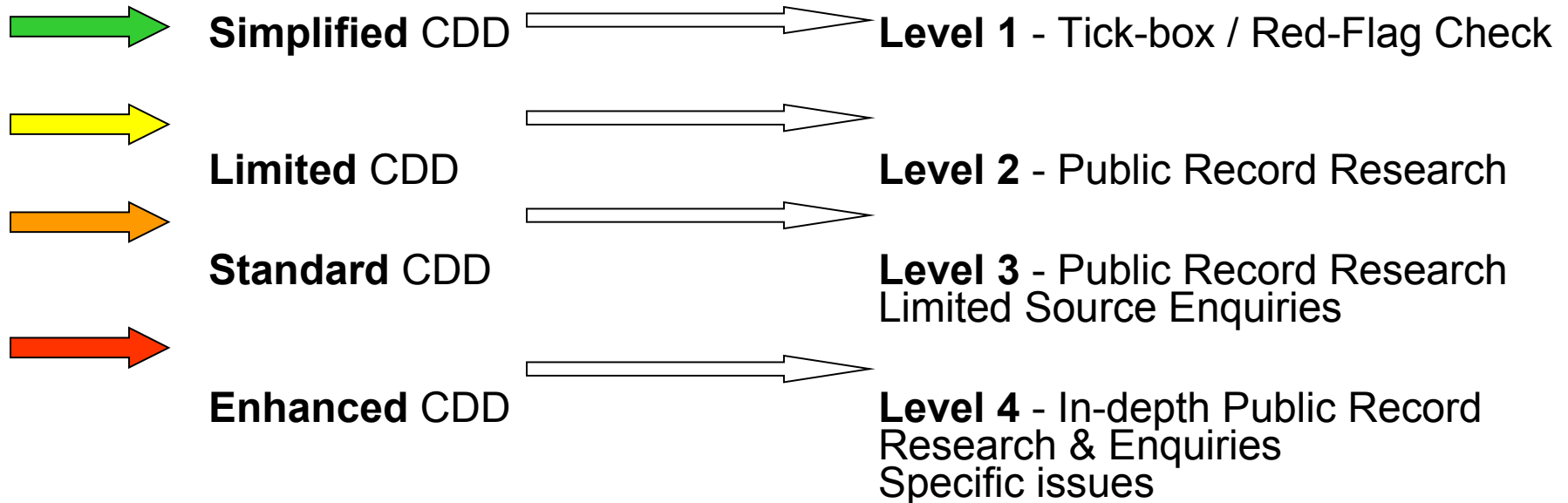
Enhanced Risk Assessment Methodology

Conduct detailed analysis of each category



Risk-based Approach and the KYC Process

Simplified or Enhanced Due Diligence?



The Risk-based approach requires a levelled approach to CDD

Main AML Risk based Approach Factors

Customer Risk	Country Risk
Sector Risk	Product Risk

Risk Based Approach Elements

Customer Risk

- Overall background and reputation
- Business interests and practices-Mgt
- Business associates and networks/ Business Link
- Political Affiliations (PEPs)
- Beneficial ownership and control
- Source of funds

Country Risk

- Political stability
- Legal status
- Economic situation
- Standing of the financial services industry
- Exposure to organised crime and Money laundering
- Corruption

Sector Risk

- Weapons and Metal trading
- Precious metals
- Art
- Real Estate
- Exchange Dealership

Product Risk

- Private Banking
- Correspondent Banking
- Structured Finance
- Commodities

RBA Matrix

- An **RBA** Matrix is built to:
 - **Assess** Risks
 - **Capture** identified risks
 - Estimate their probability of **occurrence** and **impact**
 - **Rank** the risks based on the above information.

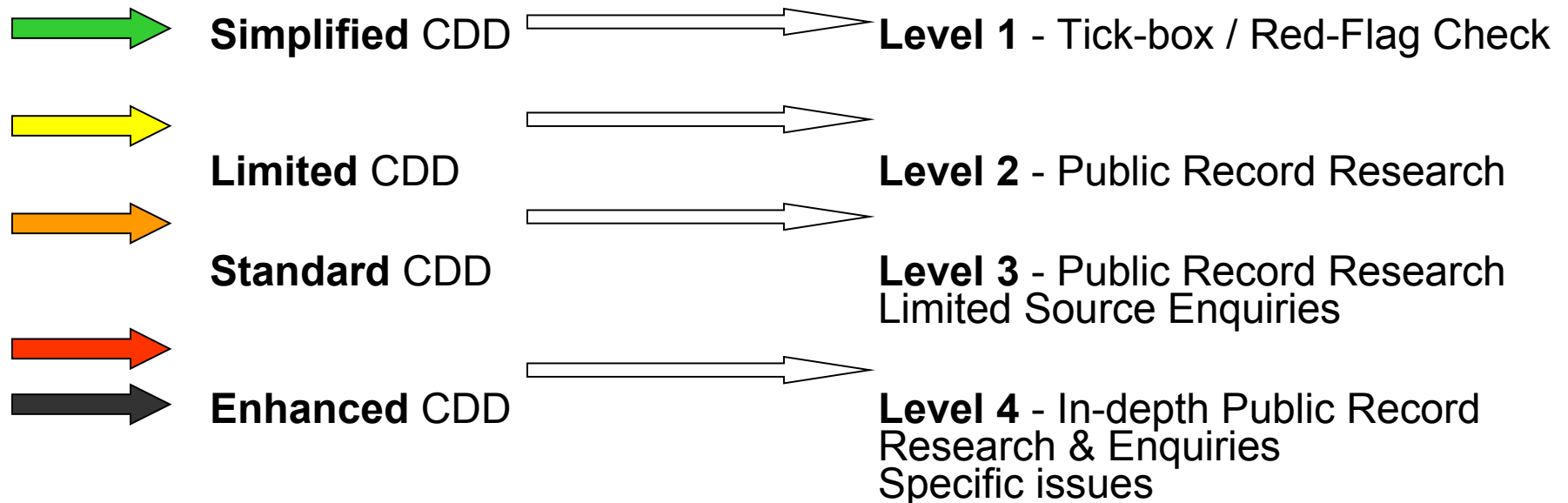
- These variables may increase or decrease the risk posed by a particular customer or transaction, for example:
 - The level of **regulation** or governance regime to which a customer is subject. (A customer is located in a high regulated jurisdiction poses less risk than a customer located in a low risk jurisdiction)
 - **Type** of the entity: publicly owned entities pose less risk than private entities
 - The use of intermediate = Anonymity

Case Study – Results of Risk-Scoring

Customer Risk <ul style="list-style-type: none">•Overall background and reputation•Business interests and practices•Business associates and networks•Political Affiliations (PEPs)•Beneficial ownership and control•Source of funds	Country Risk <ul style="list-style-type: none">•Known of weak AML rules•Known of terrorist financing, Smuggling & other money laundering activities
Sector Risk <ul style="list-style-type: none">•Real Estate	Product Risk <ul style="list-style-type: none">•Structured Finance•Complex transaction

Case Study – Results of Risk-Scoring

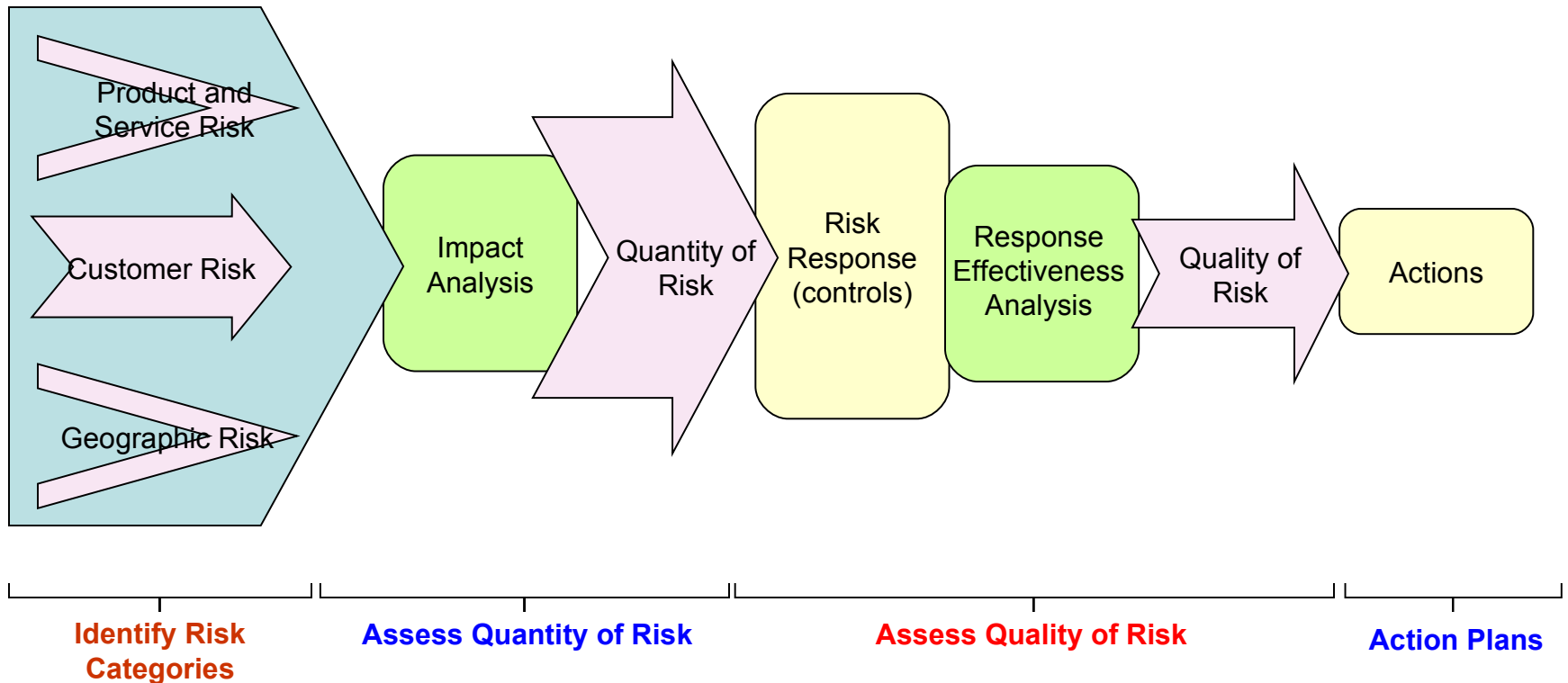
Enhanced CDD – Level 4



The Risk-based approach requires a levelled approach to CDD

Enhanced Risk Assessment Methodology

Identify specific risks categories



Customer Risk Matrix

Products/Services Used

Customer Type	Deposit Account	Unsecured Loan/Credit Cards	Wire Transfer	Private Banking	Trust Services
PEP	Moderate	Moderate	High	Highest	Highest
High Net Worth	Moderate	Moderate	High	Highest	Highest
High Risk Nationality	Moderate	Moderate	High	High	High
High Risk Industry	Moderate	Moderate	Moderate	Moderate	Moderate
Cash Intensive Business	Normal	Moderate	High	Moderate	Moderate
Salaried Employee	Normal	Normal	Normal	Normal	Normal
Independent Consultant/Individual Entrepreneur	Moderate	Normal	Normal	Normal	Normal
Unemployed	Moderate	Moderate	Moderate	Moderate	Moderate
Charity	Moderate	High	High	High	High

Account Opening Policies

Customer Risk Rating	Applicable Policies
Normal	<ul style="list-style-type: none"> •Presentation of valid original identity documents •Establish purpose of account •Establish source of funds •Retain copies •Check against UN and other watch lists
Moderate	<ul style="list-style-type: none"> •Above plus ... •Send registered letter to customer at provided address. Retain signed return receipt.
High	<ul style="list-style-type: none"> •Above plus ... •Independent verification of account opening documents •Verification of source of funds •Interview with bank officer •Visit by bank officer to customer home/business •Approval from branch manager •Updating of account information/documents every twelve months
Highest 02/14/12	<ul style="list-style-type: none"> •Above plus ... •Updating of account documents every six months •Approval from CEO and Branch

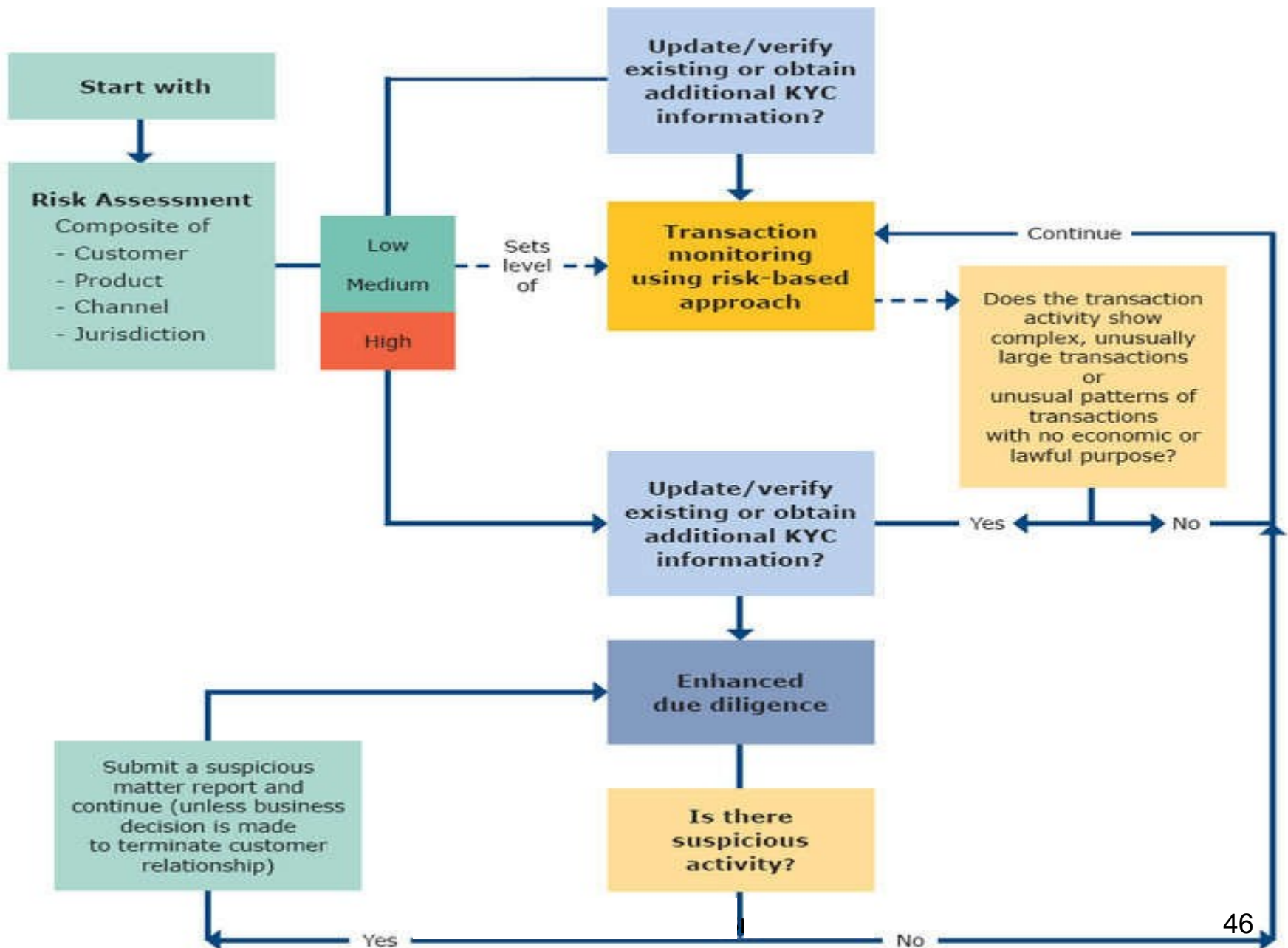
Transaction Type Risk Matrix

Customer Risk Rating	Offshore Wire Transfer	Wire Transfer to High Risk Jurisdiction	Cash deposit under threshold/structuring transactions	Large Cash Deposit	Forex	Early Loan Repayment
Normal	Standard	Standard	Standard	Enhanced	Standard	Standard
Moderate	Enhanced	Enhanced	Enhanced	Enhanced	Enhanced	Enhanced
High	Severe	Severe	Enhanced	Enhanced	Enhanced	Enhanced
Highest	Severe	Severe	Severe	Enhanced	Enhanced	Enhanced

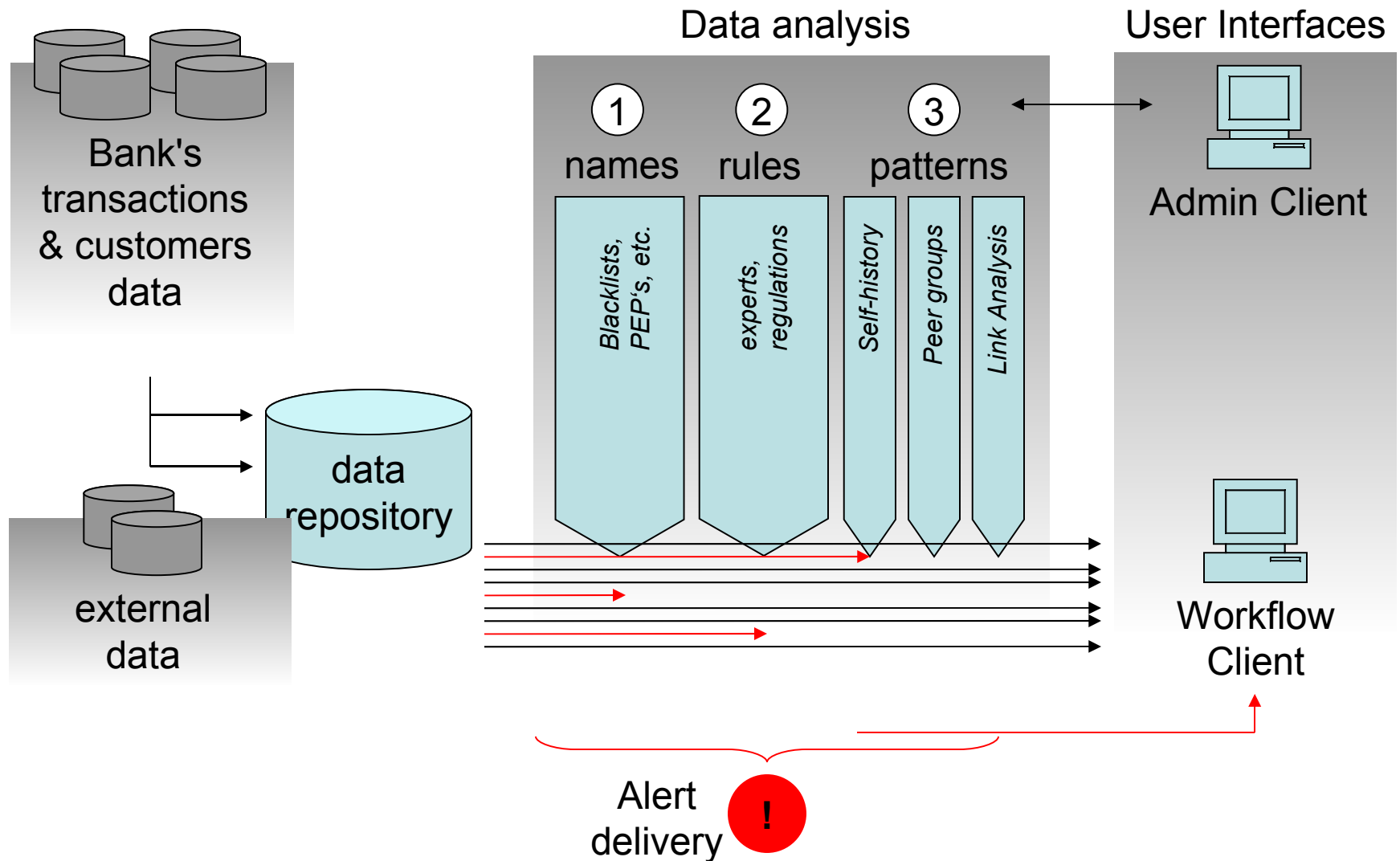
Transaction Execution/Monitoring Policy

Transaction Risk Rating	Applicable Policies
Standard	<ul style="list-style-type: none">•Teller/staff monitoring•Automated system monitoring
Enhanced	<ul style="list-style-type: none">•Customer explanation for transaction•Compliance Officer Approval for execution
Severe	<ul style="list-style-type: none">•CEO Approval for execution

Ongoing customer due diligence



Overview



Risk: Customer/Business Type

Identifying PEPs

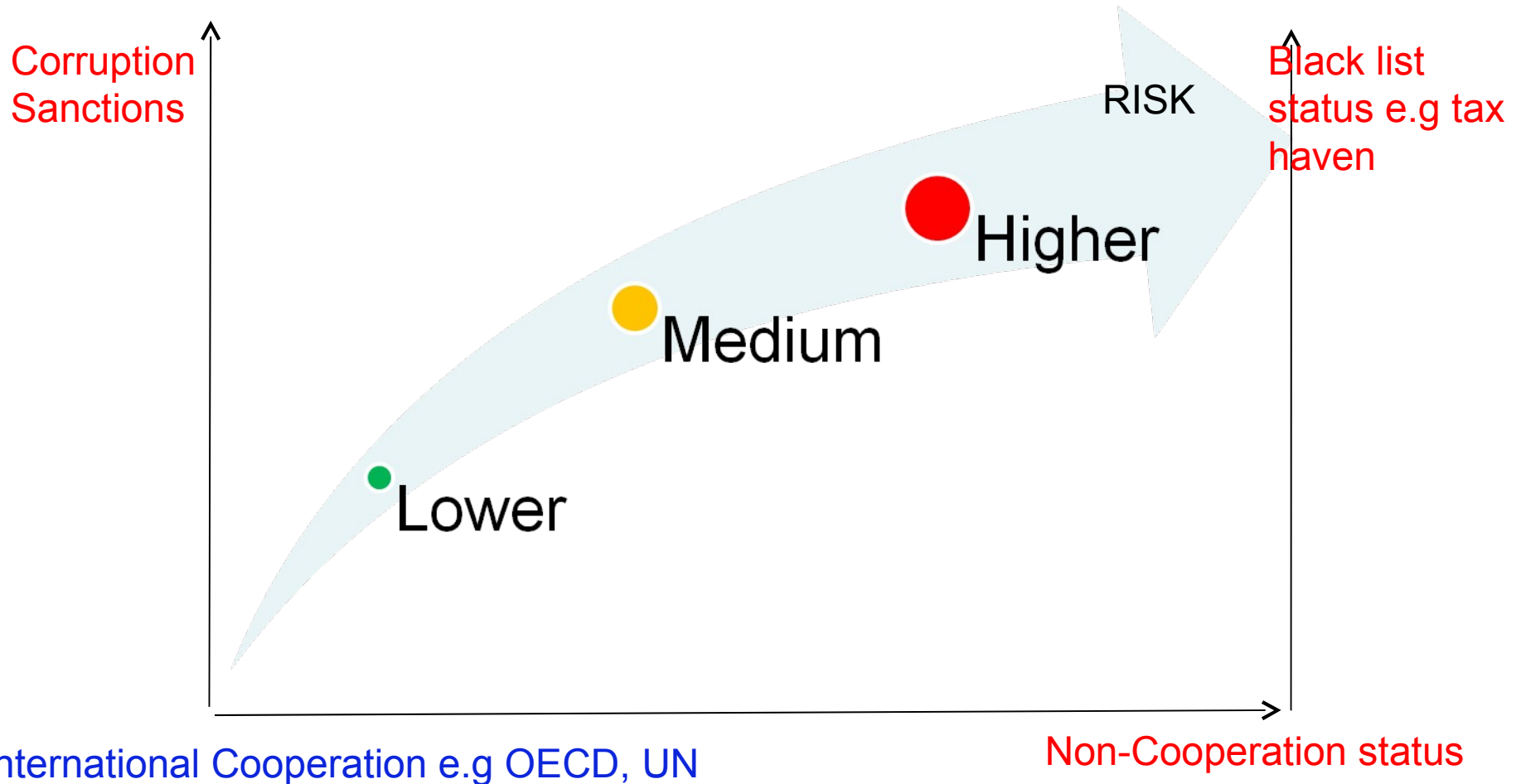
■ How do you determine whether an account holder is a PEP?

- Seek information directly from the individual
- Review sources of income including past and present employment history and references from professional associates
- Review public sources of information (i.e. databases, newspapers, etc.)
 - CIAs online directory of “Chiefs of State and Cabinet Members of Foreign Governments” <http://www.odci.gov/cia/publications/chiefs/index.html>
 - Transparency International Corruption Perceptions Index
 - Private vendors (i.e. world Compliance/ Regulatory DataCorp (RDC), Factiva, and WorldCompliance)

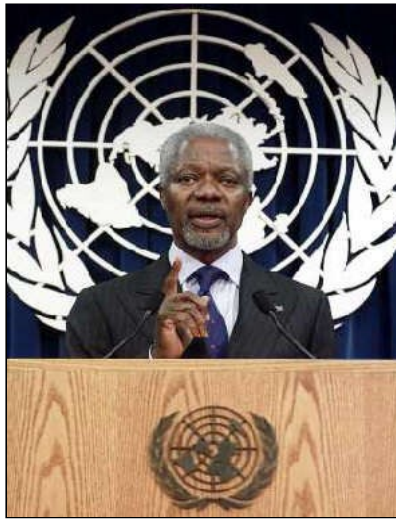
FATF Recommendations for PEPs:

- Determine whether a customer is a PEP
- Obtain senior management approval for establishing relationship
- Establish source of wealth of funds
- Conduct ongoing monitoring of relationship

Assessing AML Risk by Jurisdiction

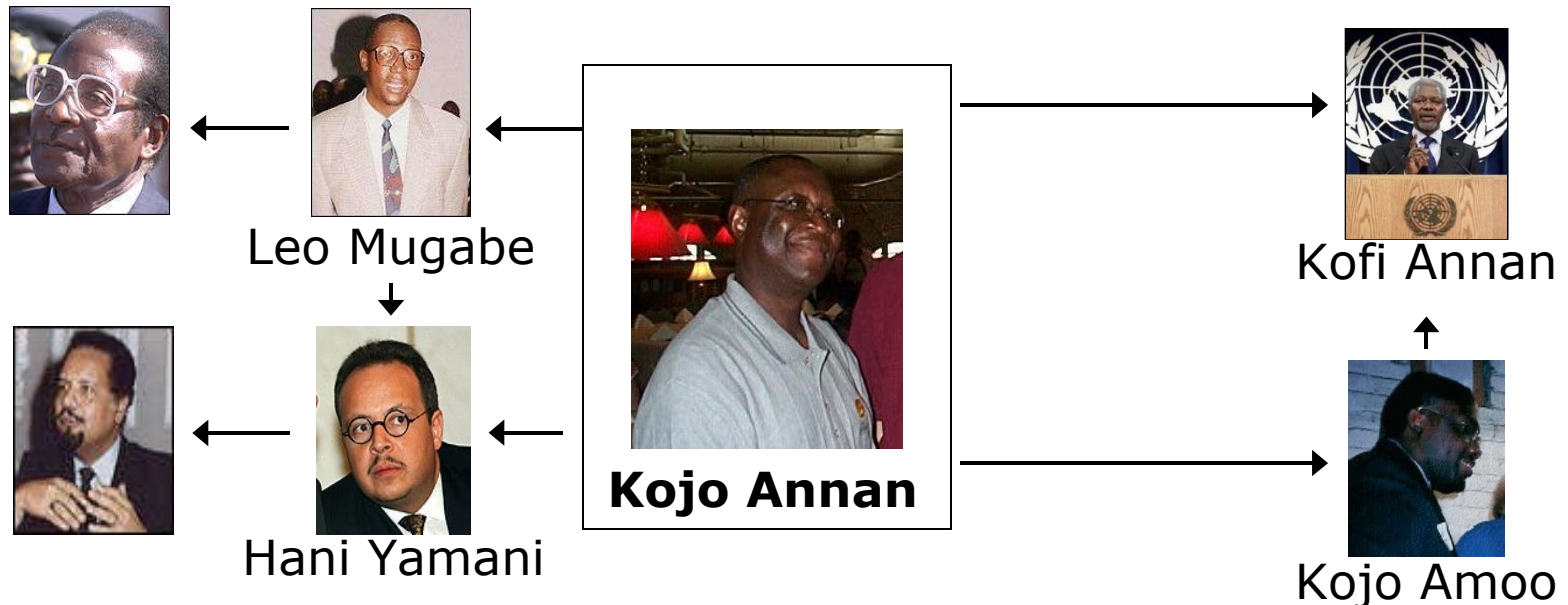


Case Study: The United Nations



A FAMILY-RUN BUSINESS

Case Study: The United Nations



- Son of Kofi Annan (Secretary General-UN) from first marriage
- Worked for SGS/Cotecna (given UN deal to enforce sanctions in Iraqi ports)
- Moved on to start own company, Sutton Investments
- Sutton part of consortium with Air Harbour Technologies & Leo Mugabe (nephew of Robert Mugabe, Pres of Zimbabwe)
- Air Harbour owned by Hani Yamani (son of Sheikh Yamani, Saudi Oil Min.)
- Consortium won bid valued in \$100s of millions to build Zimbabwe airport
- Kojo Amoo-Gottfried, Ghana Ambassador to UN (nephew of Kofi)



Test your AML Knowledge

Knowledge Test

Q: Which of the following is the most common method of laundering money through a legal money services business?

- A. Purchasing structured money instruments**
- B. Smuggling bulk-cash**
- C. Transferring funds through Payable Through accounts (PTAs)**
- D. Exchanging Colombian pesos on the black market**

Correct Answer is: A

Knowledge Test

Q: In general, the three phases of money laundering are said to be:
Placement

- A. Structuring and manipulation**
- B. Layering and integration**
- C. Layering and smurfing**
- D. Integration and infiltration**

Correct Answer is: B

Knowledge Test

Q: Which of the following is an indication of possible money laundering in an insurance industry scenario?

- A.** Insurance products sold through intermediaries, agents or brokers
- B.** Single-premium insurance bonds, redeemed at a discount
- C.** Policyholders who are unconcerned about penalties for early cancellation
- D.** Policyholders who make full use of the “free look” period

Correct Answer is: C

Knowledge Test

Q: Upon receipt of a legal document where the financial institution is asked by a government authority to produce account information and records, what is the recommended first step for the institution?

- A.** Review the legal document and answer the authorities within 72 hours.
- B.** Research all the account information within the institution on the account holder.
- C.** File a suspicious activity report, if possible.
- D.** Contact the institution's Compliance Officer or legal counsel.

Correct Answer is: D

Knowledge Test

Q: Money Laundering refers to

- A. Transfer of assets/cash from one account to another
- B. Conversion of illegal money through banking channels
- C. Conversion of cash into gold for hoarding
- D. Conversion of assets into cash to avoid income tax

Correct Answer is: B

Knowledge Test

Q: Minimum retention period of the records according to Jammal Trust Bank that can be produced to the relevant Regulatory Authority in case of suspicious transactions is

- A.** 5years
- B.** 7 years
- C.** 10 years
- D.** 15 years

Correct Answer is: A

Knowledge Test

Q: The following can be called as suspicious transactions

- A.** Customer insisting on anonymity.
- B.** Work address difference from place of residency.
- C.** Unusual terminating of account and refunds of interest
- D.** All of the above

Correct Answer is: D

Knowledge Test

Q: Which of the following documents can be accepted as proof of customer identification.

- A. Electricity bill
- B. Salary slip
- C. Gym Membership
- D. Government Issued Photo ID

Correct Answer is: D

Knowledge Test

Q: Salaried employees, Government departments are classified as

- A. High Risk
- B. Low Risk
- C. Medium Risk
- D. No Risk

Correct Answer is: B

Knowledge Test

Q: PEPs (Politically Exposed Persons) & High Net Worth individuals could be classified as

- A. High Risk
- B. Low Risk
- C. Medium Risk
- D. No Risk

Correct Answer is: A

Knowledge Test

Q: What are the money laundering risks to organizations?

- A. Reputation Risk
- B. Compliance Risk
- C. Operational Risk
- D. Legal Risk

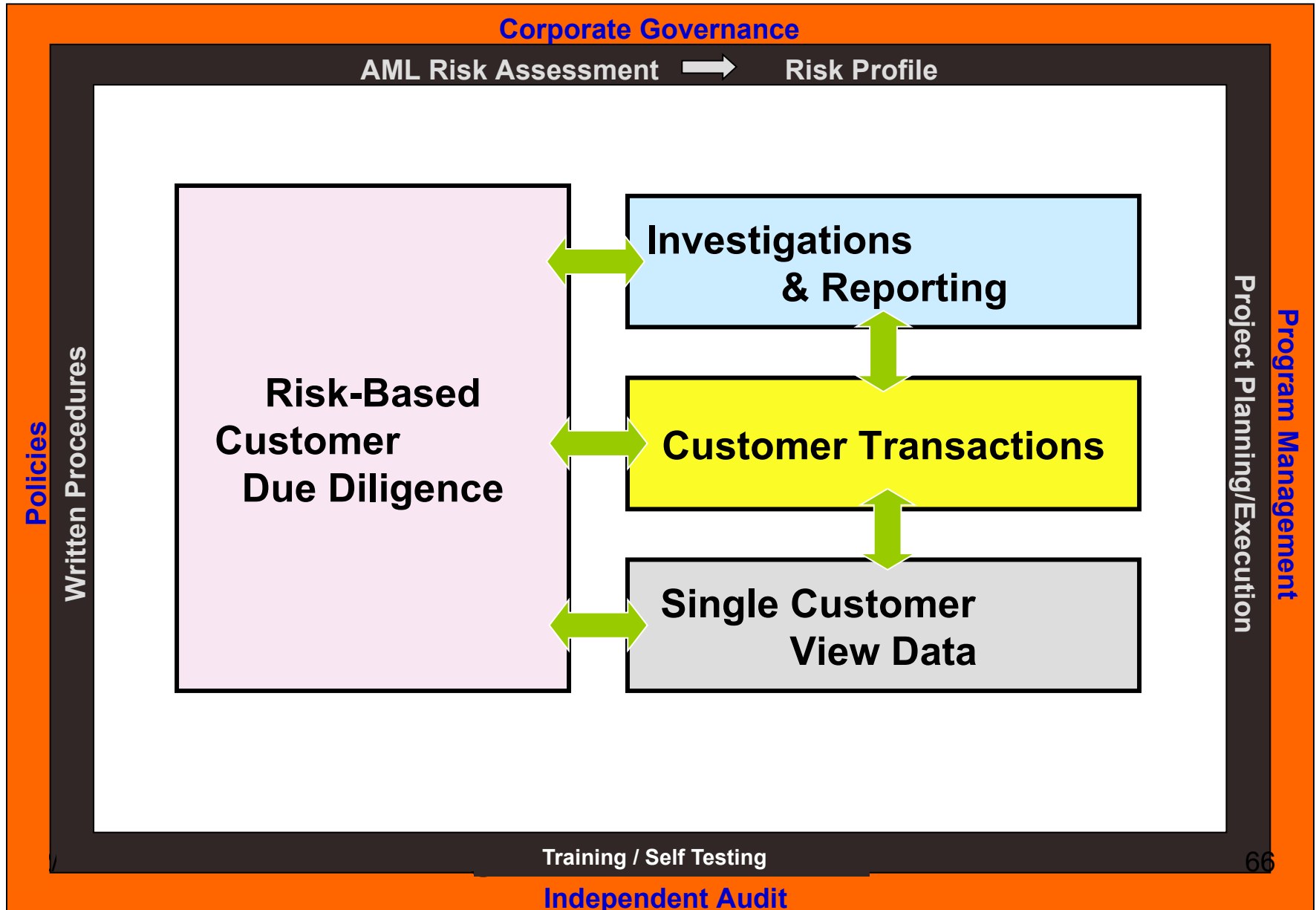
Correct Answer is: A

Risk: Customer/Business Type

Examples of Black Lists

- OFAC: Office of Foreign Assets & Control lists:
 - Specially Designated Nationals
 - Weapons of Mass Destruction
 - Blocked Countries
- BIS: Bureau of Industry & Security - Issued by the United States
- BOE: Bank of England
- CSSF: Commission de Surveillance du Secteur Financier-Luxembourg
- SECO: Secretariat d'Etat a l'economie – Switzerland
- UN: United Nations: Al-Qaida & Taliban; Iraq; Liberia
- MAS: Monetary Authority of Singapore
- EU: EU Regulations
- FATF: Financial Action Task Force
- Other: Vendor (i.e. SIDE-OFAC/World Check Lists) and internal Lists

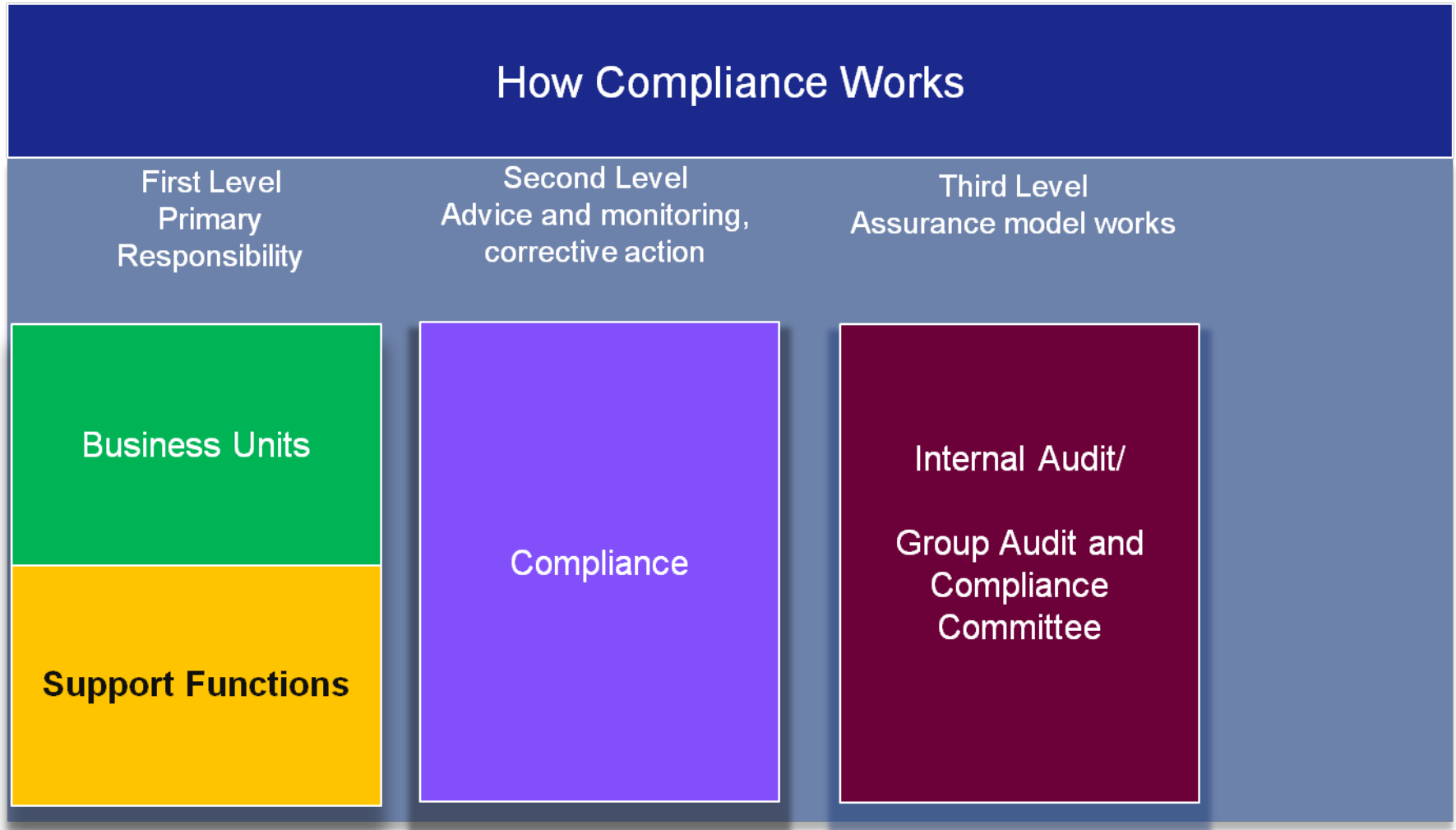
Best Practices Framework



Summary

- **Risk-scoring** defines the level of CDD required
- **Beneficial Ownership** and **PEPs** are key
- Advantages:
 - Institutions can **mitigate their own risk exposure** through the risk-based approach and risk exposure
 - Risk-Scoring also enables institutions to **develop benchmarks and risk rating parameters**

**Primary objective is profit maximisation but we place high importance on client care & other aspects of compliance.
There are multiple assurances of this in the firm.....**



The Key to
Compliance is .

..



... Taking reasonable steps to comply with the regulations.
Reasonable compliance can be demonstrated through a thoughtful and
well-organized compliance program.

THANK YOU