

National Money Laundering and Terrorist Financing Risk Assessment Process

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How to assess risk?

- “***Risk*** can be seen as a function of three factors: ***threat***, ***vulnerability*** and ***consequence***. An ML/TF *risk assessment* is a product or process based on a methodology, agreed by those parties involved, that attempts to identify, analyse and understand ML/TF risks and serves as a first step in addressing them” (FATF Guidance on NRA).
- No universally accepted methodology
- IMF, World Bank, OSCE
- Countries assessed under the new FATF standard so far: Australia, Belgium, Norway, Spain: in-house developed methodologies

Threat

- **ML threat can be:**
 - Criminals, past, present and future ML activities
 - Domestic proceeds of crime (i.e., all illegal revenue) from crimes committed domestically
 - Transnational (international) inflows of proceeds of crime from crimes committed abroad
- **FT threat can be:**
 - Terrorist groups/Terrorists, past, present and future terrorist and TF activities
 - Domestic fund raised from legally or illegally obtained assets
 - Transational (international) inflows of funds from sources abroad.

Vulnerability

- **ML/FT vulnerability** relates to the intrinsic properties in a product, service, distribution channel, customer base, institution, system, or jurisdiction (including weaknesses in systems, controls, or measures) that enable ML or FT risk events
- **Three main categories that have an impact on vulnerabilities**
 - Intrinsic properties: Not altered much by controls (e.g., geography, size of economy, currency, general aspects of products and services)
 - General controls and mitigants: Non-AML/CFT controls (e.g., non-AML supervision, tax scrutiny, registers, transparency of legal persons etc.)
 - AML/CFT controls: CDD/KYC, reporting requirements, etc.

Consequences

- **Consequence** refers to the impact or harm that ML or TF may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally.
- Two Types of ML/FT Consequences
 - Short-term consequences
 - Volume of ML/FT-related transactions occurring, directly or indirectly, through different categories of firms
 - Long-term consequences of risk events
 - Political (i.e. criminal organizations threaten or subvert state power)
 - Economic (i.e. macroeconomic impact of the drug economy)
 - Social (i.e. the increased costs of more crime)

Quantitative Data: Mapping and Collecting Information and Statistics

- General information about the country and its economy
- Proceeds of crime
- Terrorism and Terrorist Financing
- Cross border transportation of currency
- Mutual Legal assistance
- Composition of private sector
- STRs
- Financial and DNFBP Supervision
- Etc....

Qualitative Data: Solicit Expert Views

- Surveys and Questionnaires
- Group Workshop Session Exercises
- Structured Interviews
- A very common approach in risk analysis due to limited data and/or resources

Areas that should be covered by the NRA

- Threat assessment
- National Vulnerability
- Terrorist Financing (Proliferation of weapons of mass destruction and its financing: optional, not required by the standard)
- Banking Sector
- Securities Sector
- Insurance Sector
- Other Financial Institutions
- Designated Non-financial Businesses and Professions (DNFBPs) and other sectors
- Other areas

Authorities that should be involved in the NRA

- FIU, Police, General Prosecutor Office, Customs, Intelligence Service, Tax administration, Central Bank (for threat assessment)
- FIU, Police, General Prosecutor Office, Customs, Intelligence Service, Tax administration, Central Bank, supervisor of other financial institutions, supervisors of DNFBPs, agency in charge of maintaining registry of legal persons (for national vulnerability)
- FIU, Ministry of Interior, Intelligence Service, Authority responsible for supervision of NPOs (for Terrorist Financing)
- Central Bank and FIU (for Banking sector)
- Securities Supervisor and FIU (for securities sector)
- Insurance Supervisor and FIU (for insurance sector)
- Other Financial Institutions Supervisors (if any) and FIU (for other financial institutions)
- DNFBPs supervisors, FIU and other authorities (for DNFBPs and other sectors)

Involvement of Private Sector

- As noted by the FATF, private sector involvement may also be valuable in building a complete picture of national ML/TF risks and may benefit the assessment process in a number of ways (source of information and end user).
- Consider that sometimes the private sector may have commercial interests that might preclude a completely impartial view of ML/TF risk.
- Therefore the private sector could be primarily involved through surveys, questionnaires and interviews. The working groups can invite representatives of the private sectors (for example industry associations, like the bankers association or the bar association) at various stages of the NRA process to seek their input, on an ad hoc and as needed basis.

Analysis of Treat

- Country level
 - Composition and magnitude of proceeds of crime (internal and external)
 - Incidents of terrorism – Presence of dormant terrorist organizations
 - Terrorist financing flows (raised and made available to domestic terrorism – raised in the country and made available for foreign terrorism)
- Sectorial Level
 - Specific ML/TF typologies in certain sectors

Analysis of Vulnerability

- Country level – sectorial level (specific analysis of products and services)
- Gross vulnerability/Net vulnerability (after existing mitigating factors, including AML/CFT controls)
- Identification of the net risk

Analysis of vulnerability

- Factors that increase the risk:
 - At country level (e.g. geographic position; currency; capacity of the institutional system)
 - At sectorial level (based on the analysis of the characteristics of specific products and services)

Analysis of Vulnerability

- Risk mitigating factors (examples):
 - Comprehensiveness of the AML/CFT system and compliance with the FATF standard (country level)
 - Effective implementation (country and sectorial level)
 - Existence of specific controls (sectorial level)

Analysis of Sector Vulnerability

- Each sector as a whole (Banks, Insurance, Securities, other types of financial institutions, lawyers, casinos etc.)
- Specific Products and Services (e.g. current accounts, life insurance products, bonds and equities, services offered by a casino; services offered by a lawyer etc.)

What information/data? (examples for sector)

- Are there ML/TF incidents reported in the sector
- Composition of the sector
- GDP % of the sector
- STR %
- Comprehensiveness of AML/CFT legal framework
- Effectiveness of regulation/supervision (for each of the financial sectors)
- Effectiveness of compliance function
- Other general factors that may affect the vulnerability of the sector (e.g. transparency of legal persons)

Specific Products and Services: what information/data (examples)

- Identify specific products and services for each sector (banks, insurance, securities, other financial institution)
- Determine, for each identified product, net risk, having looked at factors like:
 - Level of cash associated to the product and service
 - Features that may favor anonymity
 - Type of clients to which the product/service is offered (high, medium or low risk type of clients?)
 - Existence of specific requirements to mitigate the risks associated with certain types or clients/products/services (example: enhanced customer due diligence)
 - Existence of specific forms of control

Consequence

- The analysis of the consequences should be informed by the findings of the analysis of threat and vulnerabilities. The basic question is: what would be the consequence if ML/TF occurring in a high risk sector (net risk) were not to be addressed by mitigating actions (to be identified in the action plan). For example: if the banking sector were to be identified as posing the high risk, the consequence could be difficulties in Georgian financial institutions in accessing international financial markets, destabilization of the exchange rate etc.

Lessons learned from Countries assessed by FATF (concerning NRA process)

- There were significant shortcomings in the NRA process and methodology, and gaps in inputs and areas covered. For example, few government agencies were fully engaged in the process, which has resulted in challenges concerning the acceptance of the findings of the NRA. (Norway)
- The NRA was based on a limited range of data sources and the private sector was only peripherally consulted (Norway).
- Deficiencies in the assessment of threat (Australia, Norway)

Questions?

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