

Risk assessment and proportionate response

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How can we better understand risks to enable innovations that enhance remittance access to low-income and rural customers? Institutions and jurisdictions face various risks (e.g., money laundering, terrorism financing, compliance, proliferation financing) that impact their business objectives and the integrity of the financial system. Limited understanding and often times conflation of these risks misrepresents the risk posed by customers (especially low-income and rural customers who generally have low-risk profiles), thereby impeding the implementation of the FATF risk-based approach and financial inclusion. A key solution is to disentangle the various risks, assess them individually and jointly to have a full and better understanding of the risks posed and put in place proportionate mitigation and control measures.

What the intervention entails

This intervention entails conducting a **risk assessment** and **developing proportionate responses**. The cornerstone of a risk assessment is to (1) include a **variety of risk factors** in the risk assessment and (2) insert **accurate and up-to-date** transaction and customer data. The risk assessment and proportionate response intervention can reveal that most over the counter (OTC) customers are low-risk and transacting low-value amounts. This intervention therefore highlights the opportunity to develop and introduce simplified KYC accounts that require less documentation, thereby helping to enhance remittance access and financial inclusion.

Benefits for the implementing institution

This intervention will allow you to design your risk mitigation measures (e.g. KYC and CDD, policies and procedures, transaction monitoring, sanction screening, etc) in a way that is proportionate and reflects the actual risk exposure of your business.

This innovation can assist you to:



Enhance risk understanding and mitigation. The intervention provides a detailed and validated risk matrix that improves the organisation's ability to identify and address emerging risks effectively in line with FATF recommendations, risk-based approach and local regulatory frameworks.



Reduce the risk of fines. It streamlines compliance efforts by focusing on high-risk customers, thereby minimising the potential for regulatory fines.



Improve financial inclusion. The updated risk assessment reduces unnecessary barriers such as excessive documentation, lowering the number of customers wrongly excluded.



Increase your customer base. More accurate risk assessments enable the safe onboarding of new customers and the opening of new remittance corridors, significantly expanding the customer base.

Suggested steps for implementing this intervention

- **Step 1: Identify risks.** The first step involves defining various risk types (such as money laundering, terrorist financing, compliance, proliferation financing risks, etc.) and considering different risk factors (like products, delivery channels, and geographical factors) to understand how these risks manifest in specific jurisdictions. It also includes identifying the drivers of these risks using empirical evidence.
- **Step 2: Update risk appetite.** Review and update the organisation's risk appetite and tolerance based on empirical data and detailed analyses. This includes setting a level of risk the organisation is willing to accept in pursuit of its business objectives and aligning it with the controls in place.
- **Step 3: Set up risk and proportionate response framework and incorporate data.** Update the risk assessment framework by defining risk attributes, their weightings, and the effectiveness of existing control and mitigation measures. The use of data can greatly enhance understanding and assurance.
- **Step 4: Enhance business using a risk assessment matrix.** Use the updated risk assessment matrix included in the toolkit to make informed decisions about business enhancements, customer acquisition, and product development. This matrix helps in understanding where to focus risk mitigation efforts and how to adjust the business model accordingly.
- **Step 5: Develop an implementation plan.** Create an action plan to implement changes identified in the previous steps and that adjust the risk assessment process to focus on identified high-risk areas. This plan should outline responsibilities, timelines, and coordination efforts needed to implement the new systems and processes effectively.
- **Step 6: Empower staff for implementation.** Train staff, management, and board members on the changes to the risk assessment process to ensure everyone is informed and equipped to implement the updates effectively. This step also involves updating training materials and processes to align with the new risk assessment framework.

Considerations before implementing

This intervention was developed and implemented as part of the IFAD and Cenfri Remittance Access Initiative (RAI). Based on this experience, the table below indicates the key resources required before starting implementation if implementing it for the first time.

- **Time:** Roughly 8-10 months from design to implementation delays.
- **Capacity:** a project champion who will manage the implementation and coordinate with key stakeholders such as regulators (where needed), IT and technology experts, and data analysts who can incorporate data into the risk assessment¹. The best-case capacity scenario is having a compliance officer or team with the requisite AML-CFT, IT, and data analysis skills in-house.
- **Key dependencies:** AML-CFT-CPF risk, and internal or external capacity to conduct data analysis. Where an AML-CFT audit has been undertaken, findings relating to the overall risk environment and risk assessment should be considered.

¹ A compliance officer or related staff member could undertake a preliminary manual exercise in assessing and analysing the data and applying it to a risk assessment model. Such an exercise would provide preliminary insights into their risk mitigation and would be invaluable in scoping a more comprehensive or targeted approach at systematising risk assessments.

- **Regulatory considerations:** consider the regulatory assessment for your country, specifically drawing on AML-CFT Acts, regulations, and guidelines. Key things to consider include documentation requirements that would feed into risk assessment, when it should be conducted, how often it should be conducted and any regulatory findings and feedback regarding risk assessment.

Reflections from other implementing organisations

Organisations who have implemented the risk assessment and proportionate response intervention, have indicated that it is important to have managerial buy-in to AML-CFT and risk assessment processes to ensure that they are aware of the risks, that they can make informed decisions on how to address and prevent these, and to allow them to use the insights to inform strategic business decisions. Others also noted that organisations should plan for the likelihood that work will be required to integrate different systems and databases, especially between the institution's sub-system and that of the IMTO's. This aspect will need to be incorporated into the timelines.

This intervention forms part of a broader remittance innovation toolkit which can be accessed [here](#).