ML-TF-PF risk assessment to support remittances

Presentation for Community of Practice Workshop

16 March 2023

Financing Facility for Remittances

Presentation Outline

1. Workshop introduction
2. Risk-based approach outcomes
3. What are the risks and how do you assess them?
4. Risk reporting and assurance

1. Workshop Introduction

- Inclusive integrity
- Feedback and discussion

Inclusive financial integrity speaks to alignment of financial inclusion and financial integrity objectives

Inclusive financial integrity

What does it refer to?

- The implementation of effective, risk-based and proportionate AML-CFT-CPF regimes which take account of financial inclusion objectives, and which advance financial inclusion and financial integrity together

Why is it important?

- **Promoting financial inclusion is central to effectively achieving AML-CFT-CPF objectives**
- **Financial integrity and financial inclusion have complementary objectives**
- **Financial exclusion itself is a risk to financial integrity**
- **Measures to enable more people to access and use formal financial services enhances the reach and the effectiveness of AML-CFT-CPF regimes.**

Inclusive financial integrity has progressively become more important

FATF recommendations recognises that exclusion is a threat to financial integrity

FATF commissioned a project to explicitly understand unintended consequences of their recommendations, of which financial exclusion was one such unintended consequence

The risk of digital exclusion due to increased and inequitable digitalisation

Feedback and Discussion

- What are the key risk-based approach challenges in the region, i.e. as experience by institutions?
- Are there any aspects of the programme that you would like the facilitators to focus on?

2. Risk-Based Approach Outcomes

- Risk-Based Approach Outcomes
- Framework for Risk-Based RBA Outcomes

Risk-Based Approach Outcomes

An RBA is required

“The risk-based approach (RBA) is central to the effective implementation of the revised FATF International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation.”

FATF Guidance

What does success look like?

What can stop you achieving your vision of success?

What should you measure?

Do you have enough data?

What level of assurance do you need?

Source: CRR

Risk-Based Approach Outcomes

Select intermediate outcomes

1. **Money laundering and terrorist financing risks** are **understood** and, where appropriate, actions co-ordinated domestically to **combat** money laundering and the financing of terrorism and proliferation

3. **Supervisors appropriately supervise, monitor and regulate** financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.

4. **Financial institutions and DNFBPs adequately apply** AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.

5. **Legal persons and arrangements** are **prevented** from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.

10 **Terrorists, terrorist organisations and terrorist financiers** are **prevented** from raising, moving and using funds, and from abusing the NPO sector.

11. **Persons and entities involved in the proliferation of weapons of mass destruction** are **prevented** from raising, moving and using funds, consistent with the relevant UNSCRs.

Source: FATF

Risk-Based Approach Outcomes

What should the outcome of an RBA be?

How do you determine what the outcome should be?

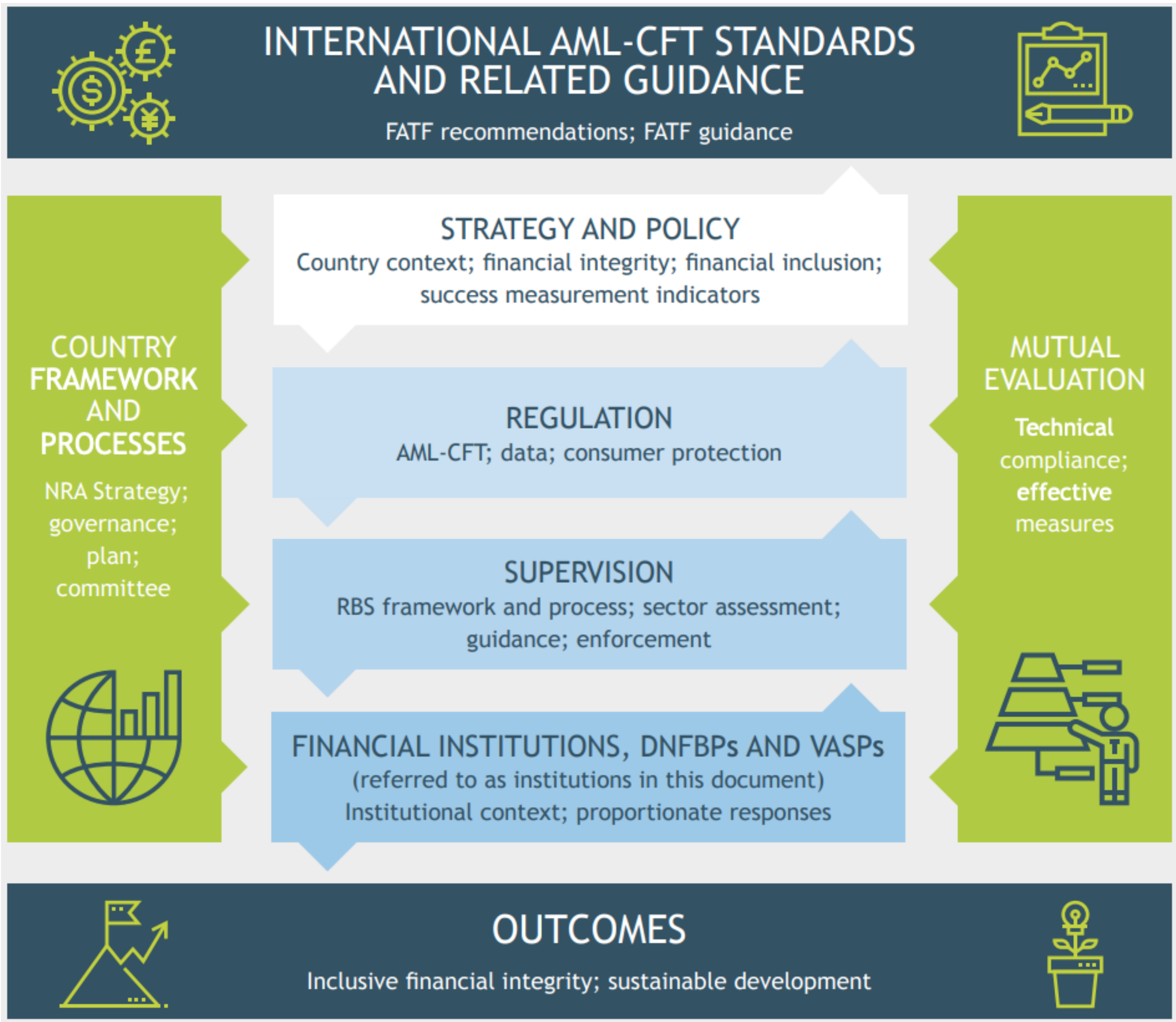
Country and sector strategies

Country and sector goals

Country and sector plans

Links to the shared vision of success

Framework for Risk-Based RBA Outcomes



What does success look like

- NFIS and policies
- AML-CFT strategy and policies
- Shared vision of success
- Aligning respective policy objectives and actions
- Bottom-up and top-down framework
- **Financial inclusion** - Access and use of quality formal financial services to meet their specific needs
- **Financial integrity** - Financial systems and the broader economy are protected from the threats of ML/TF/PF

Source: Cenfri & AFI Inclusive Integrity Toolkit
https://cenfri.org/publications/inclusive-integrity-toolkit/

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3. What are the risks and how do you assess them?

- ML, TF, PF, IFFs, Compliance and Exclusion Risks
- Assessment of risks

ML, TF, PF, IFFs, Compliance and Exclusion Risks

Risk-based approach

- Required

What is risk?

- Not defined in FATF 40
- FATF guidance

What risks?

- ML
- TF
- PF
- Compliance
- Financial exclusion
- Illicit financial flows

Risk definitions

- Have the above risks been defined
- Should each risk be defined?

AML/CFT/CPF

- What is AML/CFT/CF risk

Define the risks that are listed

Money Laundering Risk

Terrorist Financing Risk

Proliferation Financing Risk

Compliance Risk

Financial Exclusion Risk

Illicit Financial Flows Risk

Source: Inclusive Integrity Project

ML, TF, PF, IFFs, Compliance and Exclusion Risks

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AML/CFT/CPF

- What is AML/CFT/CF risk

ML risk

The risk that a country, financial institution or business unit could be used for ML.

TF risk

The risk that a country, financial institution or business unit could be used for TF. While in many respects this is like ML risk, TF risk has features that may be different.

PF risk

Refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7.

Compliance risk

This is a risk that arises due to non-adherence to regulatory requirements. This can lead to fines and penalties for FSPs as well as reputational damage.

Risk of financial exclusion

The risk of excluding customers due to lack of robust AML-CFT information is that people can be deprived of financial services and this can lead to large unregulated informal sectors.

Illicit financial flows risk

Illicit financial flows are defined as the illegal cross-border movement of funds and resources. They have a significant impact on development outcomes by reducing tax revenue to governments.

Source: Inclusive Integrity Project

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Assessment of ML, TF, PF, IFFs, Compliance and Exclusion Risks

Inherent risk

- Risk before measures or mitigation
  - Product, Delivery channel, Client, Geographic, Other

Measures

- To mitigate risk
  - Governance, compliance, due diligence, reporting, record keeping, training, monitoring

Residual risk

- Risk after measures or mitigation
  - Reflects the extent to which inherent risk is mitigated

Risk classification

- Framework
  - Very high; High; Medium; Lower; Low

Assessment of ML, TF, PF, IFFs, Compliance and Exclusion Risks

ML/TF/PF Risk Rating

Risk identification and assessment

Risk factors viewed in combination in undertaking assessment

Rating

Risk rating using an appropriate methodology. Appropriate scale.

Weighting

According to the relative importance of factors.

Risk classification

Product of rating and weight. The sum of amounts indicates risk classification.

CRR

Assessment of ML, TF, PF, IFFs, Compliance and Exclusion Risks

Risk rating methodology

Risk factors (refer GN.7)
- Should be identified
- Considered in combination

Risk Assessment (refer GN.7)
- Products and services
- Delivery channels
- Geographic locations
- Clients
- Other factors

Risk category
- Very high risk
- Higher risk
- Standard risk
- Lower risk
- Very low risk

Source: CRR. Example only

3. Product – Of rating and weight. The sum of the column will indicate risk classification

Risk Factors	Rating	Weight	Product
Product Risk			
Delivery Channel Risk			
Client Risk			
Geography Risk			
Other Risk			
Overall risk calc.			
Overall risk rating			

CRR model

1. Rating – Risk rating using an appropriate methodology. Scale fit for purpose.

2. Weighting – According to the relative importance of the factor

4. Sum – Of the product of each factor

5. Overall – Rating per risk classification calibration

Assessment of ML, TF, PF, IFFs, Compliance and Exclusion Risks

Example

Purpose

This activity is intended to facilitate discussion relating to the use of a risk matrix.

Information

The following risk ratings have been determined:

- Products and services - Lower
- Delivery channels - Medium
- Clients - Lower
- Geographic locations - Medium
- Other - N/A

Activity

Determine the overall ML/TF/PF risk rating.

Risk Factors	Rating	Weight	Product
Product Risk	2	30%	0,60
Delivery Channel Risk	3	15%	0,45
Client Risk	2	35%	0,70
Geography Risk	3	20%	0,60
Other Risk		-	-
Overall risk calc.			2,35
Overall risk rating			Lower

Risk Classification	Upper Limit
Low risk	1,5
Lower-risk	2,5
Medium risk	3,5
Higher-risk	4,5
Very high risk	5,0

Source: CRR. Example only

Assessment of ML, TF, PF, IFFs, Compliance and Exclusion Risks

What challenges are often found in risk assessment methodologies that are applied?

Perception driven risk assessment

Lack of data

Inappropriate risk definitions and understanding

Risk assessment methodologies not appropriate for risks

No link to risk appetite and tolerances

(Not exhaustive)

Assessment of ML, TF, PF, IFFs, Compliance and Exclusion Risks

Example					
Risk Assessment Sheet	Rating	Data	Weight	Rating	Calc
Transaction amount - Upper range		1000	55%	4	2,2
50	1				
100	1,5				
150	2				
250	2,5				
500	3				
750	3,5				
1000	4				
1500	4,5				
2500>	5				

Relevant variables
Type of person - PtoP; PtoB; BtoP; BtoB
Transaction amount
Average transaction value per month
Rolling one year cumulative value
Average number of transactions per month
Transaction profile - many to one; one to many
Sender country
Sender nationality
Sender occupation
Sender information

Relevant variables
Sender age of relationship
Receipt country
Receiver nationality
Receiver occupation
Receiver information
Receiver age of relationship
The above can be considered in combination to arrive at an overall risk rating.

Risk Responses

- What/how can you use risk assessment to meet strategic objectives?
- Rating and understanding of customers risk to enhance inclusive integrity
- Understanding of agents risks to enhance reach of financial services
- Develop low risk products that require simplified due diligence

4. Risk Reporting and Assurance

- Risk Reporting and Assurance
- Sustainable AML/CFT/CPF Outcomes

Risk Reporting and Assurance

Risk reporting plays a valuable role in the AML/CFT/CPF risk-based approach of an organisation

What reporting is needed?

When should reporting take place?

Assurance plays a valuable role in the AML/CFT/CPF risk-based approach of an organisation

What assurance is needed?

What level of assurance is needed?

Sustainable AML/CFT/CPF Outcomes

Risk-Based approaches should be designed, implemented and maintained to support the achievement of objectives, taking into account the shared vision of success.

What is needed in respect of risk-based approaches to support the achievement of required outcomes?

Thank you

About Cenfri

Cenfri is a global independent economic impact agency and non-profit enterprise that bridges the gap between insights and impact in the financial sector. It collaborates with its partners to foster economic growth and sustainable development in emerging and developing markets in Africa and beyond. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About IFAD's Financing Facility for Remittances

Since 2006, IFAD's multi-donor Financing Facility for Remittances (FFR) aims to maximise the impact of remittances on development, and to promote migrants' engagement in their countries of origin. Through the financing of almost 70 projects in over 40 countries, the FFR is successfully increasing the impact of remittances on development by promoting innovative investments and transfer modalities; supporting financially inclusive mechanisms; enhancing competition; empowering migrants and their families through financial education and inclusion; and encouraging migrant investment and entrepreneurship. The FFR is cofinanced by IFAD, the European Union, the Grand-Duchy of Luxembourg, the Ministry of Foreign Affairs of Spain and the Swedish International Development Cooperation Agency (Sida).

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