

An aerial photograph of a city, likely Paris, showing a dense urban landscape with numerous buildings and green spaces. The image is overlaid with several semi-transparent blue geometric shapes: a large triangle on the left, a smaller one on the right, and a large trapezoid at the bottom. The text is placed within these blue areas.

Management of high risk customers

Key take-aways from recent AML/CFT on-site inspections

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DISCLAIMER

This presentation serves :

- to present findings identified during AML/CFT on-site inspections, and
- to propose guidance in the form of examples of good practice.

The findings and guidance described in this presentation are not exhaustive and other measures could be considered appropriate.

- 1 INTRODUCTION & BACKGROUND
- 2 OBJECTIVES
- 3 FINDINGS INCLUDING EXAMPLES OF GOOD PRACTICES
- 4 CONCLUSION

1. INTRODUCTION & BACKGROUND

- ❖ 2010: Creation of the AML/CFT on-site inspection team.
- ❖ Risk based approach (« RBA »):
 - Integral part of our AML/CFT control plan;
 - Since 2018 and:
 - the issue of the Law of 13 February 2018 amending the Law of 12 November 2004 on the fight against money laundering and terrorist financing (hereinafter the « Law ») and,
 - the adoption of the joint guidelines issued by the three European Supervisory Authorities (EBA/ESMA/EIOPA) on money laundering and terrorist financing (“ML/TF”) risk (June 2018) (“The Risk Factors Guidelines”) (CSSF Circular 17/661);
 - CSSF Circular 18/702 on the Developments regarding the fight against ML/TF in the private banking sector;

⇒ **Point of focus.**
- ❖ Consequences:
 - Enhancement of the RBA section of our AML/CFT full scope control plan;
 - Development of a dedicated RBA thematic control plan -> 8 on-site inspections conducted;
 - On-site inspections targeted on high risk customers.

1. INTRODUCTION & BACKGROUND

❖ Main objectives:

Assess whether professionals:

- Have defined their ML/TF risk appetite and risk strategy;
- Have identified their inherent ML/TF risks (customers, products & services, countries, channels, transactions, others...);
- Have implemented systems and controls appropriate to the nature, scale and complexities of their business;
- Have systems and controls in place proportionate to their inherent risks and commensurate to their risk appetite.

❖ Results:

- Some examples of good AML/CFT risk management, but also
- Serious findings in particular on the systems and controls for managing high risk customers;

=> **Focus of this presentation.**

2. OBJECTIVES OF THIS PRESENTATION

- ❖ Present findings identified during AML/CFT on-site inspections;
- ❖ Propose guidance in the form of examples of good practice.

❖ Processes covered:



A. Risk self-assessment/Risk appetite



B. Application of the risk based approach



C. Customer due diligence



D. Transaction monitoring



E. Name matching/filtering controls





F. Internal organization

3. FINDINGS INCLUDING EXAMPLES OF GOOD PRACTICES



A. Risk self-assessment/Risk appetite



❖ Risk appetite:



Findings 	Good practices 
No document evidencing how much ML/TF risk professionals are prepared to take on (i.e. no risk appetite and no risk strategy).	ML/TF risk appetite and risk strategy clearly defined by professionals: → Risk assessment policies and procedures reflected the professionals' risk appetite and strategy; → Professionals clearly assessed whether the risk associated with individual business relationships corresponded to their risk appetite/strategy.

❖ Risk self-assessment:

Findings 	Good practices 
No regular review of the risk self-assessment → <u>significant</u> new developments (e.g. new clients, products/services or country risks) not taken into consideration.	Professionals reviewed their risk self-assessment on an annual basis and included <u>significant</u> new developments.



❖ Methodology:



Findings 	Good practices 
<p>The customer risk assessment methodology does not take into account the variables and risk factors described in the Law and the Risk Factors Guidelines.</p> <p>The three situations set out in article 3-2 of the Law and article 3 of the Grand-ducal Regulation and one situation set out in article 3 of the CSSF Regulation are not sufficiently discriminating → EDD not automatically applied.</p>	<p>Professionals developed a structured and comprehensive risk assessment process that helped:</p> <ul style="list-style-type: none"> - take into account all risk factors in relation with one client; - adapt due diligence measures to the risks identified; - make <u>well-informed and consistent decisions</u> about whether a potential or existing customer relationship is within the their risk appetite/risk strategy; - identify and <u>focus on</u> those business relationships that pose <u>the greatest risk of ML/TF</u>. <p>Professionals had a manageable % of high risk customers.</p>



❖ Approval of business relationships:



Findings 	Good practices 
No evidence of formal sign-off and approval of high-risk customers by an adequate hierarchical decision-making level.	Professionals developed clear processes for escalating the approval of high risk relationships to senior management or committees which considered ML/TF risks and gave appropriate challenge to Relationship Managers (“RM”).

❖ KYC files:

Findings 	Good practices 
<p>Inadequate analysis and challenge of information found in documents gathered for CDD purposes.</p> <p>For complex structures, failure to question the rationale for the complexity and establish a link between the entities and their beneficial owner(s).</p>	<p>Professional created well structured, comprehensive and organized KYC files including customer profile documents which summarize relevant information such as:</p> <ul style="list-style-type: none"> - the risk assessment, - expected account activity (type, amount, locations...), - information on beneficial ownership, - Information on source of wealth and source of funds, and provided an overview of any information outstanding or requiring follow-up.



❖ Source of funds/source of wealth:

Findings 	Good practices 
Insufficient information gathered.	Professionals had clear risk-based policies and procedures setting out the EDD required for higher risk customers, particularly in relation to source of wealth.
Failure to obtain supporting document to establish the legitimacy of the source of wealth and source of funds.	Professionals obtained meaningful information, apply <u>risk-sensitive measures</u> to verify this information, and challenged information where appropriate, <u>especially where the risk associated with the business relationship was increased</u> .



❖ Keeping CDD up to date:

Findings 	Good practices 
Failure to review regularly and, where necessary, update customer information and documentation (including risk assessment).	Professionals set up periodic reviews → high risk clients reviewed on <u>a yearly basis</u> .
Delay in conducting periodic reviews.	



3. FINDINGS INCLUDING EXAMPLES OF GOOD PRACTICES

D. Transaction monitoring



Findings 	Good practices 
Accounts used for purposes inconsistent with the expected activity on the account.	<p>Transaction monitoring which took into account up-to-date CDD information including expected activity, source of wealth and source of funds.</p> <p>Most effective ongoing monitoring regimes <u>combined</u> an automatic system to generate alerts when activity on the account is unexpected or indicate potential ML/TF <u>with</u> regular independent reviews performed by the RMs.</p> <p>Compliance Function involved in the monitoring of high risk customers and effectively challenged RMs.</p> <p>More senior involvement in resolving alerts raised for transactions on higher risk customer accounts, including ensuring adequate explanation and, where necessary, corroboration of unusual transactions.</p>
Inappropriate transaction monitoring tool.	
Lack of critical analysis of the information received from the client.	
Lack of explanation and/or supporting documentation to corroborate large transactions and/or transactions not in line with clients' activity.	
Lack of involvement of the Compliance function in the monitoring of high risk customers.	

❖ Reputation:



Findings 	Good practices 
Failure to identify or record adverse information about the customer or the customer’s beneficial owner.	Professionals used, where available, open source internet checks to supplement commercially available databases when researching potential <u>high risk</u> customers.
Dismissal of serious allegations about the customers without adequate review.	<p>Where ML/TF risk is <u>very high</u>, professionals supplemented CDD with independent intelligence reports.</p> <p>Professionals implemented adequate training to staff involved with high risk customers.</p>



❖ AML/CFT resources:

Findings 	Good practices 
Lack of resources within the Compliance function.	Professionals allocated adequate resources to ML/TF control functions → high risk customers require <u>extra due diligence measures (= more resources)</u> .
Inappropriate allocation of resources.	

❖ Training & Awareness:

Findings 	Good practices 
Staff dealing with high-risk customers did not pay sufficient attention to several clients' complex transactions or transactions that seemed to have no economic or legal rationale.	For staff directly involved in dealing with high-risk customers, professionals: <ul style="list-style-type: none"> - provided good quality training on the risks posed by higher risk customers; - ensured RMs and other relevant staff understood how to manage high ML/TF risk customers by training them <u>on practical examples of risk and how to mitigate it</u>.

4. CONCLUSION

- ❖ High risk customers = potential large profit but potential high reputational and regulatory risks & potential higher costs to implement adequate controls.



- ❖ Given the nature of our findings, the management of high risk customers, will remain a significant focus of our on-site inspections.

The background of the slide features a photograph of a stone tower on the left and a city skyline with a prominent church spire in the distance. A large blue diagonal overlay covers the right side of the image.

**Thank you for
your attention !**

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