AML/CFT
A Risk Based Approach

The risk-based approach (RBA) is a key principle in Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regulations. The RBA recognises that not all customers, transactions, and products present the same level of money laundering and terrorist financing (ML/TF) risk. Therefore, the approach requires reporting entities to identify, assess, and mitigate ML/TF risks based on a risk assessment process.

The RBA involves the following steps:

1. Risk Assessment: reporting entities should conduct an ML/TF risk assessment of their business operations to identify, evaluate, and understand the ML/TF risks they face.
2. Customer Due Diligence (CDD): Once the risk assessment is done, reporting entities should implement appropriate measures to identify and verify the identity of their customers, assess the ML/TF risk posed by their customers (see below for more information), and monitor their customers' transactions.
3. Ongoing Monitoring: Financial institutions and DNFBPs should monitor their customers' transactions to detect any unusual or suspicious activity that may indicate ML/TF.
4. Enhanced Due Diligence (EDD): Financial institutions and DNFBPs should implement additional measures to mitigate higher ML/TF risks associated with certain customers, transactions, or products. This may include conducting additional due diligence checks and more frequent monitoring.
5. Risk Mitigation: Financial institutions and DNFBPs should implement appropriate measures to mitigate the ML/TF risks identified in the risk assessment process. This may include developing policies and procedures, conducting training, and implementing internal controls.

By adopting the RBA, financial institutions and DNFBPs can focus their AML/CFT efforts on the areas of highest ML/TF risks, ensuring that resources are allocated efficiently and effectively to prevent and detect ML/TF activities.

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Customer Based Risk

Assessing the ML/TF (Money Laundering and Terrorist Financing) risk posed by your customers is an important task for businesses that operate in industries vulnerable to financial crimes. Here are some steps that you can take to assess ML/TF risk:

1. Collect customer information: Gather relevant information about your customers, such as their names, addresses, sources of income, occupation, and business activities.
2. Screen customers against watchlists: Check if your customers are on any government watchlists. Using Google to conduct these searches has a very high fail rate - it is highly recommended you use a provider such as Dow Jones to conduct thorough searches.
3. Conduct risk assessments: Assess the risk of each customer based on factors such as their country of residence, type of business, transaction patterns, and level of involvement in high-risk activities.
4. Monitor customer transactions: Monitor customer transactions to detect any suspicious or unusual activity that could indicate ML/TF.
5. Implement controls: Implement controls such as customer due diligence (CDD) measures, transaction monitoring systems, and sanctions screening tools to mitigate ML/TF risks.
6. Review and update risk assessments: Review and update customer risk assessments regularly to ensure they are up-to-date and accurate.

It's important to note that ML/TF risk assessment can be a complex and ongoing process that requires expertise in anti-money laundering and counter-terrorism financing.

Businesses should consider seeking the help of experienced professionals to ensure that their risk assessments are comprehensive and effective.

Experienced professionals will also work with you to ensure you processes and controls are fit for purpose and not overly complex or time consuming for the size of busienss you may have.

Contacts

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