

EU PROJECT ON MONEY LAUNDERING AND CORRESPONDENT BANKING

Governance

Danske Bank fined €1.82m in Ireland for money-laundering law breaches

ABN AMRO pays multimillion fine in money laundering

Nordea Fined for Inadequate Checks to Stop Money Laundering

FCA fines Santander UK £107.7 million for repeated anti-money laundering failures

Bank with record \$386 million fine over Baltic money-laundering breaches

Deutsche Bank Subsidiary DWS to Pay \$25 Million for Anti-Money Laundering

Banks in France Face More Than \$1.1 Billion Fines After Raids statements Regarding



AML/CFT - WHY IS IT SO DIFFICULT TO COMPLY?

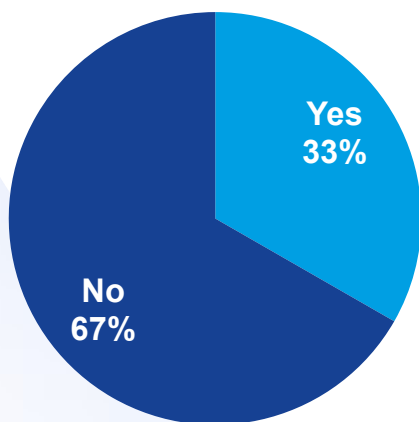
- Largest money laundering cases involve cross-border activities
- Also applies to cases of smaller scale

EXAMPLE FROM THE REAL WORLD – DISCUSSION WITH BUSINESS

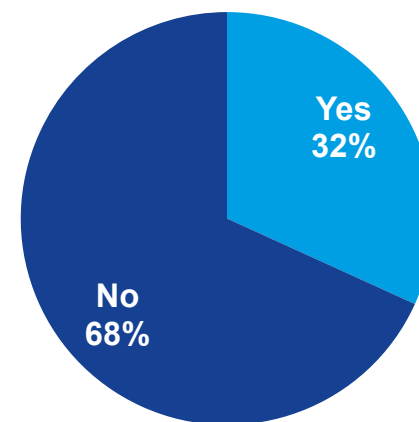
- Large cross-border transactions from Russia
- Involving several banks, tax havens and anonymous companies
- *"We don't know this to be illegal?"*

COBA — SUPERVISORY INSPECTIONS

International banks - COBA inspections



Domestic banks - COBA inspections





Governance and organisation



Risk assessment



Risk appetite and business rationale



Internal guidelines



Decision making/conflicts of interest



Reporting



Training

GOVERNANCE



GOVERNANCE — “TONE FROM THE TOP”

Sound governance is the framework needed to effectively manage AML/CFT risks
– it includes

Board of directors

- Policies
- Compliance programme
- Definition of culture
- Oversight
- Action on reporting

Executive and senior management

- Guidance
- Operational guidance and instructions
- Efficient procedures
- Oversight
- Action on reporting

GOVERNANCE — GROUPS — SUBSIDIARIES ETC.

Governance and reporting structure – lessons learnt:

Establish and maintain oversight

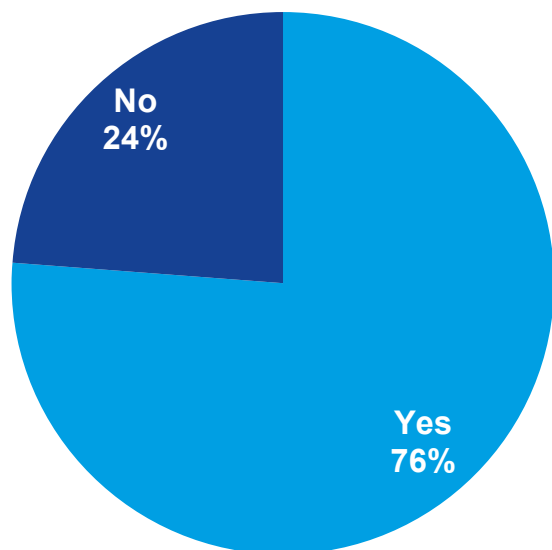
- Entity/country level
- Group level

Controls to ensure valid reporting

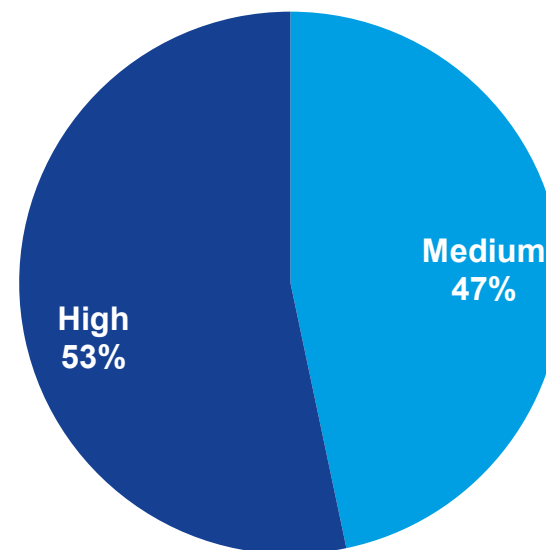
- Business
- Compliance
- Audit

RISK ASSESSMENT – DOMESTIC BANKS

Domestic banks that consider
COBA vulnerable to ML/TF

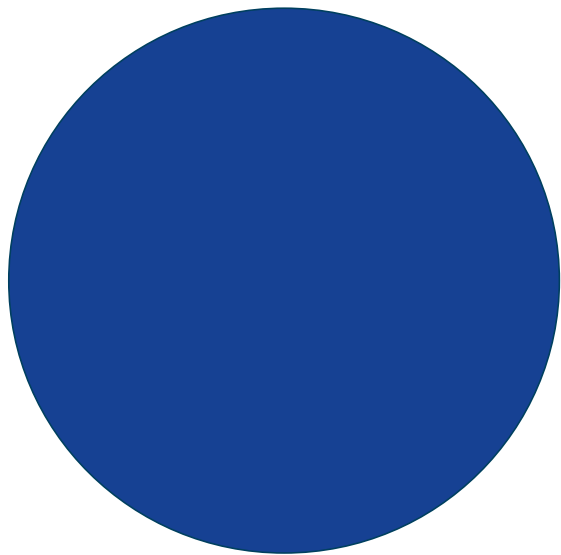


Level of ML/TF risk

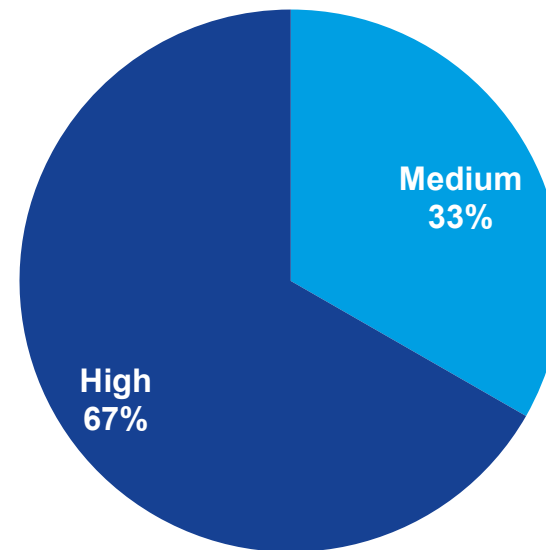


RISK ASSESSMENT — INTERNATIONAL BANKS

All international banks consider
COBA vulnerable to ML/TF



Perceived level of ML/TF risk



RISK APPETITE COMPONENTS – EXAMPLES

Majority (95%) of all banks have a written risk appetite policy

Business considerations

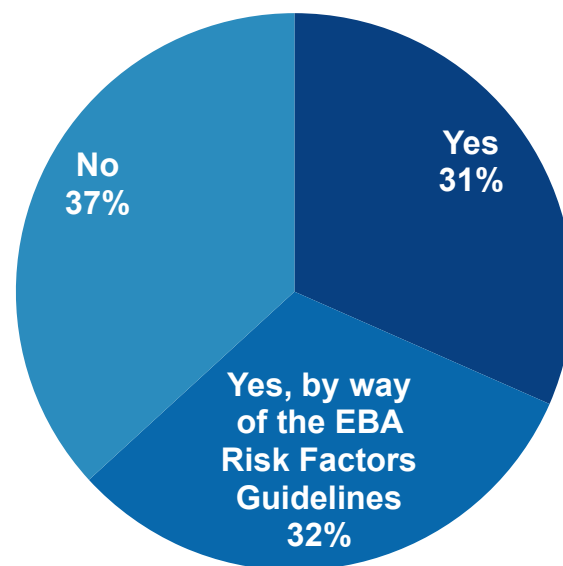
- Serving bank's own purposes (liquidity, treasury, etc.)
- Currency clearing - direct access (EUR, USD, GBP etc.)
- Coverage of client needs (import/export)
- Geography
- Products and services offered - business opportunities
 - Trade Finance, securities, investment management
- Profitability

Compliance considerations

- ML/TF and sanctions risks
- Internal financial crime risk management capabilities
- Reputational risk connected with counterparty

LEGAL REQUIREMENTS – COBA SPECIFIC GUIDELINES

FSA's having issued COBA specific guidelines



LEGAL REQUIREMENTS - WISH LIST TO AUTHORITIES

Varying interpretations of COBA relationships across EU Member States result in different practices

Banks ask for concise guidance from authorities and inclusion of international market practices

- Definition of COBA relationships (types of)
 - With/without VOSTRO account
 - RMA/RMA+
 - Banks/non-banks
- Detailed due diligence requirements/measures for
 - Trade Finance counterparties (definitions and KYC)
 - Definition of "authorised representatives" and "associates" (verification)
- Details to include in written agreements
- Detailed requirements/guidelines for STR/SAR filing

INTERNAL GUIDELINES — EXAMPLES OF ELEMENTS

95% of all banks have issued COBA specific guidelines

- Clear and applying group wide
- Based on
 - Regulatory framework
 - International standards
 - Internal EWRA/BWRA
- Roles, responsibilities and accountabilities
- Risk factors and KYC components
- Documentation and record keeping
- Reporting
- Training
- Quality assurance (1st and 2nd Line)

*Internal audit
(3rd Line of Defence)*

*External audit
("4th" Line of Defence)*

INTERNAL GUIDELINES — UPDATES — EXTERNAL FACTORS

Annual update/approval is common practice

How is adherence to changes in regulatory requirements ensured in between?

- Continued monitoring of changes in legal framework
- Interpretation of changes
 - Legal (1st Line)
 - Compliance (2nd Line)
- Update of internal guidelines, policies, it systems
- Assessment of impact and creation of action plan to comply
- Training

Relevant components also apply to other changes, e.g., country risk classification, national and supranational risk assessments

INTERNAL GUIDELINES — UPDATES — EXTERNAL FACTORS

Triggered by regulatory action or severe adverse media (sense of urgency)

Involvement of both 1st and 2nd Line, follow-up by 3rd Line

- Route map
 - Root cause
 - Extent of customer portfolio/files affected
 - Assess impact and decide on
- Action plan
 - Remediation of files (task force)
 - Review and update of internal guidelines, risk appetite and processes
- Reporting
 - Board and management
 - Supervisors
- Training

INTERNAL GUIDELINES — UPDATES — INTERNAL FACTORS

Monitoring activities, examples of findings related to existing, internal guidelines

- Incoherent implementation (units, divisions, branches, subsidiaries, countries)
- Missing elements
- Lack of clarity (definitions, instructions)
- Different interpretations across business
- Lack of it support (processes)
- Roles and responsibilities unclear
- Insufficient internal communication of requirements
- Inadequate training
- Lack of management actions

ORGANISATION – COBA BUSINESS - EXAMPLES

Consolidated COBA business unit

- Handles both respondents, correspondents and reciprocal relationships

Divisionalised COBA business unit

- Respondents
- Correspondents
- Further specialized into
 - Domestic
 - Foreign

Operational requirements:

- Cooperation – compliance & business
- Proper resourcing – competences, FTEs

ORGANISATION – COBA BUSINESS - EXAMPLES

Centralization/decentralization - COBA aspects

- Relationship management
- Network management
- On boarding decision
- KYC
 - Dedicated COBA teams
 - Individual expertise
- Daily business operations
 - Markets
 - Trade Finance
 - Transactions
- Monitoring (1st Line and 2nd Line)

Compliance plays an important role in many COBA processes in most banks

DECISION MAKING – ON BOARDING/OFF BOARDING/REVIEW

Various models – to some extent dependent on size of bank

Business decision – management level 3-4

- Number of respondents < 100

Business decision – executive level

- Numbers vary

Forum/committee decision

- Larger portfolios (common in bigger banks)
 - Decision forums including 2nd Line

CONFLICTS OF INTEREST – COMPLIANCE INVOLVED

Which tasks:

- Approval/rejection of relationship
- Quality assurance of Rfls

What role:

- Advisory
- Part of quorum
- Final say

Awareness of potential conflicts of interest:

Compliance organisation to separate monitoring from decision making

Escalation channel/forum in case of discrepancy

REPORTING – IS IT WORKING?



Nordea was fined the maximum (USD 6.1 million) and given a sharp warning (2015).

The FSA said major deficiencies had been uncovered: “It has been bad, really bad”. “They weren’t even aware that they have had high-risk customers.”

The FSA said the severity of the compliance breaches would have justified revoking Nordea’s banking license, but that because the bank had taken measures to address the problems, it would just issue a warning alongside the fine.

MANAGEMENT REPORTING - EXAMPLES

Management reporting – business (1st Line)

- Frequent and structured
 - COBA portfolio overview (status)
 - Risk migration (within portfolio)
 - Changes (on-boarding, off-boarding)
 - Review/maintenance (e.g., timely/overdue KYC updates)
 - Follow-up
 - Triggered reviews
 - Triggers
 - Actions taken/recommended

REPORTING - EXAMPLES

2nd Line

- Establish and maintain overview
 - Monitoring findings
 - Follow-up on previous "red" reporting/supervisory action
 - Actions and remediations
 - Timely/sufficient

3rd Line

- Establish and maintain overview
 - Audit findings
 - Follow-up on previous "red" audit reporting/compliance reporting/supervisory action
 - Actions and remediations
 - Timely/sufficient

MANAGEMENT REPORTING – ACTION PLANS/REMEDIATION - EXAMPLES

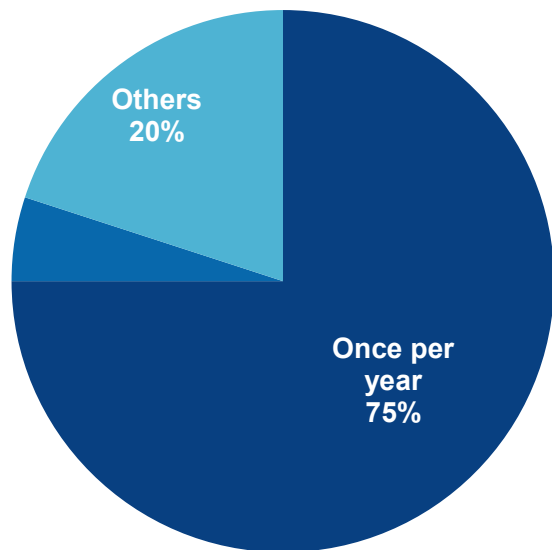
Reporting to Executive Management and BoD

- Frequent and structured
- Compliance monitoring activities (quality assurance of actions)
- Follow-up on action plans and remediation
 - Compliance
 - Internal audit
- Enable further steps/other actions to remediate
- Decisions/recommendations to update
 - Risk assessment
 - Policies
 - Guidelines
- Training

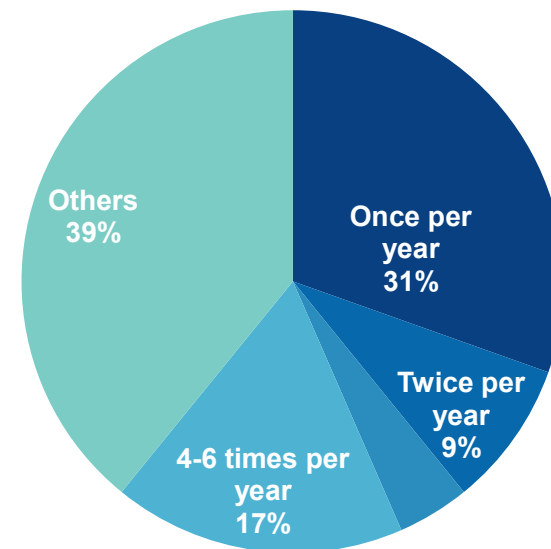
Potentially revisit organisational set-up

COBA TRAINING ACTIVITY – OVERVIEW

Domestic banks

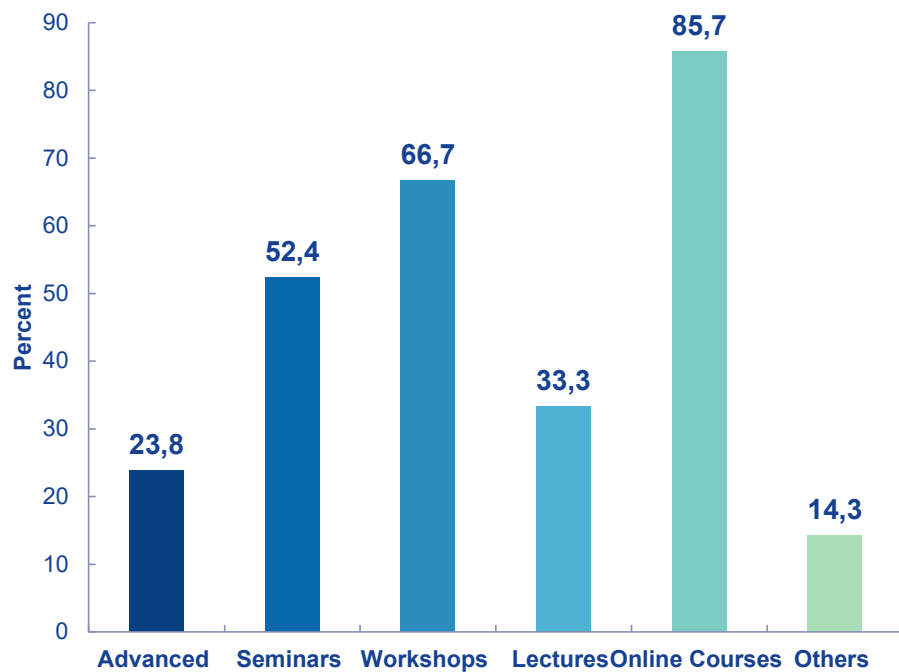


International banks

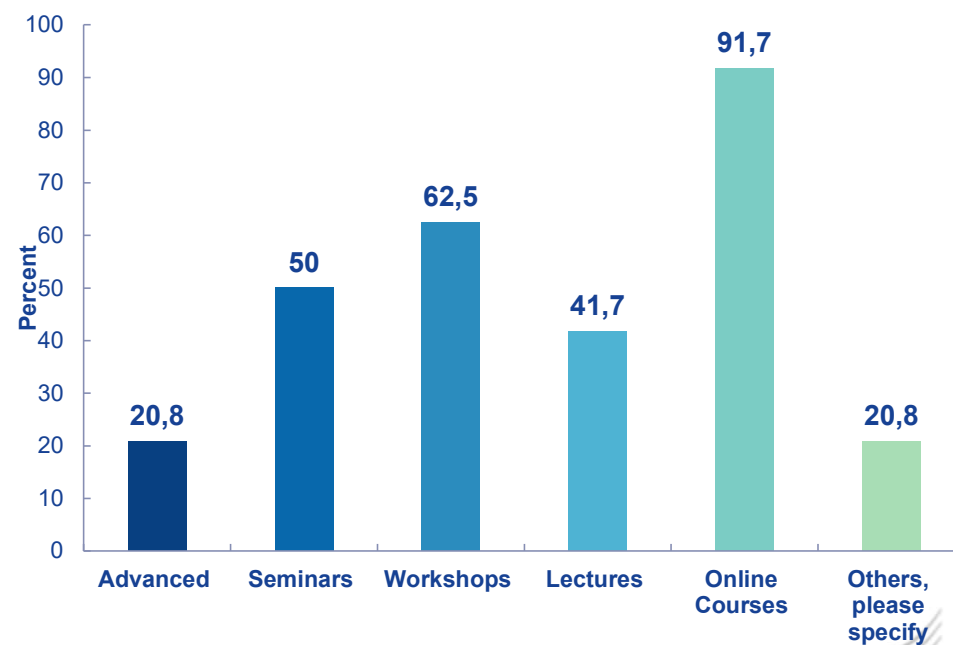


COBA TRAINING ACTIVITY – OVERVIEW

Domestic banks



International banks



COBA TRAINING ACTIVITY - TRAINING TOPICS - EXAMPLES

Training activities and participants in trainings are documented

COBA specific training topics comprise, e.g.:

- Onboarding
- Due diligence measures
- Ongoing monitoring
- Transaction monitoring
- Suspicious behaviour
- Impact of sanctions
- Identification of customers and beneficial owners
- AML/CFT regulatory framework
- Risk assessments
- Trade Finance

COBA TRAINING ACTIVITY – TRAINING

Who trains the trainers?

COBA TRAINING ACTIVITY – CULTURE

”Culture is what we do when nobody is watching”



EU PROJECT ON MONEY LAUNDERING AND CORRESPONDENT BANKING

COBA Due Diligence measures



Introduction



Risk factors and risk scoring



COBA - general KYC components



KYC – consideration



COBA - specific KYC components



OEDD/stricter controls



Written agreements

INTERNAL FRAMEWORK FOR COBA DUE DILIGENCE



Internal guidelines are based on

Regulatory framework
International standards
Internal EWRA/BWRA



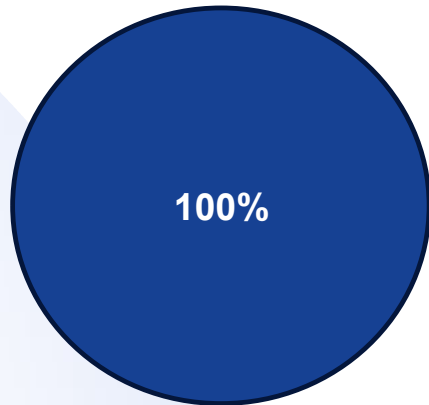
Internal guidelines describe

Risk scoring/risk factors
(SDD)/CDD/EDD measures
ODD/OEDD measures

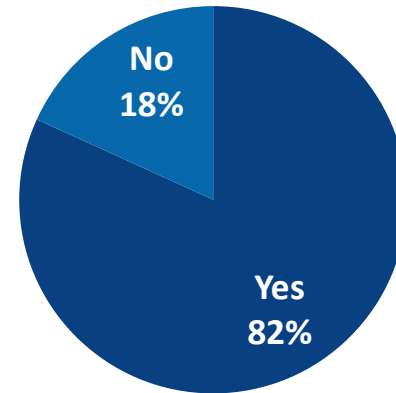
PERFORMING COBA DUE DILIGENCE - SPECIALIZATION

All international banks have specialized COBA KYC teams/centers of excellence

82% of domestic banks have specialized COBA KYC teams or individual experts



Size matters



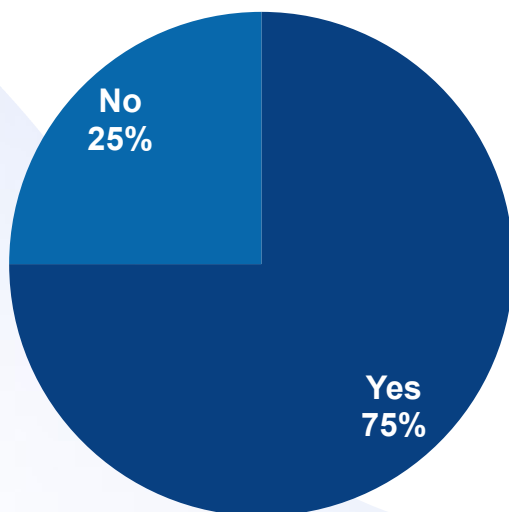
COBA RISK FACTORS



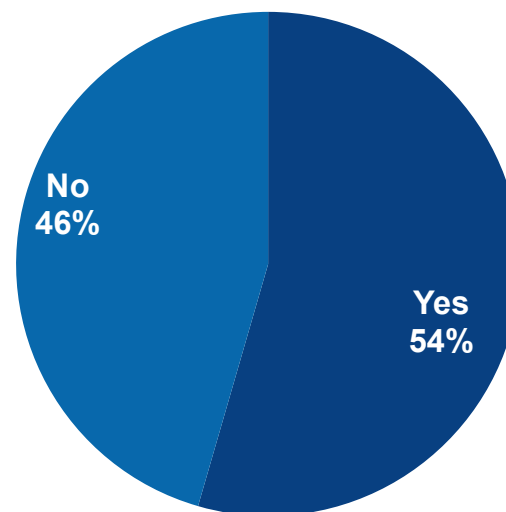
COBA RISK SCORING MODEL

Risk classifications vary: LR – MR – HR - VHR

International banks with COBA specific risk scoring model



Domestic banks with COBA specific risk scoring model



CDD/EDD VS ODD/OEDD - RISK BASED APPROACH - CONSIDERATIONS

Risk classification:

- Legal requirements and guidance
- EWRA/BWRA
- Risk factors = KYC components
 - Risk relative to portfolio?
 - Weights?

Level of risk → DD measures to apply

- CDD/EDD?
- ODD/OEDD?



Risk classification and corresponding due diligence measures vary across banks

COBA RISK SCORING – PURPOSE

Determine if relationship is inside risk appetite

- Initially
- During relationship

Identify level of due diligence to apply

- On boarding (SDD/CDD/EDD)
- During relationship (ODD/OEDD)

Portfolio overview/management reporting

- Status
- Migration

COBA RISK SCORING METHODS — EXAMPLES

Automated

- 54% of international banks
- Qualitative assessment and expert judgment often apply

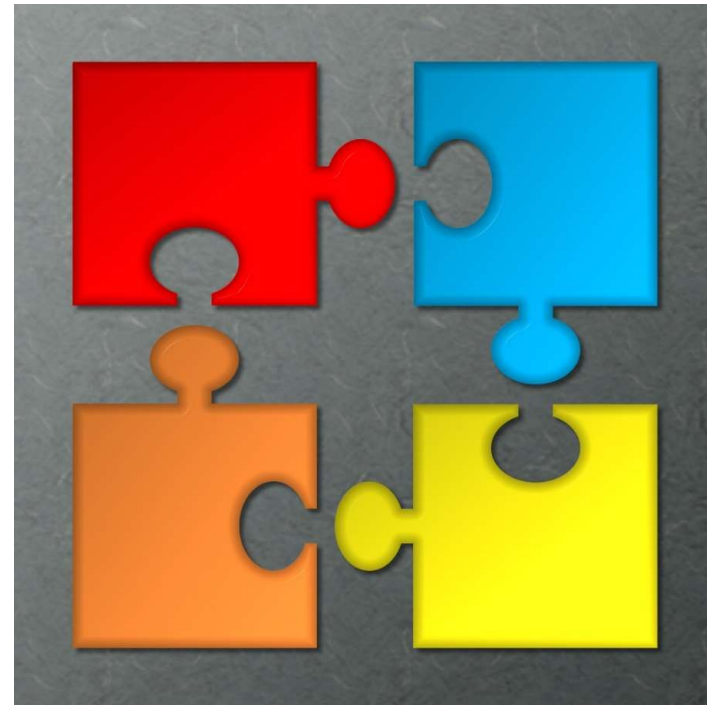
Manual

- Rare – smaller banks with limited COBA business

Combination of manual/automated

- Majority of domestic banks

COBA - GENERAL KYC COMPONENTS



COBA – GENERAL RISK FACTORS

1. **Customer (here: respondent)**
2. **Ownership**
3. **Management**
4. Purpose and nature
5. Customer base/business model/
6. Products and services (offered by respondent)
7. **Geography**

RESPONDENT CHARACTERISTICS - EXAMPLES

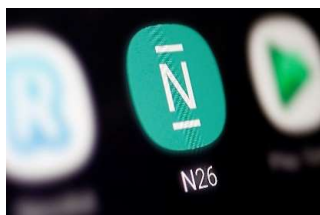
Not all banks distinguish between respondents and correspondents

- Type of entity
 - Bank
 - Non-bank financial institution/other
 - Applicable regulatory framework
- Parent/subsidiary/branch
 - Which entity/entities are we dealing with?
 - Entity in own group structure
- Growth scenario
 - New/established
 - Organic
 - Acquired (when, where)
 - Maturity/culture

GROWTH/EXPANSION – NEW PLAYER

- Acquired growth increases inherent risk of non-compliance with group policies
 - Behaviour and culture do not change easy or rapidly
 - Compliance call to inquire about internal controls, oversight and implementation of policies in new entities
 - Update agreements
- Organic growth in new country/locations may also increase inherent risk level
 - Inquire about potential changes in business model, expected transaction flows
 - Update agreements
- New players
 - AML/CFT controls (efficiency/maturity/culture)

NEW PLAYER – DID YOU SEE IT COMING?



N26Bank GmbH: BaFin orders measures to limit growth and appoints a special commissioner

On 5 October 2021, the BaFIN ordered N26 Bank GmbH to take measures to ensure the institution once again has in place a proper business organisation and to mitigate risks to the institution’s operational resilience.

[.....]

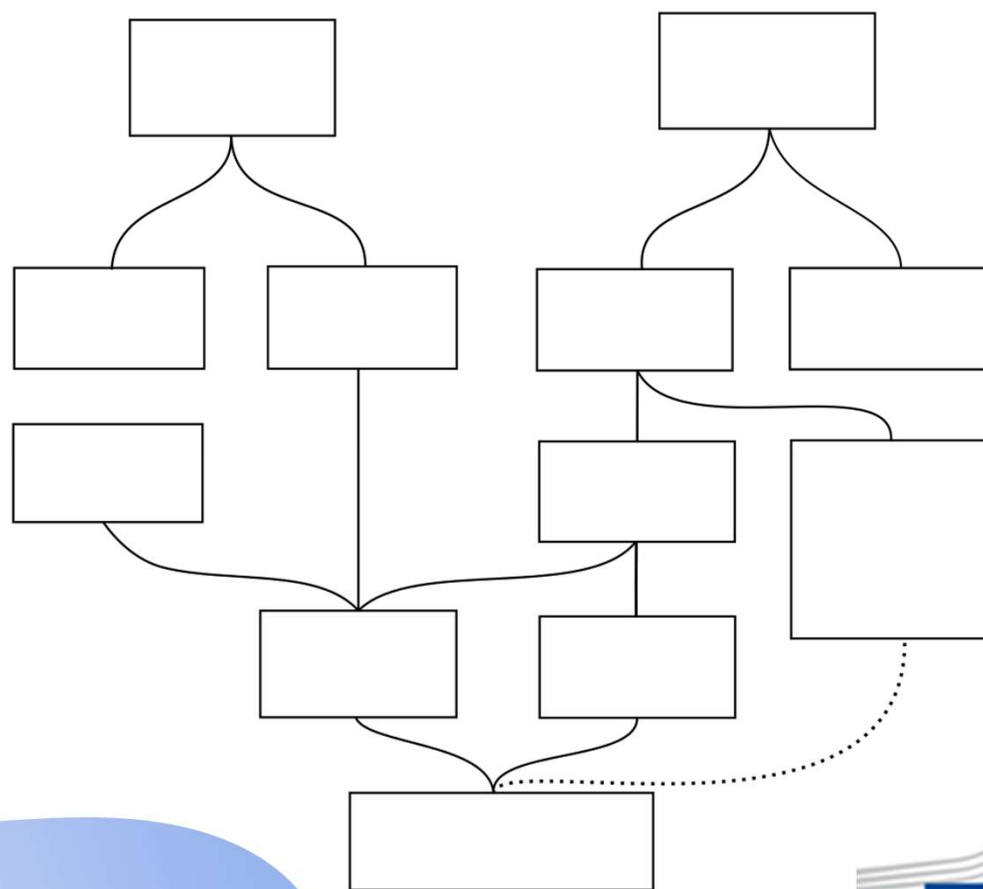
Customer acquisition is to be substantially reduced with N26 Bank GmbH only permitted to acquire a maximum of 50,000 new customers per month.

*(In a notice dated 25 June 2021, **BaFin** imposed an administrative fine of €4,250,000 on the bank due to the delayed submission of a high number of suspicious transaction reports).*

OWNERSHIP - EXAMPLES

Ownership structure

- Legal form
- Type of ownership/ownership share(s)
- Transparency in (chain of) ownership
- Part of group with non-financial companies (conglomerate)
 - Nature of industry
 - Inherent level of ML/TF risk



OWNERS AND MANAGEMENT - EXAMPLES

Background, relevant/adequate

- Education
- Professional experience
- Recent changes
- Internal/external hire
- Position/management structure
- Source of wealth (owners, where applicable)

PEP status/associated to PEP

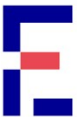
- Position/level of influence

Personal network

- Duplicates

Reputation

- OSINT/Adverse media



OWNERS AND MANAGEMENT - EXAMPLES

Power to appoint/dismiss/
influence/abuse



Positions/ownership in other
companies/industries

Nature of industry

Inherent level of ML/TF risk



Owner's (other)
financial interests or
positions in (non-
financial) industries

Geography

Transparency, corruption, conflict
zones



Reputation

Adverse
media

Sanctions perspective

OWNERSHIP — PEP - BANK IN CONGLOMERATE - EXAMPLE

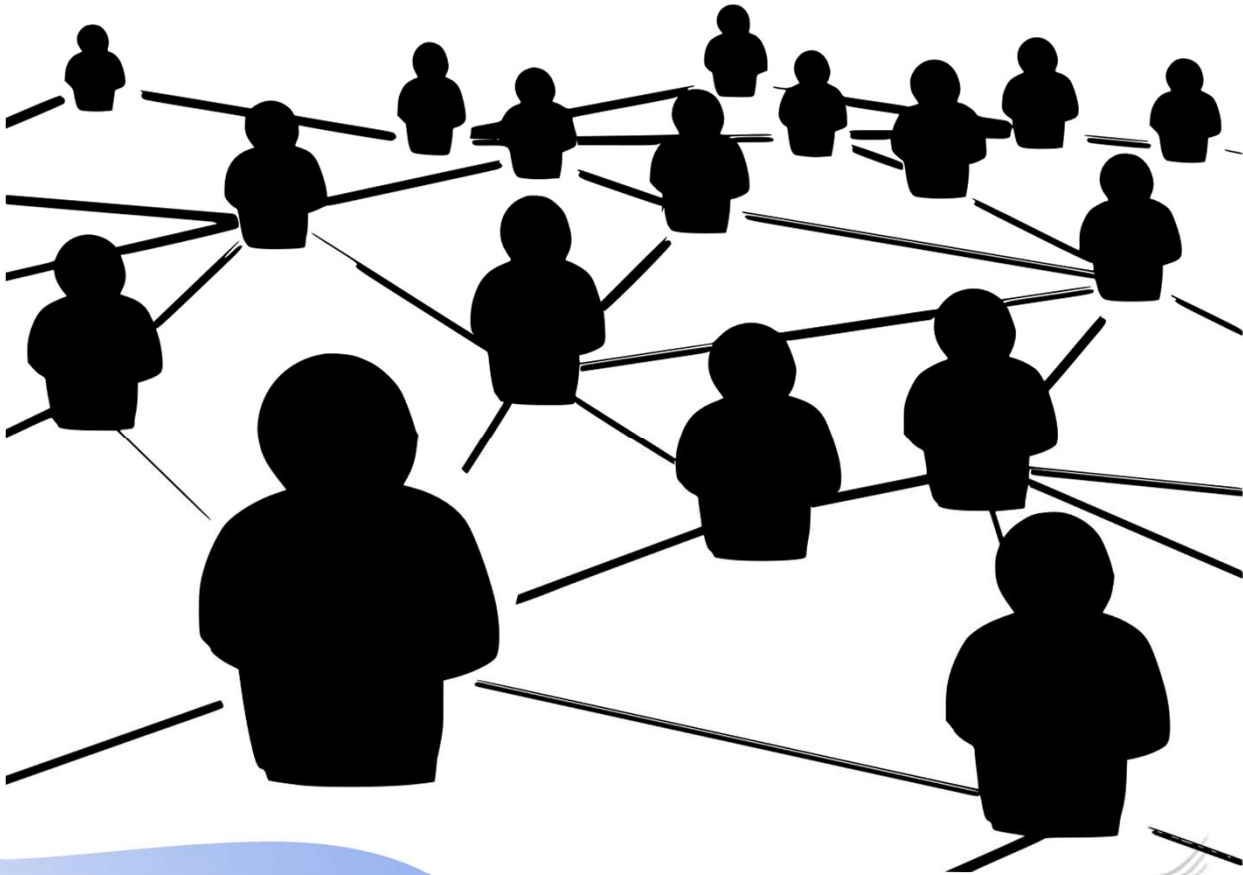
Angola's former president's powerful daughter, Isabel de Santos, takes over largest bank



Controlling stake purchased by large company owned by Isabel de Santos – conglomerate included telecom and oil

OWNERS AND MANAGEMENT

Network/associates?



OWNERSHIP — PEP - BANK IN CONGLOMERATE - EXAMPLE



US imposes sanctions on four Russian tycoons connected to Alfa-Bank

Treasury steps up campaign to punish Moscow's elite for invasion of Ukraine



OWNERS AND MANAGEMENT – CONCERNS

Banks ask for clarification/detailed guidance

- Definition of representatives/authorised signatories
- Requirements: Who and how to verify?

Banks ask for AML/CFT requirements to supersede other legislation

- OSINT searches not allowed in all Member States
GDPR interpretations
- Bank secrecy/customer protection
Information sharing (RfIs)

SCREENING – INTERNATIONAL BANKS

All banks screen owners and management at on boarding

Frequency of subsequent screenings vary (sums may not add up)

INTERNATIONAL BANKS	Daily	Periodically	At sanctions list update	At trigger event
Sanctions	78%	39%	83%	74%
PEP status	61%	26%	60%	74%
Adverse Media	40%	65%	41%	77%

SCREENING – DOMESTIC BANKS

All banks screen owners and management at on boarding

Frequency of subsequent screenings vary (sums may not add up)

DOMESTIC BANKS	Daily	Periodically	At sanctions list update	At trigger event
Sanctions	70%	35%	90%	85%
PEP status	60%	45%	60%	85%
Adverse Media	45%	60%	60%	80%

PURPOSE AND NATURE – PRODUCT EXAMPLES

Transactions

- Cross-border
- SWIFT relationships
 - RMA/RMA Plus
- Some (domestic) respondents do not use SWIFT

Vostro account(s)

- Principal-to-principal
- Customer transactions
- Nesting/downstreaming

Markets

- Securities
- FX
- Investment management

CUSTOMER BASE/BUSINESS MODEL - EXAMPLES

*Assess in combination with
products and services
asked for*

Domestic/foreign customer base

Household/corporate/financial
institutions/non-bank FIs/other

Private banking (HNW)

Shipping/off-shore

GEOGRAPHY — EXAMPLES

Country risk classification

- Regulatory framework
- Bribery and corruption (transparency)
- High-risk/tax haven

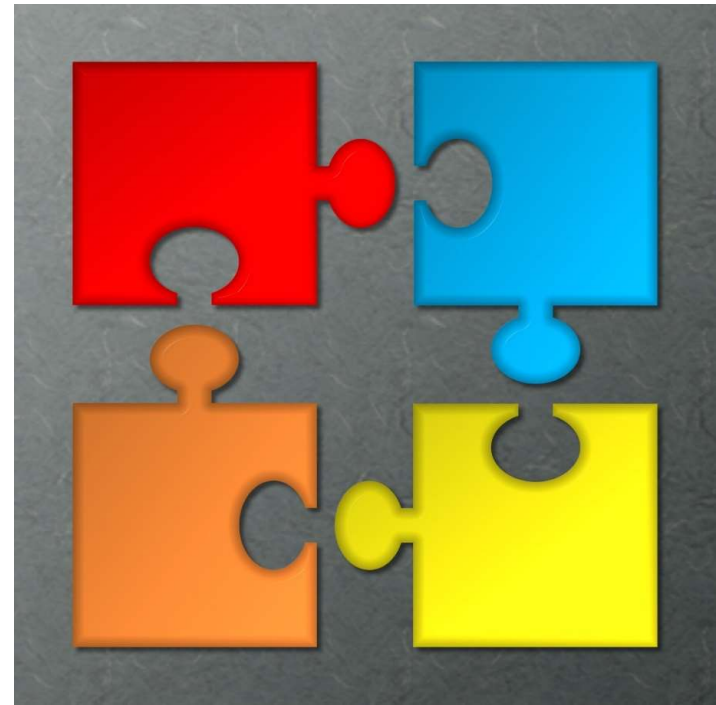
Proximity/ties to

- Conflict zones
- Countries with elevated ML/TF/sanctions risks
 - Syria, Ukraine, Mali, Sudan etc.



Do owners/management have ties to high-risk countries?

COBA SPECIFIC RISK FACTORS AND KYC COMPONENTS



COBA SINGLE HIGH-RISK FACTORS – EXAMPLES

Risk classification – determined by single factors

- Nested relationships
- Previous SAR filings
- Material adverse media
- Sanctions issues
- PEPs as UBOs
- Incorporation in high risk country/non-EU
- Customers linked to high-risk countries/sectors
- High-risk activities/customers
- Lack of regulation

COBA REFUSAL/TERMINATION RISK FACTORS – EXAMPLES

1. Bearer shares
 2. Intransparent ownership structure
 3. Shell banks
 4. Offshore banks
 5. Presence in high risk/very high risk jurisdictions
 6. Engagement in illegal activities
 7. Anonymous/numbered accounts
 8. Payable-through accounts (*prohibited by law in some EU Member States*)
 9. Sanctions restrictions
 10. Non-compliance with regulations
 11. Deficiencies in AML/CFT controls
 12. Insufficient compliance collaboration
 13. Failure to provide required information
- Non-compliant FATCA status



COBA SPECIFIC KYC COMPONENTS



- Financial crime controls
- Regulatory status and history
- Downstreaming/nesting
- Payable-through accounts
- *PSPs, FinTech*

***Final product:
A qualitative and documented
holistic judgment***

FINANCIAL CRIME CONTROLS - EXAMPLES



Group wide AML/CFT and sanctions policies and guidelines

If activities include transactions to/from subsidiaries/branches



Risk appetite (statement/limitations)

Identify significant gaps between respondent/correspondent



Response to questionnaires

Compare with counterparty's domestic framework (to good to be true?)



Organisational set-up

Size of bank, business activities and governance



Dialogue during compliance calls/visits

Involvement of 2nd Line

REGULATORY STATUS AND HISTORY - EXAMPLES



**Country of
incorporation/operation**

Domestic AML/CFT framework efficiency



Banking license

Full service/limitations

**Recent injunctions or
fines**



*Publically available
information?*

Compliance call/visit

COMPLIANCE CALL/VISIT - INJUNCTIONS/FINES – EXAMPLES

Investigate

- Study FSA reports (if public)
- Compare with KYC file
- Assess level of severity

Interrogate

- Identify relevant issues/components
- Prepare, be concrete and detailed
- Ask about action plans/remediation/timelines/current status

Decide

- Is respondent trustworthy?
- Re-assess level of risk
- Limit products/services/update agreement
- Follow-up

DOWNSTREAMING — EDD - EXAMPLES

Assess respondent's AML/CFT framework and risk management capabilities

- AML/CFT policies and guidelines
 - Responses to questionnaires/other KYC findings
 - Compare with respondent's country of incorporation
- Audit reports/summaries
- Risk appetite
 - Acceptable?
 - Written/formalised/detailed?
- Compliance calls/meetings/visits
 - Testing risk understanding and AML/CFT controls
 - Respondent's controls of own respondents!

HOLISTIC RISK ASSESSMENT (ARE WE COMFORTABLE?)
Immature AML/CFT frameworks to be mitigated by tighter controls/refuse downstreaming

DOWNSTREAMING — EDD - EXAMPLES

Assess respondent's downstreaming activities

Specific and detailed list of entities

- Domestic, foreign, banks, non-bank FIs, etc.
- Screen for sanctions and adverse media (OSINT)

Geographic dimension

- Proximity to conflict zones/sanctioned countries
- Geopolitical ties

Understand type of transactions

- Bulk or individual transactions
- If bulk; why and to/from whom?

TM system to monitor downstreaming activities

- Detecting activity/transactions outside of agreement

Evaluate if own risk management capabilities are satisfactory

PAYABLE-THROUGH ACCOUNTS – DATA

- Prohibited in 6 out of 19 responding EU Member States
- Provided by banks in 8 responding Member States
- Payable-through accounts provided: 1 – 390
- Not informed: 5 Member States

PAYABLE-THROUGH ACCOUNTS - EXAMPLES

Respondent's customer(s) with direct Vostro account access

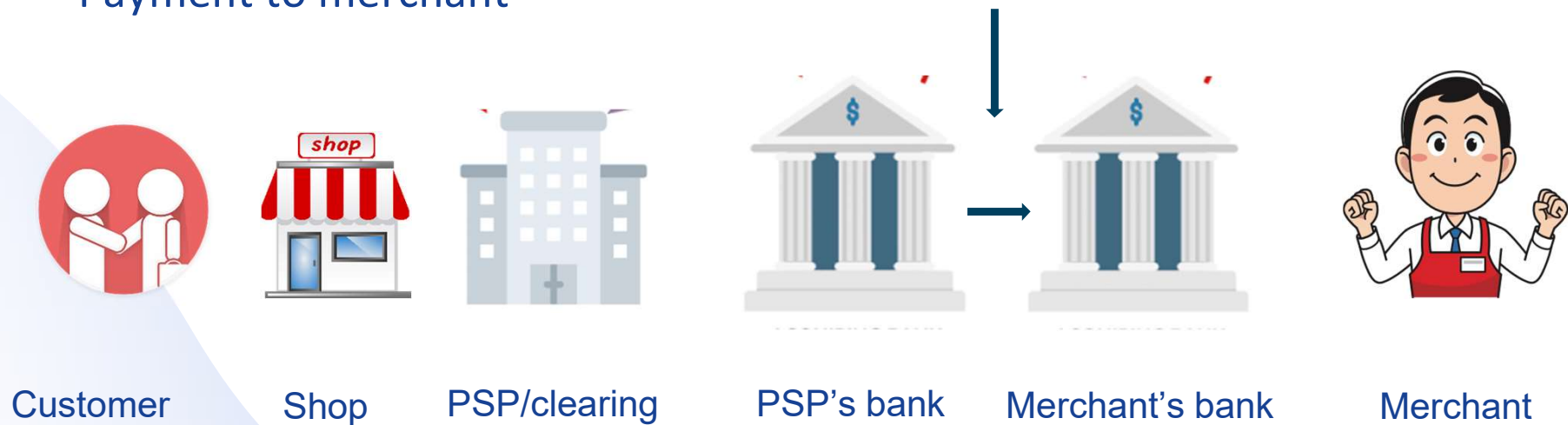
- List and type of entities
- Jurisdiction (incorporation/operations)
- **Rationale for arrangement**
- Respondent's AML/CFT controls
 - Transaction monitoring
 - Written agreements

Respondent's subsidiaries/branches/affiliates with direct Vostro account access

- Do group AML/CFT policies and controls apply?
- Respondent's controls

PSP — PAYMENT PROCES - SIMPLIFIED

- Customer orders/pays (physical shop/e-shop)
- PSP facilitates credit check and clearing
- Payment to merchant



PSP — BANKS' CONCERNS - EXAMPLES

Obligation to provide Vostro accounts – relying on PSP's controls

- Potentially global activity
- Lack of transparency in payment chain
 - Clearing mechanism
 - Bulk payments
- Name of shop may never appear
- No end-to-end tracking/messaging
- Features potentially enabling ML/TF
 - Card holders/customers in banks/countries with slack AML/CFT controls
 - Pre-paid cards/FinTech solutions enable anonymous funding
 - Shops (physical/online) may not exist
 - Merchant/beneficial owner:
 - May be anonymous/name not corresponding with name of shop
 - May be located in different country

PSP - EDD - EXAMPLES

- Risk scoring model
 - Risk factors
 - Risk classification (when classified High Risk?)
 - Override possible?
- Risk appetite (written/formalised?)
 - Payment schemes
 - Chargebacks
 - ML/TF/"no-go" policies
 - Geography
 - Beneficial owners
- Compliance meetings/visits/(calls)
 - Thorough examination of risk understanding and AML/CFT controls

OEDD



ODD/OEDD— REGULAR REVIEW - EXAMPLES

Purpose:

ODD/OEDD procedures are key to understanding if COBA relationship and activities correspond with agreements and expectations.

If no surprises:

- Update KYC information and documentation as required
- Re-assess risk classification (risk scoring models may change)
- Decision

Qualitative and documented holistic judgment

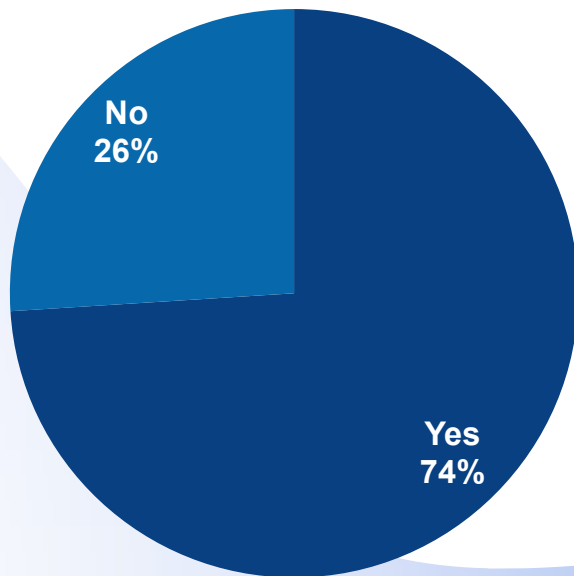
ODD/OEDD – EVENT TRIGGERED REVIEWS - EXAMPLES

- Triggers:
- Change in ownership/UBO with PEP status
 - Use of products/TM alerts/SAR filings
 - No/unsatisfactory response to Rfls
 - Material adverse media
 - Change in country risk classification
 - Sanctions

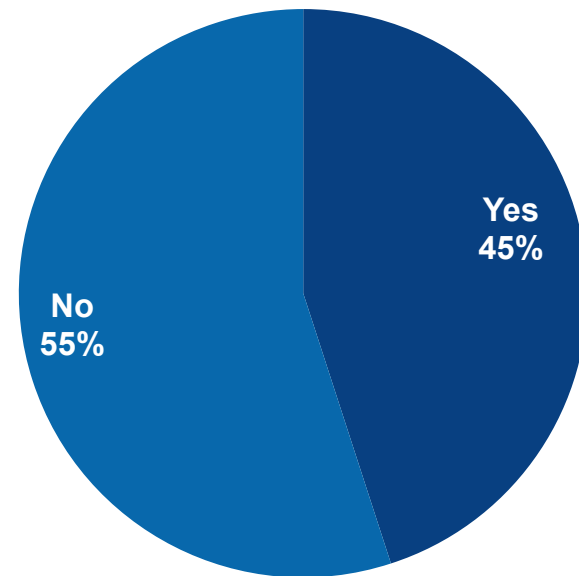
OEDD – OUTGOING RFIS

90% of international and domestic banks have issued Rfis

International banks that have taken actions



Domestic banks that have taken actions



OEDD – OUTGOING RFIS

Testing respondent's ML/TF risk appetite and framework

- All questions can be asked
 - But not all can be answered (GDPR, bank secrecy)
- Responses to be carefully assessed
- Aggregate at respondent level
- Include in OEDD7consolidate in ledger
- Concerns -> compliance call/meeting
- STR/SAR/UAR filing on respondent itself

Unproportionate number of Rfls/unsatisfactory responses are triggers that may jeopardize the COBA relationship

OEDD – MATERIAL ADVERSE MEDIA – CASE

DNB Bank

At an AML/CFT inspection in DNB Bank in 2016 the Norwegian supervisor concluded that the bank's AML/CFT framework suffered from material deficiencies in governance, risk assessment, TM and COBA KYC.

In 2018, at a follow-up inspection, the NFSA concluded that improvements were dissatisfying and insignificant.

In 2020, NFSA performed a targeted inspection based on documents published in 2019 by Wikileaks.

The leak concerned the large, Icelandic fishing company Samherji, paying bribes to representatives of Namibian authorities to unrightfully obtaining valuable fishing quota.

The bribes were paid through accounts in DNB Bank and so were the following profits from the illegally obtained fishing activities.

OEDD – DOWNSTREAMING/TM – EXAMPLE

Santander has been fined £107.7m over "serious and persistent gaps" in its anti-money laundering controls which opened the door to "financial crime".

The financial watchdog said the bank "failed to properly oversee and manage" systems aimed at verifying information provided by business customers.

Santander also failed to properly monitor the money customers had going through their accounts.

[...]

The FCA said that in one case, a new customer opened an account as a small translations business with expected monthly deposits of £5,000. Within six months it was receiving millions in deposits, and swiftly transferring the money to separate accounts.



Failure to detect customer acting as a PSP

OEDD — PSP - EXAMPLES

- Bulk payments to other banks (indirect payments)?
- Direct payments to beneficiaries (merchants)
 - Originators not visible (card holders)
- Targeted TM system or data analysis?
- Sample testing - detailed RfIs
 - Websites and addresses (shops/merchants)
 - Beneficial owners
 - Risk classification
 - Overrides
- Compare with stated risk appetite
- Compliance calls/meetings/visits
 - Testing risk understanding and AML/CFT controls

OEDD — GEOGRAPHY- EXAMPLES

- Changes in country risk classification
- Development of new conflict zones
- New business in/with high-risk countries?
 - Subsidiaries/branches
 - Transaction flows/TM reports (aggregated)
 - Currencies
 - Beneficiaries/originators
 - *Downstreaming (additional countries?)*
- Investigate and interrogate
- Decision about expected, future transaction flow:
 - Update agreement
 - Permit
 - Restrict/prohibit



INCREASED LEVEL OF RISK

Next move?



STRICTER CONTROLS – ALTERNATIVES TO DE-RISKING

- Closer monitoring of transactions and enhanced investigations
- Inclusion in watchlists/alert systems (if legally possible)
- Extended use of RfIs
- Restrictions on payment messages or authorized transactions/transaction types
 - Update written agreement
- Increased frequency of reviews and deeper investigations
 - Reassessment of financial crime frameworks
- Compliance calls or site visits
- Restriction of services/termination of customer relationship
 - Update written agreement to reflect changes

Highlight:

Collaboration and communication between internal departments and with respondent banks is crucial for implementing and maintaining stricter controls

WRITTEN AGREEMENTS – COMPONENTS - EXAMPLES

- Purpose and nature, products and services
 - Markets, Trade Finance, cross-border transactions, sub-custody, etc.
 - Volumes/values/currencies
 - Countries/geography
 - Permitted/restricted
- Obligations
 - Sanctions screening/PEP screening
 - SWIFT transaction transparency rules
- Response to (RfIs)
 - Expected lead-time
 - Potential legal limitations (e.g. GDPR, bank secrecy)
- Potential consequences
 - Restrictions (customers, countries, products, services)
- Duration and update of agreement (frequency, potential triggers)



COLLABORATION RESPONDENT/CORRESPONDENT - EXAMPLES

- Open and cooperative dialogue
- Proactive approach
 - Cases, triggers, regulatory actions
- Clarity and honesty
- Common understanding of risk appetite
- Written agreements to document

BUILD TRUST



EU PROJECT ON MONEY LAUNDERING AND CORRESPONDENT BANKING

Transaction Monitoring

TRANSACTION MONITORING - PURPOSE

Test respondent's
AML/CFT controls and risk
appetite

Detect and report unusual or
suspicious behaviour



Approx. 90% of all banks have an
automated COBA transaction
monitoring tool

TRANSACTION MONITORING/SCREENING – TIMING - EXAMPLES

Real-time (screening)

Pre-transaction Rfl

- Wire stripping
- Sanctions lists
- PEP lists
- Black lists
- HR country list

Retrospective

Post-transaction Rfl

Detection scenarios
Thresholds
Individual specifics

COBA TM RISK FACTORS/PARAMETERS - EXAMPLES

Countries

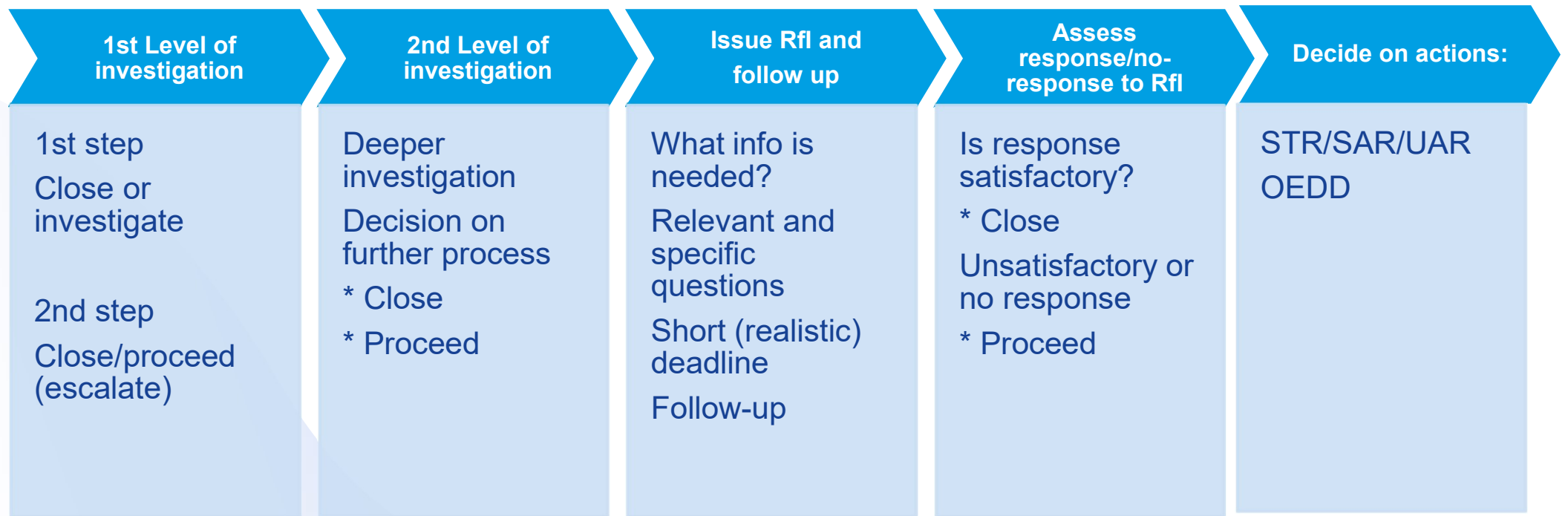
Currencies

Counterparties

Payable-through
activities

Downstreaming/nesting
activities

TM ALERTS – PROCESS - EXAMPLE



TM TYPOLOGIES – COUNTERPARTIES/LOCATION - EXAMPLES

Beneficiary/beneficiary bank not in same country

Originator/originating bank not in same country

Beneficiary/originator with multiple addresses

Multiple beneficiaries/originators on same address

Beneficiary receiving transactions from high-risk country/area

Originator sending to high-risk country/area

TM ALERT – “ROUND AMOUNTS”



Respondent's customer



Respondent



Correspondent

SWIFT messages: Several round amounts (USD/EUR)

Purpose of payments: Cups, utensils

TM ALERT – “ROUND AMOUNTS”



Respondent's
customer



Respondent



Correspondent

- Investigation of originator (public sources):
 - Relatively newly established domestic bakery/cafe
 - Beneficial owner registered
 - No adverse media

TM ALERT – “ROUND AMOUNTS”



Respondent's
customer



Respondent



Correspondent

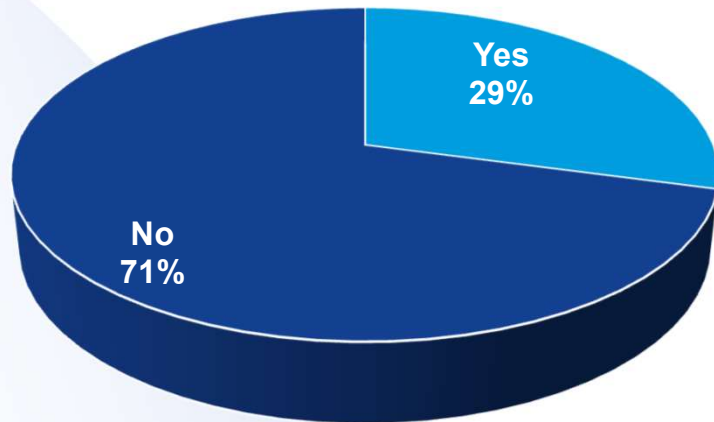
- Investigation of beneficiaries (public sources):
 - Corporate companies
 - Anonymous (OSINT - no websites)
 - Various countries
 - No Adverse Media

Alert cannot be invalidated – suspected organised money laundering – RfI issued to respondent

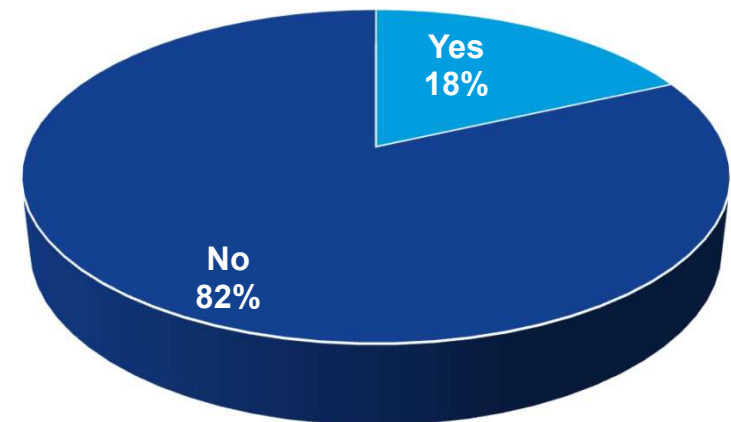
INCOMING REQUESTS FOR INFORMATION (RFIS)

INCOMING RFIS - CONSEQUENCES

International banks that have experienced risk mitigating actions



Domestic banks that have experienced risk mitigating actions



INCOMING RFI - CONFLICTS OF INTEREST - CONSIDERATIONS

Rfi is acid testing of

- Risk appetite
- Efficiency of AML/CFT framework
- Response to (previous) COBA KYC performed by inquirer

Potential consequences

- Customer(s) can no longer send/receive cross-border transactions
 - May also be blocked in other banks in payment chain
- Cooperation between CRU and COBA Unit suffers
- Unproportionate number of Rfis may jeopardize COBA relationship
- COBA may file STR/SAR/UAR on bank itself for non-compliance

INCOMING RFI - REPLY - GOVERNANCE

- One point of entry?
- Who is responsible for responding?
- Quality assurance?

- Does the Rfi indicate that your customer is using the relationship in other ways than agreed and anticipated?

- Event triggered OEDD
 - Revisit KYC documentation
 - Further investigate transaction activities
 - Re-assess risk profile and update risk rating
 - Evaluate if activities are suspicious/unusual and file report to FIU
 - Decide on relationship
 - Limit products and services
 - Communicate with correspondent!



CONFLICTS OF INTEREST – COBA “VS” CRU



Who has powers to act?

- * Escalation channel/process
- * Involvement of 2nd line?
- * OEDD
- * STR/SAR/UAR filing
- * Risk classification
- * Restrictions on customer activity
- * (Potentially) offboarding

Awareness in other CRUs



RESPONDING TO RFIS — GOVERNANCE - EXAMPLES

Rfis handled by a specialised unit

- 1st Line or 2nd Line

Incoming Rfis are consolidated in ledgers

- Oversight
- Identification of potential internal issues

Responses are subject to quality assurance

- Unified approach: responses/wording/risk assessment

Escalation channel/process is laid down in internal guidelines

INCOMING RFIS – USE FOR OWN PURPOSES/OVERVIEW - EXAMPLE

Consolidation of incoming Rfls

- Inquirer's risk appetite/tolerance
- Customer/activity characteristics, CRUs
- Is there reason for concern?

Compliance

- Triggered monitoring to evaluate if business complies with risk appetite and AML/CFT controls
- Identify and assess if/which control components are inadequate
- Report (management, BoD) and assess needs for updating internal guidelines
- Revisit organisational set-up if deemed necessary

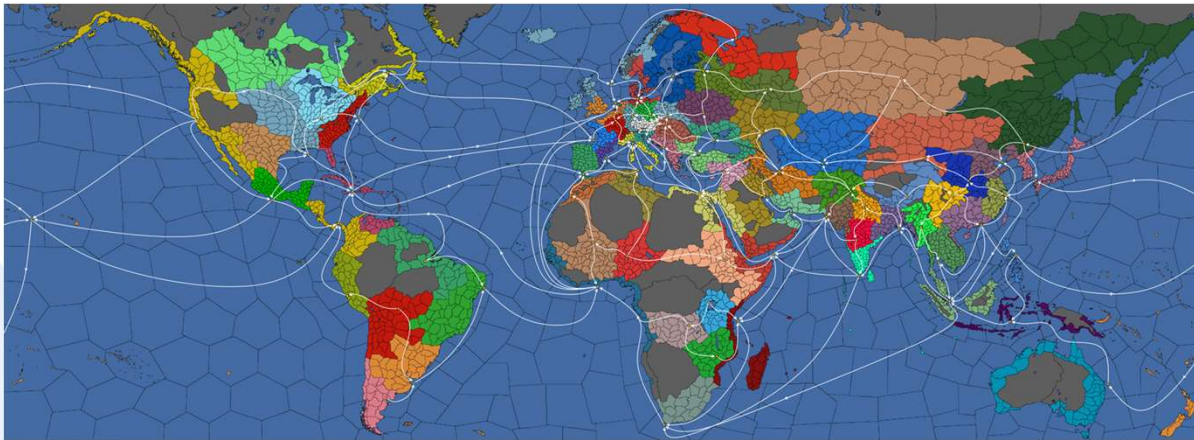
TM — FURTHER INVESTIGATIONS — EXAMPLES

- **Triggered investigations of transaction flows**
 - Support ODD/OEDD process
 - Adverse Media on respondent
 - Regulatory actions against respondent
 - SARs/STRs/UARs involving respondent
- **Thematic transaction reviews**
 - Frequent/triggered
 - Specific entities, counterparties, patterns
 - Adverse Media, country risk,

Triggered and thematic investigations conducted on specific data extracts etc.

TM - COUNTRIES - CHANGES IN TRANSACTION PATTERNS

Awareness of geo-political situation and sanctions that may change trade patterns

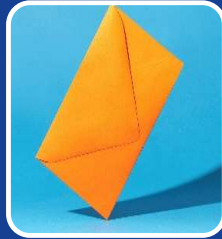


- Countries of origin/destination
- Routing
- Currency



Unusual and suspicious transaction reporting

PRESENTATION HIGHLIGHTS



COBA-related
STR/SARs



COBA STR/SAR
content



Case studies

COBA-RELATED STRS/SARS

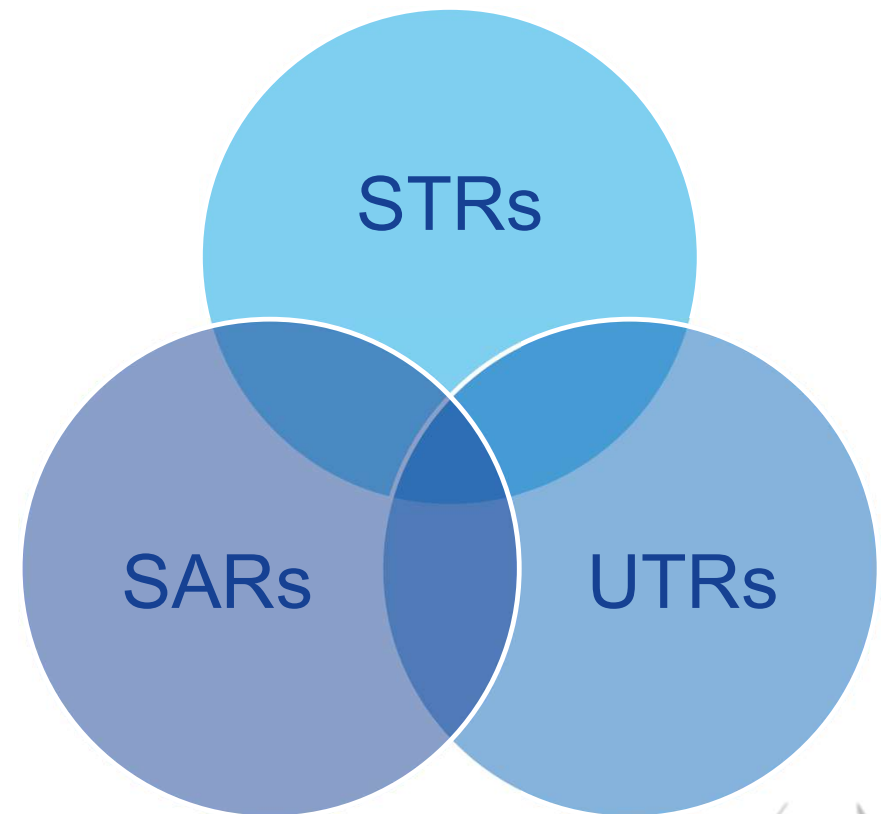
The three reporting models cannot be considered clearly separated – it all depends on the meaning given to them in domestic legislation.

A jurisdiction can have more than one model in place.

Suspicious transaction reports (STRs) are based on particular transactions

Suspicious Activity Reports (SARs) do not necessarily need to be based on a transaction, but can be reported due to the specific activity of the customer or respondent institution

Unusual transaction reports (UTRs) often have a lower threshold for reporting than other disclosures based on automated identification of risk indicators.



COBA-RELATED STRS/SARS

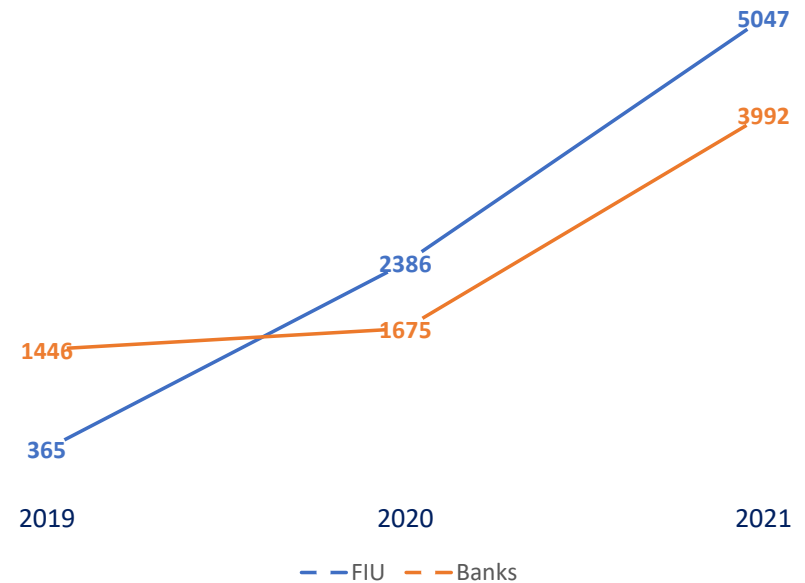
FIUs report receiving relatively low numbers of STRs/SARs concerning correspondent banking relationships ~ 0.14% of all reports.

The perceived low number of COBA-related STRs/SARs may be caused by the lack of specific statistics in this regard.

STRs/SARs concerning correspondent relationships are most often not distinguished from other STRs/SARs received from financial institutions.

Although Banks and FIUs highlighted different numbers, in both cases a general upward trend is identified.

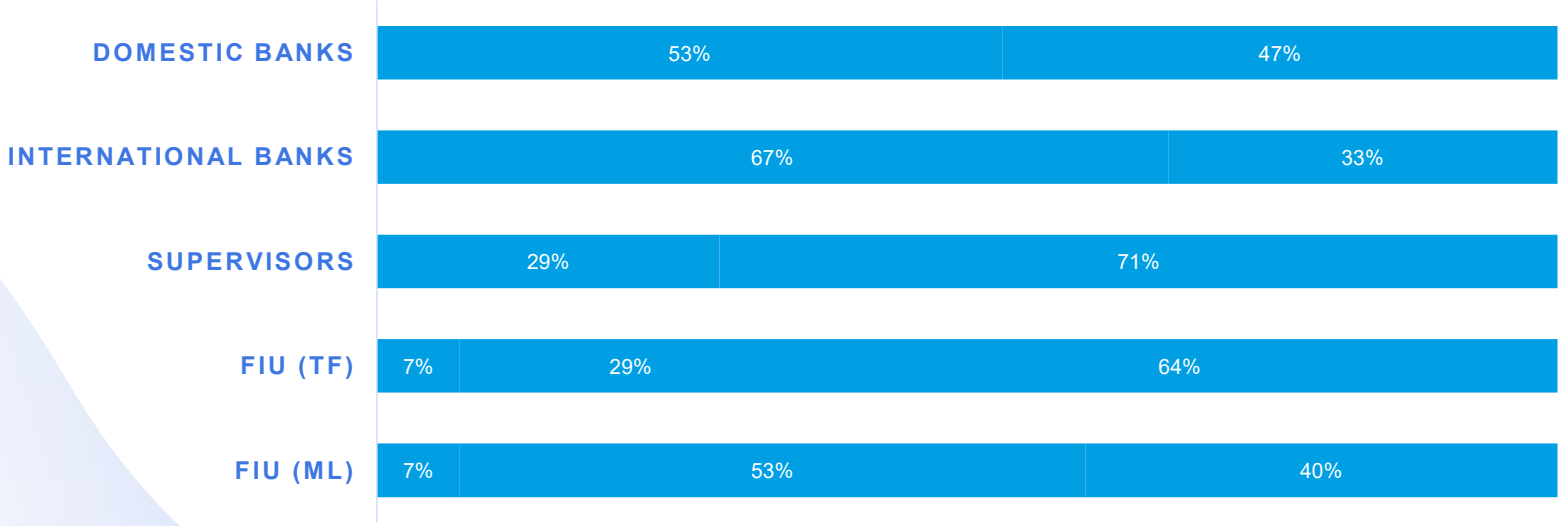
NUMBER OF COBA RELATED STRS/SARS (SURVEY)



COBA-RELATED STRS/SARS

COBA ML/TF RISK PERCEPTION

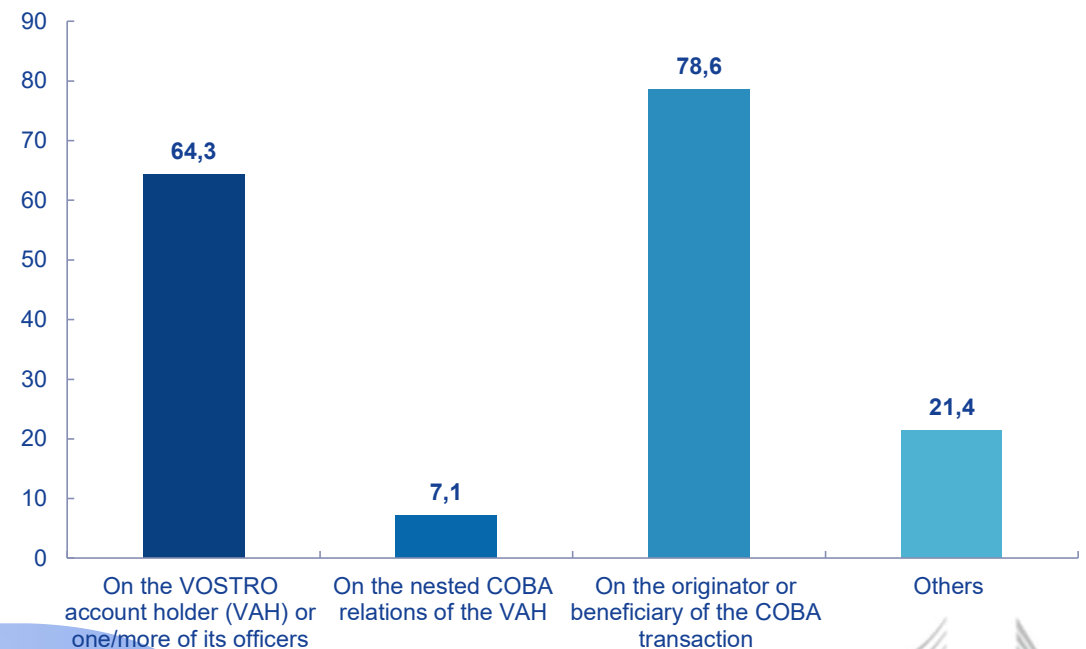
■ High ■ Medium ■ Low



COBA-RELATED STRS/SARS

- 96% of COBA-related STRs/SARs relate to ML with only a very small percentage (1%) relate to TF.
- Most reports focus on either the originator or beneficiary of transaction executed in the context of a correspondent relationship or the respondent (Vostro account holder)

Type of underlying suspicious activity in received COBA-related STRs/SARs



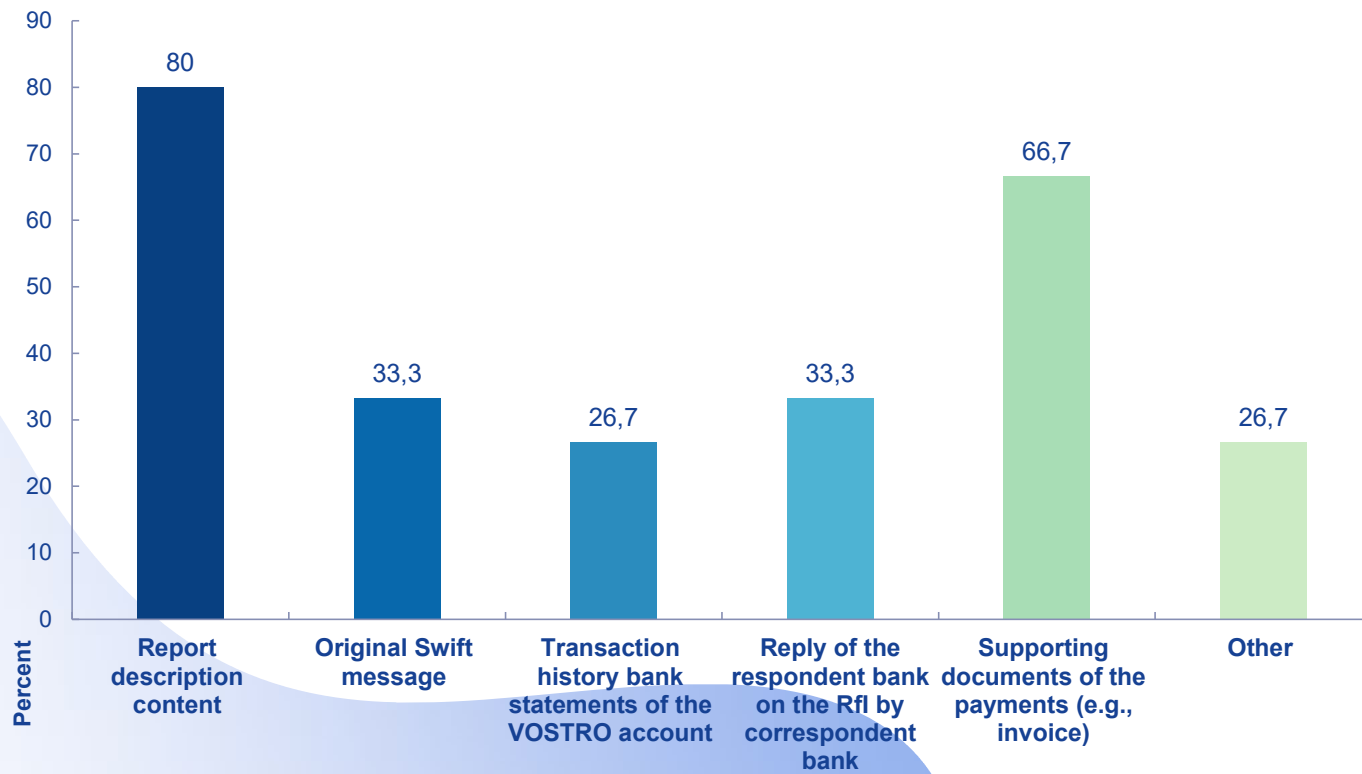
COBA-RELATED STR/SAR CONTENT

Key considerations for a good quality COBA-related STR/SAR:

- The relevant data of the parties has to be complete to the extent possible.
- The role of all the parties involved in the payment chain has to be clear.
- The narrative must (depending on domestic legislation) provide a compact overview of the potential ML/TF suspicion identified by the reporting entity or fulfilled ML/TF risk indicators
- The STR/SAR should take into account the results of the information exchange (RFIs) between the correspondent and respondent.
- The STR/SAR needs to be filed in a timely manner

COBA-RELATED STR/SAR CONTENT

Type of data received in COBA-related STRs/SARs



COBA-RELATED STR/SAR CONTENT

STR/SAR filing challenges highlighted by Banks:

- Investigation of transaction monitoring alerts and requests for information processes is time-consuming.
- Information gathering on third-parties difficult (e.g., no UBO registers, conflicting legislation, i.e., bank secrecy, GDPR).
- Reliance on the respondent's reply and information.
- No detailed reporting standards/requirements/guidelines (data, documentation, descriptions, language, investigations prior to reporting).

COBA-RELATED STR/SAR CONTENT

Challenges with analysing COBA-related STRs/SARs highlighted by FIUs:

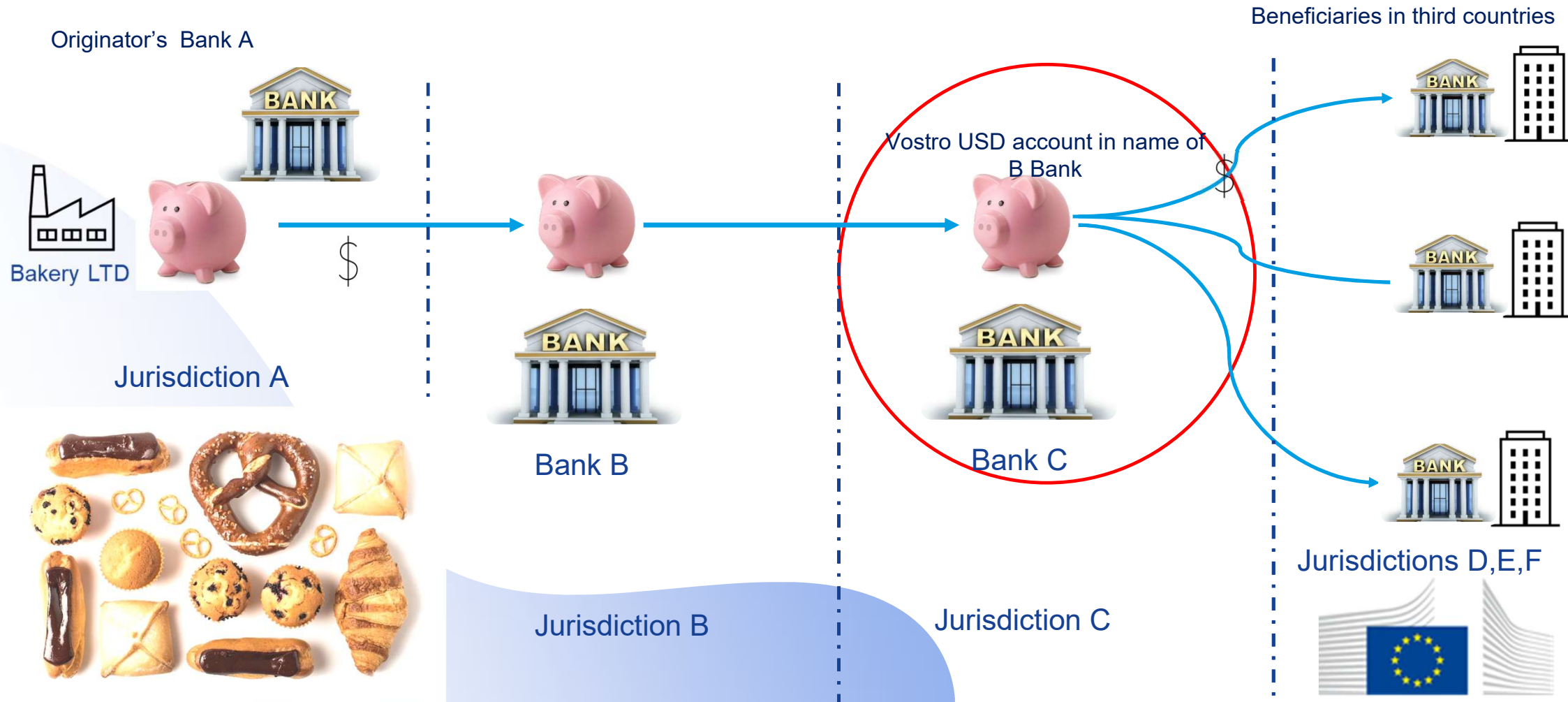
- Heterogeneous and varying forms of data and information in STRs, requiring extensive data preparation and normalization before analysis.
- Challenges in obtaining relevant STRs/SARs, particularly related to terrorist financing, and gathering information on foreign persons and entities.
- Difficulty in estimating the overall quality of reports and incomplete or irrelevant data.
- STRs that do not contain a basic analysis of the domestic/international origin or use of declared funds.

CASE STUDIES



CASE STUDIES

BAKERY CASE



CASE STUDIES

BAKERY CASE

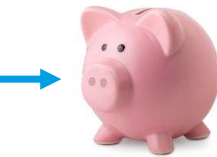


Originator's Bank A



\$

Jurisdiction A



Bank B

Jurisdiction B

Vostro USD account in name of B Bank

\$



Bank C



The FIU



Transaction monitoring system triggered alerts for transaction In Bank C

In result the bank took action to investigate the transactions triggering the alerts

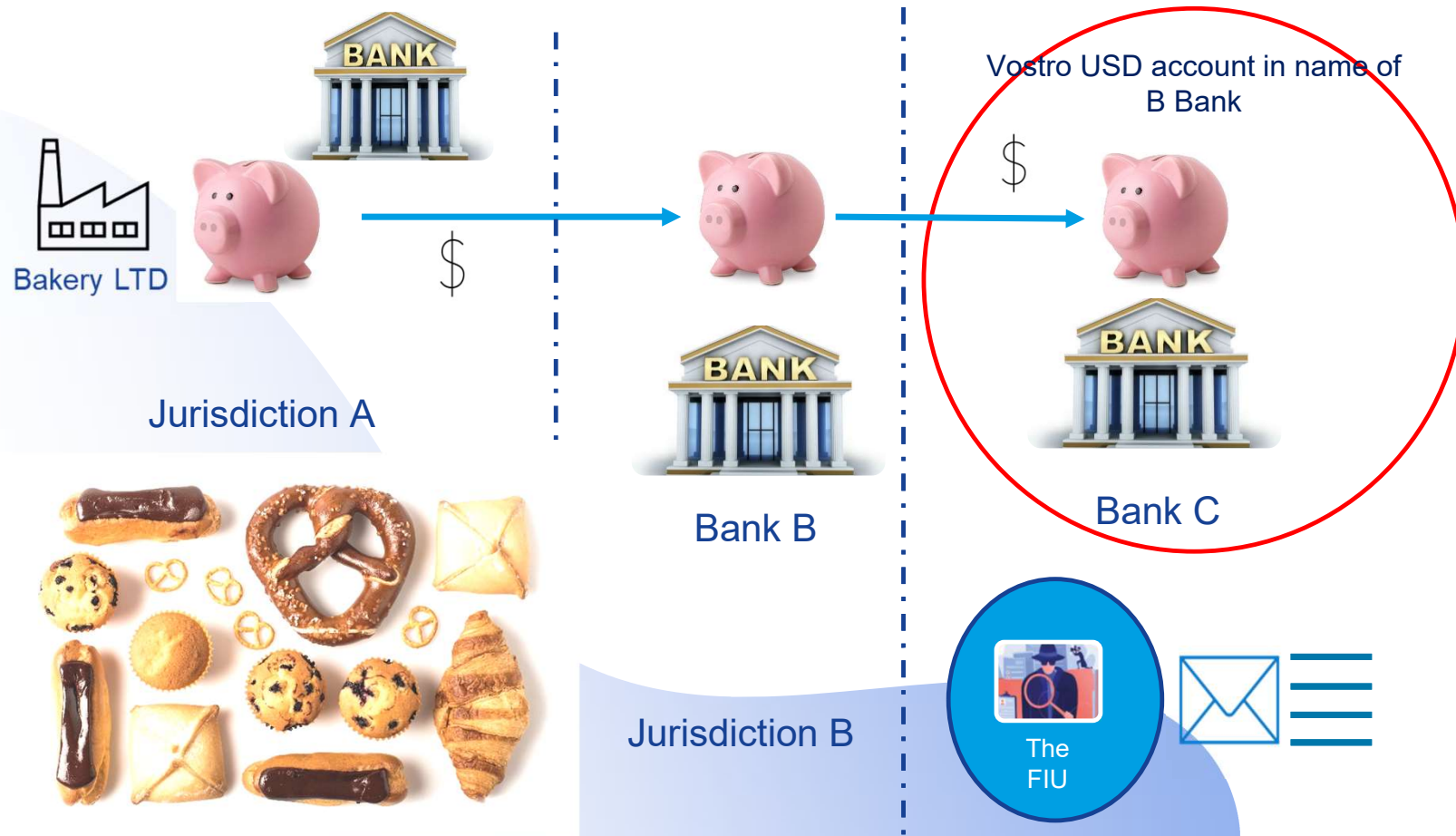
In result of the analysis, a STR concerning potential ML was filed to the FIU of country C



CASE STUDIES

BAKERY CASE

Originator's Bank A



Useful Data:

- Details on dates, value and currency of funds provided in particular transactions from originator, routing, transaction titles
- Details on originator (Bakery LTD), address, BOs,
- Details on bank accounts, BIC and name of originator,
- Details on declared field of activity of originator
- Name and BIC code of intermediary Bank B



CASE STUDIES

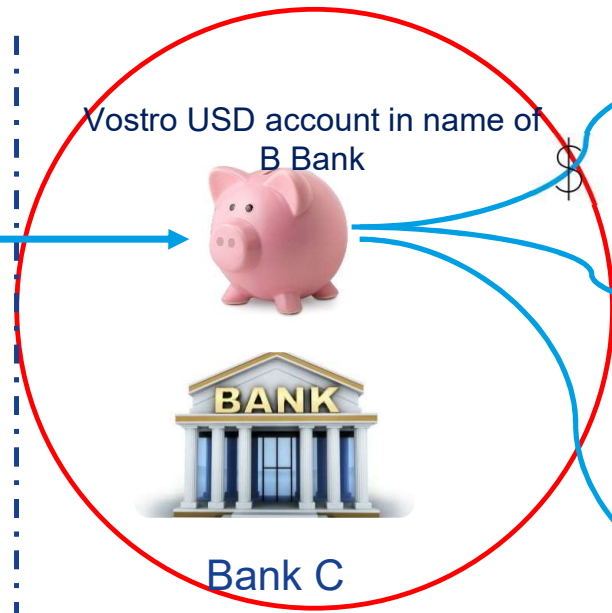
BAKERY CASE

Useful Data:

- Details on dates, value and currency of funds provided in particular transactions to beneficiaries, transaction titles
- Details on corporate beneficiaries names, address, BOs,
- Details on bank accounts, BIC and name of beneficiary banks,
- Detailed on declared field of activity of beneficiaries,



Vostro USD account in name of B Bank



Beneficiaries in third countries



Jurisdictions D,E,F

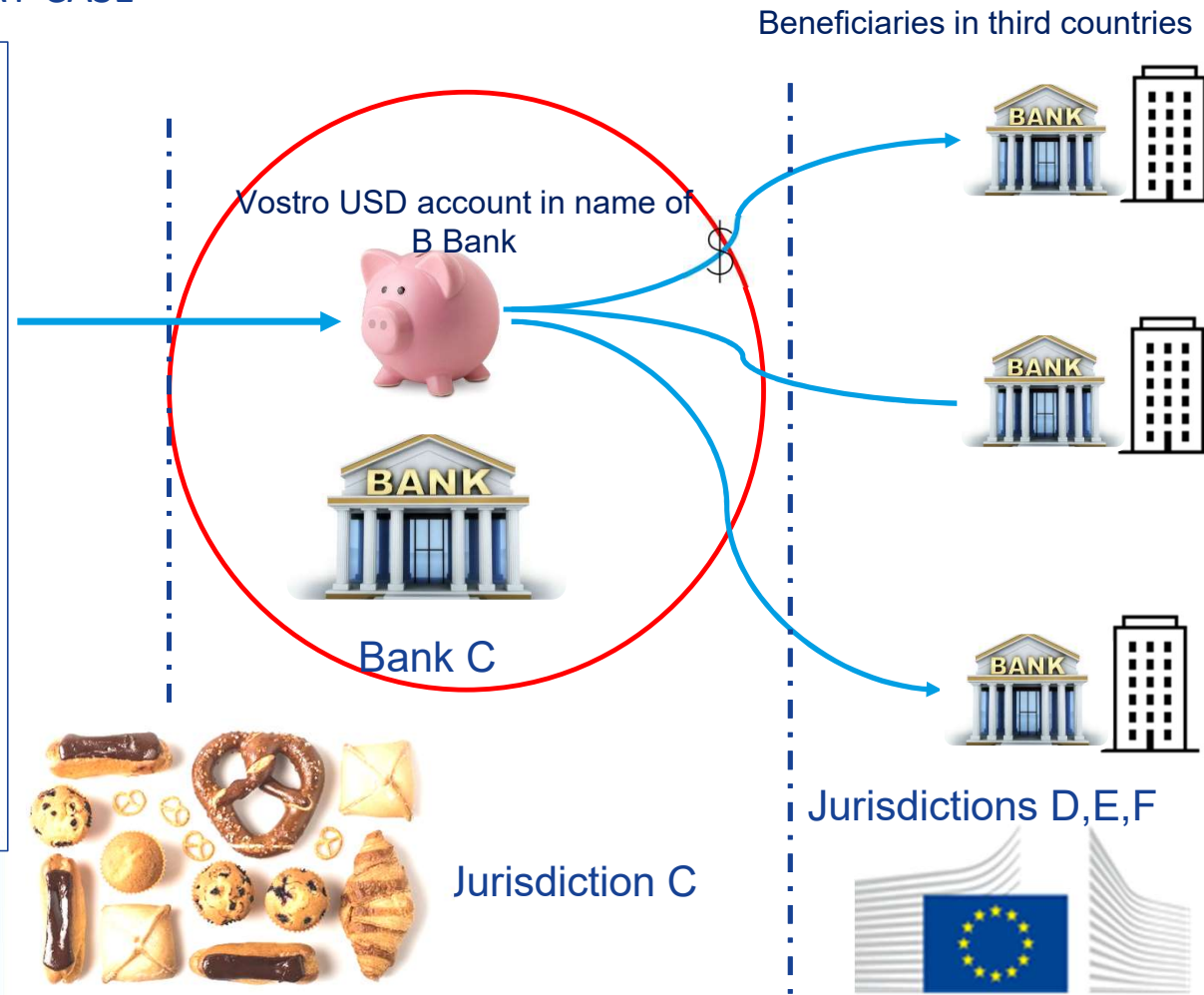


CASE STUDIES

BAKERY CASE

Examples of useful Data in the STR/SAR Narrative:

- Indication of transaction between the Bakery and beneficiaries not in the same field of business one would assume a bakery to have.
- Account of beneficiaries in different jurisdiction than the country of establishment.
- Beneficiary offices located under virtual business addresses, without physical presence, no OSINT available.
- Laconic transfer titles, *for cups, plates etc.*
- High value transfers with round sums – rarely seen in such a business.
- Transfers of high value from one originator (Bakery LTD) to numerous foreign beneficiaries.
- Absence of information on UBOs of beneficiaries.
- No websites or any visible online presence of beneficiaries.
- Invoices or any documents justifying the flow of funds and source of funds.
- Any further data obtained in the course of RFIs issued by Bank C

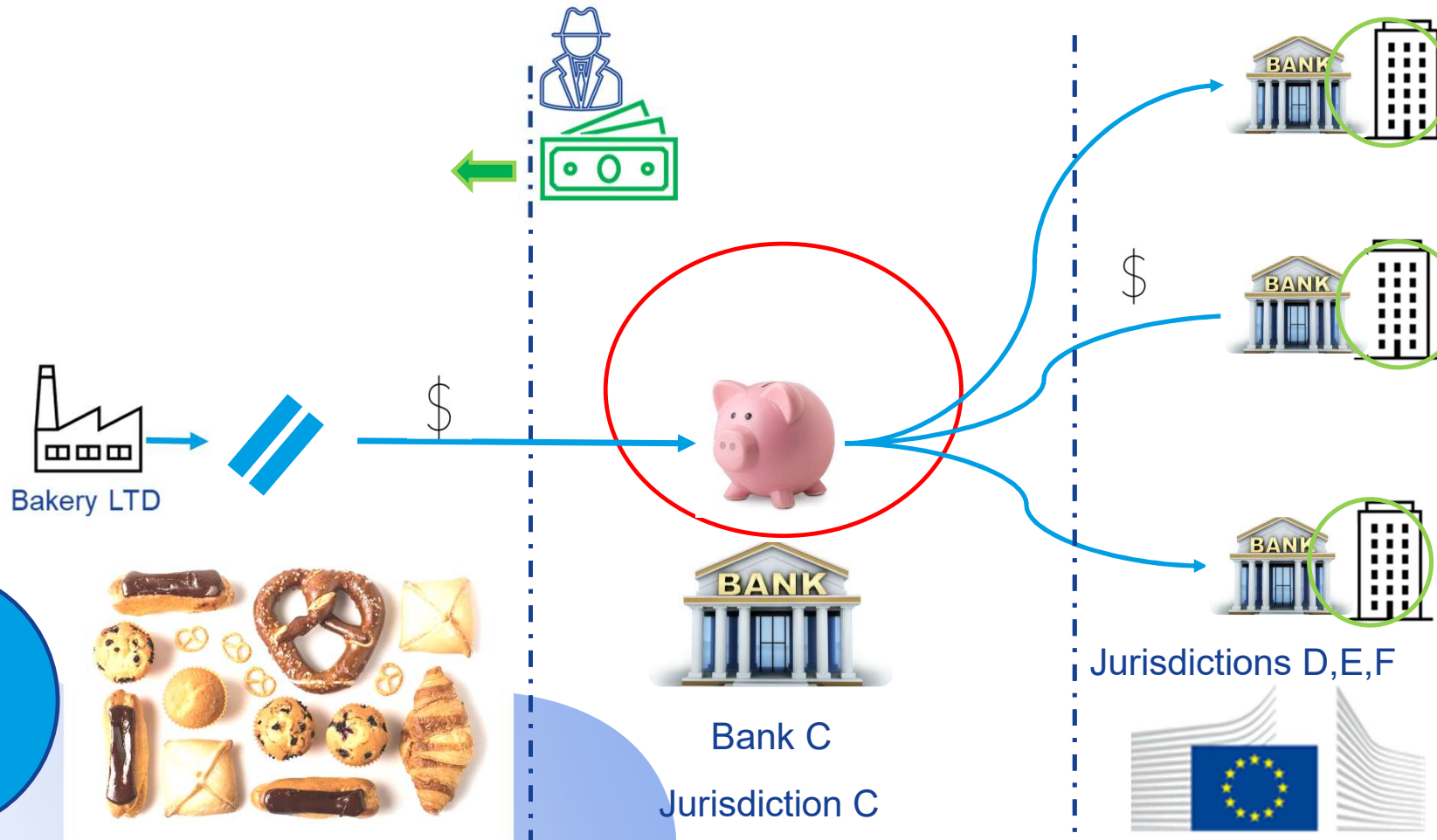


CASE STUDIES

BAKERY CASE

Check in FIU internal databases:

- Beneficiaries known as counterparties in other ML cases.
- Identified shareholder of Bakery LTD was identified as declaring cash at border when exiting country C.
- Connection to company Donut LLC established in jurisdiction C.



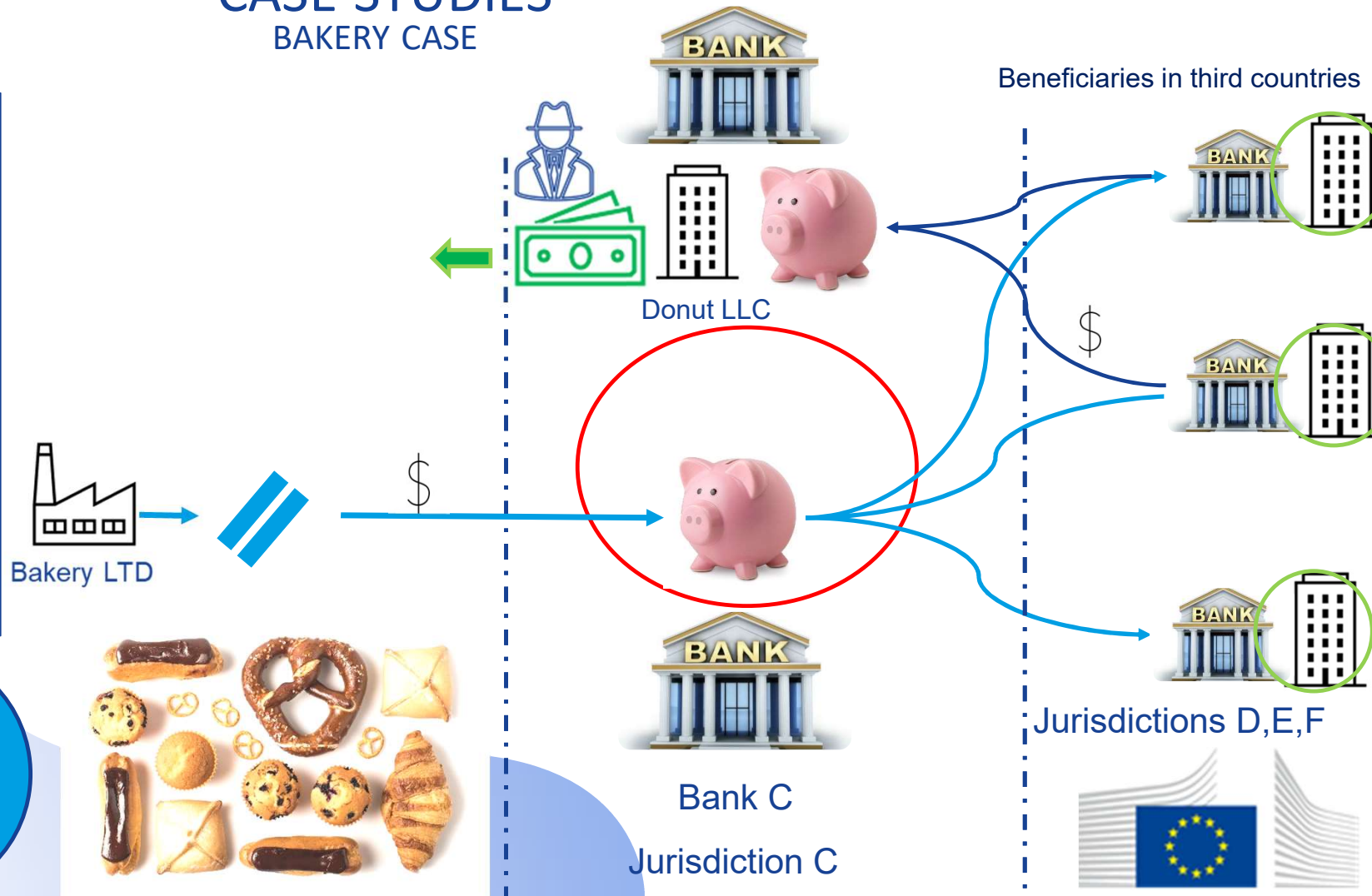
CASE STUDIES

BAKERY CASE

Gathered information (RFI to bank) on financial activity of Donut LLC indicates funds were received inter alia from beneficiaries of funds from Bakery LTD. Shareholder of Bakery LTD had access to accounts of company.

Funds received on account of Donut LLC are cashed out and taken by natural person to Country B.

Turnover on accounts of Donut LLC does not correspond with tax declarations

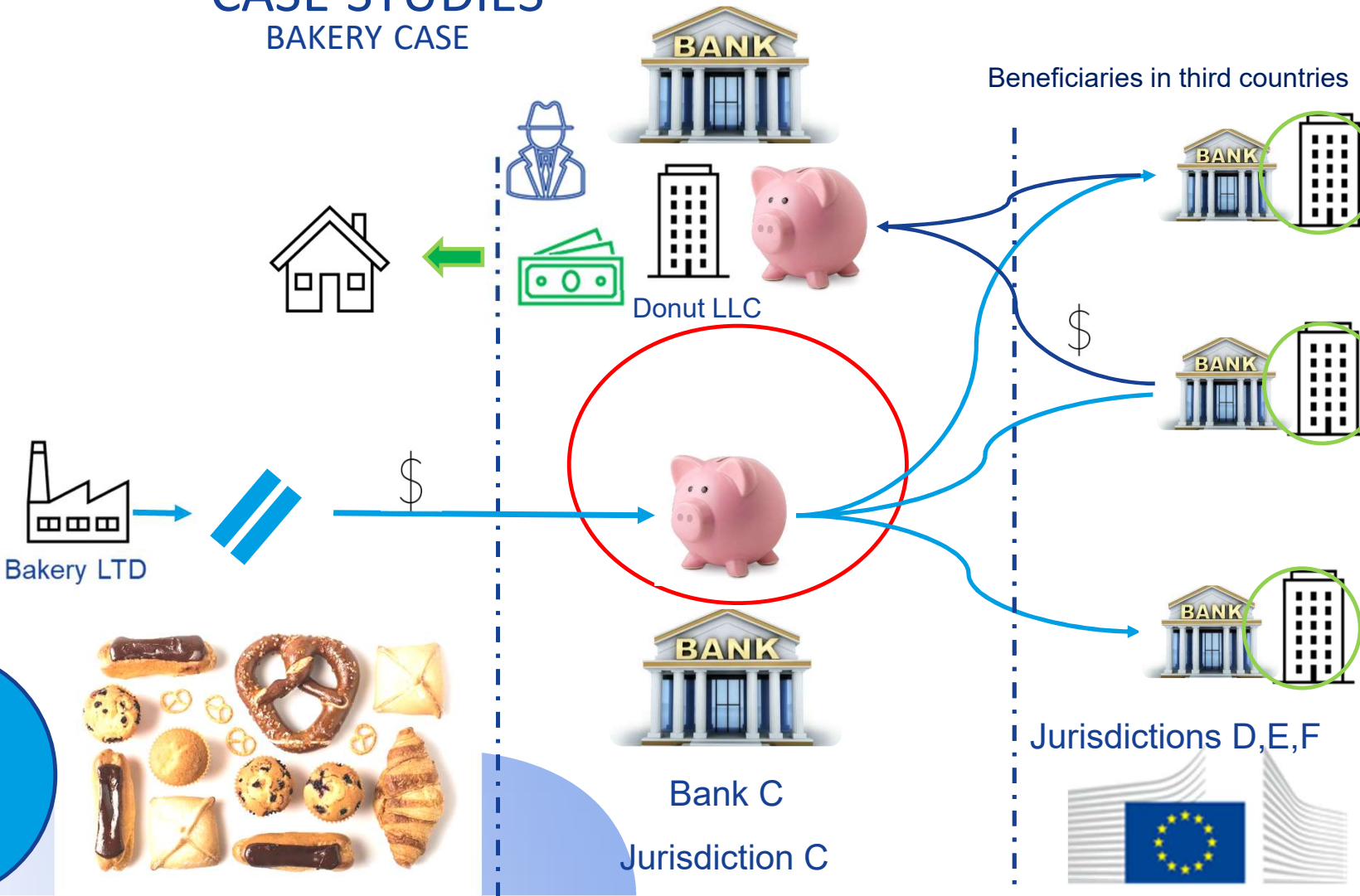


FIU sends requests for information to counterparts in Country A and Country B

- FIU B indicates the shareholder carrying cash invests in real estate in country B
- FIU A indicates that shareholder of Bakery LTD has in the past been convicted for participation in organised crime group.
- Bakery LTD has several high value cash deposits on the corporate account without a appropriate economic justification

CASE STUDIES

BAKERY CASE

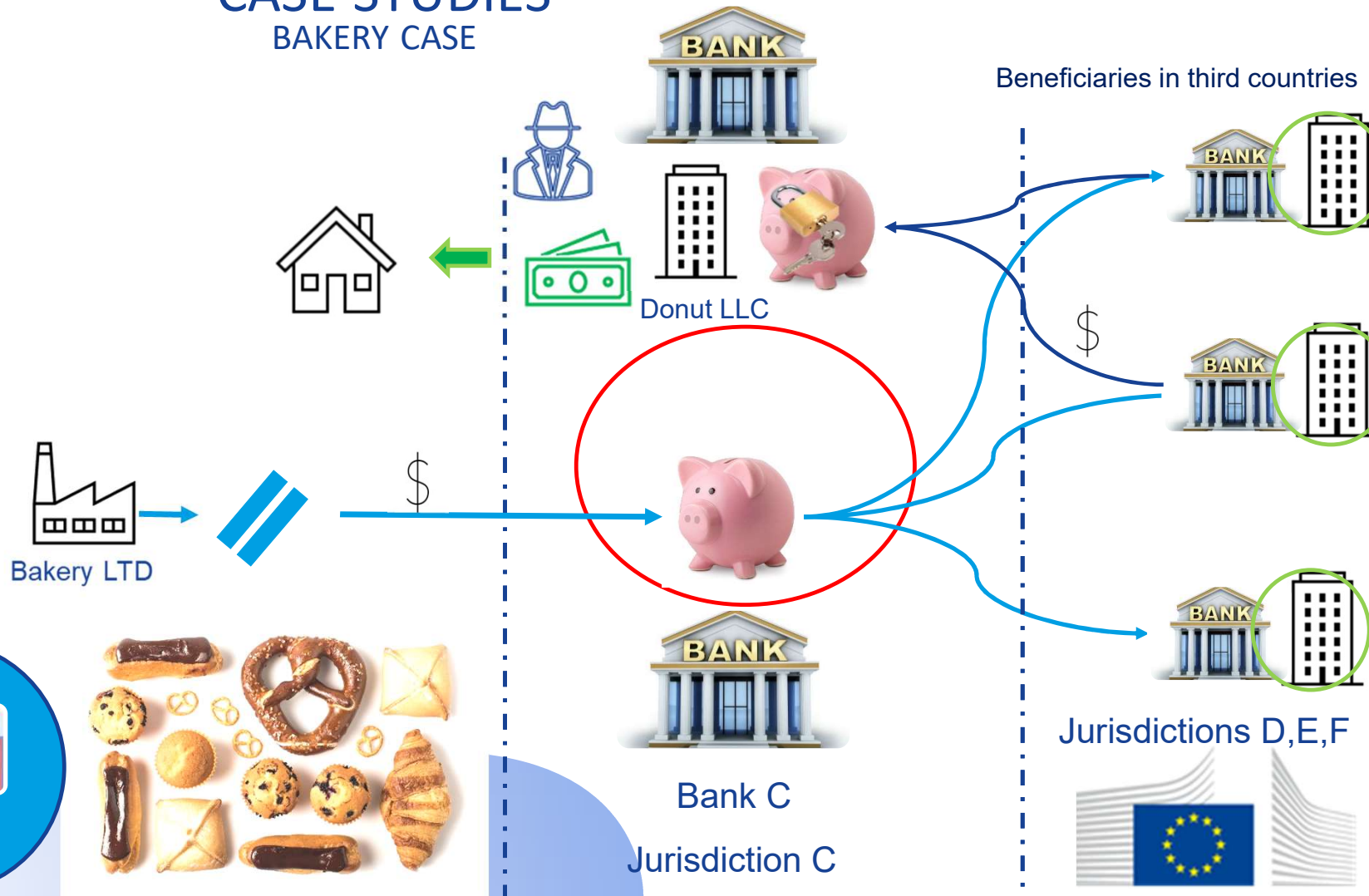


CASE STUDIES

BAKERY CASE

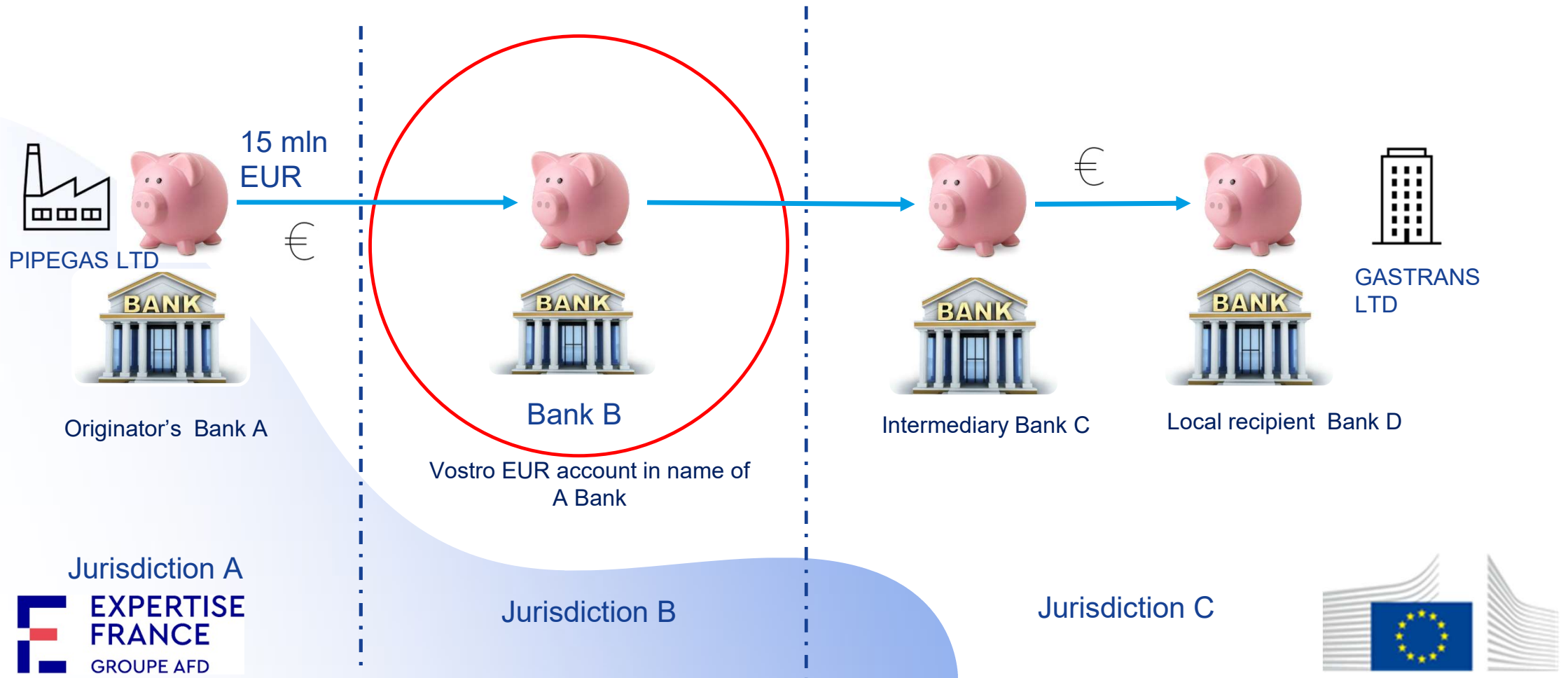
FIU requests suspending outgoing transactions on the company Donut LLC account and disseminated information on reasoned ML suspicion to LEA

FIU sends spontaneous disseminations to FIUs A and FIU B describing the ML scheme and proposing coordination between the relevant LEAs



CASE STUDIES

GAS CASE



CASE STUDIES

GAS CASE



PIPEGAS LTD
Jurisdiction A

300 000 MWh of
Gas to be provided



Prepayment for Gas
to Country A
15 mln EUR

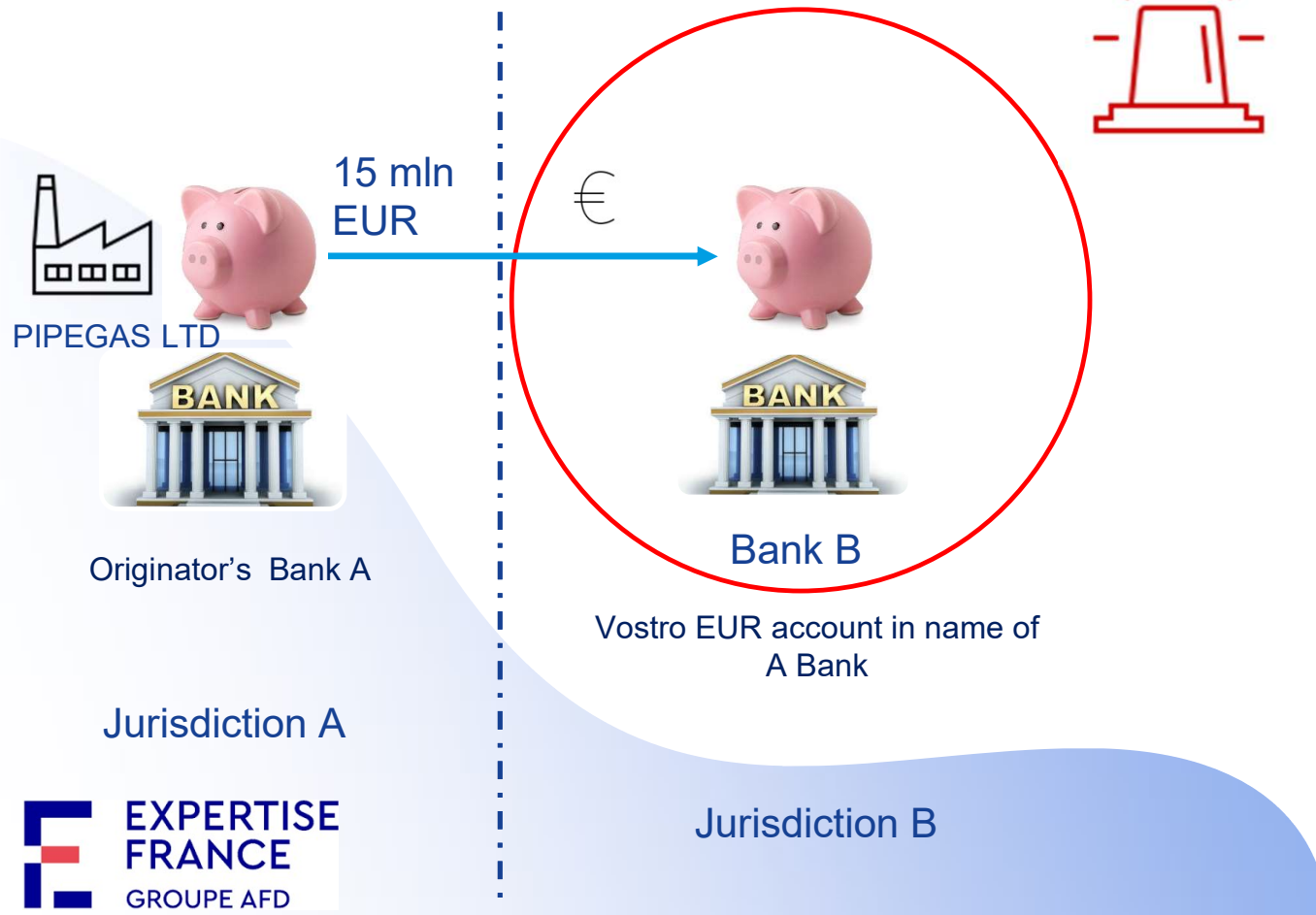


GASTRANS LTD
Jurisdiction C



CASE STUDIES

GAS CASE



Transaction monitoring system triggered alerts for transaction on 15 mln EUR in Bank B.

In result the bank took action to investigate the transaction triggering the alerts.

Internal research on both counterparties conducted:

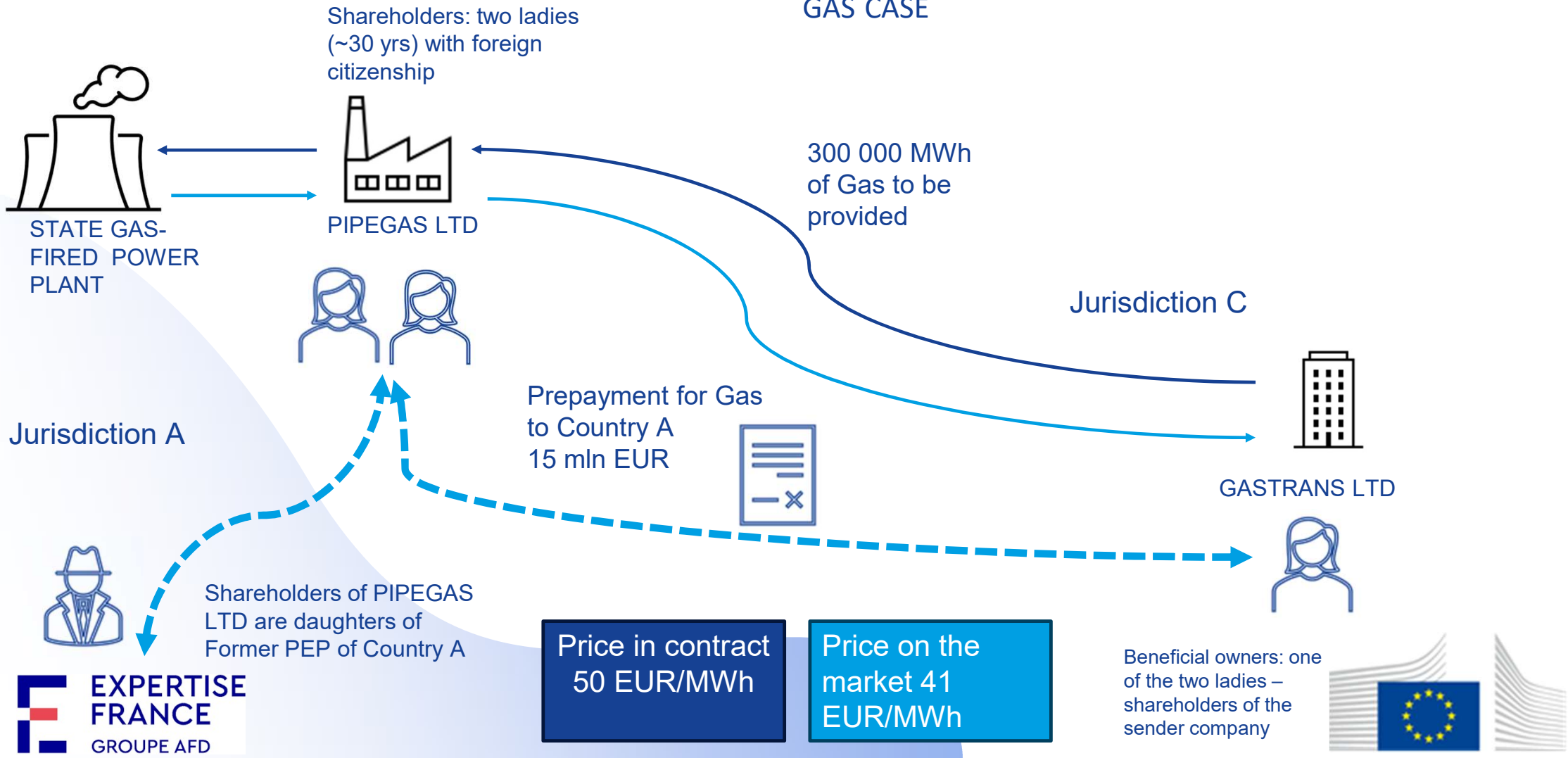
- Details from corporate/ BO registries registries
- Verification of gas prices
- Background checks in open sources
- Connections between sender and originator

RFI sent out to Bank A of originator



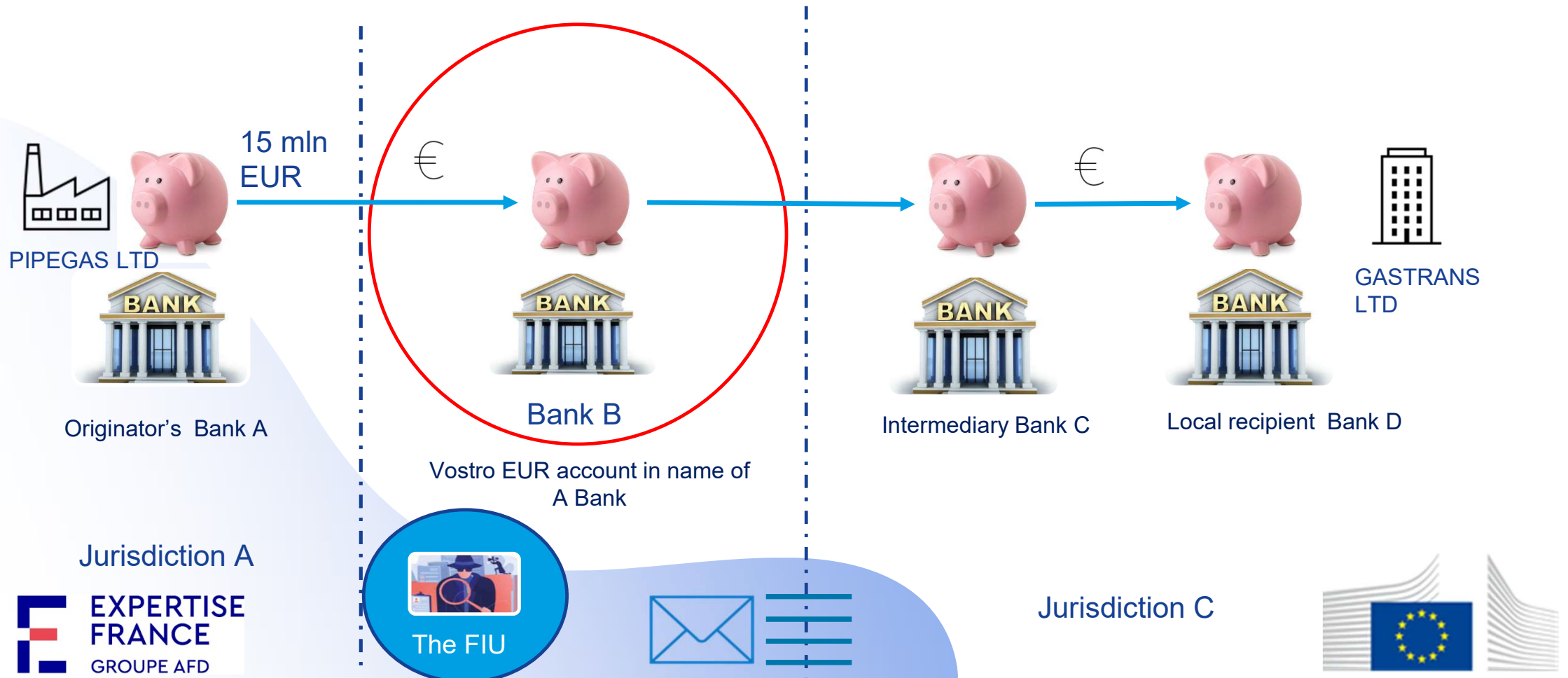
CASE STUDIES

GAS CASE



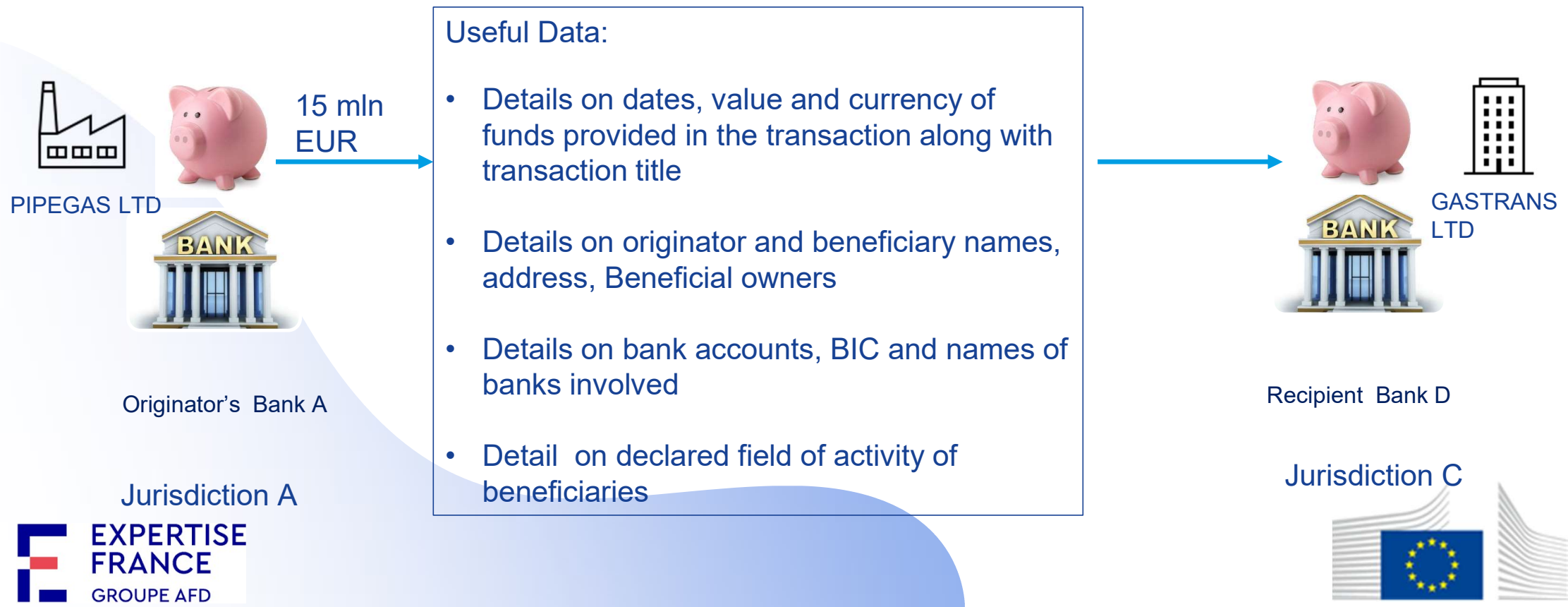
CASE STUDIES

GAS CASE



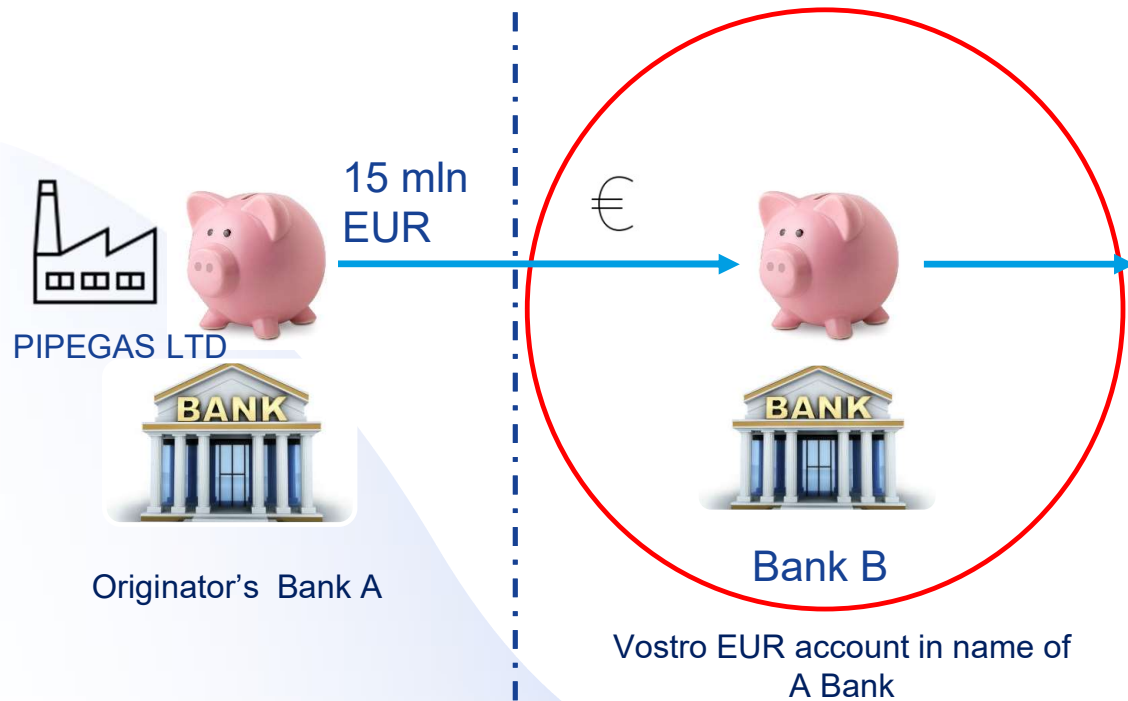
CASE STUDIES

GAS CASE



CASE STUDIES

GAS CASE



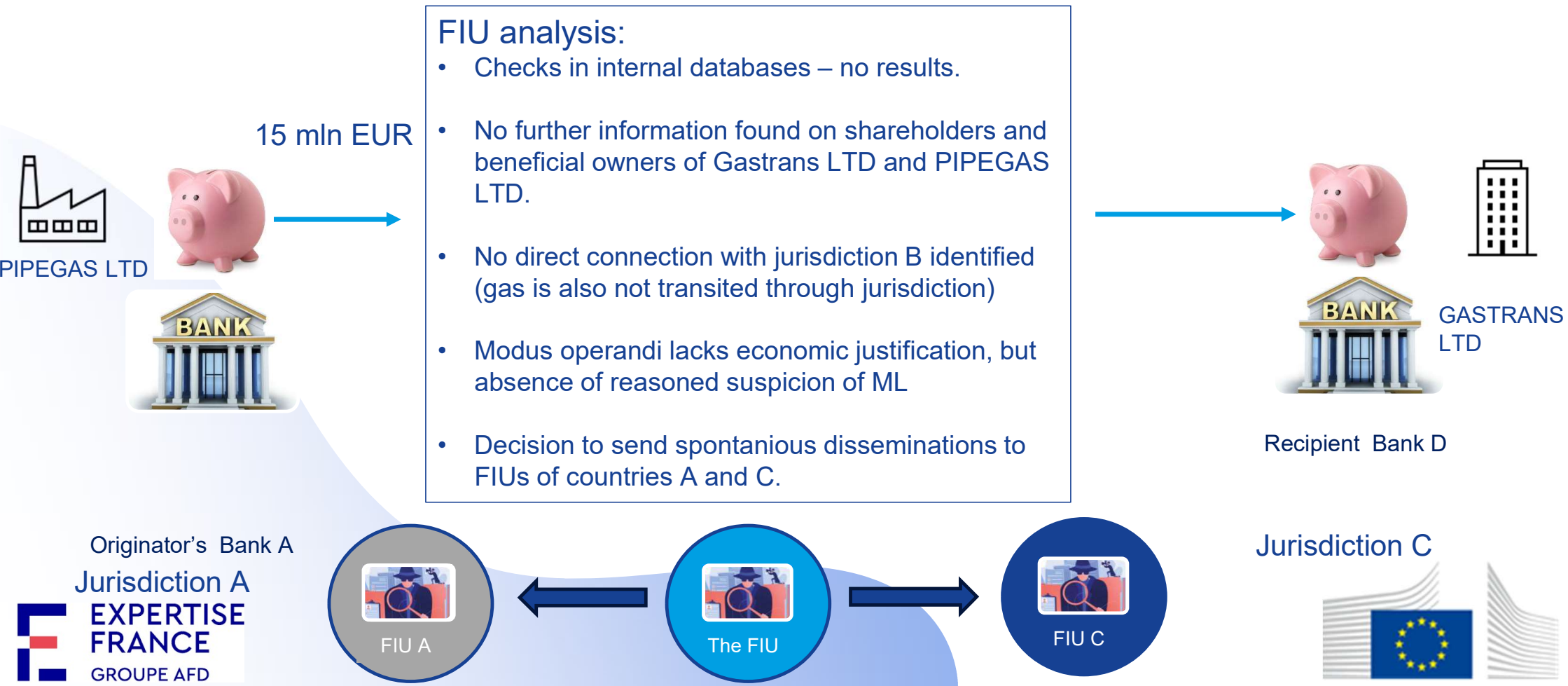
Examples of useful Data in the STR/SAR Narrative:

- Indication of transaction connection between originator and beneficiary.
- Results of research on originator and beneficiary (company analysis).
- Personal ties between originator, beneficiary and Country A former PEP.
- Unclear economic justification for transaction given the spot price in contract and market price per MWh.
- No websites or any visible online presence of beneficiary.
- Summary and documentation provided to justify transaction (contracts + invoices + gas transfer route, explanation on source of funds to purchase gas etc).
- Any further relevant data obtained in the course of RFI issued by Bank B to bank A.

Jurisdiction A

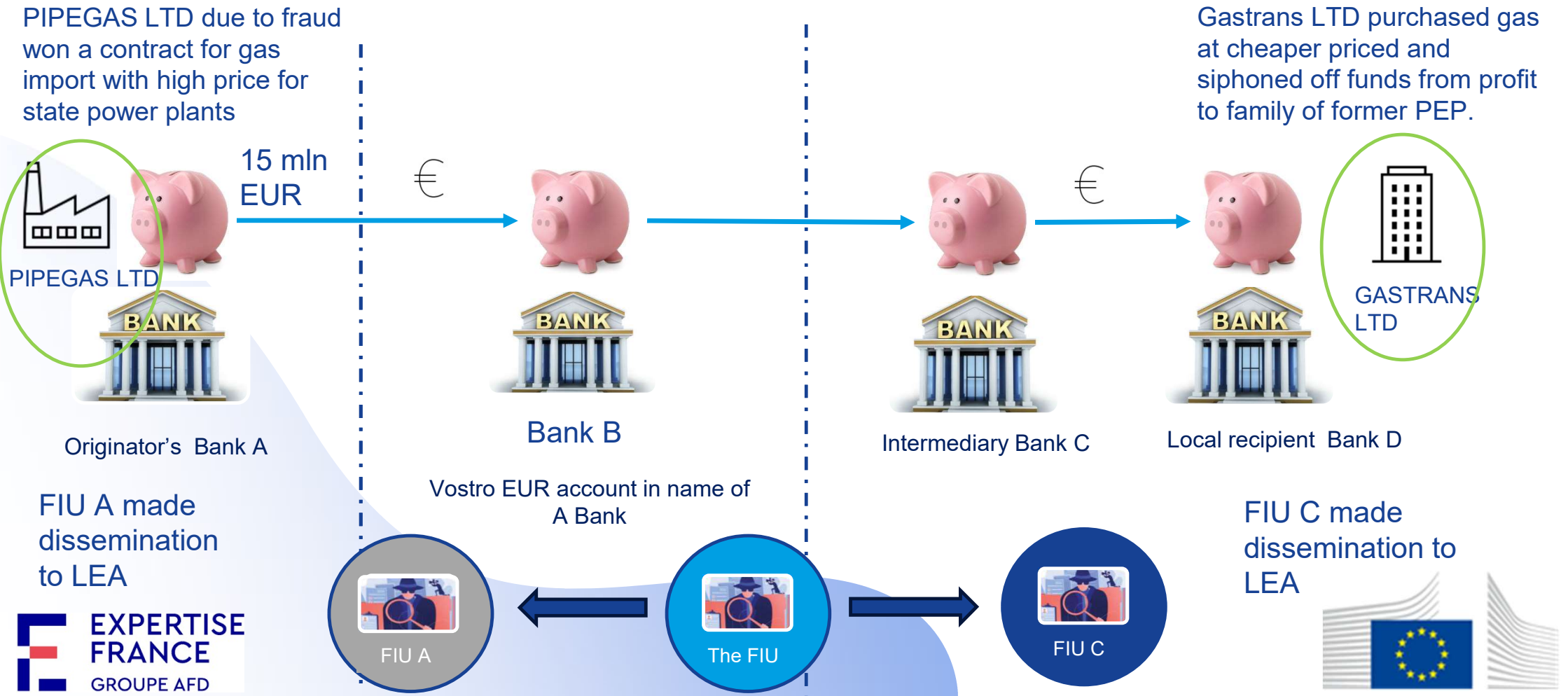
CASE STUDIES

GAS CASE



CASE STUDIES

GAS CASE



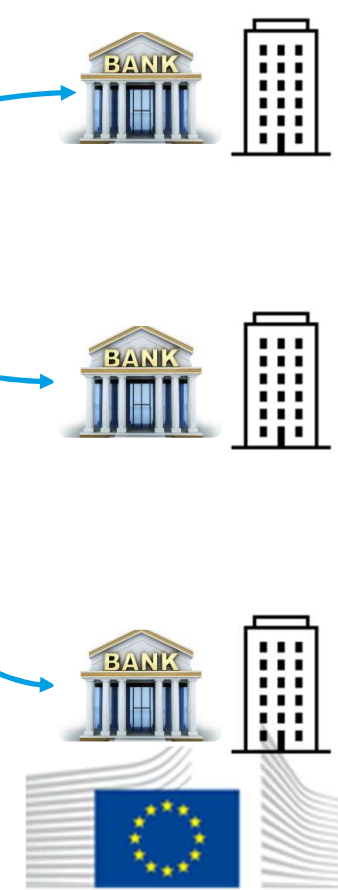
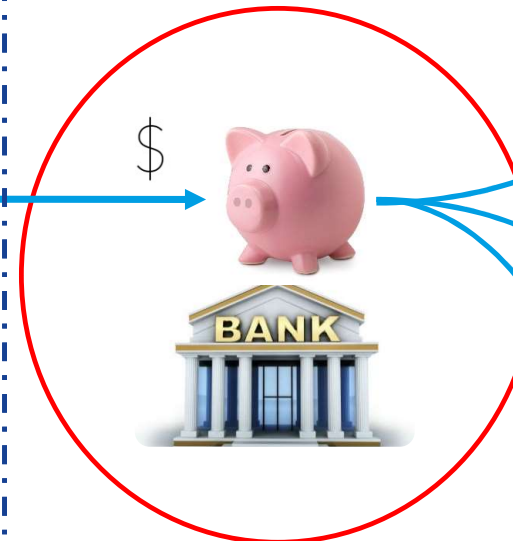
CASE STUDIES

ROGUE RESPONDENT

Bank A opened a COBA account with Bank B from another jurisdiction to settle USD transactions.

Nesting or downstreaming was not allowed according to the agreement

Expected transaction value of 300 000 USD per month

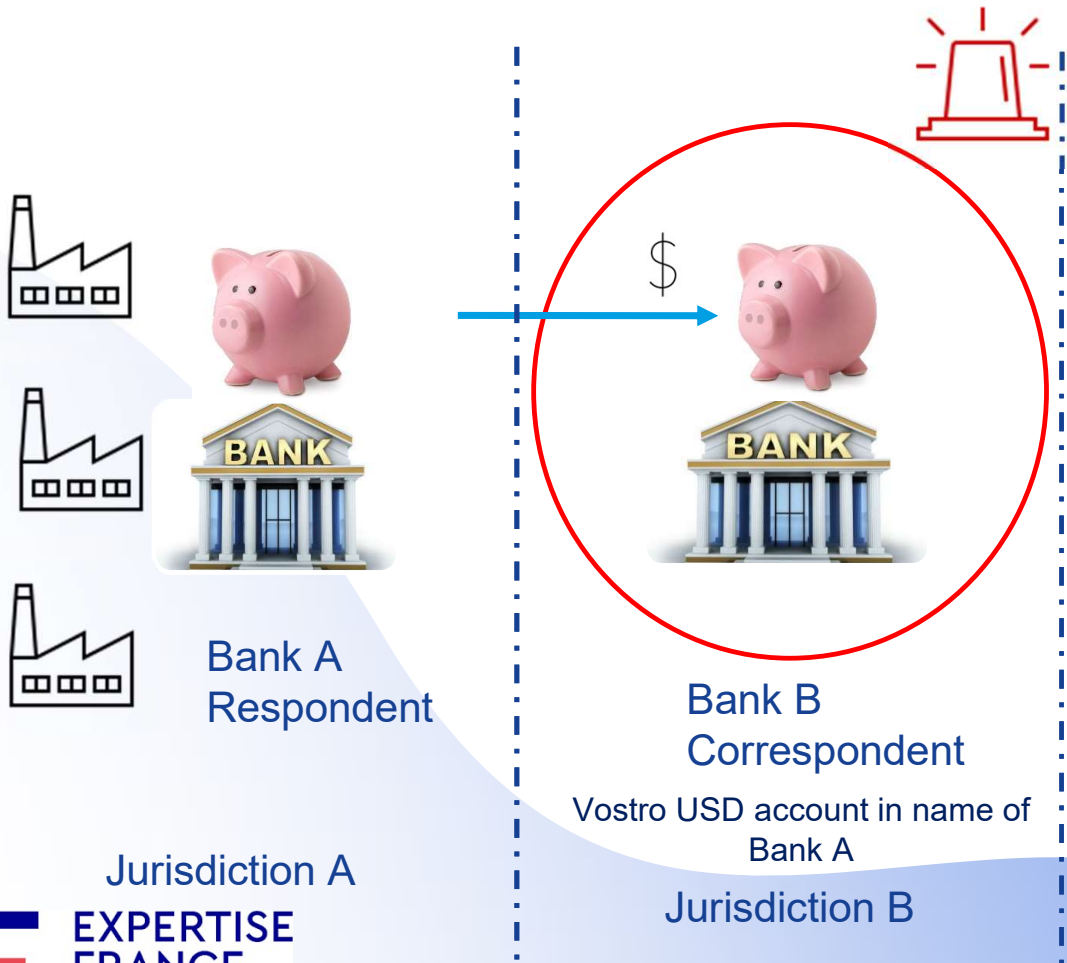


Jurisdiction A

Jurisdiction B

CASE STUDIES

ROGUE RESPONDENT



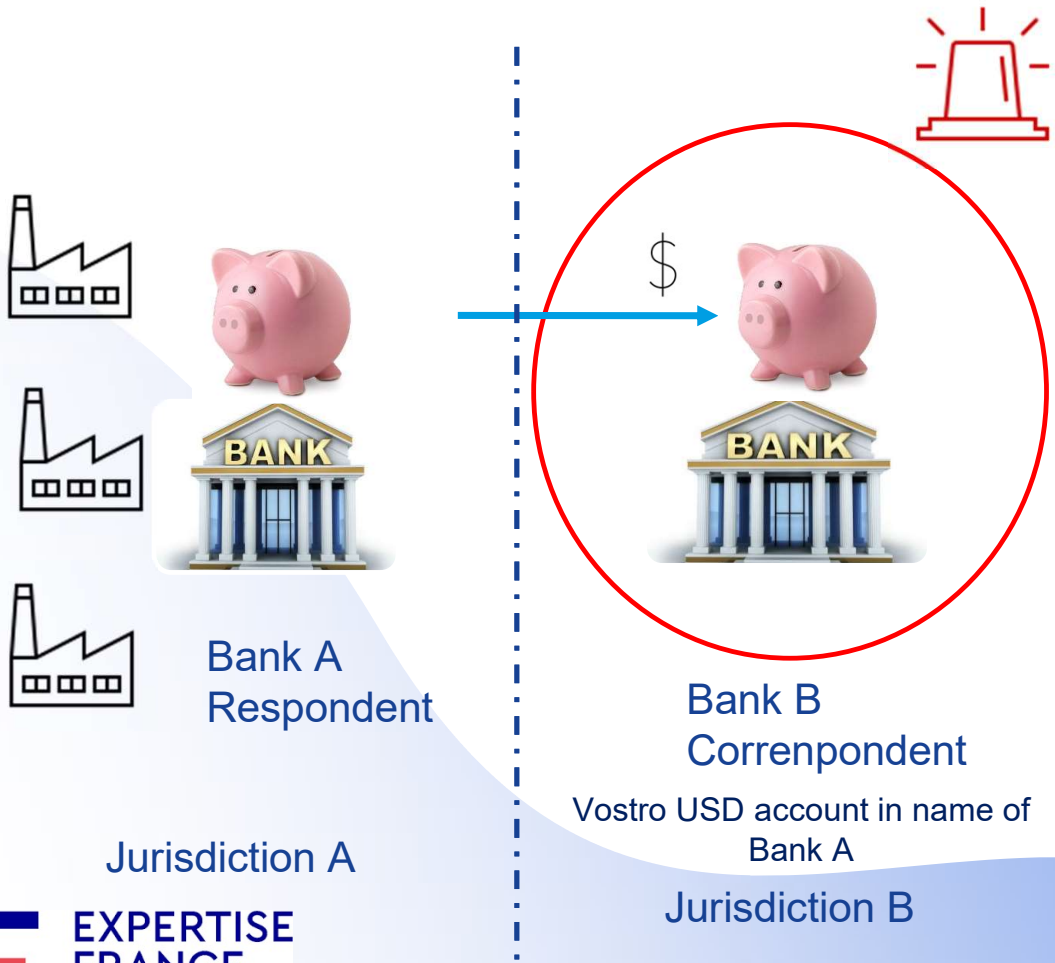
Transaction monitoring system in bank B identified unusual activity on Vostro account of bank A

- Sudden increase in number and value of transfers ~2 mln USD per month,
- High value transactions with limited data,
- Bank took action to investigate more in-depth the activity triggering the alerts



CASE STUDIES

ROGUE RESPONDENT



Communication with respondent bank A was not satisfying – vagues explanation were provided on unusual activity on VAH account, implying insufficient application of AML/CFT measures by the respondent.

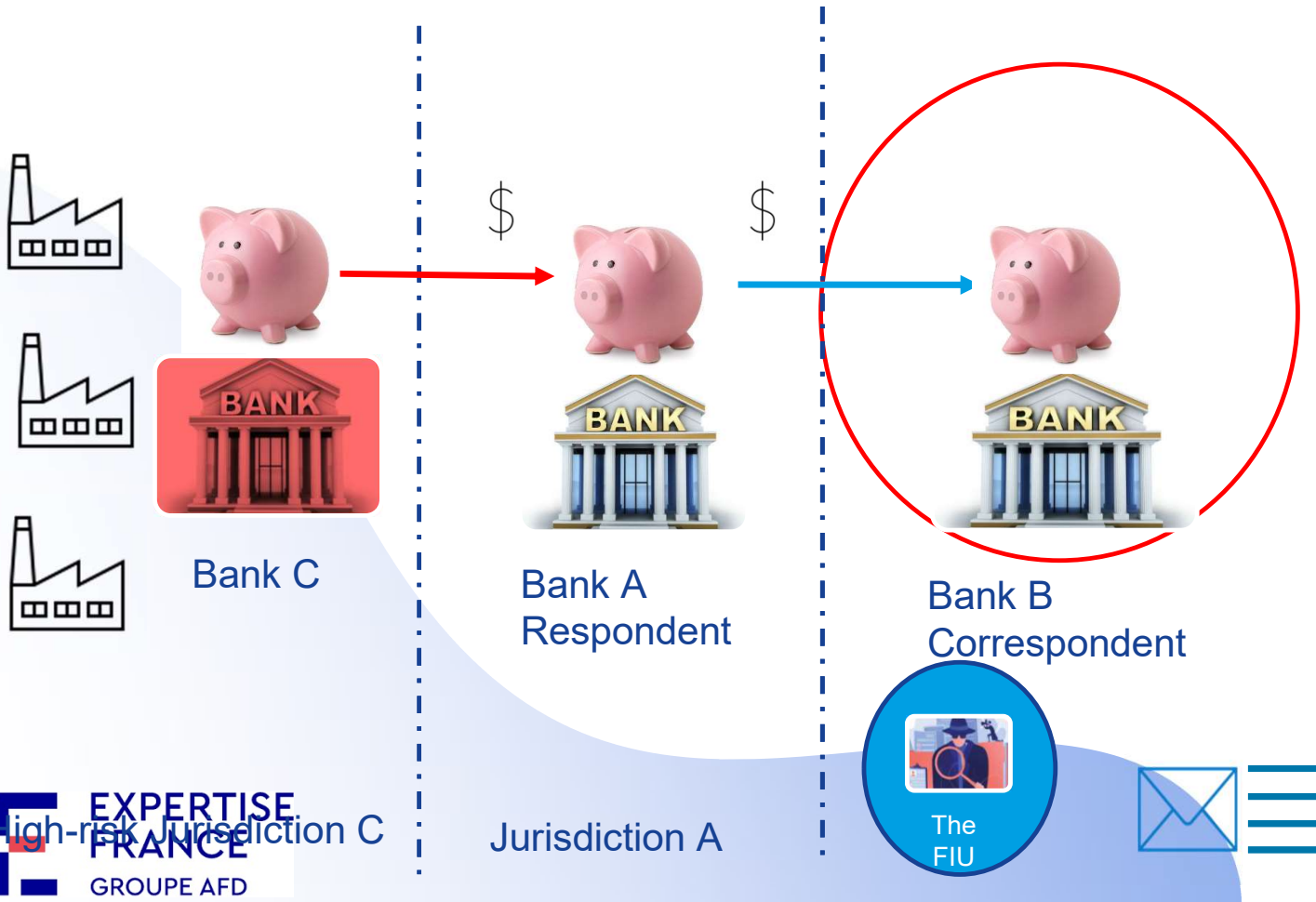
A significant amount of identified originators of transactions seemed to be tied with high-risk jurisdiction C.

Beneficiaries of funds had the characteristics of shell companies, often located in tax havens.

A lot of the transactions in question had round amounts, with general descriptions „for goods”, „loan”, „consulting fees”.

CASE STUDIES

ROGUE RESPONDENT



Bank B suspected that Respondent bank A was de facto exploiting the VAH account to transfer funds from Bank C in high-risk jurisdiction, with whom Bank B would not want to cooperate.

Bank B terminated correspondent relationship with Bank A.

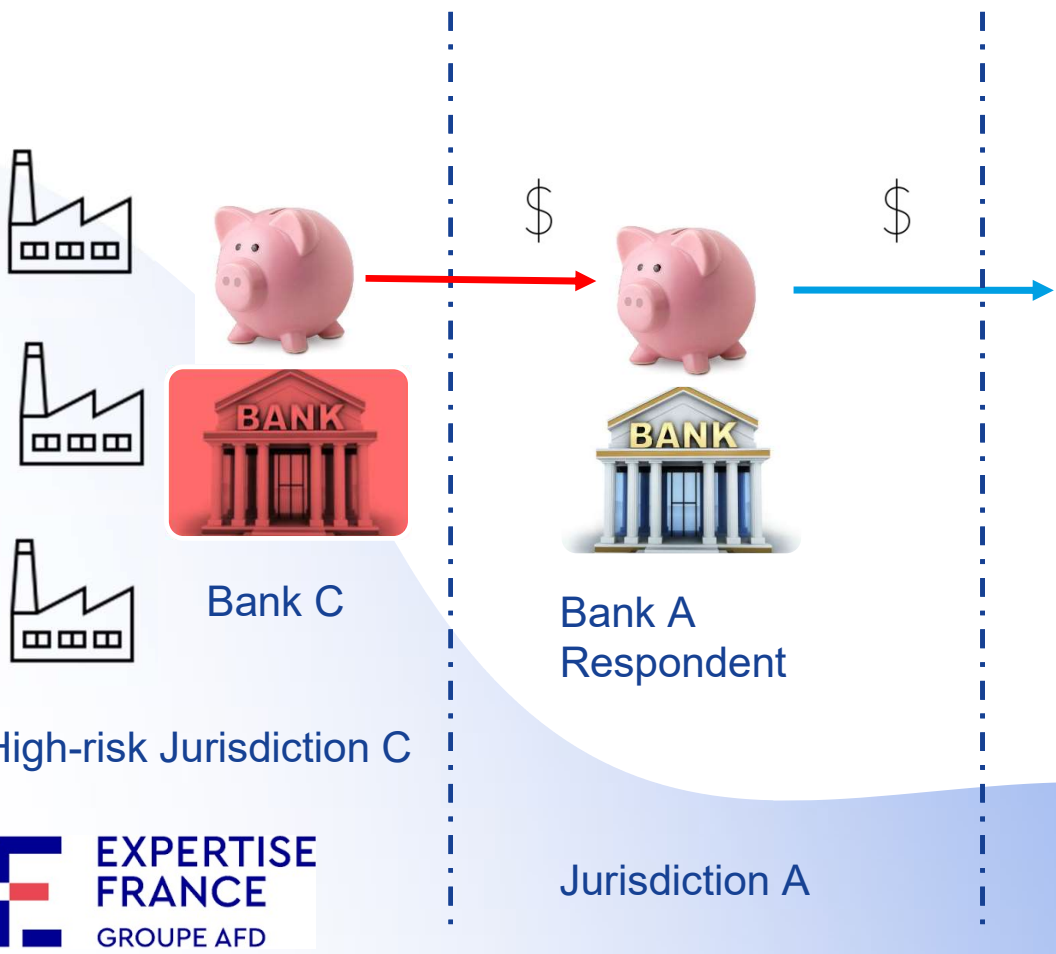
SAR was filed by Bank B to FIU of jurisdiction B concerning activities undertaken by Bank A.

CASE STUDIES

ROGUE RESPONDENT

Examples of useful Data in the STR/SAR Narrative:

- Overview of correspondent relationship with bank A.
- Actions on Vostro account that triggered an investigation by Bank B (correspondent).
- Results of analysis on account – gathered information on originators and beneficiaries of transactions.
- Outcome of communications with respondent Bank A and identified potential deficiencies in AML/CFT compliance in Bank A.
- Informations substantiating concerns as to undisclosed nested relations between Bank A and Bank C and potential ML suspicion.
- Further actions with regard to correspondent relationship (for example termination of ties with respondent).



CASE STUDIES

ROGUE RESPONDENT

Actions taken by the FIU:

- Check on respondent bank A, associated natural persons and identified originators/beneficiaries of financial flows through VAH in internal databases. No connections of interest identified – to support reasoned suspicion of ML
- Check on available information on any other banks in jurisdiction having correspondent relationships with bank A – none identified.
- Confirmation from Bank B that correspondent relationship with Bank A was terminated.
- Decision to disseminate information to AML/CFT supervisor in the context of future assessment of policies and internal controls executed in Bank B.
- Decision to sent spontaneous disclosure to FIU A to warn them of activities of Bank A.

