

# Emerging International Framework for Financial Services

## Risk-based Approach

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# Agenda

- Purpose of Risk-based Approach
- Benefits
- Challenges
- Risk-based Approach
  - Customer Due Diligence
  - Monitoring Customers & Transactions
  - Suspicious Transaction Reporting
  - Training and Awareness
  - Internal Controls



# Purpose of Risk-based Approach

- Efficient allocation of resources;
- Adoption of risk management;
- Risk analysis performed;
- Strategies to manage & mitigate risks;
- Proportionate procedures;
- No universally accepted methodologies;
- Appropriate enforcement remedies



# Benefits

- Better management of risks and cost-benefits;
- Financial institution focus on real and identifiable threats;
- Flexibility to adapt to risk that change over time



# Challenges

- Identifying appropriate information to conduct a sound risk analysis;
- Addressing short term transitional costs;
- Greater need for more expert staff capable of making sound judgment;
- Regulatory response to potential diversity of practice



# Customer Due Diligence

- Licensee must develop procedures to:
  - Identify and verify identity of each customer;
  - Reasonable measure to identify and verify beneficial owners;
  - Obtain appropriate information to understand customers, business, nature and level of transactions



# Customer Due Diligence

- Determine CDD requirements:
  - Standard due diligence applied to all customers;
  - Increased due diligence for determined higher risk;
    - ★ Correspondent banking;
    - ★ Politically exposed persons;
    - ★ Geographic location



# Customer Due Diligence

Standard due diligence reduced for lower risk cases:

- ★ Publicly listed companies;
- ★ Other regulated financial institution;
- ★ Individual where main source of funds from salary;
- ★ Transactions involving de minimis amounts





# Monitoring Customers & Transactions

- Monitoring depends on the size of the Licensee and the type of activity;
- Respond to enterprise-wide issues based on Licensee's analysis of risk;
- Create thresholds below which an activity will not be reviewed



# Suspicious Transaction Reporting

- Suspicious transaction reporting critical to BVI combating money laundering, terrorist financing and other financial crimes;
- Mandatory to report suspicious transaction or activity to FIA;
- Licensee periodically assess system for identifying and reporting suspicious transaction or activity



# Training and Awareness

- Licensee required to provide employees with AML/CFT training;
- Licensee periodically review training:
  - Tailored to appropriate staff;
  - Appropriate level of details;
  - Frequency related to the level of risk;
  - Testing to assess knowledge



# Internal Controls

- Nature, scale & complexity;
- Diversity of operations;
- Customer, products and activity profile;
- Distribution channels used;
- Volume and size of transactions;
- Level of contact with customers



# Internal Controls Framework (1)

- Increased focus on vulnerable areas;
- Regular review of risk assessment;
- Designate Compliance Officer;
- Provide for compliance function;
- Adequate controls - new products;
- Keep management informed



# Internal Controls Framework (2)

- Provide for programme continuity;
- Satisfy all regulatory recordkeeping and reporting requirements;
- Implement risk-based customer due diligence procedures;
- Timely identification of reportable transactions;
- Adequate supervision of employee



# Internal Controls Framework (3)

- Incorporate AML/CFT compliance into job descriptions;
- Provide appropriate training to relevant staff;
- Common framework for group companies



# Questions

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