AML/CFT NEWSLETTER

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IN THIS ISSUE

In July 2016, the Monetary Council agreed for the Eastern Caribbean Central Bank (ECCB), to assume full responsibility for supervision of anti-money laundering and combating the financing of terrorism (AML/CFT) for all institutions licensed under the Banking Act.

Accordingly, in execution of its mandate, the ECCB established the AML Supervisory Unit with responsibility for the development and implementation of the ECCB's risk based AML/CFT Supervision Framework. The unit is currently staffed with six (6) AML/CFT specialists, with qualifications and experience ranging from accounting, banking, finance, regulation, compliance and law.

The ECCB has engaged in a series of activities aimed at strengthening the overall AML/CFT supervision framework in the Eastern Caribbean Currency Union. Such initiatives include training of the industry and the provision of technical assistance through its international partners, such as the World Bank.

As part of its ongoing engagement initiatives, ECCB is pleased to launch its quarterly AML/CFT Newsletter. The objective of the AML/CFT Newsletter is to provide regular updates to licensed financial institutions (LFIs), on topical AML/CFT issues affecting the region.

The Newsletter also seeks to provide guidance to participants on regulatory initiatives specific to AML/CFT. The Newsletter aims to provide an informative platform for technical discussions and raise awareness on emerging money laundering (ML) and terrorist financing (TF) risks.

Meet the team

Laurel Seraphin-Bedford supervises the work of the AML Supervisory Unit. She joined the ECCB in July 1996 as a Bank Examiner, before pursuing her graduate studies. She returned to the Institution in 2001, and presently serves as Deputy Director within the Bank Supervision Department, a position she assumed since February 2010.

Laurel holds a Bachelor of Arts in Business Administration, and a Masters in Management-International Finance. She is a trained assessor with the Caribbean Financial Action Task Force.

Livia Bertin-Mark- is a Senior Examiner and Head of the AML Supervisory Unit. Livia has acquired over 18 years banking and supervision experience. She holds a Masters in Finance and BSc in Banking and Finance. Livia is a Certified Anti Money Laundering Specialist and a trained assessor with the Caribbean Financial Action Task Force.

Lydia Blanchard- is an Examiner II in the AML Supervisory Unit. She has over 13 years of experience working in Central Bank Regulation, retail and SME banking. Lydia holds a BSc in Banking and Finance and is a Certified Anti Money Laundering Specialist.

Carlene Warner-Daniel- is an Examiner I in the AML Supervisory Unit. She brings to the role over 18 years of experience from the banking and financial services industry, serving in various roles, including Regulatory Compliance and Internal Auditing. Carlene holds a BSc. in Accounting. She is a Certified Anti Money Laundering Specialist and Certified Governance Risk and Compliance Professional.

Bryan Vidal- is an Examiner I in the AML Supervisory Unit. He brings over 19 years of experience to the role having worked in the private and public sectors in areas such as relationship and risk management, and operations. Bryan is a Certified Anti Money Laundering Specialist and a Chartered Banker. He holds a MBA in Financial Services, a MSc in Finance: Economic Policy and a BSc in Economics with Human Resource Management.

Louisianne Josiah Roberts- is an Examiner I in the AML Supervisory Unit. Louisianne has over 10 years of experience in the financial services industry, most of which includes AML/CFT supervision. She holds as BSc in Management with a concentration in Finance and a Master of Public Administration. Louisianne is a Certified Anti Money Laundering Specialist and a trained assessor with the Caribbean Financial Action Task Force.

Ellery Julius- is an Examiner I in the AML Supervisory Unit. She brings to the role over 14 years of experience in the banking and financial services industry, having served in various roles including Regulatory Compliance and Commercial Banking. Ellery holds a Bachelor of Laws (LLB) and is a Certified Anti Money Laundering Specialist.

REGULATORY UPDATES

FATF Publication: Trade-Based Money Laundering – Risk Indicators

The Financial Action Task Force (FATF) and the Egmont Group of FIUs published the 'Trade-Based Money Laundering – Risk Indicators' in March 2021. The risk indicators, as outlined in the publication, are designed to enhance the ability of public and private entities to identify suspicious activity associated with this form of money laundering. Read more at:

https://www.fatfgafi.org/media/fatf/content/images/Trade-Based-Money-Laundering-Risk-Indicators.pdf

Updated List- Jurisdictions Under Increased monitoring (Grey List)

Four regional jurisdictions, namely: Barbados, Cayman Islands, Jamaica and Panama have been identified by the FATF as having strategic deficiencies to counter money laundering, terrorist and proliferation financing. Read more at: http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-february-2021.html

Saint Lucia's 4th Round Mutual Evaluation Report

The Caribbean Financial Action Task Force (CFATF) Plenary held virtually in December 2020, adopted the Mutual Evaluation report of Saint Lucia. This evaluation summarises the AML/CFT measures in place in Saint Lucia as at the date of the on-site visit, 16 – 27 September 2019. Read more at: https://www.cfatf-gafic.org/home-test/english-documents/4th-round-meval-reports/15037-st-lucia-4th-round-mer-rev1/file

Efforts by Caribbean Leaders to address de-risking bear fruit

Work by regional leaders resulted in the US Congress adopting a law, which includes new directives on de-risking. The law is the "William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021," (NDAA). Section 6215 of the NDAA, which deals with Financial Services De-Risking, mandates that AML, CFT and sanctions policies must ensure that they do not unduly hinder or delay legitimate access to the international financial system for underserved individuals, entities, and geographic areas. Read more at: https://www.congress.gov/congressional-report/116th-congress/house-report/617

EU adds Dominica to list of non-cooperative tax jurisdictions and removes Barbados

The Council of the European Union ('EU') adopted conclusions of the revised list of non-cooperative tax jurisdictions, deciding to add the Commonwealth of Dominica and to remove Barbados. Saint Lucia was recently identified as cooperative jurisdiction after fulfilling its commitment. There are twelve jurisdictions on the list of non-cooperative jurisdictions, five of these are located in the Caribbean. These countries include, Anguilla, the Commonwealth of Dominica, Panama, Trinidad and Tobago, and the US Virgin Islands. Read more at: https://www.consilium.europa.eu/en/press/press-releases/2021/02/22/taxation-council-adds-dominica-to-the-eu-list-of-non-cooperative-jurisdictions-and-removes-barbados/

ECCB CORNER

Introduction of the PR14 Reporting Form

The ECCB has implemented its Prudential Return 14 (PR14), which forms part of the ECCB's risk-based monitoring framework. The PR14 is designed to capture pertinent quantitative data to assist with the conduct of money laundering, terrorist financing and proliferation financing (ML/TF/PF) risk assessments for LFIs licenced under the Banking Act. The data will assist the ECCB in identifying and assessing specific products, services, customers and entities, and, geographic risks of LFIs. The PR14 is broken down into six (6) Schedules and requires the quantitative data and dollar value for specific monetary instruments, products, services, customers, reporting, geography and correspondent banks. LFIs are required to submit the PR14 quarterly to the ECCB.

World Bank RBA Toolkit Training

The ECCB, in collaboration with the World Bank, continues to facilitate the Risk Based Approach (RBA) Toolkit training series. The series, which was officially launched on 15 April 2020, consists of seven (7) modules with an expected duration of 18 months. It aims to strengthen the capacity of the regulators and supervisors of the financial services sector of the ECCU by facilitating the transition to an effective risk based approach. Over ninety (90) AML/CFT regulators from across the ECCU are enrolled in the program.

Module 1 - The Basics, was conducted in May 2020. It covered the FATF 40 recommendations and the fundamental concepts for risk-based supervision.

Module 2 - The Strategy, was conducted in June 2020 and focused on the design of a risk-based supervisory strategy to include development of an institutional risk assessment. By utilizing the outcomes of a National Risk Assessment, participants obtained actionable knowledge on the principle and organization of risk-based supervision.

Module 3 -The Rules, which is currently ongoing, comprise of a legislative review to align the AML/CFT regulation and legislation of member states to the RBA which is critical for the implementation of an effective RBA.

Module 4 -The Practise, was conducted in March 2021. Simulation exercises were conducted and focused on the fundamentals of risk-based supervision. This included, onsite and offsite AML/CFT tools, institutional ML/TF risk assessments, classifications and enforcement orders or remediation.

Module 5 - The Dialogue, will include a workshop with the private sector which will give supervisory authorities a better understanding of the operating environment, and allow for more effective tools to guide and provide feedback to the private sector in their compliance with AML/CFT requirements.

Module 6- The Manual, will be geared to the adjustment or development of monitoring or supervisory manuals which are critical to the RBA framework.

Module 7 -The Technology, will focus on information technology tools that can be used to support risk based supervision, such as general summary statistics and examination outcomes and outputs.

ECCB WEBINAR SERIES

"Raising Awareness and Reducing Risks –Understanding Emerging Money Laundering Issues in the Region"

The ECCB, in collaboration with the Association of Certified Anti-Money Laundering Specialist (ACAMS), facilitated a series of webinars geared towards raising awareness and building capacity of our LFIs in the area of AML/CFT.

Part 1 – AML Model Risk Management – What is it and why is it important?

Date: September 24, 2020

This webinar focused on the risk-based approach to AML-CFT by focusing on AML Risk Model Management.

Speaker: Tanya McCartney

Barrister, Chartered Banker and Author
CEO/Executive Director- Bahamas Financial Service Board

Key Takeaways:

- FATF Recommendation 1 requires countries, competent authorities and institutions to **identify, assess and understand the ML-TF risk** to which they are exposed.

- **Transaction Monitoring VS AML Models: Transaction monitoring** focuses on identifying transactions that meet a set of basic criteria, while **AML Models** interpret transactions based on a combination of data sources and factors using complex logic. Transaction monitoring therefore feeds into AML Models.

- **Effective Risk Models for AML** and other financial crimes should analyze geography and country, business and entity and product and transaction risks.

- The AML model used is only as good as the data inputted by the entity. AML Risk Models rely on **accurate and updated information**. Factors includes transactions, customer data, screening, etcetera.

- When **assessing customers' risk**, LFIs must ensure that data is accurate, updated and factors are given appropriate ratings.

- Behaviour-based models are more adaptable to changes in customer and transaction patterns than Rule-Based models.

- An **AML model inventory and assessment** is necessary to determine whether people, processes and technology are adequate to support the AML Program.

Part 2 – Raising Awareness – Human Trafficking and Trade-Based Money Laundering in the Region

Date: October 20, 2020

This webinar focused on the global scope and scale of human trafficking and trade-based money laundering. The session explored the detection of financial flows and shed light on several red flags, typologies and highlighted several case studies from the region.

Key Takeaways – Human Trafficking in the Region

- The International Labour Organization estimated that approximately **40.3 million victims** are trapped in modern day slavery.
- In the Caribbean region, typical instances of human trafficking involve sex trafficking and forced labour.
- Human trafficking is difficult to detect and relies heavily on intelligence and behaviors of potential victims.
- Artificial intelligence provides more effective results in detecting human trafficking than traditional transaction monitoring systems.
- Financial institutions need to be aware of indicators and make efforts to incorporate it into their transaction monitoring and reporting efforts.
- Financial institutions must make it their business to understand their customer's business and have adequate due diligence and monitoring systems.

Did You Know?

Human Trafficking is estimated to be one of the most proceeds-generated crimes in the world generating estimated **$150B 💰💰💰 per year**. *#helpfighthumantrafficking*

CASE STUDIES

Human Trafficking in the Region

Operation Libertard (2018)

- Involved Latin American and 13 Caribbean countries including Saint Lucia, Saint Vincent and the Grenadines, Antigua and Barbuda, Guyana, and Trinidad and Tobago
- 350 victims were rescued – men, women and children
- Victims were forced abroad for work, found working at night clubs, markets, factories, farms and mines. In some cases, conditions were inhumane.

Trinidad and Tobago

- A church in Trinidad and Tobago ran a rehabilitation center as a front.
- Victims were found in cages and handcuffs
- Victims were individuals residing in Trinidad and Tobago
- 4 persons were arrested

Operation Rescue Mission: Antigua (February 2018)

- 19 victims were identified
- Night Clubs were used as front operations

Part 3 – *A closer Look – Managing Risk with PEPs and Correspondent Banking Relationships*

Date: November 19, 2020

This webinar focused on two areas: using a RBA to identify and manage Politically Exposed Persons (PEPs) risks, and the importance and challenges of Correspondent Banking Relationships (CBRs), key drivers and the impact of de-risking in the regional context.

Key Takeaways – Managing Risks with PEPs

- To mitigate PEP risk, the following are important: implementing a RBA, enhanced due diligence for foreign PEPs, determining the source of funds and source of wealth and obtaining senior management approval.
- The Key definition of PEPs include: foreign, domestic, international organization, family members and close associates.
- There is no globally accepted process for PEP declassification. "Once a PEP does not mean always a PEP".
- Knowledge of PEP red flags is critical.

Key Takeaways – CBRs

- Customer due diligence, training and maintaining effective communication protocols are vital for the maintenance of CBRs
- CBRs are essential and are considered the life line of international trade in goods and services.
- De-risking is a major concern for the Caribbean region. Noted responses to de-risking include: advocacy, electronic payment solutions and supervisory interventions.

CASE STUDIES

De-risking in the Region

Bahamas

- Two commercial banks and four international banks lost CBRs and were forced to find replacements.
- Western Union closed after 20 years.

Barbados

- Eight domestic financial institutions experienced termination of their CBRs

Belize

- Five out of seven banks experienced termination of their CBRs. The national regulatory authority intervened to assist with wire transfers.

Did You Know?

According to Transparency International, out of 180 countries scored using the Corruption Perceptions Index 2019, two thirds of the countries scored below 50/100 and the average score was 43/100. Using a scale of zero to 100, zero is highly corrupt while 100 is very clean.

Score 1-100	0: Highly	100: Very clean

THE RISK-BASED APPROACH AN INTRODUCTION

Organizations are currently working to formulate responses to mitigate the impact of global challenges whilst aiming for profit maximization, sustainable financing, and contributions to social development. These uncertain economic times have driven businesses to renew their focus as it relates to risk management amidst constant technological and regulatory changes. In addition, emerging risks (ML, TF, PF, climate change, cyber, financial, credit, operational and internet of things) are affecting businesses more than before. Financial institutions have not been spared and are continuously grappling to reform their risk management processes.

Risk management, which is the process of identifying, assessing and mitigating risk to acceptable risk tolerance levels has evolved over the years, from focusing on individual units and portfolios to aggregated portfolios, enterprise-wide, and risk-based approach solutions.

A risk-based approach (RBA) to risk management involves tailoring an organisation's response to assessed risks and effectively allocating resources to areas of priority to achieve its objectives.

Whilst managing all risks are critical to financial institutions, managing ML/TF risks are high on the spectrum due to the resultant effects to the financial sector (fines, sanctions, reputational damage) that a financial institution may face.

Unattended ML/TF risks may cripple financial institutions, which are critical for economic growth and reduces efficiencies in the real sector economy. In that regard, the FATF issued recommendations aimed at combating misuse of the financial system to launder funds and facilitate terrorism and proliferation financing.

Recommendation 1 of the FATF 40 recommendations stipulates that "*Countries should apply a RBA to ensure that measures to prevent or mitigate ML and TF are commensurate with the risks identified*". It also states that countries should require financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and take effective action to mitigate their ML and TF risks.

On 4th March 2021, the FATF issued guidance on risk-based supervision for AML/CFT Supervisors. The guidance provides supervisors with the tools to assess risk in the sectors they oversee to realign their resources accordingly. The Guidance also includes strategies to address common challenges faced in the financial sector. One of the most common challenges facing LFIs in the ECCU is the development and implementation of a RBA.

A RBA is considered to be the foundation for an effective AML/CFT program. How does an institution implement a RBA? The following steps aim to guide financial institutions and designated non-financial business and professions Designated Non-Financial Businesses and Professions (DNFBPs) with implementing a RBA:

Step 1- Identify risk areas, determine and assess inherent risks (clients' profile, products and services, transactions, delivery channels, and geographies).

Step 2- Assess internal control environment (governance, monitoring and controls, and independent testing)

Step 3- Define actions to control risk to include risk avoidance, risk acceptance, risk mitigation and risk elimination.

Step 4- Determine risk classes (high, medium, low).

Step 5- Assign resources to all risk areas with the most resources assigned to higher risk areas.

Under the RBA, financial institutions are expected to understand, identify and assess their risks, take appropriate actions to mitigate those risks and allocate their resources efficiently, by focusing on higher risk areas. A robust RBA includes strategies to effectively mitigate risk. ***When properly implemented, the RBA is more responsive, allocates resources to the most needed areas, streamlines operations, improves efficiency and promotes profit maximization.***

ML/TF/PF TYPOLOGY

Money Laundering charges brought against Natwest

The Financial Conduct Authority (FCA) pressed criminal charges of alleged ML against the Natwest Bank. The criminal proceedings brought against the state owned Natwest Bank was for its failures to prevent ML. This was the first prosecution brought under the ML rules introduced in 2007.

The allegations brought by the FCA stems from the Bank's failure to monitor and properly scrutinize transactions linked to a corporate customer - Fowler Oldfield account. Whilst the full details to date are scarce, according to the allegations the customer deposited over £365m over a five-year period including £264m in cash.

Considering the value of these transactions, NatWest failed to monitor suspicious activities by its corporate client and failed to show risk sensitive due diligence and monitoring for the purposes of preventing ML.

Common methods to disguise the proceeds included using shell companies, offshore accounts, buying property and currency trades. According to the FCA, Natwest in conducting enhanced due diligence of Fowler Oldfield would have been alerted to the suspicious activity concerning the client and should have further investigated the transactions. The ML regulations require companies to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its clients for the purposes of preventing ML.

Thank you!

The Eastern Caribbean Central Bank

P O Box 89
Basseterre
St Kitts and Nevis
West Indies

Tel: (869) 465-2537
Fax: (869) 465-9562

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Eastern Caribbean Central Bank

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Email: AMLSupervisoryUnit@eccb-centralbank.org