Anti-Money Laundering in e-banking and Fintech

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OSACO Financial

About OSACO Financial

OSACO FINANCIAL

- Exclusive focus on I.R. Iran
- Advisory and capacity building for financial services firms
- Tehran branch established Jan 2017
- Training partnership with the MBRI
- Privately owned
- Expertise of our core team at the heart of value proposition





About your presenter

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About this workshop

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- English or Farsi, it’s up to you
- Interactive! What you put in is what you get out…
- Share your experience
- Ask questions, give your views

Agenda

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- What is money laundering?
- Role and obligations of financial services firms
- Vulnerabilities of New Payments Products and Services
- Risk assessments for providers

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What is Money Laundering?

I.R Iran Anti-Money Laundering Law

Article 2- The following shall be regarded as money-laundering:

a. The acquisition, possession, or use of proceeds obtained from illegal activities knowing that they have been acquired, directly or indirectly, through the commission of an offence;

b. The conversion or transfer of property for the purpose of disguising the illegal origin of such property, with the knowledge that it has been obtained, directly or indirectly, through criminal activities; or of assisting any person who is involved in the commission of the predicate offence to evade the legal consequences of his/her actions;

c. The concealment or disguise of the nature, source, location, disposition, movement or ownership of property derived, directly or indirectly, from a crime.

Article 3- The term "proceeds of crime" means any property derived, directly or indirectly, from a crime.

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Money Laundering considerations

- What is the size of the problem?
- What are the main predicate crimes?
- How does money laundering relate to the broader financial crime landscape?
- What is the link between money laundering and terrorist financing?
- What are the typical objectives of the money launderer?

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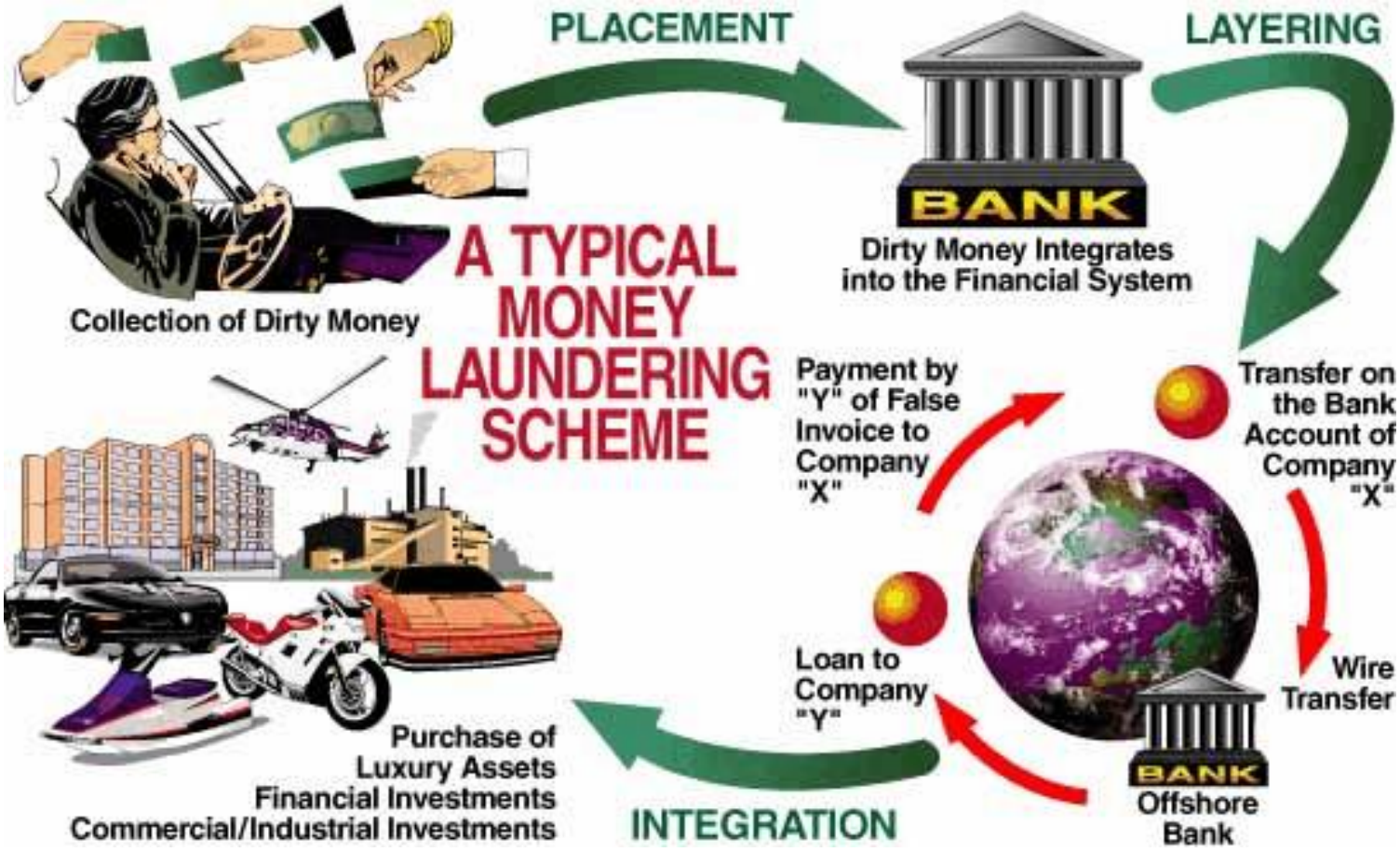
Typical Money Laundering Stages



Why are financial services attractive to money launderers?

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Vulnerabilities of financial services

- Can be used at all 3 stages of money laundering
- Access to financial system: deposits, assets, **payments**
- Private banking services

Attractiveness to money launderers

- Diversity of products & services
- International footprint
- Reputation

As a technology company offering financial services (Fintech) AML is important because:

- Your are yourself regulated for it
- You use the services of a regulated institution (typically a bank)
- Your services are not well understood because they are new and innovative, and are perceived to pose greater risks

Key challenges include:

- Reconciling innovative / disruptive culture with compliance requirements
- Understanding the subject matter
- Managing your stakeholders (regulator, shareholders, customers)

Legal and regulatory obligations

Regulated sector

Prevention and detection

- Risk-based customer due diligence
- Payment screening
- Ongoing monitoring
- Training and Competence

Reporting

- Suspicious activity reports
- AML filings
- Record keeping
- Law enforcement orders

The international framework

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UN conventions

- Vienna 1988
- Palermo 2000

FATF standards:

- 40 recommendations RISK BASED APPROACH
- Mutual evaluations & country assessments
- Typologies and guidance

Basel Committee on Banking Supervision

- Principle 29
- Sound management of money laundering risks
- Correspondent banking

The Wolfsberg Principles

- Correspondent banking
- Private banking
- Various guidance and standards

Legislative frameworks

Regulatory frameworks

Industry guidance

Principal reference material

- 40 Recommendations:
  - R14 Money or value transfer services (MVTS)
  - R15 New technologies
  - R16 Wire transfers (applicable to MVTS)
- Guidance and publications:
  - Report on New Payment Methods (NPM) – 2006
  - Vulnerabilities of commercial websites and internet payment systems - 2008
  - ML using new payment methods – Oct 2010
  - RBA for New payment products and Services (NPPS) – June 2013
  - Virtual Currencies Key Definitions and Potential AML/CFT Risks – June 2014
  - RBA for MVTS – Feb 2016

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Scoping the debate

- Money and value transfer services (MTVS) – designates specific businesses
  - Money service and remittance businesses
  - Includes some NPPS
- From New Payment Methods (NPM) to New Payment Products and Services (NPPS)
  - Prepaid cards
  - Internet Payment Services (IPS) – online banking, prepaid internet payment products, digital currencies
  - Mobile Payment Services and Mobile Money Services
- ML Risk and regulation
  - Providers (not the service) are regulated
  - ML laundering risk to be assessed based on the product

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Risks and benefits of NPPS

- Key vulnerabilities usually cited described as :
  - Favoring anonymity
  - Speed of transactions
  - Cross-border transfer of value
  - Access to cash
- Yet NPPS are encouraged by governments and regulators alike
  - Innovation, growth, national interest
  - Financial inclusion
  - Consumer benefit (competition, choice, cost –open banking)
- From a financial crime perspective NPPS offer traceability in comparison with cash

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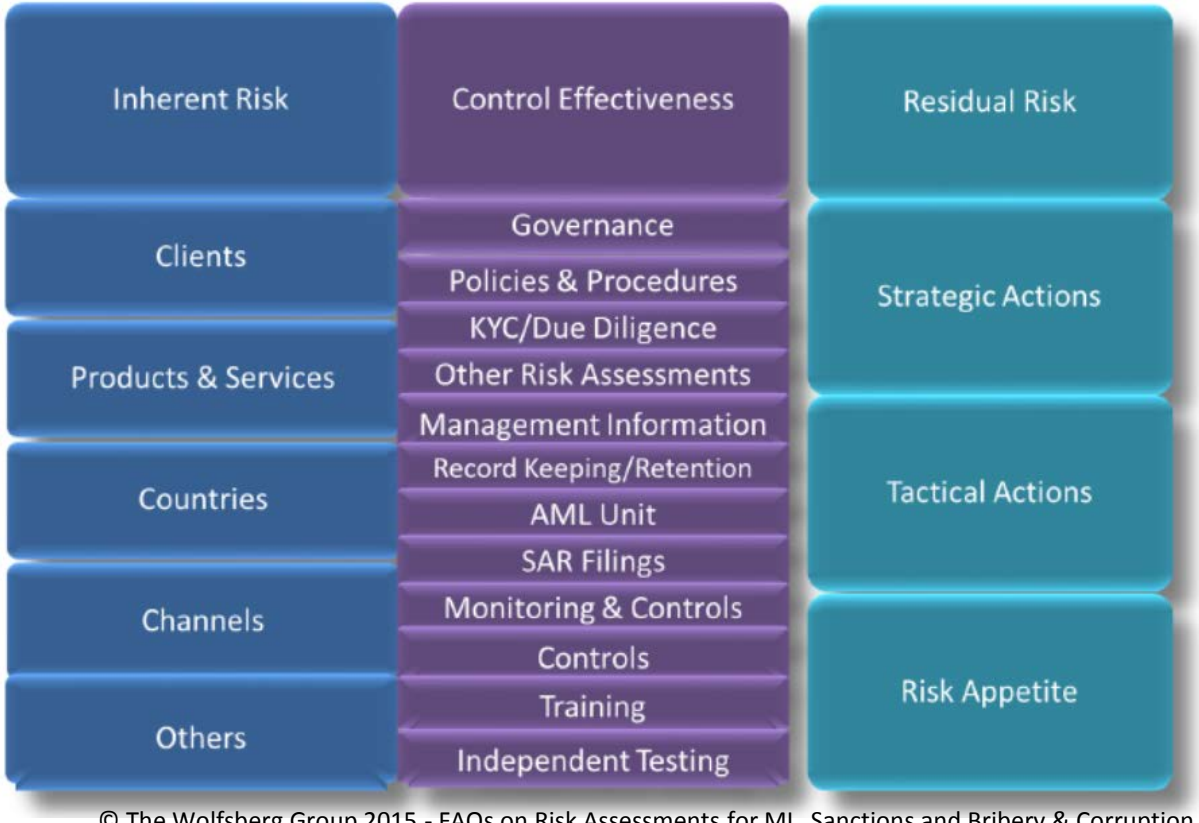
Risk Assessment for NPPS

- Risk assessment of the business as cornerstone of effective AML program



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Risk Identification for NPPS

- Key risk factors to consider:
  - Non-face-to-face relationships and anonymity
  - Geographical reach
  - Methods of funding (cash, reloadability, anonymous sources)
  - Value, term and geographical limits
  - Access to cash withdrawals
  - Usage limits (negotiability, utility)
  - Segmentation of services (parties involved in infrastructure)
- Risk matrix for systematic identification and scoring

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AML controls for NPPS

- AML program and responsible compliance officer
- AML considerations part of product design / Training and awareness
- Risk rating methodology
- Customer due diligence (on a risk-sensitive basis)
  - Identification, verification – e-authentication
  - Sanctions screening
  - Third party reliance where possible / appropriate
  - Source and destination of funds
- Due diligence on parties involved in service proposition
- Transaction monitoring
- Record keeping

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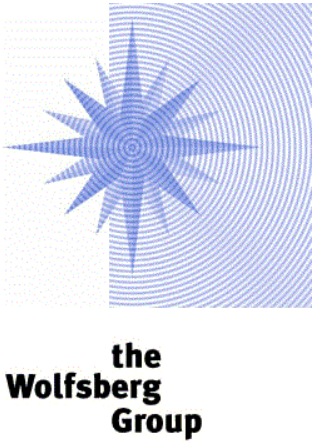
To go further...



- Wolfsberg Guidance on Mobile and Internet Payment Services (MIPS) – 2014

- European Supervisory Authorities Risk Factor Guidelines - 2017

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Thank you