AML/CFT RISK ASSESSMENT

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Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) laws require compliance programmes be designed on a risk-based approach. Still, many managers and board members are challenged to fully understand the scope of this obligation.

CUSTOMER RISK RATING

Insurance Companies should have a customer risk rating matrix in place to ensure that customers posing elevated levels of AML/CFT risk are properly identified and monitored. Using new policy/account data and Know Your Customer (KYC) information, Insurance Companies should assign the customer an objective risk score.

The risk rating process should be transparent and the outcome be predictable as well. Any type of policy/account or business relationship is potentially vulnerable to money laundering or terrorist financing. The sum of a customer profile such as nature of their business, occupation, or anticipated activity will indicate the level of risk it represents for Insurance Companies.

At policy/account opening the business Customer's Risk Rating Designation should be determine, based on information contained in the Customer Profile and Account Documentation.

ANNUAL RISK ASSESSMENT

During the risk identification process the insurance company risk assessment should consider factors like customers, products, services, transactions, geographic locations. The risk assessment should be periodically reviewed and updated, particularly when new products, services, customers and geographic locations are added.

The risk assessment process should determine the insurance company's inherent risk (quantity of risk), how internal controls mitigate (reduce) risk exposure, and whether the remaining level of risk exposure is appropriate for the insurance company.

It's important that you consider the possibilities of a particular risk occurring within your insurance company and the probabilities of that risk coming to past. Risk assessments are an essential management and regulatory tool. It should be considered the foundation of a risk management program. A Risk Assessment (RA) is the evaluation of specific lines of business, products, and customers that may present unique challenges and exposures for which management may need to institute appropriate policies, procedures, and processes to mitigate the identified risk.

There are three main benefits to the Risk-Based Approach. First it assists in identifying early stages of those customers who may pose a money laundering and terrorist financing risk to the Insurance company. This stage can help to quickly identify unwanted customers. Secondly, it enables the insurance companies to prioritize the review of the customers' base on their risk profile and thirdly, the Risk-Based Approach can be used by the AML/CFT compliance officer as an effective argument to justify allocating additional resources.

The insurance company Risk Assessment (RA) should be conducted at least once a year. Some companies are more conservative than others and may conduct the RA on a semi-annual basis.

It's important to remember that the RA should be a living document as changes occur in the insurance company. An effective AML/CFT compliance program controls risks that may be associated with the business products, services, customers, and geographic locations; therefore, an effective risk assessment should be an ongoing process.

As new products and services are introduced, existing products and services change, high-risk customers open and cancel policies/ accounts, or the business expands through mergers and acquisitions, management should update its risk assessment process to re-evaluate the risks associated with money laundering and terrorist financing.

Even in the absence of such changes, it is a sound practice for business to periodically reassess their AML/CFT risks at least once a year.

There are four main objectives of the RA. First is to identify risk. The AML/CFT Compliance Officer needs to recognize and understand existing risks or risks that may arise from new business initiatives. Second, the compliance officer should measure the level of regulatory risk, associated with a specific regulation or product/service and measure the quality of the controls in place, to mitigate the risk. Third, the compliance officer should monitor the risk to ensure timely identification of elevated risk levels and inform appropriate individuals to ensure action, when needed. Fourth, control the risk to allow for the establishment and communication of policies, standards and procedures, which are appropriate to the level of identified risk. Once the compliance officer has met these four objectives the next step is to report the risk to the Board of Directors.

According to Jean Morency partner at ComplianceAid.pro Insurance Companies and Agents "must be careful not to recycle any template or model they may gain access to. Risk rating is a methodical process that requires a case by case approach." ComplianceAid.pro is one of the few consulting firms that has assisted both regulators and businesses on this topic.

Source: ComplianceAid.pro