Welcome to the third edition of the Reserve Bank of New Zealand’s AML/CFT update.

This edition focuses on the following:

- Introducing the new AML/CFT Oversight team
- Exception handling procedures
- Customer Due Diligence for deposit customers
- Enhanced Customer Due Diligence - the source of funds or the source of wealth of the customer.
- Annual AML/CFT Report

If there are topics you would like covered in our updates, or you have a question about any issue we have raised, please email the team at amlcft@rbnz.govt.nz.

New AML/CFT oversight team

As many of you may be aware, there have been recent staff changes within the AML/CFT team at the Reserve Bank of New Zealand. Today we would like to introduce our new team, which comprises Damian Henry, Catherine McDonald, Olga Lagutina and Leah Rivers. The team members come from diverse backgrounds within both the private and public sectors. They bring a range of different skills, experiences and well-established relationships to the team. This diversity provides a stable platform for overseeing financial institutions’ compliance with AML/CFT obligations and assessing the level of money laundering and terrorist financing risk within our sector.

Left to Right: Leah Rivers, Catherine McDonald, Richard Dean (Manager Banks, Payments and AML Oversight), Damian Henry and Olga Lagutina
Exception handling procedures

The RBNZ acknowledges that there may be genuine scenarios where a prospective customer (‘customer’) does not have either some or any of the identification documents (‘ID’) contained within the Amended Identity Verification Code of Practice 2013 (‘the IVCOP’). The IVCOP requires a reporting entity to have an exception handling procedure for customers assessed as being low to medium risk.

It is important that your exception handling process is clearly documented and lists the person or team to whom exceptions are escalated for consideration. The RBNZ considers that exceptions should only be granted by a person who is independent of establishing the relationship with the customer and has the appropriate knowledge to grant ID exceptions.

The RBNZ does not expect a reporting entity to automatically decline to establish a business relationship with a customer simply because the required ID contained within the IVCOP cannot be provided. A reporting entity should consider what alternative information or documentation a customer could present that would provide reasonable certainty regarding the identity of the customer. A reporting entity should consider the alternative information provided and circumstances of the customer and then determine whether or not granting an exception is appropriate.

Where an exception is granted, the RBNZ expects the reasons why the customer cannot provide the required ID to be recorded and any alternative ID the customer provided listed.

The RBNZ considers that the following reasons or grounds are not sufficient justification to grant an exception:

- A customer claims to have lost or misplaced their identification documents.
- A customer has forgotten to bring their identification documents with them.
- A customer is a public figure or well known in the local community, but staff are embarrassed to ask for their ID.

Key points to remember:

- You must have a documented exception handling procedure.
- The person or team who assesses the exception request must be independent from the process of establishing the relationship with the customer.
- You should not automatically decline to establish a business relationship with a customer simply because they cannot provide the required ID contained within the IVCOP.
- Clearly record why the customer cannot provide the required ID and list any alternative ID the customer can provide.
CDD on depositors

During recent on-site visits with Non-Bank Deposit-Takers (‘NBDTs’) the RBNZ observed that the quality of customer due diligence (‘CDD’) can vary greatly between borrower and depositor customers. This indicates that some reporting entities may not fully appreciate the importance of ensuring that appropriate CDD is carried out on all customers. Following the nature of the business model, NBDTs tend to naturally focus on assessing and mitigating credit risks arising from borrowers who may fail to repay loans. This generally leads to NBDTs undertaking comprehensive CDD on borrowers and keeping comprehensive files on these customers. Depositors may not pose a credit risk, but the RBNZ considers that depositors carry the same risk as borrowers of money laundering and financing of terrorism. It is imperative that this risk is appropriately assessed and appropriate CDD on depositors is conducted, in line with the AML/CFT Act and IVCOP.

Some red flags that may signal that ML/FT is potentially taking place include –

- A customer with no employment history makes a large deposit.
- A customer makes an investment via large cash deposits.
- A customer instructs to send investment funds to third-parties or overseas.
- A customer makes an investment deposit followed shortly by a request to terminate the investment and withdraw the funds.

Enhanced Customer Due Diligence

The RBNZ has also observed some confusion over when reporting entities should be verifying a customer’s source of funds or wealth. Below are some key points to remember in relation to enhanced customer due diligence and verifying the source of wealth or funds of a customer.

Key points to remember:

- When establishing a business relationship with a customer that requires enhanced customer due diligence, information about the customer’s source of wealth must always be obtained.
- Where information about the source of wealth of a customer is obtained, some form of verification must also be completed.
- When establishing a relationship with a customer that is a trust (including family trusts), information about the trust’s source of wealth i.e. the assets of the trust must be verified. Depending on the assets of the trust, you may be able to rely upon the trust deed to complete the verification.
Annual AML/CFT Report

Thank you to those reporting entities who have already submitted their annual AML/CFT report for this year. Reporting entities are required to submit their annual AML/CFT report by midday on 31 August 2017, via our secure upload facility.

Please contact us at amlcft@rbnz.govt.nz if you have any questions in relation to the annual AML/CFT report.

Contact us:

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