

Welcome to the Reserve Bank of New Zealand AML/CFT Workshop

9th November 2020

*Cable Room, Harbourside Function Venue,
Wellington, New Zealand*



Agenda

- Introductions & Health and Safety
- Impacts and observations from Covid-19
- Systems Assurance and Group Discussion #1
- De-risking and Risk Appetite

Afternoon Tea - approximately 2:30pm

- Group Discussion #2
- Open questions
- Closing comments - **4:00pm**





Impacts and observations from Covid-19

Impacts and observations

- 1. Increased focus on digital/remote on-boarding of customers and delayed verification.**
- 2. Increased cash in circulation.**
- 3. The importance of regular communication with domestic and international supervisors.**
- 4. Tailoring our supervisory approach and being adaptive.**
- 5. Flexible working arrangements.**





Systems Assurance

Systems Assurance

- 1. Background and some key points to consider.**
- 2. Account/Transaction Monitoring.**
- 3. Politically Exposed Persons ('PEP') and Sanctions screening.**
- 4. Prescribed Transaction Reporting.**



Background

- A number of key AML/CFT controls within reporting entities are system based.
- Coding errors and mistakes can occur during the 'design' or project phase.
- RBNZ has observed and received a number of self-disclosed issues relating to failures of system controls.
- Systems assurance is a key focus area for RBNZ.
- Expect this area to be covered during on-site inspections.



Some key points to consider

- Have you captured all the relevant data/products from all the relevant systems?
- Do you have any bespoke systems or solutions that could have been missed?
- Systems assurance is **not** just assessing operational effectiveness *i.e. just because there is water coming out of the tap, doesn't mean there are no leaks or that the water is not contaminated!*
- What actual evidence and assurance can you provide senior management that your AML/CFT systems are correctly configured?
- Systems assurance is not just a 'one-off' exercise completed by the Project team.
- An adequate (and effective) systems assurance programme may 'stop the bleeding' early and avoid significant remediation.
- Big numbers are more likely to result in a referral to Enforcement.



Account/Transaction Monitoring

- A number of TM scenarios are cash related. Is 'cash' really cash?
- How do you know your thresholds for alert generation are operating effectively?
- Just because a TM system is producing alerts, it does not mean it is operating effectively.
- Have you captured all the relevant data/products from the relevant systems?
- Data lineage and data mapping is critical.
- Account/transaction monitoring rules are dependent on the data ingested.
- An adequate and effective systems assurance programme requires collaboration between Technology and AML/CFT teams.



PEP and Sanctions Screening

- Do the lists you use include immediate family and close relationships?
- Are you screening all your customers and beneficial owners?
- Are you actually screening against all the relevant lists?
- What testing is conducted to assess the effectiveness of different weightings applied to different data attributes *e.g. name, address and date of birth*?
- What testing or evidence can be provided to prove screening is occurring at the required frequency?
- What assurance or testing is conducted by your vendor? What visibility does your reporting entity have over that?





Prescribed Transaction Reporting

- RBNZ has received a number of self-disclosed PTR issues in the last 12 months.

Large cash transactions

- Is 'cash' really cash?
- Location of cash transactions. Has that been coded correctly? Is that tested?
- Where thresholds/controls are implemented that should not trigger a PTR obligation, are these controls being tested?
- Assurance over agency/third party arrangements?

Prescribed Transaction Reporting

International Wire Transfers

- Do you have any bespoke systems or solutions that operate outside of the SWIFT network? How can you confirm that? Are they still tested?
- Intermediary institutions are exempt, but... are you passing on all relevant data to the beneficiary institution for PTR purposes?
- Assurance over agency/third party arrangements?
- The complicated interplay between MT101s, 103s and 202s.
- More discussion to come in 2021.





Group Discussion #1



Group discussion #1

1. What systems assurance activities does your reporting entity currently perform for any of the following?:
 - ❖ Account/transaction monitoring
 - ❖ PEP and Sanctions screening
 - ❖ Prescribed Transaction Reporting

2. What are some of the key challenges and issues with conducting systems assurance across AML/CFT controls?



De-risking & Risk Appetite



Focus on De-risking: As per RBNZ's Statement of Intent



De-risking & Risk Appetite

RBNZ recommends our Reporting Entities continue to adopt a case by case basis for onboarding Money Transfer Operators ('**MTOs**') and Virtual Asset Service Providers ('**VASPs**').

RBNZ considers that there are solutions to managing the risks that are present within MTOs and VASPs and that a blanket restriction or de-risking programme is not encouraged or appropriate.





Group Discussion #2

Group discussion #2

- Cash is a key part of a number of predicate offences to money laundering.
- For large cash deposits (>10K) that are 'occasional transactions' reporting entities are required to meet a number of obligations, including:
 - Conducting the relevant customer due diligence, and
 - Submitting a Prescribed Transaction Report.
- In addition to the above, a reporting entity must submit a suspicious activity report if the transaction is considered 'suspicious'.
- Despite these obligations the cash is still placed into New Zealand's financial system.
- Providing the abovementioned obligations are complied with, there is no legislative obligation for reporting entities to stop large cash and/or suspicious transactions.



Group discussion #2

1. Do you think reporting entities should stop large cash transactions that are considered suspicious? Why or why not?
2. Are there any alternative options for large cash deposits that may be the proceeds of crime entering the financial system?

