



Conférence LBC/FT

organisée par le CAA en
collaboration avec l'ACA et
l'APCAL

4 février 2019



National risk assessment (NRA)

2016-2017





LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère de la Justice

National risk assessment

CONTEXT





FATF standards

concerning the NRA

Recommendation 1

Countries should:

- Identify, assess and understand ML/TF risks
- Apply a risk base approach to prevent or mitigate ML/TF

Goal:

Efficient allocation of resources

Immediate outcome 1

- ML/TF risks are understood
- Actions are coordinated domestically to combat ML/TF





FATF standards

concerning risk based approach

Supervisory and self regulated bodies (SRBs)

- **Rec. 26:** Regulation and supervision of financial institutions (FIs)
- **Rec. 28:** Regulation and supervisions of diverse non financial businesses and professions (DNFBPs)

Submitted entities

- **Rec. 10 et 22:** Customer due diligence
- **Rec. 19:** Higher risk countries



RBA does not apply to
Rec. 20 Reporting of
suspicious transactions



Legislation

EU and LU

4AMLD

- **Art. 6** Supranational risk assessment by COM
- **Art. 7** National risk assessment by member states
- **Art. 8** Risk assessments by obliged entities

2004 AML/CFT Law

- **Art. 2-2** Obligation to perform a risk assessment
- **Art. 3 (5)** CDD procedures at appropriate times to existing customers on a risk sensitive basis
- **Art. 3-1** Simplified CDD
- **Art. 3-2** Enhanced CDD



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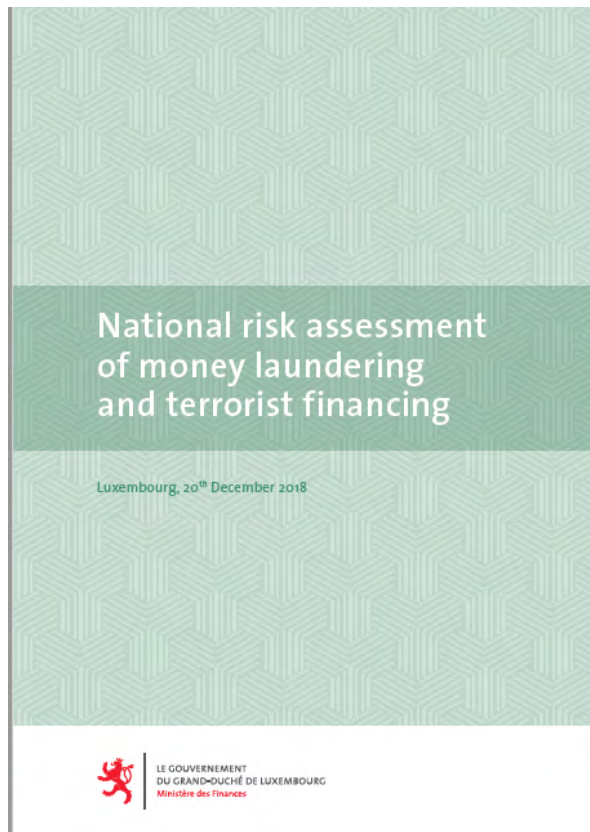
National risk assessment

PRESENTATION





Executive version (public version)



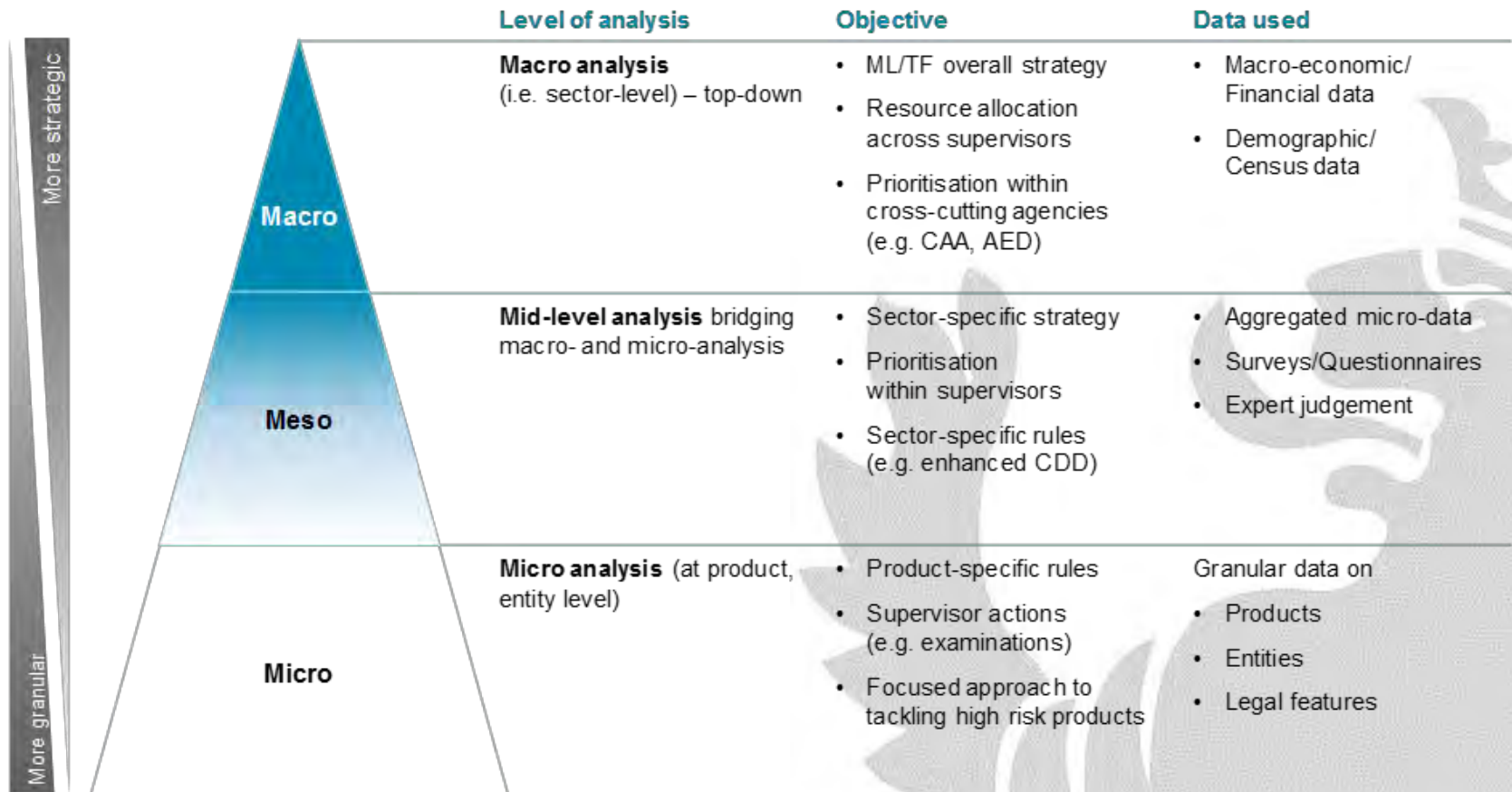
Basic version (restricted version)

- ML/TF prevention committee
- Head compliance and risk officers
- Only to be shared internally on a need to know basis





Granularity



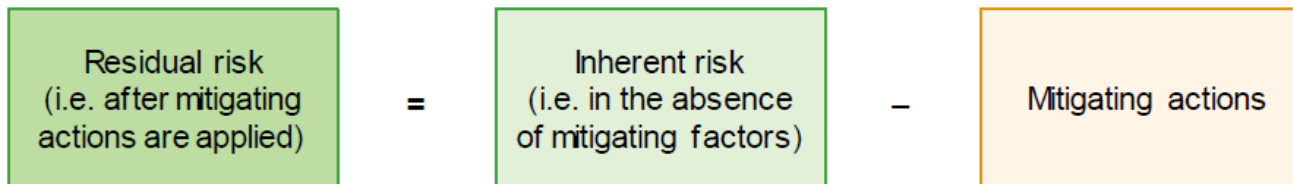


Overall approach

Luxembourg NRA Step 1: Inherent risk assessment *(i.e. in the absence of mitigating factors)*



Luxembourg NRA Step 2: Mitigating factors and residual risk





National risk assessment

THREAT ASSESSMENT





Threats methodology

FATF categories

- 21 designated categories of offenses, e.g.:
 - Terrorism and terrorist financing
 - Illicit trafficking in narcotic drugs and psychotropic substances
 - Tax crimes

Luxembourg law

- Corresponding predicate offenses in LU law, e.g.:
 - Art. 112-1, 135-1 à 135-6, 135-9, 135-11 à 135-16 CP
 - Modified law of 19 February 1973 on the sale of medicinal substances and the sale of narcotics
 - § 396 (5) and (6) AO; 1979 VAT Law; 1948 Registration and inheritance Law



Threats scorecard

Criteria	Sub-criteria	Example of indicators that can be used
Probability of crime ("likelihood")	Level of criminality	Crime rate/number of crimes (domestic) Terrorist events (incidents, attempts, casualties, etc.) Presence and activities of known terrorist groups Number of offences, open/new notices, prosecutions and convictions (with and without ML)
	Proceeds generated	Amounts seized Estimated value generated per crime committed Estimate of trade and financial flows with foreign countries (in particular with high risk countries) Estimated value of proceeds from international crimes Number of STRs and SARs filed
	Form of proceeds	Cash proceeds vs. Non-cash physical Use of innovative forms (e.g. virtual currencies)
	ML expertise	Sophistication (knowledge, skills, expertise) Capability (network, resources, etc.)
Proceeds of crime ("size" and "complexity")	Geography	Origin/source Destination
	Human, social and reputational impact ("consequences")	Economic and social cost Foregone revenues Financial system stability and its perceived integrity Attractiveness of the country for business, ability to attract FDI, broad "reputation" of country



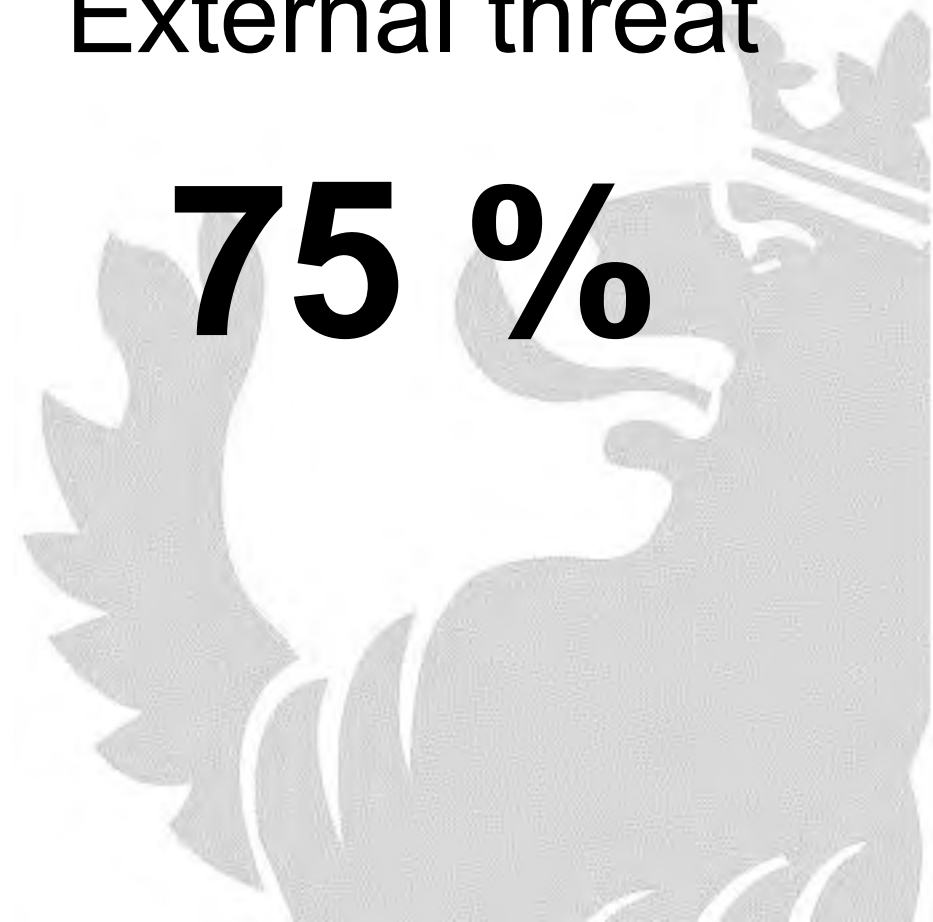
Domestic vs. External threat

Domestic threat

25 %

External threat

75 %





ML threats map

Designated predicate offense	External exposure (75 %)	Domestic exposure (25 %)	Weighted average exposure
Money laundering (average ML threat)	Very high	Medium	Very high
Drug trafficking	Very high	High	Very high
Fraud and forgery	Very high	High	Very high
Tax crimes	Very high	Medium	Very high
Corruption and bribery	Very high	Medium	Very high
Participation in an organised criminal group & racketeering	High	Medium	High
Counterfeiting and piracy of products	High	Medium	High
Sexual exploitation, including sexual exploitation of children	High	Medium	High
Smuggling	High	Low	High
Robbery or theft	Medium	High	High
Trafficking in human beings and migrant smuggling	Medium	Medium	Medium
Insider trading and market manipulation	Medium	Low	Medium
Illicit trafficking in stolen and other goods	Medium	Low	Medium
Environmental crimes	Medium	Low	Medium
Illicit arms trafficking	Medium	Low	Medium
Counterfeiting currency	Low	Low	Low
Extortion	Low	Very Low	Low
Murder, grievous bodily injury	Low	Very Low	Low
Kidnapping, illegal restraint, and hostage taking	Low	Very Low	Low
Piracy	Low	Very Low	Low
Terrorism and terrorist financing	Medium	Medium	Medium



National risk assessment

VULNERABILITY ASSESSMENT





Sector

vulnerabilities methodology

Macro-analysis

- Insurance industry
 - Number of insurance companies/Population
 - Insurance assets/GDP
 - Aggregate premia (Life and non-life) written/GDP
 - Insurance import/GDP
 - Insurance export/GDP

Meso-analysis

- Scorecard of assessment criteria for sectorial vulnerabilities (see next slide)



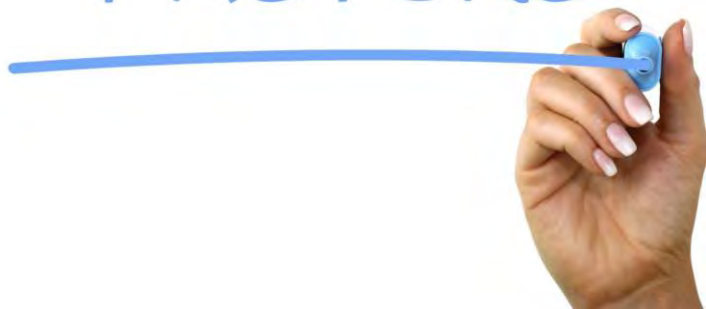


Scorecard for sectorial vulnerabilities

Dimension	Sub-dimension	Information/data needed
Structure	Size	Assets Revenue/turnover Employees
	Fragmentation/ complexity	Number of institutions Level of concentration (e.g. top 5 entity assets as a % of the market)
Ownership/legal structure		% ownership by foreign entities (of which from risky countries based on risk rating) % of lightly regulated legal entities (e.g. branches of foreign banks)
Products/activities		% of high risk products (e.g. % revenue from products/activities)
Geography	International business	% of international business (e.g. in clients revenue, assets, transactions)
	Flows with risky geographies	% of high risk geographies (e.g. in clients revenue, assets, transactions)
Clients	Volume	Number of clients Total number (stock) New clients per year (flow)
	Risk	% high risk clients (based on supervised entities' internal models) % PEPs (over time); domestic vs. foreign
Channels		Type of interaction: % face-to-face, indirect (e.g. online), via intermediaries
Typical ML/TF methods	Methods observed in Lux	Number of cases identified (e.g. STRs, convictions, examinations) Luxembourg expert knowledge (e.g. case studies)
	Sector-specific methods	International guidance (e.g. FATF, EU directives, ESAs, EU SNRA) Egmont Group case studies Other countries (e.g. case studies, NRAs)



MITIGATING
FACTORS



National risk assessment

MITIGATING FACTORS





Mitigating factors framework

1 National strategy & coordination MoF, MoJ

National actions

2 Prevention

CSSF, CAA, AED, professional associations
(facilitating and promoting compliance)

3 Detection

CRF
(intelligence gathering and analysis)

4 Prosecution / Enforcement

Prosecutors, Inv. Judges, Judicial Police
(law enforcement)

Rules-setting
and information

Supervision

Sanctions

Data receipt

Analysis

Dissemination

Criminalization

Investigation
&
Prosecution

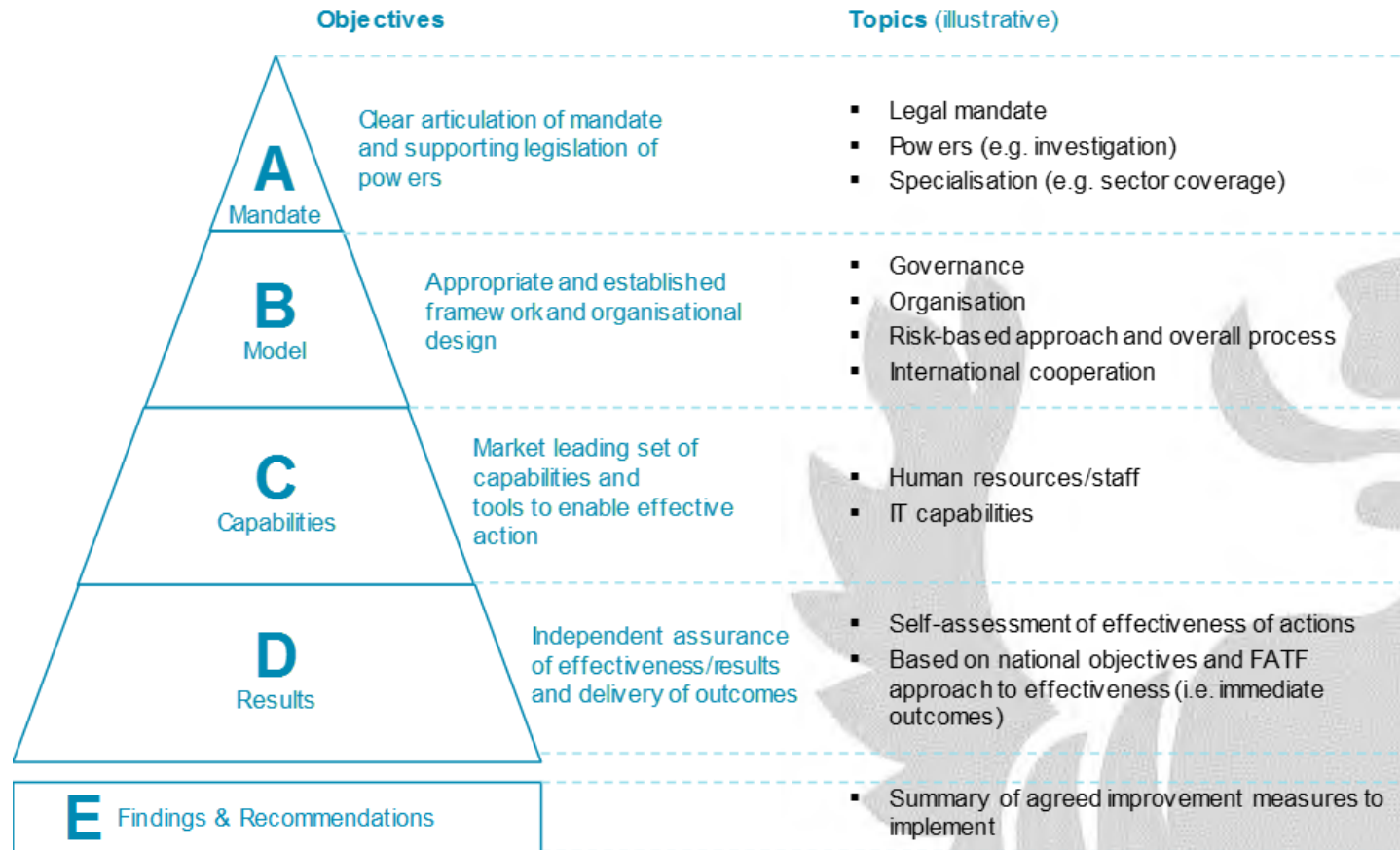
Asset
Recovery

5 International cooperation

Supervisors, CRF, tax authorities, judiciary, various ministries (in particular MAEE, MOF and MOJ)
(agreements, international structures, data/info sharing, international financial sanctions)



Dimensions used in mitigation factors review





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INHERENT RISK





Inherent risk

Sector	Inherent risk	Sub-sectors	Inherent risk
Banks	High	Retail & business banks (including payment services)	High
		Wholesale, corporate & investment banks	High
		Private banking	Very High
		Custodians and sub-custodians (including CSDs)	High
Securities	Low	Exchange and listed securities	Low
Investment sector	High	Wealth managers (gérants de fortune)	High
		Brokers and broker-dealers (non-banks)	High
		Traders/market-makers	Medium
		Collective investments	High
		Regulated securitisation vehicles	High
		Pension funds	Low
Insurance	Medium	Life insurers	High
		Non-life insurers	Low
		Traditional reinsurance	Low
		Reinsurance captives	Low
		Intermediaries	High
		PSA (insurance sector professionals)	Low
		Payment institutions	High
Money service businesses	High	E-money institutions	High
		Agents	Medium
		PSF spécialisés providing corporate services	High
Financial sector service providers	High	CSD/custodians (nonbanks)	Medium
		Other financial sector professionals	Very low



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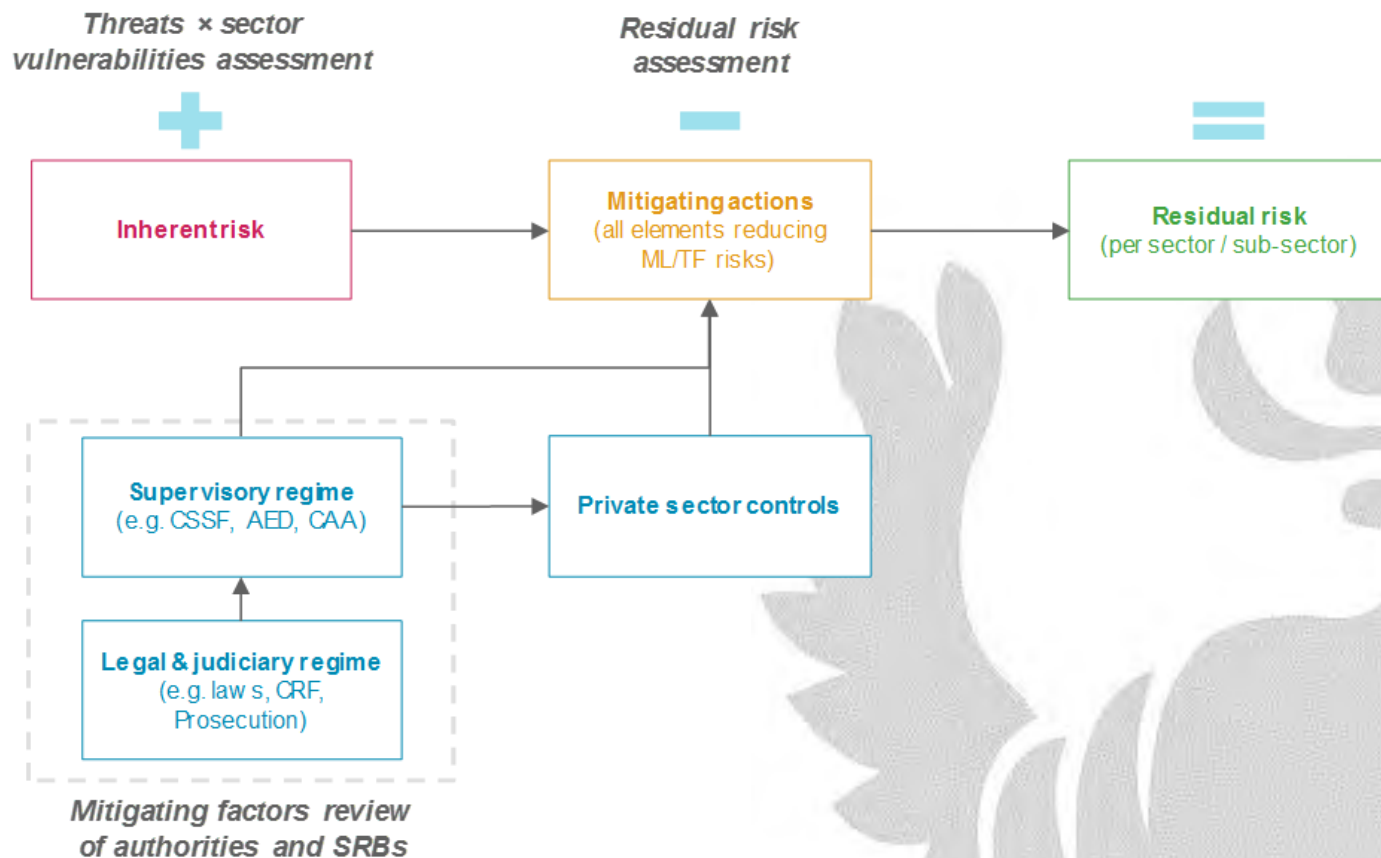
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RESIDUAL RISK





Drivers of residual risk levels





Residual risk calculation

Inherent risk score

- Understand ML/TF inherent risks for sub-sectors (e.g. private banking)
- Calculate the level of risk ranging from very low to very high (scores of 1 to 5)

Mitigating factors score

- Understand mitigating factors of AML/CTF regime at sub-sector level
- Calculate the level of mitigating factors at sub-sector level by using scores on a scale of 1 to 4 (signifying "limited/no mitigating actions" to a maximum of "very high mitigating actions")
- Level of effectiveness mapped to values of 0, 0.5, 1 and 2 which are then subtracted from inherent risk scores

Residual risk score

- Calculated by subtracting the mitigating factors review score from the inherent risk score at the sub-sector level
- Same score thresholds as inherent risk thresholds used to determine resultant residual risk level



Residual risk

Financial sector

- Efficient mitigation measures
 - Risks are understood
 - Supervisors appropriately supervise
 - Financial institutions adequately apply AML/CFT preventive measures
- Lower residual risk per sectors and sub-sectors

Non-financial sector

- Highly fragmented sector needs further data collection (e.g. TCSPs)
- Low STR filing in some high risk sectors and sub sectors (e.g. real estate)
- Remaining of high risk sectors



The End

Thank you for your attention

