



# Risk Based Approach of Anti-Money Laundering and Counter-Financing of Terrorism for NPOs

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# I. Objective and Scope of RBA on AML/CFT

Objectives of is used to evaluate the reporting units responsible for implementing the work of anti-money laundering and counter-financing of terrorism, with the aim of evaluating and assessing the implementation of the reporting units that are adequate, tighter and consistent with relevant legislation with effectiveness as well as appropriately with international standard of FATF.



## II. The purpose of RBA on AML / CFT to the NPOs.

- Non Profit Organization (NPOs) sector have a growth in Lao PDR and through the conducting of National Risk Assessment (NRA) on AML/CFT indicated that NPOs may be abused for Money Laundering and terrorism financing, due to there is no implementation and regulation related to AML/CFT, lack of knowledge for operating the Association, limited of training and the implement related regulation.
- Therefore, it is necessary to conduct the RBA to mitigate the risk on ML/TF of NPO sectors.



## II. The purpose of RBA on AML / CFT to the NPOs. (Cont.)

- In addition, non-profit organizations are also required to comply with the requirements Recommendation 8 of the international organization, so-called the Financial Action Task Force (FATF), which states that each country should comply its obligations in accordance with required in the Rec 8. In term of the Mutual Evaluation (ME) on AML/CFT of Lao PDR had defined the NPOs as a significant sector which included to the Technical Compliance (TC) for ME .

As mention above, the RBA on ML/TF of NPOs sector conducting is very significant for re-rating score (substantial) on the ME .



### III. Model of RBA on AML/CFT

#### ❖ Monitoring and inspection

1. Document monitoring and inspection;
2. On-site monitoring and inspection.

#### ❖ Procedures of monitoring and inspection

Monitoring and inspecting for REs related to RBA on AML/CFT implement as follows:

- Set goals for monitoring and inspection;
- Set a date for monitoring and inspection;
- Set the purpose of monitoring and inspection;
- Collect relevant information from the intelligence Division;
- Review previous inspection reports;
- Appoint a monitoring and inspection committee;
- Notices to financial institutions;
- Divide responsibility to the monitoring and inspection committee;
- Meet with the Director or staff in charge of data collection and report to inform the purpose of monitoring and inspection;
- Monitor and inspect legislations, implementation and financial institution's amendments to previous guideline.



## IV. Content of RBA on AML/CFT

### ❖ RBA Principles

RBA on AML/CFT are followed by two key factors that affect the assessment: **Inherent Risk Indicators** and **AML/CFT Control Indicators.**:

**Inherent Risk Factor** is a risk factor that can occur on its own, which affects the risk on size and volume of the variable as follows:

#### 1. Size:

- Registered capital in the establishment;
- Total assets (fixed and current assets);
- Number of donors;
- Amount of donation.



## IV. Content of RBA on AML/CFT (Cont.)

### 2. Propose of operation.

- Cultural;
- Religious;
- Education;
- Environmental;
- Public health;
- **Physical education;**
- Charity;
- Humanities;
- Economic aspects;
- Other aspects .....

### 3. Charity of CSOs

- History and structure of the board of directors;
- Nationality of the Board of Directors;
- Examining the source of funds and the criminal history of the Board of Directors;
- Annual budget plan that details revenue-expenditure.





## IV. Content of RBA on AML/CFT (Cont.)

### 4) Risk Appetite:

- Country / Region of the recipient of donation;
- The country / region to which the donation has been made; relationship with the natural person or legal entity, and the country designated in the UN list;
- Establishing relations with all persons or jurisdictions and countries specified in the list of the United Nations;

### 5) Method of service delivery:

- Cash;
- Through a reliable financial system;
- With equipment;
- By vehicle;
- Other.

### 6) High risk geographic locations of operation (domestic or international):

- Head quarter location;
- Services;
- Contact number.



## V. Risk Assessment

❖ RBA on AML/CFT is ducted on the basis of a data analysis of 19 inherent risk factors and AML / CFT control factors obtained from reporting units, to set the score and input it into the risk assessment tool (Excel Tool)

❖ Form of scoring:

There are two types of risk assessment tools: Risk Score and Risk Reduction Score. Scoring is set from 1 (minimum score) to 5 (highest score).

-Risk Reduction Score (+): Entering a score of 1 means that the factor is low risk. But a score of 5 would mean that the risk was high. (the higher scores the higher risks).

-Risk Reduction Score (-): Entering a score of 1 means that this factor is less effective in implementing risk reduction. But a score of 5 means that these factors are highly effective in reducing risk. (the



## V. Risk Assessment Cont.)

- RBA result: After the scoring and rating of 6 factors is included in the risk assessment tool, the tool calculates the risk rating of the reporting entity:-
  - Scores 0-19 are low risk;
  - Score of 20-39 are low-medium risk;
  - Scores 40-59 are medium risk;
  - Scores 60-79 are medium-high risk;
  - Scores of 80-100 are high risk.

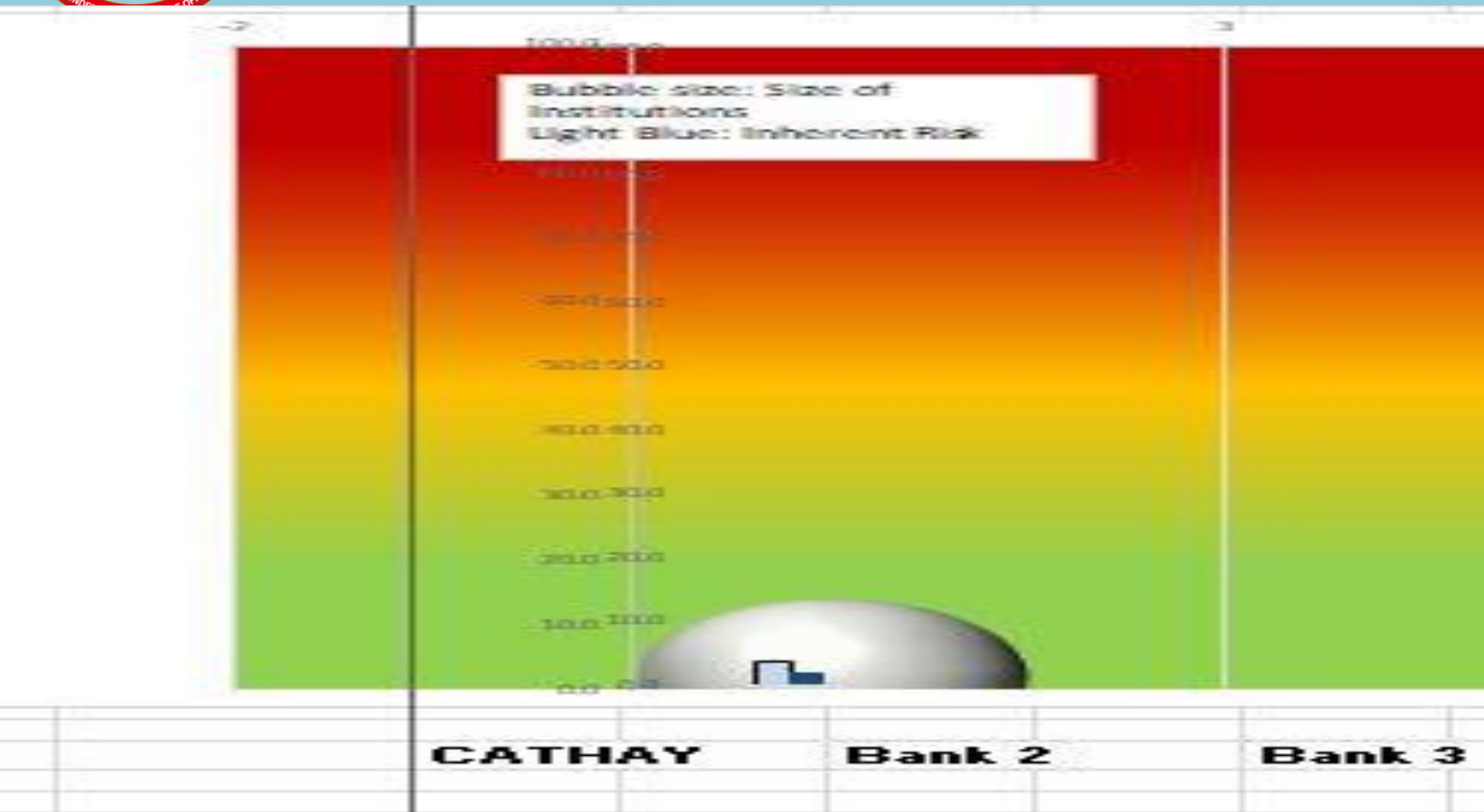


## V. Risk Assessment(Cont.)

- On-site monitoring and inspection is conducted after get the result for Document monitoring and inspection such as:
  - High risk and medium-high should will need to be inspected with the authorities after the results of the documentary assessment;
  - Medium risk must be monitored to resolve the deficiency (not more than 1 year) after the results of the documentary assessment;
  - Low-medium risk and low risk will need to be monitored to resolve the deficiency (not more than 2 years) after the results of the documentary assessment.



# For example of RBA Results on AML/CFT



ສະຫຼຸບຜົນການປະເມີນຄວາມສ່ຽງ	ລະດັບຕໍ່າ
Inherent Risk	3.8
Residual Risk	1.9



## V. Risk Assessment(Cont.)

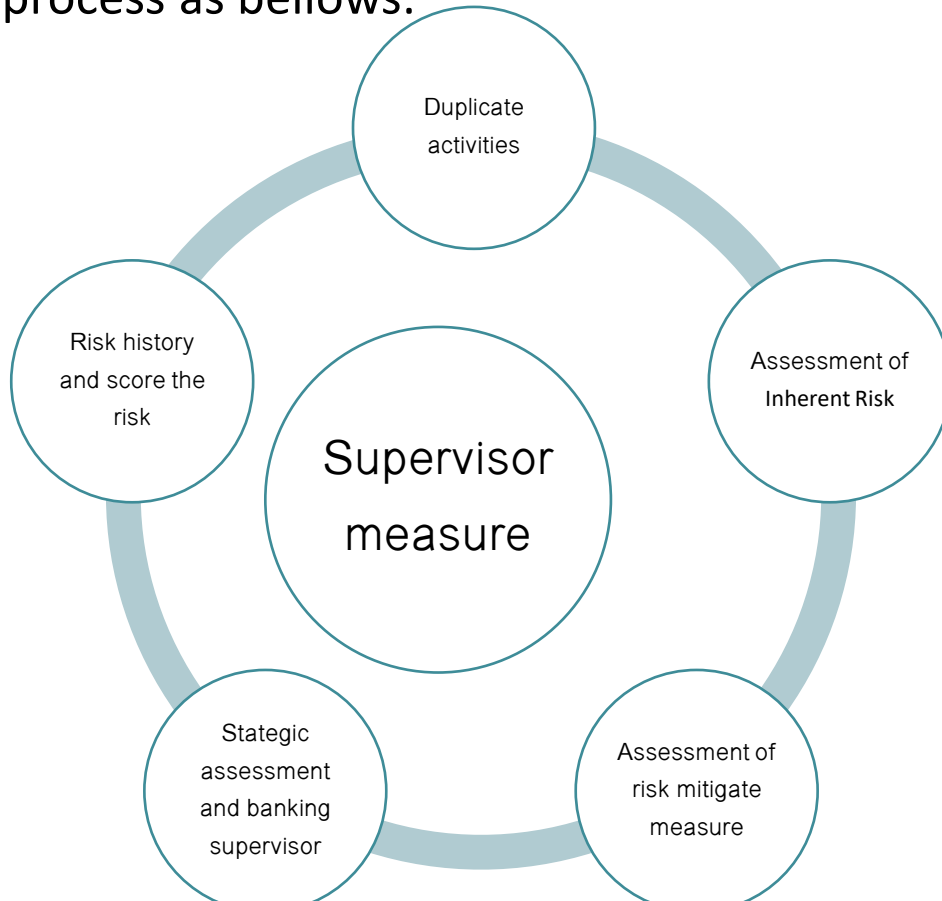
### ❖ RBA Monitoring and inspection on AML/CFT time frame

- RBA Monitoring and inspection is divided into three phases:
  - High-risk and medium-high risk must be assessed every 3 years;
  - Medium risk must be assessed every 4 years;
  - Low - medium and low risk must be assessed every 5 years;

# VI. Format and procedures of RBA on AML/CTF

## ❖ Format and procedure of RBA on AML/CTF

In accordance with the AML/CFT Law, the relevant legislation and the Risk Management and Manual of Monitoring and inspection of RBA on AML/CFT, there is process as bellows:



Determine the concentration & scope of the supervision

- Frequency
- Areas that require intensive Supervision
- Type of supervision



## VII. Additional indicators of high-risk transactions to counter terrorism

### I. Customer Risk Indicator and Establishment of Business Relationship.

- Name, Alias, Date of Birth, Identification of other internal and external TF designated person that might link to the existing customer, benefit and legal entity business profile.
- ### II. Indicators on the economic history of the client.

### II. Customer Business Background Indicator

- Person operate multi-transaction in one company or in several branches with a clear strong intention of using only one cashier/teller.

### III. Geographic Risk Indicator

#### ❖ Jurisdiction or Risky Geographic

- Conflict of interest area or higher-risk jurisdiction or high potential area of engaging a war

- Including other associated risk indicator







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