WHAT ARE MONEY LAUNDERING AND TERRORISM FINANCING LAWS?

AML/CTF laws apply to millions of businesses in over 200 countries and over 30 different industries within the financial services, gaming, gatekeeper professions and high-value dealers sectors. AML/CTF laws are risk-based meaning they require all regulated businesses to conduct an ML/TF risk assessment to identify and assess their vulnerabilities to their businesses being used to facilitate ML/TF and build an appropriate and proportionate control framework.

Why you should conduct a money laundering and terrorism financing risk assessment?

REPUTATION AND TRUST
Being associated with money laundering or terrorism financing can severely damage your business's reputation and erode customer trust. By conducting an ML/TF risk assessment, you demonstrate a commitment to ethical business practices and maintain a clean reputation.

COST SAVINGS
Detecting and preventing financial crimes early can save your business from financial losses, costly investigations, and potential fines.

FINANCIAL SECURITY
Money laundering and terrorism financing activities can lead to financial losses for businesses, as well as potential disruption of operations due to legal actions, investigations, and frozen assets.

COLLABORATION AND INFORMATION SHARING
Effective ML/TF risk assessments can encourage information sharing among regulated businesses and regulatory authorities, fostering a collective effort to combat financial crimes.

PREVENTION AND DETECTION
A thorough ML/TF risk assessment helps you identify vulnerabilities in your processes that could be exploited by criminals. It allows you to put preventive measures in place and establish detection mechanisms to identify suspicious activities.

REGULATORY SCRUTINY
Regulatory authorities often require businesses to provide documented evidence of the ML/TF risk assessment and risk management efforts. Having a documented assessment demonstrates your compliance and can facilitate smoother interactions with regulators.

CONDUCTING A MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT IN

10 STEPS

STEP 01 — **Understand Regulations:** Familiarising yourself with ML/TF laws will help you understand the requirements and expectations for conducting ML/TF risk assessment.

STEP 06 — **Implement Controls:** Put in place the controls and measures you've identified. This might involve updating policies and procedures, incorporating technology solutions for transaction monitoring, and providing training to staff.

STEP 02 — **Identify Risk Factors:** Identify the risk factors specific to your business, such as customer profiles, transaction types, products or services offered, geographic locations, and delivery channels.

STEP 07 — **Testing and Review:** Periodically test and review the effectiveness of your mitigation measures. Adjust your approach based on lessons learned and changes in risk factors resulting from external and internal factors.

STEP 03 — **Assess Vulnerabilities:** Evaluate the vulnerabilities associated with each identified risk factor. Determine how likely these vulnerabilities are to be exploited and what impact they could have on your business.

STEP 08 — **Document the Assessment:** Maintain comprehensive documentation of the entire assessment process, including your risk identification, evaluation, mitigation strategies, and the rationale behind your decisions.

STEP 04 — **Rate Risks:** Assign a risk rating to each identified risk based on factors like likelihood and potential impact. This helps prioritise your efforts in mitigating the highest-risk areas, first.

STEP 09 — **Report and Communicate:** If required by regulators, prepare reports detailing your ML/TF risk assessment findings, mitigation measures, and the outcomes of your efforts. Communicate these findings to relevant stakeholders, including regulators.

STEP 05 — **Develop Mitigation Measures:** Develop strategies and measures to mitigate the identified risks. These could include enhanced customer due diligence, transaction monitoring, employee training, and reporting mechanisms for suspicious activities.

STEP 10 — **Continuous Improvement:** Money laundering and terrorism financing risks evolve over time. Continuously monitor changes in your business environment, regulatory updates, and emerging risks and adapt your ML/TF risk assessment and mitigation strategies accordingly.

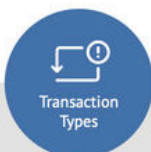## Risk factors to consider when conducting a money laundering and terrorism financing risk assessment

- Customer Profiles
- Source of Funds
- Delivery Channels
- Transaction Types
- Higher Risk Industries
- Record Keeping
- Regulatory Environment
- Customer Behaviour
- Products and Services
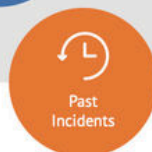- Third-Party Relationships
- Geographic Locations
- Employee Awareness
- Technological Vulnerabilities
- Past Incidents

About Arctic Intelligence

Arctic Intelligence (www.arctic-intelligence.com) is a multi-award winning, RegTech firm that specialises in audit, risk and compliance software related to financial crime compliance and risk management. Arctic Intelligence has helped hundreds of large and small clients across over 20 industry sectors and 20 countries and has also developed strong industry partnerships around the world.

Arctic has developed two leading cloud-based software solutions that leverage technology to re-engineer the way in which major financial institutions and other regulated businesses manage their enterprise-wide financial crime and non-financial crime risks.

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