

**Circular on Risk Based Approach for all accounts in line with Customer Due Diligence CDD guidelines
for the Bank under the Financial Transaction Reporting Act. No 6 of 2006
(Reviewed - May 2018)**

1. Introduction to Risk Based Approach

The Bank is mandated to adhere to the guidelines issued by the Financial Intelligence Unit by way of the Financial Transaction Reporting Act No 6 of 2006 and other directions issued there under. As per the direction issued by way of circular No 1/18 with reference 037/05/002/0018/017 dated 11th January 2018 and Customer Due Diligence Rules, No. 1 of 2016 issued by way of gazette 1951/13 dated 27th January 2016, the Bank is required to have and follow the measures specified in these rules for the purpose of identifying, assessing and managing money laundering and terrorist financing risks posed by customers, and conduct its ongoing customer due diligence (CDD) on a "Risk Based Approach" (RBA).

The Bank is required to take specific measures for the purpose of identifying, assessing, and managing the money laundering and terrorist financing risk posed by its customers and business activities.

The RULES made by the Financial Intelligence Unit under section 2 of the Financial Transactions Reporting Act, No.6 of 2006 states,

"The intensity and extensiveness of risk management functions shall be in compliance with the "risk based approach" and be proportionate to the nature, scale and complexity of the Financial Institution's activities and money laundering and terrorist financing risk profile"

“The systematic application of: Management policies, procedures and practices to the tasks of establishing the context and identifying, analyzing evaluating treating, monitoring, and communicating Risk”

“The Banks are required to take appropriate steps to identify, assess and manage its money laundering and terrorist financing risks in relation to its customers, countries or geographical areas, products, services, transactions and delivery channels”

This General Circular is issued for Cargills Bank in terms thereof, and may be amended from time to time in line with changes in laws, regulations and applicable standards in the regulatory framework and applicable laws for the Banking Industry and **must be read in conjunction with the Banks AML Policy and Account Opening Circular and other related documents.**

Factors to be considered in the Risk Assessment

All staff are responsible to conduct the risk assessment as part of the due diligence exercise, considering factors such as the below

- What risks are posed by the nature of the customer type, profession/vocation and legal structure of the customer?
- Is the Business located in a high risk jurisdiction? / is the Customer a PEP?
- What risks are posed by the nature of the customer's activities/business?
- Does the Bank understand the commercial rationale of the customer's business or the activities of the customer?
- Do the customer's transactions involve a high level of cash?
- What risks are posed by the customer's behavior?
- Is there transparency of ownership?
- Is there a willingness to provide information about themselves and about its controllers?
- Is there information concerning the source of funds and source of wealth and in the case of Legal entities of the business or the owners?
- What risks are posed by the products and services being provided to the customer?
- How do we communicate with the customer? Did they solicit us or did we solicit them?
- Is the business conducted on a face-to-face basis?

(This list is not exhaustive but a mere guideline and should be read in conjunction with Annex 01 hereof)

2. Know Your Customer

In order to prevent the financial system being used for money laundering and transactions related to terrorism and subversive activities, it is mandated that all Banks follow guidelines on customer identification in terms of Direction Ref 02/04/004/0012/001 dated 8th October 2008 issued by the Financial Intelligence Unit of the Central Bank of Sri Lanka.

- At the time of opening an account - Customer "On-Boarding"
- Before establishing a business relationship with a prospective customer
- Thereafter when there are material changes in the way an account is operated.
- When a trigger event is observed

Banks are responsible of Customer Identification, Risk Management and monitoring of accounts on a continuous basis.

In order to ‘**Know Your Customers**’ (KYC) Banks are expected to;

- Have sufficient information on the identity of the customer
- Be satisfied that a prospective customer is who he/she claims to be. If the customer is acting on behalf of another, sufficient evidence on the identity of **both parties** should be obtained.
- Ensure that information obtained regarding customers in the normal course of business are utilized effectively for the prevention of money laundering/terrorism funding.

3. Customer Risk Profiling

All Banks are required to perform **Risk Based Compliance**. Risk profiling of all customers is mandatory and is to be done by way of the information derived by the Bank through the KYC and Customer Due Diligence (CDD) process

Where any customer is rated as “**High Risk**” the **Bank is required to carry out Enhanced CDD measures** for such customer, in addition to the normal CDD measures undertaken.

The Bank has developed a Risk Matrix to enable the branch and business development staff to ascertain the particular AML Risk Profile (LOW, Medium or High) of a given customer. The template for the Customer Risk Profiling (CRP) is attached hereto.

A Brief description of Low, Medium, and High risk categories is given below.

The profile will be evaluated taking the following into consideration

- **Low Risk**

Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as Low Risk.

The illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover. E.g.: Student /House wife/Pensioner/farmer.

- Recommended frequency for **periodical review: Every Five Years or upon a trigger**
- **Delayed Verification can be done for Low Risk Customers subject to the below**

Delayed Verification process

- Verification shall be completed as soon as it is reasonably practicable but **not later than fourteen (14) working days** from the date of opening of the account.
- The delay shall be essential so as not to interrupt the Bank’s normal conduct of business
- No suspicion of money laundering or terrorist financing risk shall be involved with the customer.

- **Medium Risk**

Customers who are likely to pose a higher than average risk to the Bank may be categorized as Medium or High Risk depending on the customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. Such as:

- Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful and not all information is immediately verifiable.
- Fund flow sources not well documented or known to the Bank or verifiable immediately; deposits to the account frequently exceed the declared income threshold by the customer; with adequate /known reasons.
 - Recommended frequency for periodical review: **Every Three Year or upon a trigger**
 - **Delayed Verification : Delayed verification is not permitted for Medium Risk Customers**

- **High Risk**

- The Bank will be required to apply Enhanced Due Diligence measure based on the risk assessment, thereby requiring intensive 'Due Diligence' for Higher Risk customers, especially those for whom the sources of funds are not clear. Examples of customers requiring higher level of Due Diligence may include.
 - Non Resident Customers,
 - High Net worth individuals
 - Trusts, charities, NGOs and organizations receiving donations,
 - Companies having close family shareholding or beneficial ownership
 - Firms with 'sleeping partners'
 - Politically Exposed Persons (PEPs) of foreign/local origin
 - Non-face to face customers, and
 - Those with dubious reputation as per public information available, etc.
- **Recommended frequency for periodical review: at least annually or more frequently on a trigger basis.**
- **Delayed Verification : Delayed verification is not permitted for High Risk Customers**
- **Approval of the Head of the respective Business function is to be obtained at the point of opening accounts for individuals/entities catagorised as High risk.**

A report on all PEPs and other High Risk customers are presented to the Board on a monthly basis.

Politically Exposed Persons –PEPs

A PEP is an individual who is entrusted with prominent public functions either domestically or by a foreign country, or in an international organization and includes a Head of a State or a Government, a politician, a senior government officer, judicial officer or military officer, a senior executive of a State owned Corporation, Government or autonomous body but does not include middle rank or junior rank individuals.

1. This category of customers known as PEPs and are required to be categorised as **HIGH Risk** from an ML Compliance perspective. However regulatory guidelines **do not prohibit** dealings with PEPs. But **Enhanced Due Diligence (EDD)** is required to be carried out on such customers.
2. The Account opening staff are required to obtain approval from the Corporate Management and the Compliance team in order to proceed.
3. For those identified as PEPs the Bank should identify, by appropriate means, the sources of funds and wealth or Beneficial Ownership of funds and wealth and be satisfied of the legitimacy of it;
4. Conduct Enhanced Ongoing Monitoring of business relationships with the politically exposed person.
5. Be fully satisfied that the Customer does not expose the Bank to unacceptable levels of ML/TF risk

A Close Associates is,

- The Spouse ,Siblings ,Children and Parents
- A natural person having joint beneficial ownership of legal entities and legal arrangements, or any other close business relationship;
- A legal person or legal arrangement whose beneficial owner is a natural person and is known to have been set up for the benefit of such person or his immediate family members.

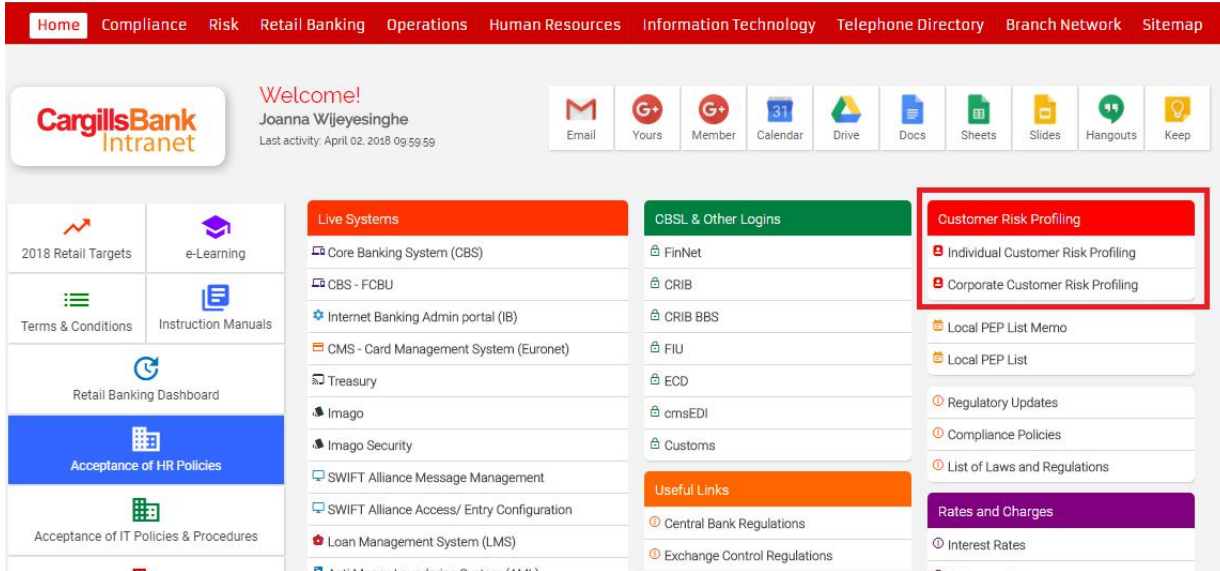
Notation on the Core System

Irrespective of the customer type (Corporate, Individual etc.) the Risk Profile of the customer must be ascertained using the above matrix and noted in the Core Banking System in the relevant field. The risk assigned would need to be Low, Medium or High. This will enable staff of other Branches and Business Units to obtain information on the customer through the system as and when required.

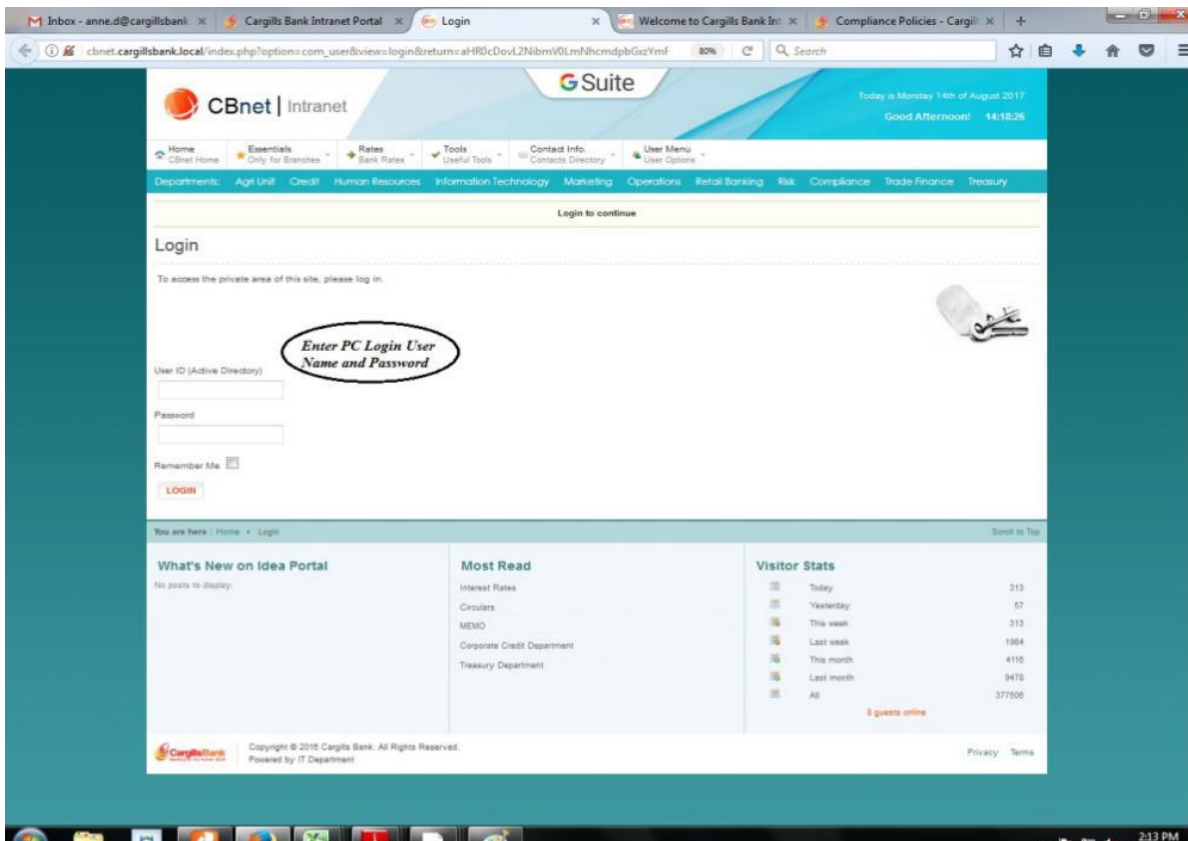
The risk rating assigned to a customer would be reviewed when conducting his/her KYC review at the stipulated frequency. If a change in the risk rating assigned is deemed required, The same would need to be done and updated in the Bank's CBS subsequent to the approval of the Head of the Business Function being obtained.

Risk Profiling Process

1. Log in to the Bank's intranet and click on the respective link as appropriate.



1.2 Login



2. Fill the Risk profile from the details obtained in customer KYC and click “ CALCULATE THE RISK” button

(Democratic People's Republic of Korea (DPRK), Ethiopia, Iran, Iraq, Serbia, Syria, Trinidad and Tobago, Tunisia , Vanuatu , Yemen)

High Risk Countries including Tax Havens H 30.00%

(American Samoa, Andorra, Anguilla, Antigua and Barbuda, Aruba, Ascension Island, Bahamas, Bahrain, Barbados, Barbados, Belize, Bermuda, Bolivia, British Virgin Islands, Brunei, Cayman Islands, Channel Islands, Christmas Island, Cocos (Keeling), Cook Islands, Costa Rica, Djibouti, Dominica, Falkland Islands or Malvinas, Fiji Islands, French Polynesia, Gambia, Gibraltar, Grenada, Guam, Guyana, Honduras, Hong Kong, Jamaica, Jordan, Kingdom of Tonga, Kiribati, Kuwait, Labuan, Lebanon, Liberia, Liechtenstein, Macao, Maldives Islands, Marshall Islands, Mauritius, Monaco, Mongolia, Monserrat, Namibia, Nauru, Netherlands Antilles, Niue Island, Norfolk Island, Northern Mariana Islands, Pacific Islands, Palau, Palau Islands, Panama, Pitcairn Island, Porto Rico, Qatar, Queshm Island, Saint Helena, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Samoa, San Marino, Seychelles, Solomon Islands, South Korea, St Vicente and the Grenadines, Sultanate of Oman, Svalbard, Swaziland, Tokelau, Trinidad and Tobago, Tristan da Cunha, Tunisia, Turks and Caicos Islands, Tuvalu, United Arab Emirates, United States Virgin Islands, Vanuatu, Yemen Arab Republic)

CALCULATE RISK RATE **RESET**

Special Category of Customer			
Politically Exposed Persons - PEPS	Close Associate or family member of PEPS	VH	85%
GEOGRAPHICAL/ LOCATION	Sanctioned	VH	80%

You are here : Home • Individual Customer Risk Profiling Scroll to Top

What's New on Idea Portal

No posts to display.

Most Read

- Interest Rates
- Circulars
- MEMO
- Corporate Credit Department
- Treasury Department

Visitor Stats

Today	112
Yesterday	464
This week	1723
Last week	2259
This month	2360
Last month	11200

Polynesia, Gambia, Gibraltar, Grenada, Guam, Guyana, Honduras, Hong Kong, Jamaica, Jordan, Kingdom of Tonga, Kiribati, Kuwait, Labuan, Lebanon, Liberia, Liechtenstein, Macao, Maldives Islands, Marshall Islands, Mauritius, Monaco, Mongolia, Monserrat, Namibia, Nauru, Netherlands Antilles, Niue Island, Norfolk Island, Northern Mariana Islands, Pacific Islands, Palau, Palau Islands, Panama, Pitcairn Island, Porto Rico, Qatar, Queshm Island, Saint Helena, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Samoa, San Marino, Seychelles, Solomon Islands, South Korea, St Vicente and the Grenadines, Sultanate of Oman, Svalbard, Swaziland, Tokelau, Trinidad and Tobago, Tristan da Cunha, Tunisia, Turks and Caicos Islands, Tuvalu, United Arab Emirates, United States Virgin Islands, Vanuatu, Yemen Arab Republic)

CALCULATE RISK RATE **RESET**

Special Category of Customer			
Politically Exposed Persons - PEPS	Close Associate or family member of PEPS	VH	85%
GEOGRAPHICAL/ LOCATION	Sanctioned	VH	80%

Overall Rating:

1 - 65	Low
66 - 80	Medium
81 - 95	High
96 - 100	Extremely High

You are here : Home • Individual Customer Risk Profiling Scroll to Top

What's New on Idea Portal

No posts to display.

Most Read

- Interest Rates
- Circulars
- MEMO

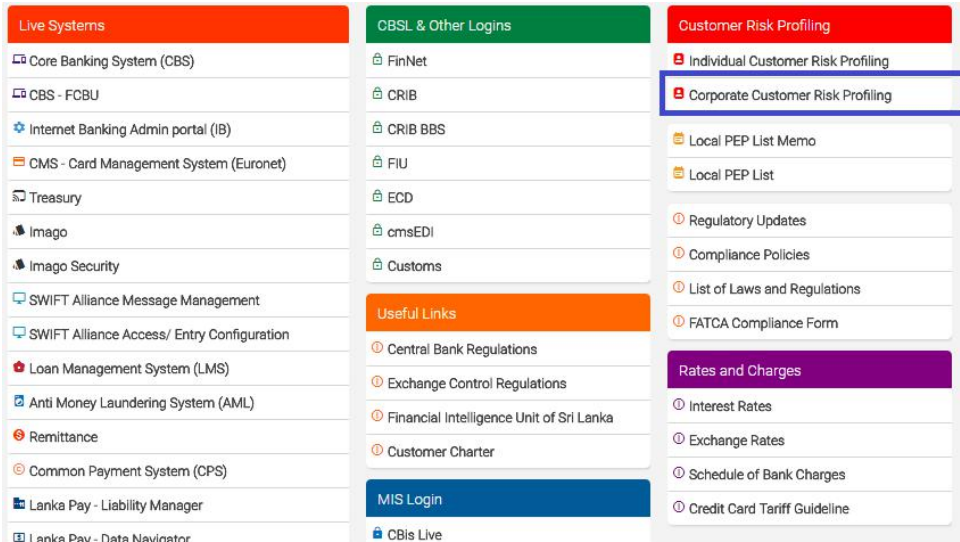
Visitor Stats

Today	113
Yesterday	464
This week	1724

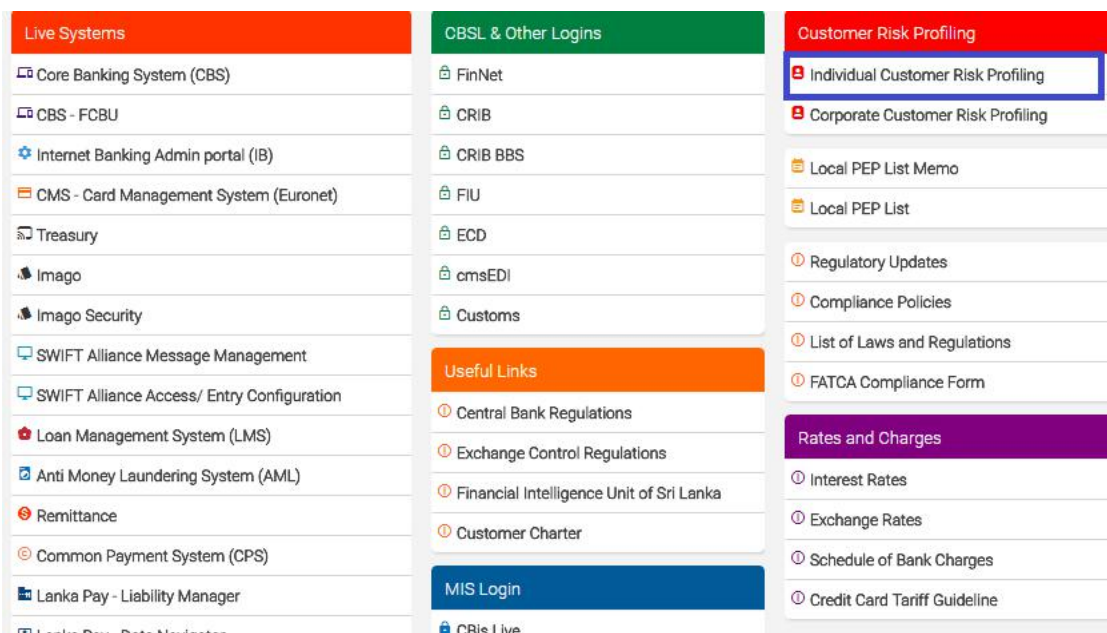
3. Save and Print the customer Risk Profile. Calculated Customer Risk rating assessment should be attached with the account opening mandates.

Accordingly Front line Branch staff, Tab account Opening staff, sales staff and all employees need to adhere to the Risk Profiling requirement for all account opening.

Risk Assessments for **proprietorship, partnerships, and/or any other Business Entity** would need to be done using the **“Corporate Customer - Risk Profiling”** matrix made available on the intranet as shown below.



Only Risk Assessments carried out for individuals (not engaged in any type of business) could be done using the “Individual Customer - Risk Profiling “ matrix.



The completed risk rated document **should be attached with the account opening mandates**, and retained under the record keeping requirements of the Bank. This is required for all account types and for all relationships entered into with the Bank including loans and Card products.

Upon the initial acceptance of a customer, The Bank shall regularly review and update, the Customer's risk profile based on his level of money laundering and terrorist financing risk

Strict Confidentiality

The Risk Profiling and the resultant information are exclusively for Bank's internal use only and is used for the purpose of mitigating the ML/TF risk posed to the Bank. **Strict confidentiality must be maintained at all times. It is to be especially noted that the customer should NOT be informed of his/her Risk Profile.**