RISK REVEALED: NAIROBI

Villa Rosa Kempinski
11th June 2019
THE FUTURE OF FIGHTING FINANCIAL CRIME

Urgent need for a global, coordinated approach

Michael Meadon

Market Development Manager - Refinitiv
Discussion

Economic crime is a massive and growing problem and pose risks for business, the public sector and citizens.

Public and private sectors are urged to take a public stance in this fight. Building trust and promoting collaboration is the way forward.

Information sharing and the use of technology are needed to uncover criminal networks.

This is not just a compliance issue but poses a risk to the integrity of the financial system.
Who is Refinitiv?
Our DNA – as the world’s first Fintech with over a 150 year history

1850 PIGEON
Paul Julius Reuter used carrier pigeons and the new Calais-Dover cable to transmit stock market quotations

1858 CABLE
Cable from GB to US laid, enabling Reuters to expand its expertise in global currency exchange

1865 TELEGRAPH
Reuters first to report President Lincoln assassination by telegraphing news to London

1873 MONITOR
Monitor Money Rates Service launches, creating the first electronic marketplace for FX

1880 TRIARCH
Launched Trading Room Architecture (Triarch) – our first API

1899 REUTERS 3000XTRA
Private network links to Reuters gives live prices from global stock, commodity, futures, derivative and bond markets as well as FX price makers.

2001 RMDS
Reuters Market Data System launched to help clients integrate and distribute third-party data

2006 TREP
Thomson Reuters Enterprise Platform launches, delivering a massive decrease in latency in the movement of complex financial content between counterparties

2010 EIKON
Thomson Reuters launches next generation desktop Eikon, providing access to trusted news, data & analytics for the financial community

2013 ELEKTRON
Enabling firms to function and run their operations by delivering powerful content and technology solutions

2016 EIKON APP STUDIO
Open platform approach taken to a new level with Eikon App Studio and Thomson Reuters Professional Developer Community (TRPDC)

2017 ELEKTRON DATA PLATFORM
An open platform that supports an ecosystem where content, analytics and proprietary, customer and 3rd party technology come together to reveal hidden opportunities, potential risks and new pathways to profits

2018 REFINITIV FORMATION

Who we are, what we do

Data, Analytics and Workflow

- Equipping customers with the data, insights, technologies, and expertise to succeed
- The rise of smarter humans with smarter machines

Driving Performance
- News content workflow and analytics
- Indices and benchmarks
- Trading infrastructure and services
- Hosted transaction processing
- Pricing reference and entity data
- Execution management systems

Enabling Community and Connectivity
- Connecting the global ecosystem to drive performance and innovation
- Supporting the industry to be more agile in trading and investing

Venues and Transactions
- FX venues – Dealing, Matching, FXall
- Fixed income venues – D2D and D2C
- Messaging and chat
- Eikon Auctions and FI call outs
- FXT

Elemental source of mission critical data into our customer’s core workflow

Risk
- Anticipate, proactively manage, and inform on risk and compliance
- Supporting global and expanding businesses manage risk across different geographies

Managing Risk & Regulation
- Anti-financial crime data and Enhanced Due Diligence solutions
- KYC/AML managed services and Utilities
- Legal Entity Identifiers
- Enterprise Risk Management Technology
- KYC as a SERVICE
- Connected Risk
- World-Check
About World-Check

World-Check® is our risk intelligence database

It provides organizations with structured data from reliable and reputable public domain sources to help them fulfill their due diligence obligations and identify potential financial and related crime, as well as politically exposed persons (PEPs).

Meeting global legislation:
- Anti-Money Laundering Legislation
- Foreign Corrupt Practices Act
- UK Bribery Act
- OECD Anti-Bribery Act
- Countering the Financing of Terrorism Legislation CFT/CTF
- UK Modern Slavery Act
- Conflict Minerals Legislation
- Dodd-Frank Act
- California Transparency in Supply Chains Act
- EU Timber Regulation (EUTR)-FLEGT
- Australian Illegal Logging Prohibition Act
- Environmental Legislation
- PEP Screening – National/Global
- Sanctions Compliance

What is included in the data?

- Sanctions
- PEPs & RCAs
- Law Enforcement
- Regulatory Enforcement
- Negative media
Enhance Due Diligence Reports

Benefits:

- Unparalleled knowledge, experience and coverage
- High quality reports with a quick turnaround
- A full service offering
- A consistent, transparent flexible extension to your team
- Reduced cost of ownership
- Greater operational efficiency, greater transparency
- Comprehensive coverage in all jurisdictions
- A proven and trusted supplier to the industry
Current state of affairs
Money laundering continues to dominate the headlines…

‘EU drafts new money laundering laws following bank scandals’

‘Danske Bank implicated in $234 billion money laundering scandal’

A crackdown on financial crime means global banks are derisking

Cyber attacks are more sophisticated than ever - interview with Seth Berman

Mauritius’ financial centre caught up in Angola wealth fund fight
Collectively, we’re 1% from total failure...there’s a crisis of confidence

Money laundering is truly a global phenomenon

Proceeds from criminal activity in some regions appear to be increasing exponentially

‘Technical’ compliance, rather than effectiveness, is at the center of the current AML system

Data protection rules will impede information sharing between the public and the private sector

Correspondent banks are terminating relationships with regional institutions (e.g. ‘de-risking’), creating barriers to entry and financial inclusion

Source: UN
The size of money laundering is greater than any country’s GDPs, excluding the 10 largest

- **Refinitiv’s ‘True cost of financial crime’ report**
  - $1.5 trillion in lost turnover
  - $1.3 trillion spent on combatting financial crime (3.1% of annual turnover)
  - 47% of firms have been a victim of financial crime
  - 40 million are victims of modern slavery ($150 billion)

- **UN report**
  - 5% of global GDP in illicit proceeds from *organised crime* alone
  - *Less than 1% of proceeds are seized or frozen by law enforcement*

- **Global Financial Integrity & IMF**
  - Organised crime worth $1.6T – $2.2T globally
  - IMF study corruption would deliver an additional US$1 trillion in tax revenues annually
Let's not forget the human cost.

The current number of modern-day slaves is higher than the number of legal slaves in past centuries. It also exceeds the population of some of the world’s largest cities.
Common challenges to perform due diligence and monitoring

**SUBSTANTIAL COMPLIANCE COST**
- Compliance costs for banks and other players are significant and growing
- But, the cost of not complying is even higher

**FINANCIAL EXCLUSION**
- Despite proven demand for FS, the market has not yet met those demands
- Global regulators recognize and seek to curb financial exclusion

**RAPIDLY EVOLVING TECHNOLOGY**
- Technology advances increase the capabilities of bad actors
- Lack of regulatory standards on new technology limits ability to counter financial crime

**COMPLEX REGULATORY ENVIRONMENT**
- Regulatory approaches differ significantly between jurisdictions
- Sometimes there are opposing requirements
The need for a collective response
Together with WEF & Europol, we formed the Global Coalition to Fight Financial Crime

Global scope

to raise awareness and create a global standard of cooperation to replace regional safeguards

Representing different parts of the anti-financial crime ecosystem, the Coalition has the expertise to advocate for more effective allocation of resources by promoting best-in-class approaches to:

• Financial crime management
• Risk intelligence
• Law enforcement capabilities
• Public-private information sharing
• Thought leadership
Five key objectives identified:

1. To raise global awareness of financial crime as a critical challenge with grave financial and human consequences.
2. To promote more effective information sharing between public and private entities on a coordinated, global level.
3. Propose mechanisms to identify emerging threats & best practice approaches to develop more robust money laundering systems and controls.
4. To identify pain points in the current AML regime and propose solutions for addressing these.
5. To support initiatives to assist governments and law enforcement to more effectively identify and seize the assets of criminals.
Substantial work linked to the Coalition’s objectives

1. Raise global awareness of financial crime as a critical challenge with grave financial and human consequence

- WEF Davos **Event** 2019
- Coalition Launch
- Data analytics project: **Human Trafficking**
- Social media campaign reached 64 countries, 15 million

2. Promote more effective information sharing between public and private entities

- Promote the Future of Financial Intelligence **project**
- Discussions with Policy bodies
- Proposed SA event with FFIS

3. Propose mechanisms to identify emerging threats & best practice approaches to more robust ML controls

- Regional WEF **Events** – Digital Tools in the Fight Against Financial Crime
- Nov. 21, 2018 Crypto Event
- RUSI Financial Crime 2.0 **Project**

4. Identify pain points in the current AML/CTF regime and proposing solutions for addressing these

- G7 Engagement
- Engagement with global policy makers on AML/GDPR rules
- True Cost of Financial Crime report

Generate political will to tackle financial crime
Ongoing engagement with G7
[2] There’s an urgent need to find common ground between conflicting regulatory requirements like AML and GDPR

- We are encouraged that the EU has adopted data privacy. However, in the area of AML, it could have considerable unintended consequences without further guidance.

In the context of fighting financial crime, the following GDPR provisions raised particular challenges:

- **Unambiguous ‘Consent’ (Art. 7, GDPR)**
  Consent must be explicit and data subject has the right to withdraw at any time

- **‘Right to be Forgotten’ (Art. 17, GDPR)**
  - ...without undue delay. Although, not for firms who process to be compliant with MS law

- **‘Public Interest’ test (Art. 23, GDPR):**
  ...public security of the Union

- **‘Right to be Informed’ (Art. 14, GDPR)**
  Purposes of the processing and right to complaint
[3] We need to promote public-private partnerships and the use of technology

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Model</th>
<th>Led by</th>
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<tbody>
<tr>
<td>Canada – Project PROTECT</td>
<td>Typology co-development</td>
<td>Private sector</td>
</tr>
<tr>
<td>Netherlands – Terrorist Financing Taskforce</td>
<td>Analysts co-location &amp; typology development</td>
<td>Prosecutor-led</td>
</tr>
<tr>
<td>Hong Kong Fraud and Money Laundering Intelligence Taskforce</td>
<td>Tactical info sharing linked to typologies</td>
<td>Law enforcement</td>
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<tr>
<td>UK Joint Money Laundering Intelligence Taskforce</td>
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<tr>
<td>Australian Fintel Alliance</td>
<td>Secondment based &amp; analyst co-location</td>
<td>FIU</td>
</tr>
<tr>
<td>US Financial Crimes Enforcement Network</td>
<td>Case briefing for tactical info sharing</td>
<td>FinCEN</td>
</tr>
<tr>
<td>Singapore AML/CFT Partnership</td>
<td>Typology co-development only</td>
<td>Supervisor</td>
</tr>
<tr>
<td>Europol Financial Intelligence PPP</td>
<td>Transnational typology development</td>
<td>Europol-led</td>
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</table>
A new perspective on the financial crime challenge – a case study in banking instability

ABLV - one the largest banks in Latvia

Country profile: €8.1 billion in foreign deposits, controlled by 26,000 shell companies
- Banking system represent 40% of Latvia’s GDP!

- 12 February: FinCEN accused ABLV of ‘institutional money laundering’
  - Lost access to the USD funding market
  - Within days there was a €600 million run-on-the-bank

- 19 February: ECB suspended all payments

Latvia
However, that’s just the beginning… where did the illicit proceeds go?

- **Primary deposit flow and ‘flight-to-safety’**
  - Germany
  - Switzerland
  - Russia

- **Secondary deposit flow destination**
  - UK
  - Ukraine
  - Czech Republic
  - Estonia
  - Cyprus
Future of Financial Intelligence Sharing (FFIS) research programme

Understanding the role of public-private financial information-sharing partnerships to detect, prevent and disrupt crime.

www.future-fis.com
THE POWER OF WORLD-CHECK
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World-Check: background & content
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- PEP Screening – National/Global
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What is included in the data?
- Sanctions
- PEPs & RCAs
- Law Enforcement
- Regulatory Enforcement
- Negative media
Why do organisations use risk intelligence databases like World-Check?

Global coverage, local knowledge
- 400+ researchers situated on five continents
- 90% of World-Check researchers speak two or more languages
- Native-speaking researchers pick up on the subtleties in the text in a way that multilingual speakers do not

Who uses World-Check?

Clients in 170+ countries, including:
- The world’s largest banks
- Fortune 500 companies
- 300+ government and intelligence agencies

Key Reasons to use World-Check Risk Intelligence:
- Far beyond sanctions
- Early warning system
- Truly global research
- PEPs and their associates
- Highly structured information
- Driving operational efficiency
- Strict Quality-Controlled Inclusion Criteria
- AI-powered negative media coverage
- Proof of Due Diligence
World-Check benefits at a glance

World-Check data is used to assist in the prevention of financial crime and to assist our customers to manage and combat customer, and third-party risk.

SUBJECT-MATTER EXPERTISE
- 400+ domain specialists
- Specialist research teams run across topics such as sanctions, PEPs, financing of terrorism
- Work with state and federal government on specialists projects
- Over 65 local languages spoken by analysts
- +90% of World-Check analysts speak two or more languages
- Analysts monitor areas based on their language capabilities, skill sets and subject-matter expertise
- Industry relevant qualifications such as CAMS and MLRO among our analysts

RESEARCH METHODOLOGY
- Stringent quality control at verified internal process standards
- For its completeness, accuracy and validity, our sanctions research process received ISAE 3000 certification
- Ethical approach – only use open source information
- Each record is compiled by following structured methodology
- Analysts required to adhere to stringent research guidelines and inclusion criteria

BREADTH AND DEPTH OF INFORMATION
- Comprehensive database, with over 4 million records of individuals and entities from every habited location
- 700+ sanctions, watch and regulatory & law enforcement lists monitored
- Local and international government records
- Company information and regulatory filings
- Country-specific data sources
- International adverse electronic and physical media searches
- English and foreign language data sources
- Relevant industry sources
- Keyworded content

GLOBAL OPERATIONAL FOOTPRINT
- Global operation covering five continents
- Around-the-clock global research coverage
- 2014 Interpol commendation: global contribution to curb financial crime
- Coverage of 245 countries and territories
**What is included in the data?**

The 5 main buckets

<table>
<thead>
<tr>
<th>Sanctions</th>
<th>Law Enforcement</th>
<th>Regulatory Enforcement</th>
<th>PEPs, RCAs and SOEs</th>
<th>Negative media</th>
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<tr>
<td>• Coverage of global sanctions</td>
<td>• Entities and individuals wanted, investigated or arrested by an official law enforcement body</td>
<td>• Individuals or entities against whom official regulatory administrative action has been taken</td>
<td>• Coverage of politically exposed persons to the FATF &amp; Wolfsberg standards</td>
<td>• Individuals or entities <strong>reliably reported</strong> to be questioned, charged, wanted, or accused of a World-Check crime by a law enforcement or regulatory enforcement body</td>
</tr>
<tr>
<td>• 250+ sanctions lists covered</td>
<td>• Examples: Interpol, FBI, SFO, CBBI</td>
<td>• World-Check crimes &amp; related statutory offenses</td>
<td>• Includes <strong>primary</strong> PEPs and Relatives &amp; Close Associates</td>
<td>• World-Check crimes</td>
</tr>
<tr>
<td>• 100% coverage of <strong>explicit</strong> sanctions</td>
<td>• Keyworded</td>
<td>• Keyworded</td>
<td>• Flex to cover local PEP definitions where they exist</td>
<td></td>
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<tr>
<td>• Examples: OFAC, UN, DFAT, UKHMT, CANS</td>
<td></td>
<td></td>
<td>• State Owned Enterprises</td>
<td></td>
</tr>
<tr>
<td>• Keyworded</td>
<td></td>
<td></td>
<td>• Sub-categorized</td>
<td></td>
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<tr>
<td>• <strong>Implicit (narrative) sanctions</strong></td>
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</table>

**Sanctions**

- Coverage of global sanctions
- 250+ sanctions lists covered
- 100% coverage of *explicit* sanctions
- Examples: OFAC, UN, DFAT, UKHMT, CANS
- Keyworded
- *Implicit (narrative) sanctions*

**Law Enforcement**

- Entities and individuals wanted, investigated or arrested by an official law enforcement body
- Examples: Interpol, FBI, SFO, CBBI
- Keyworded

**Regulatory Enforcement**

- Individuals or entities against whom official regulatory administrative action has been taken
- World-Check crimes & related statutory offenses
- Keyworded

**PEPs, RCAs and SOEs**

- Coverage of politically exposed persons to the FATF & Wolfsberg standards
- Includes primary PEPs and Relatives & Close Associates
- Flex to cover local PEP definitions where they exist
- State Owned Enterprises
- Sub-categorized

**Negative media**

- Individuals or entities reliably reported to be questioned, charged, wanted, or accused of a World-Check crime by a law enforcement or regulatory enforcement body
- World-Check crimes
Designing a screening programme
A Risk-Based Approach to Managing Customer & Third Party Risk

Customer / supplier onboarding

Collect sufficient information to manage your risk.

For customers, this includes source of funds, nature of business and UBO. Not just ID&V.

For suppliers this includes UBO, directors, fourth parties, supply and cyber risks.

Understand inherit risks

Determine the inherent corruption, AML/CFT, and sanctions risks associated with clients or third parties.

Ideally this should be driven by an Institutional Risk Assessment informed my a National Risk Assessment and other objective information.

Screen & classify

Conduct due diligence by screening clients, suppliers, and related parties against global PEP, sanctions, law enforcement, and negative media data.

Use a combination of KYC, inherent risk, geographical risk, materiality and screening results information to risk classify

Further due diligence

Conduct detailed background checks on any heightened risk individuals or entities to further investigate and document any regulatory, supplier or reputational risks they may pose.

Y/N Ongoing
Monitoring & screening & refresh

Continuously monitor clients for any change in status and risk levels. This includes re-screening and transaction monitoring, as well as periodic KYC/KYS/KYX refresh.

Risk management & reporting

Take steps to mitigate risks identified, including by exiting relationships and reporting to regulators where appropriate.

Train and educate

Roll out a detailed compliance training program to all staff. Being able to identify possible ABC and AML/CFT risks is a key job requirement for all staff.

Ensure a culture of compliance exists, including the right “tone from the top”
Risk based approach to list management

Three key questions to ask: Screen *what* (e.g. customers, payments, employees), against *which lists* and *how often?*

<table>
<thead>
<tr>
<th>“Minimally Viable” Screening programme</th>
<th>“Middle of the ground” screening programme</th>
<th>“Significant” screening programme (example)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What:</strong> All customers and relevant related parties (e.g. UBOs) and all cross-border transaction.</td>
<td><strong>What:</strong> All customers, related parties, cross-border transactions and material or risky domestic payments. Reference data screening (e.g. ISINs if relevant). Employees and suppliers.</td>
<td><strong>What:</strong> All customers, wide set of reference data, all transactions for sanctions (prior to execution) and look-backs against other data (e.g. PEPs)</td>
</tr>
<tr>
<td><strong>Which lists:</strong> Sanctions (UN and implicit sanctions like INSAE-50-WC) and PEPs. Payments against sanctions only.</td>
<td><strong>Which lists:</strong> As before, but with further sanction lists like OFAC, UKHMT, and sectoral sanction lists if relevant (e.g. RSSRE). Selected structured adverse media (e.g. post conviction categories)</td>
<td><strong>Which lists:</strong> All of the World-Check data, plus unstructured adverse media data (e.g. Media-Check)</td>
</tr>
<tr>
<td><strong>How often:</strong> Customers – daily (banks) but others can be less often (e.g. weekly or at pay-out for insurance). Transactions – prior to execution.</td>
<td><strong>How often:</strong> Daily. Transactions – prior to execution.</td>
<td><strong>How often:</strong> Daily. Transactions – prior to execution for sanctions. Regular look backs (e.g. weekly).</td>
</tr>
</tbody>
</table>
Contact Us:
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