have large, complex and high volumes of transactions which may be used to hide illegitimate transactions. Large organisations are also prone to difficulties in implementing AML/CFT controls effectively, therefore their risk may increase. Equally, small organisations may fail to implement AML/CFT controls due to poor governance, and human resource capacity.

In the same way location or origins of the customer such as politically unstable jurisdictions, borderline towns. Certain business sectors may also be consindered as high risk, this is particularly the case for cash intensive sectors, casinos, bureau de change, money remitters, vehicle dealers, import/export companies and dealers in high value items such as precious gems and metals.

Products/services and their distribution channels

Without due controls, existing and new products may be vulnerable to ML/TF/PF. For example, financial products with high transactional value and high transactional frequency, and which can easily be cashed out in large amounts are prone to be abused by criminals. Also products and services such as internet banking with options for cross border transactions may be high risk. After conducting an IRA, NBFIs should be able to understand their ML/TF/PF risks.

NBFIRA AML/CFT Department is a specialist unit with a role to ensure NBFIRA meets its objective of deterring financial crime by preventing non-bank financial institutions from being under-mined by criminals. The Department coordinates the NBFIRA's efforts, standardizes control measures and gives guidance to the regulated entities.

3rd floor Exponential Building
Plot 54351 CBD,
Off PG Matante Road, Gaborone

Tel: +267 3102595 / 3686100
Fax: +267 310 2376 / 3102353

Website: www.nbfira.org.bw
E-mail: amlcft@nbfira.org.bw

Private Bag 00314
Gaborone, Botswana

Conducting Institutional Risk Assessment for Anti-Money Laundering / Combatting Terrorism & Proliferation (AML/CFT&P) Purposes

NBFIRA
Non-Bank Financial Institutions Regulatory Authority

Institutional Risk Assessment (IRA)

The Financial Intelligence (Amendment) Act and Regulations of 2018 (FI Act and Regulations) introduce an array of new obligations for the specified parties among them being to conduct risk assessment on

(i) business relationships and transactions,

(ii) pre-existing products, practices, technologies and delivery mechanisms,

(iii) new products, practices, technologies and delivery mechanisms, prior to their launch, and

(iv) life insurance services.

An IRA is conducted as part of an entity risk management system for the purposes of understanding the entity's money laundering, terrorism and proliferation financing risks so as to implement proportionate controls.

Specified Parties as defined by the FI Act include all Non-Bank Financial Institutions (NBFIs) as regulated by NBFIRA.

Money Laundering / Terrorist Financing / Proliferation Financing (ML/TF/PF) Risk Rating

ML/TF/PF risk categories can be broken down into the following levels.

Prohibited: An NBFI will not tolerate any dealings of any kind given the risk. This category could include transactions with countries subject to economic sanctions or designated as state sponsors of terrorism, such as those on the United Nations or Office of Foreign Assets Control lists.

High-risk: The risks here are significant, but are not necessarily prohibited. To mitigate the heightened risk presented, the financial institution should apply more stringent controls to reduce the ML/TF/PF risks, such as conducting enhanced due diligence and more rigorous trans¬action monitoring. Countries that maintain a reputation for corruption or drug trafficking are generally considered high-risk. High-risk customers may include prominent & influential persons or certain types of money services businesses or cash-intensive businesses; high-risk products and services may include correspondent banking and private banking.

Medium Risk: Medium risks merit additional scrutiny, but do not rise to the level of high-risk. For example, a retail business that accepts low to moderate levels of cash, but is not considered cash-intensive.

Low Risk: This represents the baseline risk of money laundering. Typically, low risk indicates normal, expected activity.

Risk Factors to Consider When Conducting Institutional Risk Assessment

To understand ML/TF/PF risk profile, an IRA should consider the risk factors of customer type, business nature, size, geographical spread and products/services and their distribution channels.

Customer type

It is important that NBFIs understand whoever they establish relationships with. A customer refers to any natural/legal person including individuals, companies, and societies. Customers with a background of criminal activity, and those occupying prominent and influential positions in private and public sectors would be considered high risk. Shell banks and sanctioned persons would be prohibited.

The risk rating also increases on a customer with complex ownership structures or partnerships that hide or prove difficult to establish their beneficial ownership. The same goes for a customer with backgrounds or relationship with countries with weak AML/CFT laws or strict corporate secrecy laws.

Business nature/size/geographical spread

A customer's financial magnitude, location and the sector to which they operate or work may escalate money laundering, financing of terror and proliferation risks. Large companies may