



Jersey Financial  
Services Commission

# CDD Measures

Tim Butlin, Senior Manager, Examination Unit

# Introduction

Overview, broken down into the following categories:

- Examination Findings
- Identification Measures & Ongoing Monitoring
- Enhanced CDD



# Trends in Examination Findings

- › CDD measures account for a quarter of all examination findings

## 2021 Examinations Findings by theme

Corporate governance

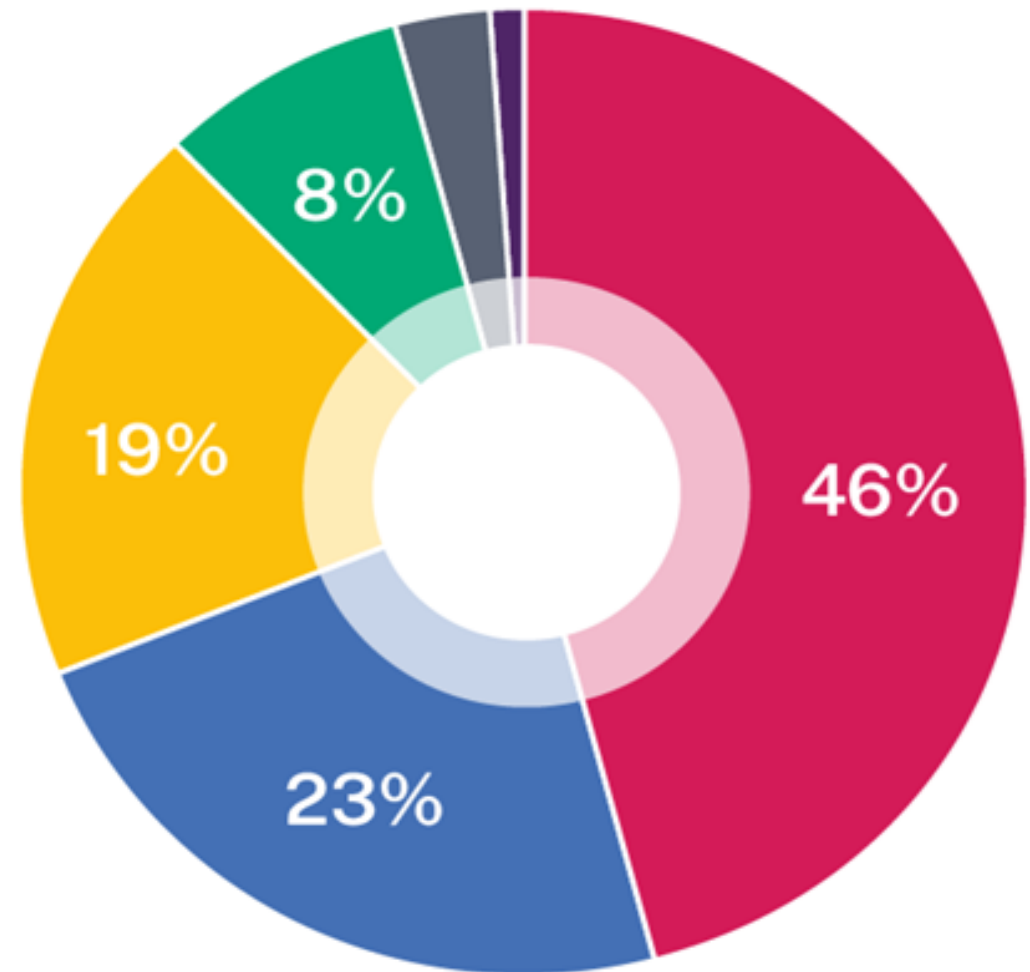
CDD measures

Reporting

Screening training and awareness

Record keeping

Sanctions



# Trends in Examination Findings

- › Slight improvement on 2020, and similar themes so far in 2022 (for greater detail see [www.jerseyfsc.org/industry/examinations/examination-findings-and-questionnaires/](http://www.jerseyfsc.org/industry/examinations/examination-findings-and-questionnaires/)).
- › Very few adverse findings regarding verification of identity ('KYC').
- › E-ID, greater reliance and when using a purpose designed tool it works well, but there are risks if trying to do this on a small budget. Seems to work best in the retail sector.
- › Reliance identification measures not widely used. If it is there remains a need to assess risk on an ongoing basis, and if using make sure you take action immediately when an issue arises.
- › Most findings relate to assessment of risk and risk based measures that are ineffective.



# Trends in Examination Findings

## CDD Measures

### ID Measures

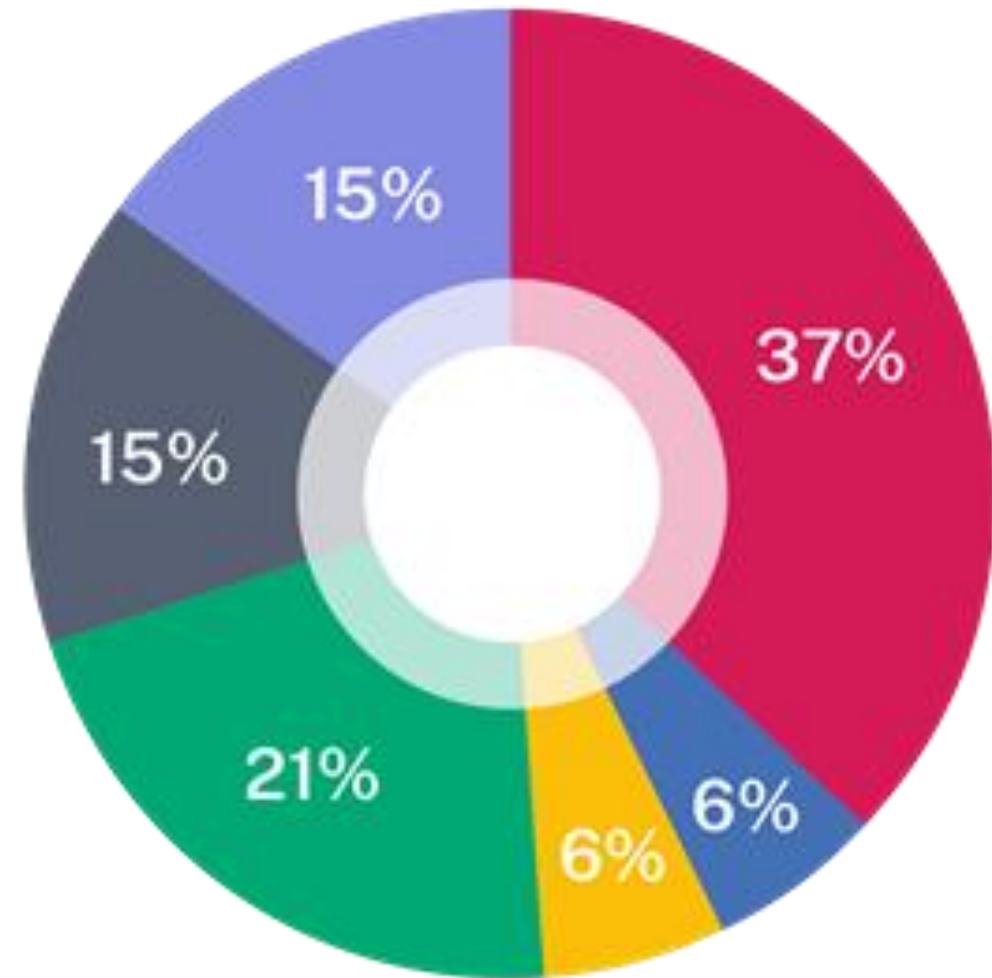
Verifying ID

Reliance

ECDD

Exemptions

Ongoing monitoring



# Identification Measures

- › Customer risk assessments: We see a lot of different kinds of CRA which is quite right, one suggestion is the need to take account of accumulation of risk.
- › Beneficial ownership and control: Any structure charts need to be correct so need to be updated regularly.
- › Source of Funds and Source of Wealth: The key is to understand what generated the funds. Have seen the source of funds recorded as the bank involved – that's the bank that sent it, not the source. With wealth, you should not just stop after first question, so if the source of wealth is given as an inheritance, you need to know more detail, and again where that wealth originated.



# Ongoing monitoring

- › Customer screening: Sometimes firms cannot say when last monitored or describe alerts which should trigger a review.
- › Transaction monitoring: Need to identify large complex transactions that don't fit within customer profile, and make sure they are legitimate.
- › Periodic reviews: We hear people say they review high-risk customers more regularly, which is a good approach. Where there are delays in performing reviews prioritise the high-risk customers, they should be tackled first.
- › Trigger events: Issue in that if you only rely on trigger events, and the process never gets engaged, then that customer may never be reviewed.
- › Impact of outsourcing: Some firms have very robust processes. Care needed if reports talk about volume but not about the quality and substance of the review. It's that quality assurance which is key.



# Ongoing Monitoring 2

- › Staff awareness and understanding of risk: There are firms that are doing well, often seen in how the whole staff know what's going on, they can all talk about risk and how it's managed.
- › Periodic reviews often being done very well, especially when looking at the bigger picture, seeing how an event might impact the overall risk.
- › Indicators of risk are recognised and examined.
- › Timely action needs to be taken in the event of an issue arising.
- › Document, monitor and report: Can sometimes see that there has been a meeting on a specific issue, but there isn't a full or even a partial minute. With current FATF assessment methodology there is a need to demonstrate effectiveness. With current rates of staff turnover what happens if people move on and there's no note?





# Enhanced CDD

- › Not just about enhanced ID measures or applying a blanket approach. You may need a more senior head looking at things and more bespoke approach to the specific risks that exist.
- › Risk-based measures may include enhanced on-going monitoring and enhanced scrutiny of transactions and activity, especially those that do not fit the client profile.
- › Examination findings varied. Serious findings tend to have deficiencies in risk assessment or risk management arrangements as a root cause, rather than deficiencies in day-to-day controls regarding higher risk customers.
- › Risk management arrangements sometimes do not operate in the way senior managers think that they are – not always moving CDD to EDD. Need for transparency within the business as to how the risk is being managed.



# Enhanced CDD Pitfalls

- › Customer risk assessment needs to be thorough and consider all risks. When things go wrong it often starts with flaws in the risk assessment.
- › Customer risk assessments can be over-ridden. This is not an issue in itself, but need to be certain that the reasons why this is done are transparent and explain the decision. Also ensure that there is board level awareness of these decisions.
- › Risks elsewhere not taken into account customers may have a connected entity which has a higher risk profile – importance of looking at the ‘big picture’.
- › Ownership and control sometimes not understood; the key point is not who owns the shares, but who is controlling the structure.

