

The Central Bank of the UAE's AML/CFT Thematic Review on Cash

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BACKGROUND

The Central Bank of the UAE (“CBUAE”) Anti Money Laundering and Combatting the Financing of Terrorism Department’s (“AML/D”) risk-based approach and methodology includes the assessment of its licensed financial institution’s (“LFI”) money laundering/terrorist financing (“ML/TF”) risk profile through the collection and analysis of ML/TF risk indicators.

The AML/D assessed its LFIs’ exposure to ML/TF risks on a thematic basis, focusing on key ML/TF threats and vulnerabilities derived from the risks outlined in FATF’s 40 Recommendations, the UAE’s National Risk Assessment (“NRA”) and Topical Risk Assessments.

From AML/D’s AML/CFT Data Collection Survey conducted in 2020, it identified Cash to be one of the Risk Themes of critical focus for the **Banking and Exchange House sector**¹.

The Thematic Review (“Review”) included control assessment questions that predominantly focused on cash procedures and was circulated to thirteen LFIs, based on an inherent risk score related to primary cash exposure, taking an equally weighted average of specific Key Data Elements (relevant to cash). This was calculated on the basis of the data provided in the CBUAE’s annual AML/CFT Data Collection Survey.

Since, the sample size was limited, the results should be viewed as representative at thematic level drawing on the most common practices observed, noting that a fair proportion of LFIs in the United Arab Emirates (“UAE”) may in fact have stronger or more positive measures.

As a cash-intensive economy and an important center of global trade, the UAE is exposed to significant risks associated with cash-intensive businesses and the cross-border movement of cash, including bulk cash smuggling, which is associated with third-party money laundering risks.

¹ As finance companies cannot accept cash, they are not in scope for the Thematic Review on Cash.

VULNERABILITIES OF CASH

Cash is particularly vulnerable to abuse by illicit actors to conduct money laundering activities and finance criminal activities and since it is a major medium of exchange in the UAE, authorities recognize the need to pay greater focus and attention to mitigate these risks from materializing. The specific characteristics of cash—anonymity, interchangeability, and transportability—make it an attractive method by illicit actors seeking to conceal the proceeds of crime. Unlike other monetary instruments, such as credit cards, cheques or wire transfers, cash (once extracted from the banking system) holds no record of its source or owner, and can be easily concealed in large quantities upon which it is difficult to trace and reconcile. Cash transactions are also instantaneous and widely accepted across jurisdictions.

Criminal activity—or predicate offenses—are often cash based. A predicate offense for money laundering is the underlying criminal activity that generates proceeds. Criminals then seek to “launder” these illicit proceeds, which leads to the offense of money laundering.

APPLICABLE LAWS

1. Federal Decree Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organizations;
2. Federal Decree No. 26 of 2021 amending certain provisions of Law No. 20 for 2018 on Anti-Money Laundering and Countering the Financing of Terrorism;
3. Cabinet Decision No. (10) of 2019 concerning the Implementing Regulation of Decree Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organizations;
4. The Central Bank of UAE Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations Guidelines for Financial Institutions (Notice 3090/2021);
5. Cabinet Decision No. (74) of 2020 regarding Terrorism Lists Regulation and Implementation of UN Security Council Resolutions on the Suppression and Combatting of Terrorism, Terrorist Financing, Countering the Proliferation of Weapons of Mass Destruction and its Financing and Relevant Resolutions; and
6. All relevant Guidance issued by the CBUAE.

THEMATIC REVIEW FINDINGS

The purpose of this review is to highlight the generic findings observed from the sector in line with the Financial Action Task Force (FATF) Recommendation, which emphasizes the importance of guidance, feedback and the need for supervisors to promote a clear understanding of regulatory obligations.

The observations below indicate room for improvement required in the overall AML/CFT Framework for some LFIs on specific financial crime risks and mitigants associated with cash. The examination outcomes suggest enhancements to cash controls to better detect and prevent ML/TF activities, thereby safeguarding the integrity of the UAE's financial system.

ML/FT RISK ASSESSMENT

During the review, some LFIs did not comprehensively document and include cash services and products in the ML/TF Risk Assessment.

Comprehensive risk assessment methodologies must be maintained and inherent ML/TF risks unique to each business line must be captured. The ML/TF risks must incorporate the UAE National Risk Assessment (NRA) and risks related to cash intensive businesses.

The ML/TF Risk Assessment must be dynamic in nature and must be subject to appropriate review and remain current at all times.

POLICY AND PROCEDURES

During the review, it was noted that in some instances LFIs' AML/CFT and KYC policy and procedures were silent on AML checks related to cash transactions routed through Over-The-Counter (OTC) transactions.

There were instances wherein procedural documents did not outline ML/TF risks related to cash. Clear guidance and indicators that would help identify cash intensive business activity were not outlined (e.g., anticipated value and volume of monthly cash deposits/withdrawals).

During the review, CBUAE examiners noticed a positive risk mitigation control that most LFIs have introduced. This includes transactional limits on ATMs/CDMs in order to encourage depositors and account holders to have a face to face interaction with the LFI in instances of large value transactions. These LFIs use this as an opportunity to identify the source of funds, purpose of cash withdrawals and obtain necessary documentation to substantiate the transactions related to cash deposits and withdrawals transacted in branches.

Clear guidelines need to be stipulated and circulated to front line staff to enable them to perform their duties and effectively implement the policies and procedures.

CUSTOMER DUE DELIIGENCE / KNOW YOUR CUSTOMER:

During the review on exchange houses sector, areas of improvement were noted in the CDD/KYC process, particularly with currency exchange customers:

- LFIs accept customs declaration as a valid source of funds for currency exchange customers;
- LFIs do not conduct comprehensive Enhanced Due Diligence (EDD) checks on corporates where third party individuals exchange currency or tender cash for remittances on behalf of corporate customers;
- LFIs do not collect the appropriate information regarding the purpose of transactions; and
- LFIs do not capture the intended nature of transactions appropriately. In some instances, individual customers conduct currency exchange transactions of corporates in the name of the third party individual representative.

LFIs must perform EDD on higher risk customers, including large cash remittances to high risk countries and ensure the same is documented in the KYC form. The EDD should include a clear, consolidated articulation of underlying ML/FT risks. At a minimum, the LFI must document additional information for EDD purposes outlined below and ensure it is captured in the overall KYC profile:

- Source of funds and wealth: this should include past employment/ Ownership of companies/Investment activities/Inheritance);
- Current occupation or type of business: employment details including the employer and occupation;
- Type of industry associated with the customer's business; history of client relationship: this should contain analysis of past transactions and products/services offered by the LFI and/or any other relationship with LFI's branches and/or subsidiaries (including the number of years);
- Mode of operations of businesses (for entity customers): at a minimum, the KYC should outline the customer's primary trade area and whether international transactions are expected to be routine, including number of staff, sourcing, storing and selling of goods/services, number of

- branches, annual turnover, net profits and anticipated volume of currency;
- Third party individuals: understanding and documenting the relationship certain individuals have over the account and their involvement in the business activity. This would include those who have control over the account (i.e. signatories or guarantors); customer residence, place of employment / business: capturing and highlighting discrepancies pertaining to the proximity of the customer's residence, place of employment or place of business to the LFI;
 - The LFI should not only collect the above information, but analyse the information to determine the ML/TF risks associated with the customer(s) and the controlling party. The analysis performed on the customer should be reflected in the KYC form; and
 - LFIs must expand the process whereby the Emirates ID validation is completed using the online validation gateway of the Federal Authority for Identity and Citizenship (ICA) and that it maintains a copy of the UAE ID and digital verification.

TRAINING AND AWARENESS

During the walkthroughs conducted by the CBUAE examiners, the front line staff in some instances were not aware of the AML/CFT risks associated with cash. Training materials did not comprehensively entail ML/TF risks pertaining to cash transactions and cash intensive businesses. In some LFIs, branch personnel did not receive targeted or role-based training to detect red flags pertaining to cash transactions.

Specialized trainings must be conducted to staff that encounter risks that are cash-related. This should include training material on risks associated with cash intensive businesses and applicable business lines, the products/services associated with cash and the nature of risks exposed by the LFI.

TRANSACTION MONITORING SYSTEMS

During the review of Transaction Monitoring Systems, Cash deposit detection scenarios were not designed to alert smurfing technique/ structuring. From the review of the transaction monitoring alerts and cash deposit data provided by LFIs, it was noticed in some instances that the LFIs' systems did not trigger alerts for aggregated amounts of small value cash deposits.

It was also observed that detection scenarios are often calibrated with very high trigger thresholds, leading to inadequate detection of all transactions of concern. Further, in some of the detection scenarios, same/flat threshold are

applied for various business segments, which is not commensurate to the risks presented by various customer or segment types within the LFI.

LFIs must ensure appropriate deposit detection scenarios are in place to ensure smurfing technique/ structuring are detected. LFIs need to ensure that their systems trigger alerts for aggregated amounts of small value cash deposits.

The detection scenarios have to be in line with the customer's activity, business segments and commensurate to the risks faced by the LFI.

INTERNAL AUDIT

In several instances, the LFIs' internal audit program did not cover cash control reviews.

CONCLUSION

LFIs are reminded to remain abreast of all regulatory obligations under the UAE Federal Decree Law on AML/CFT and Financing of Illegal Organisations, and its Implementing Regulation, Instructions, Guidelines, and Notices ('AML Legislation').

The CBUAE request its LFIs to take the necessary actions to address the observations noted in this report and to enhance its overall controls on cash to further strengthen its AML/CFT Program.

The financial sector must be aware of risks outlined in the National Risk Assessment, as well as be alert to risks associated with the UAE's cash-intensive economy.

The mitigation of ML/FT crimes and effective control measures remain a key priority for the UAE, and in particular its financial sector.

If any further concerns arise or assistance is required, LFIs should contact AMLD: amlcftc@cbuae.gov.ae