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CLIENT RISK RATING

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Agenda

1. **Client Risk Assessments**
   The importance of a robust assessment process.

2. **Client Risk Ratings**
   Requirements and Options.

3. **Managing the Process**
   How to record and track. When to update.

4. **Ongoing CDD**
   Review and Re-verification Requirements.

5. **Upcoming Act Changes**
   What is still on the way.

6. **Questions & Answers**
   Submit as webinar progresses.

This is not Legal Advice

This webinar is provided for information only and cannot be relied on as evidence of complying with the requirements of the AML/CFT Act.
It does not constitute legal advice and cannot be relied on as such.
After attending this webinar, if you do not fully understand your obligations you should seek legal advice or contact your AML/CFT supervisor (DIA).

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Know your risks

Innocent involvement
No red flag indicators apparent

Unwitting
Basic CDD undertaken. Some red flags, but missed or significance misunderstood

Red flags identified

Alert and proactive 1
Low level of suspicion - SAR made where required and proceed with caution if appropriate or stop acting

Alert and proactive 2
Higher level of suspicion or knowledge - SAR made where required and stops acting

Wilfully blind
Further questions are not asked, isolated transaction is completed and often no SAR is filed where required

Being corrupted
Wilful blindness persists for repeat instructions from the same client, the client's associates or other matters with similar red flag indicators

Complicit
Actual knowledge of the criminality in which they are involved

ML/TF

Client ML/FT Risk Assessment

The core purpose/intent of the Act is to detect, investigate and then report potential ML/FT risk

You must have a good understanding of your client

Must be aware of a wide range of potential red flags

Apply a sceptical mindset and ask more questions as needed

An assessment is needed for each captured activity as risk can change overtime

Becomes part of your testing for Material Change and Ongoing CDD (OCDD) obligations

Understanding your Client

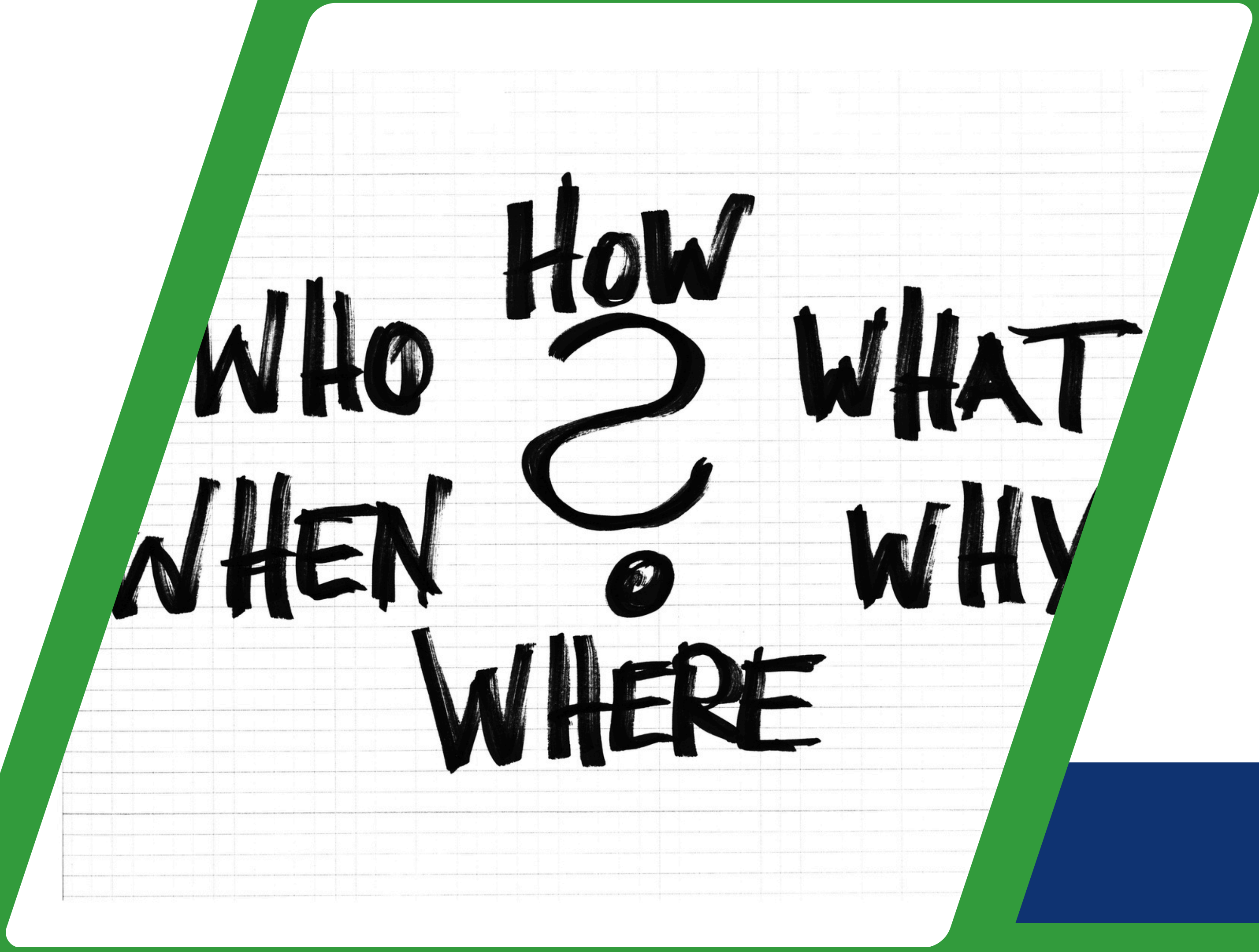
Section 17 (Standard CDD) of the AML/CFT Act requires you to obtain and understand information that relates to;

- **Nature** of your client, and
- **Purpose** of the relationship, and
- **Sufficient information** to determine if Enhanced CDD should be applied.

This information is required in order to make your client-level risk assessment.

Low quality information = Low quality risk assessment

Tracking this information overtime becomes an important aspect of your Ongoing Client Due Diligence (OCDD).



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Client Risk Rating Requirements

As of 01 June 2025 the AML/CFT Act requires you to:

12AC Further requirement relating to risk-rating new customer

*(1) A reporting entity must **risk-rate a new customer when conducting customer due diligence** in the circumstances described in sections 14 and 22 of the Act.*

*(2) The reporting entity must keep a record of the customers risk rating **and review the customers risk rating, as appropriate,** in accordance with section 31 of the Act.*

This is a requirement to give your clients a formal risk rating or risk score and also review this rating over time as part of Ongoing CDD and monitoring.

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Client Risk Rating Options

There are two common approaches

Dynamic Risk Scoring (automated)

- A 'Risk Score' is automatically generated based on data gathered and/or a series of questions.
- Common in the finance industry (i.e. credit risk scores).
- Could be automatically updated based on live data or updated data when available.

Subjective Risk Scoring (manual)

- A Risk Score is awarded based on the knowledge of a client.
- Uses personal judgement and assessment.
- Can be based on staffs training and/or a series of questions.
- AML Assist use a "Red Flag Checklist" for this. Commonly referred to as a "Matter Risk Assessment".

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Dynamic Risk Scoring

Pro’s

- Based on factual data or information. The score is generated automatically, so it removes human influence.
- If linked to live data, it can update automatically and assist with Ongoing CDD.
- Can be simple and easy for staff to follow.

Con’s

- A model needs to be built that is robust and will only be as good as the data and information that it relies upon.
- Possible garbage in garbage out effect. Data quality is paramount. Must be kept up to date.
- Needs to be tested regularly against live cases.
- Possible manipulation once staff work out how it generates scores.
- Who is responsible for the outcome? Who decided on the model, risk weightings and assessment areas?

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Subjective Risk Scoring

Pro's

- Your staff may have known clients for a long period of time and have more information and knowledge of risks.
- Can rely on a wide range of known risks and red flags that relate to a specific client's circumstances.
- Easier to apply the principle of "Professional Scepticism".
- Allows for the "gut feel" and a developing risk profile approach.
- Adds an element of personal responsibility on staff. Consider the "Willfully Blind" concept.

Con's

- Relies on good and regular staff training and having a clear process to follow.
- Staff can easily manipulate scores.
- Risk is relative to a person so could lead to inconsistencies.
- Relies heavily on knowing the client's nature and purpose.

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Risk Scoring Scale Ideas

Low Risk - no red flags or risks have been identified

Low-Medium Risk - some red flags have been identified, but the explanations provided are reasonable and confident risks are low.

Medium -Some red flags have been identified. However, we are not entirely comfortable with the explanations provided, but the risk appears to be low.

Medium-High Risk - some red flags have been identified. We are not entirely comfortable with the explanations provided, and there is a potential risk.

High Risk - one or more of the red flags identified give us reasons for concern.

High Risk - We do not have enough information on the client to assess potential risk (or they are unwilling to provide such).

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Managing Risk Ratings

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Where to record?

Your System Administrator will be able to set up your firm's preferred risk rating scores within the Administration tab. Once this is set you will be able to record this at client level as part of the CDD process.

How to update?

Risk ratings can be edited, and new ones can be created when editing a client party.

How to report?

These details are available within the AML/CFT dashboard and the Customer Due Diligence report

Ongoing CDD Requirements

Supervisors View (DIA, FMA, RBNZ)
Compliance Programme Guideline **Oct-24 (pages 23-27)**

Ongoing CDD requires you, **according to the level of risk** involved, to **regularly review CDD and any other information you hold related to your business relationship with a customer**. This includes information you obtained relating to the nature and purpose of the business relationship, and sufficient information to determine if enhanced CDD is required

Account monitoring operates concurrently to ongoing CDD. It requires you, also **according to the level of risk** involved, to regularly review a customer's account activity and transaction behaviour. For a DNFBP, it also involves reviewing the **DNFBP activities that you provide to the customer**

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Ongoing CDD Requirements

Examples of triggers include:

➢ When your interactions with a customer identify a **material change that could increase their risk profile**. For example, there is significant change in the products or service you provide or in their personal circumstances, such as they move abroad.

➢ If your account monitoring rules trigger an alert (that is not a false positive) in relation to a customer's transaction(s) or activity.

Risk-based reasons include:

➢ As part of a scheduled review of a customer that you have previously determined higher risk (e.g. at onboarding or during a subsequent review). **Your review of a customer you have assessed as high-risk should be more frequent than a medium risk customer.**

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Ongoing CDD Requirements

Your framework/methodology for determining your risk-based triggers and frequency of your reviews should be documented in your AML/CFT programme.

Note: The supervisors **do not** consider it necessary for you to review CDD information, activity or transaction behaviour in the absence of a risk-based reason or trigger for doing so.

This means you are not expected to conduct ongoing reviews of customers that are clearly low risk, for example based on the product and service provided and/or a customer with a low-risk rating.

Reverification Requirements

Supervisors View (DIA, FMA, RBNZ)
Compliance Programme Guideline Oct-24 (page26)

In practice, the supervisors consider that you only need to consider updating CDD information (as part of your ongoing CDD and account monitoring) **when there is a risk-based reason or trigger for doing so**.

Your procedures, policies and controls for determining if you should update CDD information, and then determining what CDD to update, should therefore be **directed at understanding your customer's ML/TF risk profile (or any changes to it)**.

Reverification Requirements

For example, if **your review identifies inconsistencies** between CDD information you've previously obtained/verified and the customer's transactions and activities, **you could**:

- Obtain updated nature and purpose information on the business relationship.
- Obtain updated or further information to sufficiently determine if enhanced CDD is required *(if Standard CDD)*.
- Obtain and verify updated or further information regarding the customer's source of wealth or funds *(if Enhanced CDD)*.

Additionally, in relation to customers that are legal persons and legal arrangements, you may need to:

- Obtain and verify updated standard CDD information in order to understand changes to the customer's beneficial owner(s), including to identify any material change and/or increase in the customer's risk profile.

Reverification Requirements

Note: The supervisors **do not** consider it necessary (nor consistent with a risk-based approach) **that you regularly reverify a person's biographical information if you have verified this previously** (unless there are concerns regarding their identity or it is otherwise necessary, for instance a name change).

The expiry of an identity document does not in itself trigger a requirement to update a customer's CDD information.

In circumstances when you review CDD information held for a customer and determine there is no need to update it, **this decision should be recorded against the customer's file for future reference.**

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Reverification Principals

Think of it as a WOF (warrant of fitness) process, a quick check "under the hood".

- Ensure you are engaging the same client.
- Check for changes in control and beneficial ownership.
- Check for changes in nature and purpose.
- Check the Client Risk Profile/Rating.

If it is all is Ok then no work is needed. Note this in OnePractice.

Spotted a few areas that need work/updating? Get this done prior to engaging any new captured matters.

If there are new risks, consider if Enhanced CDD might now be needed. If medium-high risk consider updating SOW/SOF.

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Managing Re-verification

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Ensure staff know how to check Risk Ratings and existing Client Due Diligence information.

If an entity, check control and beneficial ownership. Stress the importance of good data entry during initial CDD.

Check and update Nature and Purpose.

Check your Client Risk Rating and confirm.

If Medium to High Risk and Enhanced CDD, check what SOW/SOF was collected at the last engagement. Consider if it is still appropriate or if it needs updating.

Consider using the Due Diligence Record and the AML/CFT Tab at the client level.

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Upcoming Changes

Statutes Amendment Bill - 42 Parts

Part 2, Clause 10 amends section 16 to clarify that **an address of a customer, beneficial owner of a customer, or any person acting on behalf of a customer only has to be verified by a reporting entity according to the level of risk involved in the transaction.**

Clause 11 replaces section 40 to extend the time period within which **law firms** must provide **suspicious activity reports** to the Commissioner of Police from 3 to **5 working days**.

Clause 12 amends section 48A to extend the time period within which reporting entities must report on certain **prescribed transactions** from 10 to **20 working days**

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Upcoming Changes

The government has introduced the **AML/CFT Amendment bill**, which had its first reading in parliament on 13 February. The bill proposes 26 changes.

The AML/CFT amendments proposed in this Bill are all recommendations from the statutory review. The majority will clarify existing obligations, which will help businesses apply the rules with greater certainty.

Changes would allow businesses to assess the level of customer checks required based on risk, rather than following a standard set of requirements

One relief measure is included to allow an exemption from enhanced customer due diligence requirements on low-risk trusts.

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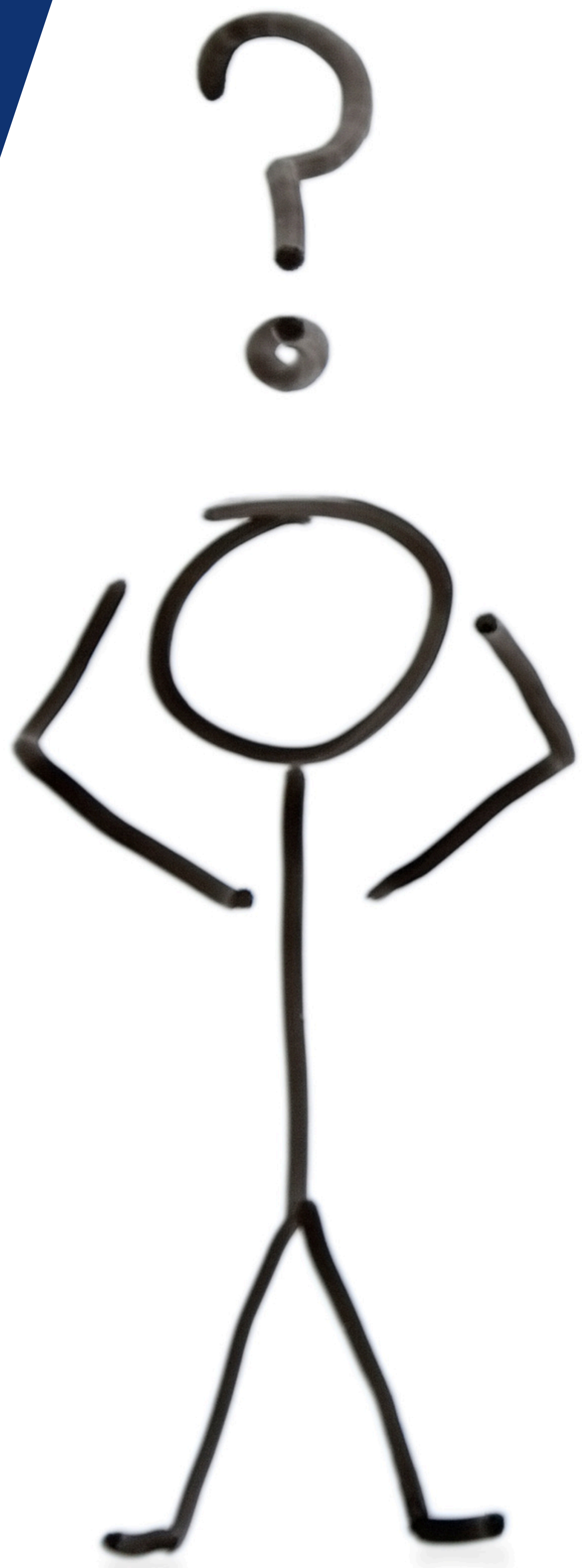

QUESTIONS

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