

## Summary of the FIN-FSA's supervisor-specific risk assessment on money laundering

### 1 On the supervisor-specific risk assessment and the content of the summary

In accordance with chapter 2, section 2 of the Act on the Prevention of Money Laundering and Terrorist Financing, the Financial Supervisory Authority (FIN-FSA) shall prepare an assessment of the risks of money laundering and terrorist financing among the obliged entities supervised by it (supervisor-specific risk assessment). The FIN-FSA shall publish a summary of the risk assessment.

There is no guideline or standard on how competent authorities should prepare their supervisor-specific risk assessments. Therefore, the FIN-FSA took measures in 2019 to develop a risk assessment methodology meeting its international obligations and enabling both sector-specific and supervisor-specific risk assessment.

As part of the risk assessment project, the FIN-FSA has begun to collect data in the RA (Risk Assessment) survey to assess the risks of money laundering and terrorist financing, as well as their management methods, among the sectors and individual entities supervised by it<sup>1</sup>.

Preparation of the FIN-FSA's supervisor-specific risk assessment on anti-money laundering and terrorist financing is an extensive process where four phases can be distinguished:

1. Determination of sector-specific level of inherent risk.
2. Assessment of the extent to which identified risk factors are present in each sector.
3. Assessment of the level of risk management methods in each sector.
4. Preparation of a risk scoring for each supervised entity.

This summary focuses on the first phase of the preparation of the supervisor-specific risk assessment, that is, the determination of sector-specific level of inherent risk. The summary describes how the sector-specific level of inherent risk has been determined. In addition, it presents the outcome of the process, i.e. sector-specific levels of inherent risk.

This summary only includes the supervisor-specific risk assessment concerning money laundering. As regards terrorist financing, the target is to roll out the methodology during 2020.

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<sup>1</sup> For further information, see FIN-FSA supervision release 17 December 2018 – 54/2018

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## 2 Determination of the inherent risk of the sector from the perspective of products and services

### 2.1 Methodology

In determining the level of inherent risk of a sector, the purpose is to form a view of **the general risk in a given sector to be taken advantage of in money laundering**.

In determining the level of inherent risk of the sector, no regard is taken of the kind of risks involved in any individual operator's activities. Hence, the actual risk of money laundering of different firms in the same sector may vary quite significantly.

In determining the level of inherent risk, no attention is paid to the methods applied in the sector in general or by an individual entity to mitigate the risks (management methods). When the management methods are taken into account, the remainder is called residual risk. Residual risk emerges as the aggregate result of phases 2 and 3 of the risk assessment process described above.

In determining the level of inherent risk, the focus is on risk factors related to products and services. Geographical risks, customer risks and risks related to distribution channels and new technologies are assessed in the sector-specific and supervised-entity-specific sections of the risk assessment.

The level of inherent risk was assessed in the following stages:

- Determination of money laundering scenarios: The purpose was to explore by reference to various sources the different ways money is being laundered in Finland.
- Definition of risk-prone products and services: The scenarios are reviewed and risk factors related to products and services selected.
- Products and services are grouped based on how typical they are in the identified scenarios.
- Products and services are grouped based on the supranational risk assessment.
- An overall assessment is made based on the national and supranational assessments.
- Sectors are grouped based on the products and services they provide and on the level of risk involved in these products and services.

### 2.2 Background material

In order to have an up-to-date view to the risk situation, reference has been made in the risk assessment to the following sources, among others:

17.3.2020

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- Annual reports of the Financial Intelligence Unit of the National Bureau of Investigation from 2015–2019
- Grey economy and economic crime website, <https://www.vero.fi/en/grey-economy-crime/>
- Website of the Ministry of the Interior, [www.intermin.fi](http://www.intermin.fi), particularly the sections on the crime situation and prevention of crime,
- Mutual Evaluation Report of Finland (FATF 2019) and information collected in connection with the country assessment
- SNRA 2017: EU's supranational risk assessment 2017
- SNRA 2019: Update of the EU's supranational risk assessment 2019
- NRA 2015: Jukarainen P., Muttilainen V., (2015). Rahanpesun ja terrorismin rahoituksen kansallinen riskiarvio 2015 (National risk assessment of money laundering and terrorist financing 2015). (Ed), In: Poliisiammattikorkeakoulun raportteja (Reports of the Police University College), Poliisiammattikorkeakoulu.
- Official Statistics of Finland (OSF), maintained by Statistics Finland Prosecutions, sentences and punishments [e-publication].
- European Banking Authority:
  - Joint Guidelines on risk-based AML/CFT supervision (ESA 2016 72)
  - Guidelines on Risk Factors (JC 2017 37)

In addition, supervision findings and information obtained in the scope of cooperation between authorities were utilised in mapping the risk situation.

### 2.3 Inherent level of risk of products and services – summary

There is always a predicate offence underlying money laundering, the offence whereby the funds being laundered were obtained. From the perspective of domestic predicate offences, the money laundering risk scenarios are mainly related to the processing and transfer of assets obtained through grey economy, drug-related crime and various types of fraud in the payment system and as cash.

Example of a risk scenario related to drug crime:

A private person receives cash obtained from the sale of drugs with the intent of forwarding a sum corresponding to the cash amount, usually abroad.

The cash assets

- are deposited on a **payment account** and transferred further using **payment services**,
- remain with the recipient, who transfers a corresponding sum from its own **payment account**,
- are transferred using **money remittance** services, or
- converted into **e-money**, which is passed on.

In addition to domestic predicate offences, attention is paid to scenarios where funds stemming from foreign predicate offences (incl. various frauds) are moved within the payment system taking advantage of Finnish firms or private persons (s.c. money mules).

17.3.2020

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In particular, the following products and services are highlighted in the scenarios:

- services enabling the transmission of funds within the payment system (payment services, excl. money remittance)
- services enabling the storage of funds within the payment system (payment accounts)
- cash services (cash withdrawals and deposits)
- money remittance
- virtual currency services

Products and services are grouped based on how frequently they present themselves in the identified scenarios. Then threat assessment from the supranational risk assessment is combined to results. The final outcome is a risk rating of products and services based on identified scenarios.

The scale used in the risk rating is described below. The assessment applies a four-tier English-language scale consistent with the scale used by the European Banking Authority.

Very significant
Significant
Moderately significant
Less significant

Risk rating of products and services:

Payment accounts
Cash services (cash withdrawals and deposits)
Money remittance
Payment services (excl. payment accounts and money remittance)
Virtual currency services
Currency exchange
E-money
Housing loans and other highly secured loans
Safety deposit box services
Private banking services
Investment services (incl. funds)
Corporate banking services (incl. loans)
Life assurance
Crowdfunding
Non-life insurance
Consumer credit

17.3.2020

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The products and services assessed include the financial sector products mentioned in the supranational risk assessment.

## 2.4 Level of inherent risk of sectors supervised by the FIN-FSA – summary

Considering what was stated above in section 2.3 on the different levels of inherent risk of different products, the FIN-FSA has classified sectors supervised by it into risk categories.

The classification was made by taking into account the services typical to each group of supervised entity and the risk ratings assigned to them in section 2.3. The grouping seeks to take into consideration whether the sector mainly provides high-risk products and services or whether the high-risk products are part of an extensive service range also including a lot of low-risk products and services.

Risk rating scale:

Very significant risk
Significant risk
Moderately significant risk
Less significant risk

Sector-specific rating of inherent risk level and the number of supervised entities<sup>2</sup>:

Sector	Number of entities under the reporting obligation
Payment service providers (excl. money remittance)	47
Money remittance (excl. other payment services)	11
Virtual currency service providers	5
Deposit banks	222
Other credit institutions	19
Investment service providers	56
Fund management companies	36
Crowdfunding companies	11
Alternative investment fund managers	119
Life insurance companies	10
Non-life insurance companies	34
Housing loan brokers	2

The table does not separately specify the following obliged entities:

<sup>2</sup> Number of entities under the reporting obligation as at 30 January 2020, including branches operating in Finland.

17.3.2020

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- Insurance agents
  - The risk level related to insurance agents' products and services is determined based on the products (life and/or non-life policies) provided by the insurance broker.
- Insurance associations (5 fishing insurance associations) are included in the category *Non-life insurance companies*.

In addition to the abovementioned, no inherent risk assessment has yet been made on the following:

- Central securities depository (1)
- Account operators (7)
- Depositaries (7)
- Employee pension insurance companies (4)

### 3 Conclusion

This summary describes the FIN-FSA's assessment of the inherent risk of money laundering related to sectors supervised by it from the perspective of products and services typically provided in each of these sectors.

As described above, the determination of the inherent risk level is the first phase of an extensive overall risk assessment. The risk assessment will be elaborated on by studying sector-specific risk factors among other things through the RA data collection and in cooperation with various sector experts. Summaries of the sector-specific risk assessments will be published separately.

Once completed, the updated national risk assessment will provide a comprehensive description of national risks of money laundering and terrorist financing. Hence, the FIN-FSA's assessment of the inherent risks of money laundering will be updated after the completion of the national risk assessment. In the same context, the risk assessment methodology will be updated to the extent necessary.

The national risk assessment will also provide more comprehensive information on the national risk situation concerning the financing of terrorism, which will help prepare the supervisor-specific risk assessment on terrorist financing.