

Mutual Evaluation Report of Hong Kong

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21 October 2019

Agenda

1 **FATF/APG**

2 **Mutual Evaluation**

3 **Insurance Authority**

4 **Private Sector**

5 **Recommended Action**



What is FATF?

- Financial Action Task Force (FATF)

Established by Group of Seven (G-7) Summit held in Paris to combat **money laundering**

1989

Expanded its mandate to incorporate efforts to combat **terrorist financing**, in addition to money laundering

2001

Added efforts to counter the **financing of proliferation** of weapons of mass destruction

2012

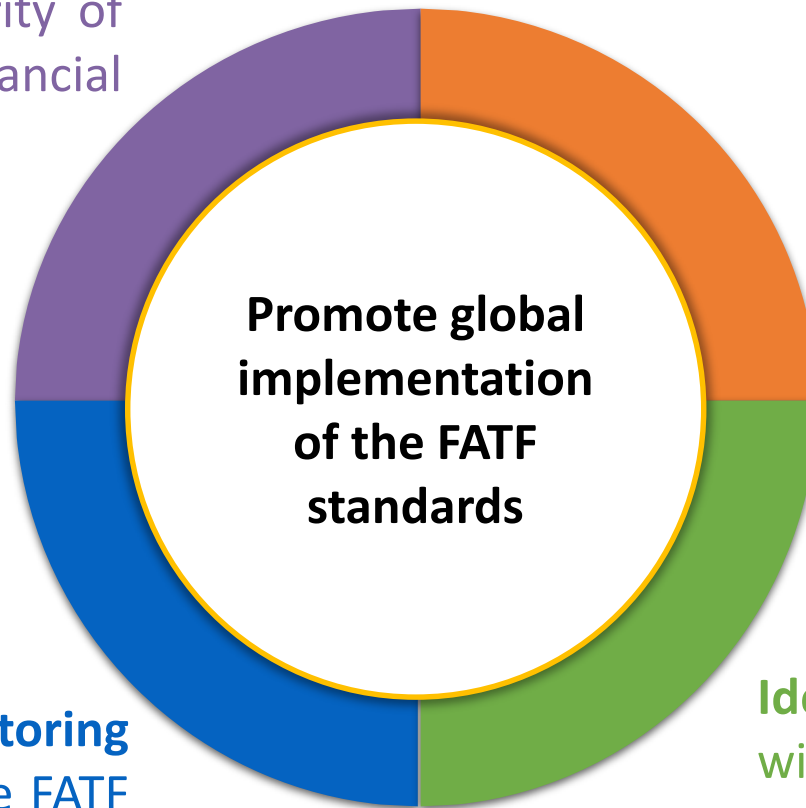


Objective and tasks of the FATF



Identifying and analyzing threats to the integrity of the international financial systems

Developing and refining international standards for combating ML, TF and PF, and responding to new threats



Promoting and monitoring implementation of the FATF Recommendations

Identifying and engaging with high risk countries and non-cooperative jurisdictions

The 39 Members of FATF



Argentina

Austria

Italy

China

Australia

Brazil

Belgium

Luxembourg

Hong Kong

New Zealand

Canada

Denmark

Netherlands

India

South Africa

Mexico

Finland

Norway

Japan

United States

France

Portugal

Malaysia

Germany

Russia

Saudi Arabia

Greece

Spain

Singapore

Iceland

Sweden

South Korea

Ireland

Switzerland

Israel

Turkey

United Kingdom

European Commission
Gulf Co-operation Council

FATF-Style Regional Bodies (FSRBs)

Purpose: disseminate international standards (i.e. FATF 40 Recommendations) throughout the world

Council of Europe Anti-Money Laundering Group (MONEYVAL)

Strasbourg, France

Asia/Pacific Group on Money Laundering (APG)

Sydney, Australia

Caribbean Financial Action Task Force (CFATF)

Port of Spain, Trinidad and Tobago

Latin America Anti-Money Laundering Group (GAFILAT)

Buenos Aires, Argentina

Eurasian Group (EAG)

Moscow, Russia

Middle East and North Africa Financial Action Task Force (MENAFATF)

Manama, Bahrain

Eastern & Southern Africa Anti-Money Laundering Group (ESAAMLG)

Dar es Salaam, Tanzania

Central Africa Anti-Money Laundering Group (GABAC)

Libreville, Gabon

West Africa Money Laundering Group (GIABA)

Dakar, Senegal

Functions of APG

Mutual Evaluations

01

Technical assistance and training

02

Typologies Research

03

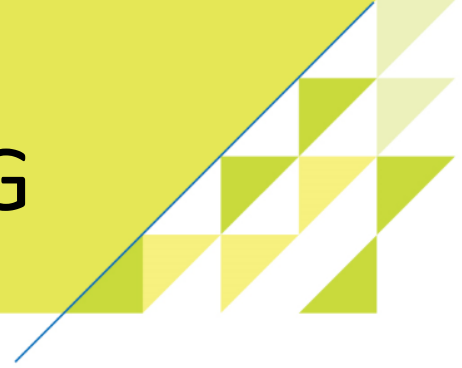
Private Sector Engagement

05

Global Engagement

04

41 Jurisdictional members of APG



- Hong Kong
- Philippines
- Macau
- Cambodia
- Indonesia
- South Korea
- Vietnam
- Fiji
- China
- Canada
- India
- Mongolia
- Pakistan
- Chinese Taipei
- New Zealand
- Australia
- Singapore
- Samoa
- United States of America

And many more

Members which are both FATF and APG members

Australia

United States

Malaysia

India

Singapore

Hong Kong

Canada

Japan

People's Republic
of China

New Zealand

Korea

What are 40 Recommendations?

AML/CFT policies
and coordination
(R1-R2)

Money laundering
& confiscation
(R3-R4)

Terrorist-financing
& financing of
proliferation
(R5-R8)

Preventive
measures
(R9-R23)

Transparency & beneficial
ownership of legal persons
and arrangements
(R24-R25)

Powers & responsibilities of
competent authorities and
other institutional measures
(R26-R35)

International
cooperation
(R36-R40)

What are 40 Recommendations?

R1

Assessing risk & applying a risk-based approach

R3

Money laundering offence

R6

Targeted financial sanctions related to terrorism & terrorism financing

R7

Targeted financial sanctions related to proliferation

R10

Customer due diligence (CDD)

R11

Record keeping

R12

Politically exposed persons (PEPs)

R20

Reporting of suspicious transactions

R26

Regulation & supervision of financial institutions

R27

Powers of supervisors

R32

Cash couriers

Effectiveness Assessment

High level objectives

Financial systems and the broader economy are protected from the threats of money laundering and the financing of terrorism and proliferation, thereby strengthening **financial sector integrity** and contributing to **safety and security**

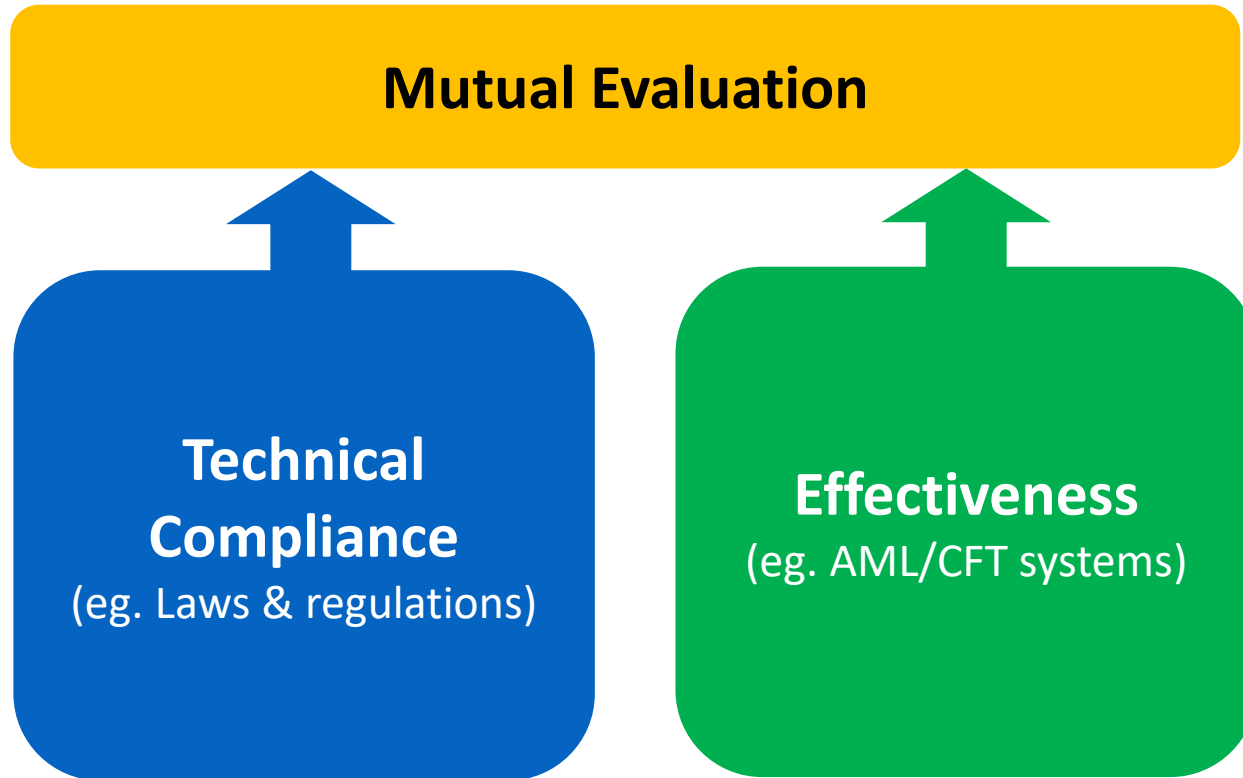
Intermediate Outcome

Policy, coordination and cooperation mitigate the money laundering and financing of terrorism risks

Proceeds of crime and funds in support of terrorism are prevented from entering the financial and other sectors or are detected and reported by these sectors

Money laundering threats are detected and disrupted, and criminals are sanctioned and deprived of illicit proceeds. Terrorist financing threats are detected and disrupted, terrorists are deprived of resources, and those who finance terrorism are sanctioned, thereby contributing to the prevention of terrorist acts

Mutual Evaluation



Hong Kong's Mutual Evaluation

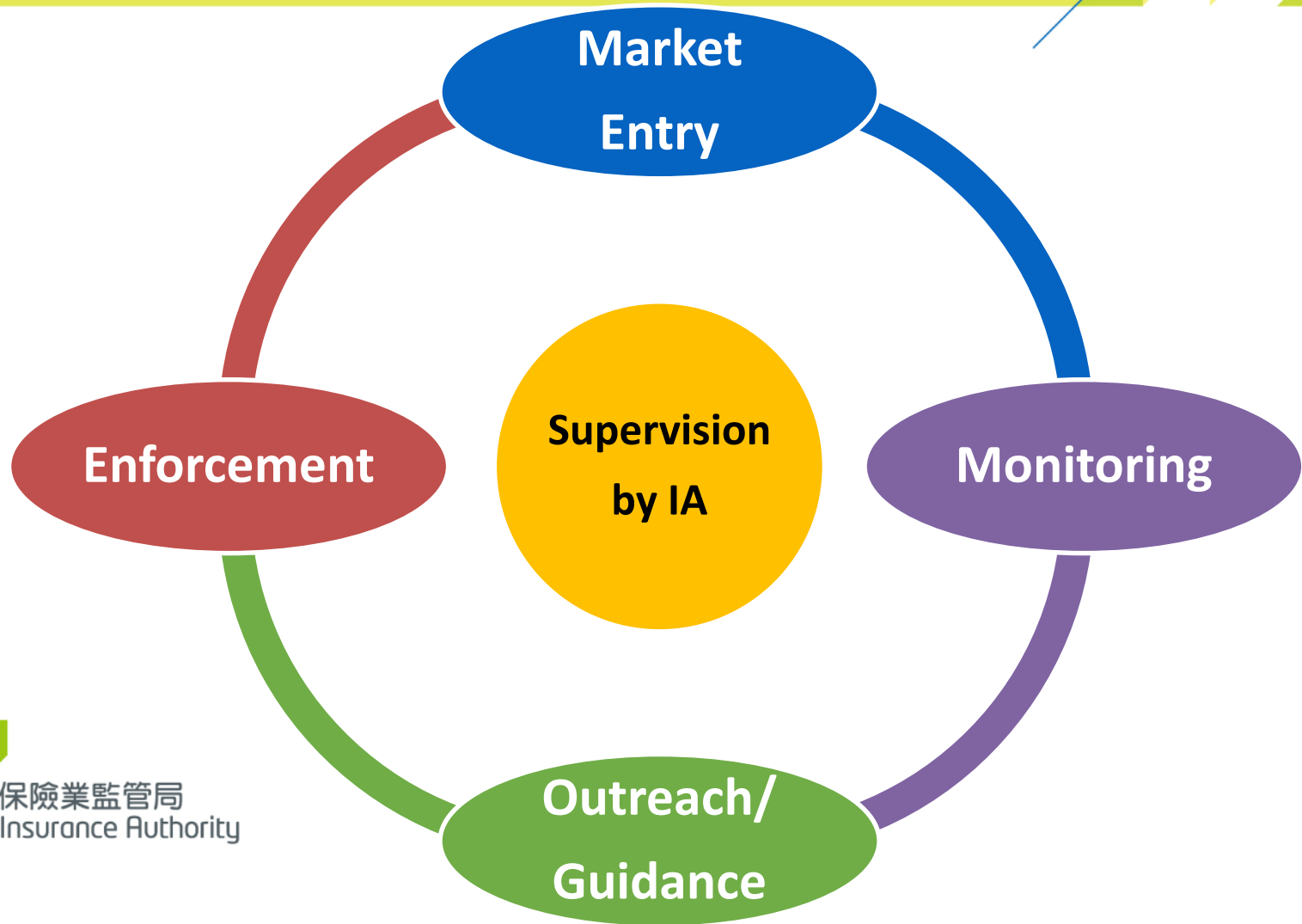
Process

- Jointly conducted by **FATF and APG**
- Assessment team comprising **10 experts** from the two organizations
- Examined and adopted by the FATF membership in June Plenary held in Orlando, USA
- Examined and adopted by the APG membership in August Plenary held in Canberra, Australia

Results

- **1st jurisdiction in the Asia-Pacific region** to have achieved an overall compliant result in the current round of FATF evaluation

Supervision by IA



Market Entry

Licensing, registration and controls preventing criminals and associates from entering the market

Insurers

- **IA's prior approval** for major shareholders, appointment of senior management and key person in control function
- **GL4** – Guideline on “Fit and Proper” Criteria under the IO



Insurance Intermediaries

- SROs required **declaration of history of conviction** of any criminal offences



Understanding of Risks

Supervisors' understanding and identification of ML/TF risks

Insurance sector

- Market trends are readily available through regular returns of business **statistics** by insurers
- **ILAS**
 - GL15: *Guideline on Underwriting Class C Business*
- **Universal Life**
 - GL16: *Guideline on Underwriting Long Term Insurance Business (other than Class C Business)*
- **Mainland China Visitors (“MCVs”)**
 - Important Facts Statement & Thematic Inspection

Individual Institutions

- ML/TF risk assessment
- Input of the assessment include **characteristics and business profile, quality of AML/CFT systems and controls**
- **High** and **Medium** risk IIs subject to on-site inspection; **Low** risk IIs subject to off-site review

Risk-based Supervision

Risk-based supervision of compliance with AML/CFT requirements

On-site inspection

- Field Work (**Meetings and interviews** with senior management; **Walkthrough** with Operations and Compliance; **Sample checking** including quality & sufficiency of CDD; **Quality** of external/internal STRs filed, screening etc.)
- Routine vs **thematic (e.g. MCV)**
- Sharing of inspection findings amongst insurance regulators through **supervisory colleges**

Off-site supervisory engagement

- Off-site reviews
- Industry survey
- AML/CFT policies and procedures review before granting authorization
- **Assess risk assessment** conducted by insurers on use of new technology

1. Remedial actions and sanctions

2. Impact on compliance

1. Remedial actions and effective, proportionate and dissuasive sanctions
2. Impact of supervisory actions on compliance

Remedial actions

- Management letters issued requiring **action plan** to address the issues identified
 - **Reasonableness of timelines** suggested by IIs to rectify deficiencies would also be assessed to ensure they are rectified in a timely manner
 - Requires the IIs to **provide documentary evidence** supporting progress on a continuous basis and **requires validation** prior to closure of every deficiency

Sanctions

- **No serious case** of non-compliance
- Sanctions empowered by the AMLO/IO **have not been applied**

Promote understanding of risks and obligations

Promoting a clear understanding of AML/CFT obligations and ML/TF risks

Sector level

- AML/CFT Guideline
- FAQ
- Circulars/Early alerts
- AML/CFT seminars & industry briefings
- VTC AML/CFT-specific training session for the insurance industry

Institutional level

- Provides feedback to IIs by issuing letter of deficiencies following on-site inspection and off-site supervisory reviews



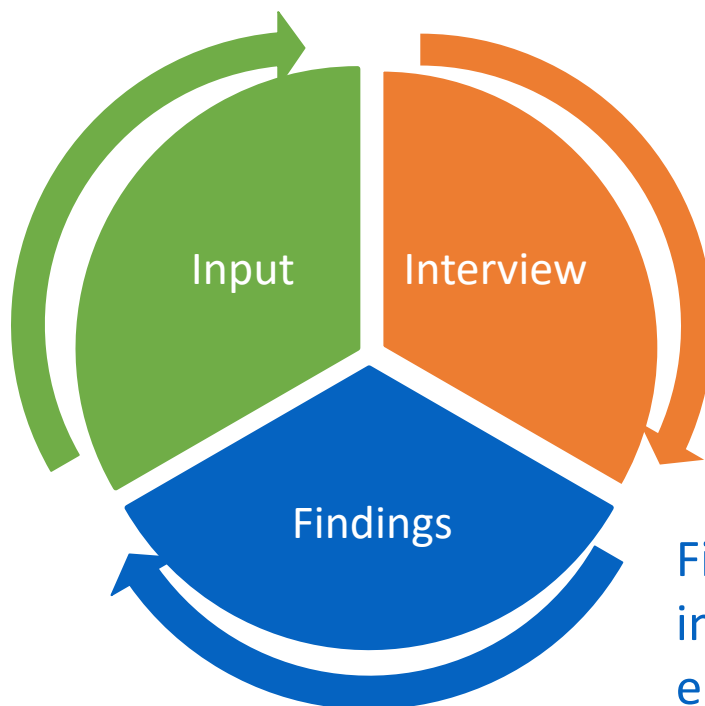
Comments on IA



Preventive measures by private sector

The Assessment

Input from the IA
& HK ML/TF Risk
Assessment



Interviews with
insurance sector

Findings from
inspections &
enforcement actions

Understanding of ML/TF risks and obligations

Understanding of ML/TF risks and obligations

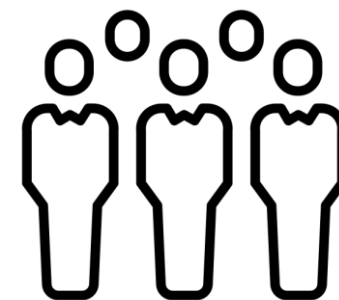
- FIs are required to **periodically assess ML/TF risks** at an institutional level in order to **establish AML/CFT policies, procedures and controls commensurate with these risks since enactment of AMLO in 2012**
- Large FIs have good understanding of their ML/TF risks and AML/CFT obligations
- FIs are aware of the results of Hong Kong ML/TF Risk Assessment



Mitigating measures

Application of risk mitigating measures

- Large IIs have policies and procedures, and internal systems and controls to mitigate ML/TF risks
- “Three lines of defense” approach (business, compliance and audit)
- Customer risk scoring model (e.g. low/medium/high risk, or a numerical score), and apply mitigating measures on a **risk based approach**



Low Medium High

CDD and record-keeping

Application of CDD and record-keeping requirements

Apply CDD measures
using risk-based
approach

Identify beneficial
owners for legal
person/trust

Transaction monitoring
systems

Terminate business
relationships if CDD
cannot be completed

Sound record-keeping

Enhanced Due Diligence

Application of EDD measures

PEPs

- FIs that are part of international financial groups go beyond the local legal requirements
- Larger FIs use commercial databases to screen customers



New technologies

- Analyse ML/TF risks prior to launch of new products
- Discuss with IA prior to the launch



Enhanced Due Diligence

Application of EDD measures

Targeted financial sanctions relating to terrorist financing (“TF”)

- Large FIs have a sound understanding of requirements relating to TF, but there is room for improvement in sanctions screening procedures
- Large FIs use commercial databases to screen customers & beneficial owners

High-risk countries

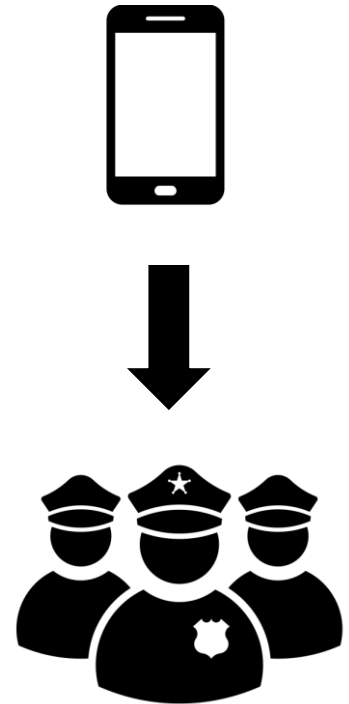
- Large FIs are aware of the risks associated with customers or transactions relating to high risk countries and apply EDD
- Large FIs perform own assessment of country risks



STR Reporting

Reporting obligations and tipping-off

- Good understanding of the STR requirements
- Generally displayed good knowledge of no tipping-off
- Ensured compliance through internal policies, procedures and training initiatives

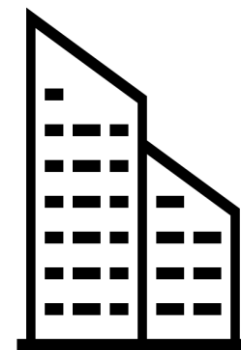


Internal controls and procedures

Internal controls and legal/regulatory requirements impending implementation

Large FIs

- **Sophisticated group-wide** internal controls and procedural programmes that are well documented and reviewed
- **Substantial resources** to oversee and test internal controls/procedures and subject to internal audits
- **Screening programmes** for staff recruitment and provide ongoing AML/CFT training
- Implementation of the requirements are **not impeded by financial secrecy**



Recommended Action for Hong Kong financial sector



1

Ensure FIs deepen their ML/TF risk understanding (eg. Cross border financial flows, non-resident & PEPs customers)

2

Work more closely with smaller FIs to strengthen controls in relation to CDD and EDD for foreign PEPs and TFS

3

FIs strengthen transaction monitoring systems, and ensure adequate, appropriate & timely STRs reporting

4

IA should apply sanctions on a graduated basis against material non-compliance to send further dissuasive signals



保險業監管局
Insurance Authority

Thank You